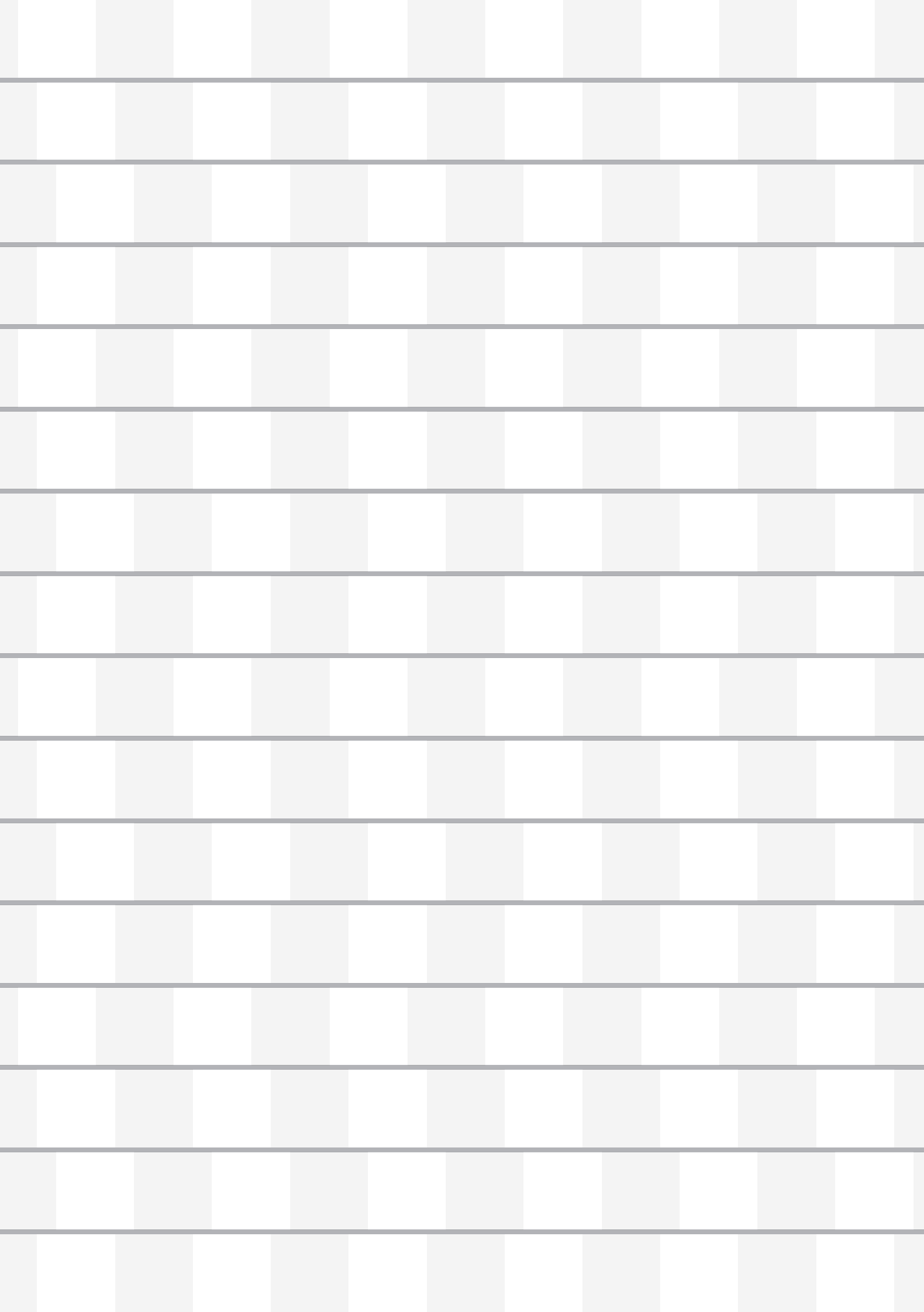


Working in Parallel

Large and small businesses succeeding side by side



Working in Parallel

Large and small businesses succeeding side by side



**Business Council
of Australia**

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A story of parallel success

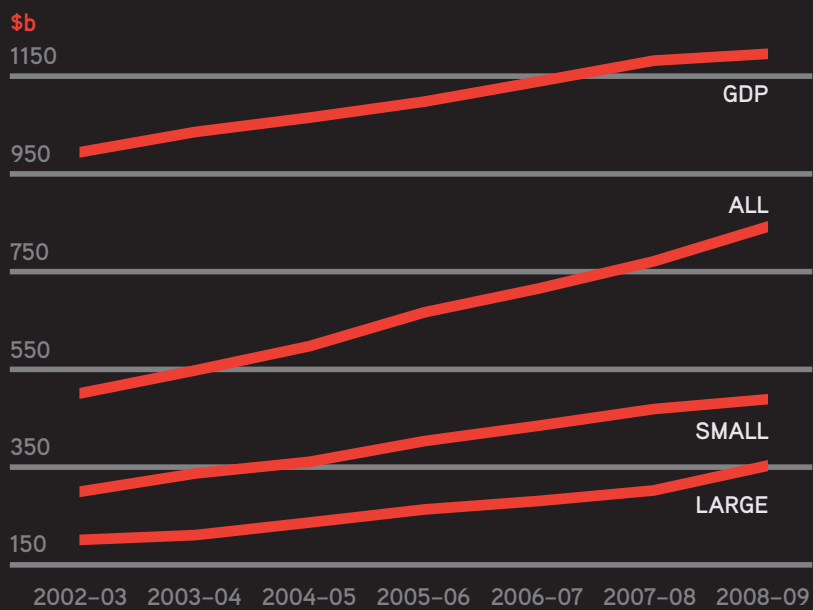
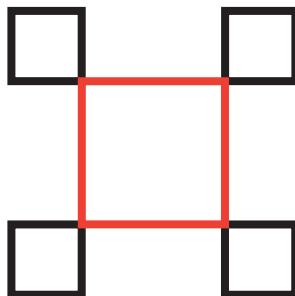
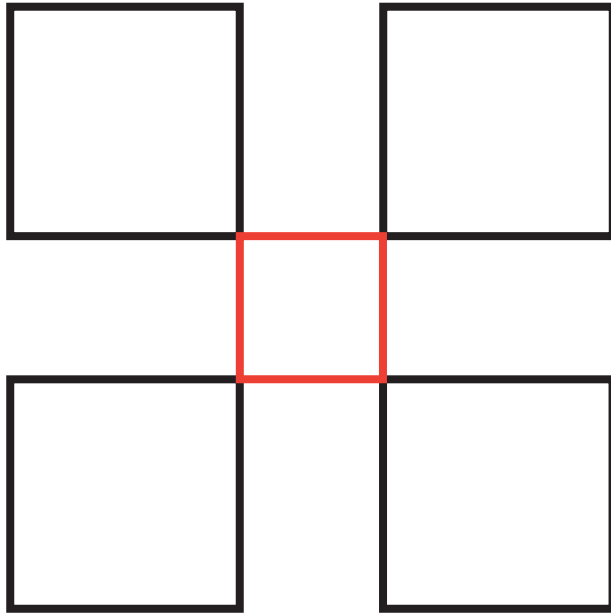


FIGURE 1

Moving in the same direction: large business, small business and the Australian economy



Introduction

To be successful, all businesses need to generate wealth, make a return and stay competitive. Whether they are small, medium or large, businesses share this common purpose, and their mutual successes have underpinned Australia's economic strength and community prosperity.

Some people choose to emphasise the differences and tensions between businesses of different sizes and suggest that the success of one must be at the expense of the other. But deep connections between the two sectors mean the long-term success of one depends on the success of the other. They face many shared challenges and benefit from many of the same opportunities. The reality is that interactions between big and small businesses occur on so many levels and are so central to the economy they are often overlooked.

Figure 1 shows how large and small businesses contribute to the generation of national wealth in Australia (as measured by GDP). It shows how they have grown side by side and have contributed to a stronger economy and community prosperity. This is because:

DATA AND DEFINITIONS
This paper relies on publicly available ABS and survey data. The definitions have been derived from the ABS definitions of Australian businesses. For the purposes of this paper, ABS employment size categories have been consolidated to form the following definitions:

Small business:
non-employing and employing business (unless otherwise stated) with 0 to 199 employees (encompasses small and medium according to the ABS definition).

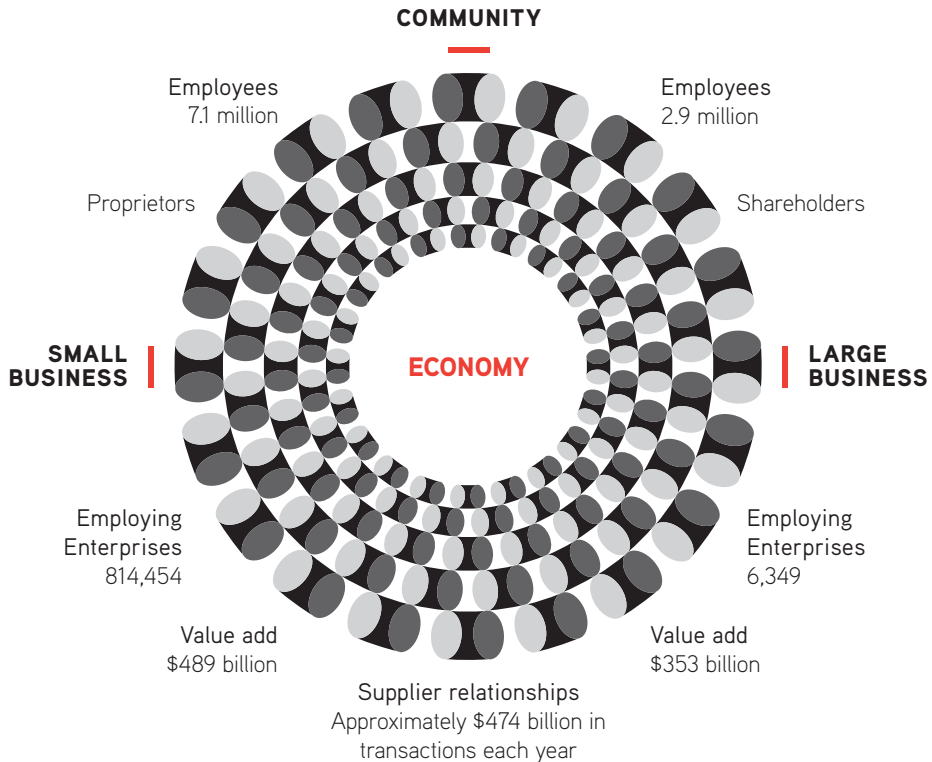
Large business:
businesses with more than 200 employees.

Data sources are listed at the end of this paper.

- A sizeable part of the incomes of large business and small business are generated through their interactions with each other.
- There are flow-on effects of each other's success throughout the economy.
- Both have reaped benefits from technological advancements, structural reforms, international trade and other measures they have adopted to grow their businesses.

The continuing strength of our economy depends on both sectors staying strong.

FIGURE 2
Working together
for a strong economy
and community



Did you know?

- 38 per cent of large businesses state that their main supplier of goods and services is small business
- 17 per cent of small businesses state that their main supplier of goods and services is large business
- 22 per cent of large businesses' main source of income is from small businesses
- 18 per cent of small businesses' main source of income is from large businesses

Large businesses, small businesses and Australia's economy

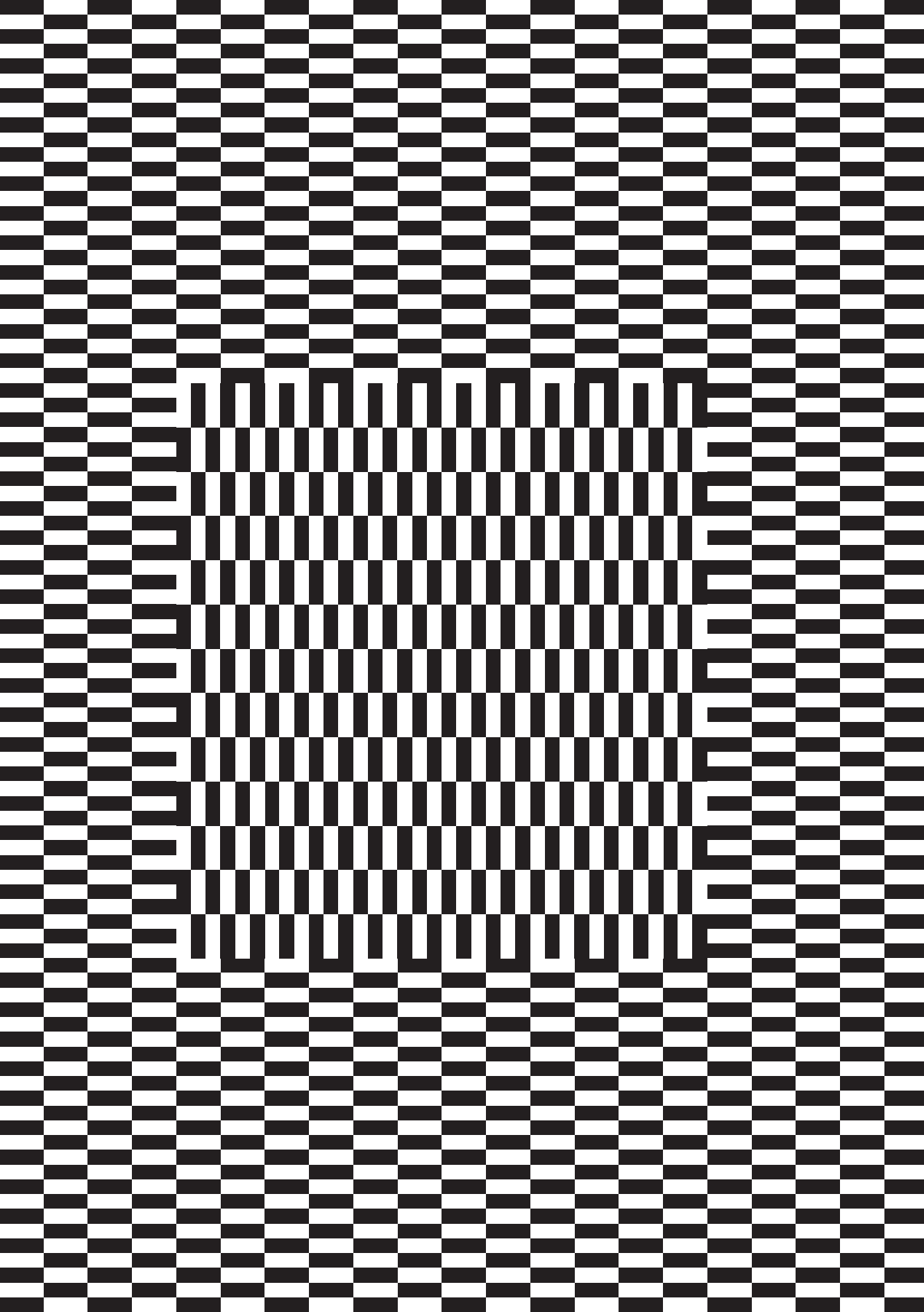
Large businesses and small businesses make a significant contribution to Australia's economy. Collectively they are responsible for employing 10 million people and adding more than \$840 billion to the economy.

A significant part of each sector's success comes from their interactions with the other. It is estimated that, as suppliers and customers, large businesses and small businesses generate more than \$474 billion in income annually through transactions with each other.

There are other significant flow-on effects from the interactions between businesses that can't be accounted for in direct transactions. For example, people employed by large businesses spend money on goods and services provided by small businesses, and vice versa. Strong businesses also invest and provide jobs in local communities and regions, making them more vibrant.

Similarly, the wealth of most individuals is linked directly to the success of larger businesses through direct shareholdings and superannuation funds. If people feel more confident about their wealth and future, they are more likely to spend on large and small business goods and services.

The success of large businesses and small businesses generates prosperity for their proprietors, employees and shareholders, but also for the Australian economy and community overall.



The sum of large business and small business interactions

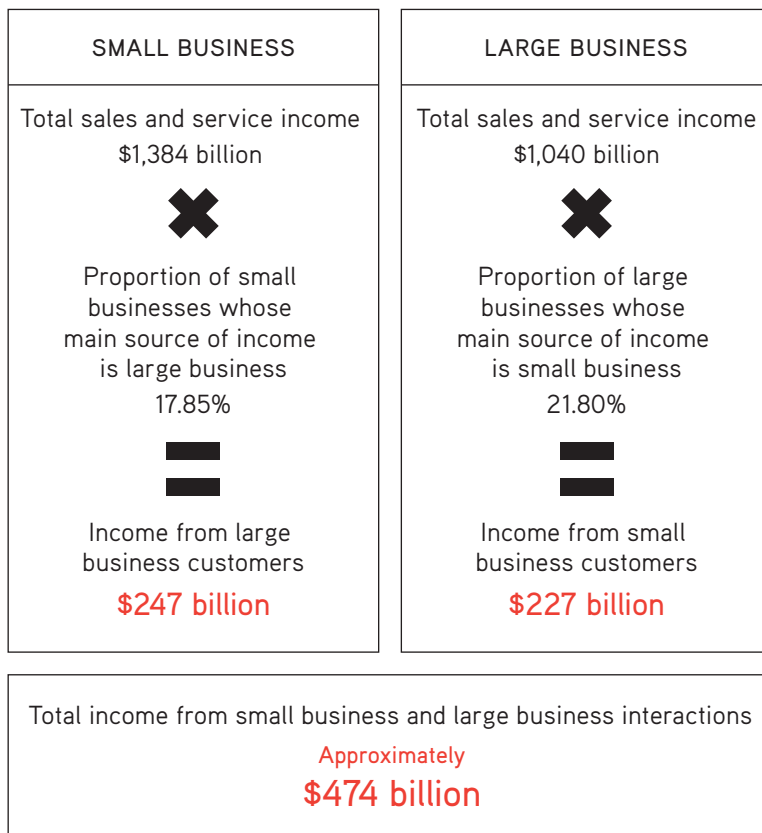
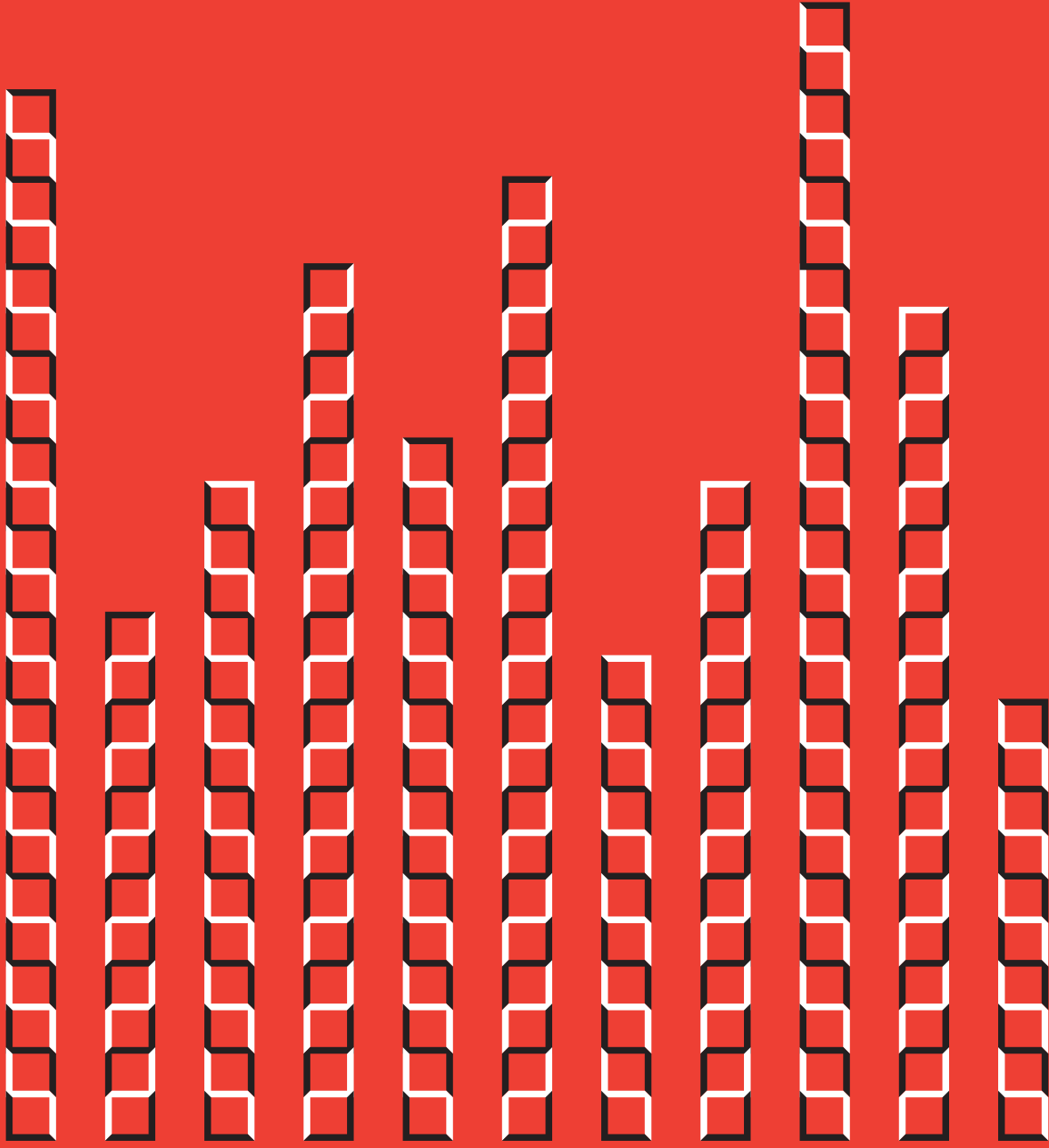
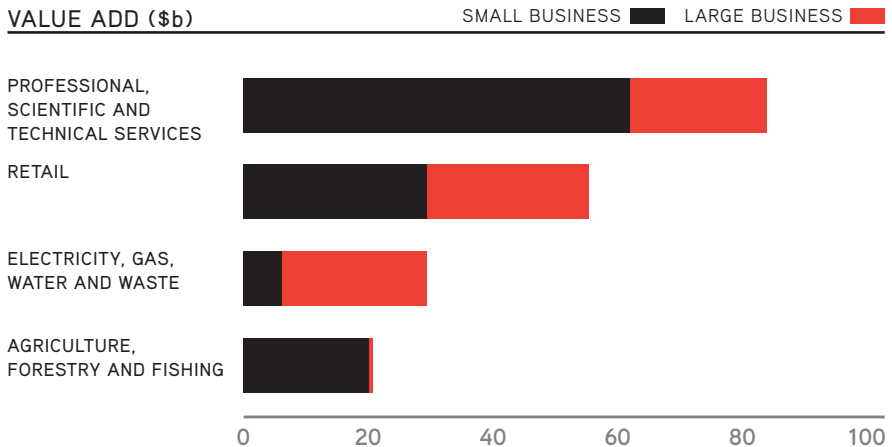


FIGURE 3
Working in parallel
produces big gains



Interdependence in different industries

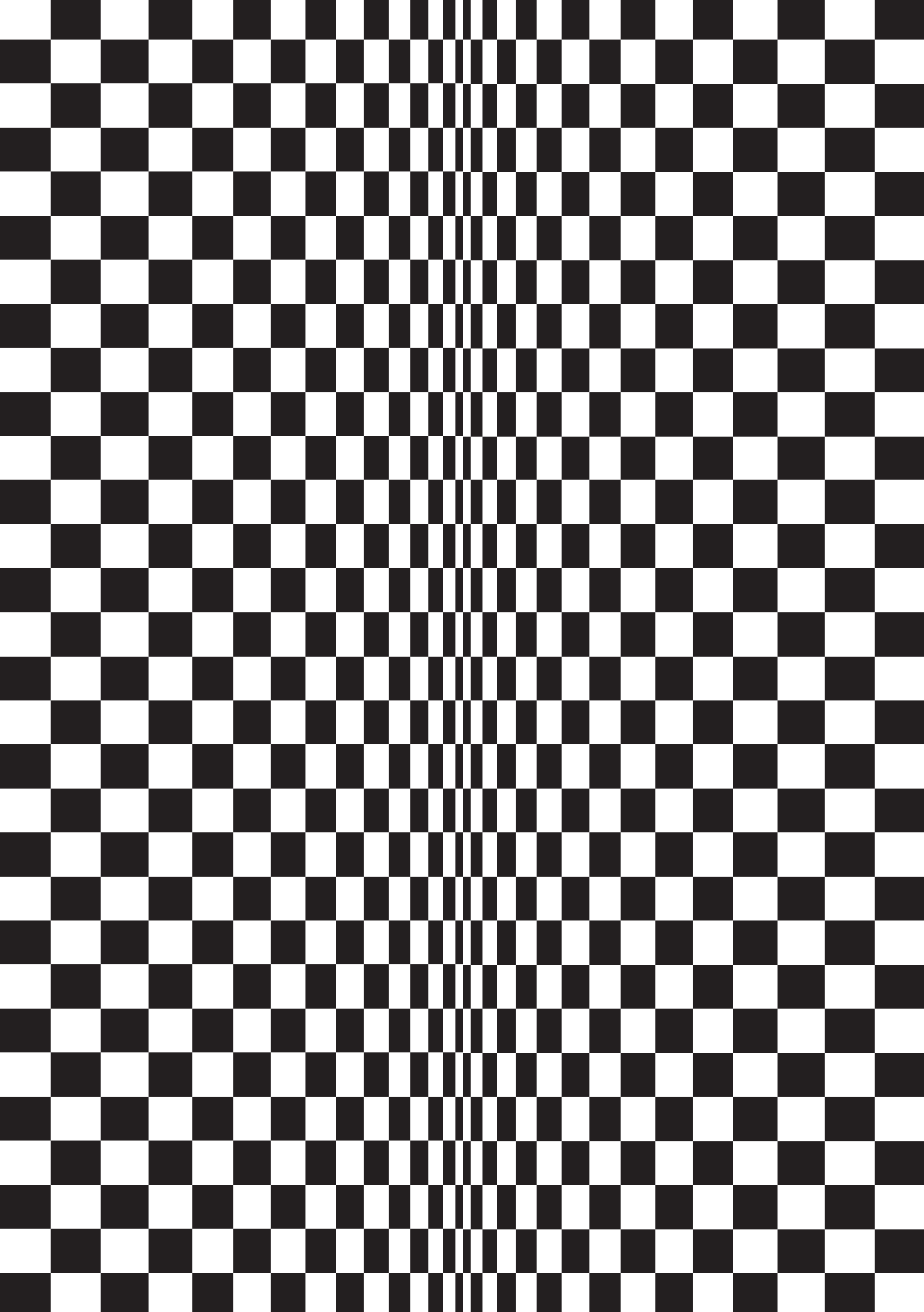
FIGURE 4
Complementary
contributions
across the
economy



A quick glance at the contribution of a number of industries to the Australian economy reveals the various interdependencies between large business and small business. This occurs within and between industries. In some industries, large businesses and small businesses contribute an even share and in others, one sector contributes more than the other but the benefits flow to both.

CONSIDER THE MAKE-UP OF DIFFERENT INDUSTRIES:

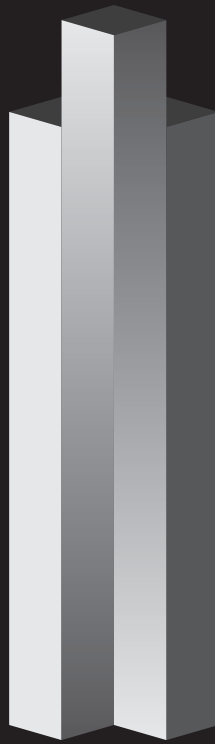
- **Retail:** The typical shopping precinct has large supermarkets but it is also home to small speciality shops and services like newsagents and drycleaners. To be convenient and attract shoppers, it cannot have one without the other.
- **Services:** This growing industry is dominated by small businesses that are able to remain competitive and agile to meet changing community needs. The demands from large business for highly specialised and technical knowledge rely on small business being able to make this kind of contribution.
- **Utilities:** Industries like electricity depend on significant investments in infrastructure covering vast areas. Larger businesses make the most significant contribution in this sector because they have the capacity to do so. Businesses in all sectors, including small businesses, rely on this critical input.
- **Agriculture:** Small regional businesses make the most significant contribution in this sector, while large businesses in the retail and food processing areas are dependent upon their production. In a recent government inquiry, many small businesses in this industry said they appreciated the opportunities that come from their relationships with large business customers.



Complementary roles

The roles that large businesses and small businesses play in different industries are determined by their particular strengths. Overall, these different roles are complementary in strengthening Australia's economy.

SMALL BUSINESS	LARGE BUSINESS
<ul style="list-style-type: none">— Provide niche goods and services to the community and other businesses— Are adaptable and responsive to market developments— Workforce of independent contractors— Entrepreneurial risk-taking to develop new ideas and markets— Low overheads can facilitate low-cost goods and services— Community engagement	<ul style="list-style-type: none">— Scale to undertake major projects— Link Australia's economy to international markets— Provide training and knowledge-sharing opportunities— Attract and provide investment— Detailed corporate governance arrangements— Purchase from small regional businesses— Community engagement
Create wealth and employment	



SMALL BUSINESS | LARGE BUSINESS

These case studies from BCA members provide examples of the complementary roles of – and interdependencies between – large business and small business.

Deep connections between the two sectors contribute to mutual success.

CASE STUDY

Australian Indigenous Minority Supplier Council

The Australian Indigenous Minority Supplier Council (AIMSC) is a not-for-profit company that provides a direct purchasing link between corporate Australia, government agencies and Indigenous-owned businesses. AIMSC, its founding members and certified Indigenous businesses aim to build a vibrant and prosperous Indigenous business sector by incorporating, on a commercial basis, Indigenous-owned, controlled and managed businesses into the supply chain of Australian companies and government agencies. In its first year, AIMSC members and suppliers recorded \$2.1 million worth of transactions (against a target of \$1.1 million) and \$4.04 million of signed contracts.

Print Junction and Marcus Lee Design are two examples of Indigenous-owned small businesses that are firmly embedded in and critical to the supply chains of large business.

PRINT JUNCTION

Print Junction is a family-owned and operated business in the graphic design and print industry, with over 70 per cent of its trade coming from large businesses across a range of industries like manufacturing, logistics, freight and food and beverages.

Print Junction may be a small business but technology and its interactions with large business mean that its work is getting exposure across the country. For example, from its office in Adelaide, Print Junction recently bid on and won work through a large beverage company's online tendering system in Melbourne, while the finished product was dispatched directly to New South Wales upon completion. Whether it is the printing of a drink coaster, the printing on a shopping bag or promotional materials at retail point of sale, Print Junction's contribution to the daily operations of large businesses is so integral that many consumers would be surprised to learn that the products actually come from a small family business.

There are considerable benefits from being such an integral part of the supply chains of large business. As Leon Torzyn, owner of Print Junction sees it, the relationship provides fair rewards and an opportunity to grow and build reputation.

MARCUS LEE DESIGN

Marcus Lee Design is another family-owned and operated business that is working with large businesses such as ANZ to develop products that are ultimately used around Australia. It specialises in corporate identity, communications, packaging and environmental design, with particular expertise in Indigenous-based communications.

Marcus Lee has recently been working with ANZ and the Commonwealth Government to develop tailored communications materials on financial literacy for Aboriginal communities around Australia. While this began as a relatively small project, it has grown significantly, demonstrating not just the economic benefit but the significant demand and community benefit that can be generated when small and large businesses work together.

While large business often cannot support such specialised expertise in-house, it is possible for small businesses like Marcus Lee Design to combine a unique mixture of skills, knowledge and technology with a small complement of staff to deliver specialised projects on this scale.

CASE STUDY

The Qantas Group and Airline Services and Supplies Pty Ltd

The Qantas Group procures significant quantities of goods and services from a range of businesses including common and specialist items from stationery to aircraft. In the 2009–10 financial year, Qantas had relationships with more than 21,500 small, medium and large suppliers in Australia, to the value of \$11.2 billion (including tax).

One of the Qantas Group's suppliers is Airline Services and Supplies Pty Ltd (ASAS), a company that has been supplying Qantas with laundry services out of Brisbane Airport since 2005. ASAS is a family-owned and operated small business based in Burleigh Heads, Queensland.

The relationship with ASAS has been successful as it has been based on service reliability, consistent delivery of quality product, competitive pricing as well as an ongoing commitment to working with Qantas to drive cost savings and environmental initiatives. The past few years have been a difficult time for the aviation industry globally with the deterioration of economic conditions, and suppliers to airlines, such as ASAS, were also affected. In partnership with Qantas, ASAS has managed to successfully trade through a difficult commercial period and is now positioned for growth and further innovation.

CASE STUDY

Woolworths

Woolworths Limited has over 3,100 stores across Australia, more than 188,000 employees and annual sales in excess of \$51 billion.

Woolworths works closely with small businesses, including the Australian farmers and suppliers who provide it with 100 per cent of the fresh meat and 96 per cent of all fresh fruit and vegetables it sells in its supermarkets each year. Two examples of the strong and collaborative relationships that Woolworths has with small businesses are Praline Chocolates (which manufactures Woolworths popular Select brand chocolates) and Aussie Growers Fruits (which manufactures a range of Woolworths Select brand jam products).

AUSSIE GROWERS FRUITS PTY LTD

Aussie Growers Fruits is a family-owned business in Silvan, Victoria and is the manufacturer of Woolworths Select jams. Since Aussie Growers Fruits and Woolworths commenced their partnership in 2009, they have been able to work successfully together to introduce eight different lines of jams and spreads that have been extremely popular with customers.

The partnership ensures that Woolworths Select has a range of Australian-made jams and spreads with a higher fruit content than other brands and the ongoing potential for new product innovations. For Aussie Growers Fruits, the partnership with Woolworths places its product on kitchen tables all over Australia, with Woolworths selling over \$150,000 worth of Select jams and spreads.

PRALINE CHOCOLATES

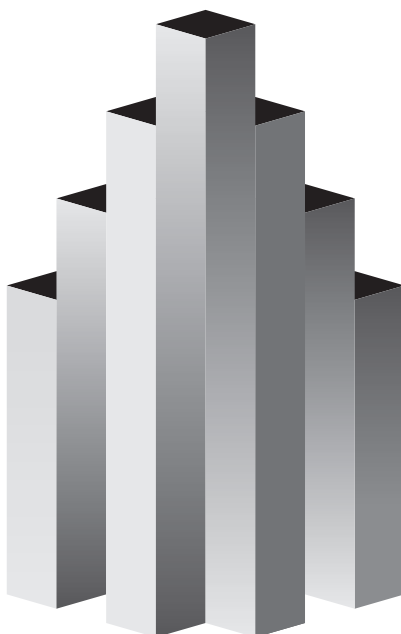
Praline Chocolates is a family business in Padstow, New South Wales that partnered with Woolworths in 2009 to introduce a range of Woolworths Select block chocolate for the first time.

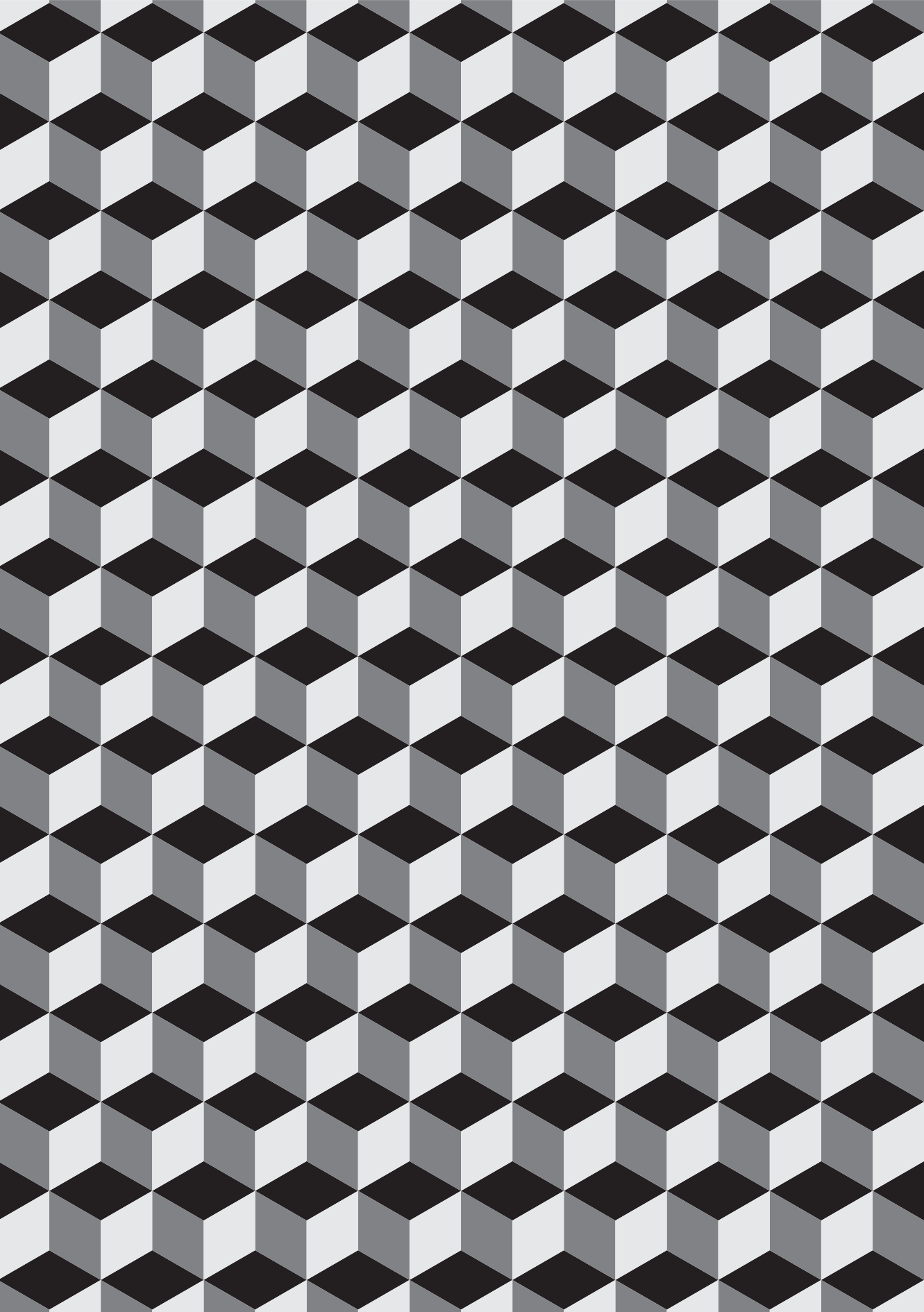
Unfortunately, at the beginning of 2010 Praline's factory was destroyed by fire. Following the fire, Woolworths remained committed to working with Praline as it rebuilt its operations, choosing to suspend the product line rather than finding another supplier.

During the time of reconstruction, Woolworths and Praline collaborated to refine the range before five new lines of Woolworths Select chocolate were introduced back into Woolworths supermarkets in August this year. For Praline, the partnership provides security and certainty of future sales, which allowed it to retain over 75 per cent of its staff while the new plant was being commissioned. There are also substantial benefits for Woolworths from the long-term view it has taken in its partnership with Praline. Praline turned its misfortune into an opportunity to work with the Woolworths Customer Panel Evaluation process to make the product even better. Since the products were reintroduced to the store, Woolworths has been selling over 50,000 blocks of Select chocolate each week.

Other examples of large and small businesses working together

- Westpac's supply chain involves approximately 10,000 suppliers in all industries, from large multinational firms to small, locally operated businesses. Their supply chain delivers goods and services with an annual value of around \$2.2 billion.
- Australian Liquor Marketers (part of Metcash) supplies more than 15,000 licensed premises throughout Australia and New Zealand, many of whom are small businesses.
- In the 2010 financial year, BHP Billiton paid over \$10 billion to Australian suppliers, and 33 per cent of its payments to suppliers occur at the local level.
- Rio Tinto is a key supporter of initiatives like the Small Business Centre West Pilbara, which encourages and facilitates business development and growth within Karratha and the Pilbara region in Western Australia. The centre provides information and support to small business owners and operators in all aspects of their business.
- The Telstra Business Awards were established in 1992 to recognise the achievements and enterprising spirit of Australian small-to-medium businesses. Finalists and winners receive national exposure and access to an unparalleled business network. The awards offer a number of categories for smaller businesses with less than 200 employees.





Securing future economic strength

COMMON CHALLENGES

Small businesses and large businesses share a number of challenges.

SMALL BUSINESS	LARGE BUSINESS
<ul style="list-style-type: none"> — Working to secure, retain and motivate talented people is the number one challenge facing private businesses (PwC Private Business Barometer, April 2010). 	<ul style="list-style-type: none"> — 36.9% of large companies reported difficulty recruiting some staff due to skills shortages (Australian Institute of Management National Salary Survey 2010).
<ul style="list-style-type: none"> — 16.8% of small businesses identify a lack of skilled persons as a major barrier to innovation (ABS, <i>Selected Characteristics of Australian Business</i>, Catalogue No. 8167.0, 2009). 	<ul style="list-style-type: none"> — 18.2% of large businesses identify a lack of skilled persons as a major barrier to innovation (ABS, <i>Selected Characteristics of Australian Business</i>, Catalogue No. 8167.0, 2009).
<ul style="list-style-type: none"> — ‘Knowing which government legislation and compliance changes are relevant to my business’ is seen as the most difficult business task (MYOB Business Monitor – Survey of SMEs, April 2010). 	<ul style="list-style-type: none"> — Australian business leaders are asking what is the right amount of regulation, and who decides? (PwC Australian CEO Survey, February 2010).
<ul style="list-style-type: none"> — 75% of businesses are somewhat or very concerned about the cost of finance (Telstra Back to Business Survey 2010). 	<ul style="list-style-type: none"> — CEOs are frustrated by the ongoing challenge of access to capital to fund their business (PwC Australian CEO Survey, February 2010).



While businesses of different sizes have different needs and priorities, it is often the case that what is good for one is good for both. It is vital to Australia's future prosperity that we overcome shared business challenges to deliver on three critical common success factors:

1

Using technology to lower costs and increase productivity.

2

Innovation to improve the quality of existing goods and services or to produce new goods and services.

3

Opening up new markets to grow and reduce reliance on a smaller number of markets.

More than 60 per cent of Australian CEOs are focusing on investing in strategic technology infrastructure or applications to set themselves up for growth.

PwC 13TH ANNUAL GLOBAL CEO SURVEY 2010

Fifty-seven per cent of SMEs intend to invest in technology in 2010 to improve their performance.

TELSTRA BACK TO BUSINESS SURVEY 2010

Critical success factor 1: technology

Technology is critical for large and small businesses alike. It lowers costs, improves links with customers and suppliers, standardises processes and supports innovation.

Information and communications technologies are critical for small businesses as they allow for expanded operations at relatively small cost.

INCOME GENERATED THROUGH THE INTERNET (\$b)

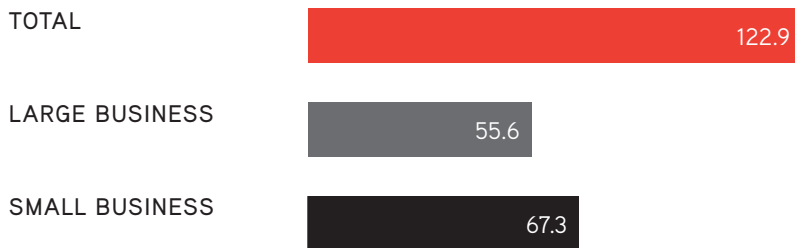
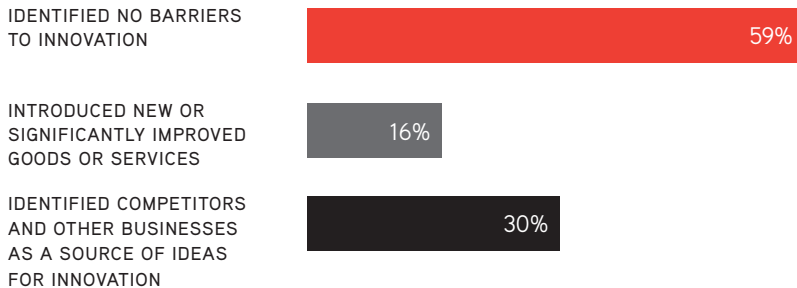


FIGURE 5
Online technology is supporting business expansion

Critical success factor 2: innovation

In 2008–09, small businesses spent almost \$5 billion on research and development, while large businesses spent close to \$12 billion. However, perhaps the most critical innovation comes from the day-to-day improvement of goods and services, and production processes, to stay competitive. Not surprisingly, both large and small businesses identify their top two motivations for innovation as profit and responding to customer needs. As another sign of the importance of interaction between different businesses, they identify competitors and other enterprises as a significant source of ideas for innovation.

% OF ALL SMALL BUSINESSES



% OF ALL LARGE BUSINESSES

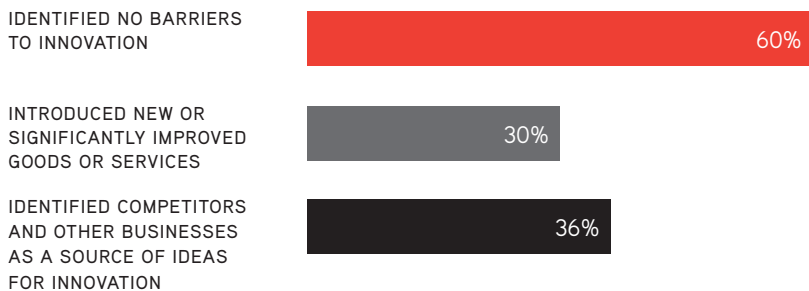
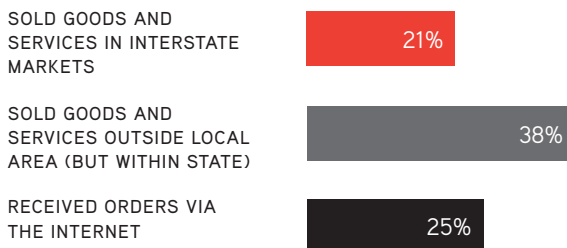


FIGURE 6
Business innovation:
prospects and sources

Critical success factor 3: opening up new markets

A stronger and more open economy is benefiting all businesses. While small businesses and large businesses are expanding their markets on different scales and to varying degrees, the importance of cultivating new markets is clear.

% OF ALL SMALL BUSINESSES



% OF ALL LARGE BUSINESSES

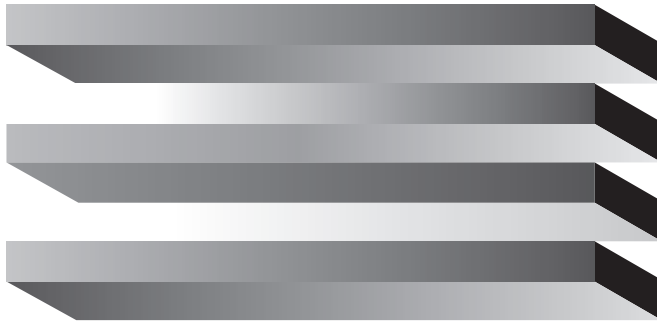


FIGURE 7
Business expansion:
sources and opportunities

A platform for success

In our highly competitive and ever-changing economy, businesses need to be able to apply these success factors to respond quickly to customer needs and the movements of their competitors. Market reforms, particularly in the areas of infrastructure, regulation and taxation, give businesses of all sizes the incentives, flexibility and capability to apply these success factors and be more productive.

While much has been achieved through economic reforms, much more needs to be done. The shared agenda of small and large businesses is highlighted in submissions on policy reform made to government. Examples opposite highlight the commonality of concerns and the need to pursue reform that supports the business community as a whole.



SMALL BUSINESS

LARGE BUSINESS

PUBLIC INFRASTRUCTURE

‘A National Infrastructure Strategy is essential to meeting the mounting freight task within Australia – often choking cities – **while gearing up for greater demand than we have ever experienced before.**’

– National Farmers’ Federation, 2010 Budget Submission.

‘Infrastructure reform will make a substantial difference to the way we do business, by enabling product innovation, expansion of markets, more efficient logistics and **new ways of producing products and services by Australian firms.**’

– Business Council of Australia, *Groundwork for Growth*, 2009.

LESS RED TAPE

‘**Red tape** has become the most common issue in surveys of small business over the past two decades. Council members of COSBOA always **rank the issue as the number one hindrance to efficiency** in our sector.’

– Council of Small Business of Australia, 2005 Submission to the Taskforce on Reducing the Regulatory Burden on Business.

‘The **costs to business of inefficiencies** in federal–state relations are difficult to ascertain, but all estimates number in the billions of dollars. **Businesses are the unwilling recipients of the additional red tape created as a result.**’

– Business Council of Australia, *Towards a Seamless Economy*, 2008.

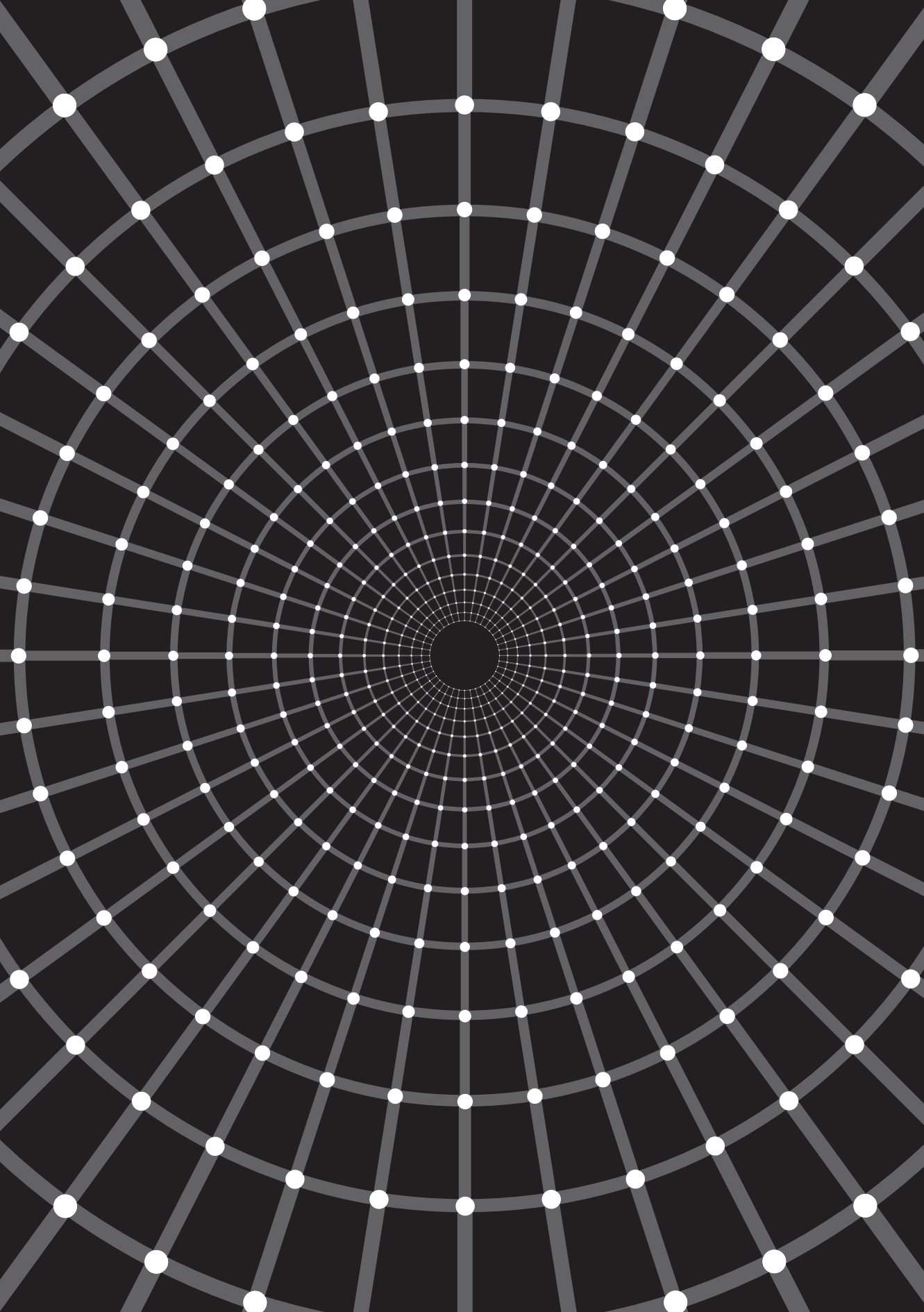
BETTER TAXATION

‘Master Builders calls on the government to examine the potential for state governments to remove the **heavy reliance on inefficient taxes** such as stamp duties. In themselves these taxes represent large impositions on the business community as a result of the distortion of decision making and direct increases in costs, as well as high compliance costs and reduced overall economic efficiency.’

– Master Builders of Australia, 2008 Submission to the Australia’s Future Tax System Review.

‘While Australia’s mix of indirect and direct taxes is more or less at the OECD average, tax collected from broad-based consumption taxes is lower than the OECD average. This confirms the widespread concern that **we have an overreliance on inefficient and distortionary indirect taxes** such as stamp duties.’

– Business Council of Australia, 2009 Submission to the Australia’s Future Tax System Review.



Conclusion

Our community benefits from diversity – and so does our economy.

Businesses do not grow in isolation. Australia's economic strength reflects a story of businesses of all sizes competing and striving to become better and more profitable. In doing so, businesses can grow side by side and through their interaction with each other and the community.

The success of businesses of different sizes that service our nation's varying needs contributes to a stronger economy and greater community prosperity for all Australians. Much of this success comes from doing business with each other.

To ensure our future, we need to support all businesses to compete fairly, to interact, and most importantly to fulfil their potential. This requires governments to provide good management through policy reform, and to recognise and explain the common ground between different, equally important parts of the Australian economy.

DATA SOURCES

Figure 1: Moving in the same direction: large business, small business and the Australian economy

ABS, *Australian Industry*, Catalogue No. 8155.0, 2005 to 2009 and *Australian System of National Accounts*, Catalogue No. 5204.0, 2009. Note: The large, small and all businesses lines in Figure 1 use ABS value added data, which is the measure of these groups' contribution to Gross Domestic Product.

Figure 2: Working together for a strong economy and community

ABS, *Australian Industry*, Catalogue No. 8155.0, 2009, *Selected Characteristics of Australian Businesses*, Catalogue No. 8167.0, 2009 and *Counts of Australian Businesses, including Entries and Exits, June 2007 to June 2009*, 2009. Note: Figure 3 provides an outline of methodology for BCA calculation of the total value of interactions between large and small business.

Figure 3: Working in parallel produces big gains

ABS, *Australian Industry*, Catalogue No. 8155.0, 2009 and *Selected Characteristics of Australian Businesses*, Catalogue No. 8167.0, 2009.

Note: In Figures 2 and 3, the proportion of small businesses stating that their main supplier of goods and services is large business has been derived from ABS data, applying a weighted average to responses at the 0–4, 5–19 and 20–199 employment size categories, based on the counts of Australian businesses in each employment size category.

Note: In Figures 2 and 3, the proportion of small businesses stating that their main source of business income is large business has been derived from ABS data, applying a weighted average to responses at the 0–4, 5–19 and 20–199 employment size categories, based on the relative sales and service income of small and medium enterprises.

Figure 4: Complementary contributions across the economy

ABS, *Australian Industry*, Catalogue No. 8155.0, 2009.

Figure 5: Online technology is supporting business expansion

ABS, *Selected Characteristics of Australian Businesses*, Catalogue No. 8167.0, 2009.

Figure 6: Business innovation: prospects and sources

ABS, *Selected Characteristics of Australian Businesses*, Catalogue No. 8167.0, 2009 and *Innovation in Australian Business*, Catalogue No. 8158.0, 2009. Note: the figure for the 2008–09 research and development spend by small and large business is sourced from ABS, *Research and Experimental Development, Businesses*, Australia, Catalogue No. 8104.0, 2009.

Figure 7: Business expansion: sources and opportunities

ABS, *Selected Characteristics of Australian Businesses*, Catalogue No. 8167.0, 2009 and *Business Use of Information Technology*, Catalogue No. 8129.0, 2008.

Note: in Figures 6 and 7, the proportion of small businesses reported for each metric has been derived from ABS data, applying a weighted average to responses at the 0–4, 5–19 and 20–199 employment size categories, based on the counts of Australian businesses in each employment size category.

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