

STATE OF THE
MARKET SERIES



Quarterly Insights & Strategies

June 2024

Unlocking Opportunities for Australian SMEs
in the Current Economic Landscape



Produced by



In Partnership with



A Message for Australian SMEs

As we wrap up another financial year, SMEs face both familiar challenges and new opportunities. At Exit Advisory Group, we understand that staying ahead isn't just about keeping up with the latest trends—it's about fostering an agile and forward-thinking mindset.

The State of the Market Series serves as a compass for SMEs navigating the ever-evolving business landscape. More than 700 business owners joined us in June for insightful discussions on economic shifts, business sales and valuations, and employee attraction and retention.

In this report, we distil those conversations into actionable strategies. We aim to equip SMEs with the foresight and knowledge needed to not only survive but thrive.

Our intention is for business owners to use this report as a roadmap, leveraging numerous insights, strategies and tools to navigate their unique challenges and achieve their goals.

We are proud to be working with our partners on this important initiative and hope that this report will be a valuable resource in today's competitive environment.



Simon Bedard

Managing Director | Exit Advisory Group

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This report covers the latest trends and insights from the last quarter, including:

- Rising Cost of Living
- Interest Rates Forecasts
- Cautionary Optimism of SMEs
- Increasing Opportunities in M&A
- Shifting Job Landscape
- Transitions and Succession Planning



Our Economy is Not Like the One We've Known for the Past 30 Years.

There are big changes happening in the Australian economy. While the pandemic years have faded, Australians are still navigating through a dimly lit tunnel, grappling with new challenges like shifting demographics, supply chain disruptions, and the complexities of deglobalisation. The path ahead demands resilience and adaptability. The key to emerging stronger? Keeping an open mind.



A Resilient Australian Economy Despite the Odds

The Overview

Consumer Sentiment is Low Due to Mounting Costs

The everyday Australian is unhappy as they face rising inflation, and a rising tax burden through bracket creep. Australians are finding themselves needing to tighten their belts, budget more carefully and adjust their spending habits in response. Relief is on the way with tax cuts and a temporary income boost from government subsidies from 1 July.

39% of business owners are optimistic and **33%** are neutral about the outlook for the next 12 months*

**based on audience poll results at the State of the Market Series (June 2024)*

The Unemployment Rate is Near 50-Year Lows

Employment in Australia is at a historic high, with unemployment rates near levels not seen in 50 years, despite immigration hitting almost 1 million over the last two years. However, stagnant real wages and rising housing costs are eroding household incomes, highlighting the complexities of the current job market.

Businesses are Cautiously Optimistic

Businesses face a unique dichotomy: while consumer sentiment remains bleak due to a cost-of-living crisis, businesses maintain a positive outlook. SMEs are resilient, continuing to invest and grow despite ongoing challenges such as labour shortages and regulatory hurdles. Businesses are worried about the economy but optimistic about their own prospects.



There is some stress out there, but the Australian Economy is proving resilient despite clear constraints on the ability to grow our real GDP. Unemployment rates are at 50-year lows and business and government investment are on the rise, wages are growing at 4%, and the anticipated tax cuts will offer some relief to households. This economy is not at its strongest, but it is where it is supposed to be, grinding out output and employment gains while gradually bringing inflation down.



WARREN HOGAN

Chief Economic Advisor | Judo Bank



What is Happening With Interest Rates?

Projections indicate that the RBA may continue to adjust interest rates in response to inflationary pressures. Higher interest rates could impact household incomes and consumer spending, but they are also necessary to maintain long-term economic stability.

Inflation: The Crunch on Households

Inflation and higher tax rates have squeezed household incomes, leading to a slowdown in consumer spending. Even with an unexpected discovery of \$23 billion in previously understated consumer spending by the Australian Bureau of Statistics (ABS), the broader trend points towards soft consumer spending patterns.

However, businesses, especially SMEs, are showing resilience by continuing to invest, hire, and engage in activities like infrastructure development and non-residential construction.



At 4.35% our cash rate is barely above the inflation rate. Taking the cash rate up once or twice keeps us on the narrow path and will help us avoid an economic disaster. What is clear in 2024 is that a further small upward adjustment to interest rates is unlikely to plunge the economy into recession.

WARREN HOGAN

Chief Economic Advisor | Judo Bank



But the Picture is Still Positive

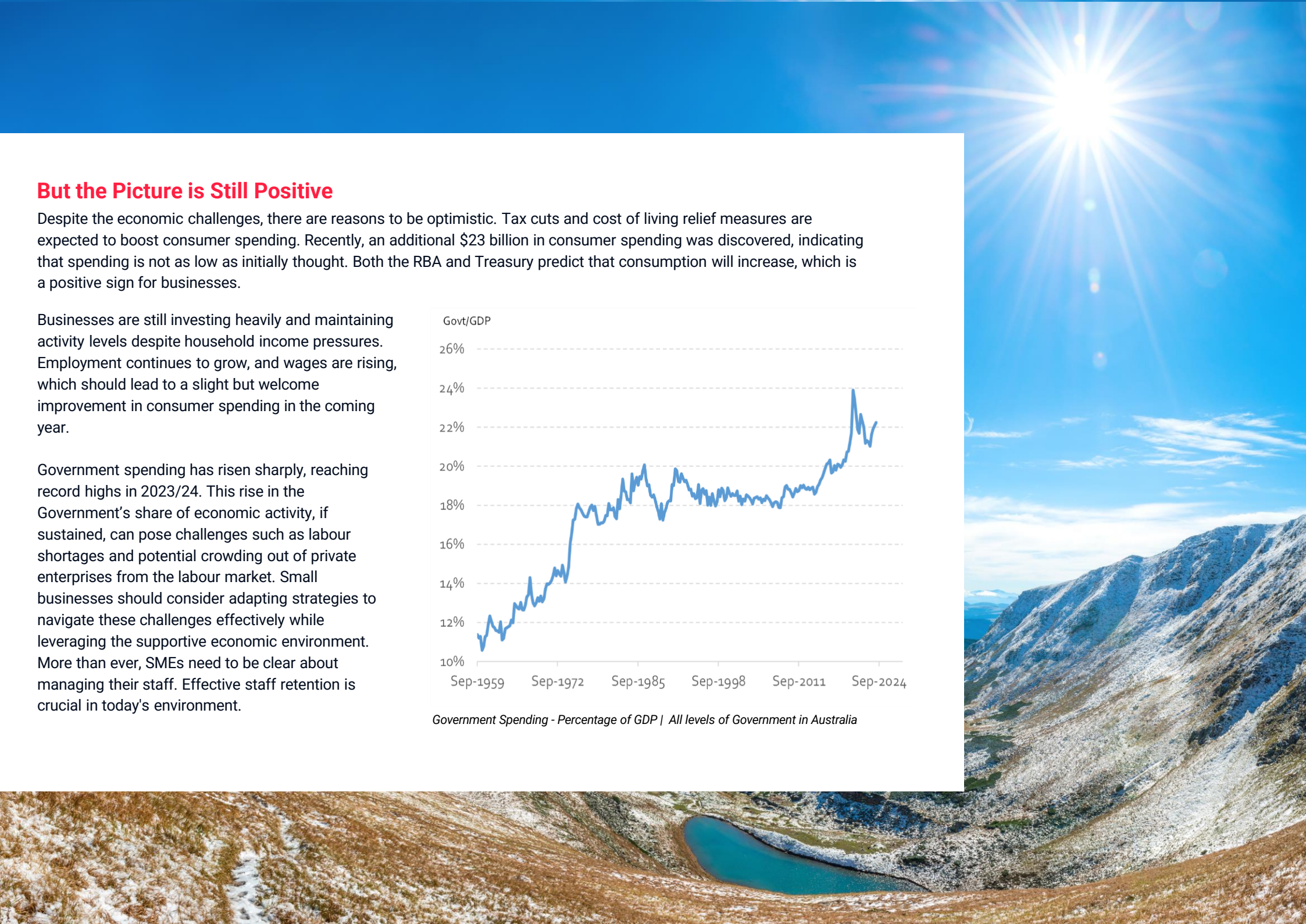
Despite the economic challenges, there are reasons to be optimistic. Tax cuts and cost of living relief measures are expected to boost consumer spending. Recently, an additional \$23 billion in consumer spending was discovered, indicating that spending is not as low as initially thought. Both the RBA and Treasury predict that consumption will increase, which is a positive sign for businesses.

Businesses are still investing heavily and maintaining activity levels despite household income pressures. Employment continues to grow, and wages are rising, which should lead to a slight but welcome improvement in consumer spending in the coming year.

Government spending has risen sharply, reaching record highs in 2023/24. This rise in the Government's share of economic activity, if sustained, can pose challenges such as labour shortages and potential crowding out of private enterprises from the labour market. Small businesses should consider adapting strategies to navigate these challenges effectively while leveraging the supportive economic environment. More than ever, SMEs need to be clear about managing their staff. Effective staff retention is crucial in today's environment.



Government Spending - Percentage of GDP | All levels of Government in Australia



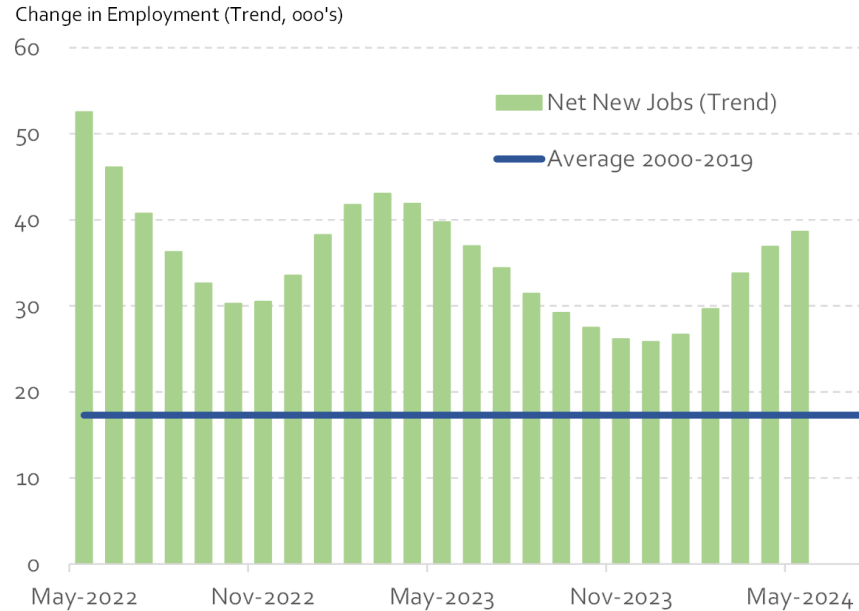
Employment Growth Remains Strong

Employment growth has been unexpectedly high. Job creation has surged past long-term averages, fuelled by a notable rise in full-time jobs. This robust employment growth surpasses the Reserve Bank of Australia's (RBA) forecasts.

The latest employment figures present both opportunities and challenges for businesses. Robust economic demand suggests potential for expansion and increased consumer spending, driving revenue growth across sectors.

However, this growth also brings challenges. Tightening labour markets may lead to higher wages and production costs, potentially fuelling inflation. Business owners should prepare for possible interest rate adjustments by the RBA to manage inflationary pressures.

Monthly Jobs Gain



Source: ABS, RBA, FRED, OECD, EQ Economics, S&P Global, Judo Bank



*Job growth has surged at **4X** the rate expected by the RBA just a few months ago. This indicates an economy that is doing better than previously anticipated.*

WARREN HOGAN

Chief Economic Advisor | Judo Bank



45% of Business Owners Are Actively Investing in People, Systems and Processes This Financial Year *

*based on audience poll results at the State of the Market Series (June 2024)





Attracting and Retaining Talent in a Tight Labour Market

With the current labour shortages and skill gaps, attracting and retaining top talent is more challenging yet more critical than ever. But SMEs can still emphasise their unique advantages to attract the best candidates.

The Top Drivers of Attraction in 2024

Through their Laws of Attraction Tool, SEEK surveyed over 14,000 candidates looking to change roles in the next two years. The data offer insights into what drives people, allowing business owners to more effectively attract top candidates and refine their Employer Value Proposition:

Work-life balance	15.4%	Includes sub-drivers like the ability to work from home, flexible working hours and leave options
Salary & Compensation	13.9%	Includes sub-drivers like base salary, salary review period, remuneration options, and gender pay equity
Working environment	11.5%	Includes sub-drivers like working from home, working in a team, working autonomously and office space
Management	10.1%	Includes sub-drivers like respectful, supportive, transparent, inclusive and collaborative
Career development	9.4%	Includes sub-drivers like skill development, promotion opportunities, mentoring and external training
Job location	8.9%	Includes sub-drivers like easy to drive to, close to home, and accessible by public transport



When it comes to hiring, you can take the guesswork out of the process. Use tools to identify which tasks candidates enjoy and excel at. Focus on matching roles to these strengths, especially for key positions. Using assessments is a very effective way to ensure you hire the right people for the right roles.

CLARE LONG

Director
Norgay HR Consulting



There are many candidates that specifically want to work in the SME environment as they have a unique appeal. They offer hands-on experience, personalised mentoring, and the chance to develop specific skills that larger organisations often can't match. This is very attractive to candidates who are focused on their career opportunities.

CAROLINE NORTH

Market Research Manager | SEEK



Labour Productivity - What, Why, How?

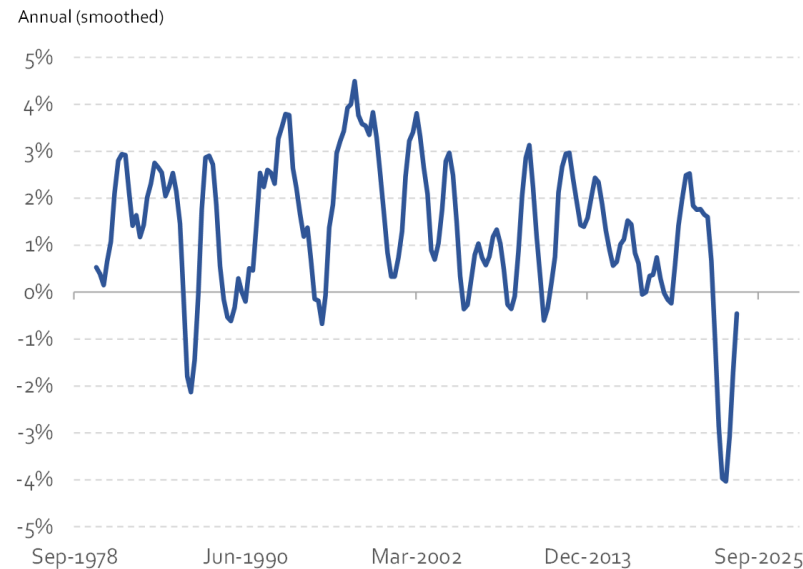
As small businesses, we might feel shielded from macroeconomic trends, but declining productivity affects us all. When labour costs outpace output, it poses a significant challenge for business – and the economy.

The current productivity lag is partly due to the rapid addition of people to the workforce without a commensurate increase in output. While more people are employed, the overall economic output isn't growing as fast, leading to inflationary pressures. This situation poses challenges for businesses aiming to grow profits and for the economy to raise real wages, which are crucial for improving living standards.

The Impact of Interest Rates on Productivity

The Reserve Bank of Australia's recent interest rate changes aim to control inflation, but their full impact will take about 12 months to materialise.

This lag means that while current tightening is still in effect, its full influence on productivity and economic performance will be seen over the coming year.



Source: ABS, EQ Economics



GDP is up just 1% while employment is surging 2-3% annually - this is a red flag that productivity is declining across the economy.

WARREN HOGAN
Chief Economic Advisor
Judo Bank

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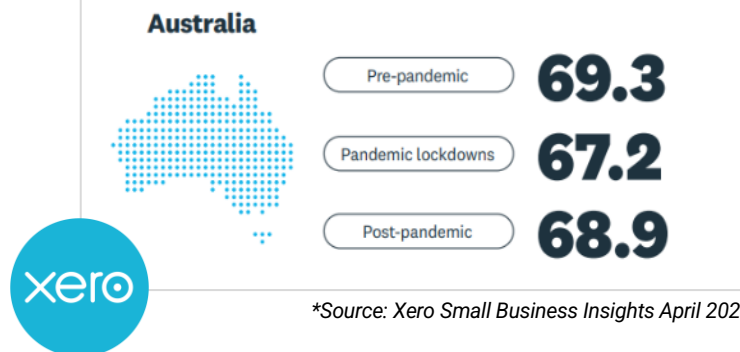
SMEs have had a tough time in this economy, but they are more agile than bigger companies. We've had a world that was stable in the last 30 years, and it's changing. SMEs are well placed to navigate this change, but they must stay adaptable and resourceful.

WARREN HOGAN

Chief Economic Advisor | Judo Bank

Figure 3: Sales per hour worked in each period, average

Monthly, seasonally adjusted, US\$, constant prices

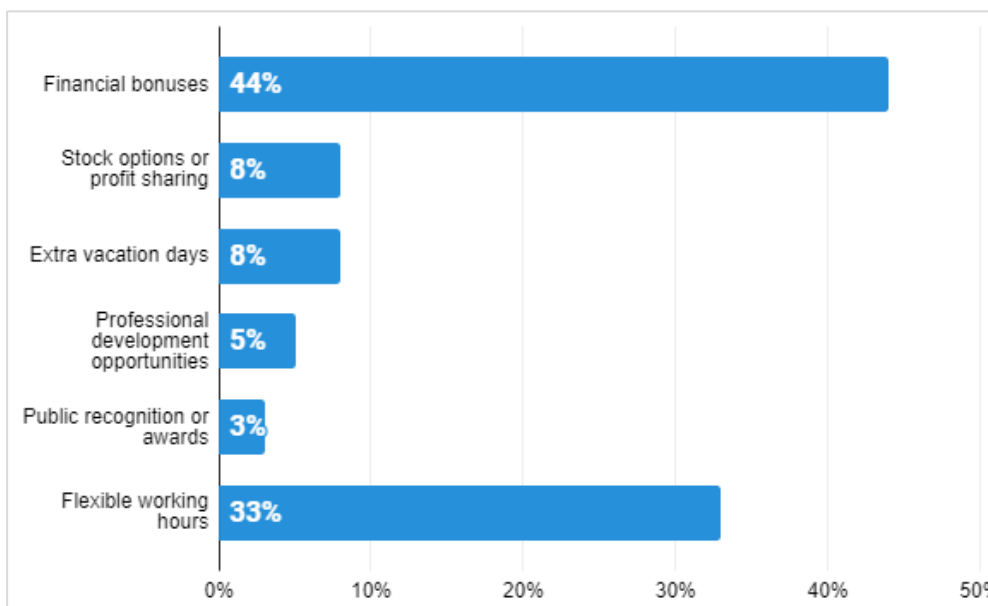


Insights from Xero

According to the latest Xero Small Business Insights (XSBI), productivity has rebounded since the pandemic years but is still below the pre-covid average.

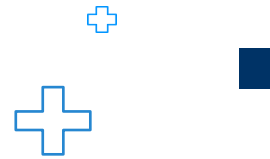
Small businesses continue to stand out, as the data from Xero demonstrates small business productivity growth to be average or higher than the national level.

What Incentives SMEs Find Most Effective for Motivating Employees*



*based on audience poll results at the State of the Market Series (June 2024)

Expert Insights



SIMON BEDARD

Managing Director
Exit Advisory Group



Private equity and professional investors are always looking at the quality of the management team, the company culture, and key-man risk as major risk factors impacting value. If you do not have clear lines of succession and a motivated team, you are probably leaving money on the table.

CLARE LONG

Director, Norgay HR
Consulting



If your teams are clear about their roles and how they align with the overall business strategy, productivity will increase. When you establish a clear line of sight and define what success looks like, team members can focus their efforts on what truly matters to the business. This clarity helps them understand how their work makes a difference and motivates them.

CAROLINE NORTH

Market Research
Manager, SEEK



When it comes to measuring and implementing KPIs in your business, one effective approach we've used at Seek is to let employees drive their own KPIs. We have clear macro goals, and based on those, employees write their own KPIs, which are then discussed and agreed upon with their managers. This method is very motivating and makes individuals responsible for their own performance.

Enhancing team performance is crucial for achieving business, whether you aim to increase revenue, develop effective succession plans, or boost company value.





▶▶▶ Take Action

Small Business Productivity Growth

- **Agility and Adaptability:** Small businesses have the flexibility to pivot quickly, alter business strategies and operations, and adapt to changing market conditions.
- **Adopting Technology:** Small businesses are leveraging new tools (including AI) and platforms to streamline operations, automate repetitive tasks, and enhance overall efficiency.
- **Cross-Training:** Staff members who are cross-trained can seamlessly transition between tasks, ensuring that the business remains lean and efficient.
- **More Flexibility:** Small businesses that are adopting remote work and flexible hours can improve employee satisfaction and productivity.
- **A Focus on Well-Being:** Small business owners can directly connect with their staff and show more appreciation for their work, keeping employees motivated, especially during tough economic times.



While SMEs are more agile, and better equipped to handle productivity issues, it is critical to identify, map and systemise the main functions that drive value in your company to ensure you a solid platform to scale.

SIMON BEDARD
Managing Director
Exit Advisory Group

Generative AI is transforming businesses at an unprecedented pace. It's essential for companies of all sizes, especially SMEs, to leverage AI to stay competitive. With the agility and speed to implement new technologies, SMEs can quickly harness the power of AI to gain a significant edge in the market. Need guidance on what AI tools may be useful for your business? [Check out this resource.](#)

M&A Trends for SMEs

Strategic Insights for Navigating the World of M&A as a Small and Medium-Sized Business

“The data is unequivocal; SMEs march to their own beat and have a unique way of addressing key market-based challenges. But there are still key structural elements that all businesses need to understand if they wish to grow, and potentially sell one day.



Simon Bedard
Managing Director
Exit Advisory Group

“When it comes to due diligence, there's more risk on the employee side than there has ever been before. We're seeing increased focus on employment entitlements and making sure that people are getting paid properly, and that the environmental risks and tax risks are covered.



Jason Marcus
Partner
Thomson Geer Lawyers

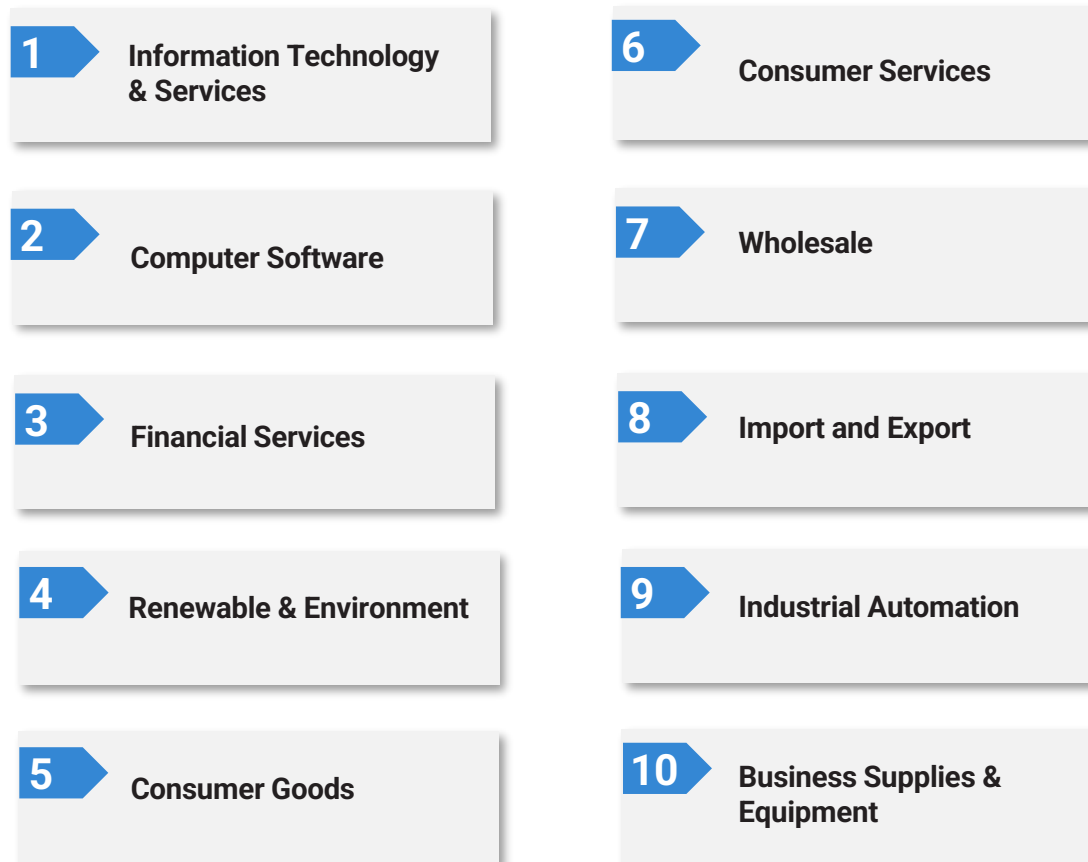
“The pipeline of opportunities has never been stronger. We see the baby boomer generation now relatively unburdened by mortgages and enjoying higher discretionary income compared to a few years ago. They are now reaching retirement and feel that this is a good time to exit.



Jeremy Samuel
Managing Director
Anacacia Capital

Buyer's Interests Trends: Top 10 Industries in 2024

According to Exit Advisory Group's buyers' database, IT and computer software companies continue to demonstrate the highest demand among acquirers, followed by financial services, renewables and environment-focused companies, and consumer goods and services:



Take Action

Is your business in one of these industries? If so, you may be attractive to an acquirer. Being 'exit-ready' will put you at an advantage.

Check our [Take Action Hub](#) for helpful resources.



Nearly 90% of Deals Involve an Earn-Out – Understanding How It Works is Critical

Earn-outs are a critical component in business sales, providing a mechanism to defer part of the purchase price contingent upon the company's future performance. This approach not only ensures sellers receive fair value but also protects buyers from overpaying based on speculative growth.

How to Safeguard Your Earn-Out

Earn-outs today go beyond financial metrics to include clear, objective criteria, ensuring fairness post-sale. While payments can be deferred over 1-2 years without strict conditions, achieving specific goals is crucial and can lead to complex accounting and disputes.

Here's how business sellers can protect their interests:

- ▶ **Align with Shareholder Value:** Connect earn-out terms directly to shareholder interests to ensure everyone benefits from future business performance.
- ▶ **Integrate with Exit Plans:** Link earn-outs with long-term exit strategies, reducing uncertainty about how operational decisions impact earn-out outcomes.
- ▶ **Clear Communication and Expert Advice:** Maintain open dialogue and seek guidance from experienced advisors to navigate risks effectively and prioritise business goals.

Following these strategies empowers small businesses to handle earn-outs confidently, ensuring alignment with objectives and fair compensation for their achievements.



▶▶▶ Take Action

De-Risk Your Business to Achieve the Best Deal Structure on Exit

Ask yourself the following questions to identify the risks in your business:

KEY PERSON RISK

Are you overly dependent on key employees—including you? If this person left, how would this impact your business?

CUSTOMER DEPENDENCY

How much does your largest customer contribute to your overall revenue? If it surpasses 10% or 15%, it warrants a closer look. 20% and over is alarming.

SUPPLIER RESILIENCE

Like customer dependency, relying heavily on one supplier could present a huge risk to your supply chain. Diversification is pivotal.

OWNER INDEPENDENCE

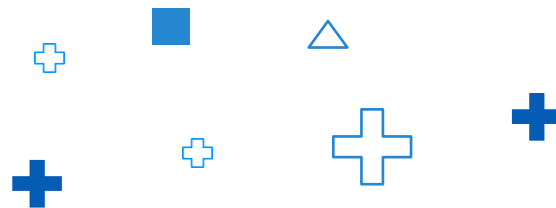
A mature business thrives even without its owner. Could yours endure a three-month absence? What about a year?



Deals only get done when you've got a willing buyer and a willing seller who form a lot of trust in a short period of time. To achieve this, you need a good team, good employees and good systems and processes.

SIMON BEDARD

Managing Director | Exit Advisory Group



▶▶▶▶ SMEs Strategies for Success in the Current Economy

Navigating Rising Interest Rates

Reassess investments with a sharp focus on ROI and efficiency. Monitor cash flow and ensure liquidity. Review and refinance existing debt to secure lower rates. Evaluate future investments to reduce costs and improve operations.



Dealing with Lower Productivity

Build a strong business operating system: set clear goals, refine processes and workflows, leverage technology, and improve time and capacity management. Foster a culture of clarity, accountability, and collaboration.



Capitalising on Government Spending

Explore government opportunities by targeting government clients and diversifying revenue streams. Investigate government tenders, contracts, and grants. Stay informed on regulatory changes.



Buyers - Make Astute Acquisitions

Capitalise on high M&A activity in the SME market. Clarify your investment criteria, get your financing in order, and have a solid plan to assess target companies.

Let [Exit Advisory Group](#) know what type of business you are looking for to get notified of future opportunities.



Navigating Labour and Skills Shortages

Invest in training to upskill your team. Explore alternative talent pools like offshore staff, part-time workers, consultants, apprentices, and interns. Create meaningful incentives to attract and retain talent.



Transitioning Out of Business

Set clear exit objectives and a timeframe. Build a strong management team and streamline operations to make your role redundant. Ensure financial, legal, and tax affairs are in order, and seek professional advice for the sale or transfer process.



Preparing your Business for M&A

Get your business 'exit-ready' to effectively engage potential acquirers. Organise your business affairs, including financials, tax, and legal matters. Conduct a business valuation and value-gap analysis to identify risks pro-actively.



Preparing to Scale Up in Uncertain Times

Focus on cash flow management, cost reduction, and productivity improvement through technology and upskilling. Maintain customer engagement, explore new markets, and develop flexible plans for various scenarios.



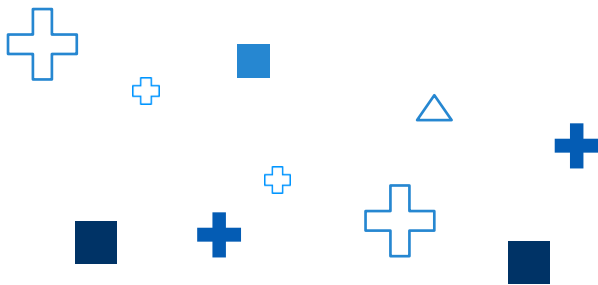


Path Forward

Businesses must balance today's challenges with seizing tomorrow's opportunities. By focusing on their people—whether employees, management teams, or potential buyers and sellers—businesses can build a resilient and adaptable organisation poised for long-term success.

Understanding the economic landscape and staying abreast of regulatory changes is essential for SMEs to navigate the complex business environment. Engaging employees and fostering a supportive workplace culture can drive productivity and loyalty, while strategic use of mechanisms like earn-outs can enhance business transactions. Effective leadership and succession planning ensure continuity and the ability to seize opportunities even in times of crisis.

As SMEs move forward, these insights and strategies can help them not only survive but thrive in today's dynamic market. By valuing their people and leveraging their strengths, businesses can create sustainable growth and build a solid foundation for the future.



See You at the Next State of the Market!

Our next series is happening in September 2024 with new guest speakers who will cover the opportunities ahead and the most pressing challenges SMEs are facing today.

[Click here to sign up early](#)

Our Experts



Simon Bedard

Managing Director
Exit Advisory Group

Exit Advisory Group is a boutique business advisory, serving clients across Australia and globally.



Warren Hogan

Chief Economic Advisor
Judo Bank & Exit Advisory Group

Respected Australian Economist, voted the best economic forecaster by the Australian Financial Review.



Jason Marcus

Partner
Thomson Geer Lawyers

Thomson Geer is one of Australia's largest independent corporate law firms.

Thomson Geer

Lawyers



Jeremy Samuel

Managing Director
Anacacia Capital

Anacacia is an award-winning fund manager that invests in private and public SMEs in Australia and globally.



Caroline North

Market Research Manager
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SEEK is a market leader in online employment marketplaces in Australia.



Clare Long

Managing Director
Norgay HR Consulting

Norgay HR provides expert HR consulting and advisory to improve performance, productivity and ensure your business is protected.



The State of the Market Series is an Exit Advisory Group Initiative in Partnership with Judo Bank



We are a boutique business advisory, serving clients across Australia and globally. Our focus is on helping business owners maximise value in their business and exit with confidence. Whether you are ready to exit or focused on building business value, we guide you on how to reduce risks, amplify strengths, and unlock your business's true worth.

If you want to chat with an advisor about what your business is worth and how to extract the maximum value from your company, Exit Advisory Group's expert advisors are here to guide you.

[Let's start a conversation](#)

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Judo Bank boldly backs business. Our purpose is simple: to be the most trusted SME business bank in Australia. As Australia's only challenger bank purpose-built for small and medium businesses, we exist to help you secure the lending you need and the service you deserve to support and grow your business.

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