

## **RDANT SUBMISSION TO THE PRODUCTIVITY COMMISSION'S *BUSINESS SET-UP, TRANSFER AND CLOSURE ISSUES PAPER***

This submission focuses on two areas:

- Barriers to business entry - specifically the limited support available to individuals and groups of individuals who wish to start a business; and
- The impact of the Digital Economy - specifically the impact of transformation upon particular industries and businesses and importance of business digital literacy in order to participate in the digital economy, including entering and remaining in business.

### **Other barriers**

*27. Are there other factors that act as a disincentive to business set-up? To what extent can, and should, governments intervene to overcome these factors?*

It has been our experience that a major barrier to business start-ups in the NT is the extremely limited assistance available to individuals and groups of individuals at the very beginning of the process (refer to the case study below as a recent example), particularly in relation to specific business planning and feasibility studies. For example, advice around what business structure and model would be most appropriate to their particular circumstances.

Our preliminary analysis has identified a minimum of 107 grant and other assistance/subsidy programs potentially available for those in business or wishing to start a business in the NT. These programs are all directly funded by the Commonwealth or Territory Governments and/or associated agencies such as AusIndustry, Indigenous Business Australia, for example. However, of these 107 programs all but one are not available to applicants that do not have an existing business structure in place.

The only program identified where there was no requirement for an existing business structure to be in place and no other eligibility criteria and which could potentially provide advice around business structures and planning, is the Business Enterprise Centre (BEC) scheme. Basic advice about starting a business is provided in the form of five modules over the course of a 2.5 day free workshop. Some limited free one-on-one advice is also available with a Business Adviser/Manager. While participation in a workshop is not mandatory in order to access the free one-on-one advice, it is preferred. Although these workshops are held once a month in Darwin, they occur far less frequently in other areas of the NT.

Of the remaining 106 programs, it appears that there are only eight or nine that provide (or conceivably could provide) more detailed business planning assistance. However, these programs all have additional eligibility criteria such as minimum annual turnover requirements, minimum duration of operations, specific business structure, and/or are limited to particular industry sectors such as mining, tourism, agriculture, or film. Such criteria are difficult if not impossible for micro and small business start-ups to meet, let alone those individuals who are seeking advice regarding business structures, models, governance and other business planning matters, before committing to any one particular set-up. For example, applicants that wish to access the NT Business Growth – Business Planning

Program offered by the NT Department of Business, must be either a small or medium-sized business already operating successfully. Eligibility criteria for this program are that a business generally should have:

- a minimum turnover of \$300,000 per annum
- traded financially for a minimum of two years
- the business has met with a Client Manager to discuss the business requirements and program support offered
- the business is to be of a sound financial position
- registered and based in the Northern Territory and able to employ Northern Territory residents
- registered for GST
- genuinely seeking to enhance business performance
- possess the resources to implement the recommendations from the program
- prepared to dedicate the required time and attention necessary to complete the program.

Similarly, applicants who wish to access the Commonwealth Business Evaluations Program must meet all of the following:

1. be a business incorporated in Australia under the Corporations Act 2001, that is non tax-exempt and is registered for GST, with trading activities that:
  - form a sufficiently significant proportion of its overall activities as to merit it being described as a trading corporation; or
  - are a substantial and not merely peripheral activity of the corporation.
2. be a small to medium sized business operating in one of the following Sectors (listed in a – f below), or else demonstrate commitment to, and the skills, capability, intellectual property or expertise to operate in, one or more of the sectors listed in a - e in the future;
  - Advanced Manufacturing;
  - Food and Agribusiness;
  - Medical Technologies and Pharmaceuticals;
  - Mining Equipment, Technology and Services;
  - Oil, Gas and Energy Resources; or
  - Enabling Technologies and Services of the sectors listed in a – e above.
3. have operated in Australia and filed Business Activity Statements showing ongoing trading in at least three consecutive years;
4. have an annual turnover or operating expenditure in the current, or one of the two preceding, financial years within the following thresholds:
  - between \$1.5 million and \$100 million or;
  - between \$750,000 and \$100 million for applicants from Remote Australia;
5. be Solvent;
6. not be named by the Affirmative Action Agency as an organisation that has not complied with the [Workplace Gender Equality Act 2012 \(Cth\)](#). Companies on the [current list of non-compliant organisations](#), (available at: [www.wgea.gov.au](http://www.wgea.gov.au))

are not eligible to apply.

For clarity, the following are not eligible to apply for services under the Program:

- Individuals, partnerships and trusts (however an incorporated trustee that meets the trading activity requirements of eligibility criteria 1 a and 1 b above may apply on behalf of a trust);
- Commonwealth, State and Local Government agencies and bodies (including government business enterprises).

The New Enterprise Incentive Scheme incorporates business planning but is only available to individual job seekers registered for unemployment benefits through Centrelink. The Single Business Service Line program is a referral service that simply refers inquiries to the relevant Commonwealth/State/Territory agency, depending on the nature of the query. Regarding potential Indigenous businesses, IBA's Business Development & Assistance Program and ISEF Programs also require an existing business structure along with other criteria.

Additionally, all of the 107 programs identified to date, apart from the Indigenous Social Enterprise Fund, specifically preclude social enterprise ventures. Nevertheless, the one exception, the ISEF Program, also requires an existing business structure in addition to other eligibility criteria. This is a barrier to those who may begin their operations as a social enterprise venture but then wish to transition to a traditional business model.

Generally, it appears that the majority of grant and other assistance programs currently available for businesses are directed toward well-established and resourced enterprises. It seems quite perverse that most of the support programs for business planning should only be available to those with an existing business structure and who have been trading for at least 12 months. We suggest that greater emphasis on providing support and assistance during the earliest phases may help in reducing the failure rates of new businesses.

With reference to Question 40, anecdotal evidence also suggests there is a tendency within some support programs to "cherry pick", that is, to focus only on likely "winners", suggesting there is a strong culture of risk aversion around devoting any resources to assisting those potential enterprises that may require a little more help at the beginning. In order to nurture a strong and innovative business environment, we are of the view that greater risks should be taken, acknowledging that not all such risks will pay off, but that overall, there will be a stronger and more sustainable set of Australian businesses.

**Case Study** (note: we have not included any identifying information here in order to protect the individuals' concerned privacy)

A group of individuals from a remote community recently approached RDANT seeking assistance to undertake detailed business planning and a feasibility study into a proposed tourism venture. They were specifically seeking funds to enable them to obtain advice regarding the most appropriate business structure for their circumstances, given that the proposed tourism venture would result in other social and economic spin-offs for the community and included a strong social enterprise

element. However because they had no existing business structure and no funds to contribute to programs requiring some level of applicant financial contribution, they were not eligible for assistance through any of the programs under the Entrepreneurs Infrastructure Program such as Business Evaluations, nor for any of the programs available under the NT Business Growth package, Tourism or Indigenous Business Development Program, nor IBA Business Development and Assistance Program. Philanthropic sources of funding were also not available to this group given that they did not have the required DGR or TCC status required for most philanthropic funders and in any case, the group wished to undertake their tourism venture on a business footing, with a view that revenue streams would initially be directed back into the business up to a certain point but would then provide seed funds to establish other spin-off activities in the community.

The important point of this case study is that this group of individuals did not wish to commit to a particular business structure which they might then have to change, incurring additional costs and paperwork, until they had received professional advice regarding their proposed business venture. However without an existing business structure and source of funds, they were not eligible for any assistance other than the BEC program to provide them with this advice.

This case study demonstrates a key, and perverse, barrier for business set-ups, specifically the lack of programs available for potential business start-ups, in contrast to the numerous grants, tax incentives, other subsidies and forms of assistance available for established businesses.

### Other barriers

One other potential barrier both to those starting a business and for those already within business, relates to digital literacy, and this is discussed in the context of the growth of the Digital economy (see below).

### **Growth of the Digital Economy**

We note specific and implied references to the Digital Economy throughout the Issues Paper (e.g. p3, 9, 10, 11, 19). RDA NT urges the Commission to include in their Inquiry, specific consideration of the impact of transformation<sup>i</sup> upon particular industries. This transformation process cannot be avoided, nor delayed. For example, IBM and the National Institute of Economic and Industry Research (NIEIR) examined transformation in detail in their 2013 report, in particular what it means for individual enterprises across seven different sectors most likely to be impacted by a transition to a digital economy. Their research suggests that within the next ten years there will emerge a significant gap between those organisations that have proactively transformed their businesses and those that have continued with a

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<sup>i</sup> Transformation as used in this submission, refers to a major change and not merely an upgrade, to a business model, technology, products and/or markets. It is widely accepted that the Internet has resulted in the creation of a digital economy but the impact upon businesses and their level of readiness, varies across industries, business size and other factors.

'business as usual approach'. The latter will find it increasingly difficult to regain their market position once lost to those who have taken steps towards "more sophisticated customer and supply chain integration and superior productivity" and are likely to fail altogether<sup>1</sup>. Some evidence of this has already occurred in highly exposed industries such as music and media, as well as photographic services: witness the demise of well-known companies such as Kodak. The IBM-NIEIR study emphasises that it is important for individual firms to adopt best practice ICT standards which means ensuring that ICT is at the core of business models and future strategies. They predict that by 2018 nearly all sectors will have been substantially reshaped by the digital economy<sup>2</sup>.

McKinsey Australia<sup>3</sup> has also observed that the global uptake of "disruptive" technologies combined with falling transportation costs has changed the nature of the global economy and resulted in the fragmentation of once traditional supply chains. Competition is shifting from competition within a particular industry, to competition within a particular segment of the value chain such as logistics or design, and is flowing through to individual jobs as file-sharing and collaboration tools now allows workers to be based anywhere in the world and some tasks will be undertaken by machines rather than people<sup>4</sup>. This clearly has implications for the future of particular industries, business entries and exits, as well as regulatory frameworks. Sectors such as finance, retail, telecommunications and education are sectors that are likely to be "profoundly reshaped" by the digital economy according to McKinsey Australia<sup>5</sup>. Deloitte's undertook a similar study in 2012, analysing 13 factors that will affect the timing and size of "digital disruption" across 18 industries<sup>6</sup>. Although not as detailed as the IBM-NIEIR Study in terms of specific industry impact, their identification of factors is useful, particularly how digital innovation may be hampered by government regulations or other factors<sup>7</sup>.

It is in the context of the internet and a growing global digital economy, and recent reports which do not rate Australia's performance in this area particularly highly<sup>8</sup>, that we believe it is important to note lack of (or poor), digital literacy as a factor which may act not only as a barrier towards business entry but also as a barrier towards staying in industry and participation in the digital economy. A study by ACMA found that it was not a lack of access to appropriate technology that was a major barrier, rather it was the self-perceived lack of knowledge regarding the digital environment<sup>9</sup>. Similarly, Paypal found in its study of digital literacy amongst 507 Australian SME businesses conducted in 2013, that 60% felt low levels of digital literacy were preventing them from running their businesses more efficiently<sup>10</sup>. In a similar vein, 65% said that conducting business on-line was the key to growth, but only 14% felt that they making the most of the internet. 79% of the SMEs felt that there should be more help and advice regarding how to embrace the digital economy. The SMEs in this study felt that the best way for them to improve their own levels of digital literacy was via a fully-funded training course, followed by access to a website with advice for small business<sup>11</sup>. Research conducted by Digital Business Insights found that most businesses want the hands-on opportunity to try new technologies; this is in contrast to government and other major sources of advice which make businesses come to them through a website, when businesses would rather that the information came to them<sup>12</sup>. Businesses that took part in this study consistently rated government websites (regardless of whether they were state/Federal) the lowest source of information<sup>13</sup>.

Innovation and Business Skills Australia (IBSA)'s recent study examining digital literacy found that while national efforts have been made to address affordable access to ICT and broadband, efforts to improve ICT skills have not kept pace with demand. IBSA found that small business was at particular risk of digital exclusion; this has particular implications in terms of competition given that the digital economy is mainly a function of two factors: affordable access to ICT and broadband, and the skills to use it effectively<sup>14</sup>. IBSA argue that overcoming low levels of digital literacy, particularly among small businesses in rural and regional areas, is proving to be a greater hurdle than previously anticipated in terms of participation in the digital economy<sup>15</sup>. In a separate survey of over 70 SME businesses in the earliest NBN release sites, ISBA found that initial enthusiasm for the NBN quickly gave way to increasing frustration as businesses realised that they lacked the skills to be able to make the most of the new technology<sup>16</sup>.

Given the growing global digital economy, impact of transformation upon industries, we believe that business digital literacy should be identified as a key factor for consideration in the Commission's Inquiry, not only in the context of a potential barrier for business entries, but also as a potential driver for business closures.

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<sup>1</sup> IBM and National Institute for Economic and Industry Research. 2013. *Reinventing Australian Enterprises for the Digital Economy: Executive Summary*. p4-5, 11 Retrieved from [https://www-07.ibm.com/au/eraofsmart/resource/Reinventing\\_Australian\\_Enterprises\\_for\\_the\\_Digital\\_Economy\\_Executive\\_Summary.pdf](https://www-07.ibm.com/au/eraofsmart/resource/Reinventing_Australian_Enterprises_for_the_Digital_Economy_Executive_Summary.pdf) on 7/1/2015

<sup>2</sup> IBM and NIEIR 2013, p11

<sup>3</sup> McKinsey Australia. 2014. *Compete to Prosper: Improving Australia's global competitiveness*. p1-2. Retrieved from [http://www.mckinsey.com/global\\_locations/pacific/australia/en/latest\\_thinking/compete\\_to\\_prosper](http://www.mckinsey.com/global_locations/pacific/australia/en/latest_thinking/compete_to_prosper) on 28/7/2014.

<sup>4</sup> McKinsey 2014, p1-2

<sup>5</sup> McKinsey 2014, p1

<sup>6</sup> Deloitte Access Economics Pty Ltd 2012. *Digital Disruption: short fuse or big bang?* Retrieved from <http://www2.deloitte.com/content/dam/Deloitte/au/Documents/Building%20Lucky%20Country/deloitte-au-consulting-digital-disruption-whitepaper-0912.pdf> on 17/7/2014

<sup>7</sup> Deloitte Access Economics Pty Ltd 2012, p9

<sup>8</sup> E.g. see Bilbao-Osario, B., Dutta, S. and B. Lanvin (eds) 2013. *The Global Information Technology Report 2013: Growth and Jobs in a Hyperconnected World*. World Economic Forum. p6. Retrieved from [http://www3.weforum.org/docs/WEF\\_GITR\\_Report\\_2013.pdf](http://www3.weforum.org/docs/WEF_GITR_Report_2013.pdf) on 8/1/2015.

<sup>9</sup> Riemer, K. Brunk, J., Gal, U., Gilchrist, B., Ord, R., Tong, J. 2014. *Australian Digital Commerce: Now is the time for Australian Retailers to address the customer engagement gap*. Capgemini and University of Sydney. Retrieved from [http://sydney.edu.au/business/\\_data/assets/pdf\\_file/0018/205731/Australian\\_Digital\\_Commerce\\_Research\\_Report.pdf](http://sydney.edu.au/business/_data/assets/pdf_file/0018/205731/Australian_Digital_Commerce_Research_Report.pdf) on 7/1/2015

<sup>9</sup> Commonwealth of Australia (ACMA) 2014a Commonwealth of Australia (Australian Communications and Media Authority). 2014a. *Communications report 2012-13 Series Report 1 – Australian SMEs in the Digital Economy*. p23-24. Retrieved from <http://www.acma.gov.au/~media/Research%20and%20Reporting/Report/pdf/Australian%20SMEs%20in%20the%20digital%20economy%20pdf.pdf> on 7/1/2015

<sup>10</sup> Paypal. 2013. *Digital Literacy Amongst Small Businesses in Australia: Paypal research findings – October 2013*. Retrieved from [https://www.paypal-media.com/assets/pdf/fact\\_sheet/PayPalResearch\\_DigitalLiteracyAmongSMBsinAustralia.pdf](https://www.paypal-media.com/assets/pdf/fact_sheet/PayPalResearch_DigitalLiteracyAmongSMBsinAustralia.pdf)

<sup>11</sup> Paypal 2013

<sup>12</sup> Digital Business Insights 2014. *Australian e-Business Report: how organisations are using information and communication technologies*. p30. Retrieved from <http://www.db-insights.com/wp-content/uploads/2014/01/Digital2013.pdf> on 16/1/2015

<sup>13</sup> Digital Business Insights 2014 p29

<sup>14</sup> ISBA 2013a. *Digital literacy and e-skills: participation in the digital economy*. p1. Retrieved from <https://www.ibsa.org.au/sites/default/files/media/Digital%20Literacy%20and%20E-skills.pdf> on 5/6/2014.

<sup>15</sup> ISBA 2013a p2

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<sup>16</sup> ISBA 2013b. *Post-NBN Impact on Enterprises and e-skills*. p1. Retrieved from <https://www.ibsa.org.au/sites/default/files/media/Post-NBN%20Impact%20on%20Enterprises%20&%20E-Skills.pdf> on 13/1/2015