

# 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

The overwhelming majority of business in Australia are Small and Medium-sized Enterprises (SMEs). SMEs are often heavily reliant on an individual, which in most cases is the business founder. Most SMEs are extensions of their owner's passion, capabilities, goals and ambitions.

A lack of planning whether it be for growth, improvement or succession, is restricting the growth and sustainability of the SME sector.

SMEs require the assistance to plan. They want confidence and accountability in those plans before they will change their business.

Hoffman Kelly are proud to make available the 2016/17 SME Research Report prepared by B Star in conjunction with SV Partners. This year's Report includes the latest insights into the SME sector and a new section on what solutions are being offered to SMEs by their accountants.

We hope you enjoy reading the report. If you would like to contact us to develop a detailed plan for your SMEs future growth or have any further questions, please do not hesitate to contact our office on 07 3394 2311 or [mail@hoffmankelly.com.au](mailto:mail@hoffmankelly.com.au).

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**KIND REGARDS,**



**HOFFMAN KELLY CHARTERED  
ACCOUNTANTS & BUSINESS ADVISORS.**

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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](http://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.



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.”**

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## 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.

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## 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.

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## 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%).

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## 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.

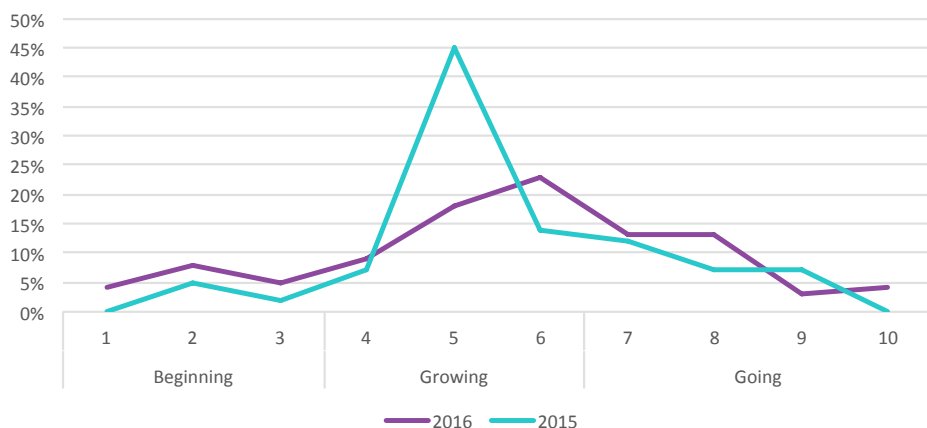
To succeed, it is important to then match the advisory skills and solution to the SME's need, and ensure ongoing support during implementation.

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).

# **PART 1**

## **ECONOMIC SNAPSHOT**

## STATES AND TERRITORIES

(Ranked by economic performance)

01. New South Wales
02. Victoria
03. Australian Capital Territory
04. Northern Territory
05. Queensland
06. South Australia
07. Western Australia
08. Tasmania

Source: State of the States Report, 25 July 2016,  
Commonwealth Securities Limited  
([www.comsec.com.au](http://www.comsec.com.au))

## NOT ALL STATES ARE EQUAL

Economic growth and prospects 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.

The recent mining investment boom underpinned growth in Australia from 2003 to its peak in 2012/13. Mining investment has now declined sharply from its peak in 2012/13 as commodity prices have dropped. The resource rich WA and Queensland economies are still struggling to adjust to the changes from mining-boom highs to recession like lows.

Growth in the non-mining parts of the economy and those states less exposed to mining was more subdued. Many parts of the economy suffered, at least in part due to the high Australian dollar. The impact was particularly felt by exporters, agriculture and manufacturing industries.

The Australian exchange rate has now declined more than 30% from its record high in July 2011 (US\$1.10) to August 2016 (US\$0.76). Inflation is also at historically low levels, with 1.0% for the June Quarter of 2016 the lowest rate since 1999. This is well below RBA core inflation targets of 2% to 3%. The official cash interest rate was cut to a new record low of 1.5% by the RBA on 3 August 2016.

The New South Wales and Victorian economies are now benefiting from the low interest rate, low inflation environment, with marked consumption growth, and increased housing market activity

## POLITICAL UNCERTAINTY

As 2016 has shown, political uncertainty breeds economic uncertainty. The Federal political landscape has produced marked uncertainty in 2016, firstly with the lengthy election campaign following the double dissolution, then followed by the prospect of a gridlocked Federal Parliament. This has cast doubts on the ability of the Federal Government to pass its economic measures, or address the budget deficit. Following the July Federal election, international ratings agencies have expressed concern as whether Australia's AAA credit rating is sustainable.

There continues to be volatility around the Australian dollar and equity markets. However, the full effects of the economic uncertainty will take months, or years to play out.

## CHALLENGES AHEAD

There remain significant challenges for business owners both now, and over the next 12 months.

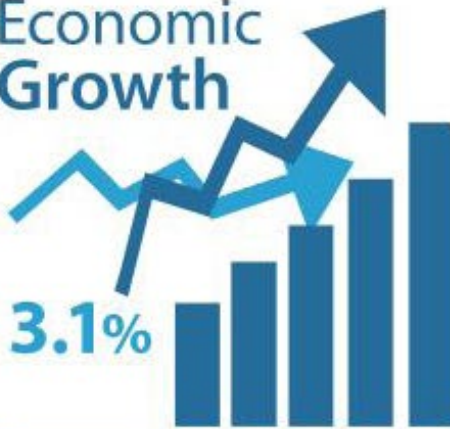
Initially, we have seen drops in both business and consumer confidence (refer to the sections on Business and Consumer Confidence for more information). This uncertainty is likely to have flow on effects and impact growth and employment expectations.

# Australian Economy SNAPSHOT

3 August 2016



## Economic Growth



## Inflation

1.0  
per cent



## Cash Rate

1.5 %



A\$1  
= US\$0.7547



Population  
23.9 million  
1.4 % annual growth

## Unemployment Rate



5.8  
per cent

Employed



11.9 million

## Average Weekly Earnings

\$1 146



Household Saving  
Ratio  
8.1 %



Average Price of  
Residential  
Dwellings  
\$614 000



## Industry Share of Output key sectors

Services  
58%



5%  
Retail Trade



7%  
Mining



7%  
Manufacturing



9%  
Construction



Data are the latest available as at 2 August 2016

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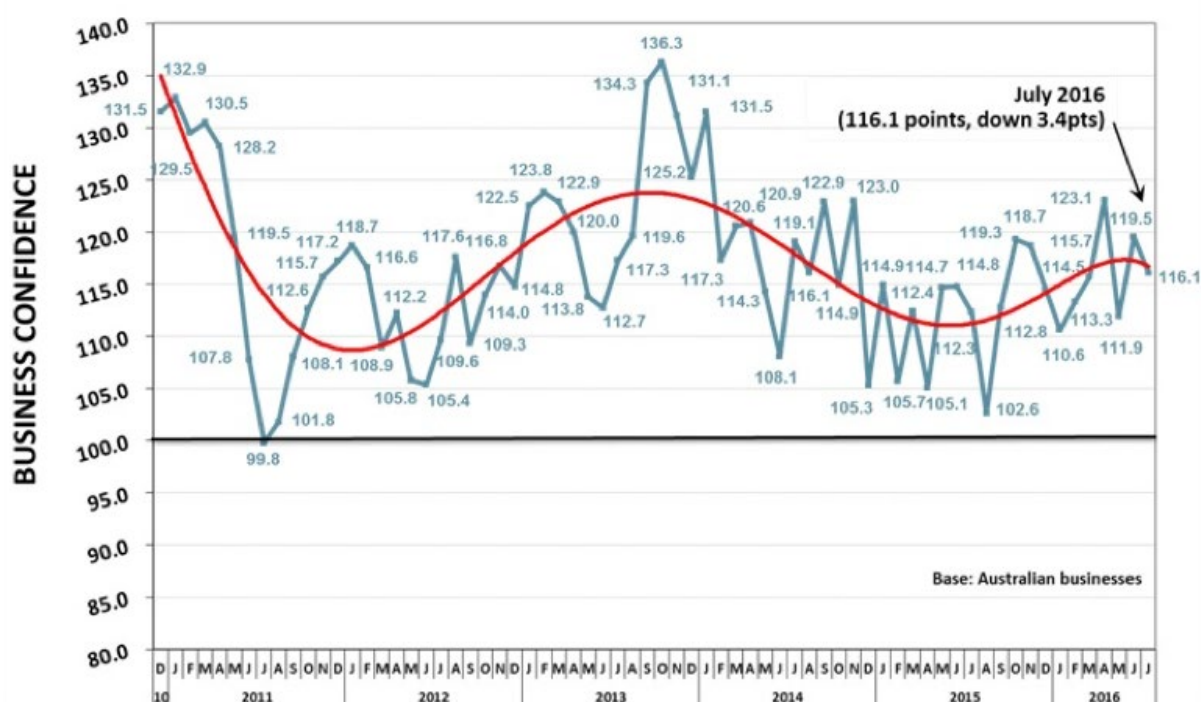


## BUSINESS CONFIDENCE

Business Confidence fell 2.8% (to 116.1) in July following the inconclusive Australian Federal Election at the start of July. The fall in Business Confidence comes despite an upward trend on the Australian share-market in July – the All Ordinaries closed the end of July at 5,644 (up 6.3% or 334pts from June 30, 2016, 5310). This was the highest

close for exactly a year since July 31, 2015 (5,681). The fall in Business Confidence in July means Business Confidence has dipped just below the 6yr average of 116.7.<sup>1</sup>

### AUSTRALIAN BUSINESS CONFIDENCE (MONTHLY)



Source: Roy Morgan Business Single Source (Australia), December 2010-July 2016. Average monthly sample last 12 months = 1,018.

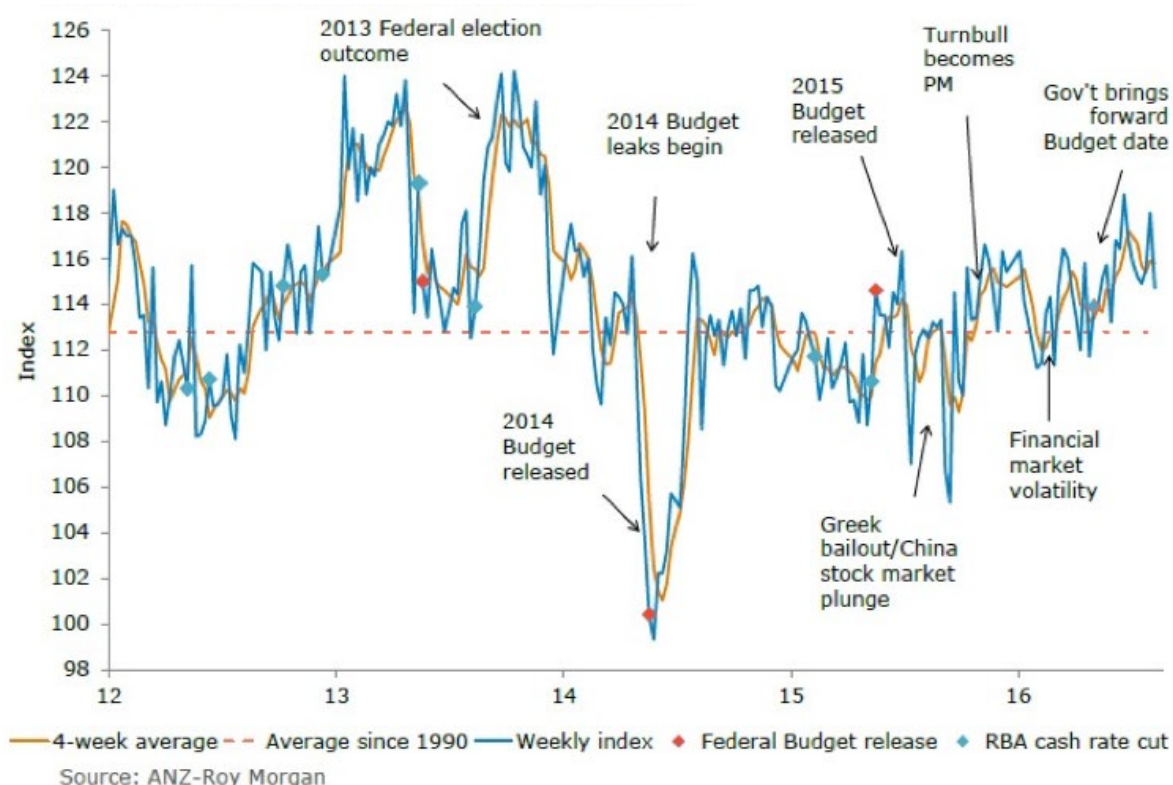
<sup>1</sup> Taken from Roy Morgan Research Finding no 6919, Published 8 August 2016 Refer to [www.roymorgan.com/findings](http://www.roymorgan.com/findings)

## CONSUMER CONFIDENCE

**“ANZ-Roy Morgan Australian Consumer Confidence fell a sharp 2.8% to 114.7 this week. This is a surprising result given that the RBA cut the cash rate to a historic low of 1.5% last Tuesday. While the drop is disappointing, overall confidence remains well above its long run average.”**

- The deterioration in confidence was relatively broadly based. Consumers' views of their current finances fell a solid 2.4%, while their views on future finances fell a similar 2%.
- Consumers were considerably more pessimistic on the near-term economic outlook. Households' views of the 12 month economic outlook dipped a sharp 8.5%. Views towards the economic outlook in the next 5 years also fell, but by a much more modest -0.8%.<sup>2</sup>

### CONSUMER CONFIDENCE TAKES A HIT



<sup>2</sup> Taken from Roy Morgan Research Finding no 6933, Published 9 August 2016 Refer to [www.roymorgan.com/findings](http://www.roymorgan.com/findings)

# **PART 2**

## **HIGH RISK INDUSTRIES**



SV Partners has released their 'Commercial Risk Outlook Report – August 2016', providing an analysis of the current state of Australian businesses from an insolvency and overall economic perspective. The full Report contains extensive data and commentary. Here are some highlights.

## FACTORS THAT IMPACT BUSINESSES

Macro factors have the ability to impact business performance and weigh on the stability or instability of business longevity. Micro factors impact an individual business's stability and performance.

### KEY MACRO FACTORS

- Changes in the existing market share, price and demand for products and services offered by a business
- The underlying assumptions of the business plan (if in fact a business has a business plan)
- A business's infrastructure and resources for major projects impacting on funding and timing for key project implementation
- Market position

### KEY MICRO FACTORS

- A business's cost structure suitable and relative to revenue such as:
  - labour,
  - suppliers,
  - transport,
  - logistics,
  - overheads and administration
- Allocating working capital and balance sheet efficiency
- Time responsive operational decisions made by business owners that impact the daily processes
- Management of employees and employee skills and resources for delivery of service/products
- Balancing new customer/client acquisition with maintenance of existing clientele's needs
- The structure of the business's debt and engaging with financiers on the best methods of achieving this

## WHERE ARE BUSINESSES AT RISK?

The SV Partners Commercial Risk Outlook Report examines where businesses are at risk of default.

### TOP 5 HIGH RISK AREAS, BY REGION\*

01. Inner Melbourne, VIC – 816 or 0.8% of businesses
02. Sydney Inner South West, NSW – 722 or 1.9% of businesses
03. Sydney City and Inner South, NSW – 684 or 1% of businesses
04. Gold Coast, QLD – 652 or 1.2% of businesses
05. Parramatta, NSW – 625 or 1.9% of businesses

### TOP 5 LOWEST RISK AREAS, BY REGION\*

01. South East, TAS – 8 or 0.8% of businesses
02. Outback Northern Territory – 18 or 1.2% of businesses
03. Outback Queensland – 26 or 1.3% of businesses
04. Outback South Australia – 33 or 1.2%
05. Barossa, Yorke, - Mid North SA - 39 or 1.2% of businesses

\* location of businesses at risk of default

Northern Territory (3%), Western Australia (2.3%) and Queensland (2.3%) are indicating the highest percentage of potential defaults statewide proportionate to their respective numbers of businesses.

**However the lower risk states are, New South Wales (1.22%) and the Australian Capital Territory (1.37%) where economic conditions are more buoyant.**

## COMMERCIAL RISK, BY STATE

State	Businesses at Highest Risk (Band 1)	% Highest Risk of Total	Total of Businesses
NSW	6,914	1.22%	270,210
VIC	4,183	1.63%	256,598
QLD	3,223	2.28%	141,219
WA	1,865	2.28%	81,893
SA	1,004	1.93%	52,122
TAS	219	2.11%	10,363
ACT	159	1.37%	11,619
NT	114	3.02%	3,779
Total	17,681	2.14%	827,803

\* minus businesses unclassified by industry

Source: Table 26, SV Partners Commercial Risk Outlook Report, August 2016

## AT RISK INDUSTRIES

SV Partners' Report indicates that the Construction industry within Australia has over 2,600 businesses currently at risk of failure within the next 12 months. Consistent with this finding, there have been just over 2,000 insolvency administrations within the Construction industry over 12 months to March 2016. According to ASIC data, the highest cause of insolvency administrations within the Construction industry is inadequate cash flow or high cash use, closely followed by poor strategic management of business.<sup>2</sup>

SV Partners explains the current challenges the Construction industry faces resulting in business financial stress challenges and high ongoing insolvency numbers. Some causes include highly unequal power relations

in contractual relationships, failure to pay in binding contractual obligations and civil and criminal non-compliance. SV Partners also suggests that from its experience, construction companies are concerned with the lead times on projects and the increase in costs to complete these projects with regards to time constraints. These costs place extreme financial pressure on construction businesses and add to their inability to meet and pay their bills in line with their contractual obligations. This in turn further affects those contractors and subcontractors that have been locked into fixed price contracts.

## TOP 5 HIGH RISK INDUSTRIES\*

01. Construction (2663 businesses or 1.6%)
02. Professional, Scientific and Technical Services (1,366 businesses or 0.7%)
03. Retail Trade (1,268 businesses or 1%)
04. Accommodation and Food (934 businesses or 1.8%)
05. Transport, Postal and Warehousing (812 businesses or 2.3%)

\* number of businesses and % within industry, most likely to go through financial distress in the next 12 months

Conversely, the Financial and Insurance Services Industry has the lowest levels of businesses at financial risk of failure with 58% of total businesses in the industry least likely to go through financial distress. This is followed by Mining (36%) and the Rental, Hiring and Real Estate Services Industry (33%).

## WHAT'S CHANGING?

Proportionate to the number of businesses in the industry, it is notable that Transport, Postal & Warehousing is one of the highest impacted sectors with 2.3% of businesses facing possible financial failure in the next 12 months.

Over 1,200 businesses in the Retail sector are in financial distress, with a growing number of insolvency administrations with 60 external administrations recorded over the past 5 months (to May 2016).

Industries where there are significantly more insolvencies (from March 2015 to March 2016) are:

- Education & Training (increase of 97%, 58 administrations)
- Professional, Scientific & Technical Services (increase of 78.6%, 22 administrations)
- Accommodation & Food Services (increase of 23.3%, 37 administrations)

<sup>2</sup> ASIC's 'Initial external administrators' reports – Nominated causes of failure by industry (1 July 2014 – 30 June 2015) (Table 3.1.3.1) Full data is available at [www.asic.gov.au](http://www.asic.gov.au)

# **PART 3**

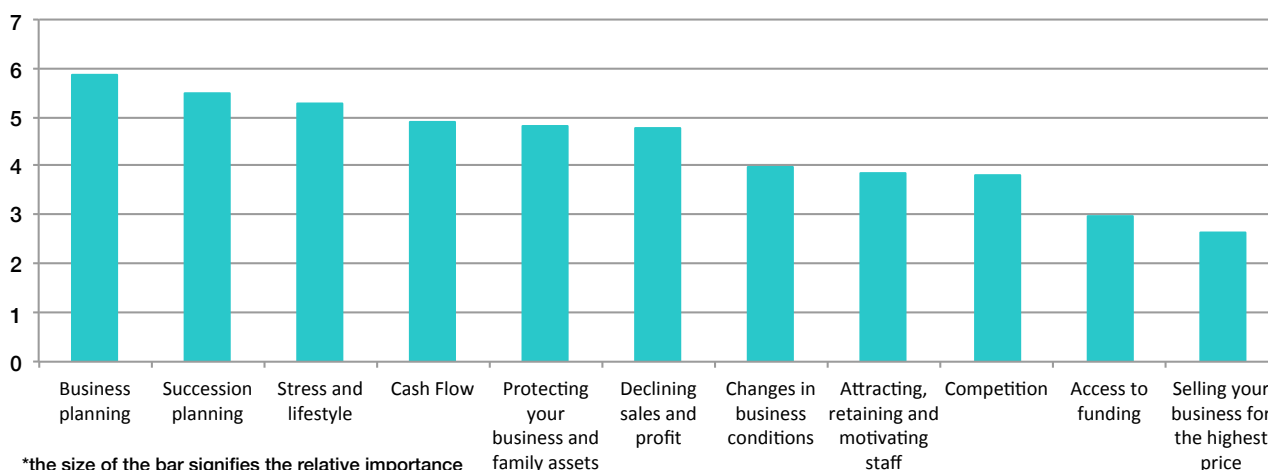
## **BUSINESS CONCERNS AND NEEDS**

We asked business owners to rank their level of concerns on a list of key issues, and their need to act on the issues.

**“All the plans are in my head. They change week to week.”**

## IN 2016, WHAT’S KEEPING BUSINESS OWNERS AWAKE AT NIGHT?

### BUSINESS CONCERNS



### WHAT ARE SMEs MOST CONCERNED ABOUT?

01. Business Planning
02. Succession Planning
03. Stress and Lifestyle
04. Cash flow
05. Protecting the business and family assets

### WHAT ARE SMEs LEAST CONCERNED ABOUT?

01. Selling their business (for the highest price)
02. Access to funding

### #1 BUSINESS PLANNING

Business Planning was ranked as the highest concern of SME owners, a significant move from its #4 place in last year’s SME Research Report. But, despite the marked increase in concern, SMEs have not yet responded to this concern by improving their business planning.

The majority of business owners do not have business plans – as a rule of thumb, 3 in 4 do little or no formal planning. A consistent theme is that they concentrate their efforts on day to day operations, without understanding or reviewing how the business is operating. Failure to plan is attributed to lack of time, skills or experience, or a combination of these factors.

**“I don’t have time to spend on strategic and business planning.”**

Without adequate planning, small and micro businesses may never develop to become SMEs.

**“This is currently a one-man show. I need to let some of it go, and introduce new staff. I need to hire someone else.”**

The need to plan is often extremely challenging for the SME owner, particularly where they feel swamped by the everyday pressures of operating their business and delivering to customers. One business owner described it this way:

**“I am the biggest barrier to growth. I currently have two months work on hand. It is too much, I am not coping with the demand. Two of my staff left three months ago, at our busiest time. I have lots of scope for more work, if I could only employ two more staff, but I just haven’t done it. I know it would take 3 months to get them competent. I need to change my headspace, and be more involved in promotion and getting more work in, not trying to do it all.”**

Business owners need to take positive steps to address their larger issues, and make changes to improve their business.

SME owners are optimistic about their businesses and often have ideas, but they don't have plans to achieve them. Our research shows 72% of business owners don't have a business plan prepared (2015: 75%).

Only 34% of SMEs dedicate regular time to strategic and business planning (2015: 26%). However, time is not the only factor. Effective planning requires skills to establish appropriate plans, then to implement and monitor those plans.

## GROWTH PLANNING

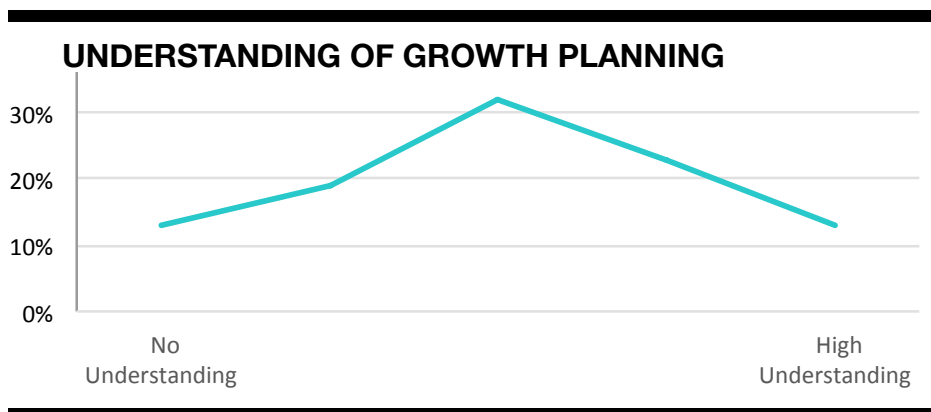
Business owners remain optimistic about their future and 95% believe there are opportunities for growth, consistent with 2015 (100%). 79% of business owners tell us that Growth Planning is important to their business now or in the current year, unchanged from 2015.

**“Growth plans? I don't have any. My original business plan is 5 years old and hasn't been updated.”**

Despite the abundance of ideas, business owners are not taking advantage of their opportunities. 77% of business owners do not have a detailed plan for the **future growth** of their business (2015:82%). Only 22% had a plan that specifically focuses on improving the value of their business (2015: 18%)

**“I have been very concerned about declining sales and profits, but I am already implementing changes in the business. I have a detailed growth plan, and a new sales team to develop sales, and new product development and innovation. This should bring greater margins.”**

Effective planning requires skills to make plans that are targeted to the individual SME's goals. A major limiting factor is that only 13% of business owners indicated that they had a 'High' understanding of Growth Planning (down from 25% in 2015).



Without discipline and regular review, planning lacks focus, and may not be relevant to the business operations or goals. Some business owners lack even basic skills – 13% said that they had no understanding of Growth Planning (2015: 10%).

74% of business owners struggle to plan for Growth, saying that they have only 'some to moderate' understanding in this area.

The 3 most common methods of addressing the gaps in knowledge, skills and experience are to:

01. build them internally through education or training,
02. recruit staff to fill the gap or
03. seek assistance from an external adviser.

## SKILLS AND EXPERIENCE

Owners are interested in planning, but lack the skills and information to do so. They want to understand how their business compared to others; **3 in 4 owners** wanted to know how their business compared to industry averages and benchmarks.

**“I want to have a better understanding of our operations and our costings. I am very concerned about budgeting and cash flow. If I can find the funds, I want to put it into marketing and more staff – so we can grow.”**

Business planning starts with understanding how the business is operating. Only 65% of business owners are producing accurate and timely financial reports, a slight improvement on 2015 (58%). 66% of owners wanted to compare their business' performance against their industry.

**“I would like to pay staff more, and offer them a share of the profits, but I am not sure what the actual profit of the business is.”**

Despite business owners clear lack of skills in all aspects of business planning, more than half businesses are not taking steps to improve their own skills. This year 44% of business owners reported taking time to improve their business and management skills with regular training, a significant increase from 30% in 2015.



## TRUSTED ADVISER

External advisers can be used to supplement SMEs' own skills and experience, and provide specialist assistance with business planning and business improvement. 69% of business owners we spoke to indicated that they had identified their most trusted adviser, an improvement over 61% in 2015.

Business owners are looking to these trusted advisers for assistance in filling their needs in Business and Succession Planning. In the section 'Trusted Advisers and Advisory Solutions' we examine the type of assistance that advisers are recommending to SMEs.

## #2 SUCCESSION PLANNING

Succession Planning was rated by business owners as their #2 concern, in the same position as 2015. There are good reasons for this concern.

**"It's a family business, and since our father passed away recently, I am very concerned that my brother doesn't want to continue in the business. We never did any succession planning, and I don't know what we are going to do."**

Business owners were evenly divided between those who saw succession planning as an urgent need (49%) and those who saw it as something to be deferred for 1 to 5 years (27%) or more than 5 years (24%).

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. (Refer to 'Selling their Business' for a more detailed discussion of this point)

**"My life plan? I am planning to live a long, healthy life. I am not planning on selling the business – it is going to my son, and then probably to his sons."**

Often business owners assume that their children or other family members will take over the business, but have not discussed this, and don't have any idea of how it would happen.

Generally, business owners indicate that while they see succession planning as necessary, they are not comfortable with it. 90% of businesses included in this report did not have a succession plan in place, an increase of 12% from 78% in 2015. Only 9% had a buy/sell agreement or business succession agreement in place (2015:18%). In many cases, business owners have not even started the discussion.

**"We haven't talked about it. I would like to know how and when [other business owner] really wants to retire."**

## RISK

Risk is one aspect often ignored by SMEs. Without understanding or reviewing their business' operations, the business owner can be unaware of the risks they are running day to day. Awareness is needed before action will be taken to reduce those risks.

A useful example is key person risk, which is very common in SMEs. Only 30% of business owners interviewed believed their business could operate without them. The majority (70%) have a clear Key Person Risk. But few SMEs were addressing that risk, through succession planning or other measures.

**“We only have one licensed practitioner in the firm. We know we need to address this, to spread the workload, and for possible succession.”**

Only 28% of those interviewed for the SME Research Report had business and key person insurance in place to protect the business from illness or injury to owners or key staff.

**“We are having some succession issues, right now, due to [key staff member] leaving.”**

Approximately half of business owners are not even willing to deal with succession – instead deferring consideration in favour of retaining control and remaining in business. Only 49% are willing to transfer control of their business (2015:63%). Consistent with last year's SME Research Report, only 9% of businesses were ready for sale, and 70% of business owners have not set a retirement date (2015: 73%).

**“I love what I do. I don't want to retire. In the future, I want to still work 2 days a week, on the tools.”**

**“We haven't done anything about succession. I am working on building the company so it is sustainable for people coming up either from the family or key staff.”**

Only 9% of business owners indicated that they had a 'High' understanding of succession planning, sharply down from 21% in 2015.

SMEs generally have not taken advantage of external succession options, such as insurance. Less than 1 in 3 had arrangements in place to deal with the owner's ill health, such as key person insurance or other insurance (2016:28%, 2015: 40%). Where there was a buy/sell agreement in place, only 21% had life insurance in place to implement the agreement (2015: 35%)

## STAFF AND SUCCESSION PLANNING

**“I am not really interested in personal succession or estate planning. I am more interested in business succession. I don't have a plan yet.”**

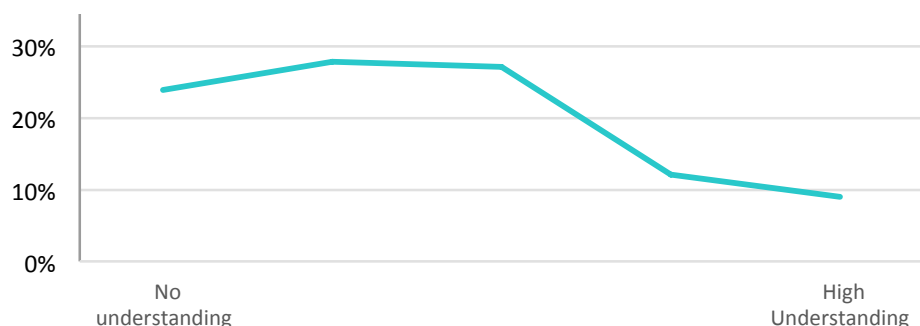
SMEs have small staff numbers. The impact of ineffective recruitment or the loss of a key person is much higher in an SME. As a result, staff issues are higher risk, particularly if not handled well. Our research confirms that SMEs are doing little, or in many cases, nothing, to manage their staff or planning to reduce staff risks

There have been improvements - 30% of businesses indicated they were effectively managing their staff, including using strategies for staff attraction, retention and motivation, a substantial increase over the 11% in 2015.

However, the remaining 70% were not acknowledging their risks in this key area, or taking any steps to manage them.

Day to day operations remain heavily reliant on the SMEs owners, and one or two key staff. This continues unless the SME grows large enough to obtain, or afford, specialist internal or external HR resources.

## UNDERSTANDING OF SUCCESSION PLANNING



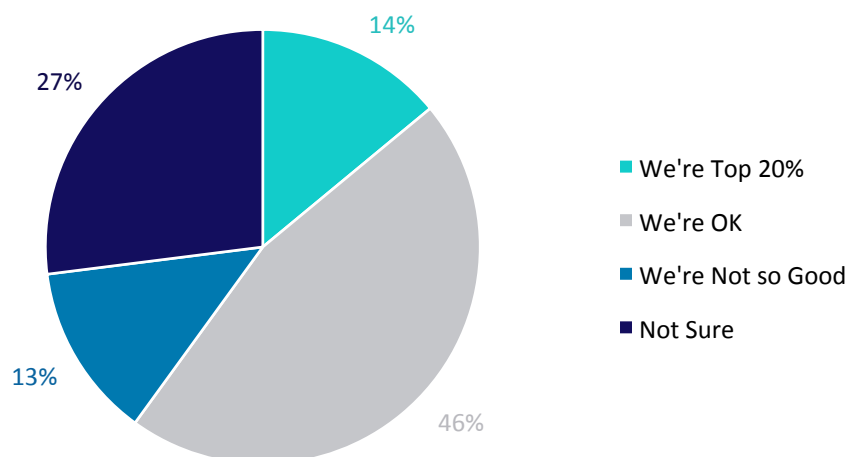
52% told us they had little or no understanding of succession planning (2015:41%). There is little understanding of what is involved in preparing or implementing a plan, or the differences between ownership succession and management succession.



**“I have staff, most have been employed for a long time, but the business is reliant on me. If I am away for one week, the sales dive. I am the only person who can talk to customers and design what they want.”**

Staff related costs are a major cost for SMEs, and proper management of these costs has a major impact on profitability. Less than half (46%) of owners believe that their wages costs are ‘Okay’ compared to industry averages, largely unchanged from 50% in 2015.

## WAGE COST



Not maintaining market wages can lead to loss of key staff. But 40% of business owners were struggling in this area - 27% indicated that they didn't know how they compared to industry average, while 13% knew they were 'Not So Good'. This 40% was unchanged from 2015, however, in 2015, 29% were 'Not So Good', with only 11% uncertain as to how they compared to industry averages.

Staff productivity is a key input to business success and growth. Consistent with the lack of action in this area, less than half (49%) of business owners believe their staff are engaged to grow their business – compared with 43% in 2015. Where an SMEs operated a staff bonus or incentive plan, only 25% of owners believed they generated more sales, profit and value for the business, even lower than 29% in 2015.

**“We don't want to offer staff equity, but to keep them motivated, we have 50% profit sharing for performance over KPIs.”**

Offering staff an interest in the business is a well understood way to retain and motivate key staff, as well as providing a path to succession. However, while 44% (2015: 55%) of owners were interested in staff or family management investing in the business, only 9% of businesses had developed investment and funding plans for key staff, unchanged from 2015.

## #3 STRESS AND LIFESTYLE

**“The stress is getting to nervous breakdown stage.”**

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.

Despite this, little had been done to reduce this reliance (Refer to 'Succession Planning' for more information).

**“I stepped out of the business for 18 months to pursue another venture. It didn't work. Without my day-to-day involvement, the books were a mess. No-one was following the systems, or collecting debtors. I had to come back.”**

Given this reliance, it is very important that business owners take care of themselves. Notably, 79% of business owners say they are paying attention to their diet and overall health, an increase from 62% in 2015.

Exhaustion, and burnout remain key risks which need to be managed. Maintaining a healthy work/life balance is key, but the majority of business owners are tied to working in their business. Only 57% spend time with their family as often as they would like, but this is an improvement on the 44% reported in 2015.



**“I am thinking of stopping full time work in 5 years. I would just like to enjoy my family. I don’t spend enough time with them now.”**

Staff can be a way to reduce stress through delegation of responsibility and sharing the workload. However, as indicated above, only 49% of business owners believe their staff are engaged to grow their business – compared with 43% in 2015.

70% of business owners were not managing staff with strategies for staff attraction, retention and motivation. As a result, businesses that employ staff are more likely to indicate stress caused by staff management and motivation.

**“Staff issues are my highest concern. Motivating staff is a problem. The ‘old boys’ don’t want to change, and they are influencing the new staff.”**

Family owned and operated business can also generate their own, unique, stress. Families do not always work well together in a business. Children may not have the necessary skills, and may not want to work in or take over the family businesses.

**“I need someone to replace me, and sit in the driver’s seat. My daughter would not be good in the office, and we clash too much. My son is too young and wouldn’t handle the stress.”**

Different expectations between family members often causes conflict and stress. Misunderstandings and assumptions instead of communication are common. As put succinctly by one owner:

**“Succession is on hold for now. We are sorting out conflict within the family.”**

Adding to personal stress, business owners sometimes report that they need to make choices between their obligations to family, or their business.

**“Right now I am focussed on family, rather than building business value. I am happy where we are now. The kids are growing up. Growth is a consideration for the future (1-5 years).”**

## #4 CASH FLOW

Concerns #4, #5 and #6 were almost equally weighted in this year’s interviews. Coming in at #4, by a narrow margin was Cash flow.

Declining sales and profit and cash flow returns was the #1 concern in 2015, but has slipped to #4 and #6 this year.

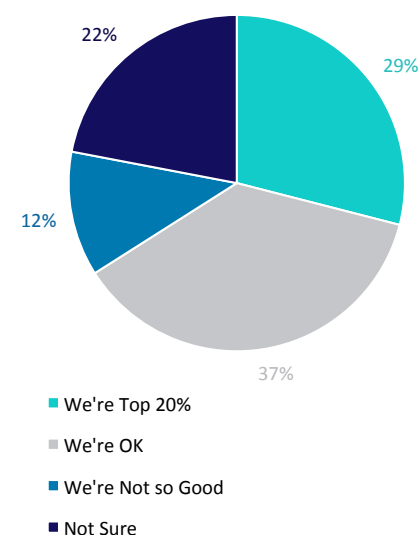
Cash flow management is key to survival. Keeping track of costs, budgeting for expected cash requirements, and monitoring, analysing and adjusting cash flow is essential if an SME is to succeed and grow.

**“We watch our cash flow daily.”**

**“We are worried about cash flow. There’s been a slowdown in receivables. We have ballooning debtors and Government contracts are now really slow to pay.”**

Cash flow and declining profits (Concern #6) were of concern to SMEs across industries, and irrespective of size. Accountants also confirmed this, with anecdotal evidence of their SME clients continuing to report slowing in terms of trade across Australia, with a resulting impact on those businesses.

### DEBTORS DAYS



Successful SMEs make tight cash flow management a priority, and 66% of SMEs told us they were confident about managing their debtors – 29% believed they were ‘Top 20%’ and 37% thought they were ‘OK’. But 22% just didn’t know how they compared.

Cash flow management can be challenging for SMEs, particularly where they lack relevant, up to date information. As noted previously, only 65% of SMEs are producing accurate, timely internal business reports.

If not done well, the consequences can be dire. The top nominated cause of financial failure for businesses, as reported to ASIC by liquidators is 'Inadequate cash flow or high cash use' (43.7%). (Refer to 'How are SMEs Surviving, Thriving and Exiting' for more information.)

In 2015's SME Research Report, we identified the top business need for SMEs to be improving sales, profit and cash flow. The 'Better Business Program' continues to be recommended as a solution to SMEs who want to take control of their cash flow and profit concerns.

## #5 PROTECTING THE BUSINESS AND FAMILY ASSETS

Protecting the business and family assets occupies #5 concern, slipping from #3 concern in 2015, but weighted almost equally with concern over #4 Cash Flow and #6 Declining Sales and Profit returns.

The responses of business owners indicate that the change in position is not due to an improvement of planning in this area, rather, the movement is because these concerns have been overtaken by more urgent concerns. Business owners are not reporting an improvement in dealing with risks in this area.

**"We need to reduce reliance on key shareholders. My wife and I plan to retire in 5 years, and my daughter is already involved in the business. She will want to have a family, and we are unsure how this will work and impact on the business."**

As indicated previously, very few business owners have taken steps to address business succession issues or protect business assets through planning or insurance (Refer to 'Succession Planning'). When asked, business owners made it clear that they 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 on 53% in 2015. It is not surprising that there was a decline in each of the measures for estate planning.

**"I don't have much superannuation, so I should probably start to plan for retirement. Mind you, I am expecting a bequest from my parents and in-laws prior to retirement, and that will help."**

Only 46% of the business owners interviewed had wills in place, markedly fewer 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%).

**"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!"**

Business owners have clear needs for advice and assistance with these issues. They have not taken steps to fill these gaps despite the majority (69%) indicating that they have a trusted professional adviser. As with other areas, business owners regularly indicate that they are aware of the need to plan in these areas, but have not got around to it.

**"I don't really know if my business is saleable, or if it has a value – it is mostly personal goodwill. I'd like to retire by 55, if possible, but at this point I am not really sure if it is possible, or how this might be achieved."**

Consistent with the lack of business planning, business owners have generally not thought about their retirement:

- 88% didn't know, but wanted to know the income and assets they would need at retirement;
- 70% didn't know, but wanted to know the value that their business needed to be to fund their retirement.

But only 20% thought that sale of their business would be able to fund their retirement. (Refer to 'Selling their business' for more information)

**"In this industry, people don't sell their businesses. I have to build up capital to fund my retirement as I go along, I won't get anything from selling the business."**

Many business owners know how to run their business, but don't know how to run it better, to improve it or grow it to the next level. They often don't know where to start, how to get the necessary information or how to use it.

They know that they need assistance, and they want advice and assistance that is relevant to their business, and focused where they need it. They need professional assistance from an adviser they trust. Our research found that 69% of business owners had identified their own trusted adviser (2015:61%). The section 'Advisory Solutions and Trusted Advisers' discusses the types of advice that SMEs are seeking to meet these needs.

## #6 DECLINING SALES AND PROFIT RETURNS

**“Competition is tough. 80% of clients know exactly what they want. They get 3 quotes and take the lowest. Lately I have had to reduce margins to compete with [competitors].”**

Declining sales and profit and cash flow returns was the #1 concern in 2015, but has slipped, by a narrow margin, to #6.

**“I am very interested in benchmarking. I would like to see the competitors' position. I want to outperform our peers, and make the business an attractive target for the big operators to acquire.”**

Throughout this section of the interview, the most significant change was the increase in business owners who did not know how their business compared to others in their industry. This reinforced our view that the majority of business owners we spoke to are not able to review their business' 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.

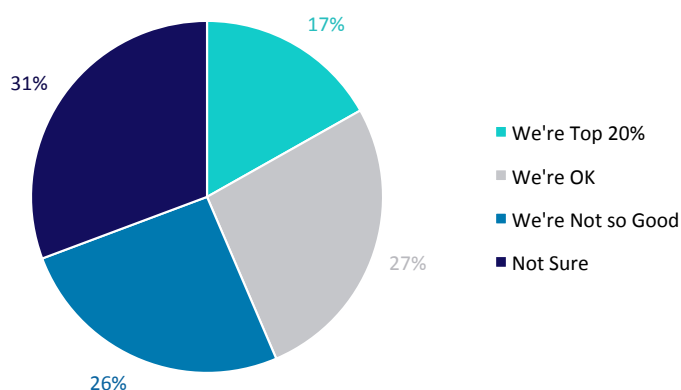
**“I am really concerned about changes in business conditions. Multinationals are entering into our market. Their vertical sales strategies are putting real pressure on profit margins.”**

SMEs continue to be concerned about their current profit levels. Only 17% thought that they were 'Top 20%' (2015:16%) and 27% believed they were 'Okay' (2015:29%).



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## PROFITABILITY





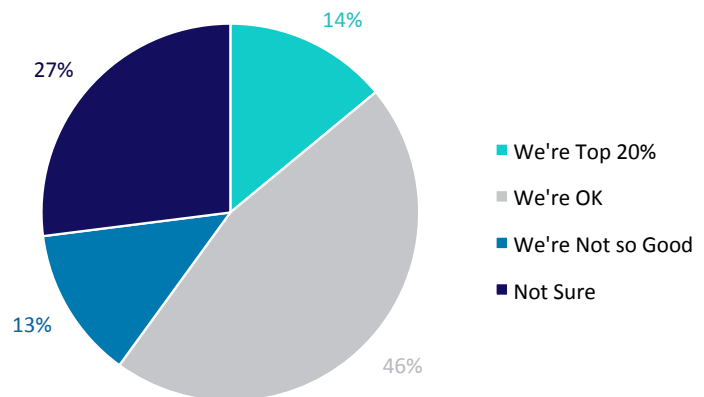
The biggest change was the increase in SME owners who were 'Not Sure' how their business was performing to 30%, more than triple that in 2015 (8%). This was matched by a reduction in those who were 'Not so good' to 23% (2015:47%)

**“There is a lot of stress at the moment – I am really worried about competition and declining profits. I have been making big cuts in costs, and have been terminating employees.”**

When business owners were asked how they believed their business compared to industry averages 25% (2015:26%) thought their sales growth was excellent, and 35% (2015:53%) thought their sales growth was 'Okay'. Again, we saw a major increase to 26% in business owners who did not know how they compared, from 5% in 2015.

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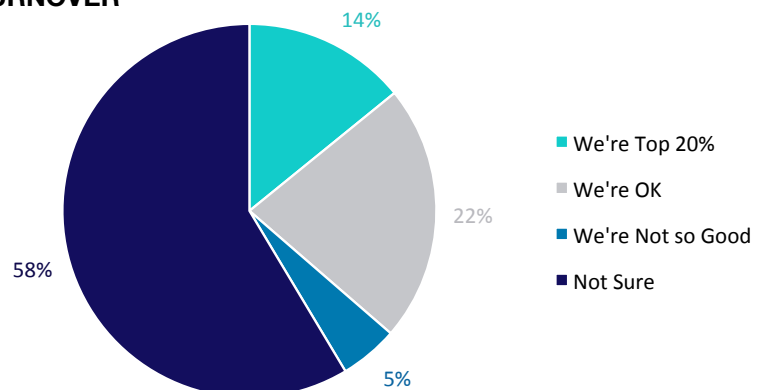
### SALES GROWTH



This same trend was apparent with Stock Turnover, where 58% indicated that they were unsure how they compared with other businesses, double the 24% in 2015. Only 14% believed they were 'Top 20%', less than half the 31% from 2015.

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### STOCK TURNOVER







## WHAT ARE SMEs LEAST CONCERNED ABOUT?

### #1 SELLING THEIR BUSINESS

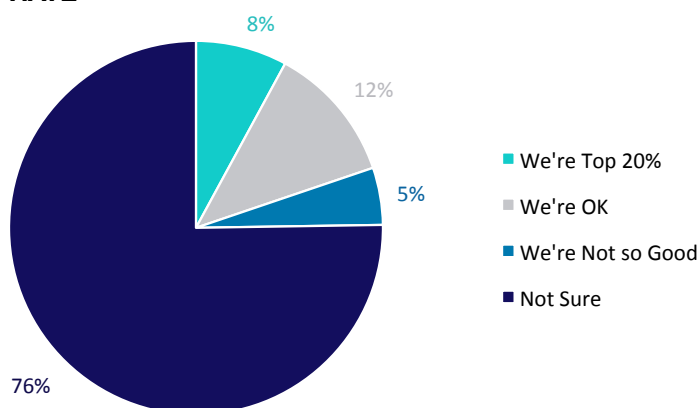
**“I might look at selling in approximately 15 years.”**

The lowest level of concern registered by business owners was about selling their business. This reflected that the majority of those interviewed have no intention to sell within the next 5 years. 37% of business owners had not even considered a sale, or how to achieve it, slightly more than 32% in 2015.

Approximately half of business owners are deferring succession in favour of retaining control and remaining in business. Only 49% are willing to transfer control of their business (2015:63%). 70% of business owners have not set a retirement date.

Selling the business is not the preferred option. Business owners don't have confidence that they will get a good price for the business or be able to live on investment returns in the current low interest environment.

#### CAPITALISATION RATE



Reflecting this low concern, 75% of owners don't know what businesses in their industry are buying and selling for (2015: 79%) and 76% of business owners don't know their business capitalisation rate, or how it compares with their industry.

**“Ultimately, it is likely that I will sell the business, but it's not a priority now. I have 3 young kids at school to provide for.”**

While there was a level of concern about the value of their business, there was little urgency about this issue. Only 55% of owners wanted to know the current value of their business. As previously discussed, the focus of business owners was on growing their business, rather than their exit. By comparison, 76% wanted to know how their business compared with the industry average.

**“My succession plan? I am working on it – I need to find a buyer for my business, but before that, I need to improve margins, to increase the value of the business.”**

**“I am planning to sell to a competitor. I could be ready to sell in 1-3 years, but I want to increase the business value substantially before then.”**

44% of business owners do not believe a sale of the business will fund their retirement. Various reasons were given. Some business owners said the business wouldn't, or couldn't, be sold. Others indicated that sale proceeds would not be sufficient to fund their retirement.

**“I am financially secure. I want the business to continue in the family, and I want to transition it to my kids.”**

Some business owners firmly believed their business couldn't be sold.

**“My business and industry is dying out. It is hard to compare it to other businesses as there aren't many businesses like this out there anymore. I want to retire in 5 years, and there isn't a market for businesses like mine.”**

The majority of business owners showed a complete lack of knowledge on the issue of how to sell, and how to prepare for sale. This indicates a need for specialist assistance, which owners are not even aware of.

**“I can't see my business being of any value. I don't have staff, it is all my personal goodwill.”**

Even in cases where owners were pessimistic about a sale of the business, this was not based on evidence or investigations. Generally, there had been no attempt to test the market or sell the business. Owners may be giving up too easily on this issue.

## #2 ACCESS TO FUNDING

Reflecting its position as #2 lowest concern, in general, the business owners interviewed did not report any particular difficulties in obtaining access to finance. Where business owners were concerned about access to new funding it was frequently associated with plans for growth, to expand the business operation or make an acquisition.

SME capital is typically contributed either directly by business owners, or through providing collateral for loans. In general, banks require SMEs owners to provide evidence of the SME's capacity to repay, and personal guarantees for loans to the business.

Business owners frequently provide personal assets as security to obtain larger business loans or lower interest rates and often reported using their homes to secure loans to the business. Major banks often regard provision of the business owner's home as security as providing a strong incentive to repay the loan.

This is consistent with RBA data<sup>3</sup> showing that at least three-quarters of SMEs lending through banks is secured lending, and around one-half to two-thirds of this lending was secured by housing. Recent growth in home prices has also increased the access to loans, by directly increasing the value of the security.

Banks in general have little appetite for lending unless the business owner can demonstrate how the loan will be serviced, with or without security. This is a barrier for start-up businesses, or those in new or emerging industries.

In these cases, business owners may use other finance, such as general loans secured by home mortgages or unsecured loans, including credit cards, to fund their business needs. As residential home loans attract lower interest rates than business loans secured by residential property, this may also be an incentive.

**“My main concern at present is around supply and maximising our margins. We are moving manufacturing to China shortly. This should give us secure supply and improve gross margin, but we will need additional funding to increase the product range and ramp up production.”**

Our finding that business owners do not have a high degree of concern around access to funding is consistent with ABS data that shows that SMEs successfully access debt funding from more than 83% of applications.

The larger the business, the more likely it is to seek finance. In 2013-2014 ABS data showed that while 13% of micro businesses sought finance, this increased to 20% of SMEs.<sup>4</sup>

**“For over a year we have been working on a feasibility study and how to get this business started. Now we would really like to get the business off the ground. We would like it to produce income for the families.”**



<sup>3</sup> “Housing Prices and Entrepreneurship: Evidence for the Housing Collateral Channel in Australia” by Ellis Connolly, Gianni La Cava and Matthew Read (RBA Conference, 2015 “Small Business Conditions and Finance” at [www.rba.gov.au/publications](http://www.rba.gov.au/publications))

<sup>4</sup> Australian Bureau of Statistics (ABS) “Selected Characteristics of Australian Business, 2013-14” (refer to Business Finance for details) cat. No 8167.0 ([www.abs.com.au](http://www.abs.com.au))

# **PART 4**

## **TRENDS AND**

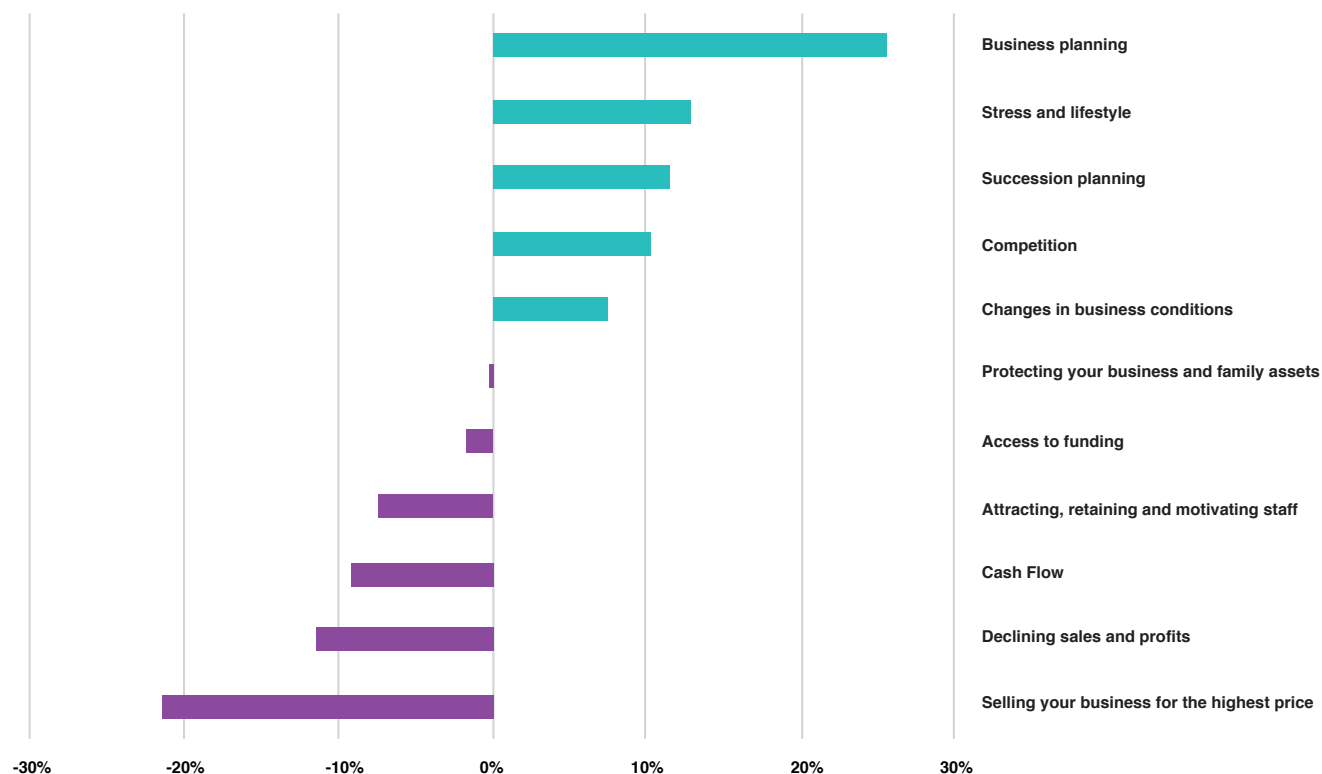
### **COMMENTS**



## WHAT'S CHANGED?

Snapshot of changes in business concerns from the 2015 SME Research Report.

### CHANGES IN BUSINESS CONCERN (FROM 2015)



#### WHAT WERE THE HIGHEST INCREASES IN BUSINESS CONCERNS?

- Business Planning
- Stress and Lifestyle
- Succession planning
- Competition

There is a strong correlation between the top business concerns, and the increases in business concerns – three of these concerns are now top business concerns.

#### WHAT ISN'T A PRIORITY RIGHT NOW?

- Selling your business for the highest price
- Declining sales and profits
- Cash flow
- Attracting , retaining and motivating staff.



## IN THEIR OWN WORDS

The best way to understand how business owners are coping, and how they thrive and survive, is to listen to what they say, in their own words. Their goals vary from small, day to day aspirations ('Just to spend more time with my family') to ambitious plans for growth ('I want to be national in 3 years').

### ON THE NEED FOR BUSINESS PLANNING

Well, we don't really have one [formal plan]. My immediate plans are to pay off debt, and develop an income package to support my lifestyle. Business is improving, but we need to ensure we are making the best use of the proceeds. Can we consolidate debt, or pay it down faster?

I need this business to be financial, and to support me and my family.

I want to build a successful business that does not rely on the owners to run

The industry is going through a readjustment period. For the next 12 months I am not projecting any growth – it should be stable, and I am concentrating on maintaining and protecting the existing business.

I plan to keep a hold on selling margins, while keeping costs down.

### START-UP BUSINESSES

We are just starting. The two of us have passion for this business, we want to make it profitable, then keep it and control it for as long as possible. Then, pass it on to whoever is able to continue it.

We don't have a succession plan. We don't even have business premises yet! The two of us are working hard to establish the business. Once it's established, we'll sell it.

I don't have a succession plan – but I have a decade to get going!

I am still establishing the business, but within 5 years I want to manage the business rather than do the work myself.

### STAFF AND PLANNING

Other family staff members are dragging their feet when it comes to growth plans. They think employing more staff will increase costs and reduce profits for them.

I need to grow the business by putting on more sales reps and customer service staff. I also need to identify new suppliers and new product lines.

My growth plans? Steady income growth, staff retention and profits growth. We'll do this by understanding our customers, educating staff and managing. And we need to enjoy work!

We employ family here. Having them at work sometimes is exhausting, due to the high workload, and their understanding of their job description.

## COMPETITION

It is tough keeping ahead of the competition. Our closest competitor has started offering incentives to retailers. We have to work out how to resurrect sales, and how to get new retailers for our products.

I am worried about competition from emerging technology. To survive and grow we need to embrace and adopt new technology

## ON GROWTH AND GROWTH PLANNING

I have detailed plans for growth. We are adding to our product lines, and we are currently looking to invest in more warehouse space.

Growth planning is not really important to me. It is more important to maintain the margins, and make a profit than just make sales.

I am not interested in growing the business. I have some ideas [for new products], but I am hesitant to spend extra money on workshop space and equipment.

I am not interested in growth planning now. We are looking to do what we do best, and maintain it, and get organic growth that way.

I would like to grow fast, but control the growth. I am taking baby steps while I sort out systems and processes. Then, controlled growth into [another State]. I want to be national in 3 years.

We've been in business for more than 30 years, growing organically. Now we are looking at making an acquisition to grow.

Our growth plan is to focus on repeat customers and our reputation.

We have a 5 year Business Plan and a 12 month Marketing Plan. It is all company focused, and deals with each of the three business sites in detail, but it needs updating.

It's not a detailed plan about growth, but we are aware of the need to grow. We want to employ a Business Development Manager to help us grow.

Growth planning will be important in 1-5 years. We need to continue to grow our annual turnover, primarily by marketing and communicating with clients, and maintaining and growing our database.

# **PART 5**

## **HOW ARE SMES SURVIVING, THRIVING AND EXITING?**

## SURVIVING - PREVENTING FAILURES

This section contains extracts from SV Partners 'Commercial Risk Outlook Report – August 2016'.

### WHAT MAKES BUSINESSES FAIL?\*

The top 3 nominated causes of financial failure for businesses recorded by ASIC are:

1. Inadequate cash flow or high cash use (43.7%)
2. Poor strategic management of business (42.1%)
3. Trading Losses (33.9%)

\* As at July 2016

It is important to identify the warning signs of financial distress and to take action to address the issues as promptly as possible.

### TOP 10 WARNING SIGNS

SV Partners identifies some of the warning signs of insolvency as the following:

01. Continuing losses
02. Overdue taxes
03. Poor relationships with the banks and the inability to borrow further funds
04. No access to alternative finance
05. Inability to raise further equity
06. Suppliers stopping accounts, changing to cash on delivery or demanding special payment arrangements before resuming supply
07. Creditors remaining unpaid outside normal or industry trading terms
08. Legal letters of demand, summons, judgements & warrants issued
09. Dishonoured cheques or
10. Highly leveraged assets

### HOW TO TAKE ACTION.

Early action to address these warning signs can save businesses.

SV Partners has outlined that there are **practical steps** to take when warning signs occur.

**STEP 1: Seek professional advice** as soon as possible, and before problems become entrenched

**STEP 2: Prioritise** the issues identified with respect to the short term impacts on the business

**STEP 3: Revise the business plan** to reflect revised assumptions such as revenue, pricing, customer base and working capital with preparation for revised cash flow and budgets

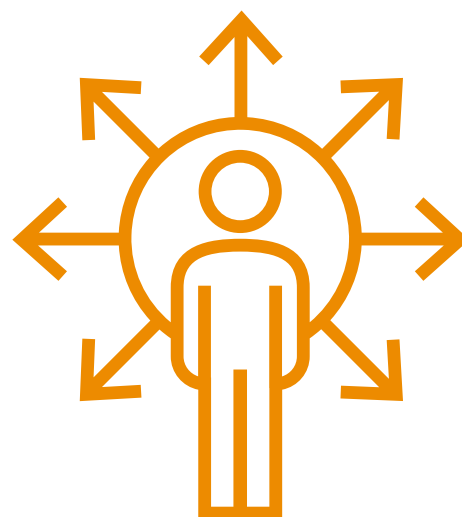
**STEP 4: Conduct a full review of all costs**, both fixed and variable costs to find opportunities to improve working cash flow and capital

**STEP 5: Stress test** the budget and cash flow against possible future scenarios and review covenants

**STEP 6: Revise staffing levels**, consider options for outsourcing,

**STEP 7: Negotiate with suppliers**, on price, payment terms and quality

**STEP 8: Maintain regular communication** and reviews with key stakeholders



## THRIVING - GROWING AND IMPROVING

While almost all SMEs believe there are opportunities to grow their business, to grow and improve they need to first understand how the business is operating. Often the most meaningful way of reviewing performance is to compare the SME to its competitors and industry averages.

Without understanding or reviewing their business' operations, the business owner remains unaware of opportunities and risks they are facing, and cannot take advantage of their advantages, or reduce their risks.

The majority (65%) of business owners tell us they are producing accurate and timely financial reports, but many just don't know how they compare to other businesses within their industry. When asked, most business owners (66%) wanted to compare their business' performance against their industry.

**"I am interested to know industry averages, and how other businesses are doing."**

Business owners who **don't know** how their performance compares to industry averages:

<b>Capitalisation Rate</b>	<b>76%</b>
<b>Stock Turnover</b>	<b>58%</b>
<b>Profitability</b>	<b>31%</b>
<b>Wage Costs</b>	<b>27%</b>
<b>Sales Growth</b>	<b>26%</b>
<b>Debtors Days</b>	<b>22%</b>

Proper management of wages and staff related costs has a major impact on profitability. 13% of SME owners believed that their wages costs were currently 'Not so good' compared to industry averages. Added to the 27% who didn't know how they compared, this means 40% of SME owners were looking for assistance in this key measure.

Other businesses have a good idea where their strengths and weaknesses are, but don't have enough information to set improvement goals.

**"We're 'not so good' at sales growth – our conversion rates are not good. We need assistance in how to structure bonuses, KPIs and that type of thing."**

One of the easiest way for SMEs to improve and grow their business is with access to real time, relevant and accurate benchmarking information. Using this information allows an SME to focus their time and resources where it can produce the best results.

**"I purchased the other 50% of my business last year from [exiting partner]. Going forward, I want to maximise the business value."**

## KPIs USED FOR BENCHMARKING

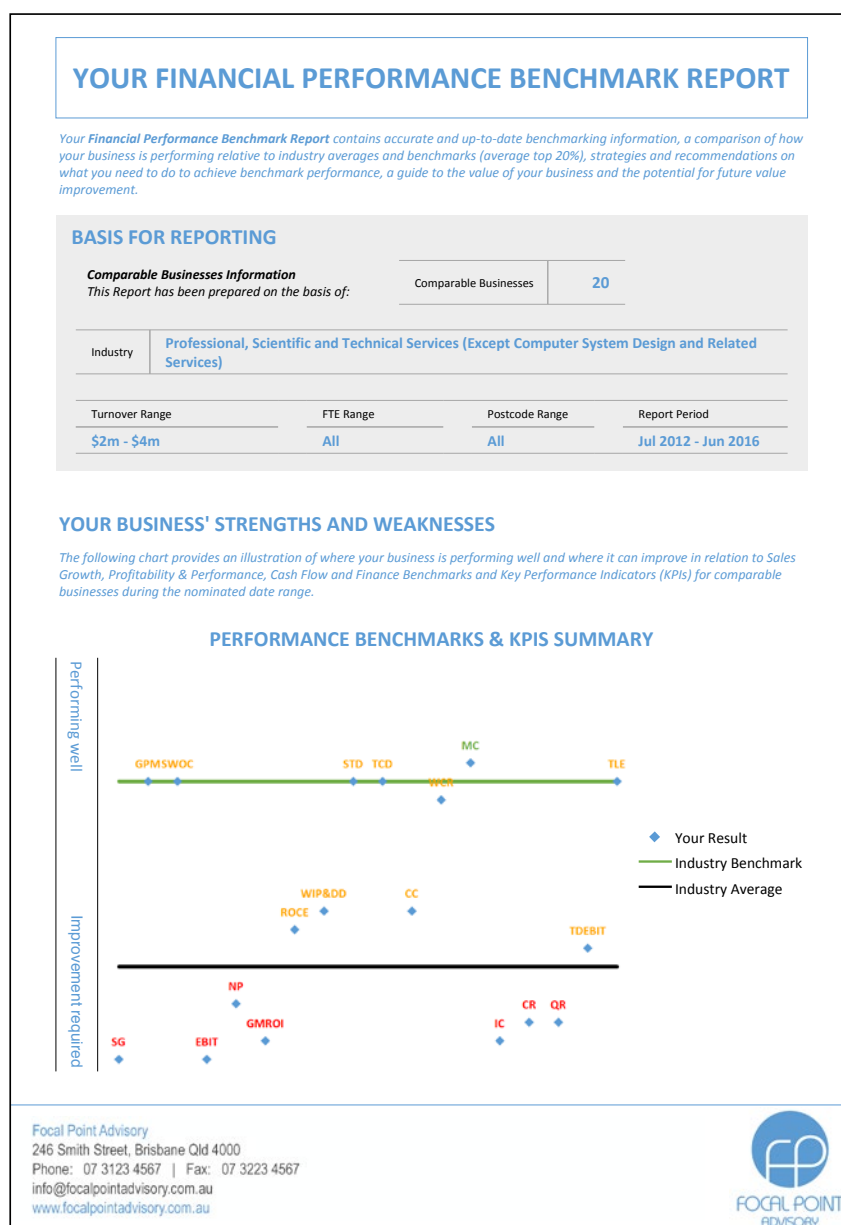
<b>Growth</b>	Sales Growth Gross Profit Margin / Sales Salaries, Wages and On Costs / Sales
<b>Sales</b>	Earnings Before Interest and Tax (EBIT)
<b>Profitability &amp; Performance</b>	Net Profit Before Tax Gross Margin Return on Inventory Return on Capital Employed
<b>Cash Flow &amp; Finance</b>	Work in Progress and Debtors Days Trade Creditor Days Cash Cycle Days Working Capital Ratio / Sales

Many professional advisers have told us that they don't believe that the benchmarks used by the Australian Taxation Office accurately reveal the way SMEs actually perform.

Bstar Alliance Partners are using the Value Improvement Benchmarks in providing solutions to support their clients to grow and improve their business. (Refer to the 'Advisory Solutions and Trusted Advisers' section for more information)

These are considered the **most accurate, real time** benchmarks in Australasia because they are based on data provided by accounting practices that have reconciled their clients accounting profit to the profits that the accountants will use in valuing those businesses.

For example, SME profits can be skewed where the business owner is not paying themselves a commercial salary. However, the Value Improvement Benchmarks are adjusted, on a consistent basis, to include a commercial salary for a business owner to operate the business. The salary wage and on costs and EBIT benchmarks are adjusted accordingly.



## WHAT IS THE EFFECT OF ACCURATE, REAL TIME BENCHMARKING?

The Value Improvement Benchmarks are adjusted, on a consistent basis, to include a commercial salary for a business owner to operate the business. The salary, wage and on costs and EBIT benchmarks are adjusted accordingly. We have used the example of a GP Medical Practice to demonstrate the impact.

Owner Operator GP Medical Practice	As per financial accounts \$'000	Adjusted for benchmarking \$'000
Gross Patient Fees	400	400
Cost of Sales		
Principal/Owner GP ' Salary'	0	240
Medical Supplies	0	10
Gross Profit	400	150
Other Costs		
Medical Supplies	10	0
Other	85	85
EBIT	305	65
Net Interest	10	10
Net Profit	295	55

## EXITING - SUCCESSION

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

**“We don’t have a succession plan, but we need to consider it as [two of the owners] are over 60 years old. The other owners are in their 30s and I don’t know what their long term plans are. We just bought out another shareholder, and we need to restructure duties and roles. We need to consider death or illness of a partner. There’s no shareholders agreement, no buy sell agreements and no wills.”**

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.

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 proceeds of sale.

For many SMEs, there is an assumption that children or other family members will take over the business but they have no idea 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.

Problems arise when the business owners have not identified a successor or even started the discussion. Even where a potential successor is identified, they may not have funds to invest in the business, or have heavy personal home mortgage commitments.

**“Succession plan? None. Maybe sell to my son one day, but he is still studying. The [staff] who work here are a solid team and stable, but they are not keen on buying in.”**

## RETIRE WITHOUT SELLING

Approximately half business owners are deferring succession in favour of retaining control and remaining in business. Only 49% are willing to transfer control of their business (2015:63%). 70% of business owners have not set a retirement date.

Selling the business is not the preferred option. Business owners don’t have confidence that they will get a good price for the business or be able to live on investment returns in the current low interest environment.

Bstar Alliance Partners are assisting SME owners to transition to retirement without selling their business. By using a staged sell down of shares in the SME to engaged staff, business owners can gradually transition control while enjoying more time away from their business.

The program includes offering individual employees performance based rewards, including profit share arrangements. Identified key staff can be offered shares in the business, and the investment in shares can be self-funded through profit share bonuses or direct investment, or with a combination of both.

**“Ideally, I would like to sell down to team members, progressively, say over 15 years.”**

## TEST YOUR SUCCESSION READINESS.

Do you know how your business is positioned for ownership succession? This quick list of questions allows you to check how prepared you are to transition ownership.

The more ‘No’ or ‘Unsure’ answers, the more that needs to be done!

## INTERNAL VS EXTERNAL SUCCESSION

Is your business ready to sell?  
Have you determined a method for valuing your practice?  
Would you consider a staged exit or vendor finance?  
Is there a potential successor for you in your business?  
Is that person interested in owning a share of your business?  
Are they suitably qualified to manage your business?  
Can they afford to fund their entry?

## FORCES AGAINST SUCCESSION PLANNING

Do you believe you can separate your identity from your business?  
Do you believe your business can operate without you?  
Do you consider your share of business “Goodwill” as your superannuation?  
Have you invested outside your business?  
Are your personal retirement savings sufficient to fund your cash flow in retirement?

## FIRST STEPS

Do you have an exit strategy?  
Have you set a retirement date?  
Do you have plans to deal with transferring business ownership?



**PART 6  
ADVISORY  
SOLUTIONS AND  
TRUSTED ADVISERS**

The challenge is not in starting a business. The real challenge occurs in staying in business, particularly in expanding and growing the business.

Business Planning is currently #1 business concern. Business owners have ideas on how to improve and grow their business, but they struggle to make their ideas reality.

**“I don’t have a formal growth plan, but I plan to grow. I have ideas that I am working on, and I am looking to acquire or lease another property, where I will put the new operations.”**

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

The evidence is clear that business owners lack the knowledge and skills to grow and improve their businesses and they spend little or no time planning or reviewing business performance.

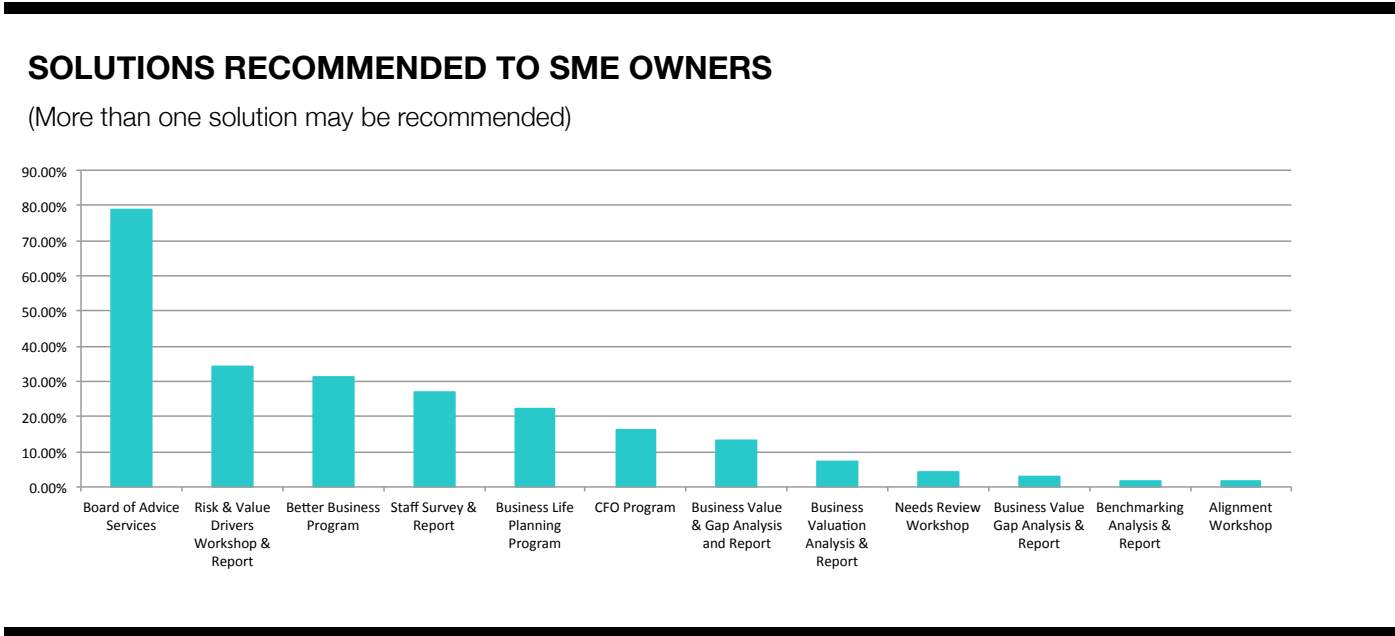
Business owners need help to address their other urgent concerns - #2 Succession Planning, #3 Protection for business and family assets and addressing #4 Declining Sales, Profit and Cash Flow.

Knowing where to obtain expert help is a major barrier. Business owners need to find someone that is competent and that they can trust.

We asked if SMEs had found a trusted adviser – 69% have. But what are they talking to those advisers about, and what assistance are they seeking?

Are they obtaining assistance in the areas where they identify their greatest concerns?

We talked to professional advisers to determine what they are recommending to business owners to address these needs.



## WHAT SOLUTIONS ARE MOST NEEDED TODAY?

### #1. HANDS ON ASSISTANCE – THE BOARD OF ADVICE SOLUTION

Board of Advice services are the single most common solution recommended to business owners. In 79% of cases, advisers recommend the business owner establishes an informal Board, made up of their trusted adviser(s) and if applicable, management, to advise and assist the business owner to reach their goals. It enables business owners to spend time working on their business, rather than just working in their business.

**“I don’t have a detailed growth plan, but I am looking at introducing new products to sell. I am also looking at getting a general manager in – that will reduce some of the work pressure on me. It will let me work in the business, where my passion is.”**

Regular Board of Advice meetings provide independent and objective advice, tailored to meet the business owner’s specific circumstances. The Board of Advice continues to provide regular focus, and external, hands on support with implementing and reviewing the business owner’s plans and priorities. Where required, a Board of Advice can even support the business owner through the process of developing goals and plans for the business.

**“We are aiming to sell, for a profit, in 3-5 years. We will build up the business, maximise its value and sell it to one of the bigger players then. We have no emotional attachment to the business – we are after the best return on investment and time.”**

This is a flexible solution which can be tailored to each individual’s priorities and goals and any business size. For most business owners, this is to maximise opportunities to grow and improve their business operations and minimise key business risks. By working together, business owners gain experience from the Board of Advice members, and develop their own skills.

This solution is used to directly address the top concerns (#1) Business Planning, (#2) Succession Planning and (#4) Declining sales, profit and cash flow returns. By addressing these concerns, business owners may also address their (#3) concern, by reducing stress and improving their lifestyle.

### #2 & #3 REFLECTING AND SETTING GOALS - RISK & VALUE DRIVERS WORKSHOP AND REPORT & THE BETTER BUSINESS PROGRAM SOLUTION

These solutions are used to directly address the top concerns (#1) Business Planning, (#2) Succession Planning.

**“The business needs planning and growth – in processes, controls and just doing what we do better.”**

As shown by our research, most business owners do not have formal plans for their business. In 34% of cases, advisers are recommending that business owners go back to basics, and formulate plans for their business. Bstar Alliance Partners use a standard process for this stage – the Risk & Value Drivers Workshop. This starts with business owners reflecting on their business, their strengths and weaknesses and formulating goals and plans specifically for their business.

**“We are growing strongly. We did some planning a few years ago, but we need to revisit it. We need to minimise costs of manufacture, freight and importing costs. We need to plan.”**

The Better Business Program is often recommended after the Risk and Value Drivers Workshop. It recognises the individual business owner’s priorities, and helps them allocate their resources to obtain their goals. By using benchmarks, an adviser can show a business owner how to make their business more profitable and valuable.

More than this, by addressing their top business concern, these solutions can also reduce stress and improve the business owner’s lifestyle, as it gives them the ability to reach their goals - personal, family and business

### #4. MANAGING STAFF BETTER – STAFF SURVEY AND REPORT

Staff are a hugely important part of SMEs and their success.

**“The growth plan is in my head. The plan is to have incremental growth of 10-15% pa. I have competent and capable staff managing work under proper delegation. My staff can generate client work and network themselves.”**

Key to managing staff risk and improving productivity is to identify the resources and skills within the business, and the gaps. Business owners need to ensure they can develop staff to fill these gaps.

**“I want to diversify the services we offer. I want to develop the team that I have, and leverage off their abilities.”**

SMEs succeed when staff risks are identified and managed, and staff skills are used where they provide the best outcome for the business. Staff also need to be engaged to support the business, and its goals.

**“Our staff don’t have high levels of education and there is no real career progression. I don’t really know how to motivate them to perform better, or take an interest in the business.”**

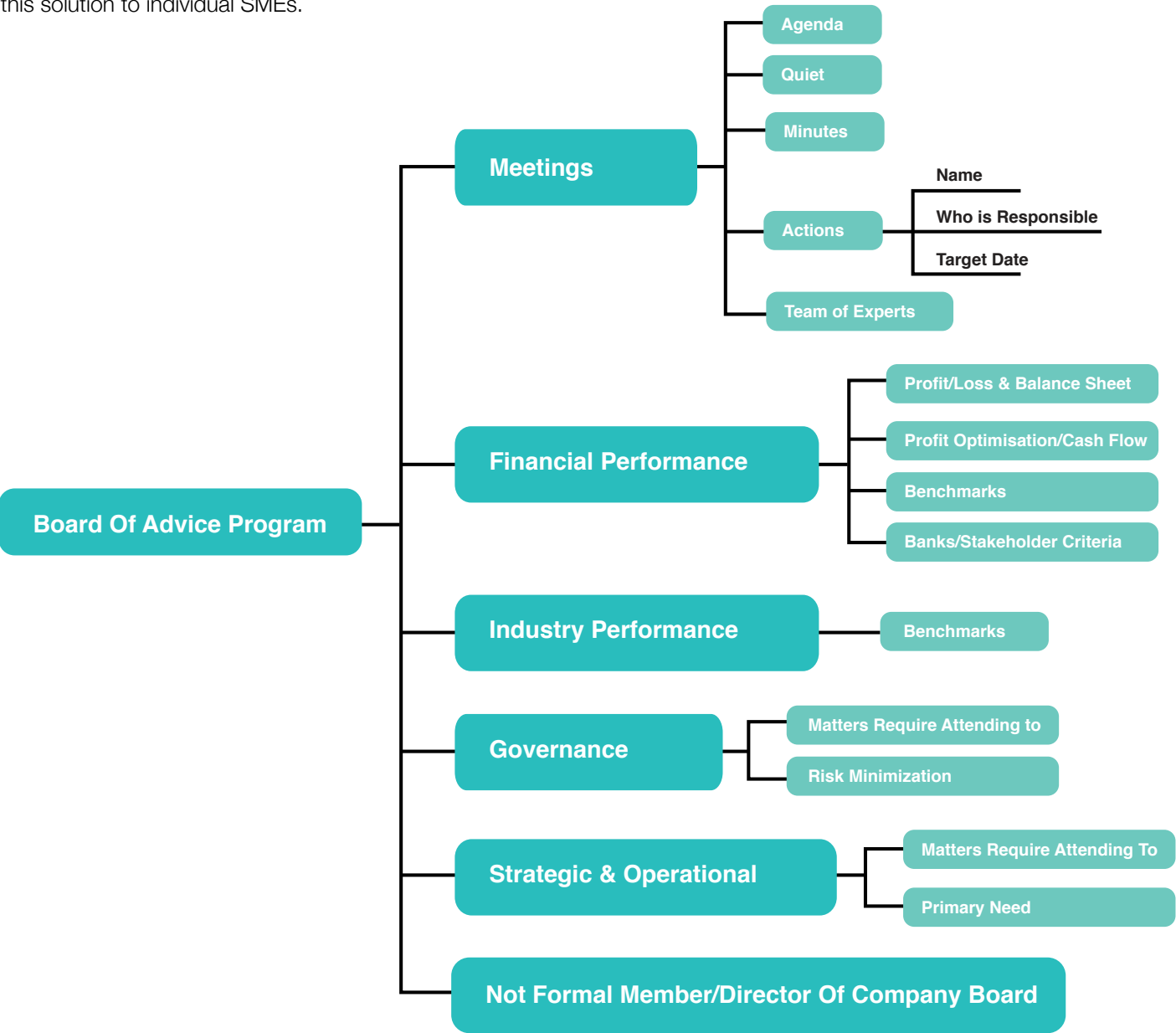
The Staff Survey and Report solution, recommended to 27% of business owners, starts with a survey of the staff of a business, and report on issues identified, suggesting ways to manage and improve staff engagement. This can also be used to gain information and identify future leaders within the business, as a precursor to succession planning.

# **PART 7**

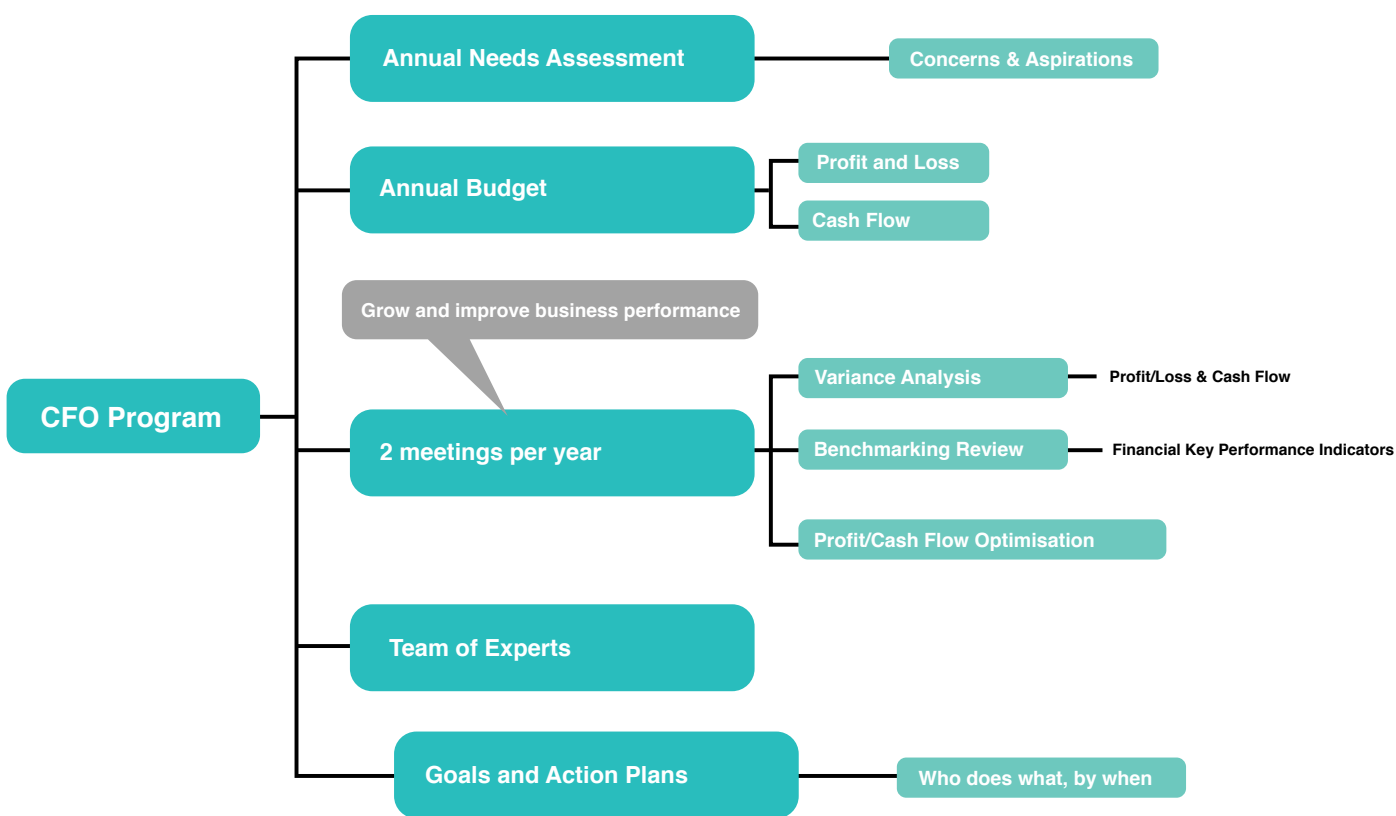
## **OUTLINE OF SOLUTIONS PROCESS**

The best advisory solutions are tailored to the individual SMEs needs, and focussed on making individuals accountable for change. SMEs want hands on support, and the most popular solution is the Board of Advice Program.

We've set out below the **Board of Advice** Mindmap used when tailoring this solution to individual SMEs.



We have also included another Mindmap – this time for the **Chief Financial Officer (CFO) Program**. This solution is popular as it provides SMEs with hands on assistance in getting their accounts and internal reports in order, allowing them to understand where they are, before they plan for the future.



**PART 8**  
**FIRST STEP – FIND**  
**AN ADVISER WHO**  
**WILL LISTEN TO**  
**YOUR NEEDS**



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.

**“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 trusted advisers who have the skills to help them address their top concerns.

While there are similarities between businesses, each is unique. 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.

**The first step** is to find an adviser who has the ability to listen and find out about the business. It is critical to work with the business owners to identify their top need(s).

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.

**The second step** is to match the advisory skills and solution to the top need.

Even the 69% who have a trusted adviser may find that their adviser doesn’t have the skills to match their

need. They need to locate a specialist adviser who can meet this need, and within the businesses’ budget. Their trusted adviser can be a valuable source of referrals to other experts, or experience in how to access external advisers.

**The third step**, once a solution is recommended, requires commitment to follow through on the planned solution.

It is essential that there is genuine trust and buy-in from the SME. The business owner is responsible for implementing any plan for change. They must understand and agree with the approach for it to succeed. Without trust and commitment, implementation is likely to be patchy or incomplete.

The next steps involve the actual implementation. This may be a lengthy process. Good plans often fail at this stage, when the real work begins. Business owners should be realistic about their likely effort, and how long their enthusiasm will continue.

SMEs should consider if they need support in putting planned solutions into effect. Plans should also be reviewed regularly, to ensure they are still appropriate and relevant.

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

The Bstar 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.

Accounting and advice businesses that have received accreditation in the ‘viba’ process can offer 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.

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This process involves:

- Needs Review
- Business valuations and value gap analysis
- Benchmarks to validate values and to identify improvement opportunities
- Growth, improvement (profit/cash flow) and succession planning solutions
- Board of advice services (implementation support)

SMEs can have confidence that an accredited viba adviser will have the solutions and skills to address their needs.

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