

THE STATE OF SME.

A white paper on the issues and opportunities facing small to medium enterprise in New Zealand today.

Foreword.

It is an exciting and interesting time to own a small business in New Zealand. The country has seen strong economic growth in the major cities and regions, resulting in a sustained period of business development across a wide range of sectors. A booming tourism industry, in particular, has seen many Kiwis embracing the dream of being their own boss.

Naturally, SMEs face unique challenges, no matter how buoyant the economy. A changing business landscape, where consumer demands are constantly evolving, can often make it difficult to stay relevant.

Today, a modern business owner needs to know how to tackle multiple elements of business management - from financial management and retirement planning to dealing with skills shortages, and developing sales and marketing campaigns, to name but a few.

Business Mentors has been supporting Kiwi businesses for more than 25 years but never in that time has the landscape changed quite so rapidly as it is now. Staying ahead of the digital transformation taking place with breakneck speed is creating added pressure, business owners need mentor support now more than ever.

Having worked with over 72,000 small businesses throughout New Zealand, we hear their concerns, challenges, and hopes for the future every day. We are dedicated to supporting the success and growth of small businesses through the knowledge and experience of our volunteer business mentors.

With the recent election, this marks a perfect time for us all to take stock, reflect and make plans to take us through the next three plus years. To understand the small business landscape in more depth, we commissioned research company Perspective to undertake a nationwide independent study.

It's not only provided a platform for business owners across the country to have their say but has also enabled us to tell their story. To this we have added insights from our own business mentors. As a result, we believe we've been able to paint a detailed picture of the New Zealand small business landscape as it currently stands.

Not everything discovered by our research is solvable by government or by a single support agency. Owners need to do their bit and invest in their business, that means investing in the best support available dependent on their business journey.

Business Mentors work with SMEs that have never asked for help before. Our goal is to continue to encourage SMEs to recognise when they need support and not be afraid to ask for it through a false belief that asking for advice is an admission of failure.

We hope the insights provided in this white paper will prove useful to you all as we move into the next chapter. More than anything, we hope the government will continue to support the small business owners of New Zealand. Kiwi small businesses are the backbone of a flourishing economy and we strongly believe they provide a solid foundation on which the rest of nation can grow.

Lisa Ford
General Manager, Business Mentors New Zealand

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Executive summary.

The SME industry plays an integral role in the New Zealand economy – contributing over a quarter of the nation's GDP and creating over 100,000 jobs every year.

As with any industry, the journey to become a success comes with its hurdles. This white paper uncovers the common thoughts and concerns of Kiwi small business owners, spanning a variety of topics and industry areas.

With consumer trends evolving, we can see a growing demand being placed on businesses to develop with them. For instance, greater emphasis is being placed on having a strong online presence, as the on-demand economy grows. This white paper discusses the areas that offer opportunity for growth and expansion, as well as the issues which act as barriers to this development.

Post-election, as the nation resets and looks forward to the next three years, the research undertaken has investigated the following key considerations for small businesses:

- **City vs. Regions:** How the thoughts and views of business owners differ around the country
- **Challenges:** The most common issues placing pressure on New Zealand businesses, and how these are being addressed
- **Planning & Cash Flow:** The importance of sound planning and how this acts as the foundation of a successful business
- **Recruitment:** The issues facing SME owners when looking to recruit new staff
- **Social Media:** How social media is changing the way business is being done, and the importance of using it effectively
- **Retirement:** The considerations to be made when looking to exit or step away from a business

This paper is based on new industry research conducted by Perceptive in June/July 2017 on behalf of Business Mentors New Zealand, which investigates the views and opinions of over 700 SME owners and business leaders throughout New Zealand.

In 2017, the World Bank ranked New Zealand as number one¹ in the world for 'ease of doing business' and 'ease of setting up a business', encouraging signs. However, there are still issues which need to be addressed. For New Zealand to prosper, the SME sector needs to lead the way. This white paper shines a light on how this can be done.

¹ <http://www.doingbusiness.org/rankings>

A. Cities vs. regions - location, location, location

The results of the research showed that whether the business was in the city or based in the regions, SME owners' hopes, fears and concerns were broadly similar.

One shared concern between both city and regional businesses was the lack of potential customers. A lack of customers means a lack of potential growth opportunities and within the big three regions, Auckland, Wellington and Canterbury, 35% cited this as their biggest business hindrance, as did 34% of those based in the regions.

Drilling down to focus on the regions individually, the areas appearing to suffer most from this lack of potential customers are Northland and the West Coast. More than half of businesses in these two regions, 55% and 60% respectively, stated this as their primary concern and biggest obstacle to growth.

Where they did differ was how they reach out to potential new customers. Seventy-six per cent of regional businesses are using social media as part of their growth strategy versus 59% of their city-dwelling counterparts. Wherever the business was located, all tended to agree that additional training for social media would be highly beneficial (see section E for more on this).

Thanks to social media and growing levels of tourism, potential customers are coming. In the last 12 months alone, more than 3.5 million² international visitors arrived in New Zealand. These visitors are getting out to the regions and this is directly recognised as having an economic benefit. Nowhere has this benefit been more keenly felt than Nelson. Thanks to its booming tourism industry, the region was recently named the best performing region, economically, in the country.

Better internet connections have also played a part in enabling businesses to reach out to potential customers. Across the country, fewer than one in four businesses believes poor internet connectivity is a hindrance to growth. In Auckland, Wellington and Canterbury this drops to one in ten. The exception to this is Manawatu, where 44% of businesses believe poor internet connectivity to be an issue.

Perceived road blocks to attracting skilled workers were also an area of difference between city and regional businesses.

For businesses based in the cities, affordable housing topped the list, concerning 53% of respondents, compared to 32% elsewhere in the country. In the regions, higher wages topped the list as the best catalyst for encouraging more skilled employees out to the regions.

Government initiatives, such as increasing the number of residency points available to skilled migrants who settle outside Auckland, are now in place to encourage more skilled migrants out to the regions. The Regional Business Partners Network and Business Mentors, have programmes and tools in place to help foster and grow SMEs wherever they are located.

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² <http://www.mbie.govt.nz/info-services/sectors-industries/tourism/documents-image-library/key-tourism-statistics.pdf>

76% **vs.** **59%**
of regional businesses are using social media as part of their growth strategy *of their city-dwelling counterparts*



Across the country, fewer than one in four businesses believes poor internet connectivity is a hindrance to growth



“We hear a lot of SME owners tell us they need support in removing obstacles that are frustrating their plans to grow their business. Reaching out for help and advice from an experienced mentor can be invaluable in providing the extra momentum needed to push the business forward to a greater level of success.”

Photo: Business Mentor, Brian Slingsby with Mark Dowling

B. Challenges - the hurdles facing new businesses

For many small business owners, after the decision of where and when to set up, the next big challenge comes with how to run the company. Owning a successful business can be incredibly rewarding, but for even the most confident of people the reality of the day-to-day requirements can be a challenge.

According to Statistics New Zealand, 41,000 SMEs have been registered over the past four years, just over ten thousand each year. When broken down this equates to roughly 850 new businesses being established across the country every month.

Every one of these businesses will face challenges, however, the research uncovered that post the initial high of setting up a business, the main issue New Zealand business owners deal with is a feeling of isolation.

Eighty per cent of SME respondents said at one point they have felt this sense of isolation. This was more of a challenge for business owners than financial worries (54%), mental and physical exhaustion (50%) and customer attraction & retention (41%).

Brian Slingsby, a business mentor with more than 40 years of experience in packaging and manufacturing, said that feelings of isolation are rarely discussed yet they are incredibly common.

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Many other business leaders agree, with 88% of mentors surveyed stating that seeking assistance was a vital part of owning a new business, to ensure early pitfalls are avoided.

The leading concerns for a substantial number of these mentors are the same; 65% noticing financial issues with their mentees, coupled with ultimately not being quite prepared for all the aspects of running a business independently (83%).

Although business owners may feel they're alone, the figures show there are hundreds of thousands of businesses dealing with the exact same challenges.

850

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To help bridge the gap, organisations such as the Regional Business Partner Network offer advice, support and capability funding to business owners funded by New Zealand Trade and Enterprise (NZTE) and Callaghan Innovation. In addition, there are not-for-profit organisations such as Business Mentors, offering guidance and one-on-one mentoring.

C. Planning & cash flow - fail to prepare, prepare to fail

Crucial to any business, regardless of size, reputation or financial backing is sound planning, yet the research showed it is a component of business many aren't confident with.

Over a third (34%) of respondents stated planning as the key aspect of business management which needed the most improvement. In the early stages of starting a business seeking guidance is again crucial; over half (56%) of business mentors noticed a lack of experience in business planning and outlined it was a sticking point for many businesses.

Aspects of business management SMEs would most like to improve on were:

- 1. Business Planning (34%)
- 2. Social Media (17%)
- 3. Financial Management (15%)

Poor planning and lack of financial management experience can often lead to businesses experiencing a problem with cash flow and late-payments. Alarmingly, more than a third of New Zealand SMEs (34%) face this on a monthly basis, and while the average late payment for a Kiwi business (the average delay on late payments is 5.3 days) is over nine times faster than the Australian average, many SMEs are still being badly affected. With a lack of experience in dealing with finances and customers, over 180,000 Kiwi small businesses have suffered from late payments on a regular basis, with over half of those (58%) often unable to pay suppliers as a result.

A plan provides a business with a solid foundation to grow and results show this is still a pressure point for many.

Jacob Klootwyk is a business mentor from Nelson with a background in engineering. He says business is all about keeping it simple, "No matter what changes around you, the fundamentals of business remain the same. Get the basics right and you're half way there."

180,000

Kiwi small businesses have suffered from late payments on a regular basis

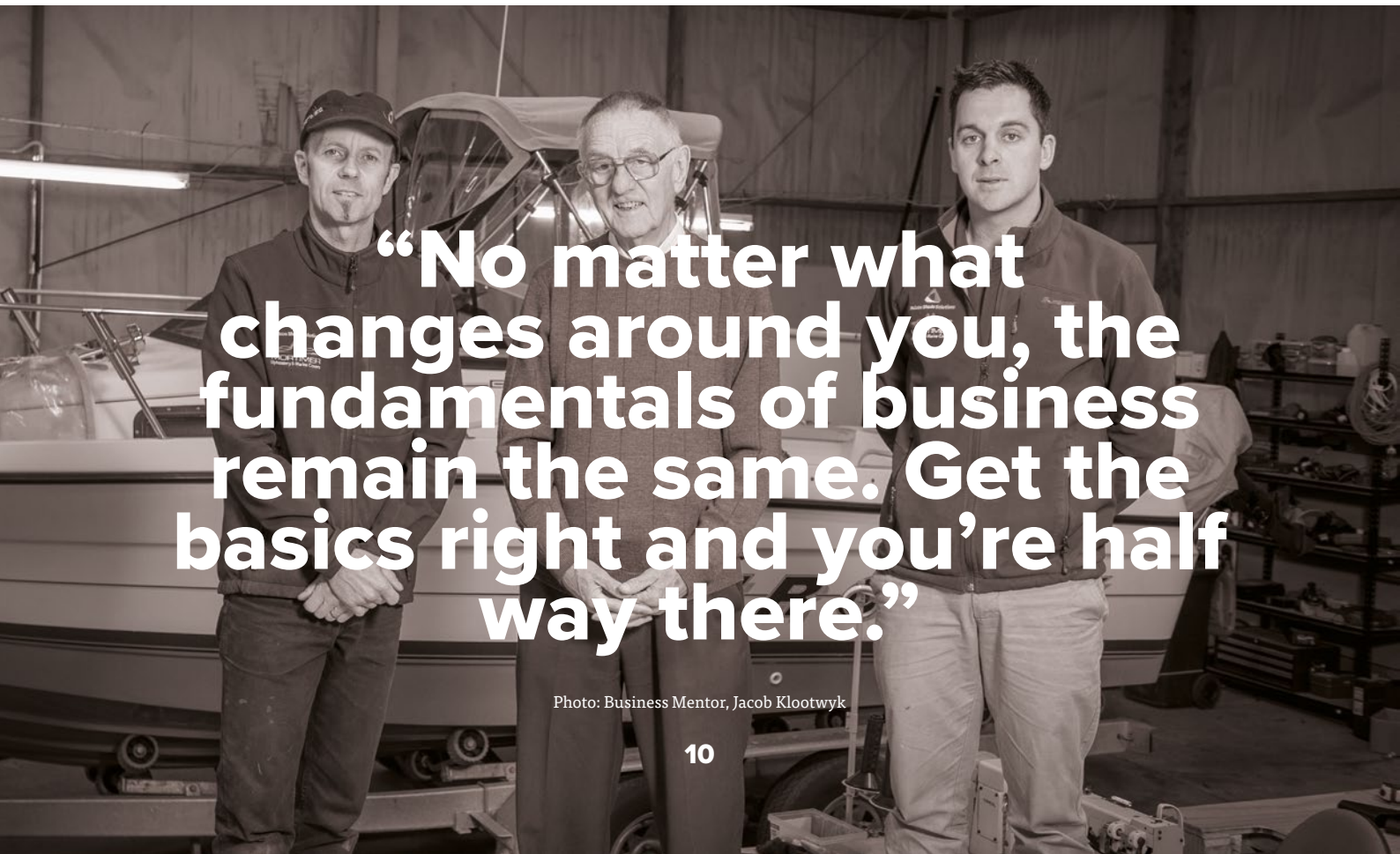
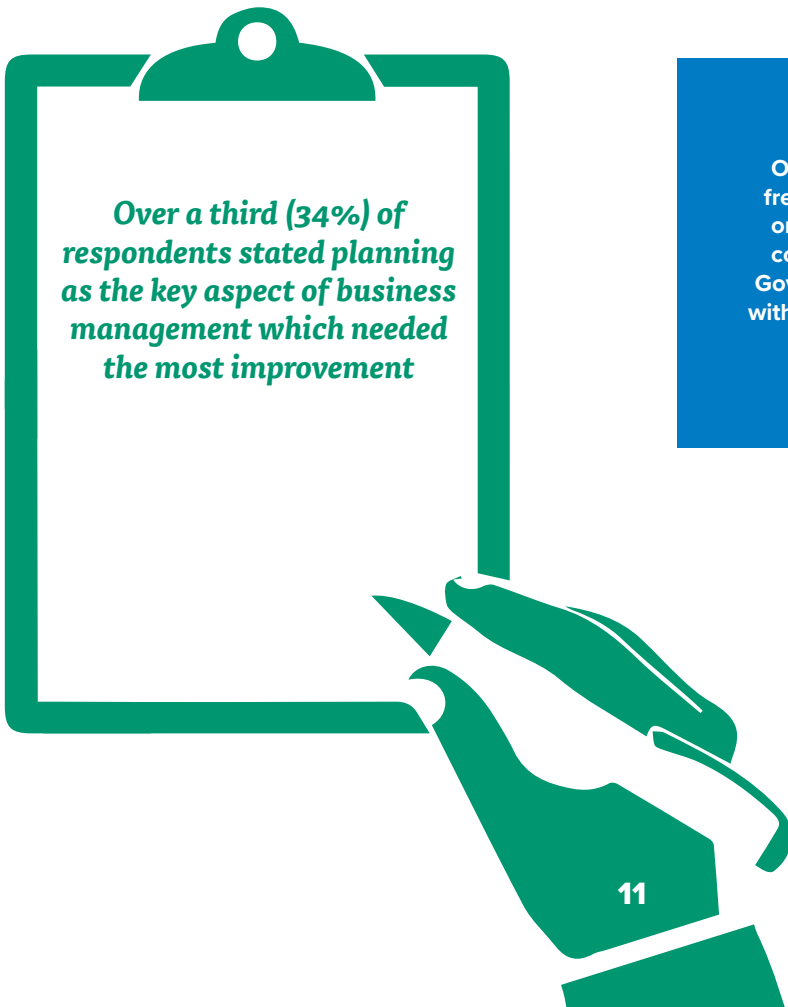
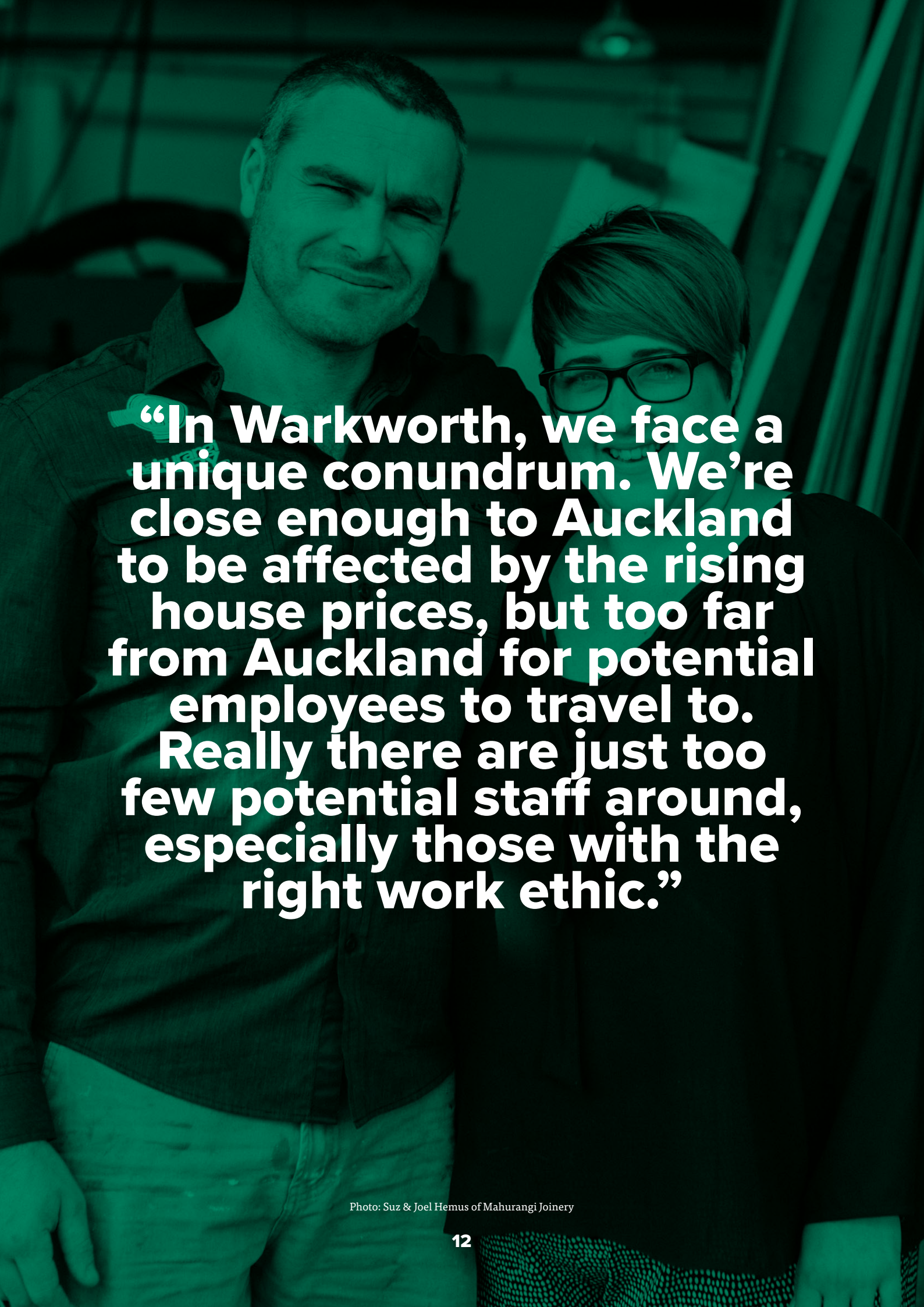


Photo: Business Mentor, Jacob Klootwyk



On the Business.govt.nz website are free 'How to Guides', with information on compiling business plans and the considerations that should be made. Government grants are available, along with business advice and mentoring from the likes of Business Mentors.



“In Warkworth, we face a unique conundrum. We’re close enough to Auckland to be affected by the rising house prices, but too far from Auckland for potential employees to travel to. Really there are just too few potential staff around, especially those with the right work ethic.”

Photo: Suz & Joel Hemus of Mahurangi Joinery

D. Recruitment - a skills shortage in New Zealand

The New Zealand economy is continuing to grow, expanding 2.5% in the year to April 2017, with agriculture, services (including tourism), manufacturing and construction all witnessing growth.

Small businesses are responsible for a significant part of this growth. Every year they contribute more than a quarter of the nation's GDP and create approximately 100,000 jobs. But according to the research, these businesses are struggling to recruit staff. For an economy to continue to grow, it needs a constant supply of suitable, available labour in order to fulfil the jobs that it creates.

Twenty-seven per cent of respondents said this was their biggest obstacle to growth. Added to this, 73% of businesses answered that they would like to see more skilled workers move to the regions.

Suzie Hemus runs a joinery company with her husband in Warkworth and says the struggle to recruit suitable staff has affected the growth of her business.

“In Warkworth, we face a unique conundrum. We’re close enough to Auckland to be affected by the rising house prices, but too far from Auckland for potential employees to travel to. Really there are just too few potential staff around, especially those with the right work ethic.”

This lack of positive work ethic in potential employees was identified as an issue by more than 37% of respondents. If this figure were applied to all SMEs across the country, this lack of work ethic would affect an estimated 188,000¹ businesses. More than a third of New Zealand SMEs also believe on-the-job experience (37%) and industry specific qualifications and skills (32%) are all in need of improvement from job candidates.

Jacob Klootwyk recognises the struggle small businesses face when recruiting, *“With small businesses, knowledge is everything and what we’re experiencing now is a real skills shortage. We are at the stage now where we are seeing a generation start to hit retirement age, taking with them crucial understanding and skills. Finding capable replacements, for a small business, in particular, can be incredibly frustrating and time-consuming.”*

Wherever SMEs are based in New Zealand and whatever the business sector or industry being operated in, the research uncovered a nearly unanimous agreement that more skilled staff with the right work ethic are needed.

How to continue to address the skills shortage in New Zealand will be a focus for government. Recognised in the 2016 budget, the Government pledged \$257million for apprenticeship programmes and tertiary education, with a focus on STEM education – the development of science, technology, engineering and maths skills.

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¹ Estimate based on March 2017 figures provided by the Ministry of Business Innovation and Employment

E. Social media - a new way of doing business

The consumer journey has changed and so has the way in which businesses, in particular, small businesses, need to attract and interact with customers. The influence social media plays is unparalleled, with nearly 90%, or 2.8 million New Zealanders over the age of 15¹, using social media on a monthly basis.

Using social media effectively allows businesses to target potential customers in ways never before possible. This trend has not gone unnoticed in New Zealand, with 96% of small businesses currently using Facebook to attract new customers. However, the research uncovered a clear disconnect between the use of social media, versus knowledge of how it works.

Forty-three per cent of small businesses cite not knowing how to use social media as their biggest digital issue. These issues could well be generational, as 30% of 'Baby Boomers' (those aged between 51-69) stated they don't have sufficient knowledge to implement a social media strategy, compared to just 13% of those under 50. However, nearly three quarters (73%) of respondents, equating to approximately 372,000 enterprises, stated their business, regardless of age, would benefit greatly from social media training and thought it could potentially open up a new revenue stream.

Brian Weaver is a business mentor with extensive marketing knowledge and experience through years spent at international brands such as Nestle, Johnson & Johnson and McDonald's. Brian says for a business to succeed, owners need to know exactly who their customers are. *"Once you have a strategic understanding of who your customers are, you can then begin to work out the best way to target them effectively – whether that be through social media or more traditional forms. If your message and targeting is spot on, you're half way there."*

Business leaders from around New Zealand are witnessing this 'digital skills gap' first hand. Sixty per cent of mentors stated that while they believe SMEs should be using social media as part of their growth strategy, most don't have the skills to use it effectively. Nearly all (91%) of business leaders believe more should be done to help, training in this area would greatly benefit SME owners.

Kate Belcher, co-owner of Revolution Tours, a small-group cycling and walking tour company in Queenstown, said businesses can't underestimate the power and importance of social media, *"Social media marketing is crucial for us, as we look to target those already thinking about heading to the Queenstown area. Spending time developing a sound social media plan has allowed us to do this and reach people never before possible."*

¹ Nielsen Social Media Trends 2016

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Photo: Business Mentor, Brian Weaver

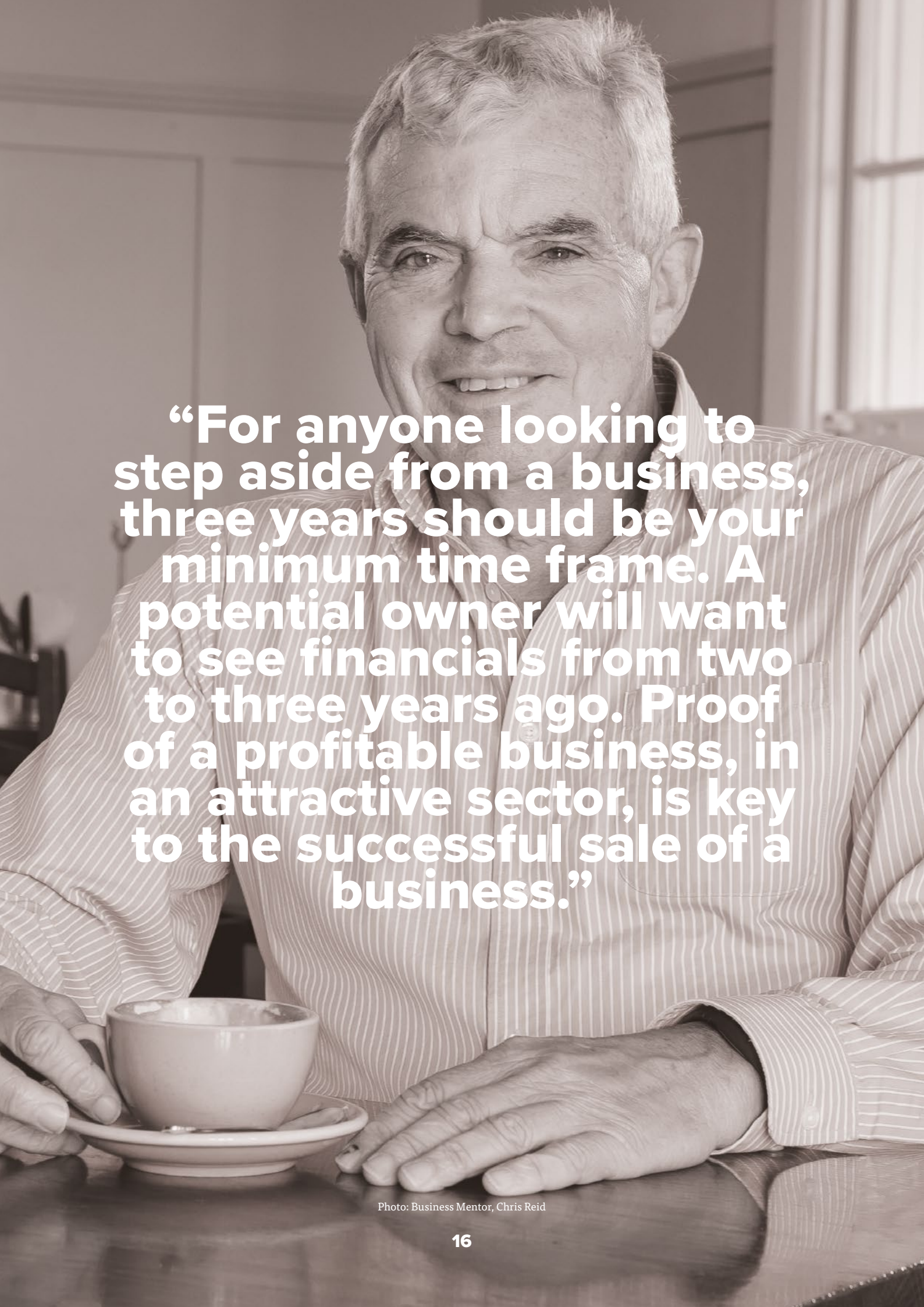
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In 2017, the Ministry of Business, Innovation & Employment (MBIE) identified 15 key programmes to help support New Zealand business, one of which was the Digital Economy, to strengthen both the country and Kiwis with better technology and skills. This included the roll-out of ultra-fast broadband and other areas, such as growing digital participation and ICT skills.



“For anyone looking to step aside from a business, three years should be your minimum time frame. A potential owner will want to see financials from two to three years ago. Proof of a profitable business, in an attractive sector, is key to the successful sale of a business.”

Photo: Business Mentor, Chris Reid

F. Retirement planning - preparing to take a step back

Succession and retirement planning is likely to be the last thing on the minds of SME owners when setting up a business. However, whether a business owner is prepared for the transition or not, one thing remains the same, it will happen. Yet the research uncovered 61% of SME owners, an estimated 310,000¹ haven't even contemplated it.

The reason they haven't thought through retirement yet may be linked to the worries they have about retirement and succession. Eighty-three per cent of SME owners interviewed said they had concerns about being able to sell or handover the reins of their business. Whereas more than a third, or approximately 168,000¹, SME owners are concerned they won't ever be in a position to retire.

These concerns are echoed throughout the mentor community. Forty-four per cent of mentors stated they have experienced little consideration in regard to retirement from small business owners, citing it as an area which needs addressing. In addition to this, 82% of mentors said that no matter what their age, SME owners should be at least thinking about an exit plan.

According to Business Mentor Chris Reid, it's a process which takes time and requires a lot of planning.

“For anyone looking to step aside from a business, three years should be your minimum time frame. A potential owner will want to see financials from two to three years ago. Proof of a profitable business, in an attractive sector, is key to the successful sale of a business.”

In addition, Reid states that an integral step when looking to sell a business is to demonstrate to potential buyers how vital knowledge and experience will be adequately passed on.

“A potential buyer will want to ensure the person stepping away is passing on the knowledge and experience that made the business a success. The seller likely founded the business and has played a major part in its success. When looking to step aside, it is crucial to have someone underneath you, trained and equipped with the same attributes you provided to the business. Pass this knowledge on to them and let them run it themselves. It is a form of future-proofing for the business. Unfortunately, we are often not seeing the passing on of knowledge taken into account.”

Retirement planning is as vital as business planning and a key area for the industry to address. The same support and guidance must be offered to those looking to exit the business, as to those just getting started. Support must be provided from start to finish to ensure Kiwis are able to exit the business successfully and enjoy their much-deserved retirement.

¹ Estimated based on March 2017 figures provided by the Ministry of Business Innovation and Employment

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The lack of retirement planning by more than a third of Kiwi SMEs is a serious problem that's likely to develop further as the eldest of the 'Baby Boomer' generation begin approaching retirement. According to the Ministry for Social Development, those aged 65 years and older will roughly double, from 711,200 in 2016 to between 1.3 and 1.5 million in 2046.

Key take outs at a glance.

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80%

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88%

of business mentors stated seeking assistance as an SME was a vital part of owning a business.

56%

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Over

180,000¹

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of businesses answered they would like to see more skilled workers move to the regions.

30%

of ‘Baby Boomers’ (those aged between 51-69) stated they don’t have sufficient knowledge to implement a social media strategy.

91%

of business mentors believe more should be done to help business owners benefit from social media.

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**BUSINESS
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INSPIRING SUCCESS