EXIT ADVISORY GROUP

To the Australian Productivity Commission

Subject: Urgent Need for Policy Intervention to Address Small Business Succession Crisis and Foster Economic Resilience

Monday 15th September 2025

Dear Commissioners,

I am writing to you today in my capacity as Managing Director of Exit Advisory Group (**EAG**), a boutique advisory firm specialising in helping business owners exit effectively, and as the National Chair of the Australian Institute of Business Brokers (**AIBB**). My purpose is to draw your urgent attention to a critical, yet often overlooked, challenge facing the Australian economy: the impending succession crisis within our small business sector.

While your current topic, "Creating a more dynamic and resilient economy," rightly focuses on the future, it is imperative that we address a demographic time bomb that threatens to undermine this very goal. The retirement of hundreds of thousands of small business owners in the coming decade, coupled with significant barriers to successful business transitions, poses a substantial risk not only to the continuity of these enterprises but also to the livelihoods of countless Australians.

This is not merely about businesses closing their doors; it is about the profound human and economic cost when viable businesses, many employing fewer than five people, cease to operate. It means owners losing their life's work, employees losing their jobs, and communities losing essential services and economic vibrancy.

The Looming Succession Crisis: An Aging Population and Its Economic Fallout

Australia's small business sector, the backbone of our economy, is facing a significant demographic challenge. Our research indicates a clear and present danger: a large proportion of business owners are rapidly approaching retirement age, with insufficient succession planning and a noticeable lack of younger entrepreneurs ready to take the helm.

Consider these facts:

• Nearly half (47%) of Australian small business owners are aged 50 and over, with a substantial 22% already 60 and over [1]. This demographic shift is stark; the most common age for a small business owner is now 50, a significant increase from 45 in 2006 [2].

• This trend is exacerbated by a decline in younger entrepreneurs, with only 8% of small business owners currently under 30, a sharp drop from 17% in the mid-1970s [2].

• The implications are profound: almost half (48%) of Baby Boomer SME owners (ages 60-78) intend to exit their businesses within the next five years, with retirement being the primary driver for 87% of these exits [3]. This suggests a potential wave of approximately 340,000 businesses facing transition as their owners reach or pass retirement age.

This is not merely a statistical anomaly; it represents a "perfect storm" that, when combined with rising business insolvencies, poses a long-term threat to the sustainability and dynamism of Australia's small business sector [4]. The closure of these businesses means more than just a change of ownership; it means the cessation of economic activity, the loss of valuable intellectual property, and, crucially, job losses.

Many of these small businesses employ fewer than five people, often representing the owner's life savings and the sole income for their families and employees. When such a business closes, it's not just the owner who loses their livelihood; it's their staff, their suppliers, and the local communities that rely on their services and contributions. The human cost of these closures, though often unquantified in economic reports, is immense.

The Unseen Crisis: Businesses Going Unsold and the Paradox of Entrepreneurship

While there is a plethora of information and support available for aspiring entrepreneurs to start a new business or grow an existing one, there is a critical void in assisting owners to exit effectively. This oversight is particularly concerning given the high failure rates of new ventures.

Credible statistics consistently show that a significant percentage of start-ups do not survive their initial years. For instance, some reports indicate that 60% of businesses in Australia will fail within their first three years of operation, with 20% failing in their first year [5]. Other data suggests that the overall failure rate for start-ups is 51% after four years [6], and even as high as 75% in their first years in Australia [7].

In stark contrast to the high risk associated with new ventures, acquiring an existing, viable small business drastically increases the chances of success for a new entrepreneur. These businesses often come with established customer bases, proven business models, and existing infrastructure, significantly de-risking the entrepreneurial journey. However, a major impediment to this more sustainable path is the alarming rate at which businesses go unsold.

While precise Australian government statistics on unsold businesses are not readily available, the experience of our firm as an operator in the market, and my experience on the Board for the AIBB, and supporting data from comparable markets, such as the United States, paint a clear picture:

• Estimates suggest that a staggering 70% to 80% of small businesses listed for sale never find a buyer [8]. Some experts place this failure-to-sell rate even higher, at up to 90% [9].

• For businesses with sales of $10 million or less, fewer than 25% successfully transition to a new owner [9].

This phenomenon creates a paradoxical situation: a large pool of experienced owners seeking to exit, a significant number of viable businesses that could provide stable employment and economic contribution, and a lack of mechanisms to facilitate their transfer to new, eager hands.

The reasons for this high failure rate in selling often include a lack of exit planning, unpredictable revenue, and the business being too dependent on the owner – all issues that could be mitigated with appropriate support and funding structures.

The Funding Gap: A Critical Barrier to Succession

A significant barrier to successful business transitions, and a primary reason why so many viable small businesses go unsold, is a serious lack of funding. Traditional banks are often reluctant to lend against the acquisition of many small businesses, particularly those without substantial tangible assets or more sophisticated financial structures. This creates a critical funding gap that prevents willing buyers from acquiring established businesses, even when those businesses are profitable and sustainable.

This challenge has been effectively addressed in other developed economies. The United States, for example, offers a compelling model through its Small Business Administration (**SBA**) loan programs. These are not direct government loans; rather, the U.S. Small Business Administration provides a guarantee to partner banks and lenders. This guarantee significantly reduces the risk for lenders, making them more willing to provide capital to small businesses that might not qualify for traditional loans. If a borrower defaults, the SBA repays a portion of the loan to the lender, thereby de-risking the transaction for financial institutions.

SBA loans can be utilised for a wide array of business purposes, including working capital, equipment purchases, real estate acquisition, and crucially, business expansion or acquisition. This flexible approach ensures that capital is available for various stages of a business's lifecycle, including the critical juncture of ownership transfer.

Here is a summary of the most common SBA loan programs and their key parameters, illustrating the scope and flexibility of this model:

Loan Program	Maximum Loan Amount	Key Features & Use Cases	Repayment Terms
SBA 7(a) Loan [10]	Up to $5 million	The most common and flexible SBA loan. Used for working capital, expansion, equipment, and real estate.	Up to 10 years for working capital/equipment; Up to 25 years for real estate.
SBA 504 Loan [11]	$5 million to $5.5 million	For long-term, fixed-asset financing, such as purchasing land, buildings, and major equipment.	10, 20, or 25-year terms are available.
SBA Express Loan [10]	Up to $500,000	Offers an accelerated application review process (response within 36 hours) for smaller financing needs.	Varies; can be a term loan or a line of credit.
SBA Microloan [10]	Up to $50,000	For small-scale funding needs like working capital, inventory, or supplies. Cannot be used for real estate.	Up to 6 years.

This model demonstrates that with appropriate government backing and risk-sharing mechanisms, financial institutions can be incentivised to support the acquisition of small businesses, thereby facilitating smoother transitions and preserving valuable economic assets.

A Parallel with the Housing Crisis: Investing in Business Ownership for a Stronger Economy

Governments in Australia are commendably working to address the housing crisis by providing loan guarantees and funding support to help more Australians achieve home ownership. This is an important societal issue, and these efforts are rightly applauded. However, I would argue that a similar strategic vision and commitment are desperately needed for the small business sector.

If we could help more individuals acquire viable, sustainable small businesses, we would not only preserve existing jobs and economic activity but also empower more Australians to build wealth and, in turn, afford to buy their own homes. A thriving small business sector creates employment, generates income, and fosters economic stability – all crucial elements that contribute to a society where home ownership is more attainable. The job losses that may come from a "tidal wave" of small businesses going bust are a serious concern [12], and while some employees may quickly secure new employment, the overall economic impact and disruption can be significant [13].

Call to Action

The Australian Productivity Commission has a unique opportunity to recommend policies that will safeguard the future of our small business sector. I urge you to consider:

1. Developing a comprehensive national strategy for small business succession planning: This should include educational resources, advisory services, and incentives for owners to plan their exit well in advance.

2. Exploring government-backed loan guarantee programs, similar to the U.S. SBA model: Such programs would de-risk lending for financial institutions, making it easier for aspiring entrepreneurs to acquire existing small businesses.

3. Recognising the critical role of business brokers and advisors: These professionals are instrumental in facilitating successful transitions and should be integrated into any national succession planning framework.

By proactively addressing the small business succession crisis, we can prevent significant job losses, foster a more dynamic entrepreneurial landscape, and ultimately contribute to a more resilient and prosperous Australian economy.

Thank you for your time and consideration of this vital matter.

Sincerely,

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Simon Bedard
Managing Director, Exit Advisory Group
National Chair, Australian Institute of Business Brokers
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