

# LOOKING AHEAD: PREPARING SMALL BUSINESS FOR THE FUTURE

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“EXPECT THE BEST, PLAN FOR THE WORST,  
AND PREPARE TO BE SURPRISED.”

DENIS WAITLEY

# MESSAGE FROM THE MINISTER FOR SMALL BUSINESS

As a small business owner myself, I understand the demands of running a business. The most difficult task is taking the time to step back and think strategically about how the events going on around you may potentially affect your business in the future. The next step is to then consider how you could better prepare your business for these changes. With some additional investment of time, you as a small business owner, may identify many of the risks and opportunities ahead.

This report *Looking Ahead: Preparing Small Business for the Future* considers some of the potential opportunities and challenges that small businesses should consider over the next decade. The report provides, through examples, an understanding of how an examination of future issues may be useful in assisting small businesses prepare for change. In circumstances where there are uncertainties, considering possible options will help small businesses prepare for the inevitable surprises.

As Minister for Small Business I am committed to ensuring that the NSW Government gives small businesses the support that they need. This report is just one of many tools available to assist small businesses in NSW prosper and take advantage of the opportunities ahead.

**The Hon. John Barilaro MP**



## INTRODUCTION

“MY INTEREST IS IN THE FUTURE BECAUSE I AM GOING TO SPEND THE REST OF MY LIFE THERE – C.F. KETTERING”

What does the future hold for your business?

This paper provides you, a small business owner in NSW, with insights into changes to look out for over the next 10 years and how they might affect your business.

## WHAT CHANGES MIGHT AFFECT YOUR BUSINESS?

This paper considers possible changes according to these themes:

1. Access to finance and the macro economy
2. Demographic change
3. Technology
4. Engaging customers and other stakeholders
5. The built environment
6. The policy environment
7. Utility costs

Making predictions is difficult but a look to the future can be very valuable. In some themes discussed in this paper, there are trends (e.g. the ageing population) and changes (e.g. planned infrastructure) that can be predicted with some confidence. For other themes, the future is highly uncertain. Regardless of the level of certainty, the process of forecasting is a key step in identifying risks and opportunities and the management of risks.

Identification of potential changes can help you be more alert to changes as they materialise, to understand their implications, and to respond. Better understanding and managing risks also helps reduce the stress on you and your employees.

## KEY POINTS

- Making predictions is difficult, however forecasting can still be valuable
- There are some clear trends and developments, and
- An understanding of risks or opportunities can help you prepare.

# IMPLICATIONS AND CONSIDERATIONS

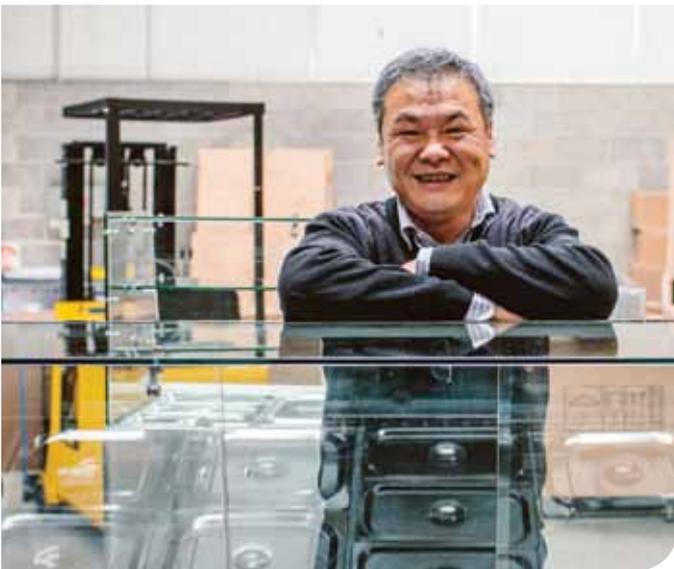
The implications of any potential change will differ from business to business. To assess implications for your business, there are a number of questions you may consider. Naturally these would include what is the likelihood of change and what is the likely pace of change. There are also questions that are more particular to your business.

First, how would your business respond to a change and how quickly could you adapt? Will the change require a modification to business practices? Even small changes can have significant consequences, which upon inspection can generally be easily identified.

Will the change affect all your competitors in a market? A change that affects all competitors equally may result in offsetting changes in competition and prices. A change that more significantly affects just your business will be of greater consequence.

The nature of change is also important. Some changes, such as a change in the cost of a key input, may be quickly absorbed by the market and passed on in a change in price to consumers. Modification to business practices may be absorbed more slowly and provide advantages to those who adapt earlier.

Is the market growing? Changes that occur in a growing market will generally be of lesser significance. For example, a negative shock may simply slow the rate of new competition in a growing market but cause some existing businesses to exit in a steady or declining market.



## HOW WILL CHANGES IN COSTS AFFECT YOUR BUSINESS?

Consider the impact of a large change in the cost of a key input such as fuel or labour. The implications to you might be small if the change affects all competitors equally, however you might be more or less dependent on these inputs than others. Differences between how you and your competitors operate are a key source of risk and opportunity.

It is important to recognise that, despite your best efforts, there will be events that you simply do not expect, or that could not have been foreseen. Such events are often described as black swans (see Box 1: Black swans). While you cannot predict all eventualities, you can consider how to prepare your business to be resilient to sudden shocks.

### BOX 1: BLACK SWANS

Before black swans were discovered in Western Australia, the commonly held view was that all swans were white. It wasn't so, but no one outside of Australia could have known.

Black swans are unexpected events (outside the realm of regular expectations) that have significant impacts.<sup>1</sup> These include events such as the September 11, 2001 attacks, the dissolution of the Soviet Union, the 2011 tsunami in Japan and the recent Christchurch earthquakes.

### KEY POINTS

- What appears to be a significant change may be quite benign
- For any change, will the change:
  - involve a change in business practice?
  - provide time to adapt?
  - affect the entire industry?
- Ensure your business is resilient. There will be changes which you will not expect.

# 1. ACCESS TO FINANCE AND THE MACRO ECONOMY



“WALL STREET INDICES PREDICTED NINE OUT OF THE LAST FIVE RECESSIONS! – NOBEL LAUREATE PAUL A. SAMUELSON, 19 SEP, 1966.”

Changes in the macro economy can have broad-ranging impacts on small business, affecting the availability and cost of finance, the cost of other inputs, product demand, and, particularly for those exposed to fluctuations in the exchange rate, the price of goods sold.

A number of banks and other parties provide regular forecasts of the macro economy. These include the quarterly economic outlook by the Reserve Bank of Australia (RBA), the most recent of which (from November 2014) is summarised in Box 2: The RBA's November 2014 forecast below. The two-year forecast of the RBA and most banks appears to be reasonably consistent in predicting steady economic growth.

Don't let the consistency of economic forecasts give you a false sense of security. Like others, economic pundits and prophets tend to groupthink.<sup>2</sup>

## BOX 2: THE RBA'S NOVEMBER 2014 FORECAST

Each quarter, the RBA as part of its Statement of Monetary Policy releases an economic outlook containing insights and forecasts (for a two-year period) for the Australian economy. Forecasts in the November 2014 report include:

- the exchange rate is to remain steady in the near future
- economic growth<sup>3</sup> will be slightly below trend for 2014/15 but pick up over 2015/16, and
- inflation will be steady at around 2–3.25%.

However, the report also identifies sources of uncertainty including:

- the speed and timing of the recovery in non-mining business investment
- how low income growth and wealth effects from the housing market might translate into consumption
- the Chinese housing market, and
- the path of the exchange rate.

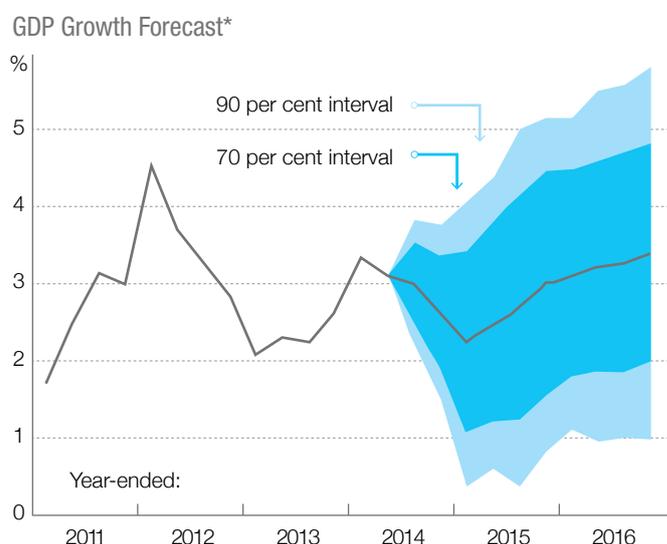
**Source:** RBA (2014).



## BOX 3: THE UNCERTAINTY IN FORECASTING

The figure below shows the likely range of the RBA's economic growth forecast based on past performance. The extent of the range highlights the need for businesses to be prepared for rapid and unanticipated changes in the economic environment.

Figure 1: Economic forecasting<sup>4</sup>



\*Confidence intervals reflect RBA forecast errors since 1993  
Source: ABS; RBA

**Source:** RBA (2014, Graph 6.3).

A sudden change in economic conditions can have a significant impact on a small business. Many small businesses will have experienced the challenges of a tightening of credit that occurred during the recent global financial crisis (GFC) between 2007 and 2009.

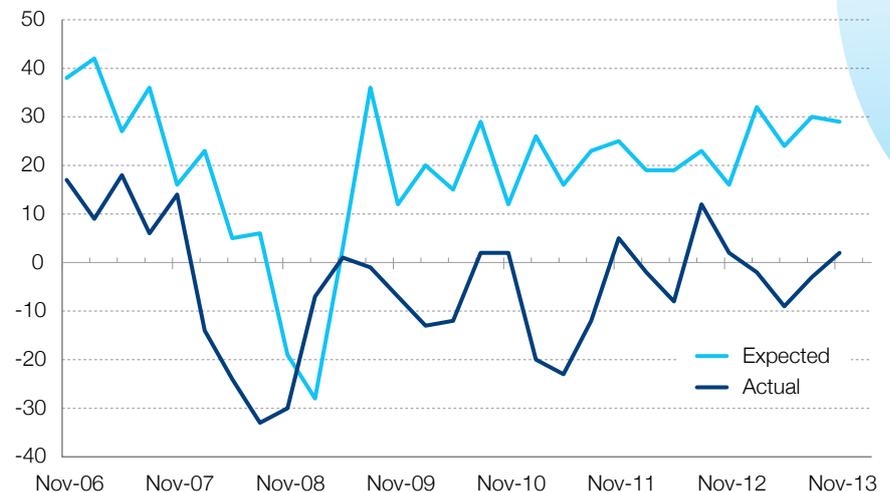
Figure 2: Small business sales growth – NSW shows how rapidly things can change. This summarises results from the quarterly Sensis® Business Index survey<sup>5</sup> on sales growth expectations and actual experience. The figure shows the net balance – the difference in the proportion of businesses reporting positive and negative growth. As shown, the expectations of positive sales growth plummeted in late 2007 and recovered strongly in early 2009. Note also that expectations are almost always better than actual circumstances, suggesting systematic optimism bias within small business.

During this period, the cost and availability of finance changed quickly. Figure 3: Average lending rates to business below tracks changes in average lending rates. Of particular concern for small business is that during times of stress, the cost of borrowing for small business can grow at a faster rate than that for large business.

Further, this underestimates the impacts on small business as some businesses find that they are refused finance at any rate which can be catastrophic for the businesses concerned. Without collateral, cash flow lending to small businesses is seen as high risk and low reward by banks. In a panic, finance can simply be cut off, even if your own profit and loss and balance sheets look fine.

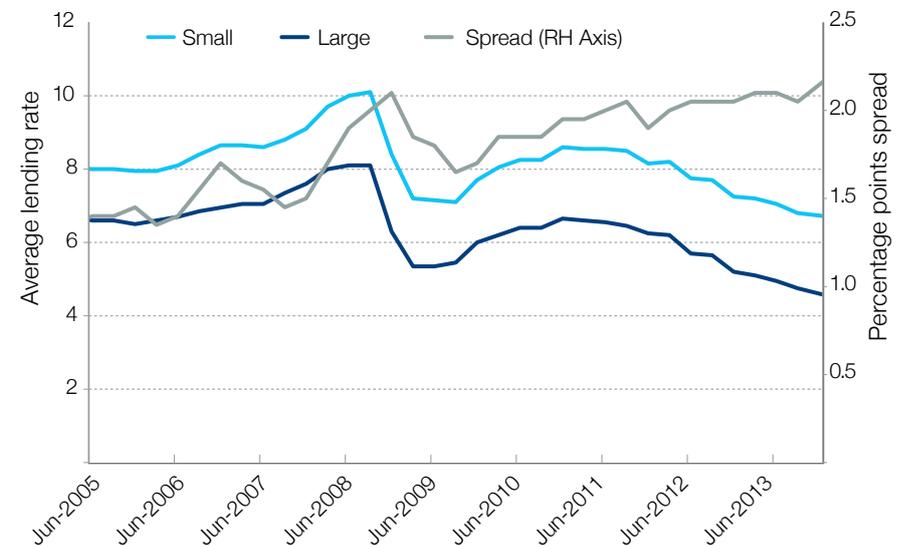
**Figure 2: Small business sales growth – NSW**

Net balance of businesses surveyed reporting/expecting positive sales growth



**Source:** Sensis Small Business Index.

**Figure 3: Average lending rates to business**



**Source:** RBA Statistics table F5 [www.rba.gov.au/statistics](http://www.rba.gov.au/statistics)

# 1. ACCESS TO FINANCE AND THE MACRO ECONOMY

## HOW RESILIENT ARE YOU?

You own a small manufacturing business with a healthy profit and loss and balance sheet, but during a severe economic downturn, demand falls and you begin to return trading losses. You should be able to ride out the storm but some customers default, leaving you with a need for finance to meet some fixed costs. You seek a short-term loan to bridge the gap until you can get costs under control but bank lending to small business has dried up. You need finance fast and it is nowhere to be found.

Identifying and considering such scenarios can help you prepare and be more resilient to shocks.

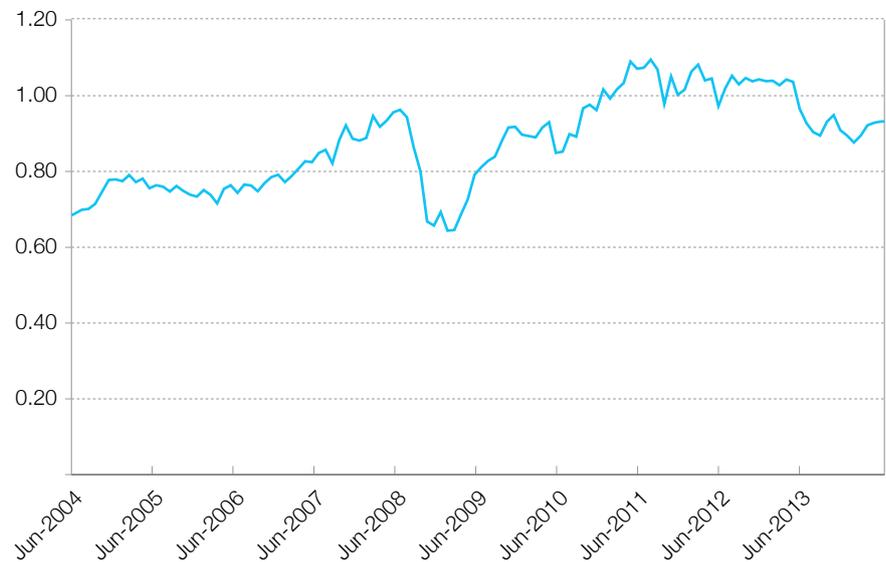


How you best prepare for such scenarios depends on circumstance but regardless, an important starting point is awareness of the potential implications of a sudden change in the economic environment and the need for resilience to bad shocks.

Changes in exchange rates are also important. They can significantly affect prices received by exporters, the price of import competition domestically, the cost of key inputs and demand for services such as tourism or education.<sup>6</sup>

The Australian dollar has fallen against the US dollar by around 9% since June 2014, a level of volatility that is mild in comparison with the changes brought on by the GFC (see Figure 4: Australian dollar in US dollars below). In 2008, the dollar fell in value by almost 30% in three months before climbing rapidly again.

**Figure 4: Australian dollar in US dollars**



**Source:** RBA Statistics table F11.

## KEY POINTS

- The economic environment can change suddenly. There is great uncertainty with economic forecasts and a degree of 'groupthink' in most forecasts
- In light of the uncertainty, business owners should consider how resilient their business is to large changes in key economic variables such as:
  - interest rates and the availability of finance
  - the exchange rate, and
  - consumer demand.

## 2. DEMOGRAPHIC CHANGE



In contrast to macro-economic changes, demographic changes (i.e. changes in the population and its make up) tend to be both relatively predictable and gradual. The Australian Bureau of Statistics (ABS) forecast the NSW population will grow over the 10 years to 2024 by 1.21% to 1.29% per annum.

Although demographic change is slow, because it is largely predictable, it should be an important consideration in long-term planning.<sup>7</sup>

A number of clear demographic changes are occurring within NSW (and Australia). As is commonly recognised, the population is ageing (see Figure 5: The ageing population below). By 2024, the portion of the population aged 65+ is forecast to rise from 19% to 24% in the area outside of greater Sydney, a change largely balanced by a fall in the portion of the population that is of working age.

Figure 5: The ageing population



Source: ABS 3222.0 Population Projections, Australia, 2012 (base) to 2101, Series B.

There is also a continued shift towards metropolitan living. While growth is expected in Greater Sydney and NSW, the expected rate of growth in greater Sydney is 2½ times greater than the rest of NSW.<sup>8</sup> Population forecasts for local areas are described in the NSW Government's Regional Strategies.<sup>9</sup>

Spending habits change with age. Retirees tend to spend less and spend on different things. Obviously, retired people spend less on work-related costs such as prepared meals, work clothing and commuting. Their spending habits change in other ways (see Table 1: Spending habits of the older population).

For example, retirees spend proportionately:<sup>10</sup>

- less on home maintenance contractors, such as house painting, and associated supplies
- less on gardening, housekeeping and cleaning services
- more on leisure including domestic holidays, day trips, culture and recreation lessons, and
- more on health services including home help.

Table 1: Spending habits of the older population

% of expenditure of NSW households by age			
Expenditure category*	65+	55-64	All
Food & beverages	19.0	17.4	16.8
Recreation	14.9	14.2	12.9
Misc. goods and services	12.1	8.8	9.3
Transport	12.0	16.5	15.6
Current housing costs	11.2	14.1	18.8
Medical care and health	8.2	6.6	5.1
Household services	7.0	5.2	5.6
Household furnishings & equipment	4.2	5.0	4.2
Domestic fuel & power	3.4	2.8	2.5
Clothing & footwear	3.0	3.6	3.6
Other	2.2	2.7	2.6
Total goods and services	100	100	100

Source: ABS (2011). Note:\* some abbreviations applied.

Demographic changes also have implications for the workforce and the availability of labour. The ageing of the population will lead to an increase in the dependency ratio (the ratio of people not of working age to those of working age)<sup>11</sup> potentially leading to labour shortage stresses in some sectors. However, a further implication is that there will likely be an increase in the number of people aged 65 and over opting to work as a means of supporting their retirement income and/or staying active. The changes may be most significant in regional areas where the greater shift in the dependency ratio is expected to occur. Businesses that plan for and adapt to such changes have a potential advantage over those that do not.

## 2. DEMOGRAPHIC CHANGE

### COULD YOU CATER TO THE AGEING POPULATION?

The ageing population creates opportunities for small businesses to serve this increasing demographic group. These might include:

- professional services providing advice to people who are retiring
- building services to adapt homes for older people
- home care services for the aged sector
- leisure services, and
- health services.

**Source:** Adapted from Niesche (2012).

Small businesses should also be aware of other demographic changes when planning. For example, the change in the cultural mix, due in large part to immigration, may be an important factor for business planning. Ignoring a potentially large customer group is something no business wants to do and so businesses should consider how they meet the needs of a changing mix of cultures.

#### BOX 4: CULTURAL CHANGE

The most recent census data indicates that, for the five years to September 2013, permanent settler immigration into NSW accounted for 30% of total immigration into Australia.<sup>12</sup>

The five predominant nations of origin were China, India, the United Kingdom and the Philippines respectively. Of the top twenty countries of origin only three were Western Countries (UK, US and Ireland) and over 50% (11 of 20) were either in East Asia or South Asia.

#### KEY POINTS

- Demographic change tends to be slow, but is relatively predictable
- The population is ageing. This will be more pronounced outside Sydney
- The changes will probably change consumer demand, creating business opportunities.

## 3. TECHNOLOGY



“ I THINK THERE IS A WORLD MARKET FOR MAYBE FIVE COMPUTERS. ”  
– THOMAS WATSON, CHAIRMAN OF IBM, 1943.

**Technology advances create opportunities and risks for businesses of all sizes. Technology advances can in a short space of time make existing products obsolete and result in new markets being created.**

The applications and implications of technological advances are notoriously difficult to predict. One clear trend is that there has been an increase in the rate at which new technologies have been adopted. Given the increasing improvements in communications networks, we expect this trend to continue.

There are also some general developments that are reasonably clear. In the short to medium-term, it appears very likely that there will be continued rapid growth in computing power, continued decrease in the cost of computing devices and large increases in the average communication speeds across fixed line and wireless networks.

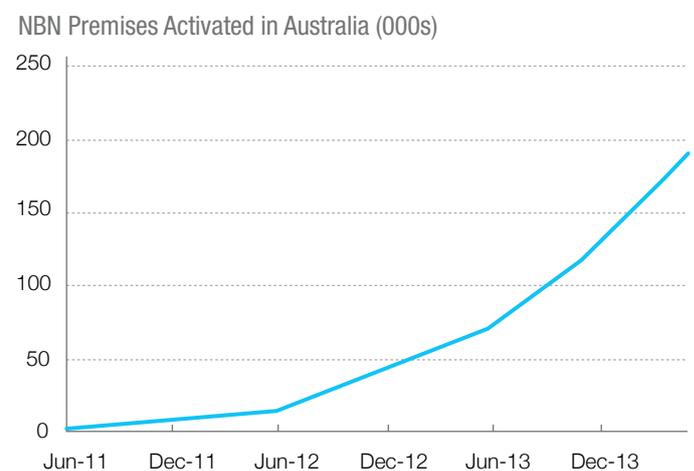
For small business in Australia, there are some important changes that require elaboration.

### The NBN

The National Broadband Network (NBN) is a large infrastructure project that aims to significantly increase internet connection speeds for businesses and households. While most businesses and households today have some form of broadband internet access, the high speeds of the NBN will enable new applications and address existing issues for users, particularly for small businesses and users in regional areas.

The NBN is being progressively rolled out across Australia. As at May 2014, around 193,000 premises in Australia (59,000 premises in NSW) had an active NBN connection (see Figure 6: NBN roll-out below).<sup>13</sup>

Figure 6: NBN roll-out



**Source:** NBN Co (2014).



## BOX 5: USE OF RFID TAGS FOR STOCKTAKING

RFID tags are small devices attached to objects enabling them to be tracked and identified. Such tags are in common use for tracking everything from library books to animals. The cost and size of the tags has fallen, enabling an increasing range of applications. An increasingly common application is in stock-keeping to enable real time inventory control. The RFID tags are becoming cheap enough that they may soon replace barcodes on expensive goods. RFID has an advantage over barcodes in that it does not require line of sight. Eventually, you might be able to track all stock automatically in real time as customers move it around your store in their trolleys or baskets.

The experience of businesses already connected provides some guide as to the potential applications and implications.<sup>14</sup> The key benefits reported to date include greater staff productivity, cost reduction and greatly improved communications. The NBN is expected to provide benefits to most industries and most significantly for information intensive industries such as health, creative industries and education services.

The NBN may also represent a threat to some small businesses. Small businesses may find that the NBN results in increased levels of competition from businesses in other regions and even from firms internationally who can service consumers who are connected to the NBN.

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## OPPORTUNITIES FROM OPEN ACCESS TO DATA

An implication of the revolution in information technology and communications is the increased availability of large data sets that can be used for practical applications. The availability of data can provide opportunities for large and small businesses to research markets, better serve their customers and develop innovative approaches to service delivery.

Governments are recognising the potential value of the data they capture and are now focusing on how the information they gather can be useful when made available to the community. Lateral Economics recently estimated that enabling more open access to data was one of the biggest micro-economic reforms available, being worth over \$16 billion per annum to the Australian economy.

The NSW Government is making increasing amounts of its own data available at Data NSW ([data.nsw.gov.au](http://data.nsw.gov.au)). To encourage the use of NSW data to create innovative web and mobile applications, the NSW Government launched the apps4NSW program, the first State Government apps competition in Australia. The objective of the apps4NSW competition was to capture innovative ideas using public sector information and data that are useful to the people of NSW.

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## Mobile communications, ubiquitous computing and the internet of things

Another significant development in communications is the rapid growth of mobile data; that is, data traffic through mobile devices. While mobile data technology has been available for some years, the higher speeds through 3G and 4G technologies has led to a rapid uptake in recent years, with annual growth at over 30% per annum.<sup>15</sup> The rate of growth is set to increase, with projections of a four-fold increase in mobile data usage from 2013 to 2017<sup>16</sup>.

Like the NBN, mobile communications is a general purpose technology with a broad range of applications, many of which we may have yet to see. While the specific applications may be difficult to predict, it is possible to see a number of trends emerging.

Perhaps the most important applications involve the coupling of mobile data communications with computing devices that capture data. A common example of this type of application is in-vehicle (telematics) devices that capture information (via GPS) on vehicle location enabling businesses to keep track of vehicle fleet location. Telematics devices are also able to capture information on speed, acceleration and time of use.

Another important example is the increased use of radio-frequency identification (RFID) tags for applications such as inventory management and animal tracking (see Box 5: Use of RFID tags for stocktaking). There are many other emerging technologies and applications. For example, Sense-T<sup>17</sup> provides recent examples including sensors to:

- Measure soil moisture, below and above ground temperature, relative humidity, solar radiation and leaf wetness for agriculture uses.
- Measure the heartbeats of oysters to optimise oyster production.
- Track food throughout a supply chain, recording real-time data on factors vital to food stability.

This integration of smart devices with wireless and wired networks – commonly referred to the ‘internet of things’ – is a fast growing trend that is likely to continue. We expect more and more smart devices will be integrated with physical objects.

## 3. TECHNOLOGY

### IDENTIFYING POSSIBLE MOBILE DATA APPLICATIONS

The growth of mobile data applications is likely but how will this affect your business? A useful framework and approach for identifying potential applications is to consider how information is used in your business. For example, you might consider what information is provided and how data communications might change your business in terms of:

- providing quotations
- booking or scheduling services
- management of business inputs, and
- customer management.



### Other developments and challenges

An implication of the developments in communications technology, data capture and online transactions is that there has been an explosion in the volume of data that is captured, communicated and stored. It is thought that around 90% of the data in the world today was created in the last two years. The term 'Big Data' has been used to describe this voluminous unstructured data. Businesses are increasingly using this data for a range of purposes including marketing and customer management. The onset of Big Data has implications for small business. While it can provide opportunities for businesses that are able to work with the data, it also creates some threats and challenges. For example, it may provide a competitive advantage to larger firms. Cyber security and privacy) are likely to represent increasingly important risks for businesses and small businesses should give consideration to managing such risks.

There are a number of emerging technologies (including 3D printing, driverless cars and wearable computing such as Google Glass) that receive a lot of media attention. The implications are, in our opinion, too difficult to assess. Nevertheless, based on recent trends, we predict these technologies will gain an increasing amount of attention in coming years.

### KEY POINTS

- Technological change can be very rapid and disruptive to industries. The rate of adoption of new applications appears to be increasing
- Some key technology developments:
  - Roll-out of the NBN of particular significance for small business and regional areas
  - Growing use of mobile data applications in combination with low-cost devices for information capture
- Greater use of computing can also create management challenges in dealing with issues such as data management, privacy and cyber security.

# 4. ENGAGING WITH CUSTOMERS



“  
FIRST WE WORK FOR OUR REPUTATION THEN OUR  
REPUTATION WORKS FOR US – ANON  
”

One of the most significant developments in the last decade is how businesses engage with customers through an online presence and using tools such as social media.

In 2013,<sup>18</sup> the vast majority (95%) of small businesses reported being connected to the internet. Most reported having a website (64%) or the intention to develop one (an additional 9%). Small businesses are increasingly using the internet to research products and services. Other internet-based activities that are on the rise are order placement (76%) and payment for goods and services (81%).

The take-up by small businesses is mirrored by the high use of the internet by customers. According to recent research (Sensis, 2013), around 87% of Australians looked for information on products or services online. Almost three quarters of Australians purchased goods online. The most popular products included clothing, airline tickets and books. Almost a third of Australians had purchased products from overseas. Of note, the elderly are also getting involved; over half of those aged 65+ reported that they have purchased online.

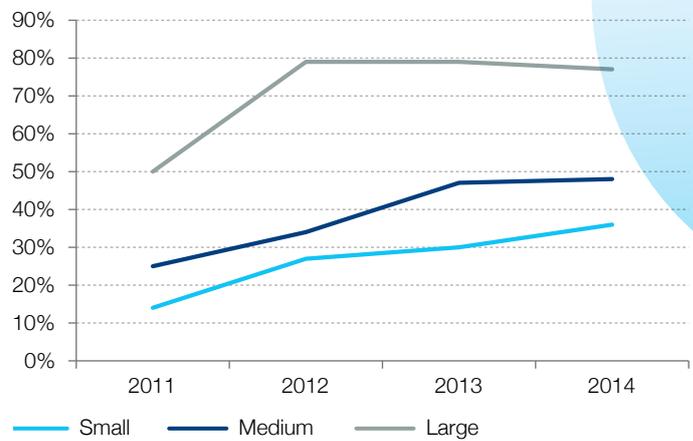
The use of an online presence for marketing and e-commerce is thus well-established and appears only to growing and therefore should be an increasing focus for small businesses.

## Social media

A related development is the increasing use of social media, connecting people and enabling information sharing. Small business social media use is growing rapidly. A recent survey<sup>19</sup> found that around 36% of small businesses in Australia currently have a social media presence such as a Facebook page (up from 14% in 2011) with another 19% of small businesses intending to do so in the next year (see Figure 7: Social media – usage trends). These results for SMEs are similar across states and between regional and metropolitan areas.



Figure 7: Social media – usage trends among business



Source: Sensis (2014)

The most common business uses of social media<sup>20</sup> include:

- inviting online comments, ratings and reviews
- two-way communication with clients and contacts, and
- offering incentives to consumers.

What does this mean for small businesses? First and foremost, it increases the importance of businesses maintaining their reputation and being trustworthy in their communication. A business that achieves a strong online reputation can be rewarded with higher sales and higher prices. By the same token, bad news travels fast, particularly on social media.

## BOX 6: THE IMPORTANCE OF REPUTATION

Cabral and Hortaçsu (2005) found that the first negative review received by an eBay seller reduced sales growth by 14%; from a 7% positive growth to a 7% negative growth. In a controlled experiment, Resnick et al. (2006) found buyers would pay a well reputed seller 8% more than they would pay a new seller.

Social media can not only help businesses grow without funding a physical shop front, it can also make previously poor locations easier to discover. Platforms like Yelp and TripAdvisor have transformed the economics of restaurants, not just intensifying competition for great food and atmosphere, but helping smaller, cheaper restaurants in out of the way locations connect with a clientele that might never have discovered them previously.

## 4. ENGAGING WITH CUSTOMERS

Having been particularly strong in hospitality and personal services sectors,<sup>21</sup> social media is being increasingly used in other sectors including:

- retail trade
- health and community services, and
- communication, property and business services.

As the use of online reviews and social media becomes more entrenched, it appears likely that it will become an increasingly important factor in the marketing of other services such as trades and professional services.

The increased connectedness and online presence will likely provide greater opportunities for specialisation by enabling organisations that provide a unique product or service to reach a broader community.

The use of social media creates some challenges and risks that are particularly significant for small business. Sensis (2014) reports that, of those without a social media presence, 8% of small businesses (but only 3% of medium businesses) had one in the past but had subsequently dropped it; often because it was too time consuming or too susceptible to tampering and adverse comments.<sup>22</sup> Not surprisingly, medium and large businesses update their social media contact much more frequently than small businesses.

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### RECEIVING A NEGATIVE REVIEW

What would you do if you received a very negative online customer review? This can be very distracting for you as the owner. Responding to the review in a negative way may simply make matters worse by drawing more negative attention. Being aware of such risks can help you be better prepared to respond.<sup>23</sup>

#### KEY POINTS

- Increasingly, small businesses are gaining an online presence and using social media
- Social media creates strong opportunities for growth but also risks
- Social media management can be time consuming and care is required in how you use it to engage with customers.

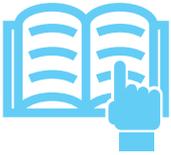
## 5. THE POLICY ENVIRONMENT

**The policy (including regulatory) environment is a significant factor for most businesses and particularly small businesses. Most small businesses are directly subject to a large number of regulations. For example, the Productivity Commission<sup>24</sup> estimates that a winery in NSW will potentially require 76 licences from Commonwealth, State and Local governments and, similarly, a residential builder will potentially require 36 licences.**

Often businesses are also indirectly affected by regulations. These may be regulations that affect the demand for services, the extent of competition and other aspects of businesses. For example, in recent years, Commonwealth and State governments have introduced regulation to support energy efficiency programs.

The significance of regulation and any regulatory change will vary. Some regulatory changes may seem surprisingly benign while others may be surprisingly significant. For example, while licence requirements, cumulatively, can impose a significant burden in terms of cost and effort on small businesses, changes to these generally occur slowly, following consultation and have a uniform impact on the market.

The full implications of a change are not always obvious. It is important to consider how regulation will change business processes. For example, between August and October 2014, the ability for consumers to sign for credit card and debit card purchases at a point of sale was phased out.<sup>25</sup> For some businesses, this had negligible implications. However, consider the impact for a restaurant where customers used to sign a credit card slip at the table generally adding a tip for the service. For such a restaurant, this seemingly simple change may have had profound implications for customer service, the remuneration of staff and the technology required.



Understanding the implications to business processes is important. Your industry association will generally be a good source of future regulatory changes and the implications.

Often the indirect effects of regulation will be more significant as they have the potential to substantially disrupt a market. Some regulatory changes can have fundamental impacts to businesses. Another useful question to consider is the extent to which your industry is underpinned by regulation. For example:

- Is competition currently limited by regulation?
- Is the demand for the goods and services you provide influenced by regulation? Or might it be in the future?

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## DEALING WITH A SUDDEN POLICY CHANGE

In 2013 changes were proposed to the fringe benefits tax (FBT). The proposed rules (which were not implemented) would have required drivers of salary-sacrificed and employer-provided vehicles to keep driving logbooks to prove their vehicle's percentage of business use so as to stop drivers claiming concessions on their personal use.

Such a change would have had implications for many businesses. For a NSW small business in the IT fleet management space, the impact would have been particularly significant. The small business is a provider of logbook systems that enable electronic tracking of vehicle use and following the announcement they were inundated with calls by organisations seeking an efficient means of automating FBT logbooks.

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Small businesses should be aware of the policy landscape. A potentially significant opportunity relates to changes in the roll-out of the National Disability Insurance Scheme (NDIS) (see Box 7: The NDIS). The roll-out of the NDIS, coupled with a shift from government to non-government provision of disability care services in NSW, will likely provide substantial opportunities for small businesses. These opportunities may include providing support services for those with a disability and possibility brokerage services to help those seeking support.



### BOX 7: THE NDIS

The National Disability Insurance Scheme (NDIS) is a new way for people to get disability support. The scheme involves greater funding and greater choice of services for people with disability. In NSW, the roll-out of the scheme is coupled with a shift from government to non-government provision of care and support services.

The scheme commenced in the Hunter area on 1 July, 2013. As of February 2014, 1221 participants were enrolled in the scheme. This is expected to grow to over 10,000 by 2015-16. Roll-out to the rest of NSW from July 2016 and to be fully rolled out by 2018. Eventually it is expected that around 140,000 people in NSW will be participants to the scheme.

The roll-out of the scheme also includes a significant increase in funding for the sector. By 2018 the annual funding for the NSW disability sector will more than double, from more than \$2.5 billion to \$6.4 billion. An additional 50,000 people with a disability will be eligible for support, creating up to 25,000 new full time jobs in the disability sector and substantial business opportunities.

For more information see [www.ndis.gov.au/providers](http://www.ndis.gov.au/providers)

**Source:** NSW FACS (2014)

### KEY POINTS

- The policy and regulatory environment is a significant factor for small business
- Many regulatory changes are slow and involve transition periods providing time to adapt
- However, policy change can also be rapid, significantly disrupting markets
- In assessing regulatory risks and opportunities, business owners should consider to what extent their market is underpinned by regulation.

# 6. THE BUILT ENVIRONMENT



**Growth in the population and economy of NSW places increasing pressure on existing infrastructure and available housing.**

The NSW Government's response to these pressures is set out in a number of growth strategies and plans for Sydney and the regions.<sup>26</sup> These strategies and plans should be of great interest to small businesses as they describe housing and employment growth and major developments such as the establishment of business parks and infrastructure.

A key aspect of the Sydney Metropolitan Strategy<sup>27</sup> is the development of Western Sydney, an area targeted for half of all new jobs in Sydney and large releases of land for housing. The strategy and related plans describe residential growth centres in the North West and South West and the Broader Western Sydney Employment Area – a region that is targeted to be home to 57,000 new jobs over the next 30 years.<sup>28</sup>

Regional strategies exist for other areas of NSW. These describe projected population, dwelling and employment growth and identify key developments for business such as changes to transport, urban centres and employment lands (e.g. industrial and business park areas). These strategies and plans should be a key consideration for small businesses that are establishing or reviewing their physical location and for those in the building and construction industry.

## Infrastructure developments

Supporting the growth strategies are a number of notable developments and infrastructure projects that are underway or have been committed to. Major developments include:

- the North West Rail Link (see Box 8: North West Rail Link)
- WestConnex and other upgrades to Sydney's orbital network (see Box 9: WestConnex and Sydney's Orbital network)
- Badgerys Creek airport (see Box 10, page 15), and
- Pacific Highway upgrades (see Box 11, page 15).

These and other projects can have significant implications

### BOX 8: NORTH WEST RAIL LINK

The North West Rail Link is currently Australia's largest public transport infrastructure project. It will provide a heavy rail link to north-western suburbs connecting the Rouse Hill region to Epping. Construction is currently underway. It is expected to be completed by 2019.

**Source:** <http://nwrail.transport.nsw.gov.au/>

### BOX 9: WESTCONNEX AND SYDNEY'S ORBITAL NETWORK

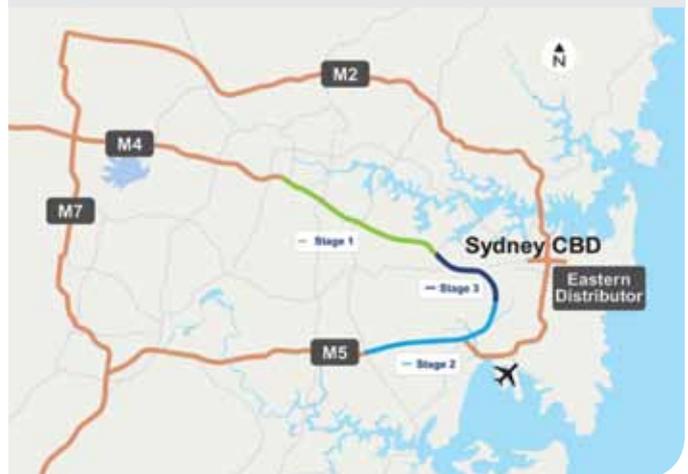
The WestConnex project involves:

- a 33 km motorway linking Sydney's west with the CBD, Port Botany, Sydney Airport and the south west, and
- a 20 km urban revitalisation corridor to be developed progressively between Camperdown and Parramatta.

Timetable:

- Stage 1 – Parramatta to City West Link, by 2019
- Stage 2 – M5 East Airport Link, by 2020
- Stage 3 – City West Link to St Peters, by 2023

**Source:** [www.westconnex.com.au](http://www.westconnex.com.au)



for small business both during construction and once they are completed. The construction phase can lead to work opportunities but also cause significant disruption. For example, the business case for WestConnex<sup>29</sup> notes that, as typical of all major road projects, the construction of the WestConnex motorway will result in impacts (including air pollution, noise, vibration and congestion) on businesses and communities. Given the urban nature of the project, these impacts will be challenging to manage.

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## DEALING WITH DISRUPTION

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Imagine a major infrastructure project is planned to occur near your small business. Increased congestion may make it more difficult for employees to get to work, suppliers to deliver to you and customers to visit. The noise and vibration might also impact on business. To address such issues you might need temporary changes in your opening hours, your supply chain or even your physical location. Such changes would in turn have implications for customers and employees. Planning for such changes may better help manage the impacts.

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Once built, the new infrastructure can change the costs of doing business, often stimulating growth opportunities. For example, the development of Badgerys Creek airport is expected to inject billions of dollars into the local Western Sydney economy.

### BOX 10: BADGERYS CREEK AIRPORT

Badgerys Creek is destined to become the site of Sydney's second airport. While the implications for Sydney and, in particular, Western Sydney will be dramatic, construction is not expected to begin until 2016. Over time, the airport is expected to contribute over \$6 billion to the Western Sydney regional economy and directly employ over 10,000 FTEs.

**Source:** PM (2014), DEA (2013).

These infrastructure projects can also shift economic activity. For example, by-passes built as part of the Pacific Highway have dramatically altered the business environment in the towns that have been bypassed. While often this can result in a reduction of activity, it can create opportunities for tourism.

### BOX 11: PACIFIC HIGHWAY UPGRADE

This is a major regional infrastructure project that includes upgrading of the highway to dual carriageway and the creation of by-passes around several small towns. The project is resulting in faster travel times for connected areas. The key implications for small business are that it will create improved opportunities for trade and tourism.

Expected completion dates of sections include:

- Oxley Hwy to Kempsey Planning – 2014
- Woolgoolga to Ballina – 2016, and
- Warrell Creek to Nambucca Heads – 2017.

**Source:** [www.rms.nsw.gov.au](http://www.rms.nsw.gov.au) and [www.nics.gov.au/timeline](http://www.nics.gov.au/timeline)



The infrastructure projects listed and others<sup>30</sup> will improve the flow of freight within NSW and within other areas. In particular, the combination of the projects should facilitate the faster delivery of freight along strategic routes that include international routes. The projects should contribute to continuing the trend of falling costs of international freight (by sea or air). This trend coupled with the improvements in the use of online methods of marketing, communication and sales is likely to contribute to increased international trade, creating opportunities and risks for small businesses.<sup>31</sup>

## KEY POINTS

- NSW Government's strategies and plans outline key developments in the coming decade
- There are large infrastructure projects that are underway and/or are committed to in NSW
- Such projects can have significant implications for business including:
  - during construction: sales opportunities but also disruption risks
  - once complete: changing the local economic environment
  - the timing and the impacts of these projects are largely predictable

# 7. UTILITY COSTS



“THE QUICKEST AND MOST COST-EFFECTIVE WAY FOR YOUR BUSINESS TO SAVE MONEY IS TO REDUCE UNNECESSARY ENERGY USE. — JON DEE 'SUSTAINABLE GROWTH' (2010, PAGE 96)”

## Electricity and gas are often significant inputs for small businesses.

The outlook for utility costs in the future is mixed. To date the gas market has been physically disconnected from international markets. However, from late 2014, LNG (liquefied natural gas) export facilities in Northern Australia will open allowing local suppliers to export their product onto international markets. This development is expected to lead to higher and more volatile prices as local gas suppliers are able to sell the gas on an international market. Average regulated gas prices are expected to increase by between 14.4% and 19.4% over the two years to June 2016.<sup>32</sup>

The medium term outlook (2 to 10 years out) for gas is more uncertain. The price will depend on a number of factors; these include a possible reduction in export barriers from the US, the development of new gas supplies in China and Australia and the use of alternative energy sources.<sup>33</sup> In fact securing gas supplies forms a key part of the NSW Gas Plan.

The change in gas prices is not expected to be mirrored in the electricity market, as although gas is used to generate electricity, its contribution is small. Electricity prices rose in recent years but current short-term forecasts are for the market price of electricity to fall between now and 2015/16, primarily due to reduction in environmental policy costs.<sup>34</sup>

The implications of rising energy costs may for some small business sectors be very small. In cases where all competitors are uniformly affected, changes in energy costs may be largely passed through to customers.<sup>35</sup> Nevertheless, small businesses that have large energy costs might consider how they can react, such as seeking ways to become more energy efficient and/or reviewing their energy source.

## Small business energy efficiency

If your energy costs are significant, then you should be considering options to reduce energy costs. As pointed out by Dee (2010, chapter 7) and many others, there are often many opportunities for small businesses to reduce their energy costs. These include opportunities associated with reducing the main uses of power including lighting, air conditioning and water heating and office equipment. In the future, there may be opportunities to reduce energy costs by taking advantage of time-of-use pricing.

The cost of water and wastewater services provided by water utilities differs by region. Prices in Sydney and some other areas increased significantly in recent years in large part due to spending on infrastructure in response to the drought. In Sydney and some other regions, the prices are set by a regulator for four-year periods. Due to a restructuring of prices in the last pricing period, the water services bill for some small businesses may have been increasing and for some, decreasing.<sup>36</sup>

The NSW Office of Environment and Heritage provides many efficiency tools which can be found at:

[www.environment.nsw.gov.au](http://www.environment.nsw.gov.au)

### KEY POINTS

- The short-term outlook for utility prices is mixed. Gas prices are expected to increase and electricity prices are expected to fall
- Small businesses should be mindful of opportunities to reduce energy costs through reducing energy use and efficient timing of use.

# CONCLUSION

“EXPECT THE BEST, PLAN FOR THE WORST, AND PREPARE TO BE SURPRISED – DENIS WAITLEY”

As physicist Neils Bohr is reputed to have said “Prediction is very difficult, but particularly about the future”. Even if it doesn’t make us clairvoyant, thinking about the future can help. Some developments can be forecast with confidence. Where there are uncertainties, considering possible futures will help you be a little more ready for the inevitable surprises.

With a little additional investment of time you, as a small business owner, may identify many of the risks and opportunities lying ahead.

## KEY POINTS

- Some changes (such as the ageing population and changes to the built environment) are largely predictable – businesses should consider these in their planning
- There are many things, including macro-economic changes, which are much harder to predict
- A look to the future can help you become more ready to respond to change.

“A GOOD FORECASTER IS NOT SMARTER THAN EVERYONE ELSE, HE MERELY HAS HIS IGNORANCE BETTER ORGANISED. – ANON.”



# ENDNOTES

1. A third criterion that is often applied is that they are rationalised in hindsight as being foreseeable.
2. Based on a survey of economic forecasts throughout the 1990s the IMF economist, Prakash Loungani concluded that: 1. forecasts are all much the same; and 2. that the predictive record of economists was terrible. Source: Tim Harford, [www.ft.com/intl/cms/s/2/14e323ee-e602-11e3-aeef-00144feabdc0.html#axzz372aRVkkS](http://www.ft.com/intl/cms/s/2/14e323ee-e602-11e3-aeef-00144feabdc0.html#axzz372aRVkkS).
3. Economic growth is based on changes in GDP (Gross Domestic Product), a measure of the value of what is produced in Australia.
4. Confidence intervals represent an expected range. For example, it is expected that 90% of the time the outcome will be within the 90% confidence interval.
5. <http://about.sensis.com.au/Small-Business/Sensis-Business-Index/>
6. The implications of exchange rate movements can be difficult to assess as they affect the costs of both imports and exports and are typically correlated with changes in other prices.
7. Naturally, there will also be social demographic changes that shape people's attitudes, consumer behaviour and workforce participation. Unlike changes in age, such changes are not predetermined and thus more difficult to predict.
8. Based on ABS Series B projections.
9. See [www.planning.nsw.gov.au/en-us/planningyourregion/regionalstrategies.aspx](http://www.planning.nsw.gov.au/en-us/planningyourregion/regionalstrategies.aspx).
10. Selected items of interest shown. Source: ABS (2011) and Bradbury & Mendolia (2012).
11. For purposes of determining the dependency ratio a working age of 15 to 65 is used.
12. [www.immi.gov.au/settlement](http://www.immi.gov.au/settlement).
13. Source: NBNC Co (2014). See [www.nbnco.com.au/when-do-i-get-it/rollout-map.html](http://www.nbnco.com.au/when-do-i-get-it/rollout-map.html) for details.
14. The case studies of a number of businesses can be found at [www.nbnco.com.au/nbn-for-business/case-studies.html](http://www.nbnco.com.au/nbn-for-business/case-studies.html).
15. Source: ABS (2014).
16. The CIE (2014, page 11).
17. Sense-T ([www.sense-t.org.au](http://www.sense-t.org.au)) is an entity established by the University of Tasmania.
18. Sensis (2013).
19. Sensis (2014).
20. *ibid.*
21. *ibid.*
22. Sensis (2014, page 66).
23. Advice on dealing with such issues. See, for example, D&B Small Business at [www.dnb-smallbusiness.com.au/Marketing/Coping\\_with\\_a\\_negative\\_review\\_online/indexdl\\_10676.aspx](http://www.dnb-smallbusiness.com.au/Marketing/Coping_with_a_negative_review_online/indexdl_10676.aspx).
24. Productivity Commission (2013, Appendix E).
25. This is an example of a policy developed by the (financial services) industry but which required a regulator's approval (Australian Competition and Consumer Commission).
26. [www.planning.nsw.gov.au/en-us/planningyourregion.aspx](http://www.planning.nsw.gov.au/en-us/planningyourregion.aspx).
27. <http://strategies.planning.nsw.gov.au/MetropolitanStrategyforSydney.aspx>.
28. Broader Western Sydney Employment Area, Draft Structure Plan, June 2013.
29. Sydney Motorways Project Office (2013).
30. Another important project is the construction of an intermodal freight terminal at Moorebank along with a port shuttle operation to and from Port Botany. Construction is due to commence in 2015 and be completed by 2017. Source: [www.nics.gov.au](http://www.nics.gov.au).
31. While the infrastructure projects will ease congestion on key routes, it appears likely that traffic congestion in Sydney will continue to increase as the population and the volume of traffic continues to expand. This may become an increasingly important consideration for small business in providing services in the medium term. BTRE (2007) forecast that congestion costs per km travelled in Sydney would rise by 50% between 2005 and 2020.
32. See IPART (2014), Draft report.
33. Wood et al. (2013, page 14).
34. AEMC (2013).
35. Note that business should be aware that there will be close scrutiny price changes in response to the repeal of the carbon tax. See [www.acc.gov.au/business/carbon-tax-repeal/carbon-tax-price-reduction-obligation](http://www.acc.gov.au/business/carbon-tax-repeal/carbon-tax-price-reduction-obligation)
36. See IPART (2012).

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