

Media Release

Tuesday 20 September 2016

SMEs growing in confidence & predict a bright Q4

- *The Westpac Melbourne Institute SME Index sits at 95.6 for Q3 2016*
- *The Future Conditions Index rose by 18.7 percent*
- SMEs in Hospitality & Recreational Services are most optimistic about general business conditions in the next three months



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The *Westpac-Melbourne Institute SME Index* (SME Index), which aims to provide information about the economic health of Australian small and medium sized enterprises, has revealed a 15.2 percent increase in business confidence, going from 83.0 in Q2 2016 to 95.6 in Q3 2016¹.

Westpac's General Manager of SME Business Bank, Julie Rynski said, "It's pleasing to see a strong uplift in business optimism. These results are a solid recovery from a weaker level last quarter with a promising view for the lead in to Christmas."

"Our customers are telling us their top three business goals in 2017 are revenue growth, retaining customers and increasing business efficiency. Now is a pivotal time when SMEs should be critically reviewing the past 12 months and making meaningful changes for the year ahead."

This quarter saw reasonable increases in the SME Index across most states, with a rise of 21.6 percent in New South Wales (to 99.3), 15.2 percent in Victoria (to 105.8), 11.2 percent in Queensland (to 87.6) and 17.9 percent in Western Australia (to 90.4). South Australia was the only state that saw a dip in confidence with a 12.5 percent decline in its SME Index (to 74.7), a result of possible underlying factors of harder access to credit and finance (reported by a net balance of 44.4 percent) and rising government regulations (reported by a net balance of 61.8 percent).

1 The SME Index is computed as the average of two sub-indexes based on responses to questions about "general business conditions over the last 3 months" and "expectations for business conditions in 3 months' time". Indexes are computed using the net balance approach, i.e. percentage reporting 'improve' less the percentage reporting 'deteriorate' plus 100). An Index value greater (less) than 100 indicates that there were more 'improve' ('deteriorate') responses in the sample.

The survey also saw an 18.7 percent rise in the Future Conditions Index, as SMEs expressed optimism towards future business conditions, reflected by positive changes in employment (a net balance of 6.1 percent of SMEs have hired more staff in the last 12 months) and in investment (a net balance of 14.4 percent of SMEs have increased investment in the last 12 months).

SME's perceptions of current and future conditions differ significantly by sector, with SMEs in Hospitality & Recreational Services the most optimistic (138.7). SMEs in Manufacturing remain pessimistic about current conditions (Current Conditions Index reading of 77.1) but are hopeful about the next quarter (Future Conditions Index is 108.6).

Julie added, "SMEs contribute a little over half of private sector economic activity and are the fastest growing segment in Australian business. They are the heart of our economy and most importantly, have the scale to help fill the gap created by the reducing business activity of traditional sectors."

SMEs remained concerned about Current Conditions (at 78.2) due to weak activity and declining profits. A net balance of 5.2 percent of SMEs saw a decline in real business activity over the last 12 months and a net balance of 17.2 percent reported a decline in profits over the same period.

Westpac Senior Economist, Matthew Hassan said there were a number of contributors to the current results.

"Some of the positive forward view may reflect the lead-in to the Christmas period, a particularly important high season for many retailers and SMEs in the hospitality sector. Expectations have no doubt been buoyed by recent interest rate cuts as well. The survey detail still suggests current conditions are uneven, while growth is continuing; incomes remain a weak spot for the Australian economy that is clearly pressuring SMEs' profitability. Perhaps the most promising aspect of the survey is the solid rise in employment reported over the last year. It suggests the positive forward view is not just a hope but something small businesses are actively planning for," said Matthew.

When asked about the role of mentors, surprisingly the survey revealed that over 80 percent of Australian SMEs do not have a business mentor and of those that did, the Health & Aged Care Services industry ranked the highest at 40.6 percent.

Julie concluded, "When speaking with customers we've found the top qualities sought after in a mentor are financial advice and expertise followed by strong business acumen. SMEs know what they are after in a mentor; the challenge is often finding them.

"Knowing this, we've set out to help Australian businesses looking to take their business to the next level through our Businesses of Tomorrow program, giving a selection of high performing businesses access to some of Australia's best



business minds including Gaily Kelly, Ita Buttrose, Pip Marlow and Steven Persson. Hopefully through this program we will be able to support more SMEs and continue the current positive sentiment into 2017.”

To nominate for Westpac’s Business of Tomorrow program, please visit www.businessesoftomorrow.com.au

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Julie Rynski's tips for SMEs striving to become a Business of Tomorrow

1. Focus on the customer experience

Consumer preferences are changing. As Australia's population ages, and average incomes rise, the demands of consumers are shifting. Consumers are increasingly demanding services, not just goods, and focused on the social and environmental impact of the businesses they purchase from. SMEs that focus on customers and how their offerings can meet customer needs are more likely to succeed. A customer service focus and investment in brand and technology will be important in future success for SMEs.

2. Be adaptable

As the business landscape continues to evolve, with increased integration with Asia, disruption from digital technologies and ever-rising consumer expectations, Australian SMEs will need to be resilient and adaptable to change.

3. Hire and retain the right staff

While employees - mature employees especially - prioritise job security, many are considering a move. Create a workplace that is flexible and accommodating to ensure you avoid a high turnover year on year.

4. Don't be afraid to collaborate

Success is not just about beating other businesses – sometimes, it involves working with them, collaborating and creating shared value. Through complex supply chains, many businesses rely on others – more than half of the smallest businesses receive most of their income from other businesses. Collaboration between businesses – some with the capital, some with new ideas, and others with market adjacencies – will generate value both for the businesses and have broader benefits for our economy and society.

5. Invest in yourself/ your leaders

SME's success can come during any market conditions and present opportunities in any industry. SMEs are in control of their own destiny. The most important lever Australia can pull to boost business success is the toolkit of its business leaders – whether the business is big or small. This includes investing in fit for purpose education, management and strategy skills, international experience and connectivity.

6. Always think ahead

Have a track record of delivery and the capability to meet tomorrow's challenges by being resilient to stay relevant in the future. And make a contribution – help shape Australia in ways big and small for customers, employees and the community. All SMEs have the potential!



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About the Westpac-Melbourne Institute Small Business Index

The March Westpac-Melbourne Institute SME Index was commissioned by Westpac Banking Corporation (WBC) (ABN 33 007 457 141) and conducted by the Melbourne Institute.

The Westpac-Melbourne Institute SME (Small to Medium Enterprise) Index aims to provide information about the economic health of Australian small and medium enterprises. The Report is a quarterly publication based on a representative survey of 400 businesses from all over the country. Survey data from this report provides measures of general business conditions and changes in many aspects of SME operations.

About the Westpac Customer Panel

The Westpac Customer Panel surveyed 200 small and medium enterprise business members of the Westpac Group customer community with a turnover under \$5 million per annum. The driver and topic coding used is qualitative and directional only, based on the manual sampling of all relevant comments related to the question. Fieldwork was conducted between 22 – 30 August 2016.

About Westpac Businesses of Tomorrow

The Westpac Businesses of Tomorrow Program's primary purpose is to recognise and support great Australian businesses doing well today, with a clear vision for tomorrow. The program was announced by Westpac in April 2016 to back the businesses that will help shape Australia's future. The recognised businesses will be announced at Westpac's Bicentennial Celebrations in April 2017. The top 20 businesses will receive a range of knowledge-based experiences funded by Westpac, a mentor from a pool of some of Australia's most influential business people, and over \$100,000 worth of dedicated professional advice to grow their businesses.

Mentors include Carla Zampatti AC, Executive Chairman of Carla Zampatti Pty Ltd, Gail Kelly former Westpac CEO, Ita Buttrose, AO OBE, John Eales, AM, Neville Mitchell Chief Financial Officer and Company Secretary, Cochlear, Steven Persson, Chief Executive Officer, The Big Issue, Rod Jones, Chief Executive Officer Navitas, Simon Cant, Co-Founder and Managing Director Reinventure Group, Alison Deans, Board Director: Westpac, Cochlear, IAG, kikki K, Pip Marlow, Managing Director, Microsoft Australia and Andrew Bate – co-founder SwarmFarm.

Applications open on Sunday 28 August 2016 and close at midnight AEDT on Monday 14 November 2016.

The judging panel includes Lyn Cobley, Chief Executive, Westpac Institutional Bank, David Lindberg, Chief Executive, Commercial and Business Bank, Alison Deans, Board Director, Westpac, Cochlear, IAG, kikki K, Chris Styles, Dean of UNSW Business School, Pip Marlow, Managing Director, Microsoft and Eric Johnston, Editor, The Australian Business Review.