

SMEs in growth mode, despite financial constraints: Scottish Pacific SME Growth Index

Small business says key barriers to growth include availability and conditions of credit

September, 2014 - A majority of Australian Small and Medium Sized Enterprises (SMEs) are forecasting a positive change in revenue in the next six months, but say the availability and conditions of credit are key barriers to their business growth.

This is one of the key findings of the inaugural Scottish Pacific SME Growth Index, created from interviews in August 2014 with 1,257 SMEs from around Australia and in a diverse range of industries, with annual turnover of between \$1-20 million.

The Index, executed for Scottish Pacific by research firm East & Partners, found that 61.2 percent of SMEs cited credit conditions as a growth barrier, while 51.0 percent cited credit availability.

In further evidence of the constraints on small business, 77 percent of the SMEs which were forecasting revenue growth said they were required to use personal assets as collateral for business growth.

Four out of ten businesses say they plan to borrow from their main relationship bank, yet only one in ten are looking to other lenders and non-bank special providers as a funding source, which indicates a lack of awareness of the credit options open to SMEs.

Business owners flag 8.6 percent revenue increase

The research showed that 62.6 percent of the SMEs, selected from all over Australia and all industry sectors, were expecting an average 8.6 percent increase in their business revenues in the coming six months.

Only 13.2 percent were forecasting a revenue decline, by an average of 3.9 percent.

When asked to describe the business phase they are in, almost one in two (45.5 percent) said they were in growth mode, with more than three out of ten (32.3 percent) describing themselves as stable or consolidating.

Of those surveyed, 68.6 percent of SMEs have plans to add new products and services in the next six months. Among those in growth mode, this figure is 99.4 percent.

SMEs unaware of broader funding options

Peter Langham, chief executive at Scottish Pacific, said the Index emphasised the uphill battle many SMEs face to execute on their growth plans.

"The research clearly shows that a majority of SMEs are in growth mode, and have plans to introduce new products and services," Mr Langham said.

"But many SMEs seem unaware of the funding options - such as asset-based lending (including debtor finance and trade finance) - that are available beyond the traditional secured overdraft.

Debtor finance a key SME funding option

There are currently more than 4,500 Australian SMEs, with combined annual revenues of \$65 billion, using debtor finance to fund their business growth - but thousands of SMEs are unaware that this funding option is even available.

Debtor finance facilities are self-liquidating. Instead of taking on additional debt, an advance is offered on money that is already owed to the business. Unlike most overdraft facilities, debtor finance does not generally require real estate security.

"The fact that so many SMEs - particularly in growth mode - are providing collateral from their personal assets, rather than using the assets of the business to support their growth, suggests there is a bigger opportunity for the non-bank specialists with more innovative solutions to increase their

presence, but it starts with awareness," Mr Langham said.

About Scottish Pacific

Scottish Pacific Debtor Finance Pty Ltd provides working capital solutions to SMEs with annual turnover of almost \$5 billion, offering the broadest range of trade and debtor finance solutions in Australasia. Established in 1988, Scottish Pacific has full operations centres in Sydney, Melbourne, Perth, Brisbane, Auckland and China. Scottish Pacific was awarded the 2014 Best Cash Flow Lender by broker publication The Adviser, as voted by brokers, in their inaugural Non-Bank Lending Awards.

About the Scottish Pacific SME Growth Index

The biannual Index, initiated in September 2014, will help benchmark SME growth in Australia and highlight issues of concern to the SME business community. For the inaugural Index, East & Partners interviewed 1,257 SME businesses with annual revenues of between A\$1-20 million in late July/early August 2014. 82 percent of respondees were SME business owners, CEOs or CFOs. The next Index will be released in March 2015.

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About East & Partners

East & Partners is a leading banking research and advisory firm providing the financial services industry with independent, market wide research, analysis and customer insight on the institutional, corporate, and SME business banking markets.

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