Danger zone: two thirds of Australia’s SME owners use personal finances to support their business, SME Growth Index shows

A disturbing 1 in 5 owners regularly dip into their own pockets to fund their business, while almost half occasionally do, prompting calls for SMEs to seek better funding options

Scottish Pacific’s latest SME Growth Index has found the number of SMEs resorting to personal finances (including credit cards with high interest charges) to support business growth is very high at 65.4 percent, with 17 percent regularly drawing on personal finances and 48.4 percent doing so occasionally.

Only 10 percent of SME owners had never settled business expenses using non-business sources.

The Scottish Pacific SME Growth Index is a twice yearly look at the growth prospects and concerns of more than 1200 Australian small and medium sized business owners and CEOs. It was initiated by Scottish Pacific, the largest specialist provider of working capital solutions for SMEs in Australia and New Zealand.

Scottish Pacific CEO Mr Peter Langham said the findings on personal credit card use posed significant concerns, because there were better funding options available to help SMEs grow.

“How SMEs are funded has a significant bearing on operations, from how well they can manage cash flow to the pace at which they can expand. It’s crucial to get it right and not think too short term,” Mr Langham said.

“Personal finance may appeal from a convenience, speed and accessibility perspective – the downside is that higher than necessary funding costs cut directly into margin, and personal financing can impact on lifestyle and leave owners open to family conflict which can destabilise the business.

“I’d strongly encourage SMEs, whether product or service orientated businesses, to seek smarter funding options. Look beyond the banks as this is an active, innovative space trying to offer a better alternative.”

Mr Langham said another significant finding was that SMEs were more than willing to pay higher rates to obtain finance if it meant they didn’t have to provide real estate security.

“This reflects a growing awareness amongst SME owners that putting the house on the line is no longer a given and suggests openness to alternative, innovative funding solutions such as trade and debtor finance.

“This is key for up and coming entrepreneurs who have great ideas but may not own any real estate.”

Despite the rise of online and automated funding solutions being offered for SMEs, he said it was worth noting the high importance SME owners still place on being able to talk directly to the lending decision maker and feeling that the funder was an expert who could provide guidance and support, not just dollars.

Since September 2014, the Scottish Pacific SME Growth Index has twice a year tracked the optimism for growth of a range of small business across many industries in Australia.

“Of note is that the number of optimistic enterprises is relatively unchanged since we started the Index – dipping 1.5 percent in March 2016 from the finding of 58.9 percent a year ago – yet the average revenue growth forecast in that time has contracted sharply from 6.7 to 5.2 percent,” Mr Langham said.

Key findings from the March 2016 Scottish Pacific SME Growth Index:

Optimism dips, but SMEs resilient

· 58 percent of SMEs are in positive growth mode, with an average revenue growth forecast of 5.2 percent (down from 6.7 percent in March 2015, despite low interest rates and a depreciating $AU).

· Given the scale and scope of financial market volatility, small businesses are displaying high resilience, with only a slight rise in the number of SMEs preparing for negative growth (17.5 percent, who are forecasting an average drop of 4.9 percent).

· 70.6 percent of SMEs believe their business to be stable or in a growth phase, 11.3 percent in startup phase and 18.1 percent consolidating or contracting.

What drives growth is often a mystery, but taxes and credit conditions are clear barriers

· SMEs are increasingly unsure about what drives their growth – with 35.2 percent (up from 28.2 percent when the Index began) saying they are "simply following their nose".

· A sharp rise in growth SMEs who believe conditions of credit are a key barrier to success, rising from 57.3 percent a year ago to 62 percent, almost equaling the perennial top bugbear of high or multiple taxes (62.7 percent). Concerns about red tape are also increasing (a key barrier for 56.5 percent of SME owners, up from 53.8 percent a year ago).

· New product development plans have stalled. One in five SMEs plan to introduce new products in 1H 2016 (19.6 percent), down 7.1 percent since 1H 2015. In contrast, the number of SMEs planning to release new services continues to rise, up 7.5 percent since February 2015 to 35.9 percent.

· Willingness to merge with another business has doubled since round one of the Index in September 2014, from 6 to 11.3 percent of SMEs.

SMEs are keen to avoid real estate security and look beyond main bank

· Availability of unsecured credit, where there is no requirement to lend against real estate such as the family home, is the most important factor for SMEs seeking to fund growth (for example, by replacing outdated equipment, increasing marketing spend, adding staff or entering new markets).

· SMEs show strong demand for more flexible lending terms as an alternative to standard term bank debt, including alternatives such as debtor finance, invoice discounting and factoring. In the past year, there has been a 20.6 percent increase in non-bank lending demand, from 13.6 to 16.4 percent of SMEs.

· More than two-thirds (67.9 percent) of SMEs are willing to pay a higher rate to obtain finance if it means they don't have to provide real estate security. Almost one in three small businesses would definitely pay a higher rate (29.6 percent) with a further 38.3 percent indicating they would 'probably' pay a higher rate in lieu of extensive asset/collateral assessments.

· Ability to talk directly to the lending decision maker was also deemed as highly important, rating ahead of the lender's industry expertise, credit approval turnaround time and the interest rate.

· The number of SMEs intending to use their own funds to finance growth plans has increased from 81.1 to 92.7 percent since September 2014.

ABOUT SCOTTISH PACIFIC - Scottish Pacific is the largest specialist provider of working capital solutions for SMEs in Australia and New Zealand. More than 1500 clients in industries including transport, manufacturing, wholesale, import, labour hire and printing benefit from Scottish Pacific's broad range of trade and debtor finance solutions. Scottish Pacific handles more than $10 billion of invoices each year, providing funding lines exceeding $700 million. Established in 1988, the business has full service bases in Sydney, Melbourne, Perth, Brisbane, Adelaide, Auckland, London and China. Scottish Pacific was awarded 2016, 2015 and 2014 Best Cash Flow Lender by broker publication The Adviser, as voted by brokers, in their annual Non-Bank Lending Awards. They were named Best Trade Finance Provider 2015 at the international Trade Finance Global Excellence Awards.
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Full SME Growth Index and Infograph of key results available on request.

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