

RSM! Bird Cameron

A black and white photograph of a person standing in a field, holding a large, crumpled map. The person's face is obscured by the map. The background is a vast, open field under a sky filled with large, dramatic clouds. The overall mood is one of exploration and future planning.

thinkBIG

Investing in the future
a survey of SME owners



Foreword

Small-to-medium enterprises (SMEs) in Australia employ some 3.9 million people in about 1.2 million enterprises. SMEs are critical as a growth engine for the nation's economy, with productive small businesses having universal economic importance.

At RSM Bird Cameron, we have been serving SME owners since our inception in 1922 and we have a deep understanding of what it takes to build a successful growing business. We are also constantly looking for new ways to help business owners achieve sustainable development and over the years, we have invested heavily to better understand how the environment has changed.

Since 2005, RSM Bird Cameron has been conducting **thinkBIG**, a study of SMEs across Australia to gain insights into what drives success in these businesses. The results of the 2005 study revealed that business owners face two common challenges of creating wealth to support a successful and growing business, and realising wealth to fund personal wealth and retirement plans.

The results of the research from the 2007 study were highly publicised and they indicated that SME owners have a tendency to postpone planning for retirement until very late in the business lifecycle. The findings revealed that a good majority of SME owners are totally reliant on the proceeds of their business sale for their retirement, and most of these owners do not have an exit plan.

With the economic climate changing drastically in 2009, the aim with our third **thinkBIG** research study was to benchmark the planning practices of SME owners and assess the impact of the global financial crisis on their businesses. This report details key findings on whether SME owners are undertaking formal business planning, what superannuation planning challenges they face and how receptive they have been to seeking help from external advisors. Productivity improvement in SMEs, even under adverse economic conditions, delivers profit growth and we are confident that this report will give you critical insight into the importance of investing in the future, even when the current downswing may make SME owners feel particularly vulnerable.

Terry Rodoni
National Director Business Solutions
RSM Bird Cameron

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Appendix A - Glossary



1 Executive summary

Investing in the future



Executive summary

RSM Bird Cameron undertook its third **thinkBIG** research study to benchmark the planning practices of SME owners and assess the impact of the global financial crisis on their businesses, following similar studies in 2005 and 2007.

Key findings of the study are set out below:

Impact of the global financial crisis

SME owners maintained a high level of satisfaction with their decision to run their own business over the two-year period from 2007 to 2009, in spite of the challenging economic environment over the last six months. They remain reasonably optimistic about their business's medium-term prospects, but are becoming increasingly concerned about cashflow management and are more aware of the stress associated with managing their business.

Our research found that SME owners reacted decisively to the economic downturn, with around half saying they have already reduced overheads and personal drawings from the business. While SME owners expect to maintain their focus on reducing overheads over the next 12 months, as their opportunity to reduce personal drawings diminishes, they will increasingly look to protect their margins via price increases or improve efficiency through technology.

Business planning in uncertain times

The desire for independence and work / life balance continues to be more important to SME owners than creating wealth, with more owners once again saying they started their business because they wanted to be their own boss or wanted a better work / life balance rather than to create wealth.

Planning the business

Although significantly more businesses undertake formal business planning than two years ago, over half of SME owners in this year's study said they do not plan their business on a formal basis and there is still a considerable gap between the planning practices of micro-SMEs and larger SMEs.

SME owners who undertake formal business planning are reviewing their plans more frequently than two years ago, which may be in response to the difficult economic conditions over the last six months.

Consistent with the research findings two years ago, SME owners who undertake formal business planning still focus their attention mainly on financial planning and business goals, while only two-thirds have an operating plan or a management plan.

Growing the business

Around three-quarters of SME enterprises experienced some form of growth over the last two years, although over a quarter experienced no growth or decline.

Many SME owners continue to rely on reinvested profits as their main source of funding for growth. However, more owners are relying on bank debt compared with two years ago, and family loans appear to have declined as a source of funding.

SME owners continue to show faith in their businesses, with over a quarter saying there are no barriers to growth, although equally large groups identified access to capital or lack of market opportunity as barriers.

1 Executive summary

Investing in the future



Executive summary cont.

Exiting the business

Nearly a fifth of SME owners reported they delayed their exit date from the business because of the impact of the economic downturn in the last six months.

SME owners also expect to work longer. Seven out of ten owners with an exit plan think they will continue working after they exit the business compared with six out of ten in 2007.

The economic downturn in the last six months has taken its toll on SME owners' retirement planning, with a sharp increase in the proportion of owners who are dependant on the disposal of their business as their main source of retirement funds.

Our study indicates there is still considerable potential for SME owners who have planned their exit from the business to gain more precise information about the value of their business and available tax concessions for retirement planning purposes.

Passing the business on

One in two SME owners who expect to exit their business by passing it on to a family member are unsure what proportion of their retirement funds will be invested into superannuation. A quarter have delayed their retirement because of the economic downturn, and only one in three have a succession plan for an orderly handover of the business, with the balance saying they have not yet identified a successor or they perceive it is too early to develop a plan.

Superannuation planning challenges

The majority of SME owners have no plans to invest a proportion of their retirement funds into superannuation after leaving the business or are undecided, underlining the uncertainty associated with retirement planning highlighted throughout this study. It is therefore not surprising that two years on from the previous study, SME owners continue to be less than satisfied their total superannuation provisions will be adequate in retirement. Owners of micro-SMEs reported the lowest level of satisfaction, and nearly a third of SME owners are not at all satisfied with the adequacy of their superannuation provisions.

A third of SME owners reported the economic downturn in the last six months has impacted on their superannuation planning, with the majority saying they have decreased their superannuation contributions or delayed seeking advice from an external advisor. Owners of younger, less well-established SMEs are less likely to have a formal plan to invest their retirement funds into superannuation.

Use of external advisors

Over half of SME owners sought help from external advisors in the past, with business planning advice proving the most popular, followed by superannuation planning advice and retirement planning advice.

Significantly more SME owners with a business plan, succession plan or exit plan sought external advice in the past than those without a plan, with accountants the most commonly used advisors. However, respondents also reported seeking advice from financial planners for retirement planning or superannuation planning.

2 Introduction

Investing in the future

Introduction

Background

RSM Bird Cameron undertook its third **thinkBIG** research study to benchmark the planning practices of SME owners and assess the impact of the global financial crisis on their businesses, following similar studies in 2005 and 2007.

Key objectives of the research are to:

- Identify the impact of the global financial crisis on SME owners' current and future planning for the business
- Benchmark business planning, critical service areas such as succession planning, exit planning and superannuation planning, and the use of external advisors



3 Results

Investing in the future

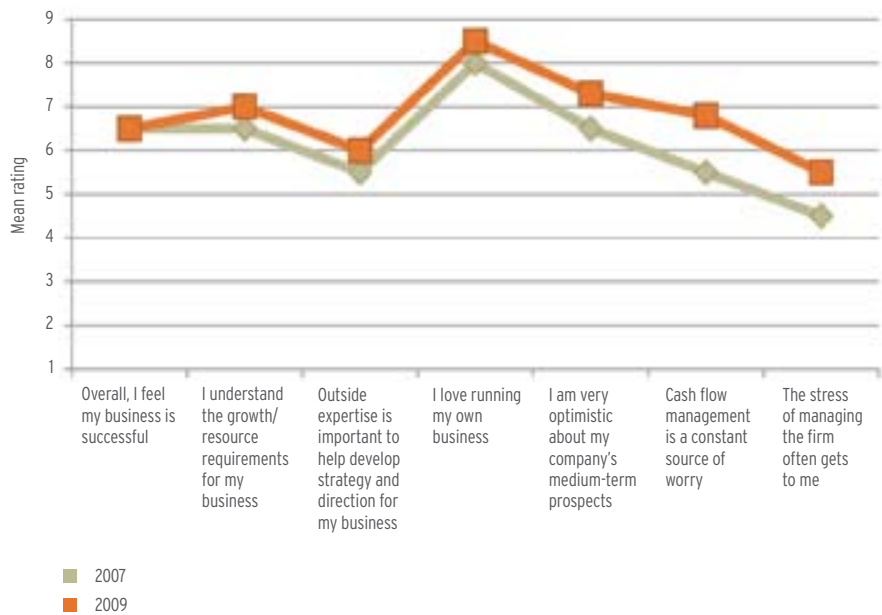


Around one in seven SME owners said they faced extra scrutiny from external financiers in the last six months

Impact of the global financial crisis

In spite of the challenging economic environment over the last six months, SME owners maintained a high level of satisfaction with their decision to run their own business over the two-year period from 2007 to 2009. They remain reasonably optimistic about their business's medium-term prospects, but are becoming increasingly concerned about cashflow management and are more aware of the stress associated with managing their business:

How I feel about my business



3 Results

Investing in the future



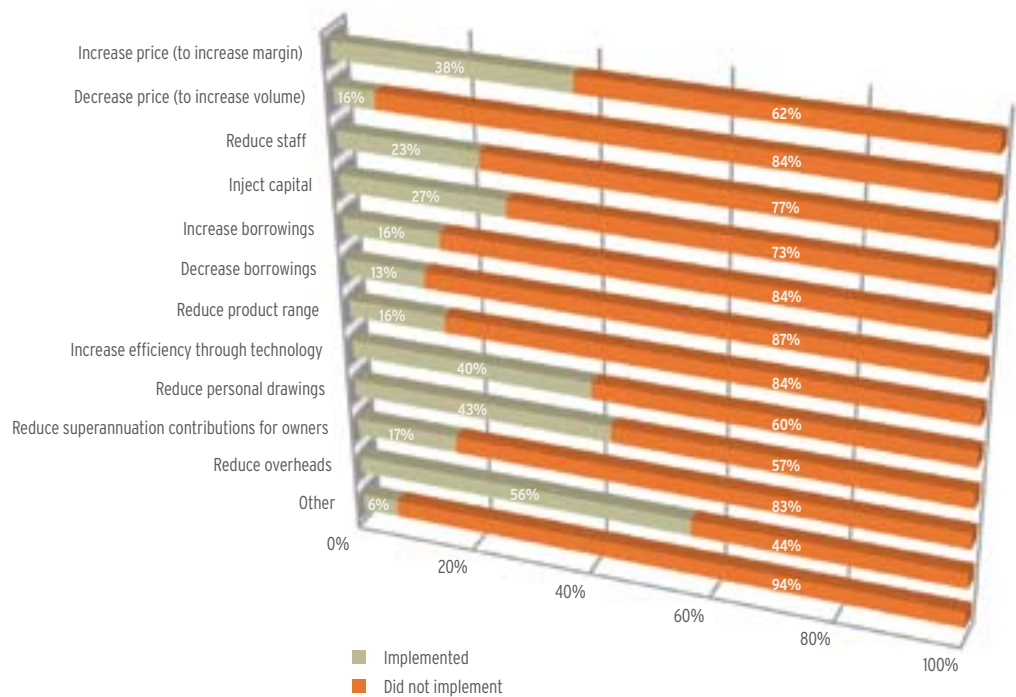
Owners of smaller SMEs were more likely to reduce personal drawings, while owners of larger SMEs were more likely to reduce staff

Impact of the global financial crisis cont.

How SME owners reacted

SME owners reacted decisively to the economic downturn, with around half saying they have already reduced overheads and personal drawings from the business. Over a third said they have increased efficiency through technology or increased their prices to protect margins:

Response to economic downturn in the last six months



3 Results

Investing in the future

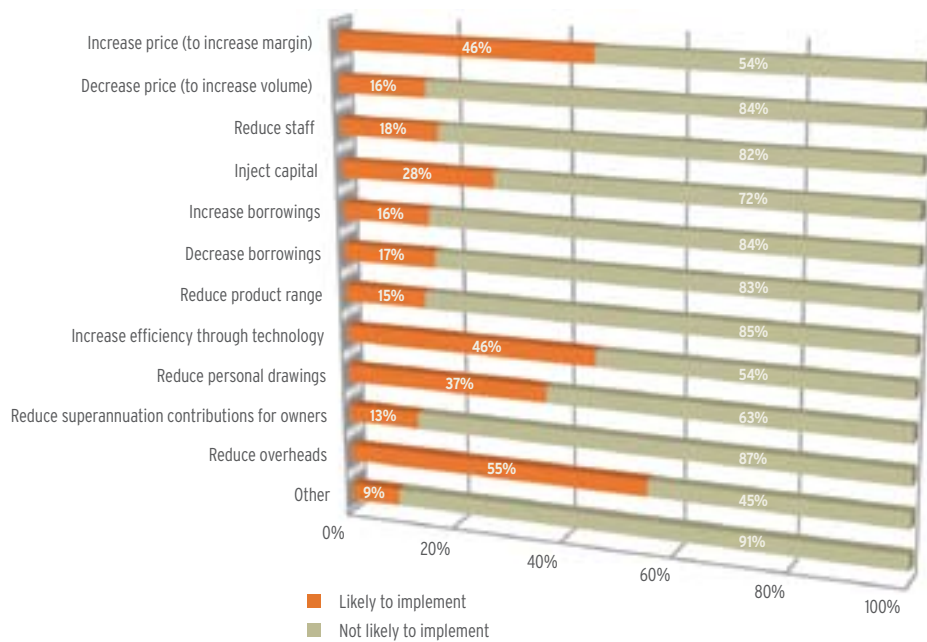
Impact of the global financial crisis cont.

Owners of smaller SMEs are more likely to continue to reduce personal drawings, while owners of larger SMEs are more likely to continue to reduce staff numbers

How SME owners expect to react

At this stage, SME owners expect to maintain their focus on reducing overheads in response to the economic downturn, but as their opportunity to reduce personal drawings diminishes they will increasingly look to protect their margins through price increases or improve efficiency through technology:

Expected response to economic downturn in the next 12 months



3 Results

Investing in the future



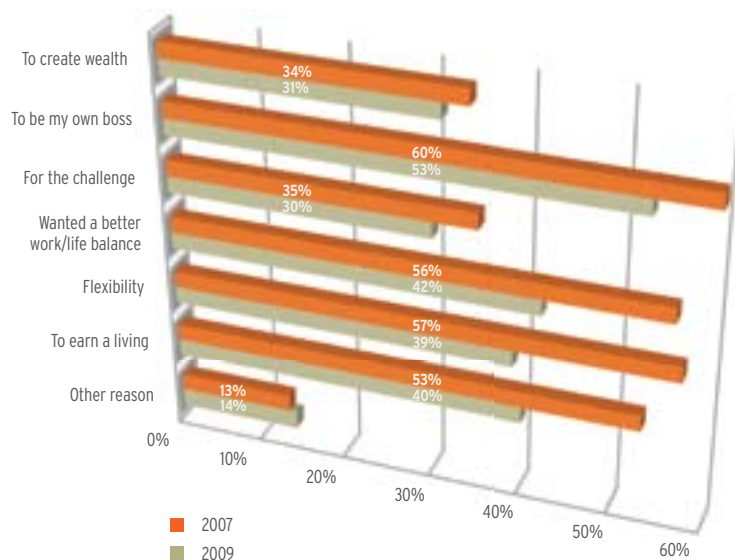
SME owners with fewer than 20 employees are significantly more likely to have started their business to achieve work/life balance compared with owners of larger SMEs

Business planning in uncertain times

Starting the business

The desire for independence and work / life balance continues to be more important to SME owners than creating wealth. Over half of owners said they started their business because they wanted to be their own boss and 42% said it was because they wanted a better work / life balance, compared with under a third who said it was to create wealth:

Reason for starting the business



3 Results

Investing in the future



Fewer than one in three SME owners have outlined goals for their businesses (32%)

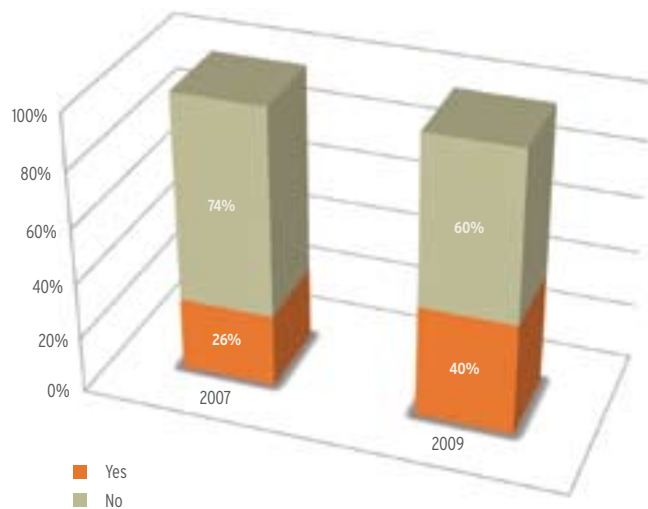
Action point 1:

Write a simple turnaround plan to sustain your business and keep you going over the next year. Convince your creditors to stick with you by stating your objectives in measurable terms.

Planning the business

Although significantly more businesses undertake formal business planning than two years ago, over half of SME owners in this year's study said they do not plan their business on a formal basis:

Do you undertake formal business planning?



There is still a considerable gap between the planning practices of micro-SMEs and larger SMEs. Significantly fewer SMEs with 1 - 2 employees reported a formal business planning process compared with larger SMEs.

SME owners who undertake formal business planning are reviewing their plans more frequently than two years ago, which may be in response to the difficult economic conditions over the last six months. Today, nearly two-thirds of this group completes a business plan every year (65%), although 17% complete a plan less often than every two years.

Consistent with the research findings two years ago, SME owners who undertake formal business planning still focus their attention mainly on financial planning and business goals (88% and 82% respectively). However, only two-thirds have an operating plan or a management plan (66% and 63% respectively).

Once again, SME owners who do not plan their business formally said it is because their business is too small (59%). However, in 2009 nearly a third said they do not know how to complete a plan and nearly one in five said they do not have the time (30% and 19% respectively).

3 Results

Investing in the future

Eight out of ten SMEs who planned their business experienced revenue growth over the last two years compared with seven out of ten who did not plan

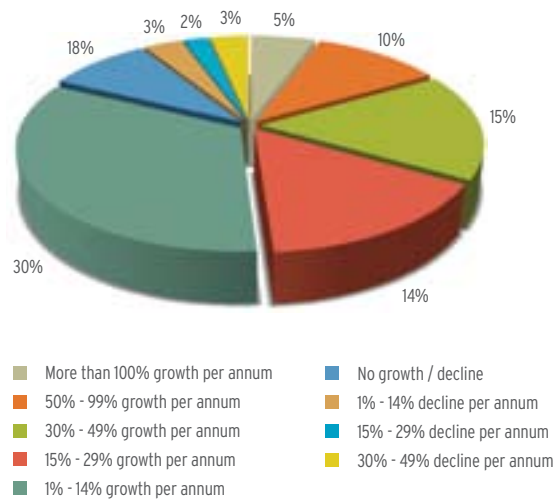
Action point 2:

Whilst cost cutting and survival are top of mind, give some thought to investing in business tools to improve efficiencies. Project Management (PM) methodology will give your business a framework that makes it achievable for you or your employees to move from vision to action with a comprehensive project plan.

Growing the business

Around three-quarters of SME enterprises experienced some form of growth over the last two years, although over a quarter experienced no growth or decline. The largest group of SME owners reported their growth in the range 1% - 14%:

Revenue growth over the past two years



Sources of funding

Many SME owners continue to rely on reinvested profits, with 51% nominating this as their main source of funding for growth. However, more owners are relying on bank debt compared with two years ago, and family loans appear to have declined as a source of funding:

- 16% of SME owners in their first year of operation nominated venture capital as their main source of funding
- Mature SMEs (more than six years old) are more likely to rely on reinvested profits as their main source of funding
- Micro-SMEs (with 1 - 2 employees) are more likely to rely on foregone salary as their main source of funding, while larger SMEs with 20+ employees are more likely to rely on bank debt

Barriers to growth

SME owners continue to show faith in their businesses, with over a quarter saying there are no barriers to growth (26%), although equally large groups identified access to capital or lack of market opportunity as key barriers (26% and 24% respectively), and skills shortages linger as a problem (22%).

3 Results

Investing in the future



Only one in three SME owners with an exit plan expect to retire when they exit their business, a likely consequence of the economic downturn

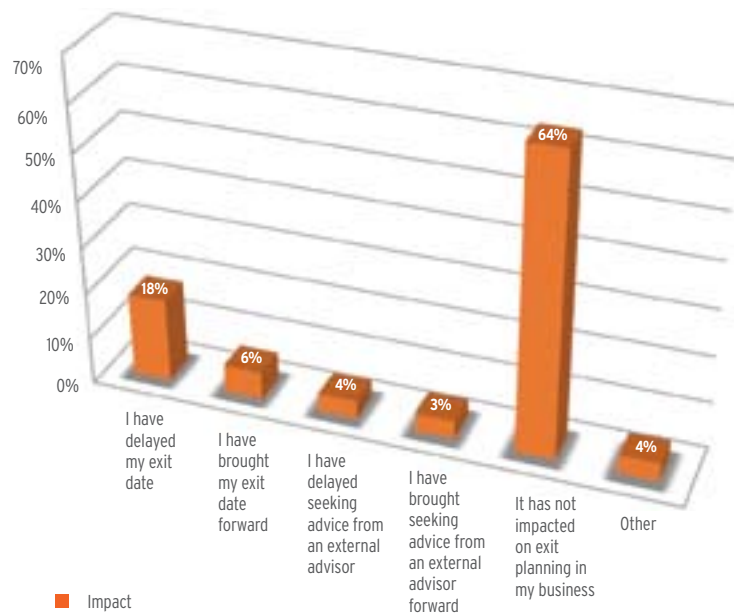
Action point 3:
If you're planning to sell or wind up your business, minimise your dependence on other investors and structure the business so you get to draw out cash as needed.

Exiting the business

Impact of the global financial crisis on owners' exit plans

Nearly a fifth of SME owners reported they delayed their exit date from the business because of the impact of the economic downturn in the last six months (18%):

Impact of the economic downturn on exit planning



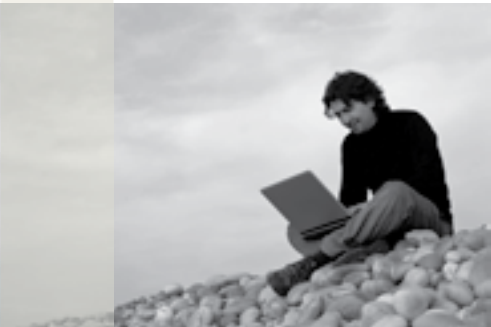
SME owners also expect to work longer. Of the 26% of owners with an exit plan, seven out of ten think they will continue working after they exit the business compared with six out of ten in 2007. Around half of SME owners with an exit plan expect to exit their business some time in the next four years.

The majority of SME owners plan to continue as a consultant in the business or part-time elsewhere.

Most SME owners expect to exit their business by passing it on to a family member, selling it to an outside investor or disposing of it via a trade sale.

3 Results

Investing in the future



Nearly a third of SME owners with an exit plan have no plans to invest any of their retirement funds into superannuation

Action point 4:
As you generate wealth, remember that reinvesting in the business should not come at the price of failing to plan for your retirement. Retirement planning is an ongoing process and the sooner you start, the more secure you will be when it's time to leave the business.

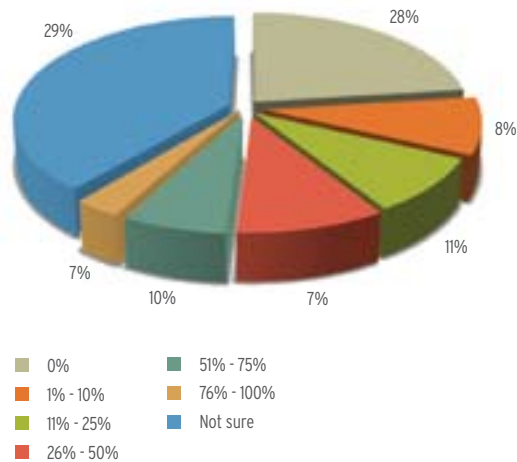
Exiting the business cont.

Greater uncertainty over retirement planning

The economic downturn in the last six months has also taken its toll on SME owners' retirement planning, with a sharp increase in the proportion of owners who are dependant on the disposal of their business as their main source of retirement funds. In 2009, 53% of SME owners with an exit plan said the proceeds of their business upon exit would be the primary source of their retirement funds, compared with only 26% in 2007.

Nearly a third of SME owners with a plan to exit the business are not sure what proportion of their retirement funds will go into their superannuation (29%), but this figure rises to 39% for owners without a plan, as we discuss below:

Percentage of retirement funds that will be invested into superannuation after exiting the business



Our study indicates there is still considerable potential for SME owners who have planned their exit from the business to gain more precise information about the value of their business and available tax concessions for retirement planning purposes:

- Only one in two SME owners with an exit plan have completed a valuation for their business (45%)
- Only one in two SME owners with an exit plan are aware of tax concessions available for small businesses upon sale (46%)

Around a fifth of SME owners with an exit plan who completed a valuation of their business expect the sale of their business will contribute more than half their retirement funds (21%).

3 Results

Investing in the future



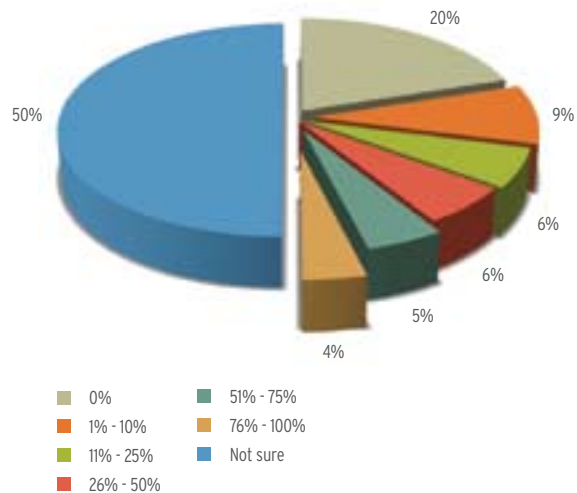
Fewer than one in three SME owners expect to invest some of their retirement funds into superannuation once they pass the business on

Action point 5:
To establish a strong business succession plan, ensure that the decisions you have made in it maximise the value of your business and enable it to meet future needs.

Passing the business on

Of the 27% of SME owners who expect to exit their business by passing it on to a family member, one in two are unsure what proportion of their retirement funds will be invested into superannuation, which is consistent with the high level of uncertainty about retirement planning reported in this study:

Percentage of retirement funds that will be invested into superannuation after passing on the business



Around a quarter of SME owners who expect to pass on their business have delayed their retirement because of the economic downturn (23%).

Only one in three SME owners who expect to pass on their business to a family member have a succession plan (33%), although relatively more owners in regional centres and rural areas have a plan compared with owners in capital cities.

The majority has a family member currently in the business who will take over, but over a third expect to pass the business on to a family member who works outside the business.

Barriers to succession planning

Our study found there is a large group of SME owners who would like to plan the succession of their business but need to make some key decisions about their future before they can effect an orderly handover:

- 45% have not yet identified a successor
- 43% think it is too early to develop a plan
- 34% always assumed a family member would take over

3 Results

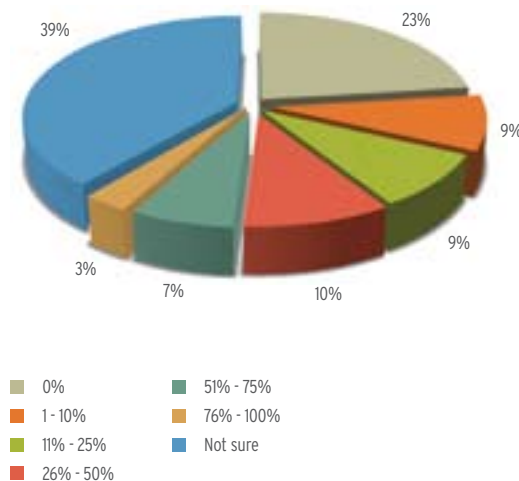
Investing in the future

Nearly a quarter of SME owners have no plans to invest their retirement funds into superannuation when they leave the business

Superannuation planning challenges

The majority of SME owners have no plans to invest a proportion of their retirement funds into superannuation after leaving the business or are undecided, underlining the uncertainty associated with retirement planning highlighted in our study:

Percentage of retirement funds that will be invested into superannuation after leaving the business



Action point 6:
In ensuring that you have a super nest egg, maximise the time left to contribute to your superannuation fund prior to your retirement. Steer surplus cash into your super fund and where possible, make those contributions regularly.

Owners of younger, less well established SMEs are less likely to have a formal plan to invest their retirement funds into superannuation:

- Significantly less owners of SMEs with fewer than six employees plan to invest their retirement funds into superannuation when they leave the business
- Owners of newly established SMEs in their first year of operation are less likely to have a plan to invest their retirement funds into superannuation

3 Results

Investing in the future



Around a third of SME owners are not at all satisfied with the adequacy of their superannuation provisions

Superannuation planning challenges cont.

Impact of the global financial crisis

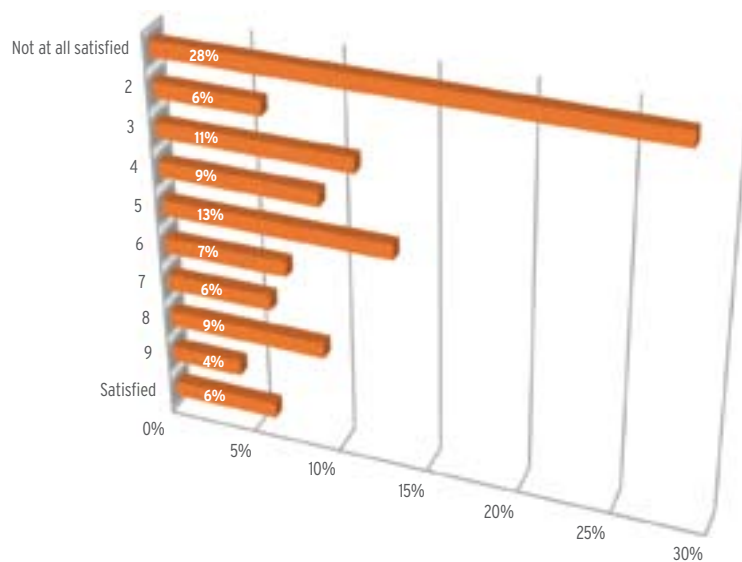
A third of SME owners reported the economic downturn in the last six months has impacted on their superannuation planning (31%), with the majority saying they have decreased their superannuation contributions or delayed seeking advice from an external advisor.

Low satisfaction

Two years on from the previous study in 2007, SME owners continue to be less than satisfied their total superannuation provisions will be adequate in retirement, recording an overall satisfaction rating of only 4.3 on a scale of 1 - 10, where 10 represents satisfaction.

Nearly a third of SME owners are not at all satisfied with the adequacy of their superannuation provisions and owners of micro-SMEs with 1 - 2 employees reported the lowest level of satisfaction with the adequacy of their superannuation provisions, recording an average score of 3.3.

Satisfaction with superannuation provisions



3 Results

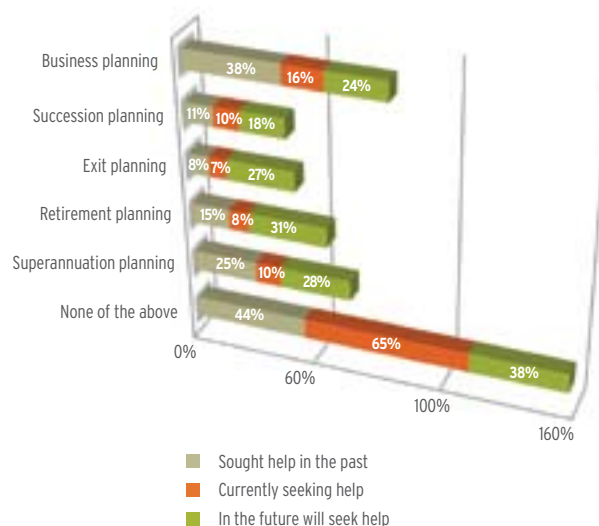
Investing in the future

Only a quarter of SME owners in the total sample sought superannuation planning advice in the past or intend seeking it in the future

Use of external advisors

Over half of SME owners sought help from external advisors in the past, with business planning advice proving the most popular, followed by superannuation planning advice and retirement planning advice:

External advice sought



Action point 7:

Use an external advisor to build some sense of impartiality so that you receive independent perspective and strategic guidance to ensure the decisions you make are objective.

- Significantly more SME owners with a business plan, succession plan or exit plan sought external advice in the past than those without a plan
- Significantly fewer owners of SMEs with 1 - 2 employees sought external advice in the past

Preferred advisors

The most commonly used external advisors are accountants, with around a third of SME owners reporting they used an accountant in the past for business planning, succession planning or exit planning. However, of the owners who sought advice or plan to seek advice:

- Nearly half sought advice from a financial planner for retirement planning or superannuation planning (46% and 40% respectively)
- A quarter are receiving advice from a business coach for succession planning (25%)
- Around a third expect to seek advice from a business advisor for succession planning (33%)

4 Conclusions

Investing in the future

Conclusions

Small businesses are the seeds from which big businesses grow. In the current economic climate, the importance of SMEs cannot be underestimated. Reassuringly, despite this climate, SME owners remain committed to their decision to run their own business and remain optimistic about the medium-term future.

SME owners are reacting decisively to the economic downturn, implementing changes to ensure both their survival in the immediate future and setting in place plans to allow them to invest in future growth. Along with maintaining current cost cutting measures, SME owners will also seek to protect their future business opportunities through improved efficiencies in technology.

The lack of attention to succession planning and exit planning continues to cause concern. Although some SME owners have identified that they have delayed their exit due to the economic downturn, many are still unprepared and have no plan for how they plan to eventually exit the business and realise the wealth they have created.

Similarly, the impact on superannuation planning has resulted in a number of SME owners decreasing their superannuation contributions. Given that nearly a third of SME owners are not at all satisfied with the adequacy of their superannuation provisions, this trend may signal some cause for alarm for SME owners who are nearing retirement age.

4 Conclusions

Investing in the future

Conclusions cont.

The following actions, outlined throughout the document, are intended as a simple guide to assist SME owners in their decision making to ensure they take proactive steps to cope with the downturn:

- Write a simple turnaround plan to sustain your business and keep you going over the next year. Convince your creditors to stick with you by stating your objectives in measurable terms.
- Whilst cost cutting and survival are top of mind, give some thought to investing in business tools to improve efficiencies. Give your business a framework that makes it achievable for you or your employees to move from vision to action with a comprehensive project plan.
- If you're planning to sell or wind up your business, minimise your dependence on other investors and structure the business so you get to draw out cash as needed.
- As you generate wealth, remember that reinvesting in the business should not come at the price of failure to plan for your retirement. Retirement planning is an ongoing process and the sooner you start, the more secure you will be when it's time to leave the business.
- To establish a strong business succession plan, ensure that the decisions you have made in it maximise the value of your business and enable it to meet future needs.
- In ensuring that you have a super nest egg, maximise the time left to contribute to your superannuation fund prior to your retirement. Steer surplus cash into your super fund and where possible, keep those contributions regular.
- Use an external advisor to build some sense of impartiality so you receive independent perspective and strategic guidance to ensure the decisions you make are objective.

SME owners readily identify a range of common challenges they face in running their business, particularly in the current economic climate. Despite this, SME owners still identify being their own boss and achieving greater work life balance as the key motivators for starting the business and remain committed to investing in the future.



5 Demographics

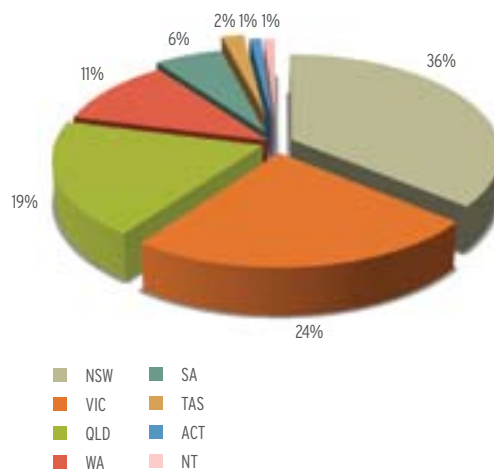
Investing in the future



Demographics

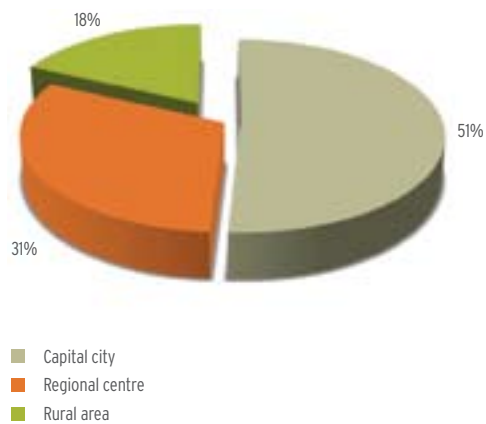
Respondents by state and territory

The sample reflects a balance of respondents by state and territory similar to the distribution of SMEs:



Respondents by region

Nearly half the sample consists of respondents from regional centres and rural areas to enable us to explore differences by geography. However, consistent with the results from the 2007 study, we did not find any significant differences in business practices by region:



5 Demographics

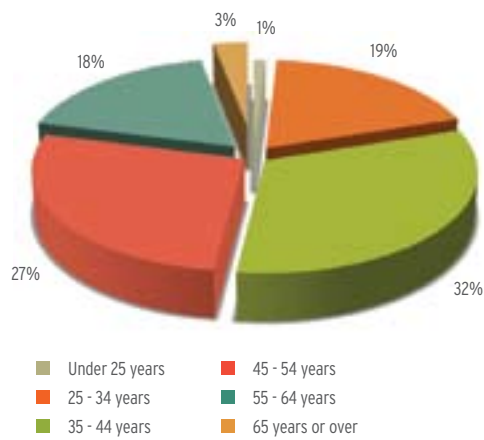
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Demographics cont.

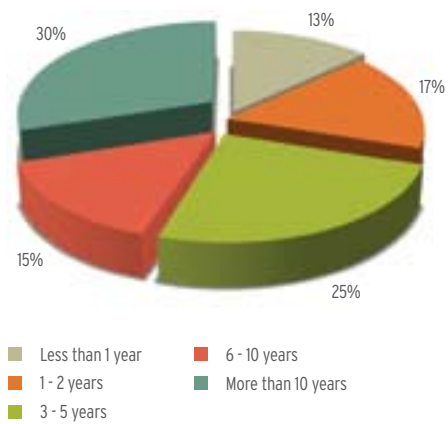
Age of owner

The sample is concentrated in the 35 - 44 year age group, a similar mix to the 2005 and 2007 research studies:



Age of business

The majority of businesses represented in the sample are aged over three years, although around a third are younger businesses:



5 Demographics

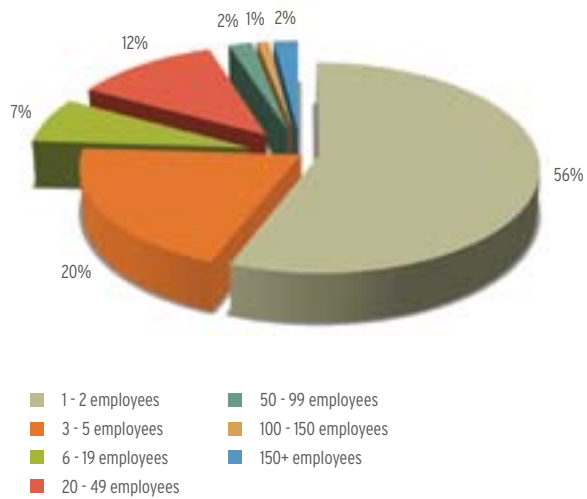
Investing in the future



Demographics cont.

Number of employees

The majority of organisations represented in the sample have 1 - 5 employees, although the sample includes organisations with up to 150 employees:



Gender Mix

Respondents were evenly divided between males and females:



5 Demographics

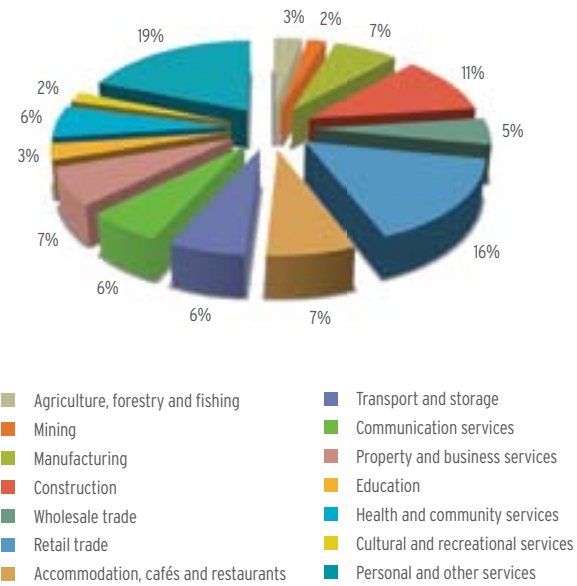
Investing in the future



Demographics cont.

Respondents by industry

Respondents are from a broad range of industry sectors, with the heaviest concentration in services, consistent with the previous two studies:





Appendix A – Glossary

Methodology

Respondents completed a ten-minute internet-based survey in February 2009. The sample consists of 291 respondents.

Terms used in this report

SME

Small-to-medium enterprise. The Australian Bureau of Statistics defines a small-to-medium enterprise as any business that has 200 or fewer employees. Small businesses (excluding agricultural businesses) are those businesses employing less than 20 people. (Source: ABS Report Characteristics of Small Business, April 2005.)

Business plan

A document describing the business, its objectives and the strategy it will employ to achieve those objectives. A comprehensive business plan should include the following content:

- Market analysis
- Competitive differentiation
- Financial goals
- Marketing plan
- Operating plan
- Management plan

Succession plan

A plan outlining how the current owners will transition the business to new ownership, which may be within or outside the business, a family member, director or employee.

Exit plan

A plan outlining how the current owners plan to sell the business. The primary difference between an exit plan and a succession plan is that with a succession plan, the new ownership/management team is known to the current owners, and this is integral to the plan. With an exit plan the current owners do not know who the new ownership will be, but have identified the means by which they plan to realise the wealth they have created.

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