Business Monitor Report

January 2023

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Pictured - Lisa Bennetts and Isabella Bennetts-Roberts - OiOi, Melbourne, VIC

Foreword

The latest MYOB Business Monitor research of 1,000 Australian small and medium sized enterprise (SME) owners and operators highlights that, as we leave the pandemic behind us, new challenges lie ahead.

After successfully navigating a full year without lockdowns, some of the difficulties brought on by the pandemic appear to be behind the country's 2.4 million SMEs. For the first time since COVID-19 hit Australia, it did not make the top five pressures facing business owners.

However, despite COVID moving down the ranks, 2022 was not without challenges.

Relaxed restrictions created new complications, including increased sick and carers leave for employees and employers alike across the country.

Cost of living and inflation remain at the forefront of the minds of business owners, with fuel prices remaining the top concern for SMEs. This is followed by the cost of utilities, interest rates, price margins and profitability, and cashflow – all crucial pressure points on the bottom line.

In addition to these, new economic uncertainty looms for Australia's SMEs.

Fifty-two percent of SMEs believe Australia will go into recession in the next 12 months. Subsequently, anticipation for the performance of the Australian economy next year is right down, back to the levels we saw in 2020, the first year of the pandemic.

We've seen industries face different challenges over the past few years, and as illustrated in our Business Monitor results, it's clear retail and hospitality have felt the strain. SMEs in retail and hospitality make up the highest percentage of those expecting economic downturn, and are the least likely to have seen an increase in revenue and profitability.

As an industry reliant on consumers having disposable income at their fingertips, a recession and the belt-tightening associated with it will be keenly felt by SMEs in the sector.

We're seeing businesses planning to increase prices in preparation for an economic downturn and increase the number of goods and services they offer. The pandemic also made 65% more conservative or cautious in their planning. So, while increasing prices and a conservative approach may not be key to long-term economic prosperity, it may help the nation's SMEs get through a difficult period.

In positive news, 30% are looking to increase the amount they pay their employees, which may speak to the value SMEs place on their people, particularly after a challenging period and in the face of a more uncertainty and a tight labour market.

Also, despite concerns about the economy in the coming year, 48% expect an increase in profitability, a higher percentage than six months ago.

While under no illusions about the difficulties that may lay ahead, Australia's SMEs are passionate and resourceful, and the lessons learned throughout the pandemic will hold them in good stead.

At MYOB we're committed to continuing to help businesses, and while we hope SMEs have a year of prosperity ahead, I'm confident in their ability to face any challenges head on, with all the resilience required to make it out the other side.

Emma Fawcett
General Manager SME, MYOB

The economy

Australian SMEs are bracing themselves for a decline in the economy, according to the latest MYOB Business Monitor. Just under a quarter (23%) anticipate improvement, while 57% expect a decline.

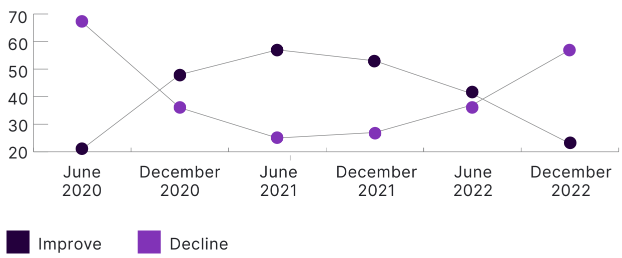
After a period of relative buoyancy as the country adjusted to life without pandemic restrictions, SME confidence in the economy is back to similar levels as it was in June 2020, when most of the world was in the grip of COVID-19.

Previous Business Monitors indicate a difference in positivity by generation, with younger business owners generally more optimistic about the year ahead. This year, however, the differences are less pronounced. Fifty-six per cent of Gen Z (18-24) anticipate decline, 53% of Gen Y (25-39), 59% of Gen X (40-54), and 63% of Baby Boomers (55-74).

With concerns about recession looming large, it's clear SMEs are preparing themselves for what may be another difficult year.

Businesses with fewer employees are feeling less positive about the year ahead, with 63% of businesses with 1-4 employees and 67% of businesses with 5-19 employees expecting decline. This is in contrast to 54% of sole operators and 56% of medium sized businesses (20-199 employees).

In the next 12 months will Australia's economy decline or improve?



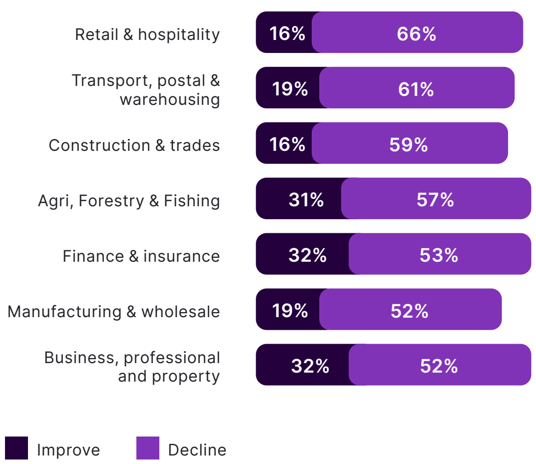
By industry

The impact of the current economic environment, and its impact on cost of living and customer spend, can be seen when the data is broken down by industry.

Retail and hospitality SMEs – which largely rely on consumers having disposable income – make up the highest percentage of those anticipating decline in the economy (66%) and equal lowest percentage of those expecting improvement (16%), the latter shared with construction and trades.

Conversely, almost a third of businesses in finance and insurance (32%) and business, professional and property (32%) believe the economy will improve in the year ahead.

In the next 12 months, will Australia's economy decline or improve?



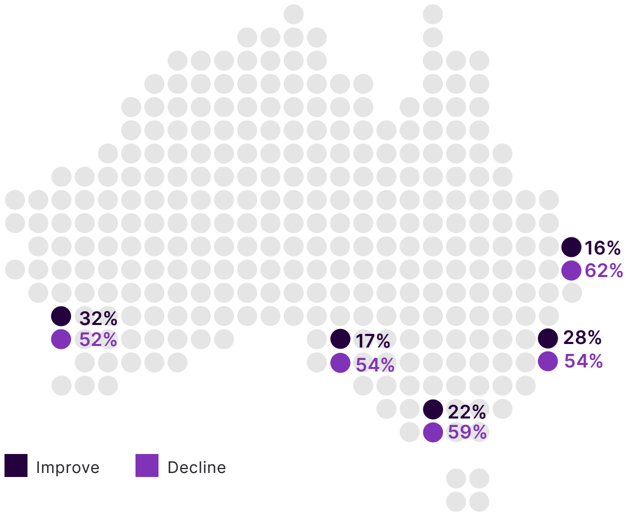
By state

Queensland is the state most anticipating decline, at 62%, and only 16% believe the economy will improve. Respondents from Western Australia are the most positive, however more than half (52%) still expect the economy to decline, and only a third (32%) believe it will improve.

National average

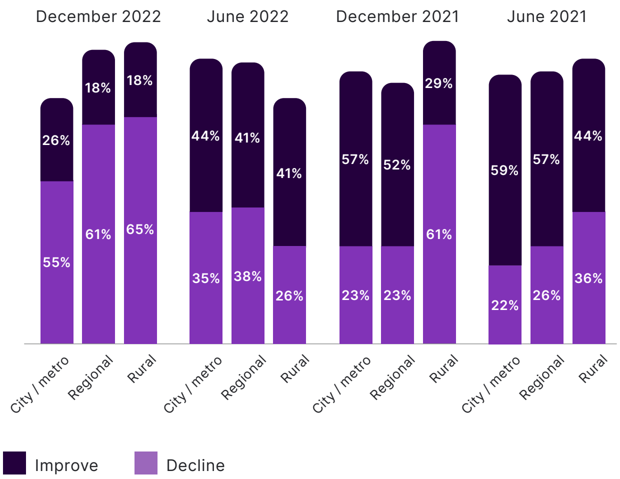
23% Improve

57% Decline



By region

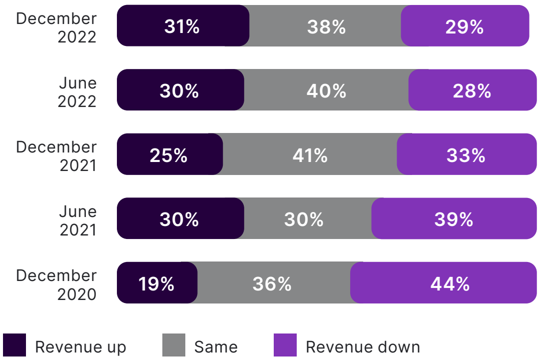
City-based businesses have more confidence in the economy, with 26% expecting improvement compared to a national average of 23%. This drops to 18% for both regional and rural based businesses, with 65% of the latter anticipating the economy will decline. The last MYOB Business Monitor, released in June, showed a much more even distribution, regardless of location, however the pendulum has swung again to more positivity in the nation's cities.



Revenue

Business revenue outcomes remain at a similar level to what we saw in the Business Monitor released in June 2022, which suggests that despite concerns for the year ahead, 2022 was fairly stable. The latest research shows around a third saw revenue increase (31%) compared to a year ago, and 29% experienced a decrease.

Is your revenue up or down on a year ago?



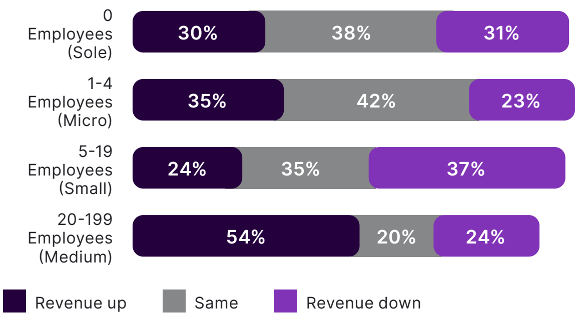
For businesses whose revenue increased, the top three reasons were increased consumer demand (19%), impact of COVID-19 pandemic (14%) and increased prices of products/services (12%).

The pandemic has proven to both help and hinder businesses, with its impact also in the top three causes behind a revenue decrease (22%), alongside current economic climate (25%) and decreased consumer demand (11%).

The industries that have seen the most significant revenue increase are finance and insurance, with 44% of respondents saying their revenue is up. At the other end of the spectrum, of respondents in retail and hospitality, only one in five (20%) saw their revenue increase compared to last year.

Thirty-five percent of startups (in operation for <2 years) and 33% of those in business 2-5 years reported their revenue has increased compared to a year ago. While 47% of those in business for over 5 years said their revenue was about the same, a lower percentage of more mature businesses reported revenue growth; 18% for businesses 5-10 years and 17% for businesses >10 years.

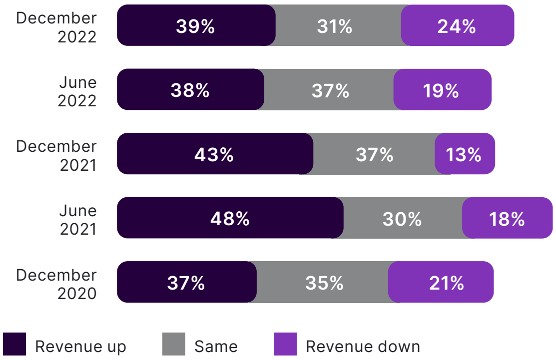
Is your revenue up or down on a year ago?



Looking to the year ahead, overall 39% of SMEs expect their revenue to be up in 12 months' time, similar levels to six months ago. However, less businesses believe their revenue will stay the same, at 31% - six percentage points lower than in June – and more anticipate a drop with just under a quarter (24%) saying it will be down, five points higher than the last Business Monitor.

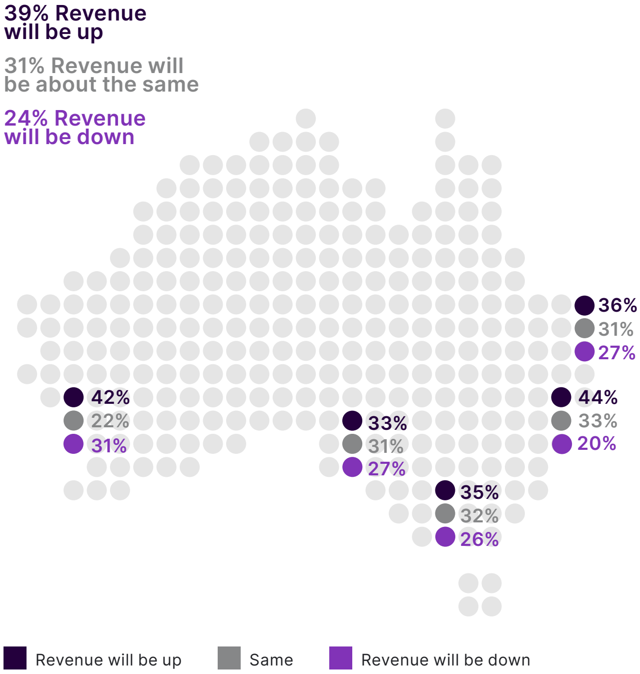
The responses for revenue shows some differences by generation. Forty-five percent of Gen Z (18-24) and Gen Y (18-39) expect their revenue will be up and 42% of Gen X (40-54). The future is looking less bright for Baby Boomers (55-74), only 23% of whom anticipate their revenue will be up. For this group, however, 42% expect the same revenue, which is higher than the 26% of Gen Z and Gen Y, and 30% of Gen X respondents who said the same, indicating stability in their business.

How do you expect revenue to perform in 12 months' time compared to now?



How do you expect revenue to perform in 12 months' time compared to now?

National average



Businesses in New South Wales are the most confident about their revenue in the coming 12 months, with 44% anticipating it will be up, compared to a national average of 39%, and one in five (20%) expecting it will be down, four points lower than the national average. By contrast, 33% of South Australians say their revenue will be up and 27% believe it will be down.

In a pattern noted in previous Business Monitors, more startups <2 years expect to see revenue growth, at 49%. That anticipated growth decreases with the age of the business; 16% of businesses >10 years believe their revenue will be up. Though again, a further illustration of business stability, 49% of this group expect their revenue will be the same.

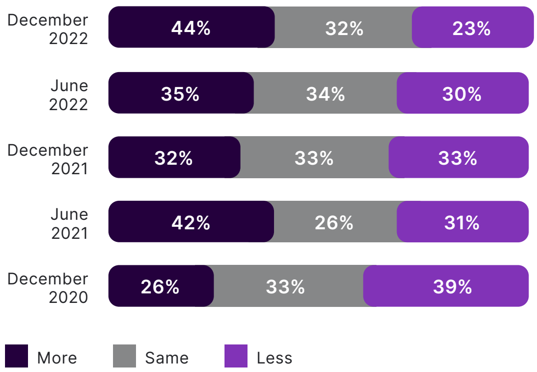
Profitability

Forty-four per cent of SMEs saw an uplift in profitability over the past 12 months, compared to 35% in the June Business Monitor, and 32% this time last year. Gen Z saw the largest increase, at 60%, followed by Gen Y at 50%, Gen X at 45% and Baby Boomers at 24%.

City-based businesses were most likely to see an increase, with 47% saying their profitability was up on 12 months ago, compared to 37% in regional and rural areas.

The industries least likely to see an increase were retail and hospitality, with 35% reporting higher profitability, and construction at trades, at 37%. In contrast, 65% of respondents in finance and insurance said profitability was up, and 62% in agriculture, forestry and fishing.

How has the profitability of your business changed over the last 12 months?



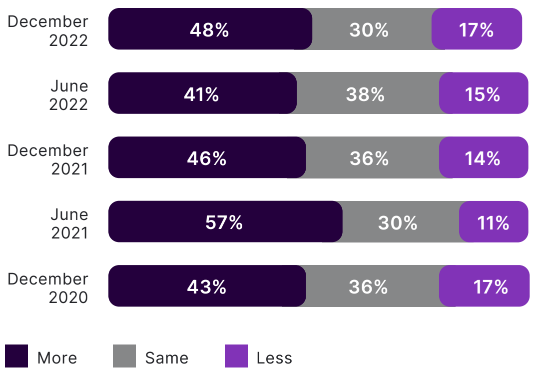
Across the board, more SMEs anticipate an increase in profitability compared to their expectations around revenue.

Despite concerns about the direction of the economy in the year ahead, almost half (48%) of surveyed SMEs are expecting an uplift in profitability over the coming 12 months; a higher percentage than six months ago.

That increases to 58% for startups (< 2 years) and 56% for businesses operating for 2-5 years. Only 20% of established SMEs in operation for >10 years expect higher profits in the upcoming year.

Retail and hospitality are again the least positive, with 41% anticipating more profitability, closely followed by construction and trades, at 42%. Sixty-two percent of both finance and insurance, and agriculture, forestry and fishing, expect more profit.

How do you expect profitability to change in the next 12 months?



Pictured - Zoë Condliffe - She's A Crowd, Sydney, NSW

Business pressure points

The top causes of business pressures clearly reflect the current environment, with the cost of fuel, utilities and interest rates rounding out the top three, followed by price margins and profitability, and cashflow.

With the economic outlook uncertain for SMEs, the main concerns reflect the daily operations of a business, rather than measures that business owners would take to grow, such as accessing finance and updating hardware and systems. The findings indicate that SMEs are looking to focus on the immediate running of their business rather than future focused activities.

Across the board younger business owners (Gen Z and Gen Y) are feeling more pressure than Gen X and Baby Boomers. Some of these pressures may be due to running a less established business.

Examples include attracting new customers, a cause of 'extreme' or 'quite a lot' of pressure for 42% of Gen Z and 37% of Gen Y, compared to 27% of Gen X and 24% of Baby Boomers. The cost of online technologies is also higher for younger generations, 43% of Gen Z and 33% of Gen Y say it's a significant pressure, compared to 23% of Gen X and 21% of Baby Boomers.

Causes of 'extreme' or 'quite a lot' of pressure

	December 2022	June 2022	December 2021
Fuel prices	47%	48%	41%
Cost of utilities eg electricity	41%	35%	31%
Interest rates	36%	27%	24%
Price margins & profitability	35%	29%	28%
Cashflow	34%	31%	27%
COVID-19 pandemic	33%	35%	34%
Attracting new customers	31%	28%	26%
Late payments from customers	30%	28%	24%
Competitive activity	29%	26%	26%
Tax compliance obligations	28%	26%	24%
Cost of online technologies	28%	25%	22%
Retaining existing customers	27%	27%	21%
Access to finance	26%	21%	19%
Exchange rates	25%	20%	18%
Updating hardware/ equipment	24%	22%	19%
Attracting new employees	24%	NA	NA
Retaining existing employees	23%	NA	NA
Updating IT systems	22%	19%	16%

Pictured - Samantha Finnegan - Madebox, Melbourne, VIC

Business investment

With confidence in the economic climate shaky, unsurprisingly SMEs are looking to safeguard their operations, with two in five (39%) looking to increase their prices and margins in the coming year. This is an 8% increase from the June Business Monitor. Just under a third (31%) are also looking to increase the number of products or services they offer.

Encouragingly, despite reservations about the economy, 30% are looking to increase the amount paid to employees, and their investment in the number of full-time and part-time employees is up compared to six months ago, 7% and 8% respectively.

Respondents in the finance and insurance industry are less enthusiastic about payments, with 21% saying they'll decrease payments to employees, compared to a national average of 9%. Likewise, manufacturing and wholesale are taking a different approach to the majority, with 23% looking to decrease their prices and margins on products or services sold, compared to 13% national average.

Thinking about the progress or state of your business this year, which of the following do you expect to increase, or to decrease, or to stay the same over the next 12 months?	Increase	Stay the same	Decrease
Your prices and margins on products/services sold	39%	45%	13%
The number or variety of products or services offered by your business	31%	55%	10%
The amount you pay the employees in your business	30%	54%	9%
Customer retention strategies	29%	57%	7%
The sale of products/services online	29%	53%	11%
The $ value of spending on marketing and advertising your business on the internet/online	29%	50%	15%
Customer acquisition strategies	27%	55%	9%
The $ value of spending on marketing and advertising your business offline (e.g. radio, newspapers, leaflets, catalogues, mail, posters)	27%	53%	14%
The sales of products/services offline	26%	56%	10%
Investment in IT systems & processes	24%	58%	12%
Working with business advisers (e.g. Accountant) to enhance your business	23%	57%	14%
The number of full time employees in your business	22%	63%	9%
The number of part time or casual employees in your business	22%	61%	11%
Business financing	22%	61%	10%

Digital adoption

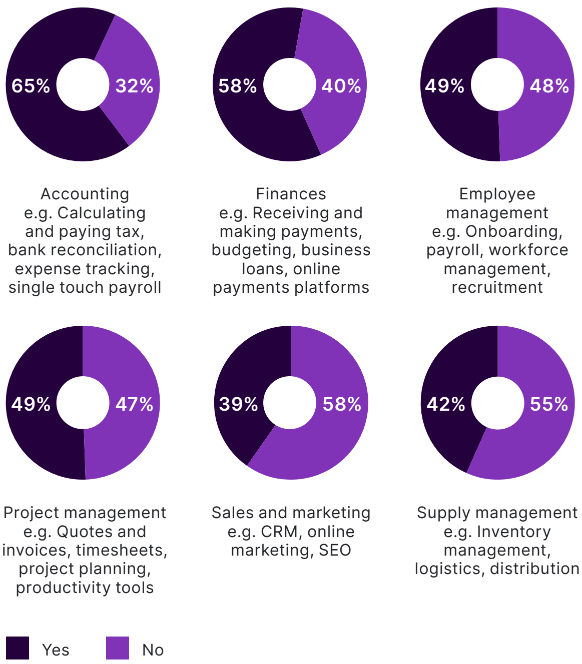
Sixty-five per cent of respondents with an online presence use digital, cloud-based accounting software, the most common digital solution, followed by finance tools, used by 58%, and project management and employee management, both used by 49% of SMEs.

Younger generations (aged 18-39) are more likely to use digital cloud-based software than older respondents, with over 50% using cloud-based software for most of the core workflows listed below.

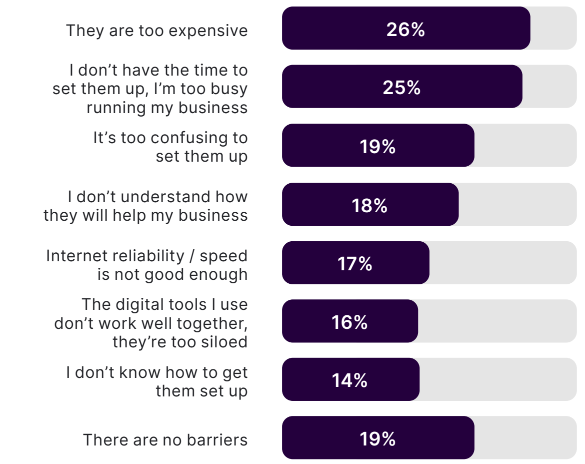
Since the pandemic, 40% have digitised more of their business, and of those who have digitised more, 52% said it has helped them be more productive and for 34% it's made them more profitable.

For just over a quarter of respondents (26%), cost remains the most significant barrier to adopting digital tools, followed closely by lack of time (25%).

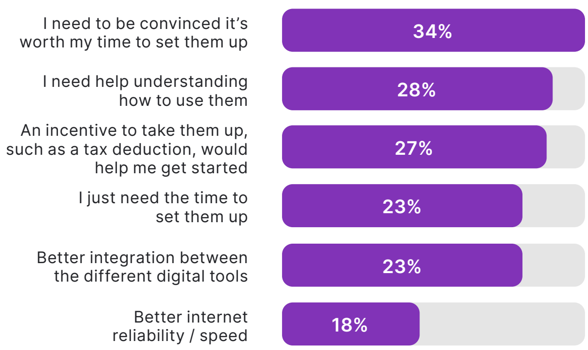
Do you use digital cloud-based software in this business for any of the following?



What are the main barriers to your business using more digital tools?



Which of the following would help you to use more digital tools in the business?



Pictured - Greg Harris - Jetset Plumbing, Gold Coast, QLD

Online presence

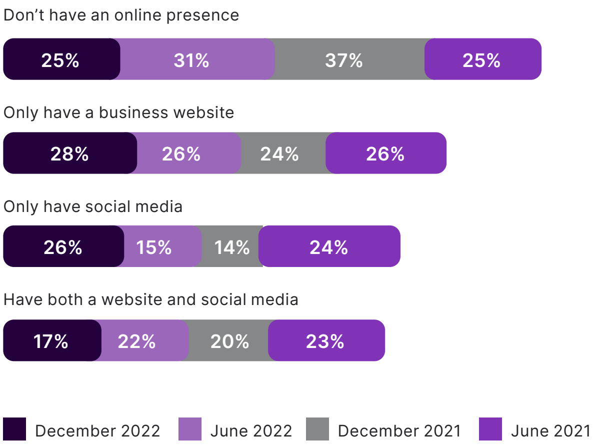
A quarter (25%) of SME respondents don't currently have an online presence. This increases to 33% for businesses in construction and trades.

Of those with a website, the most common benefit is the generation of more customer enquiries or leads (36%), closely followed by enabling the business to have a more professional brand image (35%), and making it easier for customers to do business with them (31%).

Overall, 26% only have a social media site for their business with 31% of Gen Y(25-39) in this category.

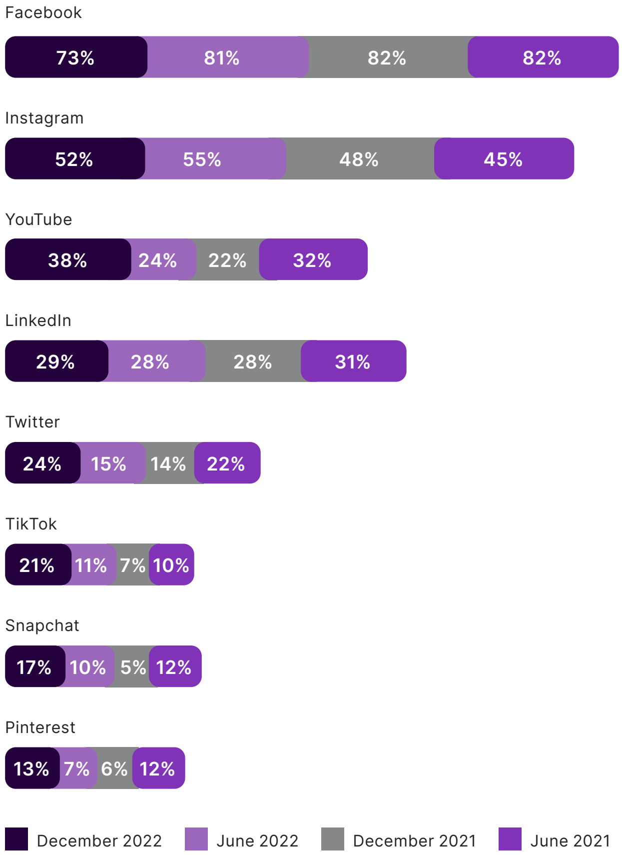
Of those utilising social media, 35% said it allowed more interaction with customers, 35% said it made it easier for customers to do business with them, and for 30% it generated more customer enquires or leads.

Which best describes your business' online presence?



Facebook remains the most popular social media tool for SMEs, with almost three quarters (73%) having a business profile. More than half (52%) use Instagram, and TikTok users have almost doubled since the June Business Monitor – jumping from 11% six months ago to 21%. Startups (in operation <2 years) are most likely to use TikTok, with 34% using the social media platform compared to a national average of 21%.

Fifty percent of male business owners use YouTube, compared to 29% of women, and 30% use Twitter compared to 19% of women. Conversely 24% of female respondents use TikTok, compared to 18% of men, and Facebook at 78% compared to 68% of men.



Spotlight: Mental health

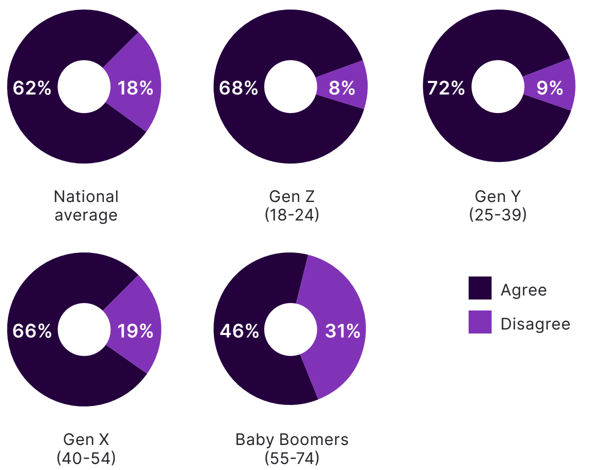
The last few years have been challenging on the mental health of many individuals. Small business owners have been particularly impacted by some of the difficulties faced during the pandemic, only to be followed by economic concerns arising from an increase in cost of living, and associated hikes in the cost of doing business.

Sixty-two per cent of respondents agree that running their own business has had a direct impact on feelings of anxiety or depression experienced, up six points from June last year. For Gen Y that percentage increases to 72%.

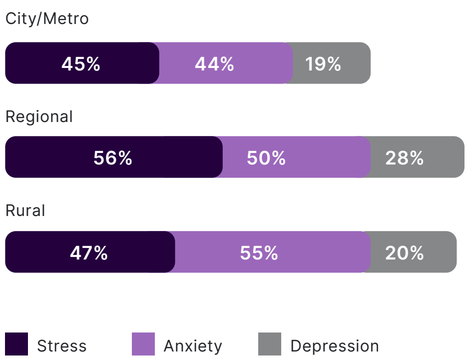
Running a business over the past 12 months has caused 48% of respondents stress, 47% anxiety and 22% depression. The top business-related cause of mental health challenges is financial concerns/cashflow (26%), COVID-19 and its wider economic impact (17%), and not having enough family time (15%).

While running a small business is incredibly rewarding, it can also be extremely challenging. There are specific resources available for SMEs, including the [Smiling Mind Small Business Program], which is designed for proactive, preventative wellbeing. The app contains guided meditations, developed in partnership with MYOB, to help small business owners develop healthy mental habits.

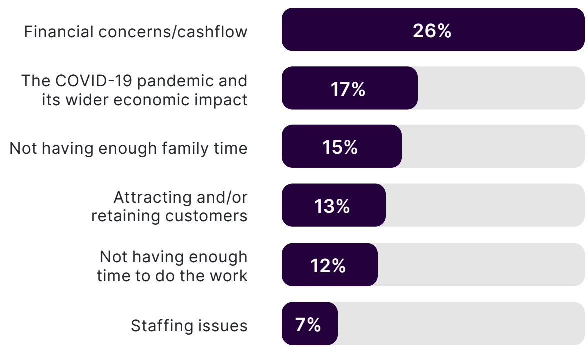
To what extent do you agree or disagree with the following statement: Running my own business has had a direct impact on any feelings of anxiety or depression I've experienced.



In running this business over the last 12 months, has it caused you any of the following?



In your opinion, what is the key business-related cause of mental health challenges?



Key takeouts

Confidence disparity between industries

Throughout the pandemic we saw some industries adapt faster and more efficiently than others. This was due to the nature of the business and, in many cases, the speed at which they could pivot, and has left many more cautious about the future. As we head into 2023, retail and hospitality businesses look set to face the most challenges, with respondents from these industries generally less optimistic than others. On the other hand, more SMEs in finance and insurance are confident about the economy and their performance in the year ahead.

Cost of doing business

Across the board business pressures are up, with fuel prices and the cost of utilities remaining a top concern for SMEs. For the first time since the pandemic began, COVID-19 was not one of the top five concerns, as the immediate impact of the pandemic subsides, and businesses focus more on the cost of doing business. Most pressure causes are up at least a few percentage points from previous years, with some, such as the cost of utilities and price margins and profitability, up 6% from the June Business Monitor.

Recession fears loom large

With 52% of respondents anticipating recession in the coming 12 months, it's unsurprising to see the impact of these fears reflected in many areas of the Business Monitor, including SME confidence in the economy and forecasts for the future. The investments SMEs are looking to prioritise in the coming year indicate many are thinking more about short term protection for their business, rather than growing and scaling. Throughout the pandemic we saw this mindset hold many SMEs in good stead, and while it won't help with widescale and ongoing prosperity, it may well help small businesses weather the storm of economic uncertainty.

Emma Fawcett
General Manager SME, MYOB

About MYOB Business Monitor

The MYOB Business Monitor researches business performance and attitudes regarding areas such as profitability, cash flow, pipeline work, technology usage and the government. This report presents the summary findings for key indicators from the MYOB Business Monitor comprising a national sample of 1,001 business owners, managers and directors (operators), conducted from November 8th to December 5th, 2022. The businesses participating in the online survey were both non-employing and employing businesses. All data has been weighted by industry type, location and number of employees, which are in line with the Australian Bureau of Statistics (ABS - Counts of Australian businesses, including entries & exits - 8165.0).

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