

more
than
money



Chapter 2

MOMENTS THAT MATTER

Understanding Australian SMEs

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FOREWORD

ANGELA MENTIS

Chief Customer Officer – Business and Private Banking



SMEs are the engine room of the economy – and are at the heart of what matters to us. We know that business conditions are good and that you are feeling confident and optimistic about the future. But while you are dreaming big, something is keeping you awake at night and holding you back from expanding. This is what we have explored in this second chapter of our “Moments that Matter: Understanding Australian SMEs” series.

We investigated the challenges and opportunities facing SMEs in our first report, which explored the state of play for business in Australia.

Reassuringly, we found the main driver of satisfaction across the board was seeing a customer smile. Whether you run a café, a manufacturing plant or a consultancy firm, customer satisfaction ranks as your top memorable moment that matters.

This theme surfaced again and again throughout the findings; when asked to identify measures of a successful business, only 32% of you rated high profits as an important measure – this was well behind other factors such as good financial management, positive word of mouth, customer smiles and happy staff.

What we found was that you want to grow but are finding it difficult to see through a maze of red tape and regulation – expansion is very much a part of your bigger plan, but there are barriers holding you back.

For this second report, we’ve brought together leading research from global firm IPSOS and our own NAB Economics team in order to explore these themes further.

Similar to our first chapter, the results were encouraging, surprising and thought-provoking.

More than 70% of you believe that Australia is a great place to do business. But while you share an optimistic outlook – you might not have the skilled workers to bring your business goals to life. Nearly 50% of you said there was a skills shortage in your sector, and many of you believe recent university and college graduates are not job ready. You also say you need a different kind of worker to help take your business into the future.

Skills like self-motivation, adaptability and services orientation were the hallmark ‘soft skills’ you think the modern worker needs most in the next 5-10 years.

I know from when I am out on the road talking to our customers that many of you find the Australian tax system difficult to manage. That was reflected in this research with nearly half of SMEs surveyed saying they have trouble understanding the tax system that applies to them.

And you say you struggle to wear so many different hats as small business owners, juggling many tasks and roles – I’ve witnessed this first hand as the daughter of a small business owner.

You are looking to the government to provide a simpler tax system and play a more active role in encouraging you to innovate. Just under half of you say that dealing with bigger companies makes it harder for you to succeed.

We hear you. Just as our SMEs are putting customers at the heart of everything they do, we’re committed to doing the same.

Signing up to industry-led initiatives such as The Australian Supplier Payment Code, which will ensure small business suppliers are paid within 30 days of issuing an invoice, is just one way we are taking the right step forward.

The introduction of this code, together with changes we’re making to create plain English contracts and remove financial indicator covenants for small business contracts demonstrates we’re listening to our customers and responding with measures that make things simpler and fairer.

Our nation’s economic wellbeing relies on a healthy SME sector and this body of research has given me a really comprehensive view of what we need to do to continue to support you.

I hope it also gives you a valuable insight into the state of mind of your peers and what your business needs to take that next leap.

CHAPTER 2

SKILLS AND GOVERNMENT SUPPORT

Managing the skills shortage

The skills shortage in Australia isn't just something impacting big businesses or a handful of niche industries – 48% of SMEs believe that there is a clear skills shortage in their sector, which is consistent across both metro and non metro locations and business sectors. Much more likely to believe that there is a skills shortage in their sector are Millennial SMEs (56%), the larger of the small businesses with a turnover of \$1 million – \$5 million (58%) and medium businesses (57%).

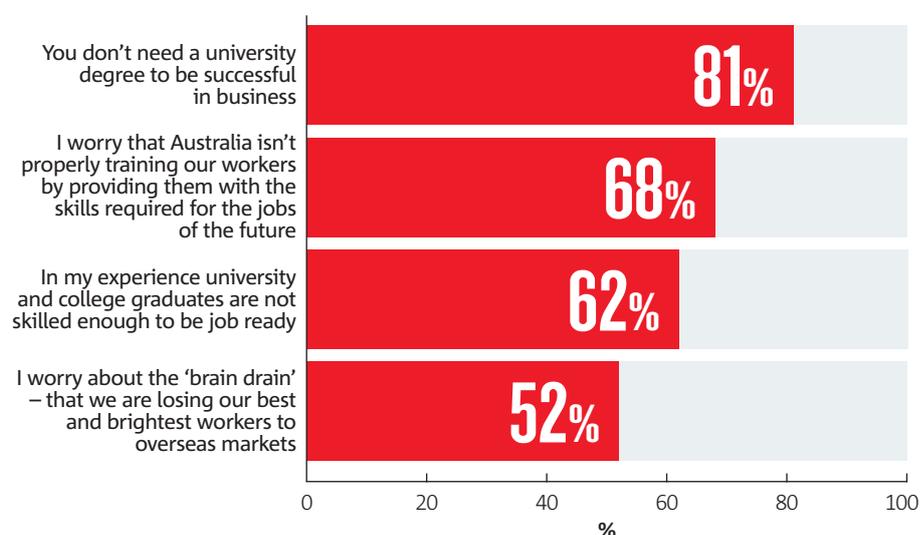
This may be related to stiff competition posed by larger businesses: a similar proportion (46%) believes it's hard to compete with big corporations for highly skilled workers.

To fill the skills gap, 1 in 4 (24%) SMEs have employed skilled migrants. This proportion is much higher for bigger SMEs: 40% for the larger of the small businesses with a turnover from \$1 million – \$5 million and 52% for medium-sized businesses.

In April 2017, the government announced that it was abolishing 457 visas for skilled migrants and replacing it with a Temporary Skill Shortage Visa restricted to critical skills shortages. Given the numbers of SMEs employing skilled migrants, what are their thoughts about the abolition of the 457 visa program?

NAB Economics data, using a 0 to 10 ranking system where 10 is 'to a great extent', says that companies in Western Australian believe that the abolition will have a more negative impact on their businesses (4.5 points) than those in other states, presumably reflecting migrant workers' important role in the mining sector boom. Capital city businesses thought

SME views on education and training



the abolition would affect them more (4.1 points) than those in rural areas (only 1.8 points), and in terms of size, not surprisingly, smaller businesses thought it would have less impact (3.3 points) than businesses with more than 20 staff (5.2 points).

The biggest impact of these changes were seen in telecommunications (5.0 points), health services (4.8 points) and transport and storage (also 4.8 points), but even they foresaw only a moderate impact.

Overall, most SMEs don't believe that the abolition will have a materially negative impact on them, which may indicate that most firms think there's enough capacity in the domestic labour market to meet their needs.

The biggest challenge for me is having to wear so many different hats at once. There are so many roles you have to play, even if you don't have the required skills."

SME owner

Education and training, 4 years in business

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Australia is a great place to have a business but...

SMEs are very positive about Australia. We found that 7 in 10 (71%) believe that Australia is a great place to have a business and around the same proportion (69%) believe you can be successful in Australia if you have a great business idea.

And when it comes to the future, sentiment drops off slightly: more than 6 in 10 (65%) are confident that Australia will continue to be a great place to have a business in the future.

With sentiment so high, it's tempting to assume that nothing more needs to be done, particularly from a government standpoint. But ask SMEs more about the role that government plays in their lives and a different picture emerges.

Australia is a great place to have a business but...

Government also has a role to play in providing more support



The government should provide better tax breaks / incentives to small business



The government could do a lot more to nurture innovation and support entrepreneurs

...and ease the administrative burden

Running a business can be challenging. Having to be an expert in what you produce or the service you provide is only one part of the job – the rest is made up of a host of other skills that require an equal degree of expertise, such as taxation, business planning, accounting and work place regulations, as well as an array of industry regulations that demand compliance.

The research findings clearly show that many SMEs struggle to fulfil so many roles. Just under half (48%) feel overwhelmed by the complexity of running a business and having to wear too many 'hats' at once.

Therefore it's not surprising that more than half of SMEs struggle to find the time to think about their businesses at a macro level: 57% feel that they spend too much time working 'in' the business instead of 'on' the business with things like business development and planning.

With too much to do and not enough time to do it all, it's not surprising that the majority find dealing with red tape to be time consuming and burdensome – the least of which is navigating their way through the taxation system. Four in 10 of SMEs in Australia struggle to make sense of the taxation regulations that apply to them.

Businesses are well aware that staff will need different skills in the next 5 – 10 years and are actively focussing on extending workers' existing skills and developing new skills. Extending existing jobs and developing new roles are seen as far less important.

Around 1 in 3 SMEs said self-motivation (35% of respondents), adaptability (32%) and services orientation (31%) will be the types of skills needed most in coming years.



Mark Stone AM,
CEO of Victorian Chamber
of Commerce & Industry

A serious skills shortage is hampering the local manufacturing sector

"Because we've had some high profile car manufacturers like Ford and Holden pull out of Australia recently, the popular perception is that manufacturing in this country is dying. But in Victoria at least, we've seen a slight increase in this sector. The biggest issues SMEs face in the manufacturing sector is not a lack of demand but a serious skills shortage. We have many manufacturing businesses in Victoria alone that cannot expand production to meet demand because they can't find the workers. In trades like welding and manufacturing workers are in very short supply. The new generation of skilled tradesperson just isn't coming through – over the last five years there's been a 40% drop across Australia of people completing apprenticeships and traineeships, so there's no immediate solution to the problem."

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Industries that believe their staff will need different skills in years to come include telecommunications, manufacturing, finance, business and property services. Those in accommodation, cafes, restaurants and retail foresee the least change.

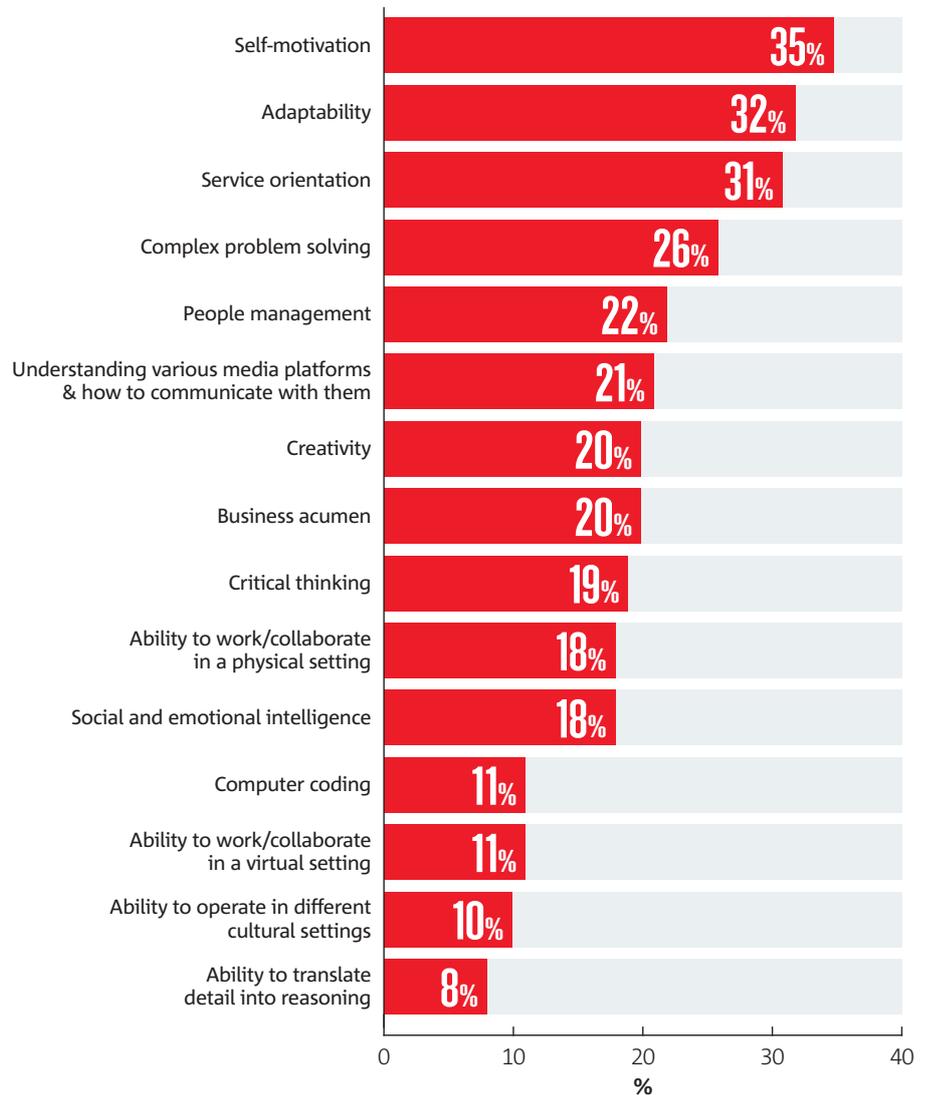
Of course, different sectors require different skills – 6 in 10 mining firms and more than twice as many small firms as medium firms believe that self-motivation will be crucial, while half of businesses in education see critical thinking as key, and 40% of agriculture, forestry and fishing businesses believe that the ability to work and collaborate in a physical setting is most important.

“There are all kinds of tax and industry regulations you have to learn about. I’ve been in business nine years and I’m still learning.”

SME owner

Food retail and wholesale, 9 years in business

Types of skills your staff will need most in the next 5-10 years (% of respondents*)



*multiple responses allowed

CHAPTER 2 SKILLS AND GOVERNMENT SUPPORT

Dealing with big business can be a struggle

Dealing with large businesses and corporations also emerged as a key challenge for SMEs. Just under half (49%) say that dealing with bigger companies makes it tough for their business to succeed.

Jumping through the considerable hoops required for an opportunity to be considered as a supplier to big organisations is also difficult for those in this sector. Half (54%) of SMEs feel that it is hard for them to get on preferred supplier panels with big businesses and government organisations.

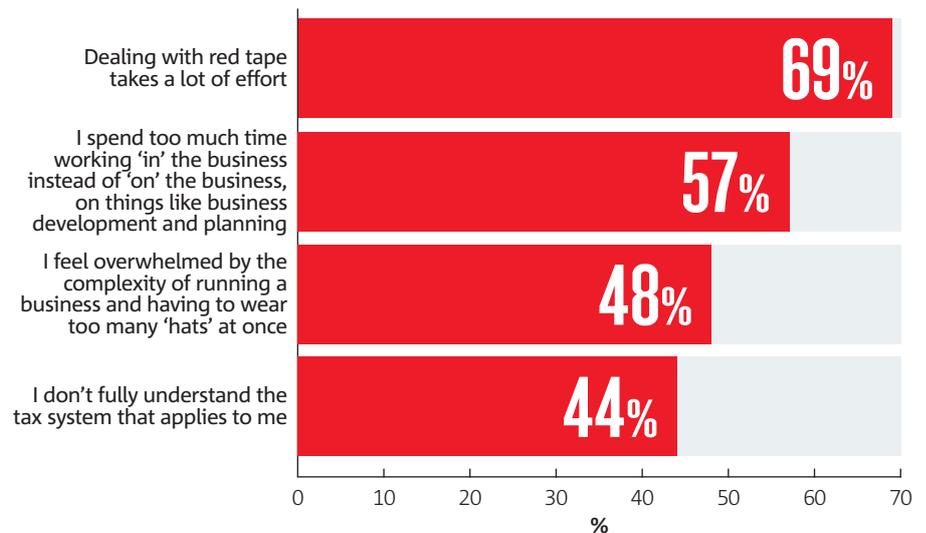
Making things a little easier...

In May 2017, NAB and other large Australian companies signed up to The Australian Supplier Payment Code, an industry-led initiative that ensures small business suppliers are paid within 30 days of issuing a correct invoice.

Established by the Business Council of Australia, the measures address one of the key concerns for Australian SMEs by reducing invoicing delays and improving cash flow and certainty for business owners.

The code marks an important milestone with big business and small business coming together to agree to standards that make things simpler for small business owners.

SMEs are struggling with the administrative burden



Mark Stone AM,
CEO of the Victorian Chamber of Commerce & Industry

The burden of red tape

“We’ve come a long way but there are still many things that could be improved to ease the administrative burden on SMEs. Taxation is an obvious one. We’re still dealing with the broader issue of taxation in a piecemeal way. There are about 120 different forms of taxation in Australia. Ten of those taxes – like GST, payroll tax and PAYG – generate 90% of the revenue and the other 110 forms of taxation generate 10%. The administrative burden of this complexity can’t be underestimated.

If you have a business that operates across state borders things can become doubly hard. For example, each state has its own formula for payroll tax, so if you operate in more than one state you have to comply to different systems with different rules and regulations.

Compliance across multiple layers of government is also a big issue. Business is governed by some degree by the Commonwealth and then other elements are regulated by the State and then in other cases regulated by Local government. There’s no doubt that we need to reduce the amount of regulation that’s occurring across these three levels of government. It would hugely reduce the administrative burden on small and medium businesses.”

CHAPTER 2 SKILLS AND GOVERNMENT SUPPORT

Concern about the economy is still top of mind

So with all of this good intention and optimism about the future, what barriers to growth remain? Almost 4 in 10 (37%) SMEs have wanted to expand their business but shelved their plans.

What's holding them back? Of those who have wanted to expand but didn't, an uncertain economy tops the list. We know that the economy usually ranks as a top concern for SMEs but the findings demonstrate that this isn't just something SMEs 'worry' about; economic uncertainty is having a material impact on the sector's growth by discouraging SMEs to expand, despite their desire to do so.

Other barriers to expansion were too much competition and concern about taking on too much debt. For owners of medium-sized businesses, access to capital to fund their expansion was also an issue – 28% hesitated because they didn't think a bank would give them a loan.

Despite their optimism, the challenges of running an SME can sometimes be too much.

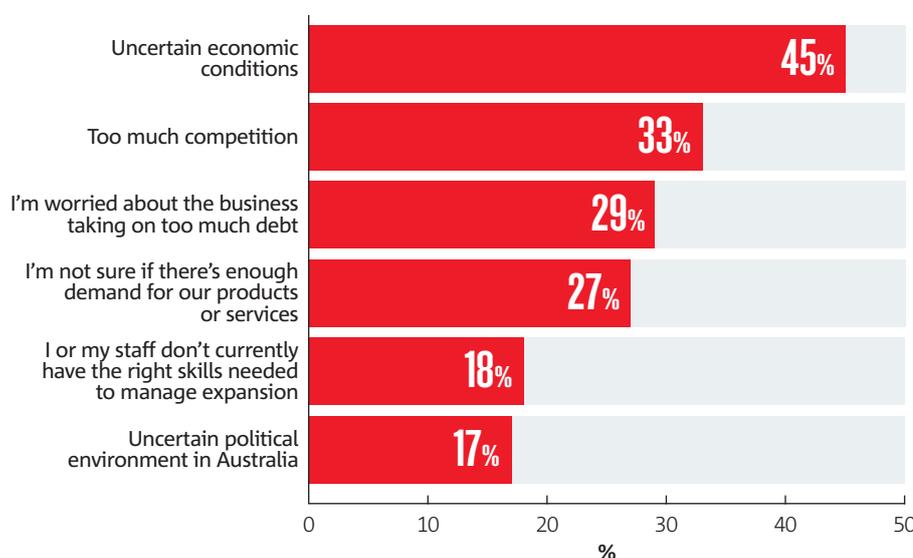
Even with optimism high and growth firmly on the horizon almost 1 in 3 (32%) SMEs have seriously considered closing their doors over the life of their business. Interestingly, the average age of the business when shutting down was being considered was 11 years, which tells us that passion can only take an SME owner so far; only stamina will see them through the long haul. To this point, the top reason cited for seriously considering shutting up shop was burn out – well ahead of declining revenue or profit.

Once again, uncertain economic conditions play a role. One in 5 SMEs cited this as a key reason why they had seriously considered closing down their business.

Top reasons for considering closing/winding down

We/I felt burnt out and needed a break	24%
Changing market conditions	20%
Poor economic conditions	20%
Revenue was in a steady decline	15%
Declining profits	14%
Finding the right staff or retaining staff was too difficult	14%

What's holding back the SMEs that want to expand?



37%

have wanted to expand but hesitated

CHAPTER 2 SKILLS AND GOVERNMENT SUPPORT

Economic conditions are impacting the bottom line and expansion plans

While the economy is a perennial concern for SMEs and business in general, this research reveals that the majority of SMEs believe that fluctuations in economic conditions directly impact their bottom line. More than 6 in 10 (64%) believe that the economic climate affects their business by reducing sales and revenue.

And, as we saw earlier, an uncertain economic environment is also dampening confidence when it comes to expansion. Indeed, it was cited as the number one factor holding businesses back from expanding. Just under half (45%) of the SMEs that had seriously considered expanding hesitated because of uncertain economic conditions.

Additionally, the research shows that poor economic conditions had also driven some SMEs to seriously consider closing their doors. Of those SMEs who had seriously considered closing their business at some stage in the past, poor economic conditions was cited as the reason for 1 in 5 (20%).

This proportion was even higher among the larger of the small businesses (with a turnover of \$1 million – \$5 million). One in 3 (34%) had seriously considered shutting up shop because of economic conditions.

The state of international politics has also emerged as a key concern for Australian SMEs. The majority (67%) are worried about the global political climate and its impact on the Australian economy and business.

Outlook for the economy is mixed

When it comes to the future of the Australian and global economies, SMEs are divided. Only just under half expect to see some growth over the next three years.

Future economy over the next three years

The Australian economy



Will grow



Will contract

The global economy



Will grow



Will contract



Paul Rehder,
Partner, Australian Banking Practice Lead (Deloitte)

Are SMEs holding back because record low interest rates may end?

“In recent years we’ve seen some of the most favourable economic conditions for business, including some of the lowest interest rates in over 20 years. However, small businesses are anticipating an increase, which is causing some trepidation. There’s a real sense of not knowing what’s next and that will certainly impact on a business’ appetite for growth.”

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Mark Stone AM,
CEO of Victorian Chamber of Commerce & Industry

SMEs need to see long term, visible solutions

“There are a number of issues in the business community lacking a long-term visible solution. Energy security and energy cost is one of them. If you are an advanced manufacturer with a high dependence on gas supply, gas pricing has a big impact on your business. Right now, no one can give you the confidence that they will be able to supply the natural gas to you and they can't tell you how much you'll pay for it next year or the year after. If the cost of energy goes up 20% this business would go broke. That's just one example of why some businesses are putting the brakes on expansion because they don't know what's coming next.”



Paul Rehder,
Partner, Australian Banking Practice Lead (Deloitte)

How exposed are SMEs to global economic uncertainty?

“SMEs are exposed to the same economic conditions as large businesses and corporates. They're working with the same interest rates, the same markets, and the same customer propensity to spend. If there's uncertainty at a global scale, it is likely to drive uncertainty at a local market level. Arguably, this has a greater impact on SMEs because they're not as well placed as big business to weather times of economic uncertainty.”

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