



THE MCKELL INSTITUTE

Micro but Mighty

MAGNIFYING MICROBUSINESS IN AUSTRALIA



JULY 2023



ABOUT THE MCKELL INSTITUTE

The McKell Institute is an independent, not-for-profit research institute dedicated to identifying practical policy solutions to contemporary challenges.

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ABOUT THIS REPORT

THIS REPORT HAS BEEN PREPARED BY
THE MCKELL INSTITUTE FOR **NRMA INSURANCE**

NRMA Insurance is part of IAG, Australia and New Zealand's largest general insurer. Using its leadership position, NRMA Insurance aims to make the world in which its business customers operate in safer and more resilient for the future. NRMA Insurance works collaboratively with government, industry bodies and organisations on a range of issues and initiatives that help its customers, its people and the community.

As an example, NRMA Insurance has partnered with Mums & Co, the Australian network helping women in business grow. Mums & Co advocates for ambition with a digital membership subscription to help build deep networks, access strategic guidance, resources and support at every stage of business.



ACKNOWLEDGEMENT OF COUNTRY

This report was written on the lands of the **Gadigal** of the **Eora Nation**. The McKell Institute acknowledges Aboriginal and Torres Strait Islander peoples as the Traditional Owners of Country throughout Australia and their continuing connection to both their land and seas.

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FOREWORDS

Microbusinesses are a significant contributor to Australia's economy. In fact, over the past four years the microbusiness sector has been the fastest growing business sector in Australia, increasing by 14% to 2.28 million businesses and employing 2.9 million people.

NRMA Insurance, which is part of IAG (Australia and New Zealand's largest general insurer), currently helps more than 70,000 small business owners nationally.

We recognise the incredible opportunities that lay ahead as this sector continues to grow — both in terms of its economic contribution but also the positive impact it has in offering specialised products and services through a strong personal connection to customers and communities.

We also understand this sector faces unique challenges and risks.

To help address some of these challenges, NRMA Insurance is constantly enhancing its products and services to better meet the changing needs of microbusinesses. Recent changes include the simplification of the digital quote-and-buy process, affordable cover options and access to specialised contact centre consultants to keep customers well-informed on the risks they face, and the type of insurance cover they need.

NRMA insurance endeavours to play a leading role in supporting microbusinesses. For instance, understanding the important role of women in microbusinesses, NRMA Insurance proudly supports Mums & Co, a membership program for business-owning mothers that aims to help women start and stay in business.

Across IAG, we advocate for a nationally coordinated and well-resourced disaster resilience program that reduces the impact of the increasing

severity and frequency of extreme weather events. This is a challenge for all businesses of course, but microbusinesses are particularly vulnerable.

We know there is much more work that needs to be done. Despite the significant contribution and value of microbusiness, the barriers to growth in this sector are not well understood and could benefit through better targeted public policy measures.

To explore the challenges faced by microbusiness owners and help frame tailored policies designed to overcome them, we have commissioned the McKell Institute to prepare this important report — *Micro but Mighty: Magnifying microbusiness in Australia*. This report provides real-world case studies of microbusinesses and the challenges they face.

It also makes important recommendations that we believe will help this sector prosper.

We look forward to working with governments at all levels to promote and implement policies and solutions that support the growth of microbusinesses in Australia.



Julie Batch

**NRMA INSURANCE,
CHIEF EXECUTIVE OFFICER**

Microbusinesses are the fastest growing sector of the small business community.

When policymakers think of this group they often announce policy measures such as deductions for tools, new uses or incentives to take on apprenticeships. These policies are rooted in a view of microbusinesses centred on the tradie.

Yet the microbusiness sector is the fastest growing business sector in Australia, and now employs 2.9 million people. This growth has largely been digital, and it has changed the demographics of these small business owners. Our leaders need to take note to keep up.

Microbusinesses are increasingly run by women. They are often those women who take on additional caring responsibilities and those that face their own structural barriers in the labour market.

We must address structural barriers to labour market participation and those starting a microbusiness. Rethinking the nature of microbusinesses can create a new equality of opportunity for women who choose to participate in this sector.

The Mckell Institute is proud to partner with NRMA Insurance to develop this report. Additionally, the input from Mums & Co, as the voice of business-owning women with lived experience, was invaluable.

Micro but Mighty: Magnifying microbusiness in Australia sets out to understand the changing nature of microbusinesses in Australia. Our findings challenge the established stereotypes of microbusiness owners as solely entrepreneurial men.

Once fully understood, this change presents substantial policy challenges to governments. Policymakers must understand the challenges facing microbusinesses and, as an employer of almost three million Australians, create the conditions to ensure this type of work is rewarding.



Ed Cavanough

MCKELL INSTITUTE,
CHIEF EXECUTIVE OFFICER



EXECUTIVE SUMMARY

Microbusinesses are a significant contributor to Australia's economy. Yet the contribution and value of this sector is often overlooked in public debate surrounding business and small business policy.

During the COVID-19 pandemic, the sector experienced considerable growth, with people turning to microbusiness to help keep them afloat. The microbusiness sector has been the fastest growing business sector over the last four years, increasing by 14% from 2 million to 2.28 million businesses.

This report aims to better understand the importance of microbusinesses — namely, businesses that are characterised by a small number of employees, turnover, and assets. It will use a combination of desktop research and real-world case studies to articulate their value, composition, and contribution to the Australian economy, while identifying challenges facing microbusiness owners.

PART ONE of this report delves into the unique characteristics which define the microbusiness sector, such as scale of operations. There are a number of different ways a microbusiness can be defined — while the most common is a business with 0-4 employees, this section also explores qualitative features, such as the role of women, and how microbusinesses can create income earning opportunities for those with caring responsibilities that traditional labour markets often do not.

In **PART TWO**, the economic contribution of the microbusiness sector is evaluated based on aggregate data. When separating the microbusiness category from the small business category, the report finds that contributions to several key economic variables from the former are more significant.

PART THREE addresses some of the key challenges that microbusiness owners face. Small-scale operations mean that microbusinesses can't utilise specialist teams and knowledge to navigate specific areas of commerce like finance and marketing, and these prove to be common barriers to commercial activity for the sector. This section also examines two existing risks which are likely to increase in the coming years — cyber security and natural disasters — both of which have the potential to affect microbusinesses to a much greater extent than other businesses.

PART FOUR explores case studies of microbusiness owners from the Mums & Co network, the contributions they make, and the challenges they face.

Following the exploration of the economic and intangible contributions provided by microbusinesses and the challenges they face, we recommend the following be considered by all levels of government:

- Establish a formal definition of microbusiness in Australia;
- Create a one-stop-shop resource for microbusiness support and resources across different levels of government;
- Provide government support that treats microbusiness as a separate category to small business;
- Address the structural barriers which limit access to finance for women who own microbusinesses;
- Partner with the financial sector to provide education courses for microbusinesses that will help them grow.

KEY FINDINGS

- **Microbusinesses are distinctly different from other businesses** — the characteristics of microbusinesses include less formal operations and less reliance on conventional business premises, simpler financial structures with tight liquidity constraints, a higher degree of self-employment, and a stronger personal connection to customers and other businesses.
- **There are structural labour market disadvantages faced by women, especially those with caring responsibilities** — gendered differences in employment conditions are widest between the ages of 40 and 55 in Australia.¹ When combined with the low barriers to entry to starting a microbusiness, this has resulted in women playing a key role in the microbusiness sector, particularly after the onset of COVID-19.
- **The current Australian Bureau of Statistics (ABS) definition of a microbusiness being one that employs between 0-4 persons fails to capture the unique qualities that differentiates them from other small and medium enterprises.** A more detailed definition would ensure that only businesses that are truly “micro” are being measured in official statistics and targeted by government policy. This would enable a better understanding of how the sector operates for researchers, policy makers, and insurance providers.
- **Discussions around the contribution of small businesses to Australia’s economy often fail to treat microbusinesses as a separate category.** However, aggregate data shows that microbusinesses contribute more than small businesses in terms of several key economic variables, including aggregate employment (2.9 million people compared to 2.1 million), profits (\$174 billion compared to \$63 billion), and value added (\$265 billion compared to \$174 billion).²
- **The microbusiness sector also contributes to the economy by providing an alternative source of income for individuals who have difficulty accessing labour market opportunities** — this relieves pressure on government payments, and creates competition with labour markets themselves.
- **There are key commercial barriers which inhibit the success of microbusinesses** — in particular, the inability to utilise specialist teams and knowledge limits microbusinesses’ capacity to navigate specific areas of commerce, such as finance and marketing.
- **The microbusiness sector has a strong reliance on internet and communications technology for income** — 41% of microbusinesses have the majority of their sales (50% or more of total sales) take place on the internet, compared to 30%, 35%, and 28% for small, medium, and large businesses.³ This leaves microbusinesses exposed to cyber security risk, especially given the limited resources they have available to defend against these threats, and the closely linked nature of their personal and business information.
- **Climate change** is increasing the frequency and severity of extreme weather that can lead to natural disasters, which presents a challenge for all businesses. However, microbusinesses are particularly vulnerable to this risk, since lower levels of capital and liquidity, and emerging trends in the insurance industry that are affecting the affordability of coverage, make it difficult for them to defend against disaster-related losses. The proportion of microbusinesses which cited environmental factors as a barrier to business activities nearly quadrupled from 4.3% in 2018 to 16.7% in 2020.⁴
- **Given the valuable contributions that the microbusiness sector makes to the economy and society,** greater attention needs to be paid to understanding and researching the sector, providing more targeted support, and making existing support more readily accessible.



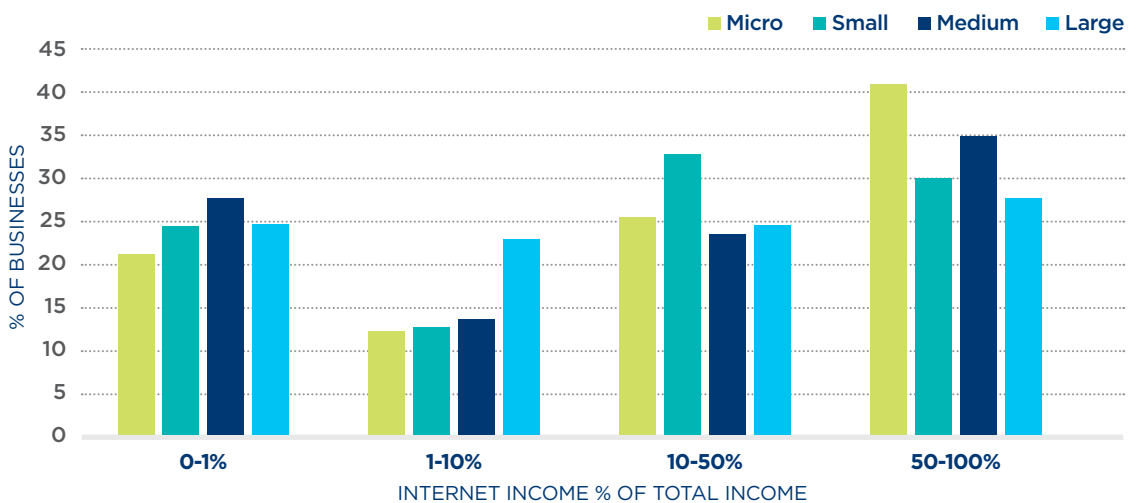
PART ONE: UNDERSTANDING MICROBUSINESS IN AUSTRALIA

Different measures can be used to designate businesses as “micro”. The number of employees, level of turnover, operating costs, or capital assets associated with a business may all reflect the scale of its activity. There are also certain characteristics of microbusinesses which are less quantifiable but provide important distinctions to their small, medium, and large counterparts.

Microbusinesses possess unique qualities

Microbusinesses tend to involve fewer formal operations, simpler financial structures with tight liquidity constraints, and a high degree of self-employment, even in comparison to traditional small businesses. In many cases these businesses can function as supplementary to other forms of income for their owners. They also generally have less access to conventional business premises — where small businesses usually have some sort of shopfront or office, microbusinesses often don't. This means that ecommerce has played a significant role in allowing microbusinesses to grow. Figure 1.1 shows that microbusinesses rely on internet sales more than any other business size.

FIGURE 1.1 INTERNET INCOME MAKEUP OF TOTAL INCOME



Source: ABS Business Characteristics Survey, 2019-20



The social dimension of microbusinesses also provides a contrast to other businesses. Where the latter are generally perceived as standalone and impersonal entities, microbusinesses have a closer association with the individuals who run them, and therefore lead to more personalised interactions with customers, other businesses, and the community.

Pfitzner and McLaren state that ‘microbusinesses normally have close ties to the community within which they operate, typically providing economic and social benefits such as employment opportunities and as places of social interaction’.⁵

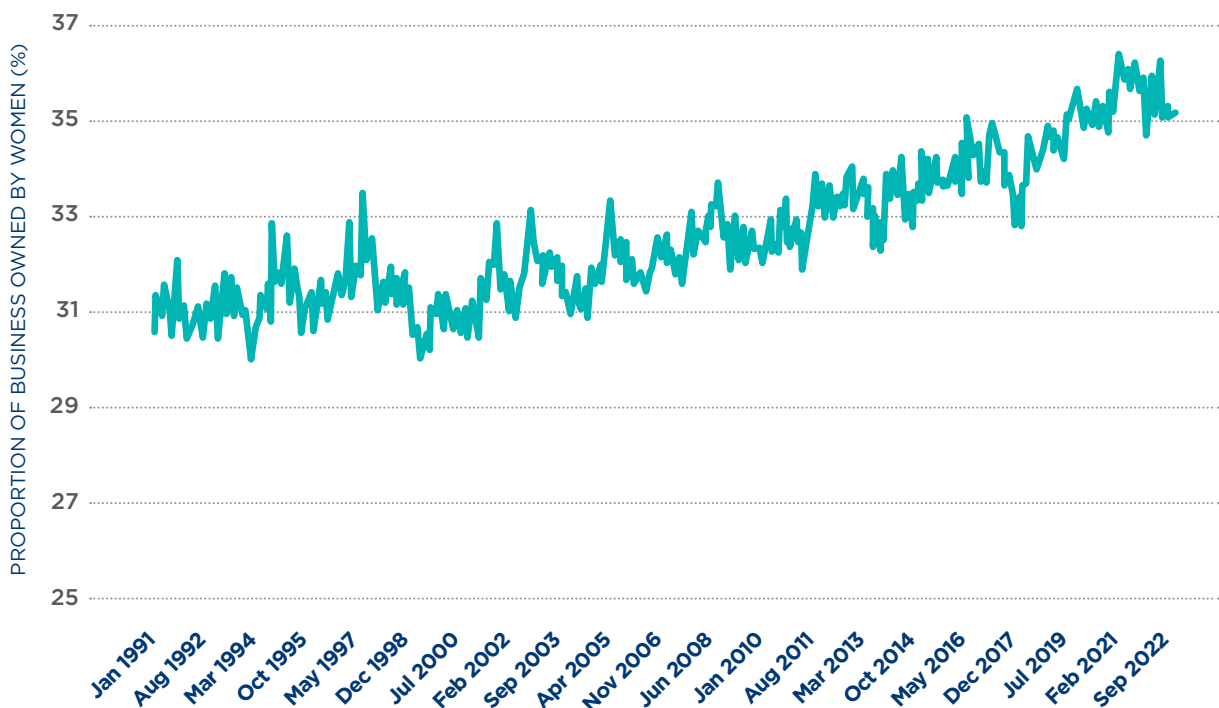
Part 3 of this report details the importance of these community qualities, and the ‘sociocommercial capital’ they create, for natural disaster preparedness and resilience.

Women play a key role in the microbusiness sector

Another defining feature of the microbusiness sector is the role of women. The low barriers to entry to starting a microbusiness provides women, particularly those that are middle aged and/or have caring responsibilities, with economic opportunities that labour markets often do not. A particularly challenging feature of this caring burden is Australia’s ageing population, which has created a “sandwich generation” of women who are tasked with caring for both their children and their parents.

In Australia, the number and proportion of businesses owned by women has increased in recent decades. Figure 1.2 shows that women-owned businesses as a share of total businesses have risen from around 31% in the early 2000s to over 35% in 2022.

FIGURE 1.2 WOMEN BUSINESS-OWNERS



Source: ABS 6291.0.55.001 Labour Force, Australia, Detailed

The disproportionate allocation of caring responsibilities that is still predominately borne by women in Australia means that they are more likely to be secondary income earners, and face lower quality employment conditions — women 'are more likely than men to have part-time hours, be in casual and temporary jobs without tenure protection, and with less opportunity for career progression'.⁶

Women in Australia are as well-educated as anywhere in the world — in recent years rates of post-school qualification for women have exceeded that of men.⁷ Despite this, women still spend 80 percent more time in unpaid and care work, heavily constraining their ability to participate in the paid economy.⁸

While several labour market policies, such as paid parental leave and the right to request flexible work under the Fair Work Act, have sought to address these issues, evidence indicates that there is still much work to be done before gender gaps in employment conditions are eliminated.⁹

Figures 1.3 - 1.5 support the idea that structural disadvantages for women still exist — they demonstrate that the gap between male and female employment conditions is widest around caregiving/post-caregiving age brackets. Gender-based differences between income, the underemployment rate, and the proportion of workers who are paid under minimum wage, all peak between the ages of 40 and 55.

Research has also shown that at the aggregate level there is a positive relationship between the unemployment rate and the number of non-employing firms in Australia, implying that there is an 'unemployment-push' effect towards starting microbusinesses.¹⁰ Given the structural hurdles that women face in more traditional working roles, microbusinesses can be seen as offering an opportunity for women to participate in the economy on their own terms and in ways that might not have been open or available to them otherwise.¹¹

A survey conducted by EY Sweeney and Mums & Co, which has a strong contingent of current and prospective microbusiness-owning mothers, adds further detail to this picture. The number one factor motivating mothers to start a business was flexibility in working hours and location, with 55% of respondents citing this reason.¹² Further, 20% of respondents cited dissatisfaction with previous employment as a motivating factor, 11% cited not being able to find other employment, and 6% cited having their previous role changed as a result of taking maternity leave.

Similar insights can also be gained from a survey of women in business conducted by Marie Claire and Salesforce, which is particularly relevant for the microbusiness sector with 52% of survey respondents operating business without employees, and 96% with less than 15 employees.¹³ In this research, the two biggest factors encouraging women to start a business was more flexibility (84% of respondents), and more work-life balance (7% of respondents).¹⁴

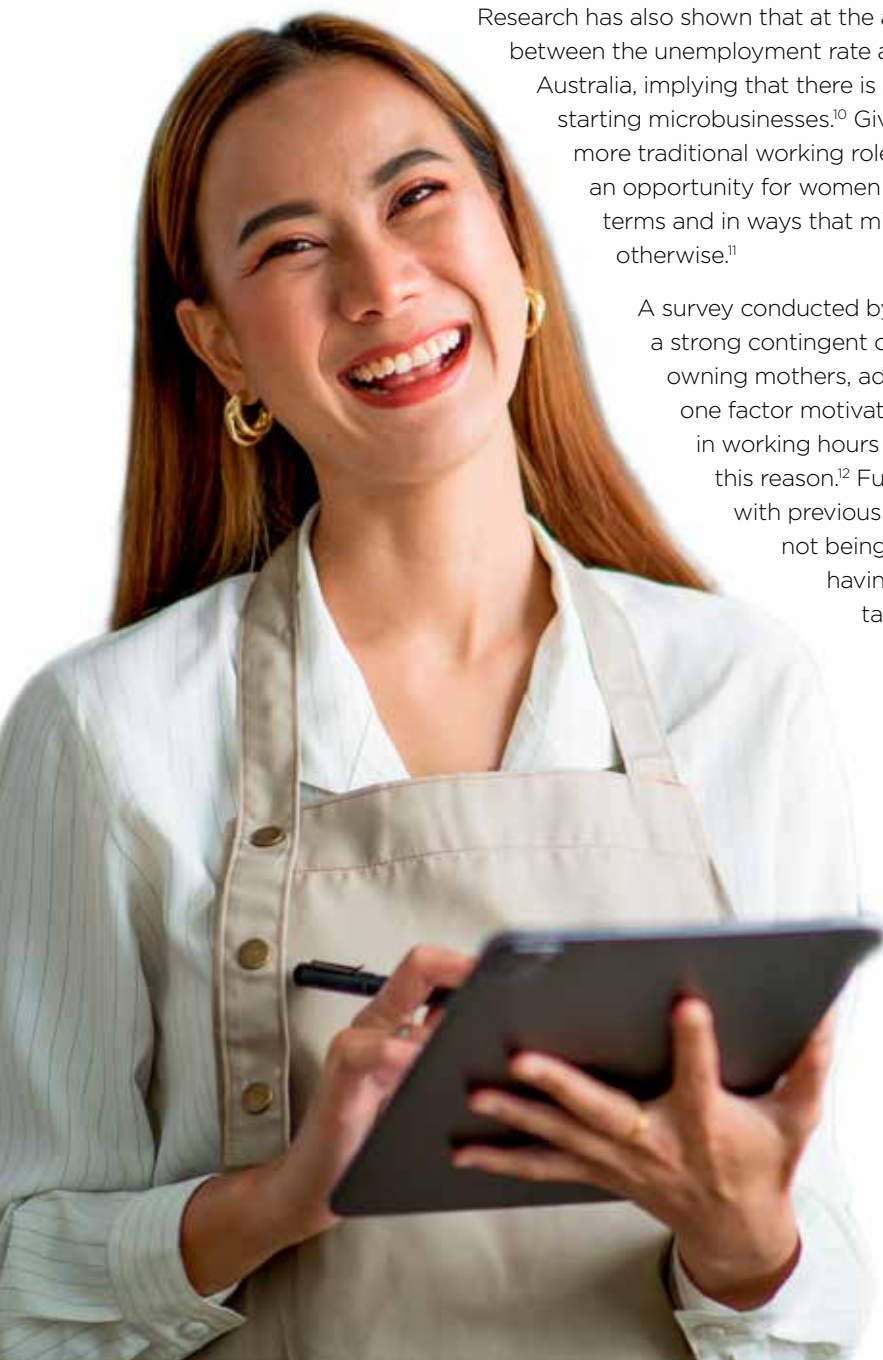
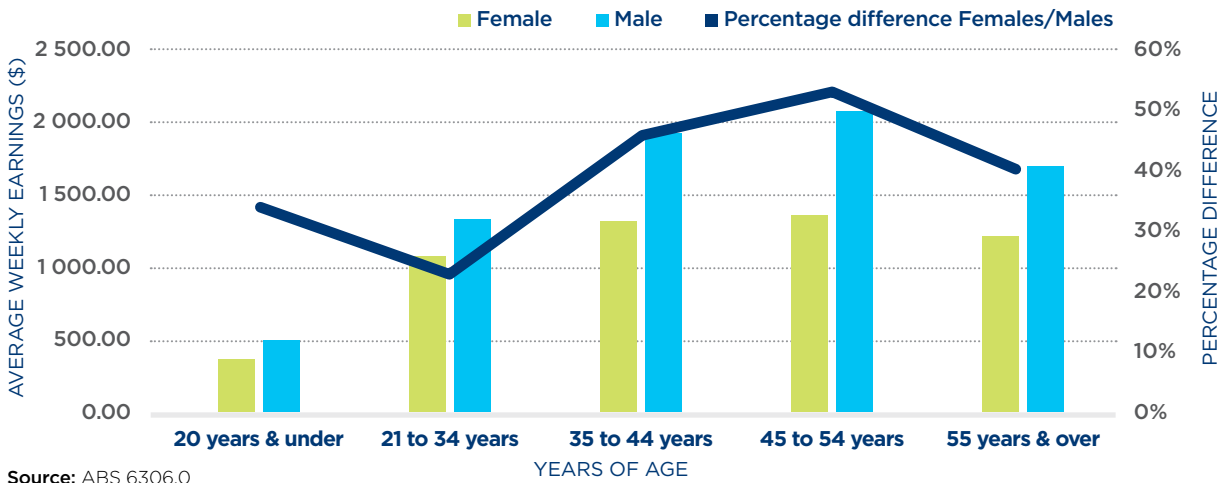
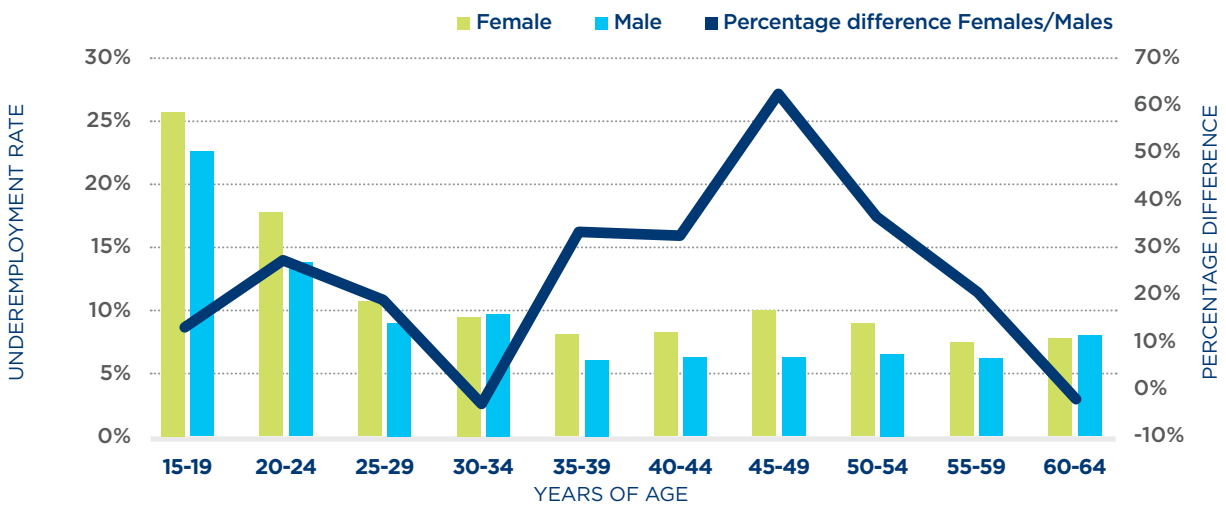


FIGURE 1.3 GENDER-BASED INCOME



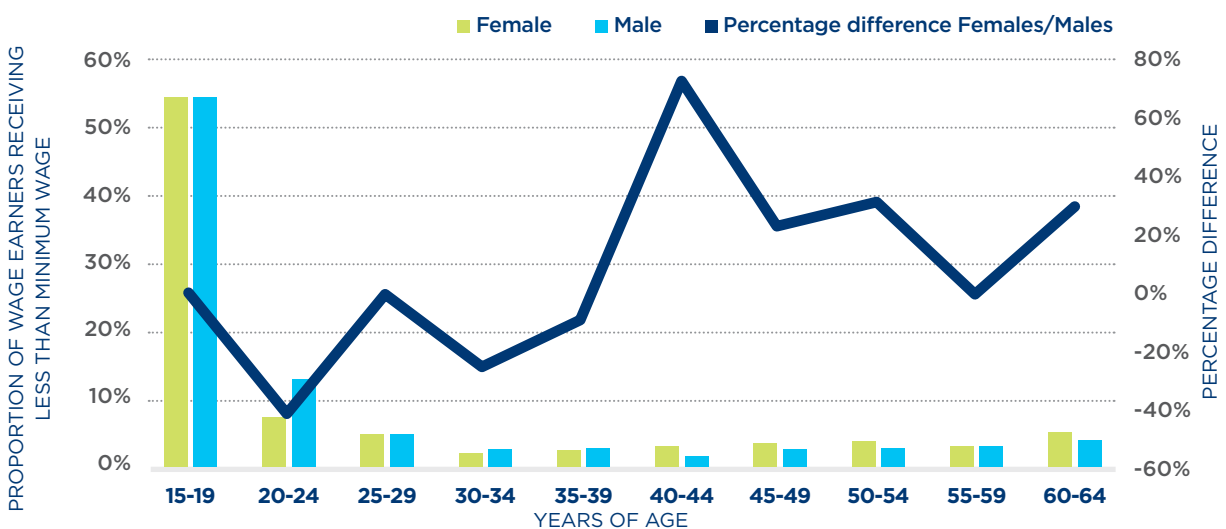
Source: ABS 6306.0

FIGURE 1.4 GENDER-BASED UNDEREMPLOYMENT



Source: ABS Characteristics of Employment Survey, 2021

FIGURE 1.5 GENDER-BASED UNDERPAYMENT



Source: ABS Characteristics of Employment Survey, 2021

The microbusiness sector makes a significant contribution to Australia’s economy

Despite the distinguishing features of microbusinesses outlined in this report, policy and regulation tend to group them into the ‘small’ category. This approach downplays the significant contribution that is made by the microbusiness sector to Australia’s economy. It employs 2.9 million people and generates \$265 billion in value added, compared to the 2.1 million people and \$174 billion generated by small businesses.¹⁵ This contribution is explored in greater depth in part two of this report.

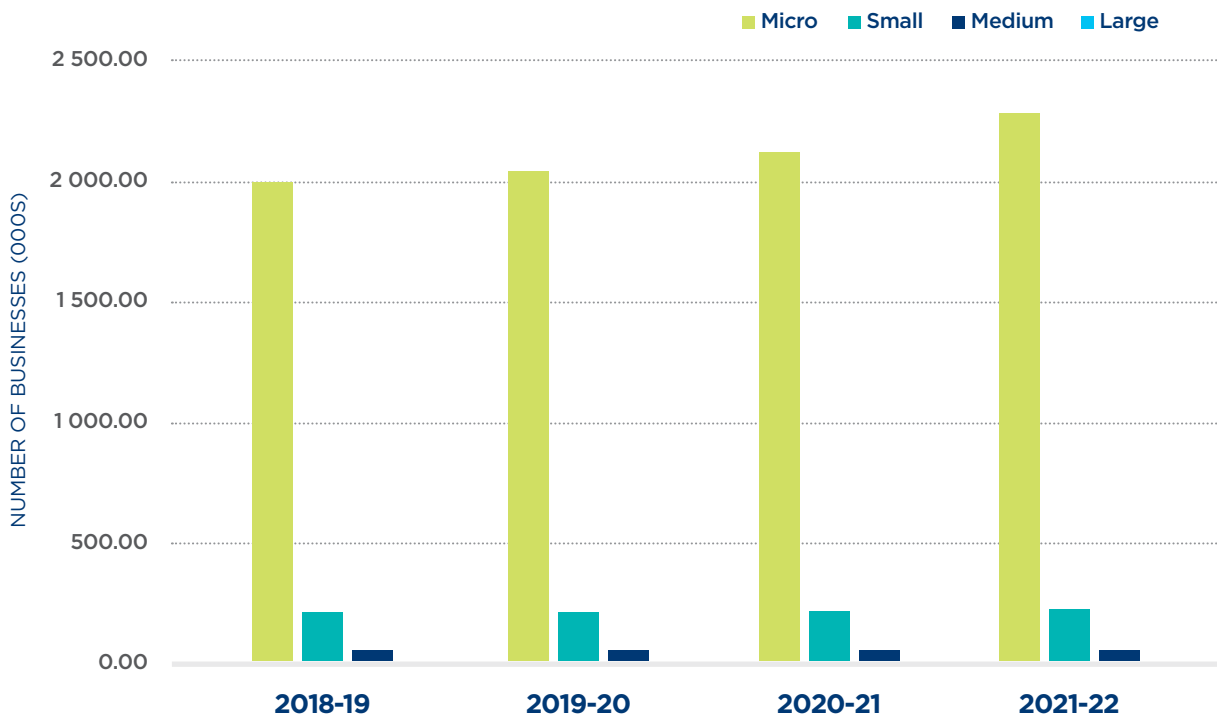
The ABS business size classification defines a business as micro if it has between 0 and 4 employees.¹⁶ This classification also defines small businesses as employing between 5 and 19 workers, medium businesses employing between 20 and 199, and large businesses employing more than 200. While these definitions restrict our understanding of business size to only one

dimension, their simplicity does allow for a variety of illustrative empirical comparisons to take place.

ABS data, highlighted in figure 1.6, shows that the number of microbusinesses in Australia dwarfs that of any other category, making up 89% of all businesses. The microbusiness sector has also been the fastest growing over the last four years, increasing by 14% from 2 million to 2.28 million businesses.

The rapid growth of microbusinesses can in part be attributed to the labour market push factors (discussed above) being amplified by the COVID-19 pandemic. Job losses have forced former wage-earners to turn to alternative sources of income, while a general shift to home-based work has promoted the independence required to start a business. Research has also shown that childcare and school closures throughout the pandemic ‘disproportionally affected women’s paid and unpaid work’, furthering the need for women to seek alternative forms of income outside traditional labour markets.¹⁷

FIGURE 1.6 NUMBER OF BUSINESSES BY SIZE



Source: ABS 8165.0

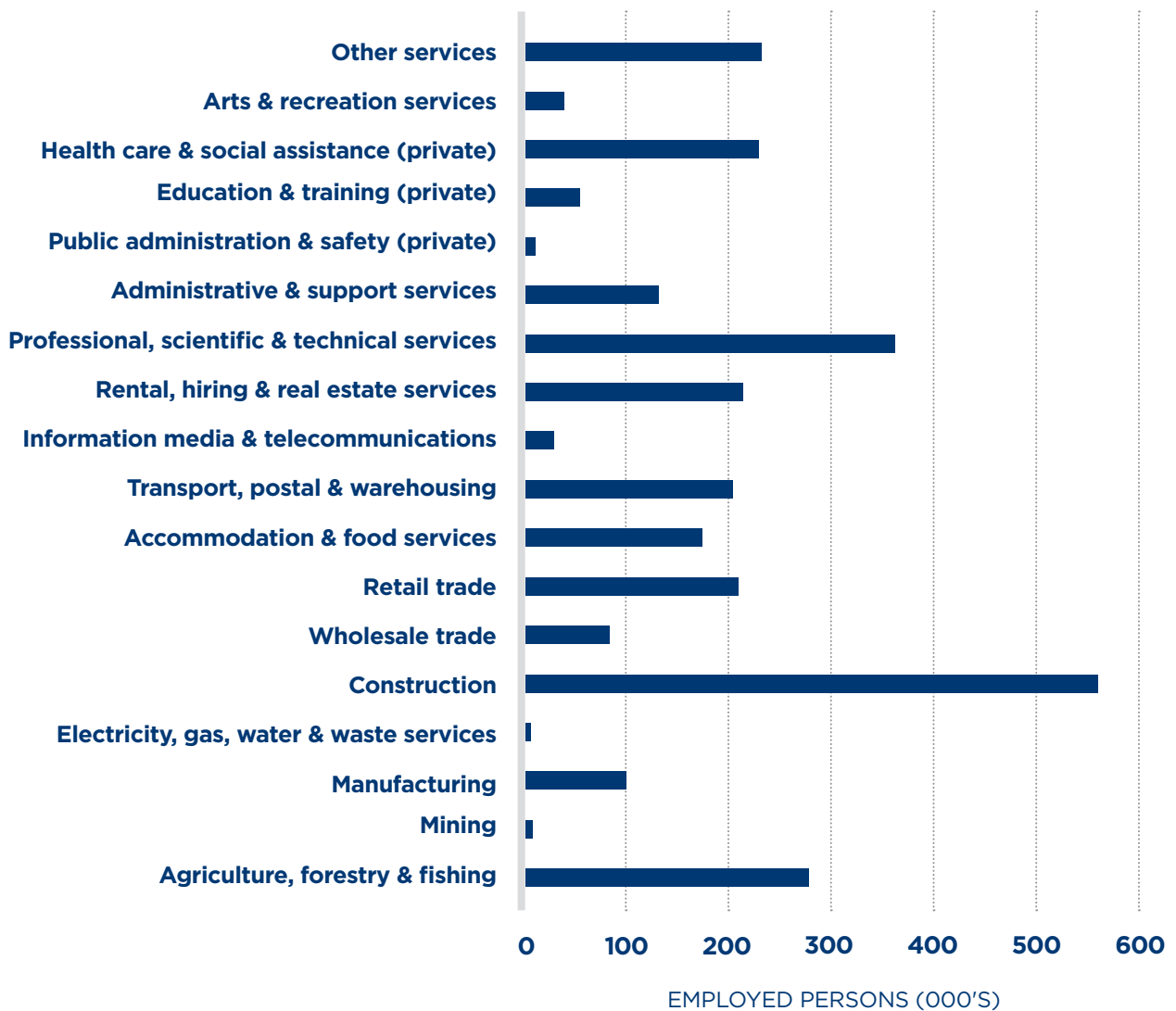


The industries in which microbusinesses are most active in terms of employment (including the self-employed) are:¹⁸

- Construction;
- Professional, scientific, and technical services;
- Agriculture, forestry, and fishing;
- Other services; and
- Private health care and social assistance.

Figure 1.7 displays the full industry-breakdown of microbusiness employment. Intuitively, large and capital-intensive industries like mining, manufacturing, electricity, gas, water, and waste services, contribute comparatively less to microbusiness employment than they do to employment as a whole. Service-based industries, on the other hand, are well-represented, reflecting the tendency for microbusinesses to operate without a dedicated premises or significant physical infrastructure, often being run out of business owners' homes.

FIGURE 1.7 MICROBUSINESS EMPLOYMENT BY INDUSTRY



Source: ABS 8165.0

A more robust definition of microbusiness is needed

The ABS definition of a microbusiness based on employees, while conducive to empirical measurement, isn't entirely representative of the microbusiness sector. Businesses with three or four employees may well have characteristics which more closely resemble a small or medium enterprise, depending on the scale of their operations and turnover, or the value of their assets.¹⁹

This issue is reflected in figure 1.7, by the construction industry leading microbusiness employment when, in reality, many of these construction businesses may not resemble the other qualitative features of microbusinesses. For businesses with 0-4 employees, the construction industry had an above average turnover per employee, whereas the other leading industries in microbusiness employment listed in figure 1.7 all had below average turnover per employee.

Unlike the ABS, the Australian Taxation Office uses a turnover-based rather than an employee-based definition of business size. Under this definition, microbusinesses are classified as having less than \$2 million in total business income, and small businesses between \$2 million and \$10 million.²⁰ As well as using a turnover threshold to define microbusiness, Pfitzner and McLaren argue that an appropriate definition would also include a cap on both operating capital and profit, and the basic requirement of having an ABN to be considered a business rather than a hobby.²¹

Having a unified definition across different government agencies, researchers, and industry, which accurately captures microbusinesses as distinct from other business sizes, would facilitate greater understanding of how these businesses operate, their contribution to the economy, and the issues they

face. It would provide transparency for business owners, industry associations, and insurance providers, and also allow for more targeted support from government. Greater government support would in turn encourage more microbusinesses (particularly those under the \$75,000 revenue threshold for GST) to formally register with an ABN and therefore be included in research and statistics.²²



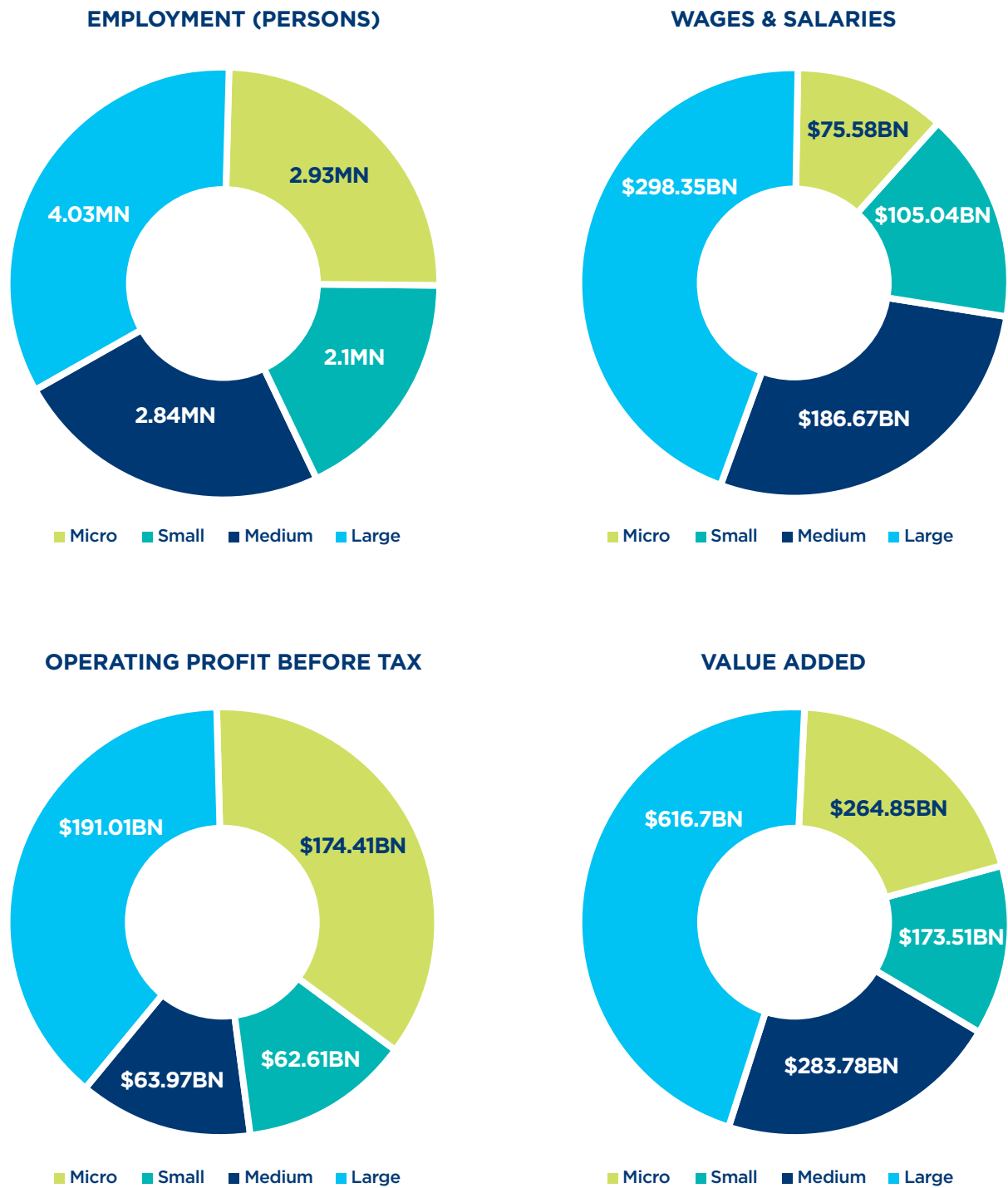
PART TWO: THE ECONOMIC CONTRIBUTION OF MICROBUSINESS IN AUSTRALIA

The contribution of small businesses to Australia's economy has been well-documented in both research and in public discourse, and often includes microbusinesses as a part of this contribution. However, comparing the amount of Australia's aggregate economic activity that is generated by the two business sizes suggests that more attention ought to be paid to the microbusiness component alone.





FIGURE 2.1 MICROBUSINESS EMPLOYMENT BY INDUSTRY IN AUSTRALIA



Source: ABS 8155.0

Based on the ABS definition of microbusinesses having between 0-4 employees, and small businesses having between 5-19 employees, the former contributes considerably more to several economic categories. In the 2020-21 financial year, microbusinesses' contribution to employment (including the self-employed) was 39.8% higher than that of small businesses and 178.6% higher for pre-tax profits.

Microbusinesses paid 28% less than small businesses in wages and salaries, although this is largely due to the number of sole-trader firms that are included in the microbusiness category, whereby income to business owners is not counted as wages and salaries.

Importantly, microbusinesses generated 52.64% more than small businesses in terms of value added, which, being the value of economic outputs minus inputs, measures each sector's aggregate contribution to the economy.

Another important but less tangible contribution that the microbusiness sector makes is through providing economic opportunities to those who are not well-supported by labour markets. Part one of this report detailed how for women at caregiving ages, lower pay, and higher underemployment and underpayment, has prompted significant involvement in the microbusiness sector for this demographic.

The long-term trend of large-scale economic activity becoming increasingly concentrated in metropolitan areas in Australia, means that labour markets also tend to offer less to individuals based in regional areas.²³

Microbusinesses therefore present opportunities to boost economic activity in regional Australia, particularly given their propensity to function remotely over the internet.

By providing individuals with an alternative source of income, the microbusiness sector can relieve pressure on the welfare system and therefore government budgets. This creates a potential dividend on any government investments aimed at making the microbusiness sector more attractive for those dependent on transfer payments. By creating competition with conventional forms of employment, a prosperous microbusiness sector also has the potential to feed back positively into labour market outcomes.

A better understanding of the microbusiness sector, and more tailored policy designed to help unlock its potential, could result in these contributions growing further.



PART THREE:

THE CHALLENGES FACING MICROBUSINESS AND MICROBUSINESS OWNERS

The unique characteristics of microbusiness, as outlined in part one of this report, mean that there are a set of challenges which the sector faces to a greater extent than other businesses. Having to navigate specialist areas of commerce and deal with emerging risks relating to cyber security and natural disasters, are difficulties which disproportionately affect microbusinesses.

Microbusinesses lack access to finance and marketing expertise and opportunities

Effectively navigating areas of commerce that larger organisations have specialist teams for, like finance and marketing, can be a challenge for microbusinesses. The most recent ABS Business Characteristics Survey (BCS) from 2019-20 indicates that microbusinesses' biggest commercial barriers relative to other business sizes are lack of customer demand for goods (23.3% of all microbusinesses), and lack of access to additional funds (11.8% of all microbusinesses).²⁴

Mums & Co survey data also reports that financial concerns and attracting or retaining customers are two of the top three challenges for both existing and prospective business owning mothers.²⁵ The proportion of mothers facing these challenges (between 45% and 50%) is significantly higher than the proportion of all business owners facing similar challenges reported in the BCS. While direct comparison here is unreliable due to different survey methodology, this discrepancy does call to attention the wider issue of gendered disadvantage in business and throughout the economy.

Financing arrangements in the context of start-ups exemplify this issue. A Deloitte report has suggested that despite 22% of start-up founders being women, only 0.7% of total capital is raised by solely women-founded teams, and that this gap cannot be attributed to different expected investment returns.²⁶ Instead, this gap indicates deep-seated discrimination issues in a male-dominated industry. Research has also indicated that 83% of women believe their gender has impacted their ability to raise external capital for their company, compared to 14% of men.²⁷



While these research findings refer to businesses of all sizes, the higher concentration of women who own businesses with 0-4 employees means this is a particularly salient issue for the microbusiness sector.²⁸ A survey conducted by the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) found that 43% of small and microbusiness owning women identified access to capital as a central barrier to growth.²⁹ The gendered nature of access to finance means that while turning to self-employment can potentially alleviate labour market disadvantages for women, owning a business presents disadvantages of its own.

Regarding marketing, social media now plays a vital role for microbusinesses, given their dependence on ecommerce, and the limitations on in person commercial interactions that resulted from COVID-19 restrictions. On one hand, social media presents an accessible means to reaching existing and potential customers. On the other hand, the complex ways in which social media algorithms determine audience reach, mean that a greater level of technical expertise is required to leverage these platforms in an effective way. While larger businesses are able to dedicate resources to this kind of specialist knowledge, microbusinesses cannot.

Microbusinesses are particularly vulnerable to cyber security risk

As discussed in part 1 of this report, ecommerce and internet sales have become a prominent feature of the microbusiness sector. The BCS reports that between the 2017-18 and 2019-20 financial years, the proportion of microbusinesses placing orders and receiving orders via the internet grew by 12.43% and 23.01% respectively—more than any other business size for both categories.³⁰

While the development of internet and communications technology has facilitated microbusiness growth, it has also created a new set of risks through potential data and cyber security breaches. The less structured and informal nature of microbusinesses means that the personal information of business owners is much more likely to be linked to business information, which widens the scope of a potential data breach.

Moreover, microbusinesses also tend to lack the resources necessary to protect themselves from cyber risk with the same rigour as larger organisations – spending money on software or in-house ICT staff necessary to be adequately protected against cyber risk is difficult to justify for a business with only a handful of employees and limited turnover.

BCS data suggests that the biggest barrier to greater usage of ICT amongst microbusinesses is a lack of knowledge about these technologies, whereas this barrier is not even in the top three for all other business sizes. A lack of knowledge was also the biggest factor preventing microbusinesses from taking up cloud technology. These statistics show that microbusinesses are the least knowledgeable about ICT, but simultaneously the most dependent on it for income, leaving them particularly exposed to risks in this area.

The Australian Competition and Consumer Commission's (ACCC) Scamwatch resource provides further insights to the impacts of cyber risk on different business sizes. Table 3.1 highlights that while microbusinesses had a relatively low average loss associated with cyber scams in 2021, these losses were the most significant of any business size when compared to average turnover.³¹ Moreover, given microbusinesses have the least resources available to monitor cyber risk, there is likely a higher degree of underreporting than for other business sizes, meaning that these figures would underestimate the impact of cyber risks on microbusinesses.

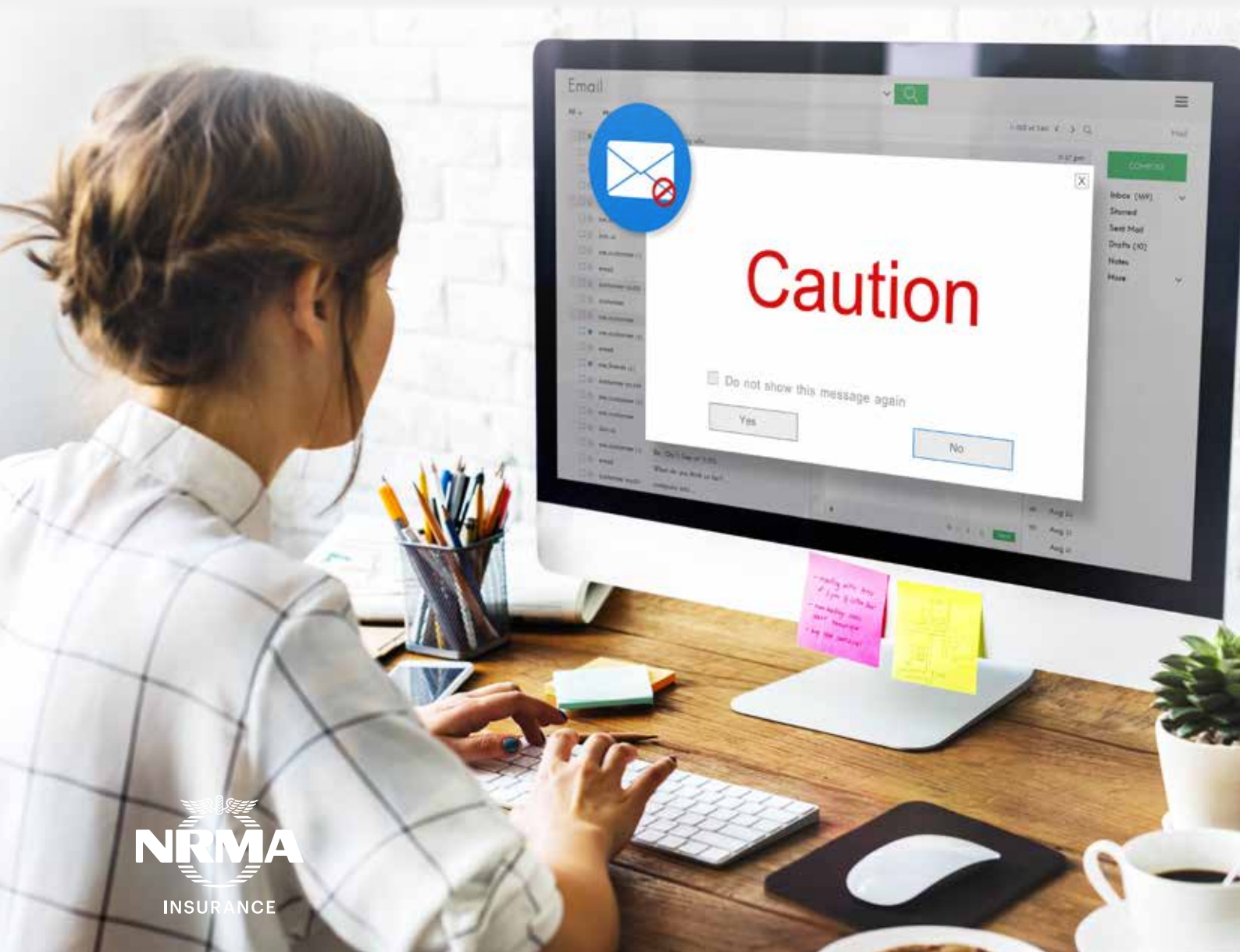




TABLE 3.1 AVERAGE LOSSES TO SCAMS BY BUSINESS SIZE

Business size	Number of reports	Reported losses	Mean loss	Mean Turnover	Average Loss/ Turnover
Micro (0-4 staff)	1,093	\$3.5m	\$3,202	\$377,738	0.85%
Small (5-19 staff)	890	\$3.5m	\$3,933	\$2.4m	0.17%
Medium (20-199 staff)	551	\$4.2m	\$7,623	\$16.8m	0.045%
Large (over 200 staff)	319	\$421,000	\$1,320	\$378.9m	0.0003%

Source: ACCC Scamwatch, ABS Business Characteristics Survey, 2019-20



Microbusinesses have limited resilience against natural disasters

Climate change has impacted the frequency and severity of extreme weather that can lead to natural disasters. This is increasingly becoming a risk faced by households and businesses all over Australia, with multiple extreme weather events in recent years demonstrating their potentially devastating consequences. Recent McKell Institute research has estimated that, after accounting for changes in both the frequency and severity of extreme weather events, direct economic costs from disasters will amount to \$35 billion per year by 2050.³²

Concern about disaster risk is represented by responses to the BCS: the proportion of microbusinesses that cited environmental factors as a barrier to business activities jumped from 4.3% in 2018 to 16.7% in 2020.³³ Microbusinesses' resilience to natural disasters is constrained by their low levels of resources, capital, and liquidity, meaning they are at greater risk than other businesses of being completely wiped out by an extreme weather event.

While the resilience of individual microbusinesses to natural disasters is limited, being part of a community that takes collective measures towards disaster resilience can help address these limitations. Primary research conducted by the ASBFEO, as a part of its Natural Disaster Preparedness and Resilience Inquiry, has indicated that disaster preparedness is greater in communities with high 'sociocommercial capital'—a 'strong sense of community connectedness, including collegiate business relationships'.³⁴

Efforts towards facilitating sociocommercial capital with a specific focus on disaster preparedness could be undertaken through government-funded programs. Historically, government expenditure on natural disasters in recent years has predominantly been directed towards disaster recovery rather than disaster resilience—between 2005 and 2022, the Federal Government spent \$23.99 billion on the former, and only \$0.51 billion on the latter.³⁵

However recent positive steps have been made – the Federal Government has now committed \$200 million annually for upfront mitigation initiatives to help protect communities and make them more resilient to severe weather and natural disasters.³⁶

Increasing natural disaster risk and the lack of disaster resilience is also creating a growing issue of underinsurance. A customer's insurance premium reflects a range of factors, including the level of severe weather risk at their property. As the frequency and severity of extreme weather events continue to rise, higher insurance premiums, particularly in disaster-prone areas, will increasingly affect the affordability of insurance for households and businesses.

Within the microbusiness sector, the underinsurance issue is exacerbated by the prevalence of home-based business operations. For these business owners, home and contents insurance may cover some business assets lost to natural disasters but cannot cover the ongoing loss of revenue suffered as a result.

Furthermore, some business activities being performed at home may void home insurance altogether. This can mean microbusiness owners, while holding both home and business insurance policies, still might not be adequately covered due to their mixed home and business premises.³⁷ Microbusinesses are also more likely to face informational issues regarding appropriate insurance coverage – their dependence on internet-based commerce means they are more likely to purchase insurance products directly online, rather than through an insurance broker.

Another aspect of the underinsurance issue is the difficulty for the insurance industry to price premiums based on the risks faced by specific businesses. Greater attention being paid to the challenges and risks faced by the microbusiness sector would assist the creation of insurance products which are tailor-made to microbusinesses, and therefore increase insurance coverage.

PART FOUR: CASE STUDIES FROM MUMS & CO

The economic contribution that microbusinesses owned by women make, as well as the challenges they face, deserve greater public attention. While the research in this report has so far described these issues in terms of aggregate level data and anonymised survey results, understanding the individual stories behind the people who make up these numbers adds an important perspective.

Mums & Co is a nation-wide network comprised of exactly these kinds of people. The Mckell Institute utilised this network to conduct a questionnaire regarding the personal experience of Mums & Co members who navigate the daily ups and downs of being a microbusiness owning mum. Four case studies are presented below as illustrative examples of the key issues discussed in this report.

A common thread that runs throughout these case studies is a desire to use business to help others. This reflects the fundamentally community-oriented nature of a microbusiness, and demonstrates how supporting a microbusiness doesn't just involve supporting its owner, but also the community it operates in.

Mums & Co





ALL ABOUT STYLE

Antionette Stonham founded her business **All About Style** out of Western Sydney 11 years ago. Utilising her skilled background in design and pattern making, Antoinette's business aims to provide accessible stylist services for everyday women. With just one casual employee, and the business as her only source of income, it is crucial for Antionette to ensure the ongoing success of her business.

During this period as a business owner, Antoinette has also found herself as a member of the sandwich generation, with caring responsibilities for her parents, as well as her children and grandchildren. Owning a microbusiness has provided her with a level of flexibility that has allowed her to manage this time with her family alongside a steady income:

“Owning a microbusiness gives me the flexibility to spend time with my growing family. Last year I lost my mum, I was so grateful to have had the flexibility to have cared for my mum and spent quality time at her bed side.”

Over her journey, Antionette has experienced several of the challenges that are typically faced by microbusiness owners, and in particular women. In the initial stages of the business, Antionette found it hard to fund setup costs and investments in growing the business, without drawing on her personal income and savings. She has also found that marketing is “always a challenge” and can become a significant cost if it is not done effectively.

In recent years, as the internet usage of her business has increased, cyber security has become a significant concern. Antoinette has sought advice from IT experts. However, the inability for a microbusiness to have any full time IT staff means that this will be an ongoing challenge:

“To be honest cyber security is a scary unknown.”

While Antoinette believes that there is government support out there for microbusinesses, actually leveraging this support is not as easy as it could be:

“I feel that many micro businesses don't know how to access the support or what is in place is not valuable to them. More awareness on what is available and how to access the support [is needed].”

SINGLE MAMA WAY

Elle Sitek is the founder, owner, and sole worker at her business **Single Mama Way**, which provides virtual face-to-face counselling and resources for single mothers in Australia. Elle has decades of experience working as a nurse, however taking on sole caring responsibilities for her children prompted her to start her business, not only to allow her to manage these responsibilities, but also help others navigating the same challenge:

“I am a single mother who, 7 [years] ago, found herself alone, facing divorce lawyers, mediators and an unamicable split... Living in a regional town, there were long waits for up to 8 months to see a psychologist, and counsellors were just out of my price range. I promised myself if I got out of this with my sanity intact, I would work to change that.”

Elle then formalised her skills by earning a diploma in counselling, and founded her business in early 2022. Becoming a business owner has meant that as well as being able to better allocate her time to family and caring, Elle also feels a sense of pride in creating value for her community:

“The flexibility of working hours has been paramount in creating this business and contributing to society. In addition, the freedom of autonomy and satisfaction that the buck stops with me motivates me to reach out and create something that serves my local community.”

Like many others who own a microbusiness, having to cover all aspects of running the business presents tasks and areas of commerce which are difficult to navigate. With a skilled background in health, Elle is well-equipped to manage the counselling side of her business, but an unfamiliarity with the specialist areas of both finance and marketing means these operations pose significant challenges.

With a business that is run entirely online, and also involves collecting the sensitive health data of clients, being insulated from cyber security threats is crucial for Single Mama Way. While this is a key concern for Elle, she has felt well-supported by the Federal Government’s advice through the Australian Small Business Advisory Services.



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VANESSA BELL

Vanessa Bell, and her microbusiness of the same name, make and sell merino wool products, with a focus on baby blankets. As a mother in regional Australia, becoming a business owner has created economic opportunities for Vanessa that still allow her to care for her family:

“My business allows me to work in a way you couldn’t in traditional employment. In terms of navigating labour markets, in the bush as a sole operator I define my own terms.”

VANESSA BELL

A diverse professional background has meant that Vanessa is relatively adept at dealing with the challenges associated with finance and marketing. However, living rurally and running a business which is dependent on agricultural inputs means that climate change and extreme weather are pressing concerns.

Vanessa feels that while government support for microbusinesses has improved in recent years, there is still a long way to go. In particular, she voiced the need to assist women business owners in regional Australia, whose valuable off-farm contributions can often go unnoticed and under-supported.



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GOODS 4 GOOD

After a career in marketing spanning over 20 years, **Nandeeta Maharaj** founded **Goods 4 Good** in 2021, with the mission of connecting ethically minded consumers with social enterprise products and enabling them to use their spending power for good. For Nandeeta, starting her business has had the twofold effect of enabling more family time, and creating a strong sense of purpose:

“I can balance my time between family and my business. Although the business is not making any profit yet, it still gives me an opportunity to use my skills to date for a purpose that aligns with my values. It also gives my children a chance to participate in extracurricular activities that they would not have been able to pursue if I was in a full time role.”

Despite her professional background, the scale of Nandeeta’s business means that, like many other microbusinesses, she still faces challenges with marketing. Nandeeta described her difficulties with the costs of effective marketing, and not being able to fund these costs, which is also interrelated with the issue of women microbusiness owners struggling to get access to finance.

Nandeeta is aware of some government support for microbusinesses, and has utilised free courses available on the NSW government’s Startup Hub. However, she also voiced concern regarding the accessibility of government programs:

“It is hard to navigate the options that are available for microbusinesses.”



CONCLUSION

The role of small business in Australia's economy has long been emphasised in public discourse, and well-supported by policy makers. However to date, little attention has been paid to how microbusinesses fit into this picture.

Existing formal definitions of what constitutes a microbusiness for policy and statistical purposes are vague and inconsistent, and need to be refined in order to promote greater research on the microbusiness sector, and more tailored government support. Beyond formal definitions, microbusinesses possess a number of unique qualities which differentiate them from the general small businesses category, such as their community orientation, and the strong representation of women business owners.

Important delineations between the microbusiness and small business sectors can also be observed when analysing their economic contributions. On an aggregate level, the former outperforms the latter in terms of employment, profits, and value added. A wider understanding of these differences would help shift the narrative around how small businesses make up Australia's commercial landscape.

Despite the size and contribution of the microbusiness sector, there are still a number of challenges which inhibit its success. Navigating specialist business areas like marketing and finance, and dealing with fast-emergent risks from cyber security, and climate and extreme weather, are challenges that are particularly testing for a business with micro-sized operations.

Case studies of real-world microbusiness owning women from Mums & Co have highlighted all of these challenges and contributions through personal stories, and demonstrated how microbusiness can be used as a vehicle to help others.

The recommendations that follow provide a range of options to all levels of government that will help place greater value on the microbusiness sector's economic contribution, address its key challenges, and ultimately enable these businesses to realise their full potential.





RECOMMENDATIONS

RECOMMENDATION ONE: Establish a more detailed definition of microbusiness in Australia.

Incorporating into the definition a measure of yearly turnover, or the value of assets that a business holds, would ensure that only businesses that are truly “micro” are being measured in official statistics and targeted by government policy. This would enable a better understanding of how the sector operates and ensure the right businesses are accessing the relevant government support.

RECOMMENDATION TWO: Create a one-stop-shop resource for microbusiness support and resources across all levels of government.

Between local, state, and Federal governments, there are a number of different grants, training programs, and information resources that microbusinesses are eligible to take advantage of. However, as demonstrated by the case studies in Part 4, these various forms of support are fragmented and difficult to access for many microbusiness owners.

This support should be consolidated across the different levels of government into a one-stop-shop, that caters for different accessibility needs, and ensures that it is available to its intended recipients.

While a single website or information source coordinated by the Federal Government would streamline the process of identifying possible support, it is important that each level of government still plays a role in actually providing this support, in order to effectively address different needs. For example, information and training on cyber risk applies to microbusinesses

all across the country in the same way, and should therefore be administered at the Federal level, as it currently is through the Australian Small Business Advisory Services.³⁸

Resources relating to natural disaster preparedness and recovery, on the other hand, would vary in their content throughout different regions, so it is important that local and state governments play a role in providing these resources and facilitating community-based resilience efforts.

One all-encompassing website can be responsible for making it clear to an individual microbusiness owner, in any given region, what support is available to them and how they can utilise it.

RECOMMENDATION THREE: Provide government support that treats microbusiness as a separate category to small business.

Existing grants, information, and training are predominantly aimed at “small businesses”, which includes microbusinesses’. Given the significant contribution the microbusiness sector makes to Australia’s economy on its own, some of this support needs to be more effectively tailored to meet specific microbusiness needs.

Information and training relating to cyber risk could focus on the online-dependent nature of microbusinesses income and the links between personal and business information, and microbusiness grants could be aimed at addressing the key commercial barriers of the sector, like marketing. Disaster resilience support should have a strong focus on the insurance issues faced by microbusinesses, and how the community-oriented nature of microbusiness can assist with preparedness.

RECOMMENDATION FOUR:
Address the structural barriers that limit access to finance for women who own businesses.

Investigating and taking action on the disadvantages faced by female business owners attempting to access finance is crucial for not only unlocking unused potential in the microbusiness sector, but also for gender equality more broadly. Policy could help ameliorate this issue by setting up stricter monitoring of gendered lending practices, or by providing government backed loans for business owning women.

The United Kingdom, as highlighted by the periodic The Alison Rose Review into Female Entrepreneurship, provides important examples of policies and private sector initiatives heading in this direction. The 'Investing in Women Code', which aims to provide transparency around banks' lending to women business owners, has been signed by nearly 80 UK financial institutions.³⁹ As the World Bank now seeks to establish its own global Women Entrepreneurs Finance Code, Australian financial regulatory bodies should aim to implement similar transparency and monitoring measures.

The UK also exemplifies how targeted loan products, that could be provided by governments or private institutions, can help increase women's access to business finance. Banks have established investment funds dedicated to women-owned businesses, and introduced flexible 'family-friendly' loans which aim to remove caring duties as a barrier to finance by including 'capital repayment holidays, fee waivers and government-backed Bounce Back loans'.⁴⁰ The Australian Federal Government could make these kind of initiatives widely available by providing them directly, in the same way it has done with other low-cost financial products, such as interest-free Trade Support Loans.⁴¹

RECOMMENDATION FIVE:
Partner with the financial sector to provide education courses for microbusinesses that will help them grow.

Upskilling microbusiness owners in navigating finance would also help deal with the structural barriers inhibiting microbusiness success. From the perspective of banks and the financial industry, a more financially adept microbusiness sector would provide more business opportunities, therefore it is directly in their interests to assist a government administered program aimed at furthering financial education. Similar partnerships could also be formed with other private sector and non-government organisations interested in supporting the microbusiness sector, like Mums & Co and NRMA Insurance.

FOOTNOTES

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