Regional Development Australia
KIMBERLEY

Small Business

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Map of the Kimberley Region

Legend

- Sealed major road
- Sealed minor road
- Unsealed road
- 4WD track
- 4WD track only
- National highway
- National route
- Marine park boundary
- Reef
- Conservation park
- Marine park
- National park
- Airport
- Local Government Area boundary

Approximate driving distances (km)

	Perth GNH	Perth NWCH	Broome	Derby	Fitzroy Crossing	Halls Creek	Wyndham	Kununurra	Darwin
Perth GNH	–	–	2237	2391	2565	2843	3197	3202	4039
Perth NWCH	–	–	2374	2528	2701	2990	3345	3349	4176
Broome	2237	2374	–	221	395	683	1037	1042	1869
Derby	2391	2528	221	–	259	547	894	899	1733
Fitzroy Crossing	2565	2701	395	259	–	289	642	647	1474
Halls Creek	2843	2990	683	547	289	–	354	359	1186
Wyndham	3197	3345	1037	894	642	354	–	100	929
Kununurra	3202	3349	1042	899	647	359	100	–	829
Darwin	4039	4176	1869	1733	1474	1186	929	829	–

GNH = Great Northern Highway, NWCH = North West Coastal Highway

Executive Summary

This regional brief outlines the state of the small business sector, its opportunities, and its challenges and highlights recommendations to enable long term sustainable growth for the benefit of the Kimberley and its people.

95% of businesses

57% sole proprietors or in partnerships

38% employ less than 20 people

Staff retention and high cost of wages strongly impact small businesses.

Complex, costly, and changing regulatory environments

The core challenge for businesses operating in a single region is the extreme vulnerability to economic variations.

Business inputs 15% higher than metropolitan centres

Business counts in the Kimberley show stable figures, a relatively diversified economy, and no significant changes when it comes to the levels of turnover generated by businesses.

73% turnover between $50k and $2m

Industry Overview

Small business is integral to the Kimberley economy. The region's 2,253 businesses contributed a Gross Regional Product of $2.8b in 2018. This figure is up slightly by 2.4% from 2017[1].

Vital to the region's economic and social wellbeing, the small business sector is the Kimberley's largest employer. It keeps money close to home and supports communities by helping to create webs of financial interdependence that foster broad-based prosperity.

However, there are many challenges to successful operations of small businesses in a regional setting that are not encountered by larger corporations. Large business generally relies on policy and base funding from interests across the state, nation, and the globe, particularly during the start-up phase. This makes them less likely to be vulnerable to local economic conditions. Small businesses are much more susceptible to cyclical fluctuations in demand for output and experience much higher swings in revenue growth than larger enterprises.

There are many definitions for small business; however, for this report, small business is defined as a business employing fewer than 20 people. Categories of small businesses include:

- Non-employing businesses (sole proprietorships and partnerships without employees)
- Micro-businesses (businesses employing between 1 and 4 people including non employing businesses)
- Other small businesses (businesses that employ between 5 and 19 employees)[2]

There are currently 2,253 businesses operating in the Kimberley.

95% are classified as small business. More than half are sole traders or partnerships without employees, with nearly 38% employing less than 20 people[3].

There was a 9.3% decline in business numbers during the period 2011-2018[4], attributed to severe downturns in the mining and construction sectors and a contraction in residential population base.

That situation has remained relatively stable over the past three years and now shows signs of a weak recovery.

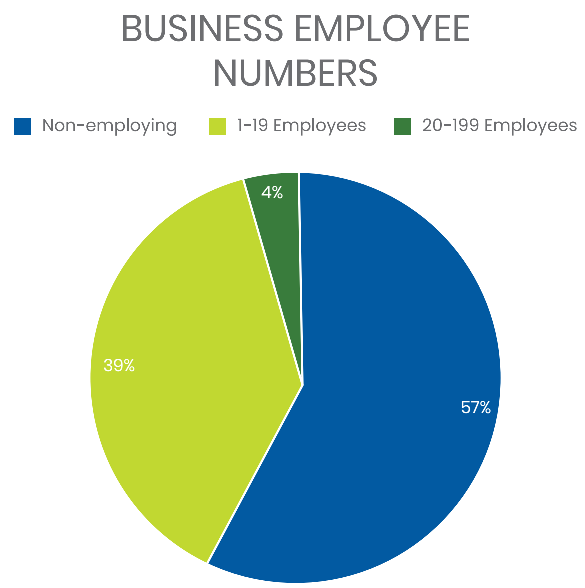
In 2018, there was a marginal increase in the number of sole proprietary businesses indicating that recent government policies stimulating the establishment of new businesses, entrepreneurship, and innovation in the region could be starting to pay dividends[5].

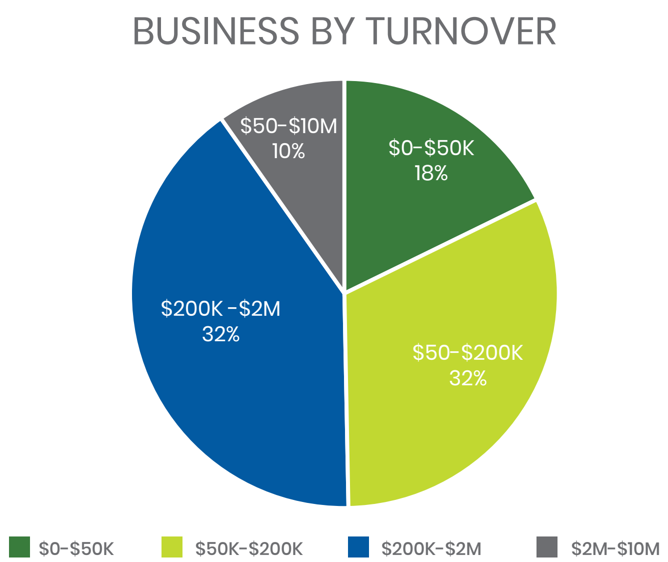
In 2018, 73% of all businesses in the Kimberley generated a turnover between $50k and less than $2m[6].

Less than 10% generate over $2M, 40% generate between 200K – 2M, 32% generate between $20K – 200K and 18% generate between 0-50K.

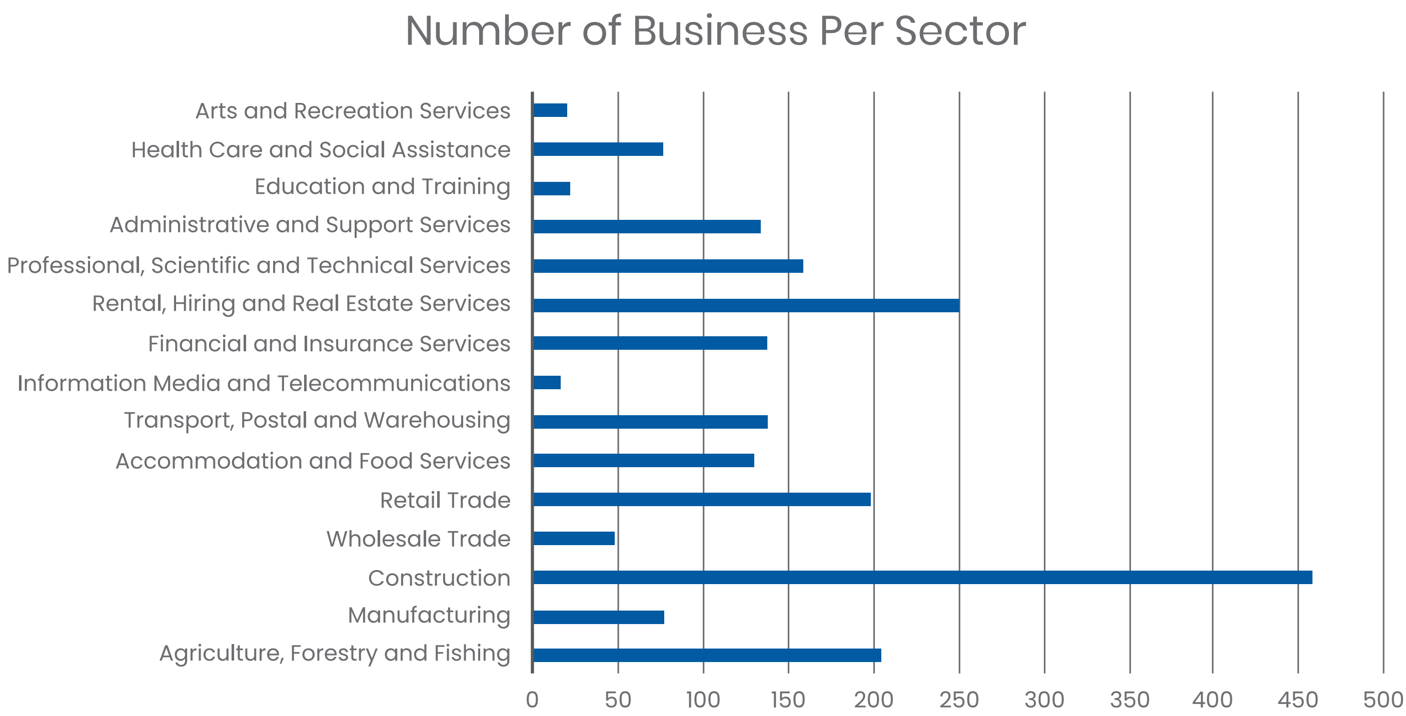
For this latter group, it is likely for some of the non-employing businesses the income is not the primary source of personal income, but part-time revenue streams or seasonal business ventures.

Overall, business counts in the Kimberley show stable figures, a relatively diversified economy, and no significant changes when it comes to the levels of turnover generated by businesses[7].





[1] Kimberley Development Commission – Small Business 2019
[2] Parliament of Australia - Introduction - The importance of small business
[3] ABS & ATO Data provided by Kimberley Development Commission
[4] Kimberley Development Commission
[5] Kimberley Development Commission Counts of Australian Businesses: what does it mean for the Kimberley?
[6] See ref 4
[7] See ref 1



Industry Segments[8]

Accommodation and Food Services

This sector is strongly represented by micro-companies, with half having a turnover of less than $100,000. This is due to the highly seasonal nature of the tourism industry in the region. Businesses include local market stalls, pop up shops, and seasonal tours offered to domestic and overseas visitors. This sector is vulnerable to the vagaries of the tourism industry and high regional cost of access and associated issues.

Retail and wholesale

These trades have the most substantial proportion of small businesses with employees. Higher staff levels are generally required to manage extended trading hours and peak seasons associated with the region. This sector is highly vulnerable to population change and perceived or actual changes to disposable income in the area. It is also dependant on consumer preferences and is affected by issues such as increased online shopping.

Construction and manufacturing

Businesses in this sector comprise a range of small businesses that support the other enterprises as well as the domestic market. Highly vulnerable to economic cycles, population trends, and government major project decisions.

Agriculture, forestry, and fishing

The high level of non-employing businesses is likely to comprise “hobby style” farmers primarily but will include consulting advisors to the sector. The small employers will encompass services to agriculture. This sector is less vulnerable to economic downturn as policy & compliance are likely to be the dominant influence. It is also susceptible to biosecurity issues and is impacted by lack of scale and therefore freight and logistical challenges..

Transport, Postal and Warehousing

The domination of non-employing business likely reflects owner-driver businesses. Overall, this sector experienced the sharpest contraction in the period from 2014-2018. The logistics sector is a relatively accurate reflection of both the current situation and short-term economic outlook, based on the need to move construction and other materials for new and expanding projects.

Personal services

These include education, training, health care, social assistance, and recreation facilities, for the most part, delivered through government-funded programs. Therefore, this group is likely to be less vulnerable to economic variations. The significant impacts are likely to be government funding, policy, and medium-long term population changes.

[8] Information from ATEA Consulting – Kimberley Snapshots 2020’

STRENGTHS	OPPORTUNITY	BARRIERS	RISKS
• Population creates baseline for small business services • Government contracts create baseline for small business services	• Innovation to diversify to meet consumer demand • Encourage increased local content policy for government contracts • Encourage local population to buy local to boost local business • Encourage large business to utilise services / products within the region • Encourage more local employment	• Cost and complexity of regulations • Access to reliable, skilled workforce • Seasonality effects labour requirements and profitability • High cost of business inputs	• Contraction in local population base affecting demand for local product / services • Retraction in core industries affecting demand for local product / services • Stalled delivery of government works or private investment projects • Changes in regulatory environment • Increase on line buying.

Industry Opportunity

Encourage Local Content

Although there has been some recent improvement in the percentage of Government contracts awarded locally, there is a large opportunity for a more significant proportion of contracts to be assigned to small businesses in the region. Regular, long term government contracts allow businesses security and opportunity to engage traineeships or apprenticeships the foster long-term stability and sector growth. The view that larger contract offer better value for money, less risk and are easier to manage by Government need to better balanced with the objective of encouraging small growth.

Buy Local

There is an opportunity to grow the local businesses by encouraging other local businesses always to use the services based within the region. Similarly, large organisations who have business operations within the area should be educated about the actual costs of service/ product delivery and encourage them to use suppliers from the region.

Other Industry Growth

The state of the core industries directly impacts small businesses. Improvements in the economic status of mining, agriculture, and tourism sectors will result in increased opportunity and demand for products and services delivered by small business.

Innovation

Small business is often more innovative than larger industries – there is a real opportunity to create new markets or grow existing ones by diversifying products and services to meet the customer demands better and follow new consumer trends.

Industry Barriers

Overall, the core challenge for businesses operating in a single remote region is the extreme vulnerability to economic variations. More than anything small businesses in the Kimberley are impacted by the low population base, and therefore market size. Downturn in main commercial drivers of mining, agriculture, construction, and tourism or the contraction of the base population directly impacts the sector.

The well establish trend of online buying impacts many small businesses, and that trend is likely to continue and accelerate.

The availability of suitable labour and skills remains an impediment to business growth and performance in the region. Essentially anyone local who wants a job, and is willing to commit to work, can get a job. The gap must be filled by importing labour and skills to the region. That often means higher cost small business versus employing local people, so the incentive to employ locally remains strong.

Seasonality

The region experiences substantial fluctuation in business activity during the wet season – many small businesses linked to service industries have a downturn of over 80% or a complete shutdown. This creates flow-on effects for cash flow and issues retaining full-time staff resulting in the need to pay 25% loading for casual wages.

Work Force

One of the biggest challenges for small businesses in the region is attracting and retaining workers, particularly workers with specialist skills. The Kimberley has a transient workforce and a high cost of living compared to metropolitan centers. It is also perceived by many people as being separated from family or friends and can have consistent extreme temperatures for months of the year; these factors make it difficult for businesses to recruit employees.

Despite the region's unemployment level being at 15.3%, the level of the local population taking up jobs in the workforce is limited, meaning that migrant workers are required to undertake jobs in areas such as: farm work, hospitality, retail etc.

Engagement of Indigenous people who make up 50% of the community is vital to the ongoing growth of the small business sector across the region and to close the gap in Indigenous employment levels. Jobs are available and the region needs to be more effective having more indigenous people take up those jobs.

A review government policy is critical to allow easier accesses of skilled migrants to fill gaps when local workers are not available. For example, currently, Working Holiday Visa employees are not permitted to work for more than six months in one job or allowed to earn their time towards a 2nd-year visa within the boundaries of Kimberley townships only on pastoral/agricultural properties.

Longer-term, encouraging more people to move to regional and rural areas to grow the population base is vital for small business success and the overall development of the Kimberley and regional Australia.

Lack of regional pricing understanding

Business input costs of freight, transport, wages, insurances, and other inputs are significantly higher than metropolitan centers (RPI 2019 indicates at least 15% higher) largely because of the low population base of the Kimberley region and therefore low volumes. Local input costs are being passed onto consumers. Within the region, this is well understood and accepted. However, large companies based outside of the area, who fail to understand this, and expect to pay comparative metropolitan prices.

As an example, Kimberley based mining companies freight their commercial laundry 2500kms to Perth rather than paying the regional commercial laundry to undertake the work . This cost of freight is roughly equivalent to the price difference between Perth & Kimberley operations. However, on face value, the Perth operations seem more competitive, and the contract leaves the region. Educating large businesses based outside of the area around actual costs is an ongoing challenge to small businesses.

Regulation barriers

The small business sector faces many challenges when it comes to regulation. Whether starting a new small business or expanding an existing one, the main industries concerns are:

- Poor access to information on regulatory requirements in plain English (increasing regulatory risk and uncertainty)
- Unnecessary approvals for minor changes which trigger lengthy & uncertain approval processes
- Repeated requests for information from different agencies which can cause lengthy delays (reducing business productivity)
- Agencies impose unnecessary and costly requirements (reducing business productivity)

Industry Risks

Economic Status of other Industry

Many small businesses operate as suppliers or service providers to magnet industries such as tourism, mining, and agricultural sectors and are directly affected by the financial status of those sectors.

Base Population Changes

Many small businesses exist in the areas of retail, hospitality and tourism, rental, hire and real estate and recreation services providing goods or services to the general population. Any contraction in the regional population significantly affects profitability and viability, and correspond any increase in the base population has potential upside for small business.

Report Recommendations

Recommendation One

Australian government assist small businesses with correct tax settings and workplace relations framework to create sustainable jobs.

Recommendation Two

Policy that stimulates training and workforce development through local apprenticeships and traineeships.

Recommendation Three

- Targeted migration policies to encourage appropriately skilled workers out to the regions where they are most needed.
- Australian Government continue to set polices which encourage migrant workers to take jobs in the Kimberley region, which local people have shown a tendency to not do.
- Australian Government adjust migration policy to more proactively achieve more migrants in the Kimberley region to assist grow the region and deliver the skills the region needs.

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