



scottish pacific
BUSINESS FINANCE



east&partners



Scottish Pacific SME Growth Index

March 2017



This report is the property of East & Partners Pty Ltd and is made available to a restricted number of clients only upon these terms and conditions. East & Partners reserves all rights herein. Reproduction or disclosure in whole or in part to parties other than the East & Partners' client which is the original subscriber to this report is permitted only with the written and express consent of a director of East & Partners. This report shall be treated at all times as a confidential and proprietary document for internal use only. Additional copies of the publication may be obtained from:

East & Partners Pty Ltd
Level 13, 2 Park Street Sydney NSW 2000 Australia
Phone: +61-2-9004 7848 Fax: +61-2-9004 7070
www.east.com.au
ABN: 23 151 025 599

East & Partners Research Reference Usage Policy

East & Partners Pty Ltd (East) name and published materials are subject to copyright protection, regardless of source. To use the "East" name, take excerpts of East research or quote East analysts, a usage request must be submitted in writing to East for approval. Such approval is at the discretion of East. East reserves the right of refusal.

To protect our reputation for objectivity, we require the appropriate use of our company name and research. The East name, intellectual property, trademarks, or logo may only be used commercially in connection with advertising, sales materials or other commercial efforts with East's explicit approval for each instance of use. This policy defines the criteria that will be used to issue that approval.

- All requested quotes, data references, or excerpts from East & Partners research for external use by clients or non-clients must be pre-approved by East in writing before publication.
- All East research and intellectual property is subject to this Usage Policy. This applies to all contexts where East's name appears such as advertising, marketing materials, annual reports, bank statements, media releases, newsletters, presentations and speeches.
- Any references to East research must be clearly and fully sourced to the original analysis report or source document.
- Reasonable use of East research for internal purposes within client organisations is allowed and does not require pre-approval. All copyrighted material should be clearly marked "For internal use only" and be fully and accurately sourced to East.
- Quotes, references to East research and excerpts from East Research Notes, media releases and other materials must refer to the most recent report wherever possible and be no older than 12 months old. Any references to East research must be produced in the correct context.
- East research may not be used to endorse a vendor, product, service, or to criticise a vendor's competitor. No company-specific excerpts are permitted as they may imply endorsement within the context of vendor materials.
- Subscribing clients must not reproduce the results of rival providers for external marketing purposes, nor appear to denigrate competitors externally based on East research.
- Requests for unpublished research are unable to be processed until all subscribing clients have received the full report.
- East's name may not appear in the title or sub-title of media releases, newsletters or subject line of an email. Custom quotes (e.g. quotes that East has provided to a client for external marketing purposes) may not appear any earlier than the second paragraph of media releases.

Violations

Should a requestor fail to comply with this policy, East reserves the right to impose quote bans of varying durations, including a ban on all use of the East name. For repeat or persistent violators, such ban will be for a minimum period of (3) months. In addition, East may seek additional remedies available under contract, copyright and other applicable law.

Contents

Executive Summary	1
Key Index Insights.....	2
Special Question Insights	5
Other Insights.....	6
Index Results	7
Special Question Results	30
Appendix I – Research Methodology.....	37
Appendix II – Interviewee Questionnaire	42

List of Tables

Index Results

1	Forecast Changes in Enterprise Revenue – Positive Growth SMEs	8
2	Forecast Changes in Enterprise Revenue – Negative Growth SMEs	8
3	Forecast Changes in Enterprise Revenue – No Change SMEs	8
4	Forecast Changes in Enterprise Revenue – Whole SME Market	8
5	Perception of Own Business Phase – Growth SMEs	10
6	Perception of Own Business Phase – Declining / No Change SMEs	10
7	Perception of Own Business Phase – Total SME Market	10
8	New Product / Service Plans in Next Six Months – Growth SMEs	12
9	New Product / Service Plans in Next Six Months – Declining / No Change SMEs	12
10	New Product / Service Plans in Next Six Months – Whole SME Market	12
11	Expected Revenue Change from Investment – Growth SMEs	14
12	Expected Revenue Change from Investment – Declining / No Change SMEs	14
13	Expected Revenue Change from Investment – Whole SME Market	15
14	Approximate Revenue Change with Better Cash Flow – Growth SMEs	18
15	Approximate Revenue Change with Better Cash Flow – Declining / No Change SMEs	18
16	Approximate Revenue Change with Better Cash Flow – Whole SME Market	19
17	Funding Plans for Business Investment – Growth SMEs	22
18	Funding Plans for Business Investment – Declining / No Change SMEs	22
19	Funding Plans for Business Investment – Whole SME Market	22
20	Drivers of Business Growth	24
21	Barriers to Business Growth – Growth SMEs	26
22	Barriers to Business Growth – Declining / No Change SMEs	27
23	Barriers to Business Growth – Whole SME Market	28

Special Question Results

24	Most Trusted Business Advisor	31
25	Frequency Advisor Consulted	33
26	Business Impact of Advisor Relationship	35

Research Methodology

A	Geographical Distribution	38
B	Interviewee Distribution	38
C	Sample Industry Sector Distribution	39
D	Age of Business	39
E	Headcount of Business	39
F	Primary Working Capital Provider	40
G	Primary Working Capital Provider – Relationship Age	40
H	Secondary Working Capital Provider	41

List of Figures

Index Results

1	Forecast Changes in Enterprise Revenue	9
2	Perception of Own Business Phase	11
3	New Product / Service Plans in Next Six Months	13
4	Expected Revenue Change from Innovation Investment – 1H 2017	16
5	Expected Revenue Change from Innovation Investment – Revenue Total	16
6	Approximate Revenue Change with Better Cash Flow – 1H 2017	20
7	Approximate Revenue Change with Better Cash Flow – Revenue Total	21
8	Funding Plans for Business Investment	23
9	Drivers of Business Growth	25
10	Barriers to Business Growth – Whole SME Market	29

Special Question Results

11	Most Trusted Business Advisor.....	32
12	Frequency Advisor Consulted.....	34
13	Business Impact of Advisor Relationship	36

Executive Summary

This latest edition of the *Scottish Pacific SME Growth Index*, which polled more than 1200 small to medium business owners and senior managers, has some stand out results which highlight the major issues facing Australia's SME sector.

First, the good news - it's pleasing that Australia's SME owners seem to have bounced back from the pessimism displayed in our September 2016 Index.

One in two small businesses are forecasting positive growth, on average expecting group turnover and revenues to improve by 4.2 percent through Q2 and Q3 2017, an increase of 0.2 percent since September 2016.

More concerning are the results around our questions on cash flow and access to credit. These are timely issues considering the recent Small Business Loans Enquiry completed by the Australian Small Business and Family Enterprise Ombudsman, which highlighted the need for a fast solution for small businesses at loggerheads with their banks over access to finance.

With interest rates at record lows access to credit should not be a problem, and yet, our latest Index shows that the full credit appetite of SMEs is not being fulfilled.

There has been an increase in the number of SMEs who cite conditions and availability of credit as barriers to growth, with these issues constantly listed among the top three barriers, along with high/multiple taxes. In our first Index (September 2014), credit availability was a barrier for just over 50 percent of SMEs – it is now a barrier for more than 60 percent. Credit conditions are a barrier for 65 percent (up from 61.2 percent in 2014).

When asked approximately how much additional revenue their business could have generated in 2016 had cash flow been better, it was clear working capital constraints remain a major headwind for small businesses nationwide. The results reveal the stark reality for CFOs and corporate treasurers in the SME sector – fewer than one in ten firms say they are in control of cash flow.

As SMEs face increasing difficulty coping with the conditions or availability of credit, despite the prevailing record low interest rate environment, alternative solutions must be sought out in order to alleviate crippling working capital constraints.

The solution may be indicated in the results that highlight how non-traditional credit lines have never been more popular for SMEs, and the day seems to be approaching when non-banks will match the banks as first port of call for business funding.

Peter Langham
CEO
Scottish Pacific



Key Index Insights

SME business confidence on the rise – but fragile

- According to 1,253 CFOs and corporate treasurers directly interviewed for Round Six of the *Scottish Pacific SME Growth Index* (the Index), business conditions have improved markedly since the last round in September 2016, when negative growth sentiment was expressed in the wake of the Brexit vote and ahead of the US election.
- One in two small businesses (49.2 percent) are forecasting positive growth, however, this is down from the 62.6 percent of SMEs forecasting positive growth when the Index began (September 2014). Growth SMEs are on average planning for revenues to improve by 4.2 percent through Q2 and Q3 2017, a modest increase from 4.0 percent since the last round of reporting was done in September 2016.
- 23.1 percent of SMEs forecast lower revenues. Although the proportion of negative growth SMEs has fallen slightly from last round's peak of 24.2 percent, the average negative growth change forecast has increased by one percentage point in the last six months, from 5.7 percent to 5.8 percent.
- Confidence is fragile at best. Breaking down these average revenue change forecasts further, since the Index began in September 2014, the 'range' of revenue change forecasts for growing SMEs has remained steady at around four percent yet the range of revenue change forecasts for negative growth SMEs has blown out from five percent to eight percent.
- One in four SMEs (27.7 percent) remain in consolidation mode, exhibiting indecision towards new capital expenditure and short term strategic investment until demand improves and/or cash flow constraints subside. This figure has been trending steadily higher from a low of 24.2 percent in Round One 2014.

Cash flow issues are costing SMEs revenue

- The reality is stark for owners and CFOs across the whole SME segment – not quite one in ten SMEs (8.5 percent) are content with their cash flow (and only 4.7 percent of growth SMEs say cashflow is already strong).
- Seven out of ten SMEs (72.1 percent), whether growth, consolidating or declining, report revenues over the past year would be more than 5 percent higher if cash flow was improved.
- Seven out of ten growth SMEs indicate the revenue boost from better cash flow would have been at least 10 percent, with almost a quarter saying they would have achieved a 25-50 percent revenue increase with better cash flow. Three quarters of growth SMEs say they would have had a 10 to 50 percent revenue increase in 2016 if they had better cash flow.
- Significant variance exists between growth and negative growth SMEs. Half of all growth SMEs said revenue would rise by 10 to 25 percent if cash flow constraints were eased, whereas half of all negative growth SMEs thought better cash flow would only provide a revenue boost of up to 10 percent. Regardless of whether an SME had a growth or negative growth forecast, this finding clearly shows the impact improved cash flow would have on revenue growth.

Record numbers seeking non-bank funding

- A record high number of firms are planning to fund their business needs using non-bank financing (22.2 percent, doubling from 10.8 percent in September 2014). This is in contrast with declining bank borrowing intention (28.8 percent, significantly down from 38.4 percent in September 2014).
- SMEs are almost universally drawing on their own equity to fund new business investment, with 94.5 percent indicating they planned to use their own funds to support their business.
- Other forms of debt such as trade credit and supplier terms as well as loans from family and friends are now over three times more prevalent for new capex than at the outset of the Index in September 2014, expanding from 2.5 percent to 6.6 percent. This is a trend which will be closely monitored.
- The results highlight that non-traditional credit lines have never been more popular for SMEs, perhaps impacted negatively by a combination of lengthening debtor days, absence of appropriate strategic advice and simply a lack of time to apply much needed operational changes to create capacity for investment in innovation (see results on page 20).

Innovation brings growth – but too many SMEs don't innovate

- Overall the SME segment exhibits increasing reluctance to release newly developed products and services, evidenced by the proportion of SMEs with no plans for new products and services jumping from one in three (31.2 percent) in September 2014 to one in two (47.2 percent) in the current Index.
- Very few SMEs (5.3 percent) plan to release both new products and services, instead opting for new services only (29.6 percent) or products only (17.9 percent).
- One in three SMEs (35.8 percent) have no plans to invest in innovation in 2017. This result is interesting when broken down – only 0.6 percent of growth SMEs have no innovation plans, while 69.8 percent of negative growth SMEs won't be investing in innovation.
- Of those SMEs who are investing in innovation, the most common expectation was that this investment would bring revenue improvement of up to 10 percent (indicated by 29.3 percent of respondents). One in ten growth SMEs predict revenues to rise by more than 50 percent, with 3.2 percent predicting revenues to at least double.
- These results, from the questions asked in this round of the Index, highlight how much additional revenue SMEs expect to derive directly from investment in innovation over the next twelve months. This provides a powerful indicator of investment in innovation being correlated directly with growth SMEs.
- These figures add further weight to a concerning dip in new product and service development intentions, which have been trending lower since the first Index in September 2014.

Major growth drivers and barriers

- High or multiple taxes remain a major impediment for growth (70.6 percent), suggesting corporate tax cuts will be positively received by small business owners.
- Credit conditions (65 percent) and credit availability (60.8 percent) affect an increasing number of SMEs, as in 2014 only 61.2 percent and 51 percent respectively listed these issues as a major growth barrier. This result is perhaps driving the shift to alternative funding sources, indicated in the Index by the increasing intention to seek non-bank funding.
- Cash flow is a growth barrier for 55.9 percent of growth SMEs, but only for 19.7 percent of SMEs who are in a consolidation or declining growth cycle.
- Core customers (41.0 percent), strong staff (37.8 percent) and an element of good luck (30.8 percent) remain key drivers for business growth, however the prevalence of responses indicating growth was driven by unknown factors or 'just following our nose' (37.0 percent) points to the fact that many growth SMEs are not seeking strategic business advice.
- Only 4.5 percent of SMEs directly attribute their business growth to effective mentors and advisors, reflecting the absence of fit-for-purpose professional advice sought by those in the SME sector (see results on page 31).

Who will fill the “trusted advisor” gap for SMEs?

- When asked to name their most trusted business advisor (a repeat of a question asked in 2015), one in four SMEs (25.8 percent) say they depend on colleagues, trading partners and even suppliers; 10.3 percent consult friends even in preference to their accountant (9.3 percent); followed by family members (8.5 percent), a business coach (3.4 percent) and bank managers (3.4 percent).
- Of great concern is that four out of ten SMEs failed to nominate a trusted business advisor, instead attempting to ‘go it alone’ despite the fact that outside advice might help them overcome their barriers to growth and other business issues.
- In the two years since the Index first asked SMEs to nominate trusted advisors, little has changed across all responses. In fact, the proportion of SMEs who failed to nominate a trusted business advisor has increased (up from 38.6 to 39.3 percent).
- One in two SMEs (51.2 percent) consult their most trusted advisor each month.
- Almost one in three businesses (29.2 percent) source outside consultation infrequently or for one-off items requiring specific expertise; 13.3 percent source advice annually. Only 6.3 percent seek out advice on a weekly basis.

When SMEs have trusted advisors, the impact is positive

- Regardless of who SMEs receive trusted advice from, one in four (26.1 percent) report a very positive impact on their business, with a further one in three (32.9 percent) citing a positive experience. Fewer than one in ten (8.9 percent) said a trusted advisor had created a negative impact on their business.
- Despite business colleagues emerging as the main source of advice for SMEs, the incidence of positive experiences is considerably lower than those who sought out an accountant for trusted advice.
- As a most trusted business advisor, accountants had a very positive impact on 35 percent of SMEs and a somewhat positive impact on 47.9 percent.
- This rates more highly than those SMEs seeking advice from colleagues, as 26.0 percent reported a very positive and 32.8 percent reported a somewhat positive impact on the business.
- Almost one in ten SMEs who listed a friend or business colleague as their most trusted advisor indicated that the friend or colleague had impacted their business in a negative or very negative way.

Other insights

- One in five growth SMEs (21.6 percent) perceive themselves to be in a start-up phase, a statistic that has remained consistent since the Index commenced in September 2014.
- 72.6 percent of growth SMEs are established firms planning to expand operations further while a minority 4.4 percent are in a stable phase.
- Declining and neutral growth SMEs naturally display a significantly different perception of their own business phase in comparison to growth SMEs. The proportion of negative growth SMEs in an outright consolidation phase has accelerated rapidly in the past two years, doubling from 11.1 percent in 1H 2015 to 22.2 percent in 1H 2017.
- Given the number of small businesses in outright contraction mode has remained steady at 21.9 percent, it is clear a high number of firms struggling month-to-month to turn around flagging fortunes are sliding from a stable phase (55.8 percent) into consolidation mode (22.2 percent). Conditions would only need to deteriorate marginally further for a full-scale downshift of negative growth SMEs from consolidation to contraction - a severe downside risk.
- When overall Index results are taken into account, the high percentage of lost revenue attributed to cash flow constraints, coupled with underwhelming investment in innovation, could be linked to the low percentage of SMEs seeking quality business advice.

Index Results

Scottish Pacific SME Growth Index

March 2017

Please forecast the percentage change in your business revenues - either negative or positive - over the coming six months?

TABLE 1

Forecast Changes in Enterprise Revenue – Positive Growth SMEs

Positive Growth SMEs	2H 2016 (N: 1251)	1H 2017 (N: 1253)	Change (%)
% of Enterprises	48.4	49.2	1.7
Average Change Forecast	4.0	4.2	5.0
Range of Change Forecasts	1.5-5.6	1.6-5.9	—

TABLE 2

Forecast Changes in Enterprise Revenue – Negative Growth SMEs

Negative Decline SMEs	2H 2016 (N: 1251)	1H 2017 (N: 1253)	Change (%)
% of Enterprises	24.2	23.1	(4.5)
Average Change Forecast	5.7	5.8	1.8
Range of Change Forecasts	4.0-12.2	4.1-12.4	—

TABLE 3

Forecast Changes in Enterprise Revenue – No Change SMEs

No Change SMEs	2H 2016 (N: 1251)	1H 2017 (N: 1253)	Change (%)
% of Enterprises	27.3	27.7	1.5
Average Change Forecast	—	—	—
Range of Change Forecasts	—	—	—

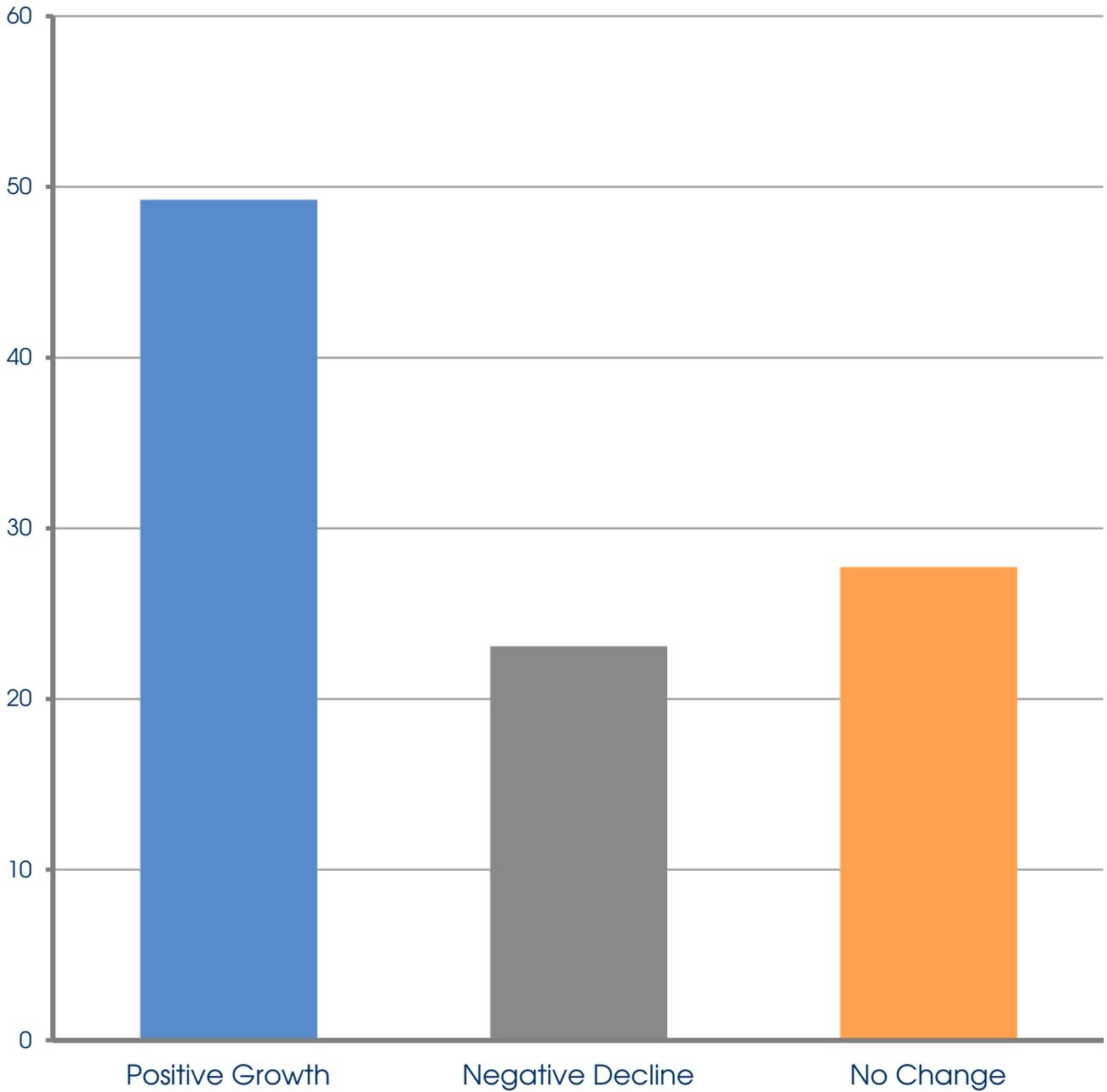
TABLE 4

Forecast Changes in Enterprise Revenue – Whole SME Market

Whole SME Market	2H 2016 (N: 1251)	1H 2017 (N: 1253)	Change (%)
% of Enterprises	100.0	100.0	—
Average Change Forecast	0.8	1.0	25.0
Range of Change Forecasts	1.5-12.2	1.6-12.4	—

Note: no statistically significant variance by state or industry sector of SME

FIGURE 1
Forecast Changes in Enterprise Revenue – March 2017
% of Enterprises



Which of these descriptions best describes the phase your business is currently in?

TABLE 5
Perception of Own Business Phase – Growth SMEs
 % of Total SMEs

Growth SMEs	2H 2016 (N: 606)	1H 2017 (N: 617)	Change (%)
Start-up	22.3	21.6	(3.1)
Growth	72.1	72.6	0.7
Stable	3.6	4.4	22.2
Consolidation	1.5	1.1	(26.7)
Contracting	0.5	0.3	(40.0)
TOTAL	100.0	100.0	—

TABLE 6
Perception of Own Business Phase – Declining / No Change SMEs
 % of Total SMEs

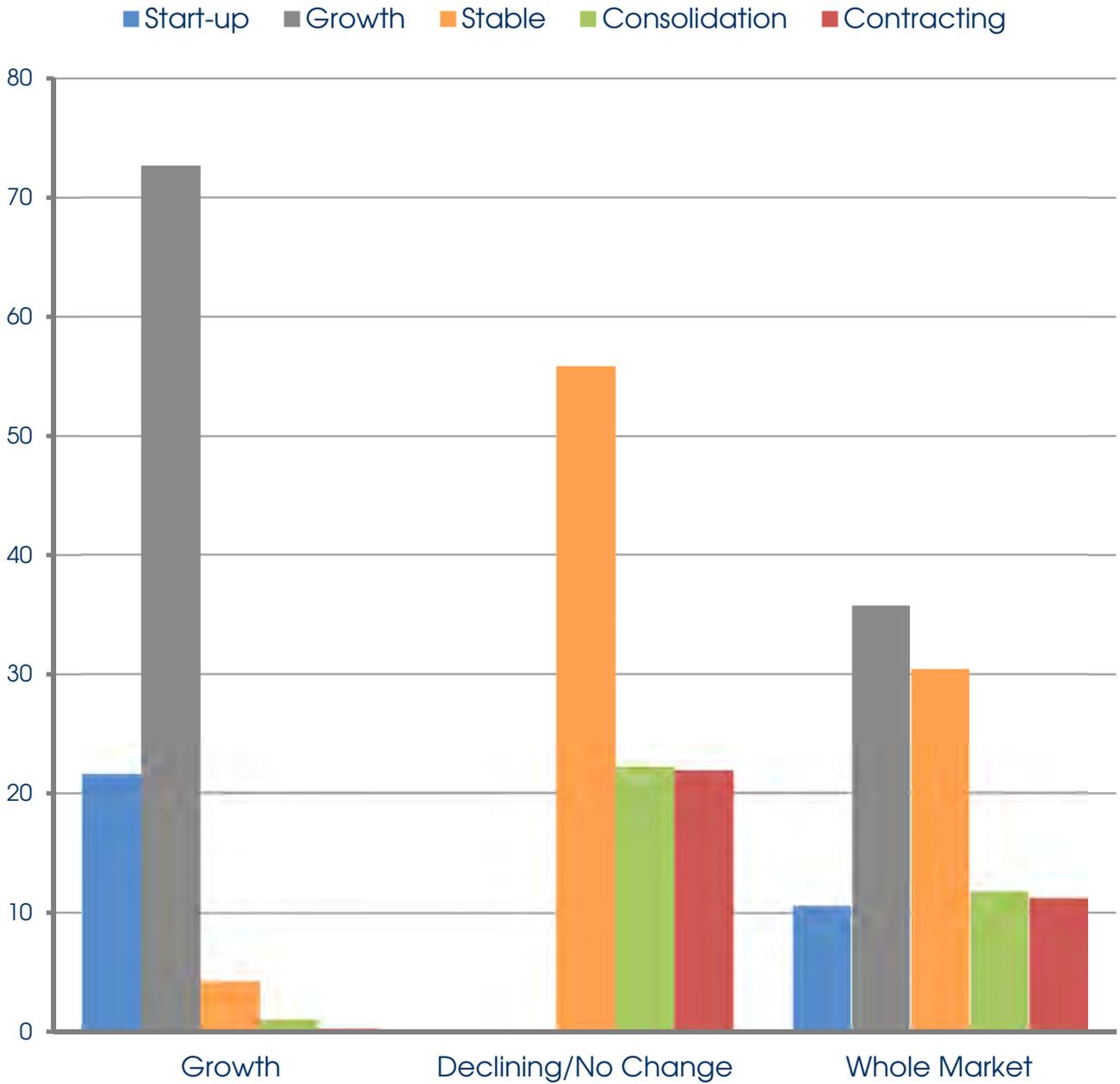
Declining / No Change SMEs	2H 2016 (N: 645)	1H 2017 (N: 636)	Change (%)
Start-up	—	—	—
Growth	0.2	0.2	—
Stable	54.0	55.8	3.3
Consolidation	22.5	22.2	(1.3)
Contracting	23.4	21.9	(6.4)
TOTAL	100.0	100.0	—

TABLE 7
Perception of Own Business Phase – Total SME Market
 % of Total SMEs

Total SME Market	2H 2016 (N: 1251)	1H 2017 (N: 1253)	Change (%)
Start-up	10.8	10.6	(1.9)
Growth	35.0	35.8	2.3
Stable	29.6	30.5	3.0
Consolidation	12.3	11.8	(4.1)
Contracting	12.3	11.3	(8.1)
TOTAL	100.0	100.0	—

Note: no statistically significant variance by state or industry sector of SME

FIGURE 2
Perception of Own Business Phase – 1H 2017
 % of Total SMEs



Are you planning to introduce any new products or services in the next six months?

TABLE 8

New Product / Service Plans in Next Six Months – Growth SMEs

% of Total SMEs

Growth SMEs	2H 2016 (N: 606)	1H 2017 (N: 617)	Change (%)
New products	33.3	35.0	5.1
New services	54.8	54.9	0.2
New products and new services	6.4	7.6	18.8
No plans	5.4	2.4	(55.6)
TOTAL	100.0	100.0	—

TABLE 9

New Product / Service Plans in Next Six Months – Declining / No Change SMEs

% of Total SMEs

Declining / No Change SMEs	2H 2016 (N: 645)	1H 2017 (N: 636)	Change (%)
New products	1.4	1.3	(7.1)
New services	5.6	5.0	(10.7)
New products and new services	3.3	3.1	(6.1)
No plans	89.8	90.6	0.9
TOTAL	100.0	100.0	—

TABLE 10

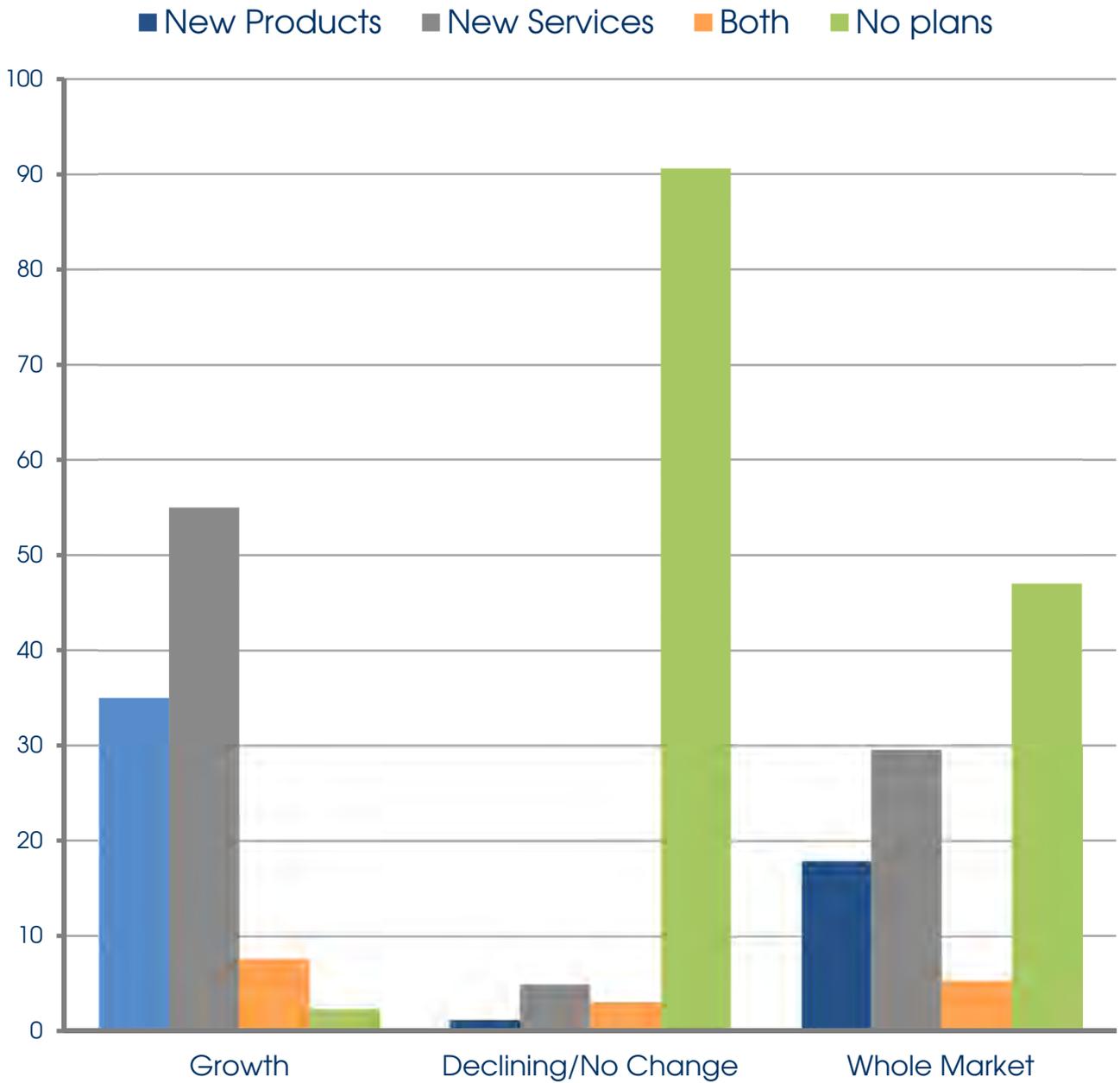
New Product / Service Plans in Next Six Months – Whole SME Market

% of Total SMEs

Whole SME Market	2H 2016 (N: 1251)	1H 2017 (N: 1253)	Change (%)
New products	16.9	17.9	5.9
New services	29.4	29.6	0.7
New products and new services	4.8	5.3	10.4
No plans	48.9	47.2	(3.5)
TOTAL	100.0	100.0	—

Note: no statistically significant variance by state or industry sector of SME

FIGURE 3
New Product / Service Plans in Next Six Months – 1H 2017
 % of Total SMEs



Approximately how much additional revenue do you expect to generate from investment in innovation over the next 12 months?

TABLE 11

Expected Revenue Change from Investment – Growth SMEs

% of Total SMEs

Growth SMEs	2H 2016 (N: -)	1H 2017 (N: 617)	Change (%)
None - not investing	—	0.6	—
0% - keeping pace with competitors	—	2.9	—
0-5%	—	3.7	—
5-10%	—	58.7	—
10-25%	—	16.9	—
25-50%	—	7.3	—
50-100%	—	6.6	—
100% plus	—	3.2	—
TOTAL	—	100.0	—

Note: no statistically significant variance by state or industry sector of SME

TABLE 12

Expected Revenue Change from Investment – Declining / No Change SMEs

% of Total SMEs

Declining/No Change SMEs	2H 2016 (N: -)	1H 2017 (N: 636)	Change (%)
None - not investing	—	69.8	—
0% - keeping pace with competitors	—	27.4	—
0-5%	—	0.9	—
5-10%	—	0.8	—
10-25%	—	0.8	—
25-50%	—	0.3	—
50-100%	—	—	—
100% plus	—	—	—
TOTAL	—	100.0	—

Note: no statistically significant variance by state or industry sector of SME

TABLE 13

Expected Revenue Change from Investment – Whole SME Market

% of Total SMEs

Whole SME Market	2H 2016 (N: -)	1H 2017 (N: 1253)	Change (%)
None - not investing	—	35.8	—
0% - keeping pace with competitors	—	15.3	—
0-5%	—	2.3	—
5-10%	—	29.3	—
10-25%	—	8.7	—
25-50%	—	3.8	—
50-100%	—	3.3	—
100% plus	—	1.6	—
TOTAL	—	100.0	—

Note: no statistically significant variance by state or industry sector of SME

FIGURE 4
Expected Revenue Change from Investment – 1H 2017
% of Total SMEs

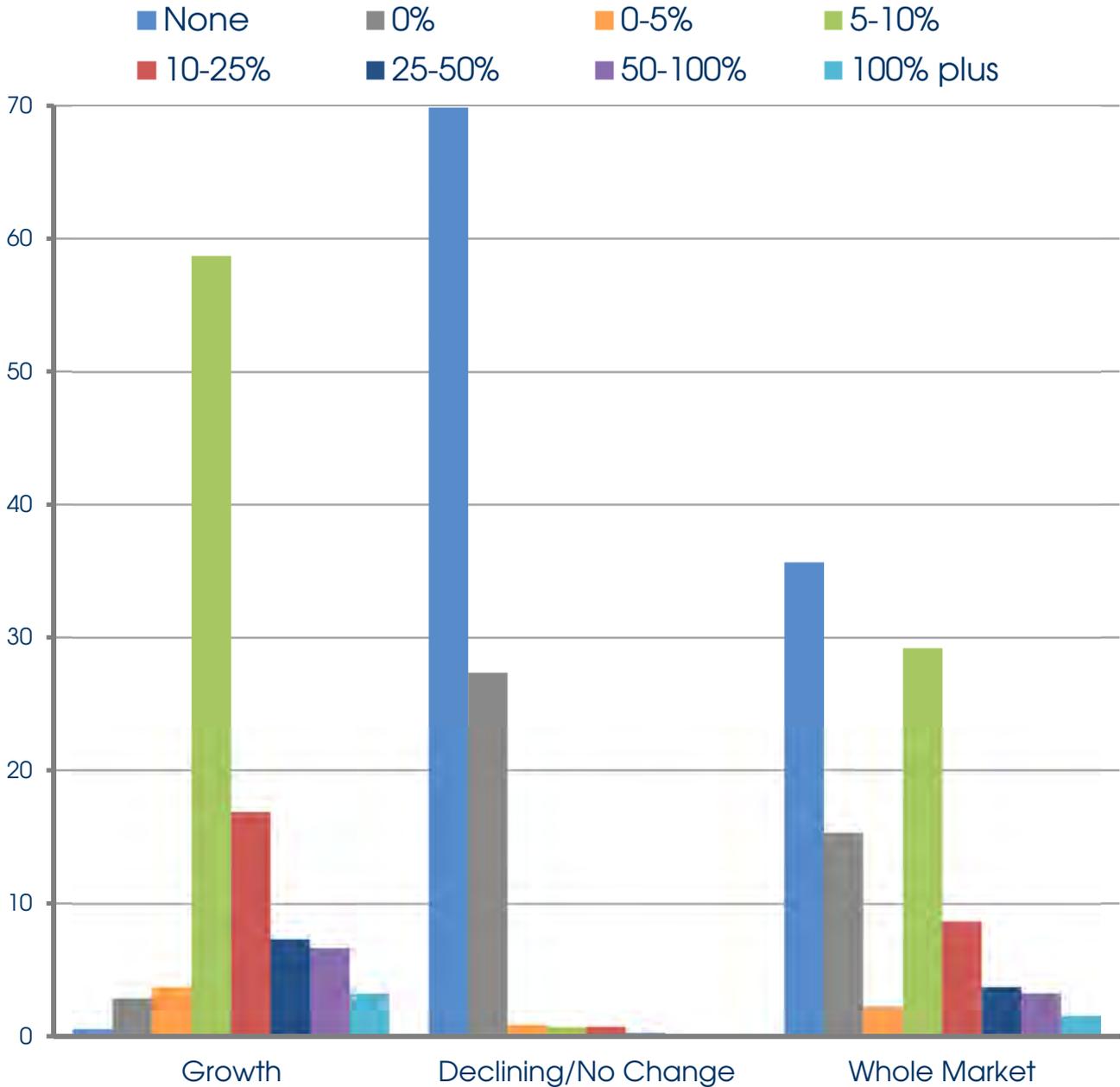
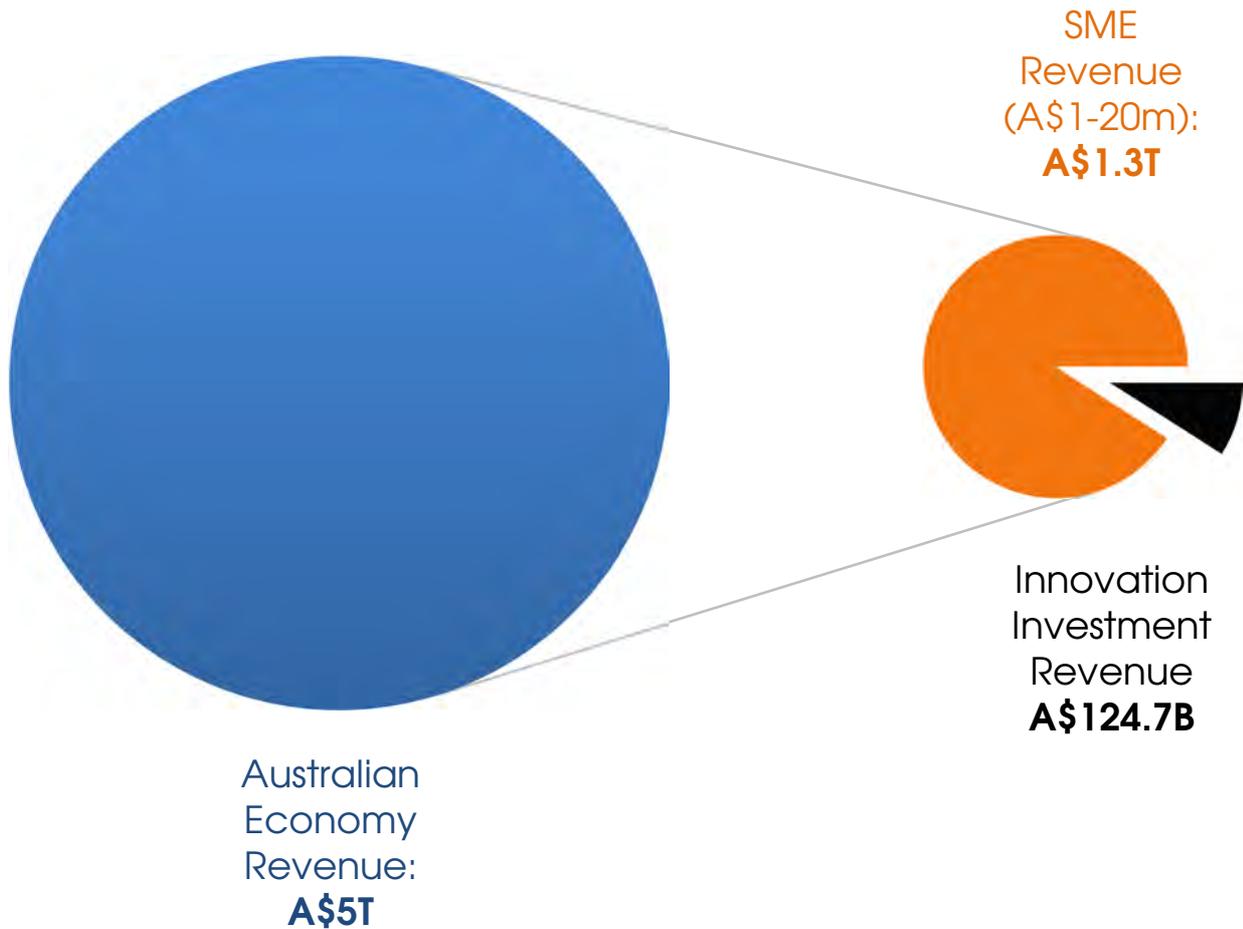


FIGURE 5
Expected Revenue Change from Investment – 1H 2017
% of Total SMEs



- A\$5 trillion in revenue generated by enterprises in the Australian economy as a whole
- SMEs (A\$1-20m) proportion of economy wide revenues is 26 percent (A\$1.3 trillion)
- Investment in innovation in 2017 is expected to produce a 19.6 percent improvement in revenues for SMEs, or in volume terms, A\$124.7 billion in additional revenues over the next year directly attributed to investment in innovation
- This equates to an average A\$980,000 in additional prospective revenue per SME, led by larger sized enterprises who predict five times more additional revenue than smaller sized SMEs

Approximately how much additional revenue could your business have generated over the past 12 months had cash flow been better?

TABLE 14

Approximate Revenue Change with Better Cash Flow – Growth SMEs

% of Total SMEs

Growth SMEs	2H 2016 (N: -)	1H 2017 (N: 617)	Change (%)
0% - cash flow could not be better	—	4.7	—
0-5%	—	3.6	—
5-10%	—	6.5	—
10-25%	—	49.1	—
25-50%	—	22.7	—
50-100%	—	10.7	—
100% plus	—	2.8	—
TOTAL	—	100.0	—

Note: no statistically significant variance by state or industry sector of SME

TABLE 15

Approximate Revenue Change with Better Cash Flow – Declining / No Change SMEs

% of Total SMEs

Declining/No Change SMEs	2H 2016 (N: -)	1H 2017 (N: 636)	Change (%)
0% - cash flow could not be better	—	12.1	—
0-5%	—	34.9	—
5-10%	—	50.2	—
10-25%	—	1.9	—
25-50%	—	0.3	—
50-100%	—	0.3	—
100% plus	—	0.3	—
TOTAL	—	100.0	—

Note: no statistically significant variance by state or industry sector of SME

TABLE 16

Approximate Revenue Change with Better Cash Flow – Whole SME Market

% of Total SMEs

Whole SME Market	2H 2016 (N: -)	1H 2017 (N: 1253)	Change (%)
0% - cash flow could not be better	—	8.5	—
0-5%	—	19.5	—
5-10%	—	28.7	—
10-25%	—	25.1	—
25-50%	—	11.3	—
50-100%	—	5.4	—
100% plus	—	1.5	—
TOTAL	—	100.0	—

Note: no statistically significant variance by state or industry sector of SME

FIGURE 6
Approximate Revenue Change with Better Cash Flow – 1H 2017
% of Total SMEs

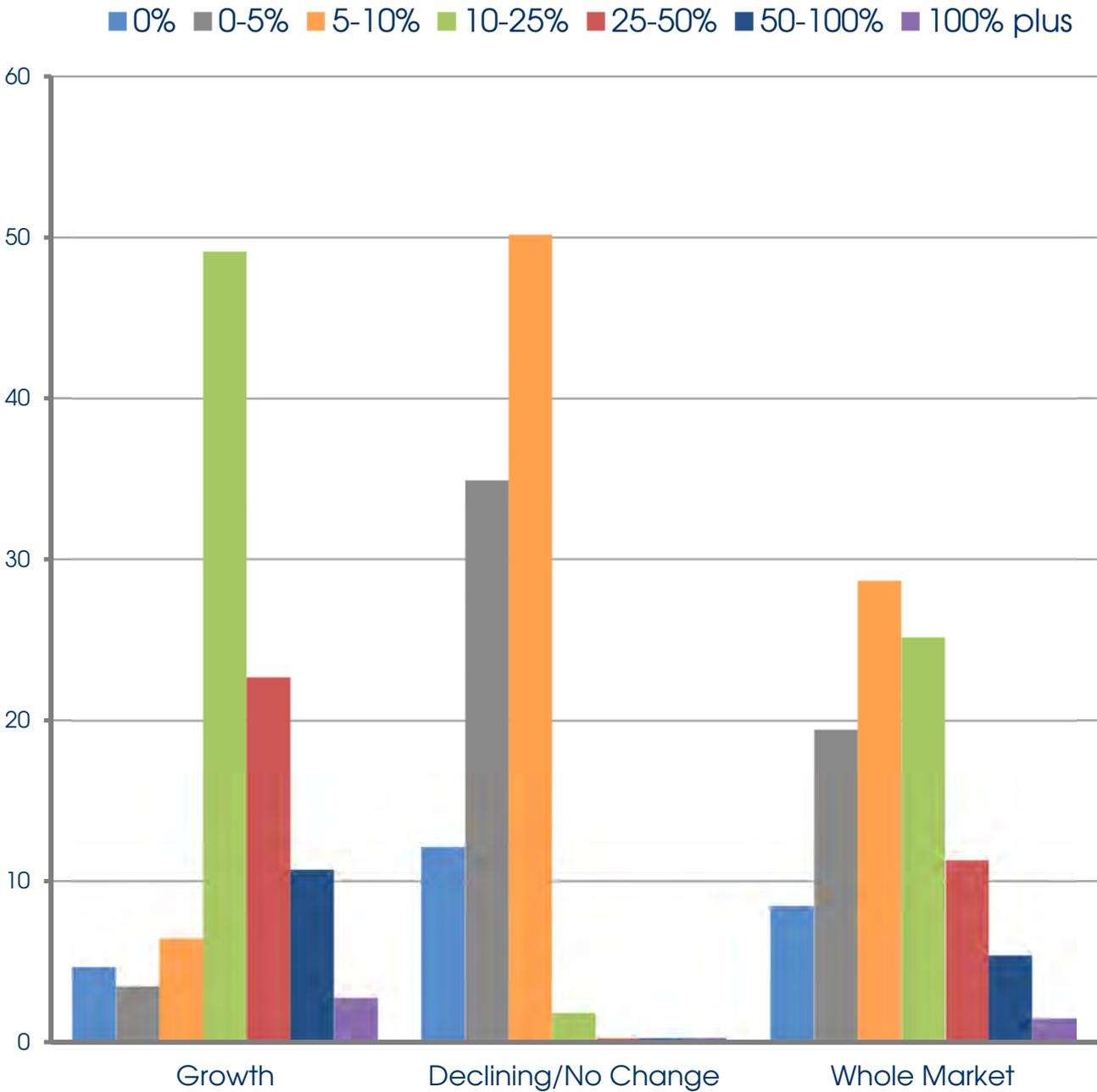
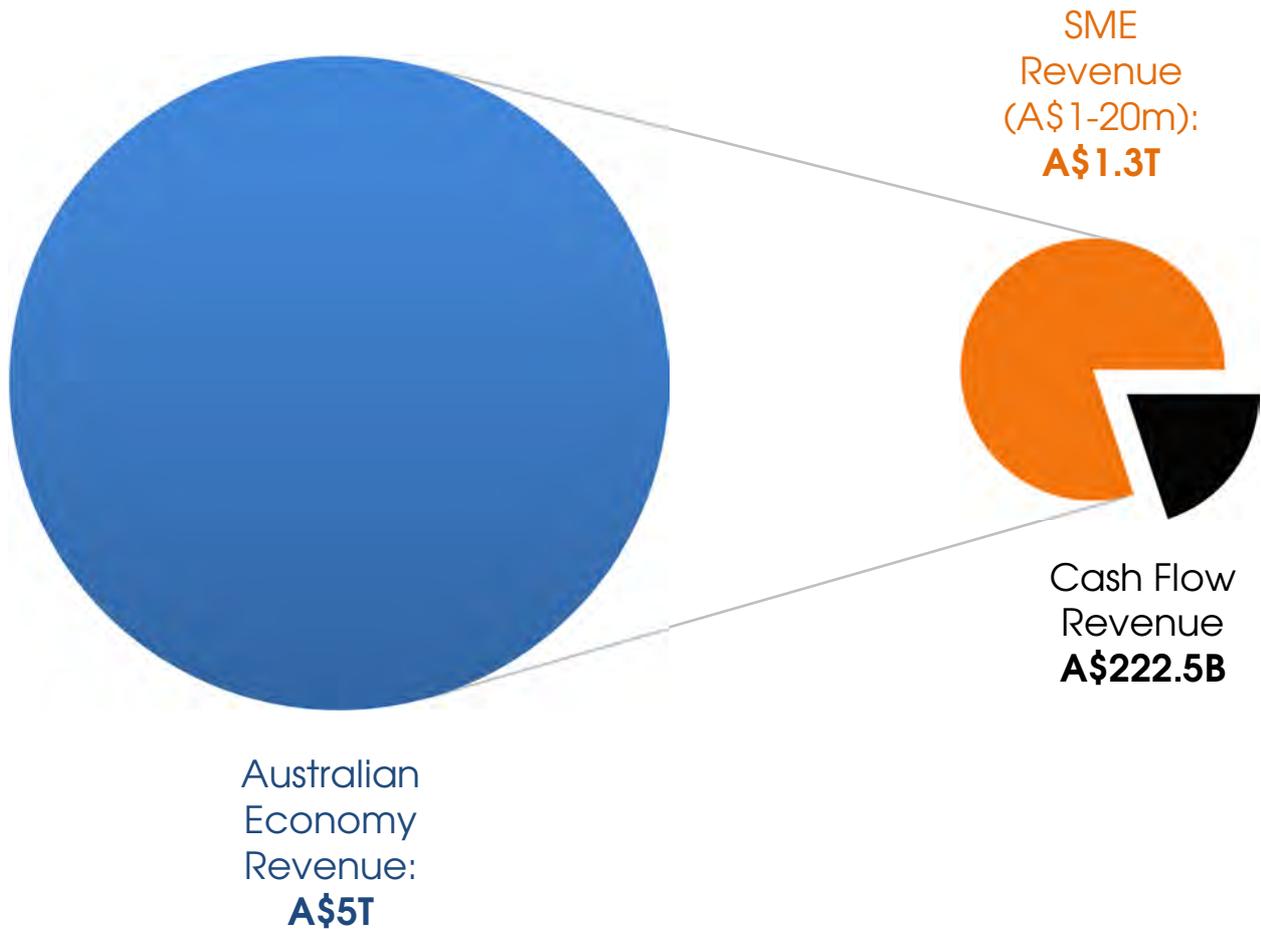


FIGURE 7

Approximate Revenue Change with Better Cash Flow – 1H 2017

% of Total SMEs



- A\$5 trillion in revenue generated by Australian enterprises in the economy as a whole
- SMEs (A\$1-20m) represent A\$1.3 trillion of total revenue - equating to 26 percent
- On average SMEs report that revenue could have been improved by 18.7 percent in the last year with better cash flow
- This equates to approximately A\$222.5 billion in unrealised revenue gains that could have been generated in 2016 if cash flow constraints were alleviated, or A\$1.87 million in additional revenue per SME. The smaller the business size, the greater the negative impact of poor cash flow

If you are planning to invest in your business in the next six months, how are you planning to fund that growth?

TABLE 17

Funding Plans for Business Investment – Growth SMEs

% of Total SMEs

Growth SMEs	2H 2016 (N: 567)	1H 2017 (N: 613)	Change (%)
Borrowing from my main relationship bank	31.7	29.9	(5.7)
Borrow from another bank or a specialist non-bank lender	19.6	20.1	2.6
Other forms of debt	3.2	3.6	12.5
Own funds	90.8	85.2	(6.2)
New equity	9.0	9.6	6.7

TABLE 18

Funding Plans for Business Investment – Declining / No Change SMEs

% of Total SMEs

Declining/No Change SMEs	2H 2016 (N: 47)	1H 2017 (N: 192)	Change (%)
Borrowing from my main relationship bank	27.7	25.5	(7.9)
Borrow from another bank or a specialist non-bank lender	25.5	29.2	14.5
Other forms of debt	21.3	16.1	(24.4)
Own funds	117.0	124.5	6.4
New equity	6.4	5.2	(18.8)

TABLE 19

Funding Plans for Business Investment – Whole SME Market

% of Total SMEs

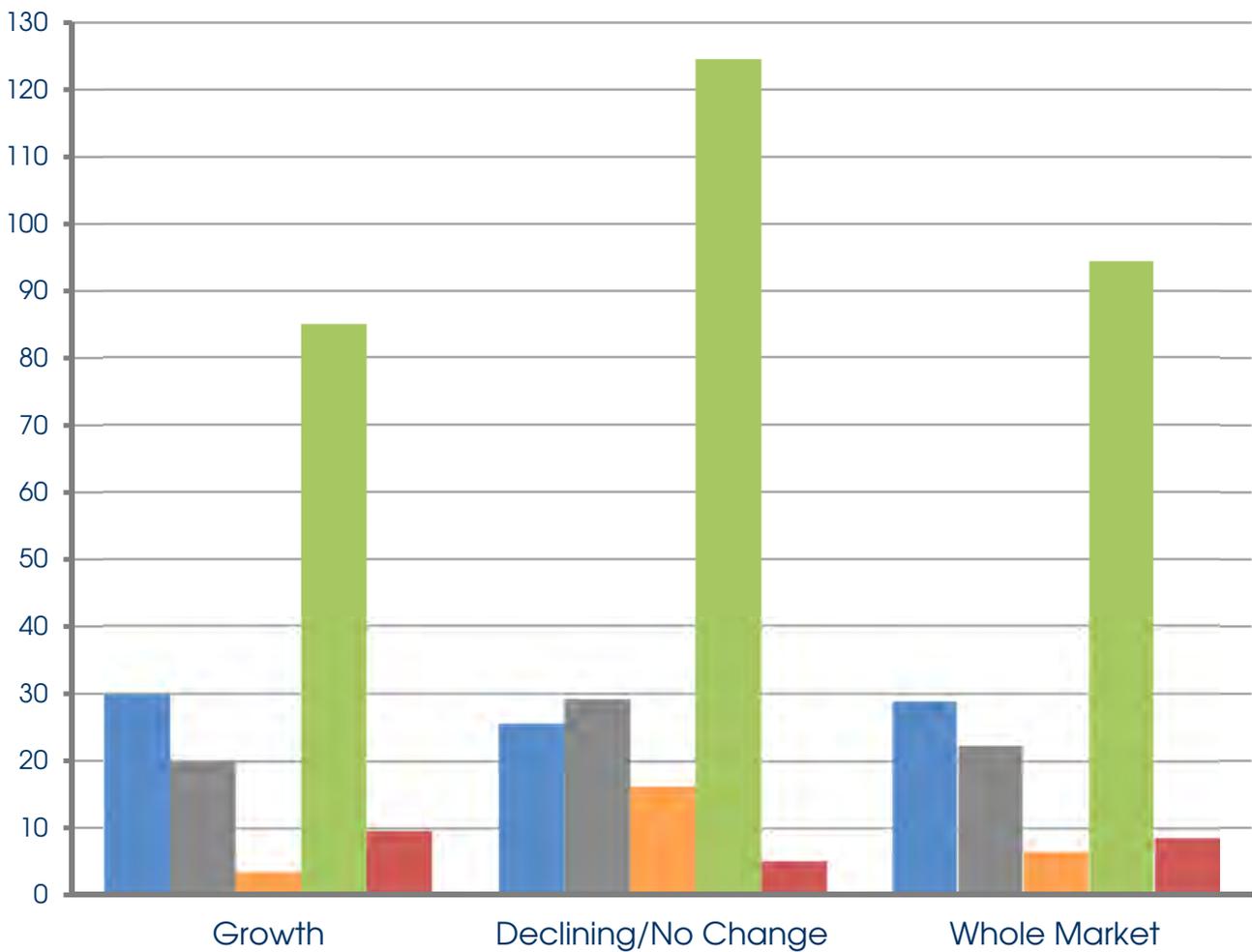
Whole SME Market	2H 2016 (N: 614)	1H 2017 (N: 805)	Change (%)
Borrowing from my main relationship bank	31.4	28.8	(8.3)
Borrow from another bank or a specialist non-bank lender	20.0	22.2	11.0
Other forms of debt	4.6	6.6	43.5
Own funds	92.8	94.5	1.8
New equity	8.8	8.6	(2.3)

Note: no statistically significant variance by state, industry sector or primary working capital provider

Note: sums to over 100 percent due to multiple responding allowed

FIGURE 8
Funding Plans for Business Investment – 1H 2017
% of Total SMEs

- Borrowing from my main relationship bank
- Borrow from another bank or a specialist non-bank lender
- Other forms of debt
- Own funds
- New equity



What are the key drivers behind your business growth?

TABLE 20

Drivers of Business Growth

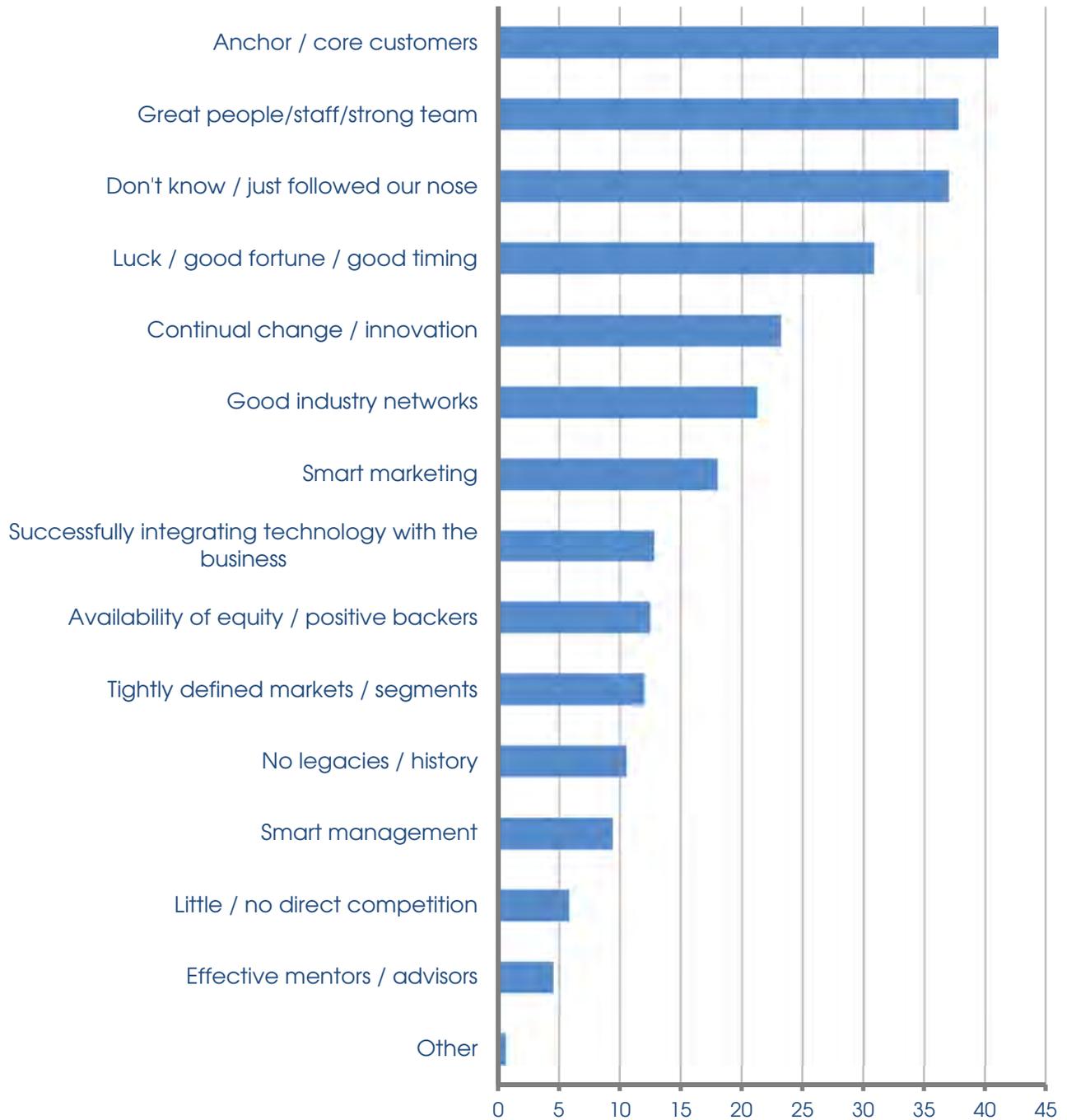
% of Growth SMEs

	2H 2016 (N: 606)	1H 2017 (N: 617)	Change (%)
Anchor / core customers	39.8	41.0	3.0
Availability of equity / positive backers	10.9	12.5	14.7
Continual change / innovation	22.4	23.2	3.6
Effective mentors / advisors	4.5	4.5	—
Good industry networks	22.9	21.2	(7.4)
Great people/staff/strong team	36.6	37.8	3.3
Little / no direct competition	6.6	5.8	(12.1)
Luck / good fortune / good timing	29.5	30.8	4.4
No legacies / history	11.6	10.5	(9.5)
Smart management	9.1	9.4	3.3
Smart marketing	17.0	18.0	5.9
Successfully integrating technology with the business	13.7	12.8	(6.6)
Tightly defined markets / segments	11.6	12.0	3.4
Don't know / just followed our nose	39.6	37.0	(6.6)
Other	0.5	0.6	20.0

Note: sums to over 100 percent due to multiple responding allowed

Note: the question was confined to SMEs self-reporting as growth businesses

FIGURE 9
Drivers of Business Growth – 1H 2017
% of Growth SMEs



What do you see as the key barriers to business growth?

TABLE 21

Barriers to Business Growth – Growth SMEs

% of Total

Growth SMEs	2H 2016 (N: 606)	1H 2017 (N: 617)	Change (%)
Availability of credit	55.9	58.3	4.3
Cash flow / its security	55.6	55.9	0.5
Conditions of credit	64.2	65.5	2.0
Cost of credit	6.4	5.0	(21.9)
Government policies / business unfriendly	34.0	34.2	0.6
High / multiple taxes	66.7	68.4	2.5
Margin compression	15.0	13.0	(13.3)
No real private / friendly equity funding available	19.8	18.8	(5.1)
Offshore competition	8.3	7.1	(14.5)
Quality of available talent / human resources	11.9	10.7	(10.1)
Red tape / regulatory change / imposts	60.4	61.4	1.7
Other	1.3	1.1	(15.4)
None	10.4	8.9	(14.4)

TABLE 22

Barriers to Business Growth – Declining / No Change SMEs

% of Total

Declining / No Change SMEs	2H 2016 (N: 645)	1H 2017 (N: 636)	Change (%)
Availability of credit	60.2	63.2	5.0
Cash flow / its security	17.5	19.7	12.6
Conditions of credit	62.6	64.6	3.2
Cost of credit	5.1	3.9	(23.5)
Government policies / business unfriendly	27.9	30.5	9.3
High / multiple taxes	69.8	72.6	4.0
Margin compression	20.6	19.5	(5.3)
No real private / friendly equity funding available	25.7	28.3	10.1
Offshore competition	16.9	15.1	(10.7)
Quality of available talent / human resources	1.7	1.4	(17.6)
Red tape / regulatory change / imposts	22.0	23.3	5.9
Other	0.9	1.1	22.2
None	2.0	1.7	(15.0)

TABLE 23

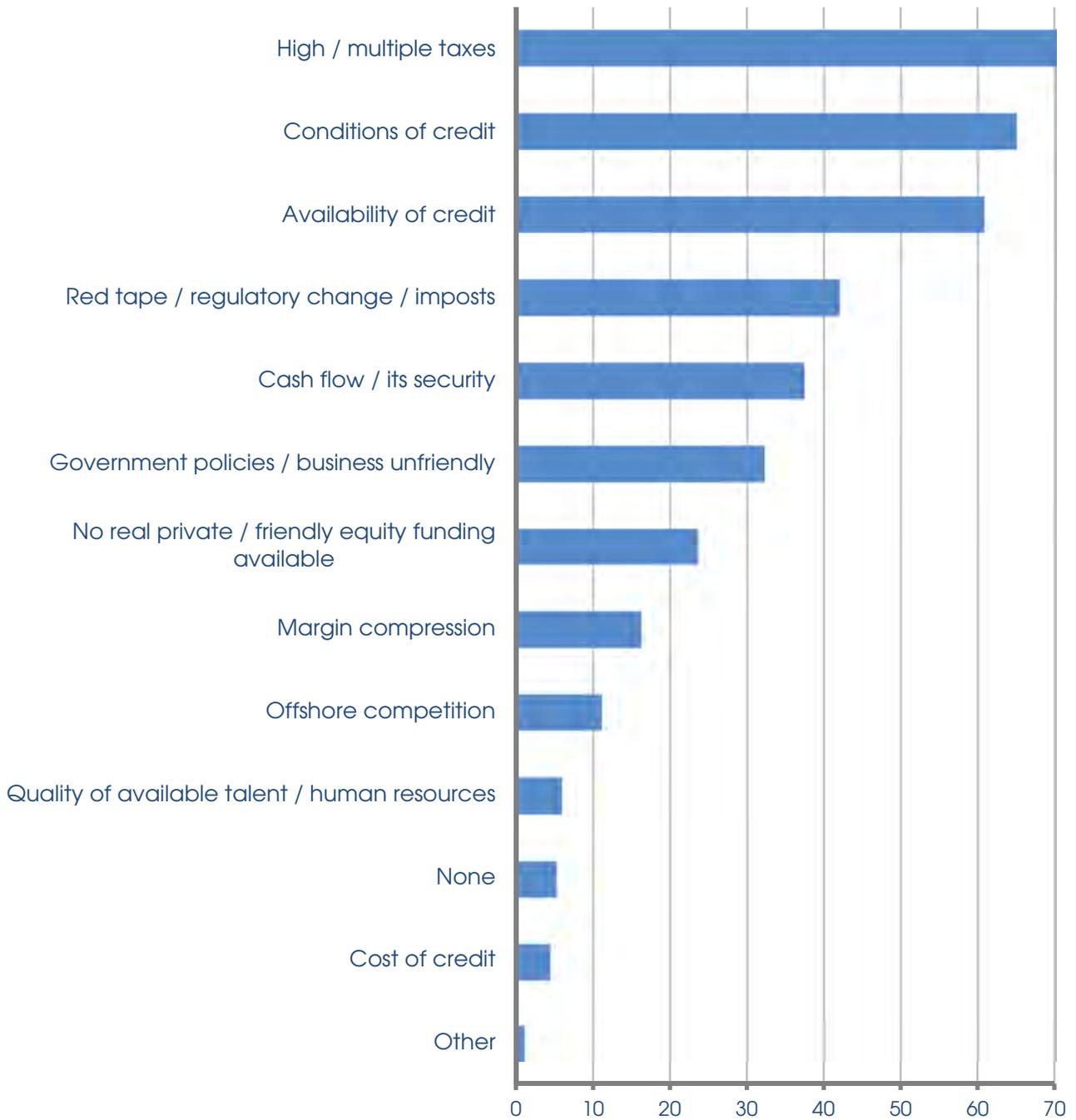
Barriers to Business Growth – Whole SME Market

% of Total

Growth SMEs	2H 2016 (N: 1251)	1H 2017 (N: 1253)	Change (%)
Availability of credit	58.1	60.8	4.6
Cash flow / its security	36.0	37.5	4.2
Conditions of credit	63.4	65.0	2.5
Cost of credit	5.8	4.5	(22.4)
Government policies / business unfriendly	30.9	32.3	4.5
High / multiple taxes	68.3	70.6	3.4
Margin compression	17.9	16.3	(8.9)
No real private / friendly equity funding available	22.9	23.6	3.1
Offshore competition	12.7	11.2	(11.8)
Quality of available talent / human resources	6.6	6.0	(9.1)
Red tape / regulatory change / imposts	40.6	42.1	3.7
Other	1.1	1.1	—
None	6.1	5.3	(13.1)

Note: sums to over 100 percent due to multiple responding allowed

FIGURE 10
Barriers to Business Growth – Whole SME Market – 1H 2017
% of Total SMEs



Special Question Results

Scottish Pacific SME Growth Index

March 2017

Who is your most trusted business advisor?

TABLE 24

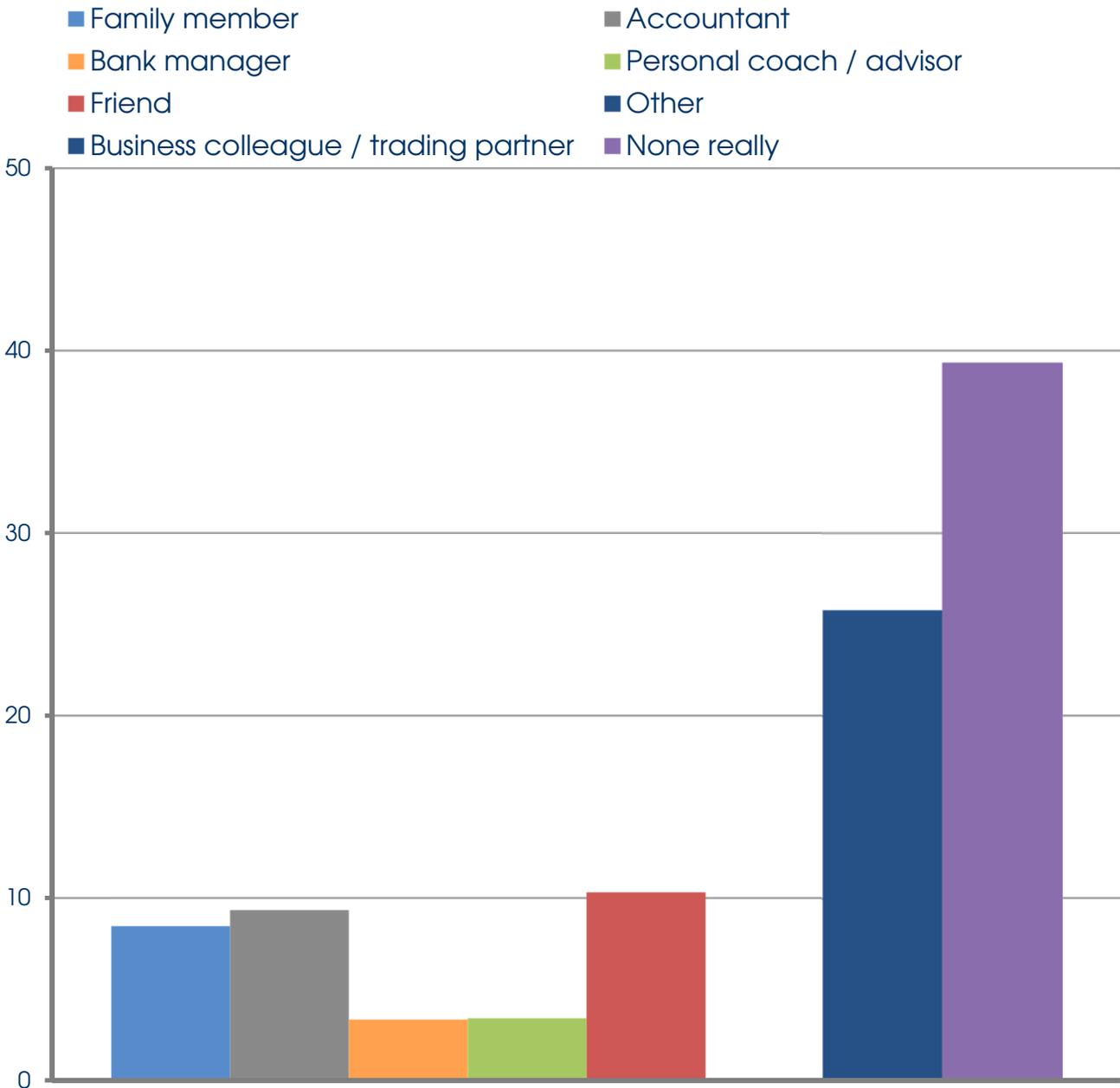
Most Trusted Business Advisor

% of Total

	Whole SME Market (N: 1253)
Family member	8.5
Accountant	9.3
Bank manager	3.4
Personal coach / advisor	3.4
Friend	10.3
Other	
Business colleague / trading partner	25.8
None really	39.3
TOTAL	100.0

Note: no statistically significant variance by state, industry sector, primary working capital provider or "growth" / "no change/declining" SME segment

FIGURE 11
Most Trusted Business Advisor
 % of Total



How often do you consult your most trusted advisor?

TABLE 25

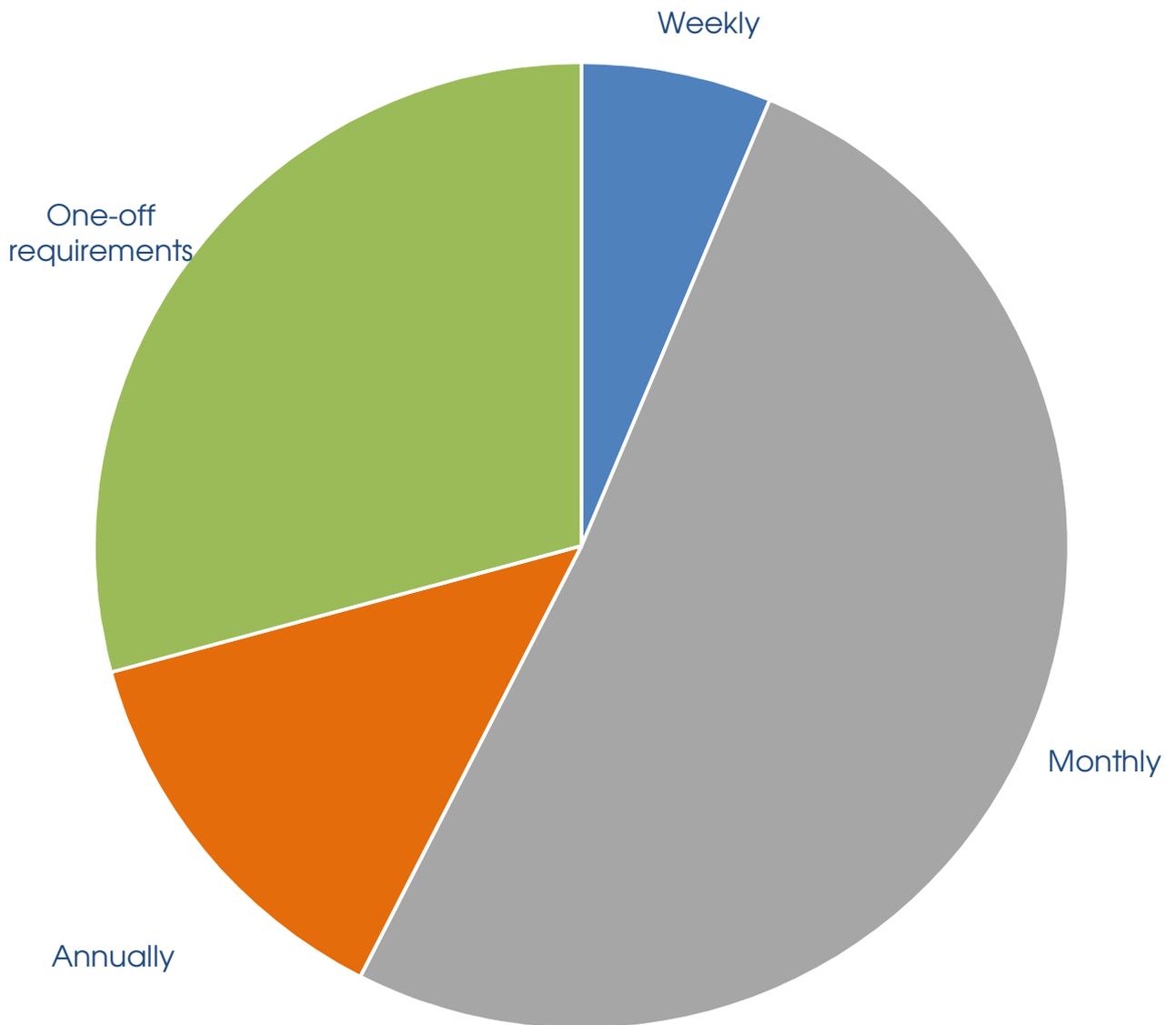
Frequency Advisor Consulted

% of Total SMEs

	Whole SME Market (N: 1253)
Weekly	6.3
Monthly	51.2
Annually	13.3
One-off requirements	29.2
TOTAL	100.0

Note: no significant variance by type of advisor

FIGURE 12
Frequency Advisor Consulted
% of Total SMEs



What impact has your relationship with your most trusted business advisor had on your business?

TABLE 26

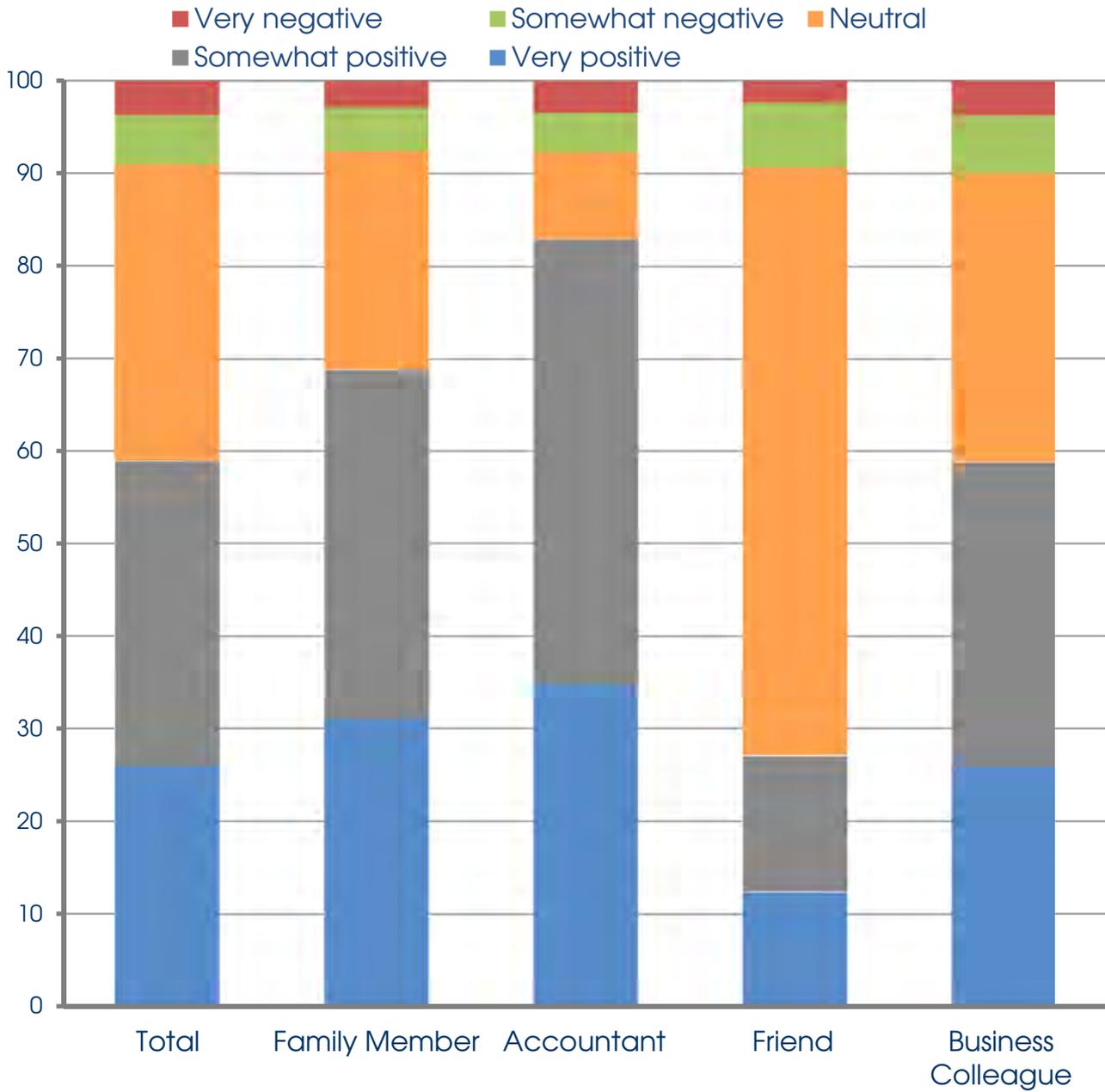
Business Impact of Advisor Relationship

% of Total SMEs

	Total (N: 760)	Family Member (N: 106)	Accountant (N: 117)	Friend (N: 129)	Business Colleague (N: 323)
Very positive	26.1	31.1	35.0	12.4	26.0
Somewhat positive	32.9	37.7	47.9	14.7	32.8
Neutral	32.1	23.6	9.4	63.6	31.3
Somewhat negative	5.3	4.7	4.3	7.0	6.2
Very negative	3.7	2.8	3.4	2.3	3.7
TOTAL	100.0	100.0	100.0	100.0	100.0

Note: other response categories too small to separately split

FIGURE 13
Business Impact of Advisor Relationship
% of Total SMEs



Appendix I

Research Methodology

Scottish Pacific SME Growth Index

March 2017

Methodology

East & Partners interviewed 1,253 SME businesses with annual revenues of A\$1-20 million over a five-week period ending 17 February 2017.

All interviews were conducted over the telephone or face-to-face by an accredited East interviewer, speaking with the company CEO, CFO or treasurer as represented in Table B below.

The sample was framed in accordance with ANZSIC codes to provide a natural sample of the Australian enterprise population, with state and sector demographics outlined in Tables A and C.

All interviews followed the closed response questionnaire which is included as Appendix II to this report.

TABLE A
Geographical Distribution

% of Total

	2H 2016 (N: 1251)	1H 2017 (N: 1253)
NSW & ACT	39.4	39.6
VIC & TAS	23.1	22.8
QLD	17.7	17.8
WA	13.5	13.2
NT & SA	6.3	6.5
TOTAL	100.0	100.0

TABLE B
Interviewee Distribution

% of Total

	2H 2016 (N: 1251)	1H 2017 (N: 1253)
Business Owner / CEO	59.2	59.3
CFO	22.9	22.7
Finance Director	8.6	8.7
Treasurer	2.6	2.7
Other	6.6	6.6
TOTAL	100.0	100.0

TABLE C
Sample Industry Sector Distribution
 % of Total

	2H 2016 (N: 1251)	1H 2017 (N: 1253)
Agriculture, Forestry, Fishing	5.7	5.8
Mining & Resources	7.8	7.7
Manufacturing	18.3	18.1
Electricity, Gas & Water	0.9	0.9
Construction	9.2	9.3
Wholesale	9.1	9.2
Retail	12.3	12.5
Accommodation, Cafes & Restaurants	2.6	2.5
Transport & Storage	7.3	7.3
Media & Telco	1.0	1.2
Finance & Insurance (non-banks)	4.2	4.1
Property & Business Services	12.5	12.5
Personal & Other Services	9.1	9.0
TOTAL	100.0	100.0

TABLE D
Age of Business
 Years

	2H 2016 (N: 1251)	1H 2017 (N: 1253)
Average number of years in business	9.9	10.2

TABLE E
Headcount of Business
 Full Time Employees

	2H 2016 (N: 1251)	1H 2017 (N: 1253)
Average FTE in Business	79.0	77.0

TABLE F

Primary Working Capital Provider

% of Total

	2H 2016 (N: 1251)	1H 2017 (N: 1253)
ANZ	12.1	12.3
BankWest	5.0	4.8
Bendigo Adelaide Bank	0.9	0.8
BoQ	3.8	3.9
CBA	17.8	18.0
Citigroup	0.3	0.2
HSBC	1.0	1.1
NAB	30.5	30.1
St George	6.9	6.6
Suncorp	3.7	3.8
Westpac	15.0	15.2
Other	3.0	3.1
TOTAL	100.0	100.0

TABLE G

Primary Working Capital Provider – Relationship Age

Average Years

	2H 2016 (N: 1251)	1H 2017 (N: 1253)
ANZ	7.2	7.0
BankWest	6.0	6.2
Bendigo Adelaide Bank	9.1	9.3
BoQ	7.3	7.0
CBA	6.4	6.3
Citigroup	8.4	8.5
HSBC	3.7	3.4
NAB	8.9	9.2
St George	8.2	8.4
Suncorp	5.0	4.9
Westpac	6.4	6.1
Other	5.1	4.9
TOTAL	6.8	7.0

TABLE H
Secondary Working Capital Provider
 % of Total

	2H 2016 (N: 1251)	1H 2017 (N: 1253)
ANZ	7.4	7.6
BankWest	4.7	4.4
Bendigo Adelaide Bank	1.0	1.1
BoQ	4.6	4.6
CBA	15.3	15.6
Citigroup	0.6	0.6
HSBC	2.1	2.2
NAB	14.5	14.4
St George	7.1	6.8
Suncorp	3.8	3.8
Westpac	11.4	11.5
Other	4.2	4.5
None	23.1	23.0
TOTAL	100.0	100.0

Appendix II

Interviewee Questionnaire

Scottish Pacific SME Growth Index

March 2017

Scottish Pacific SME Growth Index

(A\$5 – 20 million turnover accounts)

Interview Questionnaire

Organisation.....

Mailing Address

.....

Phone Fax.....

Interviewee.....

Title

Email

Website

Principal Industry Sector (ANZSIC).....

Current Annual Turnover.....

Number of Full Time Staff

Year Business Established.....

Primary Working Capital Provider

Length of Relationship (years)

Secondary Working Capital Provider.....

Core Questions

- 1 Please forecast the percentage change in your business revenues – either negative or positive - over the next six months:

.....

- 2 Which of these descriptions best describes the phase your business is currently in:
 - Start-up
 - Growth
 - Stable
 - Consolidation
 - Contracting

- 3 Are you planning to introduce any new products or services in the next six months?
 - New Products
 - New Services
 - New Products and Services
 - No plans

- 4 Approximately how much additional revenue do you expect to generate from investment in innovation over the next 12 months?
 - None – not investing
 - 0 – keeping pace with competitors
 - 0 – 5%
 - 5 – 10%
 - 10 – 25%
 - 25 – 50%
 - 50 – 100%
 - 100% plus

5 Approximately how much additional revenue could your business have generated over the past 12 months had cash flow been better?

- 0% - Cash flow could not be better
- 0 – 5%
- 5 – 10%
- 10 – 25%
- 25 – 50%
- 50 – 100%
- 100% plus

6 If you are planning to invest in your business in the next six months, how are you planning to fund that growth?

- Borrowing from my main relationship bank
- Borrow from another bank or a specialist non-bank lender
- Other forms of debt
- Own funds
- New equity

7 What are the key drivers behind your business growth?

.....

8 What do you see as the key barriers to business growth?

.....

Special Questions Round Six

- 9 Who is your most trusted business advisor?
- Family member
 - Accountant
 - Bank Manager
 - Personal Coach / Advisor
 - Friend
 - Business Colleague / Trading Partner
 - Other
 - None Really
- 10 How often do you consult your most trusted business advisor?
- Weekly
 - Monthly
 - Annually
 - One-off requirements
- 11 What impact has your relationship with your most trusted business adviser had on the business?
- Very positive
 - Somewhat Positive
 - Neutral
 - Somewhat Negative
 - Very negative
 - N/A

Thank you for your participation and valuable input to this ongoing research program. We look forward to further involvement as this research program continues.



Established in 1988, Scottish Pacific Business Finance (ASX: SCO) is Australia and New Zealand's largest specialist provider of working capital solutions with a comprehensive range of debtor finance and trade finance solutions. Scottish Pacific handles more than \$14 billion of invoices each year, providing funding lines exceeding \$1 billion, and has full operations centres in Sydney, Melbourne, Perth, Brisbane, Adelaide, Auckland, London and China.

Scottish Pacific has been awarded Australia's best Cash Flow lender for three years running (2014, 2015 and 2016) as voted by brokers in The Adviser's annual Non-Bank Lending Awards.

Clients are predominantly Small and Medium Sized Enterprises (SMEs) which require more personalised facilities that best suit their individual needs, and therefore find it difficult to obtain appropriate funding from their main banking providers.

As a specialist provider of working capital, Scottish Pacific is well placed to understand the needs and the sentiment of SME businesses, and the Scottish Pacific SME Growth Index is a response to the firm's unique position in the market, and its status as a market leader.

The purpose of the Index is three-fold:

- To drive development of the financial solutions available to SMEs throughout Australia and New Zealand, by providing Scottish Pacific with market intelligence to deepen our understanding of SMEs' needs.
- To provide Scottish Pacific with the data to help us act as advocates for SMEs, and as thought leaders within the business finance community.
- To share our insights with the broad SME community - the lifeblood of business in Australia - and with fellow business finance professionals.

East & Partners interviewed 1,253 SME businesses with annual revenues of between \$1-20 million in the first quarter of 2017. 82 percent of respondents were SME business owners, CEOs or CFOs. The next Index will be released in September 2017.

www.scottishpacific.com

Follow Scottish Pacific on Twitter - @ScottishPacific

Follow Scottish Pacific on LinkedIn - Scottish Pacific Business Finance



East & Partners is a leading specialist business banking market research and analysis firm. The firm's core expertise is in the provision of analysis and advisory services tailored for the commercial, business and institutional banking markets across Asia Pacific, Australasia, Europe and North America.

The delivery of accurate quantitative analysis on businesses exploding demand for sophisticated transaction, FX, debt, treasury, investment and advisory banking services and products has been uniquely addressed by East's "bottom up" research methodologies since 1987, based on many thousands of customer interviews with CEOs, CFOs, treasurers and business owners.

East's multi-client demand side research and consulting work has enabled the firm to partner virtually every major domestic and international bank present in the geographies the firm operates in.

East & Partners Pty Ltd

Level 13, 2 Park Street Sydney NSW 2000 Australia

Phone: +61-2-9004 7848 Fax: +61-2-9004 7070

www.east.com.au



scottish pacific
BUSINESS FINANCE



east&partners



Level 5, 20 Bond Street Sydney NSW 2000
GPO Box 9969 Sydney NSW 2001
Tel: (+61) 2 9372 9999 Fax: (+61) 2 9372 9900

