

## SMALL BUSINESS NATION

Australia has always been an entrepreneurial nation, with small business the backbone of the economy and the labour force. The Australian spirit of independence, a DIY attitude and the courage to give things a go are strongly demonstrated in these business statistics. However the tough economic times and the terrain in which small business operates is having an impact, with the majority of new business starts not surviving 4 years. For many Australians, the entrepreneurial dream is still alive but as demonstrated by the survival rates of new businesses, without better support, only a minority will achieve success.

### **More businesses than ever but slow growth:**

There is almost 1 actively trading business for every 10 Australians - more than 2.13 million of them. The accumulated business growth over the last 4 years has been just 2.9% while GDP has grown a total of 9.6% and the national population has increased by 6.9%.

### **Tough conditions and most new businesses don't survive:**

Highlighting the tough business environment, of all the new businesses started 4 years ago, the majority (51.4%) are no longer operating. Of the more than 2 million businesses operating in Australia 4 years ago, 2 in 5 no longer exist (39.6%), with established businesses being more likely to survive than new businesses. The longer a business is in operation the higher its chances of survival.

### **Independent, local and not highly technological:**

97% of Australian businesses are 100% Australian owned, 95% are independently operated (not part of a group or franchise) and 87% conduct all their functions independently (are not part of joint marketing, a buying group or collaborative ventures). 93% of businesses are non-exporting (Australian sales only). 1 in 5 businesses sought a business loan or equity in the last year and for 3 in 4 of these the reason was business survival and to boost short term cash flow with just 20% seeking a financial injection for reasons of expansion. Just 43% of Australian businesses have a website and just 28% receive orders or sales via the web and internet revenue accounted for just 7.5% of all business revenue.

What kinds of businesses have been getting the most, and least, traction in our changing economic environment? Which are the key factors that come into play in determining the success or failure of a business?

## THE CURRENT SHAPE OF THE AUSTRALIAN BUSINESS MARKET

- **INDUSTRY**

Of all Australian industries, Mining and Healthcare and Social Assistance have proportionally grown the most (4.2% and 3.5% respectively), with 1 out of every 6 Australian businesses (16.5%) being in Construction. A further third of all businesses are in Professional, scientific and technical services (11.8%), Rental, hiring and real estate services (10.6%) and Agriculture, forestry and fishing (9.3%).

The following 3 industries together accounted for more than half of all new businesses but are also the industries which experienced the highest levels of business closure (17.3%, 16% and 17.9% respectively).

- Administrative and support services
- Accommodation and food services
- Public administration and safety

Overall, the industries with the highest business survival rates are Health care and social assistance (71.6%) and Agriculture, forestry and fishing (69.8%), followed by Rental, hiring and real estate services (67.8%).

For new businesses, the industry breakdown of survival rates is similar, although fewer businesses survive. New business survival rates are highest in Health care and social assistance (61.7%) and Rental, hiring and real estate services (56.3%), both being well above the national average of 48.6%.

- **GEOGRAPHY**

The number of businesses per State is roughly proportional to the population of each state. New South Wales, Victoria and Western Australia have a higher proportion of businesses to people, while the population of the smaller states of Tasmania, Northern Territory and the Australian Capital Territory have a higher proportion of people to businesses.

Most states saw an increase in the number of businesses with the Northern Territory, with its relatively low population and number of businesses, seeing the highest increase at 1.6%.

The Australian Capital Territory experienced the most significant amount of churn, topping the list of both new and exiting businesses at 16% and 14.6% respectively.

The state in which the stock of businesses are most likely to survive is Tasmania (63.9%), followed by South Australia (63.1%), with the lowest levels of survival being in the Australian Capital Territory (57.3%) and the Northern Territory (57.4%).

Tasmania and South Australia are the only states in which more than half of new businesses survived the last 4 years (at 54.2% and 52% respectively). The lowest new business survival rates are in Northern Territory (45.1%) and New South Wales (47.3%).

- **LEGAL ENTITY**

The majority of businesses in Australia are companies – almost one third (32.9%), followed by sole proprietors (29.2%) with the remainder being trusts and partnerships. There is a growth in the complexity and sophistication of operating entities with the number of partnerships and sole proprietors declining over the last 4 years while the number of trusts and companies has been rising. Less than 1% of all Australian businesses are operating in the public sector.

Sole proprietors remain the most common legal entity for new businesses (17%), followed by trusts (14.1%), companies (13.7%) and partnerships (8.3%). Of these, trusts have the highest survival rate (61.8%), followed by publicly-listed companies (57.1%), private companies (52.5%) and partnerships (51.3%).

As well as being the most common form of new business, sole proprietors are by far the least likely to survive, with just 37.2% surviving the last 4 years.

- **ANNUAL TURNOVER**

Just under a third (29%) of all businesses had a turnover of less than \$50,000 with another third (34.5%) with a turnover between \$50,000-\$200,000 and a final third (36.5%) with a turnover exceeding \$200,000.

Both new and closing businesses are most prevalent among the lower turnover brackets of less than \$50,000 (new: 15.5%, closing: 20.8%) and between \$50,000-\$200,000 (new: 16.8%, closing: 13.8%), producing a high amount of churn. Closure rates were lowest for businesses with a turnover above \$2m (4%).

For new businesses, the greater the turnover, the greater the chances of survival. The highest new business survival rate is for those with a turnover of more than \$2m, where 2 in 3 businesses survived (66.9%).

Businesses with turnover of \$200,000 to less than \$2m had a survival rate of 57%, those with \$50,000 to less than \$200,000 had 48.2%, and those with zero to \$50,000 just 43%.

- **NUMBER OF EMPLOYEES**

Of all Australia's businesses, 3 in 5 (61.2%) do not employ staff and 2 in 5 (38.8%) do, however most of these, 9 in 10, (89.5%) employ less than 20 employees. Of all the businesses in Australia, just 4% employ 20 or more people and less than 0.28% employ more than 200 employees.

For the stock of businesses, once the number of employees reaches one of the 5+ brackets (5-19, 20-199 and 200+) the businesses enjoy relatively similar survival rates: 74.0%, 75.8% and 74.3% respectively.

When it comes to new businesses, those which do not employ staff – 9 out of every 10 start-ups (93.5%) – are both the most common and the most likely to fail. Of the new businesses started 4 years ago, only 43.3% of non-employing businesses are still in operation, compared with the overall 60.0% of employing businesses.

New businesses with 20-199 employees were the most likely to survive (67.8%), followed by those with 5-19 employees (64.5%), 1-4 employees (58.7%) and 200+ employees (56.9%).

### **NEW BUSINESS SNAPSHOT: WHERE ARE THE BEST CHANCES OF SUCCESS?**

- **INDUSTRY**

Start-ups are most likely to survive in Healthcare and Social Assistance (61.7%), Rental, Hiring and Real Estate Services (56.3%), and Financial and Insurance Services (55.1%). They are least likely to survive in Public Administration and Safety (37.6%), Administrative Support Services (41.3%), and Arts and Recreational Services (43.4%).

- √ Healthcare and Social Assistance
- √ Rental, Hiring and Real Estate Services
- √ Financial and Insurance Services
- X Public Administration and Safety
- X Administrative Support Services
- X Arts and Recreational Services

- **GEOGRAPHY**

The best chances for start-up survival are (54.2%), South Australia (52%) and Victoria (49.6%). The worst chances are in Northern Territory (45.1%), New South Wales (47.3%) and Australian Capital Territory (47.7%).

- √ Tasmania
- √ South Australia
- √ Victoria

- X Northern Territory
- X New South Wales
- X Australian Capital Territory

### LEGAL ENTITY

Trusts are the most likely start-up legal entity to survive (61.8% survival rate), followed by public companies (57.1%), private companies (52.5%) and partnerships (51.3%). Sole Proprietors have a significantly lower chance of survival, at just 37.2%.

- √ Trusts
- √ Public companies
- X Sole proprietors
- X Partnerships

### NUMBER OF EMPLOYEES

New businesses with 20-199 employees have the best chance of survival (67.8%), followed by businesses with 5-19 employees (64.5%), 1-4 employees (58.7%) and 200+ employees (56.9%). While they account for 9 out of 10 start-ups, non-employing new businesses are the most likely to fail, with a survival rate of just 43.3%.

- √ 20-199 employees
- √ 5-19 employees
- X Non-employing

### ANNUAL TURNOVER

For new businesses, the higher the turnover the greater the chances of survival. Start-ups with a turnover of more than \$2m have a 66.9% survival rate, followed by \$200,000 to less than \$2m (57.5%), \$50,000 to less than \$200,000 (48.2%) and zero to less than \$50,000 (43%).

- √ \$2m+ turnover

- √ \$200,000 to less than \$2m
- X Zero to less than \$50,000
- X \$50,000 to less than \$200,000

**REFERENCE:**

**ABS: 8165.0 - Counts of Australian Businesses, including Entries and Exits, Jun 2007 to Jun 2011**