

Bankwest Future of Business

Productivity Report

May 2017



FOR BUSINESS



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Key Insights

Foreword

The Bankwest Future of Business Productivity Report, the second report in the 2017 Future of Business series, explores the tools and techniques leaders of small and medium businesses are using to make their business more productive.

The report reveals that the vast majority of Australian businesses are prioritising productivity right now, recognising that the commercial benefits include business growth, higher profitability and better ability to meet customer demand.

Productivity remains a key driver of growth for Australian small and medium businesses as they strive to get more out of every dollar spent.

Leaders are looking for opportunities to increase revenue, profitability and business efficiency amidst intense competition across industries.

Australian businesses are kick-starting productivity by investing in customer satisfaction, placing more focus on sales and marketing, and focusing on employee reward and recognition.

Importantly, the research demonstrates that those businesses that are prioritising productivity have greater confidence about the future of their business and higher expectations for revenue, profit and cash flow in the next three months.

However, an uncertain economic environment is driving a dual focus on reducing operating costs and managing cash flow to improve productivity, with

many businesses seeking out cheaper suppliers, becoming more tech-savvy and offering customers new products and services.

There also appears to be a broad recognition among Australian businesses that happier employees are more productive, with flexible working practices – such as flexible hours, working remotely and job sharing – commonly used to improve employee health and wellbeing.

Overall, the Bankwest Business Sentiment Index shows that Australian business sentiment is positive, as businesses take proactive steps to manage domestic and global economic uncertainty and remain optimistic about the outlook for their business and industry.

We hope this report provides some useful suggestions for those leading small and medium businesses to improve productivity in their own business, with a view to driving growth in revenue, profitability and customer satisfaction.

Sinead Taylor

Executive General Manager, Business Banking
Bankwest

Defining productivity.

We asked businesses to define what productivity means to them.



Key commercial benefits.

How productivity contributes to the success of Australian businesses.

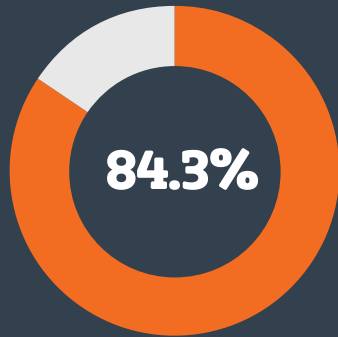


About the Bankwest Future of Business Productivity Report

The findings in this report are based on an online quantitative survey of 1,000 business owners, leaders and managers, conducted on behalf of Bankwest by CoreData in March 2017. Respondents were drawn from small and medium businesses across Australia. Small businesses had an annual turnover of up to \$2 million while medium businesses had an annual turnover of between \$2 million and \$250 million.

The research was designed to explore the tools and tactics that Australian small and medium businesses are using to drive productivity and business growth. The survey also captured small and medium business sentiment in the next three months, including business confidence, performance expectations, business health and economic outlook. The Bankwest Business Sentiment Index will be used as a quarterly benchmark of Australian business sentiment and forms part of the Future of Business Series.

Productivity in focus.



Australian businesses are prioritising improving productivity right now



Improving productivity is considered the most important in the **growth** phase.




Phases of the business lifecycle.



Why should Australian businesses focus on productivity?

Our research shows businesses that are prioritising productivity:

- Are more confident about the future of their business, and
- Have higher revenue, profit or cash flow expectations.

	Area	Businesses prioritising productivity	Businesses not prioritising productivity
	Business prospects	91.9% confident	77.6% confident
	Revenue expectations	66.6% expect revenue growth	27.2% expect revenue growth
	Profit expectations	66.9% expect profit growth	24.3% expect profit growth
	Cash flow expectations	61.1% expect cash flow to improve	15.8% expect cash flow to improve

Productivity drivers.

Australian businesses are kick-starting productivity by:



Investing in customer satisfaction



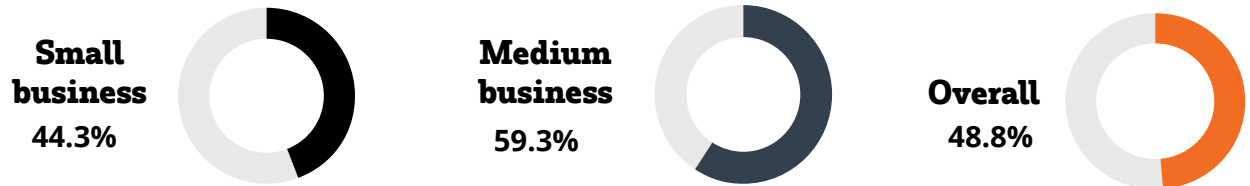
Focusing on sales and marketing



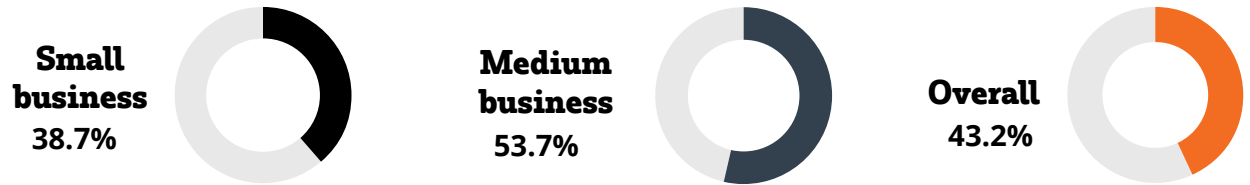
Improving employee reward and satisfaction

Key opportunities in the next 12 months:

Improving business efficiency



Improving customer satisfaction



Top tips for improving business efficiency

<p>Conduct a cost benefit analysis*</p>	<p>Undertake activity analysis**</p>	<p>Introduce standard operating procedures</p>	<p>Explore IT solutions</p>	<p>Hold brainstorming sessions</p>
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Top tips for improving customer satisfaction

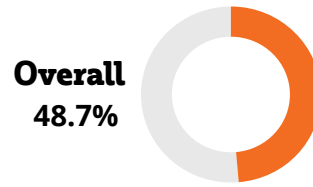
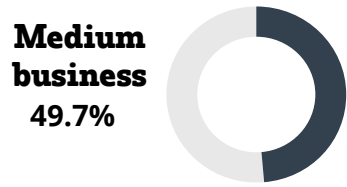
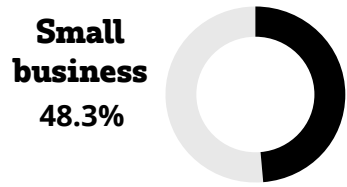
<p>Resolve complaints quickly</p>	<p>Set clear expectations</p>	<p>Provide multi-channel support***</p>	<p>Personalise products & services</p>	<p>Seek regular feedback</p>
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* Assessing the costs and benefits associated with a project or decision

** Evaluating the impact of activities/processes on business operations

*** Customer service through a range of online and face-to-face methods

Nearly half of Australian businesses see appealing to new customers as a key opportunity to drive growth.

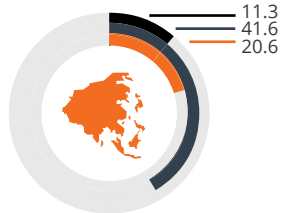


● Small business ● Medium business ● Overall

New target markets include:



New geographic regions in Australia



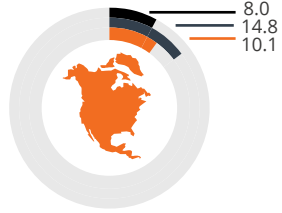
New geographic regions in Asia



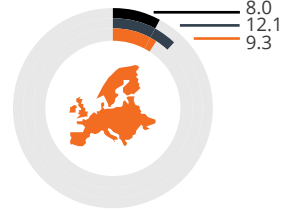
New customer behaviours



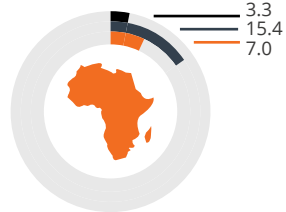
New wealth opportunities



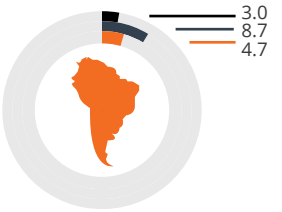
New geographic regions in North America



New geographic regions in Europe



New geographic regions in Africa



New geographic regions in South America



Other

“We are actively pursuing an expanded client base, pushing market differentiation and increasing our online presence.”

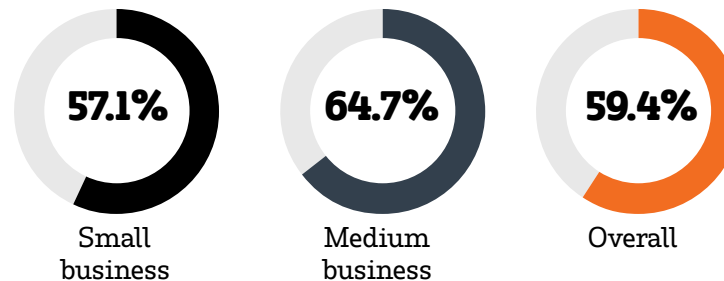
(Head of Department, medium information media and telecommunications business in WA)

*Note: Respondents were allowed to select multiple answers.

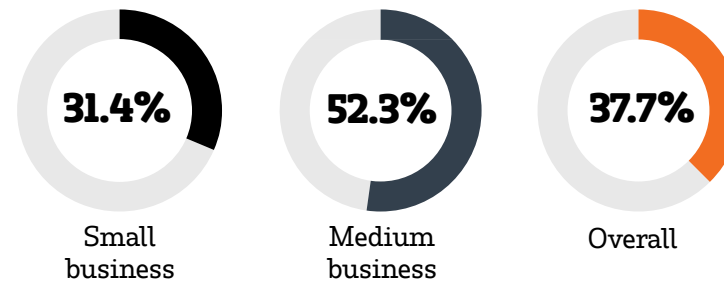
More than four in five businesses are confident that taking steps to reduce operating costs will improve productivity.

Key challenges in the next 12 months:

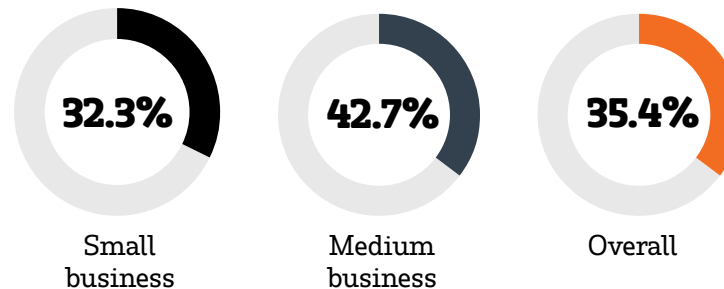
Achieving business growth



Reducing operating costs



Managing cash flow



Top tips for reducing operating costs:

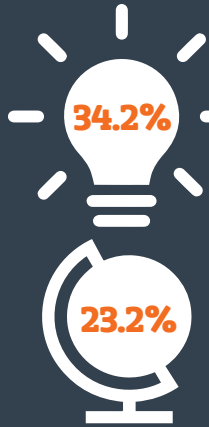
- Finding cheaper suppliers
- Relying more on technology
- Restructuring roles and responsibilities
- Reducing inventory
- Insourcing

Top tips for managing cash flow:

- Offering new products/services
- Conducting cash flow forecasts
- Spending more time chasing invoices
- Offering discounts for early payment
- Expanding into new geographic markets

Expanding horizons a key to cash flow management.

More than a quarter of businesses are using innovation to improve cash flow. Types of innovation being used include:



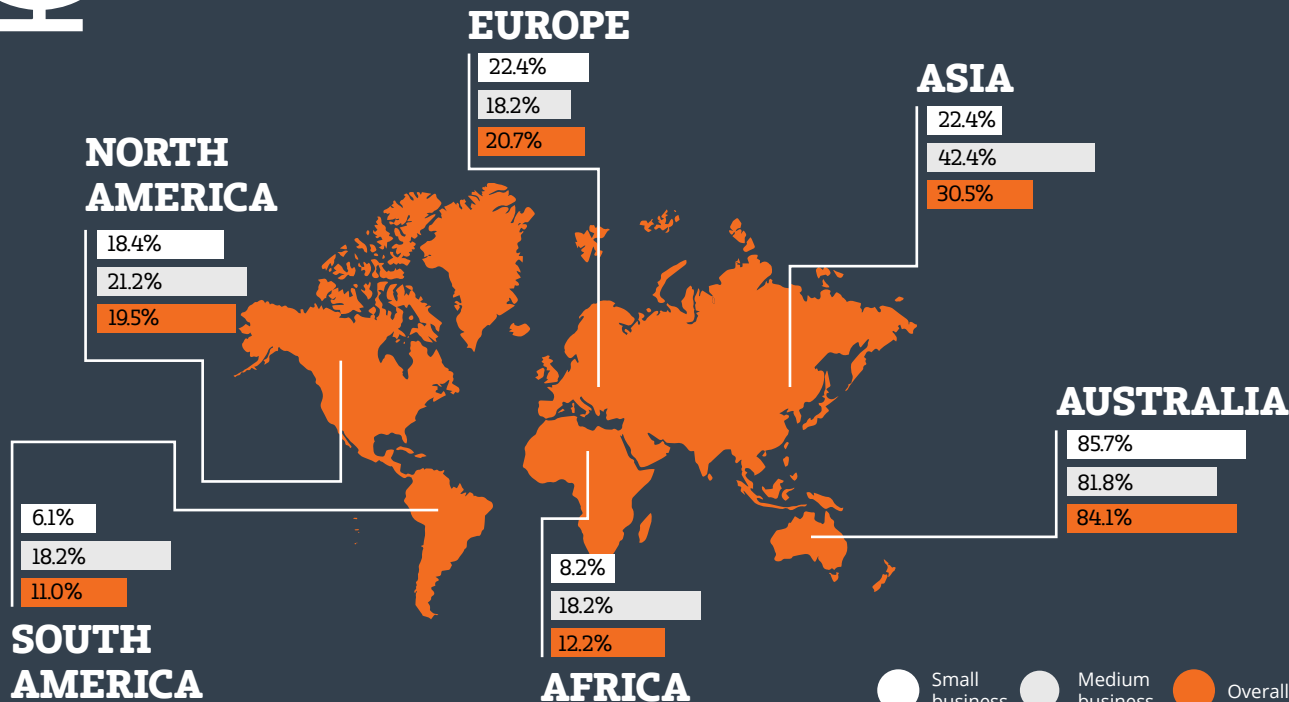
34.2%

New products/services

28.1% of businesses consider these new products revolutionary to their industry.

23.2%

Geographic expansion



● Small business ● Medium business ● Overall

Improving cash flow improves productivity through...

More time spent on profitable business activities (e.g. production, sales and customer engagement)



40.3%

Less time spent on non-profitable business activities (e.g. admin and compliance)



20.8%



38.2%

More cash to invest in productivity initiatives

Small Business Case Study.

As a solo-preneur, productivity is vital to the long-term viability of Tracey Loubser's business, Confident Cashflows.

Loubser says maximising her own personal productivity as well as the productivity of the business allows her to invest her time in things that will drive business growth.

"If I don't constantly work at streamlining my systems and processes and continually be productive, I will never get to do the things that are vital to my business growth," she says.

"Productivity within my business means I have time available to support my clients as and when they need me – more analysis, detailed forecasting when they are investigating price or business model changes and any other support to help them find better and more profitable ways of making and keeping more money in their business."

Loubser feels strongly that the majority of business failures occur from lack of financial understanding on the part of the business owner.

That's why she launched Confident Cashflows in 2009, a business-to-business financial management services provider that helps fill the gap between information bookkeepers generate and tax compliant reporting accountants provide for their clients.

She says improving productivity is not just a focus for her own business, but a key part of the service she provides to her clients.

"Time equates to money, especially when the labour element of a business is generally the biggest chunk of [the business owner's] spending," she says.

"Productivity means efficiency and efficiency means profit. The crux of improving cash flow is making as much profit as possible on each area of the business, through first finding the money leaks in a business and secondly improving the time it takes to deliver that product or service."

Loubser relies on software to drive productivity in her business, including *Infusionsoft* for marketing, *Trello* for her to-do list, *mavenlink* for internal communication and *Calxa* for small business reporting. Technology has also helped ensure she gets paid on time, improving her own cash flow management.

"One of the biggest lessons I learnt early in my business is 'be in control of getting paid by your clients'," she says.

"I don't work on a 'pay on presentation of invoice' model. My clients pay via their credit card debits using Eway and a merchant facility and because I run a fixed price model it gets charged to their credit card. That way I never waste time following up on unpaid accounts."

**Confident
Cashflows helps
businesses improve
productivity
through cashflow
management.**

Tracey Loubser,
Confident Cashflows



In 2012, Loubser launched Confident Cashflows PLUS – a second service offering for public practice accountants including workshops and coaching programs.

The training is based on her 7 Step 'Profit Boosting System', which allows her to prepare financial information "in a productive way" and spend more time analysing the business to find effective ways to improve profit.

"Accountants are under increasing pressure from clients and the industry to provide more than a tax/BAS compliance service," she says.

"I help them do that through my training. They can on-sell this financial support to their clients, and improve both the accounting practices' and their clients' profitability and cash flow."

Using the 7 Step process, one client experienced improved financial performance over a short period such as;

- Increased turnover by 37%.
- Increased gross profit by 7% – with an increase in staff.
- Increased net profit by 64% during the period compared to the previous 12 months.
- Reduced debt by 52% in 12 months – with more staff and maintaining personal drawings from the business.

However, she acknowledges that increasing automation in the accounting industry poses a threat to both her own business and that of her clients.

"Over the past five to 10 years we have gone from accounting software being mostly on your desktop or local network, with each transaction being captured one by one – to now most software used by small businesses being online or in the cloud, able to be accessed anywhere any time, with bank feeds that automate the capturing of data a lot easier and more time efficiently," she says.

"This is a huge area of concern in the accounting industry, as it's taking away the need for some of the work accountants do."

"These software packages are also getting really smart in the analysis of past data. Savvy business owners can now analyse their past performance against what they planned without the need for any special software packages, which are normally only accessible by accountants."

Loubser says this puts some pressure on the industry in which she operates.

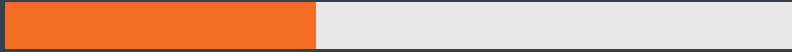
But despite a raft of new information being available to business owners through their software, she believes the business advisory or 'financial performance consulting' area has some key competitive advantages – in particular the fact that small business owners often don't analyse the information available to them, or even review it to discuss their financial performance.

"There's always hype out there about systems and software, it's certainly a benefit," she says. The businesses that are failing are businesses that don't understand how their business works financially and aren't able to act fast enough.

"Yes, the reporting and the software is there and giving them information, the challenge is not that it's not available – it is available – the challenge is that they're not looking at it."

Technology is playing a key role in productivity improvement.

39.9% are relying more on technology to reduce operating costs and improve productivity.



In the next 12 months, more than two in five businesses...

- Will use technology to complement people (42.6%).



- Will be using or planning to use technology to automate business processes (43.8%).



However, one in seven (14.8%) businesses will allocate processes performed by software to people.



Key benefits of using technology to complement the value of people:



Increased business productivity



Increased employee productivity



More time spent on profitable business activities (e.g. production and sales)

“As engineers, we are not good at managing staff and finances so we have allocated these roles to people with the specialised skills as well as software to automate some processes. This also frees up more time for the two directors and the other engineers to focus on the engineering and technical side of the business.”

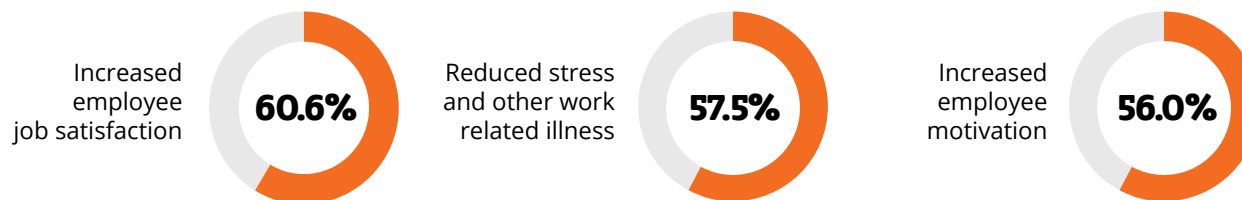
(Director of a small professional, scientific and technical services business in NSW)

Employee wellbeing remains a key focus.

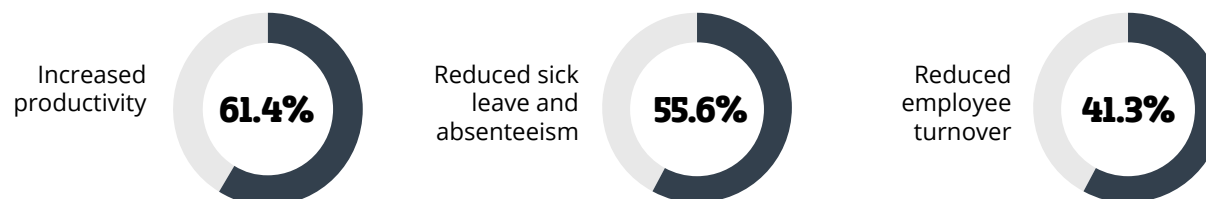
Common tactics to improve employee health and wellbeing include:



Working remotely has had a positive impact on employees...



... and on businesses



Top tips to improve employee health and wellbeing:



Provide a happy and safe work environment



Offer opportunities for personal and professional growth



Allow flexible working arrangements



Recognise and reward exceptional performance



Open communication channels

Medium Business Case Study.

As broadacre dryland farmers in Western Australia know all too well, the main influence on productivity and profitability in the farming industry is out of their control.

Tammin farmer Tony York has experienced first-hand the impact climate conditions can have on the productivity of a farm business.

The family farming business – which has an annual turnover of between \$6 million and \$7 million and was established by his grandfather in 1908 – lost nearly \$2 million profit last year due to the frost that affected WA's Wheatbelt, South West and Great Southern regions in September.

Farming 16,000 hectares of land for cropping and livestock in a Mediterranean climate with his brother Simon as well as other family members, York says rainfall is the biggest limiting factor that determines the business' productivity.

"We are absolutely trying to maximise our productivity by adapting and using the latest applicable, up-to-date technology in terms of agronomy and plant production, but overlaying all of that is the fact that it may or may not rain," he says.

"The rainfall is the main factor, but climate is the overarching influence on our profitability and productivity."

The farm has a strong focus on productivity, having developed a salt tolerant bush over 20 years to use for sheep feed on the farm's salt affected land. While the main business is cereals, the farm also runs a sheep flock of about 5,500 ewes, most of which are Merino.

Some 10% of the farm now has improved salt tolerant pastures, allowing them to hold 30% more ewes.

"It's a \$400,000 investment and it didn't happen overnight," York says.

"There's a productivity incentive, but there's also an environmental incentive because we're revegetating the land and getting better control of surface water flow – and arguably helping manage any expansion of the part of the land that's gone saline."

Most of the farm's investment – in research, plant breeding, chemistry and farming practises – aims to maximise wheat and barley production.

However, York says managing cash flow is a constant challenge and one of the reasons that WA has seen the number of grain grower shareholders in CBH Group, WA's main grain handler, shrink from more than 10,000 in 2000 to less than 4,000 in 2017.

"In the last 40 years [that I've been running the farm], there would have been five or six years where the season has directly limited the cash flow and challenged the long-term viability of the business," he says.

"We are absolutely trying to maximise our productivity by adapting and using the latest applicable, up-to-date technology."

(Tony York, Tammin farmer, WA)



“Three of those six years have occurred since 2000.” Due to the nature of the agriculture industry, York says cash flow decisions about investing in plant and equipment, fertilisers and chemicals are made on an annual basis, meaning the ability to adapt to adverse conditions is limited.

“Our cash flow cycle is 12 months; you spend all the money, plant a crop and six months later you reap the rewards and the results of that influence what you do next year,” he says.

“In terms of our input costs, maybe we can shift 10-15% as an adaptation to the season as it’s progressing but only that amount.”

While actively managing input costs is a cash flow necessity in farming, York says it has the potential to limit your productivity.

“Many [farmers] will cut the fertiliser down or won’t use the right amount of chemical, so they’ve actually taken the yield potential at the top end away,” he says.

“We as an individual farming business don’t want to do that, so we’ve been trying to run a business that invests in the right amount of inputs to get the best return possible. Not necessarily maximum yield, but the most profitable return.”

York says the business is also one of only around 50 in Australia to have taken out multi-peril crop insurance – a type of income protection for farming. “There haven’t been many suitable policies available but there are now, so that gives you the capacity to secure your income and gives you the confidence to invest in your production,” he says.

As an export-focused business, the business’ income is determined by the world market – not what consumers pay for bread. This means global exchange rates, interest rates, agricultural, political and environmental events can all have an impact on business productivity.

In the next 12 months, York says the outlook for grain prices is subdued but the outlook for meat and wool prices is at an all-time high.

“We’re going to lose money on our projected prices and projected average yields, but our sheep enterprise will be very profitable,” he says. “That’s the counter factor.”

The farm will continue to seek out productivity enhancements such as innovation in chemistry to improve the soils and use ‘minimum tillage’ cropping methods; adopting new seeds; and weed resistance management.

“We’re picking up on the productivity benefits all the time; every year there’s a new variety of a type of grain we’re growing that could potentially be a productivity increase for our business,” he says.

“We have a wheat this year we’re planting that will allegedly be 10% higher yielding than the next best wheat.”

York says the farm’s annual investment in productivity totals more than \$200,000 – with most of that compulsory research levies and end point royalties paid to the plant breeder.

“We pay an agronomist to give us agronomic advice on the ground but also to be our eyes and ears and monitor and measure what new innovations or productivity gains we should be looking at,” he says.

“There’s always a stream of new chemistry, so we’re looking at new chemicals and herbicides to apply to our farming system. We have an ongoing battle – some would say war – with weeds because some of them are becoming resistant to the chemistry... so we’re watching innovations in terms of resistance management as well.”

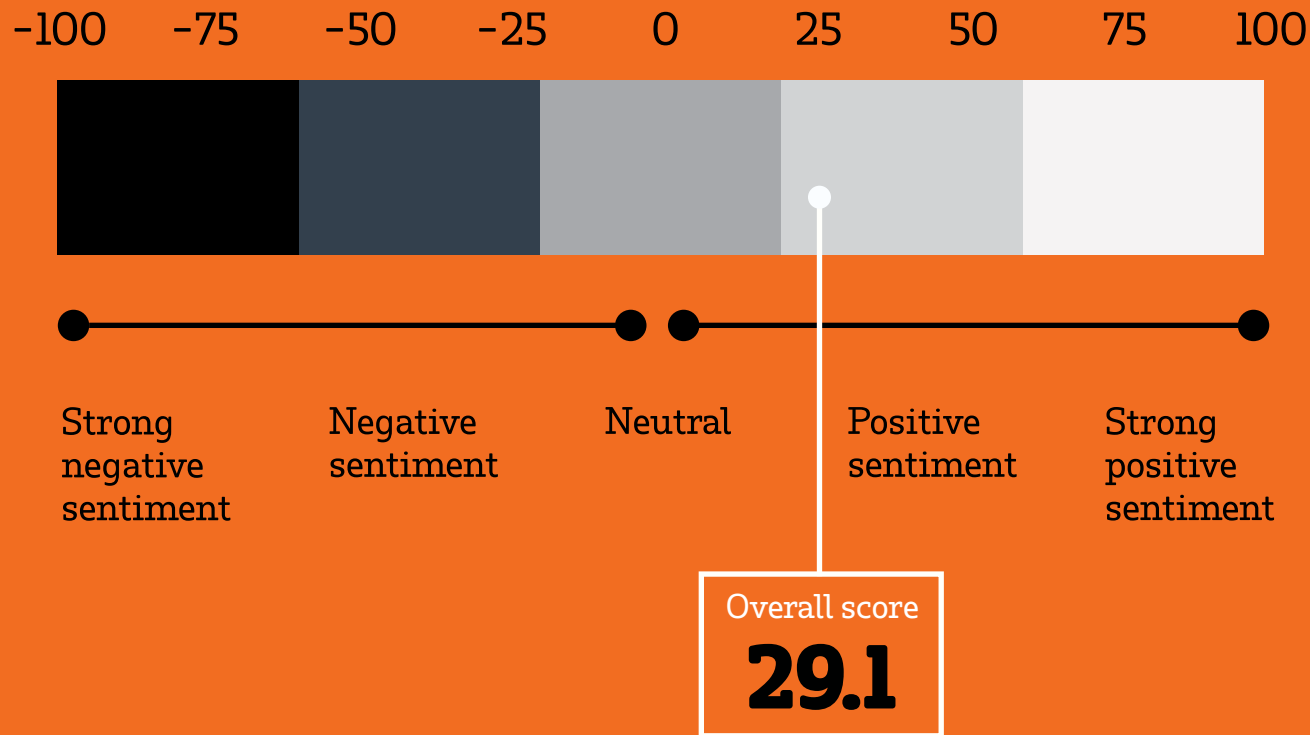
Looking forward, York believes the burgeoning middle class in Asia provides an opportunity to access new consumer markets where there is appetite to pay a higher price.

“Most of the grain and livestock in WA has gone to the middle east and Indian subcontinent, the lowest price payers,” he says.

“It’s an opportunity to get a whole new market that’s prepared to pay for cleaner and greener production systems that have integrity.”

Australia's Business Sentiment

Bankwest Business Sentiment Index



About the Bankwest Business Sentiment Index

In addition to canvassing small and medium businesses' views on productivity, Bankwest took the pulse of business owners, leaders and managers to assess their confidence in the future. The Bankwest Business Sentiment Index is designed to provide a comprehensive quarterly benchmark of Australian business sentiment. In our survey, we gauged sentiment across four key variables and used a weighted average across these variables. Together, they comprise the Bankwest Business Sentiment Index. The scores maintain a -100 to +100 scale to facilitate consistent and intuitive interpretation. The Index is calculated by assigning scores to individual responses to the following areas:

- Business confidence (business prospects and industry outlook)
- Business performance (revenue and profit expectations)
- Business health (cash flow expectations and debt repayment capacity)
- Economic outlook (Australian and global)

Note: 'Not Sure' responses were excluded from the Index calculation.

Index Results

National reading **29.1**

Small business **27.6**

Medium business **29.7**

Highest industry result: **36.2**
Accommodation and food services

Index Drivers



The Bankwest Business Health Index is designed to provide a comprehensive quarterly benchmark of Australian business sentiment. In our survey, we gauged sentiment across four key variables and used a weighted average across these variables. Together, they comprise the Bankwest Business Health Index. The scores maintain a -100 to +100 scale to facilitate consistent and intuitive interpretation. The Index is calculated by assigning scores to individual responses to the following areas:

- Business confidence (business prospects and industry outlook)
- Business performance (revenue and profit expectations)
- Business health (cash flow expectations and debt repayment capacity)
- Economic outlook (Australian and global)

Note: 'Not Sure' responses were excluded from the Index calculation.

In the next 3 months...

Business confidence

Business prospects:

89.7% overall are confident in their prospects

88.8% of small businesses are confident in their prospects

91.6% of medium businesses are confident in their prospects

Industry outlook:

89.1% overall are confident in their industry outlook

88.8% of small businesses are confident in their industry outlook

89.8% of medium businesses are confident in their industry outlook

Top tips for improving business confidence:

Develop a proactive plan to tackling key business challenges and exploiting opportunities



Invest in getting to know who your existing and ideal customers are so you can better tailor your products and services



Commit a few hours a week for brainstorming ways to innovate to create a competitive edge



In the next 3 months...

Business performance

Revenue:

60.4% overall expect revenue growth

57.7% of small businesses expect revenue growth

66.6% of medium businesses expect revenue growth

Profit:

60.2% overall expect profit growth

57.2% of small businesses expect profit growth

66.9% of medium businesses expect profit growth

Top tips for improving business profitability:

Review your pricing strategy – small changes can have a major impact on revenue and profit



Seek feedback from customers to determine ways you can improve your product or service offering to increase satisfaction and referrals



Review all costs and negotiate better terms with suppliers where possible



In the next 3 months...

Business health

Cash flow:

54.1% overall expect cash flow to improve

51.5% of small businesses expect cash flow to improve

60.1% of medium businesses expect cash flow to improve

Debt repayment:

51.3% overall are likely to be ahead in meeting obligations

45.9% of small businesses are likely to be ahead in meeting obligations

64.1% of medium businesses are likely to be ahead in meeting obligations

“The crux of improving cash flow is making as much profit as possible on each area of the business, through first finding the money leaks in a business and secondly improving the time it takes to deliver that product or service.”

(Tracey Loubser, Owner of Confident Cashflows, WA)

In the next 3 months...

Economic outlook

Expectations for the Australian economy:



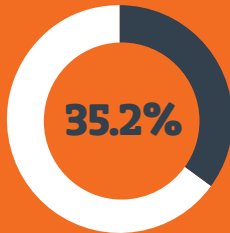
40.5% overall believe the economy will grow



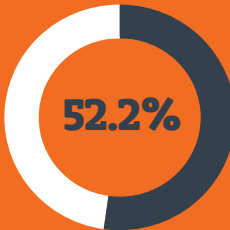
38.3% overall expect no change



21.2% overall believe the economy will contract



Small businesses expecting growth



Medium businesses expecting growth

Expectations for the global economy:



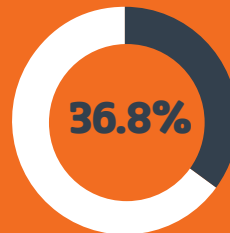
42.9% overall believe the economy will grow



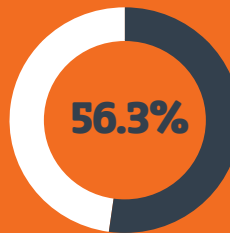
35.5% overall expect no change



21.5% overall believe the economy will contract



Small businesses expecting growth



Medium businesses expecting growth

Top tips for managing a business in an uncertain economic environment:

Monitor and manage your spending closely



Consider insourcing some outsourced functions



Focus on maintaining high levels of customer satisfaction





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