



Australian Government



Australian
**Small Business and
Family Enterprise**
Ombudsman

Small Business Counts

Small business in the Australian economy

July 2019

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Foreword



Australia is a nation of small businesses - the engine room of the economy.

As Australian Small Business and Family Enterprise Ombudsman, I meet hundreds of business owners every year, from small to medium enterprises and sole traders. It's a dynamic and exciting sector, run by passionate and inspiring people.

Part of my role is to lift the profile of the Australian small business sector so it gets the attention and support it deserves – from all levels of government, the public sector, the big end of town and the media.

Since the office opened in March 2016, we have provided direct support to thousands of businesses involved in disputes, delivered numerous inquiries, reviews and research reports into key issues impacting the small business sector and made hundreds of submissions to government to ensure the small business voice is heard. Over that time we have seen some notable changes across a range of small business statistics, which are reflected in this report.

We have found that 61% of employing small businesses owners are aged between 45 and 59 years. This report highlights the challenges this generational shift presents to the sector and the economy more broadly, as these hardworking small business operators approach retirement age.

These statistics, collected from various Australian government agencies, give us a greater understanding of the small business sector and can be used effectively in the work we do.

As the sector continues to drive the economy forward, employing close to half of the nation's workforce, it shows why small businesses really do count.

Kate Carnell
AO Australian Small Business and Family Enterprise Ombudsman

Overview

Small business and family enterprise in Australia, classified as businesses with less than 20 employees, account for almost 98% of businesses. The sector is growing fast and as such, presents many opportunities – and challenges – for those who dedicate themselves to pursuing a small business venture.

Small businesses are prevalent in all sectors of the economy and in all of Australia's regions. There is no 'typical' small business. This report draws together statistics from several sources to illustrate the size and importance of the small business sector to the Australian economy.

Small businesses account for 35% of Australia's gross domestic profit and employ 44% of Australia's workforce. Of the 877,744 total employing businesses, 823,551 are small businesses (93.8%), and of those businesses, 627,932 are businesses that employ only 1-4 people, known as micro businesses (76.2%).

Small businesses often have net income well below the average Australian wage with 52% of small business owners registered with the ATO as individuals earning between \$0 and \$25,000 per annum. The highest proportion of small business owners are between 45 and 59 years old, and women account for 35% of business owner/managers.

Across a range of statistics the highest contribution from small businesses comes from three sectors. Agriculture, forestry and fishing small businesses account for the highest value add, are fifth by dollar value and employ the highest number of the workforce. Construction is ranked fourth by number of small businesses generating value add but first by dollar value. Construction is third in employment and engages the highest number of apprentices and trainees. Rental, hiring and real estate accounts for the second highest value add, second highest number of employees and second highest number of apprentices and trainees.

While total apprentice and trainee numbers have fallen significantly since 2012, there has been a slight upturn in apprentice and trainee employment by small businesses since 2015. The construction sector employs the highest number of apprentices and trainees with small businesses representing 56%.

Micro and small businesses are more likely to innovate and bring new goods and services to a market than large businesses. Measured in absolute numbers, the overwhelming majority of innovative firms (classified as a business that introduced a new or significantly improved good or service, operational or organisational process or marketing method¹) are small businesses.

The challenge for small businesses to remain viable is exacerbated by the late payment of customer invoices. Just over half of small businesses receive invoice payments late, with late payments arriving an average of 23 days after they are due.² Accessing external capital to support cash flow is also becoming more difficult. In February 2019, lending to businesses decreased by 2.4%, and since February 2018 it has decreased 3.3%.³

A healthy small business sector is a prerequisite for a growing economy with high employment opportunities. In a very real sense, small business counts. What emerges from this report is a picture of a large and vibrant sector, which is vital to the health of the Australian economy.

¹ ABS 8166.0 Summary of IT use and innovation in Australian business, 2016-17: Glossary

² Xero Small Business Insights, *Paying the price: the economic impact of big business paying Australian small businesses late*, 2019

³ ABS 5601.0 Lending to households and businesses, Australia Feb 2019, April 2019

1 Introduction

This report brings together the Australian Bureau of Statistics (ABS), Australian Taxation Office (ATO) and Austrade data to present a statistical report of the small business sector. It shows the contribution of the small business sector to the Australian economy.

Its purpose is to be an information resource for governments, public policy makers and researchers that will improve their knowledge and understanding of the Australian small business sector. The report is data-based and does not comment on the policy issues or concerns of the small business sector. It simply sets the scene to give all stakeholders a common understanding of the significance of small business contribution to economic activity.

The data and graphs in this report are based on the ABS definition of a small business: a business with an Australian Business Number (ABN) and having Goods and Services Tax (GST) activity with a turnover of less than \$2 million per annum (p.a.), or one that employs less than 20 people. There is a rough approximation between these two measures, but they are not identical. Accordingly, there are minor differences in the counts of Australian small businesses depending upon whether the turnover or employee definition of a small business is used.

In this report, unless otherwise stated, the term 'small businesses' will include micro businesses, which are defined by the ABS as GST paying enterprises employing 0-4 employees. However, unless otherwise stated, the data counts do not include extremely small businesses which have an ABN, but are not GST active and have no employees; it also excludes self-managed superfunds. We have termed these 'nano' businesses.

2 Small business share of economic activity

2.1 Small business numbers

2.1.1 Measured by employment

Against the ABS definition of a small business (less than 20 employees), small businesses continue to account for nearly 98% of all Australian businesses. Since our last report in 2016 the total number of Australian businesses has increased 5.5%, with increases across all categories. Small businesses employ 2.2 million people. The 3.3 million figure that is often quoted relies on historic Treasury data.

Table 1: Business size measured by employment

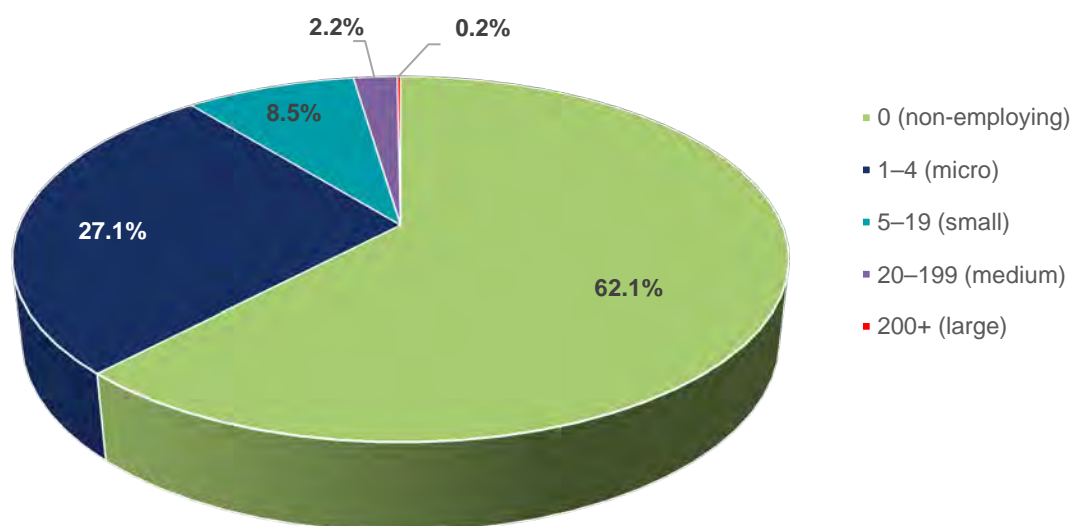
Employees	Firm Count	%
0–19 (small)	2,259,098	97.7%
20–199 (medium)	50,338	2.2%
200+ (large)	3,855	0.2%
Total	2,313,291	100%

Source: ABS Counts of Australian Business 8165.0, Table 21 Feb 2019 and ASBFEO calculations (excludes nano businesses with no GST role)

The breakdown by small business categories remains steady. The majority of Australian businesses (62%) are sole traders with no employees. Micro business (1-4 employees) account for 27% and small businesses (5-19 employees), 8.5%.

Chart 1: Counts of Australian businesses measured by employment size as at June 2018

Business count by number of employees



Source: ABS Counts of Australian Business 8165.0 Table 13, Feb 2019 and ASBFEO calculations (excludes nano businesses with no GST role)

2.1.2 Measured by turnover

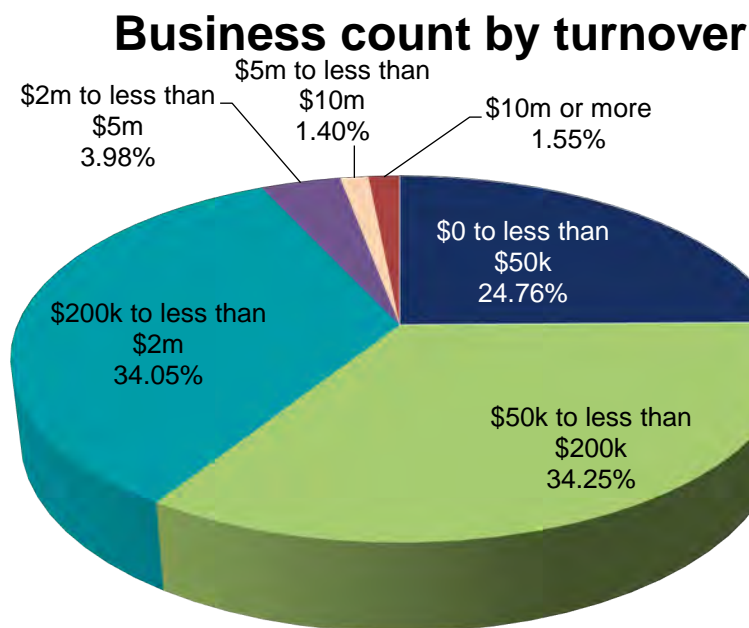
Against the ATO definition of a small business (a turnover of less than \$10 million) small businesses account for 98.45% of all Australian businesses. More than half of Australian businesses have a turnover of less than \$200,000.

Table 2: Business numbers by annual turnover in 2017-18

Turnover	No. of businesses	%
\$0 to less than \$50k	572,826	24.76%
\$50k to less than \$200k	792,373	34.25%
\$200k to less than \$2m	787,685	34.05%
\$2m to less than \$5m	92,126	3.98%
\$5m to less than \$10m	32,483	1.40%
\$10m or more	35,798	1.55%
Total	2,313,291	100.00%

Source: ABS Counts of Australian Business 8165.0, Table 17, Feb 2019 and ASBFEO calculations (excludes nano businesses with no GST role)

Chart 2: Business count by turnover



Source: ABS Counts of Australian Business 8165.0, Feb 2019 and ASBFEO calculations (excludes nano businesses with no GST role)

2.1.3 Measured by survival

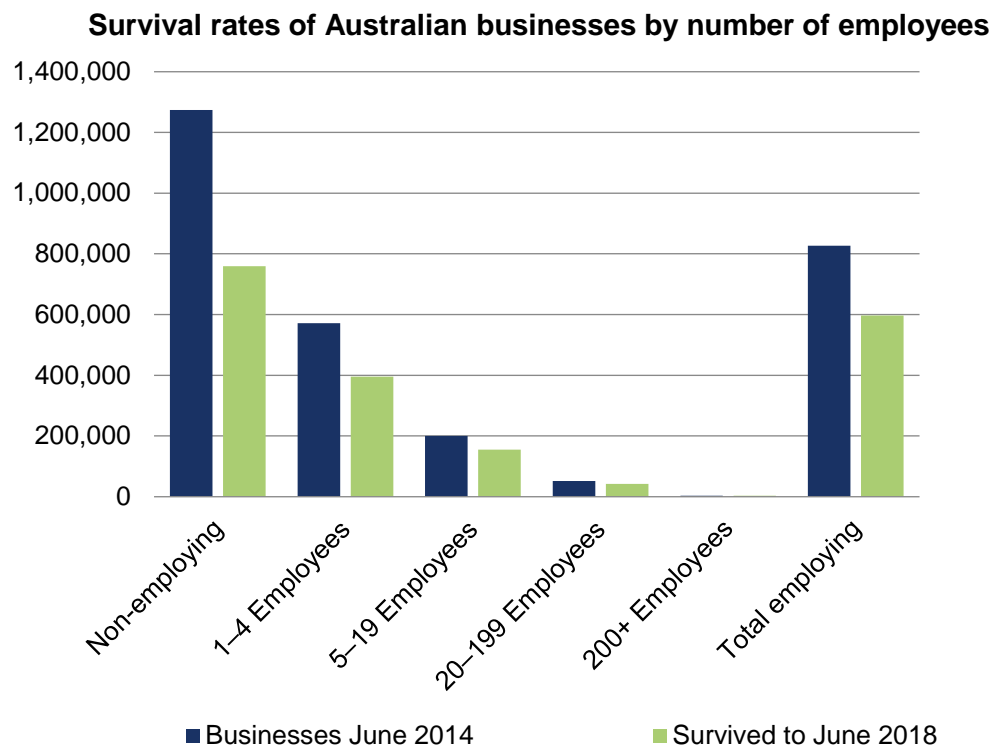
Looking at the survival of businesses over a four year period indicates the greater the size of a business, the higher the rate of survival. Survival of non-employing businesses over four years is only 59.6%, which is less than the average of 64.5%. This is significantly less than large businesses which have an 85.6% survival rate. Survival rate percentages in this table have been calculated based on the number of businesses operating in 2018 divided by the number of businesses of the same size operating in 2014.

Table 3: Business survival rates 2014-2018

Employment Size	Businesses June 2014	Survived to June 2018	Survival rate %
Non-employing	1,273,769	758,922	59.6
1–4 Employees	571,206	395,953	69.3
5–19 Employees	199,965	155,270	77.6
20–199 Employees	51,619	42,408	82.2
200+ Employees	3,603	3,084	85.6
Total employing	826,393	596,715	72.2
Total	2,100,162	1,355,637	64.5 Average

Source: ABS Counts of Australian Business 8165.0, Table 15. Feb 2019 and ASBFEO calculations.

Chart 3: Businesses operating in 2014, surviving to 2018



Source: ABS Counts of Australian Business 8165.0, Table 15. Feb 2019 and ASBFEO calculations.

2.1.4 Nano businesses

The ATO data set also captures 'nano' sized businesses, excluded from the ABS data sets. A nano business is defined as reporting revenue, but have no GST activity (the mandatory GST registration threshold is \$75,000 turnover per annum).

The majority of nano businesses file their tax returns as individuals. There has been an increase between 2013 and 2016 in the number of small businesses registered as individuals in our datasets (35% in 2013 compared to 42% in 2016). Removing GST activity indicates that this growth is largely due to an increase in nano business activity, possibly a factor of the 'gig economy'.

Nano businesses are on average roughly one-tenth the size of small businesses with a median turnover (representing the middle amount) of \$20,000 in 2016 and a mean turnover (representing the average amount) of \$38,000. These figures show an increase in the median turnover amount between 2013 and 2016 but a decrease in the mean. Nano businesses are often secondary business interests to a main revenue source.

Table 4: Comparison of small and nano business in 2013 and 2016

2013	Small Business Median	Small Business Mean	Nano Business Median	Nano Business Mean
Turnover	\$ 131,000	\$ 368,000	\$ 15,000	\$ 48,000
Net income	\$ 16,000	\$ 43,000	\$ 5,000	\$ 22,000
Income tax	\$ -	\$ 11,000	\$ 1,000	\$ 8,000
GST	\$ 4,000	\$ 11,000	\$ -	\$ -
2016	Small Business Median	Small Business Mean	Nano Business Median	Nano Business Mean
Turnover	\$ 125,000	\$ 230,000	\$ 20,000	\$ 38,000
Net income	\$ 15,000	\$ 24,000	\$ 7,000	\$ 12,000
Income tax	\$ -	\$ 1,000	\$ -	\$ 1,000
GST	\$ 4,000	\$ 7,000	\$ -	\$ -

Source: ATO sample dataset for 2016-17 and ASBFEO calculations. Figures rounded to nearest thousand.

Note: A business with no GST activity is generally paying GST on business inputs (input taxed.), small businesses operating as a partnership pays no tax at the partnership level, rather on individual partners' level. The same is generally true for businesses operating through a trust – individual beneficiaries of the trust are taxed at their individual tax rate. Self-managed superfunds have been excluded from our analysis.

2.2 Contribution to GDP

Industry value added is the contribution of that industry to gross domestic profit (GDP). Value added is the increase in the value of goods or services as a result of business activity. On average, small business value add continues to increase and represents over one-third of the total value added from industry in 2018.

2.2.1 By percentage

As the economy has grown over the last nine years of records, the proportion of total value added by small business has marginally increased, up from 33.9% in 2008-09 to 34.2% in 2017-18. The rate of increase has kept pace with large businesses, which contributed 42.4% in 2008-09 and 44.2% in 2017-18.

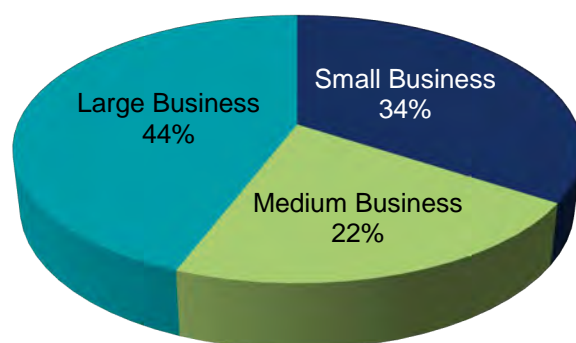
Table 5: Value added by business size from June 2013 to June 2018

Value added by Business size	2013-14	2014-15	2015-16	2016-17	2017-18
	\$m	\$m	\$m	\$m	\$m
Small Business	\$342,264	\$375,811	\$378,400	\$393,219	\$413,929
Medium Business	\$233,416	\$230,601	\$236,547	\$250,519	\$260,971
Large Business	\$462,094	\$463,512	\$468,918	\$490,991	\$534,065
Total	\$1,037,774	\$1,069,924	\$1,083,865	\$1,134,730	\$1,208,964

Source: ABS Catalogue No. 8155.0 Australian Industry Table 5 2017-18, May 2019 and ASBFEO Calculations

Chart 4: Share of value added by business size

Share of value added



Source: ABS Catalogue No. 8155.0 Australian Industry Table 5 2017-18, May 2019 and ASBFEO Calculations

The share of value added by small businesses varies markedly between different sectors of the economy. The top five sectors have remained the same since 2013-14, led by agriculture, forestry and fishing and rental, hiring and real estate services industries. Family farms are by far the most prevalent form of business in the rural sector and in real estate, the majority of agencies are small businesses.

Table 6: Small business share of the total value added by industry 2017-18

Industry sector	Small	Medium	Large	All	Small Business share
	\$m	\$m	\$m	\$m	%
Agriculture, forestry and fishing	24,062	6,812	1,232	32,105	75%
Rental, hiring and real estate services	61,484	9,159	12,227	82,869	74%
Other services	18,721	8,660	4,422	31,803	59%
Construction	71,710	26,031	28,066	125,807	57%
Professional, scientific and technical services	58,183	32,348	37,024	127,556	46%
Accommodation and food services	16,180	15,664	10,462	42,307	38%
Health care and social assistance (private)	34,035	16,009	39,542	89,586	38%
Retail trade	21,937	19,192	36,572	77,701	28%
Administrative and support services	16,494	16,549	28,963	62,007	27%
Transport, postal and warehousing	19,982	11,639	45,507	77,128	26%
Public administration and safety (private)	1,595	1,426	3,138	6,159	26%
Wholesale trade	16,237	24,746	27,224	68,206	24%
Arts and recreation services	3,033	4,209	7,354	14,596	21%
Manufacturing	20,679	28,587	56,029	105,295	20%
Education and training (private)	5,086	12,643	11,188	28,918	18%
Information Media and Telecommunications	4,784	3,956	29,215	37,955	13%
Mining	15,152	17,983	115,684	148,818	10%
Electricity, gas, water and waste services	4,575	5,359	40,216	50,150	9%
Total selected industries	413,929	260,971	534,065	1,208,964	34%

Source: ABS Catalogue No. 8155.0 Australian Industry Table 5 2017-18, May 2019 and ASBFEO Calculations

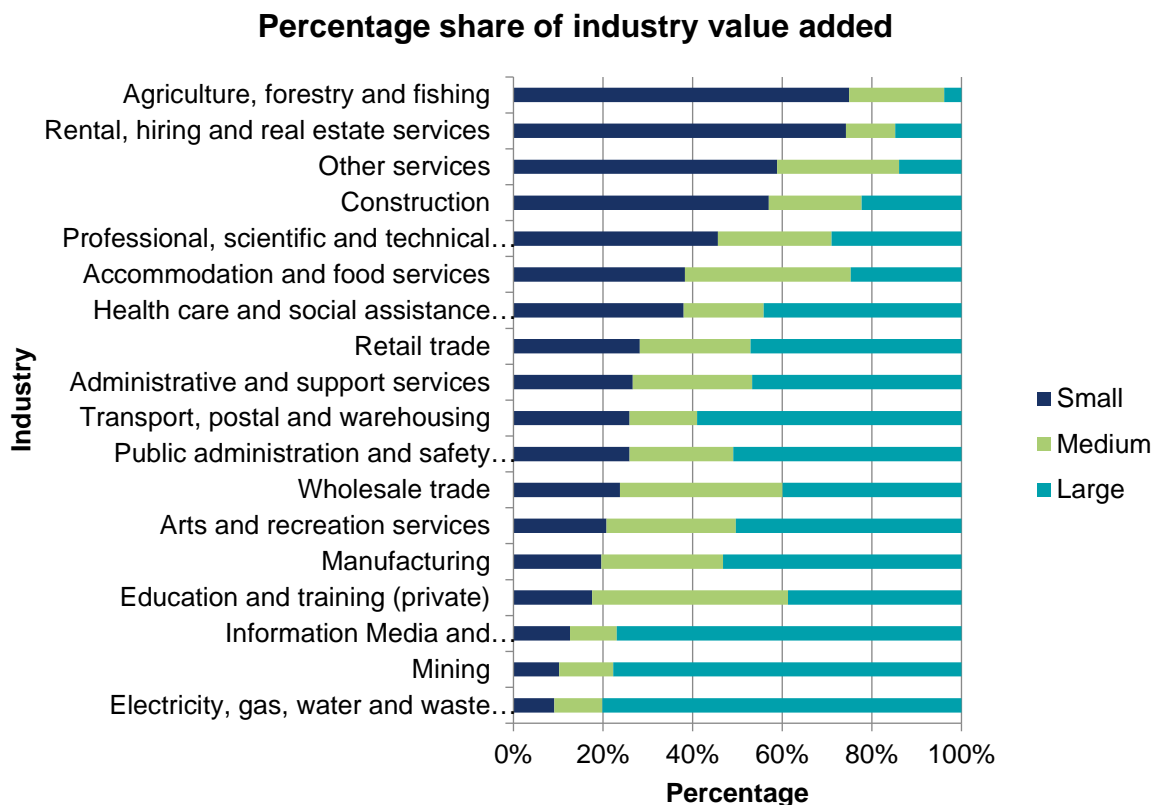
There has been a significant increase in the value added by small business in the construction sector; a sector where self-employed tradesmen subcontract to large builders. In 2017-18, small businesses accounted for 57%, up from 47% in 2013-14. This could be a reflection of more self-employed construction workers entering the market with the increase in residential building projects.

Conversely, the value added from small businesses in the wholesale trade has dropped significantly from 34% in 2013-14 to 24% in 2017-18. This may reflect the impact of online shopping and distribution through large international corporations, such as Amazon, where website sales are not listed as wholesale trade.

The least contribution from small businesses remains in the electricity, gas and water value sector (9%), where large government-owned utilities provide nearly all of the services. A similar situation is in the information, media and telecommunications sector (13%), where large corporates such as Telstra, Fairfax, News Limited and the ABC dominate.

The value added contribution from small businesses in the mining sector is low (10%), where BHP and Rio Tinto are the main players. While there is a slight increase in the small businesses contribution in the manufacturing sector, 20% from 19%, small businesses remain underrepresented.

Chart 5: Percentage share of industry value added by business size 2017-18



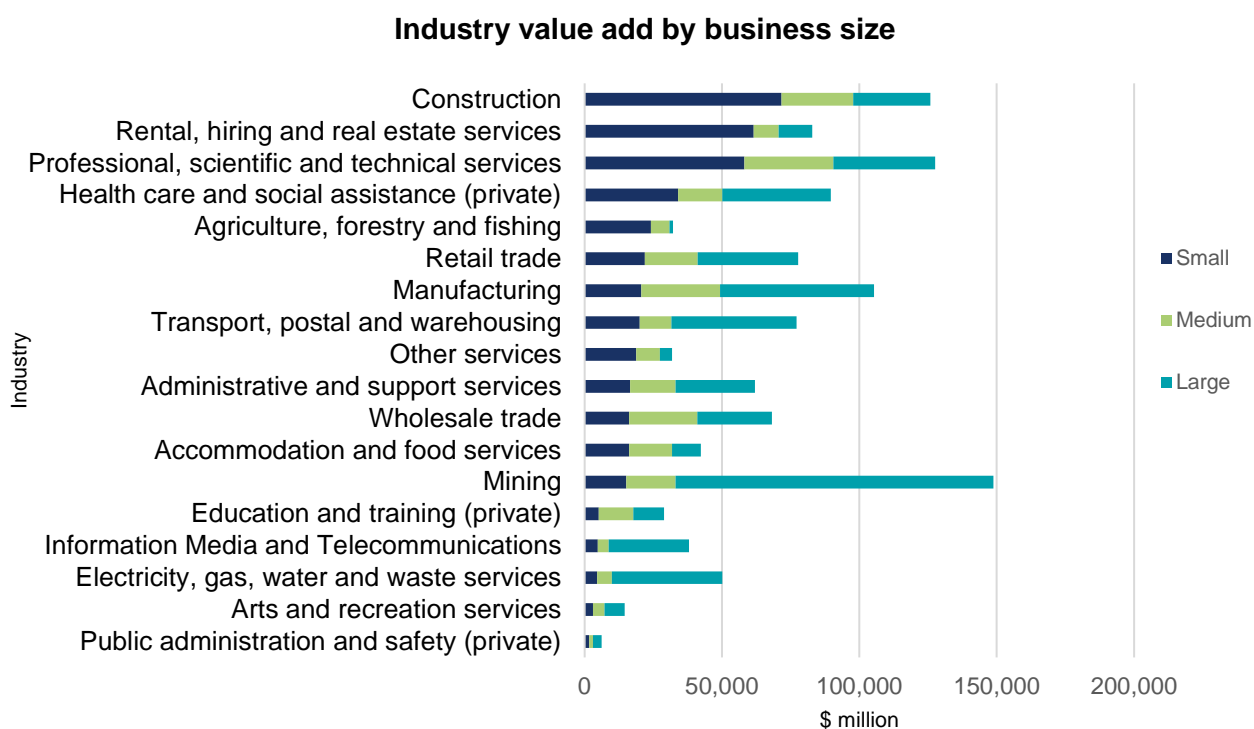
Source: ABS Catalogue No. 8155.0 Australian Industry Table 5 2017-18, May 2019 and ASBFEO Calculations

2.2.2 By dollar terms

When industries are ranked according to the small business' dollar share of industry output, a different picture emerges. Small businesses in construction have overtaken rental, hiring and real estate services with an increase of 36%, from \$50 billion in 2013-14 to nearly \$72 billion in 2017-18. While the small businesses dollar contribution in the rental, hiring and real estate sector is now second highest, it has increased by 16%, from \$54 billion in 2013-14 to \$61 billion in 2017-18. Together they represent 30% of the dollar value added by small businesses.

Reflecting the drop in the proportion of value added by small businesses in the wholesale sector is reflected in the significant drop in dollar terms, from nearly \$23 billion in 2013-14 to just over \$16 billion in 2017-18, a drop of nearly 36%.

Chart 6: Business size value add, in dollar terms, by industry 2017-18 (\$ million)



Source: ABS Catalogue No. 8155.0 Australian Industry Table 5 2017-18, May 2019 and ASBFEO Calculations

2.3 Employment

Small business has continued to employ the greatest number of people; employing 44% of the total workforce. This is significantly higher than both medium enterprises, which employ 24%, and large businesses which employ almost 32%.

- Out of a total of 2,313,291 businesses — 877,744 employ.
 - Of the 877,744 that employ, 823,551 are small businesses (93.8%).
 - Of the 823,551 small businesses, 627,932 are micro businesses (76.2%).

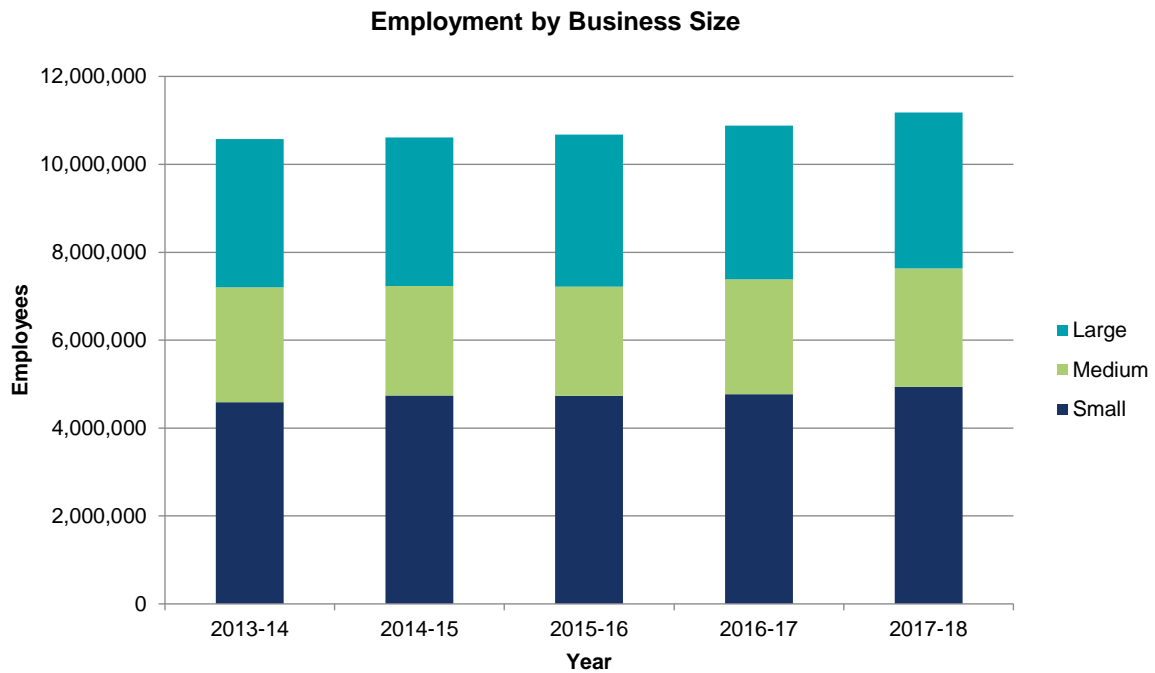
2.3.1 By business size

Table 7: Employment by business size

Size	2013-14		2014-15		2015-16		2016-17		2017-18	
	('000)	%	('000)	%	('000)	%	('000)	%	('000)	%
Small	4,722	44	4,739	45	4,731	44	4,768	43.8	4,940	44.2
Medium	2,608	24	2,495	24	2,489	23	2,616	24.0	2,694	24.1
Large	3,395	32	3,378	32	3,458	32	3,498	32.1	3,544	31.7
Total	10,726	100	10,612	100	10,678	100	10,882	100.0	11,177	100

Source: ABS Catalogue No. 8155.0 Australian Industry Table 5 2017-18, May 2019 and ASBFEO Calculations

Chart 7: Employment by business size



Source: ABS Catalogue No. 8155.0 Australian Industry Table 5 2017-18, May 2019 and ASBFEO Calculations

2.3.2 By industry sector

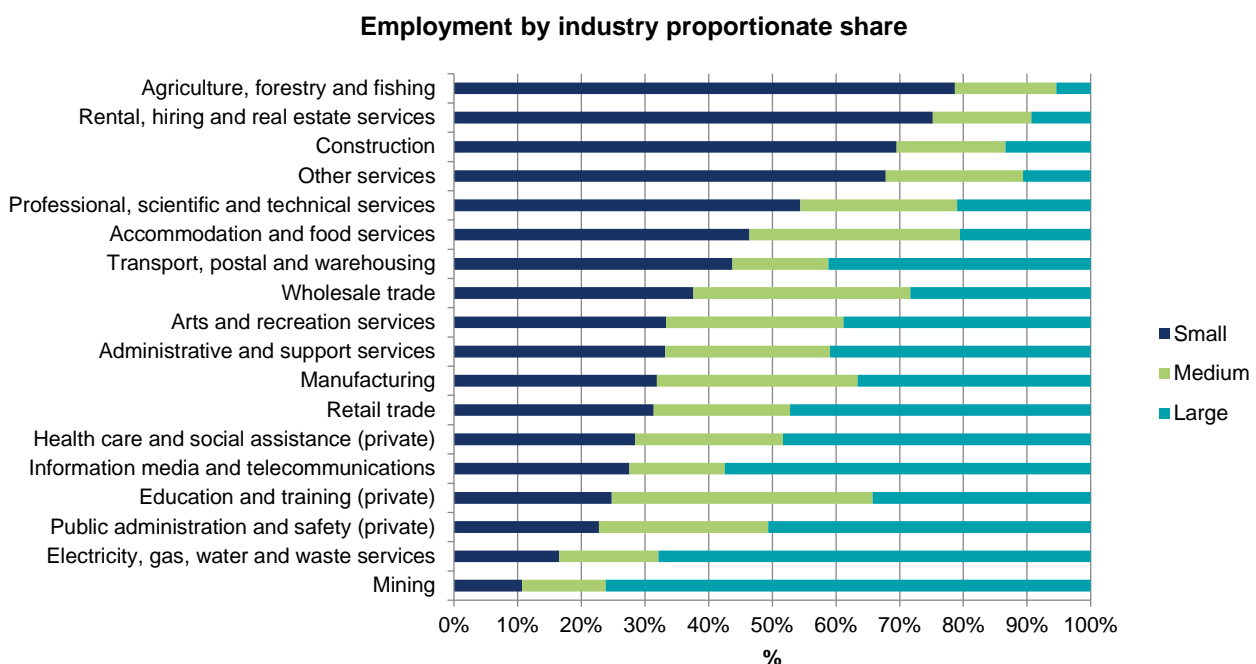
We see similar trends in the proportion of the value add from, and the number employed by, small businesses across industry sectors. Compared to our previous report, the top five sectors are the same, with construction showing the greatest increase to 69.5% of employment compared to 62% previously.

Table 8: Employment by industry ranked by small business proportionate share – 2017-18

Industry Sector	Small	Medium	Large	All	Small Business share
Agriculture, forestry and fishing	380	77	26	482	78.8%
Rental, hiring and real estate services	315	65	39	419	75.2%
Construction	775	191	149	1,115	69.5%
Other services	339	108	53	499	67.9%
Professional, scientific and technical services	599	271	231	1,102	54.4%
Accommodation and food services	477	340	211	1,028	46.4%
Transport, postal and warehousing	261	90	246	598	43.6%
Wholesale trade	203	184	153	540	37.6%
Arts and recreation services	67	56	78	201	33.3%
Administrative and support services	303	237	374	913	33.2%
Manufacturing	268	265	308	840	31.9%
Retail trade	409	279	616	1,304	31.4%
Health care and social assistance (private)	342	279	581	1,202	28.5%
Information media and telecommunications	46	25	96	167	27.5%
Education and training (private)	102	169	141	412	24.8%
Public administration and safety (private)	18	21	40	78	23.1%
Electricity, gas, water and waste services	18	17	74	109	16.5%
Mining	18	22	128	168	10.7%
Total selected industries	4,940	2,694	3,544	11,177	44.2%

Source: ABS Catalogue No. 8155.0 Australian Industry Table 5 2017-18, May 2019 and ASBFEO Calculations

Chart 8: Employment by industry ranked by small business proportionate share – 2017-18

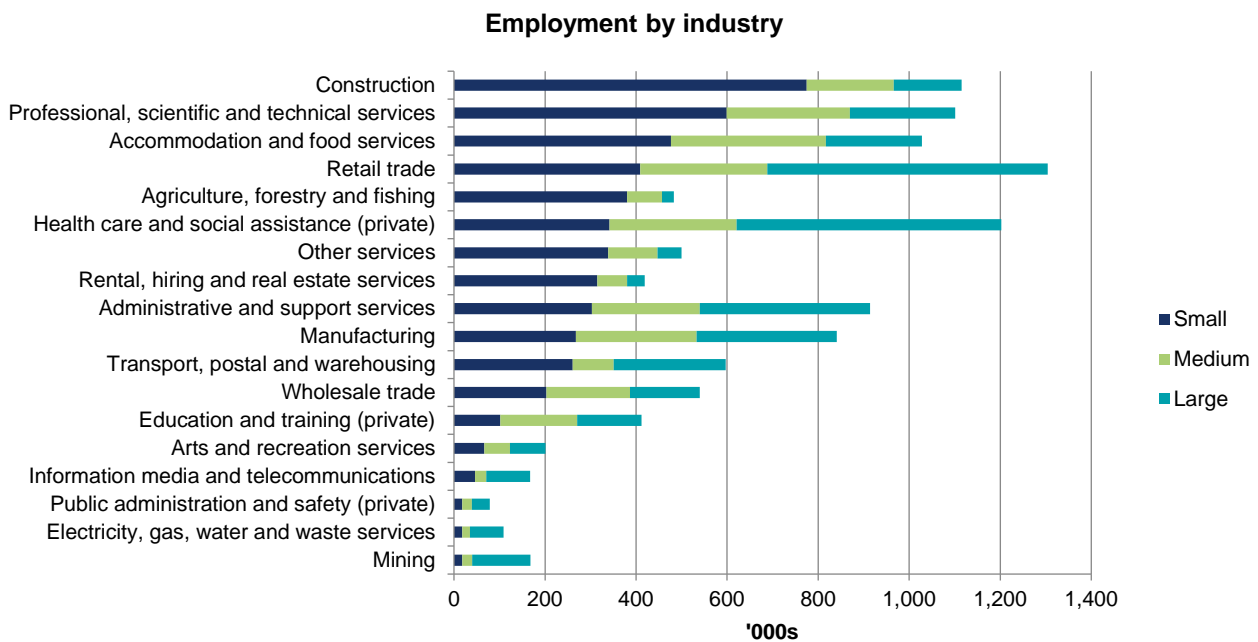


Source: ABS Catalogue No. 8155.0 Australian Industry Table 5 2017-18, May 2019 and ASBFEO Calculations

The small business proportion of employment is the least in the mining sector (10.7%) and in the electricity, gas, water and waste services sector (16.5%). These sectors are heavily capitalised and characterised by high entry barriers and large economies of scale.

The industries with the most small business employment remain construction (69.5%), professional, scientific and technical services (54.4%), and accommodation and food services (46.4%).

Chart 9: Total employment by industry ranked by small business numbers – 2017-18

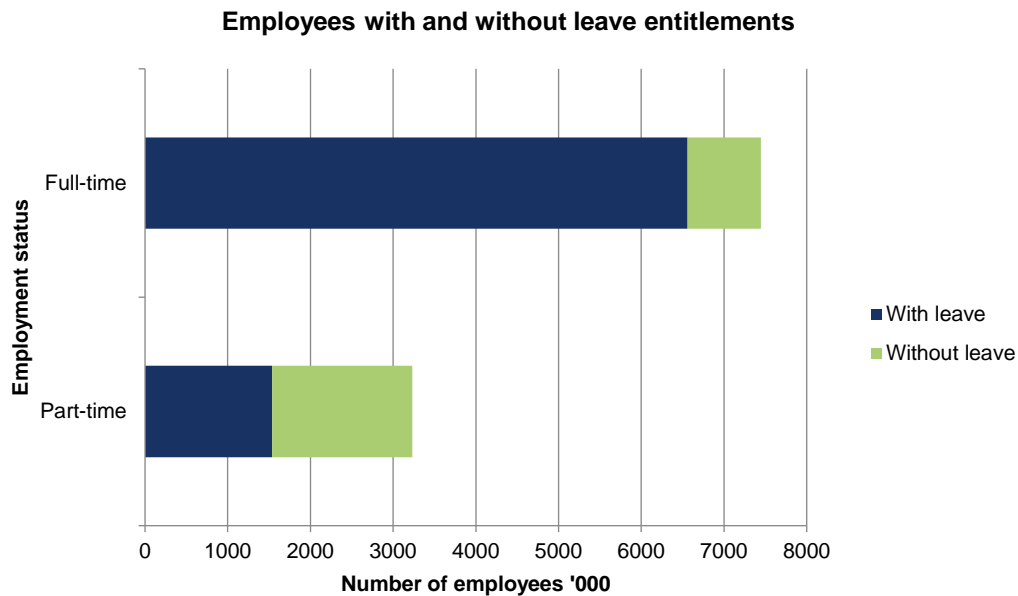


Source: ABS Catalogue No. 8155.0 Australian Industry Table 5 2017-18, May 2019 and ASBFEO Calculations

2.3.3 By status

In the first quarter of 2019, 61% of Australians were employed full-time with paid leave entitlements. Casual employees, who can be classified as employees who do not receive paid leave entitlements, represented 24.2% of the workforce.

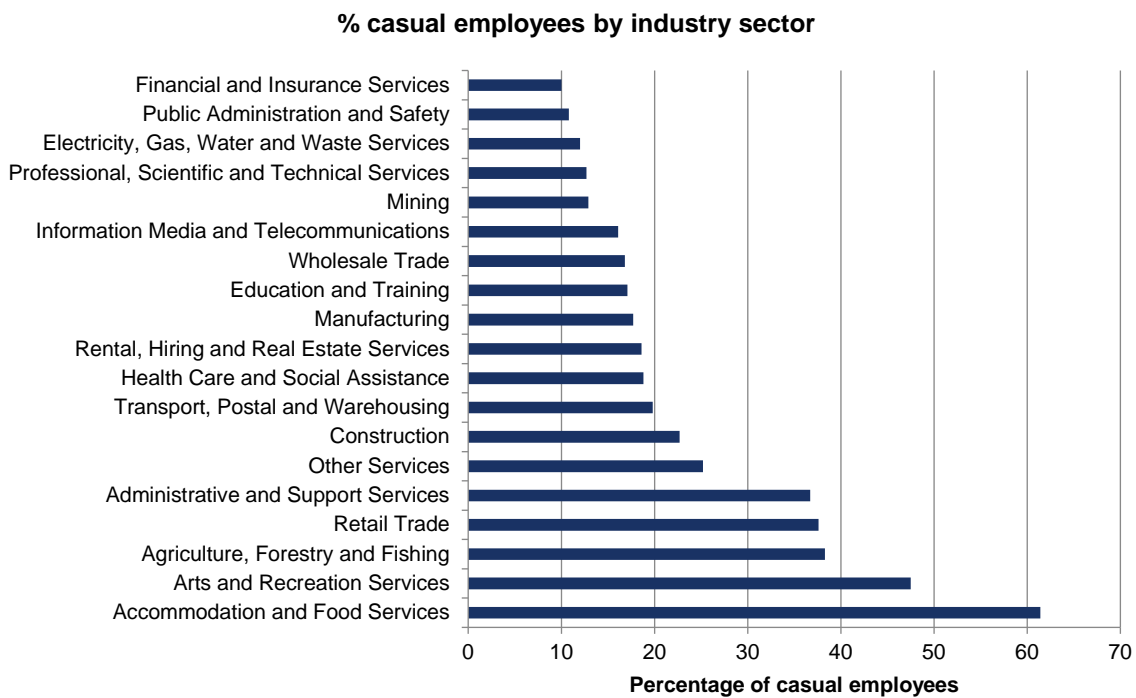
Chart 10: Employees divided by employment status and leave entitlements



Source: ABS Catalogue No. 6291.0.55.003 EQ05 Employed persons by industry division (ANZSIC) and status in employment of main job, March 2019 and ASBFEO calculations

In the first quarter of 2019, industries with the highest percentage of casual employees were accommodation and food services (61.4%) and arts and recreation services at 47.5%.

Chart 11: Percentage of casual employees divided by industry sector



Source: ABS Catalogue No. 6291.0.55.003 EQ05 Employed persons by industry division (ANZSIC) and status in employment of main job, March 2019 and ASBFEO calculations

2.4 Apprentice and trainee employment

Total apprentice and trainee numbers have fallen significantly since 2012 (see Table 9). This may reflect the number of changes to employer incentives in 2012. While the downward trend has continued for medium and large businesses, there has been a slight upturn in apprentice and trainee employment by small businesses since 2015.

2.4.1 By business size

Table 9: Apprentice and trainee employment by business size, year on year, in training, July to September quarter 2012-2018

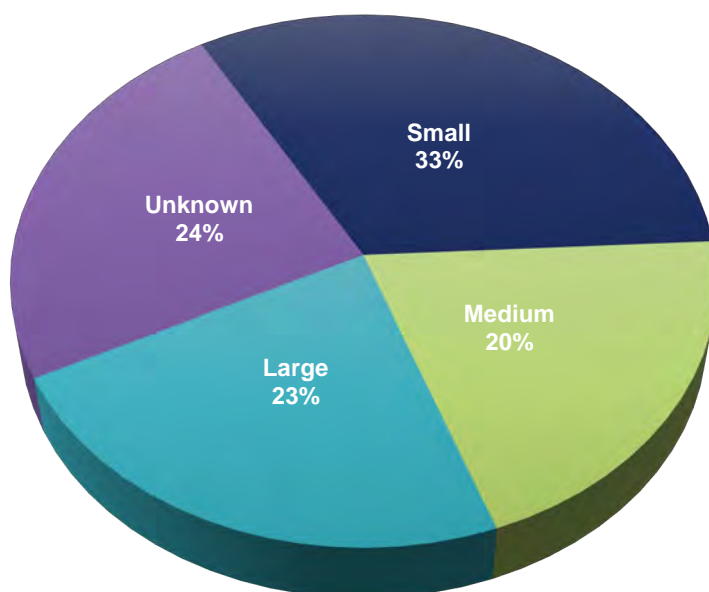
Size	Jul-Sept 2012	Jul-Sept 2013	Jul-Sept 2014	Jul-Sept 2015	Jul-Sept 2016	Jul-Sept 2017	Jul-Sept 2018
Small	119 691	103 244	89 501	84 248	85 810	85 443	86 903
Medium	162 484	133 685	104 669	88 826	85 020	78 502	76 628
Large	95 390	81 567	64 051	50 119	44 272	40 754	39 644
Unknown	107 875	94 327	78 373	68 023	63 750	64 260	64 209
Total	485 440	412 823	336 594	291 216	278 852	268 959	267 385

Source: VOCSTATS Apprentice and Trainee Collection <<http://www.ncver.edu.au/resources/vocstats.html>>, extracted on 28/05/2019.

Assuming the unknown percentage of employers is split evenly between small, medium and large businesses, small businesses continue to employ the greatest number of apprentices and trainees, employing 33% of the 267,385 apprentices and trainees in training in the July - September 2018 quarter.⁴ This is significantly higher than medium businesses (20%) and large businesses (23%).

Chart 12: Apprentices and trainees by employer size, in training July - September quarter 2018

Proportion of apprentices and trainees in training by business size



Source: VOCSTATS Apprentice and Trainee Collection <<http://www.ncver.edu.au/resources/vocstats.html>>, extracted on 28/05/2019.

⁴ VOCSTATS Apprentice and Trainee Collection <<http://www.ncver.edu.au/resources/vocstats.html>>, extracted on 28/05/2019.

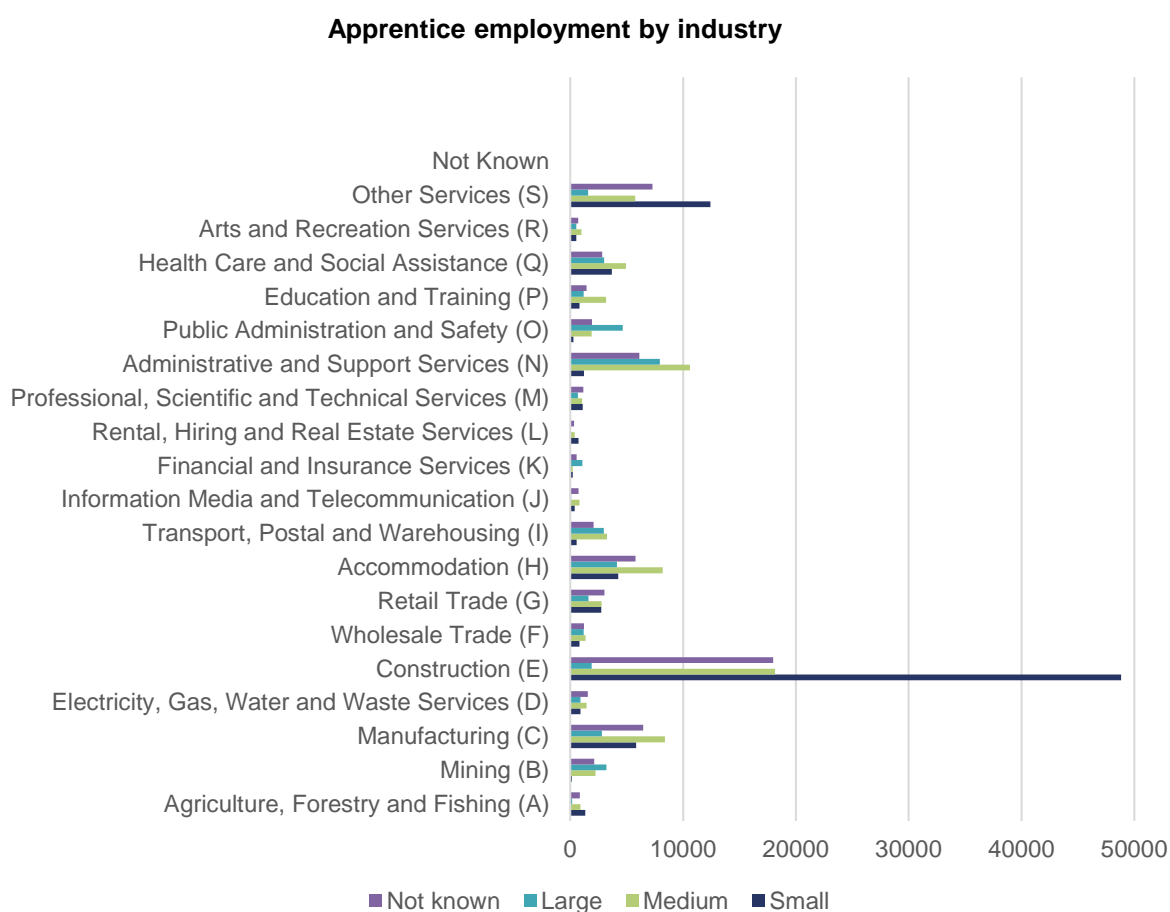
2.4.2 By industry sector

Small businesses in the construction sector lead in the employment of apprentices and trainees both in terms of absolute numbers and as a proportion of employment. Small businesses account for 48,838 apprentices and trainees in total, representing 56% of apprentices and trainees in the construction industry.

Of these, 22,053 are employed by micro businesses employing between one and four employees. This high proportion of apprentices employed by micro businesses reflects the makeup of the sector, with high numbers of sole traders and micro businesses often subcontracting to larger firms.

Sectors with high barriers to entry for small businesses, such as mining, education and training and electricity, gas and water tend to have low numbers of apprentices and trainees.

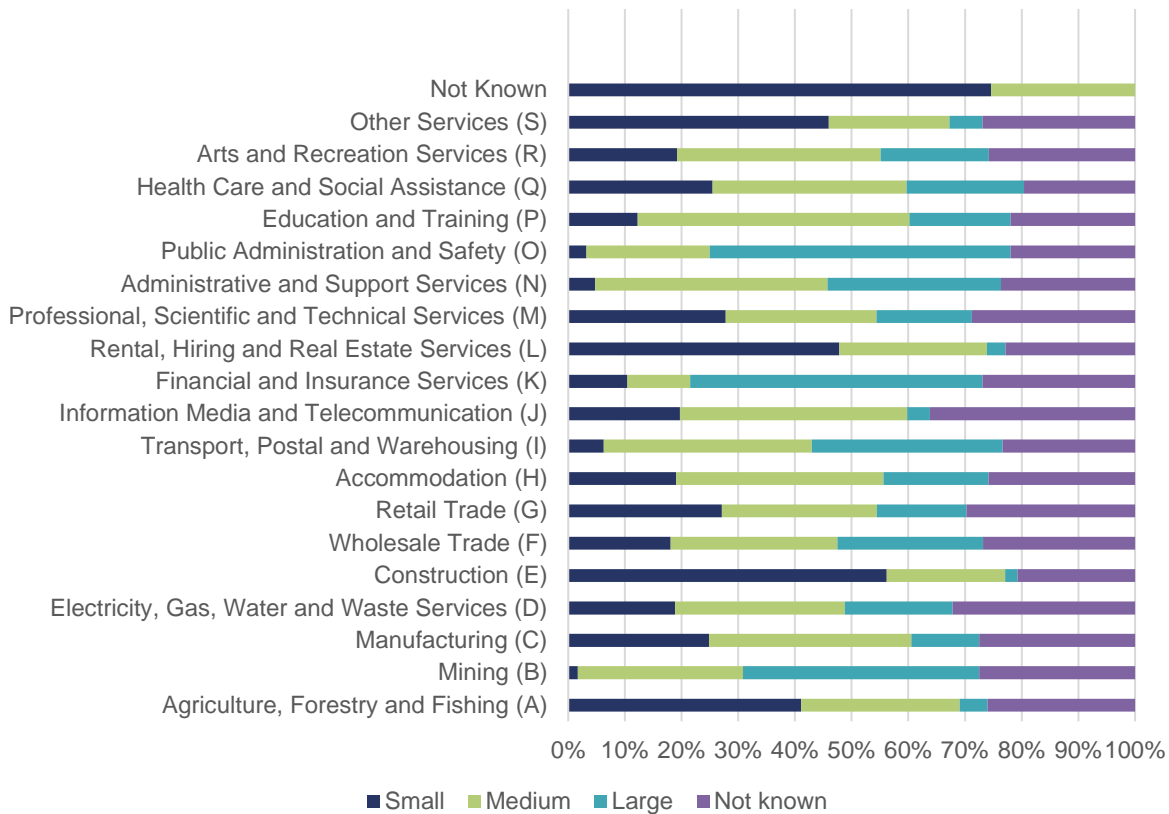
Chart 13: Apprentice and trainee employment by industry sector, in training July - September quarter 2018



Source: VOCSTATS Apprentice and Trainee Collection <<http://www.ncver.edu.au/resources/vocstats.html>>, extracted on 28/05/2019.

Chart 14: Apprentice and Trainee employment by industry proportionate share, July - September quarter 2018

Apprentice and trainee employment by industry proportionate share



Source: VOCSTATS Apprentice and Trainee Collection <<http://www.ncver.edu.au/resources/vocstats.html>>, extracted on 28/05/2019.

Of small businesses that hire apprentices and trainees, the manufacturing (5,842), agricultural, forestry and fishing (913), professional, scientific and technical services (1,107) and the rental, hiring and real estate sector (724) all employ proportionately high numbers of apprentices and trainees while representing only a small proportion of the total employment share of apprentices and trainees more broadly (note that the bracketed figures are small businesses that hire apprentices and trainees).

2.5 Tax contribution

The data provided to us from the ATO was a de-identified 10,000 sample dataset of small businesses. It contained information on things like turnover, net income and GST paid from individuals, companies, partnerships, trusts and self-managed superannuation funds.

The use of entity level data can produce a misleading picture of the overall tax contribution of small business. The interplay of individual, partnership, trust, company, and superannuation fund aspects of family enterprise tax planning enormously complicates the picture of what a small 'economic group' earns, the taxes paid, and total of government assistance (if any) received by individuals. Keeping this caveat in mind, the following table (Table 10) illustrates the importance of the size of the small business (at an entity level) on the taxes paid and employment.

Since the last set of figures in 2013, the percentage of small businesses with a turnover of less than \$50,000 has decreased from 27% in 2013 to 23% in 2016. Those with a turnover of \$200,000 to less than \$2 million has also decreased from 36% in 2013 to 34% in 2016. The largest increase was in the \$50k to less than \$200k bracket, with 34% of small businesses in 2013 and 42% in 2016.

Table 10: Key numbers by annual turnover in 2013 and 2016

Turnover 2013	%. of small businesses	% income tax paid by small business	% net GST paid by small business	% employees of small business
\$0 to less than \$50k	27%	13%	-1%	2%
\$50k to less than \$200k	34%	19%	13%	8%
\$200k to less than \$2m	36%	53%	64%	66%
\$2m to less than \$5m	4%	15%	24%	24%
Turnover 2016	%. of small businesses	% income tax paid by small business	% net GST paid by small business	% employees of small business
\$0 to less than \$50k	23%	0%	1%	2%
\$50k to less than \$200k	42%	47%	28%	17%
\$200k to less than \$2m	34%	52%	69%	78%
\$2m to less than \$5m	1%	1%	2%	3%

Source: ATO sample dataset for 2016-17 and ASBFEO calculations (excludes nano businesses with no GST role).

2.6 Small business industry benchmarks

The ATO publishes small industry benchmarks to assist in the comparison of a business' performance against potentially similar businesses in the same industry. The benchmarks are calculated from income tax returns and activity statements from over 1.3 million small businesses and they account for businesses with different turnover ranges (greater than \$30,000 and less than \$15 million) across more than 100 industries. The benchmarks are published as a range to recognise the variations that occur between businesses due to factors such as location and the business' circumstances.

Looking across the examples here and other industry benchmarks (www.ato.gov.au/Business/Small-business-benchmarks/In-detail/Benchmarks-by-industry/), there are some marked differences. Bricklayers and carpenters both work in the construction industry and have similar benchmarks in lower turnover ranges, but a difference appears when turnover range increases. Total expenses/turnover for coffee shops is much higher than for the other examples given.

Table 11: Example benchmark data

Key benchmark range (bricklaying services)	Annual turnover range '000		
	\$50 - \$150	\$150-350	>\$350
Total expenses/turnover	32% - 51%	58% - 70%	72% - 83%
Average total expenses	41%	64%	77%
Non-capital purchases/total sales	23% - 41%	29% - 49%	34% - 52%
Motor vehicle expenses/turnover	7% - 11%	4% - 6%	2% - 4%
Labour/turnover	27% - 40%	32%-45%	37% - 50%

Source: <https://www.ato.gov.au/Business/Small-business-benchmarks/In-detail/Benchmarks-A-Z/A-C/Bricklaying-services/>

Key benchmark range (carpentry services)	Annual turnover range '000		
	\$50 - \$110	\$110 - \$400	>\$400
Total expenses/turnover	33% - 51%	54% - 71%	80% - 89%
Average total expenses	42%	62%	84%
Non-capital purchases/total sales	25% - 42%	36% - 56%	56% - 71%
Motor vehicle expenses/turnover	7% - 11%	4% - 7%	2% - 3%

Source: <https://www.ato.gov.au/Business/Small-business-benchmarks/In-detail/Benchmarks-by-industry/Building-and-construction-trade-services/Carpentry-services/>

Key benchmark range (coffee shops)	Annual turnover range '000		
	\$65 - \$250	\$250 - \$600	>\$600
Total expenses/turnover	78% - 88%	84% - 92%	88% - 93%
Average total expenses	83%	88%	91%
Non-capital purchases/total sales	58% - 69%	55% - 65%	51% - 60%
Rent/turnover	12% - 19%	10% - 16%	7% - 12%
Labour/turnover	18% - 28%	20% - 29%	25% - 33%

Source: <https://www.ato.gov.au/Business/Small-business-benchmarks/In-detail/Benchmarks-by-industry/Accommodation-and-food/Coffee-shops/>

Key benchmark range (hairdressers)	Annual turnover range '000		
	\$50 - \$150	\$150-300	>\$300
Total expenses/turnover	51%-68%	69%-82%	79%-88%
Average total expenses	59%	76%	83%
Non-capital purchases/total sales	39%-51%	36%-46%	36%-45%
Rent/turnover	15%-23%	11%-17%	9%-15%
Labour/turnover	24%-36%	27%-39%	34%-43%

Source: <https://www.ato.gov.au/Business/Small-business-benchmarks/In-detail/Benchmarks-by-industry/Health-care-and-personal-services/Hairdressers/>

3 Small business owners

3.1 Taxable income

Small businesses may file a tax return with the ATO as individuals (sole traders) or as companies. Sample datasets obtained from the ATO show that small businesses often have net income well below the average Australian wage.

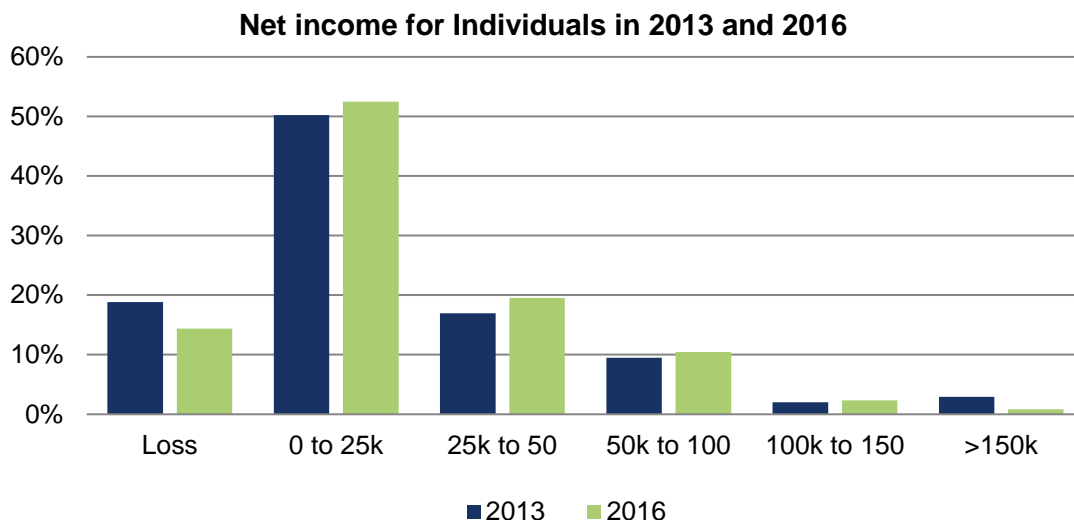
In 2013, 50% of small businesses who filed their tax return as individuals registered a net income of between \$0 and \$25,000. This grew slightly to 52% in 2016. For small businesses who filed as companies in 2013, 37% registered a net income of between \$0 and \$25,000 compared to 49% in 2016. However, it is important to note that these figures exclude trusts, self-managed superannuation funds and other entities that may influence net taxable income.

There was an increase in the number of small businesses who registered as individuals (42% in 2016 compared to 35% in 2013) and a fall in the number registered as companies (28% in 2013 and 23% in 2016). This change was highest in nano businesses indicating it could be driven by the 'gig economy'.

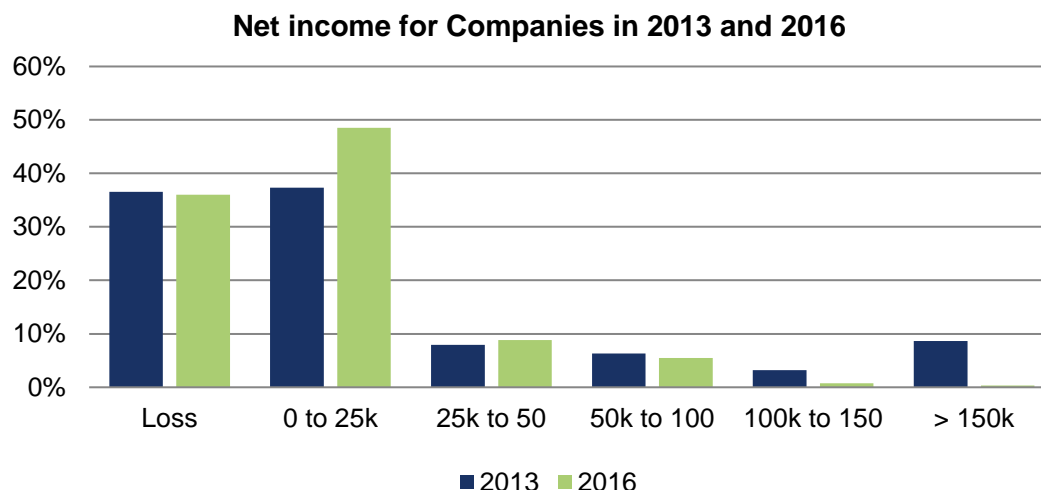
Loss-making small businesses registered as companies accounted for approximately 35% in both 2013 and 2016. For those registered as individuals, there was a difference with 19% making a loss in 2013 compared to 14% in 2016. The median loss was approximately \$5000 in both years.

Note: the Adult Average Weekly Ordinary Time Earnings, in the 12 months to November 2018, was \$1,604.90.⁵ Based on a 52 week year, this equates to an annual salary of \$83,454.80.

Chart 15: Comparison of net income for small businesses listed as Companies and Individuals



⁵ ABS; <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>



Source: ATO sample dataset for 2013 and 2016, and ASBFEO calculations

3.2 Age of small business owners

Small business owners (1-19 employees) are older than those who own non-employing businesses or medium-large businesses (20 or more employees). 61% of employing small businesses owners are over the age of 45, compared to 58.3% of non-employing businesses and 60.3% of medium-large businesses. The highest proportion of business owners in all three categories are in the 45-59 years age group.

An aging population of small business owners might cause problems in the future as they retire and either attempt to pass their business on to younger family members or sell. There may not be enough younger owners willing to run a small business or able to access finance to start a business of their own given the decline in home ownership that has historically been used to secured loans.

This data identifies 3 small business owners over the age of 100.

Table 13: Age of business owners for non-employing, small and medium-large businesses

	15-29 years		30-44 years		45-59 years		60+ years		Total
	#	%	#	%	#	%	#	%	#
No employees	83,293	9.6	280,264	32.2	331,267	38.0	176,581	20.3	871,405
1-19 employees	30,934	5.4	194,026	33.6	247,704	43.0	104,052	18.0	576,716
20 or more employees	3,933	6.1	21,055	32.7	28,286	43.9	11,112	17.3	64,386

Source: 2016 Census data and ASBFEO calculations

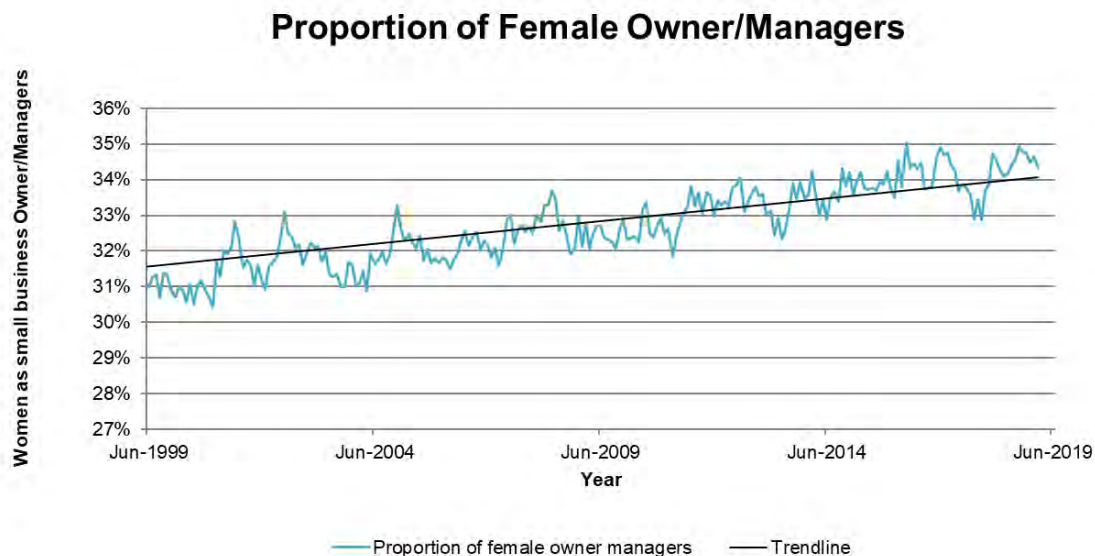
3.3 Women in small business

The ABS Labour Force data used here shows the number of people working as business owner/managers broken down by gender. The data relates to all businesses, not just small businesses. For small business-specific information we use private surveys which are often prepared by accounting firms, industry organisations and academics. Private surveys are not as reliable as ABS data, but some general

observations can be drawn. Overall, as 97.7% of all businesses are small businesses, the ABS data is considered to provide a strong indication of the proportion of women who are owner/managers of small businesses.

While there are significant fluctuations in the data on the number of female owner/managers from month to month, there has been a clear upward trend since the late 1990's. In 1999, 31% of business owner/managers were women; in 2019 that number has risen to just under 35%. The change is not rapid, but it has been sustained over a long period and appears to be continuing.

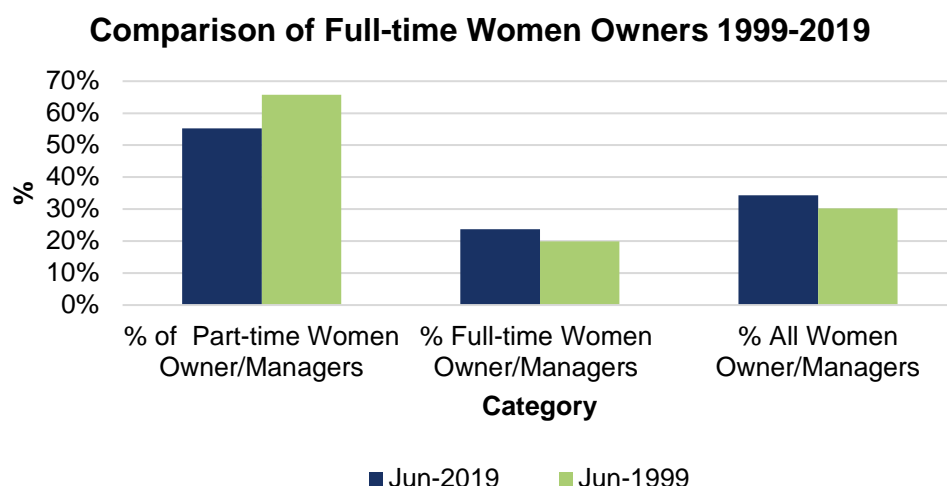
Chart 16: Proportion of female business owner/managers 1999-2019



Source: ABS 6291.0.55.001 Labour Force, Australia, Detailed – Electronic Delivery, July 2019, and ASBFEO calculations

Between 1999 and 2019, the total number of business owner/managers grew from 1.6 million to 2.1 million. That growth was most heavily concentrated among part-time owner/managers. The total number of part-time owner managers grew by 92% from 361,600 to 694,400 over this period. In contrast, the total number of full-time owner managers grew by only 9% from 1,263,600 to 1,380,200. This represents a significant change in the pattern of work by business owner/managers.

Chart 17: Change in the proportion of female owner/managers from 1999-2019

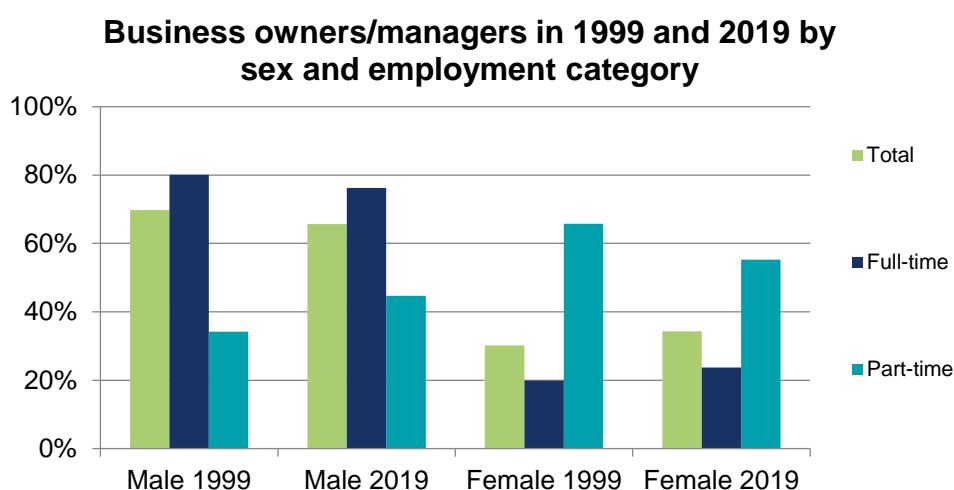


Source: ASBFEO and ABS 6291.0.55.001 Labour Force, Australia, Detailed – Electronic Delivery, July 2019.

The proportion of women owners/managers working part-time overall is declining, from 65.8% to 55.3%; a drop of over 10%. The growth in full-time women owners/managers, from 19.9% to 23.7%, outweighs the decline in part-time; an increase of nearly 15%.

There appears to be more women looking to own or manage a small business, with growth of 4% overall in women owners/managers.

Chart 18: Comparison between business owner/managers in 1999 and 2019 separated by sex and category of employment



Source: ASBFEO and ABS 6291.0.55.001 Labour Force, Australia, Detailed – Electronic Delivery, July 2019

The latest Family Business Survey (2018)⁶ found that 80% of family business decision-makers/board members were male and 20% female. This is a reduction for men and an increase for women since the 2015 report cited 85% male and only 15% female.

Though not revisited in the 2018 survey, the 2015 Family Business Survey also found that high performing family businesses were more likely to have a female CEO.

⁶ KPMG, Family Business Australia, KPMG and Family Business Australia: Family Business Survey 2018, p. 4.

4 Innovative behaviour

4.1 Innovation by activity and size

Since our last report there has been a significant decline (approximately 20%) in the number of businesses reporting undertaking any innovative activities. Innovative businesses are classified as a business that introduced a new or significantly improved good or service, operational or organisational process or marketing method. Innovative activity refers to any work that introduced, or intended to introduce, an innovation.⁷

Many world-changing innovations have been generated by a micro business, yet the propensity to engage in innovative activity increases with the size of the business.

Large businesses generally have greater resources to spend on innovative processes such as research and development. 62.8% of large businesses are involved in innovative activity compared to 50% of small businesses. However, compared to our last report, there has been a significant decline in innovation in small businesses, down to 62.8% in 2016 from 80% in 2014. In each category of innovation (see Table 14) a similar number of micro and small to medium enterprises (SMEs) undertake innovative activities.

Table 14: Business innovation by activity and size 2016-17

Innovation activity – new or improved	04- employees %	5-19 employees %	20-199 employees %	200 or more employees %
Goods and services	15.4	20.1	22.4	27.1
Operational processes	13	21.7	25.9	38.5
Organisation/managerial processes	12.6	23.9	27.2	44.8
Marketing methods	12.6	22.1	24.6	23.5
Any innovative activity	30.6	50	52.2	62.8

Innovation activity – new or improved	0-4 employees	5-19 employees	20-199 employees	200 or more employees	Total number of businesses
Estimated total number of businesses	512,000	256,000	59,000	4,000	831,000

Source: ABS Catalogue No. 8166.0.002 Table 5 Summary of IT Use and Innovation in Australian Business 2016-17

⁷ ABS 8166.0 Summary of IT use and innovation in Australian business, 2016-17: Glossary

4.2 Innovation and business performance

Productivity, measured as output per hour worked, or output per dollar of capital invested, indicates how efficiently the Australian economy is turning inputs into outputs.

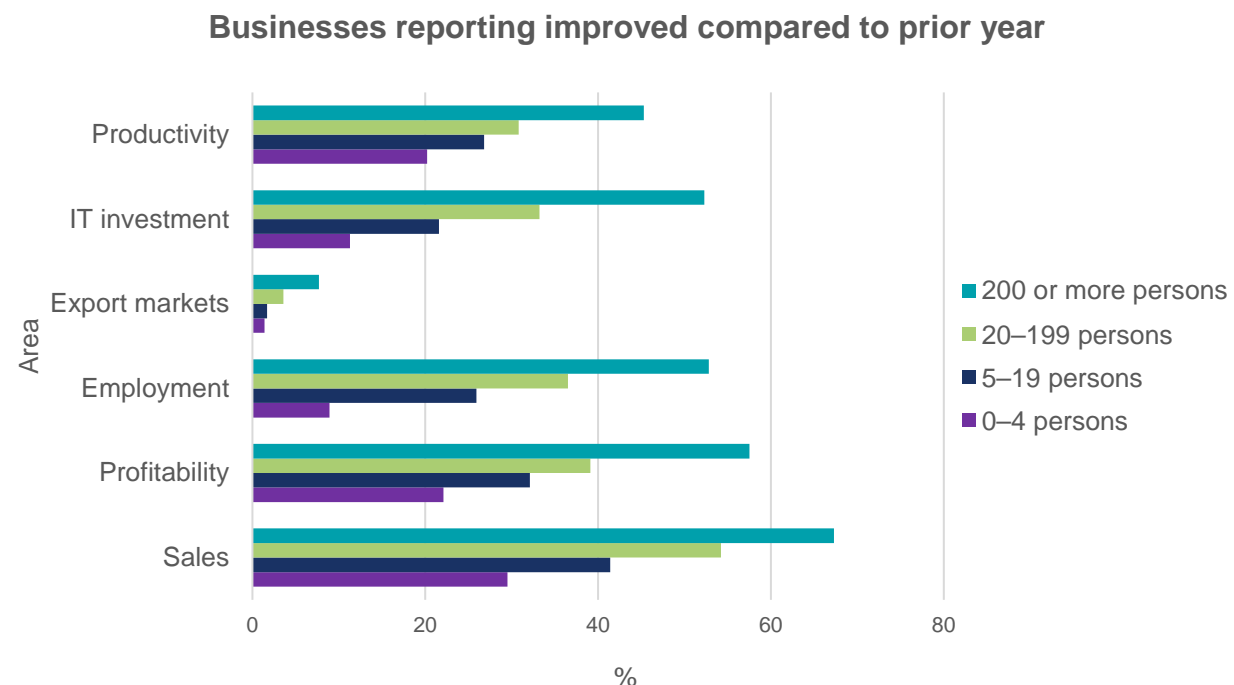
Table 15: Businesses reporting improved performance compared to previous year, 2016-17

Activity Increases in:	0–4 persons	5–19 persons	20–199 persons	200 or more persons
	% of businesses	% of businesses	% of businesses	% of businesses
Sales	30	41	54	67
Profitability	22	32	39	58
Employment	9	26	37	53
Export markets	1	2	4	8
IT investment	11	22	33	52
Productivity	20	27	31	45

Source: ABS Cat No. 8167.0 Selected Characteristics of Australian Business, 2016-17 and ASBFEO calculations.

In our last report, for the period 2013-14, only 28% of small businesses (5-19 employees) reported improvements in productivity compared to 36% of large firms. This gap has increased with little change in the number of small businesses reporting gains (27%), but a significant increase in large businesses (45%). This may reflect the higher number of large business investing in IT (52%) compared to small business (22%).

Chart 19: Businesses reporting improved performance compared to previous year – 2016-17



Source: ABS Act No. 8167.0.005 Selected Characteristics of Australian Business 2016-17

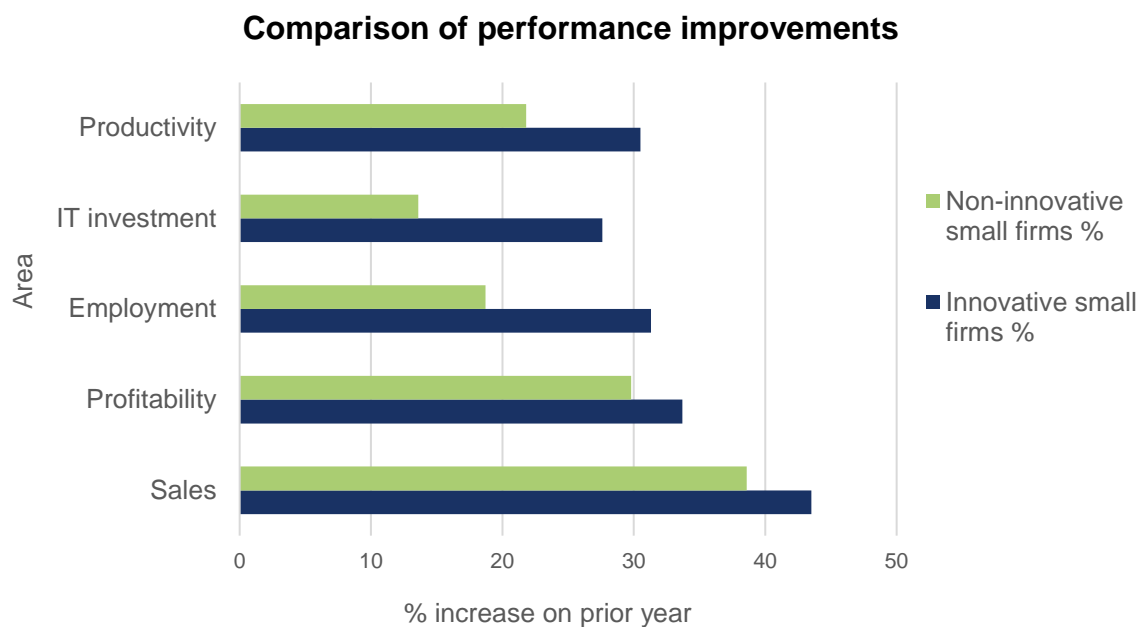
Innovative activities by small businesses have dropped since our last report in sales (44% in 2017 compared with 46% in 2014), IT investment (28% in 2017 compared with 32% in 2014) and productivity (31% in 2017 compared with 34% in 2014), while profitability and employment has increased.

Table 16: Performance improvements for innovative and non-innovative small businesses – 2016-17

Activity Increases in:	Innovative small firms	Non-innovative small firms
	%	%
Sales	44	39
Profitability	34	30
Employment	31	19
IT investment	28	14
Productivity	31	22

Source: ABS Act No. 8167.0.005 Selected Characteristics of Australian Business 2016-17

Chart 20: Performance improvements for innovative vs non-innovative small businesses, 2016-17



Source: ABS Act No. 8167.0.005 Selected Characteristics of Australian Business 2016-17

4.3 Harnessing ideas

Where a business sources new ideas is fairly consistent across the different sizes of business, except when comparing ideas sourced from within the business. Small businesses source about 50% of new ideas internally compared to 76% sourced internally by large businesses. This may be due to easy access to a larger diverse pool of people for generating new ideas.

The lack of collaboration between businesses and academia persists, with only 2-4% of innovative businesses reaching out to universities or other higher education institutions as a source of ideas for innovation. Collaborative activities between business and higher education institutions has the potential to increase innovative activity. The lack of academic collaboration may be offset in part by all sizes of business sourcing around 25% of ideas from websites, journals, research papers and publications.

Table 17: Source of ideas for innovation for small to medium enterprises – 2016-17

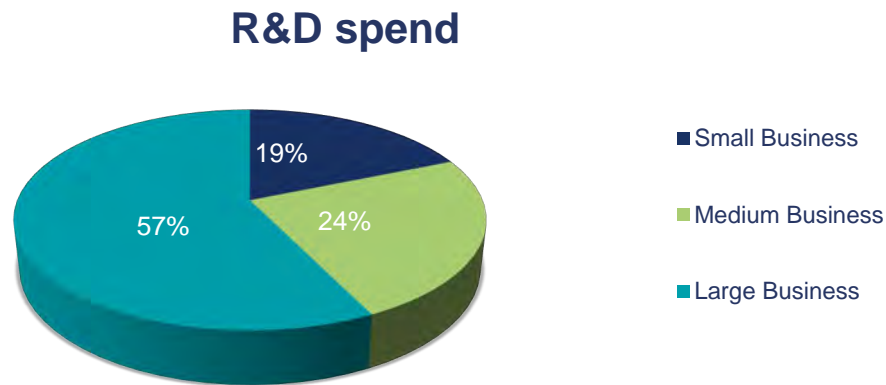
Source of idea	0–4 persons	5–19 persons	20–199 persons	200 or more persons
	%	%	%	%
Within this business or another business owned by the same company	50	54	63	76
Clients, customers or buyers	40	37	38	39
Suppliers	23	26	25	26
Competitors or other businesses from the same industry	24	26	32	31
Consultants	14	18	26	32
Universities or other higher education institutions	3	2	2	4
Government agencies	3	2	6	5
Private non-profit research institutions	1	1	2	2
Commercial laboratories or research and development enterprises	1	0	2	3
Websites, journals, research papers or publications	26	23	24	21
Professional conferences, seminars, meetings or trade shows	15	20	27	29
Industry associations	16	15	19	25

Source: ABS Cat No. 8158.0.007 Table 1, Innovation in Australian Business 2016-17 and ABFFEO calculations

4.3.1 Investment in R&D

There has been an incremental shift in dollars invested in R&D from large and small businesses during the 2013-14 year to 2015-16 year. Small businesses increased spending on R&D from 17% to 19% of total dollars spent; large business decreased spending from 59% to 57%.

Chart 21: Small business share of total business research and development spending – 2015-16



Source: ABS Cat. No. 8104.0 Research and Experimental Development, Businesses, Australia, Sep 2017

4.3.2 Investment by sector

In comparing spending on R&D to the value add by business size, the investment in R&D by small businesses (19%) remains significantly below its value add to the economy (35%). The investment by large businesses (59%) exceeds its value add of 43%.

The highest R&D investment by industry sector is found in rental, hiring and real estate services (53%/value add of 77%); education and training (46%/value add of 16%) and professional, scientific and technical services (37%/value add of 43%).

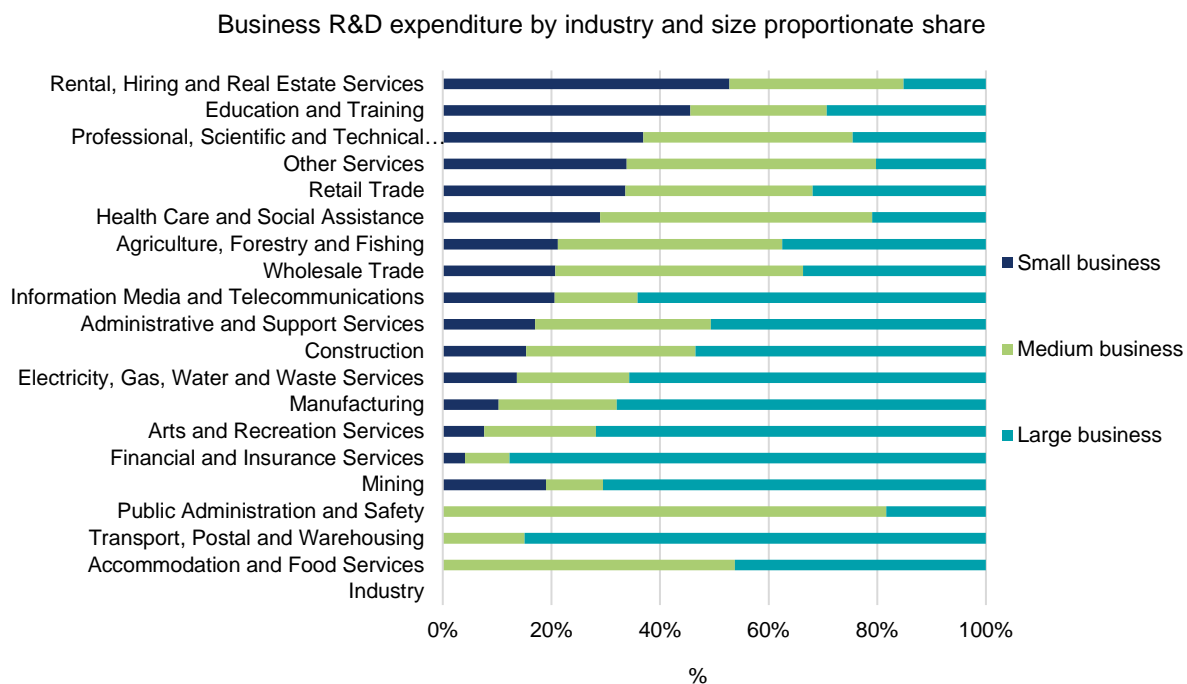
Table 18: Business expenditure on R&D by industry and firm size – 2015-16

Industry	Small business	Medium business	Large business	Expenditure on R&D	Small business share
	\$'000	\$'000	\$'000	\$'000	%
Rental, Hiring and Real Estate Services	86,721	52,747	24,946	164,413	53%
Education and Training	30,211	16,633	19,415	66,258	46%
Professional, Scientific and Technical Services	1,385,914	1,444,127	920,604	3,750,645	37%
Other Services	47,677	64,725	28,486	140,889	34%
Retail Trade	73,188	75,079	69,489	217,756	34%
Health Care and Social Assistance	30,722	53,147	22,179	106,048	29%
Agriculture, Forestry and Fishing	52,623	102,470	92,987	248,079	21%
Wholesale Trade	181,682	399,952	294,887	876,521	21%
Information Media and Telecommunications	133,230	98,860	414,764	646,854	21%
Administrative and Support Services	48,925	92,917	145,681	287,523	17%
Construction	77,915	158,276	271,227	507,418	15%
Electricity, Gas, Water and Waste Services	34,353	52,048	165,111	251,513	14%
Manufacturing	402,100	849,896	2,656,501	3,908,497	10%
Arts and Recreation Services	10,365	28,083	97,750	136,198	8%
Financial and Insurance Services	131,158	263,528	2,820,188	3,214,874	4%
Mining	356,039	197,887	1,322,155	1,876,082	2%
Accommodation and Food Services	-	13,302	11,446	32,413	0%
Transport, Postal and Warehousing	-	27,160	153,077	191,107	0%
Public Administration and Safety	-	17,108	3,838	36,209	0%

Source: ABS Cat. No. 8104.0 Research and Experimental Development, Businesses, Australia, (Sept. 2017). * includes data not available for publication but included in total.

Since 2013-14, there have been several significant changes in the sectors that small businesses invest in R&D. Compared to our last report there has been no investment in accommodation and food services (from 9%) and transport, postal and warehousing (from 5%). The most significant change is a decline in investment in R&D in mining (from 14% to 2%) which is a drop of 85%; this was an expected decline. Conversely to other metrics, the investment in R&D in the wholesale trade sector has increased from 18% to 21%; up 17%.

Chart 22: Business expenditure on R&D by industry and size – 2015-16

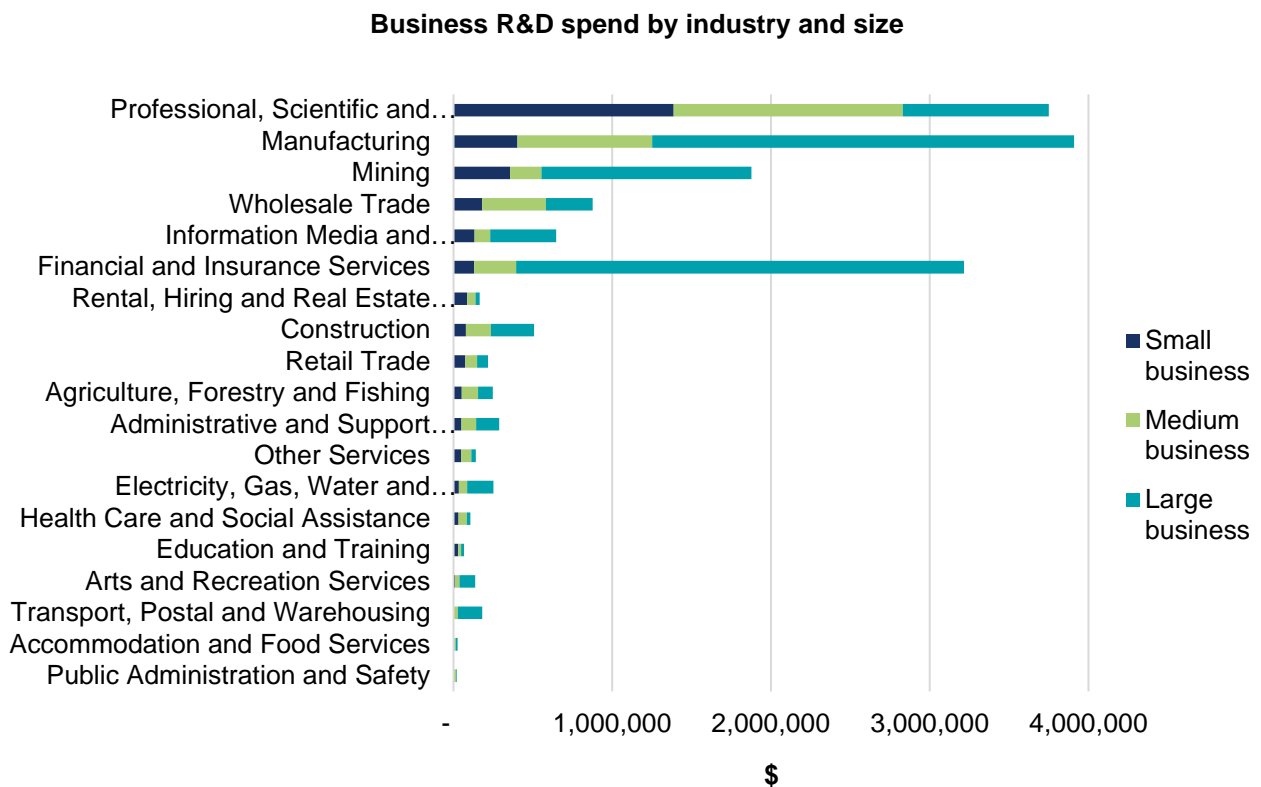


Source: ABS Cat. No. 8104.0 Research and Experimental Development, Businesses, Australia, Sept 2017

Looking at the magnitude of R&D expenditure in dollar terms, the industries where small business spends the most on R&D are: professional, scientific and technical services (\$1,363 million); manufacturing (\$514 million); Mining (\$390 million); Wholesale trade (\$168 million); and Construction (\$127 million).

The industries where small business R&D expenditure is most significant in proportionate terms are rental, hiring and real estate services (54% of industry R&D); health care and social assistance (44%); professional, scientific and technical services (36%) and education and training (35%).

Chart 23: Business expenditure on R&D by industry and firm size 2015-16



Source: ABS Cat. No. 8104.0 Research and Experimental Development, Businesses, Australia, Sept 2017

5 Being online

5.1 Internet usage

95% of SMEs are connected to the internet, with 88% connecting through broadband services. There is an increase in the number of businesses connecting through the NBN. 36% of small to medium enterprises had an NBN connection in 2018, compared to 15% only 12 months previously.⁸

Table 19: Business use of the internet

Proportion of businesses with/that	0-4 employees %	5-19 employees %	20-199 employees %	200 or more employees %	Total proportion in businesses
Internet access	94.2	96.8	99.8	99.1	95.4
Web presence	40.2	65.2	82.1	93.9	51.1
Social media presence	30.9	53.1	65.5	80	40.4
Placed orders via the internet	53.4	67.2	75.3	84.4	59.3
Received orders via the internet	32.4	43.7	47.5	54.9	37.1

Source: ABS Catalogue No. 8167.0.004 Table 1 Summary of IT Use and Innovation in Australian Business 2016-17

The most common use of the internet for small to medium enterprises is internet banking (91%), followed by looking for information about products and services (81%) and looking for suppliers of products and services (81%).⁹ This suggests businesses are happy to use the internet to be informed, but may not be harnessing the power of the internet to grow their business.

There remains a reluctance for micro and small businesses to maximise the potential of the digital economy. While there is little difference between businesses' use of the internet, micro businesses do not appear to use online tools to grow their business.

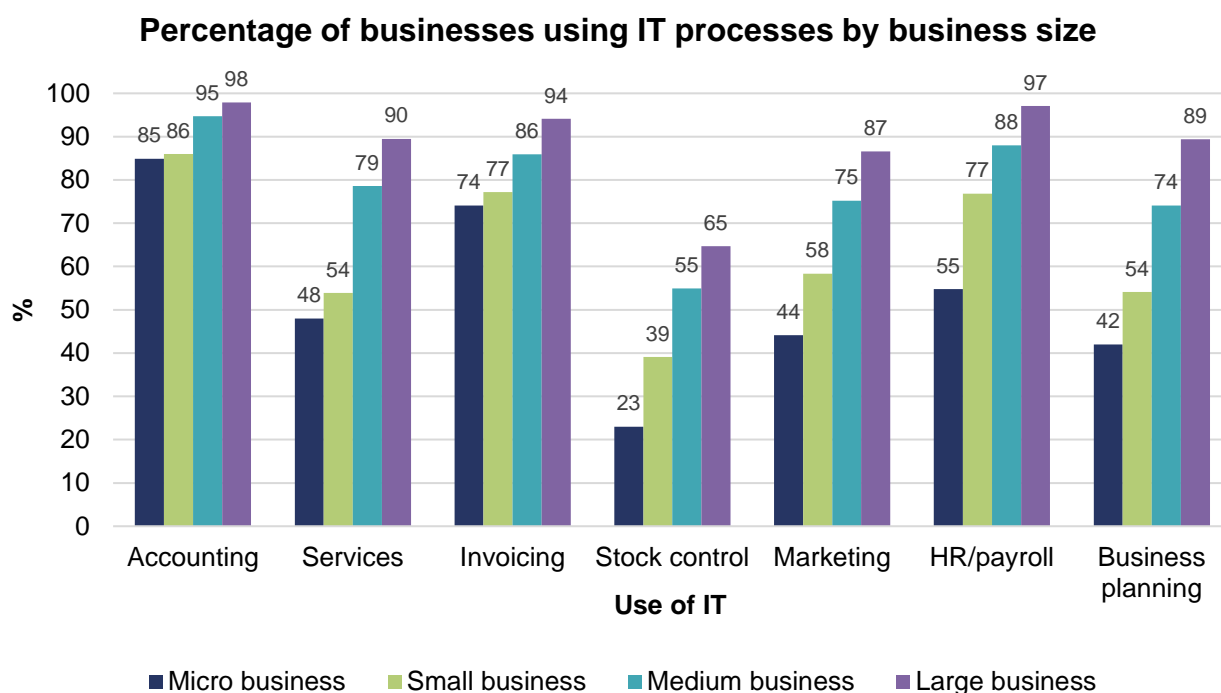
Small businesses that have embraced digital technologies report benefits to their business. In a survey of 1,003 businesses by MYOB, 44% of respondents felt that having a business website generated more customer enquiries and 43% thought it enabled the business to have a more professional brand image. They also believed it made it easier for customers to do business (42%). For small businesses with a social media presence, they saw increased interactions with customers (53%) and also saw more customer enquiries (42%).¹⁰

⁸ Yellow, Yellow Digital Report 2018, p. 37

⁹ Yellow, Yellow Digital Report 2018, p. 41

¹⁰ MYOB, MYOB Business Monitor, December 2018, p. 15.

Chart 24: The percentage of businesses that use some IT processes divided by business size



Source: ABS Catalogue No. 8129.0 Table 3 Business Use of Information Technology 2015-16 and ASBFEO calculations

5.2 Social media

51% of SMEs have a social media presence, with 91% managing their social media profiles within the business.¹¹ Facebook is the most frequently used site at 86%, followed by Instagram (38%) and LinkedIn (24%).¹²

Table 20: Social media usage by small business 2017-2018

Social media sites used	Nov 2017 (n=448)	May 2018 (n=447)	Nov 2018 (n=439)
Facebook	81%	83%	86%
Instagram	28%	35%	38%
LinkedIn	29%	26%	24%
YouTube	24%	22%	23%
Twitter	20%	18%	20%
Snapchat	8%	11%	8%
Pinterest	8%	9%	5%

Source: MYOB Business Monitor, December 2018, p. 15

¹¹ Yellow, Yellow Digital Report 2018, p. 53

¹² MYOB, MYOB Business Monitor, December 2018, p. 15.

5.3 Single touch payroll

The most recent MYOB Small Business Monitor (December 2018) states only 20% of sole operators, micro, and SMEs were aware that single touch payroll (STP) applies to their business (at least from 1 July 2019).¹³

Only one in five operators thought that STP applied to their business, with usage currently at 14%. Understandably, results varied according to the size of the business but there is a significant gap in take-up between small and medium sized businesses.

Operators more likely to have thought STP applied to their business included:

- franchisors (67%) and franchisees (43%)
- exporters (66%) and importers (59%)
- Gen Y operators (36%)
- businesses whose revenue had increased over the previous 12 months (31%)
- metropolitan based operators (28%)
- businesses with a website (28%) or social media site (27%)
- business, professional and property services (27%)¹⁴

¹³ MYOB, MYOB Business Monitor, December 2018, p. 17.

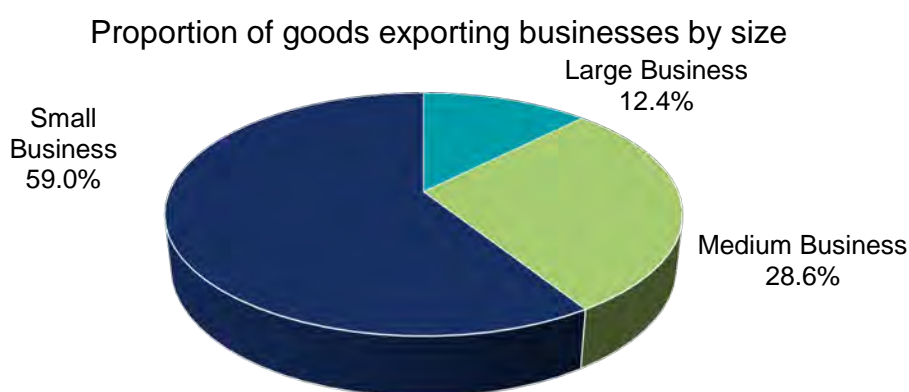
¹⁴ *ibid*

6 Exporting

6.1 By size of business

Small businesses account for more than half (59%) of all exporters. In 2013-14 there were 19,965 small businesses exporting goods, accounting for 44% of all businesses exporting goods. In 2016-17 this has grown to 30,674 small businesses, which is still only a small proportion of total small businesses in Australia. There is no data provided on exporters of services.

Chart 25: Proportion of goods exporting businesses by size 2016-17



Source: ABS 5368.0.55.006, Table 5.1 Characteristics of Australian Exporters, 2016-17 and ASBFEO calculations.

Table 21: Number of exporters of goods

Business Size	2013-14	2014-15	2015-16	2016-17
Large Business	5,782	6,085	6,275	6,464
Medium Business	13,729	14,126	14,827	14,854
Small Business	25,223	28,470	30,190	30,674
Total Goods Exporters	44,734	48,681	51,292	51,992
% Small Business	56%	58%	59%	59%

Source: ABS 5368.0.55.006, Table 5.1 Characteristics of Australian Exporters, 2016-17 and ASBFEO calculations.

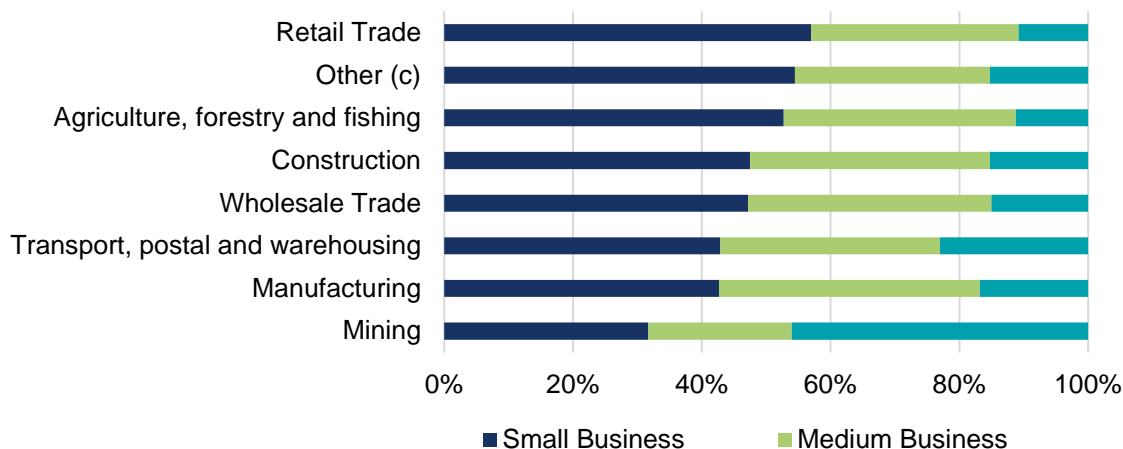
6.2 By industry

The primary sector for small business exporters are the retail trade (43%) and agriculture, forestry and fishing (40%). The type of activity unit (TAU) is used to derive exports by industry. The TAU is comprised of one or more business entities, sub-entities or branches of a business entity. As the breakdown by size of business relies on the ABN, and by sector the TAU, there are minor differences in totals.¹⁵

¹⁵ ABS 5368.0.55.006 – Characteristics of Australian Exporters, 2016-17 and ASBFEO calculations.

Chart 26: Proportion of small business exporters by number – 2016-17

Proportion of small business exporters by number



Source: ABS 5368.0.55.006, Table 5.1, Characteristics of Australian Exporters, 2016-17 and ASBFEO calculations.

By percentage value, construction accounts for the highest contribution by small business, 10.47% of the total value. However, by dollar value it only contributes \$56 million. This is in comparison to wholesale trade which is the highest exporter by dollar value at \$873m, but only accounts for 2.02% of the total value of small business exports in this sector.

Chart 27: Contribution of small business exporters to each industry category

Small business exporters by industry category



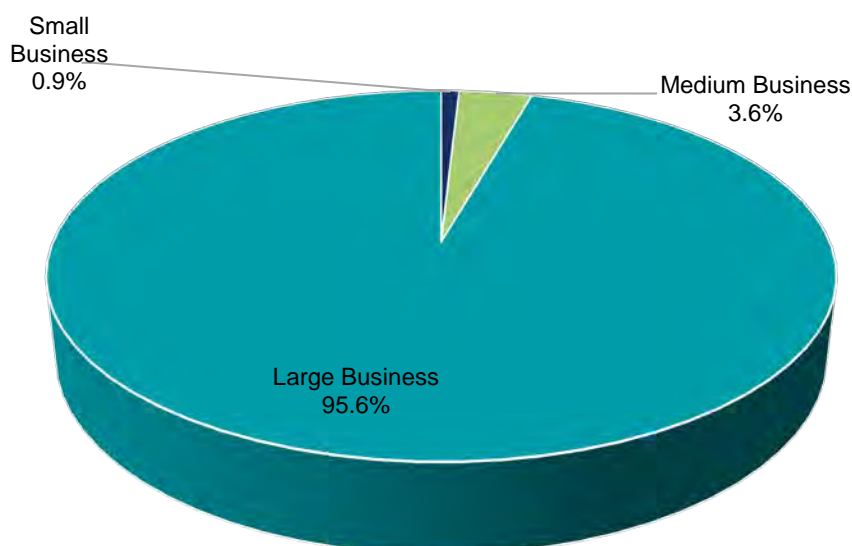
Source: ABS 5368.0.55.006 – Characteristics of Australian Exporters, 2016-17 and ASBFEO calculations.

6.3 By value of exports

While the number of small businesses exporters is significant, their contribution to the total value of exports is relatively small. In total, small businesses contribute \$2.5 billion to the value of exports out of a total of \$291 billion. This represents 0.9% of the total.

Chart 28: Contribution of small business to the total value of goods

Total value of goods exported by size



Source: ABS 5368.0.55.006, Table 5.2 Characteristics of Australian Exporters, 2016-17 and ASBFEO calculations.

The total value of goods exported increased to \$291 billion in 2016-17, an increase of 19% from 2015-16. The increase in the value of exports was mainly attributed to large goods exporters where the value of trade was equal to or over \$100 million. This increase was largely driven by the mining industry.

Table 22: Value of goods exports, by industry and business size 2016-17

Goods exporters by industry	Small Business \$M	Medium Business \$M	Large Business \$M	Total Exports \$M	Small business share %
Construction	56	170	309	535	10.47%
Retail Trade	214	646	1,562	2,422	8.84%
Other (c)	435	1,554	4,113	6,102	7.13%
Transport, postal and warehousing	102	639	2,220	2,961	3.44%
Agriculture, forestry and fishing	78	534	2,844	3,456	2.26%
Wholesale Trade	873	3,994	38,458	43,325	2.02%
Manufacturing	374	2,425	66,266	69,066	0.54%
Mining	29	161	161,177	161,368	0.02%
Sub-total goods exporters with a TAU	2,161	10,123	276,949	289,235	0.75%
Goods exporters without a TAU	386	244	1,018	1,647	23.44%
Total goods exporters	2,547	10,367	277,966	290,880	

Source: ABS Cat No. 5368.0.55.006 Table 5.2, Characteristics of Australian Exporters, 2016-17 and ASBFEO calculations. Discrepancies may occur due to rounding. TAU - The statistical unit referred to as an exporting business and consists of ABNs from the non-profiled population and TAU units from the profiled population.¹⁶

¹⁶ ABS units model can be found in 'Appendix - ABS Business Register and the ABS units model' in Standard Economic Sector Classifications of Australia (SESCA), 2008 (Version 1.1) (cat. no. 1218.0).

7 Challenges for small business

7.1 Barriers to innovation

The greatest barrier to innovation faced by micro and small businesses is access to funds (23.3%) with lack of skills a close second (22.6%). By comparison, access to funds is of least importance to large businesses with their greatest barrier being lack of skills (15.3%).

Table 23: Barriers to innovation, by employment size – 2016-17

Firm size (persons)	Access to funds %	Development Cost %	Lack of skills %	Technology access %
0-4	17.7	11.1	13.5	3.2
5-19	23.3	13.6	22.6	4.8
20-199	14.4	13.8	19.5	4.3
200 +	9.8	13.8	15.3	6.3
Firm size (persons)	Regulations and Compliance %	Adherence to standards %	Lack of demand %	
0-4	8.5	2.4	10.9	
5-19	9.4	3.7	11.4	
20-199	8.3	2.8	12.6	
200+	10.6	3.9	6.8	

Source: ABS Cat. No. 8167.0 Selected Characteristics of Australian Business, Barriers to Innovation Table 2, 2016 -17 and ASBFEO calculations

7.2 Access to finance

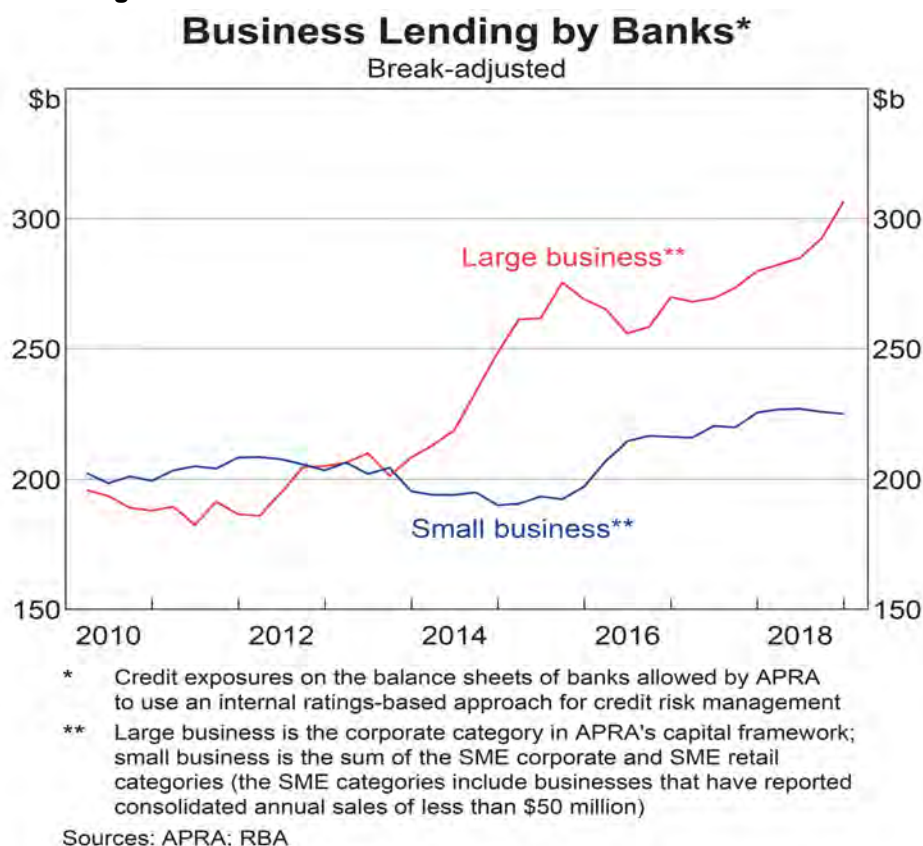
In February 2019, lending to businesses decreased by 2.4%, and since February 2018 it has decreased 3.3%.¹⁷

These figures are partly impacted by revelations at the Royal Commission into banking misconduct, resulting in a tightening of lending practices. 22% of SMEs felt that it was already harder for them to access finance and a further 34% believe their ability to access funding will soon be negatively impacted.¹⁸

¹⁷ ABS 5601.0 Lending to households and businesses, Australia Feb 2019, April 2019

¹⁸ Scottish Pacific, SME Growth Index, March 2019, p.6.

Chart 29: Lending to business



7.3 Payment times

The late payment of client invoices to small businesses can impact their performance. Just over half of small businesses receive invoice payments late, with payments arriving an average of 23 days after they are due.¹⁹

In 51.5% of cases, small businesses have to ask up to twice for payment of outstanding invoices, with 11.6% of businesses needing to ask between four and eight times.²⁰

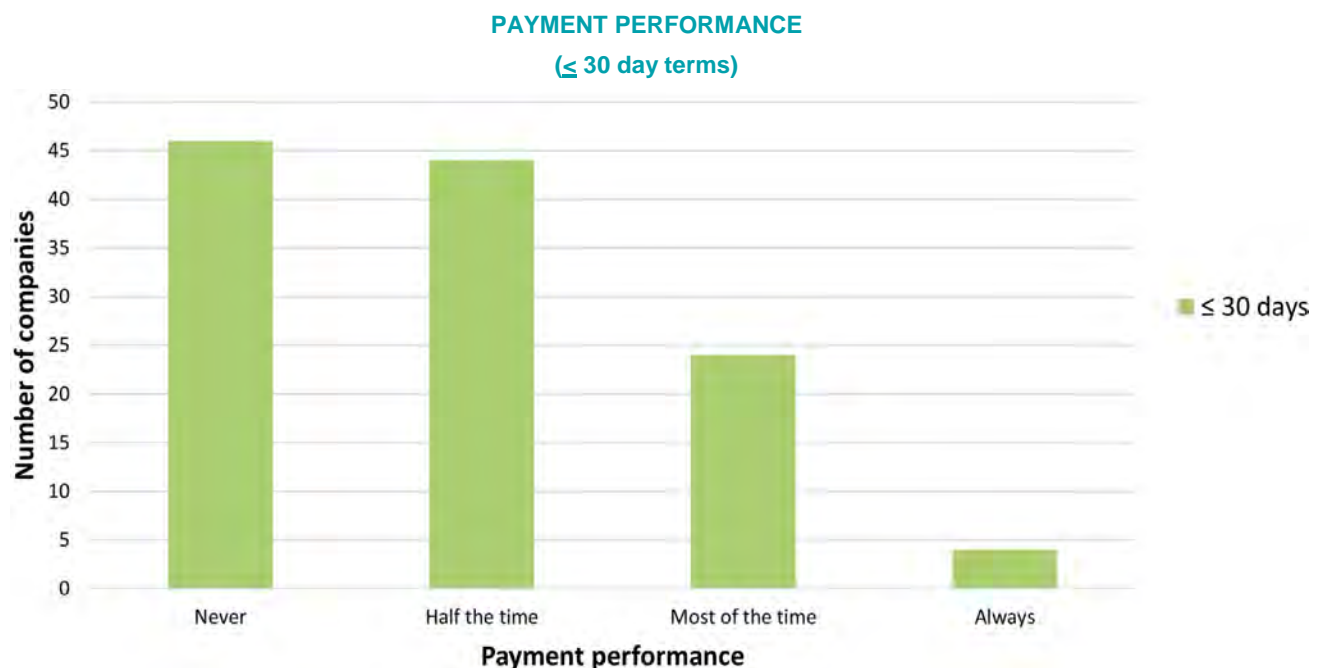
Cash flow is a key concern for small businesses, and late payment is responsible for 43% of worsening cash flow. Just under half of small businesses indicate their cash flow has suffered because of late payment and 92% believe they would have generated more revenue in the previous year if their cash flow was improved.²¹

¹⁹ Xero Small Business Insights, *Paying the price: the economic impact of big business paying Australian small businesses late*, 2019

²⁰ Prushka, *Canary in the Coal Mine Report*, March 2017

²¹ Australian Small Business and Family Enterprise Ombudsman, *Review of payment terms, times and practices*, March 2019

Chart 30: The number of companies that have payment terms of 30 days or less, rarely pay on time

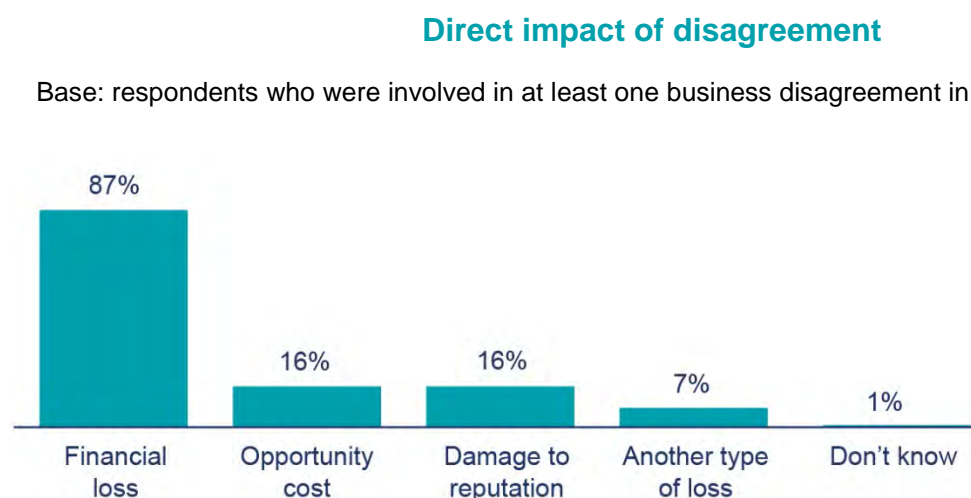


Source: ASBFEO Review of payment terms, times and practices, March 2019, p.15

7.4 Access to justice

In the last five years, 22% of small businesses have been involved in a dispute. For 44% of small businesses, payment times is the leading cause of disputes.²² Resolving disputes when they arise can be both costly and time-consuming for small businesses. Disputes had a variety of impacts on a business. Respondents highlighted financial loss (87%), opportunity costs and damaged reputations (16% each) as the greatest impacts of their disputes.

Chart 31: The impact of a dispute on small businesses



Source: ASBFEO Inquiry report Access to Justice: Where do small businesses go?, p8

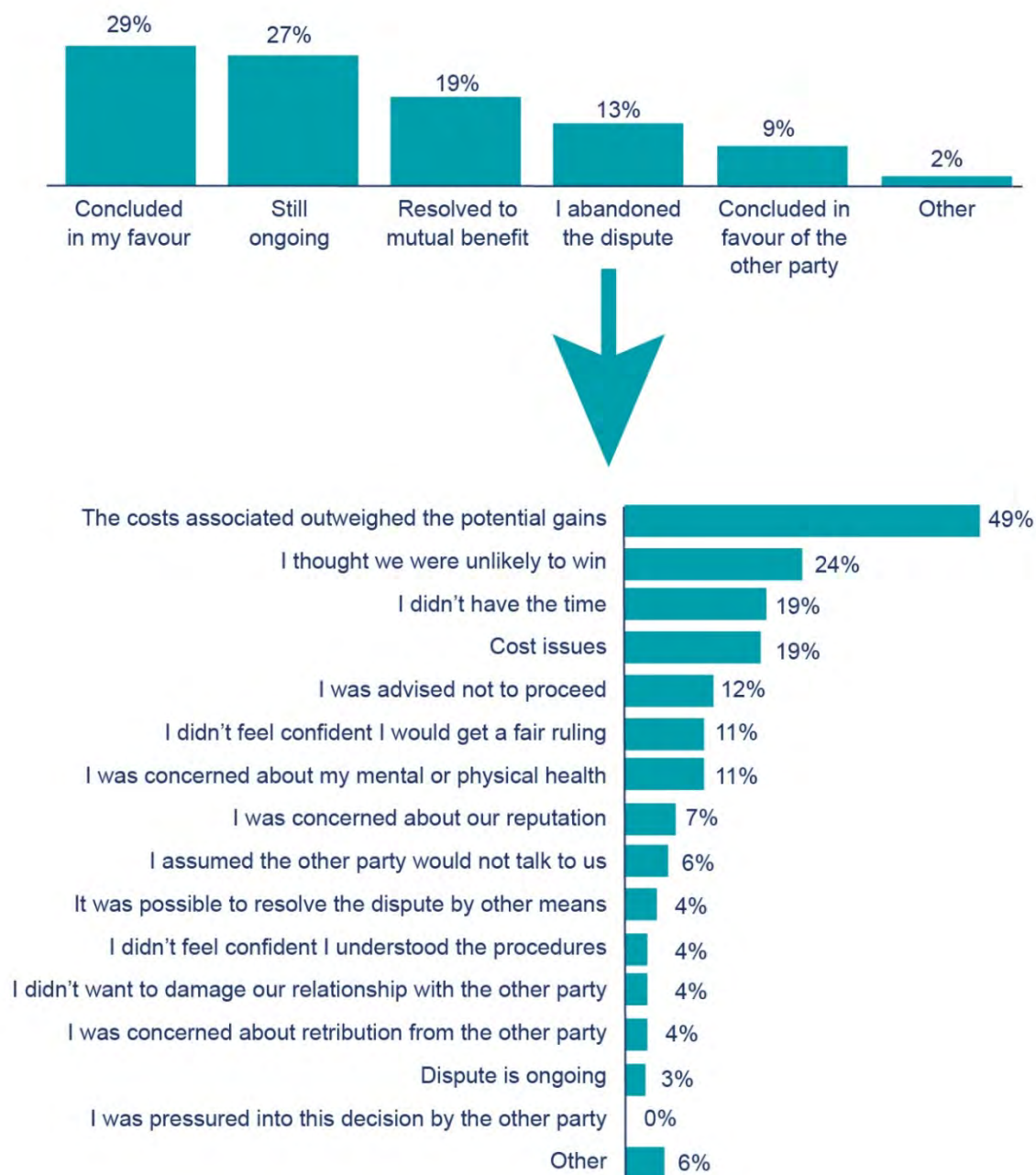
²² Australian Small Business and Family Enterprise Ombudsman, *Access to Justice: where do small businesses go?*, December 2018

Half of small businesses involved in a recent dispute considered the time and effort required to resolve the dispute was unreasonable. Of businesses that abandoned pursuing a dispute, 68% said this was related to the costs of pursuing an action, both the direct costs and the opportunity costs.²³

Chart 32: The influence of small business escalating a dispute, including reasons for abandonment

Current status of dispute

Base: respondents who were involved in at least one business disagreement in the past five years (n=355)



Source: ASBFEO Inquiry report Access to Justice: Where do small businesses go? p10

²³ Australian Small Business and Family Enterprise Ombudsman, *Access to Justice: where do small businesses go?*, December 2018

7.5 Cybersecurity

Small businesses are the target of 43% of all cybercrimes and that number is increasing.²⁴ These attacks influenced productivity, disrupted business activities, and caused loss of information and revenue.²⁵

53% of small businesses identify hacking as a major concern related to e-commerce, with 89% having at least some concern about hacking.²⁶

The Australian Small Business and Family Enterprise Ombudsman's guide on cybersecurity highlights some of the risks to small businesses and provides information on how they can protect themselves (see: <https://www.asbfeo.gov.au/cybersecurity>)

7.6 Government assistance

Large businesses access more government assistance than any other size of business. The gap is significant comparing large (42.6%) to small (16%), and micro businesses (7.3%).

Table 24: Government financial assistance by business size 2016-17

Type of Assistance	Micro 0–4 persons %	Small 5–19 persons %	Medium 20–199 persons %	Large 200 or more persons %
Grants	2.7	4.7	11.9	16.9
Ongoing funding	0.5	1	4.7	9.9
Subsidies	0.8	3.7	5.5	17.4
Tax concessions	1.1	2	6.2	13.1
Rebates	2.8	7.1	12.9	16.5
Other government assistance received	0.1	0.6	0.2	0.3
Any government assistance received	7.3	16	31.6	42.6

Source: ABS cat no. 8167.0 - Selected Characteristics of Australian Business, Table 5 2016-17 and ASBFEO Calculations

This imbalance may reflect a lack of awareness by small businesses of what support is available. Knowing what is available then understanding how to navigate the red tape to access support are significant barriers to resource-poor small businesses. Large businesses have teams dedicated to managing government interaction, from knowing what is available, completing application forms, to meeting the onerous reporting requirements once assistance is received.

²⁴ <https://smallbiztrends.com/2016/04/cyber-attacks-target-small-business.html>

²⁵ Australian Government Initiative: Stay Smart Online, *The cost of cybercrime to Australia*, 2015

²⁶ Yellow, Yellow digital report 2018.

7.7 Government procurement

In 2017-18, the number of SMEs participating in government procurement decreased, from 54% in 2016-17 to 52.7% in 2017-18.²⁷

Although there was an increase in the value of government contracts awarded to small businesses in 2017-18 (\$12.9 billion compared to \$10 billion in 2016-17), there was an overall decrease in the percentage this value represented of total government contracts; a fall from 21% in 2016-17 to 18.2% in 2017-18.²⁸ Given the increase in value of government contracts, it would be reasonable to expect the percentage of SMEs accessing the government procurement spend to either increase or stay stable, not decrease.

Small businesses do not have the resources to complete overly burdensome tender or panel documentation. The use of tender panels reinforces the need for small businesses to have and maintain relationships with a government agency in order to win procurement contracts, and this provides a distinct advantage to large businesses. Small businesses are often 'unknown' to contract managers, who rarely look beyond the suppliers they usually interact with which are often large full-service firms that have a distinct advantage over a small business.

²⁷ Department of Finance, Statistics on commonwealth purchasing contracts. January 2019

²⁸ Department of Finance, Statistics on commonwealth purchasing contracts. January 2019