Thought Leadership Luncheon

PRESENTED BY THE FACULTY OF BUSINESS AND ECONOMICS

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Address

PHIL RUTHVEN AM
FOUNDER AND DIRECTOR
IBISWORLD
Global Challenges For Australia

Asia, Our Economy, Our Society and more

Phil Ruthven AM
Founder

IBISWorld
WHERE KNOWLEDGE IS POWER
Our Complex Environment

- Our businesses operate in a complex and ever-changing set of environments as shown in the following exhibit.
- Each firm’s industry is the first of these, being one of the 509 classes of industry in the Australian economy.
- Our business and our fellow participants in the industry then operate within 6 environments where money changes hands on the way to being profitable or losing money.
- They are the market which provides all our revenue, and the other 5 which account for all our costs, being labour, goods & materials, services, finance (debt, equity and fees) and government (taxes and fees).
- There are then 4 other environments which do not involve money transfers, but we know they influence our revenues and costs in the form of the economy, society, the nation’s resource base (of developed as well as natural resources) and the world at large of our nation and the other 230 nations.
- I now use snapshots of many of these environments to provide perspective and trends for the future.
The Environment for our Business

4 Influential Environments

6 Operating Environments
(Cash flow, P&L)
The World Scene
In 2016, the world will produce a GDP, in ppp terms, of close to $120 trillion.

It is a world where regionalisation is proceeding in the same aggregating way as the formation of nations occurred in the previous industrial age up to the mid-1960s, and this is more evident in fact than “globalisation”.

After all, freer trade, defence pacts and immigration flows are occurring at the regional and inter-regional level rather than at a global level where capital flows are the more obvious.

There are 8 of these geographic regions, of which ours is the largest, being the Asia Pacific region.

The 21st Century is nowadays called the Asian Century, Asia being the combination of two of these regions: the Asia Pacific and the Indian sub Continent.
The World’s Economic Regions in 2016
Share of World GDP (PPP basis)

2016 World GDP, $118 trillion

- North America: 19.1%
- C&S America: 6.1%
- Africa: 5.1%
- W&C Europe: 17.7%
- Indian S-C: 8.6%
- ME: 7.2%
- Eastern Europe: 3.9%
- Asia Pacific: 32.3%
Asia’s Economy
Asia Pacific + Indian S-C GDP (ppp) 2016

The biggest and fastest growing region in the 21st Century

$US 47 trillion

China 44.7%
India 18.6%
Japan 10.5%
Korea 4.1%
Indonesia 6.4%
Thailand 2.5%
Australia 2.5%
Vietnam 1.8%
Philippines 1.7%
Singapore 1.0%
Others 1.5%

Three quarters of Australia’s tourism, immigration and trade is in Asia.
So, we are integrating our economy into the Asia mega-region
Asia, the place to be

- Australia has integrated its economy and society into Asia at large and China in particular.

- Asia is a mega-region consisting of the Asia Pacific and Indian sub-continent. It is the most powerful region (41% of world GDP) and the fastest growing (close to 6% pa, over double the global average).

- Over 75% of our export of goods & services now go to Asia, less than 7% of our GDP is exposed to troubled nations, and two-thirds of our inbound tourists and immigrants come from Asia.

- The FTA with China (and hopefully the Transpacific Treaty) will increase this integration and boost growth
Our Changing Society
Our Community

- Our community of over 24 million, growing faster than the world’s population growth so far this Century, is undergoing enormous change that affects the way we do business in terms of the community as consumers (the marketplace), as workers (the labour scene) and as change agents via government that creates new rules, taxes and fees that impact on business.

- I have selected just one of the many changes listed in the following exhibit to highlight the sea change in what we spend our household incomes on these days and as importantly how this has created a huge part of the workforce (over a quarter of the 12 million workers) since the new age, the Infotronics Age, in 1965.

- The term “infotronics” is a construct that combines information and electronics, being the elements of the pervasive utility of this new age in the form of ICT, and more recently the second stage of this utility being the digital era (of fast broadband, AI software and analytics) and its consequential digital disruption.
Our Changing Society

- Living longer
- More generations co-existing
- Living with more leisure
- Smaller/different households
- Moving to coast and equator
- Changing ethnic mix (Eurasian)
- New tribalism (less local)
- A stabilising divorce rate
- Rising incomes & wealth
- **Outsourcing tasks and chores**
- Apartment living rising
- Home leasing on the rise
- More spending on services

- Rise of virtual shopping
- Living with ICT
- The Internet/Information age
- Increasing knowledge
- Increasing financial literacy
- New entertainment & sports
- Electronic “guardian angels”
- Working differently
- New industries/occupations
- Changing spirituality
- Outlawing discrimination
- Changing politics (ideologies)
- Ecological sensitivity
Household Outsourcing In The New Age

F2016

3.3 million employed
28% of workforce

Note: 1 Spending on services, new since 1965. Includes new government-provided services with our taxes

Note: 2 Baby sitting, Foxtel, Netflix, M/V hire, and many others

Source: IBISWorld 18/10/16
Australia’s Economy
Our Economy

- Our economy is growing slower, at 2.8%, than our long term average of 3.5%, due mainly to poor federal leadership and virtually no significant reforms for nearly a decade.
- Our economy runs in 8½ year long cycles in our new age over the past 50 years, and recessions seem only prone at the end of a cycle.
- The end of the current cycle is in F2018
- We can avoid a recession at the end of any long cycle by making sure capital expenditure does not fall below minus 8% in any single year. Consumption expenditure has never gone negative in three quarters of a century and exports rarely go negative either
- Government infrastructure spending is now growing and may offset the decline in mining investment and a looming slowdown if not temporary decline in housing investment
- However, some say that having missed the last two possible recessions means we have had no wake-up calls for 25 years, and it may help to have one if it leads to overdue reforms.
Australia’s Economic Growth

Annual real GDP growth (%) progressed in quarters to June 2016
(and forecast to June 2021)

Source: IBISWorld: 08/09/16

3.5% pa (52 years)
3.2% pa (since 1987)
The Australian Marketplace
Year to June 2016

Gross National Turnover of Goods & Services
$1.99 trillion (current prices)

1 Mainly on behalf of household
2 Incl. inventory change

Source: ABS/IBISWorld 08/09/16
Our Industries
Our Industries

- Our new age of the past half century - on its way to yet another new age in the second half of this Century - has seen the rapid growth of new service industries in particular.

- Service industries now account for 70% of our GDP. Manufacturing has shrunk from 29% of GDP to under 6% and Agriculture is <3% of GDP. Only Mining is holding up the primary resource sector, and Construction is holding up the importance of the secondary sector.

- However the mining industry boom, continuing well into the 2020s in volume if not price terms, is contributing a significant part of our growing GDP.

- So our goods-based industries contributed a little more than 30% of GDP growth over the past 5 years.

- But our service industries, especially the quaternary and quinary sectors are providing the vast bulk of our growth.
Australia’s Industry Mix
Shares of GDP, in F2014 price terms  Year to June 2016

GDP $1669 billion

Note 1: Less subsidies, but includes stat. discrepancy (0.2%)
Australia’s New & Lost GDP
By Industry  5 years to June 2016  Share of total basis

New GDP $211 billion
(Constant F2014 prices)

Lost GDP $9 billion

Net GDP Growth
$202 billion
(2.8% pa)

Sources: ABS, IBISWorld, 08/09/16
Our Changing Labour Market
Our Labour Scene

- Outsourcing by households has kick-started each new age from the Agrarian Age, the Industrial Age and our current Infotronics Age (as seen in the earlier exhibit on outsources jobs now accounting for over a quarter of the nation’s work force).

- This outsourcing has occurred from overseas nations to us as well, leading these days to our new exports of different minerals (mainly energy) than in the past and new services (mainly tourism and education).

- Business outsourcing has also created new jobs as corporations concentrate on core functions and outsource the non-core ones.

- The myth that we are not creating jobs to replace the old ones is just that: a myth. We have created nearly 10 times more jobs than we lost over the past 5 years, and will continue to win this race.

- Equally important is the profound changes in the workforce as we head to a much-freer labour scene by the middle of the Century, when the term “employee” will fade into history as workers become more masters of their own destiny.
Australia’s New & Lost Jobs
By Industry 5 years to September 2016 Share of total basis

The nation created nearly 10 times more new jobs than it lost

New jobs 889,900
Net new jobs 784,800
Lost jobs 91,400

Manufacturing 48.4%
Utilities 16.3%
Info Media & Telcos 5.9%
Mining 13.5%
W'Saling 15.9%

Sources: ABS. IBISWorld, 29/06/16

Mining jobs rose from 207,000 in June 2011 to 275,000 in December 2013, and then fell to 211,000 in September 2016
Big Changes on the way

- No “bondage” by businesses, bosses or unions
- New industries & occupations
- **More part-time & casual** (now 32%), **on-demand work** (a la Airtasker)
- The gradual demise of the concept of an “employee”
- Workers becoming a business rather than being employees
- Rise of contractual relationships
- Emergence of advisers and mentors for worker contracts
- Knowledge worker concept
- Payment for outputs, not inputs (hours of work)
- No discrimination on any basis (gender, race, age etc)
- Partial or total working from home, where practicable
- More working seasons in a life
- Working in a borderless world
- Lifetime education & training
- Rising wages & salaries
- And, we will neither run out of jobs or workers this Century
Our Changing Politics
The Government Environment

- Government and the inseparable politics that accompany it are changing profoundly in the new age and his 21st Century.
- Our taxes remain nearly the lowest in the developed world as a percentage of GDP, but the mix has moved more to the expenditure side (via GST and other expenditure taxes) than the wealth creating side (labour earnings and business profits).
- Most government spending is now on welfare, health and education than ever in our history.
- But in the political arena we are seeing - or some are - the irrelevance of the old left-right/socialism-capitalism divide, and the replacement of that dialectic with a new one.
- The new political fight is between rationalism and emotionalism, the fight between the head (logic) and the gut (emotions). Rationalism will eventually triumph, just as capitalism did in the previous age. It already has proved it grows the economy better.
- But capitalism was softened by socialism, and rationalism will be softened by the retention of enough emotion as it should: after all we are humans, not robots.
Changing Political Dialectics

Rationalism
(the “head”, logic, facts, proof, what works)

Socialism
(the “left”, the “workers”, nationalisation, share the output equally)

Capitalism
(the “right”, capital, expand the economy, reward enterprise)

Emotionalism
(gut-feel, the “heart”, “ideologies”, “everybody knows”)

Industrial Age to 1964
Hawke/Keating Government
Gillard & Rudd Governments

New Age to 2040s
Howard/Costello Governments
Abbott & Turnbull Governments

Governments

Howard/Costello Governments
Abbott & Turnbull Governments
Gillard & Rudd Governments
Hawke/Keating Government

The Greens, Family First

1967 - 1983
Gorton LNP
Gorton LNP

It’s the workers stupid!

It’s the owners stupid!

Rational
Emotional
Rational
Emotional

Gorton LNP
McMahon LNP
Whitlam ALP
Fraser LNP

Howard/Costello
Governments

Abbott & Turnbull
Governments

Gillard & Rudd
Governments

Hawke/Keating
Government

Socialism

It’s the workers stupid!

Capitalism

It’s the owners stupid!

Emotionalism

Gorton LNP
McMahon LNP
Whitlam ALP
Fraser LNP

Rational
Emotional
Rational
Emotional
<table>
<thead>
<tr>
<th>Government</th>
<th>Party</th>
<th>Term (years)</th>
<th>Type</th>
<th>GDP Growth (average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gorton</td>
<td>Coalition</td>
<td>3.3</td>
<td>Rational</td>
<td>4.8%</td>
</tr>
<tr>
<td>McMahon</td>
<td>Coalition</td>
<td>2.0</td>
<td>Emotional</td>
<td>2.8%</td>
</tr>
<tr>
<td>Whitlam</td>
<td>Labor</td>
<td>3.0</td>
<td>Emotional</td>
<td>3.3%</td>
</tr>
<tr>
<td>Fraser</td>
<td>Coalition</td>
<td>7.0</td>
<td>Emotional</td>
<td>2.4%</td>
</tr>
<tr>
<td>Hawke</td>
<td>Labor</td>
<td>8.8</td>
<td>Rational</td>
<td>3.1%</td>
</tr>
<tr>
<td>Keating</td>
<td>Labor</td>
<td>4.3</td>
<td>Rational</td>
<td>3.6%</td>
</tr>
<tr>
<td>Howard</td>
<td>Coalition</td>
<td>11.0</td>
<td>Rational</td>
<td>3.7%</td>
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<tr>
<td>Rudd</td>
<td>Labor</td>
<td>2.8</td>
<td>Emotional</td>
<td>2.1%</td>
</tr>
<tr>
<td>Gillard</td>
<td>Labor</td>
<td>3.0</td>
<td>Emotional</td>
<td>2.8%</td>
</tr>
<tr>
<td>Abbott</td>
<td>Coalition</td>
<td>2.0</td>
<td>Emotional</td>
<td>2.5%</td>
</tr>
<tr>
<td>Turnbull</td>
<td>Coalition</td>
<td>1.0</td>
<td>Emotional</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

Over the past 50 years  
Rationalists 3.7% pa  
Emotionalists 2.6% pa
Business: Success & Failure
business success

- Australia has some 2.1 million businesses in 2016.
- We add around 280,000 new ones each year, and have been losing much the same number over the past 5 years.
- Just over 60% of businesses employ people other than the owners.
- The Top 2000 businesses account for over half the nation’s $4.7 trillion revenue.
- Profitability is not improving over recent decades, suggesting we need to better understand how to be successful. IBISWorld’s 12 keys to success is a good start, the result of analysing businesses that have succeeded and failed over the past 45 years.

Over that past 5 years:
- One in 6 of our biggest 1400+ firms have matched or beaten WBP.
- One in 5 have run at a loss over the 5 years.
- More than 2 in 5 didn’t even match the 10-year bond rate.

We must do better as this new Century unfolds with the enormous opportunities, but also competition, in our exciting new homeland of the Asia Pacific if not Asia at large.
Profitability of Australia’s Largest Enterprises

Number, by profitability range (ROSF after tax (%), 5-Year Average to F2015

<table>
<thead>
<tr>
<th>Profitability Range</th>
<th>Number of Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 100%</td>
<td>7</td>
</tr>
<tr>
<td>50 to 100%</td>
<td>41</td>
</tr>
<tr>
<td>25 to 50%</td>
<td>139</td>
</tr>
<tr>
<td>17.5 to 25%</td>
<td>129</td>
</tr>
<tr>
<td>10 to 17.5%</td>
<td>265</td>
</tr>
<tr>
<td>3.5 to 10%</td>
<td>367</td>
</tr>
<tr>
<td>0-3.5 (bond rate)</td>
<td>210</td>
</tr>
<tr>
<td>0 to minus 25%</td>
<td>240</td>
</tr>
<tr>
<td>Minus 25-50%</td>
<td>47</td>
</tr>
<tr>
<td>Minus 50-100%</td>
<td>15</td>
</tr>
<tr>
<td>Worse than -100%</td>
<td>16</td>
</tr>
</tbody>
</table>

Average ROSF for 1467 enterprises (c. 42% of national revenue) was 4.5% over the 5-years to 2015. For the 1158 profitable companies, the average ROSF was 15.0%

318 enterprises (22% of the 1476 enterprises) operated at an average loss over the 5-years to 2015.
What the Best Enterprises Are Doing

1. They **stick to one business at a time** and do not diversify.
2. They **aim to dominate**\(^1\) a segment (s) of their industry or market.
3. They **are forever innovative**, valuing the business’ IP.
4. They **outsource non-core activities** to enable growth.
5. They **don’t own “hard” assets**.
6. They **have good and professional financial management**.
7. They **plan from the outside-in** not the inside-out.
8. They **anticipate any new industry lifecycle changes**.
9. They **follow world best practice** for their own type of business.
10. They **develop strategic alliances**.
11. They **develop unique organisational cultures**.
12. They **value leadership first** and management second.

\(^1\) Within official legislation, limits or guidelines of “dominance”.

Source: IBISWorld
Phil Ruthven is the Founder and Director of IBIS World, an international corporation providing online business information, forecasting and strategic services. IBIS is one of the world’s largest and longest running business analytics organisation. Phil’s and IBIS have contributed in numerous columns, professional journals, commentaries and interviews. IBIS now operates not only in Australia, but also in NY, LA, Canada, China, UK and Indonesia. Phil became a Member of the Order of Australia in 2014 and is recognised as the nation’s most respected strategist and futurist on business, social and economic matters.
Thank you

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