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2017/18



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Foreword



Small to Medium Enterprises (SMEs) are the lifeblood of the economy, and there are more than 2 million actively trading businesses in Australia. They are also highly valued clients of our practice.

We have collaborated with Bstar to bring you this SME Research Report. The Report provides insights into the opinions and concerns of business owners, and explains how SMEs are surviving and thriving.

We know SMEs love hearing and learning from their peers. The Report contains comments and experiences of SMEs about their top business concerns, and ideas for addressing their needs.

Our Report is different. It doesn't just provide statistics. Instead it looks at what's keeping business owners awake at night and discusses three new emerging trends:

- How business owners are acting to de-risk their business;
- Ways business owners are improving efficiency to increase profits; and
- Why they want to work smarter not harder.

The Report highlights that SMEs want to make plans, but need help. In order to make changes, they need confidence in their plans, and accountability to ensure the plans are delivered.



We value our relationships with our SME clients, and we know you are looking for assistance to grow, improve, reduce stress and succeed in your business.

There are advisory solutions available, and the Report features information on the advisory solutions that are most wanted by SMEs.

Coinciding with the release of the Report, we now offer our SME clients The Better Business Program, which is featured in the Report. The Program provides structure and process to support our clients to de-risk their business, grow and improve their profit and cash flow.

I encourage you to use the insights in this year's Report to take action. With our advice and support you can take control of your improvement journey.

The first step is completing the Business Risks Survey, which can be emailed to you. This will give you a personalised Business Risks Scorecard (shown in the Report) with a snapshot of the key risks in your business.

We welcome your feedback on the Report, and I look forward to discussing this further with you.

Yours sincerely,

Scott Young

Head of Accounting

Accounting & Business Advisory

Representative of Hood Sweeney Accounting & Business Advisory, AFS Licence No. 485569

Executive Summary



My goal? To succeed and reduce stress!

This quote, from the business founder of a wholesale/retail manufacturing business, goes to the heart of the themes we highlight in the 2017/18 SME Research Report.

Detailed in the Report there are many similar quotes, in fact, there are over **100 comments, ideas and strategies** from SME business owners explaining how they are growing, improving, thriving and achieving a more balanced lifestyle by actioning change with the advice and support of their 'essential' adviser.

Top 3 Business Concerns

Refer to Part 2 of the Report for discussion on Top Business Concerns



How are business owners going to achieve their goals?

Business owners are generally optimistic and believe they can achieve their goals, both in business and personally, they just need to put the right plan in place to succeed.

We are in a good position to extend our business into new areas. We have already sourced new products and we have initiated a training programme for key staff.

Business owners want to know how to work smarter, not harder. They are very interested in how they can change their business to be more efficient and productive. **79%** of SMEs want solutions to help them grow their business and its value, a 10% increase from last year.

The future of the car industry is going to have a massive effect on our [auto-electrics] business. Technology is getting cheaper and easier. What will the business look like in 5 to 10 years? We'll be dealing with hybrid cars, electric cars, driverless cars.

There is a theme that unites the top 3 business concerns – business owners are concerned about how to deal with the multitude of external changes and pressures that affect their business. They know they need to take action and make changes, but struggle to do so.

Common barriers to change

Many SMEs lack business financial management skills, so they need to look outside their business to obtain help. Only **one in three** business owners regularly spends time on strategic and business planning.

The **first barrier** to obtaining expert assistance is that they don't know what is available. Most are unaware that key advisory solutions are available to improve and transform their business. Refer to **Part 8 – The First Step** for more information.

The **second common barrier** is that SMEs don't know where to find expert help. While **69%** of SMEs have a trusted adviser, many have never discussed their business concerns with them.

I have been in business for 20 years, but until I dealt with [a **viba** Adviser], I had never found anyone that understood me and my business that I could talk to about issues I was dealing with. At the meeting, when we started to go through the Business Improvement Plan Report, it was such a relief to finally be dealing with these issues that I ended up in tears.

A large, dark grey, serif-style number '79%' with a diagonal slash through the percentage sign.

of SMEs want solutions to help them grow their business and its value

A large, dark grey, serif-style number '69%' with a diagonal slash through the percentage sign.

of SMEs have a trusted adviser, many have never discussed their business concerns with them.

It's not just SMEs who avoid the issues. Many advisers don't want to start a conversation about problems. They wait for the business owner to raise issues.

Another significant barrier is fee resistance. Many advisers tell us that SMEs aren't willing to pay for business improvement services. Our observation is that this barrier exists because SMEs are extremely value conscious. Before a business owner will commit to spend on advice, they must trust both the adviser and their solution.

Price is what you pay. Value is what you get.
(Warren Buffett)

Trusted advisers who can demonstrate the value that will flow from implementing advisory solutions are being engaged by SMEs. Refer to **Part 7 – SMEs most wanted Advisory Solutions** for information on 125 recent SME engagement proposals.

What's keeping business owners awake at night?

I am planning for the future of the business. It's not all about the numbers. I want to 'future-proof' the business, and increase staff engagement.

A common view is that the main concerns of business owners are cash flow and profit improvement, but that is overstating the situation. **Cash Flow** and **Declining Sales and Profits** were **#4** and **#5** Business Concerns – they are significant, but outranked by wider, more serious concerns.

We have embraced new technology, and that has meant we have been able to adapt to changes in the industry. It has increased our level of service to clients. This has given us the confidence to expand into new premises.

SMEs want to think strategically and plan for the future. Business owners are looking for ways to adapt to change, and become more efficient in the current changing and challenging economic conditions.

We've made some losses in the last few years due to the cost of reinventing ourselves. We've had to adapt to changes in competition and the business environment with new product lines, new attitude and changed staffing.

Business planning is the #1 Business Concern, unchanged from last year. **98%** of business owners believe there are opportunities to grow their business, and most have ideas to do so. What they lack is a plan - only **20%** had prepared a business plan.

#2 concern was **Protecting the Business and Family Assets**. Business owners want to protect what they have worked hard to achieve, and become more resilient. An emerging trend is that business owners are protecting these assets by focusing on identifying and removing risk from their business.

The majority of SMEs are planning to stay involved in their business. Only **15%** had set a retirement date. Business owners know that taking care of themselves is key to staying in business for the long term.

Stress and Lifestyle is #3. The increasing importance of this concern reflects the personal impact on business owners who are having to process and adapt to a rapidly changing environment.

This is particularly important for SMEs because of the heavy reliance on their owners. Only **27%** of business owners believed their business could operate without them, declining for the third consecutive year.



“

The pace of change really is increasing

“An analysis of the history of technology shows that technological change is exponential, contrary to the common-sense 'intuitive linear' view. So we won't experience 100 years of progress in the 21st century — it will be more like 20,000 years of progress (at today's rate).”

Ray Kurzweil, *The Law of Accelerating Returns*¹

”

1. "The Law of Accelerating Returns" by Ray Kurzweil, Essay published 7 March 2001. www.kurzweilai.net/the-law-of-accelerating-returns

Emerging Trends

(Refer to Part 1: Emerging Trends for more information)



What are SMEs focussing on?

SMEs are prioritising important, strategic business issues above purely financial KPIs. They are tackling risk management, improving efficiency and working smarter to keep their business healthy and ready to cope with new challenges.

Due to limited space, we can't really grow. Expanding into larger premises will increase costs and risk. My challenge is to maintain the clients and turnover we have now.

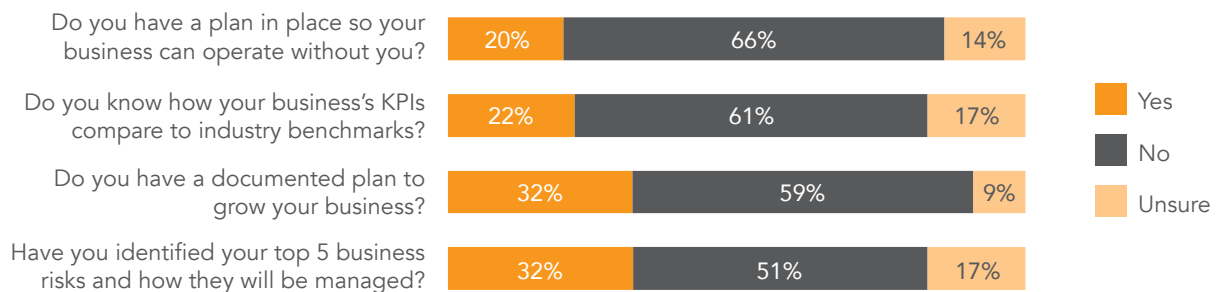
De-risking the Business

An emerging trend is how important it is to business owners to protect their business, personal and family assets from risks. SMEs are focussing on ways to de-risk the business. But only **32%** of business owners had identified their top 5 business risks and how they were to be managed.

We need to explore alternative manufacturing sources. This would increase business flexibility and vastly reduce our stock risks and the need to discount old stock.

In response to the emerging interest in analysing business risks, Bstar has introduced an online, self-assessment Business Risks Survey and Scorecard for SMEs. It is designed to start SMEs thinking strategically about their business risks, and start a conversation about available solutions. It **overcomes the common barriers to change** and **creates a win-win relationship** between SMEs and their business advisers.

HIGHEST RISKS FOR SMEs



Source: Bstar's Business Risks Survey ²

2. The data was collected using the responses of 106 SMEs across a wide range of industries in August & September 2017. The Bstar Business Risks Survey is an interactive online survey which produces the Business Risks Scorecard. Refer to the full 2017/18 SME Research Report for more information.

Improving Efficiency

Another emerging trend is the search for increased efficiency and productivity. SMEs know that it is hard to achieve growth, so they want to do more with their existing resources. The focus is moving to cost control, and increasing margins.

SMEs are monitoring Operating and Financial KPIs to target improvement in their business. But SMEs need accurate benchmarking information to do this. For more information and a list of these KPIs refer to **Part 6 – Benchmarks**.

I have no idea how we compare with industry averages, but I want to. We need to look at each arm of the overall business separately, and see how we are performing.

The majority (**60%**) of business owners are producing accurate and timely financial reports, but **only 22%** of SMEs know how their business' key performance indicators compare to industry benchmarks.

Addressing this need, advisers are seeing increased demand from SMEs for Cost Audits and Operating Cost Benchmarking Services. Refer to **Part 8 – The First Step**, on how to find an adviser who can provide these services.

Working Smarter

86% of business owners love their work, and **75%** spend time doing the things they enjoy so it is not surprising that business owners intend to remain in their business longer. **35%** of owners are deferring thinking about succession planning for at least 5 years and only **15%** have set a retirement date.

To be able to do so, they need to work smarter, not harder. A key indicator for most business owners is a good work/life balance. Unfortunately, **only 47%** of owners felt they spent enough time with their family.

Our most successful strategy has been the ongoing development of team members. We have fortnightly meetings where the sales team is actively involved in improving our systems, discussing changes and generally brainstorming ideas for growth. They are engaged and productive to grow the business, and they can do more for themselves.

Many owners want to reduce the SME's reliance on their personal presence and efforts, but **80%** of SMEs don't have plans in place to enable the business to operate without them.

There is high interest in advisory solutions that share responsibility, and give the owners more time to spend with their family and doing things they enjoy.



A comparison between the top 3 Business Concerns over the last 3 reports



How are SMEs taking action?

Successful SMEs are focusing on what is vitally important and making changes to improve their position. **40%** of business owners are working to increase their own business expertise, by investing in their personal training and development. They are also seeking out external support, using their networks, mentors and professional advisers, to support their goals.

If you don't know where you're going, you might not get there. (Yogi Berra)

SMEs can measure their success in many ways, but we have observed **two key constants** in their approach – confidence and accountability.

Confidence is needed to maintain the effort to change, and overcome resistance to change. Business owners need to believe in their goals and trust in the plan to reach them, if they are to make changes to their business model.

Accountability is key to successful implementation. Plans only work when individuals take responsibility for making it happen. Advisers are helping SMEs with solutions (such as the Chief Financial Officer Program and Board of Advice Program) which use regular meetings with internal and external stakeholders to make SMEs accountable for their agreed plans and time lines.

We know we have opportunities for interstate and overseas growth, and potential to grow online sales. We need to review and update our current three year plan. To date the implementation has not worked as well as we hoped.

Part 8 – The First Step

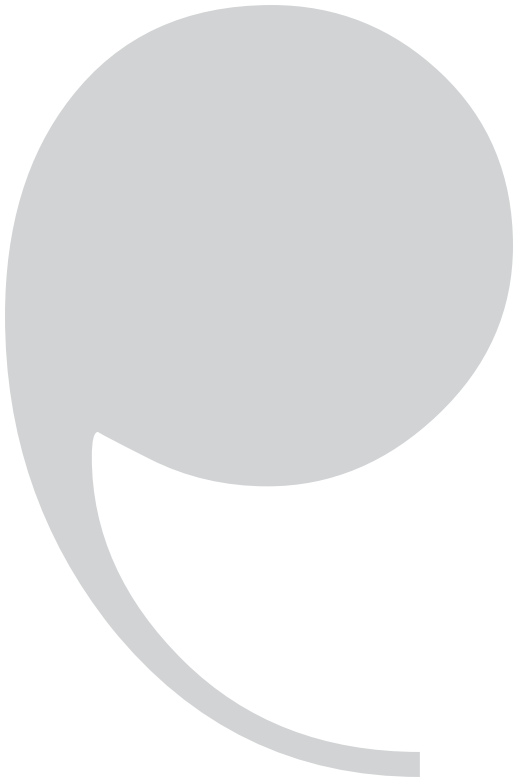
Business owners need an adviser, who has the expertise to help with solutions to their concerns: the 'essential' adviser. In many cases, SMEs are adopting the '2 Advisers Model' - one for the tax/accounting services, the other for improvement and 'sounding board' solutions.

The 2017/18 SME Research Report will give SMEs and their owners a unique opportunity to take control of the process. By applying the insights detailed in the Report to their business, it will prompt owners to take action where they have the greatest concerns.

There are professional services practices that specialise in value improvement benchmarking advice.

The first step is for an SME to find an adviser who can give them the confidence to make changes. They should be a 'sounding board' to provide accountability with ongoing support during implementation.

We discuss the types of solutions being recommended to SMEs to meet their needs and de-risk their business in **Part 7 – SMEs Most Wanted Advisory Solutions**. The Report also indicates the level of fees being charged by advisers, and package solutions for small, medium and large businesses.



Snapshot of Business Concerns

BUSINESS CONCERNS




Source: Bstar's Needs Review Process. The size of the bar signifies relative importance. Concerns are weighted by urgency.




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I have lots of concerns about most of these business issues - planning, staff, competition and business conditions. We need to work on everything from management through to our current operations. While our sales are growing, the profits aren't.

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We don't want to do the hours anymore. We want to grow the business to a point where we can employ a manager and work part-time. Once we are over 60yrs we might look at selling.





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