

## South Island Business Leaders Survey

December 2008

In late November and early December 2008, Polson Higgs and McCulloch and Partners conducted their third South Island Business Leaders Survey. The survey has revisited some areas from previous surveys and explored a highly topical theme: how businesses are planning and dealing with the current economic climate.

The survey was completed by 55 South island business leaders – CEOs and senior managers operating across a wide range of industry sectors

### Future Trends

70% of respondents expect that SME growth will be handicapped by a slow recovery in overall trading conditions over the next five years.

26% of respondents see foreign firms acquiring local firms as an issue; this is, however, down from 52% in May 2008, indicating that local business leaders foresee lower levels of interest by foreign firms in the local market in the near future.

Similarly, concerns about low cost foreign competitors squeezing out local firms have decreased from over 45% to 20%

Respondents also think there may be greater support for local firms, with perceptions that customers will make a deliberate choice to support smaller local firms increasing from 20% to 35%.

### Growth Expectations

Most respondents (55%) think that over the next **two** years firms in their market will experience a contraction or zero growth. Only 15% think their market will grow by more than 5% p.a.

Respondents were less pessimistic about their own businesses' prospects, with 45% thinking they will experience a contraction or zero growth and 30% expecting to experience growth of over 6% over the next two years

The outlook respondents expect to see for other firms in their market for the next five years is generally more optimistic than the two year outlook, with 75% of respondents expecting to experience growth, including 16% expecting growth of 6% p.a or higher.

When compared to May 2008, these results show a more pessimistic outlook.

18% of respondents expect to see a contraction of 5% more in other firms in their market over the next five years. This compares to only 4% in May 2008. The proportion of respondents expecting to see high growth in their market has decreased from 30% to 16%.

Similar variances can be seen in the respondent's outlook for their own business for the next five years. There has been a large increase in the percentage of respondents that expect a contraction in their business of 5% or greater. This has increased from 5% in May 2008 to 16%. The number of respondents expecting to see growth of 6% or greater in their business has decreased from 50% to 41%.

## **Developments**

There are three main developments that respondents expect to see in their market place over the next five years: Over 40% of respondents expect that customers will become increasingly price sensitive; customers service expectations will increase; and customers' added value expectations will increase. These results are similar to previous surveys.

The biggest change is respondents' expectation that there will be a growing regulatory burden. This has decreased from over 60% for the previous two surveys to under 40% for this current survey. This can be largely attributed to the change in government, with the new government being perceived as more business friendly.

## **Government Initiatives**

Respondents were asked to assess the impact of five proposed government initiatives likely to affect businesses: tax reforms, Resource Management Act reform, investment in new infrastructure, review of the emissions trading scheme, and removal of research and development tax credits.

Respondents expect that most of the proposed reforms will have a neutral or positive impact on their businesses. Approximately 50% of respondents thought there would be no significant effect from the above initiatives.

Fewer than 10% of respondents expect that tax reforms, Resource Management Act reform, new infrastructure investment and the review of the Emissions trading scheme to have a negative impact on their business.

Only the removal of the R & D tax credit had respondents expecting a negative impact on their business. 4.4% expected there would be a strong negative effect on their business and 11% expected a moderate negative effect. The removal of the R & D tax credit also had the largest proportion of respondents (75%) expecting no effect on their business.

## **Business Initiatives**

Firms are employing many initiatives in response to the current economic environment.

Of particular note, over 70% of respondents are reviewing their internal structures. Furthermore, 40% of respondents are ensuring they secure trained staff and seeking to increase price margins. Almost all firms are doing something in response to the current economic conditions with only 6% of respondents indicating they had no specific initiatives planned.

## **Environment**

As economic conditions deteriorate, the significance of environmental issues for business has decreased. 65% of respondents indicated that environment issues were not significant. This is an increase from 52% in the previous survey.

The level of understanding businesses have on how environmental issues affect their business has remained relatively constant. There was no change in the percentage of respondents that report having no clear understanding (10%) and some understanding (28%) of the environmental issue that affect their business. The percentage of businesses that have a good understanding and are developing or have a clear strategy also remained constant at 50%.

The most common motivations driving environmental initiatives are enhancing the business's reputation/brand (52%) and pressure to reduce costs (42%). These were similar to results in previous surveys. The number of respondents stating that they were reacting to employee expectations has risen significantly from 8% to 24%.

## **Challenges**

Respondents have identified controlling costs (58%) and recruiting and retaining talent (55%) as their biggest challenges over the next five years. These are similar results to the previous survey when over 55% of respondents indicated the above were their biggest challenges.

36% of respondents identified retaining existing customers as a challenge. This has increased from 26%. The perception that regulation is a major challenge has decreased from 55% to 45% in this current survey.

## **Recruitment and Retention**

Financial rewards and having a clear culture and values remain the most important factors in helping businesses recruit and retain the best talent over the next five years.