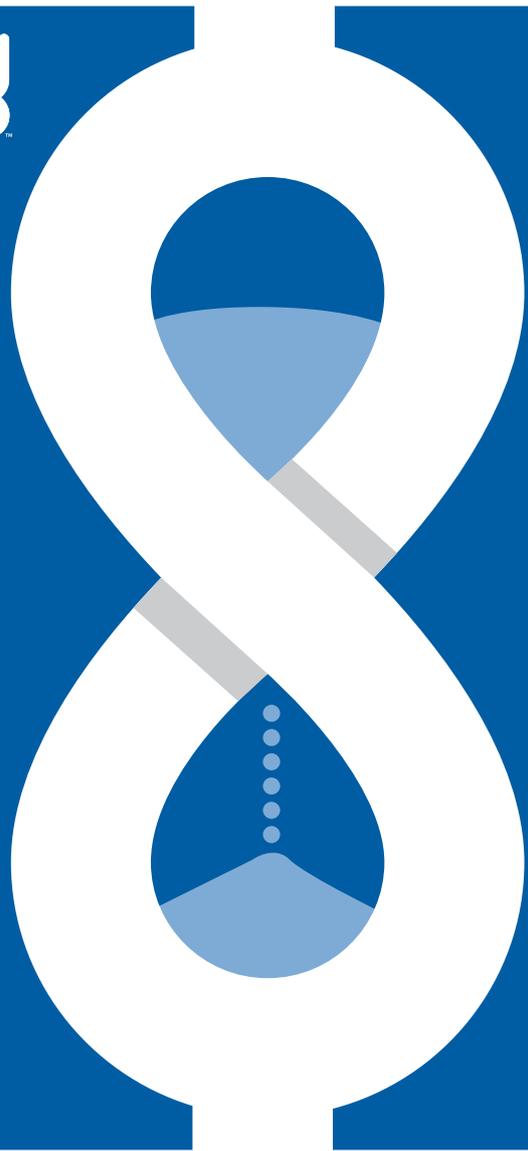




# Tyro SME Banking Report

Exploring banking  
inefficiencies for Small  
to Medium Enterprises

August 2016



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## About The Tyro SME Banking Report

The Tyro SME Banking Report seeks to expose the business banking habits of Australia's 2 million Small to Medium Enterprises (SMEs) and their 4.5 million employees. While a great deal of statistical information about SMEs is collected in Australia, the sources are very disparate, poorly linked and difficult to piece together. This report brings facts and information that are currently hard to access together in one place.

The report provides up-to-date information on the size of the SME sector, its employment breakdown and the value it contributes to the Australian economy. It also provides information on the technological sophistication of SMEs, particularly in terms of their business banking processes and the time they spend on these processes. Finally, it examines the financial impact these unsophisticated and inefficient processes have on SMEs and the broader impact on the Australian economy.

For the purposes of this report, SMEs are businesses with 50 or fewer employees, which is consistent with the OECD definition of a small enterprise.<sup>1</sup>

## About Tyro Payments Limited

Tyro is Australia's only independent EFTPOS banking institution and is the first new entrant into the banking business in more than 18 years. Tyro provides credit, debit, EFTPOS card acquiring, Medicare and private health fund claiming and rebating services as well as a transaction and deposit account integrated with Xero cloud accounting. Tyro takes money on deposit and offers unsecured cash-flow based lending to Australian EFTPOS merchants. Tyro holds an authority under the Banking Act to carry on a banking business as an Australian Deposit Taking Institution (ADI) and operates under the supervision of the Australian Prudential Regulation Authority (APRA). For more information, visit [www.tyro.com](http://www.tyro.com).

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<sup>1</sup>OECD, 2005, *OECD SME and Entrepreneurship Outlook*.



## Foreword

It is with great pleasure that I endorse the Tyro SME banking report: *Exploring Banking Inefficiencies for Small to Medium Enterprises*.

SMEs are the engine room of the Australian economy: driving growth, creating jobs and employing 4.5 million people.

Innovation is the key to a strong and productive SME sector and billions of private and public sector dollars have been spent to help boost SMEs productivity.

These initiatives have largely been focused on relieving financial pressures and improving workplace participation. While useful, they are only part of the solution. Very little has been done to help SMEs access capital and improve their business efficiency – especially as it relates to current banking processes.

By overcoming these banking inefficiencies companies will grow, business productivity will increase and Australia's global competitiveness will rise.

SMEs are well known for their enterprising spirit and willingness to have a go. Creating a banking environment that allows them to become more competitive, sustainable and profitable will ensure that they are in the best position to innovate, invest and grow for the benefit of us all.

Tyro shares this vision and is equally passionate about innovative business banking practices for SMEs. This nationally important thought leadership initiative examines banking inefficiencies SMEs encounter on a daily basis. It is designed to lift the lid on these barriers, as well as the challenges and conditions SMEs face when it comes to online banking.

I commend Tyro for producing this worthwhile examination of the SME banking environment in Australia today.

**Mike Cannon-Brookes**

*Co-founder & CEO, Atlassian*

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## Key statistics: SME business banking



# 52%

of SME owner/operators are doing their own bookkeeping



# 20%

of SMEs owner/operators don't use any form of accounting software

### Top pain points by numbers

Percentage of SMEs who want their business bank to do a better job at:



# 700,000

35% of Australia's 2 million SMEs believe their bank could be doing a better job.

### The cost of business banking per SME



More than 44% of Australia's SMEs are spending more than **3 hours a week** on online business banking related tasks including checking, entering bills, paying bills and reconciling accounts.

## This equates to 19.5 days a year per SME.

### The cost of business banking for the national economy

19.5 days a year spent on unnecessary and inefficient bank processes at an average of \$50 an hour equates to an expenditure of

# \$7,800

## This is costing the economy \$6.8 billion per year.

## Executive Summary

The Tyro SME banking report shines a light on one of the most urgent issues facing Australian small business owners: banking inefficiency.

It shows how banking red tape is robbing more than 880,000 of Australia's 2 million Small to Medium sized businesses of four weeks' productive work time a year, costing the national economy almost \$7 billion annually.<sup>2</sup>

This equates to an extra 20 working days a year – or the entire annual holidays of the average Australian employee.

As Australia's major banks announce record profits, the findings show they are holding back the engine of the national economy, Australia's SME sector, which supports more jobs than any other sector.

Titled *Exploring Banking Inefficiencies for Small to Medium Enterprises*, the report has found that 44% of Australian SMEs spend more than three hours every week checking, entering, paying and reconciling data, costing each business an average of \$7,800 a year.

Extrapolated to Australia's 2 million SMEs, this costs the national economy \$6.8 billion per annum.

The survey also found that among SME owner/operators:

- 50% do their own accounts
- 47% want their business bank to understand their business better
- 35% believe their business bank could be doing a better job
- 29% want better access and availability to capital funding
- 20% do not use any accounting software.

The Tyro SME banking report was compiled using evidence from two sources:

1. Publicly available data from government agencies such as the Australian Bureau of Statistics and Australian Treasury
2. A survey of more than 800 SME owner/operators

Since the end of Australia's resources boom, the country's banks are increasingly turning to Australia's SMEs to fund their profits. However, banks need to look at how one of their most important systems are holding back the very market they seek to serve.

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<sup>2</sup> See page 23 for report methodology.

## Introduction

SMEs make a significant contribution to the Australian economy, accounting for slightly less than half of private sector industry employment. However, the Australian SME contribution to GDP has experienced a slowdown in growth since 2012.

*Figure 1 – Industry Value Added (IVA) by size of industry \$b<sup>3</sup>*



The downturn in growth and the implication for Australia's growth prospects are both significant. SMEs have consistently contributed over half of the industry value added generated by all Australian businesses. The SME sector employs a significant proportion of working Australians in the private sector, while nearly all (98%) of private sector businesses in Australia have fewer than 50 employees.

Without the continued trend in prosperity of SMEs we face a nationally significant challenge that could have massive economic consequences.

The challenge is to ascertain what the major pain points are for SMEs and their ability to drive continued growth.

Billions of dollars have been spent by the private and public sectors to assist SMEs. The focus of these initiatives, particularly within the public sector, has been on relieving the financial burden and improving workplace participation. Very little has been done to address the issue of access to capital, or to improve business processes, including banking and overall efficiency.

SME banking is in transition. From a market that was once neglected and challenging to serve, it has now become a strategic target for banks. This flows on from the 2008 financial crisis, when banks shifted their focus away from large corporates in an effort to seek high yields in a low interest rate environment.

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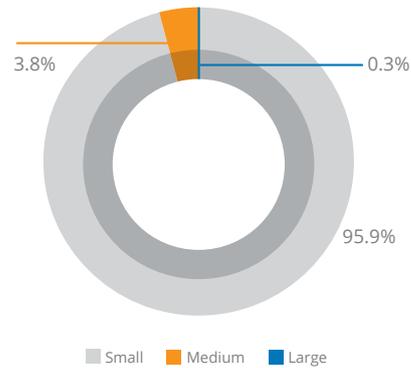
<sup>3</sup> Australian Bureau of Statistics, 8155.0 - Australian Industry, 2014-15

## Characteristics of SMEs in Australia

SMEs vary in size and make-up across the country, from solely owned and operated businesses to mum-and-dad businesses and agile innovative technology enterprises. The majority of SMEs are micro or small operations with fewer than five employees.

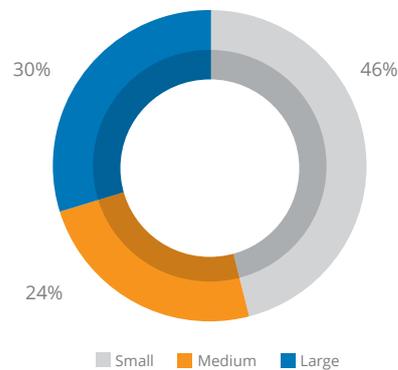
Large companies (with more than 200 employees) make up only 0.3% of businesses operating in Australia.

*Figure 2 – Australian businesses by size <sup>4</sup>*



Interestingly, small enterprises account for nearly half of Australia's total employment. Together with mid-sized operations, they make up about 70% of total employment.

*Figure 3 – Australian businesses by size and employment contribution <sup>5</sup>*



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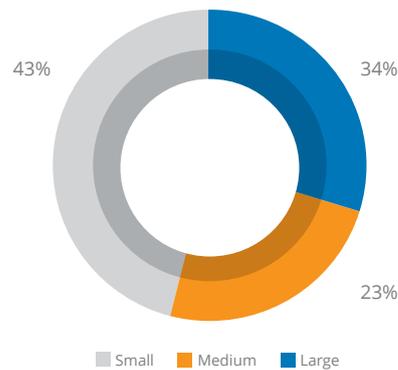


<sup>4</sup> Australian Treasury, Australian Small Business, Key Statistics and Analysis December 2012, Department of Industry, Innovation, Science, Research and Tertiary Education.

<sup>5</sup> Australian Treasury, Australian Small Business, Key Statistics and Analysis December 2012, Department of Industry, Innovation, Science, Research and Tertiary Education.

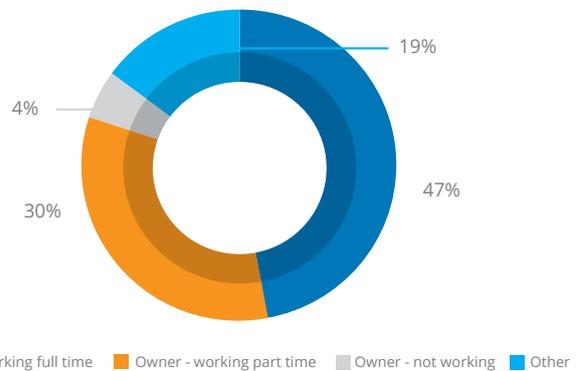
The significance of SMEs in the national context is best illustrated by their contribution to Industry Value Added (IVA). By comparing industry sizes by their IVA, it is evident that SMEs 'punch above their weight' in terms of their economic, employment and social contribution to the Australian economy. SMEs contribute the majority (66%) of IVA in Australia.

**Figure 4 – Australian businesses by size and IVA contribution (private sector) <sup>6</sup>**



There is little doubt that the significant contribution SMEs make to IVA is the direct result of streamlining and automating operational processes. Online banking has helped eliminate a number of manual banking processes and streamlined the effective running of SMEs.

**Figure 5 – SMEs by employment status of owner**



Tyro survey data reveals that 77% of SME owner/operators work in their own business, either in a full-time or part-time capacity, which suggests 23% may be silent equity partners.

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<sup>6</sup> Australian Media and Communications Agency, Australian SMEs in the digital age, 2012-13

Nearly all SME owner/operators use online banking, with 96% saying they use it more than once a month. Many more perform online banking tasks multiple times a day. This statistic is a sharp increase from 2012 data, which cites that only 77% of SMEs used online banking. Communications, business research and banking transaction-based activities are the most common activities undertaken online.

**Figure 6 – How often do you perform online business banking?**



The take-up and growth in online banking has also meant SMEs are now more likely to undertake multiple activities online—a reflection of growing confidence in using the internet as both a business and customer engagement channel. In 2013, 50% of connected SMEs performed seven or more different types of online activities.<sup>7</sup> Communications, business research and banking transaction-based activities are the most common activities undertaken online by SMEs.

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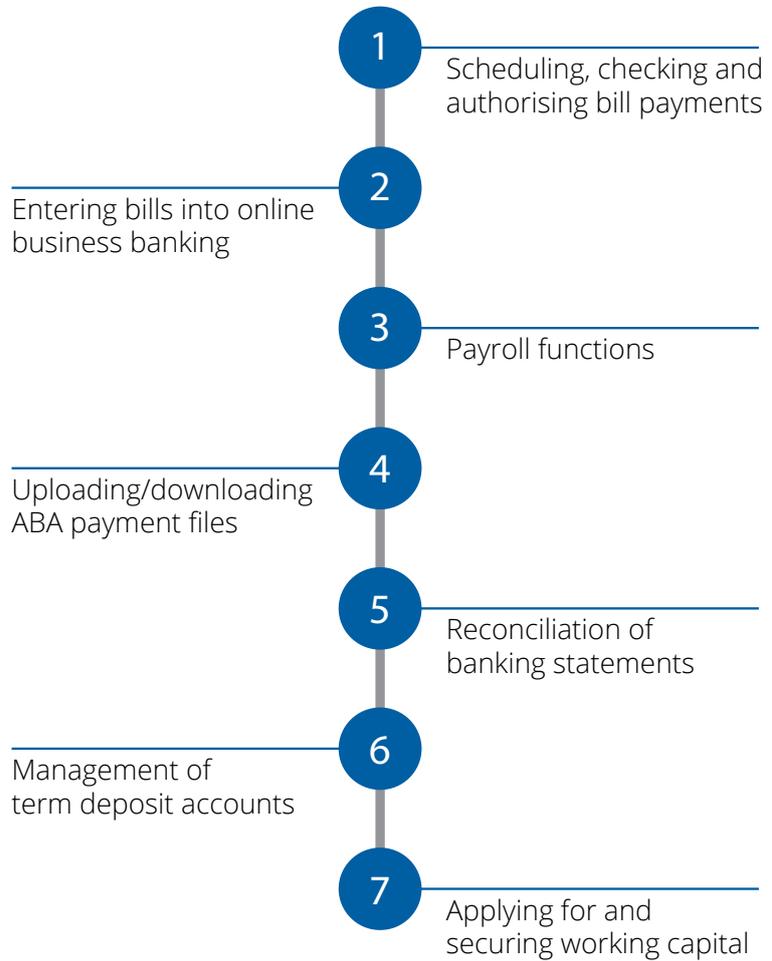


<sup>7</sup> Australian Media and Communications Agency, *Australian SMEs in the digital age, 2012-13*

## Seven pain points of online business banking

A large proportion of the Tyro survey asked SME owner/operators about their specific business banking activities and the average time it took them, their staff, their contracted bookkeepers or accountants to execute online banking tasks.

The findings of the survey reveal the seven major pain points in terms of productivity when it comes to online business banking and related activities.



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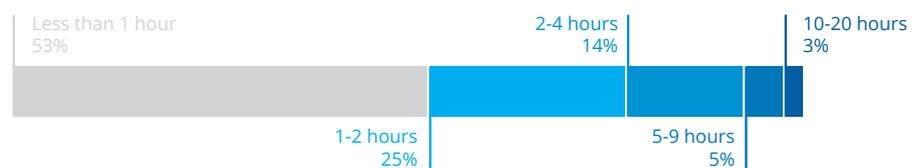


## PAIN POINT 1

### Scheduling, checking and authorising bill payments

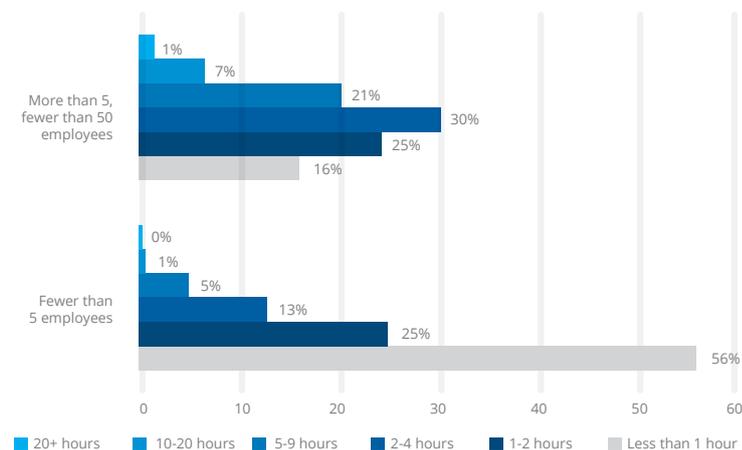
Survey respondents were asked how long (on average) it takes them, or someone they pay, to perform online banking tasks, including scheduling, rescheduling, checking and authorising bill payments, every week. For the majority (53%) of SMEs, automated payments in online business banking have made a significant difference to the way they do business, leading to major efficiency gains in the last decade. The question remains: how can the 47% of SMEs who spend more than one hour a week on online business banking tasks also realise these benefits?

**Figure 7 – Time taken to perform online banking scheduling, rescheduling, checking and authorising bill payments every week**



Smaller SMEs are twice as likely to spend less than an hour each week scheduling, checking and authorising bill payments than their larger counterparts. Sixty-four per cent of SMEs with fewer than five employees are extremely efficient with their online bill payments, spending less than an hour a week checking and authorising bill payments, compared to only 28% for larger SMEs. Forty-three per cent of SMEs with more than five employees spend more than two hours and up to 20 hours a week paying online bills – that's the equivalent to 13 days per year.

**Figure 8 – Size of workforce**



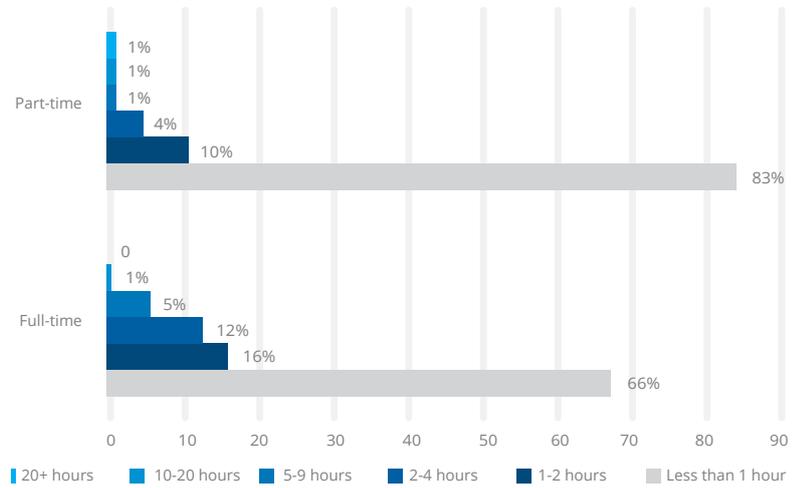
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The majority of both full-time and part-time working owner/operators pay their bills in under an hour each week (55% and 70%, respectively).

However, for 20% of full-time working owner/operators the task can take between 2 and 20 hours. The same is true for 11% of part-time owner/operators.

**Figure 9 – Owner/operator employment status**



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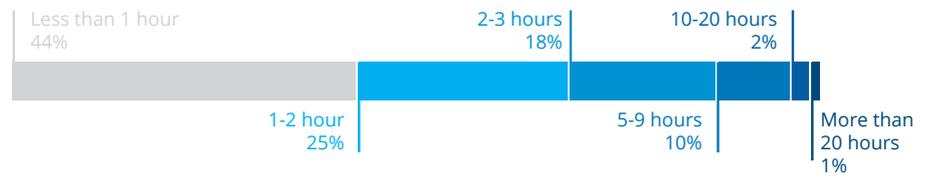


## PAIN POINT 2

### Entering bills into online business banking

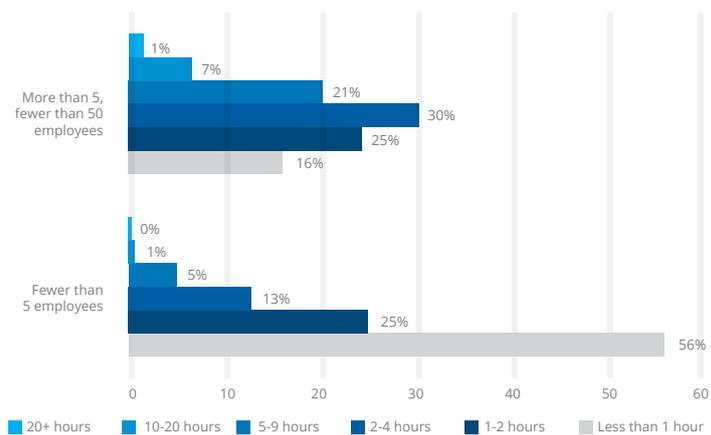
Survey respondents were asked how long (on average) it takes them, or someone they pay, to enter bills into online banking every week. The survey revealed that almost one third of SMEs invest more than two hours, with 13% spending more than nine hours.

*Figure 10 – Time taken to enter bills into online banking every week*



Unsurprisingly, the larger the business, the longer it takes to enter bills into online business banking. Fifty-six per cent of SMEs with fewer than five employees spend less than one hour each week, while 59% of SMEs with more than five employees spend between 2 and 20+ hours entering bills into online business banking.

*Figure 11 – Time taken to enter bills into online banking by business size*

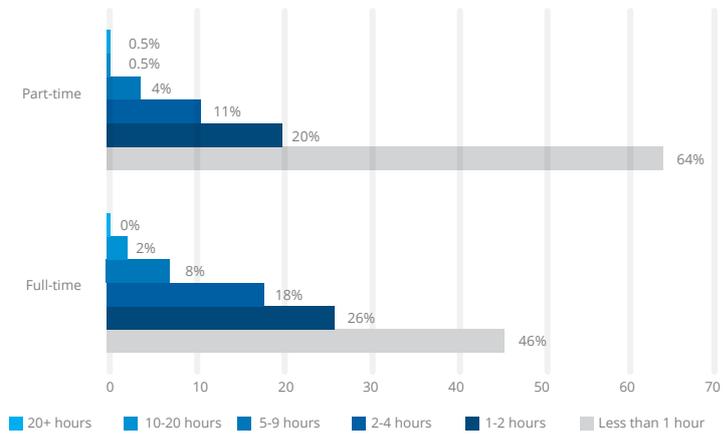


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The survey also found that owners working full-time are not as efficient as their part-time counterparts. Sixty-four per cent of part-time working owners spend less than one hour per week entering bills into online business banking, compared to 46% of full-time owners.

**Figure 12 – Time taken to enter bills into online banking by working status of owner/operator**



This paints a compelling picture of how manually entering bills impacts time-poor SME owner/operators, particularly those with a larger workforce and who work full-time in their business.

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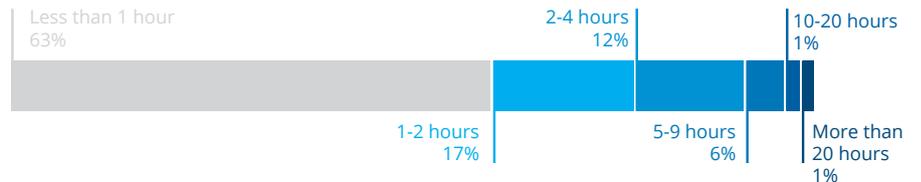


### PAIN POINT 3

#### Payroll functions

Survey respondents were asked how long (on average) it takes them, or someone they pay, to perform payroll functions every week. Payroll can be complicated, time consuming and—particularly if you get it wrong—expensive. The introduction of accounting software such as Xero and MYOB has meant payroll has become a largely automated process for many SMEs. This is reflected in the survey data that reveals almost two thirds (63%) of SMEs in Australia perform their payroll functions in less than one hour per week.

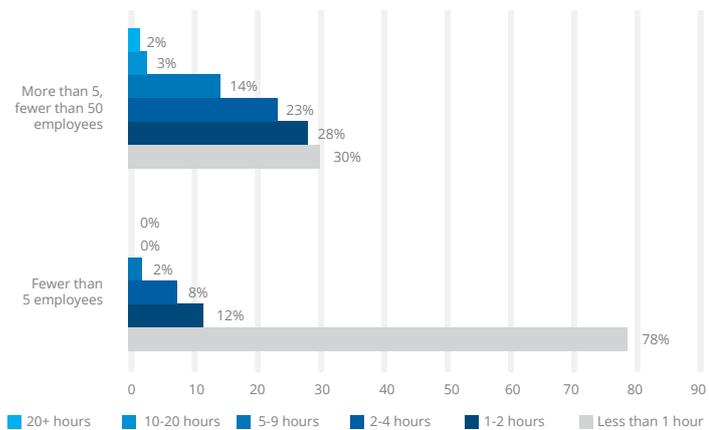
**Figure 13 – Time taken to perform payroll functions every week**



Of all the pain points, payroll functions represent the widest gap in transaction time between smaller and larger SMEs. Almost 80% of SMEs with fewer than five employees perform their weekly payroll function under one hour.

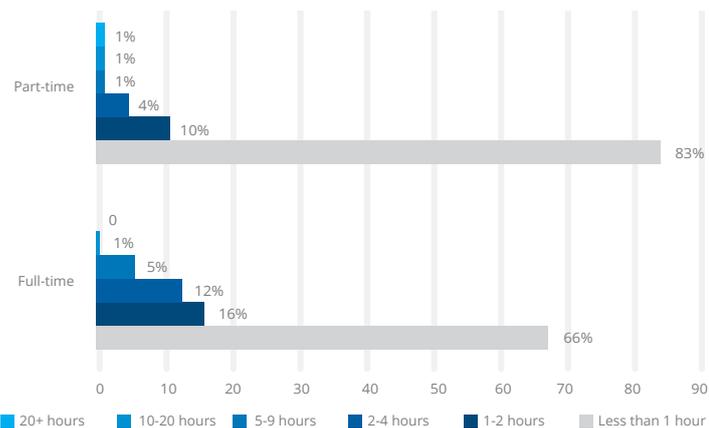
In contrast, only 30% of SMEs with a workforce of more than five employees perform payroll banking tasks in less than one hour. For 14% of these SMEs, the task can take up to 10 hours per week, more than one full working day a week, or 65 working days a year.

**Figure 14 – Time spent on payroll functions by business size**



Compellingly, it takes 66% of full-time working owners less than one hour to complete weekly online payroll functions, compared to 83% of part-time working owner/operators.

**Figure 15 – Time spent on payroll functions by working status of owner/operator**



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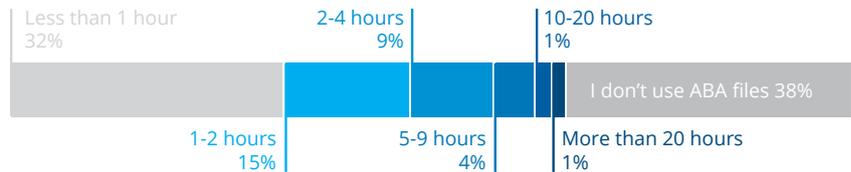


## PAIN POINT 4

### Uploading and downloading ABA files

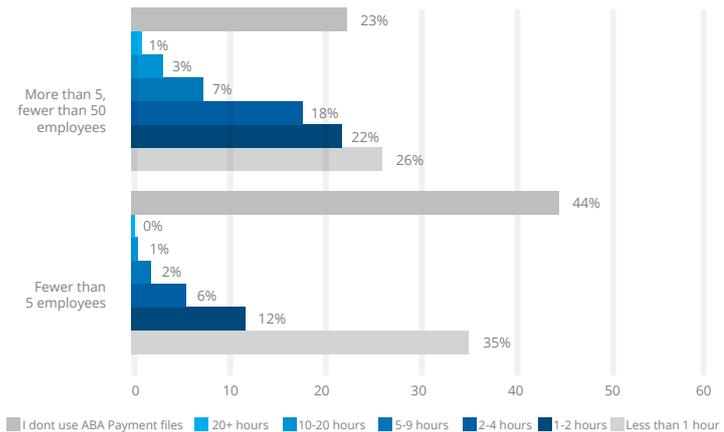
Survey respondents were asked how long (on average) it takes them, or someone they pay, to upload and download Australian Bankers' Association (ABA) payment files every week. For 30% of SMEs, uploading and downloading ABA files takes considerable time, anywhere from an hour to more than 20 hours per week.

Figure 16 – Time spent uploading and downloading ABA files



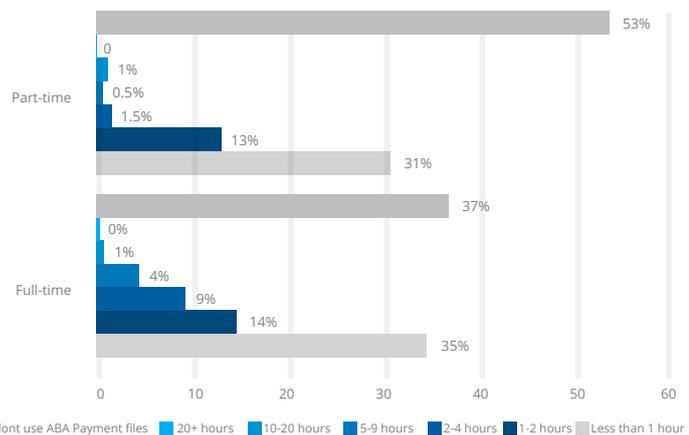
SMEs with more than five employees spend considerably more time uploading and downloading ABA files each week. Eighteen per cent of SMEs with more than five employees spend between two and four hours a week, compared to only 6% of SMEs with fewer than five employees.

Figure 17 – Time spent uploading and downloading ABA files by business size



There was no statistically significant difference in the survey data for either full- or part-time working business owners. This trend suggests the complexity of the file relates to the size of the enterprise, rather than the working status of the owner/operator.

Figure 18 – Time spent uploading and downloading ABA files by working status of owner/operator



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## PAIN POINT 5

### Reconciliation of banking statements

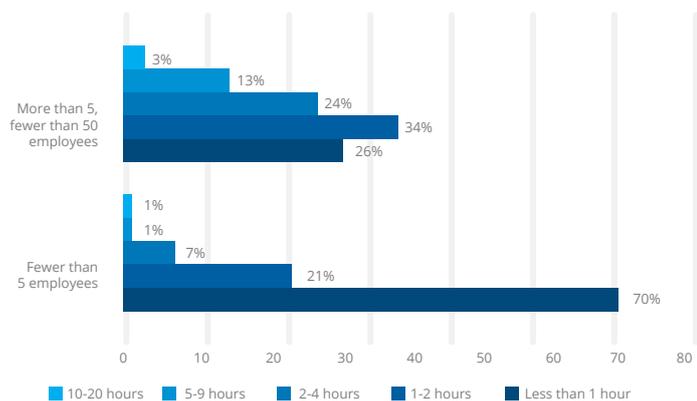
Survey respondents were asked how long (on average) it takes them, or someone they pay, to reconcile banking statements every week. For 56% of SMEs, reconciliation of banking statements takes less than one hour every week. Yet for 6% of SMEs, the process can take between 5 and 20 hours.

Figure 19 – Time spent reconciling banking statements per week



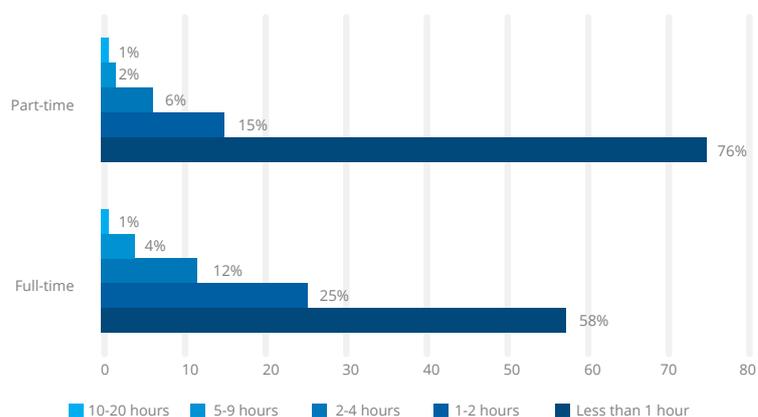
Reconciliation of accounts seems to be an aggravation for larger SMEs. It takes 74% of SMEs with more than five employees more than one hour every week to reconcile their accounts. In contrast, only 30% of smaller sized SMEs take more than an hour for account reconciliation. Volume of transactions, complex operations and capital expenses could explain these findings.

Figure 20 – Time spent reconciling banking statements by size of business



Owner/operators who work part-time appear to reconcile accounts more quickly than those who work full-time. Twenty-four per cent of part-time working owners spend one hour or more on this task, compared to 42% of full-time working owners. This represents a significant difference and pain point for owner/operators who work full time in larger businesses.

Figure 21 – Time spent reconciling banking statements by working status of owner / operator



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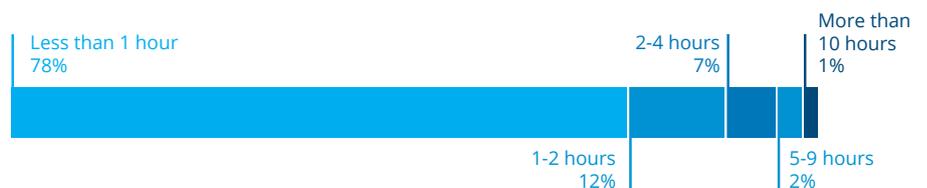
## PAIN POINT 6

### Management of term deposit accounts

We asked survey respondents how long (on average) it takes them, or someone they pay, to manage term deposit accounts in order to maximise investment returns.

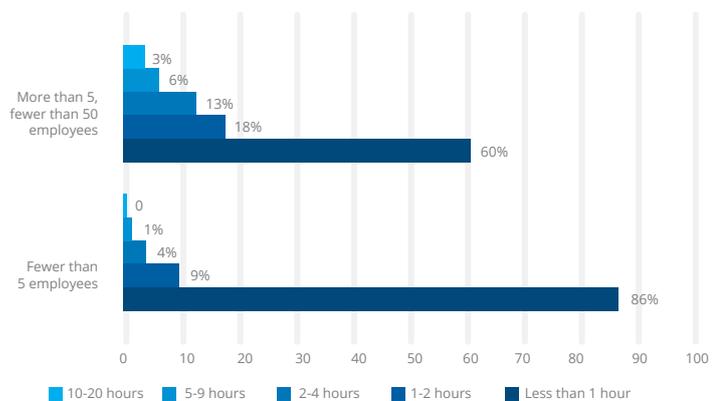
The management of term deposit accounts as a single metric does not appear to be a significant pain point for the large majority of SMEs in Australia. Seventy-eight per cent of SMEs invest less than one hour per week in the management of term deposit accounts. Where this becomes a problem for some SMEs is when the figure is broken down according to workforce size.

*Figure 22 – Time spent managing term deposit accounts every week*



For 9% of smaller sized SMEs and 18% of larger SMEs, it takes up to two hours per week to manage term deposit accounts in order to maximise investment returns. While less time-intensive than other pain points, the management of term deposits accounts does still account for 104 hours, or the equivalent of 13 working days, every year.

*Figure 23 – Time spent managing term deposit accounts by size of business*



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## PAIN POINT 7

### Applying for and securing working capital

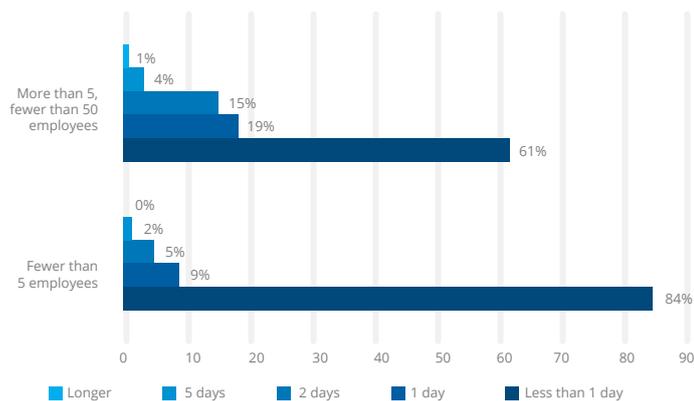
There is growing recognition that access to capital is crucial to productivity improvement. Survey respondents were asked how long (on average) it takes them, or someone they pay, to secure working capital for their business (overdraft, hire purchase agreements, loans, credit card management) at any one time.

*Figure 24 – Time spent applying for and securing working capital*



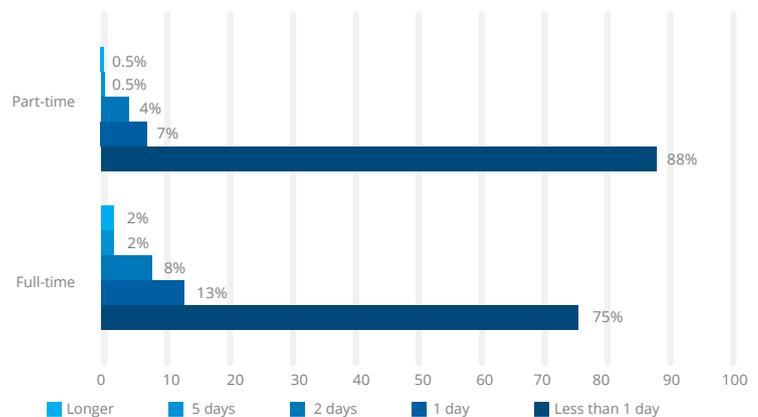
Larger SMEs are three times more likely to spend two days or more applying for and securing working capital than smaller enterprises.

*Figure 25 – Time spent applying for and securing working capital by size of business*



Part-time owner/operators are twice as likely to spend two hours or less securing capital for their business, compared to those who work full-time.

*Figure 26 – Time spent applying for and securing working capital by working status of owner/operator*



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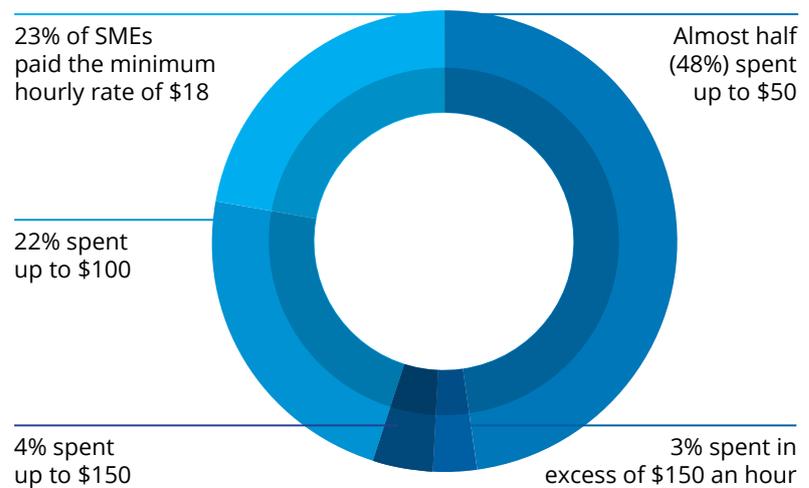
## Conclusion

While each of these pain points may seem minor in isolation, when they are considered together and aggregated over the course of a year, a concerning picture emerges.

Forty-four per cent of SME owner/operators spend at least 156 hours a year, or 19.5 days, on inefficient online business banking processes. This imposes a significant financial cost and unnecessary strain on SME owner/operators.

Survey respondents were asked to estimate how much they paid (per hour) for their bookkeeper or employee to conduct online business banking tasks.

*Figure 27 – Average hourly wages paid for online business banking tasks*



Taking the median of these results (\$50 an hour) and multiplying it with the median number of hours it takes an SME to pay, check and reconcile billing functions of their online business banking affairs every week (three hours) the cost adds up to nearly \$8,000 per year per SME.

Extrapolated to the 2 million businesses that make up the SME sector in Australia, the numbers are staggering:

Online banking inefficiency is costing the Australian economy \$6.8 billion every year.

This number begs the question: how can we improve?

Research suggests that while 65% of SMEs agree that conducting business functions online is important to future business growth, only 14% feel that they are taking full advantage of systems and tools to do so.

The technology is here: new banking solutions are able to be fully contained in the cloud, totally integrated with business and accounting software, frictionless and mobile – costing SMEs and the national economy... nothing.

This report highlights the need to rethink business banking.

The banks that will succeed in future will be those that marry deep technology and banking know-how.

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## Methodology

The report draws on a variety of data that are publicly available from both public sector sources and private sector studies. It also features data obtained through a bespoke survey of 804 Australian SME owner/operators commissioned by Tyro in May 2016.

A number of conclusions have been made based on respondents' answers to the questions posed in the survey. An overview of the conclusions and the methodology used to reach them are provided below.

More than 44% of SMEs spend three hours or more per week on online business banking related tasks including, entering bills, paying bills and reconciling accounts.

This conclusion was reached from answers to the following questions:

- Q13 – How long (on average) do you, an employee or bookkeeper at your cost spend entering bills into online banking or accounting every week? (56% answered more than 1 hour)
- Q15 – How long (on average) do you, an employee or bookkeeper at your cost spend logging into online banking, scheduling, rescheduling, checking and authorising bill payments every week? (48% answered more than 1 hour)
- Q17 – How long (on average) do you, an employee or bookkeeper at your cost spend with reconciliation of banking and accounting statements every week? (44% answered more than 1 hour).

The conclusion is based on the lowest amount (44% in question 17).

This equates to 19.5 working days in a year.

This conclusion was formed based on the following calculation.

3 hours x 52 weeks in a year = 156 hours

156 ÷ 8 hours in a working day = 19.5 days

We then multiplied 156 hours by the median bookkeeping rate of \$50 an hour (Q:18 What would you estimate to be the full cost per hour for your bookkeeping, regardless of who carries it out?)

$\$50 \times 156 \text{ hours} = \$7,800$

This equates to \$7,800 per annum being spent on unnecessary and inefficient bank processes.

Extrapolated to 44% of Australia's 2 million SMEs (800,000), the total estimated cost to the national economy is \$6.8 billion per annum.

$\$7,800 \times 880,000 \text{ (44\% of Australian SMEs)} = \$6.8 \text{ billion.}$

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