



Business Radar

Understanding the businesses
that drive Australia's economy

Summary Report



Second Edition, 2021

About the report

In early 2021, Pitcher Partners commissioned Forethought to develop a second edition of its Business Radar report, a research study into Australia's middle-market businesses.

Beyond confidence and global trends, the survey explored strategic planning, decision-making, staff challenges and organisational management practices in family- and non-family owned and operated businesses, as well as the opportunities capitalised on by middle-market businesses throughout the height of the COVID-19 pandemic.

These are the key business insights drawn from the quantitative research with commentary from Pitcher Partners' experts.

See the full report at <https://www.pitcher.com.au/business-radar-2021/>



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2020: The year of challenge, change and opportunity

One of the key findings detailed in the first edition of the Business Radar report was that global geopolitical and macroeconomic events did not impact confidence levels amongst middle-market business owners and leaders. While some of these events eventually filtered down to affect the middle-market, it was not a significant consideration for many businesses in the market segment. Arguably, the events of the last year have changed this. The COVID-19 pandemic has impacted businesses across many sectors and reinforced the importance of businesses understanding what is going on beyond their immediate organisation or industry.

When research for this second edition of the report was gathered, Australia was moving on from the height of the COVID-19 pandemic. The economy was recovering quickly, and business and consumer confidence had reached all-time highs, despite the nation's continued vulnerability through exposure to global events and intermittent domestic lockdowns in most states.

Strong self-belief and confidence in the future are two of the many factors influencing the confidence of middle-market managers and leaders. The strength of Australia's economy in 2021 has buoyed business confidence but business owners and leaders can still be better prepared for the uncertain future. This report outlines key factors to consider and address.

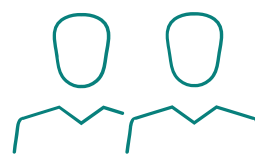
The engine room of the economy

The middle-market is rich with successful businesses that drive economic growth, deliver vital products and services, and provide employment to millions of Australians. To remain sustainable, these businesses need to proactively deal with their unique challenges and be working in an economic environment that encourages business growth and investment.

AUSTRALIA'S MIDDLE-MARKET BUSINESSES...



CONTRIBUTE 25%
OF AUSTRALIA'S
TOTAL REVENUE
(\$645B)



TYPICALLY EMPLOY
20-200 STAFF

CONTRIBUTE

1/5

OF NET TAX
REVENUE

HAVE AN ANNUAL REVENUE OF
\$2M TO \$500M



WITH A
GROWTH MIND-SET



AND THE ABILITY TO
ADAPT QUICKLY

Riding the COVID-19 wave

The most impactful global trend on businesses over the past year has been the COVID-19 pandemic. One of the biggest challenges in 2020 was the realisation of how reliant businesses and countries have been on only one export market or parts of supply chains concentrated in single destinations. Lockdowns and restrictions highlighted the magnitude of supply chain risk in some organisations, while increasing geopolitical tensions left some industries dealing with rising tariffs and import and export bans. Like the other impacts of the pandemic, supply chain and trade tensions further highlighted the need for businesses to diversify.

While the pandemic presented many challenges, valuable opportunities also arose for people and businesses to pivot, address latent weaknesses and problems, and reach new markets. According to the research for this report, more than 40% of middle-market businesses felt that COVID-19 had a positive impact on their business, with 16% giving ratings out of 10 of between eight and 10.

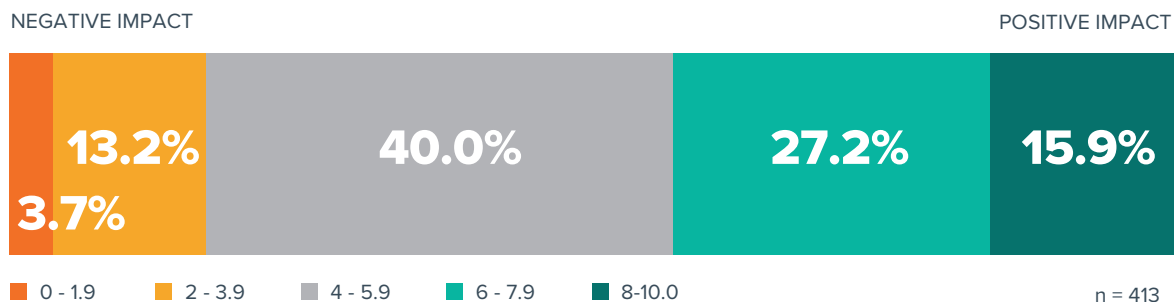
In the past year, businesses with the highest confidence in their current strength and future success (10/10) have been significantly more likely than other businesses to change their business structure (36.5% v. 18.9% and 34.8% v. 19.0%, respectively) and to adopt new revenue streams (24.5% v. 10.3% and 27.1% v. 9.6%, respectively).

Some of these businesses looked at pivoting markets all together, rather than focussing on how they could augment operations to serve existing customers within the limitations of COVID-19. Conversely, businesses that have not acted are likely to be less confident and to have assumed there were no pathways for growth.

For some businesses, the restrictions and lockdowns prompted adaptation and the motivation to try new ways of doing things. These included fast-tracking initiatives and planned changes, and capitalising on opportunities emerging from the pandemic. However, other businesses found the past year more difficult. Some of those were in sectors, like tourism and hospitality, which were heavily impacted by COVID-19 restrictions, while others had ongoing challenges brought to a crossroads. Regardless, the pandemic highlighted the importance of having plans in place to weather any storm.

Since the pandemic began, some businesses have increased their strategic planning frequency (44.2%) to better accommodate macroeconomic shifts, with almost 30% of these businesses engaging expert advice. Similarly, 62% of middle-market businesses intended to increase their focus on succession planning, with 67% planning to engage professional advice to do so. This is most pronounced in construction and property development businesses, where 39.5% of respondents have engaged an expert professional and 47.3% have implemented a succession plan.

IMPACT OF COVID-19 ON BUSINESS PERFORMANCE



Key insights for businesses

- Since the start of COVID-19, businesses have increased planning frequency to better accommodate macro shifts, with almost 30% engaging expert advice.
- The ability to work remotely provided autonomy and flexibility to business owners and leaders and their employees. It also provided further opportunities to businesses post-pandemic, including reduced real estate costs, access to a global talent pool in some industries, and improved digital capabilities.
- The urgency of the pandemic demonstrated that businesses have the capability to make decisions quickly when necessary. It highlights that acting with ambiguity is okay as businesses can course correct along the way. This is important as opportunities can be missed due to the inertia of overanalysing and not acting.
- The move to rapidly find new revenue streams underlines the need for businesses not to be reliant on one market, which can be a weakness. Diversification will be even more crucial to business sustainability in the future.

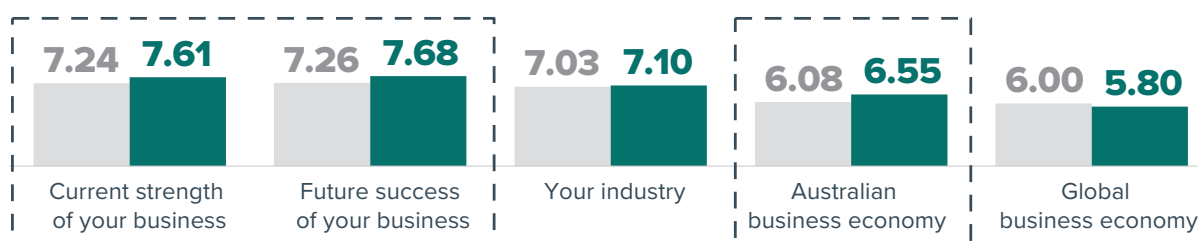


Confidence levels grow despite a challenging year

The first edition of the Pitcher Partners Business Radar report found that middle-market business owners were defined by their confidence, adaptability, growth mindset and self-drive and determination. These attributes remain strong in private and family-owned businesses, with many remaining confident in their organisations, industries and domestic economy despite the challenges presented for many by the COVID-19 pandemic.

The most recent research revealed increasing confidence in current business strength and the future success of business, industry, and the Australian economy. Confidence levels around the global economy declined slightly.

MIDDLE-MARKET BUSINESS CONFIDENCE ON A 10-POINT SCALE (10: HIGHLY CONFIDENT)



Fieldwork Dates
Fieldwork 1: October 2019

Fieldwork 2: February 2021

■ Fieldwork 1 ■ Fieldwork 2

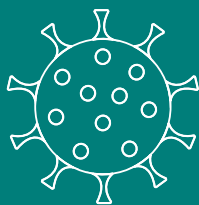
Key insights for businesses

- Middle-market businesses maintained their traditionally bullish nature with business confidence increasing significantly. This may have been due partly to a strong sense of accomplishment in getting through 2020.
- Middle-market business confidence in the Australian economy increased, while confidence in the global economy decreased. This may be due to middle-market businesses being most attuned to the local economy, as they operate largely in domestic markets. A strong sense of accomplishment for getting through 2020 may have made middle-market business owners feel more confident.
- Businesses with more than 200 employees typically had greater confidence in their current success, future success, and industry. This may be due to the maturity of larger businesses and the confidence instilled through having a long-term strategic plan, established decision-making structures, resources to weather economic uncertainty and the scale to be a desirable credit risk to lenders.
- Respondents in all states surveyed had relatively high confidence in the future success of their businesses. South Australia's average rating of 8.38 on a 10-point scale was notable. Similarly, confidence in the current strength of respondents' businesses was relatively strong, averaging 7.61. Again, South Australia was the most confident while Western Australia had the lowest average at 7.09. The weakest category of confidence in all states was the 12-month growth prospects for the global economy, which had an average rating of 5.96.
- The pandemic showed businesses that challenges could also be turned into opportunities to address latent problems, expand into new markets, and implement change that would have otherwise remained on the proverbial back burner.
- Confidence is subjective and based on perceived strength and success, so it can provide additional benefits to have an independent party provide an external perspective that challenges the status quo and ensures business confidence is well-founded.

Global trends impacting middle-market businesses

One of the key characteristics common across the middle-market gleaned from the first edition of Business Radar, is the tendency for private and family business owners and leaders to focus only on trends in their business and industry, rather than taking global trends into account too. However, the businesses researched have capitalised on the pandemic as an opportunity to flex and adapt through changing business structures, exploring new channels to market, shaking up supply chains and developing new revenue streams.

SHIFT IN THE TOP FIVE GLOBAL TRENDS IMPACTING MIDDLE-MARKET BUSINESSES FEBRUARY 2021



GLOBAL PANDEMIC (45%)



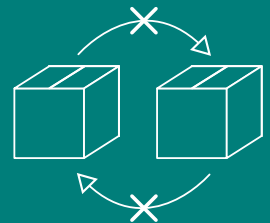
INCREASING GOVERNMENT REGULATION (29.7%)



TECHNOLOGICAL ADVANCEMENT (21.2%)



FLUCTUATING AUSTRALIAN DOLLAR (19.8%)



ESCALATING CHINA TRADE WARS (19.2%)

OCTOBER 2019



CONSUMER PREFERENCES (39.8%)



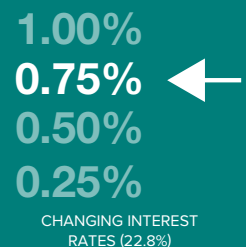
TECHNOLOGICAL ADVANCEMENT (21.2%)



INCREASING GOVERNMENT REGULATION (29.7%)



FLUCTUATING AUSTRALIAN DOLLAR (19.8%)



CHANGING INTEREST RATES (22.8%)

Key insights for businesses

- As expected, middle-market businesses ranked the COVID-19 pandemic as the most impactful global trend.
- Increasing Government regulations and technological advancement also remain priorities.
- Consumer preferences were no longer in the top five factors impacting middle-market businesses. This may represent a shift of focus towards internal operations and budgets (not by choice, but necessity) to weather the uncertainty brought about by the COVID-19 pandemic.
- Although the pandemic required quick decisions and a focus on business continuity, middle-market businesses need to ensure they are engaging with the lifeblood of their business – their customers.
- Many businesses invested in technology to improve their manufacturing capabilities.
- Investing in digital marketing and establishing strong online sales channels is helping businesses reach new customers.

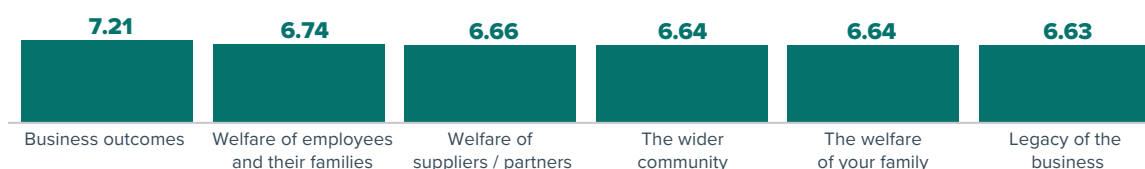
Strategic planning and decision-making

For private and family business owners in the middle-market, strategic planning and decision-making are critical factors underpinning sustainable long-term growth. Business owners and leaders approach strategic planning and decision-making in individual, different ways ranging from formal long-term planning to ad hoc decision-making.

Key insights for businesses

- A quarter of middle-market businesses involve external advisors and advisory boards in strategic planning, and more than half report having a strategic plan.
- The involvement of strategic advisors and advisory boards in strategic planning helps instil confidence in the business and their future success. Engaging expert advice can ensure objectivity in decision-making and bring a broader understanding and expertise around business, industries, and macroeconomic factors.
- The goal with a strategic plan is to have a primary direction, but with the ability to pivot quickly.
- Middle-market businesses with less confidence in their current strength are twice as likely to make strategic decisions in an ad hoc manner than businesses with high confidence (33.9% v. 15.84%).
- Having formal strategic planning processes in place, is a key competitive advantage in any industry. Businesses that reported higher levels of success during COVID-19 had strategic plans and processes that could be triggered automatically to adapt to changes.
- Not having a strategic plan can contribute to ad hoc decision-making, which can reduce business confidence. Middle-market businesses that don't have a strategic plan in place should be looking to do so to assist with effective decision-making and ensure they are opportunity ready.
- Businesses with longer-term planning often engage in succession planning and are significantly more confident about their businesses, the effectiveness of their decision-making processes, their future success, their industry, and the Australian business economy. They also believe that COVID-19 has prepared them better for future environmental changes. Businesses that have been through strategic planning have integrated the strategic planning process as a keystone habit because they know it makes them more agile and able to take advantage of opportunities. Their confidence in their industries and the economy reflects their ability to capitalise on opportunities in any environment.
- Key decision-makers within middle-market businesses continue to feel a sense of professional isolation. Seeking support from peers, advisors, family, and other helpful sources could alleviate some pressure and provide the opportunity to test ideas.

IMPACT OF BUSINESS DECISION-MAKING FACTORS ON A 10-POINT SCALE (10: HIGH IMPACT ON DECISION-MAKING)



- Non-commercial decision-making factors, like the welfare of employees and their families and the wider community, have a similar impact on decision-making but business outcomes are cited as the factor with the biggest impact. Interestingly, the degree to which the welfare of employees and their families impacts on decisions decreases as a business matures and business legacy becomes a core focus. While building a strong legacy is understandably important, the research highlights that there's a balance to be struck between looking after your people and having a big impact.

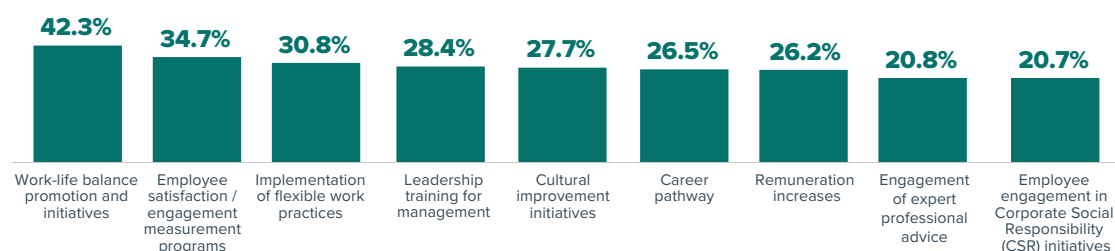
People challenges

Consistent with the first edition of this report, staff retention is a challenge for half of the businesses surveyed, with remuneration perceived to be the largest contributor to staff turnover (34.5%). Staff attraction and retention were the most common challenges for businesses with 200+ employees. This aligns with opportunities for development being the strongest contributor to turnover in businesses with more than \$250 million in annual turnover (52.2%).

The Federal Government has recognised the need to ensure people and businesses have the skills they need, with a further 163,000 higher education places funded in areas such as digital technology and degrees necessary to drive improvement in sectors such as aged care through its JobTrainer fund. This presents an opportunity for middle-market businesses to capitalise on this funding by having their people access further education through one of these newly funded places.

Interestingly, the top turnover mitigation strategies respondents identified included work-life balance initiatives, to increase employee satisfaction and flexibility, which is a departure from remuneration being perceived as the top contributor to staff turnover. This indicates a potential misalignment between the perceived and actual culture of an organisation, where business owners and leaders may not have a full picture of an employee's experience in the workplace.

STAFF TURNOVER MITIGATION STRATEGIES*



What steps is your business taking to actively mitigate staff turnover?*

Note: * indicates multiple responses were allowed for this question, so these results may not sum to 100%.

Key insights for businesses

- Staff retention has been a challenge for half of the businesses surveyed, with remuneration perceived to be the largest contributor to staff turnover (34.5%).
- Staff attraction and retention are the most common challenges for businesses with 200+ employees.
- Businesses that consider human resources requirements and staff engagement initiatives in their strategic planning processes tend to report fewer staff turnover challenges.
- Middle-market businesses that can effectively gather and act on employee feedback are uniquely placed to address staff acquisition and retention challenges, given their relative size for changes to occur faster than in larger organisations.
- The COVID-19 pandemic highlighted the importance of authentic and transparent leadership. This is especially important when it comes to communicating the company's long-term vision and supporting the welfare of employees and their families through challenging and uncertain times.

It's all relative

Across family businesses, confidence in the current strength and future success of the business has increased significantly (7.64 v. 7.24 and 7.70 v. 7.16, respectively on a 10-point scale) since the first Business Radar report. Within family businesses, non-family members had higher confidence in the business than family members (7.74 v. 6.96 and 7.75 v. 7.01, respectively). This indicates that employees may observe the success of the business but not always be privy to the stress and risk of ownership that rests on the family's shoulders. This pressure on family business owners can increase feelings of professional isolation, with family decision-makers most likely to experience professional isolation (45.2%).

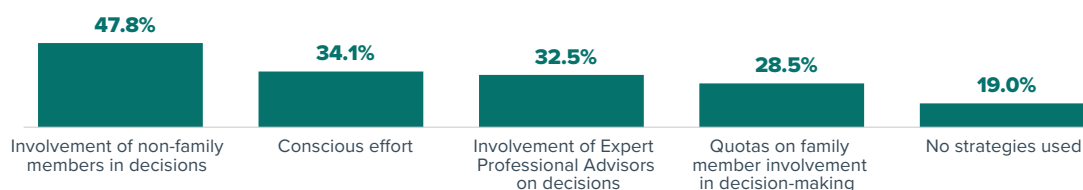
Two in five business owners and leaders in family businesses recognised that family influences clouded their decision-making. Involving non-family members in decision-making to reduce this unconscious, family bias was a strategy for almost 60% of these decision-makers. Further, non-family members were significantly less likely to recognise the involvement of expert professional advisors and the implementation of quotas on family members in decisions as strategies taken to reduce family influence. This may indicate that measures taken to make decision-making in family businesses more objective may often not be recognised by non-family members.

DECISIONS ARE USUALLY MADE WITH THE BEST INTERESTS OF THE BUSINESS IN MIND



As a family run business, when making decisions (e.g. hiring, promoting, cost management etc.) do you feel that...

STRATEGIES FOR REDUCING UNCONSCIOUS BIASES AND INFLUENCE IN DECISION-MAKING*



What strategies do family members use to reduce unconscious biases and influence in decision-making?*

Note: * indicates multiple responses were allowed for this question, so these results may not sum to 100%.

Key insights for businesses

- Family and non-family members within a family business recognise that family bias can influence decision-making which may not generate optimal results for the business.
- Family businesses should employ a range of strategies to mitigate bias in decision-making, these could include quotas or the involvement of external advisors.
- Family businesses with no staff challenges are most likely to make decisions without family bias (68.7%) and have no barriers to non-family members achieving executive positions (61.6%). This highlights the value of efforts to actively reduce family bias in decision-making.
- Beyond cash flow planning and customer strategy, family businesses are most likely to include resource requirements (34.4%) and organisational structure (33.4%) in their strategic planning.

About Pitcher Partners

Australian statistics



120+ partners



1,400+ people



6 independent member firms

Pitcher Partners specialises in working with middle-market businesses in Australia, including privately owned, government owned and not-for-profits.

Access the resources and depth of expertise of a major firm, but with a personal approach. Our clients receive the highest level of personal service and attention. That's the difference.

If you require high technical standards, matched with a personal understanding and involvement in your affairs, reach out to a Pitcher Partners advisor.

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Financial essentials

Accounting and Business Advisory Services

Audit, Risk Management and Assurance

Internal Audit

Recovery, Turnarounds and Insolvency

Tax advice and Compliance

Planning and growth

Business Consulting and Commercial Advice

Business Performance Improvement

Business Structuring

Corporate Finance

Corporate Governance

International Business Advisory

Investment Advisory Services

Succession Planning

Superannuation Services

Tax Advisory

Technology and IT Consulting

Valuations

Private wealth services

Estate Planning

Family Office Management

Investment Advisory Services

Philanthropy Services

Succession Planning

Superannuation Strategies

Tax Advice and Compliance

Industry specialisations

Agriculture

Food and beverage

Government and the public sector

Health and aged care

Hospitality

Manufacturing

Not-for-profit

Professional services

Property and construction

Retail

About Forethought

Forethought is an internationally-awarded consultancy. We draw on our evidence and advisory practices to provide business decision-makers with smart solutions and the confidence to act.

Evidence

We are truth and opportunity seekers, triangulating multiple sources of data to investigate, unpack and solve business challenges.

Our established analytics practice works in tandem with experts from a range of industry teams, including B2B and B2C sectors to deliver data-driven strategy that links to commercial outcomes and is anchored in your industry context.

Advisory

Recognising that most transformational insight is meaningless without the organisational capability to implement change, experts from our advisory practice provide frameworks and toolkits for effective implementation.

This is supported and governed by strong measurement capability to keep the business on track.



Making business *personal*



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