



Small Business, Big Thinking:

The entrepreneurialism of the Aussie workforce



1. Introduction

This is the story of small business in Australia. This is also the story of profound business change caused in part by global forces such as digital disruption but also by emerging demographic and social shifts. Whatever the cause one thing is for certain: small business is very much on the rise and especially at the smallest end of the small business spectrum.

Is this evidence of the agility that is required to survive and thrive in the workplace in the 21st century? Or is this simply a better way of working in the future? Whatever it means, one thing is for certain: small business is on the ascendancy.

This report looks at the rise of small and especially micro businesses in Australia and the role that technology is playing in facilitating the efficient operation of the businesses of the future. Make no mistake, nationwide access to the **nbn**™ network is changing the game for small business which can be run from anywhere in the country and which can now access markets internationally.

“One thing is for certain: small business is very much on the rise and especially at the smallest end of small business.”

2. Small business on the rise

Depending on how these things are measured there is estimated to be two million small and medium businesses in Australia employing perhaps seven million workers in a national workforce of almost 12 million.

About 60 per cent of the workforce works in small business which means that small business must connect with the values and aspirations of middle Australia. Big business is important to Australian prosperity but it is small business that ‘touches’ the heartland of the Australian nation.

Small and Medium Enterprises (or SMEs), are by far the largest employer of the Australian people. SMEs range in size from sole traders up to businesses employing almost 200 workers. Big business is defined as enterprises employing more than 200 employees.

Australian prosperity has always been underpinned by strong population growth, by the benefits of a resource rich continent, and by the enterprise of a local population that is largely expressed through a culture of small and medium businesses. We may not be a nation of shopkeepers but we are indeed a nation of tradies, farmers, retailers, professionals and builders.

The Australian workforce is comprised of 11.9 million workers which has increased by 200,000 workers over the year to June 2016 or by an average of 154,000 per year over the preceding six years (**see Figure 1**).

“We may not be a nation of shopkeepers but we are a nation of tradies, farmers, retailers, professionals and builders.”

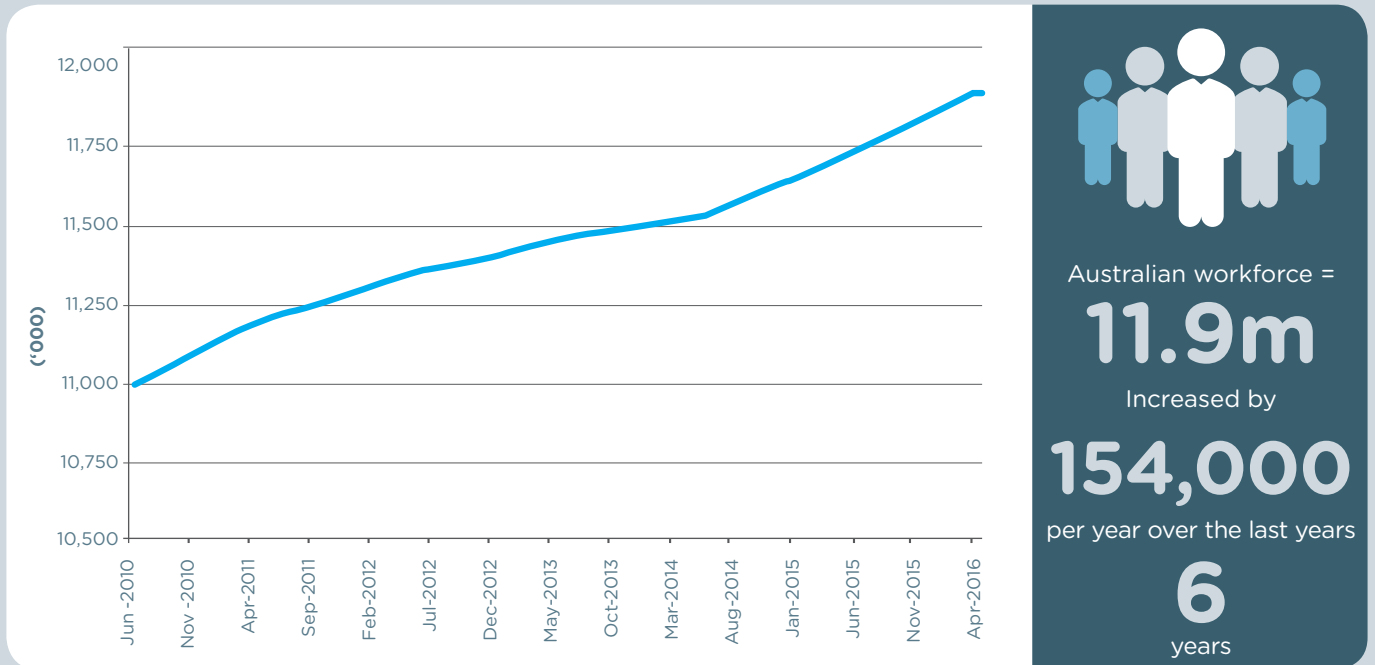


KPMG Partner Bernard Salt founded and heads KPMG Demographics a specialist advisory group that looks at social, cultural and demographic trends over time. Bernard has worked as an advisor to business and government for more than 25 years drawing on census and other datasets.

He is a twice weekly columnist with The Australian newspaper and he is one of the most in-demand speakers on the Australian corporate speaking circuit. Bernard holds a Master of Arts degree from Monash University and since 2011 has been an adjunct professor at Curtin University Business School. Bernard also holds a number of board positions in education and the arts.

Figure 1.

Jobs on the Rise: Growth of the Australian Workforce July 2010 - June 2016

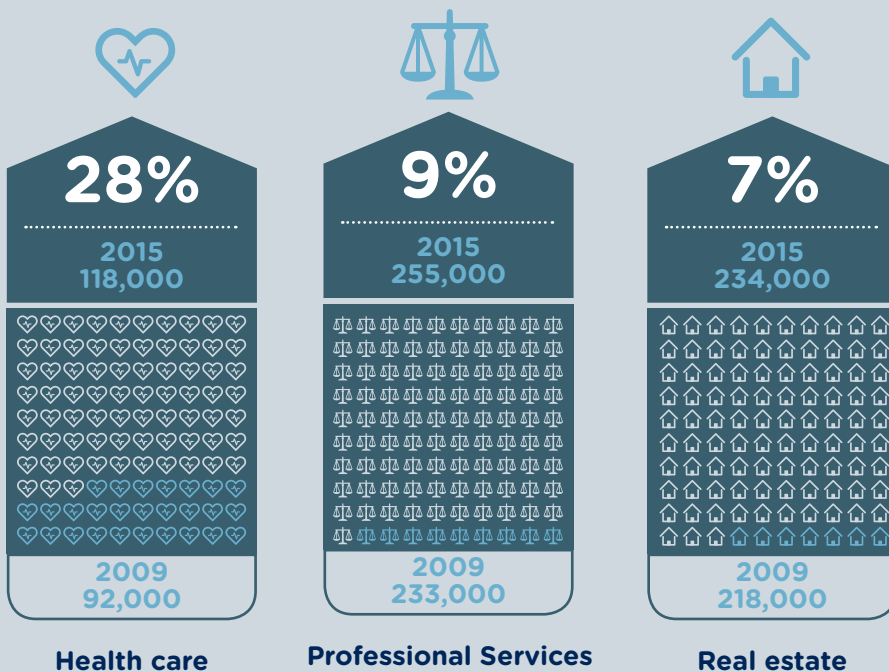


The vast majority of this workforce is employed by the private sector across a range of business enterprises. The Australian Bureau of Statistics (ABS) tracks business growth by industry as well as by employment scale.

At June 2015 there were 1.199 million sole proprietor businesses in Australia up 3,700 over the previous 12 months. It can be said that sole trader businesses are growing at a rate of about 70 per week – this equates to a 25 per cent uplift when compared with the average of around 55 net new businesses per week over the six years to 2015.

Most 'sole trader' businesses in Australia operate in construction (205,000), real estate (201,000) and in professional services (e.g. law, accounting) (141,000). Over the 12 months to June 2015 the most growth in this ultra-small type of small business was in health (e.g. medicos up 3,300 to 63,000), real estate (up 3,100 to 201,000) and construction up (2,200 to 205,000).

The Fastest Growing SME's in Australia 2009 - 2015



Then there are the slightly larger small businesses that employ between 1-4 people. The ABS estimates there were 582,000 of these businesses in Australia at June 2015 up 13,500 over the previous 12 months. In this category the largest numbers of businesses are in construction (113,000) and professional services (89,000).

As it happens both of these categories of business are also expanding fastest. Construction businesses employing 1-4 workers jumped 3,100 over the previous 12 months while professional services businesses in this category jumped by 3,800.

At the larger end of the small business spectrum are businesses employing 5-19 workers. The ABS estimates that there were 196,000 businesses in this category at June 2015 including 25,000 in accommodation & food, another 25,000 in retail and 24,000 in construction.

There was less growth in the number of businesses in this scale of operation over the year to June 2015, the exceptions being in construction where the number of larger small businesses jumped by 1,200 as well as in health up 500 and in Administrative Services up 300.

Medium sized businesses are defined by the ABS as enterprises employing between 20 and 199 workers. At June 2015 this category of business accommodated 51,000 enterprises across Australia with most enterprises operating in accommodation and food (7,000), manufacturing (6,000) and retail trade (5,000).

Over the previous 12 months there was an increase of 500 accommodation & food businesses as well as 100 extra businesses in real estate and education & training in this medium category of business.

3. Longer term trends and the micro-business takeover

Taking a longer term view between 2009 and 2015 ABS data reveals the number of micro (sole trader) businesses increased by 17,500 or by an average of 2,900 per year or just over 55 per week.

Growth in some sole traders over the six years to June 2015 was offset by losses elsewhere. For example health and professional services sole traders jumped 17,600 and 16,300 respectively over this period whereas operators in agriculture (farmers) dropped 15,400.

In the 1-4 employee category, however, growth has been broadly based and substantial: up 89,000 entities or 14,800 per year or 285 per week over the six years to June 2015. The big winners in terms of net new businesses in this category have been construction up 20 per cent (18,600 to 113,000) and professional services up 16 per cent (12,300 to 89,000).

The number of businesses in the 5-19 and 20-199 employee category contracted over the six years to 2015. There was also a contraction in the number of big businesses over the six

years to 2015. This period covered the collapse of the mining boom which appears to have particularly affected medium and big business whereas small business has flourished and indeed continues to flourish.

As a nation we are moving away from larger small businesses and even away from medium-sized and big business entities. Employment growth has continued but the business entities capturing this growth are changing. More small and micro businesses; fewer medium-sized and big businesses.

This is not to say that employment in medium and big businesses isn't expanding. A static or even a fewer number of medium-sized and big businesses can employ more people from one year to the next.



Over six years to June 2015 business in the 1-4 category



UP
89,000



14,800
entities
per year



285
entities
per week

4. The changing small business landscape

The number of Australians in the workforce today (11.9 million) is greater than the number in the year 2000 (8.9 million) and yet unemployment today (5.7 per cent) is less than in 2000 (i.e. 6.1 per cent).

Despite digital disruption and despite the collapse in the mining boom, there are more Australians than ever engaged in the workplace. The status of work is casualising to include more part-time work and we are less likely to be engaged in manufacturing which dominates the medium and big business sectors.

The Australian workforce continues to expand largely because of immigration and a strong birth rate but the business entities that are employing the workforce is polarising, with most new-entity activity being concentrated in the 1-4 worker and the sole-trader categories.

Indeed over the 12 months to June 2015 the Australian economy generated 17,200 new small business entities employing less than five workers. This is the equivalent of 330 new small businesses per week.

This raises the question of what is driving small and micro business growth in Australia? Digital disruption and globalisation combined with the end of the mining boom do indeed appear to be displacing workers who may be reinventing themselves as one-man-band consultants or contractors.

This trend towards the formation of more small businesses might also be being driven by the ageing of the population with baby-boomer employees resigning and reinventing themselves as consultants and contractors. This would explain the surge in professional services businesses and perhaps also growth in the number of new health-based businesses.



5. Gen Y vs. boom-preneurs

There is a difference between the ABS definition of small business and census-derived estimates of the number of owner managers. The ABS estimate of the number of SMEs is broken down by workforce size and relates to 2015; the census estimate of owner managers relates to 2011 and relies upon self-enumeration.

The ABS estimates the number of SMEs employing less than 200 workers (including more than one million sole traders) at just over two million. The census estimated the number of owner managers in 2011 at 1.5 million. The greater figure is four years later and would include multiple businesses run by an individual.

Nevertheless the census is useful because it shows the distribution of owner managers by location and age group providing an insight into the characteristics of Australia's entrepreneurs.

At the last census 1.5 million Australians declared they were owner managers meaning that they either ran their own business as a sole-trader or owned and managed a company that employed workers. For the purpose of this report owner managers are referred to as entrepreneurs.

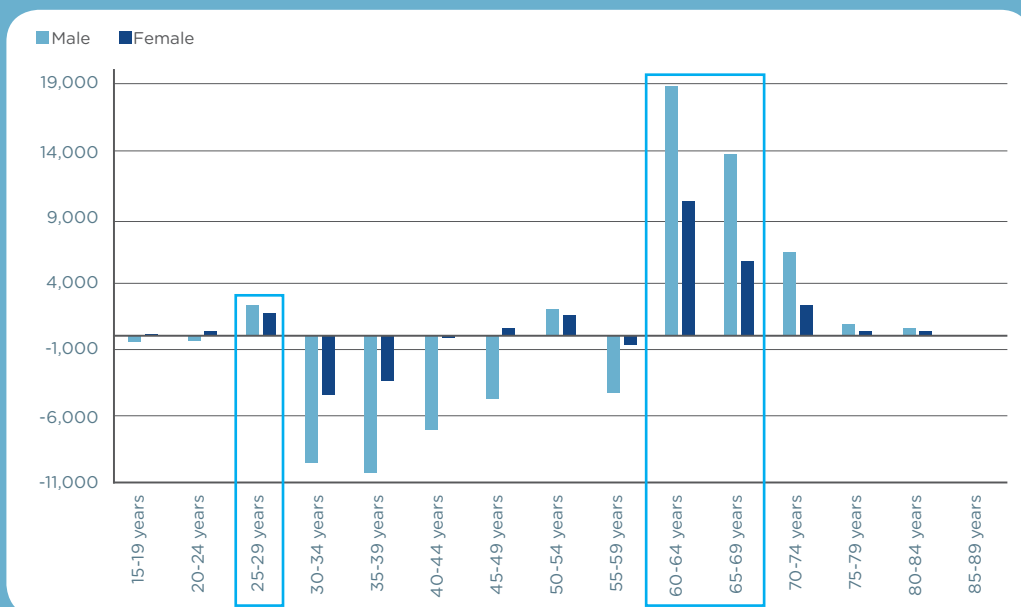
This equates to about 15 per cent of the workforce and it includes for example about

130,000 farmers as well as shopkeepers, tradies, accountants, lawyers and of course the heads of large corporate entities.

The vast majority would be small business people. The number of entrepreneurs was up 21,000 over the previous census which means that between 2006 and 2011 the Australian nation created about 4,000 small business people every year.

The last census showed that there were 6,000 entrepreneurs (largely sole traders or small business owners) aged 15-19 and another 6,000 or so aged over 80. Close to 30 per cent of Australia's entrepreneurs are in their 40s although this is not the fastest growing segment. Over the five years to 2011 the number of entrepreneurs in their late 20s jumped from 74,000 to 78,000 with females increasing by eight per cent and males increasing by four per cent (see Figure 3).

Figure 3. Age Shift: Net Growth of Entrepreneurs by Age Group and Gender 2006 to 2011



“The real shift in entrepreneurial activity is in the older and traditionally retired age cohort of 60-74”

Source: Australian Bureau of Statistics 2006 and 2011; KPMG Demographics

Gen-Y is of course the first generation to pass through the late 20s without an overwhelming commitment to mortgages and children. They are highly educated, widely travelled and digitally connected; they can pursue and are pursuing their own start-up businesses.

However, the real shift in entrepreneurial activity is in the older and traditionally retired age cohort of 60-74. In 2006 there were 191,000 entrepreneurs in this age group; five years later this number was 248,000 - this equates to close to a 30 per cent uplift in 'boom-preneurs'

The uplift in employer numbers in the late 20s is largely driven by a start-up culture where a start-up can include a business based on a new technology or it can mean a tradie breaking free from a long-term employer and starting their own business.

The uplift in the over-60 employer category is likely to be being driven by two factors. The cascading effect of employers ageing from their 50s into their 60s and transitioning from one age group to an older age group. This would include for example many farmers who simply refuse to retire or whose children don't want the family farm. For others it really is a case of boomers taking their small businesses with them into the traditional retirement decades.

The second driver of all this surge in entrepreneurial activity in the 60s and early 70s is likely to be start-up businesses stemming from boomers stepping back from traditional work. This might include for example workers resigning and reinventing themselves as consultants or indeed pursuing a different business interest altogether.

In either case the 2016 Census results will most likely confirm that Australia's entrepreneurial class continues to expand and especially in the late 20s and 60s cohorts. However the new census results are unlikely to show a fundamental shift in the entrepreneurial heartland from the 40s. The fact is that Aussie entrepreneurs are scattered across all age groups including below 20 and beyond 80.

Baby Boomers vs. Gen Y.



60-74

2006: 191,000 entrepreneurs
2011: 248,000 entrepreneurs

↑ 30%



25-29

2006: 74,000 entrepreneurs
2011: 78,000 entrepreneurs

↑ 5%



6. Australia's entrepreneurial enclaves

Finding Aussie entrepreneurial enclaves isn't hard. Firstly there's a lot of them and the expansion of the nbn™ network is improving connectivity to even the most remote parts of Australia, creating a culture of entrepreneurialism and innovation outside our metro cities.

Changes in technology are breaking down the barriers to entry for entrepreneurs. Business capabilities and extensive geographic footprints that were traditionally reserved for medium-to-big-business are now available to small-scale start-up entrepreneurs.

An entrepreneur as defined by the Census is likely to comprise, in today's terms, around 1.5 million people which is about seven per cent of the population. It's hard to hide seven per cent of the population. And secondly employers cluster; they live near where their businesses are located.

We have mapped the distribution of employers from the last Census but excluding those involved in agriculture. Farmers are thinly spread throughout most parts of the continent

which makes it difficult to isolate entrepreneur hotspots beyond the metropolitan area. Including farmers Australia's entrepreneurs comprise 15 per cent of the workforce based on census definitions. Excluding farmers the entrepreneur or 'employer' population comprises 14 per cent of the workforce.

The mapping exercise exposes a sociological phenomenon that has not been identified previously. Australia's non-farming entrepreneurs generally fall into three categories each dominating distinct geographies. Entrepreneurs clearly fall into different categories depending on the scale of their business (micro, small, medium and big) and they huddle together (see figure 4).



Who are the emerging Australian entrepreneurs?



The Corporatepreneur lives in the suburbs surrounding the CBDs of our largest capital cities including the postcodes of Vaucluse (2030) in Sydney and Toorak (3142) in Melbourne where they comprise more than 30 per cent of the resident workforce. Employers living in these suburbs are more likely to operate large scale business enterprises.

There is a Corporate Entrepreneur Belt in Melbourne that extends from Brighton (3186), through Toorak (3142) to Kew (3101). For Sydney the corporate entrepreneurial belt clings to the harbour in the Eastern Suburbs and then leapfrogs the harbour to include the lower North Shore and the Northern Beaches.



The Tradiepreneur is a mixture of sole-trader and small-business employers working in trades such as construction, plumbing and carpentry as well as in shopkeeping, accounting, financial planning, motor mechanics, medical, dental, legal and personal services such as hairdressing. Indeed many of the activities of the Tradiepreneur deliver the everyday services that underpin suburban and regional city life in Australia. The Tradiepreneur Belt envelops the city and includes the middle and outer suburbs including the McMansion Zone well beyond the city's edges.

In Melbourne there are high concentrations of Tradiepreneurs in Park Orchards (3114) and Narre Warren East (3804) where they comprise around 30 per cent of the workforce. In Sydney the Tradiepreneur Belt extends south to Catherine Field (2557) and north to suburbs like Kenthurst (2156) where local entrepreneurs comprise around 30 per cent of the workforce. Employers living on the edge and beyond the edges of the metropolitan area would be largely focussed on the building trades but this group may also include local deliverers of services in retail, health, finance, accounting and law.



The Lifestylepreneur refers to employers and sole traders living in lifestyle locations such as Melbourne's Mornington Peninsula, the Northern Rivers region of New South Wales and the hinterland of the Gold Coast and Sunshine Coast. Entrepreneurs in these locations may include retired and/or lifestyling corporates, tradies and service providers helping to build new communities as well as personal service providers such as artists, masseuses, pilate instructors and others.

In the postcodes covering Byron Bay (2481) and nearby Mullumbimby (2482) for example entrepreneurs comprise more than 30 per cent of the workforce. In Melbourne's tree-change community of Hepburn Springs (3461) entrepreneurs comprise 27 per cent of the workforce. In Eumundi (4562) in the Noosa Hinterland this proportion is 34 per cent. Even Adelaide's South Coast entrepreneurs at Victor Harbor (5211) make up 20 per cent of the workforce with neighbouring Goolwa (5214) comprising 21 per cent. In Western Australia the seaside town of Dunsborough (6281) has 29 per cent of its workforce in the 'entrepreneur' category. (See **Figure 4 Victoria, Figure 5 NSW, Figure 6 Queensland, Figure 7 South Australia, Figure 8 Western Australia**).

Figure 4.
Victoria – The Entrepreneurial Belts of Melbourne

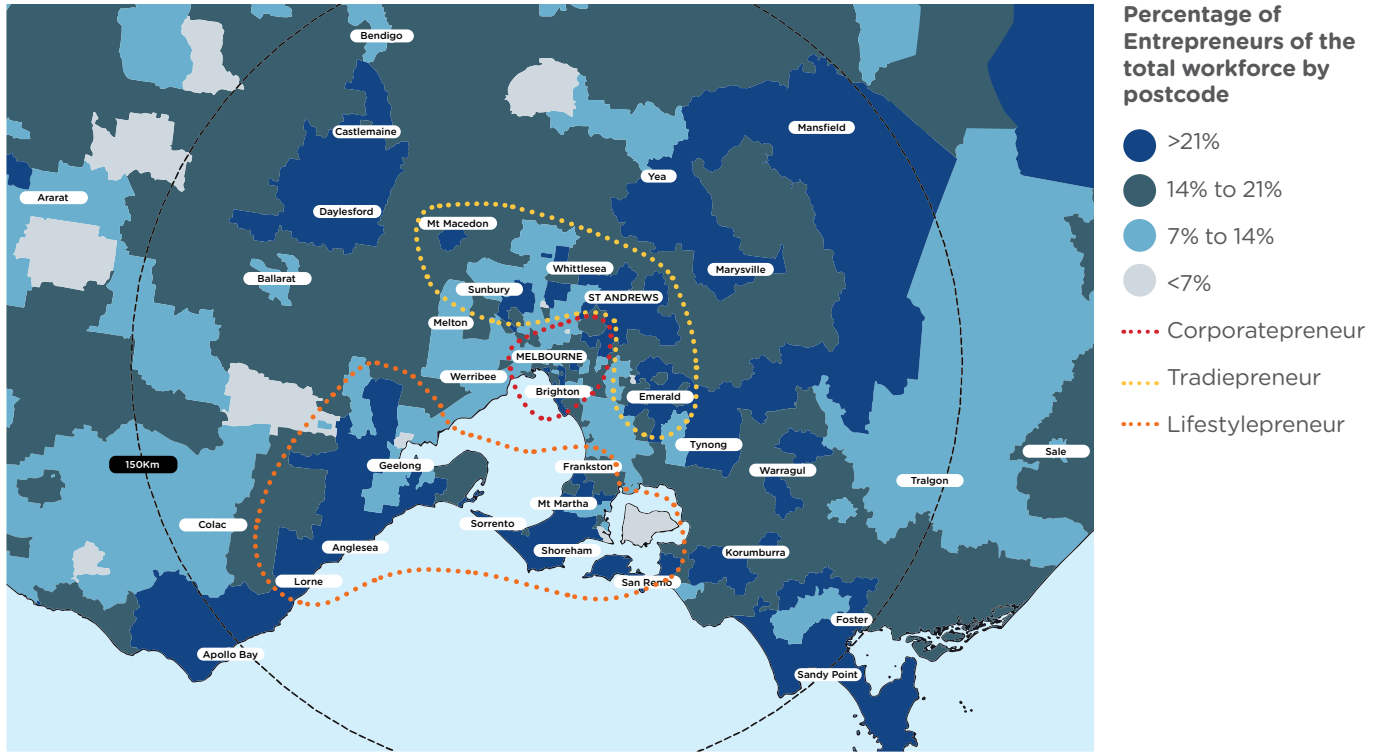


Figure 5.
New South Wales – The Entrepreneurial Belts of Sydney

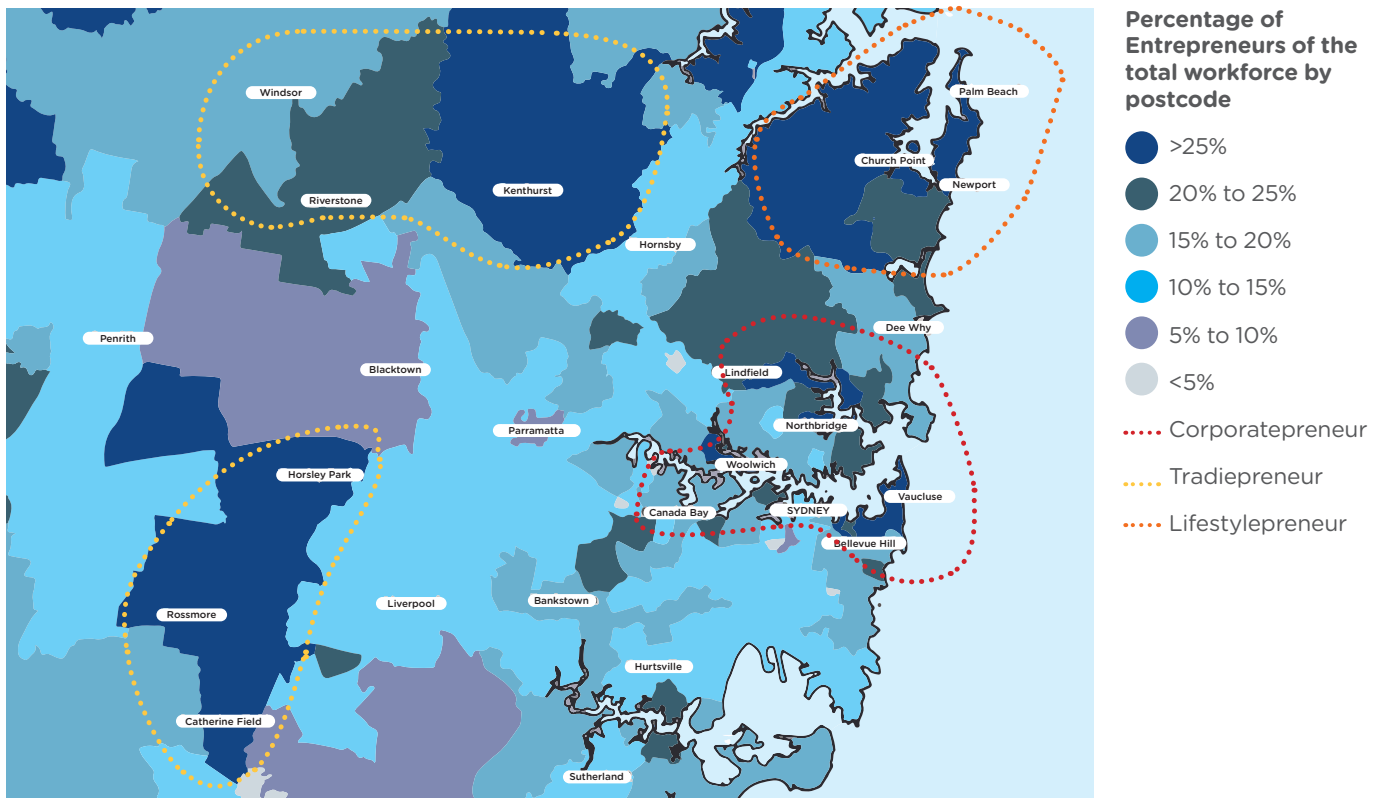
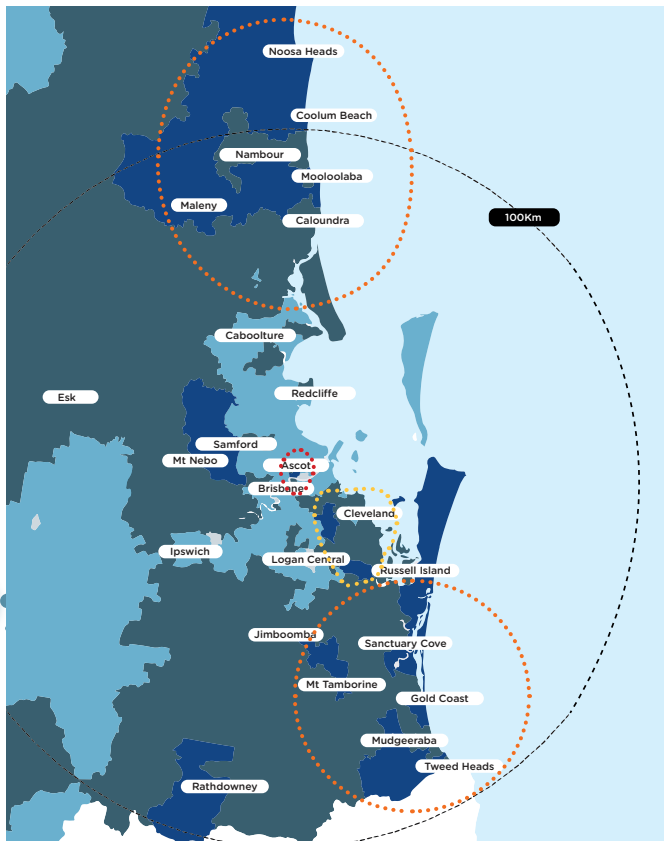


Figure 6.
The Entrepreneurial Belts
of Queensland



Percentage of Entrepreneurs of the total workforce by postcode

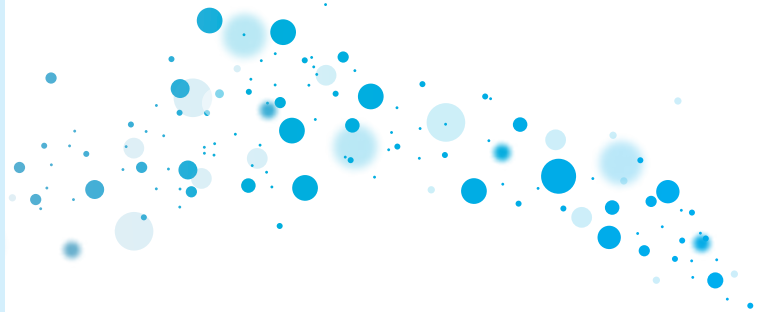
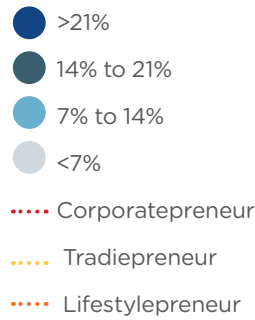


Figure 7.
The Entrepreneurial Belts
of South Australia

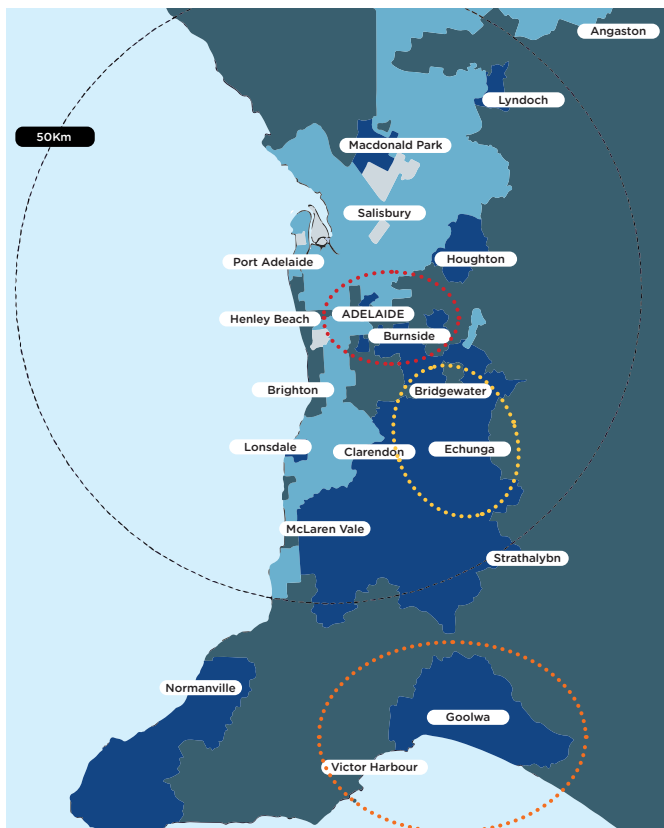
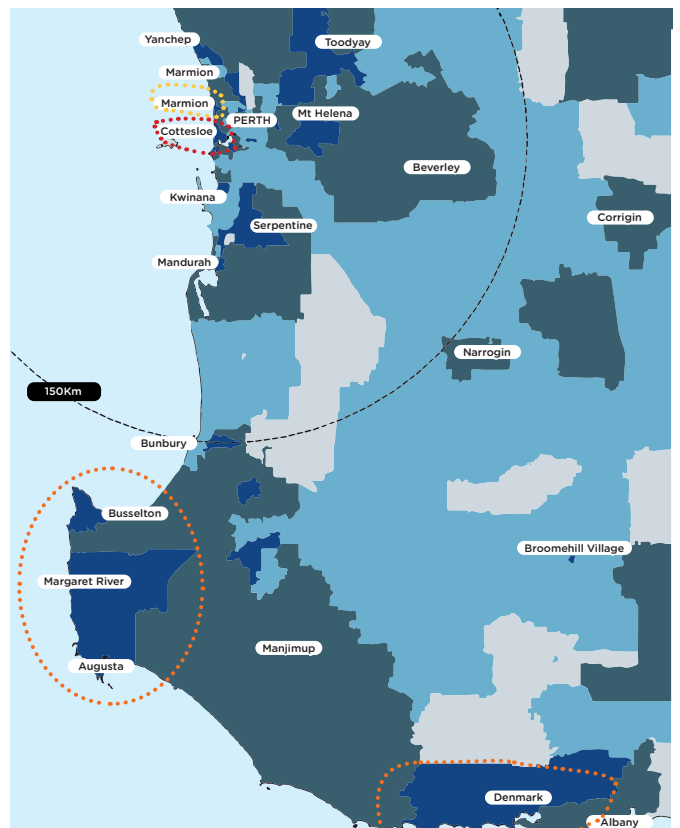


Figure 8.
The Entrepreneurial Belts
of Western Australia



7. New technology driving small business

The extraordinary rise of new small and especially of new micro businesses is being driven by a number of factors. In some cases new technology including new software has the capacity to support an entirely new business entity. In other cases business growth in traditional sectors such as construction, retail, agriculture, health and professional services is being facilitated by new technology such as for example cloud computing. The rollout of the nbn™ network is an enabler of access to new technology.

Builders, plumbers, medicos, solicitors, farmers and shopkeepers are now better able to manage their business using software such as Xero as well as new services such as cloud computing. This leads to overall better productivity and better business efficiency.

There are several areas where new technology is particularly impacting and/or is driving the success of small business in Australia. Or that has the capacity to drive small business success in the future.

Top technology trends shaping SME growth:



Virtual Reality (VR) and Augmented Reality (AR) are head mounted wearable devices that display a 3D virtual world or that interact with or augment the real world. Both forms of technology have evolved through the video gaming industry. However other applications are evolving and especially in shopping. One of the limitations to online shopping is the inability to try on clothes. VR and AR offer scope to expand sales for shopkeepers. There are also applications in Real Estate, virtual tourism and sporting participation. Fancy riding alongside the peloton in the Tour De France? Now it's possible with Virtual Reality technology. Adelaide based Georama Pty Ltd founded in 2006 is an award winning Virtual Reality tour business that showcases the Australian outback to global tourists. Within a decade it may be that many of this nation's 126,000 small retailers (employing less than 20 workers) will be supporting online sales with Virtual Reality technology.



Advanced Video Collaboration (AVC) relates to the use of video streaming and collaboration. Technology group Cisco predicts that by 2020 the demand for video content will rise four-fold contributing to a 79 per cent uplift in internet traffic. This predicted demand includes video chat and conferencing, live streaming, entertainment, education, security and marketing services. High-definition video communication solutions are becoming commonplace in organisations both large and small. Microsoft, Cisco and Mitel are working to allow small business to combine audio, video, real-time chat and on-screen content at low cost to help to reduce travel, to deliver flexible working arrangements and to enable collaboration across teams and within industries. The education sector is incorporating advanced video solutions. Adelaide's Royal Institution of Australia has created an online science channel with 2.5 million users to deliver high-definition live streamed events and discussions, documentaries and interactive activities. Businesses are installing high-definition IP security cameras that monitor premises remotely rather than standalone CCTV devices. AVC start-up D-Link Australia Pty Ltd advises that web-enabled security solutions means business owners no longer need to rush to their properties to ensure everything is ok but rather they now have the ability to monitor a site from a distant location.

Top 5 technology trends shaping SMB growth:



Virtual Reality (VR) and Augmented Reality (AR)



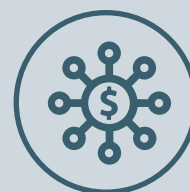
Advanced Video Collaboration



Data analytics



Cloud Computing



Fintech



Top technology trends shaping SME growth:



Data analytics has evolved out of the data mining that is now possible with the vast pools of useable information that accumulate with volume businesses like banking and retailing. It is now possible with data management technology to canvas transaction data to identify consumer behaviours and market opportunities. Each of Australia's biggest banks now have in-house data analytics capabilities to extract market insight from transaction data. Other big-data businesses such as the Melbourne-based Quantum group for example evolved as a consulting business that was later bought into by Woolworths. The Adelaide-based Dexata Corporation founded in 2000 similarly uses big data technologies to enable the aviation industry to better identify unusual or suspicious behaviour. Dexata is now a preferred supplier to the Australian military. Data analytics is a technology that could support further expansion of small business in support of the efficiency of larger businesses.



Cloud Computing is a development that allows multiple users to store data and to access applications across a network. It is in many respects not unlike a common utility. The cloud concept has enabled the development of new software such as the Xero accounting and office management system developed in Wellington New Zealand in 2006 and which is replacing older downloadable software. Cloud computing gives flexibility and delivers mobility to small and medium enterprises. Cloud computing is a technology that is likely to underpin efficiencies across many of the two-million businesses in Australia that employ less than 200 workers.



Fintech is a broad term used to embrace a range of applications and business models that are evolving with the digitisation of financial processes associated with banking, accounting and payment systems. This includes for example the Sydney based start-up Pocketbook which manages personal finances, to the concept of blockchain which threatens to disrupt the banking industry by securely connecting transactions without the need to engage an intermediary. An example of Fintech in Australia is the not-for-profit Stone & Chalk group based in Sydney that co-ordinates and funds start-up businesses delivering new business models in payments systems. The Fintech industry is evolving new businesses and new efficiencies that will enable small business to expand and prosper. Fintech has the capacity to reshape financial transactions at both the consumer and the business level.





8. Small business is key to Australian prosperity

The Australian economy like many other economies is undergoing transformative change. Digital disruption as well as changed business models are reshaping both the workforce and business. And yet the workforce expands while unemployment remains steady.

The Australian economy like many other economies is undergoing transformative change. Digital disruption as well as changed business models are reshaping both the workforce and business. And yet the workforce expands while unemployment remains steady suggesting a remarkable agility in the labour market.

Australian workers are redeploying; many are reinventing themselves as contractors and consultants or indeed are setting up their own small businesses. And to some degree this fits with the independent streak of the Australian people.

There is a thriving big business sector in Australia but the fastest growing sector of the economy by business numbers is in the micro and small business sectors. Indeed this report shows that while medium and big business are important components of the Australian economy the really transformative elements since the mining boom years have been the small business sector.

Quite separately to the structural transformation of the business landscape is the fact that business today is or must be increasingly mobile. Office work might originate from an office but the actual work can be completed from a home, from a hotel, from an airport lounge or from a coffee shop. Equally today's work can be completed on a building site or in a client's office.

The common denominator to modern work is both fluidity and mobility. Work is not confined to a nine-to-five time frame and nor is it confined to an office location. Clients and customers demand an immediate level of responsiveness that can only be delivered by seamless broadband connectivity and access to technology tools.

On the one hand the demands of the new and evolving economy can be regarded as formidable and relentless. But on the other hand this transformation can be regarded as a process that frees worker from the repetitiveness and the limitations of dated business practises.

The new technologies, the new industries, even newly imposed redundancies, are in fact motivating forces creating the businesses of the future. These processes are creating exciting opportunities for agile and responsive businesses. The new businesses that are being created are in fact fizzing and focussing around the small end of the business enterprise spectrum.

Bernard Salt
September 2016

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