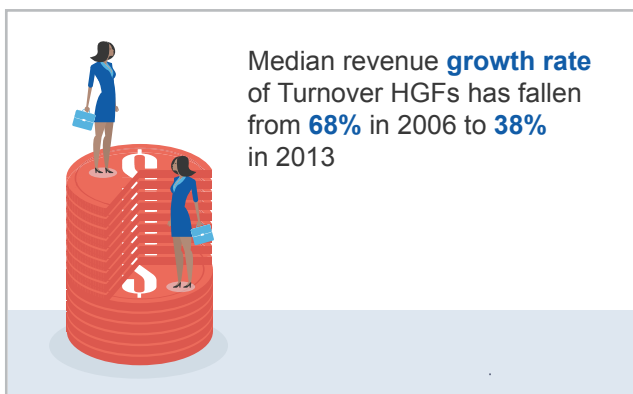
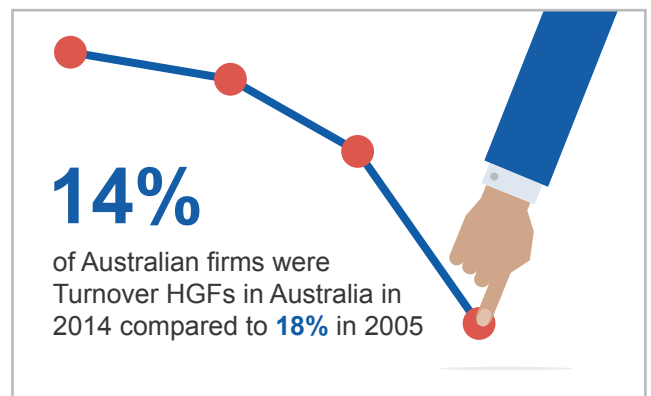
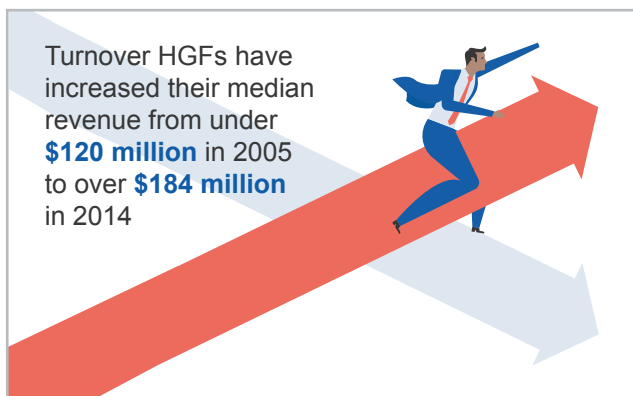
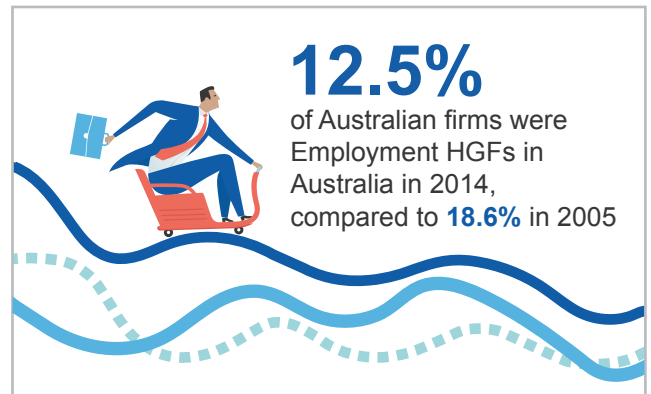
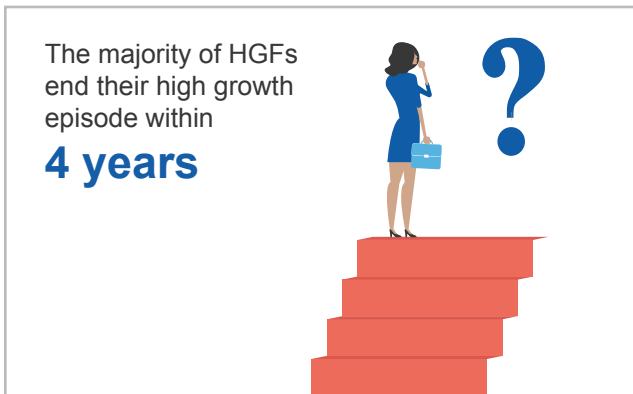




Chapter 3

This chapter extends the analysis of HGFs by looking at how these firms are changing over time. The evidence highlights the episodic nature of exceptional firm growth in Australia, and provides an international comparison of the proportions of HGFs in Australia and OECD countries.

Trends of high-growth firms in Australia



Sources (left to right): 1–5) ABS (2017) Business Longitudinal Data Environment (BLADE), Data analysis commissioned by the Department of Industry, Innovation and Science; 6) OECD.Stat, SDDBS Business Demography Indicators (ISIC Rev. 4): Rate of High-Growth enterprises (20% growth based on employment); ABS (2017) Business Longitudinal Analysis Data Environment (BLADE), Analysis by Department of Industry, Innovation and Science



KEY POINTS

- Few firms can sustain outstanding rates of growth for long. The majority of HGFs end their high-growth episode within four years.
- The proportions of HGFs in Australia's firm population have declined over time. Between 2005 and 2014, the proportion of Employment HGFs declined from 18.6 per cent to 12.5 per cent, while Turnover HGFs declined from 17.6 per cent to 14 per cent.
- At the same time that the proportion of HGFs has been declining, the median growth rate of HGFs has slowed down. Between 2006 and 2013, the median three year compound rate of growth in turnover for Turnover HGFs has declined from 68 per cent to 38 per cent.
- Turnover HGFs are getting larger in terms of their turnover levels. In 2014, Turnover HGFs reached a median turnover of \$184.2 million, which is 45 per cent higher than in 2005 after adjusting for inflation.
- The decline in Employment HGF proportions between 2005 and 2014 has been broad-based, affecting all industries — and this general pattern is also observed for Turnover HGFs.

3.1 The episodic nature of high firm growth

The composition of HGF cohorts in the Australian economy is constantly changing as different firms move in and out of the cohorts. This movement is related to business dynamism and the process of resource reallocation, which involves not only the entry and exit of firms but also their growth and decline.

Few firms can sustain outstanding rates of growth for long. More than half of HGFs end their high-growth episode within four years. After four years of high-growth, 51 per cent of the 2005 cohort remained Turnover HGFs, and 42 per cent of the 2009 and 2011 cohorts remained HGFs. After seven years of high-growth, only 14 per cent and 11 per cent of Turnover HGFs from the 2005 and 2009 cohorts, respectively, were still growing fast enough to remain classified as HGFs (Figure 3.1). A similar pattern of growth rates that are exceptionally high but short-lived can be seen in the Business Review Weekly (BRW) Fast 100 companies (see Box 3.1).

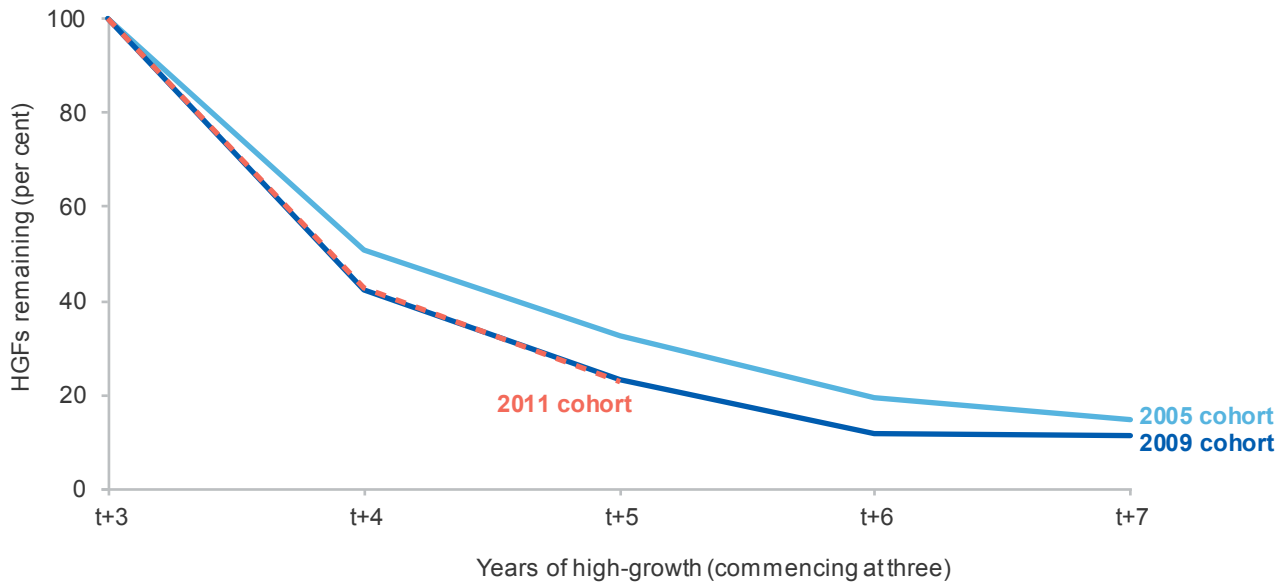
Box 3.1: BRW Fast 100

The BRW Fast 100 is a list of Australian-owned fast growing companies with a turnover greater than \$500,000. The companies are ranked according to their growth rate, based on their revenue and average annual growth. Fast 100 companies submit four years of financial data and are ranked according to their annual growth. Fast Starters (newer firms) submit two years of financial data and are ranked according to revenue. Entries are signed off by an independent auditor.

In 2016 the number one ranked company was TripADeal — its first year on the list — with an impressive growth rate of 401.7 per cent. The average annual growth rate for companies on the list hit its peak in 2014 at 90.5 per cent, but has since declined to 81.8 per cent in 2016.

Exceptional growth rates are rarely sustained. From 2013 to 2016, only six of the 100 companies consistently reappear on the list, and even these have bounced around in their rankings (Figure 3.2). Apart from their shared success in achieving high-growth, there are few discernible common traits between the companies appearing on the BRW Fast 100 list.

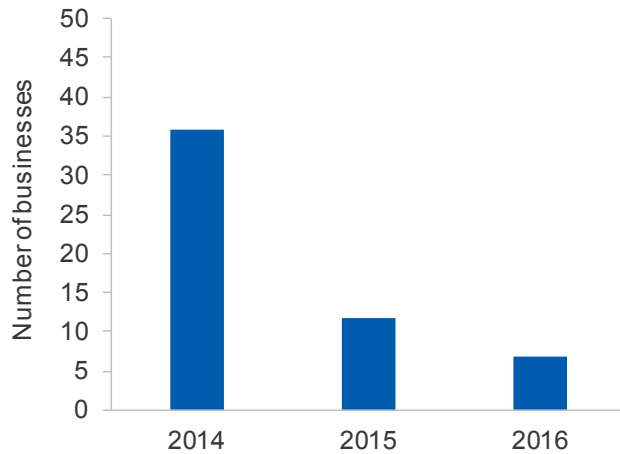
Figure 3.1: Amount of time Turnover HGFs remain in high-growth category, 2005–09, 2009–13 and 2011–13



Notes: t = Initial year of a firm's high-growth episode, with t+3 being the year in which they were identified as a HGF

Source: ABS (2017) Business Longitudinal Data Environment (BLADE). Analysis by Department of Industry, Innovation and Science.

Figure 3.2: Firms reappearing on the BRW Fast 100 list after 2013, 2014–16



Source: <http://www.afr.com/leadership/afr-lists/fast-100>, accessed 25 July 2017.

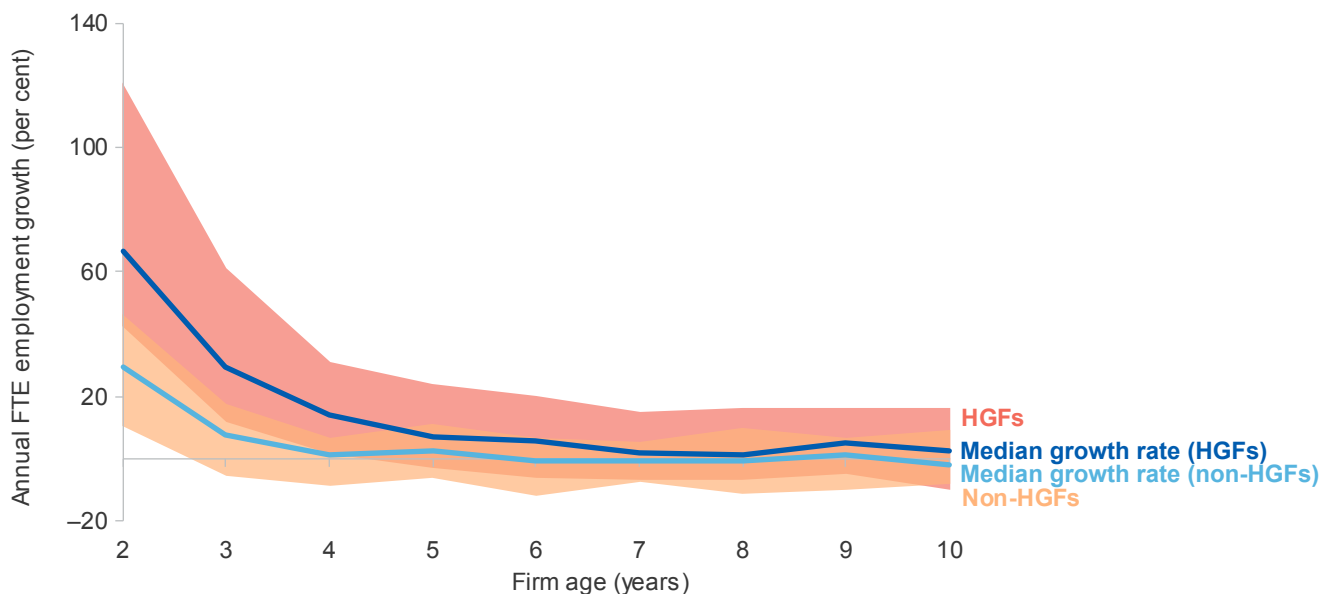
3.2 Dispersion and overlap of growth rates

What happens to the firms that leave the HGF cohort each year? In some cases, they may re-enter a subsequent HGF cohort. Others decline, and even exit, not long after their high-growth episode. Most former HGFs, however, are likely to revert to normal rates of growth. Between 2002 and 2013, the employment growth rates for each cohort of Employment HGFs converged over time, suggesting that after leaving the HGF category, growth rates of most former HGFs gradually trend downwards to eventually resemble those of ordinary non-HGFs (Figure 3.3).

The episodic nature of firm growth is further underscored by some non-HGFs briefly achieving higher annual growth rates than former HGFs. Between 2002 and 2013, while the median annual growth in employment was consistently higher for Employment HGFs, in any given year the fastest-growing 25 per cent of firms that never achieved HGF status consistently outperformed the slowest-growing 25 per cent of firms that did (Figure 3.3).

Furthermore, the extent of this overlap increases as firms grow older. The growth rate of the bottom quartile of HGFs becomes negative after four years. In contrast, the top quartile of the non-HGF group sustains positive year-on-year growth over all ages, never dropping below 5 per cent. A similar pattern is observed for Turnover HGFs (data not shown).

Figure 3.3: Dispersion and overlap of employment growth (FTE) of Employment HGFs and non-HGFs, by age, 2002–13



Notes: HGFs here includes all firms that were Employment HGFs at any point between 2002–13. Bands represent interquartile ranges (25th–75th percentiles). This analysis was confined to firms that had observations of any growth for at least eight years and entered during the period, and is not intended as a representation of growth persistence.

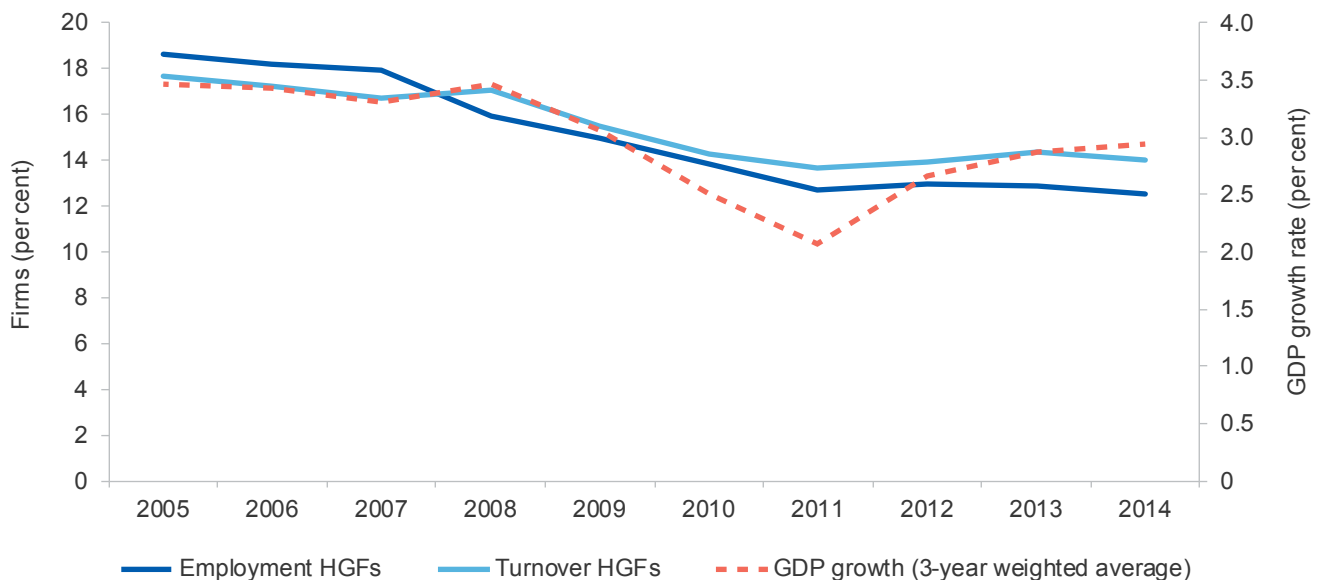
Source: ABS (2017) Business Longitudinal Data Environment (BLADE). Analysis by Department of Industry, Innovation and Science.

3.3 Australia's HGF proportions have been declining

The proportions of both Turnover and Employment HGFs have been declining since 2005. Between 2005 and 2014, the proportion of Employment HGFs has declined from 18.6 per cent to 12.5 per cent of all firms. Turnover HGFs have declined over the same period from 17.6 per cent to 14 per cent of all firms (Figure 3.4).

The decline in HGF proportions appears to coincide with the decrease in the GDP growth rate over the same period, suggesting there may be a connection (Figure 3.4). Given the disproportionate contribution of HGFs to value added, such a connection may be expected to exist. The declining proportions of HGFs may be impacting on GDP growth, but it is equally plausible the connection works in the opposite direction, with declining GDP growth impacting on the growth prospects of HGFs. This relationship may be worth investigating further if the correlation continues to hold into the future.

Figure 3.4: Employment and Turnover HGF proportions in Australia, with GDP growth rate comparison, 2005–14



Notes: GDP growth rate is a 3-year moving average.

Source: ABS (2017) Business Longitudinal Analysis Data Environment (BLADE). Customised data analysis commissioned by the Department of Industry, Innovation and Science (BLADE DH/ABS analysis), and ABS (2017) Australian National Accounts: National Income, Expenditure and Product, March 2017, cat. no. 5206.0

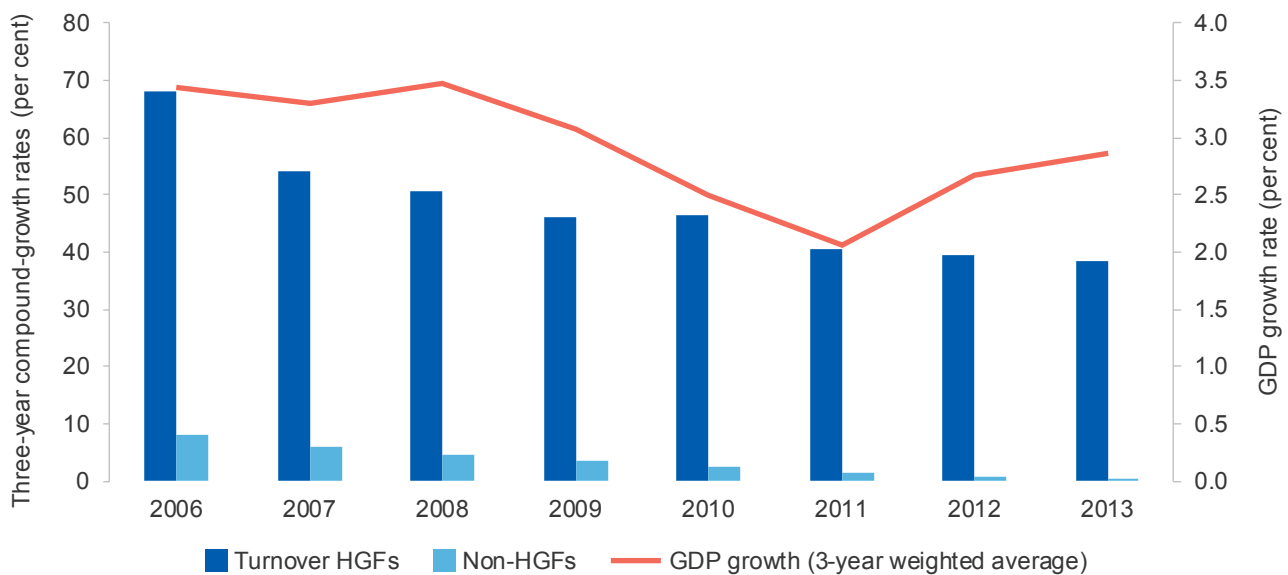
3.4 Growth rates of Turnover HGFs have declined

Although the median turnover growth rates for Turnover HGFs are impressive, they have declined over time. Between 2006 and 2013, the median three-year compound growth rate for Turnover HGFs declined from 68 per cent to 38 per cent (Figure 3.5). This decline has occurred broadly in line with the decline in GDP growth rates over the period, which

appears to lend support to the idea discussed in Section 3.3 that there may be a connection to macroeconomic conditions.

Notwithstanding the observed decline, a 38 per cent growth rate is still substantially higher than the growth rate for non-HGFs, which has come down from around 8 per cent to close to zero over the same period. Indeed, a growth rate of 38 per cent translates to an increase in the level of turnover by more than 2.5 times for the typical Turnover HGF over a three-year period.

Figure 3.5: Turnover growth rates for Turnover HGFs and non-HGFs (median values), with GDP growth rate comparison, 2006–13



Notes: GDP growth rate is a 3-year moving average.

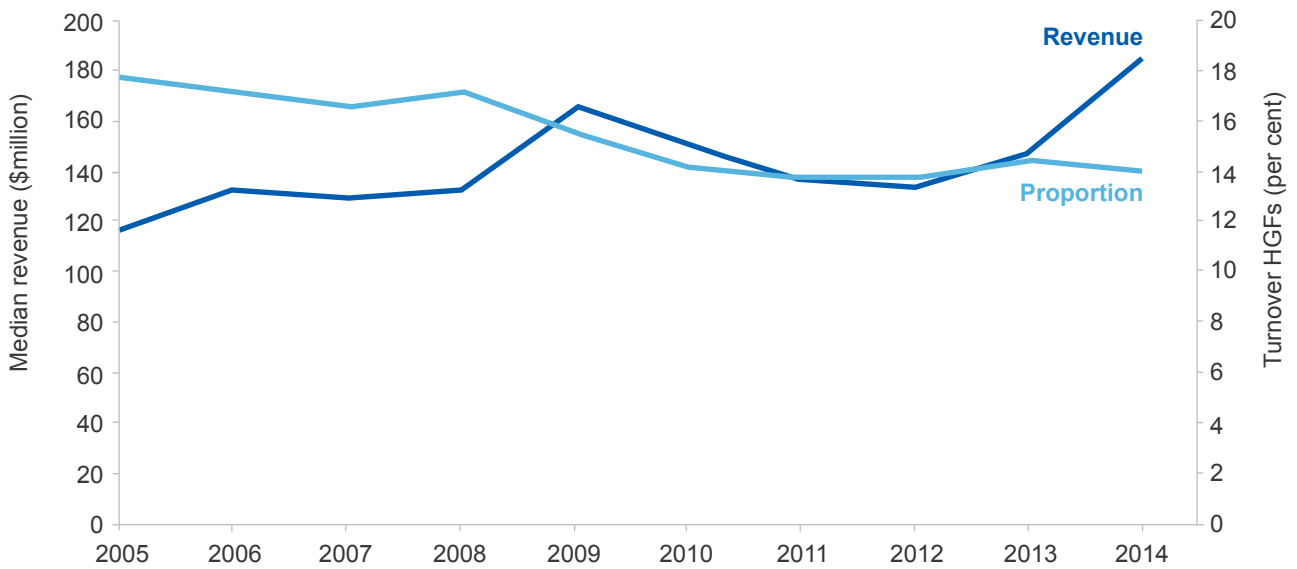
Source: ABS (2017) Business Longitudinal Analysis Data Environment (BLADE). Customised data analysis commissioned by the Department of Industry, Innovation and Science.

3.5 Revenue income of Turnover HGFs is getting larger

Turnover HGFs have generally become larger in terms of turnover levels. In 2014, Turnover HGFs had a median turnover of \$184.2 million, which is 45 per cent higher than in 2005, even after adjusting for

inflation (Figure 3.6). When broken down by firm size (i.e. by employment), large HGFs drove the majority of this change over the period, with median turnover of large HGFs increasing from \$108.9 million to \$174.4 million (up 60 per cent). Small-sized HGFs increased their median turnover from \$1.4 million in 2005 to \$1.7 million in 2014 (24 per cent), and medium-sized HGFs increased their turnover from \$6 million to \$8.1 million (36 per cent). All these estimates are adjusted for inflation.

Figure 3.6: Median turnover and proportions of Turnover HGFs, 2005–14



Notes: Turnover levels have been adjusted for inflation based on 2005 values.

Source: ABS (2017) Business Longitudinal Data Environment (BLADE). Analysis by Department of Industry, Innovation and Science.

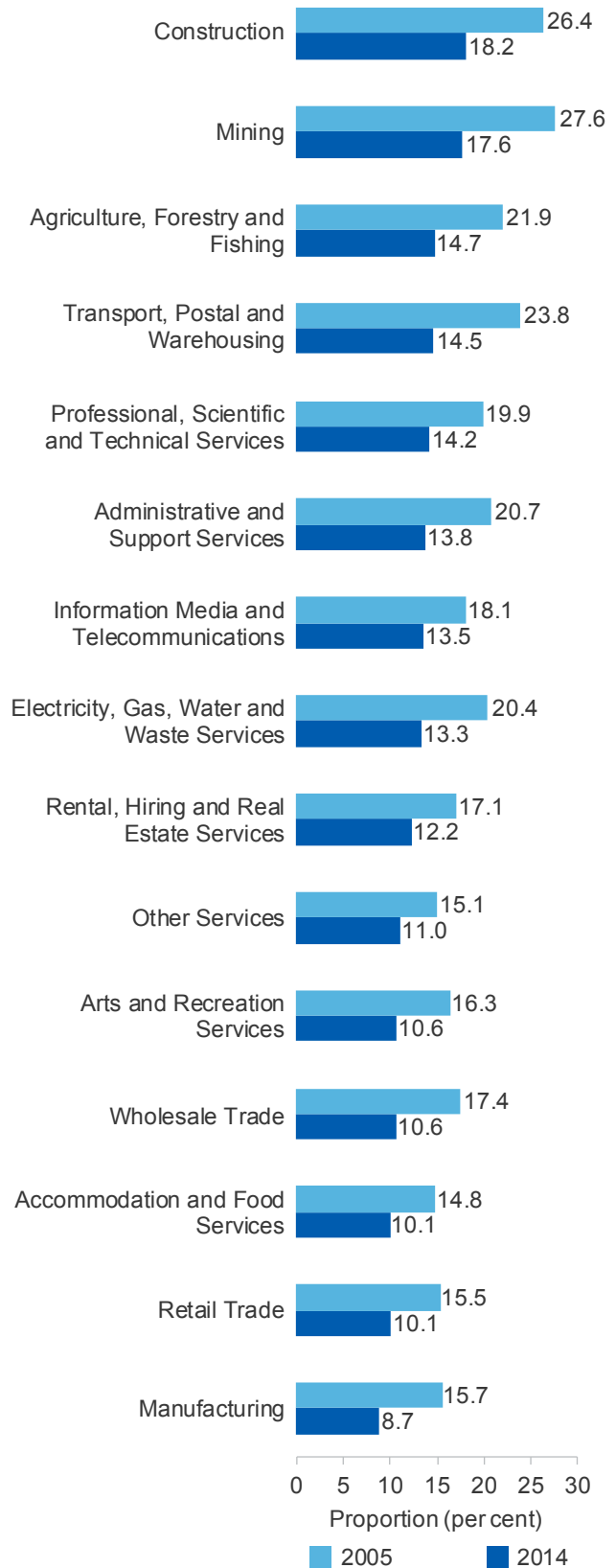
3.6 HGF proportions have declined in all sectors

The decline of Employment HGF proportions between 2005 and 2014 has been broad-based, affecting all industries (Figure 3.7) — and this general pattern is mirrored by Turnover HGFs (data not shown).

The Mining sector, which maintained the highest proportions of HGFs out of three selected industries over the period, declined after 2008 and temporarily rebounded around 2011. HGF proportions were possibly boosted by the surge in mining investment projects coming to completion at that time, followed by a pickup in commodity export volumes.¹ However, the rebound was relatively short-lived, with HGF proportions (both Employment and Turnover) declining sharply from 2013 as the mining investment boom ended (Figure 3.8).

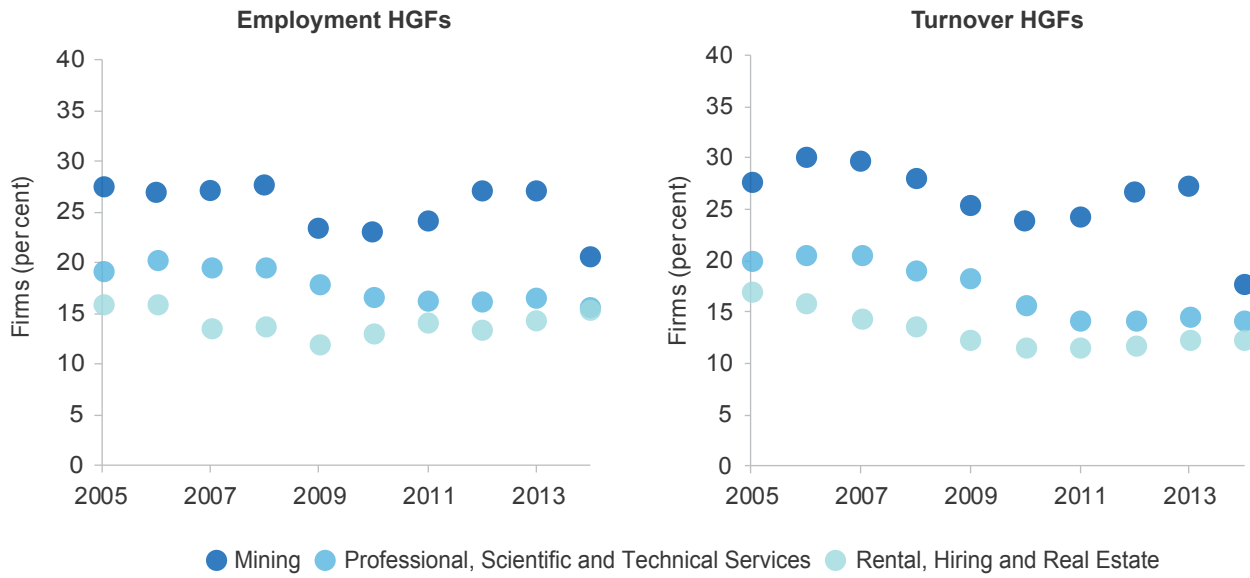
Manufacturing and Retail Trade have recorded below-average Turnover HGF proportions compared to national averages. Between 2005 and 2014, Retail Trade usually had the lowest Turnover HGF proportion of all industries, except in 2009, when Manufacturing had the lowest proportion. Wholesale Trade has followed a similar trend to Retail Trade, though its HGF proportions (both Employment and Turnover) have been consistently above Retail Trade, dipping below the national average only in 2010 (Figure 3.9).

Figure 3.7: Employment HGF proportions by industry, 2005 and 2014



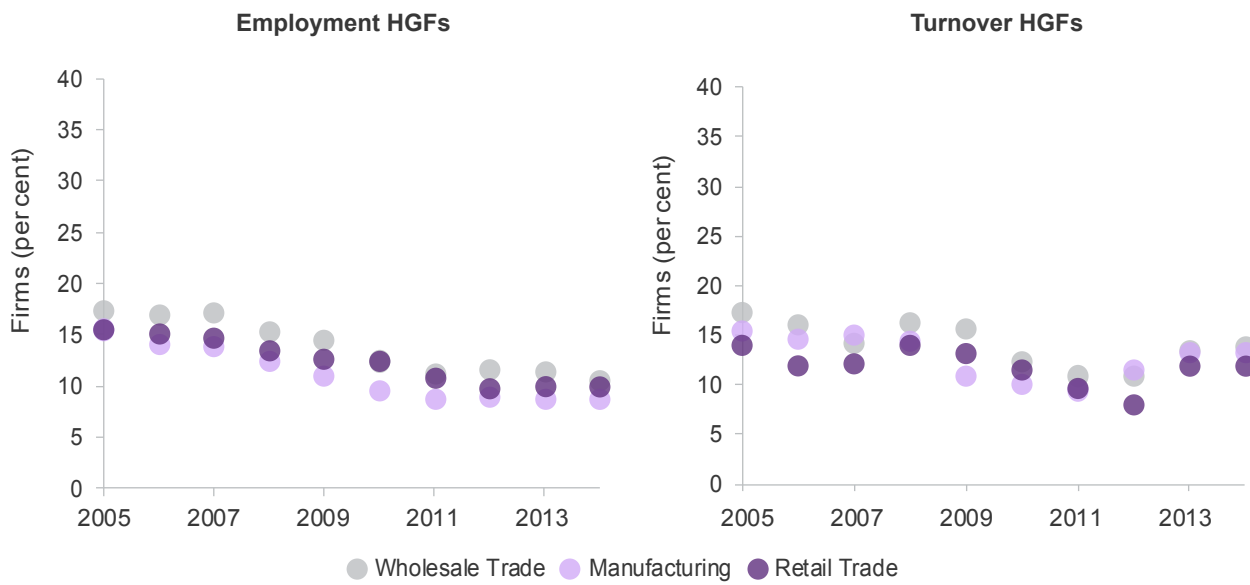
Source: ABS (2017) Business Longitudinal Analysis Data Environment (BLADE). Customised data analysis commissioned by the Department of Industry, Innovation and Science.

Figure 3.8: Turnover and Employment HGF proportions for Mining; Professional, Scientific and Technical Services; and Rental, Hiring and Real Estate Services, 2005–2014



Source: ABS (2017) Business Longitudinal Analysis Data Environment (BLADE). Customised data analysis commissioned by the Department of Industry, Innovation and Science

Figure 3.9: Turnover and Employment HGF proportions for Manufacturing; Retail Trade; and Wholesale Trade, 2005–14



Source: ABS (2017) Business Longitudinal Data Environment (BLADE). Customised data analysis commissioned by the Department of Industry, Innovation and Science



Case Study: Sliced Tech

UTS Business School

Abasi Latcham

Department of Industry, Innovation and Science



When cloud computing emerged as an alternative way to manage IT services in Australia, Sliced Tech's current CEO Jason McClure had a vision. He wanted to address unmet market needs by developing new technology.

"When we established Sliced Tech, a lot of companies were equating cloud with web hosting or using it as a marketing term to sell products. They weren't delivering cloud. We saw an opportunity for cloud to become a real enabler — if you deliver true cloud," he says.

Complementing your skills

Jason had a clear understanding of his own strengths and weaknesses, and founded the firm in 2011 with two business partners who would complement his skills.

"It is essential to put ego aside. I don't have a monopoly on the best way to do things. I wanted to build a strong firm," he says.

With its main office in the ACT, Sliced Tech provides managed IT services and cloud solutions for

business and government. The firm's success is built on experience, flexibility and executive coaching.

Business model evolution

The company was started with minimal capital, which eventually led to the evolution of Sliced Tech's current business model.

Jason knew that initial customer acquisition would be a challenging task. From day one, he was prepared to change direction if required. To allow for this flexibility, management didn't seek venture capital funding or take on permanent employees for the first two years, relying on contracted staff.

Sliced Tech merely focussed on contracting technical specialists, with no marketing budget, and no marketing or sales staff. The founders saw it as critical for the firm to offer what they could deliver, emphasising a lean, technically-focussed operation and close communication with potential customers.

"We could not be sure of our direction as we experimented with the market, so we needed to be flexible and acquire skills as we needed them," Jason reflects.

Critical decisions

In the first year of operation, Sliced Tech faced a critical decision. The management's expectation that the private sector would adopt cloud computing faster than government proved wrong, and the company lacked the resources to cater to both sectors.

Sliced Tech decided to focus on the public sector and began to build its reputation, remaining conscious of the risk of taking on too much and failing to deliver. However, the team's previous experience and knowledge of IT systems and government sector requirements (particularly in relation to security and compliance) allowed Sliced Tech to enter this niche market.

Before the end of its first year, Sliced Tech had secured its first government-sector customer — an agency "dipping their toe in the water in cloud computing" says Jason.

"In competing for our first contract we took on more risk than established players would, but the government agency was experimenting and wanted a capable but flexible partner. We could make the most of our agility and be a responsive partner."

This first deal established Sliced Tech's credibility as the firm competed against other highly successful information and communications technology (ICT) providers. Five years on, with annual growth rates of over 100 per cent, Sliced Tech has reached annual revenue of about \$4 million and employs 20 staff. Sliced Tech has never lost a customer to a competitor.

Foundational focus

Today, Sliced Tech's major market is the Australian Government in Canberra, but it also works with state governments and private enterprise. The firm focusses on foundational elements, such as infrastructure, platforms, applications and engineering services, and collaborates with partner firms to provide services aimed at delivering customer solutions.

Sliced Tech is one of only two ICT service providers fully certified in cloud and gateway operations by the Australian Signals Directorate. This means a key aspect of its value proposition is its capacity to provide Australian Government-certified internet gateways, clouds and security-as-a-service. This proficiency can then be used by other parts of the market that have compliance requirements, such as state governments, financial services and health care.

Another key success factor is the company's determination to assist customers to get "real benefits of the cloud", including rapid and flexible access to server capacity as needed, and pay-as-you-go resources.

Recruitment strategies

Since the firm started employing permanent staff, Sliced Tech has instituted a disciplined approach to recruitment, which emphasises potential employees' alignment with the values of the company, rather than just skills and knowledge.

"This has allowed us to attract people with strong personalities who want to shape change," says Jason.

The approach attracts individuals who are prepared to take initiative, enjoy responsibility and seek to become an integral part of the business. This values-based approach to service, management and recruitment is reinforced through regular reviews that link performance and challenges to the company's foundation values.

Mentoring and executive coaching

Mentoring is deeply embedded into Sliced Tech's approach to executive management.

Paul O'Dwyer, one of Australia's most experienced trainers and coaches in the ICT industry and the founder of numerous IT firms, has helped the firm to rework its strategy. He facilitates assessment and planning at the monthly executive meetings and participates in the final interviews for new staff. Paul is a major contributor to Sliced Tech's success.

"Our coach drills into us all the time, but it is not about how many zeroes, it is about how you make the decisions. We have become very disciplined; regardless of the size of the deal, the way we qualify the sales is the same, the way we deliver is the same," says Jason.

Staying competitive in recruitment

Attracting and retaining talented staff in Canberra, however, remains a key challenge. Compared to Sydney and Melbourne, there is a limited pool of ICT talent to recruit from in the national capital. This often leads to an expectation of higher wages. At the same time, Sliced Tech relies on hiring the best people in order to deliver the high-quality customer service it promises.

To overcome labour shortages, Sliced Tech depends on referrals from within the firm, on top of traditional direct recruitment and recruitment specialists. Existing employees are encouraged to refer people they feel may be an asset to the company. Sliced Tech also collaborates with its contractors and partner ICT firms to fill gaps in capability where required.

Keep the excitement alive

To attract and retain staff, Sliced Tech's management emphasises the need to maintain excitement at work, such as by giving people the opportunity to develop projects of particular interest to them. Sliced Tech seeks to reinforce team culture by equally sharing successes through bonuses and other activities across the firm, communicating the message everyone is contributing to the company's overall success.

"Every new win is attributed to everyone's contribution, not just the sales team," says Jason. "Without delivery we don't get the references we need to win against our competitors".

Careful cash flow

Another key challenge for Sliced Tech has been financing capital and operational expenses, particularly with the company's rapid growth. In the initial absence of tangible company assets, bank loans have generally not been available. This has made careful management of cash flow and costs even more crucial. Although Sliced Tech has moved into a position of greater access to financial facilities, this may not be sufficient for the next stages of growth, and equity partnerships may be necessary.

Processes to share the load

While strategic and operational flexibility were essential in the formative years, formalising internal processes has now become vital. Management has realised the need for processes to support staff and share the load, rather than depending on individuals to solve problems.

Sliced Tech is moving towards standardising its new services, (developing fully tested, supported and marketed products and services from a product or service initially customised to one business) so all employees know what is required, and newly recruited staff are contributing to the implementation of more-mature internal processes.

Box 3.2: International comparison

Using the OECD definitions of HGFs (see Section 2.1), around 4.7 per cent of Australian firms in the business economy were HGFs measured in terms of employment growth in 2014.^(u) This is above the 4 per cent mean of the group of 17 OECD countries (where data is available) and compares favourably against other commodity-exporting countries, such as Canada (2.7 per cent) and New Zealand (4.2 per cent) (Figure 3.10).

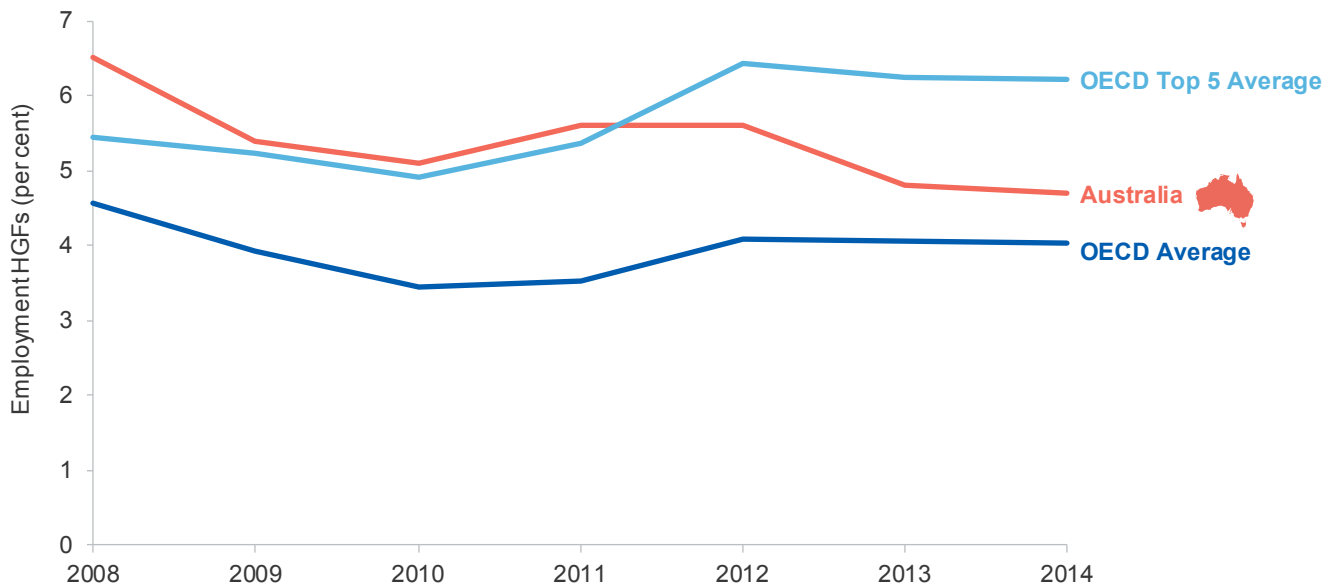
Strong Employment HGF proportions across the business economy have seen Australia ranked

in the top five or six countries in the OECD's Structural and Demographic Business Statistics database every year since 2008.² Based on latest available data Latvia, France, the Netherlands and Sweden are the only OECD countries with a higher Employment HGF proportion than Australia.

Since 2008, the Employment HGF rate has declined across several OECD countries. While Australia's Employment HGF proportion has been gradually declining, Australia's Employment HGF proportion was still above the OECD average in 2014 (Figure 3.10).

(u) See Glossary for a definition of 'business economy' and the sectors it includes.

Figure 3.10: OECD comparison of Employment HGF proportions among firms with 10 or more employees in the business economy, 2008–2014



Notes: Latest available HGF data for each country at the time of writing. The OECD mean and OECD top-five mean are calculated across the countries in the SDBS dataset, including Australia.

Source: OECD.Stat, SDBS Business Demography Indicators (ISIC Rev. 4): Rate of High-Growth Enterprises, data on HGE_R — Rate of High-Growth enterprises (20 per cent growth based on employment). ABS (2017) Business Longitudinal Analysis Data Environment (BLADE). Customised data analysis commissioned by the Department of Industry, Innovation and Science.