



# Small Business Big Impact

A portrait of small business in New South Wales

September 2004

## Overview

New South Wales 450,250 small enterprises<sup>1</sup> are the State's most diverse and geographically dispersed business sector, and the economic backbone of local commerce in urban and regional New South Wales (NSW). As well, small firms make up the vast majority of all the exporting businesses in the State, contributing to Australia's trade performance and helping to grow the market for Australian products and services.

**Small Business, Big Impact** has been compiled from the latest data available on the size and nature of the small firm sector in NSW. It is designed to give a snapshot of the characteristics of businesses with under 20 employees, and the contribution they make to the community and the economy.

In 2000-01<sup>2</sup>, the ABS reported that 33 per cent of all the small businesses in Australia were based in NSW, more than in any other State. Small businesses made up 97 per cent of all the businesses in NSW; 183,500 NSW small businesses, or 49 per cent, were non-employing, and 85 per cent of small firms were micro businesses, those with 0 - 4 employees.

In 2000-01, 1,083,400 people worked in NSW small businesses. This was 33 per cent of all the people working in small businesses in Australia and again was more than in any other State. Forty-eight per cent of people who work in NSW businesses are in small business. The sectors which had the highest employment in small business

were property and business services (213,600 people, or 20 per cent, of all small business employment), retail trade (17 per cent) and construction (16.5 per cent). In the construction sector over 84 per cent of all employment was in small businesses. In personal and other services close to 70 per cent of employment was in small business, and in property and business services over half (54 per cent) was in small business.

The 2004 issue of **Small Business, Big Impact** tracks the progress of the State's small firm sector, and looks at:

- Regional small business
- Entrepreneurship
- Youth in business
- Exporting
- Home-based business
- Information technology adoption
- Biotechnology
- Aboriginal business
- Business program outcomes

### Small business in regional NSW

Regionally-based small businesses account for nearly 37 per cent of all small businesses in NSW<sup>3</sup>. They generate a total annual income of \$46 billion, which is about 30 per cent of all income generated by small business. The Australian Bureau of Statistics (ABS) estimated the total income of small businesses in NSW in 2000-01 was \$157 billion. To create these estimates the ABS used Australian Tax Office data to create a new experimental report on small business dimensions. The report was released in February 2004<sup>1</sup>.

The ABS considered a business to be a small business if its annual sales or business expenses were between \$10,000 and \$5 million a year. Within this definition are two groups. A non-employing business was considered to be one that reported zero total wage expenses, superannuation of less than \$27,000, and total income or expenses of between \$10,000 and \$2 million. Employing businesses were those that reported wages, and had income or expenses between \$10,000 and \$5 million.

While this data is now three years old, and pre-dates the worst of the recent drought, it is nevertheless useful in understanding business activity, particularly in areas outside the greater Sydney region.

Like all recent analysis of small business trends, this latest report reinforces the predominance of self-employment. Non-employing small businesses in regional NSW are 57 per cent (112,000 businesses) of all regional small businesses (195,814), a similar proportion to non-employing small businesses in the Sydney region. Regionally-based non-employing small business earned an annual income of \$9 billion and recorded profits of \$2 billion in 2000-01.

Employing businesses in regional NSW comprise 43 per cent (83,840) of all small businesses. They earned an annual income of \$37 billion and recorded profits of \$2.6 billion in 2000-01.

Richmond-Tweed and the Mid-North Coast regions had a significantly higher proportion of non-employing businesses at 63 per cent and 62 per cent respectively, while the Murrumbidgee and Far West regions had a lower proportion of non-employing businesses at 53 per cent and 51 per cent, in comparison to regional NSW overall.

<sup>1</sup> Source: Experimental Estimates: Regional Small Business Statistics, ABS Cat. No. 5675.0, February 2004.

<sup>2</sup> Source: The most recent published and non-experimental data available from the Australian Bureau of Statistics providing information on the number and size of businesses in Australia is for the period 2000-2001, Cat. No. 1321.0.

<sup>3</sup> Regional NSW consists of the entire State except for metropolitan Sydney, Gosford, Wyong, the Blue Mountains, Hawkesbury and Wollondilly. Location was determined based on the postcode of the head office as reported on the income tax return filed by each business.



These results may reflect the prevalence of agricultural service, retail and wholesale businesses in inland NSW, and the effect of higher population growth in coastal NSW, which creates opportunities for many self-employed construction sector owner-operators. Higher population density in coastal areas and the buying preferences of "sea-changers" are also likely to be creating demand for personal and

business services – activities often favoured by the self-employed business owner.

The spread of small businesses across the regions in NSW shows large aggregations in the Hunter (20 per cent), Illawarra (13 per cent), Mid-North Coast (10 per cent) and the Northern Regions (10 per cent).

### Industries in regional NSW

Of the 195,814 businesses in regional NSW, 28 per cent operated in the agriculture, forestry and fishing industries (54,983 businesses), 16 per cent in construction (30,356 businesses), 12 per cent in property and business services (24,034 businesses) and 11 per cent in retail trade (21,762 businesses). These four industry sectors account for more than two-thirds of all small businesses in regional NSW.

Distribution by region shows agriculture to be the dominant form of small enterprise in the Far West (32 per cent), Murray (41 per cent) and the Murrumbidgee (42 per cent). Reflecting their urban nature, a much smaller share of all businesses in the Hunter and Illawarra regions (13 per cent and seven per cent respectively) are engaged in agriculture than in other parts of regional NSW.

Construction business was most prevalent in the north and south coastal areas, the Hunter and the Illawarra. The Hunter and Illawarra regions are each home to 17 per cent of small businesses operating in the property and business services industry sector, significantly higher than other country areas.

Manufacturing businesses account for six per cent of all regional businesses. All regions of NSW have a very similar proportion of businesses in this sector. The share of regional business accounted for by accommodation, cafes and restaurants, health and community services, transport and storage, and the wholesale trade industry sectors, is also similar across regional NSW.

### Cost of doing business in regional NSW

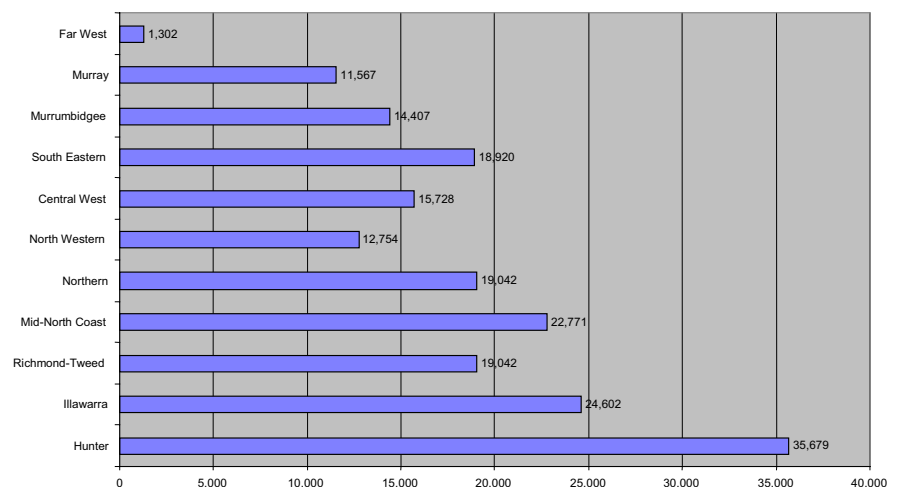
ABS analysis gives a unique insight into the cost structure of regional and metropolitan businesses. It shows that average rental expenses incurred by non-employing businesses in regional NSW in 2000-01 was \$1,329 or 57 per cent lower than rental expenses incurred by their peers in the Sydney region (\$3,076). Average rental expenses incurred by employing businesses in regional NSW in 2000-2001 was \$10,636 or 49 per cent lower than rental expenses incurred by their peers in the Sydney region (\$20,937). Bad debts were also a much lower proportion of cost in the business in

regional areas, less than one third of the Sydney experience for non-employers, and 45 per cent of the Sydney share of expenses for employing businesses. However, Sydney businesses reported higher incomes and profits compared with their regional counterparts, a situation likely to have been exacerbated in the past three years by the drought.

The positive impact of growth in firm size on profits is apparent in the data, which showed that the average profit earned by regional employing businesses was close to \$31,000, while for non-employing businesses the average profit was around \$17,500, for 2000-01. This result was similar for Sydney firms with employees, while for non-employers a Sydney location yielded higher profits.

The data for this ABS report was drawn from new collections created following the introduction of the New Tax System. While valuable, it will be even more useful when more recent figures than 2000-01 become available.

**Business numbers in regional New South Wales (2000-2001)<sup>1</sup>**



## case study:

### Method in their madness

The name – Hopping Mad Brewery – might suggest otherwise, but the owners of this Orange-based brewery had the sense to seek the right business assistance.

After extensive research, the owners, two Sydney families, chose Orange for the site of their boutique brewery because of its strong retail industry and proximity to Sydney. Another plus is the area's outstanding food and wine sector.

The owners' vision is to have a brewery with an on-site licence and to retail food in a venue attractive to tourists. They launched their first brew at Orange in December 2003 during Wine Fest.

Hopping Mad Brewery obtained assistance from the Department of State and Regional Development to develop marketing and promotional tools that will enable the company to sell its boutique beers to premium markets in Sydney and Canberra.

Sales are expected to double as a result of the marketing plan.

Hopping Mad Brewery currently produces 800-litre batches of handcrafted wheat beer, ale and stout, free of preservatives and chemicals to meet the developing boutique beer market.

## case study:

### No hex on business growth

New England company Hexblue is expanding its construction operations as well as promoting its natural fieldstone products with help from the Department of State and Regional Development.

Based at Glen Innes, north of Armidale, Hexblue was established as a subsidiary of Bayfoyle to develop the Hexblue fieldstone product after successfully trialling it for 18 months.

Hexblue is a name given to natural fieldstone extracted from the Northern Tablelands. The rocks are distinctive for their irregular hexagonal and pentagonal features as well as their blue colour. Hexblue fieldstones are sold as raw materials or processed and sold in ready-to-construct sizes.

The expansion, plus a well-targeted marketing campaign, is expected to add considerable value to Bayfoyle's existing construction activities, providing a strong business platform for the existing 15 employees and creating more jobs.

Hexblue is implementing a direct mail campaign of letters and brochures to promote its natural fieldstone product to architects and draftspeople in Sydney and Brisbane.

Family-owned Bayfoyle was established more than 30 years ago to build and renovate residential and commercial buildings in Glen Innes. To grow in a small population area the company diversified into other areas such as rental, property development, motel and shop operations, kitchen joinery and now, fieldstone construction.

Bayfoyle has also implemented a business diagnostic program which will develop a business plan for each entity and a strategy for the Bayfoyle group as a whole.

### Keen to get started

Entrepreneurial activity in NSW, as seen in start-ups and new businesses, is slightly stronger than for Australia as a whole, according to data analysis of a 2003 international survey.

The 2003 Global Entrepreneurship Monitor (GEM) report<sup>4</sup> shows that Australia ranked eighth in participation by individuals in start-up business behaviour, out of 27 countries covered in the study.

NSW is home to more than half a million small business operators, which is over 30% of the nation's total. Analysis of the State's participants in the GEM study showed that close to seven per cent of adults at any time are fuelling the pipeline of new business operators by working on starting up in business.

To prepare the report, 2,000 adults in each country were randomly selected and surveyed on their entrepreneurial behaviour. Australia ranked seventh in entrepreneurial activity among new business respondents and sixth among established business respondents. The study defined a start-up entrepreneur as an individual who had been involved in activities to establish a business in the 12 months prior to the survey, but had not yet paid wages or salaries for more than three months. New business owners were entrepreneurs who had been paying wages or salaries for more than three months but less than 42 months, while established business owners were those who had paid wages or salaries for more than 42 months.

Entrepreneurship is a concept that implies that an individual has taken personal and financial risks to establish a commercial enterprise. Entrepreneurship is important for a modern market economy because it is the medium by which a community harnesses its innovative and intellectual capital to create benefits that are felt throughout the community. Entrepreneurs inspire others to take the chance of becoming commercially successful, and create examples for others who are thinking about starting a business, in an increasingly competitive global world.

The GEM report showed that Australians' drive to start a business is predominantly based on a wish to take advantage of a business opportunity as opposed to undertaking an entrepreneurial activity due to economic necessity.

This was consistent with the Entrepreneurs' Barometer 2003-2004<sup>5</sup> published by Ernst & Young, which reported that the majority of entrepreneurs (56 per cent) were inspired by the vision of creating a business when deciding to become entrepreneurs.

An interesting result from the GEM study is that early stage entrepreneurial activity, measured as a Total Early-stage Activity (TEA) index, peaks in two age ranges: in the 25-34 years and 45-54 years age ranges, and that this was more pronounced in NSW than for all Australia. TEA is a percentage of all respondents who indicated participating in either a start-up or new business entrepreneurial activity in the 12 months prior to the survey.

It may be that these two decades are the periods in an Australian individual's life when they are most likely to undertake entrepreneurial activity. The earlier period coincides with an individual's personal capacity to carry greater risk, while the latter period coincides with a time when an individual has accumulated wealth and knowledge, and has developed business skills.



There is an exception to this general finding: the report shows that this "twin peaks" phenomenon is not evident in male early stage entrepreneurial activity but is quite pronounced in female early stage entrepreneurial activity. It may be that young women look to pursue their entrepreneurial ambitions before taking on family responsibilities, and that mature-age women see business/entrepreneurial activity as a route for re-entering the work force.

The Entrepreneurs' Barometer, which was based on a survey of successful entrepreneurs, gave a variation on this result, reporting that entrepreneurs in Australia tended to be over 35 years of age (75 per cent) and that more than half had operated a business for more than ten years.

#### Entrepreneurial Activity Indicators by Stages

Entrepreneurial Activity Indicators		
Entrepreneurial activity stage	NSW	Australia
Start-up	6.9%	6.6%
New business	6.1%	5.4%
Established business	8.4%	9.1%

Entrepreneurial activity indicators are the percentage of respondents surveyed who indicated that they had engaged in one of three types of entrepreneurial activities.

development. Such business people are known as serial entrepreneurs and results from the 2003 NSW Government survey of employing micro-businesses<sup>10</sup> provides some interesting insights about this sub-group.

The Serial Entrepreneurship working paper, prepared by the University of Newcastle from the NSW Government survey data<sup>6</sup>, reports that serial entrepreneurs tend to be male (73 per cent), well educated (41 per cent possessed high school education and 53 per cent held a trade or technical qualification or had a bachelor's or postgraduate degree), aged between 30-49 years (42 per cent), and not to have come from a family background of business ownership (53 per cent).

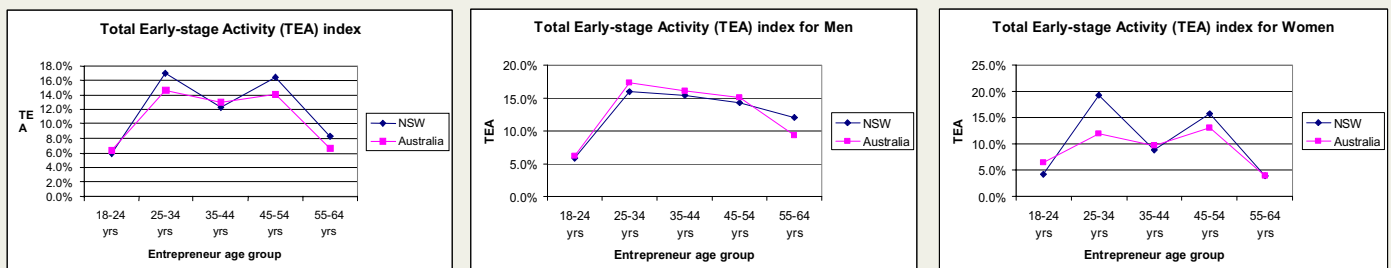
Employing micro-businesses operating for at least four years	Serial entrepreneurs	Other entrepreneurs
Bought business as a going concern	31%	22%
Home-based	31%	43%
Own other business	38%	9%
Sales growth over previous four years	76%	64%
Expectation of growth over next two years (somewhat likely and very likely)	55%	40%

### Serial entrepreneurs

Many entrepreneurs start and/or buy into a business, grow the enterprise and then exit. They then start all over again. Exiting from one venture and starting another business is not necessarily sequential and in many cases entrepreneurs are managing a number of ventures which are in different stages of growth and/or

In comparison with entrepreneurs in general, serial entrepreneurs operating an employing micro-business are more likely to buy a going concern, less likely to operate a home-based enterprise, more likely to have experienced sales growth over the previous four years, and are more likely to want to expand their business in future.

### Entrepreneurship Activity Index



Source: GEM Australia, an extract study on NSW Entrepreneurship in 2003, June 2004.

<sup>4</sup> Global Entrepreneurship Monitor project originated in 1997 as a joint research initiative by Babson College (USA) and London Business School. Twenty-seven countries participated in the 2003 study. It aims to study the relationship between entrepreneurship and economic prosperity. A copy of the report is available at [www.gemaustralia.com.au](http://www.gemaustralia.com.au).

<sup>5</sup> Respondents to the Ernst & Young 2003 survey are Entrepreneur of the Year finalists and/or winners from the 2001, 2002 and 2003 Australian Award programs. In 2003, 310 entrepreneurs were surveyed and 130 responses were received.

<sup>6</sup> The serial entrepreneur: An exploratory analysis of Australian micro-firms Working Paper – July 2004 by Michael Schaper, Gary Mankelov and Brian Gibson of the Newcastle Business School, University of Newcastle. The paper analyses characteristics of serial entrepreneurs in the employing micro-firm sector, that is firms employing fewer than five employees. The analysis is based on a survey of businesses that were employing micro-firms in 1999 and was commissioned by the NSW Government in 2003.

## Youth sees a future in business

Empowerment through education, the creative stimulus of the Internet and mass media, and the growth of service business opportunities have led to an increasing number of young people choosing business ownership as a career option.

Recent data from the Australian Bureau of Statistics<sup>7</sup> shows that in June 2003, 47,000, or 9.4 per cent, of all small business operators in NSW were under the age of 30. Two-thirds of young small business operators were men, but women operating a business – close to 10 per cent – were under the age of 30, a slightly greater proportion than for men.

Young entrepreneurs are also strongly represented in the major trend towards home-based business. While 62 per cent of business operators over the age of 30 operate a home-based business, 71 per cent under the age of 30 operate from or at home. This probably reflects the relatively smaller investment that is required for most home-based businesses – or perhaps it is part of the general trend in Australian society for the 20-somethings to leave home later than did the previous generation.

A recent report on entrepreneurial activity in Australia showed that one of the two peaks in entrepreneurial activity over time occurs among young people in the 25-34 years age group.

ABS and GEM reports show that young people in NSW are becoming more open to building an economic future for themselves through a business start-up. This reflects the strength of the State's educational system, business vitality and openness to new ideas and lifestyles.

Business Operation by age group and home base			
	Home-based small business operators	Other small business operators	Total
Aged under 30 years	33,300 <b>70.9%</b>	13,700 <b>29.1%</b>	47,000
Aged greater than 30 years	280,500 <b>61.7%</b>	173,900 <b>38.3%</b>	454,400
All small business operators	313,800 <b>62.6%</b>	187,600 <b>37.4%</b>	501,400

<sup>7</sup> Source: Australian Bureau of Statistics Characteristics of Small Business, catalogue number 8127.0 published April 2004.



## Growing NSW Exports

Governments in Australia have recognised the importance of attracting more companies into international trade, as competition in the country's traditional agricultural and mineral commodities increases, and service industries become more important for economic success. With Australia estimated to have only about 31,000 exporters, more than 40 per cent of those in NSW, there is plenty of room for greater participation in exporting by small business.

New exporters are being offered special assistance in NSW under State and Federal Government programs, and there is evidence that this is starting to have an effect.

The 2004 DHL Export Barometer found a significantly higher proportion of new exporters in NSW/Australian Capital Territory compared with other States.

This growth is coming from both small companies offering niche products and services that need overseas markets for growth, and from medium-sized companies looking offshore to sustain their position.

According to the 2004 PricewaterhouseCoopers Business Insight Survey, there is a growing tendency for Australian medium-sized businesses to export their products and services. A breakdown of how mid-sized businesses are performing shows 63 per cent of the consumer and industrial sector are internationalised, followed by technology (61 per cent), mining (58 per cent), automotive (56 per cent) and entertainment (50 per cent).

In terms of States, NSW leads the way with 49 per cent of its businesses internationalised. This reflects the State's strong services sector and Sydney's role as a global technology, tourism and entertainment hub.

Services now dominate NSW's exports, accounting for 41 per cent of the State's total exports in 2002-03.

Service firms generally supply knowledge, expertise or human labour and are overwhelmingly small- and medium-sized enterprises.

Moreover, NSW's capacity is matched by opportunity. For developing countries, many of which are in South-East Asia, the involvement of foreign service providers is necessary to deliver improvements in business performance and living standards. A strong service economy also helps to attract investment, technology and skills to developing countries to consolidate their domestic reform progress and economic modernisation.

However, in many countries, many service industries were traditionally regarded as largely domestic concerns and subject to "natural monopolies", such as transport and communication services. In others there are restrictions on foreigners providing legal, accountancy or engineering services. Trading partners may impede services exports by not recognising foreign qualifications. These barriers to trade are progressively coming down, which is good news for NSW exporters.

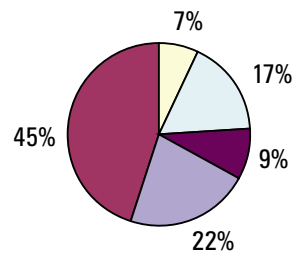


The accession of major economies such as China, India and Taiwan to the World Trade Organisation, the signing of free trade agreements by Australia with Singapore and Thailand, and the prospect of a free trade agreement between the association of South-East Asian Nations and Australia and New Zealand a future possibility, all add up to a trading environment where the export prospects for small service firms have never been better.

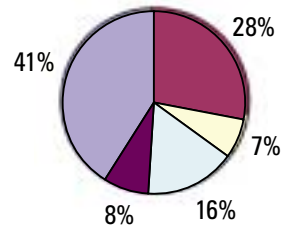
Potential growth areas for NSW span virtually the entire spectrum of services, including finance and insurance; telecommunications; environment; health and education; building and construction; freight, transport and distribution; information and business services; legal and professional services; and engineering and technical services, as well, of course, as tourism.

## Composition of Exports: 2002-03

### ° Australia



### ° NSW



Services  
 Primary  
 Simply Transformed Manufactures  
 Elaborately Transformed Manufactures  
 Other goods

° Source: Exports of Primary and Manufactured Products Australia, 2002-03, Department of Foreign Affairs and Trade, December 2003 and Trade in Services Australia, 2002-03, Department of Foreign Affairs and Trade, March 2004.

° Source: Australia's Trade by State and Territory, Department of Foreign Affairs and Trade, May 2004.

## case study:

### Engineers build Middle Eastern relationship

Although Chatswood-based engineering consultancy Waterman AHW had a strong presence in Australia, it realised that its growth prospects were limited by the size of the local market. The company began looking overseas for new opportunities.

This prompted AHW to join the NSW Government's New Export Opportunities Program, beginning with participation in a trade mission to Dubai in 1999.

AHW Managing Director Michael Boufarhat said the Department of State and Regional Development helped the company in many ways, particularly in gaining key appointments with potential business contacts. "Most of all, the mission opened up our eyes to the increased opportunities associated with overseas expansion."

Following the mission, the Department helped AHW to obtain expert advice in developing a strategic business plan that would underpin future export growth.

AHW accompanied another trade mission to Dubai and the United Arab Emirates in 2000 and, as a result of the contacts confirmed on

this trip, the company established its first engineering contracts in the UAE.

The company participated in another trade mission to Dubai in March 2004 and, building on the previous visits, Waterman AHW won its first engineering contracts for facilities management services. "The previous trade missions to the area had allowed us to establish a number of personal contacts, and in following up on this latest mission we were able to confirm the deal," Mr Boufarhat said.

AHW has now won four contracts in the Middle East and has appointed a full-time manager in Dubai.

Waterman AHW is part of the Waterman international group of companies, but it retains its Australian identity, working with the international group to service Asia Pacific and Middle East clients and to develop new domestic and overseas business of its own.

AHW handles most of the group's Asia Pacific and Middle East engineering work across its areas of expertise.

## Home-based Business

Home-based businesses are usually quite small in size, but as a group they are very significant participants in the NSW economy. According to the Australian Bureau of Statistics, there are about a quarter of a million such businesses in NSW, making home-based business the most prevalent form of business operation. Not only do they provide a key self-employment option, but 34 per cent of these businesses also employ staff.

In recent years, the accelerated growth of home-based operations can be linked to better technology, trends towards outsourcing and a preference for more flexible lifestyles. ABS data<sup>7</sup> indicates that in the six years to June 2003, more than 70,000 new home-based operators emerged in NSW. And according to the 2003 NSW Micro-Business Survey<sup>10</sup>, about four of every five home-based businesses that employ staff were started from scratch by their operators.

While research demonstrates that more people are starting entrepreneurial home-based businesses, the demands of day-to-day management and marketing leave little time for planning business growth.

The NSW Government has been pioneering in its efforts to help home businesses to grow. Through the Department of State and Regional Development it has undertaken research to learn more about this diverse sector's needs, and has specifically developed initiatives for home-based operators to improve business skills and focus on growth potential.

Many home-based businesses are keen to become larger businesses. Forty-one per cent of home-based business employers surveyed in the 2003 Micro-Business Survey stated that they planned to spend significantly more time on their businesses in the future, while 43 per cent indicated that they are likely to expand their business over the next two years.

The Department's Home-Based Business Action program is designed to assist home-based firms to clarify their direction and a growth path. The program offers a series of interactive workshops on issues integral to growth – business planning, marketing and better systems. The goal is to give participants the skills they need to take their business to the next level.

Already, more than 1,100 home-based business people have participated in development programs or workshops on topics such as marketing and intellectual property offered by the Department.

In 2004-05, the Department is offering workshops in six locations across metropolitan Sydney and in nine regional areas. For established home-based businesses, this is an opportunity to enhance business skills and confidence, and network with other home-based business people. In a recent program in South Sydney, such networking led to the formation of an alliance to deliver wedding services through collaboration of six different businesses.

It is important for home-based operators to reduce the potential for isolation and to take steps to access all the information they need. The Department's online information resource, "The Homebiz Kit: grow your business from home", was created for this purpose.

The kit can be accessed from the NSW Small Business website at [www.smallbiz.nsw.gov.au](http://www.smallbiz.nsw.gov.au) and is available, free of charge, in CD-ROM.

This resource has proven very popular, with 8,000 CD-ROMs distributed since 2001, and a further 6,000 updated copies to be distributed in coming months. There is also an online chat-room facility on the website to further support home-based networking, particularly useful for regional areas.

<sup>10</sup> NSW DSRD survey of employing micro-business, 2003.

## case study:

### Sea change produces business growth

Self-confessed "sea-changers" Linda and Tony Bristow first visited Tweed Heads on holiday. They fell in love with the region and decided to move there from Sydney. Running a business from home seemed like the natural lifestyle choice, so they established Computer Solutions (Sales and Service), supplying IT equipment and associated repair, maintenance and training services to small- to medium-sized businesses.

The Bristows had big plans for their business. They wanted to develop a business model based on best practice to enable them to replicate it and offer franchise opportunities in Australia and overseas. The problem was their marketing efforts in their local area had only generated a lukewarm response. They needed to be more strategic.

Earlier this year they participated in the NSW Government's Home-Based Business Action program on marketing. This program provided them with the further direction and insight they were seeking.

The program's interactive and structured format helped them to identify Computer Solutions' target market and develop a plan to reach it – ultimately extending their client base.

"The workshops helped us with the where and how of marketing and showed us the importance of measuring the results," Mrs Bristow said.

As they progressed through the workshops, they were able to sharpen their business projections based on their new, cost-effective marketing strategies. Mr Bristow estimated that 25 to 30 per cent of the increase in their business has been directly attributable to these tactics.

Several months down the track, the Bristows are in the process of signing their first franchise sale – a major milestone on their expansion path. In their own words, "Watch out for a Computer Solutions operating near you soon. It's going to be a household name".



## case study:

### How to make a splash in Asia

Waterco, a manufacturer and supplier of swimming pool equipment and accessories, has developed extensive international markets with some help from the Department of State and Regional Development.

The Rydalmere-based company has opened new markets in Asia through involvement in NSW Government's New Export Opportunities Program. In the past few years, Waterco has participated in five DSRD trade missions to Taiwan, India, China, Japan/Korea and Vietnam.

According to Waterco's Manager, Asian Markets Sharon Chung, the exporting process can be a daunting challenge for newcomers: "DSRD has provided some valued strategic and practical assistance".

With the assistance of DSRD and because of the status of these trade missions, the company was able to meet the key decision-makers it was targeting. As Ms Chung pointed out: "Turning up and knocking on the door in Asia usually means you only get to see a sales person, but by using the prestige and organisation of a trade mission, you more often get to meet the managing director".

Most of the DSRD missions are now delivering results for Waterco. For example, distributors have been appointed in northern India and Taiwan and opportunities are opening up in Japan and Korea.

In China, strong interest is being shown in the company's products. "Through the recent trade mission to Beijing, we got to meet the decision-makers and we expect the business to develop soon, particularly given the need for new hotel swimming pools for the 2008 Olympics," Ms Chung said.

In the past two years, export sales have accounted for around 20 per cent of total turnover. Exports are also increasing at a rate of 20 per cent each year.

Waterco is currently targeting Thailand and recently participated in a DSRD trade mission to that country. The future is looking bright for Waterco in both its domestic and overseas markets.

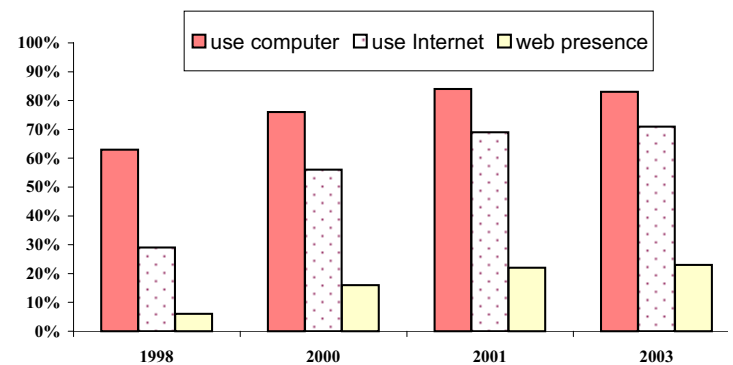
### Small businesses turn to IT

Small businesses in NSW have linked their search for growth in productivity and profitability to the power of information technology, according to recent research.

Recent data from the Australian Bureau of Statistics (ABS, 2004<sup>11</sup>), shows that 83 per cent of businesses in NSW own a computer, 72 per cent use the Internet, and nearly a quarter (24 per cent) have a web presence.

Sixty-five per cent of micro-businesses, those with less than five, or no, employees, have Internet access, while 15 per cent of them have a web presence. The data also shows a consistent adoption of technology (computers, the Internet and websites) by both metropolitan and non-metropolitan businesses.

#### Business Use of Selected Technologies: 1998-2003



The five-year view indicates that the introduction of the New Tax System in July 2000 provided a stimulus for small business operators to make greater use of computers and the Internet, with an increase apparent between 2000 and 2001.

The proportion of businesses using information technologies varies across industries. The highest levels of computer and Internet use is in the property and business services industry (both around 90 per cent), while lowest use is in the accommodation, cafes and restaurants industry and the personal and other services sector (72 per cent and 58 per cent respectively). The highest proportion of businesses with a web presence is in cultural and recreational services (37 per cent), while the lowest proportion is in the construction industry.

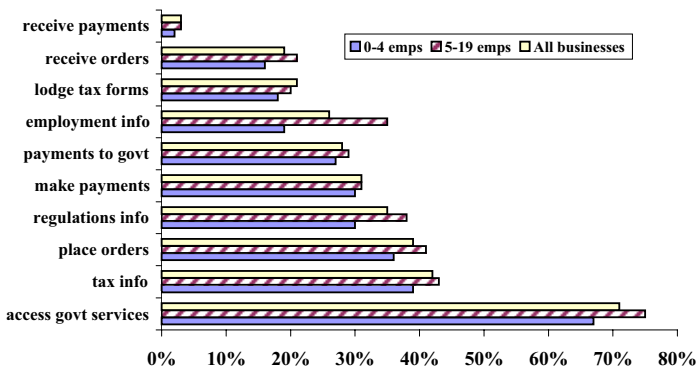
The capability offered by computer and telecommunications is dynamic. Internet access by business is moving from dial-up (86 per cent in 2002) to broadband options (76 per cent reported being connected via dial-up in 2003). An increasing proportion of businesses are choosing to connect to the Internet via DSL – Digital Subscriber Line (a method for moving data over regular phone lines, but at a much faster speed than a regular phone connection). The proportion of businesses using DSL more than doubled from

seven per cent in 2002 to 18 per cent in 2003.

Developments in computer and software technology have opened up a range of opportunities for online activity, covering almost every aspect of business – banking, ordering, invoicing, paying, marketing, research, data and information transfer, and other communications.

According to the 2004 Sensis e-Business Report<sup>12</sup>, businesses mainly use the Internet for email, getting reference information or research data, looking for information about products and services, and Internet banking. The ABS Business Use of Technology publication identifies other significant activities undertaken by businesses on the Internet including: accessing government services, purchasing goods and services, and selling goods and services.

#### Selected Business Internet Activities



There is now a significant and growing volume of buying and selling over the Internet by business. The estimated value of Internet income for the year ended June 2003 was \$24.3 billion. More than half (57 per cent) of micro-businesses reported earning five per cent or more of their income from orders via the Internet, which is about double the proportion of larger businesses reporting this as a source. Between 2002 and 2003, the proportion of businesses that reported receiving orders through the Internet was 19 per cent, a doubling from the previous year. Thirty-nine per cent of businesses ordered goods and services electronically and almost three-quarters also made payment for ordered goods and services.

Information security remains a concern for many businesses. Close to 40 per cent of computer users in business report experiencing some form of IT security incident or breach, with a virus the most common incident.

A further concern for businesses, especially small businesses, is the increasing volume of unsolicited "junk" email sent to large numbers of people to promote products or services (spam). According to a NSW Government survey<sup>13</sup>, 95 per cent of the Department's small business clients receive spam, and the majority of them indicated that spam adversely impacts on their business. Of those businesses receiving spam:

- 61 per cent received it on a daily basis;
- 55 per cent received more than five spam messages a day;
- 36 per cent state that their staff spent more than 30 minutes a day dealing with spam; and
- 25 per cent of businesses believed the cost of spam to be more than \$5,000 a year.

Spam is having a direct and negative financial impact on small business owners through productivity losses, degraded operational performance and the need to invest money in anti-spam tools and procedures.



<sup>11</sup> Australian Bureau of Statistics, Business Use of Information Technology 2002-03, Cat 8129.0.  
<sup>12</sup> Sensis, e-Business Report – The Online Experience of Small and Medium Enterprises, July 2004.  
<sup>13</sup> Department of State and Regional Development, Spam and Your Business, survey of more than 300 business owners, April/May 2004.



## Biotechnology continues to grow

The biotechnology sector in Australia has grown at a remarkable rate over the past five years. According to Ernst & Young (2002), Australia is ranked sixth in the world for the number of biotech companies behind the US, Canada, Germany, the UK and France. Australia now boasts more companies per capita than the US.

In 2000-01, the biotechnology, pharmaceuticals and health sectors accounted for about 12 per cent of the \$2.7 billion venture capital invested in Australia, according to the Australian Bureau of Statistics (ABS Cat. No. 5678.0,2002).

NSW is at the leading edge of biotechnology and pharmaceutical development and production in Australia with 40 per cent of biotechnology companies in Australia based in the State.

NSW biotechnology companies are estimated to generate \$300 million in revenue annually, of which 50 per cent comes from exports.

There are more than 60 small- to medium-sized biotechnology companies wholly focused on biotechnology in NSW. An additional 190 companies are involved in related areas such as pharmaceuticals, services, medical instrumentation and other life science business ventures.

NSW biotechnology companies are predominantly involved in the area of human therapeutics. Other major sectors include diagnostics, environmental biotechnology, medical devices, platform technologies and pharmaceuticals.

The NSW Government recognises the importance of the biotechnology sector to the State's economy and supports small- to medium-sized businesses to commercialise their research through the BioBusiness program. This program has provided assistance to more than 100 start-up and established companies.

BioBusiness helps start-up businesses to patent their intellectual property; obtain regulatory approvals; and cover legal costs in commercialisation agreements. It also helps established, growing businesses to cover regulatory approvals to take their bio products into specific markets. BioBusiness also supports business management improvement projects.



## case study:

### A better aural experience

Vast Audio is on the path to success as a result of its ability to commercialise its intellectual property, a powerful form of 3-D audio technology. The company, based at the Australian Technology Park at Eveleigh, has developed the business through a series of partnerships and with the assistance of the NSW Department of State and Regional Development.

The Vast Audio team has developed technology associated with how the brain processes the spatialisation of sound waves. "Anyone who has experienced the noisy disorientation of an overcrowded room should appreciate that this is often the 'normal' experience for a hearing-impaired people – their hearing aid struggles to provide them with accurate information as to the source of particular sounds," said Jonathon Wolfe, CEO of Vast Audio.

"Apart from revolutionising the next generation of hearing aids, this technology has much wider application. Because of its ability to improve speech recognition in noisy or complex environments, sound source segregation and sound source direction, it will have a major impact on a wide range of activities. These include computer gaming, ultra-high-quality recorded music experiences, and video conferencing – providing more of a 'virtual reality' experience in these latter applications."

The bio-medical application of this technology attracted the interest of the NSW Department of State and Regional Development. It introduced the company to its BioBusiness program, which provided assistance with patents and associated legal advice and support in gaining the services of a business consultant.

Vast Audio also benefited from DSRD's invitation to join the NSW Enterprise Workshop program. "This exercise has been particularly useful, helping us to sharpen our understanding of how we should package the value of what we have to offer. It has introduced us to a highly valuable network of people, including venture capitalists, representatives of various government agencies, experienced business achievers, marketers and lawyers," Mr Wolfe said.

The company is now talking to potential customers about licensing the hearing aid technology for manufacture. There are just six manufacturers who account for 85 per cent of the global market, each spending up to \$15 million a year on research and development alone. Vast Audio is confident of a major breakthrough into this field.

## case study:

### **A mine of economic opportunities**

There are many ways that Aboriginal organisations and communities can address the need for employment and economic development. The challenge is to find sustainable opportunities, with real commercial prospects.

The Yenuga Aboriginal community in the Upper Hunter is an excellent example of how to take an opportunity and develop it into an economic base.

Like many mining companies, Ashton Mines was interested in having local Aboriginal people undertake mine site rehabilitation.

One of the Department of State and Regional Development's Aboriginal Business Development Managers brought the mine company and the Yenuga Aboriginal community together to examine the opportunity the mining company had put forward. It was important to determine the outcomes both parties wanted, and then focus on how these could be achieved.

During negotiations, it was determined that the Yenuga Aboriginal community needed to establish a business in order to undertake contracts for Ashton Mines. The Department assisted the Yenuga Aboriginal community to establish their business, Yenuga Mine Services Pty Ltd.

Following the establishment of Yenuga Mine Services, the company entered a contract for \$160,000 with Ashton Mines for site rehabilitation.

This has resulted in the full-time employment of 12 Aboriginal people.

This work is expected to increase as Ashton Mines has set aside \$3 million for site rehabilitation work over the next three years.

### **Advancing Aboriginal businesses**

The NSW Government is committed to advancing economic development for Aboriginal people. A whole-of-government approach complements active partnerships with the private sector, local government and Aboriginal people.

The NSW Government's Aboriginal Affairs Plan, entitled Two Ways Together, has been developed to address seven priority areas: health, education, economic development, justice, families and young people, culture and heritage, housing and infrastructure.

The NSW Department of State and Regional Development, as the Government's key economic and business development agency, is responsible for enterprise development under Two Ways Together.

The Department has adapted its range of services and programs for delivery to Aboriginal people in business, in both regional and metropolitan areas.

Under Budyari Ngalaya – First Peoples' Business Partnerships – alliances are promoted between Aboriginal-owned enterprises and large Australian firms. These partnerships may involve employment of Aboriginal people, supply of goods and services by Aboriginal firms or mentoring of Aboriginal businesses.

MLC Powerhouse Design Studio and Gallery is one of the Budyari Ngalaya partners. The company has been working with Robyn Caughlan, an Aboriginal artist and fashion designer. MLC Powerhouse Design Studio and Gallery sponsored a three-week exhibition in Sydney in July showcasing Ms Caughlan's latest designs.

The NSW Government, through the Aboriginal Business Review program, provides a fully-funded business analysis by professional business consultants for individual Indigenous enterprises. Twenty-four Indigenous enterprises from across NSW accessed this service in 2003-2004, in industries as varied as industrial net making, hospitality, fashion, building and construction and retailing.

Another growing service is the Aboriginal Business Link Program, which helps Aboriginal businesses to collectively participate in industry trade shows to open up new market opportunities. In 2003-2004, 23 Aboriginal businesses participated in trade shows including the Australian Tourism Exchange, Sydney on Sale, Gift and Homewares Australia, the Post Bridal Expo and the Ag-Quip Field Day.

Exporting is a proven method for ensuring long-term growth of a company. Success in exporting depends on having access to practical and reliable information, and advice on markets. Over the past year the Department has worked with ten Aboriginal businesses interested in tapping into the global market, introducing international buyers and helping the owners to present their products in a professional way.



## case study:

### The sweet taste of success

A Sydney company that has developed flavour enhancement technology with huge market potential has fast-tracked its likely acceptance by giving potential customers a 'taste' of what its new technology has to offer.

Protech Research, based in North Ryde, has developed its technical and business platforms using the best available assistance, including support from the NSW Government.

Flavour enhancers, found in a vast range of food products, are used throughout the world. Protech owner-director Michael Patane has developed technology to produce a flavour enhancer that has captured the interest of the global food, flavour and yeast industries. His technology makes the flavour enhancers significantly cheaper to produce while using a completely natural process.

Perhaps of equal importance with the technology is the unusual marketing approach taken by Protech. The company principals decided to select and approach commercial targets well before they

were in a position to sell any product. "We began contacting potential customers in the global flavour and yeast industries a year ago, before product development was completed," Mr Patane said. "This allowed these organisations to understand our direction and focus. We can now approach an audience already familiar with Protech's technology, showing them completed scaled up prototypes, with a delivery of previously committed milestones."

Support from DSRD, principally through the BioBusiness program, has been important in raising the company's profile in international markets, including assistance to attend and exhibit at Bio 2003, an international biotechnology expo in Washington D.C. The Department has also assisted the company in its travels to Europe to establish contact with likely customers. In addition, it has helped obtain market analysis and research of global market opportunities for the Protech technology.

### NSW SMEs winning ways

Every year the Department of State and Regional Development surveys the owners of the small and medium businesses that have participated in its programs during the previous year. In 2003 the survey was conducted in September by telephone interviews with 432 business owners whose companies had received assistance from DSRD during 2002 and early 2003. Results showed that the client businesses had recorded strong performance in the financial year concluding on 30 June 2003.

As in previous years, companies reported growth in sales and employment far outstripping the economic data reported for the State as a whole. Sales grew by 16 per cent while employment increased by an average of seven per cent. The average company size across this diverse group was 13 employees and turnover of \$2.2 million per annum. Close to three-quarters of the client group are family-owned businesses, mainly in the first generation of ownership.

Export sales, amongst the 40 per cent of clients who were active in international markets, had increased by an average of 16 per cent between 2001-02 and 2002-03. Reflecting the NSW Government's encouragement to non-exporters to consider overseas trade, a further 21 per cent of the client group stated that they were planning to

commence exporting in 2002/03. Exporting businesses nominated South-East Asia, the United States and New Zealand as the markets of greatest interest.

The analysis allowed for differentiating the interests and outcomes for clients of the department's various programs for small and medium business, in the areas of growth and technology, small business expansion and trade development. Trade development clients were more interested in South-East Asia and the Middle East than other clients, while businesses who had participated in growth and technology programs showed more interest in the United States, India, New Zealand and Japan as export markets.

Growth intentions for the coming year were most confidently expressed by regional companies (sales), and small business and service companies (employment). Eighty-nine per cent of respondents were satisfied or highly satisfied that the services they had received were useful in their businesses, and 84 per cent indicated that they would seek assistance from DSRD in the coming year in the area of increasing domestic and international markets.

The survey will be conducted for its seventh year in 2004, so that the department can continue to ensure the relevance of its programs and services for small- and medium-sized clients.

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