

SMALL AND MEDIUM-SIZED ENTERPRISES:

# REBUILDING A FOUNDATION FOR POST-RECOVERY GROWTH



IN ASSOCIATION WITH:



Certified General  
Accountants Association  
of Canada



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## Key findings

Coming out of recent economic turbulence, small and medium-sized enterprises (SMEs) have been turning inward, looking to put their financial houses in order to help ensure they are well positioned to take advantage of economic recovery once it occurs. Many have foresworn risk and reduced their leveraged position, understanding that they need to rebuild their liquidity before they are able to embark on their growth plans. While anxiety about another downturn exists, they mostly believe the worst of the recession has passed, and that their current actions will put them on the road to future growth and success.

This study is based on a comprehensive survey of more than 1,750 SMEs conducted by Forbes Insights in October 2010. All businesses in the survey had 250 or fewer employees, and representative samples of three SME segments—micro businesses, (less than 10 employees) small businesses (10–49 employees), and medium-sized businesses (50–250 employees)—were targeted. Geographically, respondents were from six international markets: Canada, China, Italy, Singapore, South Africa, and the U.K. The survey was carried out in association with ACCA (the Association of Chartered Certified Accountants), the global body for professional accountants; the Certified General Accountants Association of Canada (CGA-Canada); and CNDCEC, the professional body for certified accountants in Italy.

Key findings include:

**Having retrenched to survive the economic storms of 2008-09, SMEs are now most challenged by issues related to getting their financial houses in order** so they are prepared to get their businesses back on track as the economy improves. Asked about their top concerns over the past year, 31% cited finding new customers and prospects, followed by managing cash flow (26%), dealing with economic uncertainty (26%), and maintaining or maximizing profit margins (25%).

**Revenue and profitability are fragile, but the outlook is solid.** While nearly four in ten said their revenue was

higher today than it was 12 months ago, more than a quarter said it was lower. Profitability figures were similar. Looking ahead to the next year, 58% indicated revenue would be higher, and just 8% said it they expected it to be lower.

**Even with the economic crisis tapering down, cash flow challenges have persisted for SMEs.** Four in ten respondents (40%) in the survey indicated that managing cash flow today is more difficult than it was 12 months ago, while just 15% said it was easier. Slower-paying or non-paying customers was the biggest cash flow challenge SMEs faced this past year.

**SMEs that sell primarily to other businesses appear to be facing more intense cash flow issues than those that sell primarily to consumers.** Among business-to-business SMEs, 44% said that slow-paying and non-paying customers were their biggest cash flow issue, compared to 27% for business-to-consumer SMEs.

**SMEs that are growing do not appear to be sacrificing profitability for revenue.** Three-quarters (78%) of the SMEs that reported growth in revenue also reported higher profitability. Just 4% said profitability had declined.

**While economic turbulence has certainly caused anxiety, it is most pronounced for organizations whose revenue has been falling.** While 52% of those whose revenue was higher said they were very concerned about their survival, that figure jumps to 64% for those whose revenue was lower.

**Even during the height of the 2008-09 recession, more than half of SMEs that applied for outside financing got most of the capital they required.** More than two in ten (22%) said they had secured the full amount they sought between October 2008 and October 2010, and another 42% said they had secured most of the financing required. Just 9% received none of the funds they sought.

**SMEs can't put off financing decisions any longer and wait for financing conditions to improve.** Their expected increase in turnover is fueling demand for more financing. And they are approaching the credit and equity markets accordingly.

**SME respondents said they see little easing of the financing markets.** While 23% said their ability to secure financing had improved over the past year, a near equal 20% said it had worsened. Micro businesses reported a deterioration in financing conditions, while medium-sized enterprises were the group seeing the most rapid improvement.

**A significant number of respondents were anxious that they don't have a strong enough capital position to survive another downturn.** When SMEs were asked whether or not they felt they had adequate cash reserves to weather another financial crisis, four out of ten said they did not.

**When seeking financing, SMEs are looking to rebuild liquidity,** looking to outside sources to help them get a better handle on day-to-day working capital and cash flow, while also hoping to build capacity. SMEs in the survey said they plan to use debt financing for working capital (30%), new technology investment (30%), and expanding manufacturing/service capacity (30%), and their uses for equity were quite similar.

**SMEs in the survey said the recession essentially forced them to become better businesses.** They're planning better, acting smarter, and generally feel they are in a stronger position today than they were prior to the recession.

**Many SMEs are inveterate advice seekers.** Those that seek advice—whether it is from trusted professionals such as accountants, or informally through professional associations and networks—have been more successful in locating capital and have experienced stronger turnover than their counterparts.

## Surviving the worldwide recession

The economic turbulence of the 2008-09 global recession hit the small and medium-sized enterprise (SME) sector\* hard. Waning consumer and business confidence stressed sales pipelines. Faltering financial markets caused tightening credit, with SMEs frequently feeling the brunt of banks' tougher lending standards. Cash flow crunches and shrinking profit margins often forced smaller organizations to slash already closely watched expenses, reduce workforces, and forsake growth strategies in favor of battenning down against the financial storm. For many SMEs, their very survival was at risk.

Today, many SMEs are still feeling the impact of the recession, albeit less acutely. 2010 has been a year of healing for many of these firms. Revenue is still under stress, as many firms struggle to rebuild their customer ranks. Profits also remain squeezed, although some of that pressure may be easing. And cash flow—long a barometer of SME health—continues to feel the weight of the competing forces of rebuilding revenues, slower receivables, and credit markets that remain extremely tight and risk-averse.

Yet having survived the recession, many SME owners and principals feel they are smarter about running their businesses today than they were prior to the recession. The recession caused them to make some tough decisions to ensure their business' survival, but those choices have made their organizations stronger. Their outlooks are improving, and they see the next 12 months as potentially providing them with the revenue and profits they need to get themselves back on their feet.

Still, there are concerns. In some countries, anxiety over the possibility of a double-dip recession has business owners worried that they may not have the cash reserves available to weather more economic turbulence.

### ABOUT THE STUDY

To gain a clearer understanding of the current state of the SME sector, Forbes Insights conducted a detailed survey of more than 1,750 SMEs small and medium-sized enterprises (those with up to 250 employees) in six

international markets: Canada, China, Italy, Singapore, South Africa, and the U.K. The survey was carried out in association with ACCA (the Association of Chartered Certified Accountants), the global body for professional accountants; CGA-Canada, the professional association of certified general accountants in Canada; and CNDCEC, the professional body for certified accountants in Italy.

Additionally, qualitative interviews were conducted with more than a dozen SME owners, principals and managers around the world. As told in their own words, their experiences provide valuable insights into particular challenges facing the small and medium-sized enterprises.

Based on these findings, it appears that SMEs in general are turning inward, looking to put their financial houses in order to help ensure they are well positioned to take advantage of economic recovery once it occurs. Many have foresworn risk and reduced their leveraged position, understanding that they need to rebuild their liquidity before they are able to embark on their growth plans. They mostly believe the worst of the recession has passed, and that their current actions will put them on the road to future growth and success.

Diving deeper into the numbers, this study also examines attitudes and actions of the different segments of the SME world: micro businesses (those with fewer than 10 employees); small businesses (10-49 employees); and medium-sized businesses (50-250 employees). It also will look at some of the differences between SMEs that have been experiencing revenue growth over the past year and those that have not.

Politicians around the globe have been trumpeting that SMEs are the ones that will lead us out of the recession. They were more resilient and flexible in the face of economic uncertainty, promise employment growth, will drive new spending and investment, and can help show the way to future innovation. SMEs themselves today want to be operating in an environment that lets them live up to that.

\*This study defines SMEs as businesses with 250 or fewer employees. Various countries define SME differently; for details on how the six countries from this study define this sector, please see the note on page 27.

## FINANCIAL MANAGEMENT

# Getting past the challenges of 2010 to a prosperous 2011

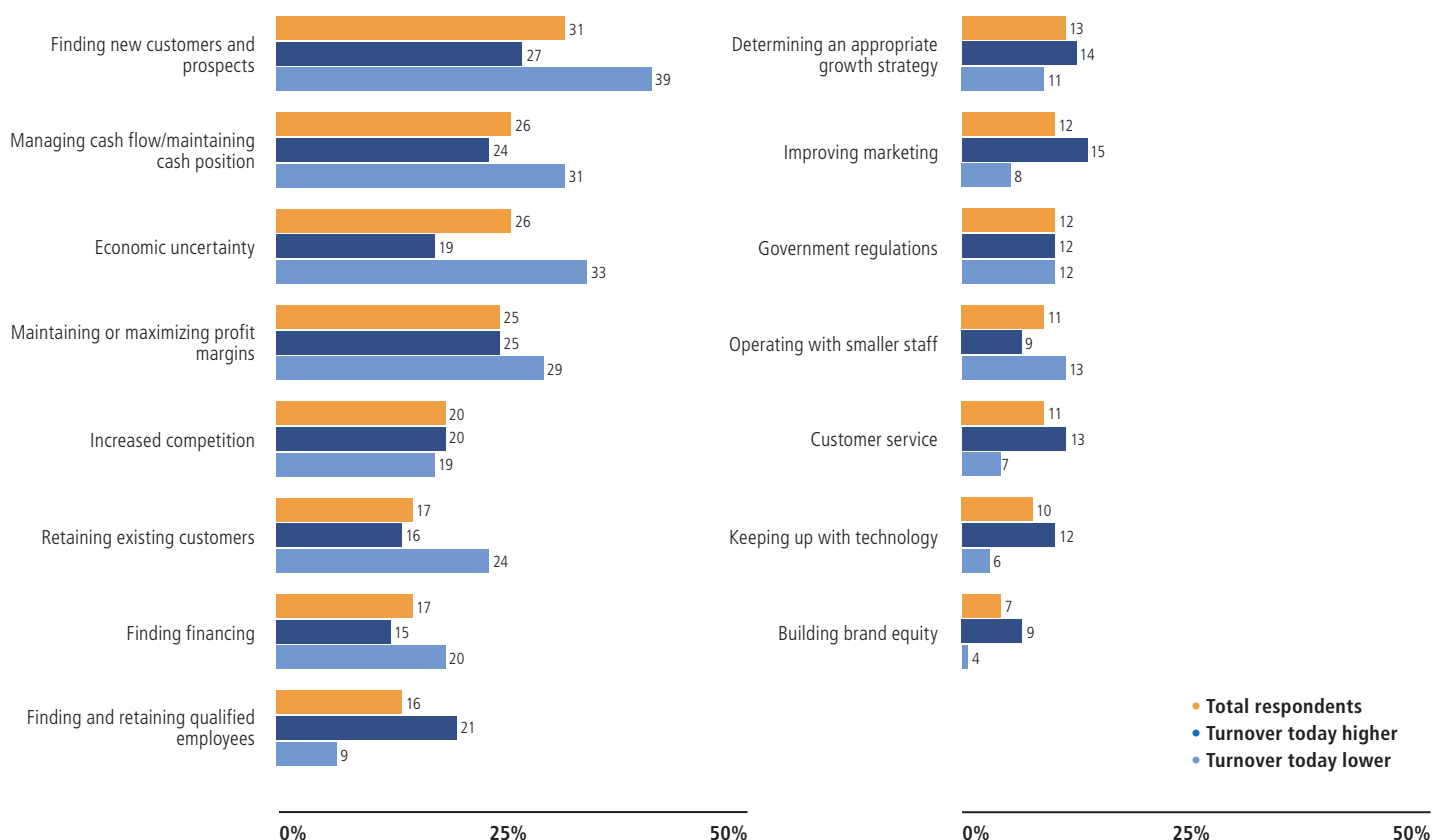
Coming out of the 2008-09 recession, small and medium-sized enterprises face a new set of challenges. For many, 2010 represented the tail end of the worst of the global economic trouble. Their outlook for 2011 is far more positive.

In the Forbes Insights survey, respondents were asked about the top challenges their enterprises faced over the prior 12 months. The most common answers focused on areas of recovery, demonstrating a sense that SMEs in general have been retrenching to blunt the impact of the recession, particularly as they remain unsure of its overall duration. Now, with a sense that

recovery is closer, they are frequently challenged by issues related to getting their houses in order so they are prepared to get their businesses back on track as the economy improves.

Topping the list of concerns is finding new customers and prospects (31%), followed by managing cash flow (26%), dealing with economic uncertainty (26%) and maintaining or maximizing profit margins (25%). (Fig.1)

FIGURE 1: Over the past 12 months, what have been the top challenges your small/medium-sized enterprise has faced? (Select three)





It's probably little surprise that finding customers and prospects tops the list and is a primary concern both for businesses that have seen their revenue rise over the past year and those whose revenue has declined. Growing firms are finding that the competition for leads and prospects has heated up, and they have to work harder to get customers who may be more demanding. Those with declining revenue have likely seen a drop in demand, and are facing challenges refilling their pipelines.

Yet in countries where SMEs may be more likely to see turnover growth—namely China and Singapore, and to a lesser degree Canada—other challenges emerged. For example, while finding new customers and prospects topped the list of challenges facing Chinese SMEs at 36%, it was closely followed by increased competition, cited by 34% of Chinese respondents, compared to just 20% overall. In addition, 30% of Chinese SMEs indicated they were concerned about finding and retaining qualified employees, compared to 16% for other SMEs.

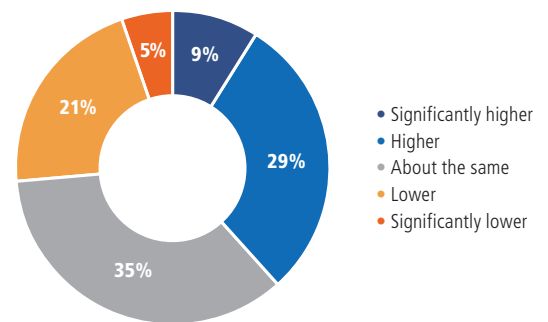
#### REVENUE AND PROFITABILITY ARE FRAGILE, BUT THE OUTLOOK IS SOLID

Concerns about economic uncertainty appear warranted, especially when seen in view of the overall performance of the international SMEs participating in the survey.

While nearly four in ten said their revenue was higher today than it was 12 months ago, more than a quarter said it was lower; 35% indicated their year-to-year revenue was about the same. (Fig. 2)

In assessing these numbers, it is important to note the points of comparison. Turnover for some organizations may be higher year-over-year, but turnover in general in 2009—the depths of the recession—was less than stellar in a wide range of industries. That's not to say that some businesses haven't been experiencing growth; it's just that for others, growth may have been inevitable after a poor showing the prior year.

**FIGURE 2: How does your current turnover (revenue) compare to what it was 12 months ago? Today it is:**



#### IT'S ALL ABOUT LEAD GENERATION

Asked to name the top challenge his business faced over the past 12 months, Nigel J. Mayne, founder of MatchPoint Franchise Consulting Network, a Toronto, Canada-based business that connects aspiring franchise owners with opportunities, answered simply "lead generation."

"We depend on a constant and consistent supply of potential franchise purchasers for our franchise consultants," he said. "While the overall market demand for franchises is up, we compete with others within the franchise community for the same leads."

The recession, he added, "has created the need to think outside the box and to be very creative. We have developed new lead sources and strategic alliances that will provide us with a continual source of growth well into the future."

Geographically, SMEs in certain countries were more likely to be experiencing growth than in others—trends that could point to a faster revival in some areas, and slower turnover improvement in others (fig.3):

**China:** 60% of SMEs said revenue today was higher; just 16% saw turnover drop

**Singapore:** 43% of SMEs said revenue was higher; 20% saw a decline

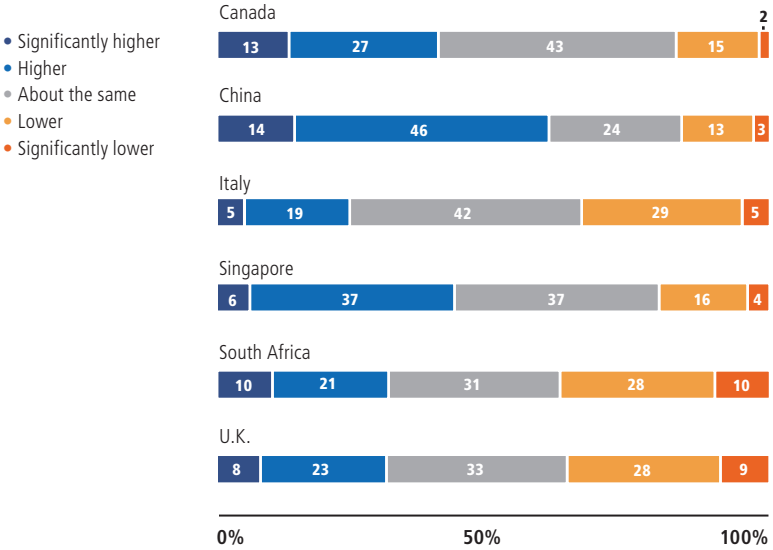
**Canada:** 40% of SMEs had higher revenue; 17% had lower

**U.K.:** While 31% of SMEs said revenue was higher over the past year, 37% said it was lower

**South Africa:** Like the U.K., 31% of SMEs said revenue was higher, while 38% indicated it was lower

**Italy:** Fewer than a quarter (24%) of SMEs said revenue was higher, and 34% said it was lower

**FIGURE 3: How does your current turnover (revenue) compare to what it was 12 months ago? (by country)**





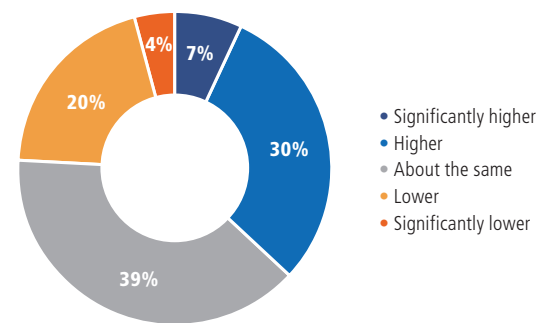
Although the pressure to do so may be high, SMEs don't appear as though they are willing to sacrifice profitability for revenue growth. In fact, the profitability picture for SMEs mirrors turnover performance, with 37% indicating current profitability is higher than it was a year earlier, 24% said it was lower, and 39% said it had stayed roughly the same. (Fig. 4)

Again, SMEs in China were more likely to have increased their profitability than SMEs in other countries. More than half of Chinese SME respondents said profitability today was higher than it was a year ago. Compare that to the U.K., where 28% said profitability was higher, but 35% said it was lower.

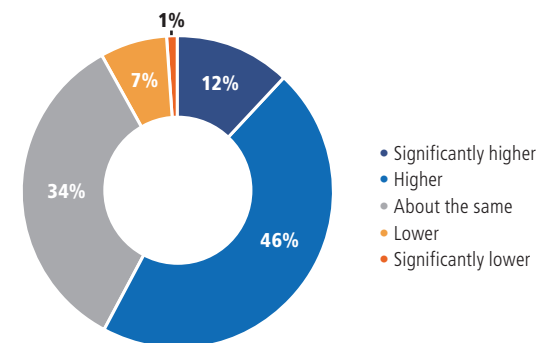
The outlook for the next 12 months is far more optimistic. Well over half (58%) of SMEs expect revenue to be higher; only 8% expect it to fall. (Fig.5) A comparable number (54%) expect profitability to be higher, with 10% anticipating a decline. (Fig.6)

Looking at the countries participating in the survey, more SMEs in China and South Africa expect to a bounce in both revenue and profitability. Among SMEs in China, 77% anticipate a rise in revenue and 68% see profitability increasing. For South Africa, 72% expect revenue to rise and 66% expect higher profitability.

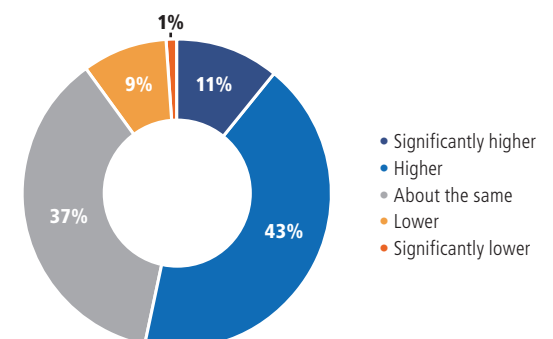
**FIGURE 4: How does your current profitability compare to what it was 12 months ago? Today it is:**



**FIGURE 5: In 12 months, what do you anticipate turnover (revenue) will be compared to today. In 12 months, it will be:**



**FIGURE 6: In 12 months, what do you anticipate profitability will be compared to today. In twelve months, it will be:**



What's driving this expected growth? Again, a somewhat cautious attitude pervades this response, as even those SMEs anticipating growth are doing so with the impact of the recession fresh in their minds. This is particularly true when it comes to their appetite for the kind of risk that drives growth. Here, they are focusing on risks they can control—that related to issues such as new product development or improved customer service. Risk associated with outside factors—such as geographic expansion, mergers and acquisitions, or even increased staffing—are less likely to be fueling their growth.

Asked what factors they believe will contribute to their increase in revenue over the next 12 months, SME respondents put product-based answers in the top three spots. (Fig. 7) In the top spot is increased sales of existing products/services (45%), followed by introducing new products/services (42%), and increasing the quality of their products/services (37%).

It is also interesting to view these growth factors as they relate to the size of the organization. Micro businesses, for example, are about as likely as medium-sized businesses to expect growth from introducing new products and services (44% for micro and 42% for medium-sized). However, they are significantly less likely to drive their growth from strategic partnerships (25% for micro; 34% for medium-sized), domestic expansion (20% vs. 30%), international expansion (15% vs. 24%), or a

new corporate ownership structure (4% vs. 18%).

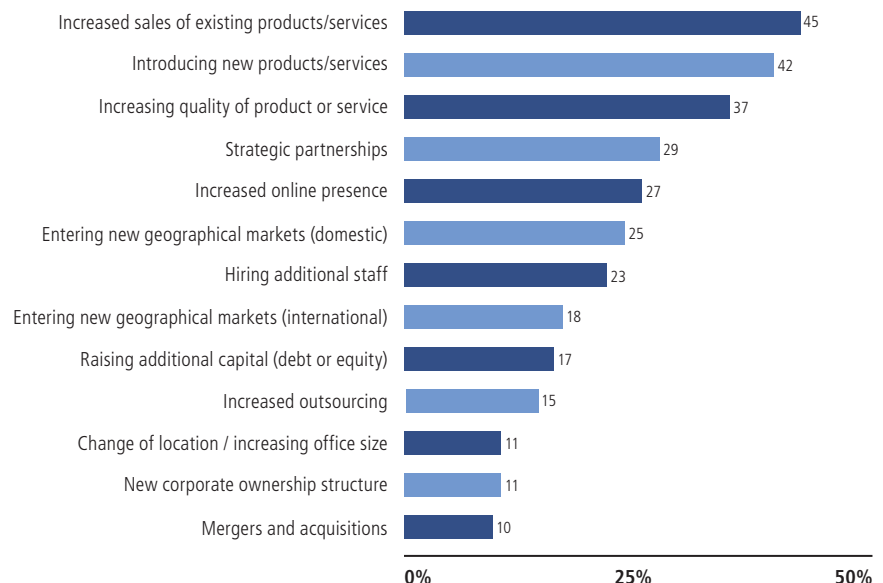
In other words, SMEs have not become risk-averse. In fact, many entrepreneurs still see themselves as risk-takers by nature, and given the necessary tools, they consider themselves equipped to handle whatever challenges come their way. Some, for instance, have seen economic turbulence as an opportunity, not a challenge.

"Some savvy players are viewing the current turmoil as a chance to make global moves," said David Iwinski, Jr., the managing director of Jin Fu Consulting LLC, a small firm offering merger and acquisition advisory services in China. In fact, in China, SMEs responding to the survey said they see their future revenue growth coming from increasing the quality of their products or services (53%) and introducing new products or services (52%).

Marc Poirier, co-founder and chief marketing officer and co-founder of Acquisio, Inc., a marketing analytics firm based in Saint Lambert, Quebec, Canada, agreed regarding the need to increase risk profiles looking ahead. "We have to take bigger risks to stay in business and continue to grow," he said. Among Canadian SMEs, the top factor contributing to future increases in revenue was hiring additional staff.

In fact, just about all SMEs have been cautious about staffing. The exception: those that expect the highest levels of revenue growth. In fact, those SMEs that said they expect higher revenue and those that expect

FIGURE 7: What factors do you believe will contribute to this increase in revenue in the next 12 months?



significantly higher revenue (an increase of 20% or more) were similar in just about all their assessments of how they will drive their growth. The one exception was headcount, where the highest growth companies will be hiring more to fuel their growth.

#### CASH FLOW CHALLENGES INCREASE FINANCIAL STRESS

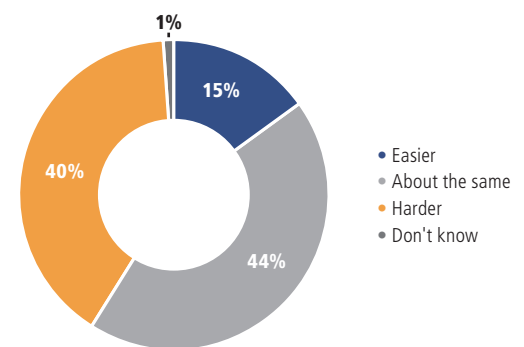
Revenue and profitability are certainly important success factors, but the true sign of SME fiscal health is often considered to be cash flow. Even the best-run SMEs face occasional cash flow crunches—where stretched-out receivables affect the business' ability to meet its obligations—and these issues became even more commonplace during the height of the worldwide financial crisis.

Even with the crisis tapering down, cash flow challenges have persisted for SMEs. In fact, four in ten respondents (40%) in the survey indicated that managing cash flow today is more difficult than it was 12 months ago, while just 15% said it was easier. (Fig. 8) And it is worth noting that cash flow issues can be as troublesome for growing companies—that need to keep a close eye on balancing their receivables and payables—as they are for struggling ones.

It would be easy to pin cash flow issues on the difficulties SMEs may have been having securing financing during the recession, but, in fact, that is not in the top five reasons cited by SME respondents in the survey. The top cash flow challenge they face is customers that are stretching out their payments or not paying them at all (34%). (Fig. 9) Slow-moving receivables have long been a test for SMEs, and this appears to have been exacerbated by the recession. This is also further proof as to how important trade credit can be as a financing source for SMEs.

In the U.K., for example, 44% of SME respondents said slower and non-paying customers was their top cash flow challenge (second to the 50% that saw that as a top issue in South Africa). (Fig. 10) At Purple Harry's Bike Cleaning Perfection, a Nottingham, England business offering cleaning products for cycling

**FIGURE 8: Is it easier or harder today to manage your cash flow (cash position) than it was 12 months ago?**

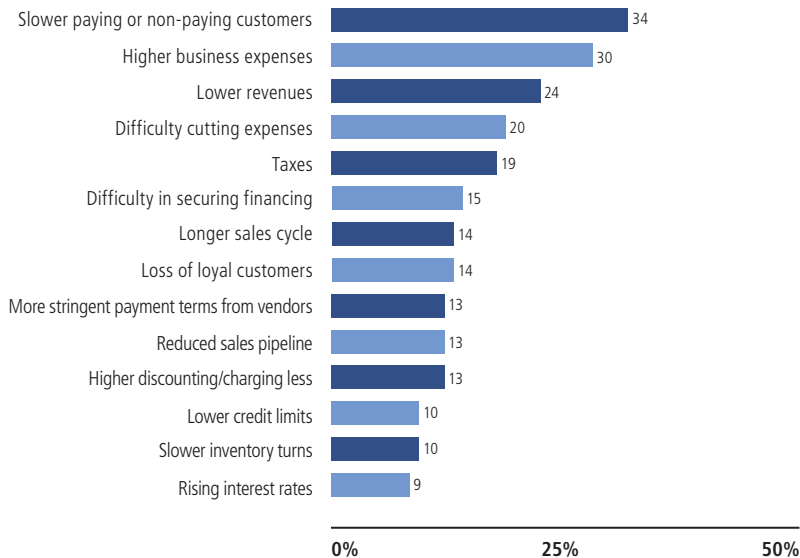


connoisseurs, co-owner Dean Perry—one of Purple Harry's two employees—said his greatest cash flow challenge is "the fact that large organizations give 60- to 90-day terms on payment." SMEs such as Purple Harry's often see sales to large partners as an endorsement of their products or services, but these longer terms put a high strain on their cash positions.

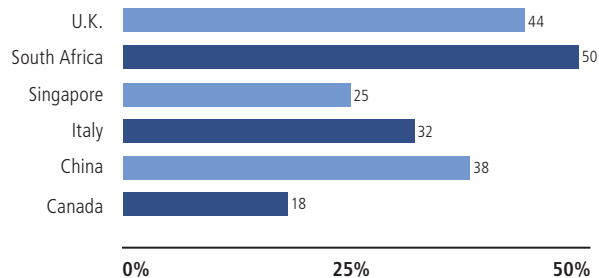
Beyond receivables, SMEs cited higher business expenses (30%), lower revenues (24%), difficulties in cutting expenses (20%), and taxes (19%) as their top cash flow challenges for the past year.

In other words, growth associated with recovery may also be putting strain on cash flow. AMK Telephone, a Montreal, Canada-based telecom provider with 10 employees, has been seeing rising revenue, but also greater cash flow challenges, said Yasir Anwar, its operations manager. "Our volume is growing, so we need more and more cash for daily operations. We manage our cash flow by keeping a very close eye on deadlines for payments and making small orders for purchases often." In Canada, higher business expenses (29%) and taxes (29%) were cited by SMEs as their top cash flow challenges.

**FIGURE 9: What were the greatest cash flow challenges your business faced in past 12 months?**



**FIGURE 10: Slower or non-paying customers is a cash flow challenge (by country)**



#### MEDIUM-SIZED BUSINESSES FIND BIGGER IS BETTER

While SMEs across the board have been facing financial management challenges, medium-sized enterprises (those with 50–250 employees) have been having an easier time than their micro- and small-business counterparts. Certainly, the smallest enterprises are more vulnerable to the loss of a single client or larger contract—occurrences that were likely common during the recession, while medium-sized businesses may have a more robust sales pipeline.

"Larger firms, in general, are far better equipped to survive the sort of recession and aftermath that we're currently living through," said Dr. Paul Rospin, business-strategy author and researcher, and founder of

#### CASH FLOW STRESS TOUGHEST IN BUSINESS-TO-BUSINESS

It seems like it is harder to get businesses to part with their cash than it is consumers.

SMEs that sell primarily to other businesses appear to be facing more intense cash flow issues than their counterparts that sell primarily to consumers. This may be related to the way business is conducted—those selling to other businesses may be extending trade credit and payment terms, something not commonly done directly to consumers. Among business-to-business SMEs, 44% said that slow-paying and non-paying customers were their biggest cash flow issue, compared to 27% for business-to-consumer SMEs.

In many cases, these B2B organizations feel their business customers—fresh from rounds of reducing expenses—have become far more cost-conscious. Many are not spending at the levels they once did for business goods and services. Others are demanding more from their suppliers in terms of higher discounts and better terms.

At Jin Fu Consulting LLC, which provides merger and acquisition consulting services for other firms in China, managing director David Iwinski explained the problem with servicing other businesses during uncertain economic times. "It isn't so much that the economy is poor," he said, but that clients think "it might be better to hunker down and wait."

It's a similar same story for Max Catanese, CEO of Almax Mannequins and Display Forms, a manufacturer of mannequins and store displays in Como, Italy. "The crisis affected sales due to the reduced investments of our clients... The attitude of buyers has changed, they seem to look just for the good price and high discounts," he said.

Mr. Catanese remains optimistic. "Hopefully it is just a temporary effect—and quality and service will again be seen as important as they really are."

the London-based consulting firm Stratevolve.

Across the board, micro enterprises are having the hardest time. In nearly every country surveyed, "medium-sized" SMEs (defined as having between 50 and 250 employees) reported higher revenue today as compared to 12 months ago. In those countries where these medium-sized businesses didn't report the greatest revenue growth, it was businesses with between 10 and 49 employees. In no market did SMEs with fewer than 10 employees come out on top.

For example, while overall 38% of SMEs said revenue had improved over the past 12 months, just 29% of micro businesses said turnover was higher. (Fig.11) Medium-sized businesses, however, outpaced the overall SME

population, with 44% saying revenue was higher in the past year. Perhaps more of concern is the fact that one in ten micro businesses (10%) said their revenue was at least 20% lower than it had been a year earlier.

Maintaining margins has also proven difficult for the smallest enterprises. Nearly half (43%) of businesses with more than 50 employees reported higher profitability over the last 12 months. (Fig.12) Just one in four micros reported the same. Looking forward, 59% of medium-sized businesses are forecasting higher profits in the next year, while less than half (45%) of the micros are predicting the same.

FIGURE 11: How does your current turnover (revenue) compare to what it was 12 months ago? (by company size)

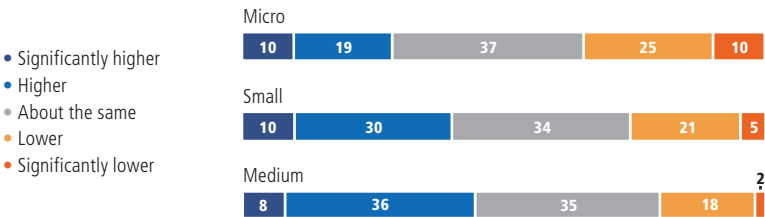
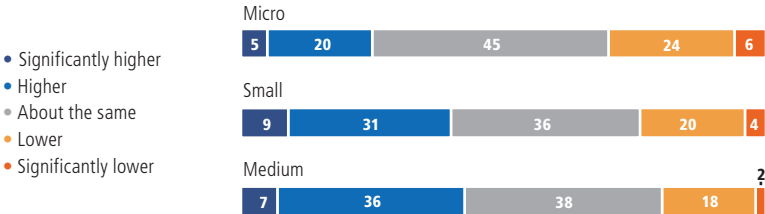


FIGURE 12: How does your current profitability compare to what it was 12 months ago? (by company size)



NOT SACRIFICING PROFITABILITY FOR REVENUE

In examining the survey’s findings, the question of the link between strong revenue and strong profitability arose. In other words, have businesses that have managed revenue growth done so but sacrificed profitability? Will businesses that have had a tough time over the past 12 months be at greater risk for failure than those that have been able to maintain or grow their revenues?

To determine the answers to these questions, the results of the Forbes Insights study were segmented by revenue for the past 12 months. Clearly, there is a strong correlation between rising revenue and rising profitability, as those businesses that said their revenue was higher today outshone other SMEs in just about all financial performance categories.

To begin with, SMEs whose revenue has been increasing over the past 12 months are also maintaining or increasing their profitability. Three-quarters (78%) of the businesses that reported growth in revenue also reported higher profitability. (Fig.13) Just 4% said profitability had declined.

Of concern, SMEs whose revenue was down were

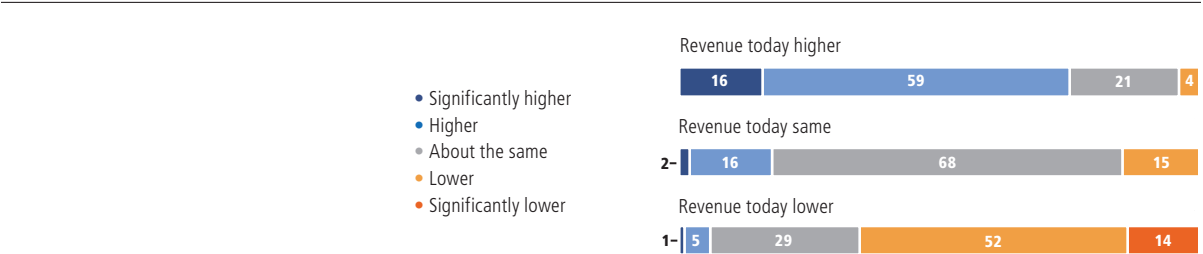
also seeing lower profitability. In fact, two-thirds (66%) of those whose revenue declined in the past year said their profitability was lower.

While most growing SMEs appear to be unwilling to sacrifice profitability for revenue growth, SMEs in Singapore may be the exception. In that market, nearly a third (32%) of the businesses that experienced revenue growth in the past year also saw their profitability fall.

ANXIETY ABOUT SURVIVAL

In the survey, SME owners were asked whether or not they are concerned about their business’ long-term survival. While the recession has certainly caused some anxiety, it is most pronounced for organizations whose turnover has been falling. While 52% of those whose turnover was higher said they were very concerned about their survival, that figure jumped to 64% for those whose turnover was lower.

FIGURE 13: How does your current profitability compare to what it was 12 months ago? (by growth profile)



## ACCESS TO CAPITAL

# Finding financing remains a struggle

The global recession and banking crisis did more than just shut down businesses. It prompted the world's financial gatekeepers to reexamine their lending policies and define "credit worthiness" using stricter guidelines. Small and medium-sized enterprises have been profoundly affected by these changes—largely in the form of reduced access to capital.

With so much economic stimulus being implemented around the world, shouldn't banks be actively lending money to these businesses that account for more than half the world's private sector output? The problem is risk, said Dr. Raspin of Stratevolve. Or, more accurately, perceived risk.

It's believed that "many SMEs do not have formal business plans in place, nor cash flow projections and the type of information and planning that banks like to see to secure credit," he explains. "The result is a higher than average failed loan request, or higher interest rates to compensate for the bank's perceived risk; either way, the SME view is that the credit and funding support dries up when most needed."

It's true that SMEs may be at a disadvantage when it comes to getting financing, but even during the height of the 2008-09 recession, more than half were still getting most, if not all, the outside financing

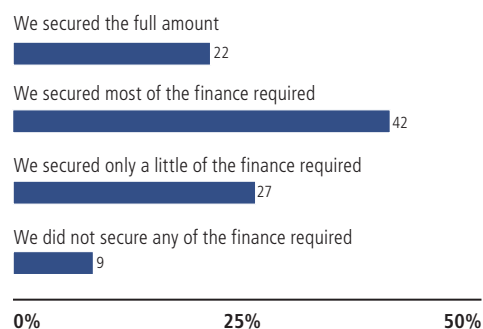
they required. But two in ten didn't even seek outside financing. In fact, understanding why SMEs are applying for finance and what they expect to use it for is an important filter in examining issues related to access to capital (See "What's determining financing demand and success," page 16).

Respondents to the survey were asked if they got all, most, some, or none of the financing they had sought over the previous 24 months, which covered the time from October 2008 to October 2010. Of those SMEs that said they applied for financing, more than two in ten (22%) said they had secured the full amount they sought, and another 42% said they had secured most of the financing required. (Fig. 14) Just 9% received none of the funds they sought, and 27% secured only a little of what they required; the remainder did not seek outside financing during that period.

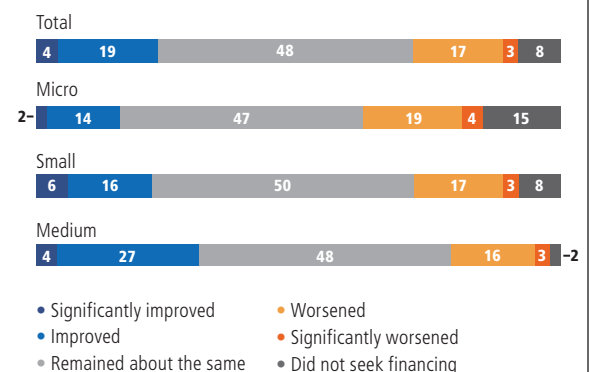
## ARE FINANCING MARKETS FOR SMEs EASING?

SMEs participating in the Forbes Insights survey said they see little easing of the financing markets. While 23% said their ability to secure financing had improved over the past year, a near equal 20% said it had worsened. (Fig. 15) Micro businesses—possibly the least likely to have significant loan collateral or solid credit

**FIGURE 14:** Thinking of all your financing needs over the past 24 months, which of the following best describes the outcome for the financing (regardless of type) that you actively sought?



**FIGURE 15:** Over the past 12 months, did your business' ability to secure financing improve, worsen or remain the same?





## What's determining financing demand and success

No discussion of “access to capital” can be complete without gaining a more thorough understanding of why SMEs are seeking credit, and what ultimately determines their success.\*

The 2009 study “Surviving the Drought: Access to Finance Among Small and Medium-Sized Enterprises,” commissioned by ACCA, CGA-Canada and CPA Australia, suggested that the lack of availability of finance was causing SMEs to postpone investments, and they expected a lack of funding to be the main constraining factor on their businesses through 2011.

A year later, it appears that SMEs have, in fact, put off financing decisions waiting for conditions to improve. However, they can wait no longer. Their expected increase in revenue is fueling demand for more financing. And they are approaching the credit and equity markets accordingly.

Again, this more detailed analysis of the 2010 data suggests that SMEs are first looking to credit markets to rebuild their liquidity and cash positions. Growth-related functions are often the least likely reasons for standalone use of credit.

Foreign expansion, in fact, was the least likely reason SMEs applied for credit (followed by investment in new technology and acquisitions). They may be putting off these investments considering that many businesses feel that international trade and the associated credit markets have yet to recover. Other international growth barriers may also exist—including foreign regulation aimed at protecting domestic businesses.

However, it appears that equity providers may, to some extent, be compensating for the lack of credit for foreign expansion.

As a group, micro businesses are the least likely to apply for financing.

SMEs with poor cash positions, however, are more likely than others to apply. Then again, they are also less likely to succeed, since businesses stressed for cash are seen as the poorest credit risks.

In fact, according to the survey data, the top driver of approval rates for finance applications is liquidity—cash-poor businesses are much less likely to obtain new funding. Clearly, businesses need to improve their cash positions first and foremost in order to obtain finance.

In terms of approval rates, all other things being equal, access to finance is much more constrained in Italy and China than other countries. Canada and South Africa follow. The U.K. has a stronger approval rate, but that may also be because many weaker businesses have been discouraged from applying in the first place.

Trade credit appears to be the easiest type of credit to obtain – in the sense that its presence in the mix of finance applied for is associated with the most significantly improved success rates; unsecured bank loans, unsurprisingly, appear to be the hardest. Business angel investment is the hardest type of equity to obtain; retained earnings are the easiest—provided of course that the business has earnings to reinvest.

It appears hardest for SMEs to obtain credit for customer financing—banks and other lenders generally don't want to take on customer credit risk. On the flip side, it appears easiest for SMEs to obtain credit for expanding manufacturing or service capacity.

For equity finance, judging from approval rates reported in the survey, acquisitions and hiring staff are the uses to which providers (often the owners themselves) are most open. On the other hand, refinancing debt is the least likely use for equity investors to approve.

\*These results were obtained from an ordinal regression analysis in which the dependent variable was the outcome of SMEs' applications for finance (conditional on an SME applying) and the determinants included a range of variables such as headcount, revenue, cash strength, types of finance applied for, uses of finance, revenue growth, legal form, and location. Only statistically significant ( $p < 0.1$ ) findings are reported here.

histories—had the hardest time securing financing, while medium-sized enterprises were the group seeing the greatest improvement.

Looking ahead, SMEs see the financing market easing a bit over the next year; 39% see their ability to secure financing improving, 43% expect it to stay the same, and 11% anticipate it worsening.

Geographically, significant variances existed in how SMEs see their ability to secure financing, and this aligned to revenue growth trends as well.

In countries where revenue growth was highest over the past 12 months—China, Singapore, and Canada—SMEs’ abilities to secure financing also improved the most. Singapore saw the greatest improvement, with 35% of SMEs indicating their ability to find financing had improved in the past year.

The “improvement” figure for Canada was 32%, and for China it was 31%.

The two European countries—where credit may be tighter under pressure being felt by bank balance sheets—had some of the least optimistic credit outlooks. For example, Italian SMEs were more likely to feel their ability to secure financing deteriorated over the past year, with 35% saying it worsened or significantly worsened, while 20% said it had improved. In the U.K., 22% said their financing situation had worsened, and just 10% said it had improved over the past year.

Among South African SMEs, 28% said their ability to find financing worsened, while just 14% said it improved.

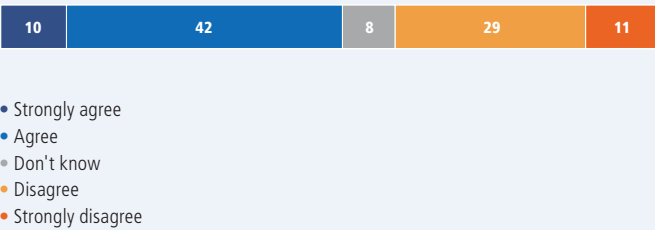
ISSUES OF LIQUIDITY: CAN SMEs SURVIVE ANOTHER RECESSION?

Looking at their balance sheets, many SMEs appear concerned about their overall liquidity. Having tapped into cash reserves to help them weather the 2008-09 recession, a significant number are concerned about their overall “working capital” position—so much so that they question their ability to survive another downturn.

When SMEs were asked whether or not they felt they had adequate cash reserves to weather another financial crisis, four out of ten said they did not. (Fig.16)

Interestingly, one country where this anxiety was most pronounced was China. While Chinese SMEs may be experiencing the most turnover growth, access to capital does not necessarily follow suit; the Chinese banking structure is not as friendly to lending to smaller enterprises. On top of that, the high growth rates of these companies could be straining their cash flow. Perhaps that is why in China, 44% of SMEs agreed they had adequate cash reserves, but 50% disagreed.

FIGURE 16: We have adequate cash reserves to weather another financial crisis.



### FINDING THE RIGHT LOAN OR INVESTMENT

SMEs are actively seeking a mix of debt and equity financing, but the specific type of financing they'll use ultimately depends on a wide range of factors, including their size, their industry, as well as the lending norms of their location.

The classic aphorism—that the best time to look for a loan is when you need it least—has certainly held true. Those SMEs with solid balance sheets frequently represent the least risky investments, and they are the least likely to apply for loans, but the most likely to succeed in getting them. . This is often why bank lending flows to medium-sized businesses, while micro enterprises are often discouraged from borrowing.

Instead, businesses with fewer than 10 employees are more likely to be bootstrappers—funding operations with personal credit cards and by reinvesting profits. Like many other start-ups, Purple Harry's Bike Cleaning Perfection runs on "private investment and personal money from the two owners."

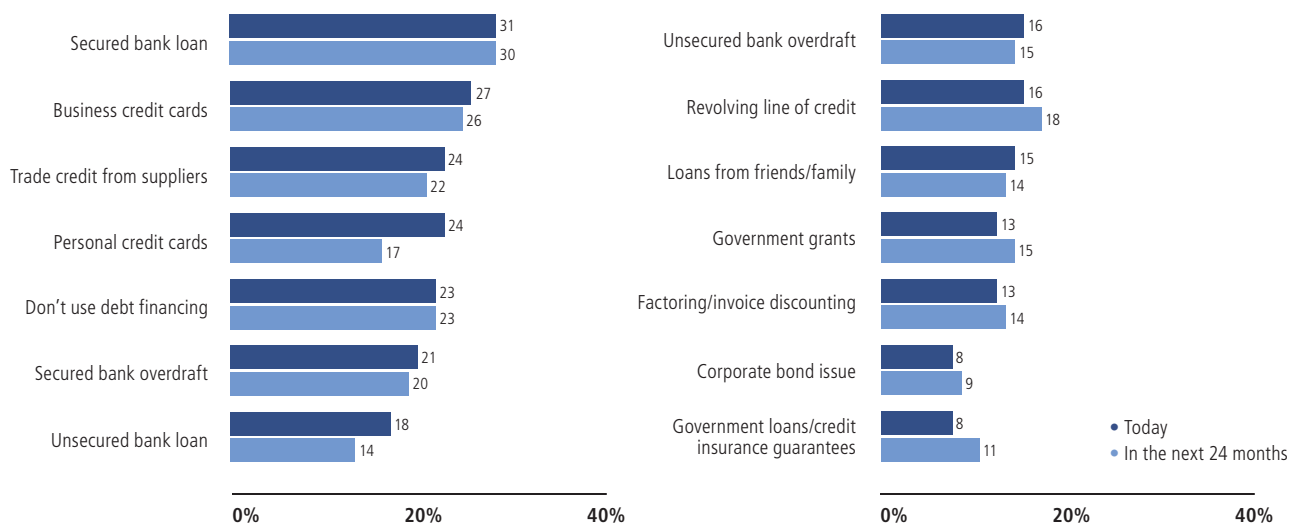
Pul Heng, founder and managing director or NeXT Career Consulting Group, a career management and

executive coaching business based in Singapore, took a similar tack during the crisis. When cash flow was positive, revenue went back into the business. Now, he says, "We do not need loans. We have ploughed our profits back to the business since day one."

This anecdotal evidence is backed up by the survey findings. Respondents were asked what forms of debt and equity financing they were using today, and what they expect to be using in the next 24 months. There was little variance over that time frame. For debt financing, secured bank loans (31%), business credit cards (27%), personal credit cards (24%), trade credit from suppliers (24%) and secured bank overdrafts (21%) were the most common loans. (Fig.17) These figures were in line for small and medium-sized businesses, but micro businesses were much more dependent on personal credit cards (often a risky substitute when other forms of financing are not available).

Looking ahead to the next two years, secured bank loans (30%) again topped the list, followed by business credit cards (26%), trade credit (22%), secured bank overdrafts (20%) and revolving lines of credit (18%).

FIGURE 17: Types of debt financing used

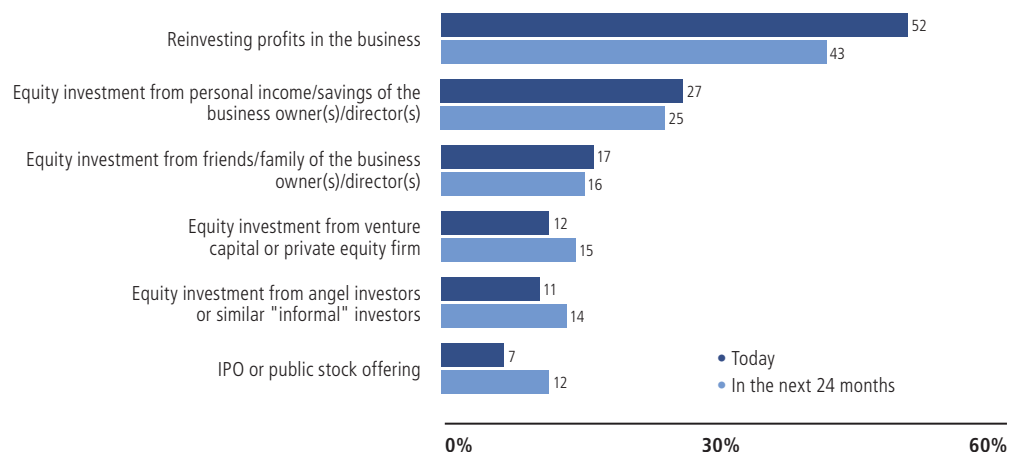


In terms of equity capital, internal sources were far more common than third party-sources such as venture capital, private equity, or angel investors (high-net-worth individuals that seek out direct equity investment opportunities). VCs and other third-party sources—with a need for a high return on their investments—are, in fact, rarely a viable option for SMEs other than those with opportunities for exponential growth.

Instead, SMEs are most likely to reinvest their

profits back into the business. Today, 52% said they are reinvesting their profits, and 43% expect to do it in the next 24 months. (Fig. 18) This drop, while sizable, is not unexpected, as reinvesting profits is often a form of internal financing that is not forecast. As revenue improves, these SME owners may be hoping to take out more profits. For outside funding, equity funds most commonly come from the income or personal savings of the business owners, or from friends and family of the owners.

FIGURE 18: Types of equity financing used



### CHANGING TERMS, LITERALLY

Darren Poultny, owner and managing director of Smart AV Ltd., a U.K.-based business that supplies audio-visual support to events, exhibitions and conferences, started his organization five years ago from the ground up. It now employs 20 people and posted 40% revenue growth. Still, Mr. Poultny has trouble getting the loans he needs.

"The banking institutions have dried up asset finance loans for our type of equipment," he said, "and see these as unsecured loans... If we wanted to buy 100 vans, it wasn't a problem. But an \$80,000 plasma screen was not something they would entertain."

Banks have abandoned the "common sense" approach to lending money, Mr. Poultny contended, and this directly affects his ability to compete.

## HOW FINANCING WILL BE USED: LIQUIDITY OR CAPACITY

Given the nature of the economic recession and possibilities for recovery, SMEs are dealing with two competing strategies when it comes to what they plan to use financing for. On the one hand, they are looking to rebuild liquidity, looking to outside sources to help them get a better handle on day-to-day working capital and cash flow. On the other, they feel the need to build capacity, making investments in areas such as technology and manufacturing capacity that will help them fuel future growth.

SMEs in the survey said they plan to use debt financing for working capital (30%), new technology investment (30%), and expanding manufacturing/service capacity (30%). Their uses for equity financing were quite similar: expanding manufacturing capacity (32%), working capital (31%), and new technology investments (31%).

But what about growing SMEs—those that indicated their turnover was higher over the past 12 months? These successful SMEs are more likely to be putting their financing toward expansion, not toward working capital. In fact, working capital doesn't even make the top five of their debt financing investment plans, which are led by: new technology investment (34%), expanding manufacturing capacity (34%), domestic expansion

(30%), hiring additional staff (29%), and customer financing (26%). Clearly, liquidity is less of an issue for this segment where capacity takes charge.

## CHINA LOOKING FOR MANUFACTURING CAPACITY

More than any other market, SMEs in China plan to use financing to expand manufacturing capacity. 52% of Chinese respondents said they would use debt financing for this purpose, and 58% said they would use equity financing to invest in expanding manufacturing capacity.

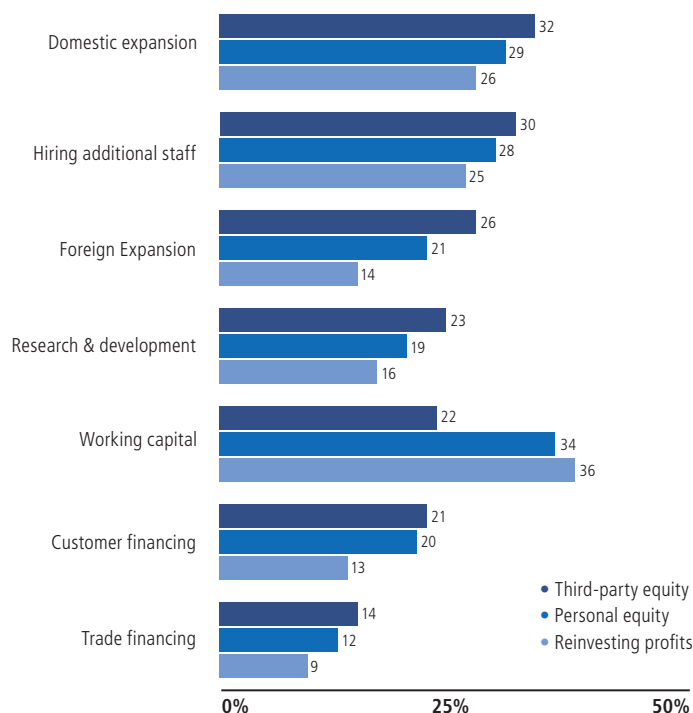
## A CLEARER PICTURE OF EQUITY USAGE

The survey overall took a broad view of equity financing—including bootstrapping (i.e., self-financing) techniques such as pouring profits back into the enterprise with more traditional third-party equity methods such as angel investing, venture capital, and public stock offerings.

In fact, SMEs that intend to leverage these third-party equity sources intend to use their financing differently from those who were re-investing profits or using “personal” equity (such as loans from owners/principals or friends and family). Given the nature of third-party equity—where investors are focused on capital appreciation, growth and exit strategies—this is no surprise. Venture capital and angel investors rarely, if ever, look to supply so-called working capital; they generally see their funding as a way to help an SME further commercialize its product or service or expand its reach into new markets.

Segmenting SMEs by planned use of equity finance over the next year demonstrates these differences. (Fig. 19) Those businesses looking for venture, angel and IPO financing are significantly more likely to be looking to use that financing for growth-oriented actions such as international expansion, R&D, or customer financing. Clearly, those who are re-investing profits are looking primarily at enhancing their working capital position.

**FIGURE 19: Looking ahead to the next 24 months, what will you be using equity financing for? (by type of equity)**



## LESSONS FROM THE RECESSION

# Working harder, being smarter

It's said that what doesn't kill you makes you stronger, and that may be the case for SMEs that survived the 2008-09 recession.

In fact, SMEs in the Forbes Insights survey said the recession essentially forced them to become better businesses. They're planning better, acting smarter, and generally feel they are in a stronger position today than they were prior to the recession.

Clearly, those SMEs that have survived the recession and are positioning themselves to succeed in the recovery need to have a plan in place to do so. (Fig.20) Nearly three-quarters (74%) of SME respondents agreed that the global recession put additional pressure on their businesses to plan more effectively. A similar percentage (73%) agreed that they are now smarter about running their businesses than they were prior to the recession. Finally, more than two-thirds (68%) maintained that surviving the recession made their businesses stronger.

So what lessons have SMEs learned from these experiences?

### DO MORE WITH LESS

SMEs frequently operate "lean and mean." Still, many SMEs were forced to cut back on their operations during the recession to protect their bottom line and ensure they had the resources to withstand these economic pressures.

Jin Fu Consulting's David Iwinski said his business has been doing everything with one eye on the cost. "We travel cheaper when we can, we use global resources for non-critical tasks [and] use video-conferencing when we can," he said.

But reining in expenses hasn't been enough. As a small enterprise, said Mr. Iwinski, "your ability to work strictly on critical business development, execution and strategic issues is limited... There is less bureaucracy in a small firm, but more tedious stuff that must be done with less support staff."

### BUILD A TRACK RECORD OF SUCCESS

When it comes to finding financing, a strong record of success with previous rounds of funding can go a long way to getting future rounds. Implementing best practices goes a long way.

"Our business model is all about utilizing and investing our cash in the most effective way," said Nolan Watson, president and CEO of Sandstorm Resources Ltd., a Vancouver, Canada-based mining and mineral investment business. "In 2008 and 2009, it was difficult to raise the money that we needed in order to grow the business. However, after our first few equity financings we proved that we were able to close good deals and use the money well."

### CASH FLOW IS A BALANCING ACT

With cash flow stresses exacerbated during the recession, SMEs have been under greater pressure than ever to manage their expenses while being more aggressive in their efforts to collect receivables. More diligent cash management has been required up and down the supply chain. Feeling the impact of cash issues that are beyond their control (from global economic issues to raw materials costs to changing currency valuations), SMEs have had to be far more diligent in managing those financial factors that are within their power.

FIGURE 20: Lessons learned from the recession.

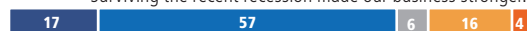
The recent global recession put additional pressure on our business to plan more effectively.



I am smarter about running my business today than I was before the recession.



Surviving the recent recession made our business stronger.



- Strongly agree
- Agree
- Don't know
- Disagree
- Strongly disagree

At Ecogear, a Hong Kong-based maker of planet-friendly travel gear and luggage with production facilities in Shenzhen, China, president Jimmy Chen is continually having to track cash flow trends. "You have to ask downline suppliers to provide longer terms of payment," he said. "Then you try to get customers to pay as fast as possible. Obviously, we also have to work with our banks as well to ensure credit is available."

#### **PEOPLE ARE AN ASSET**

Without the size and scale of larger competitors, SMEs frequently have to depend on the skills and strengths of their staffs to differentiate themselves from the competition. In fact, when asked to name their business' most important competitive asset, 17% of survey respondents chose the skills and experience of their staff, second only to strong customer relationships. In addition, for fast-growing companies in the survey, finding the right staff is one of their biggest challenges.

Staffing issues can have other implications. Some SMES are so entrenched in their communities, particularly if they've been established for many years, that any staff cutbacks can be seen as highly disloyal.

"We basically have no rotation in the staff," said Catanese of Almax Mannequins and Display Forms. The manufacturer has been located in Como, Italy, north of Milan, for 40 years. Some of Almax's employees have been with the organization for more than three decades. "We are also important for our community, so we prefer to wait before [cutting staff] as long as we can." Times are tough, Mr. Catanese admitted, but "we did not reduce staff."

#### **IT'S ALL ABOUT THE CUSTOMER**

SMEs frequently pride themselves on the strengths of their customer relationships. Not only did "strong customer relationships" place at the top of the survey respondents' list of most important competitive asset, but the vast majority (72%) agreed that they were able to weather the recession because of the strength of their customer relationships.

Anwar, of Montreal's AMK Telephone, attributed his business' growth partly to its rivals' lack of focus on customer service. "With competition, the small guys have a chance to grow if customers are kept happy and if we can keep costs low internally."



## The value of advice

SME owners may be independent spirits, but they don't run their businesses alone. In fact, the most successful businesses call on a network of formal and informal "experts" to get the advice and information they need to manage their businesses more effectively. They will turn to professionals such as accountants or attorneys for some answers, but they are also likely to go to reach out to other parts of their network such as local business associations or their network of colleagues. Not to mention the wide range of easily accessible resources provided by the Internet.

It's hardly a surprise that many SMEs seek advice from reputable or trusted sources. This has long been part of the SME mentality—without having significant resources in-house, they will turn to outsiders to get the information they need. And this kind of behavior was revealed in the October 2010 survey.

For example, 80% of respondents said they sought some kind of outside advice related to financial management, with 41% turning to their accountants, 20% calling on their bank or other credit provider, 16% going to their local business association or chamber of commerce, and another 16% reviewing these issues with professional colleagues and networks.

### FOUR PROFILES OF ADVICE SEEKERS

But this kind of statistical analysis doesn't really say much about how SMEs are using this advice, and how this advice affects their overall performance. To get at this information, a deeper data dig was necessary to determine the different advice profiles of SMEs. In all, four profiles emerged based on their need for confidence in their business decisions and their trust of outside advisors:

**Community Networkers:** These are community-based businesses that rely on a tightly knit network into which few outsiders can gain entry. They are bootstrappers that are low on financial resources, but value advice. Therefore, they will try to get maximum value from their advice relationships. They will work with professionals,

and may turn to them for insights in areas beyond their disciplines. They leverage many informal sources, such as friends and family, trade associations, and chambers of commerce.

**Confidence Seekers:** These SMEs value advice mostly from highly trusted authorities, gaining confidence from the expert's experience and insight. For financial management and finance advice, they rely mostly on accountants and banks. They are also willing to get in touch with government authorities when that information is available, and they trust the government for advice more so than do other SMEs.

**Skeptics:** Like Community Networkers, these SMEs are bootstrappers, but they don't find themselves reassured by informal information sources. In relation to Confidence Seekers, their levels of trust are lower. They are only confident in formally qualified advisors, and then only in their appropriate disciplines. And they appear to do this grudgingly—their trust issues make them just as happy not to seek advice at all.

**Go-It-Aloners:** This group takes almost no advice. It is unclear whether they feel they already know enough about an issue, or if they simply are suspicious of outside experts. But when seeking loans, managing their finances, or acquiring technology, they don't go out of their way to find outside counsel.

### THE IMPACT OF ADVICE

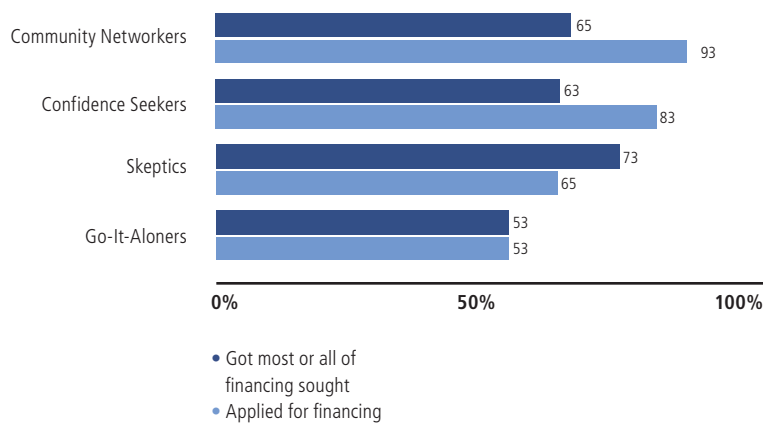
Based on these profiles, it becomes increasingly clear that the use of advice has a sizable influence on the success trajectory of an SME. Those organizations that take advantage of outside advice—whether professional or informal—have been more successful and experienced stronger turnover than their counterparts. Some examples of this include:

**Access to capital:** Community Networkers were the most likely to seek outside capital, with 93% having

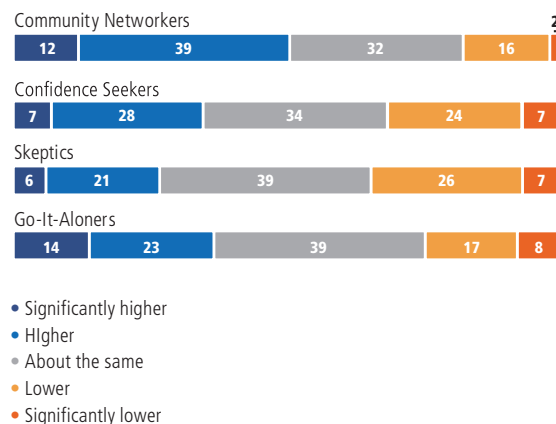
for debt or equity financing; 65% said they got most or all of the financing they sought over the past two years. (Fig. 21) Similarly, 83% of Confidence Seekers applied for funding, and 63% got most of all of what they sought. Skeptics, meanwhile, were less likely to seek outside finance, but more likely to receive it. Finally, Go-It-Aloners were the least likely to apply for or receive financing.

**Revenue growth:** Community Networkers saw the greatest revenue growth over the past year, with more than half saying revenue was higher 51%). (Fig. 22) Skeptics

**FIGURE 21: Access to capital (by advice profile)**



**FIGURE 22: Turnover growth in last 12 months (by advice profile)**

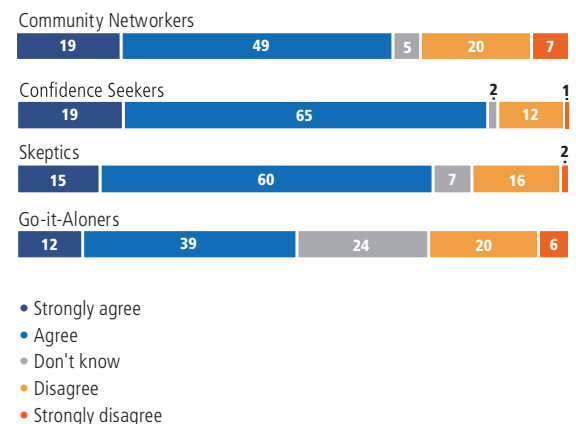


were the most likely to see revenue lower during the past 12 months.

**Customer acquisition:** Community Networkers were less likely than other advice profiles to say that finding new customers was top challenge. They were more likely, however, to believe that customer service was a top challenge for their organization.

**Learning lessons from the recession:** SMEs that value professional advice appear more likely to have feel that they've gained valuable experience from the troubles of the recession. Skeptics and Confidence Seekers were most likely to say the recession had made them plan better or made them smarter about running their business (Fig.23). They are also least likely to report that lack of finance hindered their chances of success, or to believe that they are too small to obtain bank finance or approach venture capitalists. Consequently they are more cash-rich and are less worried about survival. Confidence Seekers and Community Networkers were most likely to say the recession made them stronger.

**FIGURE 23: The recession put pressure on us to plan more effectively (by advice profile)**



## Recommendations

### WITH GROWTH EITHER ALREADY UNDERWAY OR A CLEAR POSSIBILITY, MASTERING UNCERTAINTY IS THE NEXT CHALLENGE FOR SMEs

The results of the survey confirm that the SME sectors in each of the six countries are cautiously optimistic and that some of their appetite for risk and investment has returned. However, they prefer to take more manageable or controllable risks, against the backdrop of an increasingly uneven global economic recovery.

Growing businesses, especially in the more dynamic economies, appear to be facing stiffer competition and rising costs, putting profit margins under pressure. Still, profitability has remained a priority for management and most growing businesses do not seem to have as yet sacrificed profit margins in order to drive revenue—in fact, relatively few identify pricing as a major source of competitive advantage.

#### *Recommendations*

**Businesses** will increasingly need to plan against multiple contingencies and consider macroeconomic factors such as growth shocks, interest rate rises, exchange rate volatility and inflation in a formal way when developing business plans and risk management policies.

**Businesses** can also benefit from investing in improved management information that provides owner/managers with enhanced control over risk. While this can involve changes to management and information systems and the procurement of expert advice, such investments can be quite small compared to the value of business opportunities foregone due to continued uncertainty.

**Governments** can help reduce uncertainty through early and reliable commitments on economic policy, including taxation and government spending, monetary policy, or regulation.

Both **external accountants** and **accountants in business** should be ready to support contingency planning by identifying, validating and challenging key assumptions in business planning, valuations and assessments of financing needs.

### FINANCE IS FLOWING, BUT NOT ALWAYS WHERE IT IS NEEDED

Whether in response to poor fundamentals (especially

cash flow) or through discouraged demand, the financial supply chain is clearly directing funds to larger SMEs and big corporations rather than micro and small enterprises. This access-to-finance gap appears to be widening, with conditions still deteriorating for micro businesses. Credit is being directed towards capacity-building investments and away from working capital, and is increasingly likely to be secured against personal or business assets.

Equity investments, on the other hand, are particularly drawn to acquisitions and to financing local or international expansion—mostly reflecting the priorities of business owners and larger venture capital providers (as access to informal investors such as business angels is still limited).

Inevitably, as commercial providers of finance have become reluctant to fund working capital, assume customer credit risks, or refinance debt, the weight of expectation has shifted to more agreeable, but arguably less cash-rich, providers—most notably shareholders and trade creditors. Where such finance isn't forthcoming, discouraged borrowers can often turn to riskier and more expensive methods of financing such as personal loans or credit cards

#### *Recommendations*

**Governments** need to consider strengthening loan guarantee schemes for small firms that can offer solutions where sufficient collateral cannot be provided.

More **businesses** need to explore supply chain finance: arrangements whereby large customers with easier access to credit can, through a financial intermediary, provide their small suppliers with credit by factoring their own invoices. Benefiting from larger businesses' superior access to finance can provide trusted small suppliers with an alternative should the gap in access to finance between big businesses and SMEs continue to widen.

**Governments**, which are in most cases the most creditworthy customers of SMEs, should consider similar means of financing their suppliers.

**Business Advisors and government-funded enterprise support agencies** must prioritise improving credit- and investment-readiness among SMEs by explaining the information needs of capital providers and making the case for less common sources of finance, such as business angels, where appropriate.

**Professional accountants** and **businesses** must work together to demonstrate, through regular financial reporting and robust cash flow and business planning, that funds will be put to uses that providers of capital are comfortable with.

**Providers of capital** capital need to offer clarity regarding their lending or investment criteria and consider the need for security or personal guarantees flexibly, on a case-by-case basis.

### CASH IS KING, AND IT IS IN VERY SHORT SUPPLY

Liquidity needs are driving most of the demand for finance among SMEs, which is not surprising; economic recovery is bound to put as much strain on SMEs' cash positions as a downturn or credit crunch. What was unexpected was the sheer number of SMEs whose cash reserves are weak enough to threaten survival in case of a further downturn. These businesses represent between 31% and 54% of the sample in each country, and their short-term finance needs are a cause for concern as cash-poor firms are much less likely to succeed in raising debt or equity finance. That such businesses were so abundant in China, one of the countries leading the global economic recovery, is particularly worrying.

#### Recommendations

While there is no simple solution to widespread cash flow problems, **businesses** should be able to reassure and encourage the two most reliable sources of working capital: suppliers and owner-managers

**Businesses** should remain alert: economic recovery is associated with more, not less, pressure on cashflow. Both they and their customers could be at risk of committing to more orders than the business' working capital can support or unable to refinance their short-term liabilities.

**Businesses** should make use of financial and credit information on their customers and ensure theirs is also available to prospective trading partners to a level of detail and currency proportionate to their needs. They should also seek out appropriate credit management training and tools, which can help ensure that they offer safe amounts of credit to the right customers and on the right terms.

Given the critical importance of trade credit as a financial market, it is important that actionable credit information should be easily available to small businesses so that they can assess both their own situation and the risk posed by their customers. **Government** policy should not discourage businesses from producing and sharing credit-relevant information. It should also ensure that suppliers have efficient means of enforcing their claims. Business advisers, including accountants,

have a role in educating SME owner/managers and their staff to manage their claims professionally and decisively.

**Business advisers**, including accountants, have a role in educating SME owner/managers and their staff to manage customer debts professionally and decisively.

**Business advisers and government-funded enterprise development agencies** should be on the lookout for undercapitalised SMEs and actively encourage owners to recapitalise their businesses if needed.

### BUSINESSES ARE REAPING THE BENEFITS OF PROFESSIONAL ADVICE

The survey revealed that SMEs differ in their need for and their willingness to trust third-party advice, and such attitudes can make a big difference to business outcomes.

In many ways, those businesses that value professional or expert advisors above others have performed better than their peers – professional advice has given lean, resource-poor SMEs more confidence about their chances of survival by ensuring that they have fewer urgent financing needs and better access to credit. Professional advice also appears to have helped many SME owner-managers learn the lessons of the recession and strengthen their financial management and business planning.

For a large percentage of SMEs, however, the use of advisors has less to do with their status as “professionals” or “experts” and much more to do with how well connected they are with trade and professional networks. These businesses need trusted generalists with a wide range of skills and contacts.

#### Recommendations

**More business owners** should seek professional advice not only when trying to access finance but on an ongoing basis, in order to build strong relationships with advisers who truly understand their business.

**Accountants and their professional bodies** need to communicate more effectively the specific benefits of professional advice for SMEs, emphasizing the accountant's role as an expert advisor and the advisor of choice for SMEs on financial management.

**Providers of capital** should acknowledge the value of professional advice in their communications with SMEs and consider directing unsuccessful applicants to professional advisers.

**Accountants** need to prioritize building networks and partnerships and take advantage of continuing professional development (CPD) where appropriate in order to be able to widen the range of expertise they have access to and thus remain relevant to an ever-widening range of client needs.

## Methodology

The information in this report is based on the results of a survey conducted online in October 2010 by Forbes Insights in association with ACCA, CGA-Canada, and CNDCEC.

Forbes insights received responses from 1,777 owners and decision makers at small and medium sized enterprises in six countries: Canada (315 total responses); China (257); Italy (266); Singapore (337); South Africa (261); and the U.K. (341). Respondents were able to take the survey in their native language.

For purposes of this study, SMEs were defined as organizations having up to 250 employees. The sample included SMEs of three sizes: microbusinesses (those with fewer than 10 employees) made up 30% of respondents; small businesses (10–49 employees) were 39%; and medium-sized businesses (50–250 employees) were 31%.

### DEFINING THE SME SECTOR

For this study, a small and medium-sized enterprise is defined as one with 250 or fewer employees. It should be noted, however, that different countries and entities frequently define the SME sector differently. Below is how SME is defined in the six countries in this study:

**Canada** 500 employees, C\$50 million revenue.

**China** Employment threshold varies from 200 employees in wholesale and retail trade to 2,000 employees in manufacturing, and 3,000 in construction, transportation, and communications. The revenue threshold is typically ¥300 million, ( ¥150 million in the hospitality sector). A balance sheet threshold of ¥400 million applies in construction and manufacturing. Note that in China non-independent businesses can also be classified as SMEs.

**Italy** 250 employees, €50 million revenue, balance sheet total of €43 million (EC definition).

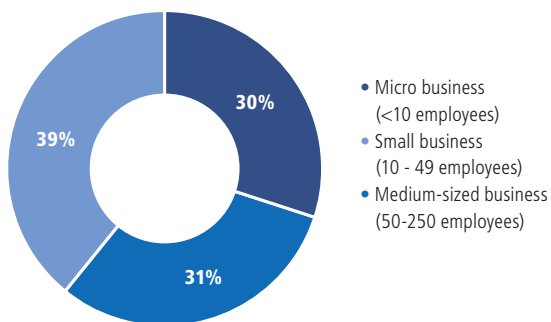
**Singapore** 200 employees (non-manufacturing); S\$15 million in fixed assets (manufacturing)

**South Africa** Thresholds vary by sector. Employment threshold is 200 in mining, manufacturing, construction, and utilities; 120 employees in all others. Revenue threshold varies from R50 million in wholesale trade and commercial agent activities and R40 million in manufacturing, construction, and utilities, to R4 million in agriculture. Balance sheet threshold (excluding fixed assets) varies from of R18 million in mining and quarrying and R15 million in manufacturing and utilities to R4 million in agriculture, construction, finance, and business services and R2 million in catering.

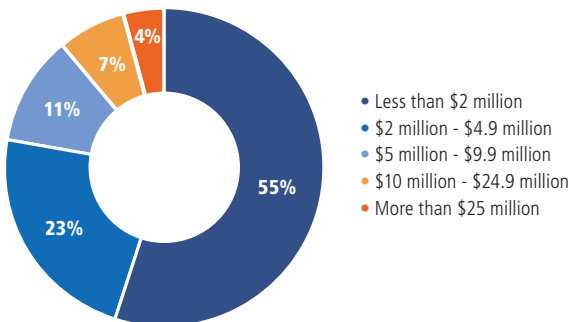
**U.K.** 250 employees, €50 million revenue, balance sheet total of €43 million (EC definition).

# Demographics

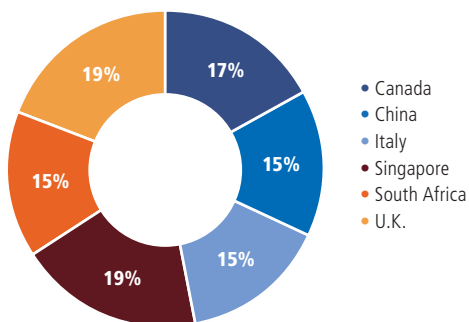
How many employees do you have?



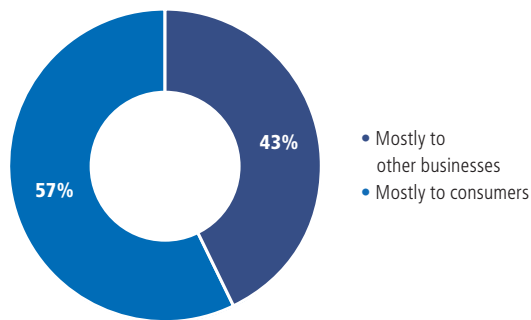
What is your approximate turnover (revenue)?



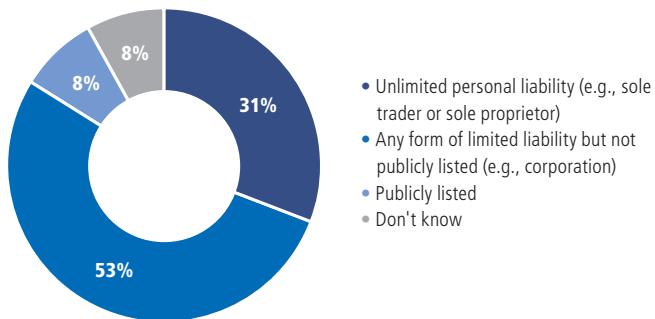
Where is your organization based?



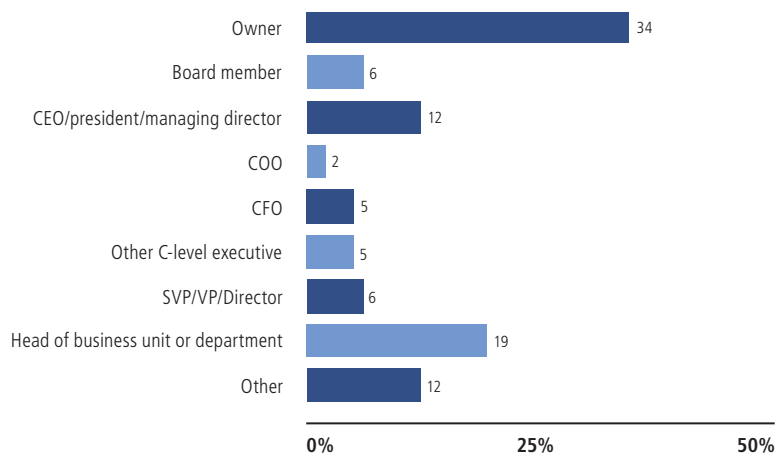
Does your company sell primarily to consumers or other businesses?



Which of the following most closely corresponds to the legal form of your organization?



What is your title?







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