

AUSTRALIAN INDUSTRY GROUP AND DELOITTE

national **CEO survey:**

Growth strategies for business

October 2010



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preface



Although there are signs the economy is entering a period of sustained growth, businesses have faced challenging conditions over the last year and will continue to do so. This is particularly the case for export and import-competing businesses exposed to the strength of the Australian dollar and other pressures stemming from the mining boom such as labour shortages and interest rate and wages pressures.

Close to one-third of small businesses surveyed for this report recorded reductions in profits over the past 12 months. Moreover, over the past 12 months businesses identified a lack of demand, difficulties obtaining credit, and the strength of the currency as key factors affecting their performance. These challenges remain today.

Businesses generally expect profitability to improve over the next 12 months, with the services sector continuing to grow stronger than the construction or manufacturing sectors. Nonetheless, businesses of all sizes, and from different sectors of the economy, are considering their growth strategies to ensure that their expectations of positive growth become a reality.

A number of factors will determine whether businesses will succeed in the current economic climate. Most of the businesses across all the sectors we surveyed cite cash flow and working capital as being a very important factor in sustaining profit growth. Around one quarter of the businesses consider the inability to obtain finance and the lack of capital to invest to be very important factors. The lack of external finance suggests that the fallout from the global financial crisis is still with us.

Businesses nominated increasing market share as their most important growth strategy, followed by the formation of alliances and/or mergers and acquisitions. Not unexpectedly, retained earnings are the most preferred source of finance for businesses over the next two years.

The need for skilled labour to achieve growth is also evident. Approximately half the businesses surveyed consider the shortage of skilled expertise and/or labour to be a somewhat important factor in sustaining profit growth, a finding consistent with other recent Ai Group research. Nonetheless, three quarters of all businesses intend hiring additional staff in the next one to two years, a result consistent between private and public businesses; with larger public businesses expected to have a greater propensity to hire staff. Moreover, talent management & human resources is rated by nearly 20% of respondents as the highest priority for sustaining growth.

Business growth will not just happen by accident. This report identifies a number of priority areas where businesses require expertise beyond their own capabilities in order to achieve their growth objectives during the economic upturn. For example, just over one in five of all participants indicate strategic planning as the highest priority area for which they require external assistance. Talent management & human resources is rated as the highest priority by 18.6% of all respondents and 12.1% consider process improvements (business workplace practices) the highest priority.

Overall, businesses identified protecting the economy from a recession as the highest priority for governments. Moreover, businesses face intense structural pressures during the economic upturn as a result of a high exchange rate, increasing interest rates and input costs and unbalanced growth. Governments need to give priority to putting in place policies to support a diverse and balanced economy in Australia. These include a greater emphasis on education and training and innovation policies that encourage business renewal and practical research and development activities.

Reducing regulatory red tape is another important priority area that businesses are seeking action from governments. For small businesses in particular, protecting the economy from recession and reducing red tape are equally important. These results suggest that small businesses may face a disproportionate burden from excessive and unnecessary regulatory red tape. Infrastructure provision by governments is seen as a relatively important priority by the largest businesses with one in five respondents with annual turnover of over \$200 million suggesting this is a priority.

The clear message in the survey for governments is the need to maintain a multi-dimensional approach to facilitating business growth. For businesses to realise their growth objectives during the economic upturn, action by business and governments will be required across the range of areas highlighted by this report.

A handwritten signature in black ink, appearing to read 'A. M. Ridout'.

Heather Ridout
Chief Executive
Australian Industry Group



Deloitte Private is pleased to collaborate with the Australian Industry Group on the Growth Survey for private and public businesses. The results indicate the importance, for both private and public businesses, of sustaining profit growth by managing their cash flow and having credit more readily available. This is parallel to what we have experienced in Deloitte Private with clients rating access to finance as a key concern.

Unsurprisingly business confidence has taken a bumpy road over the last 18 months across two of the three key industry sectors which were included in the survey - manufacturing and construction. Profit growth is the real indicator of a company's success. Interestingly, the businesses which were surveyed across the services sector, reported stronger profit growth than those surveyed in the manufacturing and construction sectors. This could be due in part to a strong Australian dollar which forced exports to be priced higher.

Funding sources

Clearly business confidence is currently being impacted differently depending on an organisation's size. Smaller businesses, in particular, found funding constraints stifled their growth opportunities. Larger businesses have handled recent economic challenges better than smaller entities, supporting the notion that business size is important - this highlights just how vital successful growth strategies are for all businesses.

A priority for CEOs and business owners will be to focus on the quality of their products and services so they can differentiate themselves and have a better chance of obtaining finance and accessing capital to aid their future growth.

This challenge needs to be treated as a serious business issue, particularly as growth in Asian countries is projected to remain strong, which in turn is likely to lead to an increased demand for Australian resources. Those businesses that are ready and able to capitalise on these opportunities will win in the medium term.

Deloitte Private's own research, as well as this survey, has again raised the issue regarding the importance of retaining the right people with the right skills to help businesses grow and prosper. As our economy improves, skills shortages are surfacing again, which demands that organisations need to continue focusing on innovative ways to develop and retain their people.

Importance of knowing your customer

During challenging economic conditions, businesses strive to maintain their existing customer base, sometimes at the expense of profit.

This is not a viable long term option and it is now timely for companies to focus on their profitable customers to drive their profit growth.

However, in the process of doing this, businesses need to be mindful that customer expectations and market dynamics may have changed due to innovative business strategies and tactics that had possibly been implemented by their competitors, during the tougher times. It may be worthwhile for businesses to examine their industry and their competition to determine whether the bar has been permanently raised in terms of retaining and winning customers.

The winners

Businesses who can retain their top people and focus on their profitable clients should succeed in increasing their market share through organic or merger/acquisition opportunities. Access to finance for their growth plans will be easier to obtain for these entities.

David Murray
National Leader
Deloitte Private

executive summary

key findings

Current growth strategies

The growth strategies taken by businesses vary between sectors and by size of business. In summary:

- Businesses consider increasing market share as the most important growth strategy, followed by the formation of alliances and/or mergers and acquisitions.
- Alliances and/or mergers and acquisitions is regarded as the second most important growth strategy in the manufacturing and construction sectors, whereas it is adding value to existing products or services for the services sectors.
- These results are likely to reflect the higher need to exploit economies of scale in manufacturing and construction businesses in order to improve cost competitiveness.

Funding sources

- Retained earnings are the most preferred source of finance for businesses over the next two years. This result is expected as borrowing costs are likely to increase in the foreseeable future.
- Businesses generally plan to rely on retained earnings to finance attempts to increase their respective market shares over the forthcoming economic upturn.

Supplementing existing capabilities

Businesses identified a number of priority areas where they require external assistance in order to achieve their growth objectives during the economic upturn:

- Just over one in five of all respondents indicate strategic planning as the highest priority area requiring external assistance to help them prepare for an upturn in the economy.
- Talent management & human resources is rated as the highest priority by 18.6% of all respondents and 12.1% ranked process improvements (business workplace practices) as the highest priority.

- The priority areas vary by sector and business size. Private businesses state strategic planning as the highest priority whereas public businesses consider talent management & human resources their highest priority.
- Strategic planning is rated the highest priority by construction sector respondents whereas process improvements is the most important factor for manufacturing businesses. Services sector businesses suggest talent management & human resources requires the most external assistance.
- Strategic planning is the highest ranked area for smaller businesses, with medium to larger businesses listing talent management & human resources as the highest priority area.

Priorities for governments

- Businesses identified the macroeconomic policy function of protecting the economy from a recession as the highest priority for governments. Over a quarter of all respondents cited this as the highest priority. This result differs between private and public businesses, with private businesses more demanding of this priority for governments. Businesses in the services and manufacturing sectors tend to place this as the highest priority.
- Moreover, businesses face intense structural pressures during the economic upturn as a result of a high exchange rate, increasing input costs and unbalanced growth. Governments need to give priority to putting in place policies to support a diverse and balanced economy. These include a greater emphasis on education and training and innovation policies that encourage business renewal and practical research and development activities.
- Governments' reducing regulatory red tape is also an important priority with one in five of all respondents rating this as the highest priority.
- Reducing red tape is equally important to the smallest businesses as a government priority in addition to protecting the economy from recession. These results suggest that small businesses may face a disproportionate burden from excessive and unnecessary regulatory red tape.
- Infrastructure provision by governments is seen as a relatively important priority by the largest businesses with 22.2% of respondents with annual turnover of over \$200 million suggesting this is a priority.

Profit growth: trends and expectations

Despite the Australian economy recording solid growth over the past year, a number of businesses faced challenging business conditions over this period and continue to do so:

- Small businesses faced particularly testing conditions, with close to one third of small businesses recording negative profit growth over the past 12 months.
- Businesses identified a lack of demand, difficulties obtaining credit, and the strength of the currency as key factors affecting their performance.
- Businesses in the services sector generally reported stronger profit growth than those in the manufacturing and construction sectors.
- Businesses generally expect profitability to improve over the coming 12 months, with the services sector continuing to grow stronger than the construction and manufacturing sectors.
- In line with an improved profit outlook for the year ahead, businesses believe that their ability to prepare for an upturn in the economy will be a key factor affecting their performance.
- Skill shortages have previously been identified as a key concern for a number of businesses and the availability of skilled labour continues to be viewed as important to operations. Also, the retention of staff is cited as an important issue in the services and construction sectors.
- Businesses report that management capability and product quality are the two most important drivers of their growth.

Sustaining profit growth: factors impacting on businesses

A number of factors are identified as critical to the profit growth of businesses:

- Most businesses cite cash flow and working capital as being a very important factor in sustaining profit growth.
- Just less than one quarter of the businesses surveyed consider the inability to obtain finance and the lack of capital to invest to be very important factors.
- The high level of concern for cash flow and working capital is shared by most businesses in the manufacturing, services and construction sectors.

- The manufacturing and construction businesses appear more concerned about domestic economic conditions compared with those in the services sector.
- Approximately half of the businesses surveyed consider the shortage of skilled expertise and/or labour to be a somewhat important factor in sustaining profit growth. Businesses generally regard labour constraints as an important rather than a very important factor in sustaining profit growth.
- This view among businesses may however change as the current slackness in the Australian labour market dissipates following stronger growth in the Australian economy and labour shortages may once again emerge as a very important concern.

Hiring intentions

- The outlook for employment growth is positive across industry sectors and by size of business. Three quarters of all businesses intend hiring additional staff in the next one to two years, a result consistent between private and public businesses.
- Larger businesses are expected to have a greater propensity to hire staff in the next one to two years. Almost 90% of businesses with annual turnover of over \$200 million intend to hire additional staff in the next one to two years.
- In contrast, two thirds of smaller businesses with turnover less than \$10 million are expected to hire additional staff in the next one to two years.
- The construction sector is the most likely to hire additional staff in the next one to two years, with 85.7% of construction sector respondents indicating hiring intentions. This compares to 76.6% for the services sector and 73.6% for the manufacturing sector.

background

In order to better understand the growth strategies of private and public businesses, the Australian Industry Group and Deloitte Touche Tohmatsu undertook a comprehensive survey of Australian business CEOs in August 2010. The survey focuses on the approaches and strategies that businesses are adopting to meet their business objectives. The survey also investigates the factors that may constrain growth in the near future that require attention, including by governments.

Details of businesses in the study

The findings of the survey are based on the responses of CEOs from 378 businesses. The businesses employ around 55,900 people of which 79% are classified as full-time employees.

The data covers 25 industries and has been aggregated into the three key sectors of manufacturing, construction and services.

The majority of respondent businesses operate and achieve sales only within Australia (77%) while 23% report operating in both Australia and in international markets. Almost three quarters (73.8%) of the businesses that responded are private Australian businesses while 22.2% indicated that they are listed public Australian businesses (Chart 1).

As shown in Chart 2, the manufacturing sector contributed the highest proportion of respondents (50.4%); the services sector accounted for 37.1% of all respondents; while 9.3% of responses were provided by the construction sector. The high proportion of manufacturing businesses included in the final analysis means that the overall findings are weighted towards this sector.

The distribution of turnover across respondents is wide (Chart 3), reflecting the broad range of business sizes involved in the survey. However, the distribution is skewed towards smaller turnover levels with one half of all respondents categorising their expected turnover in 2010/11 as either less than \$10 million (22.5%) or between \$10 million and \$50 million (27.8%). In contrast 20.6% of respondents expect their turnover in 2010/11 to be in the range of between \$51 million and \$200 million, while 14.8% expect more than \$200 million of annual turnover.

Chart 1: Businesses by ownership

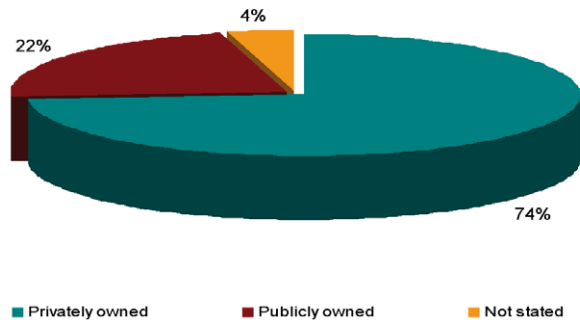


Chart 2: Businesses by sector

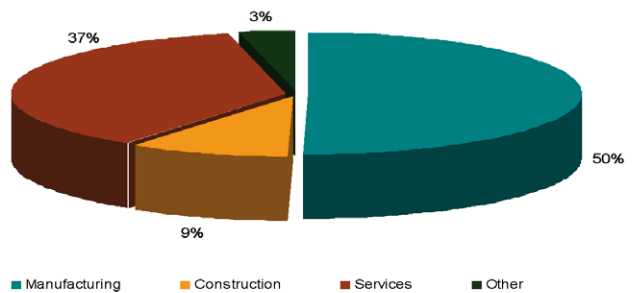
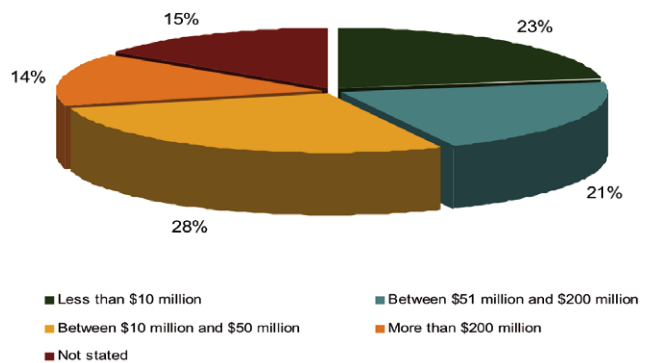


Chart 3: Businesses by turnover



Profit growth: trends and expectations

key findings:

- Despite the Australian economy recording solid growth over the past year, a number of businesses faced challenging business conditions over this period.
- Small businesses face particularly testing conditions, with close to one third of small businesses recording negative profit growth over the past 12 months.
- Businesses identified a lack of demand, difficulties obtaining credit, and the strength of the currency as key factors affecting their performance.
- Businesses in the services sector generally reported stronger profit growth than businesses in the manufacturing and construction sectors.
- In aggregate businesses generally expect profitability to improve over the coming 12 months, with the service sectors expected to grow more strongly than the construction and manufacturing sectors.
- In line with the improved profit outlook for the year ahead, businesses believe that their ability to prepare for an upturn in the economy will be a key factor affecting their performance.
- Skill shortages have already been identified as a key concern for a number of businesses, while the retention of staff is also cited as an important issue in the services and construction sectors.
- Businesses report that quality of management and products are the two most important drivers of their business growth.

A number of businesses continue to face challenging conditions

Chart 4 shows that profit performance over the past 12 months was mixed; close to 30% of the businesses surveyed recorded double digit profit growth, while one quarter of businesses recorded negative growth.

The profit performance of businesses in the services sector was generally reported to have been stronger than businesses in the manufacturing and construction sectors. Roughly half of the businesses surveyed from the services sector reported profit growth between 0 - 10%, and close to one quarter of businesses reporting growth in excess of 20%.

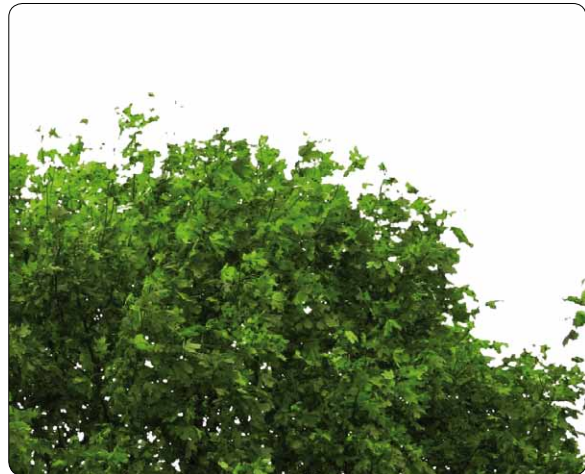


Chart 4: Profitability growth over the previous 12 months and expectations for the next 12 months

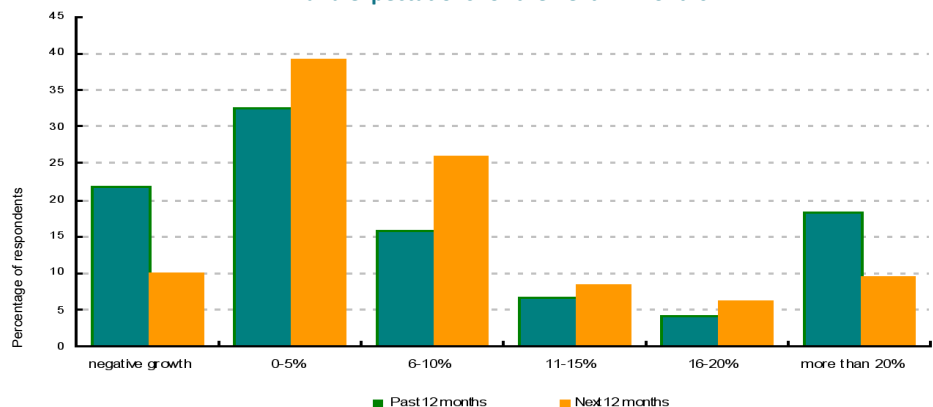


Chart 5 shows that small businesses face particularly challenging conditions, with close to one third of businesses recording negative profit growth over the past year.

Larger businesses generally recorded stronger profit growth than smaller businesses. Around 25% of businesses with a turnover above \$25 million reported profit growth in excess of 20%, while less than 10% of businesses with a turnover above \$200 million recorded negative profit growth.

Looking ahead, businesses generally expect profitability to improve over the coming 12 months, with the services sector continuing to grow stronger than the construction and manufacturing sectors. Reflecting the waning influence of government stimulus measures, and the prevalence of on going subdued demand conditions in the house building, apartments and commercial construction sectors, close to 20% of construction businesses expect to record negative profit growth over the next 12 months.

Positioning for an economic upturn and strength of the currency are key concerns

Businesses identified the issue having the greatest impact on their operations (Chart 6). In line with the improved profit outlook for the year ahead, 14% of businesses regard their ability to prepare for an upturn in the economy as a key factor affecting their performance. This is particularly important for businesses in the construction sector, with close to one quarter of the construction businesses surveyed citing this as the most important issue affecting their performance.

The current strength of the Australian dollar is selected by 14% of businesses, and is a particular concern for businesses in the manufacturing sector due to exporting issues. A number of businesses also note that increased import competition is a key concern. Approximately 12% of businesses cite credit conditions, and a number of businesses also consider the level of demand as a significant concern.

Chart 5: Profitability over the previous 12 months by business size

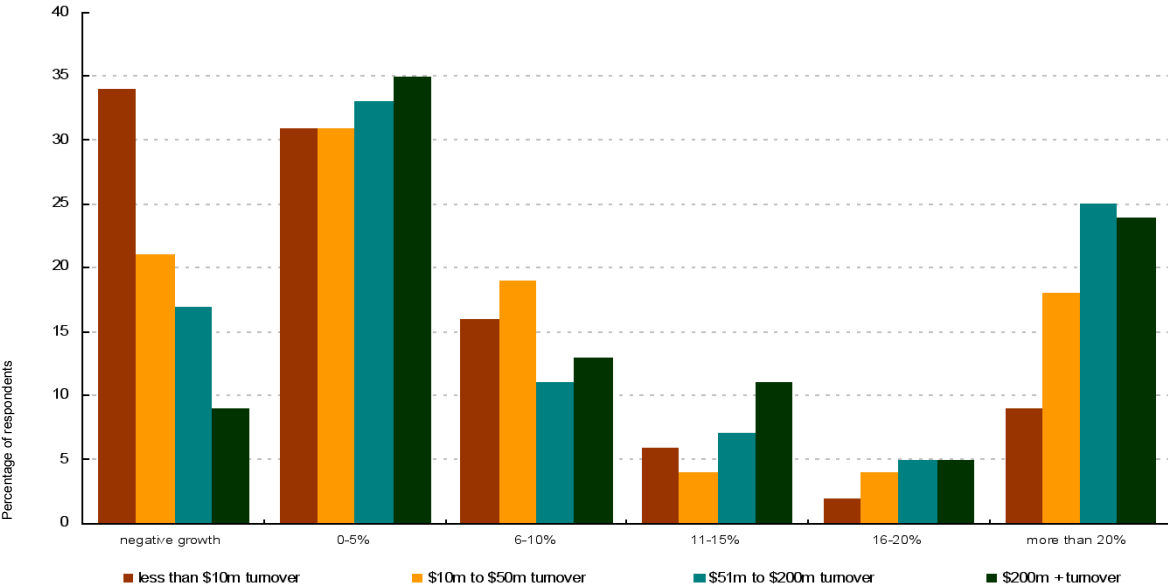
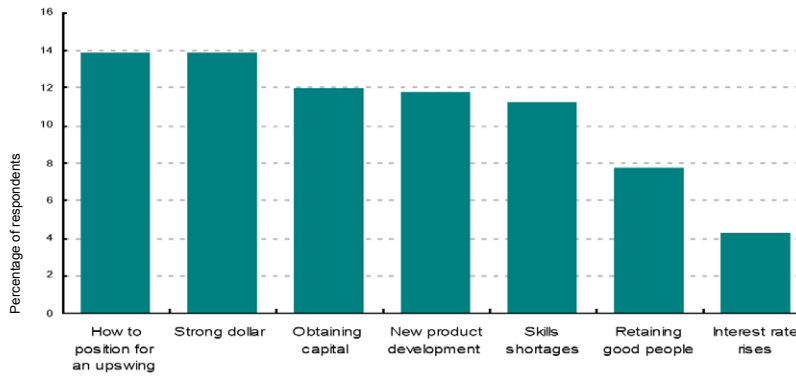


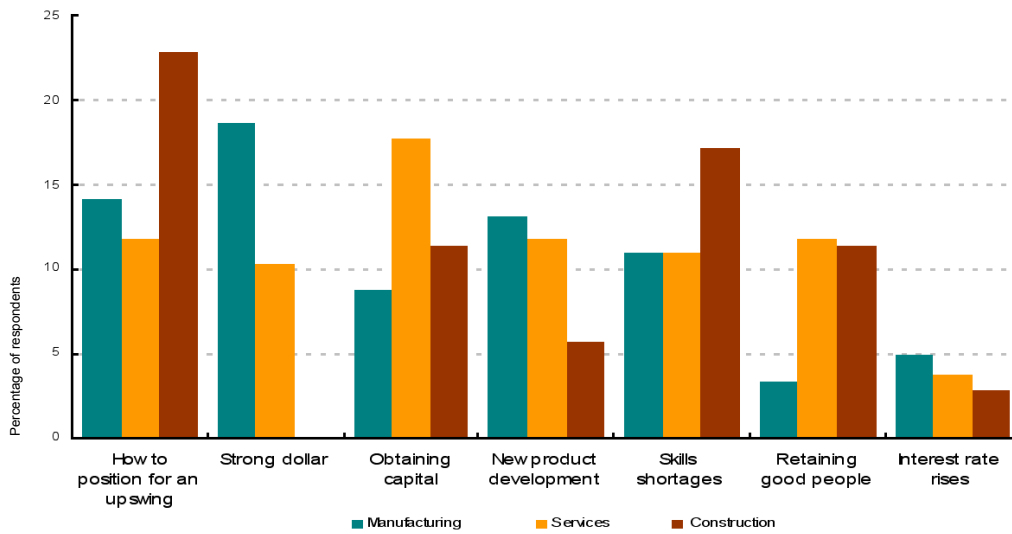
Chart 6: Key issues in business profitability



Around 11% of businesses report that skill shortages are a critical issue, while the retention of staff is also considered a key concern in the services and construction sectors.

Less than 5% of respondents see rising interest rates as the key issue currently affecting their performance (Chart 7).

Chart 7: Key issues in business profitability by sector



Product quality and management are the key drivers of business growth

Businesses identified the key drivers of their business growth (Chart 8). Approximately 40% of businesses suggest that product quality is the most important driver of their growth. Management is the second most significant factor, followed by service standards. Less than 10% of businesses suggest that their ability to attract and retain quality staff is the most significant driver of their business growth.

Chart 8: Key drivers of business growth

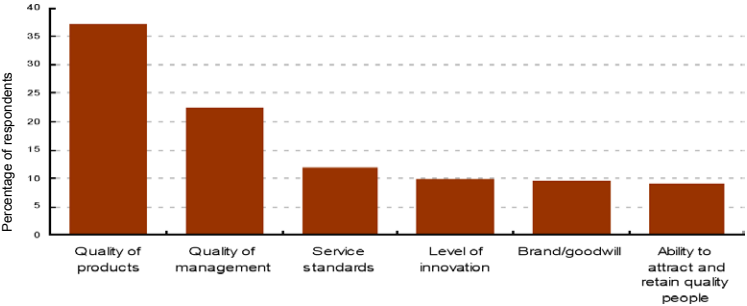
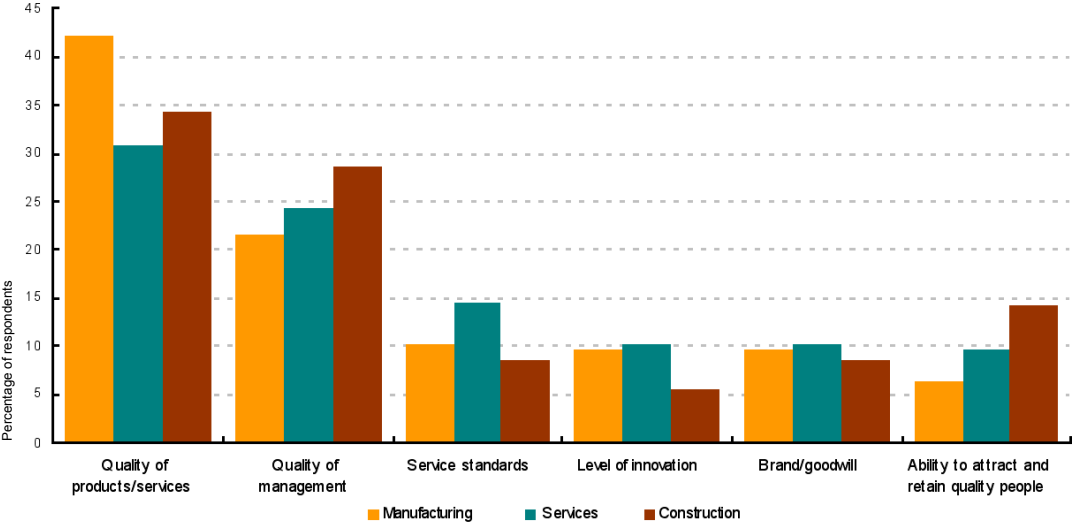


Chart 9 shows that the results regarding drivers of business growth are fairly consistent across sectors, with product quality and management consistently regarded as the key drivers of business growth. The ability to attract and retain quality staff is currently a more significant factor in the construction sector than in the manufacturing or services sectors.

Chart 9: Key drivers of business growth by sector



Sustaining profit growth

key findings:

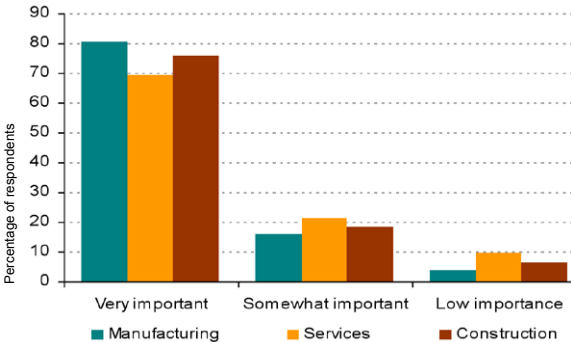
- Most businesses cite cash flow and working capital as being a very important factor in sustaining profit growth over the medium to longer term.
- Just less than one quarter of businesses consider the inability to obtain finance and the lack of capital to invest to be very important factors.
- The high level of concern for cash flow and working capital is shared by most businesses in the manufacturing, services and construction sectors.
- Relative to businesses in the services sector, the manufacturing and construction businesses are more concerned about domestic economic conditions.
- Businesses across the manufacturing, services and construction sectors continue to view the availability of skilled labour as being important to business operations.
- Close to half of businesses in the manufacturing, services and construction sectors consider the shortage of skilled expertise and/or labour to be a somewhat important factor in sustaining profit growth.
- Businesses generally regard labour constraints as an important rather than a very important factor in sustaining profit growth. This view among businesses may change however, as the current slackness in the Australian labour market dissipates following stronger growth in the Australian economy. Hence, labour shortages may once again emerge as a very important concern.

Business finance

Businesses identified factors important to sustaining profit growth over the medium to longer term. Around three quarters (75.4%) of businesses surveyed cite cash flow and working capital as being a very important factor in sustaining profit growth.

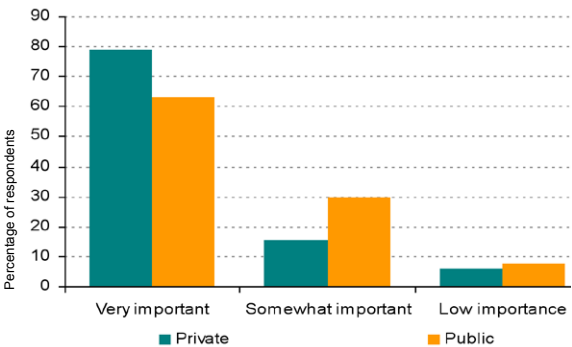
There are little differences in sectors considering cash flow and working capital to be a very important factor in sustaining profit growth. Around 80% of manufacturing businesses considered it very important while for the construction and services sectors it was very important for 76% and 70%, respectively (Chart 10).

Chart 10: Importance of cash flow and working capital as a factor in sustaining profit growth by sector



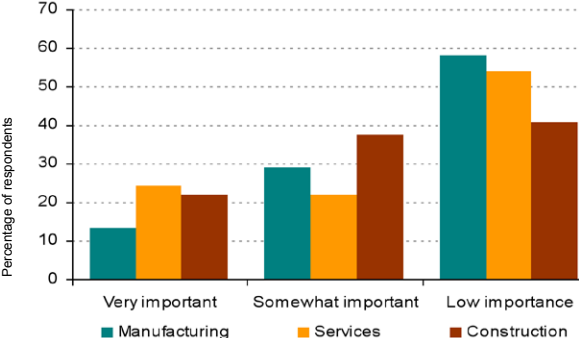
Almost 80% of private businesses regard cash flow and working capital as being a very important factor, while the percentage for public businesses is just over 60% (Chart 11).

Chart 11: Importance of cash flow and working capital as a factor in sustaining profit growth by ownership



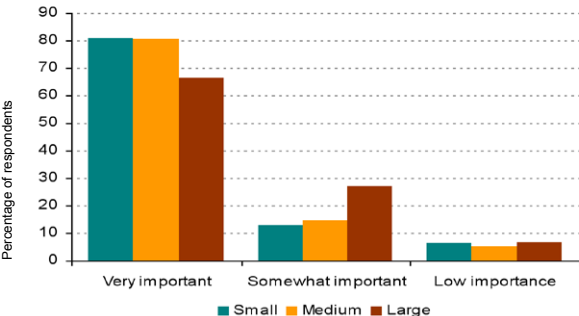
An average of around 20% of all manufacturing, services and construction businesses surveyed consider the inability to obtain finance and the lack of capital to invest to be very important factors (Chart 12).

Chart 12: Importance of the lack of capital to invest as a factor in sustaining profit growth by sector



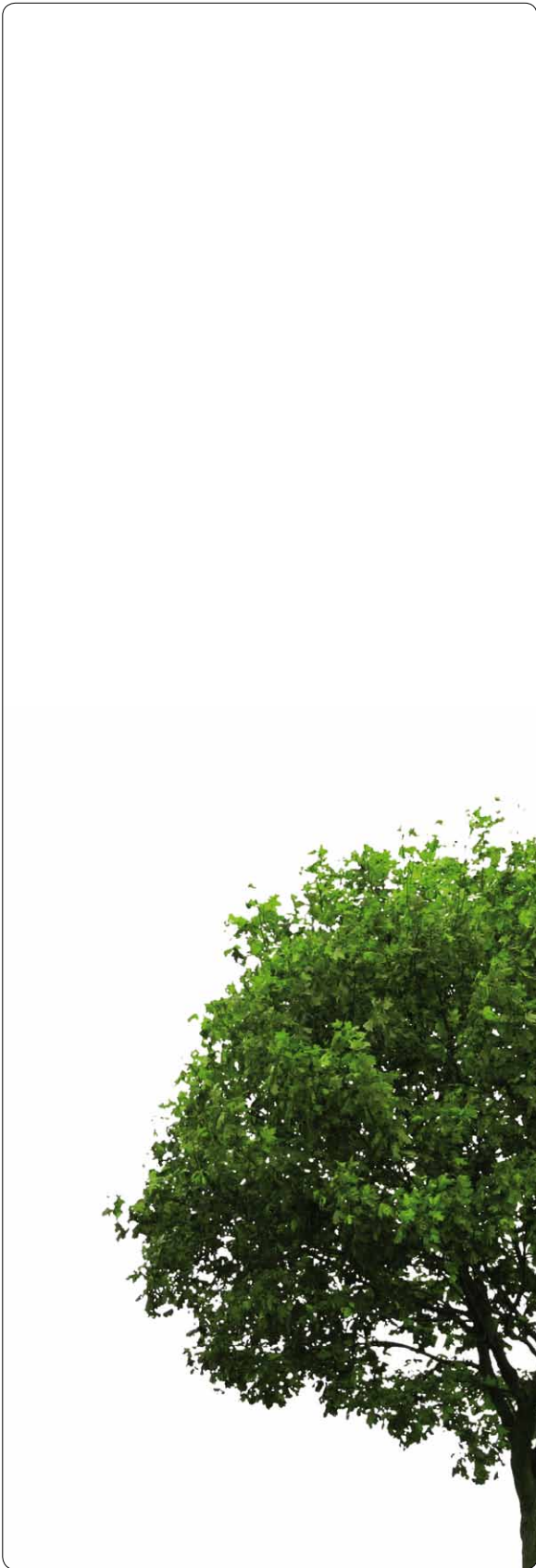
The importance of cash flow and working capital as a factor in sustaining profit growth varies somewhat across business size (Chart 13). Close to three quarters of small, medium and large businesses regard cash flow and working capital as being a very important factor, while around 20% of businesses regard the inability to obtain finance and the lack of capital to invest to be very important factors.

Chart 13: Importance of cash flow and working capital as a factor in sustaining profit growth by business size



The high level of concern for cash flow and working capital is shared by most businesses in the manufacturing, services and construction sectors. Again, the same trend is seen in both private and public businesses.

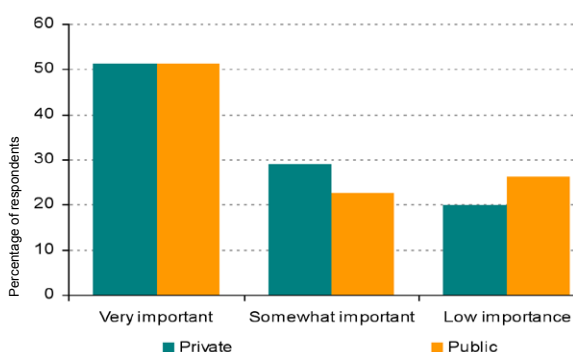
These results show most businesses intend to rely on retained earnings, rather than bank loans and equity capital, to finance future business operations.



Economic climate

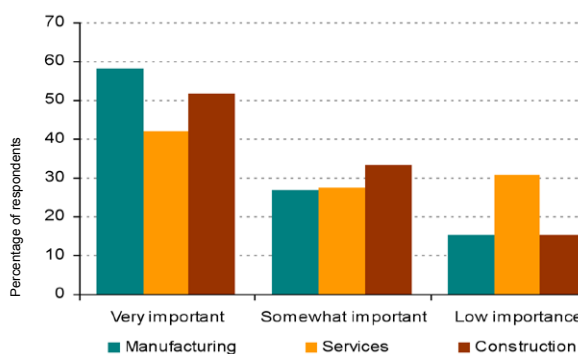
The survey results show that around 50% of both private and public businesses regard weak consumer sentiment and/or a drop in sales as being a very important factor in sustaining profit growth, with the remaining businesses fairly equally split regarding this factor as being somewhat important or a matter of low importance (Chart 14). Further, close to 30% of businesses surveyed cite the limited size of the domestic economy as a very important factor, adding support to the view that businesses are somewhat concerned about domestic economic conditions.

Chart 14: Importance of weak consumer sentiment/drop in sales as a factor in sustaining profit growth by ownership



These trends are generally evident across businesses of different sizes and different sectors. The percentage of manufacturing and construction businesses that consider weak consumer sentiment and/or a drop in sales as a very important factor in sustaining profit growth exceed 50%, compared to 42% in the services sector (Chart 15). This indicates that manufacturing and construction businesses are relatively more concerned about the domestic economic climate.

Chart 15: Weak consumer sentiment/drop in sales as a factor by sector

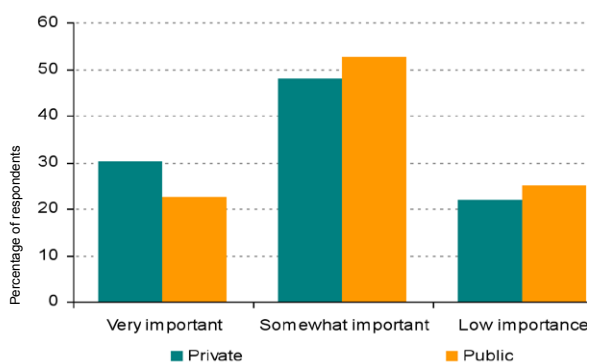


Of note, less than half of the businesses in the services sector consider weak consumer sentiment and/or a drop in sales as being a very important factor in sustaining profit growth, and only 18.8% of businesses in the services sector believe the limited size of the domestic economy is a very important factor. This implies that the services sector is fairly positive about the business outlook for the Australian economy, despite sluggish activity recorded across the sector in recent months.

Skilled labour constraints

Businesses continue to view the availability of skilled labour as being important to business operations. Nearly half of both private and public businesses consider the shortage of skilled labour to be a somewhat important factor in sustaining profit growth (Chart 16). In addition, around half of all businesses surveyed regard staff retention as a somewhat important factor.

Chart 16: Importance of shortage of expertise/skilled labour as a factor in sustaining profit growth by ownership



Businesses generally regard labour constraints as an important rather than a very important factor in sustaining profit growth. These results tentatively indicate that businesses may not anticipate skilled labour shortages to become very acute in the current economic upswing. This view among businesses may however change as the current slackness in the Australian labour market dissipates following stronger growth in the Australian economy.

The construction sector is more likely to view labour shortages and staff retention as very important relative to the manufacturing and services sectors (Charts 17 and 18). Charts 17 and 18 show that construction businesses are perhaps anticipating a robust pick-up in construction activity in the period ahead, and therefore retaining sufficient workers with the relevant skills will be important to ensuring sustained profit growth.

Chart 17: Shortage of expertise/skilled labour by sector

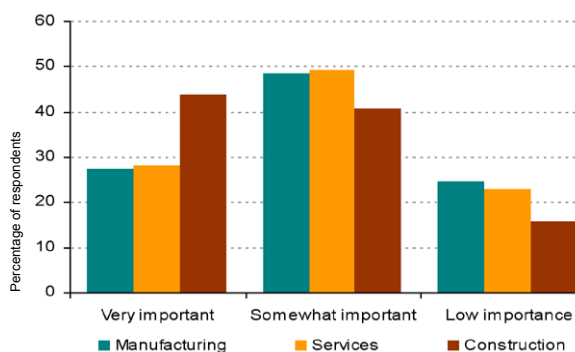
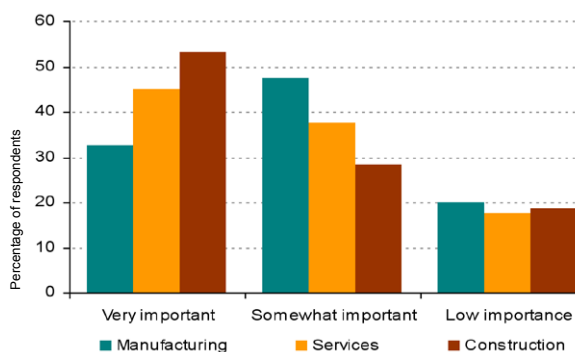


Chart 18: Staff retention by sector



Of note, construction is the only sector where the majority of businesses view staff retention as a very important factor in sustaining profit growth.

Current growth strategies

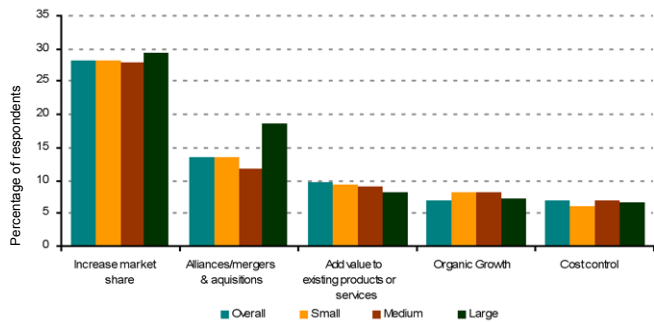
key findings:

- Businesses rank increasing market share as their most important growth strategy, followed by the formation of alliances and/or mergers and acquisitions.
- Alliances and/or mergers and acquisitions is regarded as the second most important growth strategy in the manufacturing and construction sectors, whereas for the services sector it is adding value to existing products or services.
- This reflects the higher need to exploit economies of scale in manufacturing and construction businesses in order to improve cost competitiveness.

Increasing market share is a key to growth

Businesses indicated the strategies they considered most important for growth. For 28.3% of all businesses surveyed, this was increasing market share (Chart 19), followed by alliances and/or mergers and acquisitions, which account for 13.6% of responses. The third most important strategy is adding value to existing products or services.

Chart 19: Most important growth strategy



Increasing market share is consistently the most important growth strategy for businesses. This result is constant across industry sector and private or public ownership structures (Charts 20 and 21).

Chart 20: Most important growth strategy by sector

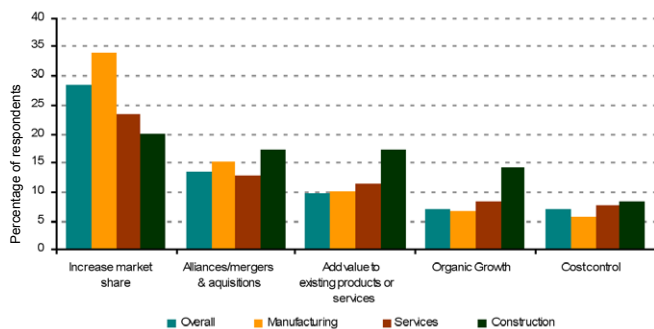
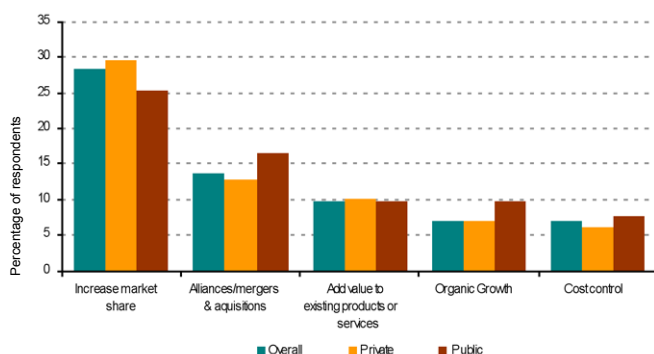


Chart 21: Most important growth strategy by ownership



Alliances and/or mergers and acquisitions is regarded as the second most important growth strategy in the manufacturing and construction sectors, whereas it is adding value to existing products or services for the services sector. This indicates the higher need to exploit economies of scale in manufacturing and construction businesses in order to improve cost competitiveness.

Funding sources

key findings:

- Businesses rank retained earnings as the most preferred source of finance over the next one to two years. This is expected as borrowing costs are likely to increase in the foreseeable future.
- Overall, the survey results suggest that businesses plan to rely on retained earnings to finance attempts to increase their respective market shares over the forthcoming economic upturn.

Retained earnings favoured

An overwhelming majority of businesses rank the use of retained earnings as their preferred way to finance growth plans over the next one to two years. The next preferred source of finance is bank debt. Of the businesses that stated their preferred source of finance, 64.5% cite retained earnings while 17.8% point to bank debt (Chart 22).

Chart 23: Most preferred source of funding by sector

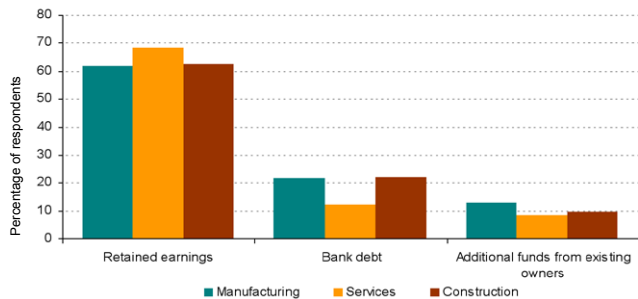
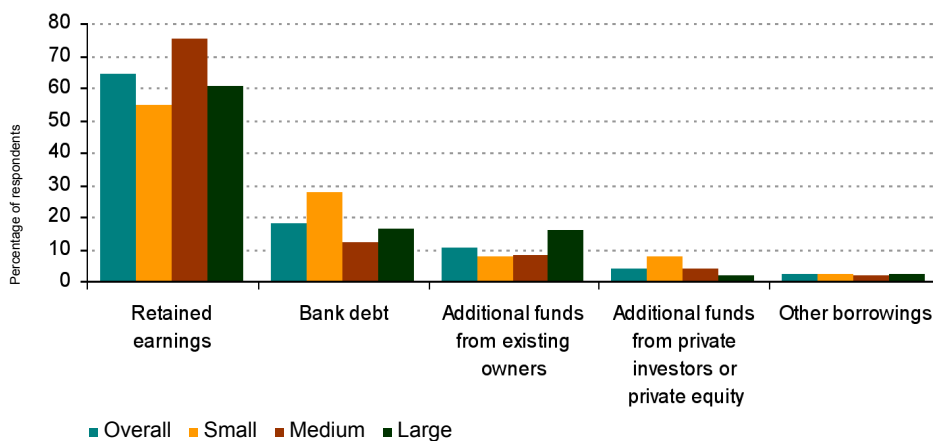


Chart 22: Most preferred source of funding



Across business size, retained earnings is also the preferred source of funding, followed by bank debt (Chart 22). More than 70% of medium sized businesses state this as their first preference, followed by small businesses and large businesses (54% and 52%, respectively). Across sectors retained earnings is also the most preferred source of funding by businesses (Chart 23).

Supplementing existing capabilities

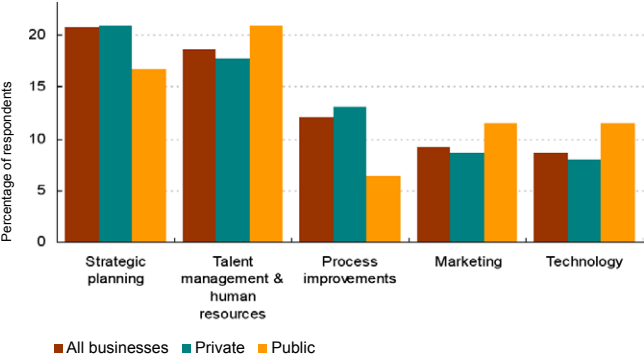
key findings:

- Just over one in five of all respondents indicate strategic planning is the highest priority area requiring external assistance to help them prepare for an upturn in the economy.
- Talent management & human resources is rated as the highest priority by 18.6% of all respondents, while 12.1% ranked process improvements (business workplace practices).
- The priority areas for assistance vary by business size and sector. Private businesses consider strategic planning the highest priority whereas public businesses rank talent management & human resources as their highest priority.
- Strategic planning is rated the highest priority by construction sector businesses whereas process improvements is the most important factor for manufacturing businesses. Services sector businesses nominate talent management & human resources as requiring most external assistance.
- Strategic planning is the highest ranked area for smaller businesses, with medium to larger businesses rating talent management & human resources as the highest priority area.

Businesses identified areas of activity requiring external assistance in order to help them prepare for an upturn in the economy. Just over one in five of all respondents indicate strategic planning as the highest priority area. Talent management & human resources is rated highest by 18.6% of all respondents and 12.1% rank process improvements (business workplace practices) as the highest priority. This is followed by marketing (9.2%) and technology (8.7%).

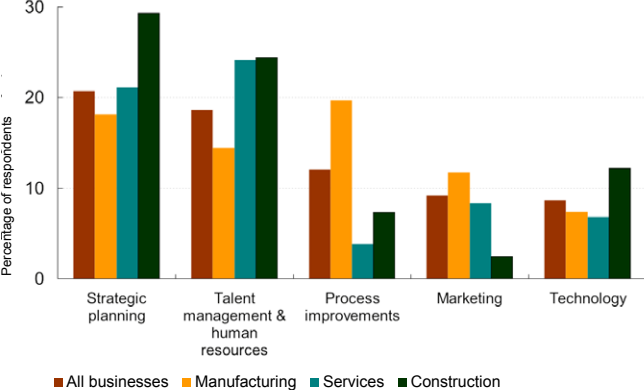
Private businesses indicate strategic planning is the highest priority whereas public businesses rank talent management & human resources as the highest priority (Chart 24). External assistance with process improvements is also more important to private businesses than public businesses. Public businesses indicate greater attention needs to be paid to marketing and utilising technology.

Chart 24: Highest ranked area requiring external assistance in preparation for economic upturn



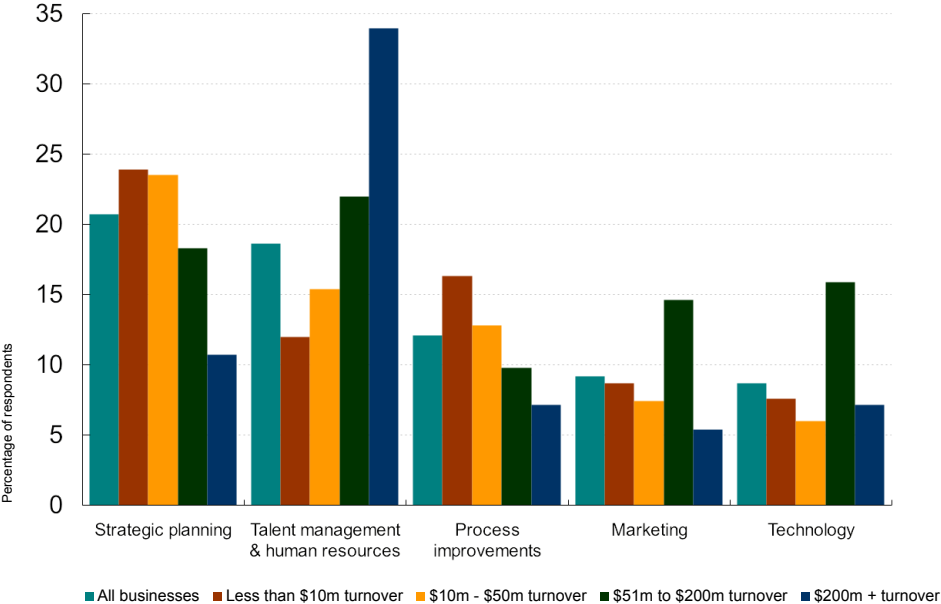
The rankings of areas requiring external assistance in preparation for an economic upturn also varied by sector: strategic planning is rated the highest by construction sector businesses whereas manufacturing businesses indicate process improvements as the highest priority. Services sector businesses put emphasis on talent management & human resources as requiring most external assistance (Chart 25).

Chart 25: Highest ranked area requiring external assistance in preparation for economic upturn by sector



Strategic planning is the highest ranked area for smaller businesses, with medium to larger businesses citing talent management & human resources as the highest priority area requiring external assistance. One in three of the largest businesses (with over \$200 million in annual turnover) suggest talent management & human resources as the highest priority for external assistance while 22% of businesses with annual turnover in the \$51 million to \$200 million range rank this area as the highest priority (Chart 26).

Chart 26: Highest ranked area requiring external assistance in preparation for economic upturn by business size



Hiring intentions

key findings:

- The outlook for employment growth is positive across industry sectors and by size of business. Three quarters of all businesses intend hiring additional staff in the next one to two years, a result consistent between private and public businesses.
- Larger businesses are expected to have a greater propensity to hire staff in the next one to two years. Almost 90% of businesses with annual turnover of over \$200 million intend to hire additional staff in the next one to two years.
- In contrast, two thirds of smaller businesses with turnover less than \$10 million are expected to hire additional staff in the next one to two years.
- The construction sector is the most likely to hire additional staff in the next one to two years, with 85.7% of construction sector respondents indicating hiring intentions. This compares to 76.6% for the services sector and 73.6% for the manufacturing sector.

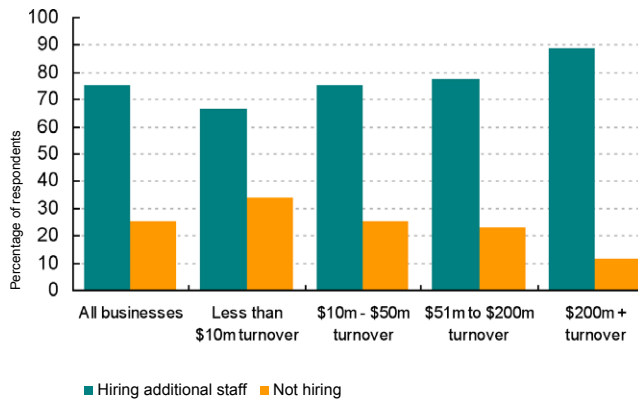
Most businesses surveyed intend hiring additional staff in the next one to two years. Three quarters of all respondents indicated they intend hiring staff in the next one to two years, a result consistent between private and public businesses.

Larger businesses are likely to have a greater propensity to hire additional staff. Chart 27 shows that 88.4% of businesses with annual turnover of over \$200 million intend to hire additional staff in the next one to two years. Similarly, 77.4% of businesses with annual turnover between \$51 million and \$200 million intend to hire additional staff in the next one to two years.

Three quarters of businesses with annual turnover between \$10 million and \$50 million anticipate hiring additional staff in the next one to two years.

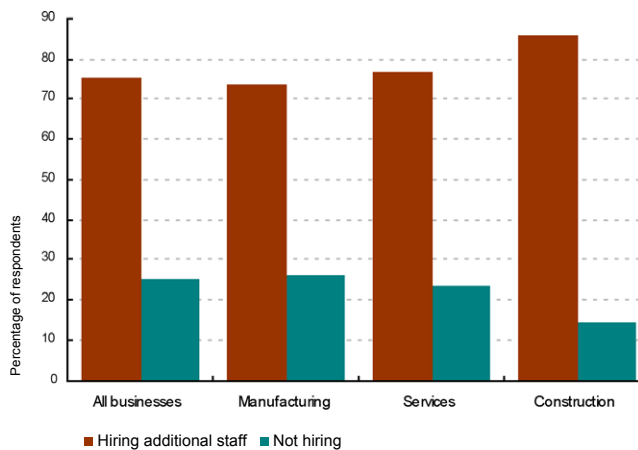
With regard to smaller businesses, two thirds of businesses with turnover less than \$10 million are expected to hire additional staff in the next one to two years.

Chart 27: Hiring intentions for next 1-2 years by business size



The construction sector is the most likely to hire additional staff in the next one to two years, with 85.7% of construction sector respondents indicating hiring intentions. This compares to 76.6% for the services sector and 73.6% for the manufacturing sector (Chart 28).

Chart 28: Hiring intentions for next 1-2 years by sector



Priorities for governments

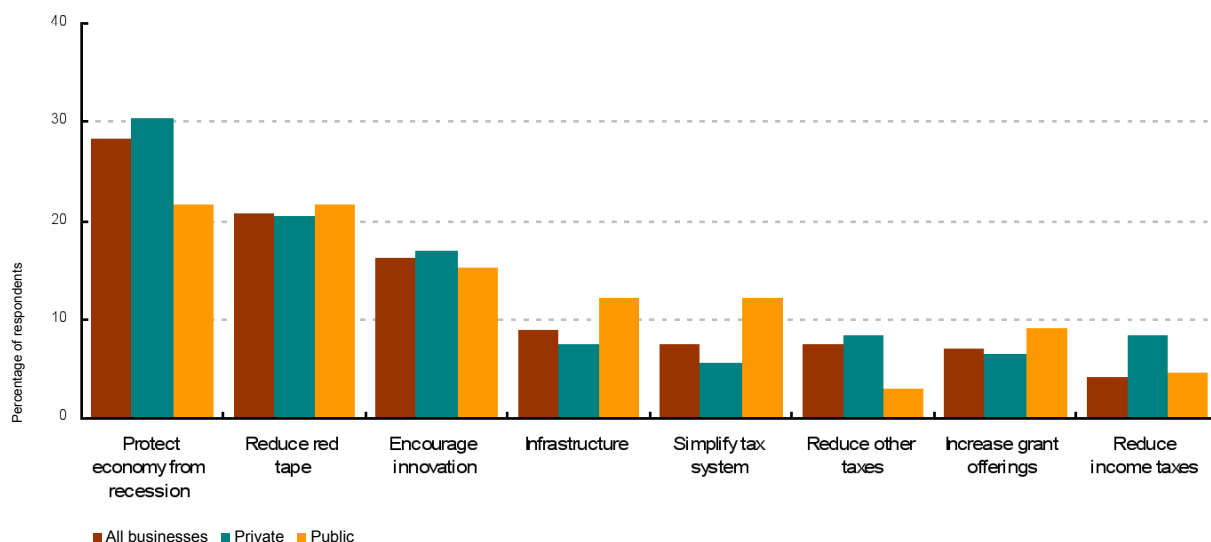
key findings:

- Businesses identified the macroeconomic policy function of protecting the economy from a recession as the highest priority for governments. Over a quarter of all respondents cite this as the highest priority. This result differed between private and public businesses, with private businesses more demanding of this priority for governments. Businesses in the services and manufacturing sectors tended to place this as the highest priority. Moreover, governments need to give priority to putting in place policies to support a diverse and balanced economy.
- Governments' reducing regulatory red tape is also an important priority with one in five of all respondents rating this as the highest priority.
- Reducing red tape is equally important to the smallest businesses as a government priority in addition to protecting the economy from recession. These results suggest that small businesses may face a disproportionate burden from excessive and unnecessary regulatory red tape.
- Infrastructure provision by governments is seen as a relatively important priority by the largest businesses with 22.2% of respondents with annual turnover of over \$200 million suggesting this is a priority.

Businesses identified the key priorities for governments to assist them in achieving their growth objectives. Of all respondents, the highest ranked priority relates to the macroeconomic policy function of protecting the economy from a recession. A total of 28.2% of all respondents ranked this as the highest priority. This result differed between private and public businesses, with private businesses more demanding of this priority for governments. Moreover, businesses face intense structural pressures during the economic upturn as a result of a high exchange rate, increasing input costs and unbalanced growth. Governments need to give priority to putting in place policies to support a diverse and balanced economy in Australia. These include a greater emphasis on education and training and innovation policies that encourage business renewal and practical research and development activities.

Promoting an environment conducive to business prosperity through reducing regulatory red tape is also an important priority. Reducing red tape is nominated by 20.8% of all respondents as the highest priority. Encouraging innovation and investing in infrastructure are also regarded as a high priority by a cross-section of businesses (Chart 29).

Chart 29: Priorities for governments to assist businesses



Services and manufacturing sector businesses believe the highest priority for governments should be protecting the economy from recession.

Businesses in the construction sector place a greater emphasis on governments reducing red tape (Chart 30), suggesting that regulatory barriers and burdens associated with planning approval schemes are inhibiting growth prospects for this sector.

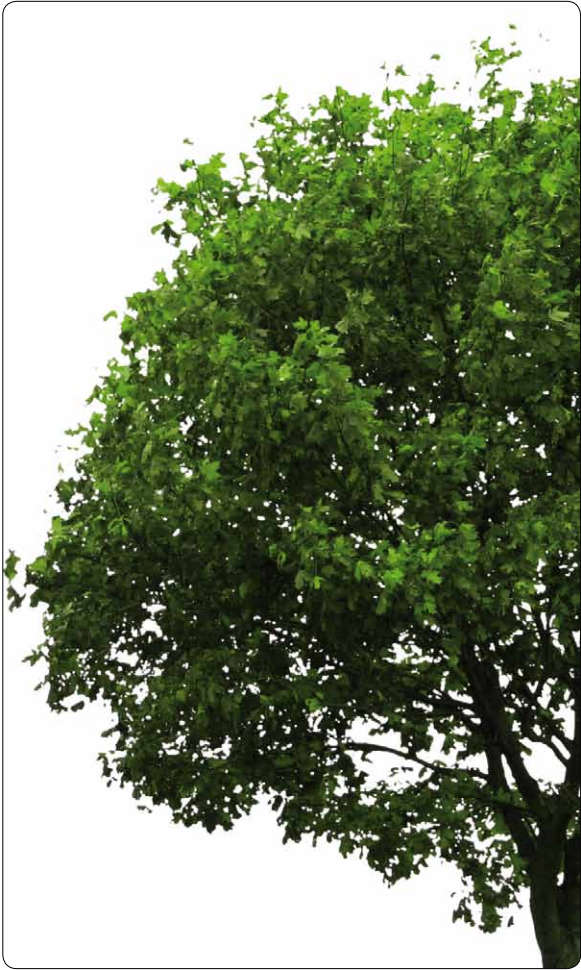
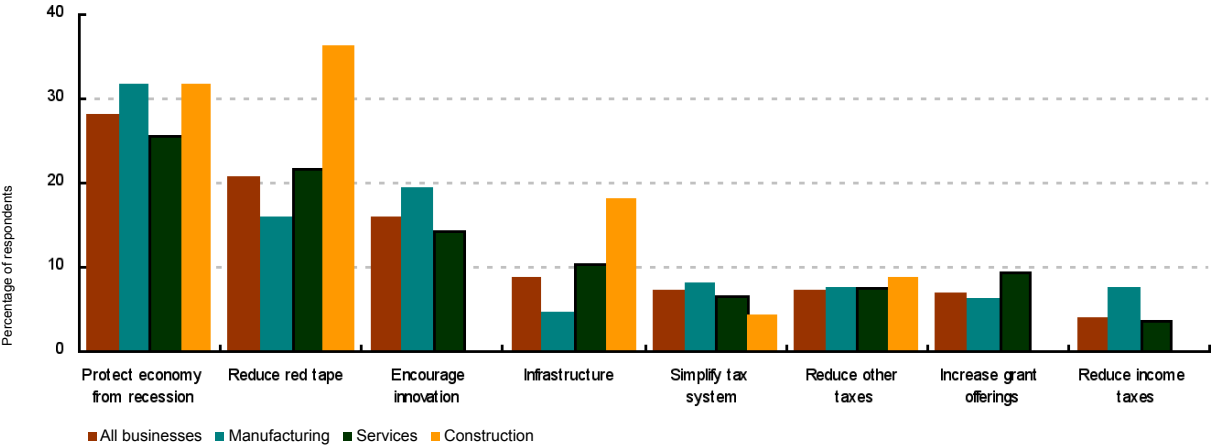


Chart 30: Priorities for governments to assist businesses by sector

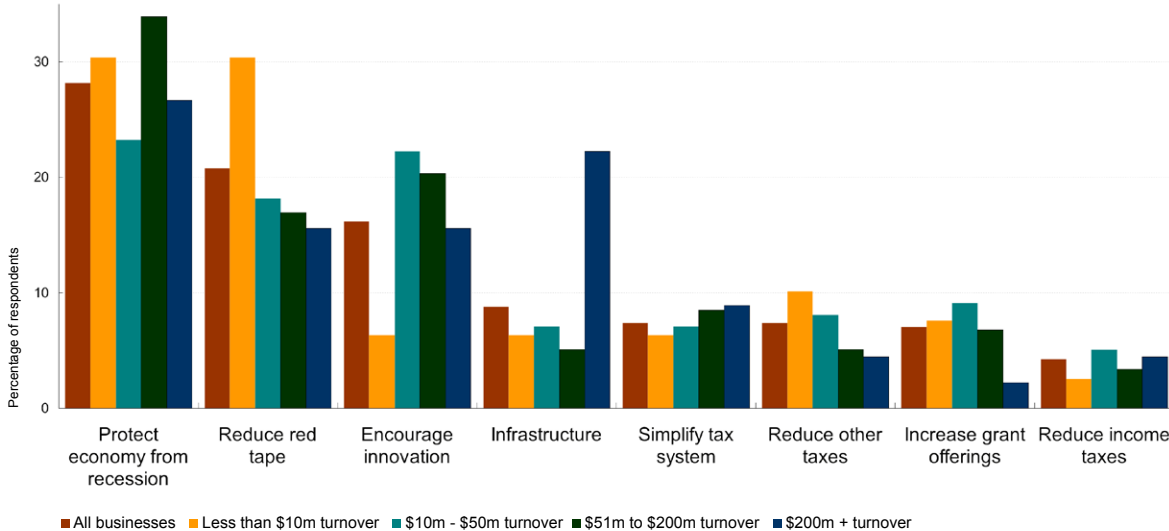


There is a spread of businesses that regard protecting the economy from recession as the most important role for governments. Businesses of all sizes consider this role as the number one priority (Chart 31). This is especially evident in medium to larger businesses (turnover between \$51 million and \$200 million) where 33.9% of this group indicated that protecting the economy from recession is the highest priority. Reducing red tape is equally important for the smallest businesses in addition to protecting the economy from recession.

These results suggest that small businesses may face a disproportionate burden from excessive and unnecessary regulatory red tape.

Infrastructure provision by governments is seen as a relatively important priority by the largest businesses with 22.2% of respondents with annual turnover of over \$200 million suggesting this is a priority.

Chart 31: Priorities for governments to assist businesses by business size







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