

**EDUCATION, EMPLOYMENT AND WORKPLACE RELATIONS LEGISLATION
COMMITTEE**

Fair Work Amendment (Small Business – Penalty Rates Exemption) Bill 2012

QUESTIONS ON NOTICE

Senator Gavin Marshall asked on Friday, 7 December, 2012, EEWR (proof) Hansard page 48.

Question

Senator Marshall: Mr Mammone, I cannot say that I religiously read every one of ACCI's surveys, but the few that I do summarise—don't they all say that? I think that every time I have had a look at one of your surveys, business confidence is flagging, there are recessionary pressures et cetera, and there is a terrible outlook for small business. I think that that has been going on for 20 years. How long have you been doing that survey? Are there any that do not say that?

Mr Mammone: There are a number of questions within that proposition and I will try as best I can—and I may have to take some of that on notice.

Answer

The ACCI small business survey commenced in 1996. On 20 December 2012, the Minister for Small Business Hon. Brendan O'Connor MP, released the publication titled, "*Australian Small Business: Key Statistics and Analysis*" (the report), which was compiled by the Department of Industry, Innovation, Science, Research and Tertiary Education. Chapter 8 (pp. 49 – 55) of that report summarises a number of small to medium business (SME) surveys, including ACCI's business surveys.

Figures 23, 25 and 26 summarises the findings of the ACCI business surveys spanning the last five years. The figures and the report illustrate that SMEs were reporting generally positive results in all separate ACCI business surveys (measuring business confidence, business conditions, business employment conditions and business profits) prior to the GFC (pre-2008). This was similar to the results of other SME business surveys produced by other organisations.

MEDIA RELEASE

Thursday, 20 December 2012

KEY STATISTICS SHOW SMALL BUSINESS' ECONOMIC ROLE

The key role small businesses play in the Australian economy has been highlighted by new figures showing that the sector created more than 260,000 new jobs in the two years after the global financial crisis, Minister for Small Business Brendan O'Connor said today.

Mr O'Connor said the Australian Small Business: Key Statistics and Analysis report provides a valuable overview of the sector, with emphasis on business characteristics and performance.

"The Gillard Government understands that small businesses are the backbone of our economy and we are determined to create the environment in which they not only survive, they thrive.

"In the private sector, small businesses operate in every region and industry in Australia, accounting for nearly one-half of industry employment and approximately a third of industry value added.

"This is a significant and vital contribution to the economy in anyone's language, particularly when it comes to the creation of new jobs.

"Over the two years to 2010-11, small businesses created an additional 262,000 jobs and contributed an additional \$29.6 billion to industry value added.

"At June 2011, small businesses accounted for almost 98 per cent of all businesses in the agriculture, forestry and fishing sector, about 92 per cent in the mining sector, 89 per cent in the manufacturing sector and 96 per cent in the services sectors."

The report, compiled by the Department of Industry, Innovation, Science, Research and Tertiary Education, also discusses how businesses engage with finance, innovation and e-commerce.

New research by the Australian Centre for Entrepreneurship Research (ACE) also published in the report provides valuable insights into business closure.

"This research provides a unique insight into the factors that initiate, hinder and facilitate the process of new business creation in Australia," Mr O'Connor said.

"It finds that early-stage entrepreneurial activity conducted by Australian businesses compares well with international counterparts.

“Exit interviews conducted by ACE suggest that a large majority of founders who give up their start-up attempts actually rate their exit as a positive experience with no financial loss upon termination.”

The research indicates that firms tend to use limited external sources of finance, and tend to fund their ventures through personal sources of funding.

This underpins the assertion that Australian start-up founders possess strong entrepreneurial skills and fund the development of their business through market revenue.

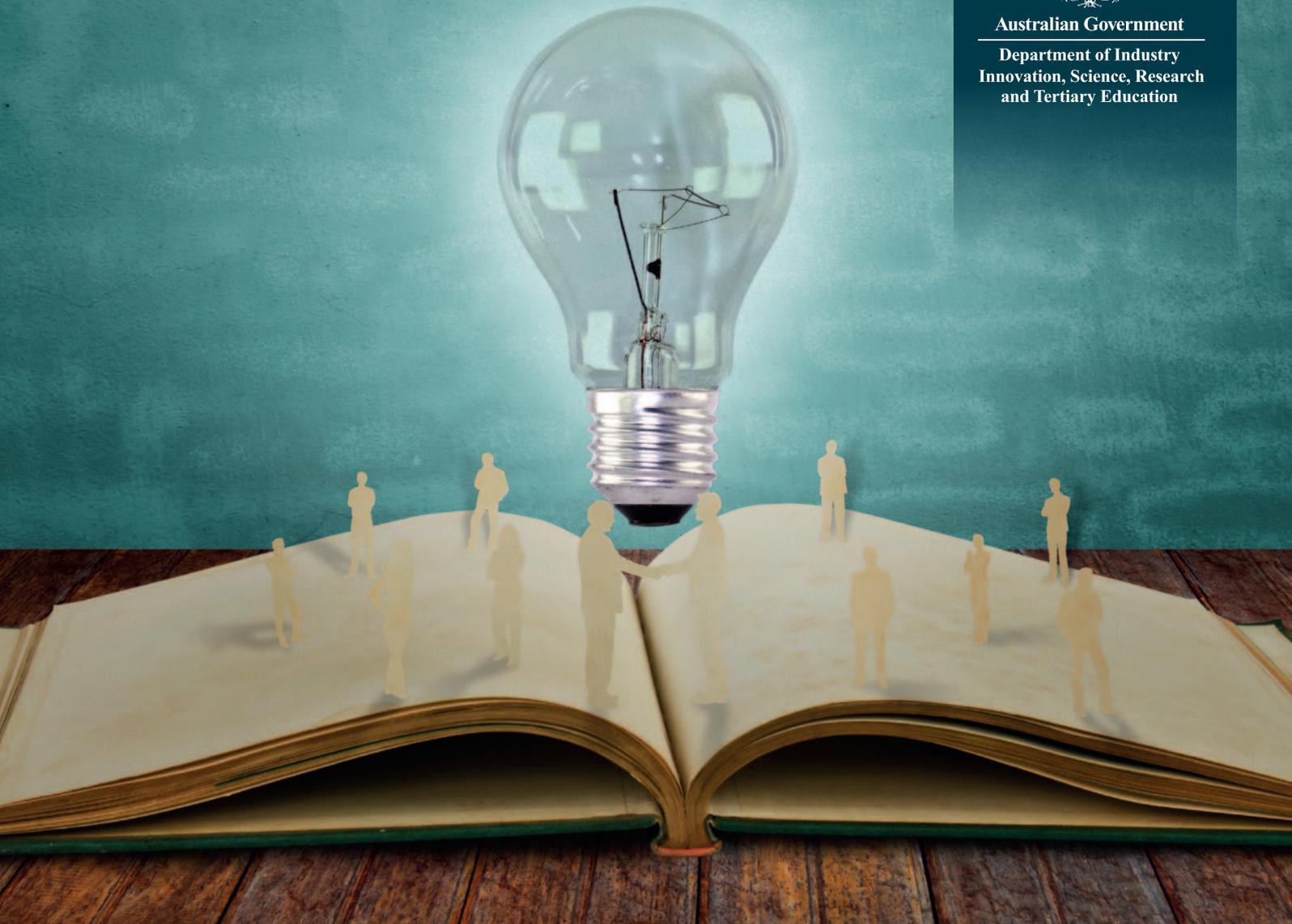
A copy of Australian Small Business: Key Statistics and Analysis is available at <http://www.innovation.gov.au/SmallBusiness/KeyFacts/Pages/default.aspx>

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Australian Government

Department of Industry
Innovation, Science, Research
and Tertiary Education



 **AUSTRALIAN SMALL BUSINESS**
KEY STATISTICS AND ANALYSIS

DECEMBER 2012



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This publication has been prepared by the Industry Policy and Analysis Branch in the Department of Industry, Innovation, Science, Research and Tertiary Education. It is available on the department's website.

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DEFINITIONS

For statistical purposes, the Australian Bureau of Statistics (ABS) defines a **small business** as an actively trading business with 0–19 employees. **Micro businesses** are small businesses with 0–4 employees. **Actively trading businesses** are businesses that have an ABN and are actively remitting in respect of a GST role.

The ABS defines a **medium business** as an actively trading business with 20–199 employees, and a **large business** as an actively trading business with 200 or more employees.

The employment size ranges are based on “headcount”, rather than a measure of full-time equivalent persons. A distinction can also be made between employing and non-employing businesses, where employing businesses have an active Income Tax Withholding (ITW) role.

No single definition of a small business will suit all the needs of government or the private sector. This is reflected in the many different ways a small business can be defined. The two most common ways of defining an Australian small business are by annual turnover or the number of employees (or a combination of the two).

Unless otherwise stated, the statistics contained in this publication are based on the ABS definition of business size outlined above.

Further definitions and explanatory notes are reported in the statistical tables at Appendix A.

INTRODUCTION

This publication provides a statistical overview of Australia's small businesses, with emphasis on business counts, characteristics and performance. Unless otherwise stated, small businesses are defined as those who are actively trading and employ less than 20 people.

This publication includes chapters covering a range of issues, divided into two sections, *research and key statistics*.

RESEARCH

Chapter one provides an overview of new small business entrants into the Australian economy. This chapter uses data from the Comprehensive Australian Study of Entrepreneurial Emergence (CAUSEE) undertaken by the Australian Centre for Entrepreneurship Research (ACE) at Queensland University of Technology. The CAUSEE data set was collected in 2007-2011 and provides a unique insight into the factors that initiate, hinder and facilitate the process of new business creation in Australia.

The chapter outlines that whilst modest in nature, early-stage entrepreneurial activity in Australia compares well with international counterparts. By capturing pre-operational and early stage businesses the CAUSEE study provides unique insights into the characteristics of Australian start-ups and the survival, employment and growth of these firms. The study highlights that Australian start-ups are founded in teams, with individuals possessing previous start-up experience and diverse educational backgrounds. In addition the motivation to create a new start-up business is more often driven by opportunity rather than necessity. The chapter improves the knowledge about firm failure and termination. Of firms that attempt to become operational, a significant proportion do not succeed. However the majority of start-up firms that were terminated had their owners rate their experience as positive, report little or no financial loss, and are open to the opportunity to engage in start-up activity in the future.

The chapter also investigates the different sources of finance and how firms engage in innovation. The data indicates that firms tend to use limited sources of finance, and tend to fund their ventures through personal sources of funding. This data underpins the assertion that Australian start-up founders possess strong entrepreneurial skills and fund the development of their business through market revenue. In terms of innovation Australian start-up firms offer some degree of innovation in different aspects of their business.

KEY STATISTICS

Small businesses make a significant contribution to the Australian economy, accounting for slightly less than one-half of private sector industry employment and contributing approximately one third of private sector industry value added in 2010-11.

The *construction* and the *professional, scientific and technical services* industry subsectors each contributed around 16 per cent of the small business contribution to services industry value added, and the *rental, hiring and real estate services* subsector contributed over 15 per cent.

As could be expected, the states with the largest proportion of total businesses in June 2011 (as defined as the main state of operation) are those with the highest populations. While in the more populous states the proportion of small businesses

aligns very closely to the proportion each state has of the total Australian population, the smaller states and territories are underrepresented by small businesses relative to population size.

Approximately 17 774 small businesses exported goods in 2010–11, up by 1.4 per cent from the previous year. This represents 41.6 per cent of all businesses exporting goods.

There were 2 132 412 actively trading businesses in Australia as at June 2011, an increase from 2 124 650 actively trading businesses as at June 2010. Non-employed businesses numbered the most, accounting for 61.2 per cent of total businesses, followed by employing micro businesses, which accounted for 23.9 per cent and the remaining small businesses, which accounted for 10.8 per cent.

In 2010–11, micro businesses, other small businesses and medium businesses experienced barriers to innovation shown by 65.8 per cent, 58.8 per cent and 63.1 per cent respectively while only 50.3 per cent of large businesses reported experiencing barriers to innovation.

■ RESEARCH



■ CHAPTER 1

EARLY STAGE START-UPS: EVIDENCE FROM THE COMPREHENSIVE AUSTRALIAN STUDY OF ENTREPRENEURIAL EMERGENCE (CAUSEE)

In this chapter, the picture of Australian small business is supplemented by using data from the Comprehensive Australian Study of Entrepreneurial Emergence (CAUSEE)¹. This data tracks large numbers of ongoing business start-ups over time. The Australian Centre for Entrepreneurship Research (ACE) at Queensland University of Technology collected data in four annual waves, Wave 1 (W1) to Wave (W4) from 2007 to 2011. CAUSEE allows the analysis of entrepreneurial entrants at two stages of development, i.e. nascent and young firms. *Nascent firms* are defined as firms in the process of being created, but not yet established in the market, and *young firms* are defined as having been operational for up to four years. An analysis of nascent firms provides unique insights, as no other known Australian database captures and follows the development of business start-ups at the pre-operational stage. In addition, the project captured judgment over samples of *high-potential* start-ups².

NUMBERS AND TYPES OF START-UP ATTEMPTS

Out of over 30 000 households successfully contacted at random, just over 1000 had a “next-birthday adult” identified as a founder of a nascent firm. A very similar number of founders of young firms were identified. Scaling this up to population-wide numbers, as a rough estimate, suggests that over half a million Australians are involved in early stage entrepreneurial activity at any point in time. This chapter presents some findings from the 625 nascent firms and 559 young firms that agreed to participate in a comprehensive interview.

The prevalence of nascent firm founders can be directly compared with a harmonised study in the United States (US)–the “PSED II”³. This comparison suggests that the proportion of the population actively engaged in business creation is higher in the US (4.9 per cent) compared with about 3.4 per cent in Australia. Australian start-ups, however, compare well with their American counterparts on indicators of quality. In terms of quality, Australian founders are less likely to be motivated by necessity or lack of alternatives, more likely to be growth oriented, more likely to emphasise research and development, and more likely to be based on young and/or sophisticated technologies. Australian founders are also slightly more likely to have a university degree and to work in teams.

This does not exclude the possibility that the US is more likely to produce “high-end” start-ups headed for venture capital investment, stock market introduction, and

1 The project received significant funding from the Australian Research Council and Industry partners National Australia Bank and BDO. See Davidsson, Steffens, and Gordon (2011) and/or <http://www.qut.edu.au/research/research-projects/the-comprehensive-australian-study-of-entrepreneurial-emergence-causee> for further details about the project and for current and future analyses of the data.

2 High potential firms are those ambitious growth-focused firms formed by founders that possess high levels of human capital, based around innovative ideas and high technology. These firms are far rarer than the modest majority of start-up firms captured by any random sample, as is the case in the main CAUSEE sample. Hence, high potential firms would require extensive effort to locate using a random sampling procedure therefore a researcher controlled judgement sample was made using multiple sources to locate and recruit high potential survey participants.

3 See Reynolds and Davidsson (2009).

spectacular growth. However, this is a very small category in numbers in any country. A random sample of start-up attempts, start-ups, or established small firms will be dominated by a “modest majority” entering mature industries, representing no or low levels of innovation, and having limited aspirations and/or potential for growth. This is certainly true for the CAUSEE sample, as analysis in this chapter will demonstrate.

This does not mean that in Australia opportunistic entrepreneurial activity compares poorly to realistic expectations or to other countries. On the contrary, the Global Entrepreneurship Monitor⁴ (GEM) suggests that Australia has high rates—second only to the US among “innovation-driven economies”—of both *nascent* and *young firms*. Further, Australia has the highest proportion of start-ups motivated by “improvement-driven opportunity”. Australian start-ups also compare reasonably well on orientation towards innovation and growth. The only quality indicator where Australian start-ups score comparatively low is on internationalisation.

Table 1 shows the geographical location of the CAUSEE start-ups. The geographical distribution of the sample is largely aligned with the distribution of the Australian population. That is, most of the start-ups originate from the more populous states. Further, half of the sample is located in the country’s five main agglomerations, with the other half representing small to mid-sized towns and rural areas. There are no marked differences between *nascent* and *young firms* in these regards. The proportions found in NSW, Victoria and WA are somewhat lower than their corresponding proportion of the established small business population, while Queensland’s share is higher. This may well reflect real differences, but it is also possible that the fact that the study was undertaken by the Queensland University of Technology may have led to higher response rates and therefore a somewhat inflated representation of respondents from Brisbane/Queensland.

⁴ See Kelley, Singer, and Herrington (2012). GEM assesses the prevalence of Nascent and Young firms like CAUSEE. GEM has the disadvantages of being based on a much smaller sample; collecting far less data about each firm, and not following them over time, but also the advantages of weighing the data very precisely to represent the population, and of providing comparison across a large number of countries.

Table 1: Location of start-ups

	Nascent Firm	Nascent Firm	Young Firm	Young Firm	Total	Total
	No.	%	No.	%	No.	%
Australian cities vs. The rest of Australia						
Rest of Australia	302	48%	283	51%	585	49%
Sydney	100	16%	69	12%	169	14%
Melbourne	99	16%	82	15%	181	15%
Brisbane	61	10%	70	13%	131	11%
Adelaide	36	6%	28	5%	64	5%
Perth	27	4%	27	5%	54	5%
Total	625	100%	559	100%	1184	100%
Australian states						
NSW	179	30%	150	28%	329	29%
VIC	144	24%	121	22%	265	23%
QLD	162	27%	158	29%	320	28%
SA	46	8%	39	7%	85	7%
WA	35	6%	43	8%	78	7%
TAS	19	3%	13	2%	32	3%
NT	4	1%	2	0%	6	1%
ACT	14	2%	12	2%	26	2%
Total	603	100%	538	100%	1141	100%

Note: Totals are lower in the analysis by state because of missing information in some cases.

Nascent Firm: have to report concrete (and continuing) actions towards starting a new business within the past 12 months, be a part owner of this business, and not yet having experienced a period where revenues exceeded costs for at least 6 of the past 12 months.

Young Firm: have to be a part owner of this business, and have been operational for up to four years.

The CAUSEE industry classification does not accord completely with the classification used in other places in this report. This is because *nascent firms* often do not have an official classification code yet—they have to be asked—and the industry categories used were dictated by harmonisation with a US counterpart study. Using the CAUSEE industry classification, the major groups of start-ups by industry are as follows: Retailing (13.6 per cent); Consumer services (12.5 per cent); Health, Education, and Social services (11.9 per cent); Business consulting/services (11.2 per cent); Construction (9.5 per cent); Manufacturing (6 per cent); Agriculture (5.3 per cent); Hospitality (hotels, restaurants, etc.) (4.1 per cent) and Communications (4.0 per cent). The remaining 22 per cent are found in miscellaneous, other industries.

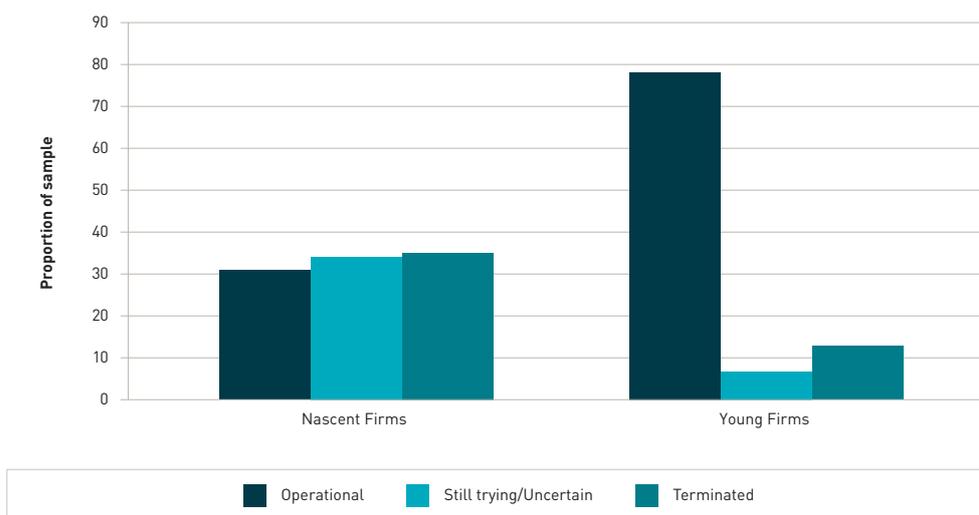
SURVIVAL, EMPLOYMENT AND GROWTH

It is frequently claimed that a very large share of all start-ups fail within the first few years. These claims are usually exaggerated. This is for two reasons: 1) some apparent “failures” occur in the data because on-going businesses are re-assigned to a new code due to changes in legal form, ownership, or main industry, and 2) even when firms are terminated (as independent entities) they may be sold at a profit or voluntarily closed without financial loss (e.g. due to retirement). With higher quality data, the picture typically looks less negative⁵.

⁵ See Levie, Don and Leleux (2011).

On the other hand, studies usually do not capture terminations *before* the start-ups become operational businesses that are visible in statistical databases. CAUSEE provides data on this issue. Figure 1 displays the outcome distributions for all CAUSEE participants that have a known status 36 months after the initial interview. For part of the sample the outcome is unknown due to failure to respond in later waves of data collection and these are not included in the analysis.

Figure 1: Cumulative firm outcomes after 36 months



Text description: see Appendix C.

Similar proportions of *nascent firms* have reached an operational state (31 per cent), i.e. sales regularly exceed costs, compared with those that have terminated (35 per cent), and those who are still trying to achieve venture creation (34 per cent). This outcome closely mirrors the outcomes in the US PSED study⁶. The results underscore that a large proportion of *nascent firms* terminate before becoming an operational firm. It also appears unlikely that more than 50 per cent will ever reach operational status.

The *young firm* sample shows that these new ventures remain more robust to firm closure. The vast majority of *young firms* (78 per cent) continue to be active in the market the last time they participated. The annual termination rate for young firms is 14 per cent cumulatively, while young firms with an uncertain status is 8 per cent cumulatively.

The termination rate appears less dramatic when data from exit interviews are analysed. These interviews were conducted with all founders who had terminated. Around 76 per cent of *young firms* and 60 per cent of *nascent firms* reported no financial loss upon termination, while only 13 per cent of nascent and 6 per cent of young firm founders rated their experience as negative or very negative on exit. Termination without financial loss reflects the case where ventures have recouped their costs prior to their decision to exit. The modest nature of many start-ups means that limited costs may be incurred by those venture creation attempts that eventually terminate. A large majority rated their exit as a positive experience. Around 29 per cent would probably attempt a start-up again, while 53 per cent would definitely engage in a start-up in the future—if faced with the right opportunity.

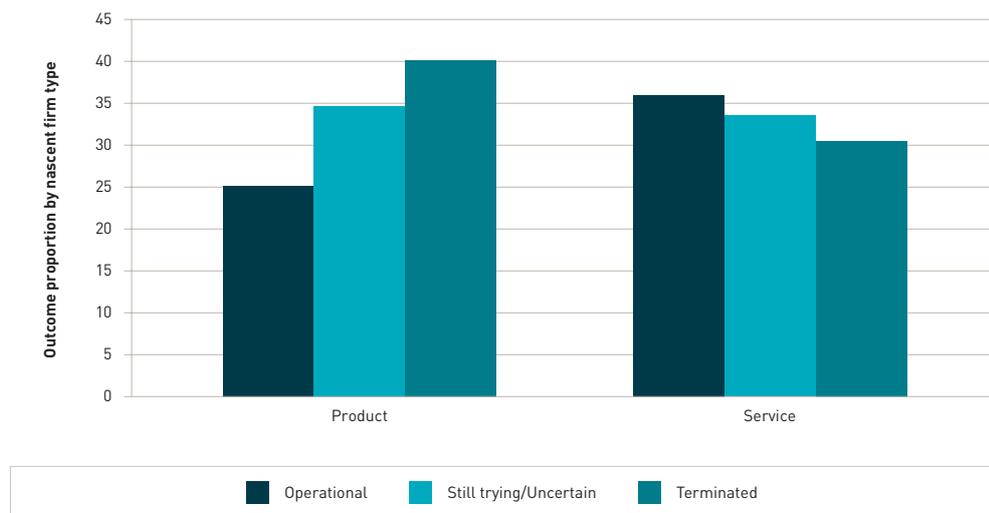
In some respects, the labelling of a terminated venture as a failure depends on how this is framed. The decision to exit a venture should not be taken lightly and can carry the

⁶ See Reynolds (2007).

same importance as the decision to create a venture. For example, early termination of a venture which may go on to destroy value for the owner may well be considered a successful remediation, or at least the lesser of two evils. In any respect venture failure will invariably be referred to the perceptions of the owner that is involved. As a result failure exhibits more subjective than objective qualities. Given that the majority of firms that were terminated had their owners rate their experience as a positive one, this makes the 'failure' tag a hard one to pin on most exiting ventures.

Outcomes vary by type of firm. Product-based *nascent firms*, mainly retailers and manufacturers, are less likely to reach an operational state and more likely to terminate, compared with services firms (Figure 2). Comparing the last known outcome after 36 months (W4), the figures for "getting operational" are 25 per cent compared with 36 per cent. For termination they are 40 per cent compared with 31 per cent. Focusing only on industry rather than the type of market offering reveals some important differences in firm viability. Retailers have comparatively high figures for both getting operational and termination—suggesting low barriers to entry but high barriers to survival, while manufacturing start-ups have a low incidence of getting operational paired with high incidence of termination. Manufacturing firms therefore appear to be the type of start-up that is the hardest to get off the ground.

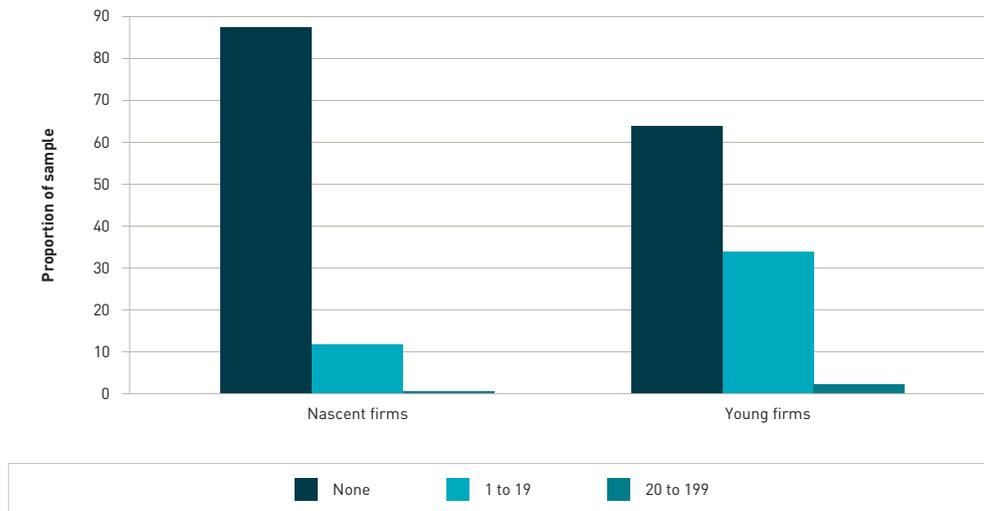
Figure 2: Outcome distribution by type of nascent firm (Product/Service) after 36 months



Text description: see Appendix C.

The CAUSEE random sample of *nascent* and *young firms* identifies that job creation beyond the founder-owners is the exception rather than the rule. Over the 36-month interview period, the most likely number of employees hired by any firm at any time, is zero. Figure 3 shows employment for both *nascent* and *young firms* at the time of first sampling (W1). Although there are occasional instances of firms taking off on a growth trajectory, the general pattern of this distribution for employee numbers changes little in subsequent years. Most new ventures therefore start off very small and stay that way. The average number of employees in *nascent firms* was one, while the average number of *young firm* employees increased from two to three from W1 to W4.

Figure 3: Employment in nascent and young firms



Text description: see Appendix C.

The results shown in Figure 3 illustrate the “modest majority” character of a random sample. In line with this, a majority (approximately 75 per cent) said at the first interview that they prefer to build a “small and manageable” firm to pursuing maximum growth. Rather than triggering an acquired taste for growth, experiences over time make these preferences shift towards an even greater majority favouring “small and manageable”.

CHARACTERISTICS OF NEW VENTURE FOUNDERS

Like many other research studies, the CAUSEE data suggest that the diversity of founder characteristics is more pronounced than any identification of a “typical entrepreneur” profile based on traits⁷ or demographic description. The founders are spread across all age groups, and while their average age is high in international comparisons⁸, it is lower than for the average Australian citizen. Immigrants are neither over- nor under-represented. Australian business founders also seem comparatively well equipped with human capital—many are university-educated, with different types of experience that may benefit the start-up. The data shows that a firm with increased education-based human capital is more likely to create employment for others, and obtain higher levels of profit once established as a *young firm*. Yet, education does not increase the likelihood of a *nascent firm* becoming operational, nor increase the likelihood of firm survival. The influence of experience-based human capital on venture success is more widespread than education-based human capital. More than half of the start-ups have at least one founder who has been involved in business start-ups before. Increased industry experience improves a venture’s chance of survival; it increases the likelihood of employment generation, and allows *young firms* to derive larger profits.

Almost exactly half of Australian business founders work in teams, albeit only a minority of these are professional teams assembled primarily for business purposes. Team-based start-ups have more human capital at their disposal, but this is not a clear cut relationship. The presence of very different types of teams means that a simple categorisation into team-based compared with solo ventures is not likely to explain much in terms of characteristics, progress and success of ventures. While

7 Gartner (1988) c.f. Zhao & Seibert (2006)

8 Kelley et al. (2012); Reynolds & Davidsson (2009)

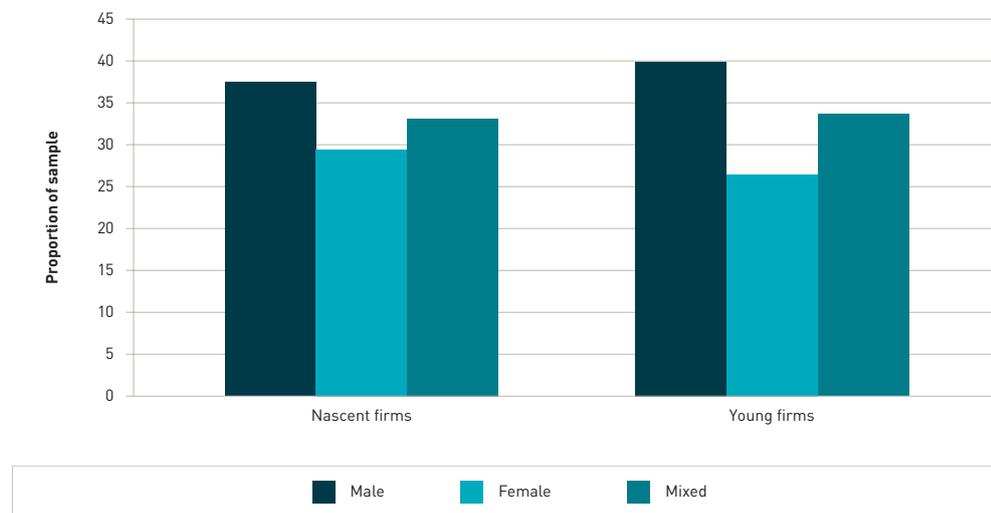
the founders also use employees, unpaid helpers and a variety of external sources of knowledge to facilitate their start-ups, there are also indications that many founders do not draw sufficiently on social capital (network contacts) to counterbalance their own shortcomings. Less than a third of all *nascent* and *young firms* are active in face to face business networks (29 per cent).

Overall Australian women are marginally under-represented as firm founders, and there are important gender differences regarding what type of firms are created. Female representation is particularly low in the construction industry, while manufacturing is largely male-dominated. Conversely, retailing, health, education and social services are largely female-dominated industries.

Almost 90 per cent of respondents stated that they are driven by positive, *opportunity-driven* motivation. However, the instance of *necessity-motivation* is slightly higher for Australian female founders (14 per cent) than for males (9 per cent). A somewhat larger difference is evident between the preference for “maximum growth” compared with keeping the firm “small and manageable”: 27 per cent of male-only ventures go for maximum growth, compared with 13 per cent of female-only start-ups.

The male-female division, however, could be an oversimplification. Figure 4 classifies team start-ups into three gender categories: male only (solo or team), female only (solo or team) and mixed-gender team, with the latter third category constituting a considerable share of all start-ups. Most of the mixed-gender teams are spousal or *de facto* couples, with or without additional owners.

Figure 4: Founder gender distribution from a firm-level perspective



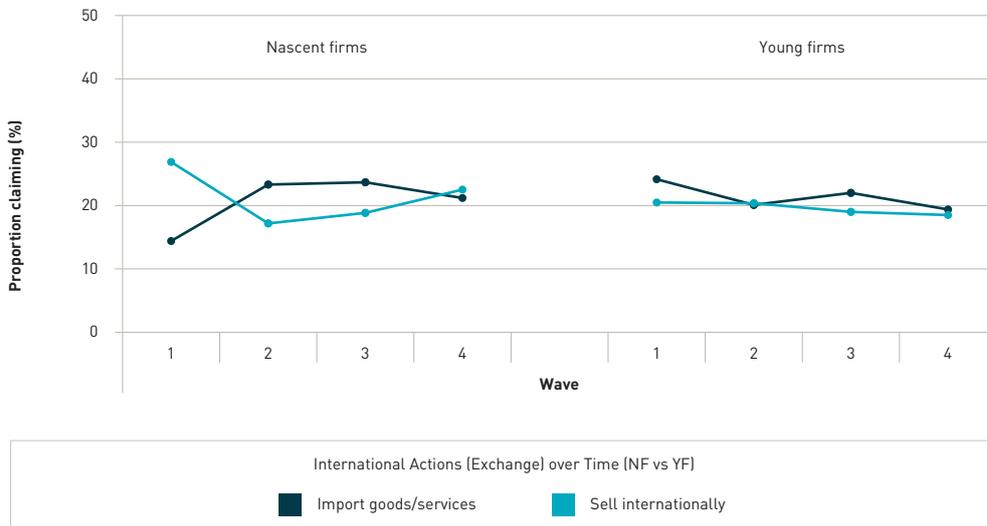
Text description: see Appendix C.

EXPORTS AND OTHER INTERNATIONAL ACTIVITIES

It was noted previously that, relatively few Australian start-ups engage internationally, and relatively more founders favour the domestic market, due to their small scale, young age and distant location, particularly service-based firms. There is also a tendency for the perceived attractiveness of international markets to decrease over time.

A significant minority engages in international exchange, and over time this remained unchanged. Figure 5 shows that start-ups that internationalise tend to start doing so at very early stages, rather than going international after reaching a stable position in the domestic market. This is consistent with the 'born global' view rather than the traditional image of gradually developing internationalisation⁹. However, there is some (but rather limited) growth in the proportion of international exchange over time among those start-ups that engage internationally at all. The mode of internationalisation also tends to develop from reliance on intermediaries towards more direct forms over time.

Figure 5: Nascent and young firms' participation in imports and exports over time



Text description: see Appendix C.

Many start-ups that do not internationalise during the early development phase regard international sales as difficult and possibly unrealistic. It is also evident that international sales fail to reach the levels the founders' have in mind at very early stages of the start-ups' development and fewer become exporters (and export less) than they initially aimed for. This is evident for firms in the high-potential sample, although these firms show considerably higher levels of planned and actual international sales. Immigrant founders as well as other founders with adult age international experience have more favourable perceptions of international markets and engage more in international activities, including imports and exports. However, among active exporters, the average *proportion* of sales that is currently generated overseas, or the proportion aimed for in the future, is not markedly different for immigrant founders compared with their Australian-born counterparts. Over time immigrant founders increasingly favour more direct modes of export—either from Australia or via their own presence abroad—over exporting via domestic or foreign intermediaries.

⁹ See Oviatt and McDougall (2004).

BUSINESS CONFIDENCE AND THE GLOBAL FINANCIAL CRISIS

The CAUSEE study did not measure traditional business confidence. However, some questions did shed some light on the founders' level of confidence and how it develops over time. This is of particular interest since the data collection started the year before the Global Financial Crisis (GFC) and continued for a number of years following the crisis.

Australian business founders, like business founders elsewhere, were quite confident that their firms would survive. At the first interview, the mean (81 per cent) and median (90 per cent) of respondents expected that their firm would still be active in five years' time. When asked about the prospects of firms other than their own, the confidence levels were much lower, with corresponding survival expectations of the mean at 39 per cent and the median at 40 per cent. These estimates did not change much over time.

Other indicators, however, have declined over time. The average self-assessed level of novelty and strategic advantage of the firm, the perceived attractiveness of international markets and the growth-orientation of the firms are reduced over time. W2 was undertaken during July 2008 to June 2009, and the decline from W1 to W2 could be ascribed to the GFC. However, there was no upward trend for these indicators in W3 and W4, when the outlook for the Australian economy improved. Therefore, these downward trends could have reflected increasing realism that would show in any sample of early stage ventures at any time, due to learning from early interaction with potential customers and other stakeholders¹⁰.

On questions in W3, almost a quarter (24 per cent) of the founders who were still active and participating in the survey reported that they had changed some aspect of their business in response to the GFC. The most common claims related to lower future investments (10.4 per cent), lower production levels (8.6 per cent), or lower staff than previously expected (8 per cent).

The CAUSEE data also allow for a less obtrusive and therefore, arguably, more credible way of assessing the effect of the GFC on ongoing start-ups. A range of indicators suggest that the onset of the GFC started in earnest with the collapse of Lehman Bros. in mid-September 2008. About half of the CAUSEE sample was re-interviewed during W2, allowing comparisons of responses to the same questions in W1 and W2. The analysis suggests that the immediate effects of the GFC were small or non-existent¹¹. This could therefore be interpreted that the large majority of nascent firms were more affected by their immediate environment than by the fluctuations in the overall economy. Other research has demonstrated that events like the GFC can lead to lower entry rates, which also seems to be the case for Australia¹². The CAUSEE findings suggest that this could be ascribed to potential founders refraining from initiating a start-up attempt during the GFC rather than the termination of on-going start-up efforts.

10 See Davidsson, James, Salunke and Tonelli (2010).

11 See Davidsson and Gordon (2012).

12 Australian Bureau of Statistics (2011) Cat No. 8165.0.

FINANCE

Table 2 presents data on the use of various sources of funding for the start-ups at the time of the first interview (W1)¹³. While the use may change over time, important general patterns are revealed in this analysis. The question to nascent and young firm was phrased slightly differently and the results should therefore be interpreted with care.

What is most striking about the data in Table 2 is the limited use of many sources. Only one source—personal savings—is used by more than 50 per cent of all start-ups. Despite frequent references to the ‘3 Fs’—friends, family and fools—most firms do not rely on such sources. Apart from credit card debt, even a major source such as bank funding is used only by a minority.

In a random sample, funding by business angels and venture capital firms is close to non-existent. This is quite different from the picture of “typical” start-ups from the business press or business school textbooks. The similarity in the patterns for nascent and young firms also suggests that there is usually no radical change in the funding pattern from inception through early life.

This again underscores the modest nature of the majority of start-ups. However, this is not the only reason. Just over half of the firms are started by individuals or teams who have previous experience from starting businesses, and some of these may have accumulated sufficient resources to fund the early stages of a more ambitious start-up. Further, doing much with seemingly little, and letting revenue from the market fund the development of the business, are hallmarks of skilled entrepreneurs¹⁴.

13 This analysis was previously published in Davidsson et al. (2011).

14 See Winborg and Landstrom (2001), Baker and Nelson (2005), Sarasvathy (2001)

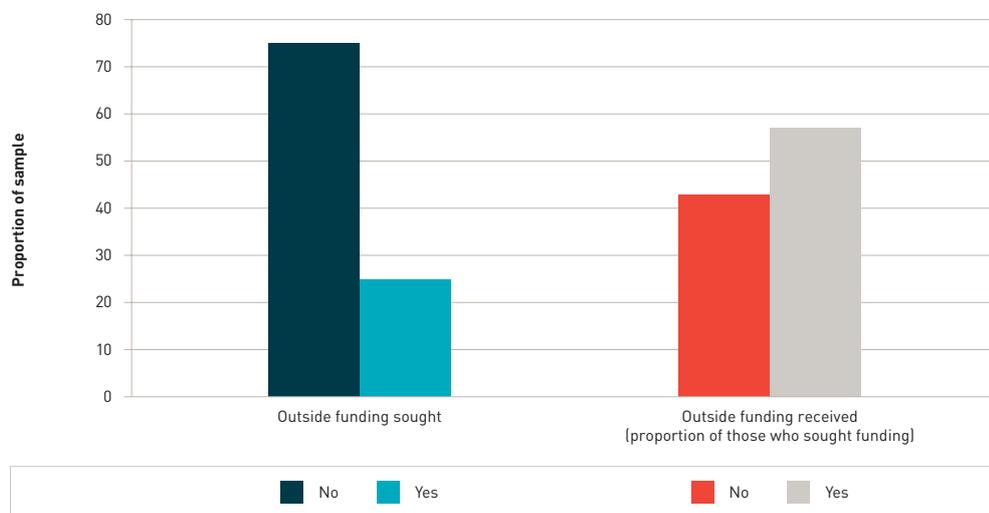
Table 2: Per cent of nascent and young firms using different sources of funding

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 6 is based on a different set of questions, only put to the nascent firm category. This analysis accumulates the information received across all four waves of data collection. The results restate that a minority—around 25 per cent—seek external funding. CAUSEE does not explore reasons for why firms do not seek funding. Among those who seek external funding, over 40 per cent have not received the funding within the time frame of their participation in the CAUSEE study. This signals that for a minority of around 10 per cent of all start-ups, external funding may be a problem.

Figure 6: Seeking and receiving external funding (nascent firms only)



Text description: see Appendix C.

Supplementary analyses also show that a higher incidence of seeking external funding is evident among nascent firms that were started by teams (33 per cent), are product-based (29 per cent), or considered 'high technology' firms (30 per cent). However these characteristics do not seem to increase the likelihood of receiving external funding among those who seek it.

Another indication of early stage financing challenges can be derived from questions about the education- and experience-based knowledge of the founders and others involved in the start-up. Five areas were investigated: *sales*, marketing or customer service; *finance* or accounting; *administration* or human resource management; *industry-specific* product/service development knowledge; and *industry-specific* production or service-distribution knowledge. The lowest reported knowledge applied to *finance* or accounting. The data therefore suggest that finance and accounting skills, if any, are the primary areas of skills shortages in founders.

INNOVATION AND E-COMMERCE

In each wave of CAUSEE data collection a series of questions were asked about the level of novelty, or degree of innovation in terms of: a) the product or service offered; b) the method for producing or sourcing the product/service; c) the approach to promoting and selling the product/service; and d) novelty in terms of the selection of customers or markets to target. The response scales essentially stretched from "pure imitation" to "new to the world".

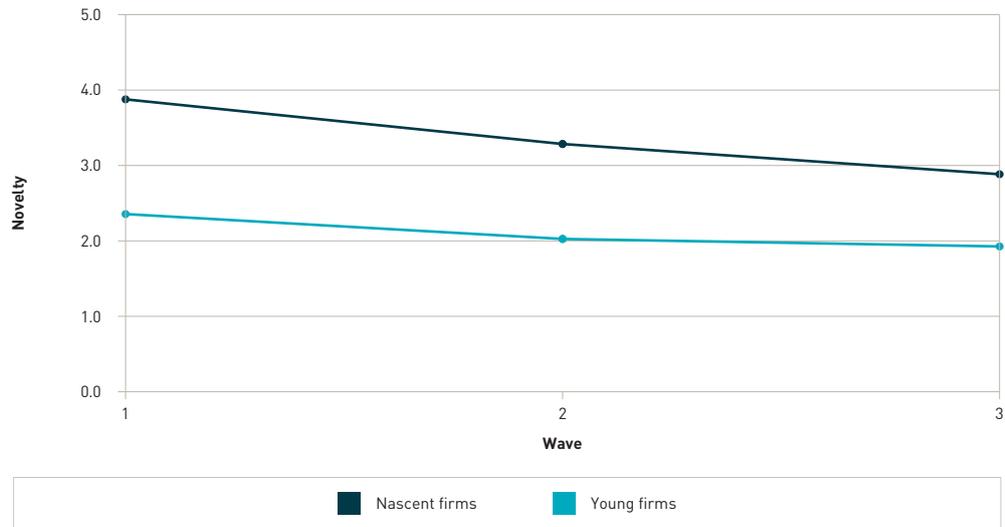
Founders appear most likely to claim introducing novelty in terms of the product/service offered (a) and in market selection (d). More than 70 per cent and 55 per cent, respectively, claim some level of novelty on these dimensions, while 30 per cent reported they introduced a high degree of novelty in their product or service. The level of innovation is lesser for the other dimensions (b and c), with about 70 per cent admitting "pure imitation".

Combining all four types of novelty into an overall score, higher levels of innovation were found in manufacturing, retailing and consumer services oriented industries, with construction and agriculture scoring particularly low. Firms started by founders with previous start-up experience are also likely to be more innovative than those started by teams (other than spouse teams). No apparent relationship between the level of education and innovativeness was evident.

Figure 7 adds that nascent firms claim a higher level of novelty than young firms. The sharper downward slope for nascent firms suggests this could in part be due to an initial over-estimation of the own firm's level of novelty. The difference in W3 can be ascribed to the phenomenon that innovative firms are more difficult to get off the ground¹⁵. Therefore the sub-group of nascent firms that eventually are established need not be any more innovative than young firms.

15 See Semasinghe (2011).

Figure 7: Estimated total novelty of nascent and young firms over time



Note: due to research methodology, data was collected between W1-W3.

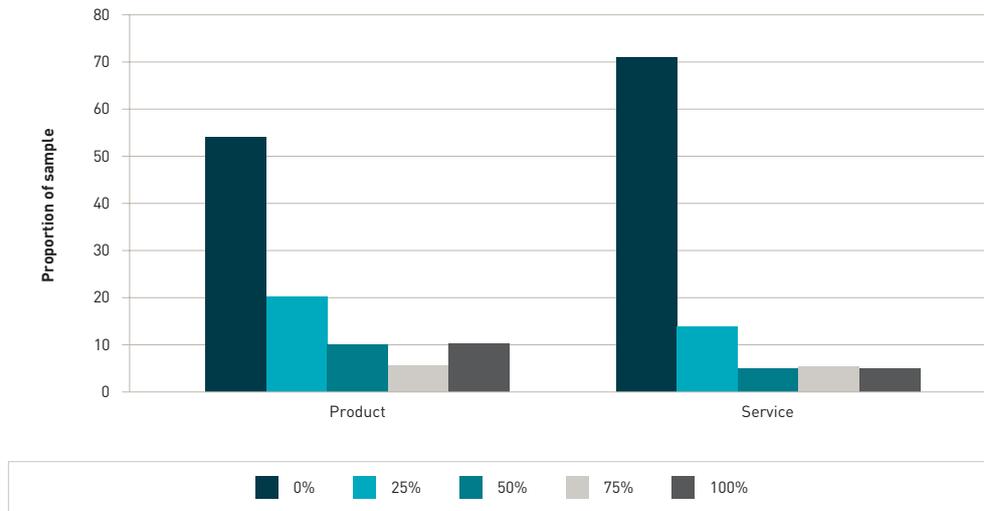
Text description: see Appendix C.

The CAUSEE data also include some other innovation indicators. These reflect whether according to the founder/respondent, the firm can be considered high-tech, has a strong focus on R&D, has developed any proprietary technology, and/or has any form of intellectual property protection (IP). The results for these indicators provide insights on group differences and developments over time. There is some variation across industries: a high proportion of manufacturing start-ups and business consulting firms identify themselves as high-tech. Australian start-ups compare well with a US study on the *high-tech* and *R&D focus* indicators¹⁶.

Figure 8 displays the proportion of sales that generate online, or expect to generate online. There is a clear difference between product- and service-based firms: the former are more likely to sell and to generate a higher proportion of their sales online. It is also not evident that online sales are the dominant mode of transactions among new firms, with a majority not recording or expecting internet sales. Earlier stage firms are more likely to consider online sales.

¹⁶ See Davidsson et al. (2011).

Figure 8: Actual/expected share of sales generated online



Text description: see Appendix C.

Nascent firms' greater expected use of the Internet is evident in a number of questions. In Wave 1, 32 per cent of young firms, but only half as many nascent firms, rated having a website for the firm as "not relevant to this business". By Wave 4, a majority of nascent firms reported having a functioning website. Also at Wave 1, 21 per cent of nascent firm founders reported that Internet networks or communities are a major source of business information and advice. This is higher than all other sources, apart from family, other close acquaintances, and (potential) customers.

The difference between nascent and young firms in this regard widens over time. Likewise, at Wave 1, 21 per cent of nascent firm founders say they have joined a virtual network or community for the specific purpose of furthering their start-up. Being able to mix with others in the same type of work or trade may assist a firm in surviving, as well as helping a nascent firm establish itself. Joining an online business community in order to discuss the venture, seek advice and support from like-minded founders may be similarly useful.

■ KEY STATISTICS



■ CHAPTER 2

SMALL BUSINESSES IN THE ECONOMY

Unless otherwise stated, small businesses are defined as those who are actively trading and employ less than 20 people (see Definitions and Appendix A for further information).

Small businesses make a significant contribution to the Australian economy, accounting for nearly one-half of private sector industry employment and contributing approximately one third of private sector industry value added¹⁷ in 2010–11.

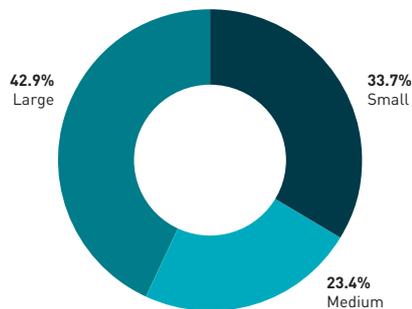
ABS data on small business employment and industry value added is limited to selected industries. Importantly, it excludes *financial and insurance services*, and the general government component of *public administration and safety, education and training* and *health care and social assistance*. The statistics on employment and industry value added (including percentage shares) in this chapter reflect this limitation.

INDUSTRY VALUE ADDED—PRIVATE SECTOR

Industry value added is the measure of the contribution by businesses in each industry to gross domestic product. The ABS derives industry value added as *sales and service income plus funding from federal, state and/or local government for operational costs, plus capital work done for own use, plus closing inventories, less opening inventories, less purchases of goods and materials, less other intermediate input expenses*.¹⁸ Therefore, broadly speaking, industry value added reflects the value produced/derived from employees (i.e. wages plus salaries) and business owners (i.e. profits).

Figure 9 shows a comparison of private sector industry value added between small, medium and large businesses. Small businesses contributed around 34 per cent of private sector industry value added in 2010–11, compared with 23 per cent contributed by medium businesses and 43 per cent by large businesses.¹⁹

Figure 9: Contribution to private sector industry value added by business size, 2010–11



Data source: ABS Cat. No. 8155.0 and DIISRTE calculations.

Text description: see Appendix C.

¹⁷ ABS Cat. No 8155.0.

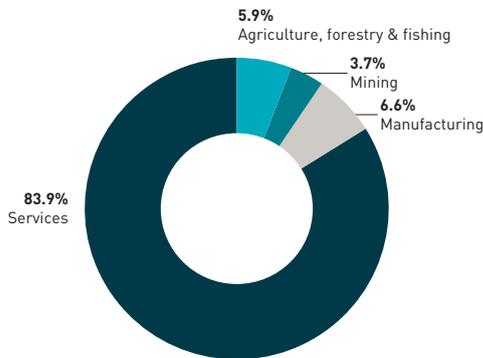
¹⁸ ABS Cat. No. 8155.0

¹⁹ ABS Cat. No. 8155.0. Numbers may not sum to total due to rounding.

Figure 10 shows that 84 per cent of the total small business private sector industry value added is attributable to small businesses in the *services* sectors. Around 7 per cent is attributable to small businesses in the *manufacturing* sector and almost 6 per cent to small businesses in the *agriculture, forestry and fishing* sector. Notably, as a consequence of the commodity price boom, the *mining* sector's share of total small business value added has increased from 2.6 per cent in 2009–10 to 3.7 per cent in 2010–11.

The *construction* and the *professional, scientific and technical services* industry subsectors each contributed around 16 per cent to the small business services industry value added, and the *rental, hiring and real estate services* subsector contributed over 15 per cent.

Figure 10: Industry contribution to small business private sector industry value added, 2010–11



Data source: ABS Cat. No. 8155.0 and DIISRTE calculations.

Text description: see Appendix C.

Table 3 shows that in 2010–11, around 80 per cent of total *agriculture, forestry and fishing* industry value added is attributable to small businesses, compared with around 39 per cent in the *services* sector, over 20 per cent in the *manufacturing* sector (up from 19 per cent a year earlier) and around 9 per cent in the *mining* sector.

Table 3: Industry value added by sector and business size, 2010–11

Business size by number of employees					
Industry sector (selected industries only—see notes for exclusions)	Small	Medium	Large	Total	Small business share of industry value added in each sector
	0–19	20–199	200+		\$m
	\$m	\$m	\$m	\$m	
Agriculture, forestry and fishing	18 338	3 674	853	22 864	80.2
Mining	11 514	23 950	90 833	126 296	9.1
Manufacturing	20 596	28 270	52 567	101 434	20.3
Services sectors	262 391	161 514	254 316	678 221	38.7
Rental, hiring and real estate services	40 357	6 121	6 520	52 998	76.1
Other services	14 195	7 315	3 602	25 111	56.5
Construction	42 207	27 688	18 621	88 516	47.7
Professional, scientific and technical services	41 630	22 306	26 372	90 307	46.1
Health care and social assistance (private)	24 089	10 163	18 983	53 235	45.3
Accommodation and food services	13 885	11 502	8 048	33 435	41.5
Retail trade	26 403	13 102	28 722	68 228	38.7
Administrative and support services	16 754	11 053	17 767	45 574	36.8
Arts and recreation services	2 847	2 517	5 103	10 467	27.2
Public administration and safety (private)	1 114	1 385	1 754	4 252	26.2
Wholesale trade	15 410	22 760	21 939	60 110	25.6
Transport, postal and warehousing	14 057	9 661	31 744	55 462	25.3
Education and training (private)	3 283	8 751	6 682	18 716	17.5
Electricity, gas, water and waste services	3 482	3 172	29 491	36 146	9.6
Information media and telecommunications	2 678	4 018	28 968	35 664	7.5
TOTAL SELECTED INDUSTRIES	312 839	217 409	398 568	928 815	33.7

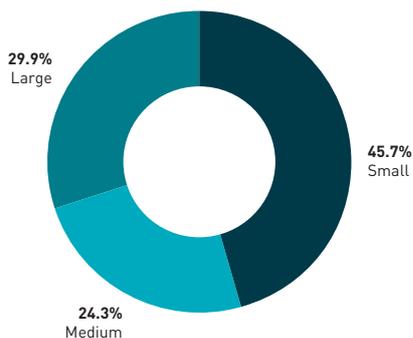
Data source: ABS Cat. No. 8155.0 and DIIRTE calculations.

Notes: Selected industries. Excludes financial and insurance services, and the general government component of public administration and safety, education and training and health care and social assistance. Items may not sum to total due to rounding.

HOW MANY PEOPLE DO SMALL BUSINESSES EMPLOY IN THE PRIVATE SECTOR?

Figure 11 and Table 4 show that small businesses provided almost 46 per cent of total private sector industry employment in June 2011 (4.8 million persons²⁰ out of a total of 10.5 million persons).

Figure 11: Share of private sector employment by business size, at end June 2011



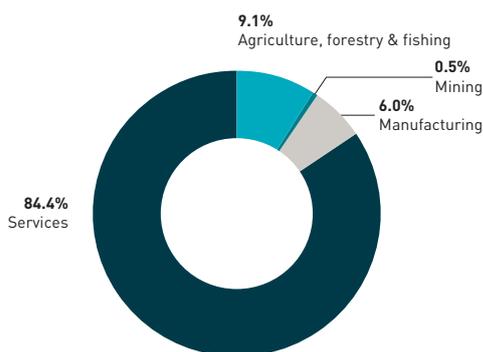
Data source: ABS Cat. No. 8155.0 and DIISRTE calculations.

Text description: see Appendix C.

Figure 12 shows that around 84 per cent of total small business private sector employment in June 2011 was in the services sectors, compared with 9 per cent in *agriculture, forestry and fishing*, around 6 per cent in *manufacturing* and less than 1 per cent in *mining*.

Around 17 per cent of small business employment in the services sector is in the *construction* subsector, followed by 13 per cent in both the *professional, scientific and technical services* and *retail trade* subsectors.

Figure 12: Share of small business employment by industry, at end June 2011



Data source: ABS Cat. No. 8155.0 and DIISRTE calculations.

Text description: see Appendix C.

Table 4 shows that small businesses account for around 86 per cent of employment in the *agriculture, forestry and fishing* sector, compared with nearly 46 per cent in the *services* sector, 31 per cent in the *manufacturing* sector (up from 30 per cent a year earlier) and 15 per cent in the *mining* sector (up from 14 per cent a year earlier).

²⁰ ABS Cat. No. 8155.0.

Table 4: Employment by sector and business size, at end June 2011

Business size by number of employees					
Industry sector (selected industries only—see notes for exclusions)	Small	Medium	Large	Total employment	Small business share of employment in each sector
	0–19	20–199	200+		000s
	000s	000s	000s	000s	
Agriculture, forestry and fishing	438	56	16	510	85.9
Mining	24	26	112	161	14.9
Manufacturing	291	285	360	936	31.1
Services sectors	4064	2196	2666	8925	45.5
Rental, hiring and real estate services	301	61	31	393	76.6
Other services	311	114	52	477	65.2
Construction	679	238	159	1076	63.1
Professional, scientific and technical services	520	200	201	921	56.5
Accommodation and food services	465	256	186	908	51.2
Transport, postal and warehousing	235	94	240	568	41.4
Arts and recreation services	79	60	67	205	38.5
Retail trade	519	273	559	1351	38.4
Health care and social assistance (private)	325	248	373	946	34.4
Wholesale trade	192	217	162	571	33.6
Administrative and support services	261	216	300	776	33.6
Public administration and safety (private)	23	27	29	79	29.1
Education and training (private)	102	139	121	362	28.2
Information media and telecommunications	39	37	107	183	21.3
Electricity, gas, water and waste services	13	16	79	109	11.9
TOTAL SELECTED INDUSTRIES	4818	2562	3153	10 533	45.7

Data source: ABS Cat. No. 8155.0 and DIISRTE calculations.

Notes: Selected industries. Excludes financial and insurance services, and the general government component of public administration and safety, education and training and health care and social assistance. Items may not sum to total due to rounding.

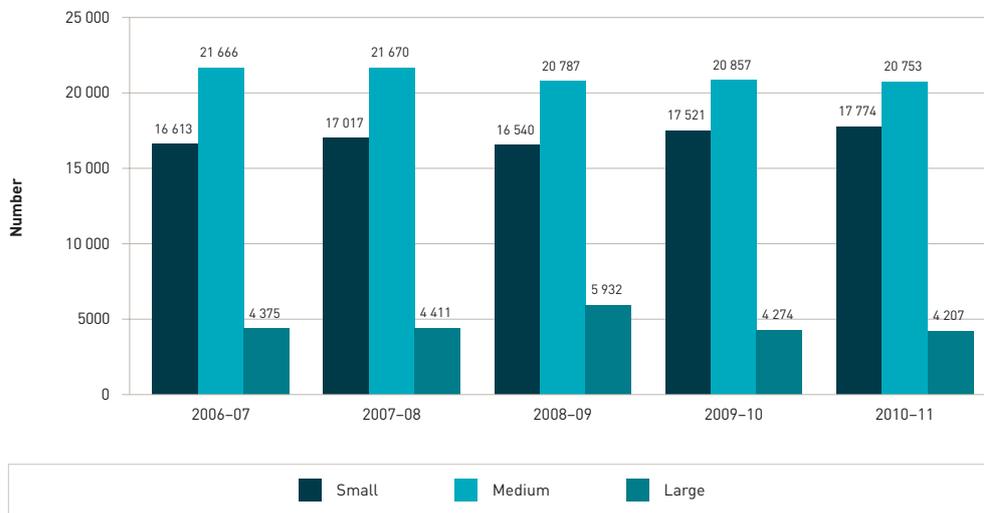
SMALL BUSINESS EXPORTS

The ABS defines *small exporters* as having fewer than 20 payees and estimated annual GST turnover range less than \$1m and exports of less than \$1m during the reference period.

NUMBER OF BUSINESSES EXPORTING GOODS

Approximately 17 774 small businesses exported goods in 2010–11 (up by 1.4 per cent from the previous year). This represents 41.6 per cent of all businesses exporting goods (up from 41.1 per cent in 2009–10).²¹ Although the number of small business goods exporters increased, their contribution to total value of goods exports was less than 1 per cent in 2010–11, (see Figure 13).

Figure 13: Number of goods exporters by business size, 2006–07 to 2010–11



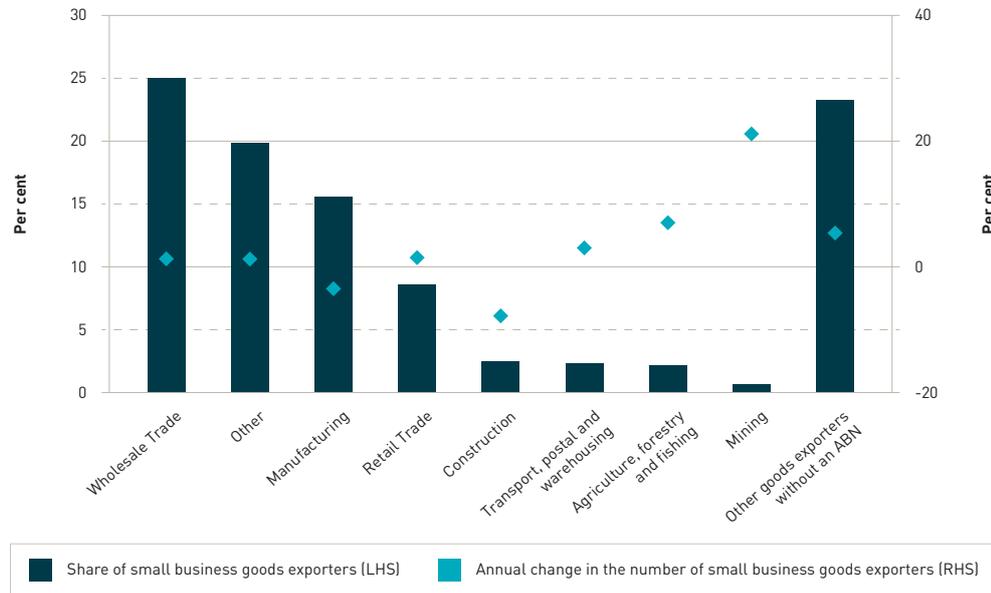
Data source: ABS Cat. No. 5368.0.55.006.

Text description: see Appendix C.

In 2010–11, 25.0 per cent of small businesses¹ goods exporters were from the *wholesale trade* subsector, with a further 15.6 per cent from the *manufacturing* sector. While the *wholesale trade* subsector recorded an increase in the number of small business exporters in 2010–11, the number of *manufacturing* small business exporters decreased by 3.5 per cent. The *mining* sector recorded the strongest increase (up by 21.2 per cent) although it continued to account for the lowest share of small exporters (0.7 per cent) in 2010–11, (see Figure 14).

²¹ ABS Cat. No. 5368.0.55.006.

Figure 14: Share and annual change in the number of small business goods exporters by industry, 2010–11



Data source: ABS Cat. No. 5368.0.55.006, Table 3 and DIISRTE calculations.

Note: All goods exporters reported within each industry have an ABN. Other goods exporters without an ABN are not classified by industry.

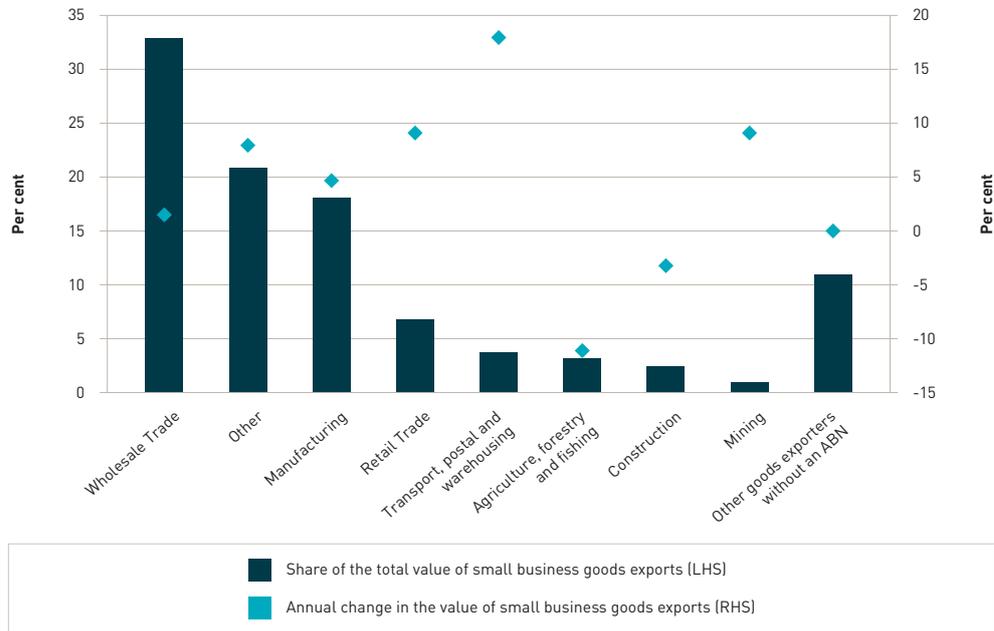
Text description: see Appendix C.

VALUE OF GOODS EXPORTED

Small businesses exported goods to the value of \$1.24 billion in 2010–11, representing 0.5 per cent of the total value of goods exported, down from 0.6 per cent in 2009–10.

In 2010–11, 32.9 per cent of the total value of small business exports was from the *wholesale trade* subsector, with a further 18.1 per cent from the *manufacturing* sector. *Transport, postal and warehousing* experienced the largest increase, growing by 17.9 per cent and *retail trade* recorded a 9.1 per cent growth. Large decreases in the value of exports by small businesses were recorded in the *agriculture, forestry and fishing* sector, down by 11.1 per cent, and the *construction* subsector, down by 3.2 per cent (see Figure 15).

Figure 15: Share and annual change in the value of small business goods exports by industry, 2010–11



Data source: ABS Cat. No. 5368.0.55.006, Table 3 and DIISRTE calculations.

Note: All goods exporters reported within each industry have an ABN. Other goods exporters without an ABN are not classified by industry.

Text description: see Appendix C.

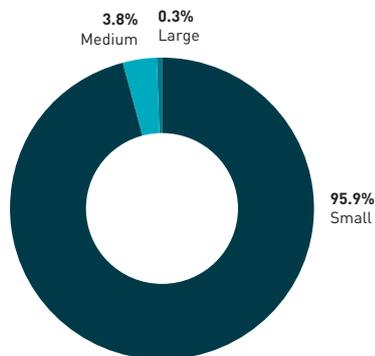
■ CHAPTER 3

NUMBER OF SMALL BUSINESSES IN AUSTRALIA

BUSINESS NUMBERS BY SIZE

There were 2 132 412 actively trading businesses in Australia as at June 2011, an increase from 2 124 650 actively trading businesses as at June 2010. Figure 16 shows that of the 2 132 412 actively trading businesses in June 2011, almost 96 per cent were small businesses (2 045 335), 3.8 per cent were medium businesses and less than 1 per cent were large businesses.

Figure 16: Distribution of total business numbers by business size, June 2011

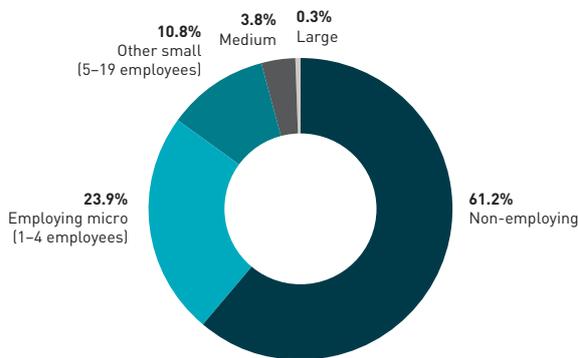


Data source: ABS Cat. No. 8165.0 and DIISRTE calculations.

Text description: see Appendix C.

Figure 17 shows the numbers of businesses by size, and includes the following small businesses sub-categories—non-employing, employing micro (1–4 employees) and the remaining small businesses (5–19 employees). Non-employing businesses numbered the most, accounting for 61.2 per cent (1 306 023) of total businesses, followed by employing micro businesses, which accounted for 23.9 per cent (508 674) and the remaining small businesses, which accounted for 10.8 per cent (230 638).

Figure 17: Distribution of businesses, including small business sub-categories, by size, June 2011



Data source: ABS Cat. No. 8165.0 and DIISRTE calculations.

Text description: see Appendix C.

NUMBER OF MICRO ENTITIES IN AUSTRALIA

The Australian Taxation Office (ATO) estimates that there were around 3 million micro entities in Australia at the start of the 2012–13 financial year, up from around 2.8 million micro entities at the start of the 2011–12 financial year. Micro entities are defined as having a turnover of equal to or more than \$1 and less than \$2 million in a financial year.

See Appendix A for further information.

Data source: ATO Compliance Program 2011–12 and ATO Compliance Program 2012–13.

SMALL BUSINESS NUMBERS BY INDUSTRY SECTOR²²

Table 5 shows that around 84 per cent of small businesses were active in various services sectors in June 2011. Almost 10 per cent were in the *agriculture, forestry and fishing* sector, and the remaining small businesses operated in the *manufacturing* sector (around 4 per cent), the *mining* sector (less than 1 per cent), or were not classified to a sector (over 2 per cent).

The services sector is made up of diverse subsectors. Table 5 provides a breakdown of small business numbers for each services subsector. The largest services subsector in terms of small business numbers was *construction*, followed by *professional, scientific and technical services*. The smallest services industry subsector was *electricity, gas, water and waste services*, followed by *public administration and safety*²³.

²² Please see Appendix A for information about scope and coverage of the industry sectors.

²³ The general government component is excluded from *public administration and safety*. See Appendix A for further details.

Table 5: Business numbers by industry sector, as at June 2011

Industry sector	Number of businesses (% of all businesses)	Number of small businesses (% of total small businesses)	Small business share of industry sector (%)
Agriculture, forestry and fishing	198 163 (9.3)	193 961 (9.5)	97.9
Mining	8155 (0.4)	7509 (0.4)	92.1
Manufacturing	90 228 (4.2)	80 284 (3.9)	89.0
Services	1 788 775 (83.9)	1 717 009 (83.9)	96.0
Financial and insurance services	164 438 (7.7)	162 459 (7.9)	98.8
Rental, hiring and real estate services	226 157 (10.6)	223 100 (10.9)	98.6
Construction	351 890 (16.5)	344 238 (16.8)	97.8
Transport, postal and warehousing	132 065 (6.2)	128 770 (6.3)	97.5
Other services	89 491 (4.2)	87 106 (4.3)	97.3
Professional, scientific and technical services	250 613 (11.8)	243 605 (11.9)	97.2
Health care and social assistance (private)	101 011 (4.7)	96 092 (4.7)	95.1
Arts and recreation services	27 697 (1.3)	26 338 (1.3)	95.1
Information media and telecommunications	18 854 (0.9)	17 831 (0.9)	94.6
Administrative and support services	82 119 (3.9)	76 155 (3.7)	92.7
Retail trade	143 679 (6.7)	133 028 (6.5)	92.6
Wholesale trade	79 247 (3.7)	73 366 (3.6)	92.6
Electricity, gas, water and waste services	5862 (0.3)	5406 (0.3)	92.2
Education and training (private)	26 130 (1.2)	23 979 (1.2)	91.8
Public administration and safety (private)	7782 (0.4)	6973 (0.3)	89.6
Accommodation and food services	81 740 (3.8)	68 563 (3.4)	83.9
Not classified	47 091 (2.2)	46 543 (2.3)	98.8
TOTAL	2 132 412	2 045 335	95.9

Data source: ABS Cat. No. 8165.0 and DIISRTE calculations.

Note: Columns may not sum to total due to rounding.

■ CHAPTER 4

SELECTED BUSINESS CHARACTERISTICS

The ABS publishes information obtained from its Business Characteristics Survey about the characteristics of Australian businesses.²⁴ A summary of selected topics is included in this chapter. These include: business structure and arrangements, business markets and competition, business finance, skills and business performance. Some of these topics are discussed in greater detail in other chapters of this publication.

BUSINESS STRUCTURE AND ARRANGEMENTS

Businesses were asked to report their percentage of **foreign ownership**, as at 30 June 2011. The majority of businesses (97 per cent) reported being wholly Australian owned. The proportion of businesses that were wholly Australian owned decreased with increasing employment size (Table 6).

Table 6: Percentage of foreign ownership, by employment size, as at 30 June 2011

	0–4 persons (%)	5–19 persons (%)	20–199 persons (%)	200 or more persons (%)	Total (%)
Wholly Australian owned	97.4	96.9	92.9	74.7	96.8
Greater than 0 per cent and less than 10 per cent	0.2	0.3	0.7	2.4	0.3
10 per cent to 50 per cent	0.7	0.8	0.7	2.6	0.7
Greater than 50 per cent	2.0	2.0	5.8	20.2	2.3

Data source: ABS Cat. No. 8167.0.

Notes: Proportions are of all businesses in each output category. The sum of component items may not equal 100 per cent due to rounding and/or provision of multiple responses.

Just over 5 per cent of all businesses report operating as a **franchisee**. When broken down by business size, 3.1 per cent of micro businesses²⁵ and 7.8 per cent of other small businesses²⁶ reported operating as a franchisee.

Businesses were asked to indicate if they were involved in **collaborative arrangements** with other businesses or organisations in 2010–11. These included informal collaborative arrangements but excluded straight fee-for-service and franchise arrangements. The proportion of businesses who indicated they were involved with collaborative arrangements increased with increasing employment size (Table 7).

24 ABS Cat. No. 8167.0.

25 Micro businesses are defined as having 0–4 employees.

26 Other small businesses are defined as having 5–19 employees.

Table 7: Collaborative arrangements, by employment size, 2010–11

	0–4 persons (%)	5–19 persons (%)	20–199 persons (%)	200 or more persons (%)	Total (%)
Joint research and development	2.6	3.6	5.6	12.8	3.2
Joint buying	2.0	4.8	9.1	12.5	3.5
Joint production of goods or services	4.7	4.9	7.8	14.7	5.0
Integrated supply chain	1.7	3.9	4.2	11.4	2.6
Joint marketing or distribution	5.1	8.0	11.0	13.5	6.5
Other collaborative arrangements	0.2	0.2	1.3	1.0	0.3
Any collaborative arrangements	11.2	14.7	21.6	34.8	13.3

Data source: ABS Cat. No. 8167.0.

Notes: Proportions are of all businesses in each output category. Integrated supply chain refers to ongoing coordinated activities between two or more businesses to maximise the storage and production efficiency of a mutual client.

Businesses were asked to identify if they offered a range of **working arrangements** (for example, the ability to work from home) to their employees during 2010–11. The most common arrangement across all businesses was flexible working hours and in general, larger firms tended to provide more working arrangements (see Table 8).

Table 8: Employee working arrangements, by employment size, 2010–11

Businesses offering:	0–4 persons (%)	5–19 persons (%)	20–199 persons (%)	200 or more persons (%)	Total (%)
Flexible working hours	47.5	64.7	69.6	88.1	54.8
Ability to buy extra annual leave, cash out annual leave or take leave without pay	11.6	28.2	48.1	71.5	19.9
Selection of own roster of shifts	19.1	27.5	28.3	33.2	22.5
Job sharing	7.1	16.5	20.0	40.2	11.2
Ability for staff to work from home	21.8	17.7	32.6	57.9	21.5
Paid parental leave	2.3	6.0	18.4	48.5	4.9
Flexible use of personal sick, unpaid or compassionate leave	17.0	34.2	60.0	84.7	26.0

Data source: ABS Cat. No. 8167.0.

Notes: Proportions are of all businesses in each output category. Businesses could identify more than one type of working arrangement and were not required to report working arrangements other than those listed.

Micro businesses (15.7 per cent) and other small businesses (25.4 per cent) reported lower use of **intellectual property rights protection**²⁷ than larger businesses in 2010–11.

²⁷ Intellectual property protection methods included patents, registration of design, copyright or trademark, secrecy/confidentiality (including electronic protection methods) and complexity of product design.

BUSINESS MARKETS AND COMPETITION

Businesses were asked to identify which **geographic markets** they sold their goods or services during 2010–11. Four out of five businesses sold goods or services in the local area, while two in five businesses sold goods or services outside of the local area but within their state/territory. The proportion of businesses that sold goods or services in the local area was greatest among those with 5–19 persons employed (84 per cent). In each of the three remaining geographic markets, the proportion of businesses that sold goods or services in the market increased with each successive employment size range (see Table 9).

Table 9: Geographic markets in which businesses sold goods or services, by employment size

	0–4 persons (%)	5–19 persons (%)	20–199 persons (%)	200 or more persons (%)	Total (%)
Local	78.9	83.6	81.0	79.0	80.5
Outside of local area but within state/territory	37.5	44.2	48.1	61.7	40.5
Outside state/territory but within Australia	21.6	24.6	34.7	66.1	23.8
Overseas markets	5.7	8.4	13.7	34.6	7.3

Data source: ABS Cat. No. 8167.0.

Notes: Proportions are of all businesses in each output category. Businesses were asked to identify all geographic markets in which they sold goods or services. Businesses could report more than one geographic market. The local market is defined as 'the immediate area, town or city in which this business is located'.

The **main source of income**²⁸ for micro and other small businesses was the general public, 46.8 per cent and 48.4 per cent, respectively. Small and/or medium businesses or organisations were also likely sources of business income for micro (40.4 per cent) and other small businesses (36.8 per cent). Micro and small businesses reported 1.6 per cent and 2.0 per cent of business income coming from overseas sources.

Australian small and/or medium businesses or organisations were the **main suppliers of goods and services** for almost two-thirds of all businesses (63 per cent). Micro businesses reported small and/or medium businesses or organisations (61.8 per cent) and large businesses or organisations (14.8 per cent) as their main suppliers of goods and services. Similarly, other small businesses reported small and/or medium businesses or organisations (65.1 per cent) and large businesses or organisations (22.1 per cent) as their main suppliers of goods and services.

Businesses were asked whether they **relied** on a small number of clients, customers or buyers to **generate a significant proportion of their income**. The proportion of businesses reporting a reliance on a small number of clients, customers or buyers decreased with each successive employment size range. Fifty-five per cent of micro businesses relied on a small number of clients, customers or buyers, while 43 per cent of other small businesses relied on a small number of clients, customers or buyers.

The majority of micro businesses (60 per cent) and other small businesses (64 per cent) reported *five or more competitors* as the **amount of competition experienced** by their business. Compared to all businesses, micro businesses were the most likely to report *none/captive market/no effective competition* (19 per cent).

²⁸ Businesses were asked to identify their main source of income from the sales of goods or services and were asked to nominate one source only. The sum of component items may not equal 100 per cent due to rounding and/or provision of multiple responses.

Of those businesses reporting some form of competition experienced by their business, 8 per cent reported that the majority of competition experienced came from businesses which were *smaller in size than their business*. More than half of the businesses reporting some form of competition indicated that their competitors were *about the same size as this business*.

BUSINESS FINANCE

Businesses were asked whether they had **sought any debt and/or equity finance** during 2010–11. The proportion of businesses seeking finance increased with each successive employment size range: from 15 per cent for firms employing 0–4 persons, to 37 per cent of firms employing more than 200 persons.

Both micro businesses (40 per cent) and other small businesses (45 per cent) reported *maintain short-term cash flow or liquidity* as the most common **reason for seeking finance**. The second most common response from micro and other small businesses was to *ensure survival of business* at 35 and 37 per cent respectively.

Further details about access to finance are in Chapter 9.

SKILLS

All businesses were asked to identify the **types of skills** used in undertaking core business activities during 2010–11. Overall, *trades* and *financial* (both 27 per cent) were the types of skills most widely used by businesses in undertaking core business activities. One quarter of micro businesses reported the use of *trades* skills, while 32 per cent of other small businesses reported *financial* skills as the skills most likely to be used. Forty per cent of medium businesses and 62 per cent of large businesses also reported *financial* skill as the skills most widely used for undertaking core business activities. Across all employment size ranges, the least frequently reported type of skill used in undertaking core business activities was *scientific and research* (4 per cent). By industry, the types of skills used varied depending on the nature of the work undertaken. The release also contains information on skills shortage or deficiencies with respect to undertaking core business activities.

BUSINESS PERFORMANCE

All businesses were asked the extent to which they focused on a list of **business performance** measures when assessing overall business performance over 2010–11 (see Table 10).

Table 10: Business performance assessment, by extent of focus, by type of measure, 2010–11

Type of measure	Not at all (%)		A small extent (%)		A moderate extent (%)		A major extent (%)	
	0–4 persons	5–19 persons	0–4 persons	5–19 persons	0–4 persons	5–19 persons	0–4 persons	5–19 persons
Financial (e.g. profits, sales growth, returns on investment)	24.8	9.5	21.4	14.1	27.6	35.8	26.0	40.7
Cost (e.g. budget, cost per unit of output, inventory cost)	26.6	10.3	24.8	17.4	28.4	38.2	20.4	34.2
Operational (e.g. asset utilisation, on-time delivery)	36.1	17.1	23.0	23.5	24.2	36.0	16.8	23.2
Quality (e.g. customer satisfaction, defect rates)	25.0	8.8	16.1	14.5	24.2	35.0	34.6	41.9
Innovation (e.g. new process innovation, new value added products)	41.8	20.9	25.4	31.4	22.8	33.8	10.3	14.1
Human resources (e.g. job satisfaction, skills development)	42.2	15.6	24.5	30.9	24.6	39.2	8.9	14.2
Environmental (e.g. recycling program, adherence to environmental regulations)	48.7	26.0	24.8	35.3	19.8	29.2	6.8	9.5

Data source: ABS Cat. No. 8167.0.

Notes: Proportions are of all businesses in each output category. Businesses were asked to indicate to what extent the business focused on the listed measures when assessing performance. The sum of component items for each measure may not equal 100 per cent due to rounding and/or provision of multiple responses.

The ABS release also includes information regarding **changes in business performance** measures compared to the previous year. Twenty-six per cent of micro businesses and 33 per cent of other small businesses reported that their *profitability* had increased in 2010–11 compared to the previous year. Twenty-two per cent of micro businesses and 28 per cent of other small businesses reported that their *productivity* had increased since the previous year.

■ CHAPTER 5

NUMBER OF SMALL BUSINESSES BY REGION

BUSINESS NUMBERS BY STATE

The ABS publishes statistics on the number of actively trading businesses by state and territory based on the main state of operation.

The ABS defines main state as follows: 'For businesses in the non profiled population, Main State refers to the state or territory of the main business address. For businesses in the profiled population, Main State refers to the state or territory with the highest employment'. A very small percentage of businesses are not associated with a state or territory. They are classified as 'unknown' and comprise less than 0.1% of all small businesses.

Table 11 shows the breakdown of these small business numbers by state and territory and by industry.

Table 11: Estimated number of small businesses by main state of operation and industry

Operating at end of financial year, 2010–11

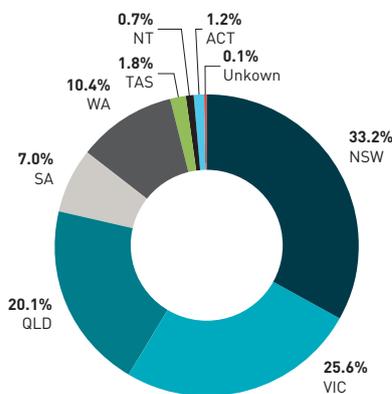
	NSW	Vic.	Qld	SA	WA	Tas.	NT	ACT	Unknown	Australia
Agriculture, forestry and fishing	57 957	45 084	44 370	19 503	19 426	6 011	1 011	522	77	193 961
Mining	1 492	787	1 743	471	2 764	138	83	22	9	7 509
Manufacturing	24 968	21 864	16 190	5 957	8 650	1 453	463	573	166	80 284
Services industries	580 266	442 769	340 462	113 497	176 262	28 592	11 716	22 704	741	1 717 009
Not classified	15 373	12 392	9 196	2 748	5 103	583	356	556	236	46 543
TOTAL SMALL BUSINESSES	680 056	522 896	411 961	142 176	212 205	36 777	13 629	24 377	1 229	2 045 335

Data source: ABS Cat. No. 8165.0 and DIISRTE calculations.

Note: Columns and rows may not sum to total due to rounding.

As could be expected, the states with the largest proportion of total businesses in June 2011 (as defined as the main state of operation) are those with the highest populations. Figure 18 indicates that the same is true for small businesses, with the largest number of small businesses in the two most populated states of New South Wales (33.2 per cent) and Victoria (25.6 per cent). While in the more populous states the proportion of small businesses aligns very closely to the proportion each state has of the total Australian population, the smaller states and territories are underrepresented by small businesses relative to population size. Tasmania, accounted for 2.3 per cent of the total Australian population, but accounted for only 1.8 per cent of the small business population in June 2011. Both the Australian Capital Territory and Northern Territory are also underrepresented by small business activity, with the Australian Capital Territory accounting for 1.6 per cent of the total population and 1.2 per cent of small businesses, and the Northern Territory accounting for 1 per cent of total population and 0.7 per cent of small businesses during the same periods.

Figure 18: Small business numbers by state, 2010–11

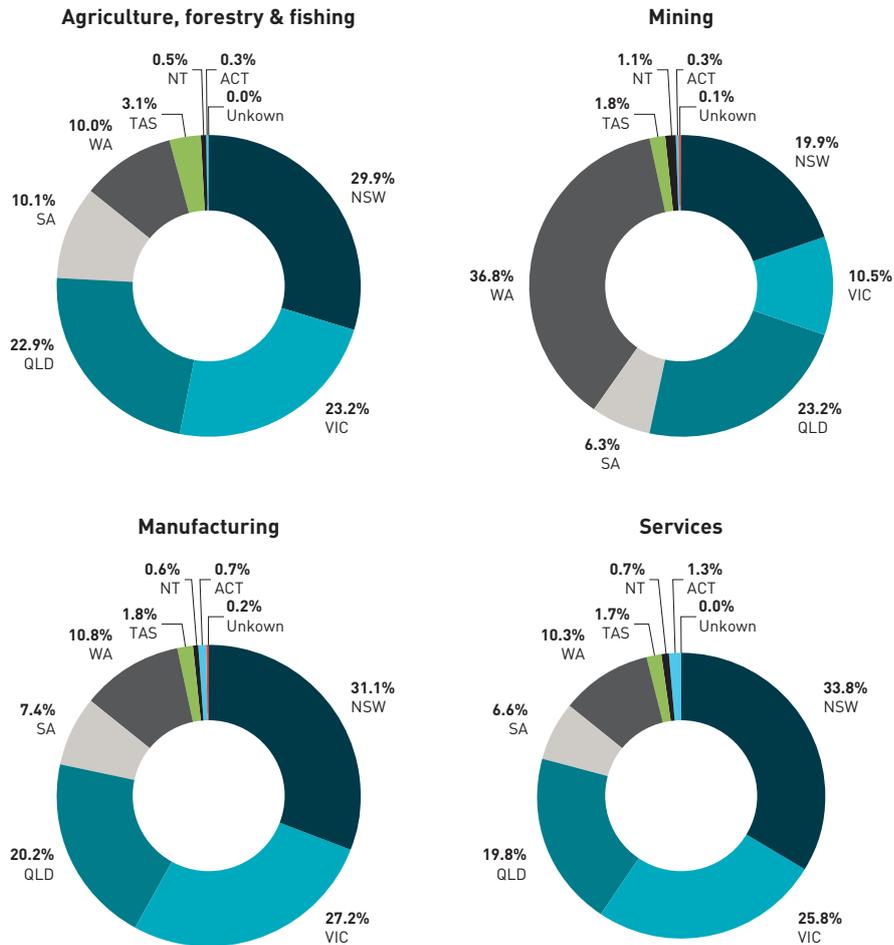


Data source: ABS Cat. No. 8165.0 and DIISRTE calculations.

Text description: see Appendix C.

Figure 19 shows the proportion of small businesses within each industry from each state and territory. Excluding the *mining* sector, the number of small businesses in each state is distributed similarly across each industry, with the largest share of small businesses in each industry attributable to New South Wales, followed by Victoria and Queensland. Within the *mining* sector, the majority of small businesses were in Western Australia, followed by Queensland, New South Wales and Victoria. On a sectoral basis, there was a stronger than average representation of small businesses in *agriculture, forestry & fishing* in South Australia and Tasmania, a weaker than average representation of small businesses in the *mining* sector in New South Wales and Victoria and a stronger representation of small businesses in the *mining* sector in Western Australia and the Northern Territory.

Figure 19: Breakdown of small businesses within each industry by state, 2010–11



Data source: ABS Cat. No. 8165.0 and DIISRTE calculations.

Text description: see Appendix C.

Table 12 shows that the distribution of small businesses across industries within each state generally follows the distribution of small businesses across industries for the whole of Australia. As such, the services sectors comprise the largest proportion of small businesses within each state followed by *agriculture, forestry & fishing*, *manufacturing* and *mining*.

Tasmania has the smallest proportion of small businesses in the services sector but the largest proportion of small businesses in the *agriculture, forestry & fishing* sector. South Australia shows a similar distribution. Conversely, the Australian Capital Territory has the highest proportion of small businesses in the services sector (over 93 per cent) and the smallest proportion of small businesses in the *agriculture, forestry & fishing*, *mining* and *manufacturing* sectors. Within the larger states, New South Wales, Victoria, Queensland and Western Australia have a similar distribution of small businesses across the industries, with the only notable exception being the higher proportion of small businesses in the *mining* sector in Western Australia. The Northern Territory exhibits a similar distribution of small businesses across industries as the larger states, with a slightly stronger emphasis on *mining* and a lesser emphasis on *agriculture, forestry & fishing*.

Table 12: Percentage of small businesses within each state by industry, 2010–11

	Agriculture, forestry & fishing (%)	Mining (%)	Manufacturing (%)	Services (%)	Not classified (%)
NSW	8.5	0.2	3.7	85.3	2.3
Vic	8.6	0.2	4.2	84.7	2.4
Qld	10.8	0.4	3.9	82.6	2.2
SA	13.7	0.3	4.2	79.8	1.9
WA	9.2	1.3	4.1	83.1	2.4
Tas	16.3	0.4	4.0	77.7	1.6
NT	7.4	0.6	3.4	86.0	2.6
ACT	2.1	0.1	2.4	93.1	2.3
Unknown	6.3	0.7	13.5	60.3	19.2

Data source: ABS Cat. No. 8165.0 and DIISRTE calculations.

NUMBER OF BUSINESSES BY REGION

The Australian Bureau of Statistics publishes regional business data by Statistical Area Level 2 (SA2). DIISRTE has transformed this data using correspondence files to federal electorate divisions and local government areas. Please refer to Appendix B for statistical tables, assumptions and methodology notes.

Data source: ABS Cat. No. 8165.0; ABS Cat. No. 1270.0.55.006.

■ CHAPTER 6

BUSINESS ENTRIES AND EXITS

The most recent data available pertaining to business entries and exits was released by the ABS for the period from June 2007 to June 2011. Major events and methodological changes during this period make it difficult to identify any long-term trends in business entries and exits. For instance, the global financial crisis and recovery falls within this data period. Weather events (e.g. floods) may have also impacted on results in particular states and territories. Also, a methodological change by the ABS saw a noticeable increase in business entries in 2009–10 as more businesses were brought into the scope of the publication²⁹.

The ABS uses the following definitions:

- A business entry is defined as a business which is actively trading on the business register as at 1 June in the reference year, but not actively trading as at 1 June the previous year.
- A business exit is defined as a business which was actively trading on the business register as at 1 June in the previous year, but not actively trading as at 1 June in the reference year.
- A surviving business is defined as a business which is active on the ABS business register as at 1 June of the current year and also active in the previous year.

It is important to note that a business exit is not the same as a business failure. There are a number of reasons why a business may exit, including the sale of a business or changes to a business structure. Either of these occurrences would result in a business exit, but neither would count as a business failure, as discussed in Chapter 1.

A discussion of the ABS measure of “survival rates” is also provided in this chapter. Statistics on survival rates should not be taken to imply that businesses that “survive” are necessarily successful or that businesses that cease operation or do not “survive” are necessarily failures. Similarly to business exit statistics, there are a range of reasons for why businesses continue operating, not all of which can be considered measures of success.

SMALL BUSINESS ENTRIES AND EXITS

BUSINESS ENTRIES

In the 2010–11 financial year, 2 037 988 small businesses were operating at the start of the financial year. In 2010–11, most small business entries (94.6 per cent) occurred in the non-employing and employing micro business population, which comprises businesses employing between 0–4 employees. This was followed by the remainder of small businesses employing 5–19 employees, which accounted for 5.4 per cent of small business entries (see Table 13).

In the ABS publication *Counts of Australian Businesses, including entries and exits (Cat. No. 8165.0)*, a business entry is defined as an actively trading newly registered ABN. This measurement has its limitations as all ABN registrations may not be a genuine

²⁹ See Appendix A.

new business. For example, if a business was to register for a new ABN as the result of a merger or acquisition, a new business entry would be counted, even if the activities of the business remain unchanged. Also, if a business was to register a new ABN for whatever reason, an entry would be counted even if the new ABN is entirely owned by the existing business. It is probable that a large proportion of large business “entries” are previously medium businesses that have undergone a merger or acquisition process where the “new” business has registered for a new ABN. This type of activity would appear as “exits” from the medium business category and an “entry” to the large business category. The ABS however, does not provide information on the extent of this phenomenon. These limitations need to be considered when interpreting these statistics.

BUSINESS EXITS

The largest amount of small business exits (94.8 per cent) occurred in the non-employing and employing micro business population, with the remainder of small businesses accounting for a smaller 5.2 per cent of all small business exits.

After accounting for net movements of “surviving” businesses³⁰, there were 7347 more small businesses in operation at the end of the financial year 2010–11, than at the beginning of the financial year. Businesses which change their size category over time (based on the number of persons employed) are captured in the net movement of surviving businesses. Businesses whose size category changes are counted as outflows from their original category and inflows to their new category. For example, a business that was non-employing in 2009–10 and takes on 3 employees in 2010–11 will be an outflow from the non-employing category and an inflow to the 1–4 category in 2010–11. Similarly, a business that was classified as a medium business in 2009–10, and takes on sufficient additional employees, will be an outflow from the medium business category and an inflow to the large business category in 2010–11.

Table 13: Business entries and exits by employment size, 2010–11³¹

	Operating at the start of the financial year	Entries	Exits	Net movement of surviving businesses ³¹	Operating at the end of the financial year	Entry rate %	Exit rate %
Non-employing	1 303 040	198 769	219 574	23 788	1 306 023	15.3	16.9
Employing							
1-4	506 272	76 414	48 303	-25 709	508 674	15.1	9.5
5-19	228 676	15 833	14 555	684	230 638	6.9	6.4
Total small business	2 037 988	291 016	282 432	-1 237	2 045 335	14.3	13.9
Total medium businesses (20-199)	80 787	2 804	3 734	1 149	81 006	3.5	4.6
Total large businesses (200+)	5 875	390	282	88	6 071	6.6	4.8
Total	2 124 650	294 210	286 448	-	2 132 412	13.9	13.5

Data source: ABS Cat. No. 8165.0 and DIISRTE calculations.

30 According to the ABS, the net movement of surviving businesses ‘is calculated by taking the total inflow at the end of the financial year minus total outflow at the end of the financial year’. The inflow is the count of surviving businesses that moved into a size category (i.e. an employment or turnover size range) from another range. Similarly, the outflow is the count of surviving businesses that have moved out of a size range into another range.

31 According to the ABS, the net movement of surviving businesses ‘is calculated by taking the total inflow at the end of the financial year minus total outflow at the end of the financial year’.

“SURVIVAL” RATES

Unlike the entries and exits analysis, the survival rate analysis used in the ABS publication Cat. No 8165.0 and shown in Table 14, does not take into account the movement of businesses between size categories. Changes between employment size ranges are held to the original employment size range at the point of registration. For example, if a business was counted in the small business category in June 2007 and subsequently hired additional staff such that they were then classified as a medium business, they would not be counted as a medium business but continue to be counted as small. Therefore, these statistics do not take into account any movements between size categories from June 2007 to June 2011. As such, caution should be used when interpreting these statistics.

Table 14 shows the aggregate survival rates for the Australian economy as a whole and depicts the proportion of businesses that were operating in June 2007 and continued operating to June 2011. As can be seen from this table, the survival rate for small businesses is lower than for medium and large businesses. Also, the survival rate for medium businesses is slightly higher than that of large businesses during this time period.

Table 14: Business “survival” rates by employment size between June 2007 to June 2011

	Number of businesses operating in June 2007	Number of businesses that continued to operate to June 2011	“Survival” rate (%)
Small (0–19)	1 985 822	1 185 997	59.7
Medium (20–199)	82 071	62 243	75.8
Large (200+)	5 900	4 386	74.3
Total	2 073 793	1 252 626	60.4

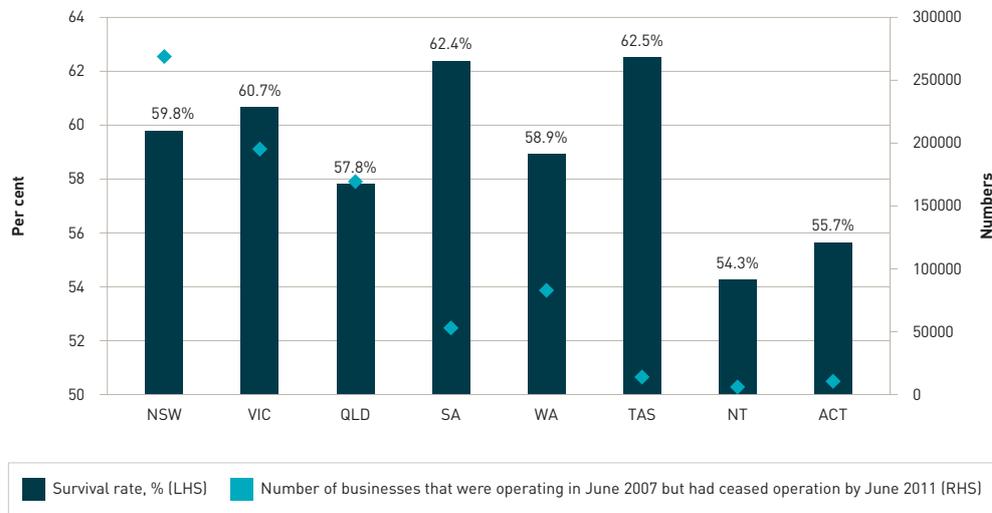
Data source: ABS Cat. No. 8165.0 and DIISRTE calculations.

Figure 20 shows a breakdown of small business³² survival rates by state from June 2007 to June 2011 (i.e. the percentage of businesses operating at the end of June 2007 that continued to operate to June 2011). The Northern Territory reported the lowest survival rate during this period (54.3 per cent), followed by the Australian Capital Territory (55.7 per cent) and Queensland (57.8 per cent). The highest survival rates were reported by Tasmania (62.5 per cent), followed closely by South Australia (62.4 per cent) and Victoria (60.7 per cent).

Figure 20 also shows the number of businesses that were operating in each state and territory in June 2007 that ceased operating by June 2011. As expected, the states and territories with larger small business populations reported higher numbers of businesses which ceased operating during this time period.

32 A comparison is not made with medium and large sized businesses at the disaggregated state and territory level due to misleading results.

Figure 20: Small business survival rates by state/territory between June 2007 to June 2011



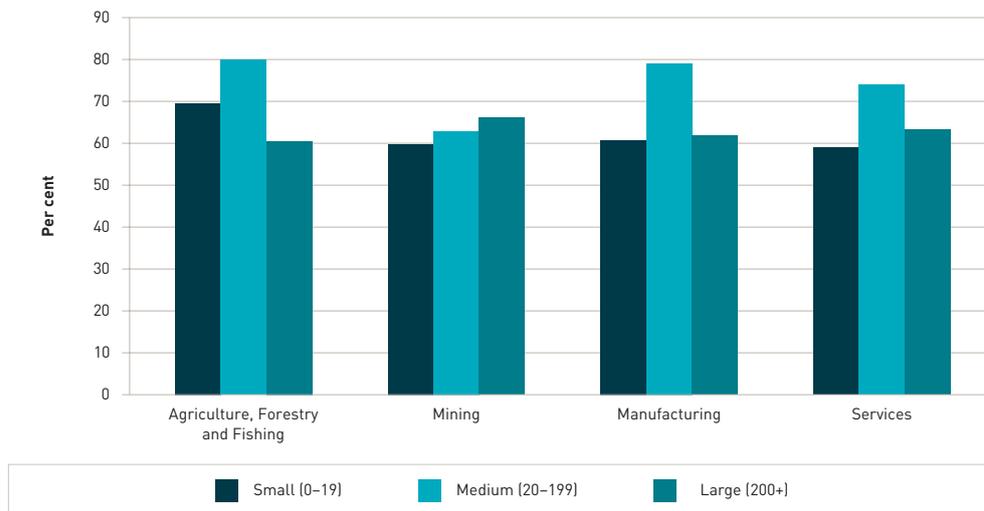
Data source: ABS Cat. No. 8165.0 and DIISRTE calculations.

Note: Excludes businesses currently not classified to a particular state.

Text description: see Appendix C.

Figure 21 shows the percentage of businesses operating at the end of June 2007 that continued to operate to June 2011 across the major industries. Small business survival rates were generally lower across the major industries, except for agriculture, forestry and fishing. Mirroring the aggregate figures for Australia, medium businesses have reported relatively higher survival rates across all industry sectors, except for mining.

Figure 21: Survival rates by industry and business size between June 2007 to June 2011



Data source: ABS Cat. No 8165.0 and DIISRTE calculations.

Note: Excludes businesses currently not classified to a particular industry.

Text description: see Appendix C.

■ CHAPTER 7

INDEPENDENT CONTRACTORS AND OTHER BUSINESS OPERATORS

According to the ABS publication, *Forms of Employment*³³, **independent contractors** are defined as people who operate their own business and who contract to perform services for others without having the legal status of an employee. They are therefore engaged by a client, rather than an employer. Independent contractors are engaged under a contract for services (a commercial contract), whereas employees are engaged under a contract of service (an employment contract). Independent contractor employment may take a variety of forms, for example, they may have a direct relationship with a client or work through an intermediary. Although, independent contractors may have employees, they typically spend most of their time directly engaged with clients or on client tasks, rather than managing staff.

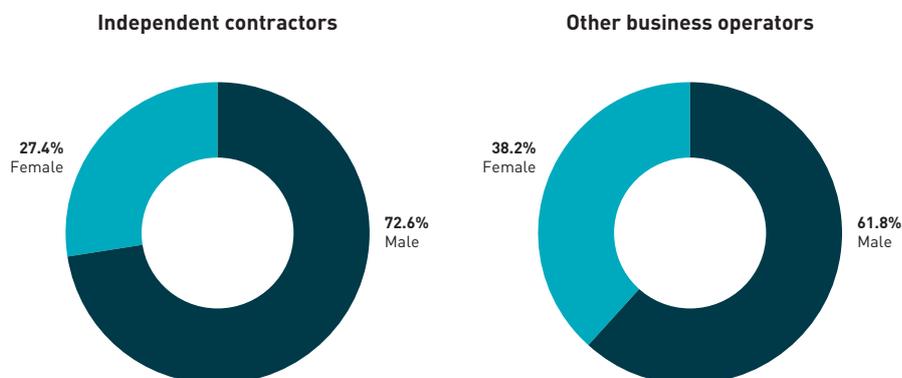
In the same ABS publication, **other business operators** are defined as people who operate their own business, with or without employees, but who are not operating as independent contractors. Other business operators are distinguished from independent contractors in that they generally generate their income from managing their staff or from selling goods or services to the public, rather than providing a labour service directly to a client. Other business operators typically spend little time working on client tasks, with most of their time spent on managing their employees and/or business.

This chapter presents some key characteristics of independent contractors and other business operators assuming that most, if not all, of these are in effect small business operators.

DEMOGRAPHICS

In November 2011, there were 1 026 900 independent contractors and 1 040 300 other business operators in Australia [see Figure 22].

Figure 22: Gender distribution of independent contractors and other business operators, November 2011



Data source: ABS Cat. No. 6359.0.
Text description: see Appendix C.

33 ABS Cat. No. 6359.0

Over half of independent contractors and other business operators fell within the 35-54 year age bracket, while over 70 per cent of these groups were born in Australia (see Table 15).

Table 15: Distribution of independent contractors and other business operators by age groups and country of birth, November 2011

	Independent contractors		Other business operators	
	'000	%	'000	%
Age group				
15-19	6.3 ^(a)	0.6 ^(a)	3.1 ^(a)	0.3 ^(a)
20-24	44.1	4.3	10.2	1.0
25-34	176.5	17.2	126.5	12.2
35-44	259.5	25.3	257.0	24.7
45-54	263.3	25.6	311.1	29.9
55-59	115.1	11.2	119.5	11.5
60-64	93.2	9.1	107.9	10.4
65 and over	68.8	6.7	105.1	10.1
Country of birth^(b)				
Australia	724.9	70.6	738.7	71.0
Overseas	301.9	29.4	301.6	29.0
Total^(c)	1026.9	100.0	1040.3	100.0

Data source: ABS Cat. No. 6359.0

Notes: (a) Estimate has a relative standard error of 25 to 50 per cent and should be used with caution. (b) Excludes persons whose country of birth was inadequately described. (c) Individual numbers may not add to the total due to rounding.

WORK PATTERN

About 49 per cent of independent contractors worked 35 hours or less per week in the main job; while around 39 per cent of other business operators worked 35 hours or less per week.

Nearly half of all independent contractors (about 49 per cent) were in the current business continuously for five years or less, while about 39 per cent were in the same business for 10 years or more. In contrast, about 38 per cent of other business operators were in the same business for five or fewer years and almost half (about 49 per cent) were in the current business for 10 or more years (see Table 16).

Table 16: Distribution of independent contractors and other business operators by work patterns, November 2011

	Independent contractors		Other business operators	
	'000	%	'000	%
Hours worked in main job				
Less than 1 hour/no hours	60.9	5.9	42.5	4.1
1-14	134.0	13.0	100.6	9.7
15-19	65.4	6.4	42.7	4.1
20-24	79.2	7.7	70.1	6.7
25-29	49.3	4.8	47.5	4.6
30-34	76.4	7.4	60.7	5.8
35	37.0	3.6	36.4	3.5
36-39	45.6	4.4	32.2	3.1
40	125.5	12.2	123.8	11.9
41-44	19.2	1.9	19.9	1.9
45-48	76.0	7.4	66.7	6.4
49 or more	258.4	25.2	397.2	38.2
Continuous duration with current business				
Fewer than 12 months	144.2	14.0	78.3	7.5
1-2 years	157.9	15.4	127.7	12.3
3-5 years	198.2	19.3	186.1	17.9
6-9 years	126.6	12.3	135.7	13.0
10-20 years	220.2	21.4	244.3	23.5
20 years and over	179.8	17.5	268.2	25.8
Expected future duration with current business				
Expected to be with current business in 12 months	950.4	92.6	998.2	96.0
Did not expect to be with current business in 12 months	76.5	7.4	42.1	4.0
Total	1026.9	100.0	1040.3	100.0

Data source: ABS Cat. No. 6359.0

Note: Individual numbers may not add to the total due to rounding.

INDUSTRY AND OCCUPATION OF MAIN JOB

Nearly one third of all independent contractors were engaged in *construction* (32.2 per cent), while another 13 per cent were in *professional, scientific and technical services*. Among other business operators, 14.8 per cent were in *agriculture, forestry and fishing*, 11.3 per cent were in *retail trade* and 10.7 per cent were in *professional, scientific and technical services*. See Table 17 for further details.

Table 17: Distribution of independent contractors and other business operators by industry and occupation, November 2011

	Independent contractors		Other business operators	
	'000	%	'000	%
Industry of main job				
Agriculture, forestry and fishing	31.1	3.0	154.0	14.8
Mining	5.0 ^(a)	0.5 ^(a)	3.3 ^(a)	0.3 ^(a)
Manufacturing	41.8	4.1	91.3	8.8
Electricity, gas, water and waste services	5.0 ^(a)	0.5 ^(a)	3.2 ^(a)	0.3 ^(a)
Construction	330.4	32.2	99.9	9.6
Wholesale trade	24.0	2.3	57.7	5.5
Retail trade	38.6	3.8	118.0	11.3
Accommodation and food services	10.6	1.0	70.6	6.8
Transport, postal and warehousing	83.8	8.2	33.3	3.2
Information media and telecommunications	16.0	1.6	5.5 ^(a)	0.5
Financial and insurance services	15.9	1.5	24.7	2.4
Rental, hiring and real estate services	19.2	1.9	25.5	2.5
Professional, scientific and technical services	133.3	13.0	111.1	10.7
Administrative and support services	84.0	8.2	37.9	3.6
Public administration and safety	12.0	1.2	4.5 ^(a)	0.4 ^(a)
Education and training	36.7	3.6	29.3	2.8
Health care and social assistance	59.7	5.8	67.3	6.5
Arts and recreation services	21.2	2.1	11.1	1.1
Other services	58.5	5.7	92.1	8.9
Total^(b)	1026.9	100.0	1040.3	100.0

Data source: ABS Cat. No. 6359.0.

Notes: (a) Estimate has a relative standard error of 25 to 50 per cent and should be used with caution. (b) Individual numbers may not add to the total due to rounding.

Classified by occupational groups, it was found that nearly one third of all independent contractors (32.9 per cent) were *managers* and *professionals* (high skill occupations); while 57.8 per cent of other business operators fell in these occupational groups. In addition, while over one fifth of all independent contractors (21.4 per cent) were in low skill occupations (*machinery operators and drivers* and *labourers*), only 7.5 per cent other business operators were in this occupation skill category. As such, the remaining 45.7 per cent of independent contractors and 34.8 per cent of other business operators were in medium skill occupations (*technicians and trades workers, community and personal service workers, clerical and administrative workers* and *sales workers*).³⁴ See Table 18 for further details.

³⁴ High skill occupations are taken to include *managers* and *professionals*. Medium skill occupations are taken to include *technicians and trades workers, community and personal service workers, clerical and administrative workers* and *sales workers*. Low skill occupations are taken to include *machinery operators and drivers* and *labourers*.

Table 18: Distribution of independent contractors and other business operators by occupation, November 2011

	Independent contractors		Other business operators	
	'000	%	'000	%
Occupation of main job				
Managers	126.4	12.3	411.2	39.5
Professionals	211.4	20.6	190.2	18.3
Technicians and trades workers	302.8	29.5	147.5	14.2
Community and personal service workers	49.7	4.8	44.6	4.3
Clerical and administrative workers	80.0	7.8	112.9	10.9
Sales workers	36.8	3.6	55.8	5.4
Machinery operators and drivers	88.3	8.6	25.3	2.4
Labourers	131.4	12.8	52.8	5.1
Total	1026.9	100.0	1040.3	100.0

Data source: ABS Cat. No. 6359.0

Note: Individual numbers may not add to the total due to rounding.

■ CHAPTER 8

BUSINESS CONDITIONS AND CONFIDENCE

A number of surveys of Australian businesses are undertaken by private companies on a monthly and quarterly basis. These surveys are designed to measure and present information about business trends, expectations and overall conditions. A number of organisations, including the Australian Chamber of Commerce and Industry (ACCI), the National Australia Bank (NAB), Sensis and MYOB, among others, undertake surveys specifically targeted towards small and medium businesses.

These surveys measure business confidence, which is often used as an early indicator of the performance of businesses. Surveys are usually released on a more timely basis than official statistics. Business surveys were closely watched during the global financial crisis for this reason, e.g. as it could signal turning points in the business cycle.

The surveys included in this chapter present similar results on recent economic conditions experienced by small and medium businesses, with results generally indicating subdued conditions in the year ending the June quarter 2012.

Small and medium enterprises (or businesses) are referred to as SMEs throughout this chapter. Definitions differ between surveys, so reference to survey definitions should be taken into account when reading this information.

SMALL AND MEDIUM BUSINESS CONDITIONS

Business conditions indices are measures of current market conditions. They are often calculated as a composite index of measures such as labour conditions, profits and sales reported by business owners. Some surveys report these indices as a “net balance” which is obtained by subtracting the percentage of negative responses from the percentage of positive responses.

AUSTRALIAN CHAMBER OF COMMERCE AND INDUSTRY

The ACCI Small Business³⁵ survey results suggest that small business conditions are deteriorating. In the June quarter 2012 survey, ACCI expected conditions to remain subdued, ‘amid rising global economic uncertainties, softening domestic demand and rising input costs’.

Figure 23 clearly shows the deteriorating conditions associated with the global financial crisis in the period from early 2008 to late 2009. Prior to this period, small businesses were experiencing positive conditions with the index consistently above the neutral level. Although improving to positive conditions in December 2009, this survey reported a worsening in small business conditions in the subsequent surveys.

³⁵ The quarterly ACCI Small Business survey captures conditions in businesses with less than 20 employees. An index of 50 indicates that there is an exact balance between respondents who reported an increase in the variable and those who reported a decline. Therefore, any level above 50 is interpreted as an improvement in the variable and any level below 50 as a deterioration in the variable.

The ACCI Small Business Survey also captures small business expectations about business conditions in the next quarter. It is noted in the June quarter 2012 survey that small business conditions are expected to remain below the neutral level of 50 in the September quarter 2012. Business conditions for all businesses were also expected to remain below the neutral level in the September quarter 2012.

NATIONAL AUSTRALIA BANK

The quarterly NAB Small, Medium and Emerging (NAB SME) Business Survey³⁶ also shows a steep decline in business conditions during the global financial crisis, with conditions starting to decline at the very early onset of the crisis, even before impacts were felt in most official data (see Figure 23). This indicates that sentiment surveys can be a useful forward indicator for turning points in economic conditions.

There was also a decline in SME business conditions in the December quarter 2009. This followed an initial improvement following the global financial crisis. SMEs have reported negative business conditions on balance in five of the six quarters ending the June quarter 2012.

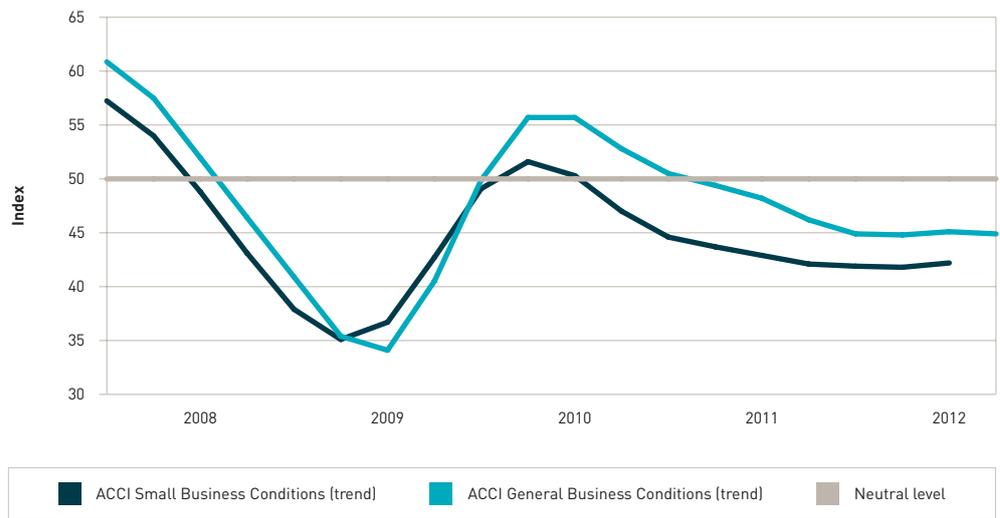
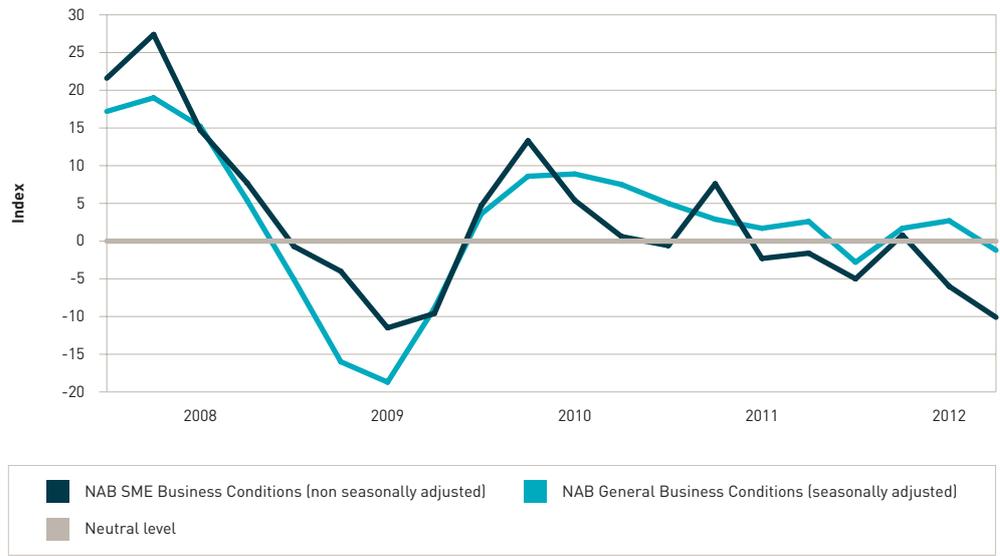
NAB reported that 'global economic uncertainty' was the most significant constraining factor on the ability of SMEs to make long-term decisions in the June quarter 2012. Other constraining factors included 'demand' and 'tax and government policy'.

SMALL AND MEDIUM BUSINESS CONDITIONS VERSUS TOTAL BUSINESS CONDITIONS

The comparison of SMEs with the whole economy may indicate areas that are more or less challenging to smaller operators. Most conditions indices suggest SMEs are most often experiencing weaker conditions than business as a whole. Over the past five years, ACCI business conditions for all businesses have been generally more positive than small business conditions (Figure 23). NAB business conditions for all businesses were slightly negative in the June quarter 2012 but SME business conditions were more negative in comparison.

³⁶ NAB conducts this survey to cover small, medium and emerging businesses (SMEs) in the non-farming sector in Australia. Results are captured as the net balance of businesses which are confident or not confident about business conditions (or some other variable). The NAB SME survey captures firms with annual turnovers between \$2 and \$10 million.

Figure 23: Business conditions, five years to the June quarter 2012



Data source: Thomson Reuters Datastream; ACCI Small Business Survey; ACCI Business Expectations Survey; NAB Quarterly Business Survey; NAB Quarterly SME Survey.

Text description: see Appendix C.

SMALL AND MEDIUM BUSINESS CONFIDENCE

Business confidence indices provide an indication of sentiment of business owners over the short-term horizon. This information indicates how they expect their businesses to react to the current conditions and the effect the current conditions will have on their business in the near future.

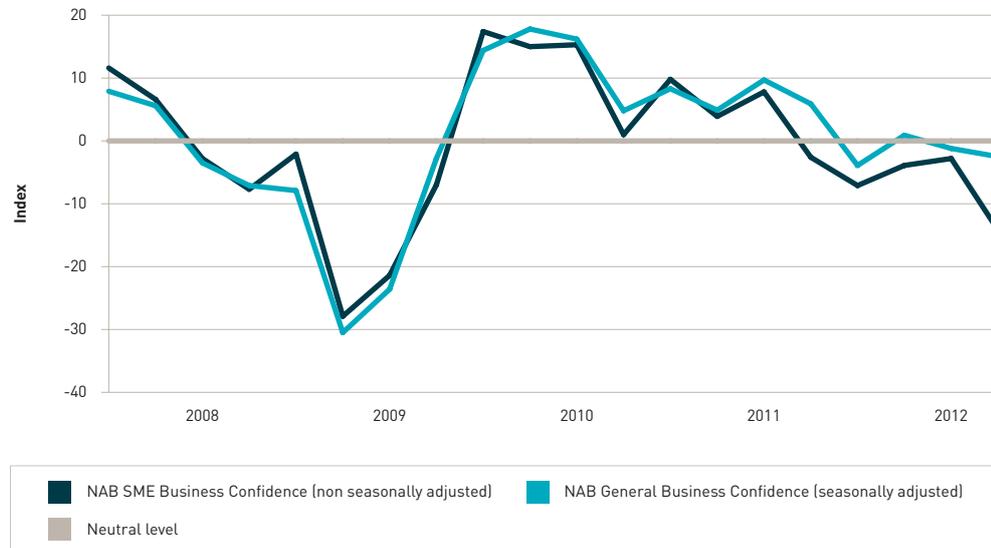
SENSIS BUSINESS INDEX

The quarterly Sensis Business Index showed that SME³⁷ business confidence in their own business prospects has been on a downward trend since the December quarter 2009. Reasons given for the continued decline in confidence in the three months ending July 2012 were a *decrease in business and consumers not spending*.

NATIONAL AUSTRALIA BANK

NAB SME business confidence reflected the effect of the global financial crisis well before official data. The 'recovery' was also quickly recognised in the survey data, although SME business confidence has trended downwards following this initial recovery to be below the neutral level (Figure 24)³⁸. Confidence for all businesses was generally higher in the year ending the June quarter 2012 than SME business confidence.

Figure 24: Business confidence, five years to the June quarter 2012



Data source: Thomson Reuters Datastream; NAB Quarterly Business Survey; NAB Quarterly SME Survey.

Text description: see Appendix C.

³⁷ The Sensis definition of small and medium enterprises (SMEs) differs to the NAB definition of small, medium and emerging businesses (also denoted by SMEs). Sensis defines SMEs as businesses employing less than 200 people.

³⁸ The neutral level of survey data is the level where the number of surveyed small businesses with positive expectations of confidence is equal to the number of surveyed small businesses with negative expectations.

EMPLOYMENT

Survey results for employment conditions have been mixed since the global financial crisis, although most indices are still operating at levels below those reported pre-GFC.

SENSIS

According to the Sensis Business Index, employment conditions deteriorated in the three months ending July 2012, more than reversing the previous quarter's improvement. Sensis noted, 'Looking ahead, SMEs were expecting deterioration in employment in both the short and medium terms'.

AUSTRALIAN CHAMBER OF COMMERCE AND INDUSTRY

The ACCI Small Business survey results suggest that small business employment conditions have remained in contractionary territory (i.e. below the neutral level) for around four years. Although conditions remain below the neutral level, conditions in the June quarter 2012 were above the trough reported during the global financial crisis (Figure 25). In the June quarter 2012 survey, ACCI expected employment conditions to deteriorate in the September quarter 2012.

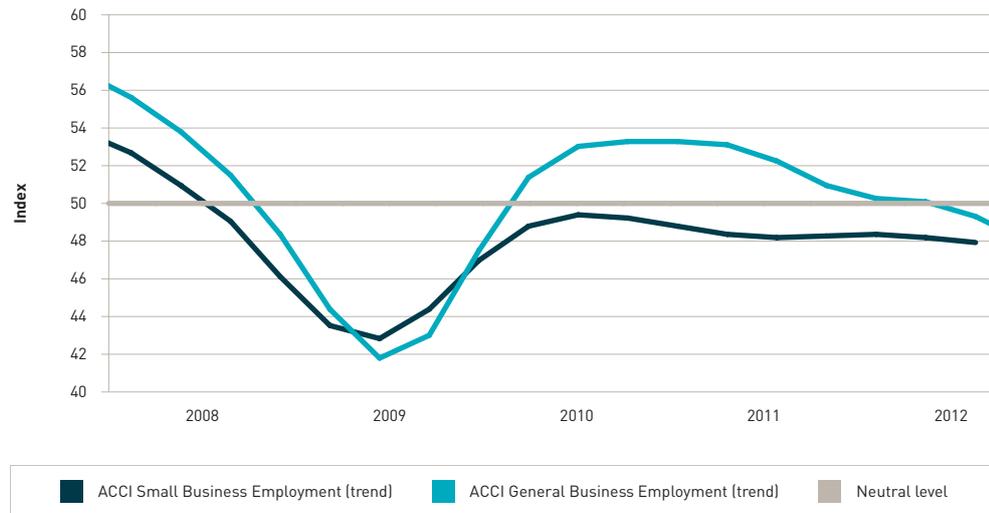
NATIONAL AUSTRALIA BANK

The NAB SME Business Survey reported negative employment conditions in the June quarter 2012. Similarly to most NAB indicators, employment conditions experienced an initial 'recovery' following the global financial crisis before slipping down again to be negative on balance.

SMALL BUSINESS CONDITIONS VERSUS TOTAL BUSINESS CONDITIONS

There has been a significant gap between the ACCI small business employment index and the ACCI general business employment index over the past three years. This suggests that while staffing levels have fallen in small businesses, staffing levels for medium and large businesses have either increased or remained steady for almost three years. It has only been since the beginning of 2012 that general business employment has fallen below the neutral level—for the first time since the GFC (Figure 25).

Figure 25: Business employment conditions, five years to the June quarter 2012



Data source: Thomson Reuters Datastream; ACCI Small Business Survey; ACCI Business Expectations Survey.

Text description: see Appendix C.

PROFITS

Survey results for profitability report that SMEs have been struggling in terms of profitability over the past few years.

SENSIS

According to the Sensis Business Index, SME profitability has been below the neutral level for more than four years. Despite this, Sensis reported that businesses were expecting positive growth in profits in the 12 months ending July 2013.

AUSTRALIAN CHAMBER OF COMMERCE AND INDUSTRY

The ACCI Small Business survey results suggest that profit growth among small businesses has been contracting for more than four years (Figure 26). In the June quarter 2012 survey, ACCI expected employment conditions to continue to deteriorate in the September quarter 2012.

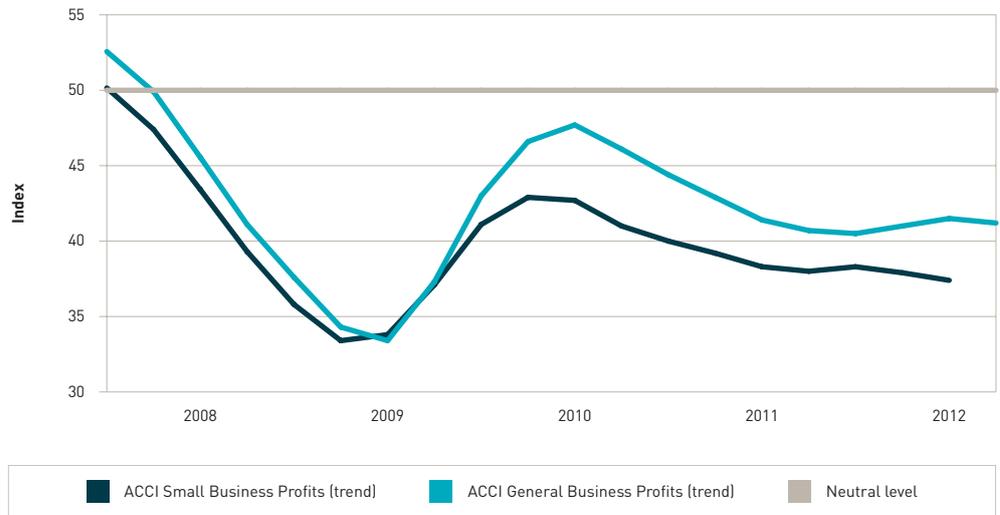
NATIONAL AUSTRALIA BANK

The NAB SME Business Survey reported negative profitability in the June quarter 2012. Profits experienced only a temporary recovery after the global financial crisis before slipping below the neutral level again in the September quarter 2010.

SMALL BUSINESS CONDITIONS VERSUS TOTAL BUSINESS CONDITIONS

ACCI small business profitability was below that reported by all businesses. However, profitability for all businesses has also been negative on balance since the global financial crisis (Figure 26).

Figure 26: Business profits, five years to the June quarter 2012



Data source: Thomson Reuters Datastream; ACCI Small Business Survey; ACCI Business Expectations Survey.

Text description: see Appendix C.

■ CHAPTER 9

SMALL BUSINESS BANK LENDING

As discussed in Chapter 1, small businesses access many sources of finance to assist their business. Sources of finance include family, friends, credit cards, mortgages and unsecured loans, to name a few.

The Reserve Bank of Australia hosted a small business finance roundtable in May 2012, to gain better understanding of how small businesses are financed. The roundtable, besides making other observations, noted that³⁹:

- Small businesses meet their funding needs using internal equity funding and existing debt facilities.
- Eighty per cent of small business loan applications are accepted while only a small fraction of businesses who seek venture capital funding are successful.
- Small businesses pay more, on average, for debt than both households and larger businesses. This is because smaller businesses are typically viewed as having more volatile revenue streams, make greater use of riskier forms of loan collateral, and make more use of unsecured debt products.
- The higher cost of small business debt facilities leads many smaller businesses to use household debt products to fund their business.
- Smaller businesses also make use of alternative sources of debt such as equipment and vehicle leasing.
- Other forms of finance for small businesses include debtor finance and debt funding from trade suppliers.

The RBA also reported that:

'The strong links between small businesses and households also accords with the finding that while small businesses tend to have less debt than large businesses, households that own small businesses tend to have higher debt than other households ... The personal nature of small businesses is often reflected in their financing arrangements, with financing evolving with the business. Initially, financing is predominantly tied to the owners' personal situation. As the business develops, financing becomes more closely linked to the performance of the business'.⁴⁰

This chapter looks at small business bank lending, including securitised loans and other housing loans. However, due to measurement difficulties, we have not looked at the extent to which small businesses access personal loan facilities for the purposes of the business.

39 Matic (2012).

40 RBA Small Business Finance Roundtable (2012).

TRENDS IN SMALL BUSINESS ACCESS TO FINANCE

In its *Submission to the Inquiry into Access for Small and Medium Business to Finance*, the Reserve Bank of Australia, on 7 February 2011, reported that:

'Lending to small businesses has increased slightly over 2009 and 2010, after growing steadily over the decade prior. The slowdown reflects both reduced demand from businesses and a general tightening in banks' lending standards. Small businesses in most industries have been able to access funding throughout the financial crisis, albeit on less favourable terms than previously.'

'Higher funding costs and a reassessment of risk have resulted in an increase in the spread between the rates that lenders charge on business loans and the cash rate.'

'Competition in the small business lending market eased following the onset of the financial crisis, but there are some early signs that competitive pressures are again beginning to intensify in some segments of the business lending market. This should continue as the economy continues to strengthen.'

The CPA Australia Asia-Pacific Small Business Survey 2011⁴¹ found that only 30 per cent of businesses surveyed had a business loan⁴² at the time of the survey. According to the survey, 30 per cent of businesses needed additional funds in the year to October 2011, with the main reasons for requiring additional funding being *to cover increasing expenses* and *business survival* (41 per cent each).

The survey also revealed that in 2011, a much higher percentage of business owners sought additional finance for *business survival*, *purchasing assets* and *covering tax payments* compared with the year before. On the other hand, the percentage of businesses seeking additional finance for business growth remained almost unchanged from 2010. This may reflect a shift in small business bank financing priorities from *growth* to *survival*. Of those businesses which reported requiring additional funding, 55 per cent obtained all or part of the additional funding from a bank in 2011, compared with 50 per cent in 2010.

About a third of business seeking finance reported difficulty in accessing additional funding, with *difficulty in finding a financier willing to provide funding to the business' industry* reported as the main reason.

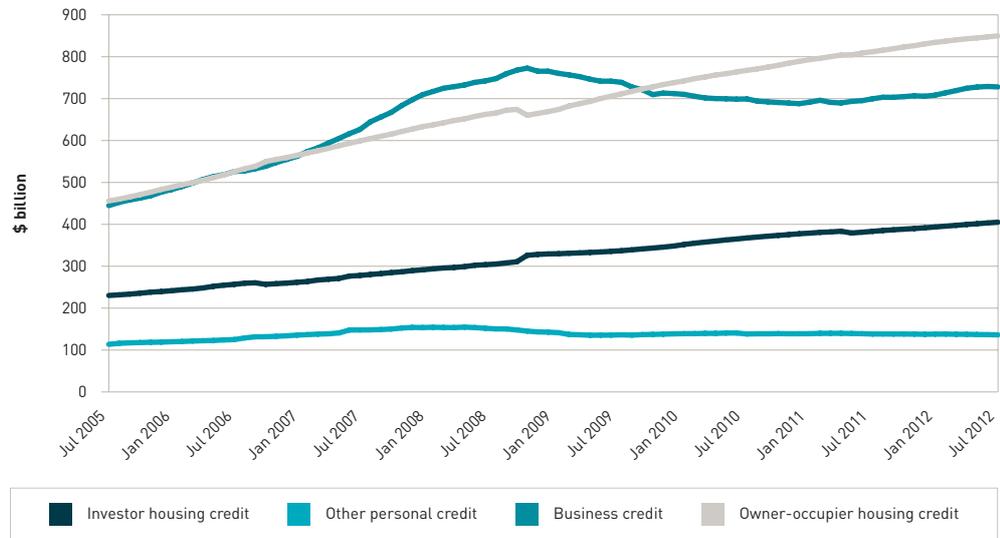
As for businesses expectations, the survey revealed that the proportion of businesses expecting to *definitely* require additional finance in the next 12 months was reported as around nine per cent, while the proportion expecting to *possibly* require additional finance was 36 per cent.

The annual growth rate of total business credit (for all business sizes) peaked at 24 per cent in December 2007, declining sharply since then. The slow-down in growth continued until June 2009, at which point lending to businesses began to contract. While business credit started growing again in September 2011, the growth rate remained subdued. Figure 27 shows the level of total business credit (for all business sizes) peaked at \$772.8 billion in November 2008 before trending downwards.

41 CPA Australia (2011). The survey was conducted in October 2011 covering 509 Australian businesses with fewer than 20 employees.

42 The CPA Australia survey asked businesses if they currently have a "business loan". This isn't further defined in the question and respondents could feasibly take this to be broader than just bank lending.

Figure 27: Selected financial aggregates



Data source: RBA Table D2

Notes: Data does not distinguish between businesses by size. Credit here includes loans and advances by Australian financial institutions (AFIs), bills on issue, securitised loans and other housing loans. 'Investor housing' refers to loans to individuals for investment (i.e. non-owner-occupied) housing, and finance for the purchase of land where construction of a dwelling for non-owner occupation is expected. 'Owner-occupier housing' refers to loans to individuals for owner-occupied housing, and finance for the purchase of land where construction of a dwelling for owner occupation is expected. 'Other personal' includes personal loans outstanding on the balance sheets of AFIs, and securitised personal loans. 'Business' includes 'Bills on issue', loans outstanding to businesses on the balance sheets of AFIs, and securitised business loans.

Text description: see Appendix C.

Most RBA financial statistics are reported by the size of the loan, not the size of the business taking out the loan. It is expected that most small businesses would not have loans greater than \$2 million and it is likely that some medium and large businesses are also captured in this loan size category (we are unable to verify the magnitude of this overlap). Therefore, we are assuming that the majority of small businesses seeking finance would be accounted for in the less than \$2 million loan category.

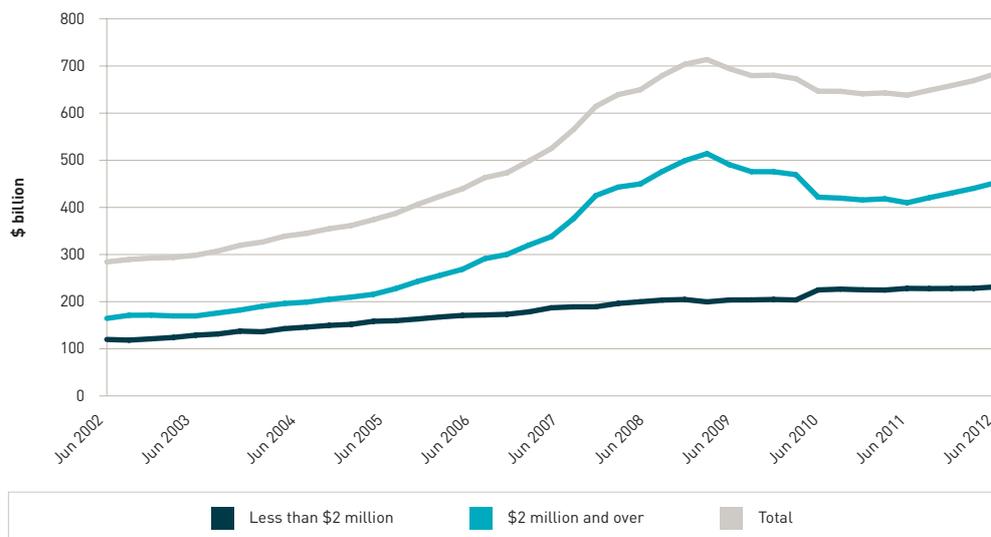
Figure 28 shows the value of outstanding loans that were *less than \$2 million* remained around \$200 billion during the two years to the March quarter 2010; while it generally remained around \$225 billion for the two years to the June quarter 2012. On the other hand, the value of outstanding loans that were *\$2 million or over* peaked over \$500 billion in the March quarter 2009, declined to around \$400 billion by the June quarter 2011, and rose to over \$450 billion in the June quarter 2012.

The strong growth in the outstanding value of loans that were *\$2 million and over* has also changed the composition of the total value of outstanding loans. Where the value of loans *less than \$2 million* constituted around 42 per cent of the total value of outstanding loans a decade ago, it was around 34 per cent in the June quarter 2012.

According to CPA Australia, the steep decline can be attributed to falling demand as well as to 'larger businesses having access to a broader range of financing alternatives than small business. For example, larger businesses can and did raise equity financing in 2009 and used that financing to reduce debt. Small business, on the other hand, did not have access to such arrangements'.⁴³

⁴³ CPA Australia, May 2012, *SME Access to Finance: Recent Experiences of SMEs in Accessing Finance*

Figure 28: Value of outstanding bank lending by size of business loan



Data source: RBA Table D7

Notes: Total credit outstanding includes variables and fixed-interest rate loans outstanding plus bills outstanding.

Text description: see Appendix C.

Figure 29 reflects similar trends. The value of new credit approvals for loans *less than \$2 million* has been relatively stable at around \$20 billion, on average, since the June quarter 2007. On the other hand, the value of new credit approvals for loans *\$2 million and over* has been more volatile—falling below \$40 billion in the March quarter 2010, from the peak of more than \$90 billion in the December quarter 2007. This volatility continued in more recent quarters.

The RBA noted the recent pick up in business credit ‘was mostly driven by the borrowing behaviour of larger businesses, particularly listed companies. This is consistent with the pattern in banks’ business lending by size of facility: the outstanding value of loans that are larger than \$2 million has increased by 10½ per cent since June 2011 after declining over the previous 2½ years, while the outstanding value of loans less than \$2 million each has been broadly unchanged since 2009’.⁴⁴

44 Reserve Bank of Australia, September 2012, *Financial Stability Review*

Figure 29: New bank credit approvals by size of business loan



Data source: RBA Table D8

Notes: New credit approvals shows gross new lending commitments to business during the relevant calendar quarter.

Text description: see Appendix C.

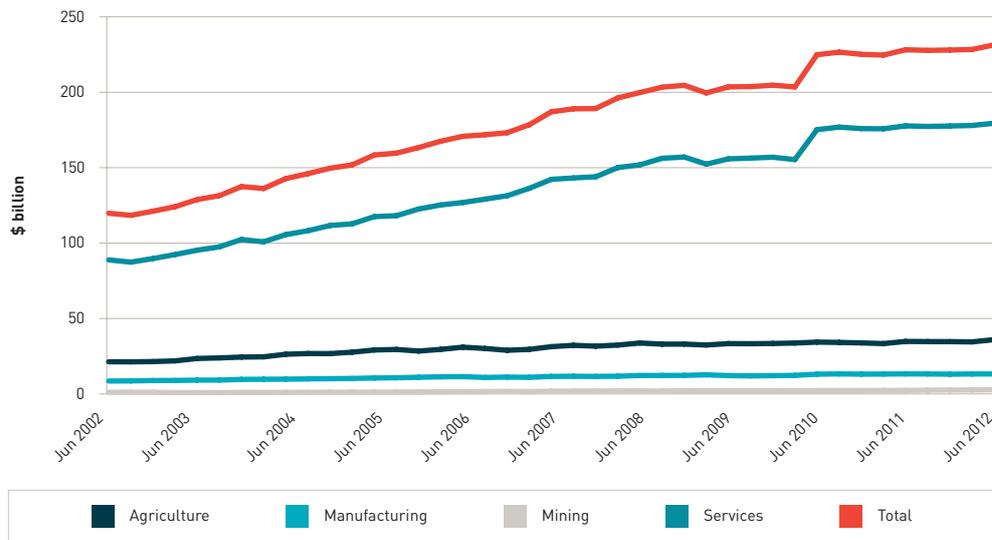
Figure 30 breaks down the value of outstanding bank loans *under \$2 million* by industry⁴⁵. The services sectors constitute the vast majority of loans *less than \$2 million*. This can perhaps be partially explained by the large proportion of small businesses that make up the services sectors.

The value of outstanding loans that were *less than \$2 million* to *services* businesses more than doubled from \$88.9 billion in the June quarter 2002 and to \$179.5 billion in the June quarter 2012.

The value of outstanding loans that were *less than \$2 million* to *manufacturing* businesses has grown moderately, increasing from \$8.6 billion to \$13.2 billion in the 10 years to the June quarter 2012. The value of outstanding loans that were *less than \$2 million* to *agriculture* businesses has grown from \$21.3 billion to \$36.0 billion during the same period. The value of outstanding loans that were *less than \$2 million* to *mining* businesses has increased from \$1.0 billion to \$2.7 billion in the 10 years to the June quarter 2012. This lower value can perhaps be explained by the smaller proportion of small businesses in the *mining* sector.

⁴⁵ RBA industry breakdowns reflect ABS ANZSIC industry classifications

Figure 30: Value of outstanding bank loans that were less than \$2 million, by industry



Data source: RBA Table D7

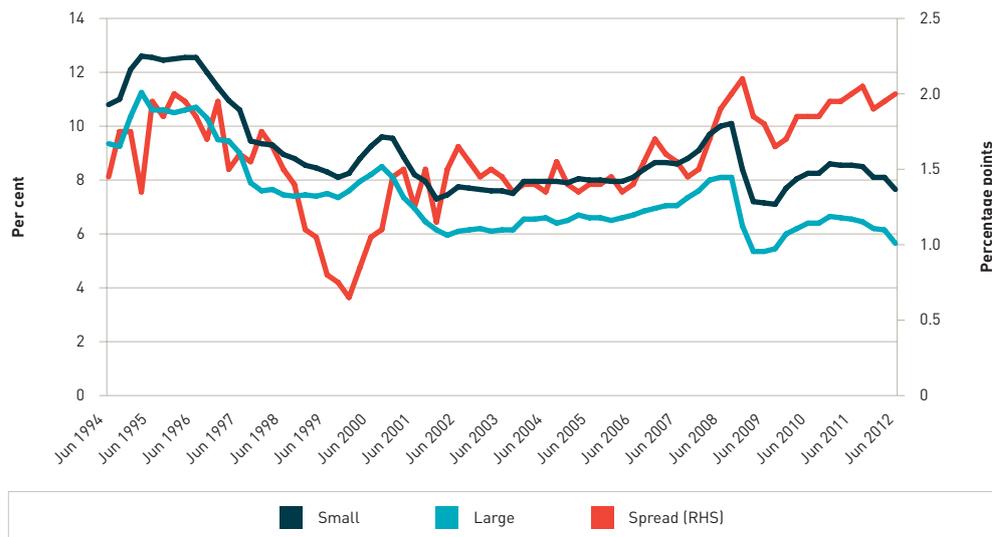
Notes: Total credit outstanding includes variable and fixed-interest rate loans outstanding plus bills outstanding.

Text description: see Appendix C.

TRENDS IN INTEREST RATES ON BUSINESS LOANS

As Figure 31 shows, during 2001 to 2008, small businesses paid a premium of about 1.5 per cent above and beyond the business lending rates faced by large businesses. However, this spread jumped to 2 per cent following the GFC, and has remained at elevated levels since.

Figure 31: Spread between business lending rates



Data source: RBA Table F5; DIISRTE calculations.

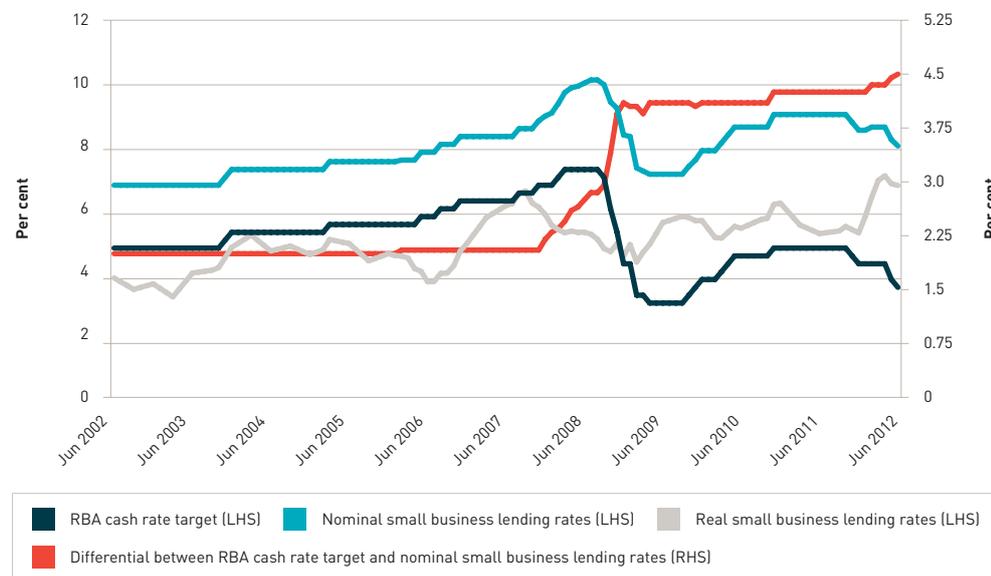
Notes: Business lending rates are the predominant or average indicator rates offered by major banks on loans to small businesses. The RBA makes the following notes 'The definition of small businesses differs between banks but is generally based on annual turnover, number of employees, amount of borrowings or deposits with the particular bank, or a combination of these'. For small and large businesses, the business lending rate is a weighted average and includes residentially-secured and other term and overdraft facilities (the composition may differ for the two business size categories).

Text description: see Appendix C.

During the financial crisis, the RBA instituted monetary policy easing by reducing the cash rate target from 7.25 per cent to 3.0 per cent between August 2008 and September 2009. After September 2009 the RBA tightened monetary policy increasing the cash rate target from 3.0 per cent in September 2009 to 4.75 per cent in March 2011. Anticipating adverse impacts on the domestic economy from euro area uncertainties and other factors, the RBA instituted another round of monetary easing that began in November 2011. Since then, the cash rate target has been lowered by a total of 150 basis points in five instalments (see Figure 32) between November 2011 and October 2012.

The real small business lending rate⁴⁶ reflects the cost of finance for small business, adjusted for inflation. The real small business lending rate increased significantly over the 10 years to the June quarter 2012—from under 4 per cent to around 7 per cent. Small businesses are experiencing higher real lending rates to those prior to the global financial crisis, while the rest of the economy is experiencing lower rates. During the global financial crisis, the major banks only passed on around 70 per cent of the cash rate target decreases onto small business and since the crisis have passed on more than 100 per cent of the cash rate target increases. This is reflected in the sharp rise in the differential between nominal small business lending rates and the RBA cash rate target beginning around December 2007. Further, it appears that small business lending margins increased during the recent monetary easing in 2012—taking this differential to a new peak of 4.5 per cent in the June quarter 2012. Figure 32 shows the trends in these rates.

Figure 32: RBA small business indicator rate vs. the RBA cash rate target



Data source: RBA Table F05

Notes: Business lending rates are the predominant or average indicator rates offered by major banks on loans to small businesses. The RBA makes the following notes 'The definition of small businesses differs between banks but is generally based on annual turnover, number of employees, amount of borrowings or deposits with the particular bank, or a combination of these'. For small and large businesses, the business lending rate is a weighted average and includes residentially-secured and other term and overdraft facilities (the composition may differ for the two business size categories).

Text description: see Appendix C.

⁴⁶ The real small business lending rate is calculated by DIISRTE as the nominal small business lending rate adjusted for inflation.

CHAPTER 10

INNOVATION, COLLABORATION, RESEARCH AND DEVELOPMENT

This chapter includes selected statistics for innovative activity, collaboration and research and development. It is not a comprehensive overview of statistical information on these topics. For further information, please refer to the ABS source publications.

INNOVATIVE ACTIVITY

The ABS defines innovation as:

‘the introduction of a new or significantly improved good or service; operational process; organisational/managerial process; or marketing method. A business with innovative activity is a business that is undertaking any work that was intended to or did result in the introduction of an innovation’⁴⁷.

Table 19 shows that a little over 30 per cent of micro businesses (employing 0–4 persons) undertook innovative activity in 2010–11, while almost 50 per cent of other small businesses (employing 5–19 persons) undertook innovative activity in the same period. This figure is well below the 62 per cent for medium businesses and the 66 per cent for larger businesses. Micro businesses introduced less innovative activity compared with other sized businesses—only 24.9 per cent having introduced an innovation, compared with 43.6 per cent of other small businesses, 56.0 per cent of medium businesses and 53.7 per cent of large businesses.

Table 19: Summary of innovative activity in Australia by business size, 2010–11

	Businesses which introduced innovation (innovating businesses)	BUSINESSES WITH INNOVATIVE ACTIVITY WHICH WAS:		Businesses with any innovative activity (innovation-active businesses)
		Still in development	Abandoned	
Employment size	%	%	%	%
0–4 persons	24.9	14.1	5.4	30.5
5–19 persons	43.6	26.2	6.3	49.6
20–199 persons	56.0	34.5	5.7	61.9
200 or more persons	53.7	38.2	7.3	65.9

Data source: ABS Cat. No. 8166.0, Data Cube 2, Table 1

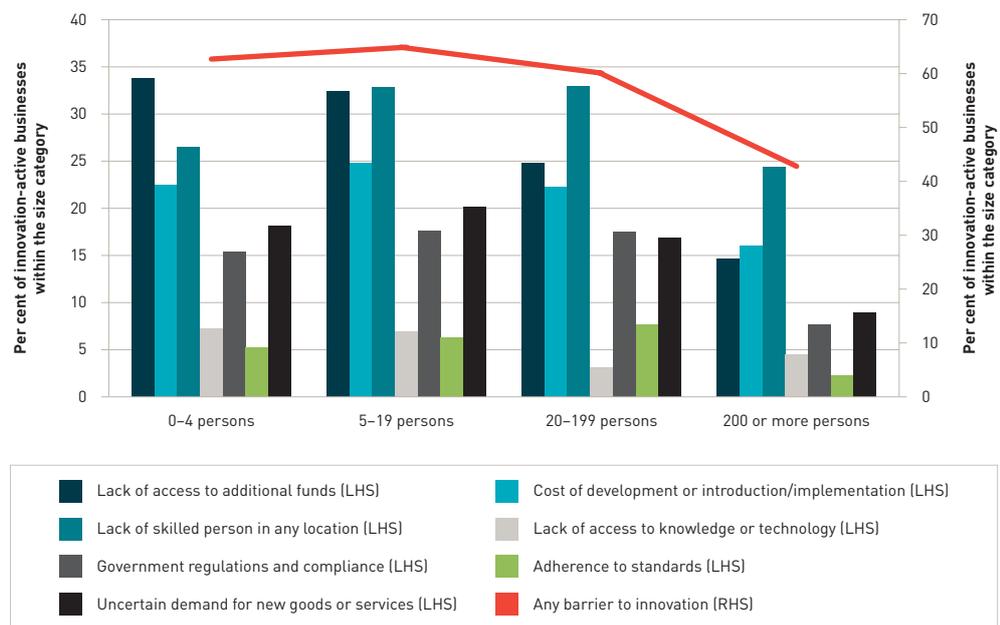
⁴⁷ ABS Cat. No. 8166.0. The ABS definition complies with the international standard OECD definition contained in the Oslo Manual.

BARRIERS TO INNOVATION

Significantly greater proportions of innovation-active micro businesses (62.7 per cent), other small businesses (64.9 per cent) and medium businesses (60.1 per cent) faced some barrier to innovation compared to large businesses (42.8 per cent), see Figure 33.

When analysing some of the individual barriers it can be seen that although large businesses experience fewer barriers in general, the lack of skilled persons across all business sizes is a predominant barrier. This is also true for the cost of development, introduction or implementation of innovation.

Figure 33: Barriers to innovation, 2010–11⁴⁸



Data source: ABS Cat. No. 8158.0, Data Cube 6, Table 1

Text description: see Appendix C.

BUSINESS PERFORMANCE WHERE COLLABORATION AGREEMENTS ARE IN PLACE

Data analysis from the ABS Business Characteristics Survey shows that small businesses with collaboration agreements are more likely to increase the range of products or services offered than small businesses without collaboration agreements. Table 20 shows that 27.9 per cent of micro businesses with collaboration agreements increased the range of products or services offered in 2008–09 compared with the previous year. This is a higher proportion than the 13.1 per cent of micro businesses without collaboration agreements. Around 33.8 per cent of other small businesses with collaboration agreements increased the range of products or services offered in 2008–09 compared with the previous year. This is a higher proportion than the 22.3 per cent of other small businesses without a collaboration agreement. This may suggest that micro and other small businesses can progress their ability to diversify and extend their production capabilities where there are collaboration agreements in place. In other words, collaboration can make a difference for small businesses when they try to increase their range of products and services offered.

⁴⁸ Respondents to the ABS survey are able to select any number of barriers to innovation.

Table 20: Range of products or services offered by collaborative agreements 2008–09

	Range of products or services offered			
	Decreased since last year (%)	Stayed the same since last year (%)	Increased since last year (%)	Not applicable (%)
Businesses with 0–4 persons employed				
With collaboration	6.3	56.0	27.9	10.4
Without collaboration	6.2	60.9	13.1	19.8
Businesses with 5–19 persons employed				
With collaboration	3.4	58.1	33.8	4.8
Without collaboration	3.8	63.4	22.3	10.7

Data source: ABS, Business Characteristics Survey, DIISRTE special data request.

The data also shows that a higher proportion of small businesses recorded an increase in productivity in 2008–09 when there were collaboration agreements in place. Table 21 shows that 29.0 per cent of micro businesses increased their productivity when there was a collaboration agreement in place, compared with 17.9 per cent for those who increased productivity with no collaboration agreement. Around 36.2 per cent of other small businesses showed an increase in productivity on the previous year when there was a collaboration agreement compared with only 26.4 per cent when there was no collaboration agreement.

Table 21: Productivity by collaborative agreements 2008–09

	Productivity			
	Decreased since last year (%)	Stayed the same since last year (%)	Increased since last year (%)	Not applicable (%)
Businesses with 0–4 persons employed				
With collaboration	18.5	41.9	29.0	10.6
Without collaboration	17.4	44.5	17.9	20.5
Businesses with 5–19 persons employed				
With Collaboration	10.5	45.5	36.2	7.8
Without Collaboration	16.0	44.3	26.4	13.5

Data source: ABS, Business Characteristics Survey, DIISRTE special data request.

A similar story can be seen in the data for profitability, with a greater proportion of businesses with collaborative agreements in place reporting increases in profitability compared to businesses without agreements (see Table 22). This analysis indicates that businesses with collaborative agreements in place are likely to experience improved business outcomes in the following years.

Table 22: Profitability by collaborative agreements 2008–09

	Profitability			
	Decreased since last year (%)	Stayed the same since last year (%)	Increased since last year (%)	Not applicable (%)
Businesses with 0–4 persons employed				
With collaboration	37.5	27.2	28.3	7.0
Without collaboration	34.2	30.0	23.1	13.3
Businesses with 5–19 persons employed				
With collaboration	33.0	27.8	33.5	5.7
Without collaboration	37.0	25.2	31.5	6.4

Data source: ABS, Business Characteristics Survey, DIISRTE special data request.

RESEARCH & DEVELOPMENT

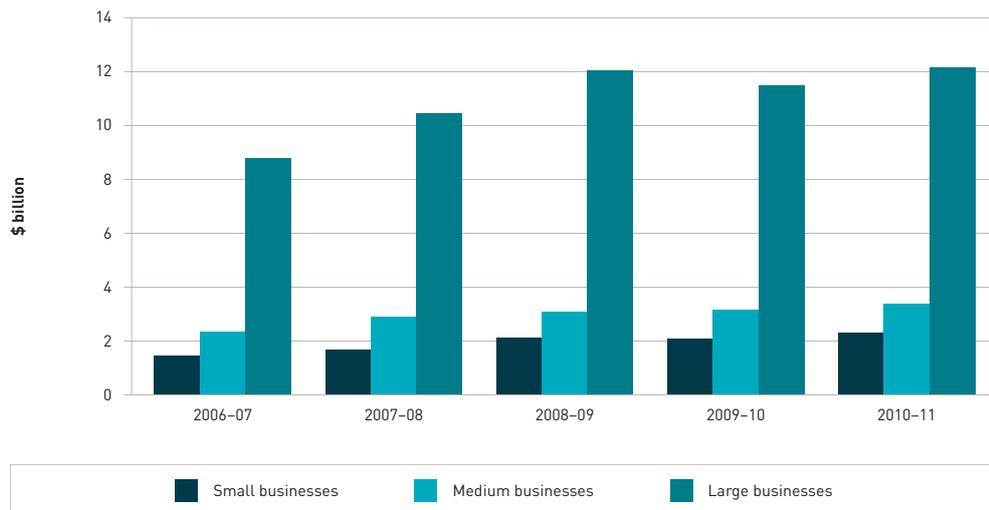
The ABS defines research and development (R&D) activity as:

'a systematic investigation or experimentation involving innovation or technical risk, the outcome of which is new knowledge, with or without a specific practical application, or new or improved products, processes, materials, devices or services. R&D activity extends to modifications of existing products/processes. R&D activity ceases and pre-production begins when work is no longer experimental'⁴⁹.

The charts below refer to the *business* expenditure on R&D (BERD). The ABS R&D definition above explains the activities included as R&D when surveying businesses to quantify *business* expenditure on R&D.

In 2010–11, all businesses spent around \$17.9 billion on R&D, with small businesses spending approximately \$2.3 billion (of which \$0.8 billion was accounted for by micro businesses). This is below the \$3.4 billion spent by medium businesses and \$12.2 billion spent by large businesses (see Figure 34).

Figure 34: Business expenditure on research and development by business size (current prices)



Data source: ABS Cat. No. 8104.0, Data Cube 1, Table 2.

Text description: see Appendix C.

R&D intensity, or the ratio of R&D to industry value added decreases with the size of the business. Small business expenditure on R&D represented around 0.7 per cent of small business industry value added⁵⁰ in 2010–11, while medium business expenditure on R&D represented approximately 1.6 per cent of medium business industry value added and large business expenditure on R&D represented around 3.1 per cent of large business industry value added.

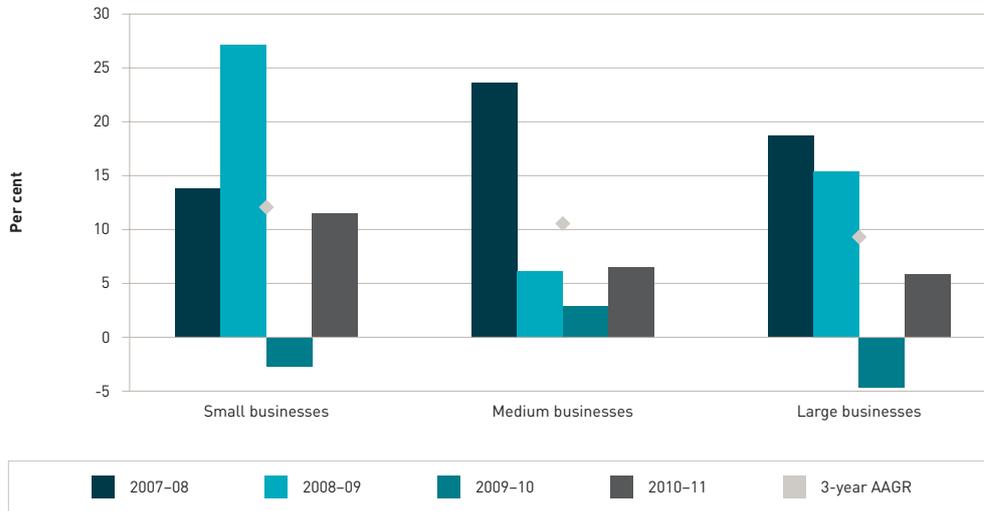
In 2010–11, business expenditure on R&D by small businesses increased by 11.5 per cent in current price terms, below its 3-year annual average growth rate (AAGR) of 12.1 per cent. R&D by other business sizes also grew more slowly than the 3-year annual average growth rate. R&D expenditure by medium businesses increased by 6.5 per cent in current price terms compared with its 3-year growth rate of 10.5 per cent,

⁴⁹ ABS Cat. No. 8104.0.

⁵⁰ ABS Cat. No. 8155.0. Industry value added only refers to the private sector.

while R&D expenditure by large businesses increased by 5.8 per cent, which was lower than its 3-year growth rate of 9.3 per cent (see Figure 35).

Figure 35: Annual growth in business expenditure on research and development by business size, 2007–08 to 2010–11

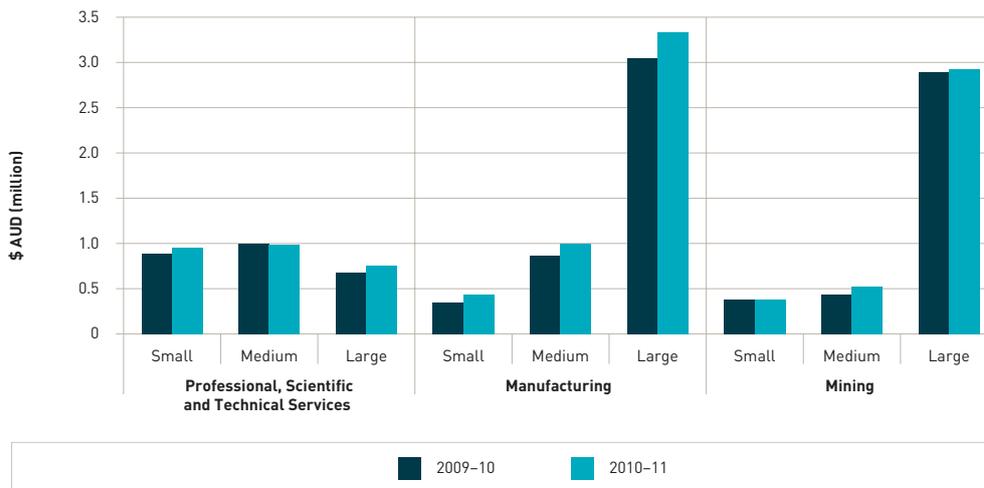


Data source: ABS Cat. No. 8104.0, Data Cube 1, Table 2.

Text description: see Appendix C.

Over 41 per cent of total small business expenditure on R&D in 2010–11 was undertaken by *professional, scientific and technical services* small businesses. *Manufacturing* and *mining* small businesses jointly accounted for about 35 per cent of total small business R&D expenditure in both 2009–10 and 2010–11. Figure 36 shows the 2009–10 and 2010–11 levels of BERD in current prices by small, medium and large businesses in these selected industries.

Figure 36: Value of BERD by business size in selected industries, 2009–10 and 2010–11



Data source: ABS Cat. No. 8104.0, Data Cube 2, Tables 1.5 and 1.6.

Note: This chart shows the top three ANZSIC 2006 industry divisions accounting for over three quarters of total small business expenditure on R&D in both 2009–10 and 2010–11.

Text description: see Appendix C.

CHAPTER 11

E-COMMERCE

Electronic commerce, commonly known as e-commerce, is the buying and selling of products or services over electronic systems such as the internet. Electronic commerce draws on such technologies as electronic funds transfer and online transaction processing.

Besides large firms, small and medium sized enterprises (SMEs) can also greatly benefit from ecommerce. In addition, it can 'level the playing field' for small businesses, provide location and time independence, and ease communication (Grandon & Pearson 2004). E-commerce can assist businesses to capture efficiencies and increase their competitiveness.

The benefits of e-commerce to the economy in terms of reduced costs, new products, higher quality and larger markets are significant. In order to capture these benefits and determine the overarching trends in the uptake and use of information technology, the ABS publishes an annual summary of the use of information technology in Australian businesses.

BUSINESS USE OF THE INTERNET

From the period 2009–10 to 2010–11 the proportion of micro businesses with internet access increased by 1.8 percentage points, while the proportion of other small businesses with internet access decreased by 0.4 percentage points. In 2010–11, around a third of micro businesses and 53.8 per cent of other small businesses had a web presence. This seems to suggest that e-commerce adoption by small businesses remains at a relatively early stage. In the same period, 24.4 per cent of micro businesses and 32.3 per cent of other small businesses received orders via the internet (see Table 23).

Table 23: Summary of information technology in Australian businesses, 2009–10 to 2010–11

Employment size	Businesses with internet access	Businesses with web presence	Businesses with internet access and broadband as main type of internet connection	Businesses which placed orders via the internet	Businesses which received orders via the internet
2009-10	%	%	%	%	%
0-4 persons	87.3	29.2	96.9	39.8	21.0
5-19 persons	93.7	51.5	97.2	54.4	29.4
20-199 persons	96.4	73.0	97.3	63.3	33.5
200 or more persons	99.2	94.0	98.6	72.6	33.8
2010-11	%	%	%	%	%
0-4 persons	89.1	33.2	99.0	43.8	24.4
5-19 persons	93.3	53.8	99.2	59.5	32.3
20-199 persons	98.2	73.9	99.0	68.7	38.4
200 or more persons	100.0	97.3	99.7	81.1	38.2

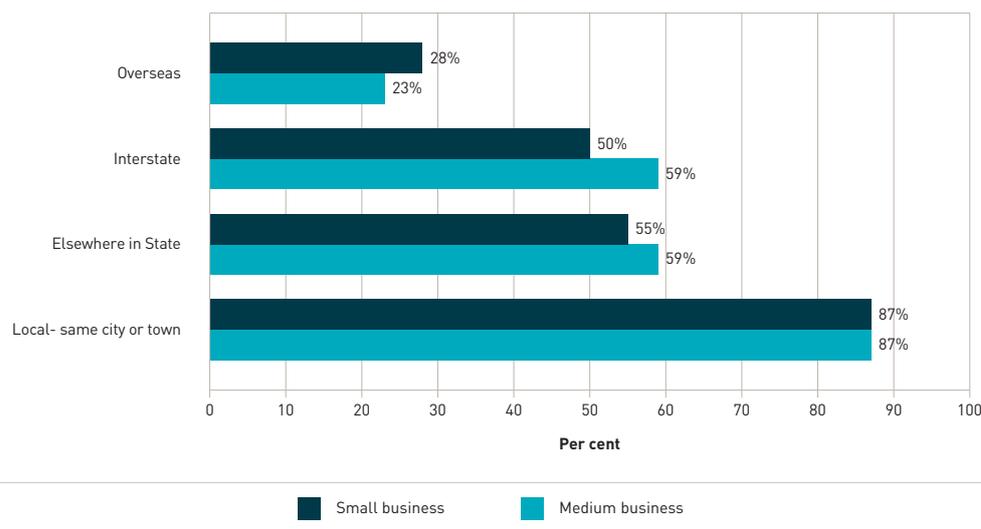
Data source: ABS Cat. No. 8166.0, Data Cube 1, Table 1

The Sensis e-Business report (2012)⁵¹ found that 92 per cent of SMEs were connected to the internet. Of the SMEs without internet connection, five per cent of SMEs did not have internet connection because they did not own a computer. Of those SMEs connected to the internet, 38 per cent reported that they used the internet for advertising and only 15 per cent reported having an actual digital business strategy.

According to the National Australia Bank Online Retail Sales Index (all business sizes), the value of online retail sales in Australia for the year to July 2012 was \$11.7 billion which is 5.3 per cent of traditional retail sales. Domestic online retailers accounted for around 72 per cent of total online sales.⁵²

Despite e-commerce enabling SMEs to reach the global marketplace, the Sensis e-Business report (2012) notes that most sales made using e-commerce are still relatively close to the location of the business. Generally, greater distance to a customer reduces the likelihood that an SME would sell to them. Figure 37 shows that 87 per cent of both small and medium businesses reported selling locally, as opposed to 28 per cent of small and 23 per cent of medium businesses which reported selling overseas.

Figure 37: Geographic locations of customers of small and medium businesses



Data source: Sensis (2012).

Text description: see Appendix C.

The proportion of SMEs with a website was 62 per cent, and a further seven per cent of SMEs indicated an intention to have one within the next 12 months. Seventy-two per cent of SMEs with websites reported that having a website had improved the effectiveness of their business.

According to the MYOB July 2012 Business Monitor⁵³, the proportion of businesses with a website (web presence) has remained relatively constant over the last four waves of the survey, although a slight rise has been recorded to 38 per cent in May 2012, from 36 per cent in February 2012. In the year to May 2012, 23 per cent of those with a business website experienced revenue increases, compared to 15 per cent of those without one. The comparable responses in March 2012 were further apart—at 27 per cent and 17 per cent respectively.

51 Sensis (2012).

52 NAB Online Retail Sales Index, In-depth Report–July 2012.

53 July 2012 MYOB Business Monitor presents the summary findings for key indicators from a national survey of 1004 small and medium businesses in May 2012. Businesses with 0 to 199 employees fell in this category.

In addition, this survey also found that businesses with a website were also more likely to:

- Have more sales than usual in their three-month pipeline: 34 per cent of firms with a website expect such a boost compared to 26 per cent of firms without a website.
- Intend to increase staff numbers this year (24 per cent versus 13 per cent).

Looking ahead, 35 per cent of business operators with a website expected revenue to increase in the year ending May 2013, compared to only 25 per cent of business operators without a website.

Thirty-seven per cent of online business operators reported their website had increased customer leads and 30 per cent said it enabled them to compete more effectively.

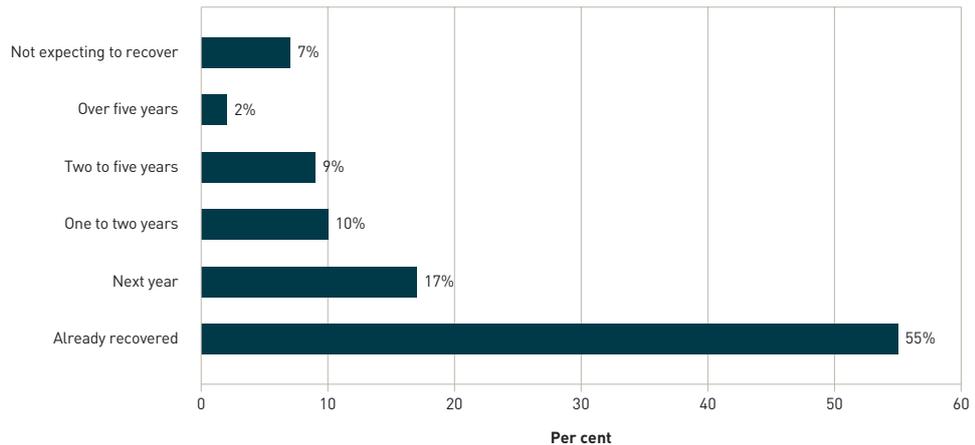
Thirty-two per cent grew their revenue/income as a result, and customer interaction had improved for 34 per cent of SME owners, while 33 per cent said they enjoyed better conversion of leads to sales as a result.

SME INVESTMENT IN E-COMMERCE

Figure 38 shows that 55 per cent of SMEs reported they had recovered their investment in e-commerce. A further 17 per cent of SMEs who have invested in an e-commerce strategy reported that they expect to recover their investment in the following year.

Forming a business case for e-commerce investments is regarded as important, but when asked what the return on investment was, the most frequent response by SMEs (37 per cent) was that they did not know. Of those SMEs who did know the return on investment, these figures were skewed towards the extremes, with the most frequent response being a return on investment of more than 50 per cent, as reported by 41 per cent of SMEs. Conversely, 21 per cent of SMEs who had calculated their return on investment reported that they had achieved a return of less than five per cent.

Figure 38: When will investment be recovered?



Data source: Sensis (2012).

Text description: see Appendix C.

SOCIAL MEDIA

Social media are primarily internet and mobile-based tools for sharing and discussing information. They utilise highly accessible and scalable communication techniques and have the ability to turn communication into interactive dialogue⁵⁴.

Sensis (2012) reported that 26 per cent of small businesses (compared with 41 per cent of medium businesses⁵⁵) have a social media presence. Overall, 49 per cent of SMEs that used social media reported that its impact on their business was positive.

MYOB July 2012 Business Monitor report found social media usage remained relatively steady among small and medium businesses. Only 16 per cent of businesses surveyed reported that they used social media in some way for business—compared with 21 per cent in March 2012.

The most popular social media activities for business were as follows:

- 15% connect with customers and fans via a business page on Facebook, YouTube or Google+
- 9% share news and updates via a company blog
- 5% communicate via micro-blogging sites such as Twitter.

54 Wikipedia, Social Media, Accessed at: http://en.wikipedia.org/wiki/Social_media.

55 Sensis defines a business with less than 20 employees to be small and those with between 20 and 199 employees as medium.

■ APPENDIX A

STATISTICAL DEFINITIONS AND EXPLANATORY NOTES

General cautionary notes:

- This is not a complete and representative list of definitions and methodologies. Please refer to original sources for further definition and methodology information.
- Special attention should be paid to the different definitions applied to the indicators. There are comparability issues between indicators due to the different definitions and methodologies employed by the organisations producing the statistics. It is generally best practise to refer to these definitions when reporting on the indicators.

	Definition	Notes	Source
Industry value added (private sector)	The ABS describes industry value added as the measure of the contribution by businesses, in the selected industry, to gross domestic product. It represents the value added by an industry to the intermediate inputs used by the industry.	Excludes financial and insurance services, and the general government component of public administration and safety, education and training and health care and social assistance. For this reason, this indicator is described as "private sector industry value added" throughout this publication. This publication includes DIISRTE calculations based on the source.	Further detailed information is available from ABS Cat. No. 8155.0
Employment (private sector)	The ABS describes employment as the number of persons working for businesses during the last pay period ending in June of the given year.	Excludes financial and insurance services, and the general government component of public administration and safety, education and training and health care and social assistance. For this reason, this indicator is described as "private sector employment" throughout this publication. This publication includes DIISRTE calculations based on the source.	Further detailed information is available from ABS Cat. No. 8155.0
Small business exporters	The ABS defines small exporters as having fewer than 20 payees and estimated annual GST turnover range less than \$1m and exports of less than \$1m during the reference period.	It is important to note that a non-standard definition of small businesses has been used in this case.	Further detailed information is available from ABS Cat. No. 5368.0.55.006.
Business size	Unless otherwise stated, the statistics contained in this publication are based on the ABS definitions of small, medium and large businesses outlined in this appendix. The employment size ranges used for these ABS definitions are based on "headcount", rather than a measure of full-time equivalent persons.	It is important to note that no single definition of a small business will suit all the needs of government or the private sector. This is reflected in the many different ways a small business can be defined. The two most common ways of defining an Australian small business are by annual turnover or income, the number of employees, or a combination of the two.	Further detailed information is available from ABS Cat. No. 8165.0

	Definition	Notes	Source
Small businesses	For statistical purposes, the ABS defines a small business as an actively trading business with 0–19 employees.	ABS counts of small businesses only include those that are actively trading (refer to actively trading businesses). Micro businesses are small businesses with 0–4 employees. Small businesses with 5–19 employees are referred to as other small businesses throughout this publication.	Further detailed information is available from ABS Cat. No. 8165.0
Medium businesses	For statistical purposes, the ABS defines a medium business as an actively trading business with 20–199 employees.	ABS counts of medium businesses only include those that are actively trading (refer to actively trading businesses).	Further detailed information is available from ABS Cat. No. 8165.0
Large businesses	For statistical purposes, the ABS defines a large business as an actively trading business with 200+ employees.	ABS counts of large businesses only include those that are actively trading (refer to actively trading businesses).	Further detailed information is available from ABS Cat. No. 8165.0
Actively trading businesses	<p>ABS counts of businesses only include those that are actively trading in the economy.</p> <p>The ABS notes, ‘... various entities are excluded, such as those without an active ABN, those without an active GST role, those no longer actively remitting GST and those not operating in the market sector. These exclusions aim to ensure that only those businesses who are actively trading in the economy are included in the counts’.</p>	<p>ABN</p> <p>Only businesses that have registered for an Australian Business Number are included in the business counts.</p> <p>GST</p> <p>Business counts exclude businesses which have not submitted a Business Activity Statement and/or have reported zero dollar amounts over five consecutive quarters (or three consecutive years for annual remitters).</p> <p>In June 2010, the ABS implemented a new methodology for identifying annual long term non remitters of GST. This change has “resulted in a more accurate count of active businesses, and in particular, the small business sector”. However, this change in methodology has resulted in a noticeable increase in the business counts in June 2010. Caution needs to be taken when comparing data from June 2010 with previous years.</p> <p>Market sector</p> <p>In order to focus on businesses operating in the market sector, a number of institutions, industry sectors and types of legal organisations are excluded from the business counts.</p> <p>These are not listed here, however, it is important to note that the general government component of public administration and safety, education and training and health care and social assistance are excluded.</p>	Further detailed information is available from ABS Cat. No. 8165.0
Non-employed business	The ABS describes a non-employed business (i.e. a business with 0 employees) as a business without an active Income Tax Withholding (ITW) role or which has not remitted ITW for five consecutive quarters.	Throughout this publication, there may be references to non-employed and employing businesses. The ABS definition has been used in these cases.	Further detailed information is available from ABS Cat. No. 8165.0
Business entries	A business entry is defined as a business which is actively trading on the business register as at 1 June in the reference year, but not actively trading as at 1 June the previous year.	Business entries occur when a there is a new business registration for an ABN or when the business is allocated a GST role.	Further detailed information is available from ABS Cat. No. 8165.0

	Definition	Notes	Source
Business exits	A business exit is defined as a business which was actively trading on the business register as at 1 June in the previous year, but not actively trading as at 1 June in the reference year.	Business exits occur when the ABN or GST role for a business ceases or when the business ceases remitting in respect of GST for at least five quarters (or 3 years for annual remitters). It is important to note that a business exit is not the same as a business failure. There are a number of reasons why a business may exit, including the sale of a business or changes to a business structure. Either of these occurrences would result in a business exit, but neither would count as a business failure.	Further detailed information is available from ABS Cat. No. 8165.0
Inflow/outflow at end of financial year	The number of surviving businesses that have changed their classification to/from the classification of interest.	The ABS introduced these measures to account for businesses changing their size category over time. For example, a business that was non-employed in 2009–10 and takes on 3 employees in 2010–11 will be an outflow from the non-employed category and an inflow to the 1–4 employing category in 2010–11.	Further detailed information is available in the Technical Notes of ABS Cat. No. 8165.0.
Net movement of surviving businesses	The net count of surviving businesses for each size range (i.e. employment or turnover size ranges).	The net movement of surviving businesses is calculated by taking the total inflow at the end of the financial year minus total outflow at the end of the financial year.	Further details information is available in the Technical Notes of ABS Cat. No. 8165.0.
Survival rates	A surviving business is defined as a business which is active on the ABS Business Register as at 1 June of the current year and also active in the reference or base year.	Similarly to business exits, survival rates cannot be used to indicate business failures, and should be used with care. Statistics on survival rates should not be taken to imply that businesses that “survive” are necessarily successful or that businesses that cease operation or do not “survive” are necessarily failures. Similarly to business exit statistics, there are a range of reasons for why businesses continue operating, not all of which can be considered measures of success.	Further detailed information is available from ABS Cat. No. 8165.0
Independent contractors	According to the ABS, independent contractors are persons who operate their own business and who contract to perform services for others without having the legal status of an employee.		Further detailed information is available from ABS Cat. No. 6359.0.
Other business operators	According to the ABS, other business operators are people who operate their own business, with or without employees, but who are not operating as independent contractors.		Further detailed information is available from ABS Cat. No. 6359.0.
Micro entities (ATO)	Not to be confused with the ABS definitions. This definition is only applied to the ATO data. According to the ATO, micro entities are defined as having a turnover of more than \$1 and less than \$2 million in a financial year.	This definition is used by the Australian Taxation office. ATO data includes companies, trusts, superannuation funds, partnerships and sole traders. It is important to note that counts of micro entities will include entities that are not actively trading in the economy. Therefore, they are not comparable with other ABS products.	Further detailed information is available from the ATO Compliance Program.

	Definition	Notes	Source
Main State	ABS defines Main State as 'For businesses in the non profiled population, Main State refers to the state or territory of the main business address. For businesses in the profiled population, Main State refers to the state or territory with the highest employment'.		Further detailed information is available from ABS Cat. No. 8165.0
Industry	Industries are based on the Australian and New Zealand Standard Industrial Classification (ANZSIC) 2006.	This publication includes information by industry sector. The level of detail remains at the Division code level, e.g. agriculture, forestry and fishing (Division A), mining (Division B), manufacturing (Division C), etc. Services industries include all Divisions that are not agriculture, forestry and fishing, mining and manufacturing (i.e. Divisions D to S).	Further detailed information is available from ABS Cat. No. 1292.0.
Low skilled occupations	Low skilled occupations have been taken to include the occupations of machinery operators and drivers and labourers.	This is a DIISRTE definition.	Further detailed information is available from ABS Cat. No. 6291.0.55.003.
Medium skilled occupations	Medium skilled occupations have been taken to include the occupations of technicians and tradespersons, community and personal service workers, clerical and administrative workers and sales workers.	This is a DIISRTE definition.	Further detailed information is available from ABS Cat. No. 6291.0.55.003.
High skilled occupations	High skilled occupations have been taken to include the occupations of managers and professionals.	This is a DIISRTE definition.	Further detailed information is available from ABS Cat. No. 6291.0.55.003.
Commonwealth electoral divisions (CED)	The Commonwealth electoral divisions are ABS approximations of the 2011 federal electoral divisions.	The ABS approximates the CEDs by aggregating the data for Statistical Areas Level 1 (SA1) that best fit the area. Statistical Areas Level 1 (SA1) are the smallest geographic regions on which 2011 Census of Population and Housing data is provided. They have an average population of about 400 and there are approximately 55,000 covering the whole of Australia.	Further detailed information on the ABS statistical areas is available from ABS Cat. No. 1270.0.55.001.
Local government area (LGA)	A Local Government Area is a geographical area under the responsibility of an incorporated local government council, or an incorporated Indigenous government council.	The LGAs in Australia collectively cover only a part of Australia. The main areas not covered by LGAs are northern parts of South Australia, a large part of the Northern Territory, the western division of New South Wales, all of the Australian Capital Territory and the Other Territories. The number of LGAs and their boundaries can change over time. Their creation and delimitation is the responsibility of the respective state/territory governments, and are governed by the provisions of state/territory local government and other relevant Acts.	Further detailed information on the ABS statistical areas is available from ABS Cat. No. 1270.0.55.001.

■ APPENDIX B

ACTIVELY TRADING SMALL BUSINESSES BY REGION

ACTIVELY TRADING SMALL BUSINESSES BY ELECTORAL DIVISION

Federal electoral division	No of small businesses	No of small businesses in state/territory*	Federal electoral division	No of small businesses	No of small businesses in state/territory*
ACT					
Canberra	13900	24377	Fraser	11900	24377
New South Wales					
Banks	13400	680056	Lyne	10300	680056
Barton	13700	680056	Macarthur	11000	680056
Bennelong	14100	680056	Mackellar	17400	680056
Berowra	14000	680056	Macquarie	11900	680056
Blaxland	13800	680056	McMahon	12000	680056
Bradfield	16400	680056	Mitchell	14700	680056
Calare	13200	680056	New England	15500	680056
Charlton	7200	680056	Newcastle	10400	680056
Chifley	7300	680056	North Sydney	26800	680056
Cook	14700	680056	Page	11600	680056
Cowper	10800	680056	Parkes	16900	680056
Cunningham	10200	680056	Parramatta	16200	680056
Dobell	8800	680056	Paterson	9100	680056
Eden-Monaro	12000	680056	Reid	19200	680056
Farrer	13000	680056	Richmond	13000	680056
Fowler	8900	680056	Riverina	14800	680056
Gilmore	9000	680056	Robertson	11000	680056
Grayndler	14800	680056	Shortland	7100	680056
Greenway	11400	680056	Sydney	56400	680056
Hughes	11100	680056	Throsby	8400	680056
Hume	14000	680056	Warringah	19300	680056
Hunter	9600	680056	Watson	15900	680056
Kingsford Smith	14500	680056	Wentworth	24300	680056
Lindsay	10400	680056	Werriwa	9800	680056
Northern Territory					
Lingiari	6800	13629	Solomon	9600	13629
Queensland					
Blair	7900	411961	Hinkler	8900	411961
Bonner	12300	411961	Kennedy	17100	411961
Bowman	11600	411961	Leichhardt	14000	411961
Brisbane	29100	411961	Lilley	11900	411961
Capricornia	12600	411961	Longman	9200	411961
Dawson	13800	411961	Maranoa	20500	411961
Dickson	10800	411961	Mcperson	15300	411961
Fadden	15200	411961	Moncrieff	22100	411961
Fairfax	15000	411961	Moreton	14400	411961

Federal electoral division	No of small businesses	No of small businesses in state/territory*	Federal electoral division	No of small businesses	No of small businesses in state/territory*
Fisher	13000	411961	Oxley	8700	411961
Flynn	15500	411961	Petrie	8500	411961
Forde	11400	411961	Rankin	11600	411961
Griffith	15800	411961	Ryan	14500	411961
Groom	12100	411961	Wide Bay	13700	411961
Herbert	9800	411961	Wright	13500	411961
South Australia					
Adelaide	29800	142176	Makin	7300	142176
Barker	15900	142176	Mayo	12600	142176
Boothby	9800	142176	Port Adelaide	14800	142176
Grey	15400	142176	Sturt	13100	142176
Hindmarsh	11000	142176	Wakefield	9100	142176
Kingston	9300	142176			
Tasmania					
Bass	7900	36777	Franklin	6100	36777
Braddon	7700	36777	Lyons	7800	36777
Denison	10300	36777			
Victoria					
Aston	11300	522896	Hotham	14000	522896
Ballarat	11100	522896	Indi	13700	522896
Batman	11000	522896	Isaacs	12700	522896
Bendigo	10600	522896	Jagajaga	11700	522896
Bruce	13000	522896	Kooyong	19300	522896
Calwell	12000	522896	La Trobe	12200	522896
Casey	11700	522896	Lalor	12200	522896
Chisholm	14000	522896	Mallee	14700	522896
Corangamite	11700	522896	Maribyrnong	11300	522896
Corio	10100	522896	Mcewen	16100	522896
Deakin	11500	522896	Mcmillan	13900	522896
Dunkley	11600	522896	Melbourne	40500	522896
Flinders	12800	522896	Melbourne Ports	27600	522896
Gellibrand	11800	522896	Menzies	13300	522896
Gippsland	13700	522896	Murray	14000	522896
Goldstein	16600	522896	Scullin	9600	522896
Gorton	11900	522896	Wannon	14100	522896
Higgins	20000	522896	Wills	11400	522896
Holt	10900	522896			
Western Australia					
Brand	8700	212205	Moore	15200	212205
Canning	10700	212205	O'Connor	19800	212205
Cowan	12400	212205	Pearce	13700	212205
Curtin	22400	212205	Perth	22300	212205
Durack	13500	212205	Stirling	14300	212205
Forrest	12800	212205	Swan	15300	212205
Fremantle	13300	212205	Tangney	13800	212205
Hasluck	11000	212205			

* State totals are published totals. Proportions may not sum due to rounding

Data source: ABS Counts of Australian Businesses, including Entries and Exits (ABS Cat. No. 8165.0); ABS correspondence table CG_SA2_2011_ABS_CED_2011. Notes: Please see notes for the above table at the end of Appendix B.

ACTIVELY TRADING SMALL BUSINESSES BY LOCAL GOVERNMENT AREA

Local Government Area	No of small businesses	No of small businesses in state/territory*	Local Government Area	No of small businesses	No of small businesses in state/territory*
ACT					
Unincorporated ACT	24680	24377			
New South Wales					
Albury (C)	4180	680056	Greater Hume Shire (A)	15030	680056
Armidale Dumaresq (A)	2240	680056	Greater Taree (C)	1730	680056
Ashfield (A)	3780	680056	Griffith (C)	7430	680056
Auburn (C)	7960	680056	Gundagai (A)	1610	680056
Ballina (A)	4020	680056	Gunnedah (A)	220	680056
Balranald (A)	270	680056	Guyra (A)	510	680056
Bankstown (C)	15870	680056	Gwydir (A)	2250	680056
Bathurst Regional (A)	3150	680056	Harden (A)	1570	680056
Bega Valley (A)	2860	680056	Hawkesbury (C)	5500	680056
Bellingen (A)	1170	680056	Hay (A)	13000	680056
Blacktown (C)	17390	680056	Holroyd (C)	1060	680056
Bland (A)	820	680056	Hornsby (A)	15030	680056
Blayney (A)	730	680056	Hunters Hill (A)	1730	680056
Blue Mountains (C)	5490	680056	Hurstville (C)	7430	680056
Bogan (A)	460	680056	Inverell (A)	1610	680056
Bombala (A)	380	680056	Jerilderie (A)	220	680056
Boorowa (A)	330	680056	Junea (A)	510	680056
Botany Bay (C)	4230	680056	Kempsey (A)	2250	680056
Bourke (A)	280	680056	Kiama (A)	1570	680056
Brewarrina (A)	180	680056	Kogarah (C)	5500	680056
Broken Hill (C)	1000	680056	Ku-ring-gai (A)	13000	680056
Burwood (A)	3920	680056	Kyogle (A)	1060	680056
Byron (A)	3970	680056	Lachlan (A)	1060	680056
Cabonne (A)	1610	680056	Lake Macquarie (C)	11470	680056
Camden (A)	4580	680056	Lane Cove (A)	4150	680056
Campbelltown (C)	12200	680056	Leeton (A)	1000	680056
Canada Bay (A)	8490	680056	Leichhardt (A)	7170	680056
Canterbury (C)	12610	680056	Lismore (C)	4070	680056
Carrathool (A)	460	680056	Lithgow (C)	1710	680056
Central Darling (A)	190	680056	Liverpool (C)	13230	680056
Cessnock (C)	2690	680056	Liverpool Plains (A)	950	680056
Clarence Valley (A)	3960	680056	Lockhart (A)	340	680056
Cobar (A)	400	680056	Maitland (C)	4500	680056
Coffs Harbour (C)	5380	680056	Manly (A)	5140	680056
Conargo (A)	180	680056	Marrickville (A)	7640	680056
Coolamon (A)	470	680056	Mid-Western Regional (A)	2420	680056
Cooma-Monaro (A)	1100	680056	Moree Plains (A)	1560	680056
Coonamble (A)	580	680056	Mosman (A)	4020	680056

Local Government Area	No of small businesses	No of small businesses in state/territory*	Local Government Area	No of small businesses	No of small businesses in state/territory*
Cootamundra (A)	760	680056	Murray (A)	590	680056
Cootamundra (A)	760	680056	Murrumbidgee (A)	400	680056
Corowa Shire (A)	1140	680056	Muswellbrook (A)	980	680056
Cowra (A)	1080	680056	Nambucca (A)	1460	680056
Deniliquin (A)	640	680056	Narrabri (A)	1420	680056
Dubbo (C)	3460	680056	Narrandera (A)	570	680056
Dungog (A)	1020	680056	Narromine (A)	900	680056
Eurobodalla (A)	2900	680056	Newcastle (C)	10910	680056
Fairfield (C)	13970	680056	North Sydney (A)	13340	680056
Forbes (A)	1140	680056	Oberon (A)	670	680056
Gilgandra (A)	620	680056	Orange (C)	2840	680056
Glen Innes Severn (A)	1120	680056	Palerang (A)	1630	680056
Gloucester (A)	730	680056	Parkes (A)	1330	680056
Gosford (C)	12920	680056	Parramatta (C)	15760	680056
Goulburn Mulwaree (A)	2360	680056	Penrith (C)	12320	680056
Great Lakes (A)	2540	680056	Pittwater (A)	8540	680056
Port Macquarie-Hastings (A)	5880	680056	Upper Lachlan Shire (A)	1010	680056
Port Stephens (A)	4170	680056	Urana (A)	130	680056
Queanbeyan (C)	2670	680056	Uralla (A)	660	680056
Randwick (C)	11610	680056	Wagga Wagga (C)	4920	680056
Richmond Valley (A)	1660	680056	Wakool (A)	470	680056
Rockdale (C)	9120	680056	Walcha (A)	630	680056
Ryde (C)	9790	680056	Walgett (A)	680	680056
Shellharbour (C)	2870	680056	Warren (A)	430	680056
Shoalhaven (C)	6490	680056	Warringah (A)	16100	680056
Singleton (A)	1800	680056	Warrumbungle Shire (A)	1180	680056
Snowy River (A)	920	680056	Waverley (A)	8950	680056
Strathfield (A)	0	680056	Weddin (A)	520	680056
Sutherland Shire (A)	1670	680056	Wellington (A)	850	680056
Sydney (C)	1010	680056	Wentworth (A)	740	680056
Tamworth Regional (A)	130	680056	Willoughby (C)	11160	680056
Temora (A)	660	680056	Wingecarribee (A)	5100	680056
Tenterfield (A)	4920	680056	Wollondilly (A)	3920	680056
The Hills Shire (A)	470	680056	Wollongong (C)	11770	680056
Tumbarumba (A)	630	680056	Woolahra (A)	9190	680056
Tumut Shire (A)	680	680056	Wyong (A)	8370	680056
Tweed (A)	430	680056	Yass Valley (A)	1710	680056
Unincorporated NSW	16100	680056	Young (A)	1360	680056
Upper Hunter Shire (A)	1670	680056			
Northern Territory					
Alice Springs (T)	1930	13629	MacDonnell (S)	30	13629
Barkly (S)	220	13629	Palmerston (C)	1690	13629
Belyuen (S)	10	13629	Palmerston (C)	1690	13629

Local Government Area	No of small businesses	No of small businesses in state/territory*	Local Government Area	No of small businesses	No of small businesses in state/territory*
Central Desert (S)	30	13629	Roper Gulf (S)	90	13629
Coomalie (S)	60	13629	Tiwi Islands (S)	0	13629
Darwin (C)	7620	13629	Unincorporated NT	450	13629
East Arnhem (S)	40	13629	Victoria-Daly (S)	70	13629
Katherine (T)	720	13629	Wagait (S)	20	13629
Litchfield (M)	2550	13629	West Arnhem (S)	90	13629
Queensland					
Aurukun (S)	0	411961	Gladstone (R)	3860	411961
Balonne (S)	780	411961	Gold Coast (C)	58530	411961
Banana (S)	2380	411961	Goondiwindi (R)	1760	411961
Barcardine (R)	560	411961	Gympie (R)	4400	411961
Barcoo (S)	60	411961	Hinchinbrook (S)	1310	411961
Blackall Tambo (R)	380	411961	Hope Vale (S)	50	411961
Boulia (S)	80	411961	Ipswich (C)	8220	411961
Brisbane (C)	109750	411961	Isaac (R)	1660	411961
Bulloo (S)	60	411961	Kowanyama (S)	10	411961
Bundaberg (R)	8230	411961	Lockhart River (S)	20	411961
Burdekin (S)	2210	411961	Lockyer Valley (R)	2880	411961
Burke (S)	20	411961	Logan (C)	20600	411961
Cairns (R)	16580	411961	Longreach (R)	630	411961
Carpentaria (S)	90	411961	Mackay (R)	11160	411961
Cassowary Coast (R)	4060	411961	Mapoon (S)	10	411961
Central Highlands (R)	3050	411961	Maranoa (R)	2370	411961
Charters Towers (R)	850	411961	McKinlay (S)	210	411961
Cherbourg (S)	130	411961	Moreton Bay (R)	26160	411961
Cloncurry (S)	240	411961	Mornington (S)	50	411961
Cook (S)	210	411961	Mount Isa (C)	970	411961
Croydon (S)	50	411961	Murweh (S)	660	411961
Diamantina (S)	40	411961	Napranum (S)	40	411961
Doomadgee (S)	60	411961	North Burnett (R)	1550	411961
Etheridge (S)	160	411961	Northern Peninsula Area (R)	40	411961
Flinders (M)	110	411961	Palm Island (S)	10	411961
Fraser Coast (R)	5870	411961	Paroo (S)	290	411961
Pormpuraaw (S)	0	411961	Toowoomba (R)	13830	411961
Quilpie (S)	150	411961	Torres (S)	230	411961
Redland (C)	11600	411961	Torres Strait Island (R)	40	411961
Richmond (S)	160	411961	Townsville (C)	11440	411961
Rockhampton (R)	7810	411961	Weipa (T)	140	411961
Scenic Rim (R)	4150	411961	Western Downs (R)	4540	411961
Somerset (R)	2050	411961	Whitsunday (R)	3390	411961
South Burnett (R)	3180	411961	Winton (S)	210	411961
Southern Downs (R)	4000	411961	Woorabinda (S)	70	411961
Sunshine Coast (R)	34530	411961	Wujal Wujal (S)	10	411961
Tablelands (R)	4580	411961	Yarrabah (S)	20	411961

Local Government Area	No of small businesses	No of small businesses in state/territory*	Local Government Area	No of small businesses	No of small businesses in state/territory*
South Australia					
Adelaide (C)	14380	142176	Berri and Barmera (DC)	1150	142176
Adelaide Hills (DC)	3940	142176	Burnside (C)	6090	142176
Alexandrina (DC)	1990	142176	Campbelltown (C)	12200	142176
Anangu Pitjantjatjara (AC)	1760	142176	Ceduna (DC)	390	142176
Barossa (DC)	2190	142176	Charles Sturt (C)	7920	142176
Barunga West (DC)	280	142176	Clare and Gilbert Valleys (DC)	1280	142176
Cleve (DC)	300	142176	Orroroo/Carrieton (DC)	110	142176
Cooper Pedy (DC)	160	142176	Peterborough (DC)	210	142176
Copper Coast (DC)	980	142176	Playford (C)	3140	142176
Elliston (DC)	200	142176	Port Adelaide Enfield (C)	9520	142176
Flinders Ranges (DC)	160	142176	Port Augusta (C)	610	142176
Franklin Harbour (DC)	220	142176	Port Lincoln (C)	1550	142176
Gawler (T)	1410	142176	Port Pirie City and Dists (M)	980	142176
Goyder (DC)	600	142176	Prospect (C)	1800	142176
Grant (DC)	790	142176	Renmark Paringa (DC)	960	142176
Holdfast Bay (C)	3140	142176	Robe (DC)	210	142176
Kangaroo Island (DC)	700	142176	Roxby Downs (M)	150	142176
Karoonda East Murray (DC)	190	142176	Salisbury (C)	8700	142176
Kimba (DC)	190	142176	Southern Mallee (DC)	400	142176
Kingston (DC)	340	142176	Streaky Bay (DC)	270	142176
Light (RegC)	1190	142176	Tatiara (DC)	1070	142176
Lower Eyre Peninsula (DC)	620	142176	Tea Tree Gully (C)	5490	142176
Loxton Waikerie (DC)	1240	142176	The Coorong (DC)	790	142176
Mallala (DC)	710	142176	Tumby Bay (DC)	340	142176
Maralinga Tjarutja (AC)	940	142176	Unincorporated SA	870	142176
Marion (C)	4530	142176	Unley (C)	5420	142176
Mid Murray (DC)	820	142176	Victor Harbor (C)	1020	142176
Mitcham (C)	4990	142176	Wakefield (DC)	770	142176
Mount Barker (DC)	2710	142176	Walkerville (M)	820	142176
Mount Gambier (C)	2160	142176	Wattle Range (DC)	1400	142176
Mount Remarkable (DC)	360	142176	West Torrens (C)	5060	142176
Murray Bridge (RC)	1350	142176	Whyalla (C)	810	142176
Naracoorte and Lucindale (DC)	1260	142176	Wudinna (DC)	240	142176
Northern Areas (DC)	650	142176	Yankalilla (DC)	480	142176
Norwood Payneham St Peters (C)	5660	142176	Yorke Peninsula (DC)	1290	142176
Onkaparinga (C)	10110	142176			

Local Government Area	No of small businesses	No of small businesses in state/territory*	Local Government Area	No of small businesses	No of small businesses in state/territory*
Tasmania					
Break O'Day (M)	550	36777	Huon Valley (M)	1140	36777
Brighton (M)	570	36777	Kentish (M)	470	36777
Burnie (C)	1280	36777	King Island (M)	310	36777
Central Coast (M)	1440	36777	Kingborough (M)	2410	36777
Central Highlands (M)	200	36777	Latrobe (M)	700	36777
Circular Head (M)	890	36777	Launceston (C)	5160	36777
Clarence (C)	2980	36777	Meander Valley (M)	1570	36777
Derwent Valley (M)	1020	36777	Northern Midlands (M)	1060	36777
Devonport (C)	1650	36777	Sorell (M)	850	36777
Dorset (M)	980	36777	Southern Midlands (M)	560	36777
Flinders (S)	350	36777	Tasman (M)	190	36777
George Town (M)	350	36777	Tasman (M)	190	36777
Glamorgan/Spring Bay (M)	420	36777	Waratah/Wynyard (M)	880	36777
Glenorchy (C)	3630	36777	West Coast (M)	910	36777
Hobart (C)	6130	36777	West Tamar (M)	1450	36777

* State totals are published totals. Proportions may not sum due to rounding.

Data source: ABS Counts of Australian Businesses, including Entries and Exits (ABS Cat. No. 8165.0); ABS correspondence table CG_SA2_2011_LGA_2011.

Notes: Statistical Area level 2 (SA2) figures are converted to CEDs using concordance table CG_SA2_2011_ABS_CED_2011. Statistical Area level 2 (SA2) figures are converted to LGAs using concordance table CG_SA2_2011_LGA_2011. These concordance tables are 2011 Mesh Block population weighted correspondence files. By employing this calculation method, an assumption has been made that the business data coded to SA2 is evenly distributed across the population. As such, these numbers should be used as estimates only and should be treated with caution.

The ABS randomly rounds figures at the disaggregated SA2 levels (to ensure confidentiality, etc). As such, these numbers should be used as estimates only and should be treated with caution.

Total calculated by summing the figures in each CED/LGA does not match the official totals published by the ABS in ABS Cat. No. 8165.0. When reporting on total business numbers in Australia, these official numbers should be used. Variance is due to rounding.

Businesses are classified to the SA2 level according to the main business address given when registering their ABN. This does not guarantee that the business operates exclusively in this SA2. Also, it should not be assumed that the business count at the SA2 level reflects all business operations within that SA2.

DIISRTE has rounded CED figures to the nearest hundred and LGA numbers to the nearest ten.

■ APPENDIX C

TEXT DESCRIPTIONS OF FIGURES

FIGURE 1

Figure 1 is a bar chart displaying the outcome distributions for all CAUSEE participants that have known status 36 months after the initial interview.

For nascent firms, 31 per cent reached an operational state, 34 per cent are still trying to achieve venture creation, 35 per cent have terminated.

For young firms, 78 per cent reached an operational state, 8 per cent are still trying to achieve venture creation, 14 per cent have terminated.

FIGURE 2

Figure 2 is a bar chart displaying the outcome distributions for nascent firms by type of firm (i.e. product/service) after 36 months.

For product-based nascent firms:

- 25 per cent reached an operational state
- 35 per cent are still trying to achieve venture creation
- 40 per cent have terminated.

For service-based nascent firms:

- 36 per cent reached an operational state
- 34 per cent are still trying to achieve venture creation
- 31 per cent have terminated.

FIGURE 3

Figure 3 is a bar chart displaying employment for both nascent and young firms at the time of first sampling (wave 1).

For nascent firms:

- 87 per cent didn't hire any employees
- 12 per cent had 1 to 19 employees
- 1 per cent had 20 to 199 employees.

For young firms:

- 64 per cent didn't hire any employees
- 34 per cent had 1 to 19 employees
- 2 per cent had 20 to 199 employees.

FIGURE 4

Figure 4 is a bar chart classifying team start-ups into three gender categories: male only (solo or team), female only (solo or team), and a mixed-gender team.

For nascent firms:

- 37 per cent were male only
- 29 per cent were female only
- 33 per cent were mixed-gender.

For young firms:

- 40 per cent were male only
- 26 per cent were female only
- 34 per cent were mixed-gender.

FIGURE 5

Figure 5 is a line chart displaying firms' participation in imports and exports over time.

For nascent firms:

- 14 per cent imported goods/services and 27 per cent sold internationally in wave 1.
- 23 per cent imported goods/services and 17 per cent sold internationally in wave 2.
- 24 per cent imported goods/services and 19 per cent sold internationally in wave 3.
- 21 per cent imported goods/services and 23 per cent sold internationally in wave 4.

For young firms:

- 24 per cent imported goods/services and 20 per cent sold internationally in wave 1.
- 20 per cent imported goods/services and 20 per cent sold internationally in wave 2.
- 22 per cent imported goods/services and 19 per cent sold internationally in wave 3.
- 19 per cent imported goods/services and 19 per cent sold internationally in wave 4.

FIGURE 6

Figure 6 is a bar chart displaying the proportion of nascent firms that sought or received external funding.

- 25 per cent of nascent firms sought external funding and 75 per cent didn't seek external funding.
- 57 per cent of nascent firms received external funding and 43 per cent didn't receive external funding.

FIGURE 7

Figure 7 is a line chart displaying the estimated total novelty of nascent and young firms over time. For nascent firms, a novelty score of 3.9 was reported in wave 1; 3.3 in wave 2; and 2.9 in wave 3. For young firms, a novelty score of 2.4 was reported in wave 1; 2.0 in wave 2; and 1.9 in wave 3.

FIGURE 8

Figure 8 is a bar chart displaying the proportion of sales that early-stage nascent firms generate online, or expect to generate online.

For product-based nascent firms:

- 54 per cent reported zero actual/expected sales generated online
- 20 per cent reported 25 per cent of actual/expected sales were generated online
- 10 per cent reported 50 per cent of actual/expected sales were generated online
- 6 per cent reported 75 per cent of actual/expected sales were generated online
- 10 per cent reported 100 per cent of actual/expected sales were generated online.

For service-based nascent firms:

- 71 per cent reported zero actual/expected sales generated online
- 14 per cent reported 25 per cent of actual/expected sales were generated online
- 5 per cent reported 50 per cent of actual/expected sales were generated online
- 5 per cent reported 75 per cent of actual/expected sales were generated online
- 5 per cent reported 100 per cent of actual/expected sales were generated online.

FIGURE 9

This pie chart shows the contribution to private industry value added in 2010–11 by small, medium and large businesses. Small businesses contributed 33.7 per cent, medium businesses contributed 23.4 per cent and large businesses contributed 42.9 per cent.

FIGURE 10

This pie chart shows the contribution to small business private industry value added by industry sector in 2010–11. *Agriculture, forestry and fishing* contributed 5.9 per cent to small business industry value added, *mining* contributed 3.7 per cent, *manufacturing* contributed 6.6 per cent and *services* contributed 83.9 per cent.

FIGURE 11

This pie chart shows the contribution to employment as at the end of June 2011 by small, medium and large businesses. Small businesses contributed 45.7 per cent to employment, medium businesses contributed 24.3 per cent and large businesses contributed 29.9 per cent.

FIGURE 12

This pie chart shows the contribution to small business employment as at the end of June 2011 by industry. *Agriculture, forestry & fishing* accounted for 9.1 per cent of small business employment, *mining* accounted for 0.5 per cent, *manufacturing* accounted for 6.0 per cent and *services* accounted for 84.4 per cent.

FIGURE 13

This bar chart shows the number of small, medium and large goods exporters over time.

- There were 16 613 small goods exporters in 2006–07, 17 017 in 2007–08, 16 540 in 2008–09, 17 521 in 2009–10 and 17 774 in 2010–11.
- There were 21 666 medium goods exporters in 2006–07, 21 670 in 2007–08, 20 787 in 2008–09, 20 857 in 2009–10 and 20 753 in 2010–11.
- There were 4375 large goods exporters in 2006–07, 4411 in 2007–08, 5932 in 2008–09, 4274 in 2009–10 and 4207 in 2010–11.

FIGURE 14

This bar chart displays the share of small business exporters by industry on the left-hand-axis and the annual per cent change in the number of small business exporters by industry on the right-hand-axis.

For share of small business exporters by industry in 2010–11:

- Wholesale trade accounted for 25.0 per cent
- Other accounted for 19.8 per cent
- Manufacturing accounted for 15.6 per cent
- Retail trade accounted for 8.6 per cent
- Construction accounted for 2.5 per cent
- Transport, postal and warehousing accounted for 2.3 per cent
- Agriculture, forestry and fishing accounted for 2.1 per cent
- Mining accounted for 0.7 per cent
- Other goods exporters without an ABN accounted for 23.2 per cent.

For annual per cent change in the number of small business exporters (2010–11 on 2009–10):

- The number of small business exporters in wholesale trade grew by 1.3 per cent
- Other grew by 1.2 per cent
- Manufacturing contracted by 3.5 per cent
- Retail trade grew by 1.5 per cent
- Construction contracted by 7.8 per cent
- Transport, postal and warehousing grew by 3.0 per cent
- Agriculture, forestry and fishing grew by 7.0 per cent
- Mining grew by 21.2 per cent
- Other goods exporters without an ABN grew by 5.4 per cent.

FIGURE 15

This bar chart displays the value of small business goods exports by industry in 2010–11. Proportion by industry is displayed on the left-hand-axis and annual per cent change is displayed on the right-hand-axis.

For share of small business export values by industry in 2010–11:

- Wholesale trade accounted for 32.9 per cent
- Other accounted for 20.8 per cent
- Manufacturing accounted for 18.1 per cent
- Retail trade accounted for 6.8 per cent
- Transport, postal and warehousing accounted for 3.7 per cent
- Agriculture, forestry and fishing accounted for 3.2 per cent
- Construction accounted for 2.4 per cent
- Mining accounted for 1.0 per cent
- Other goods exporters without an ABN accounted for 11.0 per cent.

For annual per cent change in the value of small business exports (2010–11 on 2009–10)

- The value of small business exports in wholesale trade grew by 1.5 per cent
- Other grew by 7.9 per cent
- Manufacturing grew by 4.7 per cent
- Retail trade grew by 9.1 per cent
- Transport, postal and warehousing grew by 17.9 per cent
- Agriculture, forestry and fishing contracted by 11.1 per cent
- Construction contracted by 3.2 per cent
- Mining grew by 9.1 per cent
- Other goods exporters without an ABN were unchanged.

FIGURE 16

This pie chart displays the distribution of business numbers by business sizes in June 2011. Small businesses accounted for 95.9 per cent of total businesses, medium businesses accounted for 3.8 per cent and large businesses accounted for 0.3 per cent.

FIGURE 17

This pie chart displays the distribution of business numbers by business sizes in June 2011 but includes more detail than Figure 16. Non-employing businesses accounted for 61.2 per cent of total businesses, employing micro businesses (1–4 employees) accounted for 23.9 per cent, other small businesses (5–19 employees) accounted for 10.8 per cent, medium businesses accounted for 3.8 per cent and large businesses accounted for 0.3 per cent.

FIGURE 18

This pie chart shows the proportion of small businesses that are accounted for by each state and territory. New South Wales accounted for 33.2 per cent of small businesses, Victoria accounted for 25.6 per cent, Queensland accounted for 20.1 per cent, South Australia accounted for 7.0 per cent, Western Australia accounted for 10.4 per cent, Tasmania accounted for 1.8 per cent, the Northern Territory accounted for 0.7 per cent, the Australian Capital Territory accounted for 1.2 per cent, with the remainder not classified to a state/territory accounting for 0.1 per cent.

FIGURE 19

Figure 19 displays four pie charts showing the state/territory composition of small businesses in each industry.

For agriculture, forestry and fishing:

New South Wales accounted for 29.9 per cent of small businesses operating in the *agriculture, forestry and fishing* sector, Victoria accounted for 23.2 per cent, Queensland accounted for 22.9 per cent, South Australia accounted for 10.1 per cent, Western Australia accounted for 10.0 per cent, Tasmania accounted for 3.1 per cent, Northern Territory accounted for 0.5 per cent, Australian Capital Territory accounted for 0.3 per cent, Unknown accounted for 0.0 per cent.

For manufacturing:

New South Wales accounted for 31.1 per cent of small businesses operating in the *manufacturing* sector, Victoria accounted for 27.2 per cent, Queensland accounted for 20.2 per cent, South Australia accounted for 7.4 per cent, Western Australia accounted for 10.8 per cent, Tasmania accounted for 1.8 per cent, Northern Territory accounted for 0.6 per cent, Australian Capital Territory accounted for 0.7 per cent, Unknown accounted for 0.2 per cent.

For mining:

New South Wales accounted for 19.9 per cent of small businesses operating in the *mining* sector, Victoria accounted for 10.5 per cent, Queensland accounted for 23.2 per cent, South Australia accounted for 6.3 per cent, Western Australia accounted for 36.8 per cent, Tasmania accounted for 1.8 per cent, Northern Territory accounted for 1.1 per cent, Australian Capital Territory accounted for 0.3 per cent, Unknown accounted for 0.1 per cent.

For services:

New South Wales accounted for 33.8 per cent of small businesses operating in the *services* sectors, Victoria accounted for 25.8 per cent, Queensland accounted for 19.8 per cent, South Australia accounted for 6.6 per cent, Western Australia accounted for 10.3 per cent, Tasmania accounted for 1.7 per cent, Northern Territory accounted for 0.7 per cent, Australian Capital Territory accounted for 1.3 per cent, Unknown accounted for 0.0 per cent.

FIGURE 20

This bar chart displays the small business “survival rates” by state/territory between June 2007 and June 2011.

The Northern Territory reported the lowest survival rate during this period (54.3 per cent), followed by the Australian Capital Territory (55.7 per cent), Queensland (57.8 per cent) and Western Australia (58.9 per cent). The highest survival rates were reported by Tasmania (62.5 per cent), followed closely by South Australia (62.4 per cent), Victoria (60.7 per cent) and New South Wales (59.8 per cent).

Figure 20 also shows the number of businesses that were operating in each state and territory in June 2007 that ceased operating by June 2011. New South Wales reported that 269 065 small businesses that were operating in June 2007 had ceased operation by June 2011, Victoria reported 195 292 small businesses, Queensland reported 169 421, South Australia reported 52 986, Western Australia reported 82 913, Tasmania reported 13 939, the Northern Territory reported 6028 and the Australian Capital Territory reported 10 538.

FIGURE 21

This bar chart displays the percentage of businesses operating at the end of June 2007 that continued to operate to June 2011 across the major industries. For agriculture, forestry and fishing, 69.5 per cent of small businesses, 79.9 per cent of medium businesses and 60.5 per cent of large businesses continued to operate over this time period. For mining, 59.8 per cent of small businesses, 62.8 per cent of medium businesses and 66.1 per cent of large businesses continued to operate. For manufacturing, 60.7 per cent of small businesses, 79.1 per cent of medium businesses and 61.8 per cent of large businesses continued to operate. For services, 59.0 per cent of small businesses, 74.0 per cent of medium businesses and 63.2 per cent of large businesses continued to operate.

FIGURE 22

These two pie charts display the gender distribution of independent contractors and other business operators as at November 2011. Males accounted for 72.6 per cent of independent contractors and females accounted for 27.4 per cent. Males accounted for 61.8 per cent of other business operators and females accounted for 38.2 per cent.

FIGURE 23

This line chart shows NAB and ACCI business conditions over the five years to the June quarter 2012. Over the past five years, ACCI business conditions for all businesses have been generally more positive than small business conditions. NAB business conditions for all businesses were slightly negative in the June quarter 2012 but SME business conditions were more negative in comparison. Figure 23 shows the deteriorating conditions associated with the global financial crisis. Prior to this period, small businesses were experiencing positive conditions with the index consistently above the neutral level. Although improving to positive conditions towards the end of 2009, subsequent surveys reported a worsening in conditions.

FIGURE 24

This line chart shows NAB business confidence over the five years to the June quarter 2012. This chart shows a dip in both NAB SME and NAB general business confidence during the global financial crisis. Following an initial recovery from the global financial crisis, business confidence trended downwards to be below the neutral level. Confidence for all businesses was generally higher in the year ending the June quarter 2012, than SME business confidence.

FIGURE 25

This line chart shows ACCI business employment over the five years to the June quarter 2012. There has been a significant gap between the ACCI small business employment index and the ACCI general business employment index over the past three years. Small business employment fell below the neutral level during the global financial crisis and has remained there since. It has only been since the beginning of 2012 that general business employment has fallen below the neutral level—for the first time since the global financial crisis.

FIGURE 26

This line chart shows ACCI business profits over the five years to the June quarter 2012. ACCI small business profitability is below that reported by all businesses overall. However, profitability for all businesses has also been negative on balance since the global financial crisis.

FIGURE 27

This line chart shows the value of investor housing credit, other personal credit, business credit (for all business sizes) and owner-occupier housing credit for the period July 2005 to August 2012. Housing credit (both owner-occupier and investor) has been on an upward trend over this time period, while other personal credit has been relatively flat in comparison. The annual growth rate of total business credit (for all business sizes) peaked at 24 per cent in December 2007, declining sharply since then. The slow-down in growth continued until June 2009, at which point lending to businesses began to contract. While business credit started growing again in September 2011, the growth rate remained subdued.

FIGURE 28

This line chart displays bank lending statistics by the size of the loan, not the size of the business taking out the loan. All loan size categories (less than \$2 million, \$2million and over and total) trended upwards over the 10 years ending the June quarter 2012. However, growth contracted following the global financial crisis, with a recent uptick in lending only occurring since mid-2011. Loans in the less than \$2 million category totalled \$231.4 billion in the June quarter 2012, up from \$119.8 billion in the June quarter 2002. Loans in the \$2 million and over category totalled \$452.5 billion in the June quarter 2012, up from \$164.6 billion in the June quarter 2002. In aggregate, loans totalled \$683.9 billion in the June quarter 2012, up from \$284.4 billion in the June quarter 2002.

FIGURE 29

This line chart reflects similar trends to Figure 29. The value of new credit approvals for loans less than \$2 million has been relatively stable at around \$20 billion, on average, since the June quarter 2007. On the other hand, the value of new credit approvals for loans \$2 million and over has been more volatile—falling below \$40 billion in the March quarter 2010, from the peak of more than \$90 billion in the December quarter 2007. This volatility continued in more recent quarters.

FIGURE 30

This line chart displays the value of outstanding bank loans that were less than \$2 million by industry.

The value of outstanding loans that were less than \$2 million to manufacturing businesses has grown but only moderately, increasing from \$8.6 billion to \$13.2 billion in the 10 years to the June quarter 2012. The value of outstanding loans that were less than \$2 million to agriculture businesses has grown from \$21.3 billion to \$36.0 billion during the same period. The value of outstanding loans that were less than \$2 million to mining businesses has increased from \$1.0 billion to \$2.7 billion in the 10 years to the June quarter 2012. This lower value can perhaps be explained by the smaller proportion of small businesses in the mining sector. The value of outstanding loans that were less than \$2 million to services businesses has increased from \$88.9 billion to \$179.5 billion in the 10 years to the June quarter 2012.

FIGURE 31

This line chart shows small business indicator lending rates, large business indicator lending rates and the spread between them over time. During 2001 to 2008, small businesses paid a premium of about 1.5 per cent above and beyond the lending rates faced by large businesses. However, this spread jumped to 2 per cent following the global financial crisis, and has remained at elevated levels since.

FIGURE 32

This line chart displays the RBA cash rate target, the nominal small business lending rate and the spread between the two. The real small business lending rate (the nominal small business lending rate adjusted for inflation) is also displayed in this chart.

The RBA reduced the cash rate target from 7.25 per cent to 3.0 per cent between August 2008 and September 2009. After September 2009 the RBA increased the cash rate target from 3.0 per cent in September 2009 to 4.75 per cent in March 2011. The cash rate target has been lowered by a total of 150 basis points between November 2011 and October 2012.

The real small business lending rate increased over the 10 years to the June quarter 2012—from under 4 per cent to around 7 per cent. During the global financial crisis, the major banks only passed on around 70 per cent of the cash rate target decreases onto small business and since the crisis have passed on more than 100 per cent of the cash rate target increases. This is reflected in the sharp rise in the differential between nominal small business lending rates and the RBA cash rate target beginning around December 2007. Further, it appears that small business lending margins increased during the recent monetary easing in 2012—taking this differential to a new peak of 4.5 per cent in the June quarter 2012.

FIGURE 33

This bar chart displays barriers to innovation in 2010–11 for innovation-active businesses. 62.7 per cent of micro businesses, 64.9 per cent of other small businesses, 60.1 per cent of medium businesses and 42.8 per cent of large businesses reported having *any* barriers to innovation.

- 33.8 per cent of micro businesses, 32.4 per cent of other small businesses, 24.8 per cent of medium businesses and 14.7 per cent of large businesses reported a *lack of access to additional funds* as a barrier to innovation.
- 22.5 per cent of micro businesses, 24.8 per cent of other small businesses, 22.3 per cent of medium businesses and 16.0 per cent of large businesses reported the *cost of development or introduction/implementation* as a barrier to innovation.
- 26.5 per cent of micro businesses, 32.8 per cent of other small businesses, 33.0 per cent of medium businesses and 24.4 per cent of large businesses reported a *lack of skilled persons in any location* as a barrier to innovation.
- 7.2 per cent of micro businesses, 6.9 per cent of other small businesses, 3.1 per cent of medium businesses and 4.5 per cent of large businesses reported a *lack of access to knowledge or technology to enable development or introduction/implementation* as a barrier to innovation.
- 15.4 per cent of micro businesses, 17.6 per cent of other small businesses, 17.5 per cent of medium businesses and 7.7 per cent of large businesses reported *government regulations and compliance* as a barrier to innovation.
- 5.2 per cent of micro businesses, 6.3 per cent of other small businesses, 7.7 per cent of medium businesses and 2.3 per cent of large businesses reported *adherence to standards* as a barrier to innovation.
- 18.1 per cent of micro businesses, 20.1 per cent of other small businesses, 16.9 per cent of medium businesses and 8.9 per cent of large businesses reported *uncertain demand for new goods or services* as a barrier to innovation.

FIGURE 34

This bar chart displays the value of business expenditure on research and development by business size over time (in current prices).

- Small business expenditure on research and development totalled \$1.5 billion in 2006–07, \$1.7 billion in 2007–08, \$2.1 billion in 2008–09, \$2.1 billion in 2009–10 and \$2.3 billion in 2010–11.
- Medium business expenditure on research and development totalled \$2.4 billion in 2006–07, \$2.9 billion in 2007–08, \$3.1 billion in 2008–09, \$3.2 billion in 2009–10 and \$3.4 billion in 2010–11.
- Large business expenditure on research and development totalled \$8.8 billion in 2006–07, \$10.5 billion in 2007–08, \$12.1 billion in 2008–09, \$11.5 billion in 2009–10 and \$12.2 billion in 2010–11.

FIGURE 35

This bar chart displays annual growth in business expenditure on research and development by business size over time (current prices).

- Small business expenditure on research and development grew by 13.9 per cent in 2007–08, by 27.1 per cent in 2008–09, contracted by 2.8 per cent in 2009–10 and grew by 11.5 per cent in 2010–11. This reflects an average annual compound growth rate of 12.1 per cent over this period.
- Medium business expenditure on research and development grew by 23.6 per cent in 2007–08, by 6.2 per cent in 2008–09, by 2.9 per cent in 2009–10 and by 6.5 per cent in 2010–11. This reflects an average annual compound growth rate of 10.5 per cent over this period.
- Large business expenditure on research and development grew by 18.7 per cent in 2007–08, by 15.4 per cent in 2008–09, contracted by 4.6 per cent in 2009–10 and grew by 5.8 per cent in 2010–11. This reflects an average annual compound growth rate of 9.3 per cent over this period.

FIGURE 36

This bar chart displays the top three ANZSIC 2006 industry divisions accounting for over three quarters of total small business expenditure on R&D in both 2009–10 and 2010–11.

- In professional, scientific and technical services in 2009–10, small businesses spent \$888 246 on R&D, medium businesses spent \$992 377 and large businesses spent \$675 953. In 2010–11, small businesses spent \$952 437 on R&D, medium businesses spent \$989 291 and large businesses spent \$754 841.
- In the manufacturing industry in 2009–10, small businesses spent \$341 886 on R&D, medium businesses spent \$869 667 and large businesses spent \$3 048 763 million. In 2010–11, small businesses spent \$438 487 on R&D, medium businesses spent \$991 850 and large businesses spent \$3 329 194 million.
- In the mining industry in 2009–10, small businesses spent \$385 629 on R&D, medium businesses spent \$430 095 and large businesses spent \$2 897 380 million. In 2010–11, small businesses spent \$375 511 on R&D, medium businesses spent \$524 219 and large businesses spent \$2 921 369 million.

FIGURE 37

This bar chart displays the geographic locations of customers of small and medium businesses.

- 28 per cent of small businesses and 23 per cent of medium businesses reported selling to customers who were located overseas.
- 50 per cent of small businesses and 59 per cent of medium businesses reported selling to customers who were located interstate.
- 55 per cent of small businesses and 59 per cent of medium businesses reported selling to customers elsewhere in the state.
- 87 per cent of small businesses and 87 per cent of medium businesses reported selling to customers locally (i.e. in the same city or town).

FIGURE 38

This bar chart displays Sensis survey results for when SMEs expect to recover their investment in e-commerce. 55 per cent of SMEs reported that they had already recovered their investment in e-commerce, 17 per cent expect to recover their investment over the next year, 10 per cent expect to recover their investment within the next 1–2 years, 9 per cent expect to recover their investment over the next 2–5 years, 2 per cent expect to recover their investment over the next five years and 7 per cent don't expect to recover their investment.

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