



**JIWA FINANCIALS  
MIDMARKET BUSINESS  
CLIMATE SURVEY**

## Executive Summary

In early 2007 - seeking to better understand the real issues fuelling the current needs of midmarket businesses- JIWA Financials conducted a survey of 200 business owners and/or their senior managers. Focusing on macroeconomic factors such as interest rate fluctuations, unstable fuel prices, industrial workplace and taxation reform, as well as midmarket specific issues such as operating margins and labour shortages, the survey asked respondents about specific business issues and the potential of these issues to impact their ability to operate now and into the future. The survey found that:

- 18% of respondents reported difficulties in attracting and retaining appropriately skilled staff as the major factor currently impacting the performance of their businesses. 17% of respondents indicated that they believed this problem would continue at least until the end of 2008.
- Unstable fuel prices also factored as an issue particularly in terms of its impact on the overall increase of transportation costs. Almost one- quarter of all respondents (24%) indicated this to be the second most pressing issue for them in continuing to conduct business profitably.
- Around one – fifth (20%) of businesses surveyed also indicated that “inefficient operating processes” were severely hampering their opportunity to expand. This together with the severe labour shortages alluded to above, were impacting their ability to profitably compete with cheaper off shore labour sources. Oddly enough only about half (10%) were taking proactive internal measures to alleviate this.
- Rising costs of inputs in general have also plagued midmarket businesses during the course of 2006, with the trend projected to continue in 2007 and well into 2008. While not raising this as the most significant factor impacting their business, 12% of respondents indicated that this is the 2<sup>nd</sup> or 3<sup>rd</sup> most significant factor preventing them from expanding at the required rate to remain competitive on a world arena.
- The net result of these trends seems to present itself in declining margins, with 15% of respondents indicating that downward margin pressure is continuing to have a significant impact. There is however, some level of optimism in the midmarket business community with 13% responding that margins will still continue be a major problem in 12 months time (a drop by 2% from current trends), however, it remains the belief of the midmarket business community that this can only occur if the issues around labour shortages and fuel fluctuations are addressed quickly and effectively.

## Methodology

The JIWA Financials survey began by asking business owners and senior managers from 200 wholesale and import/export companies around Australia which of the following issues were currently making the greatest impact on their business:

- Regulatory compliance requirements
- Government taxation policies
- Declining margins
- Change to industrial relations legislation
- Inefficient operating practices
- Difficulty in getting appropriately skilled staff due to labour shortages
- Bad Debts
- Impending and current interest rate rises
- Reduced consumer confidence
- Increases in transportation costs fuelled by unstable fuel prices
- Global climate change
- Increasing cost of warehousing
- Competitive pressure due to cheaper off shore labour sources
- Rising cost of inputs
- Other

The survey then asked the same group of respondents which of the following fifteen issues would still be of significant importance to their businesses in 12-18 months time. Changes in responses were recorded and documented. Below is a summary of replies.

### **Question1:**

#### ***Impact of “Work Choices” – more than just a political “catch cry”.***

18% of respondents flagged difficulty in getting and retaining skilled staff due to labour shortages as the most significant factor impacting their ability to continue to conduct business profitably and competitively. A further 11% flagged it as their second most significant issue.

The results from the midmarket business community echo the general public’s “mixed response” to government regulations and initiatives around changes to industrial relations legislation and workplace agreement structures. One thing that is definitely evident is that behind the government and media rhetoric of “work choices” reforms there is a very definite and real impact on midmarket business.

#### ***The fuel price debate – biting when the rubber hits the road.***

An overwhelming 24% of respondents flagged increases in transportation costs due to instability in fuel prices as the second highest ranked factor impacting their ability to do business.

This definitively demonstrates the very real impact of fluctuating fuel costs – not only on the cost of goods within the wider economy but on the midmarket sector’s ability to continue to compete.

### ***Declining margins – more of the same.***

The third highest ranked factor by the survey respondents was that of declining margins (15% of respondents). This has been an ongoing concern for midmarket businesses for a number of years, with JIWA financials first picking up on the issue over 18 months ago. Not much has changed since then with over 30 survey respondents still flagging it as an ongoing issue.

### ***Other Factors- a sign of midmarket maturity.***

While not as significant as the above three, two other issues were consistently pointed out by the respondents as having a significant impact. They were:

- Increases in warehousing costs, with 16% of respondents ranking this as the number one concern affecting their business currently
- Inefficient operating processes with 20% of respondents ranking this as the second most significant impact on their business.

These issues are arguably not as significant as the macro economic ones documented above, as they can to some degree be addressed through improvements within the businesses themselves. However, they do show an interesting trend towards the growing maturity of the midmarket sector, in its ability to understand the connection between better operations and profitable competitive advantage. It would be fair to conclude from this survey that the Australian midmarket sector is starting to mature in terms of its business sophistication.

### ***Issues that did not resonate – but perhaps should have.***

In surveying the business issues it was interesting to note that factors such as impending and current interest rate rises, reduced consumer confidence and global climate change did not register in any significant way with the survey respondents.

Perhaps business perceived these to be consumer/ greater societal issues rather than specific business issues. Perhaps it is too soon for them to “bite” in day to day business operations. However these are factors that JIWA Financials will continue to monitor to see if they begin to impact in the future.

### ***Question 2:***

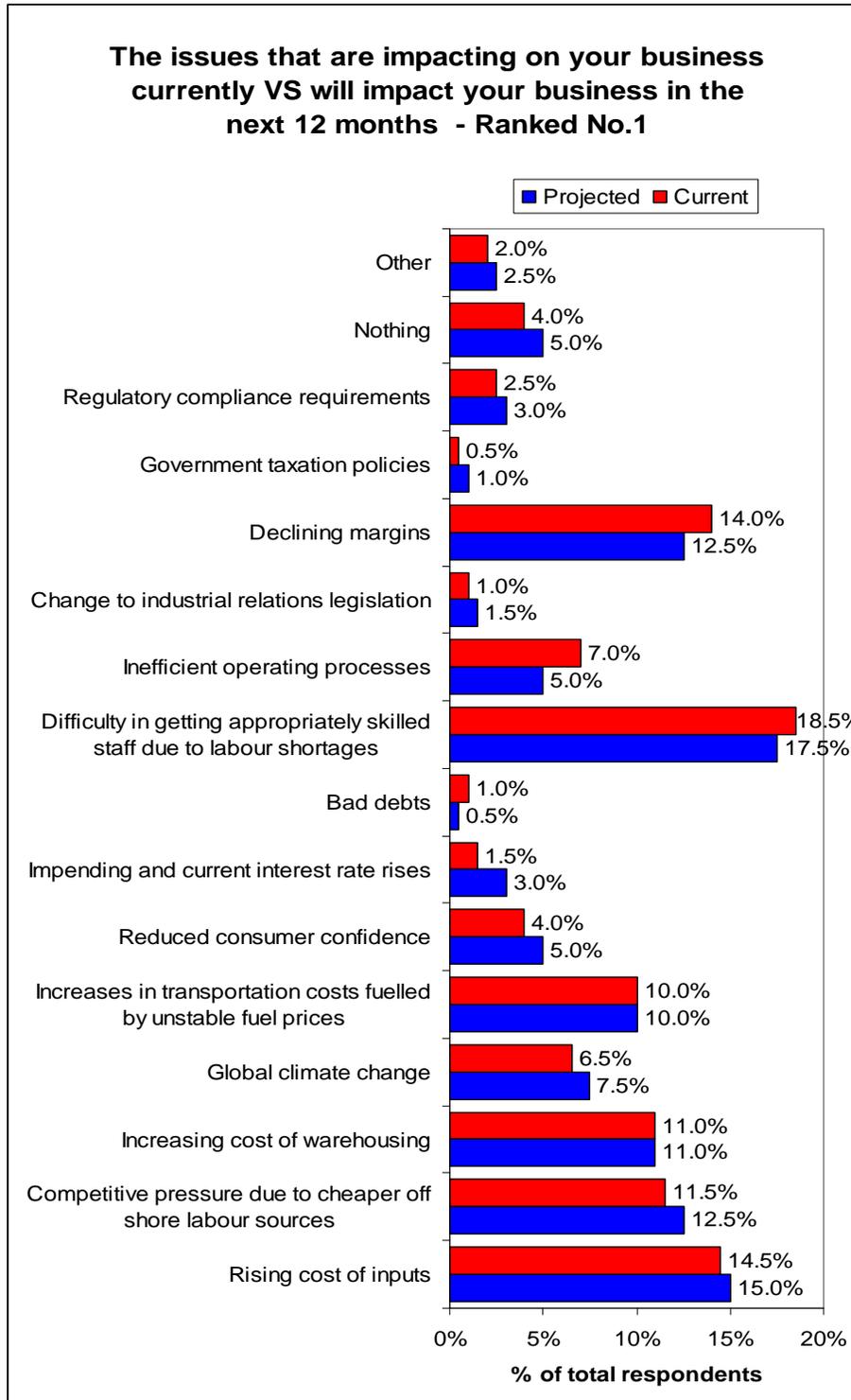
#### ***The future outlook.***

When asked which of the fifteen issues would still be of concern in 12-18 months time, the results showed very little variations. Staffing issues, transportation costs due to fuel price instability and declining margins were all still flagged as being significant in terms of their impact on business through 2007 and into the greater part of 2008.

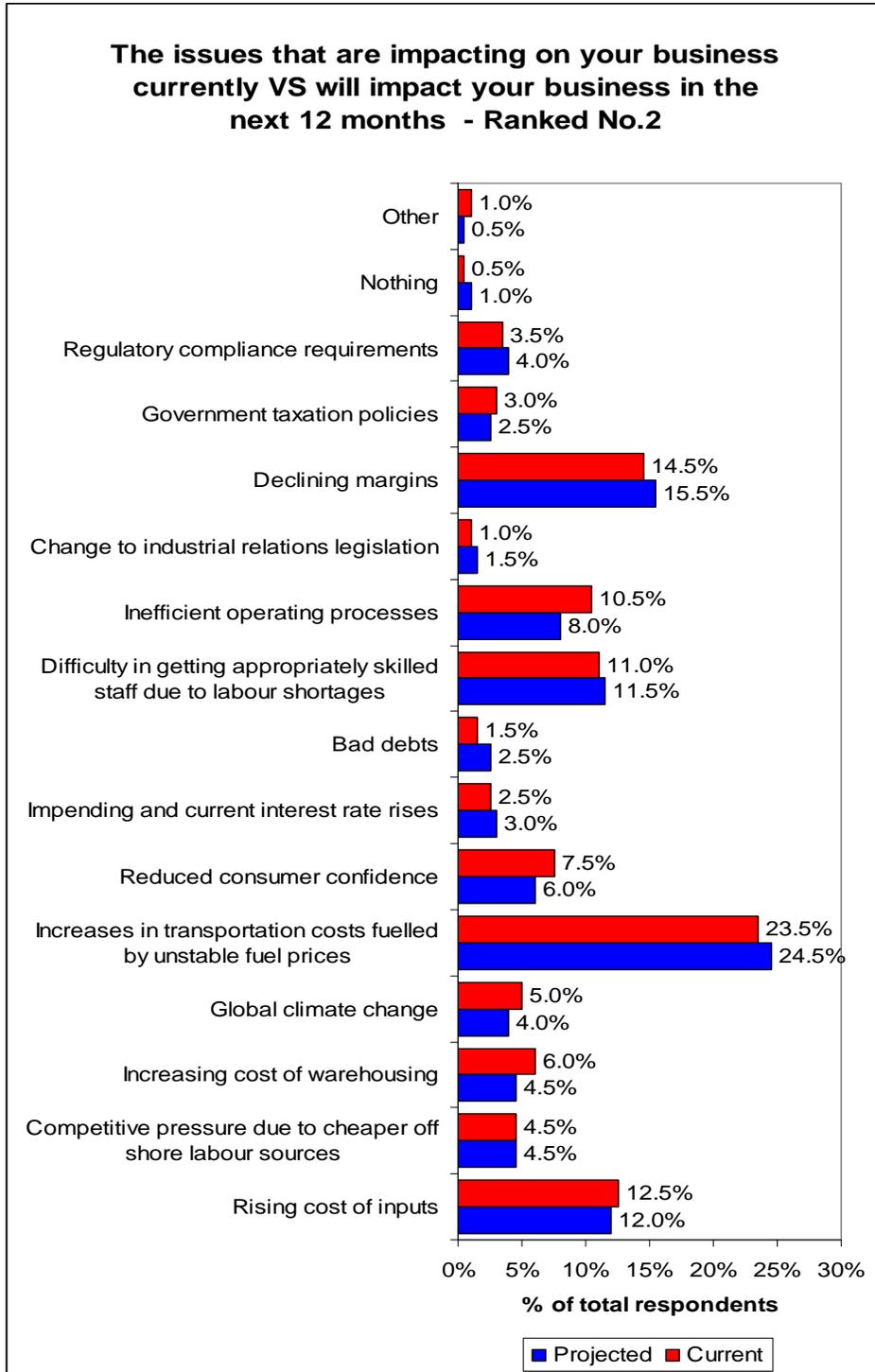
The only significant change was around the impact of inefficient operating processes. Originally 20% of all survey respondents indicated that inefficient operating practices were the second most significant factor impacting their ability to operate competitively. When asked what would happen in 12 months time, only 15% of respondents believed that it would still be a contributing factor impacting their business. A number of businesses disclosed that they were embarking on major technology and process initiatives designed to streamline and improve operating procedures. This possibly accounts for the perceived drop in impact in 12 months time.

## Research Findings

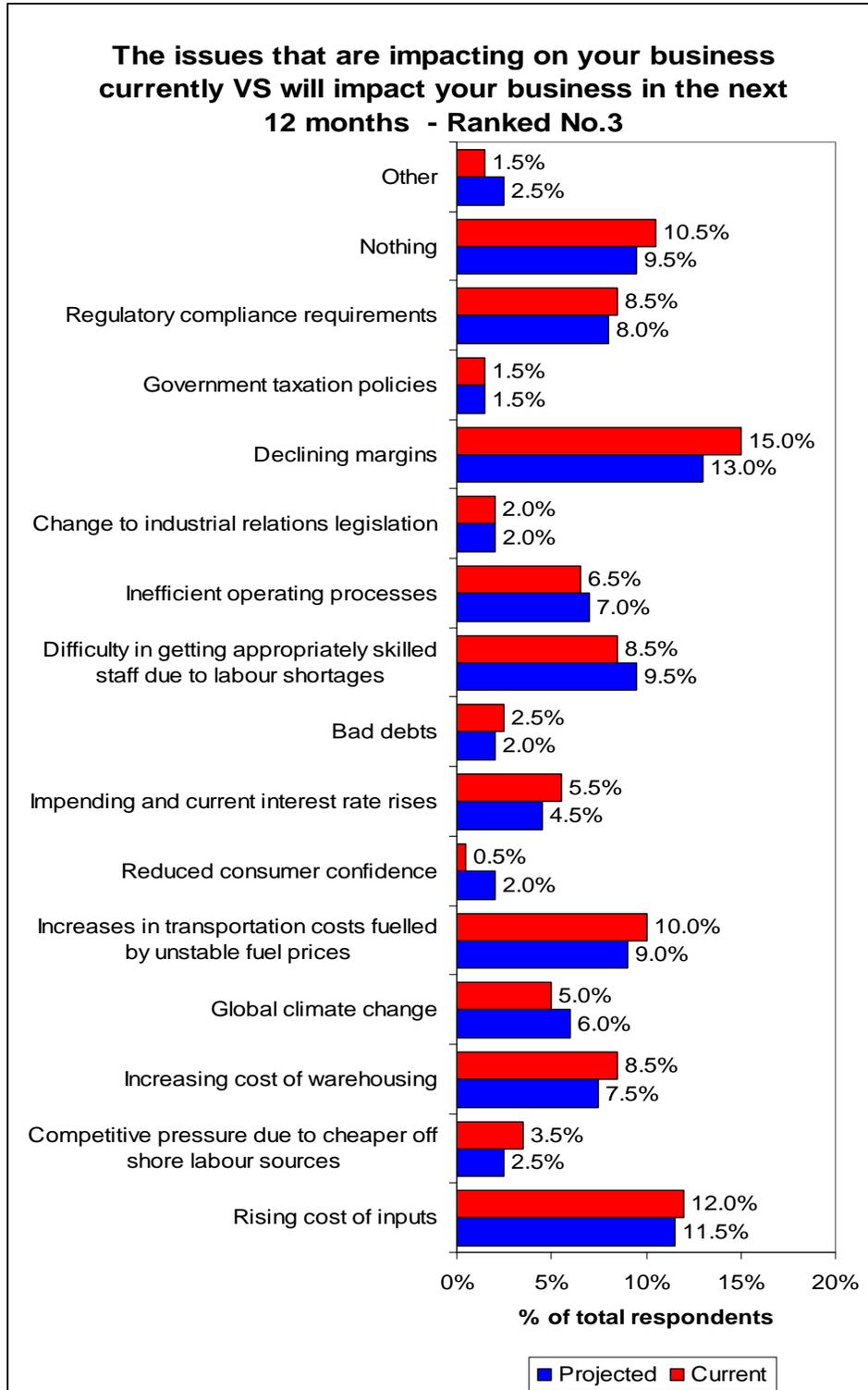
**Chart 1-** Issues that affect a mid market business, as ranked number 1 by the business owner/senior management the graph compares various factors impacting midmarket businesses currently against the factors that may affect businesses in the next 12 months.



**Chart 2-** Issues that affect a mid market business, as ranked number 2 by the business owner/senior management. The graph compares various factors impacting mid-market businesses currently against the factors that may affect businesses in the next 12 months.



**Chart 3-** Issues that affect a mid market business, as ranked number 3 by the business owner/senior management. The graph compares various factors impacting mid-market businesses currently against the factors that may affect businesses in the next 12 months.



## **Conclusion**

Due to its sheer size and diversity, the Australian midmarket is often perceived as a barometer of opinion in response to business environment factors and government policy designed to neutralise and stabilise these factors. This survey demonstrates that this is not always the case. While midmarket business has picked up on issues such as workplace reforms and fuel price fluctuations – a significant part of the current political platform, other political issues such as global climate change, rising interest rates and shaky consumer confidence do not seem to have registered.

In summary, like the other business sectors in the Australian economy, the midmarket “picks its politics carefully” focusing on what is critical to their ability to operate effectively, leaving the rest to political and media debate.