

Indigenous Business Growth

Working together to realise potential



Supply Nation

Since 2009, Supply Nation has worked with Aboriginal and Torres Strait Islander businesses along with procurement teams from government and corporate Australia to help shape today's emerging and rapidly evolving Indigenous business sector.

Supply Nation's world-leading 5-step verification process provides peace of mind by ensuring that all businesses listed on Australia's largest national directory of Indigenous and Torres Strait Islander businesses, Indigenous Business Direct, are not only Indigenous owned but are also regularly audited for changes in company structure and ownership.

Supply Nation partners with its paid membership of government, corporate and not-for-profit organisations to develop procurement policies that modify and redirect spend to include the traditionally under-utilised Indigenous business sector.

First Australians Capital

First Australians Capital aims to alleviate the poverty and disadvantage in life outcomes experienced by Indigenous Australians by building on the strengths and assets of Australia's first peoples.

Strengthening First Australians **cultural capital**; strengthening individual's identity and self-esteem; rebuilding social and cultural values.

Enhancing First Australians **creative capital**; stimulate creativity and innovation, building resilient and empowered communities.

Harnessing First Australians **economic capital**; create jobs, accelerate entrepreneurialism, establish enterprises and drive prosperity.

First Australians Capital's mission is to invest in Indigenous economic independence by linking 60,000 plus years of Indigenous business experience with the modern market place. We believe that Indigenous businesses can contribute enormously to build a new economy for all Australians.

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Australian businesses and government can work together with Indigenous businesses to help create opportunities for sustainable and competitive growth. Assisting Indigenous businesses to realise their growth potential will provide outsized benefits for the Indigenous community, and for Australia.

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What is the opportunity?

Indigenous businesses create outsized benefits for Indigenous Australians, empowering Indigenous communities to generate and grow their economic prosperity, in turn benefitting local economies and the wider Australian economy. These benefits are driven by the disproportionate number of jobs Indigenous businesses create for Indigenous people. Indigenous businesses are over 100 times more

likely to hire Indigenous workers than non-Indigenous businesses¹. Many also make significant contributions to the community, such as the provision of pro-bono advice and support, or sponsorship of local sports teams and cultural events² (Exhibit A).

Realising the potential of Indigenous businesses will create a new generation of entrepreneurs who

grow their own business knowledge, networks, assets and wealth. This will in turn help remove barriers to employment for future generations, and help create a positive cycle of social and economic empowerment.

Exhibit A:

Benefits of Indigenous business



Source: Centre for Aboriginal Economic Policy Research, ANU (2014): 'Indigenous employment and businesses: Whose business is it to employ indigenous workers?' (p11); Charles Sturt University and University of Technology Sydney (2014): 'Determining the factors influencing the success of private and community-owned indigenous businesses across remote, regional and urban Australia' (p14)

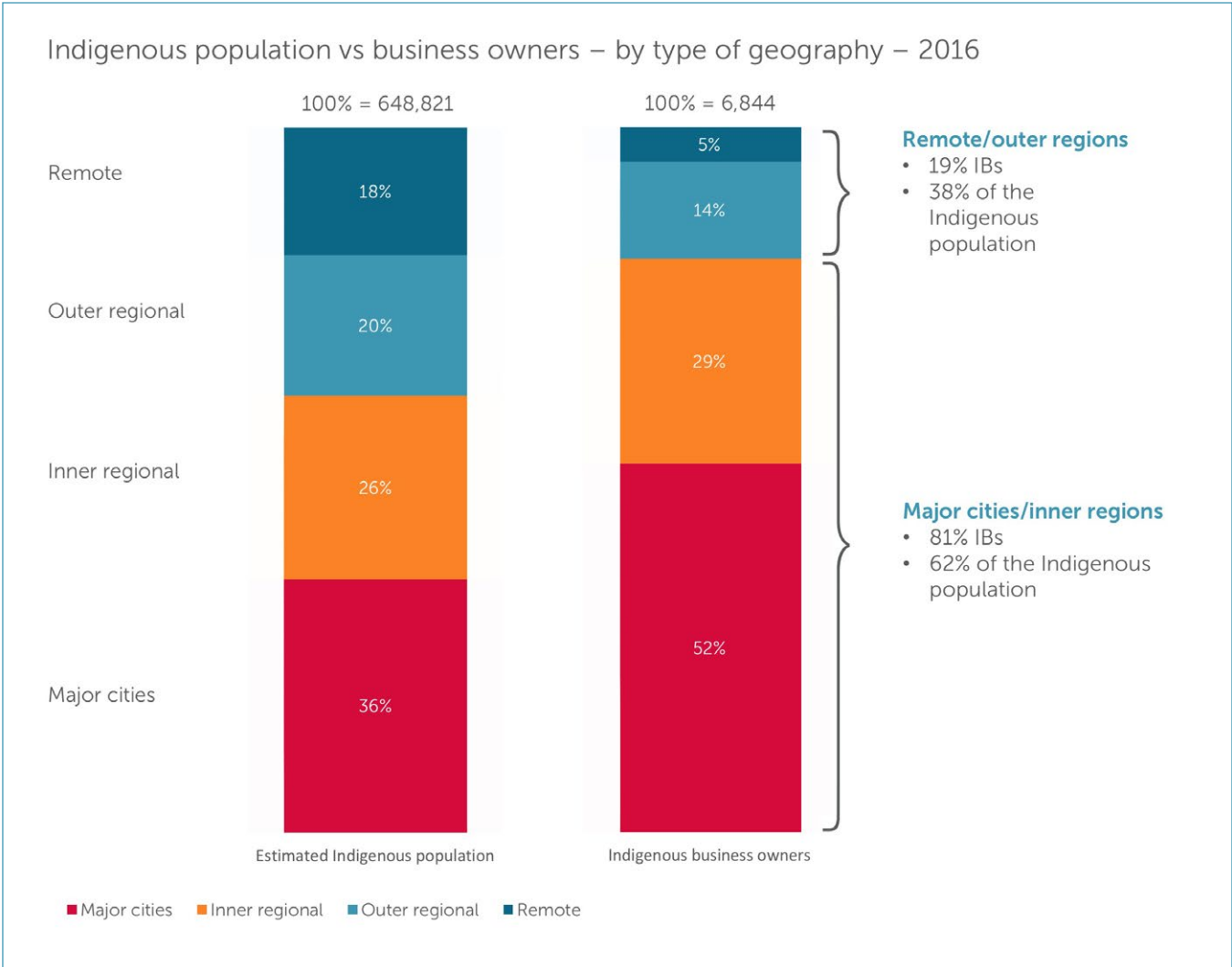
Currently, the full potential of Indigenous businesses is not being realised; material opportunities exist to grow both the number of Indigenous businesses and the scale of these businesses, across all regions and sectors.

While Indigenous people make up 3% of the total Australian population, they represent just 0.5% of total

business owners in Australia³. Exhibit B shows that remote and outer regional areas are particularly under-represented in terms of the number of Indigenous business owners. These locations are home to 38% of the Indigenous population but only 19% of all Indigenous business owners, indicating an opportunity to grow the number of Indigenous business owners in these areas⁴.

There is also a large opportunity to scale existing Indigenous businesses, given that 60% of Indigenous business owners are operating as unincorporated sole traders (compared to 41% of non-Indigenous businesses) and only 1% have more than 20 employees, compared to 4% of non-Indigenous businesses⁵.

Exhibit B: Regional opportunities



Source: Australian Bureau of Statistics 2016 Census

Indigenous business growth opportunities exist across all sectors; our analysis has found certain sectors may have particularly high potential⁶. In determining high potential sectors several factors can be considered, such as industry growth and size;

the competitive advantage that Indigenous businesses might have over non-Indigenous businesses; ease of entry into the industry; skills requirements; and the level of government or business support for the sector. With these points in mind,

below is an exploration of some promising sectors for Indigenous business penetration and growth – Construction, Health and Social Services, and Tourism.



A closer look at the sector

Construction

The construction sector currently provides 1 million jobs nationwide, making it the third largest sector by employment in Australia⁷. The Government and business community are already actively supporting the provision of opportunities for Indigenous businesses in this space. Examples include the Government's Indigenous Procurement Policy, and corporate commitments to increase access to service opportunities for local and Indigenous construction businesses. Further, ease of entry into the construction industry seem to be high, with a large proportion of players being sole traders (currently 67%)⁸. However whilst these businesses have opportunities to win corporate and government contracts, the profit margins are much lower (due to lack of scale) and bank guarantees are required, which can be difficult for Indigenous businesses to access. Other issues, such as matching supply and demand in each region on an ongoing basis, and negative growth from 2013 to 2016, also present challenges.

Health and Social Services

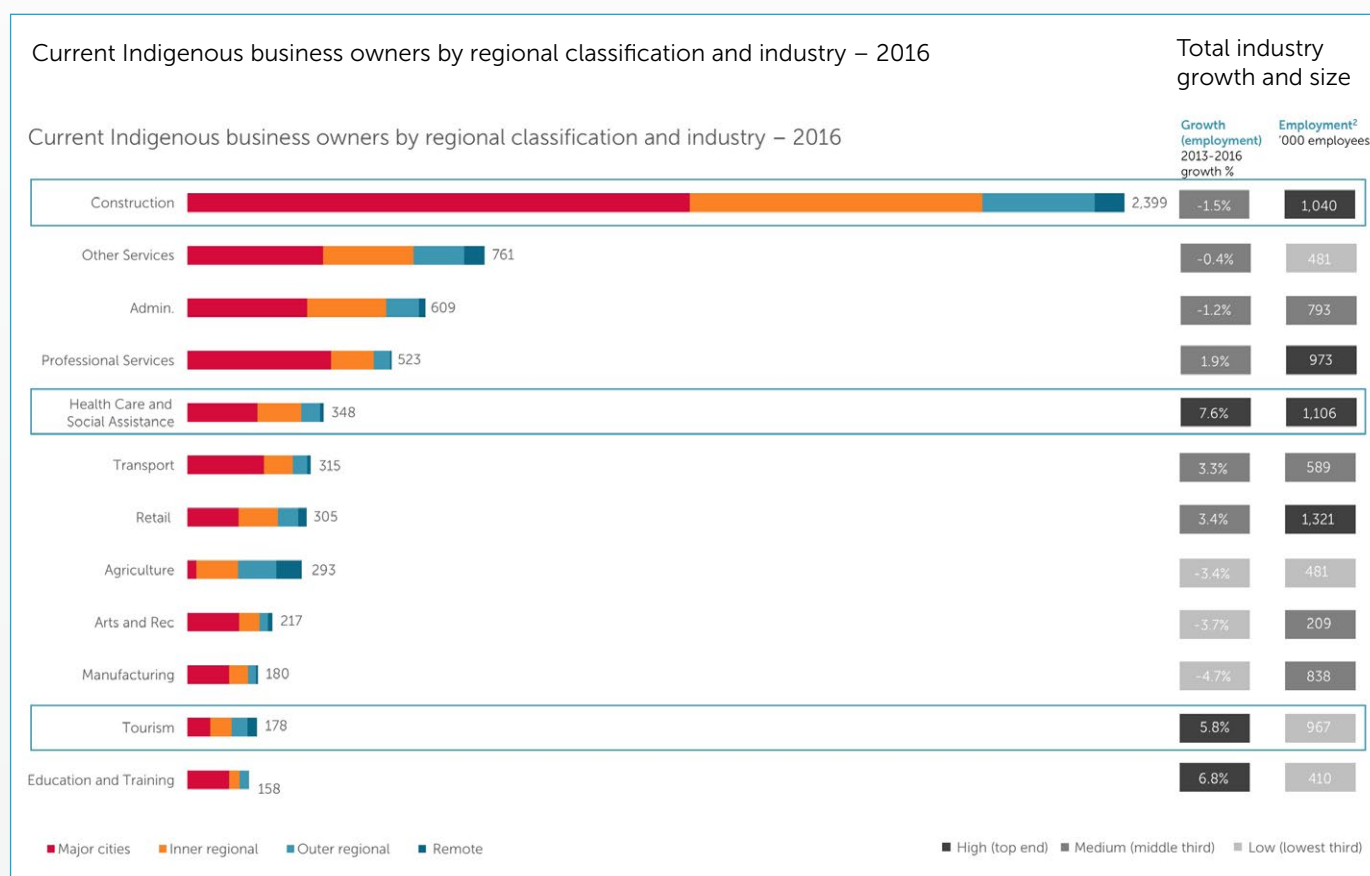
The health and social services sector has experienced high growth, with the number of employees increasing 7.6% from 2013 to 2016, to currently provide 1.1 million jobs nationwide – making it the second largest Australian sector by number of jobs⁹. Government demand is growing, especially with the rollout of the National Disability Insurance Scheme (NDIS); the Indigenous rate of disability is twice that of the non-Indigenous population and demand for services is often high in remote and regional areas¹⁰. Proximity to, and understanding of local Indigenous health and social support needs gives Indigenous businesses an advantage and an opportunity to deliver services to Indigenous communities in these areas.

Tourism

Indigenous businesses can also have a competitive advantage in the tourism sector, where interest in authentic Indigenous experiences through goods and services often drives tourist demand¹¹. The tourism sector is experiencing high growth, with the number of employees increasing by 5.8% between 2013 and 2016¹². While growth of the Indigenous tourism segment is not well documented, research suggests it is relatively stagnant, indicating an opportunity to revitalise the segment and capture a greater share of the total tourism growth¹³. The domestic market should be leveraged; domestic customers make up 96% of all tourist visits in Australia and 70% of total tourism income, yet less than 1% of these customers participate in Indigenous tourism¹⁴. Certain challenges will need to be overcome in this process, including access to capital for Indigenous tourism businesses and a need for coordinated investment in destination marketing, to lift the profile of Indigenous tourism businesses.

Exhibit C:

Current Indigenous business representation by industry, and industry growth and size



1. 'Other services' includes Personal care workers and maintenance. Not inclusive of all industries, excludes: Wholesale trade, rental, hiring and real estate services, information, media and telecommunications, mining, public administration and safety, electricity, gas, water and waste services.
2. Number of persons working for businesses during the last pay period ending in June 2016. Excludes non-salaried directors and volunteers.

Source: 2016 Census. Excludes businesses where the industry is not stated or inadequately described.

Challenges faced by Indigenous businesses

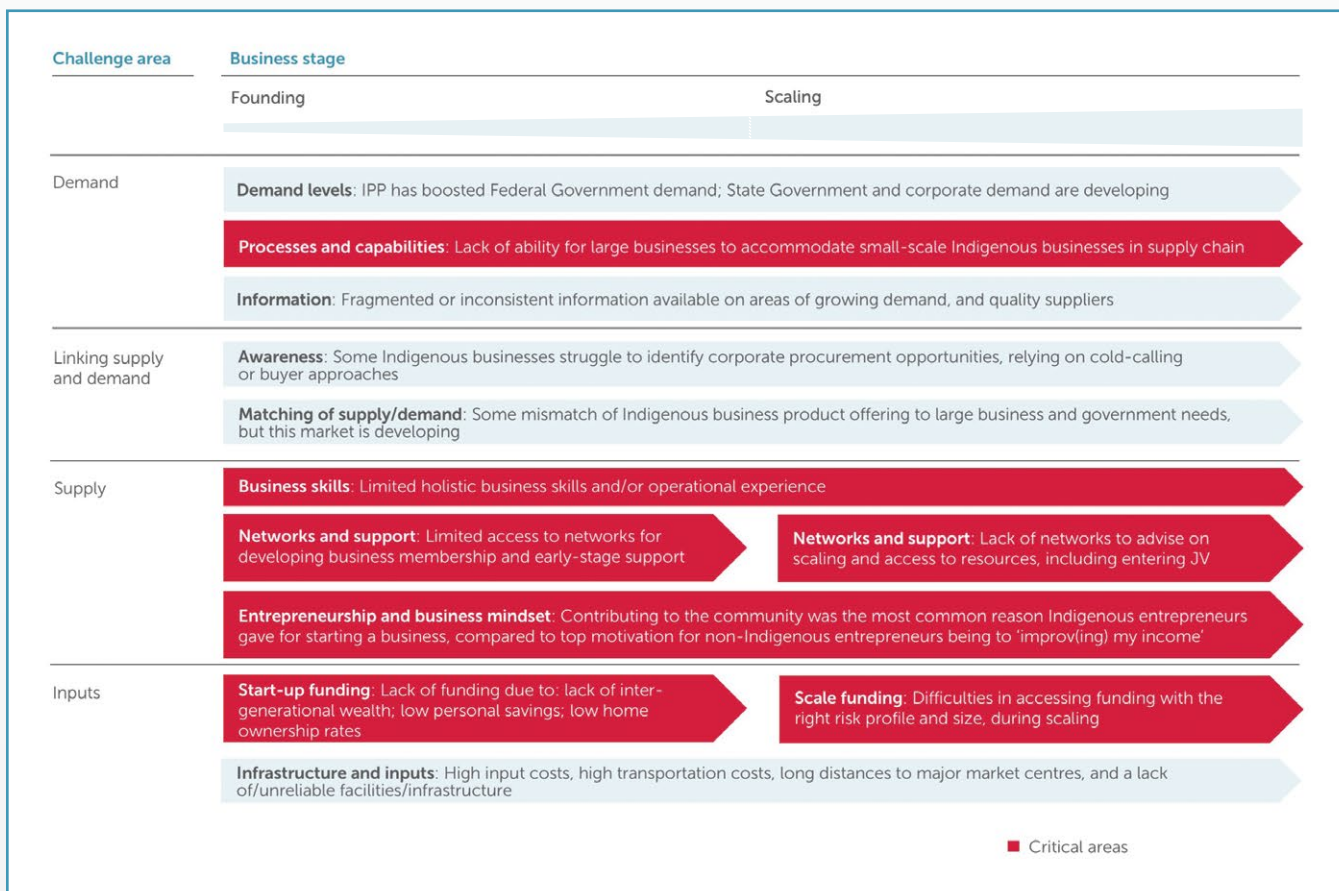
Typically, Indigenous businesses face challenges in start up and scaling; some are similar to those faced by most entrepreneurs and small businesses in Australia, while others are more acute for Indigenous

businesses. According to a review of past research and expert interviews, the critical hurdles include having the right skills and support systems, access to funding, and generating demand for services¹⁵.

These hurdles are marked as critical areas in Exhibit D, which highlights challenges faced by Indigenous businesses throughout different stages of business maturity.

Exhibit D:

Challenges to growth for Indigenous businesses



Source: Based on available statistics, expert interviews and literature reviews

1. Skills and support

- **Business skills:** Many small businesses face skill hurdles such as limited familiarity with business concepts and processes, or lack of access to training and expertise. This challenge can be even more pronounced for Indigenous businesses, and can be a barrier at all stages of business growth, e.g., during start-up when developing business propositions is crucial, and during scaling when operational expertise becomes important to inform strategic decisions.
- **Support networks:** A lack of strong support networks, driven by low numbers of Indigenous business peers, and less familiarity with or opportunity to access broader business networks, may limit the ability of Indigenous businesses to scale and to receive sufficient guidance on governance.
- **Joint ventures (JVs):** Recent government support in prioritising Indigenous business participation in JVs has increased such opportunities. However, JVs can be particularly challenging for Indigenous businesses, due to limited access to support networks and the skills necessary to establishing a fair and sustainable partnership. To safeguard fairness in agreements, Indigenous businesses should obtain legal advice to achieve fair contracts and terms and conditions; deal structuring expertise to ensure fair split of value; governance support to provide the business with a meaningful say in decisions; and financial advice to facilitate good management of future cash flows.

- **Remote/rural:** The challenges in access to skills and business networks are exacerbated for remote and rural Indigenous businesses. Reasons for this include limited ability to interact with the wider market, a lower consumer base, and less opportunities to partner – all of which restricts both demand and access to networks for Indigenous businesses.

2. Funding

Funding can also be a constraint for growth of Indigenous businesses. While some sources of funding are available, there are challenges around securing the appropriate and timely access to these funds essential to creating or scaling a business:

- Access to commercial lending and traditional small business financing can be more limited for Indigenous businesses, due to low inter-generational wealth, personal savings, and home ownership rates. Indigenous rates of home ownership are less than half the rate of non-Indigenous Australians¹⁷. Typically these sources of capital are used to establish or buffer the growth of small businesses; their absence creates a funding challenge, especially during the start up phase.
- There is a further challenge in matching the risk profile of lending institutions to business opportunities. While small business loans do exist, emerging Indigenous businesses can find it difficult to meet commercial lending criteria for loans, which involves providing an adequate trading history, robust financial projections, and a strong business case and execution plan. These outputs are linked to the skills challenges mentioned above¹⁸.

3. Procurement

Further challenges need to be overcome in procurement processes of governments and larger businesses, and generating demand for services of Indigenous businesses. These challenges mirror those of any smaller scale supplier:

- Larger businesses/government may not advertise demand beyond known suppliers, and only tender large contracts
- There is difficulty accessing the required resources or skills to complete a tender process
- There may be a shortage of support before and after the sourcing process, driven by demanding lead times, and unavailability of feedback and guidance on unsuccessful tenders
- The government's Indigenous Procurement Policy (IPP) leverages its large procurement spend to drive demand for Indigenous goods and services – this has spurred growth for many Indigenous businesses, but it has also created some risks. Growing businesses should maintain a diverse customer base and ensure they create value to non-IPP customers, in order to secure exit opportunities and build resilience against changes to government policy

What can be done to support Indigenous business growth?

To help realise the growth potential of Indigenous business and increase their representation in Australia's economic landscape, a higher level of commitment and collaboration is required by both Australian business and government. As a starting point, there are a few questions to focus on.

1. Skills and support:

How can business and government better support access to the right skills for Indigenous businesses, and build support networks?

- Create and facilitate tailored capability building programs for Indigenous businesses. For example, professional services and knowledge-based industries can explore ways to share their institutional knowledge and practices¹⁹.
- Link Indigenous businesses to networks of advisors, contacts, governance support and functional experts; work alongside and support organisations that already offer these services.
- Provide mentorship to Indigenous entrepreneurs to start small local businesses that commercialise Indigenous knowledge, in order to create a larger economy of Indigenous goods and services, and feed the pipeline of Indigenous business leaders who can act as mentors for the next generation.

Examples of current skill/ support initiatives include:

- The MURRA Indigenous Business Executive program assists in building both Indigenous business networks and capacity, through Melbourne Business School-run modules for Indigenous entrepreneurs and leaders on business management skills, with a strong 'networking element'¹⁹.
- First Australians Capital (FAC) BlackOps program creates opportunities for Indigenous businesses wanting to scale. The partnership provides access to capital and offers capability building for the business owner through mentorship and a formal work programme involving legal, accounting and marketing experts. FAC also provides a platform to connect Indigenous entrepreneurs with skilled professionals and networks²⁰.
- Lendlease's GyMEA program aims to provide long-term strategy and operations support for small to medium Indigenous businesses, enabling them to significantly expand their operations over a 5-year period²¹.

2. Funding

How can financial institutions and government help to better meet Indigenous business funding needs?

- Create greater visibility of available funding sources across sectors and regions. For example, financial institutions and government can more widely promote grant and loan options that already exist, and provide the requisite support to make a successful application.
- Review the design of current funding sources and adopt a more diverse risk profile to ensure they create opportunities for every segment of the Indigenous business finance market. Funding products with the appropriate risk threshold and support services (e.g., capacity building) can be developed to target Indigenous businesses facing specific challenges or those at a specific stage of maturity.

Examples of current funding initiatives include:

- Fortescue Metals Group has established a A\$50 million guaranteed leasing facility with ANZ for the lease of fund generating assets²².
- First Australians Capital has established a program to raise funds to lend as repayable capital for Indigenous entrepreneurs and business owners, with the aim of bridging the funding gap and building capability, to enable access to mainstream business finance²³.

3. Procurement

How can business and government tailor their own procurement to provide opportunities for Indigenous businesses?

- Be more ambitious in the aspiration for Indigenous business procurement. For example, leading from the top to set and influence organisational procurement targets, and share success stories on what works.
- Change processes and build capabilities to better enable Indigenous business

engagement. For example, proactively share information on upcoming tenders and opportunities, carve out parts of contracts Indigenous businesses are able to meet, tailor contract terms to cater for Indigenous business needs, ensure practices and criteria are appropriate for engaging with Indigenous businesses, provide feedback throughout and after procurement processes to both successful and non-successful businesses, and build ongoing relationships to help prepare businesses for future opportunities.

Examples of current procurement initiatives include:

- Raising the Bar, a joint Business Council Australia and Supply Nation initiative, is an example of businesses working to grow the Indigenous procurement capability. Companies involved in the program commit to considering how to better engage Indigenous businesses through broader procurement practices, co-designing a target-setting model for the BCA, and improving or creating their own Indigenous procurement targets.

What can you, as an individual, do?

Raise awareness in your organisation and network about the challenges faced by Indigenous businesses and the options for businesses and governments to help overcome them. This could include sharing stories of successful engagement with Indigenous businesses, and unpacking how certain initiatives are helping to overcome specific challenges.

Be proactive in leading and mobilising initiatives to support and grow Indigenous businesses in your role and industry. Don't be afraid to start small – start the conversation with your colleagues by asking 'What Indigenous businesses are we working with?' and 'How are our tenders reaching Indigenous businesses?'

Ask yourself what skills or expertise you can provide to mentor Indigenous entrepreneurs and business owners, to help build capacity and networks. For example, can you use your expertise (e.g., in finance and strategy) to assist Indigenous businesses in developing business plans and apply for funding?



Australian business and government have an important opportunity to work together with Indigenous businesses to address the challenges they face and realise significant growth potential; a focus on the key questions that these challenges pose is a good starting point. Individuals can also commit to the effort within their organisations and raise awareness, offer expertise or mobilise support initiatives – delivering benefits to not just the Indigenous community, but to all Australians.



Authors

This report was produced by Supply Nation and First Australians Capital.

Supply Nation

Supply Nation is the Australian leader in supplier diversity, established in 2009 to connect our membership of Australia's leading brands and government with Indigenous businesses across the country.

First Australians Capital

First Australians Capital facilitates investment in Indigenous economic independence by linking 60,000 plus years of Indigenous business experience with the modern market place.

In partnership with McKinsey & Company.

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