

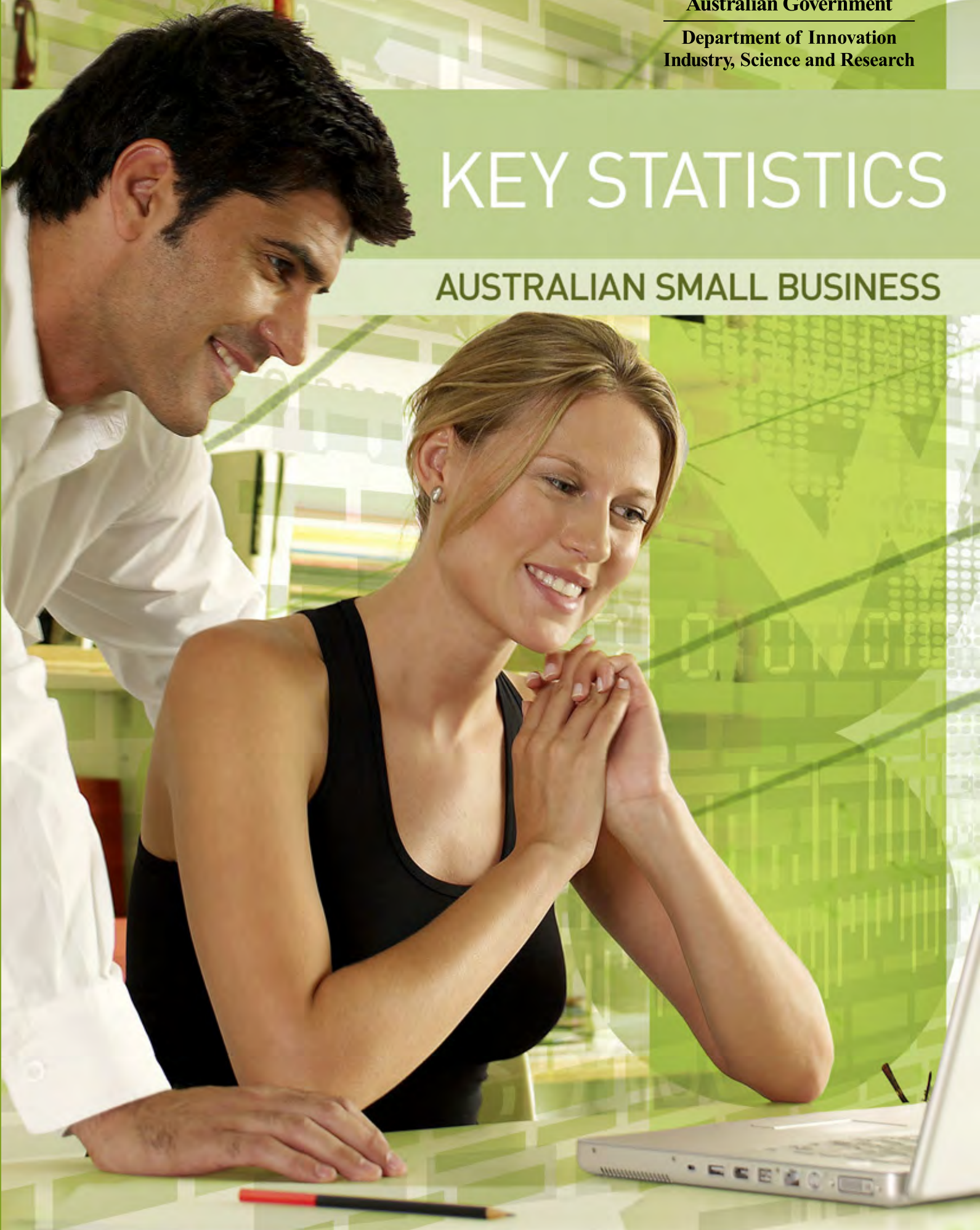


Australian Government

**Department of Innovation
Industry, Science and Research**

KEY STATISTICS

AUSTRALIAN SMALL BUSINESS



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Shortened forms

ABN—Australian Business Number

ABS—Australian Bureau of Statistics

ABSBR—Australian Bureau of Statistics Business Register

ACCI—Australian Chamber of Commerce and Industry

ANZSIC—Australia and New Zealand Standard Industrial Classification

CPA—Chartered Practising Accountants

DIISR—Department of Innovation, Industry, Science and Research

e-commerce—electronic commerce

GST—goods and services tax

IT—information technology

ITW—income tax withholding

NAB—National Australia Bank

NAB SME—NAB small, medium and emerging businesses

RBA—Reserve Bank of Australia

R&D—research and development

SMEs—small and medium enterprises

US—United States

UK—United Kingdom

Introduction

This publication aims to provide a comprehensive overview of Australia's small businesses, with emphasis on business counts, characteristics and performance.

This publication includes chapters covering a range of issues:

Chapter 1 provides information about employment and industry value added. Small businesses are a vital part of the Australian economy, providing almost half of total industry employment and around a third of industry value added in 2009–10.

Chapter 2 provides information on the number of small businesses in Australia and by industry sector, operating at the end of the 2008–09 financial year. There were 2 051 085 actively trading businesses in Australia as at June 2009—around 96 per cent of these were small businesses (1 961 337).

Chapter 3 provides information on the number of small businesses by state and territory, operating at the end of the 2008–09 financial year. As would be expected, the largest proportions of small businesses operate in the two most populated states, New South Wales (33.3 per cent) and Victoria (25.2 per cent).

Chapter 4 provides information about small business entries, exits and survival rates, covering financial years 2006–07 to 2008–09.

Chapter 5 provides information about the typical characteristics of small business operators.

Chapter 6 provides information about small business exporters, specifically the number of small business exporters and the value of the goods they export. Small business exporters account for 41.1 per cent of all businesses exporting goods, but only 0.6 per cent of the total value of goods exported.

Chapter 7 provides an overview of private sector information on small businesses. Most official data on small businesses is released with a significant lag. Therefore, private sector surveys targeting small businesses can provide important information about current conditions, expectations and concerns facing small businesses.

Chapter 8 provides information about small business access to finance. This was a particularly topical issue during the global financial crisis and was the subject of a Senate Economic Reference Committee report in 2010.

Chapter 9 provides an overview of the proportion of small businesses that undertake innovative activity in Australia. Innovation is predominantly undertaken by larger businesses.

Chapter 10 provides an overview of research and development conducted by small businesses. Similarly to innovation, R&D is predominantly undertaken by larger businesses.

Chapter 11 provides information on electronic commerce (e-commerce), or the buying and selling of goods and services over the internet. Since data was first collected by the ABS in 2005–06, the uptake and prevalence of businesses with internet access has increased significantly.

Chapter 1: Contribution of small businesses to the economy

DEFINITIONS OF BUSINESS SIZE

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 is by annual turnover, the number of employees, or a combination of the two.

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 (or are businesses that are monitored directly by the ABS and are determined to be “active”).

The ABS defines a **medium-sized 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.

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

INTRODUCTION

Small businesses make a significant contribution to the Australian economy, accounting for almost half of industry employment and contributing over a third of industry value added ¹ in 2009–10.

ABS data on small business employment and industry value added is constrained to selected industries. 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 (including percentage shares) in this chapter reflect this limitation.

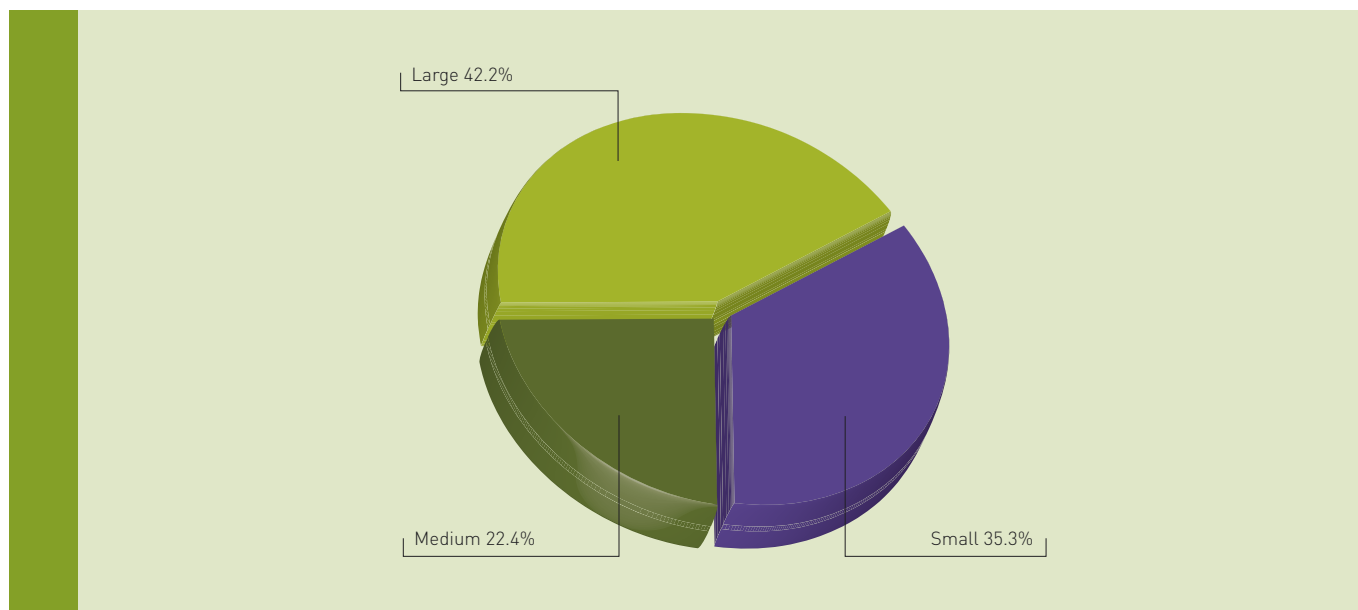
INDUSTRY VALUE ADDED

Chart 1 shows a comparison of industry value added between small, medium and large businesses. Small businesses contributed around 35 per cent of industry value added in 2009–10, compared with 42 per cent contributed by large businesses and 22 per cent by medium-sized businesses. ²

¹ Industry value added is the measure of the contribution by businesses in each industry to gross domestic product.

² ABS Cat. No. 8155.0. Numbers may not sum to total due to rounding.

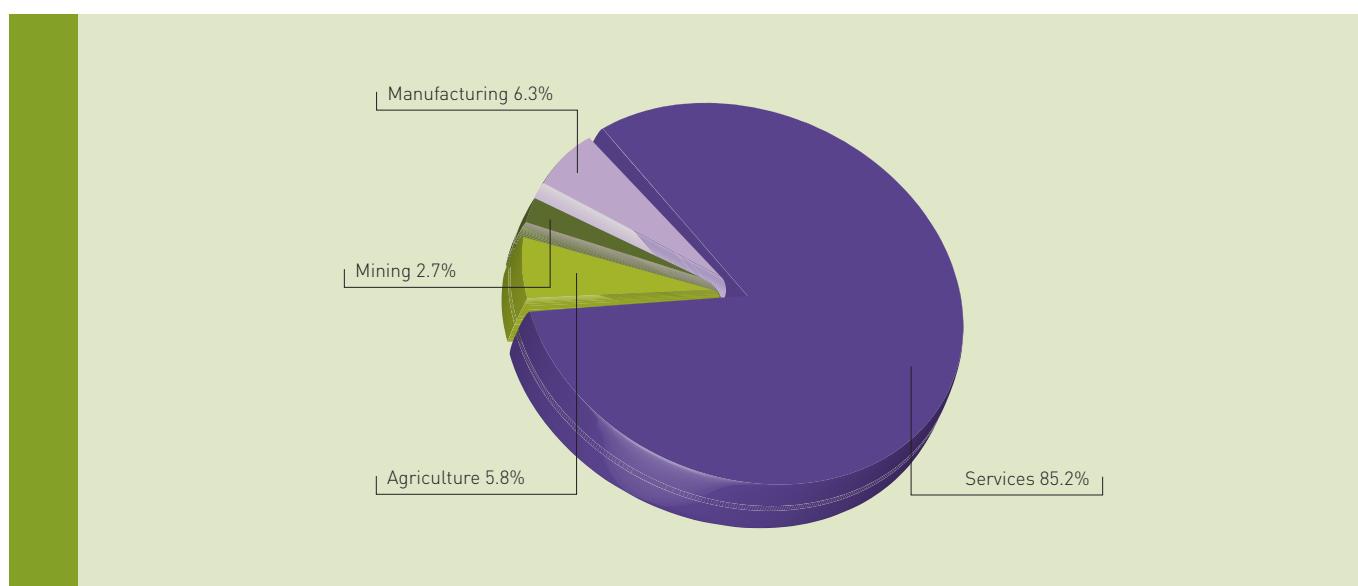
Chart 1: Contribution to industry value added by business size, 2009–10



Data source: ABS Cat. No. 8155.0.

Chart 2 shows that over 85 per cent of the total small business contribution to industry value added is attributable to small businesses in the *services sectors*. Around 6 per cent is attributable to small businesses in the *manufacturing* sector, almost 6 per cent to small businesses in the *agriculture, forestry and fishing* sector and almost 3 per cent to small businesses in the *mining* sector. Among the services sectors, almost 16 per cent of the total small business contribution to industry value added is attributable to the *construction services* industry subsector, around 13 per cent to the *professional, scientific and technical services* subsector and over 12 per cent to the *rental, hiring and real estate services* subsector.

Chart 2: Industry contribution to small business industry value added, 2009–10



Data source: ABS Cat. No. 8155.0.

Table 1 shows that almost 83 per cent of total *agriculture, forestry and fishing* industry value added is attributable to small businesses, compared with around 40 per cent in the *services* sector, 19 per cent in the *manufacturing* sector and around 9 per cent in the *mining* sector.

Table 1: Industry value added by sector and business size, 2009–10

Industry sector (selected industries only —see 'Note 1' for exclusions)	Business size				Small business share of gross value added in each sector
	Small (0–19 employees)	Medium (20–199 employees)	Large (200+ employees)	Total	
	(\$m)	(\$m)	(\$m)	(\$m)	
Agriculture, forestry and fishing	16 919	2986	506	20 411	82.9
Mining	7976	15 368	64 463	87 807	9.1
Manufacturing	18 482	28 314	50 013	96 809	19.1
Services	250 632	140 167	236 421	627 220	40.0
Electricity, gas, water and waste services	2141	3590	26 357	32 088	6.7
Construction	46 549	17 908	19 365	83 822	55.5
Wholesale trade	16 941	17 541	20 763	55 246	30.7
Retail trade	23 644	12 278	27 720	63 641	37.2
Accommodation and food services	13 471	10 617	6956	31 044	43.4
Transport, postal and warehousing	14 801	9548	27 911	52 260	28.3
Information media and telecommunications	3000	3246	28 782	35 029	8.6
Rental, hiring and real estate services	36 675	5424	7375	49 475	74.1
Professional, scientific and technical services	38 728	21 282	23 886	83 895	46.2
Administrative and support services	13 539	9954	15 164	38 656	35.0
Public administration and safety (private)	1276	938	1461	3675	34.7
Education and training (private)	2900	7813	5918	16 631	17.4
Health care and social assistance (private)	20 339	10 923	17 380	48 642	41.8
Arts and recreation services	2626	2540	4850	10 016	26.2
Other services	14 002	6565	2533	23 100	60.6
TOTAL SELECTED INDUSTRIES	294 009	186 836	351 402	832 247	35.3

Data source: ABS Cat. No. 8155.0.

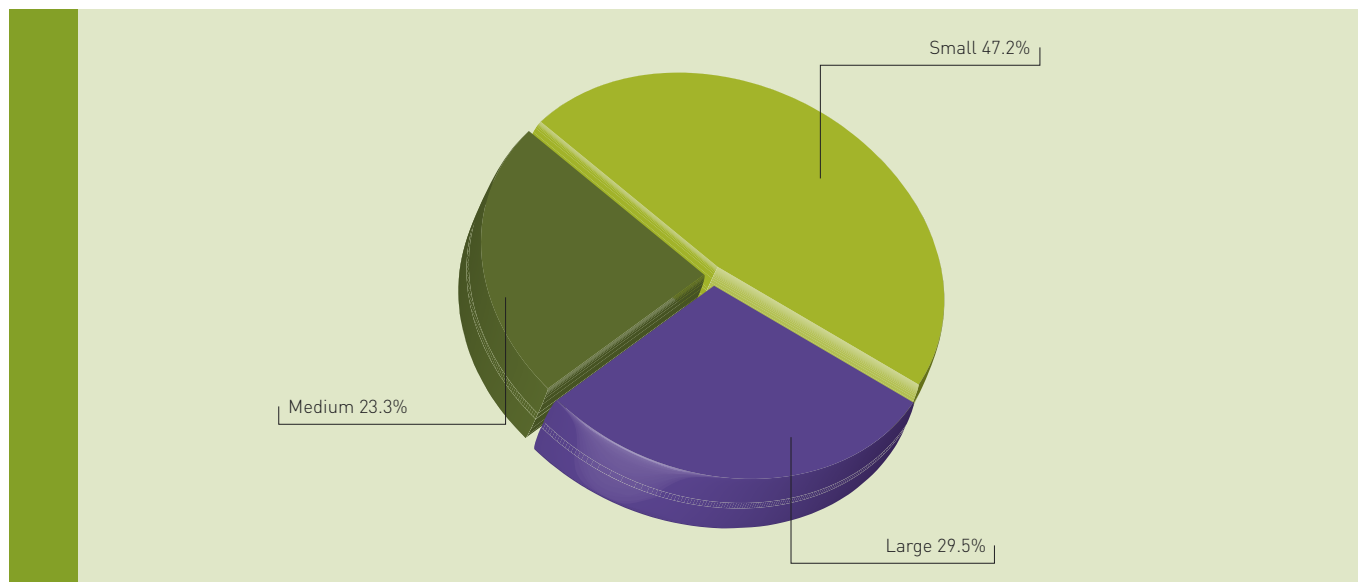
Note 1: Selected industries. Excludes *financial and insurance services*, and the general government component of *public administration and safety, education and training* and *health care and social assistance*.

Note 2: Items may not sum to total due to rounding.

HOW MANY PEOPLE DO SMALL BUSINESSES EMPLOY?

Chart 3 shows that small businesses provided employment for almost half of total industry employment in 2009–10, which equates to almost 4.8 million people.³

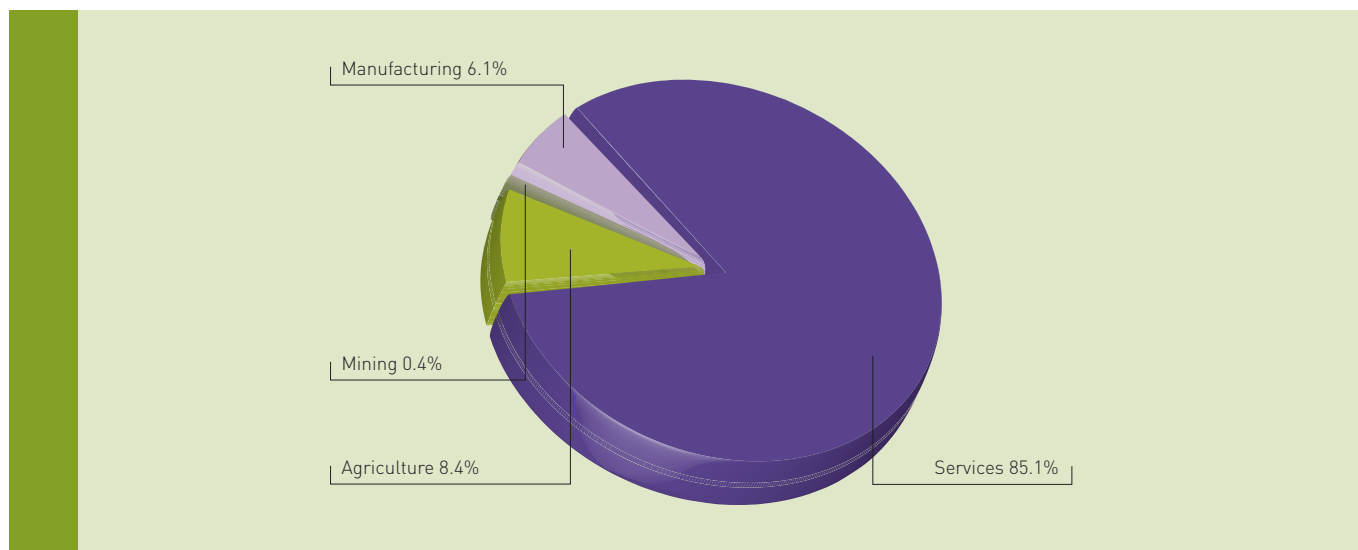
Chart 3: Employment by business size, at end June 2010



Data source: ABS Cat. No. 8155.0.

Chart 4 shows that around 85 per cent of total small business employment is within the *services* sectors, compared with 8 per cent in *agriculture, forestry and fishing*, around 6 per cent in *manufacturing* and less than 1 per cent in *mining*. Around 14 per cent of total small business employment is in the *construction* subsector, followed by 12 per cent in *professional, scientific and technical services* and 10 per cent in *retail trade*.

Chart 4: Small business employment by industry, at end June 2010



Data source: ABS Cat. No. 8155.0.

³ ABS Cat. No. 8155.0.

Table 2 shows that small businesses account for 85.7 per cent of employment in the *agriculture, forestry and fishing* sector, compared with 47.6 per cent in the *services* sector, 30.2 per cent in the *manufacturing* sector and 13.9 per cent in the *mining* sector.

Table 2: Employment by sector and business size, at end June 2010

Industry sector (selected industries only —see 'Note 1' for exclusions)	Business size				
	Small (0–19 employees)	Medium (20–199 employees)	Large (200+ employees)	Total	Small business share of employment in each sector
	('000s)	('000s)	('000s)	('000s)	%
Agriculture, forestry and fishing	400	55	12	467	85.7
Mining	20	25	99	144	13.9
Manufacturing	288	302	364	955	30.2
Services	4040	1958	2496	8492	47.6
Electricity, gas, water and waste services	15	16	77	107	14.0
Construction	686	163	146	994	69.0
Wholesale trade	218	169	162	548	39.8
Retail trade	497	234	559	1290	38.5
Accommodation and food services	468	235	183	886	52.8
Transport, postal and warehousing	245	82	222	550	44.5
Information media and telecommunications	39	32	106	177	22.0
Rental, hiring and real estate services	286	48	30	363	78.8
Professional, scientific and technical services	557	202	181	941	59.2
Administrative and support services	249	206	263	718	34.7
Public administration and safety (private)	22	22	23	66	33.3
Education and training (private)	93	136	93	322	28.9
Health care and social assistance (private)	297	247	336	880	33.8
Arts and recreation services	69	56	66	192	35.9
Other services	299	110	49	458	65.3
TOTAL SELECTED INDUSTRIES	4747	2339	2970	10 057	47.2

Data source: ABS Cat. No. 8155.0.

Note 1: 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*.

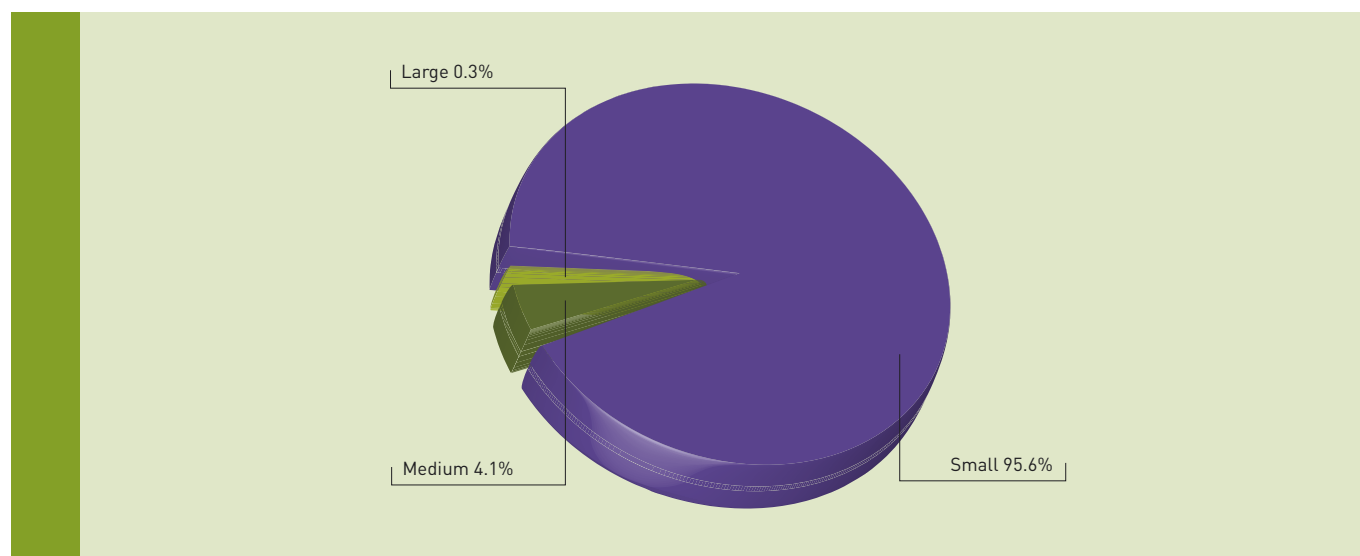
Note 2: Items may not sum to total due to rounding.

Chapter 2: Number of small businesses in Australia

BUSINESS NUMBERS BY SIZE

There were 2 051 085 actively trading businesses in Australia as at June 2009. Chart 5 shows that of these, around 96 per cent were small businesses (1 961 337), 4 per cent were medium-sized businesses and less than 1 per cent were large businesses.

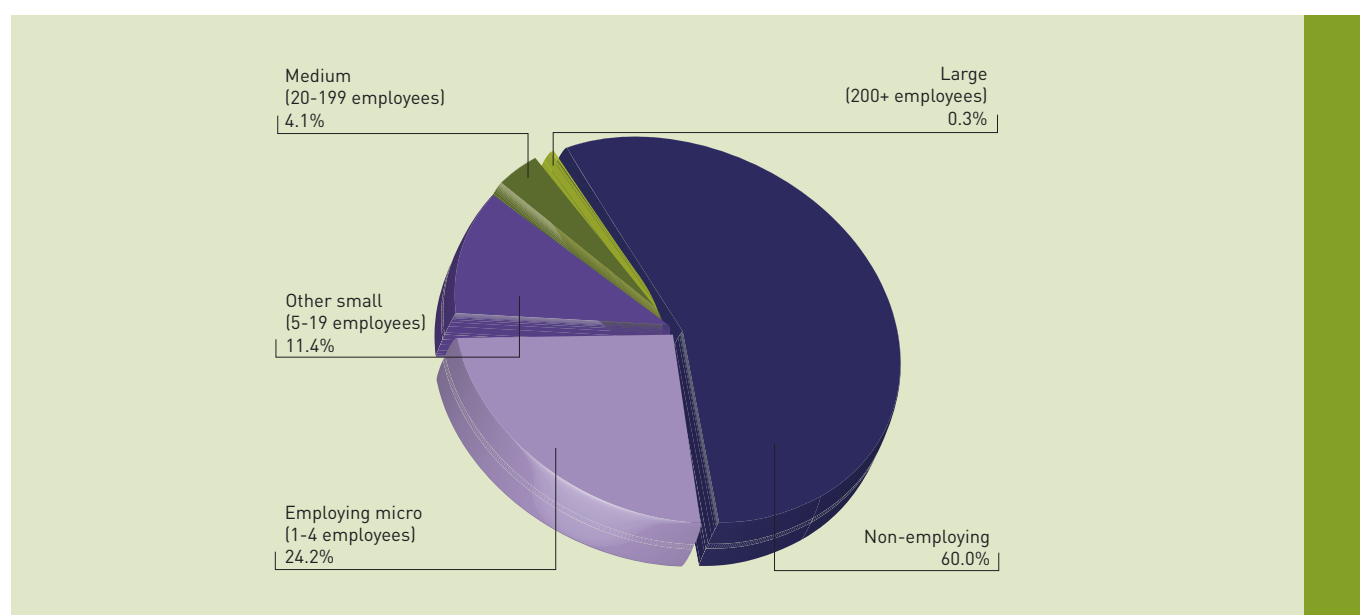
Chart 5: Business numbers by size, June 2009



Data source: ABS Cat. No. 8165.0.

Chart 6 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 60 per cent (1 230 282) of total businesses, followed by employing micro businesses, which accounted for 24.2 per cent (497 098) and the remaining small businesses, which accounted for 11.4 per cent (233 957). Medium-sized businesses accounted for 4.1 per cent (83 399) of total businesses, while large businesses accounted for 0.3 per cent (6 349).

Chart 6: Businesses, including small business sub-categories, by size, June 2009



Data source: ABS Cat. No. 8165.0.

SMALL BUSINESS NUMBERS BY INDUSTRY SECTOR

Table 3 shows that around 83 per cent of small businesses were active in various *services* sectors in June 2009, over 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).

Table 3: Business numbers by industry sector, June 2009

Industry sector	Number of businesses <i>(% of all businesses)</i>	Number of small businesses <i>(% of total small businesses)</i>	Small business share of industry sector (%)
Agriculture, forestry and fishing	203 810 <i>(9.9)</i>	199 312 <i>(10.2)</i>	97.8
Mining	7950 <i>(0.4)</i>	7225 <i>(0.4)</i>	90.9
Manufacturing	91 839 <i>(4.5)</i>	81 051 <i>(4.1)</i>	88.3
Services	1 703 564 <i>(83.1)</i>	1 629 978 <i>(83.1)</i>	95.7
Not classified	44 068 <i>(2.1)</i>	43 801 <i>(2.2)</i>	99.4
TOTAL	2 051 085	1 961 337	95.6

Data source: ABS Cat. No. 8165.0, datacube 9.

Please note: the sum of businesses in each industry will not sum to the published totals. For further information, please refer to the Quality Declaration available from: <http://www.abs.gov.au/AUSSTATS/abs@nsw/lookup/8165.0Explanatory%20Notes1Jun%202007%20to%20Jun%202009?OpenDocument>. Percentage shares are based on the total calculated from the sum of industries and not on the published totals.

The services sector is made up of diverse subsectors. Table 4 provides a breakdown of small business numbers for each services subsector. The largest services subsector in terms of 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*.

Table 4: Small business numbers within the services sector, June 2009

Services subsectors	Number of businesses	Number of small businesses	Small business share of services subsector (%)
Construction	341 618	333 744	97.7
Professional, scientific and technical services	231 465	224 257	96.9
Rental, hiring and real estate services	217 464	214 050	98.4
Financial and insurance services	149 645	147 302	98.4
Transport, postal and warehousing	133 263	129 775	97.4
Retail trade	139 609	128 678	92.2
Health care and social assistance	92 395	87 700	94.9
Other services	85 476	82 978	97.1
Administrative and support services	76 561	70 414	92.0
Wholesale trade	76 302	70 363	92.2
Accommodation and food services	77 111	63 930	82.9
Arts and recreation services	27 496	26 026	94.7
Education and training	23 551	21 622	91.8
Information media and telecommunications	17 986	16 873	93.8
Public administration and safety	8053	7147	88.7
Electricity, gas, water and waste services	5569	5119	91.9
TOTAL SERVICES	1 703 564	1 629 978	95.7

Data source: ABS Cat. No. 8165.0, datacube 9.

Chapter 3: Number of small businesses by state and territory

BUSINESS NUMBERS BY STATE ⁴

The ABS publishes statistics on the number of businesses by state and territory based on the main state of operation. Table 5 shows the breakdown of these small business numbers by state and territory and by industry.

**Table 5: Estimated number of small businesses by main state of operation⁵ and industry
Operating at end of financial year, 2008–09**

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Currently Unknown	Australia
Agriculture, forestry and fishing	58 637	47 080	45 338	19 988	20 299	6248	1014	590	105	199 299
Mining	1366	831	1748	487	2575	96	87	30	3	7223
Manufacturing	25 440	21 987	15 995	6104	8637	1644	492	618	129	81 046
Services industries	553 043	414 101	326 925	109 191	166 296	27 343	10 894	21 542	637	1 629 972
Not classified	13 968	11 001	9470	2659	5004	656	351	521	176	43 806
TOTAL SMALL BUSINESSES	652 454	495 000	399 476	138 429	202 811	35 987	12 838	23 301	1050	1 961 337

Data source: ABS Cat. No. 8165.0.

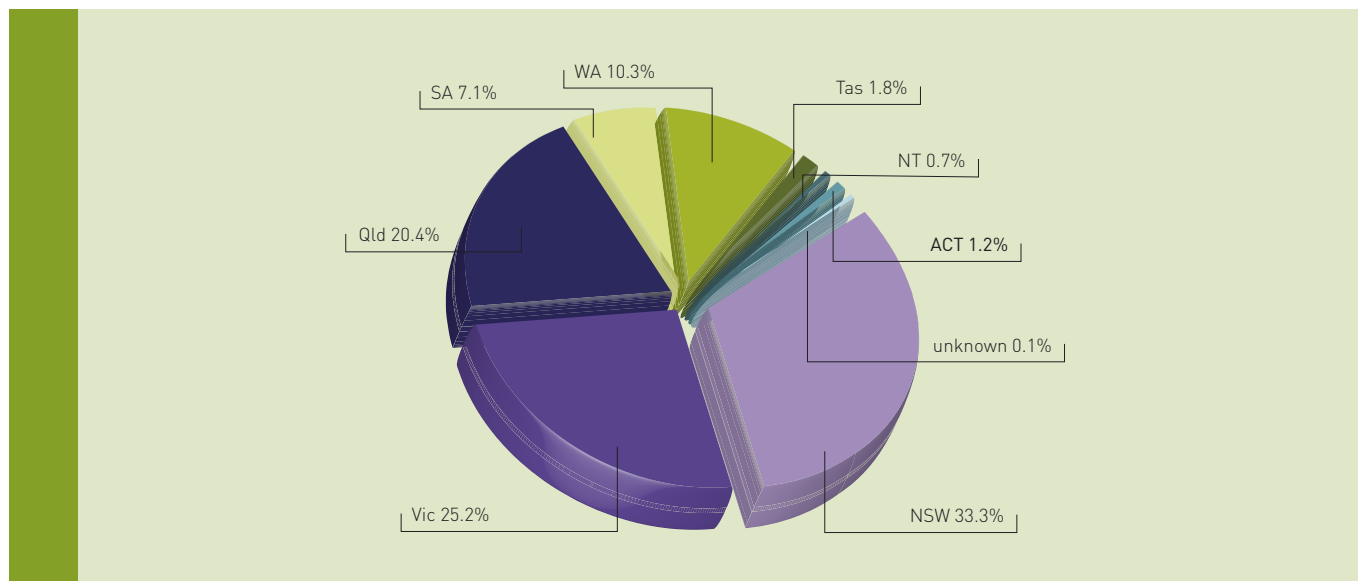
Please note: the sum of small businesses in each state/territory will not sum to the published total for Australia. For further information, please refer to the Quality Declaration available from: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/8165.0Explanatory%20Notes1Jun%202007%20to%20Jun%202009?OpenDocument>

The ABS reports that at June 2009, the proportion of businesses by state (as defined as the main state of operation) was broadly in line with the proportion of Australia's population by state. Chart 7 shows that the same is true for small businesses, with the largest number of small businesses present in the two most populated states, New South Wales (33.3 per cent) and Victoria (25.2 per cent).

⁴ 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.

⁵ 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'.

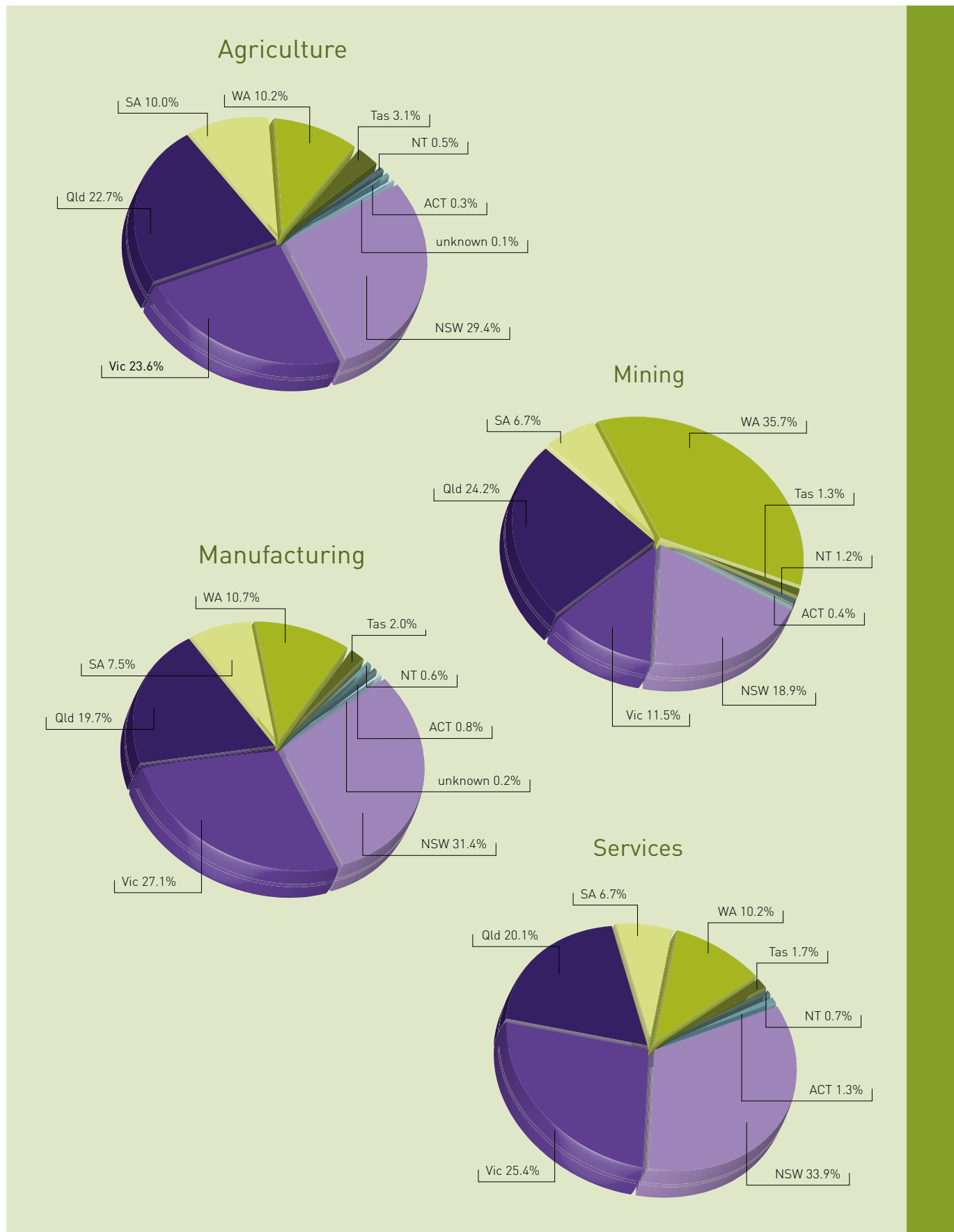
Chart 7: Small business numbers by state, 2008–09



Data source: ABS Cat. No. 8165.0.

Chart 8 shows the proportion of small businesses within each industry from each state or territory. Excluding the *mining* sector, the number of small businesses from each state are 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 mining businesses are in Western Australia, followed by Queensland, New South Wales and Victoria.

Chart 8: Breakdown of small businesses within each industry by state, 2008–09



Data source: ABS Cat. No. 8165.0.

Table 6 shows that the distribution of small business numbers 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, 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 sector. On the other hand, the Australian Capital Territory has the smallest proportion of small businesses in the agriculture, mining and manufacturing sectors but a significantly larger proportion of small businesses in the services sector. New South Wales, Victoria and Queensland have a similar distribution of small businesses across the industries. Western Australia has the highest proportion of small businesses in the mining sector but a relatively similar distribution of small businesses to the other states across the remaining industries.

Table 6: Percentage of small businesses within each state by industry, 2008–09

	Agriculture (%)	Mining (%)	Manufacturing (%)	Services (%)	Not classified (%)
NSW	9.0	0.2	3.9	84.8	2.1
Vic	9.5	0.2	4.4	83.7	2.2
Qld	11.3	0.4	4.0	81.8	2.4
SA	14.4	0.4	4.4	78.9	1.9
WA	10.0	1.3	4.3	82.0	2.5
Tas	17.4	0.3	4.6	76.0	1.8
NT	7.9	0.7	3.8	84.9	2.7
ACT	2.5	0.1	2.7	92.5	2.2
Unknown	10.0	0.3	12.3	60.7	16.8

Data source: ABS Cat. No. 8165.0.

Chapter 4: Entries, exits and small business survival rates

The most recent data available pertaining to business entries⁶ and exits⁷ was released by the ABS for the period from June 2007 to June 2009. This data falls within the period of the global financial crisis, while the previous data release coincided with a period of economic expansion. Thus, the two releases show very different business entry and exit trends. 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. A discussion of a new measure, survival rates⁸, is also provided. Similar to business exits, survival rates cannot be used to indicate business failures, and should be used with care.

BUSINESS ENTRIES AND EXITS

In the 2008–09 financial year, 1 982 066 small businesses were operating at the start of the financial year. In 2008–09, most business entries (93.5 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 5.2 per cent of total business entries (see Table 7).

Similarly, the largest amount of business exits (92.6 per cent) occurred in the non-employing and employing micro business population, with the remainder of small businesses accounting for a smaller 5.4 per cent of all exits.

At the end of the financial year 2008–09, there were 20 729 fewer small businesses in operation.

Table 7: Business entries and exits by employment size, 2008–09

	Operating at the start of the financial year	Entries	Exits	Net movement of surviving businesses	Operating at the end of the financial year	Entry rate %	Exit rate %
Non employing	1 236 999	205 726	241 182	28 739	1 230 282	16.6	19.5
Employing							
1–4	513 154	74 021	54 979	-35098	497 098	14.4	10.7
5–19	231 913	15 551	17 287	3780	233 957	6.7	7.5
Total small business	1 982 066	295 298	313 448	-2 579	1 961 337		
20–199	83610	3354	5952	2387	83 399	4.0	7.1
200 +	6113	511	467	192	6349	8.4	7.6
TOTAL	2 071 789	299 163	319 867	-	2 051 085	14.4	15.4

Data source: ABS Cat. No. 8165.0.

6 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.

7 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.

8 A surviving business is defined as a business which is active on the ABSBR as at 1 June of the current year and also active in the previous year.

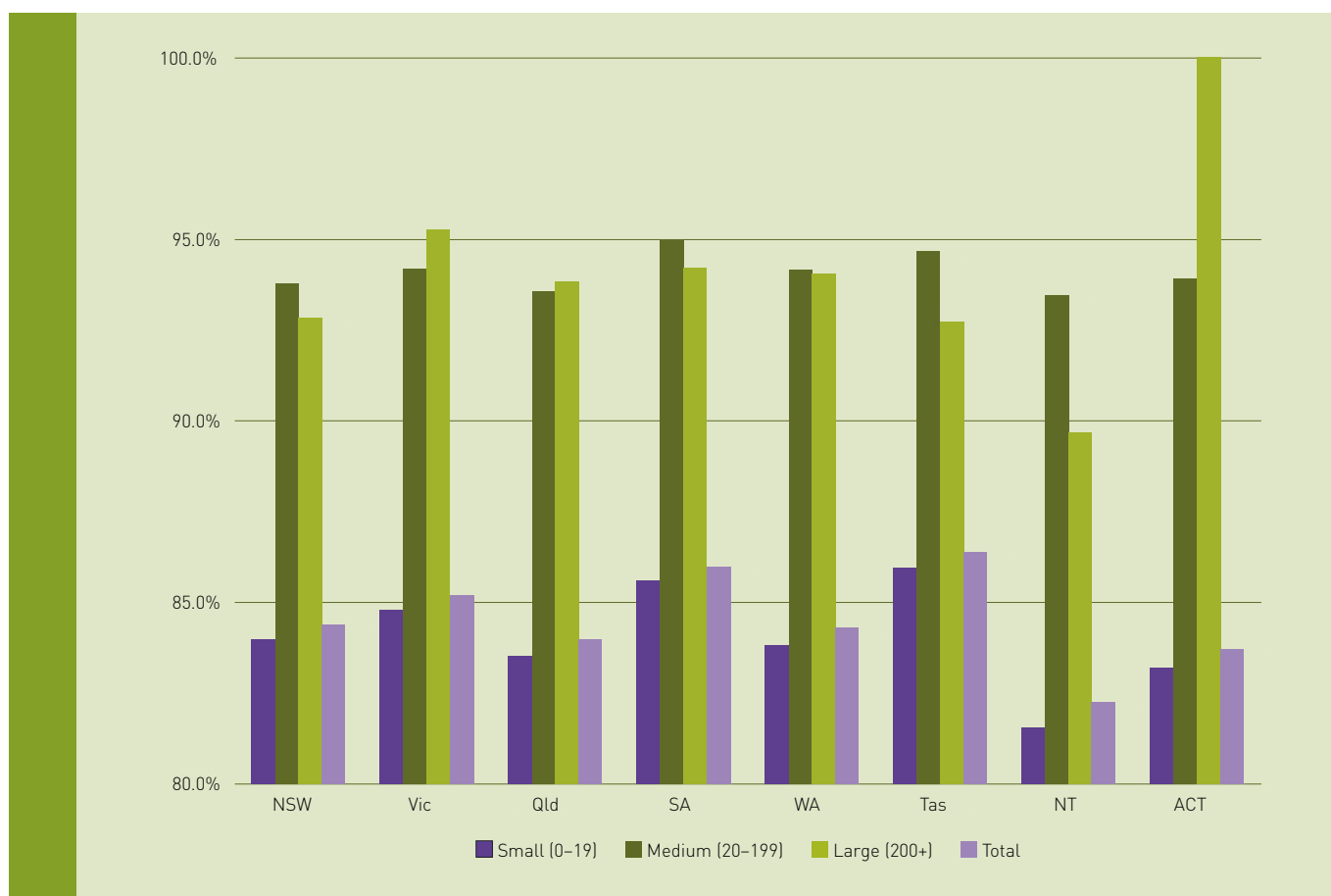
SMALL BUSINESS ENTRIES AND EXITS AT THE INDUSTRY LEVEL

In 2008–09, the number of small businesses in *arts and recreation services* experienced the greatest decline (of 3.3 per cent), followed closely by *manufacturing*, falling by 3.0 per cent, and *other services* which declined by 2.9 per cent. The largest increase in the number of small businesses in 2008–09 was reported in the *not classified* category (up by 20.6 per cent), followed by *mining* (up by 4.0 per cent) and *healthcare and social assistance* sectors (up by 1.5 per cent). As the creative destruction section outlines, business exits do not necessarily indicate a failure, and are simply part of the dynamic nature of entrepreneurship. Structural change is inevitable, and has occurred in the economy as a result of changes in relative prices and shifts in the domestic and global economic climate. Such change often indicates flexibility and adaptability in an economy.

SURVIVAL RATES

Charts 9 and 10 show a breakdown of business survival rates by state. Chart 9 shows the percentage of businesses operating at the end of June 2007 that survived to June 2008 and shows that small businesses generally had a much lower survival rate than medium and large businesses within each state or territory. The survival rates are the lowest in states or territories where the proportion of small businesses is high, such as in the Northern Territory or the Australian Capital Territory. This may reflect the greater susceptibility of small businesses to the major economic downturn during this period.

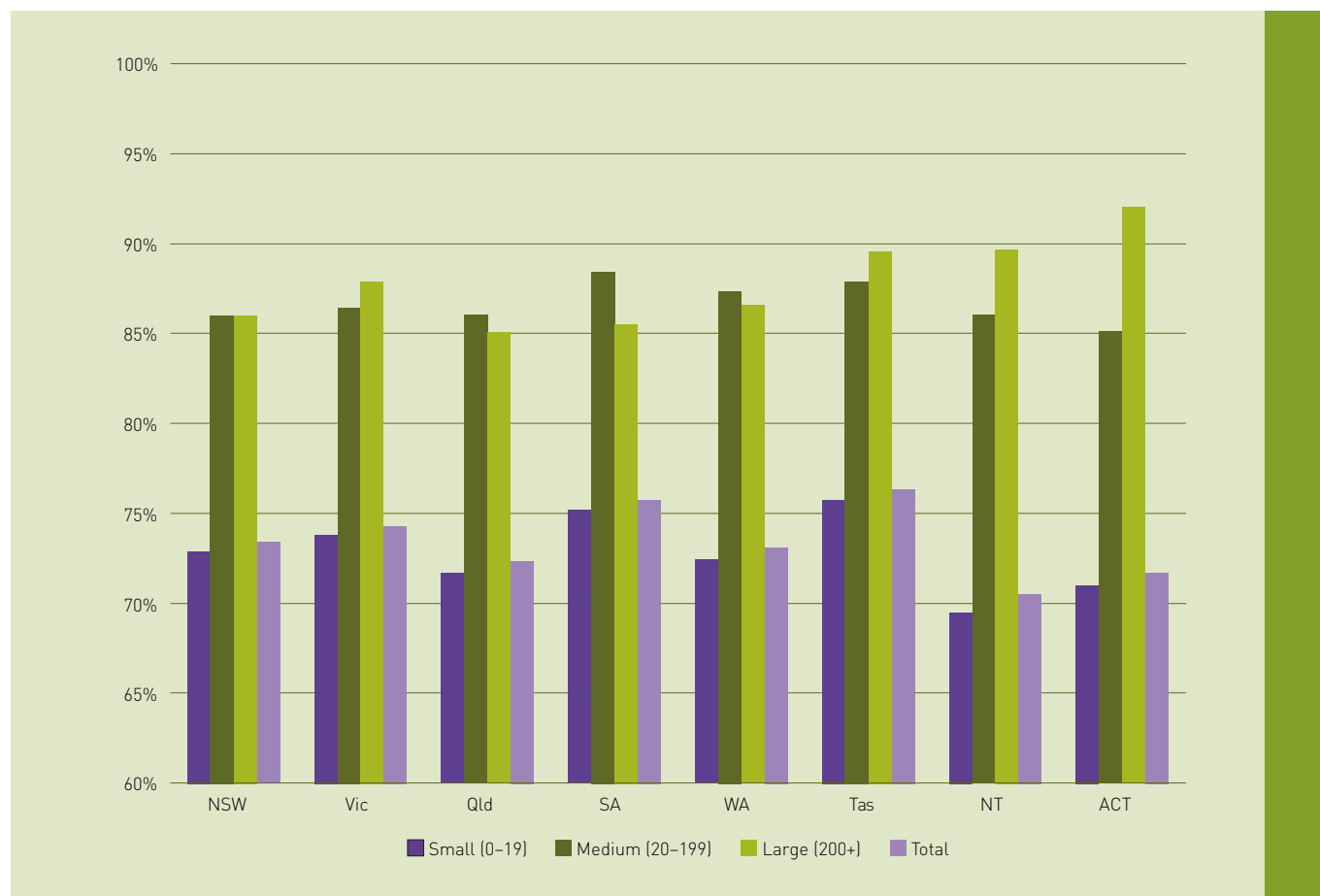
Chart 9: Survival rates by state, June 2007 to June 2008



Data source: ABS Cat. No. 8165.0.

Chart 10 shows the percentage of businesses operating at June 2007 that survived over the two year period to June 2009. Survival rates for all businesses across the states are lower during this period, with small businesses again recording the lowest survival rates. The trend of small business survival rates across the states and territories remained relatively unchanged, with the Northern Territory, the Australian Capital Territory and Queensland having the lowest small business survival rates.

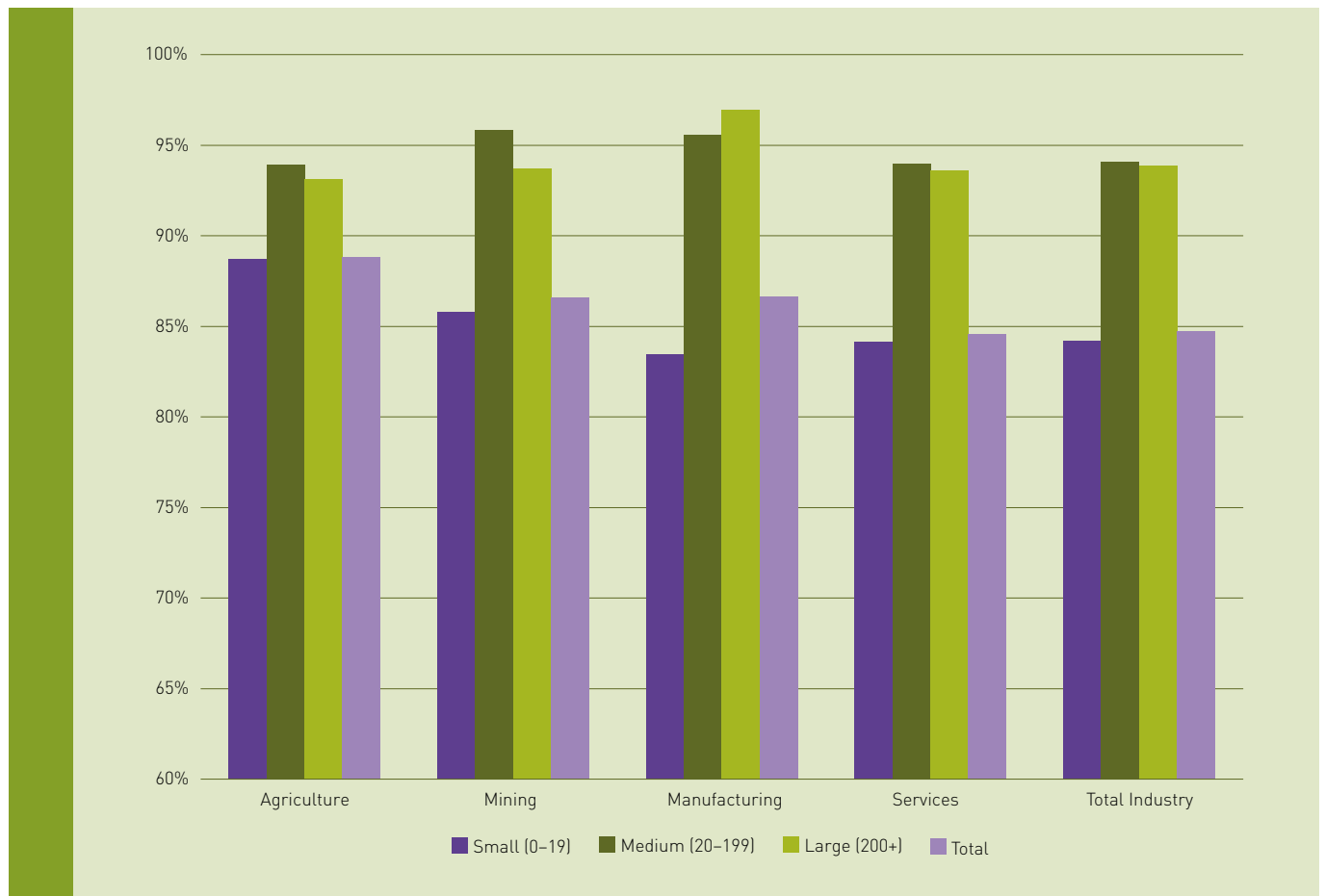
Chart 10: Survival rates by state, June 2007 to June 2009



Data source: ABS Cat. No. 8165.0

Chart 11 shows the percentage of businesses operating at the end of June 2007 that survived to June 2008 across the major industries. Similarly to the state and territory breakdown, small businesses recorded the lowest survival rates compared with medium-sized and large businesses. Survival rates were highest in agriculture, where small business survival rates were closest to the survival rates of larger sized businesses, followed by mining, services and manufacturing.

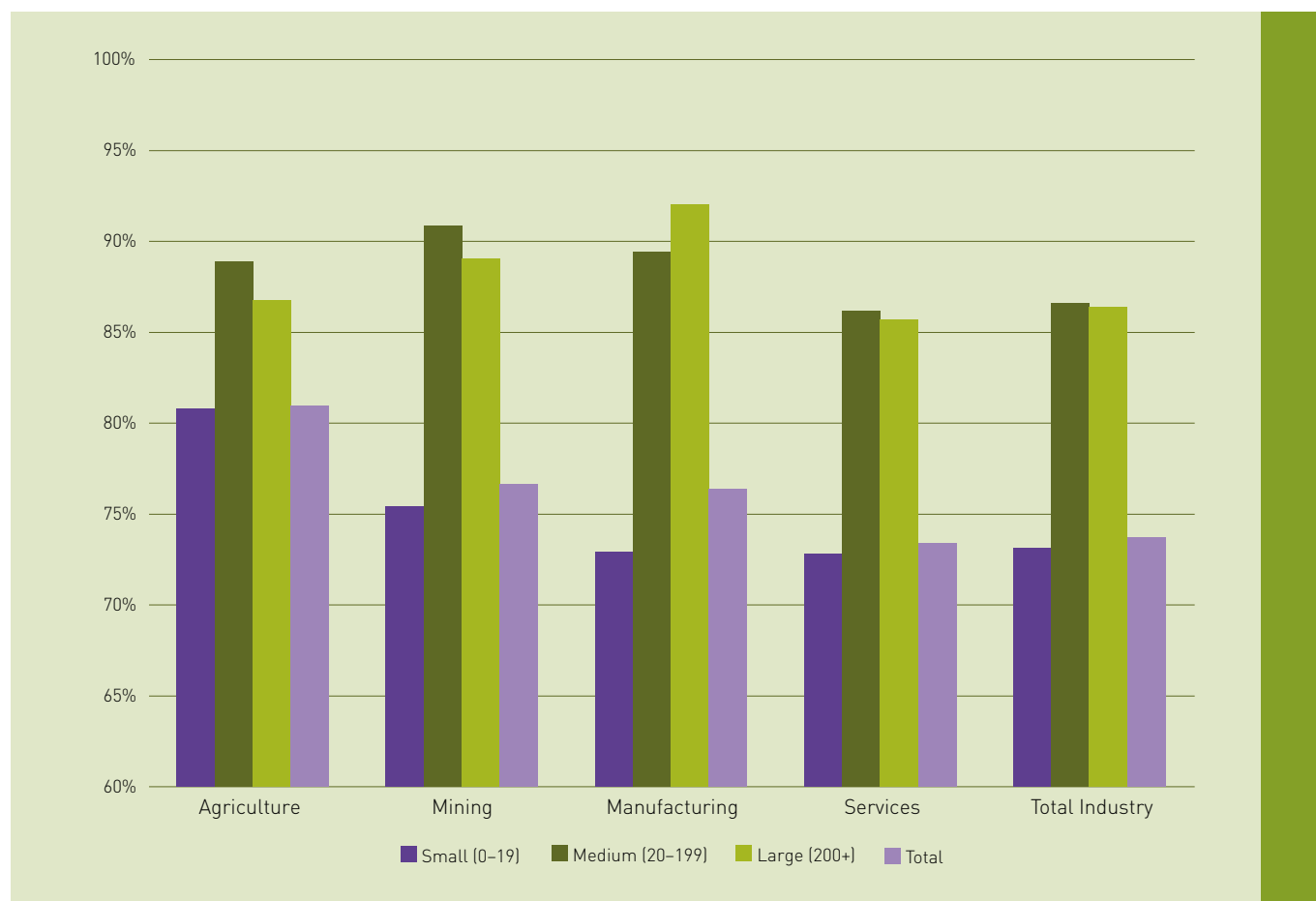
Chart 11: Survival rates by industry, June 2007 to June 2008



Data source: ABS Cat. No 8165.0

Chart 12 shows the percentage of businesses operating at the end of June 2007 that survived to June 2009 across the major industries. The general trend of small business survival rates remained unchanged, with the highest survival rates being recorded in agriculture, followed by mining, services and manufacturing.

Chart 12: Survival rates by industry, June 2007 to June 2009



Data source: ABS Cat. No. 8165.0

CREATIVE DESTRUCTION

Economist Joseph Schumpeter (1942) popularised the term creative destruction to capture the idea that long-term economic progress is driven mainly by innovation by entrepreneurs who, while creating new sources of value, also destroy the value of older and established companies.

From an economic perspective, the phenomenon of creative destruction is not a negative concept⁹. Creative destruction is often seen as a source of productivity growth, thus it is important to create an environment which facilitates this process. Through the process of creative destruction more efficient, competitive or innovative competitors replace destroyed jobs and businesses. While there is no data on creative destruction in Australia, the number of business entries and exits can serve as a rough proxy. Business exit figures, as an indicator of the process of creative destruction are not necessarily negative, as often a business may exit one category, only to enter a new one.

As Table 7 shows, the greatest number of entries and exits occurred within employing micro businesses in 2008-09, with small businesses exhibiting the second highest rates of entries and exits. These figures characterise the dynamic and entrepreneurial processes associated with creative destruction. Research by Davis, Haltiwanger and Schuh (1994)¹⁰ in the US manufacturing sector compared rates of job creation and destruction, and found that small businesses with less than 20 employees exhibited the highest job creation and job destruction numbers.

⁹ Although there are social costs such as job losses (which can often be temporary) and search costs.

¹⁰ Davis, S.J, Haltiwanger, J, Schuh, S (1994).

According to the report *Doing Business 2011: Measuring Business Regulations* by the World Bank and the International Finance Corporation, Australia ranks in the top 10 of 183 economies in the world in terms of starting a new business, getting credit and ease of doing business. When it comes to closing a business, Australia is ranked in 12th position (see Table 8). These rankings indicate the minimal barriers to entry and exit which exist for SMEs in Australia and could be indicative of an environment that facilitates innovation and entrepreneurship.

Table 8: Australia’s global rankings for starting and closing a business (rank out of 183)

Ease of doing business (rank)	10
Starting a business (rank)	2
Procedures (number)	2
Time (days)	2
Cost (per cent of income per capita)	0.7
Minimum capital (per cent of income per capita)	0.0
Getting credit (rank)	6
Closing a business	12
Time (years)	1.0
Cost (per cent of estate)	8
Recovery rate (cents on the dollar)	81.8

Data source: World Bank and the International Finance Corporation, 2011

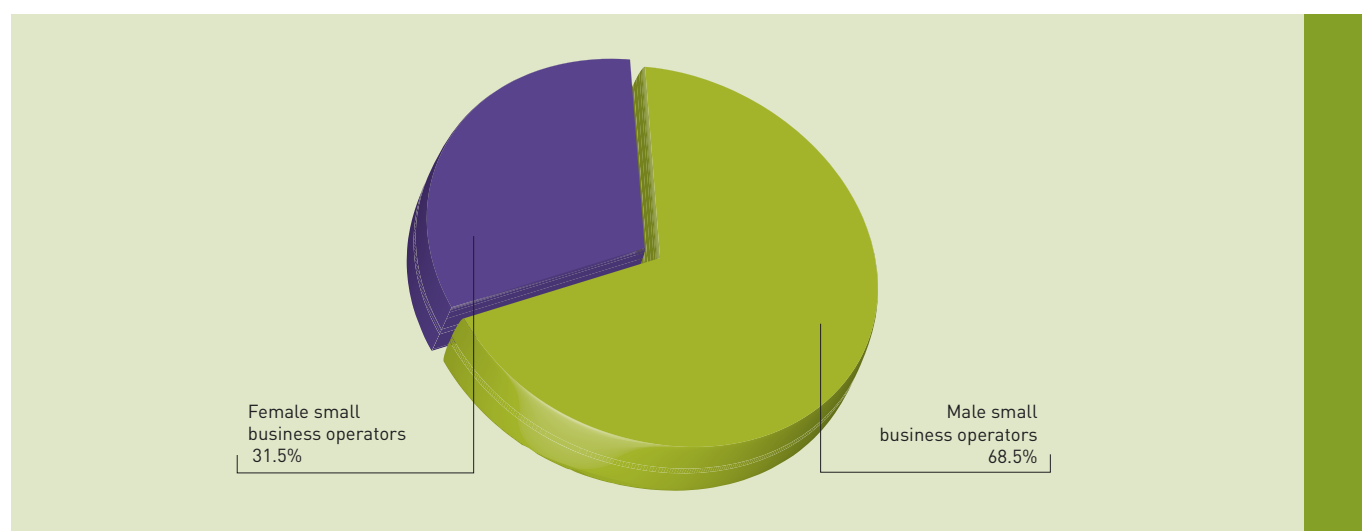
As the majority of new start-up ventures occur in small and medium-sized enterprises, it is important that the business environment fosters all aspects of the modern innovation process: creative destruction, knowledge spillovers and entrepreneurship.

Chapter 5: Characteristics of small business operators

DEMOGRAPHICS

As shown by Chart 13, as at June 2006 (the latest available data), 68.5 per cent of small business operators; were male and 31.5 per cent were female.

Chart 13: Male and female small business operators, June 2006

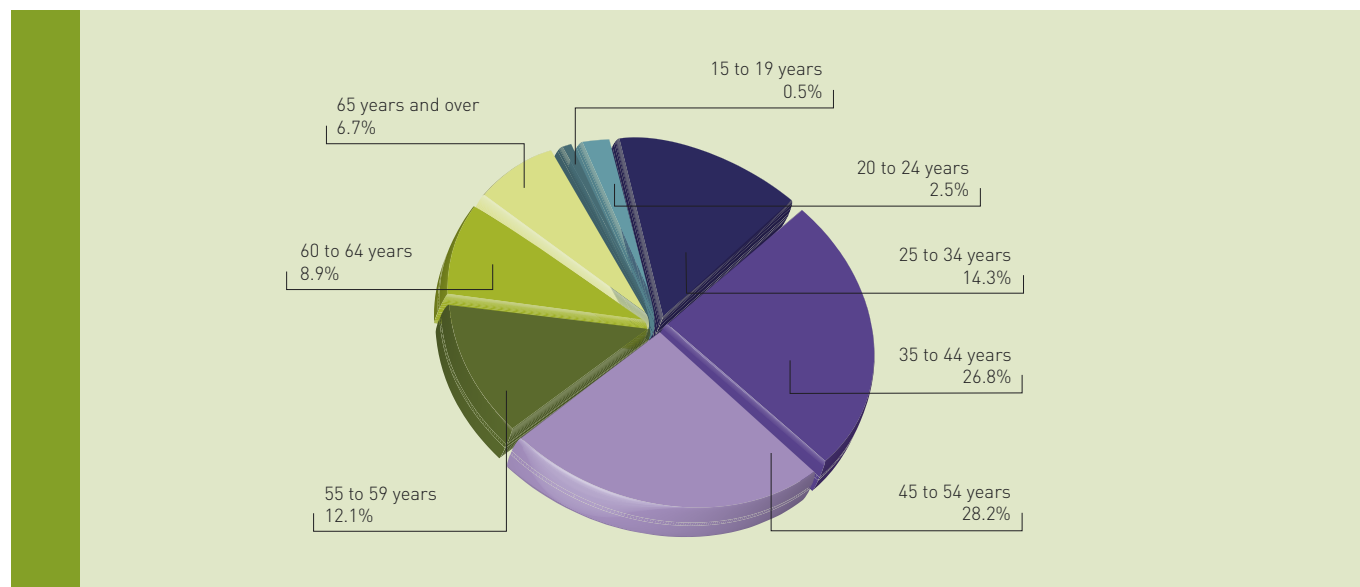


Data source: ABS Cat. No. 8175.0.

Chart 14 shows a breakdown of business operators by age (breakdown by business size is not available). The greatest number of business owners are aged 45 to 54 years old (28.2 per cent), followed by 35 to 44 years old (26.8 per cent), 55 to 59 years old (12.1 per cent) and 25 to 34 years old (14.3 per cent).¹¹ Less than 10 per cent of business operators are aged over 65 or less than 25 years of age.

¹¹ ABS Cat. No. 8175.0.

Chart 14: Business operators by age, all businesses, 2007



Data source: ABS Cat. No. 8175.0.

TIME SPENT AT WORK, ALL BUSINESSES

As at December 2008, almost 50 per cent of business owners estimated working more than 40 hours in a typical working week. Twenty-two per cent of business owners estimated working 41 to 50 hours, 18 per cent estimated working 51 to 70 hours, and 6 per cent estimated working over 70 hours. Of those owners estimating they worked less than 41 hours per week, 17 per cent estimated working 31 to 40 hours, 17 per cent estimated working 21 to 30 hours, 11 per cent estimated working 11 to 20 hours and 8 per cent estimated working 0 to 10 hours.¹²

TYPICAL INCOME OF SMALL BUSINESS OPERATORS

As at August 2006 (latest available data), 19.2 per cent of small business operators earned a gross weekly income of between \$400 and \$599. This was followed by 15.2 per cent of small business operators who earned a gross weekly income of between \$600 and \$799. A total of 1.5 per cent of small business operators earned a negative or nil gross weekly income and 3.0 per cent of small business operators earned a gross weekly income of between \$1 and \$149 (see Table 9).

¹² MYOB (2008).

Table 9: Typical gross weekly income of small business operators, 2006

Individual gross weekly income, small business operators, August 2006	Percentage of all small business operators
Negative or nil income	1.5
\$1 to \$149	3.0
\$150 to \$249	5.2
\$250 to \$399	11.2
\$400 to \$599	19.2
\$600 to \$799	15.2
\$800 to \$999	12.4
\$1000 to \$1299	12.4
\$1300 to \$1599	6.8
\$1600 to \$1999	4.2
\$2000 or more	8.8
Total	100.0

Data source: ABS Cat. No. 8175.0.

Note: May not sum to total due to rounding.

NUMBER OF SMALL BUSINESS OPERATIONS

In June 2006, around 92 per cent of all small business operators operated one business, 6 per cent operated two businesses and 2 per cent operated three or more businesses.¹³

GEOGRAPHIC LOCATION OF SMALL BUSINESS OPERATIONS

Table 10 shows that, unsurprisingly, most small business operators are located in major cities (64.8 per cent), followed by inner regional areas (20.9 per cent).

Table 10: Numbers of small business operators by 'remoteness area', 2006

Remoteness area	Percentage of all small business operators
Major cities	64.8
Inner regional Australia	20.9
Outer regional Australia	11.5
Remote Australia	2.0
Very remote Australia	<1.0

Data source: ABS Cat. No. 1216.0; ABS Cat. No. 8175.0.

Note: Remoteness categories are defined in the Australian Standard Geographical Classification (ASGC) Remoteness Structure

¹³ ABS Cat. No. 8127.0.

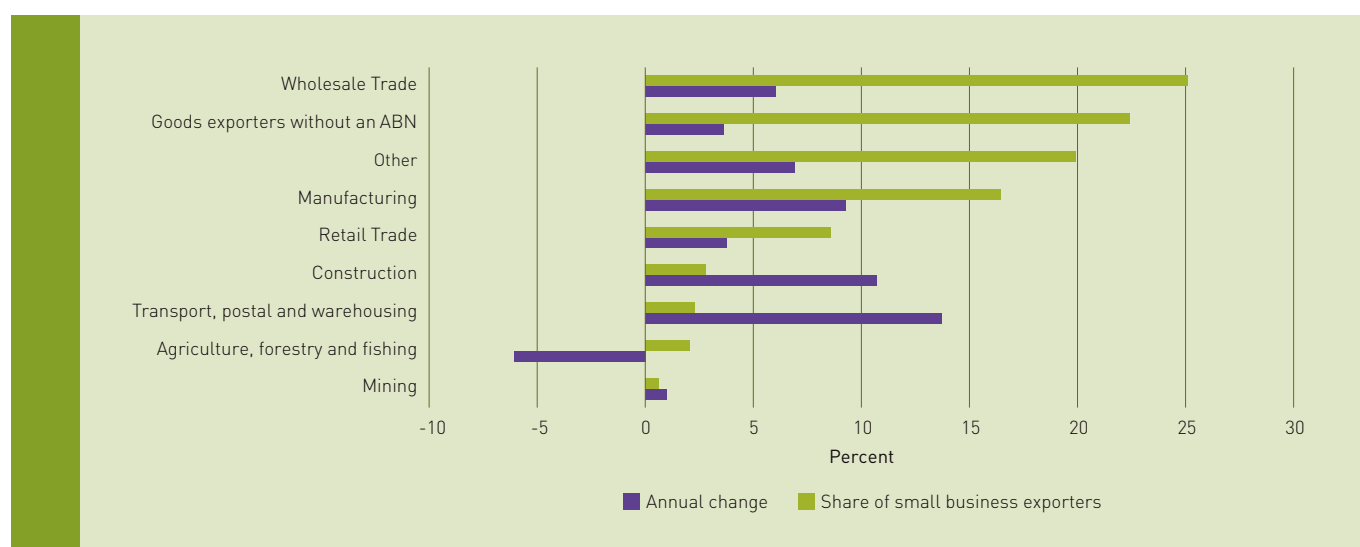
Chapter 6: Small business exports

NUMBER OF BUSINESSES EXPORTING GOODS

Approximately 17 521 small businesses¹⁴ exported goods in 2009–10 (up by 5.9 per cent from the previous year). This represents 41.1 per cent of all businesses exporting goods (up from 38.2 per cent in 2008–09).¹⁵ Almost 50 per cent of small exporters had their main operations in New South Wales (27.8 per cent) or Victoria (21.3 per cent). Around 35 per cent of small exporters in these states were from the *wholesale trade* subsector.

In 2009–10, around one quarter of small exporters were from the *wholesale trade* subsector, with a further 16 per cent from the *manufacturing* sector. Both of these sectors experienced an increase in the number of small exporters in 2009–10 although the *transport, postal and warehousing* subsector recorded the strongest increase (up by 13.7 per cent). The *mining* sector accounted for the lowest share of small exporters (0.6 per cent) in 2009–10, but recorded a 1.0 per cent increase in the number of small exporters from the previous year (see Chart 15).

Chart 15: Number of small business exporters by industry, 2009–10



Data source: ABS Cat. No. 5368.0.55.006, Table 5.1

VALUE OF GOODS EXPORTED

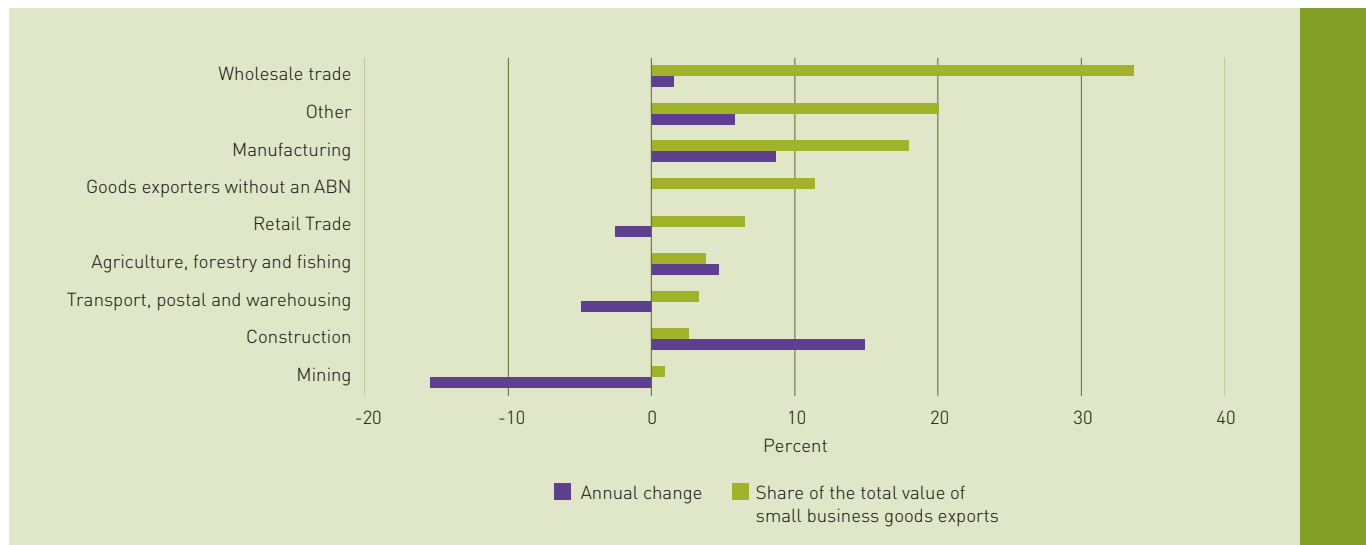
Small businesses exported goods to the value of \$1.2 billion in 2009–10, representing 0.6 per cent of the total value of goods exported (up from 0.5 per cent in 2008–09).

In 2009–10, around one third of the total value of small business exports was from the *wholesale trade* subsector, with a further 18 per cent from the *manufacturing* sector. Both of these sectors recorded annual increases in the value of exports, although the *construction* subsector experienced the largest increase (up by 14.8 per cent). Strong decreases in the value of exports by small businesses were recorded in the *mining* sector (down by 15.4 per cent), the *transport, postal and warehousing* subsector (down by 4.9 per cent) and the *retail trade* subsector (down by 2.5 per cent) (see Chart 16).

¹⁴ Small exporters are defined 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

¹⁵ ABS Cat. No. 5368.0.55.006.

Chart 16: Value of small good exports by industry, 2009–10



Data source: ABS Cat. No. 5368.0.55.006, Table 5.2

Chapter 7: 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) and MYOB, among others, undertake surveys specifically targeted towards small businesses.

These surveys measure business confidence, which is often used as an early indicator of the performance of small businesses. Surveys are usually released on a timelier basis than official statistics. Business surveys were closely watched during the global financial crisis for this reason.

Each of the surveys included in this chapter present similar results on recent economic conditions experienced by small businesses.

OVERALL SMALL BUSINESS CONDITIONS AND CONFIDENCE

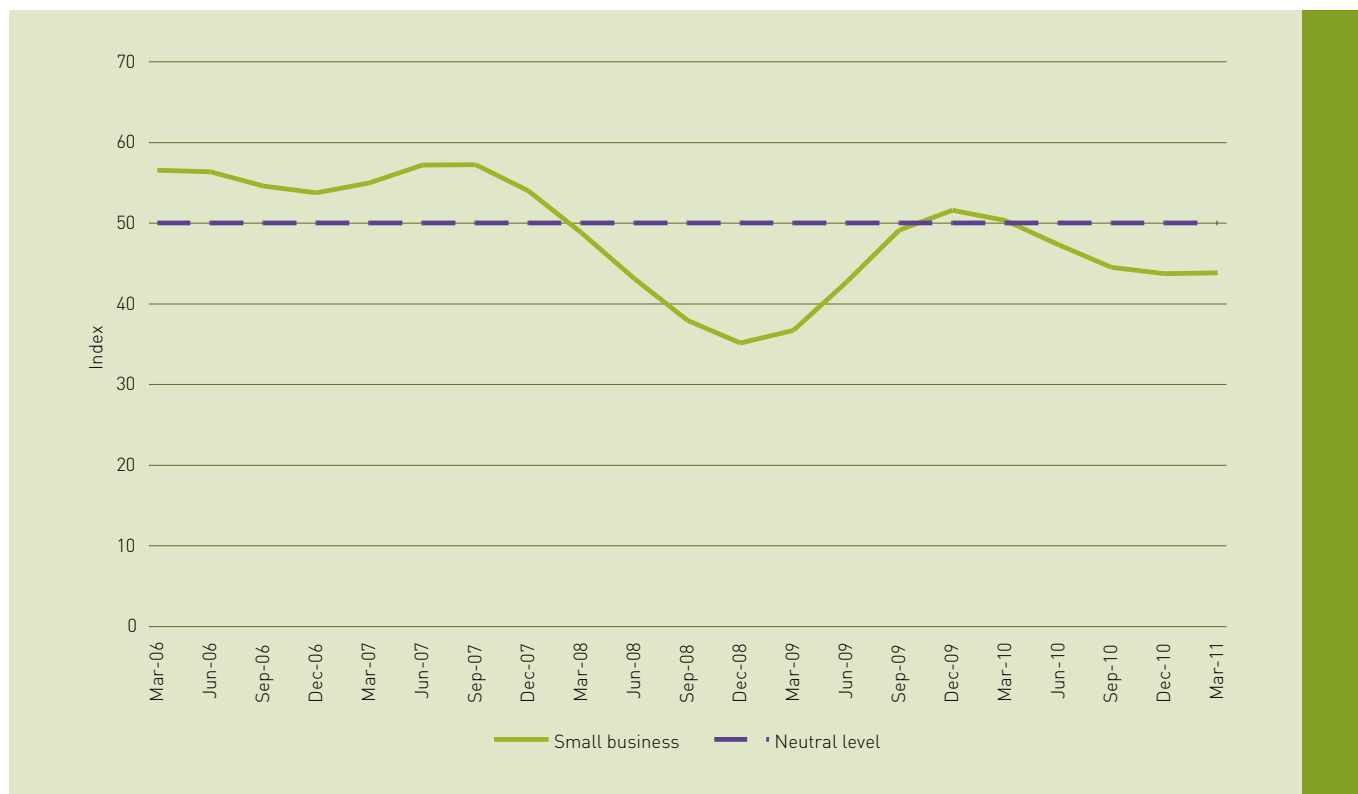
Business conditions indices are measures of current market conditions. It is often calculated as a composite index of measures such as labour conditions, profits, sales, input costs and selling prices reported by business owners. *Business confidence* indices provide an indication of sentiment of small business owners. 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.

The ACCI Small Business¹⁶ survey results show a second decline in small business conditions after the financial crisis. According to ACCI, this weakness could be associated with the recent natural disasters, the appreciation of the Australian dollar, the prospect of rising interest rates and taxes and ongoing global uncertainties.

Chart 17 clearly shows the financial collapse 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.

¹⁶ The quarterly ACCI Small Business survey captures conditions in businesses with less than 20 employees. An index of 50 indicates that there is an equal proportion of respondents who perceive business conditions to be improving and those who perceive conditions to be deteriorating. Therefore, any level above 50 is interpreted as improving business conditions and any level below 50 as deteriorating.

Chart 17: ACCI small business conditions



Data source: ACCI Small Business survey, Thomson Reuters EcoWin

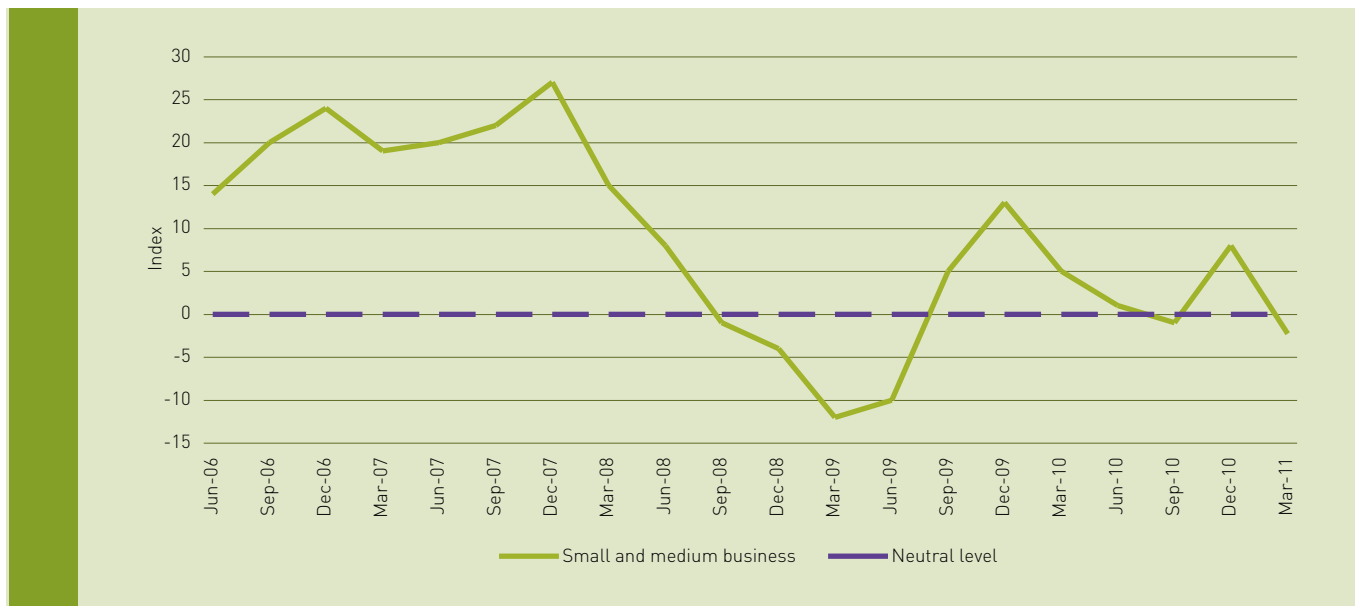
The ACCI Small Business Survey also captures small business expectations about business conditions in the next quarter. It is noted in the March quarter 2011 edition of the survey that small business conditions are expected to improve to be above the neutral level of 50 in the June quarter of 2011.

The NAB Small, Medium and Emerging (NAB SME) Business Survey¹⁷ also shows a large 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 Chart 18). This indicates that sentiment surveys can be a useful forward indicator for turning points in economic conditions.

Also, there was a decline in small business conditions in the December quarter 2009. This followed an initial improvement following the global financial crisis. Although there appeared to be an improvement in business conditions in the December quarter 2010, the most recent survey data shows a turnaround in small business conditions with the index falling to a negative net balance (below zero).

¹⁷ NAB conducts this survey to cover small, medium and emerging businesses 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. The NAB SME survey captures firms with annual turnovers between \$2 and \$10 million.

Chart 18: NAB SME survey business conditions



Data source: National Australia Bank SME Business Survey, Thomson Reuters EcoWin.

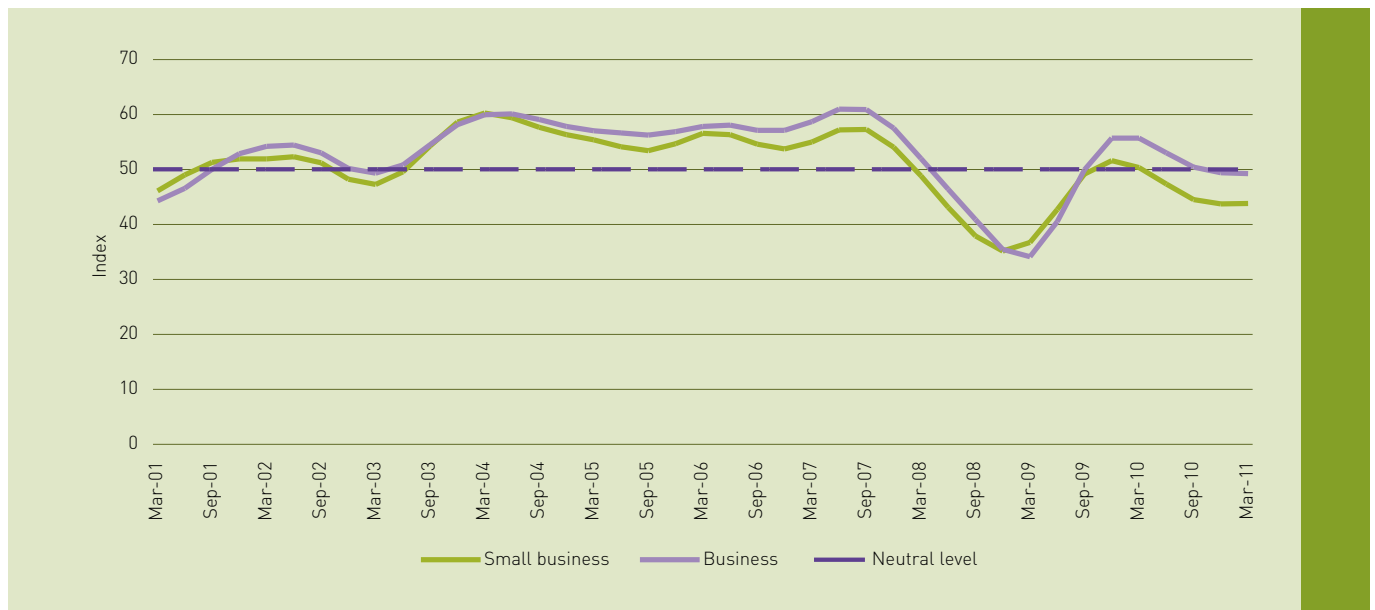
The March quarter 2011 survey indicated that the main challenge facing small businesses was borrowing costs, consisting of rising interest rates and tight credit conditions. The NAB SME survey has for several quarters identified borrowing costs as the main challenge affecting small businesses. The RBA policy interest rate started increasing in October 2009 after a period of decline. This suggests that if further interest rate increases are realised, business conditions will continue to remain subdued as small businesses experience difficulties as a result of the relatively higher cost of borrowing. See Chapter 8 for additional discussion.

SMALL BUSINESS CONDITIONS VERSUS TOTAL BUSINESS CONDITIONS

The comparison of small businesses with the whole economy may indicate areas that are more or less challenging to smaller operators. Over the past ten years, conditions indices of total and small businesses suggest small businesses are most often experiencing lower conditions than business as a whole. Since the December quarter 2009, the gap between small business and business as a whole has widened significantly. The September quarter 2010 yielded the greatest gap between business conditions and small business conditions in the history of the survey¹⁸ (see Chart 19).

18 The ACCI Small Business Survey was first published in 1996.

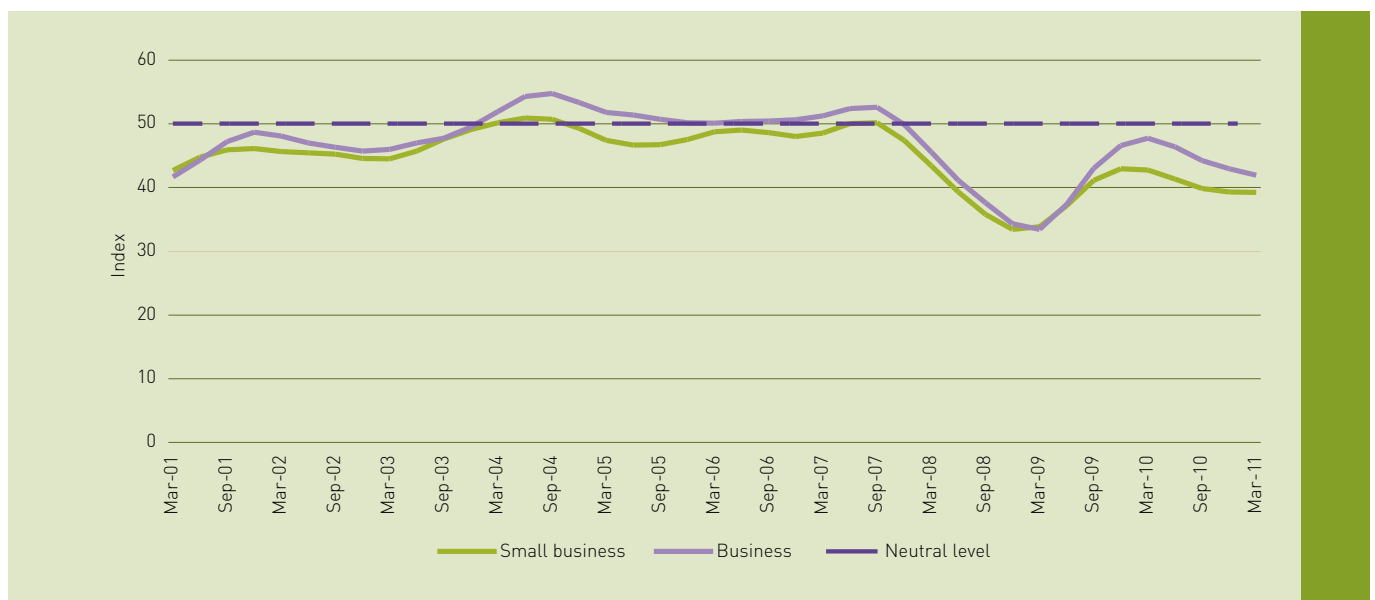
Chart 19: ACCI small business and total business conditions



Data source: ACCI Small Business Survey, Commonwealth Bank-ACCI Business Expectations Survey, Thomson Reuters EcoWin.

A potential driver of this gap is diverging profit growth conditions reported by small businesses and total businesses. This is illustrated in Chart 20.

Chart 20: ACCI profit growth confidence

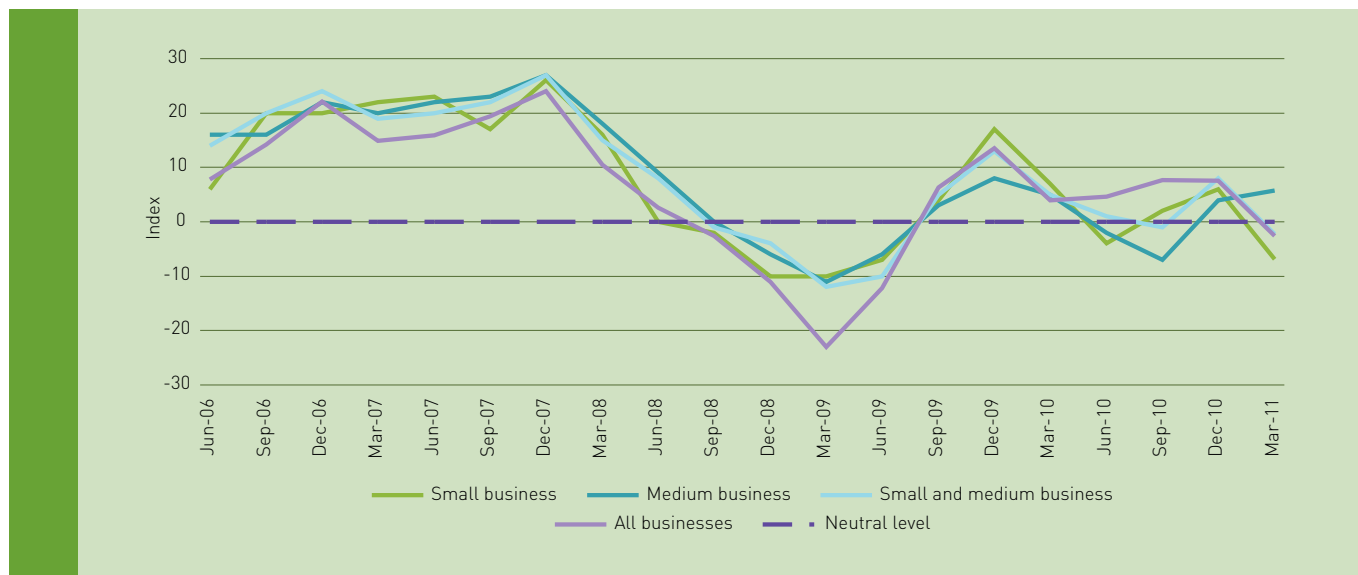


Data source: ACCI Small Business Survey, Commonwealth Bank-ACCI Business Expectations Survey, Thomson Reuters EcoWin.

Profit indices show a similar divergence to conditions indices, with small businesses reporting lower expectations for profit growth than businesses as a whole. Since the December quarter 2009 the gap between profit expectations for small businesses and total businesses has been large, with the largest gap in the history of the survey occurring in the June quarter 2010.

The NAB SME survey, which groups businesses according to their annual turnover, reported similar findings with respect to business conditions among different sized businesses (see Chart 21). Medium SMEs (or businesses with annual turnover of \$3-5 million) reported the lowest levels of business conditions from the June quarter 2010 to the December quarter 2010. In fact, small and medium enterprises were recorded as pessimistic about business conditions in the September quarter 2010 when overall business conditions were optimistic.

Chart 21: NAB SME survey measures of business conditions



Data source: NAB SME Business Survey, Thomson Reuters EcoWin

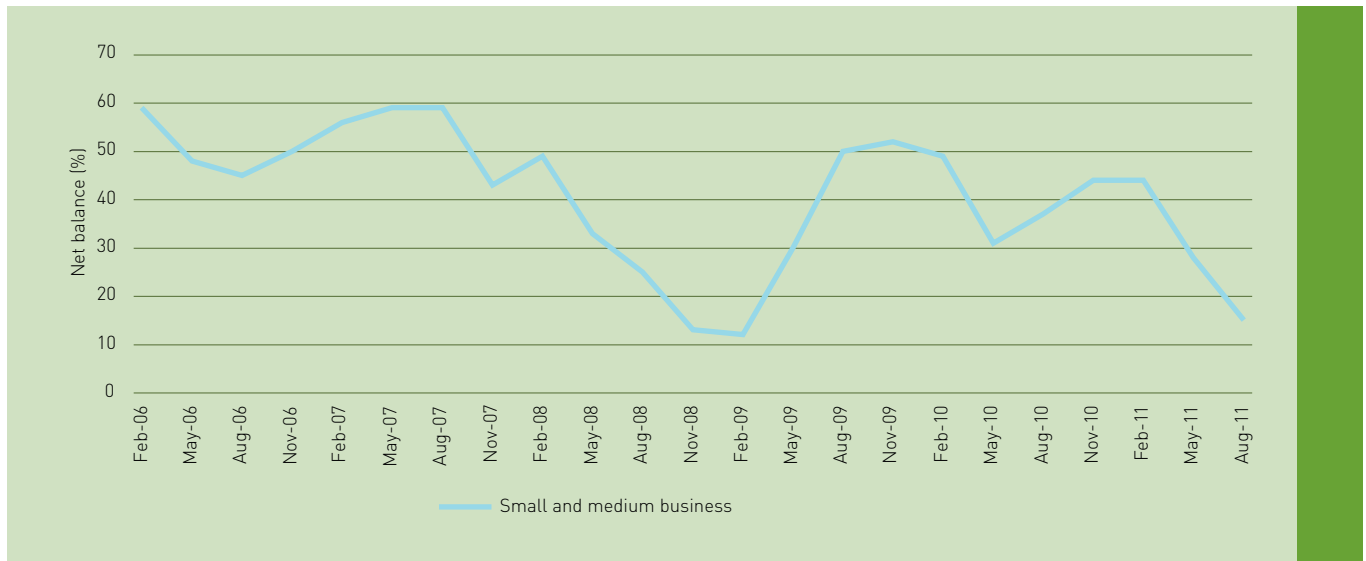
OVERALL SMALL BUSINESS CONFIDENCE

Small 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 more recently the data has suggested a decline below the neutral level¹⁹.

The Sensis Business Index indicates falling business confidence (see Chart 22). While the confidence index began to increase in the August quarter 2010, the index has fallen in the last two quarters.

¹⁹ 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.

Chart 22: Sensis SME business confidence

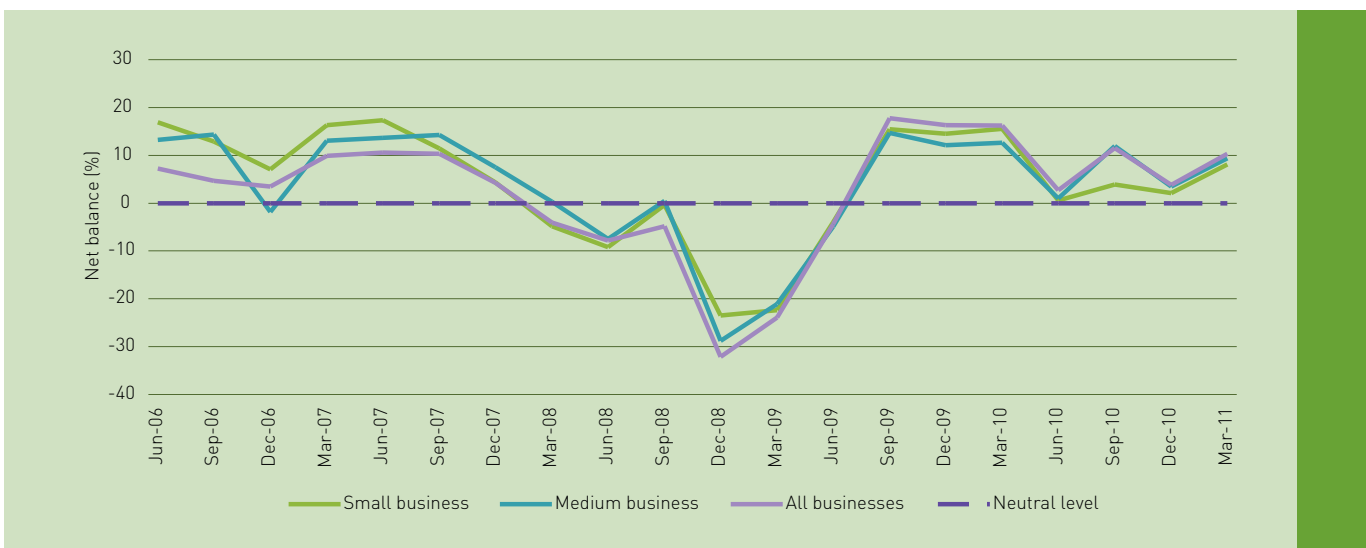


Data source: Sensis Business Index – Small and Medium Enterprises.

The survey found that businesses that indicated they were confident were mostly established and experienced businesses. These perceptions could have been aided by stable financial conditions in the Australian economy as interest rates remained relatively stable—increasing by 0.25 percentage points during the period May to October 2010.

The NAB SME survey also captures business confidence for small and medium enterprises, while the NAB Quarterly Business Survey measures overall business confidence. These surveys show that businesses of all sizes reported similar levels of business confidence. Chart 23 shows that all businesses reported a lack of confidence during the financial crisis and all recovered to be slightly confident about future conditions in more recent quarters.

Chart 23: NAB business confidence

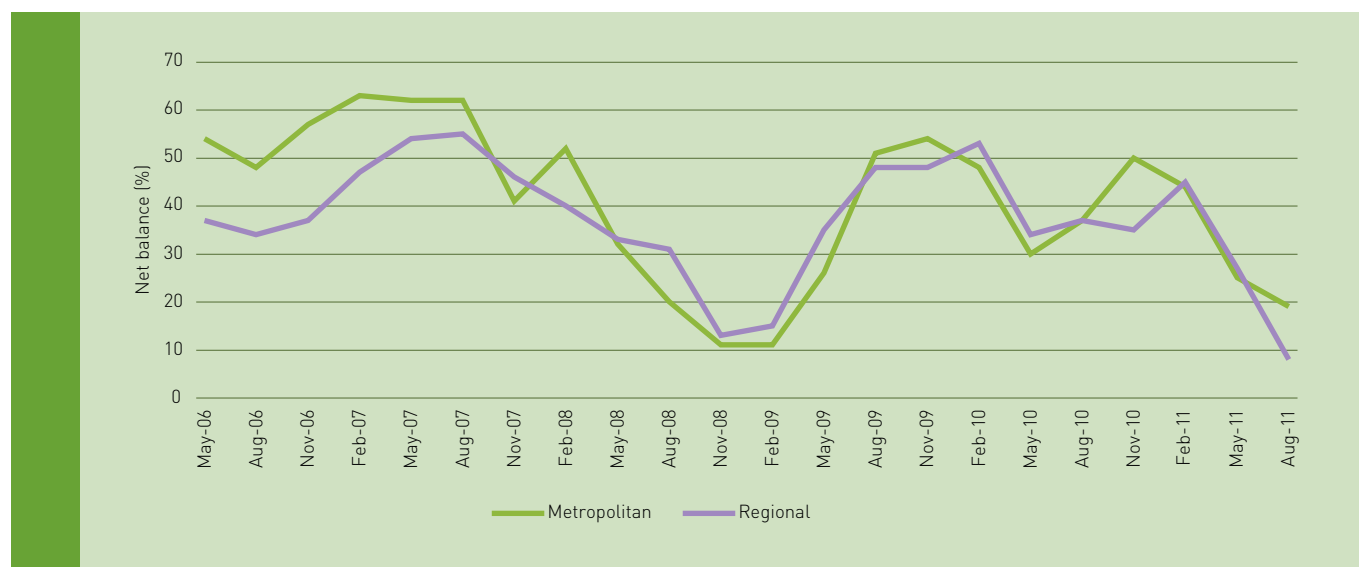


Data source: NAB SME Survey, NAB Quarterly Business Survey, Thomson Reuters EcoWin

METROPOLITAN AND REGIONAL SMALL BUSINESS CONFIDENCE

The Sensis Business Index makes a distinction between metropolitan and regional data in reporting business confidence²⁰. This survey data shows a similar decline in business confidence as seen in other surveys during the global financial crisis, particularly during late 2008 and early 2009. Chart 24 shows metropolitan small business confidence is more volatile than regional confidence. For example, metropolitan businesses reported lower business confidence during the financial crisis than regional businesses.

Chart 24: Sensis regional and metropolitan business confidence



Data source: Sensis Business Index – Small and Medium Enterprises

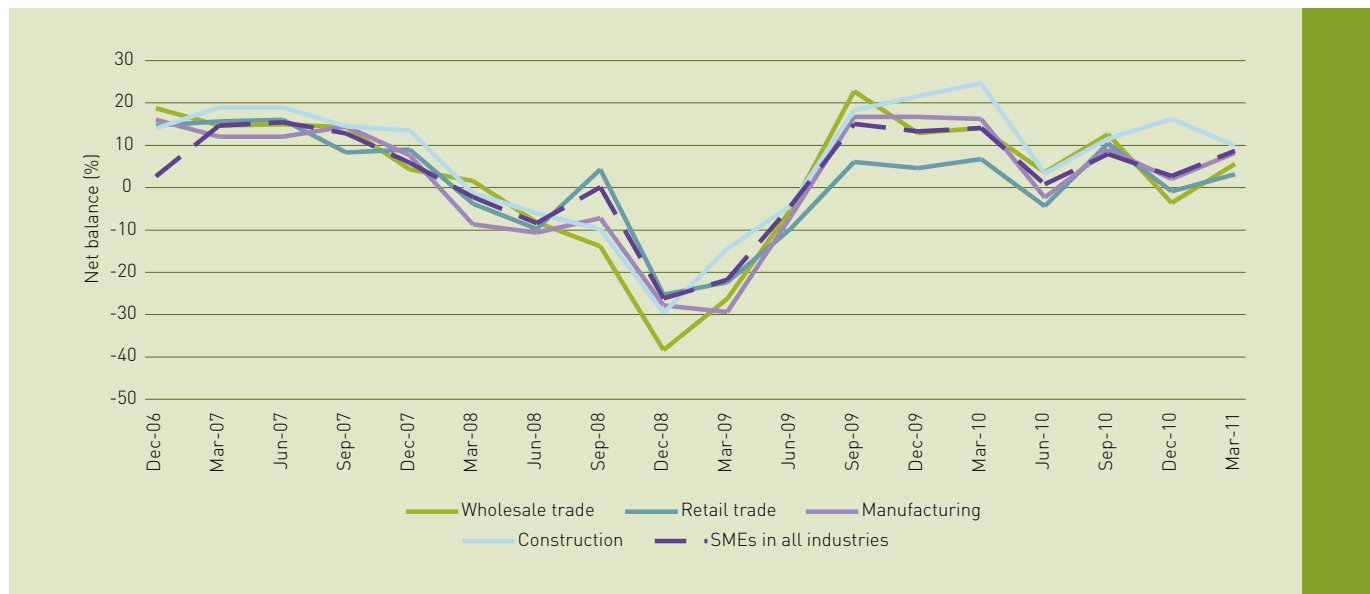
As illustrated in Chart 24, business confidence was much stronger in metropolitan areas than regional areas in November 2010. This could be due to 'metropolitan located businesses' being more able to cope with changes to the market than 'regional located businesses'. Regional business confidence has been less volatile than metropolitan in the past. However, the data does not indicate a long-term divergence in business confidence between metropolitan areas and regional areas.

BUSINESS CONFIDENCE BY INDUSTRY

Business confidence by industry is illustrated in Chart 25. During the financial crisis, small businesses in *wholesale trade* suffered the worst, yet have recovered strongly relative to small businesses in other industries. Small businesses in the *construction* sector performed well during the recovery and continue to report the most optimistic outlook in the most recent period. *Retail trade* small businesses have not recovered as strongly as small businesses in other industries, confirming the poor retail sales performance for the two years to January 2011. Overall, business confidence of small businesses is broadly the same across industries.

²⁰ Regional is defined in the Sensis survey as non-metropolitan.

Chart 25: NAB SME business confidence by industry



Data source: NAB SME Survey, Thomson Reuters EcoWin

Chapter 8: Small business access to finance

Access to credit is critical for the ongoing development of small businesses, as they rely on credit to fund almost all facets of a business life cycle, including start up costs, expansion and supporting business operations during times of low cash flow. However, small businesses often face higher costs from banks when accessing credit as they could be perceived to present a higher degree of financial risk, which can create barriers to growth and sustainability. This has been apparent during the global financial crisis and the subsequent economic downturn.

TRENDS IN SMALL BUSINESS ACCESS TO FINANCE

On 30 June 2010, the *Senate Economics Committee Inquiry into Access of Small Business to Finance* reported decreased competition, increased bank profit margins, and price leadership in the banking sector. According to the report, 'lending to small business has slowed since the global financial crisis and interest margins have widened. The outstanding value of smaller loans (under \$500,000) has fallen in the agricultural, manufacturing and financial sectors. Surveys of small businesses show that the availability and cost of finance remains a major concern'²¹.

The Senate Committee indicated that the fall in lending to small business could be attributed to a number of factors.

- Weaker sales during the global recession allowed businesses to build their capacity and reduced the need to borrow for investment
- Reduced confidence caused a more conservative attitude towards debt
- Fewer small businesses are able to meet existing lending standards
- The tightening of lending standards by financial intermediaries
- Non-bank lenders having fewer funds available as securitisation and interbank lending markets dried up and/or interest rates in them became prohibitive.

The 2010 Chartered Practising Accountants (CPA) survey²² of Australian and Asia-Pacific small businesses reported a general shift from using funding for *survival* to using funding for *growth*. However, according to the survey, small businesses were in a consolidation phase, with only around 26 per cent of businesses having a business loan. Further, only 25 per cent of small business owners reported needing additional funding to support their business outside of existing cash resources since 2009, with the main reasons for requiring additional funding being to *cover increasing expenses*, to *fund business growth* and for *business survival*.

In 2010, a much lower percentage of business owners required extra finance for *business survival*, *purchasing assets* and *funding stock purchases* compared with the year before. This reflects the shift from survival to growth. Of those businesses which reported requiring additional funding, 50 per cent obtained all or part of the additional funding from a bank in 2010, compared with 54 per cent in 2009, and 68 per cent in 2007–08.

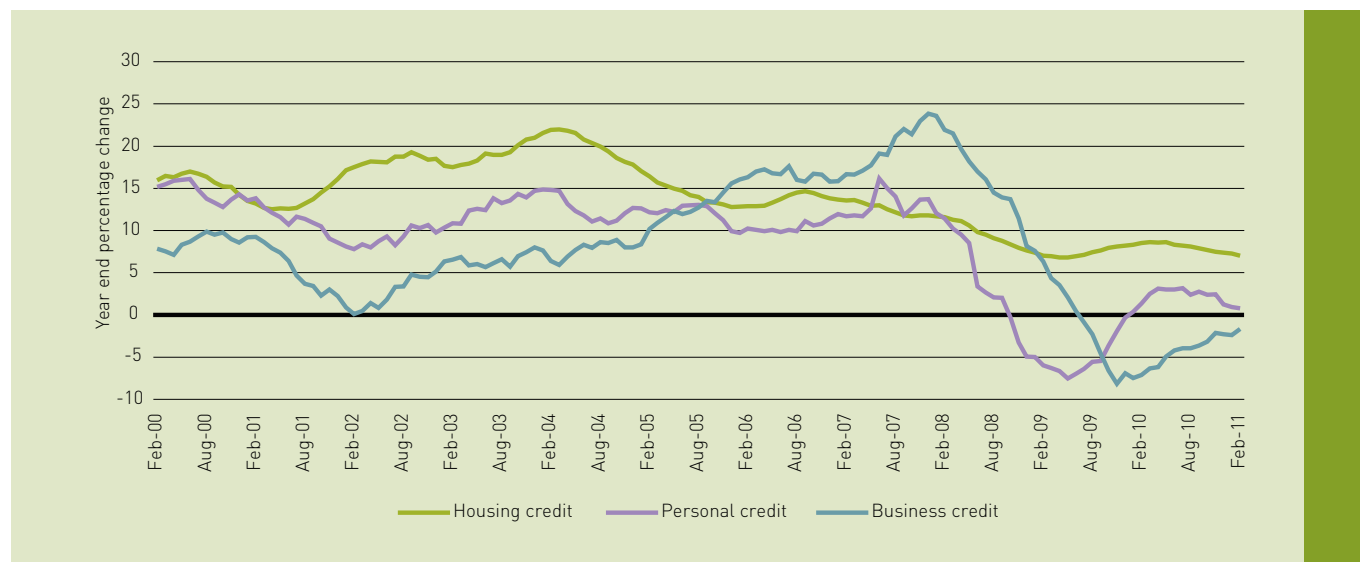
Regarding businesses expectations, the proportion of businesses expecting to *definitely* require additional finance in the next 12 months was reported at around seven per cent, while the proportion expecting to *possibly* require additional finance was 33 per cent.

²¹ The Senate Economics References Committee (2010).

²² CPA Australia (2010).

Chart 26 shows that prior to the global financial crisis, total business credit (for all business sizes) was expanding at an annual rate of around 20 per cent. However, the annual growth rate decreased after peaking at around 23 per cent in January 2008. The slow-down in growth continued until July 2009, when lending to the business sector began to contract. While the rate of contraction has eased since November 2009, the growth rate remains negative.

Chart 26: Growth in selected financial aggregates*



*Data does not distinguish between businesses by size

Data source: RBA Table D1

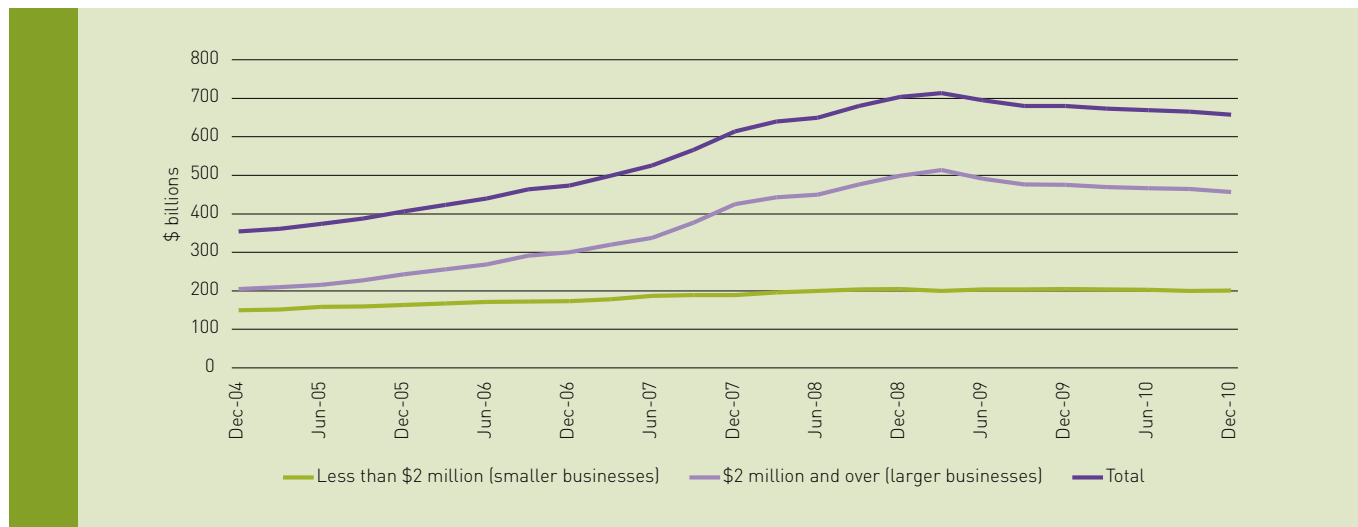
The Senate Economics Reference Committee suggested that the size of a business loan is a likely proxy for the size of the borrower and loans under \$2 million were assumed to be predominately directed at smaller and medium-sized businesses²³.

Chart 27 shows the value of outstanding loans to smaller sized businesses (loans under \$2 million) has grown steadily, from around \$100 billion in the September quarter 2000 to a peak of just over \$200 billion in the December quarter 2008. Since then, the outstanding value of loans to smaller businesses has been relatively stable, fluctuating moderately around \$200 billion up to the September quarter 2010. In contrast, the value of outstanding loans to larger sized businesses (loans of \$2 million or over) increased strongly from around \$150 billion in the September quarter 2000 to around \$500 billion by the December quarter 2008. Since then, the value of outstanding loans to larger sized businesses has fallen steadily to its current level of around \$465 billion.

The strong growth in the outstanding value of loans to larger businesses has also changed the composition of the total value of outstanding loans. Where the value of loans to smaller businesses constituted around 40 per cent of the total value of outstanding loans in the September quarter 2000, it had fallen to under 28 per cent by the March quarter 2009 and rose slightly to around 30 per cent by the September quarter 2010.

23 The Senate Economics References Committee (2010).

Chart 27: Bank lending to 'small' and 'large' business borrowers*

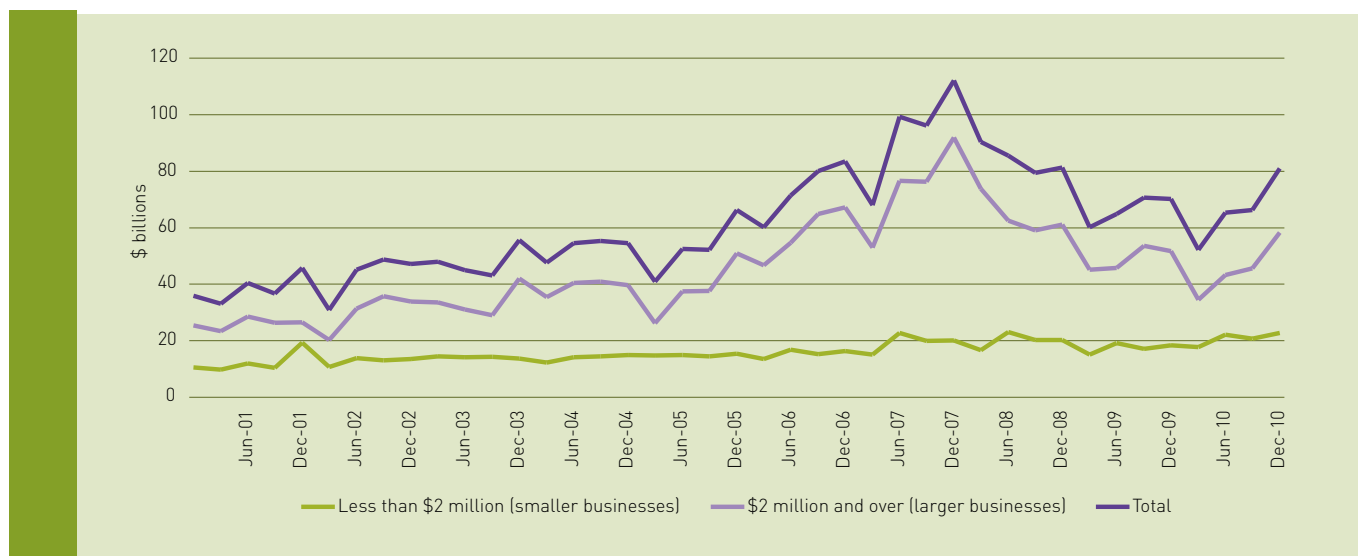


Data source: RBA Table D7

* Loans under \$2 million are assumed to be predominantly directed at "smaller businesses", while loans \$2 million and over are assumed to be predominantly directed at "larger businesses".

Chart 28 reflects similar trends. The value of new credit approvals for loans to smaller businesses has grown moderately since the September quarter 2000 to a peak of \$23 billion in the June quarter 2008. The value of credit approvals to smaller businesses has been relatively stable since then, fluctuating around \$20 billion. On the other hand, while the value of new credit approvals for loans to larger businesses has grown, it has done so more sporadically, but overall at a much faster rate, increasing from around \$30 billion in the September quarter 2000 to a peak of around \$91 billion in the December quarter 2007. Since then, the value of new credit approvals to larger businesses has fallen sharply, reaching a five year low of \$34 billion in the March quarter 2010 before rebounding slightly to \$45 billion by the September quarter 2010.

Chart 28: New credit approvals—by size*



* Loans under \$2 million are assumed to be predominantly directed at "smaller businesses", while loans \$2 million and over are assumed to be predominantly directed at "larger businesses".

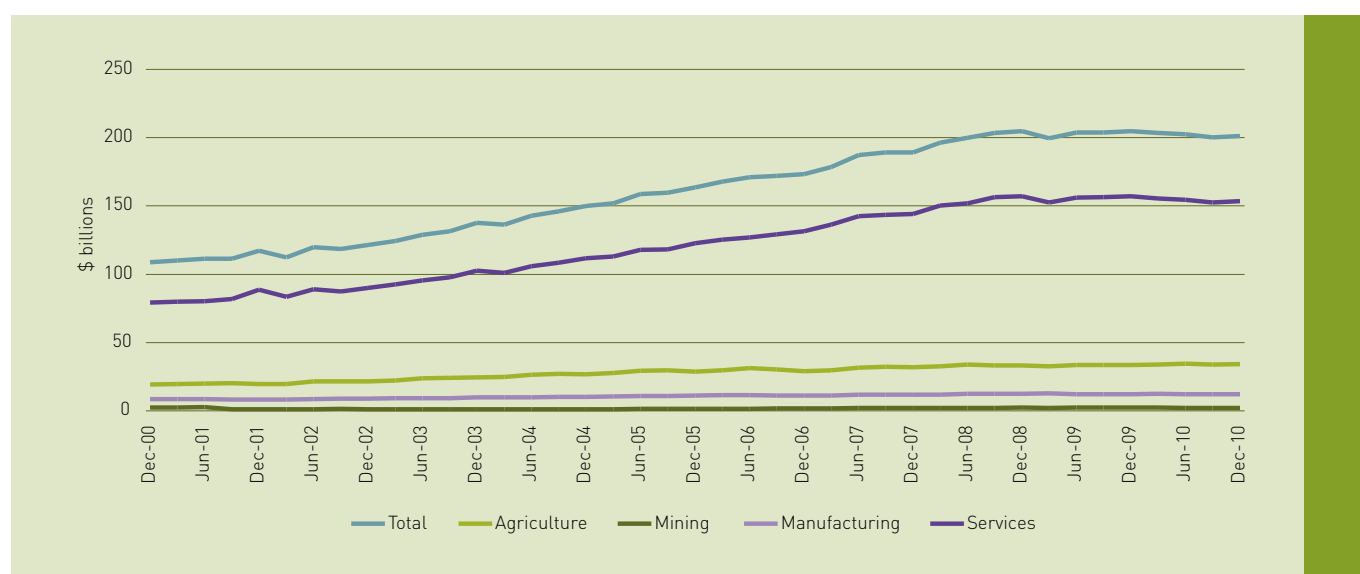
Chart 29 breaks down the value of outstanding bank loans to smaller businesses by industry²⁴. The services sectors constitute the vast majority of smaller business borrowers, which predominately reflects the large proportion of small businesses that make up the services sectors.

24 RBA industry breakdowns reflect ABS ANZSIC industry classifications

The value of outstanding loans to the smaller *services* businesses grew considerably over the eight years to the September quarter 2008 (up from \$45 billion to \$93 billion). Over the next two years, the value of outstanding loans to smaller *services* businesses has fluctuated broadly between \$85 billion and \$93 billion. The value of loans to smaller *agricultural* businesses has also grown steadily, from around \$20 billion to \$34 billion in the 10 years to the September quarter 2010.

However, growth has been at a lesser rate compared with the *services* sector and the fluctuations evident in loans to businesses in the *services* sector are much less evident. Similarly, the value of outstanding loans to smaller sized *manufacturing* businesses has grown but only moderately, increasing from \$8 billion to \$12 billion in the 10 years to the September quarter 2010. The value of outstanding loans to smaller sized *mining* businesses has increased from \$1 billion to \$2 billion in the 10 years to the September quarter 2010. This is primarily due to the relatively minor number of small businesses that make up the *mining* sector relative to larger sized businesses.

Chart 29: Value of outstanding bank loans to 'small' business borrowers (i.e. loans < \$2 million) by industry



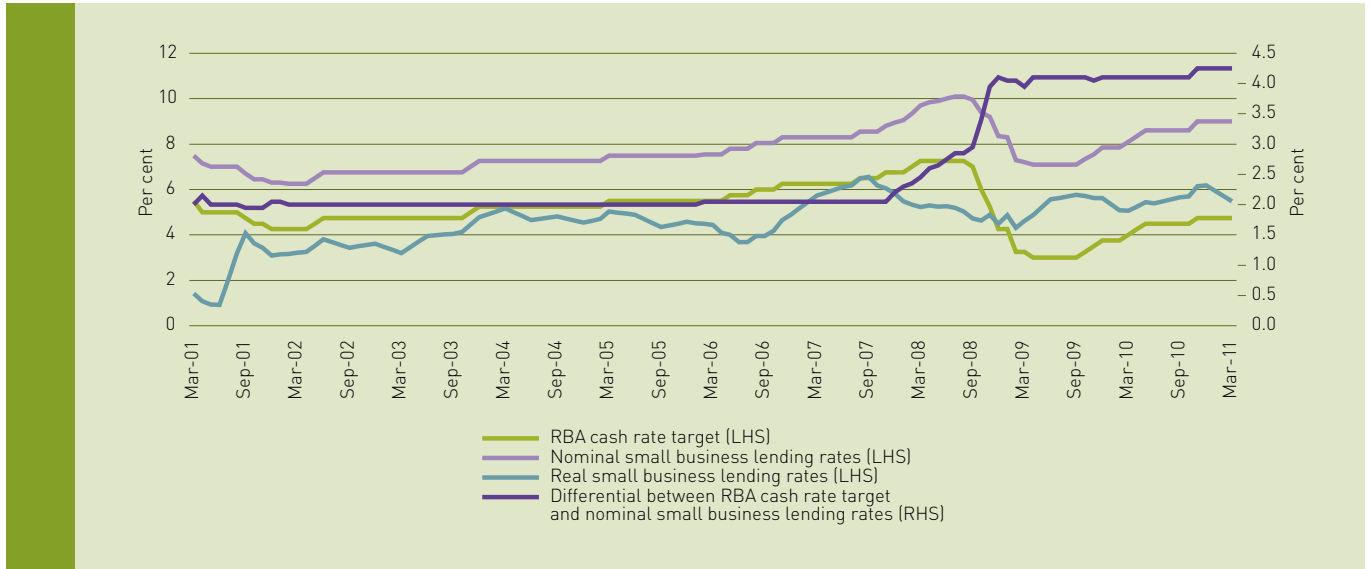
Data source: RBA Table D7

TRENDS IN INTEREST RATES ON SMALL BUSINESS LOANS

During the financial crisis the Reserve Bank of Australia instituted monetary policy easing, which saw the official cash rate target drop from 7.25 per cent to 3 per cent between August 2008 and September 2009. Since September 2009, monetary policy has tightened and the RBA has increased the official cash rate target from 3 per cent in September 2009 to 4.75 per cent in March 2011 (see Chart 30).

The real small business lending rate reflects the cost of finance for small business, adjusted for inflation. In December 2010, the real small business lending rate was just 0.4 percentage points below its peak in September 2007, while the nominal cash rate target was 1.8 percentage points below September 2007. Small businesses are experiencing similar real lending rates to those prior to the global financial crisis, while the rest of the economy is experiencing much lower levels of interest. 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 beginning around September 2007.

Chart 30: RBA small business indicator rate vs. the RBA cash rate target ²⁵



Data source: RBA Table F05

²⁵ RBA Table F05.

Chapter 9: Innovation

The Department of Innovation, Industry, Science and Research, in its key innovation policy framework, describes innovation as follows:

'Innovation is the key to making Australia more productive and more competitive. It is the key to answering the challenge of climate change, the challenge of national security, the challenges of disease and want. It is the key to creating a future that is better than the past. It has the power to transform existing industries — enabling them to operate more efficiently, to deliver improved products and services, and to win new market' ²⁶.

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' ²⁷.

ABS survey data shows that small firms generally innovate less than larger firms. Table 11 shows that a little over 35 per cent of businesses employing less than 5 people undertook innovative activity in 2009–10, while almost 55 per cent of small businesses employing 5–19 people undertook innovative activity in the period. This figure remains well below the 61 per cent for medium-sized firms and 74 per cent for larger firms.

Table 11: Summary of innovative activity in Australia by business size, 2009–10

	BUSINESSES WITH INNOVATIVE ACTIVITY WHICH WAS:			Businesses with any innovative activity (innovation-active businesses)
	Businesses which introduced innovation (innovating businesses)	Still in development	Abandoned	
Employment size	%	%	%	%
0–4 persons	30.5	15.0	6.5	35.7
5–19 persons	49.2	26.4	8.5	54.7
20–199 persons	56.6	30.4	8.8	61.2
200 or more persons	69.7	44.5	9.4	74.3

Data source: ABS Cat. No. 8166.0, Data Cube 3, Table 1

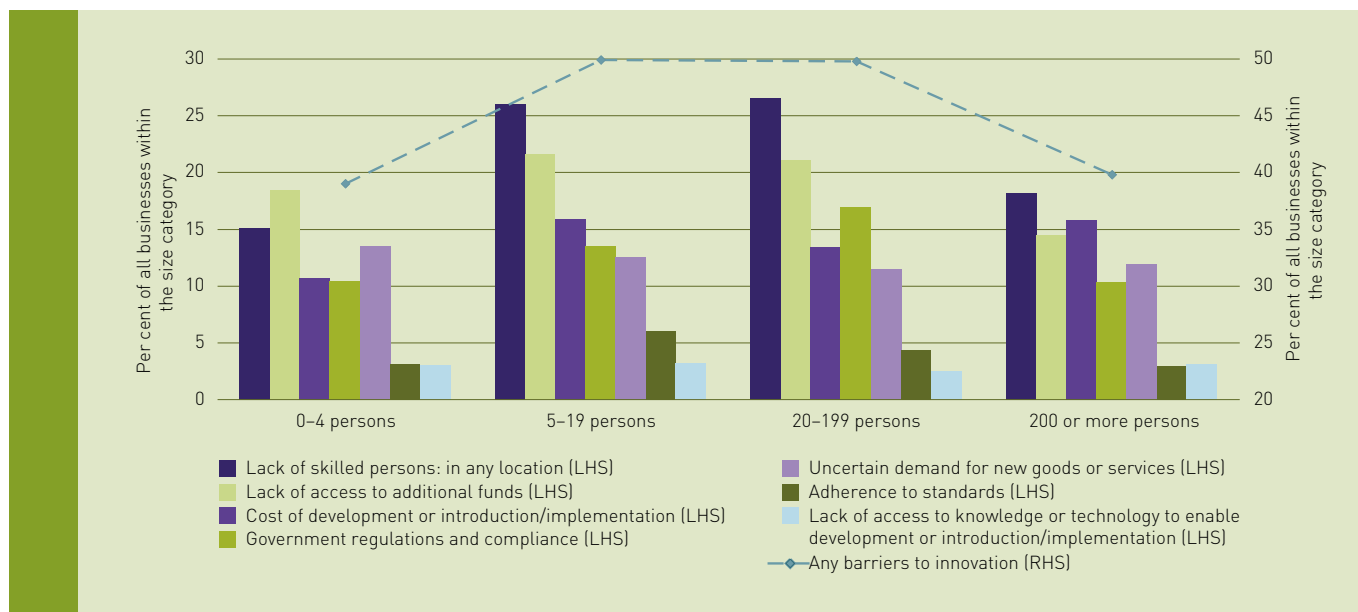
ABS survey data indicates small businesses employing 5–19 persons and medium businesses experience more barriers to innovation than their larger and smaller counterparts, with almost 50 per cent reporting barriers to innovation. Of the large business respondents, approximately 40 per cent experience barriers to innovation—this is similar for businesses employing less than 5 people (see Chart 31). The most reported barrier to innovation by businesses employing less than 5 people was lack of access to additional funds, while all other business sizes reported the lack of skilled persons in any location, that is, within the business or within the labour market as the main barrier to innovation.

Although only 36 per cent of all businesses employing less than 5 people undertook innovative activity in 2009–10, almost 40 per cent of all businesses employing less than 5 people reported barriers to innovation in the previous year. With a greater proportion of businesses within this category reporting any barrier to innovation than those actually undertaking innovative activity, there is potential for more firms to undertake innovative activity with the removal of barriers.

²⁶ Department of Innovation, Industry, Science and Research (2009), pages 1 and 13.

²⁷ ABS Cat. No. 8166.0. The ABS definition complies with the international standard OECD definition.

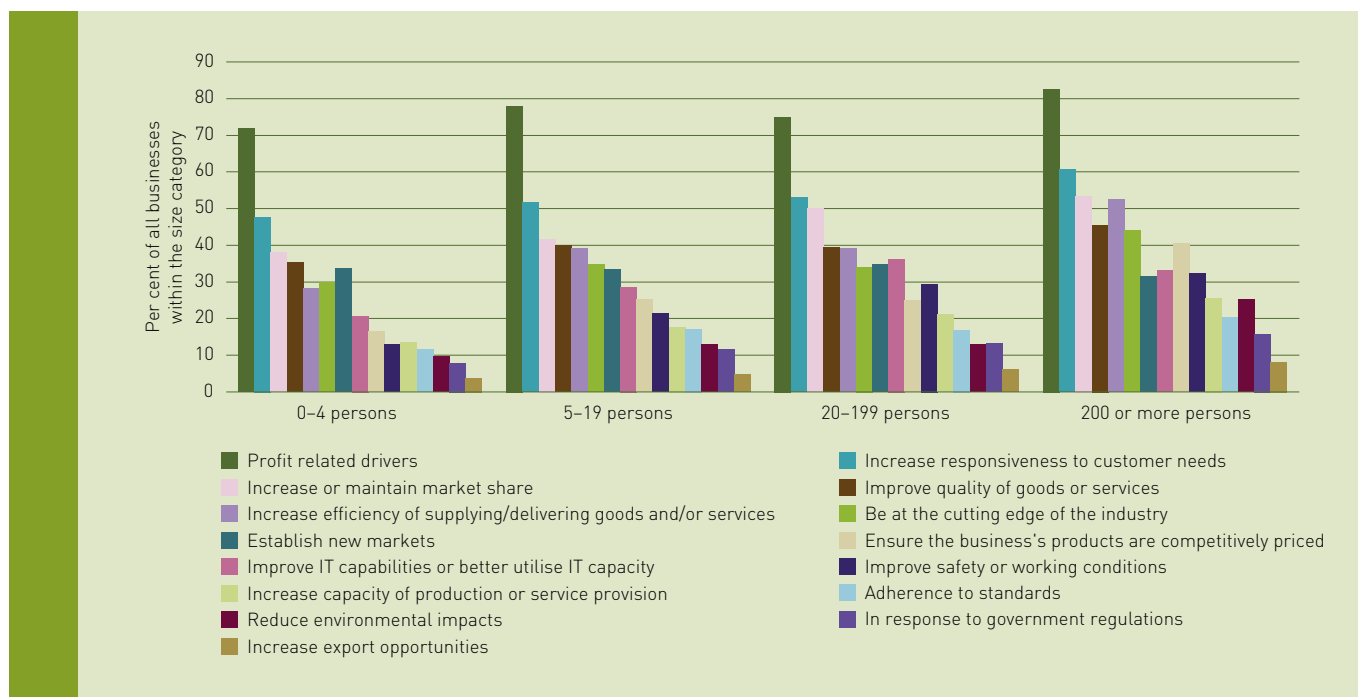
Chart 31: Barriers to innovation, 2008–09²⁸



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

The three main drivers of innovation in businesses, independent of size, are *profit related drivers*, followed by *increase responsiveness to customer needs*, and *to increase or maintain market share*. The lowest driver of innovation is to *increase export opportunities*. Businesses employing less than 5 people regard *establishing new markets* as a more important driver of innovation compared with the other business sizes (see Chart 32).

Chart 32: Drivers of innovation, 2008–09



Data source: ABS Cat. No. 8158.0, Data Cube 7, Table 1

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

Chapter 10: Research and development

The Department's Powering Ideas emphasises the importance of research and development (R&D) in the context of innovation as follows:

'Innovation takes many forms, but it still relies heavily on formal research and development. This is obviously true of technological innovation, but it is also true of innovation in other spheres — whether it be in social policy, business management, or the creative arts. Australia's capacity for paradigm-shifting, new-to-the-world innovation still depends very much on how many researchers we have, how good they are, what research equipment and facilities they have access to, and how well connected they are to industry and the wider world'²⁹.

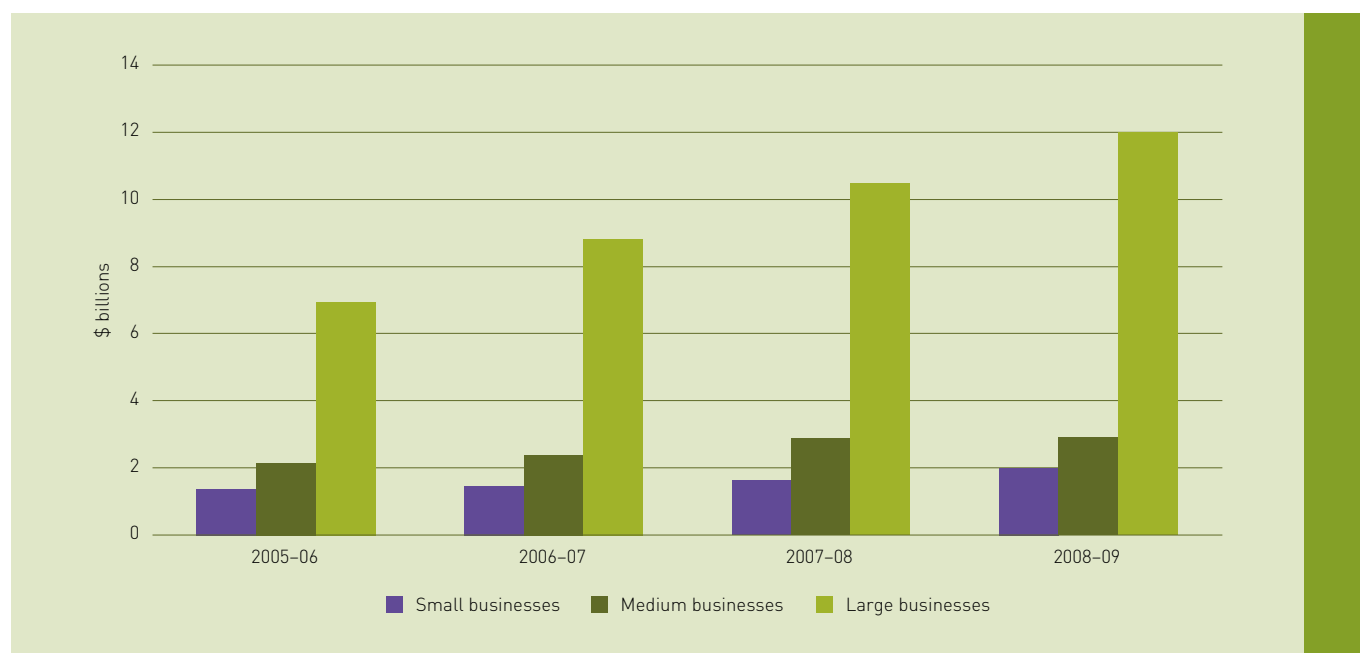
The ABS defines R&D activity as:

'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'³⁰.

R&D includes business expenditure on R&D (known as BERD), higher education expenditure on R&D (known as HERD) and government expenditure on R&D (known as GOVERD). This chapter only focuses on BERD.

In 2008–09, businesses spent around \$16.9 billion on R&D. Small businesses spent approximately \$2.0 billion, well below the \$2.9 billion spent by medium-sized businesses and \$12.0 billion spent by large businesses (see Chart 33). Small business expenditure on R&D represented around 0.7 per cent of small business industry value added³¹ in 2008–09, medium-sized business expenditure on R&D represented approximately 1.5 per cent of medium-sized business industry value added and large business expenditure on R&D represented around 3.4 per cent of large business industry value added.

Chart 33: Business expenditure on research and development by business size



Data source: ABS Cat. No. 8104.0, Data Cube 2, Tables 1.1 to 1.4.

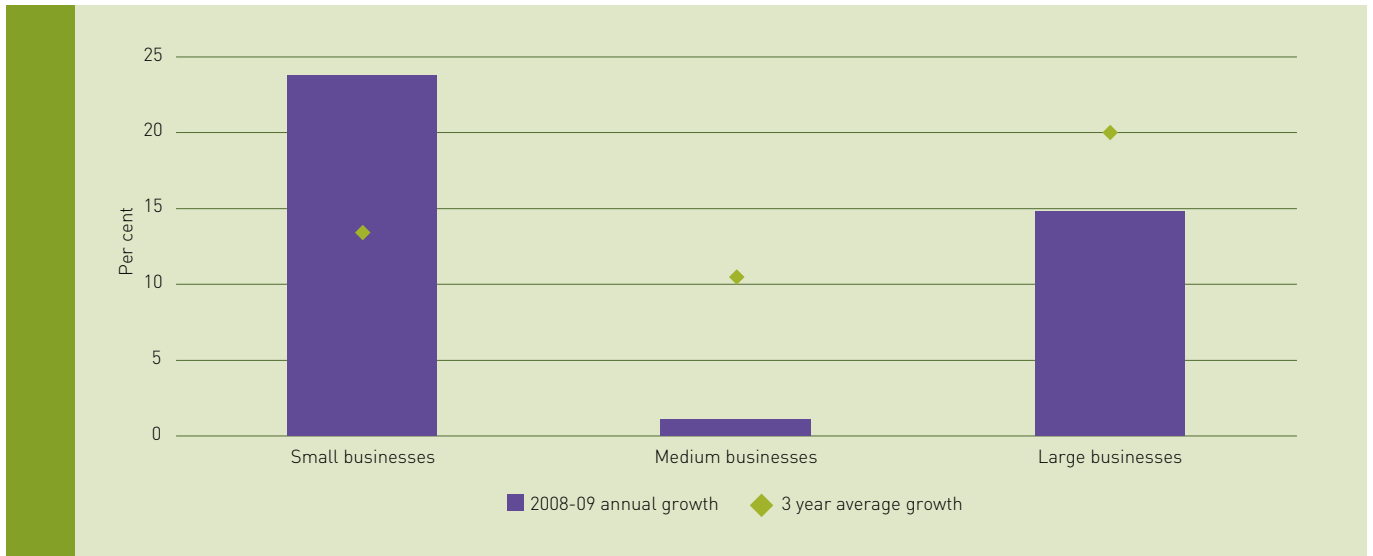
²⁹ Department of Innovation, Industry, Science and Research (2009), page 31.

³⁰ ABS Cat. No. 8104.0.

³¹ Industry value added only refers to the private sector.

In 2008–09, business expenditure on R&D by small businesses increased significantly (up by 23.7 per cent), well above its 3-year annual average growth rate of 13.4 per cent. R&D by all other business sizes grew much slower than the 3-year annual average growth rates. R&D expenditure by medium-sized businesses increased by only 1.1 per cent compared with its 3-year growth rate of 10.5 per cent, while R&D expenditure by large businesses increased by 14.8 per cent, slightly lower than its 3-year growth rate of 20.0 per cent (see Chart 34).

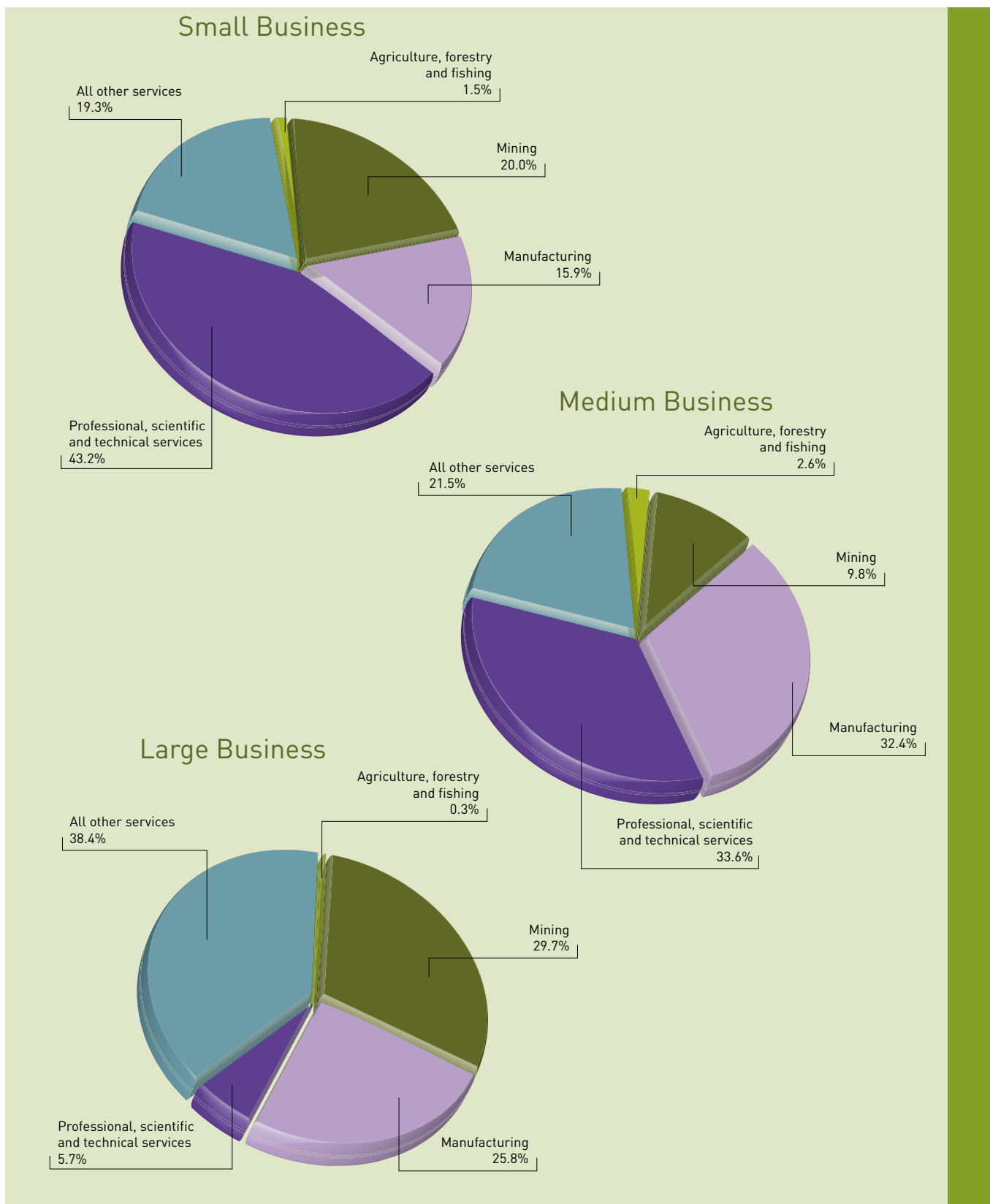
Chart 34: Annual growth in business expenditure on research and development by business size, 2008–09



Data source: ABS Cat. No. 8104.0, Data Cube 2, Tables 1.1 to 1.4.

The greatest share of total R&D expenditure in 2008–09 was in the *manufacturing* sector. However, it did not have the greatest overall share in any of the business sizes. The *professional, scientific and technical* sector accounted for the greatest share of R&D expenditure for all business sizes employing less than 200 persons, while the *mining* sector represented the greatest share of expenditure on R&D for businesses employing over 200 persons (see Chart 35).

Chart 35: Share of total BERD by business size and sector, 2008–09



Data source: ABS Cat. No. 8104.0, Data Cube 2, Table 1.4

Chapter 11: e-commerce

Electronic commerce (e-commerce) refers to the buying and selling of goods and services over the internet. The information economy, of which e-commerce is a fundamental part, offers enormous benefits to small and medium-sized businesses. E-commerce assists Australian 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.

Since data was first collected by the ABS in 2005–06, the uptake and prevalence of businesses with internet access has increased significantly. In addition, there is a strong trend of businesses shifting from a dial-up internet connection to broadband internet access. Further, the data reflects a positive shift towards the placing and receiving of orders online as businesses and consumers have become more comfortable with the online environment.

BUSINESS USE OF THE INTERNET

From the period 2008–09 to 2009–10 the proportion of micro businesses with internet access decreased by 0.4 percentage points, while the proportion of other small businesses with internet access decreased by 0.1 percentage points. In 2009–10, around 29.2 per cent of micro businesses had a web presence, compared with other small businesses (51.5 per cent) and large businesses (94.0 per cent). In 2009–10 the proportion of businesses placing orders via the internet increased in the other small and medium business populations by 1.6 percentage points and 4.6 percentage points respectively (see Table 12).

Table 12: Summary of information technology in Australian businesses, 2008–09 to 2009–10

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
2008–09	%	%	%	%	%
0–4 persons	87.7	31.2	97.8	40.6	23.5
5–19 persons	93.8	53.3	98.4	52.8	31.8
20–199 persons	98.0	70.0	98.8	58.7	35.3
200 or more persons	99.0	95.1	99.8	75.1	35.9
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

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

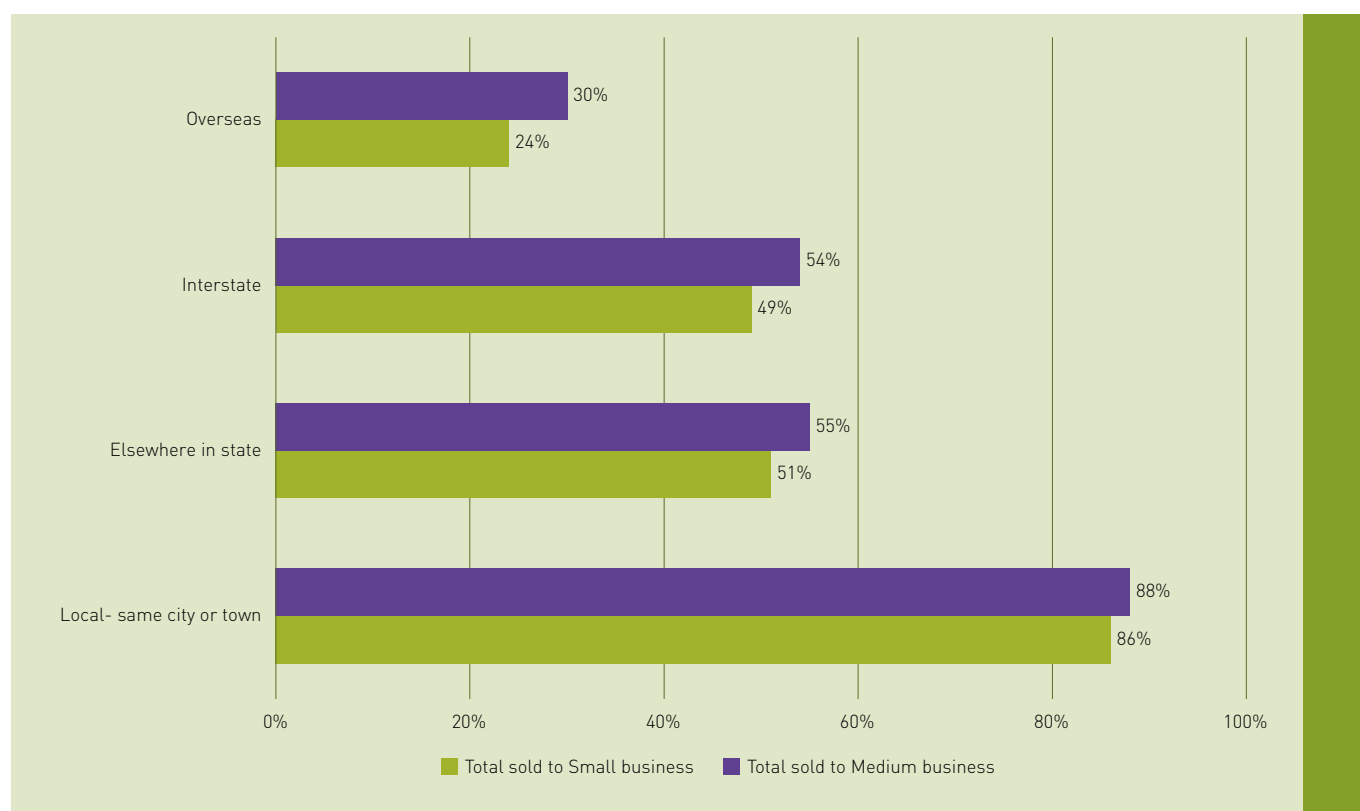
The Sensis e-Business report (2010)³² found that among the businesses that had computers, but were not connected to the internet, the main reason given by small and medium-sized enterprises (SMEs) was that they did not trust the internet to protect their information (45 per cent). A further 20 per cent cited lack of knowledge. For SMEs expecting to connect to the internet for the first time within the next 12 months, it was largely because they believed it would increase their business performance and sales.

In Australia, e-commerce continues to exhibit all the characteristics of an emerging market: extremely rapid growth, rapid adoption of products, changes in participation and relatively high transaction costs³³. According to the Department of Broadband, Communications and the Digital Economy, Australia’s retail and content industries have a weaker online presence than global competitors³⁴. E-commerce in Australia lags behind the US and UK, predominantly as a result of a reluctance on the part of both some retailers to provide online services as well as some consumers to overcome concerns about purchasing items electronically³⁵. This lag provides an opportunity for local operators who develop an online presence to flourish, with the potential to expand their marketplace from a local area to the world.

Despite this lag, domestic online retail sales for all sectors of the economy in 2009 were estimated to have been between \$19–\$24 billion, or approximately three per cent of total sales. It is estimated that between 20–50 per cent of this amount was spent via international retailers³⁶.

With e-commerce enabling SMEs to reach the global marketplace, the Sensis e-Business report (2010) notes that most sales made using e-commerce are still relatively close to the location of the business. Generally, the further away a customer is located, the less likely an SME would sell to them. Chart 36 shows that 86 per cent of small businesses and 88 per cent of medium sized businesses reported selling locally, as opposed to 24 per cent of small and 30 per cent of medium businesses which reported selling overseas.

Chart 36: Types of customers sold to



Data source: Sensis (2010).

32 Sensis (2010).

33 Australian Payments Clearing Association (2009).

34 The Department of Broadband, Communications and the Digital Economy (2008).

35 Access Economics (2010).

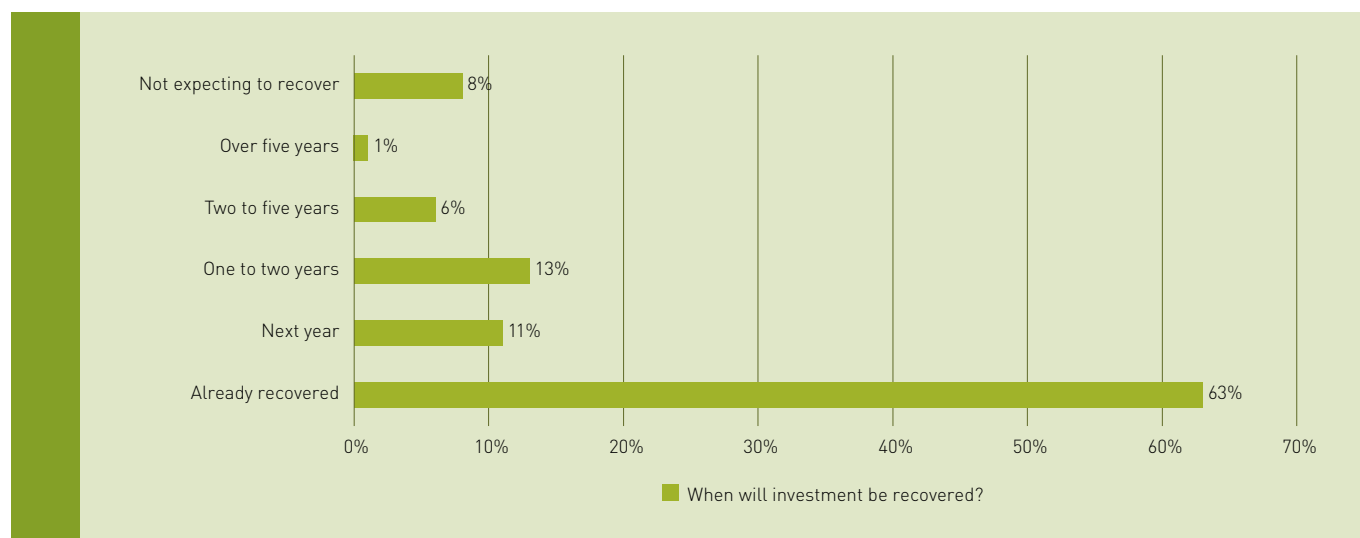
36 Access Economics (2010).

SME INVESTMENT IN E-COMMERCE

Chart 37 shows that 63 per cent of SMEs reported they had recovered their investment in e-commerce. A further 11 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 (30 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 46 per cent of SMEs. Conversely, 20 per cent of SMEs who had calculated their return on investment reported that they had achieved a return of less than five per cent.

Chart 37: When will investment be recovered?



Data source: Sensis (2010).

SOCIAL MEDIA

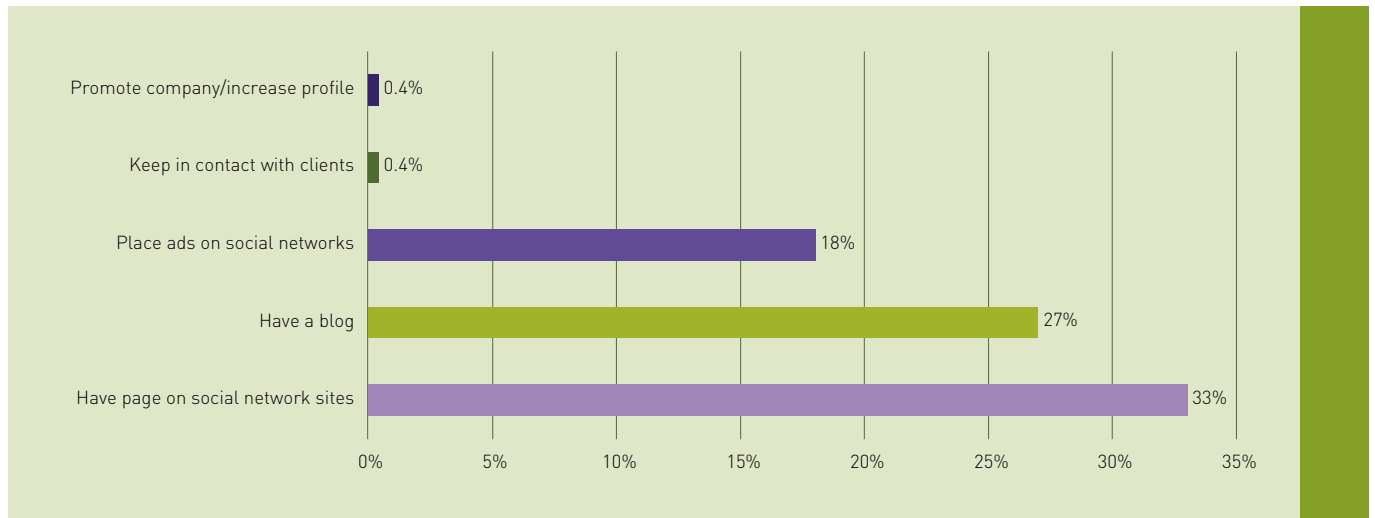
Social media are primarily internet and mobile-based tools for sharing and discussing information. They utilise highly accessible and scalable communication techniques and have the ability to turn communication into interactive dialogue³⁷.

Ten per cent of small businesses (compared with 18 per cent of medium businesses³⁸) use social media for business purposes. Chart 38 indicates that 33 per cent of SMEs have a page on social network sites and 27 per cent have a blog.

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

38 Sensis defines a business with less than 20 employees to be small and those with between 20 and 200 employees as medium.

Chart 38: How is social media used?



Data source: Sensis (2010).

SMEs reported that they were predominantly using their social networking pages as a space to collaborate with their customers (51 per cent) and to share news about their business (48 per cent). Overall, 60 per cent of SMEs with a social network page rated its impact on their business as positive.

By adopting new technology and embracing e-commerce, small and medium sized businesses are able to reach global marketplaces, enhance their competitiveness and realise the benefits of economies of scale. With the rollout of the National Broadband Network, there is further opportunity for SMEs to expand their use of e-commerce and social media tools to increase their profile and reach.

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