



RSM
Audit • Tax • Advisory

Rebuilding the Global Economy

Insights from an international comparative study of business 'birth' and 'death' rates

June 2014

RSM International

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2014 marks an exceptional year for RSM as we celebrate 50 years of global connections.

Foreword

by Jean Stephens, CEO, RSM International



RSM's inaugural 'Road to Recovery' report in 2013 focused on the rate of new business creation and destruction - births and deaths - across the world in the five years from 2007. This year's report looks at the latest international published data, as at the end of Q1 2014, to examine what changes there have been in country-by-country growth.

Many economists believe business churn (the sum of enterprise births and deaths) can have significant economic impact. High rates of business churn can generate noticeable benefits to national economies including heightened competitiveness, increased GDP growth and accelerated job creation.

As weak companies exit the scene, dynamic start-ups enter the market with superior products and services. In essence, new economic value is created. This process of creative destruction permits the redeployment of productive resources (labour, capital, technology) tied down in uncompetitive businesses to new market players better able to make efficient use of those assets.

“Many economists believe business churn (the sum of enterprise births and deaths) can have significant economic impact. High rates of business churn can generate noticeable benefits to national economies including heightened competitiveness, increased GDP growth and accelerated job creation.”

Thus, business creation continues to be one of the most telling indicators of economic vitality. As the seventh largest global network of audit, tax and advisory firms, with members in nearly 110 countries, RSM International (RSM) works with companies across a range of sectors and geographies, and is ideally placed to take the pulse of economic wellbeing in key markets across the global business economy. In this year's paper we have looked at business births and deaths in 38 key global markets.

There is a huge variation in rates of business growth across the globe and they are heavily influenced by the laws, regulations and governance structures of national economies.

There are lessons to be learned from around the world and this report makes for engaging reading. What is clear is that business leaders and entrepreneurs need confidence in the demand for their products and services, and certainty in the infrastructure around them. The world is moving in the right direction, but the watch-phrase for the next year must remain no more than 'cautious optimism'.

Jean Stephens
CEO, RSM International

Introduction and Executive Summary

by David Bartlett, Economic Advisor to RSM



In July 2013, RSM International published a report entitled “The Road to Recovery: Insights from an International Comparative Study of Business Births and Deaths”. Drawing on data collected by RSM member firms and international statistical sources, that report examined business demographics in a number of developed economies and emerging markets. To elaborate and extend the original study, RSM has undertaken a follow-up analysis based on new business demography data. Using data from 38 key economies globally, this updated report explores global, national and industry-level trends in enterprise births and deaths.

Summary findings:

The gap in growth rates of new business formation between the G-7 and BRICS groups in 2007-11 noted in our *Road to Recovery* report (0.8 percent versus 5.8 percent CAGR respectively) narrowed in 2012 (1.9 percent versus 4.9 percent). However, long-term trends indicate a continued differential in business formation growth rates that demonstrates the increasing entrepreneurial dynamism of the emerging markets.

Consistent with the findings of the earlier report, our updated study shows significant differences in business formation trends within these country groups. Among the G-7 countries, France registered the strongest growth of new business formation in 2011-12

(16.7 percent) while Canada exhibited the weakest performance (–13.6 percent). Within the BRICS group, China posted the highest growth of new company formation (9.1 percent) and South Africa the lowest (–10 percent). These growth differences demonstrate the impact of country-specific legal, regulatory, institutional and cultural factors influencing enterprise births and deaths.

Elaborating the tri-country analysis of the *Road to Recovery* report, the new study examines industry-level dynamics in business demography in Australia, the United Kingdom and the United States. Among key industries, professional services, construction and wholesale/retail trade exhibit the highest rates of enterprise births and deaths. Financial services and manufacturing display lower levels of business churn, illustrating financial and regulatory constraints on new company formation in those industries.

The new report provides important insights on industry-specific trends in new enterprise survival rates and job creation by entrepreneurial companies. Our analysis indicates that well targeted government interventions can boost the survival rates of start-up companies that require time and capital to parlay their competitive assets into sustainable growth.

In the United States, still the world’s largest economy and often seen as the dynamo of global economic growth, the largest source of job creation by far has been in retail trade, followed by health care and professional services. Industries such as manufacturing also saw a turnaround, and entrepreneurial companies in these industries generated positive externalities for the national economy.

“Using data from 38 key economies globally, this updated report explores global, national and industry-level trends in enterprise births and deaths.”

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The Findings in Detail

Global Developments in Business Demography

Exhibit 1 summarises global trends in business demography through 2012:

- The G-7 countries (Canada, France, Italy, Japan, Germany, United Kingdom, United States) generated a net gain in business formation of 531,000 companies in 2012, representing a 1.9 percent increase in the active company register of that group of advanced industrialised countries.
- During the same period, the BRICS countries (Brazil, Russia, India, China, South Africa) produced a net gain of almost 1.2 million companies or 4.9 percent growth of the active company register.
- The other major groups of the world economy displayed a weaker performance in new business formation. “Other Emerging” (a group that includes the non-BRICS emerging markets of Africa, East Asia, Latin America and Central and Eastern Europe) produced a net gain of just 53,000 companies in 2012. The “Other Developed” group (including the high-income economies of Western Europe and Asia-Pacific) incurred a net loss of 843,000 companies during that period.
- Trend data compiled by RSM indicates a steady convergence of BRICS countries toward the G-7 in business formation. Between 2007 and 2012, the active company register of the G-7 countries expanded from 26.8 million to 28.3 million enterprises (CAGR 1.1 percent). During the same period, active companies in the BRICS group increased from 19.3 million to 25.4 million (CAGR 5.6 percent).
- The narrowing of the gap in the active company registries of the G-7 and BRICS countries reflects the economic dynamism and entrepreneurial energy of the major emerging markets.

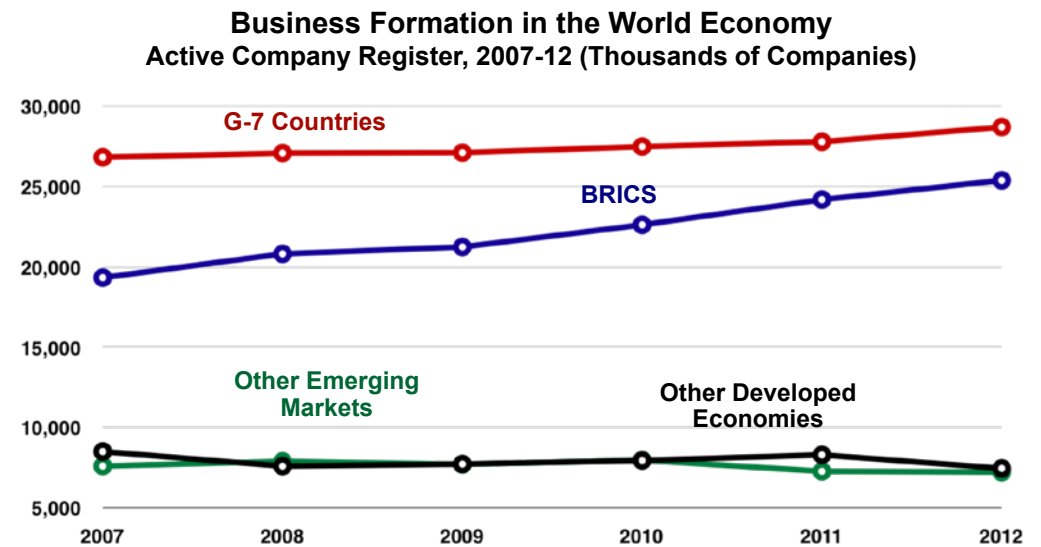


Exhibit 1

Source: RSM International Research

Exhibit 2 reports business formation indicators of individual countries in 2011-12:

- Among the G-7 countries, France displayed the strongest growth of the active company register in 2011-12 (+ 16.7 percent). Canada posted the weakest performance in this metric, incurring a 13.6 percent decline in active companies. The United States (+ 0.6 percent), Germany (+ 1.1 percent), and United Kingdom (+ 1.2 percent) experienced modest gains in business formation, while Italy posted a small loss (– 0.3 percent). As described in RSM’s 2013 study, much of the impetus for new business formation in France comes from the “Auto Entrepreneur” programme, launched in 2009 to stimulate company start-ups in a country not noted for entrepreneurship. Between 2009 and 2012, nearly 1.3 million self-managed individual enterprises were registered under the Auto Entrepreneur programme, representing 56 percent of total enterprise births in France during that period.
- But recent data indicates a diminution of new business formation in France. Between 2012 and 2013, the active registry of auto entrepreneurs fell from 307,000 to 275,000 establishments. During the same period, the total registry of active French companies declined from 550,000 to 538,000. French statistical sources indicate a continuing fall off in new business formation in early 2014.
- **“Rates of bankruptcy in France were 2.5 percent in 2013, higher than in 2012”,** says Vital Saint-Marc, partner at RSM France. **“The main victim was the construction industry, which represented 31 percent of voluntary liquidations. The automotive industry was also hit hard, with a 14 percent decrease in car registrations, as was the personal service industry, which represented 16 percent of bankruptcies. Over half of the new company registrations were companies that employ two or less people. In France, 2014 will be a year of transition rather than recovery, due to tough fiscal conditions and little corporate and individual confidence.”**
- Meanwhile, international business journalists report a growing flight of French entrepreneurs to the United Kingdom (where some 350,000 French citizens now reside) and other destinations such as Hong Kong, Shanghai, New York and Silicon Valley. Expatriate French entrepreneurs cite mounting frustrations with regulations, taxes and cultural biases as the key factors motivating their departure for foreign locales.
- Canada’s weak performance in business formation illustrates (1) the country’s lagging GDP growth (1.7 percent in 2012 versus 2.8 percent in the U.S.), (2) diminishing business investment, and (3) the impact of aggressive fiscal adjustment programmes at both the federal and provincial levels.

Business Formation in the World Economy Active Company Register, G-7 and BRICS Countries, 2011-12

	2011	2012	% Δ	
G-7	United States	8,776,000	8,826,000	+ 0.6%
	Italy	6,110,000	6,093,000	– 0.3%
	France	3,511,000	4,099,000	+ 16.7%
	Germany	3,215,000	3,250,000	+ 1.1%
	United Kingdom	2,860,000	2,950,000	+ 1.2%
	Japan	2,579,000	2,985,000	+ 0.8%
	Canada	1,283,000	1,107,500	– 13.6%
BRICS	China	12,531,000	13,666,000	+ 9.1%
	Brazil	5,414,000	5,599,000	+ 3.4%
	Russia	4,555,000	4,537,000	– 0.4%
	India	902,000	873,000	– 3.2%
	South Africa	818,000	736,000	– 10.0%

Exhibit 2

Source: RSM International Research

“With over 13 million operating enterprises, China well surpasses the United States with the world’s largest active business register.”

- Japan experienced strong growth in business formation in 2012 that produced a net gain of 27,000 companies, an expansion of 0.8 percent. That result indicates Japan's gradual recovery from recent economic and environmental setbacks. But it remains unclear whether this positive trend in Japanese business formation is sustainable in a country whose legal/regulatory structure is not conducive to entrepreneurship (ranking 120th in the World Bank's "Starting a Business" measure, last among the G-7 countries).
- China leads the BRICS group in business formation, generating an 9.1 percent increase in actively registered companies in 2012. With over 13 million operating enterprises, China well surpasses the United States with the world's largest active business register. Brazil also experienced a net gain in business formation to boost its active company register to 5.6 million enterprises, representing a growth rate of 3.4 percent.
- Continuing the trend noted in RSM's 2013 report, South Africa exhibited the weakest performance in the BRICS groups with a net loss of 82,000 registered companies, a decline of 10 percent. South Africa's poor performance reflects (1) lagging business confidence amid growing concerns over corruption and governance problems of the ruling ANC, and (2) mounting competition for business investment by faster-growing economies in the Sub-Saharan region.
- The Russian Federation and India also posted net company losses in 2012 (18,000 and 29,000 establishments respectively). Recent geopolitical developments do not augur favourably for an improvement in Russian business formation in coming years. However, India is well positioned for a resumption of new company formation under a projected increase in GDP growth (reaching 6.5 percent in 2015) resulting from the heightened competitiveness of Indian exporters with the devalued rupee and the Indian government's enactment of investor-friendly reforms.
- In Germany, commonly seen as the engine of continental Europe, Dr. Warner Popkes, Chairman at RSM Germany, expects greater support of start-up businesses, following the coalition government's promise of a renewed focus on the country's 'Mittelstand'. **"After minimal GDP growth of 0.4 percent in 2013,"** he said, **"we're expecting an increase to 1.4 percent this year, while unemployment is expected to fall by a percentage point or so."**
- In southern Europe, Greece, which received financial crisis bailouts of over US\$300 billion from the International Monetary Fund, exhibited an increase of one percent in net new business creation for the period. Athos Stylianou, Partner of RSM Greece, said: **"The increase in new business formation in 2012 was the result of 'necessary entrepreneurship', as individuals formerly in full-time employment resorted to their own ventures as a source of income. We expect to see further improvements in 2014 as the government plans to introduce SME funding programmes focused on tourism, agriculture, the food industries and new technology."**

"Japan experienced strong growth in business formation in 2012 that produced a net gain of 27,000 companies, an expansion of 0.8 percent. That result indicates Japan's gradual recovery from recent economic and environmental setbacks."

Exhibit 3 disaggregates the active company register data to show trends in business births and deaths in a select group of countries:

- From the pre-recession peak of 3.3 million in 2008, business births fell 13 percent in 2009 to 2.9 million. Business births in the selected countries staged a strong rebound in 2011 to 3.1 million, but fell modestly in 2012 to 2.9 million.
- Business deaths in this group moved in a narrower band, peaking at 2.4 million in 2008 and then fluctuating between 2.2 and 2.3 million annual enterprise exits. The leveling of annual rates of enterprise deaths after 2008 indicates a gradual improvement in business conditions for start-up companies as the global recovery has proceeded.

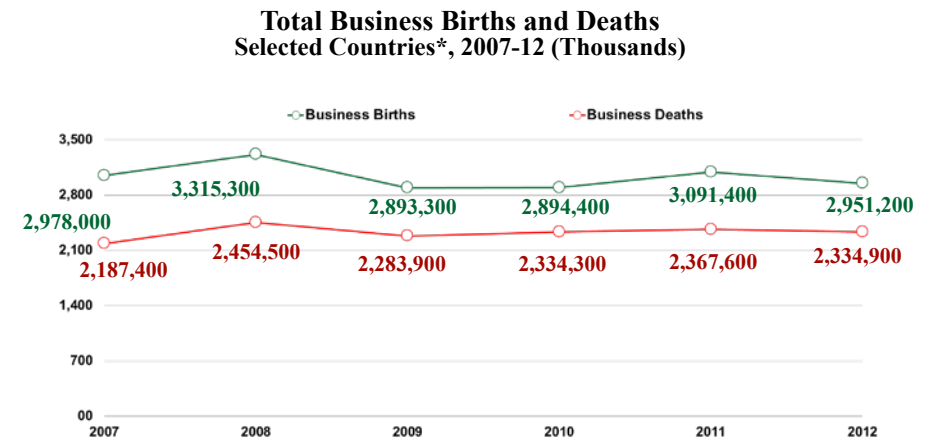


Exhibit 3

* Brazil, Czech Republic, Germany, Greece, Hong Kong, India, Italy, Netherlands, Poland, Russia, Sweden, United Kingdom, Turkey

Source: RSM International Research

“The leveling of annual rates of enterprise deaths after 2008 indicates a gradual improvement in business conditions for start-up companies as the global recovery has proceeded.”

“Brazil registered the weakest performance in the BRICS group with a 11.5 percent reduction in business births in 2011-12.”

“Croatia and Saudi Arabia registered the strongest performance in the select group, posting a 46.7 and 46.5 percent year-on-year increase in business births.”

Exhibit 4 provides further detail on new company formation in selected countries in 2012:

- Croatia (benefiting from its recent accession to the European Union) and Saudi Arabia (enjoying the commercial spillover of expanding hydrocarbon production) reported the strongest growth in business births in 2011-12. Norway posted the highest growth rate of business births among the OECD countries, illustrating the salutary effects of the country’s expanding oil and gas revenues.
- Among other developed economies in the data set, growth of business births ranged between mildly positive (UK, US, Austria) to negative (Australia, Portugal, Israel, Ireland, Netherlands, Sweden). As noted earlier, France is experiencing a tapering of new business formation following robust growth in 2009-10.
- Turkey registered the weakest performance of the select group, posting a 27.8 percent year-on-year decrease in business births. This follows the country’s weak performance in 2007-11 (cited in RSM’s 2013 study) and the uncertainties arising from recent political and civil unrest in Turkey. Lokman Ketenci, partner at RSM Kapital Karden in Turkey, conveyed concern about the country’s economic situation. **“Although the IMF predicts growth of 3.5 percent for Turkey in 2014, the government and central bank face a very challenging environment, both internally and externally, not least through the country’s huge current account deficit and rising foreign debt levels, and will need to pull off a tricky balancing act.”**
- Brazil registered the weakest performance in the BRICS group with a 11.5 percent reduction in business births in 2011-12. That result constitutes an unfavourable development in a country that displayed one of the world’s highest levels of business churn in the late 2000s. Cicero Alencar, partner at RSM Brazil, said: **“Brazil introduced automation of new enterprise incorporation last year but the benefits of this for many smaller new businesses was outweighed by increased compliance requirements. For 2014, the FIFA World Cup will be a boost to local business creation and we expect to see significant investment this year in the oil and gas industry. Overall GDP growth is expected to grow at 2 to 3 percent at most, which is below historical rates, but we expect good investment in other industries, such as tourism, food processing, agro business and telecommunications.”**

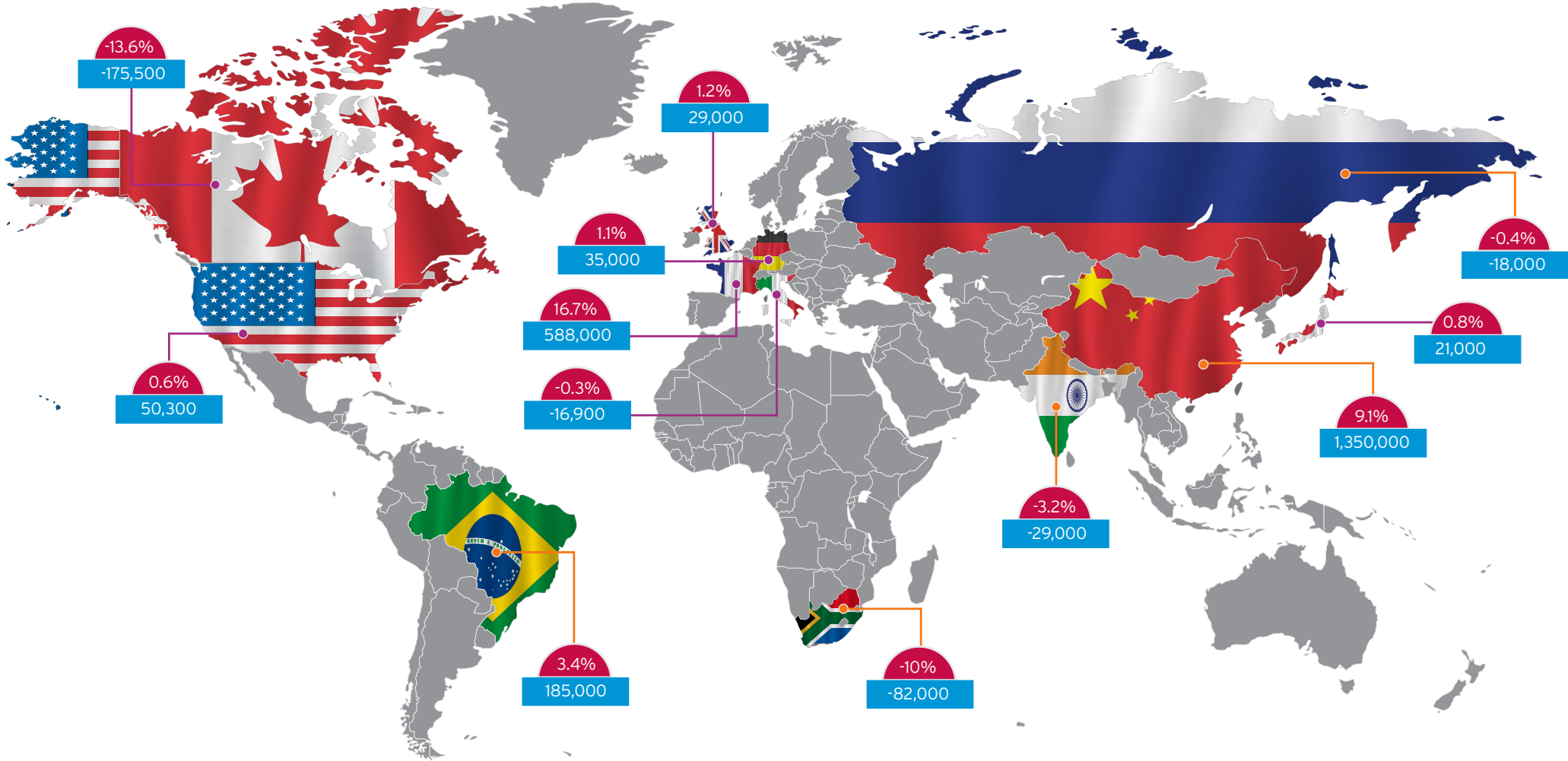
**New Company Formation
Increase/Decrease in Business Births, Selected Countries, 2011-12 (Percent)**

Croatia	+ 46.7%	Australia	– 2.0%
Saudi Arabia	+ 46.5%	Poland	– 2.1%
Norway	+ 25.0%	New Zealand	– 2.3%
Egypt	+ 23.8%	Portugal	– 3.3%
Russia	+ 10.4%	Israel	– 3.9%
United Kingdom	+ 3.4%	Ireland	– 4.1%
United States	+ 2.4%	Netherlands	– 9.4%
Austria	+ 0.7%	Sweden	– 10.5%
France	+ 0.0%	Brazil	– 11.5%
Tunisia	+ 0.0%	Turkey	– 27.8%

Exhibit 4

Source: RSM International Research

Change in number of active enterprises (in 000's), 2011-12



Key
■ Compound annual growth rate
■ Net business increase
● BRICS countries
● G7 countries

Industry Trends in Business Formation

“Wholesale/retail trade displays the highest rate of enterprise formation, averaging 20.9 percent of total business births across the 12-country sample.”

Exhibit 5 reports industry-level trends in new company formation in a select group of countries in 2012:

- Wholesale/retail trade displays the highest rate of enterprise formation, averaging 20.9 percent of total business births across the 12-country sample. Professional services follows with an average of 20.8 percent. Construction (11.6 percent), hospitality (8.3 percent), and education/health (7.0 percent) also show comparatively high rates of new company formation. The high business birth rates of these industries reflect (1) relatively low barriers to entry for small start-up companies, and (2) strong growth rates of service-related industries as the global economic recovery proceeds.
- Manufacturing displays modest rates of new enterprise formation with an average of 6.2 percent. The United States reports the smallest share of manufacturing-related business births in the sample (2.4 percent), a surprising finding given the mini-renaissance of US manufacturing resulting from the hydrocarbon boom in North America (a significant advantage for energy-intensive manufacturers) and the return of manufacturing operations previously outsourced to East Asia. Other developed economies with strong manufacturing sectors (Australia, Austria, Denmark, France, Singapore) also report low rates of new business formation in manufacturing.
- The lowest levels of company formation appear in transportation/warehousing (3.7 percent), financial services (4.8 percent) and information (4.8 percent). This result suggests that entrepreneurs regard these sectors as less attractive than wholesale/retail trade, professional services, and other industries with lower barriers to entry and stronger growth rates.
- RSM’s industry analysis yields significant variations between countries. For example, France reports an outsized rate of new enterprise formation in wholesale and retail trade (47.5 percent of total business start-ups in 2012). Sweden reports unusually high levels of new business formation in manufacturing (15.4 percent), hospitality (21.5 percent) and professional services (59.3 percent). Slovenia outperforms the sample group in manufacturing (10.7 percent) and construction (20.0 percent).

- These national variations demonstrate the impact of country-specific factors influencing business formation trends in key industries. For example, the meager contribution of financial services to new company formation in the United Kingdom (1.5 percent) illustrates the effects of the financial crisis of 2008-09.
- By contrast, Singapore reports robust entrepreneurial activity in financial services (15.9 percent of company births in 2012) along with high enterprise birth rates in professional services (15.7 percent) and wholesale/retail trade (26.5 percent).
- These findings illustrate economic, political and regulatory conditions that have made Singapore a major Asian hub for entrepreneurship. Singapore offers start-up companies (1) a highly business-friendly environment (rated #1 in the World Bank’s “Ease of Doing Business” index), (2) strong governmental incentives for entrepreneurs, including cash grants, loan guarantees, and business incubation programmes and (3) a growing venture capital community, which recently surpassed Hong Kong, Japan and South Korea in VC-funded start-ups.

Industry Trends in New Company Formation
Industry Shares of Enterprise Births, Selected Countries, 2012 (Percent)

COUNTRY	Manufacturing	Professional Services	Transportation/Warehousing	Wholesale/Retail Trade	Education/Health	Information	Construction	Hospitality	Financial Services
Australia	2.8%	11.4%	5.9%	9.5%	5.2%	1.0%	16.5%	4.8%	7.4%
Austria	4.6%	18.2%	5.2%	20.5%	6.1%	5.0%	9.1%	13.6%	—
Denmark	4.5%	23.7%	3.1%	12.7%	5.2%	6.2%	10.3%	5.2%	4.3%
Estonia	7.0%	14.4%	4.6%	22.5%	1.3%	7.0%	12.2%	3.2%	2.1%
France	4.3%	20.9%	1.8%	47.5%	10.5%	5.1%	15.3%	4.8%	2.2%
Luxembourg	—	20.0%	3.1%	20.0%	13.0%	6.4%	8.7%	—	4.3%
Portugal	6.4%	10.1%	2.1%	21.8%	12.6%	1.3%	8.2%	7.6%	2.2%
Singapore	4.0%	15.7%	3.5%	26.5%	5.0%	7.9%	5.5%	5.1%	15.0%
Slovenia	10.7%	15.9%	5.9%	17.0%	3.5%	3.5%	20.0%	9.8%	1.1%
Sweden	15.4%	59.3%	—	—	—	—	—	21.5%	—
U.K	6.5%	17.9%	3.3%	17.3%	5.7%	7.9%	13.0%	6.9%	1.5%
U.S.	2.4%	21.9%	2.6%	14.3%	9.3%	1.9%	9.3%	8.3%	7.8%

Exhibit 5 Sources: U.S. Bureau of Labor Statistics, Business Employment Dynamics, 2014

Tri-Country Analysis

Elaborating on the tri-country analysis of our 2013 study, RSM International has undertaken an in-depth analysis of enterprise births/deaths in three OECD countries that publish detailed business demography statistics: Australia, United Kingdom and United States. The results of this examination are summarised below.

Australia

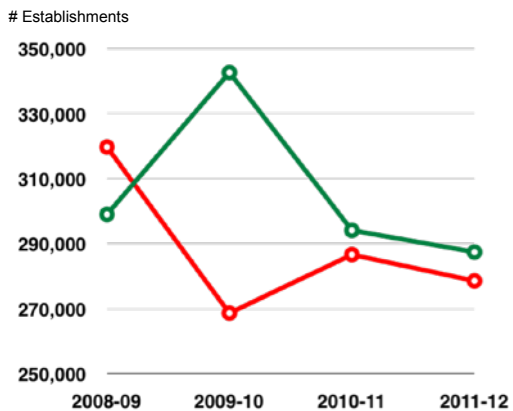
Exhibits 6-7-8-9 report recent business demography trends in Australia:

- Enterprise births and enterprise deaths diverged in 2008-09, producing net company formation of over 74,000 companies. Business birth and death rates then converged on a downward trend, with new company entries marginally surpassing exits between 2010 and 2012.
- Construction represented the leading source of business churn in Australia in 2008-12, with cumulative enterprise births and deaths surpassing 400,000 companies. Manufacturing registered the lowest aggregate business churn with 83,000 births and deaths.
- Financial services accounted for the highest level of net business formation (18,467 establishments) during this period. That finding is noteworthy in light of the weak performance of financial services in new enterprise start-ups in other OECD countries. Professional services and health care also registered net gains in business formation in Australia, while agriculture and manufacturing posted net losses.
- Measured by company size, micro enterprises (1-4 employees) exhibited the highest level of new business formation in Australia in 2008-12. Sole proprietorships (no employees) and small enterprises (20-199 employees) incurred net company losses during the period. Large enterprises (200+ employees) displayed virtually no change in net business formation.
- New company survival rates in Australia show considerable differences between industries. One-year survival rates of Australian companies founded in 2008 ranged from 89.3 percent in agriculture to 81.9 percent in hospitality. Industry survival rates then diverged. By 2012, only 53.6 percent of hospitality companies formed in 2008 had survived against 73.1 percent of health care companies.
- Among the other industries reported in the Australian sample, agriculture, real estate, manufacturing, professional services and financial services registered comparatively high four-year survival rates; retail trade, transportation/warehousing and construction registered low survival rates.
- Neil Cribb, Partner and National Head of the Turnaround & Insolvency Group of RSM Bird Cameron in Australia, said: **“Notwithstanding an economic environment with falling interest rates to historical lows in the 1st 1/4 of 2013/14, going forward we would expect to see a continuing decline in net business creation. This comes as a result of the continuing pressure of high operating costs for most Australian businesses (particularly when compared to our Asian neighbours); and no more so than in the manufacturing sector as evidenced by the necessary restructure of the Australian Motor Vehicle Industry which has struggled to be competitive over an extended period even with extensive industry and government consultation and support.”**

“...the UK and US exhibit higher levels of business churn than Australia, demonstrating the distinctive regulatory and institutional structures of the Anglo-American countries.”

○ Enterprise Births
○ Enterprise Deaths

Business Demography in Australia Enterprise Births and Deaths, 2008-12



Business Demography Trends in Australia 2008-12

	Births	Deaths
TOTAL	1,223,607	1,153,687
INDUSTRY SHARES		
Construction	17.2%	18.4%
Professional Services	11.1%	10.5%
Financial Services	8.0%	6.9%
Real Estate	7.9%	8.0%
Retail Trade	6.8%	7.3%
Transportation/Warehousing	6.4%	7.2%
Agriculture	5.2%	6.9%
Administrative Services	5.0%	4.9%
Hospitality	4.6%	4.5%
Wholesale Trade	3.4%	3.6%
Manufacturing	3.1%	3.9%
Arts/Recreation	1.4%	1.5%
Education	1.3%	1.3%
Information/Communications	1.0%	1.0%

Source: Australian Bureau of Statistics, "Counts of Australian Businesses, Including Entries and Exits", May 2013

Exhibit 6

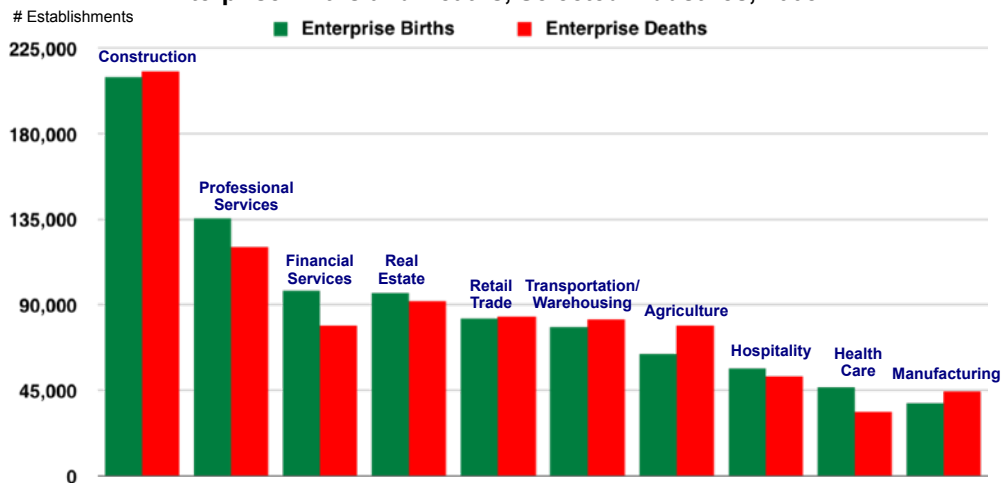
Business Demography in Australia Births and Deaths of Australian Enterprises by Size Category, 2008-12

	Operating Enterprises 2012	Enterprise Births 2008-12	Enterprise Deaths 2008-12	Net Business Formation 2008-12
0 Employees	1,306,023	841,617	872,336	- 30,719
1-4 Employees	508,674	305,991	200,015	+ 105,976
5-19 Employees	230,638	62,404	61,824	+ 580
20-199 Employees	81,006	11,772	17,820	- 6,048
+ 200 Employees	6,071	1,733	1,681	+ 52

Source: Australian Bureau of Statistics, "Counts of Australian Businesses, Including Entries and Exits", May 2013

Exhibit 8

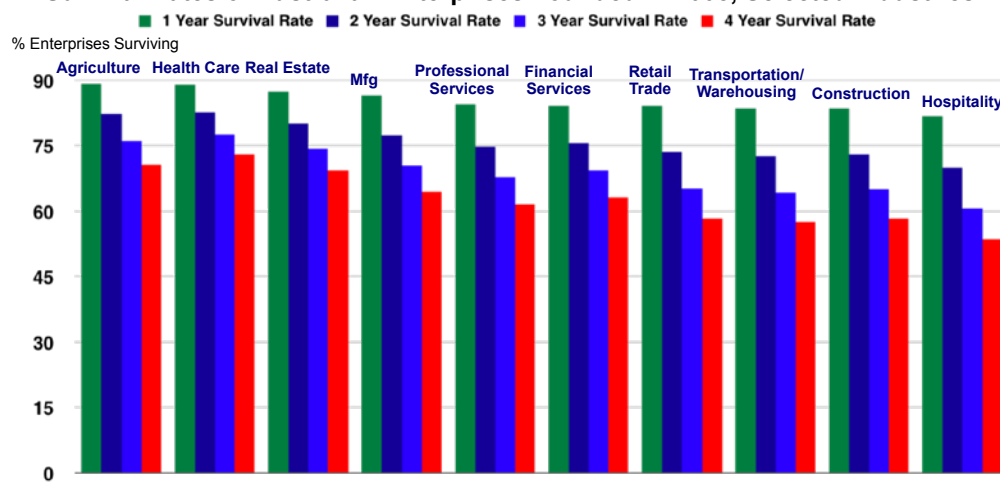
Business Demography in Australia Enterprise Births and Deaths, Selected Industries, 2008-12



Source: Australian Bureau of Statistics, "Counts of Australian Businesses, Including Entries and Exits", May 2013

Exhibit 7

Business Demography in Australia Survival Rates of Australian Enterprises Founded in 2008, Selected Industries



Source: Australian Bureau of Statistics, "Counts of Australian Businesses, Including Entries and Exits", May 2013

Exhibit 9

United Kingdom

Exhibits 10-11 show business demography trends in the United Kingdom:

- Consistent with the pattern in other OECD countries, the UK experienced a sharp decline in net business formation in 2008-09, as the global financial crisis and ensuing recession precipitated a surge in company exits and a decline in business start-ups.
- Business births then rebounded, increasing by 14.9 percent between 2010 and 2012. At its current rate of growth, new business formation in the UK will return to pre-recession levels in 2014.
- Business deaths fell in 2010 and 2011 before rising in 2012. The increase in enterprise exits in 2011-12 illustrates the high attrition rate of start-up companies in the UK. Less than half of British companies founded in 2007 were still operating in 2012, as entrepreneurs grappled with weak GDP growth, the impact of the coalition government's fiscal consolidation programme, and continuing restraints on new enterprise financing.
- For the period covering 2003-12, the UK registered net business formation of 259,000 new companies.
- Among British industries, professional services exhibited the highest share (29.0 percent) of new business formation in 2012, followed by construction (13.8 percent), information (12.4 percent) and retail trade (11.0 percent). Financial services generated the smallest contribution to business formation in the UK, with just 4,000 new companies representing 1.9 percent of entries.
- Professional services also displayed the highest level of net business formation (+17,000) in 2012. Information (+6000) and manufacturing (+1000) generated modest contributions to net business formation. Retail trade, hospitality and arts/recreation incurred net losses, while health care, transportation/warehousing and financial services registered net zero business formation.
- Graham Bushby, Baker Tilly's Head of Restructuring and Recovery, said: **"Over the last couple of years, the UK financial institutions seem to have been reluctant to both take on the increased level of risk involved in lending to new businesses and to take decisive action to resolve the situation facing troubled businesses. Many businesses are only managing to survive either as a result of forbearance by the banks or because of the exceptionally low level of interest rates. If the UK economy continues to grow at its current pace, and the Bank of England is forced into raising interest rates, this could break the current deadlock, increasing the exit of weaker players from the market and opening up opportunities for new entrants."**

Business Demography in the United Kingdom Enterprise Births and Deaths in the U.K., 2003-12



Exhibit 10

Source: U.K. Office for National Statistics, "Business Demography, 2012", November 2013

Business Demography in the United Kingdom Enterprise Births and Deaths in the U.K., Selected Industries, 2012

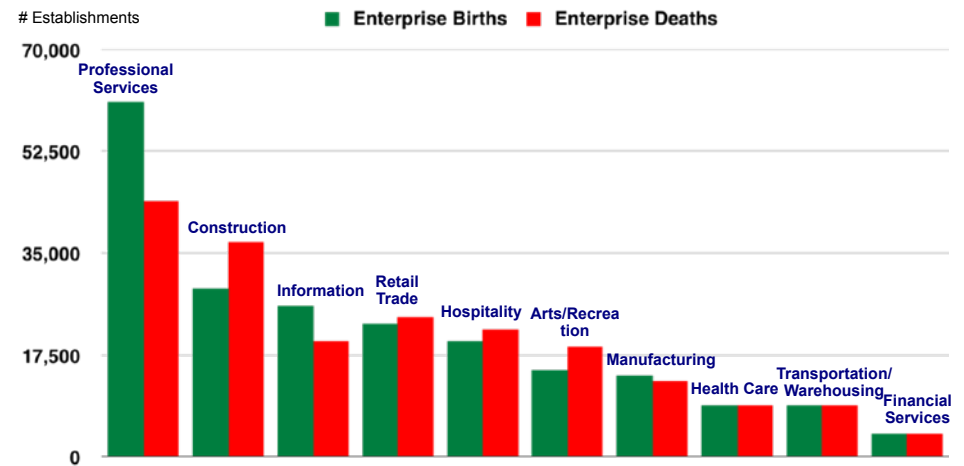


Exhibit 11

Source: U.K. Office for National Statistics, "Business Demography, 2012", November 2013

United States

Industry-level data published by the Bureau of Labor Statistics (BLS) (*Exhibits 12-13-14-15-16*) provides important insights on business demography trends in the United States:

- The divergence of enterprise births and enterprise deaths (the former falling and the latter rising) began in the US in 2005-06, before the global downturn. This pattern suggests that country-specific factors preceding the Great Recession strongly influence American business demographics.
- Business births in the US staged a rebound in 2010-11. Growth of new American enterprises continued in 2012 with 800,000 entries. The Bureau of Labor Statistics reports a sharp increase in business births in the first and second quarters of 2013. The reasons for this unexpected surge in new business formation in the United States are not yet clear.
- The age profile of American companies is changing in the post-recession period. Between 2010 and 2013, the share of US enterprises less than one year old rose from 36 percent to 40 percent of establishments in the BLS sample. The shares of older companies (> three years, > five years, > seven years) held steady during that period.
- While newly-formed companies represent a growing share of registered US companies, young enterprises display varied rates of job creation. In 2003, American companies less than one year old created 3.8 million jobs. However, by 2010, job creation by new enterprises had fallen to 2.5 million. Job creation by newly formed companies rebounded in 2011-12-13, but has still not returned to pre-recession levels.
- The industry composition of jobs created by new formed US companies is illuminating. Retail constituted the largest source of job creation by companies founded in 2012-13, followed by health care, professional services and construction. New enterprises in mining and agriculture created relatively few jobs. Transportation/warehousing, manufacturing, finance and real estate occupied intermediate positions in the job creation metric.

“The Bureau of Labor Statistics reports a sharp increase in business births in the first and second quarters of 2013.”

- Enterprise survival rates in the United States vary significantly by industry. One year survival rates range from 90.4 percent (agriculture) to 82.0 percent (construction). Three year survival rates range between 74.7 percent (agriculture) to 63.0 percent (transportation/warehousing). Enterprise survival rates rapidly diverge after the third year. By year ten, just 29.2 percent of construction companies founded in 2003 were still operating against 49.3 percent of agricultural companies. Professional services, finance and transportation/warehousing also displayed low ten year survival rates (35.9, 35.7 and 32.6 percent respectively).

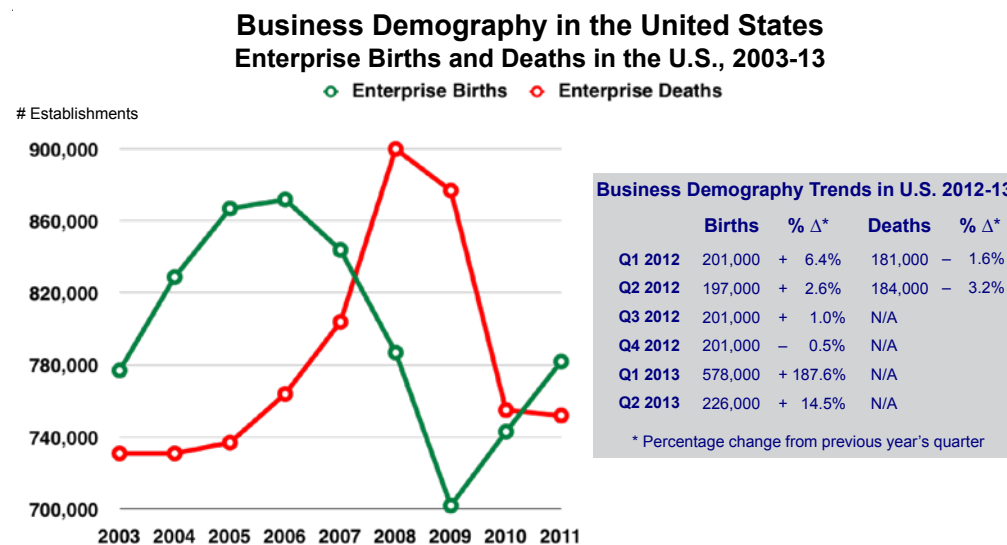


Exhibit 12

Source: U.S. Bureau of Labor Statistics, Business Employment Dynamics, 2014

Business Demography in the United States Age of Enterprises in the U.S., 2003-13

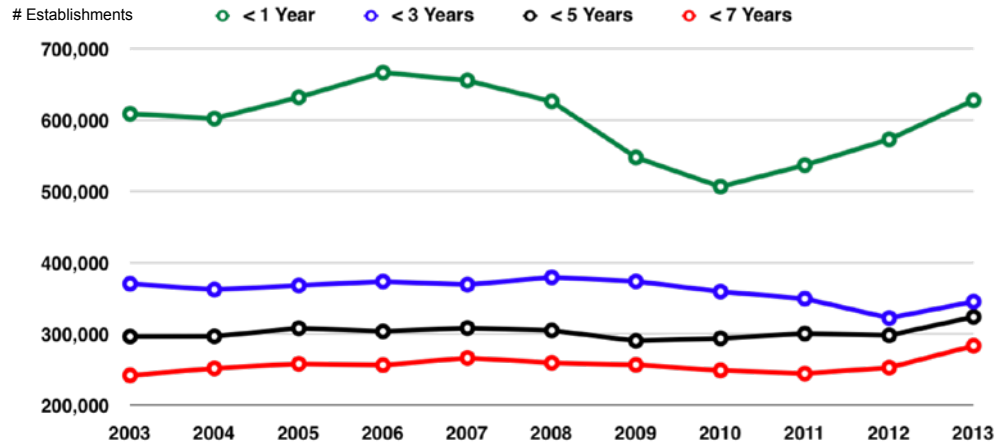


Exhibit 13

Source: U.S. Bureau of Labor Statistics, Business Employment Dynamics, 2014

Business Demography in the United States Survival Rates of U.S. Enterprises Founded in 2003, Selected Industries

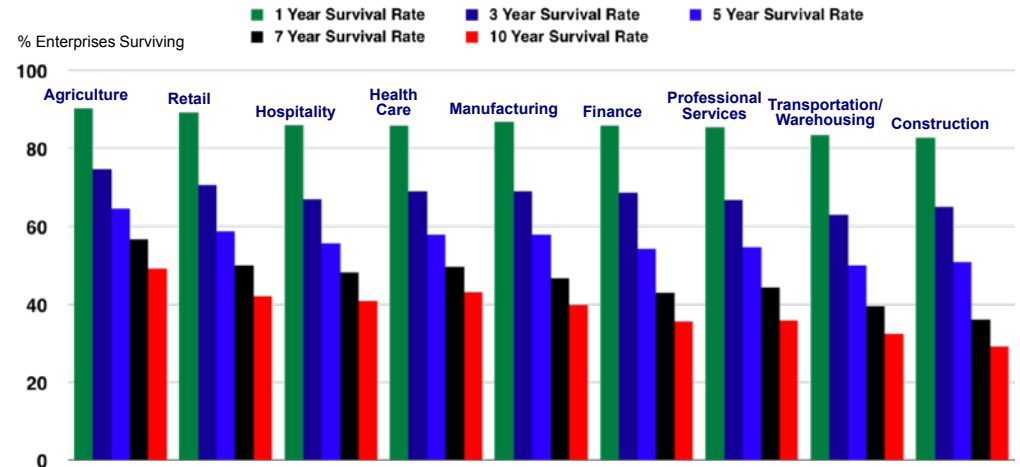


Exhibit 15

Source: U.S. Bureau of Labor Statistics, Business Employment Dynamics, 2014

Business Demography in the United States Job Creation by U.S. Enterprises Less Than 1 Year Old, 2003-13

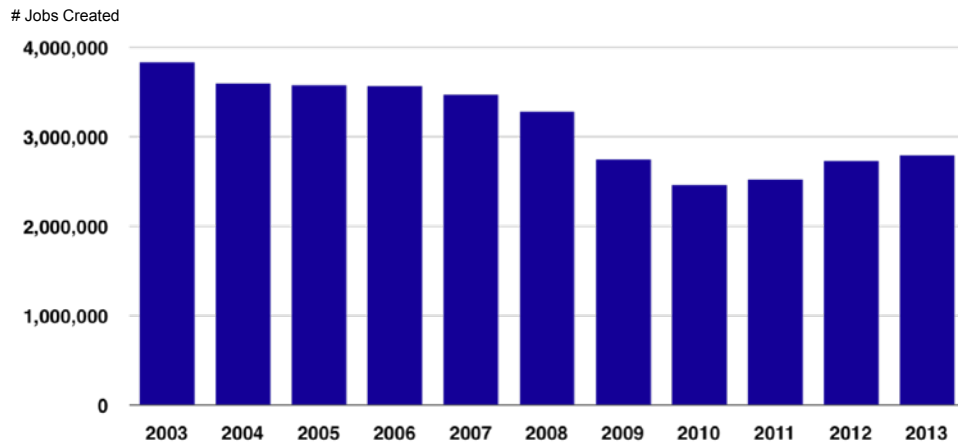


Exhibit 14

Source: U.S. Bureau of Labor Statistics, Business Employment Dynamics, 2014

Business Demography in the United States Job Creation by U.S. Enterprises Founded in 2012-13, Selected Industries

INDUSTRY	JOBS CREATED
Retail	355,740
Health Care	335,403
Professional Services	266,914
Construction	178,343
Transportation/Warehousing	101,297
Manufacturing	101,017
Finance	96,924
Real Estate	70,117
Agriculture	31,780
Mining	28,958

Exhibit 16

Source: U.S. Bureau of Labor Statistics, Business Employment Dynamics, 2014

Conclusion

RSM International's 2013 study of enterprise births and deaths offered a cautiously optimistic assessment of the prospects for business formation in the global economy. In the face of persistent economic headwinds (including continuing limits on enterprise financing and a slow recovery from the Great Recession), entrepreneurs worldwide are creating new businesses across a wide range of industries.

RSM's 2014 update echoes the findings of the original report, showing modest if unspectacular growth of new business formation. Furthermore, the survival of many companies founded in the early post-recession period provides grounds for optimism about world economic prospects in coming years. Entrepreneurial firms that succeeded in weathering the challenging economic environment of the late 2000s are well poised for sustainable growth as the global recovery proceeds and restraints on enterprise financing subside.

Against this global backdrop, RSM's analysis of the latest business demography data provides valuable insights on the dynamics of enterprise births and deaths:

- Continuing the trend of the 2000s, the BRICS countries maintained their edge over the G-7 in growth of the active company register in 2012. The higher economic growth and greater dynamism of the BRICS emerging markets signal a steady convergence toward the G-7 developed economies in the business formation metric.
- But these group comparisons obscure significant country-level variations in business formation. Among the BRICS countries, China far outperforms South Africa. Within the G-7 group, France has recently outpaced the US, UK, Germany, Italy and Canada. The broader groups of developed and emerging economies show even wider differences between individual countries. These results demonstrate that generalisations about the business demographics of developed economies vs. emerging markets must be tempered by careful country-level analyses.
- RSM's examination of industry-level business demographics yields important findings about the sources of enterprise births and deaths. Our 12-country sample (which includes both developed and emerging economies) indicates that the foremost drivers of new company formation are wholesale and retail trade and professional services, industries with comparatively high growth rates and low barriers to entry. By contrast, financial services and manufacturing generate relatively small shares of enterprise births.

- Elaborating our in-depth examination of Australia, the UK, and the US, RSM's latest tri-country analysis illuminates the complex interplay of country- and industry-level factors in business demography. For instance, the UK and US exhibit higher levels of business churn than Australia, demonstrating the distinctive regulatory and institutional structures of the Anglo-American countries. Construction is the leading source of enterprise births in Australia, while professional services lead new business formation in the UK and US. In both Australia and US, agricultural start-ups enjoy high survival rates, while new construction companies exhibit low survival rates.
- The Australian and American data further indicate the survival rates typically plummet after the first year, as entrepreneurial firms traversing the "valley of death" of years 2-5 often run out of time and money. This finding suggests that carefully targeted government interventions (e.g. loan guarantees and tax credits for young enterprises with demonstrated growth potential) can boost the survival rate.
- RSM's new study offers a sober appraisal of the job creation potential of new enterprises. Job creation by new companies declined in the US during the 2000s and then modestly increased in 2010-13.
- The largest source of job creation by newly founded US companies is retail trade, followed by health care and professional services. Manufacturing-related start-ups created over 100,000 new jobs, illustrating the rebound of American manufacturing from the global downturn. In addition to their contributions to job creation, entrepreneurial companies in these industries generate positive externalities for the national economy: technology commercialisation, productivity growth, increased competitiveness.

"Our 12-country sample indicates that the foremost drivers of new company formation are wholesale and retail trade and professional services, industries with comparatively high growth rates and low barriers to entry."

Appendix, Methodology & Sources

This paper is based on business demography data collected by RSM International member firms in 38 countries. The database draws on information from national statistical offices on active company registers, new business births and company deaths between 2007 and 2012 and provides an analysis of the latest publically available data across all countries as at the end of Q1 2014.

Yearly changes in the company registers permit calculation of net business formation in the sampled countries. Yearly increments of new company births and deaths enable a comparative analysis of business churn trends within and between the developed economy and emerging market groups. Data collected has also been cross referenced against other

publicly available research and analysis including the Eurostat Business Demography Indicators and the OECD Structural and Demographic Business Statistics.

The tri-country analysis of Australia, UK and the US draws on business demography data (disaggregated to the industry level) obtained from the Australian Bureau of Statistics, the UK Office for National Statistics and the US Bureau of Labor Statistics. RSM acknowledges that differences in national statistical reporting methods hinder use of fully standardised statistics for country-country comparisons. Against that qualification, RSM has a high level of confidence in the findings and conclusions of this study.

Total number of active enterprises (in 000's), 2007-12

Country	2007	2008	2009	2010	2011	2012	Growth rate 2011 - 2012 (%)
G7	26844	27111	27133	27515	27817	28348	1.9
BRICS	19361	20385	21265	22643	24219	25410	4.9
France	2949	3022	3107	3318	3511	4099	16.7
Nigeria	N/A	47	82	88	108	119	10.2
Hong Kong	655	711	772	864	956	1045	9.3
Malta	57	59	61	63	65	71	9.2
China	9600	9715	10427	11365	12531	13666	9.1
Croatia	119	132	132	142	129	140	8.5
Netherlands	956	1021	1089	1124	1170	1247	6.6
Cyprus	184	208	221	237	254	269	5.9
Tunisia	520	542	568	597	602	626	4.0
Singapore	329	358	367	382	397	411	3.5
Brazil	4420	4607	4847	5129	5414	5599	3.4
Ukraine	2337	2516	2685	2759	2860	2950	3.1
Norway	400	410	415	419	425	438	3.1
Sweden	1076	1045	1026	1008	1044	1071	2.6
Poland	3347	3410	3386	3537	3490	3565	2.1
Belgium	731	746	753	768	786	802	2.0

Mexico	1093	1157	1213	1316	1411	1437	1.8
Taiwan	600	578	579	586	597	605	1.3
UK	2280	2326	2342	2351	2343	2372	1.2
Germany	3140	3186	3135	3165	3215	3250	1.1
Greece	949	968	975	982	987	997	1.0
Turkey	2567	2594	2614	2652	2692	2715	0.9
Japan	2594	2603	2617	2587	2579	2600	0.8
US	8681	8789	8709	8696	8776	8826	0.6
Australia	2074	2071	2051	2125	2132	2141	0.4
Italy	6123	6104	6085	6109	6110	6093	-0.3
Russia	3635	4232	4470	4556	4555	4537	-0.4
Ireland	181	184	185	186	185	184	-0.5
Portugal	616	631	612	590	596	592	-0.7
Saudi Arabia	N/A	785	816	890	1088	1073	-1.4
Albania	80	95	95	103	109	107	-1.8
New Zealand	474	506	521	533	564	548	-2.8
India	750	789	803	847	902	873	-3.3
Czech	N/A	N/A	N/A	N/A	84	81	-3.6
South Africa	956	1042	719	747	818	736	-10.0
Canada	1077	1081	1138	1290	1283	1108	-13.6

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