ScotPac
SME Growth Index

September 2021

ScotPac
Business Finance

Contents

The ScotPac SME Growth Index is Australia's longest-running in-depth research on small business growth prospects. Twice a year, independent research is undertaken by leading business banking market research firm East & Partners, on behalf of ScotPac.

The September 2021 round surveyed and interviewed a representative sample of Australian businesses - the owners, CEOs or senior financial staff of 1255 small to medium enterprises (SMEs) across a range of industries and all states, with annual revenues of $A1-$20 million.

Executive Summary

Results of Round 15 of the *SME Growth Index* give us the sense that despite the confusion, complexity and ever-changing nature of the business environment, SMEs are trying to move past COVID and control what they can control.

This means controlling how their business is structured, keeping a rein on cashflow and actively sourcing new funds.

This round of SME revenue forecasts, albeit made during the early days of Sydney's Delta lockdown, indicate a robust improvement in fortunes for a good many enterprises.

Half of all SMEs (50.1%) are forecasting positive business revenue growth through to the end of 2021, a strong rebound from the 47% who felt this way in September 2020.

ScotPac's *SME Growth Index*, Australia's longest-running in-depth research on small business growth prospects, polled businesses from a range of key industries across the country.

We found a promising increase in the proportion of SMEs looking to invest in their own business for the remainder of this year: out of 1255 respondents, 727 plan to invest in their own growth, up from the 650 this time last year.

Broader survey results provide insights into how SMEs are building out of the current environment.

Two in three businesses sourced new styles of funding. With so many business owners trying new funding avenues, there seems to be a realisation that dealing with the pandemic is a longer-term proposition to which they must adjust.

The larger the business the greater the willingness to introduce new funding methods, with more than seven out of 10 larger SMEs (with $5-20m revenues) using new funding compared to six out of 10 smaller SMEs (those with $1-5m revenue).

Around half of the smaller SME cohort is reliant on credit cards – an unsustainable and short-term business funding measure. We would encourage SMEs, large and small, to seek professional advice to inform their decision-making when it comes to funding.

Of the one in three SMEs who did not try new funding methods, this was mainly due to having their application rejected, and to issues around excessive admin or documentation requirements, as well as a reluctance to take on more debt.

There has been a massive decrease in the percentage of business owners who don't have a trusted advisor, with 7.7% of SMEs saying they have no-one to turn to (down from 38.6% in 2015).

This attitude could help keep the SME sector on the front foot. Because without JobKeeper, and with lockdowns a possibility for the rest of the year, it may be that professional advice is the missing link that could make a difference for many businesses.

Beyond some of the positive findings this round, a significant cohort of SMEs are really struggling.

Four in 10 business owners restructured over the past year - without this restructuring, more than a quarter of SME respondents feel their business would not have survived.

This is a clear reflection of the "boom or bust" impact of COVID, where business conditions vary widely depending on industry and state.

This disparity is highlighted with the *Index* recording the widest range of revenue forecasts since its inception in 2014 (for the remainder of 2021, the forecast revenue range varies from a high of +9.6% to a low of -15%). This round also recorded the highest ever proportion of SMEs who report their revenue is declining.

From a long-term growth perspective, how many times can small businesses withstand market conditions that are challenging for so many? How many hits can they take before having to restructure?

Our results highlight that there are clear benefits for those SMEs who take actions such as finding funding that fits the business, calling on the right people for advice and being willing to restructure to adapt to the times.

Jon Sutton
Chief Executive Officer
ScotPac Business Finance

Insight 1

Two in three SMEs are using new funding options

As 2021 progresses, small businesses have shown an increasing appetite for new funding sources. Two in every three SMEs (66.1%) introduced new funding options during the past year. This is a large jump even from six months ago, when 46% of SMEs had ventured beyond their traditional funding methods.

The latest *SME Growth Index* found that larger SMEs (those with $5-20m annual revenue) were more inclined to try new funding options – with 72.7% of them taking the plunge compared to 60.4% of smaller SMEs ($1-5m revenue). Businesses outlined the new funding sources they tried - some of the choices are sustainable and good business practice; others, such as reliance on credit cards, have inherent risks:

- 55.4% added the use of existing equity or owner funds
- 42.5% used personal credit cards to fund short term receivables
- 38% applied for asset and equipment finance
- 27.6% relied on JobKeeper or other government stimulus
- 20% took out a new overdraft
- 16.3% sourced new debtor finance (invoice finance)
- 15.9% sought a new secured bank loan
- 8.8% borrowed from an online fintech
- 5.3% sought supply chain finance

The demand for invoice finance as a new funding option has more than doubled since early 2018, sitting at 16.3% taking out a new invoice finance facility in the past 12 months as opposed to 7.6% three years ago. Business owners indicated they are just as likely to utilise a new invoice finance facility as to seek a new secured bank loan.

The fact that four in 10 businesses are relying on the owner's personal credit cards as a new source of funding is a sign of potential trouble, according to market analysts East & Partners. However the market analysts believe that the similar proportion of SMEs applying for asset and equipment finance is a positive, indicating a desire to update business equipment to ensure they are ready to take on new opportunities and survive market disruption.

How SMEs put their new funding to work

Of the SMEs who used new funding options in the past year, the majority (57.5%) allocated it to capital expenditure to purchase plant and equipment.

A large cohort (40.6%) said they sought new financing to improve their cashflow.

A third of businesses (34.3%) used new funding to pay down debt, 29.3% to secure large projects or clients and 20.6% to increase their cash buffer or replace JobKeeper.

Other common reasons for seeking new funding were to expand capacity (20.2%), refinance existing loans (16.6%), hire staff or upskill existing staff (15.1%) and enter new markets or create new products (7.1%).

A small but significant cohort (7.2%) put their new funding to work to reduce their reliance on using their home as business security.

Despite four out of 10 SMEs saying they restructured their business in the past year, only 6.4% said they took out new funding options in order to complete a restructure.

Industry sectors had different uses for new funding

When responses were analysed by key industry sectors, **retail** SMEs were most likely to have used their new funding to pay down debt, fund a merger/acquisition or reduce funding against their home.

Manufacturing and **retail** were the industry sectors most likely to use the new funding to buy equipment or machinery. Manufacturers were also most drawn to using new funds to chase large projects and look for new markets.

Wholesalers were most likely to use new funds to replace stimulus money and to refinance existing loans.

The top three new funding uses for **mining** businesses and **transport** SMEs were to purchase equipment or machinery, pay down debt and increase cash reserves. Mining SMEs were also the most likely industry sector to use new funds to hire or upskill staff.

Two in three SMEs are using new funding options

16%
sourced a new Invoice Finance facility

This new funding option has doubled in 3 years

38%
applied for asset and equipment finance

43%
used personal credit cards to fund short term receivables

Why some SMEs didn't try new funding options

What was holding back the one-third of businesses who did not use new funding solutions?

For almost half of this cohort, the brick wall was having their loan application either fully rejected (23.8%) or partially rejected (23.5%).

Excessive documentation requirements prevented 28.5% of SMEs from introducing new working capital management solutions. A further 28% said they were reluctant to increase liabilities by taking on further debt, while 15.1% already had sufficient cash reserves and 9.9% couldn't find funding that met their needs.

Around one in 10 of the businesses that did not use new funding (11.8%) said it was because they had no need for additional funding.

Rise of the non-bank lenders

Non-bank lending and new equity are the fastest growing funding methods for new business investment, rising by 5% and 6% respectively since the September 2020 round of research.

Well over a quarter of all SMEs (28.7%) plan to use a non-bank lender to fund new business investment.

Looking purely at growth businesses, their intention to use non-banks to fund new growth has doubled in the past three years (12.4% to 24.2%).

When it comes to bank lending, not quite one-third of SMEs plan to fund new business investment using their primary bank (17.2%) or a secondary bank (13.6%).

This represents a modest recovery in main bank borrowing (up 0.4%), with a return to H1 2020 levels. Analysts East & Partners observe that this could be due to the heavy focus on bank products within the pandemic stimulus measures.

New business investment remains dominated by owners contributing their own funds (82%) despite the array of business funding options available.

However, it is notable that this percentage has dropped from 91% a year ago, with SMEs significantly reducing their use of owners' equity for investment. Perhaps the cash buffer accumulated from government stimulus measures is being kept for the next "rainy day".

SMEs and their advisers are encouraged to download this free Business Funding Guide created by ASBFEO and ScotPac to consider a wide range of funding styles that might suit their business.

Insight 2

Clear focus on restructuring and controlling cashflow

A significant four out of 10 SMEs (39.9%) undertook a restructure of their business in the past 12 months.

Without this undertaking, there would likely have been a dramatic and national impact on the small business sector.

Many small businesses indicated restructuring was the key to their survival: of those 501 SME respondents who undertook restructuring, more than a quarter (26.3%) said the major impact was to allow the business to remain viable – that is, to avert insolvency or bankruptcy.

Specifically looking at the smaller SME cohort (those with $1-5m revenue, likely the majority of Australia's small businesses), one in three restructured to remain viable.

Beyond the positive of avoiding insolvency, the other major impacts for the whole SME cohort who took on restructuring were:

- bolstered cashflow/liquidity (22.8%)
- improved bottom line by cutting costs and reducing overheads (15.8%)
- cycled out existing credit facilities by retiring debt (12%)
- improved productivity (11.2%)
- implemented a growth strategy (7%)

The fact that almost a quarter of SMEs said they restructured to improve their cash reserves shows that businesses know they will not get indefinite government support and are preparing for any scenario.

Answering a separate *SME Growth Index* question on why they applied for new funding, 6.4% of SMEs indicated that it had been to successfully restructure their business.

The strong reliance on restructuring in 2021 indicates business owners' desire to adapt to dynamic market conditions – restructuring sits at the macro level, while the push to control cashflow (highlighted on page 9) has been a micro undertaking for SMEs.

Best strategies for cashflow control

Continued pandemic trading conditions and lockdowns meant some businesses were dealing with dwindling or non-existent revenue. Even "lockdown free" regional enterprises were feeling the knock-on effect of a lack of tourism and damaging supply chain disruptions.

Considering this environment businesses had to manage cashflow more strictly than ever, with many SMEs taking on cashflow control strategies outside their norm. This included closing offices or shopfronts and moving premises.

Restructuring key to small business survival

4/10 SMEs undertook a restructure of their business in the past 12 months.

Cash flow challenges normalising as reserves dry up

8/10 SMEs reported having cashflow issues over the past 12 months.

An increase from **7 in 10** in March 2021

Eight in every 10 SMEs (78.2%) reported having cashflow issues and they used a range of strategies to alleviate their working capital constraints:

- 42.8% closed offices and shopfronts, moved premises, negotiated rent reductions or extended lease holidays
- 0.6% introduced new finance to improve cashflow
- 31.1% negotiated better payment terms (previous SME Growth Index data and separate research by ASBFEO have identified excessively long payment times as a key SME pain point)
- Almost 1 in 5 (18.6%) put into practice recovery advice provided by their accountant
- 7.6% reduced staff or restricted their hours
- 15.9% were actively looking to improve their margins
- 6.2% outsourced non-essential operations
- One in 20 (5.3%) applied recovery recommendations from their broker

Only one in 5 SMEs (21.8%) reported having no cashflow issues over the past 12 months.

This proportion of businesses with no cashflow woes is higher than the Index average.

It is indicative of SMEs continuing to hoard cash, pointing to the fact that stimulus measures have clearly worked - for now. As an example, East & Partners reference that ANZ's small business deposits increased 25% to A$54.6bn compared with the previous 12 months, while some smaller (A$1-5 million revenue) SMEs have accessed three-month loan repayment deferrals inclusive of merchat terminal fee refunds for up to three months.

How cashflow strategies differ over time

Some major changes and minor shifts have been recorded in SME cashflow control habits since this question was last asked in 2018.

There has been a significant decrease in SMEs offering discounts for early payment (falling from 50.8% of all SMEs in 2018 down to 6.3% in 2021).

Also noted over this three-year period is a doubling in the use of invoice finance to smooth out cashflow peaks and troughs (from 7.5% up to 15.6%).

Similarly, use of online funding has almost doubled (from 6.3% to 11.6%), primarily at the micro-business end of the SME sector.

Now, almost a third fewer businesses (4.9%) are spending more time chasing invoices as a way to manage cashflow, compared to the 12.2% who were doing so in 2018.

A slight increase was recorded in the percentage of SMEs making arrangements with the ATO (from 16% up to 17.2%).

Fewer businesses are taking out an overdraft to handle cashflow (down from 13.7% in 2018 to 11.7% in 2021).

It will be interesting to track the small business sector's cashflow issues into 2022 to see if the end of government support packages and a potential return to "business as usual" sees SMEs reverting to their usual higher level of concern about cashflow.

Insight 3

SMEs ready to grow revenue once lockdown cycle ends

With lockdown rules and border closures changing on a regular basis, SME owners are looking beyond these constraints and focusing on how they can adapt and grow.

In this latest *SME Growth Index*, businesses around Australia were polled over a six-week period in June and July, taking in the first few weeks of the latest NSW lockdown but prior to other states following suit.

First, the good news…

Half the SMEs (50.1%) are forecasting positive business revenue growth over the next six months, a strong rebound from this time last year (47%).

Positive growth SMEs are forecasting an average 4.8% revenue increase (there was a broad range of responses, from a minimal increase of 1.4% right up to a high of 9.6%). This is also an encouraging rise from the average 4.4% revenue increase that was forecast in H2 2020.

Polling also revealed a promising increase in the proportion of SMEs planning to invest in their business through to the end of 2021.

Out of 1255 businesses, 727 (or 57.9%) were looking to invest back into the business, up from 650 in March 2021. This is a significant jump from late 2020, when we recorded a four-year low number of SMEs looking to invest (51.9%).

This brings investment intention almost back to pre-pandemic levels.

The SMEs looking to grow are supporting capex growth, reflected in other *Index* results indicating the high demand for the instant asset write-off extension for new assets and equipment investment.

However…

While there has been a clear improvement in the outlook for growth SMEs, at the other end of the SME spectrum consolidating or negative growth businesses are finding it tougher than ever.

The recovery environment highlights discernible differences by state and industry sector and this is increasingly what separates small business winners and losers.

State by state breakdown

The impact of 2020's long lockdown in **Victoria** is still being felt. Only 16.9% of businesses are forecasting positive growth for the rest of 2021. Six in 10 Victorian SMEs are forecasting revenue decline, with 23.6% remaining static. There are also traces of lockdown impact for those businesses who are rebounding, given the average revenue increase for those Victorian SMEs who are growing is a massive 11.2%, almost double what is forecast by the other states.

NSW, an engine room of the economy and usually very bullish about growth prospects, was already tentative in the early days of its Delta outbreak. Of the business owners surveyed before and in the very early days of their lockdown just 40.6% were forecasting revenue growth, 28.7% thought revenue would decline and 30.7% indicated they were holding steady.

Queensland is the state with the fewest small businesses (only 2.2%) forecasting revenue decline. About a quarter are holding steady and a buoyant seven in 10 Queensland SMEs are forecasting growth. These results are perhaps indicative of just a few industries (such as tourism) being hardest hit: of the 2 in 100 Queensland businesses forecasting revenue decline they are expecting the largest decline of any of the states (-6.1%).

Western Australia, South Australia and the Northern Territory were the most positive about finishing 2021 with strong revenue. More than eight in 10 businesses are forecasting growth and fewer than one in 10 businesses are forecasting revenue decline.

Beyond the growth businesses

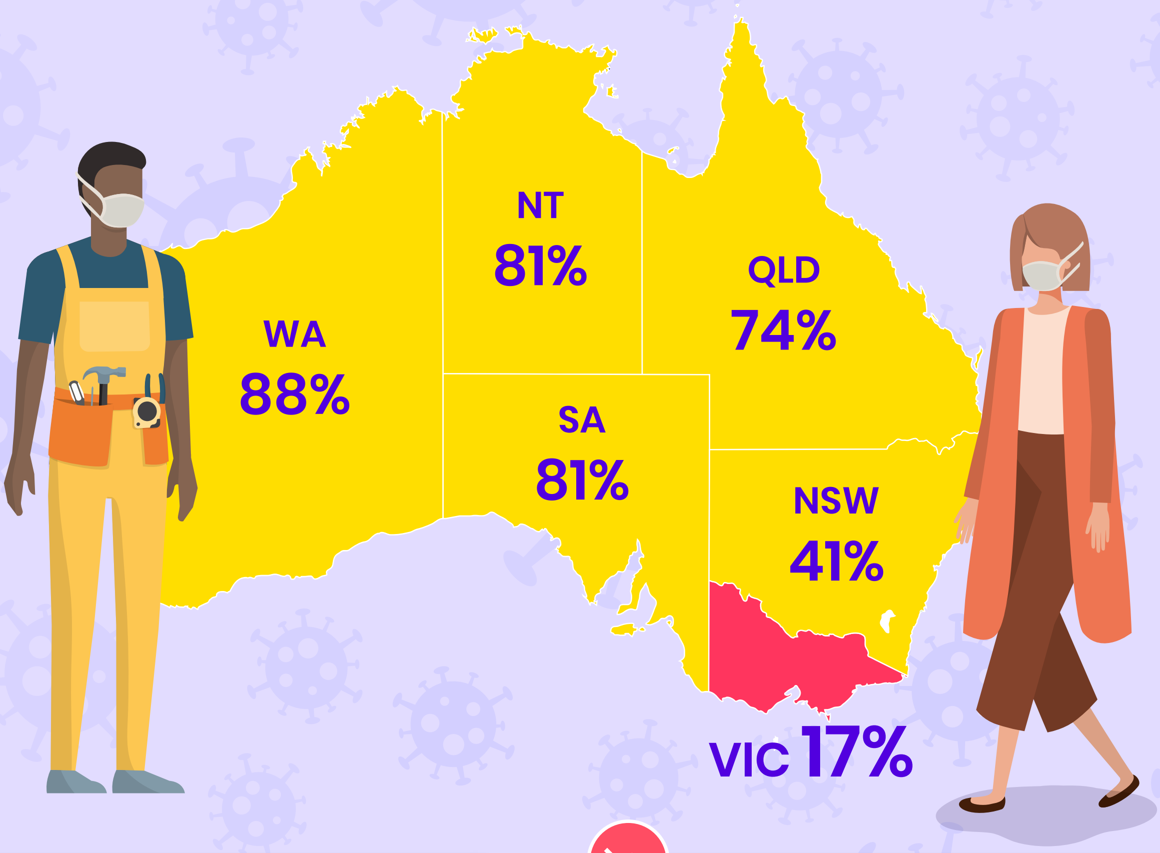
This round of research recorded the highest ever proportion of SMEs (26.1%) forecasting their revenue will decline, with the widest ever revenue range (from +9.6% growth to -15% decline, highlighting the pressure many businesses are under).

The forecast decline average is -6.3%, just above the extreme of -6.4% recorded in H1 2018.

We found an equal lowest ever proportion of SMEs reporting no change in revenue (23.7%), suggesting SMEs are being forced off the fence and either scaling up for growth or bracing for troubled trading conditions.

Fulltime employee headcount suffered the most significant round-on-round decline since H1 2019,

% of businesses forecasting positive growth for the rest of 2021



Lockdown length linked to SME outlook on growth

Long lockdowns in VIC show a loss in confidence in forecasted growth, and a warning for NSW

continuing the trend of fewer fulltime staff roles within the SME sector. SME respondents had an average of 63.3 fulltime employees this round, which has fallen from 65.1 in March 2021.

In 2018, SME respondents employed an average of 72 fulltime staff and when the Index began in 2014 this figure was 88 – highlighting a significant drop over time in the small business sector's willingness or capacity to employ workers on a fulltime basis.

Each round, business respondents are asked to identify their business phase as either start-up, growth, stable, consolidating or contracting (declining).

Almost two-thirds of SMEs identify as being in a positive business phase - they are either in growth phase (35.1%) or stable (29.5%). A further 10.8% are identify as start-ups.

There is a trend towards a significant proportion of businesses identifying as struggling. One in four say they are either consolidating (8.8%) or outright declining (15.7%).

This round recorded a record high percentage of SMEs identifying as declining businesses, with the figure having almost doubled since the research began in 2014 (from 8.5% to the current 15.7%).

The past three research rounds have seen consecutive results with the highest number of contracting SMEs as at any time since 2014.

The warning signs for this troubled end of the SME sector are obvious and the next 12 months are likely to see strong restructuring and M&A activity within the whole small busines sector – yet another reason for small business owners to ensure they are getting professional advice to guide their enterprises.

Insight 4

What SMEs want from the PM and Federal Government

With the countdown on to a Federal Election before late May 2022, business owners have a range of problems they want fixed – but it seems there is no one burning issue that unites the SME sector.

When this round of the *SME Growth Index* asked which Federal Government action would have the biggest positive impact on their business, it is the "bread and butter" initiatives that business owners are focused on.

There was strong support for a further extension of the instant asset write-off scheme – this was the top response, with 20.8% of SMEs wanting this to lead the incoming government's small business agenda.

Given the debate over the level of Federal Government funding used to sustain Australian business during the initial phase of the pandemic, it is interesting to note that SME sentiment leans towards telling the Government to "tighten your belt".

This initiative must really be on SME minds given one in six respondents independently submitted this as their top priority, making a push to rationalize public sector spending the second most popular response.

This push to improve make tax dollars go further was captured in breakout SME responses such as:

- Poor execution of public sector spending programs (SMEs believed Job Keeper could have been a lot better and they highlighted the perceived "grab" made on this funding by large corporates who are now reporting record results)
- Get rid of wasted taxpayer funded spending on things that "don't count much"
- Lower the level of public debt/get back to a balanced budget
- Get more commercial in the way public spending occurs, including public servants being transparent and accountable about returns or lack of returns
- An over-arching sentiment about the need for small government or for government to "get out of the way" of small business

After these two main initiatives of asset write-off and tightening the public purse, the next most sought-after action was for more company tax cuts (13.8%).

This issue has moved down the priority order for SMEs: when asked in 2019 ahead of the last Federal election what they wanted from the new government, the top response was company tax cuts (27.1%) followed by an extended asset write-off (23.6%).

Further BAS simplification and streamlining of regulatory requirements is now being sought by 12.9% of respondents; another 5.7% would like the incoming PM to prioritise working with state governments to end or reduce payroll tax.

Minimal support was given by SMEs for the Federal Government to prioritise infrastructure initiatives such as the NBN or freight discounts (2.8%).

When the responses from small and larger SMEs are separated, some differences are apparent.

Only one in 100 larger SMEs prioritised reducing payroll tax, whereas one in 10 smaller SMEs named this their top priority – highlighting that this tax is a real barrier to taking on initial staff.

Additionally, larger SMEs were twice as likely to nominate improving public sector spending as their top priority (20.5%, compared to only 11.8% of small SMEs).

One in 100

larger SMEs prioritised reducing payroll tax, whereas one in 10 smaller SMEs named this their top priority – highlighting that this tax is a real barrier to taking on initial staff.

How do SMEs believe the government can boost growth?

Pandemic-related actions not high on SME agenda

Given the overwhelming domination of the COVID-19 issue throughout Australia, it is interesting that pandemic-specific initiatives are not being heavily sought by SMEs.

Only one in five business owners are keen for border policies to be the government's SME focus: 8.9% say the Federal Government's top priority should be maintaining open domestic borders, while 5.7% think opening international borders should be the main action.

There was very limited enthusiasm (4%) for an extension of COVID support programs such as JobKeeper.

Instant asset appeal

That more businesses desire an instant asset write-off extension, above any other Federal Government initiative, highlights the practical, day-to-day focus of the small business sector.

In 2020 the Federal Government raised the instant asset write-off threshold from $20,000 to $30,000 and expanded the number of enterprises who could access the scheme (it is now open to enterprises with less than $50m turnover).

East & Partners H1 2021 Asset & Equipment Finance study found that the write-off incentive prompted action from more than three in every four SMEs.

Almost six in 10 SMEs (57.1%) were bringing forward purchasing decisions and acquiring new assets and a further 21.4% were purchasing replacement equipment immediately.

Greater promotion of the benefits to be gained from upgrading old or outdated plant equipment is needed by the government and industry bodies, according to East & Partners.

Insight 5

Three Cs cause grief for business owners: compliance, cashflow & completing work

The *SME Growth Index* asked business owners what issues keep them up at night.

Meeting government compliance (84.8%), having enough time to complete tasks (83.9%) and cashflow (81.5%) are the top three stresses they named.

Other pain points independently raised by respondents outside of the provided survey response options were new taxation imposts (43.7%) and supply chain disruptions (26.7%).

The fact that a minority (although not an insignificant minority) of SMEs are mainly worrying about closed borders and lockdowns (34.3%) or concerned about recovering from the pandemic impact (26.7%) indicates a strong level of SME resilience and an attitude of "just get on with it".

These pandemic-specific responses were well down the priority list, behind the perennial issues that plague small business owners - red tape, long hours and cashflow.

Still, with the pandemic in mind, four in 10 businesses (42.5%) said they were stressed about the potential for sudden disruption of their business model.

This is significantly up from the 26.2% who were concerned about disruption in 2018.

Around two-thirds of business owners (64.9%) are now concerned about customer issues – this is more than double the percentage from 2018 (30.9%).

Staff worries have also been drastically exacerbated by the pandemic, with a fourfold increase recorded since 2018.

This is now a key worry for almost half business owners (48.7%), compared to three years ago when it was 11.9%.

In 2018 only 10.4% of SMEs cited government compliance requirements as a pressing concern yet this figure has surged to 84.8%.

This is likely driven by the need to dedicate extensive administrative resources to qualify for business grants, stimulus measures and for JobKeeper compliance.

SME responses to this question emphasized their resilience and determination to weather the pandemic.

It remains to be seen whether the uncertainty around vaccine availability and the ongoing unpredictability of new virus variants encourages business owners to draw on external professional advice to navigate the challenges of 2021 and beyond.

When asked in 2018 what business issues worry them most, cashflow was by far the biggest issue (the main worry for 78.9% of businesses), along with not having enough time to do what's required (64.8%).

Indeed, concerns about having enough time and cashflow have steadily crept up since 2016.

Given that cashflow and having enough time in the day are two of the main issues keeping business owners awake at night and given that one in 10 SMEs do not source trusted advice from anywhere, it appears there continues to be a highly under-serviced group of small businesses who are very vulnerable to any further deterioration in economic growth.

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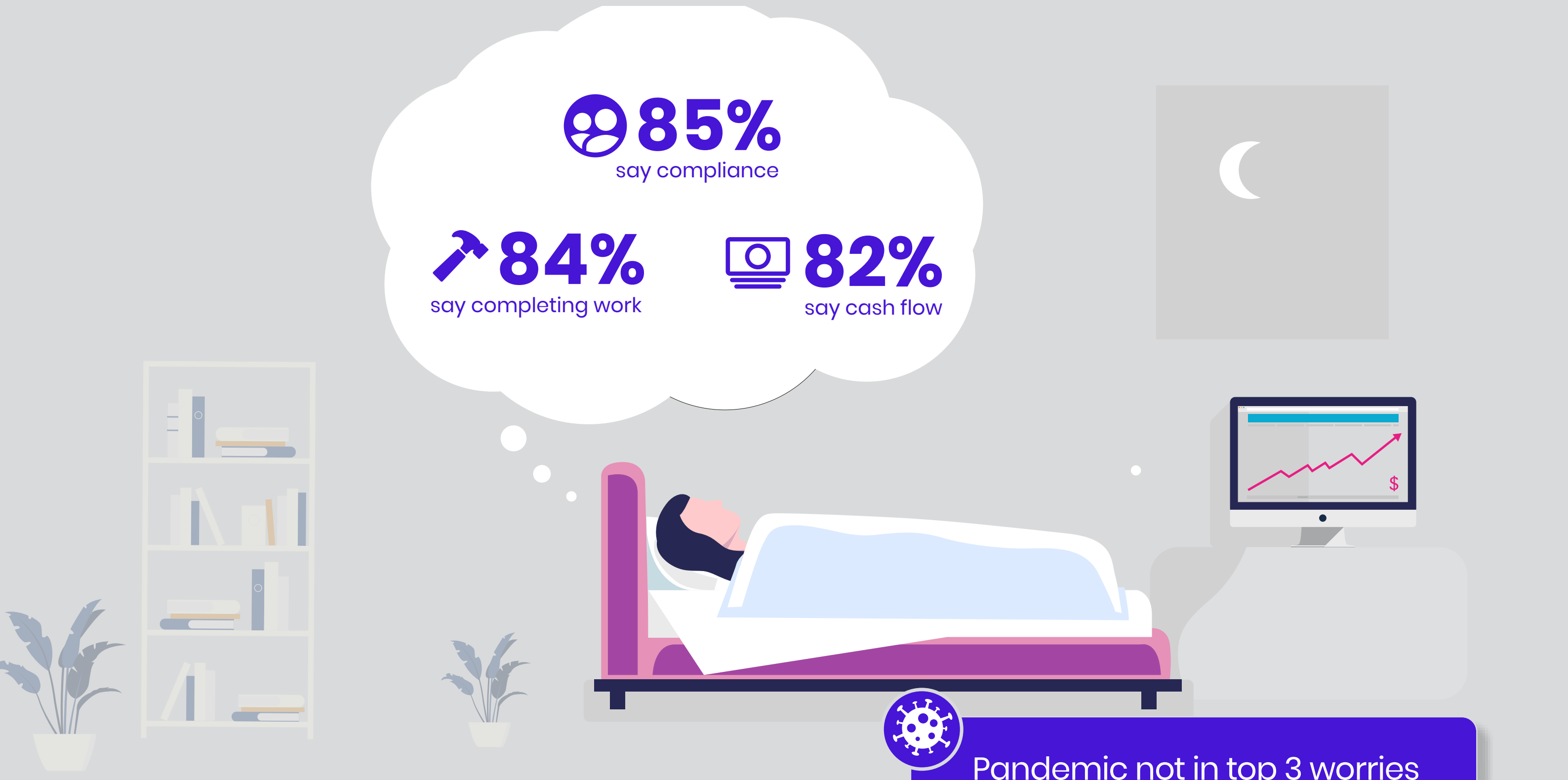
What keeps business owners awake at night?



Pandemic not in top 3 worries for business owners

Business owner concerns – industry breakdown

Manufacturing was the sector most likely to be fretting about having enough time (a staggering 99% of manufacturers named this as their key problem issue) and was also the sector most likely to worry about cashflow (96.9%), disruption to their business model (55.1%) and supplier issues (54.1%). Other pain points for manufacturers include government compliance (91.8%) and customer issues (69.4%). One in three were concerned about both COVID-19 recovery and lockdowns.

For the **wholesale** sector time constraints (90.4%), compliance (82.2%) and cashflow (80.8%) were their top three issues. This industry was the sector second most likely to be concerned about border closures and lockdowns – an issue for 43.8% of wholesalers – and second most likely to worry about customer issues (71.2%). One third (34.2%) were worried about disruption to their business model.

The top three issues concerning **transport** business owners are having enough time (92.9%), meeting government compliance (90.8%) and cashflow (84.7%). Transport SMEs were the sector most impacted by customer issues (73.5%), new taxation imposts (50%) and border closures and lockdowns (45.9%). After manufacturers, transport SMEs were also most concerned about recovery from pandemic impact (34.7%).

Retailers had a more even spread of concerns. Their top three issues were the time factor (79.2%), government compliance (77.2%) and cashflow (77.2%). Two-thirds (65.3%) of retail respondents were kept awake at night by customer concerns and four in 10 (39.6%) had both staff and supplier issues. Recovering from the pandemic was a worrying issue for three in every 10 retailers.

Mining was the industry where business owners were most likely to be losing sleep about government compliance (93.3%) and also about staff worries (58.4%). Mining SMEs were least likely of any of their counterparts in other industries to experience cashflow worries (75.3%) and time pressures (73%), although of course these figures are still high.

The main concern for business owners in the **construction** industry was meeting government compliance (84%), followed by cashflow (82.7%), having enough time to do what is required in the business (73.3%) and supplier issues (50.7%). The issues construction company owners were least worried about were recovery from COVID-19 impacts (18.7%) and border closures/lockdowns (24%). Four in 10 (44%) were concerned about disruption to their business model.

Insight 6

Business owners take a big step towards seeking advice

Running a business can be lonely, so it is pleasing that the latest SME Growth Index research shows small business owners are increasingly more likely to seek out advice.

This round, more than 90% of respondents indicated they have a trusted someone that they turn to for business advice.

Only 7.7% of small business leaders state they have no trusted advisor.

This is a dramatic about-turn from the 2017 SME Growth Index, when 40% of SMEs said they had “no-one to turn to”.

However, there remains an issue: where is this trusted advice coming from?

With the pandemic putting a spotlight on cost containment, there is the potential that SMEs may be looking for advice from those they trust but where costs aren’t incurred, as opposed to paid professional advice.

While SMEs have indicated that accountants and bookkeepers have been invaluable in providing advice to navigate pandemic grants and support, SMEs continue to put more trust in their networks.

Colleagues were named as the most trusted business advisor by 38.6% of respondents, with suppliers or trading partners being the go-to for 22.2% of small businesses.

SMEs are only slightly more likely to name their accountant as their trusted advisor (11.2%) as they are to turn to friends (8.5%).

They are almost twice as likely to have a family member as trusted advisor (6%) as to have their broker play that role (3.3%), and bank managers have this status for only one in 100 SMEs (1.3%).

The trusted advisor status of bank managers has decreased over time since 2015 and 2017, trending down from 4.2%, to 3.4%, now 1.3%.

Looking in depth at smaller sized businesses (those with $1-5m annual revenue), they are much more likely to rely on family and friends for their advice or to go it alone.

One in 10 smaller SMEs, but only 1 in 100 larger SMEs, named a family member as their key advisor.

Positive impact of professional advice

A potential concern is that SMEs’ business strategy could be adversely affected by relying on someone other than those with professional qualifications or industry accreditation such as their accountant, bookkeeper or broker.

So it is reassuring that while starting from a low base, the historic trend in *SME Growth Index* research is that accountants are trending upwards as most trusted advisor.

Accountants have been listed as key trusted advisor by 9% of SMEs in 2015, 9.3% in 2017 and now 11.2% in 2021.

In a separate question about how they deal with cashflow issues, almost one in five SMEs (18.6%) chose to get on the front foot by applying pandemic recovery advice from their accountant.

One in 20 SMEs (5.3%) put in place pandemic recovery recommendations from their broker to ease cashflow constraints. The arc of brokers as trusted advisors will be tracked as of this round (brokers were not an individual response option in previous Index rounds).

This external advice from accountants, bookkeepers, brokers and the like has no doubt been crucial to the four out of 10 SMEs who say they have restructured in the past 12 months.

It is also notable that key pain points raised by SMEs in this round of research were new taxation imposts (43.7%) and supply chain disruptions (26.7%) –problems that mostly require external professional advice if they are to be successfully navigated.

7.7%

Of small business leaders state they have no trusted advisor.

Growth businesses rely on different advisors

Businesses identifying as being in growth mode are almost twice as likely to have an accountant as their main trusted advisor, compared to no-growth companies.

Just on 14% of growth businesses named their accountant as their trusted go-to, but only 8.3% of no-growth SMEs.

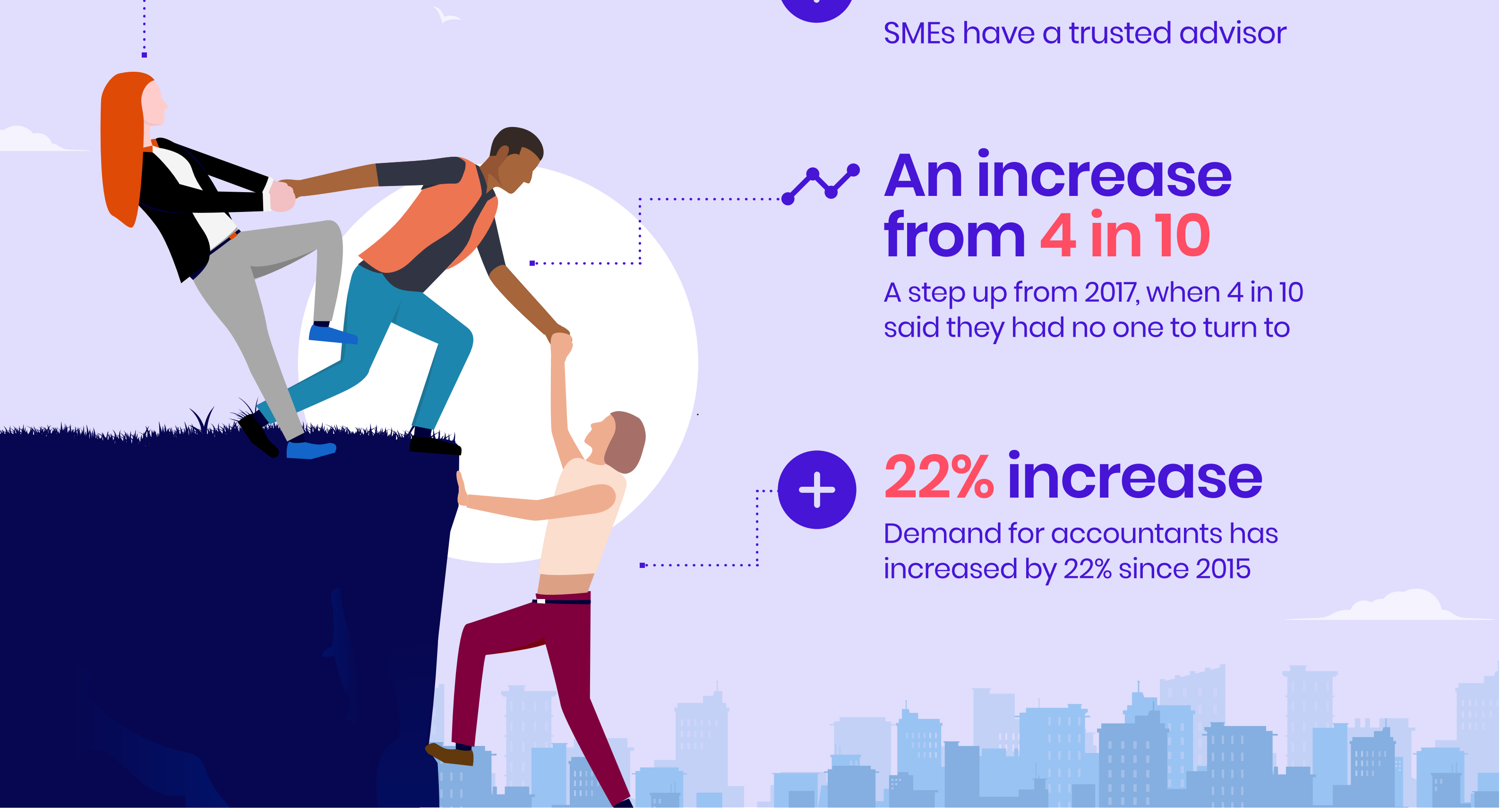
Similarly, no-growth SMEs were almost twice as likely to rely on a family member for advice than their growth SMEs counterparts (7.7% compared to 4.3%).

No-growth businesses were also almost twice as likely to have no trusted advisor (the situation for 9.7% of them, compared to 5.7% of growth businesses).

14%

Of growth businesses named their accountant as their trusted go-to, but only 8.3% of no-growth SMEs.

Business owners take a big step towards seeking advice



More than 9 in 10

SMEs have a trusted advisor

An increase from 4 in 10

A step up from 2017, when 4 in 10 said they had no one to turn to

22% increase

Demand for accountants has increased by 22% since 2015

Index Results

Business Phase & Revenue Forecasts

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

Forecast Changes in Enterprise Revenue				
(N: 1255)	Positive Growth	Negative Decline	No Change	Whole SME
N of Enterprises	629	328	298	1.255
% of Enterprises	50.1	26.1	23.7	100.0
Average Change Forecast	4.8	-6.3	—	1.0
Range of Change Forecasts	1.4 | 9.6	-15.0 | -3.5	—	-15.0 | 9.6

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

Q2: Which of these descriptions best describes the phrase your business is currently in?

	% of Total		
	Growth SMEs (N: 629)	Declining/NO Change SMEs (N: 626)	Whole SME Market (N: 1255)
Start-up	21.6	—	10.8
Growth	70.1	—	35.1
Stable	3.8	55.3	29.5
Consolidation	4.5	13.3	8.8
Contracting	—	31.5	15.7
Total	**100**	**100**	**100**

Note: no statistically significant varience 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: 616)	Declining/No Change SMEs (N: 111)	Whole SME Market Investing (N: 727)
Borrowing from my main relationship bank	16.1	23.4	17.2
Borrow from another bank	13.6	13.5	13.6
Borrow from a non-bank lender	24.2	54.1	28.7
Other forms of debt	0.8	2.7	1.1
Own funds	82.8	77.5	82.0
New equity	25.8	5.4	22.7
Unsure how to invest/which funding method to use	1.6	5.4	2.2

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

Funding options

>>> Q4: In the past 12 months, what new funding options did you use in your business?

	% of Total		
	A$1-5m Segment (N: 669)	A$5-20m Segment (N: 586)	Whole SME Market (N: 1255)
Debtor & Invoice finance	15.4	17.4	16.3
Asset & Equipment finance	33.5	43.2	38.0
JobKeeper/Government stimulus	28.0	27.3	27.6
Existing equity/owner funds	60.4	49.7	55.4
New equity	20.3	23.0	21.6
Bank loan			
Secured	13.6	18.4	15.9
Unsecured	0.4	3.6	1.9
Online business loan	10.3	7.0	8.8
Credit card	55.0	28.3	42.5
Overdraft	17.8	22.5	20.0
Supply chain finance	4.8	5.8	5.3
No new funding options used in business in past 12 months	39.6	27.3	33.9
Other	0.3	0.2	0.2

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

Q5: If you used no new funding options in the business over the past 12 months, why was this?

	% of Total		
	A$1-5m Segment (N: 265)	A$5-20m Segment (N: 160)	Whole SME Market (N: 425)
Rejected loan application			
Asset & Equipment finance	34.3	6.3	23.8
Full application rejected, under half approved	15.5	13.8	14.8
Full application rejected, over half approved	5.3	14.4	8.7
Excessive documentation requirements	30.2	25.6	28.5
Sufficient equity/cash reserves	12.5	19.4	15.1
Reluctant to take on further debt	26.4	30.6	28.0
Couldn't find funding that met our needs	7.2	14.4	9.9
No need for additional funding	7.5	18.8	11.8
Other	1.1	0.6	0.9

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

Q6: Thinking about your response to Q.4 above, what did this new funding enable your business to achieve?

	% of Total A$1-5m Segment (N: 404)	A$5-20m Segment (N: 426)	Whole SME Market (N: 830)
Entered new markets/created new products	5.4	8.7	7.1
Funded M&A	2.7	4.7	3.7
Bought new equipment/machinery	55.4	59.4	57.5
Increased cash reserves/replaced stimulus funds	25.0	16.4	20.6
Refinanced existing loans	19.8	13.6	16.6
Hired new staff/upskilled existing staff	12.1	17.8	15.1
Successfully restructured	5.7	7.0	6.4
Reduced reliance on funding against home	10.1	4.5	7.2
Paid down debt	41.1	27.9	34.3
Other			
Chase/secure larger projects/clients	25.2	33.1	29.3
Expanded business capacity	19.3	21.1	20.2

Note: sums to over N count due to multiple responding allowed
Note: no statistically significant variance by state or industry sector, growth/no growth

Cash Flow

>>> Q7: What measures are you actively pursuing to alleviate cashflow issues?

	% of Total A$1-5m Segment (N: 669)	A$5-20m Segment (N: 586)	Whole SME Market (N: 1255)
Negotiating payment terms with suppliers and customers	30.2	32.1	31.1
Reducing spend on rent or premises	41.6	44.2	42.8
Reducing staff or staff hours	20.6	14.2	17.6
Getting finance to improve cashflow	41.3	39.8	40.6
Applying Covid recovery advice from accountant	18.4	18.9	18.6
Applying Covid recovery recommendations from broker	6.7	3.6	5.3
Other			
Actively looking to improve margins	13.8	18.4	15.9
Outsourcing non-essential parts of the business	4.9	7.7	6.2
No cash flow issues experienced in the past 12 months	19.1	24.7	21.8

Note: sums to over N count due to multiple responding allowed
Note: no statistically significant variance by state or industry sector, growth/no growth

Business Owners

Q8: What business issues keep you awake at night?

	% of Total		
	A$1-5m Segment (N: 442)	A$5-20m Segment (N: 267)	Whole SME Market (N: 709)
Cashflow	80.5	83.1	81.5
Staff	45.7	53.6	48.7
Customers	70.6	55.4	64.9
Potential for sudden disruption to business model	44.8	38.6	42.5
Having enough time to do what is required for the business	89.6	74.5	83.9
Suppliers	35.1	45.3	38.9
Meeting Government compliance	86.0	82.8	84.8
Recovery from Covid-19 impacts	25.1	29.2	26.7
Concerns about border closures and lockdowns	33.3	36.0	34.3
Other			
New taxation imposts	42.1	46.4	43.7
Disrupted supply chains	22.9	33.0	26.7

Note: responses limited to "Business Owners" and "CEOs"
Note: no statistically significant variance by state or industry sector, growth/no growth
Note: sums to over N count due to multiple responding allowed

Trusted Advisors

>>> Q9: Who is your most trusted business advisor?

	% of Total		
	A$1-5m Segment (N: 669)	A$5-20m Segment (N: 586)	Whole SME Market (N: 1255)
Family member	10.0	1.4	6.0
Accountant	11.5	10.8	11.2
Bank Manager	0.7	1.9	1.3
Broker	4.9	1.5	3.3
Personal coach/advisor	1.3	0.5	1.0
Friend	11.7	4.9	8.5
Business colleague	30.0	48.3	38.6
Trading partner/supplier	17.9	27.1	22.2
Other	0.3	0.2	0.2
None really	11.5	3.4	7.7

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

Hot Topics

>>> Q10: With a Federal Election approaching, what should be the new Government's top priority for SMEs, the one that would have the biggest impact on your business?

	% of Total		
	A$1-5m Segment (N: 669)	A$5-20m Segment (N: 586)	Whole SME Market (N: 1255)
Extended legislation to ease late payment times	5.1	4.6	4.9
Company tax cuts	13.2	14.5	13.8
Coordinate with states to end or reduce SME payroll tax	9.6	1.2	5.7
Further simplify BAS and other regulatory requirements	13.6	12.1	12.9
Increase Government grants	3.4	2.7	3.1
Maintaining open domestic borders	9.3	8.5	8.9
Opening international borders	6.3	8.5	7.3
Infrastructure for SMEs (fast track NBN, freight discounts, etc.)	3.3	2.2	2.8
Further extend the instant asset write-off	19.9	21.8	20.8
Other			
Extend/re-apply Covid support programmes	4.6	3.2	4.0
Improve/rationalise public sector spending	11.8	20.5	15.9
TOTAL	**100.0**	**100.0**	**100.0**

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

>>> Q11: If you have undertaken a restructure of the business over the past 12 months, what impact has this had on your operations?

	% of Total		
	A$1-5m Segment (N: 213)	A$5-20m Segment (N: 288)	Whole SME Market (N: 501)
Improved productivity	9.4	12.5	11.2
Improved bottom line	14.6	16.7	15.8
Allowed a focus on a growth strategy	6.1	7.6	7.0
Instilled greater confidence/ improved sentiment	4.7	5.2	5.0
Allowed the business to remain viable	33.3	21.2	26.3
Other			
Retirement of debt	13.1	11.1	12.0
Much improved cash holdings/ liquidity	18.8	25.7	22.8
TOTAL	**100.0**	**100.0**	**100.0**

Note: no statistically significant variance by state or industry sector, growth/no growth
Note; phrasing of question resulted in single responses - "the major impact"

Methodology

East & Partners interviewed 1255 SME businesses with annual revenues of $A1-$20 million, over a five-week period ending July 16 2021.

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.

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.

Demographics

Research fieldwork executed over the five week working period ending 16 July 2021

>>> SME Market Segment: A$1–20 million annual enterprise turnover

A

Geographical Distribution	N Count (N: 1255)	% of Total (N: 1255)
NSW & ACT	498	39.7
VIC & TAS	284	22.6
QLD	225	17.9
WA	169	13.5
SA & NT	79	6.3
Total	**1.255**	**100**
Regional Australia	373	29.7
Metro Australia	882	70.3
Total	**1.255**	**100.0**

B

Interviewee Distribution	N Count (N: 1255)	% of Total (N: 1255)
Business Owner/CEO	709	56.5
CFO	287	22.9
Finance Director	133	10.6
Treasurer	29	2.3
Other	97	7.7
Total	**1.255**	**100.0**

C

Industry Sector Distribution of Index Sample	N Count (N: 1255)	
Agriculture, Forestry, Fishing	76	6.1
Mining & Resources	89	7.1
Manufacturing	199	15.9
Electricity, Gas & Water	7	0.6
Construction	123	9.8
Wholesale	131	10.4
Retail	158	12.6
Accommodation, Cafes & Restaurants	24	1.9
Transport & Storage	98	7.8
Media & Telco	31	2.5
Finance & Insurance (non-banks)	25	2.0
Property & Business Services	179	14.3
Personal & Other Services	115	9.2
TOTAL	**1,255**	**100.0**

D

Age of Business	N Count (N: 1255)
Average number of years in business	13.1

E

Headcount of Business	FTE (N: 1255)
Average FTE in Business	63.3

About ScotPac Business Finance

For more than 30 years ScotPac has been providing tailored and flexible funding solutions to the owners of small to medium businesses.

ScotPac is Australia and New Zealand's largest specialist provider of SME working capital solutions, helping thousands of businesses unlock opportunities by turning their business assets into a powerful source of cashflow.

Business owners require fast access to funds and personalised facilities to suit their individual needs. Often, they find it difficult to obtain appropriate funding from the banks.

That's where ScotPac comes in. When it comes to working capital, many business owners simply are not aware of the assets they are sitting on – they might see unpaid invoices or equipment as overheads and inconveniences rather than rich sources of funding for their business.

ScotPac handles more than **$20 billion** of invoices each year, providing funding lines exceeding **$1.5 billion,** and lends to a wide range of business owners, providing working capital for start-ups through to **$100m** funding for public companies.

With full operations centres in Sydney, Melbourne, Perth, Brisbane, Adelaide, Auckland and China, ScotPac offers a comprehensive range of specialised finance solutions, including but not limited to invoice finance, trade finance and asset finance. These solutions can remove property security from the funding equation for business owners.

ScotPac is 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 seasonal challenges to dealing with high growth. As a result, ScotPac's clients usually grow at, on average, three times GDP.

As a specialist provider of working capital, ScotPac is well placed to understand the needs and the sentiment of SME businesses, and this is one of the reasons the Small Business Ombudsman partnered with ScotPac to develop an industry-wide Business Funding Guide for SMEs and their advisors.

ScotPac initiated the *SME Growth Index* in 2014 to:

- Drive development of the financial solutions available to SMEs by providing market intelligence to deepen the understanding of SMEs' needs.
- Provide ScotPac 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 governments, industry associations and fellow business finance professionals.

The next ScotPac ***SME Growth Index*** will be released in March 2022.

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