

# The nature and characteristics of Australian SMEs business essay



The term Small and Medium Enterprises (SMEs) is used to collectively group micro, small and medium-sized business (Schaper & Volery 2007). In order to be classed as an SME, the Australian Bureau of Statistics (ABS) requires that the business be independently owned and managed by an individual or small number of persons as well as employ less than 199 staff (ABS 2001). In addition to this, typical SMEs share other similar characteristics such as start-up finance is generally provided by the owner, they hold a limited market share and have a limited life span, they earn low levels of net profit and they are most often a family business (Schaper & Volery 2007).

SMEs play a vital role in the Australian economy as they account for more than 95% of business and provide a significant proportion of national employment (OECD 2000). SMEs also play an important role as market makers. They increase the level of competition within the market, encourage innovation and development of goods and services as well as provide specialised products and services for niche markets (Schaper & Volery 2007). Without SMEs there would be limited competition and high prices for consumers.

As at June 2007 there were 2, 011, 770 actively trading businesses in Australia (ABS 2007), of which 98% were SMEs. A key trend in the Australian business environment has been the increasing number of non-employing-single operators, with now 58% of businesses not employing any staff (ABS 2004, 2007). Home based businesses make up a very large proportion of these businesses. The remainder of the SMEs is made up of 26% micro businesses, those with less than 4 employees, 12% small businesses and medium businesses hold a share of 4%.

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## **2 Factors influencing SMEs' success and failure**

The nature of SME operations in Australia is that every year there are many start-ups and almost as many failures. During the 2006-07 financial year the rate of entry for new businesses into the market was 17% while the exit rate was at 14.6% (ABS 2007). Of the businesses that remain in the market, ABS (2007) data shows that only four in 10 businesses were remain in operation after 4 years.

Recent studies on SMEs have identified five main factors influencing SME success and failure are financing, marketing, production, personnel and personal (Schaper & Volery 2007). Yusaf (1995) places high importance on the personal factor, and states that the success and failure of an SME can often be attributed to the owner, depending on the level of their management skills. Owners with strong skills are able to develop and affect business plans, employ appropriate staff for the business, as well as accurately maintain records and control finances (Yusaf 1995). Personal qualities and traits such as self-confidence, perseverance and the ability to cope with stress and maintain a work-life balance are also considered very important (Schaper & Volery 200). Finance is a significant issue for SMEs because insufficient capital combined with poor cash flows makes it difficult to establish, maintain and expand a business. Effective marketing is also an essential element of business success or failure because it strongly impacts on the firm's ability to attract clientele (Cromie 1991; Yusaf 1995). Production refers the physical premises, quality of the products and services produced the ability to obtain supplies. It is essential when establishing a business that extensive market research is undertaken when selecting location and time

and effort are given in order to develop business relationships. Quality personnel are essential for successful businesses however, as previously mentioned, this requires the owner to have sufficient management skills in order to recruit and retain qualified staff.

A recent study conducted by the New Zealand Ministry of Economic Development (2005) also found that the use of business plans increased the rate of business success. This is because the development of a business plan provides clarity of direction, encourages goal setting, provides a holistic perspective on the firm and encourages entrepreneurs to fully research their ideas before making significant investments into the business (Schaper & Volery 2007). However, despite this, research shows that the majority of Australian businesses do not undertake this type of planning (Schaper & Volery 2007)

### **3 Leadership/Entrepreneurs**

#### **3.1 Characteristics of Successful Entrepreneurs**

Entrepreneurship is “ the process brought about by individuals, of identifying new opportunities and converting them into marketable products or services” (Schaper & Volery 2007, p. 4). While there are many entrepreneurs in the market place, only a handful of them are successful in their pursuits.

According to Schaper and Volery (2007) there is an endless list of characteristics and traits that are often attributed to successful entrepreneurs, however research has shown that of these, only three have shown a high level of validity. These three characteristics include the need for achievement; an internal locus of control; and a risk-taking propensity

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(Gartner 1985). The need for achievement is important because it means that the entrepreneur has an overarching desire to excel or succeed in their undertakings (Schaper & Volery 2007). Entrepreneurs also need a strong internal locus of control in order to remain positive and continue working, even in adverse situations. A risk-taking propensity is essential characteristic because without it, they may not be willing to pursue and undertake opportunities when they arise.

### **3. 2 Janine Allis**

Janine Allis is the founder and managing director of the Australian company, Boost Juice. From what started as single store in Adelaide, Boost Juice has grown to 180 outlets within Australia and a further 50 in Singapore, South Africa and Britain (Boost Juice 2010). This year, the company is expected to post revenue in excess of \$130 million and a net profit of around \$10 million (Thomson 2010).

Janine Allis, through her desire to establish her own business has become one of Australia's leading entrepreneurs. The process Janine took in developing the Boost Juice concept mirrors the aforementioned definition of entrepreneurship. Prior to developing her product she reviewed the retail market to identify an unfulfilled consumer need, which she found to be a lack of healthy fast foods (Boost Juice 2010). It wasn't until after investigating several other products and a trip to America, where she was exposed to the fresh juice and smoothie concept, she developed a product the Boost juice concept for the Australian market (Ovations 2008).

From the outset Janine demonstrated a strong need for achievement.

According to an interview in the Australian Business Review (2010), Janine Allis is quoted as saying, “ I never had intention of opening just 1 store, hence why we opened the first one in Adelaide. We always had bigger plans to have world domination”. Her unyielding commitment and perseverance as well as her strong internal locus of control have contributed to the success of the business. Prior to establishing Boost Juice, Janine had not previously run her own company but was confident in herself and her concept that she was willing to invest her family’s financial future in her business (Elder 2004). However Janine also understood the need to transfer the risk of operating a business to other parties, and in 2010 sold a 70% stake in the company for to a US private equity firm (Thomson 2010). Based on these demonstrated characteristics and traits, Janine Allis should be considered a successful Australian entrepreneur.

## **4. Analysing opportunities and developing a framework for business**

### **4.1 Nature of the fitness industry**

Demand for health and fitness services has, for the past five years, increased annually with approximately 1.6 million Australians (8%) now using or holding a membership to a gym (ABS 2008). Research into health and fitness trends attributes the increased membership rates to improved awareness of the health risks associated with modern lifestyle choices as well as reductions in leisure time and the availability of private recreation areas (Diabetes NSW 2010; Sydney Morning Herald 2003).

The Australian fitness industry is currently undergoing significant change in response to changing consumer needs. Kirby-Brown and Hall (2010) identified three major trends that are now redefining gym standards and practices. The first trend, referred to as nowism, is a reference to values and attitudes displayed by Generation Y. The main impact of this societal attitude has on health and fitness centres is on membership structure. Patrons do not want to be locked into but instead prefer pay-as-you-go or no minimum term contracts.

The second key trend is personalisation, which proposes a major step away from traditional large gym models towards more boutique structures. This is the market that the Breeze Fitness Studio is attempting to capture. The boutique gym caters to time poor professionals who require flexibility and not predetermined schedules; patrons who would prefer alternative exercise forms; and those who do not feel comfortable in the traditional gym environment (The Age, 2003). The boutique gym model also provides a more flexible structure because when workouts become unfashionable they are not holding large quantities of expensive equipment, purpose-built rooms or an inflexible class schedule (Kirby-Brown & Hall 2010; The Age 2003).

These factors all positively indicate towards the viability of establishing a boutique fitness centre.

## **4. 2 Viability of Breeze**

### **Legal Structure**

There are four main types of legal structures used in SMEs, Sole trader, Partnerships, Companies and Trusts.

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The most commonly used form is Sole trader. In this type of structure the business is not considered a separate legal entity, which means business profits are taxed at the marginal tax rate of the owner and that owner is personally responsible for all of the liabilities of the business (Schaper & Volery 2007). However this structure is simple and inexpensive to establish. A partnership is an arrangement between two or more people to start a business and legally share the profits, risks and losses according to the terms set out in the partnership contracts (DEEDI 2009). The main disadvantages of this form are the loss of control and that, like sole traders, there is unlimited liability. The company structure is a legal entity separate from the owner, which provides for limited liability and separate taxation of business earnings (Schaper & Volery 2009). Compared to the other two structures, it is more costly to establish a company. A trust is a structure where the business is transferred to a third party who has legal control and has a duty to run that business to benefit someone else (DEEDI 2009). This structure, while providing tax minimisation, is complex and costly by nature (DEEDI 2009).

Of these four structures, a Proprietary Limited Company is most suitable for Breeze Health and Fitness. While this structure requires higher costs to maintain due periodic reporting to ASIC, the benefits received outweigh this. With a high level of expected profit forecast for the business, it is not economically feasible to have this taxed at the marginal tax rate of 45%, when the company tax rate is considerably lower at 30%. The other key reason for the use of the company structure is the access to limited liability. The owner does not wish to have their personal financial assets placed



unnecessarily at risk, as would be in the case in a sole trader and partnership arrangement.

### **4. 2. 2 Market Size**

It is proposed that Breeze Fitness Studio be established in Toowoomba, Queensland. Recent economic reports put together by the Toowoomba Regional Council (TRC) show that there is strong market for health and fitness to support the establishment of the Breeze Fitness Studio.

The 2010 Economic Report compiled by the TRC shows that demand for arts and recreation services has grown 14. 8% in the past financial year, compared to the negative average growth of 3% for the state. In 2007 recreation services had a combined annual turnover \$60. 7 million, with the average annual business turnover being \$243, 800p. a (TRC 2010).

The current female population in Toowoomba and surrounding local areas, aged between 20 and 55 is 33, 267 (ABS 2006). With approximately 8% of the population holding or using gym memberships, the market size is expect to be around 2660.

The characteristics of the market support the establishment of Breeze Fitness Studio.

### **4. 2. 3 Target Market**

According to Cooper (1993) the target market needs to be an attractive market where the competition is weak, there is potential growth, there are only few players and the customer base has an unsatisfied need for a particular product. After an evaluation of the current market in Toowoomba

revealed two distinct and complimentary markets which will both be targeted by Breeze Fitness Studio.

Currently there are no female-only fitness centres located in the Toowoomba Central Business District. This is a very profitable market because, if the product is tailored correctly, there is a large population of professional women who work in the vicinity. With the current health focus for professionals, there is an established need for Breeze Fitness Studio. The profile for this market is shown in the table below.

Table 1: Characteristics of Target Market 1

## **Base**

### **Descriptor**

#### **Justification**

Geographic

Region or area

Toowoomba CBD

Demographic

Gender

Female

Psychographic

Lifestyle

Busy lifestyle, want to maintain health in a convenient manner

The other potential market that was identified was that there are only a small number of gyms offering alternative fitness programs aimed at young females who are not content with standard gym offerings. Their profile is outlined below.

Table 2: Characteristics of Target Market 2

## **Base**

### **Descriptor**

#### **Justification**

Demographic

Gender

Female

Income

High Disposable Income

Age

18-30

Psychographic

Lifestyle

Interested in maintaining a healthy lifestyle but are not contempt with standard exercises offered at gyms.

#### **4. 2. 4 Nature of Product**

Kotler's three levels of product are used to understand how a customer views a product and service.

The most basic level of a product is its core, which is what is the customer buying? Breeze Fitness Studio offers it member's women's-only health and fitness. This can be seen as a transformational product because women who join are not just purchasing a gym membership they are purchasing a new lease on life, self-esteem and a release from the stresses of everyday life.

The second level of product is referred to as the actual product, and these are the things that need to be provided in order to achieve the core benefit. For Breeze Fitness Studio the actual product is characterised by high levels of customer service, a wide and varying array of programs, qualified staff, appearance of the staff and quality equipment.

The final level of product, the augmented product, is the additional benefits the customer receives from purchasing this product. Augmented product for Breeze includes flexible membership options and the packaging as well as personalised service.

For a visual representation of the three levels of the Breeze Fitness Studio Product, please see Appendix 1.

## **4. 2. 5 Competitive Edge/Unique Selling Proposition**

Due to the use of multi-segmented targeting, Breeze Fitness Studio will use two different Unique Selling Propositions.

For the first target market Breeze will focus on differentiating themselves from competitors by convenience of location and high levels of personal attention not offered at large fitness centres. As the gym is aimed at professional women, who are often under considerable time constraints, workouts will be structured on achieving maximum benefits in minimum time.

To attract the younger market, Breeze will market the uniqueness of its alternative fitness programs. Breeze will be the only fitness centre offering Juakri and Silks, in addition to Bikram Yoga and Pole Fitness.

## **4. 2. 6 Finance**

Breeze Fitness Studio will be financed through personal savings of the owner, a loan from family as well as a loan from business angel, Lee Gend.

It is estimated that the initial costs involved in establishing the business will amount to \$102, 500. These costs are funding are broken down in detail in Appendix 2.

The expected start up costs take into account the cost of fit out of the premises, the costs associated with establishing and registering a company with ASIC, the cost of equipment for the studio, the initial marketing of the centre and a margin for incidental costs. Working capital of \$15, 000 is required to pay bills and wages that occur before the centre is opened.

The loans from Lee Gend and the owner's parents will be repaid over a period of 2 years at a fixed interest rate of 7%. The breakdown of loan repayments is shown below.

Table 3: Loan Repayment Schedule

Terms – 2 years, 7%

### **Total Cost**

#### **Monthly Repayment**

Loan from Parents

22898

954

Loan from Lee Gend

37210

1550

#### **Total Monthly Repayment**

2505

#### **Total Annual Repayment**

30054

Membership levels for Breeze Fitness Studio has been based on an initial membership base of 100, which is to be achieved in the membership presale, with a growth rate of 7% per month for the first year, which is in line <https://assignbuster.com/the-nature-and-characteristics-of-australian-smes-business-essay/>

with industry standards. It is expected by the end of the first year the membership base will level out.

Wages for the year have been calculated on the basis of one full-time staff member, 2 part-time staff and 2 casuals, using the industry award. It is estimated that wages in the first year will be \$82, 500.

Breeze Fitness Studio will be located in the Toowoomba CBD and the lease costs for this property are \$66, 000 per year (Ray White 2010). This rate is consistent with other comparable CBD locations.

Insurance costs for the studio have been estimated at \$5500 p. a. An allowance of \$10, 000 has been set aside to cover phone and internet bills, equipment replacement costs, accountant and solicitor fees and other incidentals.

Using this data, it is projected that Breeze Fitness Studio will earn a net profit of \$16, 403 in its first year of operation. A breakdown of this is shown in the profit and loss statement below.

## **Breeze Fitness Studio**

### **Profit and Loss Statement**

#### **For Year Ended 31 December 2011**

##### **Revenue**

Membership Fees

210457

## **Less Expenses**

Loan Repayments

30054

Property Lease

66000

Wages

82500

Insurance

5500

Other Expenses

10000

194054

## **Net Profit**

**16403**

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