scottish pacific
BUSINESS FINANCE

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SME GROWTH INDEX

east&partners

Contents

SME Growth Index: Twice a year, independent research is undertaken by leading business banking market research firm East & Partners, on behalf of Scottish Pacific. The September 2019 round surveyed and interviewed the owners, CEOs or senior financial staff of 1260 SMEs across a range of industries and all states, with annual revenues of $A1-20 million.

Executive Summary

Round 11 of our Scottish Pacific *SME Growth Index* supports the notion that Australian SMEs are becoming more bullish about their prospects despite the broader economic outlook, working capital constraints and their stated difficulties accessing the right credit.

The research also highlights a watershed moment – for the first time, more SMEs plan to fund their growth using non-banks, ahead of their main bank.

This is the culmination of a five-year trend of SMEs moving away from their banks to fund growth.

The proportion of SMEs planning to borrow from their main bank to fund growth has almost halved in five years, falling from 38% in 2014 to 18.3% now.

Business owners' key reason for turning to non-bank lenders is the desire to avoid using property as security against new or refinanced loans.

The results reveal to us the typical Australian small to medium business with $1-20m revenue is:

- Expecting modest revenue growth of 2.7% for the remainder of 2019
- Saying they don't want to use personal property to fund their business – yet almost three-quarters of them continue to do so
- Having increasing issues with cash flow, because of shorter supplier payment terms, late customer payments and bad debts
- Using trusted business advisors more regularly – but their choice of advisor is likely to be a business colleague or supplier rather than a professional such as an accountant
- Staying in business longer but employing fewer full-time staff than five years ago (average FTE headcount now is 68, down from 72 last year and 88 in 2014).

On a positive note more than half of SMEs are expecting revenue growth – a two-and-a-half year high of 54.6%. They are predicting an average 5.1% revenue increase for the second half of 2019.

Despite this positive sentiment, the Index results also show a growing proportion of businesses struggling to meet tax payments on time and unable to take on new work due to cash flow constrictions.

Only one in 10 SMEs say they are on top of cash flow. More than one in five SMEs had cash flow issues due to a loan being declined, and a similar proportion were unable to take on new work because of cash flow problems.

The impact of poor cash flow on the Australian economy is considerable. In 2018 East & Partners extrapolated that this issue costs the SME sector more than $235 billion annually in lost revenue.

If cash flow management is less than optimal, working capital can stretch only so far before something has to give.

It's food for thought for business owners: are they funding their business in a way that optimises cash flow? Do they have the right advisors in place to help them find the right funding and to guide their business growth?

Peter Langham
Chief Executive Officer, Scottish Pacific Business Finance

INSIGHT 1

Non-banks leapfrog banks for growth funding

For the first time in five years of the *SME Growth Index*, SMEs say they are more likely to fund growth using a non-bank lender rather than their main bank.

East & Partners had forecast in the March 2019 *SME Growth Index* that this transition would occur before mid-2020, but the threshold has been crossed in 2019. It appears SME funding plans are shifting quickly.

Banks have consistently lost ground each round since twice-yearly Index reporting began in 2014. At that stage 38% of SMEs preferred their main bank for growth funding – this has now halved to 18.3%.

The record high preference for non-bank lending indicates 18.7% of SMEs plan to fund the next six months' growth using a non-bank.

Only 2.6% of SMEs would not consider using a non-bank lender, down from 4% last year. Almost one in 10 SMEs don't know how they will fund investment and are open to ideas.

The dominant way to fund growth continues to be owners dipping into their own funds, the choice for 83% of SMEs. This is despite other business funding options being available that would allow them to save their own funds for personal investments.

Recently released Australian Banking Association research, highlighting that small business loan applications to banks have declined by a third since 2014, supports *SME Growth Index* findings showing a move away from the banks when it comes to funding SME growth. The ABA research pinpoints access to funding as the key restraint to starting a small business.

Why SMEs are turning away from banks

The key reason for SMEs turning to non-bank lenders, according to *SME Growth Index* findings, is to avoid property security (21.3% of respondents nominated this, up from 18.7% in September 2018).

This is in light of Australia's less than buoyant property market and uncertainty about whether the housing price correction has run its course, along with Census data that highlights a slow but marked decline in levels of home ownership since the early 2000s.

The entrepreneurs of a future Australia, especially those based in Sydney and Melbourne where the property market has taken the biggest hit, will certainly have to look beyond the family home or their other property to fund their businesses.

This round, 19.9% of SMEs independently nominated that another reason they are turning to the non-banks is to avoid using non-property assets or personal guarantees to fund their business.

Repercussions from the Banking Royal Commission are still resonating with the small business sector.

Almost one in 10 (8.8%) said Royal Commission disclosures on misconduct in the banking sector was the reason they use non-bank lenders to fund their growth.

The impact of the Royal Commission might also account for the significant increase in SMEs citing a lack of bank appetite to provide them credit.

> For the first time in five years of the *SME Growth Index*, SMEs say they are more likely to fund growth using a non-bank lender rather than their main bank.

This was the key reason 6.9% of respondents gave for turning away from bank-based borrowing – a proportion which has doubled from 3.2% last year. One in five SMEs say they look to non-bank lenders to avoid banks' onerous regulatory and compliance requirements.

Almost one in five are attracted by fast credit approval turnaround times and capital being available quickly. This figure has fallen substantially from previous rounds, perhaps because business owners now expect fast approval by non-banks and are finding other factors to induce them to look beyond the banks.

According to East & Partners Head of Markets Analysis, Martin Smith, despite SMEs historically lacking the time and resources to shop around for business finance, the rising demand for non-bank lending options to fund new growth investment reflects the reality that there is now a broader array of non-bank lending alternatives to match business owners' funding requirements.

WHO ARE SMEs CHOOSING TO FUND NEXT 6 MONTHS GROWTH?

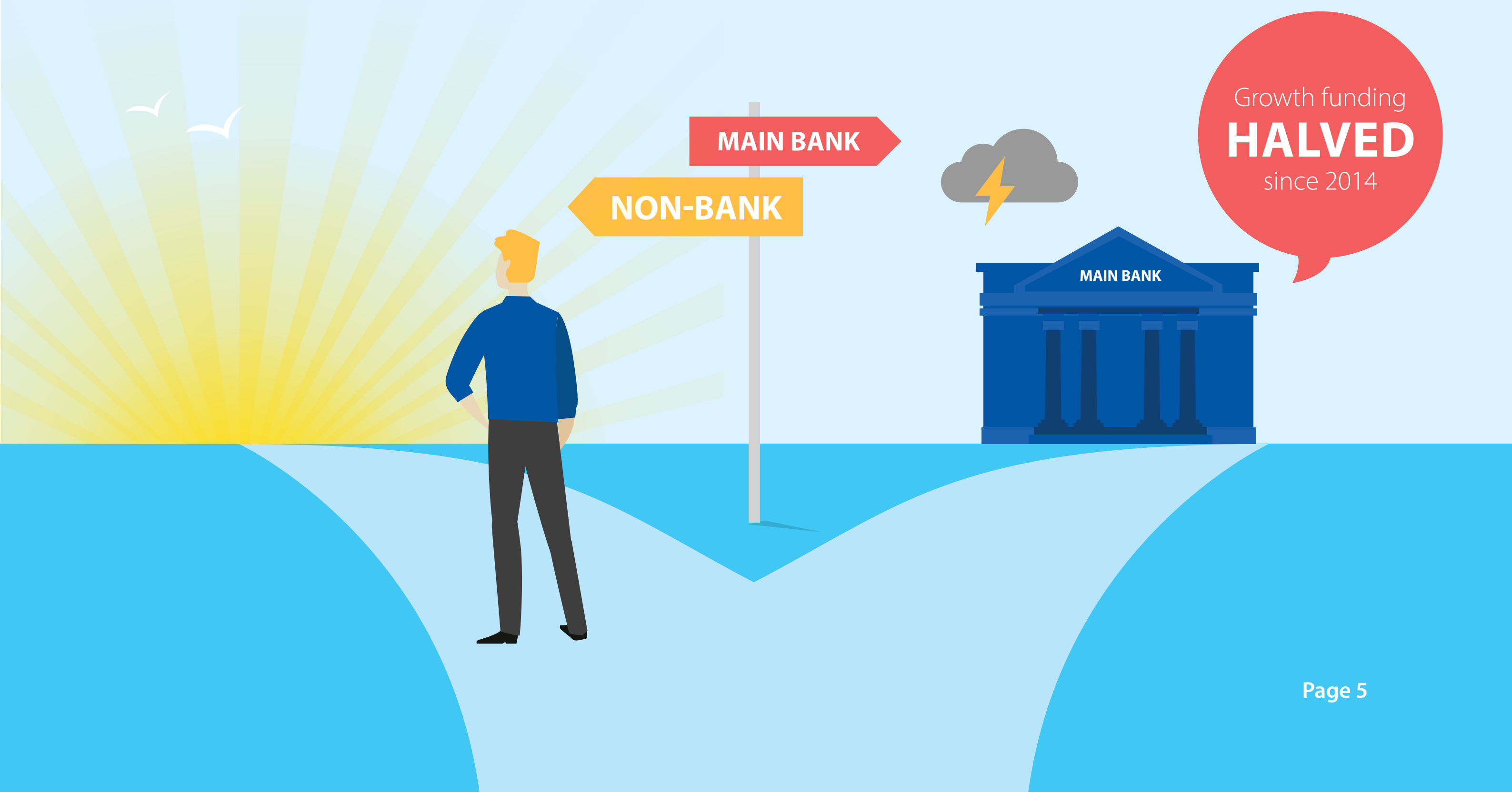
18.3% main bank

18.7% non-bank

GROWTH FUNDING FROM MAIN BANK

38% in 2014

18.3% in 2019



INSIGHT 2

Loan rejections are impacting cash flow

SMEs – whether they are growing, stable or declining – have flagged that their cash flow woes are increasing. The cash flow situation has deteriorated for one in five SMEs, with 7.3% saying it is significantly worse and 12.3% saying it is worse than the previous year.

The percentage of SMEs reporting significantly worse cash flow has doubled since H1 2018. In addition, fewer SMEs are reporting significantly better cash flow – falling from 26.8% in March 2018 to 22.3% now. This cash flow squeeze is taking its toll.

More than one in five business owners cite being rejected from a lending product as the main reason for their cash flow issues.

> "The whole economy is impacted by Australia's SME cash flow problem."

That is a significant number of Australian small businesses feeling the pinch in their day-to-day operations due to having a loan application rejected.

This is a troubling statistic according to East & Partners Head of Markets Analysis, Martin Smith. He says SMEs' historical loyalty to banks is not converting into the banks providing appropriate business funding solutions for the many SMEs experiencing cash flow issues as a result of slow credit approval times or outright credit rejections.

SMEs are facing a business environment in which the cash flow squeeze sees them increasingly unable to take on new work (an issue for 22% of respondents).

They are feeling the pinch from suppliers reducing payment terms (39.4%) and customers paying late (40.1%). Increasingly, their cash flow is being impacted by having to write off bad debts (an issue for 5.2%, up from 4.7% in H1 2018).

Once again, business owners see government red tape and compliance as the biggest thorn in their side, with almost three-quarters naming this as their greatest cash flow issue.

More than a quarter of SMEs (27.8%) say their cash flow causes them difficulty meeting their tax payments on time. This has crept up from March 2018, when 24.8% reported this difficulty.

Given the high proportion of SMEs carrying an outstanding tax bill, the ATO continues to be viewed by many SMEs as a sort of "lender of last resort". Small businesses are almost twice as likely to have a debt with the ATO compared to other taxpayers. Australian National Audit Office statistics indicate SME tax debt accounts for 63% of overall tax debt, totalling $15 billion as of June 2018.

Overall cash flow sentiment

For the total SME market, there has been a 10-percentage point fall in SMEs who report their cash flow is better or significantly better (falling from 68.9% a year ago to 59.4% this round).

At the other end of the spectrum, a year ago one in 10 SMEs said cash flow was worse or significantly worse – now almost one in five are saying so. Another one in five SMEs report their cash flow is holding steady. Just under one in 10 SMEs had no cash flow issues whatsoever in the past year.

More than **20%** stemmed from loan rejections

Twice as many
SMEs are reporting cash flow is significantly worse

How growth businesses are faring

For growth SMEs, almost twice as many as in H1 2018 say their cash flow is worse or significantly worse (21.2%, up from 12.3%). At the same time, non-growth SMEs reporting worsening cash flow has increased to 17.6%, up from 10% in H1 2018.

According to the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) 90% of small business failures are due to poor cash flow. Yet *SME Growth Index* statistics show that almost nine in every 10 growth SMEs plan to fund their growth in the next six months using their own funds – not always an ideal way to foster sustainable growth or to allow for sufficient cash flow within a business.

The whole economy is impacted by Australia's SME cash flow problem. As part of *SME Growth Index* research in 2018, East & Partners have extrapolated that this issue costs the SME sector more than $235 billion annually in lost revenue. Business owners need to find new ways to deal with old and ongoing cash flow issues, to put themselves in a better cash flow position. If they don't, Australia's growth potential will be constrained.

INSIGHT 3

SME revenue sentiment hits two-year high

Positive growth sentiment continues to build, with a two-and-a-half year high in SMEs expecting revenue to increase – but there is a marked city-country divide.

More than half Australia's SMEs (54.6%) forecast positive growth for the second half of 2019, with an average revenue increase of 5.1%.

One in five are flagging revenue decline, at an average of -5.7%. A quarter of businesses forecast no change in revenue.

When the whole SME market (whether growing, declining or stable) is taken into account, the forecast increase in revenue averaged 2.7%, stronger than at any time since March 2016.

While this figure is well short of the 4.9% forecast revenue growth recorded in 2014, it is more than double that forecast in March 2019 (1.8%) and September 2018 (1.1%).

A tale of two economies: metro versus regional

SMEs in rural and regional areas are doing it tougher than their metropolitan counterparts.

Only 47.3% of regional business owners expect positive revenue growth for the remainder of 2019, at an average of 3.1%. More than a quarter (27%) expect revenue to decline, by an average of 6.8%.

The metropolitan SME sector is more buoyant. 57.7% of metropolitan enterprises expect positive growth, forecasting an average increase of 5.8%. Just under one in five (18.1%) expect revenue to decline, by 5% on average.

SME Growth Index trend analysis indicates that, consistently since 2014, SMEs in regional areas across Australia have been less positive about revenue growth than their metropolitan counterparts.

Since 2014, there has been a 10 percentage point fall in regional SMEs forecasting positive growth (from 58.3% to 47.3%) and only a six percentage point fall for metropolitan SMEs (from 64.4% to 57.7%).

SME sentiment defies broader outlook

The proportion of SMEs who identify as being in a consolidating or contracting phase of business has fallen below 20% for the first time since the first round of the Index in 2014, with 9.8% saying they are consolidating and 9.7% saying they are contracting.

This is an improvement from 18 months ago, when around a quarter of SMEs were consolidating or contracting (12.2% and 12.3% respectively).

Four in 10 SMEs identify as being in a growth phase. Almost a third say their business is stable.

While recorded SME revenue growth sentiment is at its highest since early 2016, this positive outlook is set against the backdrop of an Australian economy that broadly continues to struggle with sub optimal growth.

Gross Domestic Product (GDP) expanded 1.7% year-on-year in Q1 2019, the slowest pace since the immediate aftermath of the 2008 Global Financial Crisis. The domestic retail market remains sluggish and capital expenditure subdued.

> “SMEs in rural and regional areas are doing it tougher than their metropolitan counterparts.”

Real private consumption slowed to its lowest level since Q2 2013 at 1.8% year-on-year, affected by a protracted period of low-income growth and declining housing prices especially in Melbourne and Sydney. Concern around economic conditions may be masked by tax cuts and lower interest rates propping up consumer confidence. These two moods are reflected in the Index, revenue expectation extremes expanding this round to – +7.7% for positive growth and –12.8% for negative growth.

East & Partners also note that over the five-year life of the Index, the average number of full-time employees of SME respondents has fallen significantly to 68 FTE, down from 88 in 2014.

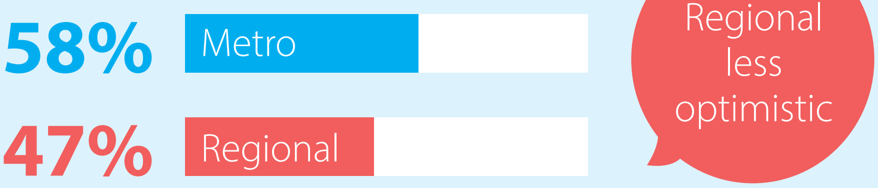
An emerging trend in recent rounds is the rising number of declining growth / no change SMEs who have plans to invest in business growth. One in five declining growth / no change SMEs plan to grow but don’t know how they will fund their growth – whereas only 5.8% of growth SMEs have yet to decide on the debt / equity mix they will use to fund their new growth.

In an effort to inform business owners about options beyond their own equity, the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) and Scottish Pacific have created a Business Funding Guide to broaden the SME sector’s knowledge about business funding options.

Strongest

positive revenue sentiment in 2 and a half years

SMEs EXPECTING REVENUE GROWTH



INSIGHT 4

Are business owners getting the best advice?

SMEs are seeking more regular guidance from trusted advisors – but are they putting their faith in the right advisors?

Business colleagues and suppliers top the most trusted business advisors list.

However, it's worth noting that SMEs are more likely to nominate family and friends than a professional such as their accountant or broker.

Running a business can be tough and lonely, so it's important for SME owners to get good advice, given that an estimated two-thirds of small businesses fold within three years of launching.

So it is a positive sign that SMEs are reporting more regular contact with their trusted advisors (only 15.6% of SMEs turn to advisors irregularly, down from 29.2% in 2017).

> "Business colleagues and suppliers top the most trusted business advisors list."

One in four SMEs (24%) contact their most trusted advisor every week or fortnight, a fourfold increase from 6.3% in 2017. The proportion of SMEs who contact them monthly (47.5%) or once a year (12.9%) remains steady.

Who do SMEs trust?

Getting more regular advice should be a good thing, but that could depend on the quality of the advice.

Consistent with 2017 results, SMEs' most trusted advisors remain business colleagues (40.7%) and trading partners / suppliers (22.2%).

Advisors with specific expertise, including accountants (5.7%) and brokers (4.1%), rank behind friends (8.6%) and family members (7%) as the go-to source for business advice. Fewer than one in 100 SME owners (0.9%) say they use a personal business coach.

The most striking positive change is the massive decrease in SMEs nominating that they have no trusted advisor, falling from 38.6% in early 2015 to only 8% today.

Worrying news for accountants

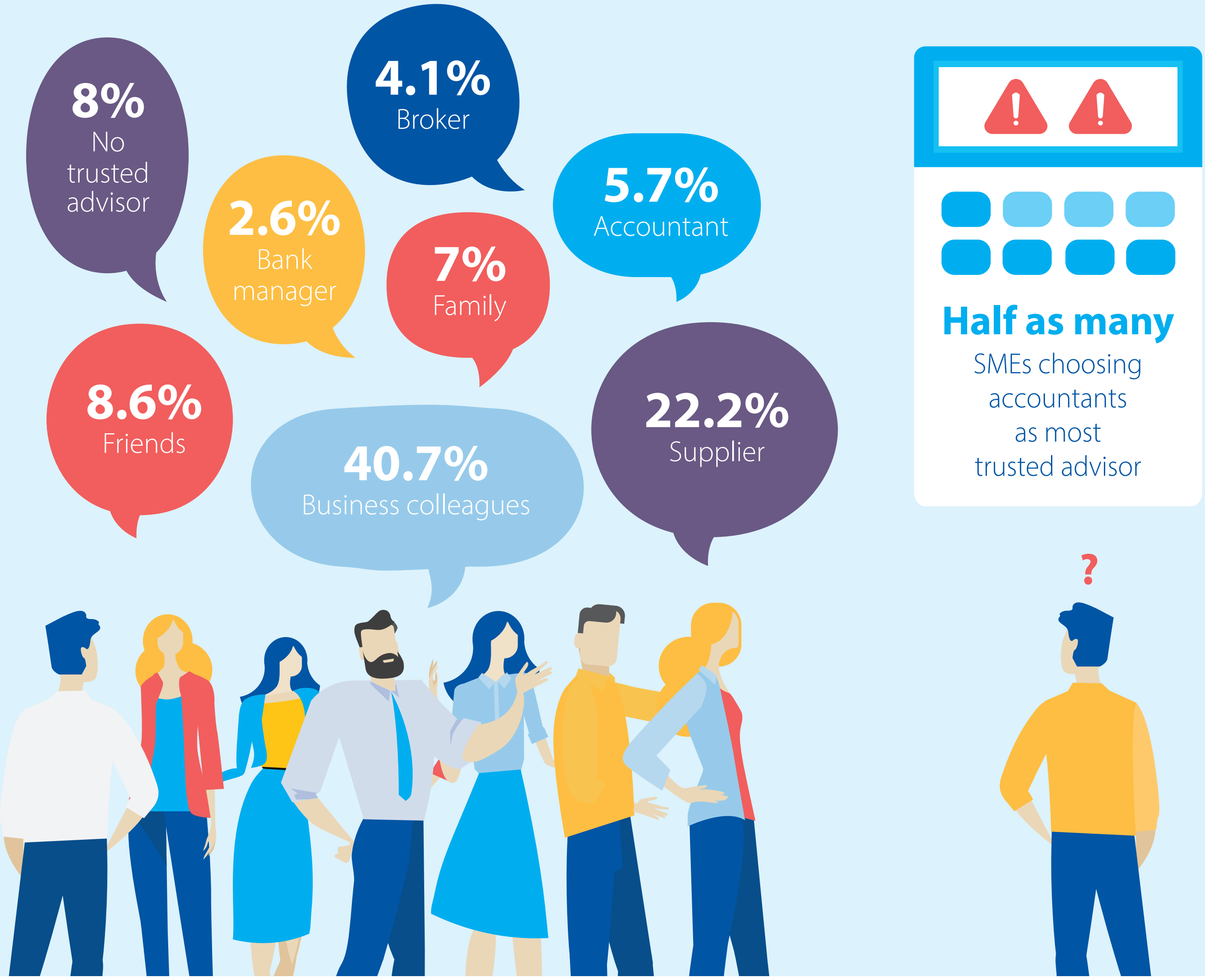
There is a red flag around the fact that the percentage of business owners nominating their accountant as their most trusted advisor has almost halved. This has fallen to 5.7%, from almost 10% when the Index covered this topic in 2017 and 2015.

One possible explanation is the SME sector's increasing reliance on online accounting software. SMEs may be taking control of the "number crunching" side of their business, but potentially at the expense of receiving the expert advice and guidance that accountants can offer.

Amidst predictions about the impact automation and offshoring will have on accounting jobs in Australia, the major accounting bodies have encouraged their members to provide a broad range of advisory services that will "future-proof" them from job losses.

Given the qualified and broad advice accountants can provide businesses, well beyond "number crunching" tax services, the results of this round of the Index suggest there is much work to be done in cementing the accountant's role as an essential SME advisor.

WHO ARE SMEs TRUSTING FOR ADVICE?



For the overall success of the SME sector, there needs to be an attitude shift towards seeing accountants as a business investment rather than a cost point.

This sentiment is reinforced by ASBFEO's Kate Carnell, who states that while many accountants and bookkeepers do offer services and advice beyond lodging tax returns and submitting BAS, they need to be more proactive in their engagement with small business clients to discuss getting "finance fit" and what funding options are available.

Neil Slonim of theBankDoctor, whose non-profit website helps small business owners navigate the myriad of funding options now available, says one explanation for accountants' fall in rankings could be "doctor Google".

Slonim says younger business owners, rather than seek a local accountant who could help them, have a tendency to rely on peers or go straight to an internet search and come across resources offered by governments, ASBFEO and his own site.

When it comes to brokers, it might also pay for broker associations to look at these *SME Growth Index* results and see where their opportunities lie if they want to move higher up the "trusted advisor" ranks in assisting small business owners.

INSIGHT 5

What is the impact of a trusted advisor?

The biggest impact trusted advisors have on SMEs is providing them with confidence about strategy direction (nominated by 38.7%).

This was one of three positive impacts SMEs independently nominated outside of set questionnaire responses, the others being providing access to credit (11%) and helping with asset sales (8.1%).

Advisors help SMEs access funding

More than one in 10 businesses look to trusted advisors for access to funding (13.1% of SMEs with $10-$20m turnover, and 9.8% of those in the $1-$10m range).

This is a business service that could be nurtured, for the benefit of the SME sector. The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) this year partnered with Scottish Pacific to research and produce a Business Funding Guide (targeting accountants, book-keepers, brokers and other key SME advisers) and a companion FitsME Guide (targeting small business owners).

The guides aim to increase knowledge about business funding options and help SMEs get their businesses "fit for finance" so that loan applications and equity requests are less likely to be rejected.

From the set responses, the Index found the key areas of advisor impact were staff and hiring decisions (named by 22.2%) and guiding new asset and equipment purchasing decisions (14%).

Trusted advisors were also credited with reducing costs and overheads (nominated by 10.2%), preventing insolvency (7.9%) and improving revenue (7.6%).

Accountants have the greatest positive impact

Despite accountants not being the first port of call for most SMEs, *SME Growth Index* research has shown accountants have the most positive impact of all advisors – 82.9% of SMEs who nominated accountants as most trusted advisor said they had a positive impact on the business.

This placed accountants well ahead of the positive impact reported for family members (68.8%), business colleagues (58.8%) and friends (27.1%).

Accountants are more likely to be most trusted advisors to growth businesses with declining revenues (8.2%) and growth and stable ones (6%), and least likely to be nominated by start-ups (2.3%) and those consolidating (3.3%). This may be understandable: start-ups may not have the funds to seek expert advice.

When it comes to trusted advisors, growth businesses are almost three times as likely to name an accountant over a bank manager, and twice as likely to name their broker ahead of their bank manager.

The business phase most likely to name a broker as trusted advisor is that of contracting businesses (7.4%). Around 4% of growth, stable and consolidating businesses rely on a broker for business counsel, but fewer than one in 100 (0.8%) of start-ups do.

Smaller SMEs, in the $1-10m turnover range, say their advisors have the biggest impact in hiring decisions, major purchases and giving them confidence in general business direction. For the larger SMEs, trusted advisors are more likely to have a positive impact by improving revenue and reducing costs.

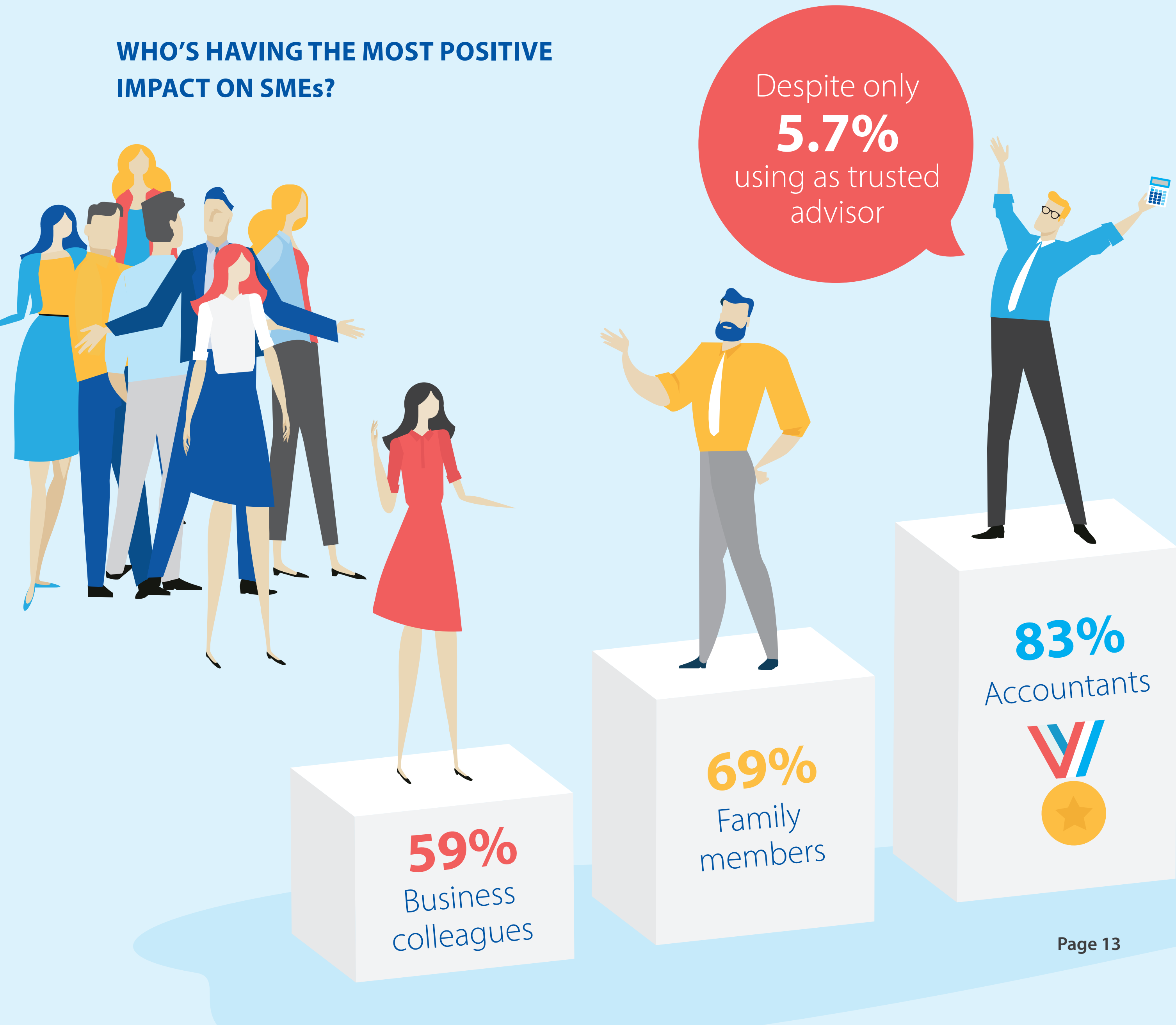
When the impact of a trusted advisor is considered through the lens of business age, enterprises over 10 years old are twice as likely as those under 10 years to have their trusted advisor prevent insolvency.

The older business category also relies more on advisors to reduce costs and help with asset sales, whereas younger enterprises are more likely to lean on advisors for confidence in business direction and help with staffing decisions.

What makes an advisor trusted?

The most important criteria nominated is real-world business experience (23.6%), rated ahead of independence, objectivity and truthfulness (22.1%). Other key factors include having a long-standing relationship (19.8%) and the ability to refer useful contacts and introduce to broader networks (12.1%), rated ahead of sector-based knowledge (8.2%), providing access to finance (7.3%) or being an investor in the business (6.1%).

WHO'S HAVING THE MOST POSITIVE IMPACT ON SMEs?



INSIGHT 6

The property conundrum

SME Growth Index research over the past five years shows business owners are increasingly becoming aware they have options beyond the family home to secure funding for their business.

They also clearly indicate that it's their preference to not use property as security for business lending.

And yet…

And yet, the statistics also show that many are still not looking beyond property security or their own personal funds when it comes to funding their business growth. Why?

theBankDoctor's Neil Slonim says that the answer to the conundrum comes down to the pressures small business owners are under.

According to Slonim, in their daily lives people have "important stuff" going on and unless something is really going to impact people, they tend to ignore it. It's the same with SMEs, and it's also true for their advisors.

Ask people if they'd prefer to lose weight, or have more money, they'd say yes. But that doesn't mean they're willing to do something about it.

Slonim says it's the same with business funding. Of course, business owners would prefer not to have to use their personal property as security – but that doesn't mean they automatically act on that preference. They don't want to pay more than the rates they have traditionally paid to the banks, which are relatively low because the bank holds property as security. There's a lack of understanding around the issue of pricing for risk.

ASBFEO's Kate Carnell agrees that SMEs lack an understanding of pricing for risk. She says SMEs are not looking beyond what they know and, when seeking finance, instinctively reach for their own bank. The Ombudsman says banks will often secure a loan against personal property, irrespective of how the SME will use the capital. Business owners need to understand the business funding options available and which best meets their needs.

Awareness does not equal action

One in five SMEs (20.5%) are still unaware that they can borrow against business assets rather than just use their personal property. Almost three-quarters of business owners (72.9%) are aware of asset-based lending (such as equipment finance or invoice finance), but still borrow against personal property – despite SMEs saying property is their least preferred security option.

Of these SMEs who are aware of asset-based lending, almost half (48.1%) currently use it. These businesses are borrowing against cars (44%), trucks (20.6%), receivables (15.7%), yellow goods (10.8%) and miscellaneous others such as manufacturing, EDP or IT equipment (1.7%).

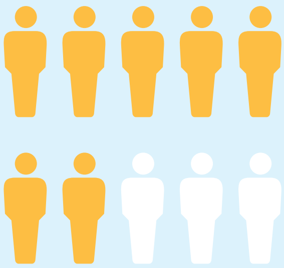
SMEs prefer not to borrow against property

When providing security for a business loan the overwhelming preference by the small to medium business sector is to use non-personal assets (57.4%), or to seek funding against a car or truck (23.7%). The least popular preference, selected by only 5.5% of SMEs, is to borrow against property.

This is in light of 91.4% of SMEs indicating in the March 2019 *SME Growth Index* that they would "definitely or probably" be prepared to pay a higher rate to obtain finance that didn't rely on real estate security.

Only 5.5%
of SMEs prefer to use property security

yet...



7 in 10
who are aware they can borrow against business assets are still putting their house at risk

East & Partners Head of Markets Analysis Martin Smith believes the research highlights a step change in SME lending behaviour that may leave incumbent bank providers behind if they are unable to adapt to the SME segment's evolving growth funding needs.

The *SME Growth Index* found that a high proportion of SMEs would prefer not to provide security at all. Of the total SME sample, 28.2% prefer unsecured loans, 15% nominated unsecured business credit cards and 14.9% named unsecured overdraft facilities. More than one in five SMEs (22%) independently nominated that their preferred option is to borrow against receivables. Notably, they incorrectly refer to receivables funding as unsecured – in fact, the loan is secured against the business' invoices.

A sizeable 14.3% of businesses are unsure or hold no view about what type of security they would like to provide for their business borrowing.

Among the SMEs actively planning to invest in their business in H2 2019 there remains an overreliance on existing equity in the business (83%) or new equity (12.8%) to fund growth.

This indicates a potential knowledge gap in business owners' understanding of funding options available within the SME sector, something the joint ASBFEO-Scottish Pacific Business Funding Guide, a free resource for business owners and their advisors (accountants, bookkeepers, brokers and financial consultants), aims to address.

Mature SMEs avoid using personal assets

Mature businesses (those that have been operating for a decade or longer) are much more likely to be switched on about not using personal assets as security to fund their enterprises. They prefer to secure their business borrowings against non-personal assets at almost triple the rate of SMEs under 10 years old (83.9% versus 30.2%).

Businesses under 10 years old are three times more likely to be unsure or have no view on a preferred type of loan security. For those who prefer not to provide security, mature enterprises lean towards a term loan whereas the younger ones nominate a business credit card.

Standard Index Questions

Q1 Please forecast the percentage change in your business revenues – either negative or positive – over the coming six months?

	Forecast Changes in Enterprise Revenue			
(N: 1260)	**Positive Growth**	**Negative Decline**	**No Change**	**Whole SME Market**
% of enterprises	54.6	20.7	24.7	100.0
Average change forecast	5.1	5.7	–	2.7
Range of change forecasts	1.5 – 7.7	4.2 – 12.8	–	1.5 – 12.8

Note: no statistically significant variance by state or industry sector of SME

Q2 Which of these best describes the phase your business is currently in:

	% of Total		
	Growth SMEs (N: 688)	**Declining / No Change SMEs (N: 572)**	**Whole SME Market (N: 1260)**
Start-up	19.3	–	10.6
Growth	72.5	0.3	39.8
Stable	4.1	61.7	30.2
Consolidation	3.8	17.0	9.8
Contracting	0.3	21.0	9.7
TOTAL	**100.0**	**100.0**	**100.0**

Note: no statistically significant variance by state or industry sector of SME

Q3 If you are planning to invest in your business in the next six months, how are you planning to fund that growth?

	% of Total		
	Growth SMEs Investing (N: 688)	**Declining / No Change SMEs Investing (N: 131)**	**Whole SME Market Investing (N: 819)**
Borrowing from my main relationship bank	18.6	16.8	18.3
Borrow from another bank	9.2	16.8	10.4
Borrow from a non-bank lender	13.8	44.3	18.7
Other forms of debt	1.6	12.2	3.3
Own funds	87.1	61.8	83.0
New equity	14.2	5.3	12.8
No plans on how to invest	5.8	19.8	8.1

Note: no statistically significant variance by state, industry sector or primary working capital provider
Note: sums to over N count due to multiple responding allowed

Standard Index Questions

Q4 What cash flow issues have you experienced in the past 12 months? (multi-choice)

	% of Total
	Whole SME Market (N: 1260)
Issues with government red tape / compliance	72.3
Lost a key supplier due to insolvency	1.5
Lost a key debtor due to insolvency	3.1
Customers paying late	40.1
Had to write off bad debts	5.2
Suppliers reducing payment terms	39.4
Unable to take on new work due to cash flow restrictions	22.0
Difficulty meeting tax payments on time	27.8
Declined from a lending product	21.3
Other	0.2
No cash flow issues in the past 12 months	9.5

Note: no statistically significant variance by state or industry sector or growth / no growth

Note: sums to over N count due to multiple responding allowed

Note: no statistically significant variance by state, industry sector, primary working capital provider or "growth" / "no change" SMEs

Note: sums to over N count due to multiple responding allowed

Q5 How does your business cash flow situation compare to 12 months ago?

	% of Total		
	Growth SMEs (N: 688)	**Declining / No Change SMEs (N: 572)**	**Whole SME Market (N: 1260)**
Cash flow situation is significantly better	17.6	28.0	22.3
Cash flow situation is better	35.0	39.5	37.1
Cash flow situation is unchanged	26.2	14.9	21.0
Cash flow situation is worse	14.1	10.1	12.3
Cash flow situation is significantly worse	7.1	7.5	7.3
TOTAL	100.0	100.0	100.0

Note: no statistically significant variance by state or industry sector

Standard Index Questions

Q6 What is your preference in providing security for business lending?

	% of Total
	Whole SME Market (N: 1260)
Secured loan against automobile	23.7
Secured loan against property	5.5
Secured loan against non-personal assets	57.4
Prefer not to provide security:	
Unsecured overdraft facility	14.9
Unsecured business credit card	15.0
Unsecured term loan	28.2
Other:	
"Unsecured" loan against receivables	22.0
Not sure / no view	14.3

Note: all interviewees asked the question at variance with previous rounds

Note: sums to over N count due to multiple responding allowed

Note: no statistically significant variance by state, industry sector or primary working capital provider

Q7 What is the key reason you would seek lending from a non-bank lender?

	% of Total
	Whole SME Market (N: 1260)
Royal Commission disclosures	8.8
Banks' credit appetite	6.9
Regulatory / compliance requirements	19.8
Quality alternative	1.3
Lower cost	1.5
Short time from application to money being available	17.1
Avoid using property as security	21.3
Response to a competitive pitch	0.9
Other:	
Avoid using non-property assets as security / personal guarantees	19.9
Would never consider a non-bank lender	2.6
TOTAL	100.0

Note: no statistically significant variance by state, industry sector or primary working capital provider

Standard Index Questions

Q8 Are you aware that you can borrow against business assets, rather than personal property?

	% of Total
	(N: 1260)
Yes – and I currently borrow against a business asset:	48.1
Cars	44.0
Trucks	20.6
Receivables	15.7
Yellow / construction plant	10.8
Other	1.7
I am aware but currently borrow against personal property	72.9
Unaware	20.5
Don't currently have borrowings	11.4

Note: no statistically significant variance by state, industry sector, primary working capital provider or "growth" / "no change" SMEs
Note: sums to over N count due to multiple responding allowed

Round 11 Special Questions

Q9 Who is your most trusted business advisor?

	% of Total
	(N: 1260)
Family member	7.0
Accountant	5.7
Bank manager	2.6
Broker	4.1
Personal coach / advisor	0.9
Friend	8.6
Business colleague	40.7
Trading partner / supplier	22.2
Other	0.2
None really	8.0
TOTAL	100.0

Round 11 Special Questions

Q10 What was the most important criteria when choosing your most trusted business advisor?

	% of Total
	(N: 1260)
Real world / business experience	23.6
Independence / objectivity / truthfulness	22.1
An investor in the business	6.1
Knows the sector we work in	8.2
Has useful contacts / networks	12.1
Has access to financing	7.3
History of relationship	19.8
Other	0.2
Not sure / no view	0.6
TOTAL	100.0

Note: no variance by state, sector or growth / static business

Q11 How often do you consult your most trusted advisor?

	% of Total
	(N: 1260)
Frequently (weekly / fortnightly)	24.0
Infrequently (monthly)	47.5
Rarely (6-12 months)	12.9
In response to business needs / impromptu	15.6
TOTAL	100.0

Note: no variance based on the advisor type

Q12 What impact has your relationship with your most trusted business advisor had on the business?

	% of Total
	(N: 1260)
Improved revenue	7.6
Reduced costs	10.2
Guided new asset / equipment purchasing decisions	14.0
Staff / hiring decisions	22.2
Prevented insolvency	7.9
Other:	
Provided confidence in business directions	38.7
Delivered access to funding	11.0
Helped asset sales from the business	8.1
TOTAL	119.8

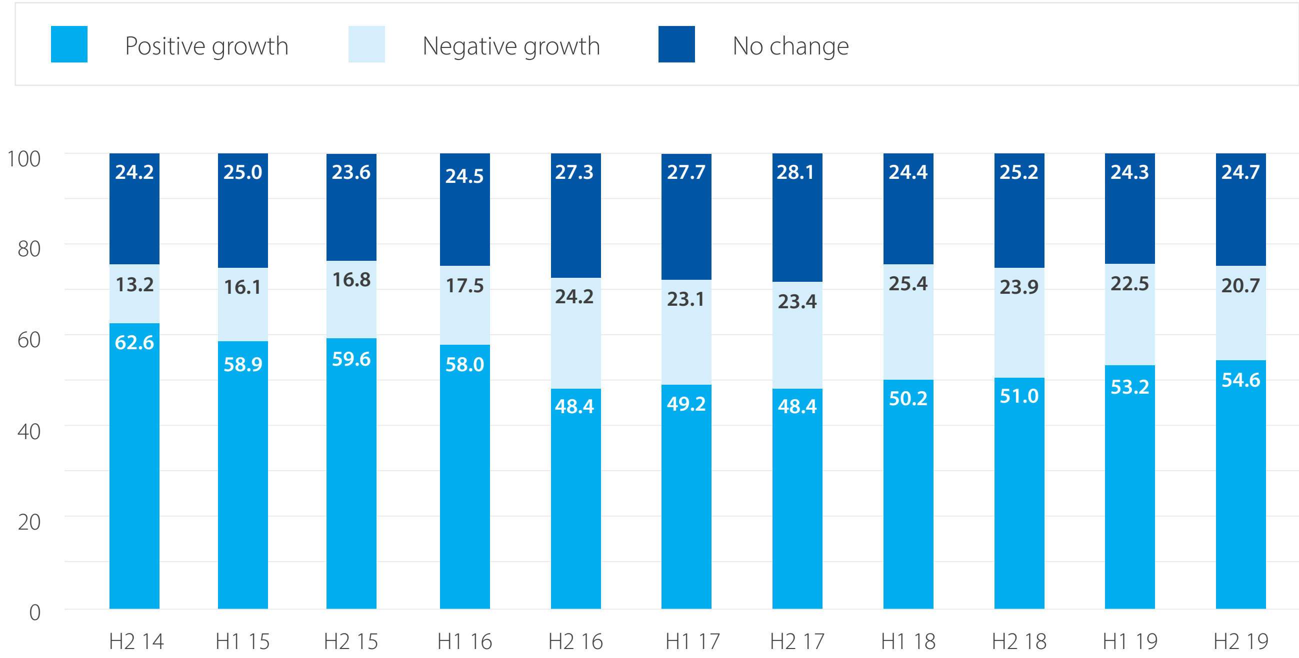
Note: no variance based on the advisor type

Note: sums over N count due to multiple responding being enabled

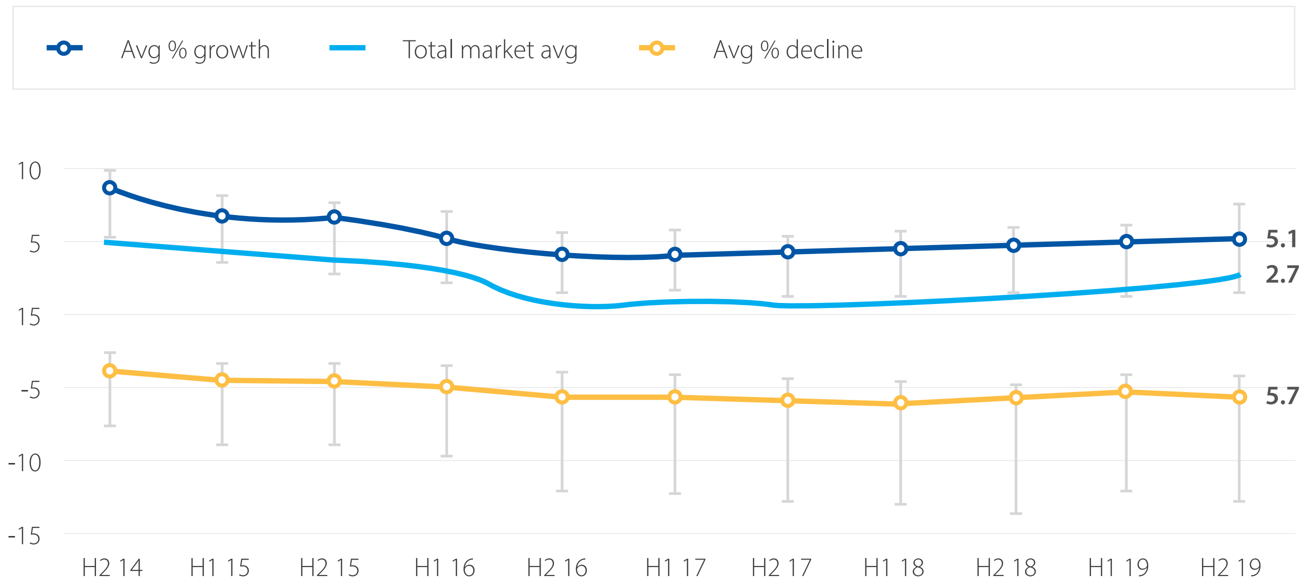
Trend Data

Forecast changes in enterprise revenue 2014 – 2019

% of SMEs – total market (N:1260)



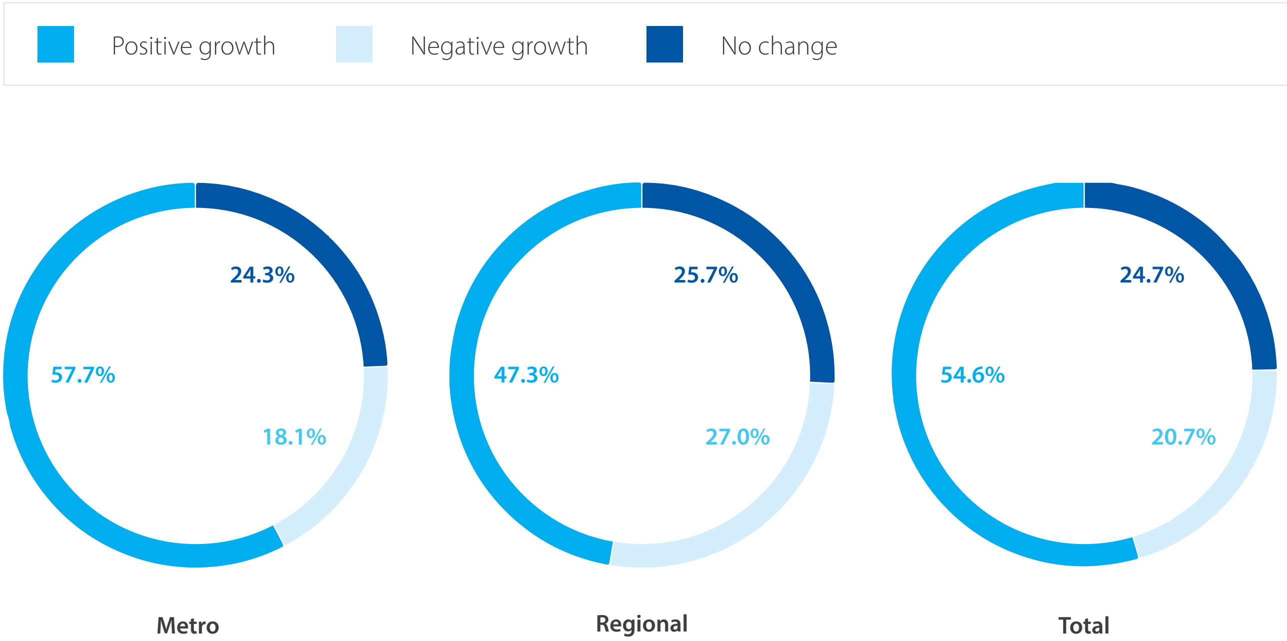
Avg % revenue growth change forecast (N: 1260)



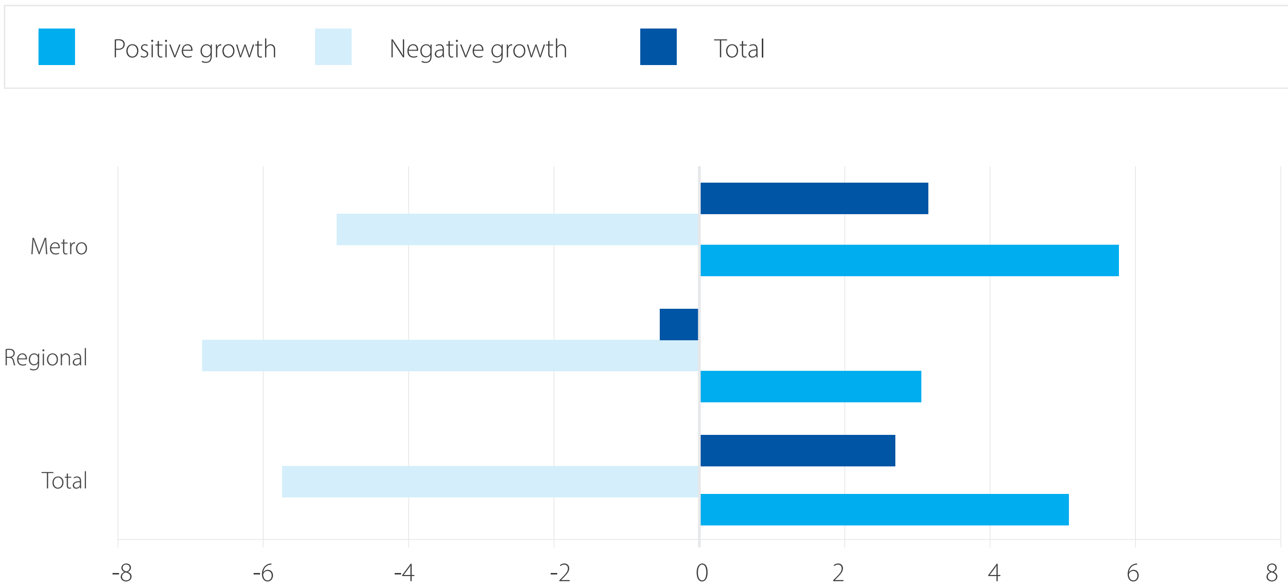
Note: Grey bars represent average revenue forecast range from high to low

Revenue forecasts: growth / non-growth SMEs and metro / regional SMEs

% of SMEs – Total Market (N: 1260)

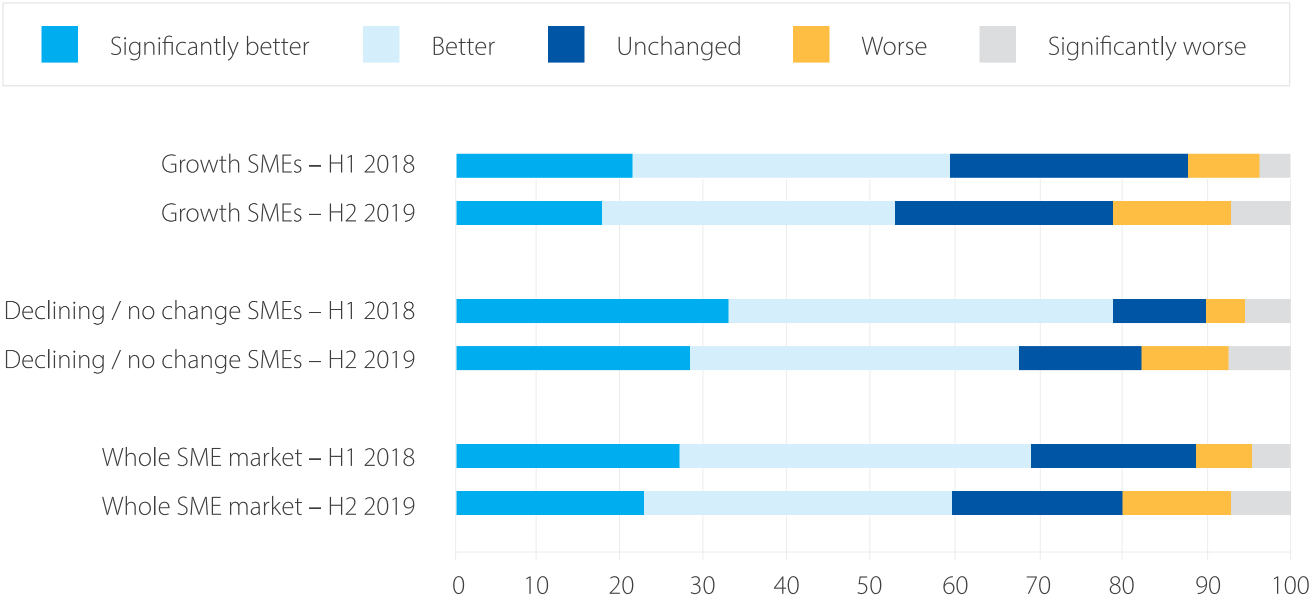


Avg % revenue growth change forecast (N: 1260)



Cash flow situation compared to 12 months ago

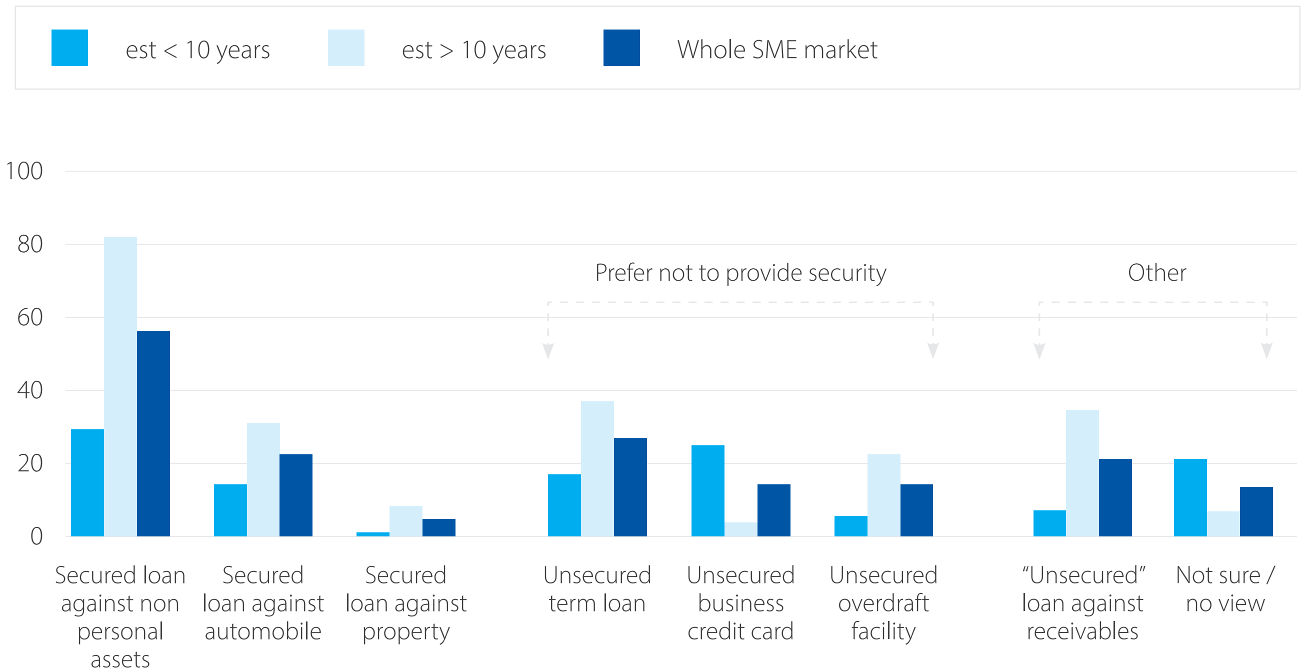
% of SMEs – total market (N:1260)



Note: Sums to over 100 percent – multiple responding allowed

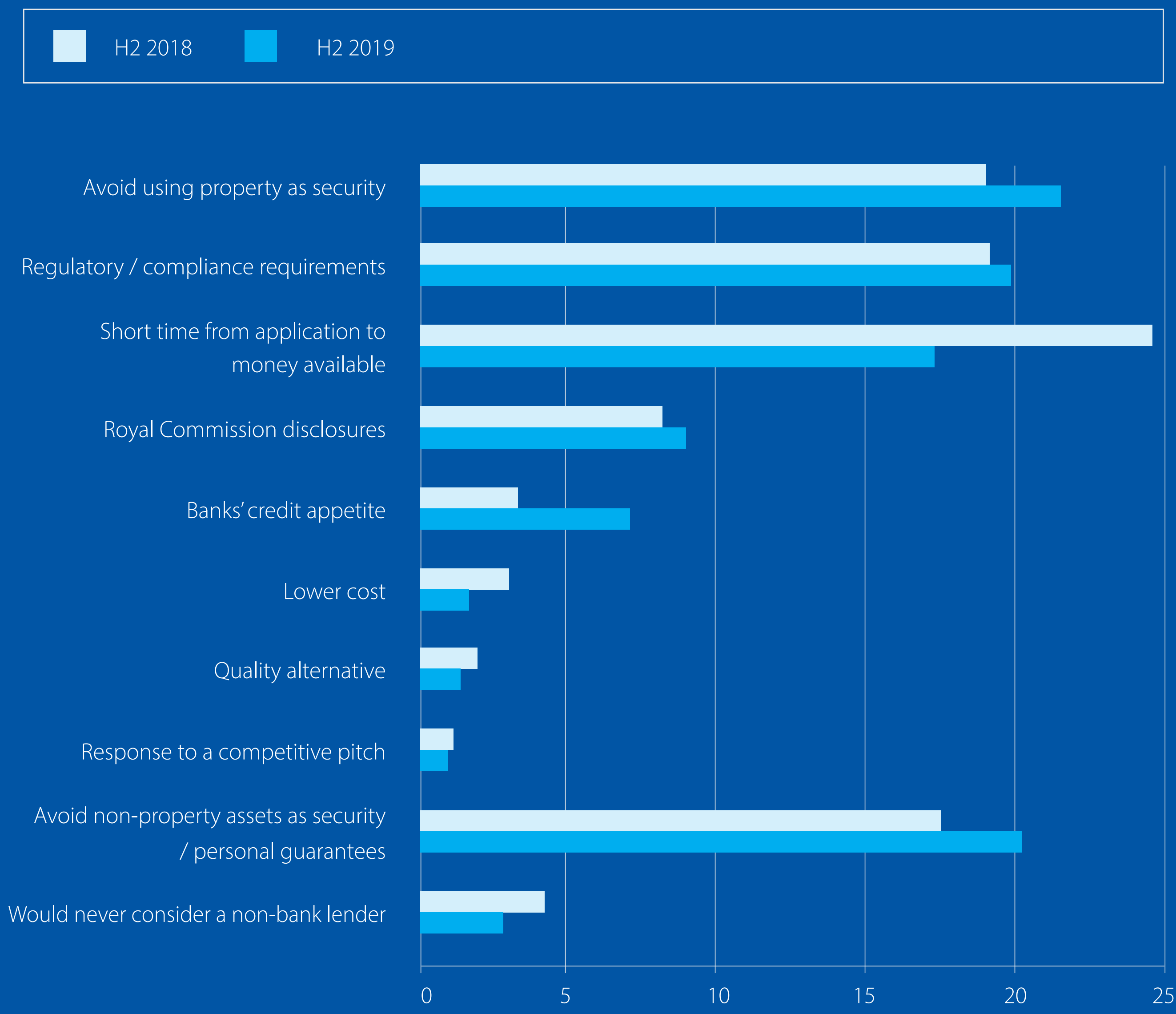
Business lending security preference

% of SMEs – total market (N: 1260)



Key reason to borrow from non-bank

% of SMEs – investing (N: 1260)

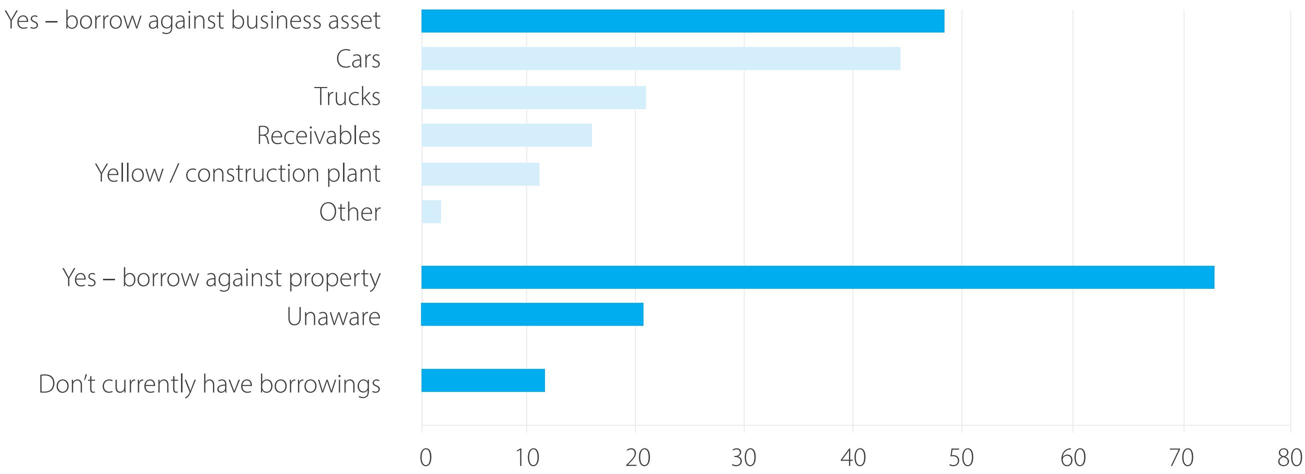


- Reluctance to lend against property / assets driving non bank lending appetite ahead of Royal Commission findings
- Suggests that SMEs have always held antagonism towards banks but fail to act upon the impulse to shop around
- Incidence of bank's turning SMEs away more than doubled from 3% to 7% in the last year
- Very few SMEs have ruled out non-bank lenders at sub 3%

Note: Sums to over 100 percent – multiple responding allowed

Asset based lending awareness

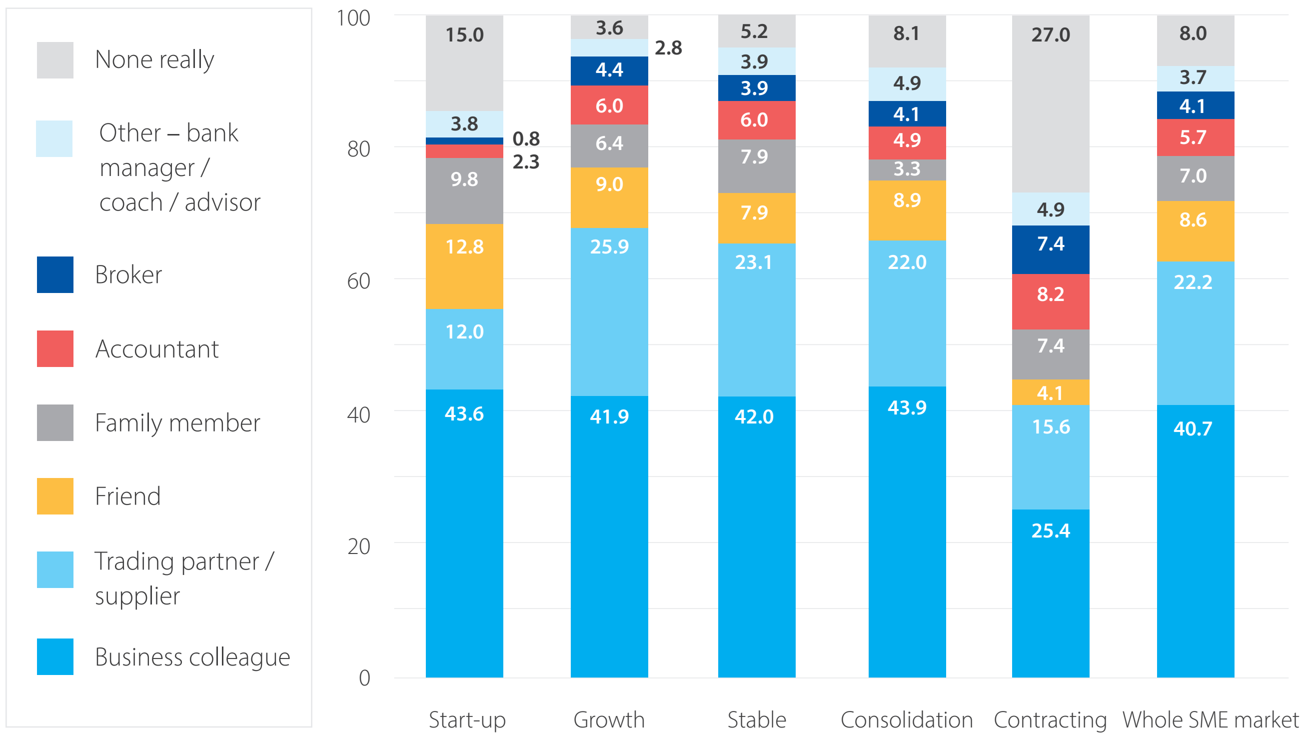
% of SMEs – total (N: 1260)



Note: Sums to over 100 percent – multiple responding allowed

Most trusted business advisor – by business phase

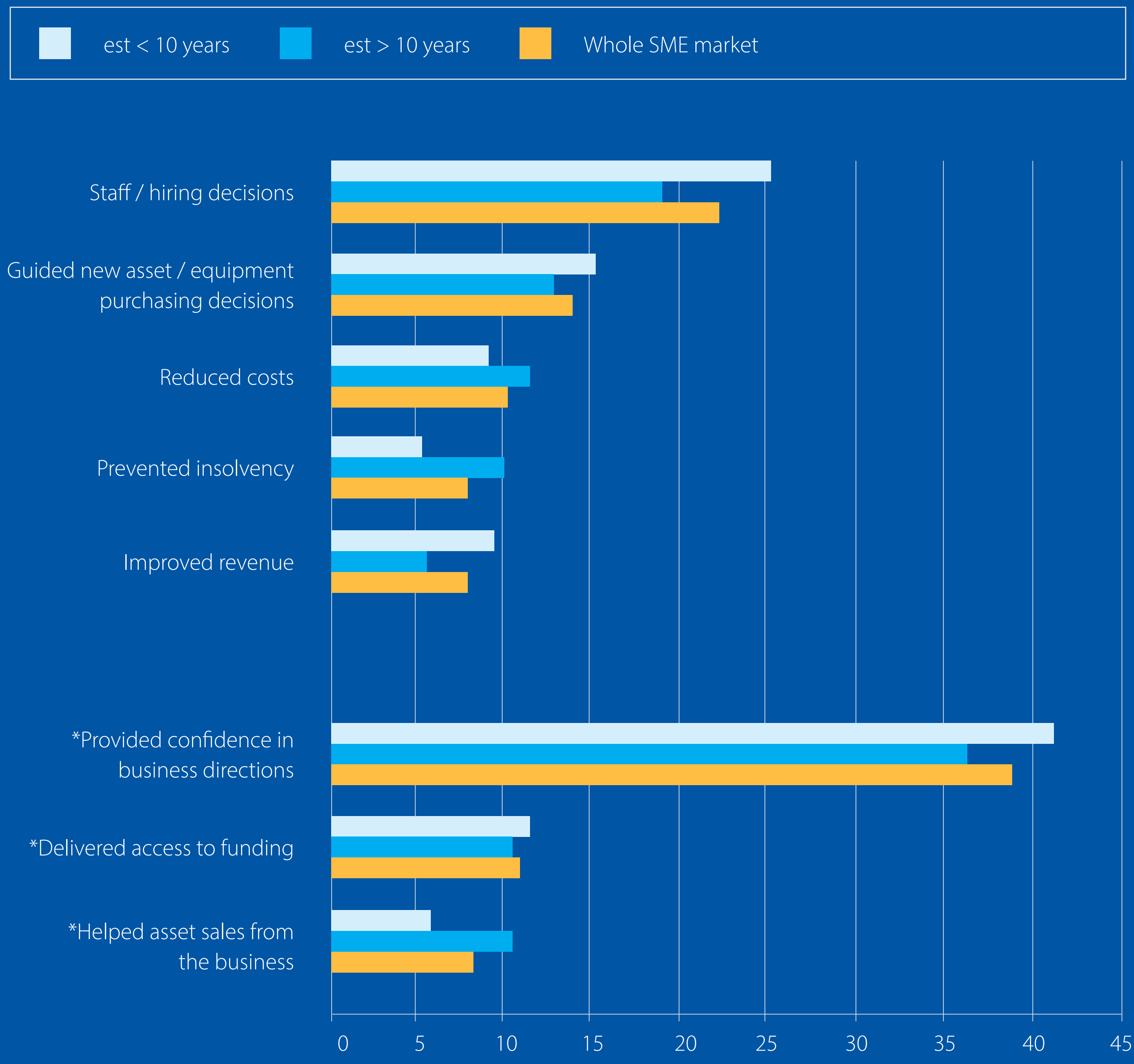
% of SMEs – total market (N: 1260)



Note: *Question response types altered H2 2019

Impact of most trusted business advisor – by age of business

% of SMEs – total (N: 1260)



*Other post-coded response nominated independently by SMEs

Methodology

East & Partners interviewed 1,260 SME businesses with annual revenues of A$1-20 million over a three week period ending in July 2019.

All interviews were conducted over the telephone or face-to-face by an accredited East interviewer, speaking with the company CEO, CFO or treasurer as represented in Table B below.

The sample was framed in accordance with ANZSIC codes to provide a natural sample of the Australian enterprise population, with state and sector demographics outlined in Tables A and C.

All interviews followed the closed response questionnaire.

A.

	% of total	
Geographical distribution	**H1 2019 (N: 1257)**	**H2 2019 (N: 1260)**
NSW & ACT	39.1	39.1
VIC & TAS	22.8	22.5
QLD	18.0	18.1
WA	13.4	13.5
SA & NT	6.8	6.7
TOTAL	100.0	100.0
Regional Australia	29.6	29.7
Metro Australia	70.4	70.3
TOTAL	100.0	100.0

B.

Interviewee distribution	H1 2019 (N: 1257)	H2 2019 (N: 1260)
	% of total	
Business owner / CEO	57.8	57.5
CFO	22.6	22.6
Finance director	9.5	9.8
Treasurer	2.9	2.8
Other	7.2	7.4
TOTAL	100.0	100.0

C.

Industry sector distribution of index sample	H1 2019 (N: 1257)	H2 2019 (N: 1260)
	% of total	
Agriculture, forestry and fishing	5.8	5.7
Mining and resources	7.6	7.5
Manufacturing	17.2	16.9
Electricity, gas and water	0.6	0.6
Construction	9.7	9.6
Wholesale	9.5	9.8
Retail	12.6	12.6
Accommodation, cafes and restaurants	2.5	2.4
Transport and storage	7.8	7.6
Media and telco	1.7	1.9
Finance and insurance (non-banks)	3.2	2.9
Property and business services	13.0	13.2
Personal and other services	8.8	9.4
TOTAL	100.0	100.0

D.

Age of business	H1 2019 (N: 1257)	H2 2019 (N: 1260)
	Years	
Average number of years in business	11.5	11.8

E.

Headcount of business	H1 2019 (N: 1257)	H2 2019 (N: 1260)
	FTE	
Average FTE in business	69.0	67.7

East & Partners is a leading specialist business banking market research and analysis firm. The firm's core expertise is in the provision of analysis and advisory services tailored for the commercial, business and institutional banking markets across Asia Pacific, Australasia, Europe and North America.

The delivery of accurate quantitative analysis on businesses exploding demand for sophisticated transaction, FX, debt, treasury, investment and advisory banking services and products has been uniquely addressed by East's "bottom up" research methodologies since 1987, based on many thousands of customer interviews with CEOs, CFOs, treasurers and business owners.

East's multi-client demand side research and consulting work has enabled the firm to partner virtually every major domestic and international bank present in the geographies the firm operates in.

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About Scottish Pacific Business Finance

Scottish Pacific Business Finance has a more than 30-year history of providing funding solutions to owners of small to medium businesses.

Established in 1988, Scottish Pacific is Australia and New Zealand's largest specialist provider of SME working capital solutions.

Scottish Pacific handles more than $19 billion of invoices each year, providing funding lines exceeding $1.3 billion, and lends to a wide range of business owners, providing working capital for start-ups through to $100m funding for public companies.

Clients are predominantly Small to Medium Sized Enterprises (SMEs) requiring personalised facilities that best suit their individual needs, and who often find it difficult to obtain appropriate funding from their main banking providers.

With full operations centres in Sydney, Melbourne, Perth, Brisbane, Adelaide, Auckland and China, Scottish Pacific offers a comprehensive range of specialised finance solutions, including invoice finance and trade finance, that can remove property security from the funding equation for business owners.

A more flexible view on the financial strength and potential of a business is offered to clients, with Scottish Pacific able to fund businesses through all stages of the economic cycle, and all stages of their existence from start-up through to sale of the business, from high growth to seasonal challenges.

Scottish Pacific was recognised as Australia's best SME cash flow lender in the 2018 International Finance Awards and acknowledged as best business finance provider in the 2017 and 2015 global TFG International Trade Finance Awards.

As a specialist provider of working capital, Scottish Pacific is well placed to understand the needs and the sentiment of SME businesses, and initiated the *SME Growth Index* to:

- Drive development of the financial solutions available to SMEs throughout Australia and New Zealand, by providing market intelligence to deepen the understanding of SMEs' needs.
- Provide Scottish Pacific with the data to help us act as advocates for SMEs, and as thought leaders within the business finance community.
- Share our insights with the broad SME community – the lifeblood of business in Australia – and with fellow business finance professionals.

The next Scottish Pacific *SME Growth Index* will be released in March 2020.

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