

thinkBIG 2016

Insights into the challenges and opportunities facing Australian SMEs

FOREWORD

This year's thinkBIG report comes amid ongoing political change. In this climate, SMEs need to remain positive and the results from this year's survey confirm they have done so.

A changing business landscape seems to favour SMEs for now, with proposed tax changes to benefit more SMEs than ever before. At the same time, business owners need to remain cognisant of the need to plan ahead. This year's survey has shown that, among businesses who expect to grow year on year, not all can achieve that growth. Those that do are more likely to have completed a business plan and defined sales strategy, demonstrating the critical importance of planning effectively and realistically.

A theme of last year's report was the need for businesses to be proactive. In this year's report some results indicate that SME owners have taken that advice to heart. Chiefly, investment in new technology such as social media, financial and business intelligence tools and websites has increased significantly. This suggests that SMEs are beginning to embrace technological solutions to solve customer problems, making them more agile and able to compete more effectively. This will increasingly become more important as consumers continue to adopt a 'mobile first' approach to doing business.

There are some areas for concern arising from the results of the 2016 study. Cyber security is a key area for SMEs to focus on immediately. While SMEs are investing in the adoption of new technologies, the numbers suggest that too many SMEs remain exposed to the risk of cyber attacks.

While these businesses may feel that they are too small a target for criminals, they should also consider the businesses they partner and trade with. Any business can be the victim of a cyber attack and the results can be significant, ranging from financial losses, including loss of revenue, through to reputational damage resulting from disclosure of the event to customers/clients and potentially other authorities.

2016 is the eleventh year that RSM has conducted the thinkBIG study. It measures the pulse of the Australian SME sector, and has been structured around five key areas: business growth, business planning, exit strategy, superannuation and future trends.

I hope you find it valuable.



Andrew Graham
National Head of Business Advisory
RSM Australia



Contents

- 4 Executive summary
- 6 Business growth
 - 10 Case study: F1rst Class Fitness
- 12 Business planning
 - 16 Case study: Nature's Food World
- 18 Exit strategy
- 22 Superannuation
 - 26 Case study: Oz Trees
- 28 SME of the future
 - 32 Case study: Elliotts Group
- 36 Objectives
- 37 Research demographics
- 39 Glossary

EXECUTIVE SUMMARY

2016 is the eleventh year RSM has conducted its thinkBIG study. It measures the pulse of the Australian SME sector across a range of topics. It benchmarks business confidence and attitudes towards growth, planning, exit strategies, superannuation and future trends.

OVER 350 BUSINESS OWNERS PARTICIPATED IN THIS YEAR'S STUDY.

Following are the key findings for 2016:



BUSINESS GROWTH

- Almost half of respondents reported business growth over the past 12 months.
- 69% of respondents expect to see growth over the next 12 months. A strong sales pipeline is the biggest contributing factor, followed by the potential to target new markets, and having new products or services to launch.
- Marketing and advertising remains the most popular way companies intend to grow their business. Organisations also intend to create new products or services, and employ new staff. This is likely a priority as companies look to overcome the skills gap, which remains a significant barrier to growth, along with finding time to spend on managing the business.
- 77% plan to fund their business through cash flow. Bank debt has increased, with 29% of businesses funding operations through debt this year compared with 22% in 2015. Slightly fewer businesses choose to reinvest profits to fund the business.



BUSINESS PLANNING

- Despite clear evidence that creating a business plan correlates to stronger business growth, fewer respondents are creating business plans than in previous years. This may be a reflection of the rapidly evolving and changing business landscape.
- While 65% of respondents do develop a business plan at some stage, only 42% do so annually, compared with 47% last year.
- 16% do a business plan every two or three years compared with 11% of respondents who said the same last year.
- thinkBIG has consistently shown that businesses with plans outperform those without plans.



EXIT STRATEGY

- Less than half (46%) of the business owners surveyed have a plan to exit the business, and 41% say they do not intend to exit the business. Of those that do, the three most common exit strategies are passing the business to a family member, selling to an outside investor or a trade sale.
- Most business owners (61%) do not intend to fund their retirement primarily from the sale of the business.
- More than half (59%) of business owners believe they are aware of tax concessions available to them.
- Just 42% of respondents had completed a business valuation in the past 12 months, yet 51% believe their business has increased in value.



SUPERANNUATION

- One-third (33%) of respondents rate their satisfaction with their superannuation provisions as eight out of ten or higher. However, almost the same proportion (28%) are less than satisfied that their total superannuation provisions will be adequate for their retirement, rating it as four out of ten or lower.
- Annual income expectations are relatively high, with 38% of respondents stating that they need more than \$100,000 per annum in retirement. Less than 5% believe they will need less than \$50,000 per annum.
- The majority (60%) of respondents would not use their superannuation for their business. This has reduced slightly from last year's results, when 65% of respondents would not consider using super for their business.



SME OF THE FUTURE

- Investment in websites and e-marketing tools and content jumped to 49%. Social media jumped to 42%, and investment in cloud-based accounting systems jumped to 39%.
- When it comes to investing in apps, tools, and programs, finance and business intelligence top the list with 51% of organisations. Marketing is the second most important investment area at 44%, followed by social media at 38%.
- Being more efficient is the number one most important factor in the next 12 months according to 46% of respondents. The changing sales/selling environment is almost as important as companies grapple with an increasingly-digitised, fast-paced environment.
- Less than half (47%) review information security policies annually. 57% are confident in their systems' ability to withstand a cyber attack, and 43% have a dedicated resource to manage cyber security risks. Only 37% intend to increase their cyber security resources in the next 12 months.



BUSINESS GROWTH

SMEs continue to see business growth overall. However, as business growth is closely tied to planning, there is room for improvement, with many Australian SMEs neglecting to create and review plans on a regular basis.

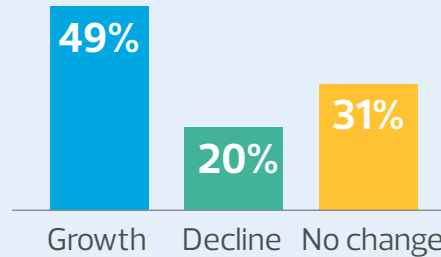
Many businesses are reporting an increased sales pipeline but the skills gap continues to be a barrier to growth. However, SMEs remain optimistic about their prospects for growth.

GENERAL OPTIMISM

 **84%**

say they agree or strongly agree that their business is successful

Revenue growth past 12 months



General optimism

On balance, more SME owners feel their business is successful. 84% say they agree or strongly agree that their business is successful. Business owners are also optimistic about their medium-term prospects.

Future growth

Business owners remain relatively optimistic when it comes to business growth. Almost half of respondents reported business growth over the past 12 months, which is in line with 2015 results. However, the business landscape is yet to regain the growth levels seen just after the Global Financial Crisis: 73% of businesses reported growth in 2011 and 63% reported growth in 2012 compared with just 42% in 2013.

Meanwhile, 69% of respondents expect to see growth over the next 12 months. These results are also in line with the 2015 survey. While many companies can forecast growth, only those with strong business fundamentals can deliver that growth. In 2015, 68% of respondents predicted growth over the next 12 months but only 49% actually achieved it. These growth predictions from SMEs are more bullish than expected. This is probably being driven by the low-yield, low-interest rate environments globally, which means that businesses can borrow to expand with a very low cost of servicing the debt.

New opportunities

For many businesses, a strong sales pipeline is the biggest contributing factor for growth. The second most important factor is the potential to target new markets, followed by having new products or services to launch.

Marketing and advertising remains the most popular way companies intend to grow their business. Organisations also intend to create new products or services and employ new staff. This is likely a priority as companies look to overcome the skills gap, which remains a significant barrier to growth.

FUTURE GROWTH



believe their business will grow in the next 12 months

Contributing factors for growth >

- 46%** sales growth/pipeline
- 30%** potential new markets
- 24%** new products/services
- 14%** expansion/acquisitions
- 12%** stable Australian economy

35%
finding skilled people

33%
management time

25%
lack of market opportunity

< **Three of the main barriers to business growth**



NEW OPPORTUNITIES

Majority of businesses plan to grow through marketing and advertising, developing new products and employing new staff.

Business funding

Cash is still king for more than three quarters of businesses, with 77% planning to fund their business through cash flow. Bank debt has increased, with 29% of businesses funding operations through debt this year compared with 22% in 2015. Slightly fewer businesses choose to reinvest profits to fund the business.

Economic outlook

The weakening dollar does not affect all businesses equally; those that trade internationally are most likely to be affected. Accordingly, responses varied. Overall, slightly more businesses (52%) agreed that the weakening dollar affects their business.

Policy impact

GST changes

SME owners are split on whether there should be a change in the GST rate with 47% saying there should be a change. Of these, 55% say the change should be 15% or less, with only 1% saying it should be more than 15%.

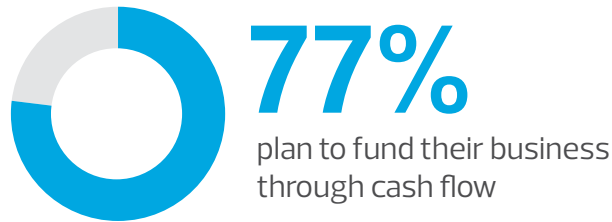
National Innovation and Science Agenda

The National Innovation and Science Agenda is a government initiative aimed at fostering innovation through four key areas:

- 1. Culture and capital:** The government will open up new sources of finance, embrace risk-taking on innovative ideas, and make more of public research.
- 2. Collaboration:** The government will increase collaboration between industry and researchers to find solutions to real world problems, and to create jobs and growth.
- 3. Talent and skills:** The government will develop and attract world-class talent for jobs of the future.
- 4. Government as an exemplar:** The government intends to lead by example.¹

The recent Federal Budget included announcements that tax incentives for early-stage investors will be expanded, and arrangements for Early Stage Venture Capital Limited Partnerships (ESVCLP) will be extended.

BUSINESS FUNDING

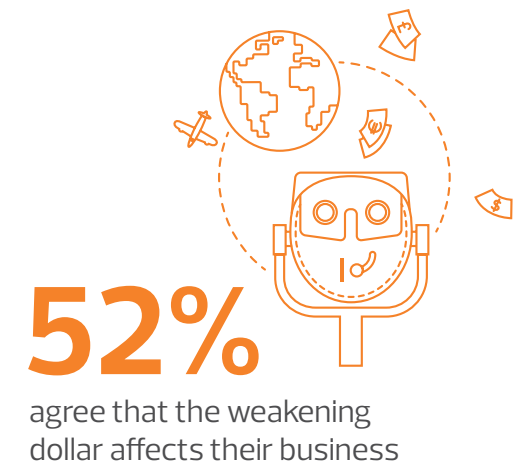


NATIONAL INNOVATION AND SCIENCE AGENDA



Trading banks are winding back their lending for the moment, often demanding property as collateral. This is inhibiting expansion for businesses that don't have strong fundamentals.

ECONOMIC OUTLOOK



These businesses believe they need to develop cutting edge technology to be eligible. In fact, this program aims to reward incremental innovation, so it can apply to many companies. SMEs should get advice from an R&D tax specialist to see whether they qualify: there are funds available to be used.

¹<http://www.innovation.gov.au/page/agenda>

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TIPS FOR BUSINESS GROWTH



Markets

Growth comes from operating in a market that is structurally attractive and conducive to growth. Having a unique and compelling value proposition that is difficult for competitors to match is critical for long-term growth. SMEs in a sunset market should consider getting out.

Relief and concessions

It's important to understand where relief and concessions are available. For example, in markets with export potential, SMEs can access export concessions and R&D concessions. SMEs should find out where to go for help, for example, to set up trade relationships.

New markets

Being clear on what customer problems your offering solves is essential when entering new markets in terms of your product/service strategy, expansion into new areas/territories or any diversification plans.

Funding

Growing businesses are 'cash hungry' so it's important to understand the cash implications of growth and the cash drivers to ensure growth plans are adequately resourced and funded.

Managing growth

A business needs to ensure that it has both the capacity and capabilities to sustain growth including inputs, systems, infrastructure, management and people. You cannot put more volume through an incapable system.

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CASE STUDY: F1rst Class Fitness – Queensland

F1rst Class Fitness is a boutique personal training studio located in the Brisbane CBD, owned and managed by Gemma Cuskelly. What started as a small studio in 2012 is now the largest dedicated personal training studio in the Brisbane CBD, offering no-contract gym memberships, group fitness workouts or one-on-one training tailored to the individual. The business treats its customers as part of a community, helping support, guide and motivate them to reach their fitness goals.

“I needed someone who could guide the business growth and grow with us.”

Gemma Cuskelly, Owner/Director



Gemma at her studio

A burgeoning industry with plenty of competition

The fitness and personal training industry is burgeoning, with plenty of competition. As F1rst Class Fitness grew, Gemma knew she needed to manage that growth carefully, future-proofing the business and preparing it for long-term operations.

For Gemma, this meant partnering with a business adviser that could fill a role beyond that of traditional accounting.

Gemma said, "I needed someone who could guide the business growth and grow with us. I knew RSM Australia offered the type of business advice that I needed, and Nicholas Gregory came highly recommended."

Improving processes to drive goals

As a first step, RSM reviewed F1rst Class Fitness's processes and streamlined the business utilising cloud functionality to automate those processes.

Nicholas Gregory, Senior Manager in Business Advisory said, "We took over the administration side of the business, giving Gemma time to focus on managing and growing the business. We complete F1rst Class Fitness's Business Activity Statements, and prepare quarterly management reports and monthly cash flow analysis. We then meet with Gemma regularly to discuss how the business is tracking against its goals, and we develop and implement plans to help the business achieve its goals."

F1rst Class Fitness has experienced steady growth over the past four years and is now looking at expanding to a second CBD location.

Gemma said, "One of our business goals is to continue to grow through expansion. In June 2016, we will open our second, larger gym space which will include Brisbane's first altitude training environment. This one will have a slightly different concept while building on the strong brand values we have established. This was made possible because of the teamwork between RSM and F1rst Class Fitness: without RSM's help we wouldn't have been able to expand so soon."

Strong professional networks have been essential to the business's growth.

Gemma said, "My advice to others starting a business is to get professional advice and set up appropriate business structures to support your growth. This means completing a business plan, then constantly revising it and making provisions for growth. By delegating the day-to-day accounting tasks to RSM, and relying on the team's professional advice, I was able to work on my business strategically, rather than working in my business."

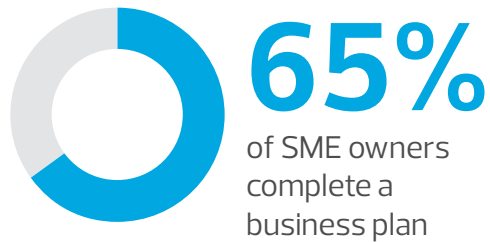


BUSINESS PLANNING

Business planning remains essential to the success of any business. In 2016, as in previous years, thinkBIG has demonstrated that not all of the organisations that predict growth will be able to achieve it. This can largely be attributed to the fact that many of these businesses fail to create a business plan.

Good business planning does not have to be onerous. It can be as simple as setting some strategic goals along with a roadmap to achieving them, or they can be more complex comprising financial, management, marketing, operating and action plans.

BUSINESS PLAN



Frequency of business plan >



42%
annually

8%
every 2 years

8%
every 3 years

thinkBIG has consistently shown that businesses with plans outperform those without plans.

Many businesses work with a single-page strategic plan, which is ideal for SMEs.

The quality of the plan is important because it speaks of management credibility.



WORK-LIFE BALANCE

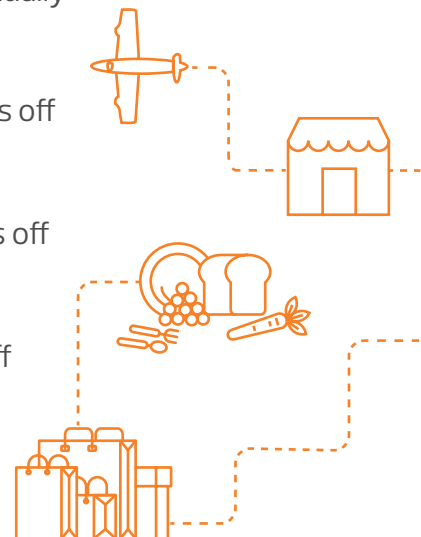
41%

take more than 3 weeks off from work annually

30%
take 2-3 weeks off

18%
take 1-2 weeks off

3%
take no time off



The key challenge is that many SME owners have a plan in their head, so if something happens to them, then those plans are lost. These owners would benefit from putting the plan on paper because it provides opportunities to talk to customers, suppliers, staff, and financiers. These stakeholders want to know where the business is heading and being able to articulate that is critically important.

Completing a business plan

Despite clear evidence that creating a business plan correlates to stronger business growth, fewer respondents are creating business plans than in previous years. While 65% of respondents do develop a business plan at some stage, only 42% do so annually, compared with 47% last year. 16% do a business plan every two or three years compared with 11% of respondents who said the same last year.

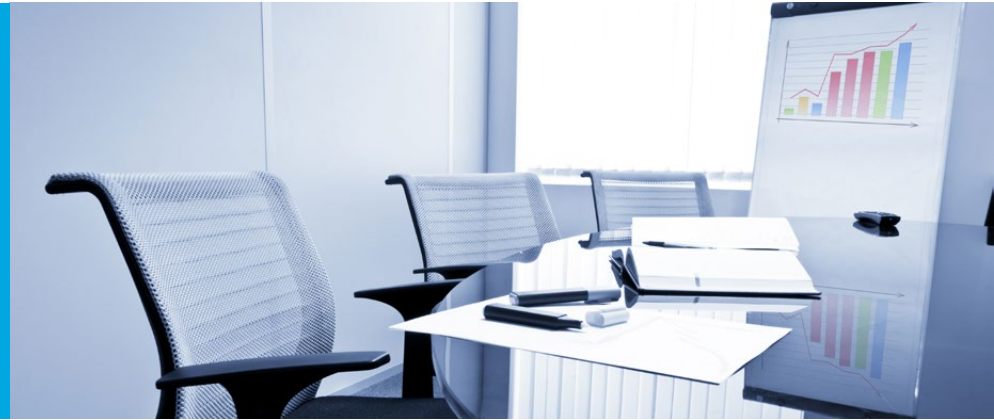
Anecdotally, organisations that work with expert advisers to develop their plans are more likely to succeed.

Work-life balance

Business owners continue to heed health warnings and are taking time out of their businesses. In 2012, 21% of respondents took no time away from the business. This number has consistently fallen over the years. In 2016, just 3% of respondents took no time away from the business, in contrast 41% took more than three weeks.

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TIPS FOR CREATING A STRONG BUSINESS PLAN



Keep it simple

Make it clear, precise and as simple as possible so that it can be adapted quickly as the business environment changes.

Focus on priorities

Plans that include a long list of things to achieve are rarely achieved. It is far more productive to focus on the top three to five things to achieve in the next 12 months, and then get them done.

Share the process

Getting the management team to 'own the process', contributing to setting goals and strategies, makes it more likely that they will engage fully with the plan and work towards actively implementing and achieving it. Many hands make lighter work.

Reality check

The 'paper accepts the ink willingly' so undertake some market research to validate any assumptions or projections made.

Be accountable and disciplined

Creating the plan is only the first step; it is essential to be accountable to it. SME owners and managers should meet to formally assess progress towards the plan's goals at least once per quarter.

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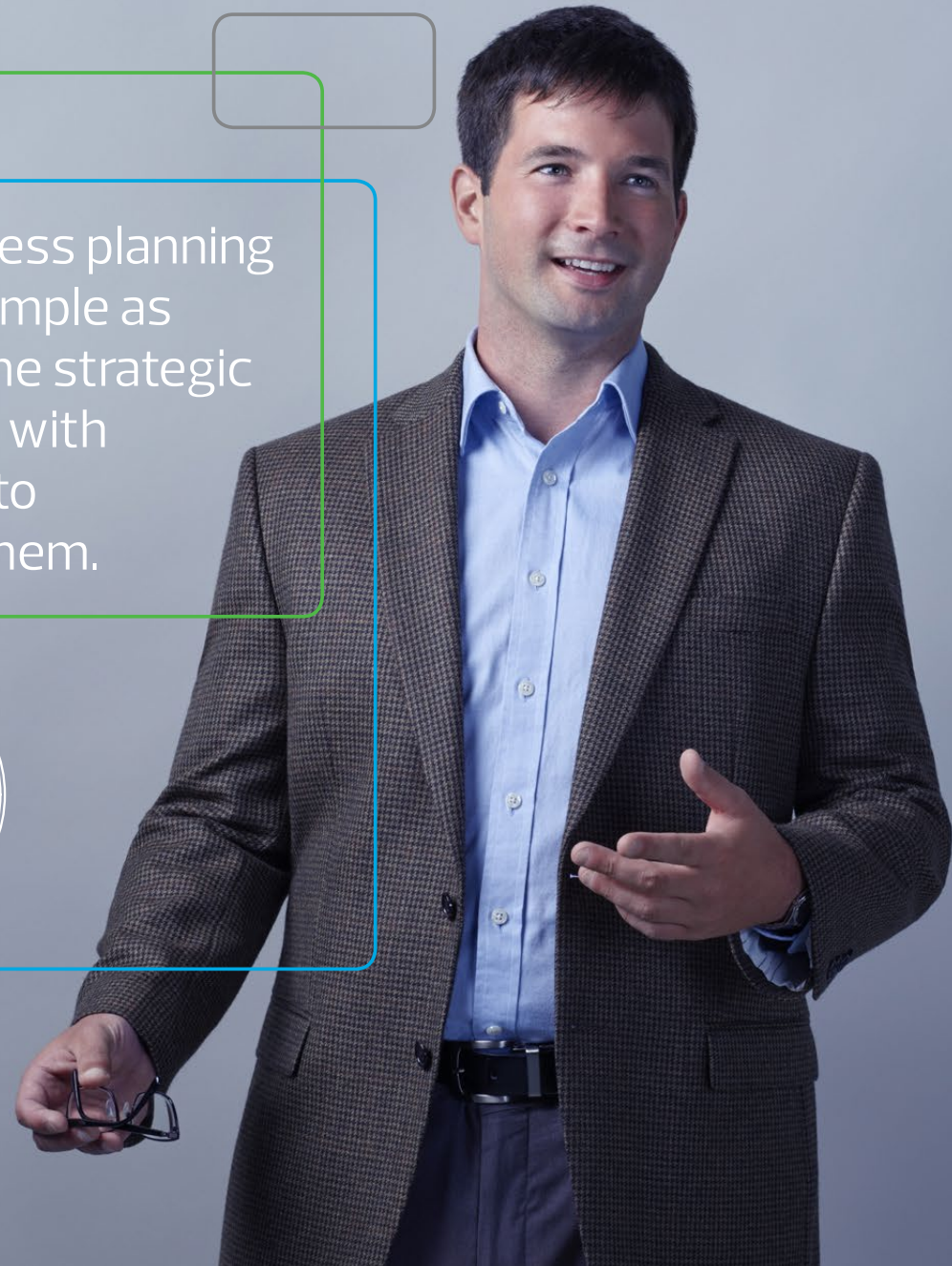
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Good business planning
can be as simple as
setting some strategic
goals along with
a roadmap to
achieving them.





CASE STUDY: Nature's Food World – New South Wales

Nature's Food World is an Australian family business passionate about supplying the highest quality infant food products, destined for babies and children around the world. Karla Gartshore founded the company in 2012 after recognising an opportunity to provide quality Australian dairy products to the Chinese market. Since then, Nature's Food World has grown exponentially, overcoming the challenges of operating in foreign countries to generate market demand. The company will soon launch its range of infant formula, baby food, and other milk powders in Australia.



Karla with some of her products

“Before I set up this business, a successful businesswoman told me to surround the business with the best professionals I could find.”

Karla Gartshore, Director

Breaking into overseas markets

As an export business, Nature's Food World needed to overcome the innate challenges of breaking into overseas markets. As a start-up, the business needed to be structured appropriately, and Karla required advice regarding financing and cash flow management.

Karla said, "Before I set up this business, a successful businesswoman told me to surround the business with the best professionals I could find. My experience and talents are in entrepreneurship; I needed to find a strong partner to help with financial management and to provide strategic business advice."

Based on a recommendation, Karla walked into her local RSM Australia office to request a meeting.

Karla said, "The team was a bit taken aback because people don't usually walk in off the street. But I was immediately taken to a meeting room and the RSM team's professionalism and experience became obvious straight away. It was clear that they cared about the individuals in the business and what was best for everyone in the long-term. RSM's approach of helping us get through tough times, believing in us and our product, and listening to our needs was very different from other firms I've worked with. The relationship has become a crucial part of the business."

Positioned to skyrocket

After two years of negotiations and learning, Nature's Food World products were approved for sale in China, positioning the company to skyrocket.

Karla said, "Doing business in China is extremely complex and completely different from the way we do business in Australia. It was a steep learning curve but the RSM team was with us every step of the way. It was critical to meet the right people, manage cash flow effectively, and be adaptable to make changes fast, so we could meet market demands.

"During this process, the service from RSM was beyond unbelievable, and the team adds significant value to the business. Knowing RSM has Nature's Food World's best interests at the forefront of the advice they give is a key benefit."

Karla emphasises the necessity of a strong, reliable supply chain for businesses in the food industry, particularly when making food for export. She plans to expand the business throughout Asia and into Africa in the coming years.

Karla said, "RSM's strategic business advice and personal touch will continue to be important as we look to expand the business. We work together well, with each of us focusing on our own areas of strength. As a result, the sky is the limit when it comes to growth.

"I would describe the relationship with RSM in three words: real; honest; and trustworthy. As an exporter, RSM's international network is also important, as it gives us the confidence to know that RSM will continue to support our business as we grow into the future. I was looking for experience and integrity in a business partner. With RSM, I found both."



EXIT STRATEGY

While many business owners have no intention of exiting the business in the foreseeable future, exit planning remains an important and under-utilised element of business planning. Ideally, all mature businesses should be thinking about how to make the founder/owner redundant in terms of the day-to-day operations. Then succession or exit planning is made simpler.

Having a plan in place well in advance can give owners peace of mind. It can also inform the decisions they make. For example, knowing they will pass the business to a family member may mean the business owner takes steps to structure the business differently to avoid certain taxes. If the owner must sell the business to a third-party he or she may be more conscious of the need to ensure there is a sustainable earnings profile, and that the key people who drive the business are incentivised to stay on or there is a plan to transfer their knowledge.

PLANNING



46%

have a plan to exit their business



54%

do not have a plan to exit their business

Top three exit strategies >

31%

pass on to family member

25%

sell to an investor

21%

trade sale

When will this likely happen? >



16%

0-2 years

11%

3-4 years

21%

5-10 years

RETIREMENT FUNDING



61%

say the proceeds from the sale of the business will not be their primary source of retirement funds

It can take three to five years to get a business exit-ready.



Planning

Less than half (46%) of the business owners surveyed have a plan to exit the business, and 41% say they do not intend to exit the business. Of those that do, the three most common exit strategies are passing the business to a family member, selling to an outside investor or a trade sale.

When passing the business to a family member, it's important to have a clear succession plan to avoid any confusion when the time comes. This should include who will take over the business, when, and how. The owner must decide whether they will sell the business or gift it to the successor, and whether they will retain a role within the business, and they should find out what the financial and tax implications of succession are likely to be.

Retirement funding

Most business owners (61%) don't intend to fund their retirement primarily from the sale of their business. This indicates that business owners have other investments and income sources, such as superannuation. However, it can also indicate that owners do not understand the potential value embedded in their businesses. Often there is significant value in the business but it needs to be packaged well for sale in order to maximise potential value represented by the sale price.

SME owners should always run the business to its optimum level, not just for exit planning, but to account for unforeseen circumstances. Businesses that are exit-ready give owners peace of mind that, if they were forced to exit the business, they are well placed to maximise the sale price. This also means owners can continue to take healthy income streams from the business throughout its life cycle.

It can take three to five years to get a business exit-ready, so SME owners should not wait until they are about to retire before looking at how they will exit the business.

Taxation

More than half (59%) of business owners say they are aware of the generous tax concessions available to them. However, with legislation changing all the time, it is very important to obtain professional advice, since businesses may not always claim their full entitlements. Many people miss out on significant concessions because they don't understand what is available or do not restructure the business tax effectively prior to sale.

Business value

Completing a business valuation is a useful exercise regardless of whether the owner plans to sell. Given a small business is often a family's most significant asset, along with the family home, it makes sense to know what it is worth. Just 42% of respondents had completed a business valuation in the past 12 months, yet 51% believe their business has increased in value. This is likely due to increased revenues and profits, as 49% of respondents said they had experienced revenue growth over the past 12 months.

The current state of asset yields is such that staying in business is likely to deliver a significantly higher return than investing in property, stocks, bonds, or bank deposits.

VALUATION



42%

have completed a business valuation in the past 12 months

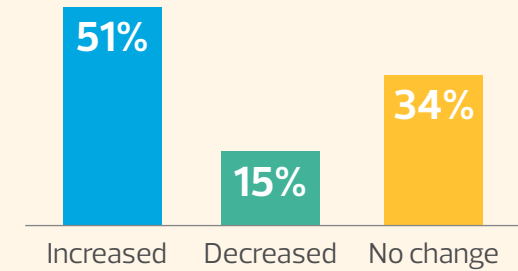


TAXATION

59%

are aware of tax concessions available to business owners

Business value past 12 months



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WAYS TO MAKE SURE YOUR BUSINESS IS EXIT-READY



Key personnel

It is important to have the key personnel in place to facilitate ongoing business operations. Ensuring that the team is motivated, incentivised, accountable and locked-in is critical as profit and business performance is attributable to the management team – not the exiting vendor.

Revenue streams

Where possible, it is essential to ensure revenue streams are recurring and as secure as possible regardless of whether they are contracted or uncontracted. A quality customer list demonstrates loyalty and repeat business, adequate customer spread and customer profitability.

Infrastructure

The business will continue to need infrastructure so it's important to make sure adequate lease or license agreements are in place for not only hard infrastructure such as premises but also software and operating systems.

Systems and processes

These should be documented and adapted and improved over time including financial management reporting. Appropriate internal controls should be in place to protect the business from fraud, theft and to mitigate any external threats.

Planning

Start planning at least three years in advance as it may take a year or more to make the business exit ready. This allows you time to maximise the business value before sale as it could take up to a year to find a buyer and complete the deal.

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SUPERANNUATION

Superannuation remains a political football in 2016, making it difficult for SME owners to know what's best when it comes to investment decisions.

Some of the proposed changes in the recent Federal Budget are likely to make a big difference in tax outcomes for consumers. For example, the proposed limit of \$500,000 in after-tax contributions means that some people won't be able to contribute as much to their superannuation as they may have planned. On the other hand, more money from the sale of businesses can go into superannuation, which is good news for those planning to exit their businesses soon.

Superannuation is the key retirement funding vehicle for most Australians, and SME owners are no different. It is therefore important for SME owners to make the most of their superannuation options.

FUNDING RETIREMENT



One-third of respondents are highly satisfied with their superannuation provisions

28% are less than satisfied

Annual income expectations >

38%

need more than \$100,000 per annum in retirement



34%

need \$75,000 to \$100,000

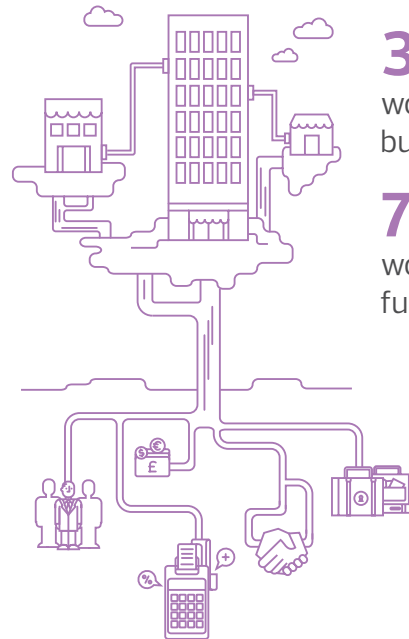
23%

need \$50,000 to \$75,000

5%

need less than \$50,000

FUNDING THE BUSINESS



33%

would use their super to buy real estate or premises

7%

would use their super to fund business growth

Funding retirement

One-third (33%) of respondents rate their satisfaction with their superannuation provisions as eight out of ten or higher. However, almost the same proportion (28%) are less than satisfied that their total superannuation provisions will be adequate for their retirement, rating it as four out of ten or lower.

Annual income expectations are relatively high, with 38% of respondents stating that they need more than \$100,000 per annum in retirement. Less than 5% believe they will need less than \$50,000 per annum. These expectations are higher than the average, possibly because SME owners are used to higher levels of income.

Reports suggest a couple needs approximately \$60,000 per annum for a comfortable retirement, which means they need more than \$1.1 million in their superannuation account.²

The latest round of proposed superannuation changes will cap pensions at \$1.6 million. This will give couples the \$100,000 annual draw down they anticipate they will require for retirement.

Funding the business

The majority (60%) of respondents would not use their superannuation for their business. This has reduced slightly from last year's results, when 65% of respondents would not consider using super for their business.

This could indicate an increasing realisation among business owners that superannuation is a valid, if not conservative, approach. It can be a positive way to purchase business premises, for example. With the right approach, SME owners can use superannuation to fund the business with a minimum of risk.

² <http://www.superguide.com.au/boost-your-superannuation/comfortable-retirement-how-much-super-need>

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WAYS TO BE COMFORTABLE IN RETIREMENT



Set a date

Knowing when you want to retire is important so you know when you can access your investments. For example, if you plan to retire before you turn 60 you may not be able to access your superannuation. The longer you work, the more assets you can accumulate.

Understand the costs

Ideally your assets will cover your living expenses. Developing a realistic budget is key to understanding whether you can retire yet, or not.

Investigate assistance

Many older Australians are eligible for some form of government assistance such as the age pension. It's important to know whether you qualify, as the pension will offset your living costs.

Clarify your returns

Your investment returns will be affected by tax legislation, market volatility, and other economic factors. It's important to keep an eye on these things because significant changes may affect your ability to retire as planned.

Develop a plan early

It's never too soon to start planning for retirement, then review that plan actively as circumstances may change year to year. Planning lets you break big-picture goals into attainable, annual targets, which can help keep you on track to hit your retirement date.


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It is important for SME owners to make the most of their superannuation options.



CASE STUDY: Oz Trees – Victoria

Oz Trees is a one stop shop for native trees, shrubs and grasses, that has been helping rural planters transform their visions into reality since 1995. Each year they grow 650,000 seedlings and 6" pots with over 250 species to meet customers' needs, whether it be a farm forestry plantation, shelter belt, attractive avenue planting or a hardy coastal garden.

Mark Prascevic, owner of Oz Trees in Colac, Victoria, has experienced the highs and lows of owning and operating a native plant business.



Mark at the new SMSF funded storage shed

“There is life after work and only paying attention to this month’s financial commitments isn’t a long term strategy.”

Mark Prascevic, Owner

Mark says it is the confidence that director Brad Eppingstall and accountant Simon Ward from RSM's Ballarat office give him that has helped him improve business efficiency and the bottom-line. Confidence, teamed with good business advice, has meant that Oz Trees could manage two significant challenges facing the business – costs and the impact of the drought. With each challenge faced, Mark and the team created opportunities to enter new markets, purchased equipment to improve efficiencies and implemented strategies to mitigate risks and deal with fluctuating costs in a price sensitive market.

Just over five years ago, Mark was talking to a friend in Colac who recommended he meet with his accountant Brad Eppingstall. Since that initial meeting, Mark's outlook on his business has changed and he attributes this to the relationship that he has with Brad. Mark said, "Brad has helped me realise that I needed to look after my business and myself. There is life after work and only paying attention to this month's financial commitments isn't a long term strategy."

It is the set-up of a self-managed superannuation fund (SMSF) that has been the most significant business advice that Mark has received. Mark said, "Brad invited me to a presentation on self-managed superannuation funds. I wasn't sure at that stage, but after a gentle push, I realised the long term potential."

The three words that Mark used to describe his relationship with Brad and RSM are confidence, positivity and forward-planning. Because of this Mark now has a more positive long-term outlook for Oz Trees. Mark said "You need someone when you haven't done something before to give you the confidence to do it. RSM showed that they understood my business, were interested in what I was doing and that they would take me under their wing."

Oz Trees is now embarking on its next growth plan, entering into a new market selling boutique garden plants, targeting the drier, low-water use garden retail market. Having seen the positive results that an SMSF has brought the business, Mark will be working with Brad and RSM to see how he can leverage this to make it a success.



Front (from left): James (Delivery Driver), Michael (Plantations Leading Hand), Lorain (Nursery Propagation), Diane (Sales Manager), Annie (Accounts Manager)

Back (from left): Mark (Managing Director) and Michael (Plantation Manager)

Absent: Denise (Production Manager)



SME OF THE FUTURE

SMEs are fast catching up to enterprises when it comes to investing in new and emerging technology. This apparent increase in innovative thinking is likely to serve this sector well when it comes to competing effectively in a rapidly-evolving marketplace. Organisations that fail to adopt digital technologies will be left behind.

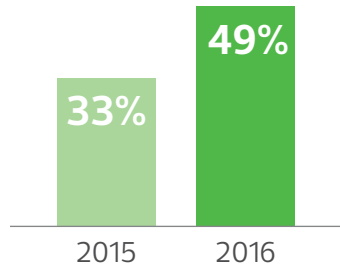
In the past, the increased adoption of technology was referred to as digital disruption. It has now moved beyond disruption into a new phase: digital transformation.

It appears that SMEs anticipate a positive future, with strong levels of optimism on display.

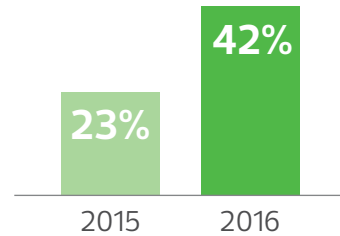
However, businesses could do better when it comes to protecting themselves from the ever-increasing risk of cyber attacks.

Significant increases in the past 12 months

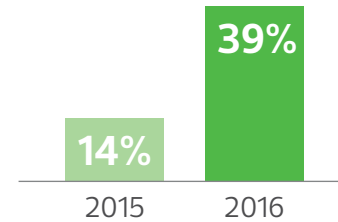
🌐 Websites and e-marketing tools investment



👤 Social media strategy implementation



☁️ Cloud-based system investment



DIGITAL INVESTMENT



51%

use finance and business intelligence apps/tools to improve productivity of business

44%

use marketing apps/tools

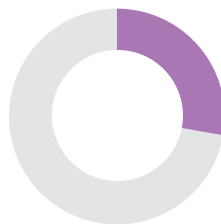
38%

use social media

33%

use customer service apps/tools

TOOLS/TECHNOLOGIES IMPLEMENTATION



28%

implemented mobile tools for employees or support BYOD



26%

implemented digital advertising



25%

implemented CRM or ERP



25%

implemented an expense management system

Digital investment

SMEs are embracing digital transformation and investment in digital tools overall has increased since last year's thinkBIG report. For example, websites and e-marketing tools and content was a key investment area for 33% in 2015. This year, that number jumped to 49%.

Social media is important to 42% of respondents; in 2015 that number was just 23%.

In 2015 just 14% of respondents had invested in a cloud-based accounting system. In 2016 that number has jumped to 39%.

SMEs are embracing mobility with 28% investing in mobile tools for employees or implementing a bring-your-own-device (BYOD) program.

A quarter (25%) of companies have implemented a customer relationship management (CRM) or enterprise resource planning (ERP) system, and the same number implemented an expense management solution. This suggests organisations are looking to become more efficient and manage costs more effectively.

When it comes to investing in apps, tools, and programs, finance and business intelligence top the list with 51% of organisations. Marketing is the second most important investment area at 44%, followed by social media at 38%.

Future changes

Increasing costs force business owners to find more efficient ways of operating, and that trend is likely to increase over the next 12 months. It is the number one most important factor according to 46% of respondents. The changing sales/selling environment is almost as important as companies grapple with an increasingly-digitised, fast-paced environment. Increasing global competition is the least important influencer on future business success for 31% of organisations.

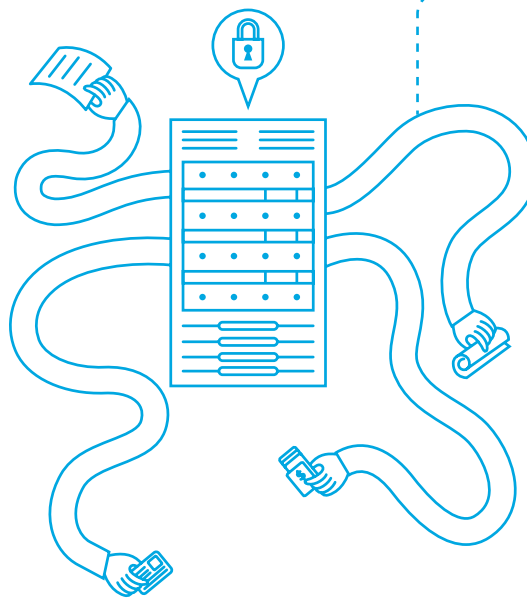
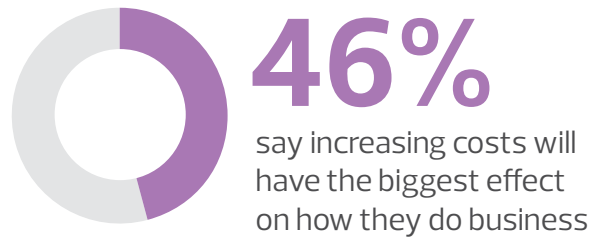
The first phase of digital transformation was the introduction of productivity tools and technology to decrease costs. The second phase was rapid adoption of social media and marketing tools to increase revenue. The next phase is likely to be a mobile-first approach, where businesses stop spending on desktop-based technology wherever possible. Instead they will focus on mobile payment solutions, mobile customer interactions, and mobile sales platforms, for example.

Digital security

Despite widespread publicity regarding the risks and repercussions of cyber attacks, less than half (47%) review information security policies annually. 57% are confident in their systems' ability to withstand a cyber attack, and 43% have a dedicated resource to manage cyber security risks. Yet only 37% intend to increase their cyber security resources in the next 12 months.

This suggests that SMEs remain susceptible to cyber attacks that could cripple the business. RSM strongly recommends focusing on ensuring digital security is being maintained to an appropriate level. This includes reviewing digital security procedures and policies at least annually, and ensuring appropriate resources are being allocated to identifying and managing the risks.

FUTURE CHANGES



DIGITAL SECURITY



47%

say they review their information security policies annually



57%

are confident in their systems' ability to withstand cyber attack



43%

have a dedicated resource to manage cyber security risks



37%

intend to increase cyber security resources in the next 12 months

With an ever-increasing reliance on computer systems and the internet to conduct daily core business activities, strengthening defences against cyber attacks is considered a business priority for SMEs.

3

RULES OF DIGITAL TRANSFORMATION



Social media

If you're not active on social media, it's likely your audience won't know you exist.

Mobile

Be mobile-first to capture a broader section of the market.

Connect

Create your own app that will connect you directly with your customers, no matter where they are.





CASE STUDY: Elliotts Group – New South Wales

Founded in 1961, Elliotts Landscape Supplies grew out of the timber industry in Tumut, New South Wales. The company grew strongly and was soon known to provide quality landscape and building supplies throughout Australia.

Today, Elliotts is a diversified business offering transport, landscape retail and wholesale supplies, and manufacturing. The organisation includes a plant hire company and repair business, an automotive business offering tyres, mechanical services, motorcycle accessories, spare parts, and workshops in addition to its landscape-related offerings.



From left: Matt Casey, Ray Barr & John Morehead

Unification, better reporting, and streamlined processes

Because Elliotts has a diversified revenue stream, it competes with businesses in various industries. To do this effectively, the business leaders must be able to make smart decisions in real-time, based on accurate information.

In 2015, Ray Barr joined the company as general manager, tasked with consolidating the business units and streamlining administration processes, including accounting. Ray said, "A key initial goal was to get the financial reports we needed so we could make good decisions. That meant moving the organisation's financial management into the cloud so that all business entities could feed information into the same accounting system live. The system also needed to let the decision-makers access this information anytime, anywhere, which is critical since key personnel often work remotely."

Elliotts has grown rapidly in recent years, expanding and extending its operations. While this has meant revenue has increased, expenses have grown even faster than revenue due to soaring vehicle and labour costs. So, despite increased revenue, Elliotts has narrower margins across the board, creating challenges for the organisation.

Ray said, "The question was how to find efficiencies and save costs. The organisation needed a business adviser rather than an accountant. We needed to look into the future and find ways to improve, rather than simply looking into the past and reporting what had already been done."

Extension to the team delivers real outcomes

Elliotts chose to partner with RSM Australia to help it move accounting systems to the cloud, reducing waste and improving efficiencies.

Ray said, "Following an initial meeting with RSM it was clear the team understood exactly what Elliotts needed to do. The relationship with RSM is crucial. We see the RSM team as an extension of our own, rather than as external advisers. We have a fluid relationship that is integral to Elliotts operations.

"RSM began to develop trust from the first meeting. The team thought carefully about what Elliotts needed to achieve within the desired timeline, rather than simply answering immediately. When they advised us that we could achieve our goals, we were confident that they had considered every aspect."

Elliotts began working with RSM to overhaul its business processes. It was essential to implement a business system that could provide accurate and timely data for decision-making, and help Elliotts unify its various business units.

RSM introduced new, cloud-based accounting systems that delivered the reporting capabilities the organisation needed for decision-making, as well as the anywhere/anytime access required. RSM then introduced an online payroll portal, which saves Elliotts on administration costs. The team also provided tax services and superannuation planning for the business owners.

Ray said, "Since commencing work with RSM, things are getting done and we are seeing real outcomes. The team has helped to develop ideas from concept to reality and success. The experience of working with RSM has been excellent. The team is always available, delivers on promises, and has earned a high level of trust. There is also strong mutual respect between Elliotts and RSM."

Future plans

The market is changing for Elliotts, with different customer demands. The company plans to leverage its strengths, such as service and reliability, and continue to grow in those directions. Ray said, "One of the benefits of working with RSM is that the team is not just about tax compliance or record-keeping. Instead, the team acts as an invaluable sounding board for our ideas, helping to drive the business forward."

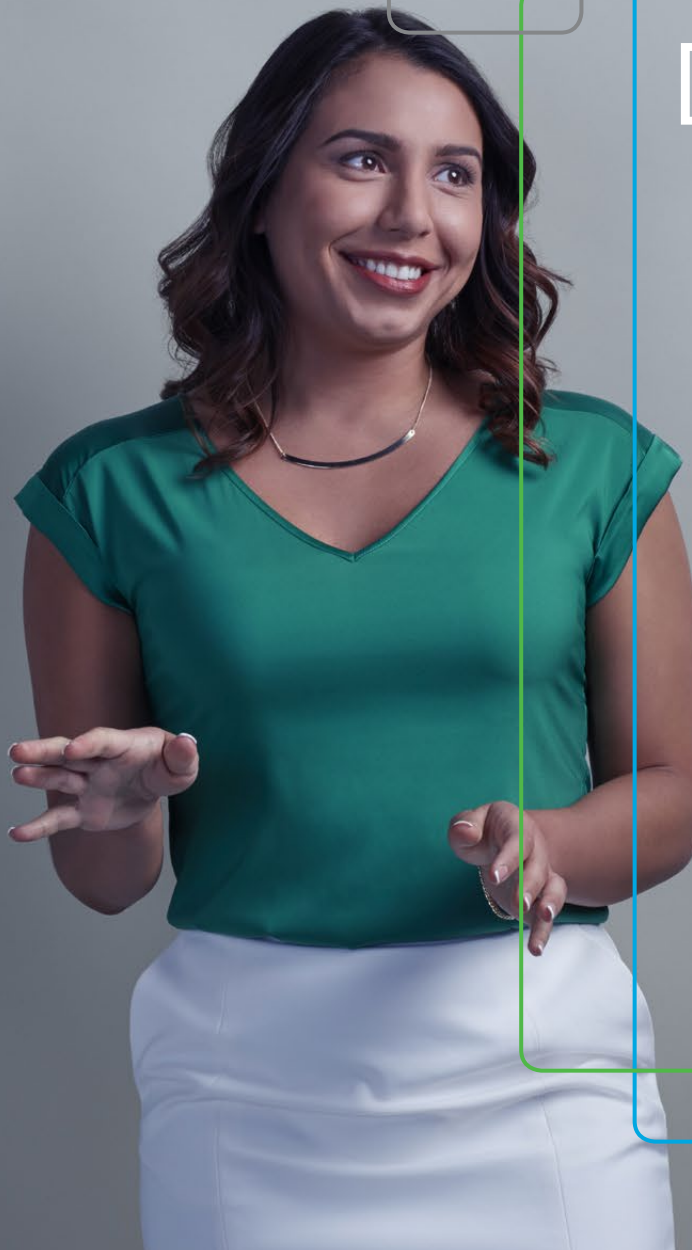
Elliotts plans to increase its transport footprint and evolve the business model away from traditional landscape supplies to focus more on fertiliser, soil mixes, and automotive. In particular, it will emphasise new motorcycle sales and light vehicle repairs.

Ray said, "Elliotts has an aggressive growth plan that includes expanding to more Australian locations. RSM's national network means we can continue to rely on the team to help us on this journey."



From left: Peter Sheather and Fred Feige

Don't just see



potential – see it realised.





OBJECTIVES

The key objectives of the research were to:

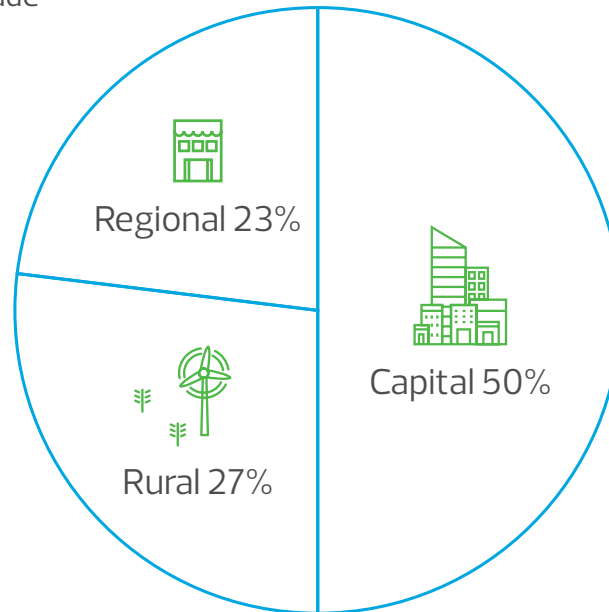
- Identify the impact of financial conditions on business sentiment
- Assess the impact of current issues, such as the value of the Australian dollar
- Report on the business outlook over the next 12 months from the perspective of SME owners
- Benchmark business planning and critical areas such as exit planning and superannuation planning
- Assess the utilisation of self-managed superannuation funds by SME owners
- Report on work/life balance of SME owners
- Assess the impact and uptake of technology

RESEARCH DEMOGRAPHICS



69%

of respondents have been operating their business for more than a decade



SIZE OF TEAM



15% sole trader

38% 1-5 employees

22% 6-19 employees

20% 20-99 employees

5% >100 employees

AGE GROUPS



20%

are aged over 65



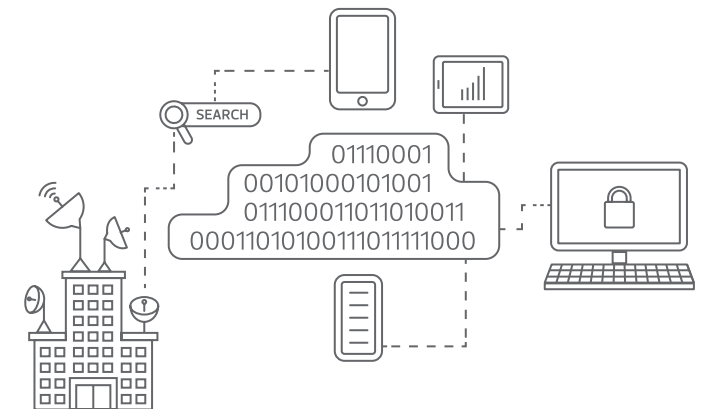
59%

are aged between 45 and 65



21%

are aged between 25 and 45



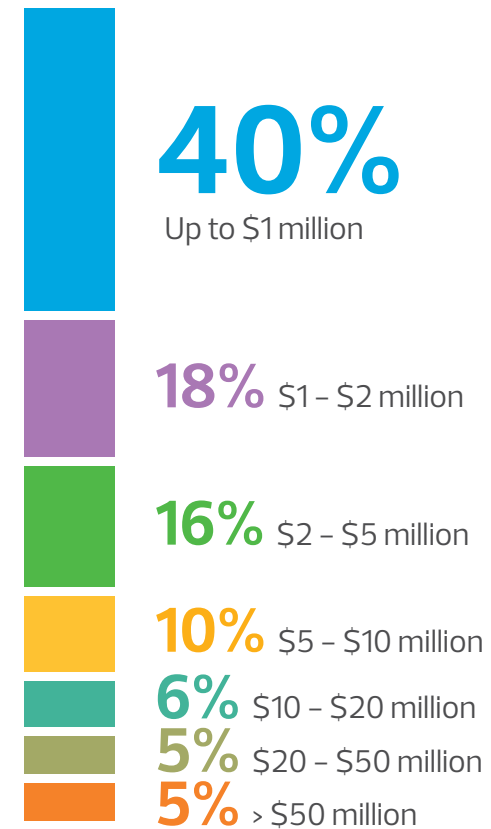
INDUSTRY

Industries represented included:



TURNOVER

Last year's annual turnover:



GLOSSARY

METHODOLOGY

Respondents completed a survey via email in March and April 2016. The sample consists of over 350 respondents.

TERMS USED IN THIS REPORT

SME

Small-to-medium enterprise. The Australian Bureau of Statistics defines a small-to-medium enterprise as any business that has 200 or fewer employees. Small businesses (excluding agricultural businesses) are those businesses employing less than 20 people. (Source: ABS Report Characteristics of Small Business, April 2005.)

Business plan

A document describing the business, its objectives and the strategy it will employ to achieve those objectives. A comprehensive business plan should include the following content:

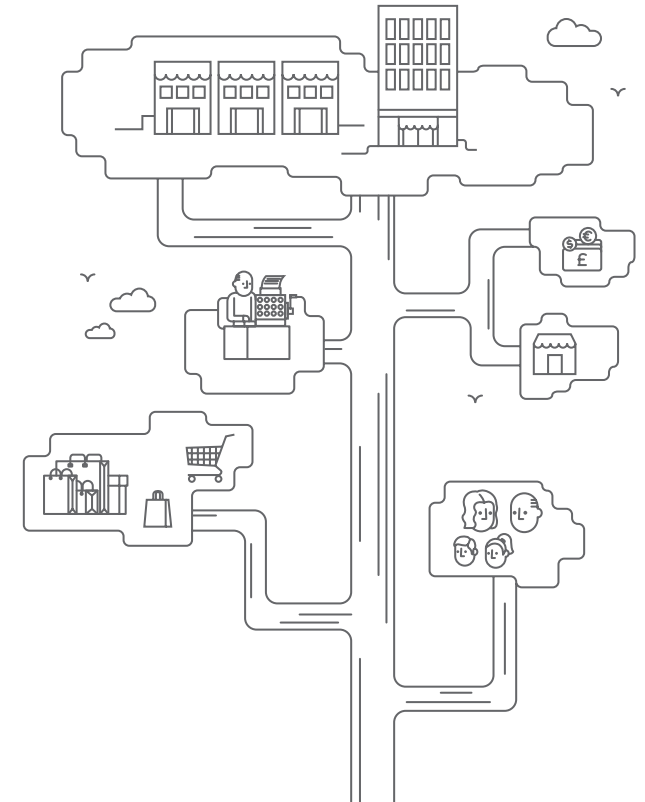
- market analysis
- competitive differentiation
- financial goals
- marketing plan
- operating plan
- management plan

Succession plan

A plan outlining how the current owners will transition the business to new ownership, which may be within or outside the business, a family member, director or employee.

Exit plan

A plan outlining how the current owners plan to sell the business. The primary difference between an exit plan and a succession plan is that with a succession plan, the new ownership/management team is known to the current owners, and this is integral to the plan. With an exit plan the current owners do not know who the new ownership will be, but have identified the means by which they plan to realise the wealth they have created.



THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING

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