

BUSINESS

PSI

**2017 HILLS SHIRE
BUSINESS PERFORMANCE
SENTIMENT INDEX**

Delivering the pulse of local
Hills Shire businesses

POWERED BY

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**Sydney Hills
BUSINESS
CHAMBER**

THE HILLS
Sydney's Garden Shire

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Introduction

Mark McCrindle

The Hills Shire punches above its weight in many areas. The Hills population is growing much faster than the national growth rate, the average household is 20% larger than the Australian average and the district is home to a higher proportion of students, university educated adults and full-time workers than both the national and state averages. The region is more culturally diverse with three in five residents having at least one parent born overseas, compared to less than half of Australians nationally.



As this Hills Business PSI report makes clear, it is also an entrepreneurial hotspot, being home to more than 20,000 businesses. So while the local population represents 0.7% of Australia, the number of businesses is well above this share at 1% of all Australian businesses.

This year's results highlight the challenging conditions local businesses are currently experiencing, yet such is the way of Australian entrepreneurs, their sentiment and outlook are decidedly positive.

The flat domestic economy, issues from under-construction local infrastructure and higher costs to revenue metrics are all viewed as temporary, though challenging circumstances.

Not only are the businesses surveyed upbeat about the season ahead, so are the new start-ups that are expanding the local economy. Every week in the Hills, 15 new businesses commence operations and with the new transport infrastructure, commercial constructions and emerging urban centres, the number of new business start-ups in the Hills will likely accelerate.

Our thanks go to The Hills Shire Council and the Sydney Hills Business Chamber who recognise the importance of this Business Performance Sentiment Index in a growing local economy, amidst volatile times and facing massive change. The foresight to commission such a project, commitment to its ongoing deployment and generosity in making it freely available to the business community is to be heartily commended.

Mark McCrindle

Director

McCrindle Research

Anthony Moss

The 3rd Hills PSI Survey results are in...

Thanks to you for completing the third Hills Business Performance and Sentiment Survey PSI. The PSI survey results reflect a true snapshot of business in the region, respondents included businesses of all sizes from large >100 staff, under 20, under 5 and non-employing businesses from a range of industries in both B2B and B2C sectors.

The results show a move in the index from positive 11 in the last survey to a neutral zero at this time. This is potentially a reflection of the degree of uncertainty in the macroeconomic conditions – but is also explicitly a reference to the impact on business of two key concerns – namely infrastructure (transport, parking, telecommunications) and the cost of regulation. Those two issues are perceived to negatively impact the cost of doing business in the Hills. That said, future sentiment is still very positive in the Hills with a positive +22 score. Respondents in the Hills still see a bright future with the ‘future potential of the Hills’ rated as the region’s highest current strength closely followed by location, work-life balance and the local ‘culture.’ The Sydney Metro Norwest Rail link is identified as the most highly rated ‘future strength’ for the region.



We would also encourage you to share this report with your colleagues and networks – indeed comment about it on the Chamber’s Facebook, LinkedIn and Twitter pages. The survey report provides direct insight into the perception of business in the Hills and hence is an invaluable tool for businesses, the Chamber, the Council and State Government.

This Hills PSI initiative is an expression of the Chambers role as the peak body for the interests of business in the Hills – however it would not be possible without the willing support of the forward thinking Hills Shire Council and of course the survey development, execution and analysis of McCrindle Research. Thank you to The Mayor Yvonne Keane, the Economic Development team of the Council, Mark McCrindle and the team at McCrindle Research.

Anthony Moss

Chairman – Sydney Hills Business Chamber
www.sydneyhillsbusiness.com.au

Councillor Yvonne Keane

Congratulations to The Sydney Hills Business Chamber and McCrindle Research on producing the quality information in this year's business sentiment report. The report takes a close look at the way people feel about business in the Hills, and provides excellent feedback that gives us parameters to consider when we make future strategic plans.

As Mayor, I love engaging with our business community and believe we have some of the best business minds in the nation right here. We know that the jobs of the future will come from the businesses of today, and Council is doing all we can to assist businesses by providing as much information, data and skill-building opportunities to help them grow and make informed decisions.

The Sydney Hills is going through a time of rapid transformation and change is evident all around us. We are experiencing significant growth that will continue long after the opening of the Sydney Metro North West in just a few short years.

Savvy business leaders will be starting to plan now to make the most of the opportunities that growth will undoubtedly bring. Council is also planning for that growth – ensuring that vibrant communities are created around our new transport hubs, delivering new infrastructure and reimagining existing assets to accommodate future demand.

There has never been a better time to be in business in the Sydney Hills. We are positioned for some of the most incredible change that we have ever seen and I look forward to working with you to ensure this time of transformation is positive and rich with opportunity for all.



Councillor Yvonne Keane

Mayor of The Hills Shire

The Hills community in the national context

The Hills are alive and growing fast!

The population of The Hills Shire is growing 20% faster than the national average (1.9% p.a. compared to 1.5% p.a.). The Hills Shire has a population of 167,933 in 2017. This is based on the current LGA boundaries which were reduced in 2016 to remove areas south of the M2 which have now been incorporated into the city of Parramatta. The Hills is home to significantly larger households than the national average (3.1 compared to 2.6 people per household). The Hills Shire is home to a higher proportion of students, university educated adults and full-time workers than both the national and state averages.

The median age of Hills residents is 38, the same as the national median age of 38 (2016 census). With larger than average households comes a large proportion of young persons. One in five Hills residents (22%) is under the age of 15. In the Hills today our youngest generations outnumber our oldest. One in ten Hills residents (12%) is aged 65 years or older.

Residents of the Hills Shire are highly engaged in the workforce. The Hills full-time employment rate is higher than the rest of Australia (62% compared to 60%).

	The Hills Shire	%	NSW	%	Australia	%
Work Full-Time	56,783	62.3	2,007,924	60.2	6,367,554	59.7
Work Part-Time	25,993	28.5	939,465	28.2	3,062,976	28.7
Away from work	4,575	5.0	190,944	5.7	627,797	5.9
Unemployed	3,782	4.2	196,523	5.9	600,133	5.6
Total in labour force	91,134		3,334,858		10,658,460	

Perhaps unsurprising with such a large student population, the top industry of employment of Hills workers is school education. The Hills is one of Australia's innovation and entrepreneurial hotspots and its fourth largest sector, at twice the relative national average, is computer system design and related services.

	Top industries of employment	The Hills Shire (%)	NSW (%)	Australia (%)
1	School Education	5.5	4.4	4.6
2	Hospitals	3.3	3.2	3.6
3	Cafes/Restaurants/Takeaway Food Service	3.2	4.1	4.1
4	Computer System Design and Related Services	3	1.7	1.4
5	Legal and Accounting Services	2.7	2.4	2.1

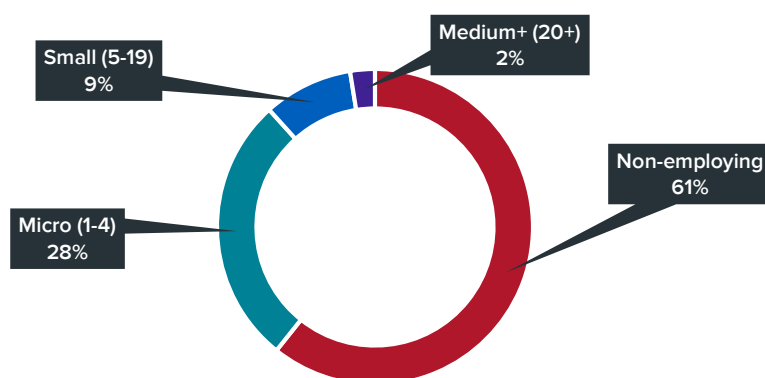
Data obtained from 2011 Census of Population and Housing.

Hills business in the national context

The Hills Shire is a significant business district, containing almost 1% of all 2,171,544 businesses in Australia. The number of businesses in The Hills Shire grew by 9% between 2014 and 2016, from 18,751 to 20,385*. Non-employing businesses (sole traders) have also grown during this time, by 9% (10,696 to 11,623). The strength of the local business economy in The Hills Shire is highlighted by the fact that the total population of the area is 0.7% of the national population. It has a significantly higher proportion of the Australian workforce 0.9% yet home to 1% of all businesses nationally.



Employing and non-employing businesses in Australia



97% of all Australian businesses are small enterprises with less than 20 employees. Comparatively 98% of Hills businesses are small enterprises.

Type of Business	Total no. of businesses: Hills Shire	Total no. of businesses: Australia
Non-employing	11,623	1,318,579
Micro (1-4)	6,575	599,408
Small (5-19)	1,777	198,721
Medium (20+)	410	54,836
Total	20,385	2,171,544

Data from ABS cat. 8165.0 Counts of Australian Businesses 2012-2016.

*The difference in business numbers from the previous Hills Shire Business PSI is due to the new council boundaries as of 2016.

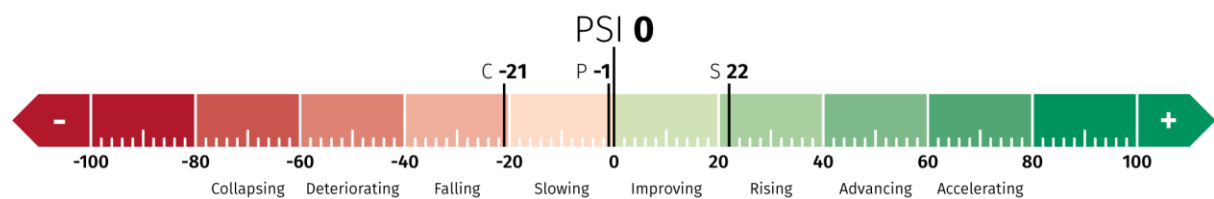
The Business Performance Sentiment Index (PSI)

Design

The **Business Performance Sentiment Index** (Business PSI), developed by McCrindle, is an ongoing measure of business performance, conditions, and sentiment.

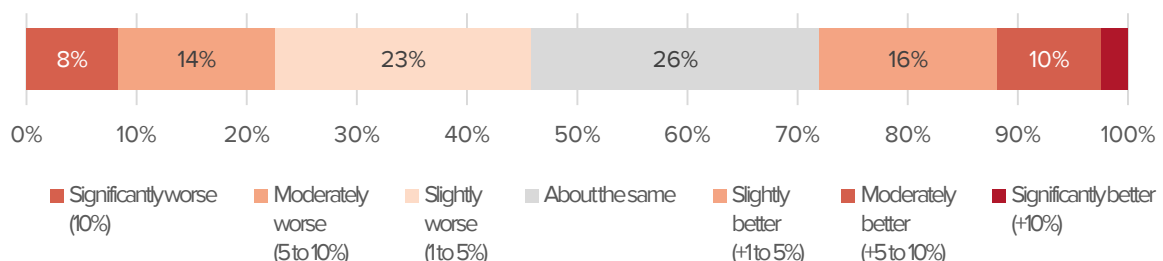
The Business PSI provides a snapshot of business health across the region. This latest edition of the Business PSI features the 2017 results for the Hills Shire with a comparison to both the 2016 and 2015 results.

The Business PSI covers three key business measures, namely, business performance, sentiment and conditions. The PSI then uniquely charts these measures on a scale ranging from *accelerating* on the extreme positive to *collapsing* on the extreme negative. Each of the three key measures (conditions, performance, and sentiment) are comprised of three sub-measures made up of several questions.



The PSI is calculated using a metric of 21 targeted questions. Each question involves a 7-point Likert scale. An example of a question is provided below:

Q. Thinking about your overall sales revenue at the moment, how do they compare to 6 months ago?



The mean of each scorecard is derived to produce the individual metric score. There is a theoretical maximum score of 300 and a theoretical minimum score of -300. Take the above graph for example, after calculating its mean this question derives a score of 35.

The results of the questions indicate whether business conditions, performance, and sentiment are in the positive zone (*improving, rising, advancing, accelerating*) or the negative zone (*slowing, falling, deteriorating, collapsing*).

The average of the three main measures (conditions, performance and sentiment) gives an overall Business PSI score.

Purpose and use

The Business PSI is a robust measure of current performance; deriving measures from actual earnings, expenses, staffing numbers etc. (performance and direction). The PSI also includes expectations of the future (sentiment and outlook).

The Business PSI is designed to be deployed in local and regional geographies. Doing so provides insights into economic conditions, regulatory settings and the impact of infrastructure in a local context. Contextual data allows for a nuanced understanding of business performance and conditions. The PSI measures local economies and allows for the comparison of business performance by region, across a city, within a state, and across states.

Furthermore, the Business PSI is a longitudinal instrument allowing the comparison of regional business performance over time. Time specific data allows for analysis of local policies, investments and infrastructure developments. It also allows for analysis of the ways state and national issues, such as economic conditions, affect local geographies.

Deployment

The Business PSI is a tested and easy-to-deploy 21 question survey. It allows business chambers and local governments to survey their business stakeholders at any point in time and compare the results to other areas or previous deployments.

It also allows industry groups and peak bodies to measure members by deriving a PSI for specific industries (such as hairdressers, real estate agents, etc.) or broader business categories (i.e. retailers, B2B service providers, etc.). The Business PSI results can be compared longitudinally, region-by-region, city-by-city or state-by-state.

The resulting PSI includes quantitative measures of business performance while incorporating attitudes, sentiment, and forecasts. This unique result delivers a comprehensive measure of actual and attitudinal performance; incorporating recent performance and current forecasts.

2017 Hills Shire Business PSI

Participants

The 2017 Hills Shire Business PSI features a collection of responses from business owners and managers across The Hills Shire area. The results comprise 203 started surveys and 154 completed surveys. Responses were collected from 7 March to 6 April, 2017. Individual responses are representative of various business sizes, locations, and industries across The Hills Shire.

Business owners and managers

Four in five (80%) participants are business owners and managers, 7% are owners but not managers and the remaining 13% are managers but not owners. Two in five (42%) have owned a business prior to the business they now own or manage. Half of business owners (50%) have owned their business for 10 years or more.

Business locations

More than two in five (43%) business owners or managers operate from their home. The remaining 57% operate from commercial centres across the Hills district. The most common locations include Norwest Business Park (54%), Victoria Avenue (14%), and Castle Hill Town Centre (9%).

Business services

Nearly half (49%) of respondents represent businesses that provide products/services to consumers (B2C). Exactly half (50%) provide products/services to businesses and/or the not-for-profit sector (B2B). The remaining 1% of respondents provide services on behalf of utilities and/or government.

Business size

One in ten (23%) businesses represented in the survey are non-employing, one in three (33%) are micro businesses (employing 1-4 employees), 29% are small businesses (5-19 employees), and 15% are medium to large businesses (20+ employees).

Respondent demographics

Three out of five (63%) participants are male and two in five (37%) are female. The majority of respondents (83%) belong to either Generation X (36-50) or the Baby Boomer generation (51-69). Respondents are highly educated with nearly three in five (57%) having completed a Bachelor degree or higher qualification (compared to 26% of the Australian working population).

Please refer to the appendix for a comprehensive overview of participants and their business demographics.

Indicator overview

The following tables outline the individual measures that form the conditions, performance, and sentiment components of the Business PSI.

Conditions

Conditions measure	Comprised of indicators	Question Example
Economic conditions	Local economic performance	How would you say the local economy is performing now compared to 6 months ago?
	Australia's economic performance	How would you say the Australian economy is performing now compared to 6 months ago?
Regulatory settings	Red tape and regulation requirements	How do the time and cost requirements related to compliance, legislation and regulations in your sector compare to 6 months ago?^
	Supportive government policy settings	How do government policy settings that support small businesses and assist your sector compare to 6 months ago?
Infrastructure & locale	Local infrastructure provision	How does the provision and performance of public transport, traffic and roads, parking availability and telecommunications compare to 6 months ago?
	Business expansion or reduction	Has there been any change (either expansion or reduction) in your office use, fit-out, number of locations, and/or commercial space in the last 6 months?
	Infrastructure and locale outlook	How will the provision and performance of public transport, traffic and roads, parking availability and telecommunications compare in 6 months' time?

Performance

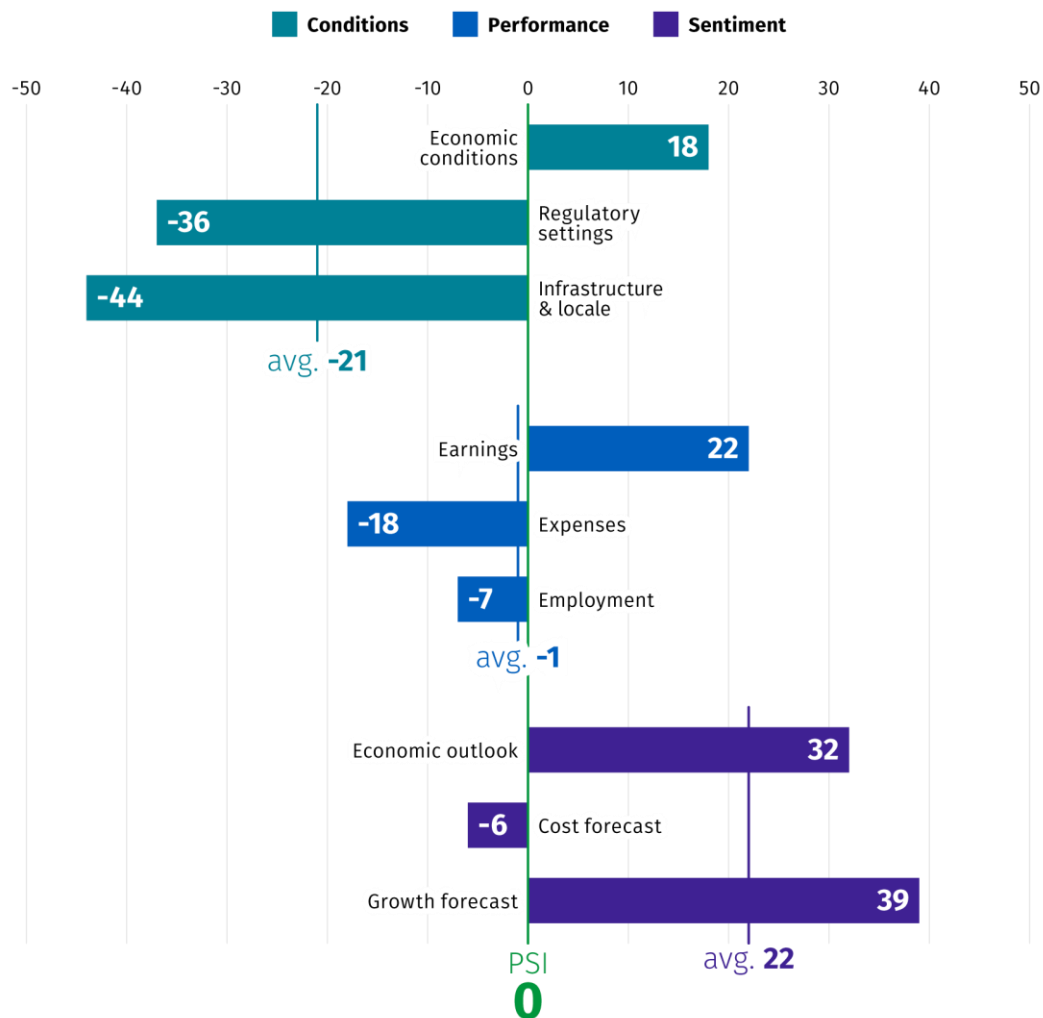
Performance measure	Comprised of indicators	Question Example
Earnings	Sales and revenue	How does your overall sales revenue compare to 6 months ago?
	Pre-tax profit	How does your operating and pre-tax profit compare to 6 months ago?
	Business cash flow	How does your business cash flow compare to 6 months ago?
Expenses	Business costs	How do your business costs compare to 6 months ago?
	Capital investments & expenses	How do your capital investments compare to 6 months ago?
Employment	Staffing levels	How do your staffing levels (both numbers and hours) compare to 6 months ago?
	Staff wages and on-costs	How do your staff wages and on-costs compare to 6 months ago?^

Sentiment

Sentiment measure	Comprised of indicators	Question Example
Economic outlook	National economic outlook	How do you think the Australian economy will be performing in 6 months' time compared to today?
	Internal revenue outlook	How do you think your overall revenue will compare in 6 months' time to today?
Cost forecast	Expense forecast	How do you think your business expenses (input, staffing, materials, sales) will compare in 6 months' time to today?^
	Staffing level forecast	How do you think your staffing levels (both numbers and hours) will compare in 6 months' time to today?
Growth forecast	Profit forecast	How do you think your operating pre-tax profit will be in 6 months' time compared to today?
	Cash flow forecast	How do you think your business cash flow will be in 6 months' time compared to today?
	Expansion forecast	Do you foresee any change (either expansion or reduction) in your office use, fit-out, number of locations, and/or commercial space in the next 6 months?

^The results of these questions are inverted within the PSI. For example, an increase in the time and cost requirements related to compliance, legislation and regulations would impede business growth rather than advance performance.

2017 Hills Shire Business PSI results



The 2017 Hills Shire Business PSI score is **0**.

Conditions

Conditions was the lowest scoring PSI measure in 2017. The score for conditions in 2017 is **-21**. This score was limited by the negative impact of regulatory settings and infrastructure. Specifically, red tape and local infrastructure (both current provision and future outlook) contributed strongly to the negative result.

Performance

Performance received a score of **-1**. Earnings was the only sub-measure within performance to yield a positive result. The results reveal that business owners and managers are struggling with costs.

Specifically, staff wages and on-costs. Despite concerns over costs, sales and revenues remained high, so did staffing levels, capital investments and pre-tax profit.

Sentiment

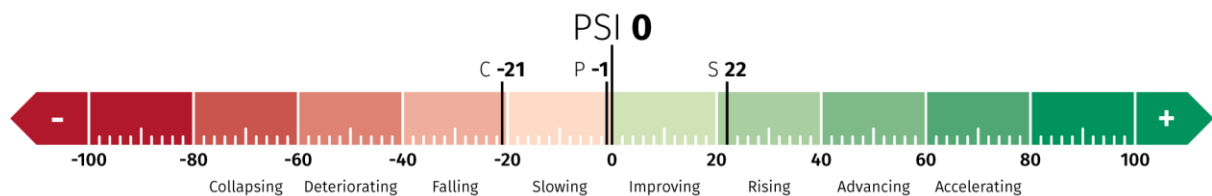
Sentiment, the highest yielding average, was the only measure to record a positive result. Sentiment within the Hills business environment received a score of **22**. Both the economic outlook and growth forecasts are positive. The limiting factor was the expectation of rising future costs. Although there are growing concerns about costs, hopes for the future remain high, especially hopes for internal revenue, staffing levels and pre-tax profits.

Longitudinal comparison

2017 results

Hopes remain high

The conditions, performance and sentiment indicators have all declined since 2016 and returned closer to 2015 levels. Despite the decline, hopes for the future remain high. Future expectations are only slightly lower in 2017 than in 2016 and are significantly higher than in 2015.



Change from previous years

The scales below compare the most recent shifts from 2016 to 2017 to those from 2015 to 2016.

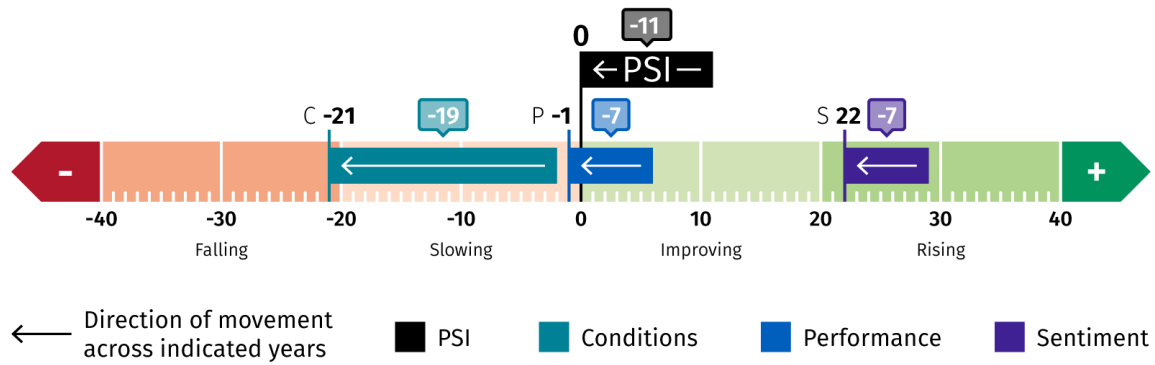
Conditions, though improving from 2015 (-21) to 2016 (-2), have gone backwards, returning to their original score (-21).

Performance, on the other hand, has fallen to the lowest point in three years. Despite a small improvement between 2015 (3) and 2016 (6) Performance fell to its lowest score (-1).

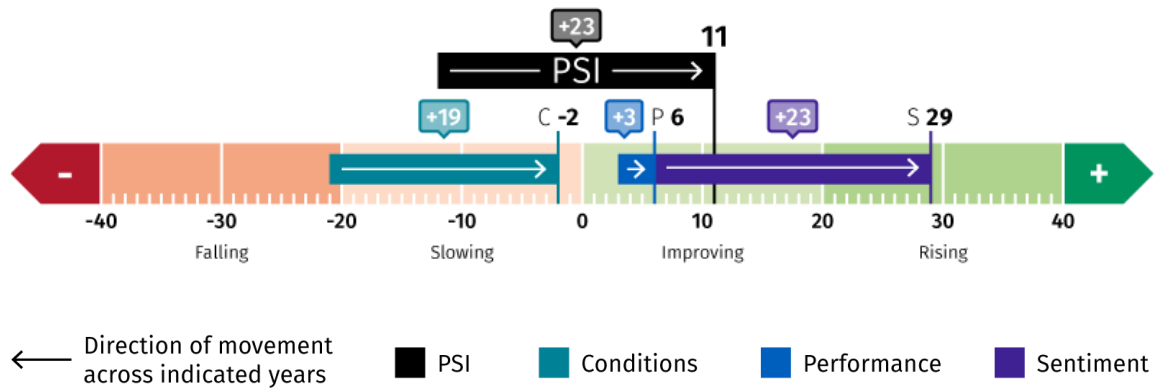
Slowing performance and falling conditions have been balanced by sustained positive sentiment. Sentiment, although lower than in 2016 (29), is still higher than the first deployment of the PSI in 2015 (6). The positivity of the current period continues despite other business negativity.

The combination of these movements has resulted in a PSI score of 0. This score is almost exactly halfway between the PSI in 2015 (-12) and the PSI in 2016 (11).

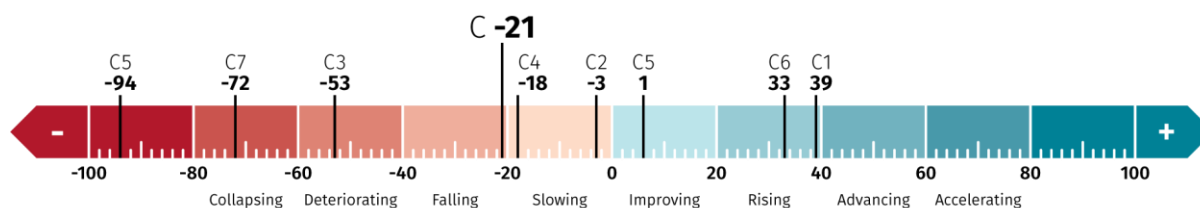
2016 to 2017



2015 to 2016



Conditions



Conditions measure	Key	Indicators	Score (2015)	Score (2016)	Score (2017)	Change
Economic conditions	C1	Local economic performance	6	47	39	↓
	C2	Australia's economic performance	-42	21	-3	↓
Regulatory settings	C3	Red tape and regulation requirements	-64	-45	-53	↓
	C4	Supportive government policy settings	3	1	-18	↓
Infrastructure & locale	C5	Local infrastructure provision	-32	-49	-94	↓
	C6	Business expansion or reduction	18	32	33	↑
	C7	Infrastructure and locale outlook	-27	-35	-72	↓
Total Conditions Score			-21	-2	-21	↓

Declining conditions

Despite improvement from 2015 (-21) to 2016 (-2) conditions have returned to their original level of -21.

Out of the seven indicators that comprise conditions, only one increased from 2016 to 2017. Business expansion and reduction increased by one index point from 32 to 33. All the other aspects of the measure declined from 2016 to 2017.

Collapsing infrastructure

The largest indicator decline was local infrastructure provision. This indicator has declined in each deployment of the Hills PSI. It has now fallen to its lowest point of -94. This score places local infrastructure provision well within the 'collapsing' category of the PSI scale.

The second largest decline was infrastructure and locale outlook. Falling 37 points to a historic low of -72. The significant decline of both C5 and C7 reflects growing frustrations with local infrastructure and a recognition that there will be no short-term improvement.

Red tape on the rise

Experience of red tape and regulation requirements was also negative. This score, also in decline, fell eight points to -53. Although this score is higher than in 2015, it still represents a significantly negative result. Respondents have been consistently dissatisfied with the regulatory settings they are experiencing.

Conditions by business size

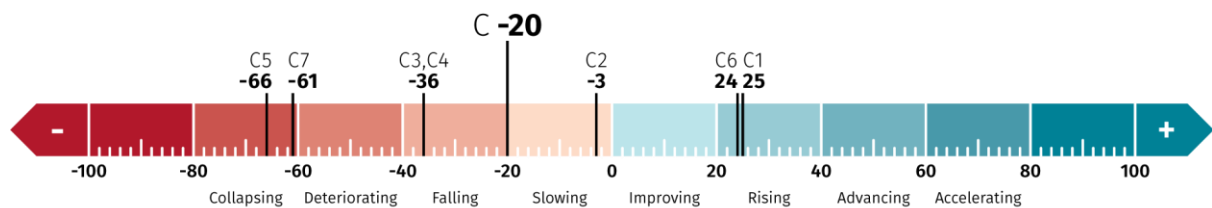
Best conditions for medium sized business

Medium-sized businesses had the best conditions in 2017. Medium-sized businesses had a conditions score of 0. This was the only business size to not yield a negative score. This score was due to both local and national economic performance. For medium-sized business, these scores were 77 and 58 respectively.

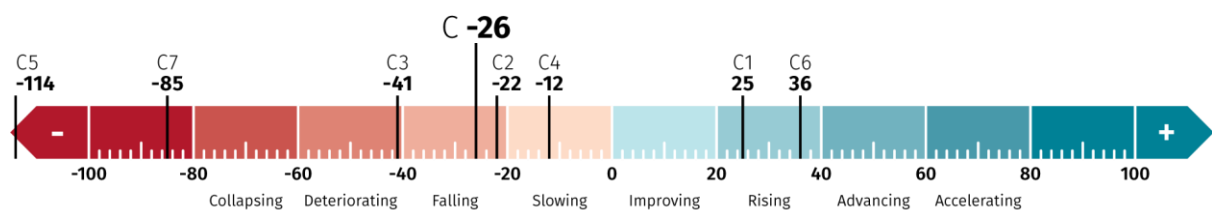
Micro and small business are struggling the most in the Hills' current business environment. Recording scores of -26, both heavily felt the impact of local infrastructure and the expectation that this would not improve. Micro and small businesses also struggle with regulatory settings, specifically, red tape and regulation requirements.

All business sizes are consistent in their view that the local economy (C1) is providing better operating conditions than the national economy (C2).

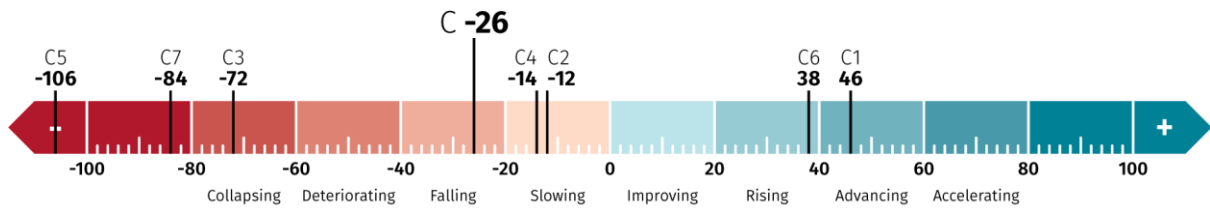
Non-employing businesses



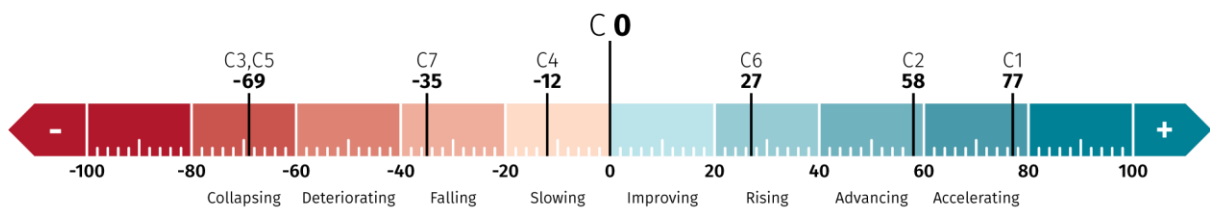
Micro (1-4 employees)



Small (5-19 employees)



Medium+ (20+ employees)



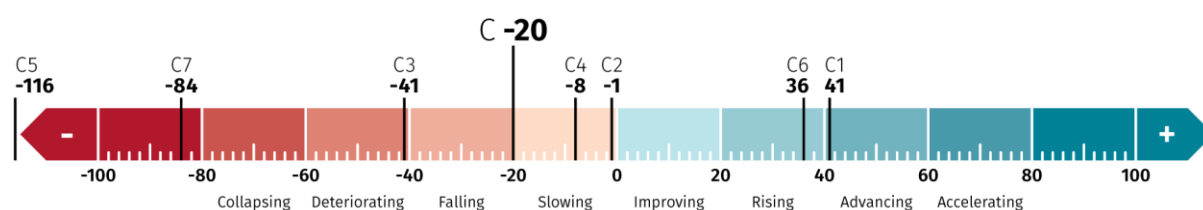
Conditions in B2B versus B2C business

The condition scores for business to business entities (B2B) and business to consumer entities (B2C) were similar in 2017. Both have fallen since 2016. B2C fell a total 22 points from 1 to -21. B2B also fell, by fewer points (15), from -5 to -20.

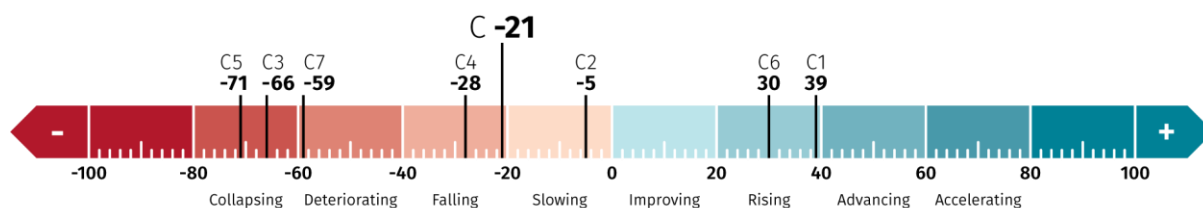
The biggest issue for B2B businesses is the current state of infrastructure. This score fell from -63 (2016) to -116 (2017). Other negative indicators were red tape and regulation requirements (-41) and supportive government policy settings (-8). The highest scoring measures were local economic performance (41) and business expansion and reduction (36).

B2C businesses also find the local infrastructure detrimental to business (-71). Despite negativity towards Australia's current economic performance (-5), local economic performance has been strong for B2C businesses (39) resulting in business expansion (30).

B2B: Products/services to businesses, public utilities and/or government



B2C: Products/services to consumers



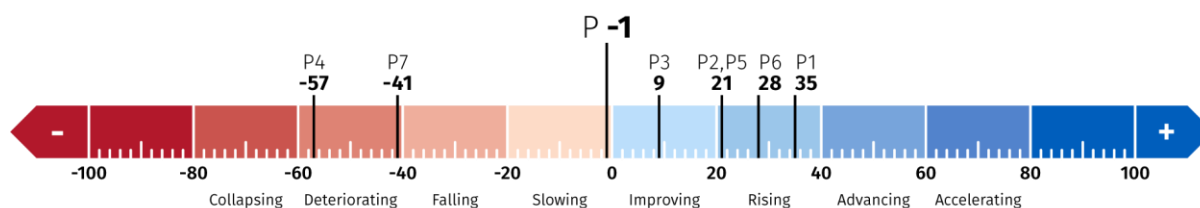
Business Tenure Insights

Regulation requirements restricting short-term business owners

Short-term business owners and managers (1-5 years) are the most likely to have experienced worsening regulation requirements resulting in restricted operating conditions.

Nearly half of short-term business owners and managers have experienced an increase in compliance and regulation requirements (48%); this compares to two in five new (less than 12 months) and mid-term (5-10 years) owners and managers (38% new, 42% mid-term). Long-term owners and managers experienced the least change with only one in three reporting an increase in regulation and compliance (33%).

Performance



Performance measure	Key	Indicators	Score (2015)	Score (2016)	Score (2017)	Change
Earnings	P1	Sales and revenue	52	55	35	↓
	P2	Pre-tax profit	31	43	21	↓
	P3	Business cash flow	24	35	9	↓
Expenses	P4	Business costs	-26	-44	-57	↓
	P5	Capital investments & expenses	-3	18	21	↑
Employment	P6	Staffing levels	18	31	28	↓
	P7	Staff wages and on-costs	-45	-58	-41	↑
Total Performance score			3	6	-1	↓

Slowing performance

Performance has fluctuated over the years. In 2017, it has now entered the negative zone for the first time. The overall performance score fell 7 points between 2016 and 2017 from 6 to -1.

Rising costs

The negativity was due to two significant negative scores. These were business costs (-57) and staff wages and on-costs (-41). The negative scores, for both business costs and staff wages, indicate that these costs have been getting significantly worse over the last six months.

Positive revenue, profits and investment

Despite a decrease since the PSI in 2016, there are a number of strong 2017 performance indicators. Revenues, profits, capital investments and staffing have been improving over the last six-months (this is indicated by the overall positive score – despite the score decrease). There has also been a slight improvement in cash flow.

Performance by business size

Performance improving for medium sized businesses

The results show that business performance is improving for both micro and medium-sized businesses. Performance growth is currently strongest in medium-sized businesses. Medium-sized businesses received a performance score of 11, followed by micro businesses with a performance score of 4. Both these scores sit within the improving range of the PSI scale.

Medium-sized businesses in the Hills are accelerating their capital investments and staffing levels. This is likely due to the strong growth in sales and revenue, pre-tax profits and cash flow.

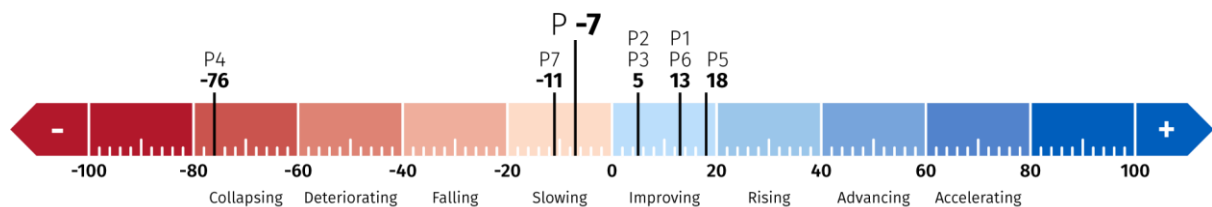
Large revenues for micro businesses

Micro businesses are experiencing accelerating revenue and rising profits, cash flow and staffing levels.

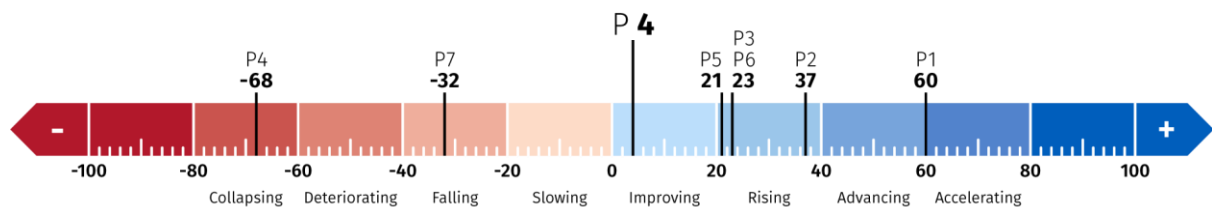
Small business struggles

Small businesses are struggling the most to perform, with a performance score of -9. This negative score implies that, overall, small business performance is slowing in the Hills. This is largely due to increasing expenses, both general operating costs and wages. Despite their struggles, small businesses have increased revenues, profits and staffing levels.

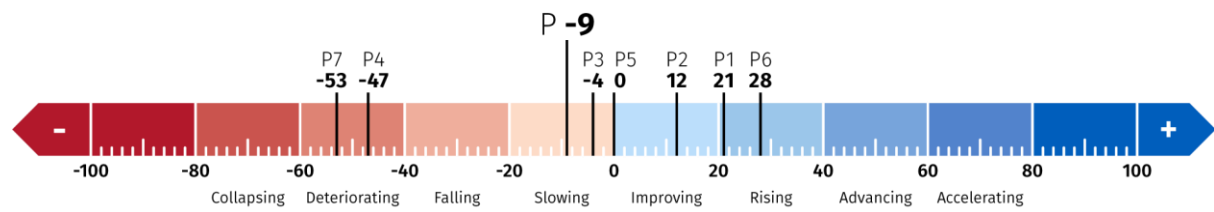
Non-employed businesses



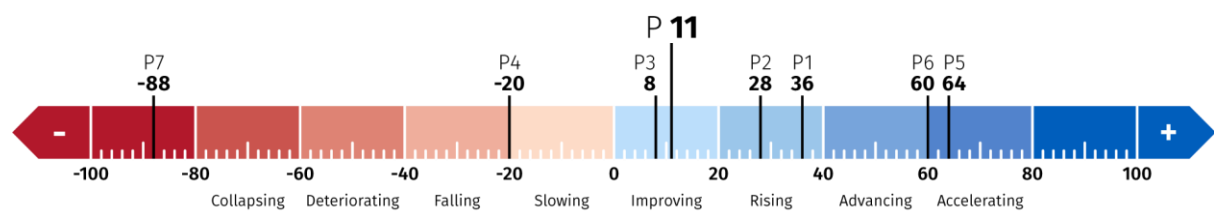
Micro (1-4 employees)



Small (5-19 employees)



Medium+ (20+ employees)



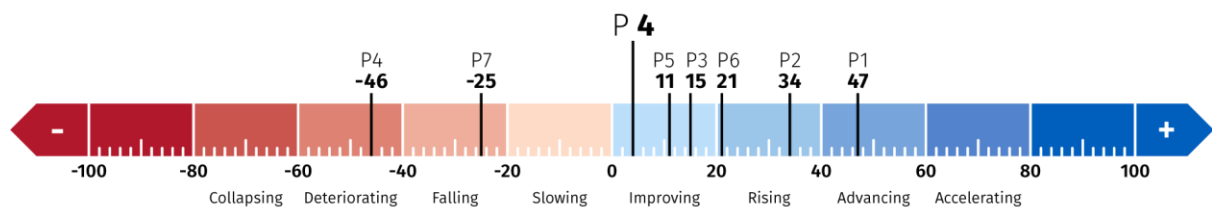
Performance in B2B versus B2C businesses

Performance improving for B2B businesses

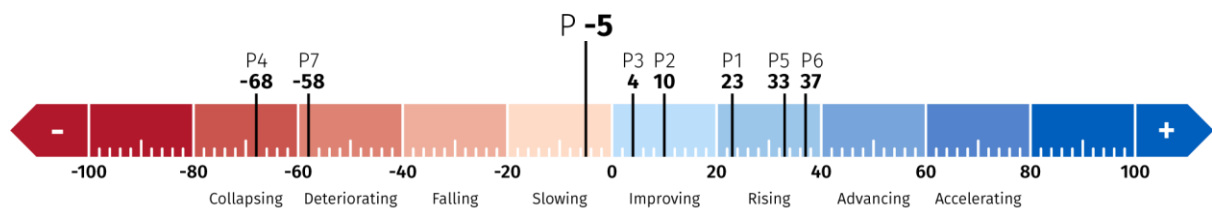
B2B performance is tracking better than B2C performance. B2B businesses are showing positive growth with a performance score of 4. This is due to growth in almost all areas except business costs and staff wages and on-costs. B2B businesses are experiencing the largest improvements in sales and revenues, pre-tax profits and staffing levels.

B2C business, however, received a performance score of -5. Although this difference is relatively small (9 points), the negative result indicates slowing business performance. This slowdown is influenced by restrictive business costs (-68) and large staffing costs (-58). B2C strengths are currently capital investments and expenses and staffing levels. Compared to B2B businesses however, they are experiencing weaker improvements to pre-tax profits and business cash flow.

B2B: Products/services to businesses, public utilities and/or government



B2C: Products/services to consumers



Business Tenure Insights

Costs

Mid-to-long term business owners and managers (5+ years) are most likely to have experienced worsening business costs over the last six months.

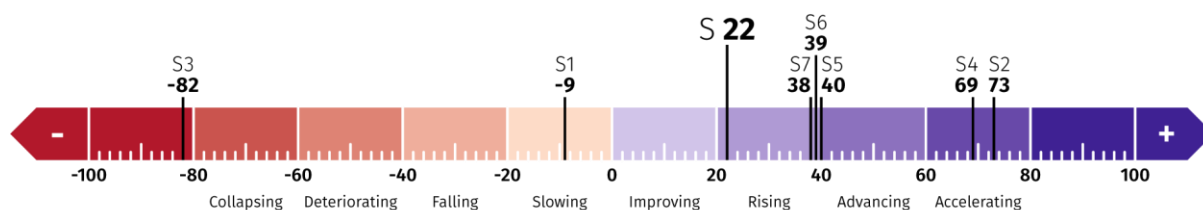
Two-thirds (66%) of mid-term business owners and managers (5-10 years) have experienced worsening costs over the last six months. For long-term business owners and managers (10+ years), the proportion is slightly more than half (53%).

Half (50%) of new business owners and managers (less than 12 months) have experienced stable costs.

Staff wages and on-costs

Increasing staff wages and on-costs have been worst for mid-term business owners and managers (5-10 years). More than half (56%) of mid-term owners and managers have experienced an increase in staff wages and costs. This compares to 13% of new entrants (less than 12 months), 28% of short-term owners and managers (1-5 years) and 34% of long-term owners and managers (10+ years).

Sentiment



Sentiment measure	Key	Indicators	Score (2015)	Score (2016)	Score (2017)	Change
Economic outlook	S1	National economic outlook	-31	14	-9	↓
	S2	Internal revenue outlook	46	78	73	↓
Cost forecast	S3	Expense forecast	-68	-65	-82	↓
	S4	Staffing level forecast	30	55	69	↑
Growth forecast	S5	Profit forecast	36	48	40	↓
	S6	Cash flow forecast	34	52	39	↓
	S7	Expansion forecast	16	41	38	↓
Total Sentiment Score			6	29	22	↓

Sentiment scores higher than conditions and performance

Sentiment was the best performing component of the 2017 Hills Business PSI. Despite a slight decline from 2016, this year's score of 22 suggests rising business sentiment in the Hills.

Strong growth forecasts

Strong business sentiment was due to expectations of improvements in internal revenue outlook and staffing level forecasts. Growth forecasts were also strong for all growth forecast indicators. Although most indicators declined compared to 2016, many remained positive.

Rising costs to continue

The most limiting indicator was expense forecasts falling 17 points from 2016 to the lowest recorded level of -82. This was largely consistent with the previous sections of this report, showing not only that businesses are currently being hampered by rising costs, but they also expect these costs to continue to get worse.

Decline in national economic outlook

The national economic outlook was also recorded as declining with a negative score of -9. Hills businesses, although very positive about their own revenue and performance, are losing faith in the short-term future performance of the Australian economy.

Sentiment by business size

Positive sentiment for all business sizes

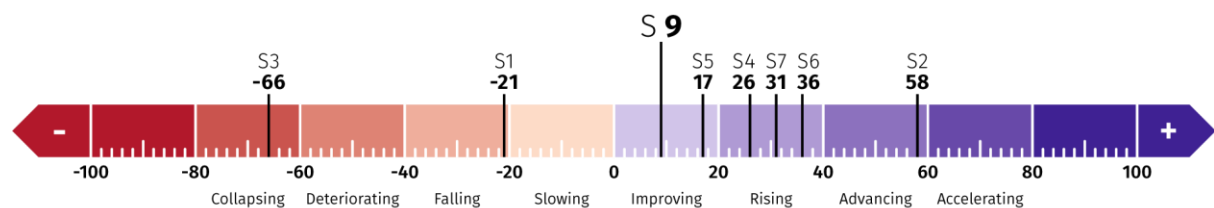
Sentiment was positive for all business sizes in the Hills. It is strongest in medium-sized businesses, recording a sentiment score of 38, followed by micro businesses (23), small businesses (21) and lastly non-employed businesses (9).

Rising internal revenues

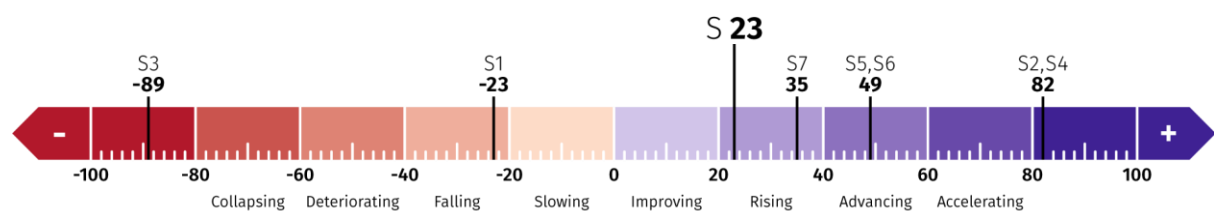
The strong sentiment is due to a positive economic outlook. Medium businesses are expecting huge growth in internal revenue in the coming months with a score of 96. Micro businesses are also expecting accelerating revenues with a score of 82. Staffing forecasts were strongest for small businesses, indicating a significant growth in the future (83).

The measure that had the most significant negative impact was the expenses forecasts. All of the different business sizes are each expecting costs to rise significantly in the coming months.

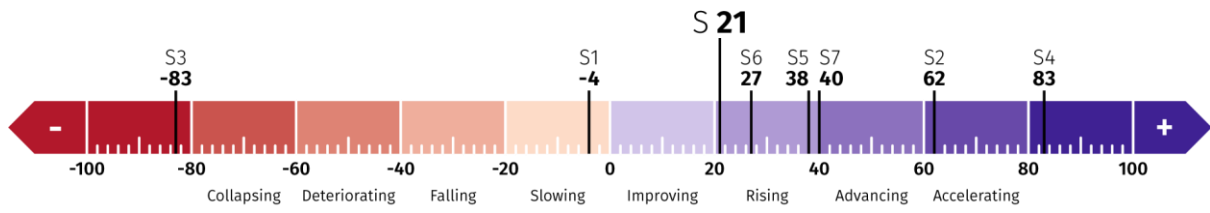
Non-employed businesses



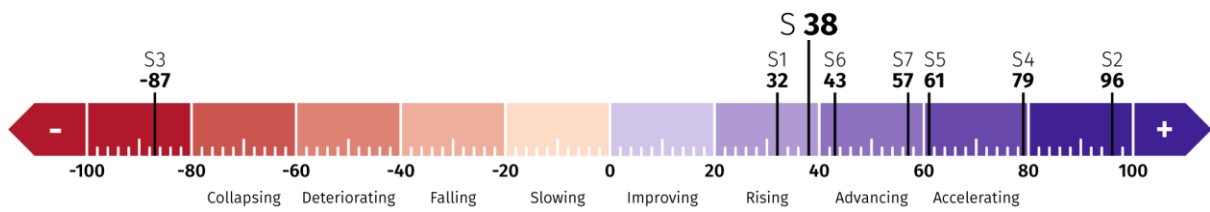
Micro (1-4 employees)



Small (5-19 employees)



Medium+ (20+ employees)

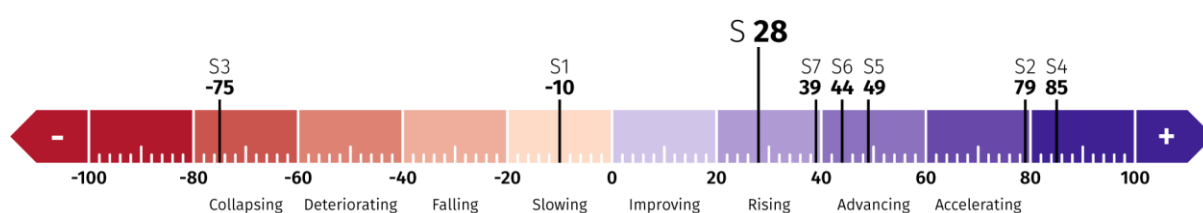


Sentiment in B2B verses B2C businesses

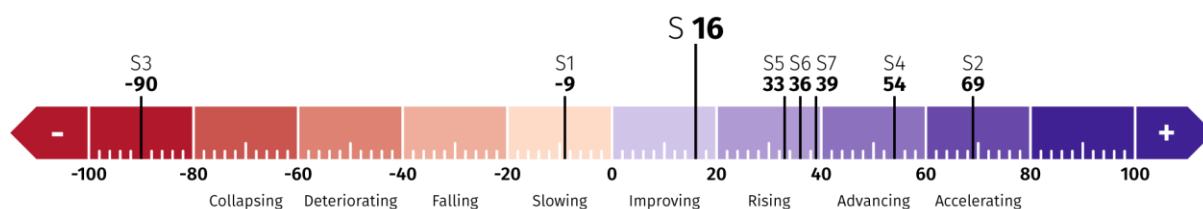
Business sentiment is positive for both B2B and B2C businesses in the Hills. The B2B sentiment (28) is stronger than B2C sentiment (16).

Both B2B and B2C businesses are expecting growth in internal revenue, profit and cash flow. This positivity is limited only by negative expectations of the national economic performance and significant fears surrounding increasing business expenses.

B2B: Products/services to businesses, public utilities and/or government



B2C: Products/services to consumers



Business Tenure Insights

High hopes for new business owners and managers

New business owners and managers (less than 12 months) are the most likely to expect increasing pre-tax profits. Three in four (75%) new owners and managers expect their pre-tax profits to improve. This is a much higher proportion than any other tenure length; 42% of short-term (1-5 years), 45% of mid-term (5-10 years) and 42% of long-term (10+ years) owners and managers.

Further insights

In addition to capturing responses to the 21-question index, the 2017 survey also included a series of additional questions. These additional questions consisted of several previously deployed longitudinal questions and two new questions for 2017. Questions from previous years included the Net Promotor Score, various sentiment tracking questions and a qualitative question focused on the struggles of doing business in the Hills. The two new questions capture the current and future strengths of doing business in the Hills.

Net Promoter Score

The Net Promoter Score (NPS) is based on the fundamental perspective that every organisation's clients can be divided into three categories: Promoters, Passives and Detractors.

By asking those who own or manage a business in The Hills Shire "On a scale of 0-10, how likely is it that you would recommend doing business in The Hills Shire to a friend or colleague?" the NPS model can track these groups and get a measure of The Hills Shire's performance as a business region.

Individuals respond on a 0-to-10 point rating scale and are categorised as follows:

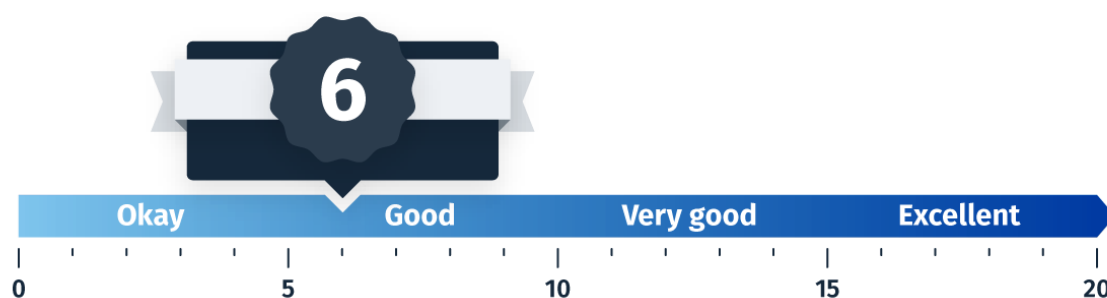
- **Promoters** (score 9-10) are loyal enthusiasts who will keep engaging and refer others, fuelling growth.
- **Passives** (score 7-8) are satisfied but unenthusiastic respondents who are vulnerable to competitive offerings.
- **Detractors** (score 0-6) are unhappy respondents who can impede growth through negative word-of-mouth.



$$\text{NET PROMOTER SCORE} = \% \text{ PROMOTERS} - \% \text{ DETRACTORS}$$

The Hills Shire NPS for doing business in the Hills in 2017 is **6**.

This score experienced an 8-point decrease from 2016. Although a decrease in score is undesirable, maintaining a positive NPS is still commendable. An NPS of more than zero means that in the Hills there are more promoters fuelling business growth than detractors impeding it. Three in ten respondents (31%) are passive towards promoting business in the Hills.

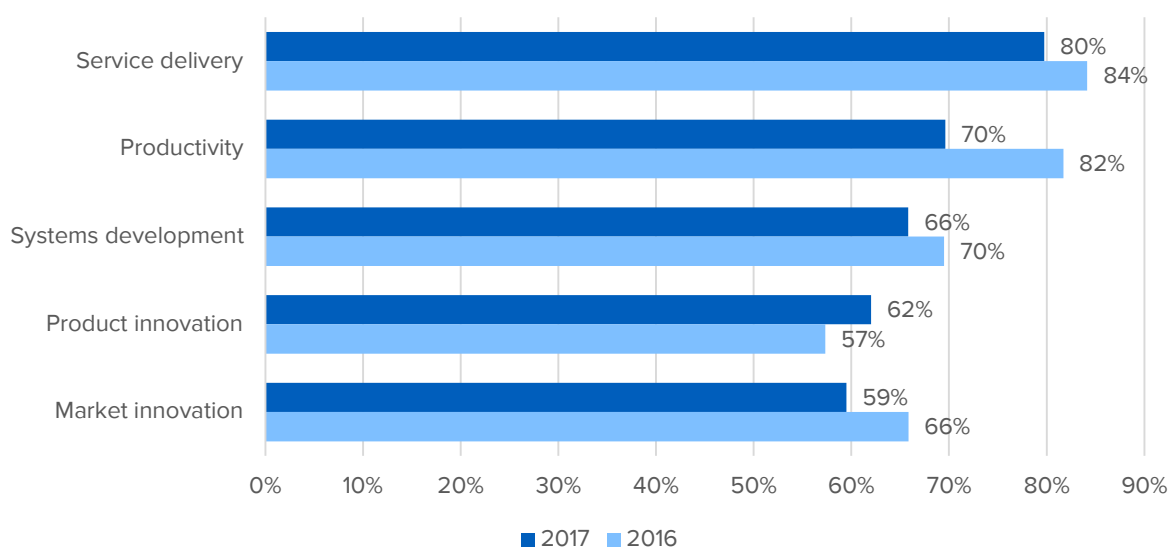


The following sections of the report provide insight into the strengths and struggles of doing business in the Hills.

Innovation

The below question was first asked in 2016 and repeated in 2017. It was not asked during the first deployment of the Hills Business PSI in 2015.

Q. How important is investment in innovation as part of your growth strategy in the following areas? (Extremely and very important)



When considering growth strategy, business owners and managers in the Hills are most likely to value investing in the innovation of service delivery. Four in five (80%) Hills business owners and managers think investing in the innovation of service delivery is extremely/very important.

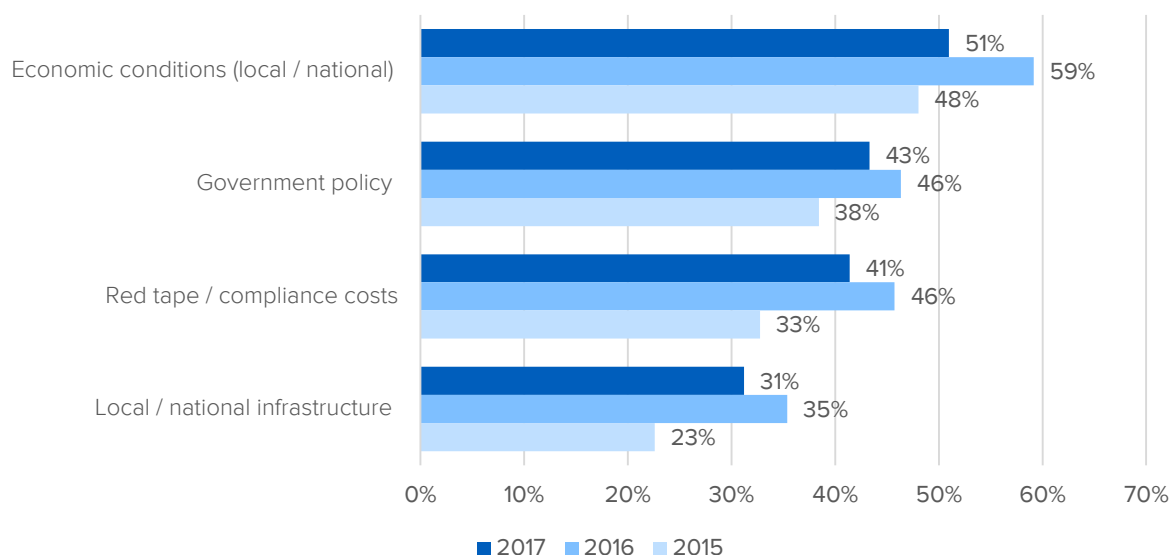
Seven in ten business owners and managers (70%) feel that investment in productivity is an extremely/very important part of their growth strategy. This is a 10 percentage point decrease from the previous year's results in 2016 (70% 2017 compared to 82% 2016).

Nearly three in five respondents (59%) feel that investing in market innovation is extremely/very important. Even though this is the lowest response, this figure still implies that more than half of business owners and managers think market innovation is at least very if not extremely important.

The only area of innovation to grow in importance was investment in product innovation. Between 2016 and 2017, the proportion of business owners and managers that think investing in product innovation is extremely/very important grew by five percentage points (62% 2017 compared to 57% 2016).

External impacts on business performance

Q. At the moment, how much do the following issues impact your business performance? (Extreme and significant impact)



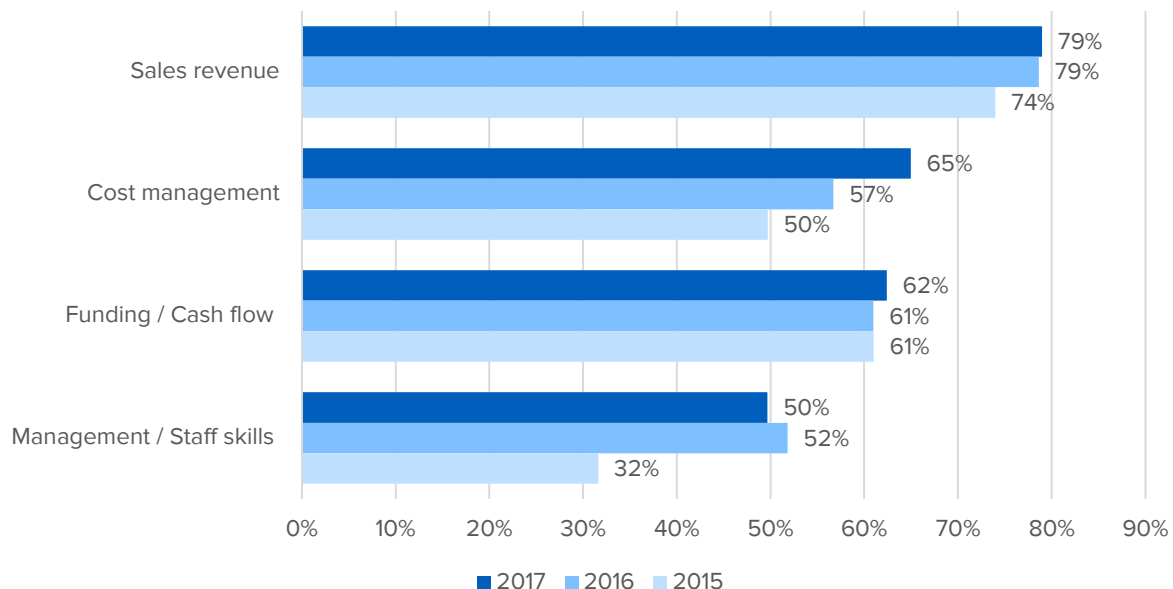
Business owners and managers in 2017 were less sensitive to the impacts of external pressures on their business than in 2016. Despite a slight reduction between 2016 and 2017, the impact of external pressures was still higher than the first survey results in 2015.

Half of business owners and managers (51%) in the Hills believe that local and national economic conditions have had an extreme or significant impact on their business performance. This is a slight decrease from last year in 2016 (59%), however an increase from 2015 (48%).

Despite a significant decrease in the indicator score for infrastructure (as outlined in the conditions section of this report), less than one-third of business owners or managers (31%) felt that local/national infrastructure has an extreme or significant impact on their business performance. This was a four percentage point decline from 2016.

Business priorities

Q. Thinking ahead to the next 6 months, how much are the following areas a priority for you to address? (Extreme and significant priority)



Future sales revenue remained the highest priority for business owners and managers for three years in a row. Nearly four in five respondents (79%) think that in the next six months sales and revenue will have an extreme or significant impact on their business.

Cost management and funding/cash flow increased in importance compared to previous years. Nearly two in three (65%) business owners and managers indicated that cost management will have an extreme or significant impact on their business in the next six months and is therefore of high priority to address. This compares to less than three in five (57%) in 2016 and only half (50%) in 2015. The impact of funding and cash flow increased by one percentage point from the previous years (2017 62% extreme/significant impact compared to 61% in 2015/16).

The only future factor to decrease in impact was management and staff skills. Only half of business owners and managers (50%) felt that management/staff skills would have an extreme/significant impact in the next six months. This compares to a similar proportion in 2016 (52%) and a significantly lower proportion in 2015 (32%).

Qualitative insights

Challenges faced by business in the Hills

Q. What is the most significant challenge that your business is currently facing?

Survey respondents were asked to describe the most significant challenge that their business is currently facing. The most common challenges were staffing, travel and costs. Respondent's answers are summarised below.

Staffing

According to the results, problems with staffing is one of the most common challenges faced by business owners and managers in the Hills. Many respondents commented that they struggle to find suitable new staff. One respondent referenced a skills shortage while another suggested they find it challenging to hire staff who live close by.

Securing quality staff and contract service providers.

Attracting the right staff. We are in the Design industry and unfortunately, designers prefer to be working in more 'creative' areas such as the city and Surry Hills.

Travel

An equally common challenge was travel in the Hills. Respondents frequently mentioned local traffic conditions, congestion at peak hour, and frustration that roadworks are compounding these problems. Others commented that even after beating the traffic, finding parking is the biggest challenge. One respondent summarised the issue saying that the time lost in travel and parking was contributing to an overall loss in productivity.

Difficulty in getting to and from work and to meet clients on our premises with the lack of available parking and horrendous travel situation in the Bella Vista Business precinct.

Costs

The third most common challenge is the costs faced by businesses in the Hills. The types of costs described were broad ranging including compliance costs, production costs, licensing fees and commercial real estate costs. One respondent commented that the increasing cost of living in the Hills is affecting the productivity of their business.

Expenses are too high: increase in food costs, staff wages and on-costs, etc. Customers don't see these increases and our prices cannot increase accordingly.

Wanting to expand but current commercial real estate prevents us from doing that. High pricing per square metre in the hills!

Development and growth

Another challenge shared by business owners and managers is achieving continued development and growth. Respondents struggle to maintain and manage business growth in rapidly changing markets.

Developing the right skills to stay in the market we are currently in.

Expansion and growth (obtaining human resources/skills). Plus, new sales.

Attracting business

Other owners and managers feel they are struggling to attract and retain new business/clients.

Ability to attract the right level of business to the area.

Onboarding new clients.

Exposure to new clients.

Advertising and marketing

Some respondents indicated that their biggest challenge is advertising and marketing. This includes being able to allocate a sufficient marketing budget or being able to generate awareness of the goods and services they provide.

Educating the public about a new concept.

Informing potential clients/consumers what my service is and how they can benefit from it.

Trying to generate more awareness of my business and services.

Government and regulation

Several respondents mentioned that their biggest challenges related to government policies and regulations. Some respondents particularly expressed an uncertainty of future changes in regulation. These respondents fear change and the impact it might have on their industries.

Ongoing changes to government policy and cost to serve our customers.

Over-regulated industry.

Information technology

For some business owners and managers, becoming a digitally integrated business is the biggest challenge. Made worse for them by poor internet connection and lack of mobile coverage.

Becoming a digital business.

Telecommunications - lack of mobile coverage and slow internet.

Other

Other less frequently mentioned challenges included the economy, business culture and management, increasing competition, supply and even the weather.

Strengths

In 2017, two new questions were added to the final section of the Hills PSI survey. These new questions focused on the current and future strengths of the Hills business environment.

The responses to these questions (summarised below) reveal that business owners and managers in the Hills think the greatest strength of the Hills is its future. This is largely due to infrastructure developments such as the Norwest train line.

Current strengths

Future potential is the Hills greatest strength

The first of the two questions asked was 'What are the current strengths of business in the Hills?'

Respondents selected their top three strengths of doing business in the Hills. The future potential of the Hills was revealed to be the greatest strength of the Hills. Nearly half (47%) of business owners and managers indicated that the future potential of the Hills was one of the most significant strengths of doing business in the area.

The location of the Hills is the second greatest strength of doing business in the Hills. More than two in five respondents (43%) indicated that the location of the Hills is one of its most significant strengths.

The 3% of business owners or managers who selected 'other' defined the strengths of doing business in the Hills as its support for sustainable living, mobility or disposable income levels.

Future strengths

The future strength of the Hills lies in infrastructure

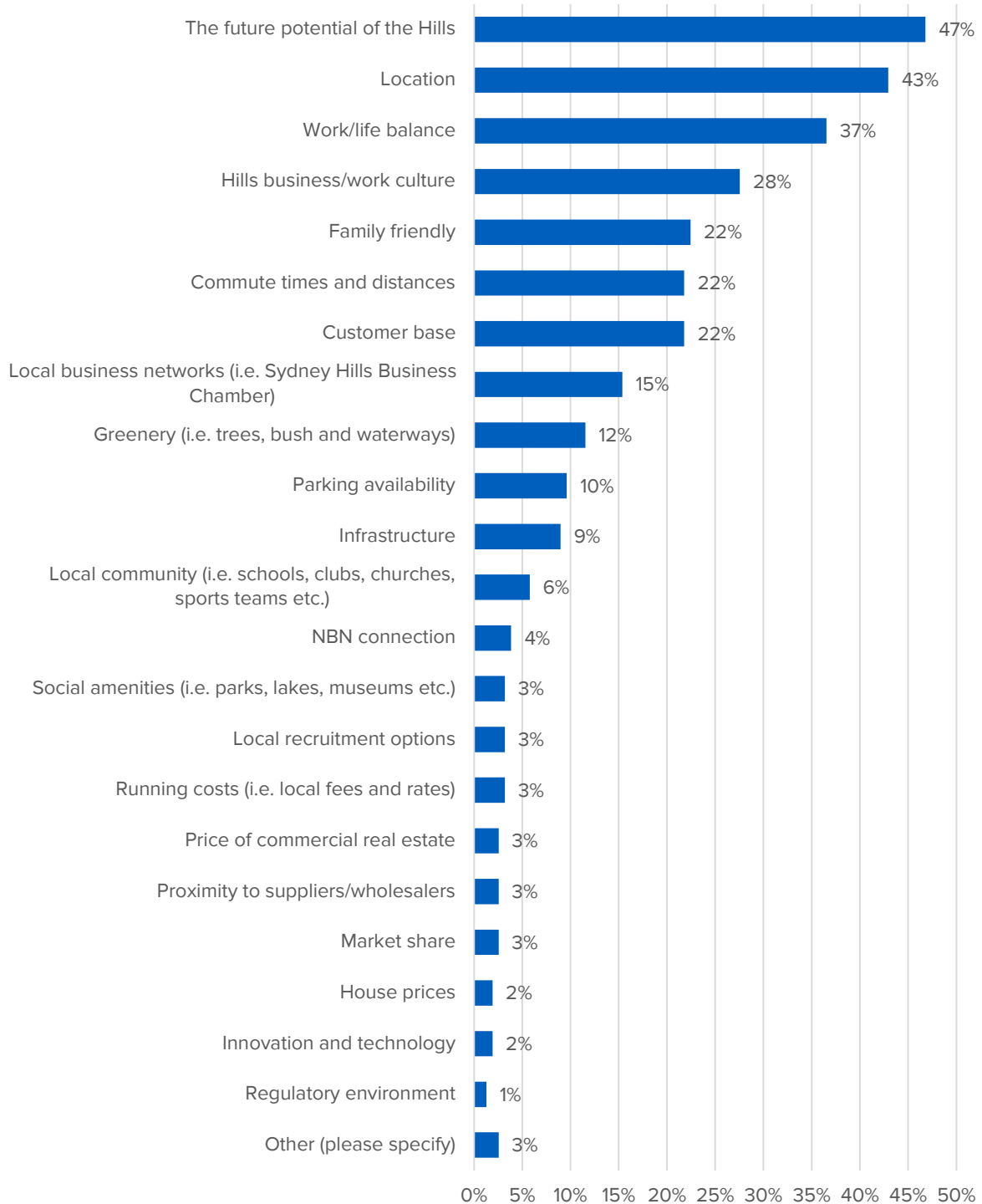
Business owners and manager identified what they perceived to be the three most significant future strengths of business in the Hills. The most frequent response was the Norwest train line (45%). The PSI results in this report highlight that infrastructure development is one of the biggest causes of frustration for business owners and managers in the Hills today, however this future optimism is key to their future in the Hills business region.

Business owners and managers also indicated that they expect the location of the Hills (40%), work/life balance (28%) and the business/work culture (27%) to all be significant strengths in the future.

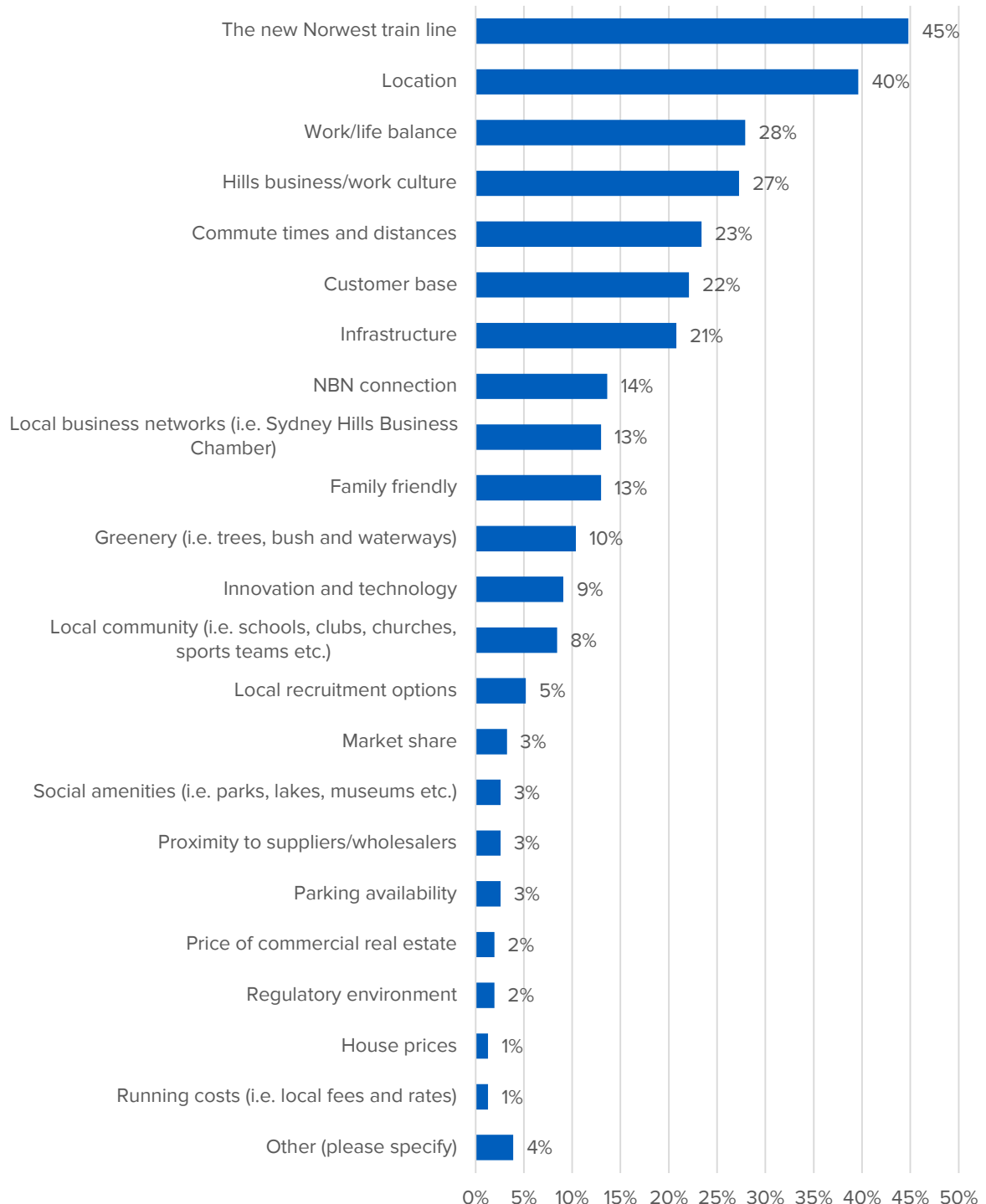
The results show that business owners and managers are least likely to think that the future regulatory environment (2%), house prices (1%) or running costs will be strengths for business in the Hills.

Those who responded by choosing 'other' gave responses such as arts and community, sustainable living or disposable income.

Q. What are the current strengths for business in the Hills? Please select the three most significant strengths of doing business in the Hills.



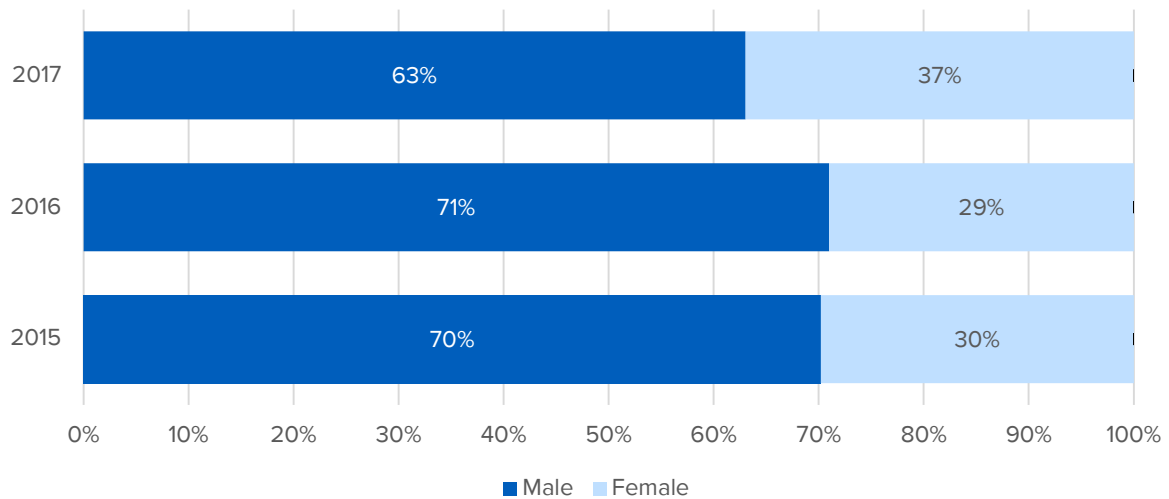
Q. What do you see as the future strengths for business in the Hills? Please select the three most significant future strengths of doing business in the Hills.



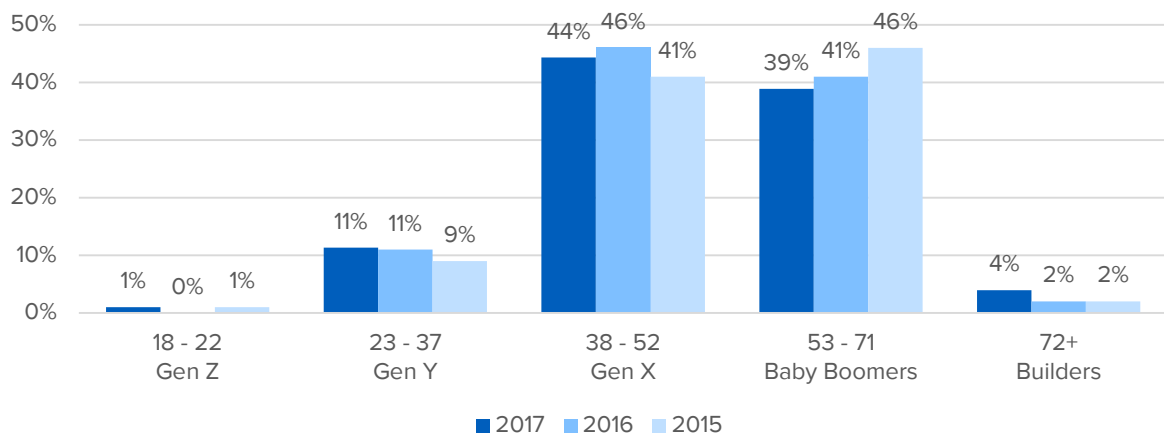
Appendix

Respondent characteristics

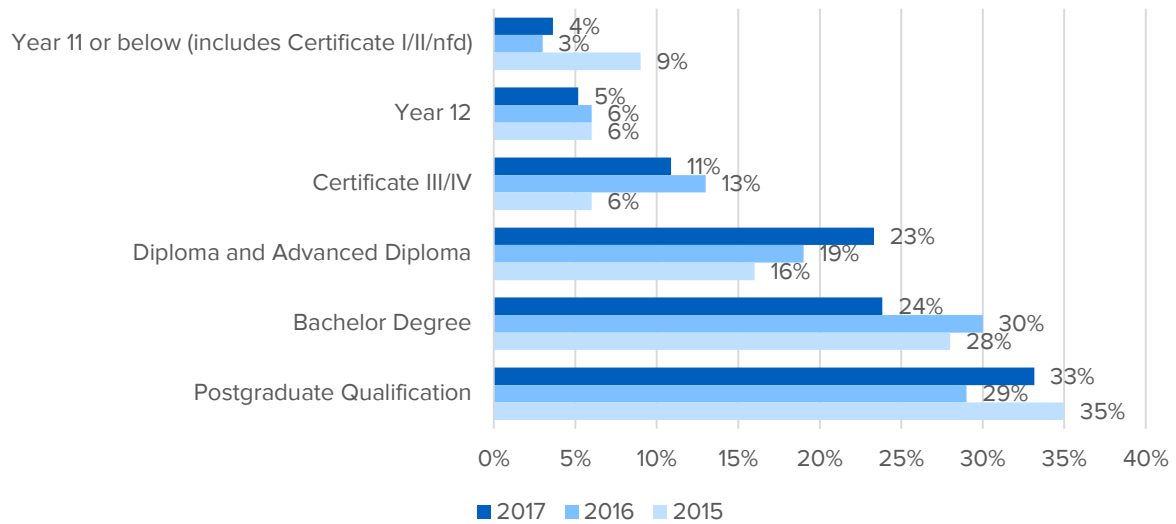
Q. Are you male or female?



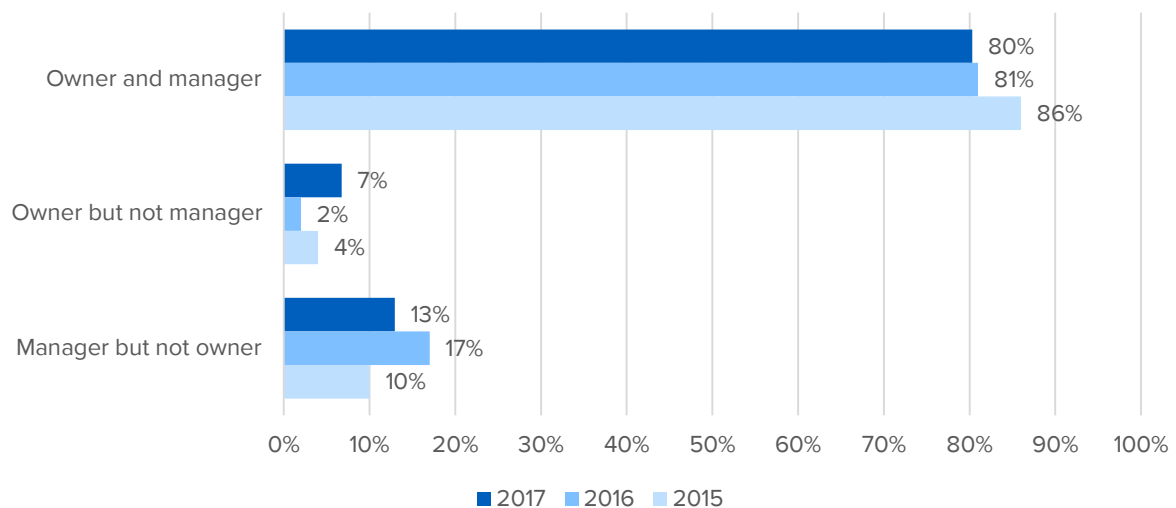
Q. What was your age at your last birthday?



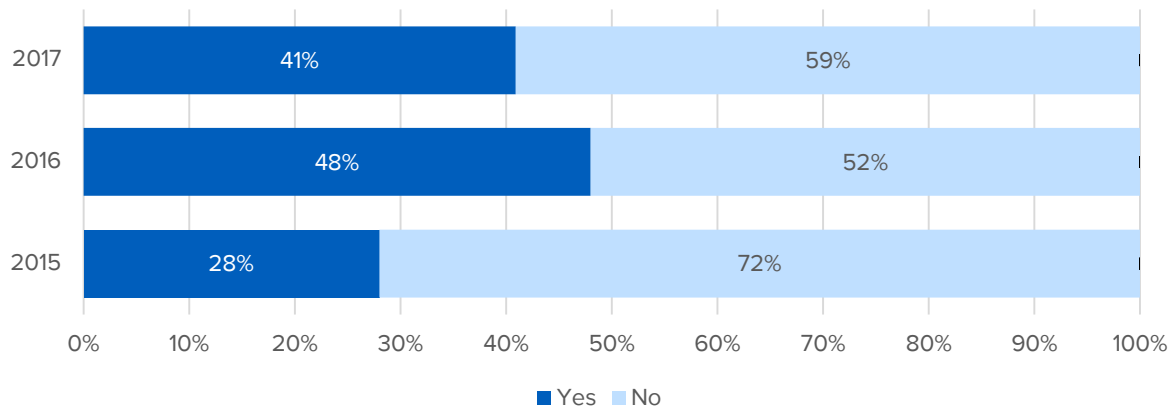
Q. What is your highest level of completed education?



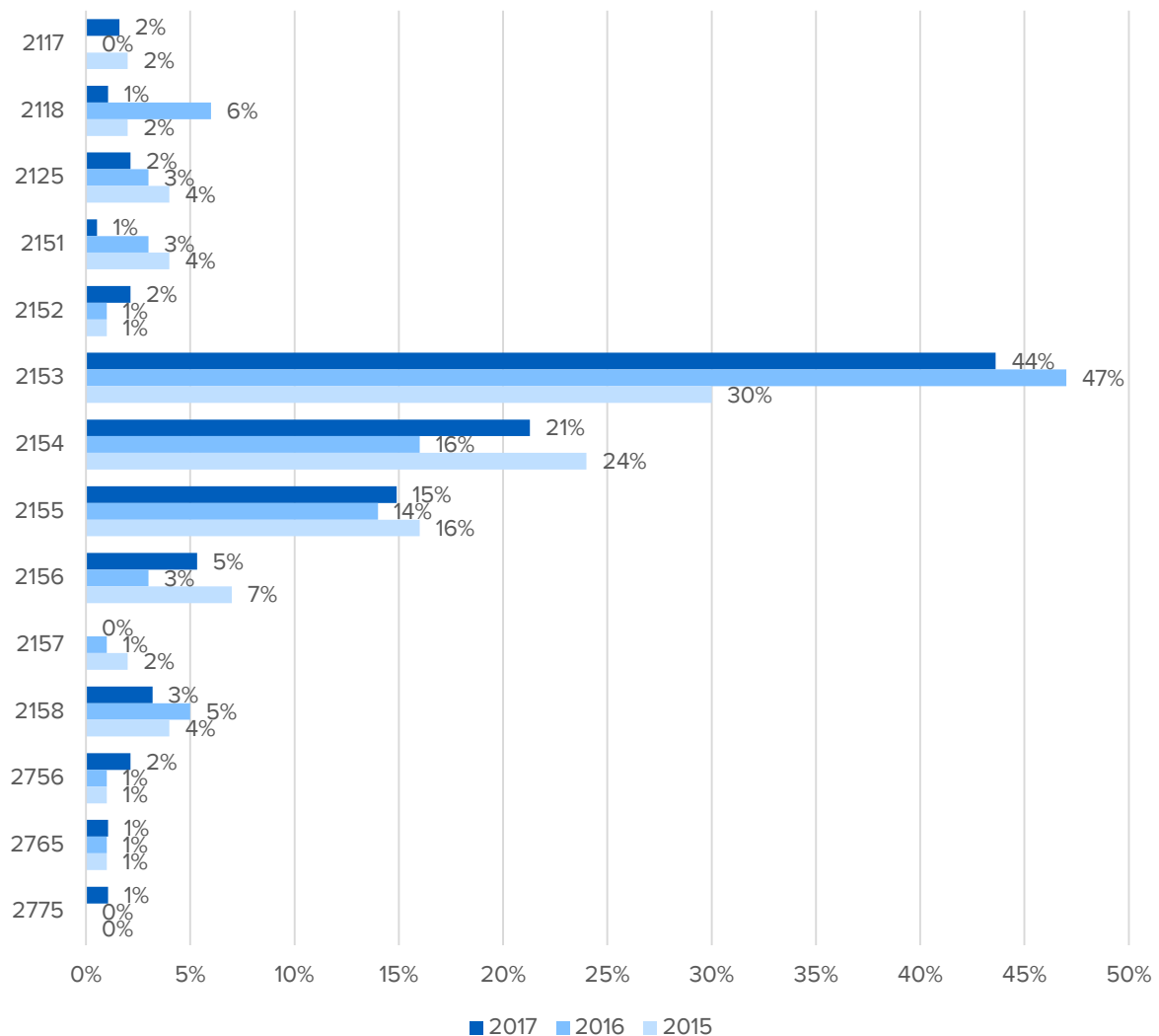
Q. What is your role within your business?



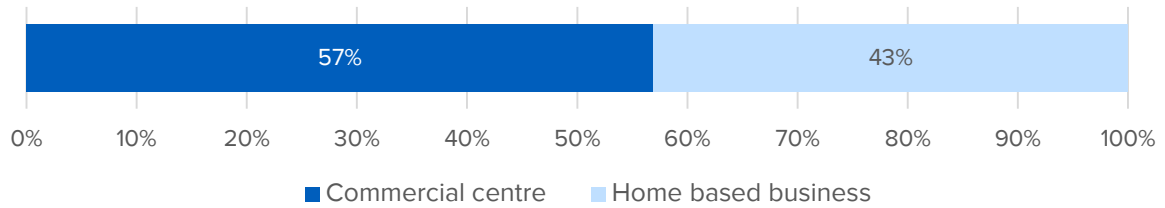
Q. Are you a member of the Sydney Hills Business Chamber?



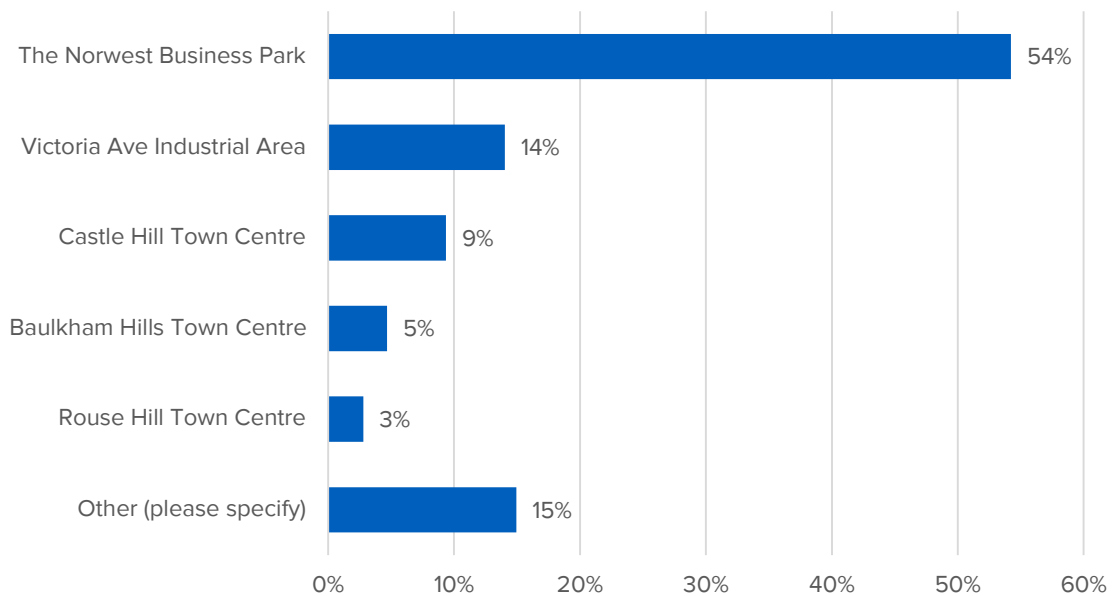
Q. What is the postcode where your business is located?



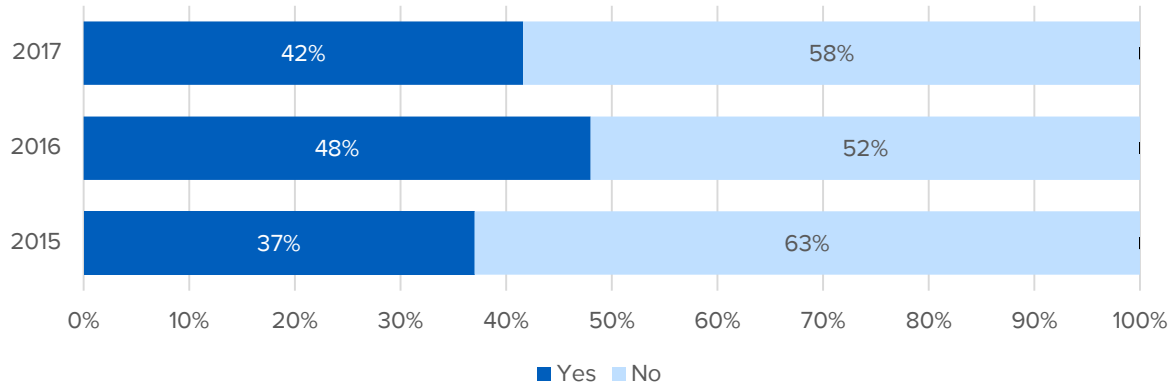
Q. Are you operating out of a commercial centre or a home based business? Please select the one that best describes the location of your business.



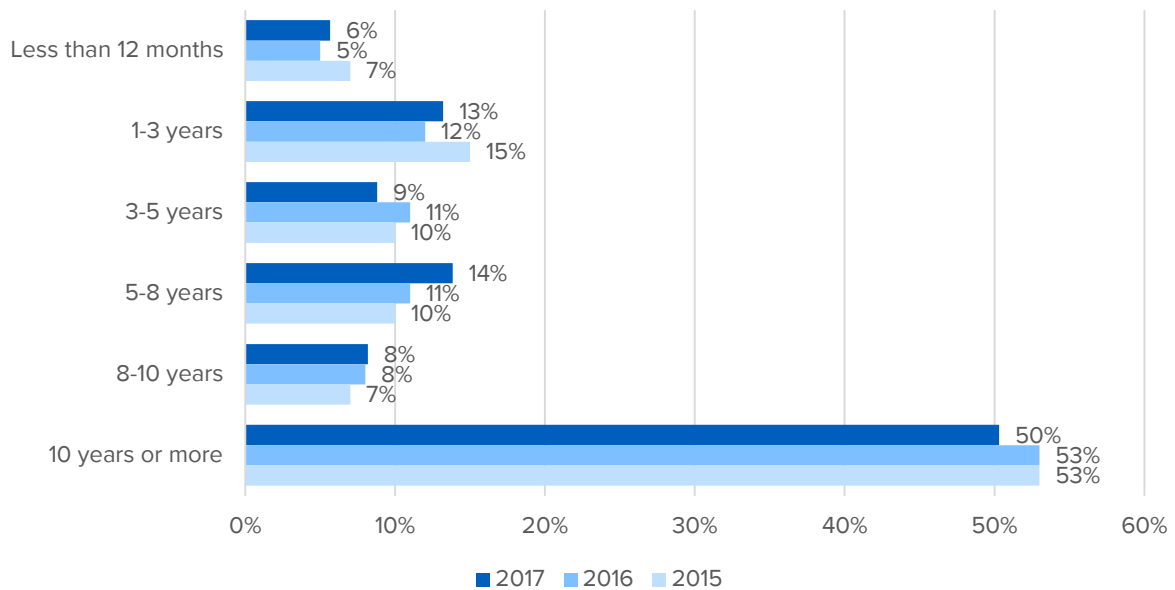
Q. In which commercial centre does your business operate?



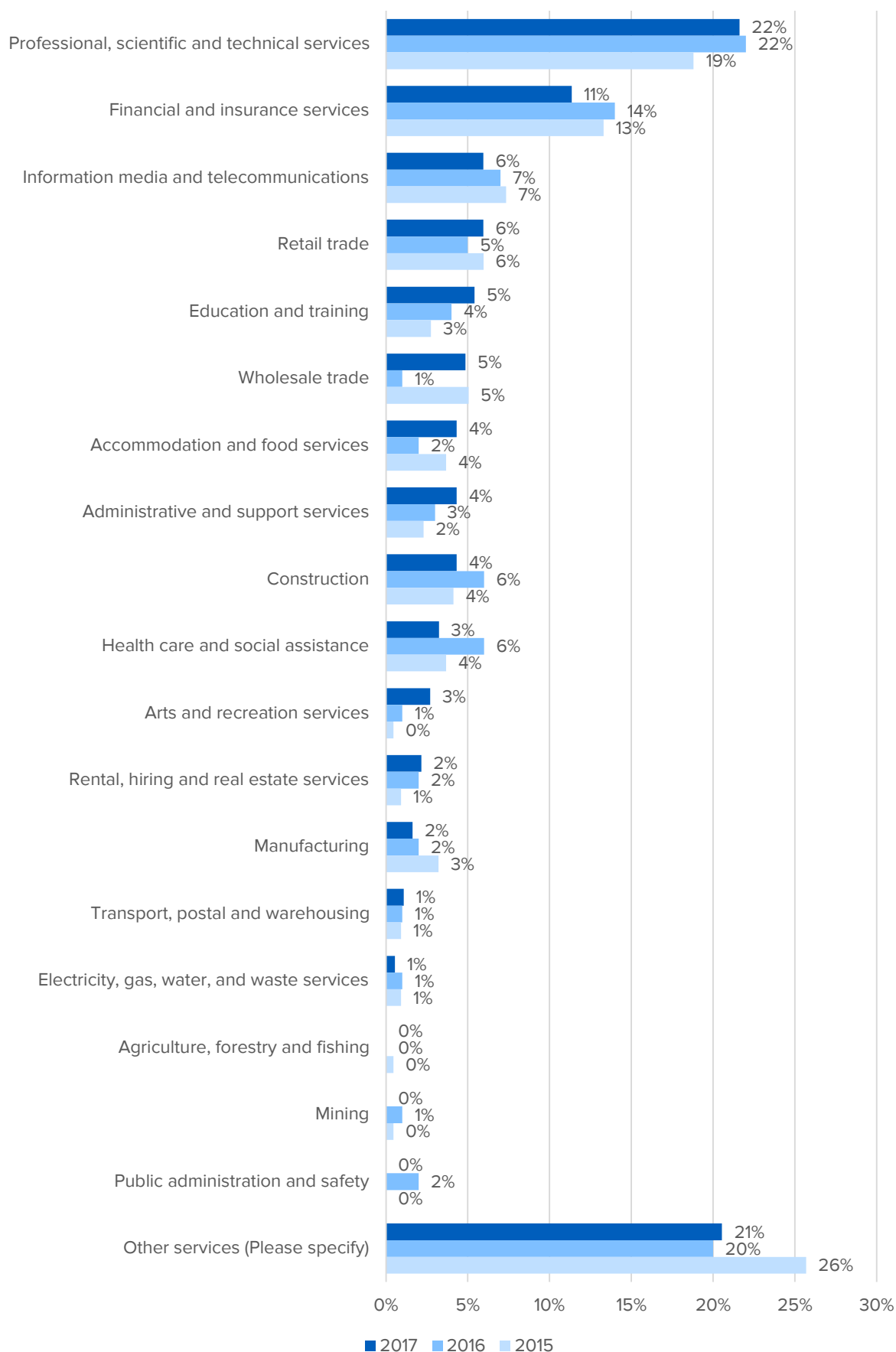
Q. Have you ever owned a business prior to the business that you now own or manage?



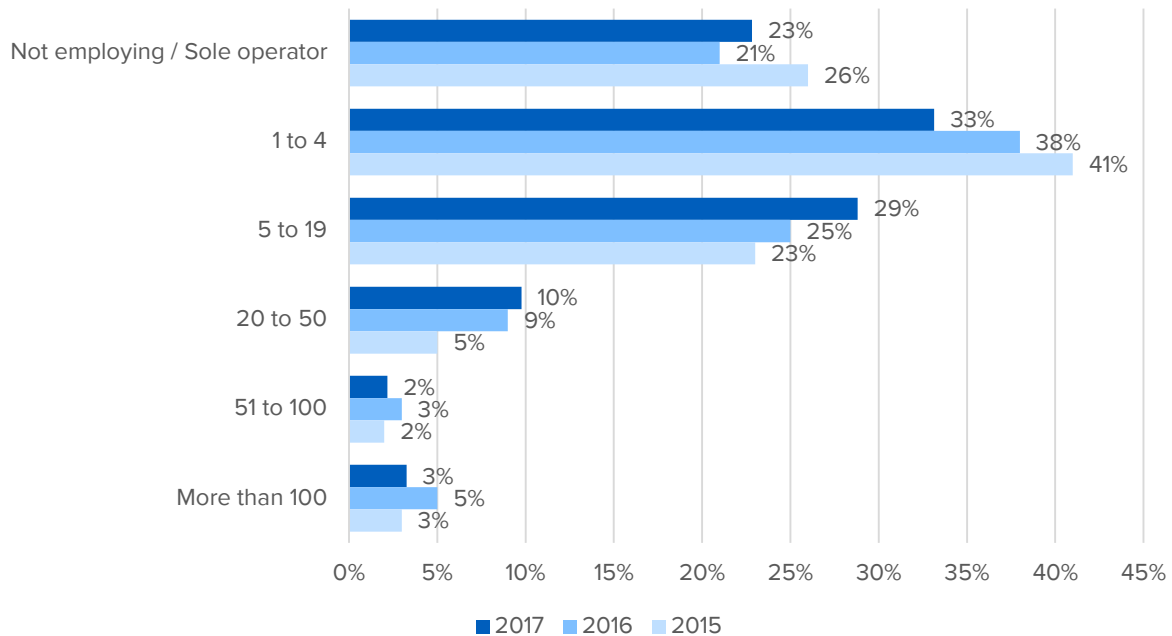
Q. For how long have you been a business owner?



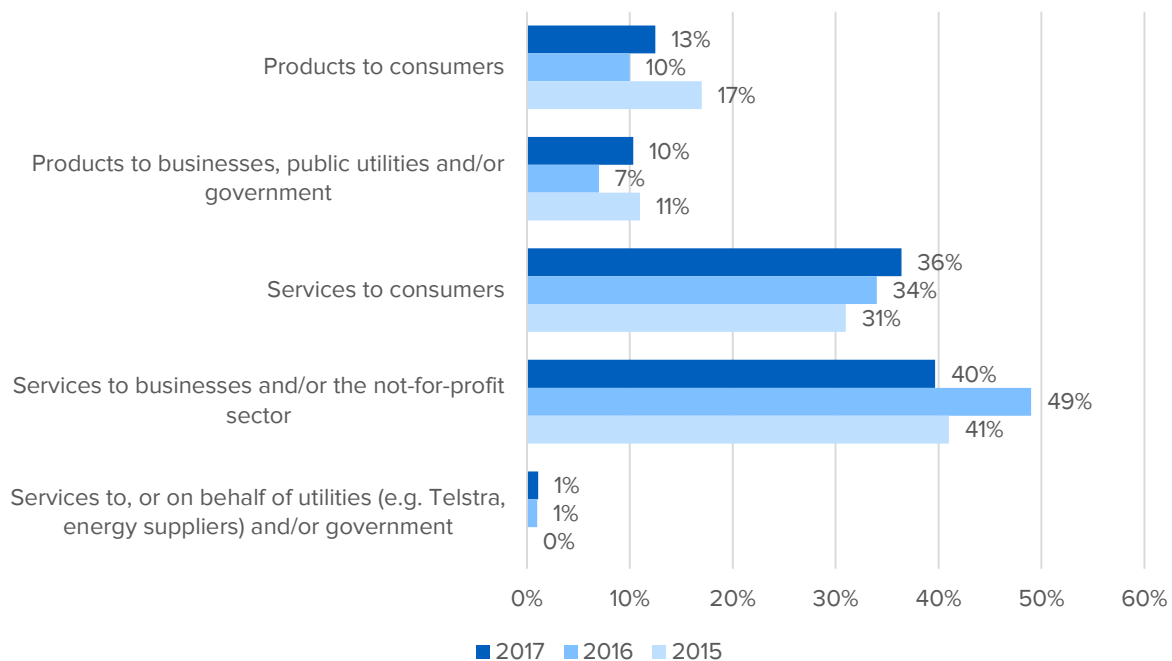
Q. What industry sector do you operate in?



Q. How many people does your business employ?
Please convert the work of any contractors into Full-Time Equivalent employees.



Q. What does your business supply?



Conducting your own PSI

The Business PSI can be conducted by any organisation, local government, or business chamber through partnership with McCrindle. The instrument is designed to be deployed every 6 months through a survey to business owners and managers for longitudinal tracking.

As the developers and deployment partners of the Business PSI, McCrindle can not only efficiently deploy, analyse, and visualise this survey for organisations, but act as a clearinghouse of the longitudinal data and so can provide benchmarking of industry or local results against other areas or sectors, as well as provide longitudinal comparison.

Partnership with McCrindle in deploying the Business PSI includes use of the Business PSI instrument, the raw data and output, a report of results, and assistance with commercial insights from the results.

Contact

For information on conducting your own PSI, contact McCrindle at info@mccrindle.com.au or call 02 8824 3422.

For information and implications specific to the 2017 Hills Shire Business PSI, contact Sydney Hills Business Chamber at membership@sydneyhillsbusiness.com.au or call 9659 3366.

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