

# Innovation and entrepreneurship

The Robot Revolution will consume jobs rapidly – urgent action is needed to create new businesses that in turn create new employment opportunities.



Robotisation will accelerate



Jobs are being eliminated



Real wage growth is already very low



We must create new, well-paid jobs

Entrepreneurs and innovative businesses create significant economic value, as well as new jobs to replace those that are lost as a result of productivity improvements and the death of old-economy businesses. These people and organisations respond more rapidly and more confidently to technological change and the opportunities that these create.

*Innovators and entrepreneurs see opportunity where others see risk. They are biased towards the future, rather than the past.*

Every aspect of government policy should recognise the importance of entrepreneurship and innovation. Australia’s leading sporting teams did not surpass their competitors globally by adopting a “she’ll be right, mate” philosophy and celebrating how the game was played decades ago. If we want to win as a nation – economically, politically and socially – then we need to set our sights on much more ambitious prizes, as other nations in South East Asia are doing.

Above all else, entrepreneurs need people and businesses to adopt their products and services. Many also need investment to support the launch and early growth of their businesses. They will also appreciate a little encouragement from those who would prefer to watch, rather than stride out onto the playing field themselves.

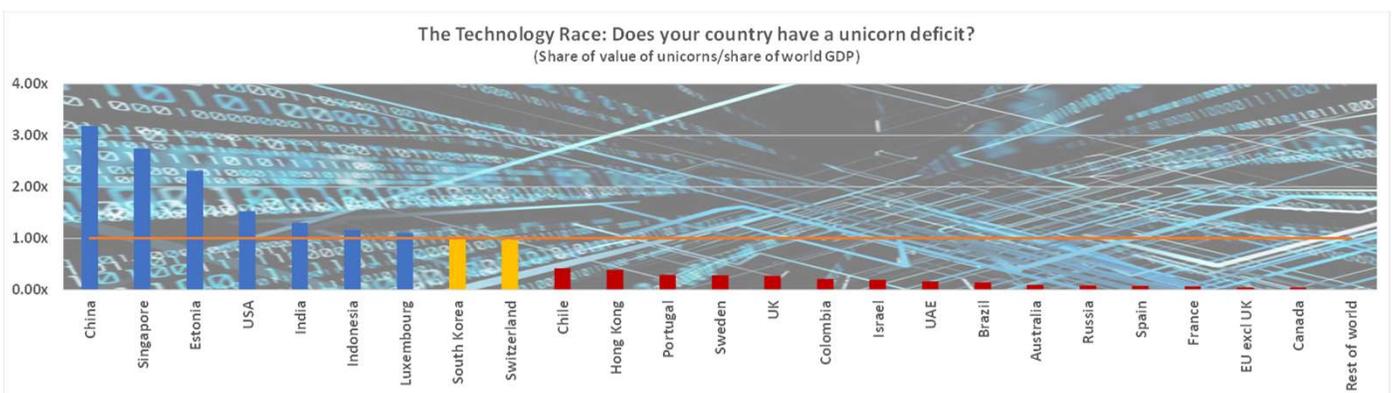
There are several fields in which Australia is particularly well placed as an innovative and entrepreneurial nation. These include:

- ❑ Many areas of **healthcare and life sciences**, witness the success of companies such as Cochlear and CSL;
- ❑ Industries where Australia has longstanding competitive advantage, such as **agriculture, education and tourism**;
- ❑ **B2B technology** businesses, as evidenced by startups such as Atlassian, Canva and Nearmap; and
- ❑ New industries of global significance such as **quantum computing**, where Australia is home to one of the world’s leading research programmes.

*Decisive action is urgent. Like most countries, Australia has a massive deficit in new economy businesses.*

One measure of this is our nation’s share of so-called unicorns – start-up companies that are valued at more than US\$1billion – as shown in the chart below.

Atlassian has shown what is possible with the right idea, strong ambition and a global mindset. Founded by UNSW graduates Mike Cannon-Brookes and Scott Farquhar in 2002, it listed on NASDAQ in 2015 and now has a market value of around A\$37.5 billion.



Winners

Losers





**Government should act as an early mover in adopting new technologies**



**Cut medicine and device approval times to match the USA and Europe**



**Encourage and reward investment in start-up businesses**



**Celebrate entrepreneurship through a national programme of awards**

There are four practical ways in which government should act.

### **Invest in new technologies**

First, governments should set aside at least 1% of relevant budgets (such as technology spend) and dedicate this to trialing new products and services. This addresses one of the most critical barriers to success for B2B tech companies in particular, which is securing early paying customers. Importantly, there should be no requirement to adopt Australian technologies per se. There must, however, be an emphasis on support for companies that have an operational base in Australia and who thus create jobs domestically.

In considering the economics, remember that Australian B2B tech businesses of this nature are typically valued at around 5x revenue. The most successful are valued at 10x to 30x revenue, and indeed higher valuations are more common in the USA and China. In any event, a successful tech start-up that has \$1m of recurring annual revenues might be able to secure a further \$1m of investment for a shareholding of just 10%. Buying their services creates a huge leverage effect when it comes to capital raising.

### **Encourage and reward investment**

Second, government should implement measures that encourage and reward investment in innovative companies. These include IP-rich businesses in areas such as the life sciences which generate globally relevant, defensible IP and significant long-term employment opportunities, as well as start-up businesses more generally. These measures should include implementation of a structure analogous to the US limited liability company, to allow early operating losses to be shared among investors and written off as they are incurred against other taxable income.

Any new tax structure that is proposed should also include measures designed to ensure that ownership of the business and underlying intellectual property

remains onshore in Australia over the medium to long term. These could include higher capital gains taxes for businesses where ownership passes offshore too early, and/or roll-over relief for capital gains on such investments that are reinvested in early stage businesses.

Recent changes in the R&D tax credit regime should also be revisited, given the negative impact on some of Australia's most successful companies, and adjustments should be made to the export market development grant so that it better supports the export of IP-rich services.

### **Cut medical regulatory approval times**

Third, government must act urgently to reduce the length of time taken for new medicines and medical devices to obtain regulatory approval. Australia's current regime takes two to three times as long as those in the USA and EU, meaning that local products are at a dramatic disadvantage compared to those manufactured in major offshore markets. This creates a perverse incentive for Australian businesses to shift manufacturing offshore, as delayed approval locks companies out of around a third of the world market (including China), as those countries require home country approval before local approval is granted.

### **Celebrate successful entrepreneurs**

Finally, to emphasise the importance of entrepreneurship and innovation to Australia's future, the government should implement national "Entrepreneur of the Year" awards, run in an analogous manner to the Australian of the Year awards, to recognise individuals or teams who make an outstanding contribution to the development of Australia's through entrepreneurial activity. Categories might encompass different segments of the economy, including business, agriculture, investment and the government sector itself.

