

2018 SOUTHLAND BUSINESS SURVEY REPORT



May 2018

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Key Findings

The Business Environment

Business confidence remains strong as a result of consistency in dairy prices coupled with another strong tourism year for both Southland and New Zealand.*

74% of businesses are positive about the Southland economy and business environment (24% are very positive and 50% somewhat positive) and 84% are positive about their own business (42% are very positive and 42% are somewhat positive).

Similar to 2017, business performance in sales remains strong with 91% of businesses experiencing either steady or increased sales, an increase of 11% from 2016. 50% of businesses continue experiencing increased sales.

Only 9% are experiencing decreased sales, compared to 8% in 2017, 19% in 2016, 14% in 2015 and 12% in 2014.

Tourism-related sectors remain very positive. While in 2017, the tourism sector experienced the highest levels of confidence and the highest level of increased sales, the 2018 levels are very similar to 2015/16. 85% of accommodation and food service providers are optimistic about the Southland economy and business environment as well as their own business and 65% reported increased sales (up 15% on 2017).

88% of tourism businesses are optimistic about the Southland economy and business environment and 96% are optimistic about their own business. 88% reported increased sales, up 5% on 2017. 2018 was the second year in a row tourism businesses are not feeling pessimistic at all about the environment or their own business.

The agriculture, fishing and forestry sector remains confident however businesses are reporting slightly lower levels of confidence compared to 2017. The confidence in economy has dropped 11%, to 71% and confidence in their own business dropped 9%, to 77%. However, this has not affected their sales – there has been no change to the number of businesses reporting decreased sales. 41% have reported increased sales (down from 44% in 2017) and 52% reported steady sales (up from 49% in 2017).

The retail sector saw a decrease in the business environment confidence, at 62% (down from 71% in 2017, but up from 42% in 2016), and 54% experienced an increase in sales (up from 51% in 2017, 33% in 2016 and 32% in 2015). Confidence in their own business was also down 7% on 2017, to 78%. However, more businesses are neutral about their business and the economy compared to 2017 and similar to the agriculture sector, this slight shift in confidence is not affecting their sales – only 8% reported a decrease in sales, down from 12% in 2017, 27% in 2016 and 22% in 2015).

While confidence remains strong, businesses continue to face many challenges. Energy and fuel costs are becoming a challenge for more and more businesses each year. In 2018, 27% reported this as a pressure, exceeding the 2014 levels when 21% indicated that this a pressure for them. The cost of transport, including fuel costs is expected to affect 49% of businesses (up from 10% on 2017 and 20% on 2016). Other significant challenges include red tape/compliance costs, exchange rate and global commodity prices.

*On 1 May 2018, New Zealand Aluminium Smelters announced the re-opening of the fourth potline, resulting in approx. 32 new jobs.

Digital technology

Digital technology continues to be an increasingly important part of business in Southland.

66% of businesses have a website and 69% are using social media to promote their business (up from just under 50% in 2014). Businesses view social media as a crucial marketing channel - 47% indicated that it is very useful to their business and 21% indicated it is somewhat useful.

Facebook continues to be the most popular social media platform used by 66% of businesses. In 2018, Instagram has overtaken LinkedIn as the second most popular social media platform – 20% use Instagram, compared to 11% in 2017, 8% in 2016 and only 2% in 2015.

48% of businesses implemented a new way of doing business (up from 38% in 2017), and of these 63% implemented a new digital technology (up from 47% in 2017).

As a result, planned additional investment for the next 12 months was very similar to the 2017 levels. However, the areas that have experienced an increase are online marketing (44%, up 2% on 2017) and IT Investment (26%, up 7% on 2017), now reaching similar levels to those seen in 2015-2016.

Websites remain the second most common source of business information and support, used by 50% of businesses (up 2% on 2017); only accountants are a more important business resource.

However, long-term businesses are concerned about the quality of broadband and mobile services and the impact of these services on their business. Businesses were asked what would improve ease of doing business in Southland. Quality of broadband and mobile infrastructure and services was the number one concern, mentioned in 28% of responses.

Over a third of businesses (37%, down 2% on 2017) say that they expect the quality of communications services to impact on their business within the next three years.

People

For the first time since the Southland Business Survey began in 2014, businesses are reporting employing more people now than in the previous year. This year, 32% of businesses reported employing more people (compared to 24% in 2014). The proportion of businesses employing the same number of people as last year decreased in 2018 from 66% to 57%.

Steady business confidence and increased sales saw a record high number of businesses planning to increase their staff - 50% plan to recruit in the next year (up 7% on 2017, 10% on 2016, 5% on 2015 and 10% on 2014).

However, recruitment and retention continue to challenge Southland businesses. 50% are having challenges recruiting the right people, up from 48% last year and 42% in 2016.

58% of businesses believe that attraction of staff is the top issue likely to affect their business in the next three years (up 4% on 2017), 7 points ahead the next most significant issue, cost of transport.

Businesses are responding to this challenge in a number of ways. 52% are planning to invest in staff training and upskilling, and 37% are planning pay rises.

Businesses are also thinking more about how they can change the way they work to recruit and retain workers. For the third year in a row, more businesses are adapting their practices to recruit young people (16%, up 4% on 2016). More businesses are also adjusting their employment practices for recruiting women (11%, up 6% on 2016) and retaining older people (13%, up 6% on 2016).

About the Survey

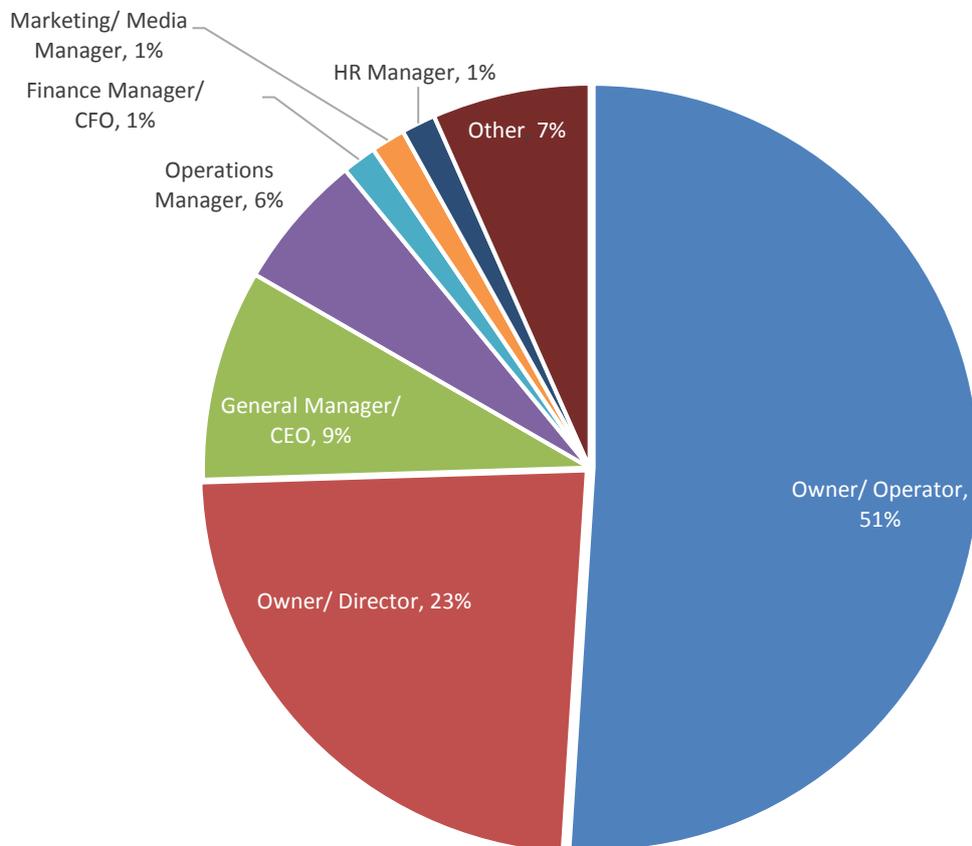
350 businesses responded to the 2018 Southland Business Survey. The sample size gives an estimated margin of error for business data of + / - 5% at a 94% confidence interval.

The 2018 business survey started on 10 April and it was open for one month. The survey was undertaken using Survey Monkey and was promoted extensively online, via local print media and on radio. This is the fifth year that the survey has been conducted in its current form.

Business Demographics

Role in the business

Similar to 2017, the majority of respondents were either Owner/Operators (51%) or Owner/Directors (23%). General Manager/ CEOs made up 9% and Operations Managers 6%.



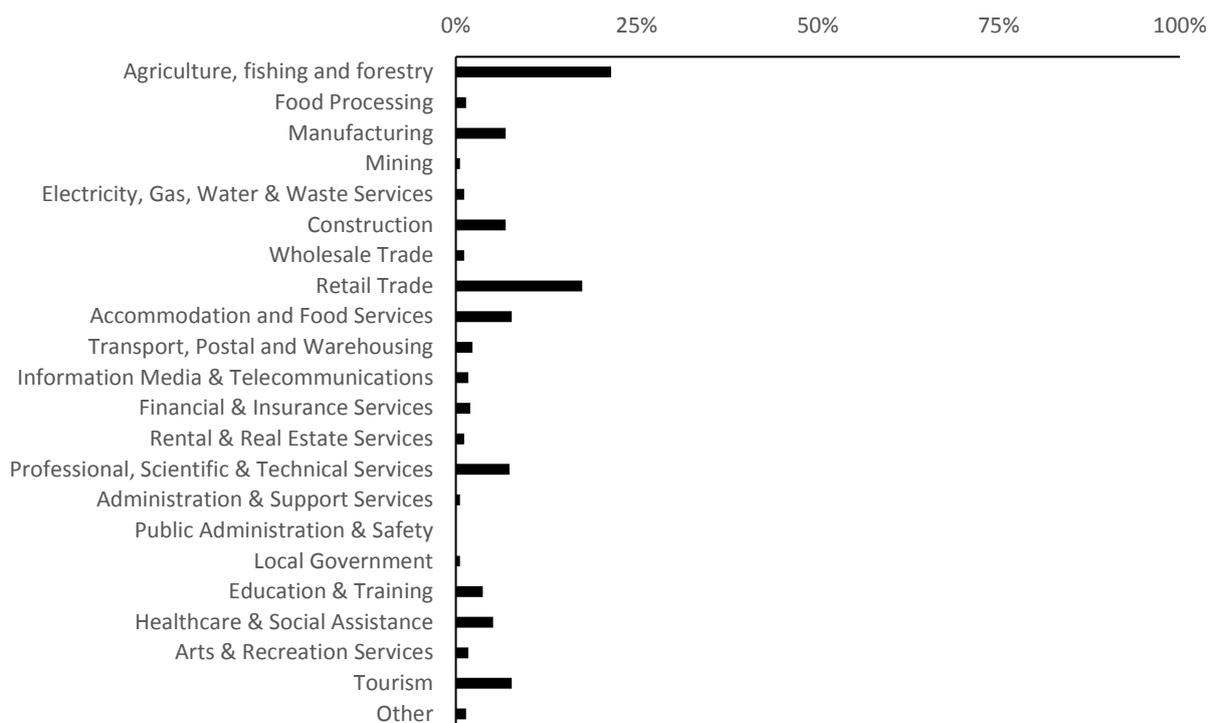
Industries

Respondents were asked to choose a category which best represented the industry within which their business operates. All respondents indicated their industry. Responses were received from companies across the whole range of industries represented in Southland. The broad spread of industries represented means we can have confidence that the results of the survey are representative of the region as a whole.

Most responses were received from the following industries:

- Agriculture, fishing and forestry (21%) *-4% on 2017*
- Retail trade (17%) *+4%*
- Accommodation and food services (8%) *-3%*
- Tourism (8%) *+1%*
- Manufacturing (7%) *same*
- Professional, Scientific and Technical Services (7%) *same*
- Construction (7%) *+1%*

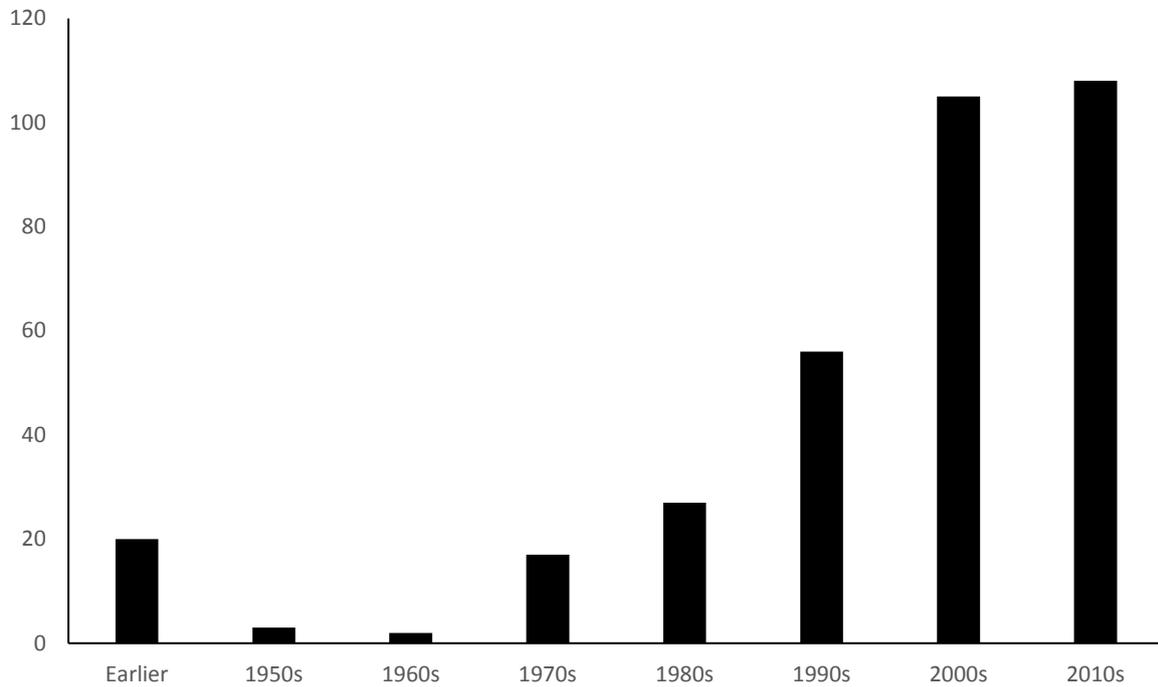
Most top responding industries have been constant since 2014. Tourism businesses had a higher response rate this year compared to previous years. Professional services responded at the same level as manufacturing for three consecutive years (2016-2018).



Longevity of business

The survey sample had a good range of businesses in terms of age. 80% of businesses were established since the 1990s, with 32% set up since 2010.

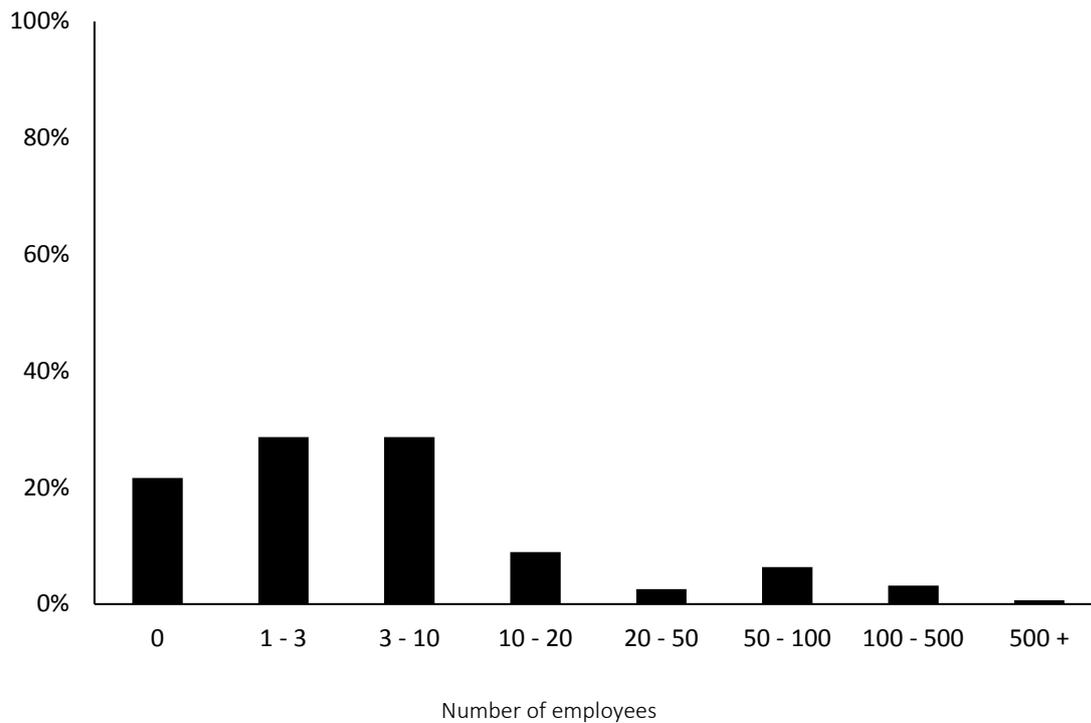
7% of the businesses were established in the last 2 years.



Number of employees

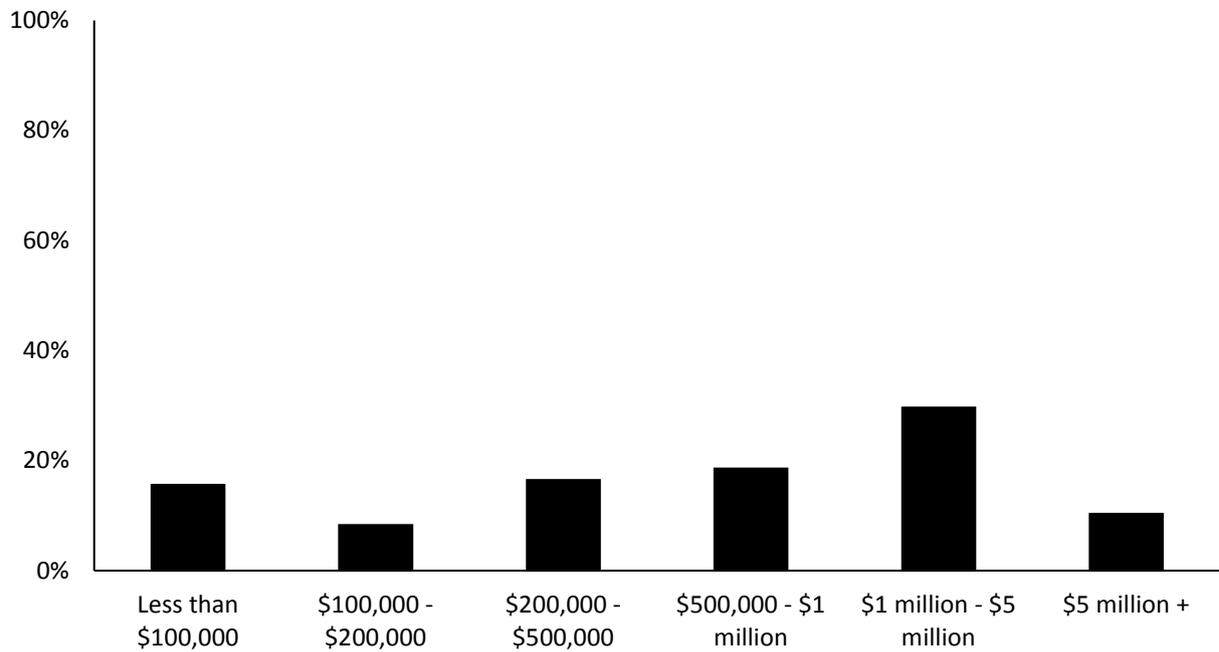
Southland is a region relying on its small businesses. 22% of businesses responding to the survey have no employees (owner operated) compared to 21% in 2017, 18% in 2016, 14% in 2015 and 20% in 2014.

57% of businesses employ 10 or fewer people (down 3% on 2017). 11% employ between 10 and 50 employees. 4% employ more than 100 people. These proportions have not changed significantly since the survey began in 2014.



Turnover

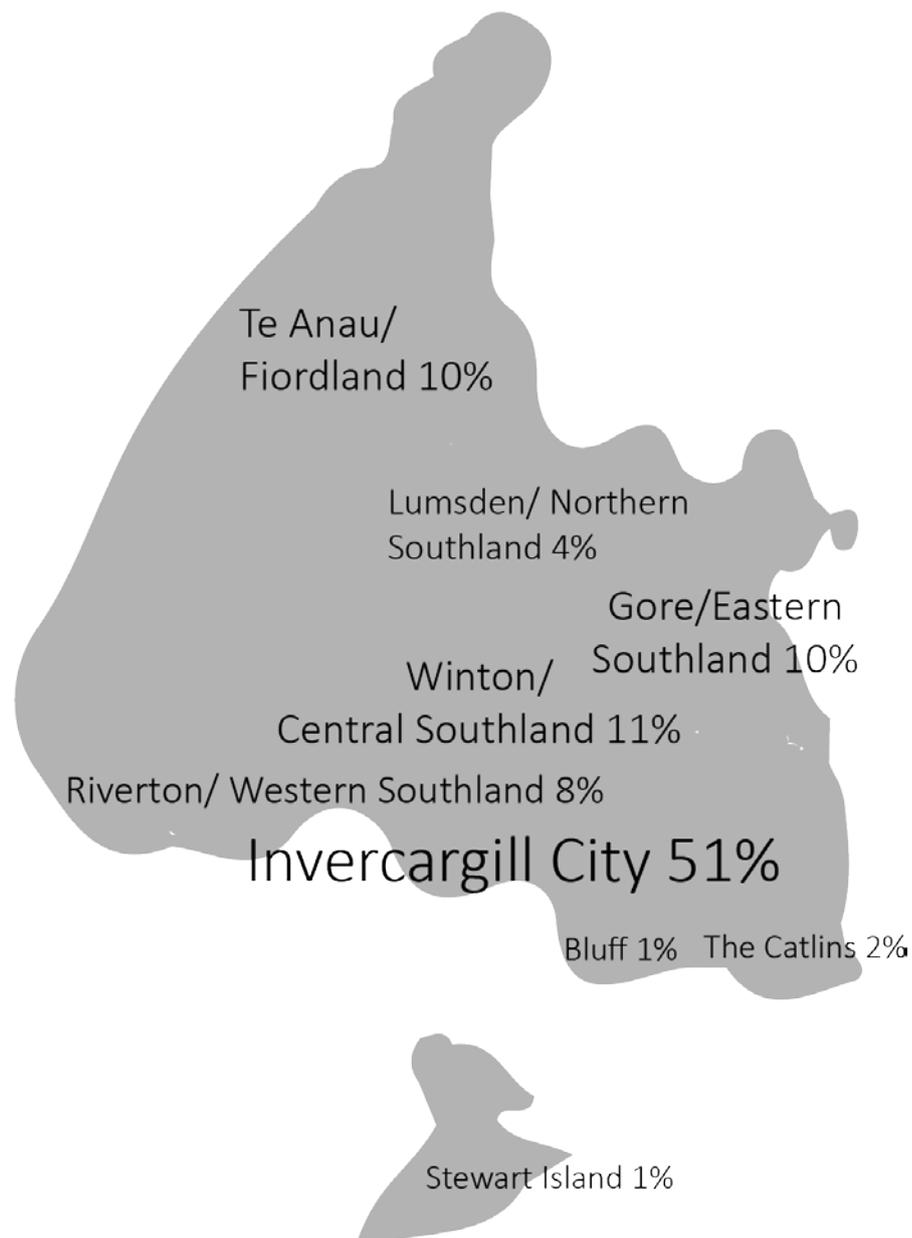
Similar to 2016 and 2017, 40% have a turnover over \$1 million. This is down from 47% in 2015 and up from 37% in 2014.



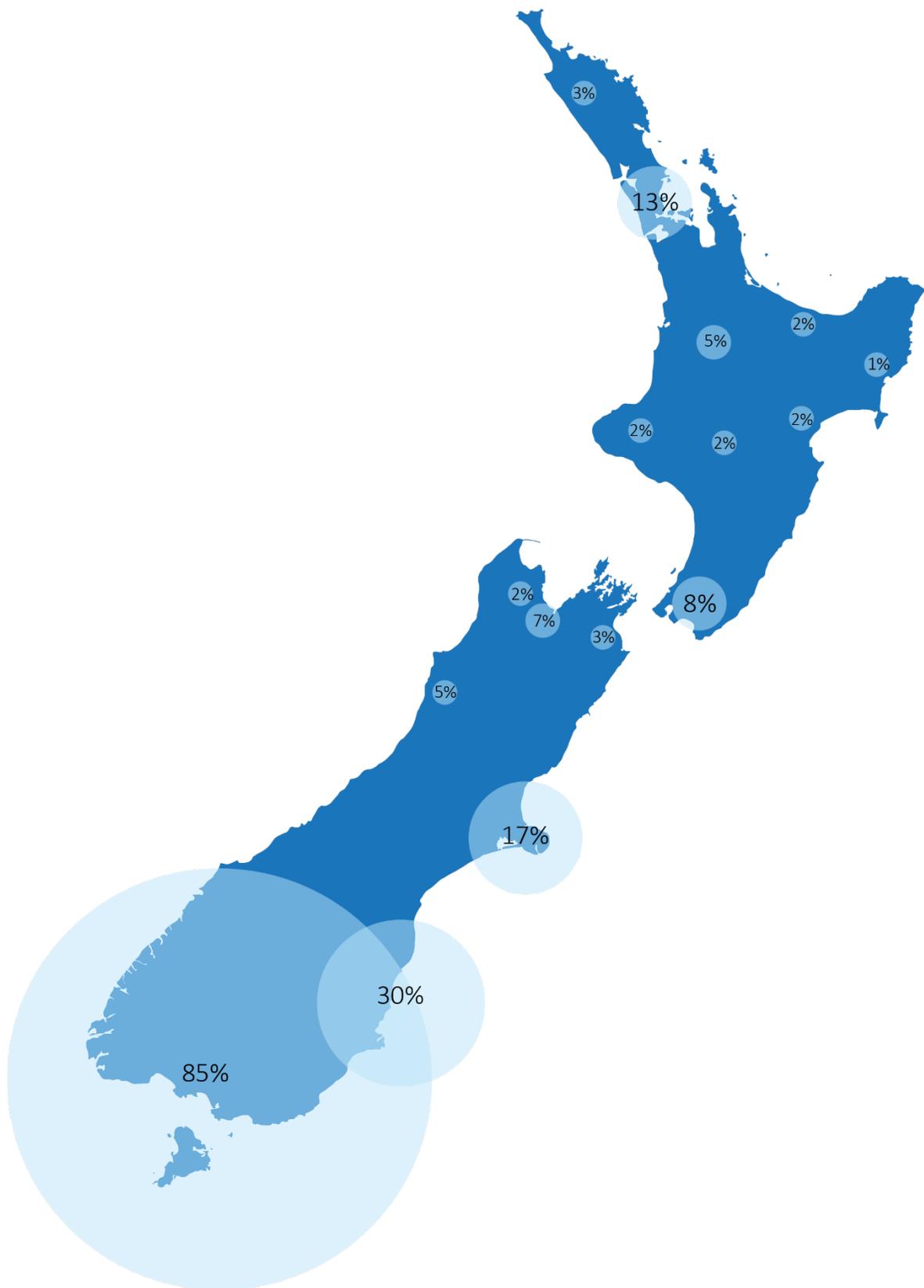
Location of businesses

Businesses were asked about their primary business location. 51% of businesses are based in Invercargill (up 6% on 2017).

2018 saw an increase in responses from Winton/Central Southland (3% on 2017) and Te Anau/Fiordland (3% on 2017) and a decrease in responses from Gore/Eastern Southland (6% on 2017).



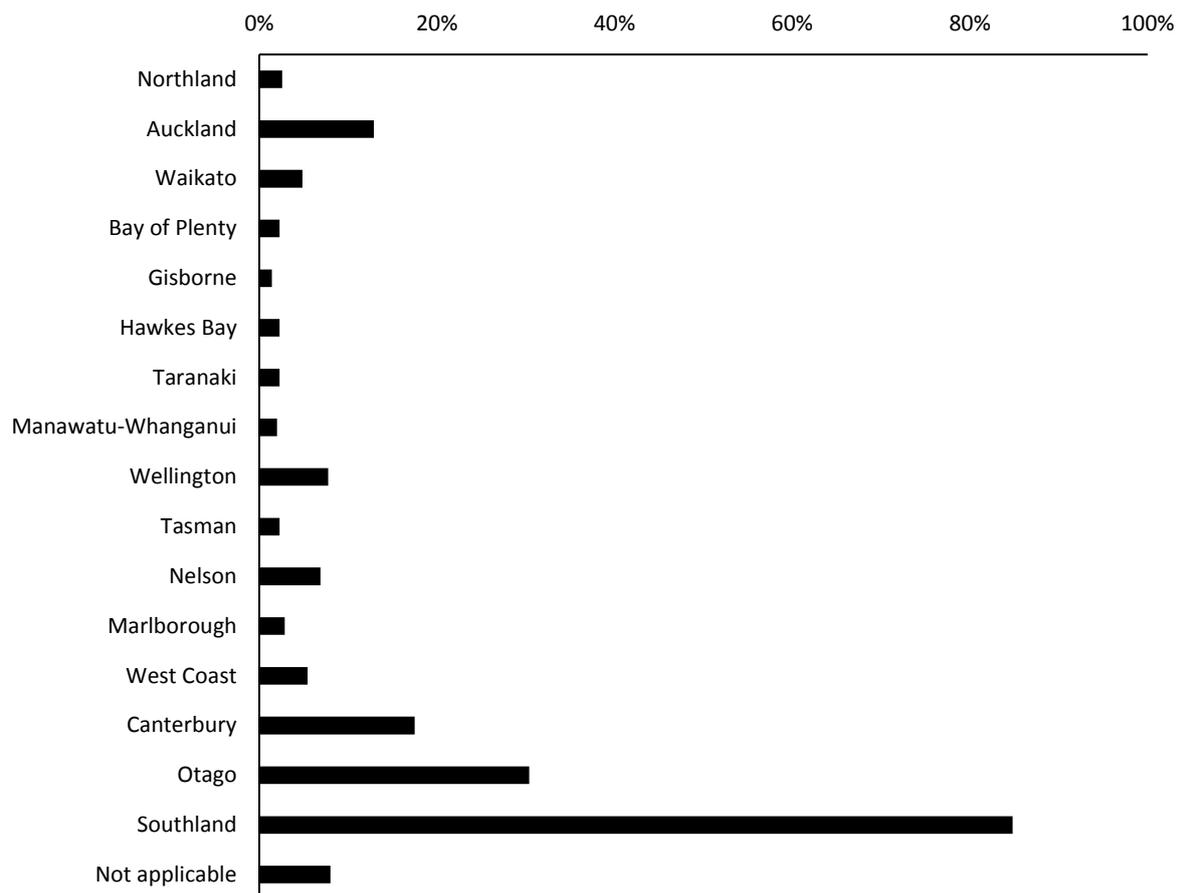
Business markets



Doing business within New Zealand

Similar to 2017, 85% of Southland businesses do a significant part of their business within Southland. 30% do business with Otago and 17% with Canterbury. 13% do business with Auckland and 8% with Wellington.

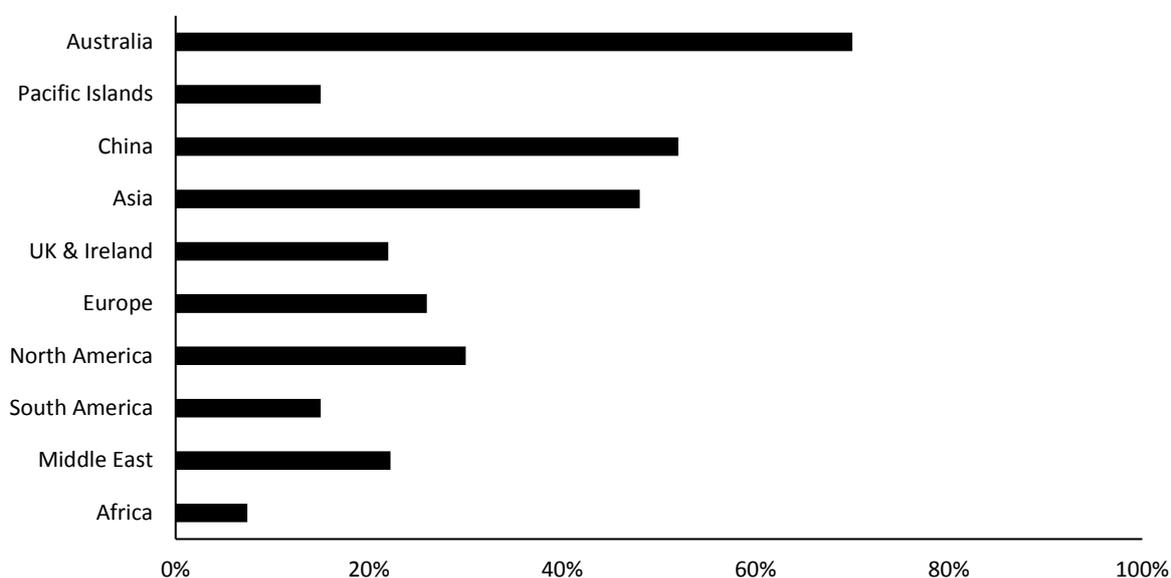
The proportion of companies doing business with regions outside Southland has fallen slightly on 2016-2017 figures, reaching a similar level as seen in 2014. This very likely reflects the presence of more new small businesses in the sample.



Exporting

Similarly to 2014, 8% of businesses surveyed export. This is down from 12% in 2015.

Of the 27 businesses that export, there is a wide range of regions which they do business with. Australia remains the leading market (70%, up 24% on 2017), followed by China (52%, up 11% on 2017) and Asia (48%, up 13% on 2017).



The percentage of exporters exporting to one and two regions rose significantly.

	2014	2015	2016	2017	2018
Exporting to a single region	29%	21%	38%	16%	33%
Exporting to two regions	29%	26%	13%	22%	30%
Exporting to three regions	16%	14%	13%	22%	7%
Exporting to four regions	13%	10%	23%	14%	11%
Exporting to five or more regions	13%	24%	15%	19%	19%

44% of Southland businesses report that they are in an export supply chain, servicing or supplying one or more of Southland's key export industries, compared to 53% in 2015.

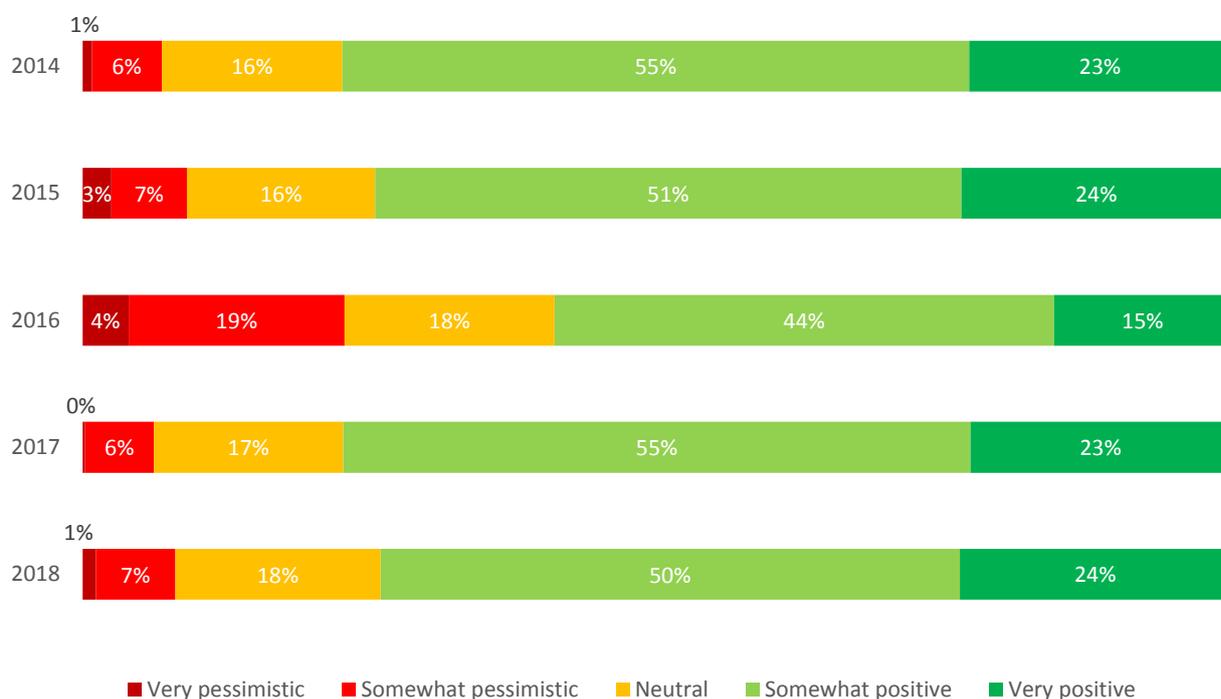
Business Confidence

Business confidence in the Southland economy and business environment

Business confidence in Southland's economy and business environment remain strong as a result of consistency in dairy prices coupled with another strong tourism year for both Southland and New Zealand.

74% of businesses are positive about the Southland economy and business environment (24% are very positive and 50% somewhat positive).

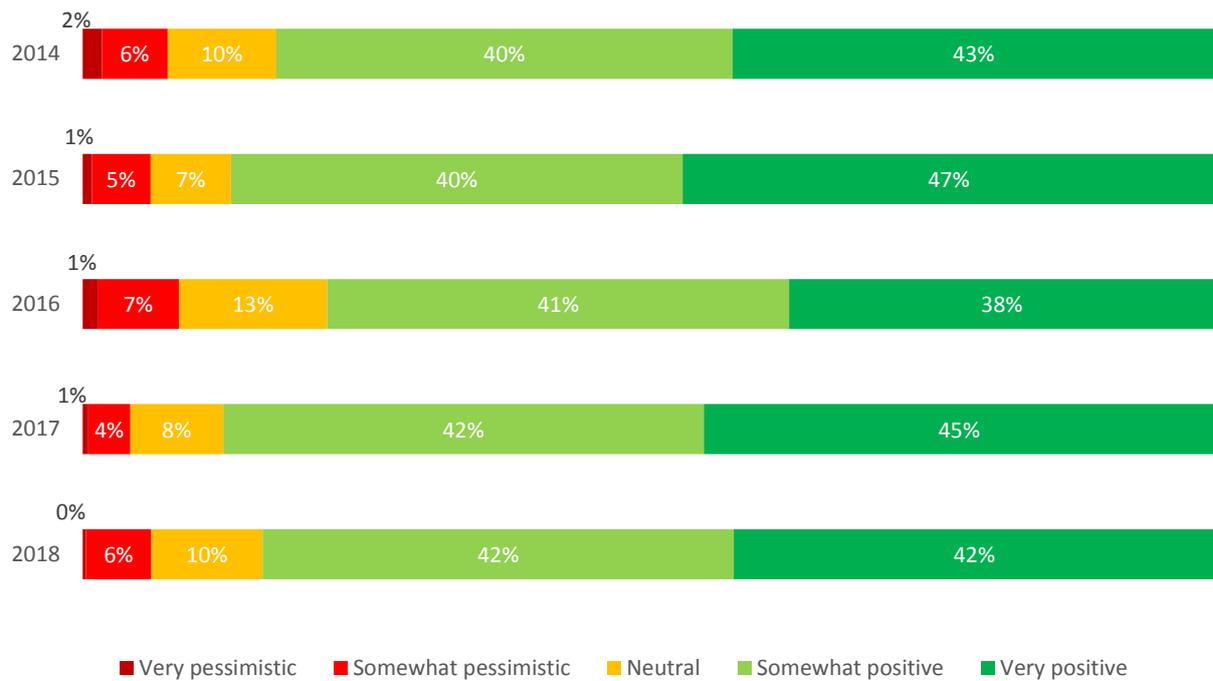
18% are neutral and 8% are pessimistic.



Business confidence in relation to their own business

Businesses continue to be more positive about their own business. 84% are positive (42% very positive and 42% somewhat positive). 10% are neutral and only 6% pessimistic.

In comparison to confidence about the economy, businesses are more likely to be very positive about their own business and less likely to be neutral or pessimistic.

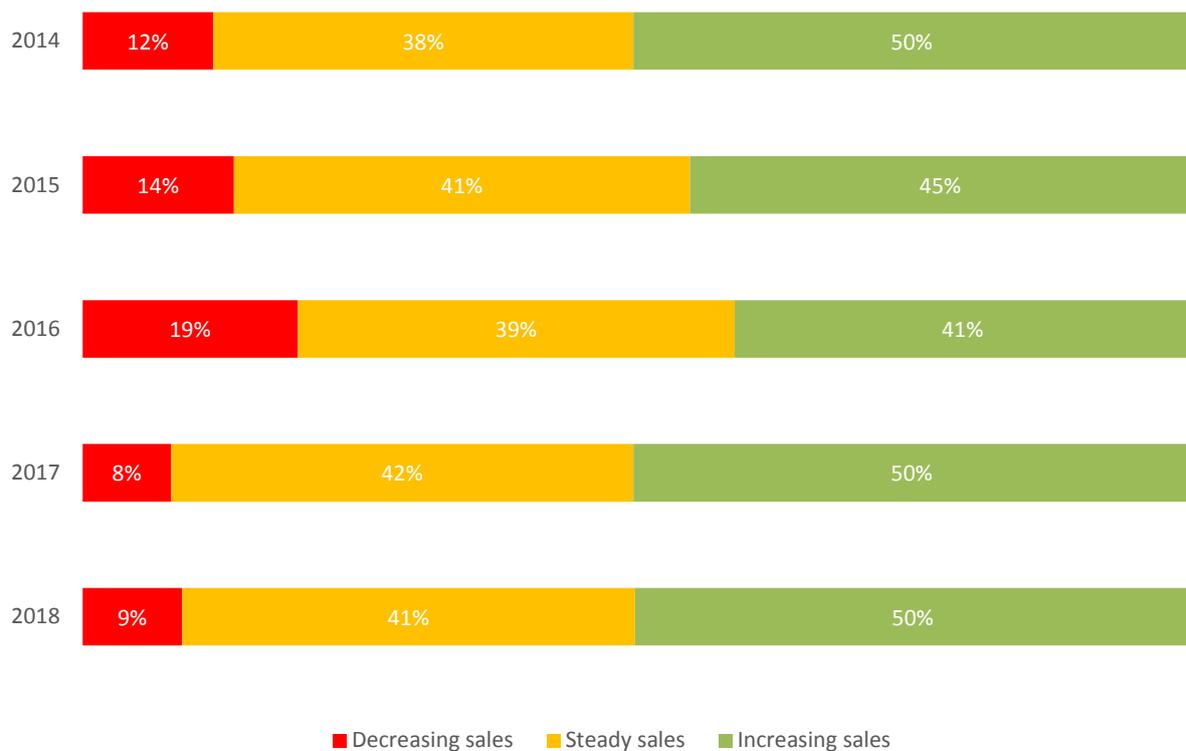


Sales

Business performance in sales remains strong with 91% of businesses experiencing either steady or increased sales, an increase of 11% from 2016, and up 8% from 2015.

Similar to 2014 levels, 50% of businesses continue experiencing increased sales.

Only 9% are experiencing decreased sales, compared to 19% in 2016, 14% in 2015 and 12% in 2014.



Sector comparison¹

Overall, business confidence is stabilising following the dairy downturn.

Tourism-related sectors remain very positive. While in 2017, the tourism sector experienced the highest levels of confidence and the highest level of increased sales, the 2018 levels are very similar to 2015/16. 85% of accommodation and food service providers are optimistic about the Southland economy and business environment as well as their own business and 63% reported increased sales (up 13% on 2017).

88% of tourism businesses are optimistic about the Southland economy and business environment and 96% are optimistic about their own business. 88% reported increased sales, up 5% on 2017. 2018 was the second year in a row tourism businesses are not feeling pessimistic at all about the environment or their own business.

The agriculture, fishing and forestry sector remains confident however businesses are reporting slightly lower levels of confidence compared to 2017. The confidence in economy has dropped 11% and confidence in their own business dropped 9%. However, this has not affected their sales – there has been no change to the number of businesses reporting decreased sales. 41% have reported increased sales (down from 44% in 2017) and 52% reported steady sales (up from 49% in 2017).

The retail sector saw drop in the business environment confidence, reaching 62% (down from 71% in 2017, up from 42% in 2016 and down from 66% in 2015), and 54% experienced an increase in sales (up from 51% in 2017, 33% in 2016 and 32% in 2015). Confidence in their own business was down 7%, to 78%. Similar to the agriculture sector, this slight shift in confidence is not affecting their sales – only 8% reported a decrease in sales, down from 12% in 2017, 27% in 2016 and 22% in 2015).

The professional, technical and scientific services sector reported similar confidence levels to those in 2017.

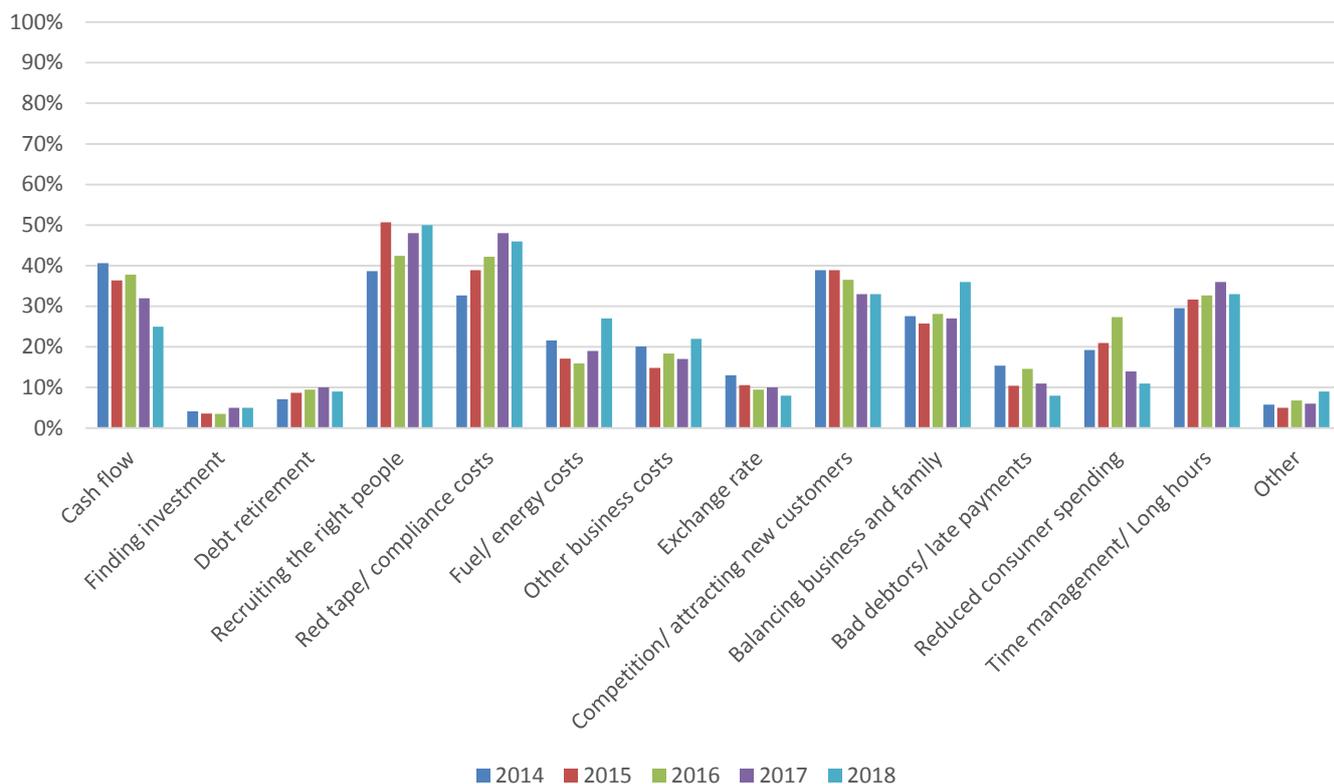
Both the manufacturing and construction sectors saw some changes in business confidence. More manufacturing businesses were neutral when it came to confidence about their business in 2018 (up 13% on 2017). Their sales were not affected and 48% reported steady sales (up 16% on 2017).

The construction sector's confidence in the economy increased by 20% to reach a new high of 83% and all construction businesses surveyed were confident in their own business. The number of businesses reporting increased sales also reached a new high – 54%, up from 26% in 2017, 27% in 2016 and 47% in 2015.

¹ There is a lower level of confidence for sector assessments as the size of the samples is smaller. These results have a higher margin of error.

		Confidence Economy	Confidence Own business	Sales	
Accommodation	Optimistic	85%	85%	Increasing	65%
	Neutral	11%	11%	Steady	27%
	Pessimistic	4%	4%	Decreasing	8%
Tourism	Optimistic	88%	96%	Increasing	88%
	Neutral	12%	4%	Steady	8%
	Pessimistic			Decreasing	4%
Manufacturing	Optimistic	74%	79%	Increasing	39%
	Neutral	13%	13%	Steady	48%
	Pessimistic	13%	4%	Decreasing	13%
Professional	Optimistic	77%	92%	Increasing	54%
	Neutral	19%	8%	Steady	38%
	Pessimistic	4%		Decreasing	8%
Retail Trade	Optimistic	62%	78%	Increasing	54%
	Neutral	28%	11%	Steady	38%
	Pessimistic	10%	10%	Decreasing	8%
Construction	Optimistic	83%	100%	Increasing	54%
	Neutral	17%		Steady	38%
	Pessimistic			Decreasing	8%
Agriculture	Optimistic	71%	77%	Increasing	41%
	Neutral	16%	11%	Steady	52%
	Pessimistic	13%	12%	Decreasing	7%

Challenges/Pressures



The challenges and pressures experienced by Southland businesses are broadly similar over time.

However, there are some significant trends:

- 50% are having challenges recruiting the right people, up from 48% last year, and up from 42% in 2016.
- Red tape/compliance costs continue to challenge businesses: 46% in 2018 rising from 42% in 2016 and 33% in 2014.
- Balancing business and family was the third biggest pressure reported by 36% businesses in 2018, up from 27% in 2017. 33% of businesses also reported time management/long hours as a factor.
- Energy and fuel costs are becoming a challenge for more and more businesses each year. In 2018, 27% reported this as a pressure, exceeding the 2014 levels when 21% indicated that this a pressure for them.

Specific additional issues mentioned include:

- Mycoplasma Bovis and the impact on the dairy industry
- Availability of quality broadband and mobile services
- Technological changes
- Global commodity prices

- Difficulty of finding staff.

Ease of doing business

For the third time the survey questioned businesses about their perceptions of the ease of doing business within Southland.

This was an open question and business responses have been broadly split into three main areas: compliance factors, infrastructure and services and strategic activities.

The most commonly mentioned issues remain:

- Quality of broadband and mobile services (28%, up from 25% in 2016)
- Need for clarity and consistency in application of regulations by and between Councils (21%, up from 16% in 2016)
- Need for regional promotion to assist businesses (12%, up from 3% in 2016).

2018 saw significantly more businesses commenting on attraction and retention of skilled staff with a few businesses commenting on the need for tradespeople.

Long-term challenges

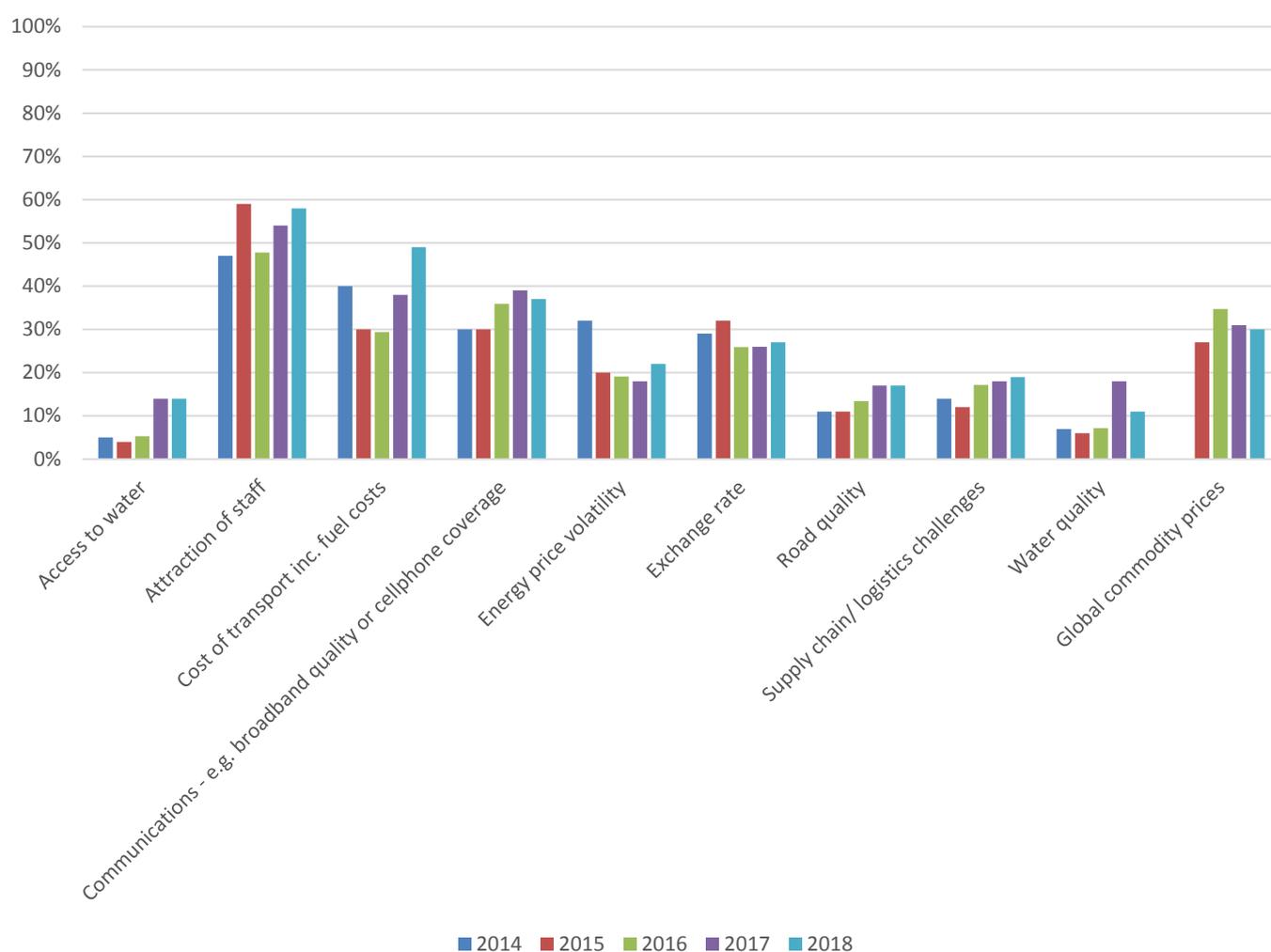
Long-term, the most significant change was seen in the cost of transport including fuel costs. As they look forward to the next three years, 49% of businesses are concerned with the cost of transport, up from 38% in 2017, 29% in 2016, 30% in 2015 and 40% in 2014. This is expected given the recent rise in fuel costs.

Attraction of staff will continue to be the most significant strategic challenge, with more businesses viewing it as a challenge compared to 2017 (58%, up 4%).

More than one third of businesses anticipate that the quality of communication services including broadband and quality of cell phone coverage, will impact on their business (37%, down from 39% in 2017, however still up from 30% in 2014).

Same proportion of businesses as in 2017 are concerned about the impact of global commodity prices (30%, up from 27% in 2016).

Less businesses are concerned with the water quality – 11% compared to 18% in 2017, however this is still higher than 2014-2016 when only 7% were concerned with the water quality.

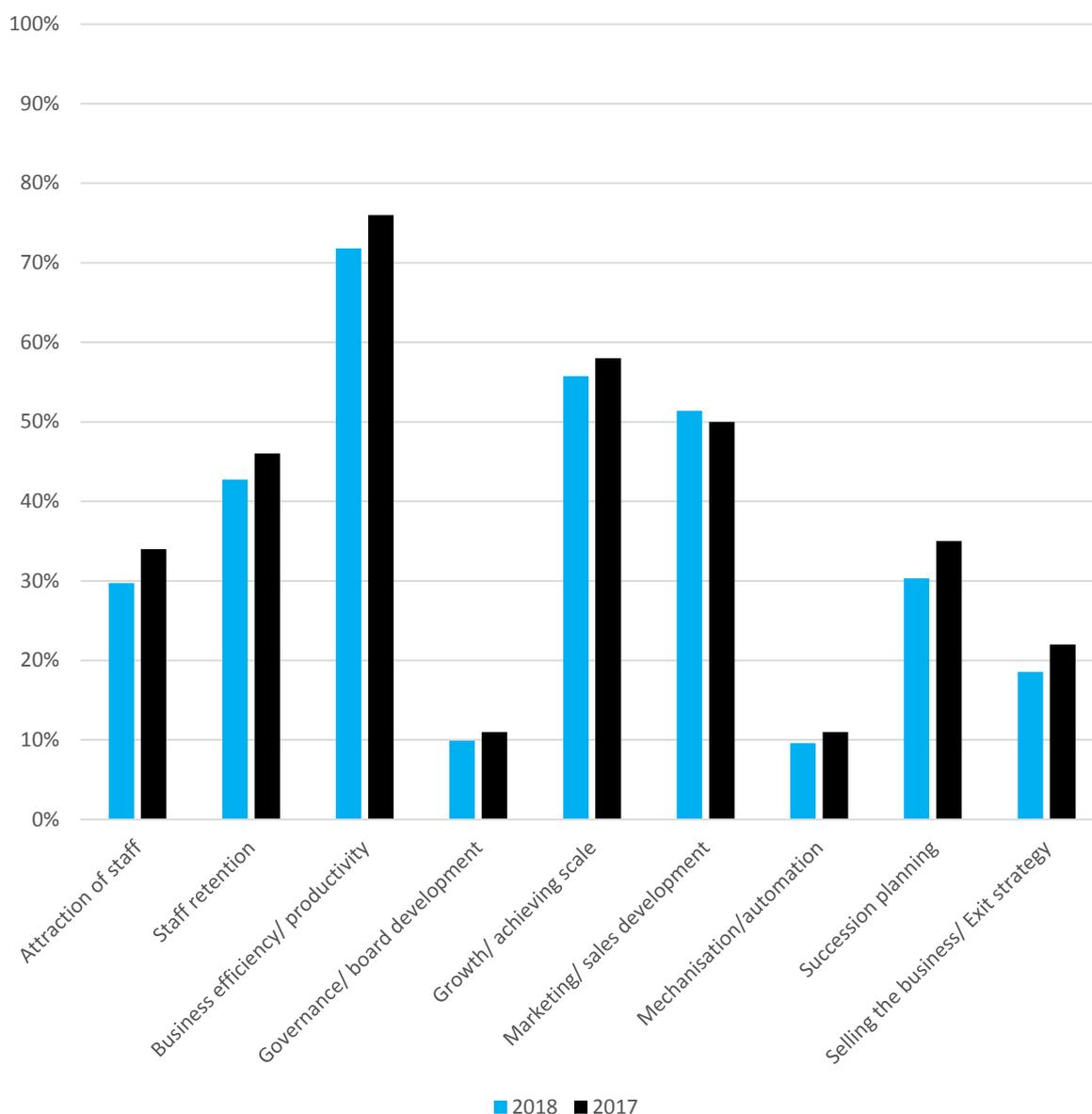


Business planning

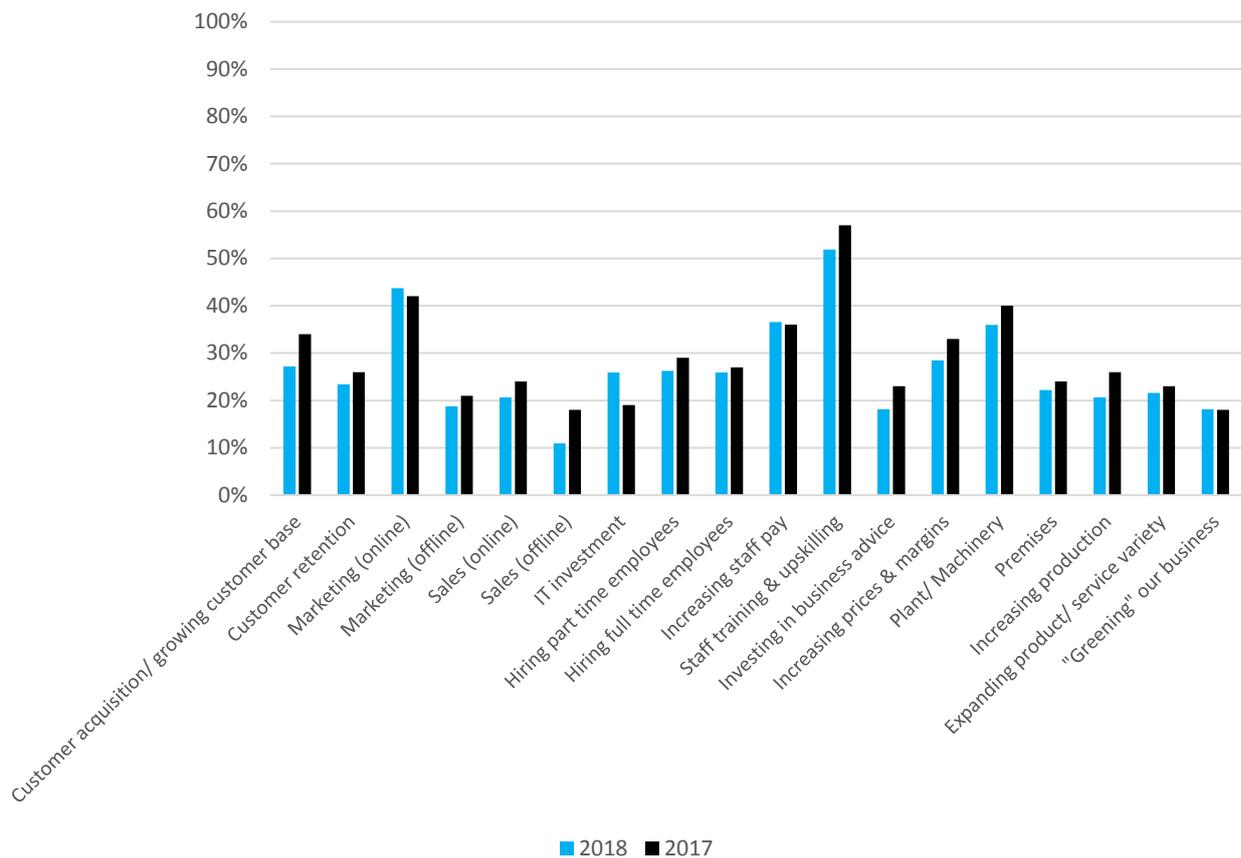
41% of businesses currently have a business plan in place, down 6% on 2017 and up 3% on 2016. A further 20% are currently developing a plan (compared to 19% in 2017 and 18% in 2016).

Overall, the changes from 2017 are minimal. Business efficiency/productivity, growth/achieving scale and marketing/sales development continue to be the top 3 immediate strategic planning priorities for 2018.

Business efficiency and productivity is the top strategic planning priority for 72% of businesses. 56% of businesses will focus their planning efforts on growing their business and 51% on marketing and sales development.



Investment over the year ahead



Similar to 2017, 52% of businesses are planning to invest in staff training or upskilling over the next 12 months. 44% are planning to invest in online marketing (up 2% on 2017 and down 1% on 2016) and in third place, overtaking investment in plant/machinery, is increasing staff pay (37%, up 1% on 2017, but still lower than 2015/16 levels).

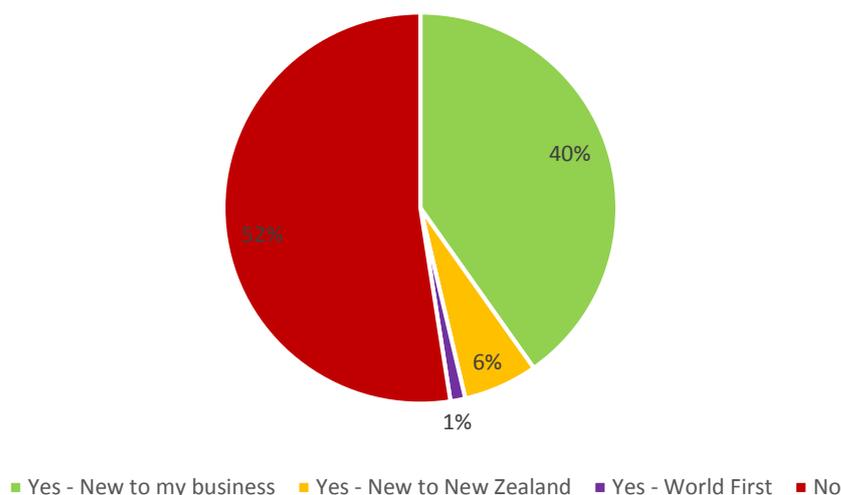
The area that experienced the highest increase is IT investment, at 26%, up 7%, reaching similar levels to those seen in 2015/16.

New ways of doing business

47% of businesses have implemented a new way of doing business which is either new to them (40%), new to New Zealand (6%) or a world first (1%). These results are similar to those seen in previous years.

Similar to previous years, the most common area of implementation was new digital technology (63%, up from 47% in 2017), followed by investment in new machinery or hardware (31%, up from 29% in 2017). 19% were implementing either new management or technical processes.

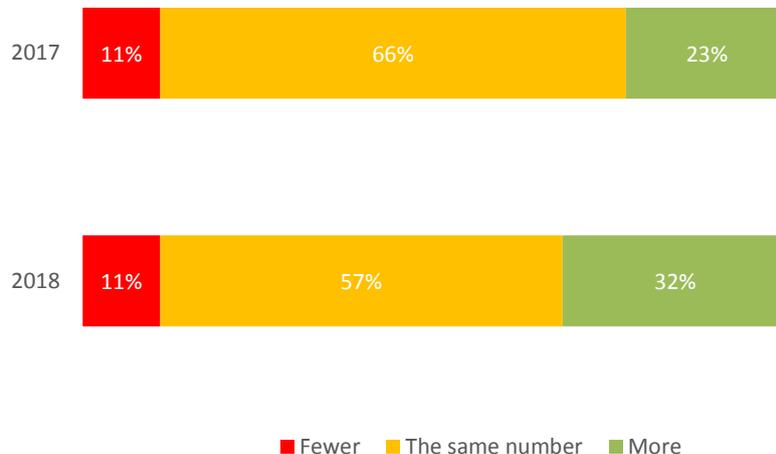
In 2018, more businesses reported investing in various technologies for their business (digital and/or machinery/hardware) which could explain slightly lower levels of planned additional dollar investment over the next 12 months.



Similar to 2016, 17% of businesses are planning to invest in research and development over the next three years. A further 30% are considering investing.

Workforce Management

For the first time since the Southland Business Survey began, businesses are employing more people now than in the previous year. 32% of businesses reported employing more people in 2018 up from 24% in 2014. The proportion of businesses employing the same number of people as last year decreased in 2018 from 66% to 57%.



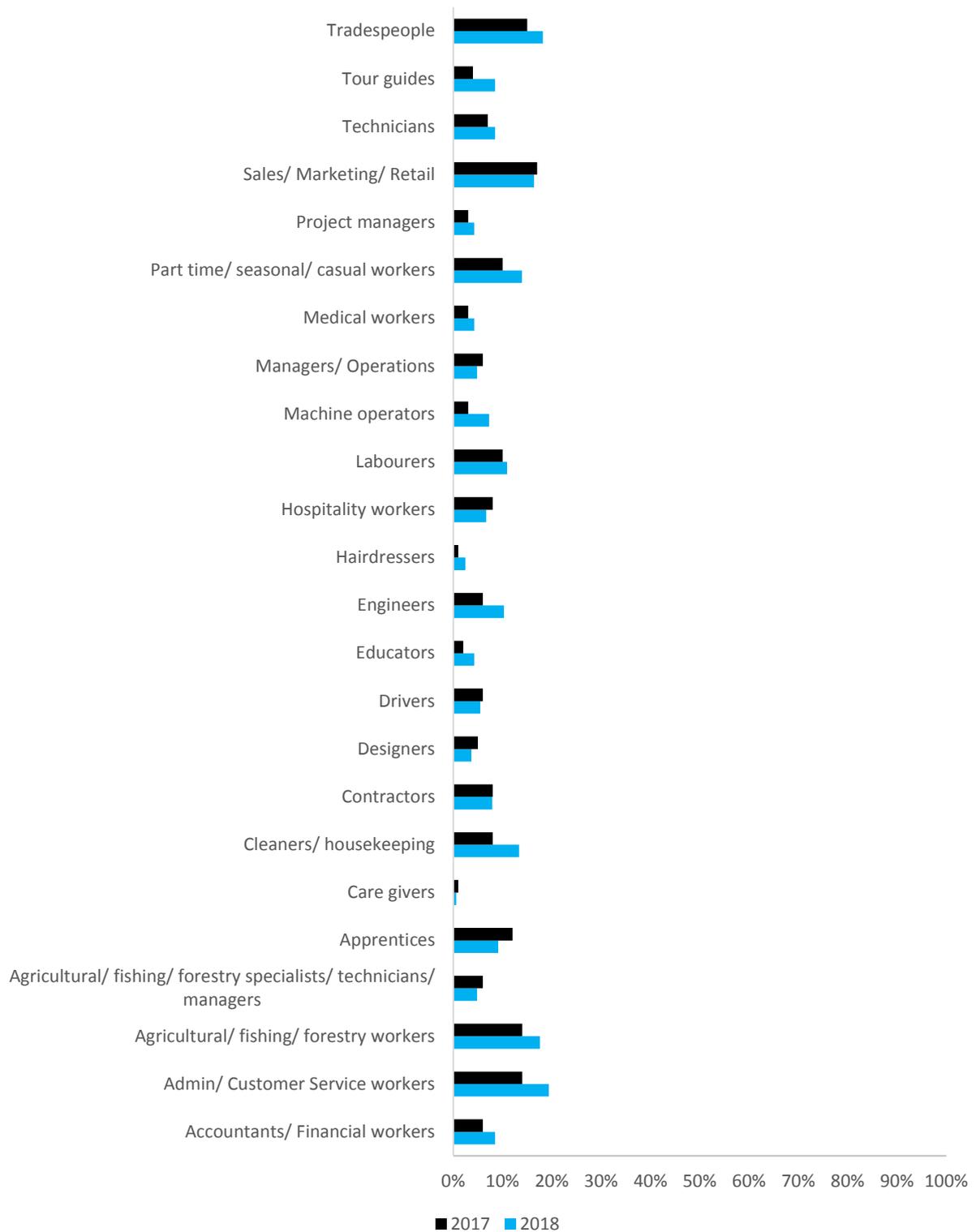
A record high number of businesses are planning to increase their staff - 50% plan to recruit in the next year (up 7% on 2017, 10% on 2016, 5% on 2015 and 10% on 2014).

165 businesses gave details of the positions they are looking to fill over the next 12 months. The most commonly sought positions are:

- Admin and customer service staff (up 5% on 2017)
- Agricultural/fishing/forestry workers (up 4%)
- Tradespeople (up 3%)
- Part time/seasonal/casual workers (up 4%)

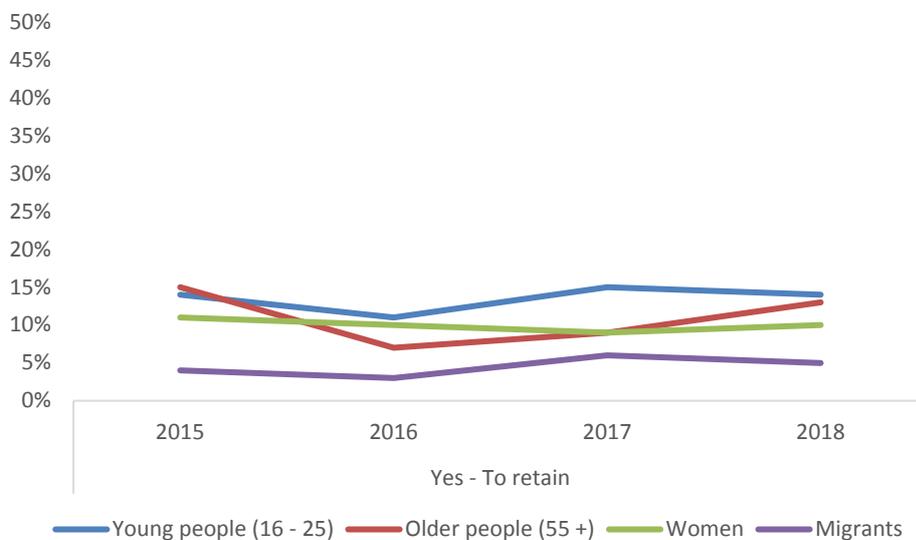
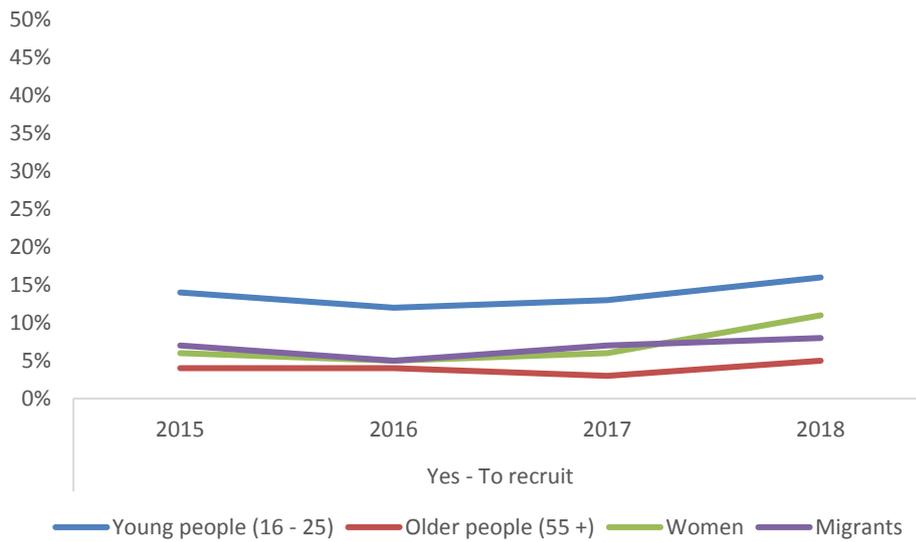
When compared to 2017, the highest increases were seen in admin and customer service staff, cleaners/housekeeping and tour guides which is a reflection of a higher sample of tourism-related businesses.

In addition, more businesses are seeking to hire engineers (10%, up from 6% in 2017) and machine operators (7% up from 4% in 2017) which can be attributed to their recent investment in machinery, high business confidence in construction/manufacturing, and steady or increased sales.



Employers were asked if they were doing anything differently in order to recruit and retain workers from the following groups: young people, older people, women and migrants. Most employers do not adjust their employment practices in order to better recruit or retain people from these groups.

	Yes - To recruit				Yes - To retain			
	2015	2016	2017	2018	2015	2016	2017	2018
Young people (16 - 25)	14%	12%	13%	16%	14%	11%	15%	14%
Older people (55 +)	4%	4%	3%	5%	15%	7%	9%	13%
Women	6%	5%	6%	11%	11%	10%	9%	10%
Migrants	7%	5%	7%	8%	4%	3%	6%	5%



However, for the third year in a row, more businesses are adapting their practices to recruit young people. More businesses are also adjusting their employment practices for recruiting women (11%, up 5% on 2017) and retaining older people (13%, up 4% on 2017).

Employers are more likely to change the way they work to retain older people, however for the first time, more employers will change their practices to recruit women rather than retaining them.

Employers mentioned offering flexible work environments as well as bonuses in order to attract and/or retain staff.

21% of businesses employ migrants within their workforces, down 7% on 2017.

2018 was the second year businesses were asked if the changes in immigration policy has affected them. Same as in 2017, 20% of businesses reported they were affected by these changes. Their comments mostly related to:

- The red tape associated with migrants gaining a visa
- Uncertainty for their business as the immigration law does not allow for long-term planning (ie. only 12 month long visas)
- Migrants' work ethic and willingness to work.

Marketing and sales channels

Similar to 2017, 66% have a website. This is down 8% on 2014 and 6% on 2016, which could be a reflection of a higher number of smaller and newer businesses participating in the survey.

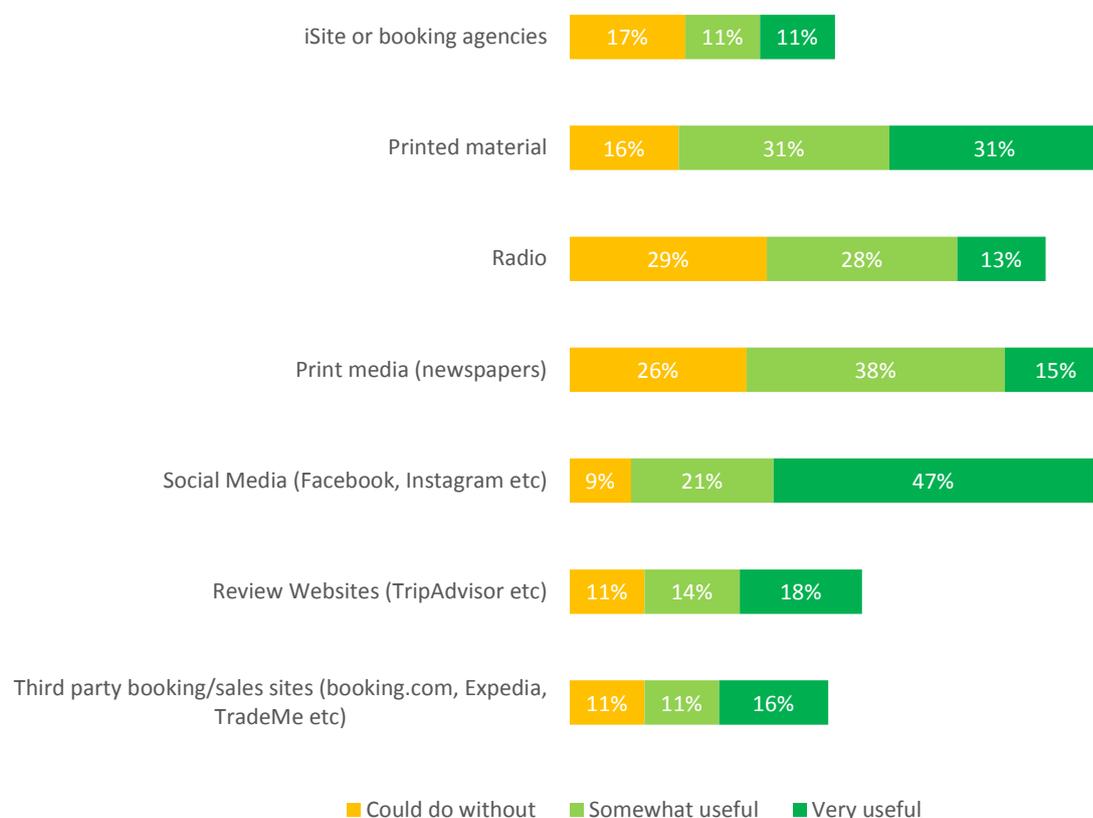
In 2018, all businesses were asked about the importance of various marketing channels to their business.

The most commonly used channels include print media (used by 79% of businesses), printed material (78%), social media (77%) and radio (70%). While these were popular with most businesses, some were found to be more important than others.

Social media is the most important to their business, with 47% indicating that it is very useful to their business and 21% indicating it is somewhat useful.

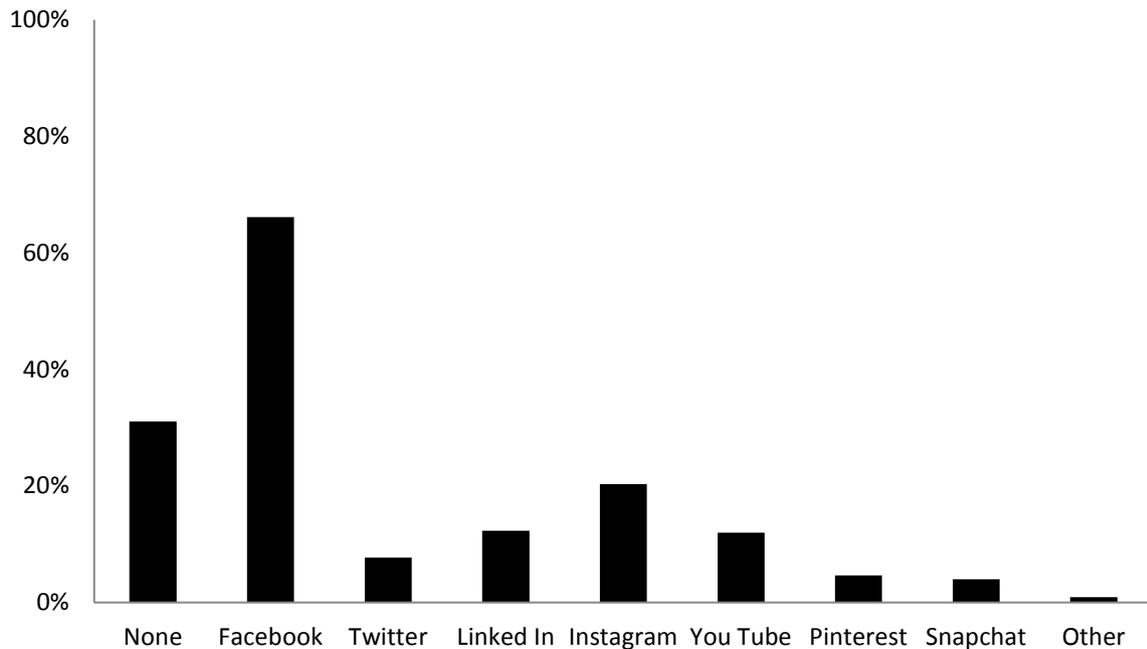
Businesses also place great importance of printed material with 31% finding it very useful.

6% of businesses also mentioned word of mouth as an important channel.



**Note: those businesses who indicated that the channels are not applicable to their business are not displayed in the graph.*

69% are using social media to promote their business (up from just under 50% in 2014), with Facebook once again being the most popular platform.



Instagram has overtaken LinkedIn as the second most popular social media platform – 20% use Instagram, compared to 11% in 2017, 8% in 2016 and only 2% in 2015.

37% of businesses use one social media platform, up from 34% in 2017. 16% are using 2 platforms, up from 13% in 2017 and 16% are using 3 or more social media platforms, up 5% from 2016.

Networking and information

59% of businesses are part of an industry or networking group. Most of these are industry specific organisations.

Accountants and websites remain the two most used sources of business information, followed by lawyers, and friends and family.

The only significant change from 2017 is that businesses equally use friends and family and lawyers as a source of information.

Working with the Community

70% of businesses work with community and charitable groups, providing support through sponsorships, donations, in kind support and volunteering. This is very similar to the results in 2014 - 2017.