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# MYOB Australian Small Business Survey

## Special Focus Report: Interest Rates and Fuel Prices

### October 2006

Small Business Survey Report

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## About the Study

This report presents the findings of the Special Focus Questions from the Quarter 3 2006 MYOB Small Business Survey. This survey comprised a national sample of 1,424 small business proprietors and general managers, conducted in October 2006. These small businesses are defined as both non-employing and employing businesses with fewer than 20 employees. Results have been weighted to reflect the small business population distribution according to the Australian Bureau of Statistics (ABS) for company size, length of time operating, and selected ANZSIC Industry divisions (refer to ABS publications *Characteristics of Small Business*, 8127.0, 2001 and *Small Business in Australia*, 1321, 2001).

Special focus areas presented in this report include:

### **Interest Rates**

- Proportion of small businesses currently funded by borrowings
- Reduction in business borrowings due to the increases in interest rates
- Likelihood of defaulting on business borrowings in the next 12 months
- Impact of recent increases in interest rates on small businesses – sales/revenue and overall business
- Proportion of small businesses that have raised or plan to raise their prices due to higher interest rates
- Reasons for *not* raising prices

### **Fuel Prices**

- Impact of the increases in petrol/diesel prices on small businesses overall
- Increases in petrol/diesel prices directly increasing business costs
- Proportion of small businesses that have raised or plan to raise their prices due to the increase in their business costs
- Reasons for *not* raising prices
- Proportion of small businesses using an alternative fuel as a result of the increases in petrol/diesel prices

### **Self-perception of Small Business**

- Small businesses' perception of themselves as a "Survivor", "Steady", "Innovator" or "Leader" in the market

The findings of the research are reported by Industry type:

<b>Industry</b>	<b>Sample</b>
Agriculture	59
Manufacturing	99
Construction	150
Wholesale Trade	64
Retail Trade	188
Accommodation, Cafe and Restaurants	64
Transport and Storage	52
Communication, Media and Marketing Services	104
Finance and Insurance	103
Property and Business Services	179
Education	38*
Health and Community Services	110
Cultural and Recreational Services	39*
Personal and Other Services	127
Information & Communications Technology	38*
Tourism	10*
<b>Total</b>	<b>1424</b>

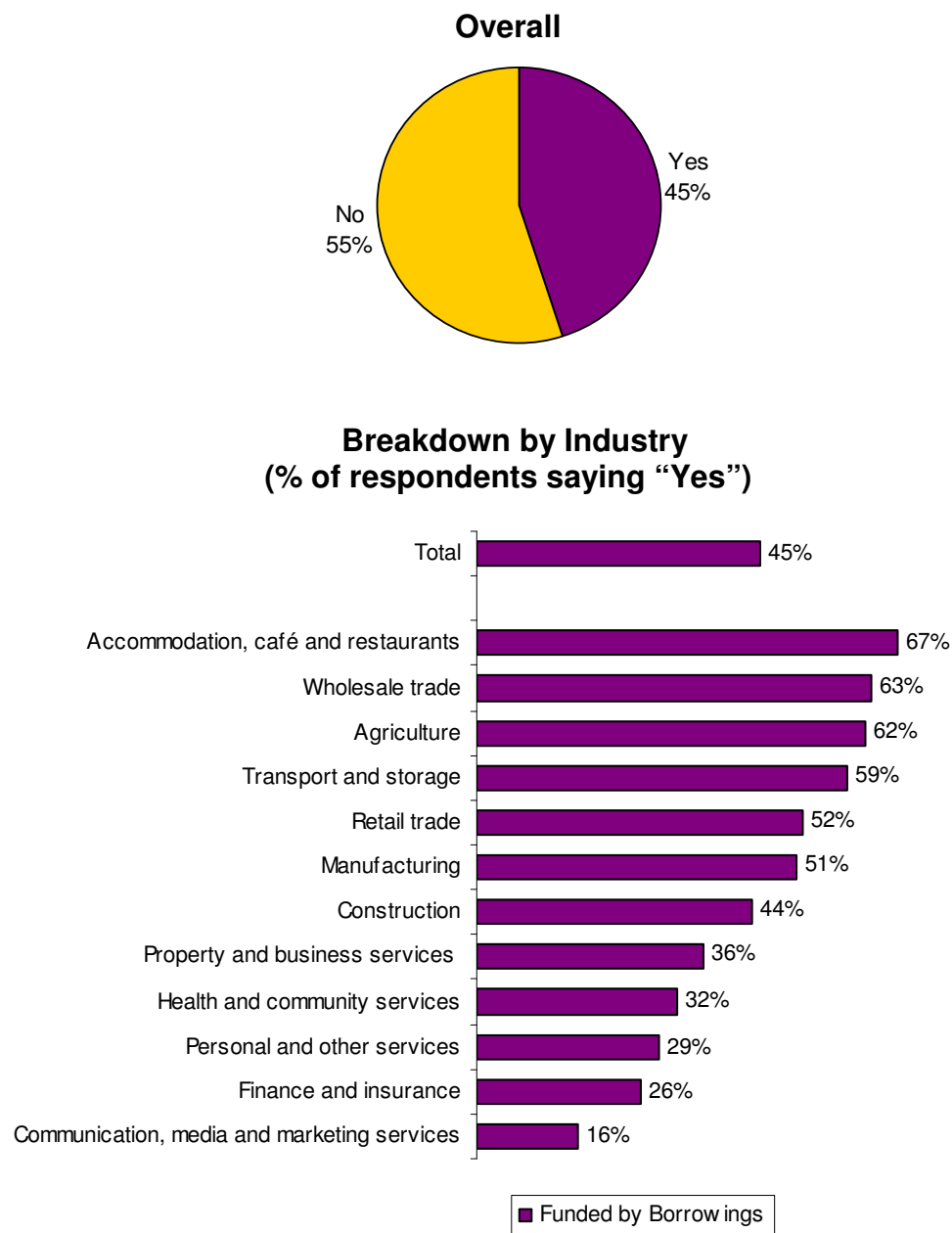
**Note:**

\* Education, Cultural and Recreational Services, Information & Communications Technology and Tourism are included in the total statistics reported but are not reported at an industry level due to a very low sample size.

## Small Business Funded by Borrowings

### Nearly half of small businesses are funded by borrowings

Figure 1: Proportion of small businesses funded by current borrowings (%)



Base: Online small businesses

Q: Is your business funded by any current borrowings? (Y/N)

AMR Interactive, October 2006 (n=1424)

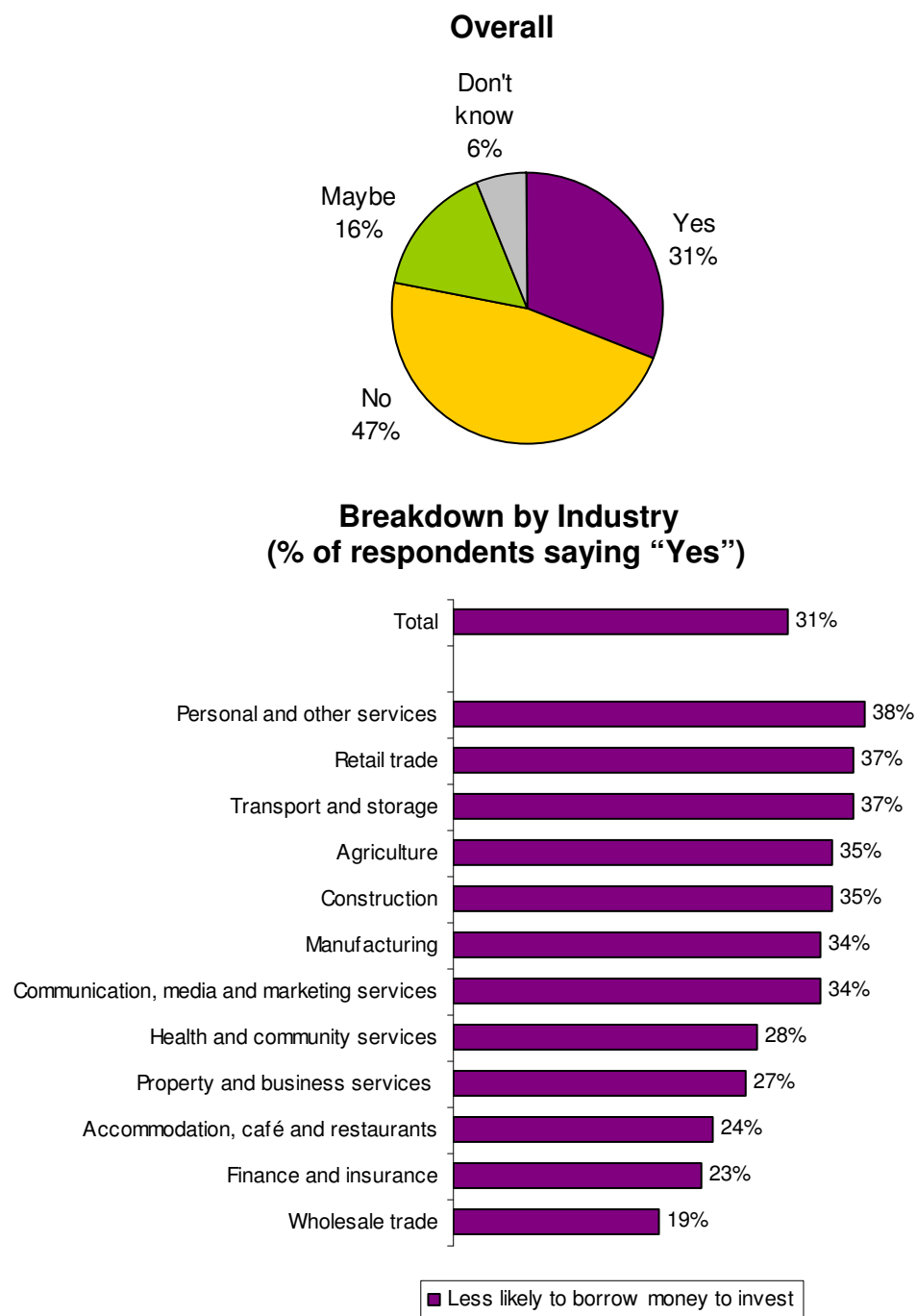
Overall, nearly half (45%) of small businesses were funded by borrowings.

By Industry, small businesses from the Accommodation, Café and Restaurants sector (67%) were most likely to be funded by borrowings, while those from the Communication, Media and Marketing Services sector (16%) were least likely.

## Higher Interest Rates Reducing Business Borrowings

### Around half of small businesses are unlikely to reduce their borrowings due to higher interest rates

Figure 2. Increases in interest rates reducing small businesses' borrowings for business investment (%)



Base: Online small businesses

Q: Have recent increases in interest rates made you less likely to borrow money to invest in your business?

AMR Interactive, October 2006 (n=1424)

Overall, around half (47%) of small businesses were unlikely to reduce their business borrowings due to the increases in interest rates.

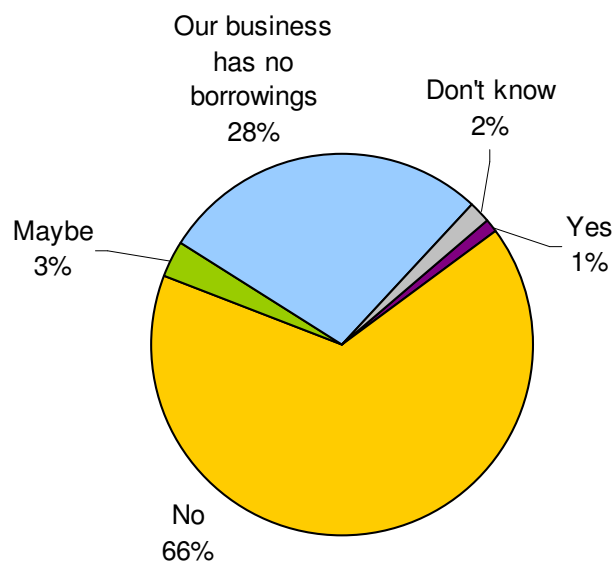
Conversely, about one-third (31%) of small businesses reported that they were less likely to borrow money because of higher interest rates. Of these businesses, the Personal and Other Services industry (38%) was most likely to reduce their business borrowings, followed by the Retail Trade (37%) and Transport and Storage (37%) industries.



## Defaulting on Business Borrowings

### 4% of small businesses are likely to or may default on their borrowings

Figure 3. Likelihood of defaulting on business borrowings in the next 12 months (%)



Base: Online small businesses

Q: Is your business likely to default on your business borrowings in the next 12 months?

AMR Interactive, October 2006 (n=1424)

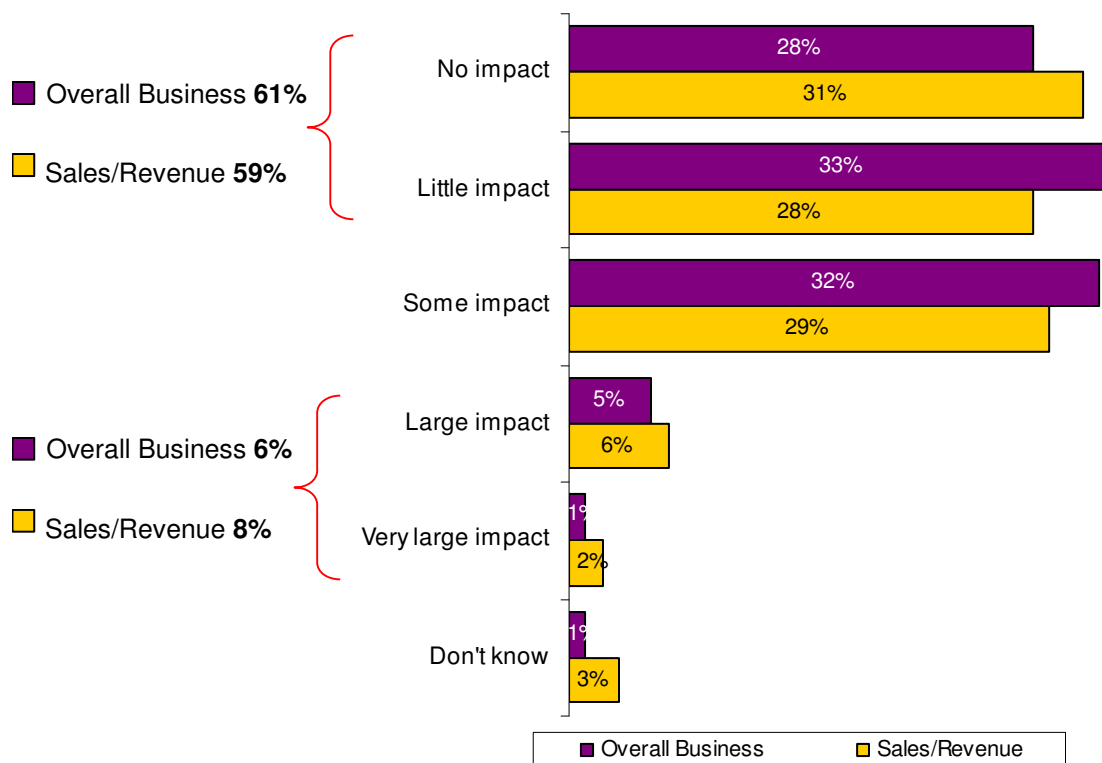
Two-thirds (66%) of small businesses were unlikely to default on their business borrowings in the next 12 months.

However, 4% of the respondents indicated that they were likely to or might default on their borrowings (i.e., "Yes" and "Maybe").

## Impact of Higher Interest Rates on Small Business

### Increases in interest rates have had no or little impact on small business

Figure 4: Impact of recent increases in interest rates on small businesses (%)



Base: Online small businesses

Q: To what extent have recent increases in interest rates affected your business **overall**?

Q: To what extent have recent increases in interest rates affected your **sales/revenue**?

AMR Interactive, October 2006 (n=1424)

More than half of small businesses believed that recent increases in interest rates have had no or little impact on their overall business (61%) and sales/revenue (59%).

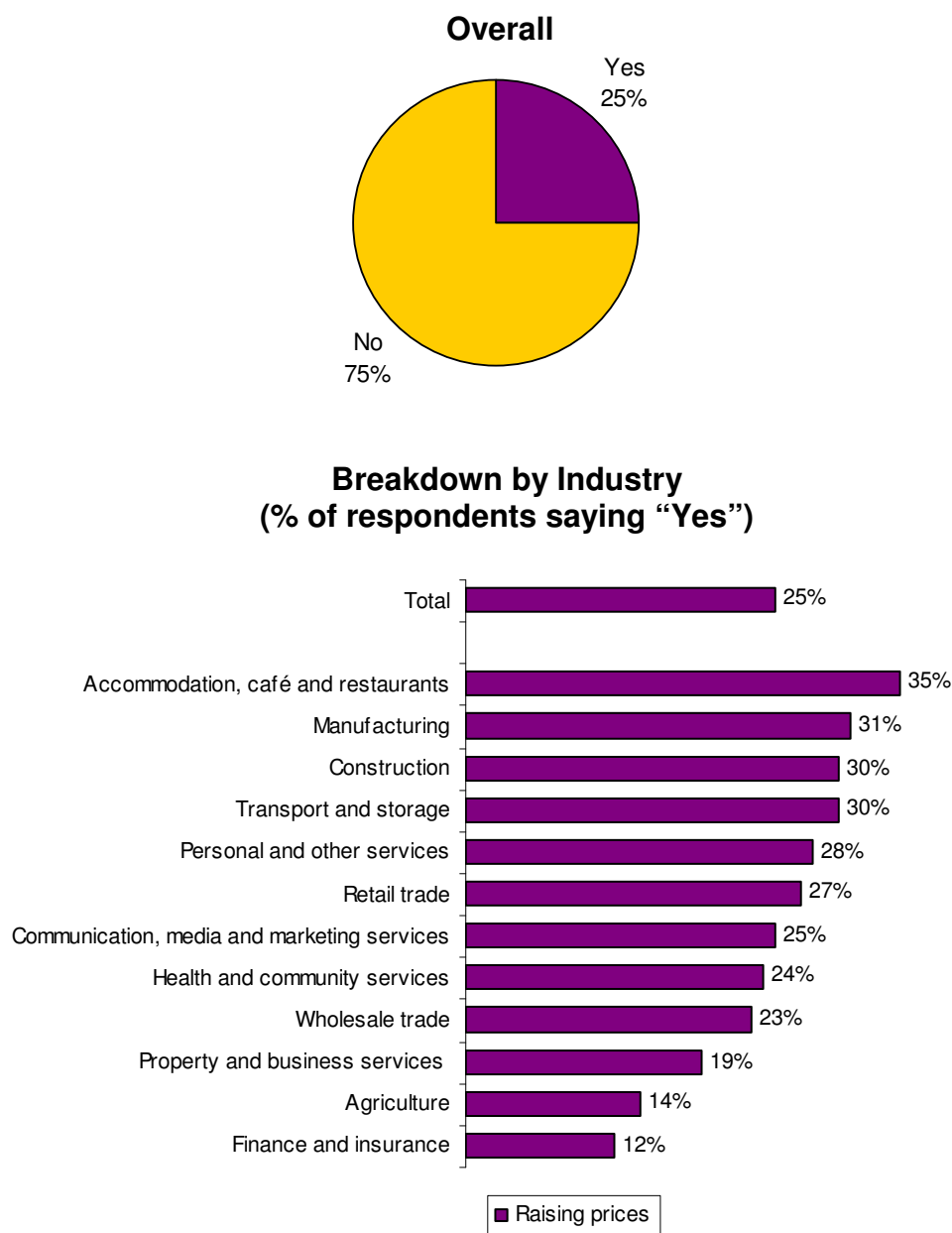
Around one-third (32%) of businesses reported that the increases in interest rates have affected their overall business (32%) and sales/revenue (29%) to some degree.

Less than one in ten small businesses indicated that the increases in interest rates have had a large (i.e., "Large" and "Very large") impact on their overall business (6%) and sales/revenue (8%).

## Raising Prices due to Higher Interest Rates

### A quarter of small businesses have not or will not raise their prices

Figure 5: Proportion of small businesses raising their prices due to higher interest rates (%)



Base: Online small businesses

Q: Have you raised the prices, or plan to raise the prices of your products and/or services due to higher interest rates? (Y/N)

AMR Interactive, October 2006 (n=1424)

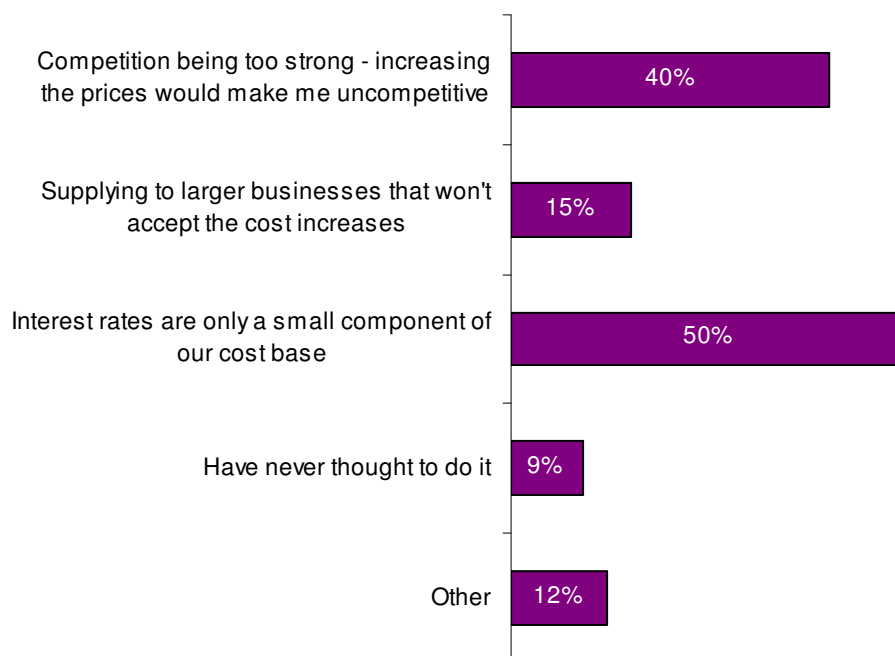
Three quarters (75%) of small businesses have not or did not plan to raise their prices due to higher interest rates.

On the other hand, a quarter (25%) of small businesses have raised or planned to raise their prices. Of these businesses, the Accommodation, Café and Restaurants sector (35%) was most likely to do so, while the Finance and Insurance sector (12%) was least likely.

## Reasons for Not Raising Prices due to Interest Rates

### “Interest rates being a small component of the cost base” and “competition being too strong” the main reasons

Figure 6: Reasons for small businesses not raising their prices due to higher interest rates (%)



Base: Online small businesses not raising their prices due to higher interest rates  
Q: What are the reasons for not raising your prices? (Multiple choices)

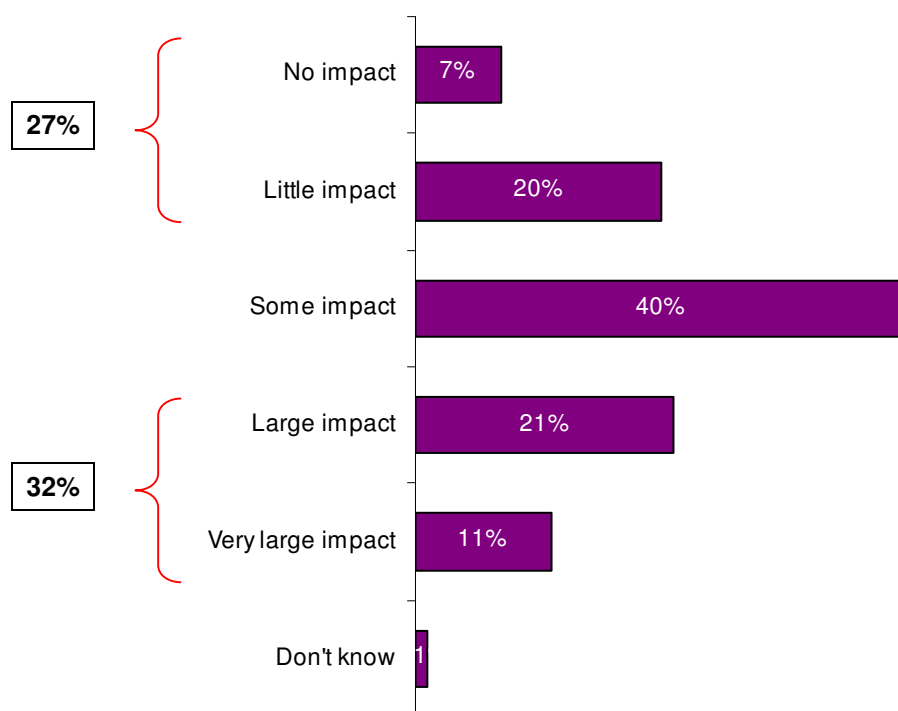
AMR Interactive, October 2006 (n=1071)

There were two main reasons for small businesses not raising their prices due to higher interest rates. Firstly, interest rates were only a small component of the cost base for many small businesses (50%). Secondly, the competition was too strong in the market – hence; increasing prices would make small businesses uncompetitive (40%).

## Impact of Higher Fuel Prices on Small Business

### Increases in fuel (petrol/diesel) prices have had some impact on small business

Figure 7: Impact of increases in petrol/diesel prices on **overall business** (%)



Base: Online small businesses

Q: To what extent have increases in petrol/diesel prices affected your business **overall**?

AMR Interactive, October 2006 (n=1424)

Two in five (40%) small businesses believed that the increases in petrol/diesel prices have affected their business to some degree.

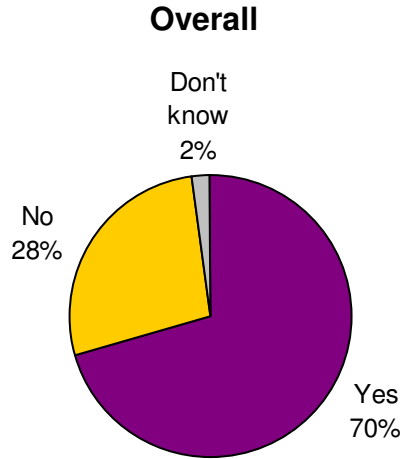
Around one-third (32%) of small businesses indicated that the increases in petrol/diesel prices have affected their business greatly (i.e., "Large impact" and "Very large impact").

In contrast, over a quarter (27%) of businesses reported that the increases in petrol/diesel prices have had no or little impact on their overall business.

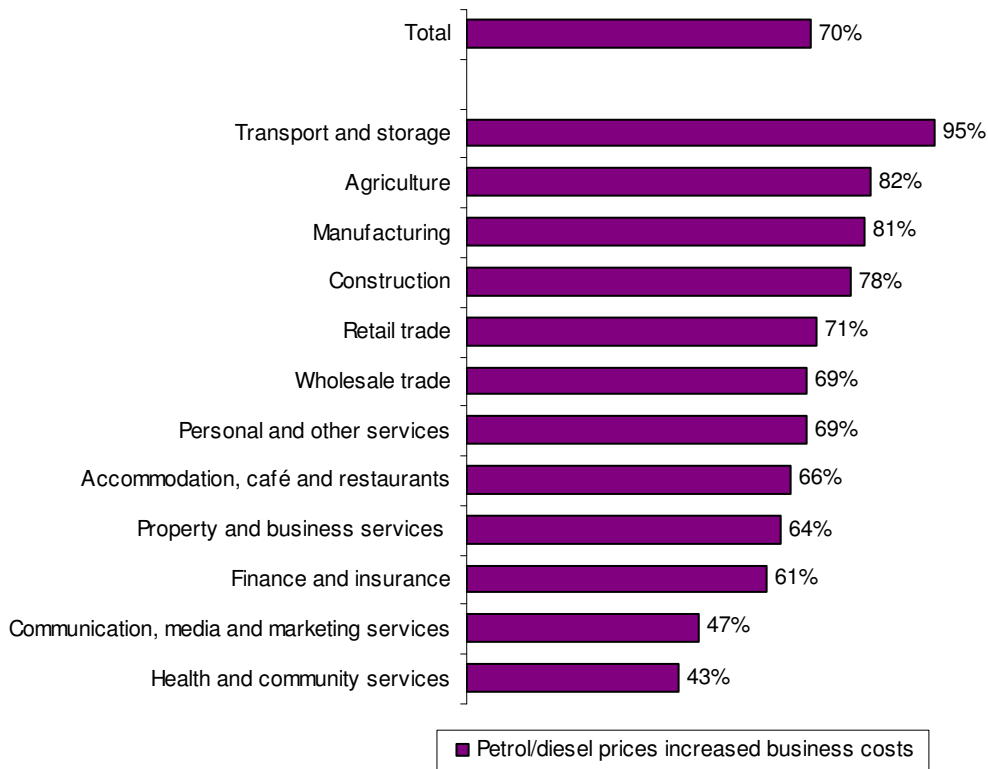
## Increases in Fuel Prices Increasing Business Costs

### Increases in petrol/diesel prices have raised business costs for most small businesses

Figure 8: Increases in petrol/diesel prices **directly** increasing business costs (%)



### Breakdown by Industry (% of respondents saying "Yes")



Base: Online small businesses

Q: Have the increases in petrol/diesel prices **directly** increased your business costs?

AMR Interactive, October 2006 (n=1424)

Over two-thirds (70%) of small businesses reported that the increases in petrol/diesel prices have directly increased their business costs.

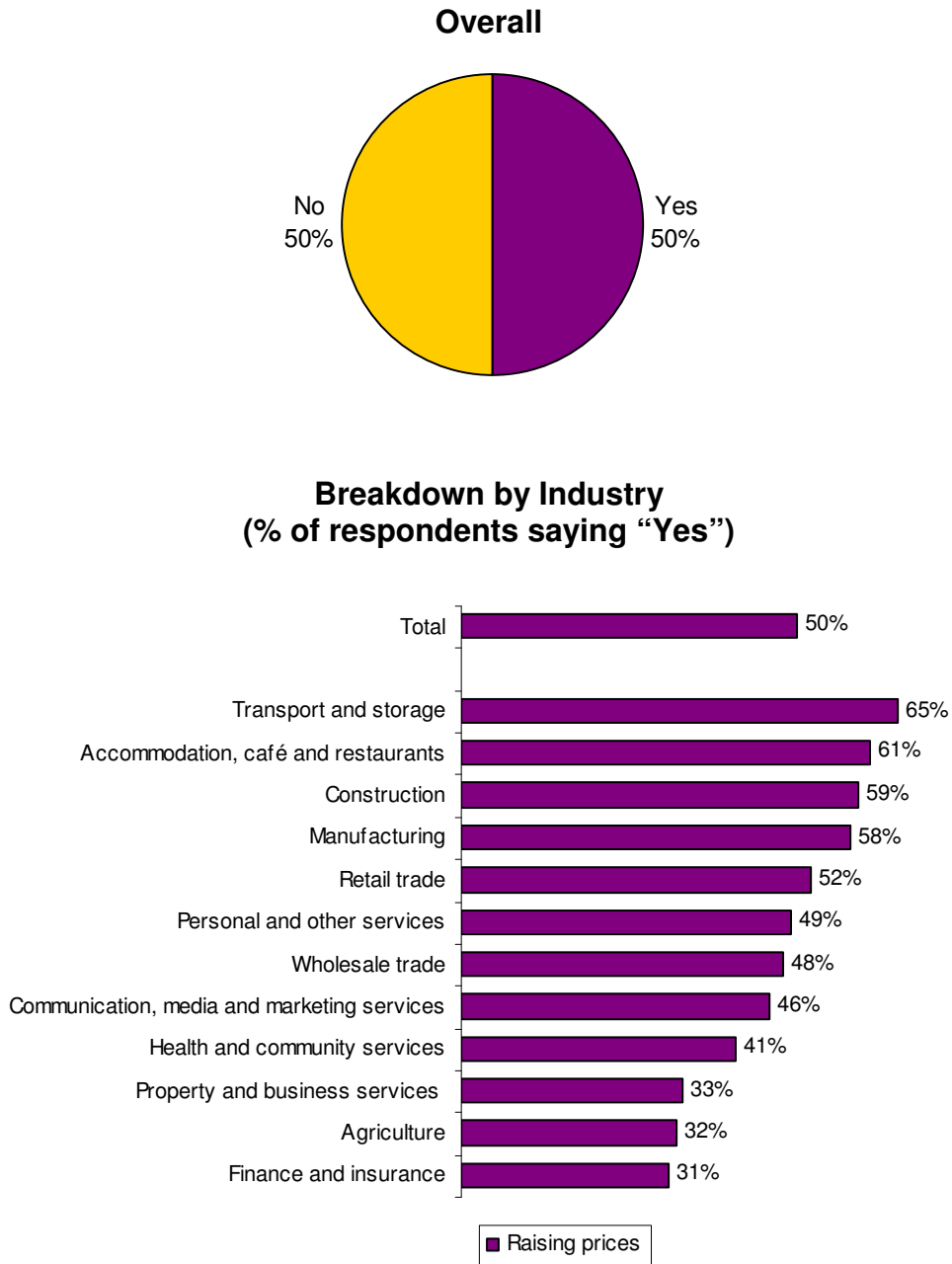
By Industry, small businesses from the Transport and Storage sector (95%) were most likely to have higher business costs due to the increases in petrol/diesel prices, whilst those from the Health and Community Services sector (43%) were least likely.



## Raising Prices due to Higher Business Costs (Fuel Costs)

### Half of small businesses have raised or will raise their prices

Figure 9: Small businesses raising their prices due to the increase in their business costs (i.e., fuel costs) (%)



Base: Online small businesses with higher business costs due to the increases in petrol/diesel prices  
 Q: Have you raised the prices, or plan to raise the prices of your products and/or services due to this increase in your business costs?

AMR Interactive, October 2006 (n= 942)

Overall, half (50%) of small businesses have raised or planned to raise their prices because the increases in petrol/diesel prices have increased their business costs.

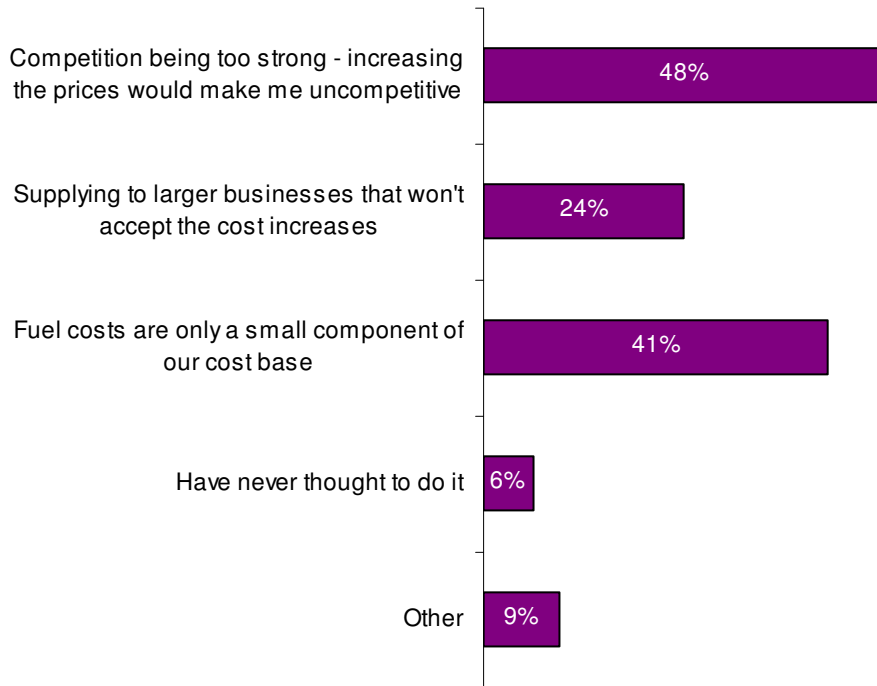
By Industry, the Transport and Storage sector (65%) was most likely to raise their prices due to the increase in their business costs, with the Finance and Insurance sector (31%) being least likely.



## Reasons for Not Raising Prices due to Business Costs

**“Competition being too strong” and “fuel costs being a small component of the cost base” the main reasons**

Figure 10: Reasons for small businesses not raising their prices due to the increase in their business costs (%)



Base: Online small businesses with higher business costs but not raising their prices  
Q: What are the reasons for not raising your prices?

AMR Interactive, October 2006 (n=482)

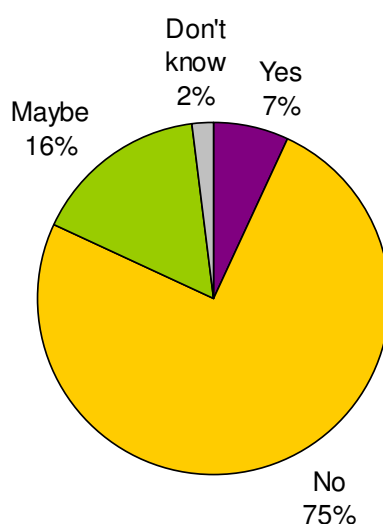
The main reason for small businesses (with higher business costs) not raising their prices was the strong competition in the market – hence; increasing prices would make them uncompetitive (48%).

In addition, many small businesses have not or did not plan to raise their prices because fuel costs were only a small component of their cost base (41%).

## Using Alternative Fuels

### Around a quarter of small businesses have switched or will switch to an alternative fuel

Figure 11: Small businesses switching to an alternative fuel for their vehicles and/or machinery as a result of the increases in petrol/diesel prices (%)



Base: Online small businesses

Q: Will you switch, or have you switched your vehicle/s and/or machinery to an alternative fuel as a result of the increases in petrol/diesel prices?

AMR Interactive, October 2006 (n=1424)

Three quarters (75%) of small businesses have not or would not switch their vehicles and/or machinery to an alternative fuel as a result of the increases in petrol/diesel prices.

However, about a quarter (23%) of businesses were likely to use an alternative fuel for their vehicles and/or machinery (i.e., "Yes" and "Maybe").

## Self-perception of Small Business

### One-third of small businesses perceive themselves as a “Steady” in the market

Figure 12: Small businesses' self-perception of their company in the market (%)



Base: Online small businesses

Q: Which of these descriptions best fits your company? (Single choice)

AMR Interactive, October 2006 (n=1424)

One-third (33%) of small business owners perceived their company to be a “Steady” in the market – meaning that they were content with their current products, sales and profits.

A quarter (24%) of small businesses identified themselves as an “Innovator” – meaning that they were constantly seeking and investing in new opportunities.

Around one in five (21%) small businesses perceived themselves to be a “Survivor” – meaning that they were facing strong competitive challenges in the market.

Only one in ten (10%) small businesses perceived themselves to be a “Leader” – meaning that they were leading the competition or gaining quickly on the leaders.

## Appendix 1 – Impact of Higher Interest Rates on Small Business (Overall)

### Breakdown by Industry

	No Impact	Little Impact	Some Impact	Large Impact	Very Large Impact
<b>Total</b>	<b>28%</b>	<b>33%</b>	<b>32%</b>	<b>5%</b>	<b>1%</b>
<b>Breakdown by Industry</b>					
Agriculture	27%	38%	24%	6%	5%
Manufacturing	29%	30%	36%	4%	0%
Construction	21%	34%	34%	8%	0%
Wholesale Trade	15%	29%	50%	6%	0%
Retail trade	18%	34%	37%	6%	3%
Accommodation, café and restaurants	16%	41%	33%	5%	2%
Transport and storage	23%	35%	33%	6%	1%
Communication, media and marketing services	41%	29%	24%	1%	1%
Finance and insurance	42%	26%	25%	5%	2%
Property and business services	33%	36%	27%	2%	1%
Health and community services	35%	36%	25%	2%	2%
Personal and other services	35%	25%	34%	5%	1%

Base: Online small businesses

Note: "Don't know" responses are not shown in the table.

Q: To what extent have recent increases in interest rates affected your business **overall**?

AMR Interactive, October 2006 (n=1424)

## Appendix 2 – Impact of Higher Interest Rates on Small Business (Sales/Revenue)

### Breakdown by Industry

	No Impact	Little Impact	Some Impact	Large Impact	Very Large Impact
<b>Total</b>	<b>31%</b>	<b>28%</b>	<b>29%</b>	<b>6%</b>	<b>2%</b>
<b>Breakdown by Industry</b>					
Agriculture	40%	36%	17%	4%	1%
Manufacturing	31%	30%	34%	4%	0%
Construction	23%	26%	34%	9%	2%
Wholesale Trade	19%	34%	38%	6%	2%
Retail trade	19%	26%	37%	11%	4%
Accommodation, café and restaurants	24%	29%	41%	6%	0%
Transport and storage	18%	26%	43%	5%	3%
Communication, media and marketing services	47%	23%	23%	4%	0%
Finance and insurance	51%	23%	18%	7%	2%
Property and business services	40%	30%	24%	5%	1%
Health and community services	34%	25%	28%	6%	4%
Personal and other services	40%	32%	22%	4%	1%

Base: Online small businesses

Note: "Don't know" responses are not shown in the table.

Q: To what extent have recent increases in interest rates affected your **sales/revenue**?

AMR Interactive, October 2006 (n=1424)

## Appendix 3 – Reasons for Not Raising Prices due to Interest Rates

### Breakdown by Industry

	Competition being too strong - increasing the prices would make me uncompetitive	Supplying to larger businesses that won't accept the cost increases	Interest rates are only a small component of our cost base	Have never thought to do it	Other
<b>Total</b>	<b>40%</b>	<b>15%</b>	<b>50%</b>	<b>9%</b>	<b>12%</b>
<b>Breakdown by Industry</b>	32%	19%	47%	9%	21%
Agriculture	42%	22%	58%	9%	6%
Manufacturing	43%	22%	46%	8%	6%
Construction	56%	37%	52%	2%	3%
Wholesale Trade	59%	4%	42%	11%	14%
Retail trade	45%	8%	59%	0%	13%
Accommodation, café and restaurants	36%	27%	41%	2%	22%
Transport and storage	34%	14%	50%	24%	6%
Communication, media and marketing services	33%	10%	47%	8%	16%
Finance and insurance	32%	13%	61%	9%	11%
Property and business services	37%	6%	39%	12%	13%
Health and community services	35%	10%	48%	14%	14%
Personal and other services	40%	15%	50%	9%	12%

Base: Online small businesses not raising their prices due to higher interest rates  
Q: What are the reasons for not raising your prices? (Multiple choices)

AMR Interactive, October 2006 (n=1071)

## Appendix 4 – Impact of Higher Fuel Prices on Small Business (Overall)

### Breakdown by Industry

	No Impact	Little Impact	Some Impact	Large Impact	Very Large Impact
<b>Total</b>	<b>7%</b>	<b>20%</b>	<b>40%</b>	<b>21%</b>	<b>11%</b>
<b>Breakdown by Industry</b>	5%	24%	26%	29%	16%
Agriculture	2%	29%	48%	17%	4%
Manufacturing	3%	13%	44%	28%	12%
Construction	5%	12%	50%	23%	10%
Wholesale Trade	6%	20%	41%	23%	8%
Retail trade	5%	18%	57%	14%	6%
Accommodation, café and restaurants	0%	6%	14%	33%	48%
Transport and storage	23%	34%	34%	7%	2%
Communication, media and marketing services	13%	30%	44%	9%	4%
Finance and insurance	12%	20%	51%	14%	3%
Property and business services	10%	32%	35%	16%	3%
Health and community services	10%	22%	38%	15%	15%
Personal and other services	7%	20%	40%	21%	11%

Base: Online small businesses

Note: "Don't know" responses are not shown in the table.

Q: To what extent have increases in petrol/diesel prices affected your business **overall**?

AMR Interactive, October 2006 (n=1424)

## Appendix 5 – Reasons for Not Raising Prices due to Business Costs

### Breakdown by Industry

	Competition being too strong - increasing the prices would make me uncompetitive	Supplying to larger businesses that won't accept the cost increases	Fuel costs are only a small component of our cost base	Have never thought to do it	Other
<b>Total</b>	<b>48%</b>	<b>24%</b>	<b>41%</b>	<b>6%</b>	<b>9%</b>
<b>Breakdown by Industry</b>	34%	35%	38%	1%	23%
Agriculture	58%	26%	48%	3%	14%
Manufacturing	64%	28%	23%	6%	0%
Construction	65%	43%	53%	0%	8%
Wholesale Trade	60%	3%	48%	10%	9%
Retail trade	47%	19%	46%	4%	14%
Accommodation, café and restaurants	26%	67%	11%	14%	15%
Transport and storage	39%	30%	48%	12%	5%
Communication, media and marketing services	49%	9%	36%	9%	11%
Finance and insurance	37%	16%	60%	3%	3%
Property and business services	58%	10%	25%	10%	9%
Health and community services	42%	18%	40%	6%	9%
Personal and other services	48%	24%	41%	6%	9%

Base: Online small businesses with higher business costs but not raising their prices

Q: What are the reasons for not raising your prices?

AMR Interactive, October 2006 (n=482)

## Appendix 6 – Self-perception of Small Business

### Breakdown by Industry

	As a Survivor – facing strong competitive challenges	As a Steady – content with current products, sales and profits	As an Innovator – constantly seeking & investing in new opportunities	As a Leader – leading the competition or gaining quickly on the leaders	None of these
<b>Total</b>	<b>21%</b>	<b>33%</b>	<b>24%</b>	<b>10%</b>	<b>8%</b>
<b>Breakdown by Industry</b>	36%	28%	21%	6%	4%
Agriculture	23%	30%	20%	11%	12%
Manufacturing	20%	44%	17%	8%	7%
Construction	26%	21%	29%	15%	6%
Wholesale Trade	23%	30%	28%	12%	2%
Retail trade	22%	31%	22%	20%	1%
Accommodation, café and restaurants	25%	28%	23%	11%	14%
Transport and storage	24%	29%	31%	8%	7%
Communication, media and marketing services	15%	44%	19%	6%	11%
Finance and insurance	11%	40%	24%	8%	12%
Property and business services	20%	25%	29%	10%	12%
Health and community services	16%	33%	22%	9%	15%
Personal and other services	21%	33%	24%	10%	8%

Base: Online small businesses

Note: "Don't know/Not sure" responses are not shown in the table.

Q: Which of these descriptions best fits your company? (Single choice)

AMR Interactive, October 2006 (n=1424)

## Appendix 7 – Special Focus Questions

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### *(Interest Rates)*

Q. Is your business funded by any current borrowings?

1. Yes
2. No

Q. Have recent increases in interest rates made you less likely to borrow money to invest in your business?

1. Yes
2. No
3. Maybe
4. Don't Know

Q. Is your business likely to default on your business borrowings in the next 12 months?

1. Yes
2. No
3. Maybe
4. Our business have no borrowings
5. Don't Know

Q. To what extent have recent increases in interest rates affected your business **overall**?

1. No impact
2. Little impact
3. Some impact
4. Large impact
5. Very large impact
6. Don't know

Q. To what extent have recent increases in interest rates affected your **sales/revenue**?  
(i.e. consumers spending less with you)

1. No impact
2. Little impact
3. Some impact
4. Large impact
5. Very large impact
6. Don't know

Q. Have you raised the prices, or plan to raise the prices of your products and/or services due to higher interest rates?

1. Yes
2. No

## ASK IF "No"

Q. What are the reasons for not raising your prices?

*Please select all that apply.*

1. Competition being too strong – increasing the prices would make me uncompetitive
2. Supplying to larger businesses that won't accept the cost increases
3. Interest rates are only a small component of our cost base
4. Have never thought to do it
5. Other (please specify)

**(Fuel Prices)**

Q. To what extent have increases in petrol/diesel prices affected your business **overall**?

1. No impact
2. Little impact
3. Some impact
4. Large impact
5. Very large impact
6. Don't know

Q. Have the increases in petrol/diesel prices **directly** increased your business costs?

1. Yes
2. No
3. Don't Know

## ASK IF "Yes"

Q. Have you raised the prices, or plan to raise the prices of your products and/or services due to this increase in your business costs?

1. Yes
2. No

## ASK IF "No"

Q. What are the reasons for not raising your prices?

*Please select all that apply.*

1. Competition being too strong – increasing the prices would make me uncompetitive
2. Supplying to larger businesses that won't accept the cost increases
3. Interest rates are only a small component of our cost base
4. Have never thought to do it
5. Other (please specify)

Q. Will you switch, or have you switched your vehicle/s and/or machinery to an alternative fuel as a result of the increases in petrol/diesel prices?

1. Yes
2. No
3. Maybe
9. Don't Know

**(Small Businesses' Self-perception)**

Q. Which of the following descriptions best fits your company?

*Please select one ONLY.*

1. As a Survivor – facing strong competitive challenges
2. As a Steady – content with current products, sales and profits
3. As an Innovator – constantly seeking & investing in new opportunities
4. As a Leader – leading the competition or gaining quickly on the leaders
5. None of these
6. Don't know/Not sure