Pictured - Katherine Hampton - Camp Cove Swim, Sydney, NSW

Business Monitor Report

June 2023

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

Foreword

It's no secret that small and medium sized enterprises (SMEs) have faced significant challenges over the past few years with the disruption of the COVID-19 pandemic closely followed by rising interest rates and cost of living, as well as talk of recession. Despite many of the nation's 2.5+ million SMEs adapting to a 'new normal' way of operating, the latest MYOB Business Monitor reveals a challenging 12 months is predicted.

While confidence in the economy remains relatively stable, fluctuating just a little from the previous MYOB Business Monitor six months ago, more than half of SME respondents still anticipate further decline in our economic strength in the coming year.

With concern around the climate for businesses on the minds of many Australians, it's at the forefront for 44% of SMEs, who believe Australia will enter into a recession in the next 12 months. Only 36% of respondents have experienced a recession in the business they're currently operating. However, three quarters (74%) say they understand the implications it would have on their business. This suggests that, having successfully navigated the previous few years, SMEs feel ready to face what's coming, head on.

As they prepare for survival ahead of a challenging 12 months, achieving business growth in that time won't necessarily be easy – or even top of mind.

Forty per cent of respondents have already been impacted by interest rate rises. Of those, 35% have seen their business loan repayments increase, 33% have had their mortgage repayments rise and 25% have had their business property rates inflate. Despite this, 67% were very or quite confident they can handle additional interest rate increases this year.

Utilities, fuel prices and interest rates are reported as putting the most pressure on SMEs. However, the number of respondents saying these issues are causing 'extreme' or 'a lot' of pressure is reducing, suggesting small businesses are accustomed to the current environment and operating under pressure may have become a new normal for many SMEs.

For the first time since December 2021, more SMEs report their revenue is down than up, but for 42% it's the same as it was a year ago, suggesting most businesses are holding steady and saving for future shocks, rather than investing in growth.

Small business owners feel the hit of cost-of-living pressures twice - in their own hip pockets as well as in the decreased discretionary spend of their customers. So, there's no doubt that they're feeling the impact of the economic environment as they make ends meet amid rising costs and more cautious consumer behavior.

Throughout the latest Business Monitor, we see SMEs react to the economic environment by playing it safe, rather than confidently investing in their business growth.

While operating without risk might enable greater financial security for individual SMEs, not investing in growth can stifle the economy. With SMEs contributing more than $700 billion to the economy, investing in their growth is non-negotiable.

The challenge for the small business community is how to make confident and smart investments to remain stable and primed for growth, for their security as well as the economy overall.

Emma Fawcett
General Manager SME, MYOB

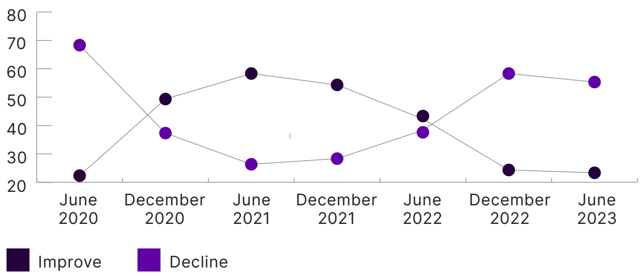
The economy

Confidence in the Australian economy hasn't changed significantly among small and medium sized enterprises (SMEs) since the last MYOB Business Monitor research, collected in December last year. The latest findings show more than half (54%) anticipate decline, while just over one in five (22%) expect improvement.

This research is in stark contrast to how SMEs felt in June last year, when almost double the amount (41%) thought the economy would improve, and only 37% expected decline. With the past 12 months bringing inflation and repeated interest rate rises, it's not surprising that respondents have a less positive economic outlook now than they did this time last year.

The research shows a difference in confidence by age groups, with younger business owners feeling more positive about the country's economic outlook. Gen X respondents (aged 43-58) are the least positive, with 60% expecting decline, while only 42% of Gen Y (aged 28-42) expect decline.

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

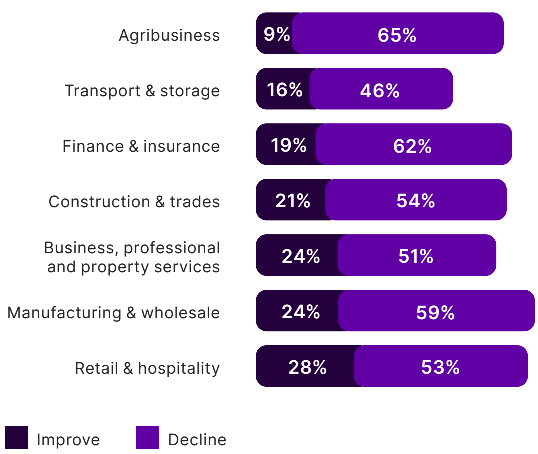


By industry

Examining the research results by industry shows a change in sentiment in the last six months. Only 9% of businesses in the agrisector anticipate improvement, compared to 31% in December last year. Equally, 19% of respondents in the finance and insurance sectors expect improvement, compared to 32% six months ago. Conversely, retail and hospitality SMEs are feeling more confident, with 28% anticipating improvement, compared to 16% at the end of last year.

The confidence felt by retail and hospitality could be the product of SMEs hopeful of a better 12 months ahead, after consumer belt tightening over the past year.

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



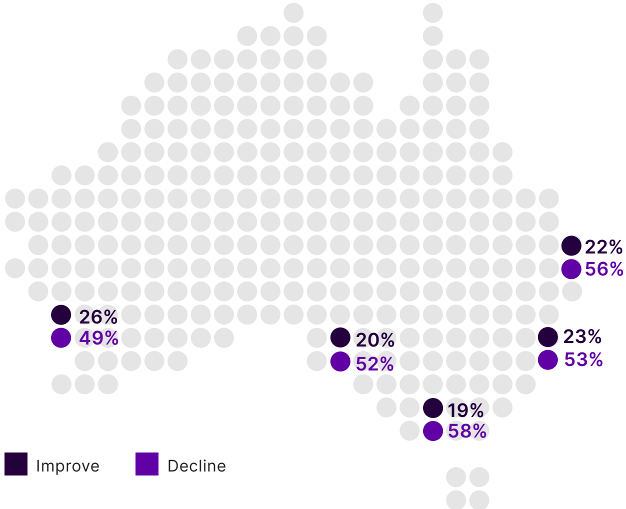
By state

Victorian respondents are most likely to anticipate decline in the economy in the coming 12 months, at 58%, followed closely by Queensland at 56%. In contrast, when the data was collected prior to Premier Mark McGowan stepping down, more than a quarter (26%) of Western Australian SMEs expect the economy will improve and 49% believe it will decline.

National average

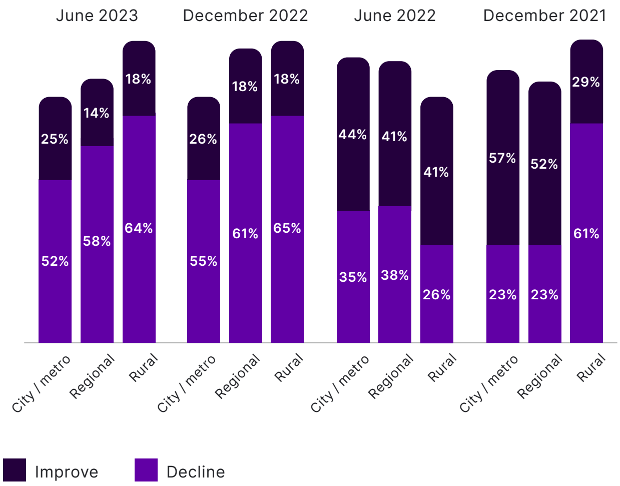
22% Improve

54% Decline



By region

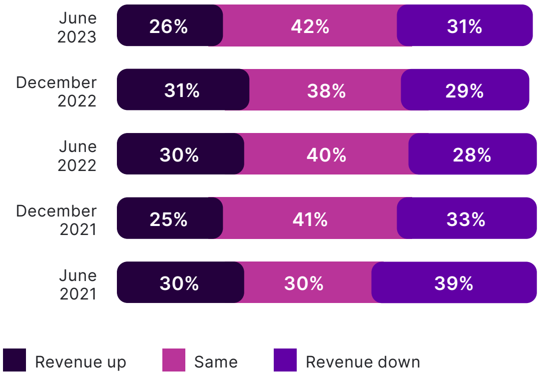
Similar to patterns seen in the previous MYOB Business Monitor, SMEs based in the city are more inclined to expect economic improvement. Twenty-five per cent of those based in city or metro areas anticipate an uplift, compared to their regional and rural counterparts at 14% and 15% respectively. Sixty-four per cent of rurally based SMEs anticipate decline, compared to 52% of those based in a city.



Revenue

Just over a quarter (26%) of SMEs report their revenue is up compared to 31% in December of last year. A higher percentage say their revenue is about the same at 42%, up from 38% in December, suggesting businesses are holding steady with their customer inputs as they navigate an uncertain economic climate.

Is your revenue up or down on a year ago?

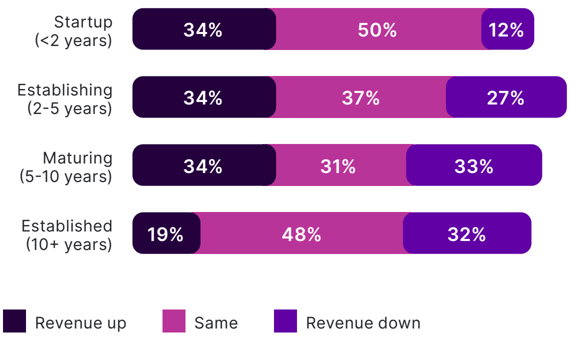


The number one reason respondents give for revenue improvement is increased consumer demand (29%), followed by an increase in the prices of products or services (17%) and the development of better relationships with customers (9%).

The top reasons given behind revenue decline are the current economic climate (38%), decreased consumer demand (16%) and reduction in product or services offered (7%).

These findings are similar to the percentages observed in December 2021, when parts of the country were still impacted by COVID-19 and related lockdowns, highlighting the impact of the current climate on the nation's SMEs.

Is your revenue up or down on a year ago?

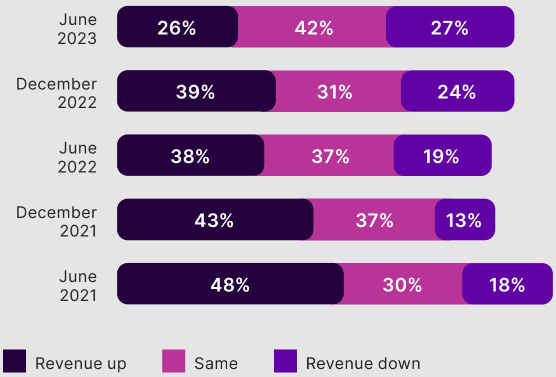


The results looking ahead to revenue performance over the coming year paint a similar picture to where SMEs are sitting at now, with 26% of respondents anticipating revenue will be up and 27% expecting a decline, while most (42%) believe it will be the same.

The top sources of anticipated revenue growth are increased consumer demand (33%), increased prices of products or services (13%) and developing better relationships with customers (9%).

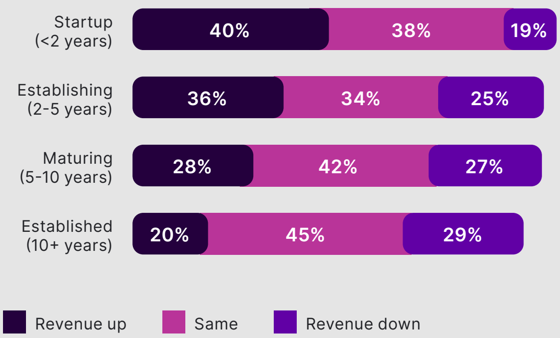
The main reasons behind expected revenue decrease are the economic climate (42%), decreased consumer demand (14%) and reduction in product or service offering (7%).

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



Looking to the year ahead, startups are more positive, with 40% expecting revenue will be up and only 19% expecting decline. This contrasts with established businesses of over 10 years, of which only a fifth expect revenue to be up in 12 months' time. This may be due to where they are in their product lifecycle, a newer business would expect more growth compared to a more established one that could have plateaued.

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



Profitability

Pictured - Matt Peters - iseekplant, Brisbane, QLD

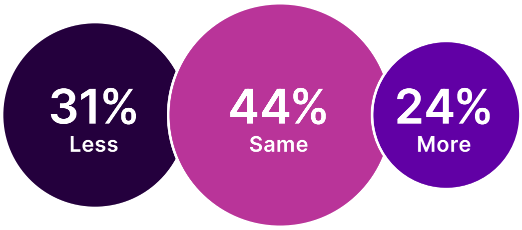
This edition of the MYOB Business Monitor looks at shorter term profitability, focusing on a three-month period which covers much of the first summer in three years with no COVID restrictions across the country. Within this timeframe, just under one quarter (24%) said they experienced more profitability, and 31% said less, with 44% remaining about the same.

Given the economic environment, and indicators suggesting businesses are holding steady as they see out the broader economic challenges, it's likely businesses aren't investing significant effort and resources to grow.

Medium sized businesses (20-199 employees) have seen the biggest boost in profitability, with 51% experiencing an uplift in the last three months. This is in comparison to 27% of businesses with 5-19 employees and 25% of sole traders. Only 18% of those with 1-4 employees saw an increase in profits, and 39% of this cohort saw a decrease.

Examining responses by age group, Gen Y business owners (aged 28-42) have seen the highest increase in productivity, at 35%, compared to 32% of Gen Z (18-27), 23% of Gen X (43-58) and 19% of Baby Boomers (59-77).

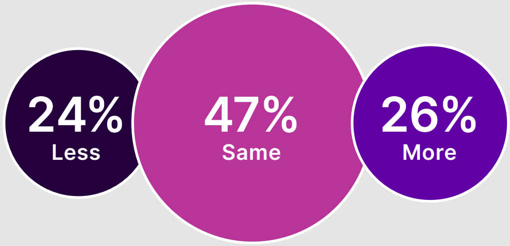
How has the profitability of your business changed over the last 3 months?



Looking ahead, SMEs are feeling more hopeful about their profitability in the coming three months, with just under a quarter (24%) expecting a decrease in profitability, compared to the 31% who experienced a decrease in the previous three months.

Younger businesses are more hopeful of an uplift, with 42% of startup respondents (operating under two years) and 40% of businesses aged 2-5 years expecting to see higher profitability in the coming three months. Only a quarter (25%) of businesses aged 5-10 years expect to see their profitability increase. Of those who have been operating for 10+ years, only 18% expect to see an increase, and 29% anticipate decline.

How do you expect profitability to change in the next 3 months?



Business pressure points

Across the board, the percentages around impacts causing ‘extreme’ or ‘quite a lot’ of pressure are lower than in December, suggesting businesses are adjusting to cost of living increases.

Cost of utilities (36%), fuel prices (34%) and interest rates (32%) remain the top three pressures facing SME respondents; the same three from December. Pressure caused by the COVID-19 pandemic has dropped right down from 33% six months ago to 13%.

Micro businesses with 1-4 employees are most likely to feel the pinch from interest rates, at 42%, compared to sole traders (26%), medium sized businesses with 20-199 employees (32%) and small businesses with a team of 5-19 (34%).

Just 10% of respondents from Queensland rate late payments as a cause of pressure, compared to Victoria (28%), Western Australia (26%), New South Wales (21%) and South Australia (18%).

Causes of ‘extreme’ or ‘quite a lot’ of pressure

	June 2023	December 2022	June 2022
Cost of utilities such as electricity, gas, water, telephone	36%	41%	35%
Fuel prices	34%	47%	48%
Interest rates	32%	36%	27%
Price margins & profitability	26%	35%	29%
Cashflow	22%	34%	31%
Attracting new customers	21%	31%	28%
Late payments from customers	21%	30%	28%
Competitive activity	19%	29%	26%
Tax compliance obligations	19%	28%	26%
Cost of online technologies	19%	28%	25%
Retaining existing customers	16%	27%	27%
Access to finance	15%	26%	21%
Exchange rates	14%	25%	20%
COVID-19 pandemic	13%	33%	35%
Attracting new employees	13%	24%	NA
Updating hardware/ equipment	13%	24%	22%
Updating IT systems	12%	22%	19%
Retaining existing employees	11%	23%	NA

Pictured - David Barkho - A&S Welding, Sydney, NSW

Business investment

As was the case in the December report, SMEs earmarked their biggest area of investment as price increases, with 28% of respondents saying they'll put them up in the coming year.

Marketing and advertising are again the areas SMEs are least likely to invest in, 17% will decrease spend in this area. Fifteen per cent will look to cut their prices, potentially to remain competitive in a tight market.

Overall, when it comes to business investment, the findings indicate SMEs have focused on areas they can decrease their financial commitment. These SMEs may have already made necessary changes to their operations, and are now looking to hold steady to see out the coming year.

Nine per cent of respondents are looking to increase their investment in full time employees, and 12% will increase their investment in part time/casual employees, compared to 22% for both in December. Twenty-two per cent of SMEs expect the amount they pay their employees to increase, a few points down from the 30% we saw six months ago. This slowing of employment and remuneration also illustrates SMEs are not looking to invest in growth during this period.

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%	53%	15%
The amount you pay the employees in your business	22%	64%	7%
The sale of products/services online	18%	64%	9%
Customer acquisition strategies	17%	66%	6%
Customer retention strategies	16%	72%	6%
The sales of products/services offline	16%	66%	11%
The number or variety of products or services offered by your business	15%	73%	7%
Investment in IT systems & processes	15%	67%	12%
The $ value of spending on marketing and advertising your business on the internet/online	15%	63%	17%
Working with business advisers (e.g. Accountant) to enhance your business	14%	69%	11%
The $ value of spending on marketing and advertising your business offline (e.g. radio, newspapers, leaflets, catalogues, mail, posters)	14%	62%	16%
The number of part-time/casual employees in your business	12%	73%	9%
Business financing	10%	71%	12%
The number of full-time employees in your business	9%	81%	6%

Digital adoption

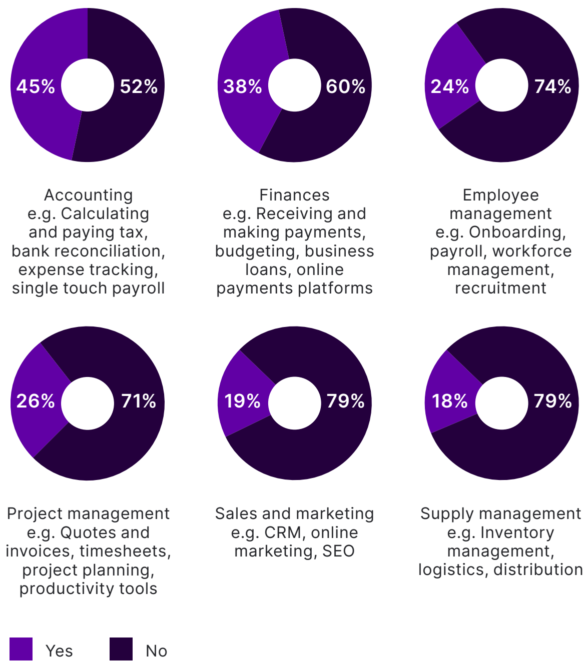
Respondents from the latest research show surprisingly low levels of digital tool usage, suggesting there is still room for growth in digital uptake.

Of those who do utilise digital tools, accounting and financial tools continue to be the most adopted by SMEs, with less digital enhancement applied to other critical business workflows.

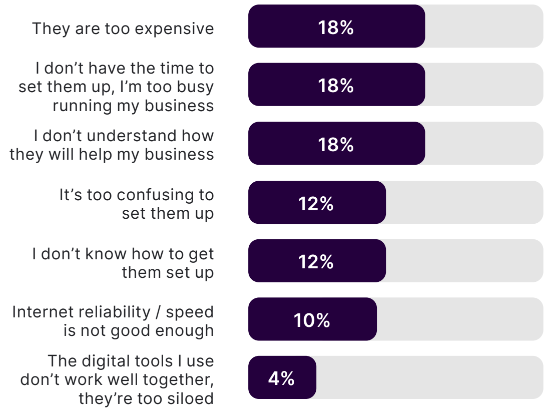
Cost and time remain the top barriers to using more digital tools, along with confusion around how digital applications can help and how to set them up.

The findings suggest that while digital tools save business owners time and money, they need to be accessible and easy to use and, most of all, business owners need greater awareness of the benefits they will bring to the business.

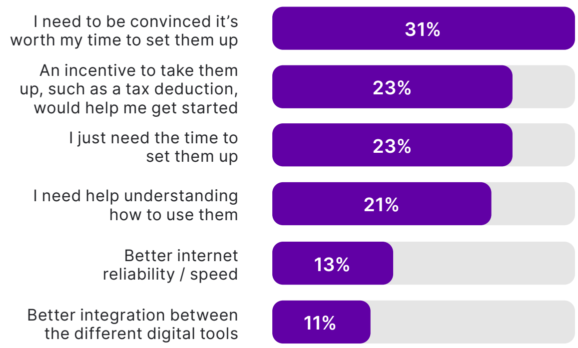
Do you use digital cloud-based software in this business for any of the following?

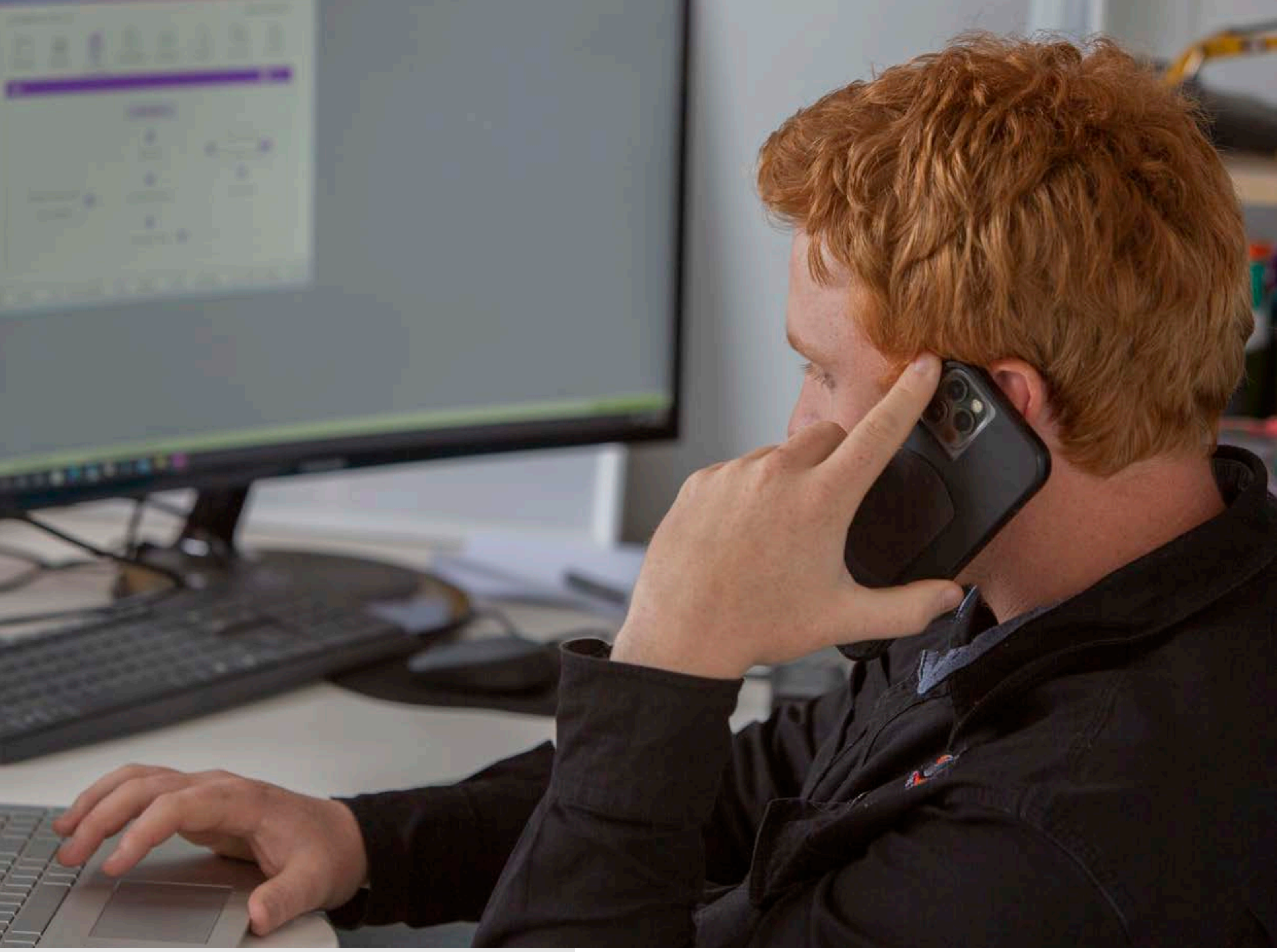


What are the main barriers to your business using more digital tools?



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





Online presence

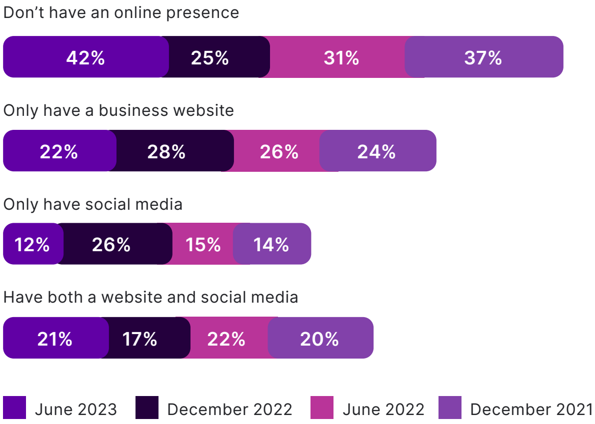
Forty-two per cent of SME respondents advised they do not have an online presence, a similarly high percentage as noted in the previous section on digital adoption.

Fifty-four per cent of Gen Y (aged 28-42) have a website and 44% have social media, compared to Baby Boomers (59-77), 33% of whom have a website and 22% social media.

The top benefits outlined by respondents as afforded by a business website are generating more customer leads (37%), followed by enabling a more professional brand image (35%) and making it easier for customers to do business (33%).

For social media, 42% said it allowed more interaction with customers, highlighting the power of social media for SMEs to gain direct access to their audience, and to facilitate two-way communication to benefit their business.

Which best describes your business' online presence?



Spotlight:

Empowering SMEs to take positive risk for productivity gains

Measured risks are vital for the growth and expansion of SMEs, bringing greater opportunities and financial returns. Without it, small businesses can fall behind their competitors and miss out on innovation gains.

When looking at the risk profile of SMEs in the latest MYOB Business Monitor research, some trends are apparent.

Overall, responses from SMEs are equal in terms of positivity and concern. Thirty per cent say the current financial position of their business is 'very good' or 'excellent', compared to 26% who rate it as 'poor' or 'fair'.

Across the board, startups that have been in operation for less than two years show increased signs of resilience compared to older businesses. Startups launched in a post-COVID environment are built to withstand shock, having already navigated their business through difficulties that many seasoned business owners only recently experienced. They're also keenly aware of running a lean business and, in times of economic restraint, likely to have started with less overheads, fewer team members, and, as such, may have a greater appetite for risk.

Forty per cent of respondents have been impacted by interest rate rises. The most common outcomes to combat the rising cost of doing business are making less/no profit (38%), passing on cost increases to customers (30%), and dipping into savings (26%).

Overall, the research suggests that while the small business sector may not be booming, it's maintaining a level of sustainability.

Taking appropriate and measured risks that can grow productivity is the next challenge for the nation's SMEs.

Productivity

Cost is consistently listed as a barrier to businesses investing in digital tools, which will help boost productivity, with almost one in five (18%) survey respondents saying digitisation is too expensive.

Forty-five per cent of SME respondents don't track productivity, making it difficult to ascertain how performance can be improved. For those that do, the most common way of tracking is by setting clear objectives (22%) and calculating revenue per employee (18%).

Respondents want to see improvement - and government investment - in skills and training programs and tertiary education to make employees more productive and effective in general. The findings suggest that while SMEs are cautious about their current position and the economic environment, additional investment to help them to improve and upskill themselves and their teams would assist with productivity.

In economics, productivity refers to how much output can be produced within a given set of inputs. Thinking about your business, please give an answer between 1 (low) and 10 (high) for each of the following:

To what extent are your employees engaged in their jobs	7.4
At what level of productivity do you believe your business currently operates compared to its potential, (for example if you could remove all double handing and improve inefficiencies)	7.3
To what extent are your overall business outputs impacted by external factors (e.g. political events, world events, etc.)	6.2
To what extent does employee turnover impact business productivity	4.9

Which would be the most beneficial to make employees more productive and effective in general?

Improving skills and training programs available	37%
Free tertiary education for in demand professions	28%
Government grants to help improve employees' skills and training	26%
Government grants to help businesses improve access to and use of technology	25%
Better access to childcare	22%
Increased opportunities to encourage women to get back into the workforce after having children	21%
Easing of work visa requirements to allow more skilled workers to come to Australia	20%
Better access to healthcare	19%
Easing of the Fair Work legislation	15%

Key takeouts

Increased resilience after years of uncertainty

For more than three years SMEs have contended with previously unheard-of challenges, and they have shown marked resilience at navigating through these times. Despite concerns about the current and future economic climate, many are maintaining a level of productivity and efficiency that will see them through, even with almost half fearing a recession is around the corner.

Challenging climate leads to SMEs playing it safe

So far, 2023 has delivered further difficulties with rising interest rates and costs for business owners. This has led to many cutting back on the necessary spending that will grow their business, such as investing in technology. Much of the research shows the sector to be mostly unchanged in the last six months, as business owners ride out the current wave of insecurity.

Considered risk will be key to sector security

It's natural for small businesses owners to concerned about the economic climate and respond by pulling back on spending. However, making smart investments to boost productivity and efficiency is what will help grow the sector, and the Australian economy overall.

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 1,029 business owners, managers and directors (operators), conducted from March 28th to April 24th, 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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