



Australian
Competition &
Consumer
Commission

Small Business – Future Opportunities & Challenges

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Address to the AICD-Canberra Business Council
Business Luncheon Series
Tuesday 6th November 2008

Overview

1. Understanding the small business sector:
What is it? How does it work?
2. Small firms and trade practices issues:
The key issues
3. What does the future hold?
Some crystal ball-gazing

Why does a strong small business sector matter?

- *Employment opportunities*
- *The next generation of large firms*
- *Competition*
- *Source of innovation*
- *An outlet for entrepreneurial activity*
- *Exports*
- *Specialised products & services*
- *Support to big business*
- *Decentralisation*
- *Distribution of economic resources, wealth and opportunities*
- *Flexibility in the overall economy*
- *Enterprise culture*

Part #1:

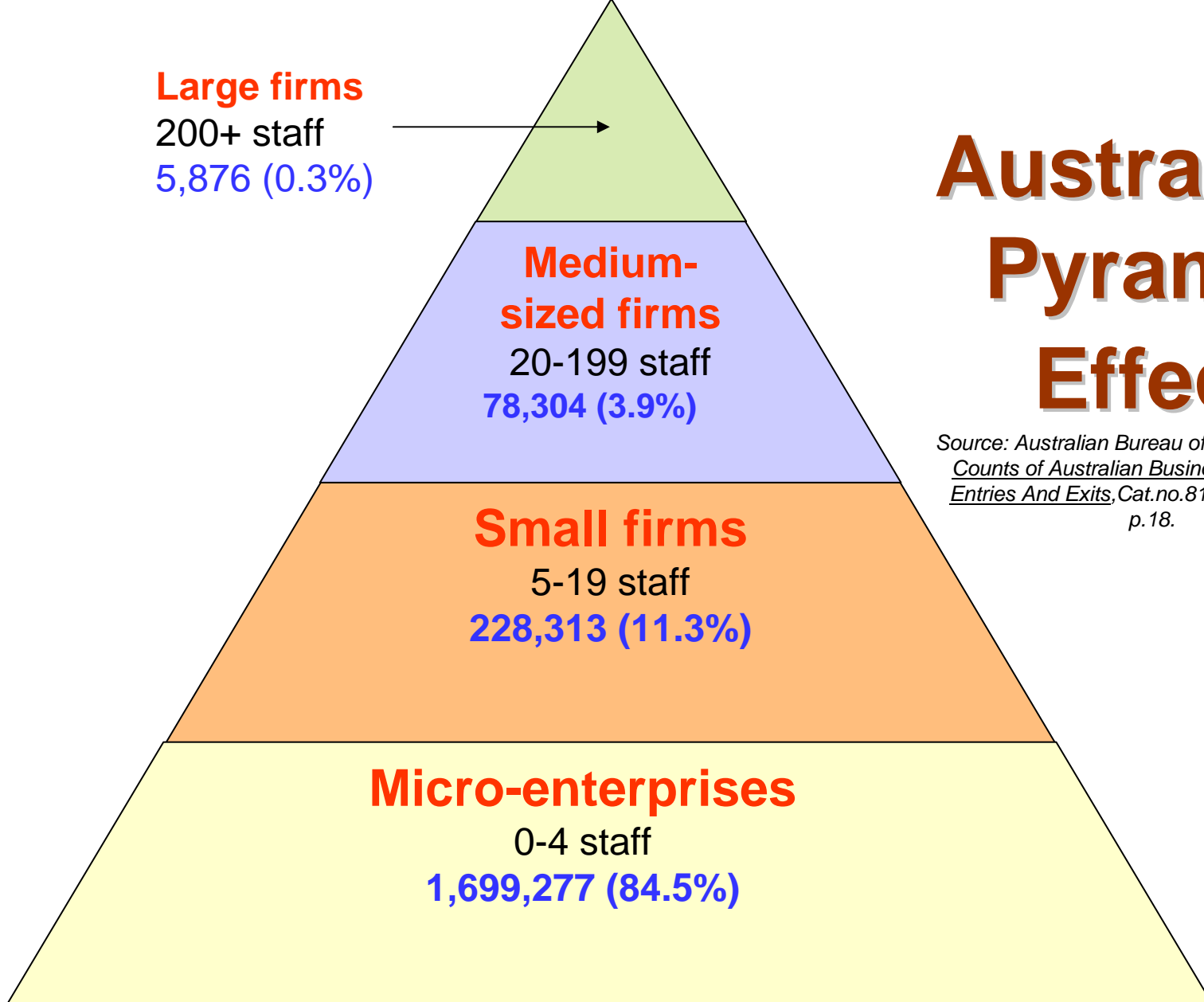
Understanding the sector

A snapshot of Australia's small firm sector...

- Much more numerous than realised
- SB growth an enduring long-term trend
- Similar to other OECD nations
- Role of micro-businesses, serial entrepreneurs, older entrepreneurs often overlooked
- Limited financial resources
- Weak legal structures
- Survival rate higher than expected

Australia's Pyramid Effect

Source: Australian Bureau of Statistics (2007),
*Counts of Australian Businesses, Including
Entries And Exits*, Cat.no.8165.0, Canberra,
p.18.



Composition of private sector firms in Australia, by size

	2007	2002	1998-99	1995-96	1983-84
Micro-businesses (0-4 employees; includes self- employed persons)	1,699,277 (84.5%)	952,200 (81.80%)	791,400 (79.9%)	748,400 (80.16%)	455,400 (78.67%)
Small business (5-19 employees)	228,313 (11.3%)	169,800 (14.59%)	159,800 (16.14%)	147,900 (15.84%)	99,200 (17.13%)
Medium enterprises (20-199 employees)	78,304 (3.9%)	39,300 (3.38%)	36,100 (3.65%)	34,600 (3.7%)	22,500 (3.9%)
Large firms (200 or more employees)	5,876 (0.3%)	2,800 (0.24%)	2,700 (0.27%)	2,700 (0.29%)	1,800 (0.31%)
Total	2,011,770 (100%)	1,164,100 (100%)	990,000 (100%)	933,600 (100%)	578,900 (100%)

Sources: Australian Bureau of Statistics (2007, p.6; 2002, p.27; 2000, pp.27-29). Figures exclude agricultural enterprises; totals may not add up due to rounding

Distribution of firms by size In selected nations and geographic regions

	Australia, 2007	Europe-19, 2003	New Zealand, 2006	UK, 2002	USA, 2000
Micro-businesses	1,699,277 (84.5%)	17,820,000 (92.28%)		2,600,000 (68.42%)	19,988,000 (94.18%)
Small business	228,313 (11.3%)	1,260,000 (6.53%)	299,774 (87.5%)	1,170,000 (30.79%)	1,009,000 (4.75%)
Medium enterprises	78,304 (3.9%)	180,000 (0.93%)	31,901 (9.3%)	27,000 (0.71%)	167,000 (0.79%)
Large firms	5,876 (0.3%)	40,000 (0.21%)	11,115 (3.2%)	7,000 (0.18%)	59,000 (0.28%)
Total	2,011,770 (100%)	19,310,000 (100%)	342,790 (100%)	3,804,000 (100%)	21,223,000 (100%)

Sources: Schaper, M. (2004) "The "One in Twenty" Rule: Some Thoughts On The Fundamental Distribution Of Firms" Paper presented to the Rencontres conference, 20-23 September 2004, Appenzell, Switzerland. Drawn from European Commission (2004), Ministry of Economic Development, New Zealand (2003, p.5), Australian Bureau of Statistics (2007), United Kingdom Department of Trade and Industry (2003), New Zealand Ministry of Economic Development (2007). Figures may not add up due to rounding. For New Zealand, "small business" category includes micro-firms.

Other notable features

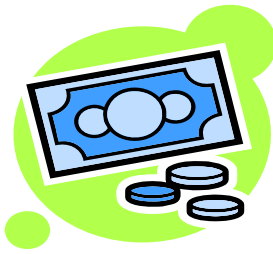
- Two-thirds of all small firms are home-based
- Most (over half) have no staff at all!
- Women represent only 1/3 of all owner-managers
- Most entrepreneurs are over 30
- A surprising number are serial owners
- About 10% of business owners have more than one enterprise



Legal structures overly reliant on non-incorporated entities

Sole proprietor	620,000 (31%)
Partnership	386,000 (19%)
Company	641,000 (32%)
Trust	364,000 (18%)
Total	2.011 million

Source: Australian Bureau of Statistics (2007), Counts of Australian Businesses, Cat.no.8165.0, Canberra: ABS, p.6. Figures are rounded. Includes both agricultural and non-agricultural firms.



How much do businesses turnover in Australia?



\$0 - \$49,999 p.a.	501,467 (25%)
\$50,000 - \$199,000 p.a.	742,288 (37%)
\$200,000 - \$1.99 million p.a.	646,458 (32%)
\$2 million or more	121,557 (6%)
Total	2,011,770

Source: Australian Bureau of Statistics (2007), Counts of Australian Businesses, Including Entries And Exits, Cat.no.8165.0, Canberra: ABS, p.20.

Exits & survivals - Australia

“Exits” includes cessation, liquidation or receivership, change of ownership, mergers.

Australian Bureau of Statistics estimates (1997):

- Average rate: **8.5% p.a. of all small firms.**
- Exits are highest in retail industries, partnerships, & new businesses.
- *18% of businesses exit after 2 years*
- *24% after 3 years*
- *35% after 5 years*
- *55% after 10 years*
- *65% after 15 years*

Australian Bureau of Statistics (2007):

- Of the **1.87m firms** operating in June 2003, **65.0%** still trading in June 2006 and **58.4%** in June 2007.
- **Least likely** to survive are new firms, non-employed firms, low turnover firms



Sources: ABS (1997) *Business Exits in Australia*, cat. no. 8144.0, pp.5-12; *Counts of Australian Businesses, Including Entries and Exits* Cat.no.8165.0 Canberra: ABS, p.19.

In summary: profile of a typical Australian small business owner



- **Male, Australian-born**
- **Tradesperson or professional**
- **30-50 years old**
- **Year 12/trade qualification**
- **Works full-time in firm**
- **Been trading 1-5 years**
- **Is in a partnership or sole trader**
- **Used personal \$ to start**
- **No formal management training**
- **Has no business plan**
- **Home-based, non-employing**

Where Are Australia's Businesses And Their Owners Located?

Sources: Australian Bureau of Statistics (2007), *Counts of Australian Businesses, Including Entries And Exits*, Cat.no.8165.0, Canberra, p.12;
ABS(2008), *Counts of Australian Business Operators*, Cat.no.8175.0, Canberra, p.14. Proportions may not add up due to rounding.

	Number of Businesses	Owner-Operators
NSW	679,849 (34%)	602,826 (32%)
Victoria	503,379 (25%)	464,862 (24%)
Qld	404,287 (20%)	408,389 (21%)
SA	143,616 (7%)	137,890 (7%)
WA	204,701 (10%)	214,876 (11%)
Tas	37,787 (2%)	39,783 (2%)
NT	13,808 (0.7%)	12,111 (0.5%)
ACT	24,343 (1%)	21,505 (1%)
Australia	2,011,770 (100%)	1,902,241 (100%)

Part #2:

Small firms and trade practices issues

What are some key elements of the TPA that can affect small businesses?

- Part IV – restrictive trade practices (includes laws on anti-competitive behaviour, price fixing, cartels, resale price maintenance, anti-competitive mergers)
- Part IVA – unconscionable conduct (s51AC)
- Part IVB – industry codes (including Franchising Code of Conduct)
- Part V – consumer protection (including false & misleading conduct, bait advertising, product safety)
- Part VII – collective bargaining by SBs

Many parts of the TPA are designed to help small firms

- Collective bargaining
- Predatory pricing
- Misuse of market power
- Franchising & other industry codes

Enforcing the rules, getting the returns

- Between January 2005 and May 2008, the ACCC oversaw the return of more than **\$2.7 million to shoppers and small businesses** from s.87 undertakings

What are the biggest concerns small businesses have?

- The ACCC receives about **3,000 queries from SBs per annum** – 40% are just queries/request for more info and 60% complaints. We also get about **2,000 complaints by consumers against SBs** a year.
- About half of all SB enquiries to us are about restrictive trade practices – complaints that **manufacturers or distributors have refused supply**.
- Another 15% are about rights & obligations in regards to **warranties and refunds**
- About 10% are about **advertising** within s52
- About 5% are about **scams**

Do small businesses exercise their rights under the TPA?

- SBs often **unaware** of their rights & obligations
- Most firms don't want formal legal redress – just an effective **resolution of their problems**
- Often unable/unwilling to collect necessary **evidence**
- Litigation is **time** consuming...
- ...and **expensive**
- **s.87 undertakings** often more effective
- Often unaware of **alternate dispute** resolution mechanisms available (i.e. mediation)

Current issues

- Collective bargaining
- Franchising review
- Predatory pricing
- Creeping acquisitions
- Unconscionable conduct
- Unit pricing
- Component pricing

Part #3:

What does the future hold?

Future Challenges For Australian SMEs

- **Numbers of SBs** will continue to grow
- **Their characteristics** will remain largely the same
- An **ageing** business owner population
- **Skills shortage** still persists for employers
- New **regulatory environment**
- A **carbon-** and **water-limited** economy
- Impact of the global **credit crunch**
 - Likely increase in franchise uptake/retention
 - Difficult to launch/grow new businesses
 - Financing models
- Need to develop an **enterprise culture**



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