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Relocation of businesses to a coastal region

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Abstract

This paper describes the findings of a research project that investigated the reasons why businesses relocated to the Mid North Coast region of New South Wales, Australia. The region is characterised by one of the highest levels of unemployment in Australia, one of the lowest average incomes and a high dependency on social security infrastructure. It also has a climate which has been described as the best in Australia. It is an attractive location and not surprisingly 'lifestyle' was the main reason cited by small business proprietors for relocating or commencing operations in the region.

Data used in the preparation of the paper was gathered initially in 1996 and again in 1999 via an extensive survey of businesses conducted jointly by Southern Cross University and the four Business Enterprise Centres in the Mid North Coast region of New South Wales. The data was collated and entered into a database for regional research called the Business Enterprise Register (BER) that has subsequently been renamed the Business Mid North Coast (BMNC) Register.

Introduction

The lack of effective planning and development skills are frequently cited as a primary cause of business failure (Williams cited in Gassiewski 1988, p. 14; McMahon 1995. McMahon (1995, p. 15) states that “*failure or bankruptcy rates of young, small businesses are very high, and as many as 90 percent of these failures can be attributed to ‘poor management’*”. McMahon (1995, p. 8) states that the percentage of Australian business failures in the first five years of operation exceeds 70%. The Australian Bureau of Statistics (ABS, 1999a, 1999b) estimated that in Australia in 1999 there were a total of 1,051,500 small businesses with 951,100 of these operating in the non-agricultural sector.

However, the small business sector was identified as being particularly vulnerable. Williams (1991) found that 74% of small businesses failed in the first five years. Reynolds et al (1994) estimated that 30,000 businesses in Australia fail every year (nearly 100 per day). Therefore, small business is a vulnerable sector of the economy and any assistance and information that can be provided to assist their planning and development should be seen as a positive effort to reduce what is otherwise an enormous waste of human and economic resources.

A team of researchers at Southern Cross University (SCU) conducted a study in 1996 with the primary purpose of collecting data on businesses registered in the Mid North Coast Region of NSW. Data collection was undertaken again in 1999 and a component of the study was to examine the reasons why owners chose to establish their businesses in this region. The end product of the study was a database containing details of 12,252 businesses as at February 1999. The data has been subject to continuous and ongoing updates by the Business Enterprise Centres in each of the four sub-regions of the Mid North Coast.

The Mid North Coast Region

This region is typical of many east coast regions of Australia outside of the major metropolitan areas. The Mid North Coast Region of NSW in particular has the dubious

honour of having one of the highest level of unemployment, lowest per capita income, and some of the highest workforce casualisation in Australia. Due to poor job growth in the region there are probably a large number of discouraged job seekers that are not captured by the official unemployment figures (Australian Bureau of Statistics, 2001). Consequently, the true economic and social impact of unemployment on the region is likely to be underestimated.

Notwithstanding, the region also has strong population growth that provides many opportunities for local business, and for the establishment and growth of new enterprises. However, it also puts a strain on existing and new infrastructure, and will have implications for resource sustainability (NOROC, 1990; Australian Bureau of Statistics, 1999c).

The region's economy is heavily dependent upon agriculture and tourism. The dependence on these two sectors means that the region's economy is narrowly based. This makes the economy susceptible to a boom and bust cycle of development. The viability of agricultural industries in the region is very much reliant on domestic and international commodity prices. A number of the key agricultural products from the region suffer from depressed commodity prices (University of Sydney - Planning Research Centre, 1991; Australian Bureau of Statistics, 1999c, 1999b).

The region's major employment is generated in the retail sector followed by hospitality and then manufacturing. Once again much of the retail sector trade is dependent on tourism and therefore also subject to the 'boom and bust' cycle.

Survey Findings

Analysis of the survey data found has resulted in the release of a Business Census Report for the Mid North Coast region, and Business Census Reports for Coffs Harbour/Bellingen, Manning/Gloucester, Macleay, and Hastings sub-regions. There have been no intra-regional comparisons undertaken on the data owing to its sensitivity and the misrepresentation that might result. However stakeholders in the sub-regions

can draw conclusions on their performance relative to the findings for the entire region. The stakeholders can also meet to compare the findings for each of their sub-regions.

Table 1: Respondents by Industry Category (Small Business)

Manufacturing	<i>Total Organisations</i>	<i>Organisation with employee data</i>	<i>Employees</i>	<i>Average Employees per Organisation</i>
Electricity, Gas, Water	1369	11.2%	5349	4
Construction	11	0.8%	386	35
Wholesale Trade	1663	7.1%	3391	2
Retail Trade	641	5.2%	2506	4
Accomm., Cafes, Restaurants	3152	21.9%	10461	3
Transport & Storage	896	14.6%	6967	8
Communication Services	402	2.7%	1273	3
Finance & Insurance	36	0.4%	176	5
Property & Business Services	276	2.3%	1090	4
Government Admin. & Defence	1161	7.8%	3712	3
Education	60	3.4%	1631	27
Health & Community Services	210	4.9%	2360	11
Cultural & Recreational Services	678	10.8%	5141	8
Personal & Other Services	267	2.2%	1031	4
ANZSIC code not supplied	689	3.2%	1516	2
	313	1.7%	798	3

Table 1 shows the number of individual enterprise in each of the main industry categories according to ANZSIC classification system. The Table shows the high number of retail enterprises across the region and the reliance on the service sector as an employer and contributor to the region's economy. This is consistent with findings published by the Australian Bureau of Statistics special article on employment generation by the small business sector, where in 1998-99 small business accounted for 47% (down from 50.2% in 1996-97) of the non-agricultural private sector workforce (Australian Bureau of Statistics, 1999b).

Other data analyses have examined export by industries as a percentage of turnover, employment by gender and type, high risk enterprise profiles, enterprise confidence, enterprise age, experience of proprietors relative to their current type of enterprise, customer and market locations and enterprise turnover profiles by industry category.

Reasons for relocation

The Mid North Coast Region frequently has the highest level of unemployment and the lowest per capita income in Australia. For this reason a question about the factors that influenced the decision to relocate to this region was included in the questionnaire. The question enables analysis of those business practices which were used in making a decision to relocate to the Mid North Coast Region.

The responses to this question showed that just over 24% of businesses proprietors relocated or established operation in the region for 'lifestyle' reasons. Dixon et al (1991) listed five factors, in order of preference that influence the selection of a location as:

- *personal factors (viz. lifestyle?);*
- *economics;*
- *competition;*
- *geographic considerations; and*
- *laws and regulations.*

60% of the respondents to this question had no previous experience at owning and operating a business of the type the now owned. Reid et al (1993) makes reference to factors to be considered in a competitive market being: existing rivals, potential new entrants, substitutes, customer's ability to purchase and suppliers. Clearly the survey data identifies a need for better business development processes as none of these reasons includes 'lifestyle'. In this regard BECs and other development organisations need to take more proactive measures in the provision of business advice to developing and incoming businesses.

Figure 1: 10 Highest Responses for Location as a Percentage of Total Responses

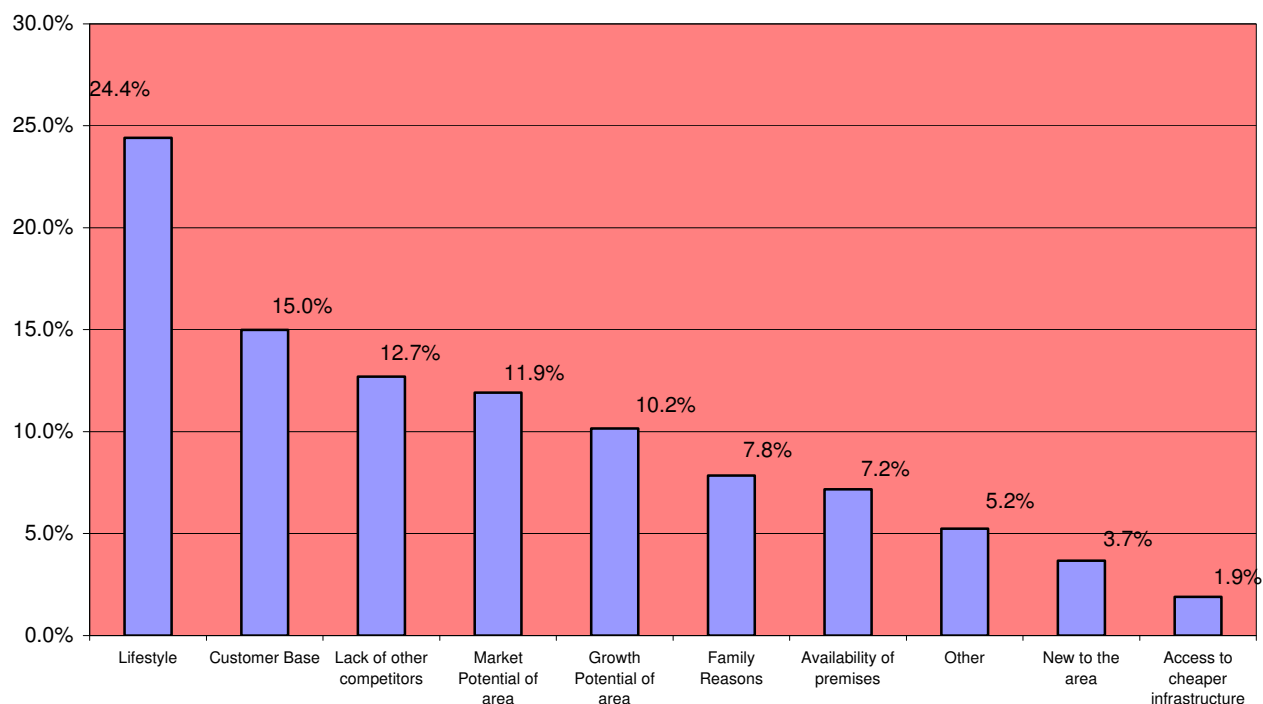


Figure 1 shows the 10 highest responses to the question of reasons for business relocation as a percentage of total responses. The graph in this figure clearly illustrates that 'Lifestyle' is the highest response, with nearly double the responses of the next highest response of 'Customer Base'. While it is not clear what the specific 'lifestyle' considerations were, one reason may be that proprietors were trying to 'buy' themselves a job in a desirable location where they could not find employment.

Table 2 lists the percentages of businesses in each industry category that indicated that 'lifestyle' was their main reason for relocating or establishing their business in the region rather than on the basis of sound analysis of business opportunity.

Table 2: Businesses citing 'Lifestyle' as the Reason for Location by Industry Category

Industry Category	%
Construction	31.30%
Accomm., Cafes, Restaurants	30.20%
Property & Business Services	27.50%

Transport & Storage	27.40%
Manufacturing	24.60%
Cultural & Recreational Services	23.80%
Personal & Other Services	22.90%
Health & Community Services	22.80%
Retail Trade	21.70%
Wholesale Trade	21.10%
Communication Services	16.70%
Education	15.90%
Finance & Insurance	11.60%

Table 3 shows the ten reasons that elicited the most number of responses to reason for location to the region by the construction industry.

Table 3: Top 10 Reasons and Number of Responses for Location: The Construction Industry

Location Reason	Responses
Lifestyle	184
Customers	80
Family Reasons	69
Market Potential of area	60
Growth Potential of area	58
Lack of other competitors	58
Availability of premises	25
New to the area	24
Place of Residence	13
Other	31

Respondents were asked to nominate the annual turnover band of their business. It is difficult to elicit financial information from businesses therefore the information in Table 4 needs to be interpreted with some caution. However, it shows the top three reasons given by businesses in each of the turnover categories by number of employees. Quite clearly those businesses with “11 to 20” employees with a turnover of “\$0 to \$100,000” would be expected to be very high risk and subject to failure in the very near future. Any business with more than two employees

in the “\$0 to \$100,000” turnover band would be ‘high risk’. It would seem reasonable to assume that businesses with a substantial turnover and higher numbers of employees would give greater consideration to business reasons for establishing operations in the region. However, ‘lifestyle’ is still a key reason for businesses relocating or commencing operations in the region, regardless of employee numbers and turnover.

Table 4: Turnover by employees and reason to relocation

Annual Turnover \$	No. Employees	Location Reason	Percent
0 – 100000	0 to 10	Lifestyle	23%
		Market Potential of area	16%
		Growth Potential of area	13%
	11 to 20	Market Potential of area	31%
		Lack of other competitors	19%
		Access to cheaper infrastructure	13%
100000 – 500000	0 to 10	Lifestyle	25%
		Market Potential of area	19%
		Growth Potential of area	17%
	11 to 20	Market Potential of area	26%
		Growth Potential of area	17%
		Lifestyle	17%
	More than 20	Growth Potential of area	50%
		Market Potential of area	50%
500000 - 1 million	0 to 10	Lifestyle	24%
		Growth Potential of area	22%
		Market Potential of area	19%
	11 to 20	Lifestyle	25%
		Growth Potential of area	20%
		Customers	14%
More than 1 million	0 to 10	Market Potential of area	22%
		Lifestyle	20%
		Growth Potential of area	18%
	11 to 20	Market Potential of area	26%
		Growth Potential of area	24%
		Lifestyle	22%
	More than 20	Access to cheaper infrastructure	21%
		Lifestyle	14%
		Growth Potential of area	12%

Conclusion

Some businesses that move to this coastal region do their homework and investigate the economic opportunities available. There are many businesses that are not aware of the

high unemployment and the high dependency of residents on the social security infrastructure. Policy makers need to consider incentive schemes to support business location to regional centres in Australia. Given the attractiveness of the lifestyle in many regional centres appropriate infrastructure needs to be deployed to provide commencing or relocating businesses with the information and support to make realistic decisions based on business principles. In too many instances, businesses relocate to regional centres that do not have appropriate client and/or supplier bases.

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