

6TH ANNUAL

# SOUTH AUSTRALIAN STATE BUSINESS SURVEY 2019

DRIVE THE DIRECTION FOR BUSINESS IN SOUTH AUSTRALIA



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## FOREWORD



### **Hon. Steven Marshall MP Premier of South Australia**

My Government is ambitious for South Australia.

We want to give all possible support to our businesses to achieve an annual three percent economic growth rate for our economy.

That's three times the rate of the past decade.

So we have to do things differently.

And my Government is.

We will soon roll out 'Growth State: our Plan for Prosperity.'

It will provide a new framework for economic development, clearly articulating more than 80 regulatory and policy actions my Government commits to implement.

In developing our Plan for Prosperity, we are working closely with industry, so that what government does is informed by what industry needs.

My Government looks forward to continuing collaboration with our business community to grow our economy, investment, jobs, exports and opportunities for all South Australians.



### **Peter Malinauskas MP State Labor Leader**

In recent months we have seen the impact that trade wars and global pressures can have on national economies.

Much of that is felt in local businesses conditions, driving right through to the take home pay of thousands of workers.

The challenge for us as State leaders, is to create opportunities and conditions that buffer against the headwinds.

We do have points of difference.

Let's keep backing our ability to build a better South Australia.

# OVERVIEW

South Australian businesses have a markedly subdued air about them this year, as confidence in the economy drops to the lowest level since the 2015 survey.

It would appear the results of the last financial year took many by surprise, with anticipated increases in staff, profit and turnover unrealised. The effect is an expectation among respondents that these measures will largely hold steady in the coming year.

We asked businesses to share their views on some of the issues currently occupying public conversation: State debt, Land Tax changes and Electric vehicles, among others. The range of views expressed on these issues and others speaks to the diversity of our business community. One size certainly does not fit all – but we should continue to aim for an environment that allows our many & varied businesses to flourish.

Operating their businesses with environmental and social responsibility is important to the vast majority of our respondents. This is a smart move. Not only is it in line with community expectations, but helps retain staff, inspires loyalty in customers and builds a positive reputation – all key factors for success.

Results showed an increase in the number of respondents saying their business is being significantly or somewhat disrupted, but the amount deriving significant revenue from new products or services is roughly the same as last year. Adapting to a changing business environment is challenging, but will be necessary to the survival of many of our SME's.

Comments from respondents paint the picture of a business community that is feeling frustrated and pressure from several fronts, yet fiercely loyal to South Australia, its unparalleled lifestyle and their client base. They are still looking to grow, source the right employees with the skills to meet their needs and help steer SA in the right direction.

We thank all those who took time to respond to the 2019 survey, sharing their valuable insights and experience of doing business in South Australia. When the SME's that are so integral to our economy speak, we should all listen to what they have to say.





## BUSINESS OUTLOOK

- ▶ Businesses have experienced a drop in optimism with just 20% believing the State economy is improving, down from 56% last year. Most (57%) believe the economy is stagnant as opposed to going backwards (23%).
- ▶ Only 34% said SA was a low cost place to do business compared to other states.



## PEOPLE

- ▶ 44% have trouble finding and retaining suitable staff. Of those, 36% say it is due to a lack of suitably qualified candidates.
- ▶ 50% believe population growth is very important to the State's economic growth, 41% say it is somewhat important.



## TECHNOLOGY & INNOVATION

- ▶ 22% of respondents reported experiencing a cyber breach over the past 12 months, with 23% rating the business impact as either 'significant' or 'catastrophic' - consistent with last year.
- ▶ 62% of respondents said that IT investment was extremely or very important to their business.



## ENERGY

- ▶ 27% are worried about energy reliability, the same as last year, while 53% are concerned by the cost – up by 10%.
- ▶ Almost 1 in 3 respondents (32%) are looking to invest in alternative energy.



## BUSINESS & GOVERNMENT

- ▶ Given 5 minutes with the Premier, most respondents would ask for targeted investment in local economy to be a priority.
- ▶ 28% of respondents had tried, but been unsuccessful in securing State Government business.



## TAXATION

- ▶ 53% support an increase to the GST in exchange for lower state taxes.
- ▶ 49% say the recent changes to Land Tax rates & aggregation are not fairer.

*“Support local business. Help businesses be successful...They will employ locals and grow SA”*

—

**respondent,  
Finance / Banking sector**

## Respondent Profile

# 177



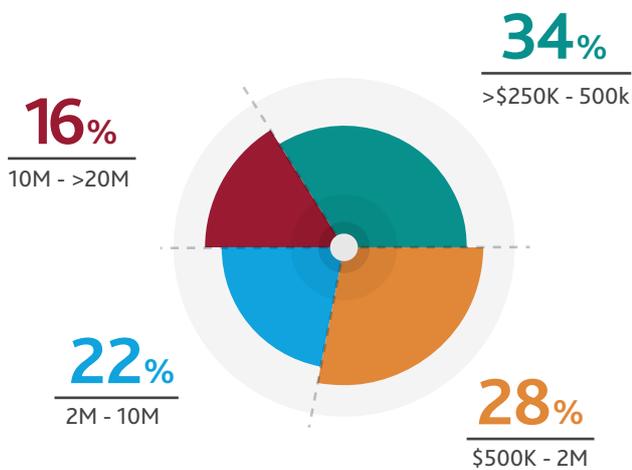
SA BUSINESSES  
RESPONDED



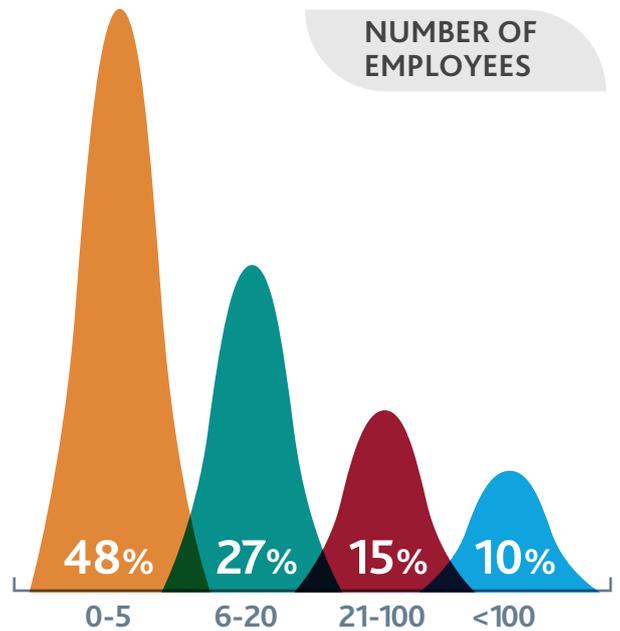
# 94%

HEAD OFFICE  
LOCATION IN SA

### ANNUAL TURNOVER



### NUMBER OF EMPLOYEES



### SALES



# 21%

INTERSTATE  
& OVERSEAS



# 22%

INTERSTATE

### RESPONDENTS



# 31%

FEMALE

# 4%

PREFER NOT  
TO SAY



# 65%

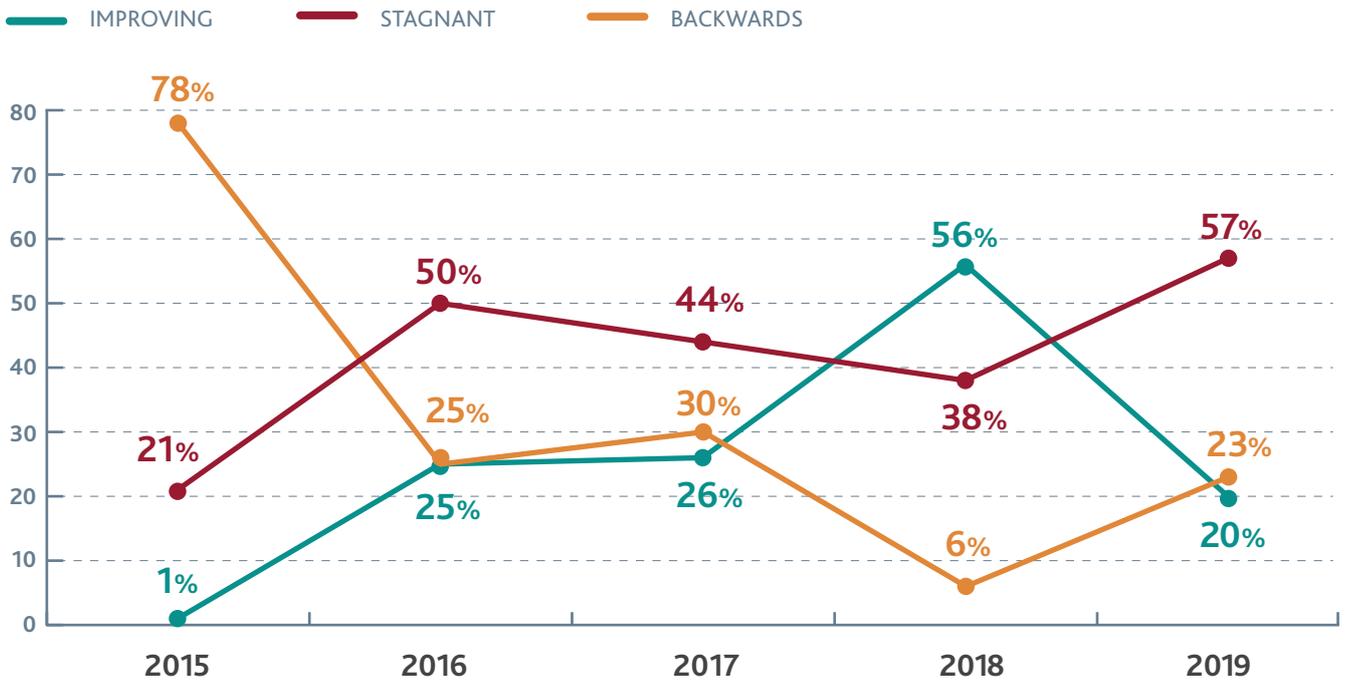
MALE



# BUSINESS OUTLOOK

## BUSINESS SENTIMENT: The only ways is up

After last year's surge in optimism, business sentiment has taken a downward turn. Just 20% of survey respondents have confidence in the health of the state economy and its ability to support business growth, down from 56% last year and the lowest since 2015. Unlike that year, the majority of businesses who responded feel that the economy is stagnant, rather than going backwards – indicating that it's less of a full stop and more of a pause in optimism for now.

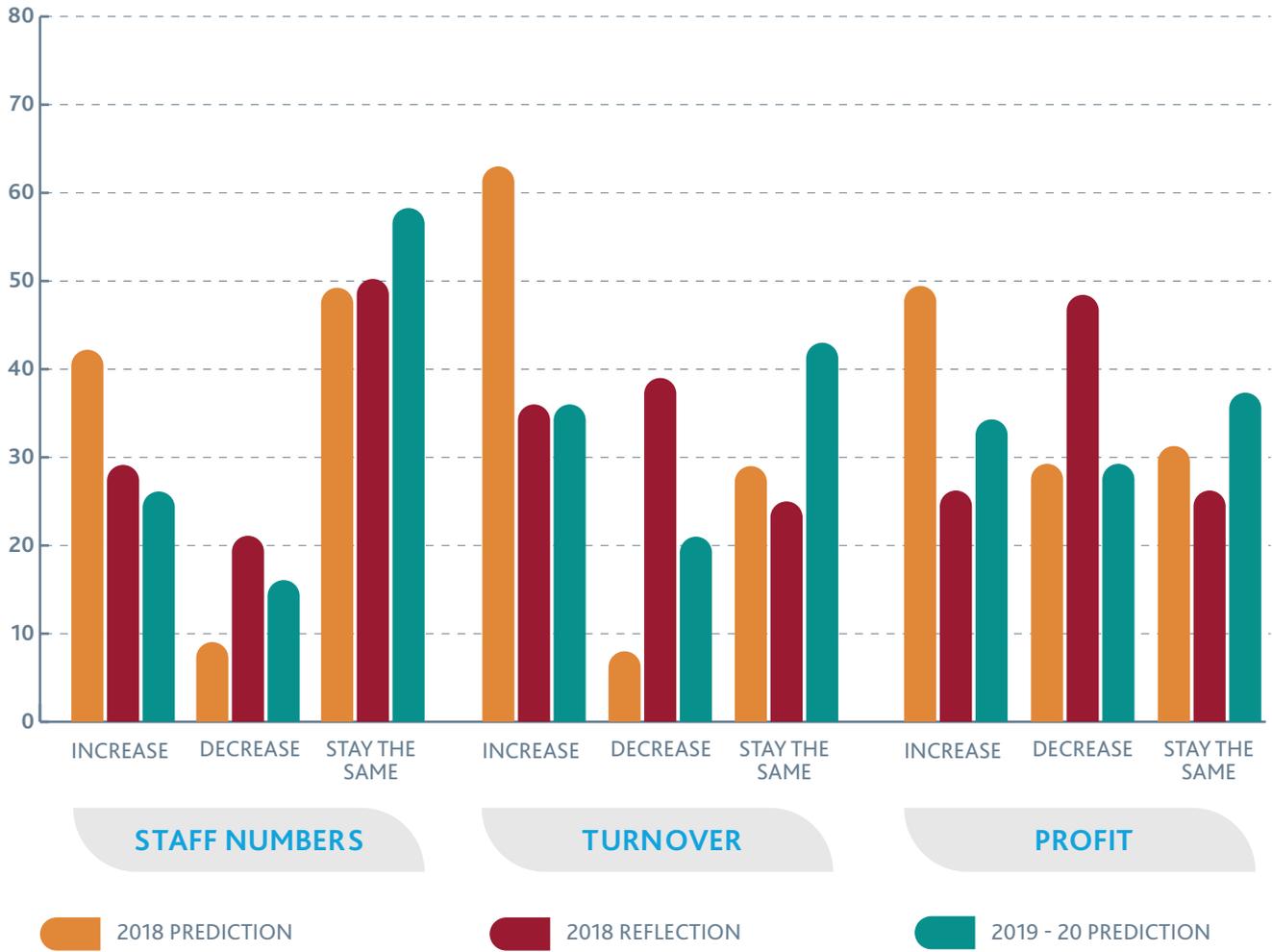


*“The eastern states still remain the preferred place of doing business even though costs are high. Mindset is an issue, in that SA is perceived as being away from the cutting edge of Sydney and Melbourne”*

—  
respondent,  
Professional Services sector

**BDO comment:**

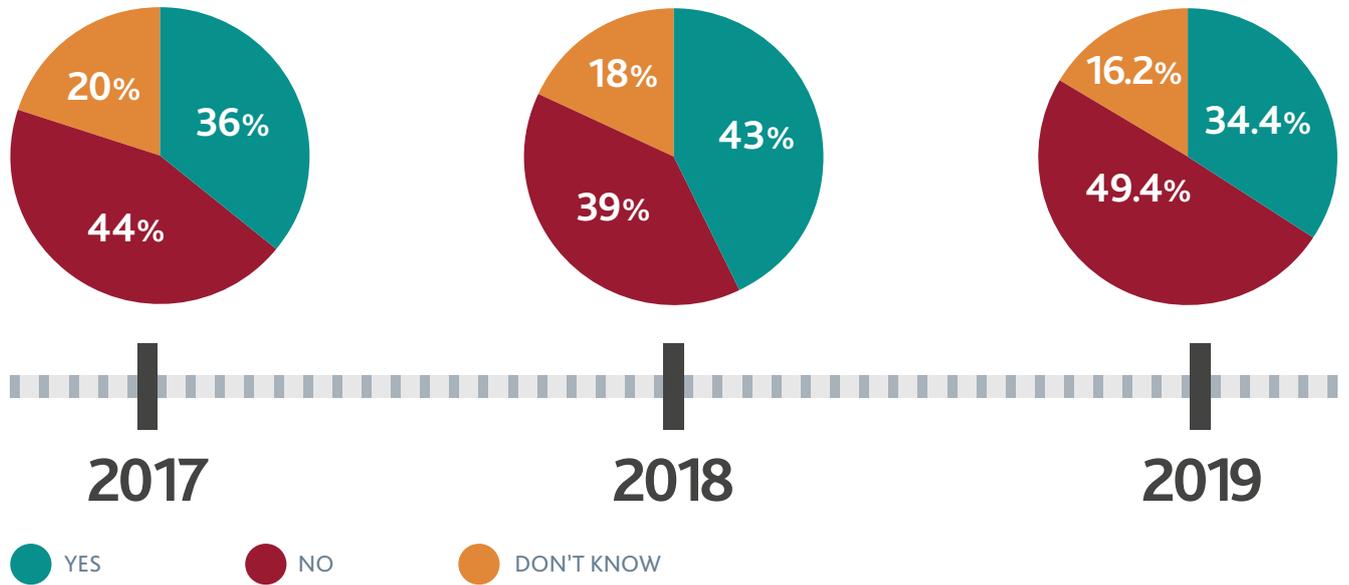
Businesses were more optimistic in 2018 than the reality of the past year reflected. Many more were expecting an increase in staff numbers and profit than actually achieved it, while a decrease in turnover was clearly unexpected by the vast majority. Predictions are far more subdued for the coming year, with most respondents expecting all three measures to hold steady.



*“SA is a great place to develop a new business, but a lot depends on the individual to go out and make the connections”*

—  
**respondent,  
 Health / Medical sector**

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



**BDO comment:**

Responses here are consistent with the downturn in business sentiment, flagging after last year's highly optimistic outlook. Those who feel SA is a low cost place to do business have returned to roughly 2017 levels, while those who do not see cost advantages through doing business in SA have increased from 2018. This means almost half of respondents feel there is no financial advantage to being based in SA.

*"Why is SA comparatively and on population more expensive than anywhere else in the Country and in some instances the world? This is unacceptable for ambitiously wanting to lower unemployment, increase confidence, business and population growth"*

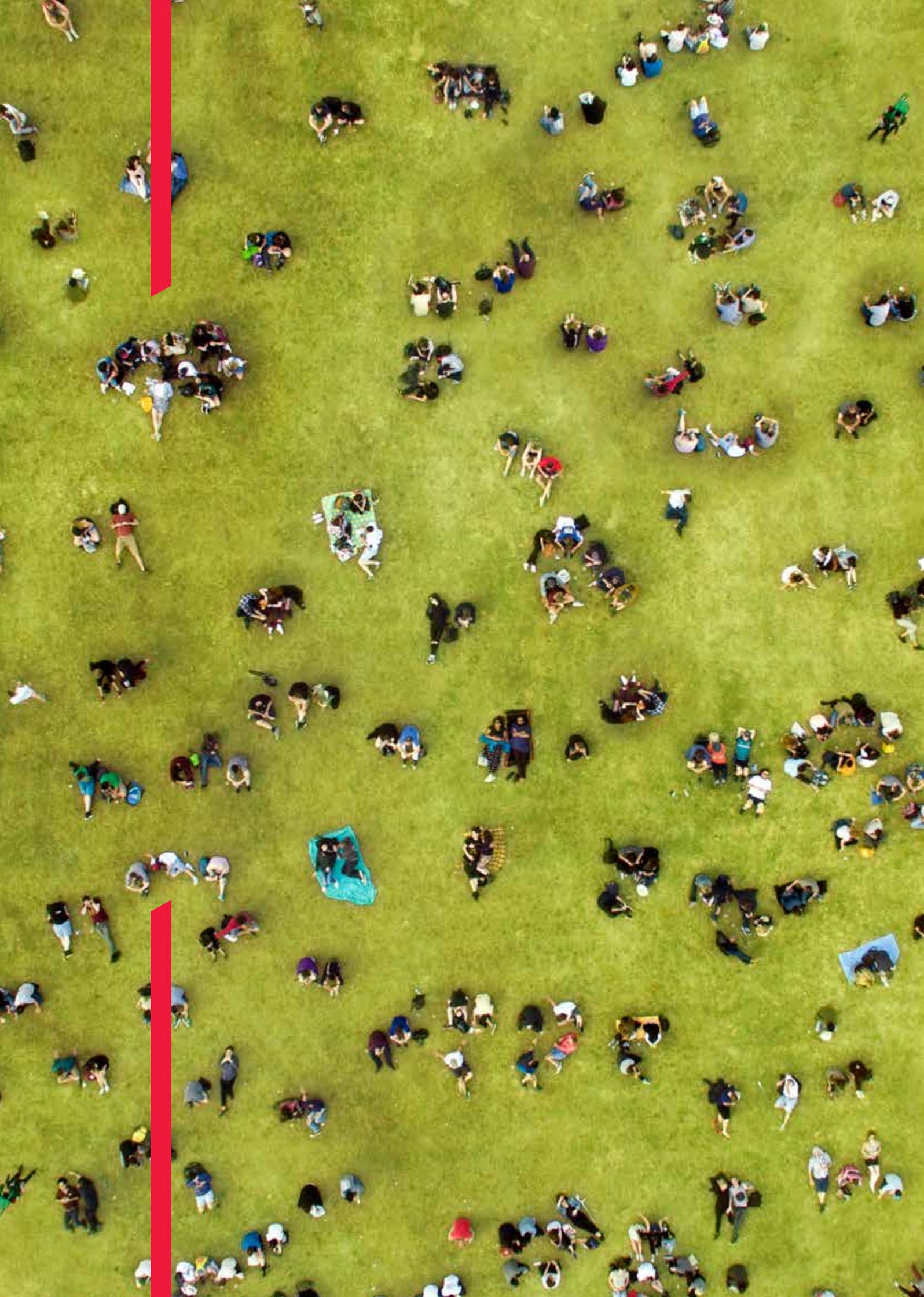
—  
respondent,  
Infrastructure sector

*"The cost of living and running a business may be lower than some interstate cities, however the revenue and profitability is also much more limited due to low population and economic base of SA"*

—  
respondent,  
Real Estate sector

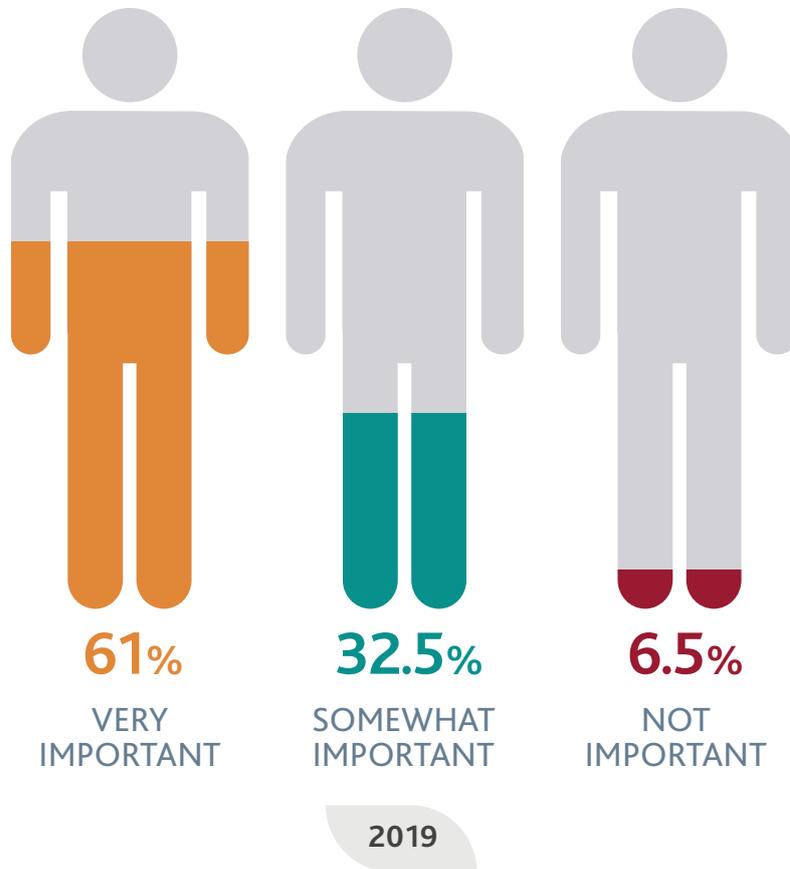
*"I was born here. I want to live here. I would like to continue to work here but it is getting harder by the day..."*

—  
respondent,  
Professional Services



# PEOPLE

IS POPULATION GROWTH IMPORTANT TO THE STATE'S ECONOMIC GROWTH?



*"We must attract more people, more investors, more innovators"*

—  
respondent,  
'Other' sector

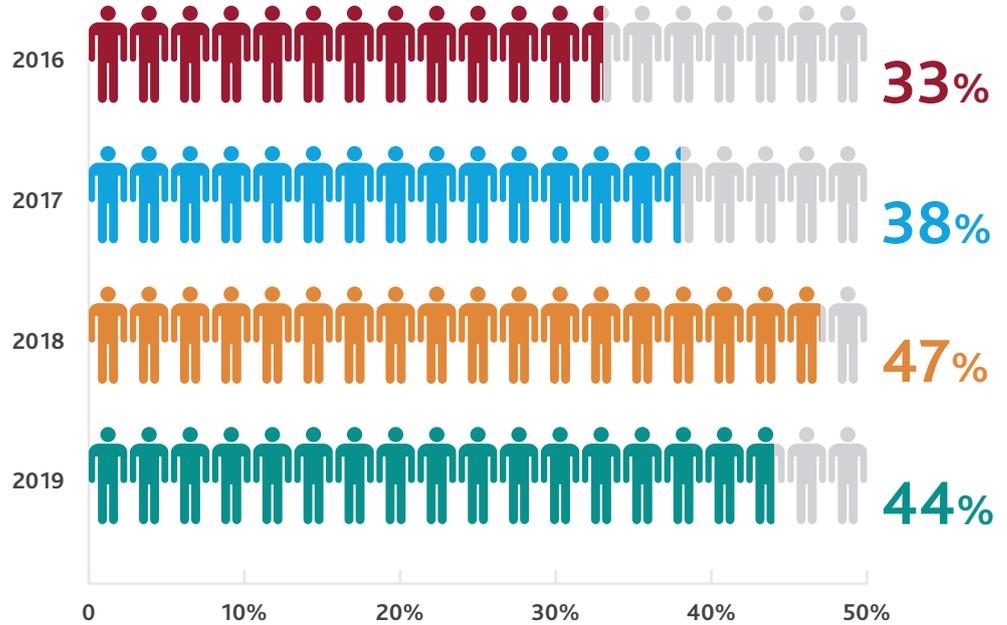
*"I believe population growth is important for our state and population growth will be driven by larger job creation. People will move to where they see opportunity for financial gain and lifestyle improvements"*

—  
respondent,  
Real Estate sector

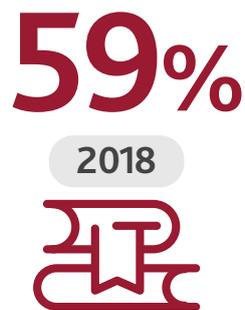
**BDO comment:**

Of those reporting trouble finding and retaining the right staff for their business, the main reason given is a shortage of suitably qualified candidates. Most respondents also believe our education system is not producing graduates with the necessary skills, which has been the case for the past 4 survey years.

**TROUBLE FINDING & RETAINING SUITABLE STAFF?**



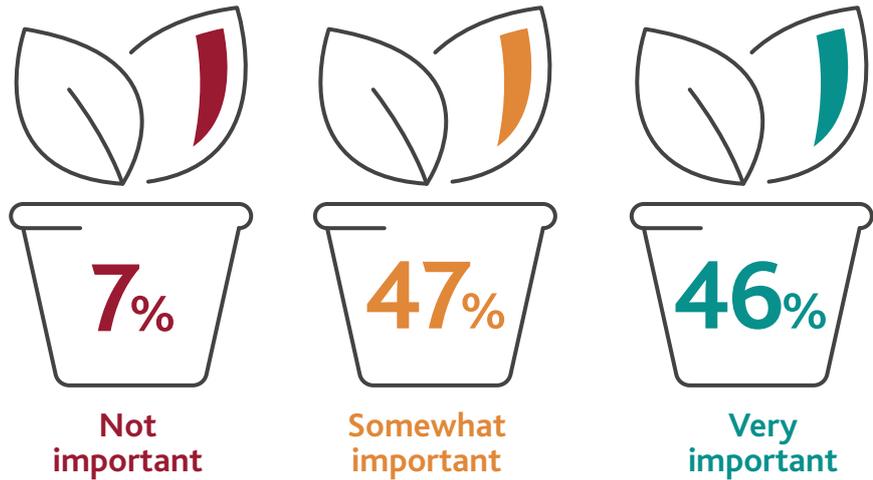
**BELIEVE OUR EDUCATION SYSTEM DOES NOT DEVELOP GRADUATES WITH SUITABLE SKILLS**



**BDO comment:**

Social and environmental responsibility is clearly a priority for most of our respondents, with all but 7% saying it is either very or somewhat important for their business. This is reflective of a broader shift in community expectations and shows SA business is aware of the influence these factors have on consumers, employees and stakeholders when they choose businesses to spend their time and money with.

**HOW IMPORTANT IS IT FOR YOUR BUSINESS TO BE SOCIALLY & ENVIRONMENTALLY RESPONSIBLE?**



*"Our building projects are environmentally sustainable. We are involved in tourism, retirement living, property services and management. We have a strong belief in environmental responsibility"*

—  
respondent,  
Real Estate sector

*"We have reduced our carbon footprint as much as possible and we donate to local, on the ground environmental causes"*

—  
respondent,  
TMT sector

*"We are in the process of facilitating an industry health group with a particular focus on mental health"*

—  
respondent,  
'Other' sector

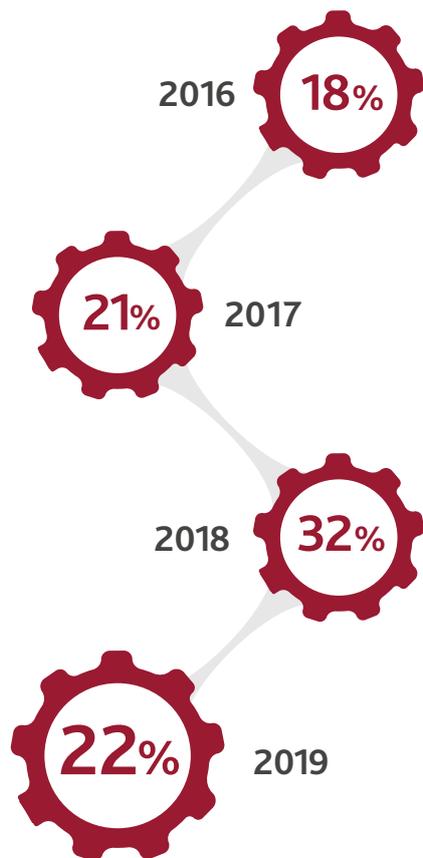


# TECHNOLOGY & INNOVATION

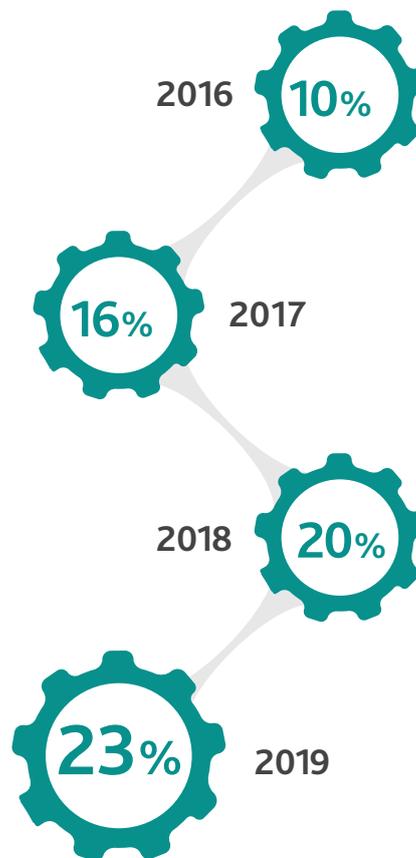
## BDO comment:

The number of respondents reporting cyber-attacks fell by 10% from last year, while the severity of the impact on business continued to increase. With 62% of respondents recognising that investment in IT is important, we hope to see the rate of attacks decrease further in coming years.

REPLIED YES TO CYBER ATTACK IN PAST 12 MONTHS

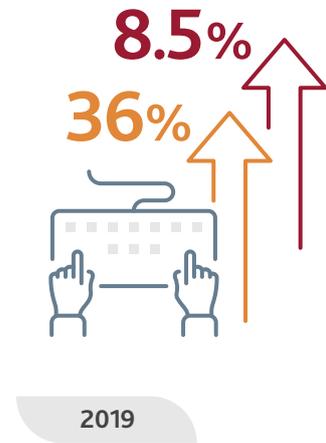
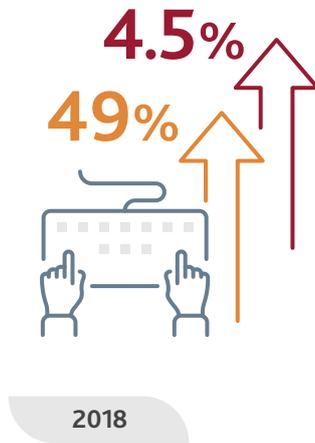


OF THOSE, RATED ATTACK IMPACT ON BUSINESS AS EITHER "SEVERE" OR "CATASTROPHIC"



RATE INVESTMENT IN IT AS EITHER 'EXTREMELY' OR 'VERY' IMPORTANT TO THEIR BUSINESS

**IS YOUR BUSINESS MODEL BEING DISRUPTED BY EMERGING TECHNOLOGIES?**

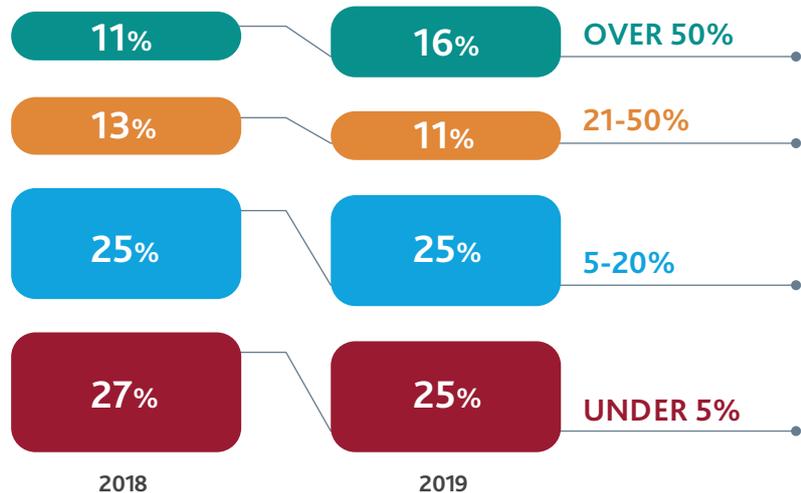


**BDO comment:**

Business model transformation has been a topic of strategic business importance for a number of years. Since 2016, around half of respondents have reported some level of disruption from emerging technologies, a trend which continues and compounds in importance each year.

It is likely that some organisations impacted by the rise of emerging technologies have been feeling the effects of business model transformation for a number of years now. Given this, we continue to be surprised at the number of survey respondents that offer almost exactly the same products and services they did 5 years ago.

**WHAT % OF YOUR REVENUE IS FROM NEW PRODUCTS / SERVICES YOU DID NOT PROVIDE 5 YEARS AGO?**





# ENERGY

**BDO comment:**

The cost of energy continues to be an issue for SA business, with the percentage of respondents saying that it is slowing business or stopping investment in growth almost matching those who feel SA is not a low cost place to do business, suggesting a correlation between the two measures. Reliability is less of a concern for respondents, but still up by 5% on last year's results. The percentage of respondents considering investment in alternatives to the grid is reducing slightly each year, with some saying they had already installed solar, wind or battery infrastructure.

**% WHO SAID THE PRICE OF ENERGY IS SLOWING THEIR BUSINESS OR STOPPING INVESTMENT IN GROWTH**

48%

2019

35%

2018

47%

2017

**% WHO SAID THE RELIABILITY OF ENERGY IS SLOWING THEIR BUSINESS OR STOPPING INVESTMENT IN GROWTH**

25%

2019

20%

2018

46%

2017

**% OF RESPONDENTS CONSIDERING INVESTING IN ALTERNATIVES ENERGY RESOURCES TO THE GRID IN THE COMING YEAR.**

32%

2019

36%

2018

37%

2017

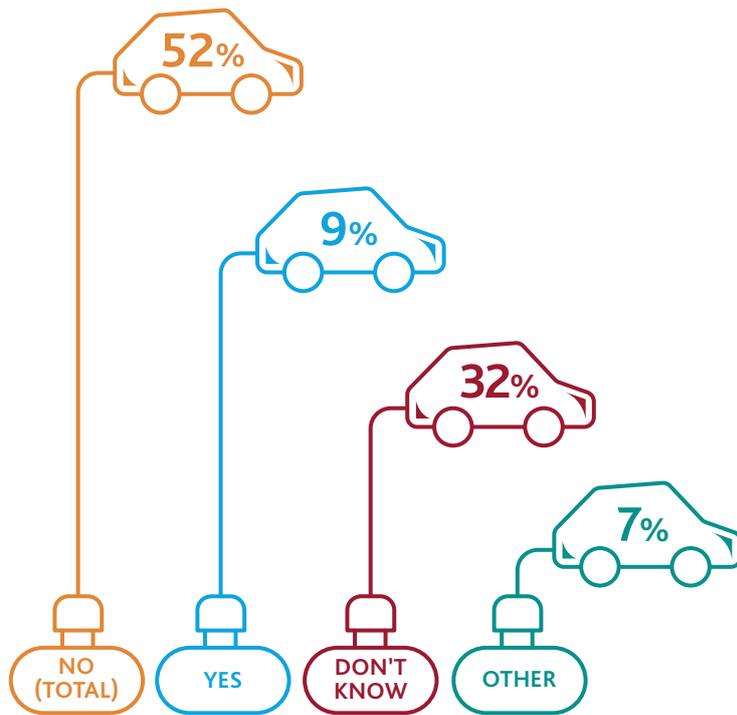
*“We absolutely must fix electricity – it’s too expensive and lack of reliability makes us vulnerable & unattractive as a business base.”*

—  
respondent,  
Tourism, Leisure & Hospitality sector

**BDO comment:**

The majority of businesses believe the State Government is not doing enough to encourage conversion to electric vehicle use, saying they should be investing in charging infrastructure or providing incentives that make acquisition or operating costs cheaper. Notwithstanding this overall sentiment from respondents, there was a strong reaction to the contrary from some respondents, particularly those who felt government should keep out of the market and let it run its own course.

**IS THE STATE GOVERNMENT DOING ENOUGH TO ENCOURAGE BUSINESS TO CONVERT TO USE OF ELECTRIC VEHICLES?**



*"Government should stay out of this political football. Let business find their own level playing field for this innovation"*

—  
respondent,  
Real Estate sector

*"[Government should] engage with research institutions and innovators in the field to make Adelaide a test bed city"*

—  
respondent,  
TMT sector

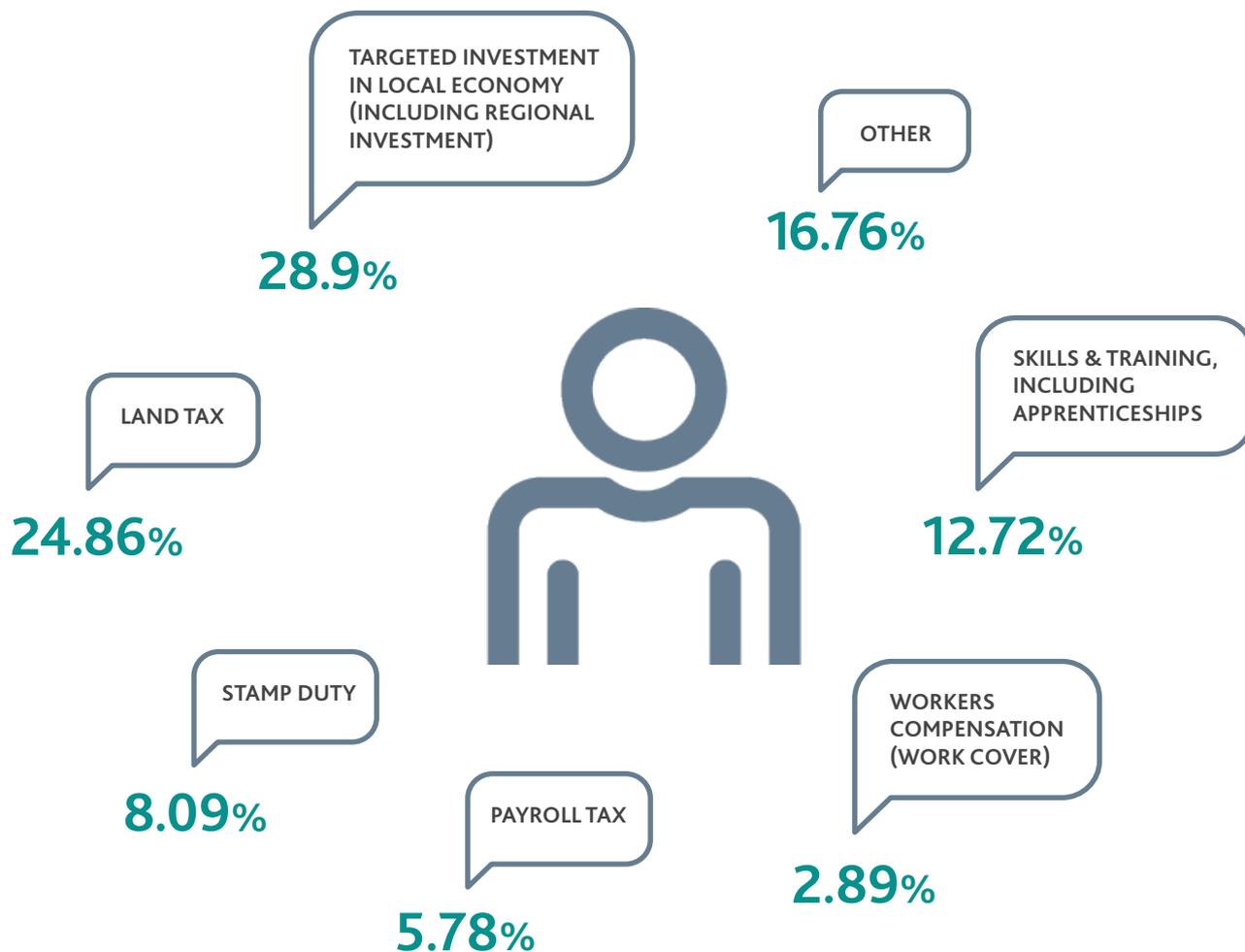
*"They should lead by example and replace their own fleet with electric vehicles"*

—  
respondent,  
Real Estate sector



# BUSINESS & GOVERNMENT

IF YOU HAD FIVE MINUTES WITH THE PREMIER OF SOUTH AUSTRALIA, WHICH ONE OF THE FOLLOWING WOULD YOU ASK HIM TO PRIORITISE?



**BDO comment:**

In 2018, 15.2% of respondents identified payroll tax as the biggest issue for the state government to prioritise. Since then, changes, which included increasing the payroll tax threshold to \$1.5 million, has seen the importance of this tax reduce to 5.8% in 2019.

Consistent with last year, targeted investment in the local economy remains the biggest priority among respondents, holding steady at just under 30%.

Over 33% of respondents have been unsuccessful in tendering for government business - almost the same as last year. Reasons cited included prohibitive costs to prepare the tender and complex pre-qualification requirements.

*“Procurement processes for the state government are archaic and much more difficult than the Victorian Government procurement system”*

—  
respondent,  
TMT sector

*“The government needs to be more responsible to the rural sector and not spend so much in the city”*

—  
respondent,  
Retail sector

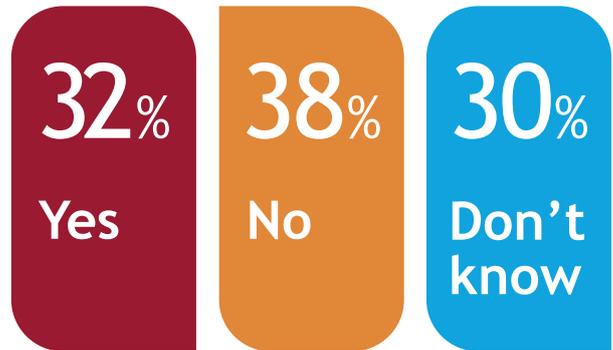
*“We don't bother applying any more - it's too time consuming and most work goes to large firms, often located interstate”*

—  
respondent,  
Professional Services sector

**BDO comment:**

We found this result somewhat surprising, expecting that business would be largely supportive of the expenditure measures that the government has announced the extra debt will fund. Broadly, respondents want to see tangible, long-term benefits for the state to justify the level of debt.

IS THE INCREASE  
IN STATE DEBT,  
ANNOUNCED IN THE  
RECENT BUDGET, TOO  
HIGH?



*"Debt is OK if it funds productivity. The debt seems to be funding infrastructure which may or may not be linked to any productivity. Without a productivity gain repaying the debt will be a future burden"*

—  
respondent,  
Tourism, Leisure & Hospitality sector

*"Provided debt is managed over the long term it is a useful tool to assist funding infrastructure which, in turn, supports economic development"*

—  
respondent,  
Agribusiness sector

*"The state government is not controlling their spending and the public service is excessive and inefficient"*

—  
respondent,  
Health / Medical sector



# TAXATION

REGARDING CHANGES TO PAYROLL TAX OVER THE LAST FEW YEARS, DO YOU THINK THAT:

Further measures are needed

**35%**

The measures are adequate

**32%**

Don't know

**23%**

Other

**10%**

REGARDING CHANGES TO WORKERS COMPENSATION PREMIUMS OVER THE LAST FEW YEARS, DO YOU THINK THAT:

Further changes are needed

**24%**

The changes are adequate

**29%**

The changes achieved meaningful Levy reduction

**13%**

Don't know

**31%**

Other

**3%**

HAVE THE RETURN TO WORK REFORMS ACHIEVED IMPROVED OUTCOMES FOR BUSINESS AND INJURED WORKERS?

No - Further reforms are needed

**21%**

Yes - outcomes have improved

**23%**

Don't know

**53%**

Other

**3%**

WOULD YOU SUPPORT AN INCREASE TO THE GST IF IT LED TO A REDUCTION IN STATE TAXATION?

**53%**

YES

**47%**

NO

*"Stamp duty, Land tax, Payroll tax, etc. should be abolished and GST increased to compensate"*

—  
respondent,  
Professional Services sector

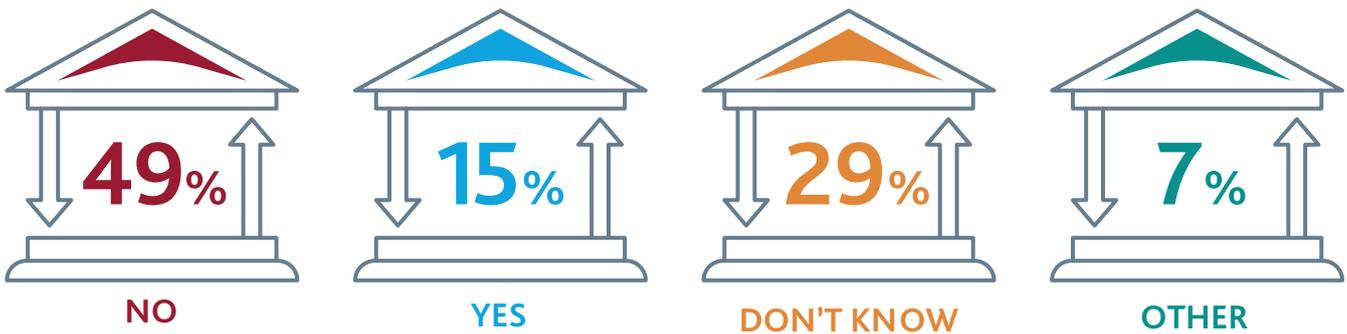
*"State based taxes are a significant cost impost to business"*

—  
respondent,  
Manufacturing sector

**BDO comment:**

At the time respondents completed the survey, the Government’s initial changes to land tax had been announced in the June State Budget, but not the more recent model. The proposed changes to land tax amalgamation have been promoted by the government as being fairer, however just under one third of respondents were unsure and just under half believed the proposed changes were not a fairer means to collect land tax. This suggests that further engagement and consultation with the business community on the impact of these changes is required.

**ARE THE RECENT PROPOSED CHANGES TO LAND TAX RATES AND AGGREGATION FAIRER?**



*“The land tax issue is a big sign to property investors in SA that they should invest elsewhere. I see little incentive to invest in property in SA - the share market is much easier and cheaper”*

—  
respondent,  
Retail sector

*“No. They should not apply retrospectively and rates should be changed so the nett tax burden effect is neutral. The current ‘progressive’ framework is actually ‘regressive’ and deters investment in the State, adding to rents for businesses and residents that do not own their own property”*

—  
respondent,  
Professional Services sector



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## 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 160 Partners and staff are located in offices in the Adelaide CBD and McLaren Vale, and backed up by a global network of over 80,080 people working out of more than 1,590 offices in 162 countries.

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 expert business and accountancy advice across a broad range of industry sectors. Our Partner-led approach means you receive personalised service as we work with you to achieve your business goals, and exceed your expectations of client service.

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- ▶ IT Advisory
- ▶ Private Wealth
- ▶ Superannuation
- ▶ Tax

*“As a South Australian business, we understand the advantages and challenges of operating in this fantastic state.”*

# OUR PEOPLE



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### **MORE INFORMATION FOR CHANGE-MAKERS**

If you are a policy maker, political organisation or peak body, we have more details to share with you.

Together, we can create meaningful change to help all South Australian businesses to prosper into the future.

*Contact us today.*

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