

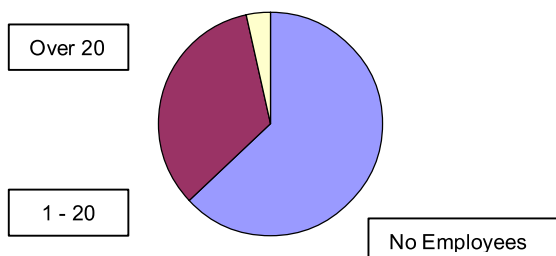
SMEs (Small – Medium Enterprises)

Most professional legal and accounting practices in New Zealand are aware that their client base has many small businesses, ranging from solo traders, ‘Momma & Poppa’ businesses to small manufacturers, retailers, cafes or trades people with several employees - SMEs (Small – Medium Enterprises).

In New Zealand the term SME is generally used for businesses which employ less than 20 people (full-time equivalents).

a. SMEs dominate the NZ business scene

New Zealand is predominantly a nation of small businesses. In 2007 SMEs accounted for 97.1 % of all non-government enterprises. Larger businesses represent only 2.9% of all enterprises.



This percentage needs to be tempered by the fact that nearly 2/3rds of these SMEs were enterprises that had **no** employees, (e.g. trades people, agricultural producers, contract professionals etc working on their own) -- 11 % of all people in the labour force were self employed.

b. Growth in SMEs:

The SME sector of the economy continues to grow. The number of SMEs has been growing faster than larger organisations

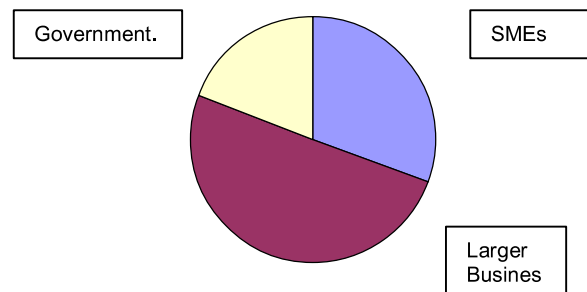
<u>% Growth</u>	
2004	10.2 %
2005	3.1 %
2006	3.6 %
2007	2.0 %

c. Employment:

By definition, SMEs are not large employers of staff; they employed only 30.9% of all New Zealand employees in 2006/7.

But it is significant that between 2001 - 2006, SMEs accounted for 59% of all new employment. The number of people employed by SMEs increased 1.3% to 594,410 during 2006-2007.

However the biggest employers in New Zealand continue to be the larger businesses, and central & local Government.



SMEs are generally more likely to have part time employees than larger firms. Firms with 6-9 employees provided the greatest proportion of part-time employment.

d. Share of the economy

- The 'Value Added' contribution from SMEs to the economy was:

2003	37.2 %
2004	39.0 %
2005	38.6 %
2006	38.6 %

This compares with larger enterprises, where in 2006 the value-added output was 24.9%.

- Enterprises with 1-5 employees had the highest real profits per employee, although in 2005 the profit per employee declined; businesses with 6-9 employees also rate highly in terms of profit per employee.
- SMEs dominate the 'Entry & Exits' statistics. This does not necessarily mean that all changes are start-ups or failures. Many of the changes may be incorporation of private traders, sales of businesses, retirements, purchases or mergers of businesses. However, small businesses do have lower continuation rates than larger businesses.
- The MGI survey indicated that more than half of NZ family businesses were 1st generation, and over half of those involved a spouse in day to day operations.
- SMEs constitute over 90% of enterprises in most industry sectors; (*the exceptions being the government sector and education – neither of which is surprising.*)

e. SMEs and Valuations

Unlike investments in large businesses which are primarily motivated by financial objectives, the acquisition of an SME is likely be influenced by other factors such as independence, employment, security & family welfare or life style.

“Many analysts naively apply the same set of approaches, methods and procedure to the valuation of small businesses as they do to the valuation of substantial corporations.....Because there are numerous differences between the valuation of large and small businesses, analysts should carefully consider these differences in their selection of valuation methods.”

Shannon Pratt 2000

Valuers are recommended to use several methods of valuation, as each method is based on a different economic model. (*See our newsletter September 08*). Direct market data is one of those methods that is particularly relevant to SMEs, and may provide bench marks to check other valuation methods.

The **Bizstats** data base has Direct Market Data on several thousand SMEs that have been sold in New Zealand and can assist valuers to assess the commercial reality of valuations they have prepared by various methods, and to support valuation advice being given to their SME clients.

Bibliography:

“The Market Approach to Valuing Businesses”
“SMEs in New Zealand: Structure and Dynamics”
July 2005/2006/2007
MGI NZ Family & Private Business Survey 2007

Shannon Pratt - *John Wiley & Sons* 2000
Ministry of Economic Development
www.med.govt.nz
MGI Wilson Elliott Ltd www.mginz.co.nz

Guy Crozier
MBA BCOM
www.bizstats.co.nz