

CPA AUSTRALIA ASIA-PACIFIC SMALL BUSINESS SURVEY 2014

AUSTRALIA, MAINLAND CHINA,
HONG KONG, INDONESIA, MALAYSIA,
NEW ZEALAND, SINGAPORE AND VIETNAM

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ISBN: 978-1-921742-63-7

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

First published 2014
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Level 20, 28 Freshwater Place
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ABOUT THE SURVEY

The *CPA Australia Asia-Pacific Small Business Survey 2014* is part of a longitudinal annual study of small business conducted by CPA Australia since 2009. This report presents a cross-market comparison between the eight markets surveyed and, where applicable, a comparison of results from 2009 onwards. The survey was conducted between the 5th of September and the 23rd of September 2014.

Mainland China and Vietnam were included in the survey for the first time in 2014. Indonesia and New Zealand were included in 2011. The survey in Mainland China was conducted in Beijing, Chongqing, Guangzhou and Shanghai only.

Interview method

In each market, the online survey was conducted amongst a random sample of small business owners/managers. The sample was obtained through online panel provider Research Now and their Asian panel partner iPanelonline. To qualify for the survey, participants were required to be an owner, senior manager (defined as being a director, a principal, a CEO, CFO, a senior manager or a managing director) or a qualified accountant of a business with fewer than 20 staff.

Sample

In total, 2985 participants completed the survey, including 510 from Australia, 641 from Mainland China, 282 from Hong Kong, 312 from Indonesia, 311 from Malaysia, 310 from New Zealand, 310 from Singapore and 309 from Vietnam.

Of the 641 participants from Mainland China, 153 were from Beijing, 151 were from Chongqing, 176 were from Guangzhou and 161 were from Shanghai.

Questioning

Questions on small business confidence, small business environment and small business access to finance were drawn from the 2013 survey, which was conducted in September 2013. Some slight modifications to question wording were made to a number of those repeated questions. Questions on small business use of social media and online sales are new in this survey.

Questionnaires in Australia, Singapore and New Zealand were administered in English. The Hong Kong questionnaire was administered in traditional Chinese, the questionnaire for Malaysia was administered in both English and Bahasa Malaysia, Indonesia's questionnaire was administered in Bahasa Indonesia, Mainland China's questionnaire was administered in simplified Chinese, and Vietnam's questionnaire was administered in Vietnamese.

Data weighting

The data in this report has been weighted to reflect industry sector proportions for Australia, Mainland China, Indonesia and Vietnam.

Rounding

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

KEY FINDINGS

Overall

Small business economic sentiment and business conditions

Small business confidence in the growth prospects for their local economy has increased across the region since the 2013 survey, with the exception of Australia. Small businesses in the emerging economies of Indonesia, Vietnam, Mainland China and Malaysia are more confident in the growth prospects for their respective economies than those surveyed who are from advanced economies.

Of the eight economies surveyed, Indonesia's small businesses are the most confident in the growth prospects for their economy in the next 12 months. This is the fourth consecutive year that small businesses from Indonesia are the most likely to expect their economy to grow. For the second consecutive year, Hong Kong businesses are the least likely to expect their local economy to grow.

Of those surveyed, small businesses from emerging economies are also significantly more likely than advanced economies to report positive business conditions in the past 12 months and the upcoming 12 months. Again, Indonesian small businesses were the most likely to state their business grew in the past 12 months and the most likely to expect their business to grow in the next 12 months. Australia's small businesses were the least likely to report their business grew over the past 12 months and Hong Kong's small businesses are the least likely to expect to grow in the following 12 months.

The most popular reasons why respondents reported growing or expecting to grow was 'increasing sales' followed by 'improved customer retention' and 'improved business model'. The most popular reasons why respondents reported not growing or expecting not to grow were 'increasing costs', 'increasing competition' and a 'poor overall economic environment'. 'Increasing costs' and 'increasing competition' were more significant issues for small businesses from Asia than small businesses from Australia and New Zealand.

It is interesting to note that government support for small business was not a major factor influencing the growth of small businesses in the markets surveyed. That is, the survey shows that government incentives play only a small role in shaping the success or otherwise of small business.

It may be surprising to some that respondents in all markets except Mainland China, were very unlikely to nominate 'problems accessing finance' as a major reason for their lack of growth. Likewise, very few respondents selected 'over-regulation' as a major reason behind their lack of growth. This, however, should not be seen as a reason for not pursuing regulatory reform.

As in previous years, small businesses from emerging economies are significantly more likely to have increased and expect to increase employee numbers than small businesses from advanced economies.

Given the prominence of 'increasing costs' and 'increasing competition' across the region, it is of no surprise that businesses were most likely to respond to their environment by reviewing costs, increasing marketing and focusing on customer retention.

Small business access to finance

As in previous years, demand for external finance over the past 12 months and the next 12 months remains significantly higher in Asia, particularly Vietnam, Mainland China and Indonesia, than Australia or New Zealand. This is in spite of Australian and New Zealand small businesses reporting relatively easy financing conditions and growing confidence in New Zealand's economy.

Of the businesses that required external funds in the last 12 months, it is pleasing that 'business growth' was the most popular reason for such demand and remains the most popular reason in the coming 12 months. It is, however, surprising that a significant percentage of small businesses from Indonesia and Mainland China require external finance for business survival.

Similar to the 2013 results only small businesses from Indonesia, New Zealand and Australia were more likely to experience easy financing conditions than difficult financing conditions. Small businesses from Mainland China were the most likely to state that financing conditions were difficult or very difficult.

The results for Australia and New Zealand (relatively low expected demand for finance, relatively easy financing conditions) and Mainland China and Vietnam (extremely high demand for finance, relatively difficult financing conditions) indicate that the link between the ease or difficulty of financing and demand for external funds is not as strong as may be thought. Business issues are much more significant in influencing demand or lack of demand for external finance. Difficult financing conditions seem more likely to influence where small businesses source their finance.

In all markets, banks remain the most popular source of finance; however, in Mainland China other sources of finance, such as non-bank financial institutions and investors were also popular, possibly as a consequence of relatively tighter financing conditions in that market.

Possibly reflecting a strong start-up culture in Malaysia, Mainland China, Singapore and Hong Kong, businesses in those markets are significantly more likely to source finance from venture capital funds than in the other markets.

Small business, social media and online sales

Small businesses in Asia are significantly more likely to use social media for business purposes and make online sales than small businesses from Australia and New Zealand. The relatively slow uptake of social media and online sales in Australia and New Zealand reflects the nature of small business in those markets; that is, they typically employ far fewer staff and the respondent is generally older relative to respondents from Asia.

Facebook is by far the social media platform that small businesses get the most value from, with the exception of Mainland China, where WeChat was the social media platform seen as giving the most value to small business.

Australia

Small business economic sentiment down and business conditions weak

Australian small businesses are more likely to expect Australia's economy not to grow (51 per cent) than to grow (44 per cent) over the coming 12 months. This is the second lowest level of economic sentiment of the markets surveyed. Further, the percentage of Australian small businesses that expect Australia's economy to grow declined 14 percentage points from the last survey, making Australia the only market of those previously surveyed where small business economic sentiment fell.

Adding to this negative economic sentiment, only 34 per cent of Australian small businesses reported growing in the past 12 months, the lowest reading of the markets surveyed and well below expectations (the 2013 findings showed that 56 per cent of Australian small businesses expected to grow over that period). Australian small businesses were also the most likely to state their business contracted over the past 12 months (34 per cent). In the coming 12 months, Australian small businesses are the second least likely to expect their business to grow, with 47 per cent expecting some growth.

Australian small businesses that did not grow in the past 12 months were the most likely to attribute this to a 'poor overall economic environment'. Economic issues are not, however, the sole reason for this lack of growth, with 23 per cent not growing because they made the decision not to grow. This result was considerably higher than for businesses from Asia. Small businesses that had no employees and where the respondent was 60 or over were significantly more likely to show this result than other business.

With 38 per cent of Australian respondents stating that business conditions were worse than they expected in the past 12 months and 37 per cent stating that increased costs were a major factor influencing their business environment, it is disappointing that one in five Australian respondents did not take any reasonable steps to respond to their environment. Even if business owners have made the decision not to grow their business, they should still take action to manage their business as efficiently and effectively as possible.

The percentage of Australian small businesses nominating utility costs and taxes as having a major detrimental impact on their business dropped 21 and 11 percentage points respectively in this survey from the last, possibly reflecting the repeal of the carbon tax.

Consistent with weak economic sentiment and difficult business conditions, very few Australian small businesses added to their staff numbers (nine per cent) over the past 12 months, equal lowest with New

Zealand and below the 18 per cent that expected to add to their staff numbers; 14 per cent expect to add to their staff numbers in the next 12 months.

Demand for finance relatively low despite easier financing conditions

The percentage of Australian small businesses requiring external finance has remained relatively constant at around 30 per cent over each of the past six years, regardless of shifts in economic sentiment, business conditions and easier financing conditions. In fact, these results show that there is little correlation between the ease or difficulty in financing conditions and the demand for external finance. In short, the business need for external finance is the driver of demand for finance, not financing conditions.

Australian small businesses along with Indonesian and New Zealand small businesses were the only markets surveyed to state that financing conditions in the past 12 months were easier (49 per cent) than difficult (23 per cent). Australian small businesses expect these relatively easy financing conditions to continue over the coming 12 months.

Banks remain the most popular source of finance for Australian small businesses. In comparison to small businesses from Asia, Australian small businesses are significantly less likely to seek finance from an investor.

Australian small business relatively unlikely to use social media and make online sales

The results show that Australian small businesses are significantly less likely to use social media for business purposes than respondents from Asia (54 per cent of Australian small business reported not using social media for business purposes). Of those Australian small businesses that use social media, Facebook is the platform they get the most value from.

Reflecting this relatively low uptake of social media, the findings also show that Australian respondents are significantly less likely to make online sales than respondents from Asia. Respondents aged over 50 and those with less than five staff are significantly less likely to make online sales and the proportion of Australian respondents who fit into those categories is greater than Asia.

Mainland China

Small business economic sentiment strong and business conditions positive

Small businesses from Mainland China are the third most confident of the markets surveyed in the growth prospects for their economy in the next 12 months, with 71 per cent expecting the economy to grow. This strong level of small business confidence in China's economy reflects China's continued high levels of growth, albeit at lower levels than in previous years. Of the cities from Mainland China included in this survey, small businesses from Guangzhou were the most likely to expect China to grow strongly.

Reflecting this strong economic sentiment, 65 per cent of respondents from Mainland China reported their business grew over the preceding 12 months, the equal second highest reading of the markets surveyed. Businesses from Chongqing were the most likely to state their business grew. This positive outlook for business conditions continues in to the next 12 months with 66 per cent of small businesses from Mainland China expecting to grow, the third highest reading of the markets surveyed.

Consistent with strong economic sentiment and positive business conditions, small businesses from Mainland China and Vietnam were the most likely to see opportunities emerge in their business environment over the past 12 months despite many reporting an increasingly competitive environment.

Businesses in Mainland China and Vietnam were also significantly more likely than other markets to attribute their growth in the past 12 months and expected growth in the next 12 months to 'improved staff productivity'. With the results showing that staff costs are a significant issue for Mainland China's small businesses, it is positive that many businesses in Mainland China are focusing on improving staff productivity and that such improvements are a major driver of business growth in that market.

Small businesses from Mainland China that did not grow in the past 12 months or expect not to grow in the next 12 months are significantly more likely than the other markets to nominate 'problems accessing finance' as a reason for this lack of growth. 'Increasing costs' was also an important factor impacting the growth of some businesses from Mainland China.

Consistent with strong economic sentiment and positive business conditions, 38 per cent of Mainland China's respondents increased employee numbers in the past 12 months and 53 per cent expect to increase employee numbers in the next 12 months.

Demand for external finance very high, however financing conditions are difficult

Strong economic sentiment and positive business conditions are contributing towards very high demand for external finance by small business from Mainland China; 86 per cent of businesses stating they required external finance in the past 12 months and 96 per cent stating that they will possibly or definitely require external finance in the next 12 months. Small businesses from Mainland China were the second most likely to have required external finance in the past 12 months and the second most likely to forecast possible demand in the coming 12 months.

Small businesses from Mainland China were the most likely to state that their financing conditions were difficult to very difficult in the past 12 months and are the most likely to expect difficult financing conditions in the next 12 months. This difficulty does not appear to have had much of an impact on the demand for finance. It, however, appears to have impacted where these small businesses source their external finance. While banks are the most popular source of finance, non-bank sources of finance, for example investors and non-bank financial institutions, are particularly popular sources of finance for small businesses in Mainland China.

It is positive that small businesses from Mainland China are the most likely to have required external finance in the past 12 months to fund business growth (75 per cent) and to purchase capital assets (52 per cent). If the purchase of capital assets is well planned and managed, such assets will become important contributors to increasing the productivity, competitiveness and profitability of those businesses. Given the strong economic sentiment and positive business conditions, it is surprising that 49 per cent of respondents from Mainland China reported seeking external finance for business survival, the highest result of the markets surveyed.

Reflecting concerns over the impact of increasing costs in Mainland China, it is not surprising that Mainland China and Hong Kong were the most likely to nominate 'covering increasing expenses' as a major reason for seeking external finance in the past and coming 12 months. Businesses should, however, be looking at ways to better manage costs and pay them from cash flow before considering borrowing to cover expenses.

Small businesses from Mainland China are extremely likely to use social media and make online sales

The 2014 data reveals that nearly all small businesses in Mainland China (96 per cent) use of social media for business purposes such as promoting their business to potential customers. Small businesses from Mainland China were most likely to nominate WeChat as the social media platform they get the most value from.

Reflecting this very strong use of social media, the findings also shows that nearly all small businesses in Mainland China (90 per cent) make online sales; 79 per cent of respondents expect on line sales to grow over the coming 12 months.

Hong Kong

Small business economic sentiment low and business conditions weak but slightly higher than last survey

More small businesses in Hong Kong expect the Hong Kong economy not to grow (57 per cent) than to grow (39 per cent) over the next 12 months. Further, of the markets surveyed, Hong Kong small businesses have the lowest level of confidence. On a somewhat positive note, the percentage of Hong Kong small businesses that expect Hong Kong's economy to grow is up 10 percentage points from the last survey.

Adding to this negative economic sentiment, Hong Kong small businesses were the second least likely to report their business grew over the past 12 months, with 46 per cent reporting some level of growth, beating the expected 36 per cent for that period cited in the 2013 survey. Hong Kong was the only economy to beat expectations. In the coming 12 months, Hong Kong small businesses are the least likely to expect their business to grow, with only 39 per cent expecting some growth.

The cost of rent remains the most significant issue impacting Hong Kong's business environment and the growth of many small businesses. The significance of rent to Hong Kong small businesses is also rising, with 62 per cent stating that increasing rent is the most detrimental cost to their business, up from 55 per cent in 2013. Other cost increases, particularly staff costs, and increasing competition are the other issues most likely to be impacting the growth of Hong Kong's small businesses.

Despite weak economic sentiment and difficult business conditions over the past 12 months, 18 per cent of Hong Kong small businesses increased staff numbers over that period, significantly below expectations for that period. Nearly a quarter of businesses (23 per cent) expect to increase staff numbers in the next 12 months.

Demand for finance high despite weak economic sentiment, poor business conditions and difficult financing conditions

As in previous years, Hong Kong businesses, despite reporting low levels of economic confidence, poor business conditions and difficult financing conditions, were significantly more likely to seek external finance (70 per cent) than not and this trend is expected to continue in the following 12 months. As we have stated in previous survey reports, we would expect that in times of difficulty there would be a large fall in the number of businesses seeking external finance as it is good practice in such conditions to reduce the need for non-essential external finance, in part to reduce borrowing costs. More Hong Kong small businesses should seek advice from independent advisors to help them reduce their demand for external finance.

With concerns over increasing costs in Hong Kong and Mainland China, businesses from these markets were the most likely to nominate 'covering increasing expenses' as a major reason for seeking external finance in the past and coming 12 months. Businesses should, however, be looking at ways to improve their business model and to pay for expenses from cash flow before considering borrowing to cover expenses.

The latest findings reveal a strong shift towards investors as a source of finance for Hong Kong small businesses, possibly in response to less than easy financing conditions. With Hong Kong businesses seemingly over-reliant on external finance, involving investors in the business may help to reduce that demand over the medium term if they can help the businesses they invest in to improve their business management practices.

Hong Kong small businesses were the least likely of the markets surveyed to report easy financing conditions in the past 12 months.

Hong Kong businesses expect these conditions to continue over the coming 12 months. Given the relatively weak economic sentiment and poor business conditions reported by Hong Kong small businesses, it is not surprising that lenders are making it more difficult for small businesses to source finance. A greater focus on activities that reduce the need for external finance such as increasing cash reserves and delaying or cancelling non-essential investments may be beneficial for many Hong Kong small businesses.

Hong Kong small businesses are highly likely to use social media and make online sales

The data shows that nearly all small businesses in Hong Kong (90 per cent) use social media for business purposes such as communicating with customers. Facebook is the social media platform Hong Kong businesses get the most value from followed by WeChat; however, the percentage that selected this option is significantly lower than Facebook.

Reflecting this very strong use of social media, a very high proportion of Hong Kong's small businesses (79 per cent) make online sales; 53 per cent of respondents expect online sales to grow over the coming 12 months.

Indonesia

Small business economic sentiment very strong and business conditions very positive

Indonesian small businesses are the most confident in the growth prospects for their economy in the next 12 months, with 89 per cent expecting Indonesia's economy to grow, up from 66 per cent last year. This is the fourth consecutive year that Indonesian small businesses are the most likely of the markets surveyed to expect their economy to grow.

Further, there has been a significant increase in the percentage of respondents who think Indonesia's economy will 'grow strongly', with 48 per cent selecting this option, up from 12 per cent last year.

Mirroring this very strong economic sentiment, 76 per cent of respondents from Indonesia reported their business grew in the past 12 months, the highest result of the markets surveyed. This figure was, however, slightly below the 83 per cent that expected to grow over that period. This very positive outlook for business conditions in Indonesia continues in to the next 12 months with 82 per cent of businesses expecting to grow, again the highest outcome for all markets. This is also the fourth consecutive year that Indonesian small businesses are the most likely to expect their business to grow in the coming 12 months.

Consistent with strong economic sentiment and very positive business conditions, Indonesia's small businesses were the second most likely to increase employee numbers in the past 12 months (49 per cent). Indonesian businesses are the most likely to expect to increase employee numbers in the next 12 months, with 69 per cent expecting to do so.

Demand for external finance high and financing conditions relatively easy

Given positive business conditions and strong economic sentiment, it is not surprising that demand for external finance is very high for Indonesian small businesses (78 per cent requiring external finance). This high demand for external finance is expected to continue in the next 12 months, with 79 per cent of respondents indicating that they definitely or possibly need external finance over that period.

While business growth was the main reason cited for requiring external funds, it is somewhat surprising given the very strong economic growth and positive business conditions Indonesian small businesses report enjoying that a large percentage (42 per cent) sought external finance for business survival. It may be that many Indonesian businesses equate growth with survival. It is also surprising given strong expected growth that only 31 per cent of Indonesian small businesses sought external finance in the past 12 months to purchase capital assets.

Indonesian small businesses were the most likely to experience easy financing conditions in the past 12 months and the most likely to expect easy financing conditions in the coming 12 months.

Given the high percentage of Indonesian small businesses that have required additional external funds over the past few years, it is not surprising that there was a significant increase in the percentage of Indonesian businesses reporting that borrowing costs were a major detrimental cost to their business.

Indonesian small businesses are extremely likely to use social media and make online sales

Survey results show that nearly all Indonesian small businesses (98 per cent) use social media for business purposes such as promoting their business to potential customers. This is the highest result of the markets surveyed. Facebook is the social media platform Indonesian businesses get the most value from.

Reflecting this very strong use of social media, the findings also show that nearly all Indonesian small businesses (97 per cent) make online sales; 87 per cent of respondents expect online sales to grow over the coming 12 months, with nearly half of that figure forecasting strong growth.

Malaysia

Small business economic sentiment strong and business conditions positive

Small business confidence in the growth prospects for Malaysia's economy in the next 12 months is reasonably strong, with 68 per cent of respondents expecting the economy to grow. This is a 37 percentage point jump from the result last year, which is the largest increase in economic sentiment of the markets surveyed. This significant increase in confidence for Malaysia's economy over the next 12 months coincides with the introduction of a goods and services tax (GST) in Malaysia on 1 April 2015, which is usually expected to dampen sentiment.

In line with this strong economic sentiment, 58 per cent of Malaysian respondents reported their small business grew in the past 12 months, which is lower than the 65 per cent that expected their business to grow over this period. This positive outlook for Malaysian business conditions continues in the next 12 months, with 60 per cent of businesses expecting to grow.

Malaysian businesses are the most likely to attribute their growth over the coming 12 months to increasing sales, the implementation of an improved business model and better customer retention. For businesses that are not expecting to grow, they are most likely to attribute that to increasing costs, the introduction of the GST and increasing rent. It is not surprising that some businesses are concerned that the GST will have a negative impact on their business; however, experience shows us that any impact should only be temporary.

Consistent with Malaysia's reasonably strong economic sentiment and positive business conditions, Malaysia's small businesses were the third most likely to have increased employee numbers in the past 12 months, with 41 per cent increasing employee numbers, slightly below the expected 46 per cent. Malaysian small businesses are the third most likely to expect to increase employee numbers in the next 12 months, with 52 per cent expecting to increase employee numbers.

Demand for external finance up while reporting difficult financing conditions

Demand for external finance is high for Malaysia's small businesses, with 74 per cent of respondents stating that they required external funds in the past 12 months, which is slightly below the expected 77 per cent for that period cited in 2013 report. Actual demand for external finance in the past 12 months is up 17 percentage points from the actual demand recorded last year.

It is positive that so many Malaysian small businesses sought external finance in the past 12 months to fund business growth and capital purchases. If capital purchases are well planned and managed, they will become important drivers of business productivity, competitiveness and profitability.

This high and increasing demand for external finance is despite Malaysian small businesses being more likely to describe financing conditions in the past 12 months and the coming 12 months as difficult than easy.

It bodes well for the future growth of Malaysia's small business sector and the broader economy that Malaysian small businesses were the most likely to source and expect to source finance from a venture capital fund.

Malaysian small businesses are extremely likely to use social media and make online sales

Nearly all Malaysian small businesses (90 per cent) use of social media for business purposes such as promoting their business to potential customers. Facebook is the social media platform Malaysian small businesses get the most value from.

Reflecting this very strong uptake of social media, the survey also shows a very high percentage of Malaysian small businesses (over 85 per cent) make online sales; 71 per cent of respondents expect online sales to grow over the coming 12 months.

New Zealand

Small business economic sentiment rising but many businesses are not growing

Small business confidence in the growth prospects for New Zealand's economy in the next 12 months is reasonably strong, with 62 per cent of respondents expecting the economy to grow, up nine percentage points from last year. This is the highest result for New Zealand since 2011. New Zealand small businesses were also the most likely of the advanced economies included in this survey (Australia, Hong Kong, New Zealand and Singapore) to expect their economy to grow in the following 12 months.

However, this growing economic confidence is not necessarily flowing through to business growth, with only 47 per cent of New Zealand respondents reporting their business grew in the past 12 months, lower than the 57 per cent that expected to grow. In the coming 12 months, 50 per cent of New Zealand small businesses expect to grow. Results show that one possible reason for this is that of the New Zealand (and Australian) small businesses that did not grow, 27 per cent did not grow their business by choice, therefore improvements in the economy are unlikely to flow through to such businesses. This was particularly the case for small businesses that had no employees and those where the respondent was 60 or over.

With 27 per cent of New Zealand respondents stating that business conditions were worse than expected in the past 12 months, 32 per cent stating that increased costs were a major factor influencing their business environment and 20 per cent identifying emerging opportunities as a major influence on the

business environment, it is disappointing that 23 per cent of New Zealand small businesses did not take any reasonable steps to respond to their environment. Even if business owners are happy not to grow their business, they should still take action to manage their business as efficiently and effectively as possible.

Consistent with the lack of growth amongst many of New Zealand's small businesses over the past 12 months, only nine per cent of New Zealand small businesses increased staff numbers over that period, equal lowest with Australia and below the 13 per cent that expected to increase their staff numbers; 15 per cent expect to increase staff numbers in the next 12 months.

Demand for finance relatively low despite easier financing conditions

The percentage of New Zealand small businesses requiring external finance has remained relatively constant at around 30 per cent over each of the past four years, regardless of improving economic sentiment, shifts in business conditions and easier financing conditions. In fact, the results show that there is little correlation between the ease or difficulty in financing conditions and the demand for external finance. The business need for external finance is typically the driver of demand for finance, not financing conditions.

New Zealand small businesses along with Indonesian and Australian small businesses were the only markets surveyed to state that financing conditions in the past 12 months were more likely to be easy than difficult. New Zealand small businesses expect these relatively easy financing conditions to continue over the coming 12 months.

Banks remain the most popular source of finance for New Zealand small businesses. In comparison to small businesses from Asia, New Zealand small businesses are significantly less likely to seek finance from an investor or a venture capital fund.

New Zealand small business relatively unlikely to use social media and make online sales

The findings show that around half of New Zealand small businesses (51 per cent) do not use social media for business purposes and that New Zealand small businesses are significantly less likely to use social media for business purposes than respondents from Asia. Facebook is the social media platform New Zealand small businesses get the most value from.

Consistent with this relatively low usage of social media, nearly two-thirds of New Zealand respondents do not make online sales. Again, New Zealand respondents are significantly less likely to make online sales than respondents from Asia. The outcomes show that the significant difference in this result can be attributed to the older and smaller profile of New Zealand small businesses in comparison to their Asian counterparts.

Singapore

Small business confidence reasonably strong and business conditions reasonably positive

The percentage of small businesses from Singapore that expect Singapore's economy to grow in the next 12 months is up 13 percentage points from last year to 61 per cent, which is the highest result for Singapore since 2011.

Business conditions in Singapore are somewhat positive, with 51 per cent reporting their business grew in the last 12 months, lower than the 57 per cent that expected to grow over that period. In the coming 12 months, business conditions are expected to improve slightly, with 57 per cent of Singaporean small businesses expecting to grow.

The results show that increasing costs and increasing competition are major factors influencing Singapore's small business environment. Singapore's small businesses have typically responded well to these challenges with many focusing on reviewing costs, increasing marketing and improving customer retention. Improving staff productivity and staff skills were also identified as major drivers of expected growth in the coming 12 months.

Consistent with Singapore's reasonably strong economic sentiment and somewhat positive business conditions, 23 per cent of small businesses increased employee numbers in the past 12 months, slightly below the 26 per cent that expected to increase staff numbers over that period; 35 per cent expect to increase employee numbers in the next 12 months.

Demand for external finance reasonably strong despite difficult lending conditions

There is a strong correlation between the 49 per cent of respondents who required external finance in the past 12 months and the proportion (51 per cent) that grew their business over this period. Since this survey began in 2009, we have generally seen the demand for external finance by Singaporean small businesses correlate with their growth expectations, which is a positive reflection on the management practices of small businesses in that market. This reading is, however, lower than the 67 per cent of respondents that definitely or possibly expected to require finance over the same period.

Mirroring reasonably strong economic confidence, Singaporean small businesses were significantly more likely to have required external finance in the past 12 months for business growth than for survival and that this trend is expected to grow stronger in the next 12 months.

The demand for external finance does not appear to have been impacted by Singaporean small businesses being more likely to state that financing conditions were difficult than easy over the past 12 months. Small businesses expect financing conditions will remain typically difficult in the coming 12 months.

Nearly one in five small businesses from Singapore expects government grants to be their main source of finance in the next 12 months. The relatively important role Singapore's government plays as a source of finance for its small business sector is somewhat surprising given Singapore's highly developed banking sector. This result means that consistent, long-term government policy is more important for the future of Singaporean small businesses than the other markets.

Singaporean small businesses are highly likely to use social media and make online sales

Singaporean small businesses are highly likely (around 85 per cent) to use social media for business purposes such as promoting their business to potential customers. Facebook is the social media platform Singaporean small businesses get the most value from.

The results also show that a high percentage of Singaporean small businesses (around 70 per cent) make online sales; 54 per cent expect online sales to grow over the coming 12 months.

Vietnam

Small business economic sentiment very strong and business conditions positive

Vietnamese small businesses are the second most confident of the markets surveyed in the growth prospects for their economy in the next 12 months, with 79 per cent expecting Vietnam's economy to grow.

In line with this very strong economic sentiment, 65 per cent of respondents from Vietnam reported their business grew in the past 12 months, the third highest result of the markets surveyed. This very positive outlook for business conditions in Vietnam is expected to continue in to the next 12 months with 78 per cent of businesses expecting to grow, the second highest result of the markets surveyed. Mirroring this, small businesses from Vietnam, along with Mainland China were the most likely to see opportunities emerge over the past 12 months.

Businesses in Vietnam and Mainland China were significantly more likely to attribute their growth in the past 12 months and expected growth in the next 12 months to 'improved staff productivity' compared to the other markets. It is positive that many businesses from Vietnam are focusing on improving staff productivity and that such improvements are a major driver of business growth in that market.

Consistent with its strong economic sentiment and very positive business conditions, Vietnam's small businesses were the most likely to increase employee numbers in the past 12 months (51 per cent). Vietnam's small businesses are the second most likely to expect to increase employee numbers in the next 12 months, with 64 per cent of businesses expecting an increase.

Demand for external finance very high, however financing conditions somewhat difficult

Correlating with strong economic sentiment and positive business conditions, the demand for external finance by Vietnam's small businesses is extremely high, with 95 per cent stating they required external finance in the past 12 months and 99 per cent stating that they will possibly or definitely require external finance in the next 12 months. Small businesses from Vietnam were the most likely to have required external finance in the past 12 months and the most likely to forecast possible demand in the coming 12 months.

Small businesses from Vietnam were slightly more likely to report difficult financing conditions than easy financing conditions in the past 12 months; however, they are more likely to expect easy financing conditions than difficult conditions in the next 12 months. The difficulty Vietnamese businesses experienced in the past 12 months in accessing finance does not appear to have had much of an impact on the demand for finance; however, it does appear to have impacted where they source their external finance. While banks are the most popular source of finance, Vietnamese small businesses are also very likely to source finance from non-bank sources, particularly investors and family and friends.

With such a high percentage of Vietnamese small businesses expecting to require external finance in the next 12 months, it is encouraging that 69 per cent of businesses expect to use that finance to fund business growth, the second highest result of the markets surveyed.

Vietnamese small businesses are extremely likely to use social media and make online sales

Results show that nearly all Vietnamese small businesses (97 per cent) use social media for business purposes such as promoting their business to potential customers. This is the second highest result of the markets surveyed. Facebook is the social media platform Vietnamese businesses get the most value from.

In keeping with this very strong use of social media, the data also reveals that a very high percentage of Vietnamese small businesses (around 88 per cent) make online sales; 87 per cent expect online sales to grow over the coming 12 months.

SURVEY RESULTS

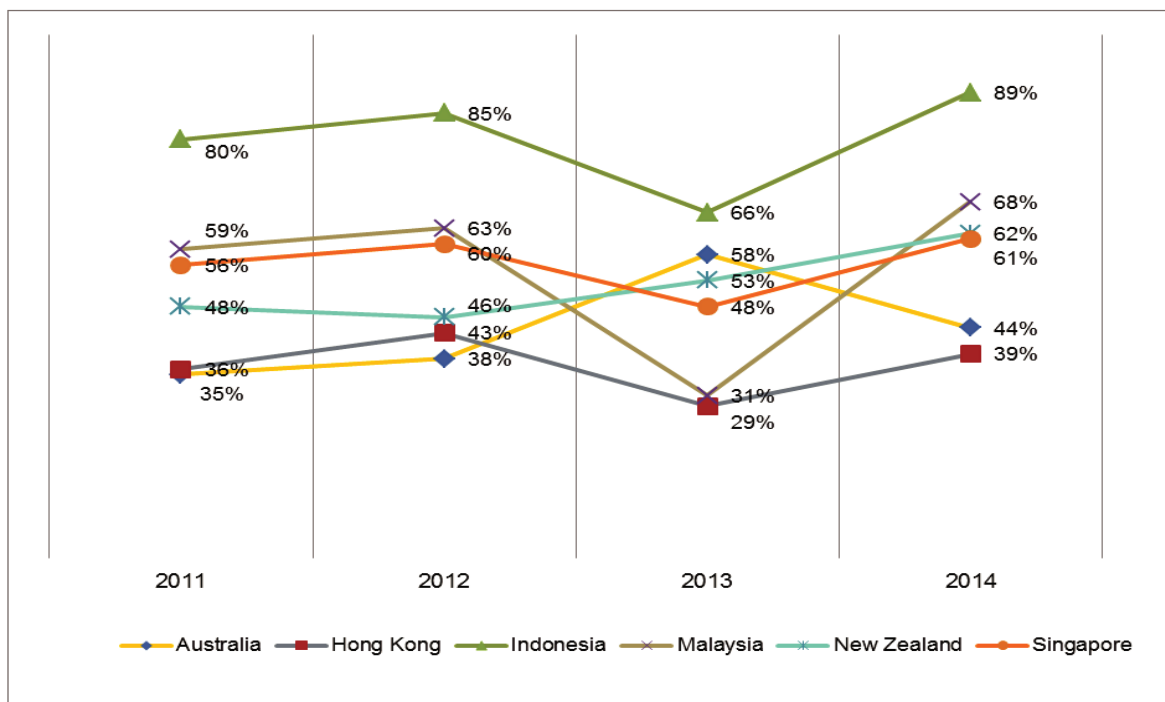
SMALL BUSINESS ECONOMIC SENTIMENT AND BUSINESS CONDITIONS

Small business economic confidence for the next 12 months

Table 1: Small business expectations for their local economy in the next 12 months by market

| | Australia | Mainland China | Hong Kong | Indonesia | Malaysia | New Zealand | Singapore | Vietnam |
|---------------------|------------|----------------|------------|------------|------------|-------------|------------|------------|
| Grow strongly | 5% | 12% | 3% | 48% | 19% | 7% | 11% | 28% |
| Grow a little | 39% | 59% | 36% | 41% | 49% | 55% | 50% | 51% |
| TOTAL GROWTH | 44% | 71% | 39% | 89% | 68% | 62% | 61% | 79% |
| Shrink a little | 25% | 7% | 29% | 5% | 15% | 14% | 17% | 3% |
| Shrink a lot | 9% | 0% | 4% | 0% | 6% | 3% | 1% | 2% |
| TOTAL SHRINK | 34% | 7% | 33% | 5% | 21% | 17% | 18% | 5% |
| Not change | 17% | 21% | 24% | 5% | 9% | 14% | 18% | 14% |
| Don't know | 5% | 1% | 4% | 1% | 2% | 6% | 3% | 1% |

Chart 1: Small business growth expectations for their local economy – 2011 survey to 2014 survey by market[^]



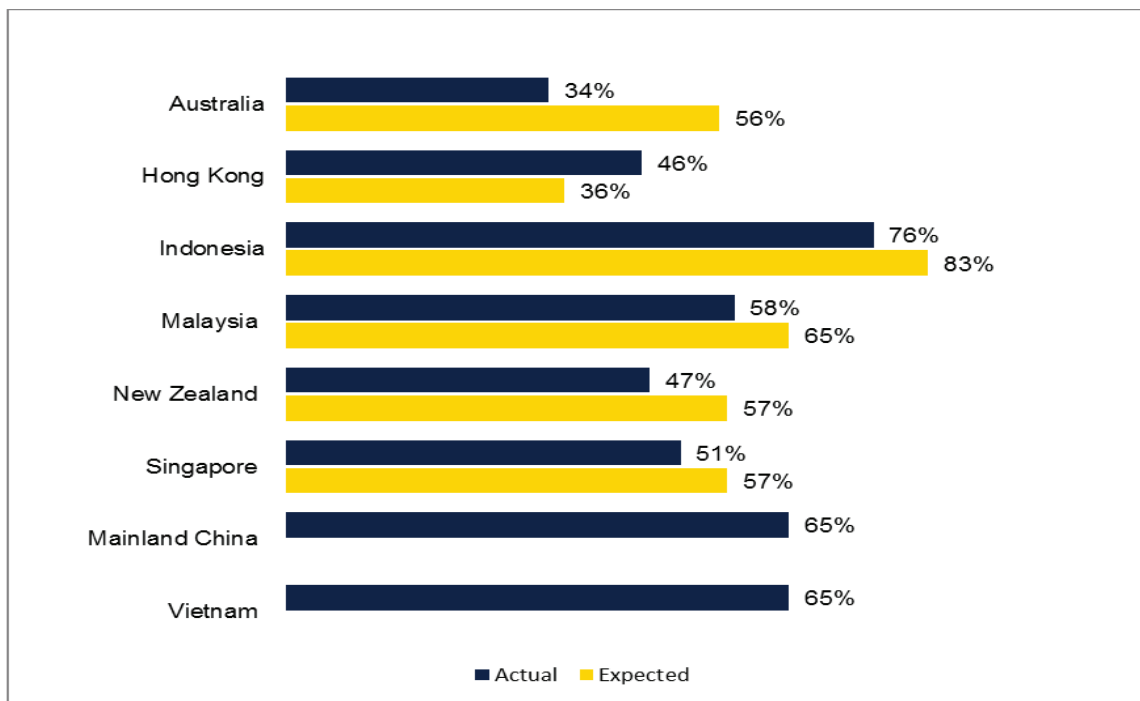
[^] This is the first year Mainland China and Vietnam have been included in this survey therefore the results for those markets are not shown in this chart.

Q3-16: What is your view on the prospects for the [market name] economy in the next 12 months? By country (single response) (Australia n=510, Mainland China n=641, Hong Kong n=282, Indonesia n=312, Malaysia n=311, New Zealand n=310, Singapore n=310 and Vietnam n=309).

- Small businesses from the emerging economies of Indonesia, Vietnam, Mainland China and Malaysia are more confident in the growth prospects for their respective economies than small businesses from the advanced economies included in this survey.
- Of the markets previously surveyed, small business confidence in their local economy is growing across the region, with the exception of Australia.
- Of the eight economies surveyed, small businesses from Indonesia are the most likely to expect their economy to grow in the next 12 months. This is the fourth consecutive year that small businesses from Indonesia had the highest level of confidence in the growth prospects for their economy.
- The percentage of respondents expecting Indonesia's economy to grow jumped 23 percentage points from the previous survey. In addition, there has been a significant increase in the percentage of respondents who think Indonesia's economy will 'grow strongly', with 48 per cent nominating this option, up from 12 per cent in the last survey.
- This significant increase in growth expectations for Indonesia's economy most likely reflects strong small business support for the new government's reform agenda, including steps to boost the efficiency of the bureaucracy and accelerate infrastructure development. Continued robust domestic consumption growth and stronger outlooks for the economies of the US and Japan may also be contributing to this very positive expectation.
- Small businesses from Vietnam are the second most likely to expect their economy to grow in the next 12 months. This high level of small business confidence in the economic outlook for Vietnam most likely reflects expected growth in domestic consumption, stronger outlooks for the economies of the US and Japan, and possible improvements in the local property market due to lower interest rates and other government measures to stimulate lending.
- Small businesses from Mainland China were the third most likely to expect their economy to grow in the next 12 months. This strong economic confidence reflects China's continued high levels of growth, albeit at lower levels than in previous years. Of the cities from Mainland China included in this survey, small businesses from Guangzhou are the most likely to expect China to grow strongly.
- Malaysia recorded the biggest increase in the percentage of small businesses that expect their economy to grow, jumping 37 percentage points in the last 12 months. The reasonably high level of economic confidence reflects growing domestic demand and strong export growth.
- Of the advanced economies included in this survey, small businesses from New Zealand had the highest levels of confidence in the growth prospects for their economy. Reflecting strong economic fundamentals, the percentage of small businesses that expect the New Zealand economy to grow is up nine percentage points from the last survey and is at its highest levels since 2011.
- Small businesses from Singapore are slightly behind New Zealand in terms of confidence in the growth prospects for their local economy. The percentage of small businesses from Singapore that expect their economy to grow in the next 12 months is up 13 percentage points from the last survey. This reasonably high level of economic confidence reflects a generally supportive domestic and global economic environment, including stronger outlooks for the economies of the US and Japan.
- More small businesses in Australia and Hong Kong expect their respective economies to not grow than to grow over the next 12 months. Having said this, a positive for Hong Kong is the percentage of small businesses that expect Hong Kong's economy to grow in the next 12 months is up 10 percentage points from the last survey. Meanwhile the percentage of small businesses that expect Australia's economy to grow is down 14 percentage points from the last survey. The relatively low level of small business confidence in both economies is likely to reflect weaker than average domestic economic growth and a slowdown in China's growth, albeit from very high levels.
- Businesses from the rental, hiring and real estate services sector are the most likely to expect their local economy to grow in the next 12 months, slightly ahead of businesses from the banking, finance and insurance sector. Businesses from the arts and recreation services industry are the least likely to expect their local economy to grow.

Small business conditions – business growth or decline in the past 12 months

Chart 2: Comparison of businesses that reported growing over the past 12 months against those that expected to grow over that period[^]



[^] The growth expectations for the past 12 months have been taken from the 2013 survey. Given Mainland China and Vietnam have been included in this survey for the first time this year, we do not have their growth expectations for the past 12 months.

Q3-3: In the past 12 months, has your business ...? (single response) (Australia n=510, Mainland China n=641, Hong Kong n=282, Indonesia n=312, Malaysia n=311, New Zealand n=310, Singapore n=310 and Vietnam n=309).

- Small businesses from emerging economies were significantly more likely to report their business grew over the past 12 months than small businesses from advanced economies.
- In all markets surveyed, only a very small percentage of respondents indicated that their business 'grew strongly' in the past 12 months. A greater share of small businesses growing strongly would do much to boost economic growth across the region.
- Small businesses from Indonesia were significantly more likely to state their business grew in the past 12 months than any of the other markets surveyed. This is not surprising given the very high level of small business economic confidence in this and previous surveys. However, the percentage of Indonesian businesses that reported growing was slightly below expectations.
- Small businesses from Mainland China and Vietnam were the next most likely to report their business grew in the past 12 months.

- The majority of respondents from Malaysia and Singapore stated their business grew over the past 12 months; however, the actual results were slightly lower than expected.
- Despite growing confidence in New Zealand's economy, less than half reported their business grew in the past 12 months. Further, the number of small businesses that reported growing in the past 12 months was weaker than expected. It therefore seems that some New Zealand small businesses are not taking advantage of New Zealand's expanding economy. One possible explanation for this is that the results show there are a considerable number of New Zealand small businesses that have made the decision not to grow their business.
- While the survey results for Hong Kong are generally not positive, the fact that more Hong Kong small businesses reported growing than was expected is somewhat positive. Hong Kong was the only economy of the six included in the 2013 survey where actual growth results exceeded expectations.
- The performance of small businesses in Australia over the past 12 months was significantly weaker than expected. Adding to this disappointing result, small businesses from Australia were equally likely to report their business shrunk in the past 12 months as grew. With small businesses making up a significant share of Australia's economy, such a result is bound to have an impact on Australia's economy and jobs creation.
- Other data from the survey shows:
 - Female respondents from Indonesian were significantly more likely to state their business grew in the past 12 months than male respondents.
 - Businesses in Australia and New Zealand with 10 to 19 staff were more likely to state that their business grew than smaller businesses.
 - Hong Kong businesses with one to four staff were more likely to state their business grew than larger businesses.
 - Of the cities from Mainland China included in this survey, small businesses from Chongqing were slightly more likely than small businesses from the other cities to state their business grew in the past 12 months.
 - Businesses from Mainland China that have operated for less than 10 years were more likely to state their business grew in the past year than more established businesses.
 - In Singapore, businesses with 5 to 19 staff were significantly more likely to report their business grew in the past 12 months than smaller businesses.
 - Businesses from Australia, Hong Kong, Malaysia and Singapore that have been established less than five years were more likely to report their business grew than more established businesses.
 - Australian and Singaporean respondents aged 30 to 39 were more likely than older respondents to say their business grew in the past 12 months.
 - For Malaysia, businesses with 10 to 19 staff that have operated for less than five years or where the respondent is aged under 30 were the most likely to state their business grew in the past 12 months.
 - Businesses from the rental, hiring and real estate services' industry were the most likely to have experienced growth over the past 12 months (70 per cent saying their business grew). Businesses from the retail industry and the transport and warehousing industry were slightly more likely than other industries to state their business contracted in the past 12 months (29 per cent).

Why small businesses grew in the past 12 months

Table 2: Top three reasons why businesses reported growing in the past 12 months by market

| Australia | Mainland China | Hong Kong | Indonesia | Malaysia | New Zealand | Singapore | Vietnam |
|------------------------------------|------------------------------------|------------------------------------|--------------------------------|------------------------------------|---|------------------------------------|------------------------------------|
| Increasing sales 46% | Improved customer retention 49% | Increasing sales 44% | Increasing sales 37% | Increasing sales 56% | Increasing sales 45% | Increasing sales 58% | Increasing sales 52% |
| Improved customer retention 37% | Increasing sales 47% | Improved business model 34% | Improved business model 30% | Improved customer retention 44% | Positive overall economic environ. 29% | Improved customer retention 41% | Improved staff productivity 46% |
| Good quality staff 28% | Improved staff productivity 44% | Improved customer retention 29% | Good quality staff 29% | Improved business model 35% | Improved customer retention 29% | Improved business model 33% | Improved business model 43% |
| | | | | | Good quality staff 29% | | |

Q3-4: And which of the following best describes why you believe your business grew in the past 12 months? (multiple response) (Australia n=175, Mainland China n=415, Hong Kong n=131, Indonesia n=241, Malaysia n=179, New Zealand n=146, Singapore n=159 and Vietnam n=198).

- Of those businesses that reported growing in the past 12 months, the most popular reason for that growth was 'increasing sales' followed by 'improved customer retention'.
- Singaporean small businesses were the most likely to select 'increasing sales' and Indonesian small businesses the least likely. The comparatively lower result from Indonesia is somewhat surprising given that economic data indicates that strong growth in private consumption has been a significant driver of Indonesia's economy in 2014.
- Businesses from Mainland China and Vietnam were significantly more likely to attribute business growth to 'improved staff productivity' than the other markets. With the survey results showing that staff costs are a significant issue for Mainland China's small businesses, it is positive that many businesses in Mainland China are focusing on improving staff productivity and that such improvements are a major driver of business growth in that market. Small businesses in Australia and New Zealand are significantly less likely to nominate this option as a reason for business growth. This is most likely due to the very high percentage of respondents from those markets who have from zero to four employees relative to the other markets surveyed.
- The larger the small business in terms of number of employees, the more likely they were to attribute their growth to 'good quality capital equipment' and 'improved customer retention'.
- It is interesting that 'easy access to finance' and 'government support/incentives' were not high on the list of major reasons why businesses grew in the past 12 months, particularly in Australia and New Zealand where respondents reported relatively easy financing conditions.
- The relative unimportance of 'government support/incentives' to business growth for the vast majority of small business is not surprising as business issues such as 'increasing staff productivity' and 'improved customer retention' should always be more important to business success.
- Other data from the survey shows:
 - For Indonesia, 'increasing sales' was a more important reason for business growth for businesses with five to nine staff than other respondents. 'Political stability' was more important as a driver of growth for Indonesian businesses that have been established five to ten years and where respondents are aged 30 to 39.

Why small businesses did not grow in the last 12 months

Table 3: Top three reasons why businesses reported not growing in the past 12 months by market

| Australia | Mainland China | Hong Kong | Indonesia | Malaysia | New Zealand | Singapore | Vietnam |
|--|--|-------------------------------|-------------------------------|-------------------------------|---|-------------------------------|--|
| Poor overall economic environment 38% | Increasing costs 49% | Increasing costs 44% | Increasing costs 35% | Increasing costs 47% | Poor overall economic environment 28% | Increasing competition 40% | Increasing costs 51% |
| Falling sales 29% | Increasing competition 34% | Increasing competition 39% | Increasing competition 31% | Increasing competition 39% | Made choice not to grow the business 27% | Increasing costs 37% | Increasing competition 43% |
| Increasing costs 27% | Poor overall economic environment 33% | Increasing rent 31% | Political instability 28% | Falling sales 36% | Increasing competition 24% | Falling sales 33% | Poor overall economic environment 34% |

Q3-5: *And which of the following best describes why you believe your business remained static or declined in the past 12 months? (multiple response) (Australia n=334, Mainland China n=224, Hong Kong n=147, Indonesia n=71, Malaysia n=129, New Zealand n=162, Singapore n=147 and Vietnam n=108).*

- Of those businesses that reported not growing – that is, they remained static or declined over the past 12 months – the most popular reason for this was ‘increasing costs’, ‘increasing competition’ and a ‘poor overall economic environment’.
- ‘Increasing costs’ and ‘increasing competition’ were more significant issues for respondents from Asia than from Australia and New Zealand. This is not to say that the high cost of doing business in Australia is not an important issue. Larger Australian small businesses were significantly more likely to have attributed their lack of growth to increased costs than those with no employees.
- Small businesses from Singapore were the most likely to attribute their lack of growth to ‘increased competition’. Increased competition can also be seen as a positive for that economy, as it drives innovation and sees the fittest and strongest businesses survive. A lack of competitive pressure can also lead to complacency and long-term decline.
- Reflecting declining small business confidence in Australia’s economy, Australian respondents were the most likely to attribute their lack of growth to a ‘poor overall economic environment’.
- Respondents from New Zealand and Australia were significantly more likely than other respondents to have made the decision not to grow their business. This was particularly the case for Australian respondents that had no employees and those where the respondent was 60 or over. Such respondents may well be preparing for retirement and may therefore be winding down their operations rather than preparing for succession or sale. This result affects the survey in other ways, such as the low level of demand for external finance and the comparatively low uptake of social media in Australian and New Zealand small businesses.
- Only businesses from Mainland China found ‘problems accessing finance’ as a major reason for their lack of growth. This may help explain why non-bank sources of external finance are so popular in that market.
- It may be surprising to some that respondents were very unlikely to nominate ‘over-regulation’ as a major reason for their lack of growth. While ‘over-regulation’ may be a bugbear, it is clear that other issues are of significantly greater concern to respondents. This should not be seen as a reason for governments to not pursue regulatory reform, however.

- 'Increasing rent' and other costs remain a significant issue impacting the growth of Hong Kong small businesses. It is these and other business issues such as 'increased competition' that have had a major impact on the growth of many Hong Kong small businesses in the past 12 months.
- 'Falling sales' and 'problems with customer retention' are more significant issues for Malaysia's small businesses than the other markets. In such circumstances, seeking out new markets and/or reviewing the range of products or services offered may be beneficial to those small businesses.
- Mainland China and Vietnam have long had a reputation for being low-cost business locations. The results lend support to the contention that this is changing, particularly in Mainland China, and it is creating challenges for businesses in those markets. The focus of small businesses in Vietnam on improving their business model and staff productivity is a positive response to this trend.
- Other data from the survey shows:
 - Businesses from the wholesale trade industry that did not grow were very likely to attribute that to poor overall economic environment, while businesses from the accommodation and food services industry were highly likely to attribute their lack of growth to increasing costs.

Small business conditions – business growth or decline in the next 12 months

Chart 3: Percentage of respondents that expect their business to grow in the coming 12 months by market

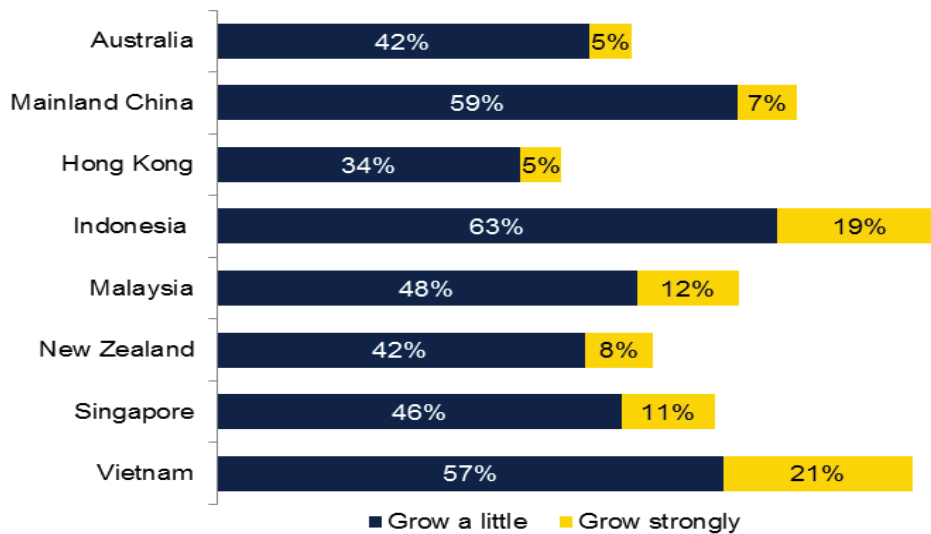
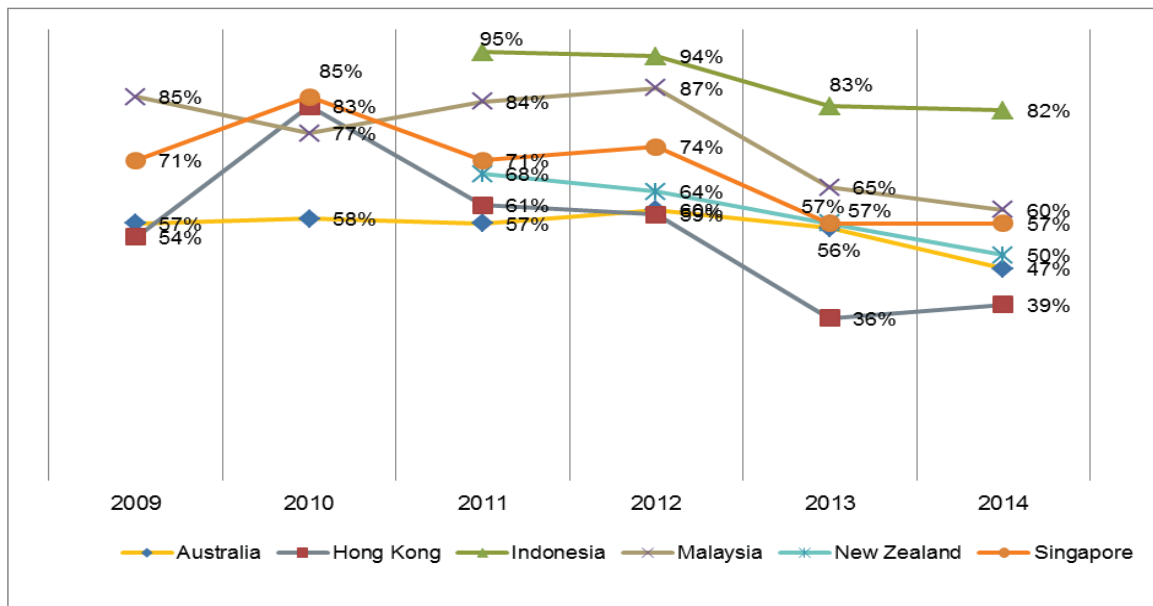


Chart 4: Percentage of respondents that expect their business to grow in the coming 12 months – 2009 survey through to 2014 survey by market[^]



[^] The survey was not conducted in Indonesia and New Zealand in 2009 and 2010. This is the first year Mainland China and Vietnam have been included in this survey and are therefore not shown in this chart.

Q3-6: In the next year do you expect your business to ...? (single response) (Australia n=510, Mainland China n=641, Hong Kong n=282, Indonesia n=312, Malaysia n=311, New Zealand n=310, Singapore n=310 and Vietnam n=309).

- Small businesses from emerging economies, particularly Indonesia, Vietnam and Mainland China, are again significantly more likely to expect their business to grow in the next 12 months than small businesses from developed economies.
- Reflecting the very high levels of confidence in Indonesia's economy, it is not surprising that small businesses from Indonesia are the most confident in the growth prospects for their business over the next 12 months. This is the fourth consecutive year that small businesses from Indonesia were the most likely to expect their business to grow in the coming 12 months. However, there has been an 11 percentage point drop in small businesses from Indonesia that expect to 'grow strongly' in this survey from the last.
- Reflecting the very high levels of confidence in Vietnam's economy, the percentage of small businesses from Vietnam that expect to grow is also very high.
- Small businesses from Mainland China, Malaysia and Singapore are also more likely to expect to grow in the next 12 months than not to grow.
- The percentage of small businesses from Malaysia that are expecting to grow is down somewhat from the last survey.
- The growth expectations for businesses from Hong Kong and Singapore are down significantly from their peak in 2010. Survey results show that Singaporean businesses have adapted better to this decline by reducing their demand for external finance.
- Despite New Zealand businesses being increasingly confident in the growth prospects for the New Zealand economy, they are actually less confident in the growth prospects for their business over the next 12 months than they were in the last survey.
- Small businesses in Australia and Hong Kong are more likely to expect their business not to grow than to grow in the next 12 months. Reflecting a drop in confidence in Australia's economy, more small businesses in Australia expect their business to not grow in the next 12 months than the last survey. On a positive note for Hong Kong, slightly more small businesses expect to grow in the next 12 months than was the case in the last survey.
- Other data from the survey:
 - Male respondents from Indonesia are significantly more likely to forecast their business will grow strongly than female respondents.
 - Businesses in Vietnam that have been established for five to ten years are more likely to expect their business to grow very strongly than businesses established for different periods of time.
 - Malaysian small businesses that have been established for less than five years are significantly more likely to expect to grow in the next 12 months than more established Malaysian businesses.
 - Of the cities from Mainland China included in the survey, small businesses from Chongqing are slightly more likely to expect their business to grow in the next 12 months than businesses from the other cities.
 - For small businesses from Australia and Singapore, the smaller the business, the significantly less confident they are about their growth prospects.
 - Older Australian respondents are more likely to expect their business not to grow in the next 12 months than younger respondents. This may be due to older Australian small businesses being significantly more likely to have made the decision not to grow their business.
 - Small businesses in Hong Kong, that have been established for shorter periods of time are more confident that they will grow over the next 12 months than more established Hong Kong businesses, particularly those that have been operating for longer than 20 years.
 - Growth expectations are strongest amongst businesses from the banking, finance and insurance sector (67 per cent expect to grow).

Why small businesses expect their business to grow over the next 12 months

Table 4: Top three reasons why small businesses expect to grow in the following 12 months

| Australia | Mainland China | Hong Kong | Indonesia | Malaysia | New Zealand | Singapore | Vietnam |
|--|---|--|--|--|---|-------------------------------------|-------------------------------------|
| Increasing sales 55% | Increasing sales 51% | Increasing sales 43% | Increasing sales 41% | Increasing sales 56% | Increasing sales 59% | Increasing sales 62% | Better customer retention 49% |
| Better customer retention 37% | Better customer retention 48% | Increasing staff productivity 35% | Implemented improved business model 30% | Implemented improved business model 43% | Positive overall economic environ. 36% | Better customer retention 46% | Better trained/skilled staff 47% |
| Implemented improved business model 27% | Positive overall economic environ. 45% | Implemented improved business model 31% | Increasing staff productivity 30% | Better customer retention 42% | Better customer retention 35% | Better trained/skilled staff 39% | Increasing sales 45% |

Q3-7: And which of the following best describes why you expect your business to grow next year? (multiple response) (Australia n=239, Mainland China n=409, Hong Kong n=110, Indonesia n=262, Malaysia n=184, New Zealand n=153, Singapore n=175 and Vietnam n=256).

- Of the businesses that expect to grow over the next year, 'increasing sales' followed by 'better customer retention' are the major expected drivers of business growth.
- A 'positive overall economic environment' is expected to be one of the major drivers of business growth in Mainland China and New Zealand but not so for Singapore in spite of the reasonably positive outlook for Singapore's economy.
- 'Increasing staff productivity' is expected to be one of the major drivers of business growth in Vietnam and Mainland China. With labour costs becoming an increasingly important consideration in those markets, it is positive to see small businesses in those markets intending to focus on staffing issues. Vietnam in particular seems focused on staffing issues, with better trained staff also considered a possible major driver of growth. Small businesses from Singapore are also more likely than most to attribute their growth expectations to better trained staff.
- Small businesses from Australia, Hong Kong and New Zealand are highly unlikely to rely on direct government support for their growth, while businesses in Malaysia are the most likely to attribute their growth prospects to government support. Larger small businesses are somewhat more likely to attribute their growth prospects to government support than smaller businesses; however, it remains relatively unimportant compared to other drivers of growth.
- Other data from the survey shows:
 - Small businesses from Indonesia that have been established for less than five years are significantly more likely to attribute their growth prospects to 'increasing sales' and 'better customer retention' than more established Indonesian businesses.
 - Businesses from the retail industry are the most likely to attribute their expected growth to 'increasing sales' and businesses from the transport and warehousing industry are the most likely to attribute their expected growth to 'better customer retention'.

Why small businesses do not expect their business to grow over the next 12 months

Table 5: Top three reasons why respondents do not expect their business to grow over the coming 12 months by market

| Australia | Mainland China | Hong Kong | Indonesia | Malaysia | New Zealand | Singapore | Vietnam |
|--|--|-------------------------------|---------------------------------|-------------------------------|--|--|---|
| Made choice not to grow business 32% | Increasing costs 53% | Increasing rent 41% | Increasing costs 25% | Increasing costs 51% | Made choice not to grow business 29% | Increasing costs 38% | Increasing competition 48% |
| Poor overall economic environment 30% | Poor overall economic environment 32% | Increasing costs 39% | Ageing capital equipment 22% | Introduction of GST 46% | Increasing costs 22% | Increasing competition 35% | Falling sales 34% |
| Increasing costs 26% | Increasing competition 32% | Increasing competition 35% | Over-regulation 20% | Increasing competition 35% | Poor overall economic environment 20% | Poor overall economic environment 23% | Poor overall economic environment. 32% |

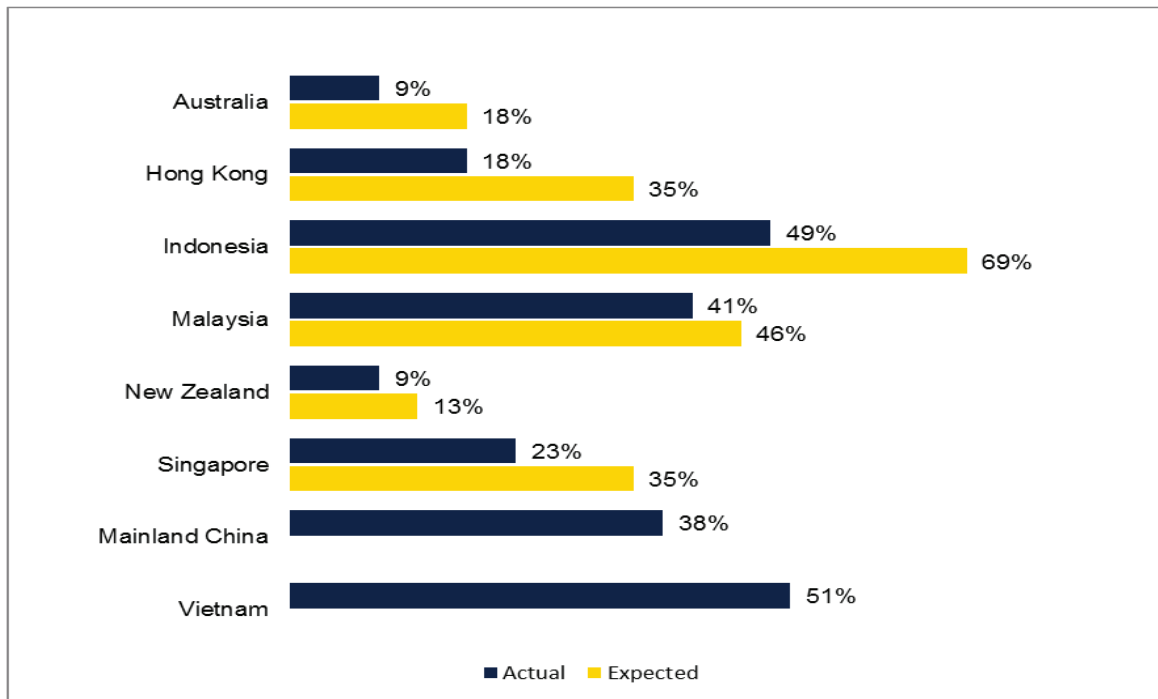
Q 3-8: And which of the following best describes why you expect your business to remain static or decline next year? (multiple response) (Australia n=258, Mainland China n=228, Hong Kong n=162, Indonesia n=48, Malaysia n=119, New Zealand n=147, Singapore n=129 and Vietnam n=50).

- Of those businesses that do not expect to grow – that is, they expect to remain static or to decline over the next year – the most popular reason for that expectation in all markets is ‘increasing costs’, which was also the most popular reason in the 2013 survey. This is particular so in Mainland China and Malaysia and for larger small businesses.
- As with the 2013 survey results, ‘poor overall economic environment’ and ‘increasing competition’ are also popular reasons as to why businesses think they will not grow next year. ‘Increasing competition’ is a particularly strong reason for those businesses that expect not to grow in Vietnam, while it is not so important in Australia and New Zealand. A strong competitive environment, while it may not be beneficial to all businesses, is by and large a positive as it encourages innovation and the emergence of stronger businesses.
- Consistent with the 2013 survey results, rent is an issue that is affecting the growth of many Hong Kong small businesses, with businesses in that market being significantly more likely to select that as a reason as to why they expect not to grow than any of the other markets.
- Reflecting the focus on ‘increasing staff productivity’ and ‘better trained staff’ to grow businesses, small businesses from Vietnam were the most likely to select ‘poor quality staff’ as a reason why they think their business will not grow in the next 12 months.
- Small businesses from Australia and New Zealand are by far the most likely to expect their business not to grow because they have made the decision not to grow. In both markets businesses with no employees, an annual turnover of less than AU\$200,000 or NZ\$250,000 or where the respondent is aged 60 or over are significantly more likely than other respondents to have made the decision not to grow their business.
- Not surprisingly, the introduction of a goods and services tax (GST) in Malaysia on 1 April 2015 is the most popular reason cited by Malaysian small businesses for not expecting to grow over the next 12 months. Past experience indicates that the introduction of a GST or an increase in the rate of a GST affects consumer behaviour and therefore businesses. However, that those impacts are typically only temporary.
- Other data from the survey shows:
 - Businesses from the manufacturing sector were the most likely to attribute their lack of growth expectations to increasing costs. Businesses from the retail industry were the most likely to attribute their lack of expected growth to increasing competition.

Small business employment

Percentage of small businesses increasing employee numbers – a comparison of actual versus expected for the past 12 months

Chart 5: Comparison of the percentage of respondents that increased employee numbers in the past 12 months to expectations by market[^]



[^] The expectations for the past 12 months have been taken from the 2013 survey. Given Mainland China and Vietnam have been included in this survey for the first time this year, we do not have their expectations for the past 12 months.

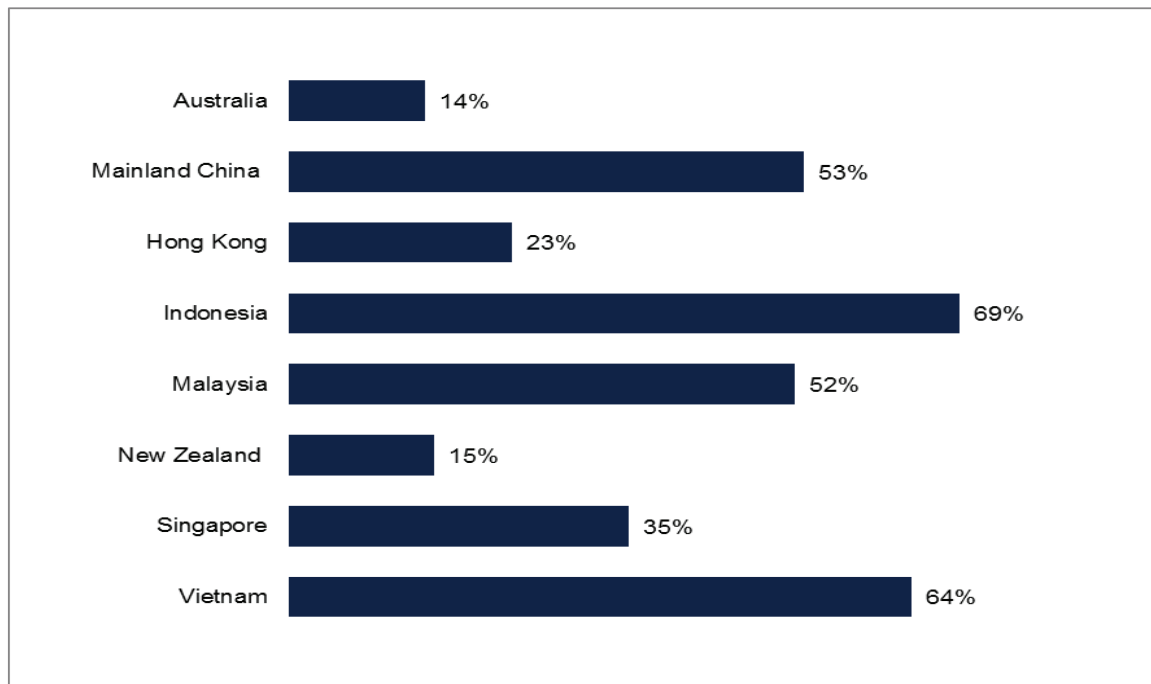
Q 3-9: In the past 12 months, has your business ...? (single response)(Australia n=510, Mainland China n=641, Hong Kong n=282, Indonesia n=312, Malaysia n=311, New Zealand n=310, Singapore n=310 and Vietnam n=309).

- As in previous surveys, small businesses from advanced economies are significantly less likely to have increased employee numbers than small businesses from emerging economies. This reflects the strong economic sentiment and higher business growth being reported by small businesses from emerging markets.
- The percentage of Indonesian businesses that actually increased employee numbers was, however, well below expectations.
- Malaysia's actual increase in employee numbers for the past 12 months was well above the 27 per cent of Malaysian businesses that actually increased staff numbers in 2013.
- The number of small businesses in Australia increasing employee numbers was 50 per cent below expectations. This reading in part reflects the fall in economic confidence amongst many Australian small businesses over the past 12 months.
- The relatively low percentage of Hong Kong and Singaporean businesses that increased staff numbers may be attributed to many of them focusing on improving staff productivity and providing better training to staff, which can reduce the need for additional staff.
- Not surprisingly, larger small businesses in terms of employees were more likely to increase staff numbers in the past 12 months than smaller businesses.

- Other data from the survey shows:
 - In Singapore, respondents aged under 30 were more likely to have increased staff numbers than older respondents.
 - Of the cities from Mainland China included in this survey, Shanghai small businesses were slightly most likely to have increased employee numbers over the preceding 12 months than the other cities.
 - In Vietnam, businesses established from 11 to 20 years were significantly more likely to have increased employee numbers than those that have operated between five to nine years.
 - In New Zealand, respondents aged 60 and over were more likely to nominate that they neither increased nor decreased employee numbers than younger respondents.
 - Businesses from the manufacturing industry were the most likely to add staff in the past 12 months while businesses from the retail sector were the least likely.

Expected movement in employee numbers in the next 12 months

Chart 6: Percentage of respondents that expect to increase employee numbers in the next 12 months by market



Q3-10: *In the next 12 months, do you expect your business to? (single response) (Australia n=510, Mainland China n=641, Hong Kong n=282, Indonesia n=312, Malaysia n=311, New Zealand n=310, Singapore n=310 and Vietnam n=309).*

- As with the actual increase in employee numbers over the past 12 months, small businesses from emerging economies are significantly more likely to expect to add to their employee numbers over the coming 12 months. Again, this reflects the strong economic sentiment and positive business conditions in those economies, particularly Indonesia and Vietnam.
- Not surprisingly, the more employees a small business has, the more likely they are to expect to increase employee numbers over the next 12 months.
- Other data from the survey shows:
 - In Australia and New Zealand, the older the respondent, particularly those over 60, the less likely they are to expect to increase or decrease employee numbers over the next 12 months.
 - In Indonesia, businesses established between five to ten years are significantly more likely to expect to increase staff numbers than those established 11 to 20 years.
 - In Vietnam, in a reverse of the data for the past 12 months, businesses established between five to ten years are significantly more likely to expect to increase employee numbers in the next 12 months than those established between 11 and 20 years.
 - Reflecting the very positive sentiment in Chongqing, small businesses from that city were the most likely of the cities from Mainland China included in this survey to expect to add staff.
 - Of those industries with a statistically robust response rate, businesses from the manufacturing sector are the most likely to expect to increase staff numbers in the next 12 months while businesses from the agricultural sector are the least likely.

THE SMALL BUSINESS ENVIRONMENT

The issues shaping the small business environment over the past 12 months

Table 6: The top three issues that best describe the small business environment in the past 12 months by market

| Australia | Mainland China | Hong Kong | Indonesia | Malaysia | New Zealand | Singapore | Vietnam |
|---|-------------------------------|---|------------------------------|------------------------------|--|---|-------------------------------|
| Business conditions more difficult than expected 38% | Increasing costs 60% | Increasing costs 56% | Increasing costs 47% | Increasing costs 59% | Increasing costs 32% | Increasing costs 55% | Increased competition 49% |
| Increasing costs 37% | Increased competition 51% | Increased competition 41% | Increasing sales 44% | Increased competition 50% | Business conditions more difficult than expected 27% | Increased competition 44% | Increasing costs 42% |
| Decreasing sales 25% | Cash flow difficulties 32% | Business conditions more difficult than expected 38% | Increased competition 38% | Increasing sales 30% | Business conditions more favourable than expected 24% | Business conditions more difficult than expected 35% | Cash flow difficulties 34% |

Q3-1: Which of the following best describes the environment your business operated under in the past 12 months? Please select all that apply. (multiple response) (Australia n=510, Mainland China n=641, Hong Kong n=282, Indonesia n=312, Malaysia n=311, New Zealand n=310, Singapore n=310 and Vietnam n=309).

- 'Increasing costs' was a more prominent issue shaping the business environment in Hong Kong, Malaysia, Singapore and Indonesia than was the case in 2013 while it was a less prominent issue for Australia and New Zealand.
- Reflecting relatively low small business confidence in the economies of Australia and Hong Kong, small businesses from those markets are the most likely to state that business conditions in the past 12 months were more difficult than expected.
- As is reflected elsewhere in the survey, small businesses in Asia were significantly more likely to state that their business environment was shaped by 'increased competition' than businesses from Australia and New Zealand.
- Businesses from Vietnam and Mainland China were the most likely to nominate that they experienced cash flow difficulties over the past 12 months. Relatively difficult financing conditions in those markets, particularly Mainland China, may have contributed to this. Businesses in a growth phase often experience cash flow difficulties.
- Possibly explaining why many businesses from Vietnam are focused on improving staff productivity and better trained staff, they were the most likely to experience difficulty retaining and recruiting staff.
- Not surprisingly, Mainland China and Vietnam were the most likely to see opportunities emerge over the past 12 months. What is surprising, however, is that there were not more Indonesian small businesses seeing opportunities emerge.
- It is worth noting that New Zealand was the only market that showed polarised sentiment, as many thought conditions had been more difficult as thought they had been more favourable.

- As other results from the survey show, government incentives play only a small role in shaping the small business environment and the success or otherwise of small businesses.
- Other data from the survey shows:
 - In Australia, businesses with five to nine staff were more likely than other businesses to state that ‘increasing costs’ shaped their business environment.
 - Businesses in Australia and New Zealand with no staff were more likely than larger small businesses from those markets to state that their business environment did not change in the past 12 months.
 - In Hong Kong, Indonesia, Malaysia, New Zealand and Singapore, businesses with 10 to 19 staff were more likely to have been impacted by ‘increasing costs’ than smaller business. In Hong Kong, businesses of that size were also more likely to have experienced ‘increased competition’ than smaller Hong Kong businesses.
 - Businesses from the wholesale trade industry appear to be trading in a more difficult environment than most industries. Businesses in that industry were more likely than most to report their environment was shaped by increasing costs, increasing competition and cash flow difficulties.

How businesses responded to their environment

Table 7: Top three responses to their business environment by market

| Australia | Mainland China | Hong Kong | Indonesia | Malaysia | New Zealand | Singapore | Vietnam |
|--|--|------------------------------------|--|----------------------------|----------------------------|--|--|
| Reviewed costs 36% | Grown your business 45% | Reviewed costs 44% | Grown your business 46% | Reviewed costs 45% | Reviewed costs 34% | Reviewed costs 39% | Grown your business 44% |
| Focused on improving customer retention 23% | Increased marketing 43% | Increased marketing 33% | Increased marketing 34% | Increased marketing 44% | Grown your business 24% | Increased marketing 34% | Reviewed costs 41% |
| None of these 20% | Focused on improving staff productivity 42% | Changed your business model 28% | Focused on improving customer retention 24% | Entered new markets 34% | None of these 23% | Focused on improving customer retention 29% | Focused on improving customer retention 41% |
| | | | | Grown your business 34% | | | Focused on improving staff productivity 38% |

Q3-2: In response to this environment, have you ... (multiple response) Australia n=510, Mainland China n=641, Hong Kong n=282, Indonesia n=312, Malaysia n=311, New Zealand n=310, Singapore n=310 and Vietnam n=309).

- Given the prominence of 'increasing costs' to small businesses in most markets, it is not surprising that 'reviewing costs' was the most popular choice when businesses were asked how they responded to their environment in the past 12 months.
- It is not surprising given the very positive sentiment that small businesses in Vietnam, Indonesia and Mainland China were significantly more likely to have grown their business in response to their environment than the other markets.
- Tied to positive business conditions, small businesses from Mainland China were the most likely to have 'increased marketing' and 'focused on improving customer retention'. Somewhat surprisingly given the high levels of confidence, small businesses in Vietnam were more likely to have focused on customer retention than increased marketing, however, this may reflect high levels of competition in that market.
- Reflecting the significant number of respondents from Australia and New Zealand that are happy not to grow their businesses, businesses from both markets are significantly less likely to have increased marketing in the past 12 months than the other markets.
- It is not surprising that with rent being such an important issue in Hong Kong, businesses in that market were the most likely to have moved premises in the past 12 months.
- As is reflected in other sections of this report, small businesses from Mainland China and Vietnam are significantly more likely to have focused on staff issues than the other markets. Given concerns over labour costs and labour shortages in those markets, this focus is good business practice which should lead to more competitive and profitable businesses in the long run.
- As with last year's survey, small businesses from Australia and New Zealand were significantly more likely to have not done anything to respond to their environment than the other markets surveyed (20 per cent in Australia and 23 per cent in New Zealand). Given the large number of businesses from those markets that have made the decision not to grow their business, this response is of no surprise.
- The larger the small business, the more likely they were to have selected that they grew their business in response to their environment in the past 12 months.

- Other data from the survey shows:
 - In Australia, smaller businesses were less likely to have reviewed their costs and margins, grown their business and invested in new capital assets and more likely to have done nothing in response to their environment in the past 12 months.
 - In New Zealand, businesses with no employees were less likely to have reviewed costs and more likely to have done nothing in response to their business environment than larger businesses.
 - In Hong Kong, respondents aged 60 and over were significantly more likely to have reviewed costs in the past 12 months than younger respondents. Younger businesses were more likely to have focused on marketing and customer retention.

Which costs have had the most detrimental impact in the past 12 months?

Table 8: Top three most detrimental costs – a comparison between the 2013 and 2014 results by market

| Australia | | Hong Kong | | Indonesia | | Malaysia | |
|-------------------------------------|-------------------------------------|------------------------|----------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 |
| Utility costs 56% | Fuel for vehicles, machinery 36% | Rent 55% | Rent 62% | Fuel for vehicles, machinery 38% | Utility costs 42% | Fuel for vehicles, machinery 59% | Utility costs 51% |
| Fuel for vehicles, machinery 46% | Utility costs 35% | Staff costs 50% | Staff costs 50% | Utility costs 37% | Fuel for vehicles, machinery 36% | Utility costs 56% | Fuel for vehicles, machinery 49% |
| Taxes 39% | Taxes 28% | Borrowing costs 31% | Utility costs 25% | Rent 36% | Borrowing costs 31% | Staff costs 51% | Staff costs 45% |
| New Zealand | | Singapore | | Mainland China [^] | Vietnam [^] | | |
| 2013 | 2014 | 2013 | 2014 | 2014 | 2014 | | |
| Fuel for vehicles, machinery 55% | Fuel for vehicles, machinery 33% | Staff costs 52% | Staff costs 45% | Staff costs 58% | Borrowing costs 47% | | |
| Utility costs 35% | Utility costs 26% | Rent 49% | Rent 45% | Rent 57% | Fuel for vehicles, machinery 45% | | |
| Taxes 29% | Taxes 25% | Utility costs 44% | Utility costs 34% | Borrowing costs 46% | Staff costs 41% | | |
| | | | | | Taxes 41% | | |

[^] Mainland China and Vietnam were not included in the 2013 survey.

Q3-11: And what cost increases have been most detrimental to your business in the past 12 months? (multiple response) (Australia n=510, Mainland China n=641, Hong Kong n=282, Indonesia n=312, Malaysia n=311, New Zealand n=310, Singapore n=310 and Vietnam n=309).

- As with the previous survey, Hong Kong small businesses were the most likely to nominate rent as the cost increase that had the most detrimental impact on their business in the past 12 months. Further, the percentage of Hong Kong businesses that nominated rent as a major detrimental cost is up seven percentage points from the 2013 survey. Rent is also an important issue for businesses in Mainland China but significantly less so for businesses in Australia and New Zealand, particularly those with no employees.
- Rent is a significantly less detrimental cost to businesses established more than ten years than younger businesses and for businesses with less than five employees than larger small businesses. This may be due to more established businesses owning their premises and or microbusinesses working from home.
- Staff costs are also a significant issue for respondents from Mainland China and Hong Kong. This may help to explain the positive focus on staff productivity of many small businesses from Mainland China.

- The percentage of Australian small businesses that nominated taxes as being a cost detrimental to their business dropped 11 percentage points in this survey from the last, possibly reflecting the repeal of the carbon tax. Also possibly reflecting the repeal of the carbon tax, the percentage of Australian small businesses that nominated utility costs as having a major detrimental impact on their business fell 21 percentage points in this survey from the last.
- Malaysian and Indonesian small businesses reported a significant increase in the percentage that thought borrowing costs were a major detrimental cost in the past 12 months from the 2013 survey. Given the high percentage of businesses, particularly from Indonesia, that have borrowed, this is not surprising.
- Other data from the survey shows:
 - Utility costs had a significantly less detrimental impact on Australian businesses established less than five years than more established businesses.

SMALL BUSINESS ACCESS TO FINANCE

Businesses that required external funds in the past 12 months

Chart 7: Percentage of small businesses that required external funds in the past 12 months versus expectations for that period by market[^]

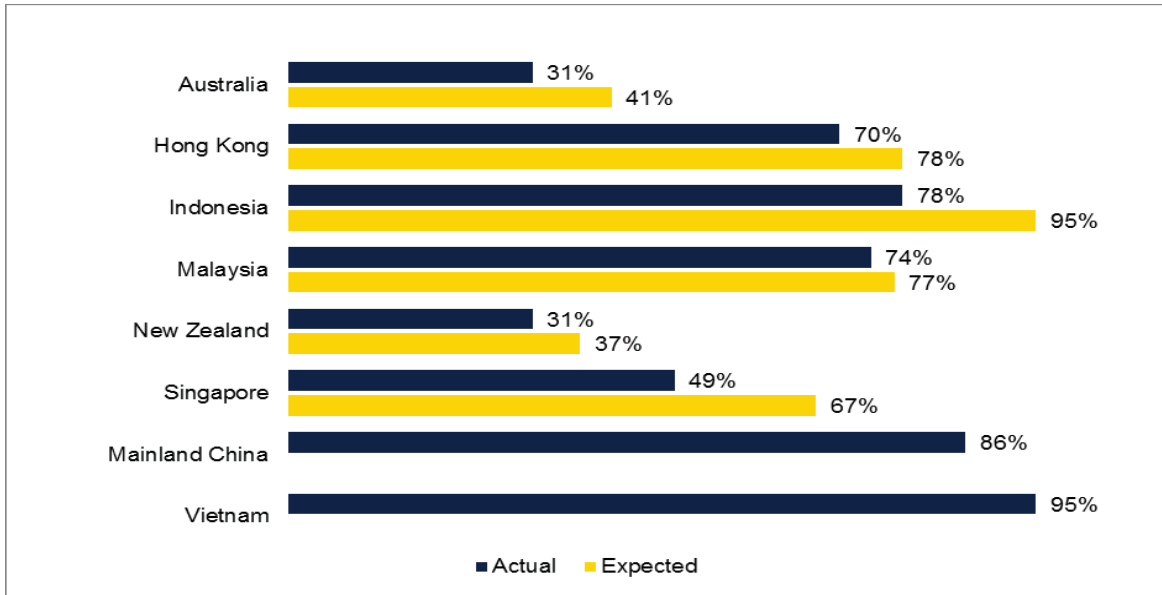
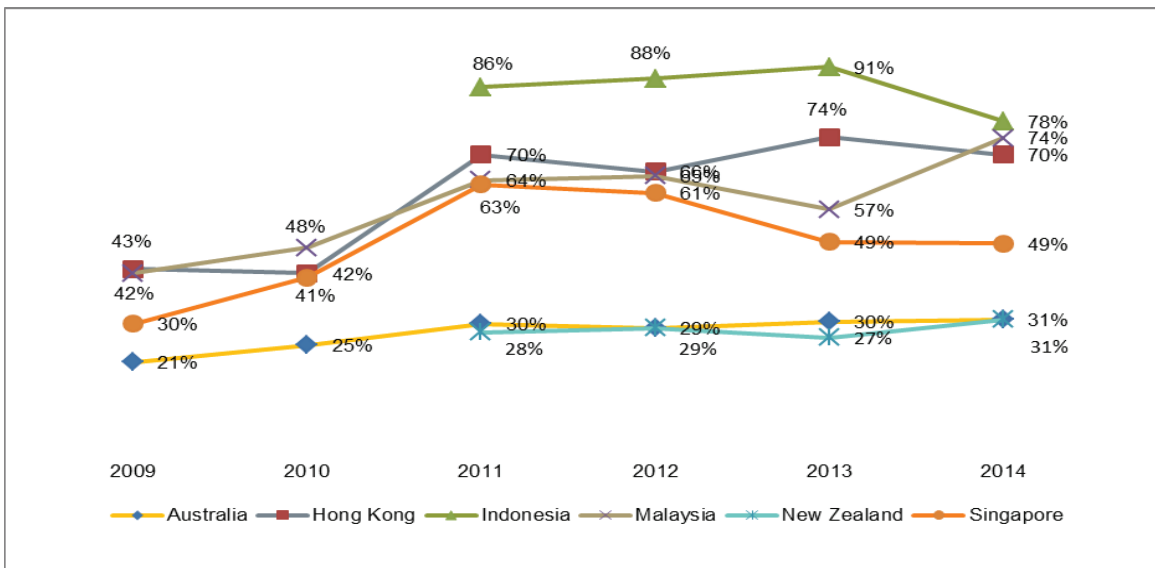


Chart 8: Percentage of businesses that required external funds – 2009 to 2014[^]



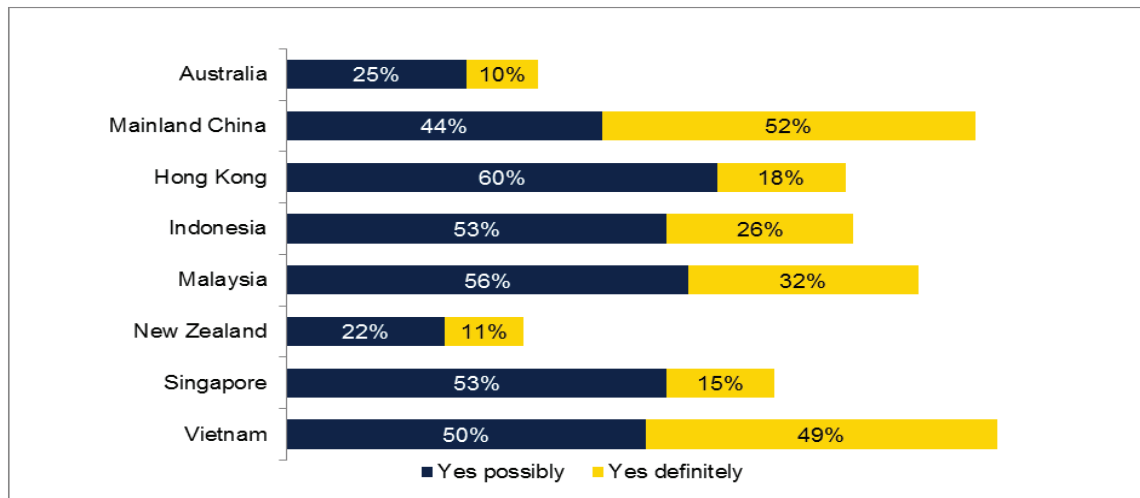
[^] The survey was not conducted in Indonesia and New Zealand in 2009 and 2010. This is the first year Mainland China and Vietnam have been included in this survey, therefore previous data is not available for Chart 7 and both of those markets are not shown on Chart 8.

Q2-1: In the last year, has your business required funds from external sources? (single response) (Australia n=510, Mainland China n=641, Hong Kong n=282, Indonesia n=312, Malaysia n=311, New Zealand n=310, Singapore n=310 and Vietnam n=309).

- Demand for external finance remains significantly higher in Asia than in Australia or New Zealand.
- The percentage of Australian and New Zealand small businesses seeking external finance has remained relatively constant over the past six years despite shifts in economic confidence, business conditions and easier financing conditions. This relatively low demand for finance in those markets is due in part to the significantly higher proportion of smaller business (that is, less than five employees) and older respondents in those markets, which results show are significantly less likely to seek external finance partly because many respondents in these categories are not interested in growing their business.
- With most small businesses from Australia that have required external finance over the past two years reporting the process easy to very easy, there is little evidence to support the contention that difficult financing conditions are hindering Australian small businesses from seeking finance.
- As in previous years, Hong Kong businesses, despite low levels of economic confidence and relatively poor business conditions, remain significantly more likely to seek external finance than not. A stronger focus on cash flow management and cutting the need for non-essential borrowing should reduce the demand for external funds by Hong Kong businesses while business conditions remain relatively difficult.
- Reflecting the positive business conditions in Vietnam, Mainland China and Indonesia, businesses from these markets were the most likely to have required external funds in the past 12 months. It is however noted that the percentage of Indonesian businesses that required external funds was below expectations.
- When comparing actual demand for external funds in 2014 to expected demand for 2014, we see a significant jump in the percentage of Malaysian small businesses that required external funds, which is consistent with the large increase in economic confidence in Malaysia.
- Other data from the survey shows:
 - For Hong Kong, larger small businesses and those established more than five years were significantly more likely to have required external finance than other Hong Kong businesses.
 - Of the cities from Mainland China that participated in the survey, businesses from Chongqing were the most likely to have required external funds in the past 12 months, reflecting the slightly higher confidence amongst small businesses from that city.
 - In Indonesia, businesses that have been established 11 to 20 years were significantly less likely to require external funds than less established businesses. Respondents aged 40 to 49 were also significantly less likely to require external funds than younger respondents.
 - Manufacturing and utility businesses (83 per cent) were the most likely to have required external funds in the past 12 months while businesses from the health care and social assistance sector (48 per cent) were the least likely.

Expected financing need in the next 12 months

Chart 9: Percentage of businesses that expect to demand external funds over the next 12 months by market



Q2-5: Do you envisage that your business will seek external funds over the next 12 months? (single response) (Australia n=510, Mainland China n=641, Hong Kong n=282, Indonesia n=312, Malaysia n=311, New Zealand n=310, Singapore n=310 and Vietnam n=309).

- As with the actual demand for external finance in the past 12 months, Australian and New Zealand small businesses are significantly less likely than small businesses from Asia to indicate that they will definitely or possibly need external finance over the next 12 months. Relatively weaker business conditions and the older and smaller profile of small businesses in Australia and New Zealand compared to the other markets helps to explain this lack of expected demand.
- The results for Australia and New Zealand (low expected demand for finance, relatively easy financing conditions) and Mainland China (extremely high demand for finance, relatively difficult financing conditions) indicate the link between ease or difficulty of borrowing and the demand for external funds is weak. Business issues are much more significant in influencing demand or the lack of demand for external finance.
- In Hong Kong, the large number of businesses that anticipate seeking external finance in 2015 does not match Hong Kong's relatively weak economic confidence and business conditions. We would expect that in such an environment, the number of businesses seeking external finance would be lower as we would presume that many would respond to this environment by cutting non-essential borrowing and seeking to maximise cash in the business as a potential internal source of finance. The expected high demand for external finance within Hong Kong businesses is fairly strong regardless of business size or how long they have been in business.
- The expected demand for external finance for Malaysia and Singapore is largely in line with forecast business growth.

Reasons for seeking external finance

Table 9: Top three reasons for demanding external funds by market

| Australia | Mainland China | Hong Kong | Indonesia | Malaysia | New Zealand | Singapore | Vietnam |
|--------------------------------|--------------------------------|----------------------------------|--------------------------------|--------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Business growth 41% | Business growth 75% | Business growth 52% | Business growth 52% | Business growth 64% | Business growth 32% | Business growth 55% | Business growth 64% |
| Business survival 28% | Purchase capital assets 52% | Cover increasing expenses 42% | Business survival 42% | Purchase capital assets 49% | Purchase capital assets 27% | Cover increasing expenses 38% | Cover increasing expenses 34% |
| Purchase capital assets 27% | Business survival 49% | Business survival 39% | Purchase capital assets 31% | Business survival 39% | Cover increasing expenses 26% | Purchase capital assets 36% | Purchase capital assets 30% |
| | | | | | Business survival 26% | | |

Q2-3: And which of the following best describe the reasons for requiring the external funds? (multiple response) (Australia n=157, Mainland China n=553, Hong Kong n=197, Indonesia n=255, Malaysia n=229, New Zealand n=95, Singapore n=152 and Vietnam n=295).

- It is pleasing that 'business growth' was the most popular reason cited for requiring external finance in each of the markets surveyed. Larger small businesses were significantly more likely than smaller businesses to have required external finance for 'business growth'.
- It is perplexing as to why small businesses from Mainland China and Indonesia were the most likely to have required external finance for 'business survival' when economic confidence and business conditions are very positive in both markets. It could be that respondents equate growth with survival.
- For Mainland China and Malaysia, the high percentage that required external finance in the past year to fund the purchase of capital assets is positive. Such investment, if well managed, should produce more profitable, productive and competitive businesses in the future. It is surprising given recent strong growth that Indonesian small businesses were not more likely to have required external finance to purchase capital assets.
- Reflecting concerns over the increasing costs of doing business in Mainland China and Hong Kong, it is not surprising that small businesses from these markets were the most likely to nominate 'covering increasing expenses' as a major reason why they required external finance (43 per cent in Mainland China). Businesses should, however, be looking at ways to better manage costs and paying them from cash flow before considering borrowing to cover expenses.
- Other data from the survey shows:
 - In Indonesia, small businesses that have been established less than ten years were significantly more likely to have required external funds in the past year for business growth than businesses established between 11 and 20 years.
 - Wholesale trading businesses were the most likely to require external finance for business growth (72 per cent) while businesses from the agricultural sector were the least likely to require finance to fund growth (38 per cent).

Reasons for expecting to obtain finance over the next 12 months

Table 10: Top three reasons for expecting to obtain external finance over the next 12 months by market

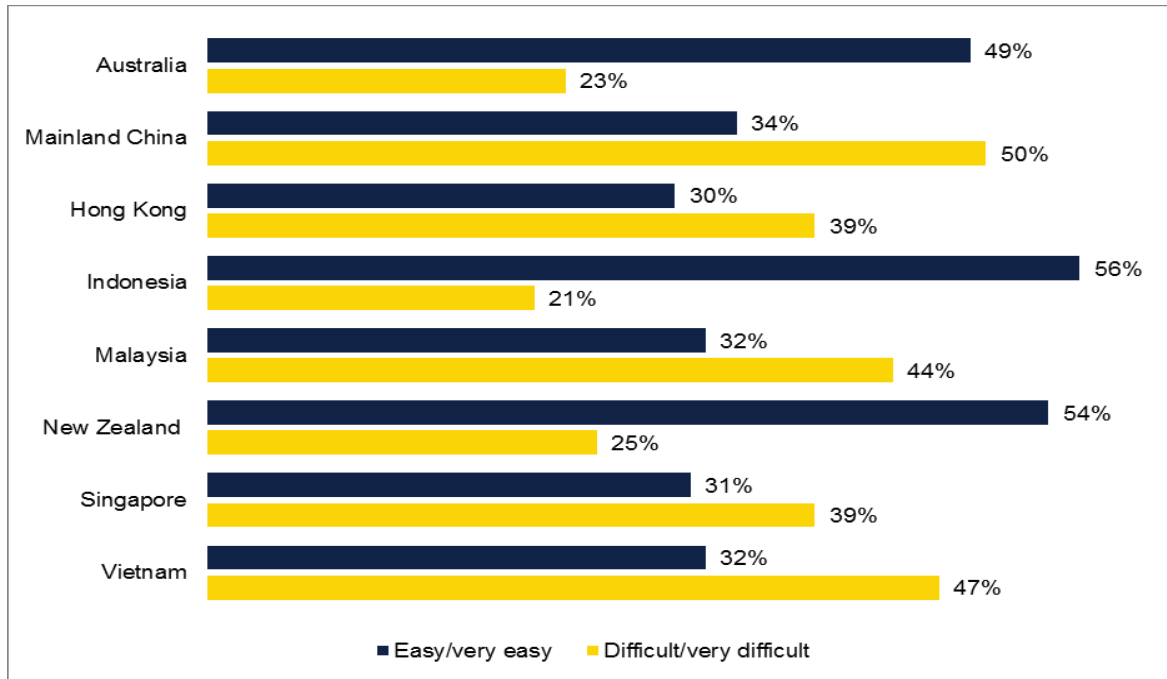
| Australia | Mainland China | Hong Kong | Indonesia | Malaysia | New Zealand | Singapore | Vietnam |
|----------------------------------|--------------------------------|----------------------------------|--------------------------------|--------------------------------|--------------------------------|----------------------------------|----------------------------------|
| Business growth 50% | Business growth 70% | Business growth 50% | Business growth 56% | Business growth 62% | Business growth 38% | Business growth 67% | Business growth 69% |
| Business survival 26% | Business survival 42% | Business survival 37% | Business survival 38% | Purchase capital assets 39% | Business survival 26% | Purchase capital assets 26% | Cover increasing expenses 26% |
| Purchase capital assets 24% | Purchase capital assets 41% | Cover increasing expenses 34% | Purchase capital assets 31% | Business survival 37% | Purchase capital assets 20% | Cover increasing expenses 24% | Purchase capital assets 22% |
| Cover increasing expenses 24% | | | | | | | |

Q2-7: And which of the following best describe the reasons why you believe your business may seek external funds over the next 12 months? (multiple response) (Australia n=180, Mainland China n=617, Hong Kong n=220, Indonesia n=252, Malaysia n=274, New Zealand n=101, Singapore n=213 and Vietnam n=305).

- Across all markets, small businesses are most likely to seek that external finance to fund business growth.
- It is positive that so many businesses in Mainland China and Malaysia expect to seek external finance in the next 12 months to fund capital purchases. If such purchases are well planned and managed, they may become important contributors to increased productivity, competitiveness and profitability of those businesses.
- With the data showing increasing costs are a major issue facing small businesses in Mainland China and Hong Kong, it is not surprising that businesses in both markets are more likely to expect to seek external finance to cover increasing expenses. Borrowing for such purposes should be the last resort – improving cost structures and increasing cash flow to pay for such expenses should be the priority.
- It remains difficult to understand why businesses in Mainland China and Indonesia are more likely to expect to seek external finance for business survival than the other markets. It may be that they equate survival with growth.
- Other data from the survey shows:
 - In Hong Kong, businesses that have been established for more than 20 years or where the respondent is aged 50 to 59 are the most likely in that market to expect to seek external finance for business growth.
 - In Indonesia, businesses that have been established five to ten years are significantly more likely to expect to need external finance for business growth than other businesses.
 - Malaysian respondents under 30 are significantly more likely to expect to need external funds for business growth than older respondents.

Ease or difficulty in accessing finance

Chart 10: Comparison of businesses that experienced easy to very easy access with those that experienced difficult to very difficult access to finance in past 12 months by market

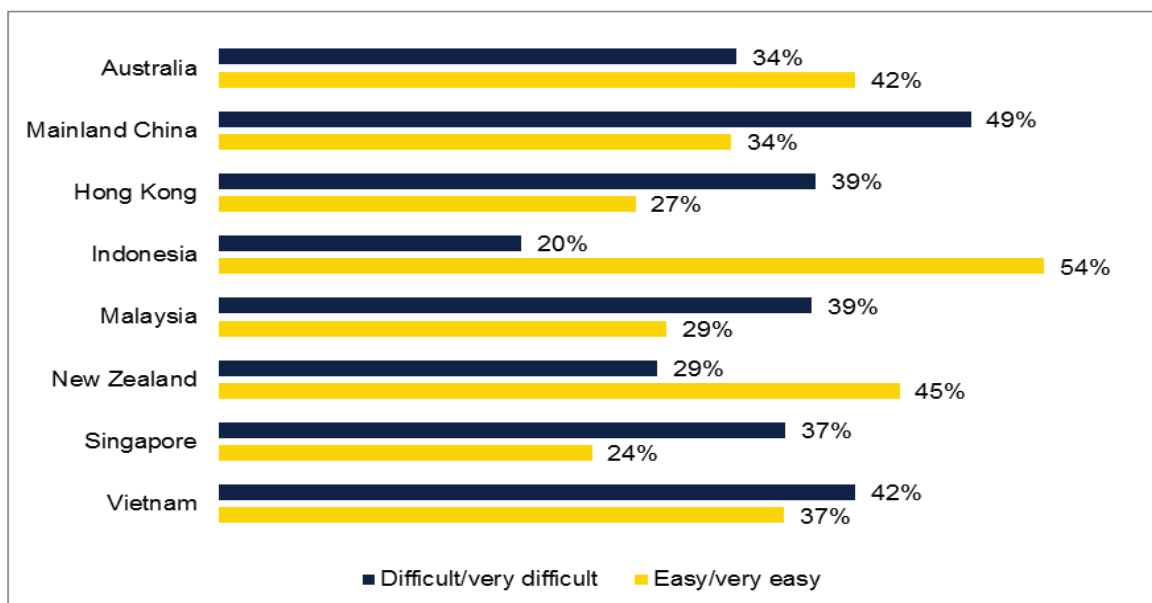


Q2-4: Please indicate how easy or difficult it was for your business to access the external funding? (single response) (Australia n=157, Mainland China n=553, Hong Kong n=197, Indonesia n=255, Malaysia n=229, New Zealand n=95, Singapore n=152 and Vietnam n=295).

- Of the small businesses that required external funds in the past 12 months, actual financing conditions were easier than expected in all markets previously surveyed, particularly New Zealand and Australia.
- As in 2013, small businesses from Indonesia, New Zealand and Australia were significantly more likely to experience easy or very easy financing conditions than difficult financing conditions. For Australia and New Zealand, this ease in accessing finance is not translating through to increased demand for external finance.
- Small businesses from Mainland China were the most likely to state that financing conditions were difficult or very difficult. This may help explain why non-bank sources of finance (for example, investors) are very popular sources of finance in that market.
- Larger small businesses were significantly more likely to have experienced difficult financing conditions than smaller businesses.
- Other data from the survey shows:
 - In Indonesia, respondents who are aged between 40 and 49 were significantly more likely to have found financing conditions easy than respondents aged between 30 and 39.

Expected ease or difficulty in accessing external funds in the next 12 months

Chart 11: Comparison of the businesses that expect financing conditions in the next 12 months to be easy with those that expect it to be difficult by market



Q2-9: Please indicate how easy or difficult you think it is going to be for your business to raise or borrow the external funds you need over the next 12 months. (single response) (Australia n=180, Mainland China n=617, Hong Kong n=220, Indonesia n=252, Malaysia n=274, New Zealand n=101, Singapore n=213 and Vietnam n=305).

- The percentage of small businesses that believe sourcing finance will be 'easy' is up from expectations in the 2013 survey, indicating that there is a perceived easing of financing conditions across the region.
- This is not to say that financing conditions will be 'easy' in all markets, with nearly half of respondents from Mainland China expecting borrowing to be difficult or very difficult. Such difficulty is not having a significant impact on business confidence nor the demand for external finance in that market. However, it may be encouraging businesses to look to non-bank sources of finance as businesses from Mainland China are the least likely to expect to source finance from a bank in 2015 and most likely to source finance from a variety of non-bank sources.
- Vietnam is the only market where small businesses are more likely to expect financing conditions will be easier in the next 12 months than actual financing conditions in the past 12 months.
- Other data from the survey shows:
 - Indonesian businesses that have been established between 11 and 20 years or where the respondent is aged between 41 and 50 are significantly more likely to expect financing conditions to be easy than other businesses from that market.
 - Businesses from the agricultural sector are the most likely to expect financing conditions will be easy over the coming 12 months.

Sources of external finance

Table 11: Top three sources of external finance in the past 12 months by market

| Australia | Mainland China | Hong Kong | Indonesia | Malaysia | New Zealand | Singapore | Vietnam |
|----------------------|--|----------------------|---------------------------------------|----------------------|-----------------------|-------------------------|-----------------------|
| Bank 62% | Bank 61% | Bank 61% | Bank 60% | Bank 62% | Bank 68% | Bank 59% | Bank 70% |
| Own resources 28% | Investor 42% | Investor 51% | Non-bank financial institution 40% | Investor 41% | Own resources 28% | Investor 29% | Investor 45% |
| Investor 14% | Friends/family, own resources, non-bank financial institution 41% | Own resources 27% | Investor 39% | Own resources 36% | Friends/family 12% | Government grant 27% | Friends/family 35% |

Q2-2: And from which of the following sources were those 'external funds' obtained? (multiple response) (Australia n=157, Mainland China n=553, Hong Kong n=197, Indonesia n=255, Malaysia n=229, New Zealand n=95, Singapore n=152 and Vietnam n=295).

- As in previous surveys, of those respondents that required external funds in the past 12 months, banks were the most popular source of that finance.
- In Mainland China, non-bank sources of finance were relatively more popular than other markets. This most likely reflects the difficulty many small businesses from Mainland China experienced in accessing finance in the past 12 months.
- There has been a significant drop in the popularity of family and friends as a source of finance in Hong Kong, Indonesia, Malaysia and Singapore from the 2013 survey, possibly as a result of financing conditions in those markets being slightly better than expected.
- Hong Kong small business owners were significantly less likely to have contributed their own funds to their business in 2014 than 2013.
- For Hong Kong, the 2014 results show a strong shift towards investors as a source of finance. With Hong Kong businesses seemingly over-reliant on external finance, involving investors in the business may help to improve business management practices and therefore possibly reduce the reliance on external finance over time, although it may increase costs in the short term.
- Businesses from Singapore, Malaysia and Hong Kong were more likely to have sourced finance from government grants than other markets.
- Possibly reflecting a strong start-up culture in Malaysia, Mainland China, Singapore and Hong Kong, businesses in those markets were significantly more likely to have sourced finance from venture capital funds than other markets.
- Other data from the survey shows:
 - In Australia and Hong Kong, the longer the business has been established the more likely the business sourced external finance from a bank in the past 12 months.
 - In Indonesia, businesses that have been established for 11 to 20 years are significantly more likely to source finance from a non-bank financial institution and significantly less likely to source finance from a bank than Indonesian businesses that have been established for shorter periods.

- In Malaysia, businesses that have been established less than five years are less likely to source external funds from a bank and more likely to source funds from the business owner than more established businesses.
- In Vietnam, businesses that have been established less than five years are less likely to source external funds from a bank and more likely to source funds from family and friends than more established Vietnamese businesses.
- In Mainland China, businesses that have been established less than five years are more likely to source funds from family and friends than more established businesses.

Expected sources of external finance in the next 12 months

Table 12: Top three expected sources of external finance by market

| Australia | Mainland China | Hong Kong | Indonesia | Malaysia | New Zealand | Singapore | Vietnam |
|--------------------------------------|----------------------------|------------------------|----------------------------|------------------------|---|-------------------------|----------------------|
| Bank 53% | Bank 33% | Bank 45% | Bank 43% | Bank 46% | Bank 50% | Bank 36% | Bank 47% |
| Own resources 13% | Non-bank fin. inst. 24% | Investor 18% | Investor 18% | Investor 18% | Own resources 18% | Government grant 18% | Investor 29% |
| Non-bank financial institution 9% | Investor 14% | Government grant 9% | Non-bank fin. inst. 17% | Venture capital 12% | Non-bank financial intuition & investor 8% | Own resources 15% | Friends/family 8% |

Q2-6: Which of the following is likely to be the main source of those external funds in the next 12 months? (single response) (Australia n=180, Mainland China n=617, Hong Kong n=220, Indonesia n=252, Malaysia n=274, New Zealand n=101, Singapore n=213 and Vietnam n=305).

- It is interesting that small businesses from Mainland China are the least likely to nominate banks as an expected source of finance and the most likely to nominate non-bank financial institutions as an expected source of finance. This may be a consequence of the difficulty many small businesses from that market expect to encounter in accessing finance in the coming 12 months.
- It would not be surprising if borrowing from a non-bank financial institution is more costly and the terms stricter than borrowing from a bank. These additional borrowing costs and stricter conditions may become a source of pressure for some businesses if economic conditions in Mainland China become less favourable than expected.
- Investors are expected to be the main source of finance for many small businesses in Vietnam. Investors do not necessarily just bring additional funds into a business; they can bring a range of different skills and experiences to assist businesses.
- Nearly one in five small businesses from Singapore expect government grants to be their main source of finance in the next 12 months. With Singapore's well-developed banking sector, it is surprising that the government is the main source of finance for such a large number of small businesses. It may be that the grants are targeted at start-ups; businesses that typically struggle to access bank finance.
- Other data from the survey shows:
 - In Vietnam, businesses that have been established less than five years were less likely to expect to seek finance from a bank and slightly more likely to seek finance from an investor than more established businesses.

Sources for advice on finance

Table 13: Top three sources of advice on financing needs by market

| Australia | Mainland China | Hong Kong | Indonesia | Malaysia | New Zealand | Singapore | Vietnam |
|--|---|---|---|--|--|--|--|
| External accountant 35% | Bank 57% | Bank 57% | Bank 43% | Bank 53% | Bank 43% | Bank 52% | Bank 52% |
| Bank 32% | Financial advisor/ broker 56% | Financial advisor/ broker 37% | Non-bank financial institution 33% | Financial advisor/ broker 45% | External accountant 25% | Financial advisor/ broker 36% | Financial advisor/ broker 43% |
| Financial advisor/ broker 31% | Non-bank financial institution 48% | Non-bank financial institution 32% | Financial advisor/ broker 27% | Family/ friends 33% | Financial advisor/ broker 22% | External accountant 22% | Mentor 29% |

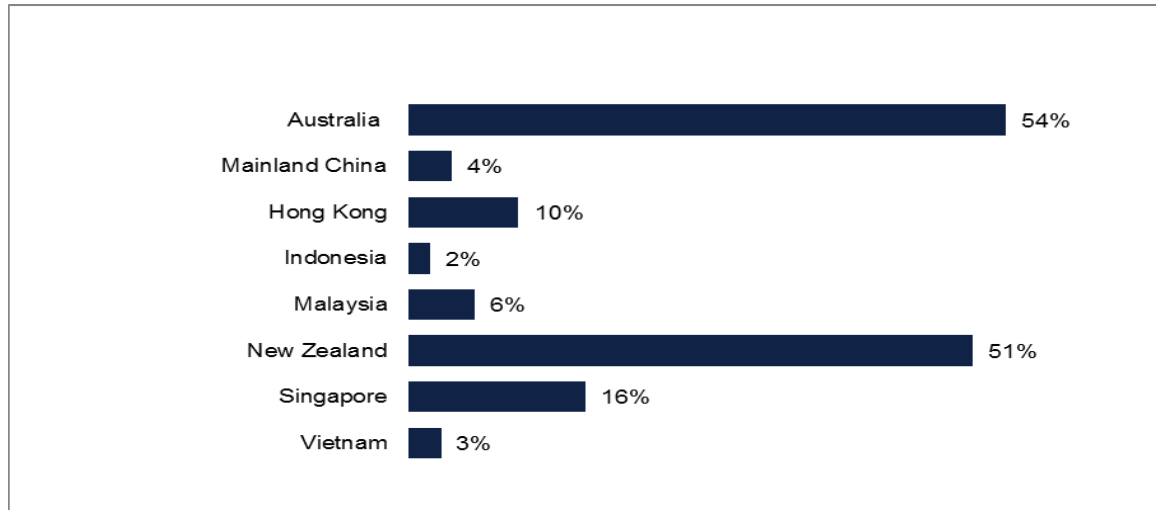
Q2-8: *If your business is considering seeking external finance, who will your business seek advice from? (multiple response) (Australia n=180, Mainland China n=617, Hong Kong n=220, Indonesia n=252, Malaysia n=274, New Zealand n=101, Singapore n=213 and Vietnam n=305).*

- While it is understandable that banks are a major source of advice on financing needs, it is good business practice to seek advice from independent experts such as an external accountant or finance broker to ensure the finance small businesses seek best meets their needs.
- Not surprisingly given the important role non-bank financial institutions play as a source of finance in Mainland China, they are expected to be a very important source of advice for small businesses in that market.
- Businesses in Malaysia and Singapore are the most likely to expect to seek advice on their financing needs from government. Given the relative importance of government as a source of finance in those markets, this is understandable. In Australia and New Zealand, the percentage of small businesses that expect to seek advice from government is very small.
- Other data from the survey shows:
 - In Malaysia, small businesses with 10 to 19 staff were significantly more likely to expect to seek advice from a financial advisor than smaller businesses.
 - In Vietnam, businesses that have been established between 11 and 20 years are more likely to seek advice from a bank than less established businesses.
 - In Mainland China, businesses that have been established less than five years are more likely to seek advice from family and friends than more established businesses.

SMALL BUSINESS, SOCIAL MEDIA AND ONLINE SALES

The use of social media for business purpose

Chart 12: Percentage of respondents that do NOT use social media in their small business by market



Q3-12: Percentage of respondents that selected 'my business does not use social media' (Australia n=510, Mainland China n=641, Hong Kong n=282, Indonesia n=312, Malaysia n=311, New Zealand n=310, Singapore n=310 and Vietnam n=309).

- Small businesses from Asia are significantly more likely to use social media for business purposes than small businesses from Australia and New Zealand.
- The results show that Australian and New Zealand small businesses are significantly less likely to use social media because of the strong concentration of respondents from those markets with nil to four employees, their business being established more than 20 years and the respondent being aged over 50 – the groups the findings show as being the least likely to use social media. The relatively smaller role that 'increasing competition' played in influencing the Australia and New Zealand small business environment in the last 12 months may also impact social media uptake in those markets.
- Small businesses are most likely to use social media to promote their business to potential customers. In Hong Kong, businesses are slightly more likely to use it to communicate with existing customers.
- Other data from the survey shows:
 - In Singapore, businesses that have been established less than five years are significantly more likely to use social media to sell products or services than more established businesses.
 - In Indonesia, small businesses established less than five years are significantly more likely to use social media 'to communicate with existing customers', 'to promote your business to potential customers', 'to sell products or services' and 'to learn about the behaviours of your customers and potential customers' than more established businesses.
 - Of those industries with a statistically significant response rate, businesses from the health care and social assistance industry and the professional, scientific and technical services industry are the least likely to use social media for business purposes.

The social media platform of most value

Table 14: The top three social media platforms small business get most value from by market

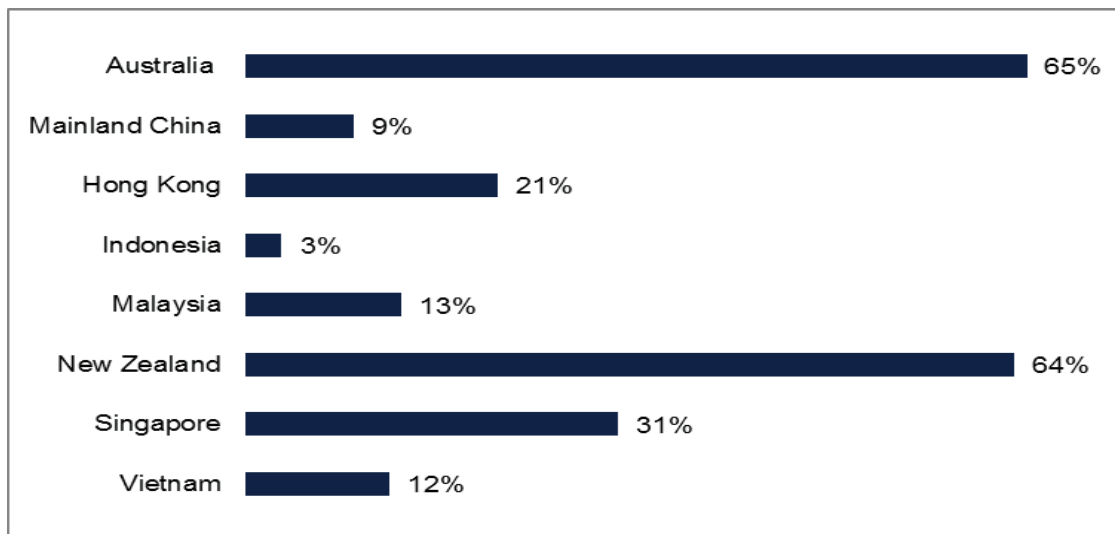
| Australia | Mainland China | Hong Kong | Indonesia | Malaysia | New Zealand | Singapore | Vietnam |
|-----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Facebook 48% | WeChat 46% | Facebook 55% | Facebook 59% | Facebook 66% | Facebook 52% | Facebook 62% | Facebook 61% |
| LinkedIn 18% | Weibo 22% | WeChat 12% | LinkedIn 12% | Google+ 12% | Google+ 15% | LinkedIn 12% | Google+ 20% |
| Google+ 14% | Tencent 14% | YouTube 8% | YouTube 12% | YouTube 5% | LinkedIn 9% | YouTube 6% | YouTube 10% |

Q3-13: Which social media platform does your business get the most value out of? (single response)
(Australia n=228, Mainland China n=615, Hong Kong n=248, Indonesia n=307, Malaysia n=290,
New Zealand n=144, Singapore n=255 and Vietnam n=301).

- In all markets surveyed except Mainland China, Facebook is by far the social media platform that small businesses get the most value from. Given that Facebook is blocked in Mainland China, this result is not surprising. WeChat is the most popular social media platform in Mainland China and the second most popular platform in Hong Kong, although a long way behind Facebook.
- For businesses outside Mainland China that are seeking to attract customers from that market, they should be considering social media platforms like WeChat and Weibo to reach that market. Conversely, for businesses in Mainland China that are seeking business in other markets, they should be looking at ways of using Facebook in those markets to interact with existing and potential customers.

Online sales

Chart 13: Percentage of respondents that do NOT make online sales by market



Q3-14: Percentage of respondents that do NOT make online sales (single response) (Australia n=510, Mainland China n=641, Hong Kong n=282, Indonesia n=312, Malaysia n=311, New Zealand n=310, Singapore n=310 and Vietnam n=309).

- Small businesses in Australia and New Zealand are significantly less likely to make online sales than their counterparts in Asia. Results show that more established businesses and those with less than five staff are typically less likely to make online sales; the relatively large proportion of Australian and New Zealand respondents in those categories helps to explain this finding. The lower competitive pressures felt in Australia and New Zealand may also help explain this finding. For businesses in Australia and New Zealand, the reluctance of many to make online sales can only be seen as a missed opportunity.
- It is interesting that businesses from emerging markets are more likely to make online sales than businesses from advanced economies. This may reflect businesses in emerging markets being more likely to be younger and therefore they may have built online sales into their business model from establishment.
- For Mainland China and Hong Kong where high rents are an issue, making more online sales is one way to manage rental costs. More businesses in Hong Kong, with its very strong logistics and transportation industries, should consider focusing more on online sales not only to grow their business but also to manage rental costs.
- Other data from the survey shows:
 - In Singapore, respondents aged 40 to 49 were significantly less likely to make online sales than younger respondents.
 - Businesses from the agricultural sector are the least likely to make online sales, while of those industries with a statistically significant response rate, manufacturers are the most likely to make online sales.

Online sales growth forecasts

Table 15: Expected growth in online sales over the next 12 months by market

| | Australia | Mainland China | Hong Kong | Indonesia | Malaysia | New Zealand | Singapore | Vietnam |
|---------------|-----------|----------------|-----------|-----------|----------|-------------|-----------|---------|
| Grow strongly | 4% | 13% | 5% | 41% | 16% | 5% | 12% | 29% |
| Grow a little | 21% | 66% | 48% | 46% | 55% | 23% | 42% | 58% |
| TOTAL | 25% | 79% | 53% | 87% | 71% | 28% | 54% | 87% |

Q 3-15: *In the next 12 months, do you expect your online sales revenue will... (single response) (Australia n=510, Mainland China n=641, Hong Kong n=282, Indonesia n=312, Malaysia n=311, New Zealand n=310, Singapore n=310 and Vietnam n=309).*

- Consistent with the very positive business conditions expected for Indonesia and Vietnam, businesses in those markets are significantly more likely to expect online sales to grow and for sales to grow strongly than the other markets.
- Mainland China also has a very high proportion of small businesses that expect to grow online sales revenue in the next 12 months; however, those businesses are significantly more likely to expect online sales to grow a little than strongly.
- For small businesses in other markets looking for growth opportunities in Mainland China, Indonesia or Vietnam, the results show that online sales should be considered in developing a strategy to enter those markets. It should be noted, however, that only a very small percentage of businesses in those markets make 100 per cent of their sales online, therefore online sales should not be the sole channel to those markets.
- Other data from the survey shows:
 - Small businesses with 5 to 19 staff are significantly more likely to expect their online sales revenue to grow in the next 12 months than smaller businesses, particularly in Mainland China, Hong Kong, Malaysia and Singapore. Also, the newer the business, the more likely they are to expect online sales growth in the next 12 months, particularly in Malaysia.

APPENDIX: SURVEY SAMPLE DETAILS

Table 16: Breakdown of respondents by industry

| | Australia | Mainland China | Hong Kong | Indonesia | Malaysia | New Zealand | Singapore | Vietnam |
|---|-----------|----------------|-----------|-----------|----------|-------------|-----------|---------|
| Accommodation & food services | 3% | 7% | 1% | 3% | 7% | 5% | 4% | 4% |
| Administrative & support services | 2% | 2% | 9% | 5% | 3% | 3% | 4% | 4% |
| Agriculture, forestry & fishing | 6% | 2% | 1% | 10% | 3% | 6% | 1% | 5% |
| Arts & recreation services | 6% | 4% | 4% | 2% | 2% | 4% | 1% | 4% |
| Banking, finance or insurance | 4% | 3% | 8% | 4% | 8% | 3% | 8% | 8% |
| Education & training | 5% | 10% | 7% | 5% | 6% | 8% | 10% | 5% |
| Health care & social assistance | 6% | 4% | 6% | 2% | 4% | 5% | 2% | 3% |
| Information, media & telecommunications | 5% | 5% | 8% | 7% | 8% | 5% | 9% | 7% |
| Manufacturing | 5% | 15% | 9% | 15% | 7% | 6% | 7% | 15% |
| Mining | 1% | 1% | 1% | 1% | 2% | 0% | 0% | 2% |
| Professional, scientific & technical services | 13% | 6% | 11% | 12% | 12% | 11% | 11% | 7% |
| Property & construction | 8% | 4% | 4% | 12% | 5% | 7% | 4% | 13% |
| Public administration & safety | 0% | 2% | 1% | 4% | 1% | 0% | 1% | 2% |
| Rental, hiring & real estate services | 3% | 4% | 2% | 5% | 4% | 5% | 1% | 3% |
| Retail trade | 10% | 12% | 11% | 5% | 8% | 10% | 13% | 7% |
| Transport & warehousing | 2% | 6% | 3% | 2% | 3% | 2% | 5% | 3% |
| Utilities | 1% | 2% | 1% | 4% | 5% | 1% | 1% | 3% |
| Wholesale trade | 4% | 9% | 7% | 1% | 8% | 4% | 8% | 2% |
| Other | 14% | 0% | 6% | 2% | 5% | 14% | 9% | 2% |

Chart 14: Respondents by number of employees

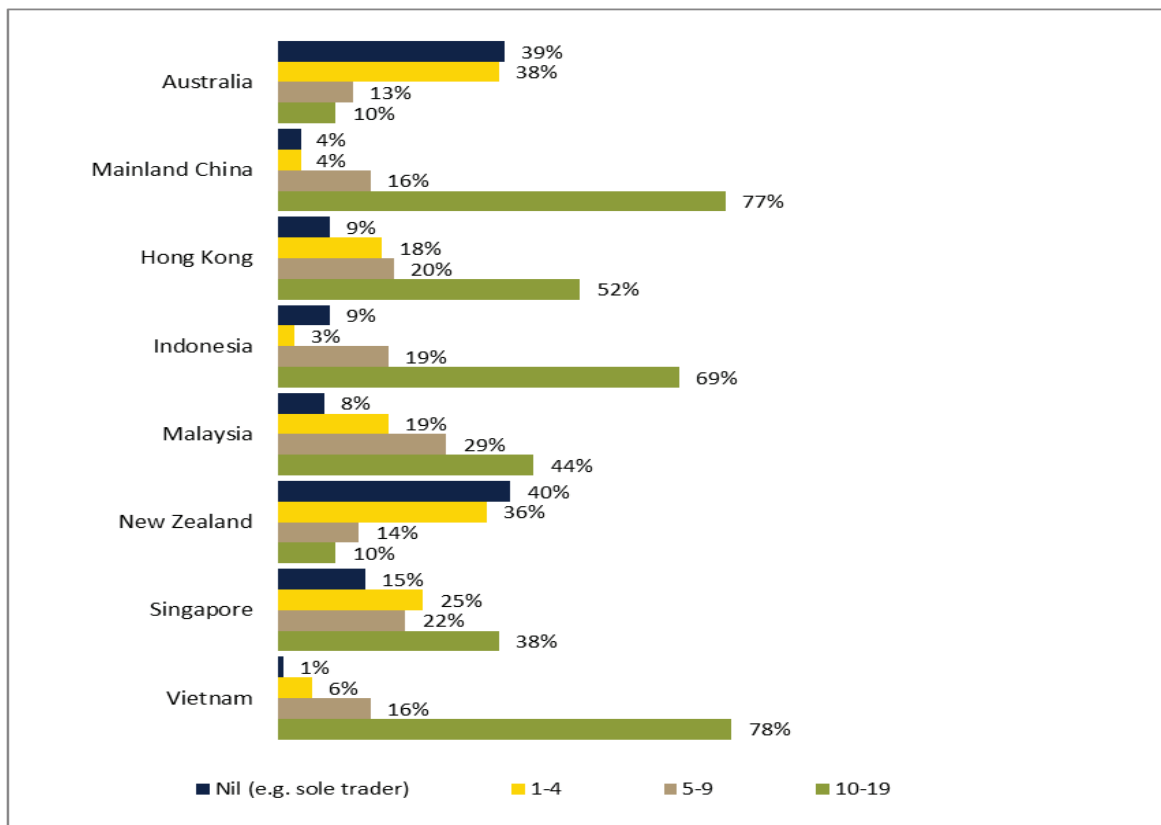


Chart 15: Age of business

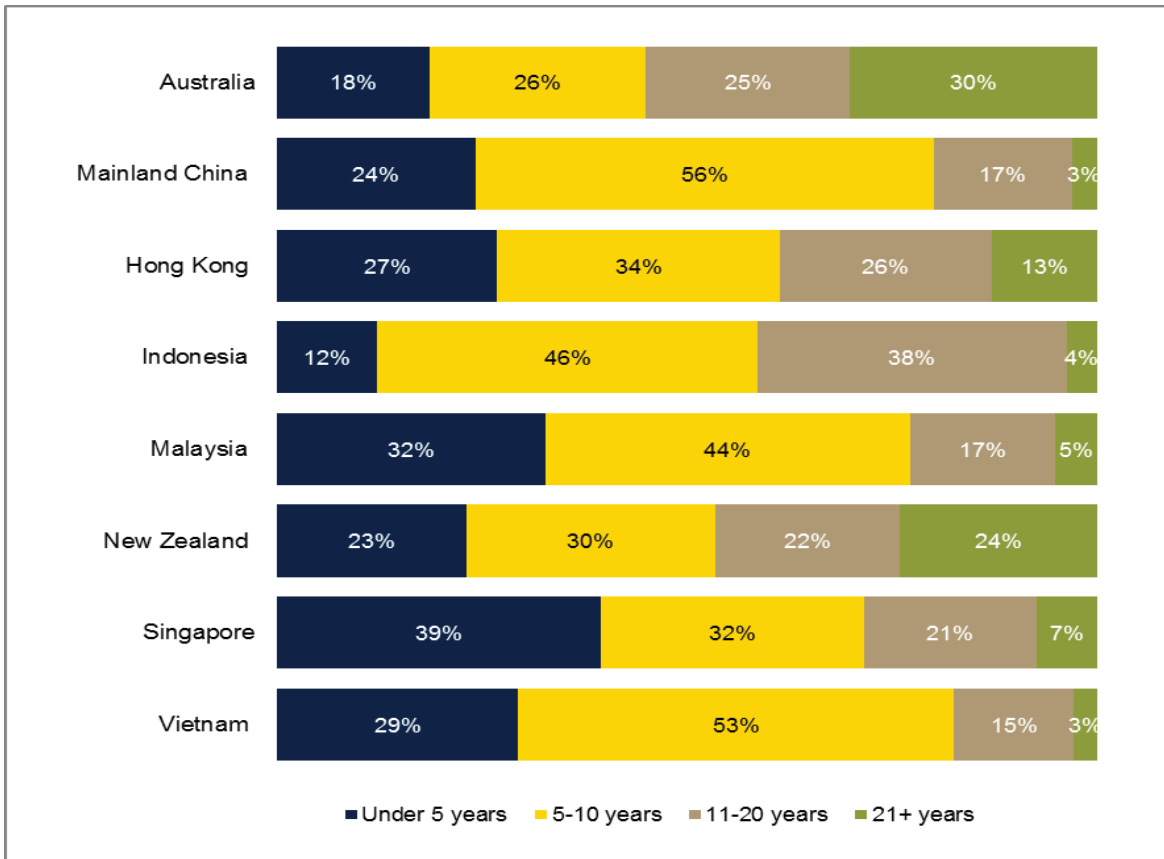


Chart 16: Age of respondent

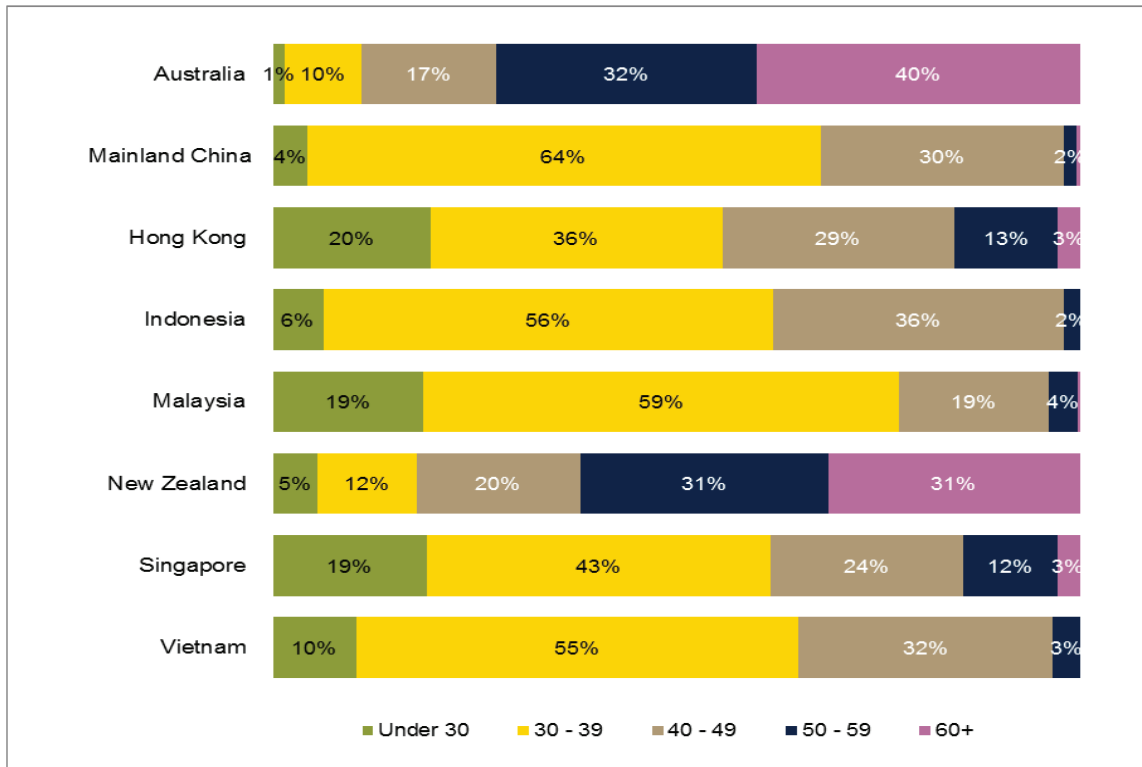


Chart 17: Annual turnover

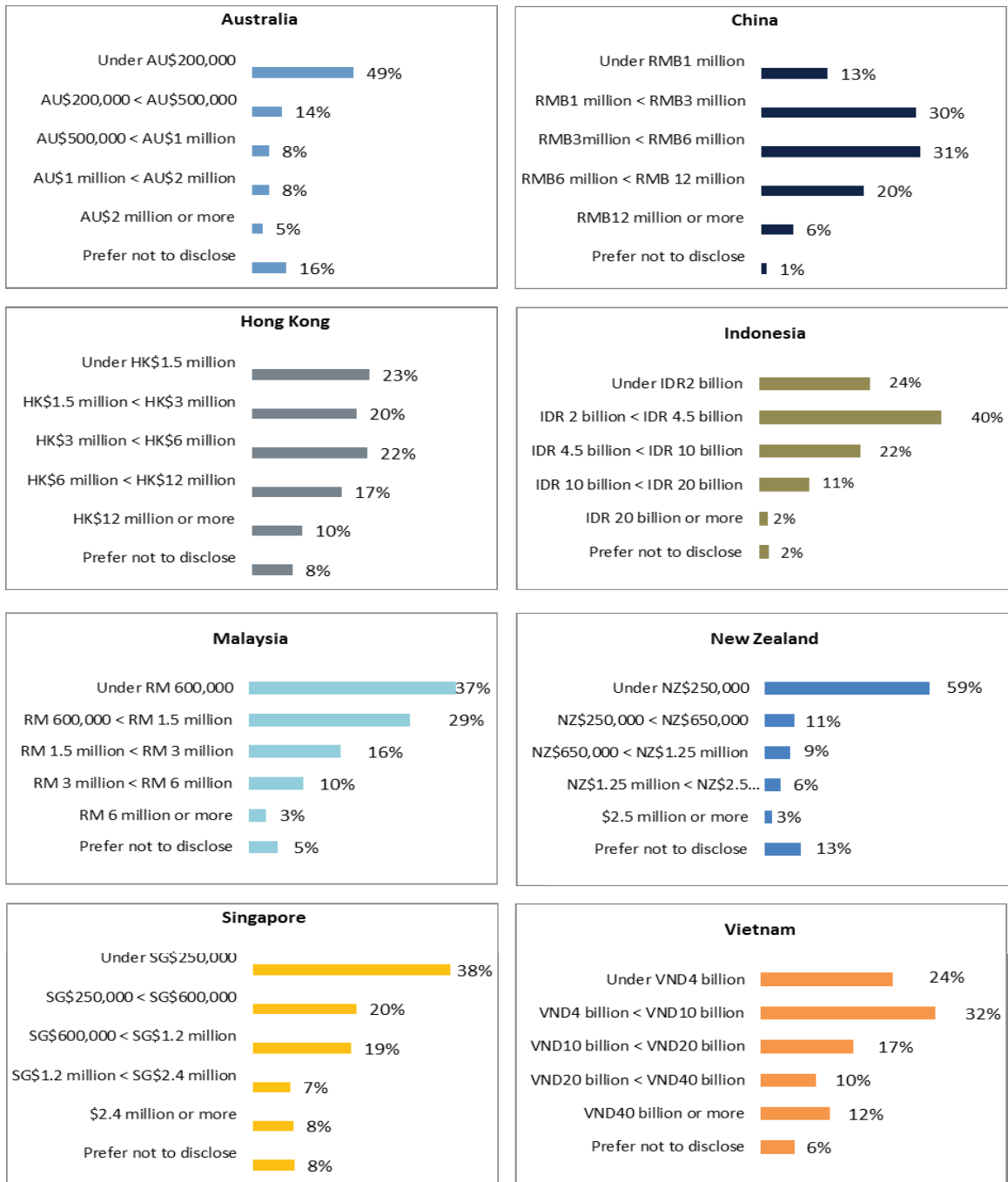


Chart 18: Gender of respondents

