

RedZed Self-Employed Business Index

2022 Report



RedZed
Loans for the self-employed

Study finds confidence & resilience high amongst Australia's self-employed

but for how long?

Australia's self-employed and small business owners have continued to show resilience and are generally optimistic and confident about their futures according to new research.

This is the key finding of the second RedZed Self-Employed Business Index: a breakthrough report that takes the pulse of this critical market segment in the Australian economy.

The survey comes after a year of turbulent market conditions including the ongoing impact of the pandemic, staff shortages, weather related catastrophes, disruption to supply chains, and rising interest rates and inflation.

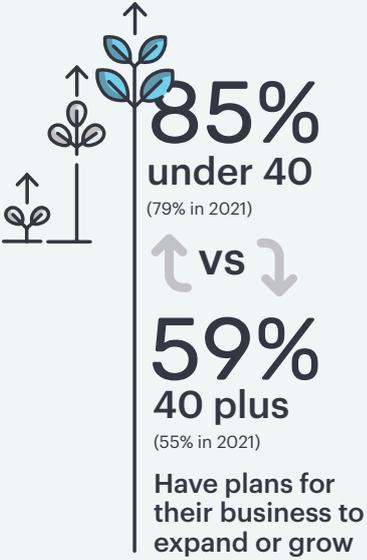
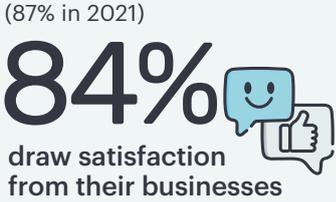
But the self-employed have also battled to secure much-needed loans from the major banks, with the research finding many struggle to meet the arduous lending requirements.

With the Reserve Bank's cash rate sitting at 3.10%, the resilience and optimism of Australia's self-employed will be put to the test, with RedZed reporting a shift in client sentiment in the weeks since conducting its research.

Over 500 self-employed and small business owners took part in the 2022 Index, with research conducted between July and October 2022.

Key findings

Confidence & satisfaction remain high



Mental health is a significant issue



stated that running a business has had a detrimental impact on their mental health

Many struggle to secure loans



- Unsuccessful reasons given by business owners include**
- » risk averse lenders
 - » an abundance of red tape and paperwork
 - » issues with credit ratings
 - » age of the business



Women less confident about financial future than men

The Index revealed that more women started their own business in the past two years (32% compared to last year's 16%).

The Index revealed that women are overrepresented in the self-employed space when compared to men, at 72% and 53% respectively. Female respondents were also much less confident about their financial futures when compared to males (+21 net confidence vs +43 net confidence).

There are significant gender inequalities when it comes to dealing with the banks, with women being much less inclined to have a positive opinion of the major banks (29% compared with 53% of men) and almost three times less likely to apply for business loan in the near future when compared to men (9% compared with 26%). This may be related to the fact that 27% of female respondents have been denied a business loan in the past.

Issues that matter



The Self-Employed Index demonstrates that there is a very real need for alternative financing sources for the self-employed. RedZed is proud of its track record in providing a bespoke service for this sector



The biggest issue concerning Australia's self-employed is the rising cost of living, with 79% of respondents listing this as a cause for concern. This was followed by inflation (63%), interest rates (56%) and house or property prices (40%). Interestingly, climate change was highlighted by 41% of respondents – well down the list.

Executive General Manager of Distribution for RedZed, Chris Calvert, said the findings of the second Self-Employed Business Index demonstrate that being self-employed and running a small business can be exhilarating, challenging, rewarding – and extremely frustrating.

“When you are both the Managing Director and the chief bottle washer you have to sweat the detail. That can be time consuming and mentally exhausting. As we emerge from the worst (hopefully) of the COVID pandemic, mental health challenges have been highlighted as a road bump in running a small business,” Mr Calvert said.

“Importantly, since we started surveying respondents for the Index, we've had seven cash rate rises – and the Treasurer is now warning to expect recessions in developed nations. Confidence is down across the board, and we've seen a real increase in clients who are doing it tough and feeling the pinch.

“That makes obtaining finance more difficult than ever. Unfortunately, this is one of the key challenges many self-employed face. Whether this is a mortgage to purchase a residential property, credit to finance working capital or growth or using an existing property as security to source credit, our research found that the major banks are not always attuned to the needs of this segment.”

Paul Di Marzio, Head of Research of SenateSHJ Insights, who conducted the Index, said: “The majority of respondents were not impressed by the major banks. The main criticism was not related to engagement but rather to a lack of understanding, flexibility and empathy.

“Self-employed and small businesses owners are seen as a risk by the major banks and when they are knocked back for a loan, it leaves them feeling rejected which takes an emotional toll”

Mr Di Marzio said the overall perception of large banks can be best summed up by this response from a survey participant: “They listened but can't relate.”

RedZed's Chris Calvert said this sentiment has led to many self-employed and small business owners, as well as the brokers they engage, turning to specialty lenders.

“We've seen an increase in enquiries looking for an alternative lender who's more attuned to the complexities of running a small business. This was supported by the Index, which found that 30% of respondents were aware of alternative financing avenues or “alt-doc options”. More importantly, of those that were aware of this option, 64% had successfully sourced a loan from these specialist lenders.

“The Self-Employed Index demonstrates that there is a very real need for alternative financing sources for the self-employed. RedZed is proud of its track record in providing a bespoke service for this sector.”

“Our challenge is to ensure that when borrowers go to their trusted advisors, be they accountants or brokers, they consider the opportunity that a specialist lender can provide from a service and empathy perspective.”

“RedZed doesn't rely on computers and algorithms to make lending decisions. We support potential and recognise that the success and creditworthiness of self-employed business owners doesn't come from playing it safe, but from having a crack. That RedZed spirit is what sets us apart from the banks and why we continue to grow.”

About the RedZed Self-Employed Business Index

As one of Australia's leading lenders to the self-employed, RedZed wanted to gauge and better understand how the SME sector is going in the throes of the pandemic and the shifting, challenging market conditions it keeps facing.

For the second year running, we worked with Paul Di Marzio, Head of Research at SenateSHJ, to undertake benchmark, national research that assessed the following:

- Key business characteristics such as age, size, industry, type of work conducted, whether currently or previously a 'gig economy' business and growth plans
- Demographics of the owner as well as prior employment background and weekly hours worked on this business.
- Business satisfaction, challenges faced and confidence for the future.
- Accessing loan finance including history and intentions, sources and influences.
- Technology and financial literacy.

To address the key objectives

- We conducted a nation-wide online survey with 501 self-employed, micro or small business owners (micro having 1-4 employees and small having 5-19 employees).
- Accompanying the quantitative survey, we conducted nine in-depth interviews with a variety of business owners across the country.
- The sample was sourced through a specialist and ISO accredited supplier called Octopus Group which owns and manages a large panel of research participants.
- Take 2 Research scripted and hosted the quantitative survey and Di Marzio Research recruited and conducted the qualitative interviews along with the analysis and reporting of both components.
- Fieldwork for the quantitative survey took place between July 22-31 and the depth interviews during October 2022.

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