

The CPA Australia Asia-Pacific Small Business Survey 2013

Australia, Hong Kong, Indonesia, Malaysia, New Zealand and Singapore



CPA Australia Ltd ('CPA Australia') is one of the world's largest accounting bodies representing more than 144,000 members of the financial, accounting and business profession in 127 countries.

ISBN: 978-1-921742-49-1

For information about CPA Australia, visit our website cpaaustralia.com.au

First published
CPA Australia Ltd
ACN 008 392 452
Level 20, 28 Freshwater Place
Southbank Vic 3006
Australia

Legal notice

Copyright CPA Australia Ltd (ABN 64 008 392 452) ("CPA Australia"), 2013. All rights reserved.

Save and except for third party content, all content in these materials is owned by or licensed to CPA Australia. All trade marks, service marks and trade names are proprietary to CPA Australia. For permission to reproduce any material, a request in writing is to be made to the Legal Business Unit, CPA Australia Ltd, Level 20, 28 Freshwater Place, Southbank, Victoria 3006.

CPA Australia has used reasonable care and skill in compiling the content of this material. However, CPA Australia and the editors make no warranty as to the accuracy or completeness of any information in these materials. No part of these materials are intended to be advice, whether legal or professional. Further, as laws change frequently, you are advised to undertake your own research or to seek professional advice to keep abreast of any reforms and developments in the law.

To the extent permitted by applicable law, CPA Australia, its employees, agents and consultants exclude all liability for any loss or damage claims and expenses including but not limited to legal costs, indirect special or consequential loss or damage (including but not limited to, negligence) arising out of the information in the materials. Where any law prohibits the exclusion of such liability, CPA Australia limits its liability to the re-supply of the information.

Contents

About the survey	2
Key findings	3
Suggestions for policymakers	9
Survey results	10
Small business confidence	10
Small business environment	21
Small business access to finance	30
Appendix: Survey sample details	48
Industry breakdown	48
Firmographics	49

About the survey

The CPA Australia Asia-Pacific Small Business Survey 2013 was conducted with owners or senior representatives (including those in senior financial roles) of businesses with fewer than 20 employees. The markets included in the survey were Australia, Hong Kong, Indonesia, Malaysia, New Zealand and Singapore. The survey was conducted between 10 September and 19 September 2013.

The CPA Australia Asia-Pacific Small Business Survey 2013 is part of a longitudinal study of small business conducted by CPA Australia. The results present the cross-market comparisons between the six markets included in this study. The report also presents a comparison of the experiences of small business across markets as reported in this survey with their experiences as reported in the 2009, 2010, 2011 and 2012 surveys (in 2011 the survey expanded to include New Zealand and Indonesia). In order to make this comparison, a number of questions in this survey were drawn from previous surveys.

The 2013 survey was organised on behalf of CPA Australia by Nature Pty Ltd.

Interview method

In each market, the survey was conducted online among randomly selected owners or senior representatives of small businesses who were registered with a research panel managed by Valued Opinions and iPanel. Specifically, respondents were required to be an owner, a manager (defined as being a director, a principal, a CEO, a senior manager or a managing director) of a small business, or to be a qualified accountant, or the CFO (or similar title) within a business with fewer than 20 staff.

Nature was responsible for all aspects of administering the fieldwork including questionnaire programming, coordinating selection of respondents from Valued Opinions' and iPanel's panels, forwarding the survey to respondents and processing the respondent data.

Sample

In total, 2105 respondents participated in the survey, including 515 participants from Australia, 314 participants from Hong Kong, 349 participants from Indonesia, 310 participants from Malaysia, 307 participants from New Zealand and 310 participants from Singapore.

Questioning

Questions reported in the small business confidence and small business access to finance sections of this report were drawn from the 2012 survey which was conducted in October 2012. Some slight modifications to question wording were made to a number of those repeated questions. Questions in the small business environment section of the report were new to this survey series.

The Australian, Singaporean and New Zealand questionnaires were administered in English. The Hong Kong questionnaire was administered in traditional Chinese, the Malaysian questionnaire was administered in both English and Bahasa Malaysia and the Indonesian questionnaire was administered in Bahasa Indonesia. The questionnaire included a number of skips depending on particular responses provided by respondents. Accordingly, not all respondents were required to answer the entire survey. The median length of time to complete the survey was 6.5 minutes.

Rounding

All percentage results shown in this report have been rounded to the nearest whole number.

Key findings

Overall

The CPA Australia Asia-Pacific Small Business Survey 2013 demonstrates that in the Asian economies surveyed, the current global economic volatility has impacted small business confidence. Small business confidence for the economy in 2014 is down significantly in Hong Kong and Malaysia compared to 2013, with Singaporean and Indonesian small businesses also less confident in their economy in 2014 than in 2013. Both Australian and New Zealand small business confidence in their respective economies is stronger than in previous years.

For the first time in this survey's history, the centre of small business confidence in the region has moved somewhat south from South East Asia. It remains to be seen whether Australian and New Zealand small businesses, with their lower propensity to take on debt, invest in capital assets and their smaller size can take advantage of higher levels of confidence in the economy.

Although Asian small business confidence in their business in 2014 is down significantly from their expectations for 2013, Indonesian small businesses remain the most confident of the six markets surveyed. Despite less than one third of Malaysian businesses expecting the Malaysian economy to grow in 2014, more than half were confident of the growth prospects for their business in 2014. Hong Kong businesses are the least confident of all markets surveyed; in fact more Hong Kong businesses believe their business will not grow in 2014 than grow. Interestingly, Australian and New Zealand small businesses, although more confident in their respective economies in 2014, are slightly less confident in the growth prospects for their business in 2014 than they were in 2013.

The most challenging issues for all markets during 2013 were increasing cost pressures and competition – these issues are likely to continue to prove difficult for many small businesses in 2014. Businesses should therefore be focusing more on business management practices, such as cost control and improving working capital while also prioritising customer retention and investing in innovation.

Australian, Hong Kong, Indonesian and New Zealand small businesses all note that access to finance was easier in 2013 than previous years. Hong Kong businesses have taken advantage of this and the number of Hong Kong small business seeking external funds has increased markedly during 2013 despite difficult trading conditions and low business confidence. With strong expectations for their economy and their business, Indonesian small businesses are the most likely to seek external funding in the year to come.

While the response to this year's survey notes the overall outlook for 2014 is less promising than in previous years, small businesses throughout the region have shown considerable resilience in the five years since the global financial crisis and we expect that many will adapt and manage through this period and be well placed for medium to long-term growth.

This survey focuses on the business environment small businesses are experiencing and how they are responding, or propose to respond to, that environment. The key findings from each market surveyed are summarised below.

Australia

Australian small business confidence in the Australian economy in 2014 is up significantly from 2013. This may be due to the survey being undertaken in the week following the change in the Australian Government. However, this increase in confidence in the broader economy is not necessarily flowing through to confidence in their business for 2014, with Australian small businesses slightly less optimistic about the growth prospects for their business in 2014 than they were in 2013.

This may reflect a generally more conservative Australian small businesses community, a conservatism shaped by five years of major sections of the Australian economy underperforming, survey respondents being on average significantly older than respondents from Asia and a larger proportion of sole traders surveyed than in Asian markets.

It is interesting to note that Australian respondents were more likely to attribute political stability as a reason they expect their business will grow in 2014 than any other market and less likely to consider increased competition as a reason why they forecast their business will not grow in 2014 than Asian respondents.

The positive sentiment around the Australian economy is flowing through to employment expectations, with nearly one in five small businesses expecting to increase employee numbers in 2014.

The key issues shaping Australia's small business environment in 2013 have been increasing costs, and business conditions being more difficult than expected. In response, a large proportion of Australian small businesses have, during 2013, focused on reviewing their operating costs and improving customer retention. Costs that were nominated as most likely to have had a detrimental impact on their business in 2013 were utility and fuel costs.

While Australian respondents reported that accessing finance became easier in 2013, this was not reflected in any increase in demand for external finance. In fact, the percentage of Australian small businesses that have demanded external finance has barely moved since 2009. For those businesses that required external funds in 2013, the easier lending conditions may have led to more businesses seeking finance from a bank than from their own personal resources and family and friends than in previous years.

Reflecting a more positive economic environment, Australian businesses were significantly less likely to have borrowed for business survival in 2013 than in previous years. In 2014, the majority of Australian small businesses remain unlikely to expect to seek external finance, which may in part be due to businesses expecting access to finance to tighten slightly. It is positive that of those businesses expecting to borrow in 2014, a significant proportion expect to do so for business growth or to purchase capital assets.

Australian small businesses expect the outlook for 2014 to be more positive for the Australian economy; however this does not necessarily mean that Australian small businesses will enjoy the benefits from such an environment. Business success, even in good times rarely "just happens" – it requires a strong focus on the business fundamentals, such as cashflow management, customer retention and investment back into the business, whether that is in new assets or innovation.

Hong Kong

Hong Kong small business confidence in the local economy in 2014 is down significantly from 2013. This may be due to global economic uncertainty, particularly with the slowdown in Mainland China's economy and uncertainty around the timing of the termination of the US Federal Reserve's quantitative easing program, as well as the debate around raising the US debt ceiling. This fall in confidence in the economy is impacting small business confidence in their own business which, for the first time in the survey's history, more Hong Kong businesses expect to not grow in 2014 than grow.

This negative view of the prospects for Hong Kong businesses is not only due to confidence in the local economy being down; it is also a result of Hong Kong businesses experiencing increasing costs, such as rent and staff costs, as well as more competition. The ability of many Hong Kong small businesses to manage these challenges is often hampered by a failure to adequately focus on business fundamentals such as cost control, customer retention and reducing reliance on debt.

Counterintuitively, most Hong Kong businesses are responding to the aforementioned challenges by seeking external finance. In 2013, there was a significant increase in the number of Hong Kong businesses seeking external funds compared to 2012. This concerning trend may in part be due to access to finance being easier than in previous years and very few Hong Kong businesses seeking advice on their financing needs from an accountant. Reflecting the heavy reliance on debt, combined with less favourable trading conditions, Hong Kong businesses were the most likely to borrow in 2013 to cover borrowing costs.

The negative sentiment in the prospects for Hong Kong small businesses is not necessarily impacting employment expectations, with more than a third of small businesses expecting to increase employee numbers in 2014.

The survey reflects that Hong Kong small businesses faced a difficult 2013, and the outlook for 2014 indicates similar conditions, due to a weak economic environment, increasing costs – in particular rent and staff costs – and increased competition.

Hong Kong businesses should be placing a significantly higher priority on improving their business management, including cost control, cashflow management and customer retention and they should consider seeking advice on their business from a professional. The primary objective for many Hong Kong businesses must be to reduce reliance on external debt.

Indonesia

Indonesian small business confidence in the local economy in 2014 is down significantly from 2013 but remains positive overall. This decline may be due to global economic uncertainty impacting Indonesian growth and uncertainty around when the US Federal Reserve will begin tapering its quantitative easing program, which is impacting capital flows in and out of Indonesia and the value of the rupiah. This fall in confidence in the economy is impacting small business confidence in their own business, though Indonesian small businesses remain the most confident of all the markets surveyed.

Growth expectations for Indonesian businesses in 2014 have dampened from 2013, however, more than 80 per cent of businesses remain confident their business will grow in 2014. For those expecting their business to grow, the most selected reason for this was increasing sales. With the expectation that Indonesia will continue to experience strong economic growth in 2014, this is not an unreasonable expectation.

The positive sentiment of Indonesian small businesses is flowing through to employment, with about 60 per cent of businesses increasing employee numbers in 2013 and about 70 per cent expecting to increase staff numbers in 2014.

Indonesian small businesses were most likely to describe their business environment as "characterised by increased competition and increasing sales". The highest business priorities Indonesian businesses were most likely to nominate in 2013 were customer retention, new customer marketing and innovation. The costs most likely to have had a detrimental impact on Indonesian businesses in 2013 were fuel and utility costs and rent.

Given the positive environment Indonesian small businesses continue to enjoy, it is not surprising that they remain the most likely of the markets surveyed to have sourced external finance in 2013, and the most likely to expect to demand external finance in 2014. Indonesian businesses continued to report relatively easy access to finance in 2013 and for many that will continue in 2014. Somewhat curiously, as in previous years, Indonesian small businesses are nearly as likely to have accessed finance in 2013 for growth as they have for business survival.

The outlook for 2014 is encouraging for many Indonesian businesses. With many businesses focused on taking advantage of the positive environment by investing in marketing, customer retention and innovation, many should have a successful 2014.

Malaysia

Malaysian small business confidence in the local economy in 2014 is down significantly from 2013. While there is global economic uncertainty, and the proposed introduction of the goods and services tax may also be creating uncertainty, this negative sentiment is not shared by many outside of small business. For example, the International Monetary Fund and the Asian Development Bank are among those having a positive outlook for the Malaysian economy in 2014. Regardless of whether the perception is correct or not, small business confidence in their own businesses has been impacted, though Malaysian small businesses still remain the second-most confident of the markets surveyed.

Of the two out of three Malaysian businesses expecting their business to grow in 2014, increasing sales is the main reason they expect their business to grow. Increasing costs, increasing competition and a poor economic environment were cited as the main reasons some Malaysian businesses expect no growth.

The positive sentiment over the prospects for Malaysian small businesses is flowing through to employment, with more than 45 per cent of businesses expecting to increase staff numbers in 2014.

Overall, the key items shaping Malaysia's small business environment in 2013 have been increased costs and competition. The business priorities Malaysian businesses were most likely to focus on in 2013 were new customer marketing, cost control and customer retention. The costs that were most likely to have had a detrimental impact on small business in 2013 were fuel and utility costs.

It is not surprising, given a more challenging 2013 and reportedly tighter lending conditions, that fewer Malaysian small businesses demanded external finance in 2013 than 2012. However, given that most Malaysian businesses remain confident in their business in 2014, more than 75 per cent of Malaysian small businesses indicated that they may seek external finance in 2014 and that they are most likely to seek that money for business growth purposes. Positively, the most common reason for seeking finance in 2013 was for business growth, but a stronger focus on improving working capital management should reduce the need for Malaysian businesses to borrow to buy stock. Possibly reflecting tighter lending conditions, Malaysian businesses were significantly more likely to seek finance from family and friends than any of the other markets surveyed.

Overall, the outlook for 2014 is mainly positive for Malaysian small businesses. With many Malaysian businesses focused on business fundamentals such as customer retention and cost control, if the economy performs better than expected, they are well placed to see much stronger growth than they expect.

New Zealand

New Zealand small business confidence in the New Zealand economy has risen in 2014 from 2013. This positive response may be due to recent robust economic data, surging property prices, low interest rates and the ongoing rebuilding of Christchurch after the 2011 earthquake. However, this surge in confidence of the economy has not necessarily flowed through to business confidence, with New Zealand small businesses slightly less confident in the growth prospects for their own businesses in 2014 than they were in 2013.

This may reflect a generally more conservative New Zealand small business community, possible due to New Zealand respondents being significantly more likely than Asian respondents to be from micro businesses (less than five staff) and the business owner being significantly older than respondents from Asia.

More than half of the New Zealand businesses expect their business to grow in 2014, with the most common reason for that expectation being increasing sales. Those businesses that expect not to grow cited poor economic environment and increasing costs as reasons for their forecast.

The generally positive sentiment over the prospects for New Zealand small businesses is not however flowing through to employment. Only 13 per cent of businesses expect to increase staff numbers in 2014.

With New Zealand small businesses facing more difficult business conditions than they expected and increasing cost pressures in 2013, there was a strong focus on reviewing operating costs, improving customer retention and new customer marketing. The cost that was the most likely to have had a detrimental impact on their business was fuel costs.

While New Zealand respondents reported that accessing finance remained relatively easy 2013, this was not reflected in any increase in demand for external finance. In fact the percentage of New Zealand small businesses that have demanded external finance has hardly moved since New Zealand was included in the survey in 2011. The easier lending conditions may have led to more businesses seeking finance from a bank than from their own personal resources. Reflecting a more positive economic environment, New Zealand businesses became significantly more likely to have borrowed for business growth in 2013 than in previous surveys. It is positive that of those businesses expecting to borrow in 2014, a significant proportion expects to do so for business growth.

The outlook for the New Zealand economy in 2014 is a positive one, however New Zealand small businesses may not be of the scale nor have the focus to enjoy that projected stronger economy. New Zealand businesses could benefit from a stronger focus on business fundamentals, such as cashflow management, customer retention and innovation.

Singapore

Singaporean small business confidence in Singapore's economy in 2014 is down from 2013. With the Singaporean economy highly exposed to international trade, it is likely that this decline is predominately due to global economic volatility stemming from a slowdown in China's economic growth and uncertainty over the future direction of the US economy. This fall in confidence in the economy is impacting small business confidence in their own business, with the level of confidence that their business will grow in 2014 down significantly from 2013, and while Singaporean businesses are still mostly positive, confidence levels are at a five-year low.

Of the Singaporean businesses expecting their business to grow in 2014, increasing sales was the most popular reason why they expect their business to grow. Those businesses that expect not to grow are most likely to point towards increasing costs and falling sales as reasons for such a forecast.

While the confidence of Singaporean businesses is at a record low, they are still positive, which is demonstrated by just over a quarter of businesses adding additional staff in 2013 and 35 per cent expecting to add staff in 2014.

The key items shaping Singapore's small business environment in 2013 have been increased costs and competition. The main business priorities for Singaporean businesses in 2013 were revenue growth, customer retention and new customer marketing, while staffing and rental costs were the most likely to have had a detrimental impact.

Given a more challenging 2013 and significantly tighter lending conditions, it is not surprising that fewer Singaporean small businesses demanded external finance in 2013 than 2012. However, given that most Singaporean businesses remain positive about their businesses growth prospects in 2014, more than two thirds of small businesses indicated that they may seek external finance next year, despite forecasting even tighter lending conditions. Positively, Singaporean businesses were the most likely to have sourced external finance in 2013 for business growth. Possibly reflecting tighter lending conditions, Singaporean businesses were the most likely to seek finance from an investor compared with the other markets surveyed.

The survey results show that while 2014 will be challenging, most Singaporean small businesses should experience some growth. While the focus on marketing is a good way to manage increased competition, a stronger focus on cost control and improving business processes should assist more Singaporean business to manage increasing costs better. Given Singaporean businesses have consistently shown over the five years of this survey that they are typically well managed, we would expect Singaporean businesses to focus more on improving business management. As such, they should be well placed to not only manage through a potentially challenging 2014 but to thrive if economic conditions are more positive than expected.

Suggestions for policymakers

The survey results highlight a number of important issues for policymakers to consider. Some of these suggestions are not new; however the survey results reinforce the importance to small business and the broader economy of getting policy in these areas right.

CPA Australia proposes the following broad themes for consideration by policymakers across the six markets surveyed. The importance of these suggestions varies from economy to economy.

1. Governments must exercise responsible economic management

It is no surprise that the survey results show a strong correlation between small business confidence in the economy and confidence in their own business. The higher the level of confidence in the economy, the more likely small business is to believe their business will grow and vice versa. If governments exercise responsible economic management over the economic cycle, it should help lead to stronger economic performance, which in turn should flow through to increased small business confidence in their own business. While small business may well be the engine that drives the economy, government provides the oil to help make that engine run smoothly.

2. Governments should provide support through clear and consistent policy that is well communicated

Governments need to provide support to business in the form of clear and early communication of any policy adjustments. Small businesses need time to understand information so that they can adjust their business models and implement management activities in response to policy changes.

3. Governments must make it as easy as possible for people to establish and run small businesses

The survey results show there is a strong link between younger businesses/business owners and strong business confidence and higher employment by small business. As increasing small business numbers flows through to a stronger economy and more employment, governments should encourage an increase in small business numbers by making it as easy as possible to start and run a small business. Governments must therefore be focused on reducing the compliance burden around starting, running and exiting a small business and keeping that compliance burden to a minimum.

4. Governments should work with education institutions, industry associations and accountants to improve the business skills of small business

Over the past few years, *The CPA Australia Asia-Pacific Small Business Survey* has highlighted that the business skills of small businesses are mixed. Providing business with the opportunity to access information and training on business management can do much to improve the productivity and viability of a small business, regardless of whether the business is enjoying good times or bad. For example, good economic conditions may lead to a business losing sight of the basics, leaving the business overly exposed to a hard landing when economic conditions change, which in turn amplifies the impact of a downturn on the economy. Governments should therefore work with education institutions, industry associations and accountants to develop and distribute information and training on basic business management to small business.

Survey results

Small business confidence

Small business expectations for the economy in 2014

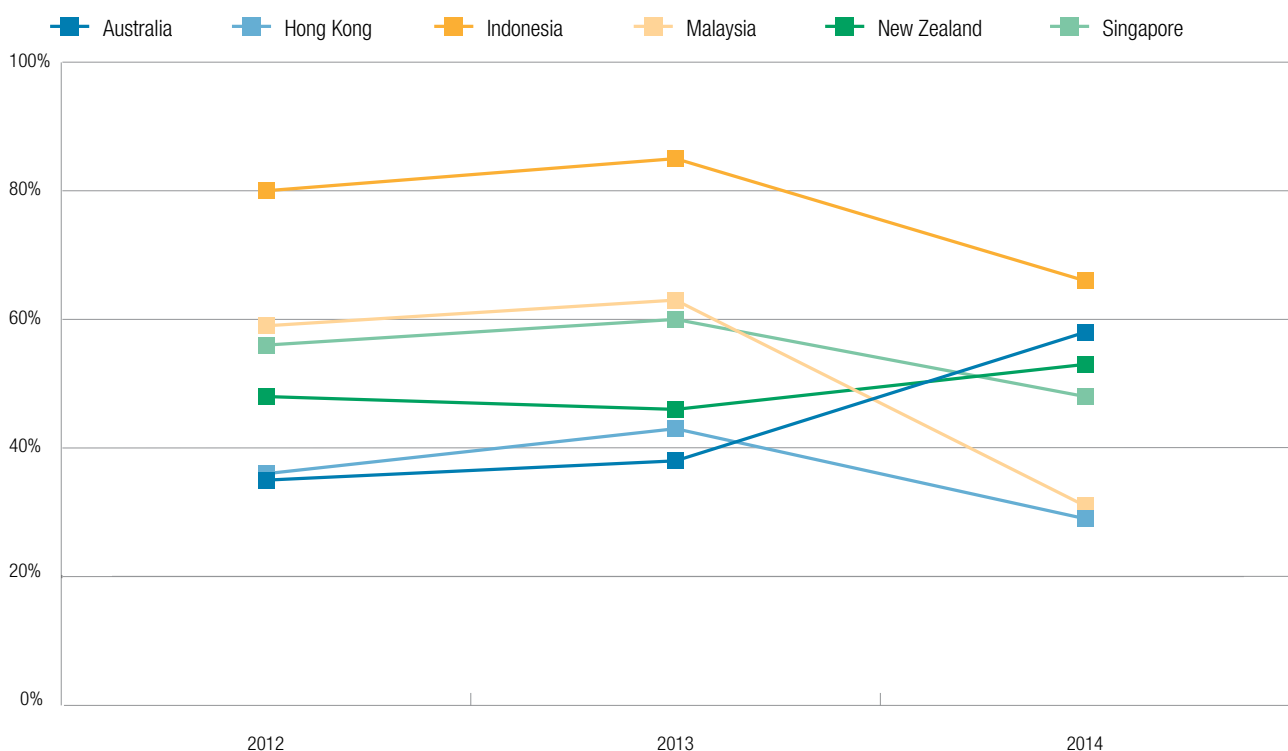
Table 1: Small business expectations for their local economy in 2014

Q3-11

What is your view on the prospects for [Country name] economy in the next 12 months? by Country (Single response) (Australia n=515, Hong Kong n=314, Indonesia n=349, Malaysia n=310, New Zealand n=307 and Singapore n=310)

	Australia	Hong Kong	Indonesia	Malaysia	New Zealand	Singapore
Grow strongly	6%	1%	12%	7%	3%	3%
Grow a little	52%	28%	54%	24%	50%	45%
Total growth	58%	29%	66%	31%	53%	48%
Shrink a little	15%	30%	15%	33%	17%	20%
Shrink strongly	5%	3%	2%	15%	3%	5%
Total shrink	20%	33%	17%	48%	20%	25%
Not change	19%	37%	16%	18%	24%	24%
Don't know	3%	1%	0%	3%	3%	4%

Figure 1: Small business expectations for their local economy in 2014 – a comparison of growth expectations over the last three surveys



- In line with previous survey results, Indonesian businesses remain the most confident of growth in their economy, although overall confidence has dropped 19 percentage points from the previous year. This decline in the confidence of small business in the Indonesian economy is understandable due to the country experiencing increasing inflation, higher interest rates and sharp fluctuations in the value of the rupiah. However as predicted in our 2012 survey the economy has largely been protected from these headwinds by continuing strong domestic demand. Indonesian businesses with five to 19 employees are significantly more likely to be positive about the prospects for the Indonesian economy in 2014 than smaller businesses. Female respondents are significantly more optimistic about the Indonesian economy in 2014 than male respondents.
- Australian small business confidence in the Australian economy has surged 20 percentage points in 2014 from the last survey. This increase in confidence in the Australian economy may possibly be as a result of a recent change in government and the end of minority government (the survey was conducted in the week following the Australian federal election). The positive sentiment is broadly consistent across all small businesses, regardless of size and age of business – in previous years there were significant variations in sentiment based on size and age.
- New Zealand small businesses are the third most confident with 53 per cent expecting the New Zealand economy to grow in 2014, which is an increase from previous surveys. This may be due to recent robust economic data, low interest rates, surging property prices and the impacts of the rebuilding of Christchurch following the 2011 earthquakes. The optimism was fairly consistent regardless of business size or age of business.
- Singaporean small business confidence in Singapore's economy in 2014 has fallen dramatically from previous survey results. This possibly reflects the stronger international trade focus of Singapore and therefore business confidence is more exposed than others in the survey to global issues, which in 2013 has been characterised by slower growth in China and India, the US and Europe underperforming and other ASEAN nations experiencing volatility due to speculation over the impact of the tapering of the US Federal Reserve quantitative easing program. Given that independent expert forecasts for the Singapore economy in 2014 are quite robust, the drop in small business confidence in Singapore's economy is a surprise. Larger small businesses were more optimistic about the growth prospects for Singapore in 2014 than the smallest Singaporean businesses.
- Malaysian small businesses confidence in the Malaysian economy declined 50 percentage points in 2014 from the last surveys - more Malaysian small businesses expect the economy to shrink or go into recession in 2014 than grow. While the weaker global economy, the proposed introduction of a goods and services tax (GST) in 2015 and the reduction of some government subsidies may be impacting small business perceptions on the Malaysian economy, we cannot see any support for such a negative expectation in any major forecasts for the Malaysian economy in 2014. This result is fairly consistent regardless of the size or age of the business.
- Hong Kong small businesses are the least confident of the markets surveyed in their economy in 2014, with growth expectations declining 14 percentage points compared to the previous year's results. Given global economic conditions have been volatile for much of this year and the strong international focus of many Hong Kong businesses, it is understandable that many Hong Kong businesses may look to 2014 with some trepidation. Smaller Hong Kong businesses are more likely to expect the Hong Kong economy to shrink in 2014.
- Overall, it seems that the centre of small business optimism in the region has shifted south after being in South East Asia since 2009. The question this poses is: Can Australian and New Zealand small businesses, with their smaller size and lower propensity to borrow, acquire capital assets and focus on innovation, position their business to take advantage of this shift? For businesses in Hong Kong, Malaysia and to a lesser extent Singapore, can those businesses focus on improving core business practices that can help get them through this more pessimistic environment and position themselves for future growth?
- Previous surveys and this survey shows that small businesses in Singapore and Malaysia are generally well managed and therefore should handle this more pessimistic environment well; Hong Kong businesses however, with their high reliance on external funds, cost pressures, particularly rent and staff costs and a general lack of focus on core business practices such as cost control, will be typically challenged, however as Hong Kong businesses have proven over many years they are resilient in the face of even more challenging conditions and therefore there is scope for cautious optimism.

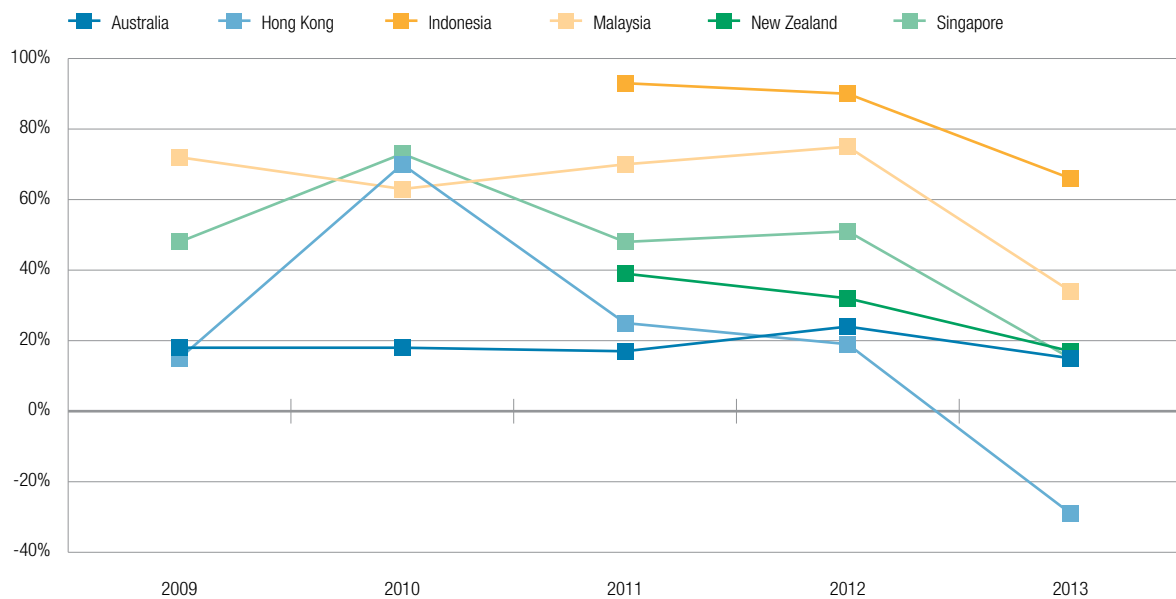
Small business expectations for their business

Table 2: Small business expectations for their own business in 2014

Question 3-3: *In the next year do you expect your business to... ? (Single response) (Australia n=515, Hong Kong n=314, Indonesia n=349, Malaysia n=310, New Zealand n=307 and Singapore n=310)*

	Australia	Hong Kong	Indonesia	Malaysia	New Zealand	Singapore
Grow strongly	9%	4%	30%	18%	8%	10%
Grow a little	47%	32%	53%	47%	49%	47%
Total growth	56%	36%	83%	65%	57%	57%
Not change	24%	32%	5%	12%	27%	15%
Shrink a little	12%	24%	8%	11%	8%	18%
Shrink strongly	3%	6%	3%	8%	3%	6%
Close / Shut down	3%	2%	0%	1%	2%	2%
Total no growth (includes not change)	42%	64%	16%	32%	40%	41%
Don't know	2%	0%	0%	3%	3%	2%

Figure 2: Small business confidence score* – a comparison from 2009 to 2013**



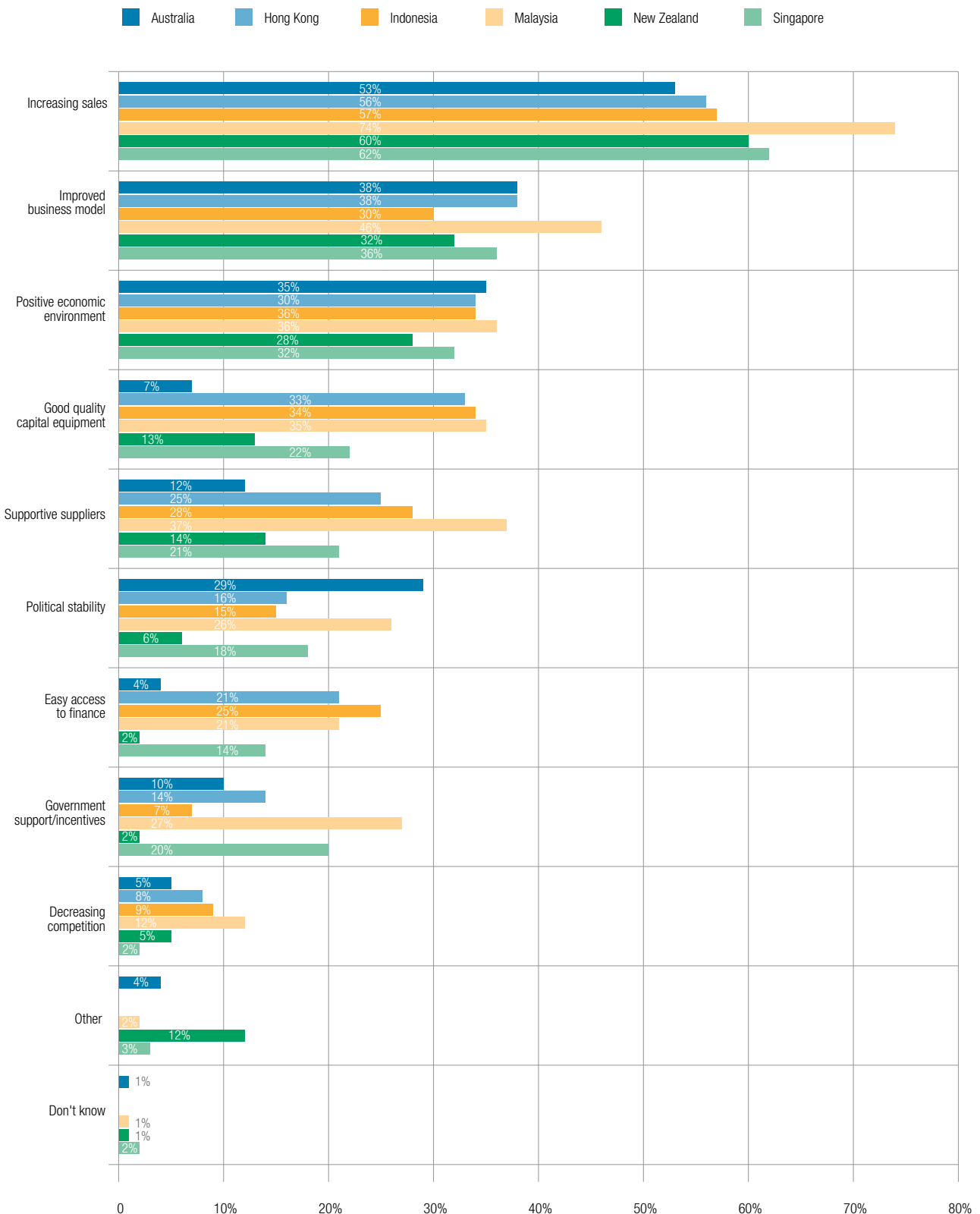
*The score is calculated by adding 'grow strongly' and 'grow a little' together and subtracting the non-growth options - 'not change', 'shrink a little', 'shrink strongly' and 'close/shut down'. The higher the score, the higher the level of confidence.

** The survey was not conducted in Indonesia and New Zealand in 2009 and 2010.

- As in previous years, Indonesian businesses are the most bullish about the prospects for their own business in 2014, however given recent economic developments in Indonesia including a slowdown in economic growth and rising interest rates, it is not surprising that Indonesian confidence in the growth prospects for their own business is down from 2011 and 2012. Indonesian businesses were typically positive about their growth prospects in 2014 regardless of size, however larger small businesses were significantly more likely to expect their business to grow strongly in 2014.
- Malaysian small business confidence in the growth prospects for their own business in 2014 remains strong, despite the generally pessimistic outlook for the economy among many Malaysian small businesses. Given their pessimism in the Malaysian economy, it is not surprising that business confidence is down significantly. This result is fairly consistent regardless of the size or age of the business.
- Singaporean small business confidence in the growth prospects for their own business in 2014 is positive, however in line with a drop in confidence for the broader economy, Singaporean confidence in the growth prospects for their own business also fell. Singaporean respondents who are senior managers are significantly more optimistic about the growth prospects for their business in 2014 than respondents who are business owners. Larger Singaporean small businesses are also more optimistic about the growth prospects for their business in 2014 than smaller businesses.
- New Zealand small business confidence in the growth prospects for their own business in 2014 is down slightly despite small business confidence in the New Zealand economy being up. New Zealand businesses that have traded for less than five years were much more likely to be positive about their own growth prospects than more mature businesses.
- Australian small business confidence in the growth prospects for their business in 2014 is down slightly from the previous survey, despite small business confidence in the growth of the Australian economy being up more than 20 per cent, however the fall is the least of any of the markets surveyed. Interestingly, over the five years of the survey, Australian confidence in their business has remained remarkably stable. As in previous years, the smaller the Australian business, the less positive they were about their business in the coming year, however the difference was not as great as previous years, with businesses in the one-to-four employee bracket significantly more upbeat than previous years. Younger Australian businesses (those established less than five years) were very positive about their prospects for 2014 and significantly more positive than other Australian businesses.
- Hong Kong small business confidence in the growth prospects of their own business is down significantly in 2014 from previous years surveyed. In fact, almost as many Hong Kong businesses (32 per cent) expect their business to shrink or close in 2014 as to grow (36 per cent). The reason for this cannot be limited to just the steep drop in confidence in the economy – the survey shows that business issues, in particular increasing costs and increasing competition, should also be impacting confidence in their own business. Hong Kong businesses established less than five years are more positive about their growth prospects than more established businesses. Businesses established for more than 20 years are by far the least optimistic about their business prospects in 2014.
- Accommodation and food services businesses and arts and recreation services businesses were the most likely to expect their business to grow in 2014. Accommodation and food services businesses were also the most likely to seek finance to fund business growth in 2014. Transport and warehousing businesses were the most pessimistic about 2014 with 45 per cent of businesses in that industry expecting their business to shrink in 2014, and of that 19 per cent expect their business to shrink strongly. This industry is typically seen as a good indicator of the economy, and this pessimism may reflect the impact that the current global economic uncertainty is having on the international movement of goods.

Figure 3: Why small business expect their business to grow

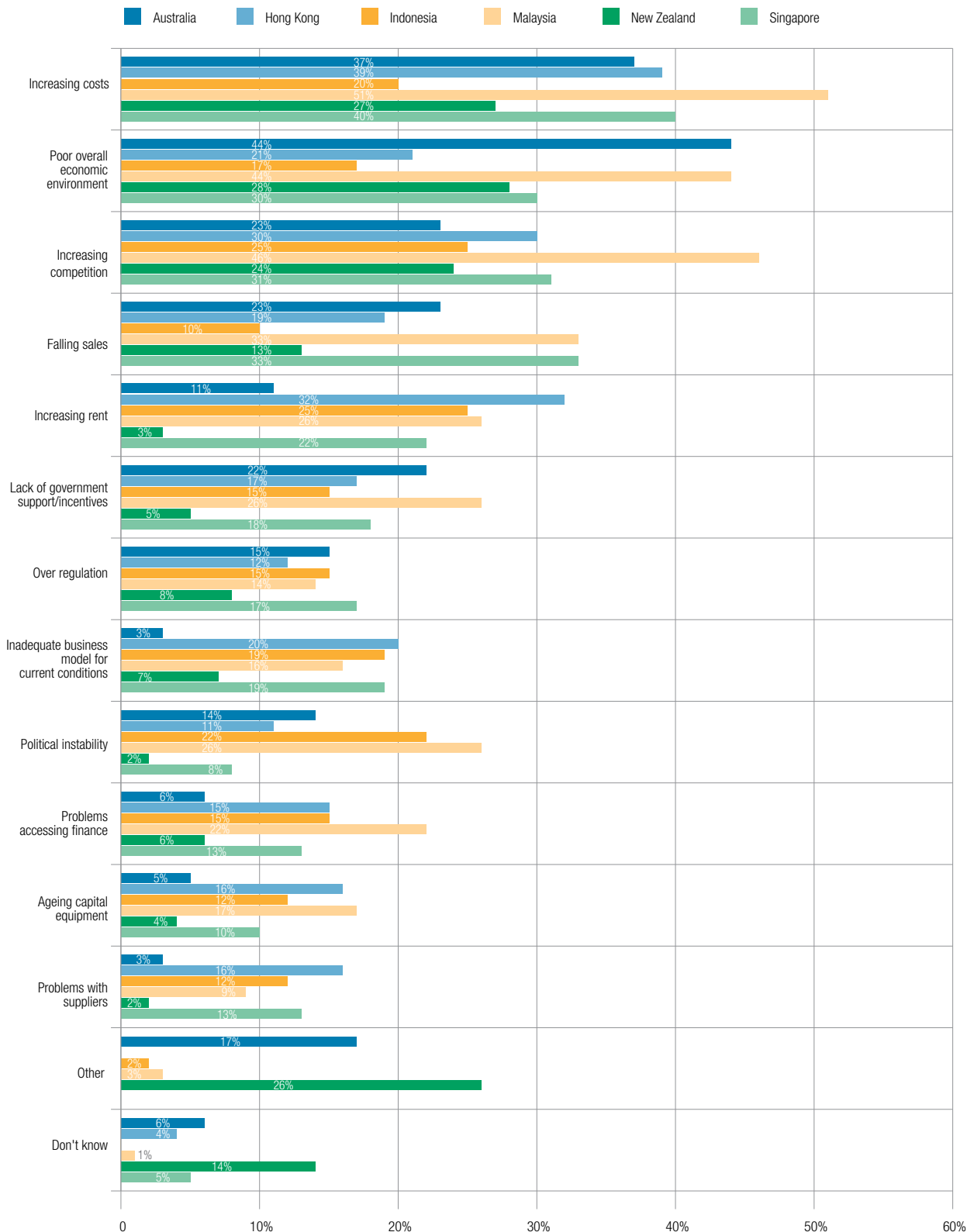
Question 3-4: And which of the following best describes why you expect your business to grow next year? (Multiple response) (Australia n=290, Hong Kong n=111, Indonesia n=289, Malaysia n=202, New Zealand n=174 and Singapore n=176)



- Of the 56 per cent of Australian businesses expecting growth, 53 per cent believe this will come from increased sales, just over one third believe it will come from improvements to their business model and 35 per cent believe growth will be due to a more positive economic environment. However, as other data from the survey shows, only 20 per cent of Australian businesses have increased their marketing in the last 12 months and 16 per cent have changed their business model. If many Australian businesses are going to meet their growth expectations in 2014, many will have to re-consider increasing their marketing spend and reviewing their business model.
- Australian and New Zealand respondents that have fewer than four employees were significantly less likely to nominate quality capital equipment as a driver of business growth. Regardless of whether such businesses feel the need for such investments, this result questions the long-term sustainability of many Australian and New Zealand businesses. It may also help to explain the relatively lower levels of borrowing by Australian and New Zealand businesses as many see little advantage in investing in capital assets.
- Reflecting the relatively small reliance Australian and New Zealand businesses have on borrowing, it is not surprising that businesses from those markets are significantly less likely to nominate easy access to finance as a driver of growth in 2014.
- Given the recent Australian election and the preceding political uncertainty, it is not surprising that Australian businesses are the most likely to nominate political stability as an expected driver of growth in their business in 2014.
- Interestingly, government support or incentives are a significantly more important driver of growth in the 2014 in the minds of Malaysian and Singaporean small businesses. While a positive for Malaysian and Singaporean businesses, the concern is that businesses may become too reliant on government programs, rather than their own business acumen for growth.
- Of the 36 per cent of Hong Kong small businesses expecting growth in 2014, increased sales (56 per cent) is the most popular reason behind this confidence. With confidence in the Hong Kong economy in 2014 very low, it is hard to see where these increased sales may come from. Older Hong Kong businesses were significantly more likely to attribute their positive outlook for 2014 on easy access to finance. Given the high reliance of Hong Kong businesses on external finance, this is not surprising.
- Larger Singaporean small businesses are more likely to attribute their positive outlook for their business in 2014 to the quality of their capital assets and political stability. Male Singaporean respondents were significantly more likely than female respondents to attribute their positive outlook for their business in 2014 to positive overall economic conditions.
- Indonesian businesses with an annual turnover of less than IDR4.5 billion were much more likely than businesses with a turnover between IDR4.5 billion and IDR20 billion to attribute their positive outlook for their business in 2014 to increasing sales, supportive suppliers, an improved business model and positive overall economic environment.
- With close to half of Malaysian businesses increasing their marketing activity over the past year, it is no surprise that 74 per cent expect increased sales to drive growth in 2014. With close to half citing an improved business model as a reason for growth, it is interesting to note that in the past year only 18 per cent of Malaysian businesses had changed their business model. This infers that many will look to improve their business model over the coming year. With only 31 per cent of Malaysian businesses expecting the Malaysian economy to grow in 2014, it would be prudent for businesses to start improving their business model early if their business is going to grow in a potentially challenging 2014. Larger and older Malaysian businesses are significantly more likely to attribute their growth prospects to their capital equipment than smaller and younger Malaysian businesses.
- Of the New Zealand businesses that are expecting to grow in 2014 (like their Australian counterparts), many are expecting that growth to come from increased sales. However, given only a small percentage of New Zealand businesses have increased their marketing in the past 12 months, many may find their expectations of increased sales in 2014 unrealised unless they increase their marketing spend.
- Information, media and telecommunications businesses are significantly more likely than other businesses to attribute their belief that their business will grow in 2014 to a positive overall economic environment.

Figure 4: Why small businesses do not expect their business to grow

Question 3-5: And which of the following best describes why you expect your business to remain static or decline next year? (Multiple responses) (Australia n=213, Hong Kong n=202, Indonesia n=59, Malaysia n=98, New Zealand n=123 and Singapore n=128)



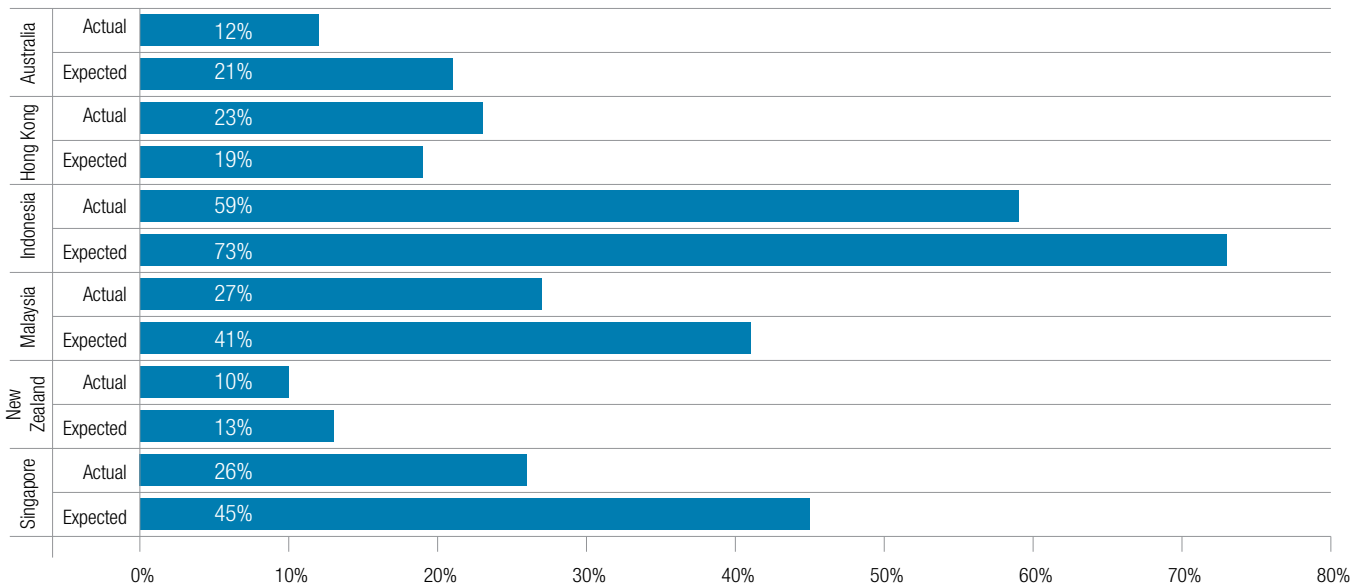
- Increasing costs was an important reason businesses in Malaysia, Singapore, Hong Kong and Australia believe their businesses will remain static or decline in 2014.
- Poor overall economic conditions was a significantly more important factor in influencing whether a business thought they would remain static or decline in 2014 in Australia and Malaysia than elsewhere. For Australian respondents, the below average growth in the economy (including the mining sector) may have contributed to this perception.
- Of the 32 per cent of Malaysian small businesses expecting no growth or to decline in 2014, increased competition was a significantly more important reason for this than other markets. However, with many Malaysian businesses indicating they are investing in capital assets, increasing their marketing activity and giving priority to innovation (possibly due to government incentives to encourage innovation), they may be underestimating their ability to respond to competitive pressures.
- Increasing rent was cited as an important reason why businesses in Hong Kong believe their business will not grow in 2014. This demonstrates the adverse impact increasing rental pressure is having on many Hong Kong businesses.
- Given the rhetoric around red tape, particularly in Australia, it is surprising that only a small percentage of businesses believe that over regulation will lead to their business not growing in 2014. This may reflect that small businesses see this as an issue outside their control and therefore they are more likely to nominate business issues they have greater control over, such as costs. This result does not diminish the importance of governments reducing unnecessary regulatory burden as it is having an impact on the ability of some small businesses to grow in all markets.
- The vast majority of Australian and New Zealand businesses do not believe their business model is impacting their ability to grow. If a business believes it will not grow for any length of time, good business practice is to review their business model to see whether it needs to be changed to bring the business back to growth.
- Political instability was more likely to be seen as a potential impediment to business growth in 2014 in Malaysia and Indonesia than other markets. With presidential and parliamentary elections taking place in Indonesia in 2014, this is understandable.
- Given the lower propensity of Australian and New Zealand small businesses to invest in capital assets, it is surprising that ageing capital equipment is not seen as a more important impediment to business growth in those markets.
- With 64 per cent of Hong Kong businesses expecting to decline or remain static, the highest of all markets surveyed, increasing costs and rent as well as increasing competition are the main areas of concern for these businesses. With 25 per cent of all Hong Kong businesses reviewing margins and 37 per cent increasing marketing and 34 per cent reviewing operating expenses, it appears that Hong Kong businesses could do more to improve business performance to help them offset these concerns.
- With the exception of New Zealand respondents, about a fifth of businesses who believe their business will not grow in 2014 attribute this to a lack of government support or incentives for their forthcoming predicament. While governments can influence business success, the success of business is largely in its own hands, not government and businesses should be focused on business activities they have control over to grow their business.
- Australian businesses where a senior manager and not the business owner responded were significantly more likely to attribute the reason for not expecting to grow in 2014 to the overall expected economic environment. Larger businesses were significantly more likely than smaller businesses to attribute increasing costs as a reason for not expecting growth.

- Where Hong Kong respondents were senior management rather than the business owner, they were significantly more likely to attribute the expected lack of growth in their business to increasing costs. Hong Kong businesses with an annual turnover less than HK\$1.5 million were significantly more likely to attribute their lack of growth in 2014 to increasing costs, while businesses with more than HK\$12 million in turnover were significantly more likely than smaller businesses to believe their business model and problems with suppliers would lead them not to grow in 2014. Hong Kong businesses that have been established for more than 20 years were significantly more likely than younger businesses to attribute their expected lack of growth in 2014 to ageing capital equipment, problems with their business model, problems with suppliers, problems accessing finance, over regulation and lack of government support and incentives.
- Larger Singaporean small businesses were significantly more likely to identify increasing rent as a reason they think their business will not grow in 2014 than smaller businesses. Businesses established for less than five years were significantly more likely to identify increasing competition as a reason they believe their business will not grow in 2014 than more established businesses.
- Wholesale trade businesses are the most likely to attribute their expected non-growth in 2014 to increasing costs, competition and rent. Retail trade businesses were also more likely than most to blame those issues. Agriculture, forestry and fishing businesses were the most likely to nominate a lack of government incentives and overregulation as reasons they believe their business will not grow in 2014.
- It should be noted that there were a number of businesses, particularly in Australia and New Zealand, that indicated they were more than happy that their business was not growing, reflecting the theory that many people start or buy an existing small business for lifestyle reasons. Some respondents, again predominately from Australia and New Zealand, also indicated that they are pursuing a deliberate strategy of shrinking their business as they prepare for retirement.

Small business employment

Figure 5: Percentage of small businesses increasing employee numbers – a comparison of expected versus actual for 2013

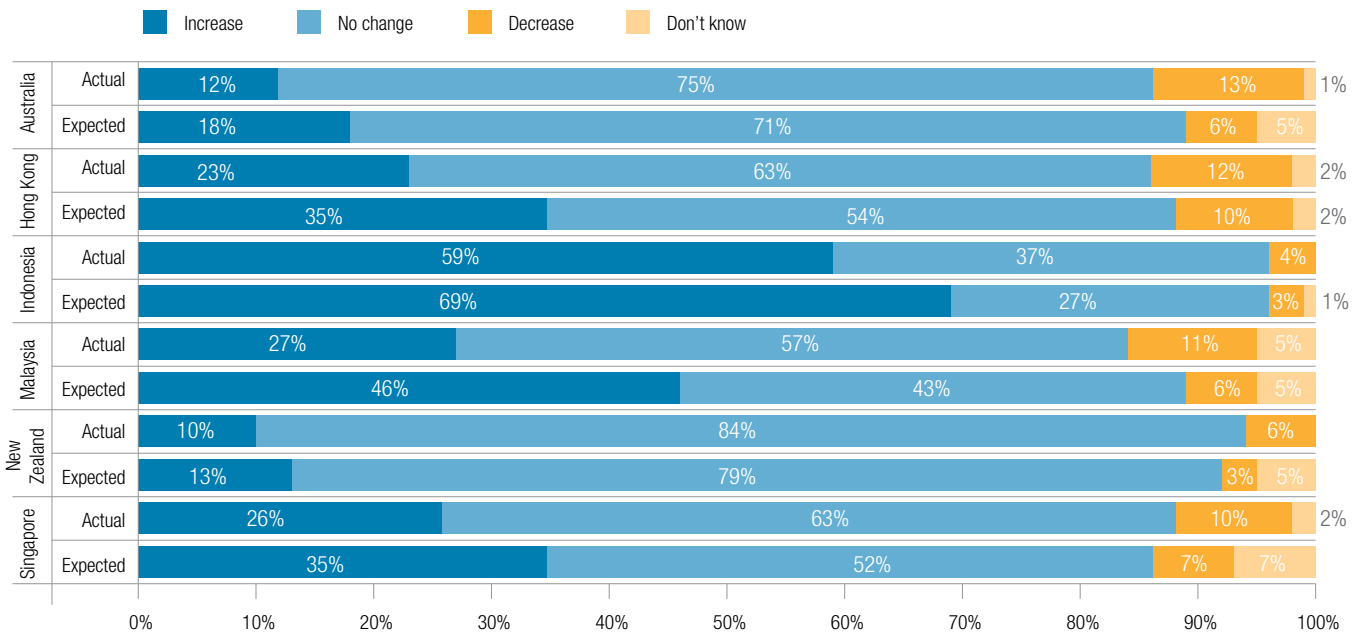
Question 3-6: *In the past 12 months, has your business increased employee numbers? (Single response) (Australia n=515, Hong Kong n=314, Indonesia n=349, Malaysia n=310, New Zealand n=307 and Singapore n=310)*



- As in previous years, Australian and New Zealand small businesses were the least likely to add employees in 2013 relative to the other markets surveyed. It may also be fair to assume that small businesses in both these markets have emphasised improving staff productivity as a substitute for increasing staff numbers.
- In contrast, small businesses from Asia appear to be a significant source of employment growth, particularly in Indonesia, most likely driven by very strong business confidence in that market.
- In comparing the expectations for employment growth for 2013 (as taken from the previous survey) with actual employment growth, Malaysian and Singaporean businesses significantly overestimated their recruitment needs in 2013. This is most likely due in part to economic conditions not being as favourable as expected, decreased margins due to increased costs, including staff costs and improved employee productivity.
- Reflecting the more entrepreneurial behaviour of businesses established less than five years, such businesses are more likely than older businesses to have employed additional staff in 2013. Younger respondents were significantly more likely than older respondents to have added staff in 2013.
- Given the strong confidence that Indonesian businesses had for their business in 2013, it is no surprise that such a large proportion added employees. Indonesian businesses with an annual turnover of IDR4.5 billion to IDR10 billion were significantly more likely than other sized businesses to have employed new staff in 2013. Having stated that, Indonesian businesses of all sizes were very likely to have employed staff in 2013.
- New Zealand businesses that have been trading for fewer years were somewhat more likely than older businesses to have added staff in 2013, although only a small percentage added staff.
- Reflecting the positive sentiment in the accommodation and food services industry and the labour intensive nature of that industry, businesses in that industry were the most likely to add staff in 2013. Conversely, wholesale trade businesses and manufacturing businesses were the most likely to reduce staff numbers in 2013.

Figure 6: Expected movement in employee numbers in 2014 versus the actual changes in employee numbers in 2013

Question 3-7: In the next 12 months, do you expect your business to increase employee numbers? (Single response) (Australia n=515, Hong Kong n=314, Indonesia n=349, Malaysia n=310, New Zealand n=307 and Singapore n=310)



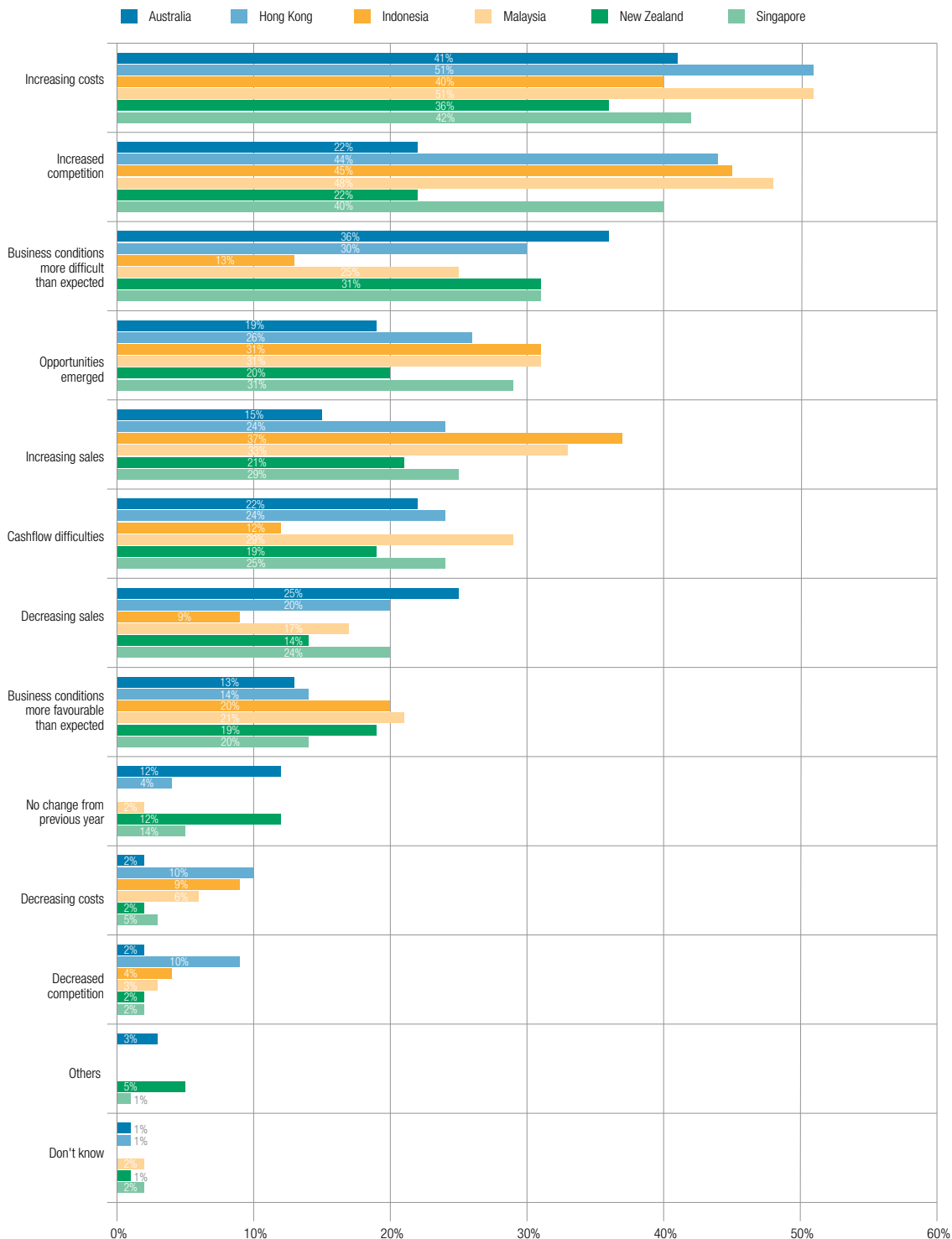
- All markets have more businesses expecting to increase the number of their employees in 2014 than actually increased staff in 2013, particularly in Malaysia.
- Australian and New Zealand small businesses remain less likely than those in other markets surveyed to expect to increase staff in 2014, however with businesses in those markets being less likely to reduce staff, the Australian and New Zealand small business sector should be a source of some employment growth in 2014. Small businesses in all the other markets will be a strong source of employment growth.
- Younger businesses in Australia, New Zealand and Singapore are slightly more likely than older businesses to expect to add staff in 2014.
- Hong Kong businesses that have been established over 20 years are significantly more likely to expect to add staff in 2014 than younger businesses. This is surprising given that Hong Kong businesses established over 20 years are the most pessimistic about their business prospects in 2014. Such businesses should be looking to improve staff productivity before considering adding staff.
- With Indonesian businesses particularly confident about their business, it is of no surprise that such a high proportion expect to add staff in 2014. For Indonesian small businesses, those employing one to nine staff are by far the most likely to expect to increase staff in 2014.
- Accommodation and food services businesses and agriculture, forestry and fishing businesses are the most likely to expect to add staff in 2014, which is a reflection of the very positive outlook businesses in those industries have. Rental, hiring and real estate services businesses and health care and social assistance businesses are the least likely to expect to add staff in 2014.
- Not surprisingly, businesses that expect to grow in 2014 are much more likely to expect to add staff than other businesses, while those that expect to shrink are much more likely to expect to decrease staff numbers in 2014.

Small business environment

The small business environment in 2013

Figure 7: Issues shaping the small business environment in 2013

Question 3-1: Which of the following best describes the environment which your business has operated under in the past twelve months? (Multiple response) (Australia n=515, Hong Kong n=314, Indonesia n=349, Malaysia n=310, New Zealand n=307 and Singapore n=310)



- Increasing costs is a pressure point for businesses across all markets surveyed, particularly Hong Kong and Malaysia.
- Respondents in Asia are also much more likely to indicate they have faced increased competition than businesses in Australia and New Zealand. While such pressures cause problems for many businesses, it can also encourage a more innovative culture, which can position business for long-term growth. Australian and New Zealand businesses, due to their physical distance from other markets may have a less expansive view of who their competitors are than their counterparts in Asia, who are physically much closer to other markets and competitors.
- The business environment was more likely to be more difficult than expected in Australia. This is reflected in the 25 per cent of Australian businesses experiencing decreasing sales and the high percentage that experienced increased costs. Given most Australian businesses have not experienced increased competition; it is most likely that falling sales has been due to prevailing economic conditions, including poor consumer and business sentiment.
- Malaysia, Indonesia and Hong Kong were the markets most likely to be where opportunities emerged for small business in 2013. This does not mean that opportunities did not exist in other markets, however these small businesses may not have the expertise or focus to identify and act upon those opportunities.
- For Australia, businesses with nil employees were significantly less likely to have thought business conditions were tougher than expected and experienced increased competition than other businesses. Businesses with five to 19 employees were significantly more likely to have reported experiencing cash flow difficulties in 2013 than smaller businesses. Businesses that have traded less than five years were significantly less likely than older businesses to have experienced tougher trading conditions than expected and were significantly more likely to have seen opportunities emerge in 2013 and experience increasing sales.
- Where the Hong Kong respondent was a senior manager or accountant, they were significantly more likely to say that their business environment has been characterised by increased costs and increased competition than if the respondent was the business owner. Hong Kong businesses that have traded more than 20 years were significantly less likely than younger businesses to identify increasing costs as a factor in their business environment in 2013 and significantly more likely to describe their business environment as characterised by decreasing sales and decreasing competition than younger businesses. Hong Kong businesses with an annual turnover of HK\$1.5 million to HK\$6 million were significantly more likely than other businesses to characterise their business environment as dominated by increasing costs.
- Singaporean respondents who were senior managers were significantly more likely than if the respondent was the business owner to state that business conditions were better than expected in 2013 and that opportunities emerged. They were also more likely to state that they faced increased costs.
- Indonesian businesses with one to four staff, the business had traded less than five years, the respondent is aged under 30 and their annual turnover is less than IDR2 billion were significantly more likely to have stated that opportunities emerged in 2013 than other Indonesian small businesses.
- In Malaysia, larger businesses were more likely to have experienced increased costs in 2013 and those businesses with 10 to 19 staff were significantly more likely to describe increasing sales and increasing competition as issues impacting their business environment in 2013.
- New Zealand respondents from businesses with five to nine staff were significantly more likely than other sized businesses to have experienced increasing costs and increased competition in 2013. Respondents from businesses that have traded more than 20 years were significantly more likely to have stated business conditions were tougher than expected and faced increasing costs.
- Businesses from the wholesale trade industry were significantly more likely to describe their environment as being shaped by increased competition than any other industry, while businesses from health care and social assistance industry were the least likely to have experienced increased competition.

The business response to that environment

Table 3: How businesses responded to their business environment in 2013

Question 3-2: *In response to this environment, have you... (Multiple responses) (Australia n=515, Hong Kong n=314, Indonesia n=349, Malaysia n=310, New Zealand n=307 and Singapore n=310)*

	Australia	Hong Kong	Indonesia	Malaysia	New Zealand	Singapore
Reviewed operating costs	37%	34%	32%	37%	32%	35%
Increased marketing	20%	37%	37%	49%	22%	30%
Focused on improving customer retention	29%	29%	33%	35%	25%	26%
Grown your business	22%	25%	36%	38%	23%	30%
Entered new markets	20%	25%	24%	38%	15%	27%
Reviewed margins	24%	25%	15%	31%	19%	28%
Changed your business model	16%	27%	19%	18%	8%	18%
Invested in new capital assets	11%	15%	23%	26%	11%	16%
Changed suppliers	8%	16%	9%	11%	7%	13%
Shrunk your business	14%	12%	5%	8%	12%	9%
Moved premises	5%	14%	7%	10%	7%	14%
Decreased marketing	5%	9%	5%	5%	2%	7%
Exited markets	3%	9%	8%	5%	3%	5%
None of the above	17%	4%	0%	3%	21%	7%

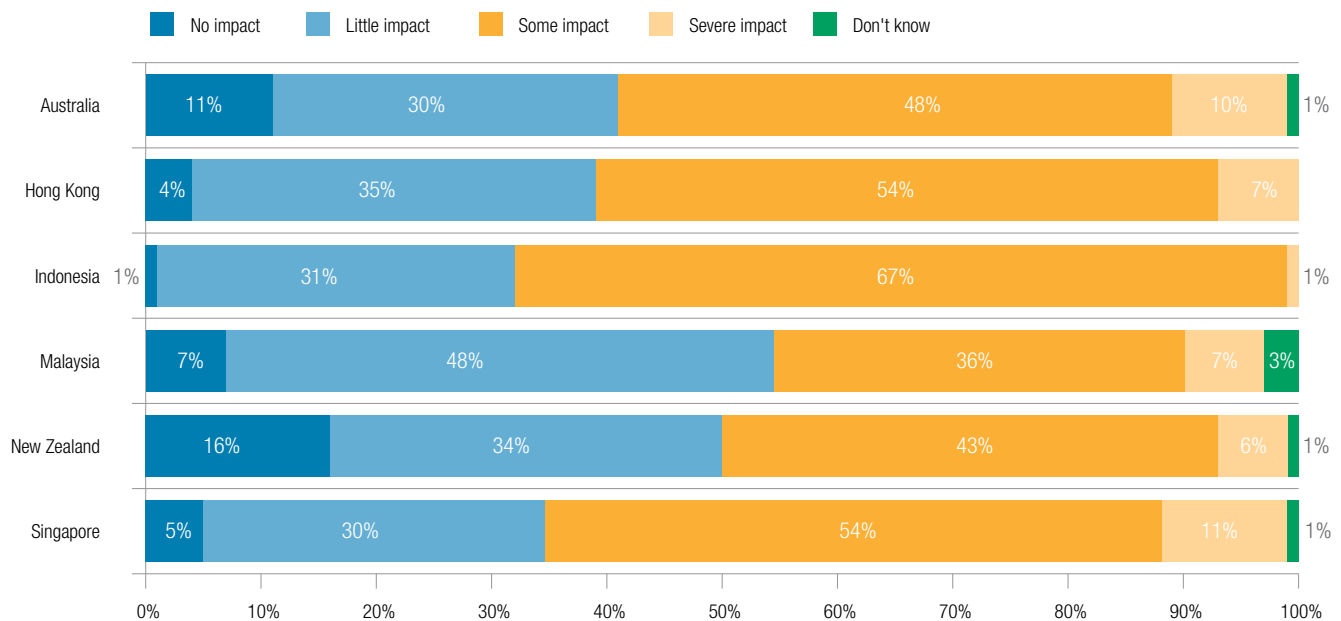
- Malaysian businesses were the most likely to increase marketing in response to their environment and Australian and New Zealand businesses were the least likely. This relatively low focus on marketing may be a consequence of Australian and New Zealand businesses experiencing less competitive pressure and noting increasing costs, they may view marketing as a cost rather than an investment.
- Malaysian and Indonesian businesses were the most likely to invest in capital assets in response to their business environment in 2013. This should help position such businesses for long-term growth.
- A high percentage of Australian and New Zealand businesses responded that they had not implemented any of the suggested changes in response to business conditions. This result is surprising given that both countries noted increasing costs and more difficult business conditions than expected when describing their business environment for 2013. Experience shows that good businesses are always adapting to changes in their environment and even trying to get ahead of such changes or shape such change.
- Australian and New Zealand businesses were significantly less likely to have grown their business in response to the business environment, especially when compared with Malaysia and Indonesia. This could demonstrate that business conditions in Australia and New Zealand presented few opportunities in 2013 and/or that due to difficult trading conditions over the last five years, they were unable to identify such opportunities and if they were able to identify opportunities, they were reluctant or unwilling to take advantage of opportunities.
- Malaysian businesses were significantly more likely to enter new markets. This could in part be due to the Malaysian Government introducing export incentives in 2013. Together with a high proportion of Malaysian small business investing in capital assets in 2013, growing their businesses, increasing marketing and focusing on customer retention, this potentially demonstrates that many Malaysian small businesses are well run and are well positioned for future growth.

- It seems that increasing rental pressure in Hong Kong and Singapore is leading to businesses in those markets being more likely than other markets to have moved premises in 2013.
- With more than half of Hong Kong and Malaysia businesses experienced increasing costs, it is disappointing to see that only approximately one third of businesses in both markets have reviewed their operating costs.
- The lack of focus on customer retention in all markets is disappointing. Customer retention is significant to maintaining and growing sales and profitability and is considered more cost effective than finding new customers.
- In Australia, the larger the business, the more likely they are to have responded to the business environment they faced with management practices such as cost control, reviewing margins, reviewing operating costs, changing suppliers or even shrinking their business.
- Consistent with what appears to be a more entrepreneurial focus for businesses that have traded for less than five years, those Australian businesses were more likely to have grown their business than older businesses (the survey results also showed that some Australian businesses that have traded for many years are happy not growing their business or are in the process of winding down their business in preparation for their retirement).
- Where the Hong Kong respondent was a senior manager, they were significantly more likely to have responded to the environment they faced in 2013 by increasing marketing than if the respondent was the business owner. Hong Kong businesses that have traded for more than 20 years were significantly less likely to have responded to this environment by changing their business model or increasing their marketing. Hong Kong businesses with an annual turnover of HK\$12 million or more were significantly more likely than other businesses to have responded to the environment by changing suppliers.
- Reflecting the possible greater professionalism of businesses with staff, Singaporean businesses with 10 to 19 employees were more likely than smaller businesses to have increased marketing in 2013, reviewed margins, reviewed operating costs, entered new markets and invested in new capital assets.
- In response to Indonesia's positive environment, Indonesian businesses that have one to four employees, businesses that have traded for less than five years, the respondent was under 30 and the business had an annual turnover of less than IDR2 billion were significantly more likely to indicate that they focused on improving customer retention, increased marketing, reviewed operating costs and entered new markets than other businesses.
- New Zealand respondents from businesses that had traded for more than 20 years were significantly more likely than younger businesses to have reviewed their operating costs.
- Businesses from the manufacturing and retail trade industries were most likely to have responded to their environment by reviewing operating costs. Retail trade businesses were also the most likely to have increased marketing. Agriculture, forestry and fishing businesses and construction businesses were the least likely to have grown their business in response to their environment in 2013. Arts and recreation services businesses were the most likely to have entered new markets in response to their environment.

The impact of costs on business

Figure 8: The impact increasing costs have had on business

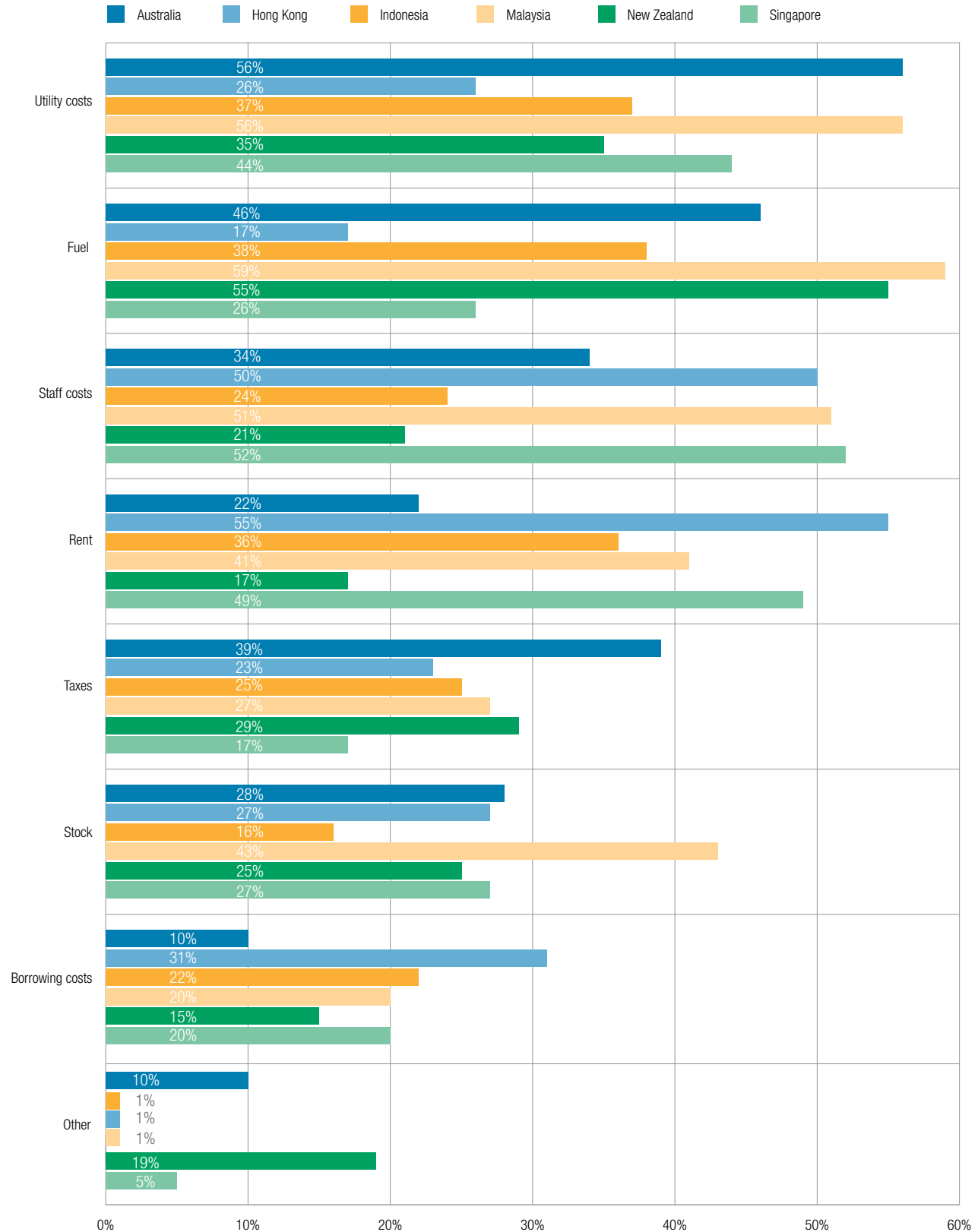
Question 3-8: Have increasing costs impacted your business in the past 12 months? (Single response) (Australia n=515, Hong Kong n=314, Indonesia n=349, Malaysia n=310, New Zealand n=307 and Singapore n=310)



- Increasing costs is most likely to have had some impact on businesses in Indonesia, Hong Kong and Singapore, however very few businesses in any of the markets surveyed reported the impact being severe. For Indonesia, while nearly all businesses described increased costs as having an impact on their business (which is not surprising given the relatively high inflation being currently experienced in Indonesia), only 40 per cent of businesses thought that it was an issue that impacted their business environment.
- The larger Australian business (in terms of employee numbers) and businesses established more than five years were more likely it is to have been affected by increasing costs in 2013.
- Hong Kong businesses were the most likely to say that increased costs had an impact on their business in 2013 and their business environment.
- Hong Kong businesses that have traded for more than 20 years were significantly more likely than younger businesses to say that increasing costs have had some impact on their business, which may help explain their high level of pessimism and unwillingness to increase marketing but does not explain why they are typically unwilling to change or improve business practices to help them manage cost increase. Hong Kong businesses with less than HK\$1.5 million in turnover were significantly less likely to state that increasing costs has had an impact on their business in 2013.
- Those businesses that expect to shrink in 2014 are significantly more likely to state that increased costs have had a severe impact on their business.

Figure 9: Which costs have had the most detrimental impact?

Question 3-9: And what cost increases have been most detrimental to your business?(Multiple choice) (Australia n=299, Hong Kong n=192, Indonesia n=237, Malaysia n=132, New Zealand n=150 and Singapore n=201)



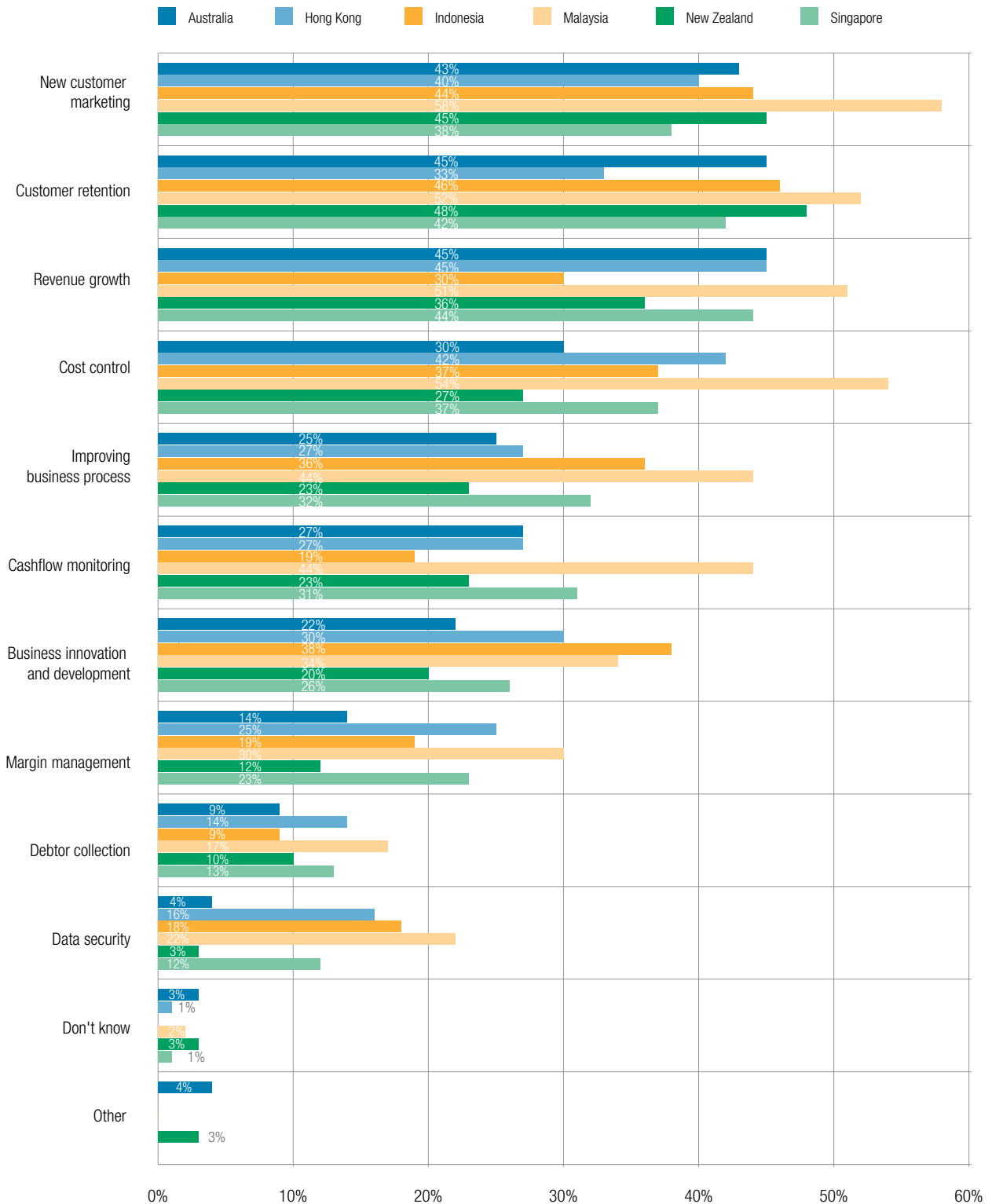
Of those businesses that reported “some” or “severe” cost impacts:

- Given the results from Hong Kong and Singaporean businesses to other questions within the survey, it is not surprising that rent was the cost most likely to have had a detrimental impact on Hong Kong businesses and the second most detrimental cost for Singaporean businesses.
- Australian small businesses nominated utility costs as the cost having the most detrimental impact on their business, this is likely due to the focus on the carbon tax. Taxes were also nominated as a cost having a detrimental impact on Australian businesses.
- Given the higher propensity of Asian businesses to employ staff than Australian and New Zealand businesses, it is expected that Singapore, Malaysia and Hong Kong nominated staff costs as being a more significant cost burden than Australian and New Zealand small businesses. Businesses can better manage the impact of staff costs on their business by having a stronger focus on improving staff productivity and more flexible staffing arrangements as an alternative to adding additional staff.
- Fuel costs are having a greater impact on markets heavily reliant on motor vehicles – Malaysia, New Zealand and Australia.
- Previous surveys have shown that Malaysian businesses seem to carry more stock than other markets, therefore it is not surprising that this is a cost that is significantly more likely to be having an impact on their business. Malaysian businesses should be looking at ways to reduce the inventory they carry and look to suppliers for cost savings.
- Borrowing costs are more likely to have a detrimental impact on Hong Kong businesses than elsewhere. This is expected given the high proportion of Hong Kong businesses that continue to borrow despite them reporting poorer economic conditions. This reinforces the need for many Hong Kong businesses to improve their working capital management in order to reduce their need to access external finance, particularly to reduce the need to borrow to cover tax payments, stock purchases and overheads.
- Hong Kong respondents that are senior managers were more likely to identify rent and staff costs as being the most detrimental to their business than respondents who were the business owner. Hong Kong businesses that have been trading for more than 20 years were significantly less likely to suggest rent and staff costs as having a detrimental impact on their business. Hong Kong businesses with more than HK\$6 million in annual turnover were significantly less likely to nominate rent as having a detrimental impact on their business, while businesses with more than HK\$12 million in turnover were significantly more likely to highlight taxes as having a detrimental impact.
- For Singaporean businesses with 10 to 19 staff, the costs that had the largest detrimental impact on their business in 2013 were staff costs, rent and utility costs. Respondents in this group were also significantly more likely than smaller businesses to nominate taxes and borrowing costs as having a detrimental impact on their business.
- Reflecting the strong demand for finance in smaller Indonesian business, Indonesian respondents with one to four staff were significantly more likely than larger business to nominate borrowing costs as having a detrimental impact on their business in 2013. Fuel costs were nominated as having a large detrimental impact on many Indonesian businesses with one to four employees, where the respondent was male and where the respondent was under the age of 30.
- For New Zealand respondents, the larger the business, the more likely they were to identify staff costs and rental costs as being detrimental to their business.
- Finance and insurance businesses, information, media and telecommunications businesses and wholesale trade businesses were the most likely to nominate rent as the cost that has had the most detrimental impact on their business in 2013. Staff costs were the costs having the most detrimental impact on manufacturing businesses.

Business priorities

Figure 10: Business priorities

Question 3-10: What are currently your business's highest priorities? (Multiple response) (Australia n=515, Hong Kong n=314, Indonesia n=349, Malaysia n=310, New Zealand n=307 and Singapore n=310)



- As expected, marketing to potential new customers is a high priority for many businesses in all markets surveyed.
- Hong Kong businesses place less emphasis on retaining existing customers than other markets. If revenue growth is a priority, which it is in Hong Kong, businesses cannot expect such growth to come from new customers alone.
- Cost control is a significantly higher priority in Malaysia than elsewhere. Given the cost pressures Hong Kong businesses report being under, it is surprising that cost control is not a higher priority. It is also surprising given the pessimism that many Hong Kong businesses reported that they are not placing a higher priority on improving business process, cashflow monitoring and margin management.
- It is positive that Indonesian and Malaysian businesses (and to a lesser extent Hong Kong businesses) are significantly more likely to place a higher priority on business innovation than the other markets. These businesses are well placed for future growth and to handle increased competition that many report they are facing. For Malaysia, this focus on innovation may be in response to recently announced government incentives for business innovation.
- The focus of many Malaysian businesses on key areas such as marketing, customer retention, revenue growth, cost control, improving business processes and cashflow management to offset the impact of increasing costs and competition is positive and demonstrates that many Malaysian businesses are well placed for future growth.
- For Australian respondents, those in management positions were significantly more likely to indicate that innovation was currently a business priority. Australian businesses with no employees were significantly less likely than larger businesses to focus on margin management, innovation, cashflow management monitoring, cost control and improving business processes. While it is understandable that sole traders find giving time to such practices difficult, such practices remain good business practices regardless of business size and are essential to the long-term sustainability of business.
- Hong Kong respondents that were senior managers were more focused on new customer marketing, innovation and cost control than if the respondent was the business owner. Businesses trading for more the 20 years were more likely to focus on debt collection, improving business performance and data security than younger businesses and focus less on revenue growth, which is understandable given their higher levels of pessimism.
- Singaporean businesses with 10 to 19 staff were significantly more likely than smaller businesses to put a priority on margin management, cost control, revenue growth and improving business processes. This would most likely reflect the increased probability of such businesses having professional staff such as accountants and management that can focus on such tasks. Singaporean businesses with a turnover of less than S\$250,000 were significantly more likely to have prioritised new customer marketing than larger businesses.
- Where the Indonesian respondent is the business owner and not a senior manager or accountant, the respondent is significantly more likely to nominate customer retention, new customer marketing, innovation, cost control, and revenue growth as a high priority.
- For Indonesian businesses that have one to four staff, the business has been trading less than five years, the respondent is under 30 and the business turnover in less than IDR2 billion, they are significantly more likely to nominate customer retention, new customer marketing, and innovation as a high priority. This bodes well for the future growth of Indonesia's smallest and youngest businesses.
- Malaysian business owners are much more focused on new customer marketing and customer retention than senior managers who responded to the survey. This is understandable given that in smaller businesses, managers are generally focused on management activities and owners are focused on growing the business. Malaysian businesses that have traded for less than five years have a stronger focus on new customer marketing, margin management, innovation, cost control and improving business processes than businesses that have traded for five to nine years.
- Retail trade businesses were the most likely to state that new customer marketing was their priority in 2013, while customer retention is the highest priority among wholesale trade businesses. Wholesale trade businesses are also the most likely to prioritise cost control, business innovation and improving business process. Rental, hiring and real estate services businesses, which are quite pessimistic, are the least likely to focus on business process improvement.
- Businesses that expect to grow in 2014 are more likely to have given priority to innovation, improving business processes and new customer marketing.

Small business access to finance

Businesses that have sought additional finance in 2013

Figure 11: Comparison of actual demand for external finance in 2013 with expected demand in 2013

Question 2-1: *In the last year, has your business required funds from external sources? (Single response) (Australia n=515, Hong Kong n=314, Indonesia n=349, Malaysia n=310, New Zealand n=307 and Singapore n=310)*

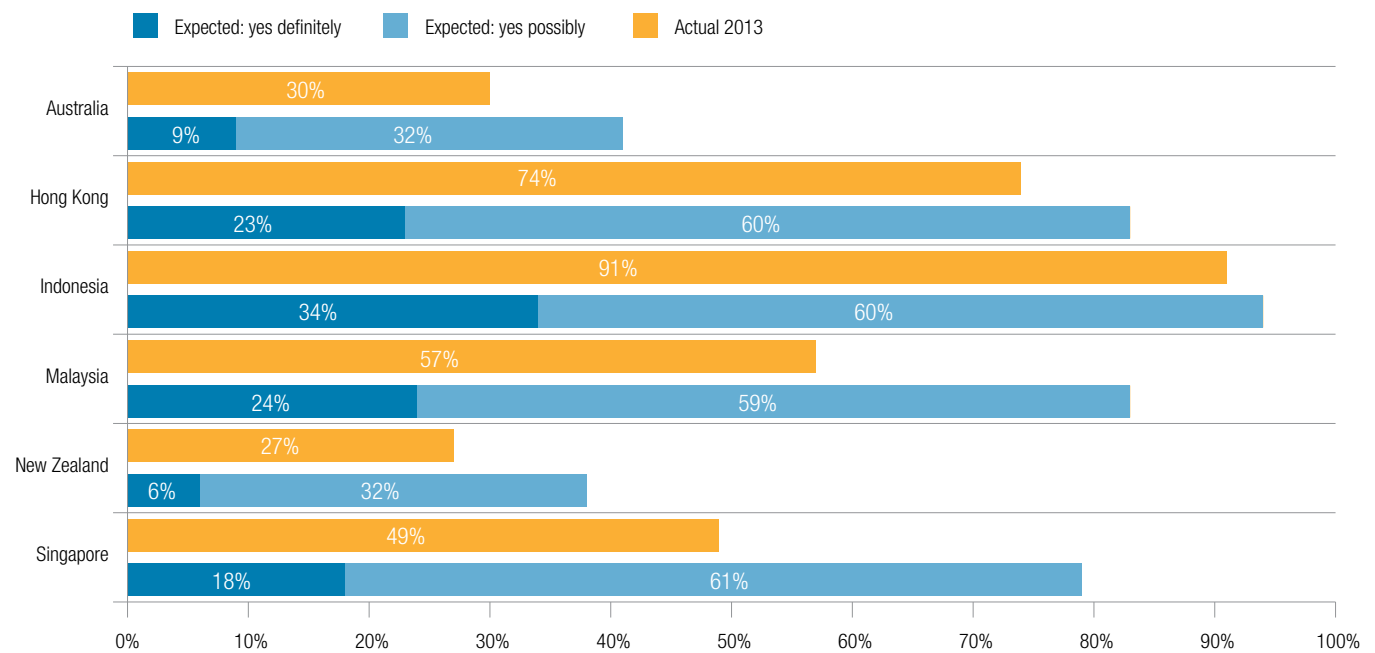
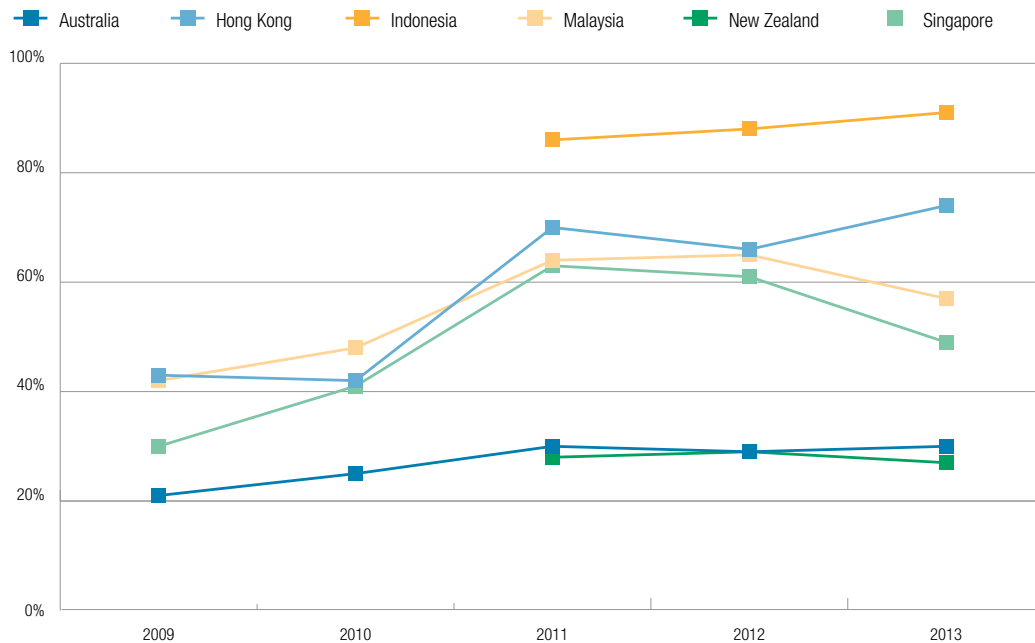


Figure 12: The percentage of businesses that have required external funds from 2009 to 2013[^] – market to market comparison



[^] The survey was not conducted in Indonesia and New Zealand in 2009 and 2010.

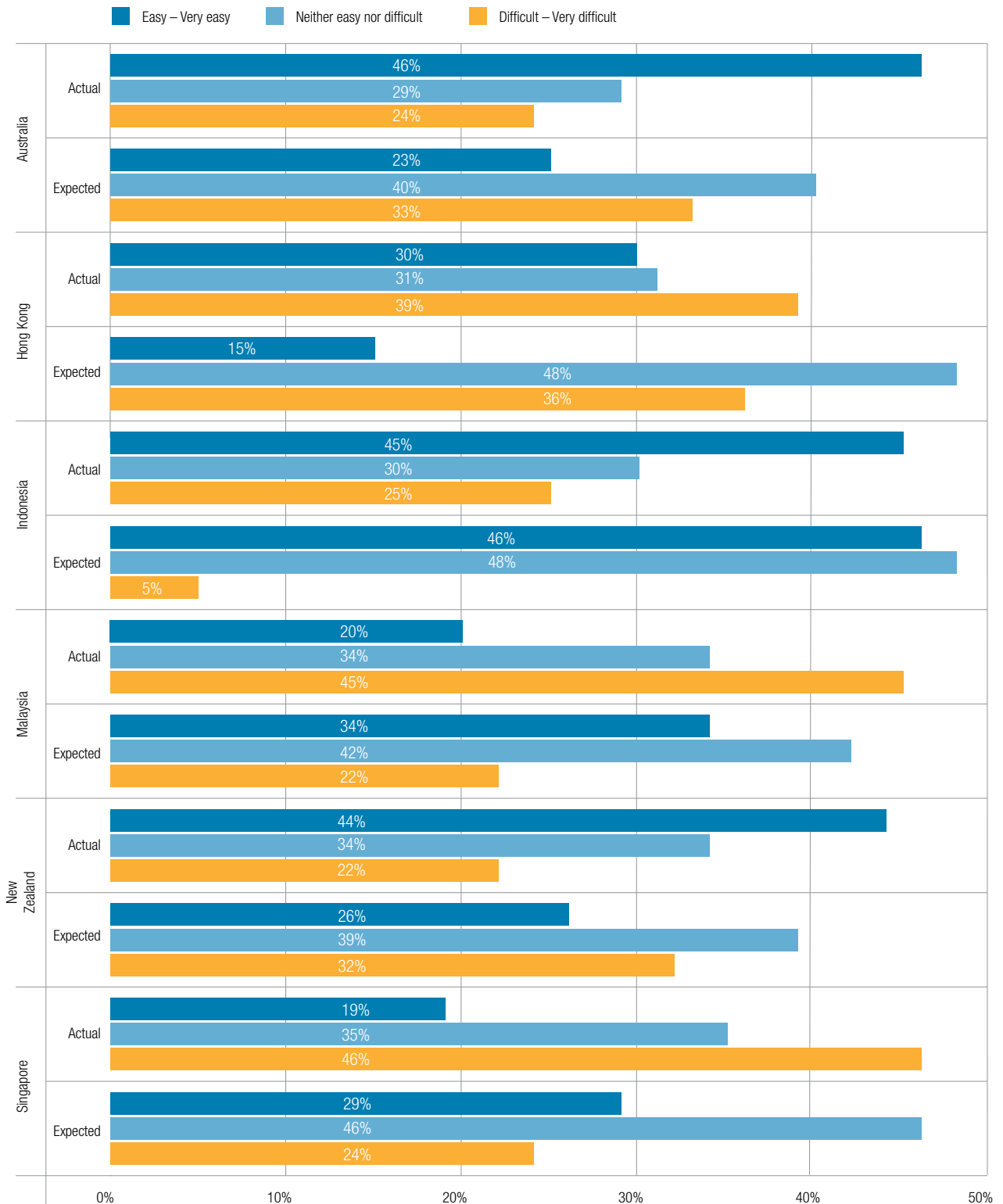
- It remains a concern to CPA Australia that more businesses in Hong Kong continue to take on debt in what appears to be a poor trading environment. This is difficult to understand as good business practice in such conditions would be for businesses to look at reducing their reliance on debt, as it appears to be occurring in Malaysia and Singapore. The survey results indicate that this trend, which emerged in the 2012 survey, may be due to a number of factors occurring simultaneously, such as revenue growth being impacted by a weaker economy, increased cost pressures, - especially rent and staff costs - and increased competition. This combination of factors may have led many Hong Kong businesses to not pass on these increased costs to their clients, in full or in part, adding financial pressure to their business. With many Hong Kong businesses not focusing on business management practices such as improving processes and cost control to help them best manage through these circumstances, not seeking professional advice and access to finance being easier than expected in 2013, external finance may seem to many Hong Kong businesses the best option for them to address their financial pressures. Such heavy reliance on external debt in volatile economic conditions can only add to the pressure on a business and expose the business to higher risk than if more of the business operations are funded from internal sources.
- The very high percentage of Indonesian businesses that sought external finance in 2013 reflects the high levels of confidence of Indonesian small businesses. The demand for external finance was very strong regardless of the business size.
- In comparison to the expected need for additional finance in 2013, the actual demand for finance by Malaysian and Singaporean businesses was well below their expectations for 2013, possibly reflecting that some businesses in those markets modified their activities due to less favourable than expected economic conditions, which is good practice. It should be noted that while the demand for external finance by Singaporean businesses dropped in 2013 from 2012, demand is still higher than 2009 and 2010.
- For Australian, Hong Kong, Malaysian, New Zealand and Singaporean small businesses, as in previous years, larger businesses are significantly more likely to have sought finance in 2013 than smaller businesses. Australian respondents under 40 are significantly more likely to have sought external finance in 2013 than older respondents, possibly indicating a more conservative approach among older respondents.

- Hong Kong and Singaporean businesses that have traded for fewer than five years are significantly less likely to have sought external finance in 2013 than older businesses.
- Singaporean and Malaysian respondents who were senior managers were significantly more likely than respondents who were business owners to state that they sought external funds in 2013.
- Businesses in the agriculture, forestry and fishing and transport and warehousing industries were the most likely to have sought external finance in 2013, while businesses in the rental, hiring and real estate services and retail trade were the least likely to have sought external finance.

Ease or difficulty in accessing finance

Figure 13: Ease or difficulty in obtaining finance in 2013 – actual versus expected

Question 2-4: Using the scale below, please indicate how easy or difficult it was for your business to access the external funding? (Single response) (Australia n=157, Hong Kong n=233, Indonesia n=317, Malaysia n=177, New Zealand n=82 and Singapore n=153)



- Accessing finance become substantially easier in Australia, Hong Kong and New Zealand in 2013 compared with the expected ease of accessing finance for 2013. While this easing resulted in increased borrowing by Hong Kong businesses, it has not resulted in any meaningful increase in the number of Australian and New Zealand small businesses that are borrowing, indicating a continued prudent approach, which may be costing those businesses growth opportunities.
- Lending conditions in Singapore and Malaysia became significantly tighter in 2013 than 2012 and tougher against expectations for 2013. This helps explain the drop in the percentage of businesses in those markets that required external funds in 2013 from 2012. Indonesia also became more difficult to access funds in 2013 from 2012, reflecting tighter credit market in Indonesia.
- Respondents to the Hong Kong survey who were senior managers or accountants found accessing finance significantly less easy than if the respondent was the business owner. Hong Kong businesses that have been trading more than 20 years were significantly more likely to have experienced easy lending conditions than younger businesses. The larger the Hong Kong business in terms of turnover, the significantly more likely they were to experience easy lending conditions in 2013.
- Singaporean and Malaysian businesses with 10 to 19 staff were significantly more likely to state that sourcing external funds in 2013 was easy than smaller businesses.
- Indonesian businesses with less than IDR2 billion in annual turnover were significantly more likely to report difficulty in accessing finance in 2013 than larger businesses.
- Businesses from the agriculture, forestry and fishing sector were significantly more likely to have experience easy access sector to finance in 2013, whereas businesses from transport and warehousing, construction and education and training industries were the most likely to have experienced difficult access to finance.

Reasons for seeking external finance

Table 4: Reasons for seeking external funds

Question 2-3: And which of the following best describe the reasons for requiring the external funds? (Multiple responses)
(Australia n=157, Hong Kong n=233, Indonesia n=317, Malaysia n=177, New Zealand n=82 and Singapore n=153)

	Australia	Hong Kong	Indonesia	Malaysia	New Zealand	Singapore
Business growth	31%	42%	44%	49%	37%	52%
To purchase capital assets	25%	26%	31%	40%	28%	37%
For business survival	23%	33%	30%	29%	24%	30%
To fund stock purchases	20%	23%	26%	41%	16%	29%
To cover increasing expenses	24%	29%	14%	32%	21%	35%
To cover increasing sales	8%	34%	16%	22%	5%	33%
To cover late payment from debtors	13%	24%	11%	15%	17%	22%
To cover increasing rental expenses	5%	25%	13%	13%	5%	26%
To cover tax payments	13%	16%	12%	8%	9%	15%
To service increasing cost on bank loans	4%	20%	11%	9%	1%	16%
Other (please specify)	5%	0%	1%	2%	10%	1%
Don't know	1%	0%	0%	0%	0%	0%

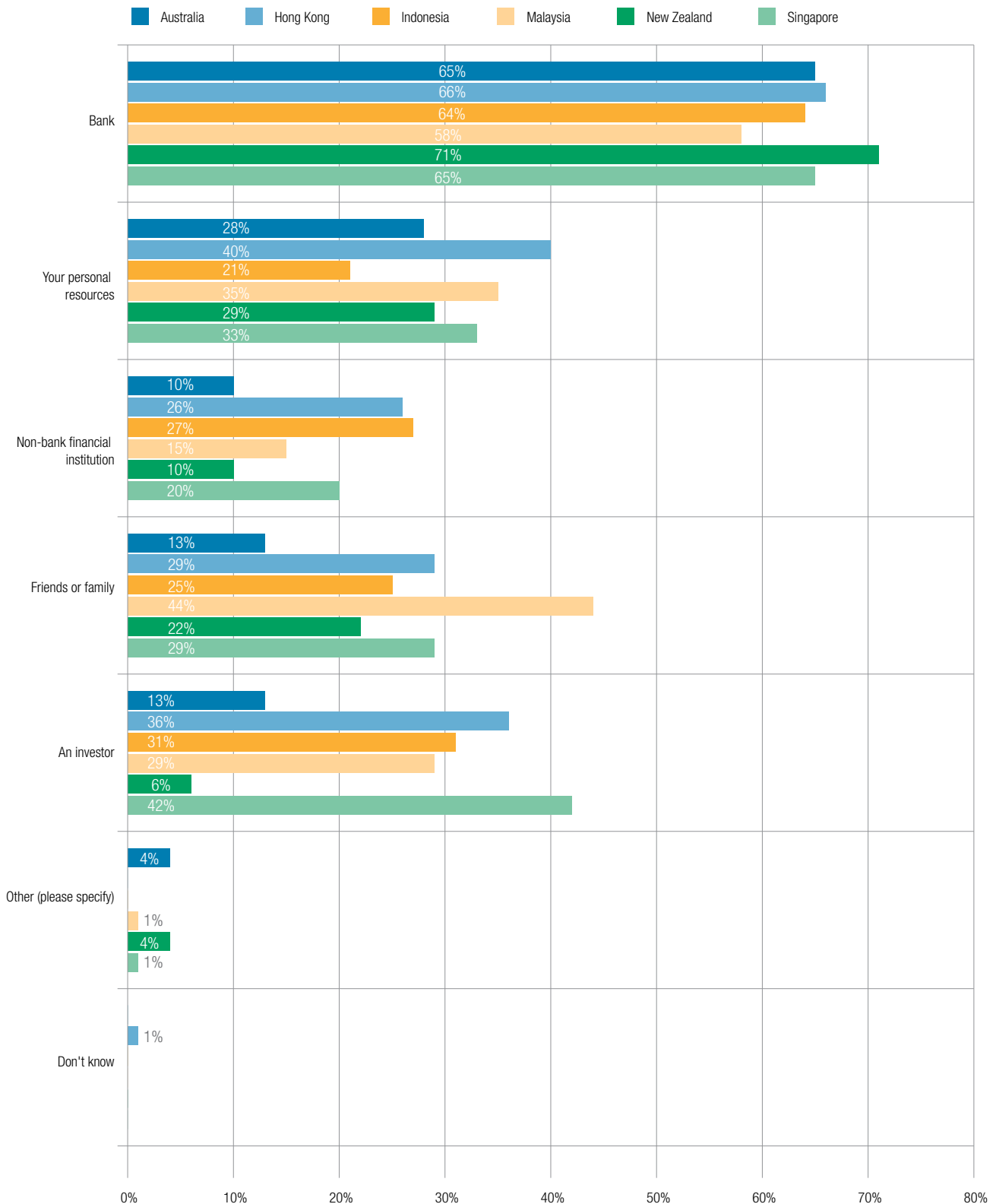
- Australian businesses were the least likely to have borrowed for growth, while Singaporean businesses were the most likely, overtaking Indonesia and Malaysia from the last survey. Hong Kong businesses were the most likely to borrow for business survival in 2013, further indicating the stress that many Hong Kong small businesses appear to be under.
- The likelihood of requiring external funds for growth declined significantly in Indonesia and Malaysia in 2013 from 2012 and rose substantially in New Zealand.
- While Malaysian businesses may not be as positive in 2013 as they were in 2012, a large number of businesses used external funds to purchase capital assets. Assuming such businesses have made appropriate investment decisions, this should help improve the chances of such Malaysian small businesses growing in future years.
- Borrowing to cover increasing expenses became less popular in 2013 than 2012 in all markets, with the exception of Singapore. This is positive as it indicates that more businesses are meeting increasing expenses out of cash flow.
- While borrowing to cover expenses may be down in Hong Kong, one quarter of businesses seem to be under pressure to borrow to meet rental expenses. Together with businesses in Singapore, many Hong Kong businesses seem to be suffering rental stress.
- The significant number of Hong Kong and Singaporean businesses that continue borrowing to service increasing borrowing costs is of concern. Such businesses need to look more at improving their cashflow to meet such expenses or reconsider their borrowing needs.

- With a significant drop in the percentage of Australian businesses seeking funding for survival in 2013 compared to previous years, this not only shows that businesses may not only be more confident but have also focused on consolidating existing business operations. Furthermore, Australian businesses have shown a marked improvement by being less likely to seek funds to cover increasing expenses, late payment from debtors and tax payments. Australian businesses trading between five to nine years are significantly more likely to have used external funds to purchase capital assets in 2013 than other Australian businesses, while businesses trading in excess of 20 years are significantly more likely to have borrowed funds to cover rental expenses than less established businesses. Respondents aged over 60 were significantly more likely than younger respondents to have sought external funds for business survival in 2013.
- Hong Kong respondents who were senior managers were significantly more likely to state that business growth was a reason for seeking external funds in 2013 than if the respondent was the business owner. Hong Kong businesses trading more than 20 years were more likely to state that they utilised external funds to cover late payments from debtors, to fund stock purchases and to service increasing debt costs than less established businesses. This is counterintuitive as more experienced businesses should have the management practices in place to reduce the need to borrow for those purposes.
- For Singaporean businesses, the survey shows an increase in businesses seeking finance for growth in 2013 from 2012, however the result is more in line with 2011 and earlier results. Singaporean respondents who were a senior manager or accountant were significantly more likely than respondents who were the business owner to state that external funds were used to purchase capital assets. Singaporean businesses that had 10 to 19 staff were also significantly more likely than smaller businesses to use external funds to purchase capital assets. These larger businesses were also significantly more likely to seek external funds for business growth and to cover increasing expenses and rental expenses. Singaporean businesses with under S\$250,000 in annual turnover were significantly more likely than larger businesses to have sought external finance for business survival.
- Indonesian businesses with one to four staff were significantly more likely than larger businesses to have accessed external finance in 2013 to purchase capital assets (which is a positive sign for long term growth for such businesses), to fund stock purchases and to cover late payments from debtors.
- Malaysian businesses with 10 to 19 staff were significantly more likely to seek external funds in 2013 for business growth purposes than other respondents. Malaysian female respondents were significantly less likely to source external funds to cover late payments from debtors than male respondents.
- Businesses from the accommodation and food services industry and the wholesale trade industry were significantly more likely than all other businesses to have sought external finance to fund business growth in 2013. On the other hand, businesses from the retail sector and the arts and recreation services were the most likely to have sought funds for business survival.

Sources of external finance

Figure 14: Sources of external finance

Question 2-2: And from which of the following sources were those “external funds” obtained? (Multiple response) (Australia n=157, Hong Kong n=233, Indonesia n=317, Malaysia n=177, New Zealand n=82 and Singapore n=153)

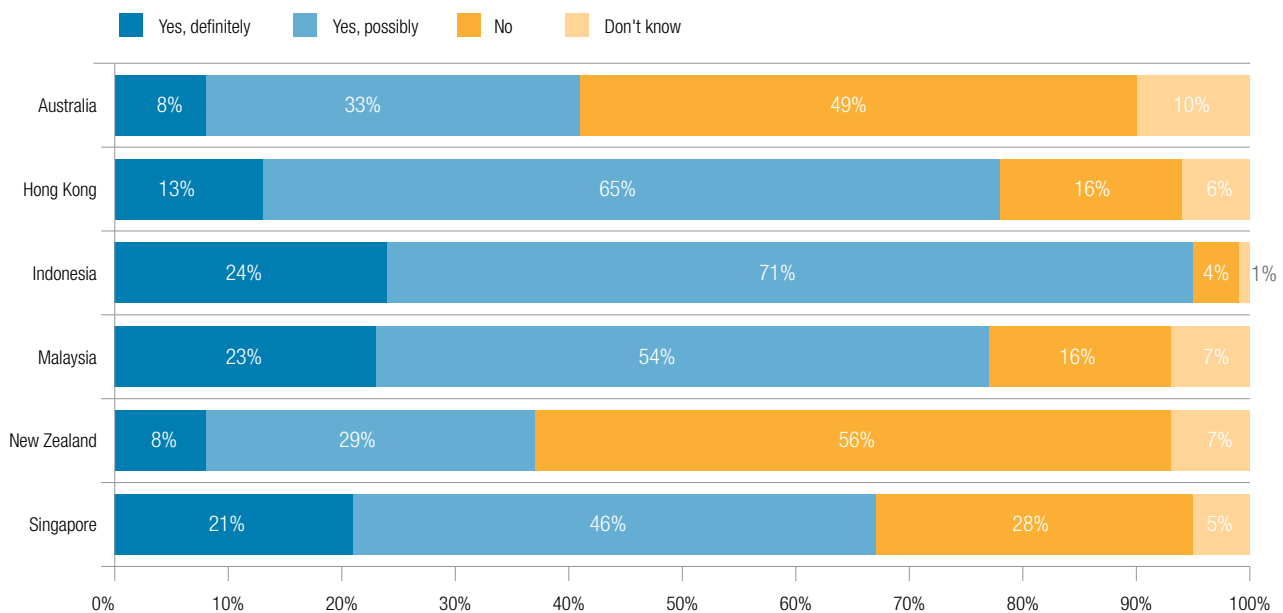


- Hong Kong businesses were the most likely to fund their business from their own personal resources. It is possible that some Hong Kong business owners are using their own personal resources to avoid having to implement better business practices which a bank, other financial institution or investor may insist on.
- There is a large increase in the percentage of New Zealand businesses using banks as a source of finance in 2013 from 2012, however there is little change in the reported ease of accessing finance in 2013 from 2012. However this should be viewed in the context of the low level of demand for finance by New Zealand small businesses.
- With the exception of New Zealand, small businesses in the other markets surveyed became less reliant on family and friends as a source of finance in 2013 from 2012. In some markets, easier access to finance from banks and other financial institutions may have led to this shift.
- It is interesting that businesses in Asia were more likely to seek an investor as a source of finance, with over 40 per cent of Singaporean businesses surveyed choosing this option. Given that Asian small businesses are on average larger than Australian and New Zealand small businesses, they may be of a size that is more likely to attract an investor.
- Hong Kong and Singaporean small businesses remain more likely to source external finance from multiple sources. This is a good risk mitigation strategy, however it does not come without issues, including increasing the costs of sourcing external funds.
- For Australian respondents, businesses with 10 to 19 employees were significantly less likely to seek external funds from their own resources, possibly reflecting a more professional approach to management of such businesses; hence such businesses are more likely to attract bank finance. It is also not surprising that Australian businesses that have traded less than five years rely much more on their own personal resources to fund their business and much less on other sources for finance (as lenders are more likely to view such businesses as a higher risk).
- Hong Kong businesses where the respondent was not the owner, the respondent was aged between 30 and 39, and the business has been trading between 11 and 20 years were significantly more likely to have sought finance from an investor, while businesses trading over 20 years were significantly less likely to have sought finance from a bank than younger Hong Kong businesses.
- As in Hong Kong, where the Singaporean respondent was a senior manager, such respondents were significantly more likely to seek external finance from an investor than where the respondent was the business owner. Larger Singaporean small businesses were also significantly more likely to seek external funds from an investor than smaller businesses and less likely to have approached family and friends for finance. Singaporean businesses trading fewer than five years were more likely to have approached an investor for finance and significantly less likely to use bank financing.
- Indonesian businesses with 10 to 19 staff were significantly more likely to have approached an investor for finance than smaller businesses and they were significantly less likely to have financed the business through a bank. Indonesian businesses trading for less than five years were significantly more likely to seek finance from an investor or family and friends and significantly less likely to have utilised bank finance. As in other markets surveyed, as an Indonesian business gets larger, the importance of family and friends as a source of finance diminishes.
- The larger the Malaysian business, the significantly more likely they are to have sourced finance from a bank. The same is also the case where the respondent is a senior manager and not the business owner. Unlike other markets, family and friends remains a popular source of finance regardless of size.
- Businesses from the accommodation and food services industry were the most likely to source their funds from banks but also highly likely to source funds from family and friends. Businesses in transport and warehousing and the arts and recreation services were significantly more likely to have sought finance from an investor than businesses in other industries. As a corollary, businesses in the arts and recreation services were the least likely to seek finance from a bank in 2013.

Expected financing needs in 2014

Figure 15: Expected demand for finance in 2014

Question 2-5: Do you envisage that your business will seek external funds over the next 12 months? (Single response) (Australia n=515, Hong Kong n=314, Indonesia n=349, Malaysia n=310, New Zealand n=307 and Singapore n=310)



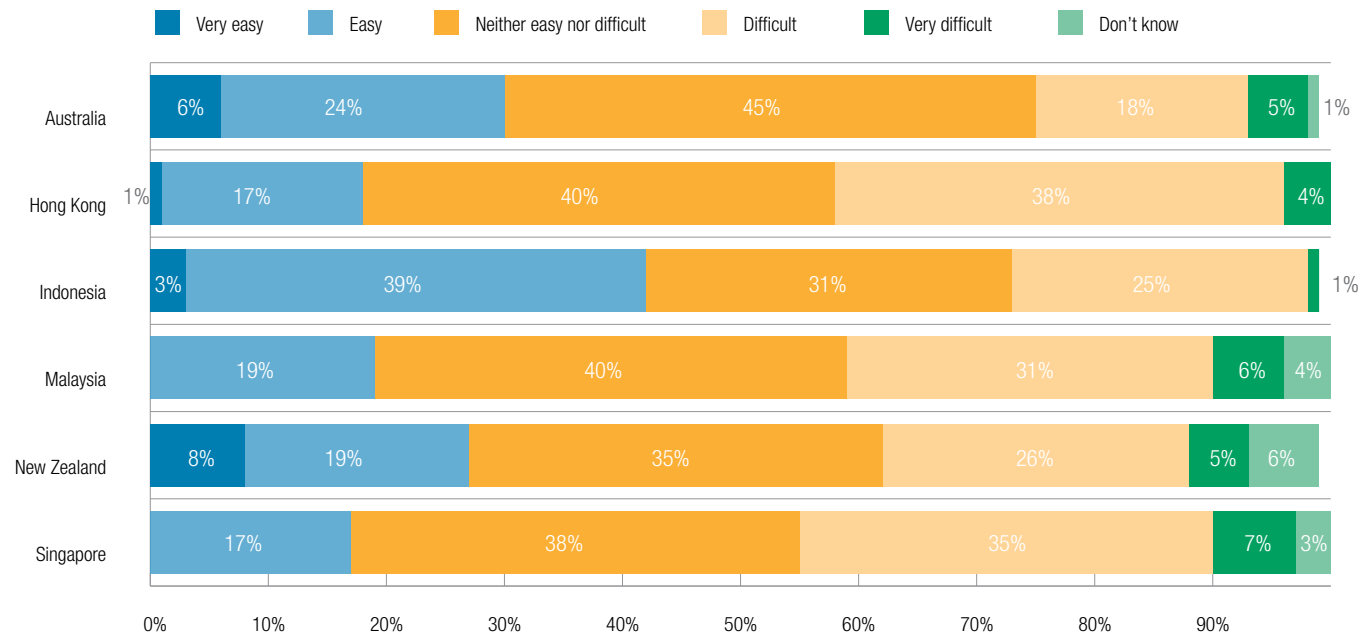
- It concerns CPA Australia that 78 per cent of Hong Kong businesses expect to require external funds in 2014 when their view of their business and the Hong Kong economy is typically not positive. This trend was also noted in the 2012 survey. In such an environment, a stronger focus on improving business performance would free up working capital and reduce the need for external finance.
- Given the strong expectations for the Indonesian economy, it is not surprising that such a large percentage of businesses are expecting to seek external finance in 2014. However, with economic forecasts predicting slower growth in 2014, Indonesian businesses need to be wary, ensuring that they enter the market for funds only when required and may well be better off focusing on improving business practices and working capital in the short term.
- While lending conditions appear to be becoming easier in Australia, this has not translated to an expected increase in business borrowing. This could be due to a conservative approach by Australian businesses and concern over the sustainability of any rebound in the economy. Australian respondents who were senior managers were significantly more likely to say their business would seek finance in 2014 than if the respondent was the owner. Further, the older the Australian respondent is, the less likely they are to expect to seek external funds in 2014.
- There is a reasonable fall in the percentage of Singaporean businesses expecting to borrow in 2014 compared to the expectations to borrow in 2013. This possibly indicates that some Singaporean firms are modifying their plans in response to a less optimistic view for the economy and their business.
- Hong Kong businesses with less than HK\$1.5 million and over HK\$12 million turnover indicate that they are significantly less likely to expect to seek finance in 2014 compared to other businesses, however regardless of size or level of business confidence, Hong Kong businesses are more likely than not to expect to access funds in 2014.
- In Singapore and Malaysia, the smaller the business, the significantly less likely that business is to expect to seek finance in 2014. Singaporean businesses that have traded for more than 20 years were also significantly less likely to expect to seek finance in 2014 than less established businesses.
- Indonesian small businesses that have traded for less than five years and under have IDR2 billion in annual turnover were significantly more certain that they would seek finance in 2014 than older and larger businesses.

- For New Zealand businesses, larger businesses are somewhat more likely to expect to seek external funds in 2014 than smaller businesses. Respondents over 60 were significantly less likely than younger respondents to expect to borrow in 2014.
- Largely reflecting industry results for the demand for external funds in 2013, businesses from the administrative and support services industry, transport and warehousing and agriculture, forestry and fishing are the most likely to expect to seek external finance in 2014, whereas businesses from the rental, hiring and real estate services industry were the least likely to expect to seek finance in 2014.
- Not surprisingly, businesses that expect their business to grow in 2014 are significantly more likely to expect to seek external funds in 2014 than those that do not expect to grow. This shows that the propensity of Hong Kong businesses to borrow regardless of their outlook for their business is very much a Hong Kong issue.

Expected ease or difficulty in accessing external funds in 2014

Figure 16: Expected ease or difficulty in accessing external funds in 2014

Question 2-9: Using the scale below, please indicate how easy or difficult you think it is going to be for your business to raise or borrow the external funds over the next 12 months? (Single response) (Australia n=211, Hong Kong n=245, Indonesia n=333, Malaysia n=237, New Zealand n=114 and Singapore n=206)



- Indonesian, Australian and New Zealand businesses are the most likely to expect lending conditions will be easy or very easy in 2014. While lending conditions appear to be becoming easier in the minds of Australian and New Zealand respondents, this however is not reflected in an increase in demand for external funds.
- Respondents in Singapore, Malaysia and Indonesia expect access to finance conditions to tighten in 2014, compared to 2013. This is not surprising given some of the recent pressures the credit market in those countries have been under, including recent increases in interest rates in Indonesia. For Singapore in particular, this expected increase in difficulty is leading some to modify their borrowing expectations, which is an appropriate response that other businesses can learn from.
- Australian businesses that have five to 19 staff were significantly more likely than businesses with less staff to indicate that financing will be difficult in 2014. Those Australian businesses that have existed more than 20 years were significantly more likely than other businesses to indicate that accessing finance in 2014 will be easy and respondents over 50 were also significantly more likely to expect lending conditions to be easy in 2014 compared to younger respondents.
- Hong Kong respondents who were business owners were significantly more likely than senior managers or accountants to expect lending conditions to be difficult in 2014. This was also reflected in businesses with five to nine staff, businesses trading more than 20 years and respondents in the 30 to 39 age group. Meanwhile, businesses with more than HK\$6 million in annual turnover were significantly more likely than smaller businesses to expect lending to be easy in 2014.
- In Malaysia and Singapore, the expected ease of accessing finance in 2014 increases with the size of the business (by staff numbers).
- Malaysian respondents who are senior managers were significantly more likely than business owners to expect lending conditions to be easy in 2014.
- Interestingly, businesses from the arts and recreation services industry, who are more likely to expect to seek finance from an investor than a bank, were the most likely to expect lending conditions to be easy, indicating a long-standing relationship with potential investors. On the other side of the equation, businesses from the transport and warehousing industry are significantly more likely to expect financing conditions to be difficult than any other industry.
- Not surprisingly, businesses that expect to grow in 2014 are significantly more likely to expect access to finance to be easy and vice versa for businesses that expect to shrink.

Reasons for expecting to obtain finance in 2014

Table 5: Reasons for expecting to obtain finance in 2013

Question 2-7: And which of the following best describe the reasons why you believe your business may seek external funds over the next 12 months? (Multiple responses) (Australia n=211, Hong Kong n=245, Indonesia n=333, Malaysia n=237, New Zealand n=114 and Singapore n=206)

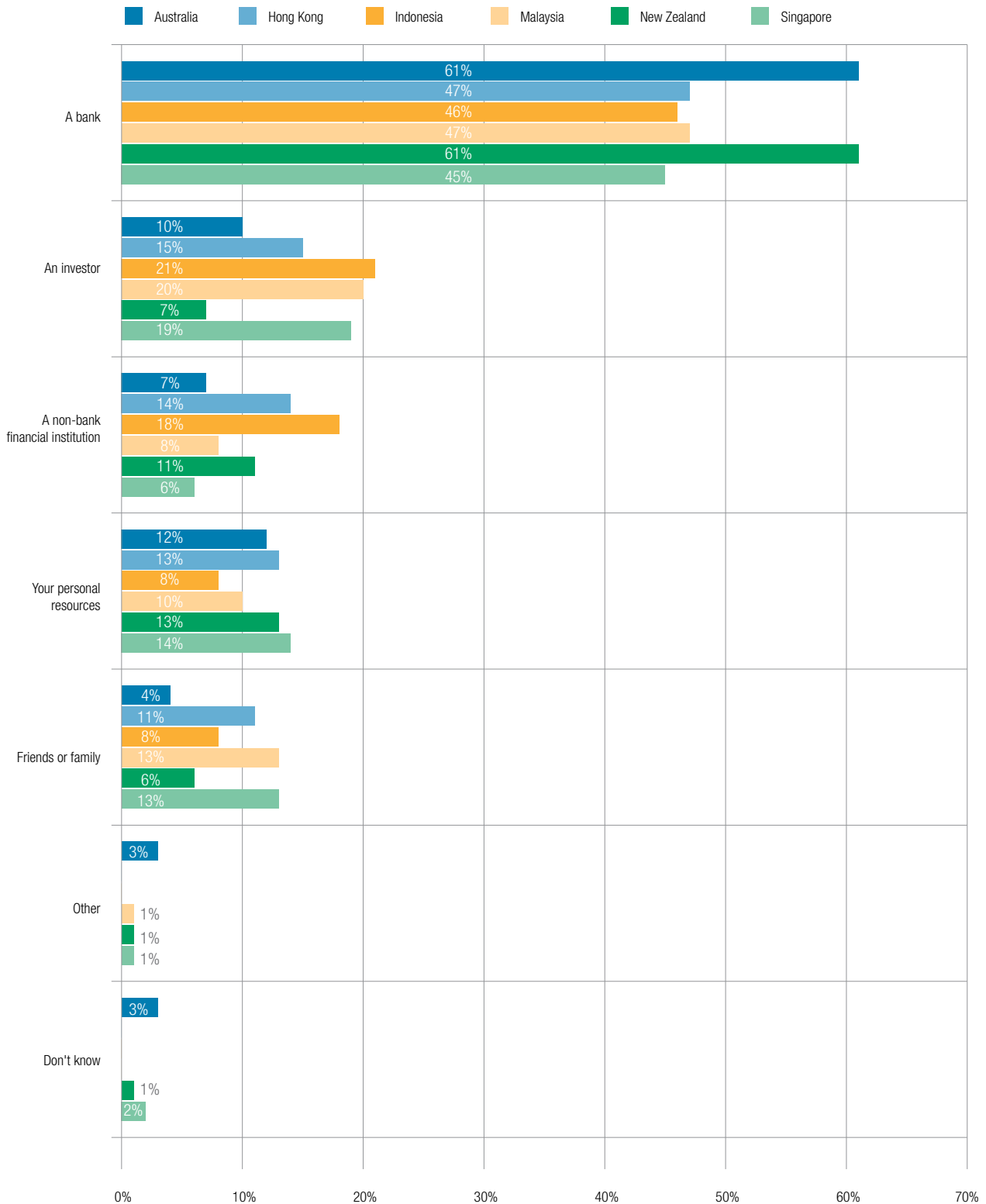
	Australia	Hong Kong	Indonesia	Malaysia	New Zealand	Singapore
Business growth	45%	42%	49%	52%	46%	53%
To purchase capital assets	31%	25%	26%	35%	31%	28%
For business survival	21%	30%	33%	27%	14%	28%
To cover increasing expenses	18%	27%	12%	34%	16%	33%
To fund stock purchases	16%	16%	26%	38%	15%	20%
To cover increasing sales	11%	36%	16%	24%	8%	25%
To cover increasing rental expenses	5%	23%	14%	16%	4%	23%
To cover late payment from debtors	9%	17%	9%	16%	11%	18%
To cover tax payments	9%	16%	9%	11%	6%	12%
To service increasing cost on bank loans	3%	16%	12%	7%	3%	16%
Other (please specify)	3%	0%	0%	2%	6%	0%
Don't know	0%	1%	0%	1%	0%	0%

- Only Singaporean and New Zealand businesses are more likely to expect to seek external funds for business growth purposes in 2014 than in 2013.
- The percentage of Australian businesses that expect to borrow for business growth purposes in 2014 is significantly higher than the percentage that actually borrowed for business growth purposes in 2013. The survey shows a similar result in New Zealand, possibly reflecting heightened optimism in both markets. Australian and New Zealand businesses also indicate that they are more likely to borrow to purchase capital assets in 2014 than in 2013 and are significantly less likely to expect to seek external finance for business survival in 2014 than Asian businesses.
- It is positive for the medium to long-term future of Malaysian businesses that they are the most likely to expect to seek external finance for capital asset purchases in 2014.
- As in previous surveys, Indonesian businesses, while being very confident about the future, are also very likely to expect to borrow for business survival reasons.
- As in previous surveys, Malaysian businesses are also the most likely to expect to access external funds to purchase stock - better working capital management would reduce the need for many businesses to borrow to purchase stock.
- While Hong Kong businesses are mostly negative about 2014, they are the most likely to expect to borrow to cover increasing sales. The survey indicates that while they may be expecting to sell more in 2014, margins will be tight as cost pressures, including rent, remain high, thus increasing sales for many Hong Kong businesses may unfortunately not result in increased profits. Just one-third of Hong Kong businesses indicated that they focused on retaining existing customers in 2013 as well as the same number indicating that they increased marketing, so it is difficult to see where this increase in sales will be generated from.
- Interestingly, smaller Australian small businesses (in terms of number of employees) are more likely to expect to seek funds over the next 12 months for business growth and to purchase capital assets. Younger businesses (those trading less than five years) are also more likely to expect to borrow for business growth in the next 12 months than older businesses.
- For Hong Kong, businesses that have traded for more than 20 years are more likely than less established businesses to expect to borrow in 2014 to fund stock purchases, to cover late payments from debtors and to cover increasing loan costs. Improving business processes, such as debt collection should reduce the need for such businesses to borrow for these purposes. A similar disappointing result was found for businesses with more than HK\$12 million in turnover. Respondents under 30 were significantly less likely to consider borrowing for growth in 2014 than older respondents.
- Malaysian and Singaporean businesses with 10 to 19 employees were significantly more likely to expect to seek external finance in 2014 to cover increasing rental expenses and to purchase capital assets than smaller businesses. Seeking external finance to help cover increasing expenses was a significantly more important reason to expect to access finance for Singaporean businesses who have been trading less than five years than older businesses.
- Indonesian small businesses with one to four staff, trading less than five years and the respondent is under 30 are significantly more likely to expect to borrow in 2014 for business growth and business survival than other businesses.
- New Zealand respondents over 60 were much more likely than younger respondents to indicate that they expect to borrow in 2014 to cover late payment from debtors.
- Reflecting the industry results on reasons for seeking finance in 2013, businesses from the accommodation and food services industry are the most likely to expect to seek finance in 2014 for business growth, while businesses from the rental, hiring and real estate services industry are the least likely to expect to seek external finance for growth. However, businesses from the rental, hiring and real estate services industry are also the most likely to expect to seek finance to purchase capital assets, which will place many businesses in that industry on the right path for future growth.
- Businesses that expect to grow in 2014 are more likely to use those funds for business growth, purchasing capital assets and stock purchases. Businesses that expect to shrink in 2014 and who expect to seek funds in 2014 are more likely to use those funds to cover increasing rental expenses, to cover tax payments and to cover late payments from debtors. Better business practices should reduce the need for businesses to borrow to cover late payments from debtors.

Expected sources of external finance

Figure 17: The most likely sources of external finance in 2014

Question 2-6: Which of the following is likely to be the main source of those external funds for your business in the next 12 months?(Single response) (Australia n=211, Hong Kong n=245, Indonesia n=333, Malaysia n=237, New Zealand n=114 and Singapore n=206)

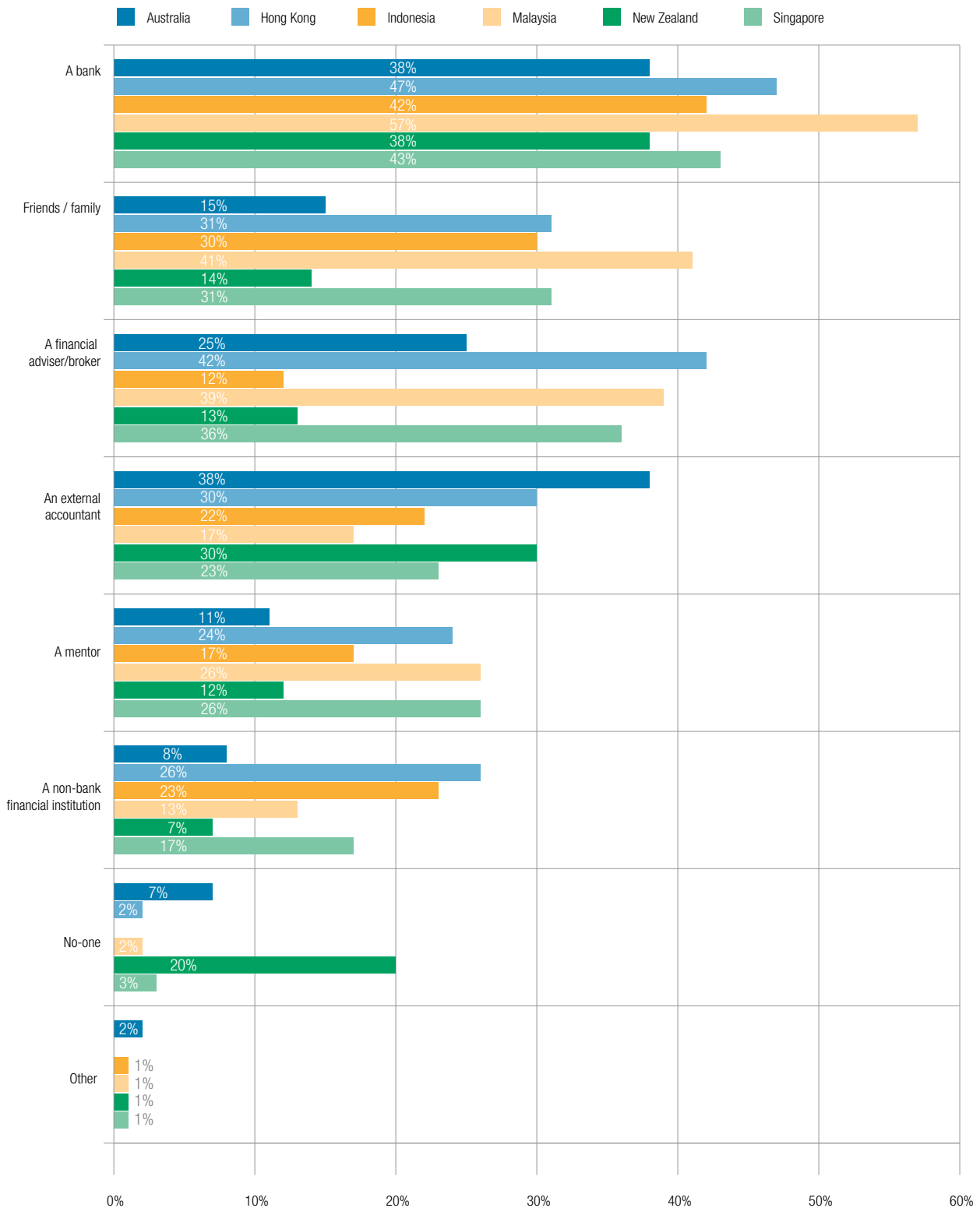


- Australian and New Zealand small businesses were much more likely to expect to rely on funds from banks than any of the Asian markets surveyed. Asian respondents were more likely than Australian and New Zealand businesses to expect to rely on external funding from investors or family and friends in 2014.
- For Australian respondents, those with nil employees are significantly more likely than other respondents to expect to source finance in 2014 from their own personal finance. The same goes for businesses trading less than five years, which is not surprising given their shorter history. Interestingly, female respondents were significantly more likely to expect to access funds from a bank in 2014 than male respondents.
- For Hong Kong, respondents who were the business owner were significantly less likely to nominate a bank as their main source of finance compared with senior managers and accountants. Hong Kong businesses trading for more than 20 years were significantly less likely than younger businesses to nominate a bank as their main source of finance in 2014.
- Singaporean respondents who were the business owner were significantly less likely to nominate banks as a source of finance, preferring instead to use their own personal resources. Larger Malaysian and Singaporean businesses are more likely to expect to seek finance from a bank in 2014 and much less likely to seek finance from family and friends and from the owner's personal resources. Not unexpectedly, Singaporean businesses trading less than five years are significantly less likely to expect a bank to be their main source of finance in 2014 in comparison to more established businesses. For Malaysian businesses, the larger the business, the more likely investors are expected to be a source in 2014.
- It is no surprise that as Indonesian businesses get larger (in terms of staff numbers), family and friends are a less important source of finance in 2014, with banks becoming a more important expected source of funds. Banks are also expected to be a significantly more important source of finance for younger respondents in 2014.
- While banks are the most popular expected source of finance in 2014, regardless of size, the popularity of banks as the main source of expected finance declines as the business gets older.
- Reflecting the industry results for the source of external funds in 2013, businesses from the arts and recreation services industry were significantly less likely to expect to seek funds from a bank than any other businesses and significantly more likely to seek funds from an investor.
- Businesses that expect to grow strongly in 2014 are the most likely to nominate that they will seek those funds from an investor and the least likely to nominate family and friends as a source of funds. Businesses that expect to shrink in 2014 and are seeking external funds are somewhat more likely to seek funds from family and friends than any other source.

Sources for advice on finance

Figure 18: Sources of advice on business financing

Question 2-8: If your business is considering seeking external finance, who will your business seek advice from? (multiple response) (Australia n=211, Hong Kong n=245, Indonesia n=333, Malaysia n=237, New Zealand n=114 and Singapore n=206)



- As a general comment, businesses of all sizes can significantly benefit from external professional advice, including from accountants. With many small businesses from around the region not seeking advice from an accountant on their business financing needs, it is difficult to see businesses also seeking advice from accountants on other aspects of their business. This may help explain why many businesses in all the markets surveyed are not focusing on good business practices, such as improving business processes and why businesses in markets that are having difficulty with higher costs are not necessarily taking steps to manage those costs or adapt their businesses to the environment. Accountants themselves should be more proactive in trying to sell their advisory services to small business.
- While external accountants remain a popular source of advice in Australia in 2013, accountants are a less popular source of advice than in previous surveys. Although slightly up on last year, Australian businesses preference for bank advice has seen a 12 per cent decline since 2010.
- As in previous years, with the exception of Australia, banks are the most popular source of advice on seeking finance. CPA Australia advise that where possible, small business also seek independent advice to help them make the best possible decision on their financing needs.
- Reflecting the long standing trend of the greater involvement of family and friends in Asian businesses in comparison to Australian and New Zealand businesses, family and friends remain an important source of advice in Asia.
- It is of concern that one fifth of New Zealand businesses would seek advice from no one if they are considering seeking external finance. This increases the risks that such businesses may get external finance that is not in their best interests or worse, may be wrong, possibly putting the business at risk.
- In 2013, Hong Kong businesses seeking advice from banks saw a large decline from 2012. In 2011, 48 per cent of Hong Kong businesses sought advice from external accountants, which has declined to 30 per cent in 2013. Reliance on family and friends has been steadily declining since 2010 when there were 43 per cent of businesses seeking advice from them to 31 per cent in 2013. Hong Kong female respondents were significantly more likely to nominate an accountant as a source of advice than male respondents.
- Half of Singaporean respondents have stopped using banks for advice since 2010, with 25 percentage point drop in the past year. The use of accountants peaked at 47 per cent in 2011. Additionally, the use of financial advisers has steadily declined since 2010 however the use of non-bank financial institutions has increased by 10 percentage points since 2010. Where the Singaporean respondent was a senior manager, where the business has more employees and has existed for more than five years, such businesses were more likely to expect to seek advice on external finance from a bank and/or an external accountant or a financial adviser.
- The reliance on friends and family for advice by Indonesian businesses has dropped dramatically this year and we have also seen a large decrease in those businesses seeking advice from a financial adviser or broker this year. Indonesian businesses, where the respondent is the business owner, that have one to four employees, been trading less than five years and the respondent is under 30 are significantly more likely to seek advice on their financing needs from family and friends than a professional.
- Malaysian businesses reported a slight increase in use of banks for advice from the previous year, however it is still below the peak of 63 per cent in 2010. Malaysian businesses, use of accountants for advice peaked at 65 per cent in 2011 and has dropped by almost 50 percentage points since that year. In Malaysia, financial advisers are a popular source of advice on finance matters. Malaysian businesses rely heavily on friends and family not only for advice but also as a source of finance.
- In New Zealand, respondents from younger businesses were more likely to seek advice on their finances from a bank, however more established businesses were more likely to seek advice from an external accountant.
- Reflecting the low demand for finance from banks by the arts and recreation services industry, and the industry's greater propensity to seek finance from investors, businesses from that industry are the most likely to seek advice on their financing needs from an external accountant. Businesses from the retail trade and wholesale trade industries are the most likely to seek advice on their financing needs from family and friends.

Appendix: Survey sample details

Industry breakdown

Table 6: Breakdown of respondents by industry

Question 1-3: Which of the following best describes the main sector your business works in? (Single response) (Australia n=515, Hong Kong n=314, Indonesia n=349, Malaysia n=310, New Zealand n=307 and Singapore n=310)

Industry [^]	Australia	Hong Kong	Indonesia	Malaysia	New Zealand	Singapore
Accommodation and food services	3%	3%	14%	10%	3%	3%
Administrative and support services	4%	7%	3%	5%	3%	5%
Agriculture, forestry and fishing	4%	13%	6%	2%	7%	0%
Arts and recreation services	5%	5%	7%	2%	1%	3%
Construction	8%	8%	3%	6%	10%	5%
Education and training	4%	12%	5%	8%	7%	11%
Finance and insurance	6%	5%	3%	6%	3%	10%
Health care and social assistance	9%	2%	4%	3%	3%	5%
Information, media and telecommunications	5%	5%	5%	10%	7%	9%
Manufacturing	4%	7%	1%	3%	5%	8%
Mining	2%	1%	1%	0%	0%	0%
Professional, scientific and technical services	13%	5%	15%	13%	13%	9%
Public administration and safety	1%	0%	2%	0%	0%	1%
Rental, hiring and real estate services	3%	2%	1%	2%	4%	1%
Retail trade	11%	14%	10%	11%	10%	12%
Transport and warehousing	3%	1%	12%	3%	3%	5%
Utilities	0%	1%	1%	1%	1%	1%
Wholesale trade	4%	7%	5%	5%	2%	5%
Other (please specify)	13%	1%	4%	11%	18%	8%

[^] Industry names taken from the ANZSIC codes.

Firmographics

Figure 19: Number of employees

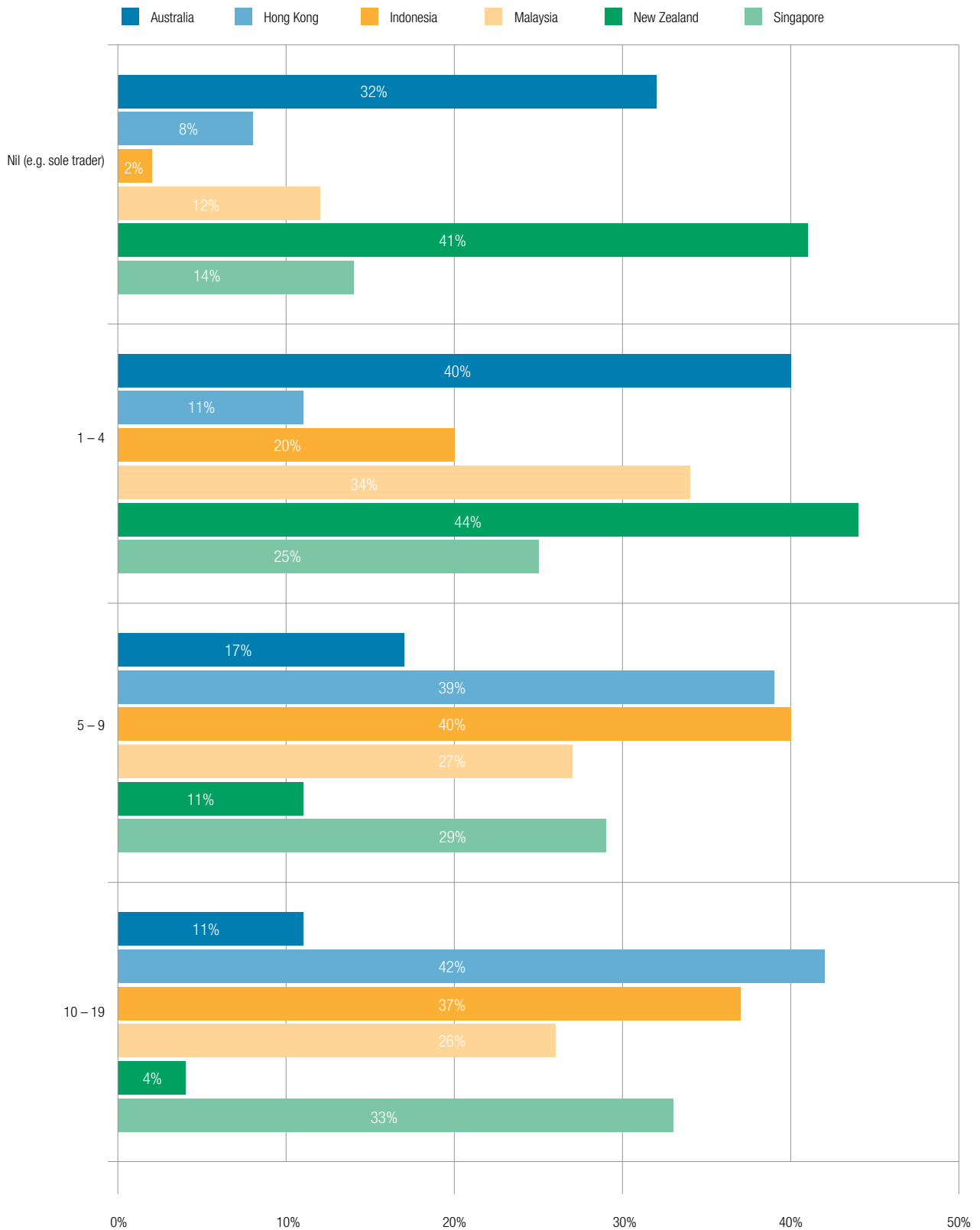


Figure 20: Age of business

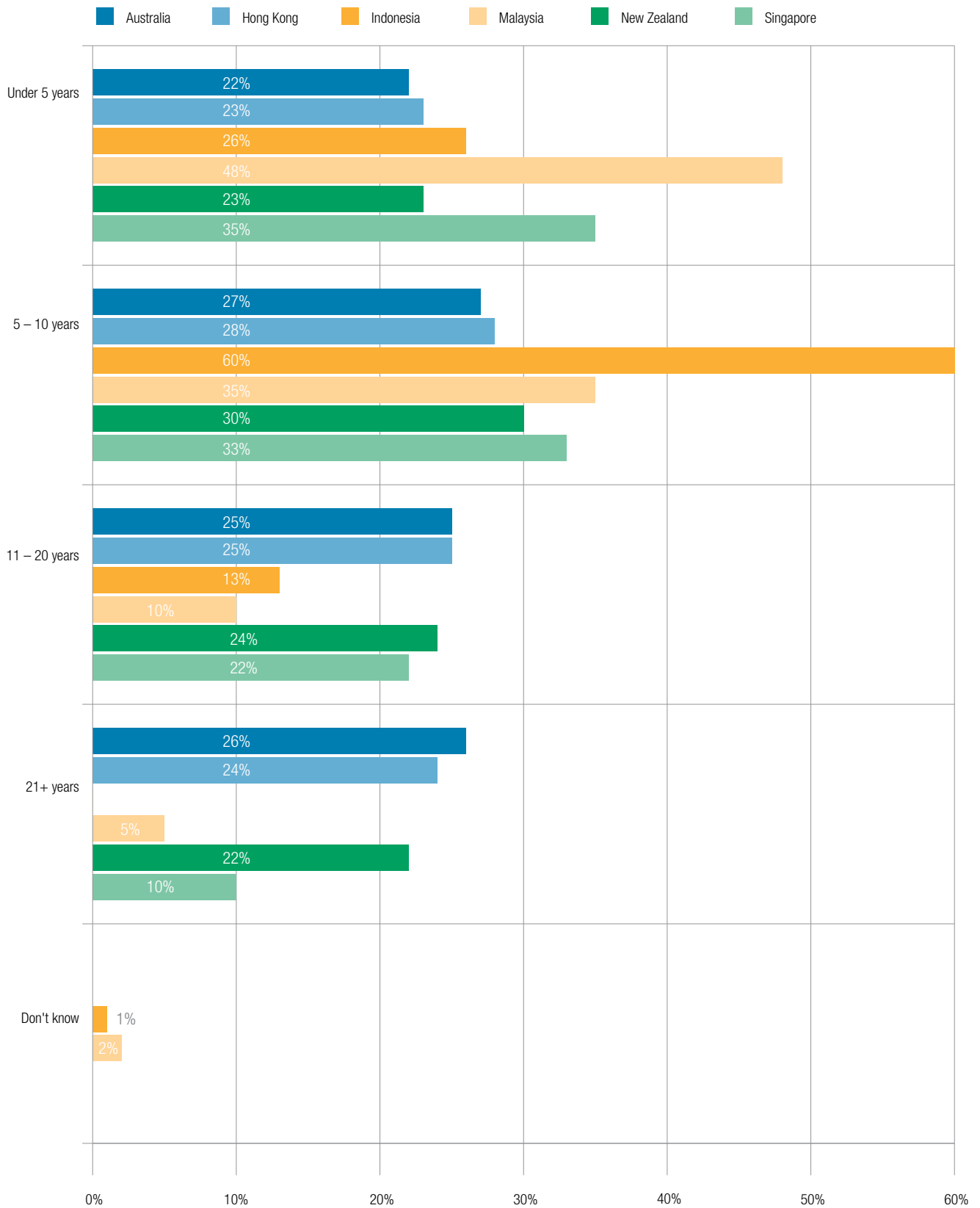


Figure 21: Age of respondents

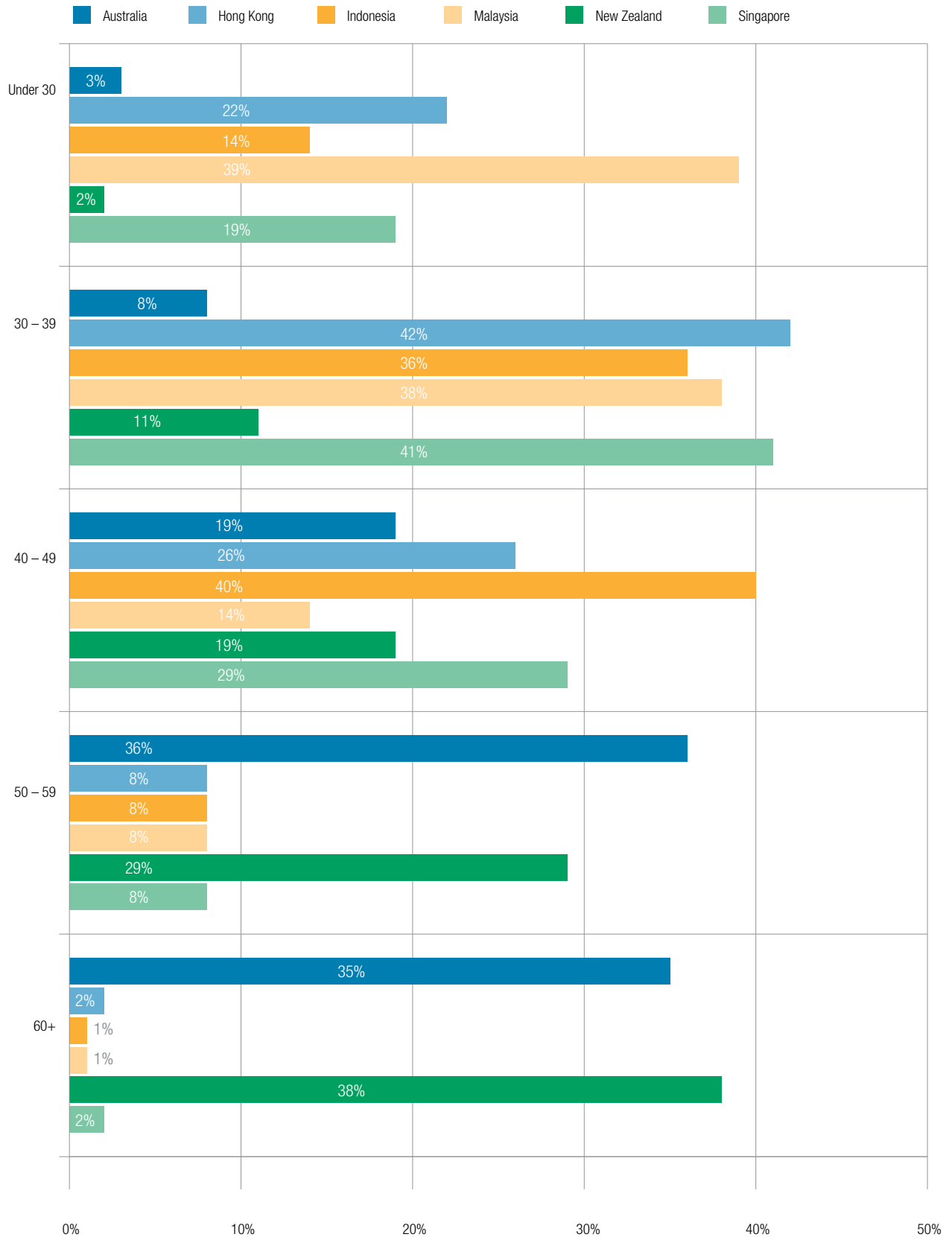
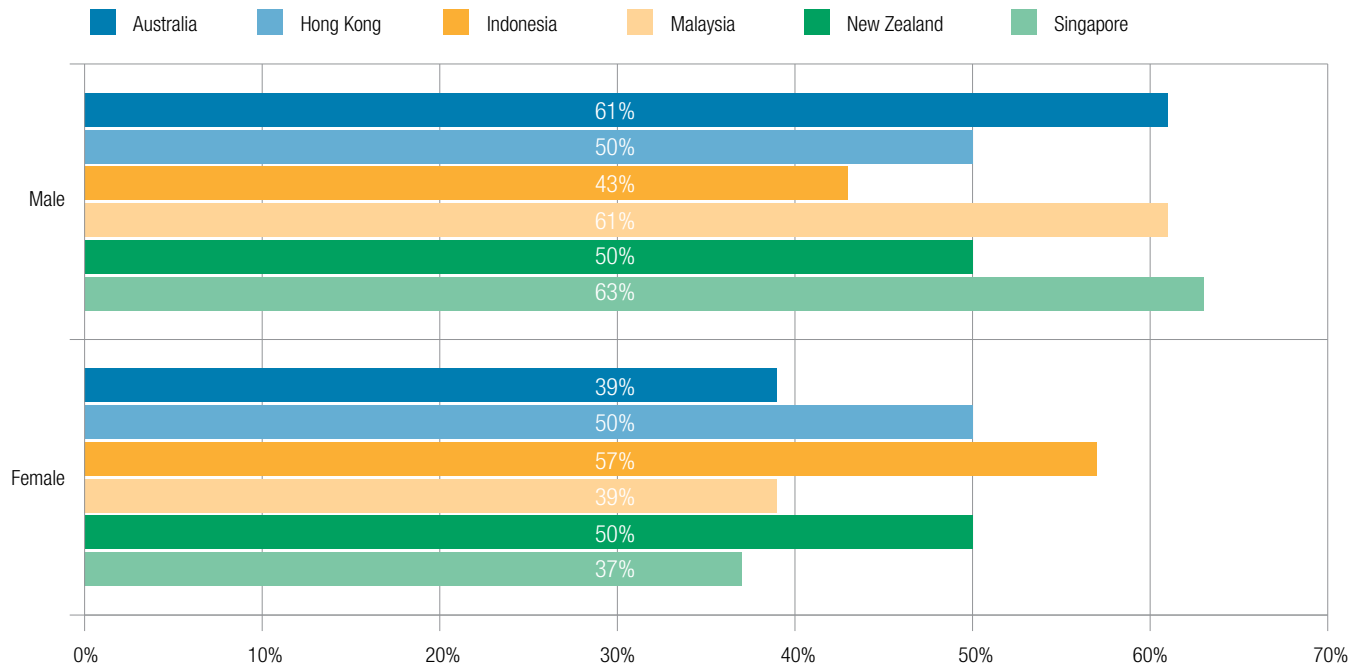


Table 7: Annual turnover

Australian Dollars	% of respondents (n=515)	Singapore Dollars	% of respondents (n=310)	Hong Kong Dollars	% of respondents (n=314)
Under AU\$200,000	47%	Under SG\$250,000	35%	Under HK\$1.5 million	18%
AU\$200,000 < AU\$500,000	16%	SG\$250,000 < SG\$600,000	24%	HK\$1.5 million < HK\$3 million	20%
AU\$500,000 < AU\$1 million	11%	SG\$600,000 < SG\$1.2 million	15%	HK\$3 million < HK\$6 million	19%
AU\$1 million < AU\$2 million	9%	SG\$1.2 million < SG\$2.4 million	12%	HK\$6 million < HK\$12 million	27%
AU\$2 million or more	5%	SG\$2.4 million or more	6%	HK\$12 million or more	13%
Prefer not to disclose	13%	Prefer not to disclose	8%	Prefer not to disclose	4%

Malaysian Ringgit	% of respondents (n=310)	Indonesian Rupiah	% of respondents (n=349)	New Zealand Dollars	% of respondents (n=307)
Under RM 600,000	59%	Under IDR2 billion	40%	Under NZ\$250,000	65%
RM600,000 < RM1.5 million	20%	IDR2 billion < IDR4.5 billion	16%	NZ\$250,000 < NZ\$650,000	12%
RM1.5 million < RM3 million	7%	IDR4.5 billion < IDR10 billion	21%	NZ\$650,000 < NZ\$1.25 million	7%
RM3 million < RM6 million	3%	IDR10 billion < IDR20 billion	17%	NZ\$1.25 million < NZ\$2.5 million	3%
RM6 million or more	1%	IDR20 billion or more	0%	NZ\$2.5 million or more	3%
Prefer not to disclose	11%	Prefer not to disclose	6%	Prefer not to disclose	11%

Figure 22: Gender of respondents





CPAH0712_11/2013