



**SUNCORP NEW ZEALAND
BUSINESS SUCCESS INDEX**



RESEARCH BY UMR RESEARCH



Introduction

The From Risk to Reward insights programme launched the inaugural Business Success Index¹ in 2017. This report presents the latest findings from a quantitative survey undertaken by UMR Research in February 2018. Commissioned by Suncorp New Zealand, the research aims to explore and gain insight into what drives New Zealand businesses to succeed and grow, how they feel about risk, and how they see their businesses evolving in the future.

As in 2017, the quantitative survey was preceded by a qualitative stage which, this year, comprised nine depth interviews with business leaders from a range of industries.

This report summarises the findings from the research and outlines how the landscape has changed over the past 12 months. This year, the research also focused on a key topic of interest – how businesses view, plan for, and manage disruption.

¹The Suncorp New Zealand Business Success Index is a business indicator that measures the level of importance and contribution of different organisational characteristics that are seen to lead to business success.

The index groups over 20 specific attributes into eight key characteristics – and provides a relative ranking by importance. Changes in rankings over time will indicate shifts in priorities within New Zealand businesses – and also highlight growing areas of concern.

A steady overall index score indicates a relatively stable business environment – but a major increase will mean particular areas of concern will be peaking while a major decrease will indicate that the index is not capturing some key areas of concern. In 2018, the index remains steady.

Overview

New Zealand businesses remain optimistic about the current prospects of their own businesses. However, the research shows a gap between how New Zealand businesses perceive their own situation and how they feel about the wider New Zealand and global business environment. Although optimistic about the prospects of their own business and generally positive about the New Zealand business environment, uncertainty remains high. While this uncertainty has not yet impacted confidence in their own businesses, it may have a long-term impact on business confidence.

“The really interesting thing for me is that people’s confidence in their own business is probably flat but their confidence in the broader business environment is down ... I think the New Zealand psyche is a confidence psyche – confidence goes down and things do end up being softer just because we are not as confident as we were.”

– Research participant

Nevertheless, businesses remain bullish on future growth prospects with a net 30% of businesses saying they are aiming to grow versus those that are not. However, a lack of drive remains evident in the latest results, with a majority of businesses still viewing work-life balance as just as important as growth and believing that growth can lead to negative outcomes for a business. This complacency towards growth is backed up in attitudes towards risk – with New Zealand businesses being moderate risk takers even though they claim to be relatively confident in managing risk. However, attitudes towards risk may be changing with an increase in businesses believing that if a business doesn’t take risk, it won’t reach its potential. Top of mind risks for businesses are customer and competitor behaviour, the economic climate, and staffing issues.

“The challenge is that you don’t know what you don’t know until it is in the market – like Airbnb going from 0 to 20% market share in 18 months. You just don’t know that something could come along and suddenly wipe out your business.”

– Research participant

The human component remains key to business growth and success in the latest results – with factors relating to staff and leadership rated most important.

The overall Suncorp New Zealand Business Success Index remained relatively stable over the past year but shows some movement across the individual factors. While staff, leadership, and management processes remained the top success factors, compliance issues and a businesses’ attitude to growth are now seen as more important than funding.

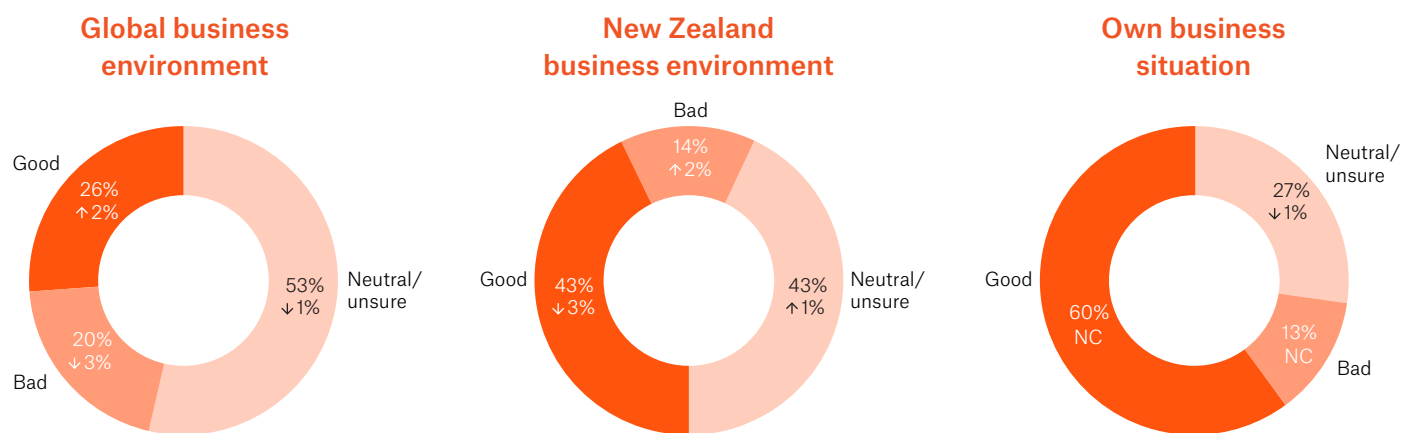
Views of future disruption also hint at complacency with many businesses not seeing disruption impacting their businesses in the past or in the near future. This is underlined by a high level of confidence voiced by businesses in their ability to withstand future disruption, with over 75% confident in their ability to do so. The qualitative stage showed some smaller businesses see themselves as the disruptors which impacted their view of how they manage and plan for this eventuality.

Encouragingly, some businesses in the qualitative stage are clearly cognisant of how a market can change in a very short time and look to review and keep ahead of trends.

“I am obsessed with looking at who is doing what to the point where I drive myself a little bit insane on that stuff – but you have got to know who is out there and who is offering what. And I don’t think we have got a huge amount of competition but it is really important to know what people who are playing in your similar space are doing.”

– Research participant

Business outlook



Base: All respondents (n=600)

Confidence remains high, but uncertainty is up.

Most businesses remain positive about their own business situation and the general business environment in New Zealand.

Despite this research taking place following a recent change in government, the results show only a small drop in those believing the general business environment is good (down three points), in contrast to other research recently released.

However, uncertainty is high, and a gap remains between the optimism businesses feel about their own business situation, and their feelings on the domestic and global business environment, pointing to confidence in their own abilities but a 'wait and see' attitude towards government.

The research shows that New Zealand businesses are still very concerned about the global economy, with almost three-quarters negative or unsure about global factors outside of their control. In the qualitative

interviews, potential increased protectionism in overseas markets, a volatile Asian situation, instability in the Middle East, and the impact of Trump and Brexit are seen to be driving this uncertainty.

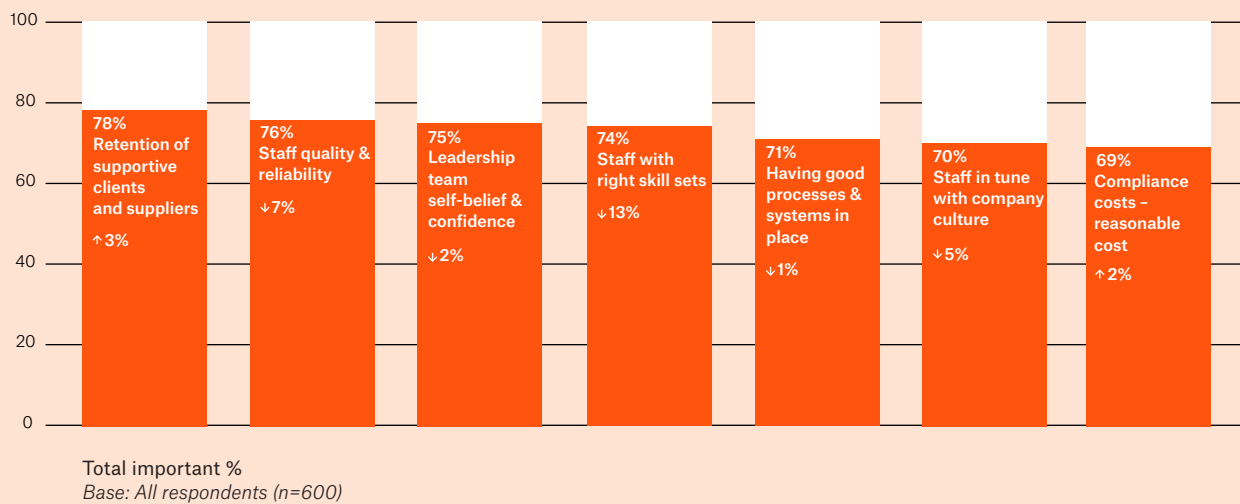
"The US is showing exceptionally good signs of middle class recovery at the moment but stumbling into a conflict with North Korea could change that dramatically. Moving your embassy to Jerusalem could spark off the Middle East. Europe is weakening itself and the UK is endlessly shooting itself in the foot. The US is a runaway train. So yes, there are some big regional tension points in the world right now."

- Research participant



Attitudes to success

Top seven factors in business growth and success



The human component remains key to growth and success.

Factors that relate to staff and leadership are again considered the most important for driving success in the latest results.

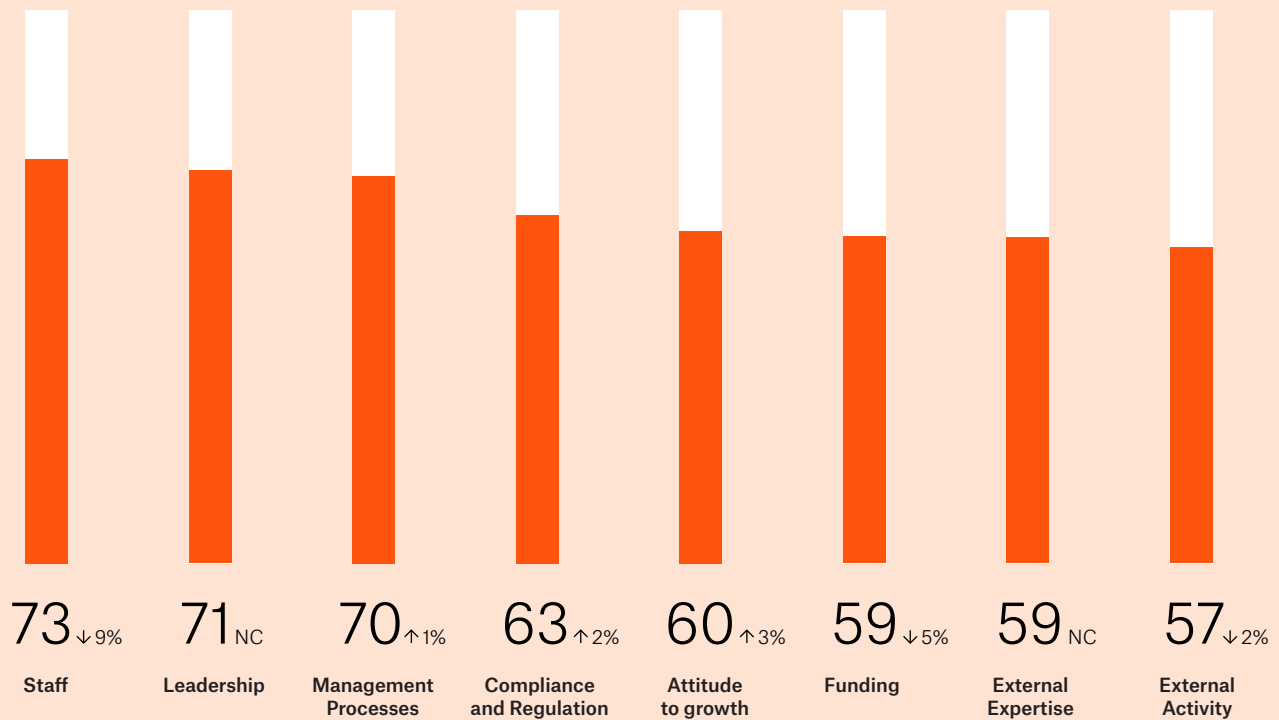
However, while staffing factors still remain high, many staffing aspects did drop in importance this year indicating there may be some improvement in the labour market such as easing of staff skill shortages.

Retention of key skills in management also dropped out of the top seven, perhaps indicating better systems and processes in place to offset this particular risk.

While not in the top seven, there is a large rise in those believing that it is important to aim for measured growth rather than growing too fast. This reinforces the view that New Zealanders take a careful approach to growth and do not necessarily see it as the ultimate – or only – business goal.

While staff, leadership, and management processes remained the top success factors – compliance issues and a businesses' attitude to growth moved up the ranks becoming more important than funding in the latest results.

The Suncorp New Zealand Business Success Index



Nevertheless, businesses remain bullish on future growth prospects with a net 30% of businesses saying they are aiming to grow versus those that are not. However, a lack of drive remains evident in the latest results, with a majority of businesses still viewing work-life balance as just as important as growth and believing that growth can lead to negative outcomes for a business.

This complacency towards growth is backed up in attitudes towards risk – with New Zealand businesses being moderate risk takers even though they claim to be relatively confident in managing risk. However, attitudes towards risk may be changing with an increase in businesses believing that if a business doesn't take risk, it won't reach its potential. Top of mind risks for businesses are customer and competitor behaviour, the economic climate, and staffing issues.

The Business Success Index

The Suncorp New Zealand Business Success Index is a business indicator that measures the level of importance and contribution of different organisational characteristics that are seen to lead to business success.

The overall Business Success Index remained relatively stable over the past year, but shows some movement across the individual factors. While staff, leadership

and management processes remained the top success factors, compliance issues and a businesses' attitude to growth are now seen as more important than funding.

The human component remains key to business growth and success in the latest results – with factors relating to staff and leadership rated most important.

Similar to 2017, to push through to the next level, a business is seen to need to have the right staff, solid customer demand, access to funding, and better cashflow.

On a prompted basis, businesses would like to 'know how to connect with the right people', 'have access to appropriate talent', 'have access to capital/ and technology', 'better leadership skills', and 'access to quality advisors'.

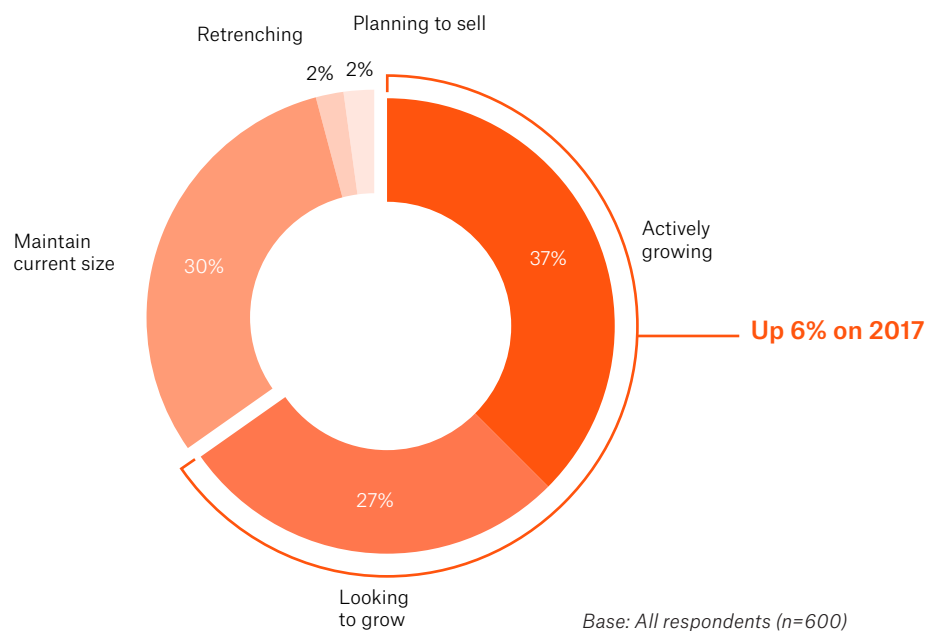
Pointing to a shortage of networking opportunities in Christchurch and Tauranga, there is greater belief that knowing how to connect with the right people will help them grow in these areas. Christchurch businesses are particularly interested in having 'access to good quality advisors' and have the 'ability to undertake R&D'.

In the South Island (excluding Christchurch), there is evidence of skill shortages and tighter lending practices with more seeing 'access to appropriate talent' and 'access to capital' as key to growing.



Attitudes to growth

Growing or intending to grow



Appetite for growth but work-life balance remains a focus.

Despite uncertainty in the business environment, growth remains a goal for many New Zealand businesses.

In real terms, two-thirds of businesses are actively growing or looking to grow. The net score of those growing or looking to growing versus those staying static or declining shows a six point upswing from 2017.

These businesses are more likely to be mid to larger sized businesses, publicly listed, and based in Christchurch, Tauranga, and the South Island.

However, just under a third of businesses are looking to maintain their current size. Part of the reason could

be that New Zealand businesses continue to highly value work-life balance, with 76% indicating that it is as important as growing their business. Many view growth as a double-edged sword.

The business life cycle also impacts growth goals, with new businesses looking to grow, those operating for two to five years actively growing, and older businesses wanting to maintain their current size.

Although the majority claim to have a business plan in place, 32% of businesses say they don't have one or aren't sure. There is a trend for smaller businesses to be less likely to have a plan, while publicly-listed companies and government agencies are more likely to have a business plan in place.

Attitudes to risk



Risks are intrinsically linked to potential but many Kiwi businesses aren't taking them.

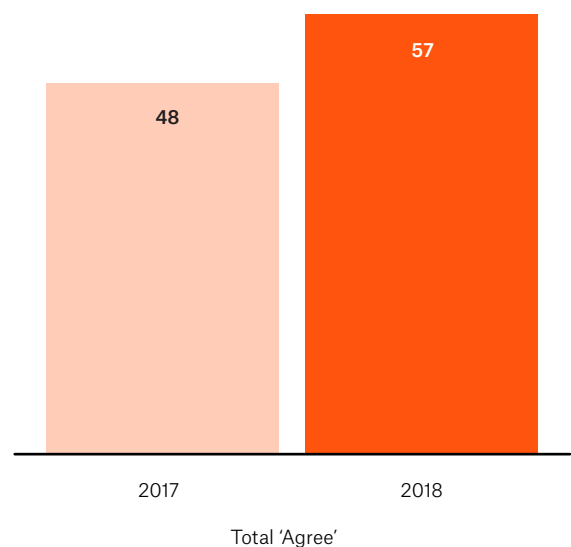
In a significant upswing from 2017, 57% believe that if a business doesn't take risk, it won't reach its potential (up nine points).

But this acknowledgement that some risk is required to succeed is not reflected by the risk-taking behaviour of New Zealand businesses.

Only 14% claim to have taken on significant risk when making business decisions. Small businesses in particular are less likely to take on risk.

Nearly half of New Zealand businesses claim to take minimal risks – with 49% saying they have taken on a 'small' or 'very small' degree of risk. Results are similar to 2017, with slight rises at both ends of the spectrum, and a corresponding drop in those taking on moderate risk or that are unsure.

If a business takes no risk it won't reach its potential



Base: All respondents (n=600)



Top seven actions taken to minimise risk



Base: All respondents (n=600)

Confidence in the ability to manage risk has improved slightly in 2018 but remains soft with only 46% saying they are totally confident in making risk decisions and 43% having a reasonable amount of confidence. Declared confidence is higher for more established businesses.

More businesses spontaneously volunteered that they are grappling with key risks of competitive behaviour, the economic climate and staffing issues, with fewer citing customer demand as a risk.

On a prompted basis, the most concerning risks are rising input costs, taking on debt, compliance costs,

and competitor activity. The biggest jumps in concern are around taking on debt, taking on staff, and the impact of climate change.

Top of mind actions taken to minimise risk highlight the need for specialised risk management capabilities within a business. However, on a prompted basis, businesses indicated a wide variety of actions they are taking.

Providing good work conditions to keep staff happy was a key action for many, likely driven by human capital being viewed as a driver of success. However, continual innovation, managing cashflow, ensuring quality control, and finding ways to minimise risk all rated highly.

InFocus 2018: Disruption

This year, the From Risk to Reward insights programme takes an in-depth look at disruption and how it is affecting business attitudes, success and planning.

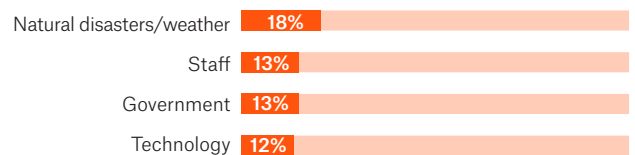
The research found that the potential impact of disruptive technology is not top-of-mind for New Zealand businesses.

When businesses were asked to think about key areas of disruption, the issues raised are mostly operational rather than future-focused or issues that may fundamentally alter a market.

Top-of-mind issues associated with disruption were natural disasters, staffing problems, and changes implemented by government. Technological advances – including robotics, artificial intelligence, and changes that might fundamentally alter consumer habits – were only the fourth most raised issue.

On a prompted basis businesses cite disruption being most likely in the development of digital platforms and new technology and equipment. That said, 34% do not believe that technology will disrupt their business over the next five years and only 2.5% highlight technological advances as a key risk facing businesses – down from 5.4% in 2017.

When you think of disruption what are the key areas where you think disruption is happening in business?

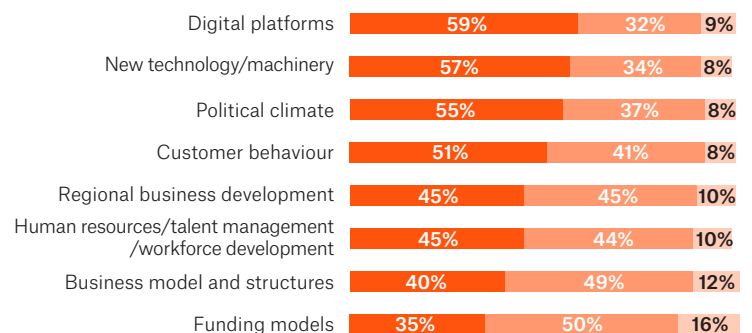


Base: All respondents (n=600)
Note: Multiple response question

Other suggestions

- Financial issues (8%)
- Supply chain (5%)
- Poor infrastructure (5%)
- Market stability (4%)
- Power supply (4%)
- Competition (3%)
- Cyber security (2%)
- Customer demands (1%)

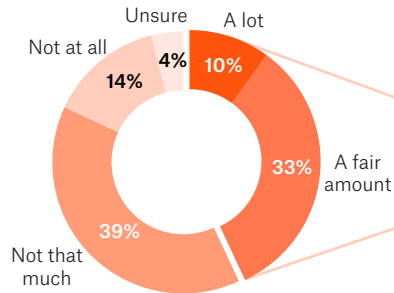
In the next five years, how much disruption do you think there will be in the following areas



■ A lot + A fair amount
 ■ Not that much + Not at all
 ■ Unsure

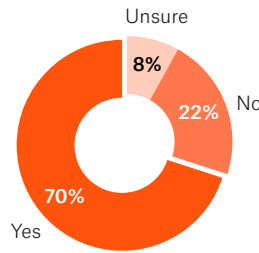
Base: All respondents (n=600)

How much has the market for your products and services changed due to disruption in the past two to five years?



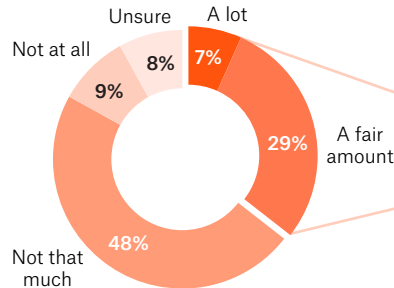
Base: All respondents (n=600)

Have you made changes to your offering in the past two to five years because of this disruption?



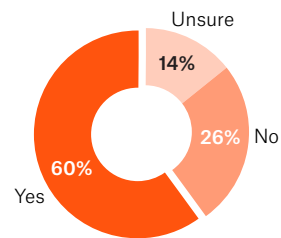
Base: Those who think they will need 'a lot' or 'a fair amount' of changes to products and services in the coming two to five years because of disruption (n=256)

How much will you need to change your products and services to meet market disruption in the next five years?



Base: All respondents (n=600)

Have you identified the potential changes you intend to make?



Base: Those who think there has been 'a lot' or 'a fair amount' of changes to products and services over the past two to five years because of disruption (n=211)

Market disruption bringing change to business models

The research findings show an awareness from many businesses about the need to be flexible in the face of disruption.

32% of businesses indicated that they have made changes to their business model in the past five years in response to potential or current disruption, while 29% had plans to change their business model over the next few years.

However, 29% of businesses had no plans to make changes and 10% remain unsure.

Confidence – or complacency – in the face of potential disruption

43% of businesses believe the market they operate in has changed significantly in the past two to five years due to disruption. Of these businesses, a clear majority (70%) have made changes to combat this disruption.

Smaller businesses appear to be more agile, implementing greater levels of change compared to larger businesses.

Only 36% foresee the need for significant future change to their products and services to meet market disruption in the coming five years.

Of these, just under two-thirds have identified changes they intend to make as a result.



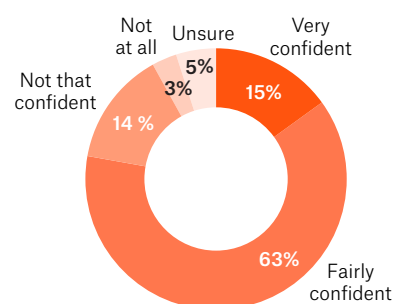
Smaller businesses are less likely to see disruption impacting on their market in the future. From the qualitative interviews, this may be attributable to smaller businesses viewing themselves as the disruptors or because they operate in niche markets.

Complacency is relatively consistent across industry sectors with disruption slightly more likely to be foreseen by those operating in the secondary and professional services sectors.

The even lower proportion that see significant levels of disruption in the future show that a substantial proportion of businesses see little threat from potential disruption.

This sense of complacency is reinforced by high levels of declared confidence in being able to withstand future disruption (78%). The primary sector is even more confident that they can withstand disruption (85%). That said, 34% do not believe that technology will disrupt their business over the next five years.

Confidence to withstand potential future disruption



Base: All respondents (n=600)

Conclusions

New Zealand businesses are generally optimistic. But there is a gap between how they view their own prospects and the wider business environment which, along with global uncertainty, has the potential to dent long-term business confidence.

Current growth plans remain strong with a majority of businesses saying they are aiming to grow. However, growth is not seen as the ultimate goal, with a majority rating work-life balance as at least as important and believing that growth can have negative consequences.

New Zealand businesses are only moderate risk takers, despite claiming to be relatively confident in managing risk. An increasing proportion of businesses indicate that they believe some risk is necessary for a business to reach its potential.

The overall Suncorp New Zealand Business Success Index remained relatively stable over the past year and reinforces the importance of the human component for business growth and success.

Views of future disruption hint at business complacency with many businesses that do not see disruption impacting their businesses in the past or in the near future. This is underlined by a high level of confidence voiced by businesses in their ability to withstand future disruption.

METHODOLOGY:

This report is based on results from an online survey among New Zealand businesses (n=600). All respondents were responsible for or had input into strategic decisions in their organisation. Fieldwork was conducted from 16 to 28 February 2018. The margin of error for sample size of 600 for a 50% figure at the 95% confidence level is $\pm 4.0\%$. The sample over-represented larger businesses so that robust sub-samples by business size were achieved – the overall 'all' sample was reweighted to reflect the make-up of the New Zealand business population.

A prior qualitative stage of research was conducted which comprised of 9 qualitative interviews with a range of businesses. The sample in 2017 was (n=415)

