

Greater Geraldton Growth Plan: Access to Finance

DRAFT Report to the Greater Geraldton Growth
Plan Partnership

July 2016



Prepared by

**Clayton
+ Weir**

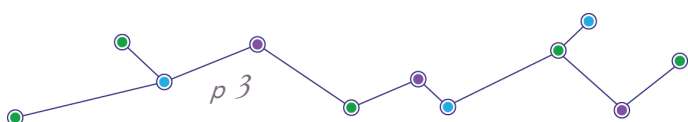


Engaged by the Greater Geraldton Growth Plan Partnership.



Table of Contents

| | |
|--|----|
| Acknowledgements | 4 |
| Disclaimer | 4 |
| Executive Summary | 5 |
| Can Geraldton Small to Medium Enterprises (SMEs) access capital? | 5 |
| Provide Geraldton SMEs training on cash flow management..... | 7 |
| Recommendation 3 | 7 |
| In partnership with the Banking and Financial Services Sector develop an information kit - Applying for a Business Loan 101..... | 7 |
| Introduction | 8 |
| Methodology | 9 |
| Key Informants | 9 |
| Research Findings - Desktop Review | 10 |
| Findings: | 15 |
| Finding 7 | 16 |
| Prepare Fact Sheet on non-bank finance such as vendor finance, crowd funding, venture capital and angel finance, highlighting its suitability for a particular stage in the business life cycle..... | 16 |
| “SMEs are hesitant to take on more financial debt..... | 17 |
| References | 20 |



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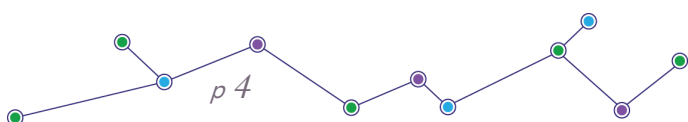
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Disclaimer

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List of Abbreviations

| | |
|-------|---|
| CCGG | City of Greater Geraldton |
| MWCCI | Mid West Chamber of Commerce and Industry |
| MWDC | Mid West Development Commission |
| SME | Small to Medium Enterprise |
| WA | Western Australia |



Executive Summary

Can Geraldton Small to Medium Enterprises (SMEs) access capital?

The Growth Plan Partnership commissioned this study to find out SME's in Geraldton can access capital.

While statistical datasets on this topic for Geraldton is unavailable, there is information for Australia that can be extrapolated to apply to our locality. Research indicates that the majority of Australian SMEs are able to access finance. For example, the [\(Australian Bureau of Statistics, 2011\)](#) mentions that since 2009 only 16 percent of SMEs access capital and of those, 80 percent of loan applications are successful. According to the [\(Reserve Bank of Australia, 2015\)](#) in December 2009, loans smaller than \$2million amounted to \$200 billion, about 30 percent of total business lending by banks in Australia.

The informants were in agreeance that Geraldton does not have large projects on a scale suited to venture capitalists. However, Geraldton has its own investors who mainly focus on property investments including commercial buildings and are known to back riskier innovation projects.

Westnet is the highest profile example of Geraldton investors backing a local computer geek's quest for cheaper, faster reliable internet. Westnet had its genesis in a Geraldton garage in 1994 and is now one of Australia's largest internet service providers.

Unfortunately, there is only anecdotal information about these Geraldton investors.

Contrary to popular belief, crowd funding only raises small amounts of capital for projects with a social and or environmental focus. There is little documented evidence available on the number of Australian SMEs who source capital through crowd funding. The largest amount raised through crowd funding at Pollinators was \$20,000; the amounts usually raised vary between \$200 - \$2,000. (Andrew Outhwaite, Founder Pollinators, Geraldton).

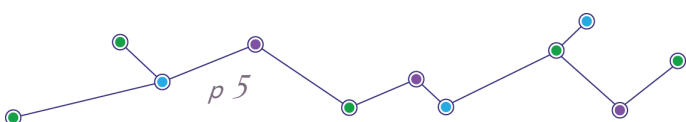
In the current economic climate, lack of work or sales continues to concern SMEs more than any other issue. [\(Sensis, 2016\)](#)

Financial literacy continues to negatively impact the ability of SMEs to access capital. On a recent visit to Geraldton, the WA Small Business Commissioner Mr David Eaton said *if he could give one gift to small business owners, it would be financial literacy.* [\(Geraldton Newspapers, 2016\)](#)

Key Finding 1

"There is no difference between Geraldton and other WA regional businesses; every business is on equal footing; if you present a good case, you will get finance."

The above claim was by several informants and is supported by the [\(Financial System Inquiry Interim Report\)](#) which mentions that since 2006-07 access to debt funding is not a major issue



for most SMEs with 80 percent of loan applications being approved. The formula for accessing finance is to present a detailed business plan, sound financial history, financial forecast, proven serviceability and security.

Key Finding 2

“Investors are interested in investment opportunities; being in Geraldton is not a barrier to investors.” (Andrew Outhwaite, Pollinators)

Reasons why Geraldton SMEs are unsuccessful obtaining finance include:

Conclusion 1

There is a perception in the business community that finance is difficult to access. However, many SME’s go into banks ill prepared and are unsuccessful in accessing finance.

Conclusion 2

SME’s are ill prepared when seeking finance - A bank loan is impossible without an up to date business plan, financial history, proven serviceability and security.

Conclusion 3

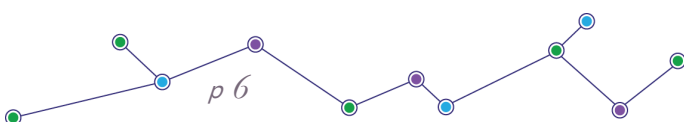
Quality of Business Plan and financial literacy plays a huge role in whether or not the Geraldton SME can access debt finance.

Conclusion 4

Geraldton SMEs have poor financial literacy levels which impacts on their ability to access finance.

Conclusion 5

SMEs need financial literacy training so they can access finance.



Recommendation 1

Provide Geraldton SMEs training on cash flow management.

This recommendation is supported in the [Business Building Blocks for Innovation and Transformation 2015](#).

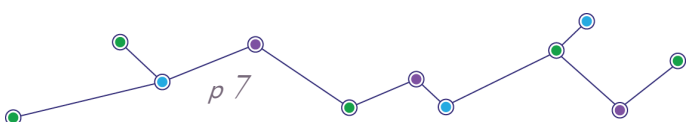
Recommendation 2

Provide Geraldton SMEs with financial literacy training.

This recommendation is supported in the [Business Building Blocks for Innovation and Transformation 2015](#).

Recommendation 3

In partnership with the Banking and Financial Services Sector develop an information kit - Applying for a Business Loan 101.



Introduction

It is generally accepted that small businesses are the engine room of the Australian economy accounting for 97 percent of businesses as at June 2014. (Australian Bureau of Statistics, 2014) For this study small business is defined as having 1-19 employees and medium size business as 20 – 199 employees and small business loans are classed as being those under \$2million.

The Mid West Regional Blueprint provides a vision for the Mid West. It targets an extra 30,000 jobs in the region by 2050, many of which will come from SMEs. Access to finance has been identified as a key requirement for the growth of SMEs in our region. ([Mid West Regional Blueprint, 2015](#))

This study aimed to understand the constraints and opportunities for SME's to access capital in Geraldton.

Start-ups usually lack collateral and sufficient proven credit history to qualify for a loan. Consequently, most use their own finances to fund their business and supplementary finance from family and friends. As turnover increases, so do the proportion of small businesses that have a loan product from financial institutions. Over [60 percent](#) of SMEs access capital through banks.

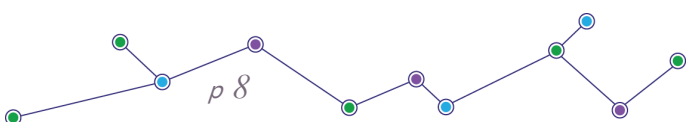


Angel investors and venture capitalists are more suited to start-ups with high risk and the potential to generate high returns. Angel investors have existed in WA for many years; however, a formal group — Western Australian Angel Investors was only established in 2010. There is minimal documented data on the number of projects funded by angel investors in Australia.

There are a small number of venture investors in Australia. Both the State and Federal governments through their recent innovation policies are working with major superannuation funds to encourage investment in innovation projects. According to the [\(Economics and Industry Standing Committee, 2016\)](#): 71 Yuuwa Capital, is possibly the only venture capital firm based in WA.

Venture capitalists are usually superannuation funds and highly skilled individual investors. The total value of venture capital investments made was \$8,802million in 693 investments as at June 2014. A total of 9,567 investments proposals were reviewed by Australian venture capital fund managers during 2014-15, with 151 new investment made; these 151 new investments totalled \$1,383m in value. ([Australian Bureau of Statistics 2016](#))

As stated by the key informants, Geraldton does not have large projects on the scale sought by venture capitalists. Also noteworthy is the [Economics and Industry Standing Committee Report](#)



(2016) which details a suite of recommendations presented to the WA Government on attracting venture capital investments into the SME sector.

Methodology

Research was conducted in several stages:

1. In-depth desk top research
2. Developed a set of questions to ask the informants
3. Identified key informants
4. Compiled results.

Triangulation research methodology was used and data gathered by interviewing identified key informants who provided insight into the challenges and opportunities faced by SME's in accessing finance.

Interviews were conducted with representatives from the finance sector, Pollinators, Business Local and property valuers. The Mid West Chamber of Commerce and Industry also provided insights as it had conducted an independent meeting with the Geraldton Bank and Finance Services Sector.

This project was overseen by a Steering Group comprising of Alison Dalziel (Lead Consultant, Localise), Pieter Vorster (City of Greater Geraldton) and Steve Douglas (Mid West Development Commission).

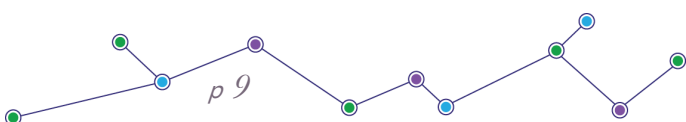
Key Informants

Business Local (formerly known as the Mid West Business Enterprise Centre) provides a range of assistance to small businesses in Geraldton. It provides free advice and guidance to current and aspiring small business owners, as well as providing a range of other support on a fee for service basis.

Mid West Chamber of Commerce and Industry is the business voice of the Mid West and provides intermittent training opportunities in Geraldton. For example, during 2015 MWCCI coordinated the highly successful Tender Writing Workshop delivered by BidWrite and Supply Chain Workshop. These high quality workshops are usually only available in Sydney and Melbourne and costly to attend in time and money.

Pollinators is a membership based social enterprise. It provides work and meeting space, learning and connections to nurture innovation and new ventures in Geraldton and the Mid West.

Learning opportunities include Lunch Time Labs, Startup Weekend and Kick Start programs, Pitches, GeroSoup, Flock and Catalyst. Its latest product to be launched shortly is Ground Swell – for SMEs with a turnover of \$250,000 - \$500,000 who want to grow their business.



Pollinators is affiliated with Australian investor networks. It provides referral advice to its members seeking non-banking financial products including grant funding, crowd funding, angel investors and venture capitalists. It was mentioned that being in Geraldton is not a barrier in attracting investors.

Finance Sector Representatives – one to one interviews were conducted with representatives from the finance sector. Their insight into the challenges and opportunities of SMEs to access finance has been of indispensable value.

Research Findings - Desktop Review

The desktop review discovered numerous inquiries and reviews into access to finance with the most recent being the Economics and Industry Standing Committee on Growing WA through Innovation (2016) and the Parliamentary Joint Committee on Corporations and Financial Services (PJCCFS 2013).

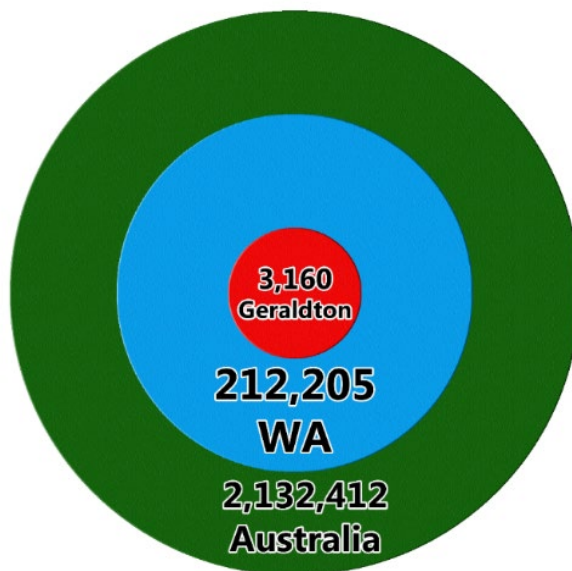


Figure 1 - Number of SME's in Geraldton in comparison the Western Australia and Australia as at June 2011. The data is based on [\(Australian Bureau of Statistics, 2011\)](#) [\(Department Industry, Innovation, Science, Research and Tertiary Education, 2012\)](#)

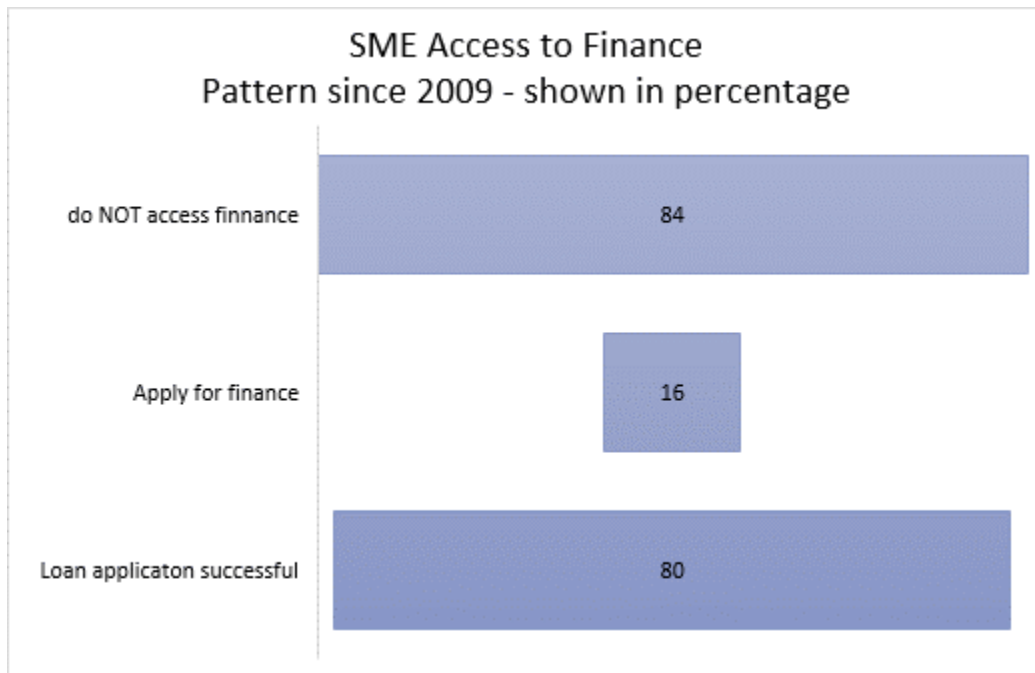


Figure 2 – The vast majority of SME are able to access finance from their own savings, as well as family and friends. [\(Australian Bureau of Statistics, 2011\)](#) mentions that since 2009 only 16 percent of SMEs access capital and of those, 80 percent of loan applications are successful.

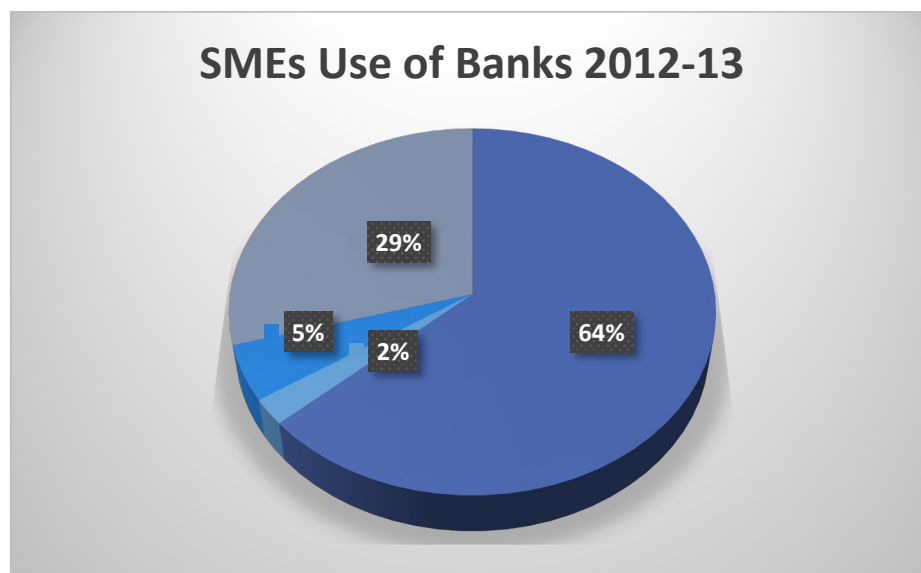


Figure 3 - Of the two million small businesses in Australia 1.3 million or 63.4% use a bank only for their business lending products (including credit cards); 46,000 or 2.3% use a non-bank only; 96,850 or 4.9% use both a bank and non-bank; and 584,000 or 29.4% do not have any business lending products. [Council of Small Business Australia and Australian Bankers' Association, 2013\)](#)

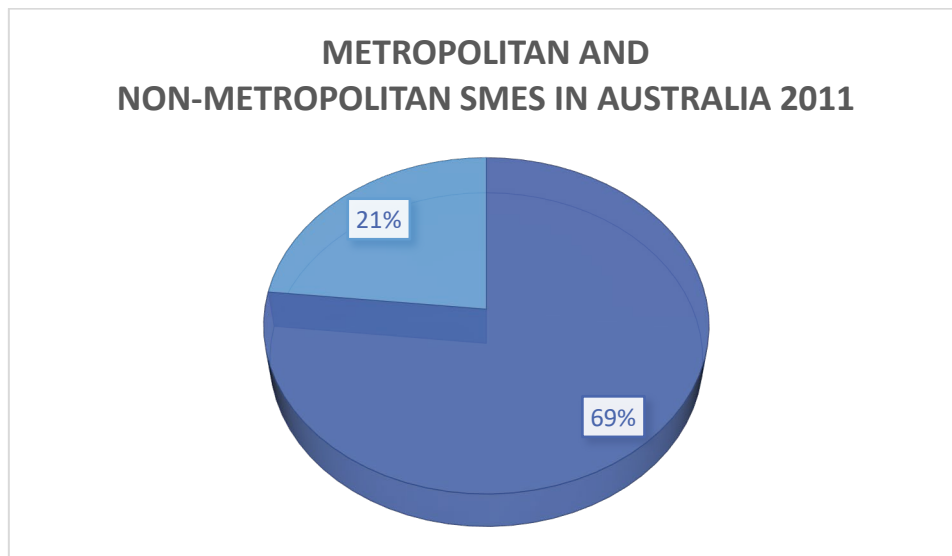


Figure 4 - 69 percent or 1.4million of SMEs are based on Metropolitan areas and 21 percent or 600,000 are Non-metropolitan SMEs_ (Council of Small Business Australia and Australian Bankers' Association, 2013)

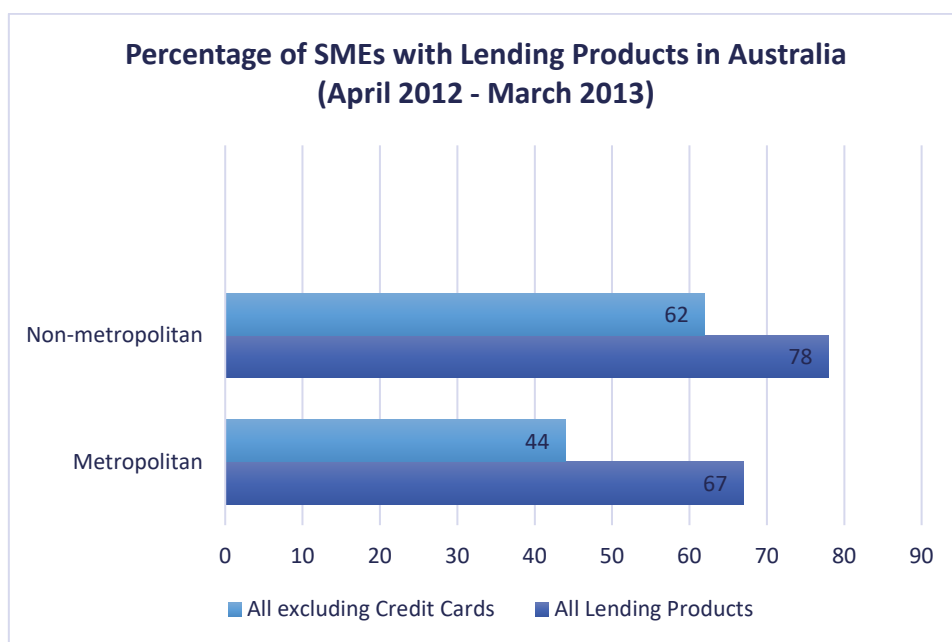
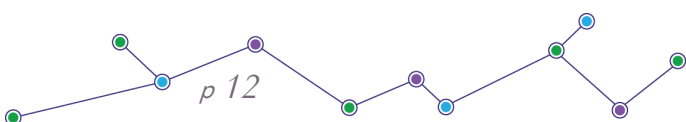


Figure 5 – Percentage of SMEs with all lending products and excluding credit cards (Council of Small Business Australia and Australian Bankers' Association, 2013)
SME's in non-metropolitan areas have a higher use of lending products compared to Metropolitan based SME's.



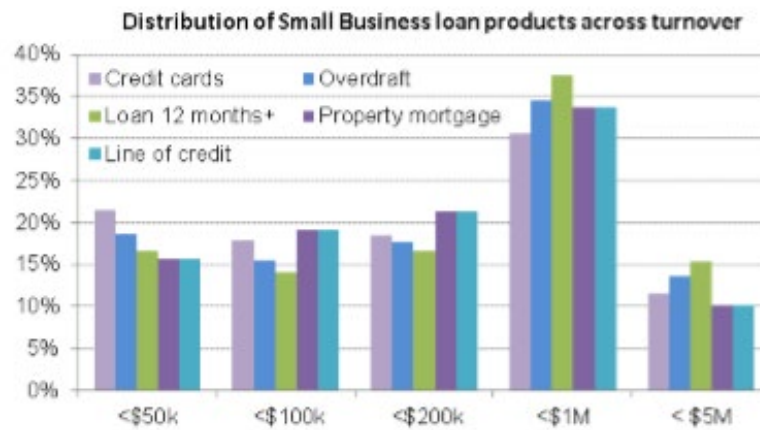


Figure 6 – Distribution of Small Business loan products across turnover (includes credit cards, overdrafts, Loan 12month+, Property mortgage and Line of Credit). The chart highlights the five top products used by small businesses and shows the distribution of use of each product across the turnover bands. (Council of Small Business Australia and Australian Bankers' Association, 2013)

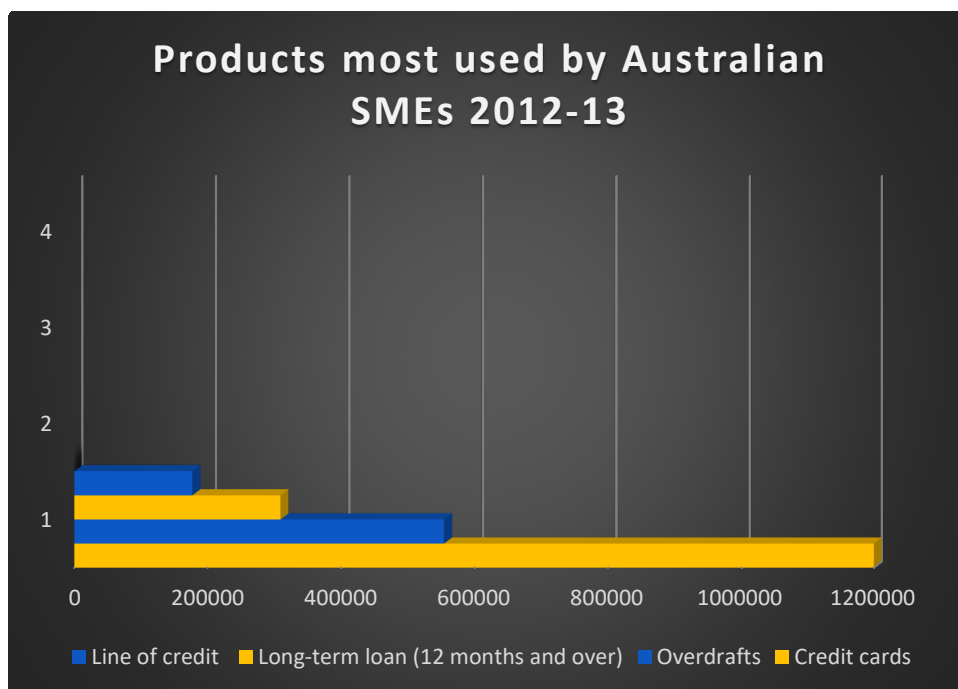


Figure 7 – The product most used by SME's are credit cards 1.2million, followed by 554,000 who use overdrafts, 309,000 who use long term loans (12months plus) and 177,000 who use line of credit. Council of Small Business Australia and Australian Bankers' Association, 2013)

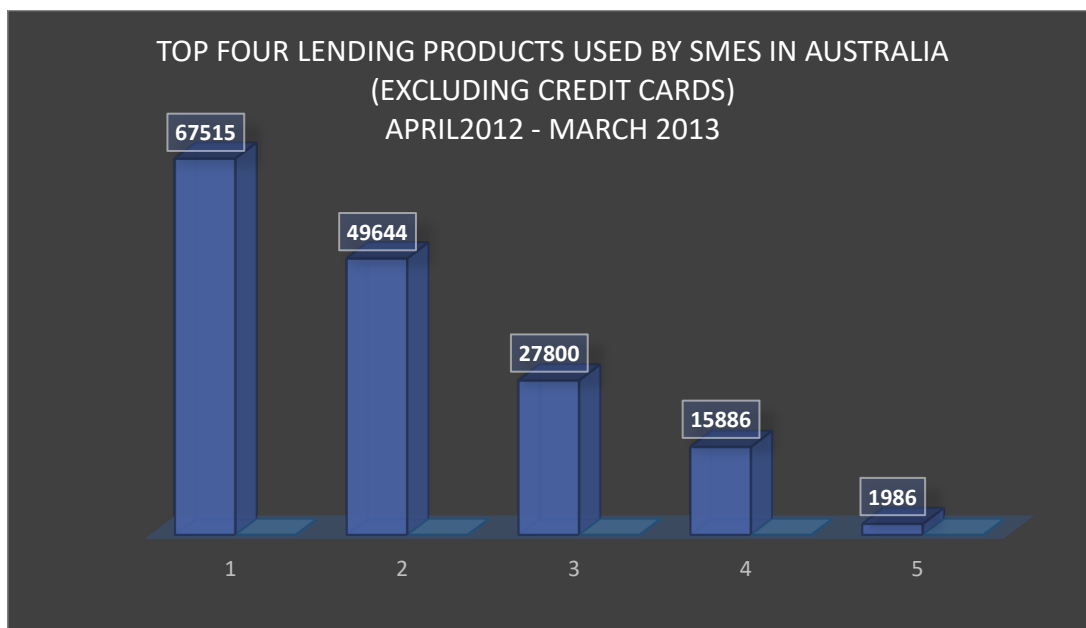


Figure 8 – the top four lending products used are 1. Line of credit 2. Property Mortgage 3. Overdraft 4. Long Term Loan (12 months+) 5. Short Term Loan (less than 12 month)
[Council of Small Business Australia and Australian Bankers' Association, 2013](#)

Percent of nascent and young firms using different sources of funding in Australia 2011

| Source | Not used | | Minor source | | Major source | |
|--|----------|-----|---|----|--------------|----|
| | NF | YF | NF | YF | NF | YF |
| Personal savings | 13 | 25 | 15 | 24 | 72 | 51 |
| Personal credit card | 55 | 53 | 25 | 28 | 21 | 19 |
| Money from another business that the founders' also own | 85 | 96 | 6 | 2 | 9 | 2 |
| Government grants | 93 | 94 | 5 | 5 | 2 | 1 |
| Delayed payment terms from suppliers | 87 | 78 | 8 | 13 | 5 | 9 |
| Advance payment from customers | 86 | 78 | 9 | 14 | 5 | 8 |
| Loans from family members | 86 | 91 | 9 | 6 | 5 | 2 |
| Loans from friends, employers or colleagues | 95 | 96 | 4 | 3 | 1 | 1 |
| Founders' personal secured-bank loans | 83 | 84 | 4 | 6 | 12 | 11 |
| Founders' other personal loans, overdraft or other credit facilities from a bank | 85 | 84 | 9 | 9 | 6 | 6 |
| Secured bank loans to the business itself | 92 | 91 | 3 | 4 | 5 | 6 |
| Other loans, overdraft or other credit facilities from a bank to the business itself | 94 | 92 | 5 | 6 | 1 | 2 |
| Loans from any other organisation to the business itself | 96 | 94 | 3 | 3 | 1 | 2 |
| Equity from family members | 95 | 91 | 4 | 6 | 1 | 2 |
| Equity from friends, employers or colleagues | 98 | 99 | 1 | 1 | 1 | 0 |
| Equity from other private investors ('business angels') | 98 | 99 | 1 | 1 | 1 | 0 |
| Equity from Venture Capital firms or any other organisations | 100 | 100 | (one case each among NF and YF, respectively) | | | |

Note: NF = Nascent firm; YF = Young firm. Entries in per cent. Entries may not sum to 100 due to rounding. "Major" was defined as representing at least 20 per cent of total funding needs.

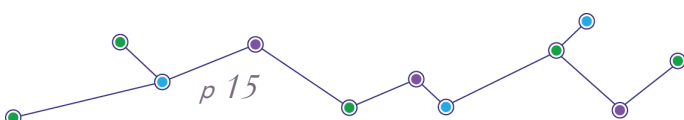
Figure 9 – The funding mix used by stat-ups and young firms in Australia. The majority rely on their personal savings, credit card and secured bank loan to fund their ventures. [\(Davidsson, 2011\)](#) Based on the findings of this study, Figure 10 is an accurate snapshot of SMEs in Geraldton. For example, there are very few grants available for SME's, aside from grants for export, innovation and for Aboriginal businesses. In Geraldton it is common practice for SME's to use delayed payment terms, as well as obtaining an advance payment from customers for large value items such as tray bodies in the metal fabrication industry.

Findings:

Finding 1

"Having a good relationship with your bank might play a small role, however loan decisions are made off site and based on hard factual evidence".

This statement reinforces the need to present factual evidence supporting why finance should be invested in the SME's venture.



Finding 2

“Debt finance is the most common source of finance sought by Geraldton SMEs”.

Overall, 16% of businesses in Australia sought debt or equity finance in 2013-14. Of these, businesses were most likely to seek debt finance (93%). Of those businesses seeking debt finance, 84% reported debt finance that was obtained. (Australian Bureau of Statistics, 2014)

Finding 3

“Geraldton SMEs seeking finance are existing businesses managing cash flow and to replace plant and equipment (not to expand the business)”.

According to [\(Australian Bureau of Statistics, 2014\)](#) the most common reason for businesses to seek debt or equity finance was to maintain short term cash flow or liquidity (42%).

Finding 4

SMEs that provide the most factual evidence to support their finance application will succeed. Unfortunately, sometimes the most innovative business idea might not get financed because the proposal lacked factual evidence based data.

Finding 5

“Farmers and fishers usually seek debt finance to replace plant and equipment”.

This group of SMEs are able to access finance readily using property as equity.

Finding 6

The need for quality and standardised information on financial products is currently not available.

Recommendation 4

Develop standardised business loan fact sheets in order to compare the terms and conditions associated with each type of loan **or** recommend SME to use Finance Brokers to obtain this data.

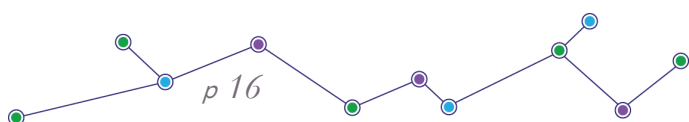
Finding 7

The need for quality information on non-banking finance options.

This recommendation has come from the several informants who cite the absence of quality information on this subject area.

Recommendation 5

Prepare Fact Sheet on non-bank finance such as vendor finance, crowd funding, venture capital and angel finance, highlighting its suitability for a particular stage in the business life cycle.



Finding 8

“SMEs are hesitant to take on more financial debt or expand in the current economic climate where there are low levels of business confidence”.

While it is true some sectors are shrinking, others are experiencing a growth phase. For example, there is increase demand for reline specialists in the mine services sector caused by the miners moving from construction to production phase. It is also true that the construction industry is shrinking. Prior to the recent mining boom some Perth builders expanded into Geraldton and since the need for new buildings has diminished there is natural attrition occurring in the industry.

Finding 9

“The need for quality financial advice so SMEs can reduce their risk exposure”.

The need for quality financial advice has never been more important to Geraldton SMEs than the present. Accountants can provide professional advice on ways to reduce risk exposure by paying particular attention to financial information and keeping a close watch on creditors who have not paid their bills within the credit terms.

Due to redundancies, the capacity of local firms have been reduced causing delays in their ability to stringently monitor financial health and implement immediate remedial action.

SMEs are also concerned about the cost of accessing professional advice. Anecdotal evidence points to SMEs using the cheaper option of book keepers instead of accountants, resulting in the absence of professional advice when it is most needed.

Recommendation 6

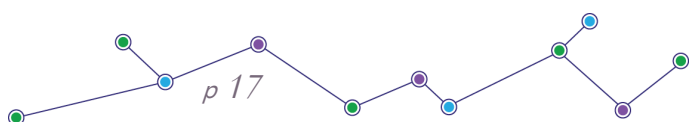
Offer incentives such as **government funded vouchers** for financial services advice.

Finding 10

Business Local, MWCCI and Pollinators deliver quality training programs such as Writing Tender Documents by BidWrite; Pollinator’s highly successful Catalyst Program and Startup Weekend. These benefit Geraldton SMEs who would otherwise incur high travel cost to attend training.

Central Region TAFE, Geraldton Campus offers accredited business training which is delivered over one to two years. However, time poor SMEs might find this to be a barrier, instead short term courses over a weekend might encourage attendance.

Refer to Recommendation 1 and 2



Recommendation 7

Provide training to increase SMEs awareness of different forms of financing and suitability for a particular stage in the business life cycle.

Recommendation 8

Provide training on when and how to apply for financing.

Finding 11

SMEs like the general community access information from a variety of sources. To reach a greater audience cross promotion of capacity building events by Business Local, MWCCI, Pollinators and Central TAFE is recommended.

Recommendation 9

Business training courses in Geraldton to be cross promoted on:

- a. Business social media platforms such as **LinkedIn**;
- b. 'high traffic' local websites and social media in particular, Everything Geraldton, City of Greater Geraldton, Mid West Development Commission, MWCCI, Business Local, Pollinators etc.
- c. Social media (Facebook and Twitter) to reach younger entrepreneurs and innovators to access training courses on offer;
- d. Traditional forms of media (Geraldton Guardian, Red FM and ABC Regional Radio) to reach a different market segment.

Finding 12

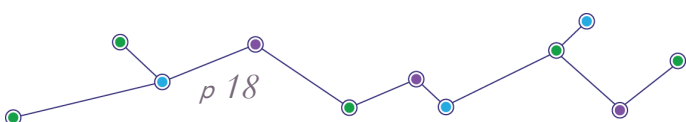
Risk Rating is not prevalent in the business sector; it is associated with mortgages.

The above is supported by the (Economics and Industry Standing Committee, 2016)

Finding 13

Banks are supportive of external investors in the funding mix, as it reduces the bank's risk exposure.

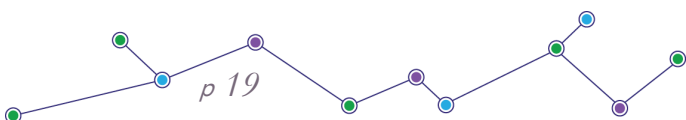
The following recommendation was made as a result of the Geraldton Banks and Finance Services Sector meeting.



Recommendation 10

Venture Capital - Greater Geraldton Growth Plan Partnership to bring investors to Geraldton to invest in existing or new businesses and projects.

The MWCCI recently established Geraldton Bank and Financial Services Sector representatives. This Group could collectively filter / assess the business proposals to ensure robustness and due diligence prior to finding suitable financiers.



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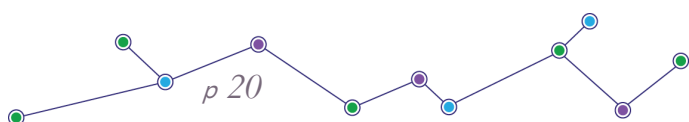
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