

THE FUTURIST

The businesses of the nation

New business growth in Australia is thriving, providing fertile ground for companies and entrepreneurs looking for opportunities, writes Phil Ruthven.

This year should end with Australia having 2.15 million active trading businesses, generating a gross domestic product (GDP) of almost \$1.7 trillion, with revenues of \$5 trillion and employing 12.1 million people. This suggests more than one in five households own a business and nearly all households own shares in businesses directly or via their superannuation.

Averages can be deceiving, but the average business is around nine years old, is in a service industry (70 per cent of the nation's GDP), has a revenue of \$2.3 million, employs six people, and is currently growing revenue at around 3 per cent per year in a slow-growing economy with no inflation. The nation's entrepreneurial drive is alive and well: around 285,000 new businesses were started in 2015.

However, a sobering note is that some 263,000 businesses closed, meaning we added a net 22,000 businesses to the total. The vast majority of the businesses that closed had no employees, only owners, and interestingly some 61 per cent of the total 2.1 million businesses have no employees. The majority of businesses have an annual revenue of more than \$200,000, even though the average of all businesses is \$2.3 million. And it seems that those businesses with revenues over \$2 million have the best prospects for surviving.

So where are all these businesses? In geographic terms, numbers follow population levels across our states and

territories, with New South Wales and Victoria each having slightly higher numbers than their population's share. But when it comes to industries, the number of businesses do not align with the economic or revenue importance of industries. This is due to very different average sizes, degrees of capital intensity and the automation of businesses in these various industries. The distribution of the 2.1 million businesses in 2015 is shown below.

Sector breakdown

Five of the nation's 19 industry divisions account for almost 60 per cent of all businesses: construction (16 per cent); professional and technical services (12 per cent); rental, hiring and real estate services (11 per cent); finance and insurance (9 per cent); and agriculture (9 per cent). Ironically, these five industries account for just 33 per cent of the nation's revenue.

At the other end of the spectrum, the five least populated industries account for a minute 3.5 per cent of all businesses: government administration and safety (0.3 per cent); utilities (0.3 per cent); mining (0.4 per cent); cultural and recreational services (1.2 per cent); and education and training (1.3 per cent). Yet this 3.5 per cent of all businesses accounts for 22 per cent of the nation's revenue.

Indeed, 10 industries have an average revenue much lower than the overall average of \$2.3 million per business. The three lowest are:

agriculture (\$427,000); rental and real estate (\$620,000); and professional and technical services (\$680,000). With the average farmer having assets of over \$2.6 million, it explains why, with revenues of just one-sixth of that level, agriculture is the least profitable of all private sector industries in Australia.

The net profit, after expenses and taxes are deducted from that low average revenue, gives a long-term average of 2.3 per cent or less than half the 10-year bond rate over the same period.

Even with capital gains, which other industries enjoy too, agriculture has averaged a total return of less than 6 per cent: as is often sadly said, it's a way-of-life more than a business. Virtually all the service industries have higher average profits using a sixth of the assets of farmers.

Revenue spectrum

At the other end, nine industries have business revenues higher than the all-industries average. The three biggest are: government administration and safety (\$76.4 million); mining (\$30.3 million); and utilities (\$21.3 million).

Their fortunes are not all that great: government is essentially a not-for-profit sector; mining profitability yo-yos across decades depending on commodity prices; and utilities have had a low average return on shareholder funds for a long time.

So, the big end of enterprise size does not necessarily do better than the least-profitable small end.

Clearly it has been the SME sector that has pioneered the new service industries.



In 2015, Australia had 27 enterprises with revenues over \$10 billion. The three biggest were: Wesfarmers (\$62.8 billion); Woolworths (\$61.1 billion); and BHP Billiton (\$59.9 billion). There were 285 companies with revenues between \$1-\$10 billion and 1,155 companies with \$100 million to \$1 billion. All up, large companies with revenues of over \$10 million accounted for just 0.6 per cent of all 2.12 million businesses, and 50.5 per cent of all revenue. But the small to medium enterprise (SME) sector accounted for 99.4 per cent of all businesses and 49.5 per cent of all revenue.

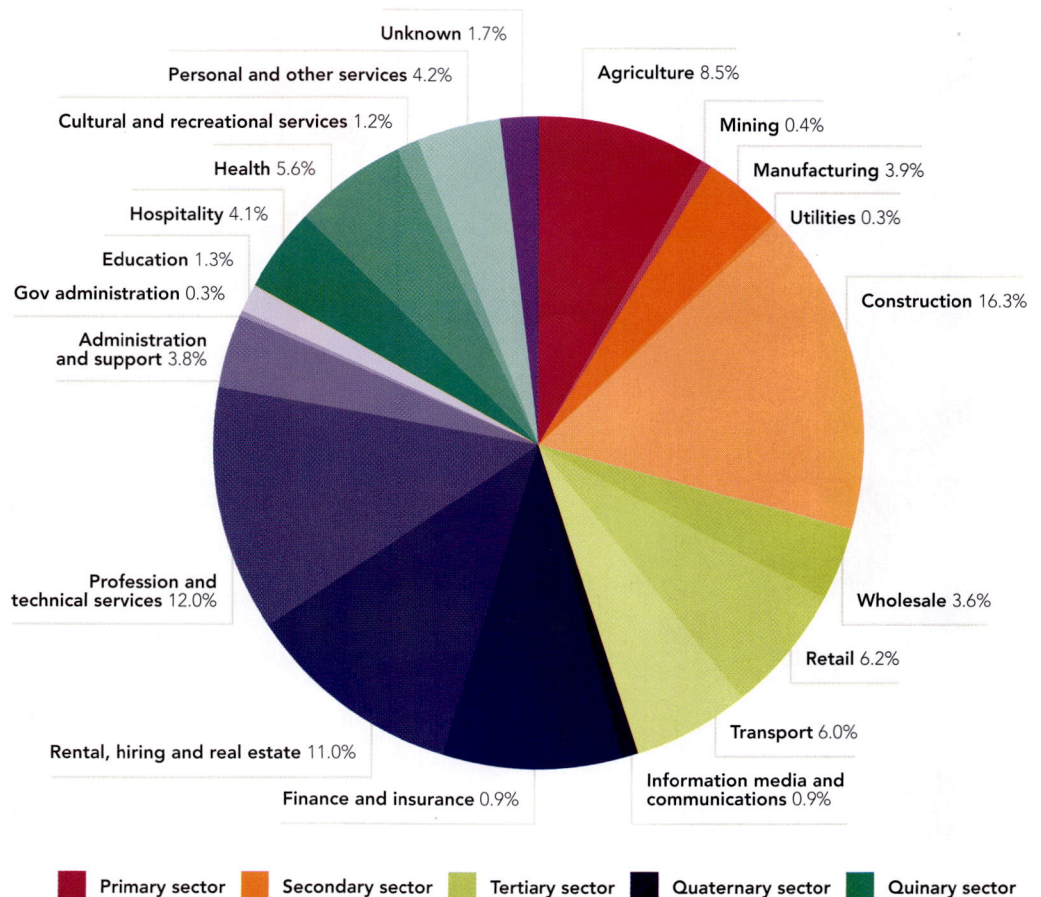
The SME sector has come a long way since the end of the industrial age with the emergence of the new infotronics age of service industries and the IT revolution in the mid-1960s. Its share of the nation's revenue 50 years ago was around 30 per cent of the total, but is now almost equal in importance to the big end of town. Clearly the SME sector pioneered the new service industries via household functions outsourcing, business non-core functions, and overseas outsourcing to Australia (tourism and education business services). Franchising has been a significant contributor to the faster growth of SMEs, not only in new retailing, but also in new household and business services.

In this new century, already nearly a sixth completed, new businesses are being created faster in new coastal cities around the nation's perimeter

and in the states of Queensland, Western Australia and the Northern Territory. In terms of industry, it is all about health, professional and technical services, administration and support services, hospitality

and inbound tourism, personal and household services, business services, financial services, and IT software and apps – fertile ground for SMEs, with plenty of opportunity for entrepreneurs. ■

ENTERPRISES BY INDUSTRY NUMBER OF ENTERPRISES (% OF TOTAL BASIS) JUNE 2015



2,121,235 ENTERPRISES