



Xero SBI May report

The State of Small Businesses



Small Business Insights

MAY 2018

Welcome



It's been a huge year for Australian small businesses. We've seen the government and the wider business community pledge to pay small businesses faster and, as recently as April, we saw the Australian Small Business and Family Enterprise Ombudsman commit to finding easier ways for small businesses to obtain capital.

With the new federal budget just around the corner, it's time to consider the support our small businesses need to continue to survive, grow and prosper.

Operating as a small business in 2018 comes with considerable challenges: we are living in a world of global giants and major local chains challenging the markets that small businesses have typically been strongest in. There are more small businesses than ever in Australia, yet the risks they face are more powerful than before.

We launched Xero Small Business Insights last year to provide a snapshot of the health of Australia's small business economy. Looking at the aggregated and anonymised data of hundreds of thousands of our Australian subscribers, we analysed some of the key performance metrics for businesses—from cash flow to employment and global trade—to give an in-depth, up-to-date picture of how small businesses are performing.

By most accounts, our small business sector remains strong.

Small business employees, across all industries, are seeing growth in their pay packets. In this report, we'll look at the sectors that saw the greatest wage growth, and compare how metropolitan and regional small-businesses employees fared. We'll also hone in on the industries where the wage gap between the sexes is narrowing most dramatically.

The attention of the sector now turns to the impending 2018-19 federal budget. Given that small businesses employ nearly half our workforce and generate a fifth of Australian GDP, supportive policies are crucial for the success of the sector, and the economy, as a whole.

The focus of the 2017-18 budget—through tax concessions and the continued asset write-off—was on boosting productivity and incentivising small business spending. Inside this report, we look at how small businesses have fared under Australian government policies over the last 12 months, the growing potential of the small business sector and what is needed (and wanted) in the upcoming budget to continue to build a thriving small business economy.

If you'd like more information about Xero Small Business Insights, you can visit xero.com/small-business-insights

Trent Innes

Xero, AU Managing Director

A handwritten signature in black ink, appearing to read 'Trent Innes', with a long horizontal flourish extending to the right.

The Snapshot

Wage growth

Small businesses saw median wage growth of 5.3 percent over the past 12 months, based on Xero data. Industries that saw the strongest growth include:

7.0%

Rental hiring and
real estate services

6.6%

Financial and
insurance services

6.1%

Public administration
and safety

6.0%

Information media and
telecommunications

Cash flow

Cash flow, a key indicator of a small business's financial health, has slowly trended upwards across Australia in the past year.

2018 49.4%

Australian small businesses
were cash flow positive

▲ 2.8%

While the 49.4 percent figure indicates more than half of small businesses were in the red, January is typically a cash-strapped month.

The Snapshot

Getting paid

In 2017, the government and large businesses pledged to pay small businesses faster. Their commitment was admirable, and it may have borne results.

3 days faster

Almost every month in 2017 saw an improvement in payment times versus the prior year, and, in some months, payments arrived three days faster.

34.2 days wait

Small businesses waited an average 34.2 days to be paid on a 30-day invoice as 2017 closed, which was the best figure in three years.

38.8 Jan'17 spike

Payment times spiked in January, hitting 38.8 days. That's in line with seasonal trends post-Christmas. We hope to see late payments resume a downward drift as 2018 continues.

Employment

Australia's small business community employs almost half of all workers, and so it is vital that we see job creation in this sphere:

3.4% Jan'18 drop

Affected by seasonality across the sector, small businesses saw an 3.4 percent drop in employment month-on-month in January 2018, following the Christmas peak trading period.

2.4% Feb'18 rebound

Since then, employment rebounded 2.4 percent in February, repeating a seasonal trend that we have seen in previous years as the economy returns from break.

The Snapshot

Small business pain points³

We asked 500 small business owners what their biggest pain points of 2017 were:

46.2%

Expanding my customer market

36.3%

Hiring the right people

35.5%

Cash flow

29.3%

Chasing payments

27.9%

Taking on more/too many
administrative tasks

Almost half said that their greatest challenge of 2017 was introducing their business to new customers (be it at home, or abroad).

To help them get in front of more customers, almost half of small businesses are looking to government to provide education and guidance on how to expand globally (45.6 percent), while two in five small businesses (40 percent) want the government to provide better access to global deals.

A man with curly brown hair and glasses, wearing a red and blue plaid shirt, is holding a brown chicken in a wooden coop. The background shows a wooden wall and a blue tarp.

Money, money, money: Wages in small business

Small business employees saw median wage growth of 5.3 percent in 2017, based on anonymised data for full-time workers at Xero subscriber organisations. The Xero number uses a different methodology than the ABS wage price index and, as such, provides a unique view of the direction and magnitude of wage changes at small business.

Money, money, money: Wages in small business

Section 1: Industry



“

Small businesses are the engine room of the Australian economy, and wages are an important gauge to watch. The fact that wage growth is fairly consistent across the industries demonstrates the strength of small businesses.

”

Trent Innes
Xero, AU Managing Director

While small business wage growth is encouraging overall, some sectors have been especially strong over the past year according to Xero Small Business Insights data¹.

The rental, hiring and real estate services sector led the pack, posting median wage growth of 7 percent for the year. Financial and insurance services (6.6 percent growth) and public administration and safety (6.1 percent), also outperformed the national average.

At the other end of the spectrum, some industries saw less than 3 percent annual wage growth. Pay in mining grew just 2.7 percent, and wages in professional, scientific and technical services rose 2.6 percent. It's worth noting that some of the slowest-growing wages were in sectors that had the highest median salary.

Money, money, money: Wages in small business

Section 1: Industry

Industry growth

Median wage growth for businesses within rental, hiring and real estate services are booming, while those in professional services, and arts are growing more slowly.

7.0% **Rental, hiring and real estate services**

6.6% **Financial and insurance services**

6.1% **Public administration and safety**

6.0% **Information media and telecommunications**

5.3% **Electricity, gas, water and waste services**

5.3% **Administrative and support services**

5.3% **Education and training**

5.2% **Transport, postal and warehousing**

5.2% **Construction**

5.0% **Retail trade**

4.8% **Manufacturing**

4.0% **Accommodation and food services**

3.8% **Wholesale trade**

3.7% **Agriculture, forestry and fishing**

3.5% **Health care and social assistance**

3.5% **Other services**

3.3% **Arts and recreation services**

2.7% **Mining**

2.6% **Professional, scientific and technical services**

Money, money, money: Wages in small business

Section 2: A Centralised Australia

Australia's population is heavily urbanised, and only becoming more so. Historically, property prices in Sydney, Melbourne and other major cities have risen sharply as more people move to the coasts.

This centralisation is true of small business too.

There is a divide between wage growth in regional and metropolitan Australia² While wages at businesses in metro areas are growing at 4.2 percent per year, those at regional businesses grew at 3.3 percent in the 12 months to December 2017.

“That’s partly because the types of jobs that have fast growing wages—professional, management and information and communications technology jobs—tend to be concentrated in metro areas,” said Andrew Charlton, economist at AlphaBeta. “Also, many of the regional industries—especially mining and agriculture—are experiencing slightly slower wage growth this year.”

In all, wage growth has been faster in metro areas in every state except Tasmania, where regional wage growth among small businesses outpaced that in the cities (3.2 percent versus 0.7 percent).

“While small business wage growth has been significant overall, there remains a disparity between metro and regional areas, revealing a continued need to develop economic opportunity for regional towns across Australia,” Innes said.

Charlton offers thoughts on how to prevent Australia being overly centralised: “There is certainly a lot of work to do to ensure that people in Australia’s regions have as much economic opportunity as the cities. The National Broadband Network will help with that, and we are just starting to see Australian businesses—big and small—recognise the benefits of locating in regional areas.”



Abigail Crompton —Third Drawer Down,
Melbourne Creative Retail Business Owner

Money, money, money: Wages in small business

Section 2: A Centralised Australia

Imbalanced Australia

Median wage growth in small businesses in metropolitan areas is climbing faster than in regional Australia.

Metropolitan wage growth:

ACT 5.5%

NT 5.8%

SA 6.3%

VIC 6.6%

NSW 4.5%

QLD 5.3%

TAS 0.7%

WA 2.0%

Regional wage growth:

ACT 4.9%

NT 4.1%

SA 4.4%

VIC 4.7%

NSW 4.0%

QLD 2.7%

TAS 3.2%

WA 1.5%

Money, money, money: Wages in small business

Section 3: The Gender Wage Gap

The gender wage gap is an issue that Australia's major businesses say they are committed to ending. According to the ABS, in 2017 Australian men earned on average 15.3 percent more than women. Encouragingly, the wage gap has narrowed in the past three years from a two-decade high of 18.5 percent. But clearly, more needs to be done.

That gap extends to small businesses too.

Interestingly, industries that are often perceived as more male-dominated are in fact making the most progress when it comes to narrowing the gender pay gap. Take mining for example; Xero's SBI data shows that median wages for women grew 14 percent across 2017, or more than four times as fast as male wages. Information media & telecom also saw a big difference in growth, with women's wages rising 6 percent compared to 0.9 percent for men.

While there is still a huge disparity in the actual wages earned by male and female workers in these industries, there is progress.

"It's good news that the wage gap is shrinking," Charlton says. "There has been a lot of focus on the gap in large businesses. Xero's data confirms that change is occurring in small businesses."

Innes, Xero's Managing Director, agrees: "Over the past few years we've seen business leaders across many industries increasingly acknowledge gender pay gap. Now we're seeing more effort being made from these industries to reduce the wage gap between women and men. There is still work to be done, but this is a step in the right direction."



Small business health check: Boosting performance

For many small businesses, some of these policies appear to be having an impact. Cash flow, a reliable indicator of the business' financial health, has slowly trended upwards across Australian small businesses.



Small business health check: Boosting performance

Section 1: Faster payments; positive cash flow

By the beginning of 2018, nearly half (49.4 percent) of Australian small businesses were cash flow positive; up 2.8 percentage points year on year. While that conversely means more than half of small businesses were in the red, January is typically a cash-strapped month, and the improvement from the previous January (46.6 percent cash flow positive) indicates the trend is moving in the right direction.



A key contributor to cash flow is getting paid on time by your customers. Lax payment times are the bane of small business— and the government knows it. The government pledged last year to pay all small business invoices within 20 calendar days, starting July 2019. The promise came at a time when large organisations were also in the spotlight for paying small businesses late.

The pledge has been welcomed, and potentially led to positive change over the past year. Small businesses waited an average of 38.8 days to be paid in January 2018 (for invoices on 30-day payment terms). While still above the 30 day terms, it is a major decrease on two years ago. And almost every month in 2017 saw an improvement in payment times versus the prior year, suggesting a positive trend that is likely to continue.

Petrina Hare, Founder & Creative Director of retail business Phare, has recognised the increasing focus of government policies on her business. “The government are definitely putting in a lot of new systems in place aimed to help small businesses, especially looking to help with cash flow,” she said.

“

For me, my biggest challenge of 2017 was evening out my cash flow, and it’s good to see government leading the way. While they’re on the their way, I’d still like to see even more initiatives to help small businesses earning less than \$10 million.

”

**Petrina Hare
Phare, Founder & Creative Director**

Small business health check: Boosting performance



Section 2: Jobs, jobs, jobs

The small business sector, which accounts for nearly half of Australia's workforce, saw steady employment across most of 2017, with annual growth near 8 percent in the final months of the year.

For founder and CEO of talent agency theright.fit, Taryn Williams, the ability to access and hire the best people is important.

“One of the biggest challenges we faced as a business over the last 12 months was employing the right people,” Williams said. “For our business, relaxing visas for foreign workers, along with tax incentives for small businesses, would help to ensure we were making the most effective hiring decisions.”

Williams' views are shared by other small business owners in Australia.

When we conducted a PureProfile survey of 500 small business owners they said that the government should do more to incentivise businesses to hire workers from different backgrounds (48 percent), as well as relaxing penalty rates to make it easier to hire (42.2 percent).³

Small businesses play a pivotal role in creating employment and expanding the wealth and prosperity of the country as a whole. The 2018–19 budget is an opportunity to show small businesses that their interests matter. Ideally, small business policy will be at the forefront of the budget in May, with allocations that encourage both innovation and investment through targeted programs and incentives.

Despite the positive policies put in place to help small businesses cash flow the majority of businesses surveyed (58.4 percent) believe that the government is not doing enough to help them succeed³.

In recent years, the Australian government has developed policies aimed at helping small businesses grow, including tax cuts, instant deductions on capital purchases and pledges to pay smaller contractors faster. All of which show that small businesses are clearly in the minds of our policymakers.

However, there's work to be done.

Small business health check: Boosting performance

Section 3: Small business hiring – government help needed

In the coming year, small business is looking to the government to help with employment. When we spoke to 500 small businesses³, half said they wanted the government to provide incentives to hire workers from different backgrounds (48 percent) such as interns, apprentices or graduates.

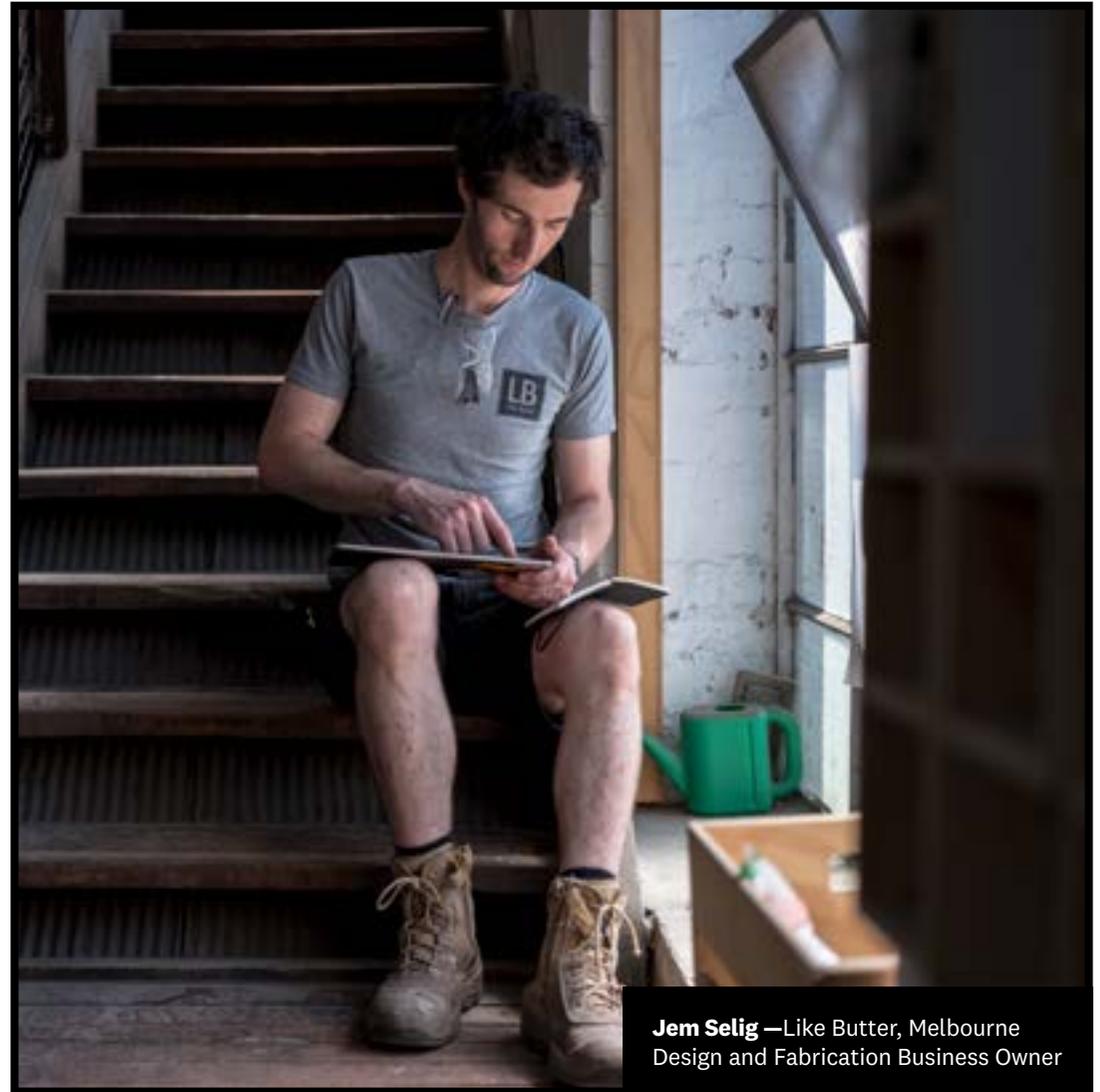
Key areas small businesses also wanted include:

Global trade: 46%

of small businesses want more education on how to grow globally, while 40 percent want help in accessing global deals.

Hiring: 42%

want government to relax penalty rates, while others want relaxed visas to help hire foreign workers more easily.



Jem Selig —Like Butter, Melbourne
Design and Fabrication Business Owner

A brighter 2018 for small business

Many of the key health metrics for small business are positive, as wages climb, and payment terms come down overall. Small businesses generally are leading the way on closing the gender wage gap, and extending their resources across global markets.

There is still some way to go, however, in evening the playing field for small businesses against larger competitors, and ensuring they remain a key growth engine for the Australian economy. With some of the key expected changes in government policy around the corner, and a continued focus on payment terms and affordable capital, Australia's small business sector can become stronger than ever.

BISTRO
MORGAN

Morgan Hipworth—Bistro Morgan,
Melbourne Artisan Doughnut Store Owner

About Xero Small Business Insights

Xero Small Business Insights is a snapshot of the sector's health, updated monthly. Its metrics are based on anonymised, aggregated data drawn from hundreds of thousands of our subscribers. The result is a picture of business conditions that's more accurate than most private surveys, which have a far smaller sample size, and more frequently updated than most ABS data on small business.

Xero Small Business Insights contains general information only and should not be taken as taxation, financial, investment or legal advice. Xero recommends that readers always obtain specific and detailed professional advice about any business decisions.

DISCLAIMER

1. Wage numbers have not been adjusted to reflect wages growth across the total Australian small business population.
2. Metro and regional definitions are defined by the Australian Statistical Geography Standard. Metropolitan areas are defined as those areas of between 30,000 and 130,000 people, serviced by a major transport and commercial hub. In regional areas, these are areas serviced by regional cities that have a population of more than 20,000 people.
3. Survey of 500 small business owners and managers conducted in March 2018 by PureProfile.

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