

SMALL & MEDIUM ENTERPRISE SENTIMENT TRACKER

Wave 51 – May 2023





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



27% of SMEs are generating higher revenues than before the pandemic



33% expect wage increases over the next 3 months compared to 21% in February



39% are not well positioned to withstand the impact of a possible recession



Only 18% currently recruiting compared to 26% in March

39% of SMEs fearful of recession

Despite slightly softer revenue and profit numbers, SME financial performance was relatively strong in May. 55% of SMEs reported a profit despite ongoing concerns about rising costs especially in relation to interest rates (81%), fuel costs (79%) and energy costs (78%).

One third (33%) of SMEs also expect wage rises over the next 3 months which for many is triggered by reviews at the end of the financial year. This will be heightened by the minimum wage rise recently announced.

Less SMEs (65%) were able to pass on increased input costs in May, suggesting customers are unwilling to pay more and competitors are dropping their prices. While this is good for reducing inflation, SME profits will also decline. Accordingly, 39% are fearful that they would not withstand the impact of a recession over the next 12 months.

However, the proportion of growth orientated businesses remains steady in May, with 35% targeting growth over the next 12 months. Despite these growth expectations, short-term revenue expectations continue a downward trend with only 23% expecting revenues to increase over the next 4 weeks, compared to 32% in March.

Although many SMEs are concerned about the future, sentiment regarding the Australian economy continues to very slowly tick up, with 57% expecting weaker conditions over the next 3 months, compared to 69% reported in February.

However, recruitment activity continues to slow with only 18% looking to fill roles compared to 26% in March. Hospitality continues to be the most active, but most industry sectors are pulling back on their search for staff.

Satisfaction with the federal Labor Government continues to be flat, with less than a third (29%) of business decision makers satisfied. We suspect this will decline further in June due to dissatisfaction with the minimum wage announcement. The Government is struggling to resonate with only 19% of SMEs satisfied with the latest Federal Budget delivered on May 9th, 2023.

In summary, SMEs continue to endure difficult conditions including ongoing cost pressures. Accordingly, sentiment remains weak and therefore recruitment activity is on hold for many. The RBA's decision to again increase interest rates in June will be very difficult for SMEs to take, with nearly 40% already reporting the impact of a recession could be difficult to withstand.



1

KEY PERFORMANCE INDICATORS

2

PEOPLE

3

BUSINESS SENTIMENT

4

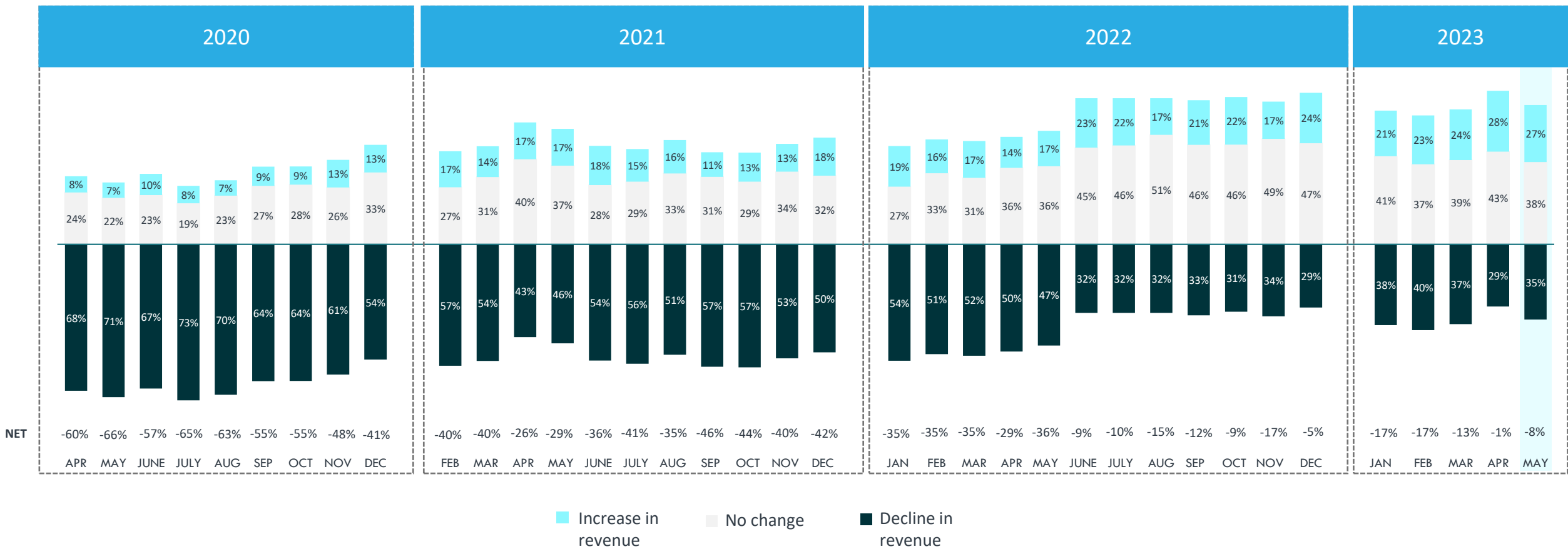
BUSINESS INVESTMENT

5

GOVERNMENT POLICY

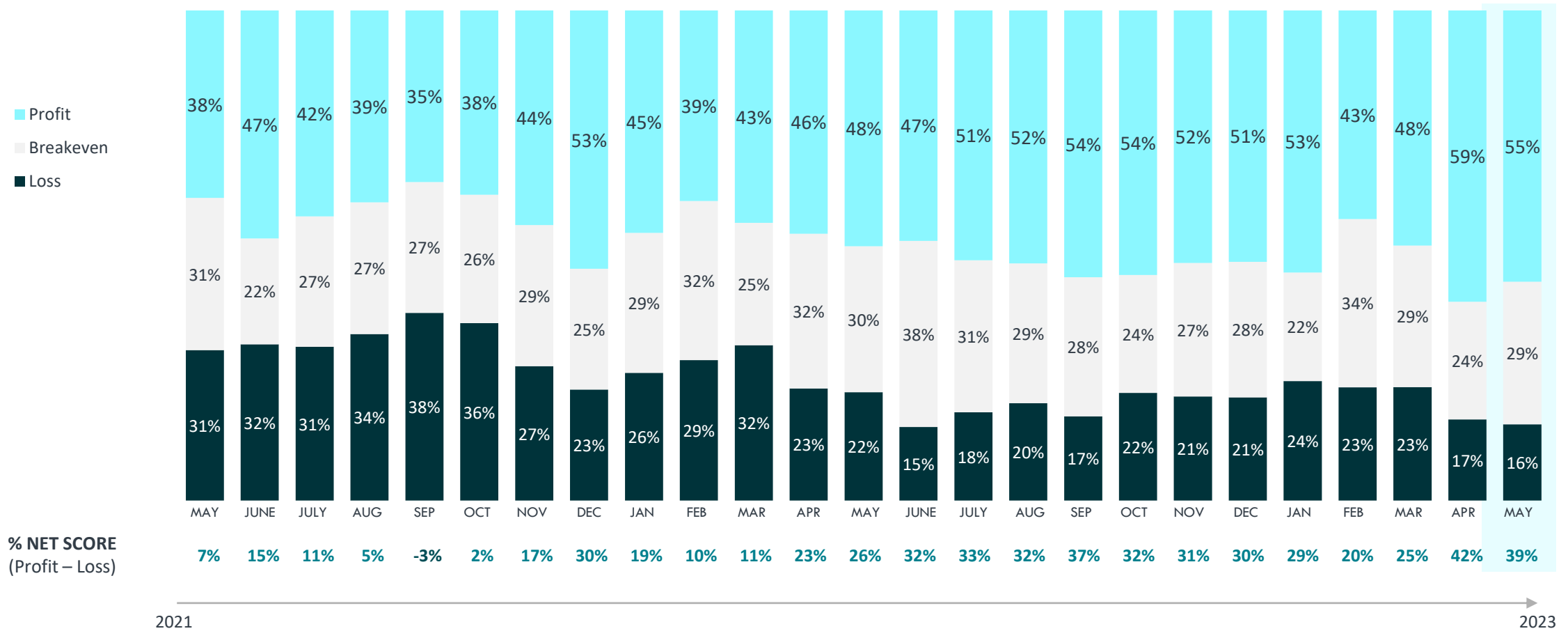
Slightly softer revenues in May, after a strong performance reported in April.

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



Profitability also dipped slightly, but positive that 55% of SMEs were able to report a profit while juggling the higher costs of doing business.

WHAT WAS YOUR PROFIT MARGIN LAST MONTH (APRIL)?



BUSINESS CONCERNS

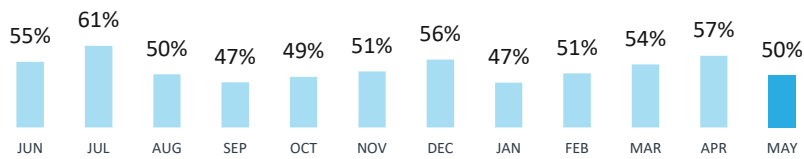
While concerns regarding skills shortages have declined, increasing fuel costs spiked in May. Supply chain challenges are also stubbornly persistent.

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



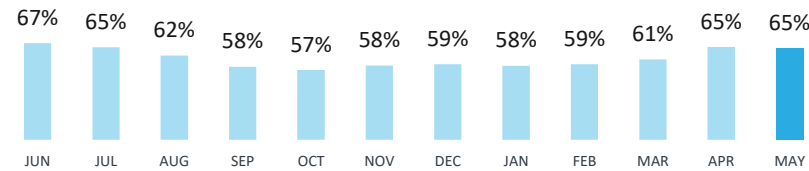
Staff or skill shortages

12 month trend: -5%



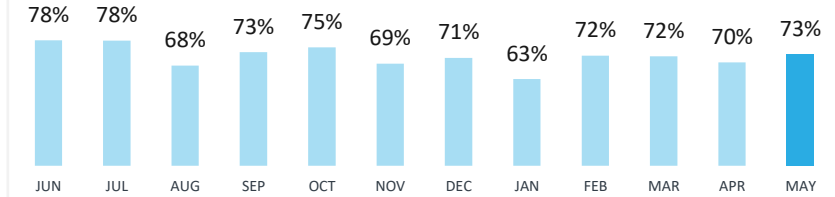
Increasing wage costs

12 month trend: -2%



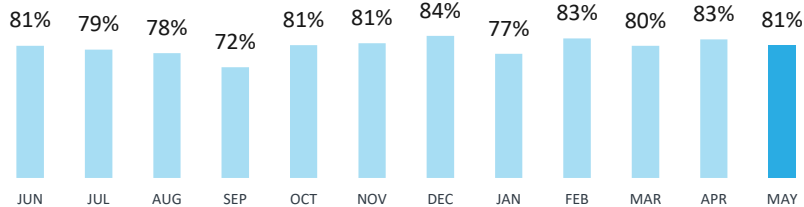
Supply chain delays and associated costs increase

12 month trend: -5%



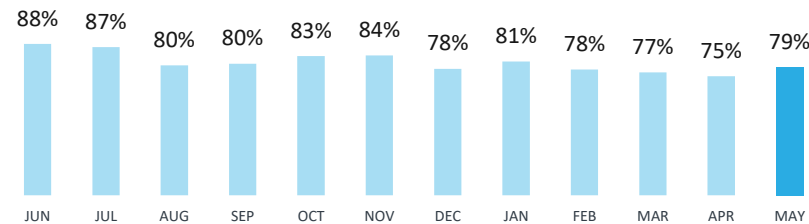
Rising interest rates

12 month trend: +2%



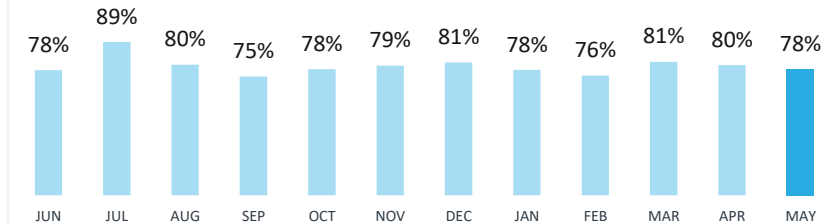
Increasing fuel costs

12 month trend: -13%



Increasing energy costs

12 month trend: +2%

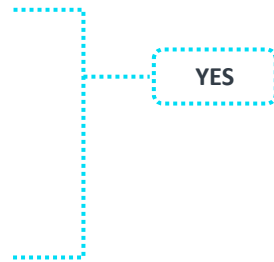
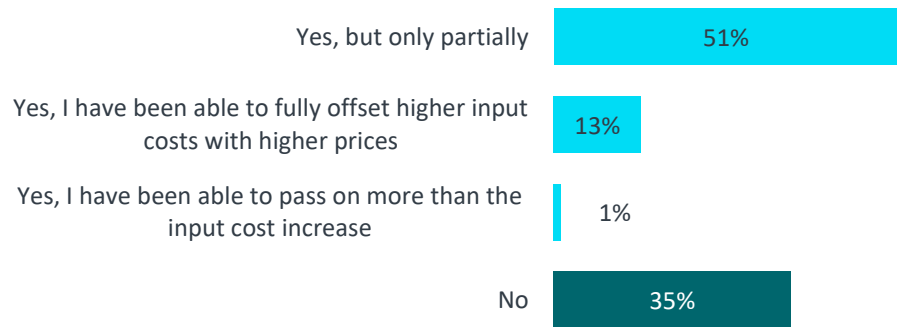


NET concerned

COST RECOVERY

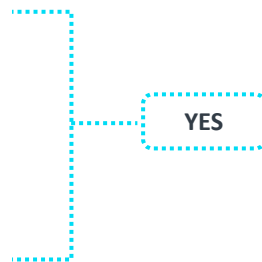
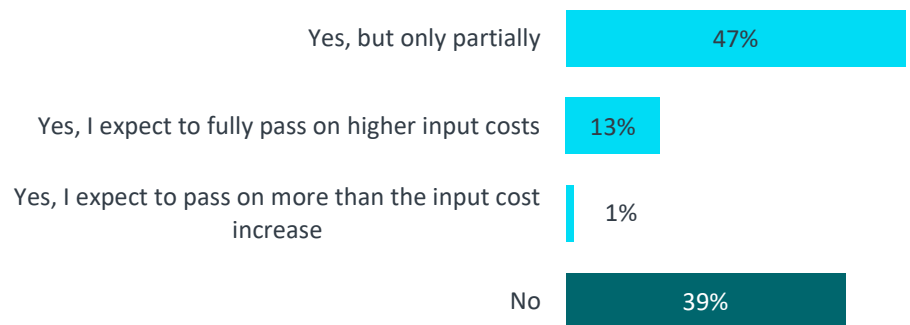
Less SMEs were able to pass on input costs in May, suggesting customers are unwilling to pay more and competitors are dropping their prices. While this is good for reducing inflation, SME profits will also decline.

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



FEB MAR APR MAY

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



FEB MAR APR MAY



1

KEY PERFORMANCE INDICATORS

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PEOPLE

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BUSINESS SENTIMENT

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BUSINESS INVESTMENT

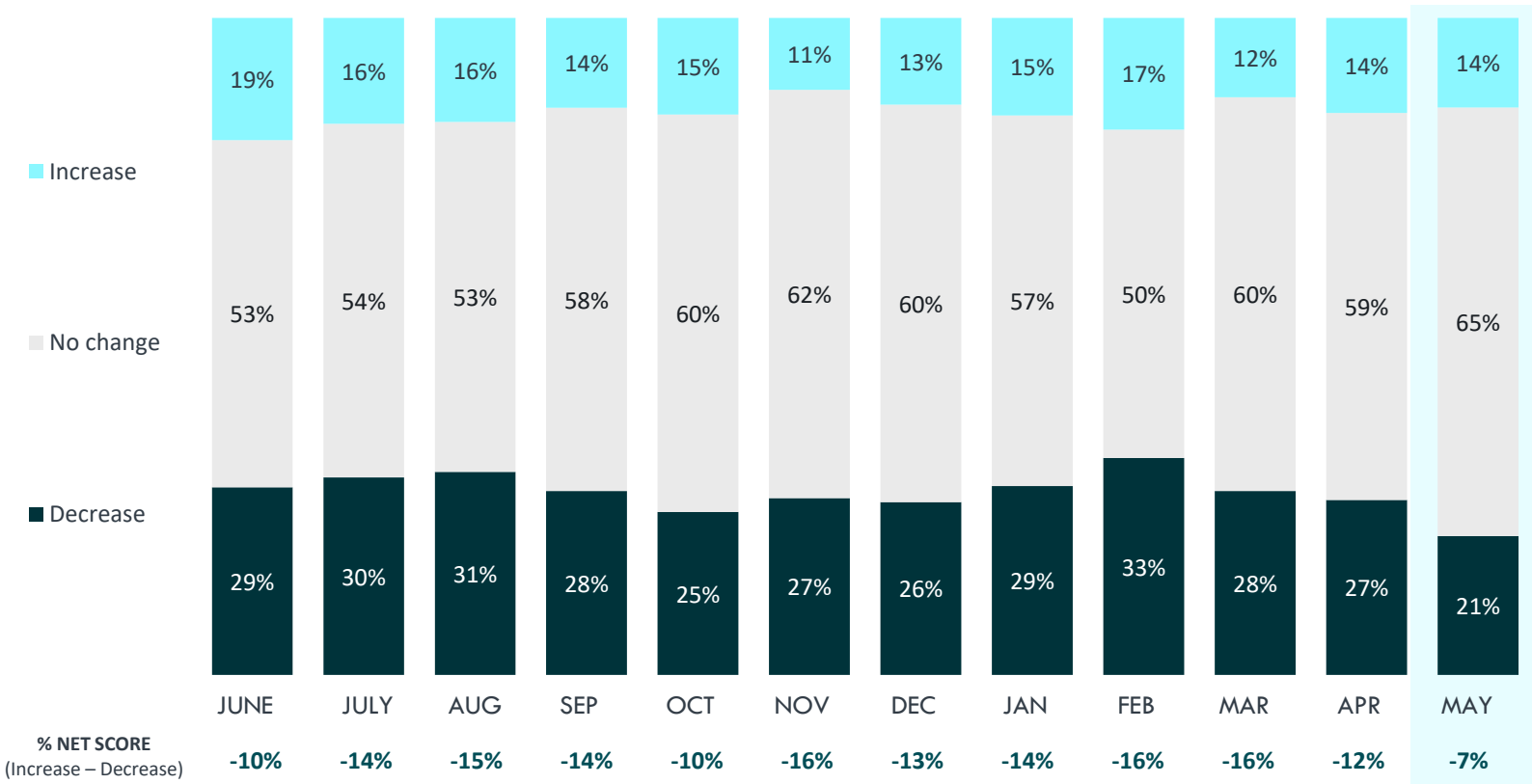
5

GOVERNMENT POLICY

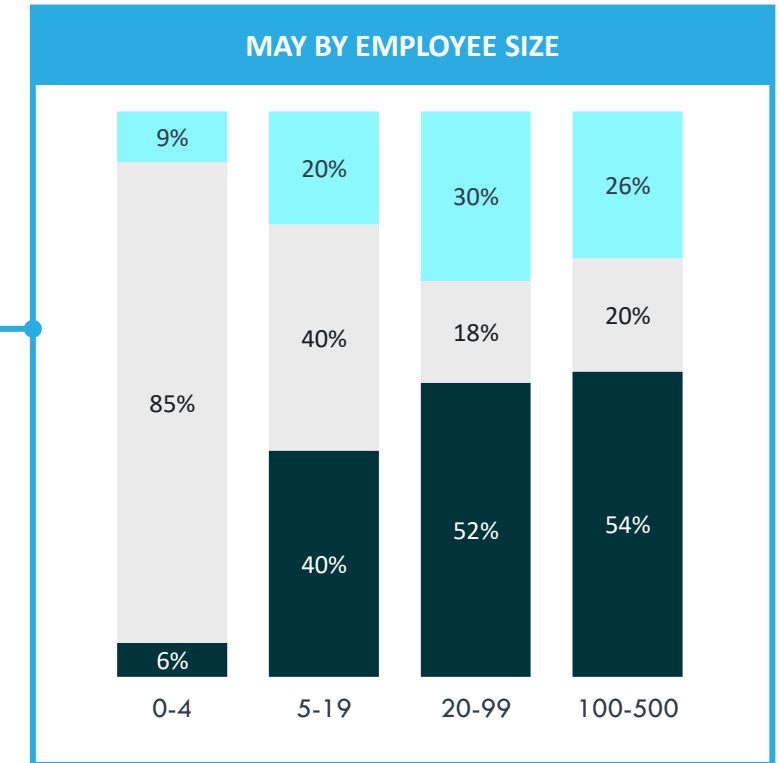
EMPLOYMENT

Positive that only 21% of SMEs are now operating with less staff than before the pandemic. This is the lowest level reported since the inception of the research. Surprisingly more than 50% of businesses with 20+ employees are operating with less people.

CHANGE IN NUMBER OF EMPLOYEES SINCE THE PANDEMIC



MAY BY EMPLOYEE SIZE

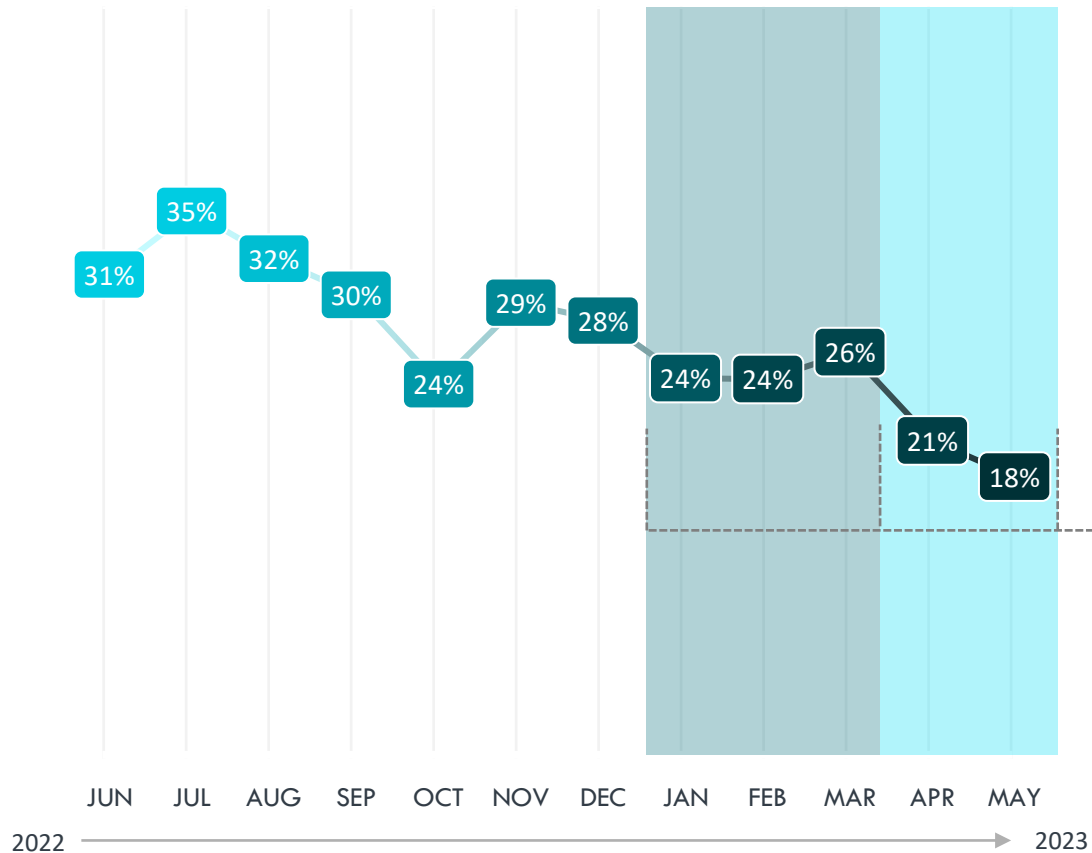


2022 → 2023

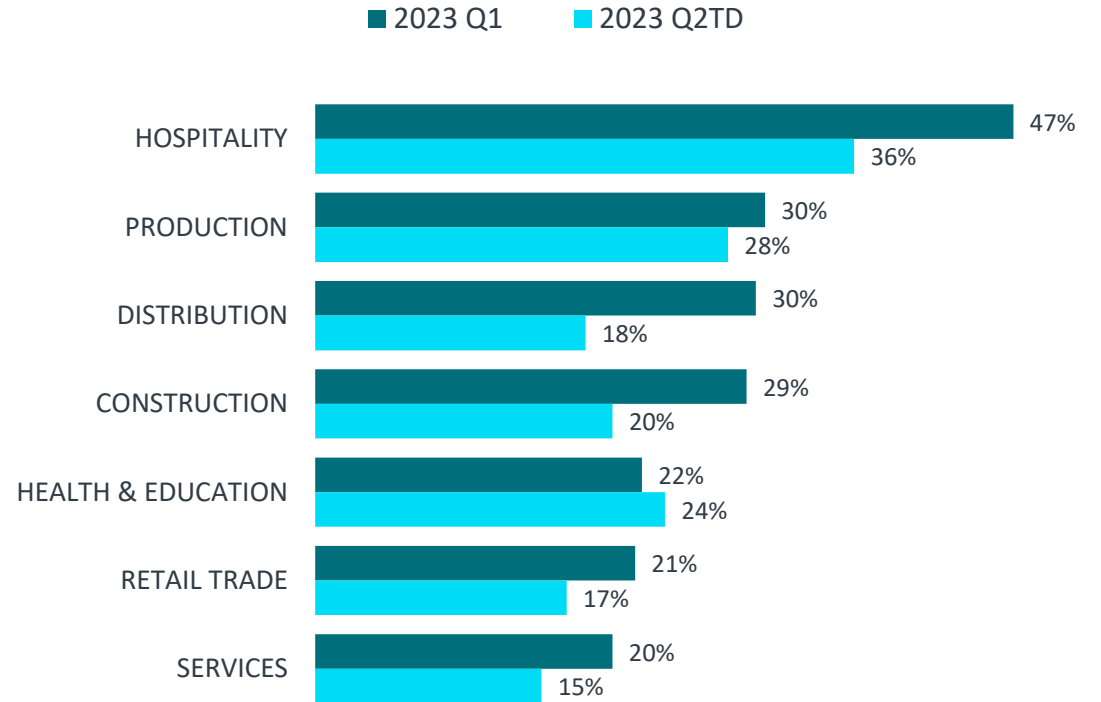
RECRUITMENT

Recruitment continues to slow with only 18% looking to fill roles compared to 26% in March. Hospitality remains the most active, but most industry sectors are pulling back.

SMEs THAT CURRENTLY HAVE JOB ROLES THEY ARE TRYING TO FILL

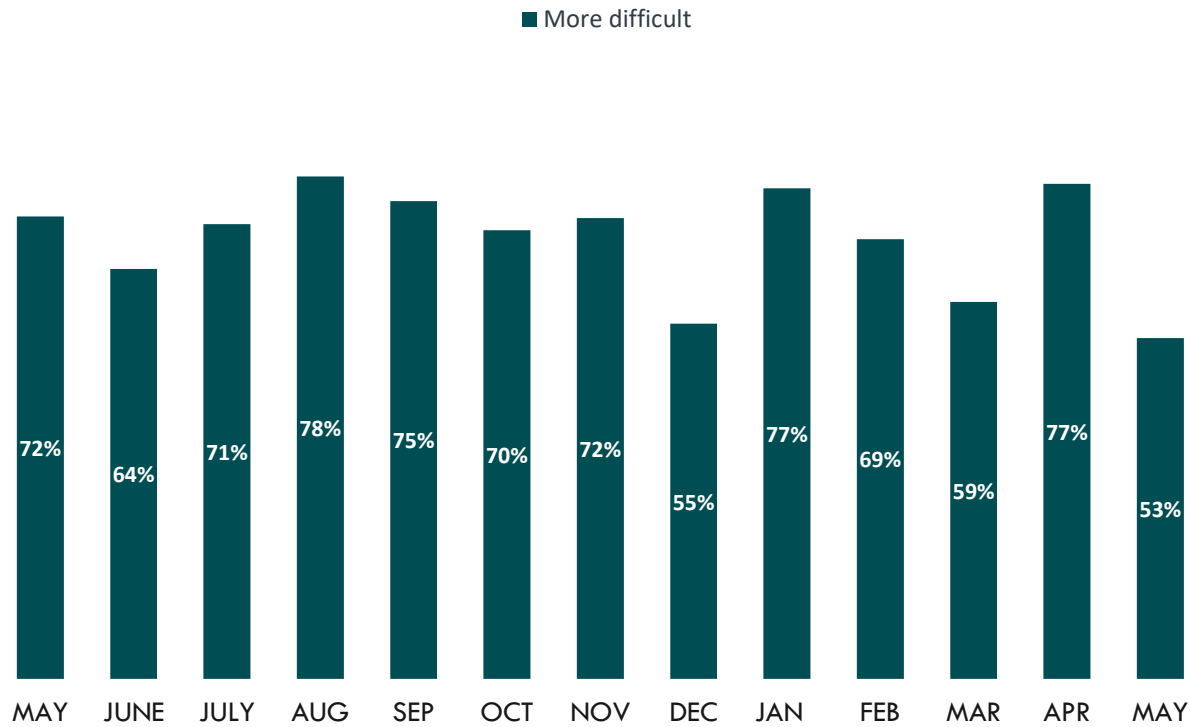


INDUSTRY

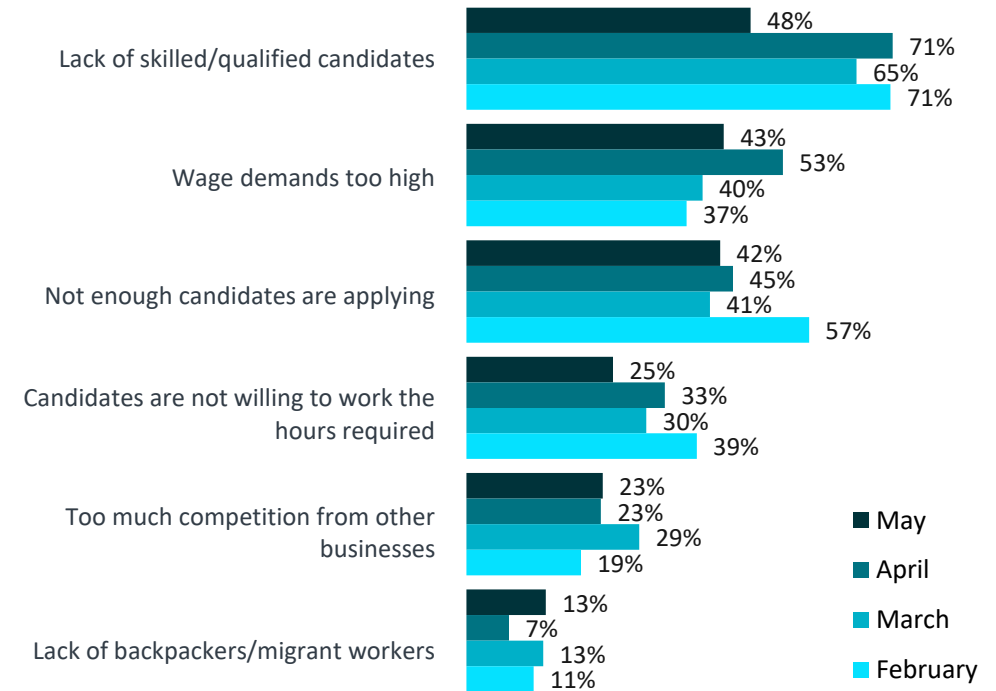


With recruitment activity slowing the ability to find staff with the right skills and wage demands is becoming easier.

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



WHY IS IT DIFFICULT TO FILL THESE ROLES?





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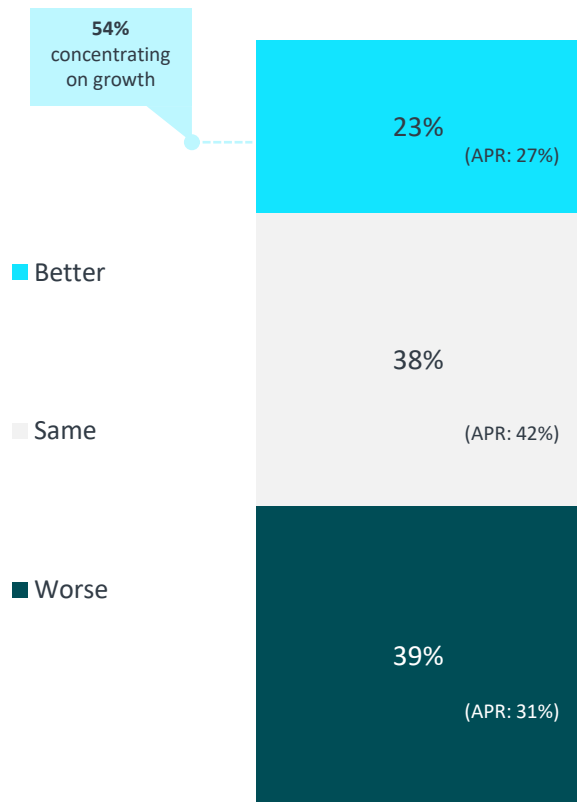
5

GOVERNMENT POLICY

BUSINESS SENTIMENT

Despite reasonably strong financial data in May, a larger proportion of SMEs (39%) claim their business is now worse than it was before the pandemic. This is more evident amongst SMEs operating in the retail, distribution and hospitality sectors.

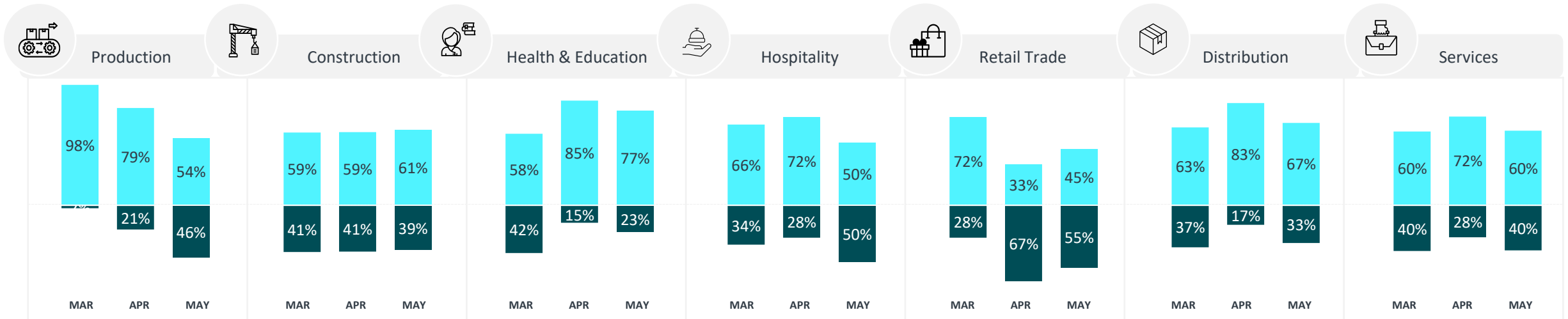
IT HAS NOW BEEN 3 YEARS SINCE THE START OF THE PANDEMIC. IRRESPECTIVE OF REVENUE AND SIZE, HOW WOULD YOU DESCRIBE YOUR BUSINESS NOW COMPARED TO YOUR BUSINESS BEFORE THE OUTBREAK?



RECESSION READINESS

39% are also fearful that they would not be able to withstand a recession over the next 12 months.

DO YOU THINK YOUR BUSINESS IS WELL POSITIONED TO WITHSTAND THE IMPACT OF A POSSIBLE RECESSION IN AUSTRALIA OVER THE NEXT 12 MONTHS?

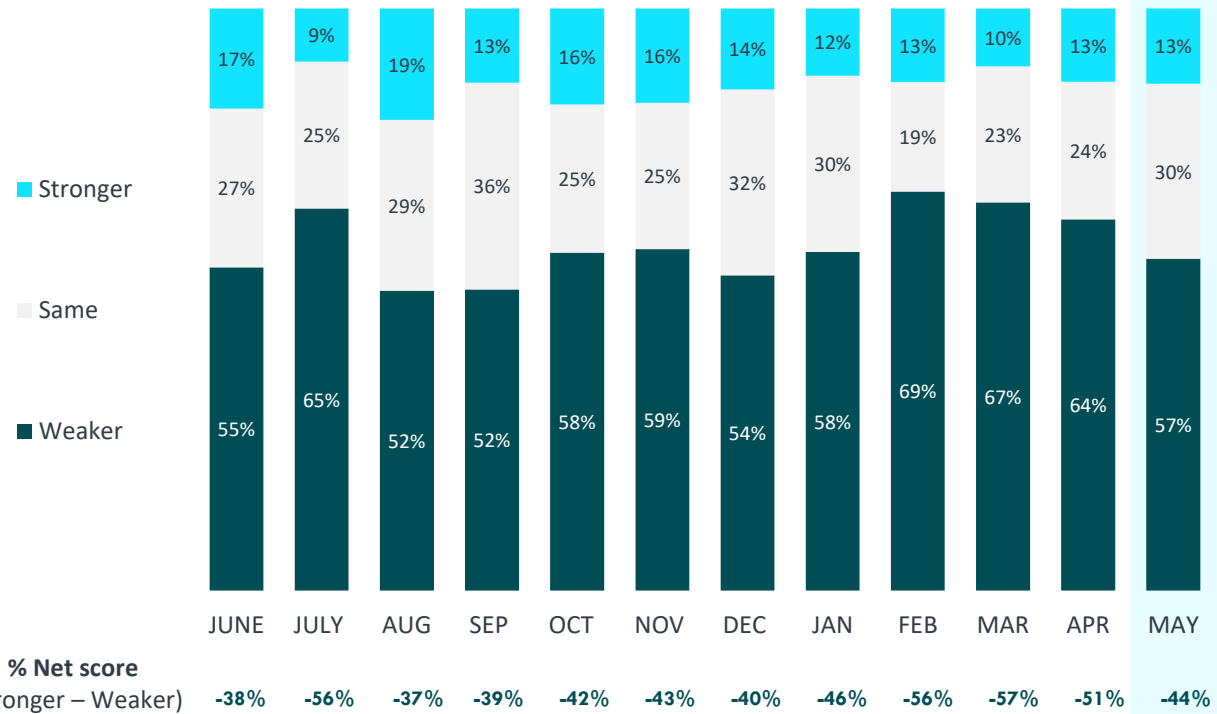


EXPECTATIONS REGARDING ECONOMIC CONDITIONS (NEXT 3 MONTHS)

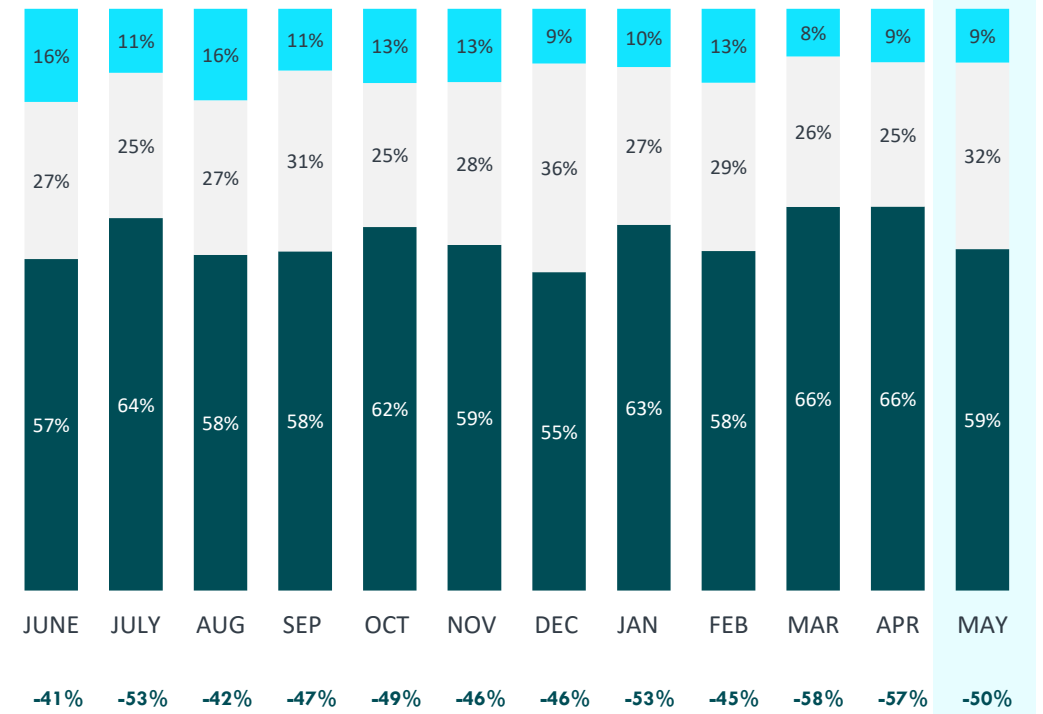
Although many SMEs are concerned about the future, sentiment regarding the Australian economy continues to very slowly tick up despite 57% expecting weaker conditions over the next 3 months.

EXPECTATIONS OVER THE NEXT 3 MONTHS REGARDING ECONOMIC CONDITIONS

AUSTRALIAN ECONOMY



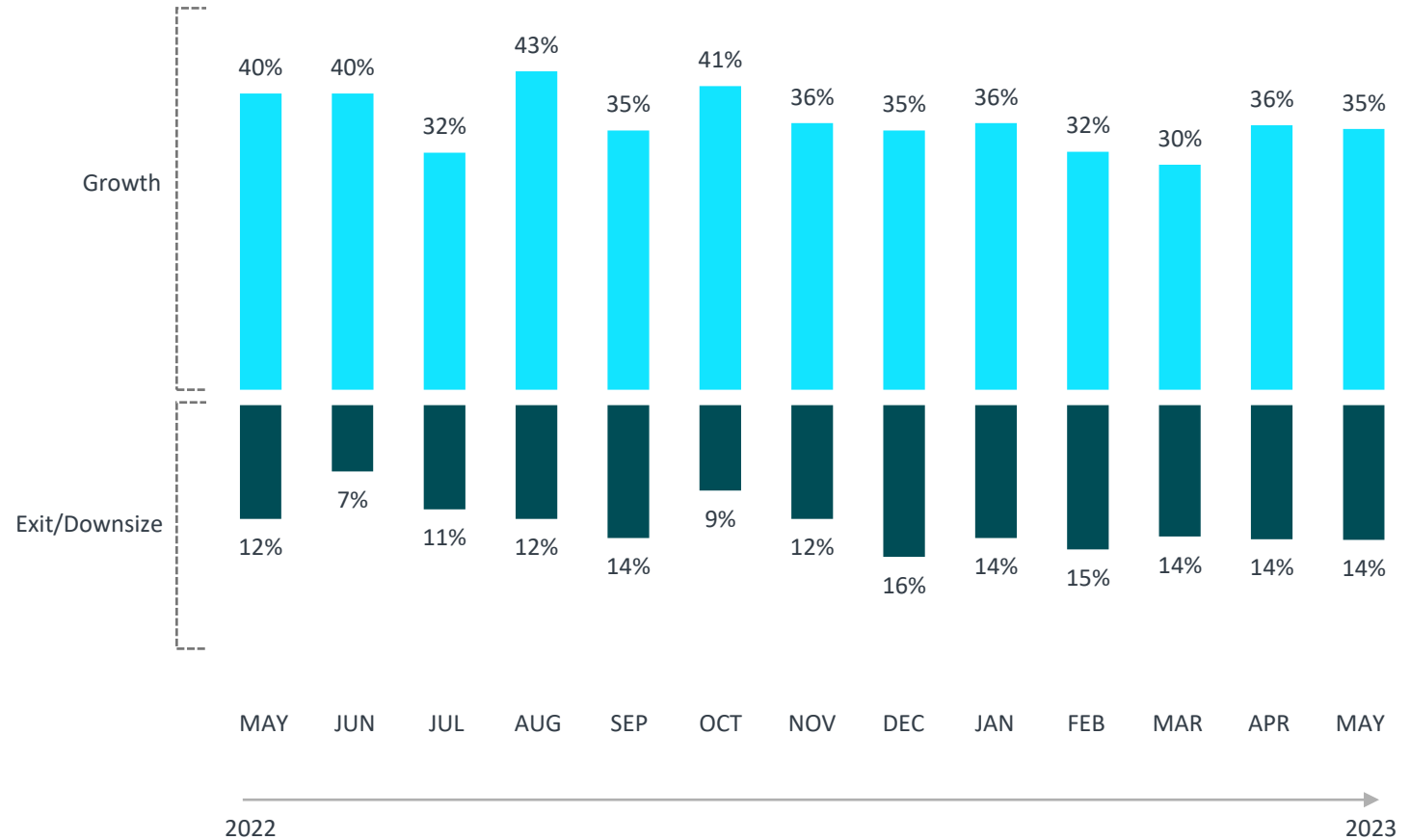
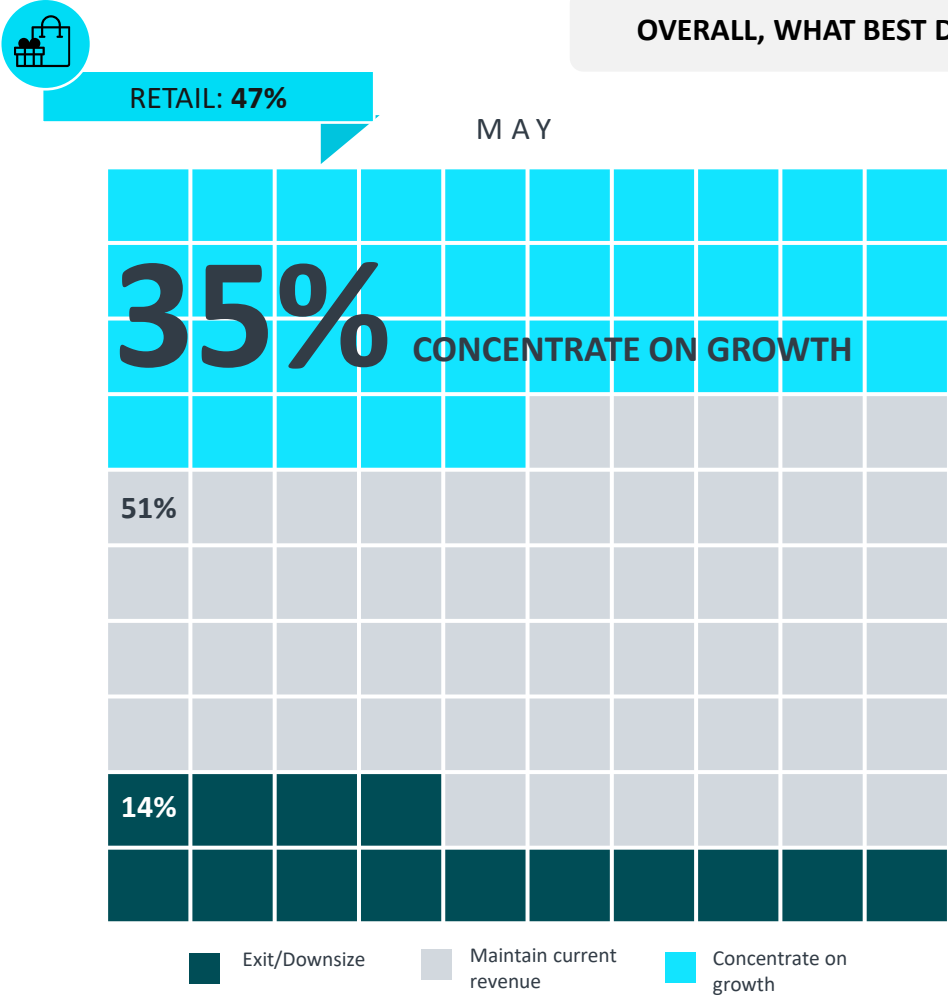
GLOBAL ECONOMY



GROWTH EXPECTATIONS (NEXT 12 MONTHS)

The proportion of growth orientated businesses remains steady in May, with 35% targeting growth over the next 12 months.

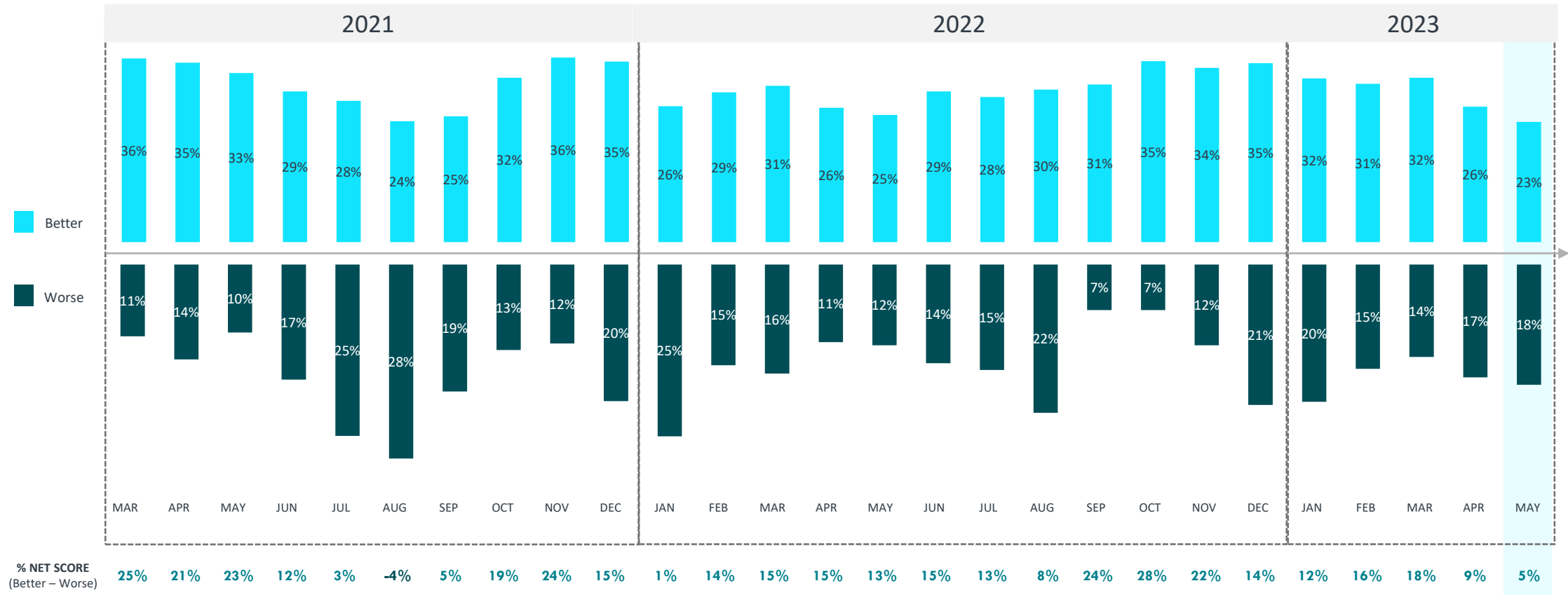
OVERALL, WHAT BEST DESCRIBES YOUR APPROACH TO BUSINESS OVER THE NEXT 12 MONTHS?



REVENUE EXPECTATIONS (NEXT 4 WEEKS)

Despite growth expectations remaining steady, short-term revenue expectations continue a downward trend with only 23% expecting revenues to increase over the next 4 weeks compared to 34% in March.

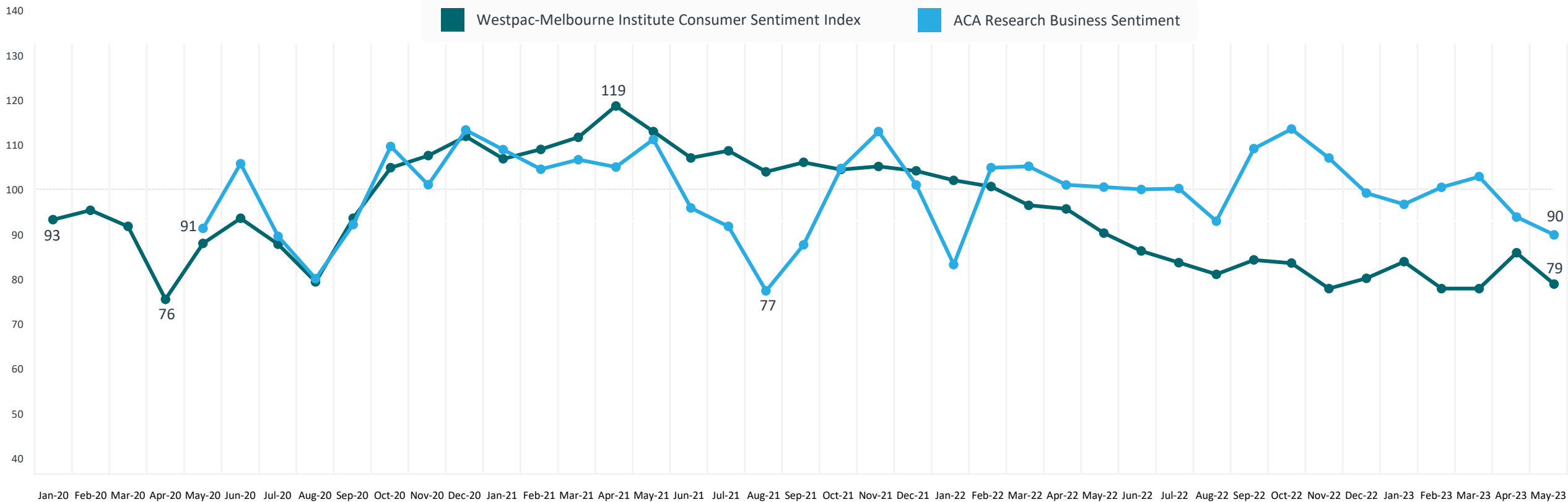
WHERE DO YOU EXPECT YOUR REVENUE TO BE IN 4 WEEKS COMPARED TO TODAY?



SENTIMENT 2020-2023

SME sentiment is now following a similar trajectory to consumer confidence, steadily declining since October 2022.

BUSINESS AND CONSUMER SENTIMENT



March 2020: First lockdowns

August 2020: Victoria announces new lockdown measures

February 2021: First COVID-19 vaccine doses administered in Australia

June 2021: Sydney announces new lockdown measures

October 2021: Sydney & Melbourne released from lockdowns

January 2022: Reported daily case numbers increase 10x in the space of a month

May 2022: RBA increases cash rate target by 25 basis points, the beginning of 10 straight increases



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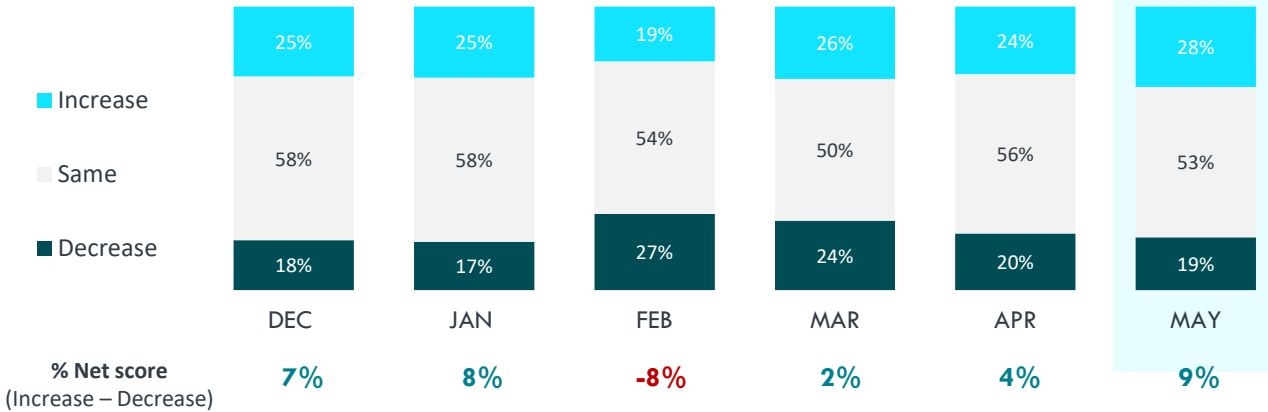
GOVERNMENT POLICY

BUSINESS INVESTMENT (NEXT 3 MONTHS)

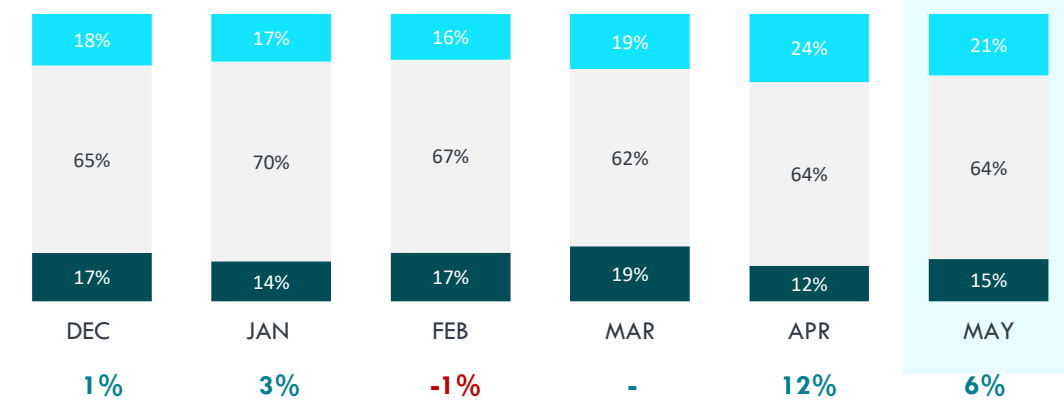
One third of SMEs expect wage rises over the next 3 months which is often triggered by the end of the financial year. This will be heightened by the minimum wage rise recently announced. With the extension of the \$20,000 instant asset write off it is positive to report that 28% of SMEs intend to increase capital investment over the next 3 months.

EXPECTATIONS OVER THE NEXT 3 MONTHS REGARDING BUSINESS INVESTMENT

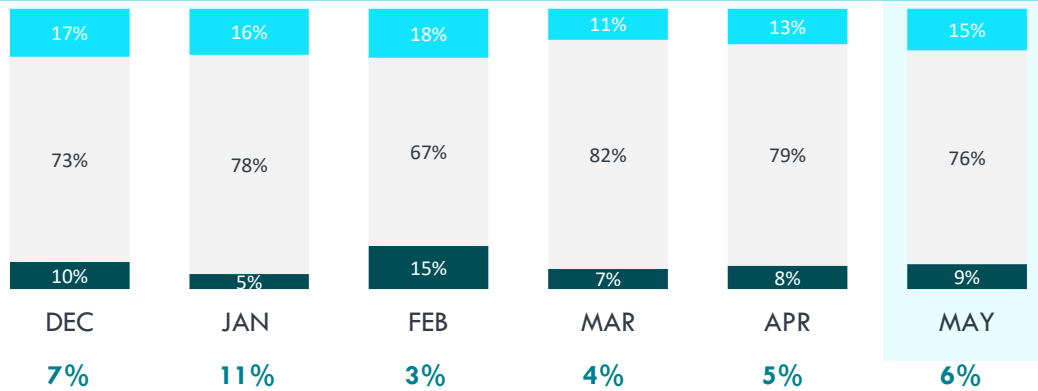
BUSINESS SPENDING/ CAPITAL INVESTMENT



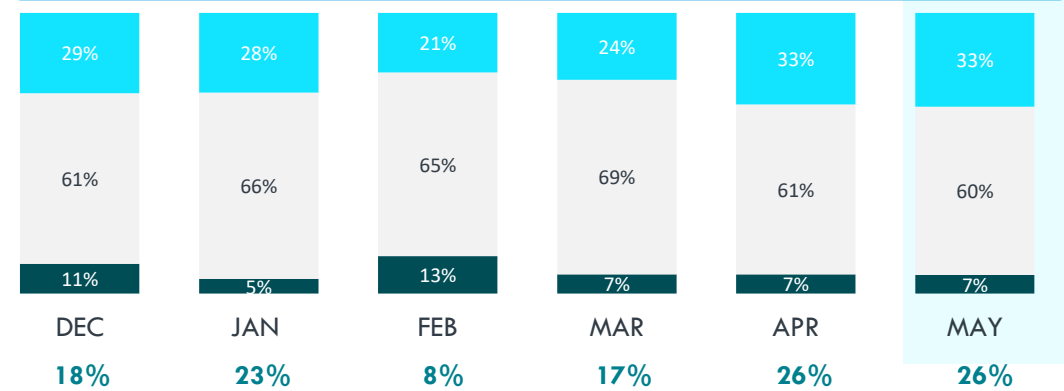
MARKETING SPEND



THE NUMBER OF STAFF YOU EMPLOY



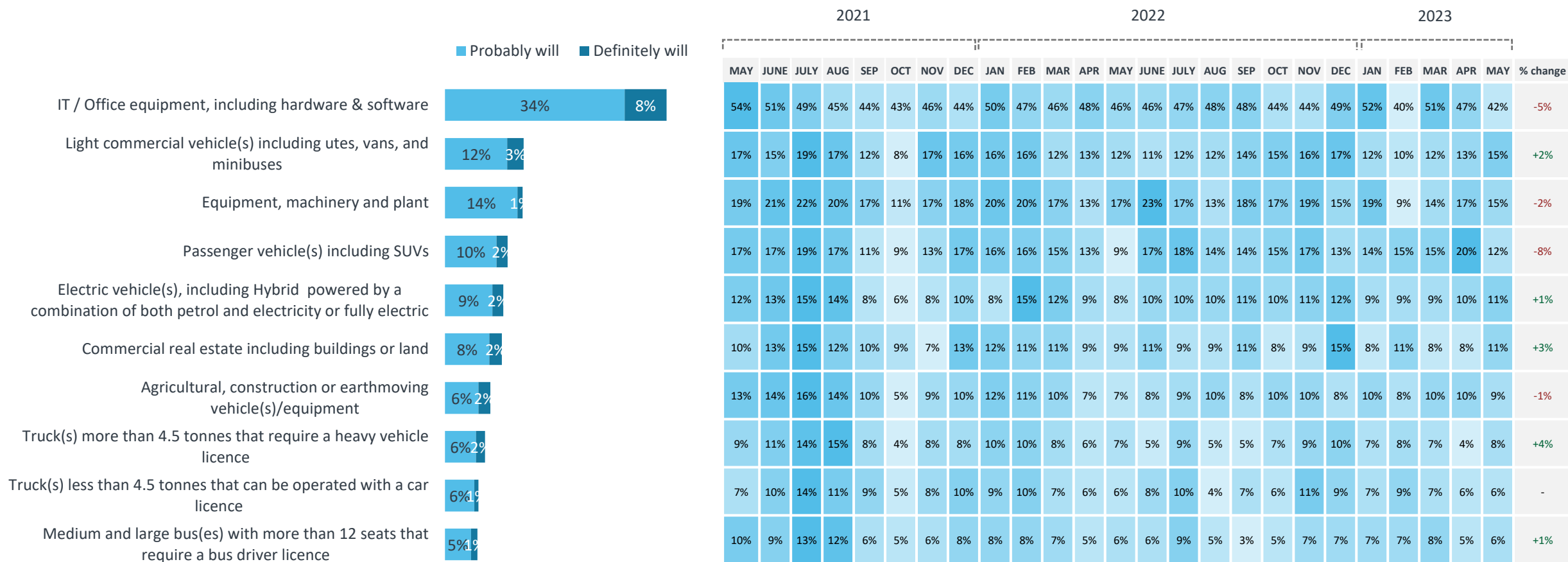
THE WAGES YOU PAY



CAPITAL EXPENDITURE (NEXT 3 MONTHS)

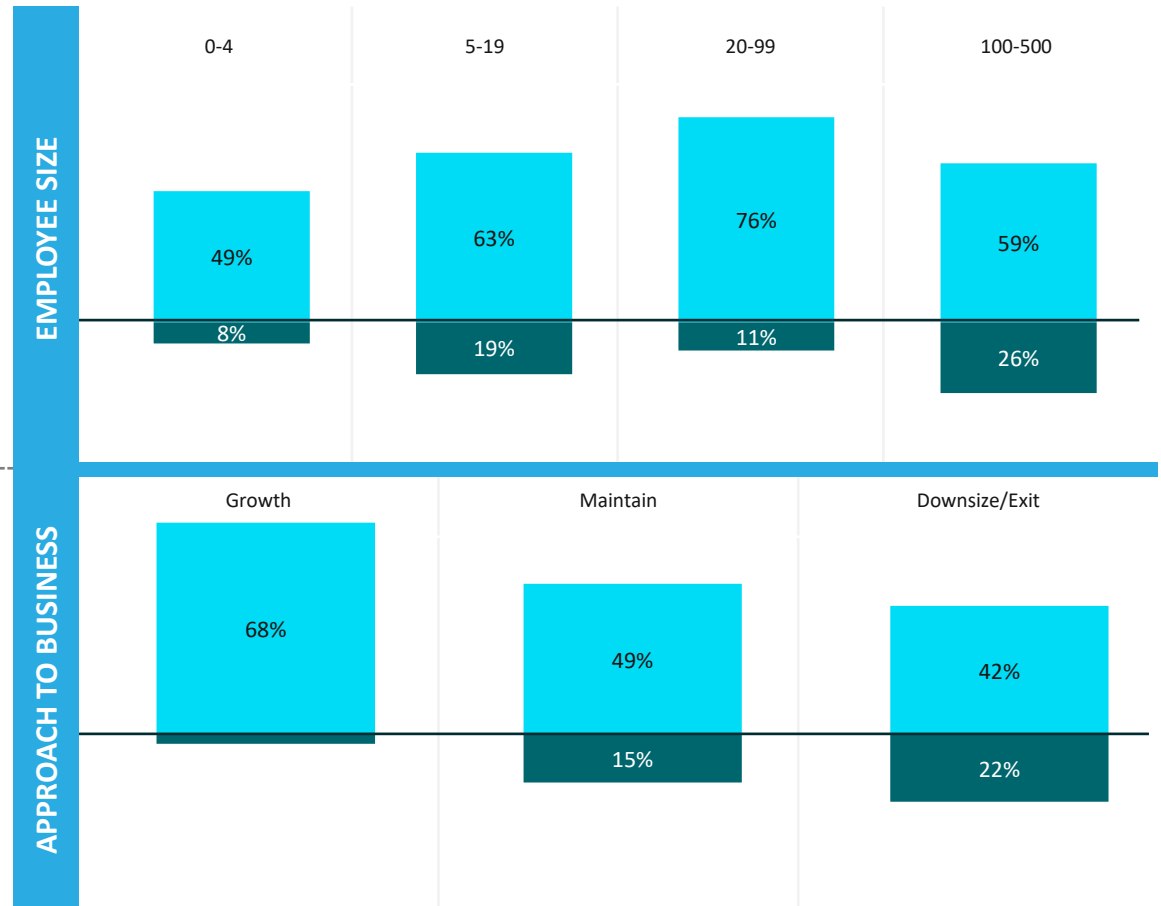
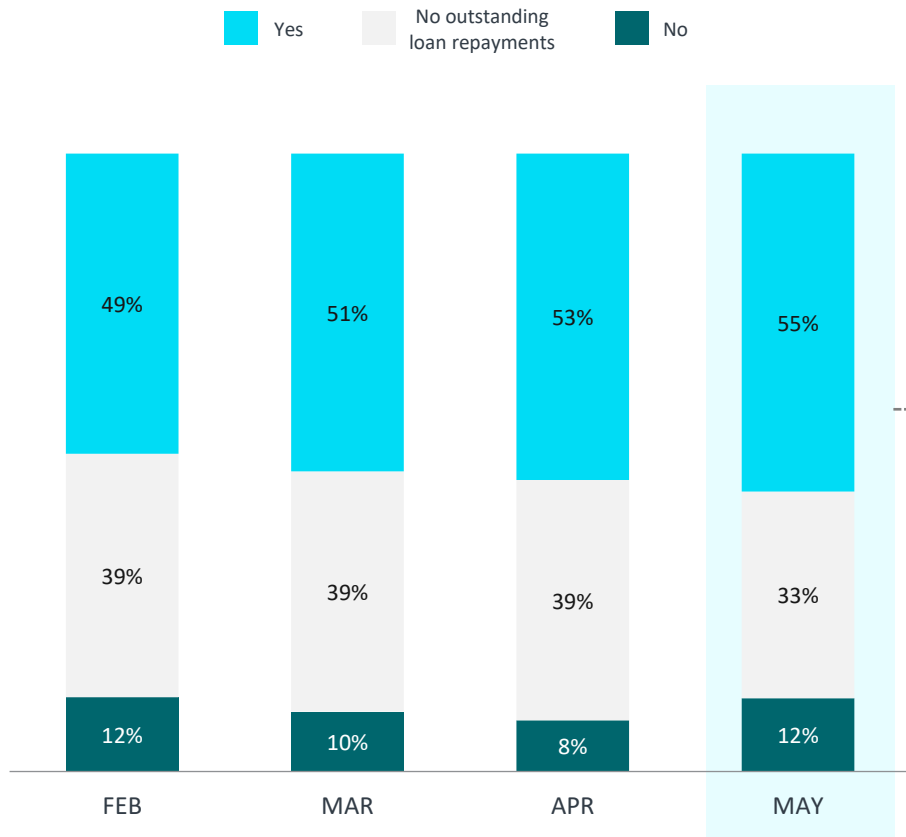
Demand for tools of the trade such as trucks and light commercial vehicles should spike before the end of FY2023.

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



Loan stress is increasing with 12% of SMEs expecting difficulties paying their loan repayments over the next 6 months.

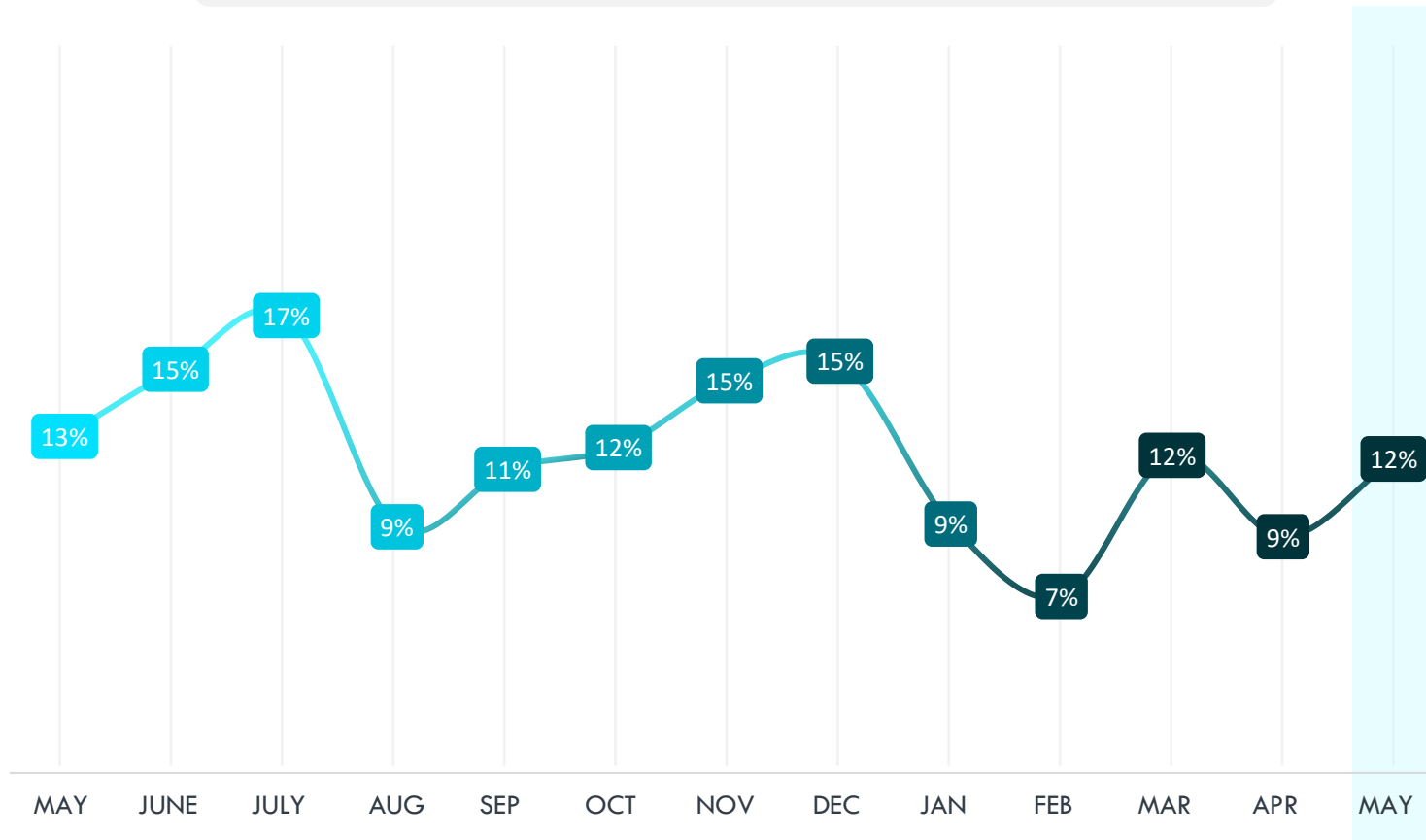
DO YOU EXPECT TO BE ABLE TO MEET YOUR LOAN REPAYMENTS OVER THE NEXT 6 MONTHS?



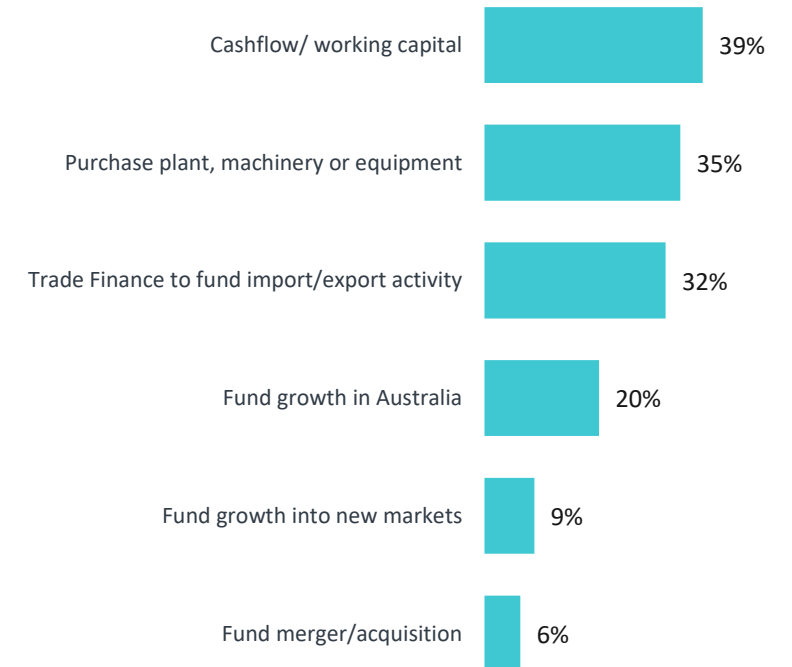
FINANCE NEEDS (NEXT 3 MONTHS)

However, demand for additional finance has increased again, in line with the need to invest before the June 30 deadline.

SMEs THAT WILL REQUIRE ADDITIONAL FINANCE OVER THE NEXT 3 MONTHS



AND WHAT IS THE PURPOSE OF THIS FINANCE?





1

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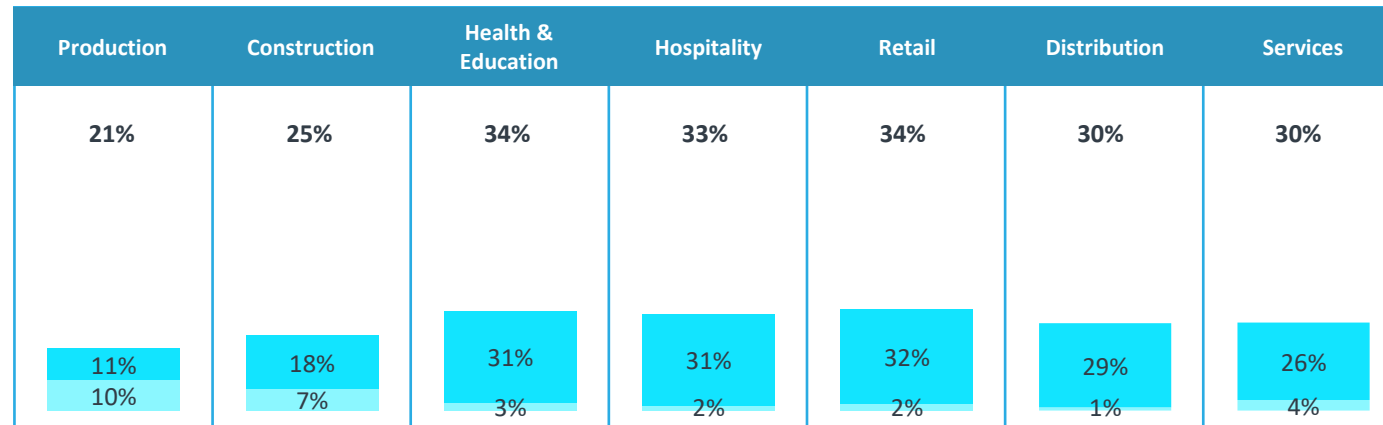
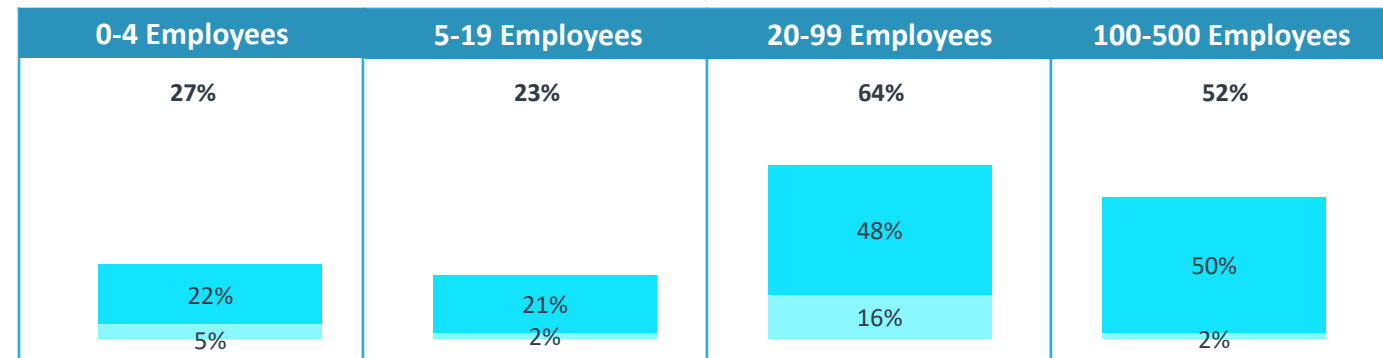
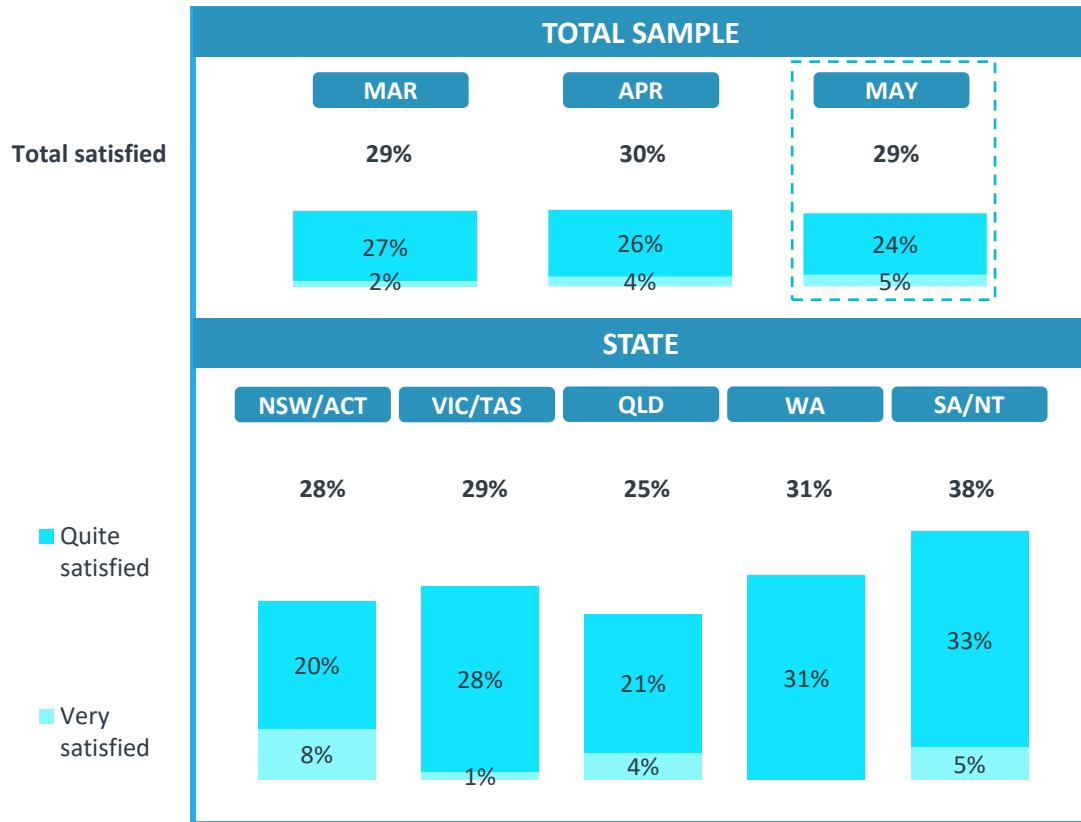
BUSINESS INVESTMENT

5

GOVERNMENT POLICY

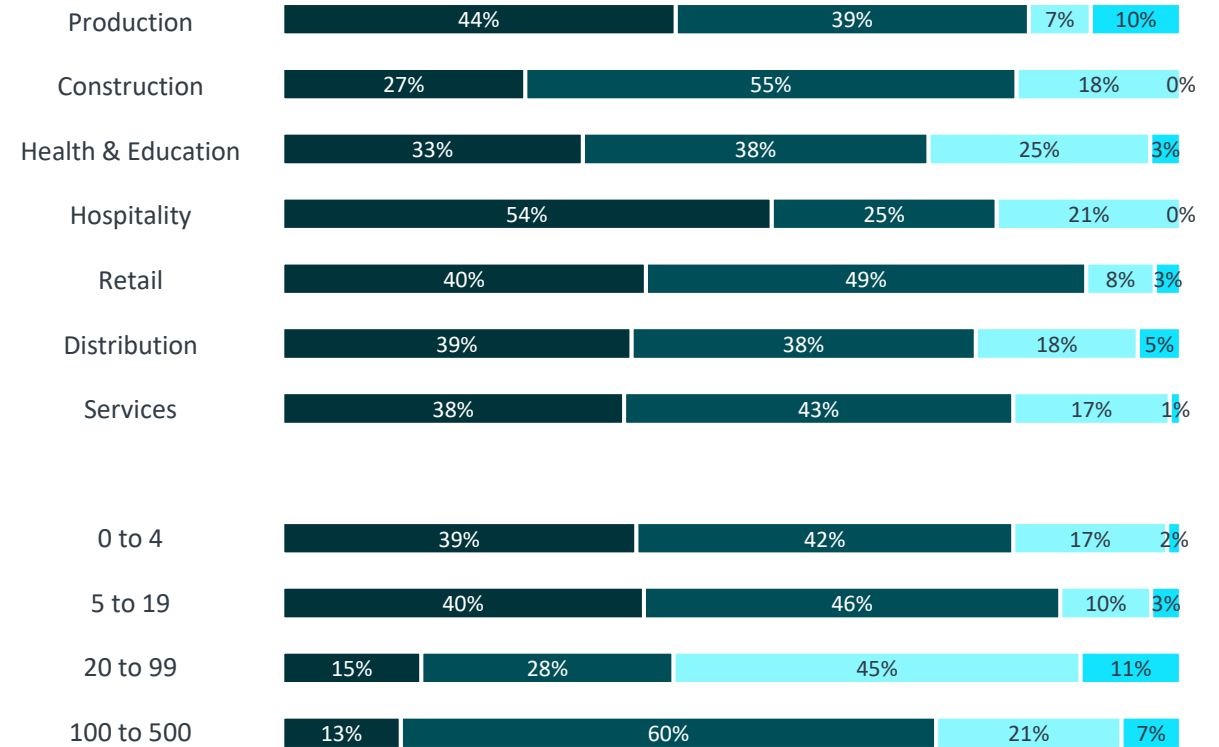
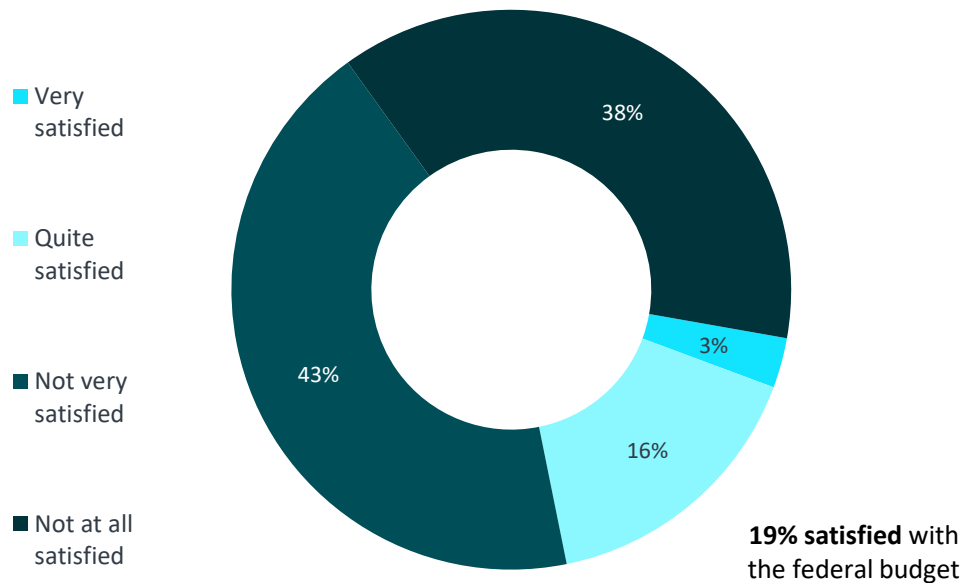
Satisfaction with the federal Labor government's ability to support business needs continues to be flat, with less than a third of business decision makers satisfied. We suspect this will decline due to the dissatisfaction with the minimum wage announcement.

HOW SATISFIED ARE YOU THAT THE FEDERAL GOVERNMENT IS DELIVERING EFFECTIVE POLICIES THAT SUPPORT THE NEEDS OF YOUR BUSINESS?



Less than 20% of SMEs are satisfied with latest Federal Budget delivered on May 9th, 2023

HOW SATISFIED ARE YOU THAT THE 2023-24 AUSTRALIAN FEDERAL BUDGET WILL HELP YOUR BUSINESS?



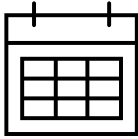
1

METHODOLOGY & SAMPLE

2

ABOUT ACA RESEARCH & FIFTH QUADRANT

METHODOLOGY



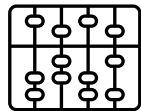
The SME Tracker was first launched
w/e 5th April 2020



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

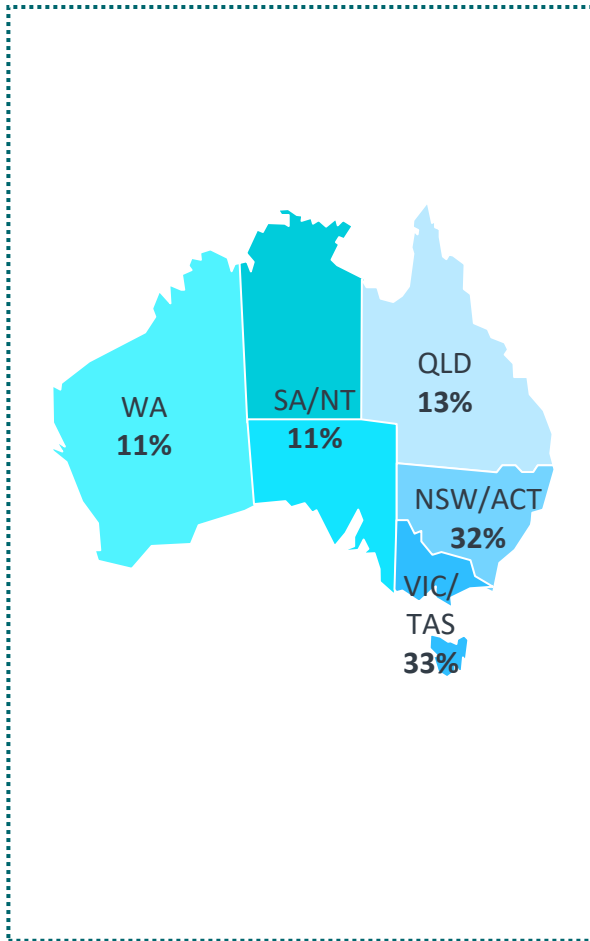


Data is **weighted** by industry, state
and number of employees to reflect
the national distribution of businesses
across the country

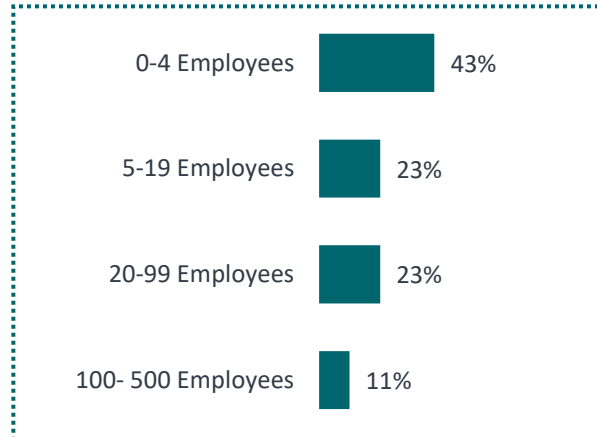
OUR SAMPLE

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.

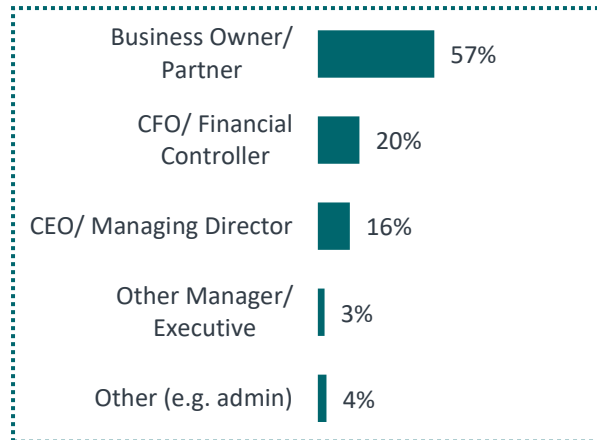
HEAD OFFICE LOCATION



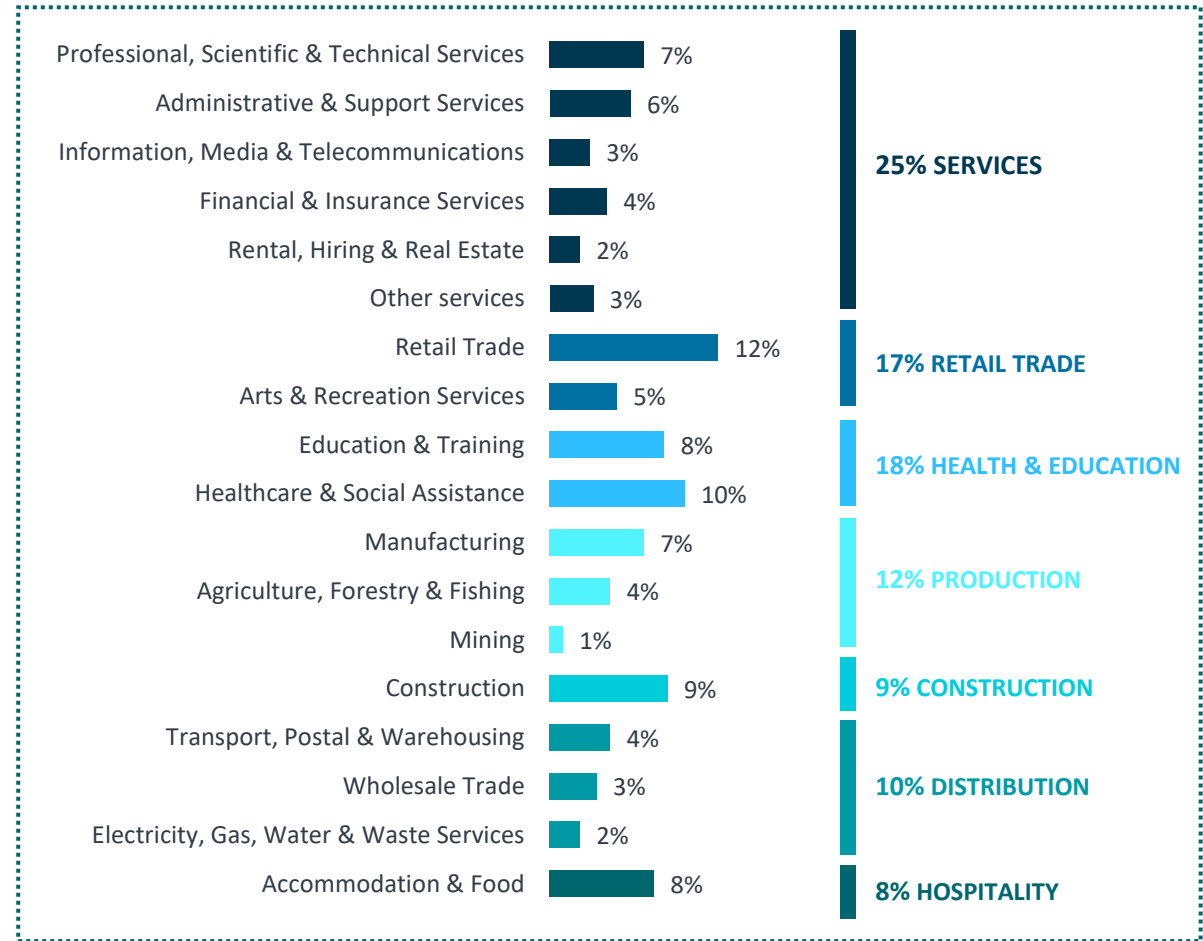
SIZE OF BUSINESS: EMPLOYEES



POSITION IN BUSINESS



INDUSTRY SECTOR



NOTE: CHARTS SHOW UNWEIGHTED DATA

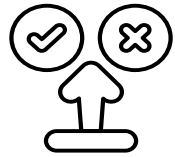
1

METHODOLOGY & SAMPLE

2

ABOUT ACA RESEARCH & FIFTH QUADRANT

OUR PROMISE TO CLIENTS



WE HELP OUR CLIENTS
MAKE INFORMED
BUSINESS DECISIONS

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



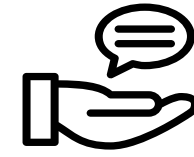
BY LEVERAGING OUR
SPECIALIST
CAPABILITIES

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



TO EXECUTE
CUSTOMISED RESEARCH
AND CONSULTING
PROGRAMS

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



TO DELIVER
ACTIONABLE
RECOMMENDATIONS
AND ADVICE

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

OUR RESEARCH FRAMEWORK

DELIVERING INSIGHT THROUGHOUT THE CUSTOMER JOURNEY

Market Evaluation & Opportunity Identification

Brand Health, Comms & Thought Leadership

Channel And Partner Experience

Mystery Shopping Audits

Lost Lead Management

Customer Experience

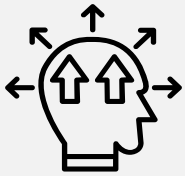
NPD & Innovation

KNOW YOUR MARKET

KNOW YOUR CUSTOMER

CREATE GREAT EXPERIENCES

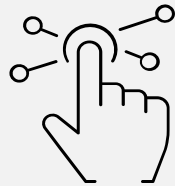
AWARENESS OF NEED



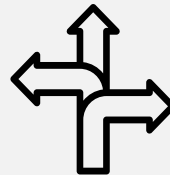
DISCOVERY



ENGAGE



DECISION



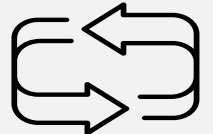
PURCHASE & ONBOARDING



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

