

State of SME Funding

Snapshot on funding for the Australian Small to Medium Enterprise community

1 March 2015

Mike Boorn Plener

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Published by Business Connector Publishing
A division of Business Connector Pty Ltd
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Summary

- **Dramatic uplift in forecast business performance confidence**, where 45% of business owners expect 50%+ growth after funding (compared to just 10% of owners without funding)
- Over 2/3 of respondents are in revenue and **many companies seeking funding are substantial SMEs** (\$5M+ annual revenue)
- **Grants** are by far the **most common** source of funding sought
- At first it may seem true (as other recent research have found) that companies are not raising enough—2/3 are seeking less than \$250K.
- **However** 54% of **companies raising capital** are looking to raise \$500K or more which seems very appropriate as most respondents in this category are pre-revenue or less than \$500K of annual revenue.
- It would seem therefore that the myth that most companies are **not raising enough funds is on the way to be busted!**
- A disturbing 50% are approaching funding **without a business plan** in hand only 1/3 have a proper cash flow forecast
- A whopping 61% of businesses sit on mostly **undeveloped export potential** (compared to less than 10% of all Australian businesses being exporters.)

Enjoy reading, and feel free to provide feedback to me at mikebp@businessconnector.com.au

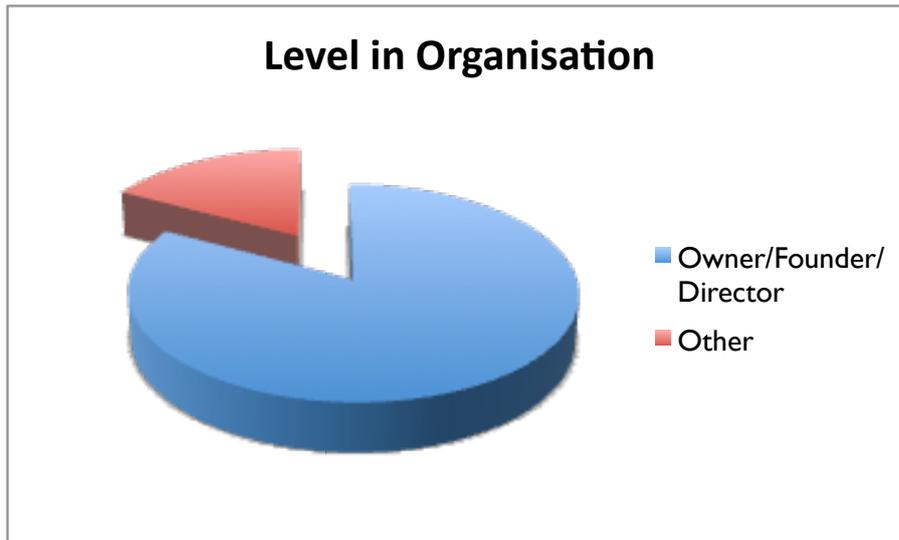
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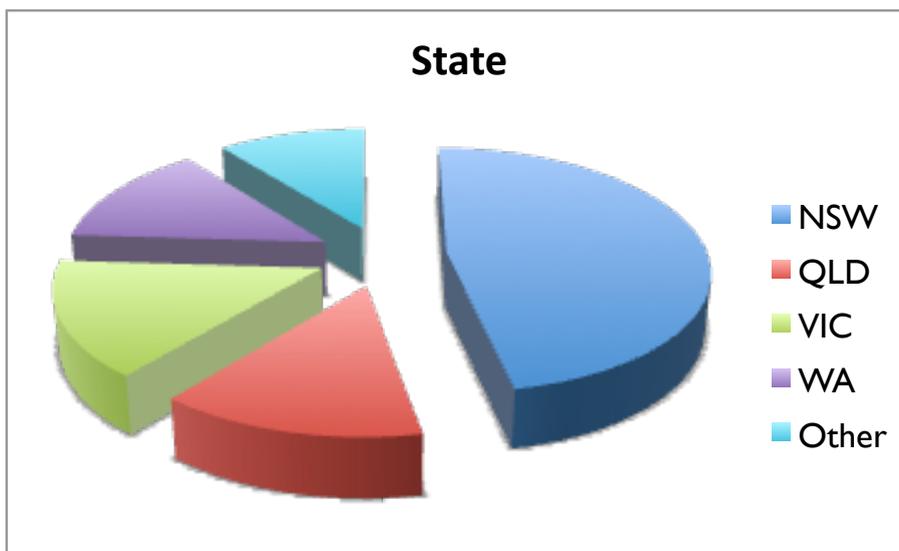
Introduction

This report is based on data collated during September & October 2014, supplemented with data collected during January and February 2015. It's a significant and highly qualified sample of what is going on right now within the SME sector in Australia.

The collection of data has been via random self-selection through ads, electronic direct mail and social media, giving a wide spread of responses, but at all times targeting entrepreneurs and business owners only.



The survey includes 401 respondents, and, once the incomplete or invalid responses had been sorted out, includes 179 genuine and fully completed responses. The questionnaire is substantial with a total of 19 questions which means not everybody commencing the survey will complete it.



The results in the survey are analysed from a perspective of both business owners and policy makers, capital providers as well as other industry participants.

A fresh GROWTH spurt ahead in the sector

Most surprisingly 76% (!) identified as pre-revenue or with less than \$50K of monthly revenue (\$600K pa)

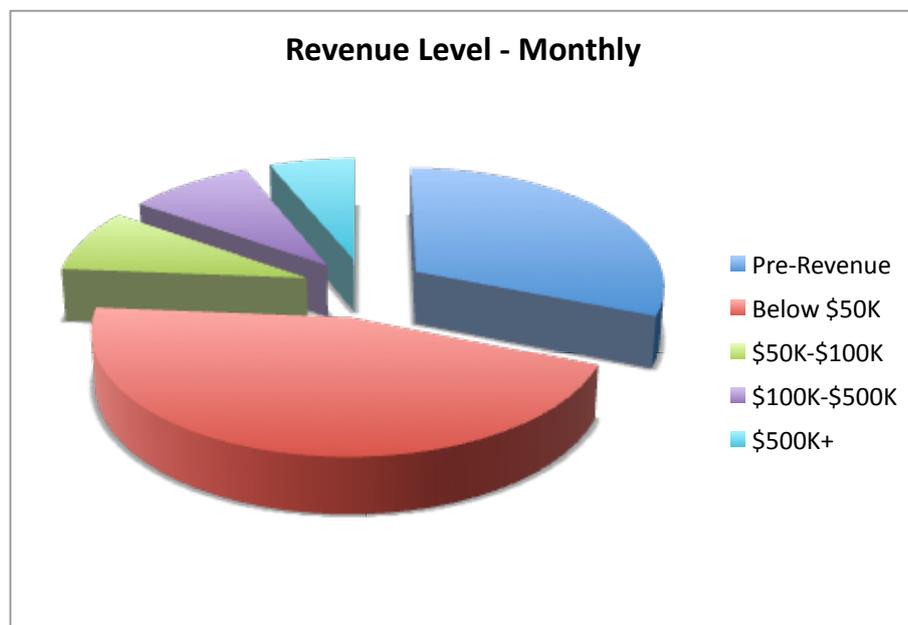
This is a remarkable change since we conducted the survey last (about 12 months earlier). At that time 60% of the respondents identified themselves as established or mature businesses, while only a smaller proportion identified themselves as early-stage businesses.

Some of this can be attributed to slight changes in how this was sampled this time vs last, attracting earlier stage businesses, however that would not account for such a massive shift.

There can only be one meaningful conclusion: There is a much broader field of younger businesses seeking funding, and therefore we're on trend to reverse the decline across the sector we have witnessed the last few years.

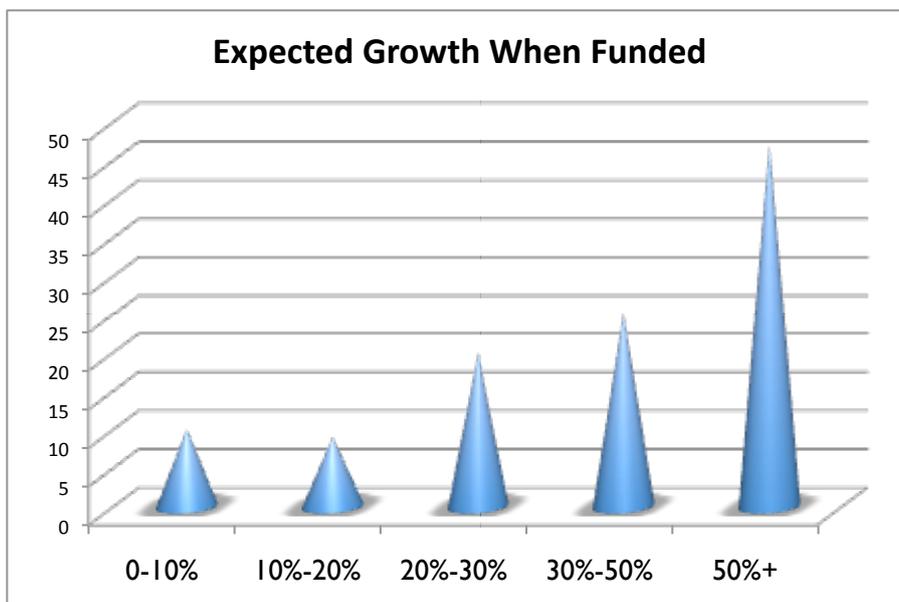
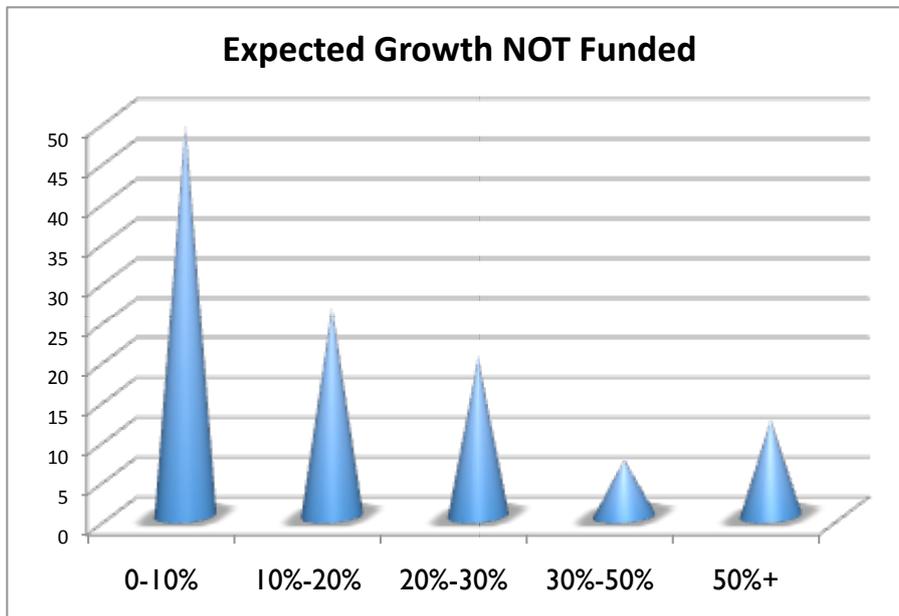
This has to be great news for the economy.

As a business owner you can of course read this in different ways, depending on which stage of growth you are currently in. Say for example you're in an early stage or yet-to-start enterprise, you can learn here what challenges the larger businesses face so that you can avoid those in the future.



The difference funding can make

It's no surprise that business owners forecast better performance when funded. After all an increased level of performance is often used as a core argument when seeking funding. However the jump is remarkable and far exceeds expectations.



In simple terms...

- 70% of owners expect year-on-year growth below 20% unfunded
- 80% of owners expect growth to shift to be above 20% when funded.

When expanded to the impact on the wider marketplace... at 20%+ growth a business doubles in size in just 4 years.

We know from research concluded at the end of 2012 by The Department of Industry, Innovation, Science, Research and Tertiary Education (* [Australian Small Business - Key](#)

[Statistics and Analysis](#)) that between 15% (micro SMEs) to 37% (substantial SMEs) seek funding for their business.

Applying just the lower number (15%) across the value of the sector (\$500B), the fundable part of the sector is worth \$75B

Doubling that \$75B in the next four years would in and of itself add 30% on top of the forecast economic growth of 3% pa set by most forecasters.

The question is of course whether there is the political will to create an economic climate for the banks, investors and business owners to collectively take this risk.

Why an event?

You may already begin to see a trend through this report. There are a myriad of options. There is funding available from startups to large corporates, in almost every industry imaginable.

But the question of "what's right for me" can really only be answered by checking out the most relevant available options. As you do, you will most likely, as thousands of business owners have done just in the past twelve months, find what is the right type of funding for your kind of business or project.

However, running from one government department to another, from one bank to the next, from one investor to another, even reading all their websites with their sometimes bewildering options is not going to give you the right answer.

That's exactly why we're putting on **Funding Connector**. In **just one day** you can meet everybody you need to understand what is right for your business. From every available type of funding. And not just that; there will be a range of experts available to help you get that funding for your business.

You will understand what the offerings and options are. And you will quickly get an insight into which options are most likely to give you the result you're seeking.

[Click here now to get the full details:](http://www.businessconnector.com.au/funding/)
<http://www.businessconnector.com.au/funding/>

Enter the code "BOOK" to reveal a special ticket category not available to the public.

I look forward to meeting you at one of our events.



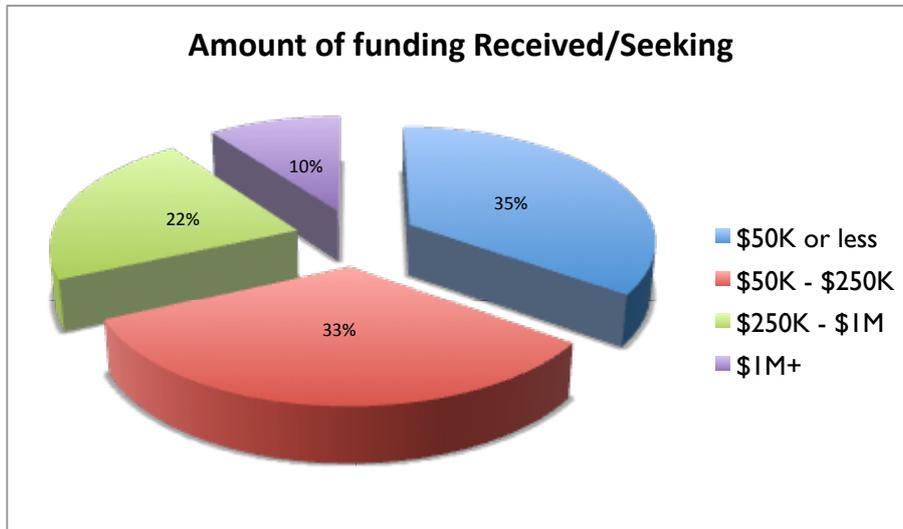
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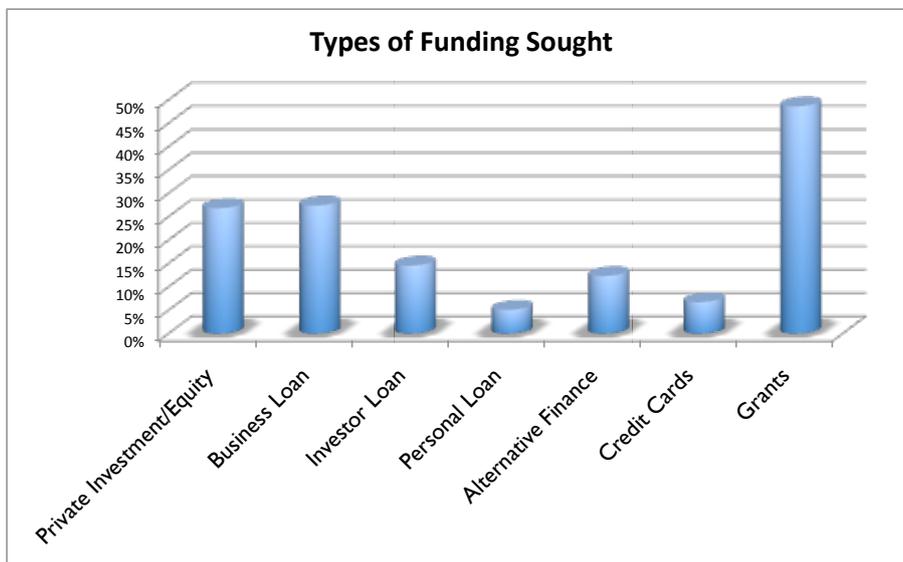
Are they asking for enough?

Recent research (fx StartUp Muster in 2015) raised concerns whether companies are raising enough money and beyond that whether they're addressing markets that are big enough.

It's important to understand that a large proportion of our respondents would self-identify as SMEs, not as "Startups", and the differences revealed here are striking:

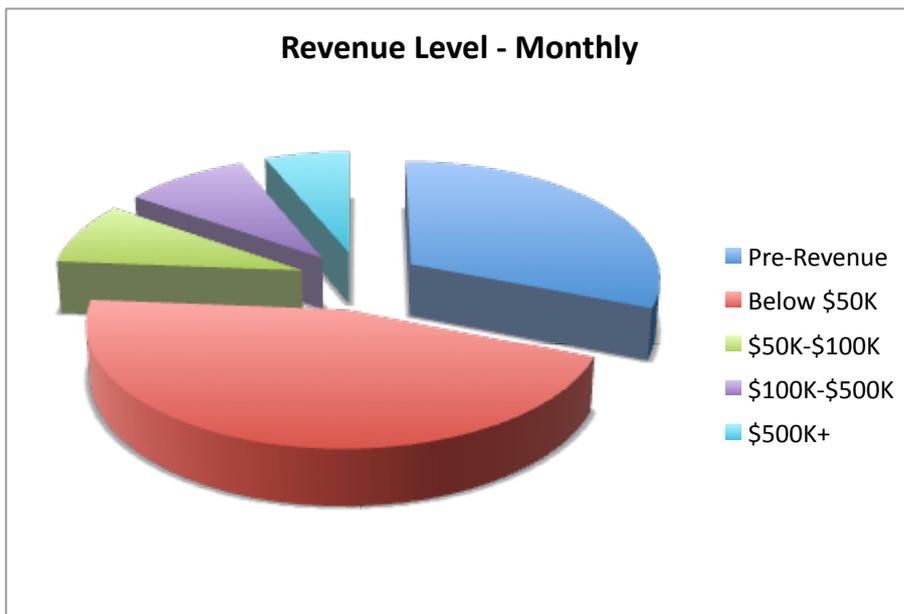


The above chart shows us that 2/3 seek less than \$250K. However, that makes sense when you consider the most common sources of funding sought.



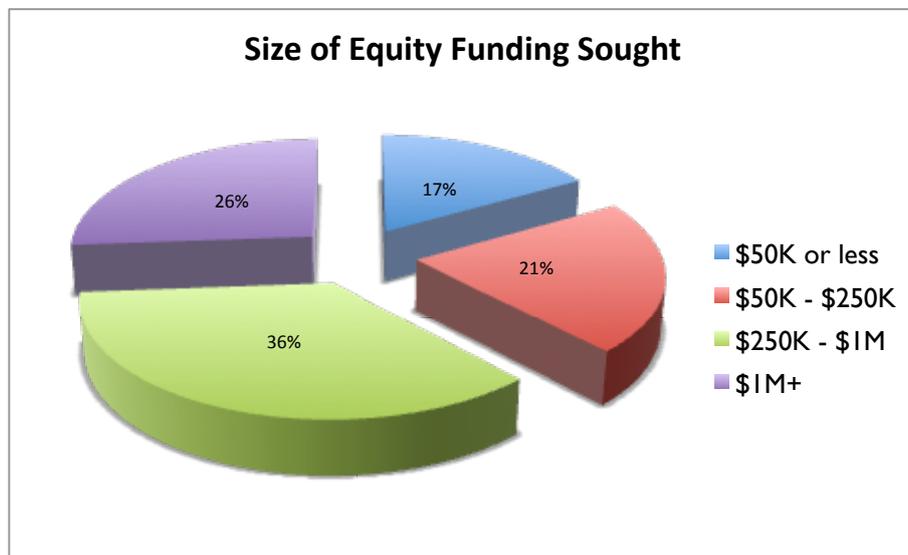
Most business owners will dip into multiple sources of funding (hence the above adding up to >100%).

So do they have revenue to support this amount of funding required? The answer, generally speaking, is yes:



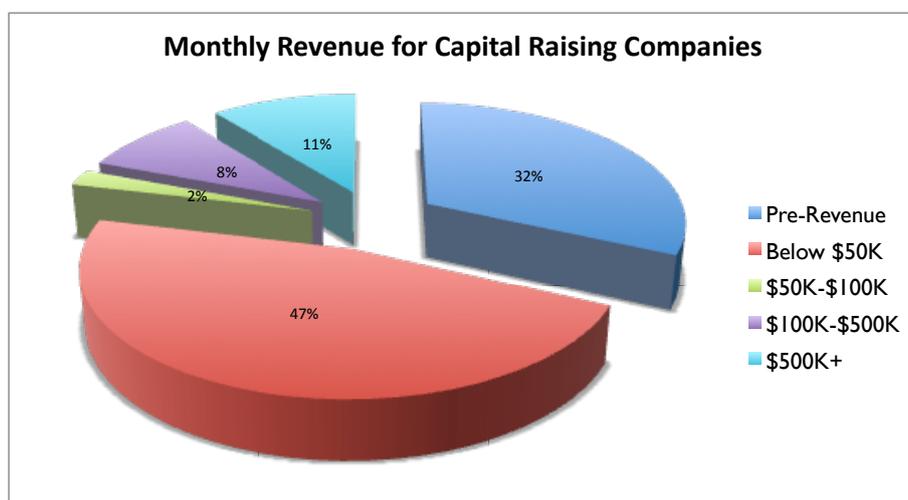
The State of SME Capital Raise

When instead we look at only those respondents seeking equity funding a VERY different picture is revealed



As you will see from the chart above there is great even spread across different capital raise brackets. Indeed 44% are set to raise \$500K or more based on our data.

So one of the most anticipated findings from a Business Connector perspective was; do these companies have the revenue to back up their raise?



While we're not going to make any guesses on valuation multiples here, the revelation is that 68% of SMEs raising equity capital have revenue to prove their business works and to back up their valuation.

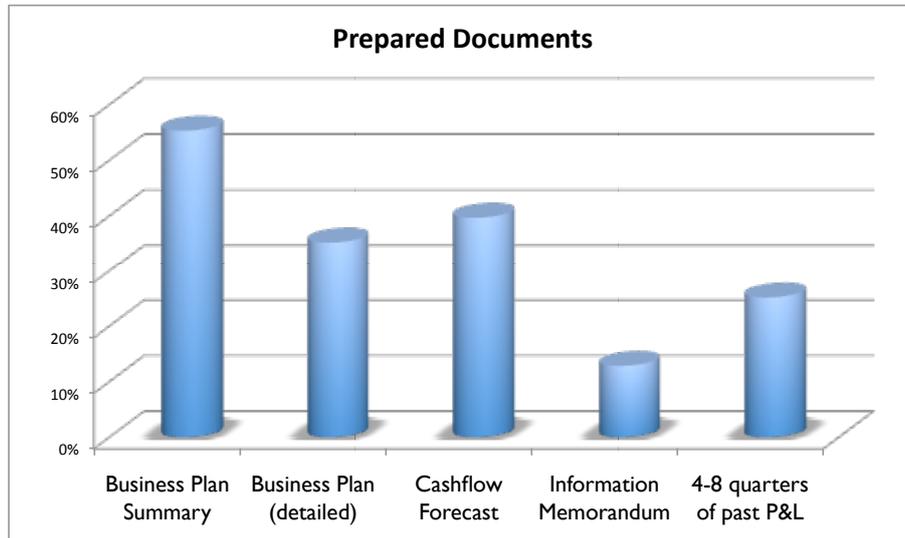
This is exciting news as we seem to have gone through a period where too many were seeking funding too early and therefore failing to attract capital.

Our prediction based on this is that we're looking at a **very exciting 2015** from a perspective of small business funding.

Are we Ready Yet?

The answer is a resounding... No!

One of the not-so-pleasant findings is that, generally, businesses seeking funding have not done their homework—yet. Arguably some of the documentation may still be in preparation when they took the quiz, however the results are disturbing:



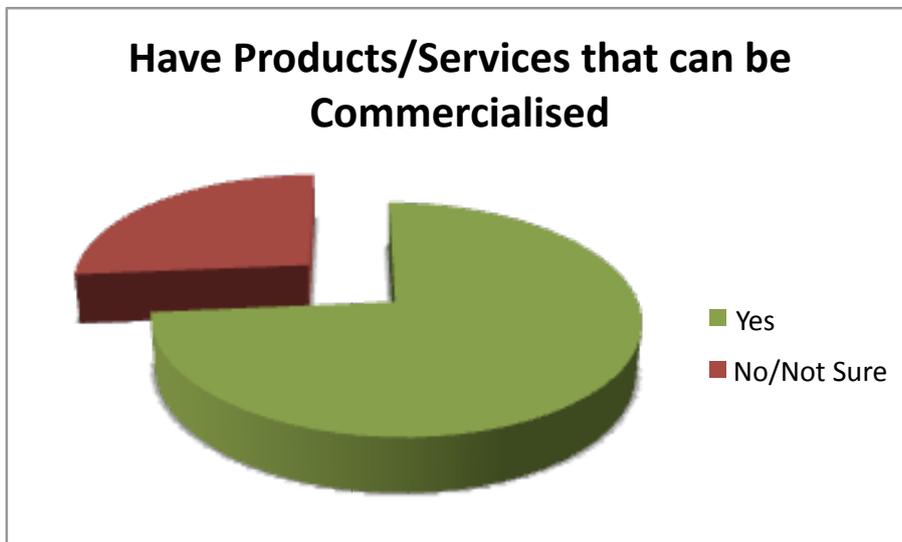
As you can see from the above, only 55% of funds-seeking respondents have a basic business plan summary, and just 40% have prepared a cash-flow forecast.

Can we innovate ourselves to further growth?

74% of respondents said they have products and services ideas that are still in the early stages and can be developed further. While this on the surface is clearly good news it poses the bigger question of how we can achieve this on a mass scale and for each of these businesses?

If 3/4 of SMEs have potential to develop, commercialise and market new products and services it raises questions about the direction of government funding, where important programs like [Entrepreneurs' Infrastructure Programme](#) are generally heavily oversubscribed.

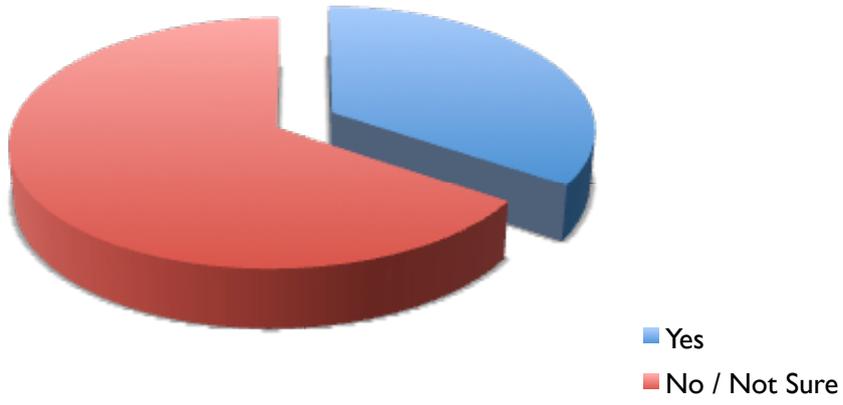
In the words of one senior case manager interviewed under the old program - *Commercialisation Australia* "Most of the good projects don't get funded, only the great projects get funded". In other words, the bar is now set exceptionally high, which means the economy loses out on development of new potential successes, and we're hedging our bets on a few great projects.



At the same time we asked whether businesses were able to quantify the value of the IP (Intellectual Property) they have. Only 1/3 answered in the affirmative.

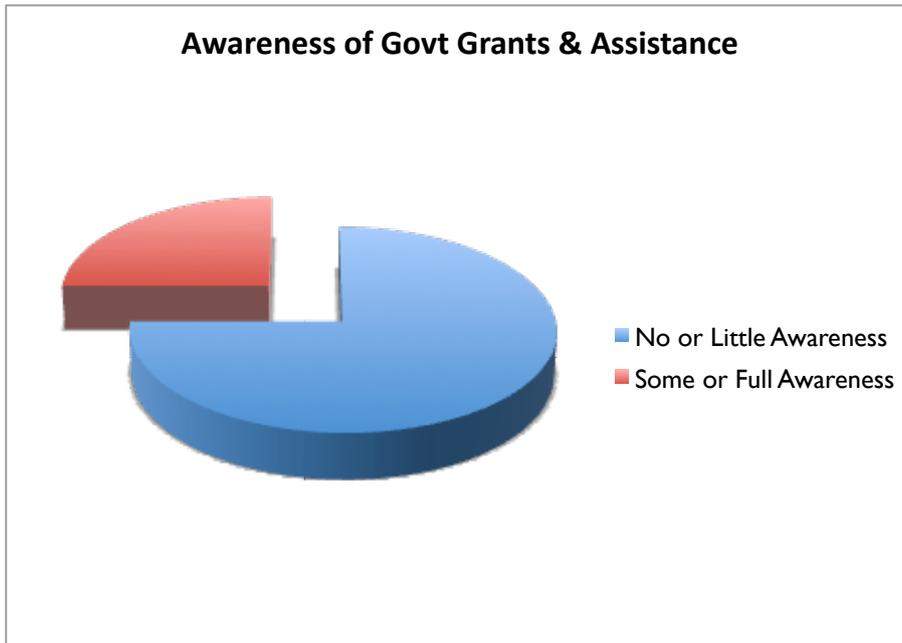
In other words 65% of the businesses surveyed have hidden values, that should show up on their balance sheets but don't. This creates a bubble of under-valuation, which is a challenge especially when applying for grant funding but also when raising capital in other ways (through banks or private equity).

Can you quantify value of IP?



Awareness of ways to help

The most disturbing finding across the body of survey data is this: 75% of the surveyed business owners do not have a reasonable degree of awareness of the 600+ grants and government assistance programs available. This is understandable as there is so much else that business owners need to be on top of.



In simple terms this means that many business owners **will indeed miss out on what they're eligible for**, thereby slowing down the growth of their business.

In our view it's important for business owners to

- Attend industry events like [Funding Connector](#)
- Attend information sessions (both federal and state level as well as city level)
- Contact consultants/advisors.

Furthermore, many grants are available only once a year. There is a period (typically 60 days) in which a grant is available and taking applications, and when that window of opportunity is missed it's 6 or 12 months before it's open again.

For a business owner this can easily create a strong sense of frustration and will make many business owners put grants in the too-hard-basket.

Taking action

As business owners I feel it is important we don't just take the data presented here and say "Oh, that was interesting". Instead it is up to each one of us to undertake massive action towards growth. This report gives some strong pointers as to what we can do right now in each of our businesses:

Build a network

- Mingle with like-minded business owners at events that are focused around capital raising, lending and grants, with a focus on export, business growth and the like.
- Attend industry events like [Funding Connector](#)
- Reach out to industry experts in government and advisory companies

Make a routine

Once a quarter, take a day out to

- Look at new technologies / products / services / packages that are newly developed and assess whether they have serious commercial potential
- Assess existing products / services for export potential
- Look at your funding requirements for the next quarter, and assess whether you could grow much more successfully (and profitably) with funding than without funding
- Check out upcoming events on funding, growth and boards to see how you can leverage these to grow a better and stronger business.

Build preparedness

There are a number of things any business owner can do to prepare the business such that it is ready to receive funding.

I have outlined these in my recently updated book "***The 7 Steps To Successfully Funded***". It's available as a free download here: http://www.businessconnector.com.au/7steps_grants/

Be ready

- Assess with a consultant or independently which funding sources are most likely to be applicable to the business
- Construct a plan to do the preparation work well ahead of when the funding is required, and for govt grants note down application deadlines and key criteria

Do it

Yes, it can be as simple as that. Commit to creating action around this to allow the business to tap into money that would otherwise be 'left on the table'.