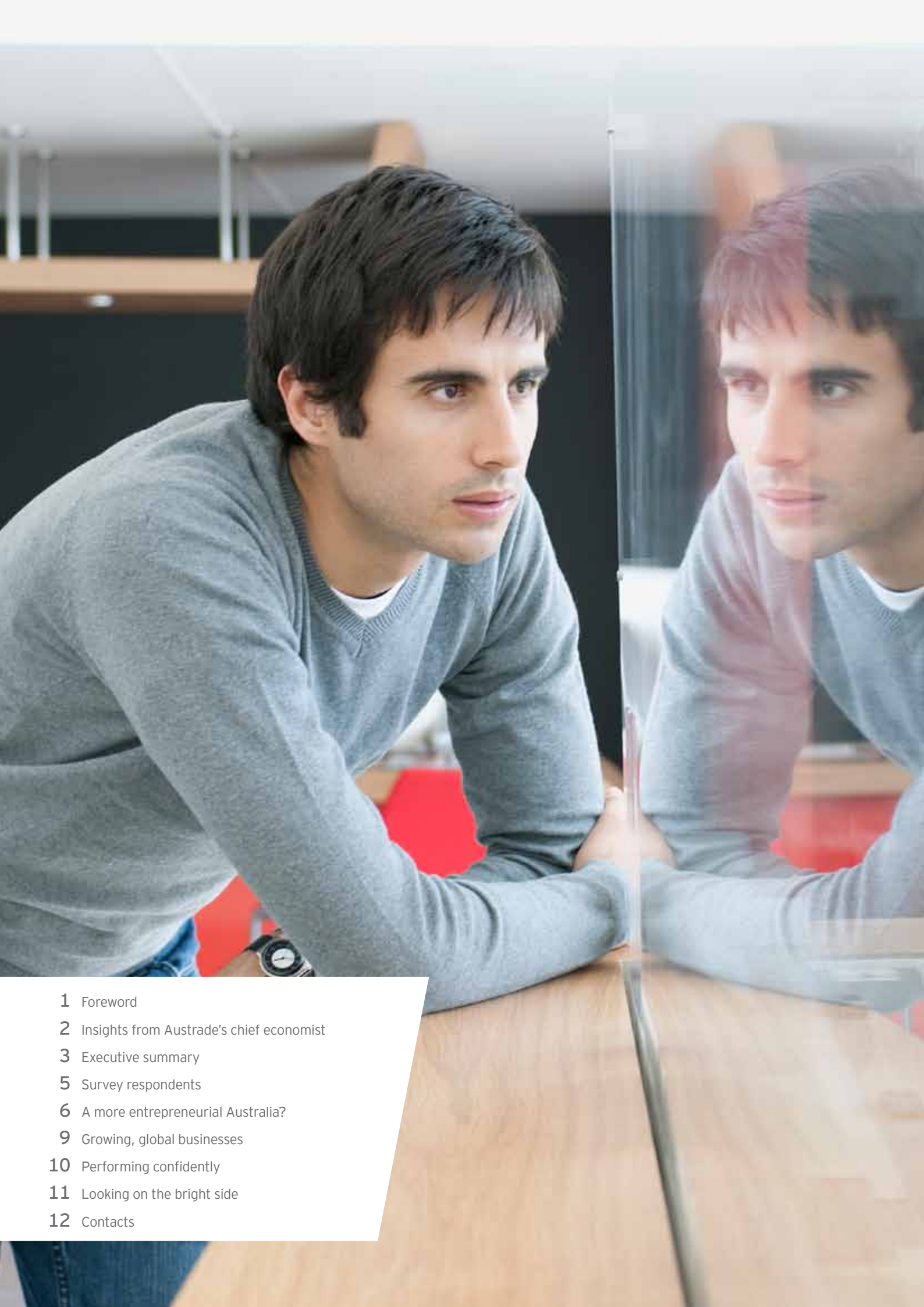


2010 Entrepreneurs' Confidence Barometer

Standing tall: Entrepreneurs lead
the way back to growth





- 1 Foreword
- 2 Insights from Austrade's chief economist
- 3 Executive summary
- 5 Survey respondents
- 6 A more entrepreneurial Australia?
- 9 Growing, global businesses
- 10 Performing confidently
- 11 Looking on the bright side
- 12 Contacts

Foreword



Over the past decade Ernst & Young has recognised the achievements of over 800 extraordinary Australian business leaders through the Ernst & Young Entrepreneur Of The Year® awards. These unique individuals are more than simply high achievers. They are the ones who seek out opportunities and turn their vision into reality, creating a flow-on success for those around them through employment, export growth and social contributions.

To mark the 10th anniversary of the Entrepreneur Of The Year program in Australia, we invited the alumni – some of our most successful business people – to comment on the secrets of commercial success and the state of entrepreneurship in Australia. We also asked these entrepreneurs about their personal motivation, the challenges and outlook for their businesses, their future plans and their forecasts for the local and global economies.

This report, which draws together the insights from the survey, paints an optimistic picture of entrepreneurship in Australia, with an increasingly supportive business culture and growth plans undaunted by economic uncertainty or tight credit markets.

In the maelstrom of economic turmoil, our nation's entrepreneurs kept their heads, drawing on their passion, determination and vision to continue to build their businesses and create value. The confidence and focus of the Entrepreneur Of The Year alumni is both inspiring and heartening. Entrepreneurs play a vital role in economic development as key contributors to technological innovation and new job growth. They also help to build communities – not just as employers, but by participating in entrepreneurial mentoring, investing in community projects and giving to local charities.

These are the people who continue to drive the economy forward and in doing so, create the future. We applaud and welcome their sustained success.

We hope you find their insights interesting and inspiring.

A handwritten signature in black ink that reads "Greg Logue". The signature is fluid and cursive, with the first letter 'G' being particularly large and stylized.

Greg Logue

Partner, Oceania Entrepreneur Of The Year Leader

Globalisation is good: Aussie entrepreneurs are bullish about global prospects



Tim Harcourt
Chief Economist, Austrade¹

The world is recovering, businesses are optimistic and Australia is a good place in which to be an entrepreneur. That's the key message of this year's Entrepreneurs' Confidence Barometer from Ernst & Young. According to the survey, though Australian entrepreneurs are particularly bullish about the amazingly resilient Australian economy, 57% are still optimistic in their predictions for the global economy.

While Australian entrepreneurs who base themselves offshore look principally to the US and New Zealand as a home base for their operations, many are now also considering China and South East Asia as places to base themselves. Importantly, they see great potential for sales expansion in export markets in ASEAN, China, Europe, India and Latin America.

Gordon Gekko, the fictitious character in the Wall Street epic movie of 1987, famously said that "greed is good". According to this survey, most entrepreneurs think "globalisation is good" and Australia's open, globally engaged economy is a good place to be an entrepreneur. Entrepreneurs are no longer the officers of the Rum Rebellion or wearing white shoes on the Gold Coast. They're part of Australia's business fabric and an important part of our social capital as we engage further with Asia and the rest of the world. The survey indeed shows an increasing acceptance of entrepreneurs in the Australian community.

And who are our entrepreneurs? Like our exporting community, many come from beyond our shores. According to the survey, two-thirds of entrepreneurs are born overseas, so immigration has made a great contribution to our entrepreneurial talent pool. You just have to think of brand names like Westfield, Bing Lee, Aussie Home Loans and Crazy John's to know that. They are twice as likely to have a tertiary education than the average citizen and they tend to start their careers early. Most want to commercialise technology and/or generate wealth but few are just in it for the money (and probably won't succeed if they are). After all, entrepreneurship is about passion not accumulation, and those surveyed see passion, determination and vision as the key determinants of success as an entrepreneur.

While entrepreneurs are concerned about the availability of good staff in the "war for talent" and believe that the economic environment will be a challenge, they also believe capital will become more readily available after the credit shackles and "confidence drought" of the global financial crisis (GFC), and that expansion prospects are good. In conclusion, entrepreneurs believe that things can only get better and that Australia is a good place to grow a globally engaged, dynamic business.

¹ Tim Harcourt is Chief Economist, Australian Trade Commission (Austrade) and author of *The Airport Economist*. To learn more, visit www.austrade.gov.au/economistscorner.

Executive summary

Australia's entrepreneurs have come through extraordinary change in the last 10 years: globalisation, the emergence of the digital economy and a global financial crisis (GFC). Yet, while adapting their business strategies adroitly to these changes, entrepreneurs themselves have altered very little. They remain driven by the same timeless qualities. They deliver growth, no matter what the business environment. And they continue to fuel Australia's economic future.

Recently returned from the 2010 Ernst & Young World Entrepreneur Of The Year awards, Greg Roebuck, founder and CEO of carsales.com and 2009 Australian Entrepreneur Of The Year, found that entrepreneurs from around the world shared this attitude. “I didn't meet anyone at World Entrepreneur Of The Year who was greatly concerned about the current financial crisis. In fact, a number of the entrepreneurs seem to revel in the global financial crisis – it has created a unique opportunity to differentiate themselves and capitalise on their successes.”

Compared to the average Australian this group of successful business people are more likely to be born overseas and have a tertiary education. They are serial entrepreneurs, already averaging four businesses each, and often start young, founding their first company at the average age of 25. Motivated primarily by the desire to create a business – with wealth creation as a secondary driver – they believe the formula for entrepreneurial success has not changed. Passion, determination and vision are as important now as they were 10 years ago, and will remain so into the future.

Yet Australia's view of entrepreneurs has altered. Today, 56% of respondents believe the Australian culture now supports entrepreneurship. This is a shift in attitude from 2004, when the Ernst & Young Entrepreneurs' Barometer found 62% of respondents held the opposite view.

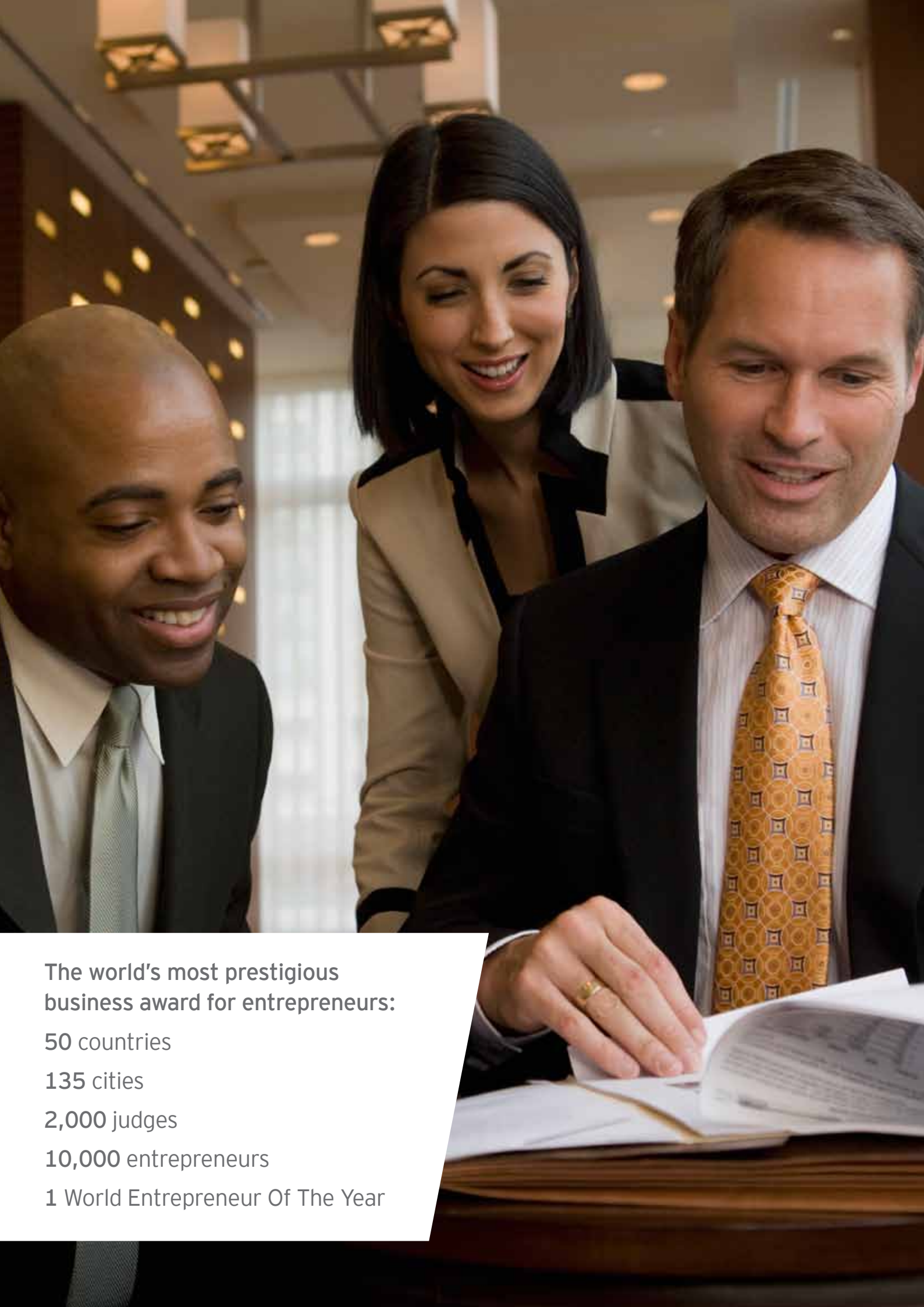
Perhaps this new appreciation for entrepreneurs comes from their contribution to the economy. Three-quarters of the respondents grew their businesses in 2009 – defying the global economic crisis. In 2010, 83% expect revenue to continue to grow – increasing to 92% in 2011 – with 60% confident of reaching double digit revenue growth in this calendar year. To support this, over 70% are looking to employ more people and 62% are planning to raise funds in the next 12 months, with finance largely being put towards organic growth.

For many of these entrepreneurs, banks will no longer be their first port of call for funding, with private companies currently planning to pursue private equity, IPOs or trade sales instead. This may change in time, with two-thirds believing capital will become more available in 2011.

Generally, the Entrepreneur Of The Year alumni have a positive outlook for 2010 and beyond, although they are more optimistic about the Australian than the global economy. Despite international concerns, they are continuing to look for growth beyond the horizon. More than half the respondents are already operating in an average of four overseas markets, while 68% have offshore aspirations. Their plans for overseas expansion have South East Asia, Europe and China at the top of the list.

Key statistics

- 56% believe the Australian culture supports entrepreneurship
- 83% expect their revenue to continue to grow in 2010
- 67% believe capital will become more available in 2011
- 78% are confident about business growth in 2010
- 71% will employ more people in the next 12 months
- 77% plan to use funds raised for organic growth
- 72% feel confident about the Australian economy in 2010
- 42% feel confident about the global economy in 2010



The world's most prestigious
business award for entrepreneurs:

50 countries

135 cities

2,000 judges

10,000 entrepreneurs

1 World Entrepreneur Of The Year

Survey respondents

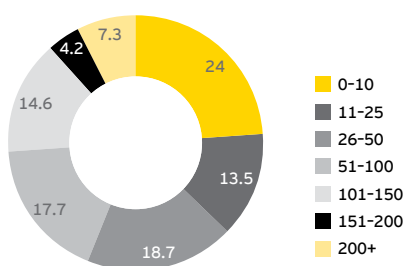
Key statistics

- 66% were born in Australia
- 43% are educated beyond degree level
- 32% were motivated by the desire to create a business
- 24% were motivated by the desire to create wealth
- 25 the average age when they started their first business
- 4 the average number of businesses they have started

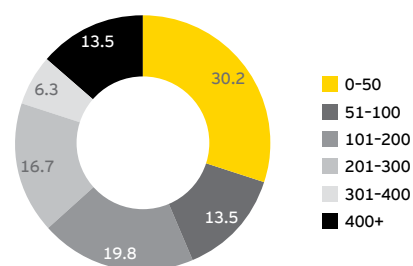
This survey was conducted in April 2010 with the alumni from the Ernst & Young Entrepreneur Of The Year program.

There were 96 respondents to this survey. Through their participation in the Entrepreneur Of The Year program, we know that these are fast-growing, entrepreneurial businesses. The graphs below provide an overview of the respondents.

Revenue (A\$ million)
Percentage of respondents



Number of employees
Percentage of respondents



Ernst & Young Entrepreneur Of The Year

Entrepreneur Of The Year is the world's most prestigious business award for entrepreneurs. The award makes a difference through the unique way it encourages entrepreneurial activity and recognises the contributions of people who inspire others with their vision, leadership and achievement. As the first and only truly global award of its kind, Entrepreneur Of The Year celebrates those who are building and leading successful, growing and dynamic businesses, recognising them through regional, national and global awards programs in more than 135 cities in 50 countries.

Now in its 10th year in Australia, the Entrepreneur Of The Year program has recognised more than 800 Australian entrepreneurs for their vision and achievement. Globally, the program has acknowledged some 10,000 entrepreneurs.

The Entrepreneur Of The Year program is founded and produced by Ernst & Young. The program is supported nationally by our primary sponsor Westpac, sponsor Qantas, print sponsor GEON and the Australian Government through Austrade.

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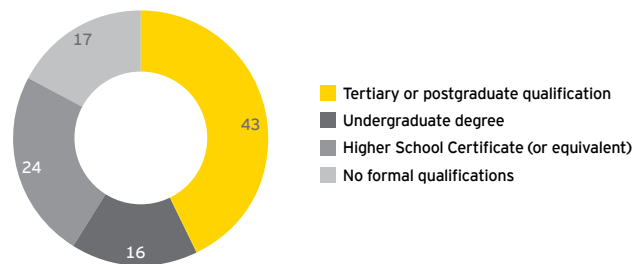
A more entrepreneurial Australia?

Are entrepreneurs born or made? This survey may provide evidence pointing to the latter, with the Entrepreneur Of The Year alumni more likely to be both born overseas and have a tertiary education than the average Australian. One-third of respondents have the drive and fresh perspective of first-generation migrants, against one-quarter of all Australians². Of the total group, 43% have a tertiary or post graduate qualification, 10% higher than the population average³, with those born in Australia more likely to have a tertiary qualification than those born overseas. High levels of education are particularly common for the, often younger, leaders of businesses with less than \$150 million turnover. While older entrepreneurs, with more established businesses, tend to come from the school of hard knocks.

That said, many have entrepreneurship in their blood, with some coming from long lines of entrepreneurial families. And, having once become masters of their own destiny, the rush is hard to give up. These leaders are likely to be serial entrepreneurs, on average, starting around four businesses each. Yet many also hang onto successful enterprises. Of the Entrepreneur Of The Year alumni, only 10% have sold the companies they entered into the award, with 11% removing themselves from active management.

Level of education

Percentage of respondents



“Passion for an idea is the same irrespective of when in time.”

Greg Roebuck

Founder and CEO, carsales.com and
2009 Australian Entrepreneur Of The Year

² Over one-quarter of Australians were born overseas. Australian Bureau of Statistics, July 2008

³ Education and work, Australia. Australia Bureau of Statistics, May 2009

“I love the fact we have a national culture of ‘giving it a go.’”

Greg Roebuck

Founder and CEO, carsales.com and
2009 Australian Entrepreneur Of The Year

New motivations

In a similar survey of entrepreneurs conducted by Ernst & Young in 2004⁴, 56% of respondents said they were driven by the inspiration to “create a business”. Six years later, while this remains the most common motivation for becoming an entrepreneur, only 32% of respondents now rate it as their primary driver. Second on the list of motivators was the desire to “generate wealth” at 24% – up 5% from the 2004 results.

We can only speculate as to whether this increase is an actual change, or whether Australia’s increased acceptance of entrepreneurs has led respondents to be more honest about their motivations for starting a business. Certainly, 56% of respondents believe that the Australian culture now supports entrepreneurship; a radical change from 2004 when 62% of respondents held the opposite view. Perhaps not surprisingly, of the entrepreneurs who said their motivation for starting the business was to generate wealth, 71% have started three or more businesses.

For the 13% who indicated “other” reasons for becoming an entrepreneur, their personal motivations included: to create a job/find employment; to create a career that was flexible to manage family and work life; to meet a very specific need in the market; or to do something with their personal interest and skills.

Regardless of what forged their ambitions, most found their niche early, starting their first businesses at the average age of 25. Given that one respondent didn’t start his own company until he was 52, this average hides some very youthful entrepreneurs.

Timeless success factors

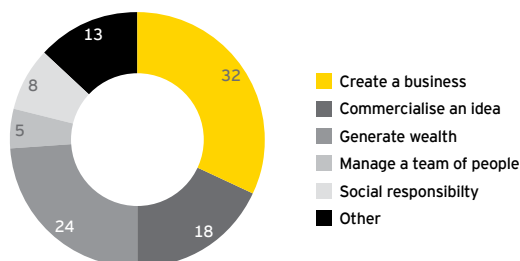
The Entrepreneur Of The Year alumni rate passion as the most important attribute for success, closely followed by determination and vision. Despite the accelerating pace of globalisation, technological change and increased competition, they believe these factors are timeless, with almost 80% suggesting they have not and will not change. All agreed that responsiveness, flexibility, adaptability and innovation were required in the entrepreneurs of tomorrow. As one entrepreneur put it: “While the world changes, offering different opportunities each decade, the fundamentals of seizing and developing those opportunities remain the same”. Another believed the only change was one of perception: “I think the formulas for true entrepreneurship have not changed, but the outside view has”.

Innovation: a mixed response to the R&D Tax Incentive

Regardless of the size of their company, 65% of entrepreneurs said they would not benefit from the Federal Government’s Research and Development Tax Incentive. Technology companies were more enthusiastic, with over half seeing a benefit from the grant. In Ernst & Young’s recent survey of fast growing public companies⁵, two-thirds of respondents saw innovation as critical to their long-term sustainability. The challenge for entrepreneurs outside the technology sector is to consider how their innovation activities could be eligible for the large number of state and federal grants currently on offer.

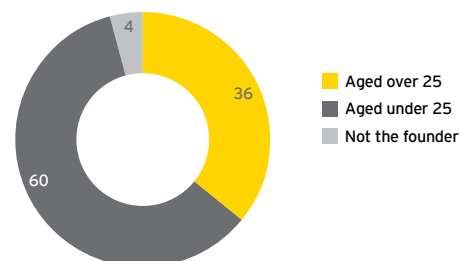
Motivation for becoming an entrepreneur

Percentage of respondents



Age of starting first business

Percentage of respondents



⁴ Ernst & Young, *Entrepreneurs’ Barometer*, 2003-2004

⁵ Ernst & Young, *Bright Stars: Big Horizons. What’s driving Australia’s fast growing public companies?*, January 2010.



Growing, global businesses

The Entrepreneur Of The Year alumni lead increasingly international businesses with above market growth results and prospects.

Bucking the trend in the general economy, 74% of respondents grew their businesses in 2009. In 2010, 83% expect revenue to increase, with 60% confident of reaching double digit growth. While this may appear overly optimistic in an environment where general business confidence slipped for the second month running⁶, it actually reflects lower expectations generated by the current climate of economic uncertainty. In the 2004 survey, a massive 80% of respondents were expecting revenue to grow by more than 10% in the following year.

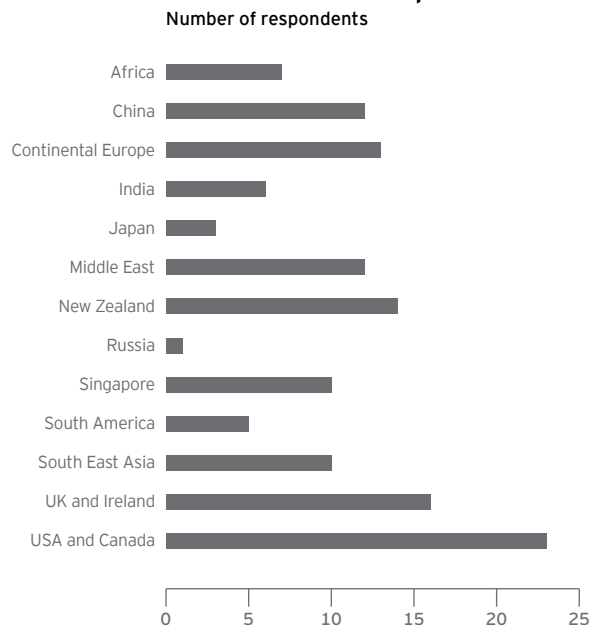
Australian entrepreneurs look beyond the horizon, with more than half the respondents already operating in overseas markets and 68% with offshore aspirations. This is in line with global entrepreneurial activity: earlier this year, an Ernst & Young global survey on entrepreneurship and globalisation⁷ reported that 56% of respondents had overseas operations.

Those with an international footprint operate in an average of four very diverse overseas locations. While the US and Canada are currently the most common destinations for overseas operations, this is likely to change. Of the respondents looking to expand into new offshore markets, South East Asia, Europe and China are the most likely target areas.

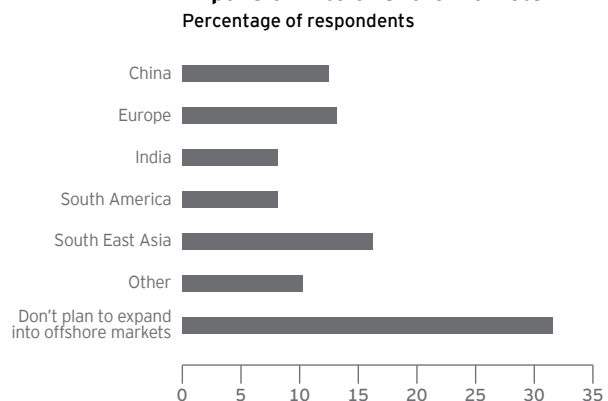
Despite this push for overseas expansion, Australian entrepreneurs were less optimistic than their global peers about the potential for international growth. In the Ernst & Young global survey⁸, three quarters of respondents said globalisation has been good for business. At the time of our local survey, the Australian economy was relatively robust compared to global markets and the Australian dollar was comparatively strong, meaning less incentive for entrepreneurs to export. It is not surprising therefore that the survey found local entrepreneurs without overseas operations had a stronger growth outlook. This finding aligns with the results of the Ernst & Young Capital Confidence Barometer⁹, where 92% of corporate Australia said they were optimistic about the strength of local market opportunities. With the Australian dollar becoming weaker, we may start to see a shift in this sentiment.

In terms of funding, a quarter of entrepreneurs with operations overseas are likely to consider an Initial Public Offering (IPO) – more than double the number of companies without overseas operations (10%). A possible explanation is that companies with overseas operations are slightly more established and are therefore more appealing to investors. Bank financing is a slightly less favourable funding route, being considered by only 18% of privately owned companies with overseas operations.

Location of overseas operations



Expansion into offshore markets



⁶ National Australia Bank, *Monthly Business Survey*, May 2010.

⁷ Ernst & Young, *Ambitious, adept and agile: How global entrepreneurs are changing the world*, 2010.

⁸ Ibid.

⁹ Ernst & Young, *Capital Confidence Barometer: Capitalising on the recovery? The Australasian story*, May 2010.

Performing confidently

Led by highly confident entrepreneurs in Western Australia, the nation's fastest growing state economy, the Entrepreneur Of The Year alumni are bullish about their prospects in 2010 and 2011. In the current year, 78% of entrepreneurs nationally are confident about business growth, compared to 85% in WA. Confidence is increasing around the country with 92% expecting growth in 2011.

While 62% are planning to raise funds within the next three years, timeframes and funding routes differ markedly between private and public companies. Over 90% of listed companies are seeking funding within the next 12 months, compared with only half of the private companies.

Across the board, cautious bank lending has changed the funding mix since 2004, when bank finance was the most likely source of funds for growth. Today, only 38% of listed companies plan to use bank financing, putting it on par with further capital raising. Just 21% of private companies intend to go to their banks, instead planning to pursue private equity, IPOs or trade sales.

Regardless of the source, these funds are largely being put towards organic growth, with only 23% of respondents planning to use fund raising for mergers or acquisitions (M&A).

This drop-off in M&A activity may be due to the post-GFC "valuation gap" that has arisen between the amount owners consider their business to be worth versus the amount the market is prepared to pay for it. Even though this gap is now closing as business owners adjust their expectations, market volatility continues to create uncertainty and may delay many potential IPOs and/or trade sales.

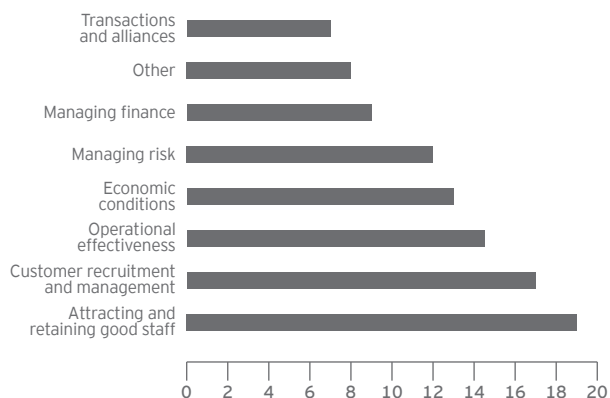
Changing challenges

In 2004, 37% of entrepreneurs felt the most significant challenge to growth would be attracting and retaining good staff. Today, this has dropped to 19%, on the back of the wave of good talent that became available during the GFC. However, the war for talent seems set to rekindle, with 71% of entrepreneurial companies likely to employ more people over the next 12 months. Of these, 29% are based in Victoria, with the rest spread fairly evenly across the country.

After talent, the next biggest challenge was customer recruitment and management, with entrepreneurs feeling the pressure to maintain margins and top-line growth. Part of the issue is that, during the GFC, consumers became more accustomed to only buying during sales. This "sale mentality" has continued and is pervading the whole supply chain, as retailers pass the costs back to their suppliers.

"Other" challenges singled out by entrepreneurs included the regulatory environment, funding, implementing new technology and managing growth.

Biggest challenge in the next 12 months
Percentage of respondents



"For carsales.com, attracting and retaining good staff is most important for the next 12 months. As we continue to grow, executing our strategies and focusing on operations will be crucial – leadership will be key."

Greg Roebuck

Founder and CEO, carsales.com and 2009 Australian Entrepreneur Of The Year

Looking on the bright side

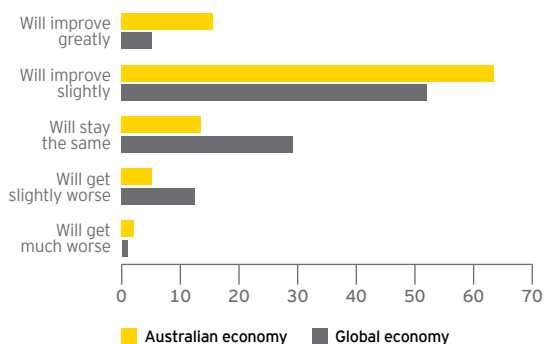
While 13% of respondents believe the economic climate will be challenging over the next 12 months, most have a positive outlook for 2010 and beyond. At the time of the survey, entrepreneurs were more optimistic about the Australian economy than they were about the global economy, with 72% feeling confident about the national economy and only 42% seeing a bright international picture.

That said, entrepreneurs are more confident about their own business growth during 2010 than that of their competitors. Only 46% believe their competitors will grow in 2010, with almost double that number confident of their own success.

In terms of funding this growth, 67% of respondents believe the availability of capital will improve in 2011. This opinion is shared by corporate Australia, with the Capital Confidence Barometer survey¹⁰ reporting that 78% of respondents expect financing to be available to fund major acquisitions within the next 12 months.

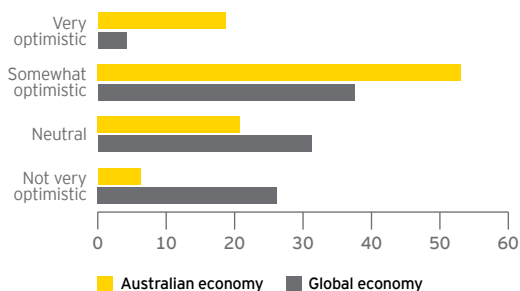
Predictions for the economy

Percentage of respondents



Levels of optimism for the economy

Percentage of respondents



¹⁰Ernst & Young, *Capital Confidence Barometer: Capitalising on the recovery? The Australasian story*, May 2010.

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