Business Monitor Report

January 2024

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Foreword

Australia's 2.5+ million small and medium sized enterprises (SMEs) are a vibrant and essential part of our commercial landscape, from the local corner store you've come to rely on for your weekly shop, to the car parts manufacturer on the outskirts of town.

These businesses are fuelled by passion and innovation, run by resourceful entrepreneurs who have faced another year of economic challenges.

This latest MYOB Business Monitor survey of 1000 Australian SME owners and operators reveals this community is under pressure and exercising caution in both their economic outlook and business forecasting.

Higher operating costs, combined with consumer belt tightening, is impacting SMEs dually – and there is no sign of relief. The cost of doing business is expected to be an area of high concern for SMEs in the coming 12 months, particularly the cost of utilities and fuel.

Despite the challenges of this current climate, the findings point to some patches of optimism. Startups in operation for two years or less are feeling most positive about the future. This can be seen in how they relay their operational standpoint, as well as how they view the broader economic environment.

While SMEs are particularly susceptible to fluctuating market conditions, with less cash available to protect against the challenges facing the business community, they are also incredibly resourceful.

By the nature of their size, SMEs are in the best position to pivot with agility when conditions change.

Throughout the latest MYOB Business Monitor, we can see the strategies SMEs plan to adopt as they prepare for 2024, and how their forecasts and investments might help provide a guiding light for other small and medium sized business owners as they plan for the year ahead.

As the nation's largest employer of 5 million people responsible for half of Australia's GDP, it is crucial the SME sector is successful, to ensure the health of our economy long-term.

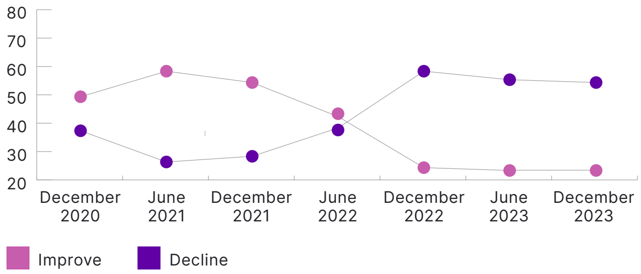
Paul Robson
Chief Executive Officer, MYOB

The economy

Among SMEs, expectations for the Australian economy are on par with the June edition of the MYOB Business Monitor. While 22% of respondents anticipate economic conditions to improve over the next 12 months, 52% expect conditions to weaken. The remainder (24% of respondents), anticipate current conditions to extend through 2024.

The general softening of expectations from mid-2021 aligned with the broadening of inflationary pressures across the economy, the rising cost of doing business, and higher interest rates on business lending.

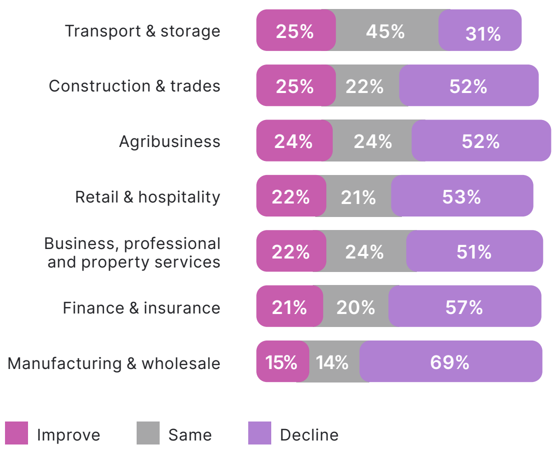
In the next 12 months will Australia's economy decline or improve?



By industry

On balance, respondents from the transport and storage industry are the most optimistic about the direction of the economy, with a quarter (25%) expecting conditions to improve over the year ahead, and 31% expecting conditions to soften. At the other end of the spectrum, manufacturing and wholesale businesses are the least positive, with more than two thirds (69%) of respondents expecting conditions to weaken and only 15% anticipating improvement.

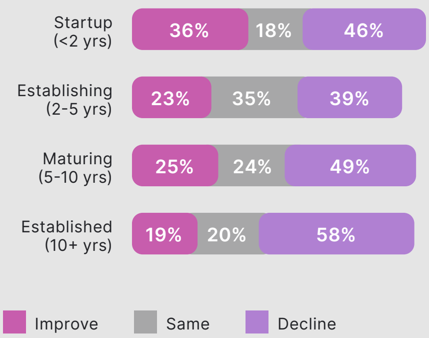
In the next 12 months, will Australia's economy decline or improve?



By age of business

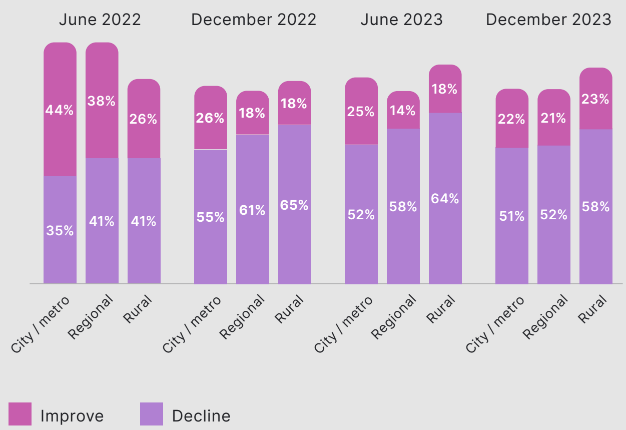
Newer businesses are generally more optimistic about the economy. More than a third (36%) of startups operating <2 years anticipate improvement over the coming year, compared with only 19% of established businesses (of 10+ years). While 46% of startups anticipate conditions to soften over the next 12 months, 58% of established businesses expect weaker conditions.

Startups have opened their doors during a challenging period for Australian business – so may be more prepared than established SMEs for the conditions that SMEs currently face. They also could have started in stronger or more stable industries.



By region

In contrast to previous MYOB Business Monitors where the opinions of SMEs in rural and regional settings have differed to those based in city and metro environments, responding SMEs hold similar predictions about the likelihood of an improved economy this year, regardless of their location.



Revenue

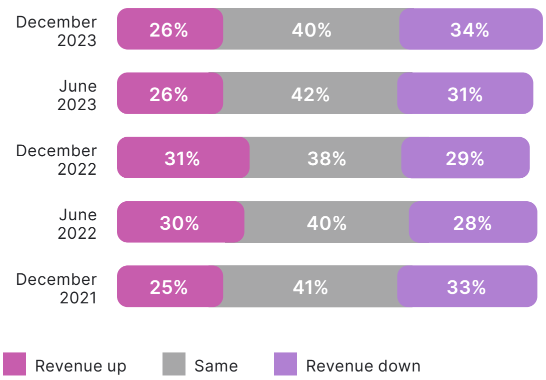
Revenue markers have remained fairly static since the June MYOB Business Monitor, with 40% of respondents reporting that their revenue position is the same compared to a year ago.

For those SMEs where revenue increased, almost a third (32%) said it was due to greater consumer demand, followed by higher prices (21%) and developing better relationships with customers (11%).

For SMEs where revenue decreased the main reason was the current economic climate (38%), a decrease in consumer demand (17%) and loss of key customers (9%).

The findings demonstrate the importance of customer relationships, particularly during a challenging economic period, as it is one of the top three reasons for revenue change amongst respondents.

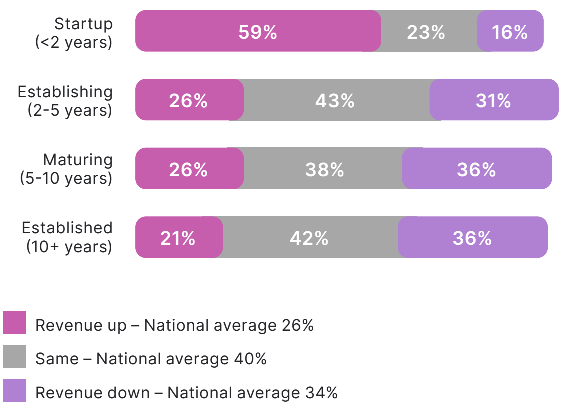
Is your revenue up or down on a year ago?



In terms of revenue, startup respondents again showed stronger results than more established businesses. In the startup segment 59% reported their revenue went up in the last 12 months, compared to 34% in the June 2023 MYOB Business Monitor.

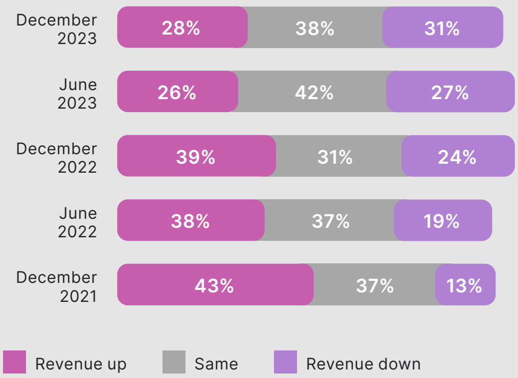
This could be due to starting from a lower (or non-existent) baseline, or the agile nature of younger businesses making it easier to pivot to changing conditions.

By age of business - Is your revenue up or down on a year ago?



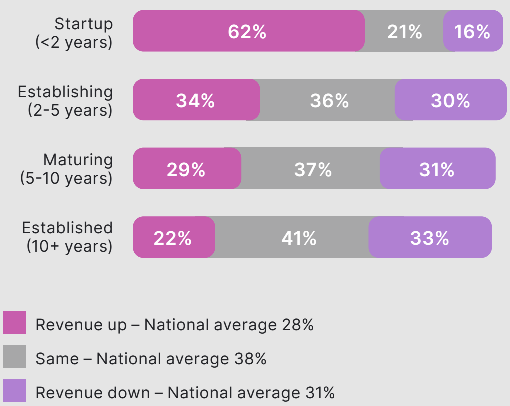
Looking ahead, 28% of SMEs anticipate their revenue will be higher in 12 months' time, an increase of two percentage points from the June MYOB Business Monitor. However, 31% of respondents expect lower revenue. Since December 2021, the proportion of SMEs anticipating lower revenue (over the year ahead) has steadily increased. For many SMEs this means adjusting plans accordingly, preparing for a leaner outlook.

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



Again, startup respondents are more optimistic with regard to projected revenue. Sixty-two per cent expect their revenue will be higher in the next 12 months, compared to just over a fifth (22%) of established businesses. This is a significant jump for startups compared to six months ago, when 40% expected their revenue to be higher in the coming year.

By age of business - How do you expect revenue to perform in 12 months' time compared to now?

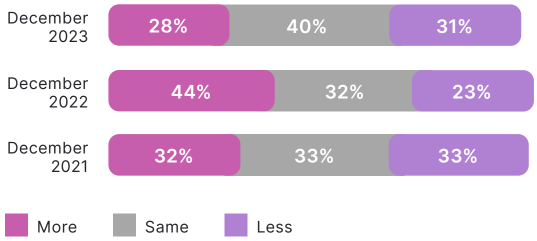


Profitability

More than a third (40%) of SMEs say their profitability has held steady compared to this time last year. This is a step change from the results of the December 2022 MYOB Business Monitor, where respondents were most likely to report an increase in their profit in the previous year (44%).

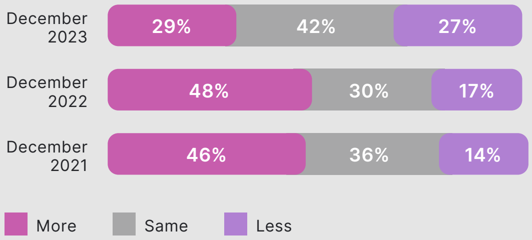
Nearly a third (31%) say their profit has declined in the last 12 months, eight percentage points up compared to this time last year (23%), but on par with responses from December 2021 (33%).

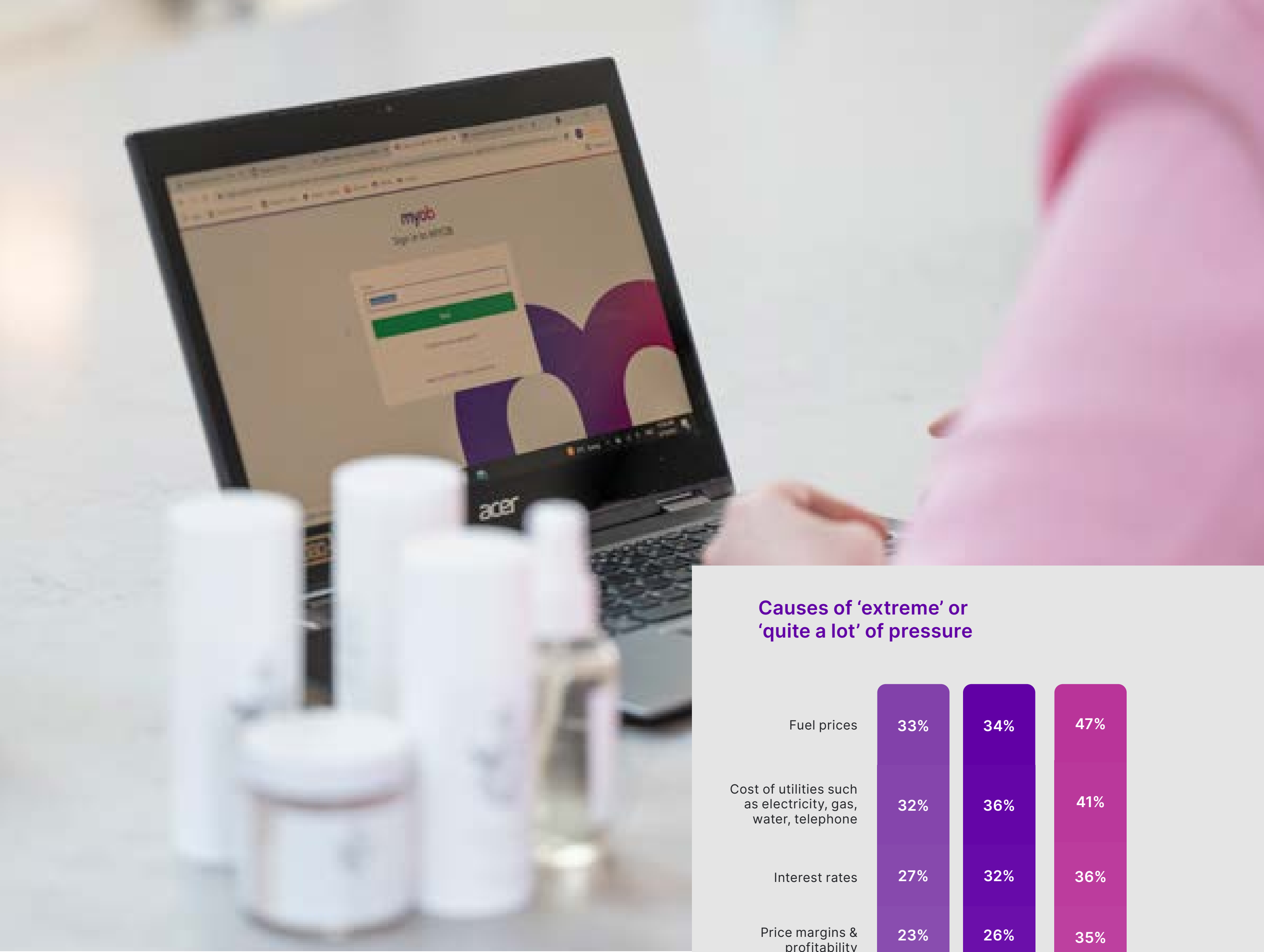
How has the profitability of your business changed over the last 12 months?



Consistent with other business markers from the latest research, SMEs are generally cautious about the year ahead in terms of profitability against a backdrop of an uncertain economic outlook. That said, and notwithstanding some challenging conditions, the Australian small and medium sized business community continues to exhibit tremendous resilience. Their ability to sustain in an ever-evolving business environment is evident from how they have bounced back following the pandemic.

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





Business pressure points

The same top five business pressures faced by respondents in both the June 2023 and December 2022 MYOB Business Monitors continue to cause the most impact to SMEs today, though to a lesser degree than in the previous two years.

These costs, including utilities and fuel pricing, interest rates, price margins and cashflow, are all core to running a business. They currently trigger more pressure than some of the costs typically associated with scaling, such as upgrading hardware, equipment, and IT systems, and attracting new customers. This suggests SMEs are in protection mode, rather than looking to grow.

The percentage of those facing severe pressure has decreased slightly in the last 12 months, indicating SMEs accept the new status quo of running a business in the current economic environment and have made the necessary business adjustments to accommodate.

With the top pressure of utilities being provided by external suppliers, SMEs may choose to review their current providers and make changes, where they can, to alleviate some of this financial pressure.

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

	December 2023	June 2023	December 2022
Fuel prices	33%	34%	47%
Cost of utilities such as electricity, gas, water, telephone	32%	36%	41%
Interest rates	27%	32%	36%
Price margins & profitability	23%	26%	35%
Cashflow	22%	22%	34%
Attracting new customers	21%	21%	31%
Late payments from customers	19%	21%	30%
Competitive activity	18%	19%	29%
Cost of online technologies	17%	19%	28%
Tax compliance obligations	16%	19%	28%
Retaining existing customers	16%	16%	27%
Access to finance	13%	15%	26%
Exchange rates	13%	14%	25%
Updating hardware/ equipment	12%	13%	24%
COVID-19 pandemic	11%	13%	33%
Updating IT systems	11%	12%	22%
Attracting new employees	10%	13%	24%
Retaining existing employees	10%	11%	23%

Pictured - Nelli and Juri Hegi, Hegi Design House, Gerringong NSW

Business investment

Increasing prices and margins on products and services will be the most common investment (28%) in the coming year. However this time last year, 39% of SMEs were planning to increase their prices and margins, suggesting emphasis on this type of investment is trending down. This could be one of the reasons for a softening revenue outlook noted earlier, which is partially driven by pricing expectations.

The number or variety of products or services offered by the business has also halved since this time last year, with 15% of respondents looking to increase this year compared to 31% 12 months ago. This could suggest more SMEs are focussing on their core products or services.

The amount spent on marketing and advertising offline (18%) and online (16%) are the highest expected decreases in the coming year. These were the top two decreases this time last year as well, when 15% planned to decrease their online advertising spend and 14% planned to decrease offline advertising investment.

Customer acquisition and retention will continue to be a crucial strategic lever for small and medium sized business owners.

Almost two thirds (18%) of respondents plan to increase their investment in customer acquisition and retention strategies, while 16% will decrease the amount they spend on marketing and advertising. This could suggest SMEs are looking to implement more targeted strategies to grow their customer base. Small and medium sized businesses also often have the advantage of leveraging their personal connections with customers and local community.

Overall, more respondents plan to keep their investments steady over next 12 months, rather than implementing drastic increases or decreases, compared to responses from this time last year. This could suggest SMEs have already adjusted in line with changing external factors.

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	28%	55%	13%
The amount you pay employees	20%	70%	6%
Customer acquisition strategies	18%	69%	8%
Customer retention strategies	18%	73%	6%
The sale of products/services online	17%	68%	9%
The sale of products/services offline	17%	65%	11%
The number or variety of products or services offered by your business	15%	77%	7%
The $ value of spending on marketing and advertising your business on the Internet/online	13%	65%	16%
Investment in IT systems & processes	12%	72%	13%
Working with business advisers (e.g. accountant) to enhance your business	12%	73%	11%
The $ value of spending on marketing and advertising your business offline	11%	65%	18%
The number of part time or casual employees in your business	11%	76%	8%
Business financing	10%	74%	11%
The number of full-time employees in your business	9%	81%	6%

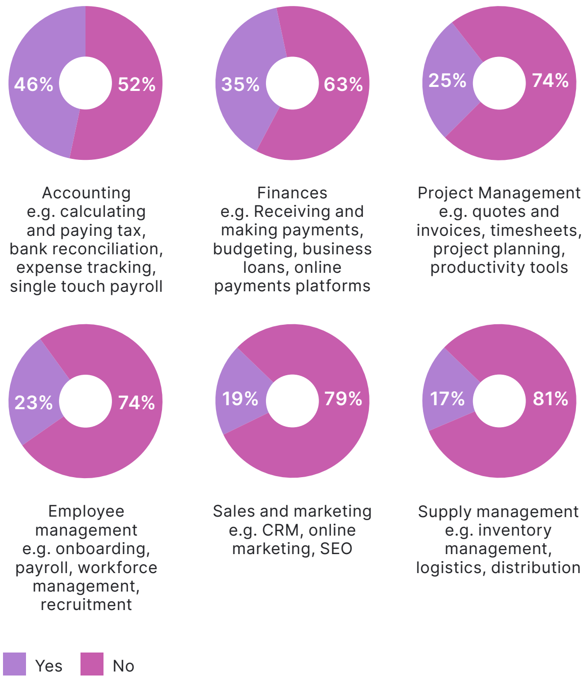
Digital adoption

Current state of digital adoption

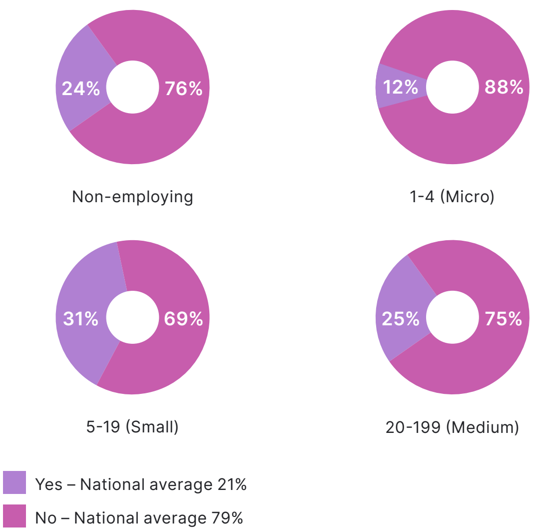
In the last 12 months one fifth (21%) of respondents increased the number of online tools they use. This cohort stated the top benefits of digitising more of their business included helping the business be more productive (37%), assisting the team to work remotely and collaborate (31%), and enabling the business to continue getting work (26%).

Businesses employing 5-199 employees are more likely to have increased their digital tools in the last 12 months than sole operators or micro businesses with 1-4 employees. The top workflows digitised by SMEs are accounting and the management of finances, while the digital enablement of supply management is the area businesses are least likely to have adopted.

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



In the last 12 months, have you increased the number of online tools used in your business?

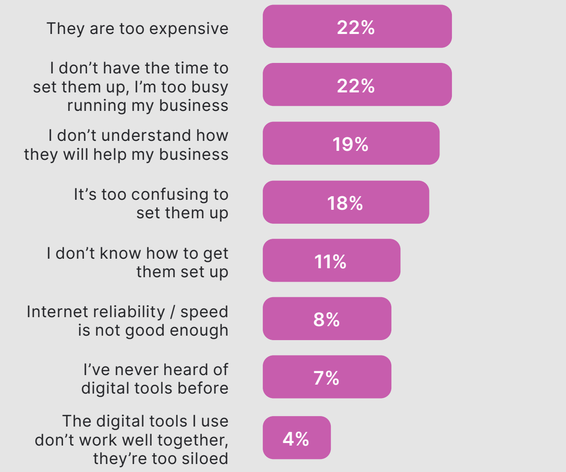


Barriers to digital adoption

Cost is one of the major barriers to digital adoption. However, SMEs with advanced levels of digital engagement have been found to be 50% more likely to grow their revenue, and earn 60% more revenue per employee relative to those with basic levels of digital engagement.[1]

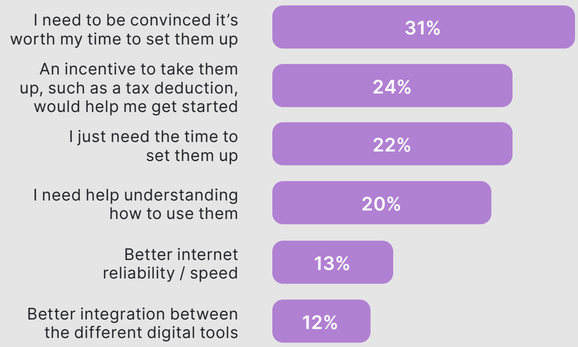
More than half of respondents are not using digital cloud-based software for any of the key SME workflows. There is tremendous opportunity to save SMEs time, improve accuracy and ultimately save them money. The adoption of emerging technologies, in particular, will help SMEs be more productive, improve the way they work and boost their business prospects.

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



32% of businesses were not impacted by any of the above.

What would help you to use more digital tools in your business?



[1] Connected Small Business 2017, Deloitte Access Economics.

Online presence

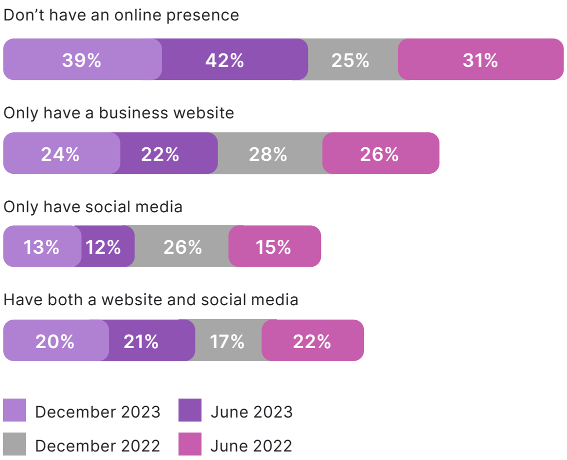
In line with previous MYOB Business Monitors, SMEs are more likely to have invested in websites than a social media presence. For those using social media, Facebook continues to be the most popular site, with usage of this platform skewing to the older demographic: Gen X (43-58) and Baby Boomers (59-77).

Gen Y (28-42) are the most likely to use TikTok to connect with their customers compared to other generations, and TikTok is more popular among businesses of 2-5 years of age than startups or SMEs that have been in business for 5+ years.

Thirty-nine per cent of respondents say social media increased their appeal to customers and 35% said it allowed for more interaction with customers. For almost a third (31%) it has generated more leads in general.

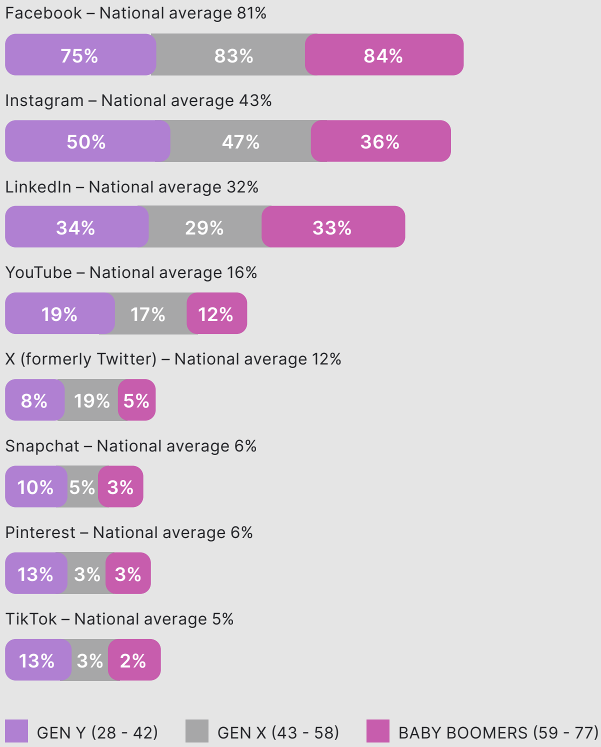
With social media proving an effective way to communicate with customers, build brand awareness and target new audiences, it's a sound investment for SMEs looking for a two-way connection with current and prospective customers.

Which best describes your business' online presence?



Which social media sites do you currently use to connect to your customers?

By age of business owner



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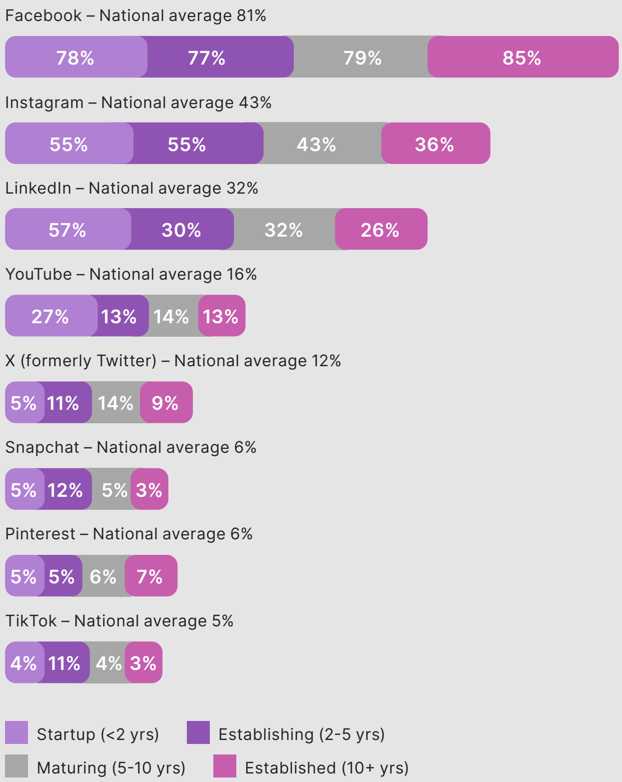


Spotlight:

Cost of doing business

When asked how they've been affected by cost of living increases, 29% of respondents said it placed more financial pressure on the business and 27% said they had fewer customers. However, one quarter (25%) of respondents say their operations were not impacted.

The cost of doing business has had a greater impact and is more of an issue for 58% of respondents now compared to 12 months ago. Thirty-seven per cent say it's about the same.

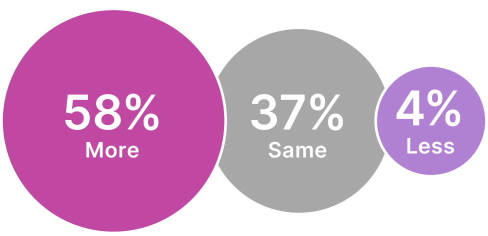
The top actions SMEs have undertaken to deal with the rising cost of doing business are incorporating increases into the price of their products and services (29%), making less or no profit (28%), and the business owner either reducing or not taking an income (21%).

Fuel is the business cost that has increased the most for 32% of respondents, followed by utilities (20%) and stock or inventory (10%). Fuel is a particular issue for rural business owners, 62% of whom said it had increased the most, compared to 26% of city/metro-based SMEs.

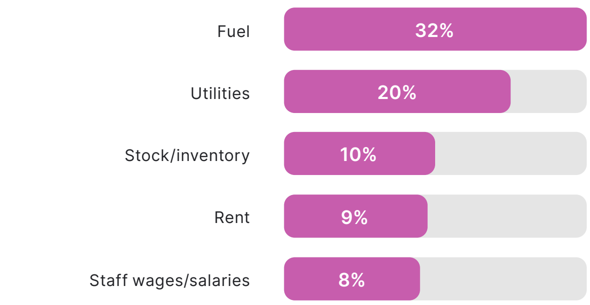
While cost of living pressures impact businesses and consumers, in positive news almost half (48%) of SME respondents say demand for their product or service remains unchanged. Furthermore, 41% say consumers expect to pay more for their products and services in the current economic environment.

This suggests a mutual understanding of the widespread impact the economic climate and rising cost of living is having across the board, and the willingness of Australians to support small and medium sized businesses.

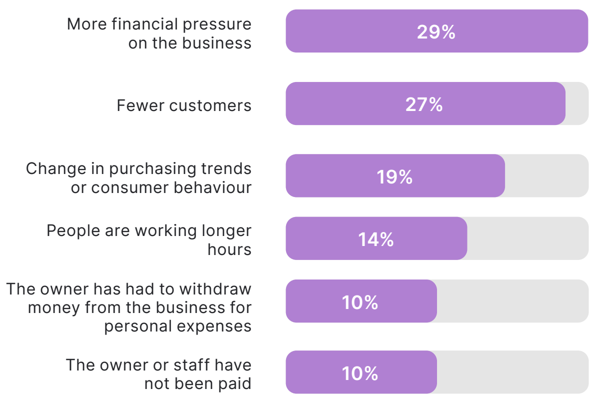
Are the costs of doing business more of an issue now compared to 12 months ago?



Which of the following costs of doing business has increased the most?



How has your business been impacted by cost of living increases, if at all?



25% of respondents say their business has not been impacted.

Key takeouts

Levelling success markers

Across the board we're seeing SMEs are cautious about the coming year against a backdrop of uncertain economic predictions. While challenges may lay ahead, we have seen the Australian small and medium sized business community exhibit tremendous resilience and adaptability over the past few years, implementing innovative strategies to sustain and grow in an ever-evolving business environment. The adoption of technology also continues to help SMEs be more productive, to improve the way they work and further their business prospects.

Cost of doing business adjustments

With cost of living a consideration for businesses and consumers, it's no surprise that SMEs have made, and will continue to make, changes to their business operations and investments to accommodate economic fluctuations. Customer acquisition and retention continues to be an important strategic lever for small and medium sized business owners, who can leverage the personal connections they have with their customer base and local community. Business pressures aren't as high compared to six and 12 months ago for this set of respondents, which may mean the nation's SMEs are acclimatising to new ways of operating.

Startups a beacon of positivity

Startups operating for two years or less appear the most optimistic compared to other businesses. These business owners face the same inherent risks as all SMEs, but they have taken the leap in uncertain times, suggesting a confidence in the future. Most businesses start from a low baseline at launch so it's unsurprising they'd expect their own profitability and revenue to improve. However, this set of respondents were much more likely to anticipate an uplift in the economy. They also have the added benefit of launching with the latest technology available, utilising the right digital tools to help their business thrive.

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 1,037 business owners, managers and directors (operators), conducted from October 29 to December 7, 2023. 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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