

 **SERVCORP**

# AUSTRALIAN BUSINESS

# GROWTH MONITOR

MARCH 2014



# EXECUTIVE SUMMARY

Take a quick scan of Australian news headlines and it would be easy to assume that the local economy is in the doldrums. From the start of 2014 there have been closures and cut-backs at some of the country's most iconic companies – and the shockwaves are being felt throughout the rest of the economy.

Amidst this turbulence, it comes as little surprise, then, that the second bi-annual Servcorp Australian Business Growth Monitor has returned relatively stagnant results when compared to the inaugural report. The study, which was conducted online in February 2014 among 264 executive managers and business owners, is the second in a biannual series tracking business growth in Australia.

In the June 2013 study, the overall feeling amongst Australian businesses was one of restraint and cautious optimism. The most recent survey shows similar results, with the index of business growth increasing just one point from 98 to 99 since the inaugural survey.

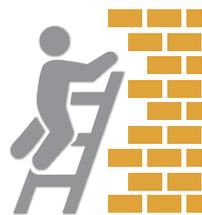
The latest findings highlight the continued struggle facing local businesses in what appears to be a static Australian economy.

## In the past 12 months:

More than half (**56%**) of Australian businesses surveyed experienced no revenue growth



Yet almost half (**49%**) grew their client base – suggesting businesses are working harder to win clients with smaller budgets



Major barriers to growth included:

Difficult economic and market conditions **36%**

A reduction in spending and consumer budgets **33%**

Increased competition **26%**

The majority of businesses (**67%**) maintained their headcount



The vast majority (**81%**) retained their current office space



# EXECUTIVE SUMMARY

Significantly, the February 2014 study found that only a handful (5%) of Australian companies have plans to expand overseas in the next 12 months. This is despite the fact that international expansion can help the right brands and businesses reach new audiences, tap potentially lucrative markets and, in some cases, diversify their offerings.

But it's not all doom and gloom. The NAB Quarterly Business Survey found that business confidence in the December quarter was at its highest in more than two and a half years, with business conditions on the up and up.

Even the UK Guardian has weighed in on the debate on how good – or bad – the Australian economy has been over the past 12 months, saying “It hasn't been a horror economic year, but neither will anyone be organising a parade to celebrate how good it has been.”<sup>2</sup>

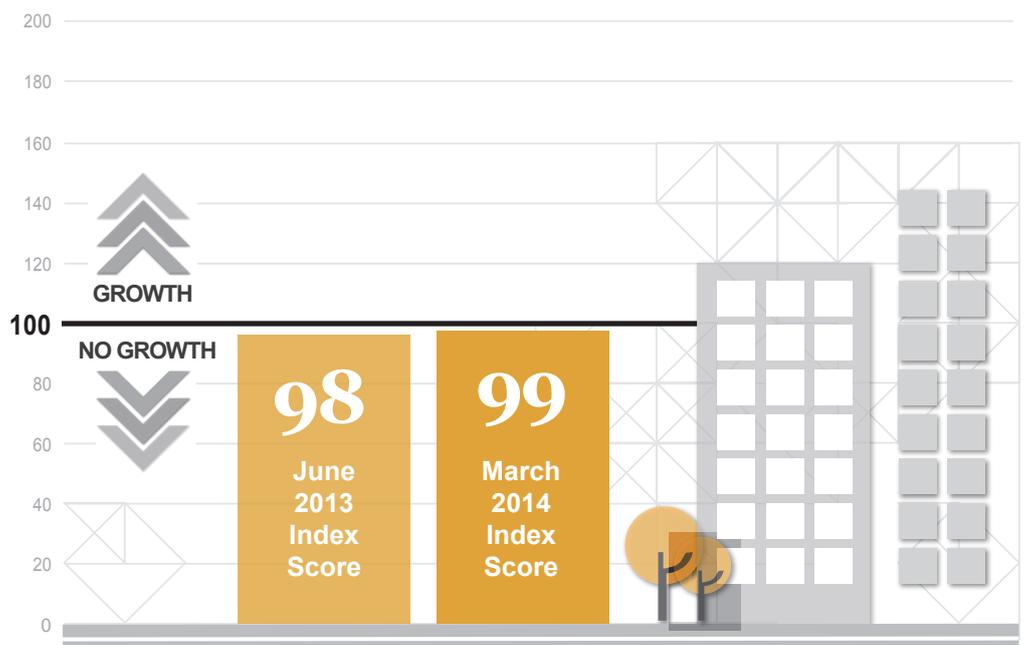
Promisingly, the majority of Australian businesses are feeling confident about what the future holds. Of those that experienced revenue growth over the past year, the vast majority (84%) predict future growth. And half of those who experienced a decline in revenue remain upbeat about the future.

This sense of optimism – coupled with the ‘green shoots’ shown by some of Australia's industries – are signs that the economy is ready to forge ahead again. It's time to turn this feeling of optimism into concrete action. Armed with strategies such as lobbying for increased government support and investing in new technologies, Australian businesses can get on the front foot and reach their goals for growth.

## About the index

The Servcorp Australian Business Growth Monitor is a regular survey exploring business growth in Australia, conducted twice yearly by Galaxy Research on behalf of Servcorp, the Australian owned global leader in the Serviced and Virtual offices industry.

It includes an index of business growth, which looks at current and future performance, as well as the different factors both impacting and contributing to business growth among Australian companies.



<sup>1</sup> NAB. <http://business.nab.com.au/wp-content/uploads/2014/02/quarterly-business-survey-q4-2013.pdf>. Accessed 4 March 2014.

<sup>2</sup> The Guardian. <http://www.theguardian.com/business/grogonomics/2013/dec/23/australias-economic-forecast-is-sobering-but-that-should-not-lead-to-unnecessary-pessimism>. Accessed 4 March 2014.

# TRENDS & ISSUES

Beyond the headline figures around growth, the Servcorp Australian Business Growth Monitor also examines the trends and issues that are impacting growth in the business sector – looking in-depth at the challenges that businesses face, as well as the opportunities to drive revenue.

## It's a tough time to run a business

In the face of uncertain economic times, many businesses have pressed the 'pause' button, reluctant to pursue growth.

More than half (56%) of companies experienced no revenue growth over the last 12 months, up from 51 per cent in June 2013. This is despite the fact that almost half (49%) grew their client base – the same result as the previous survey. What this tells us is that companies are taking on more clients but pulling in less revenue. In other words, they are working harder, but not reaping the rewards.

So what is holding companies back? According to the report, four in five (80%) businesses have experienced significant barriers to growth over the past 12 months, with the main challenges being:

Difficult economic conditions (**36%**) – this is consistent with Reserve Bank of Australia findings, which state that:



***“The Australian economy expanded at a below-trend pace over the year”***<sup>3</sup>



A reduction in consumer spending (**33%**) – again, the RBA supports this finding, stating that:

***“Growth of household consumption has been below average”***<sup>3</sup>

Increased competition in the local market (**26%**) – while some competition is healthy for business, the level of competition may have reached an uncomfortable threshold for Australian businesses



Given these challenges, it comes as little surprise that the survey found a 'watch and wait' attitude common amongst Australian businesses. Over two thirds of those questioned (67%) have maintained their headcount over the last 12 months, and four in five (81%) have retained their current office space.

In these tough conditions, businesses need to consider new strategies and operational models to survive and grow. Costs can be cut in many ways without adversely impacting productivity or performance. For example, serviced or virtual offices can replace long-term lease contracts for office space, while also delivering the flexibility to respond to new business opportunities and growth.

Such offerings also provide access to cloud-based global IT and communications networks, which typically come with 24/7 technical support. These networks can save potentially hundreds of thousands in IT costs without comprising on the standard of technology infrastructure – while delivering the benefits of faster communications, the ability to work on-the-go and achieving improved economies of scale.

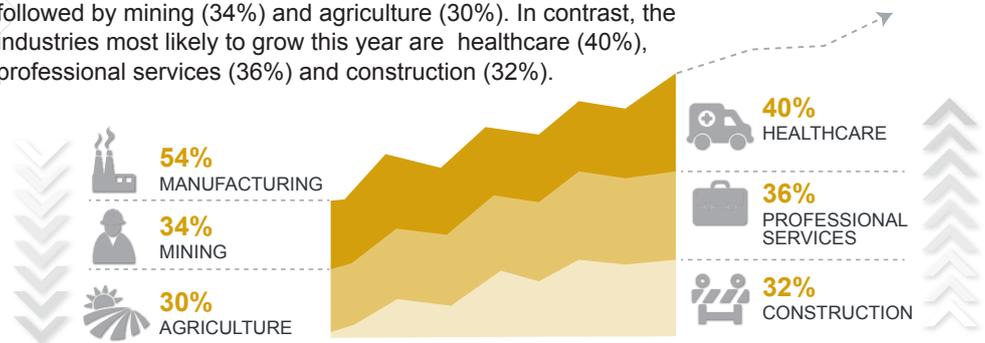
# TRENDS & ISSUES

## Old world versus new world

Bubbles are bursting all over the Australian economy, with some of the traditional stalwarts – like agriculture, mining and manufacturing – clearly struggling. The February 2014 ABS survey of business investment intentions found that “Australia is facing its biggest investment slump in more than 20 years, threatening more job losses and lower economic growth as miners scale back their spending plans faster than expected and manufacturers give up hope.”<sup>4</sup>

Likewise, the Business Outlook by Deloitte-Access Economics says the end of the resource-related construction boom – and caution amongst both the corporate sector and consumers – will result in below-trend growth in 2014.<sup>4</sup>

54 per cent of those surveyed believe that manufacturing is now on the decline, followed by mining (34%) and agriculture (30%). In contrast, the industries most likely to grow this year are healthcare (40%), professional services (36%) and construction (32%).



Within industries like these, the use of serviced or virtual offices enables businesses to connect their staff, contractors and clients wherever they are – facilitating smoother and more confident growth. With instant access to flexible workspaces, IT and corporate facilities, such offices are becoming the answer for more and more businesses that are pursuing growth strategies in new markets.

### Servcorp helps to drive growth in the professional services sector

With the professional services sector identified in the study as one to watch, it is useful to see how Serviced and Virtual offices can assist emerging companies in the sector to gain a strong footing. Servcorp's offering includes:

- An experienced and professional reception and administration team to provide day-to-day business support
- A cost-effective way to manage a business, with packages including:

-  A choice of prestige office locations that create the best impression with prospective clients
-  Use of Servcorp's \$50 million investment in cloud-based global IT network with 24/7 technical support
-  Superfast internet and superior telecommunications system with low-cost phone and video call options
-  Easy ways to manage meeting rooms, video conferencing and other facilities anywhere, anytime
-  Office maintenance, complimentary refreshments, daily mail management

These and other offerings give professional services firms the confidence to pursue growth, particularly in uncertain economic times.

<sup>4</sup> <http://www.theaustralian.com.au/national-affairs/worst-slump-in-20-years-hits-jobs/story-fn59niix-1226839936921#>  
<sup>5</sup> <http://www.abc.net.au/news/2014-01-28/australian-economy-faces-shaky-outlook-in-2014/5221962>

# TRENDS & ISSUES

## Businesses call for lower tax and less regulation

In the inaugural survey, the consensus amongst business owners was that the then Labor Government was not providing sufficient support to the business community – and almost half (45%) thought they would be better off if the Coalition won the 2013 Federal Election.

Their election wish was granted – yet less than a quarter (23%) of business managers think the Abbott Government's commitment to small business has lived up to their expectations during its first four months in office. Almost half (42%) say the Government's level of commitment is not as good as expected.

To be fair to the Abbott Government, this is common in the early days as a new government finds its feet. It now has a real opportunity to answer the call from the business community for more support – and should be developing policy to stimulate the economy, create jobs and help small to medium enterprises grow in 2014 and beyond.

The study findings support this sentiment, with business managers stating that the best ways that the government can help them grow are through:



Now that the honeymoon is over for the Abbott Government, it is clearly time to knuckle down and listen to the needs of the sector. Instead of increasing tax on small businesses who want to invest in new assets – as the Government has done by repealing the loss carry-back provisions, which enabled businesses to carry back losses to receive a refund against previously paid tax – it needs to find ways to support growth and stimulate investment.

## Few companies plan to expand overseas

With the Asian Century upon us, there is great opportunity for Australian businesses to tap into this ever-growing market on our doorstep. The latest Asian Development Outlook found that "South Asia is on track to meet growth expectations of 4.7% in 2013 and 5.5% in 2014", and the broader market agrees with these growth sentiments.

Yet the Servcorp Australian Business Growth Monitor found that – of the tiny handful of business (5%) who are looking to expand overseas – only 11 per cent are looking to expand into North Asia and 15 per cent into South Asia in the next 12 months. This is a dramatic fall from the inaugural Servcorp Business Growth Monitor, which found that the clear focus for overseas expansion was South East Asia (47%).

Instead of Asia, the current priority for overseas growth is on North America (44%), Europe (29%), the Middle East (29%) and New Zealand (28%). But remember, it's still only a handful of companies that are considering this.

6. <http://www.adb.org/publications/asian-development-outlook-2013-supplement-firming-industrial-economies-support-asias-outlook>

# TRENDS & ISSUES

**So what is holding the majority of businesses back from expansion?  
The key hurdles include:**



There are a wealth of resources available to Australian businesses – such as the [www.anzbusiness.com](http://www.anzbusiness.com) website, designed to connect Australian businesses to countries and industries in the Asia Pacific region; and the Department of Foreign Affairs and Training websites – and support is readily available for those seeking to expand.

## Tapping Servcorp's knowledge of overseas markets

For businesses concerned about the costs of entering a new country or of tapping into local market knowledge, Virtual and Serviced offices such as Servcorp's can add real value.

When entering new markets, one of the best ways to connect with new clients is to demonstrate your 'fit' within the business scene. With excellent local market knowledge and expertise, Servcorp helps companies to position their brands as being more established and thus forge more successful business relationships.

Further, the instant connectivity offered by Servcorp – from a local phone number and address to local reception staff – enables a smooth entry into new markets. These seemingly simple things can speak volumes to prospective clients about how serious you are about doing business in their country; and they are available on a flexible lease for those seeking to avoid long-term commitments.



*local market  
expertise*



*instant  
connectivity*



Closer to home, only 6 per cent of businesses surveyed plan to open an office in a new Australian city in the next year, down from 11 per cent in June last year.

# TRENDS & ISSUES

## Economic green shoots

While many Australian businesses have found current business conditions tough, there is a positive change predicted for the next financial year. Almost two thirds (63%) forecast growth over the next 12 months, and one in ten (10%) predict that they will experience strong growth.

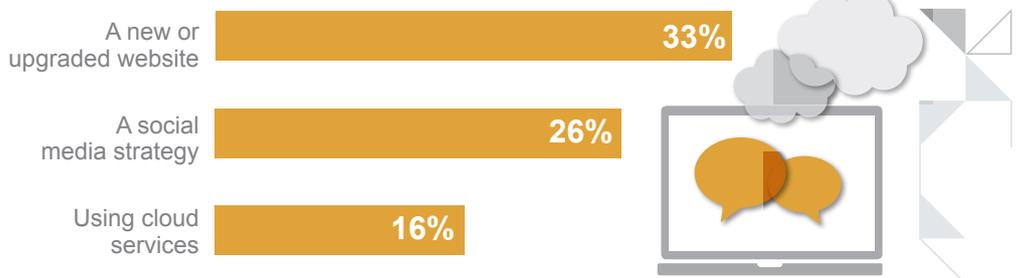
These findings are consistent with the previous survey, which had almost two thirds (60%) of businesses forecasting growth over the next financial year, and one in ten (12%) predicting strong growth.

What's more, 50 per cent of the businesses that experienced a decline in revenue over the past financial year are predicting a turnaround this year; while the vast majority (84%) of those who experienced growth in the last 12 months are expecting the growth to continue.

These growth forecasts are supported by the NAB Quarterly Business Survey, which found that business investment intentions (next 12 months) rose unexpectedly in the December quarter to around their long-run average.<sup>7</sup>

According to the Servcorp study, the strategies Australian companies plan to implement to drive this growth remain very similar to six months ago. Technology is a key focus, as it was then, with almost two-thirds (64%) planning to invest in technology over the next 12 months.

**Mirroring the top three priorities of the inaugural study, the current focus for investing in technology is on:**



Yes, technology has a vital role to play in increasing efficiency and driving innovation in tough times. But given how little has changed in the responses from June 2013 to now, it may be that businesses need to look outside of these in order to grow.

7. <http://business.nab.com.au/wp-content/uploads/2014/02/quarterly-business-survey-q4-2013.pdf>

# SUMMARY

The February 2014 survey for the Servcorp Australian Business Growth Monitor reveals that businesses are still struggling in the face of tough economic conditions. The majority of businesses are experiencing significant impediments to growth, and are understandably cautious about implementing expansion plans – whether within Australia or overseas. As the old world diminishes – taking with it manufacturing, mining and agriculture – and as a new world emerges that sees healthcare, professional services and construction gain a stronger footing, it is time for companies interested in these strengthening sectors to implement ways to grow their business.

Get it right, and the feeling of optimism about the next 12 months that pervades in the study will bear fruit. Whether through new offices at home or abroad, new technologies, or simply hiring great talent, businesses can now leverage new strategies to expand and find smarter ways to engage in new markets.



## **SERVCORP**

### About Servcorp

Servcorp Ltd (SRV:ASX), is Sydney based and the world's leading provider of executive serviced offices, virtual offices and superior IT and business infrastructure solutions, operating 132 floors in 52 cities across 21 countries. A multiple award winning Australian business, Servcorp is Australia's second-largest exporter of services.

More than just an office, Servcorp's serviced and virtual offices make it possible for businesses to succeed and grow. From SMEs to large global brands, Servcorp can help to establish your business and position your company for success – its premium serviced office suites offer unrivalled technology, services and support staff in the best locations across Australia and the rest of the world: as long as you want and for less than it costs to have a traditional office.