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Who wants to own a business anyway?

Summary Findings

December 2012

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2 – INTRODUCTION

Since the first white settlers arrived in Australia in 1788, there was a need to adapt and survive at the end of a very long supply chain from England to avoid starvation.

The ingenuity and adaptability which was pivotal to the continued existence of the early colony enabled it to grow to become the world's largest exporter of wool and gold by the early 19th century. This led to Australia variously being described as the lucky country, “riding on the sheep's back” and more recently as being “dependant on the mining boom”.

Yet in many cases, it was the supporting businesses which enabled Australia to ride the various waves of prosperity. Today, there are over 2.1 million businesses in Australia, of which 96% are classified as small to medium sized enterprises. That means, employing less than 20 people and generating less than \$2 million in annual turnover¹. Overall, they contribute approximately 46% of the country's GDP² and employ approximately 42% of the working population³

These business owners provide us with coffee on our way to work, deliver our parcels, service our vehicles, dry-clean our clothes, build our houses and grow our food...

But who are these people driving small business? This accretive research paper addresses the question of who are the upcoming business owners in Australia, what are their ambitions, and raises the question of how the current crop of entrepreneurs will retire.

¹ ABS Labour Force Report, October 2012 - Catalogue 6202.0

² ABS Data – Catalogue 85110

³ ABS Labour Force Report – Catalogue 6202.0

SUMMARY REPORT - FINDINGS

Conducted during September of this year, the study focused on key issues facing the small to medium sized business sector in the Australian marketplace. We wanted to understand some of the forces at work in the marketplace today. Business owners are facing pressure from a range of sources which has to be impacting their performance.

Issues addressed in the study were:

- Who wanted to go into business for themselves, and why
- What stops people going into business
- Do aspiring owners have enough capital to get started
- What keeps business owners awake at night
- Exit strategies & prices

While people are interested in going into business for themselves, it is hard going when you are there. The softness in the economy has continued to influence behaviors of business owners, which impacts retirement savings and will likely have long term impacts on the Australian economy

A summary of the study results demonstrated:

1. Who wants to go into business for themselves, and why

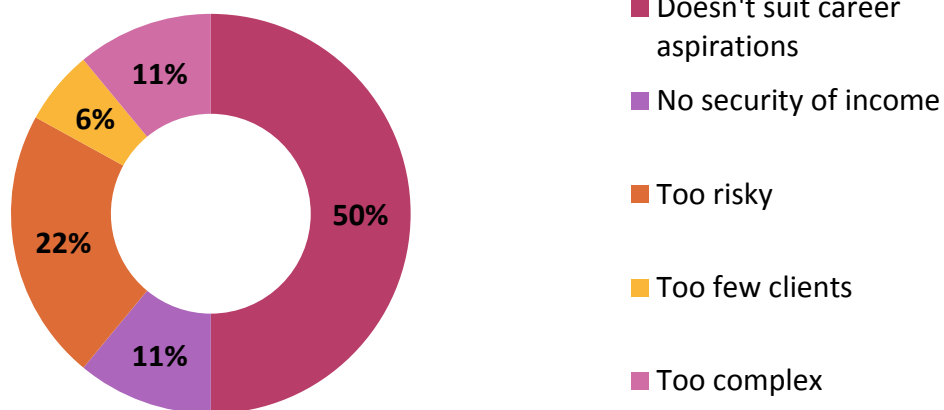
The study showed most people who either start or purchase a business are aged over 35, with significant work experience behind them. Their decision to go into business for themselves is driven by a desire to make up for the things employees miss out on; namely total control over how they operate and the ability to retain all the profits.

They also believe it will provide them with a more flexible lifestyle (something many existing business owners countered as being unattainable).

2. What stops people going into business

50% of people are reluctant to go into business for themselves simply because it doesn't align with their career aspirations. After that, the perceived risks and complexity of running a business turn people off.

Why people don't start their own business



3. Do aspiring owners have enough cash to get started?

One of the key findings of the study was the amount of capital aspiring business owners were willing to commit to their new venture. Surprisingly, 40% believed they could get going for less than \$50,000. However, experienced business owners felt this was insufficient, with only half 20% believing this level of investment was adequate. Clearly, there is a gap between expectation and reality which if not addressed beforehand severely impacts the

ability of a new owner to create a viable business. While we could not prove it, we suspect that this issue has a lot to do with the high failure rate of businesses, which is nearly 1/3 failing inside the first 3 years of operation.

4. Concerns of business owners

Most business owners are struggling to keep up. They are suffering from a lack of clients, a soft economy which inhibits the spending of the clients they already have, and not enough time to manage your business effectively. If clients are spending the other issues facing a business owner are manageable. When clients stop spending then the other issues become critical.

5. Exit strategies & prices

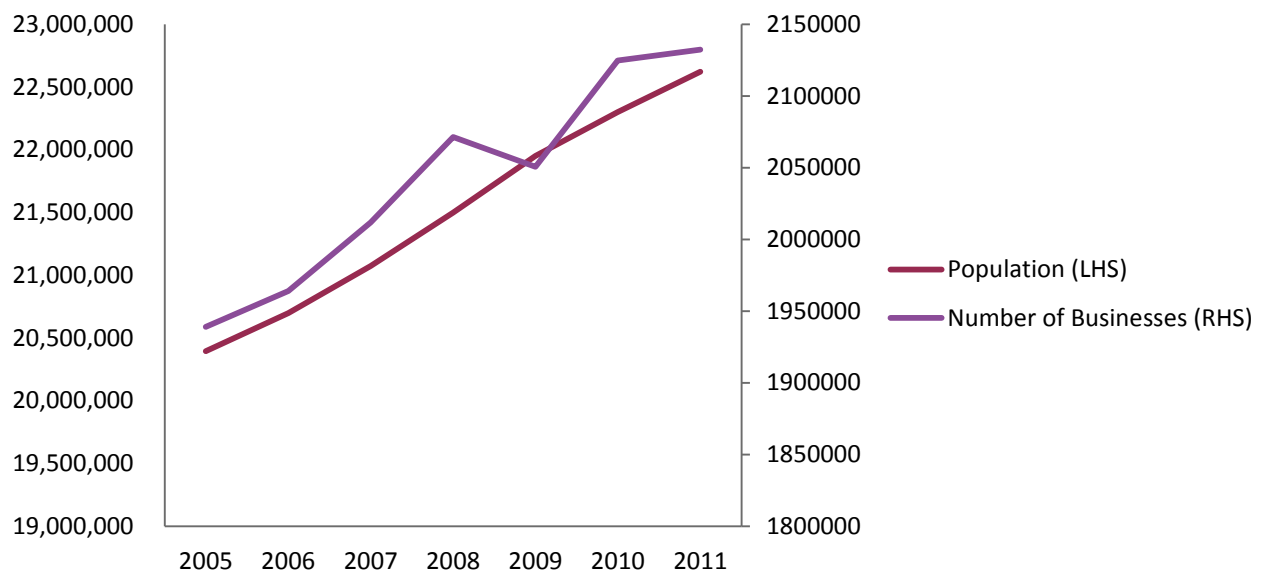
One concerning factor which came to light was the lack of planning on how business owners who were approaching retirement were planning on exiting their business. It simply isn't on their radar. While most recognise that their businesses are no longer as valuable as they were prior to the GFC, nearly 70% of owners still wish to sell to staff or competitors, however little thought given as to what needs to happen (and when) to realise this desire.

Anecdotal evidence shows business values are yet to recover from pre GFC levels. This has an immediate impact on retirement savings given the high reliance on selling a business to fund retirement. This might explain a reluctance to crystalize the thought of sale into action, however it does not make up for the lack of general business preparedness which would attract opportunistic purchasers.

What next for business?

One of the most surprising findings was the level of businesses required to support the Australian economy. There appears to be a trend of around 9.5 businesses per 100 head of population required to service the Australian population. This peaked at 9.6 businesses just prior to the GFC impact being felt in Australia, and bottomed at 9.3 businesses 12 months later.

Comparison of the number of businesses vs. the Australian population



Given population projections out to 2025, this means an additional 436,000 businesses will be required to support the growth in the population. However, only 8% of the population is seriously looking at entering business, meaning a potential gap of 180,000 business owners by 2025.

The likely impact will be continuing soft business prices, as purchasers can afford to be picky given the increased supply in the market.

8 - ABOUT ACCRETIVE RESEARCH

Accretive Research is a division of Accretive Pty Ltd, a specialist consulting and management advisory firm specializing in businesses with up to 500 employees in the SME marketplace with extensive experience in strategic planning, business growth, operations and efficiency management. Accretive's principal consultant, Stuart Pepper is a business author, member of the University of Western Sydney Human Research Ethics Committee and has 18 years' experience in helping some of the largest companies in the world grow by developing new products, opening new markets and improving customer focus.

Our research programs are undertaken utilizing snowball sampling methodology, a non-probability sampling technique where existing study subjects recruit additional respondents from their acquaintances (hence the analogy to a snow-ball). As the sample size grows, enough data for meaningful assumptions regarding a population can be made.

This study was conducted using snowball sampling over the period 1 – 30 September 2012 utilizing web-links and promotions placed in both employee and self-employed networks to minimize the risk of bias within the results.

For more information on how Accretive can help your business understand its' operating environment or to see how Accretive can help your business grow e-mail us today at: info@accretive.com.au

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