



FACTSHEET

THE MCKELL INSTITUTE

Micro but Mighty

MAGNIFYING MICROBUSINESS IN AUSTRALIA



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

This report aims to better understand the importance of microbusinesses, using 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.

This research was complemented by case studies provided by Mums & Co, an organisation dedicated to providing support for female entrepreneurs.

SUMMARY

- **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 which lead to active engagement with the microbusiness sector.** This is the case for those with caring responsibilities in particular – 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.
- **A more detailed definition of microbusiness is required,** as opposed to the 0-4 employees classification currently used by the ABS. This would ensure that only businesses that are truly “micro” are being measured in official statistics and targeted by government policy, ultimately enabling a better understanding of how the sector operates for researchers, policy makers, and insurance providers.
- **Aggregate data shows that microbusinesses, when treated as a separate category, contribute more than other 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
- **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.

1. Source: ABS 6306.0, ABS Characteristics of Employment Survey, 2021

2. Source: ABS 8155.0

	Employment (mn persons)	Wages & salaries (\$bn)	Operating profit before tax (\$bn)	Industry value added (\$bn)
MICRO	2.93	75.58	174.41	264.85
SMALL	2.1	105.04	62.61	173.51
MEDIUM	2.84	186.67	63.97	283.78
LARGE	4.03	298.35	191.01	616.7

➤ **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 cybersecurity 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

3. Source: ABS Business Characteristics Survey, 2019-20

4. Source: ABS Business Characteristics Survey, 2019-20



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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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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RECOMMENDATIONS

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.

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.

