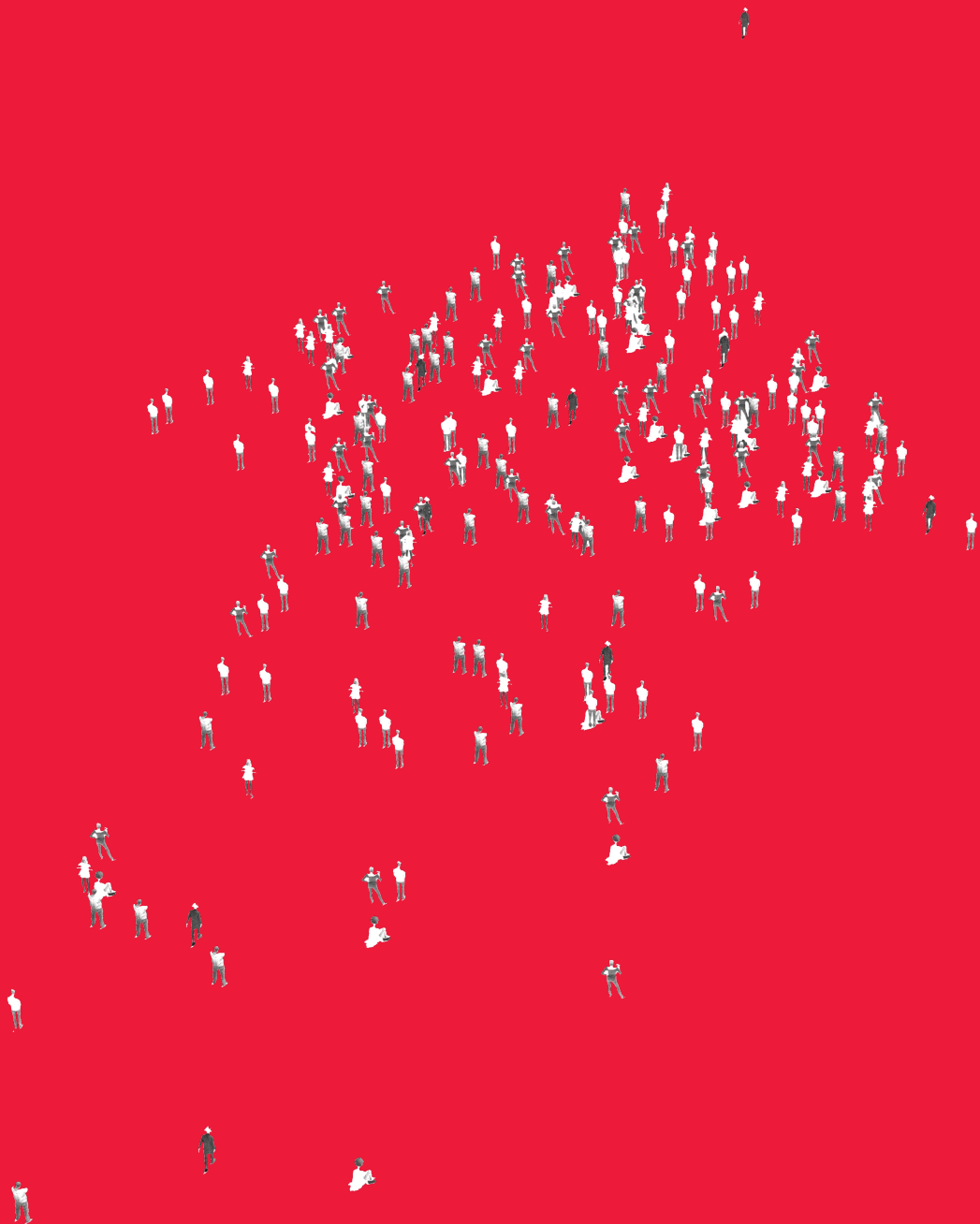




7th Annual

SOUTH AUSTRALIAN STATE BUSINESS SURVEY 2020

RETHINK THE DIRECTION FOR BUSINESS IN SOUTH AUSTRALIA





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FOREWORD



Hon. Steven Marshall MP Premier of South Australia

2020 has seen significant challenges, initially from bushfires and then the COVID-19 pandemic.

But all South Australians can be very proud of how our state has responded to these challenges. Today we are one of the safest and healthiest places in the world. Together, we stand Safe and Strong.

Major economic support programs of both state and federal governments have helped weather the storm, protecting jobs, and positioning us for growth as restrictions are lifted.

Since the low point in April, South Australia's growth in jobs, hours worked, wages, and job vacancies have all been amongst the strongest in the nation. Business confidence is surging back, and South Australians are supporting local businesses by travelling within our great state.

I commend BDO for its great work in taking the pulse of South Australian business, and helping to map our progress to recovery.



Peter Malinauskas MP SA Labor Leader Shadow Minister for Defence and Space Industries Shadow Minister for Jobs

2020 has been an extraordinary year for the world, including our home state. The impact of the COVID-19 pandemic on the economy is the greatest we have seen since World War II.

But with economic upheaval – comes the opportunity for economic transformation.

Earlier this year, I identified the key themes driving the policies I will put before South Australians at the election in March 2022.

Those themes are: a Job for today, an Education for tomorrow and the Environment because it's forever.

This state has great challenges, but it also has great opportunities. We need action, ability, initiative, hard work and most importantly ambition – from business, from universities, from civil society, from the public and from government – to meet those challenges and grasp those opportunities.

Working together, we can build a brighter future for our state beyond these uncertain times.

OVERVIEW

Survey period: 19 Oct - 4 Nov, 2020

South Australian businesses are surprisingly confident this year, in the most uncertain of times, but if 2020 has taught us anything it's to expect the unexpected.

Those who anticipated maintaining staff levels through 2019/20 managed to do so, yet more experienced a decrease in both turnover and profit than predicted. Regardless, there is an expectation among respondents that the coming year will bring an increase in both turnover and profit, with staff levels largely predicted to remain steady.

We asked businesses to reflect on the year so far specifically in terms of the pandemic and the resulting responses were, by and large, positive. While the survey took place prior to the recent 'Parafield cluster' and ensuing events, businesses reflected the broader community sentiment that South Australia has fared well in the scheme of things.

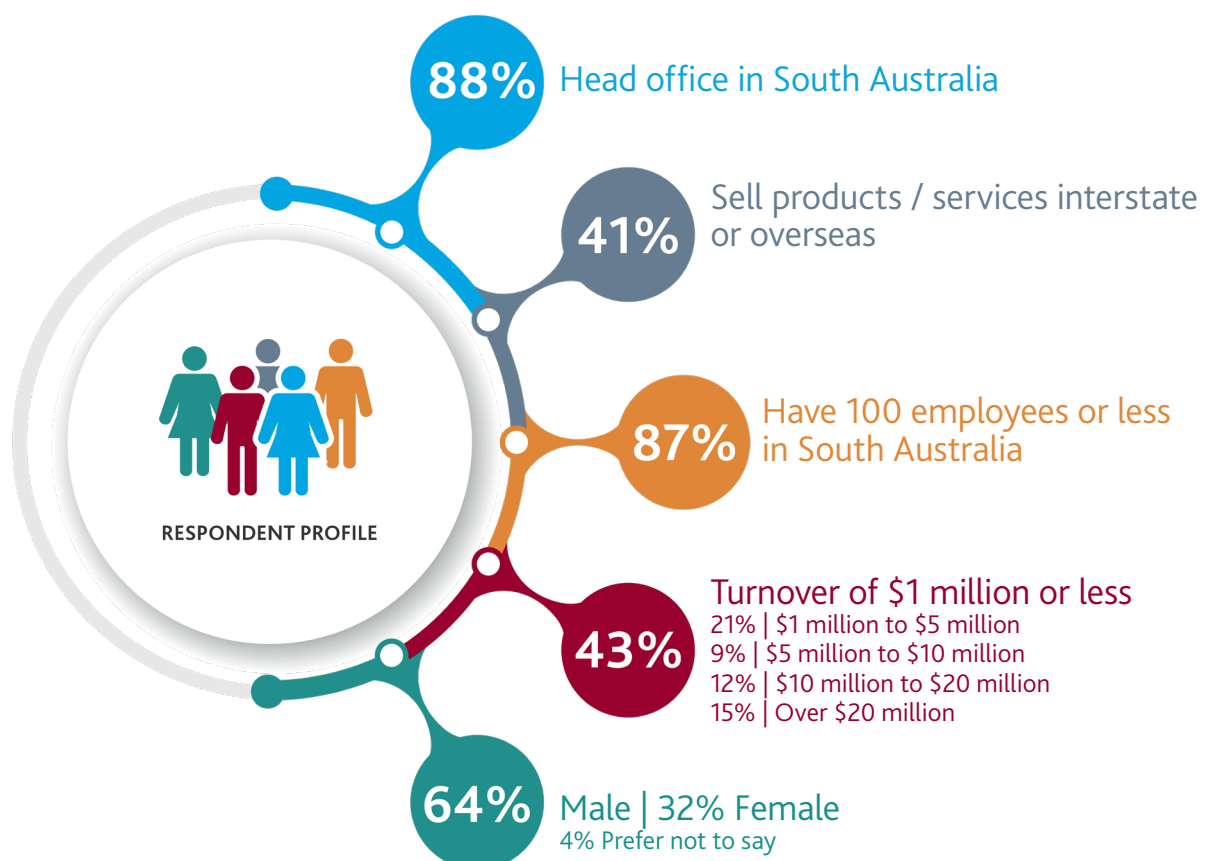
Importantly, respondents haven't lost confidence in either their own position or the economic position of the state. In fact, the confidence results were the second highest we've seen in 7 years of conducting the survey and those who felt the economy was going backwards was the smallest percentage ever.

The range of views expressed on COVID and in the survey more broadly, speaks to the diversity of our business community and illustrates their very different experiences of 2020. There are so many variables that impact a business before adding further complications such as those experienced this year - industry, location, supply chain... the list goes on. One size certainly does not fit all – but as a collective, our business community appears to be doing better than they, or we, expected.

An even greater majority than last year feel that operating their businesses with environmental and social responsibility is important. While this may mean different things to different people, the general sentiment is an acknowledgement that we are not islands - as people and businesses we operate as part of a broader community and that has never been more evident, or important, than now.

Results from this year's survey are painting the picture of a South Australian business community that is optimistic and confident about our economic recovery – some good news we can all draw on at the end of a tough year.

We thank all those who took some of their valuable time to respond to the 2020 survey, sharing their insights and experience of doing business in South Australia, as well as their thoughts on rethinking our future direction.



THE COVID EFFECT

This wouldn't be a 2020 report without the 'C' word.

Despite recent developments, we are fortunate to still be in one of the best places in the world in terms of consequences and recovery.

However, our business community has endured, and continues to endure, one of the most uncertain years ever.

Respondents tell us that they feared the worst in February, but that so far, the impact has been less than anticipated. Many have accelerated their adoption of technology and flexible working practices for staff. They were most concerned about the spectre of a local second wave of infections, consumer confidence and cash flow.

In terms of the business ramifications of COVID restrictions, a majority reported they were impacted but still able to trade while a significant number had their supply chain interrupted.

Of those currently receiving JobKeeper, 58 per cent have less than 5 employees and 26 per cent have an annual turnover of \$250 thousand or less – making our smallest businesses the most reliant on a measure that is due to end in March 2021.

“We knew we had to pivot to new customer offerings; we also knew that we needed to be patient with our customers as we were asking them to engage in a non-traditional way.”

—
respondent,
Agribusiness sector



SAY COVID HAS SO FAR IMPACTED THEIR BUSINESS LESS THAN EXPECTED

23% say impacts are worse than expected
26% say impacts are as expected



RECEIVED JOBKEEPER SUPPORT IN 2020

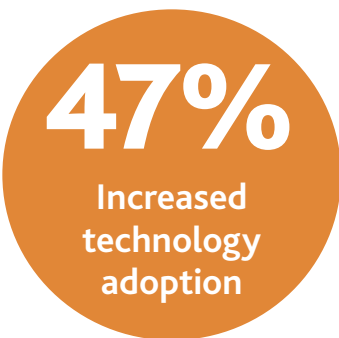


STILL RECEIVING JOBKEEPER SUPPORT AT TIME OF SURVEY

59% said they were restricted, but able to trade through COVID-19 limitations.
27% reported interruptions to their supply chain.

“The overall impact was lesser than anticipated and the recovery has been far quicker than hoped.”

—
respondent,
Professional Services sector



How has COVID-19 transformed your business?

(Select all that apply)



BUSINESS OUTLOOK

The other 'C' word.

The key word here is confidence. When our business community is optimistic, as the respondents to this year's survey clearly are, then anything seems possible.

Half of all respondents have expressed confidence in the growth of SA's economy, up from 20 per cent in 2019.

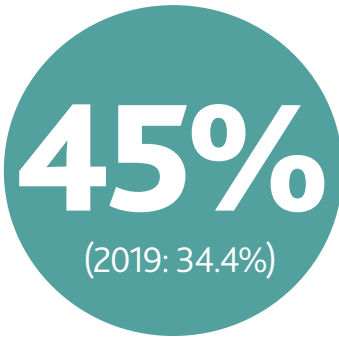
Just 4 per cent believe the economy is going backwards, the lowest level since our annual survey began and down from 23 per cent last year.

A further 46 per cent believe the economy is neither growing nor going backwards, but seems to be stagnating – an 11 per cent decrease on last year's results.

While this is very much a 'wait and see' situation, it's great news for us all that business is feeling confident of a recovery and return to growth.

“We live in a great state. I'm confident that the government is on the right track to ensure future growth which in turn will attract further investment in SA.”

—
respondent,
Real Estate sector

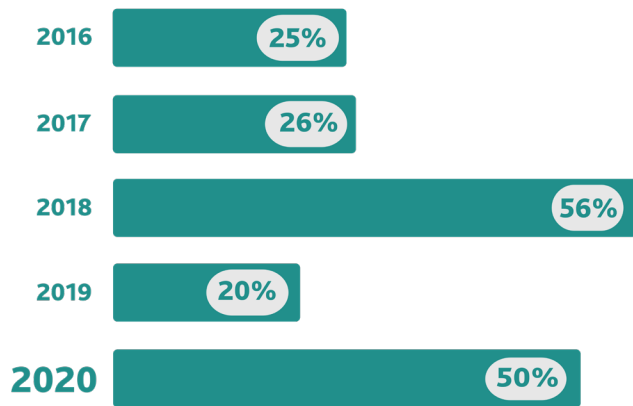


SAY SA IS A LOW COST PLACE TO DO BUSINESS, COMPARED WITH OTHER STATES.

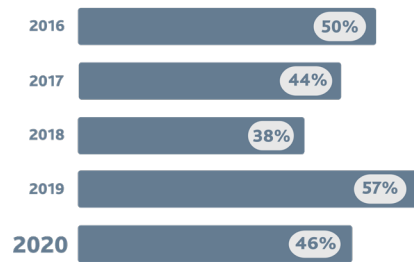
24% say it is more expensive (2019: 49.4%)
 31% say they aren't sure (2019: 16.2%)

From your experience in business, do you have confidence in the health of SA's economy and its ability to support your business growth?

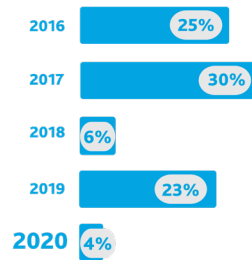
ECONOMY IS GROWING



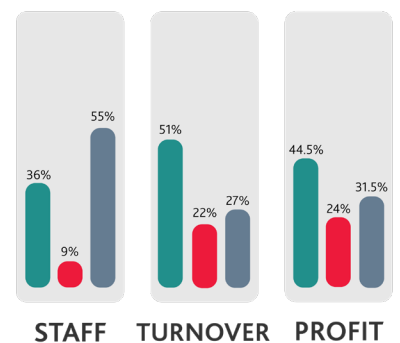
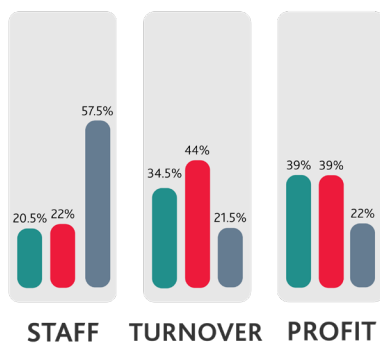
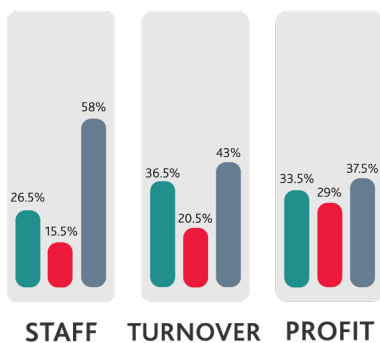
ECONOMY SEEMS STAGNANT



ECONOMY GOING BACKWARDS



Business expectations for next 12 months and reality of past 12 months: Staff numbers, turnover and profit.



● INCREASE

● DECREASE

● STAY THE SAME

PEOPLE

The vital ingredient

Among the many lessons of 2020 has been the true value of our people. Staff, customers and business owners have stepped up and shown the best of themselves and a renewed sense of community has shown in many of the comments made by respondents.

Responses have shown a renewed confidence in the skill sets of graduates, steadily building over the past couple of years. The percent who felt the skills of graduates did not meet the required standard was our lowest ever - 34% - following several years of 50% and above.

Most respondents have reported stable or increased staff productivity levels and staff engagement levels that are also stable or increased over last year. For the first time in a few years, there are less respondents having trouble finding and retaining suitable staff than those who are not (44%). What has not changed, however, is the reason given: A lack of suitably qualified candidates in SA.

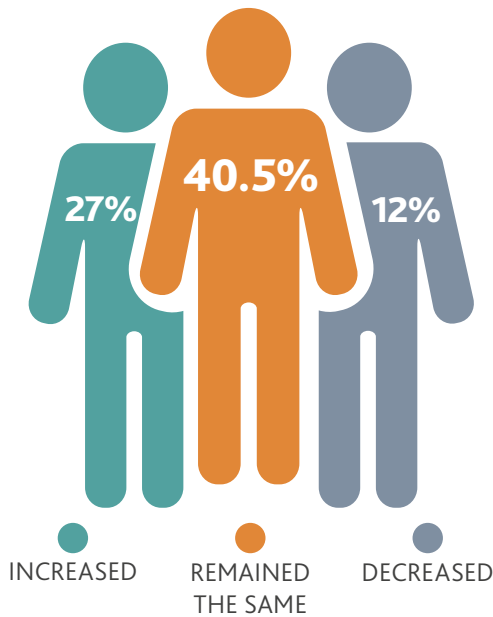
The sector that recorded the most responses for this reason was manufacturing - interestingly, an area of focus in the Federal Budget this year and one that should see further opportunities opening up as a result. The key to South Australia securing a position as leader in this sector will clearly rely on being able to attract the right people, with the right skills. With significant funding given to TAFE in the past two state budgets, this skills deficit should be corrected with locally, well-trained staff.

“My aim is to keep everyone gainfully employed and get through this together.”

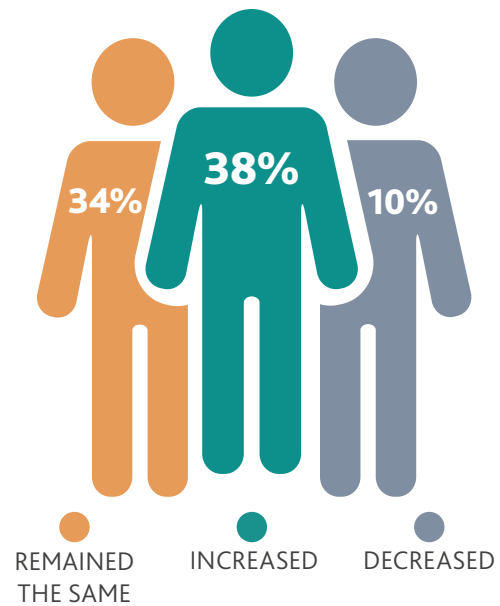
—
respondent,
Property & Construction sector



Staff productivity compared to 12 months ago:



Staff engagement compared to 12 months ago:



47% BELIEVE OUR EDUCATION SYSTEM DEVELOPS GRADUATES WITH SUITABLE SKILLS

2019: 38%
2018: 29%

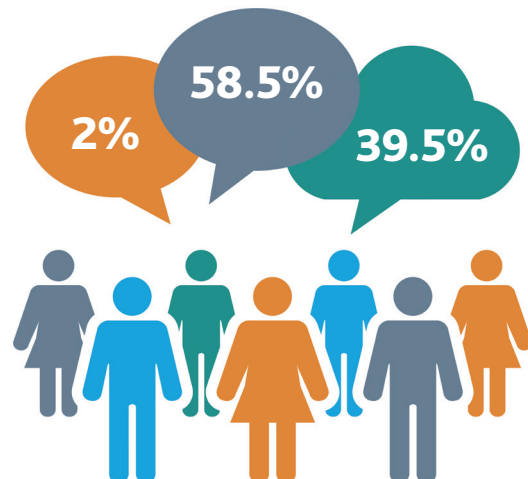
42% HAVE TROUBLE FINDING AND RETAINING SUITABLE STAFF

2019: 44%
2018: 47%



How important is it for your business to be socially and environmentally responsible?

- VERY IMPORTANT (2019: 46%)
- SOMEWHAT IMPORTANT (2019: 47%)
- NOT IMPORTANT (2019: 7%)



TAXATION & GOVERNMENT

Time for a raise?

Almost two-thirds of respondents have backed a GST hike, provided it results in relief from state taxes. This result is significantly up on the past three years and the highest ever in response to this question.

While the most recent state budget provided further temporary relief from payroll and land tax obligations, it would seem the majority of businesses would like to see that relief become permanent.

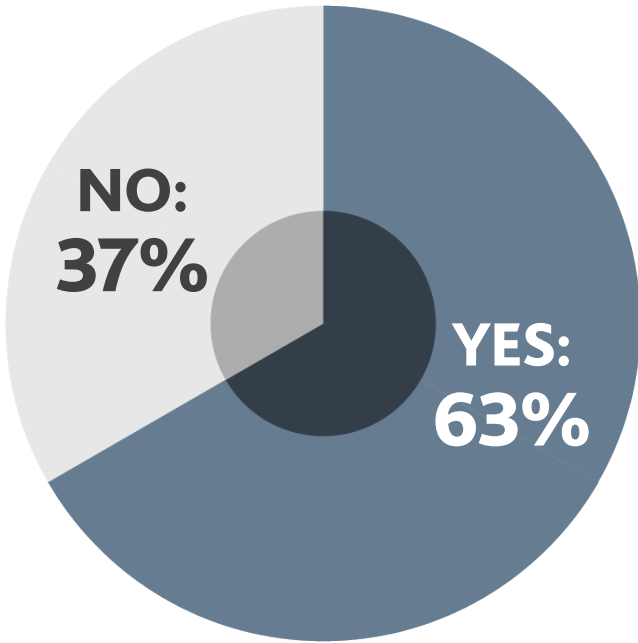
Decision making should be targeted at making life easier for business, improving the cost effectiveness of business in South Australia and giving confidence particularly to our small and medium enterprises.

Targeted investment in the local economy is #1 on the wish list of respondents and the state budget delivered substantially on that front - injecting billions more into the economy should lead to increased demand for services and products more broadly.

The key to the success of this spending strategy will be for the government to ensure local procurement focused on small to medium businesses, rather than awarding tenders to large, national businesses.

“Land and payroll tax need to go, so does stamp duty... The feds should raise the GST but only if there is compulsion on states to get rid of these taxes when they do.”

—
respondent,
Automotive sector

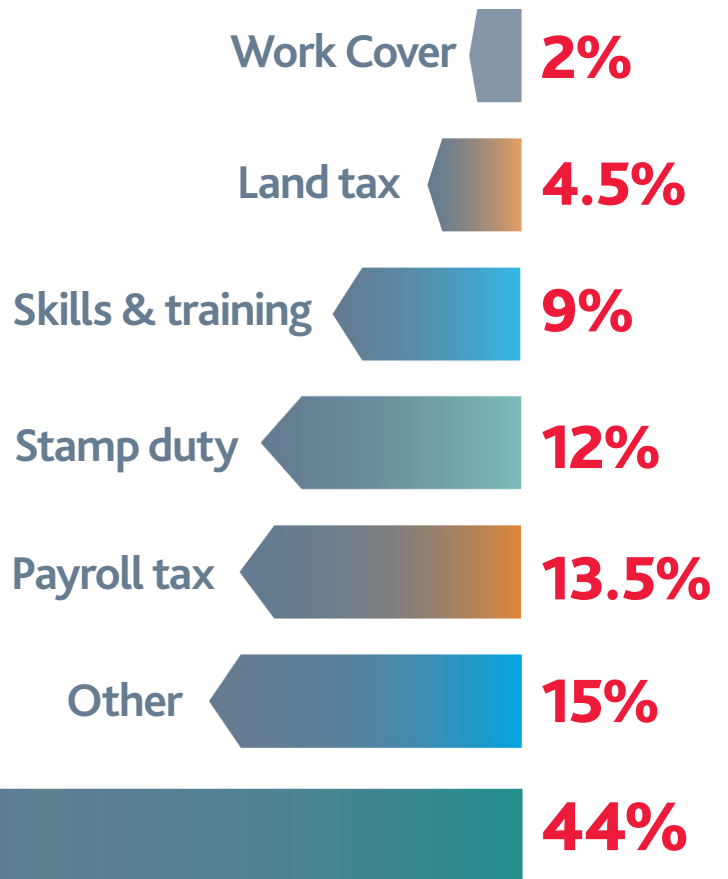


Would you support an increase to the GST if it led to a meaningful reduction in state taxation?

2019
Yes: 53% | No: 47%

If you had five minutes with the Premier of S.A, which of the following would you ask him to prioritise?

Targeted investment in local economy



20% Have been **unsuccessful** in tendering for state government business

20% Have **successfully** secured state government business

60% either haven't tried, or say it isn't applicable to their business.

TECHNOLOGY & INNOVATION

Investment paying dividends

It would seem that business is starting to reap the rewards of investment in IT and staff cyber training, with less respondents than ever reporting a cyber security breach over the past 12 months.

The severity of those attacks was also far less than ever, with the impact on business being minimal and the issue addressed quickly.

These results buck a trend that had been developing over recent survey years and are a most welcome development. As recognition of the importance of investment in IT and an awareness of the devastating impacts of cyber breaches steadily increases, we hope to see further decline in the frequency and severity of these incidents.

Disruption from emerging technologies is continuing a slow downward trend, as what was once disruptive becomes the new normal and businesses adapt to suit.

“[We are] constantly exposed to attempts to hack into our business systems. An ever-present risk for all businesses.”

—
respondent,
Government sector



74%

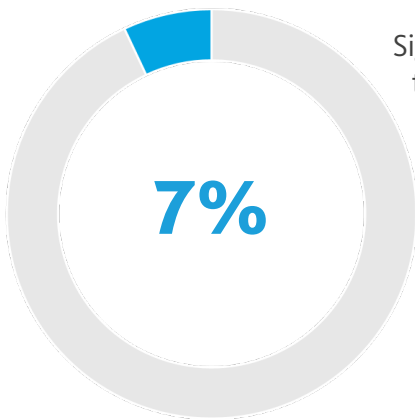
Rate investment in IT as either 'extremely' or 'very' important to their business.

2019: 62%



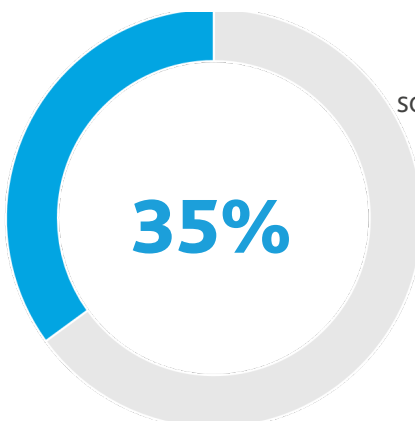
"[We are being disrupted] in a positive way - more flexibility around working remotely."

—
respondent,
Finance / Banking sector



Significant disruption to business model from emerging technologies.

2019: 8.5%
2018: 4.5%



Business model somewhat disrupted by emerging technologies

2019: 36%
2018: 49%

7%

Reported a cyber security breach in the past 12 months

2019: 22% | 2018: 32%



83% of those attacks were rated as 'minor': The business was minimally disrupted and the problem was addressed quickly.

2019: 46% | 2018: 41%

ENERGY

Keeping the lights on

Businesses are considerably less concerned by the price and reliability of energy than they have been in previous years, with the amount of respondents who say the cost is either slowing their business or stopping investment in growth dropping from 48% last year to just 27% this year. Similarly, the reliability of energy is only slowing business or stopping investment in growth for 17% of respondents compared to 25% last year. A less significant decline, but one nonetheless.

So, has the price of energy become more acceptable to businesses, have they used less this year and therefore incurred less cost, or do they simply have other things to worry about? We suspect the answer is a combination of all three.

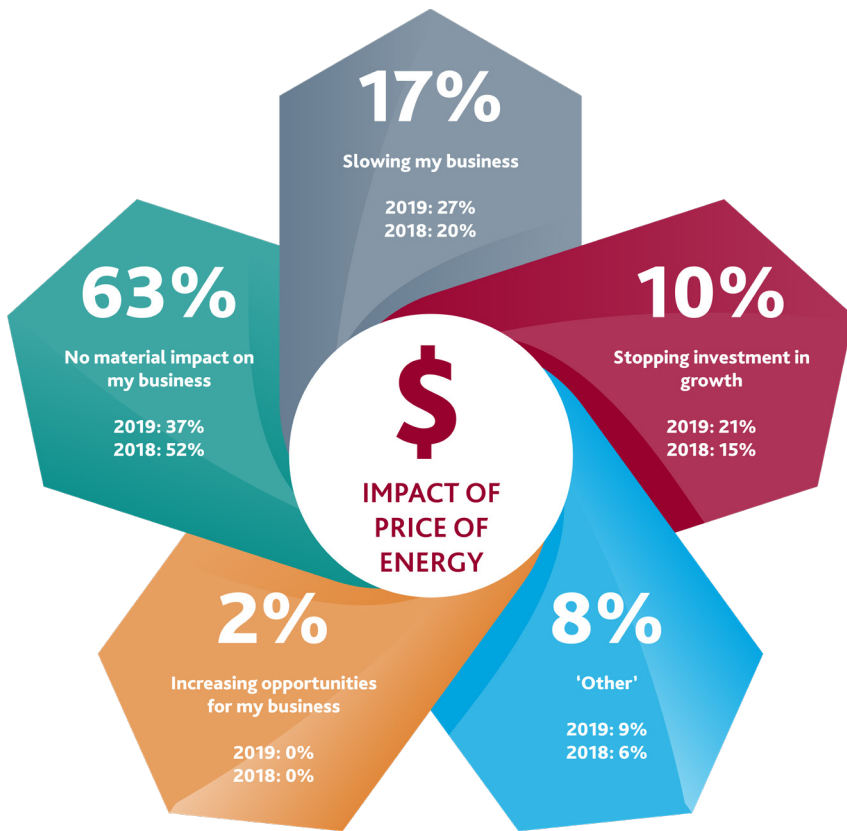
Comments from respondents certainly seemed more positive in relation to energy than they have been in some years, so it will be interesting to see what the 2021 survey brings.

While most (57%) have no plans to invest in alternative energy infrastructure in the current financial year, (some because they already have), 38.5% plan to spend in this area with solar panels identified as the primary target, followed by battery storage.

**“Energy supply in SA is as good as,
or better than, other states”**

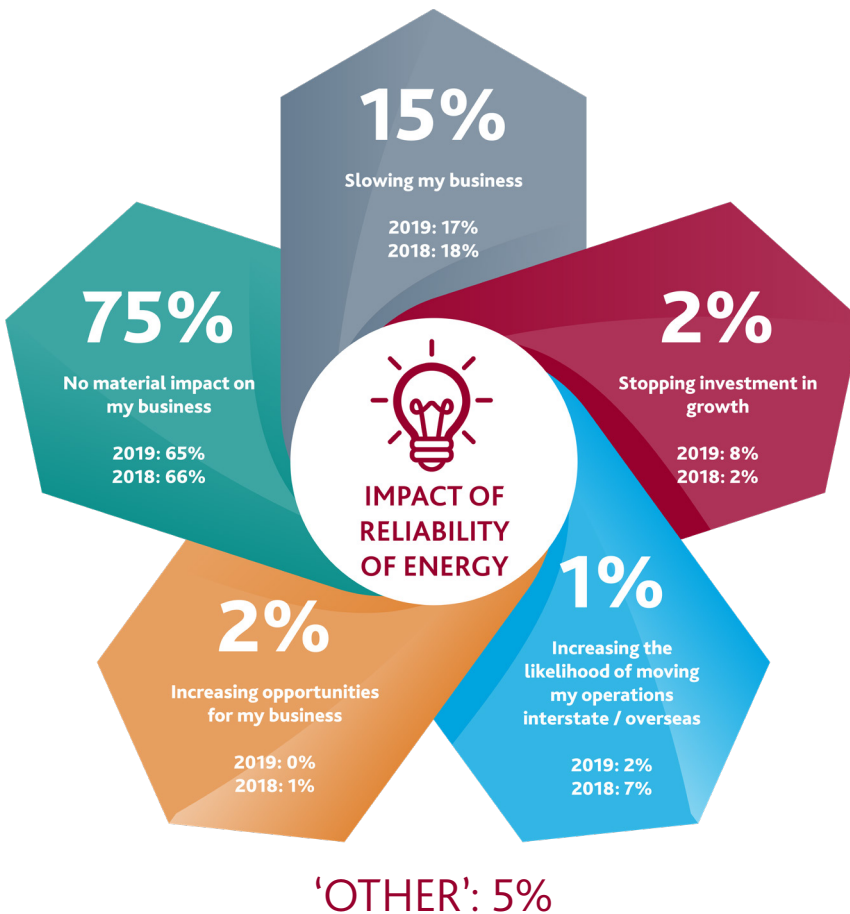
—

respondent,
Self-employed



“We can build on our history as a progressive state...this should include environmental sustainability and green power...”

—
respondent,
Education & Training sector



Plan to invest in alternative energy infrastructure in FY 2020/21.

2019: 32% | 2018: 36%





ABOUT BDO

LOCAL KNOWLEDGE BACKED BY REGIONAL AND NATIONAL EXPERIENCE

BDO South Australia is the largest locally owned accounting and advisory firm in South Australia. Our team of more than 180 Partners and staff are located in offices in the Adelaide CBD and McLaren Vale, and backed up by a global network.

Understanding you and your business is what sets us apart. Our core strength lies in our depth of understanding and knowledge of the South Australian market; the key issues locally, and the broader relevance and impact of the economic environment.

We provide a range of audit, tax and business advisory services to individuals, businesses, corporates and government enterprises.

Through innovative thinking and sharing of ideas, our people work with our clients to deliver solutions that create real value and enable them to grow and to transform.

BDO is about people helping people and delivering exceptional service, every day, for every client.

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- ▶ Business Services
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- ▶ Economic Research
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- ▶ Industrial & Organisational Psychology
- ▶ Technology Advisory
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“We deliver ideas that create value, we’re ‘people who help people achieve their dreams.’ This is our ‘why’ – our purpose - and we’re trusted advisers who fulfil our purpose, by listening, caring and getting the job done.”



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