The Australian Industry Group

NATIONAL CEO SURVEY: OUTLOOK FOR SERVICES BUSINESSES

April 2019

ABOUT Ai GROUP

The Australian Industry Group (Ai Group) is a peak employer association which together with partner organisations, represents the interests of 60,000 businesses employing more than 1 million Australians.

Ai Group members are from a broad range of industry sectors including manufacturing; engineering; construction; food and beverage processing; transport and logistics; information and technology; telecommunications; labour hire; and defence.

Ai Group is a leading advocate for government policies that are in the best interests of business and the community.

With more than 250 staff in offices across Australia, we are recognised leaders in policy research and advocacy in areas such as workplace relations, education and training, energy, trade, taxation and regulation.

We promote industry development, employment and stronger Australian communities.

www.aigroup.com.au

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KEY FINDINGS

This report forms the second in a series that explains the experiences and expectations of Australia's CEOs in 2019, as recorded in Ai Group's annual Business Prospects Survey (see Appendix). The first report in this year's series, *NATIONAL CEO SURVEY, Business Prospects for 2019: Leadership needed as economy softens*, was published by Ai Group in January 2019. This second report outlines the experiences and expectations reported by CEOs in Australia's services industries including: retail trade; wholesale trade; transport and storage; healthcare; education; finance and insurance; professional services; administrative services; real estate services; food and accommodation services; arts and recreation; and personal services.

Experiences in 2018

The CEOs of businesses in Australia's services industries reported improving conditions in the first half of 2018, with most indicators peaking around May and June. The first six months of 2018 saw a welcome acceleration in output for services businesses as sales, employment and investment all improved, in line with improving global and local conditions. Conditions progressively weakened through the second half of 2018, as this growth eased and as the global and domestic outlook softened.

While 2018 was a better year for many Australian services businesses, it was not as positive as had been earlier anticipated. One third of CEOs in the services industries said their general business conditions improved in 2018 relative to the previous year, one quarter saw a deterioration and the remainder said general business conditions remained about the same.

For many businesses, higher input costs – and particularly higher energy costs - constricted their profit margins in 2018. Although 55% of services CEOs reported an increase in turnover in 2018, only 35% improved their profit margins. 43% of CEOs in the services industries reported a fall in their profit margins in 2018.

Expectations for 2019

The CEOs of businesses in Australia's services industries expected 2019 to be slightly slower than in 2018. This reflects the deceleration that was increasingly evident across local and global indicators in the second half of 2018, plus an increasingly negative outlook and risk profile for the Australian economy. This moderation in outlook is apparent in a successive wave of downgraded economic forecasts from a range of sources including the RBA, IMF and OECD, as well as in Australian business leaders' own expectations, plans and strategies.

Ai Group's annual CEO survey reveals fewer business leaders are feeling optimistic about their general business conditions in 2019 than was the case one year ago. On a net balance basis (optimists minus pessimists), fewer CEOs of services businesses expect business conditions to improve in 2019 than in any year since 2015. This reflects their experiences in the past year and particularly in the second half of 2018.

In this year's Ai Group survey of Business Prospects, the CEOs of businesses in the services industries said:

- 29% of CEOs expect general business conditions to be better in 2019 than in 2018, which is lower than had expected an improvement one year earlier for 2018 (40%) two years earlier for 2017 (32%). 27% of CEOs expect their business conditions to worse in 2019 than in 2018, which is the highest such proportion since 2014 (when 34% of CEOs surveyed at the end of 2014 had expected worse conditions for 2015). on a 'net balance' basis (optimists minus pessimists), just 2% of CEOs expect better business conditions in 2019 than in 2018, which is the lowest net balance number for this indicator since 2015.

- 57% of CEOs expect their business turnover (gross sales) to increase for in 2019, 22% expect no change from 2018 and 20% expect a decline in 2019.

- Although the majority (57%) of CEOs expect their total turnover to grow in 2019, 72% expect no growth in their export revenue in 2019 (including among those with no export revenue at all). For these businesses, all of their turnover growth will be sought within Australian domestic markets rather than offshore in 2019. As of March 2019, the Australian dollar had dropped from its trading range at the time that this research was conducted, so export revenue growth is potentially more likely than businesses were initially expecting in late 2018, at least for those businesses that are already exporting or planning to export in 2019.

- 44% of CEOs expect their profit margins to grow in 2019 and 26% expect a fall, giving a net balance of +22%. Compared to one year earlier, these business leaders are less optimistic about their profit margins for 2019 than they were for 2018.

- The majority of services CEOs expect prices to rise for both their inputs (61% of CEOs) and their outputs (52% of CEOs) in 2019. On the selling (outputs) side, a higher proportion of services businesses plan to implement price rises for their own goods and services in 2019 than in any of the preceding six years. Just 10% of businesses plan to cut their selling prices in 2019, which is a lower proportion than had planned to cut prices in the past six years. This suggests some pickup in inflation is likely among these services industries during 2019. On the input side, a higher proportion of businesses expect their input costs to rise in 2019 (61%) than in any of the previous six years, but there is also a higher proportion (7%) who expect their input prices to fall in 2019. This suggests a greater of volatility (and possibly an element of unpredictability) with regard to input costs for services businesses in 2019.

- This concern about input price rises relates largely (but not solely) to energy pricing. 70% of CEOs of services businesses expect their energy input costs to rise further in 2019. This will be on top of energy price increases already experienced by 61% of services businesses in 2018. Higher energy prices (and the reliability of energy supply) have become key business concerns across an increasing range services industries.

- 40% of CEOs of services businesses expect to increase their employment (headcount) in 2019, 40% expect no change and 20% expect to reduce their business headcount. On a net balance basis, employment expectations are lower than for the two previous years. This suggests slower aggregate employment growth is likely in Australia's private-sector services businesses in 2019 than was experienced in 2018 and 2017.

- Most services CEOs plan to maintain or increase their spending on various types of business investment in 2019. 59% of CEOs expect to spend more on technology, 36% expect to spend more on staff training, 35% expect to spend more on physical capital (buildings, plant and equipment) and 21% expect to spend more on Research and Development. Very few CEOs intend to spend less on investment in 2019 than they did in 2018, with lower proportions of businesses planning to cut back on various types of investment in 2019 than in the previous six years. The strong focus on investing in technology is a long-term trend, with expectations of spending on new technologies rising at a faster pace than other forms of investment since 2013.

- When asked which factors were expected to be the biggest inhibitors to business growth in 2019, 32% of services CEOs identified a 'lack of customer demand' as their most significant constraint, down from 49% of CEOs who said the same for 2018 (and down from most previous years, since 2013). Labour market concerns feature prominently as an area of concern for services businesses in 2019, with 21% of CEOs nominating skill shortages as their top concern. This is up from 18% of business leaders who identified skill shortages as an impediment for 2018 and more than triple the proportion in 2017 (6%). A further 8% of CEOs said the flexibility of industrial relations is their top concern in 2019, up from 2% in 2018.

- In response to these challenges, 28% of services CEOs plan to concentrate on improving their sales of current products and services to their customers in 2019, down from 33% who ranked this as their top planning priority in 2018. Around 25% of CEOs will focus on introducing new products to the market in 2019 down from 44% in 2018 and 36% in 2017. This switch in focus from 'new' to 'existing' products and services suggests that those who introduced new products and services in recent years are now progressing from the product development phase to focus on consolidating their sales and markets.

1. Business conditions for services industries in 2018

1.1 Australia's services industries in 2018

Australia's services industries include: information technology, communications and media services; transport, post and storage services; wholesale trade; retail trade; finance and insurance; real estate and property services; professional services; administrative services; health and welfare services; education; hospitality (food and accommodation services); arts and recreation services; and personal services.[1]

Australia's services industries in 2018 collectively accounted for:

- 54% of Australia's real 'value-added' output (Gross Domestic Product or GDP);
- 62% of nominal non-farm business sales;
- 21% of nominal export earnings (primarily from international education and tourism-related travel sales);
- 72% of all Australian workers (including employees, employers and self-employed contractors);
- 42% of nominal non-farm business profits (gross operating profits of private-sector companies);
- 71 % of nominal non-farm business wages.

[1] Other Australian industries that are often included in definitions of 'services industries' are construction and public administration. These two industries are not included in this report or in these data. Australia's construction industry will be described in a separate report in this series.

TABLE 1.1 AUSTRALIAN SERVICES INDUSTRIES: SIZE AND RECENT PERFORMANCE

	Real value added output		Employment (trend)	
Industry	% share of GDP	% change y/y	'000	% change y/y
Business services	29.4	2.0	3,054.5	4.8
Real estate	1.6	3.0	216.3	-0.8
Finance and insurance	8.8	2.7	445.5	2.8
Professional services	6.8	2.6	1,115.3	7.7
Wholesale trade	3.8	1.6	390.9	7.0
Transport & storage	4.5	0.7	666.1	4.1
Communications	2.5	1.7	220.4	-0.9
Consumer services	24.5	4.1	6,104.0	1.4
Retail trade	4.3	1.4	1,284.7	-0.9
Hospitality	2.4	0.9	907.1	2.4
Administrative services	3.3	4.9	414.1	1.4
Education	4.7	2.1	1,032.4	1.1
Health	7.3	8.1	1,702.7	1.6
Arts & recreation	0.8	4.9	247.4	-1.3
Personal & other services	1.8	3.1	515.7	6.6
All services industries	53.9	3.0	9,158.5	2.5
All industries (GDP)*	84.8	2.3	12,774.6	2.3

Note: All industries do not sum to GDP due to individual seasonal adjustment of industries and other items that are included in total GDP such as 'ownership of dwellings', 'taxes less subsidies' and 'statistical discrepancy'.

Sources: ABS *Labour Force quarterly detail*; ABS *National Accounts.*

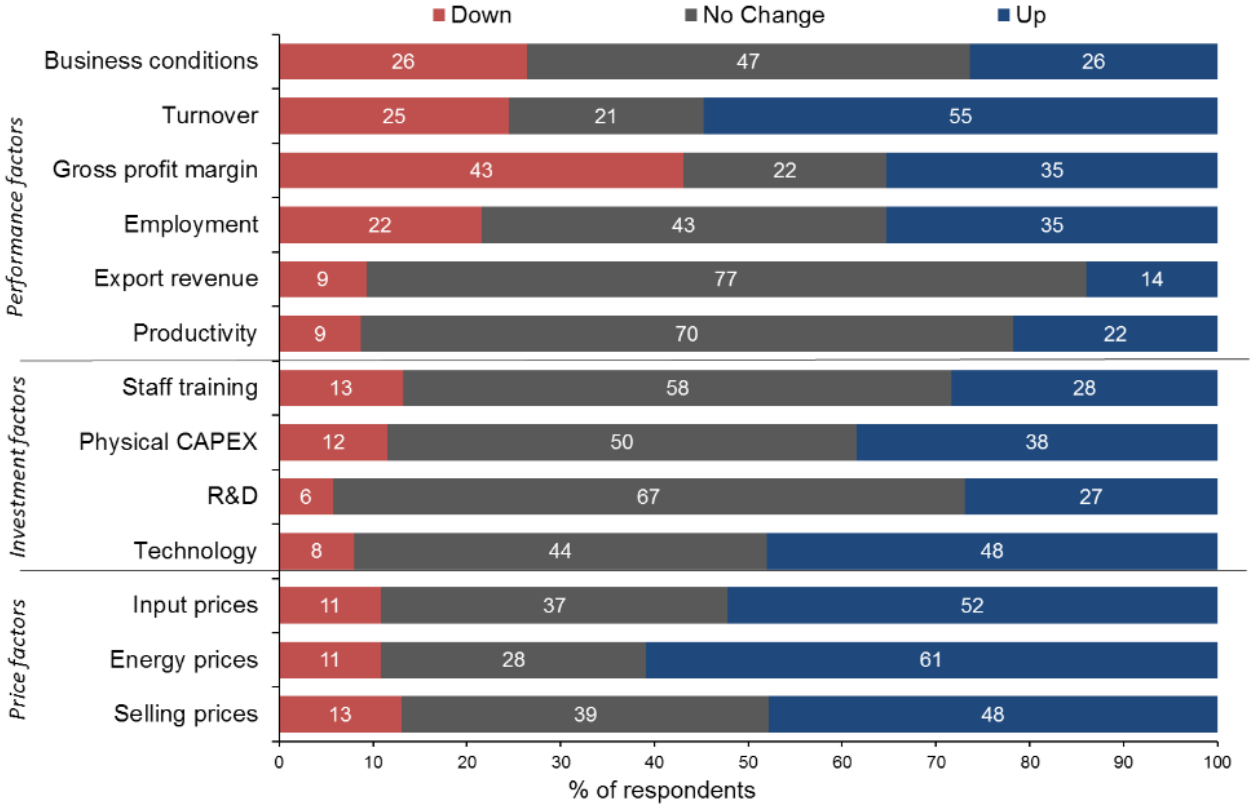
1.2 Business conditions in 2018

Local economic conditions improved for many business segments in Australia in the first half of 2018. CEOs of services businesses were generally less positive however, with many reporting a broadly stable year. When asked about business conditions in 2018 compared to one year earlier, 55% of CEOs of services businesses reported improved turnover in 2018 but only 35% reported growing profit margins and 43% reported falling profit margins (see Chart 1.1).

A high proportion of respondents reported increased inputs costs in 2018, particularly for energy. Market prices for gas and electricity increased to record highs in 2017, before easing slightly in 2018. Energy contracts for businesses tend to run for longer than one year, so many businesses found themselves negotiating contracts in 2018 that were substantially higher than previous agreements. Higher energy costs can be difficult to pass on to customers. These higher costs were instrumental to tightening margins across service industries in 2018.

On the investment and spending side, almost half of services respondents increased their outlay on new technology in 2018 (48%). In other areas of business investment, most did not alter their spending on staff training, physical capital expenditure or research and development (R&D) in 2018, relative to one year earlier.

CHART 1.1 BUSINESS INDICATORS IN 2018: PERFORMANCE, INVESTMENT AND PRICING

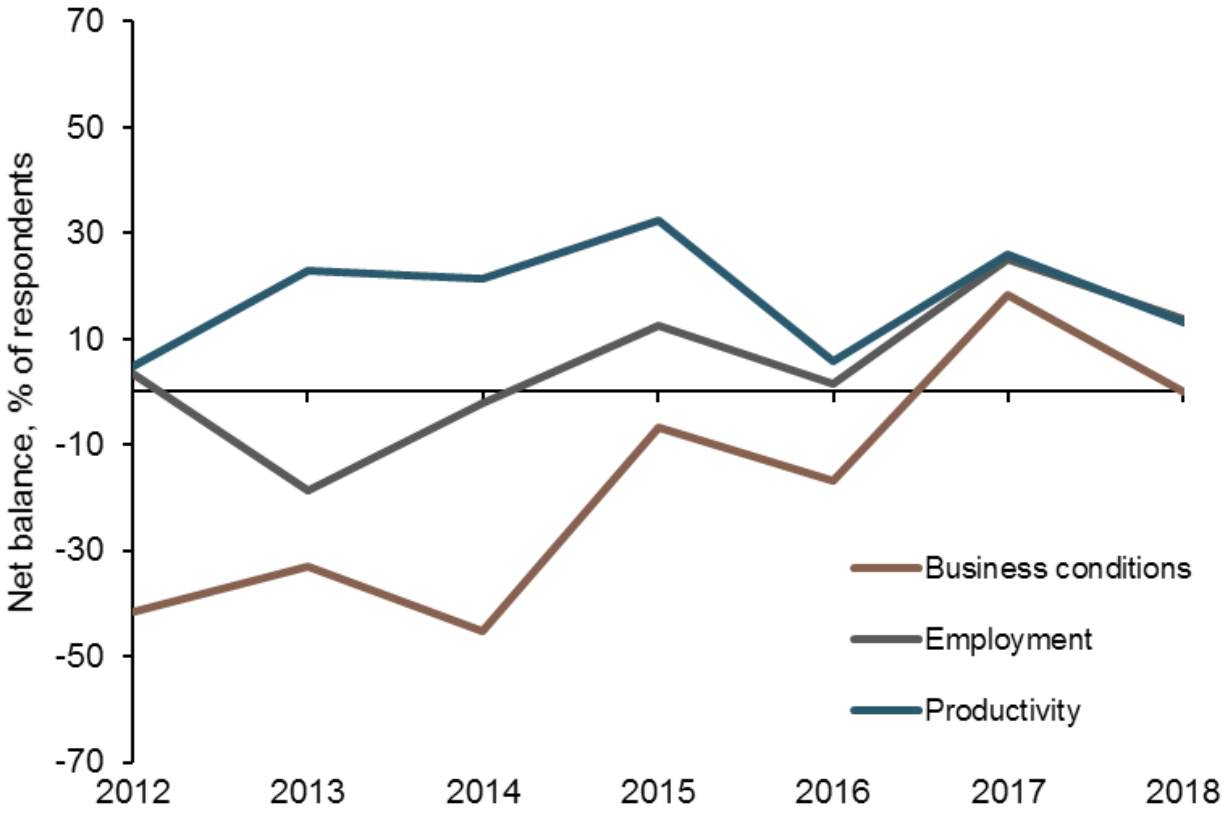


1.3 Business Performance Indicators in 2018

The 'net balance' fell across most of the key indicators for services businesses in 2018 compared to 2017. Turnover (+30%) was just under the 2017 level, while profit margins (-8%), business conditions (0%), employment (+13%) and labour productivity (+13%) were all lower than the equivalent results in 2017. Export revenue was the only indicator to show an improvement in 2018.

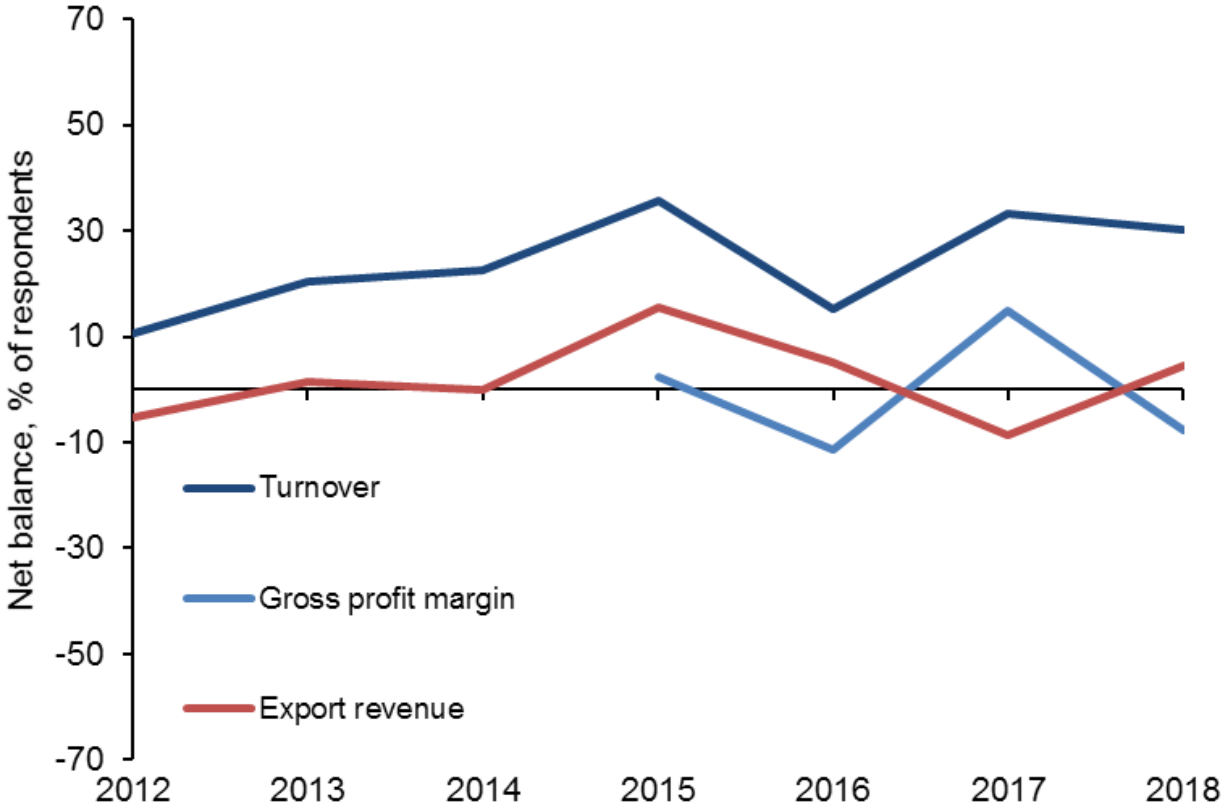
Employment increased in 35% of services businesses in 2018 compared to 2017 and 22% reported a reduction in employment in their businesses, giving a 'net balance' of +13%. This 'net balance' for employment in 2018 is down from the record high of +27% in 2017.Consistent with national productivity performance (as estimated by the ABS) labour productivity improved for fewer services businesses in 2018 than it had in 2017, with the 'net balance' of labour productivity improvement falling from +26% in 2017 to +13% in 2018 (Chart 1.2).

CHART 1.2 **BUSINESS PERFORMANCE INDICATORS, SERVICES INDUSTRIES, 2012-2018**



'Net balance' is the proportion of all survey respondents that reported an increase minus the proportion that reported a decrease in each indicator.

CHART 1.3 **BUSINESS PERFORMANCE INDICATORS, SERVICES INDUSTRIES, 2012-2018**



'Net balance' is the proportion of all survey respondents that reported an increase minus the proportion that reported a decrease in each indicator.

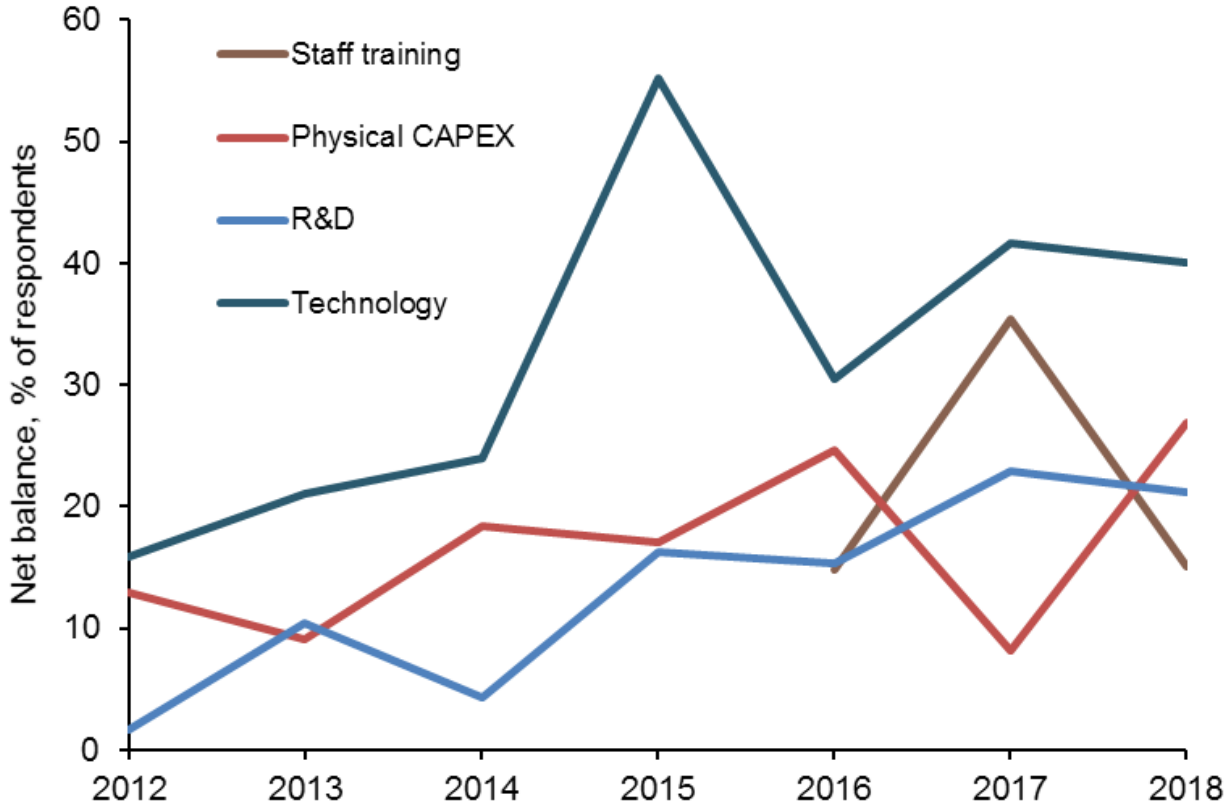
1.4 Business Investment Indicators in 2018

Ai Group's annual CEO survey has indicated an upward trend in annual spending on technology, R&D and physical CAPEX for services businesses since at least 2012 (see Chart 1.4). A larger proportion of CEOs have reported growth in spending on technology than other investment options consistently since 2012 and this focus on investing in technology has increased over time. This suggests the nature of investment for services businesses is evolving as they focus on improving technology to gain business efficiencies.

For 2018 the only investment indicator to improve in net terms was spending on physical CAPEX such as buildings and equipment. Capacity utilisation in Ai Group's monthly performance of services index[2] was consistently above the long-run average in 2018. This suggests that an increasing number of businesses in these sectors have low spare capacity and need to increased investment to meet future growth requirements.

Increased spending on physical CAPEX, such as buildings and equipment, was stronger across all industries than originally forecast by the RBA in 2017. Net spending on R&D was only slightly weaker than in 2017 (+23% in 2017 vs +21% in 2018), however like previous years, more than two-thirds of services businesses indicated they would not change their level of R&D investment. Spending on staff training has only been included as a question since 2016 but this indicator in 2018 appears to have eased back to levels similar to 2016 after increasing in 2017.

CHART 1.4 BUSINESS INVESTMENT INDICATORS, 2012-2018



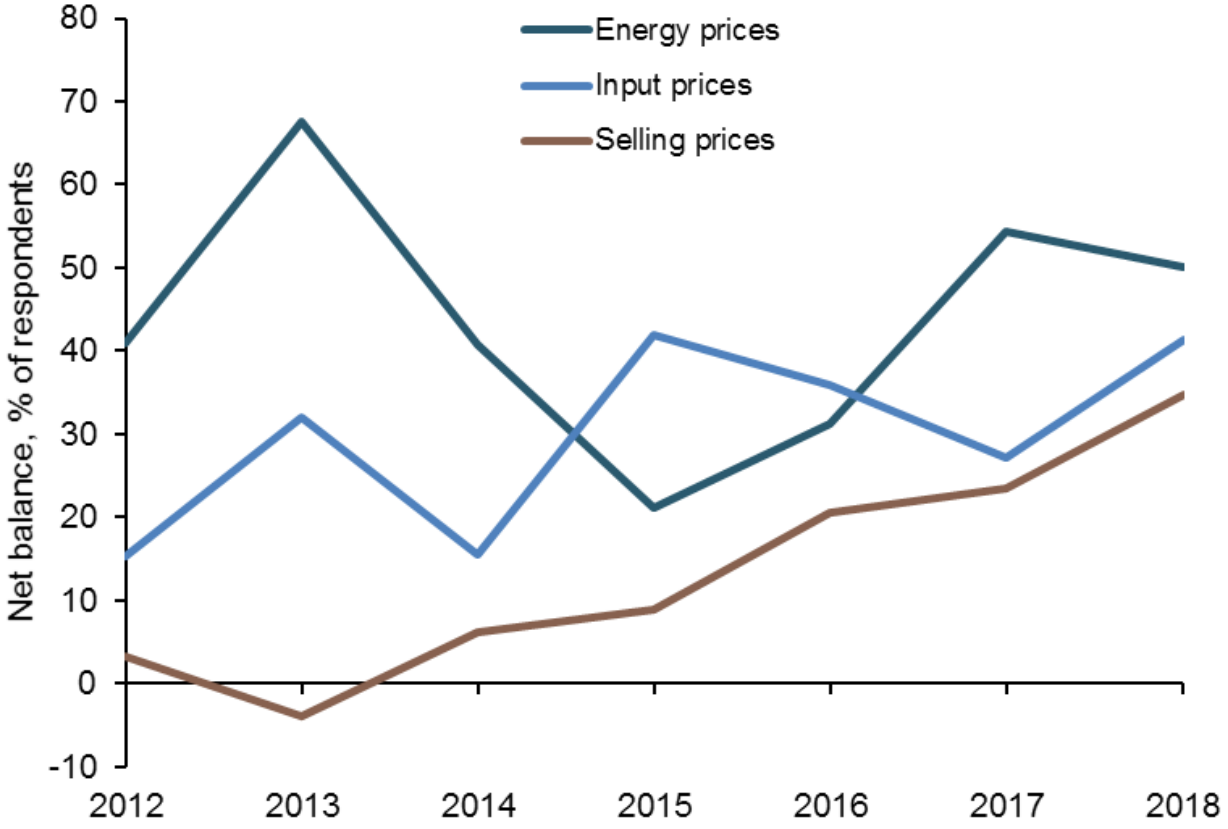
'Net balance' is the proportion of all survey respondents that reported an increase minus the proportion that reported a decrease in each indicator.

[2] *Australian Industry Group, https://www.aigroup.com.au/policy-and-research/economics/economicindicators/*

1.5 Business Pricing Indicators in 2018

Market prices for gas and electricity increased to extraordinary levels in 2017, before falling back somewhat in 2018. These price decreases were not experienced by those participating in this research, due to the length of energy agreements. Consistent with rising energy costs and increasing costs of other inputs in 2018, more CEOs reported rising input prices. There was an improvement in selling prices in 2018 with 48% of respondents noting an increase in their selling prices and only 13% noting falling selling prices (net balance of +35%).

CHART 1.5 BUSINESS PRICING INDICATORS, 2012-2018



'Net balance' is the proportion of all survey respondents that reported an increase minus the proportion that reported a decrease in each indicator.

2. Business outlook for services in 2019

After a stronger period of activity during 2017-18, Australian economic growth slowed in the second half of 2018. Reflecting this deceleration, the latest expectations for growth in the services industries in 2019 remain cautiously positive but are slightly lower than was expected for 2018. The domestic and global downside risk for this business segment has increased.

This moderation in the outlook is apparent in economic forecasts as well as in services business leaders' expectations, plans and strategies. Compared to one year earlier, fewer services CEOs are expecting an improvement in general business conditions in 2019 and more are expecting a deterioration in conditions. Fewer businesses are expecting growth in turnover, employment, profit margins and in most types of investment in 2019, but more businesses are expecting increases in their input prices and energy costs. Drought and extreme weather conditions in some areas of the country and flooding in other parts are exerting additional, short-term drag on output growth in Australia during 2019.

2.1 Business expectations in 2019

Services businesses generally have neutral expectations for business conditions in 2019. This is less optimistic than the expectations they had one year ago for the 2018 year, and similar to initial expectations for 2016 and 2017. For this year 29% of CEOs expect better general business conditions and just under half (43%) expect no change; over one quarter (27%) expect a deterioration in business conditions, resulting in a net balance of 2% improvement or broadly neutral expectations of conditions.

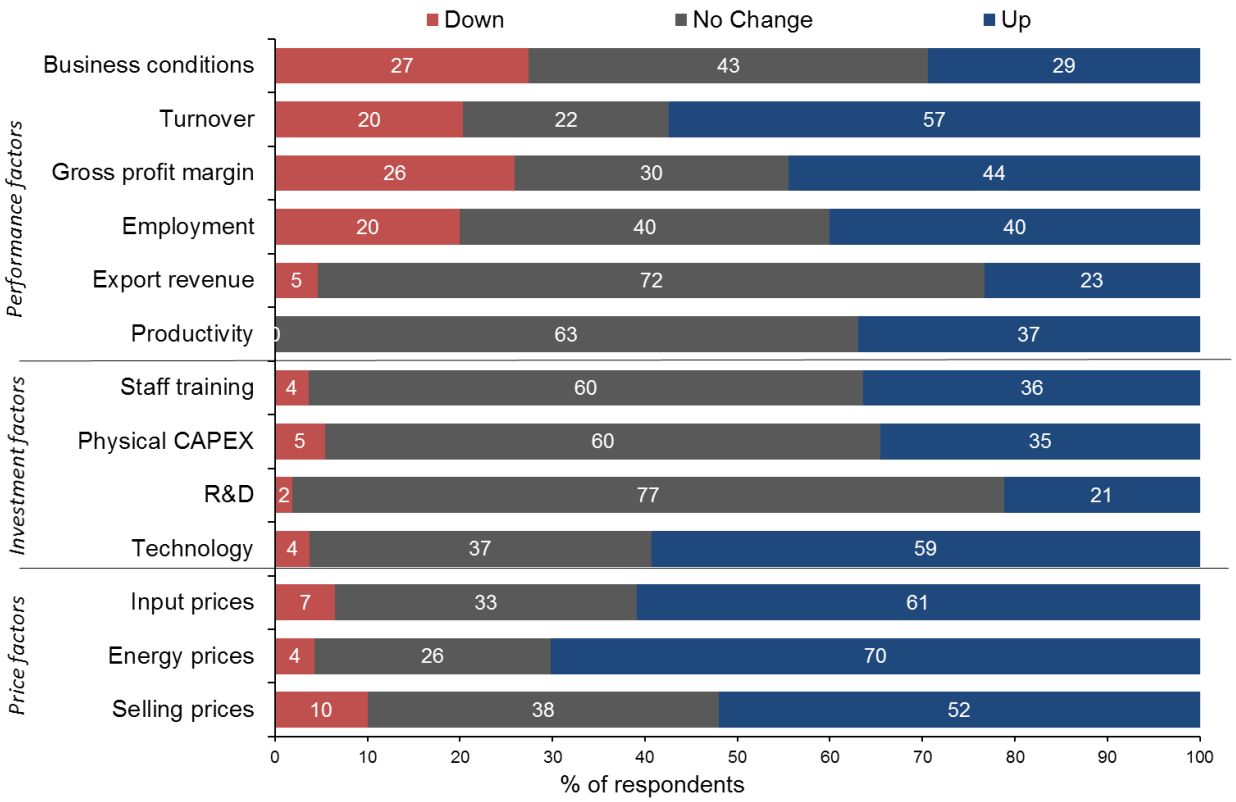
While a majority of businesses expect turnover to increase (57%), 61% of CEOs expect their input prices to grow and 70% expect their energy costs to rise in 2019. These increases are curtailing an otherwise positive outlook for sales and margins. Despite this, more CEOs plan to maintain or grow their employment and investment in 2019, than reduce them.

Business turnover (sales) is expected to increase for 57% of private sector services in 2019, with 22% expecting no change from 2018 levels and 20% expecting a decline in sales in 2019. Although the majority of CEOs expect their total turnover to grow in 2019, most expect no growth in their own export revenue. This suggests that much of the turnover growth will be sought within Australian domestic markets rather than offshore for the rest of this year. Profit margins are expected to grow in 44% of services businesses in 2019 and fall in 26% of businesses (giving a net balance of +18%). This lower expectation of margin growth, despite higher turnover, appears to be related to rising input prices.

Employment (headcount) is expected to increase in 40% of businesses in 2019, 40% expect no change and 20% expect a fall in the number of employees in their business for the rest of the year. In net terms, employment expectations are lower than the past two years and similar to 2016 expectations (see Chart 2.3).

After a net deterioration in labour productivity expectations for 2018, services are more optimistic for 2019. Most businesses expect no change in labour productivity for this year (63%) and 37% expect labour productivity to improve. No services businesses expect labour productivity to decline in 2019. While services businesses generally expect productivity to improve across the coming year, this is the second time, the other being 2018, that no services anticipate a decline in productivity. The focus on investment in technology improvements perhaps protecting against a fall in efficiencies.

CHART 2.1 EXPECTED BUSINESS INDICATORS IN 2019: PERFORMANCE, INVESTMENT AND PRICING



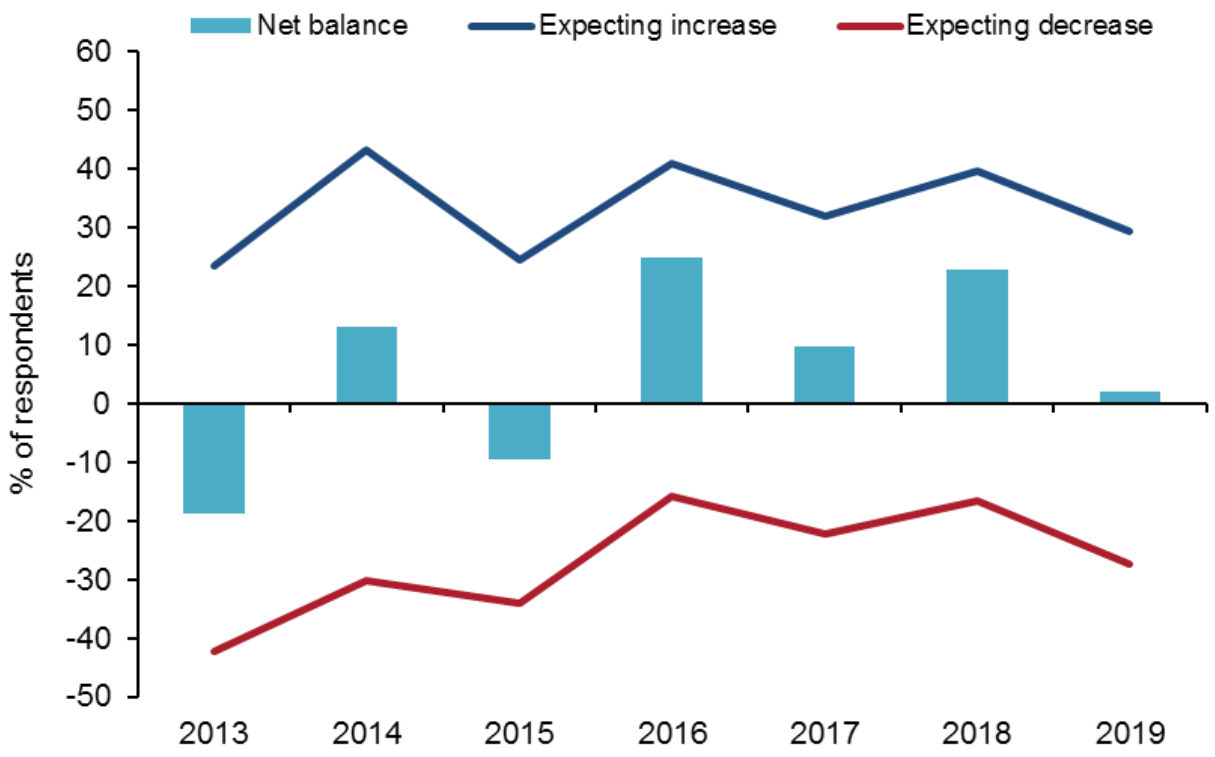
2.2 Performance expectations in 2019

General business conditions for the services sector are expected to be neutral or mildly positive in 2019. One year previously businesses told us they were more optimistic about the year ahead.

Less than one third (29%) of businesses expect conditions to improve in 2019, which is lower than the proportion that had expected an improvement for 2018 (40%), signalling a deterioration in optimism for the year ahead.

Over one quarter (27%) of services respondents expect their business conditions to deteriorate in 2019, which is the highest proportion expecting worse business conditions since 2015 (34% of services CEOs surveyed at the end of 2014 had expected worse conditions for 2015). The remainder of services CEOs expect no change to conditions for 2019. This produces a 'net balance' of 2% of CEOs expecting better conditions for 2019. (see Chart 2.2).

CHART 2.2 EXPECTED GENERAL BUSINESS CONDITIONS*, 2013-2019



** 'Net balance' is the proportion of all survey respondents that expect an increase minus the proportion that expect a decrease.*

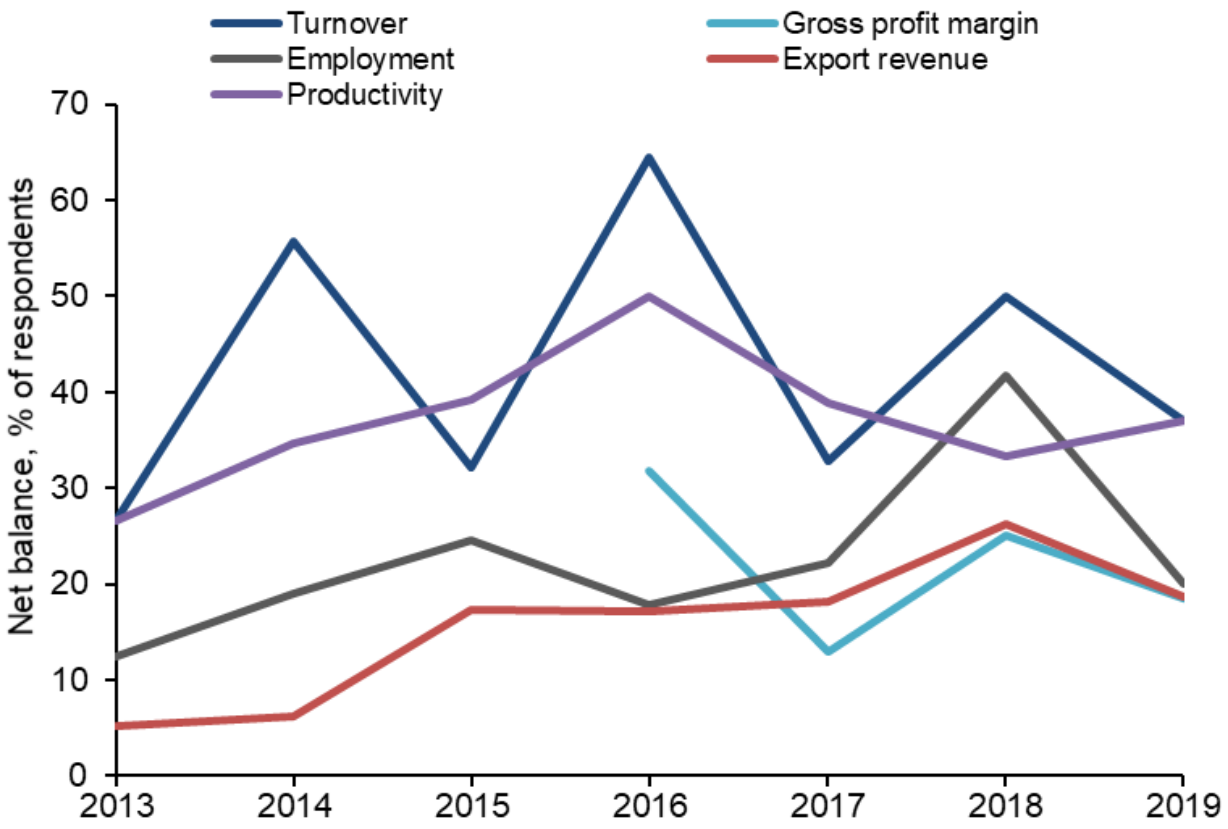
2.3 Business investment expectations for 2019

The survey results indicate that most services executives plan to maintain or increase their spending on various types of business investment in 2019. While businesses expect to invest in R&D slightly less and physical capital slightly more, their net intentions are at similar rates to 2018. In 'net' terms investment in staff training is expected to fall and expenditure for technology is expected to significantly increase.

The majority of Australian CEOs plan to maintain similar levels of spending on physical CAPEX and R&D in 2019 as they did in 2018 (net balance of 29% and 19% respectively). One third (33%, net balance) plan to increase spending on staff training, down from 44% in 2018. Very few CEOs plan to reduce business investment in 2019 but the change between 2018 and 2019 can be attributed to the proportion of businesses who plan to maintain their current spending which has increased as a majority for these categories.

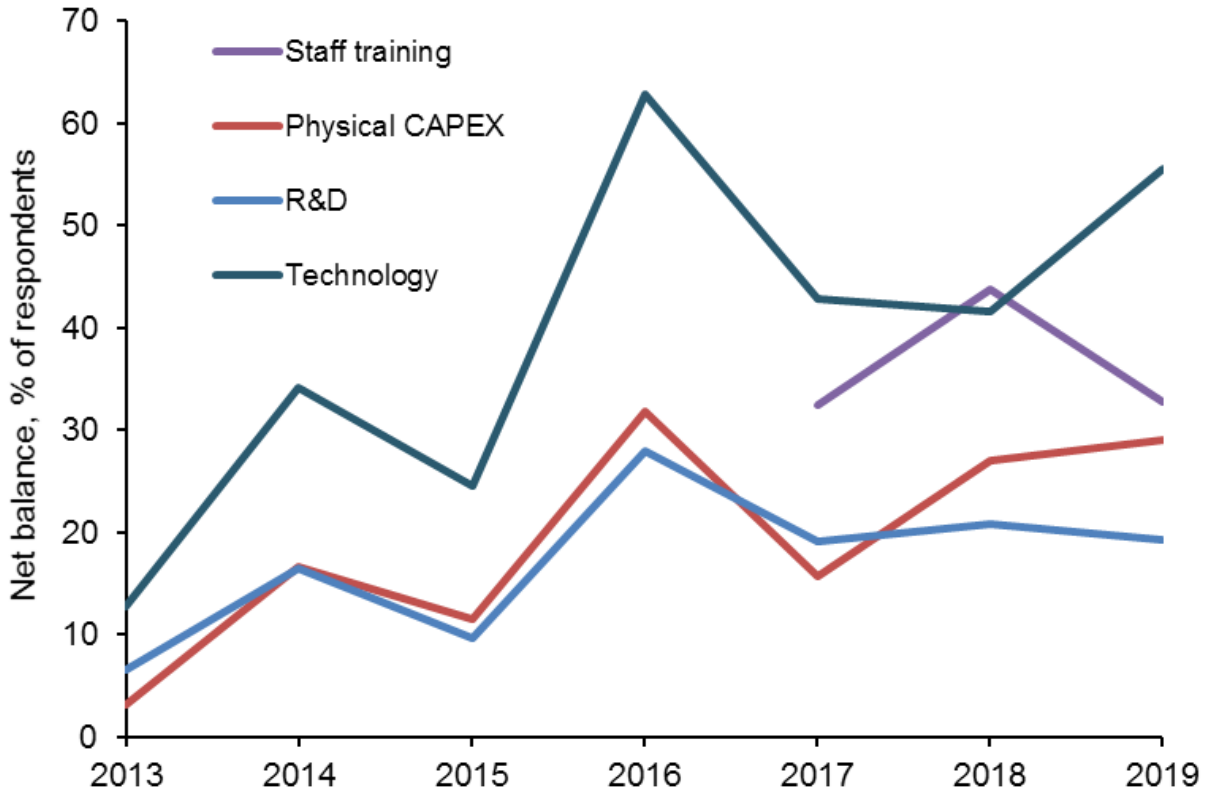
Expectations of spending on new technologies has risen at a faster pace than other forms of investment since 2013. This suggests that the nature of Australia's investment environment will continue to change in 2019; with a greater focus on investment in new technologies. In 'net' terms, investment spending on new technologies was the only investment indicator to rise significantly (+42% in 2018 vs +56% in 2019) as services businesses shift their investment priorities.

CHART 2.3 EXPECTED BUSINESS PERFORMANCE INDICATORS*, 2013-2019



** 'Net balance' is the proportion of all survey respondents that expect an increase minus the proportion that expect a decrease.*

CHART 2.4 EXPECTED BUSINESS INVESTMENT INDICATORS*, 2013-2019



** 'Net balance' is the proportion of all survey respondents that expect an increase minus the proportion that expect a decrease.*

2.4 Business pricing expectations in 2019

Over half of Australian services CEOs expect prices to rise for their inputs (54% of CEOs) while 42% of services CEOs expect their selling prices to increase. A higher proportion of businesses plan to implement price rises for their own goods and services in 2019 than in any of the preceding six years. Just 10% of businesses plan to cut their selling prices in 2019, which is a lower proportion than had planned to cut prices from 2013 to 2017 (see chart 2.5).

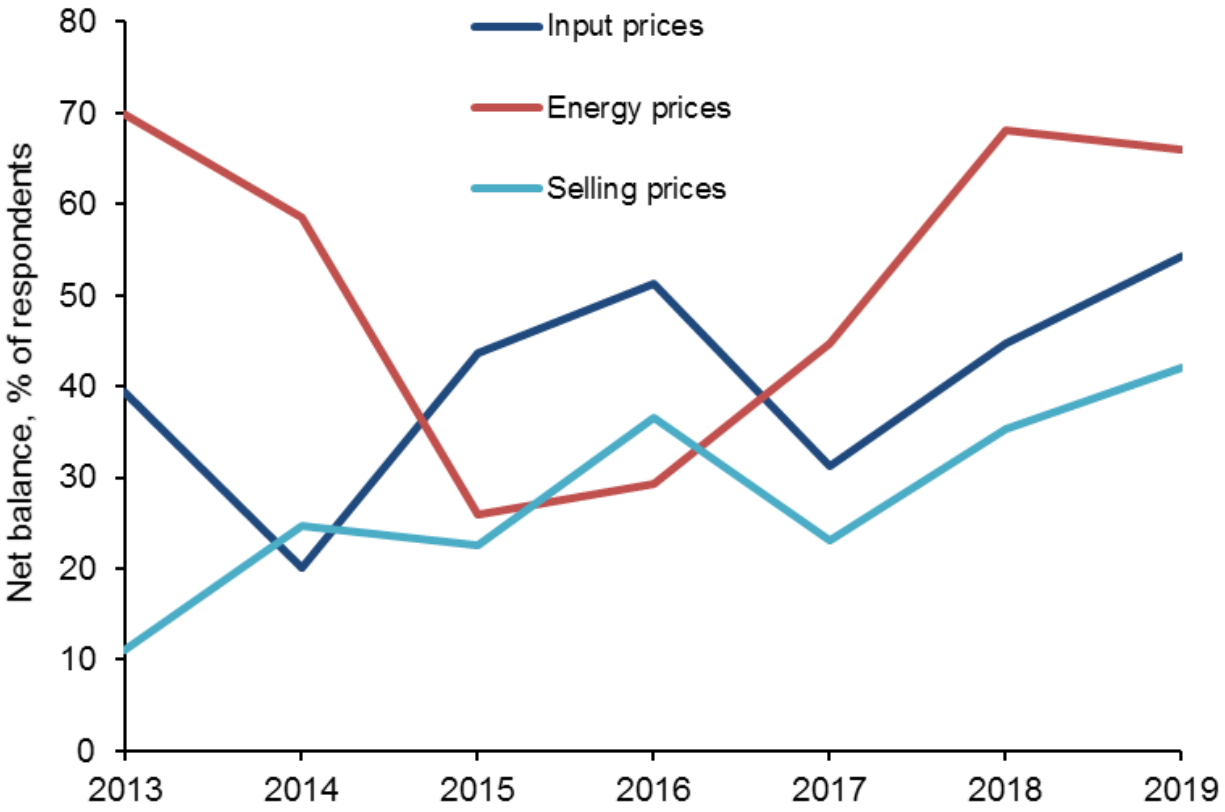
At the same time, more services businesses are expecting price pressure on the input side in 2019. A higher proportion of businesses expect their input costs to rise in 2019 (61%) than in any of the previous six years, but there is also a higher proportion (7%) who expect their input prices to fall in 2019. As a result, a smaller proportion of businesses (33%) expect their input costs to remain unchanged in 2019, compared to services CEOs' pricing expectations for the previous six years (2013-18). This increase in input price pressure adds extra uncertainty to business planning than has been seen in the past six years.

Concern about input price increases relates largely (but not solely) to energy pricing. Two thirds (66%, net balance) of services CEOs expect energy input costs for their business to rise further in 2019 (see Charts 2.5). This follows reported energy price increases for 61% of businesses in 2018.

Rising energy prices (and reliability of energy supply) are becoming an issue across a large proportion of services businesses. At the start of 2017, 48% of services businesses expected their energy prices to increase, while at the end of 2017 63% reported experiencing higher energy prices across the year. Energy costs were expected to rise further in 2018, with 68% of CEOs anticipating an increase in energy costs for their business; at the end of 2018, 61% of CEOs reported that they had experienced higher energy prices. In 2019, 70% of CEOs expect further increases to energy prices, 4% expect lower energy prices (+66% net balance) and 26% expect no change in energy prices[3].These significant input cost increases help to account for the more subdued expectations for profit margins than for turnover in 2019.

[3] Australian Industry Group, *Eastern Australian Energy Prices- From Worse to Bad*, 2018.

CHART 2.5 **EXPECTED BUSINESS PRICING INDICATORS*, 2013-2019**



** 'Net balance' is the proportion of all survey respondents that expect an increase minus the proportion that expect a decrease.*

3. Challenges for services businesses in 2019

Challenges for Australian businesses can arise from global and local conditions, as well influences external and internal to the business. When asked which factors would provide the largest threats to growth for services businesses in 2019, 32% of CEOs identified a 'lack of customer demand' as their most significant constraint. This is lower than the proportion who identified this as their main inhibitor in 2018, when it was the biggest inhibitor for almost half (49%) of CEOs and has fallen from most preceding years from 2013.

Labour market concerns feature prominently for businesses in 2019. The second most pressing constraint for CEOs in 2019 is skill shortages with 21% of businesses nominating this as their top concern. This is up from 18% of leaders that identified skill shortages as an impediment for 2018 and more than triple the proportion in 2017 (6%). These concerns reflect rising demand for labour seen in 2017 and 2018, as was indicated across a range of data sources including the monthly ABS Labour Force surveys and Ai Group's Australian PMI®, PSI® and PCI® [4].

As reported in Ai Group's 2018 publication on workforce skill needs[5], it is apparent that skills for both current and future-oriented occupations are not meeting demand. Three quarters (74%) of services respondents reported skills shortages over the 2017/18 financial year and 71% of services businesses expected to face shortages across 2018/19. These are most often in the technician & trades worker category, however for the first time in the workforce development survey, skills shortages were reported for those involved in business automation, big data and artificial intelligence solutions, suggesting a new area of skills needs are emerging and skills and training for these requirements are lagging.

As noted earlier, two in five services businesses (40%) in this year's CEO survey plan to increase employment in their business in 2019, so concerns about skill shortages are expected to worsen if recruitment activity steps up during 2019. A further 8% of CEOs said the flexibility of industrial relations is their top concern in 2019, up from 2% in 2018. Despite these widespread (and growing) concerns about skill shortages and industrial relations flexibilities, only 4% of CEOs ranked wage pressures as their greatest inhibitor in 2019, similar to 2018 but well down from 13% of CEOs in 2017.

Competition from imports and online sources (15%) increased as a constraint for 2019 compared to 2018 (9%) but was well down from the recent peak in 2017 when it was a primary inhibitor for almost a third (32%) of responding businesses.

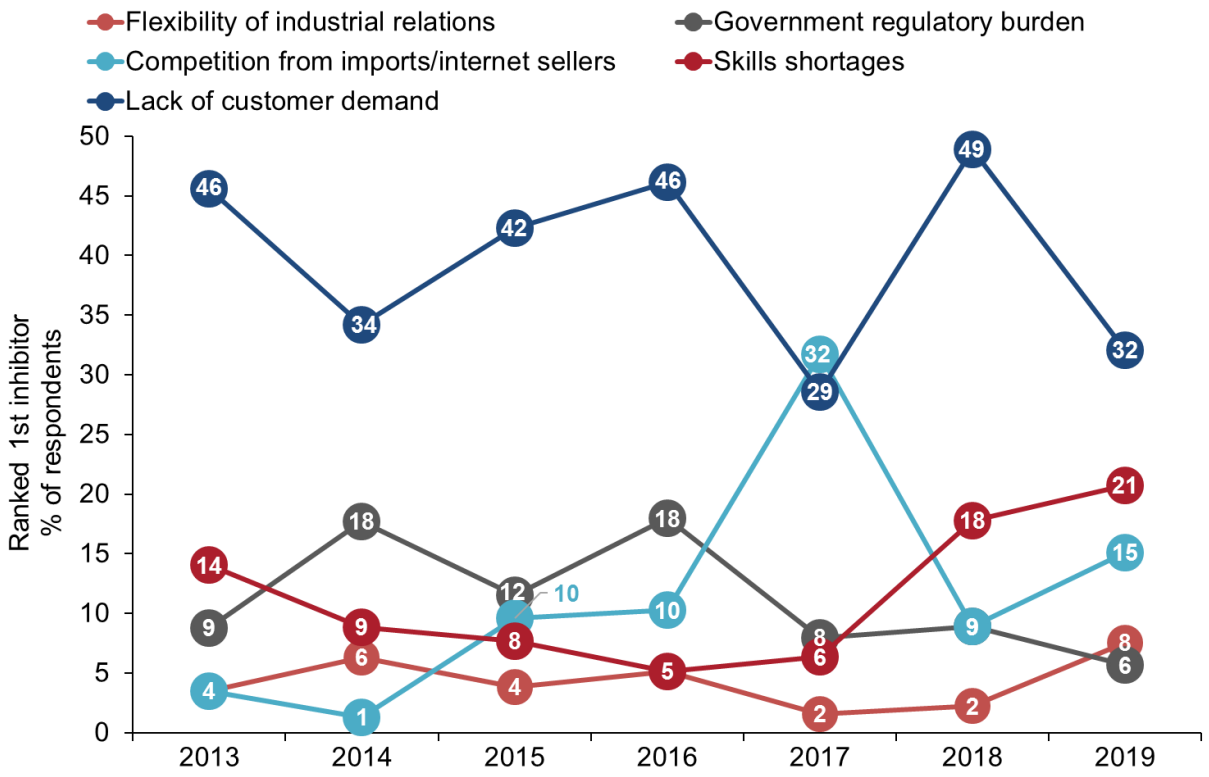
Government regulations were also a primary constraint for around 6% of CEOs, down slightly from the past couple of years.

Following the recent peak of the Australian dollar in January 2018, concerns about high and/or variable exchange rates were the main issue for only 4% of businesses in 2019, which was slightly up from 2018 (2%). Concerns surrounding the value of the AUD have fallen in line with the lower trading range; 12% of businesses nominated it as a primary inhibitor for business in 2015, when the trading range for the dollar was much higher.

Other constraining factors for business in 2019 included: rising input costs due to higher energy prices (the most commonly listed 'other' factor); uncertainty about international trade; drought conditions across some of Australia and tightening access to funding for operational and/or investment purposes.

[4] *www.aigroup.com.au/policy-and-research/economics/economicindicators/*
[5] Australian Industry Group, *Skilling: A national imperative,* 2018.

CHART 3.1 **EXPECTED INHIBITORS TO BUSINESS GROWTH, 2013 TO 2019**



Percentage of respondents who ranked each factor first in each year, out of a list of possible inhibitors.

4. Planning and strategy for services businesses in 2019

Business plans and strategies are often adjusted in response to fluctuating business conditions and services businesses have shown this to be the case as in 2018, almost half (46%) of services CEOs said they had revised their 'business model, plan or strategy' at some point during the year in response to variations in the business environment (down from 55% in 2017). Around 9% of CEOs said they didn't have a plan or strategy in 2018, up from 6% in 2017 but well down from previous years of the same survey (14% in 2016, 12% in 2015 and 11% in 2014).

In 2019, Australian CEOs plan to concentrate on improving sales of current products and services to their customers. This strategy was the most popular priority for 2019 with 28% of CEOs ranking it their first choice, but the proportion of respondents listing this as their primary strategy has fallen from 2018 (33% of respondents).

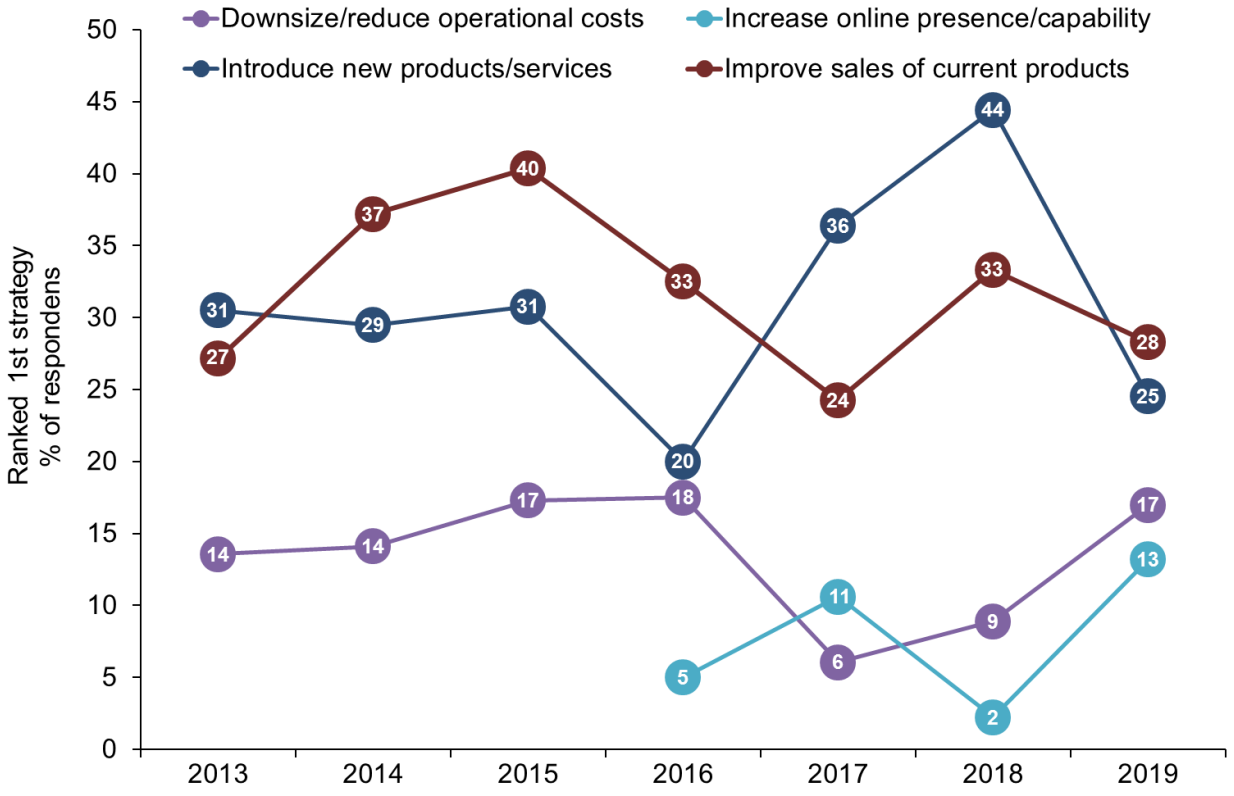
Introducing new products to the market is a primary strategy for growth in 2019 for 25% of services businesses. It was the principal approach for a larger proportion of respondents in 2018 (44%) and 2017 (36%) but has since dropped back as the main approach for business improvement. We may be starting to see a cyclical process emerging across the time series as businesses alternate their focus from developing products and services to consolidating sales of existing lines.

Downsizing or reducing operational costs is a priority for more businesses in 2019 than it has been in the past two years (17%). After a decline in cost reduction as a primary growth strategy in 2018 (9%) and 2017 (6%), it has crept back up to similar levels as 2016 (18%) and 2015 (17%).

Increasing online presence or capability is the primary growth strategy for 13% of Australian services businesses in 2019. This factor has only been one of the most common strategies since 2016, where 5% of respondents considered it their priority, it rose in 2017, before falling back in 2018. Although there has been substantial growth in online presence (all responding large businesses have a website for example) there is room for further growth in small to medium enterprises and some sectors of industry have more capacity to increase their online capabilities in the future.

The same proportion of services businesses plan to develop new markets within Australia, develop new export markets and increase advertising and marketing as their top business strategy in 2019 (4%).

CHART 4.1 TOP STRATEGIES FOR BUSINESS GROWTH, 2013 TO 2019



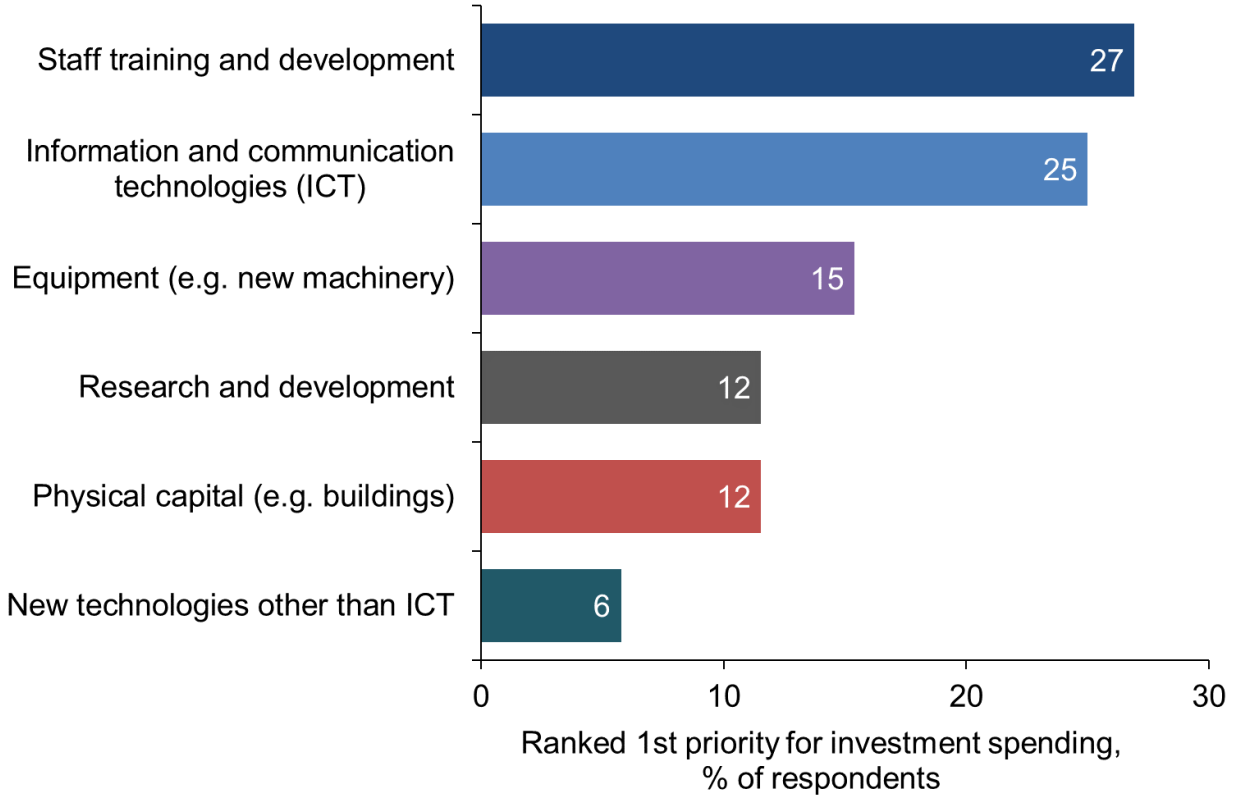
Percentage of respondents who ranked each factor first in each year, out of a list of possible strategies.

4.1 Services businesses investment priorities for 2019

In 2019 just over half of businesses (52%) plan to concentrate their investment spending on either staff training & development or information & communication technologies (ICT) (Chart 4.2). When asked what their highest priorities were for business investment spending in 2019, over a quarter (27%) of CEOs stated that improving employee capability was their focus for investment. One quarter (25%) of respondents said their first priority was ICT. These two factors are likely linked as the introduction of new technology generally necessitates an upgrade of employee skills.

The third most important area for investment spending for Australian services CEOs is new equipment with 15% of respondents planning to prioritise this area of investment in 2019. Research & development and physical capital expenditure were each important to 12% of CEOs reporting on their investment intentions, while just six per cent of businesses plan to focus on new technologies other than ICT.

CHART 4.2 **INVESTMENT PRIORITIES FOR BUSINESS, 2019**



Percentage of respondents who ranked each category first, out of a list of possible types of business investment spending.

APPENDIX: CEO Business Prospects survey 2019 participants and questionnaire

Responses were received from the CEOs of 55 medium to large, private-sector services businesses across Australia in October and November 2018. Together, these businesses employed around 46,000 people (878 people each on average) and had an aggregate annual turnover of around $43 billion in 2018.

All Australian states except Tasmania are represented in this year's services CEO report.

The services sectors represented in this year's sample include: IT, communications and media services; transport, post and storage services; wholesale trade; retail trade; finance and insurance; real estate and property services; professional services; administrative services; health and welfare services; education; hospitality (food and accommodation services); arts and recreation services; and personal services.

	CEO Survey: Business Prospects 2019		ABS data (2017-18)
Industry	Number of respondents	% of respondents	Value-added output, % of GDP
Manufacturing	164	65.1	5.8
Services	55	21.8	53.5
Construction and mining services	33	13.1	8.2
Total	252	100.0	67.5

**only includes construction value-added output. ** These industries do not sum to GDP due to the exclusion of utilities (2.4% of GDP), public administration and safety services (5.5%), agriculture (2.4%), mining other than mining services (5.8% of GDP), ownership of dwellings (8.7% of GDP) and other additional statistical items that are included in GDP.*

CEO Survey of Business Prospects 2019 Questionnaire

1. Business name:

2. Postcode:

3. In which industry does your business mainly operate? *Please tick one box only, for your main activity*

- ☐ Mining and/or mining services (e.g. exploration, mining engineering or mining processing)
- ☐ Manufacturing (e.g. making food, beverages, chemicals, equipment, building materials, metals, textiles, furniture)
- ☐ Construction (e.g. engineering, infrastructure, commercial, residential construction or contracting)
- ☐ Services (e.g. retail, wholesale, transport, professions, real estate, IT, media, health, education, cafes, hotels)
- ☐ Other industry (please specify): _____

4. What was your approximate annual turnover in 2018? $ _____

5. How many fulltime equivalent (FTE) people did you employ in 2018? _____ FTE people

6. By what percentage did the following factors change in your business in 2018, compared to 2017?

Please complete one box only for each of:	Down *(write in %)*	No change *(tick if applicable)*	Up *(write in %)*
Annual turnover	_____ %	☐	_____ %
Gross profit margin	_____ %	☐	_____ %
Number of employees	_____ %	☐	_____ %
Spending on staff training & development	_____ %	☐	_____ %
Spending on physical capital (e.g. buildings)	_____ %	☐	_____ %
Spending on research & development	_____ %	☐	_____ %
Spending on new technology	_____ %	☐	_____ %
Export income	_____ %	☐	_____ %
Input prices	_____ %	☐	_____ %
Energy prices (inputs)	_____ %	☐	_____ %
Selling prices	_____ %	☐	_____ %
Labour productivity (output per hour worked)	_____ %	☐	_____ %
General business conditions in your sector	☐ Worse	☐ No change	☐ Better

7. Did you change any parts of your business model, plan or strategies in 2018 due to business conditions?

☐ Yes ☐ No ☐ we don't have a formal business model, plan or strategy

If yes, what did you change in 2018? _____

8. If exporting, what was the total value of exports for your business in 2018? $ _____

9. Approximately what percentage of all your inputs (by value) were imported in 2018? _____%

10. IF your business was EXPORTING in 2018 or planning to export in 2019, at what AUD/USD exchange rate do your exports become uncompetitive with products from other countries? _____US cents

11. IF your business was competing with IMPORTS in the Australian market in 2018 or expecting to compete against imports in 2019, at what AUD/USD exchange rate do your products become uncompetitive with imported products from other countries? _____US cents

12. How did your business use the internet in 2018? *Please tick all uses that are applicable to your business*

☐ Business website	☐ Ordering / buying from suppliers	☐ Online applications (e.g. payroll)
☐ Advertising / marketing	☐ Data storage and / or analysis	☐ No internet used in the business
☐ Orders / sales from customers	☐ Other:	

13. Did your business experience any internet security problems in 2018?

☐ Yes	☐ No	☐ Don't know	☐ Not applicable to my business

If yes, please briefly describe your internet security problem(s) and your response to it? _____

14. Did your business invest in any internet security measures in 2018?

☐ Yes	☐ No	☐ Don't know	☐ Not applicable to my business

If yes, please briefly describe your internet security investment? _____

15. Did your business use any internet security assistance or advice from Government in 2018?

☐ Yes	☐ No	☐ Don't know	☐ Not applicable to my business

If yes, please briefly describe the Government assistance or advice on internet security used by your business? _____

16. Do you expect the following factors to change in your business in 2019, compared to 2018?

Please tick one box only for each of:	Down	No change	Up
Annual turnover	☐	☐	☐
Gross profit margin	☐	☐	☐
Number of employees	☐	☐	☐
Spending on staff training & development	☐	☐	☐
Spending on physical capital (e.g. buildings)	☐	☐	☐
Spending on research & development	☐	☐	☐
Spending on new technology	☐	☐	☐
Export income	☐	☐	☐
Input prices	☐	☐	☐
Energy prices (inputs)	☐	☐	☐
Selling prices	☐	☐	☐
Labour productivity (output per hour worked)	☐	☐	☐
General business conditions in your sector	☐	☐	☐

17. What factors do you expect will inhibit your business growth in 2019? *Please rank all factors that will inhibit your business in 2019, starting with 1 as your most important inhibiting factor*

Lack of customer demand	_____	Government regulatory burden	_____
High and/or variable exchange rate	_____	Competition from imports / internet sellers	_____
Flexibility of industrial relations	_____	Wage pressures or high wage costs	_____
Skills shortages	_____	Other (please specify): _____	_____

18. What key growth strategies do you plan to implement in your business during 2019? *Please rank all relevant strategies for 2019, starting with 1 as your most important strategy*

Introduce new products/services	_____	Downsize / reduce operational costs	_____
Improve sales of current products/services	_____	Increase online presence / capability	_____
Develop new domestic markets	_____	Increase advertising / marketing	_____
Develop new overseas markets	_____	Other (please specify):_____	_____

19. What are your highest priorities for your business investment spending in 2019? *Please rank all types of investment that you are considering for 2019, starting with 1 as your most important area of investment*

Staff training and development	_____	Research and development	_____
Physical capital (e.g. buildings)	_____	Information and communication technologies (ICT)	____
Equipment (e.g. new machinery)	_____	New technologies other than ICT	_____

Other (please specify): _____

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