SME Growth Index

March 2024

ScotPac Business Finance

Research completed in partnership with East & Partners, surveying Business Owners and Decision Makers in Australia.

CELEBRATING 10 YEARS OF RESEARCH

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Preference for non-bank lending remains at an all-time high of 47%

Welcome to the 10th anniversary edition of the SME Growth Index (SMEGI) Report, ScotPac's flagship research series that has been the pulse of Australia's SME sector for the past decade. Produced in partnership with East & Partners, the SMEGI Report has charted the growth outlook, ambitions and concerns of hundreds of SME owners and operators twice a year, providing unparalleled insights into the world of business that are the backbone of our economy.

The past decade has been a rollercoaster ride for businesses everywhere. From the shock of a global pandemic that upended supply chains to the whiplash of 13 interest rate hikes in just 15 months, SMEs have navigated some of the most turbulent economic waters in history. And through it all, they've had a front-row seat to the breathtaking pace of technological change, with e-commerce and artificial intelligence emerging as transformative forces.

So, what have we learned from a decade of SMEGI research? Here are a few key trends that stand out:

- **SMEs are leaner:** Australian SMEs have trimmed the fat, with the average number of employees in businesses with up to $20 million in annual revenue plummeting 40% since 2014. Technology, particularly e-commerce, has been a key driver of this shift towards leaner operations. With labour costs and cash flow management still top of mind for SME leaders, the smaller team trend is likely to continue in the years ahead.
- **Non-bank lending has surged:** A decade ago, just 7% of SMEs were considering non-bank lenders for their financing needs. Today, 52% of SMEs intend to use a non-bank lender for new investment, and a staggering 90% of SMEs say they are open to the idea of working with a non-bank lender. The speed and ease of services offered by non-bank lenders like ScotPac have made them an increasingly attractive option for SMEs investing in growth.
- **Growth projections widen:** The gap between high and low SME growth projections ballooned to a record 38 percentage points in 2024 - more than double the 18-point divide of a decade ago. On one side, SMEs in booming growth sectors like mining and energy grew more optimistic. On the other, the lightning-fast ascent of online shopping left brick-and-mortar retailers scrambling to adapt; supply chain bottlenecks saw builders face surging costs and critical material shortages; and cost of living pressures squeezed discretionary spending on restaurants, hospitality and entertainment.

The growing chasm in SME revenue projections paints a vivid picture of a two-speed economy, where some businesses are thriving, particularly in the resource rich States of Western Australia and Queensland, and others are battling to survive.

Weight of New Regulations Casts Shadow Over Sunny 10-Year Outlook

As we look to the decade ahead, half of Australia's SMEs feel positive or very positive about the future, easily outpointing the 18% in the negative camp. Investment in technology – with a focus on AI – was rated a top-three growth influencing factor, along with the cost of wages and general business expenses, including inflation and interest rates.

In the short-term, 53% of SMEs are forecasting revenue growth in the six months to August 2024. However, there is a growing sense that SMEs feel they are carrying an unfair regulatory load. 70% said government policies or regulations are their biggest barrier to growth, followed closely by the impact of new employment laws and wage costs. In a surprise finding, 64% of SMEs said pausing scheduled increases to the Superannuation Guarantee would be the most helpful thing the Government could do for their business.

As we analyse all the insights in this 20th edition of the ScotPac SMEGI Report, one thing is clear: the ability to adapt and innovate will be vital to success in the next 10 years in an increasingly polarised SME landscape.

For now, sincere thanks to all the participants who have taken the time to share your knowledge and insights over the years. We hope you find the report of interest and value.

Jon Sutton
Chief Executive Officer
ScotPac Business Finance

10 years snapshot of ScotPac's SME Growth Index

- Average SME employee numbers declined from 88 to 56
- 6-month positive revenue forecasts for SMEs fell from 63% to 53%
- SMEs in a business growth phase dropped from 45% to 39%

- Intention to use non-banks to fund new investment skyrocketed from 7% to 52%
- Range of high and low growth estimates for SMEs grew from 18 to 38 percentage points
- SMEs in a revenue business contraction phase climbed from 9% to 24%

- An identical 59% of SMEs confirmed plans to invest in their business in the next six months in both 2014 and 2024
- Across the decade, six-month investment plans for SMEs peaked at 65% immediately prior to the pandemic in 2019 and hit a record low of 52% just a year later

2024 SME growth index highlights

Positive six-month revenue growth forecasts reached a record high of 8.8%

The proportion of SMEs projecting negative revenue growth reached a record high 32%

A record 52% of SMEs plan to fund new business investment using non-bank lending

62% of SMEs have been impacted by ATO debts in the past 18 months

64% of SMEs said the Superannuation Guarantee is a leading regulatory pain point

50% of SMEs are positive or very positive about the 10-year outlook for SMEs

23% of SMEs predicted labour costs will be their biggest challenge in the next decade

71% of SMEs will stick with brokers and advisors who deliver actionable recommendations and do what they say they will

Easier onboarding remains the top reason SMEs seek a non-bank lending partner

SME confidence remains solid in patchy national picture

Growth forecast disparity hits all-time high

Overview

More than half of Australia's SMEs are predicting business revenue growth in the next six months, compared with a third flagging revenue decline. Just 15% of the national SME market were expecting revenue to be unchanged.

While the number of SMEs forecasting business growth declined slightly, the average growth rate projected (8.8%) was the highest in the 10-year history of the SME Growth Index, eclipsing the previous high mark (8.6%) in the first Report in 2014. It was significantly more upbeat than the record low growth rate of 3.3% predicted at the height of the pandemic in September 2020.

At the other end of the scale, the average rate of revenue decline forecast by the 32% of SMEs in this category was -10.4%, a record level of pessimism. Similarly, the disparity between the highest and lowest growth projections reached its highest-ever level of 38 percentage points, from +14.3% to -23%.

Across the nation, large divisions emerged in business growth forecasts. Western Australia and Queensland were the most optimistic, with 89% and 81% respectively projecting revenue growth, compared with just 14% in Victoria. New South Wales SMEs remained in the middle of the pack with 43% expecting business growth.

53%

SMEs are forecasting business enterprise growth over the next six months

32%

SMEs expect revenue decline by an average rate of -10%

89%

SMEs in Western Australia are confident of revenue growth compared with 14% in Victoria

Top takeouts for SMEs and brokers

Despite stubbornly high inflation that has increased business costs and reduced consumers' purchasing power, most Australian SMEs are remarkably optimistic about their short-term growth prospects. However, there are signs of wear, with the proportion expecting an uplift in revenue dipping from 57% to 53%.

The gulf between the most positive and pessimistic revenue growth projections again stretched to a new high, continuing the trend of the past two SME Growth Index Reports and highlighting the variance in State and regional economic conditions and performance across different sectors.

The data presents valuable market insights for brokers into the diverse needs of Australian SMEs. There are clear opportunities for brokers who specialise in growth financing, as well as those who offer business support strategies. Agility and responsiveness will be key for brokers in the current economic climate.

When it comes to funding solutions, ScotPac offers brokers and their clients more choice than any other lender in the market. From simple to complex, large or small, we have a funding solution for every business need in just about every circumstance.

Huge SME swing towards non-bank lending for new investment

Six in ten SMEs plan to invest in their business in the next six months

Overview

90% of SMEs have declared they would consider using a non-bank lender in today's market – a remarkable turnaround from 2014 when just 7% said they planned to borrow from a non-bank lender, and 2018 when 44% declared they would never consider non-bank lending.

Across the board, almost 60% of SMEs confirmed they plan to invest in their business in the next six months, an identical result to that recorded in the first SME Growth Index Report a decade ago.

However, the proportion planning to fund new investment through non-bank lending shot to a record high 52%, up from just 15% in 2018. This comfortably exceeds the 42% that intend to use a bank as a primary or secondary funder of new investment.

Stable and declining growth SMEs are increasingly reliant on a combination of bank and non-bank lending. This continues the trend of 'multi-banking' which has surged in prominence in recent years.

The high level of investment intention among SMEs aligns with ABS capital expenditure data on business investments, which topped A$40 billion in the final quarter of 2023 for the first time in eight years.

59%

SMEs are planning to invest in their business in the next six months

52%

SMEs plan to fund new investment with non-bank lending, exceeding bank lending at 42%

90%

SMEs said they would consider using a non-bank lender

Top takeouts for SMEs and brokers

SME business investment plans remain very strong, fuelled jointly by successive extensions of the Instant Asset Write-off Scheme and the increase in accessible SME finance options in today's market.

While the rise in non-bank lending for new investment over the past decade has been dramatic, this trend looks set to continue as SMEs prioritise ease and speed of transactions over single-lender loyalty. This new lending landscape presents opportunities for SMEs and brokers.

Business owners can access a greater range of lending products today that better match their needs. Whether they want to buy a new vehicle, import stock from abroad or use cash reserves for a fit out, their brokers will find a specialty product to match.

For brokers, the increased demand for non-bank lending solutions plays directly to their strengths in navigating complex funding markets and finding the right deals for their clients.

ScotPac offers the most comprehensive range of funding solutions to meet all types of business needs. In addition to our established Invoice Finance, Asset Finance and Trade Finance products, our Boost Business Loan and Cash Line products now give SMEs even greater access to fast, easy and flexible finance.

Government policies top crowded list of SME growth barriers

SMEs have become desensitised to high-interest rates

Overview

Seven in 10 SMEs have nominated unhelpful government policies as a leading barrier to business expansion, with 42% also citing a similar theme of regulatory red tape as a major impediment.

While individual policies were not specified, perennial concerns over company and payroll tax rates were separately noted in this SMEGI Report by SMEs as having a major impact on their businesses. A further two-thirds of SMEs have been impacted by ATO debt recovery action in the past 18 months.

Unsurprisingly, cash flow security remains a critical issue for SMEs, with 69% of respondents listing it as a key growth obstacle. Staffing regulations and employee costs also loomed large as a handbrake on growth, as SMEs struggle to implement new industrial relations laws. Two-thirds of SMEs said hiring rules were a major hurdle, while 65% cited the cost of wages and benefits as a concern.

Of note, high interest rates were not flagged as a major growth barrier for SMEs, with just 40% of respondents identifying the cost of credit as a growth limiting factor. This suggests that businesses may have become accustomed to operating in a high-interest-rate environment.

70%

SMEs listed government policies as major barrier to business growth

69%

SMEs said cash flow remained a key growth obstacle

40%

SMEs identified interest rates or the cost of credit as a growth limiting factor

Top takeouts for SMEs and brokers

Amid equally weighted concerns about the impact of government policies, employee related issues and cash flow certainty, it is clear there is no single solution to clear the path to growth for Australian SMEs.

However, the fact that just two in five SMEs cited the cost of credit as a barrier to growth suggests SMEs see value in incorporating working capital and other lending strategies as part of their future growth plans.

SME owners and operators should sit down with their broker regularly to discuss the key economic challenges they are facing. Whether it's red tape and compliance costs, tax office debt, or gaps in cash flow, brokers can help to develop resilient financial strategies to navigate these uncertainties.

With more than 35 years' experience helping SMEs grow and succeed, ScotPac understands the challenges that hinder investing for growth, and we have the broadest range of products to assist.

ScotPac's Partner Portal provides brokers with a virtual toolbox to help them find the best cash flow management solutions for their clients, whatever their circumstances and needs.

SMEs reward proactive brokers and advisors with loyalty

Alternatives to home equity finance grow in popularity

Overview

More than 70% of Australian SMEs prefer to keep their business with brokers and advisors who provide proactive, actionable recommendations that are specifically relevant to their needs.

Regarding expectations, 44% said they simply want brokers and advisors to deliver on their promises. Additionally, one-third of SMEs value introductions to new opportunities and contacts within their broker or advisor's network, underscoring the potential benefits of a well-connected professional.

In terms of finance, SMEs are increasingly demanding more flexibility. Products that avoid putting family homes, other properties, or personal assets at risk by not requiring them as equity are in favour.

When asked to rank the top three factors influencing their choice of lender, ease of onboarding and compliance ranked highest, favoured by 25% of SMEs.

Speed of funding remains essential for time-constrained SMEs, with 18% ranking it as a key consideration. Similarly, 18% of SMEs highly value the ability to secure financing without using residential property or other personal assets as collateral.

71%

SMEs will stay with brokers who give proactive and relevant advice

32%

SMEs welcomed introductions from across their broker or advisor's network

18%

SMEs value alternatives to property-backed finance

Top takeouts for SMEs and brokers

Brokers that deliver their SME clients relevant advice that is tailored to their needs and take the time to follow through will likely be rewarded with their long-term loyalty. That is the key take-home message from these findings, which highlight the enduring value and importance of personalised, outcomes-focused advisory services.

At a time when SME loyalty to primary lenders continues to slide, it follows that business owners are increasingly reliant on the advice of their brokers and, in turn, their professional networks. It is a growing opportunity for well-connected brokers to create a point of difference and make life easier for their busy SME clients.

The preference for finance without residential property as security underscores the growing need for flexible collateral requirements in today's market. Brokers who stay connected with new products that meet this need, such as ScotPac's Cash Line, can better assist their clients and grow their own businesses.

Cash Line is a fast and easy way for SMEs to access cash-on-call. Funds are secured against business assets rather than an owner's property assets. This removes stress and inconvenience and gives more SMEs the freedom to succeed.

Rising Super Guarantee is the leading regulatory pain point for SMEs

Measures to ease cash flow impacts and compliance burden are high on SME wish lists

Overview

Two-thirds of Australian SMEs say the rising Superannuation Guarantee is having a big impact on their business, outweighing new labour laws and ramped-up ATO collection activities at the top of the list of regulatory challenges for SMEs.

From 2014 to 2021, Australian employers paid 9.5% of each eligible employee's earnings into their nominated superannuation fund. However, the figure has since risen to 11%, and two further increases are planned - to 11.5% in July 2024 and 12% in July 2025.

Both SMEs with declining or stable growth (67%) and those in a revenue growth phase (60%) identified the rising superannuation guarantee impost as their leading regulatory pain point.

New industrial relations laws remain a leading concern for SMEs, with 60% backing a relaxation of the pace and extent of changes.

More than half of SMEs called for company tax cuts to ease the pressure on their cash reserves, while 43% want BAS compliance requirements further simplified.

While a third of SMEs said they would welcome some regulatory intervention to address cost-of-living issues, the majority were focused on a reduction in regulation.

64%

SMEs independently said the Superannuation Guarantee is having a major impact on their business

58%

SMEs backed the easing of new Industrial Relations laws to reduce compliance burden

35%

SMEs called for new measures to address inflation and cost of living pressures

Top takeouts for SMEs and brokers

In the current economic climate, SMEs are particularly sensitive to any cash flow and administration impacts associated with regulatory changes, which explains why the super guarantee is a particular pain point.

Unlike large corporations, SMEs generally don't have dedicated teams to interpret regulatory changes, implement compliance measures and redraft company budgets.

Brokers aware of regulatory changes that apply to SMEs will be best positioned to provide expert guidance on managing any additional costs. For example, they could analyse a business's financial position and recommend optimal solutions to minimise the impact of the increasing Superannuation Guarantee.

By leveraging a broker's expertise and network, SMEs can develop a proactive strategy to absorb rising regulatory costs and maintain flexibility in their working capital.

ScotPac has been helping Australian businesses optimise their cash flow and manage cost pressures for over 35 years. With the largest and most flexible range of working capital products, We make it faster and easier than ever for SMEs and brokers to find the right finance solutions.

Volatile Cost Base Clouds divided 10-year outlook for SMEs

Labour and Business Costs Outweigh Investment in Tech & AI as key factors

Overview

A remarkable 50% of Australia's SMEs stated they feel positive (20%) or very positive (30%) about the 10-year prospects for small and medium businesses in this country. The upbeat sentiment dwarfed the 18% of SMEs who are negative or very negative about the outlook, while a third preferred to sit on the fence.

Unsurprisingly, SMEs in a growth phase are the most bullish with 74% in the positive camp, while 44% of SMEs with declining or negative growth declared uncertainty.

Almost a quarter of SMEs said rising labour costs were the main factor that will impact business growth in the next decade. This just shaded general business expenses – including inflation and interest rates – which was nominated by 22% of SMEs.

One in five SMEs said investment in technology, including artificial intelligence, would be vital to remaining competitive. However, with the cost of doing business expected to keep rising, all spending would have to meet higher return on investment standards.

Less than one in ten SMEs rated access to finance as a factor that will impact their ten-year growth horizon.

50%

SMEs are positive or very positive about the 10-year growth outlook

23%

SMEs flagged rising labour costs as a key growth-determining factor to 2034

21%

SMEs rate investment in technology / AI as vital to remaining competitive

Top takeouts for SMEs and brokers

The resilience and positivity of Australia's SME sector is alive and well with less than one in five business owners adopting a glass-half-full attitude towards the next ten years. However, that's not to say they think it will be all smooth sailing.

SMEs predict that inflation and interest rates will remain high for at least part of the next decade. This means that careful cash flow management will remain the order of the day. Rising wages are also a concern, so the trend of SMEs hiring fewer employees and adopting innovative solutions is set to continue.

Brokers will play an increasingly important role in helping SMEs grow and innovate by providing the best financial solutions. Those who keep up to date with industry trends and gain expertise in supporting SMEs in new and emerging sectors increase their chances of success.

New technologies that incorporate streamlined loan applications, advanced credit analysis, and digital financial management tools promise to make onboarding and funds management even easier over the next decade.

ScotPac's significant recent investment in technology has delivered Australia's leading SME financing platform. It ensures we are fit for the future and ready to provide quick and easy solutions for more SMEs and brokers in any situation.

Methodology

ScotPac's bi-annual *SME Growth Index*, is Australia's longest running research report on SME sentiment towards revenue growth prospects.

This is the 20th consecutive round of ScotPac's SME Growth Index. Each index round includes a mix of core questions that are repeated biannually, and special questions, which are refreshed in line with changes in the SME environment.

The Round 20 research was conducted by East & Partners who interviewed 727 SME enterprises with annual revenues of A$1-$20 million.

SMEs surveyed have operated continuously for an average of 15 years and manage an average of 57 full time employees.

Sectors represented in the survey included Manufacturing (14%), Property & Business Services (14%), Retail (11%), Wholesale (12%), Personal & Other Services (10%), Construction (10%) and other industries including Transport & Storage, Mining, Agriculture, Media, Hospitality, Finance & Insurance (non-bank) and Electricity.

All interviews were conducted over the telephone or face-to-face by an accredited East & Partners interviewer, speaking with the company Founder / CEO, CFO, Finance Director or Treasurer. The sample was framed in accordance with ANZSIC codes to provide a natural sample of the Australian enterprise population.

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Since 1987, East & Partners' market research, analysis, and advisory services have informed the decision-making of leading commercial, business, and institutional banks and funding providers globally. East & Partners offers clients unbiased access to the true voice of their customers, providing the competitive edge needed to navigate the complex and dynamic B2B financial services and banking markets. This results in better outcomes for their organisations, their customers, and the industry.

ScotPac
Business Finance

About ScotPac

ScotPac is Australia and New Zealand's largest non-bank SME business lender, providing funding to small, medium and large businesses from start-ups to enterprises exceeding $1 billion revenues. Our breadth of experience and suite of products means we can help more businesses in more situations than any other non-bank lender.

For over 35 years ScotPac has helped thousands of business owners succeed, offering fast and flexible funding. From simple to complex, small to large, start up, growth or turnaround – ScotPac can help with a range of funding including Invoice Finance, Trade Finance, Asset Finance and Business Loans.

ScotPac's ongoing commitment to innovation, backed by significant investment in technology, is a key driver of the popularity of our products.

In 2024, we introduced Cash Line, a quick and easy way for any business with a cloud accounting package to have cash on call for when opportunities arise. Cash Line operates like a flexible line of credit, but without the need for property security. It was designed in response to feedback from brokers and SMEs and made possible by a clever operating platform – a great example of technology-enabled innovation.

ScotPac is Australia and New Zealand's:

- #1 independent Invoice Finance provider
- Leading technology-enabled Largest non-bank business lender
- Largest, longest standing and most experienced non-bank business lender
- Non-bank lender with the broadest range of solutions

Key Facts:

- Over 300 employees across Australia and New Zealand servicing over 8000 clients
- Client numbers growth of more than 400% over the past three years
- Increase in lending of more than 80% over the last two years
- Significant investment in technology to establish the leading SME financing platform in Australia

ScotPac
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