

SME

RESEARCH REPORT

2016/17

Snapshot of SMEs

What are the top business concerns and needs?

- What's worrying business owners?
- The key advisory needs of business owners, common across industries and sectors.

Why do SMEs fail?

How can SMEs be helped to prosper?



FOREWORD

2016/17 SME RESEARCH REPORT

We are always looking for ways to support our valued SME clients. We want to help business owners to realise their goals and ambitions. We provide advisory services to assist our SME clients to not just survive, but to thrive, and in due course, to exit on their own terms.

We are delighted to partner with Bstar to bring you this SME Research Report, to share with you key insights from face to face interviews with SME business owners.

The overwhelming majority of businesses in Australia are SMEs. In our experience, most SMEs are extensions of their owner's passion and the overwhelming majority of business owners enjoy what they do. Across all industries, business owners believe there are opportunities to grow their business, and 79% are focussed on growth in their business in the next 12 months.

While SME business owners are optimistic about their business, and their prospects, they often don't know how much of this optimism is justified. They spend little to no time assessing their own performance or planning, whether for growth, improvement or succession.

SMEs need targeted business advisory services that they trust. SMEs have told us that they need assistance to plan. They want confidence and accountability in those plans before they will act, to change and improve their business.

We have the professional staff and skill sets to help SMEs. We specialise in advising SMEs on how they can grow the value of their business and retire financially secure. The viba advisory process is a proven method which helps us consistently to discover our SME clients' most urgent needs, and assist them to achieve their goals.

This year's Report includes the latest insights into the SME sector and a new section on the types of solution being offered to SMEs. With our advice and support, we know that you can use this information to take action and transform your business.

We hope you enjoy reading the Report. We would welcome your feedback. We will be contacting you shortly to discuss the Report's insights and arrange a time to talk to you about your needs and goals.

Yours sincerely



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METHODOLOGY

This Research Report has been prepared by Bstar Pty Ltd ABN 60 109 809 305. Bstar has a relationship with more than 200 accounting and financial planning practices. A Bstar Alliance Partner is typically a 2-10 partner accounting and/or financial planning business that has been trained and accredited in Bstar's Value Improvement Benchmarking Advice ('viba') advisory process.

The 2016/17 SME Research Report updates and expands on the 2015 Report. The content in the 2016/17 SME Research Report is taken from ongoing face to face strategic discussions conducted by Bstar and its Alliance Partners with business owners. The primary tool utilised

to collect the information in the Report was the Bstar Needs Review Process. Bstar continues to collect real time, live data all year round, and receives and reviews between 8 and 30 Needs Assessments each week. Close to 500 Needs Assessments were reviewed prior to this Report, and data taken from a sample. Quotes used in this Report are sourced from notes taken during interviews, and may have been paraphrased or amended to de-identify the individuals involved.

Bstar has used the real life experiences of accounting and advisory practices and their clients, SME business owners, to tailor the suggested solutions for the concerns and issues identified.

Material in the sections 'High Risk Industries' and 'Surviving – Preventing Failures' is taken from the paper 'Commercial Risk Outlook – August 2016' produced by SV Partners (www.svpartners.com.au / telephone 1800 246 801). SV Partners is an expert accounting and specialist advisory firm focused on supporting professionals and their clients. SV Partners provides professional insolvency accounting, turnaround strategy advice, forensic and advisory services to accountants, financial institutions, corporations, financial and legal advisors, and their clients.

EXECUTIVE SUMMARY

The failure of SMEs to properly plan (72% don't have a formal business plan) and allocate time to developing business strategies (only 34% spend time on strategic planning), is restricting the growth and testing the sustainability of the SME sector.

The overwhelming majority of businesses in Australia are SMEs. There are an amazing variety of businesses. They are heavily reliant on individuals – usually the business founder, owner-operator, or one or two key staff.

SMEs are as unique as their individual operators. Most SMEs are extensions of their owner's passions, capacities, goals and ambitions and 90% of business owners enjoy their work.

They are optimistic - 95% believe opportunities exist to grow their business, yet only 22% have a plan to grow the value of their business.

"I have a goal, but I don't really have a plan to get there."

There are significant challenges for business owners both now, and over the next 12 months. Economic growth and opportunities are not evenly spread throughout Australia. Labour markets, population trends, business and consumer confidence are all influenced by local factors, which can be seen in the variation in key indicators state by state and region by region. (Refer to the 'Economic Snapshot' section of the Report for more details).

"I am just interested in building my business. I have recently got married. No kids yet."

WHAT ARE SMES MOST CONCERNED ABOUT?

- (lack of) Business Planning
- (lack of) Succession Planning
- Stress and Lifestyle

Refer to 'Business Concerns and Needs' for a full discussion of the top business concerns.

WHAT ARE SMES LEAST CONCERNED ABOUT?

- Selling their business (for the highest price)
- Access to funding

Refer to 'Business Concerns and Needs' for a full discussion of these concerns.

WHAT'S KEEPING SMES AWAKE AT NIGHT?

Business Planning was the #1 top concern of SMEs, and there is strong evidence to show this concern is warranted. Our research shows 72% of business owners don't have a business plan prepared (2015: 75%).

Only 22% of owners have a plan to focus specifically on improving the value of the business (2015: 18%) and only 34% dedicate regular time to strategic and business planning (2015: 26%).

DEFINITION OF SME

Businesses valued at between \$500,000 and \$10 million are classified as SMEs for the 2016/17 SME Research Report.

This research report is based on information obtained in face-to-face interviews with those

business owners, talking to them about their business, their current position, their plans for the future, and most importantly, what the business owner requires to achieve those plans. The primary tool used in these face to face interviews with SMEs was a Needs Assessment questionnaire.

RISKS OFTEN IGNORED

Risk is one aspect often ignored by SMEs. Without understanding or reviewing their business' operations, or making comparison to their competitors, the business owner remains ignorant of the risks they are running day to day, and takes no steps to reduce those risks.

"50% of our income is from one client [exiting partner] has always been the main client contact."

70% have key person risk but few business owners have taken steps to assess or address business succession issues or protect business assets through planning or insurance.

Business owners have also not taken steps to protect their personal assets. We asked business owners about their understanding in this area – 61% had no understanding of Estate Planning, an increase from 53% in 2015.

The section 'High Risk Industries' contains insights from SV Partners' Commercial Risk Outlook Report - August 2016. This looks at where SMEs are most at risk, and the factors that affect them.

"The only thing I have is a Will, and that should probably be updated. I have a bit of life cover through Super, but nothing else!"

PERSONAL PLANNING SUFFERS TOO

Only **46%** of the business owners interviewed had wills in place, markedly less than 60% in 2015. Similarly, only **22%** of owners had made estate plans (2015: 30%) and only **29%** had enduring powers of attorney (2015: 30%).

Succession Planning was rated by business owners as their #2 concern, and 49% of business owners believed it was an urgent need.

But **9 in 10** don't have a succession plan in place.

"We don't have a written succession plan or business plan. We want to streamline systems and processes. This will help free up [the two business owners] for management and planning."

Despite this, business owners are not concerned about selling their business – the concern ranked as the lowest priority. That's because most business owners are not thinking of selling anytime soon, in fact most don't want to think about it. Only **20%** believe the sale of their business will fund their retirement.

Selling the business is not the preferred option. Business owners don't know how to approach it and don't have confidence that they will get a good price. In the current low interest rate environment, with uncertainty about volatility in equity markets, business owners don't know what to do with the proceeds of sale.

"Succession is not important right now. I think there will be family succession or a buy-out. I am not sure whether my children will want to take over my business."

For many SMEs, there is an assumption that children or other family members will take over the business but they don't know how ownership succession would work. While **49%** were willing to transfer control of the business, **90%** of SMEs did not have a succession plan in place.

"Stress? It is just part of life."

Stress and Lifestyle was the #3 top business concern, increasing from #5 in 2015. While **90%** of business owners report enjoying their work, this drops to 71% who spend time doing the things they enjoy, unchanged from 2015.

The success of SMEs is heavily dependent on the involvement and personal effort of the business owners. Only **30%** of business owners believed their business could operate without them, largely unchanged from 33% in 2015. As a result, the majority of business owners do not take regular breaks or holidays from their business, increasing stress.

"I want to grow a sustainable business that does not require my day to day involvement."

One of the most significant changes in this year's SME Research Report is the increase in business owners who **did not know how their business compared** to others in their industry.

Declining sales, profit and cash flow returns was the #1 concern in 2015, but has slipped by more than 10% to #4 this year. This reinforces our view that the majority of business owners we spoke to are not able to review their SMEs' performance against benchmarks or industry averages. This is because they lack the skills or the relevant information (or both) to be able to do so.

76% want to know how their business ranks in terms of industry benchmarks. This is where an SME can obtain an immediate benefit from external advice, by pinpointing the business' strengths and weaknesses. This information can give an SME confidence to make the right changes in their business.

BUSINESS OWNERS KNOW THEY NEED TO TAKE ACTION, BUT HAVE NOT GOT AROUND TO IT

Business owners have ideas on how to improve and grow their business, **but they struggle to make their ideas reality.**

44% are improving their business and financial management skills. The rest are too busy working day-to-day to make specific plans, and how to achieve their goals.

"I want to continue to grow the business. I enjoy planning, identifying new opportunities and negotiating their outcomes."

BUSINESS OWNERS NEED HELP

Business owners have clear needs for advice and assistance. Knowing where to obtain expert help is a major barrier. Business owners need to find someone that is competent and that they can trust. The best advice takes into account the strengths, weaknesses, opportunities and threats of each business. It has to take account of what is both important and urgent.

"I really need a sounding board for business decisions. Since dad passed away, I don't have anyone to discuss the business with. This is really stressing me."

Business owners need a sounding board, someone that they trust to discuss issues with. There are many names for this role – mentor, guide, coach or adviser. It may be a friend, colleague or family member or a variety of people. We use the term trusted adviser. **31%** of business owners did not have a trusted adviser. These owners often did not know where to start to address their problems or how to obtain help.

"I am concentrating on improving my on-line presence, and website, to grow – clients need to be able to contact us easily. I am cutting costs in other areas."

Despite the majority (**69%**) of business owners indicating that they have a trusted professional adviser, in many cases SMEs have not asked for help, and advisers have not been pro-active in offering to fill these gaps.

HOW TO TAKE THE NEXT STEPS

SMEs want to improve business performance and exit on their own terms. SMEs can use the information in the Report to find out what successful businesses are doing.

There is a **unique opportunity** for SMEs and their advisers to take the insights in the section 'How are SMEs Surviving, Thriving and Exiting' and work together to address business issues and prevent failures.

The 'Advisers and Solutions' and 'Outline of Solutions Process' sections of the SME Research Report discuss in detail the types of solutions being recommended to SMEs to meet their needs, to de-risk their business, and how these solutions are tailored to each individual SME's needs, at any stage of their business life-cycle. We are tracking this unique advisory solutions information with the support of our Alliance Partners.

The final section of the SME Research Report discusses the steps required where SMEs seek to change.

The first step is for an SME to find an adviser who has the ability to listen and find out about the business.

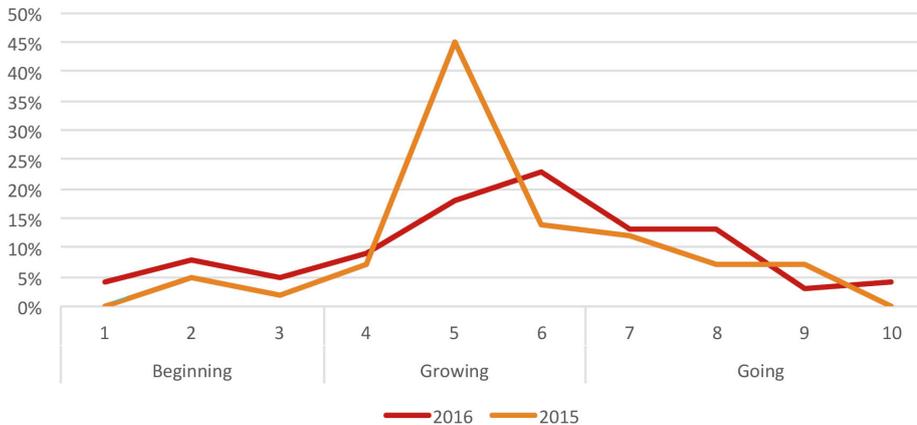
To succeed, it is important to then match the advisory skills and solution to the SME's need, and ensure ongoing support during implementation.

To take that first step, SMEs need confidence in their adviser, and the recommended solution.

The Value Improvement Benchmarking Advice (**viba**) advisory process is a proven method which helps advisers to assist their SME clients, by becoming their most trusted adviser.

viba advisers have been trained and accredited for their skills in providing integrated advisory services to their SME clients. These **viba** advisers offer solutions to SMEs to grow the value of their business so they can achieve financial independence.

WHAT STAGE ARE YOU AT IN YOUR BUSINESS



BUSINESS LIFECYCLE

We asked business owners where they saw themselves in the business cycle. Interestingly, the business owners interviewed for this year's survey are more evenly spread across all business stages. The majority (64%) saw themselves in the 'Growing' phase, but less than 78% who were 'Growing' in 2015. We spoke to more business owners in the 'Beginning' phase: 17% in 2016, increasing from 7% in 2015.

There were also more (20% up from 14% in 2015) who were in the 'Going' phase. But only 4% indicated that they were seeking an immediate exit from their business (0% in 2015).



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