SME Growth Index

March 2023

ScotPac Business Finance

Research completed in partnership with East & Partners, surveying Business Owners and Decision Makers in Australia.

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Executive Summary

Despite an environment of rampant inflation, rapidly escalating wages and interest rates, and ongoing supply chain disruptions, a remarkable 56% of Australian small and medium enterprises (SMEs) are predicting positive revenue growth in 2023 , the highest proportion in seven years. The average rate of growth forecast is an even more remarkable 7.8%, the strongest figure since 2014. This represents a seismic shift in sentiment from 2021 where average forecast growth was an all-time low of 4.1 per cent.

However, the upbeat forecasts were tempered by the fact that almost a third of SMEs predicted their revenue would contract over the next six months, by an average of -8.5%. These figures were the highest recorded for each category in the nine year history of the ScotPac SME Growth Index, highlighting the uneven impacts that economic and supply chain factors are having on SME sentiment.

Irrespective of revenue outlook, rising wages emerged as the greatest concern SMEs, particularly smaller businesses with revenue of less than $5 million. 63% of SMEs said labour costs were rising faster than any other expense they faced. When asked how they intended to respond, 56% said they are considering reducing employee headcount or hours, while a similar number of business owners are looking to trade their way out through longer operating hours. 40% of SMEs independently nominated funding costs a rising pain point suggests, a clear indication that multiple interest rate rises are starting to bite small businesses. With no signs of inflation or interest rate relief on the horizon, it will be interesting to see if the SME response to ballooning business costs has an impact on Australia's historically low unemployment rate at the back end of 2023.

One strong and encouraging theme to emerge from the index report was the proactive approach SMEs are taking to build supply chain resilience and guard against further shocks. Smarter inventory management is now a constant core consideration for SMEs, and the news is good for Australian manufacturers and suppliers. More than a quarter of SMEs are looking to add new suppliers in their domestic markets in preference to international suppliers, and one in five are actively reducing their reliance on global suppliers. Aside from the greater supply chain certainty this approach provides, business owners said they are responding to consumer feedback that they want to support local jobs and the Australian economy, and they value the quality and reliability of Australian made products. This should send a strong message to policymakers at both Federal and State level that targeted support for Australian manufacturing, innovation and skill training has a vital role to play in strengthening our economy and supporting SMEs.

In the context of an inflationary environment it was no surprise to see the demand for non-bank lending continue to rise. What was surprising was the level of increase in demand. Non-bank borrowing demand increased to a record high 47%, triple the figure from September 2018. The speed and ease of onboarding processes were again the key attractions for SMEs who want fast access to working capital, followed by the freedom of not having to use property or non-property assets as security for new lending. The great news for non-bank lenders and brokers is the opportunity for even greater growth. 10% of small business owners are not sure how they will finance new growth, 21% are unaware of the financing options available to them and 19% said they are too time poor to research options or speak to an advisor. This represents a large untapped market of SMEs that could benefit from a tailored finance package that supports their growth and complements their needs.

SMEs remain the backbone of the Australian economy and our largest provider of employment and services. The bi-annual ScotPac SME Growth Index Report is Australia's longest established temperature check of SME sentiment about growth prospects and other key economic indicators. We trust the insights in this our 18th Index Report will be of interest, and we look forward to presenting a further report later in 2023.

Jon Sutton
Chief Executive Officer
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ScotPac
Business Finance

Non-bank borrowing demand continues to surge

The number of Australian SMEs are turning to non-bank lenders for support has trebled since 2018 to a record high of 47%

Overview

The proportion of Australian SMEs looking to partner with non-bank lenders for their finance needs increased more than 50% year on year (Q1, 2022 -Q1, 2023) to a record high of 47%.

The stunning figure is a threefold increase from 2018, and it is the highest non-bank lending preference figure recorded since ScotPac's SME Growth Index commenced in September 2014.

Almost a quarter of SMEs nominated the time and comparative ease of the non-bank onboarding process as the main reason for their decision. Other key drivers were the ability to secure finance without using property or non-property assets as security.

Nine out of 10 SMEs with declining growth were more likely to seek support from a non-bank lender due to the relative inflexibility of bank lending criteria.

Of those SMEs who are not considering a non-bank lending solution, the chief reason provided was a lack of familiarity with the business or bank.

60%

Proportion of SMEs planning to invest in their business in the next six months.

47%

Share of SMEs considering non-bank lending to support their investment plans – up 50% in 12 months.

10%

SMEs that don't know how they will fund new investment

Top takeouts for SMEs and brokers

The continued surge in non-bank lending is a clear sign that SMEs increasingly value the timely access to working capital that non-bank lenders like ScotPac can provide.

It is also reflects a growing awareness of the alternatives non-bank lenders offer SME owners to drawing on equity to reinvest in their business.

ScotPac has the breadth of products and experience to help more businesses in more situations than any other non-bank lender, including invoice finance, asset finance and online business loans.

The growth in demand for non-bank lending is a golden opportunity for finance brokers to diversify into business lending or expand their existing commercial practices.

With the time pressures faced by SME owners, the role of the business broker has never been more important.

ScotPac's new Partner Portal provides brokers and advisors with all the tools they need to quickly find the right solution for their clients and grow their own business.

Australian SME growth outlook hits seven year high in two-speed economy

Most SMEs have forecast positive enterprise growth in the next 6 months, but a third predict falling revenue

Overview

A robust 56% of Australian SMEs are forecasting positive enterprise revenue over the next six months - the strongest growth outlook for the sector since March 2016.

The fact that more than half of SME owners are predicting revenue growth is both remarkable and encouraging when you consider the rising cost of doing business, particularly in key areas like wages, energy and interest rates.

However, at the opposite end of the scale, 31% of SMEs are predicting their revenue will contract in the next six months, by an average of 8.5% - both record high figures for ScotPac's SME Growth Index.

This finding confirms that tough economic conditions and the end of government COVID relief measures in the past 12 months is taking a toll on cashflow dependent SMEs. It is further evidenced by a 61% rise in insolvencies from October 2022 to March 2023 compared to the same period a year earlier.

The average revenue growth projection across all SMEs tipped into the positive at +2%.

56%

SMEs forecasting positive enterprise revenue in the next six months by an average of 8%

31%

SMEs predicting contracting revenue in the next six months by an average of -8.5%

-20% to +12.5%

Record high spread for Australian SME growth projections

Top takeouts for SMEs and brokers

The six-month growth projection findings are a clear indicator of the two-speed economy that currently exists for Australian SMEs.

Whatever their stage of growth, all SMEs are operating in an environment of rising costs and changing consumer behaviour, which often requires a change in approach.

In times of uncertainty, it is more important than ever for SMEs to reach out to their brokers and advisors, and vice versa.

The fact is a lot of SME owners are not aware of the range of financial management tools and support options available to make running their business easier.

For some, invoice finance is a great tool to access money owed from clients faster, providing capital for growth without delay. For others, an online business loan may be the right solution to manage costs, such as ATO debts.

ScotPac understands that all businesses can benefit from access to fast and flexible finance, and we have the broadest range of products to suit businesses at every stage of their growth.

Wages and compliance growth top fastest rising business costs for SMEs

SME owners respond by reducing headcount, increasing hours of operation or downsizing

Overview

Rising wages and compliance costs top the list of growing cost pressures for Australian SMEs, with small and medium businesses in NSW the most heavily impacted. Transport, logistics and distribution costs rounded out the top three.

More than 60% of SME owners nationally were feeling the pinch of wage rises, with employers under pressure to increase wages in line with inflation that has driven up the cost of living. In NSW, 67% of SME owners listed wages as the leading cost concern.

The headline strategies SMEs are adopting to combat rising cost pressures are likely to raise alarm bells for politicians and policymakers, particularly in NSW.

62% of SMEs in NSW were planning to cut employees, compared with 52% across the rest of the nation. That may start to impact Australia's historically low unemployment rate in coming months.

Almost 60% of SMEs in NSW plan to trade their way through rising cost pressures by increasing their hours of operation, compared with 54% across the remainder of the country. Just over 40% of SMEs planned to respond by downsizing their business to reduce costs.

61%

SMEs that listed wage growth as a leading business cost pressure (67% in NSW)

51%

More than half of SMEs surveyed rated transport & logistics a top three rising cost pressure.

52%

SMEs planning to reduce their workforce to manage cost pressures (62% in NSW)

Top takeouts for SMEs and brokers

Australian SMEs account for 98% of all businesses across Australia, so small business owners are bearing the brunt of rising cost pressures across our economy, particularly wages which have surged over the past 12 months.

For many SME owners it is their first time running a business in a high inflation environment, and they are looking to State and the Federal Governments for support in the form of tax relief and red tape reduction to cut operating costs.

Whilst recent Budget announcements will provide a helping hand for some SMEs, they are just one part of the solution. Before they commit to any course of action – including … the best thing any SME owner can do to manage rising costs is talk to their broker and key advisors about flexible finance facilities to match their needs.

ScotPac has been assisting business owners with tailored finance solutions at every stage of the economic cycle for more than 30 years. There have never been more options available to support business owners with available working capital at times of rapidly rising business costs.

Small SMEs three times more likely to use personal finance for business costs

But overall use of personal finance facilities has fallen sharply since 2016

Overview

Australian SMEs with annual revenue up to $5 million are three times more likely to tap into personal finance facilities like credit cards to manage rising business costs than large SMEs with revenues of between $5 million to $20 million.

Of the 75% of small SMEs that use personal finance, 33% said they did so only 'occasionally', while a further 30% said they reserved the practice for emergencies only.

For large SMEs, just 25% of business owners used personal finance to support their business, with the majority (19%) reporting it as an infrequent occurrence.

Encouragingly, the overall use of personal finance facilities to fund business costs has fallen sharply in the past seven years . Almost half of all SME owners reported they never used personal finance sources for business purposes, compared to just one in eight in 2016.

When it came to considering a drawdown in equity to fund operating costs, small SMEs emerged as five times more likely to consider this strategy than large SMEs.

33%

Small SME owners who 'occasionally' use a personal finance facility like a credit card to support their business

47%

SMEs in 2023 that never use personal finance sources for business purposes, compared to just 12% in 2016

35%

Small SMEs are five times more likely to consider a drawdown in equity compared to large SMEs (7%)

Top takeouts for SMEs and brokers

The recent reduction in SMEs relying on personal finance facilities to support business expenses is a good sign, but too many SME owners are still mixing their personal and business finances.

Large SMEs have traditionally had better access to a range of debt funding sources and stronger internal governance processes around the use of personal finances. However, the perception that small SMEs would struggle to access to fresh finance or to refinance an existing facility is an outdated one.

More work needs to be done to make small SMEs aware of the array of customisable non-bank finance products available to them in 2023. These include invoice finance facilities that provide ready working capital, and online business loans that can see funds approved and dispensed in as little as 24 hours.

ScotPac has the most flexible range of SME finance products in the market and the scale to deliver cost-effective solutions across a breadth of industries and business situations. So, before tapping into a personal finance facility, small business owners should be tapping their broker on the shoulder for advice.

More SMEs look to local suppliers to boost supply chain resilience

Inventory management takes centre stage as a post-COVID priority for business owners

Overview

More than a quarter of Australian SMEs plan to add new domestic suppliers in preference to international suppliers in the next 18 months to build greater supply chain resilience, with small SMEs (32%) leading the way.

In further good news for domestic manufacturers and suppliers, 21% of SMEs plan to cut ties with international suppliers in 2023-24 to support local products, services and jobs.

The two leading measures favoured by SMEs to guard against future supply chain turbulence are securing more flexible trade funding arrangements (54%) and forging closer relationships with key suppliers and customers (52%).

More intensive inventory management also emerged as a key theme with more than a third of respondents looking to focus on key inventory items and remove others, and more than a quarter stocking up inventory in specific areas.

Unsurprisingly, around one in five SMEs are intending to switch from Just-in-Time to Just-in-Case inventory management.

28%

Australian SMEs that plan to add new domestic suppliers in preference to international suppliers

54%

SMEs seeking more flexible trade funding arrangements

22%

SMEs switching from Just-In-Time to Just-In-Case inventory management

Top takeouts for SMEs and brokers

With global supply chain disruptions becoming the new norm for Australian SMEs in the past three years, the focus of business owners on inventory management has clearly sharpened.

Shortening trade routes by sourcing new domestic suppliers and manufacturers makes good sense in an uncertain economic environment. It is a trend that can be expected to continue and provide a real shot in the arm for local suppliers, including thousands of SMEs, and transport and logistics businesses.

The shift to more proactive supply chain management has led to a surge in demand for ScotPac's trade finance facilities in the past two years. Much of this growth is down to SMEs looking to boost their buying power to support new inventory management strategies, whether they are domestically and internationally focused.

This insight highlights the fact that access to flexible, tailored finance is one of the best tools a business owner can have at hand to mitigate supply chain shocks.

Methodology

ScotPac's bi-annual SME Growth Index, is Australia's longest running research report on SME sentiment towards revenue growth prospects.

This is the 18th consecutive round of ScotPac's SME Growth Index. Each index round includes a mix of core questions that are repeated biannually, and special questions, which are refreshed in line with changes in the SME environment.

The Round 18 research was conducted by East & Partners who interviewed 720 SME enterprises with annual revenues of A$1-20 million - split by revenue growth, Small Sized SMEs (A$1 – 5 million) and Large Sized SMEs (A$5 – 20 million)- in February 2023.

Sectors represented in the survey included Manufacturing (14%), Property & Business Services (14%), Retail (11%), Wholesale (11%), Personal / Other Services (10%), Construction (10%) and other industries including Transport & Storage, Mining, Agriculture, Media, Hospitality, Finance & Insurance (non-bank) and Electricity.

SMEs surveyed had an average of 14.2 years continuous operation and manage an average of 59 full time employees.

All interviews were conducted over the telephone or face-to-face by an accredited East interviewer, speaking with the company CEO, CFO or treasurer. The sample was framed in accordance with ANZSIC codes to provide a natural sample of the Australian enterprise population.

east&partners

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.

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Business Finance

About ScotPac

For more than 35 years, ScotPac has helped thousands of businesses grow and succeed by providing fast, tailored and flexible funding solutions to small to medium enterprises (SMEs). Our experienced team of business lenders understand that SME owners often require fast access to funds and personalised facilities to seize opportunities and manage their cashflow fluctuations.

ScotPac is Australia and New Zealand's largest specialist provider of SME working capital solutions. We partner with businesses to convert the value of outstanding invoices and business assets into a powerful source of capital. Our comprehensive finance solutions Invoice Finance, Asset Finance and Trade Finance facilities means we can tailor lending facilities to the specific needs of our SMEs. With the recent addition of Boost Business Loan, we also offer online business loans of between $10,000 and $500,000, funded within 24 hours of approval.

ScotPac has unrivalled experience at funding businesses through all stages of the economic cycle – including periods of high inflation - and all stages of their existence from start-up to high growth. We work with our clients and their brokers to navigate supply chain and other challenges, and to scale up when opportunities arise. Our breadth of experience, our suite of products and our flexible approach mean we can help more businesses in more situations than any other non-bank lender.

With the recent addition of our market-leading Partner Portal, ScotPac provides brokers with unrivalled resources to quickly find the right lending solutions for their clients and drive new business. It includes working capital calculators, online lodgement and application tracking, and a toolbox of customisable sales and marketing resources. The Partner Portal gives brokers and their clients the best chance of success.

ScotPac initiated the SME Growth Index in 2014 and this is now the 18th index report. While the numbers may change from report to report, our objectives in producing the report remain the same. They include:

- Deepening our understanding of what SMEs need to inform the development of new and enhanced financial solutions.
- Gathering data to help us act as advocates for SMEs and thought leaders within the business finance community.
- Sharing relevant insights with the SME community, brokers and advisors, policymakers, industry associations and financial / SME media.

We hope you find the insights provided in this edition of ScotPac's SME Growth Index of interest.

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