



Under the radar

Meet the unrecognised
small businesses making
a mighty contribution to
the Australian economy

Insight paper
August 2017





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Hear the term ‘small business’ and you’ll probably have in mind a small shop or accountancy firm; a plumber, a café owner or builder perhaps. Dedicated organisations with a handful of employees, or sole-traders working full-time to make a living. These traditional small businesses are well known, highly visible and are regularly referred to as the backbone of the Australian economy.

But there’s another sizeable group of small businesses that have largely gone unnoticed. Even smaller, less visible and usually part-time, they’re the hobbyists running side-projects from the kitchen table, the entrepreneurs pursuing passion projects after hours, and the arts-and-crafters making goods at home and selling them around the world.

In early 2017 Australia Post surveyed 2,000 small business owners. Results from this survey revealed some very interesting findings about small businesses, in particular these hobbyists.

They don’t yet turn over enough to require an ABN* (which is why they’re harder to pinpoint). And while individually they’re tiny, collectively they pack a punch. With 1.1 million non-ABN businesses (we call them Unrecognised Small Businesses, or ‘USBs’) across the country, together they add billions of dollars to the Australian economy each year.

Despite their impressive estimated economic contribution, less has been known about these types of operations – how they approach business, where they work, how they sell, and what makes them tick.

As a long-time advocate for small business, we set out to uncover the characteristics of these ‘invisible’ operators – in particular, what distinguishes them from more traditional ABN operators. By understanding their attributes and specific needs (which in many cases differ from traditional businesses) we – as a business community – will be better placed to service them, and help them become the business they want to be.



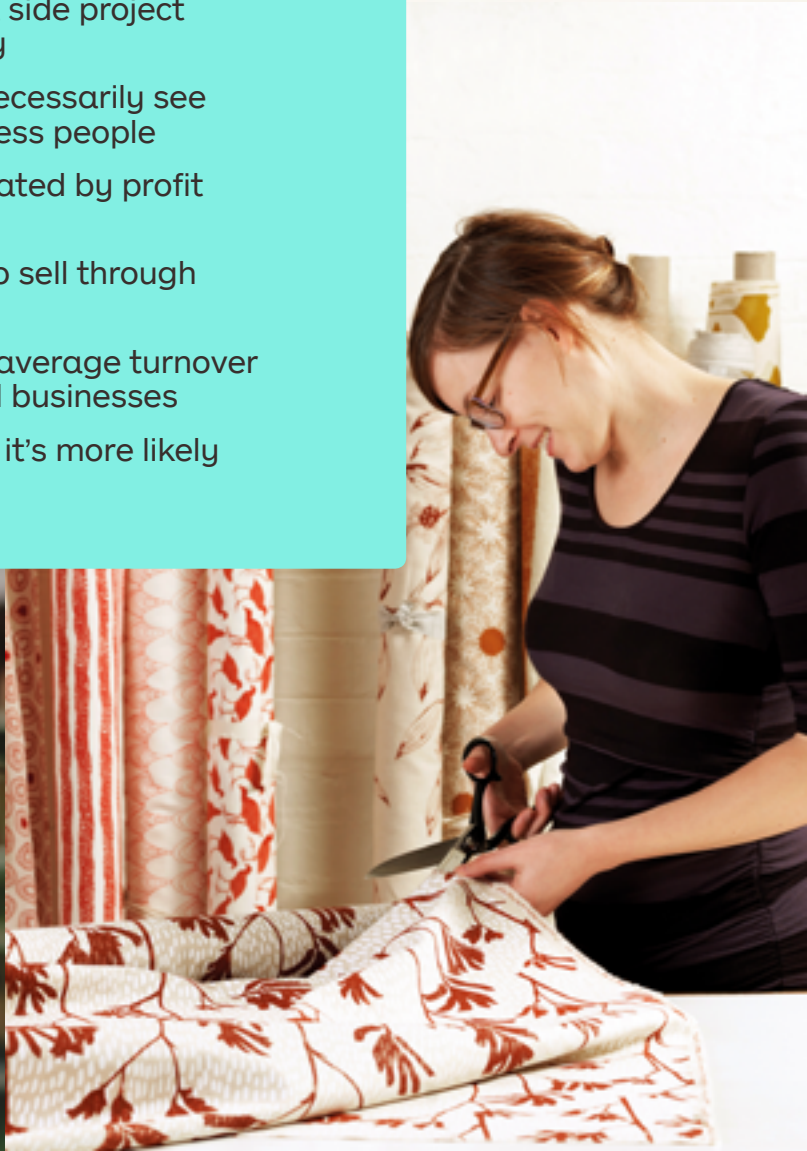
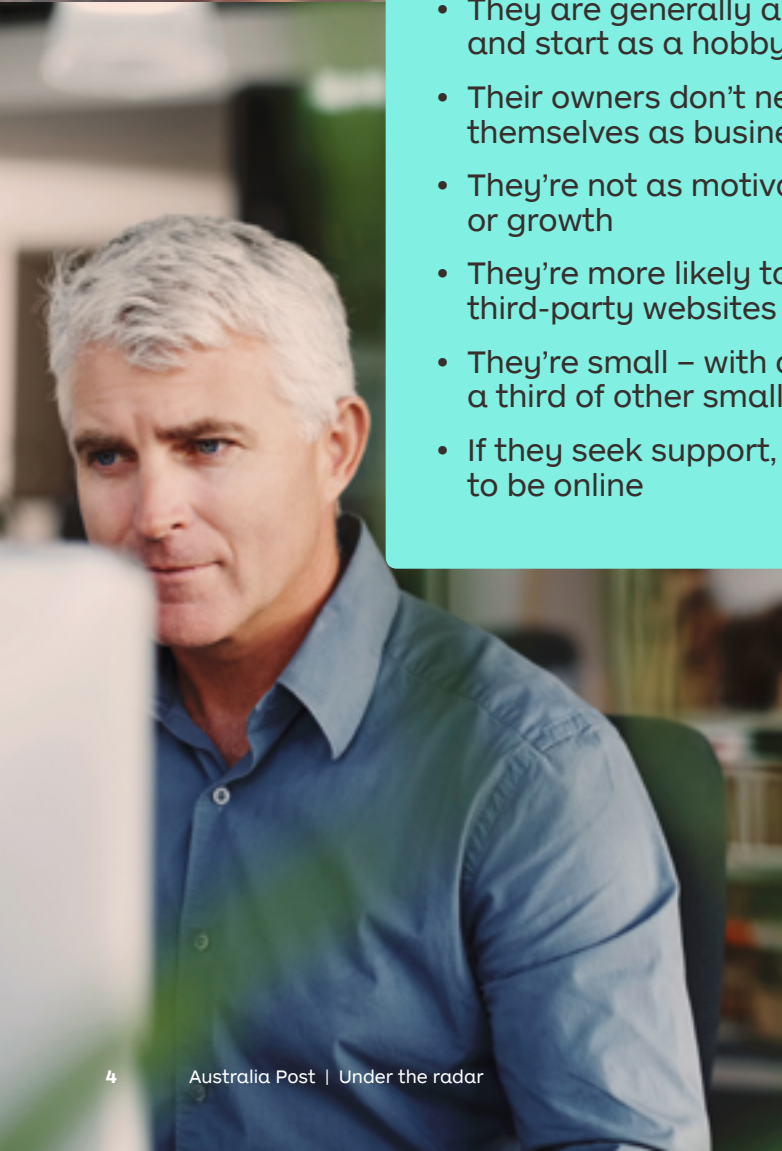
* Any information provided in this paper relating to Australia’s taxation laws is general in nature and individuals should seek specialist advice in relation to their specific circumstances and needs. Australia Post does not condone in any way any breach of Australia’s taxation laws under any circumstances.



USBs at a glance

USBs are a significant part of the economy: making up around 41% of all small businesses in Australia. Our survey showed that when compared to traditional small businesses:

- They tend to sell products rather than services
- Their owners are younger than average
- They are generally a side project and start as a hobby
- Their owners don't necessarily see themselves as business people
- They're not as motivated by profit or growth
- They're more likely to sell through third-party websites
- They're small – with average turnover a third of other small businesses
- If they seek support, it's more likely to be online



Digging deeper

The defining characteristic of USB owners is that they don't hold an ABN. But our survey has shown that there are many other attributes that set them apart from ABN small business and the business landscape in general.

They're younger than average and equally split by gender

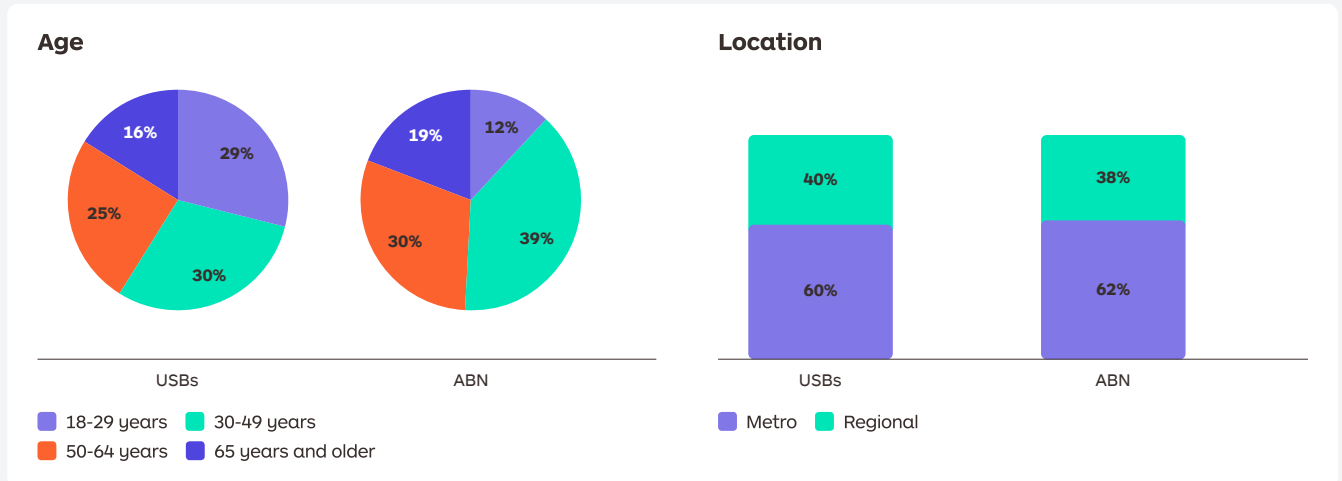
Our survey demonstrates that USB owners are, on average, younger than those of other small businesses. Almost a third (29%) are between 18-29, and over half (59%) are under 50. That said, there are relatively large numbers of USB operators at all stages of life – 16%, or around 176,000 – are over 65.

Overall the split between male and female-run USBs appears about even (male-run USBs make up around 52%). But when analysed by age, there's a distinct split. Our survey results indicated that USBs run by under 50s are more likely to be female-led, selling products. This trend may be driven to some extent by women taking a break from their career to start a family, and then starting a business on the side from home.

USBs run by people over 50 are more likely to be male-led service providers, possibly men formally employed in mainstream roles, perhaps forced out by an economic change, and now venturing out on their own.

Our survey suggested that the same trend doesn't exist amongst ABN businesses, with the male/female split roughly equal across age groups.

Sixty percent of USB owners live in metro areas (defined as capital cities, not including Canberra or Darwin), approximately equal to ABN businesses, and roughly in line with the general population.



29%

USB owners are aged between 18-29

176,000

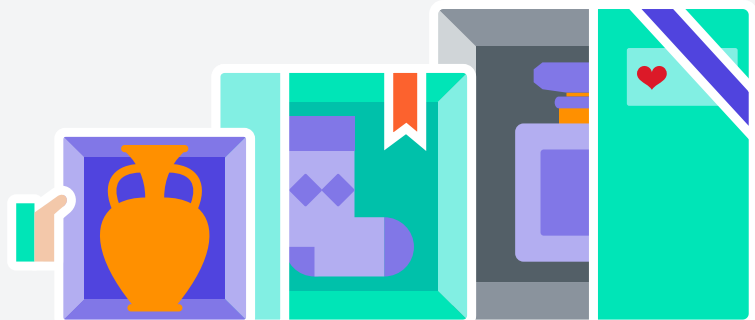
USB owners are over 65

They're product sellers

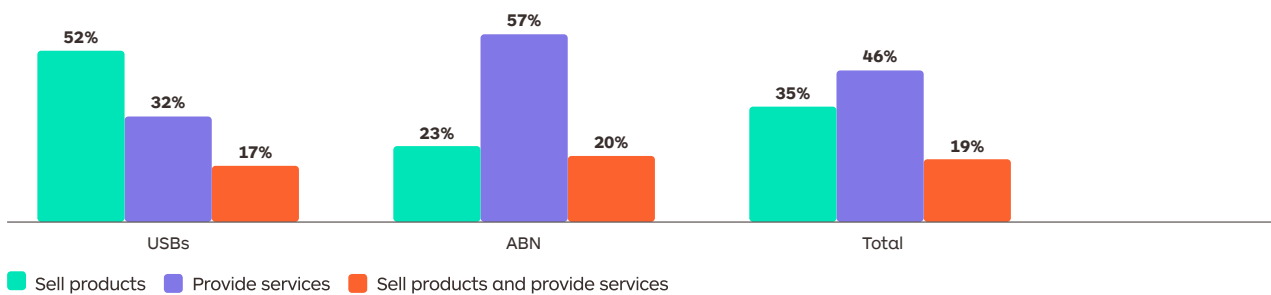
In many ways, our survey has indicated that **USB owners meet the stereotype of the hobbyist sole-trader selling their wares from the kitchen table after hours. They predominantly sell physical products – clothing, toys, books, games, homewares and the like (52% sell products only, while a further 17% provide both products and services).**

By contrast, it appears from our survey results that **ABN businesses are much more likely to provide professional or trade services, or packaged goods. They're less hobbyists, more full-time traders.**

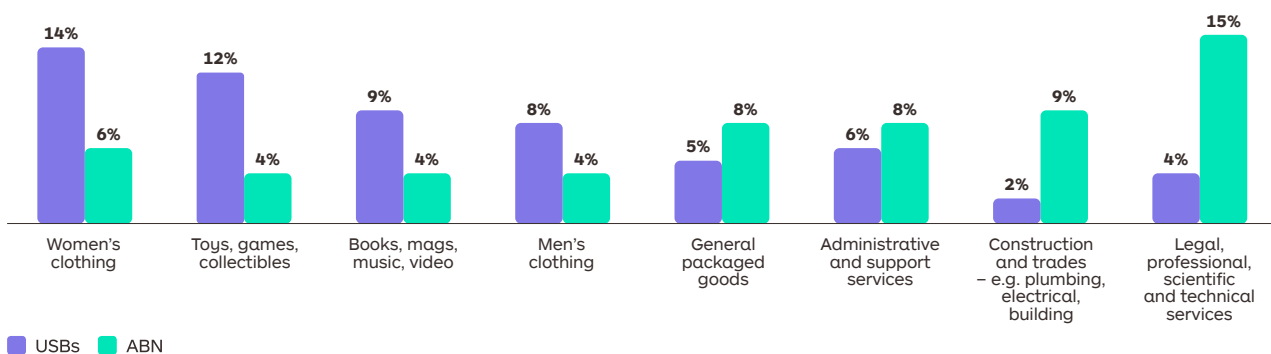
There's a craftsmanship focus amongst USB owners too. Of the 69% of USB owners surveyed who do sell products, almost half (46%) make their wares themselves (compared with 38% of ABN product sellers).



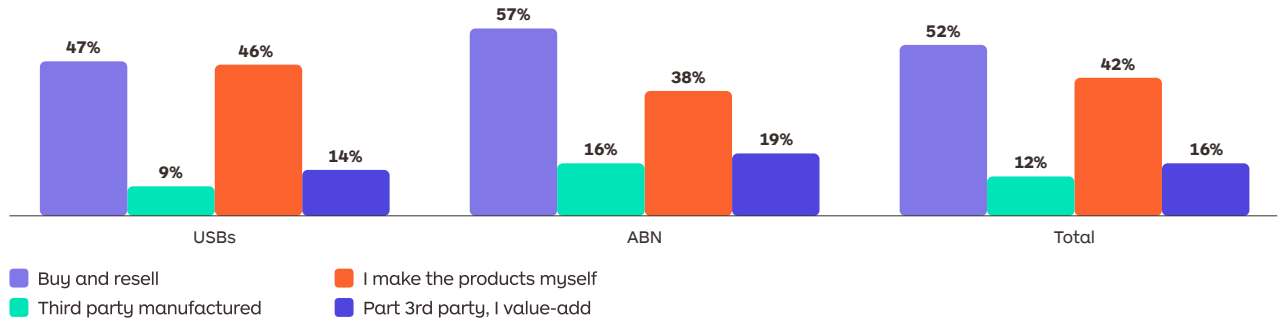
Products or services



Most popular products and services



Source of products



52%
**Total of small businesses
 who buy and resell**

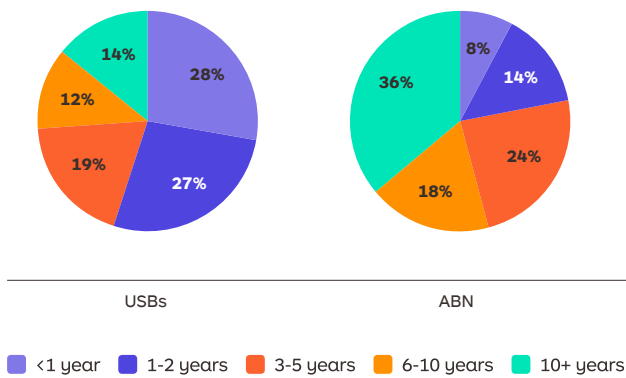
They're smaller in scale

78% of USBs are sole-traders, compared with 61% of other small businesses. They're smaller in revenue terms too – our data suggests that the median turnover of a USB falls in the less-than-\$25,000 a year bracket; for ABN businesses it's \$50,000-\$75,000.

Our survey suggested that USBs are much more likely to be new businesses. Twenty eight percent have been trading for less than a year (compared with 8% for ABN businesses) and only 14% have been around for ten years or more (compared with 36% of ABN businesses).

There are possibly two factors at play here. Firstly, as hobby-based businesses, USBs may be more likely to be abandoned more quickly. Secondly, many may eventually transition to become an ABN business – there may be a trigger event (the requirement for a loan, a credit card, employing staff, hitting the ABN revenue threshold) that compels the business to apply for an ABN.

Years in operation



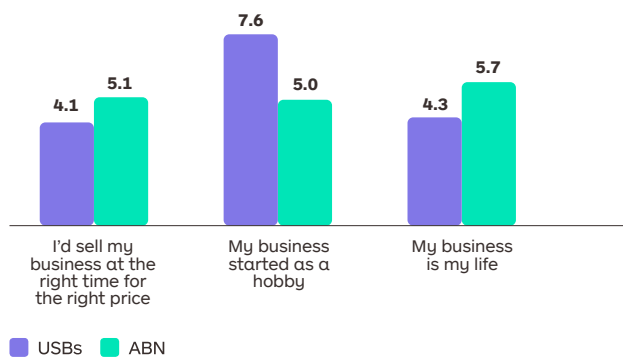
They're 'on-the-side,' home-based businesses

Over two fifths (43%) of USB owners surveyed by Australia Post work for another company in paid employment. So it follows that many see their own business as a side project.

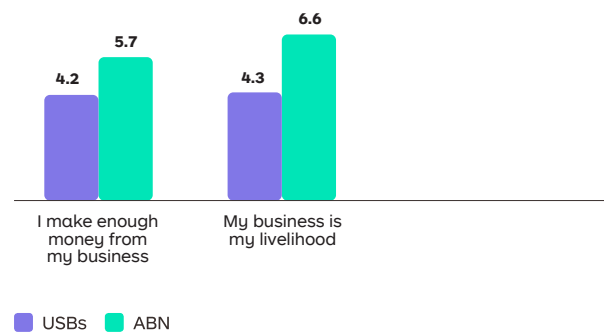
On a scale of 0-10, the surveyed USB owners scored "My business is my livelihood" at 4.3 (compared with 6.6 for ABN businesses) and "My business is my life" at a low 4.3 (compared with 5.7). "My business started as a hobby" was scored 7.6, well above the 5.0 for ABN businesses.

Perhaps not surprisingly, the overwhelming majority (85%) of surveyed USB owners operate from home. While the proportion of home-workers is also high for surveyed ABN businesses (72%), many of these (particularly tradespeople) are presumably using home as a base rather than as a primary place of work.

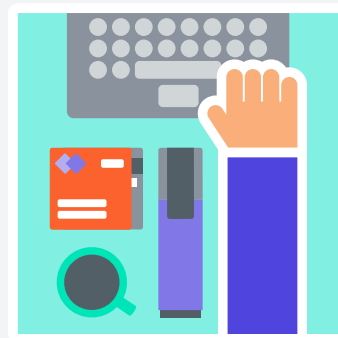
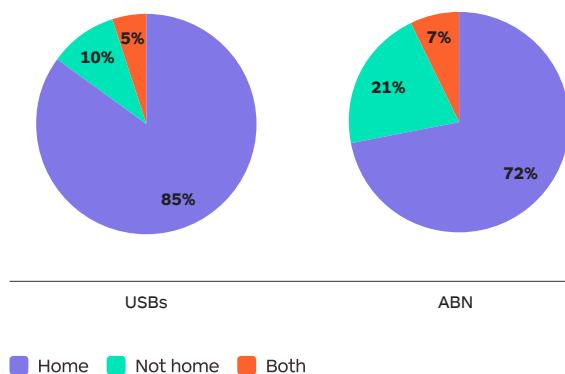
Values



End goal



Working from home



They're selling online, to customers around the world

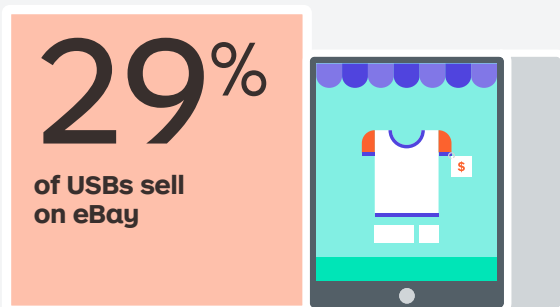
While a surprisingly high 20% of the surveyed USB product sellers said they had their own physical store, and 15% sell at a market, on the whole, these are internet-driven operations. Think small-volume product sellers fulfilling orders from home.

Our survey results show that they tend to preference third party websites. While a quarter (24%) sell from their own website (less than the 32% of ABN product sellers), 29% sell through eBay (compared with only 15% for ABN businesses) and 28% sell through other online sites like Etsy or Facebook (compared with 14% for ABN businesses).

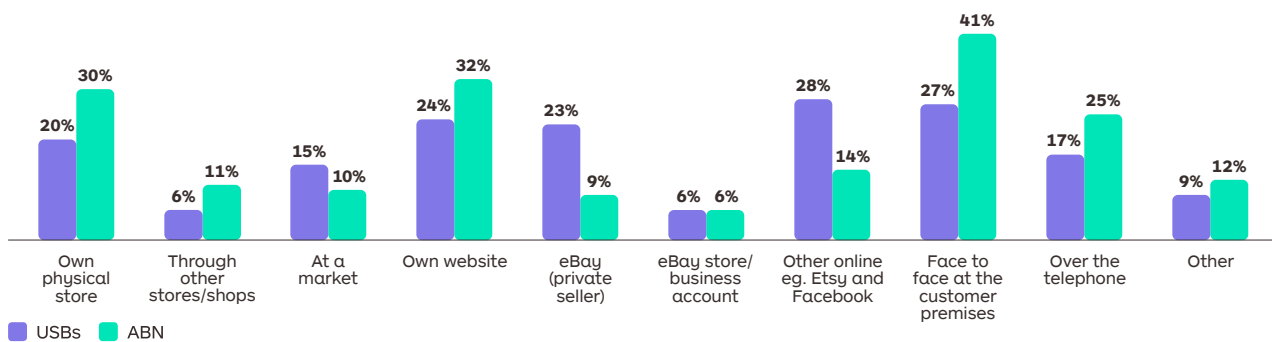
Our survey has suggested that USB's customers tend to be end consumers, rather than other businesses. This likely stems from their consumer-focused product offering.

For the ABN operators we surveyed, a different story emerges. A third sell to sole traders and small businesses, more than one in five sell to medium businesses, and 14% sell to large businesses.

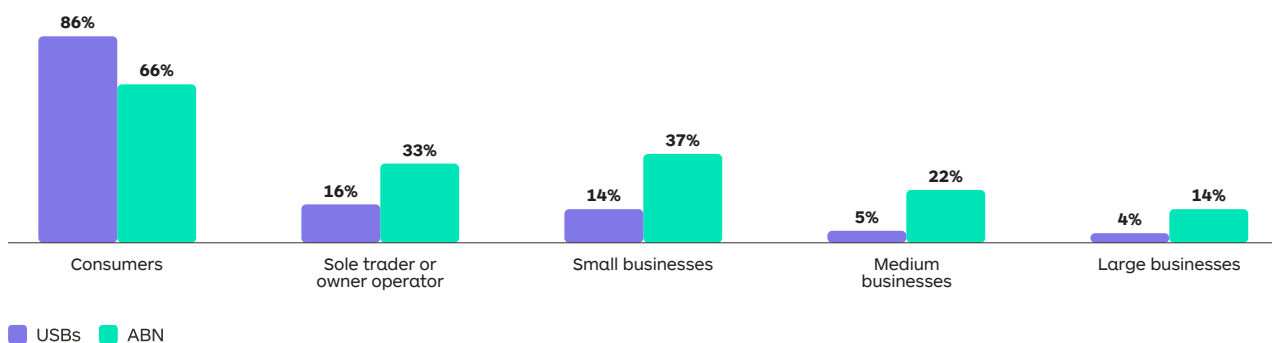
The research confirmed the tendency for larger companies to pay on longer terms – another reason why the smaller, cash-strapped USBs may avoid dealing with these companies.



Channels



Most popular products and services





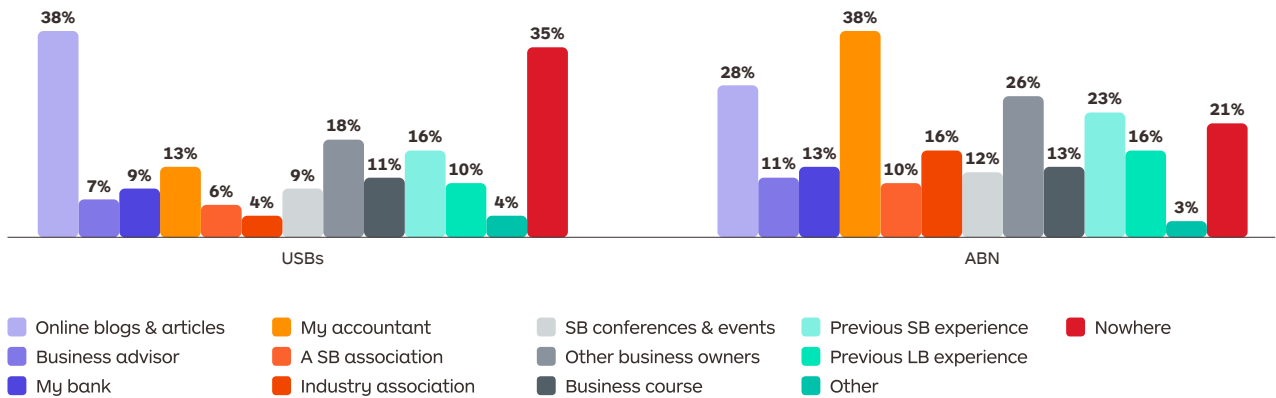
They use the internet as their business advisor

The primary source of support for the surveyed ABN business owners is their accountant; for the surveyed USB owners, it's the internet – specifically online blogs and articles. Accountants rank a distant third in importance for the surveyed USB owners, after other small business owners (18%) and their own previous experience (16%). Thirty-five percent don't seek any support at all, and 64% don't pay for any services.

This is in stark contrast to ABN business owners who use a wide range of traditional business support sources.

It poses some interesting questions for business support providers. On the one hand, the research would suggest that small business specialists should be more active on blogs and business websites in presenting their services to the potentially lucrative USB market. But it's also possible that support services are currently not being packaged and presented in a way that's relevant, accessible or affordable to these businesses in the first place.

Source of business support



Top 3 most trusted sources of business support are similar for USB and ABN owners

USBs

1. **38%** Online blogs and articles
2. **14%** Other business owners
3. **2%** My accountant

ABN

1. **28%** My accountant
2. **14%** Online blogs and articles
3. **13%** Other business owners



What motivates small businesses?

The perception that all small businesses are passionately looking to grow, take on more staff and eventually evolve into medium or large businesses may need a rethink. But for many business owners, lifestyle factors may be as important as, if not more important than growth – which means they often choose to keep their businesses small on purpose.

While the USB owners that we surveyed are passionate about their product (they scored it 7.4 out of 10), they are not as passionate about the business itself. “I am passionate about my business” rated a low 5.1 out of 10 (compared with 6.6 for ABN businesses). On the question “I am ambitious” USB owners gave a score of 6.3 (compared with 6.9).

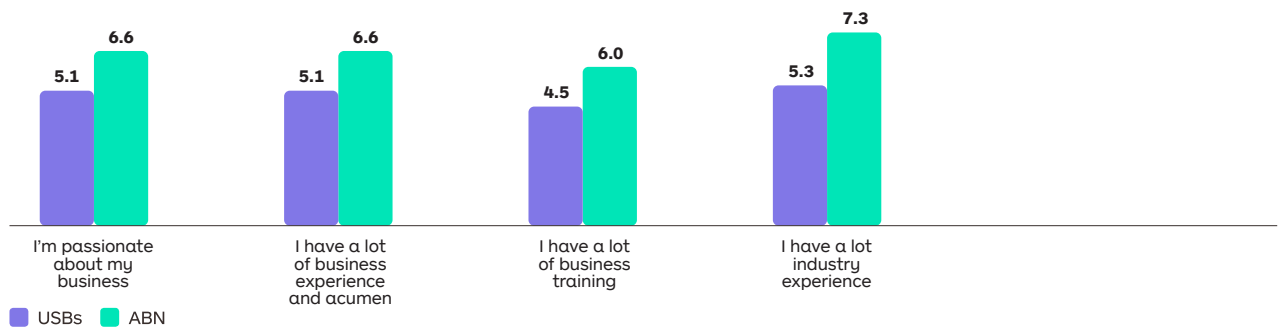
“My business is my life” rated 4.3 for USB owners, substantially lower than the 5.7 for ABN businesses. “I keep my business small on purpose” was high for both styles of business, while “My ambition is to grow my business rapidly” was low for both.

When you consider the number of advertisements and sales promotions promising to ‘help small business grow’, it’s reasonable to ask whether this thinking may often be misguided. Offering convenience, less stress or a way to become the type of business they want to be, may well be more successful.

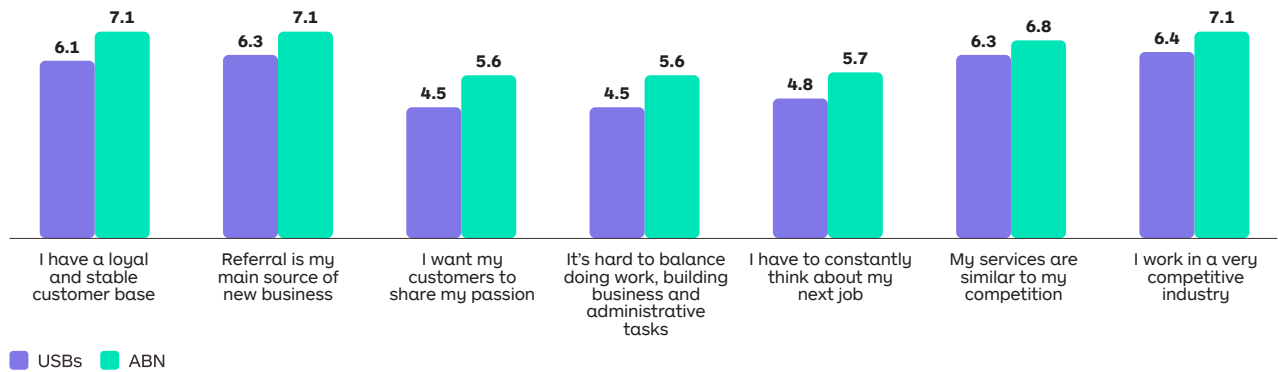
They don't see themselves as business people

On the whole, USB business owners don't identify strongly as business people. They score relatively low on questions of business experience, acumen and training.

Values



Values



ABN business owners are passionate about what they produce

What can we learn?

Without the conventional characteristics of traditional businesses and with very small turnovers, USBs have largely gone unnoticed in Australia. Nevertheless, they may represent a sizeable proportion of the economy.

- They are likely to be under-supported, unaware of how business support could benefit them, and may not even identify as a business. There is an opportunity for B2B organisations to more specifically target USBs with products and services matched to their situation.
- While they have particular challenges – such as a lack of finance or cash flow – that may be restricting their development, many do not have any desire to grow. The challenge for service providers is to find ways to help USBs achieve other goals.
- Some USB owners may not be aware of the benefits (or in some cases, the legal requirement) to apply for an ABN.

As more Australians become confident selling online, and the casualisation of the workforce increases, it is likely that many more people will turn to side-businesses to supplement their income, or monetise their hobbies.

It seems likely that USBs will become an increasingly important slice of the Australian economy, and one that will not go under the radar for much longer.





2.17 million

**actively trading
businesses**

97%

**are small
businesses**

About the survey

In April 2017 Australia Post conducted an online, nationwide survey of 2,000 small businesses with fewer than 20 employees or less than \$2 million annual turnover. 1,500 were businesses holding an ABN; the remaining 500 were businesses without an ABN.

This white paper uses the data from that survey to highlight some of the characteristics of small business in Australia, with a particular emphasis on the differences between those that hold an ABN and those that do not.

While we've made every effort to survey a representative sample of Australian businesses, we recognise that an online survey may emphasise some characteristics. In particular, it could:

- exclude population segments who are not online, especially those who are older or from lower income segments
- under represent hard-to-reach segments, including culturally and linguistically diverse parts of the population and the less educated
- over represent early adopters and frequent internet users, who may be more likely to have hobby or start-up businesses. This could therefore lead to a slight overstating of the size of the USB market.

Measuring the size of the small business market

The Australian Bureau of Statistics (ABS) reported 2.17 million actively trading businesses in June 2016[#]. About 97.5% of these were businesses with fewer than 20 employees.

The ATO estimated that around 557,000 of all business were inactive trusts, leaving a total of around 1.59 million actively trading businesses[^]. Given our survey asked respondents to identify as selling a product or service, and are therefore not inactive trusts, this study aims to capture a representative sample of actively trading small businesses within Australia.

[#] Australian Bureau of Statistics, report 8165.

[^] Australian Taxation Office, Taxation Statistics, 2014-15 Trusts - Table 4. It is the sum of all trusts except Discretionary trust (Trading activities).



About Australia Post

Australia Post has supported Australian small business for over 200 years. Today through more than 4,000 post offices, leading eCommerce capabilities, and small business products and services, we help Australian start-ups, artisans, entrepreneurs and established operations become the business they want to be.

With our specialised insight into Australian small business, we continue to invest in research and development that will increase our understanding of this vital sector of the Australian economy.

To find out more about how we help make small businesses mighty, please visit auspost.com.au/smallbusiness

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