

Westpac Small Business Report.

Helping the people
behind small business.

In collaboration with **Deloitte**.

Help when
it matters



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About Westpac.

Westpac is Australia's first bank, and Australia's oldest company. For over 200 years Westpac has been supporting all Australians. We provide a broad range of banking and financial services, including consumer, business and institutional banking and wealth management services. Our Business Bank division is responsible for sales and service to micro, small-to-medium enterprises and commercial business customers in Australia. The division also provides specialist services for cash flow finance, trade finance, automotive and equipment finance, property finance, treasury and auto finance loans.

About Deloitte.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges.

Deloitte's approximately 244,000 professionals are committed to becoming the standard of excellence.

Foreword.

Westpac has been standing alongside small businesses for over 200 years. Whether you're starting a new business, hiring your first employee, managing your cash flow or taking the next step in growing your business, we're here to help in those moments that matter.

The Westpac Small Business Report has been designed so we can better understand the needs of small businesses, as well as explain current market conditions to help you to operate with confidence.

In this third edition, we look at some of the barriers to growth – particularly challenges around employment and finance – and provide insight and tips on how they can be overcome.

The report shows there is an expectation from small business that the economy is likely to improve, but questions remain over when. This is a good time for small businesses to look for growth opportunities and consider how they can take advantage of the better days to come.

To achieve this some businesses will need to consider hiring new staff, and while this can be an exciting milestone for a growing business, it can also be daunting.

Fortunately in the digital age, there are many new ways to take on employees. The gig economy, and companies like BenchOn, offer business owners on-demand solutions that provide flexibility and easier access to occasional employees.

Access to finance is also vital in helping businesses scale, but we understand how important it is to ensure you're not compromising your financial wellbeing for the sake of your business. To help, Westpac has \$30 billion ready to lend to small businesses for the right investments.

Westpac is also expanding its unsecured lending offer from the beginning of 2020, to help more small businesses access funds to manage growth and cash flow when they need it most. This will be achieved with the use of real-time transaction data and advanced analytics to make fast, online credit decisions.

With wage growth flat for permanent employees, it is clear from this report that small businesses are driving the gig worker trend – be it as employers or employees – which presents an exciting opportunity for you, offering flexibility and access to additional income avenues.

It is small businesses like yours that are going to help propel the Australian economy forward, so thank you for being there for us.

Regards,



Ganesh Chandrasekhar
General Manager, SME Banking



Please send any feedback or suggestions on this report by emailing us at westpacbusinessbanking@westpac.com.au

About the research.

A snapshot of small business.

This report is the third in a series focusing on small businesses in Australia. It provides insight into how small businesses are performing and captures their views of the broader business environment. This report includes practical hints and tips from high performing small businesses that others may find helpful.

The research is based on a survey of 500 Australian small businesses from all industries, fielded by Dynata, as well as wider desktop research and consultations with successful small businesses conducted in May and June 2019.

The report has two focuses: an ongoing component that measures business performance and attitudes, both historically and looking forward; and a component dedicated to the people behind small businesses. This module examines the emotional and financial challenges that come with being a business owner.





Overall, small business conditions appear to be stabilising, after a fall in performance between December 2018 and March 2019. Furthermore, the small business outlook is picking up, with a majority of respondents predicting growth in all categories of performance (revenue, number of customers, number of service offerings etc.) over the next 12 months.

To read the Westpac Small Business Report: Election Edition, please **download here**



Or visit: westpac.com.au/smallbusinessreport

We compared the 50 most profitable businesses¹ to all the other businesses in our survey, and found:

-  Twice as likely to have international consumers and businesses as their main customers (26% of successful businesses compared with 14% of other businesses).
-  They have better processes in place to take on new employees - 46% of successful businesses feel that their human resources processes are always up to scratch, compared to 34% of other businesses.
-  As a result, they are more likely to have 'working too hard' as their biggest fear: 32% of successful businesses say that losing work/life balance is their top fear, compared to 22% of other businesses; likewise 22% say neglecting their families is their top fear compared to 7% of other businesses.
-  And they are less likely to forego paying their own super in cash flow shortages (30% of successful business owners say they have done this, compared to 35% of other business owners).



The information in this report is intended to be general in nature and should not be relied upon for personal financial use.

¹ We define 'successful businesses' as the businesses in the sample that have the highest profit rates. However, we excluded businesses with annual revenue less than \$100,000 as they can have very high profit given the low base.

Key findings.

The biggest fear for most small business owners is having no financial security.

 **72%**

of small business owners who hire staff worry about the financial responsibility.

 **2/3**

of small business owners would like additional help.

 **34%**

of small business owners do not regularly contribute to their personal superannuation.

The biggest barriers to hiring for small businesses are:

1. Financial.
2. Lack of flexibility.
3. Wages/penalty rates.

Small business conditions are yet to fully improve.

61% are stable or growing, compared to 62% in March and 85% in December.



Small business revenue is growing. Top performing industries:

1. Admin and support services.
2. Manufacturing.
3. Arts and recreation services.

Owning a small business is a big investment.

1/5 small business households have no income outside the business.



1/3

of small business owners have a second job.

More than half use their personal savings to start/grow the business.



2/3

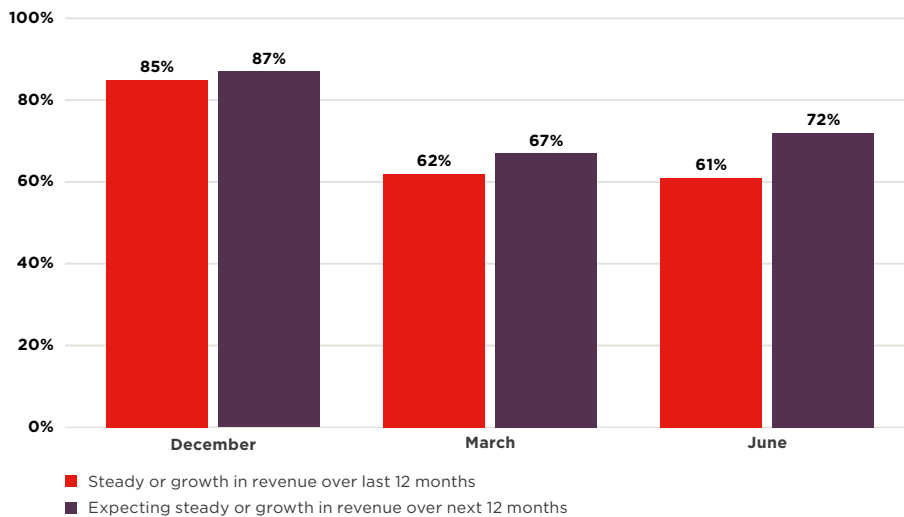
For the average small business, around two thirds of household income comes from the business.

1. Light at the end of the tunnel.

For the last six months, small businesses have had it tough. Only three in five small businesses reported they were stable or growing in March, compared to more than four in five in December.

But that's started to bottom out. Performance in June looks about the same as in March. And there's light at the end of the tunnel, with small businesses expecting conditions to improve over the next 12 months (Chart 1.1). This could be partly because the federal election is over, and businesses can better plan their actions now that the political uncertainty is reduced.

Chart 1.1: Small business quarterly growth forecast.



Source: Deloitte based on Dynata data

By the numbers: small business revenue growth does vary by industry.

↑ **Top performing industries:**

- Admin and support services.
- Manufacturing.
- Arts and recreation services.

↓ **Lowest performing industries:**

- Accommodation services.
- Rental, hiring and real estate services.
- Retail trade.

So what's next for small business? For many, it depends on economic conditions. Around 35% of those surveyed expect that interest rates and economic growth will drive their performance.

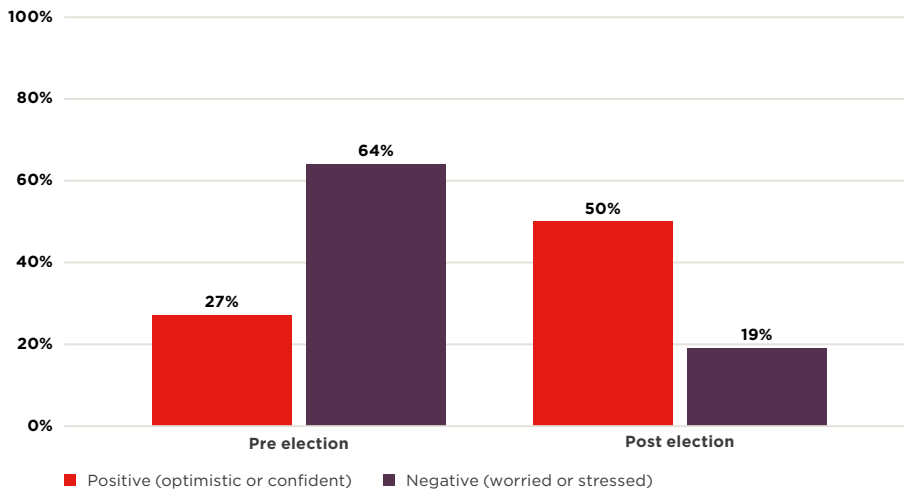
There are some promising indicators on this front. The RBA has cut the cash rate twice in this quarter, which is good news for businesses looking to borrow. We have tentative signs that the Sydney and Melbourne housing markets are stabilising, and big spending on infrastructure brings opportunities.² But it's not all rosy. Conditions in the wider economy remain weak. With low wage growth, there's less money to spend.

Regardless, small businesses are optimistic about the future.

Three in four businesses expect their income and the number of goods and services they offer to grow or be sustained over the next 12 months, relative to 67% and 69% who shared these opinions in March respectively.

This might be in part a result of the political dust settling. In March, only one in five small businesses felt optimistic prior to the federal election and two in five reported they were delaying decision making until after the big day. However, following the election, 50% feel optimistic (Chart 1.2).

Chart 1.2: Small business attitudes pre and post federal election.



Source: Deloitte and Dynata data

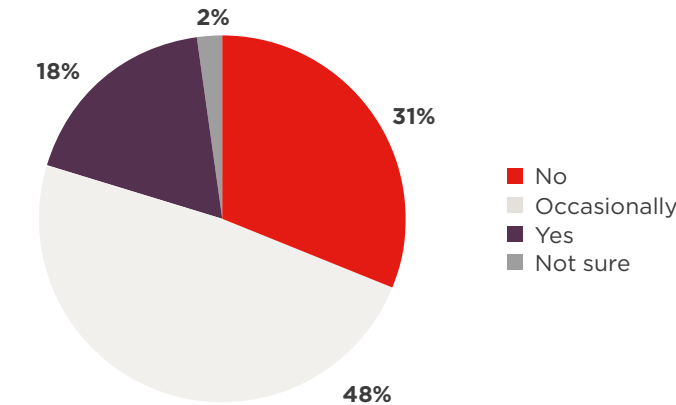
² Treasury (2019), Budget 2019-20, available at: <https://www.budget.gov.au/>.

2. Need hands, need flexibility.

Most small business owners could use a hand in their business. Two-thirds say they require additional staff, at least some of the time, as shown in Chart 2.1.

While the majority could use a hand, few are actually picking up new staff.³ In our survey, around one third of small businesses actually say that they've cut staff over the last 12 months. Whereas in the economy more broadly, job growth is strong.⁴ So what is stopping businesses from hiring?

Chart 2.1: Small businesses requiring additional staff.



N=543
Source: Deloitte based on Dynata data

One of the biggest barriers to employment is the lack of flexibility. The need for staff can vary depending on the season, the business cycle, or even weekly changes in the length of the business owner's 'to-do' list. As shown in Chart 2.1, small businesses are far more likely to say they need help 'occasionally' than all the time.

This is actually a bigger barrier to employment than penalty rates. And it bites particularly hard in the education and agricultural sectors, where 44% and 40% suggest that only needing staff occasionally prevents them from hiring permanent staff.

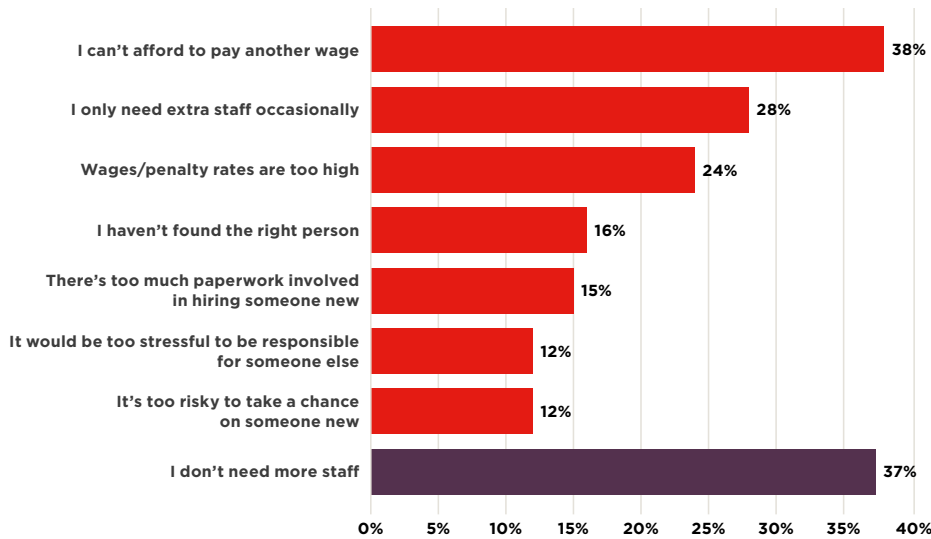
Did you know?

Around one in three small business owners in our survey have a side hustle. In some industries it's even higher, like the agricultural and arts industries, where 52% and 45% of small business owners respectively work a second job.

There are 13 million jobs in Australia. Of these, almost 1 million are 'secondary' - side hustles which are not people's main employment.⁵ In comparison, around 48% of owner-managers of unincorporated enterprises (e.g. sole traders, family trusts, partnerships) had more than one job in 2016.⁶

3 One in four small businesses surveyed have actually reduced the number of people they employ in the last 12 months.
 4 Reserve Bank of Australia (2019), Statistical Tables, Labour Force - H5, available at: <https://www.rba.gov.au/statistics/tables/>
 5 Australian Government (2016), Small Business Counts - Small Business in the Australian economy, https://www.asbfeo.gov.au/sites/default/files/Small_Business_Statistical_Report-Final.pdf
 6 ABS (2019), 6202.0 - Labour Force, Australia, Jan 2019, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6202.0Jan%202019?OpenDocument>

Chart 2.2: Barriers to hiring in small businesses.



N=543
Source: Deloitte based on Dynata data

The gig economy is growing quickly – up 68% in revenue terms in one year in NSW.⁷ Around 7% of Australians have done at least some kind of on-demand work through a digital platform in the last 12 months.⁸ Gig work can be a supplementary source of income for individuals or small businesses – the average hourly pay from platform work is around \$32.⁹ While not directly comparable because gig workers often have to provide their own equipment, the minimum wage for Australians is \$18.93.¹⁰

However, even for those who have done on-demand, it is rarely the only way that people get paid. Less than 3% of those who have done gig work say that it's their only source of income.¹¹

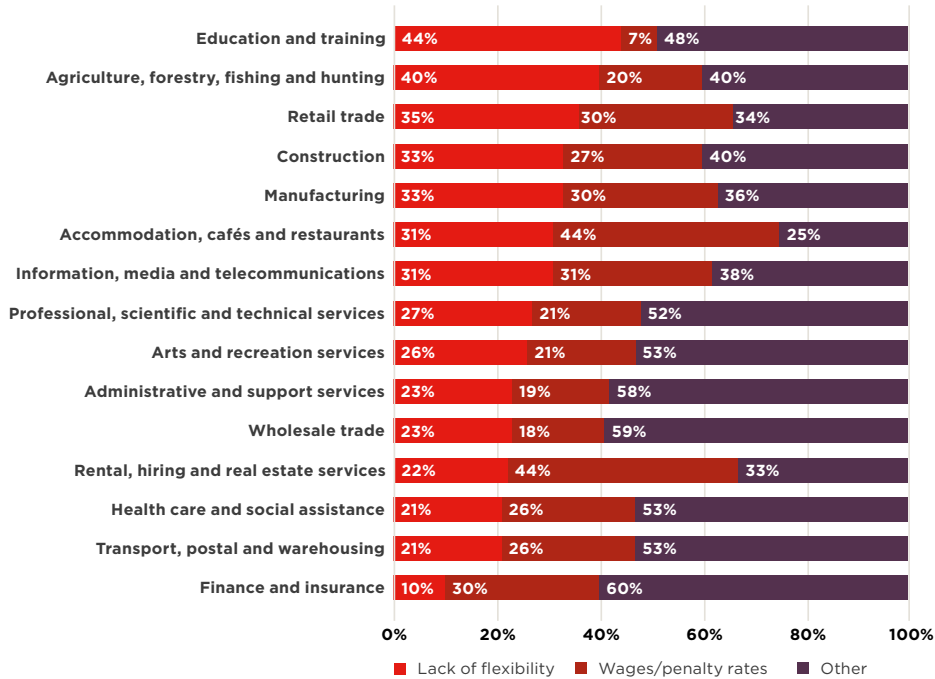
While Australia has one of the highest levels of casual employment in the OECD,¹² the proportion of Australians working casually has fallen over the last two years, and has been basically flat for decades.¹³ And mostly, casual work is limited to industries like hospitality and retail.¹⁴

What is the gig economy?

In a gig economy networks of people make a living working without any formal employment agreement.

7 Deloitte Access Economics (2017), Developments in the Collaborative Economy in NSW.
 8 Victorian Department of Premier and Cabinet (2019), Inquiry into the Victorian On-Demand Workforce, available at: <https://engage.vic.gov.au/inquiry-on-demand-workforce>
 9 Ibid.
 10 Australian Government (2019), Paying your employees, available at: <https://www.business.gov.au/people/hiring/pay-and-conditions/paying-your-employees>
 11 Victorian Department of Premier and Cabinet (2019), Inquiry into the Victorian On-Demand Workforce, available at: <https://engage.vic.gov.au/inquiry-on-demand-workforce>
 12 ABS (2019), 6291.0 - Labour Force, Australia, available at: <https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6291.0.55.003Main+Features!May%202019?OpenDocument>
 13 Deloitte (2019), The path to prosperity: Why the future of work is human.
 14 Parliament of Australia (2018), Characteristics and use of casual employees in Australia, available at: https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1718/CasualEmployeesAustralia

Chart 2.3: Top barriers to hiring, by industry.



N=543
Source: Deloitte based on Dynata data

Beyond lack of flexibility, the biggest barrier is financial – 38% of small businesses say that they don’t hire because they can’t afford to pay another wage, and 24% feel that wages and penalty rates are too high.

Help with hiring.

Taking on a new employee can be daunting and the true cost of employing someone stretches well beyond what you pay them. Key things to consider are:

- **On costs** – wages are only part of the cost associated with hiring. Other entitlements, like annual leave, sick leave and superannuation need to be considered.
- **Office space** – adding another person in the office might mean needing to upsize – will an extra desk be sufficient, or will you need a whole new workspace?
- **Equipment** – the new hire will also need equipment to do their job. The cost of additional computers, set of tools, company vehicle etc. need to be factored in.
- **Time costs** – it takes time to bring on a new employee. You’ll need to process all the onboarding paperwork for your new hire, set up payroll, and make sure you understand your HR and Fair Work obligations.

Westpac has designed an Employee Calculator to help businesses understand the full costs of taking on an employee, as well as the additional revenue they will need to generate to cover these costs.

For more details, go to westpac.com.au/employeecalculator

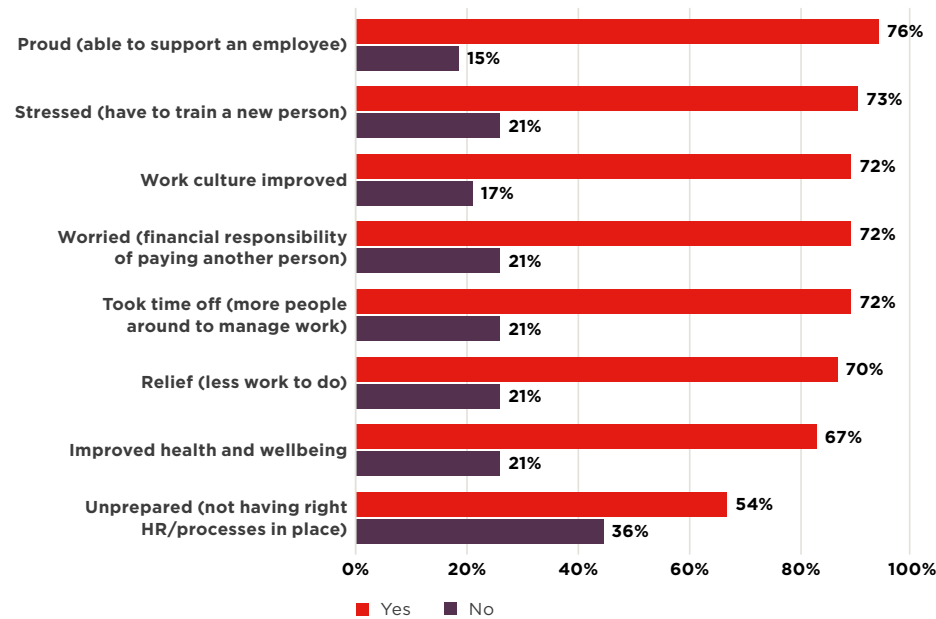
Around one in 10 small businesses say it's too stressful to hire (Chart 2.2). There's good reason for this – employing is a big responsibility. Beyond the financial, hiring can have emotional impacts, both good and bad.

Of those we surveyed, on balance, the upsides outweighed the down. Employers most commonly felt proud as a result of taking on new staff (76%). This is tempered by the additional responsibility – most feel stressed (73%) and worried (72%).

Stress and worry can be a result of a lack of preparedness. More than half of owners say they felt their human resources (HR) systems were lacking when they took on someone new.

While it has become more simple, there are still complex awards and enterprise agreements, workplace specific policies, occupational health and safety regulation, and industry specific policies to comply with – and that can be just the tip of the iceberg. Yet businesses are required to be aware of, and comply with, all of these. It can be overwhelming. Using the right technology (for example, see the [Westpac 'Employee Calculator'](#) above) or outsourcing to specialists can help to lessen the burden.

Chart 2.4: Emotional impacts of hiring.



N=543
Source: Deloitte based on Dynata data

Of course, all of this is not to say that every business wants to grow. Many small businesses are non-employing, and some don't aspire to expand.¹⁵ Over one third (37%) of small business owners say they don't need extra staff.

But even small uplifts in small business employment could have a big impact on the economy.

If every employing small business took on one additional staff-member, it would create almost 900,000 new jobs¹⁶ – a 7% increase on the number of people employed today.¹⁷

15 CAANZ (2018), The future of business: dynamic, digital and socially responsible.
 16 ABS (2019), 8165.0 - Counts of Australian Businesses, available at: <https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/8165.0>
 17 ABS (2019), 6202.0 - Labour Force, Australia, available at: <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6202.0>

Case study #1.

BenchOn.

Finding hidden talent.

BenchOn allows businesses to borrow or loan staff to other businesses in need through a business to business sharing economy platform. According to Tim Walmsley, co-founder and CEO, “there’s hidden talent out there, you just need to be able to access it”.

Walmsley’s career history showed him a gap in the market: “I started in the Defence Force, and then moved into strategy in the US aerospace industry. I saw both sides of this employee mismatch – one business might have highly qualified staff underutilised, another might be scrambling to access new staff. I saw perfectly capable and loyal staff being let go as a result of their business losing a contract. Small businesses just can’t afford to have any of their staff on the bench.”

So he decided to start a business to address the problem: BenchOn is a platform that aims to smooth out the peaks and troughs faced by businesses and industries. Tim and Katie Walmsley founded the business just three years ago, and have since accumulated over 600 client organisations, across all industries, and supports all business sizes, from start-ups to multi-national corporations.

Walmsley thinks that the ‘skills gap’ in the workforce is often nothing more than a lack of visibility. “People often blame universities for the ‘skills gap’ between the workforce and what employers want, when realistically this gap may not exist – businesses just can’t find the right staff when they need to.” The BenchOn platform boosts visibility by matching a business’s employees to other non-competing businesses based on their skillset and availability, regardless of their geographic location or industry. “It allows businesses to access hidden talent when they need it, and earn extra revenue by loaning staff when they don’t.”

Hiring staff can take time, and be difficult. BenchOn offers some relief from the administrative burden of finding suitable subcontractors, “I’ve seen some

businesses that need three months to get through the contracting process, we can get that down to one day, providing our clients with flexibility and clarity”.

It is also a useful tool internally, “On average, 30% of the workforce are underutilised, and the platform helps businesses to more easily track their workflows, and maximise their own employee utilisation before looking externally”.

And it’s still early days for BenchOn. “In January, we launched three enterprise products including a new white-label feature, which allows you to invite partners, suppliers or other respected businesses into an exclusive talent community. This allows you to borrow and loan staff in a trusted environment, improve engagement with your brand and provide a potent value add to your network. And we’re only just getting started.”

Walmsley’s tips for other small businesses:

- 1. Work will never be finished** – “There will always be more to do, so teach yourself that things can wait and take time for yourself.”
- 2. Achieving work/life balance requires effort** – “I have an accountability coach to keep my work-life balance on track. I also block out time in my calendar for my family to ensure work does not bleed into home life.”
- 3. Don’t compare yourself to others** – “Don’t assume others are more successful than you based on what you can see from the outside. Other businesses are probably struggling just as much as you are – everyone is faking it until they make it!”

Case study #2.

OwnBody.

With Fiona White.

Own Body Physiotherapy provides mobile physiotherapy to patients in the comfort of their own home. Ten years ago, Fiona White, Founder of Own Body, noticed a gap in the market, “We needed better in-home care that is more personable, affordable and reliable.” She calls herself an “accidental entrepreneur”, founding Own Body after trying to fill this gap in her spare time.

Today, Own Body is operating in metropolitan Melbourne, Brisbane, Adelaide, has recently launched in Launceston, and is soon to launch in Newcastle. For White, the key to successful expansion is people, “If you have the right people, everything else is easier. We could definitely be expanding much more quickly, but we are sticking very strongly to our core values and taking the time to make sure we have the right people. Potential team members have to be passionate about the work, be experienced, and be the type of person who goes the extra mile for their patients.”

Own Body is completely mobile – there is no office, everyone works remotely. According to White, “The business has always revolved around flexibility – both for our clients, and for our team. Our staff get to work close to home, which allows them to spend more time with their families. And for patients, having their therapists visit them means they can access health services more easily.”

But while working remotely does have its benefits, there can also be challenges. White believes that working from home is a skill which takes time to develop.

“I believe that there is not enough guidance and training around how best to work from home, so I will be delivering workshops to businesses teaching these skills.”

From a business point of view, working remotely means the team have to find innovative ways to build a work culture.

“In our business, everyone is remote, people [the staff] don’t get to see each other. So we need to create our culture remotely. Even really simple things like thanking people for good work, congratulating each other on great performance and encouraging each other to share good stories really empower our staff and help to build culture.

At the same time, we have established processes (e.g. feedback systems) that are born of our core values that help us ensure we maintain our culture even through large periods of growth.”

As a small business, White notes that working with bigger players, for instance government, can be challenging. For example, the business has recently grown large enough that White now has to pay payroll tax.

“That sudden change has had a big impact on our operations this year. The payroll tax means I can’t afford to hire another person, or give raises.” Likewise, working with large businesses can create a cash flow problem, as there is little recourse if a large business does not pay on time.

Even though there are many challenges, White believes in the power of small businesses. “You have to be passionate about what you are doing, every entrepreneur is different, and in it for different reasons. But you have to be passionate in the work, and surround yourself with the right group of people to succeed.”

White’s tips for other small businesses.

- 1. Think about using non-traditional employment for when you need flexibility.** These types of services could allow to use additional resources when you need them most, without the labour hire and administrative load of a permanent hire.
- 2. Building staff culture is critical to a well functioning business.** Consider some team building exercises to get everyone involved – even simple things like a team trivia quiz can make a big difference.
- 3. When you do decide to get someone new on the books, make sure that you have the right processes and systems in place.** There are lots of technology solutions which can help, as well as guidance from the Australian government (for example fairwork.gov.au, business.gov.au).

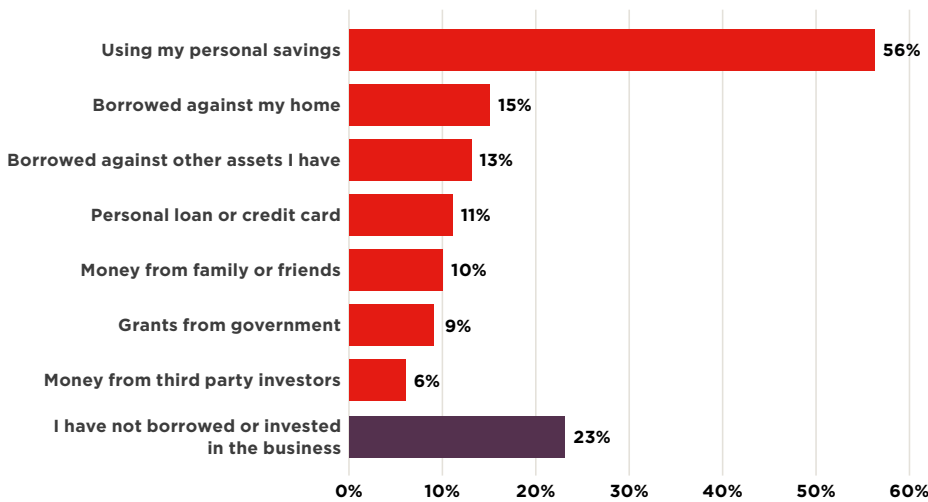
3. Betting the house?

Small business can make, or break, households financially. Often, going into small business means literally betting the house. According to our survey, of small business households:

- One in five say they have no other income.
- More than half use their personal savings to start/grow their business.
- 15% have borrowed against their home (Chart 3.1).

Having a small business is a big investment – not just for owners, but their families. This investment is both emotional and financial. Over three quarters of business owners (78%) say their self-esteem depends on their business performance, and small business households see two-thirds of their income coming from the business.

Chart 3.1: Ways in which small businesses are financed.



N=543
Source: Deloitte based on Dynata data

With so much invested, it's no wonder that a lack of financial security is the top concern for 30% of owners. Many make financial sacrifices to support their business when times are tough:

- 34% forgo their own financial wellbeing (by delaying contributions to superannuation).
- 12% compromise their household finances (by extending their mortgages).

Need access to finance fast?

Westpac is here to help more small businesses finance growth and expansion by offering:

- Unsecured business overdrafts which can give you access of up to \$50k in additional funds to smooth out cash flow
- Availability of \$30bn in conditionally approved limits
- Secured business overdrafts to help cover wages, invoices and other expenses during cash flow shortfalls
- High approval rates – 93% of lending requests received over the last 12 months have been approved; however, two in three small businesses don't request funding

Westpac is also expanding its unsecured lending offer from the beginning of 2020, to help more small businesses access funds to manage growth and cash flow when they need it most. Through a fast and easy digital experience, businesses will be able to quickly access finance without offering any collateral or assets as security over a short-term or fixed period of time.

Where to get help.

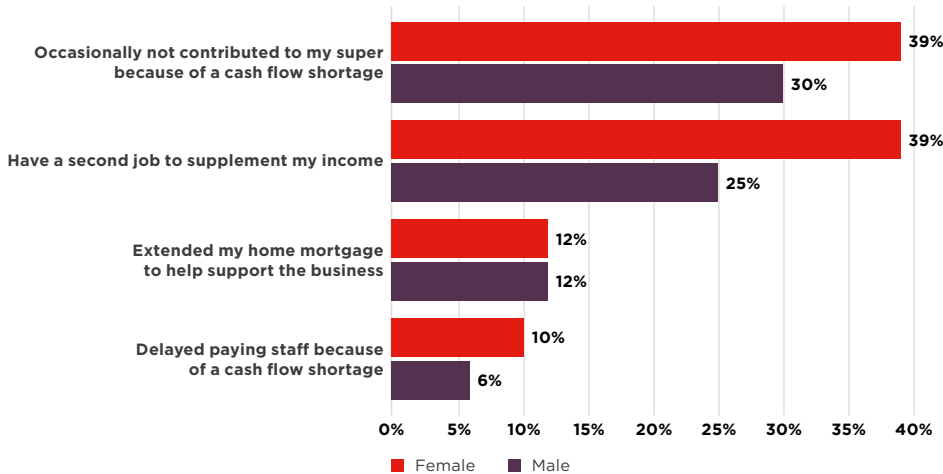
Westpac has created a 'Help for your business' hub, designed to assist business owners with the day-to-day decisions they have to make. The hub contains practical tools and resources that provide information on starting, growing and maintaining a small business. The hub can be accessed at: westpac.com.au/businesshub

Government support.

Likewise, the Australian Government has a number of services available to assist small businesses. For instance, business.gov.au is an online resource that provides information on everything from registering a business, to managing risk and understanding the rules around supporting employees.

Female small business owners are more likely to report making sacrifices than men in almost all categories. Of particular concern is superannuation. The average Australian woman retires with less than half (42%) the superannuation of the average man.¹⁸ And while this proportion improves marginally for business owners, women are still more likely to skip super contributions (39% for women, compared to 30% for men).

Chart 3.2: Business owner financial actions, by gender.



N=543
Source: Deloitte based on Dynata data

There are also variations across industries. Small businesses in the information, media and telecommunications (46%) and health (45%) industries are more likely to skip superannuation contributions. Transport business owners are more likely to extend their mortgages (26%) than education businesses (7%).

¹⁸ ASFA (2017), Superannuation balances by age and gender, available at: https://www.superannuation.asn.au/ArticleDocuments/359/1710_Superannuation_account_balances_by_age_and_gender.pdf.aspx?Embed=Y

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