



The future of your business starts today.

Understanding some of the challenges with operating a small business in the Australian marketplace is crucial to the survival and success of your business.

Staffworks 

Small business make up for over 97% of all firms in the Australian economy

Australia is considered the 'lucky country' and continues to boast high wages and high living standards compared to the rest of the world.

In 2017, the National Minimum Wage rose by 3.3 per cent meaning our minimum wage is one of the highest in the world.

While this may be terrific for the 2.3 million employees receiving a Minimum Wage, such increases are sure to have a significant impact on many small businesses and start-ups.

Small businesses make up for over 97% of all firms in the Australian economy and is responsible for around 44% of total employment, however many encounter operational challenges which consequently leads to higher failure rates than larger businesses.

Winners are grinners

Small business owners are typically motivated by a lifestyle choice and a desire to be one's own boss, to have more control over their work hours and to engage in a passion or hobby.

Whatever the motivation of their owners, the survival rate of firms in the small business sector is much lower than that for larger businesses. More small businesses have downsized than upsized in recent years.

An important aspect of the small business sector is the correlation between the number of employees of a business and its propensity to succeed.

While the majority of micro businesses in Australia are made up of self-employed individuals who typically provide services to their customers with little or no intention to expand; it is firms with 1-4 employees that are more likely to employ staff and grow.

In contrast, the survival rate of established businesses that have 5-19 employees is much higher than micro businesses and is about the same as the survival rate for firms with 20-199 employees.

Working on the business, not in the business

As business grows, there is often the tendency for owner-managers to stretch their skills into unfamiliar areas and spend more of their productive time doing medial tasks.

Consequently, many struggle with the complexity of operating a growing business and are not experienced in complying with regulations, managing cash flow or evaluating capital investments required to expand revenue and build the business.

This is precisely the time when owner-managers need to free up their time and return to their original trade or area of expertise.

Small businesses are often reluctant to improve their firm's performance by hiring staff or making employment decisions, which is reflected in the trend to operate with the minimum level of staff or failing to adjust employment levels when business declines.

Forecasting future demand is often more difficult for small businesses

Planning for the future

The task of forecasting future demand is often more difficult for small businesses which may be constrained in their access to funding or find it difficult to attract quality staff to adjust employment levels based on expectations for future demand.

Several factors may affect the degree to which small businesses are more or less forward looking than larger businesses.

Firms that place a greater emphasis on expected demand relative to current demand are deemed to be more 'forward looking' in their behavior.

For such firms, expected demand is a significant variable in driving their behavior and owners tend to be highly strategic in their efforts to tap new markets and make pricing, hiring and investment decisions pre-emptively based on their expectations for future demand for their products.

On the other hand, firms where the owner is motivated by lifestyle choices or firms that are more vulnerable to unexpected developments may not be particularly strategic in their expected behavior.

Leveling the playing field

There are many reasons why small businesses find it challenging to compete against larger businesses but none greater than the advantages of economies of scale which lower average costs and ultimately result in increased profits and market share.

While achieving scale in small business may be difficult, it is possible to attain lower average costs by adopting strategies that reduce the substantive costs usually associated with labor and office space in the same way that big business has accomplished due outsourcing.

For years, big business has reaped the benefits of lower operating costs given their ability to access international markets and leverage outsourcing strategies, often making it difficult for small business to compete and maintain healthy profit margins.

Today, technological innovations and changes in consumer attitudes are driving the shift in the way firms of all sizes conduct their operations and enabling small businesses to be more competitive and profitable.

