

SMALL & MEDIUM ENTERPRISE SENTIMENT TRACKER

Wave 48 - February 2023



ABOUT US



ACA Research & Fifth Quadrant have worked closely with Ovation on business and consumer research projects for over a decade. Our strong partnership has allowed us to collaborate on this tracker to provide a monthly update on the sentiment of Small & Medium businesses throughout Australia.

TWO BRANDS OPERATING UNDER A SINGLE MANAGEMENT

ACA Research is a full-service market research consultancy, with a **strong focus on B2B projects.**

Our consultants provide strategic qualitative and quantitative research solutions to support business decision making.



Fifth Quadrant is our **specialist customer experience brand** providing industry analysis, benchmarking, research and consulting services.

Our consultants work on strategic and operational projects to help clients optimise CX delivery and reduce cost to serve.



Ovation is committed to delivering quality data, analytics and online research services with access to **one of Australia's largest and most responsive online research panels.** Our wide reach includes professionals, from small business owners to executives, across a variety of industries.

Our continued success is based on integrity and passion to ensure the best outcomes for both our clients and members alike.



KEY LEARNINGS



40% of SMEs report lower revenues than prior to the pandemic



83% of SMEs are concerned about rising interest rates



69% expect the Australian economy to weaken over the next 3 months



27% expect to decrease capital investment over the next 3 months

Tipping Point For SMEs as Sentiment Falls Significantly

After a long road back and a strong Christmas period, SME revenue, profit and confidence are softer in 2023 indicating the slowdown has commenced.

40% of SMEs reported lower revenues than before the pandemic and only 43% reported a profit for the month of January. Sentiment about the Australian economy has also dropped significantly with 69% expecting weaker conditions over the next 3 months. This compares to 54% in December. Accordingly, the number of growth focused SMEs continues to steadily decline to just 32%, from a high of 43% in August.

Concerns about rising costs are significant and clearly impacting SMEs, with 83% now concerned about inflation and rising interest rates. To offset higher costs 63% of SMEs have increased their prices, but the majority have only partially recouped the extra costs.

Business conditions are impacting investment intentions across the board, with many SMEs expecting to decrease capital investment (27%), employee numbers (15%) and wage growth (13%) over the next 3 months.

The demand for additional finance also continues to decline as interest rate hikes persist. Only 7% expect to incur more debt over the next 3 months compared to 15% in December. 12% of SMEs reported they will have difficulties meeting their existing loan repayments over the next 6 months.

Support for the Government has also declined with only 34% of SMEs satisfied with the ability of the Government to deliver effective policies that support their business needs. This is a drop of 5% from 39% since last month.

In summary, it feels like many SMEs are now at a tipping point, experiencing declining revenue and profits and difficulties managing rising costs and interest rates. Accordingly investment intentions are falling and the demand for new employees, capital equipment and finance are all lower this month. With another interest rate rise announced this month, there is more pain ahead for SMEs in the short term.



1

KEY PERFORMANCE INDICATORS

2

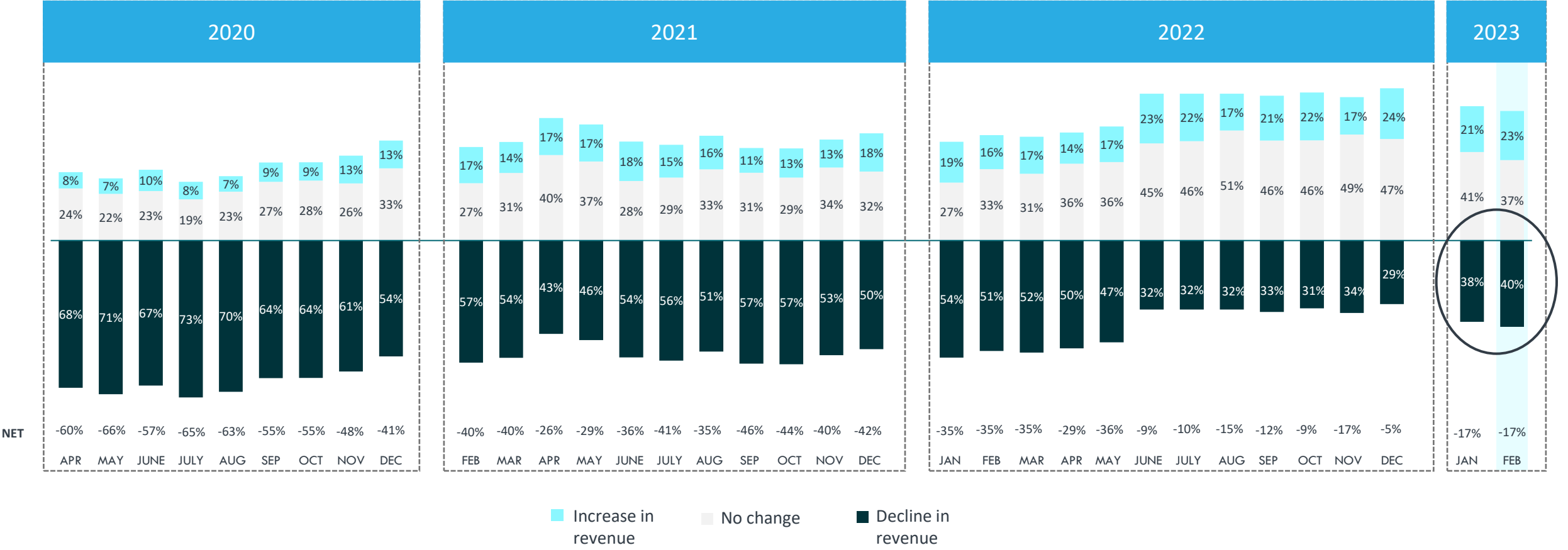
BUSINESS SENTIMENT

3

BUSINESS INVESTMENT

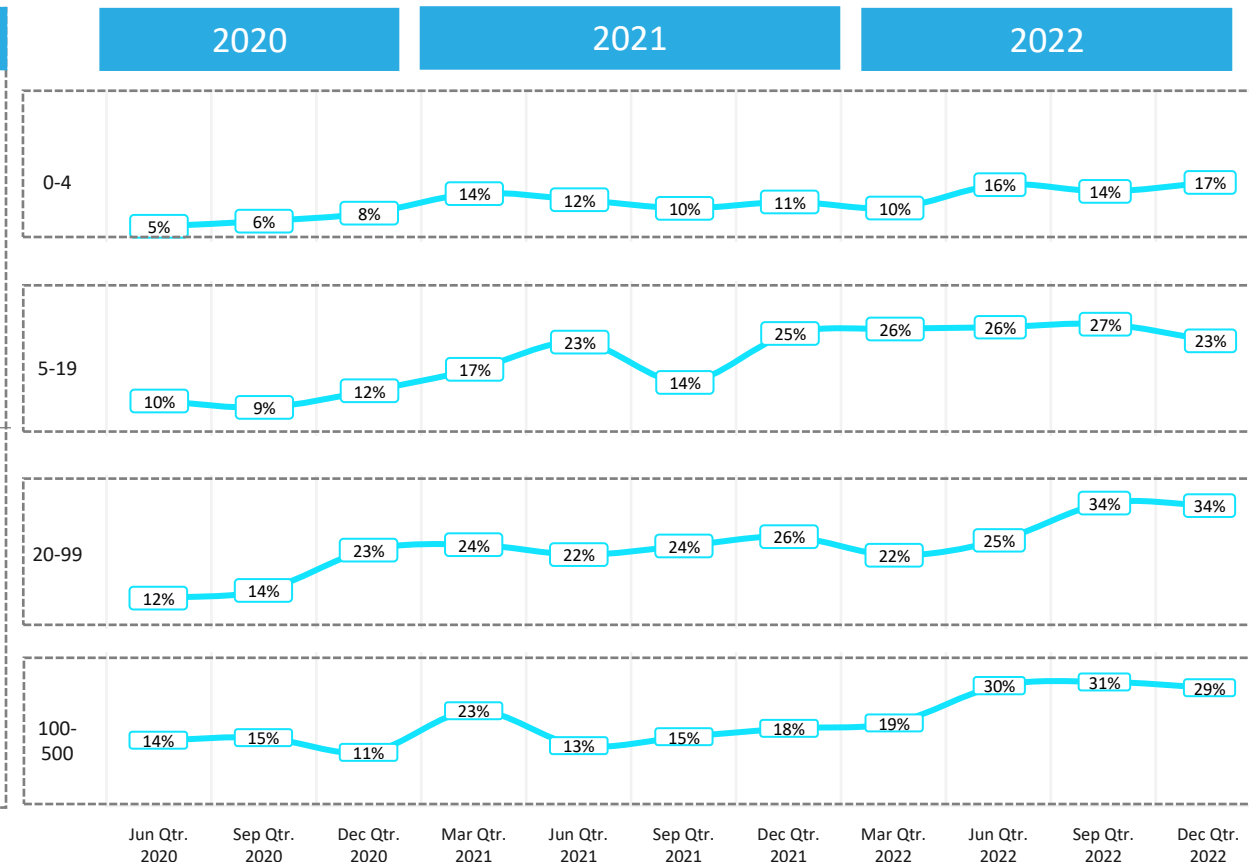
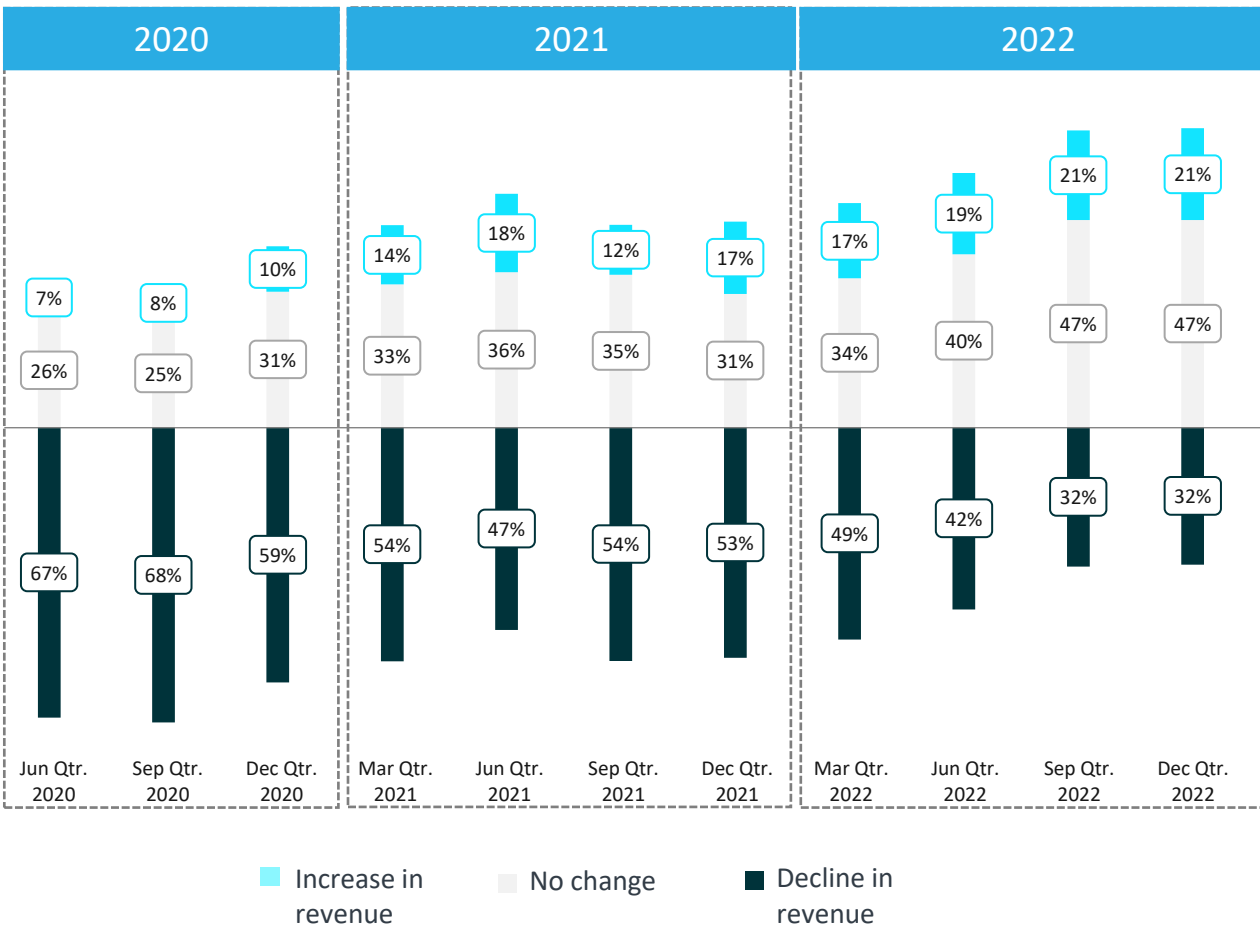
After a long road back and a strong Christmas period, SME revenues are softer in 2023 indicating the slowdown has commenced.

HOW DOES YOUR CURRENT MONTHLY REVENUE COMPARE TO YOUR MONTHLY REVENUE PRIOR TO THE PANDEMIC?



Quarterly data shows that a higher proportion of larger SMEs have increased revenues since the start of the pandemic.

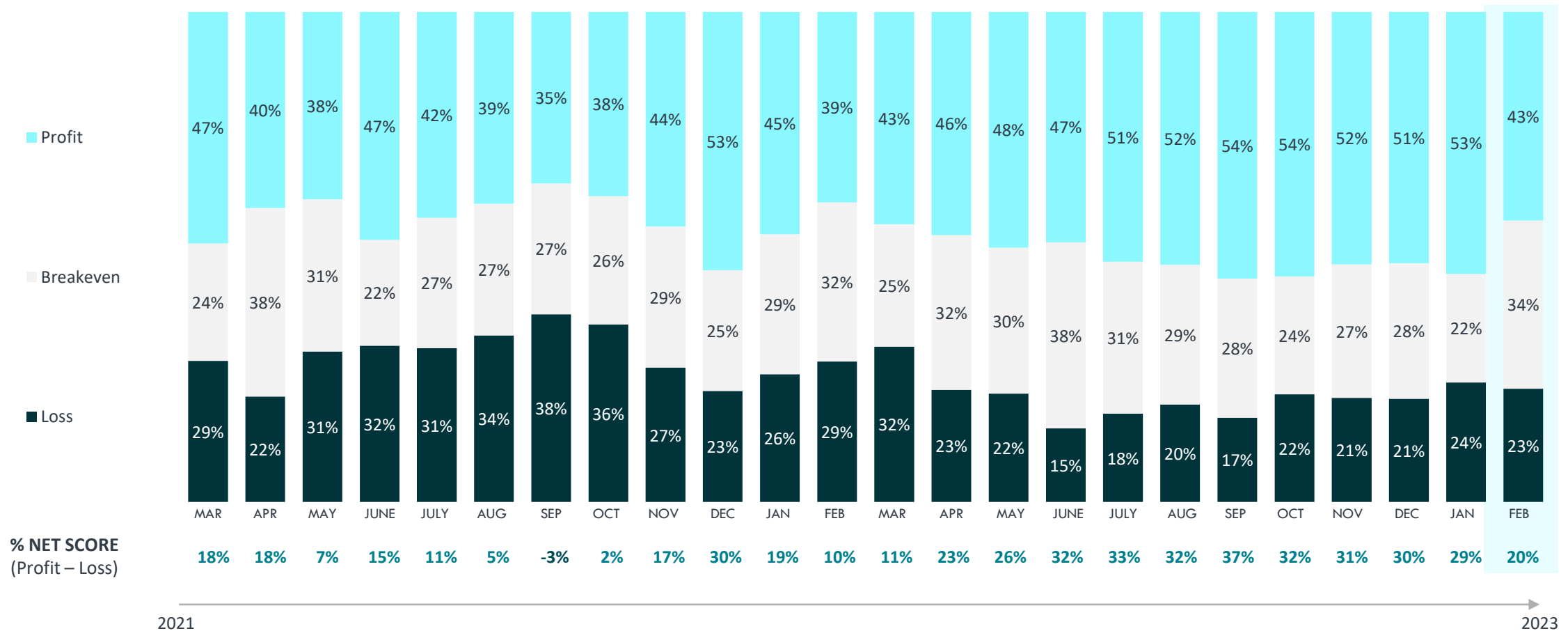
HOW DOES YOUR CURRENT MONTHLY REVENUE COMPARE TO YOUR MONTHLY REVENUE PRIOR TO THE PANDEMIC?



PROFIT

Throughout 2022, the proportion of SMEs reporting a profit trended up, but so did the proportion making a loss in the second half. This indicates the impact of rising input costs, despite economic activity remaining strong.

WHAT WAS YOUR PROFIT MARGIN LAST MONTH (JANUARY)?



2021

2023

COST CHALLENGES

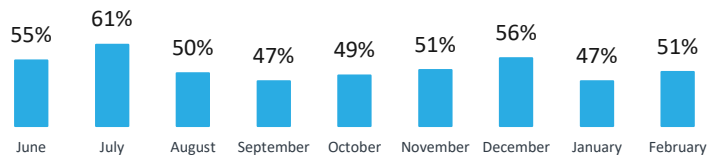
While concerns about rising input costs are significant and clearly impacting SMEs, the data demonstrates a downward trend across most categories since June. The one exception is rising interest rates which has trended up significantly since September.

HOW CONCERNED ARE YOU ABOUT THE IMPACT OF THE FOLLOWING ISSUES ON YOUR BUSINESS?



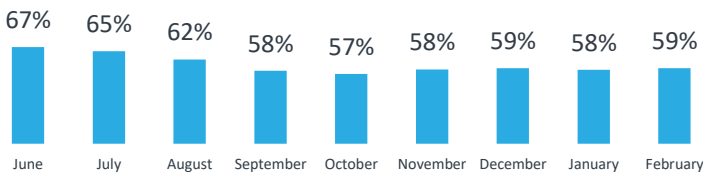
Staff or skill shortages

9 month trend: -4%



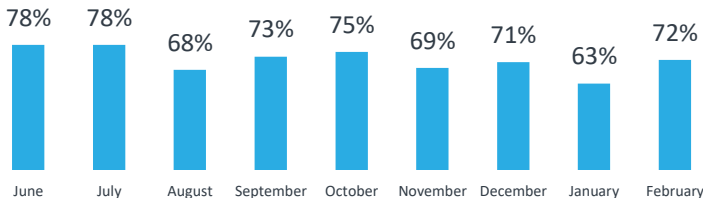
Increasing wage costs

9 month trend: -8%



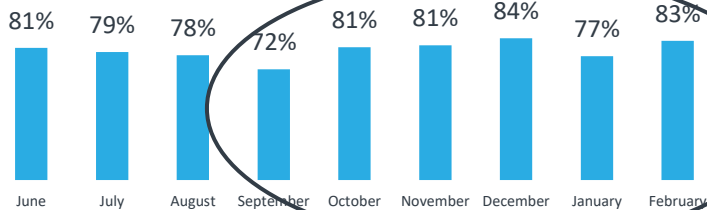
Supply chain delays and associated costs increase

9 month trend: -6%



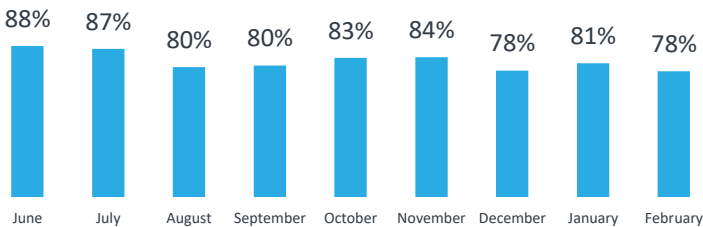
Rising interest rates

9 month trend: +2%



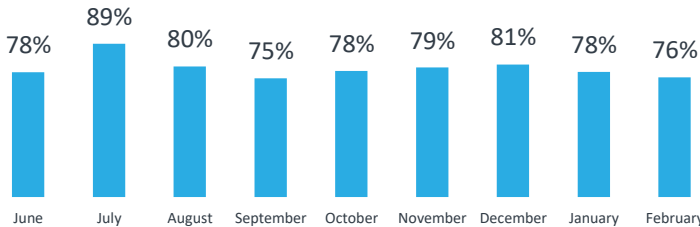
Increasing fuel costs

9 month trend: -10%



Increasing energy costs

9 month trend: -2%



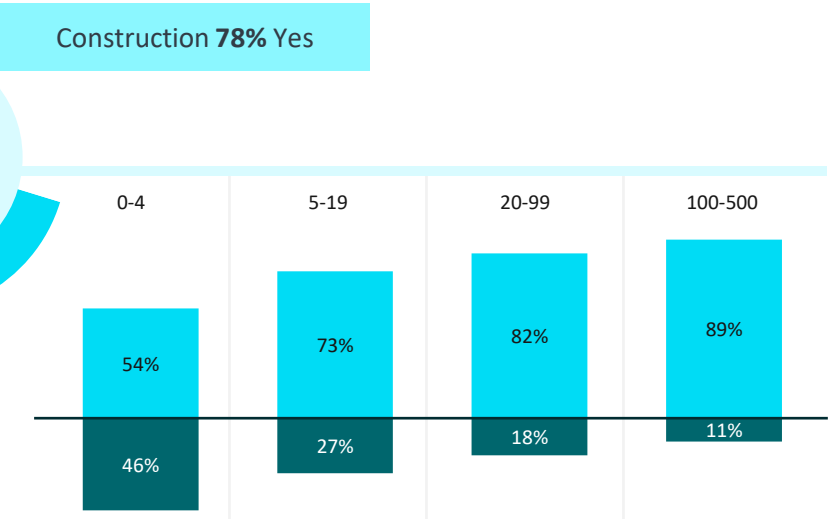
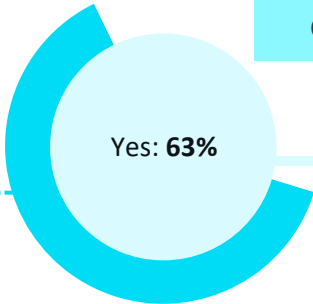
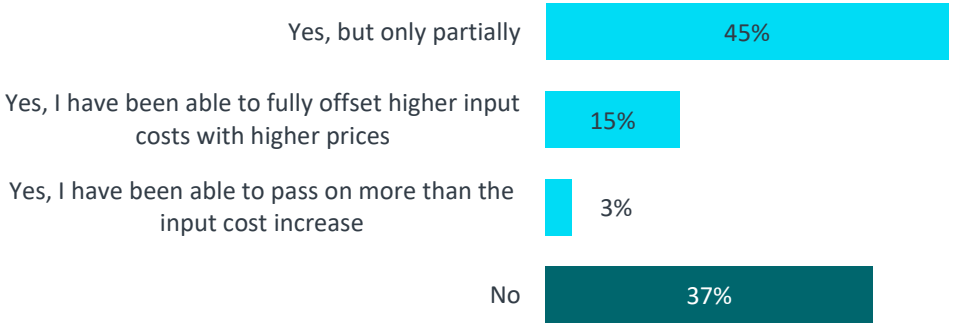
Hospitality 90% Concerned

NET concerned

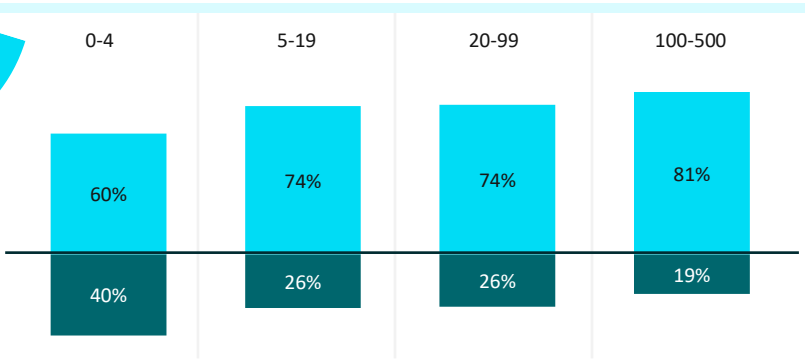
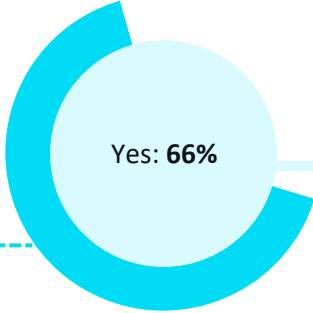
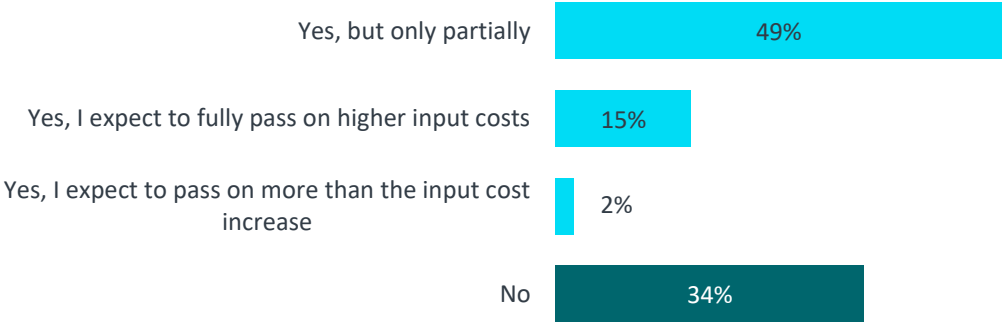
COST CHALLENGES

Two-thirds of SMEs have increased their prices to offset higher input costs, but the majority have only been able to partially recoup the extra costs. Notable that many micro businesses (0-4 employees) have not increased their prices, presumably to remain competitive and retain customers despite lower margins.

HAVE YOU BEEN ABLE TO PASS ON HIGHER INPUT COSTS TO YOUR CUSTOMERS?

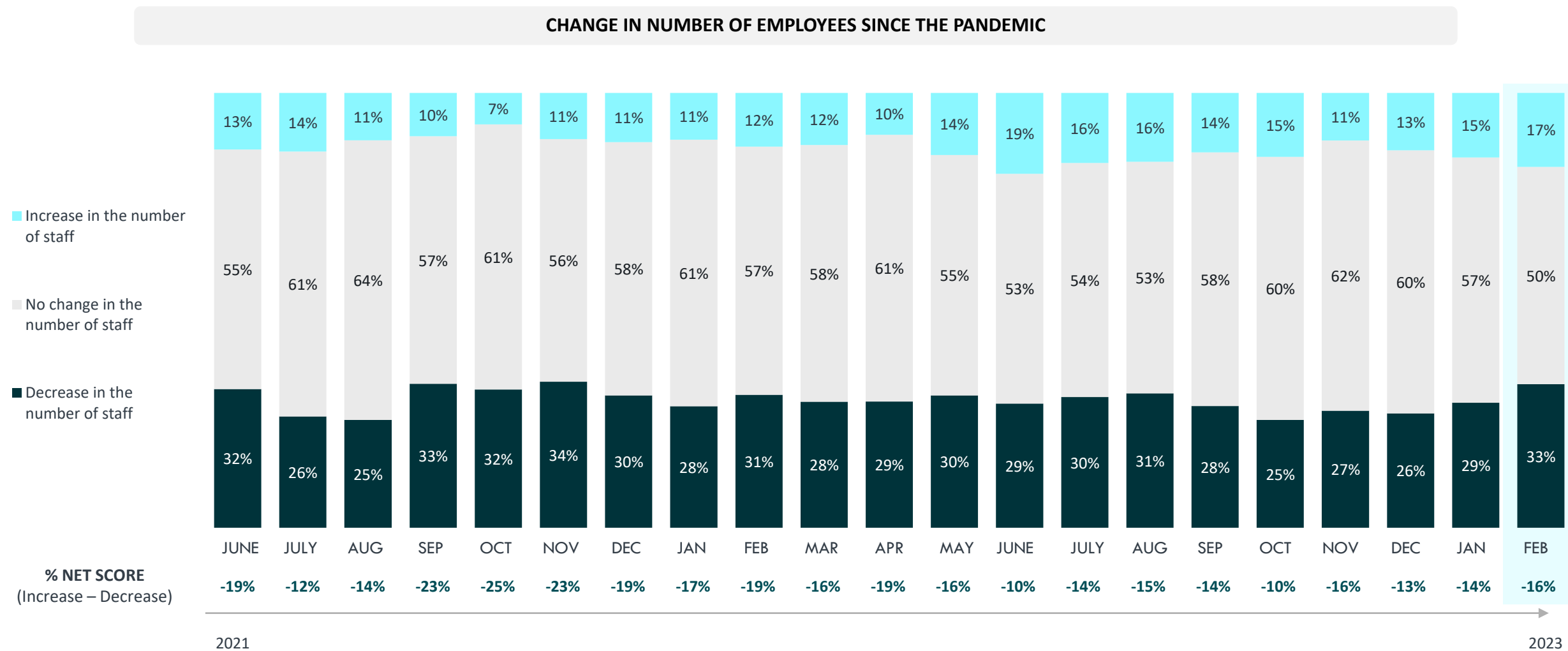


DO YOU EXPECT TO BE ABLE TO PASS ON/CONTINUE TO PASS ON HIGHER INPUT COSTS TO CUSTOMERS IN THE NEXT 6 MONTHS?



EMPLOYMENT

One third of SMEs continue to operate with a leaner workforce than before the pandemic. This proportion has continued to increase since October.





1

KEY PERFORMANCE INDICATORS

2

BUSINESS SENTIMENT

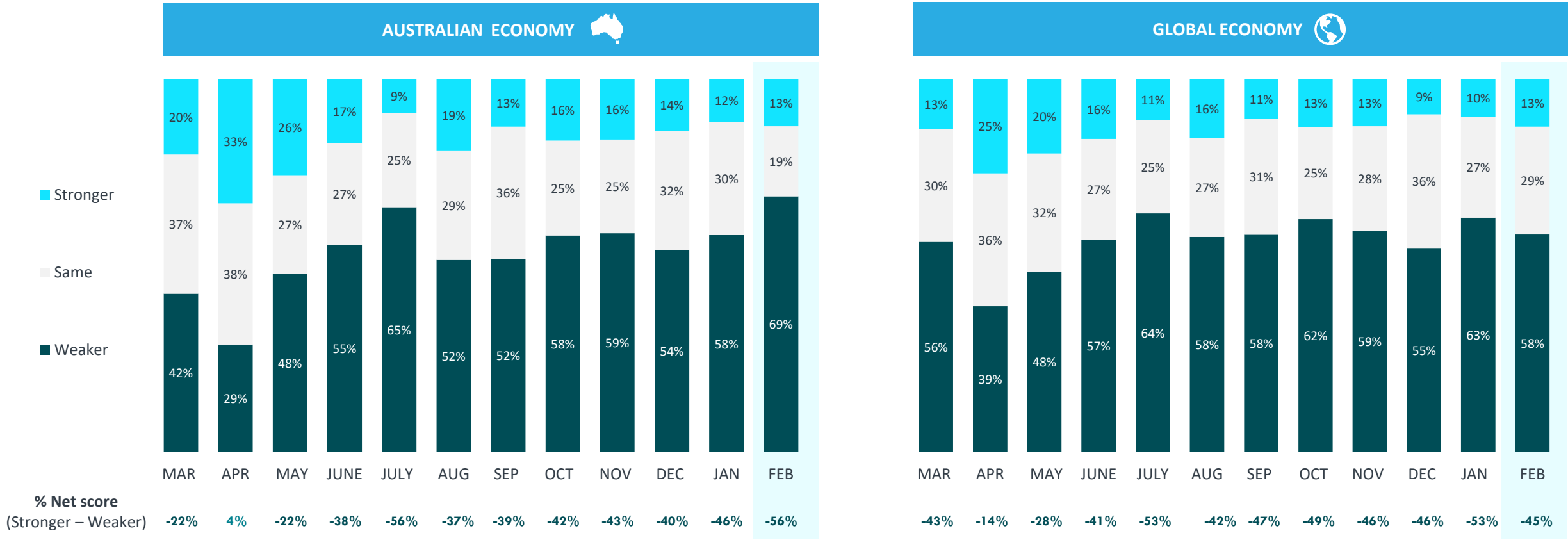
3

BUSINESS INVESTMENT

EXPECTATIONS REGARDING ECONOMIC CONDITIONS (NEXT 3 MONTHS)

Negative sentiment becomes more evident when assessing expectations about economic conditions in Australia, which have declined steeply over the past 3 months. This trend also mirrors the 3 month trend following the first interest rate rise in May 2022. Interestingly, sentiment regarding the global economy is also weak, but did recover slightly in February.

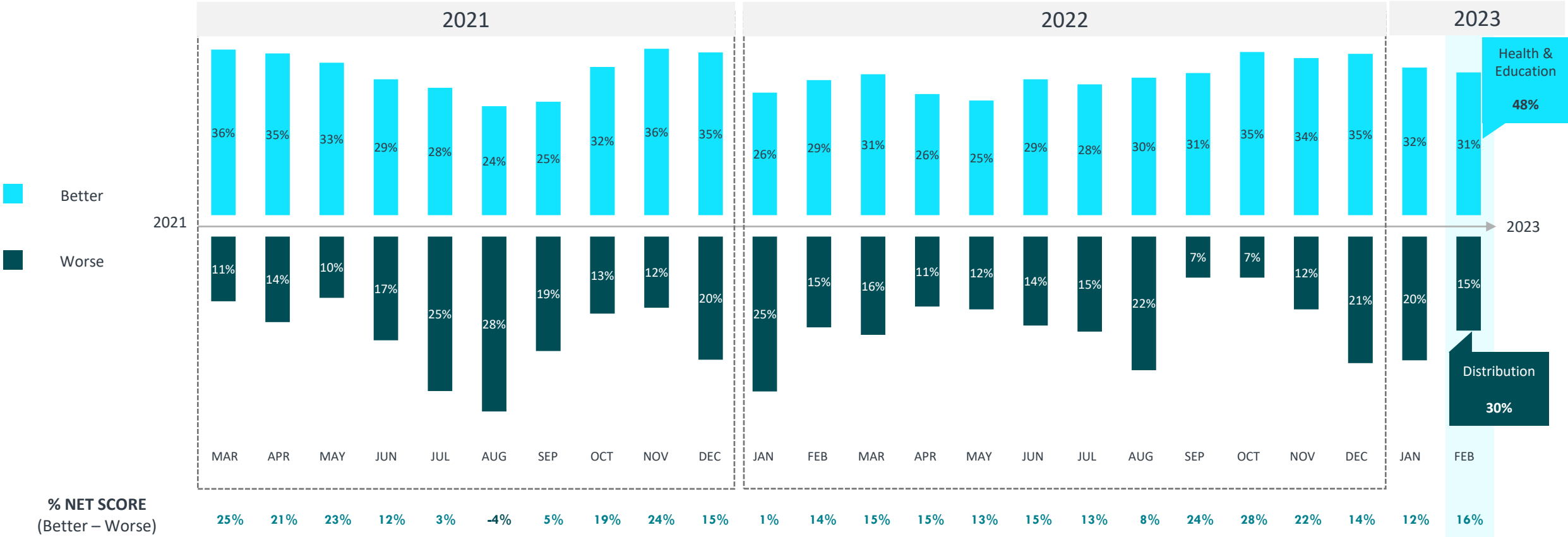
EXPECTATIONS OVER THE NEXT 3 MONTHS REGARDING ECONOMIC CONDITIONS



REVENUE EXPECTATIONS (NEXT 4 WEEKS)

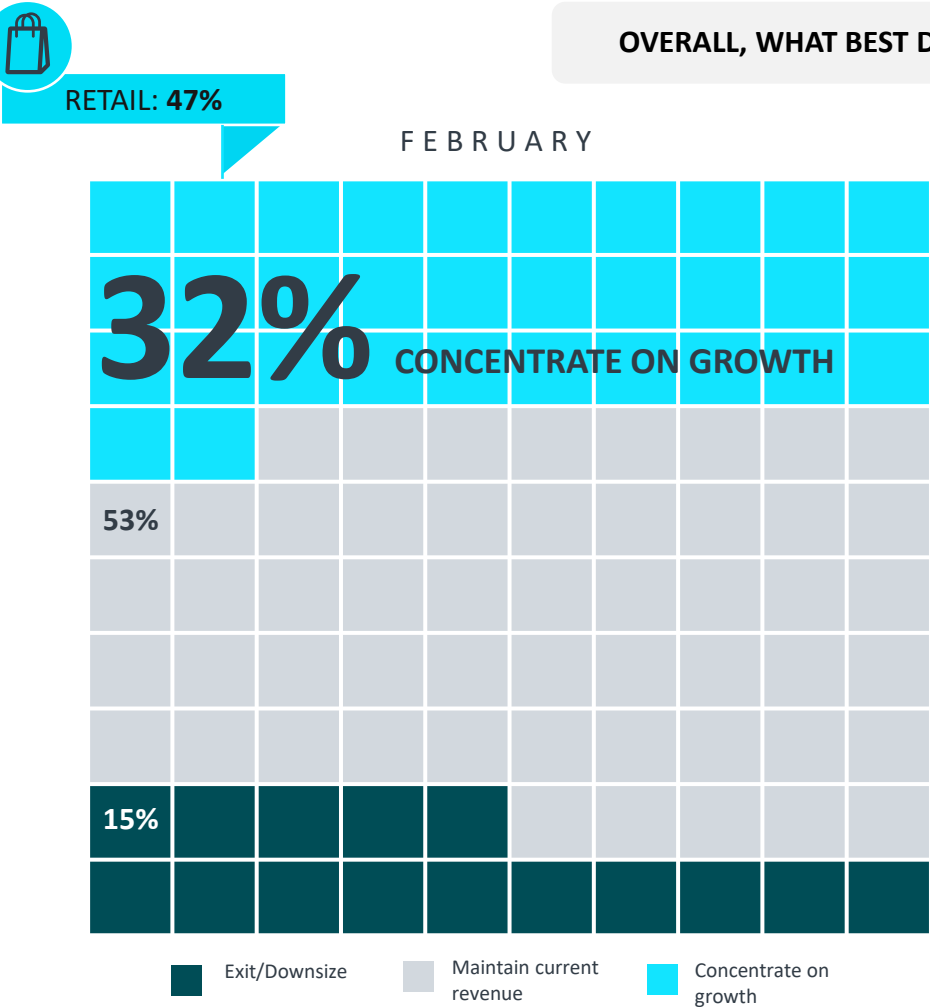
Reflecting the soft economic conditions, less SMEs are predicting short term revenue increases. Interestingly the proportion expecting lower revenues has also declined suggesting some level of optimism that business conditions might hold up.

WHERE DO YOU EXPECT YOUR REVENUE TO BE IN 4 WEEKS COMPARED TO TODAY?

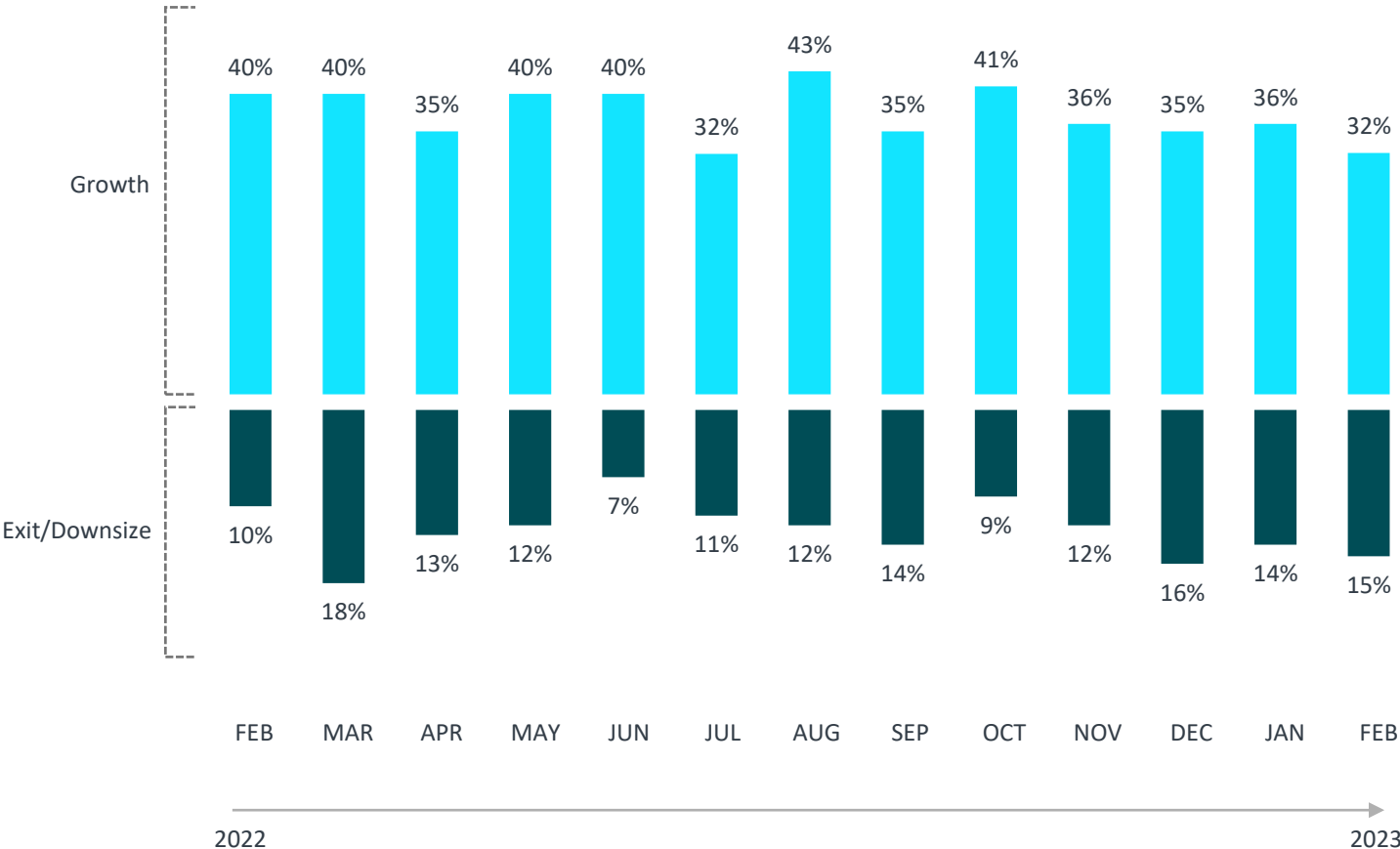


GROWTH EXPECTATIONS (NEXT 12 MONTHS)

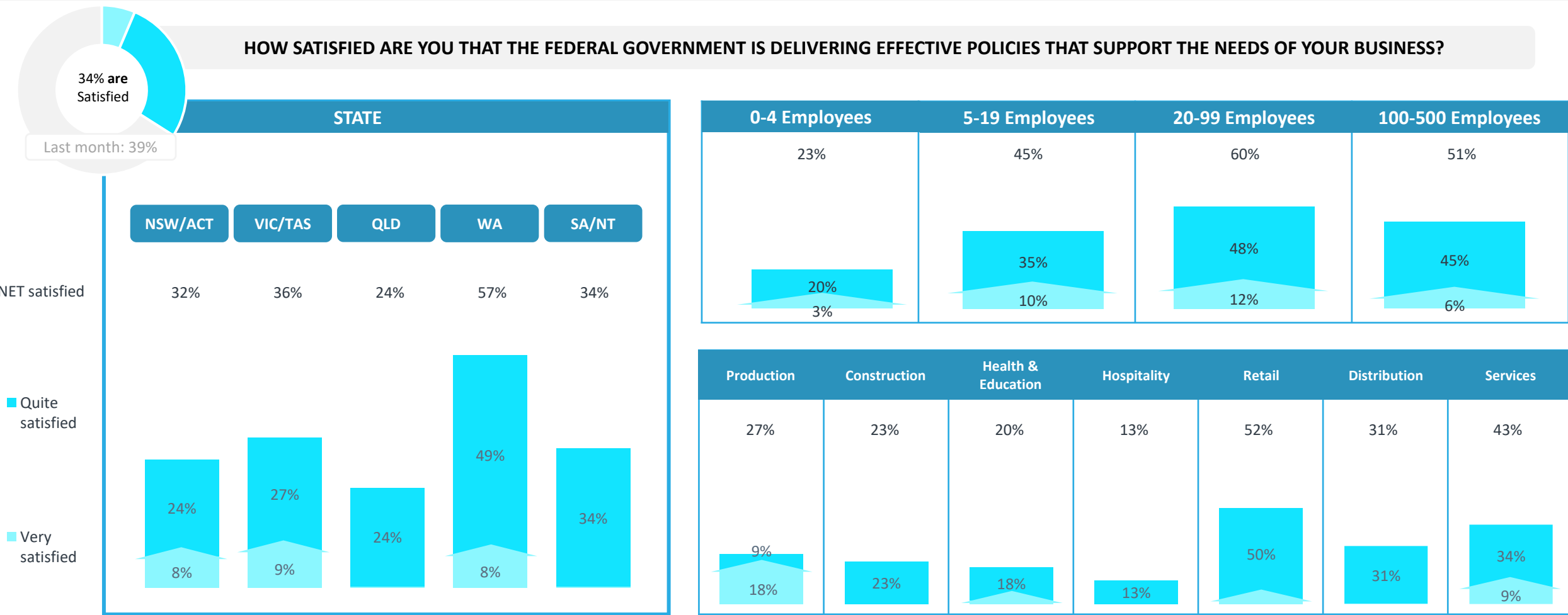
Accordingly, the number of growth focussed SMEs continues to steadily decline in line with expectations about the Australian economy.



OVERALL, WHAT BEST DESCRIBES YOUR APPROACH TO BUSINESS OVER THE NEXT 12 MONTHS?



Only 34% of SMEs are satisfied with the Federal government’s ability to deliver effective policies that support their business needs. This is a drop of 5% since last month.





1

KEY PERFORMANCE INDICATORS

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BUSINESS SENTIMENT

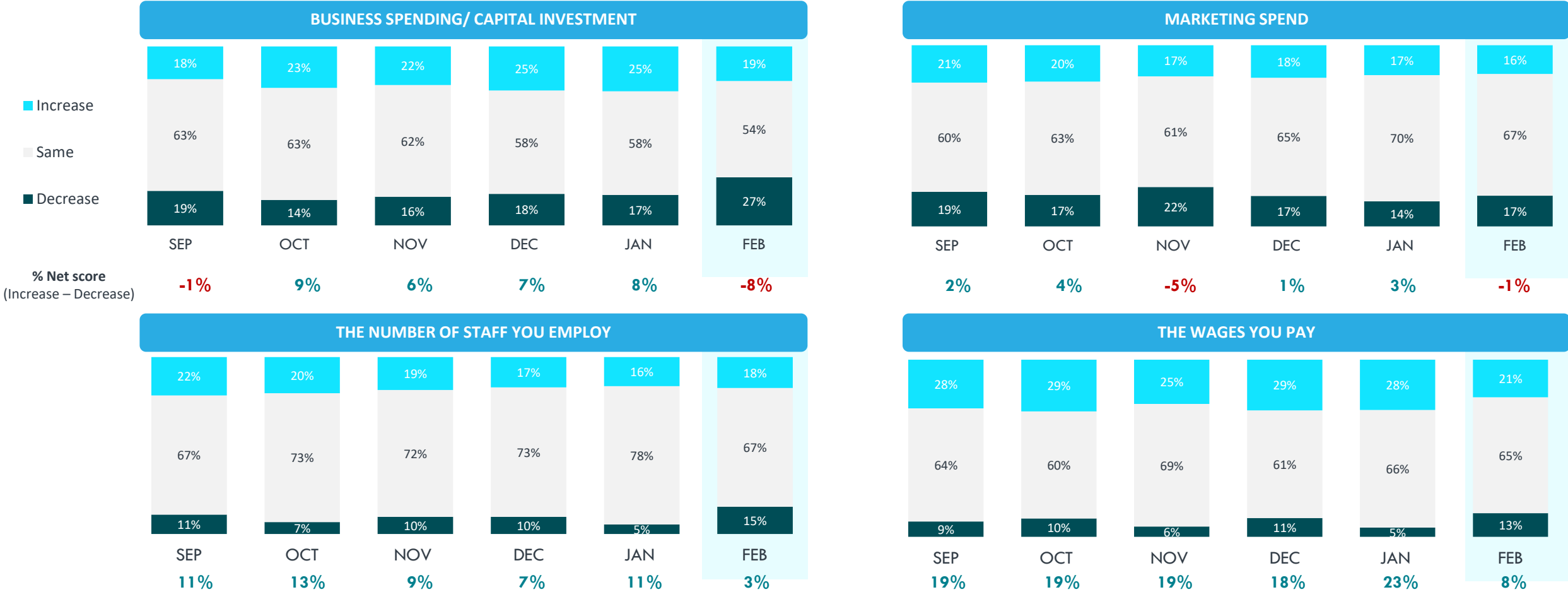
3

BUSINESS INVESTMENT

BUSINESS INVESTMENT (NEXT 3 MONTHS)

Business conditions are impacting investment expectations across the board, with capital investment, employee numbers and wage growth all likely to moderate over the next 3 months.

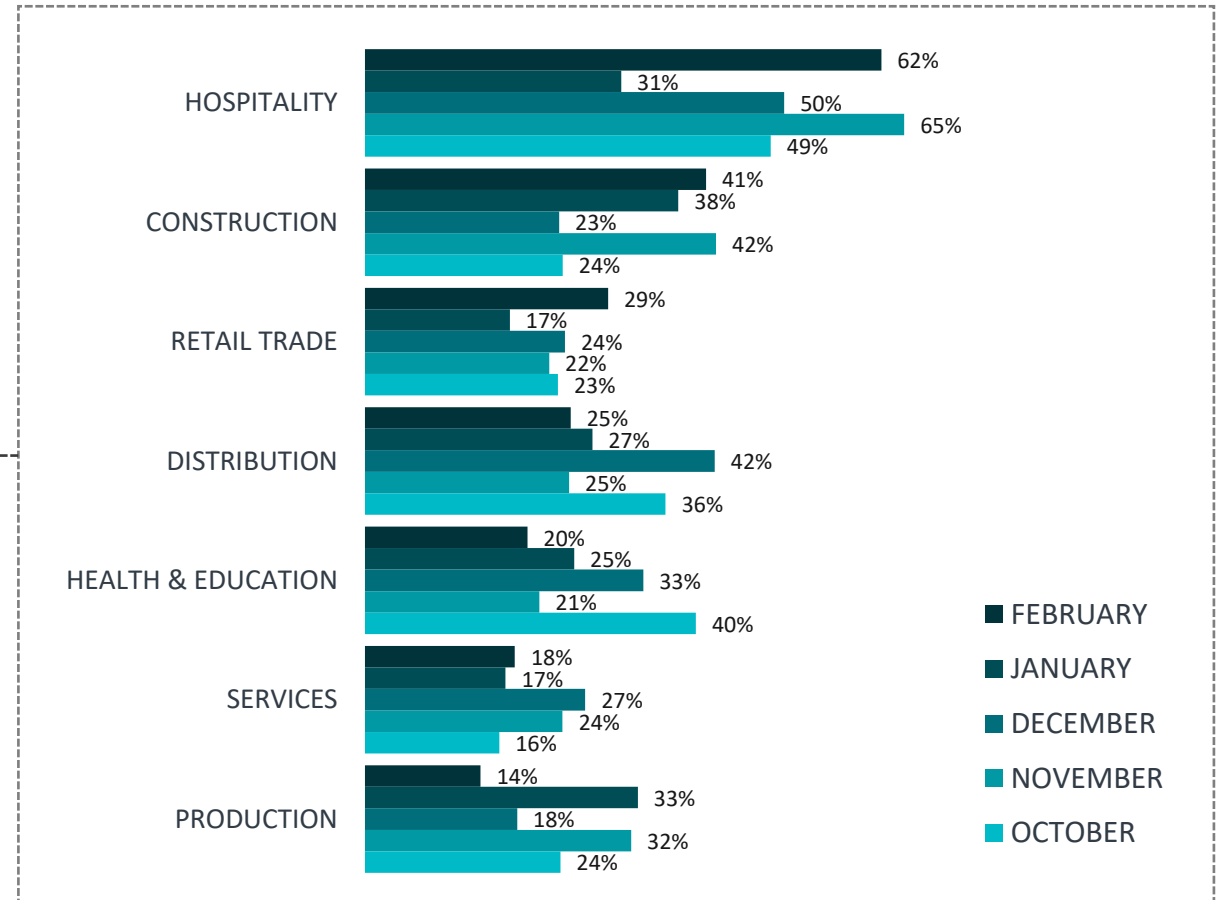
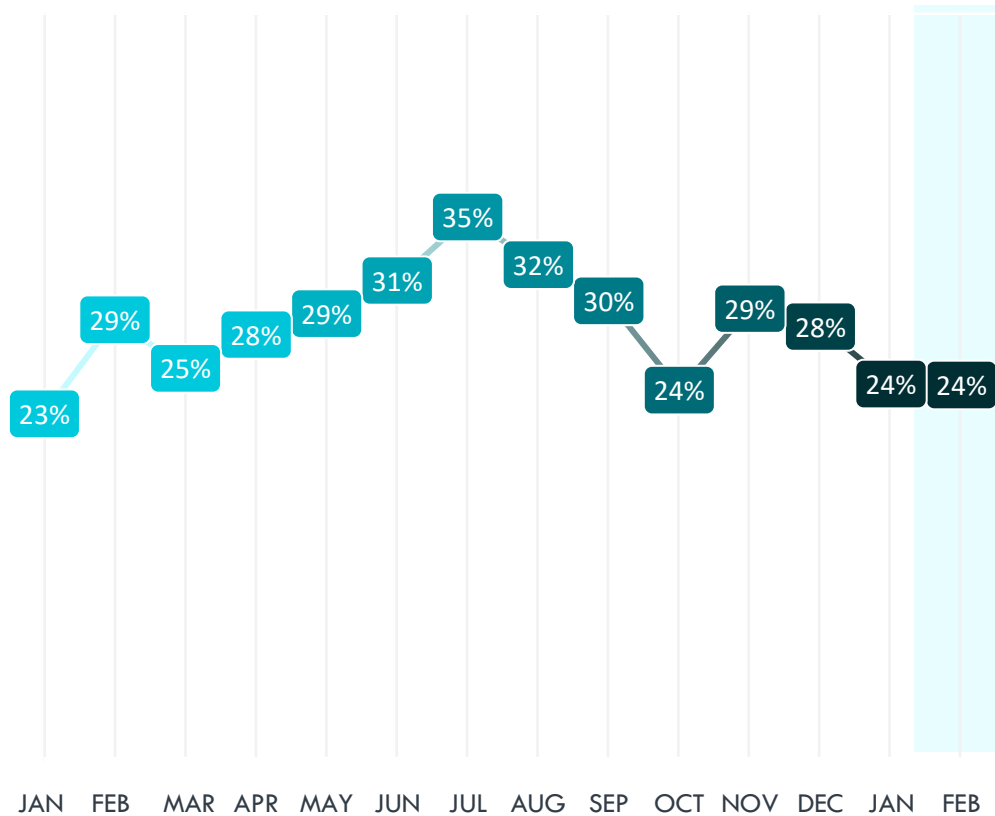
EXPECTATIONS OVER THE NEXT 3 MONTHS REGARDING BUSINESS INVESTMENT



JOB VACANCIES

Demand for new employees amongst SMEs peaked in July 2022 and now remains flat with a relatively low 24% currently recruiting.

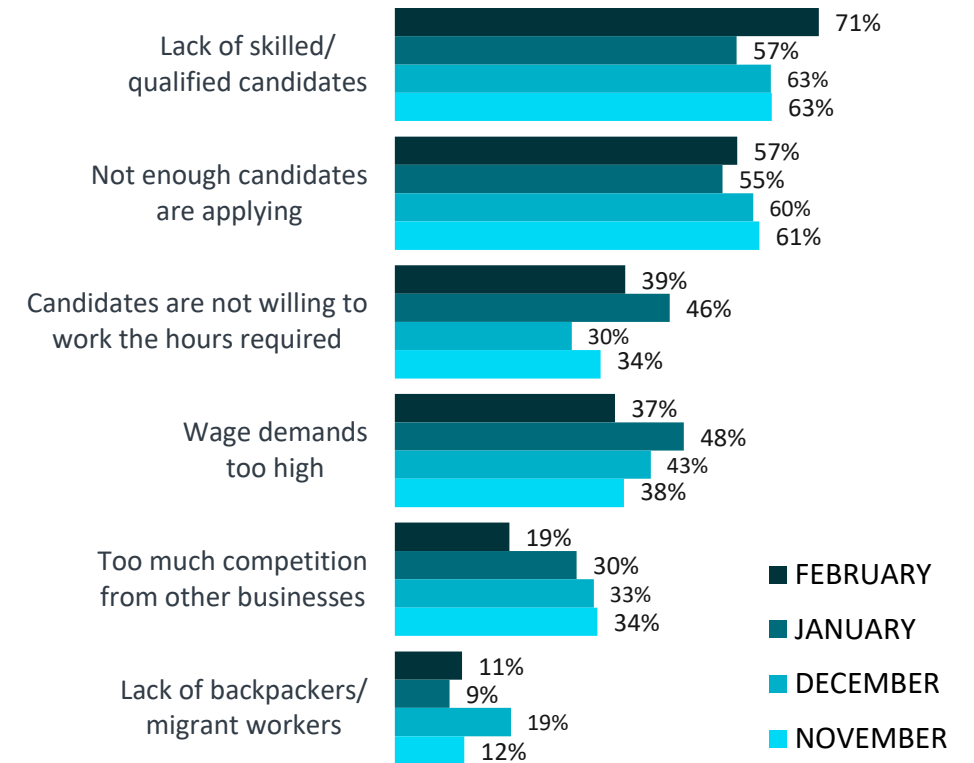
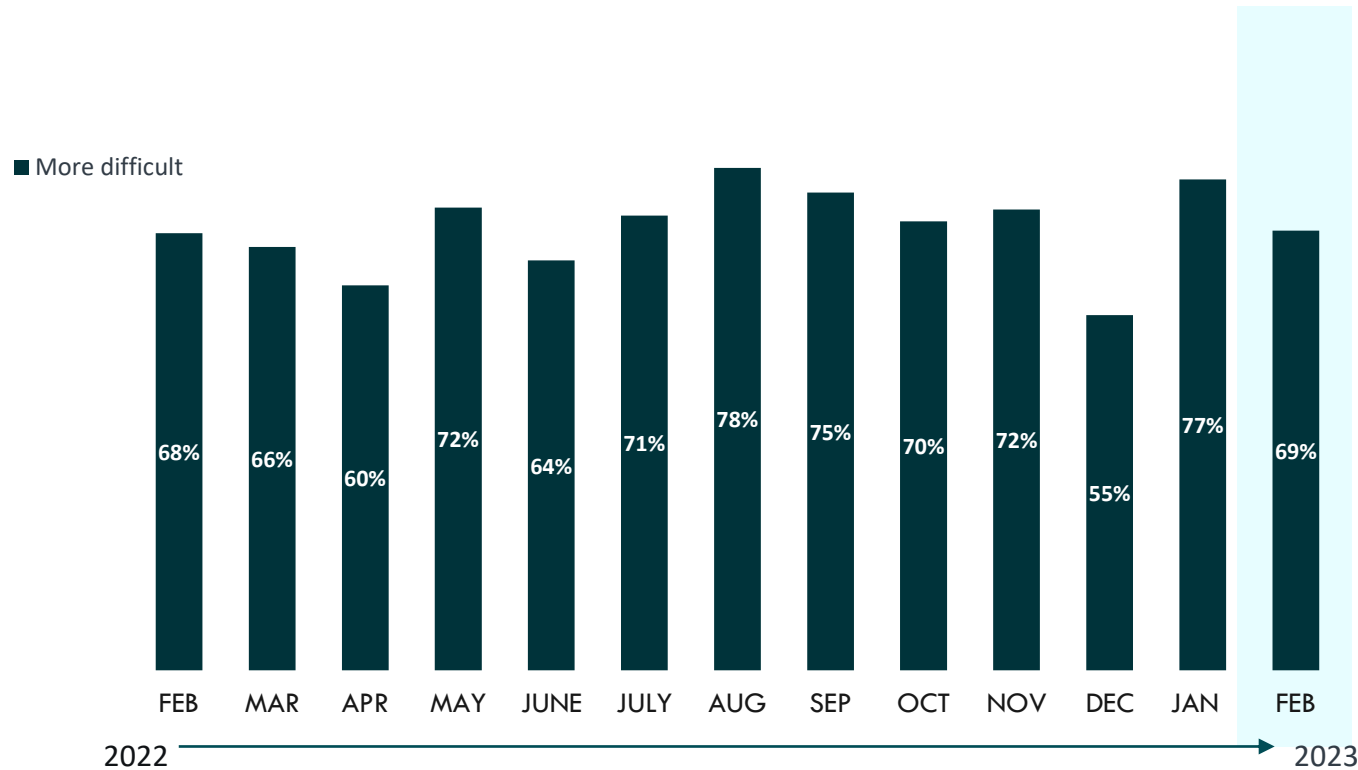
SMEs THAT CURRENTLY HAVE JOB ROLES THEY ARE TRYING TO FILL



JOB VACANCIES

With lesser demand, recruitment is steadily becoming easier, but a lack of skilled qualified candidates is an ongoing problem that may ease as more skilled migrants are granted working visas.

OVERALL, DO YOU THINK IT IS MORE OR LESS DIFFICULT TO FILL ROLES THAN BEFORE THE COVID-19 PANDEMIC?

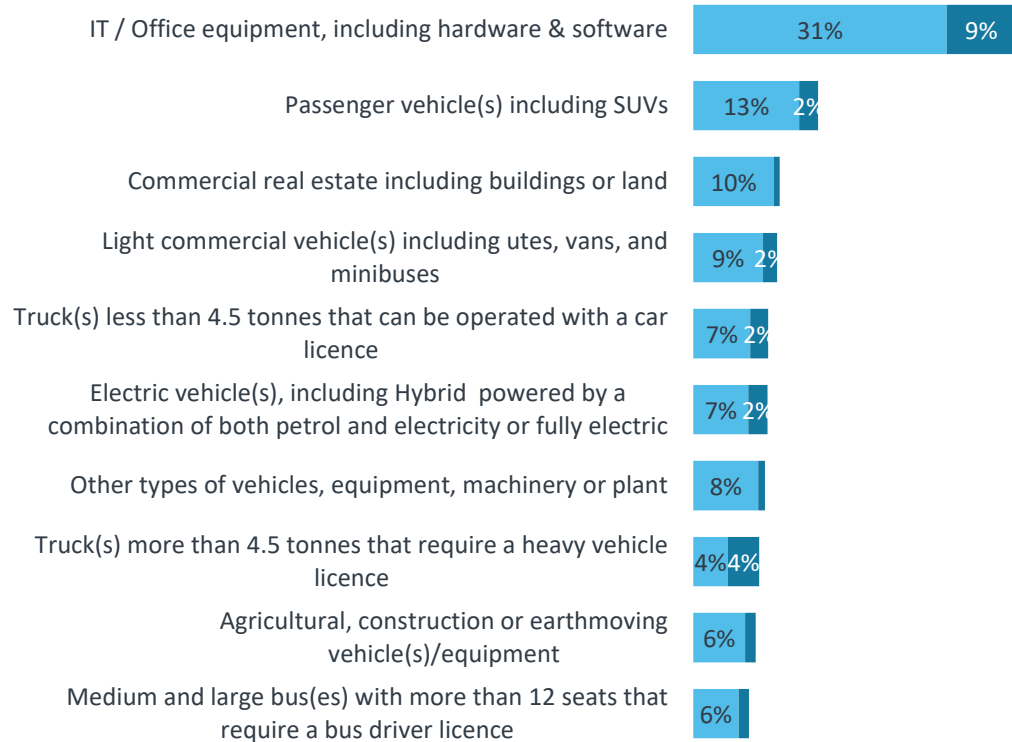


CAPITAL EXPENDITURE (NEXT 3 MONTHS)

Investment expectations in IT/office equipment and plant, equipment and machinery have fallen significantly over the past month.

WHICH OF THE FOLLOWING WILL YOU PURCHASE FOR YOUR BUSINESS OVER THE NEXT 3 MONTHS?

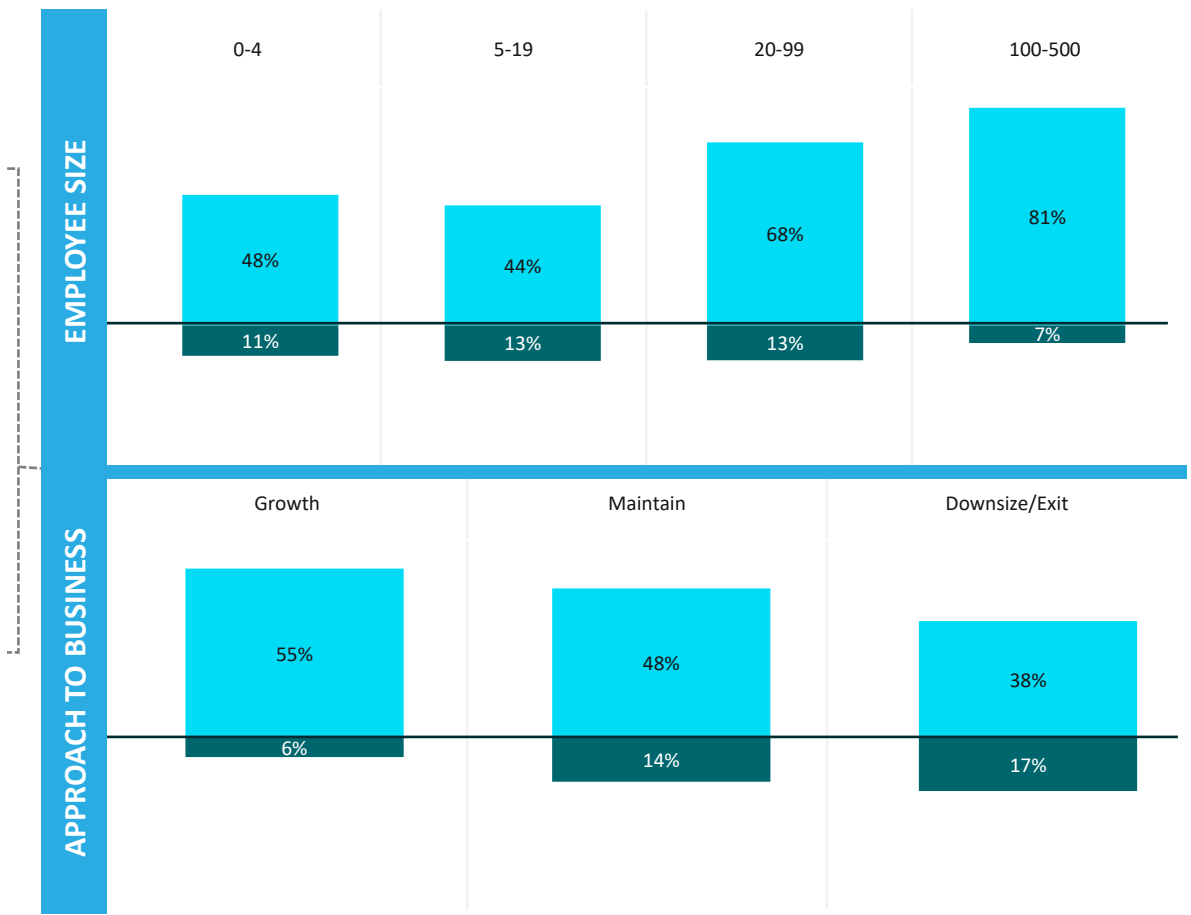
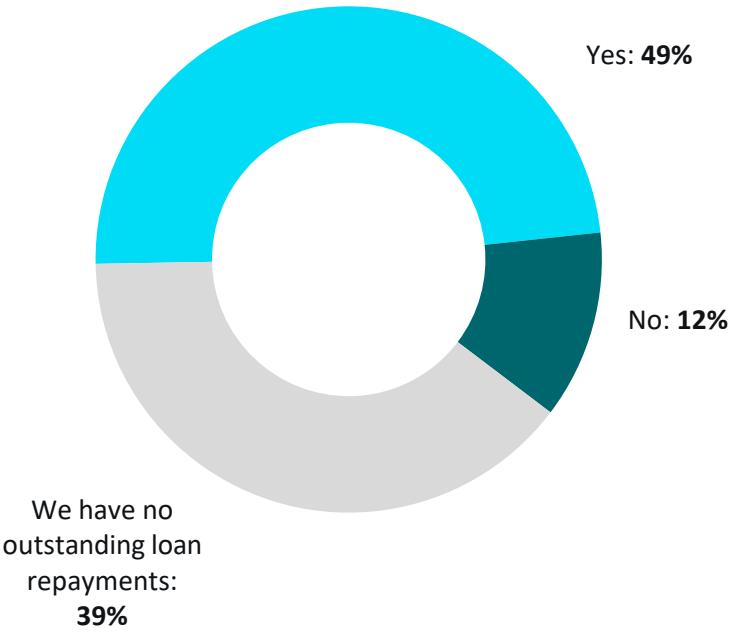
■ Probably will ■ Definitely will



2021									2022												2023				%
																									Change from last month
APR	MAY	JUNE	JULY	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP	OCT	NOV	DEC	JAN	FEB			
44%	54%	51%	49%	45%	44%	43%	46%	44%	50%	47%	46%	48%	46%	46%	47%	48%	48%	44%	44%	49%	52%	40%	-12%		
19%	17%	17%	19%	17%	11%	9%	13%	17%	16%	16%	15%	13%	9%	17%	18%	14%	14%	15%	17%	13%	14%	15%	+1%		
12%	10%	13%	15%	12%	10%	9%	7%	13%	12%	11%	11%	9%	9%	11%	9%	9%	11%	8%	9%	15%	8%	11%	+3%		
15%	17%	15%	19%	17%	12%	8%	17%	16%	16%	16%	12%	13%	12%	11%	12%	12%	14%	15%	16%	17%	12%	10%	-2%		
10%	7%	10%	14%	11%	9%	5%	8%	10%	9%	10%	7%	6%	6%	8%	10%	4%	7%	6%	11%	9%	7%	9%	+2%		
11%	12%	13%	15%	14%	8%	6%	8%	10%	8%	15%	12%	9%	8%	10%	10%	10%	11%	10%	11%	12%	9%	9%	-		
21%	19%	21%	22%	20%	17%	11%	17%	18%	20%	20%	17%	13%	17%	23%	17%	13%	18%	17%	19%	15%	19%	9%	-10%		
12%	9%	11%	14%	15%	8%	4%	8%	8%	10%	10%	8%	6%	7%	5%	9%	5%	5%	7%	9%	10%	7%	8%	+1%		
13%	13%	14%	16%	14%	10%	5%	9%	10%	12%	11%	10%	7%	7%	8%	9%	10%	8%	10%	10%	8%	10%	8%	-2%		
10%	10%	9%	13%	12%	6%	5%	6%	8%	8%	8%	7%	5%	6%	6%	9%	5%	3%	5%	7%	7%	7%	7%	-		

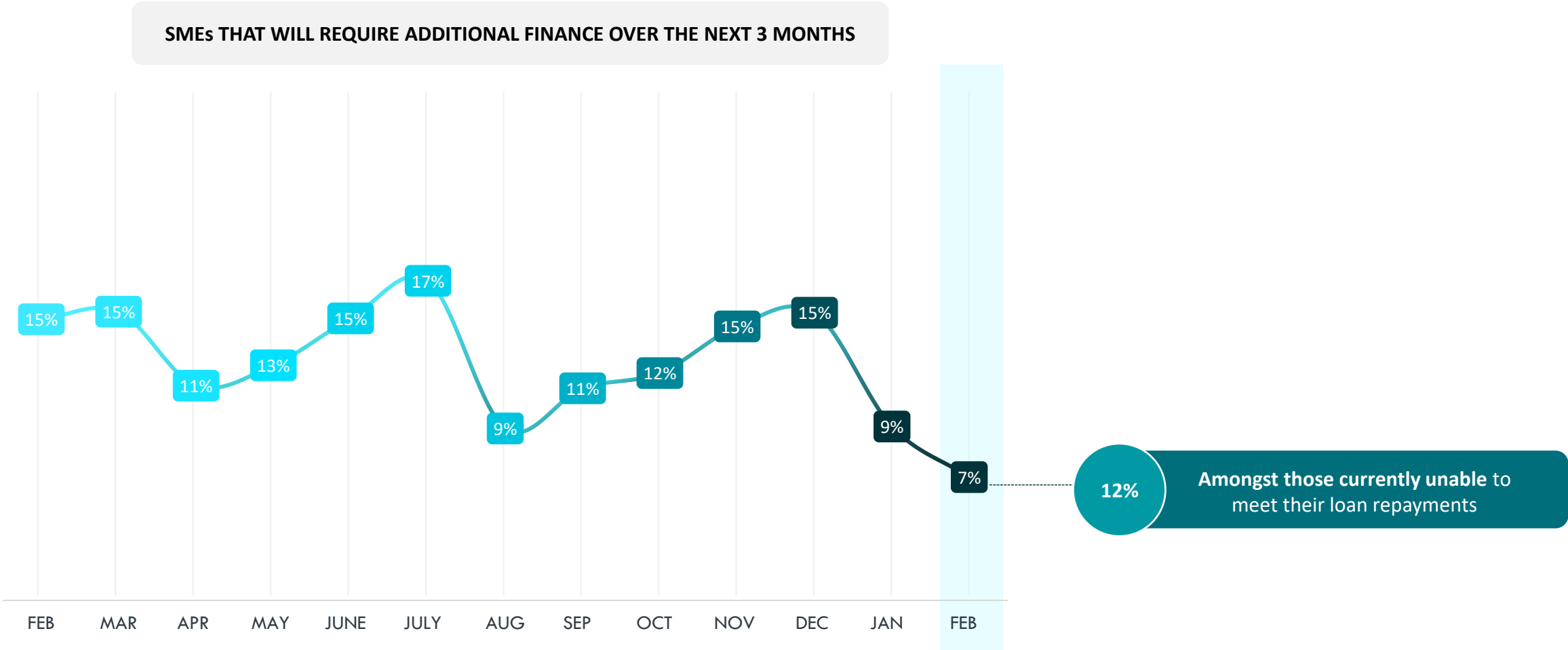
Currently, 12% of SMEs expect difficulties meeting their existing loan repayments over the next 6 months. As expected businesses experiencing difficulties are more likely to be looking to downsize or exit.

DO YOU EXPECT TO BE ABLE TO MEET YOUR LOAN REPAYMENTS OVER THE NEXT 6 MONTHS?



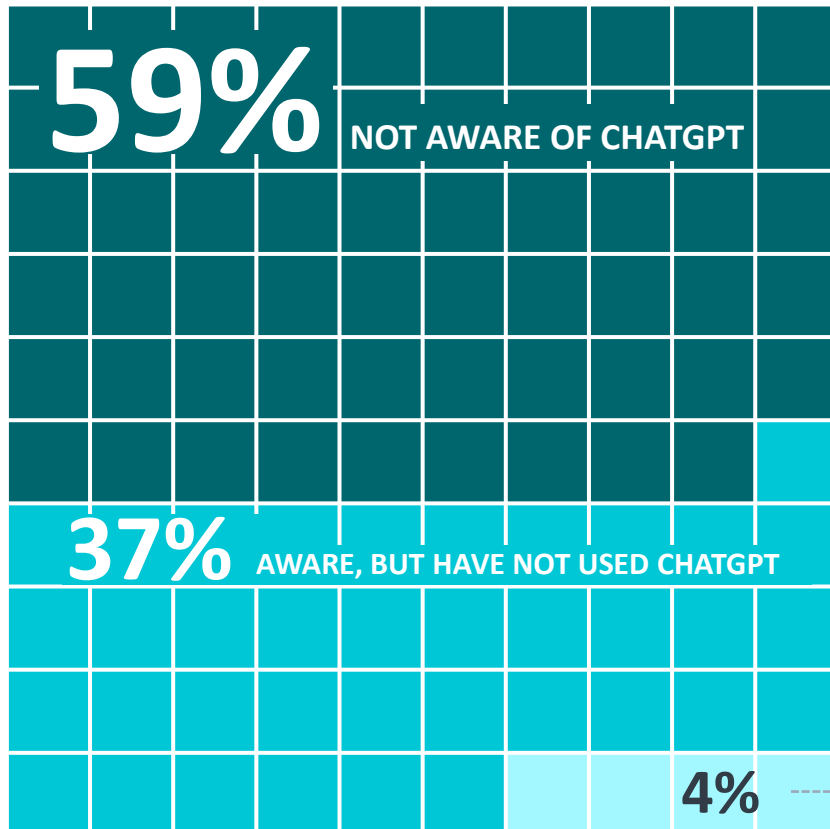
FINANCE NEEDS (NEXT 3 MONTHS)

The demand for additional finance continues to decline as interest rate hikes persist.



Despite all the hype nearly two-thirds of decision makers in SMEs are not aware of ChatGPT and only 4% are users.

ARE YOU AWARE OF CHATGPT?



HOW HAVE YOU USED CHATGPT IN YOUR BUSINESS?



USE CHATGPT

APPENDIX

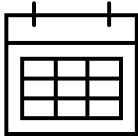
1

METHODOLOGY & SAMPLE

2

ABOUT ACA RESEARCH & FIFTH QUADRANT

METHODOLOGY



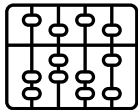
The SME Tracker was first launched
w/e 5th April 2020



Respondents from across
Australia, including **metro**
and regional areas



All respondents are **business owners or**
financial decision makers/influencers



Monthly waves with a minimum of
400 completed surveys with small
and medium businesses with up to
500 employees



All **industry sectors** are
represented, allowing for
subgroup analysis

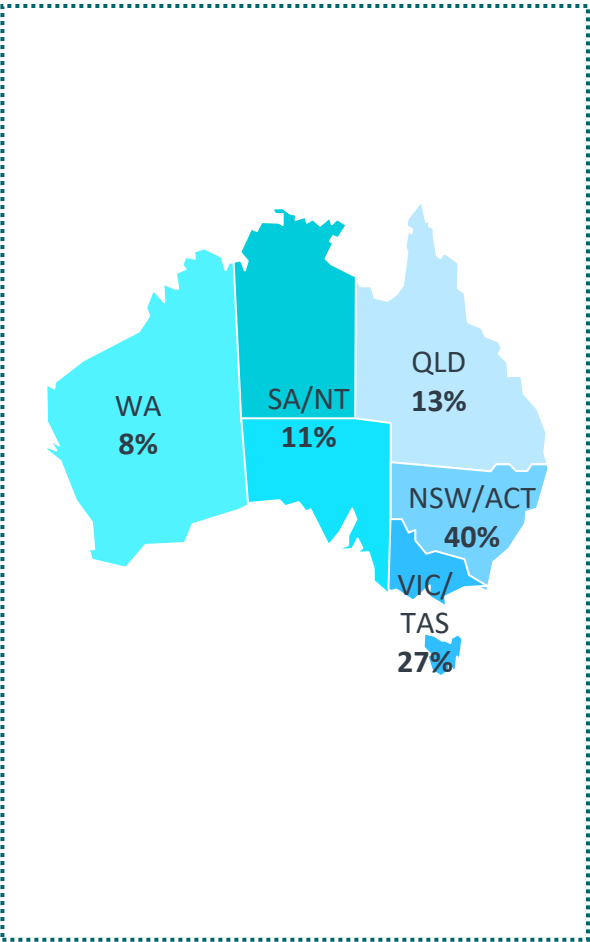


Data is **weighted** by industry, state
and number of employees to reflect
the national distribution of businesses
across the country

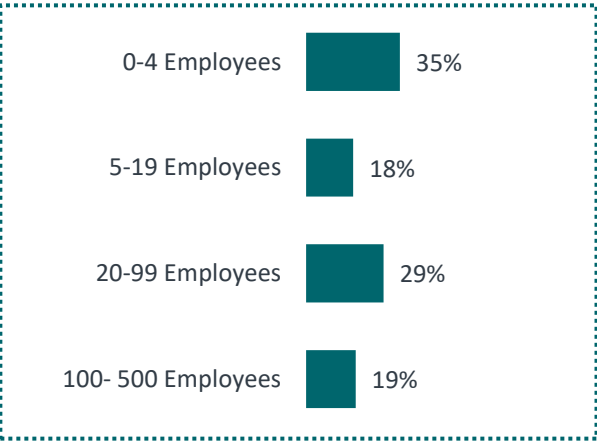
OUR SAMPLE

Key decision makers and influencers at SMEs across all states and territories responded to the survey. We target SMEs across all sizes and industry sectors. Data is weighted to reflect the actual distribution by industry, number of employees and state.

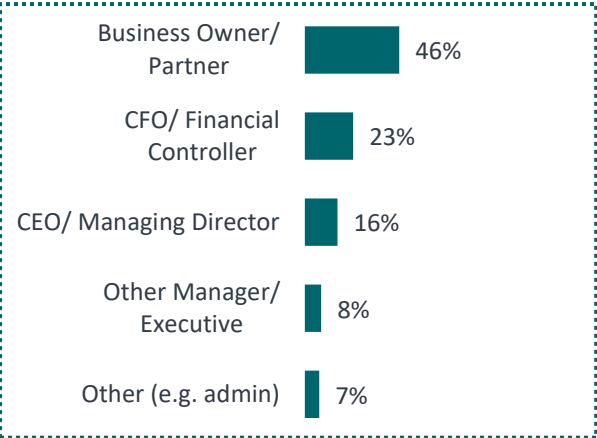
HEAD OFFICE LOCATION



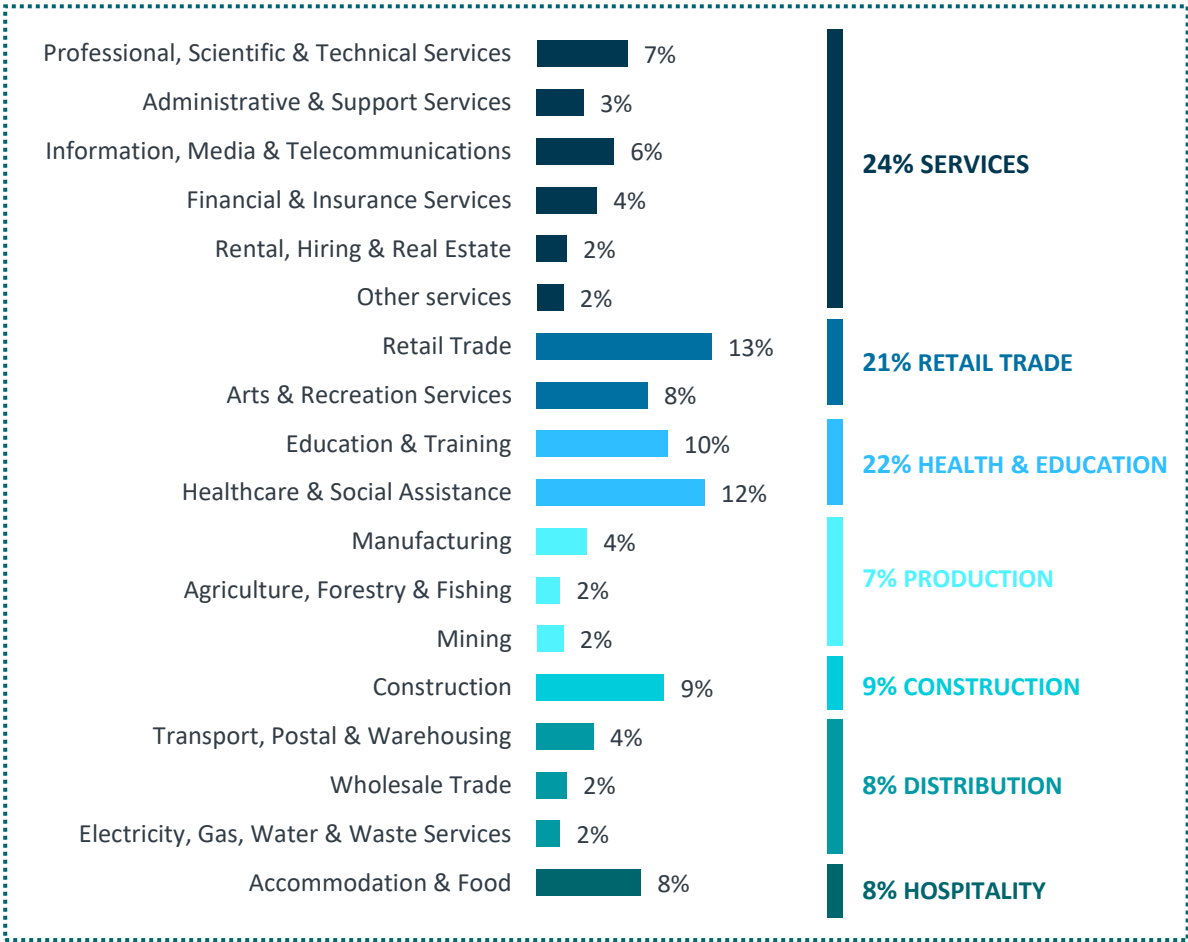
SIZE OF BUSINESS: EMPLOYEES



POSITION IN BUSINESS



INDUSTRY SECTOR



NOTE: CHARTS SHOW UNWEIGHTED DATA

APPENDIX

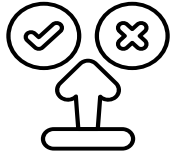
1

METHODOLOGY & SAMPLE

2

ABOUT ACA RESEARCH & FIFTH QUADRANT

OUR PROMISE TO CLIENTS



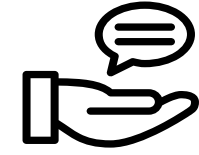
WE HELP OUR CLIENTS
MAKE INFORMED
BUSINESS DECISIONS



BY LEVERAGING OUR
SPECIALIST
CAPABILITIES



TO EXECUTE
CUSTOMISED RESEARCH
AND CONSULTING
PROGRAMS



TO DELIVER
ACTIONABLE
RECOMMENDATIONS
AND ADVICE

Providing meaningful insight to allow you to make informed business decisions that drive growth, competitive advantage and productivity

Leveraging our deep industry expertise and customer experience specialisation to drive better outcomes for your business, customers, employees, business partners, shareholders and the community

Working in partnership with you to design and deliver research & consulting programs aligned to your individual needs

Helping you achieve your goals by delivering pragmatic, actionable recommendations and strategic advice

OUR RESEARCH FRAMEWORK

DELIVERING INSIGHT THROUGHTOUT THE CUSTOMER JOURNEY

Market
Evaluation &
Opportunity
Identification

Brand Health,
Comms &
Thought
Leadership

Channel And
Partner
Experience

Mystery
Shopping
Audits

Lost Lead
Management

Customer
Experience

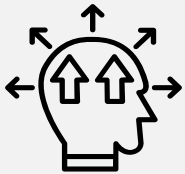
NPD &
Innovation

KNOW YOUR MARKET

KNOW YOUR CUSTOMER

CREATE GREAT EXPERIENCES

AWARENESS
OF NEED



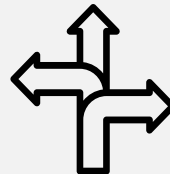
DISCOVERY



ENGAGE



DECISION



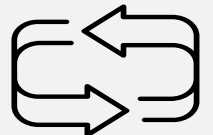
PURCHASE &
ONBOARDING



ONGOING
EXPERIENCE



RENEWAL,
REPLACEMENT
& LOYALTY





THANK YOU!

FOR FURTHER INFORMATION, PLEASE CONTACT:

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ACA RESEARCH & FIFTH QUADRANT
E: jorgan@acaresearch.com.au

