

Scottish Pacific SME Growth Index finds SME owners still optimistic about growth but level has dropped

Results show SMEs are growing, but one-third don't know where they're going

A THIRD of Australian Small and Medium Sized Enterprises (SMEs) say they have no ultimate plans for their business, with one in five nominating "good luck" as a key driver.

A third are not clear on what is fundamentally driving their business.

The findings are from the second Scottish Pacific SME Growth Index and represent the views of SMEs from a diverse range of industries, with annual turnover of between \$1-20 million. National SME working capital specialist Scottish Pacific commissioned research firm East & Partners to interview senior managers (predominantly the owners, CEOs and CFOs) of 1,253 SMEs from around Australia in late January 2015.

Scottish Pacific CEO, Peter Langham, said the Index reflected the tough landscape facing many SMEs, who were so focused on daily issues around cashflow, funding and HR that they may not make time to look at the big picture.

"Four out of ten businesses have a trade sale as the ultimate goal for their business, but an alarming 34.9 percent of small business owners do not have any concrete long term plans, which suggests a short term focus amongst small business owners and decision makers," Mr Langham said.

"SME owners also indicated they are wary about seeking outside advice, with 38.6 percent nominating no trusted business advisor. This cohort was larger than those who did name trusted business advisors: the top three sources were trading partners (26.6 percent), friends (9.7 percent) and accountants (9 percent). Only 4.2 percent nominated their bank manager.

"The fact they were more likely to trust a friend to provide advice about their business than their well qualified banker or accountant shows there is a real opportunity for finance brokers, accountants and lawyers to step up and fill this gap for SMEs, to make the process easier for them," Mr Langham said.

Business owners less optimistic about revenue growth

The Scottish Pacific SME Growth Index found that 58.9 percent of SMEs were still optimistic about growth when surveyed in January 2015.

However the average growth rate being forecast dropped significantly - to 6.7 percent from 8.6 percent - from the growth forecast in the inaugural SME Growth Index (September 2014).

More SMEs are now predicting negative growth - 16 percent, up from 13.2 percent in September 2014. Further analysis indicates significant disparity between growth forecasts for SMEs based in different states.

More than half of NSW-based SMEs (52.1 percent) classify themselves as in a growth phase, compared to only 24.7 percent of WA-based SMEs.

"It's concerning that 38.9 percent of WA SMEs currently find themselves in a contracting business phase, compared to only 2.1 percent of NSW SMEs - perhaps a direct consequence of the major contraction that has occurred in the mining and resource sector," Mr Langham said.

The Index also indicates that a lower Australian Dollar is starting to influence export competitiveness, with the number of businesses targeting international expansion increasing from 3.7 to 4.3 percent in the past six months.

Other key Scottish Pacific SME Growth Index results

SME use of specialist non-bank lenders has grown significantly, with 13.6 percent naming this as a preferred method of funding future growth, compared to 10.8 percent in the September 2014 Index. This suggests an increased awareness amongst SME owners that there are strong funding alternatives beyond the banks, though there is still a long way to go.

Core customers (36.0 percent) and capable staff (33.7 percent) form the backbone of business growth, yet the rising incidence of business owners who seem unable to identify the key drivers behind their business growth (32.2 percent) should be of concern to key stakeholders, regulators and lenders.

The fact that 20.9 percent nominated good fortune as a key driver, given smart marketing (12.7 percent) and technology integration (13.4 percent) are unexpectedly underrepresented in the list of key growth drivers, suggests that greater engagement with professional advisers would help this group to pinpoint more accurately where and why they have been successful in growing their businesses.

The overwhelming majority of SMEs (89.6 percent) do not look beyond their own funds and unsecured lending sources to fund growth.

65 percent of small business owners intend to add new products, new services or new products and services in the first half of 2015, down from 68.6 percent in September 2014.

Growth by merger and/or acquisition remains firmly on the agenda for 25.5 percent of growth SMEs in the first half of 2015, up from 23.7 percent.

Outright acquisitions are marginally more popular than merging, (10.9 percent of enterprises were seeking new acquisitions, with 9.1 percent seeking to merge).

High taxes and multiple taxes were key barriers to growth for the whole SME market (65.8 percent) ahead of challenging credit conditions (63.8 percent) and outright availability of credit (54.7 percent).

For SMEs who indicated they were growing, red tape (53.8 percent) and cash flow issues (51.8 percent) were also high on the list of barriers to growth, along with the three barriers listed above.

About Scottish Pacific

Scottish Pacific Debtor Finance Pty Ltd provides working capital solutions to SMEs, offering the broadest range of trade and debtor finance solutions in Australasia. Established in 1988, they have full operations centres in Sydney, Melbourne, Perth, Brisbane, Auckland and China. In 2014 the group had \$5.38 billion in turnover, recording 23.4 percent growth. One in five Australian businesses using debtor finance are with Scottish Pacific. Scottish Pacific was awarded 2015 and 2014 Best Cash Flow Lender by The Adviser, as voted by brokers, in their annual Non-Bank Lending Awards.

About the Scottish Pacific SME Growth Index

Initiated in September 2014, the Index will help benchmark SME growth in Australia and highlight issues of concern to the SME business community. Twice a year on behalf of Scottish Pacific, East & Partners interviews 1,253 businesses with annual revenues of between A\$1-20 million. The latest round of interviews took place in late January 2015. 82 percent of respondees were SME business owners, CEOs or CFOs. The next Index will be released in September 2015.

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