

SME
RESEARCH
REPORT
2017/18



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Comments

Foreword



SMEs are the lifeblood of the economy, and there are more than 2 million actively traded businesses in Australia. SMEs are also highly valued clients of Rosenfeld Kant.

We have collaborated with Bstar to bring you this SME Research Report. The Report provides insights into the opinions and concerns of business owners, and explains how SMEs are surviving and thriving.

We know SMEs love hearing and learning from their peers. The Report contains comments and experiences of SMEs about their top business concerns, and ideas for addressing their needs.

This Report is different. It doesn't just provide statistics. Instead it looks at what's keeping business owners awake at night and discusses 3 new emerging trends:

- How business owners are acting to de-risk their business;
- Ways business owners are improving efficiency to increase profits;
- Why they want to work smarter not harder.

The Report highlights that SMEs want to make plans, but need help. Before they are willing to make changes, they need confidence in their plans, and accountability to ensure the outcomes are delivered.



Gary Williams



Elias Makris



Raul Valois

We value our relationships with our SME clients, and we know you are looking for assistance to grow, improve, reduce stress and succeed in your business.

Business advisory solutions are available, and the Report features information on the advisory solutions that are most wanted by SMEs.

Coinciding with the release of the Report, Rosenfeld Kant now offers our SME clients **The Better Business Program**, which is featured in the Report. It is the **#1 advisory solution** wanted by SMEs from their accountant - refer to **Part 7** for more information. The Program provides structure and process to support our SME clients to de-risk your business, grow and improve your profit and cash flow.

We encourage you to use the insights in this year's Report to take action. With our advice and support you can **take control of your improvement journey**. The first step is completing the **Business Risks Survey**, which is available on our website or can be emailed to you. This will give you a personalised Business Risks Scorecard (shown in the Report) with a snapshot of the key risks in your business.

We welcome your feedback on the Report, and look forward to discussing this further with you.

Yours sincerely,

Rosenfeld Kant & Co

Executive Summary



My goal? To succeed and reduce stress!

This quote, from the business founder of a wholesale/retail manufacturing business, goes to the heart of the themes we highlight in the 2017/18 SME Research Report.

Detailed in the Report there are many similar quotes, in fact, there are over **100 comments, ideas and strategies** from SME business owners explaining how they are growing, improving, thriving and achieving a more balanced lifestyle by actioning change with the advice and support of their 'essential' adviser.

Top 3 Business Concerns

Refer to Part 2 of the Report for discussion on Top Business Concerns



How are business owners going to achieve their goals?

Business owners are generally optimistic and believe they can achieve their goals, both in business and personally, they just need to put the right plan in place to succeed.

We are in a good position to extend our business into new areas. We have already sourced new products and we have initiated a training programme for key staff.

Business owners want to know how to work smarter, not harder. They are very interested in how they can change their business to be more efficient and productive. **79%** of SMEs want solutions to help them grow their business and its value, a 10% increase from last year.

The future of the car industry is going to have a massive effect on our [auto-electrics] business. Technology is getting cheaper and easier. What will the business look like in 5 to 10 years? We'll be dealing with hybrid cars, electric cars, driverless cars.

There is a theme that unites the top 3 business concerns – business owners are concerned about how to deal with the multitude of external changes and pressures that affect their business. They know they need to take action and make changes, but struggle to do so.

Common barriers to change

Many SMEs lack business financial management skills, so they need to look outside their business to obtain help. Only **one in three** business owners regularly spends time on strategic and business planning.

The **first barrier** to obtaining expert assistance is that they don't know what is available. Most are unaware that key advisory solutions are available to improve and transform their business. Refer to **Part 8 – The First Step** for more information.

The **second common barrier** is that SMEs don't know where to find expert help. While **69%** of SMEs have a trusted adviser, many have never discussed their business concerns with them.

I have been in business for 20 years, but until I dealt with [a **viba** Adviser], I had never found anyone that understood me and my business that I could talk to about issues I was dealing with. At the meeting, when we started to go through the Business Improvement Plan Report, it was such a relief to finally be dealing with these issues that I ended up in tears.

A large, dark blue, stylized number '79%' with a diagonal slash through the percentage sign.

of SMEs want solutions to help them grow their business and its value

A large, dark blue, stylized number '69%' with a diagonal slash through the percentage sign.

of SMEs have a trusted adviser, many have never discussed their business concerns with them.

It's not just SMEs who avoid the issues. Many advisers don't want to start a conversation about problems. They wait for the business owner to raise issues.

Another significant barrier is fee resistance. Many advisers tell us that SMEs aren't willing to pay for business improvement services. Our observation is that this barrier exists because SMEs are extremely value conscious. Before a business owner will commit to spend on advice, they must trust both the adviser and their solution.

Price is what you pay. Value is what you get.
(Warren Buffett)

Trusted advisers who can demonstrate the value that will flow from implementing advisory solutions are being engaged by SMEs. Refer to **Part 7 – SMEs most wanted Advisory Solutions** for information on 125 recent SME engagement proposals.

What's keeping business owners awake at night?

I am planning for the future of the business. It's not all about the numbers. I want to 'future-proof' the business, and increase staff engagement.

A common view is that the main concerns of business owners are cash flow and profit improvement, but that is overstating the situation. **Cash Flow** and **Declining Sales and Profits** were **#4** and **#5** Business Concerns – they are significant, but outranked by wider, more serious concerns.

We have embraced new technology, and that has meant we have been able to adapt to changes in the industry. It has increased our level of service to clients. This has given us the confidence to expand into new premises.

SMEs want to think strategically and plan for the future. Business owners are looking for ways to adapt to change, and become more efficient in the current changing and challenging economic conditions.

We've made some losses in the last few years due to the cost of reinventing ourselves. We've had to adapt to changes in competition and the business environment with new product lines, new attitude and changed staffing.

Business planning is the #1 Business Concern, unchanged from last year. **98%** of business owners believe there are opportunities to grow their business, and most have ideas to do so. What they lack is a plan - only **20%** had prepared a business plan.

#2 concern was **Protecting the Business and Family Assets**. Business owners want to protect what they have worked hard to achieve, and become more resilient. An emerging trend is that business owners are protecting these assets by focusing on identifying and removing risk from their business.

The majority of SMEs are planning to stay involved in their business. Only **15%** had set a retirement date. Business owners know that taking care of themselves is key to staying in business for the long term.

Stress and Lifestyle is #3. The increasing importance of this concern reflects the personal impact on business owners who are having to process and adapt to a rapidly changing environment.

This is particularly important for SMEs because of the heavy reliance on their owners. Only **27%** of business owners believed their business could operate without them, declining for the third consecutive year.



The pace of change really is increasing

“An analysis of the history of technology shows that technological change is exponential, contrary to the common-sense 'intuitive linear' view. So we won't experience 100 years of progress in the 21st century — it will be more like 20,000 years of progress (at today's rate).”

Ray Kurzweil, *The Law of Accelerating Returns*¹

1. "The Law of Accelerating Returns" by Ray Kurzweil, Essay published 7 March 2001. www.kurzweilai.net/the-law-of-accelerating-returns

Emerging Trends

(Refer to Part 1: Emerging Trends for more information)



What are SMEs focussing on?

SMEs are prioritising important, strategic business issues above purely financial KPIs. They are tackling risk management, improving efficiency and working smarter to keep their business healthy and ready to cope with new challenges.

Due to limited space, we can't really grow. Expanding into larger premises will increase costs and risk. My challenge is to maintain the clients and turnover we have now.

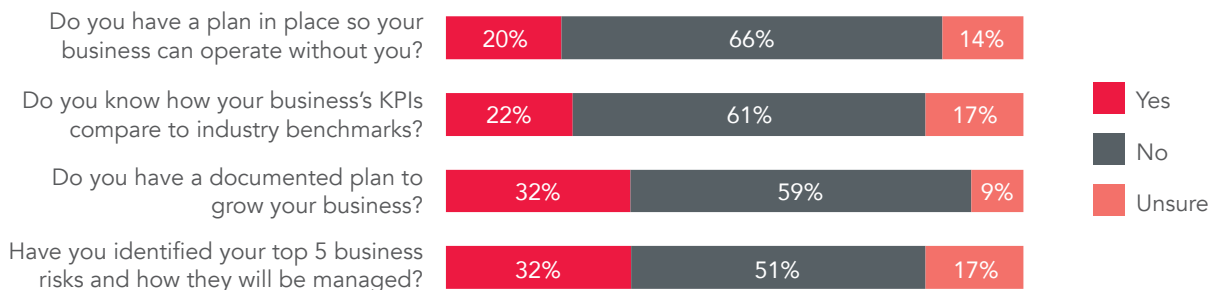
De-risking the Business

An emerging trend is how important it is to business owners to protect their business, personal and family assets from risks. SMEs are focussing on ways to de-risk the business. But only **32%** of business owners had identified their top 5 business risks and how they were to be managed.

We need to explore alternative manufacturing sources. This would increase business flexibility and vastly reduce our stock risks and the need to discount old stock.

In response to the emerging interest in analysing business risks, Bstar has introduced an online, self-assessment Business Risks Survey and Scorecard for SMEs. It is designed to start SMEs thinking strategically about their business risks, and start a conversation about available solutions. It **overcomes the common barriers to change** and **creates a win-win relationship** between SMEs and their business advisers.

HIGHEST RISKS FOR SMEs



Source: Bstar's Business Risks Survey ²

2. The data was collected using the responses of 106 SMEs across a wide range of industries in August & September 2017. The Bstar Business Risks Survey is an interactive online survey which produces the Business Risks Scorecard. Refer to the full 2017/18 SME Research Report for more information.

Improving Efficiency

Another emerging trend is the search for increased efficiency and productivity. SMEs know that it is hard to achieve growth, so they want to do more with their existing resources. The focus is moving to cost control, and increasing margins.

SMEs are monitoring Operating and Financial KPIs to target improvement in their business. But SMEs need accurate benchmarking information to do this. For more information and a list of these KPIs refer to **Part 6 – Benchmarks**.

I have no idea how we compare with industry averages, but I want to. We need to look at each arm of the overall business separately, and see how we are performing.

The majority (**60%**) of business owners are producing accurate and timely financial reports, but **only 22%** of SMEs know how their business' key performance indicators compare to industry benchmarks.

Addressing this need, advisers are seeing increased demand from SMEs for Cost Audits and Operating Cost Benchmarking Services. Refer to **Part 8 – The First Step**, on how to find an adviser who can provide these services.

Working Smarter

86% of business owners love their work, and **75%** spend time doing the things they enjoy so it is not surprising that business owners intend to remain in their business longer. **35%** of owners are deferring thinking about succession planning for at least 5 years and only **15%** have set a retirement date.

To be able to do so, they need to work smarter, not harder. A key indicator for most business owners is a good work/life balance. Unfortunately, **only 47%** of owners felt they spent enough time with their family.

Our most successful strategy has been the ongoing development of team members. We have fortnightly meetings where the sales team is actively involved in improving our systems, discussing changes and generally brainstorming ideas for growth. They are engaged and productive to grow the business, and they can do more for themselves.

Many owners want to reduce the SME's reliance on their personal presence and efforts, but **80%** of SMEs don't have plans in place to enable the business to operate without them.

There is high interest in advisory solutions that share responsibility, and give the owners more time to spend with their family and doing things they enjoy.



A comparison between the top 3 Business Concerns over the last 3 reports



How are SMEs taking action?

Successful SMEs are focusing on what is vitally important and making changes to improve their position. **40%** of business owners are working to increase their own business expertise, by investing in their personal training and development. They are also seeking out external support, using their networks, mentors and professional advisers, to support their goals.

If you don't know where you're going, you might not get there. (Yogi Berra)

SMEs can measure their success in many ways, but we have observed **two key constants** in their approach – confidence and accountability.

Confidence is needed to maintain the effort to change, and overcome resistance to change. Business owners need to believe in their goals and trust in the plan to reach them, if they are to make changes to their business model.

Accountability is key to successful implementation. Plans only work when individuals take responsibility for making it happen. Advisers are helping SMEs with solutions (such as the Chief Financial Officer Program and Board of Advice Program) which use regular meetings with internal and external stakeholders to make SMEs accountable for their agreed plans and time lines.

We know we have opportunities for interstate and overseas growth, and potential to grow online sales. We need to review and update our current three year plan. To date the implementation has not worked as well as we hoped.

Part 8 – The First Step

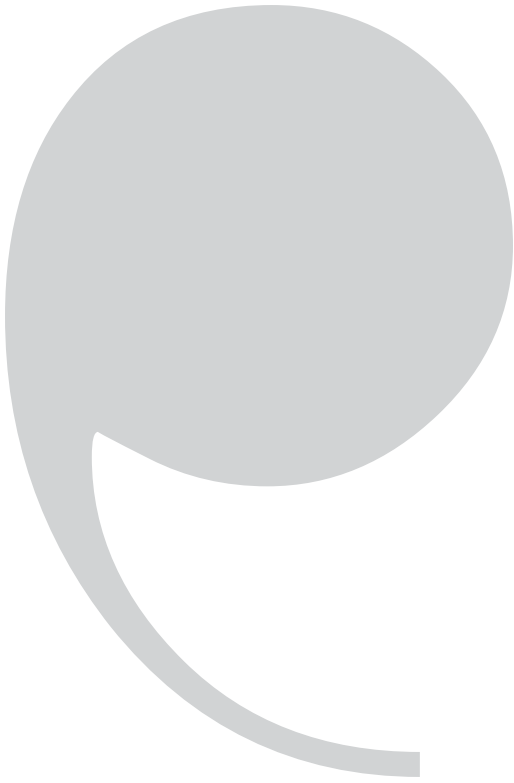
Business owners need an adviser, who has the expertise to help with solutions to their concerns: the 'essential' adviser. In many cases, SMEs are adopting the '2 Advisers Model' - one for the tax/accounting services, the other for improvement and 'sounding board' solutions.

The 2017/18 SME Research Report will give SMEs and their owners a unique opportunity to take control of the process. By applying the insights detailed in the Report to their business, it will prompt owners to take action where they have the greatest concerns.

There are professional services practices that specialise in value improvement benchmarking advice.

The first step is for an SME to find an adviser who can give them the confidence to make changes. They should be a 'sounding board' to provide accountability with ongoing support during implementation.

We discuss the types of solutions being recommended to SMEs to meet their needs and de-risk their business in **Part 7 – SMEs Most Wanted Advisory Solutions**. The Report also indicates the level of fees being charged by advisers, and package solutions for small, medium and large businesses.



Snapshot of Business Concerns

BUSINESS CONCERNS



Source: Bstar's Needs Review Process. The size of the bar signifies relative importance. Concerns are weighted by urgency.



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I have lots of concerns about most of these business issues - planning, staff, competition and business conditions. We need to work on everything from management through to our current operations. While our sales are growing, the profits aren't.

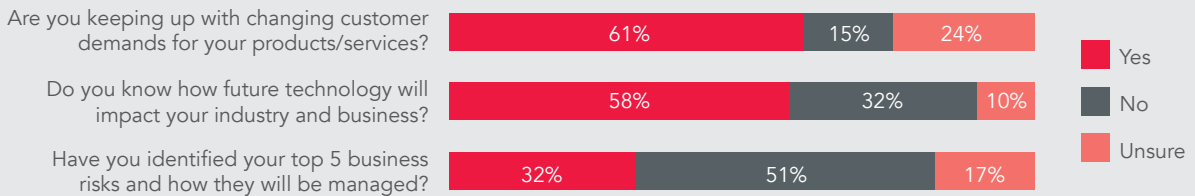
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PART 1

Emerging Trends



RISKS AWARENESS



Source: Bstar's Business Risks Scorecard



De-risking the Business is the strongest emerging trend we have observed in this year's report. SMEs are increasingly aware of the numerous pressures, both internal and external, which effect the operation of their business.

Business owners want to act. By understanding and addressing business risks and concerns, they will not only survive but go on to prosper.

In last year's Report we observed that SMEs were frequently unaware of the risks of operating their business. Instead they are tied up in day to day activities, seemingly too busy to take time to understand the broader operational risks and review these for improvements.

What's changing in the current very competitive climate? SMEs are more aware of the potential impact of external pressures. SMEs that can adapt to their changing industry will succeed and flourish. To do so, they need a strong focus on satisfying customer expectations around price, quality, delivery and service.

SMEs also know that they must be as efficient as possible. SMEs are increasingly worried about Profitability, and it is ranked **#5** Business Concern. They are reacting by looking for solutions, to help manage their costs and increase their margins.

Protecting their Business and Family Assets has increased to **#2** Business Concern. Business owners are also seeking advice solutions to help them de-risk and put protective measures in place.

How are SMEs addressing their risks?



TREND 1:

De-risking the Business

We're looking to reduce risk with a partial sale of the business. We have some "Open Book" discussions underway now with two parties.

This year's major new trend is De-risking the Business. Business owners are increasingly aware of a wide range of risks, more than just financial issues and as individual as the SME itself. They are looking for ways to manage those risks.

Our key business weakness is our reliance on [specific business owner], because he develops all the IP for the business.

Bstar has developed the **Business Risk Survey and Scorecard**

to help SMEs understand and manage risk.

This is a short form online survey of 10 questions which produces a scorecard for businesses. The survey is developed to start business owners thinking about broad strategic risks in their business, and whether they are being managed. By pinpointing areas of high risk, the Business Risk Scorecard helps the business owner (and their adviser) assess where the greatest need is within the business. It starts the process of developing strategies to manage and reduce those risks.

Initial results from over 100 SMEs who have taken the Survey showed that, while business owners are conscious of changing Business Conditions only **one in three** had identified their top 5 Business Risks (see Risk Awareness graph and more information in **Part 5 – Risks in More Detail**).

Refer to '**Part 7 - SMEs most wanted Advisory Solutions**' for further discussion on how advisers are helping SMEs address their risks.

The first things we need are a business strategy, and contingency planning for key roles. My big concern is that currently there is no surplus capital to invest back into the business.

SMEs are seeing Business Planning as the key solution to address their concerns around risk – and it has retained its position as #1 Business Concern.

We spread our risk by consulting across a wide range of clients and industries. It mitigates the risk of negative impact. Last year, a restructure at [major client] reduced our earnings there by 90% but we were able to pick up a large number of new clients in other areas.

But managing risk is about more than financial numbers – it needs to address the concerns that are keeping the business owner awake at night. These concerns are highlighted by increased importance of **#2** Protecting the Business and Family Assets and **#3** Stress & Lifestyle.

Conditions are tough. We've noticed a lot of local competitors have closed. On the upside, we've picked up their trade.

Electronic commerce, digital delivery and the internet continue to disrupt established business models in Australia. SMEs need to be nimble and adapt to their changing industry, and the new economic conditions. This is discussed further in **Part 5 – Risks in More Detail**.

Our key challenge is surviving the next 12 months with the economic slump in this State. Most of our competitors won't survive. Then we can look at growth and diversifying.

TREND 2:

Improving Efficiency

SMEs are reacting to concerns about increased competition and declining profits by looking for ways to be more efficient. The starting point for many business owners is to look at controlling and reducing their costs.

I am being priced out by the competition. I am going to have to work twice as hard this year.

The Business Risks Survey shows that **60%** of SMEs can produce accurate financial information on their sales, costs and profit margins, detailed for each key product or service category.

Planning is the immediate priority. We want to look at a system for job costings, so we can assess where we are at now and we want to get the business valued.

But SMEs struggle to obtain accurate industry information, such as KPIs and benchmark data on similar businesses. This data helps them understand their business' performance, and where best to focus their efforts to improve.

I bought the business from my boss, and I have built up revenue and increased profit, and probably doubled what it is worth. I am interested in getting a full review of the business, to find ways to better operate, to give me more free time.

Only **22%** of SMEs knew how their business's key performance indicators compared to industry benchmarks. Refer to **Part 6 – Benchmarks** for more details on Operating Cost KPIs which are being used by SMEs to pinpoint their weaknesses, and improve efficiencies.

The need to be more efficient is also driving an increase in demand for **Cost Audits**. This process goes into greater depth, when reviewing the SMEs' costs, to prioritise profit growth through cost control and increasing margins.

60%

of SMEs can produce accurate financial information on their sales, costs and profit margins, detailed for each key product or service category

22%

Only 22% of SMEs knew how their business's key performance indicators compared to industry benchmarks

TREND 3:

Working Smarter

SME owners spend long hours establishing and operating their businesses. Business owners know they are time-poor, and this has consequences both on their business and personal life. In each of our SME Reports over the last three years we have included many comments from business owners about spending long hours at work. This is reflected this year in the increased concern about Stress & Lifestyle, which is now **#3** Business Concern.

I want to become less hands-on in the business, so I am developing my existing GMs. I want them to manage day to day operations.

86% of business owners report enjoying their work and the majority are focused on growth, not exit. Because they want to stay in business, owners are prioritising reducing stress and improving their lifestyle.

While **75%** of owners told us they spend time doing the things they enjoy, only **47%** of owners believed they spent enough time with their family.

I used to enjoy working, but now, not so much. I want more time with my family, and time to do things I enjoy. I am looking to sell in the next few years and switch into consulting, I will keep working, but not be running a business.

Business owners want to work smarter, not harder. Their aim is to be more effective, to reduce time wasted and find more time to spend on what is important to them, either at home or in the business. This often requires the SME to consider and update their processes, or look for ways to leverage their resources.

SMEs are telling us that while it is important to work more efficiently, it is also important to be able to delegate responsibility to staff to reduce the business' reliance on them personally.

My key concern is around retaining and motivating staff – we need to grow and you can't leverage without staff.

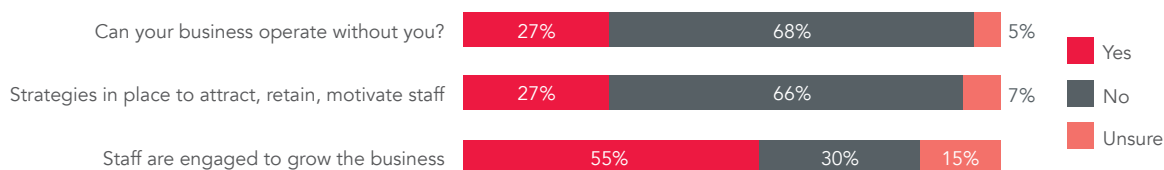
To achieve these goals, SMEs need help with staff strategies. While **55%** of SMEs believe their staff are motivated to grow their business, only **26%** of SMEs have strategies in place to attract, retain and motivate staff. Refer to **Part 4 - Staff Issues** for more discussion.

I currently work 40-50 hours a week, I have three kids, and my husband works long hours. I feel like I have no time to do anything. Within the next two years I have to cut back. I only want to work around 20 hours a week. If that isn't possible, I am going to sell.

Succession Planning was ranked as **#3** concern in 2015/16, but has slipped to **#8** this year. Most business owners don't want to sell or exit their business. It only becomes an alternative where they can't improve their work/life balance hours. Even then, exit is a mid-term consideration, with most owners not seeing it as an option for another 2 to 5 years. Refer to **'What's happened to Succession?'** for more information.

At the moment I still have lots of ideas for the business, but I would look at selling out for a good price in about 5 years, to give me more time with the family. By then I would be ready to concentrate on other avenues.

STAFF STRATEGIES



Source: Bstar's Needs Review Process



PART 2

Top Business Concerns

What's changed (and what hasn't)



What are SMEs most concerned about?

The clear message that emerges from the top Business Concerns this year is that business owners are concerned about 'big picture' issues.

Operating an SME is becoming more challenging for business owners. They are acknowledging the stress, and want to find ways to be more efficient, and work smarter rather than harder.

Small business owners work long hours in their businesses, but may not be spending this time effectively. In general, they don't have or develop business management skills. Where they have staff, they spend little or no time managing, developing or assessing staff performance. The typical business remains dependent on the founder or owner-operator, and this doesn't change even if the business expands.

While owners remain optimistic about their prospects, there is higher awareness of the risks in running their own business. They want to take action to protect the business and their personal and family assets by de-risking their business.

There is increased concern about cash flow and profitability, associated with tightening economic conditions, and the high rate of change and disruption in many industries.

They are looking for solutions to the owner's concerns, and for the SME to grow and thrive.

#1 Business Planning

We don't do enough planning – I'd like to change that. A Business Plan would be a good step in the right direction.

Business Planning was ranked as the highest concern of SME owners this year, continuing its #1 ranking from last year's SME Research Report. Businesses need business skills to grow to the next level, and there were success stories where SMEs had planned and implemented changes to become more efficient.

During the GFC we actually improved our business and results – we tightened management and improved services.

Many owners want to plan, but don't know where to start. They may lack the relevant skills, or time, to address their concerns. Only **1 in 5** (2016/7: 27%) had prepared a Business Plan.

I started a business plan, but it was never finished or documented. I need more time to get back to it.

60% of business owners agreed that they were producing accurate and timely financial reports, lower than last year's 65%. However, the majority of business owners do not have formal plans for their business.

We produce reports and accounts that are semi-useful.

In general terms, two in 3 businesses are not doing any type of planning. **Only 31%** of business owners were allocating time regularly to strategic and business planning (2016/7:34%), and just **33%** had made a plan to focus specifically on improving the value of their business.

At the moment all the business planning is in my head. We are aiming to have each division working to maximum efficiency, but we are not sure exactly what that is.

Effective Business Planning can be extremely challenging for SMEs. In many cases, they concentrate their efforts on operating the business but without analysing their performance they genuinely don't know if they are doing well or how to improve their business.

We'd love to have a proper growth plan – we need some direction. At the moment it is just about selling as much stuff as possible!

73% of owners wanted to know how their business compared to both industry averages and benchmarks. They frequently lack the necessary information to understand how their business is operating.

I don't think I want to compare my business to the industry average – I think it could be a dismal result.

The business owner needs to think strategically and prioritise their greatest needs. But business owners have limited skills in this area - **55%** of business owners had 'some to moderate' skills in Growth Planning, but **13%** said that they had no understanding in this area (2016/17:10%).

I need help with marketing, debtor management and with staff motivation and reward. I need to get them under control and on track.

The greatest pressures fall on the business owner. But owners can struggle to find a way to prioritise the **important** plans for the future, over the **urgent** day-to-day issues. Business planning needs focus to ensure it is relevant to the specific business. The business owner needs confidence before they will commit resources to a plan.

I understand growth planning, but I don't know how to put the plan into action.

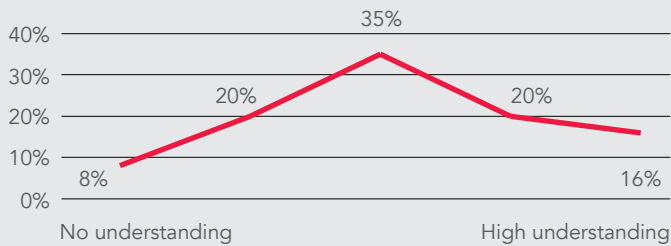
Implementation of a plan requires different skills, and the discipline to regularly review and update a plan, as the business develops and changes. The implementation process can be lengthy and requires patience and ongoing focus.

We are still building the business. We need to be more focussed. The aim is to increase our fee per client and reduce the number of small clients.

There is more chance of success when responsibility can be spread, by using staff, or external experts to increase accountability.

A common method of addressing gaps in skills and experience is to build the skills internally. This can be achieved by developing existing staff through education or training programs. This can also be challenging for SMEs as only **40%** of business owners were taking any steps to develop skills internally - see **Part 4 – Staff Issues** for more information.

UNDERSTANDING OF GROWTH PLANNING



Source: Bstar's Needs Review Process

GROWTH PLANNING

It's a dilemma with staff. I know if I employ staff, I will have more growth, but qualified staff are expensive, and this reduces my margin. I have tried training apprentices, but it takes time and makes me inefficient and reduces profits.

Business owners remain optimistic about their future and **98%** believe there are opportunities for growth, consistent with last year (95%). For the majority, Growth Planning is an urgent priority. Currently, **87%** of business owners have a need for **immediate** Growth Planning for their business, sharply up from 67% in 2016/7.

Our focus is on growth. We generate weekly reports on avenues for the business to grow. Every quarter we generate a formal report specifically on areas and opportunities to expand.

But, as with other types of business planning, business owners lack skills in this area. While **35%** had 'Some' understanding of Growth Planning, only **16%** of business owners rated their understanding as 'High'.

We're pretty busy with work at the moment. While I want to grow, the priority is to retain the regular business we have now. I am not generally chasing new work, but we take up new opportunities as they arise.

Not everyone was interested in immediate growth – **11%** indicated it was only important in the mid-term. These SMEs had more urgent priorities, such as de-risking, restructuring or repositioning the business. We have spoken about this in more detail in **Part 1 - Emerging Trends**.

Our key challenge is surviving the next 12 months with the mining slump. Most of our competitors won't survive. Then we can look at growth and diversifying.

#2 Protecting the Business and Family Assets

I have been busy working for five years, and the business has grown, but I need everything. There's no real Super, no income protection or life insurance, no wills, nothing!

Protecting the Business and Family Assets has become more important. This year it is **#2** Business Concern, up from **#5** last year and **#4** the previous year. Business owners are more conscious of the risks of operating their own business, and are looking for ways to reduce those risks. This is reflected in their strong interest in protecting their business and personal assets. Notably, this often includes taking steps to separate the business assets and personal assets.

I have built up savings and capital but it is all held in the business company structure. That's a risk, because if anything happened to the business, I would have nothing.

Business owners know they have serious risks in this area. While just over half (**54%**) of business owners had wills in place, fewer than **one in three** had taken broader estate planning steps, such as estate plans (**30%**), enduring powers of attorney (**30%**), or succession agreements (**18%**) and linked life insurance (**6%**).

I want some advice on structuring. The family home is exposed to the business. Now we're established, I want to change that and be as debt free as possible.

Consistent with the emerging theme of De-risking the Business (refer to **Part 1: Emerging Trends**), we have noticed that many business owners had strong, individual concerns, relating to their personal circumstances.

I am worried about my personal liability as a director. I want to restructure the business to protect the business and separate my personal assets.

Bstar asked business owners about their understanding in this area – **53%** had no understanding of Estate Planning. This is an area where there is a clear need for SMEs to seek expert advice.

We did a few basic things when we first started the business. We put wills in place, but they need to be updated. Nothing else has been done.

53%

had no understanding of Estate Planning

#3 Stress & Lifestyle

I enjoy aspects of working for myself. The downside is the stress and worrying about the future of the business.

Stress and Lifestyle was the #3 top business concern, unchanged from last year's report. While 86% of business owners report enjoying their work, this drops to 75% who spend time doing the things they enjoy. This is consistent with findings in our previous two reports.

The success of SMEs is heavily dependent on the involvement and personal effort of the business owners. Few SMEs had taken any steps to change the position; to alter management or plan for management succession. Only 27% of business owners believed their business could operate without them. This continues a worsening trend, declining from 30% last year and 33% in 2015.

There is too much stress. There is too much reliance on [the two principals] in the business. We haven't had a holiday in a long, long time.

For SME owners, business and family issues are often closely related. Significantly, less than half (47%) of owners stated that they spend enough time with their family, sharply down from 57% last year.

We love our work, and we're making good money, but neither of us spend enough time with our kids. We are growing well, and in 5 years' time we want to be able to step back.

Business owners want to reduce their stress, particularly pressures from operating their business. They want to improve their work/life balance by working smarter and more effectively. They were aware of the need to streamline, delegate or outsource tasks, but frequently there were barriers to doing so.

I love my business and I could be here 24/7. I'm not planning on retiring anytime soon, which is just as well because I don't think the kids are interested in the business.

We identified two key ways business owners measured improvement in this area.

I want to have a better lifestyle. I want managers to run the business, so I can get back to doing what I do best, which is overseeing manufacture, making sure our product is top quality, and increasing output, so we can start exporting [product] overseas.

Some business owners wanted to be able to concentrate on those aspects of the business that they loved, or where they were most effective. A major source of stress was from other tasks. Owners were concerned about wasting time, by performing menial tasks. Other work was essential, but owners struggled to be efficient in areas they disliked, or where they simply lacked skills.

I am working harder than ever and I want to do more specialist work, but I need to take some of the load off. That means I either bring in a new partner or find a similar firm to merge with, but they have to be a good fit.

Another key measure of work pressure used by owners was the number of hours they worked. Business owners tend to work more than their employees³. For these owners, a key measure of success was to be able to reduce their hours. Some owners aspired to be closer to the regular 40 hour work week, while others were aiming to be able to move towards part-time.

I love the business, but I work 7 days a week. I don't take care of myself or see much of my family.

Business owners continue to be concerned about the impact that the business has on their personal life. Being able to take a holiday or a break from the business was frequently mentioned as a way to deal with stress. However, some SMEs are so reliant on their owners that this can be also be difficult and impractical.

I need to take more holidays and spend quality time with the family, to relieve the stress at home.

Despite these concerns, only 10% of business owners had made plans for exiting. Instead, the majority of business owners we surveyed are intending to remain in their business and are not even considering exiting. This is discussed in more detail in **What's happened to Succession Planning?** on page 27.

It is positive that 78% of owners report paying attention to their overall diet and health, but business owners were aware both of the business risk, as well as the personal consequences, where they did not manage the pressures.

Stress and lifestyle is a definite concern. The business is heavily reliant on me, and I have ended up in hospital due to overwork. The diet is based around work commitments, too.

31%

Only 31% of business owners were allocating time regularly to strategic and business planning

3. Australian Bureau of Statistics data showed full time owner managers worked on average 49 hours per week compared with employees' average 40 hours per week (Source: ABS 1370.0 – Measures of Australia's Progress, 2010 - Work)

#4 Cash flow and #5 Declining Sales & Profit

We operate multiple stores, and sales in two of them have been steadily declining. I need to make a decision about the future of those stores – either make them more efficient or close them down and re-locate. We need to restructure and to plan for the logistics.

SME's concerns about **#4 Cash flow** and **#5 Declining Sales and Profits** go hand in hand, reflecting significant concerns about economic and business conditions, and how those effect their business' profitability.

Cash flow is a concern. We're in our third year of operations, and our main client has been Government. Sales have softened, and I am looking to build new revenue streams in the private sector.

As in previous years, we found the majority of SMEs are generally positive about their business performance. But this year, business owners believe, despite their efforts to increase sales, or improve stock turnover, profitability is declining.

Bstar asked SMEs to rate themselves on a number of key business indicators (see the graph *How do SMEs Rate Themselves?*). Interestingly, in Sales Growth and Debtors Days, **one in 3** SMEs rated themselves as 'Top 20%', an increase over last year.

More than half rated themselves in the top two categories for Stock Turnover (**62%**), Sales Growth (**68%**) and Debtors Days (**71%**), a key cash flow indicator.

However, this optimism did not extend to Profitability. **Only 8%** of SMEs surveyed believed they were in the Top 20% for profitability, sharply down on the previous two years (see the graph on Profitability).

I am keen to increase sales, and profitability.

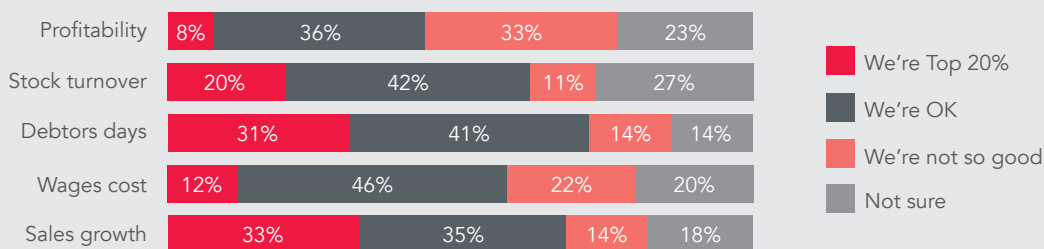
More than half (**56%**) of business owners have no confidence in the profitability of their business, rating it either 'Not so Good' or 'Not Sure'. This has been remarkably constant over the last three years.

We are generating good new business, but we need to improve profitability. We're not being compensated for the effort being put in.

As discussed in **Part 1 – Emerging Trends**, Business owners are looking for solutions to increase margins and productivity. They want to work smarter, and to increase their profits, but without increasing the stress on the business owner. SMEs need the information to understand their performance, and pinpoint areas that need to improve.

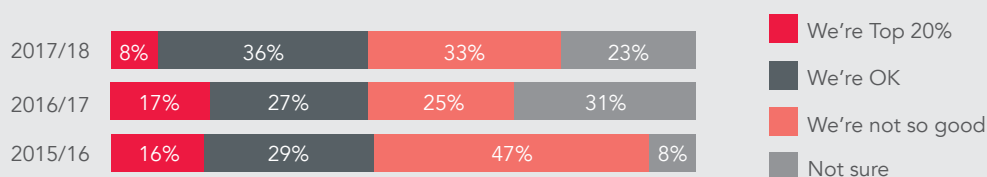
Yes, we produce financial reports, but I don't do job analysis. So, I don't know the profitability per job.

HOW DO SMEs RATE THEMSELVES?



Source: Bstar's Needs Review Process

PROFITABILITY



Source: Bstar's Needs Review Process



PART 3

What Are SMEs Least Concerned About?

#1 Access to Funding

Reflecting its position as the lowest concern, SME owners did not report any particular difficulties in obtaining Access to Funding. Bstar's findings are consistent with data released by the Australian Bureau of Statistics⁴ which indicates that **9 in 10** SMEs who sought finance were able to obtain it.

Access to funding is fine – we just secured a new business loan with [our bank].

Rather than being concerns about obtaining further finance, SMEs are showing more concern about lending risks, including increasing interest rates. We discuss SMEs who are intending to reduce or restructure debt to de-risk their business in **Part 5 – Risks in More Detail**.

Our focus is on reducing debts via a Debt Restructuring.

SME capital is typically contributed either directly by business owners, or through providing collateral for loans. This is consistent with Reserve Bank of Australia data⁵ showing that at least three-quarters of SMEs lending through banks is secured lending, and around one-half to two-thirds of this lending was secured by housing. Recent growth in home prices has also increased the access to loans, by directly increasing the value of the security. As residential home loans attract lower interest rates than business loans secured by residential property, this may also be an incentive for this type of lending. However the widening margin between owner-occupier lending and other residential mortgage rates is making this less attractive.

It's a three year old [Technology] start-up. We are currently looking for finance to fund a national expansion of our business. We have to prove the revenue model in our current test area, and build a convincing national business case to get the funding. Lots of work to do yet.

However, in general, only a small proportion of businesses were seeking finance. ABS data indicated that only **15%** of businesses had tried to obtain debt or equity finance. Overwhelmingly, banks (72%) and finance companies (28%) are still the preferred lenders.

We've got a good relationship with the bank – funding is not a concern.

The most common reasons for obtaining finance were to maintain short term cash flow (37%) or to replace equipment or machinery (28%). Reflecting this, the most common types of debt finance sought by businesses were new bank overdrafts (19%), new loans with a term of more than one year (37%) and hire purchase or capital finance (36%). Credit cards remain popular to fund business needs, and smooth cash flow, and new credit cards represented 15% of new lending.

We're not concerned about access to funding – it's not needed at the moment.

The larger the business, the more likely it is to seek finance for growth. In 2015-16 ABS data showed that while 12% of micro businesses sought finance, this increased to 18.5% of Small Businesses, 24.2% of Medium Businesses and 32.4% for Large Businesses⁶.

Obtaining finance is a common barrier for start-up businesses, or those in new or emerging industries. Obtaining the data to convince lenders or investors to commit can also be challenging. Lenders have little appetite for SME lending unless the SME can clearly demonstrate a revenue base to service the loan.

Founders often need to be creative and committed to survive the start-up phase, and grow their business.

A large graphic consisting of the numbers '9' and '10' in a serif font, separated by a diagonal slash. The '9' is on the left and the '10' is on the right.

SMEs who sought finance were able to obtain it

4. Statistics relating to lending in this section are sourced from the Australian Bureau of Statistics (ABS) "Selected Characteristics of Australian Business, 2015-16" (refer to Business Finance) cat. No 8167.0 released 17 August 2017 (www.abs.com.au)

5. "Housing Prices and Entrepreneurship: Evidence for the Housing Collateral Channel in Australia" by Ellis Connolly, Gianni La Cava and Matthew Read (RBA Conference, 2015 "Small Business Conditions and Finance" at www.rba.gov.au/publications)

6. Australian Bureau of Statistics (ABS) "Selected Characteristics of Australian Business, 2013-14" (refer to Business Finance) cat. No 8167.0 (www.abs.com.au)

#2 Selling their business

I will keep working until a buyer makes an offer at the right price and on my terms.

Over the last 3 years we have seen that SMEs are much more concerned with running their business than selling it. This year, the second lowest level of concern registered by business owners was about selling their business. This reflects that in the short term, most business owners are not interested in selling their business. Only 9% of businesses were ready for sale, the same level as last year.

I want to build the business over the next 3 to 5 years and sell it when economic factors improve.

There has been a noticeable increase, to **73%** (from 55% last year) of owners who wanted to know the current value of their business. However, there was little urgency about this issue.

I am not looking to sell, so the current value of the business is not really important.

In our view, this reflects a strong focus on improving and growing their business, rather than a sale or exit. **79%** wanted to discuss solutions to improve the value of their business, and **79%** wanted to know how their business performance compared with the industry average.

Our goal is to grow the business and increase profit, with the intention to sell in 2 years. We have ideas and some basic plans but we need help to achieve this.

Many SME owners have not planned for their exit, and they don't see it as a priority. Only **21%** of business owners believed the sale of their business would fund their retirement, consistent with 19% in 2016/17.

I am happy being self-employed. I don't want to sell or share control. I am going to run the business until I retire.

21%

Only 21% of business owners believed the sale of their business would fund their retirement

WHAT'S HAPPENED TO SUCCESSION PLANNING?

Succession planning is a low priority. I'm healthy and intending to stay for another 20 years.

Succession Planning has become less urgent, with only one in three (**36%**) considering succession planning an immediate priority, down from 45% last year. Succession Planning was rated by business owners as their #3 concern, in 2015/16 and #2 concern in 2016/17, but has slipped to # 8 this year. Only **one in 10** SME owners had a succession plan in place, but what has caused the change?

Succession is not a concern until I turn 60. I might revisit it if my son is interested, or my son-in-law is keen to take over.

The explanation is that most business owners are not even considering exiting their business. Only **15%** of owners had set a retirement date, less than last year's 22%. One in three (**35%**) are deferring succession for at least 5 years, preferring to retain control and continue in business, down from 49% in 2016/17. Only **52%** are willing to transfer control of their business (2016/17:49%).

I am not actively looking for a buyer, but I would consider a turnkey sale if I was approached. I don't want to hand over control to someone else.

Many business owners have not even thought about the future, retirement, succession or an exit from their working life.

We're really concerned about this, because we don't have an exit plan. We've done no planning [for ourselves personally] since we started the business.

Most don't have plans to deal with ill-health. Only **11%** had documented buy/sell agreements or business succession arrangements between owners.

This has been a one or two person business. We have not taken out key person insurance. If something happened, we would just sell down the stock and close down.

Some were aware of the risks, but lacked the time or skills to address the issue. Where business owners are considering future retirement, the level of urgency increases.

We will need to consider and plan for this. Two of the partners are close to retirement, but we don't have any wills, shareholders agreements, buyout agreements or anything else.

In many cases, business owners hope that they don't need to make a detailed Succession Plan. Business owners say that, when they decide to exit, they expect (or hope) that the business will be sold to an external party. However, this may not be straightforward. We discuss this in more detail in **Part 5 – Risks in More Detail**.

Outline my succession plan? There isn't one.



PART 4

Staff Issues



Attracting, retaining and motivating staff remains a solid mid-range concern and ranked #7 Business Concern this year. People are key to the success of SMEs, and business owners rely on staff to support their business and reduce personal reliance on them.

Staff turnover is a major problem. They are not committed. We recruit them, train them and then they leave!

Staff issues are higher risk, as SMEs have only small numbers of staff. The impact on the business of a staff issue, whether positive or negative, is much higher than in a large organisation. One business owner spoke of the risks in losing a valuable staff member.

I recently lost a key staff member. I couldn't meet my deadlines in a timely manner. That tarnished our reputation. Clients believe I don't have the manpower to do the bigger jobs.

Due to their size, SMEs lack expertise in human resources management. They struggle to develop and implement staff strategies. Our research confirms that SMEs are doing little to effectively manage their staff or reduce staff risks. Only **26%** of SMEs have any strategies for staff attraction, retention or motivation, a 4% fall from last year.

My biggest current concern is staff – how to improve the productivity of my professional staff. This is going to have the biggest impact on gross profit.

Many SMEs lack expertise in recruitment, and can struggle to find the right person, or replace staff when they leave. The best SMEs are nimble, using their smaller scale as a strength, and take a creative approach to recruitment.

Getting skilled staff is a challenge, so we are working with the local TAFE to do training, and identify potential staff.

While a small majority (55%) of SMEs believed their staff were engaged to grow the business, **30%** of SMEs indicated their staff were not engaged. Despite this concern most SMEs haven't developed strategies or plans to encourage or improve productivity.

We don't have any specific staff incentive plan. I don't think our staff are motivated. We have high staff turnover. After a while you lose heart – you don't expect them to stay.

Approximately one in four (**27%**) SMEs had a staff incentive plan to generate positive behaviours, and generate more sales and profits. These SMEs often reported the great benefits of a motivated workplace.



Good communication with staff is the key to it all. We have set up formal, email based communications within the business, so everyone understands our goals, and how we are performing. We also have six monthly staff reviews and bonus arrangements in place. As a result, we have good staff retention.



This is a growing industry that offers good career paths for many different disciplines in a young and interesting business space. We have developed a positive and progressive team atmosphere, which supports staff loyalty. We schedule regular meetings to ensure that individual's pathways to career goals are tracked and maintained.

Unfortunately, even where SMEs operated a staff bonus or incentive plan, they lacked confidence in their schemes. Only **27%** of owners believed their plans were effective to generate more sales, profit and value for the business. This is consistent with responses over the last three Reports.

Not maintaining market wages can lead to loss of key staff, and difficulties in recruitment.

We are having to pay our staff more to keep them, to off-set wages paid by other companies for unskilled labour.

But **20%** of business owners didn't know how their wages compared to industry average. Just under half rated themselves 'OK' (see the graph 'How do SMEs rate themselves?' in **Part 2** of the Report). Without access to this information, SMEs weren't able to manage wages costs effectively.

I don't know what market wages are for my staff, but I would like to. Currently, I just pay them whatever keeps them happy, and working for us.

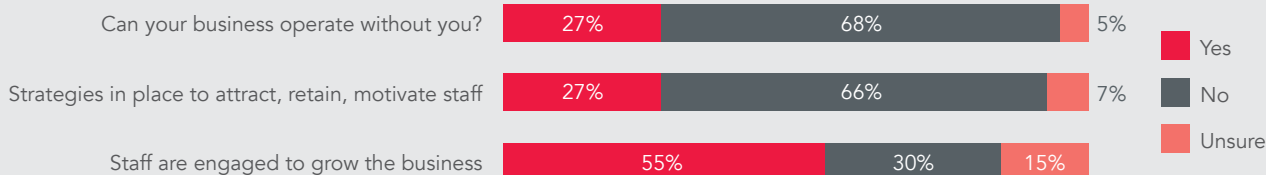
52% of business owners were willing to transfer control of their business, a key component in reducing personal reliance on the business owner, and increasing leverage. Business owners emphasised that they need to trust their key staff to be able to relinquish control.

We have a small and very happy staff who love working here and pursuing their passion. We do not have formal strategies for retention, as such, but our staff are like family - we pay them above award, we reward superior performance with bonuses and we have informal functions through the year.

A proven method of retaining and motivating key staff is to allow them to buy into the business. But only **5%** of SMEs had developed investment and funding plans for their key staff, slightly less than 9% last year.

Our biggest threat is to do with staff issues. I am aiming to be able to remove myself from the business day-to-day operations. For that, I need motivated effective staff.

STAFF STRATEGIES



Source: Bstar's Needs Review Process

27%

of owners believed their plans were effective to generate more sales, profit and value for the business

52%

of business owners were willing to transfer control of their business, a key component in reducing personal reliance on the business owner, and increasing leverage

PART 5

Risks in More Detail



The results of Bstar's Business Risk Survey shows that 90% of SMEs are in the High or Medium Risk bands.

The pace of change is increasing exponentially. Established business models are being disrupted by technological advances such as artificial intelligence and digital commerce. To succeed, SMEs need to be strategic and adapt quickly to these rapidly changing conditions.

Technology is changing at an incredible rate, and is getting cheaper and easier. I don't know if our business model will even be here in 10 years. We are already seeing our clients use technology to do it themselves – cutting us out.

For SMEs, the emphasis is now on improving customer service and engagement, and using technology to deliver innovation and increased efficiency.

There's a lot of volatility at present. We need to keep an eye on the competition and address market changes quickly.

We have selected some common risks for further discussion.

COMPETITION RISK

Our research indicates that SMEs are very conscious of the risk of competition and the majority are monitoring it (Refer to the Competition Risks graph). While the majority of SMEs believe the level of competition in their market or industry is sustainable, they are aware that competitive pressures are increasing, and changing.

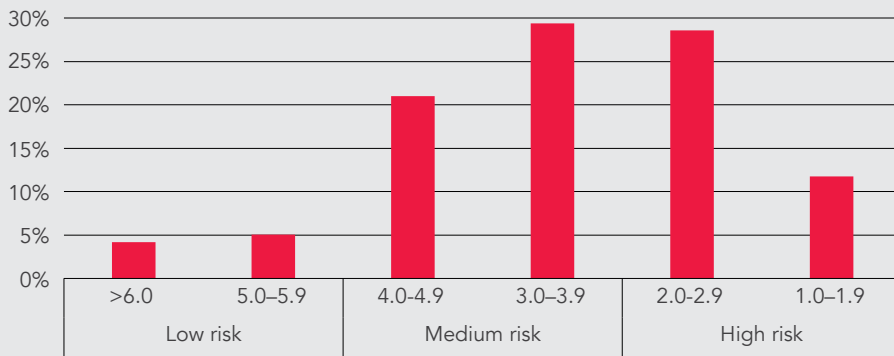
We've made some losses in the last few years due to the cost of reinventing ourselves. We've had to adapt to changes in competition and the business environment. In response, we've launched new product lines, instilled a new attitude and changed staff.

Competition is coming from new entrants, new technology, online businesses and national firms. Further, an increasing number of international groups are targeting the Australian market.

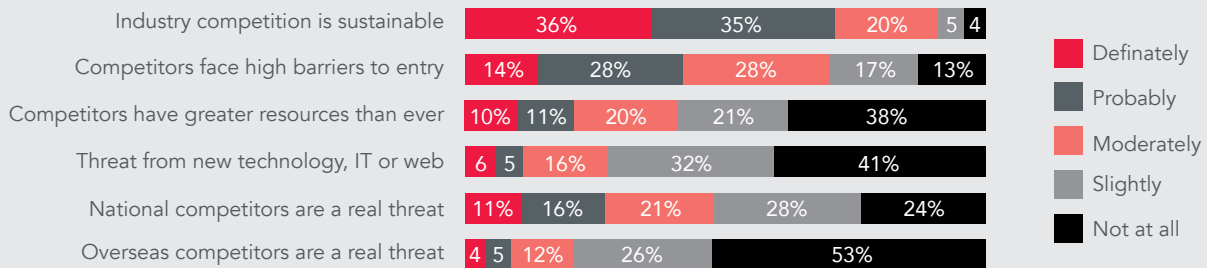
Competition is a major concern. On every corner there's a [competitor] and we are constantly being undercut.

To be successful, SMEs must understand the risks to their business and be able to adapt to the changing competitive landscape.

HOW RISKY IS YOUR BUSINESS?



COMPETITION RISKS



Source: Bstar's RAVDA questionnaire

Here are some comments from business owners about competition...

Competition is part of business. Being part of a franchise group helps with an online presence and gives us some security.

The toughest competition is coming from mobile auto repair services. I train staff, and they go off and start their own business. Even though a lot fail, they are undercutting us to try to get business. A lot of car dealerships and car yards are now contracting directly with mobile auto repair services.

There's a new market entrant that's just opened, and it is taking business from us. We're not hard enough or ruthless like the big dealers.

The competition has increased significantly. A competitor has opened up only 100m away. Revenue has declined and financial stress has increased.

I don't want to be like the opposition. They let their equipment get old, and their business is slowly dying.

As we've grown, we've got better at what we do. We're not well liked by our competitors. We've been pro-active in dealing with suppliers and asking for discounts. We find new suppliers, with new products. The competitors follow us, and copy us.

Business Risks Scorecard

Thank you for completing our (short form) Business Risks Survey. The purpose of the Survey is to identify and help you assess key business risks. The Survey is a snapshot of the key areas of our comprehensive Risk and Value Drivers Assessment. Which is available to clients for the purpose of understanding how to improve their business performance.

Analysis

Based on your responses to the Survey, your Business Risks score is:

4.5/6

This places your business in the following category:

Medium to High Risk

Listed below are the business drivers separated into 3 categories of risk:

 Low Risk	 Medium Risk	 High Risk
<ul style="list-style-type: none"> Growth Plan Staff Engagement Customer and the Market Demands? Management Information 	<ul style="list-style-type: none"> Asset Protection/Estate Planning Business Performance Top 5 Risks Business Value Gap 	<ul style="list-style-type: none"> New Technologies Succession Planning Benchmarking

Selling the Business & Key Person Risk

A key consideration for potential buyers is the ease with which business knowledge and personal goodwill can be transferred to the new owner. Many SMEs have out of date or incomplete operations manuals. Standardised processes and detailed and up-to-date operational manuals assist with transition, and increase the price buyers are prepared to pay.

Only **10%** of SMEs have planned for succession. Many are expecting or hoping to sell their business, but this may prove to be challenging. Potential buyers are very aware of key person risk in SMEs.

The founders or owners of an SME are frequently the 'face' of the business, and have developed strong personal goodwill. **68%** of business owners believed their business could not operate without them.

When we examine this risk in more detail (using the RAVDA questionnaire) in the context of a possible sale of the business, an interesting picture emerges. **52%** of owners believed the business' reliance on them was High or Very High. Despite this, business owners were remarkably optimistic that their departure would have a little impact. A majority believed there would be Low or No loss of key customers (**58%**) or key staff (**61%**).

We believe these inconsistencies arise because most business owners have not considered a sale or taken any steps to prepare for one. It is the **#2** lowest Business Concern (Refer to **Part 3** for more information). Only **9%** of SMEs were ready for sale. As a result, many owners do not understand what would be involved in preparing their business for sale.

Few owners were aware of the market for their business and only **24%** knew what businesses in their industry were buying and selling for. When asked specifically, only **19%** of business owners believed their business would be easy to sell. A further **17%** believed the business was saleable but after some modifications.

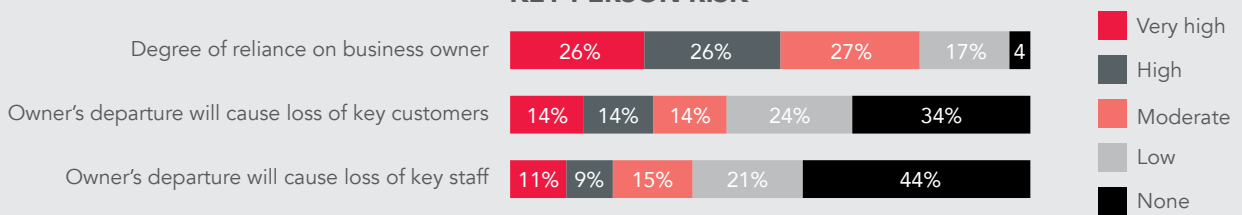
68%

of business owners believed their business could not operate without them

19%

only 19% of business owners believed their business would be easy to sell

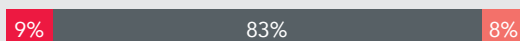
KEY PERSON RISK



Source: Bstar's RAVDA questionnaire

BUSINESS SALE

Is your business ready for sale?



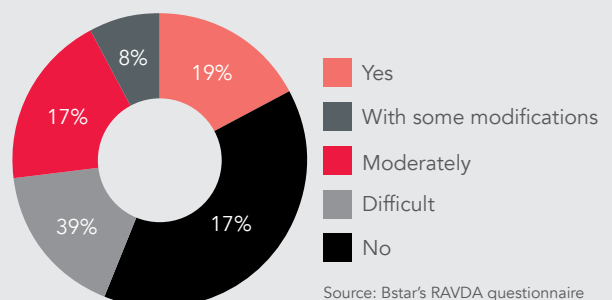
Do you know what businesses in your industry are buying and selling for?



Yes No Unsure

Source: Bstar's Needs Review Process

IS YOUR BUSINESS EASY TO SELL?



Source: Bstar's RAVDA questionnaire

Reducing and restructuring debt

I am not sure what our business is worth at this stage, but I believe we have the potential to grow substantially. Another aim is to reduce debt significantly. I don't think it would be worth selling until we have done those things.

Access to Funding is the **#1** Lowest Business Concern this year. However, for many SMEs, a key component of de-risking the business is to reduce or restructure debt.

We have enough funding, but we need to review it and consider all options. I would like to be in a better debt position in 5 years' time.

SMEs have growing concerns about the cost and terms of debt – and are concerned about the prospect of interest rates rising.

We've got funding. I am interested in making it more efficient – I want to pay less interest.

Where a SME had no existing debt, they were often reluctant to borrow. Some SMEs believed that involving a financier (or investor) would reduce their control of the business. The need for finance had to outweigh that perception of reduced independence.

The business has been self-funded since we started two and a half years ago. We're not beholden to the banks, and I don't want that to change.

Applications for finance, and regular reporting to financiers can be onerous for some SMEs. Lenders may require new or additional financial reports to be provided to meet lending covenants. **40%** of SMEs are not currently producing accurate and timely financial reports.

The business currently has close to no debt. We're growing and considering buying new equipment, to improve efficiency, but I am hesitant to borrow.

Refer to **Part 3 - What are SMEs least concerned about?** for more discussion.

40%

of SMEs are not currently producing accurate and timely financial reports

Selling the business might be difficult...

25% of SMEs thought their business would be difficult, or harder, to sell. Here are some of their comments:

Because of our size, the regular Joe just can't buy a business like this & take it on, they need to understand the industry. When we do decide to sell the business, we would rely on probably a national company or larger family company as a purchaser.

We are in a niche market, with loyal customers and good revenue but the business requires considerable levels of industry specific knowledge. This limits its appeal to potential buyers.

I might look at selling in a few years. The business is reliant on strong industry knowledge, so I need a well-structured succession plan. I am keen to mentor some of the younger staff, for the future.

I don't think the business will be easy to sell, but we won't know until we try. Ideally, the buyer would have sufficient capital to enlarge the business and generate quicker product releases.

If I sell, it won't be to the kids, and we're so big, the staff can't afford it. Maybe our established links with China would appeal to an international purchaser.

I can't see any of the staff being able to buy the business. The most likely, and best solution would be to an international business migrant.

We haven't made any [succession] plans yet. A potential buyer would need specialised knowledge of the industry to be successful.

Eventually, I am going to have to sell the business. It is too valuable, and expensive, for the family to buy.

I believe the business would be hard to sell. I don't have a succession plan.

I am looking for help to come up with an exit plan.

The business would be hard to sell. The major asset is intellectual property, and it's all in my head. I don't have a lot of local competition. Maybe it would suit an international buyer who is looking to enter the Australian market.



“

We are open to all options. We could put in a manager to run the business and retain ownership or sell it as a going concern.

”



I would like to know about trends in the market and what our peers are doing. I know I need to minimise the costs of manufacture and freight and importing costs – benchmarking would be really useful.





**We want to grow the
business, so that it is not
dependent on us personally.
But how do we do this?
How do we bring in enough
work, and make enough, to
hire staff to replace us?**





PART 6

Benchmarks

Increasingly, SMEs are shifting their focus towards improving efficiency and productivity. SMEs know that it is hard to achieve growth, so they want to do more with their existing resources. An accepted way of reviewing performance is to compare the SME to its competitors and industry averages.

I want to know if I am as efficient as I could be. Where do I need to improve?

SMEs are improving profits by increasing margins. They are concentrating where they have some control and on tightly managing their costs. We have included a list of Operating Cost KPIs being used in benchmarking and Cost Audits.

SMEs need to understand how their business is currently operating, before they can take advantage of their strengths and target their weaknesses. This can be a real struggle for some SMEs. **40%** of SMEs did not believe they were producing accurate and timely financial reports.

Access to real time, relevant and accurate benchmarking information is one of the most effective ways for a business owner to understand how efficiently their business is operating. Comparison with industry benchmarks and other similar businesses allows the SME to pinpoint where their inefficiencies, and where to direct their time and resources. Importantly, it also allows SMEs to measure their improvement over time.

Our market is changing. We urgently need to understand our financial position and plan how to adapt. Our profits are declining and we need to sell more to achieve the same result. Cash flow is becoming a worry.

While the majority (**60%**) of business owners tell us they are producing accurate and timely financial reports, approximately one in five businesses just don't know how their performance compares to other businesses within their industry.

I have no idea how we compare with industry averages, but I want to. We need to look at each arm of the overall business separately, and see how it is performing.

79% of SMEs wanted to know how their business compared with their industry average, and **79%** wanted advice on solutions to grow the value of their business.

BENCHMARKING KPIs

Operating Costs as % of Total Revenue

Accounting Fees
Advertising & Marketing
Cleaning
Computer Expenses
Depreciation
Electricity/Power
Insurance - General
Motor Vehicle
Postage
Printing & Stationery
Rent
Repairs & Maintenance
Staff Salaries/Wages & On Costs
Staff Training & Development
Telephone/Internet
Travel

BENCHMARKING

Would you like to compare your accounts against your industry?



Do you produce accurate and timely financial reports?



Yes No Unsure

Source: Bstar's Needs Review Process

CASE STUDY

Due Diligence using benchmarks

Benchmarking information can help with strategic decisions.

Recently an adviser was engaged to assist a dentist who wanted to purchase a dental surgery in a shopping centre. As part of the due diligence, the adviser identified the surgery had very high rental costs – **11%** of Gross Patient Fees compared with the industry benchmark of **4%**. After analysing the impact of the high fixed costs on profits, the dentist did not buy the surgery. He elected to look for a practice in another location that had a better cost structure.

PART 7

SMEs Most Wanted Advisory Solutions



What advisory services are SMEs buying?

It is not surprising that the top 3 most commonly recommended advisory services for SMEs are solutions designed to help them address their top business concerns - Business Planning, and Protecting their Business and Family Assets through de-risking.

Bstar has collated data on 125 engagements proposals⁷ to SMEs made over a twelve month period. The graphs below show the advisory solutions proposed and engagement fee size. The range of fees, from \$1,500 to \$28,000, shows that there are solutions that can be tailored to every SME's budget.

At the time I set up the business, I wasn't too concerned about documentation or estate planning. Now we are established, I think we need to consider succession planning. We need other ideas for bringing new people into the business. It would also be good to know how it would work if one of the partners passes away. Should we be putting money away for future growth?

The Two-step Process

Bstar Alliance Partners are using a two-step advice strategy to help SMEs to meet their top business concerns.

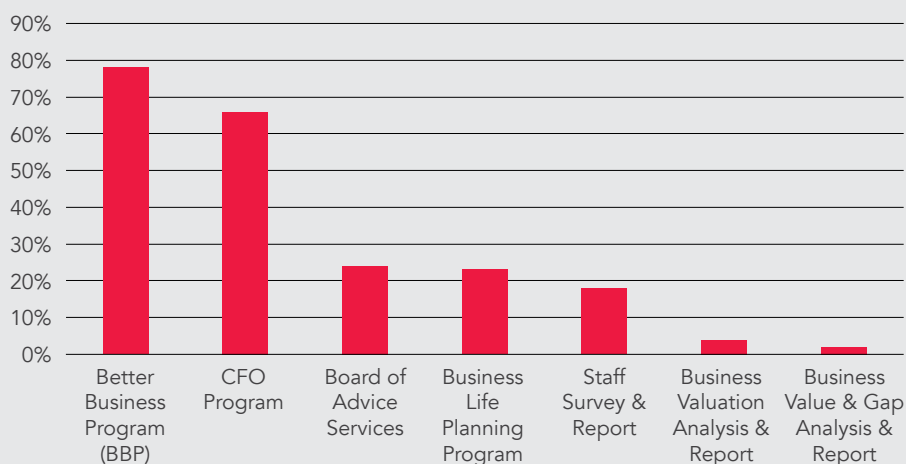
The first step is a strategic risk analysis of the SME. **The Better Business Program** solution is designed to allow SME owners to understand strategic threats and opportunities, assess their business risks and start the de-risking process, in a face-to-face workshop with their trusted adviser.

The second step is to support implementation of the plan, through **'Sounding Board' services**. These flexible services can focus on everyday management concerns as well as strategic planning.

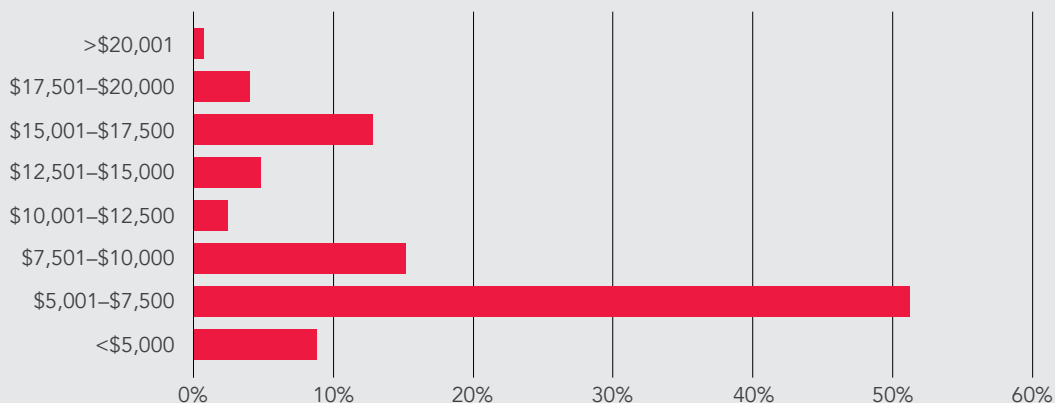
The **CFO Program** is a perfect fit for micro and small businesses. For medium and larger businesses, **the Board of Advice**, is more appropriate, as it can easily adapt to larger management teams and change.

Really, we're winging it with business planning. We have recently taken various steps to improve the business, including website development, increasing staff and making invoicing more efficient. But we don't have an organised approach.

ADVICE ENGAGEMENTS



ADVICE SOLUTIONS – BY FEE



7. Bstar supports its Alliance Partners in delivering solutions to their clients' most urgent needs, including preparing presentations used in 'needs-to-solution' meetings with clients.



The CFO Program and Cost Audit solutions

The **CFO Program** was the second most recommended advisory service to SMEs. This is a flexible solution which is best suited to address key concerns about cash flow and declining sales & profits. The CFO Program enables SMEs to access an external CFO on a part-time basis, and match the level of service to suit the needs and budget of the individual business.

I have been doing this for seventeen years, and I am still working 50 hours a week. I have plenty of work – I can't keep up with the demand. But I have no assets, profits are flat and I am cash poor. Do I expand and hire more people? I am looking for help to work out what to do.

Successful implementation of budgets and business plans is greatly assisted by regular review under the CFO Program.

It allows the adviser to conduct a **Cost Audit**, to take stock of the current position. A report is produced on key operating costs and benchmarks the business against its industry. This is followed by expert analysis of the SME's accounts, with recommendations for improvement.

Whether the goal is to manage financial risks, track cash flow, improve financial record keeping or report on actuals vs. budget, the CFO Program can be tailored to match the specific needs of the client.



Sounding Board Services for ME Clients

For medium and larger businesses, the **Board of Advice Program** and **Business Valuation** service are the most popular solutions.

I bought the business from my boss when he retired. I still meet with him monthly to discuss issues. I need to improve my business skills, and find a new mentor.

Business owners need a sounding board, someone that they trust with whom they can discuss issues and develop strategies to address their top concerns. Business owners need regular contact with trusted advisers who have these skills.

Establishing a Board of Advice made up of the business owner's trusted advisers provides regular, scheduled access to this support.

The Board of Advice provides focus and hands on support with implementation and review of the business owner's plans and priorities. Regular Board of Advice meetings provide **independent and objective advice, tailored to meet the business owner's specific goals.**

Boards of Advice can easily adapt to larger management teams and change focus from everyday management to strategic planning, and protecting the business.

Where required, a Board of Advice can even support the business owner through the process of developing goals and plans for the business. It is a flexible solution which changes as the business develops and grows to meet new challenges.

We started the business 10 years ago. Three years ago we took over a competitor and we grew a lot. We employed another technician last year. But now, our sales are declining and costs are going up. Our growth has been due to strong technical expertise, but we don't have, and we need, expertise in business and growth planning.



Business Valuations

Business valuations serve different purposes throughout the lifecycle of an SME. Valuations help a business owner understand the value they have created in the business.

A realistic valuation is essential when founders are planning to sell to new owners, or sell down part of the business to key staff.

Some other reasons for conducting a business valuation:

- To help a business owner understand the value they have created in the business they have founded, or expanded.
- To set a price when bringing in new owners, or selling down part of the business to key staff.
- To allow the business owner to understand the gap between their current position and their goal.
- To assist with Business Planning - revaluations help to quantify the value-add generated by implementing a business improvement program.

Bstar's CEO discusses the Better Business Program.

"We believe advisory solutions must be adaptable (because each business is unique) and customised to different industries or niche markets. These solutions need to analyse each business' particular strengths, weaknesses, opportunities and threats, as well as taking into account both the important and the urgent.

*We developed the **Better Business Program** with this in mind and in response to the increasing number of SMEs who are looking for help to de-risk their businesses.*

The Program's approach is unique because it analyses key quantitative and qualitative risk and value drivers in a business. It's not just about the numbers. It's about looking at the business strategically, reducing risks and finding out what will make it perform better.

Over the last 12 months, it has quickly become the most recommended advisory service for SMEs.

I believe the Better Business Program solution offers a different approach to SME advice and the results can be life changing.

It will transform the relationship our Alliance Partners have with their existing clients. It creates a powerful point of difference, so they can attract new 'ideal' SME clients who are looking for an adviser who can provide strategic risk improvement advice."

Bstar's **Better Business Program** advisory solution is a flexible solution that focuses on developing a broad strategic framework for each SME, not just on improving cash flow and profitability.

This cost effective, automated approach, provides an affordable solution for small, SME and multi-owner businesses who are 'ideal' clients for the Program.

The Program can be delivered 1:1 or in group sessions and has been tailored to a range of different industries. It can create leverage in professional services practices because is delivered by supervisors and managers – **Delivery is not reliant on Partners or Directors.**

Outlined below are the steps involved in the Better Business Program:

- **Before the Workshop**, the client completes an interactive Risk and Value Driver Assessment (RAVDA). The RAVDA collects data about the SME's strengths, weaknesses, opportunities and threats.
- **The RAVDA** uses the client's responses to generate a real time SWOT Analysis, highlighting opportunities and concerns for further discussion.
- **During the Workshop**, the adviser and their client discuss and rate the client's level of concern for key strategic risks and business value drivers. The adviser suggests business improvement strategies to address the most urgent concerns and risks. The adviser and client then agree the top 3 business improvement strategies and an action plan.
- **Business Improvement Plan Report.** After the Workshop, the adviser prepares a BIP Report for the client, which includes benchmarking the business' risk score, an up-to-date SWOT Analysis, improvement strategies, action plans and recommendations detailing the next steps to achieve the client's goals and aspirations.





PART 8

The First Step

SMEs are looking for ways to reduce their business risks and run a more efficient business. But what are the barriers to achieving this?

I want to plan for the future and set a vision for the company, and break it down into goals.
A business strategy is a must have.

What are the barriers?

The **first barrier** to obtaining expert assistance is that business owners don't know what is available. Many have never discussed their business concerns with anyone outside the business. Most are unaware that key advisory solutions are available to improve and transform their business.

The **second barrier** is that SMEs don't know where to find expert help. While **69%** of SMEs have a trusted adviser, our research shows that SMEs haven't asked these advisers for solutions or for help in finding an expert.

It's not just SMEs who avoid the issues. Many advisers don't want to start a conversation about problems. They wait for the business owner to raise issues.

The **third barrier** is fee resistance. Many advisers tell us that SMEs aren't willing to pay for business improvement services. Our observation is that this barrier exists because SMEs are extremely value conscious. Before a business owner will commit to spend on advice, they must trust both the adviser and their solution.

Making Business Owners aware of solutions

Business owners need to understand that help is available. There are experts who specialise in a wide range of solutions that can address the top concerns of business owners.

To ensure success, SMEs should also consider if ongoing support during implementation is available or required.

Bstar's **viba** advisers offer a range of solutions and packages to suit all types and size of business and budget.

SOLUTION FOR SMALL BUSINESSES INCLUDE:

- Risk Improvement Package *
- Better Business Program
- CFO Program *
- Benchmarking
- Business Life Planning
- Cost Audits
- Staff Surveys
- Business valuations and value gap analysis
- Succession Planning solutions
- Growth and Improvement (profit/cash flow) Programs

SOLUTIONS FOR MEDIUM & LARGE BUSINESSES INCLUDE:

- Better Business Program
- Board of Advice services *
- Value Improvement Package *
- Benchmarking
- Business Life Planning
- Needs Review Process
- Staff Surveys
- Business valuations and value gap analysis
- Succession Planning solutions
- Growth and Improvement (profit/cash flow) Programs

* Solutions that include implementation support

Value for money

Before a business owner will commit to an advisory solution, they need to have trust that the solution will work, and that the resources committed, both time and money, will pay off.

It is essential that there is genuine trust between the business owner and their adviser. The best way to build trust is by demonstrating that the solution will add value.

Before engaging an adviser, business owners need to ask them to show how implementing a solution will achieve the goal, or improve the business.

Value can be shown in quantifying the improvement in profit, cash flow or business value. For other business owners, the value may lie in other measures, for example, in reduced hours in the business, or improvements in processes.

Where to start

Where can business owners start to find solutions? **69%** of SMEs told us they had a trusted professional adviser. The best place to start is to discuss the SMEs' top concerns with that adviser and ask what solutions are available.

For business owners who don't have a trusted adviser who offers these solutions, the process starts with finding one.

Bstar's **Value Improvement Benchmarking Advice (viba) advisory process** is a proven method which helps advisers to assist their SME clients. Accounting and advice businesses that have received accreditation in the **viba** process can offer integrated advisory services to their SME clients.

A large, bold, black serif font number '69%' is centered on the page. The percentage sign is slightly larger and positioned to the right of the '9'.

of SMEs told us they had a trusted professional adviser

OUR SOURCES AND APPROACH

This Research Report has been prepared by Bstar Pty Ltd ABN 60 109 809 305 to provide an opinion on SMEs in Australia and the views of SME business owners. It is for general information only. The 2017/18 SME Research Report updates and expands on the 2015 and 2016/17 Reports.

The content in 2017/18 SME Research Report is taken from a range of sources. These include the Bstar Needs Review Process (including 121 face-to-face interviews with SMEs conducted by Bstar or its Alliance Partners), Business Risks Surveys and Scorecards (responses by 101 SMEs to a 10 question online survey of business risks) and Bstar's Risk and Value Drivers Assessment (RAVDAs) questionnaire (responses by 493 SMEs in various industries to a detailed RAVDA questionnaire). Bstar uses these sources, and the input of Bstar Alliance Partners to discover the views and concerns of SMEs and to collect data on SMEs all year round. Respondents were not paid for their involvement.

Quotes used in this Report are sourced from interviews, notes, Needs Assessments, email, surveys and comments from SME business owners. Quotes are paraphrased or amended for clarity and to de-identify the individuals involved. Statistics are based on standard questions and surveys conducted with SMEs across a wide variety of industries.

Information used in the section 'SMEs most wanted Advisory Solutions' is taken from 125 engagement proposals to SMEs by Bstar Alliance Partners over a twelve month period from 2016 to 2017. Bstar has a financial relationship with Bstar Alliance Partners. A Bstar Alliance Partner is typically a 2-10 partner accounting and/or financial planning business that has been trained and accredited in Bstar's Value Improvement Benchmarking Advice (**viba**) advisory process, and obtains services from Bstar for a fee.

Bstar's CEO Grant Bloxham has more than 2,000 LinkedIn connections (the majority are accountants), who also provide Bstar with input and comment on issues.

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