GET SET FOR THE YEAR AHEAD

ESSENTIAL INSIGHTS INTO SMES:

THE TOP 10 TRENDS FROM THE *SMARTCOMPANY* – CROWE HORWATH SME DIRECTIONS SURVEY 2014

smartcompany

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Contents

Introduction

As SMEs prepare their strategies and goals for 2015, it is clear they are undergoing some of the biggest changes in the history of modern business. The digital revolution has completely altered not just the way businesses carry out their marketing strategies, communicate with their customers and sell their goods and services, it has also shaped their business models, and will continue to do so in dramatic ways.

The past year has been a challenging one: Australia has experienced geopolitical conflict and economic turmoil both at home and abroad, as well as the introduction of a new government whose aim to introduce several structural reforms has kept SMEs on their toes.

The fifth annual *SmartCompany* – Crowe Horwath SME Directions Survey reveals how businesses are coping in this climate and takes a look at how they think and what their priorities are. It offers the ultimate insight into what makes SMEs tick.

As in the past four years, the survey's results reveal a myriad of trends. Despite the Coalition's insistence on cutting red tape for business, SMEs are generally unhappy with the new government's approach and are waiting to see more.

As always, cashflow remains a problem. SMEs are still pessimistic about the economy, and while many have plans for new staff, around 40% are not planning to hire in the near future.

But there is positivity, too. In the digital sphere, SMEs are becoming increasingly adept at navigating various social media platforms and are becoming used to using more cloud technology. In fact, many plan to up their efforts when it comes to embracing cloud-based software – evidence the digital revolution is taking hold.

This eBook contains the survey results from more than 400 small to medium business owners. It delivers key insights that will help you see what your fellow SMEs are up to, and aid your planning for 2015.

The SmartCompany team

Who are *SmartCompany*'s readers?

Where are they based?

Of the 437 respondents to the survey, the majority represented businesses located in Sydney and Melbourne with only 22% listing their location as regional.

Following New South Wales and Victoria, Queensland was the third-most common state in which businesses were located (39%), followed by South Australia, Western Australia, ACT and Tasmania. The Northern Territory was the least common location at 14%.

What do they do?

Property and business services was the most common industry cited (13%), followed by retail or wholesale trade (12%), and then finance and insurance (8%). The least commonly cited industry was cultural and recreational services, which only four respondents stated as their specific market.

Most of the respondents (71%) were the owner or proprietor of their business, followed by members of the C-Suite (10%), then senior executives (5%) and board members (2%) – other staff members (managers and employees) made up 9% of the respondents.

Age and gender

The most common age group was over 55 years old, cited by 37%, along with those over 45 years old at 34%. Only two respondents cited being under 25 years old, while 26% of respondents said they were between 25 and 44; 71% of the respondents were male.

Experience and longevity

The vast majority of businesses in the survey are long-standing, with 51% having been around for over a decade, followed by another 17% having lasted more than five years.

However, the number of businesses that have existed for less than three years actually outnumbers businesses that had been around between three and five years, at 20% to 10% respectively.

Number of employees

In line with the lower revenue figures, 42% of businesses cited only having between one and five staff members. Over 22% have between six and 20 staff members, with only 5% having more than 100 employees on the books.

Revenue

The vast majority of the businesses surveyed had under $1 million in revenue, with that range cited by 56% of respondents. Those businesses with between $1 million and $5 million in revenue made up more than 23% of respondents, with only 2% making more than $50 million in revenue. Note: 26 respondents chose not to disclose their revenue.

Trend 1: Cashflow is the biggest worry, again

Business has endured a tough year. With the election in 2013 and subsequent political and economic transformation, international crises in multiple industries and increasing volatility caused by digital disruption, SMEs have faced a significant number of burdens.

But in anticipation of the year ahead, survey respondents suggest their main problems are the same as ever.

The biggest challenge cited for 2015 was cashflow, with 66% of respondents saying this was their top threat, followed by red tape and administration issues at 45%. This is despite the Abbott government pledging to erase more $1 billion worth of red tape during its tenure.

And despite the volatile year in parliament, legislative change was only cited by 21% of businesses. Employee retention came in fourth at 17%, and import and export strategies accounted for 10%.

One-fifth of respondents cited other problems, including nervous customers, hiring good staff, and even climate change – a significant burden for tourism businesses as unseasonable weather continues.

Trend 2: Concern surrounding the economy continues

Businesses and SME owners retain a tepid view of the economy overall. Over 40% say they will be hiring, but 23% are unsure – and one-third say they won't be looking for more staff at all in 2015.

Many cite a weak or sluggish state of affairs: "Confident but cautious," said one weary respondent. "It seems to be 'tentative' at best," another said in relation to the coming year.

However, businesses have also cited a slower economy as an opportunity, an idea which SMEs can embrace as they prepare their strategy for 2015.

"[The economy is] rife with opportunities for those that persist and consider the greater community in their business model," said another.

The 'worry list' – issues the SME community is most concerned about for the coming year – places the Australian economy at third, one position lower than last year. Tax and business regulation, on the other hand, has risen to the second spot.

Worry list: Nov 2013

1. Cashflow
2. Australian economy
3. Rising costs
4. Tax and business regulation
5. Global economy
6. Skills shortages
7. Australian dollar
8. Industrial relations
9. Interest rates
10. Carbon Tax

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10. Pace of technology

A time of transition

"Currently there is a big transition between the mining-led states and the eastern coast. At this stage there's a to-ing and fro-ing about how that transition is taking place, and I think people are uneasy about that right now.

At the same time, looking at the political environment, there hasn't been a lot of the budget that has been successfully implemented. There's also the rhetoric of the currency being too high and that being an impediment as well. There's a very big feel of 'wait and see' among consumers and businesses – waiting and seeing if things improve.

People are spending money, just not on big-ticket items. So businesses need to make sure they're on the right path. Until consumers pick up in sentiment, make sure your clients and customers are happy with what you're doing.

Be confident and you'll be in a strong position when things pick up."

Jeremy McPhail
Head of Research at Crowe Horwath

Trend 3: Cloud adoption is on the rise

The 'cloud' has become a buzzword, but it represents not just the future of computing but business as a whole. As SMEs prepare for 2015, the cloud is one tool they can think about engaging with to assist with productivity. A significant amount of services now operate in the cloud, and SMEs are becoming more used to the idea of a recurring subscription for what was once a standalone piece of software.

At the same time, the huge amount of data and analytics being pumped into existing business processes – thanks to new digital models – is allowing SMEs to make better decisions based on more accurate information.

Both of these trends are clear among the survey respondents.

Just less than one-third of respondents said they use a cloud-based accounting software package. And among those who do, the most common benefit cited was real-time accessibility of data, at 25%. The joint second-most common benefits included increased efficiency within the business and improved business systems, for example being able to integrate that software package with other elements of administration.

Among those who use cloud accounting systems, 56% cited Xero as their program of choice, followed by MYOB and a variety of others, including FreshBooks and EasyBooks.

Perhaps surprisingly, among those who said they do not use cloud-based accounting software, 27% said they don't plan to transition to a cloud accounting system. And of those who do plan to transition to a cloud accounting system, 22% say they will do so in the next two to five years, 19% say they will make the move in the next 12 months, and 8% say they won't be moving to a cloud accounting system for at least another five years.

However, cloud-based software is popular overall, with 59% of all respondents saying they use cloud software for other business services such as data storage, customer relationship management and document filing systems.

One of the biggest challenges facing businesses, both large and small, is the amount of secure information under their responsibility.

Appropriately, this is reflected in the responses – with security cited as the main reason for not adopting cloud platforms.

But that isn't necessarily stopping SMEs, with 47% reporting they intend to increase their usage of cloud-based software in the year ahead.

Trend 4: Red-tape pledge not a winner among SMEs

The 2013 election was a massive transition for all Australians, and businesses especially. After seven years of Labor rule, the Coalition made a number of key promises to SMEs, including cutting $1 billion worth of red tape.

But a year on, as SMEs are working out where to invest and innovate in 2015, it seems respondents to the survey aren't necessarily happy with the direction the new government is going in.

Nearly half the respondents (44%) said they were less satisfied with the direction the government has been going, and 42% are unchanged – only 14% said they were more satisfied with the way the government has been performing compared to the last.

And despite the Coalition's insistence the budget is better for business, 48% of respondents say they are less optimistic after it was revealed and only 15% say they are more optimistic.

In a similar vein, only 20% say they will see a benefit from the Carbon Tax repeal, with 65% saying they don't expect to see any difference.

Additionally, respondents don't believe the government is living up to its promise to cut red tape, with 69% saying the Coalition is falling short of its goal and only 8% believing the Coalition is living up to the pledge.

Only 20.5% of respondents say they have initiated new business efforts after the election. Among those that didn't, a variety of responses were provided but many say they do not believe the current business climate has changed enough.

SMEs continue to be bogged down by red tape, despite the Government pledge to cut it back.

Trend 5: Benchmarking? Businesses prefer to go it alone

As SMEs get set for another year of business, it seems that they are in two minds when it comes to measuring their success - they either consistently measure themselves against the competition, or they ignore all external factors. Similarly, respondents show they're not against benchmarking, but the overwhelming majority prefers to go it alone.

According to the results, 71% say they don't look at benchmarking tools, instead preferring to use a host of other metrics in order to determine how far along – or behind – their business really is.

The most common tool cited for benchmarking is company reputation; a more complex choice than it first appears given this can encompass a huge amount of information from social media and other sources.

The second-most commonly cited metric was customer feedback followed by the size of the customer base.

Interestingly, the top three choices are focused primarily on information obtained from customers, rather than from generalised benchmarking tools.

Respondents are wary of outsiders commenting on their business, with the second-least commonly cited tool being expert advice from outsiders. The least commonly cited tool was exporting activities.

But for businesses that compare themselves against competitors as a viable method to quantify growth, there are a myriad benefits cited as a result. Being able to see clear possibilities and opportunities to improve the business came out on top, with the second benefit linking to a larger trend within business as a whole – being able to make decisions based on data and information, rather than assumptions or emotion.

The survey reveals the usefulness placed on data and a greater trend towards analytics. Respondents said they view real-time accessibility of data as a key benefit in cloud-accounting systems. They make decisions based on data, and analysing data properly and revealing important insights will be a major challenge and opportunity for businesses over the remainder of the decade.

Understand your performance

"The number of businesses not using benchmarking is a concern because it means they might not necessarily understand how they're performing in relation to their peers.

Considering many go into business in order to create wealth, benchmarking creates an understanding of how that can occur and the market expectations of wealth.

One big concern is that additional benchmarking information is often misleading, and can just be based on financial reports. So you have a mixture of operational data and funding data.

Traditional data can be very misleading to individuals, and when you're benchmarking you need to be able to separate funding from operations, and then look at either aspect individually to provide an overall view that is more accurate."

John Swete Kelly
Business Advisory Principal at Crowe Horwath

Trend 6: Growing sales a key priority for 2015

The Australian economy has experienced a rough year in 2014, and this will be on the minds of SMEs as they form expectations for the next year of business. The share market has been under a significant amount of stress, with geopolitical conflict having a negative impact on the local marketplace. Conflict in Russia and Ukraine, the ongoing threat of ISIS in the Middle East and, back home, an entirely new government impacts more than just the travel industry – they have a certain amount of sway on consumer sentiment as well. Which is reflected in what SMEs have to say about the year ahead.

Asked what they believe will be the biggest challenge facing growth during the next 12 months, most businesses cited growing sales, followed by cashflow, access to capital, planning and then people – a significant problem for many businesses as they don't have time to work on their business, only in it.

Focus for the next 12 months, however, is slightly varied and more complicated. The most common strategy cited by businesses was organic growth, perhaps indicating a mixture of strategies.

Driven by the digital revolution, 'embracing new technology' was the second-most cited tactic, followed by improved pricing and margins, and growth via new products.

Trend 7: An imbalance in paying and receiving debts

Debt certainly won't be a problem hindering growth among survey respondents – they have an unusually tough approach to paying their invoices.

The results show 64% of respondents pay their debts within 30 days, well below the national average of more than 50 days, according to the latest data from Dun & Bradstreet.

Just less than one-third of respondents say they take between 30 and 60 days to pay down their debts, while just over 5% say they take more than 60 days.

Unfortunately, respondents aren't quite as efficient in having their own invoices paid. The majority (48%) said their debtors take between 30 and 60 days to pay, while 34% take up to 30 days. However, 14% take more than 60 days and 2% take more than 90 days. This insight demonstrates a key area where SMEs should be thinking of new strategies to overcome it in 2015.

Trend 8: LinkedIn the king of SME social strategy

The digital revolution has taken the marketing industry by storm and the way SMEs share their sales messages has changed significantly, with many striving to create a coherent social media strategy. Insights from the survey can help SMEs think forward to their social marketing for 2015. Once upon a time, a significant strategy would have included a huge chunk of print media, alongside television and radio. For many businesses those methods might now be completely irrelevant.

According to the survey's respondents, however, the main marketing methods still remain non-digital with referrals and word of mouth cited by 37% as the most popular method.

This was closely followed by social media (19%), with a tie for third place between a mix of marketing partnerships and sponsorships, and search engine optimisation.

For many businesses, the use of Facebook and other social networks is counted among word of mouth activity, so it makes sense to see social play second fiddle. What's more surprising, however, are the networks cited as the most effective.

LinkedIn was by far the most popular choice (41%) with Facebook coming in at 21%. This gels with the survey's other results, which show the majority of respondents are in the property and business services industries. Multiple studies show LinkedIn is the most effective network when it comes to generating B2B leads.

Only 4% find YouTube to be the most effective channel, with 3% citing Twitter and only one respondent saying they find Pinterest most effective.

Perhaps surprisingly, the third-most common answer was that social media was not useful in the respondent's business marketing strategy (17%).

Trend 9: SMSFs on the radar

Despite the plethora of investment strategies offered by superannuation funds, many business owners are heavily invested in self-managed superannuation funds (SMSFs). This year showed an uptick in the number of SMEs with SMSFs, but many are still not concerned with them.

34% of respondents said they maintain an SMSF. Last year, only 29.9% of SMEs said they had one, and in 2012 it was 33.7%, so this year has been the best result. The reasons given for not having one varied, from being unable to afford an SMSF to the infrastructure being too hard to access.

Of those who do have SMSFs, 57% said they didn't obtain expert advice. Last year 69.4% said they received professional advice, so there has been a decline.

Susie Salmon, head of superannuation and SMSF financial services at Crowe Horwath, told *SmartCompany* that SMSF trustees are generally more cautious than others with their super.

"SMSF trustees are more wary than other superannuants [when it comes to seeking advice]," she says. "They want to make sure they know how their investments are going."

She says trustees are focused on their independence. Salmon says Australians feel more invested in their super than other countries because the money is "our own personal" money instead of the government's.

Salmon says because of their strong interest in controlling their own investment, SMSF trustees are key contributors to the strength of the Australian superannuation system.

Susie Salmon
Head of Superannuation and SMSF at Crowe Horwath

Trend 10: Owners won't be exiting in the near future

As SME owners prepare for 2015, it is clear their investment will be very personal, as few are thinking of leaving their business anytime soon. A massive 69% said 'no' when asked if they were thinking of exiting their business in the near future.

And for those business owners who do plan to exit, they're not doing so within the short term. The most common response (43%) was to exit the business within a five to 10-year timeframe, followed by 33% who cited a two to five-year timeframe and 22% who plan to leave within two years.

Thank you

Thanks to the 437 businesses who took part in this survey. It is a privilege to hear your viewpoints so we can share them, and we hope these insights help you as you prepare for a successful 2015.

Background on the *SmartCompany* – Crowe Horwath SME Directions Survey

The *SmartCompany* - Crowe Horwath SME Directions survey was first conducted in December 2011.

The survey is distributed to over 50,000 SMEs throughout all states of Australia through the subscriber base of Smartcompany.com.au.

Since the first survey in 2011, subsequent surveys have been conducted in June 2012, November 2012, October 2013 and September 2014.

Further requests for information about this survey and the findings can be sent to admin@smartcompany.com.au.