

more  
than  
money



*Chapter 1*  
**MOMENTS  
THAT MATTER**

Understanding Australian small to  
medium businesses

# FOREWORD

## ANGELA MENTIS

Chief Customer Officer - Business and Private Banking



Small to medium businesses are the backbone of the Australian economy, creating around 7 million jobs, contributing to 57% of Australia's GDP and cementing our reputation as a nation of entrepreneurs.

You are often our most innovative business people – nimble enough to be ahead of the curve, with skills to understand how to manage the risks of the new and daring.

This makes you an invaluable resource to our economy.

To understand the state of play in your sector, NAB commissioned global firm Ipsos to undertake qualitative and quantitative<sup>1</sup> research with Australian SMEs to explore what matters in your world and how you are approaching business in 2017.

And given how critical you are to our nation's financial wellbeing, we believe it's imperative to help others understand what makes you tick.

The results are surprising, exciting and encouraging.

This is a volatile time for business; disruption is shifting goal posts and customer expectations are higher than ever. Businesses want to expand but you find it hard to see through the tangle of red tape and regulation.

The findings show that despite intense workloads and dealing with bureaucracy, many of you are waking up every day energised by your customers.

You are passionate, good at dealing with challenges and you know success comes from being willing to fail. Customer satisfaction trumps as your top memorable moments.

SMEs love running a business in Australia and you are putting your heart and soul into everything you do - but in some cases it's not enough.

For many, success is just out of reach - of those who wanted to expand but didn't, 53% couldn't past the barriers of an uncertain economy and too much competition in the market place.

We know the challenges don't end there – NAB has a role to play in making it easier for our customers to do business. Just as our SMEs are putting customers at the heart of everything they do, we're committed to doing the same.

I hope this body of research gives you what it's given me – an unparalleled view of one of our most important business communities and what matters to you.

**57%**  
of Australia's GDP is  
contributed by SME's

<sup>1</sup> The findings are based on a quantitative online survey conducted by IPSOS on behalf of NAB, surveying a representative sample of 808 Australian SMEs (defined as business with an annual turnover between \$100,000 and \$50 million) owners and decision-makers. The survey was conducted between February 23 and March 7, 2017. In this research, Small Businesses are defined as having a turnover of \$100,000 - \$5 million, while Medium Businesses are defined as having a turnover between \$5 million - \$50 million. The data has been weighted to the Australian business population by turnover and industry according to The Australian Bureau of Statistics data.

# FOREWORD

## ALAN OSTER

Chief Group Economist - NAB



The Moments that Matter whitepaper provides fascinating insight into the mindset of Australia's small business owners. Understanding this community and how business conditions and business confidence are playing out has always been a key area of interest for NAB. Given the key role small businesses play in our economy, it should be of vital interest to everyone who's concerned about our economic health.

That's why the Economics team is so dedicated to the Quarterly SME Business Survey. Our most recent Survey is encouraging. After an extended period in a subdued environment, business conditions and confidence are now at levels we haven't seen for some years.

Conditions for SMEs have now been above or in line with larger businesses for two consecutive quarters.

In our last Quarterly SME Business Survey, we saw some encouraging signs for the smallest firms in the economy, with low-tier SMEs with turnover of \$2 million-\$3 million seeing the largest improvement in conditions since the end of 2015. The same survey also showed business confidence improving across all SME categories.

In particular, services including health, property, finance and transport stand out as industries currently experiencing strong conditions, proof that the non-mining economy continues to gain traction.

Innovation and the willingness to adopt technology also shone through in our latest survey, which showed the use of websites and launching of new products/services as among the most popular strategies that firms employ to improve competitiveness.

The encouraging signs we see in the SME Business Survey are also reflected in the broader economy. Our Monthly Business Survey for April show business condition strengthened from already elevated levels, further cementing the positive narrative on current business activity in recent surveys.

The business conditions index rose 2 points, to +14 index points, which is well above the long-run average (+5) and its highest level since early 2008.

Meanwhile, business confidence came more into line with business conditions in April, hitting its highest level since 2010 (up 7, to 13 index points).

Small business is an important part of the Australian economic landscape. I hope the Moments that Matter whitepaper and our regular SME Business Survey will help and support this vital cog in our economy.

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# CHAPTER 1

## STATE OF PLAY: GROWTH, CHALLENGES AND OPPORTUNITIES



### Who are our SMEs?

#### They're young – in age and business longevity

Half (50%) have been in business for 10 years or less and 56% fall into the Millennial or Generation X cohorts.

#### They're more likely to be male – gender parity is still a way off

Big business attracts most of the attention when it comes to the gender gap but the SME sector also has a way to go – the majority (64%) of owners and decision makers are male. It's a different story among Millennial SMEs, however, where there's perfect gender split (read more on this new generation of business on page 12).

#### SMEs are mixing it up when it comes to customers

SMEs are defying the traditional B2B and B2C customer boundaries – half (50%) sell to a mix of both consumer and business customers, while around a quarter (27%) are purely B2B and are a similar proportion are purely B2C (23%).

#### One in 10 SMEs are online-only businesses

Twelve per cent of SMEs are online-only businesses, which soars to 1 in 4 (23%) among Millennial SMEs. The generation gap between Millennials and Baby Boomer SMEs is striking – only 7% of Baby Boomer SMEs are online-only businesses.

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### Measures of success

When asked to rank the measures of a successful business, research participants painted a surprising picture. One in 3 (32%) rated high profits as an important measure but this was well behind other things such as good financial management (58%), positive word of mouth (56%), productive staff (49%) and happy staff (45%). Only 11% ranked large turnover as a measure of success.

#### What kind of person do you need to be to run a thriving SME in Australia?

So if the measures of a successful business aren't just about high profits, what traits do SME owners need to possess to make a success of their enterprise?

Being prepared to work hard, having a genuine sense of passion and being good at dealing with difficult customers top the list. Being willing to fail as well as being a life-long learner also make it into the top 10 (see chart next page).

Interestingly, being a good financial manager sat well below these things in 10th place. Meanwhile, SMEs' view on risk is striking. SMEs clearly don't rate taking a careful approach to risk – only 11% considered taking a conservative approach and taking as few risks as possible to be an important trait.

#### But developing these traits is still work in progress

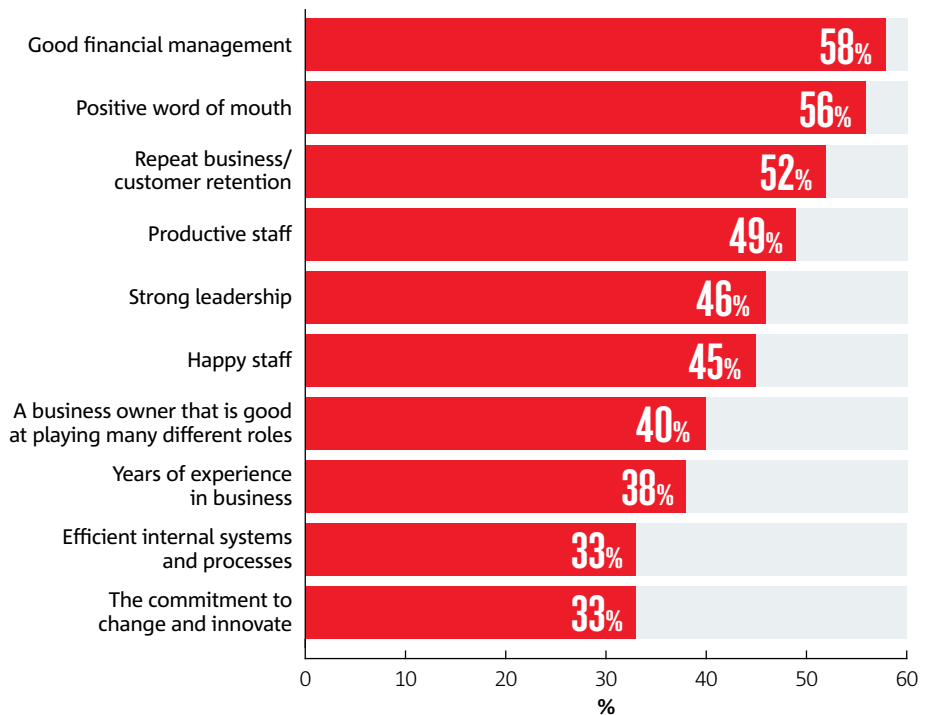
When respondents selected the traits and qualities they believe are most important for SMEs owners, they were then asked if they personally possessed these traits. The results were revealing. Apart from being prepared to work hard, not many SMEs believed that they currently possessed the traits they had nominated as essential for an SME owner, demonstrating a considerable gap (or perhaps modesty!) between their aspirations and their current reality (see chart next page).

#### Australian SMEs are entrepreneurial

The special report *The Lure of Entrepreneurship*, released last year by the NAB Economics Group, found that 1 in 3 Australians aspires to have their own business.<sup>2</sup> Our research tells a similar story, finding that 6 in 10 SME business owners rate themselves as strong entrepreneurs – much higher for Millennials.

Unsurprisingly, those who believe they've been successful in business are much more likely to consider themselves to be strong entrepreneurs (72% compared to 61% of the total).

#### What makes a successful business?

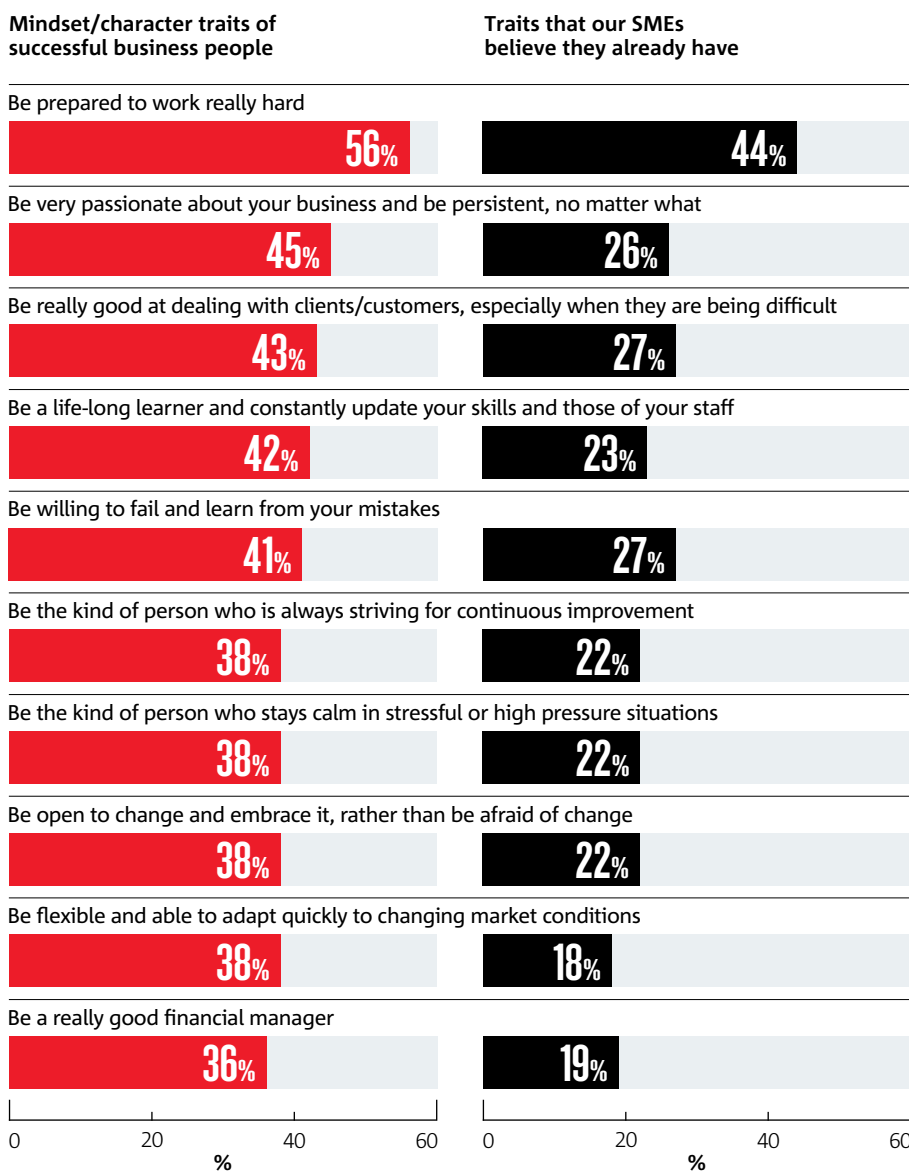


<sup>2</sup> NAB Special Report, *The Lure of Entrepreneurship – Australia's Start-Up Culture*  
<http://business.nab.com.au/the-lure-of-entrepreneurship-australias-start-up-culture-july-2016-17727/>

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### What makes a successful SME owner and how successful are our SMEs at already having these traits?



**Kwanghui Lim,**  
Associate Professor of  
Strategic Management,  
Melbourne Business School.

### What defines an entrepreneur? It's all about having a growth mindset

“Entrepreneurs are focused on growth or building something that is scalable or that can be taken to other markets. But it’s not for everyone. They’re not all looking to scale up or to be the next Google. It depends on their aspiration. That might be to run a happy and successful family business and there’s nothing wrong with that.”

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### A bright future

#### Our SMEs feel successful – and they're optimistic about the future of their businesses

Australian SMEs are hugely confident and optimistic about the future of their businesses and their prospects of running a business in Australia.

The majority (73%) also feel they've been successful in business, which appears to be strongly correlated to their broader outlook on life – 86% of those who feel successful in business also feel successful in life in general (compared to 75% of the total).

#### Australian SMEs are optimistic

**80%** I feel optimistic about my business

**71%** Australia is a great place to have a business

**65%** I'm confident that Australia will be a great place to run a business in the future

**69%** If you have a great business idea, you can be successful in Australia

#### More upbeat about the future

An SME's mindset has a major impact on what they believe, what they focus on and how optimistic they are. Data was analysed by the following key mindset groups and time again they revealed themselves to be much more confident and optimistic than everyone else, as well as more likely be focused on growth and technology, as well as much more upbeat about the future.



**Successful Thinkers**  
defined as those who felt that they had been successful in business



**Entrepreneurs**  
defined as those who considered themselves to be strong entrepreneurs

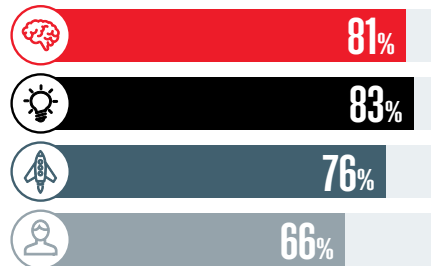


**Innovators**  
defined as those who rate innovation as important to their business

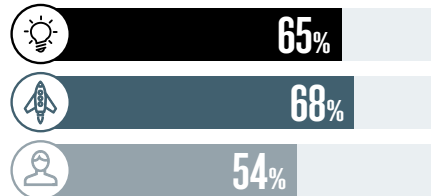


**The total sample**  
They are much more likely than the total sample...

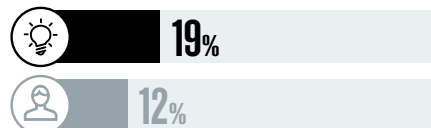
To feel confident in their business prospects over the next years



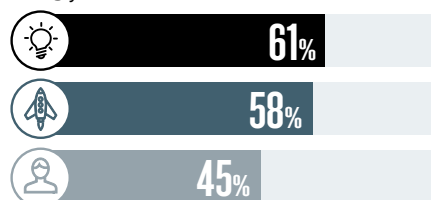
To be looking to automation and other technologies to increase efficiency in their business



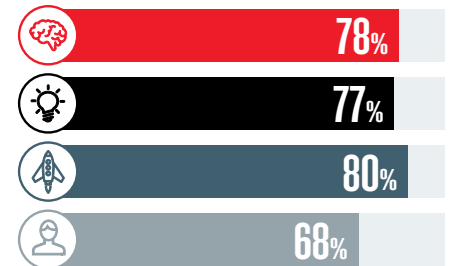
To be an online-only business



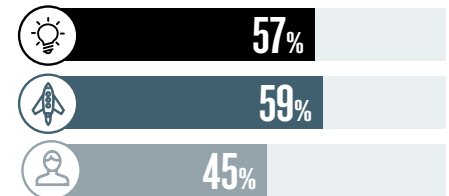
To intend to expand their business over the next 3 years



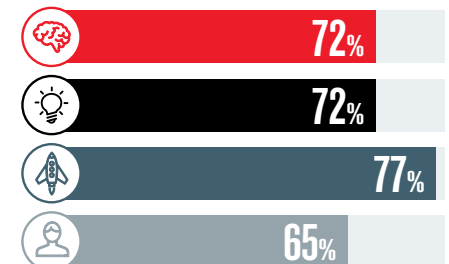
To make time keep up with new technology because they believe it's important to their business



To use social media to market their business



To expect their profitability to grow over the next 3 years





# CHAPTER 1

## STATE OF PLAY: GROWTH, CHALLENGES AND OPPORTUNITIES

### Customers at the centre

#### Seeing the customer smile is the no.1 priority.

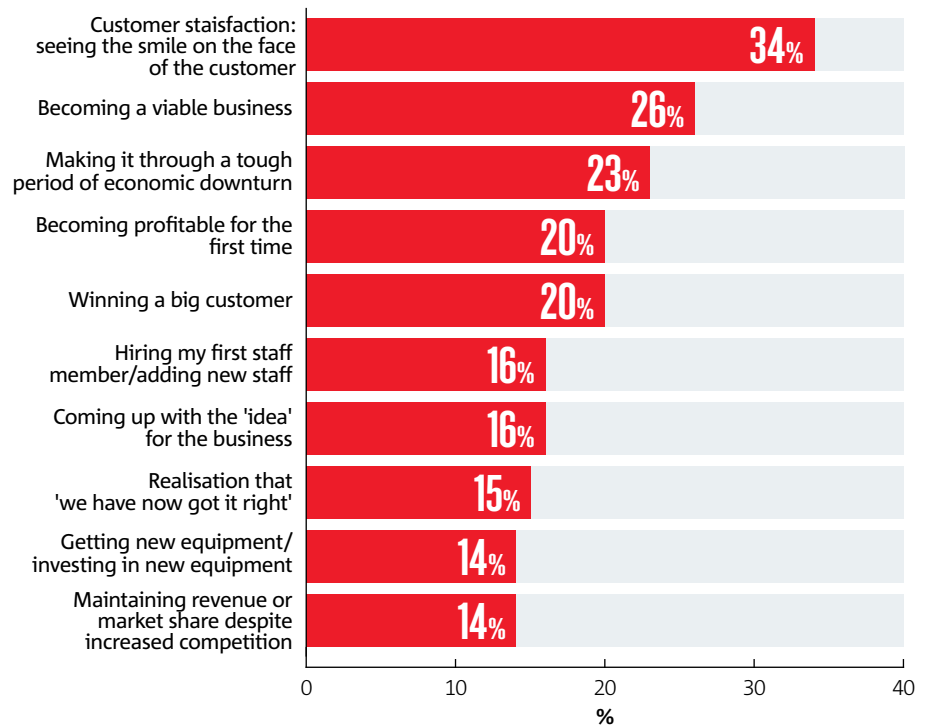
The moments that matter for SMEs are a mix of the 'big' things that happen in a business, like winning a big customer, and the 'small' but significant moments, like seeing a smile on the face of the customer. They're also much more likely to be about important 'firsts' for the business – the first big order, the first big customer, hiring the first staff member.

They're often about the pivotal moment when the business transitioned from an 'experiment' to a 'real' and viable enterprise.

#### Making it through a tough period

When asked to reflect on the most important milestones and moments in their business, SMEs ranked the ability to be resilient and persistent in challenging economic conditions as no.3.

### The moments that matter the most for SMEs



“We went through a period in the first five years when we didn't have a client for eight months or any prospects. I started thinking about shelving the company for a while and going to work for someone else. I'm glad we stuck it out. I've built the business up since then and now we're turning over \$12 million.”

**SME owner**

Professional Services / IT, 15 years in business

“We started in my kitchen at home but we outgrew that pretty fast. We went from 100 pieces a week to 1,000 pieces instantly thanks to our first big customer. That enabled us to move into our first commercial kitchen. That's when it felt like a real business.”

**SME owner**

Food retail and wholesale, 9 years in business

“Passion is what gets you started but it's perseverance that gets you through. You can burn through the passion pretty quickly.”

**SME owner**

Hospitality, 6 years in business

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## STATE OF PLAY: GROWTH, CHALLENGES AND OPPORTUNITIES

### SMEs are focused on expansion and growth

Our research reveals that a significant proportion of SMEs are prioritising growth and expansion – particularly larger businesses.

One in 10 (12%) SMEs are in a constant state of expansion. And investment made by businesses over the last 12 months also demonstrates a focus on growth – with winning new customers, investing in new machinery, hiring new staff and increasing marketing, sitting in the top five areas of investment.

Medium-sized businesses are much more likely to have been focused on growth – over the last 12 months they were more likely to have hired new staff (39% compared to 26% of the total), invested in growing revenue (31% compared to 17% of the total) and invested in increasing profitability (27% compared to 19% of the total).

When it comes to the future, growth and expansion are firmly on the horizon: almost half (45%) are intending to expand their business in the next three years. Medium-sized businesses stand apart from the total: Six in 10 (62%) are looking to expand over the next three years.

The outlook for revenue and profitability also assumes growth: the many expect both revenue (68%) and profitability (65%) to grow over the next three years (only 6% expect revenue to contract and 9% expect profitability to contract).

Areas of investment over the last 12 months



Our big focus now is to expand the business. It's been 27 years but you have to keep looking ahead. There's a lot of opportunity for us to expand into new areas. It's not so much about increasing revenue – not only that; it's more about 'where do we want to be in two years, what kind of work do we want to be doing and how will we get there?'

**SME owner**

Building and construction, 27 years in business

# CHAPTER 1

## STATE OF PLAY: GROWTH, CHALLENGES AND OPPORTUNITIES

### How are SMEs expanding?

The top triggers for expansion are largely self-driven and have a lot to do with an enterprising mindset: identifying opportunities, the thrill of the challenge and entrepreneurial spirit sit in the top five.

Medium-sized businesses are much more likely to cite the following triggers: landing a major new client (29%), the desire to diversify revenue streams (27%) and competitive pressures (31%).

### Triggers to expansion

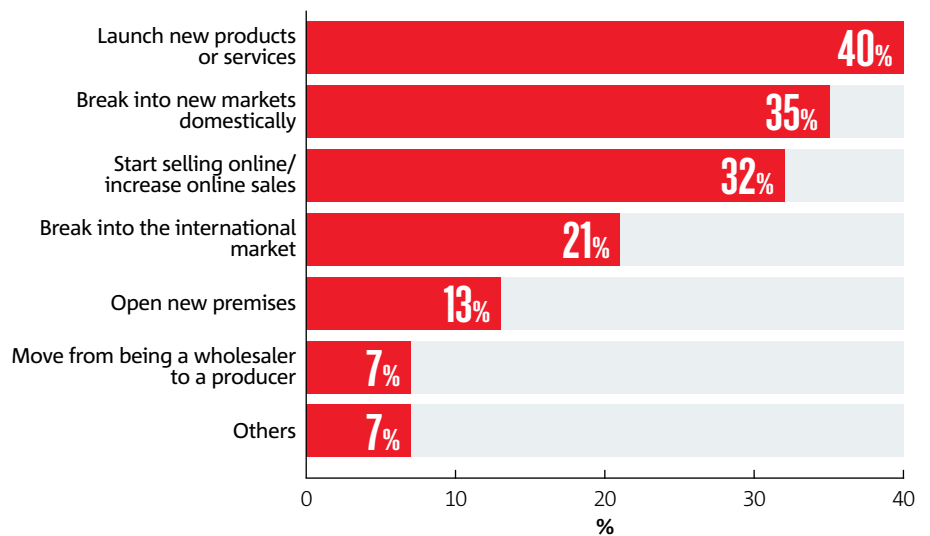
Identified an opportunity	35%
To increase personal income	21%
Landed a major contract/client	20%
Entrepreneurial spirit	19%
The challenge	19%
Diversify revenue streams	16%
Competitive pressures	16%
Achieve economies of scale	13%
Change in personal circumstances	12%
Unable to meet customer demand	11%

How do those who are intending to expand their business over the next three years plan to execute their growth?

Actual strategies for expansion centre on launching new products and services, breaking into new markets domestically and internationally, and launching or growing digital sales channels.

Medium businesses are particularly focused on breaking into international markets: 38% plan to do so compared to 21% of the total.

### Strategies for growth and expansion



## CHAPTER 1

# STATE OF PLAY: GROWTH, CHALLENGES AND OPPORTUNITIES

### A class apart – Millennial SMEs

The SME sector in Australia is dynamic: small and medium businesses are distinctly agile and focused on innovation and growth. Millennial SMEs are all of these things too – but dialled up.

On so many levels, Millennial SMEs stood well apart from their counterparts. This is most striking in the gender balance of owners, where there's an even split between men and women, unlike the general SME population which is still heavily skewed male (64% are male).

They also stood out with their attitudes to technology. Unlike Gen Xs and Baby Boomers, who've had to transition from the 'old' world into a completely new one, much of the Millennial cohort has little recollection of life pre-24/7 connection, before instant access to everyone you know and where much of the world's knowledge was something you carried in your pocket. And it shows when it comes to their approach to business.

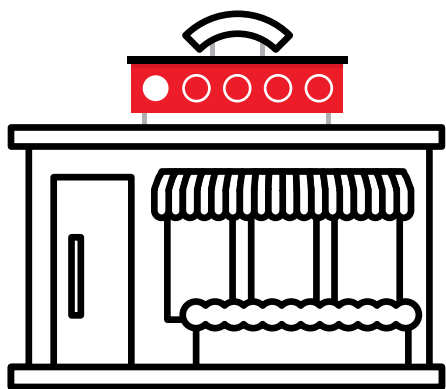


# 66%

of Millennial SMEs intend to expand their business over the next three years.

# CHAPTER 1 STATE OF PLAY: GROWTH, CHALLENGES AND OPPORTUNITIES

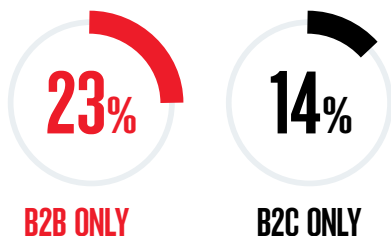
## Who are our millennial SMEs?



**1 IN 5**  
**AUSTRALIAN SMES**

are owned/run by Millennials (those aged between 18 and 35)

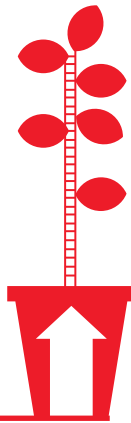
### TYPE OF BUSINESS



**63%** ARE A MIX OF BOTH

**66%**

intend to expand their business in the next **3 years**



### GENDER

MALE **50%** FEMALE **50%**

Compared to

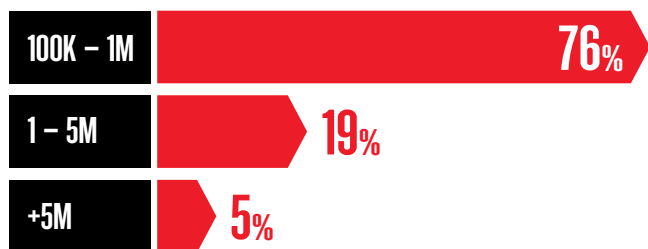
MALE **64%** FEMALE **36%**

total sample.

**41%**  
**HAVE AN UNDERGRAD  
UNI DEGREE**



### BUSINESS SIZE (\$)



**82%**

Millennial businesses are in metro areas (compared to **69%** of total sample)

Almost half have been in business for

**FIVE** YEARS OR LESS



**ONE IN 4** MILLENNIAL BUSINESSES

are online-only compared to 12% of total sample.

# CHAPTER 1

## STATE OF PLAY: GROWTH, CHALLENGES AND OPPORTUNITIES

### Millennials are focused on growth and dialling up digital

SMEs in general are focused on expansion but this 'growth mindset' ramps up among Millennials.

More than 6 in 10 (66%) intend to expand their business over the next three years compared to 45% of everyone else. Meanwhile the majority – 75% – expect revenue to grow over the same period, compared to 68% of everyone else.

For those Millennial SMEs who are intending to expand, almost half will be looking to the digital side of their business to make it happen: 44% plan to either start selling online or grow online sales to expand their business over the next three years (compared to just 28% of everyone else).

Additionally, 1 in 5 plan (18%) to invest in new technology over the same period (compared to 12% of the total), and a similar proportion (21%) plan to invest in new machinery or premises (compared to 12% of everyone else).

### Don't call Millennial SMEs business 'operators' – they're entrepreneurs

While SMEs in general have caught the entrepreneurship bug – 6 in 10 consider themselves to be strong entrepreneurs – as a group, many more Millennial SMEs possess an entrepreneurial mindset – 70% rate themselves as strong entrepreneurs (compared to 60% of everyone else).

Millennial SMEs are also much more likely to focus on another of the great concepts defining the digital era – innovation. This appears to be a default setting in the Millennial SME mindset: many (83%) say that innovation is important to their business (compared to 69% of everyone else).



**Kwanghui Lim,**

Associate Professor of Strategic Management,  
Melbourne Business School.

### The rise and rise of the entrepreneurial career path

“The aspiration has shifted; the ‘end goal’ is no longer automatically to have a life-long career at a corporate. When I first started teaching MBA students at the Melbourne Business School 10 years ago hardly anyone was interested in starting their own business; they all wanted to work for the big corporations and climb the corporate ladder. The world has changed considerably over that time. That aspiration is still there – particularly for those at the very beginning of their career – but now an entrepreneurial career path has also become a legitimate option.

“Now a lot of our students are interested in doing their own thing in the future. While not all students are likely to launch an SME right after an MBA or other graduate degree, more of them are interested in doing so within a 5-10 year time frame. Part of this growth comes from changes to funding conditions. In recent years in Australia, an ecosystem around early-stage funding has developed that makes it possible to take something started by a few people in a garage and turn it into a real business. Today, if you have a good idea and you are able to articulate it and pitch it to Venture Capital and Angel Investors and other partners, it's possible to launch a scalable business that can become a real player in the market.”

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### Digital is the Millennial SME default in business (as well as in life!)

Digital isn't just a channel for many Millennial SMEs – it's everything, quite literally.

Six in 10 (63%) Millennial SMEs would not exist without the Internet (versus 52% of everyone else). A staggering 1 in 4 (23%) Millennial SMEs are online-only businesses, compared to just 1 in 10 (9%) of everyone else.

Many more Millennial SMEs – 7 in 10 (71%) – believe that the internet has impacted their business compared to only 1 in 2 of everyone else.

And there's a greater focus on everything to do with the digital aspects of their businesses, compared to the general SME population – such as intention to grow the digital side of their businesses and openness to automation.

### Millennial SMEs are generating revenue through digital and social media

Millennial SMEs are much more geared towards digital as a sales channel than everyone else. One-third (32%) of Millennial SME revenue is generated by online channels (compared to 20% of everyone else). And they are much more likely to see social media as a legitimate business tool: 6 in 10 (61%) Millennial SMEs use social media to market their business (compared to less than half (41% of everyone else).



### What Millennial SMEs value stands apart from everyone else

Millennial SMEs are more optimistic about the future of the economy – only 14% cite the economy as a future challenge compared to 1 in 4 of everyone else.

When it comes to the skills they see as essential in their workplace, they are more likely to value collaboration with potential employees (27% compared to 19% of everyone else) and twice as likely to look for strong leadership skills in employees (20% compared to 8% of everyone else).

Their attitudes to climate change and the cost of energy also set them apart. Millennial SMEs are more likely to worry about the impact of climate change on their business (56% compared to 35% of everyone else) but also much more likely to have actually done something about it by investing in clean and renewable energy sources to reduce their energy costs (52% compared to only 33% of everyone else).

### Digital is the default for Millennial SMEs

	 Millennials	 Everyone Else
My business simply would not exist without the internet	63%	52%
The internet has impacted my business	71%	51%
We are looking to increase efficiency in the business with automation and other technologies	71%	50%
We are focused on growing the digital side of the business	66%	46%
Social media is essential to my business	60%	45%
The rapid pace of technological change is directly affecting my business	57%	44%

**23%**  
of Millennial SMEs are  
online-only businesses.

# CHAPTER 1

## STATE OF PLAY: GROWTH, CHALLENGES AND OPPORTUNITIES



### Millennial SMEs are feeling the pressure of competition and managing the back office

Competition in the SME sector is intense but it turns out that Millennial SMEs are feeling it the most. They are more likely to struggle to stand out in a crowded marketplace and to believe that competition has put pressure on their profit margins.

Interestingly, however, those Millennial SMEs who have undergone at least one phase of expansion during the life of their business are much more likely to cite ‘competitive pressures’ as a trigger (23% compared to just 14% of everyone else), indicating that competition can have a positive effect on this cohort by driving growth.

Feeling overwhelmed by the complexity of running a business and dealing with bigger companies were also more of an issue for Millennials.

### Millennial SMEs are feeling the pressure of running a business the most

	 Millennials	 Everyone Else
Stiff competition in my sector has put significant pressure on my profit margins	65%	51%
There's so much competition in my sector that it's made it hard to stand out	63%	49%
Dealing with bigger companies makes it tough for my/the business to succeed	65%	45%
I feel overwhelmed by the complexity of running a business and having to wear too many hats at once	61%	45%
I don't fully understand the tax system that applies to me	58%	41%
I have wanted to expand my business but hesitated	45%	35%

# 23%

cite ‘competitive pressures’ as a trigger for expansion.



# CHAPTER 1

## STATE OF PLAY: GROWTH, CHALLENGES AND OPPORTUNITIES

### Competition in the SME sector is fierce

The research findings reveal that competition in this sector is intense, emerging as a key challenge for Australian SMEs. 1 in 2 (52%) believe that there is so much competition in their sector that it's hard to stand out. Competition is also impacting profits: 54% believe that stiff competition in their sector has put significant pressure on profit margins.

Too much competition was also cited as a barrier to expansion. 1 in 3 (33%) of those 'who wanted to expand but didn't' cited too much competition as a key reason holding them back.

#### Distinctly agile

In the age of disruption, agility has become highly prized in the business world. While very large organisations can struggle with the ability to change and adapt quickly, the SME sector has revealed itself to be distinctly adept at being agile.

According to our research, SMEs are in a constant state of change. The majority (75%) of SMEs have changed the nature of their business since they were first established, and 1 in 4 (26%) of these have changed the nature of their business 'a lot' or are constantly changing since they opened their doors.

A key part of this ability to manage change is their capacity to expand and contract according to market conditions. Just under half (48%) have undergone between two to four distinct phases of expansion in the life of the business (higher for medium businesses 60%).

And when conditions get tough, SMEs contract accordingly. 1 in 2 (50%) have gone through at least one phase of contraction and among those, 24% have gone through between two to four distinct phases of contraction.

SMEs' ability to be agile also comes down to a nimble workforce. More than 1 in 3 (38%) SMEs rely on casual workers, freelancers and full time assignment (FTA) workers to easily expand and reduce their head count according to demand.

The broader mix of employee type also bears this out – 45% of those who are employed in the SME sector are permanent full-time employees, with the rest made up of permanent part-timers (28%) and a mix of casual, contract and FTA (full-time assignment) workers (26%).

You constantly need to adapt. I've been in business 27 years and I'd say every two years we've had to change in some way, either because of market forces, or changes to industry regulations or tax/employment regulations."

#### SME owner

Building and construction, 27 years in business

# CHAPTER 1

## STATE OF PLAY: GROWTH, CHALLENGES AND OPPORTUNITIES

### 'Disruption' looks a little different to SMEs

Little is known about the impact of disruption on the SME sector or indeed what disruption really looks like in this part of the business world.

We asked SMEs to reflect on how the internet has impacted their business. Of course, the most obvious impact is that it has given rise to a whole new business model – the 'online-only' business, which accounts for 1 in 10 (12%) SMEs in Australia.

But overall the research findings reveal an interesting picture – not everyone in the SME world believes that their business has been 'disrupted'. Only about half (54%) believe that the internet has impacted their business – though this is much higher among Millennial SMEs and the bigger of the small businesses (67% among those with a turnover of \$1 million - \$5 million).

Additionally, only just under half (46%) say that the rapid pace of technological change is directly affecting their business.

So while it's split evenly down the middle, if disruption has impacted SMEs, what does this look like?

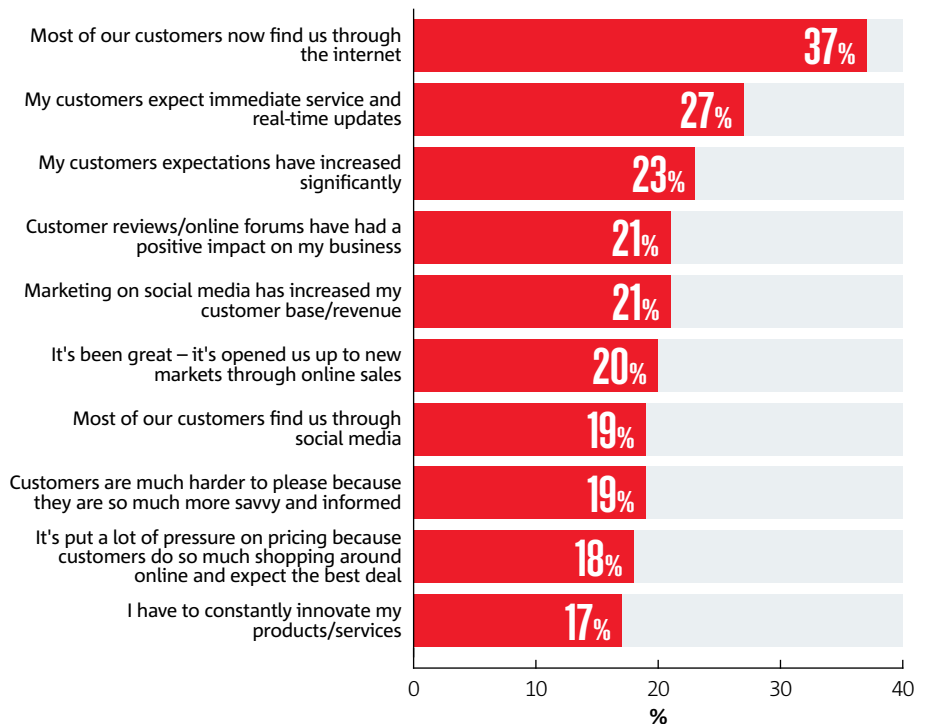
For SMEs, it turns out that 'disruption' is all about the customer. The internet is not only the essential new 'shopfront' for them (37% say that most of their customers now find them online); it has massively ramped up customers' expectations – almost all of the top impacts are to do with customers demanding more.

The online revolution has also enabled SMEs to find new customers through social media. Just under half (45%) use social media to market their business (57% among medium-sized businesses) and marketing on social media has increased the revenue of 1 in 5 SMEs (21%).

Overall digital channels are having a significant impact on sales in this sector: 22% of SME revenue is generated by online sales.

Interestingly, digital's impact on how SMEs run their businesses internally appears to be minor, ranking at the very bottom of the list (15 out of 16) of impacts. Only 11% say they've had to overhaul their internal systems and processes. That's strikingly different to the world of big and corporate business, where internal systems and processes have likely been gutted and rebuilt from the ground up and are in a constant state of upgrade.

### How the internet has impacted SMEs



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