

SMEs – the fine line between failure and success

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1.0 Reasons why businesses fail, according to SMEs



| Reasons why businesses fail, according to SMEs | (%) |
|--|-----|
| Failure to manage costs / anticipate rising costs | 61% |
| Inexperienced management | 50% |
| Poorly-designed business model (e.g. no business plan) | 50% |
| Insufficient capital or inadequate access to capital (borrowing) | 49% |
| Poor marketing | 37% |
| Too much expansion too quickly | 35% |
| Not enough time spent on managing the books | 27% |
| Failure to seek professional advice | 26% |
| Bad professional advice | 21% |
| Don't know | 2% |
| Other | 4% |

Aussie SME owners / managers believe the main reason why some businesses fail is due to a failure to manage costs / anticipate rising costs (61%).

Female SME owners / managers are more likely to believe businesses fail due to a failure to manage costs (68%; cf. Male 54%).

Other key reasons include inexperienced management (50%), a poorly-designed business model (50%), and insufficient capital or access to capital (49%).

SME owners / managers aged 50+ are more likely to believe businesses fail due to insufficient capital or access to capital (60%; cf. 18 to 34 37%, 35 to 49 46%).

SMEs operating in the Arts & Recreation industry are more likely to believe businesses fail due to poor marketing (54%).

Accountants believe the main reason why some businesses fail is a poorly-designed business model (55%).

Consistent with SME's perspective, accountants also believe that inexperienced management (55%) and insufficient capital or access to capital (46%) is key reasons why businesses fail.

Accountants are more likely to believe that a failure to seek professional advice is a key reason why some businesses fail (37%; cf. SME owners / managers 26%).

Accountants aged 50+ are more likely to believe that a failure to seek professional advice is a key reason why some businesses fail (46%; cf. 18 to 34 33%, 35 to 49 38%).

| Reasons why businesses fail, according to accountants | (%) |
|--|-----|
| Poorly-designed business model (e.g. no business plan) | 55% |
| Inexperienced management | 55% |
| Insufficient capital or inadequate access to capital (borrowing) | 46% |
| Failure to seek professional advice | 37% |
| Too much expansion too quickly | 35% |
| Failure to plan for volatile costs | 32% |
| Failure to adapt to a changing market | 27% |
| Inadequate book-keeping | 26% |
| Poor or insufficient marketing | 25% |
| Not enough time to spend on managing the books | 24% |
| Inadequate professional advice | 21% |
| Don't know | 2% |
| Other | 1% |

2.0 The cost of business failure

The impact and cost of business failure spreads far and wide – SMEs believe the biggest cost of business failure is the financial costs to the owner.

SMEs operating in a small business (less than 20 employees) are more likely to rank the biggest cost of business failure as the financial costs to the owner (40% ranked 1st; cf. Those operating in a medium business (20 to 199 employees) 33%).

This is closely followed by the financial costs to the staff (e.g. loss of wages).

SMEs operating in a medium business (20 to 199 employees) are more likely to rank the biggest cost of business failure as the financial costs to the staff (20% ranked 1st; cf. Those operating in a small business (less than 20 employees) 13%).

| Overall rank | Cost of business failure according to SME owners |
|--------------|---|
| 1 | Financial cost – to the owner |
| 2 | Financial cost – to staff (e.g. loss of wages, superannuation) |
| 3 | Emotional cost – to the owner and their families |
| 4 | Financial cost – to unpaid creditors / suppliers |
| 5 | Economic cost – flow on effects in the economy because of reduced output, loss of wealth and assets |

3.0 Early-stage businesses are most at risk of failing

Accountants are more likely to believe the 'make-or-break' period occurs between 6-12 months after start-up (41%).

However, SME owners / managers are more likely to believe that it occurs between 1-2 years (39%).

85% of Aussie SME owners / managers and 91% of accountants surveyed believe the 'make-or-break' period for a new small business is within the first two years of operation.

SMEs who have been operating for 2 years or less are more likely to believe the 'make-or-break' period is within the first two years of operation (89%; cf. Those operating from 3 to 8 years 86%, 9 years or more 81%).

4.0 Who do SMEs trust for business advice?

An accountant is the most trusted advisor for SMEs that seek financial and business management advice.

SME owner / managers aged 50+ are more likely to rank their accountant as their most trusted advisor (47%; cf. 18 to 34 31%, 35 to 49 38%).

SME owner / managers operating a small business (less than 20 employees) are more likely to rank their accountant their most trusted advisor (42%; cf. Those operating a medium business 33%).

This is followed by financial advisors (ranked 2nd overall).

SMEs are least likely to trust their family and friends for financial and business management advice.

| Overall rank | Most trusted advisers to SMEs |
|--------------|--|
| 1 | Accountant |
| 2 | Financial advisor(s) |
| 3 | Business partner |
| 4 | Lawyer / solicitor |
| 5 | Bank manager |
| 6 | Australian government web site (business.gov.au) |
| 7 | Australian Tax Office (ATO) |
| 8 | Family / friends |

Who do SMEs trust for advice?

69% of Aussie SME owners / managers consider their accountant more trustworthy than their financial advisor(s)

79% consider their accountant more trustworthy than their family and friends

69% consider their accountant more trustworthy than their business partner

80% consider their accountant more trustworthy than their bank manager

82% consider their accountant more trustworthy than their lawyer / solicitor

5.0 Accountants are the most trusted professional advisers to SMEs

The majority (82%) of SMEs agree that their accountant is their trusted advisor, not only for financial accounts, but also for advice on continued success and growth of their business.

SMEs with a higher turn-over (\$1 million to \$9,999,999 and \$10 million or more) are more likely to agree that their accountant is their trusted advisor, not only for financial accounts, but also for advice on continued success and growth of their business (89% and 88% respectively; cf. Under \$1 million 80%).

Nearly all (97%) accountants surveyed agree that an accountant is an important advisor to SMEs not only for financial accounts but for advice on the continued success and growth of their business.

7 in 10 (70%) SMEs trust their own instincts over the advice of the accountant or other professional.

SMEs with a high turn-over (\$10 million or more) are the least likely to agree that they trust their own instincts over the advice of their accountants (60%; cf. Under \$1 million 71%, \$1 million to \$9,999,999 73%).

However, nearly 8 in 10 (79%) accountants believe SMEs should trust their accountant's advice over their own instincts.

6.0 But are SMEs getting the advice they need from their accountants?

When managing their SME clients, the average accountant spends 63% of their time providing transactional / administrative services.

A smaller proportion of time (37%) is spent providing advice to help manage their business.

Male accountants are likely to spend more time providing advice (40%; cf. Female 34%).

Accountants working full-time are likely to spend more time providing advice (38%; cf. Those working part-time 32%).

Accountants aged 35 to 49 are likely to spend more time providing advice (41%; cf. Those aged 18 to 34 36%, 50+ 31%).

Accountants working in a medium-sized (i.e. 20-199 employees) accounting business are likely to spend more time providing advice (40%; cf. Those working in small businesses 37%, those working in large businesses 27%).

Accountants with the responsibility for overall business performance or who have significant involvement in running of the business are likely to spend more time providing advice (44% and 45% respectively; cf. Those with limited responsibility of overall business performance 28%).

7.0 Why do small businesses fail in Australia?

Two thirds (66%) of SMEs believe that businesses often fail for reasons out of the owner's control.

SME owners / managers aged 50+ are more likely to believe that businesses often fail for reasons out of the owner's control (69%; cf. Those aged 18 to 34 63%, 35 to 49 65%).

A similar proportion of accountants also believe that failure can be for reasons out of the owner's control (65%).

Accountants with the responsibility for overall business performance are more likely to believe that businesses often fail for reasons out of the owner's control (72%; cf. Those with significant involvement in running of the business 67%, those with limited responsibility of overall business performance 60%).

8.0 Is business failure a necessary stepping stone to success?

Two thirds (66%) of SMEs believe that business failure can be an important stepping stone to business success.

SME owners / managers aged 18 to 34 are more likely to believe that business failure can be an important stepping stone to business success (74%; cf. those aged 35 to 49 69%, 50+ 60%).

More accountants (77%) see business failure as an important stepping stone to business success.

Accountants aged 18 to 34 are more likely to see business failure as an important stepping stone to business success (82%; cf. those aged 35 to 49 74%, 50+ 69%).

Accountants working in higher-turnover businesses (i.e. \$10 million or more a year) are more likely to see business failure as an important stepping stone to business success (85%; cf. under \$1 million 73%, \$1 million to \$9,999,999 77%).

9.0 Methodology

The small and medium enterprise (SME) study was conducted among 1,018 business owners or business decision makers of organisations with 200 employees or less.

The accountant study was conducted among 212 accountants or principals of accounting firms servicing small and medium enterprises.

Fieldwork commenced on Friday, 8 March and was completed on Thursday, 21 March, 2013. Both studies were conducted online amongst members of a permission-based panel.

After interviewing, SME data was weighted to the latest business count estimates sourced from the Australian Bureau of Statistics.