

avidpartners

Business and Financial Advisers



“Small Business Pain” Report November 2014

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Introduction

Avid Partners are delighted to present the first of our Annual “Small Business Pain” Market Research Reports which identify the **Key Strategic Business Issues** currently being experienced by **Small Businesses in Ireland** and the degree to which each factor is having a limiting effect on the growth of their organisation.

This report is based on the views of over **100 Business Owners** and senior management representatives of the small business sector in Ireland and comprises of a mixture of industry types and company sizes. The research was undertaken by Avid Partners Accountants & Business Advisers to identify and catalogue the importance business owners are currently placing on the key issues impacting on their business.

Coming from a position of supporting small businesses in the management aspects of their operations on a day to day basis, Avid Partners experience first-hand many of the problems that small businesses face in driving their companies forward. This project was undertaken to investigate on a larger scale the **current state of play within the SME Sector**, specifically the issues that are **holding small businesses back** from achieving their true potential, as well as analysing the **future trends of the sector** going into 2015.

The results of the market research can be **used by policy makers** to address the needs of the small business sector and by the **small business community themselves** to understand the key issues impacting on their sector. Once identified small businesses can then develop **strategies and actions** to overcome these barriers to growth by addressing the key findings of this report and by **building the conclusions into their business plans** for next year.

We would like to thank you in advance for reading this report and we hope it is of assistance to small businesses and the sector as a whole in driving new prosperity into the SME business landscape. After all Irish business is shaped by small enterprises and it's their efforts and entrepreneurship that drives the whole economy forward.



Jamie O Hanlon
Managing Director, Avid Partners



Paul Howard
Head of Marketing, Avid Partners

Executive Summary

Purpose of the Research

The research was undertaken to identify the key business issues that are **currently effecting the small business sector in Ireland**. Going into a new business year Avid Partners wanted to examine first-hand the problem areas that are holding back small business and suggest solutions to these problems that they and policy makers can use to assist the small businesses sector grow in 2015.

Key Findings

1. **Cash Flow** was determined to be the most critical issue being experienced by small business owners. This was highlighted both through the survey and in the one to one interviews. **Educating potential customers** on the businesses products and the need for their services was also deemed to be a highly critical issue for small businesses.
2. The **levels of recovery and optimism trends do not appear to be evenly spread** throughout the country. Variation was detected between small businesses in Dublin compared to the rest of Leinster and in larger cities and towns compared to more rural based enterprises.
3. **Accessing finance has not become easier for small businesses in 2014** despite the high profile campaigns promoting small business finance products and the perception that banks are “open to small businesses”.
4. The majority of respondents to the survey are planning on **growing their business through their own resources** rather than bank loans suggesting a “slow and steady” approach to future growth. This suggests a lower risk appetite amongst the sector when it comes to investment in their company’ future.
5. The biggest perceived **threat to growth** for small business is the stated **high costs of doing business** in the sector. Similarly the area that small business owners suggested government and support agencies should focus the majority of their resources was in seeking ways to **reduce business costs and taxes**.
6. A lack of high quality available staff is **not a critical restriction on growth** for small businesses at the present time. There is evidence however that competition for top talent is starting to increase and small businesses need to be aware of this trend and factor it into their growth planning for 2015.
7. Overall **optimism** for small businesses going into 2015 is **high** with the vast majority of respondents expecting to grow their businesses next year. This demonstrates a continued positive trend in the sector as most feel that the worst of the downturn is behind them.

Recommendations

- Small business need to pay **particularly close attention to the area of cash flow and closely monitor this critical area on a continual basis**. Cash Flow is not the sole domain of larger businesses and multi nationals. Monitoring should be done regularly either by the business owner themselves or with the assistance of an external financial advisor. Proper accounts should be maintained regularly (monthly or quarterly) and never only at the end of a financial year. Small businesses need to truly recognise that sales and profits are not the same thing and neither is a sale complete until the full invoiced amount has been received (booking a full sale based on a deposit). Costs always have to be closely monitored as do payments coming due and effective cash flow planning can go a long way towards addressing this key issue before it ever becomes a major problem.
- Growth is becoming more of a key focus for the majority of small businesses and for this companies need to **create a greater emphasis around marketing**. Such activity doesn't just happen it must be planned for and implemented. Marketing doesn't have to be an expensive endeavour suited only to larger companies. Every business can implement some proactive marketing strategies at low cost particularly in the areas of direct marketing, events marketing, public relations, online marketing, networking and referral programmes.
- When attempting to seek external finance small businesses would be well advised to **seek some support from companies with experience** in formulating such documentation, as despite the PR campaigns to the contrary banks are being very selective about who they loan money to. If any aspect of the application isn't crystal clear odds are the request will be refused at an early stage.
- For regional businesses that are still struggling to come out of the recession and have less reasons to be optimistic going into 2015, a key piece of advice would be to **seek as much external support as possible**. If their businesses haven't started to show signs of improvement by now then their current strategies may not be the right ones to be following and a **new direction may be needed**. It can be very difficult to see this when a business owner is so intrinsically attached to the current philosophy so that's why seeking external opinions are critical.
- Whilst a lack of high quality staff was not identified as a crucial issue for small business at the present moment, there is growing evidence to suggest that **competition for the best talent is heating up going into 2015**. As high quality talent is critical to the growth of small businesses it would be worth noting that for any small business thinking of taking on a new key staff member, early in the New Year may be a good time to start the process. Take action before competition becomes more intense as otherwise they risk competing with the larger organisations with larger pockets available to them to attract key talent.

Future Research

Avid Partners intends to conduct an annual “**small business pain**” research project and compare the results to previous findings in order to gauge trends and changing philosophies. This will aid the small business sector and provide a baseline reality for small business owners to know what's really happening in their sector with a unique “snapshot in time” perspective on their industry.

Methodology

As a starting point secondary research was conducted to identify if any previous study of a similar nature had been undertaken in Ireland. It was discovered that whilst many reports have been developed that tackle areas such as confidence (ISME), general business practices (PWC) and industry analysis (CPA), no single study was identified that specifically focused on the degree to which **key business issues are impacting on the small and micro business sector in Ireland**.

A report on a similar topic was conducted in the United States in 2012 and its results and methodologies were noted and proved useful in the structure of this report. The fact that no such research appears to have been conducted in Ireland in recent times which specifically addresses these issues makes Avid Partners Small Business Pain Research **one of a kind** and **unique in its composition** regarding the small business sector in Ireland.



The basis on which this report was developed is as a result of both qualitative and quantitative methodologies. Firstly 30 small business owners and senior managers were interviewed first hand in order to identify the wide range of issues effecting the small business sector. These interviews were conducted face to face as well as by telephone in cases where face to face discussions were not possible.

Based on the findings of the qualitative research a comprehensive survey was developed to **ascertain individual views on a broader scale**. Participants from the small business community were then asked to participate in an online survey conducted over a period of three weeks beginning on October 8th and finishing on October 31st 2014. Overall results were then analysed and catalogued with patterns and correlations identified in addition to the raw findings of each question posed. Charts were used to visually display some of the data whilst in other cases the text speaks for itself.

Section 1 - Most Severe Issues Effecting Small Businesses in Ireland

Table 1 shows the **Top Ten** ranked most severe business issues currently impacting on the small business sector in Ireland. A full break down of all factors analysed can be found in Appendices.

Chart 1

Rank	Key Business Issue	% Deemed Most Critical Issue
1	Cash Flow Management	30
2	Educating Clients on Products or Services	27
3	Increasing Taxes	18
4	Recruiting Speciality Staff	17
5	Capacity To Expand	15
6	Costs of Doing Business	15
7	Over Reliance on Company Founder	15
8	Dealing with Banks	15
9	Difficulty Accessing New Customers	14
10	Customers' Ability to Access Finance	14

Cash Flow Management ranks as the **number one** business issue effecting small business, followed a close second by the need to effectively educate customers on a company's product offering. It comes as no surprise to find a key financial issue such as cash flow management coming out on top as past evidence has demonstrated that money management is one of the most critical aspect of any business. This is particularly the case when it comes to the longevity and the ability of a business to survive the ups and downs of changing business cycles. Properly **educating customers** on a company's offerings highlights the need for small businesses to pay **close attention to marketing** themselves effectively and in a proactive manner. The fear of increasing taxes will always be a high concern for small business with taxes in the areas of water, rates, council, refuge, property, employment, business, personal and corporation taxes all constantly on the minds of the small business owner.

Other Interesting Key Business Issues to Note

Of the 25 factors analysed it was interesting to note the lower rank of some areas which may have been expected to rank higher given the levels of press and media attention throughout the downturn. Some examples are given below.

Chart 2

Rank	Key Business Issue	% Deemed Most Critical Issue
13	Lack of Skilled Staff	9
18	Increasing Wage Pressure	7
19	Sufficient Wage for Business Owners	5
20	High Turnover of Staff	5
22	Legacy Non-Growth Debt	1

It is somewhat surprising to note for instance that **Non Growth Debt** is one of the lowest ranked factors for small business. This may be because smaller businesses didn't take on as much debt in the areas of property or acquisition as medium-large sized firms during the economic boom. As a result

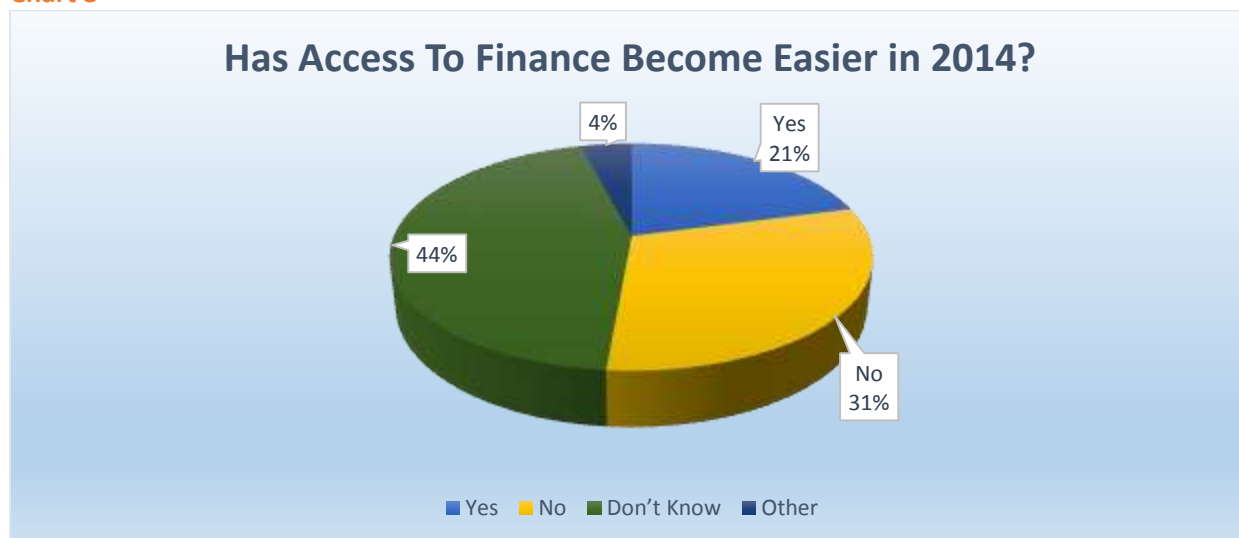
small and micro businesses haven't been straddled with such legacy debts. Also it is worth noting that certain factors such as **Increasing Wage Pressures and Lack of Skilled Staff** may come under significantly more pressure in the future as the economy picks up, with staff availability and personal expectations becoming much more relevant. It will be interesting to compare the results of this survey to the results from next year's project under the same conditions! What changes will one year bring?

Section 2 – Accessing Finance

The results on raising finance demonstrated that **only 21% of respondents expressed a view that accessing finance was easier this year** than last year, whilst 31% felt that raising finance had **not become easier** in 2014. A high proportion of respondents (44%) stated that they didn't know enough about the area to make a definitive observation. This suggests that many small businesses may not be making any attempts to access finance at all and as a result are unaware of the current financing environment for small businesses. Alternatively they may not be aware of all the funding avenues available to small businesses and don't seek to avail of the options open to them.

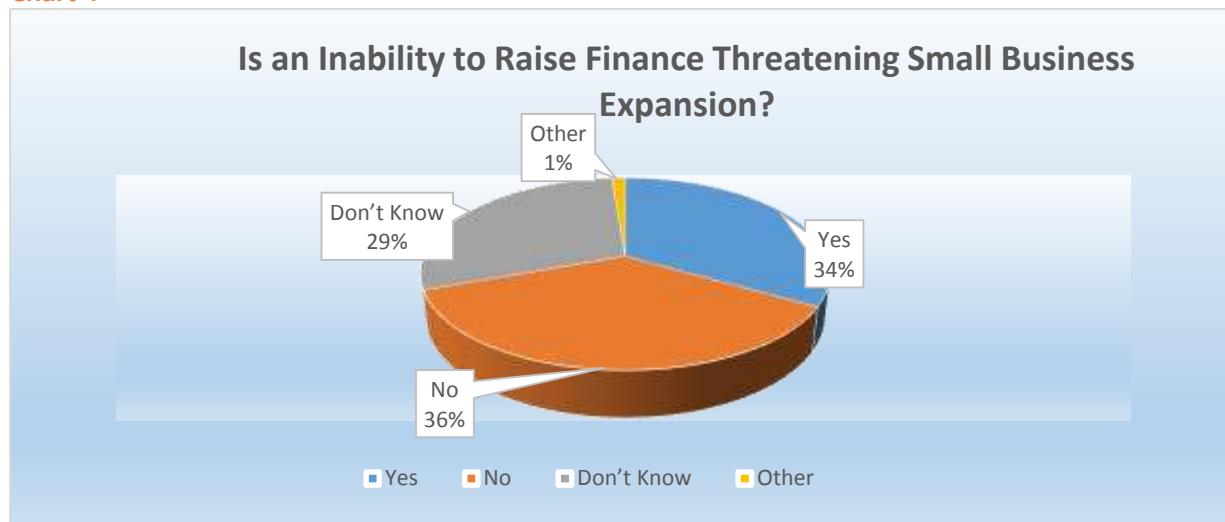
The overall fact that only 21% of small businesses feel the financing environment has improved for their sector is a **worrying sign** and despite all of the high profile campaigns that the banks are open to small businesses, the reality on the ground is somewhat different. A high degree of apathy being experienced by the sector when it comes to attempting to access business finance.

Chart 3



When examining the knock on effects of lack of suitable financing for small business the impacts are less clear (see chart 4 below). There is a fairly even split of responses between whether small business owners feel a lack of finance is damaging growth prospects or not. A small majority of businesses **feel it is not** but nearly as many say it is or simply don't know. It may well be the case that businesses don't actually know as yet what the impact of finance will be on growth. For many raising finance wasn't on their radar until recently. It may not become clear until businesses start employing more staff or expanding their operations that a significant appetite for growth finance will become evident.

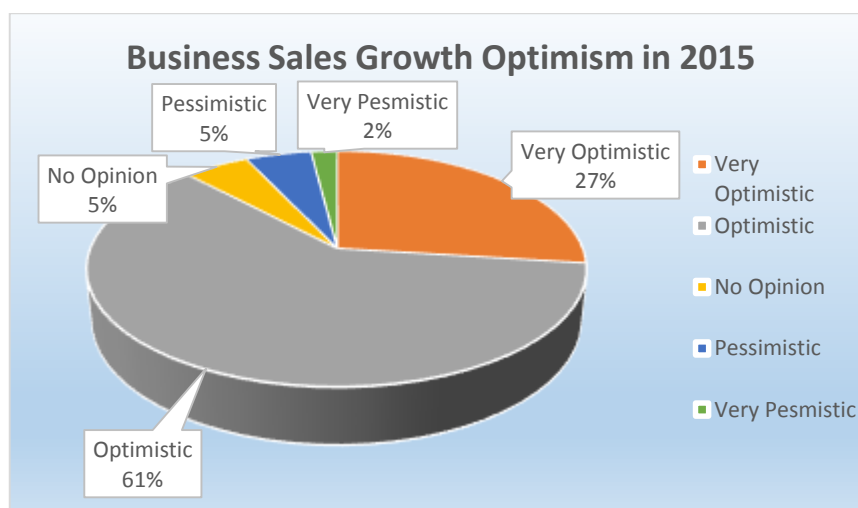
Chart 4



Section 3 – Business Optimism & Confidence Levels

Respondents were asked a number of questions which gauged their optimism going into 2015 as well as the growth plans for their business. Basic business optimism on a sales growth perspective was very high amongst respondents with an **88% positive confidence level** amongst small businesses surveyed anticipating sales growth next year. These positive growth forecasts are in line with macro reports on economic growth levels for Ireland and reflect the growing optimism amongst small businesses that the worst of the economic downturn, for the majority of businesses, is behind them. However the 7% of small businesses predicting stagnation or contraction should not be ignored and practitioners shouldn't get totally swept away in this recent euphoria of unbridled optimism!

Chart 5

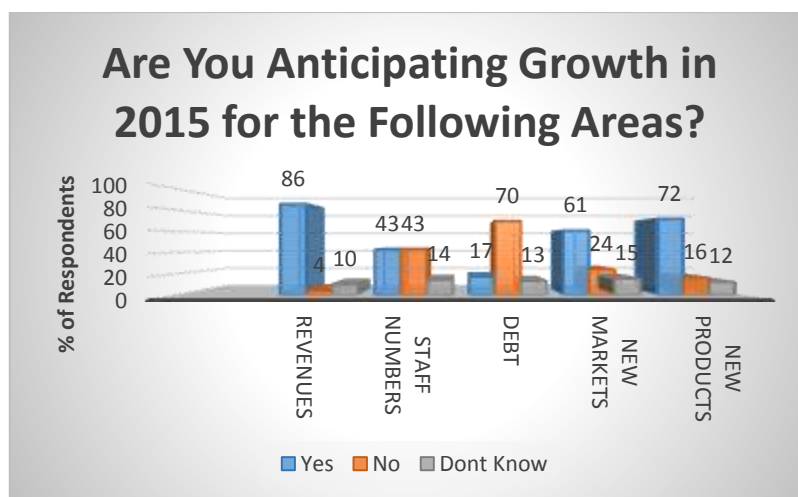


Growth level optimism was also examined on a number of other key metrics including revenues, staff, debt, markets and products. **Revenues** were expected to grow in **86% of cases** which is in line with the previous sales question posed (this was included as a control question to ensure that respondents were consistent in their submissions). Interestingly **70% of small businesses did not anticipate**

increasing their debt levels into the future, which suggests an organic rate of growth fuelled by a slow and steady model rather than acquisitions or sudden bursts of expenditure.

61% of businesses surveyed were planning to expand into new markets which is a surprisingly high number for the sector. The definition of new markets for this survey however was not specifically defined and would have been subjective to the respondent (e.g. outside of their county may be a new market for some businesses whilst outside of Ireland would be a new market for others). 72% of businesses were also exploring the possibility of launching new products or services next year suggesting growth by diversification for many small businesses.

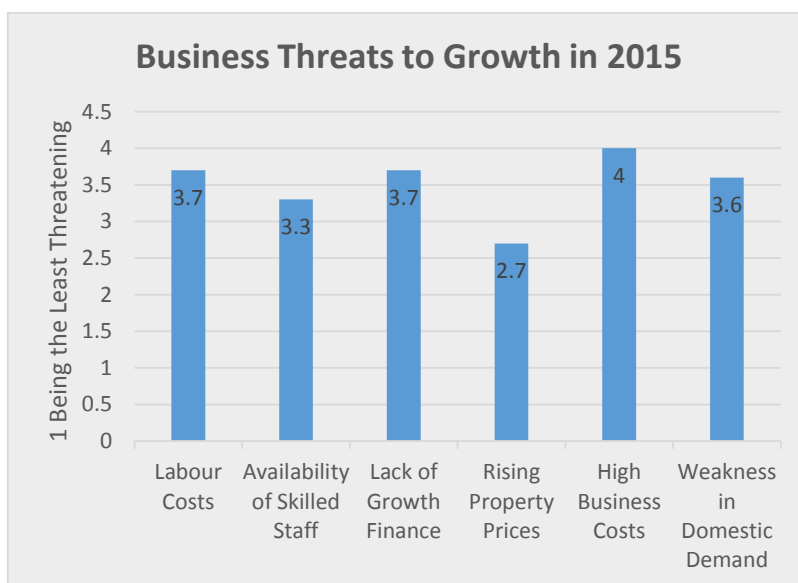
Chart 6



Section 4 – Threats to Business Growth in 2015

Another area that we wanted to dig a bit deeper on was the perceived threats by small business owners to the micro and macro factors that will affect their business. Two specific areas were examined – **business threats and economic threats**.

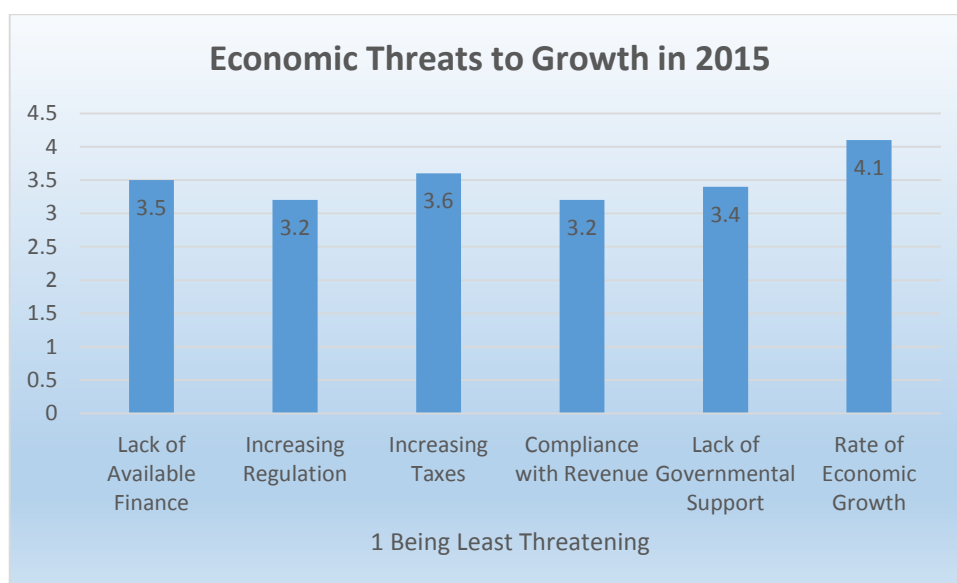
Chart 7



The number one ranked business threat was identified as **High Business Costs** (the costs of doing business in Ireland). These costs would include taxes, rates, employment costs, service charges, energy costs, insurance, business loans, etc. There is a continual drive from small business associations to keep these costs of doing business to a minimum, so as to encourage as many people as possible to set up and thrive in the sector.

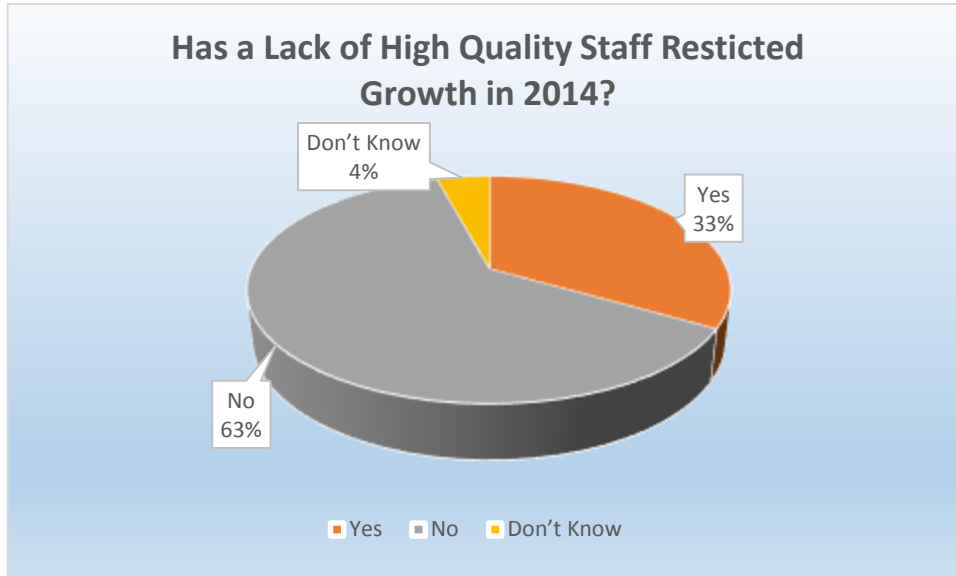
Labour Costs ranked very high as well and the ever present threat of increasing wages and squeezing margins being of continual concern to small business owners. On the other side of the scale **Rising Property Prices** was considered a minimal concern at the present moment. This could change relatively quickly as Issues such as rising rents, harsher lease agreements, higher cost of property purchases and lack of availability of prime real estate locations, are all a considerations for certain types of small businesses.

Chart 8



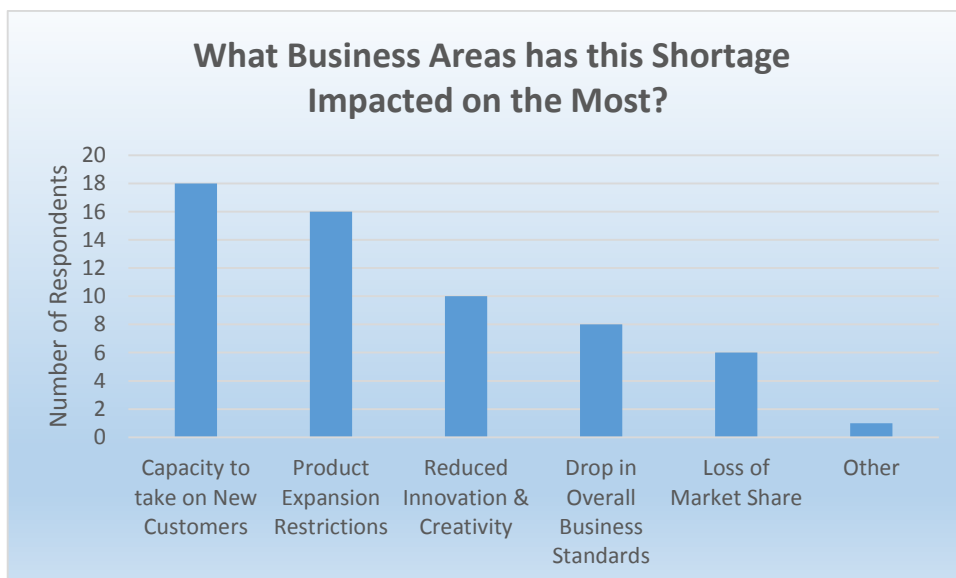
The threats from an external perspective that are most on the minds of small businesses is the **Rate of Economic Growth** (more specifically the positive rate of growth). As the economy grows again demand for products and services should increase as well. Generally speaking more people are back in employment, consumers have more disposable income and businesses are back in expansion rather than contraction mode. Other threats that rank high are the **Threat of Increasing Taxes** (business & personal) which was discussed in a previous section and the **Lack of Available Finance** to small businesses which makes business growth slower and more difficult.

Chart 9



A majority of respondents expressed the view that a **Lack of High Quality Staff has not restricted their company's growth** trajectory this year. One third of respondents felt their business growth had been restricted, with a small number not expressing a view. Given the high levels of unemployment in the business sector and the low desertion rates for staff with their positions, **it is unsurprising that lack of quality staff at this moment in time would be a big issue for small businesses.** What is surprising is that **1/3rd of respondents did experience an issue recruiting high quality staff in 2014** given the early stages of this new growth business cycle the economy is experiencing. This percentage will likely increase in the future as competition for key staff increases and the expectations/demands of the best talent available in the marketplace becomes more pronounced.

Chart 10



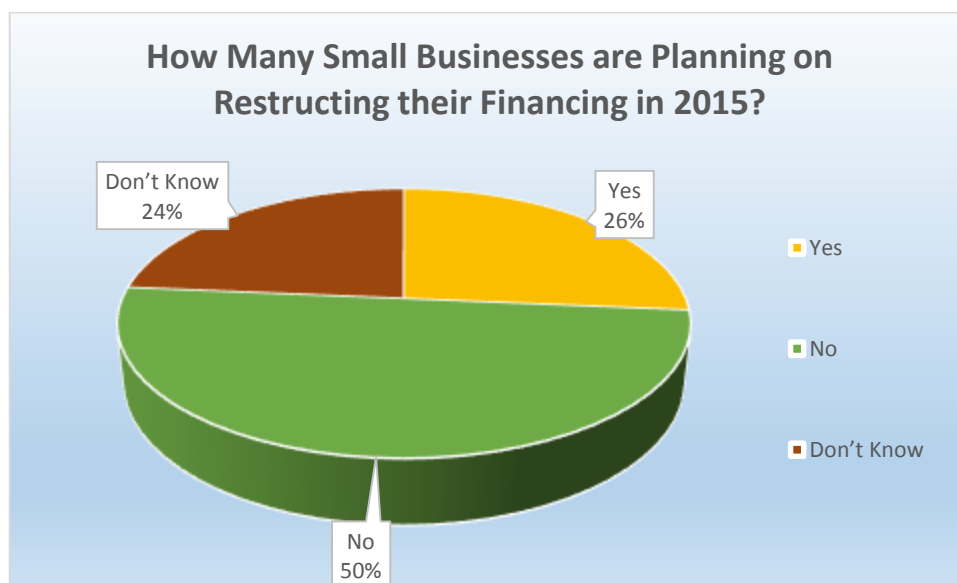
The business areas that were most effected by high a lack of high quality staff was **the Capacity to take on New Business and the Inability to Diversify into new product areas.** New business restriction is a natural consequence to a business's inability to take on the work available, resulting in loss of new business to competitors and a lack of growth. This can also create an impression of "staleness" as the

lack of business progression within a small business can impact negatively on morale and motivation of existing staff. Similarly an inability to be creative and launch new products or services can have a stifling effect on the small business with both personal creativity and a drive to do something new or innovative restricted. These factors also have an impact on company revenues as diversification and increasing yield per customer plays a key part of many small businesses growth strategy.

Section 5 – Finance & Governmental Support

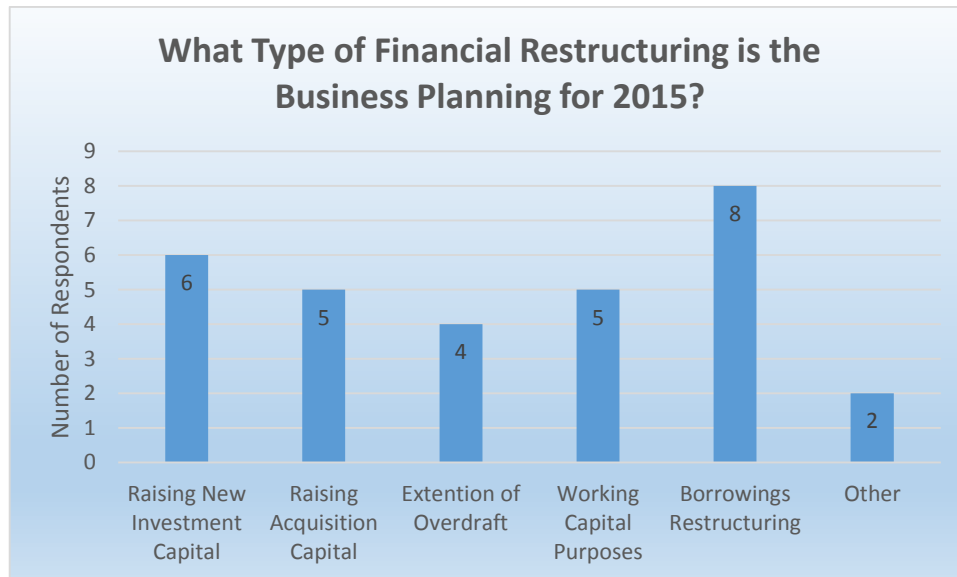
The final area that the survey examined was the anticipated financial activity of small businesses and the areas that small business would like government agencies to focus their efforts in helping the sector progress in the coming year.

Chart 11



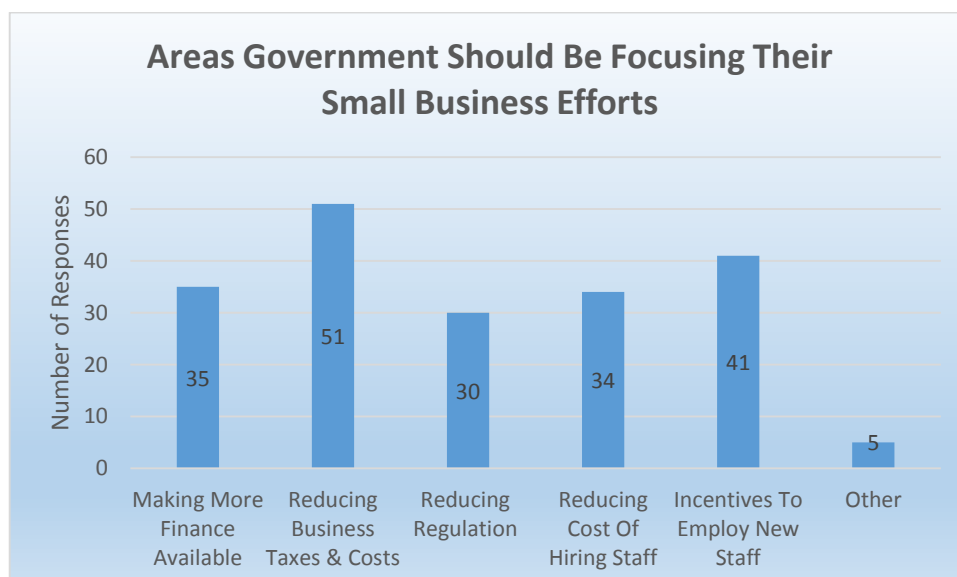
Half of respondents are not planning on changing their current financing positions in 2015, with a quarter saying they are planning some changes. The remaining quarter don't know their plans at the moment. This again demonstrates the reluctance of small businesses in **seeking out external funding** to help grow their business. It also demonstrates that most small businesses are more comfortable with a **manageable organic pace of growth**. This demonstrates the **risk adverse nature** of many small businesses in Ireland and the desire to be in full control of their own financial affairs. Micro loan facilities are becoming more mainstream today as are crowd funding options, for certain business so the trend towards greater interest in small business loans is on an upward trajectory.

Chart 12



Of the respondents that are planning raising new finance in 2015 **the majority were planning on Restructuring the Terms of their Existing Borrowings**. **Investment capital** was the second most indicated destination for finance followed by working capital. It is interesting to note that the **majority of financing required by small business is for non-growth purposes** (63% of responses). This demonstrates that many small businesses still haven't found the right balance between holding onto the position they currently have versus growing their business in a more aggressive manner. In an ideal world new finance would be utilised as much as possible for **growth purposes** (investments, acquisitions, new staff, etc) but the reality is somewhat different with small businesses preferring to keep the ship steady and shore up existing structures before exploring growth financing options.

Chart 13



The main areas that small businesses feel government and support agencies should be focusing their efforts in order to best help the sector are in the fields of **Business Taxes/Costs** and greater **Incentives**

to small business to take on new staff. Overall there was a wide spread of opinion across all of the listed criteria with no one area escaping scrutiny. The overall feeling amongst small businesses is that **government should be doing more in a variety of areas** to help make things easier and more cost effective for small businesses to thrive. All of the main lobby groups acting on behalf of SME's carry a similar message and by making the business environment easier to operate in, the sector is more likely to employ more people, invest more in growth and pay more in taxes through increased profits.

Conclusions

The results from the primary market research study identified a number of **Key Findings** to note.

- **Cash Flow Management** is the number one critical issue for small businesses at the present time. Close scrutiny and effective monitoring practices are critical to the well-being of small businesses when dealing with this key financial area.
- **Accessing Finance has not become easier** for the majority of small businesses in 2014, despite all of the campaigns and headline statistics to the contrary. Many businesses are not aware or not trying to access growth capital as they feel that such options are closed to them.
- The **Levels of Recovery** in the small business sector is showing **not to be evenly spread geographically**. Respondents from outside of Dublin noted **less optimism and increased business difficulties** than those with major population bases in their vicinity.
- **Optimism for Small Businesses** going into 2015 **is high** with the vast majority expecting to grow their businesses next year. This demonstrates a continued positive trend in the sector as most feel that the worst of the downturn is in the past.
- The majority of businesses are planning a **slow and steady approach** to business growth **funded by their own resources** rather than bank finance. There appears to be a reluctance to embrace debt of any kind, even borrowings for growth purposes, as the mind-set of the small business owner appears to be a conservative one.
- The biggest perceived threat to growth for small business is the **high costs of doing business**. The majority of respondents feel that this is the single biggest barrier to overcome in the successful operation of their business and is the area of most concern for the future.
- The biggest macro concern is the **rate of economic growth** that the country can sustain. To a large extent it is believed that the well-being of the economy is tied in with the well-being of the small business sector. One cannot succeed without the other!
- A **lack of high quality staff** is not a major area of concern at the moment but that will likely change as the competition for key staff heats up into 2015. High quality staff are **hugely important** to the success of small businesses and this is an area of significant importance for the future.
- Unsurprisingly small businesses suggested that the number one priority for government and governmental agencies tasked with supporting the small business sector, should be to do everything in their power to **reduce business costs and taxes**. **Incentives to employ new staff** came in a close second as small business want incentives to accept the costs and risks associated with employing new staff.

Recommendations

Based on the findings of the research there are a number of recommendations that we would like you to consider. Firstly it is recommended that you **pay close attention to the key critical areas** that were identified and **analyse how** each is impacting on your business at the moment. Every business has commonalities and differences so there may be a number of the key issues that strike a chord for your business. Also take on board the **individual findings from the growth and optimism section** as if you are aware of the current environment you can better prepare for 2015. If you are a business-to-business company the responses of the survey will be directly applicable so use the information to tweak or adapt your strategies accordingly. **Five specific industry recommendations** are listed below.

1. Small business need to **pay particularly close attention to the area of cash flow and closely monitor this critical area on a continual basis**. This should be done regularly either by the business owner themselves or with the assistance of an external financial advisor. Proper accounts should be maintained regularly (monthly or quarterly) and never only at the end of a financial year. Small businesses need to truly recognise that sales and profits are not the same thing and neither is a sale complete until the full invoiced amount has been received (e.g. mark to mark mentality). **Costs** always have to be closely monitored as do **payments coming due** and **effective cash flow planning** can go a long way towards addressing this key issue before it ever becomes a major problem.
2. Growth is becoming more of a key focus for the majority of small businesses and for this companies need to build a **greater emphasis around marketing**. Such activity doesn't just happen, it must be planned and implemented. Marketing doesn't have to be an expensive endeavour suited only to larger companies. Every business can implement some proactive marketing strategies at low cost, particularly in the areas of direct marketing, events marketing, public relations, online marketing, networking and referral programmes.
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4. For regional businesses that are still struggling to come out of the recession and have less reasons to be optimistic going into 2015, a key piece of advice would be to **seek as much support as possible**. If their business haven't started to see signs of improvement by now then their current strategies may not be the right ones to be follow and a new direction may be needed. It can be very difficult to see this when a business owner is so intrinsically attached to the current philosophy so that's why seeing external expert opinions are critical.
5. Whilst a lack of high quality staff was not identified as being a crucial issue for small businesses at the present moment, there is growing evidence to suggest that **competition for the best talent is beginning to heat up going into 2015**. As high quality talent is critical to the growth of small business it would be worth noting that for any small business thinking of taking on a new key staff member, early in the new year may be a good time to do so before competition becomes more intense with the added risk of competing with larger organisations who have deeper pockets to attract key talent.

Appendices

Below are the profiles and characteristics of the survey respondents. Areas of structure, size, location, years in existence, industry type and customer base were all noted to gain a picture of the businesses who choose to participate in the survey. Respondents were chosen to provide a broad wide range of views from as wide an audience and business type as possible.

Chart 14

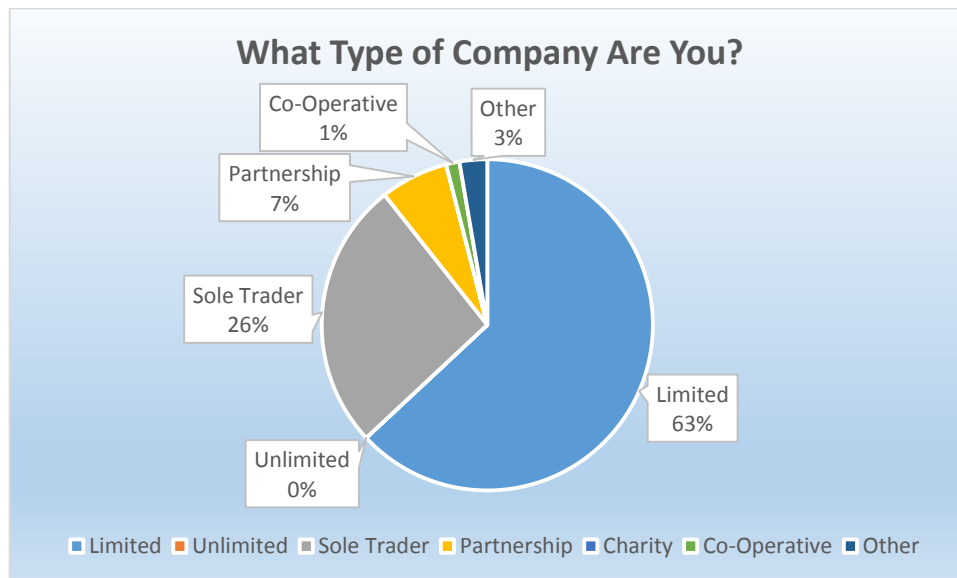


Chart 15

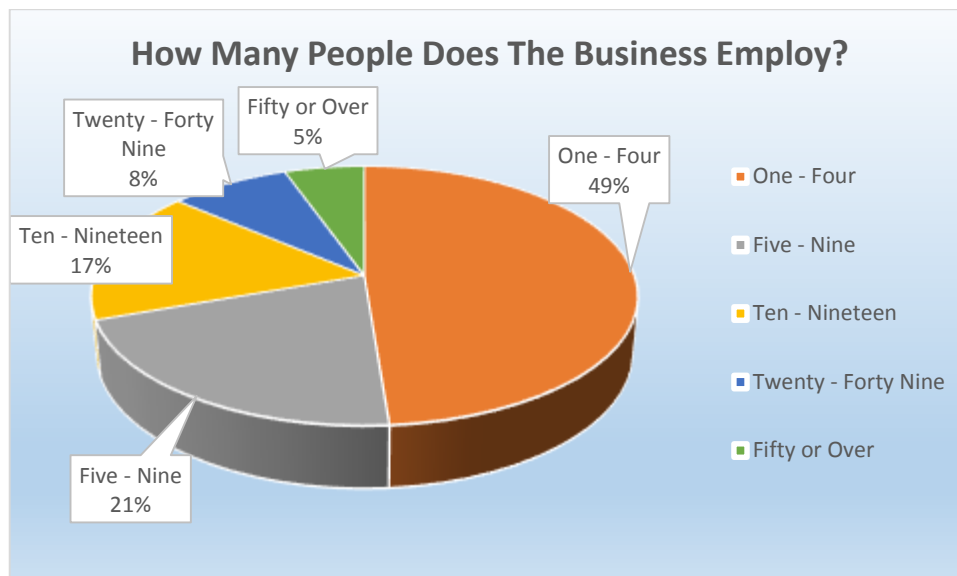


Chart 16

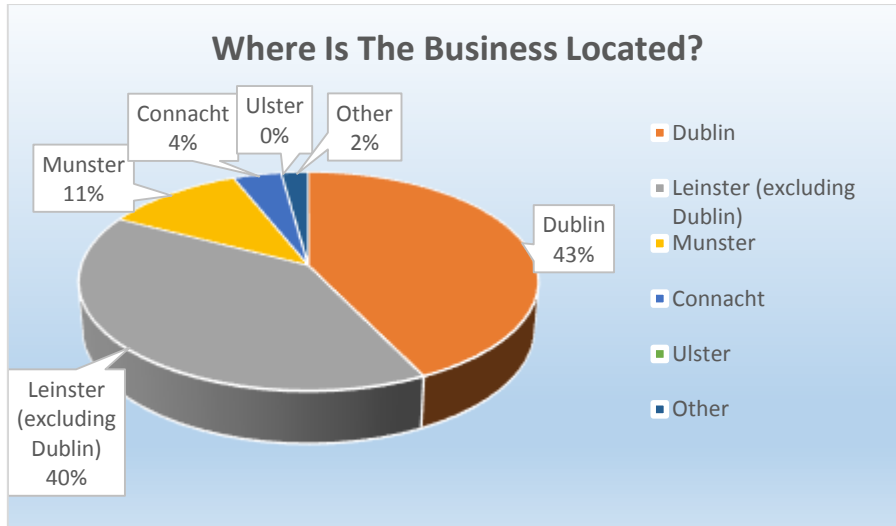


Chart 17



Chart 18

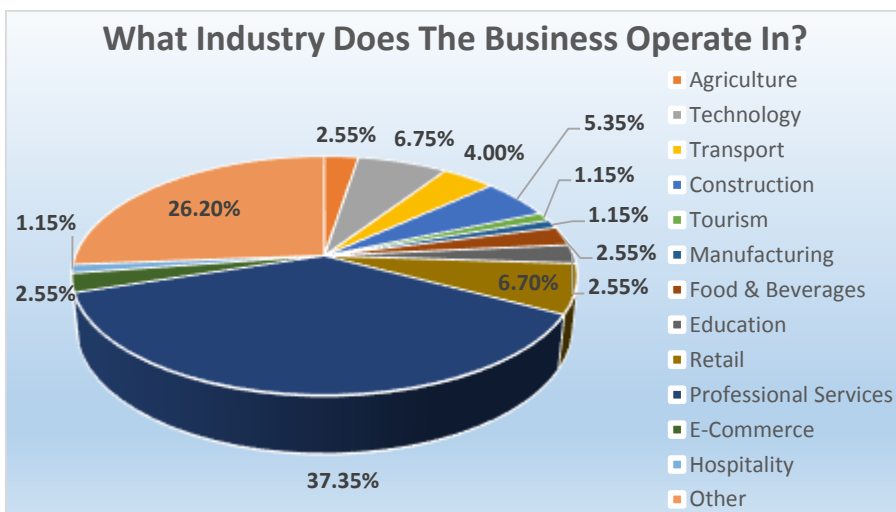
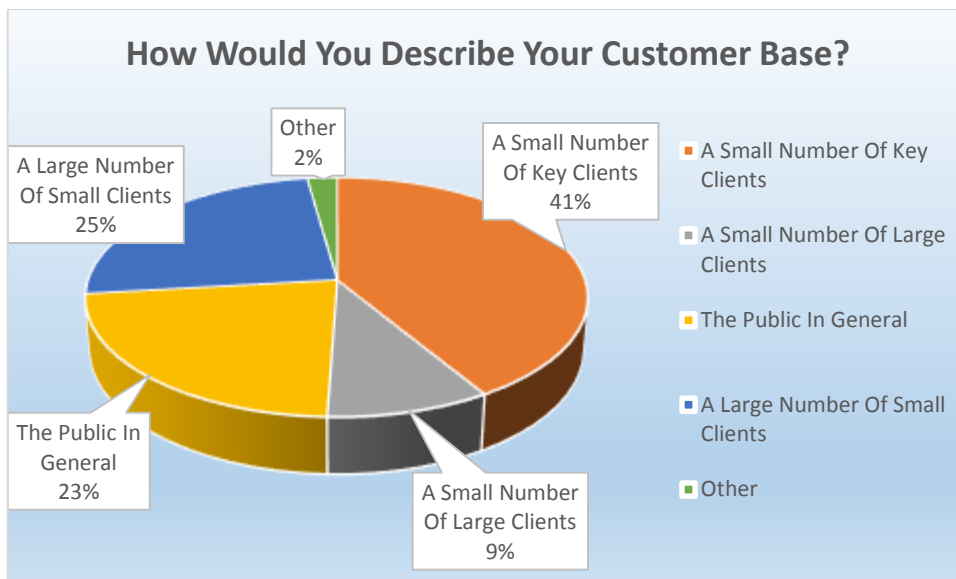


Chart 19



Avid Partner Contacts

Jamie O Hanlon
 Managing Director
 Avid Partners
jamie@avidpartners.ie
 01 4286900



Paul Howard
 Head of Marketing
 Avid Partners
 Email: paul@avidpartners.ie
 Tel: 01 4286900

