

Small Business RESEARCH REPORT 2015

Snapshot of Small Businesses

- What are the top business concerns and needs?
- What's worrying business owners?
- The key advisory needs of business owners, common across industries and sectors.
- Why do small and micro businesses fail?
- How can small businesses be helped to prosper?

Foreword

Small and medium sized businesses continue to be the backbone of the Australian economy and our practice.

We want to make sure that we are doing everything possible to support our business clients, PROTECT, GROW, IMPROVE and eventually sell their business for the highest price, so they can live and retire financially secure. And that's why we are really keen to distribute this white-paper to our clients.

Many of you are aware that the team at Snelleman Tom have invested heavily into training so that we remain relevant not only with taxation, but more importantly with business tools, strategic business planning and economic and demographic trends. We have invested in those skills so that we can make sure clients are receiving the best of breed advice from us.

The 2015 Small Business Report provides powerful insight into:

- The top small business concerns and needs;
- The reasons why businesses fail;
- How small and medium sized businesses can prosper.

We trust that you will find the report informative and look forward to discussing this with you soon.

Martin Kerrigan
Director - Snelleman Tom

SnellemanTom 

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METHODOLOGY

The primary tool utilised to collect the information in this Report was the Bstar *SME Needs Review Process*. Bstar has an ongoing relationship with more than 175 accounting and financial planning practices. A Bstar Alliance Partner is typically a 2-10 partner accounting and/or financial planning practice that has been trained and accredited in Bstar's *Value Improvement Benchmarking Advice* ('viba') advisory process. Using the Bstar *SME Needs Review Process* each Bstar Alliance Partner conducts face to face needs assessment discussions with their business owner clients throughout Australia and New Zealand on an ongoing basis.

This Research Report uses content taken from these *SME Needs Assessments* completed by Bstar or Alliance Partners (samples come from between **150 to 300 new Needs Assessments per month**). Bstar continues to collect real time, live data all year round, which means Bstar's assessment information on Small Business concerns and needs is always up to date. We have also included a snapshot of other statistical data on Australian businesses, from the Australian Bureau of Statistics (ABS), the Australian Taxation Office (ATO), The Treasury Department, Comprehensive Australian Study of Entrepreneurial Emergence (CAUSEE) and other sources. Refer to the bibliography for more information.

Bstar has used the real life experiences of business owners and Bstar Alliance Partners who advise business owners to tailor the suggested solutions for the business concerns and issues identified.

Executive summary

Snapshot of small business

Small business owners are optimistic, and the overwhelming majority (**92%**) enjoy being in their own business even in the current economic climate. Across all industries, business owners believe there are opportunities to grow their business, and **79%** are focussed on growth in their business in the 2015/16 financial year. But they don't really know if this optimism is justified. They spend little to no time assessing their own performance or planning.

The challenge is not in starting a business - there are around 250,000 new businesses started every year, and approximately 75% survive their first year.

The real challenge occurs in staying in business, particularly in expanding and growing the business.

Business owners want to improve and grow their business, **but they don't know how to do it.**

Business concerns and needs

Not surprisingly, business owners are concerned about the current difficult economic conditions and the impact on their businesses. Cash flow and declining profits were a hot topic of discussion across all businesses, irrespective of their industry or size of business. Accountants also confirmed this with anecdotal evidence of business clients reporting slowing in terms of trade across Australia, with a resulting impact on those businesses.

One of the notable aspects of the business owners surveyed was the degree of concern felt about their business, and business conditions. Many owners indicated some level of concern about ALL the issues raised. This is indicated in the 'lowest concerns' issue still registering a high awareness with many owners, but without action a priority.

While business owners were optimistic about opportunities to grow and improve their business, very few were actively pursuing those opportunities.

Business owners need professional advisers to provide **specialised business advice services - tailored to their individual needs.** Only **61%** of business owners surveyed had identified a trusted adviser.

4 out of 10 business owners don't know who to turn to for advice on how to improve their business - particularly financial measures and strategic planning.

Business owners need to be able to find and connect with trusted professional advisers who have the necessary skills and experience to fill these needs.

Why do small and micro businesses fail?

Small and micro businesses fail for three main reasons:

- #1** lack of strategic and business planning – only 1 in 4 had prepared a formal business plan;
- #2** limited business and financial management skills - 71% of businesses surveyed don't invest in developing their own business and management skills;
- #3** when they take external professional advice, it isn't centred on their 4 top business needs.

Without strategic and business planning, business success and growth is accidental, and many businesses with great potential fail. The most common nominated cause of corporate failures is a lack of strategic planning. Business owners need to spend time **working on** their business, not merely **working in** the business – **only 1 in 4** allocate regular time to strategic and business planning.

The evidence is clear that business owners lack the knowledge and skills to grow and improve their businesses, and they spend little or no time planning or reviewing business performance. **More than 70%** of business owners would like the opportunity to compare their business performance to their industry peers.

If they are to thrive, not just survive, business owners require skills in business and financial management – particularly planning, and financial knowledge. Without the skills themselves they need external help and hands on support to implement the necessary improvements.

None of this is new - small business has been like this for years, and despite changes in the economy and government policy, at the macro level there have been no signs of any real change.

The best result can occur when business owners understand their need, and locate and use an expert or adviser with specialist skills in the right area. Further benefits flow when professional advisers work together collaboratively. But all this requires planning, and access to the right services.

Bstar's research found that only **61%** of business owners had identified their own trusted adviser. At a minimum, 4 in 10 business owners don't know who to turn to for business issues.

Accountants' skills and skills gap

Traditionally, the most trusted adviser to small business was the business' accountant.

Accountants understand and can assist with performance reporting and analysis, including benchmarking. By providing external, expert skills, they can fill the need for businesses too small to justify dedicated financial officers on staff. This type of assistance, early and focussed, can help businesses to thrive, not just survive.

The introduction of GST saw a fundamental shift to this relationship. The conversation moved to compliance, BAS and tax returns, and shaped the contact between accountants and business owners.

However, government changes aimed at streamlining financial and tax reporting (such as Standardised Business Reporting) and ongoing reforms specifically aimed to reduce government 'red tape' are starting to have an impact. By reducing the reliance on accountants for

compliance, accountants are gaining the capacity to advise business owners about things other than tax.

However, many accountants have lost the skills and the confidence to advise small business on how to improve – Bstar's 2015 Accountant's Research Report showed **91%** lack confidence in their ability to provide business advice services.

Benefits - Case Study

Small businesses are the backbone of the Australian economy. A healthy small business sector incubates the medium and large businesses of the future and is a driver of employment and economic growth.

Better, more specific, business advice which is tailored to the top needs of individual small businesses drives this economic growth at the grass roots level. Currently small business doesn't take up this advice - business owners don't ask for it, and it isn't easy to find.

Finally, this Report includes a financial case study, using accurate and real time benchmarking information from Bstar's Knowledge Bank. This highlights how a small building support services business can benefit from receiving *Value Improvement Benchmarking Advice* from a **viba Adviser**.

Greater growth results in more confidence, expansion and higher employment. Improved profits increases taxes paid and increases the value of businesses. Higher business values help business owners to fund their next stage - whether it is expanding their business, a new venture or self-funded retirement.

Part 1: Snapshot of small business

There were over 2 million actively trading businesses in Australia in June 2014. Most of these businesses were unincorporated businesses, owned and operated by the household sector.

Australia's population of 15.6 million working age adults produces 1.6 million small business operators. In addition, at any point in time, over half a million Australians are involved in early stage entrepreneurial activity.

However, overall business numbers have been static since June 2011, with a net 32,412 decrease in the number of businesses operating.

Actively trading businesses in Australia

Year to June	Number of businesses	Change from previous year
2013-2014	2,100,162	1.0%
2012-2013	2,079,666	-2.9%
2011-2012	2,141,280	0.4%
2010-2011	2,132,412	0.4%

Data source: ABS Cat 8165.0

What does an Australian business founder look like? They are likely to:

- Be motivated by opportunity (not by necessity or lack of alternatives);
- be growth oriented;
- emphasise research and development;
- have a business based on young or sophisticated technologies;
- have a university degree;
- work in teams;
- be spread across all age groups;
- mirror the Australian population – founders are 71% Australian born and 29% immigrant.

The two most common ways of defining an Australian small business are by the number of employees or annual turnover (or a combination of the two).

The Australian Bureau of Statistics (ABS) classifies businesses by employee numbers:

- less than 20 employees as **small** (and within this category, 0-4 employees as 'micro');
- between 21 and 199 employees as **medium**;
- 200 or more employees as **large**.

The Australian Taxation Office uses turnover revenue as the basis for its definition:

- from \$1 - \$2 million – **micro-entities**;
- from \$2 million to \$20 Million – **small to medium sized enterprises**;
- over \$20 million – **large enterprises**.

Small business owners at a glance¹



32%



68%

percentage of small business operators



9%

of small business operators were aged less than 30



58%

of small business operators were aged between 30 - 50 inclusive



33%

of small business operators were aged greater than 50

¹ Data source: ABS Cat 8127.0 and Australian Small Business Report (2012)



33%
of small business operators usually worked less than 35 hours per week



67%
of small business operators usually worked 35 hours or more per week



Small businesses provided almost 46 percent of total private sector industry employment (4.8 million persons out of a total of 10.5 million persons as at June 2011), with more than 8 in 10 employed in the services sectors.

Small business also accounts for \$7.4 billion of total \$64 billion paid in company tax. Little wonder that the Federal Government says “small businesses are a major driver of growth and new jobs in the Australian economy” and made a \$5.5 billion stimulus to small business a centrepiece of the 2015 Budget. This package seems to be gaining bi-partisan support, and has provided an immediate boost to business and consumer confidence.

Employment by business size, at end June 2011

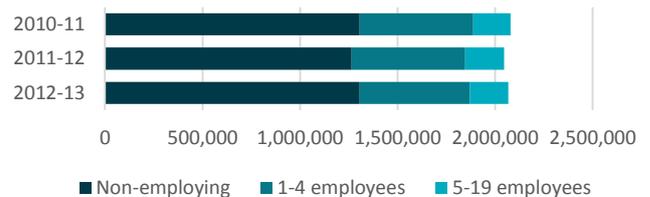


Data source: ABS Cat. No. 8155.0 and DIIRTE calculations.

The overwhelming majority of Australian businesses can be described as very small businesses or **micro entities**.

These 1.3 million micro businesses typically have an annual turnover less than \$200,000 and are owner operated with no employees and no formal business structure.

Number of small businesses by employment size



Data source: ABS Cat. No. 8165.0 and the Small Business Data Card

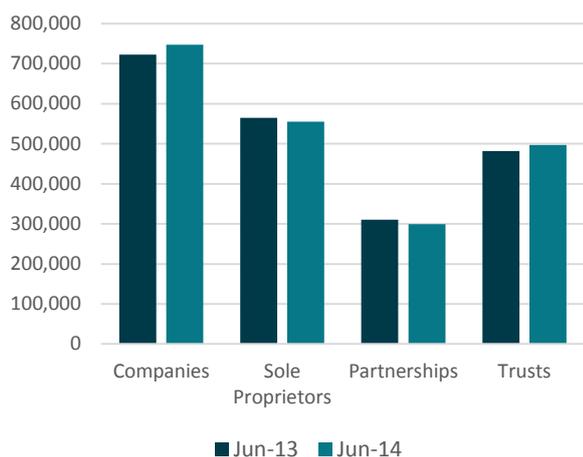
In general terms, the location of businesses tracks the population. However, large numbers of small businesses are located in regional areas – 35% based outside capital cities, compared to 33% medium and large businesses. This can present challenges to small business accessing services, particularly accessing advice.



Data source: ABS Cat 8165.0 as at June 2014

Overwhelmingly the sector is dominated by services businesses. However, Agriculture and Construction form the largest individual industry categories. Overall numbers are increased by legal and financial arrangements which are not typically regarded as businesses (such as residential and commercial strata bodies and corporate and family trust structures).

Private sector businesses, by legal organisation



Data source: ABS Cat 8165.0

Most new businesses start off very small, and stay that way. Owned and operated by the founder(s), typically financed from savings or personal loans, with no employees and low cost structures, these new micro businesses struggle to survive and prosper. The real challenge is not starting the business, but expanding and growing to the next level and this sector has the highest overall exit rate. The crunch point commonly occurs in any of the initial years, prompting founders to either grow the business or exit. The high churn rates in small business numbers also reflect the recent challenging business conditions (see *Small Business Entries and Exits* table).

Small business entries and exits



Data source: ABS Cat no 8165.0

Business survival rates

	Operating in June 2010	Survived to June 2014	Survival rate
All Organisational Types	2,124,001	1,309,892	61.7%
Private sector companies	688,651	454,457	66.0%
Sole Proprietors	635,027	317,784	50.0%
Partnerships	354,336	224,648	63.4%
Trusts	445,987	313,003	70.2%

Data source: ABS Cat No 8165.0

Ongoing difficult economic conditions mean that businesses are struggling to survive – and the smaller the business, the more difficult the struggle.

Reflecting this struggle, 2014FY ATO data shows decreased turnover for micro entities – notably with movement away from the middle band, towards annual turnover of either less than \$50,000 or over \$2 million. Using the Australian Taxation Office (ATO) definition of less than \$2M turnover (see explanation on page 9) immediately increases numbers of micro entities by 1 million to 2.3 million businesses. This data suggests that the micro businesses that survive are tending to get smaller!

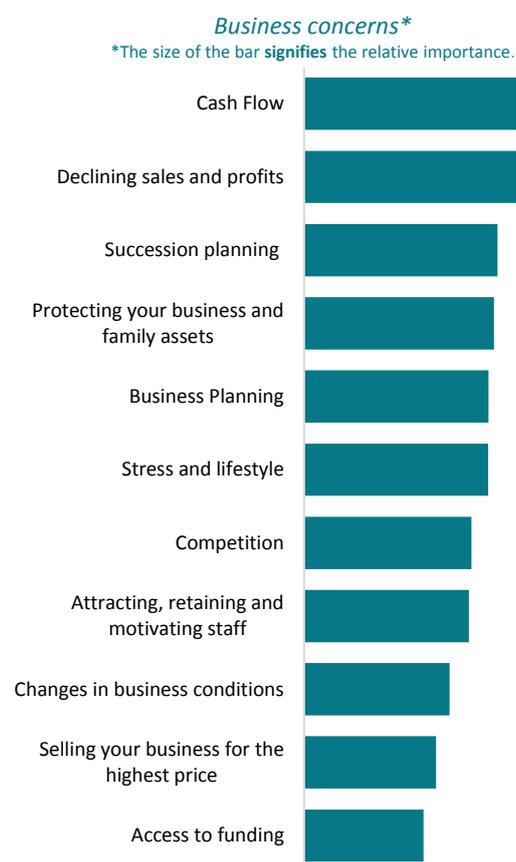
Part 2: Business concerns and needs

Business concerns

Bstar's *SME Needs Assessment* contains a comprehensive list of key business concerns and business owners were asked to **rank their concerns** and then their **need to act**.

What's keeping business owners awake at night?

The following table provides a summary of the business concerns ranked in order of highest to lowest concern.



Not surprisingly, business owners are concerned about the current difficult economic conditions and the impact on their businesses. Cash flow and declining profits were of concern to everyone. Accountants also confirmed this, with anecdotal evidence of business clients reporting slowing in terms of trade across Australia, with a resulting impact on those businesses.

What are business owners top concerns?

1. Declining sales, profit and cash flow returns;
2. Succession planning;
3. Protecting business and family assets;
4. Business planning;
5. Stress and lifestyle.

One of the notable aspects of the business owners surveyed was the degree of concern felt about their business, and business conditions. Many owners indicated some level of concern about ALL the issues raised. This is indicated in the 'lowest concerns' issue still registering a high awareness with many owners, but without a high need to act.

What are business owners less concerned about?

1. Access to funding;
2. Selling your business for the highest price;
3. Changes in business conditions.

Stress and Lifestyle

Unsurprisingly, **less than half** of business owners spend as much time as they would like with their family.

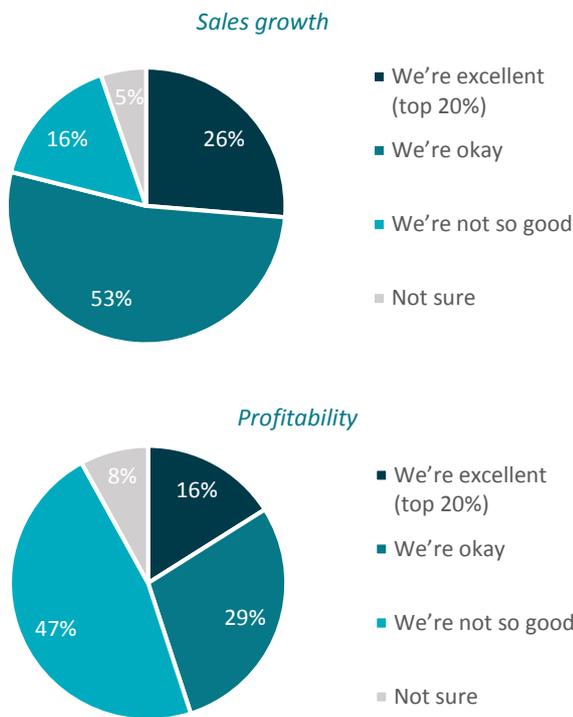
Despite this, business owners remain optimistic – the overwhelming majority (**92%**) enjoyed being in their own business, even in the current economic climate.

Across all industries, business owners believe there are opportunities to grow their business, and **79%** considered growing their business most important in the 2015/16 financial year.

While stress and lifestyle was a high concern, most business owners were managing the issues - **71%** found time to do the things that they enjoyed, and **61%** paid attention to their overall health and diet.

Declining Sales, Profit & Cash Flow

Reflecting the high concern about declining sales and profits, when business owners were asked how they believed their business compared to industry averages – **26%** thought their sales growth was excellent, and **53%** thought their sales growth was “okay”. But concerns about profitability were apparent - **47%** considered the profit made from those sales, “not so good”.



While business owners were optimistic about opportunities to develop and grow their business, very few were actively pursuing those opportunities.

Business owners were asked if they understood growth planning and could apply it. While **45%** rated their understanding as ‘high’, **30%** had little understanding, and **25%** had no understanding. It is not surprising that **82%** did not have a plan for future growth of their business.

Business Planning

Bstar’s research showed that the high level of concern about business planning was justified:

- only **23%** had prepared a Business Plan;
- only **26%** allocated time in their regular working week to any type of strategic or business planning;
- only **18%** had a plan to improve their business value.

Most small business owners are spending too much time **working in** the business, on the everyday tasks, rather than **working on** the business – to improve the business’ operations or strategic approach.

Business owners don’t spend enough time assessing their own performance. Bstar’s research shows just over half (**58%**) of businesses produce accurate and timely financial reports and (**60%**) monitor customer satisfaction.

This is consistent with ABS data which shows almost half of micro businesses spend little or no time using any of the four major measures (financial, cost, quality or human resources) to assess their performance. While small businesses do more assessment, 20 to 30 percent are still performing little or no assessment across these measures.

Do micro businesses review performance?



Data source: ABS no 8167.0

Staff are the most valuable asset for micro and small business – and often the largest cost, particularly for services businesses.

It is particularly significant that ABS data shows 70% of micro business and 48% of small business spend little to no time on key Human Resources measures such as skills development, performance assessment or job satisfaction.

Do small businesses review performance?



Cost measures – e.g. budget, cost per unit of output, inventory cost
Financial Measures – e.g. profits, sales growth, returns on investment
Quality Measures – e.g. customer satisfaction, defect rates
Human Resources – e.g. job satisfaction, skills development

Data source: ABS no 8167.0

Bstar's research findings were consistent with this. Many of the business owners surveyed, employ staff but are not necessarily using them effectively. **46%** of business owners indicated that their staff were **not** focussed or engaged on increasing profits and growing the business.

Bstar's research found:

- only **11%** of businesses had formal strategies for staff attraction, retention and motivation;
- only **29%** of staff incentive plans were generating more sales, profit and value for the business;
- **63%** of business owners do **not** conduct regular training or development to improve their business and management skills.

Succession Planning

The majority of businesses remain heavily dependent on the owner - **58%** of those surveyed believed their business could not survive without them.

Despite this, few business owners had considered or taken any steps to provide for the effects of an accident or ill health:

- **74%** had no succession or buy/sell agreement in place; and
- **60%** had no business or key person insurance in place.

Bstar's Alliance Partner experiences indicate business owners generally had not considered how to reduce reliance on the owner or taken steps to reduce this reliance. This is another area where there is little to no strategic planning.

Protecting Business & Family Assets

While **60%** 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%**).

Bstar asked business owners about their understanding in this area - **53%** had no understanding of Estate Planning.

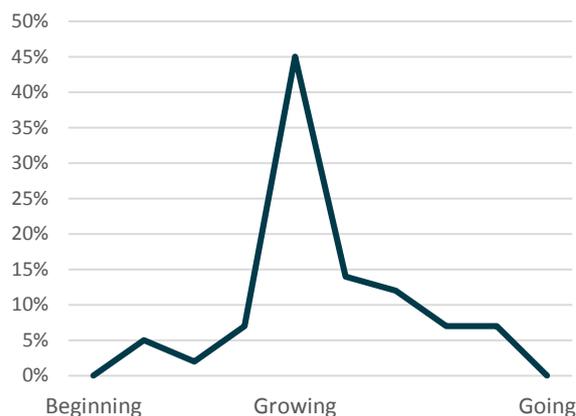
Growing or Going?

An interesting aspect to emerge is that approximately **3 in 4** of the business owners surveyed have no immediate plans to sell or retire and **83%** of businesses were described as not ready to sell. Only **21%** knew what businesses in their industry were selling for. This is consistent with 'selling your business for the highest price' being a lower concern.

This aspect was not necessarily due to lack of planning or consideration. While much has been written about the upcoming retirement of the baby boomer generation, and the resulting shift in demographics, approximately **60%** of Australian small business owners are aged between 30 and 50.

Most of the business owners surveyed were in the 'growing' stage of their business life-cycle and were committed to operating and growing their businesses.

What stage are you at in your business?



Interestingly, while **73%** of owners have no set date to retire, **63%** were willing to transfer control of their business.

While they might be willing to take advantage of an opportunity that presented itself, owners were not actively planning in this area - **78%** of business owners did not have a formal succession plan, and **41%** had no understanding of succession planning.

While **55%** of owners were interested in staff investing in the business, only **9%** of businesses had developed investment and funding plans for key staff.

Business owners were very interested in finding out more about in the value of their business. They want to understand how their business compared to others, and how to improve their business.

Business owners were particularly interested in knowing the present value of their business, and how to increase that value (**8 in 10 owners**). Overwhelmingly, **89%** of owners wanted to know how their business compared to industry averages, and benchmarks. This shows that owners are interested in planning, but lack the information to do so.

Consistent with the lack of business planning, business owners have generally not planned for their retirement:

- only **20%** thought that sale of their business would be able to fund their retirement;
- **88%** didn't know, but wanted to know the income and assets they would need at retirement;
- **70%** didn't know, but wanted to know the value that their business needed to be to fund their retirement.

Business owners want advice, and they want focussed advice. They don't know where to get the necessary information or how to use it. They need professional assistance from an adviser they trust, but Bstar's research found that only **61%** of business owners had identified their own trusted adviser.

Part 3: Why do small and micro businesses fail?

As the majority of businesses are either micro or small businesses, it is not surprising that most businesses that fail are micro and small businesses. In particular, start-up businesses struggle, and half of the businesses that started operating in 2010-11 had ceased operating by June 2014.

Survival of start-up businesses

	Entries in 2010-11	Survival rate to June 2012	Survival rate to June 2013	Survival rate to June 2014
Total	294,210	75.9%	59.3%	50.0%
Private sector companies	94,051	78.6%	62.5%	53.4%
Sole Proprietors	107,871	69.5%	49.3%	38.5%
Partnerships	29,266	76.9%	61.7%	52.1%
Trusts	62,973	82.3%	70.7%	63.4%

Data source: ABS Cat. No 8165 and Bstar calculations

Bankruptcies and corporate insolvencies are a clear measure of the impact and cost of failed businesses. Again, 2 in every 3 corporate insolvencies are at the micro business level.

Company insolvencies

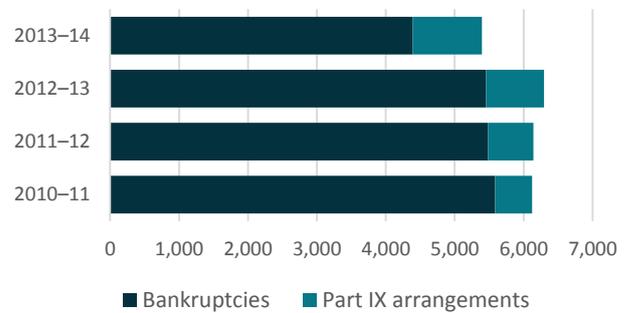
	2013-14	2012-13	2011-12
Micro (0-4 employees)	66.6%	65.2%	62.2%
Small (5 to 19 employees)	14.0%	15.6%	16.2%
Medium (20 to 199 employees)	5.1%	4.6%	5.0%
Large (200 or more employees)	0.3%	0.3%	0.2%
Not known	14.0%	14.3%	16.4%

Data source: ASIC Reports 297, 372 & 412

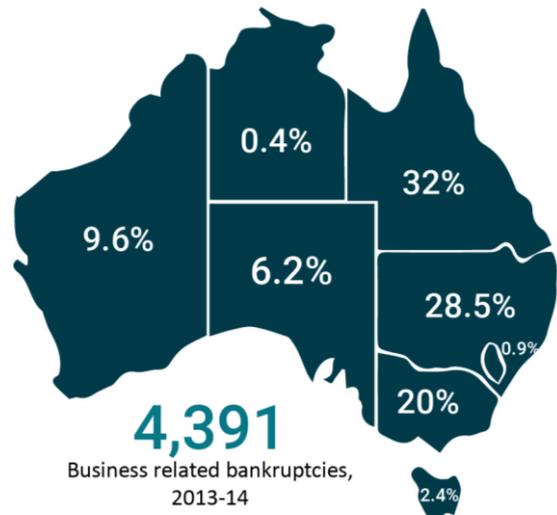
Most insolvencies were small in scale – with approximately 8 in 10 companies having 25 or less creditors and the majority (63%: in 2014) owing less than \$250,00 to unsecured creditors. However, once a business enters into administration, receivership or similar arrangements, it is usually a total failure. For the last three reporting periods, more than 92% of unsecured creditors received no dividend from corporate insolvencies.

A high number of unincorporated businesses, such as sole proprietors and partnerships, fail too. These businesses are easier to start, and easier to exit – less than 4 in 10 sole proprietorships survive their first four years. Over 5,000 individuals enter into business related bankruptcy arrangements each year.

Business related bankruptcies



Data source: Australian Financial Security Authority



Data source: Australian Financial Security Authority. For 2013-14 financial year.

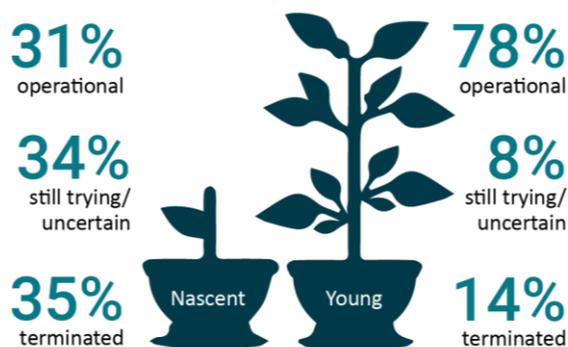
It is a common belief that most new businesses fail in their first year. This is an exaggeration. Almost 3 in 4 survive the first year, but continue to struggle. Without the business skills to grow to the next level, most don't survive.

When examined in detail, the picture is complex. Generally, official data records business exits, and not all exits are financial failures. Exits data includes voluntary closures, changes of ownership or sale of the business, changes of structure (including incorporation) and changes to GST or industry registrations. Voluntary closures include ventures that just cease activity – where owners simply give up.

Approximately half of early stage entrepreneurial activity (nascent firms) terminates before the business becomes operational. As many start-ups are self-financed, and modest in scale, there are often only small costs incurred before termination.

Interviews² with founders of terminated businesses show the majority were terminated without ‘financial loss’ or formal insolvency. Approximately 76% of young firms and 60% of nascent firms that ceased operations fell into this category. In reporting no ‘financial loss’ these business founders indicated they had recouped costs, but it seems clear they did not include their opportunity cost or personal endeavours. The majority of exiting founders remained optimistic and told researchers that they rated their overall experience as positive, and were willing to start future businesses.

Start up outcomes after 3 years



Nascent firms are firms in the process of being created, but not yet established in the market and *Young firms* have been operational for up to four years.

Data source: Australian Small Business Key Statistics and Analysis

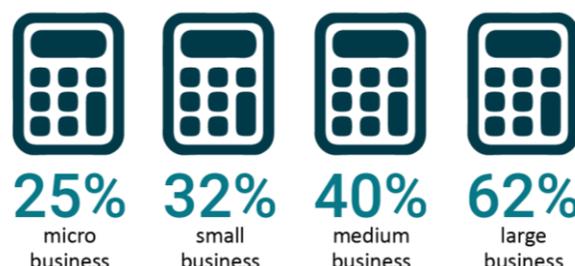
It is clear that most business exits reflect an inability by founders to grow and develop the business – leading to closure, sale or insolvency.

Difficulties emerge where small and micro business founders lack finance and business management skills. Without these skills, businesses fail.

Financial skills are the most widely reported skills used for core business activities across all businesses – ranging

from 25% for micro businesses to over 60% for large businesses. However, detailed interviews with start-up (nascent and young) firms found the primary areas of skills shortages in business founders were finance or accounting skills.

Financial skills required for core business activities



Data source: DIISRTE

Interestingly, other skills don’t appear to be as important for survival. While specific, relevant industry experience was valuable, and increased the chance of survival, other knowledge or education did not have the same effect.

Research³ has found that a significant number of business founders had previously operated and exited other businesses. Prior business experience would be expected to be valuable, and increase the prospects of business survival, however in general this was not found to be true.

Surprisingly, even prior start-up experience (good or bad) did not improve business survival in any material way. Researchers speculated that prior experience actually leads to earlier exits, as business founders recognise when a business is not viable, and give up, rather than persist.

Business founders who took action, and were adaptable had strong advantages, especially those who could review and revise plans during the start-up process – all signs of good business management skills.

“The lowest reported knowledge [for business founders] applied to *finance* or *accounting*. The data therefore suggest[s] that *finance* and *accounting* skills, if any, are the primary areas of skills shortages in founders”.

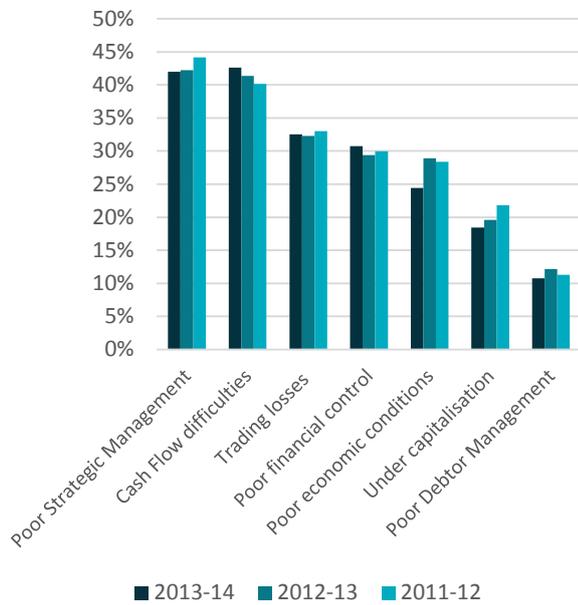
Quote: Australian Small Business Key Statistics and Analysis (2012)

² Australian Small Business Key Statistics and Analysis (December 2012) see Bibliography

³ Business Creation Processes in Australia: what start up attempts get up and running and why? see Bibliography

Without these skills, either internally or from external sources, businesses struggle and regularly fail. Data from corporate insolvencies is overwhelmingly consistent with skills shortages in finance and business management.

What makes businesses fail?



Data source: ASIC Reports 297, 372 & 412

Micro and small business need to assess their businesses operations and plan their future. The evidence shows that they don't do this – and that they don't have the skills to do it. There is a clear need for help. They need a professional adviser with the relevant skills and experience that they trust to guide them. They need support to implement changes. They need advice focussed on how to improve their business and how to help it grow.

Part 4: Solutions - Professional Advisers

Business owners need external help to understand what to do and hands on support to implement the necessary improvements to their business if they are to grow. Currently small business doesn't take up this advice – business owners don't ask for it, and it isn't easy to find.

Accountants understand and can assist with performance reporting and analysis, including benchmarking. By providing external, expert skills, they can fill the need for businesses too small to justify dedicated financial officers on staff. This type of assistance, early and focussed, can help businesses to thrive, not just survive.

Professional business advisers come from many backgrounds, and are not confined to those with financial or accounting backgrounds. Small business can benefit from all kinds of specialist assistance – financial planning, strategic, IT, industry expertise, marketing, compliance and legal skills.

The best result can occur when business owners understand their need, and locate and use an expert or adviser with specialist skills in the right area. Further benefits flow when professional advisers work together collaboratively. But all this requires planning, and access to the right services.

Micro and small businesses need both to plan and assess their business operations. The evidence shows that micro and small business owners don't do this now. They need help – they need a trusted professional small business adviser.

Bstar's research found that only **61%** of business owners had identified their own trusted adviser. At a minimum, 4 in 10 business owners don't know who to turn to for business issues.

Business owners identified their top 4 business needs as:

- improving sales, profit & cash flow;
- attracting, retaining and motivating staff;
- planning for succession;
- assisting with stress and lifestyle.

Advice services need to be better and more specific, tailored to the top needs of an individual small businesses. Services need to be flexible, and support the implementation by micro and small business with limited resources.

Given the current low uptake for these services, business owners need to be encouraged to take professional advice, and they need to be able to find advisers with the right skills and experience.

Business owners need to be able to find and connect with professional business advisers who have the necessary skills and experience to fill these needs.

Bstar Alliance Partners are accredited in the Value Improvement Benchmarking Advice ('viba') advisory process. They specialise in *advising* business owners on how to retire financially secure by growing the value of their business

Bstar Alliance Partners have invested in developing their skills. They have advice solutions to address these key service specialisations:

- Improving sales, profit & cash flow;
- Attracting, retaining and motivating staff;
- Planning for succession;
- Assisting with stress and lifestyle.

Part 5: Benefits - Case Study

We wanted to include a case study to highlight how our clients and small businesses generally can benefit from receiving Value Improvement Benchmarking Advice (viba). This case study is built from real life experiences of small business owners, and shows how support centred on the top 4 advisory needs can result in concrete, measurable business improvement. We have sourced industry benchmarking information from Bstar's Knowledge Bank (see box below).

David and Maree⁴ own and manage a small business providing architectural services to the building and construction industry. They employ 3 FTE staff (1 in administration, 2 professional staff). Their key business statistics and financial performance indicators are tabled below.

Total business revenue	\$725,000
Revenue growth	7%
Wages & On-costs as a % of total revenue (including notional owners salaries)	48.3%
Net profit as a % of total revenue (after notional owners salaries)	9.9%
WIP and Debtor days	37 days
Business value	Unsure

Their viba Adviser, Linda, was able to offer David and Maree a 3 step advice services plan.

Step 1: Needs Review and Industry Benchmarking

Step 2: Advice Services Solutions

- Better Business Program
 - Risks SWOT Workshop and Report
 - Business Improvement Plan
- Staff Review and Report

Step 3: Ongoing Support

- Board of Advice

Step 1: Needs Review and Industry Benchmarking

Linda visited David and Maree's business premises and completed a face-to-face assessment of both their personal and business needs. This is key as small business outcomes are inextricably linked with the personal life of their owner-operators.

The Needs Assessment meeting identified that David and Maree's top 3 key business concerns and needs were to:

1. Grow and improve their business operations;
2. Attract, retain and motivate their key staff;
3. To immediately build value in the business, protect their assets (and be able to retire financial secure at a future date).

David and Maree were not regularly reviewing their financial performance or costs. Linda started by reviewing the business' financial information and comparing it to industry benchmarking information. Linda explained to David and Maree how their business compared to similar businesses, and pinpointed the business' strengths and weakness. David and Maree now understood how their business was performing and the opportunities to grow and improve their business.

	David & Maree Business Results	Industry Average	Industry Benchmark
Revenue growth	7%	4.4%	8.2%
Wages & On-Costs as a % of total revenue (incl. owners salaries)	48.3%	42.1%	35.7%
Net profit as a % of total revenue (after notional owners salaries)	9.9%	14.8%	22.5%
WIP and Debtor days	37 Days	44 Days	26 Days
Business Capitalisation Rate	Unsure	2.76	4.17

⁴ Names have been changed for this case study

With Linda’s support they decided that their top priority was to focus on improving their net profit, to industry average, and then to industry benchmark.

David and Maree had a clear understanding of the direct benefits of achieving their goal. Their current business net profit as a percentage of total revenue was **9.9%**, less than the industry benchmark of **22.5%**. Improving to the industry benchmark, on their existing total business revenue of \$725,000, would improve their profit by **\$91,350**.

Current business revenue:		\$725,000
Current business net profit:	9.9%	
Benchmark business net profit:	22.5%	
Potential for profit improvement if benchmark performance is achieved:	12.6%	\$91,350

Advice Service Benefits

By using accurate, real time industry specific benchmarking information, *viba* Advisers can focus on addressing the business’ specific weaknesses and reinforcing its strengths.

By using benchmark information and comparing their business with their peers, *viba* Advisers can focus small business owners’ efforts in the most effective areas.

This is a tangible benefit for business owners, who can see how investing time in strategic and business planning increases productivity and profit.

Step 2: Advice Services Solutions

Better Business Program

Improving sales, profit and cash flow is one of the top 4 advisory needs of small businesses.

David and Maree now had a goal, but they didn’t know how they could achieve it. They needed a plan for their business growth and improvement, with their focus on improving their net profit.

Linda worked with David and Maree to prepare a formal plan to identify areas where they could grow and improve their business. It needed to be tailored to their current position, and detail the changes necessary to achieve their goal.

Linda helped David and Maree assess their business and prepare a Strengths, Weaknesses, Opportunities and Threats (SWOT) Report. Linda assessed the business financially and analysed revenue mix, debtors/WIP days, salary and wages benchmarking information to identify specific opportunities to improve cash flow, increase revenue and grow profits.

Staff Measures

David and Maree needed help to change their business and implement their Business Improvement Plan. With small business, it is essential that all people in the business are aligned, and working together to meet the business goals. *Attracting, retaining and motivating staff is one of the top 4 advisory need of small businesses.*

The benchmarking information had identified that the Wages and On-costs for David and Maree’s business were higher than the industry average. They wanted to address this issue, but retain and motivate their existing staff, with whom they had a good working relationship.

As the business had only 3 FTEs, rather than a formal survey of their staff, Linda was able to facilitate a strategic workshop with the staff, so that David and Maree could assess areas to improve staff engagement and productivity. It also gave David and Maree the opportunity to show their staff that they wanted to grow and improve their business.

The staff workshop identified an opportunity for David and Maree to restructure their staff resources so the business could create efficiencies in its work flow, reduce write-offs and employ a new creative design professional. The restructure would also allow David to spend more time growing the profitable niche market work which he was passionate about. Because the staff were involved, they understood the plan and embraced it.

Linda completed a series of ‘what if’ calculations to demonstrate how the extra profit generated from the more profitable work, increased business revenues and improved efficiencies would far exceed the costs of employing a new team member.

Business Improvement Plan

Linda documented all the information in a formal plan which included a timeline, allocated responsibilities and achievable stages for each part of the plan. Even though this was their first formal Business Improvement Plan, David and Maree felt that it was their plan, that they understood it, and that they could deliver it.

David and Maree understand that moving their business to benchmark performance could result in an additional **\$91,350** in annual net profit for their business.

Benefits

viba Advisers can use profit/cash optimisation and business planning tools to show business owners how to *improve* their profit and cash flow.

Tailored Advice Benefits

To make a commitment, small business owners need to be confident that planned changes - to restructure or expand the business will pay-off.

By using benchmarking information, and providing 'what if' examples, *viba* Advisers are able to demonstrate the effect of the planned changes on the business' profit. Benchmark performing business results confirm improvement targets are realistic and achievable.

Once confident of the benefits, small business owners will invest the time, funds and effort in business restructure or expansion.

This includes employing more people to support their growth and improvement aspirations.

Step 3: Support

Planning for succession and assisting with stress and lifestyle are 2 of the top 4 advisory needs of small businesses.

David and Maree had good technical and specialist skills in their field, but little skill in business management. While they understood the plan, they were concerned that they would not be able to implement it successfully.

They arranged quarterly meetings with Linda (structured as a Board of Advice), to monitor the implementation of their Business Improvement Plan. The meetings were also used to regularly review and adapt the plan, to take into account any changes or new opportunities during the year.

David and Maree were keen to understand the value of their business. They agreed that Linda would value their business both at the start of the process and again on the anniversary of the plan, so they could assess the improvements in the business.

While they were not ready to sell or retire, knowing the business value helped David and Maree understand the value of the work they had done in creating their business, and how they could increase that value by better managing the business.

It also gave them a realistic idea of what to expect on sale – allowing them to start planning for the future.

Benefits to Small Business

To succeed, small business owners need support, and to be accountable for their plans.

A Board of Advice service provides ongoing support to business owners, and regularly reviews and adapts plans to match the business's important and urgent needs.

The Board of Advice service is the number 1 advisory support service small businesses are willing to pay for.

viba Advisers can show owners a tangible benefit from planning and managing the business.

By revaluing the business each year, the *viba* Adviser can quantify the improvement in business value, and the value of their advice.

Benefits of Building Skills

One of the major reasons for small business failure is a lack of skills in business and financial management.

viba Advisers are able to help small business to develop management skills to run a better business by offering business and financial management programs.

Bstar's Knowledge Bank Benchmarking Information

Knowledge Bank benchmarking information is sourced from Bstar Alliance Partners who use Bstar's patented *Business Valuation Tool (Business Capitalisation Rate Calculator)* to value their clients' businesses. The information is from real, operating businesses.

Bstar's Business Capitalisation Rate Calculator determines the business cap rate/profit multiple of a business based on the business's profit, after tax cash flow and risk profile using a patented algorithm.

Bstar Alliance Partners enter key profit and loss and balance sheet information and then 'notionalise' their profit calculation by adjusting for owner's salaries and any abnormal or extra-ordinary items.

Bstar Alliance Partners also adjust the business cap rate/profit multiple based on their assessment of the particular business' qualitative risks. Each valuation entry is reviewed by Bstar's valuation team prior to entry into the Knowledge Bank.

Bstar's Knowledge Bank is updated with data on between **100 and 250** businesses each month, making it one of the largest sources of real time and accurate valuation and financial performance benchmarking information in Australasia.

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