September 2018

SME GROWTH INDEX

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***SME Growth Index**: Twice a year, independent research is undertaken by leading business banking market research firm East & Partners, on behalf of Scottish Pacific. The September 2018 round surveyed the owners, CEOs or senior financial staff of 1,252 SME businesses across a range of industries and all states, with annual revenues of $A1-20 million. Figures for Insights 1 to 5 are rounded to the nearest half percent.*

EXECUTIVE SUMMARY

Small to medium businesses form a significant part of the economy, providing employment for millions of Australians. So when there are issues in the SME sector, we all should take notice.

Against a backdrop of a flat or declining property market, and an imminent report from the Royal Commission into Banking, our latest *SME Growth Index* paints a clear picture of business owners' concerns.

Research firm East & Partners independently interviewed more than 1,200 SME leaders from across Australia, representing businesses with $1-20m annual revenue. First, the good news – the number of businesses reporting positive growth over the next 12 months is at its highest (51%) since the first half of 2016.

Between March and September 2016, SMEs flagging positive growth fell from 58% to 48%. Although we've not returned to the growth levels reported in our first Index in 2014, since late 2016 there has been a slow march back towards a majority forecasting growth.

Looking beyond this promising positive growth trend, the results show those SMEs performing poorly are in significantly more trouble than in 2014, with a much greater extreme negative growth margin. The findings show many business owners are cash-strapped, time-poor and confused about how best to fund their growth.

Very few SMEs (just over 9%) say they'd prefer to fund their business growth using property as security. In light of property market falls across most capital cities, and the trend of declining home ownership especially in younger age brackets, the challenge facing business owners is finding ways to fund growth. They can no longer rely on the buoyant property market to deliver the increasing equity they've historically depended on to source additional funding.

Business owners literally don't clock off. Two-thirds told us their major business issue is not having enough time in the day to get everything done. Three-quarters of SME owners work 50 to 80-hour weeks; almost one in five regularly put in 80-plus hours.

Cash flow remains the biggest worry. SMEs are operating in an environment in which they say they could have generated, on average, 17% more revenue if their cash flow had been better. This equates to an annual $A234.6 billion hit to the national economy.

Working capital is what every business always needs, whether they're growing, steady or even declining, so it's perplexing to see the consistent trend of a disproportionately high number of SMEs (89%) relying on investing personal funds into the business.

In an economic environment where it is crucial to have reliable working capital, nine out of 10 SMEs are reaching into their own pockets to fund growth rather than looking for options that would allow them to keep working capital within their business.

The last thing the SME sector, and the nation, needs is a lack of credit causing a major downward trend in the economy. With cash flow concerns increasing, and banks reluctant to lend, the business owner who can find innovative ways to fund growth and master cash flow management has a clear advantage over competitors.

Peter Langham
Chief Executive Officer
Scottish Pacific

INSIGHT 1

Best SME growth outlook in almost 3 years

In a boost for the SME sector, more businesses are in growth mode than at any time since March 2016. One in two (51%) are forecasting positive revenue growth in the next six months.

The average projected revenue increase of 4.5% is the strongest level of sentiment since 2016 and reflects a promising rebound in underlying business confidence within the SME sector.

For those predicting revenue gains, the range of growth was 1.5% to 6.1%. However, the average growth rate predicted by SMEs has halved since the initial 2014 *SME Growth Index*.

More than a third of respondents (37%) identify as growth businesses. It is these businesses who are really feeling the pinch from cash flow issues.

Growth SMEs say that with better cash flow they would have achieved an average revenue improvement of 27% over the past year, compared to the mere 6% average revenue increase predicted by declining growth and no change SMEs.

This suggests growing SMEs are trying but failing to allocate capital to growth elements such as hiring new staff, acquiring new equipment or opening up new offshore export markets.

The Index found that 59% of growth SMEs are seeking additional finance or capital to fund their projected growth, with one in three looking to borrow $50,000 - $250,000 and a similar proportion seeking $500,000 - $2million.

The percentage of business owners intending to fund growth via their main bank continues to fall (22.5%). This two basis point drop over the past six months reflects a four-year trend away from bank borrowing by growth SMEs *(see lending trends in Insight 5)*.

Warning signs as growth sentiment clashes with weak property outlook

There's the very real potential that the relatively weak outlook for capital growth in property will put the brakes on the emerging positivity around SME growth prospects.

Analyst CoreLogic's July Hedonic Home Value Index has reported that Australian property prices have experienced their largest annual fall in value since August 2012, with five of the eight capital cities, including the major markets of Sydney and Melbourne, slipping in value.

This trend is expected to develop further throughout 2018 and beyond, and will continue to be impacted by tighter lending conditions and other outcomes from the Royal Commission into Banking.

Even without a major correction - if it's just a case of the heat being taken out of the property market - this could have a significant impact on the growth prospects of the vast number of SME business owners whose enterprise funding is linked to the value of their property security.

When we asked last year, one in 10 SMEs (11%) said they had adjusted product and service demand as a direct result of house prices.

If SMEs are going to fund growth, they may need to seek funding outside property secured lending.

East & Partners predict non-bank lenders will emerge as a viable alternative for SMEs struggling to cope with the interconnected issues of a slowing housing market and improved growth forecasts.

The incentive of not having to borrow against a business owner's 'bricks and mortar' residential home is a major advantage of using alternative lending. This benefit was cited by almost 19% of SMEs, coupled with the independently nominated factor of being able to avoid using non-property assets as security and personal guarantees (17%).

The picture for SMEs not forecasting growth

Almost half the SMEs polled do not foresee growth in the six months to March 2019. About one-quarter expect revenue to hold steady, and one-quarter expect revenue to decline, by an average of 6%.

The current range of predicted revenue decline (4.8-13.7%) is almost double that of 2014.

The combined percentage of consolidating/contracting SMEs has almost doubled since 2014 (from 13%, up to 25%), posing a considerable downside risk to broad-based sustained economic growth.

Best SME growth outlook in 3 years

INSIGHT 2

SMEs not clocking off; cash flow biggest concern

There are advantages to running your own business, but not many people go into it for an easy lifestyle.

The September 2018 Index clearly shows cash flow is the key stress point for business owners. It was cited by 79% as the issue most likely to keep them awake at night, up from 73% when we last asked this question in 2016.

The next most pressing issue is having enough time to do what is required in the business; nominated by two-thirds of SMEs, up from 55% in 2016. The third biggest cause of SME sleepless nights is dealing with customer issues (31%), linked closely with invoice payment times stretching beyond sustainable limits.

The fastest emerging issue is the potential for sudden disruption to the business model – this was nominated by only 17% in 2016 but by 25% of respondents this year.

Other stress points for business owners were supplier issues (the main problem for 19%) and trying to meet government compliance (10%).

If business owners are stressing about day-to-day operational issues, this potentially takes them away from focusing on long term strategic business and investment decisions.

Having enough time in the day is a critical issue that links closely with SMEs' need for speedy credit approval turnaround times *(see Insight 4: SMEs and non-bank funding)*.

Despite technical and digital innovations, they find it hard to get away from work: on average spending around 66 hours a week working on or in their business.

No doubt this has an impact on the work-life balance and physical and mental wellbeing of those in the SME sector.

The 40-hour week is simply non-existent for business owners – fewer than 1% of SMEs said they achieved this. Three-quarters put themselves in the bracket of working 50 to 80-hour weeks.

The largest proportion (42%) are putting in 60-80 hours, with one third clocking 50-60 hours. One in six pretty much "live the business" by putting in regular 80-plus hour weeks (up from 13% in 2016, to 16.5% now).

These findings align with recent KPMG research showing start-up founders averaged 64 hours a week in their business.

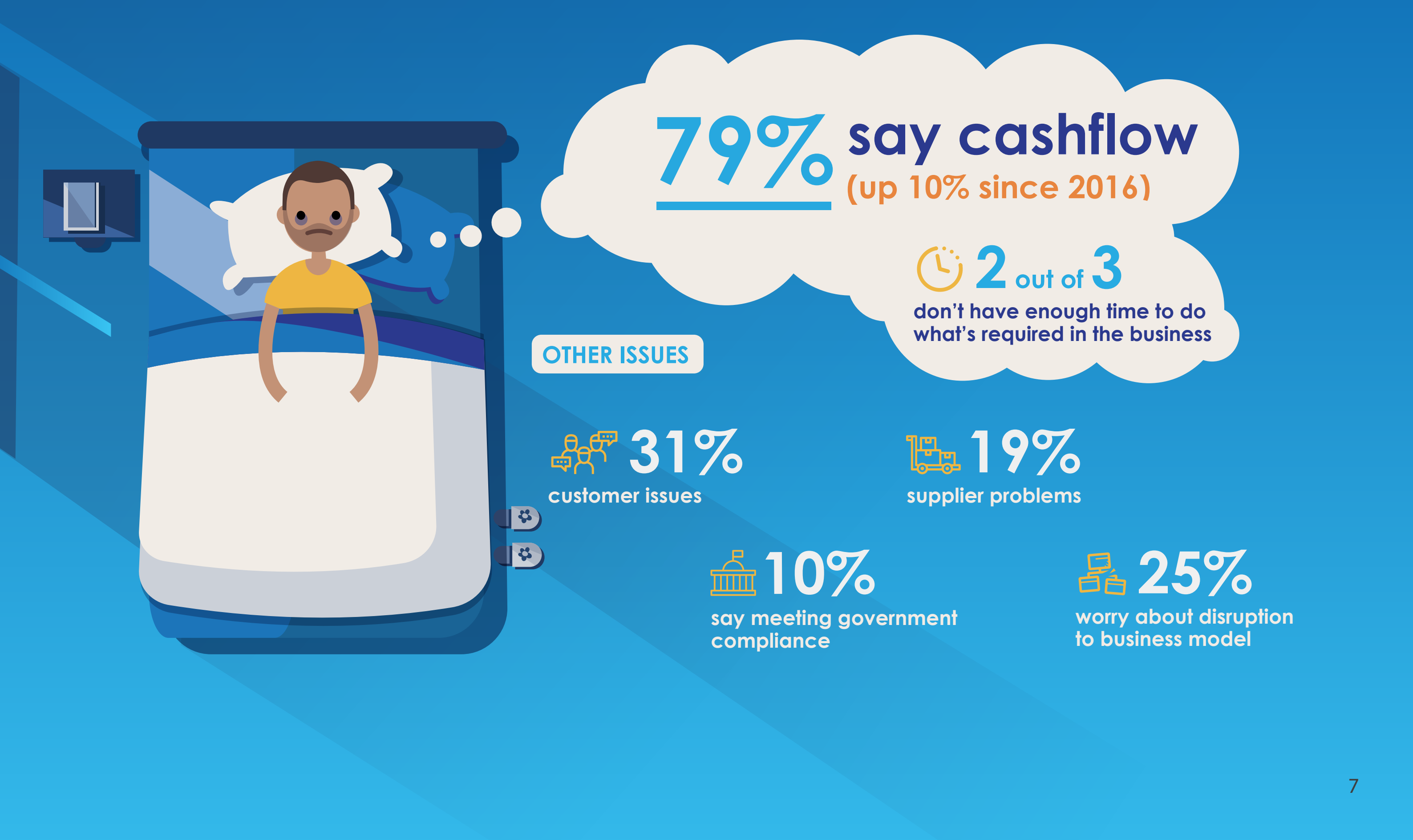
It's worth noting that in 2018 not as many are identifying as start-up businesses (this has fallen from 14% of the 2014 survey cohort, to 11%).

Other results round out our picture of the stresses facing your average Australian business owner – the number who say they are not growing, but are stable (27%) or consolidating (13%), has increased from 32% in 2014 to 40% now.

More than one in 10 (12%) say their business is contracting, up considerably from the 8.5% who were contracting in 2014.

For many SMEs, the pressure is on. The results show a heightened level of concern about the perennial cash flow issue, with the SME sector crying out for more support and attention from lenders to give them adequate credit headroom for investing in new productive capacity, as opposed to sweating plant and equipment beyond their intended working life.

What keeps business owners awake at night?



INSIGHT 3

Cash flow being "squeezed from both ends"

With business owners saying cash flow is the dominant issue keeping them up at night, we asked what caused the biggest negative impact on their cash flow over the past 12 months.*

SMEs continue to pinpoint Government red tape and compliance issues as the main culprit (nominated by 73%, across the total market of growth, consolidating and declining SMEs). Previous rounds of the *SME Growth Index* pinpointed that red tape and compliance concerns revolved around BAS reporting, the Fair Work Act and company tax.

The other top cash flow issues were the dual problems of customers paying late (43%) and suppliers reducing payment terms (40%).

So SMEs are feeling the pressure from both ends of the supply chain. This places major strains on efficient working capital management.

There has been a noticeable tightening in cash flow throughout 2018, despite a low interest rate environment and broadly improving operating conditions and business confidence.

More than one in four SMEs (27%) said they had difficulty meeting tax payments on time and one in five (21%) were unable to take on new work and capital expenditure due to cash flow restrictions.

The opportunity cost of sub-optimal cash flow continues to hold back growth SMEs, most of whom believe they could increase turnover if they could improve their cash flow.

Respondents were asked what percentage of revenue was foregone due to poor cash flow, and on average this was 17%, a significant impact on any SME's bottom line.

East & Partners have extrapolated this figure to estimate that poor cash flow cost Australia's SME sector A$234.6 billion in lost revenue in 2017.**

Almost all SMEs (92%) said if cash flow had been better in the past 12 months they would have generated more revenue, with the remainder reporting no cash flow issues in the past 12 months.

More than half (55%) indicated that revenues could have increased by 5-25% if cash flow improved.

For growth businesses only, almost half (44%) could have grown by 10-25% with better cash flow and one in five think they missed out on a 25-50% revenue increase.

Over the past 12 months, initiatives by ASBFEO's team led by Ombudsman Kate Carnell have highlighted the need to improve access to finance and business conditions for SMEs. This includes supporting Commonwealth Government moves to ensure subcontracts on government projects are paid in 30 days or less.

SME Growth Index results show that SMEs' cash flow situation remains troubling and further initiatives should be supported.

Within the SME sector, there's plenty on the table for any business which can improve its cash flow.

** More than one response was allowed*

*** The total revenue figure was derived by taking estimated revenue for the whole economy ($5.4 trillion) and holding the SME proportion at 27.5% of total revenue (A$1.49 trillion), multiplied by the proportion of SMEs that report cash flow could be better, multiplied against the average revenue percentage improvement if cash flow was better.*

Cashflow issues continue to hold back growth for SMEs

Causes

40%
suppliers reducing payment terms

43%
of customers are paying late

73%
government red tape & compliance issues

Effects

1 in 4
have difficulties meeting tax payments on time

1 in 5
are unable to take on new work due to cash flow restrictions

92%
say poor cash flow costs them revenue gains

INSIGHT 4

What attracts SMEs to non-bank funding

Alternative lenders are firmly on the radar of SMEs, who are attracted by the fast approval turnaround times and streamlined compliance requirements.

Despite an SME lending landscape dominated by the Big Four banks and their subsidiaries, 96% of SMEs could name a key advantage to borrowing from an alternative (non-bank) lender.

One in four business owners nominated rapid credit approval as the main reason they'd use an alternative lender.

Avoiding the banks' onerous, document-heavy regulatory requirements when seeking credit was the next biggest drawcard, nominated by almost one in five SMEs.

Another advantage was the incentive of not having to borrow against property, cited by one in five SMEs.

A similar proportion of SMEs independently nominated avoiding use of non-property assets as security and personal guarantees as the key reason they would use an alternative lender.

Almost one in 10 SMEs (8%) said the revelations from the Banking Royal Commission would prompt them to seek out non-bank alternatives to fund their business.

When SME owners were asked why they would NOT consider alternative lenders, one third said they would ALWAYS consider an alternative lender despite any perceived disadvantages.

Only 4% of SME owners say they would never consider a non-bank lender. This is good news for the emerging fintech industry, and the long-established debtor finance sector, who are offering SMEs broader funding options beyond the banks than ever before.

However, there's work to be done to make business owners aware of these options.

A quarter of business owners wouldn't consider alternative lenders because they "don't know who they are", 16% because of uncertainty about the stability of some of the newer entrants to the market, and 13% because they feared non-bank interest charges would be too high.

Overall, one-third of business owners were unsure about alternative lenders and their products (25% don't know who they are, 8% don't understand the product options).

With a public perception that the banks are "on the nose" or not willing to lend, and not enough SMEs fully understanding the alternatives, most business owners (89%) plan to use their own funds (assets, but predominantly cash), to fund growth.

A previous Index finding was that two-thirds of SMEs rely on personal finances such as credit cards to deal with cash flow issues.

Why are so many growth SMEs using inflexible debt in preference to more appropriate or sustainable funding solutions that would allow for them to grow without such intense cash flow pressures?

ASBFEO has taken positive steps over the past few years to raise awareness of funding options but it is clear that there is more to be done on this front by governments, industry associations, SME lenders and the range of business advisors used by the SME sector.

96% of SMEs will consider alternative lending

Key reasons for considering an alternative lender

1 in 4
nominated rapid credit approval

1 in 10
Banking Royal Commission revelations

1 in 5
nominated not having to borrow against property

Key reasons for NOT considering an alternative lender

13%
feared non-bank interest charges would be too high

25%
don't know who the alternatives are

16%
uncertain about stability of new market entrants

INSIGHT 5

What business owners want from a loan

How SMEs plan to fund growth

A shift away from primary bank relationships is taking place in the SME segment, despite SMEs historically being reluctant to shop around for improved credit terms.

East & Partners believe that as customer switching intentions ramp up, alternative lenders will continue to increase in prominence as a preferred funding source. Despite this trend, the SME sector currently shows an overwhelming dependence on personal funds or new equity when it comes to funding growth.

For the whole SME market *(growth and non-growth)*, nine out of 10 plan to use their own funds for new business investment, selected ahead of primary bank borrowing (22.5%), alternative lenders (15%), taking on new equity (13%) and borrowing from secondary banks (10%). *

Business owner loan preference

Of the 733 respondents planning to seek new credit, more than half (56.5%) would prefer a loan secured against non-personal assets, and a quarter (almost 23%) would prefer to borrow against receivables.

More than one in five (22%) preferred an unsecured overdraft facility – a full 30% were not sure about their preferred funding method.

A loan secured against property to fund business growth was not a popular SME preference, with fewer than one in 10 business owners wanting to use this option.

Given that so few want to use their home as security, sector-wide education is required to highlight to SME business owners low-risk options that are not secured against property.

SMEs generally prefer business loans with a tenor of one to three years (64%), ahead of longer three to five-year credit facilities (12.5%) or shorter two to four quarter terms (12%).

No business owners within the $1-20 million revenue cohort were seeking short term loans of three months or less, and only 2% wanted a 3-6 month loan.

SMEs are looking for growth funding. The fact that one third of respondents wanting to borrow are seeking $500,000 to $2million over the next 12 months, combined with the positive growth trend, may offer reassuring signs for the Australian economy.

How SMEs want to secure their loans

56% prefer a loan **secured against non-personal assets**

23% prefer to **borrow against receivables**

22% prefer an **unsecured overdraft facility**

Less than 1 in 10 want to use **loan secured against property**

How often SMEs review lenders

There are major contrasts between growth and consolidating/declining businesses when it comes to monitoring finance options.

Growth SMEs are far more likely to be always on the lookout for the best funding deal. The lack of frequency of debt review among non-growth SMEs may reflect a 'rusted-on' mentality with their traditional lenders, or even a sense of resignation about their ability to access funding elsewhere.

Almost one in five businesses have not reviewed their primary bank relationship for years, 13% review annually, 12% every two years, and almost 8% every three years, with 15% always on the lookout for the best funding and 18% making ad hoc reviews or dealing with it when need arises.

Non-growth businesses are more likely to refinance with a new provider "when the need arises" – and are six times more likely than growth SMEs to go years without reviewing their primary bank relationship.

One-third of non-growth SMEs have not reviewed their finance relationship for many years; only one in 10 do this annually.

By comparison, only one in 20 growth SMEs have not reviewed their primary banking relationship for many years, and one in six undertake this annually.

This lack of proactiveness on the part of SMEs when it comes to business funding, in an environment in which property prices are flagging, could give serious pause for thought for those who have business lending secured to property.

** For the first time, this round of the Index split out "borrow from another bank or alternative lender" into separate "other bank" and "alternative lender" categories, to create a more effective benchmark in future rounds.*

INSIGHT 6

How key industries are faring

East & Partners ran analysis on key *SME Growth Index* questions to uncover trends across Australia's major industry sectors.

As a benchmark, 51% of businesses across all sectors were expecting revenue growth, at an average forecast increase of 4.5%.

Manufacturing

Pessimistic about revenue growth

Aside from the retail sector, manufacturing SMEs are the most negative about revenue growth - 46% are expecting growth over the coming six months, at an average of only 2.2%.

Almost one in three are expecting revenues to decline, by 8.8% on average.

Nine out of 10 manufacturing SMEs thought better cash flow could have given them a revenue boost of 5- 50%, with one-third of those saying they could have achieved at least a 5-10% revenue boost.

Manufacturing business owners are putting in longer hours than all other sectors apart from mining - almost 45% work 60-80 hour weeks, with one in five clocking 80-plus hours.

Mining

Most positive about revenue growth

Mining SMEs are more positive about revenue growth, and growth percentage, than all other sectors – just over 56% are expecting revenue increases over the coming six months, at an average of 5.8% growth.

Fewer than one-fifth think revenue will decline, by on average 4.2%.

When asked how much additional revenue could have been generated if they had better cash flow, only 4.3% of mining sector SMEs (the lowest of any sector) reported that cash flow could not have been better. The average across all sectors was 8%.

Mining SMEs are more likely than any other sector to be worried about the potential for sudden disruption of their business model, and about meeting government compliance.

They are putting in longer hours than all other sectors - almost half work 60-80 hour weeks, with one in five clocking above 80 hours. Fewer than one in 20 work a 40-50 hour week.

Transport & Storage

Working longest hours

This sector most closely reflected the average national SME sentiment, with 51% predicting positive revenue growth over the next six months. Promisingly, their 5.1% average growth was above the all-sector growth expectation.

More than a quarter of businesses in the sector think revenue will hold steady.

One-fifth are predicting a revenue drop, by on average 3.3% (below the all-sector average drop of 6%). So even those expecting to do poorly in the transport sector don't think they'll do as poorly as other sectors.

Transport business owners are putting in the hard yards to justify their revenue confidence – more of them are working 80-plus hour weeks than any other sector.

Just over 8% of transport sector SMEs reported that cash flow could not have been better – this sits slightly above the average across all sectors and perhaps could be attributed to the sector's high use of receivables funding, which eases cash flow issues.

Construction

Struggling most with cashflow

While cash flow is the biggest cause of sleepless nights for all sectors, the problem is most prominent in the construction sector (named as the biggest issue by 86%).

When asked how much additional revenue could have been generated with better cash flow, only 5% of transport sector SMEs reported that cash flow could not have been better – this sits below the all sector average of 8%.

Staff, supplier and customer issues, along with worries about disruption of their business model, were more of a problem for construction SMEs than any other sector. In contrast, construction was the SME sector least likely to say they have not enough hours in the day to complete what was needed in the business.

Fewer construction SMEs (10.7%) are putting in 80 plus hour weeks than any other sector – but still, more than half this sector's leaders (50.4%) are putting in 60-80 hour weeks.

This sector is more positive about revenue growth, and growth percentage, than the all sector average. 54.5% of construction SMEs are predicting positive revenue growth over the next six months, at an average 4.8% improvement.

Retail

Sector doing it the toughest

Retailers are doing it tough. Of all the key sectors, they are most pessimistic about revenue growth.

Fewer than 45% are expecting it, and then only with an average revenue upswing of just 1.8%.

Almost one-third predict their revenue will fall, by on average 8.7%; a quarter expect static revenue.

Cash flow issues are impacting on retailers - 82% name it as the biggest concern, higher than any sector apart from construction.

Only 5% say cash flow could not have been better – this sits below the all-sector average of 8%.

More than one in five retailers regularly clock 80 plus hours a week, and close to half are putting in 60-80 hour weeks. Only one in 20 get away with a 40-50 hour week.

Wholesale

A quarter predict revenue drop

Along with retail, the wholesale sector seems to be doing it tougher than most.

Fewer than half the SME businesses in this sector are positive about revenue growth, at an average growth expectation of 4%.

More than a quarter predict a revenue drop, by on average 7.3%.

The issue most likely to keep wholesale businesses up at night is cash flow, although this is less of a problem than for most other sectors (76% named it as the biggest issue, the all-sector average was just under 79%).

Fewer wholesaler SMEs (just under 14%) are putting in 80 plus hour weeks than any other major sector apart from construction. Still, close to half this sector's SME owners (43%) are putting in 60-80 hour weeks.

Business Services, Labour Hire & Property

One of the most robust sectors

SMEs in the business services sector are more positive about revenue growth than any other sector apart from mining – more than 56% are expecting revenue growth, at the highest sector average of 7.9%.

The sector is one of the most robust, with fewer than one-fifth of its SMEs predicting revenues to decline in the next six months, and then only by on average 2%.

However, revenue growth puts a strain on working capital. When asked how much additional revenue could have been generated if they had better cash flow, only 5.6% of business services sector SMEs reported that cash flow could not have been better – this sits below the average across all sectors of 8%.

Almost three-quarters of SMEs in the business services sector thought better cash flow could have given them a revenue boost of 5-25%. One in 20 felt they could have achieved a 50-100% revenue boost if their cash flow had been better.

RESULTS
Standard Index Questions

Q1

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

Forecast: Changes in Enterprise Revenue				
(N: 1252)	Positive Growth	Negative Decline	No Change	Whole SME Market
% of Enterprises	51.0	23.9	25.2	100.0
Average Change Forecast	4.5	6.0	-	1.1
Range of Change Forecast	1.5-6.1	4.8-13.7	-	1.5-13.7

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

Q2

Which of these best describes the phase your business is in:

	% of Total		
	Growth SMEs (N: 638)	Declining/No Change SMEs (N: 614)	Whole SME Market (N: 1252)
Start-up	20.8	-	10.6
Growth	73.0	0.3	37.4
Stable	2.8	52.3	27.1
Consolidation	3.1	23.1	12.9
Contracting	0.2	24.3	12.0
TOTAL	100.0	100.0	100.0

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

RESULTS
Standard Index Questions

Q3

Which cashflow issues have you experienced in the past 12 months?

	% of Total Whole SME Market (N: 1252)
Issues with Government red tape/compliance	73.4
Lost a key supplier due to insolvency	2.0
Lost a key debtor due to insolvency	2.6
Customers paying late	43.2
Had to write off bad debts	5.3
Suppliers reducing payment terms	40.3
Unable to take on new work due to cashflow restrictions	21.2
Difficulty meeting tax payments on time	27.3
No cashflow issues in the past 12 months	8.9

Note: *no statistically significant variance by state or industry sector or growth/no growth*
Note: *sums to over N count due to multiple responding allowed*

RESULTS
Standard Index Questions

Q4

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

	% of Total Growth SMEs (N: 638)	Declining/No Change SMEs (N: 614)	Whole SME Market (N: 1252)
0% - Cash flow could not be better	4.9	11.2	8.0
0 – 5%	4.7	37.3	20.7
5 – 10%	14.1	49.7	31.5
10 – 25%	44.0	1.3	23.1
25 – 50%	21.8	0.2	11.2
50 – 100%	7.7	0.2	4.0
100% plus	2.8	0.2	1.5
TOTAL	100.0	100.0	100.0

Note: *no statistically significant variance by state or industry sector*

RESULTS
Standard Index Questions

Q5

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

	% of Total Growth SMEs Investing (N: 639)	Declining/ No Change SMEs Investing (N:134)	Whole SME Market Investing (N: 773)
Borrowing from my main relationship bank	22.1	25.4	22.6
Borrow from another bank	9.4	13.4	10.1
Borrow from an alternative lender	12.4	29.9	15.4
Other forms of debt	1.9	7.5	2.8
Own funds	90.0	86.6	89.4
New equity	13.8	11.2	13.3
No plans to invest	10.0	13.4	10.6

Note: *no statistically significant variance by state, industry sector or primary working capital provider*
Note: *sums to over N count due to multiple responding allowed*
Note: *Questions response options altered from last round*

Q6

If you are seeking additional finance/capital, how much are you planning to seek?

	% of Total (N: 733)
Less than $50,000	20.6
$50-250,000	34.5
$250-500,000	6.0
$500-2m	31.0
$2-5m	4.9
Over $5m	3.0
TOTAL	100.0

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

RESULTS
Standard Index Questions

Q7

How often do you seek a new credit provider or review your existing lending requirements?

	% of Total		
	Growth SMEs (N: 638)	Declining/ No Change SMEs (N:614)	Whole SME Market (N: 1252)
We have not reviewed our primary bank relationship for a number of years	5.8	32.2	18.8
Regularly: Annually	16.0	9.8	12.9
Regularly: Two-yearly	15.7	7.3	11.6
Regularly: Three yearly or less	10.5	4.9	7.7
On an ad hoc/when needs arise basis	10.3	25.9	18.0
Always on the radar screen to ensure best credit facility fit	20.5	9.0	14.9
Respond to competitive pitching from alternative suppliers	6.3	3.9	5.1
In response to positive sales growth	3.6	2.8	3.2
In response to negative sales	3.4	2.8	3.1
In response to new offshore, export markets	7.8	1.5	4.7
TOTAL	100.0	100.0	100.0

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

RESULTS
Standard Index Questions

Q8

What would be your preferred method of securing new credit for your business over the coming 12 months?

	% of Total Growth SMEs (N: 733)
Secured loan against automobile	27.0
Secured loan against property	9.3
Secured loan against non-personal assets	56.5
Unsecured overdraft facility	21.8
Unsecured business credit card	15.1
Unsecured term loan	27.6
Other: Secured loan against receivables	22.6
Not sure/no view	30.2

Note: *confined to those SMEs with planned new credit from Q.6*
Note: *sums to over N count due to multiple responding allowed*
Note: *no statistically significant variance by state, industry sector or primary working capital provider*

RESULTS

September 2018 Special Questions

Q9

What is the key reason you would seek lending with an alternative lender?

	N Count Whole SME Market (N: 1252)
Royal Commission disclosures	7.9
Banks' credit appetite	3.2
Regulatory/compliance requirements	18.8
Quality alternative	1.9
Lower cost	2.8
Short time from application to money being available	24.3
Avoid using property as security	18.7
Response to a competitive pitch	1.0
Other: Avoid using non-property assets as security / personal guarantees	17.3
Would never consider a non-bank lender	4.0
TOTAL	100.0

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

RESULTS

September 2018 Special Questions

Q10

What is the key reason you would NOT seek lending with an alternative lender?

	N Count Whole SME Market (N: 1252)
If my bank will not lend, no one else will	4.8
I don't know who they are	25.0
I do not understand the products	8.2
High interest charges	13.2
Loan period too short	2.6
Other: Unsure about their stability/long term lifetime /who is behind the lender	16.1
Would always consider an alternative lender	30.0
TOTAL	100.0

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

RESULTS
September 2018 Special Questions

Q11

What business issues keep you awake at night?

	N Count Whole SME Market (N: 1252)
Cash flow	78.9
Staff	11.9
Customers	30.9
Suppliers	19.2
Potential for sudden disruption to your current business model	24.8
Having enough time to do what is required for the business	64.8
Meeting Government compliance	10.4
Other	0.9

Note: *no statistically significant variance by state, industry sector or primary working capital provider*
Note: *sums to over N count due to multiple responding allowed*

Q12

On average, how many hours a week do you spend working on or in your business?

	N Count Whole SME Market (N: 1252)
Less than 40	0.8
40 - 50	7.8
50 - 60	33.0
60 - 80	41.9
80 plus	16.5
TOTAL	100.0

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

RESULTS
September 2018 Special Questions

Q13

For business lending, what is your preferred tenor?

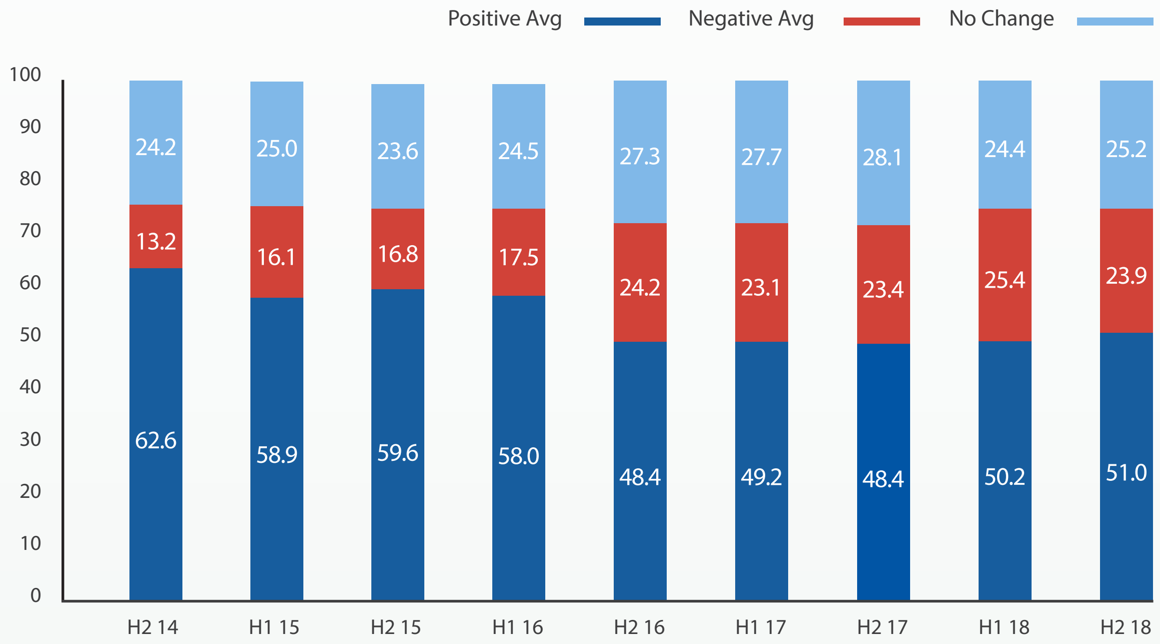
	N Count Whole SME Market (N: 1252)
3 months or less	-
3-6 months	1.8
6-12 months	11.9
1-3 years	64.0
3-5 years	12.5
5-10 years	1.1
10 years plus	0.1
Unsure/no view	8.7
TOTAL	100.0

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

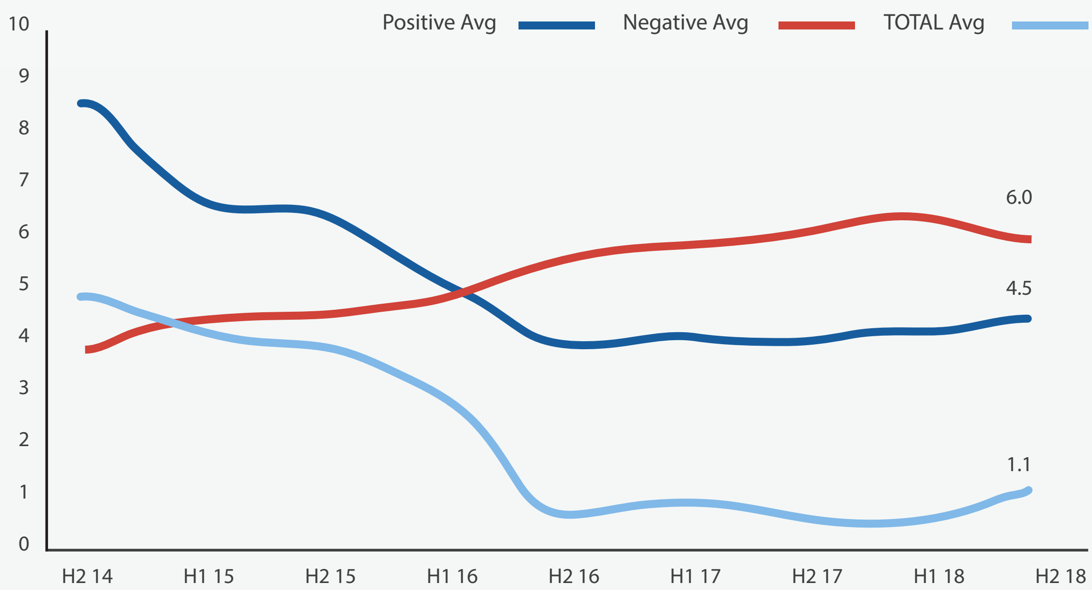
RESULTS
Trend Data

Forecast Changes in Enterprise Revenue

% of SMEs – Total Market (N: 1252).

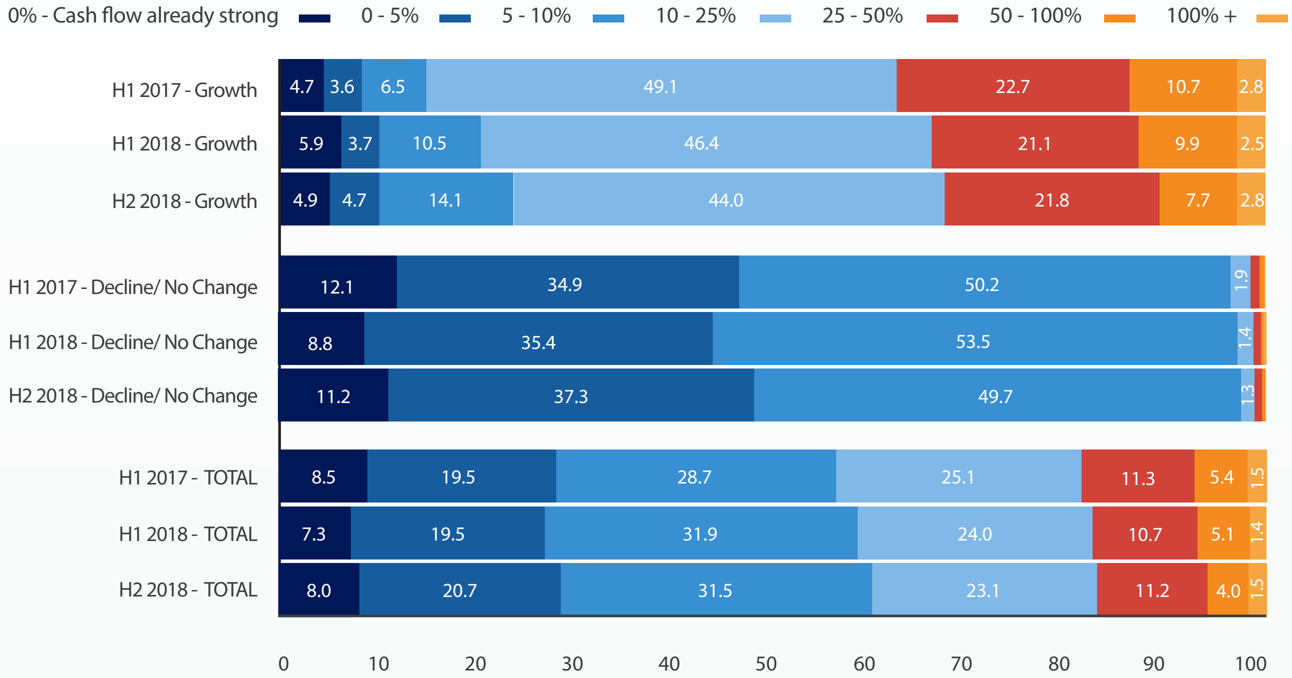


Avg % Growth Change Forecast (N: 1252).



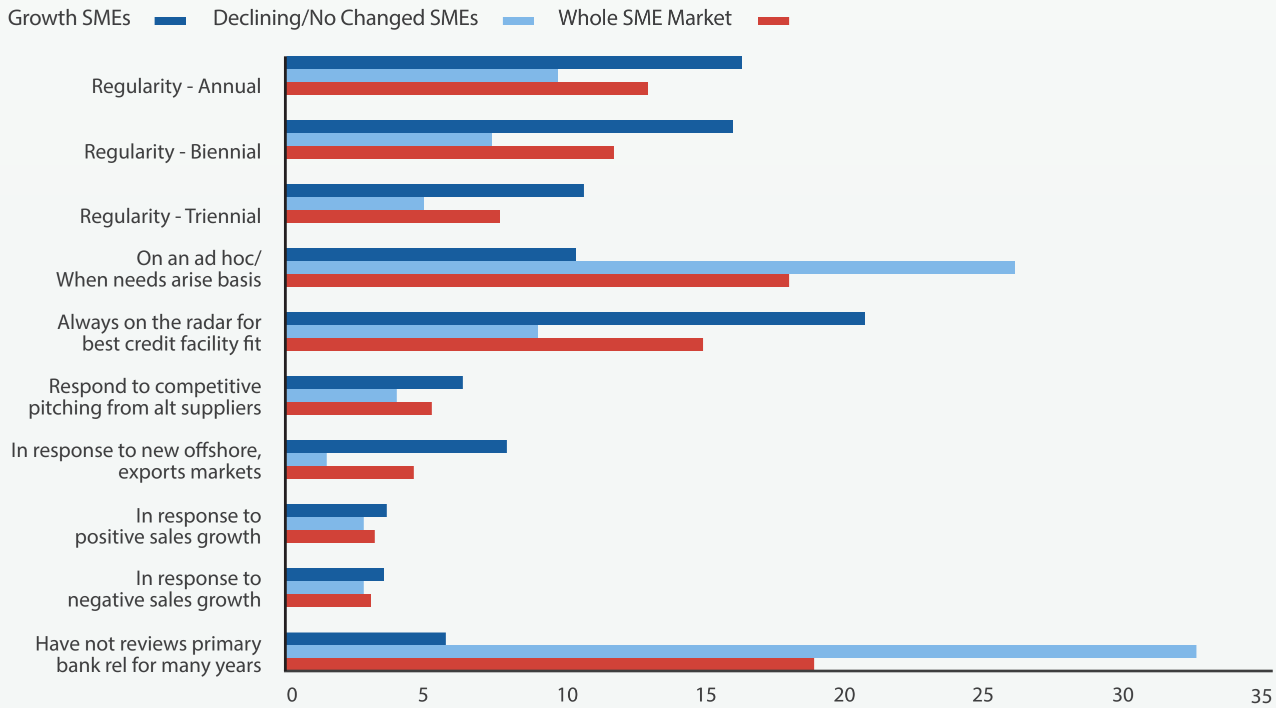
Forecast Revenue Increase If Cash Flow Improved

% of SMEs – Total Market (N: 1252).



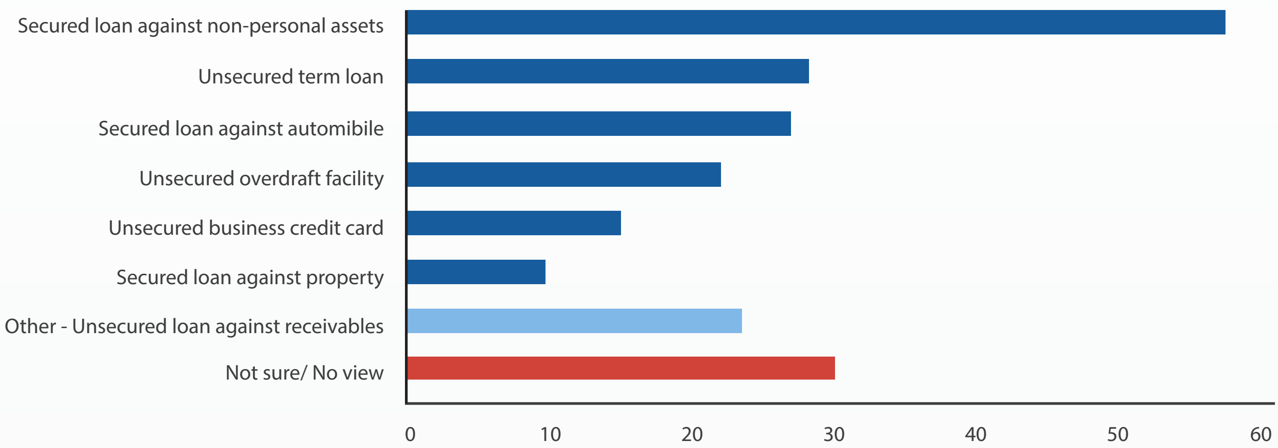
Refinancing/Churn Regularity

% of SMEs – Total (N: 1252).



Preferred Funding Method

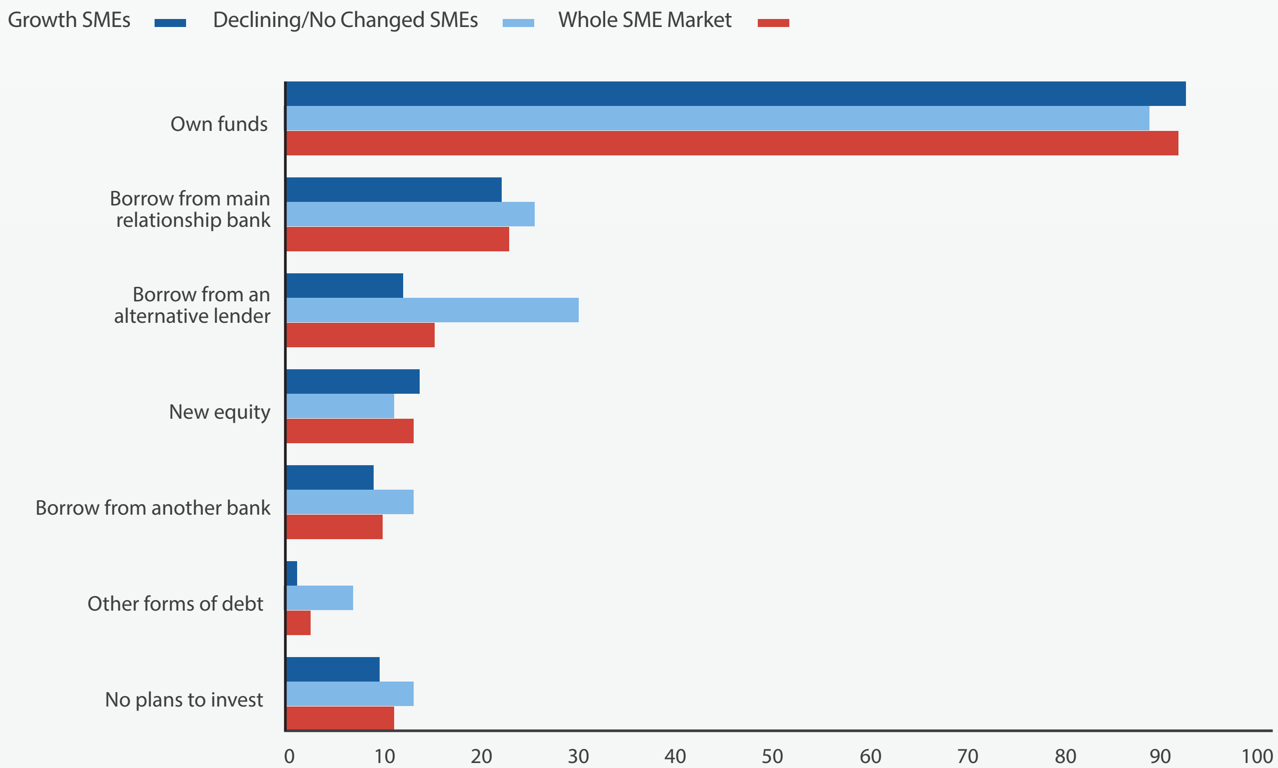
% of SMEs – Planned New Credit (N: 733).



Note: *confined to SMEs with planned new credit from Q.6. Sums to over N count due to multiple responding allowed*

Funding Plans for Business Investment

% of SMEs – Investing (N: 733).



RESULTS
Industry Data

Q1a

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

(N: 1252)	Forecast Changes in Enterprise Revenue			
	Positive Growth	Negative Decline	No Change	Whole SME Market
N of Enterprises	51.0	23.9	25.2	100.0
Average Change Forecast	4.5	6.0	-	1.1
Mining				
(N: 94)	56.4	18.1	25.5	100.0
Average Revenue Change Forecast	5.8	4.2	-	3.4
Manufacturing				
(N: 221)	45.7	29.0	25.3	100.0
Average Revenue Change Forecast	2.2	8.8	-	-2.8
Wholesale				
(N: 1 17)	49.6	26.5	23.9	100.0
Average Revenue Change Forecast	4.0	7.3	-	0.6
Retail				
(N: 156)	44.9	31.4	23.7	100.0
Average Revenue Change Forecast	1.8	8.7	-	-2.5
Property & Business Services				
(N: 161)	55.9	16.8	27.3	100.0
Average Revenue Change Forecast	7.9	2.0	-	5.6
Transport & Storage				
(N: 96)	51.0	21.9	27.1	100.0
Average Revenue Change Forecast	5.1	3.3	-	2.6
Construction				
(N: 121)	54.5	16.6	28.9	100.0
Average Revenue Change Forecast	4.8	6.0	-	3.5
Other				
(N: 286)	52.8	24.5	22.7	100.0
Average Revenue Change Forecast	3.3	5.6	-	0.5

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

RESULTS
Industry Data

Q4a

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

	% of Total								
(N: 1252)	Mining (N: 94)	Manufacturing (N: 221)	Wholesale (N: 117)	Retail (N: 156)	Property & Business Services (N: 161)	Transport & Storage (N: 96)	Construction (N: 121)	Other (N: 286)	TOTAL (N: 1252)
0% - Cash flow could not be better	4.3	5.4	7.7	5.1	5.6	8.3	5.0	15.4	8.0
0 – 5%	21.3	21.3	21.4	21.8	18.6	18.8	15.7	23.1	20.7
5 – 10%	30.9	32.6	33.3	34.6	29.2	29.2	32.2	30.4	31.5
10 – 25%	16.0	25.3	20.5	18.6	24.8	26.0	29.8	22.4	23.1
25 – 50%	14.9	11.8	12.0	12.8	13.0	9.4	14.9	6.3	11.2
50 – 100%	9.6	3.6	5.1	5.1	5.6	5.2	0.8	1.4	4.0
100% plus	3.2	-	-	1.9	3.1	3.1	1.7	1.0	1.5
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: *no statistically significant variance by state or industry sector*

RESULTS
Industry Data

Q11a

What business issues keep you awake at night?

	% of Total								
	Mining (N: 94)	Manufacturing (N: 221)	Wholesale (N: 117)	Retail (N: 156)	Property & Business Services (N: 161)	Transport & Storage (N: 96)	Construction (N: 121)	Other (N: 286)	Whole SME Market (N: 1252)
Cash flow	81.9	81.4	76.1	82.1	73.9	78.1	86.0	75.5	78.9
Staff	13.8	13.1	8.5	14.1	9.9	10.4	16.5	52.1	11.9
Customers	28.7	29.9	32.5	32.7	32.9	28.1	33.1	29.7	30.9
Suppliers	16.0	19.0	21.4	19.9	15.5	15.6	22.3	21.0	19.2
Potential for sudden disruption to your current business model	27.7	26.2	21.4	25.6	25.5	20.8	28.9	22.7	24.8
Having enough time to do what is required for the business	61.7	65.6	61.5	62.8	68.3	67.7	56.2	68.2	64.8
Meeting Government compliance	16.0	11.8	10.3	11.5	8.7	13.5	15.7	4.5	10.4
Other	2.1	0.9	0.9	1.3	0.6	2.1	-	0.3	0.9

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

Note: *sums to over N count due to multiple responding allowed*

RESULTS
Industry Data

Q12a

On average, how many hours a week do you spend working on or in your business?

	% of Total								
	Mining (N: 94)	21.248 (N: 221)	Wholesale (N: 117)	Retail (N: 156)	Property & Business Services (N: 161)	Transport & Storage (N: 96)	Construction (N: 121)	Other (N: 286)	Whole SME Market (N: 1252)
Less than 40	-	0.5	0.9	-	1.2	1.0	0.8	1.4	0.8
40 - 50	4.3	6.3	8.5	5.1	7.5	4.2	5.0	14.0	7.8
50 - 60	28.7	29.9	34.2	28.8	34.8	27.1	33.1	39.5	33.0
60 - 80	47.9	44.8	42.7	43.6	41.0	43.8	50.4	32.5	41.9
80 plus	19.1	18.6	13.7	22.4	15.5	24.0	10.7	12.6	16.5
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

METHODOLOGY

East & Partners interviewed 1,252 SME businesses with annual revenues of A$1-20 million over a four-week period ending 20 July 2018.

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.

A.

Geographical Distribution	H1 2018 (N: 1253)	H2 2018 (N: 1252)
NSW & ACT	39.7	39.5
VIC & TAS	22.7	22.6
QLD	18.0	18.1
WA	13.2	13.3
SA & NT	6.5	6.5
TOTAL	100.0	100.0
Metropolitan	71.5	71.2
Regional	28.5	28.8
TOTAL	100.0	100.0

B.

Interviewee Distribution (% of total)	H1 2018 (N: 1253)	H2 2018 (N: 1253)
Business Owner / CEO	58.2	58.5
CFO	23.1	22.4
Finance Director	9.0	9.3
Treasurer	3.0	2.9
Other	6.7	6.9
TOTAL	100.0	100.0

C.

Sample Industry Sector Distribution	H1 2018 (N: 1253)	H2 2018 (N: 1252)
Agriculture, Forestry, Fishing	5.8	5.8
Mining & Resources	7.7	7.5
Manufacturing	17.8	17.7
Electricity, Gas & Water	0.7	0.6
Construction	9.5	9.7
Wholesale	9.2	9.3
Retail	12.5	12.5
Accommodation, Cafes & Restaurants	2.5	2.6
Transport & Storage	7.5	7.7
Media & Telco	1.3	1.5
Finance & Insurance (non-banks)	3.6	3.4
Property & Business Services	12.7	12.9
Personal & Other Services	9.3	8.9
TOTAL	100.0	100.0

D.

Age of Business (Years)	H1 2018 (N: 1253)	H2 2018 (N: 1252)
Average number of years in business	10.8	11.2

E.

Headcount of Business	H1 2018 (N: 1253)	H2 2018 (N: 1252)
Average Full Time Employees in business	72.0	71.0

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.

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ABOUT SCOTTISH PACIFIC

This year, Scottish Pacific celebrates its 30th year of providing funding solutions to owners of small to medium businesses.

Established in 1988, Scottish Pacific Business Finance (ASX: SCO) is Australia and New Zealand's largest specialist provider of SME working capital solutions.

Scottish Pacific handles more than $17 billion of invoices each year, providing funding lines exceeding $1 billion, and lends to a wide range of business owners, providing working capital from $10,000 for a start-up funding to $100m to fund the growth of a small public company.

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

With full operations centres in Sydney, Melbourne, Perth, Brisbane, Adelaide, Auckland, London and China, we offer a comprehensive range of debtor finance, trade finance and specialised finance solutions thatcan remove property security from the funding equation for business owners.

We take a more flexible view on the financial strength, and potential, of a business. We can fund businesses through all stages of the economic cycle, and all stages of their existence from start-up through to sale of the business, from high growth to seasonal challenges.

Scottish Pacific was awarded Australia's best Cash Flow lender for three years running (2014, 2015 and 2016) and received global TFG International Trade Finance Awards for best business finance provider in 2015 and 2017.

As a specialist provider of working capital, Scottish Pacific is well placed to understand the needs and the sentiment of SME businesses, and initiated the *SME Growth Index* to:

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

The next Scottish Pacific *SME Growth Index* will be released in March 2019.

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