Redlands Business Survey 2015

Technical Report

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Executive Summary

This report summarises the methods and findings on the two year follow up survey of the small business community in Redlands The report provides a detailed analysis of the owner-managers of the firms, their motivations for running their businesses, potential barriers to growth, questions specific to Redlands aimed at understanding how embedded the firms and their owners are in the region and their alternative employment options and exit plans.

The study was initiated as a follow-up study to the survey conducted in 2013 on growing businesses in Redlands. To enable comparison between 2013 and 2015, re-surveying the firms which participated in 2013 was prioritised in the data collection process. Also, to enable comparisons and track changes in the business conditions some questions appeared in both surveys.

The results and analysis of the 2013 survey pointed to a number of areas for further investigation. These included a more detailed focus on the growth motivations of business owners, extent the firms were embedded in the Redlands region, additional barriers to growth that are specific to Redlands and increased focus on exit plans and intentions.

A main finding from this study is that internet access and performance has increased as a barrier to meeting business objectives and businesses are finding it increasingly harder to hire skilled labour. Resurveyed firms (2015-2013) had also increased their intentions to exit the business but this probably reflects a natural progression through the business cycle rather than problems in the local economy. Owners of small businesses in Redlands tend to be older than the Australian average and are likely to cite lifestyle reasons for being in Redlands. While this makes these businesses likely to stay they also have reduced prospects of creators of jobs and wealth in the region. These findings have significant implications for economic policy in the Redlands.

1. INTRODUCTION

In 2013 Redland City Council engaged UQ Business School to conduct a survey of small businesses in the Redlands, particularly around their future intentions for the business and perceived barriers to success. In total, 120 businesses responded to the survey and the findings were circulated amongst council and the local business community, including presentations at business breakfasts.

The aim of the 2015 survey was to understand how business conditions have changed over the two year time period, especially for those businesses that were surveyed in both time periods.

The intention of the report is to generate findings to guide the economic development strategy for Redlands. To this end, key findings and recommendations are presented at the end of the report.

2. RESEARCH METHOD

The Redland City Council and Redland City Chamber of Commerce database was used to generate a random sample of firms to survey. The surveys were completed by telephone in order to maximise the response rate. Firms which had participated in the survey in 2013 were prioritised. Attempts to reach these firms were made twice daily during the three week survey period. In total 31 firms which had participated in the 2013 survey were reached and agreed to participate in the follow-up study to enable direct comparisons between 2013 in 2015. In addition the 2015 survey included questions from 2013 and enabled a comparison across the sample. However, the most accurate reflection of true change is the 31 businesses that were surveyed in both time periods.

Questions asked were about firm and owner demographics; innovation and growth; business and owner-manager embeddedness, and, exit intentions and planed exit routes. Data were analysed using descriptive statistics, chi-square tests of difference and logistic regressions. Many of these techniques have been used previously in reports for Queensland Government and Brisbane City Council.

The survey was conducted in November 2015 under the conditions of the University of Queensland research ethics. The survey was explained to the respondents at the beginning of the interview and business owners were guaranteed anonymity. The response rate for the survey was slightly over 50%.

3. FINDINGS

The results of the report are presented as follows:

(1) A general overview is provided of the owner-managers and the businesses they run.
(2) Innovation and growth
(3) Embeddedness in Redlands
(4) Reasons for being in Business
(5) Exit intentions and employment options
(6) Comparisons between 2013 and 2015 surveys

3.1 About the business owner-managers

All of the surveyed business owners held an ownership stake in the company and were active in the daily running of the business. Approximately 45% of the respondents were the sole owners of their companies, 45 percent owned 50 percent of their company and the remaining 10 percent had ownership stakes between 15 and 33 percent. Thirty percent of the firms were run as a sole ownership, 20 percent as a partnership and the remaining fifty as limited liability companies.

Twenty seven percent of the owner-managers were female. This is less than the Australian average where one third of businesses are owned and run by females (ABS, 2011). The average age of the owner-managers was 55 with the youngest being 25 and the oldest 88. This average is older than the Australia average, which is 47 (ABS, 2011). The average number of years in the business was 18. Just under half of the owner-managers had high school qualifications (either year 10 - 27 percent or year 12 – 18 percent) while the remaining owner managers had some form of post high school qualifications. The most common with either a TAFE certificate or diploma 24 percent, followed by undergraduate qualifications 15 percent and postgraduate qualifications – 12 percent. Just over forty percent of the owner-managers had previous start-up experience. Of these 40 percent most had previously started one or two businesses.

Key fact: Redlands business owners surveyed are older than the Australian average but around half have owned other businesses and also own their business outright.

The average business in our sample employed six full time equivalent staff (FTEs), with five percent employing more than 20 FTEs. Half were sole ownerships or partnerships, and four percent were franchisees. Twenty-two percent saw themselves as family businesses.

The industries most represented in our data were retail (24.2%), construction (16.7%) and manufacturing (11.7%). Adding up different types of services meant that more than forty percent of firms were services firms (see Figure 1).

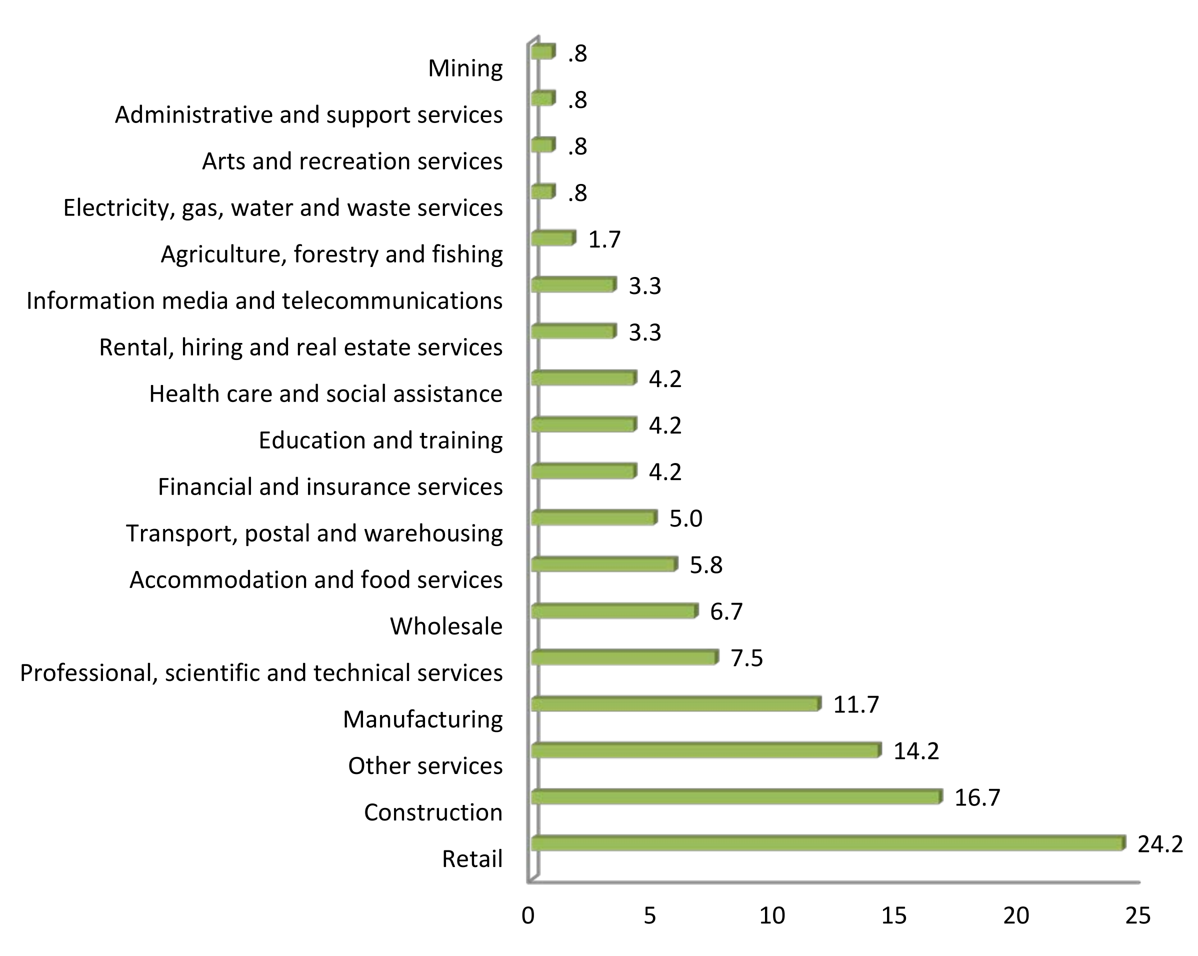

Figure 1. Self-reported industry categories of firms in the sample (% of sample shown)

Most of the businesses had turnover of between 1 million and 5 million dollars. The exact breakdown of the annual turnover is shown in Figure 2 below – Annual Turnover.

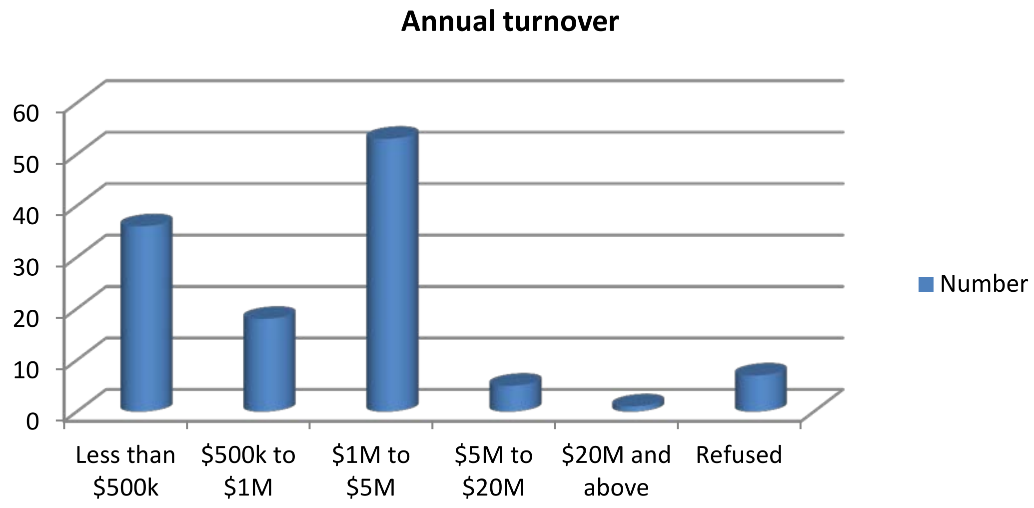

Figure 2. Turnover distribution of surveyed firms (% of sample shown)

Key fact: Construction, retail and services accounted for over half of the firms in the survey. The most common category of business turnover was $1 million – 5 million and the average number of employees was 6 FTE.

3.2 Innovation and Growth

We focused on the extent the firms were engaging in innovation. We broke this down to (1) innovation that is new to the industry where the firm is adding value to processes, products or services and (2) the extent that the businesses were introducing new product and service offerings but not adding any significant value to those products or services. The latter captures the extent the owner-managers are responding to changes in the market. In regards to growth we focused on (1) the growth motivation of the owner-managers; (2) their business objectives; and (3) the barriers to growth

Very few of the firms were engaged in innovation that was new to their industries, which is consistent with the construction, retail and services dominance. Only three firms had claimed an R&D tax incentive in the last three years. These three firms were focusing on innovations that are new to their industries. Two thirds of the companies reported introducing no new innovations to their businesses while the remaining third had introduced new products or services to their offerings, however, very few of these new offerings involved value adding by the business.

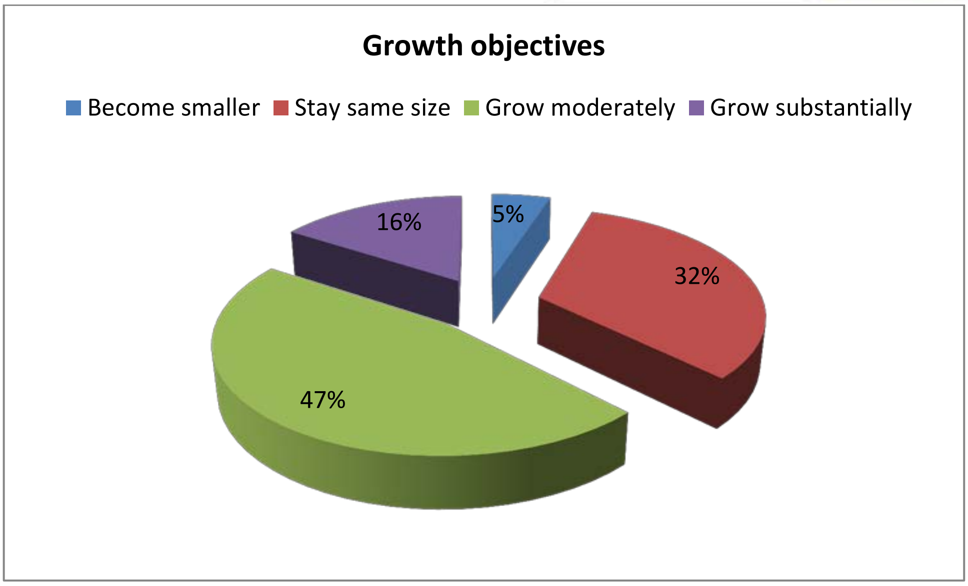

Figure 3. Growth objectives of surveyed firms

In terms of growth objectives, most firms wanted to stay the same size (see Figure 3) – 32.5 percent or grow moderately -47 percent. Sixteen percent of firms wanted to grow substantially while 5 percent planned to become smaller. The owner-managers placed considerable importance on growing through profits with 58 percent having this as a very important business objective and 24 percent as an important business objective. In contrast, growth in employees was a very important business objective for 14 percent of the owner-managers and important to 6 percent of the owner-managers. This suggests that the owner-managers are focusing more on firm profitability than firm employee growth.

Maintaining and increasing customer satisfaction was a much more important business objective than increasing or maintaining market share. Eighty percent of owner-managers ranked increasing customer satisfaction as a very important business objective whereas increasing market share was ranked as very important by only 45 percent. This suggests that the owner-managers are focusing on satisfying existing customers but are less interested in serving new customers.

The cost and performance of the internet was the most significant barrier to growth, followed by government regulation and council zoning and then access to skilled labour. An overview of the barriers to growth and their averages are shown in Figure 4 below. As shown in section 3.8, cost and performance of the internet has become an even stronger barrier to growth since the businesses were surveyed two years ago.

Access to skilled labour highlights the importance of ensuring the Redlands can attract skilled labour to the region, underscoring the need for Redlands to be connected to the greater Brisbane region in regards to the movement of people. In contrast, access to markets for goods and services was not a significant barrier to growth for businesses suggesting that the focus for connectivity of the Redland's region should be on the movement of people rather than the movement of goods.

Firms that were growth motivated (signalling that a doubling in size would be viewed as positive or very positive) were more likely to have business connectivity (customers) with South East Queensland and cite access to good transport options within Redlands as barriers to growth.

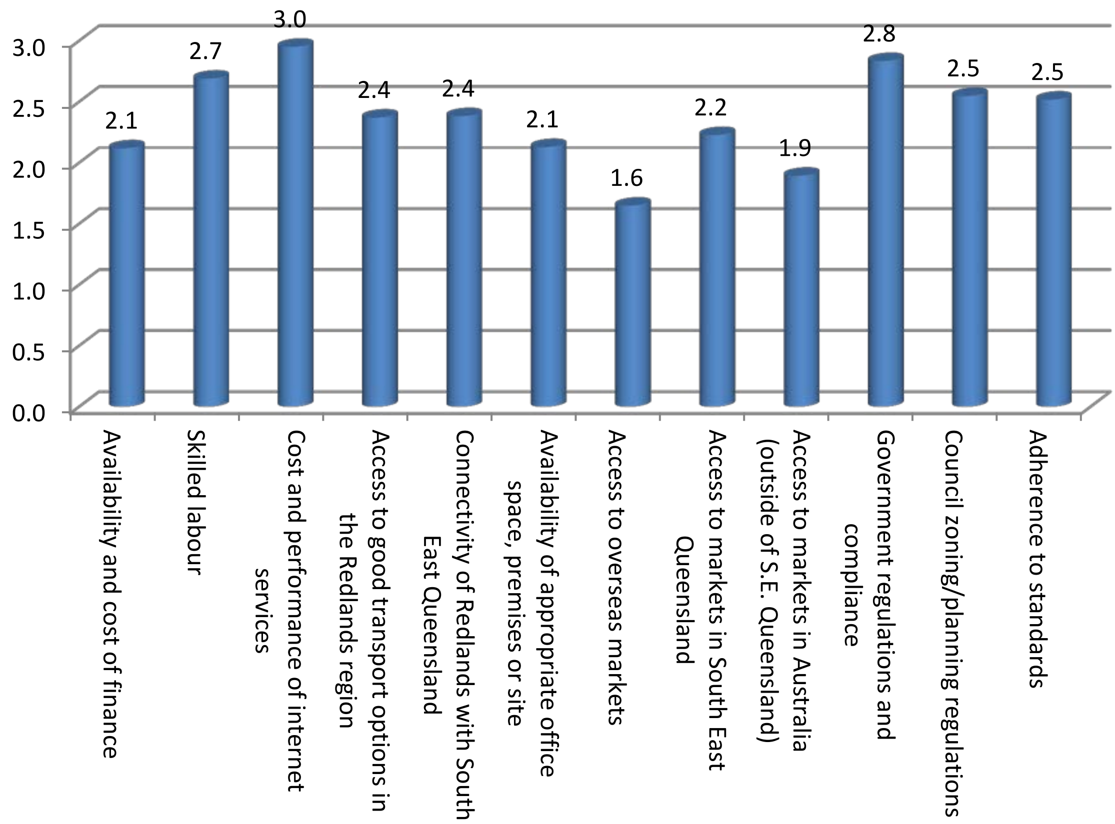

Figure 4. Self-reported barriers to growth

Key fact: Few businesses are introducing cutting-edge innovations and the majority of businesses are aiming to grow but not through taking on more employees.

3.3 Embeddedness in Redlands

We focused on the extent that the surveyed businesses were embedded in the Redlands region in the following ways (1) the extent that businesses sales were to customers in Redlands area; (2) the number of customers and suppliers that were close family or friends; (3) the extent that the owner-managers were located in the region for personal reasons.

On average, fifty five percent of sales were made to customers in the Redlands region. Twenty percent of firms predominately served the local market making 90 percent or more of their sales to customers in the Redlands region. In contrast, twenty five percent of firms predominately sold to customers outside of the Redlands region with less than 10 percent of their sales made to local customers. Very few of the firms made sales to customers located overseas. Thirty nine percent of the owner-managers do not need to leave the Redlands region for business purposes while five percent of the owner-managers left the region 10 or more times per week for business purposes.

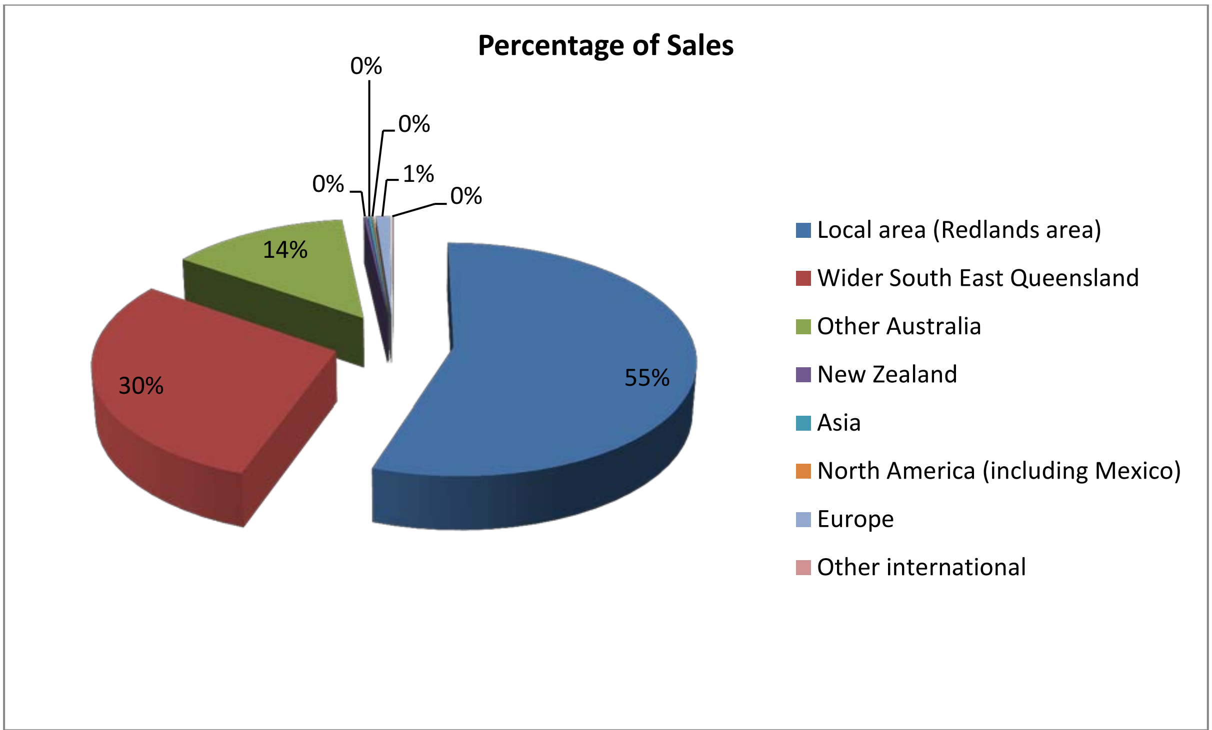

Figure 5. Location of sales reported by surveyed businesses

Most businesses did not sell goods or services to other businesses where the owners of the businesses were family members. However, twenty percent of owner-managers had 10 percent or more of their sales to companies where the owners of the companies are family members. 15 percent of the owner-managers sold products to businesses where the owners of those businesses were close friends. This reflects a fairly tight business network exists in the Redlands that is often based on family and friendship connections.

The majority – 86 percent – of the owner-managers lived in the Redlands City Council area. Of these owner-managers, 50 percent had lived in the area for longer than 25 years. The most frequently cited reason for living in Redlands was because it offered a good lifestyle with nearly 50 percent of respondents stating that this the crucial reason for choosing to live in Redlands. In Figure 6 below we show the average importance of reasons the owner-manager may choose to live in Redlands. The questions were asked on a five point scale with 5 – crucial and 1 – not at all.

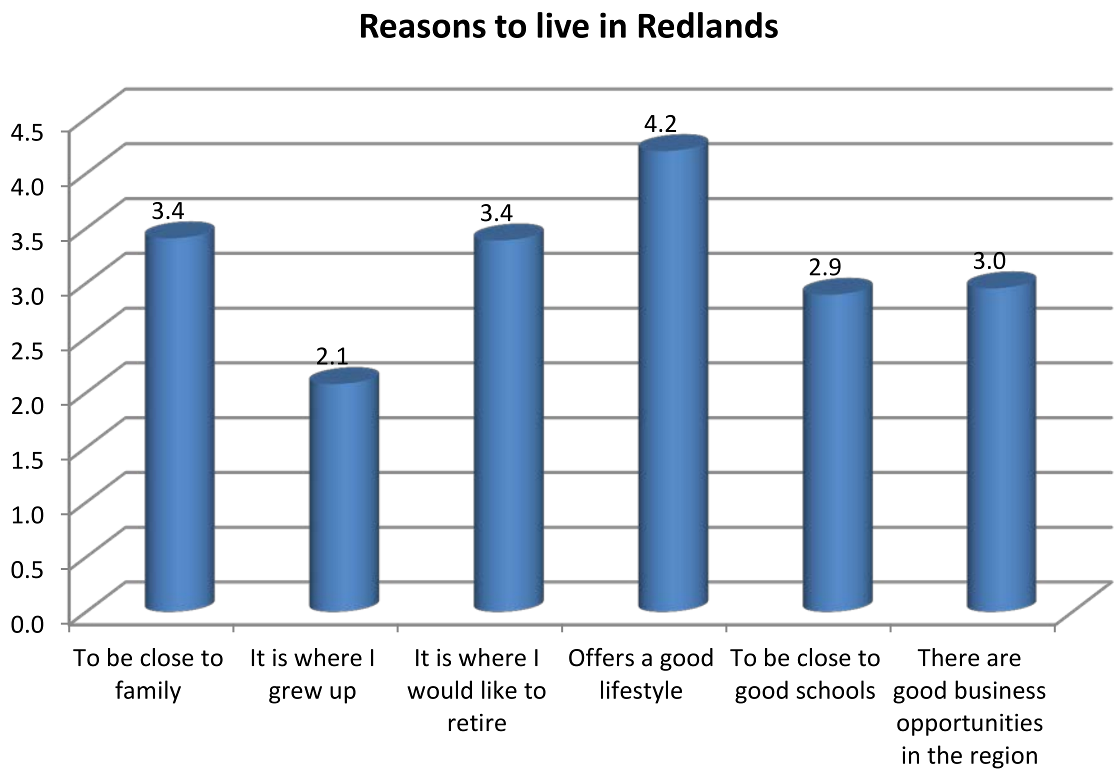

Figure 6. Self-reported reasons for living in Redlands

Key fact: Redlands is a highly networked small business community with many businesses selling to family and friends. The majority of businesses sell to the local area. Lifestyle and family are cited as the main reasons to own a business in Redlands.

3.4 Reasons for being in Business

The owner managers were highly motivated to be in business for a number of reasons. The most important reasons were to set and pursue own objectives and to contribute to the well-being of their stakeholders. It is also important to note ‘to avoid unemployment’ was ranked at similar importance to other more positive reasons such as to create something new and distinctive and to increase the value of the business.

Owner-managers who were running businesses to avoid unemployment were more likely to exit their businesses to start paid employment. However, they had similar growth motivations to the owner-managers and were no more likely to be a local business with sales predominately in the Redlands region than other businesses in the sample.

Figure 7 shows that the reasons for being a small business owner are varied and no single reason stands out above the others.

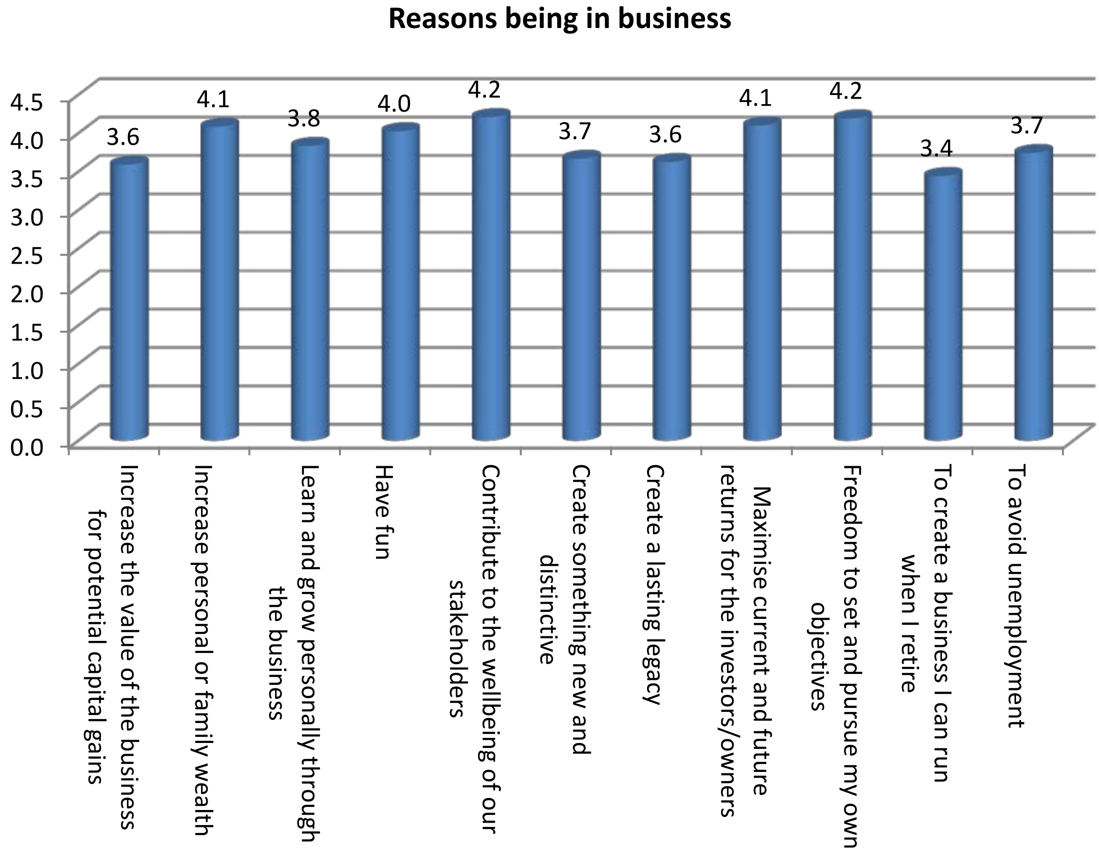

Figure 7. Self-reported reasons for being in business

Key fact: Business owners are motivated by a variety of factors to be self-employed. No singular reason stands out from the survey.

3.5 Exit intentions, exit routes, and relocation

Nearly half of the owner-managers – 47 percent, had an exit strategy in place. Of these owner-managers with an exit strategy developed, 50 percent of them had developed it more than five years ago.

The owner-managers who had developed exit strategies five or more years ago were concerned that their children/family members would not be interested in taking over the business and were less interested in selling to individuals outside of the family.

This suggests that the owners of these businesses founded the businesses with the intention to pass them onto their children.

The preferred exit routes were selling to another individual followed by selling to another company. The biggest challenges the owner-managers envisioned when it came to exiting were finding a buyer and selling the business at a reasonable price. In particular owner-managers who were concerned about finding a buyer were also concerned about being able to sell their businesses at a reasonable price. However, they were not interested in exit planning assistance.

Owner-managers who planned to exit the business by transferring to family members were less likely to be considering selling their businesses to individuals outside of the family or to other companies. However, they were no more interested in succession planning than other firms. Owner-managers who ran businesses to avoid unemployment were more likely to exit their businesses to take up paid employment and yet where less likely to consider exiting their businesses within the next three years.

Firms that were growth motivated were more likely to be considering relocating out of the Redlands region. A greater percentage of their sales came from outside of the region. The owners of these businesses were less likely to be considering exiting their businesses. As expected businesses with the majority of their sales in the Redland region were less likely to be considering relocation. These businesses are more embedded in the region.

Key fact: The majority of small businesses have exit and/or succession plans which is positive for the local economy. Growth oriented firms are less likely to consider exiting but more likely to relocate out of Redlands.

3.5 Comparison between 2013 and 2015

Next we report the changes between the two surveys from the 31 businesses that reported in both years. Some key indicators including the growth intentions, location of sales, barriers to growth and exit likelihood were analysed by exploring data consisting of business that were interviewed in both years.

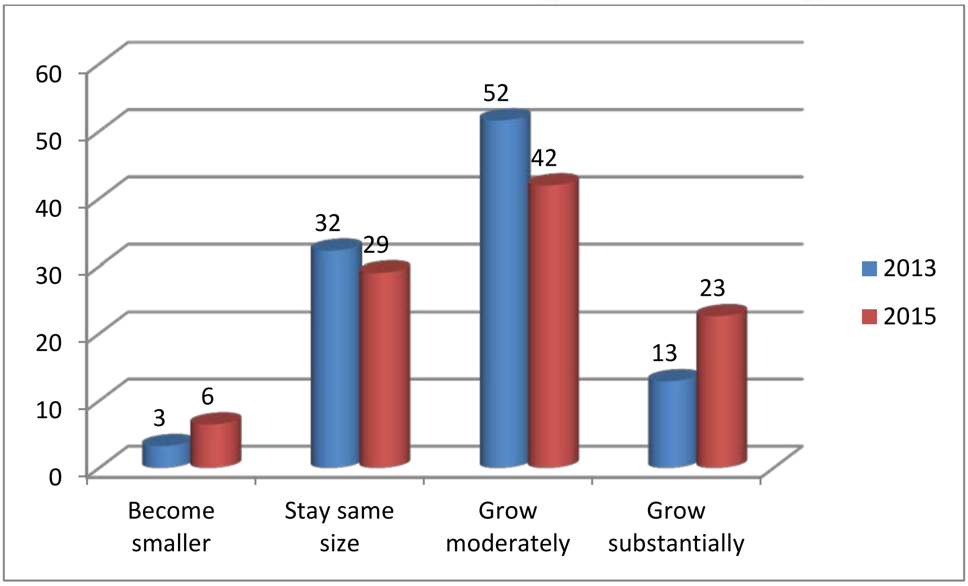

Figure 8. Growth intention changes between 2013 and 2015 (% of sample)

Most of the analysed business wanted to stay the same size or grow moderately. However, the percentage of firms that fell into these two catalogues decreased three and ten percent, respectively. In contrast, there were more firms aiming to grow substantially. However, these differences are not statistically significant when the chi-squared test is applied. Based on this sample there is no shift in growth intentions between 2013 and 2015 although the small sample size should be noted.

Regarding the perceptions about barriers to growth, the results from 31 resurveyed businesses show that there were statistical differences between two years in term of skilled labour and cost and performance of internet services.

The average score of skilled labour increased 0.6 points on the scale, which means that businesses felt that it was more difficult to hire skilled labour. In addition, the cost and performance of internet services was becoming a more crucial limitation. Furthermore, both these changes of two types of barriers are statistically different between 2013 and 2015.

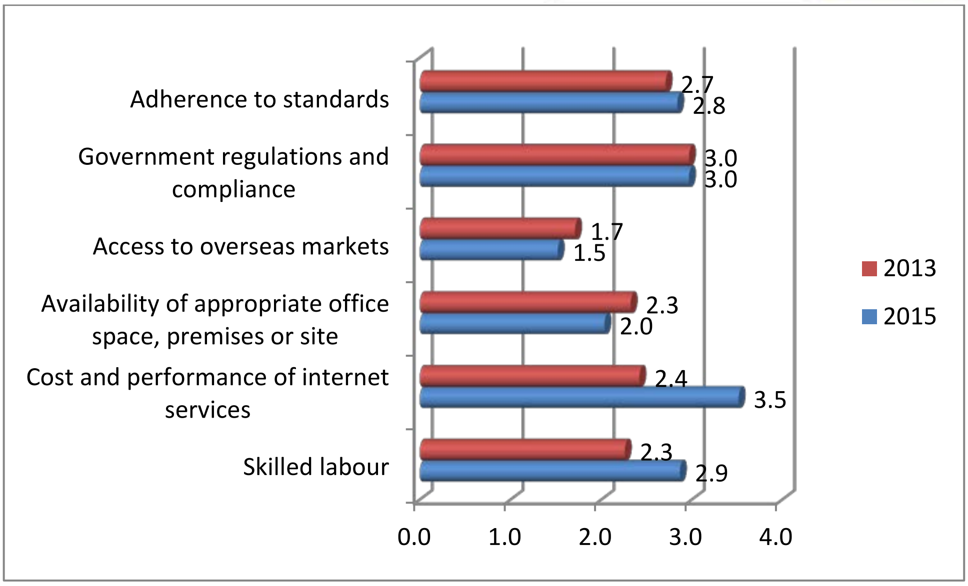

Figure 9. Barriers to meeting business objectives 2013-2015

The average scores measuring the likelihood of exit of business show a statistical increase over the two years in all ways of exiting (except IPO), indicating that owner-managers were more likely to transfer their businesses to others including family members, employees or other individuals. This increase in exit intentions can be attributed to a combination of challenging economic conditions in the resources-dependent economy of Queensland and the aging of business owners and their businesses.

The increase in exit likelihood was statistically significant for independent sale to another individual, sale to another company, employment buyout and liquidation of assets. This suggests that the entrepreneurs are planning their eventual exit which increases the likelihood of the business continuance in the Redlands region.

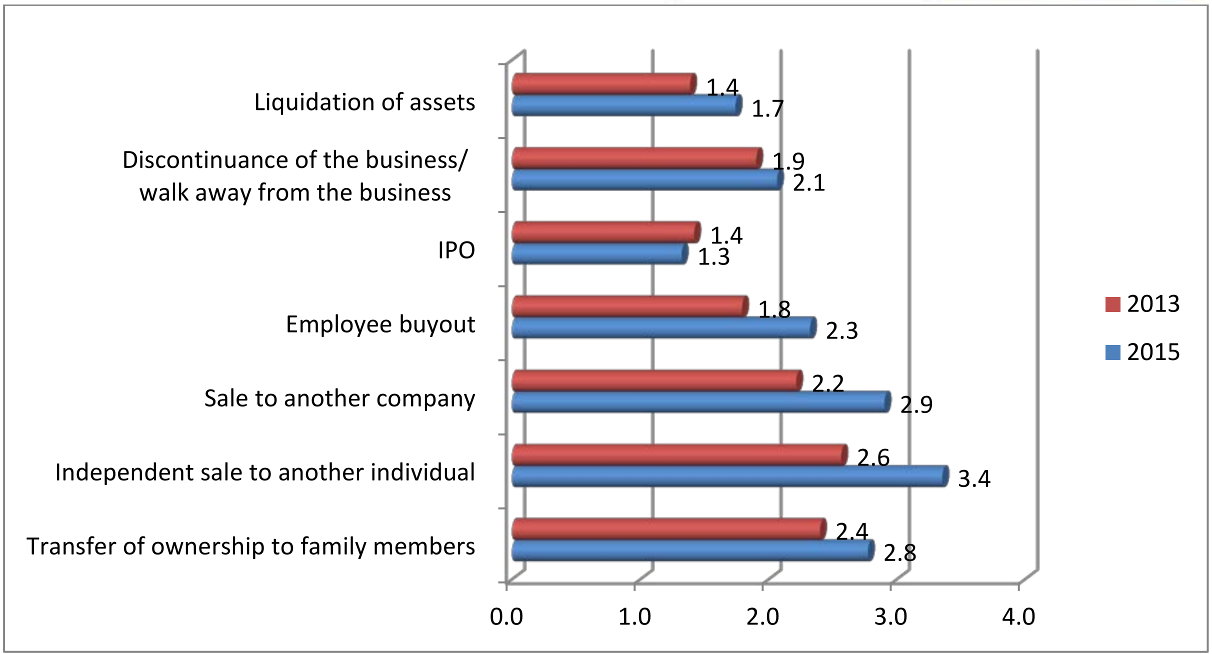

Figure 10. Changes in exist intentions from resurveyed firms (n=31)

Key fact: Internet performance and skilled labour availability have increased as barriers to meeting business objectives over 2013-2015. Resurveyed businesses are also more likely to exit the business but are planning to do this in ways that retain business activity in the region.

4. Recommendations

As identified in the 2013 survey, Redlands small business is largely characterised by lifestyle businesses and have older owners compared to the national. While some businesses do have strong growth ambitions, these businesses are in the minority and are also likely to indicate intentions to leave the region.

While many small business owners are self-employed as a lifestyle choice if this is a dominant reason for being in business then the local economy will have limited growth prospects. Enabling growth-oriented businesses to achieve their goals while remaining in the region should be a priority for council economic strategy.

The internet remains a problem for small business and this problem is growing. The SEQ Lord Mayors have lobbied the Federal Government to address this problem and more pressure needs to be applied after the election.

Skilled labour availability has also increased as a barrier to doing business and Redlands should aim for a greater population with a wide variety of housing options to support a diverse workforce. Transport connectivity with other regions in SEQ will also help employers attract employees to commute to businesses located in

Redlands as well as service customers in greater SEQ. This transport connectivity is an important part of supporting growth oriented businesses.

The increasing problem of finding people could be associated with the large number of construction firms in the sample and the upswing in housing construction from 2015 onwards and the flow on effect to the broader economy. As an economy, Redlands appears reliant on the housing and construction cycle, which has its own risks through the boom and bust nature of this industry. Diversification of the economy would be a good strategy to insulate the region from this cycle.

We did not find office space as an issue in this survey compared to 2013 but we believe that if this was a real barrier it would have shown up in the 2013-2015 resurveyed businesses as an increasing problem