

# Navigator

Now, next and how for business

Australia



Together we thrive

# Overview

## Weak growth, but stimulus should support an upturn

Australia's economy has slowed to its most sluggish since 2009, largely reflecting a pullback in consumer spending. However, mining and infrastructure investment are set to pick up and recent interest rate and tax cuts should support a modest upturn in household consumption in coming quarters.

# State of play

## Strategies for success

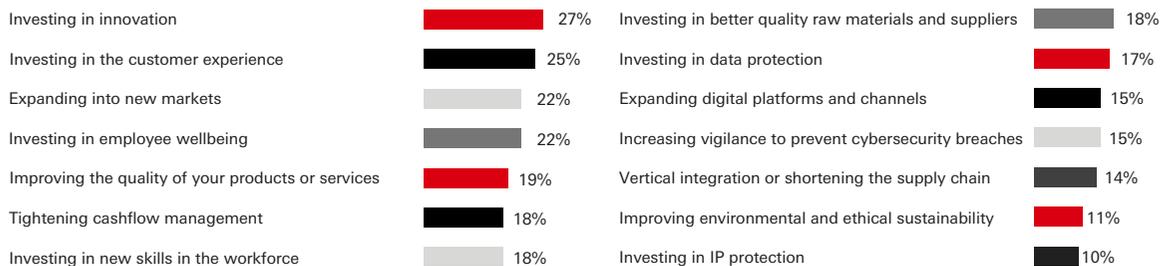
Despite subdued conditions, businesses in Australia are optimistic about their future. More than eight in 10 (84%) businesses expect their sales to grow in the next year. This is above the global average (79%) and the average for Asia-Pacific (APAC) (77%). Take that to a five-year forecast, and the percentage of businesses feeling upbeat about growth rises to 85%.

However, there is a conservative forecast for how extensive that growth will be. Only 21% of Australian businesses expect a rise of 15% or more in the next year.

Where that forward thrust will come from is an interesting mix of factors – improvements in productivity, the launch of new products or services, a motivated workforce and investment in technology. While these tend to be internal drivers, businesses also expect to benefit from new markets opening up and favourable changes in interest rates.

Although most Australian businesses are positive about the future, they are still taking measures to counter threats, mainly through investing in innovation and customer experience, expanding into new markets and enhancing employee wellbeing.

### Strategies to overcome the threats or potential decline of business



## What you need to know



84% of Australian companies project growth for their business in the next year, increasing marginally to 85% over the next five years.



32% of Australian businesses believe higher productivity and new products or services will lead to growth.



28% of Australian firms cite favourable changes in interest rates as a key driver of growth.

## What your business can do



Firms can look further afield to boost growth. 22% of Australian businesses say they're considering expanding into new markets.



In order to counter threats or business contraction, Australian firms are prioritising investment in innovation (27%), customer experience (25%), off-shore expansion and employee wellbeing (both 22%).

# Trade outlook

## Traditional markets on the wane

While Australian businesses continue to be positive about the outlook for international trade (83% in both 2018 and 2019), there are signs of change ahead.

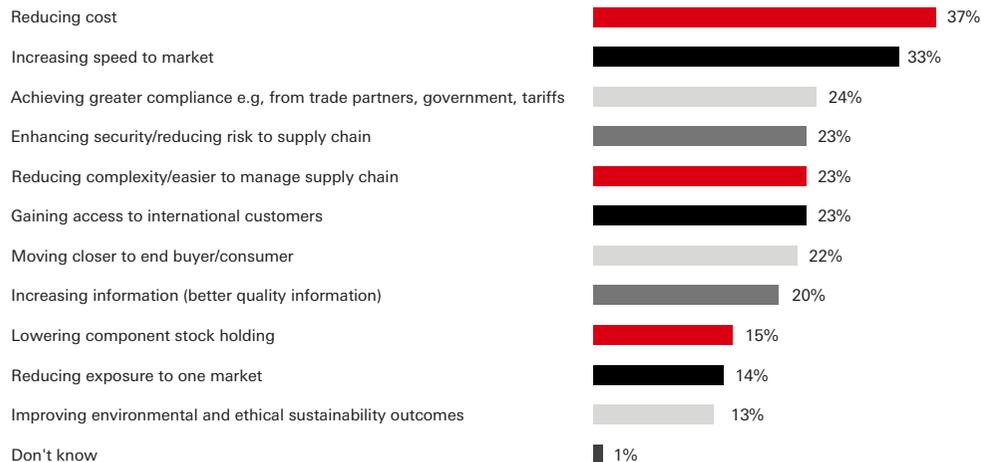
Asia Pacific (APAC), Europe and North America are still the main targets for Australian companies, but their importance has dropped, mainly driven by a decline in trade with Japan, the UK and the US.

Significantly fewer Australian companies are expecting to expand their business in APAC, especially in Japan and India. Around 20% of Australian businesses that are currently trading internationally have reduced trading in APAC in the past two years and 22% intend to do so in the next two years. Reasons include cybersecurity risks and a shortage of relevant skilled labour (both 31%).

Trade with Europe and North America, while currently lower in importance than in previous years, is projected to recover, with more Australian companies expecting to expand their business in these two regions.

Within APAC, Australia is ranked number two (6%) in terms of key markets for future expansion, following China (9%) and on par with Japan (also 6%).

### Benefits expected from changes to supply chain



## What you need to know



Although the importance of APAC is declining, firms still find these markets attractive because of proven customer demand (56%), access to new suppliers (39%) and culture of innovation (38%).



56% of Australian businesses intend to reduce trading with some overseas markets in the next two years – a level higher than the global (46%) and APAC (47%) averages.



More Australian firms are capitalising on opportunities to enter new markets, setting their sights on North America (23% in 2019 versus 15% in 2018) and Europe (29% in 2019 versus 22% in 2018) over the next three to five years.

## What your business can do



Long supply chains can create complexity and a lack of transparency within a business. Over the next three years, along with using more technology in supply management, Australian businesses will be working to shorten their supply chains. Focus on this strategy has doubled in the last year.



Explore ways to make other supply chain improvements. Australian companies believe the benefits to be tangible: reducing costs (37%), increasing speed to market (33%) and achieving greater compliance (24%).

# Protectionism and geopolitics

## Policies promise positive gains for many Australian firms

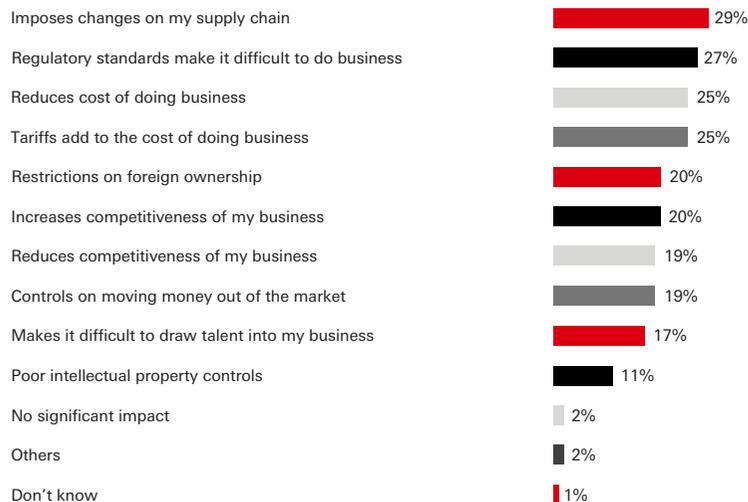
Protectionism may be growing, but almost two-thirds (62%) of Australian companies believe they'll gain more than they'll lose. They cite increased competitiveness (20%) as one of the main potential benefits.

However, Australian businesses aren't immune to the negative impacts of protectionist policies in markets where they trade. To this point, 29% say they're affected by imposed changes on their supply chain, 27% believe that regulatory standards make it difficult to do business and 25% say tariffs add to the cost of doing business.

Coping mechanisms used by businesses suggest a more defensive mindset than is seen in other markets. The primary strategy Australian businesses are pursuing is cutting costs (35%), followed by sourcing from local suppliers (31%) and focusing on digital sales channels (28%). Service businesses put considerably greater stress on cutting costs than those in the goods sector (45% versus 26%).

Six in 10 Australian businesses say they feel a strong impact from geopolitics, and their response tends to be to mitigate risk rather than maximise opportunities.

### Ways in which businesses feel the impact of protectionism



## What you need to know



Almost two-thirds (64%) of businesses in Australia think their key trading markets are becoming more protective. This trend has steadily increased over the last three years (2017: 57%, 2018: 60%).



Businesses in the goods sector are more inclined to think they'll gain from protectionist policies than their counterparts in the services sector (70% versus 53%). The same is true for domestic operators (70% versus 57% of international operators).

## What your business can do



Minimising risk is a central strategy for coping with geopolitical uncertainty. Australian businesses are taking more business online (27%), investing in physical security (25%) and investing in cybersecurity (24%).



Prepare and remain alert to protectionist policies in overseas markets. Cutting costs (35%) and sourcing local suppliers (31%) are two key strategies Australian firms are choosing.

# The sustainable future

To protect reputations, businesses commit to sustainable practices

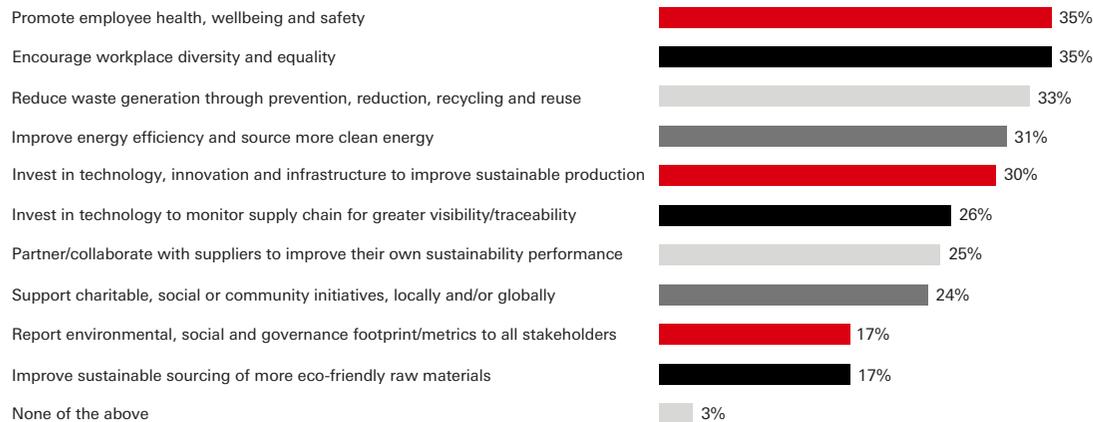
Over the next five years, businesses in Australia will be under pressure from governments, competitors and customers to become more sustainable. They're being held back, they say, by a lack of funding, consistent measurement and reporting frameworks, while believing they also need greater knowledge.

Obstacles aside, companies are expecting to invest more in promoting employee wellbeing, encouraging workplace diversity and inclusion, and reducing waste to improve their sustainability practices.

When it comes to making a contribution to the UN's Sustainable Development Goals (SDGs), affordable and clean energy, decent work and economic growth, quality education and wellbeing are seen as the areas where businesses can do the most.

More than two-thirds of Australian companies (67%) see staff wellbeing and mental health as critical to the success of their business. To turn this into action, companies are prioritising flexible working hours and workplace arrangements, mental health cover and extra annual leave.

## Sustainable investment priorities over the next five years



## What you need to know

- 1 The top three motivations for implementing sustainable practices are meeting buyer expectations (34%), meeting regulatory standards (27%) and gaining reputational advantage (25%).
- 2 67% of Australian businesses agree strongly or completely that staff wellbeing and mental health is critical to business success, compared to the global average of 73%.
- 3 61% think they have a role to play in delivering the UN's SDGs.

## What your business can do



Make investments that count. In the next five years, 35% of Australian businesses will invest in promoting employee wellbeing and encouraging diversity. 33% are investing in reducing waste.



Boost your productivity. 86% of Australian companies are introducing flexible working hours and 73% are increasing the amount of annual leave they offer because they feel it improves morale and boosts productivity.

# Breakthrough tech

Australia shines for 5G, the Internet of Things and data security

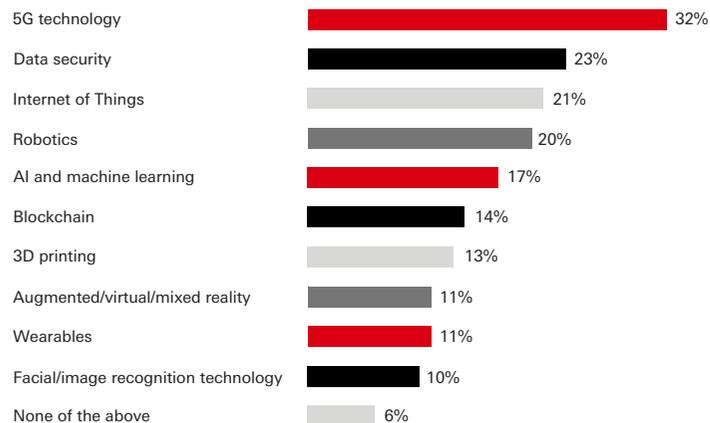
Australian firms are on par with their global counterparts in recognising data security as one of the most important technologies of the next five years. Second only to 5G (32%), firms believe that data security will improve business transparency and compliance (39%) along with customer experience (29%).

While firms acknowledge that 5G will lead to an improved customer experience and support the delivery of products and services, businesses also believe that the next generation of cellular technology will accelerate speed to market, allowing them to gain a competitive edge.

Elsewhere, the Internet of Things (IoT) and robotics are seen as game-changers for businesses (21% and 20%), particularly as both technologies can be applied to a wide range of sectors, including agriculture and professional services.

Businesses in Australia consider their own environment as one of the most advanced technology hubs in the world, owing to Australia's experience in the data security space. Businesses also regard the US and China as leading technology hubs.

## Technologies that businesses think will be important over the next five years



## What you need to know



32% of Australian businesses see 5G as one of the most important technologies in the next five years – compared with 25% globally.



Data security (23%), IoT (21%) and robotics (20%) are also viewed as important by Australian companies.

## What your business can do



Identify where there's room for improvement in your business. Half of Australian companies that feel 5G will have a strong impact believe it has the potential to speed up time to market.



Implement change wisely. Technology brings real benefits, but it needs to be backed up by strong data and cybersecurity.

## About HSBC Navigator Australia

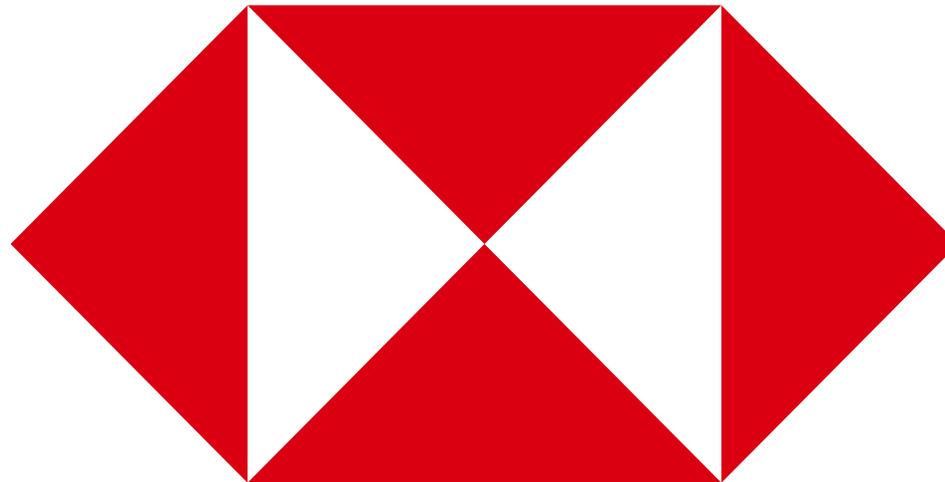
The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, international trade, geopolitics, sustainability, technology and wellness. It is compiled from responses by decision-makers at 9,131 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 35 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 201 businesses surveyed in Australia. Global results are based on an average of the 35 markets (using weights based on each market's share of world trade). The survey was conducted between August and September 2019. Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

Data visualisations based on the following:

Page 2, 5 & 6: all companies. n=201

Page 3: companies who plan to make changes in supply chain. n=191

Page 4: companies who think governments are becoming more protective. n=134



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