

BUSINESS

PSI

2019 Hills Shire Business Performance Sentiment Index

Delivering the pulse of local
business in the hills shire



research and report by

mccrindle



THE HILLS
Sydney's Garden Shire

+++++ Sydney Hills
BUSINESS
CHAMBER

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The Hills Shire has experienced rapid transformation over recent years.

In less than two decades time, The Hills Shire will be home to 290,900 people (2036) which is an increase of 66%. As the region's population grows, the number of dwellings is also expected to rise, reaching 90,500 homes by 2036.

Such significant growth, coupled with demographic change, will directly impact the Hills business landscape. With 3,379 new businesses opening their doors each year, the number of employed people in the Hills is set to grow from 97,000 today, to more than 160,000 by 2036.

The Hills Shire Business PSI, now in its fifth year, reflects the growing diversity of businesses in the Hills. The annual measure of business conditions, performance and sentiment also captures the region's rapid transformation and the impact national economic forces have had on the local economy.

This year's PSI captures the excitement that surrounds the new Sydney Metro. Businesses are overwhelmingly positive, with the PSI measure for infrastructure provision experiencing its largest ever swing, over 12-months. Now more connected than ever before, business owners and managers in the Hills look forward to the economic benefits that the new train will undoubtedly bring.

Amid all the excitement, however, the PSI has recorded an overall score of -2. This marks the second year in a row that the PSI has been negative, suggesting a marginal decline in overall business performance.

For many this decline is a consequence of Australia's national economic performance and

tightening regulatory conditions. The 2019 Banking Royal Commission and subsequent changes implemented by APRA have had a measurable impact on businesses around Australia. With more than half of businesses in the Hills providing professional services (55%), the changes in lending have had local consequence.

Despite the performance of the national economy, business owners and managers in the Hills remain optimistic. The PSI, which also measures future expectations, shows that many businesses in the Hills are preparing to expand their operations, on-board more staff and invest in capital over the coming months. The research has also found that as businesses in the Hills draw together, they are more likely to experience improved performance and feel confident about the future. Amidst an increasingly diverse business landscape and transforming environment, The Hills Shire business community has shown that by working together, performance can continue to improve.

Mark McCrindle

Director, McCrindle



Despite challenging economic conditions, sentiment within The Hills Business Community remains positive.

The Hills Shire Business Performance Sentiment Index (PSI) continues to play an important role in providing a snapshot as to how businesses within the Hills Shire are currently and predicted to perform, and in what particular areas. Participants of the PSI represent the diversity of business types, location, sizes and industry sectors located within the Hills Shire.

With the launch of the Sydney Metro Northwest in early 2019, it has been an exciting year for both businesses and residents in the Hills Shire as the community continues to develop and transform. This is evident in the 2019 PSI results.

The results of the 2019 PSI show an overall PSI score for the Hills Shire of -2, which was a slight increase to the 2018 result of -3.

Overall Business Conditions (Score of -1) within the Hills Shire have increased significantly compared to the previous 2018 results (2018 Score of -19), primarily due to the impacts of the opening of Sydney Metro Northwest. Infrastructure and Locale scored 67, compared with a score of -33 in 2018.

Both the 2019 Economic Conditions (Score of -26) and Regulatory Settings (Score of -45) continue to show a decline and be the key impediments to business.

Business Performance has dropped (Score of -17), primarily due Business Expenses (Score of -34) and Employment (Score of -15).

However, the overall Sentiment within The Hills Business Community continues to remain positive, with an overall Score of 11, with a strong Economic Outlook (Score of 31) and Growth Forecast (Score of 25).

Thank you to all involved in the PSI, namely the strong and ongoing partnership between The Hills Shire Council, McCrindle Research and the Sydney Hills Business Chamber in conducting and bring the PSI together, and also to each business owner and manager in participating in this year's PSI .

Nigel Rayner

Chairman, Sydney Hills Business Chamber



Business partnerships help build a brighter future.

The 2019 Hills Shire Business Performance Sentiment Index (PSI) results are in, and I'm so pleased to see so many business owners and managers taking part in this annual survey.

The PSI, now in its fifth year, helps us to understand the challenges that business owners face and what we can do as Council and a community to help our local businesses not only succeed but to dominate on the world stage.

While we saw an increase in the number of surveys being completed, business sentiment remains relatively unchanged from the previous year. This may be due to a number of national economic factors, as well as business owners and investors watching and waiting to determine the full impact of the arrival of the Sydney Metro Northwest.

What is really pleasing to see is the growing number of business people seeking Council support to help grow and nurture both their businesses, and their own skills.

I was delighted to discover that those who engaged with Council to access information, demographic analysis data or to attend a business event or workshop are more likely to have seen tangible improvements in their business performance. This includes increases in sales and revenue, as well as a greater ability to navigate through legislation and policy requirements.

This is why we do what we do for our business community. We want to see our businesses grow and enjoy success, so they can create the jobs of the future.

Our Economic Development team is another great source for business owners to seek out. They are available for business visits and can assist you with

demographic information, market intelligence, population forecasts and networking opportunities to help your business grow.

Thank you to everyone who took time out of their busy schedules to complete the survey, that will provide valuable insights that can help us plan for a bright future in The Hills.

I would like to thank The Sydney Hills Business Chamber and McCrindle Research for being involved in putting together this document.

We value our relationship with our local business community and we are very proud of the things they achieve.

Thank you.

Dr Michelle Byrne

Mayor of The Hills Shire

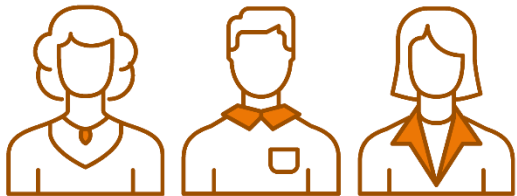


Snapshot of business in the Hills Shire

People

175,028 people

live in The Hills which is set to grow to **290,900** by 2036.

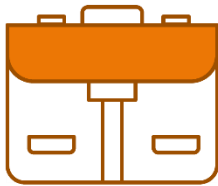


Dwellings



There are **55,250** dwellings in the hills. This is projected to reach **90,500** by 2036.

Employment



97,015 employed

residents, projected to be more than **160,000** by 2036.



Unemployment in The Hills Shire is lower than the state and national rates.

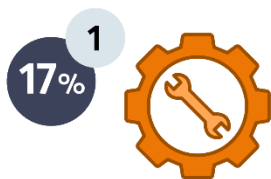
3.2%	4.2%	4.1%
The Hills Shire	NSW	Australia



\$73,048

Average Employee Income

Top 5 industries of employment



Construction



Professional, Scientific and Technical Services



Rental, Hiring and Real Estate Services



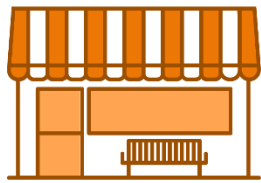
Financial and Insurance Services



Health Care and Social Assistance

The Hills Business Landscape

Business Composition



21,270

Businesses in the Hills



45%
Goods sector



55%
Service sector

\$10.94B

The Hills Shire gross regional product



Annual changes

 **3,379**
Business entries 2018

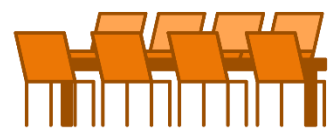
 **2,495**
Business exits 2018

Business by size

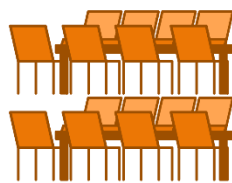
 The Hills Shire



Sole Employer
Non-employed



Micro
1-4 of employees



Small
5-19 of employees



Medium
20+ of employees

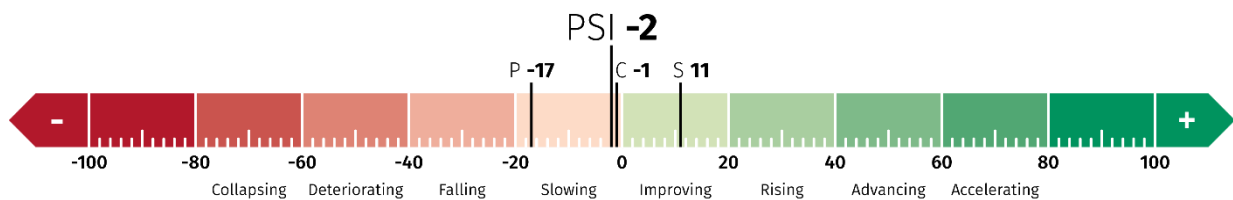
The Business Performance Sentiment Index (PSI)

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. This latest edition of the Business PSI features the 2019 results for The Hills Shire, with four years of comparative data from 2015 to 2018.

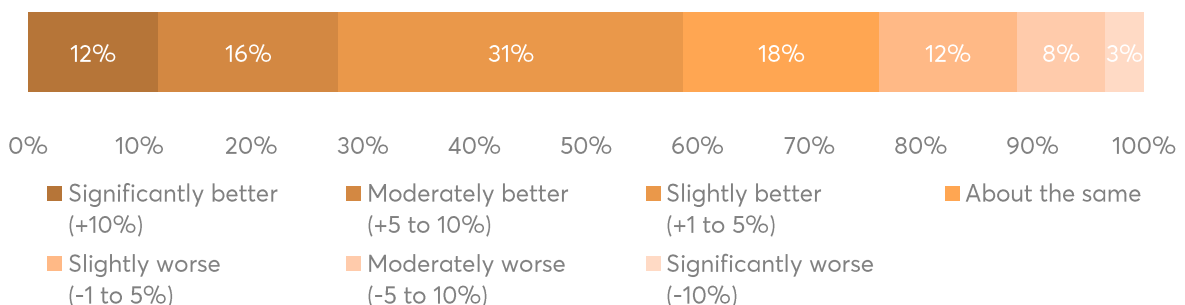
The Business PSI covers three key business measures which are performance, sentiment and conditions. The PSI uniquely charts these measures on a scale ranging from accelerating on the extreme positive to collapsing on the extreme negative. Each key measure (conditions, performance, and sentiment) is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



The PSI is calculated using 21 targeted questions. Each question involves a 7-point Likert scale. The question results indicate whether business conditions, performance, and sentiment are positive (improving, rising, advancing, accelerating) or negative (slowing, falling, deteriorating, collapsing).

The average of the three key measures (conditions, performance and sentiment) gives an overall Business PSI score. An example of an indicator question is provided below:

Based on current sales leads, enquiries, and sales activity, how do you think your overall revenue will compare in 6 months' time to today?



Purpose and use

The Business PSI is a robust measure of current performance, derived from actual earnings, expenses, staffing numbers etc. (performance and direction) as well as expectations of the future (sentiment and outlook).

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

Importantly, the Business PSI is also 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 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 calculate PSI scores for specific industries (i.e. hairdressers, real estate agents etc.) or broader business categories (i.e. retailers, B2B service providers etc.).

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.

Indicator overview

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

Conditions

Measures	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 and 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

Measures	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 and 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

Measures	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.

2019 Hills Shire Business PSI

Participants

The 2019 Hills Shire Business PSI is based on the experiences, attitudes and expectations of business owners and managers in The Hills Shire. The results include 373 started surveys and 274 completed surveys. Responses were collected from 29 May to 15 July 2019 and are representative of various business sizes, locations and industries.

Business owners and managers

More than four in five (83%) respondents to The Hills Shire Business PSI are business owners and managers. This compares to just one in seven (14%) that are managers but not owners and 3% that are owners but not managers.

Businesses owners and managers in The Hills Shire have a high level of experience. Two in five (40%) owners and managers have had previous experience owning a business and half (50%) have owned their current business for 10 years or more.

Business locations

Just over half of the businesses represented in The Hills Shire Business PSI operate from commercial premises (53%). The other 47% are home-based businesses. Those operating from within commercial premises are most likely to be located in the Norwest Business Park (47%), followed by Victoria Avenue (16%) and Castle Hill Town Centre (6%).

Business services

Nearly four in five businesses in the PSI (77%) provide services either directly to consumers or to other businesses. The remaining 23% sell products, either to consumers or businesses.

Business size

The largest proportion of businesses are micro-sized businesses (37%) which employ between one and four people. This is closely followed by small businesses (between five and 19 people) that represent just over a third of businesses (34%). A further 28% of businesses are non-employing sole traders, while the remaining 11% are medium to large businesses with 20 or more employees.

Respondent demographics

More than three in five businesses owners and managers are male (63%) compared to 37% that are female. The majority (79%) belong to either Generation X (40-54) or the Baby Boomer generation (55-73) and over half (57%) have a bachelor's degree or higher qualification.

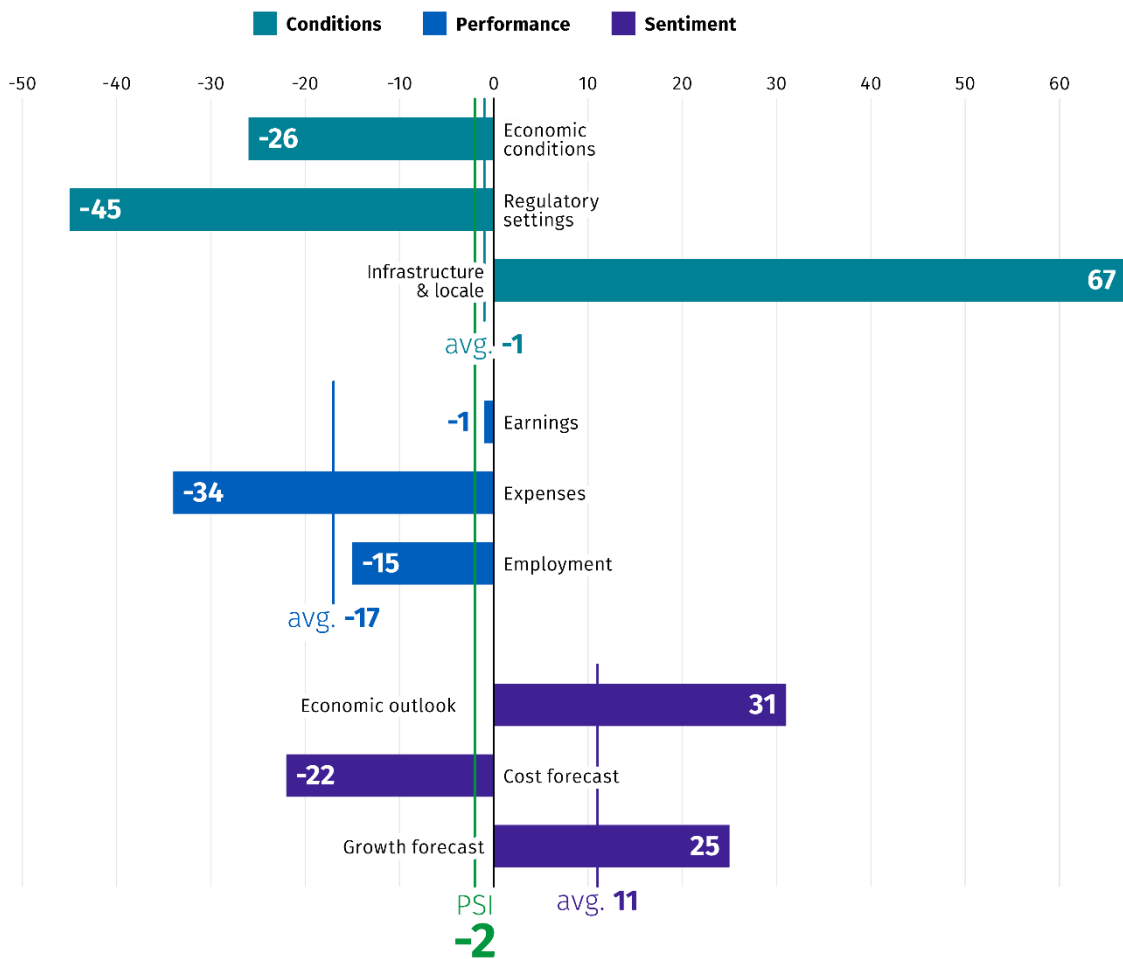
Please refer to the appendix for a comprehensive overview of participants and their business demographics.

Results

The Hills Shire Business PSI score for 2019 is -2. This indicates a marginal decline in overall business conditions, performance and sentiment across the Hills business community.

Over the past 12 months the PSI has risen by just one point from -3 in 2018. Such a small change suggests that the business environment has remained relatively unchanged over the past year.

The PSI has remained negative for the second year in a row due to a marginal decline in operating conditions (-1) and slowing business performance (-17). While the PSI suggests that performance is currently struggling, business owners and managers remain optimistic about the future. This optimism is revealed by a positive score for business sentiment in the Hills (11).



Individual measures

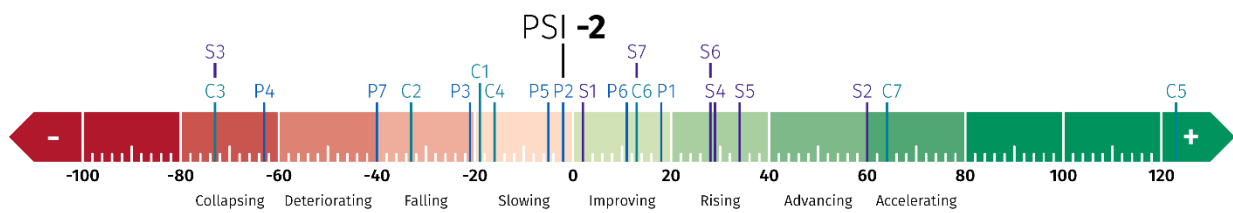
The Business PSI is comprised of three key categories, these are current operating conditions, performance and future sentiment.

According to owners and managers, conditions in The Hills Shire are slowing with an index score of -1. A score of -1 suggests, however, that business conditions in The Hills are almost neutral, neither accelerating nor declining.

Out of the three key components which form the PSI, business performance scores the lowest (-17).

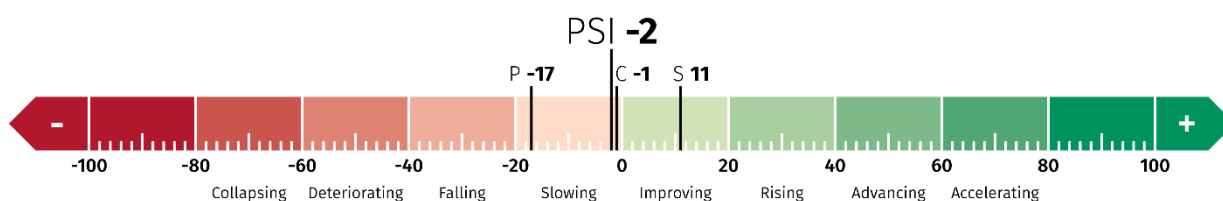
Owners and managers reveal that business performance in the region is slowing due to rising expenditure (both operational expenditure and capital investment) as well as wage growth pressures.

Despite slowing performance and a marginal decline in operating conditions, business sentiment remains positive. Sentiment is thought to be improving, with a score of 11 points. This is due to a positive economic outlook (31) and expectations of future growth (25).



Longitudinal comparison

The Business PSI for The Hills Shire has remained negative for the past two years. Over the past 12 months the PSI has risen by one point from -3 (2018) to -2 (2019) which means that business is declining at a marginally slower rate.



Three years ago, the Business PSI for The Hills Shire was 0 (2017). This means that the Hills business environment has not been considered to be improving since 2016 (11). Business activity was improving in 2016 due to positive local and national economic conditions (34), increased earnings (44) and a positive economic outlook (46) all of which resulted in rising expectations of growth (47).

Since 2016 economic conditions in The Hills Shire have continued to decline year-on-year, becoming negative for the first time in 2019 (-26). This negativity is being driven by a perceived decline in the local economy which is now at a four-year low (-19). Perceptions of Australia's economic performance have also been on a downwards trajectory over the past four years and are now considered to be failing with a score of -33. Australia's overall economic performance is at its lowest point in four years, returning to a similar level of decline as recorded in 2015 (-42).

Over the same four years, business earnings have been slowing. Earnings were at their highest point in 2016 (44) and have since declined to -1 in 2019. This is the first time in four years that earnings have been observed to be slowing rather than improving. It is likely this result is closely linked to sustained pressure from increasing expenses and a

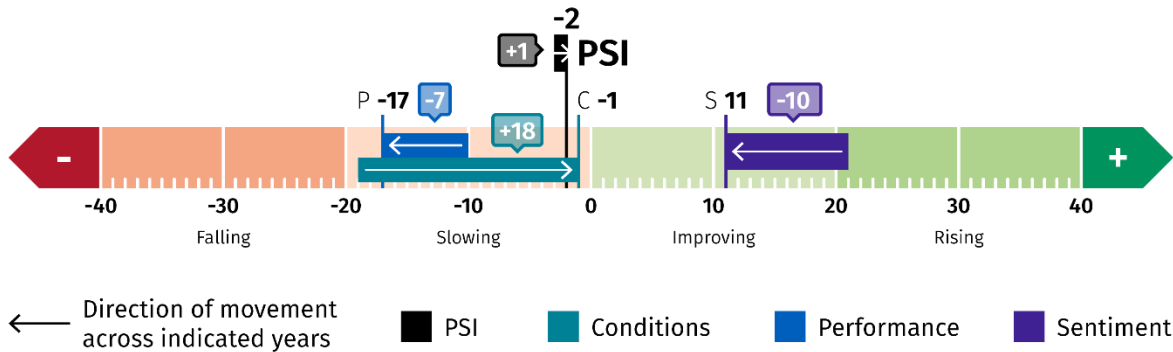
challenging employment market. Business expenses (cash flow, operating costs and capital investment) have been falling (-34) for the past two years while employment performance (staffing levels and costs) are at the lowest point ever recorded by the Hills PSI (-15).

While conditions and performance remain low, expectations for the future are improving (11). Business owners and managers in The Hills Shire share a rising economic outlook (31) and growth forecast (25).

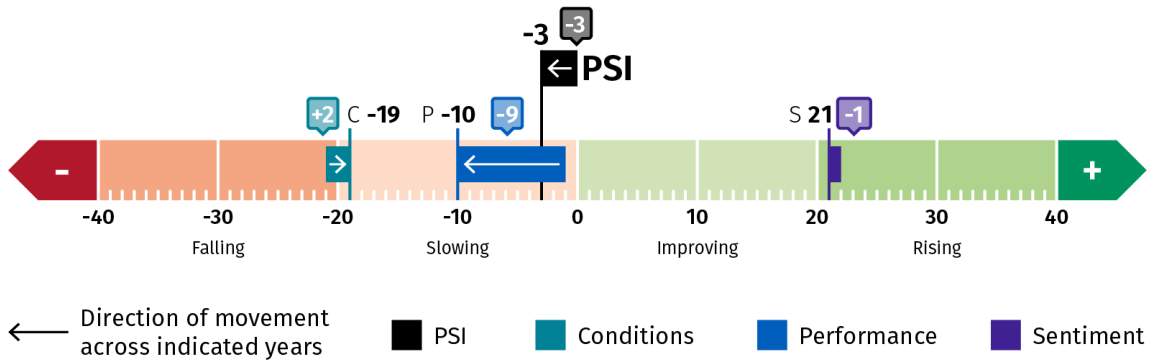
The results show that despite local and national challenges, owners and managers in the Hills remain consistently optimistic, with sentiment staying positive over the past five years. While the score for business sentiment has dropped below the 20s (experienced between 2016 and 2018), a score of 11 suggests sentiment is still improving. The decline in sentiment, since its peak in 2016, has been driven by increasingly negative cost forecasts. Cost forecasts have regressed from slowing in 2016 (-5) to falling in 2019 (-22).

The cost of running a business remains the biggest challenge for owners and managers in the Hills. Tightening economic conditions, a slow-down in earnings and growing expenses have each impacted future business sentiment.

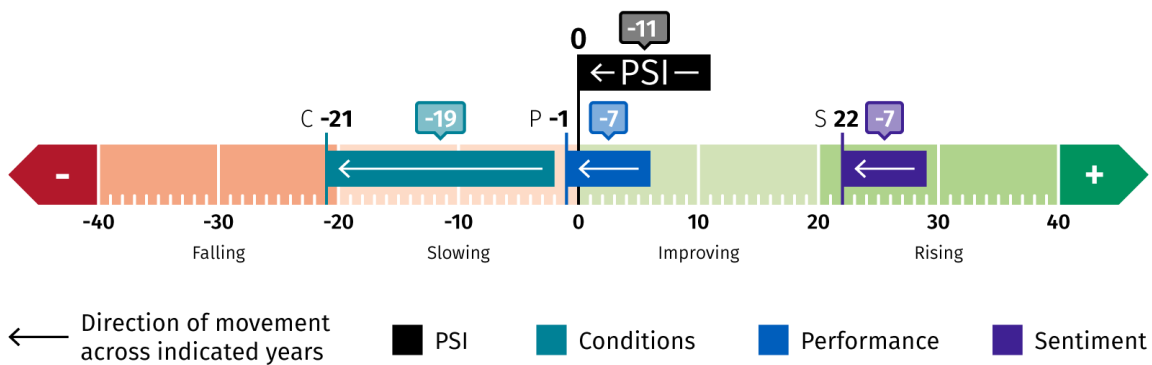
2018 to 2019



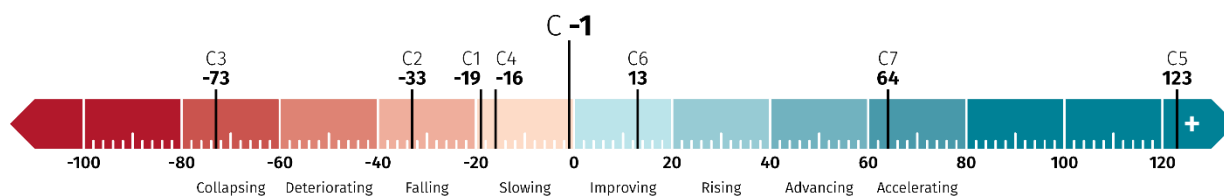
2017 to 2018



2016 to 2017



Conditions



Measure	Key	Indicator	2015	2016	2017	2018	2019	Change ('18-'19)
Economic conditions	C1	Local economic performance	6	47	39	20	-19	↓
	C2	Australia's economic performance	-42	21	-3	10	-33	↓
Regulatory settings	C3	Red tape and regulation requirements	-64	-45	-53	-61	-73	↓
	C4	Supportive government policy settings	3	1	-18	-15	-16	↓
Infrastructure and locale	C5	Local infrastructure provision	-32	-49	-94	-76	123	↑
	C6	Business expansion or reduction	18	32	33	21	13	↓
	C7	Infrastructure and locale outlook	-27	-35	-72	-45	64	↑
Total score			-21	-2	-21	-19	-1	↑

Business owners and managers in The Hills Shire consider conditions to be slowing (-1). Despite remaining negative, conditions are currently at their highest point in the history of The Hills Shire Business PSI.

Conditions summary

Improvement in conditions due to significant infrastructure development in the region

The new Sydney Metro has likely had the largest impact on business conditions within the Hills, combined with other improvements such as the widening of major roads (i.e. Showground Road), growing housing supply and increased services. Improvements in the region's infrastructure has seen the indicator C5 score positively for the first time (123). This represents a 199-point improvement, the largest indicator increase ever recorded, in just 12 months. Infrastructure and locale outlook (64) has also improved greatly by 109-points from -45 in 2018.

Declining economic conditions

While infrastructure provision and locale outlook have both increased over the past 12 months, all other measures of business conditions have

experienced decline. The biggest decline has been in economic conditions which have shifted from improving in 2018 to slowing in 2019. During this period, the perception of Australia's economic performance (C2) has dropped by 43 points from 10 to -33. This is the largest indicator decline within conditions over the past 12 months. Indicator C1, which measures local economic performance, has also become negative, dropping by -39 points over 12 months.

Tightening regulatory environment

Unfortunately, regulatory conditions are also in decline. With a score of -73 the indicator for red-tape and regulation (C3) is currently at its lowest point in five years. This is coupled by a decline in indicator C4 which suggests business leaders feel that supportive government policy settings are also slowing (-16). This perception is consistent with the experience of owners and managers over the past three years.

Conditions by business size

Current operating conditions within the Hills are the most challenging for micro companies (one to four employees). With a condition score of -8, micro companies in the Hills feel that current regulatory settings are collapsing (-57). This is due to particularly challenging red tape (-84) as well as falling support from government (-29). Regulatory conditions for micro businesses in the Hills have been getting worse over the years, declining year-on-year since 2016 (-23).

Slowing conditions for sole traders

According to sole-traders (non-employing businesses) business conditions in the Hills are also slowing (-4). This is due to challenging economic conditions (-33) as well as perceived regulatory challenges (-33).

At the individual indicator level, non-employing business in the Hills are struggling the most with red tape and regulation requirements (-43). These

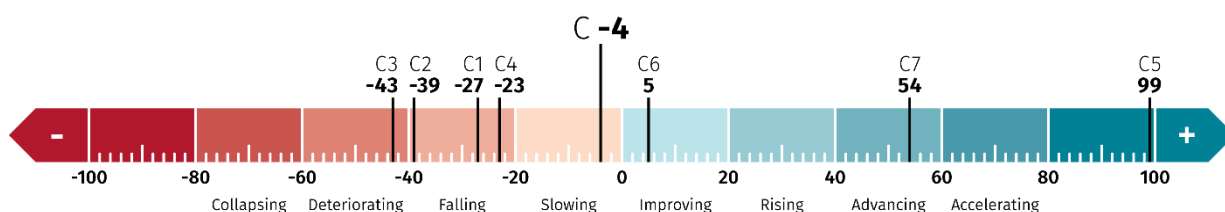
are considered by sole traders to be deteriorating at an increasingly fast rate over the past three years (cf. -38 in 2018; -36 in 2017).

Conditions improving for small and medium+ sized business

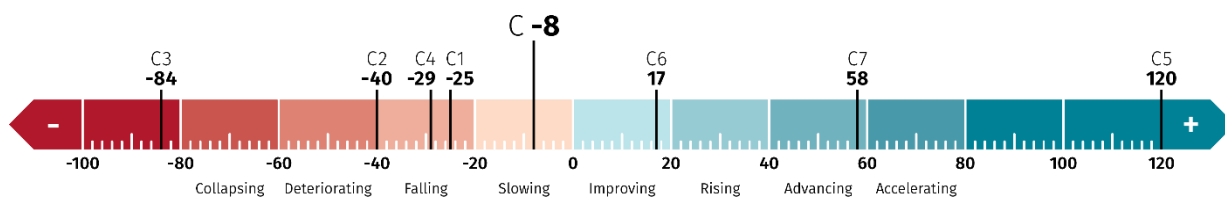
According to small (five to 19 employees) and medium+ sized businesses (20+ employees), however, conditions are improving. The conditions score for small businesses in the Hills is currently 8 and even higher for medium+ businesses at 11.

The positivity felt by these slightly larger businesses is due to significant improvement in local infrastructure provision (156 medium+ and 141 small) including the Metro which has enhanced connectivity between businesses in the Hills and other major business hubs in Sydney. Both small (75) and medium+ businesses (83) are confident that the improvements in infrastructure will continue to benefit the future locale.

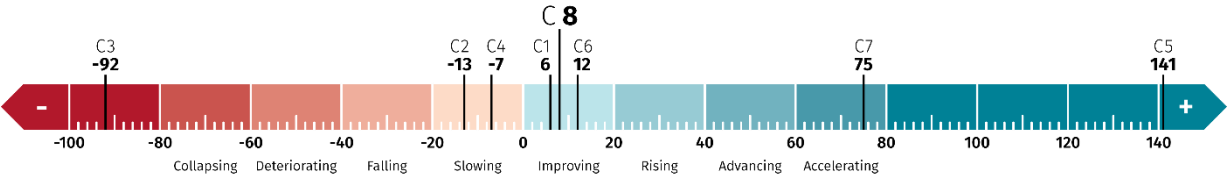
Sole traders (no employees)



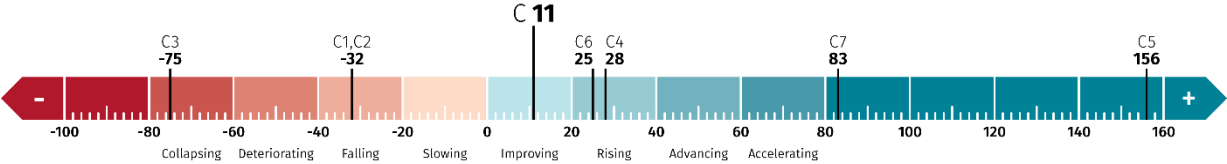
Micro (one to four employees)



Small (five to 19 employees)



Medium+ (20+ employees)



Conditions in B2B v B2C

Conditions in the Hills are better for B2B companies (6) than B2C (-9). Both are very satisfied with local infrastructure provision (136 B2B and 109 B2C) with B2B companies having strong expectations that it will continue to have a positive impact in the future (78 cf. 47 B2C).

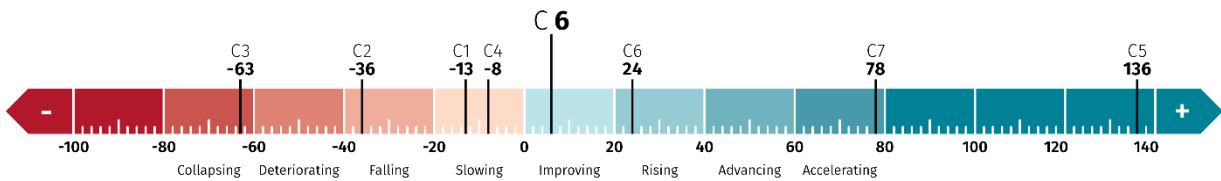
Regulatory settings cramping conditions

B2C businesses consider the red tape and regulation surrounding their operations to be collapsing (-84) with little support from government policy settings (-22). A similar

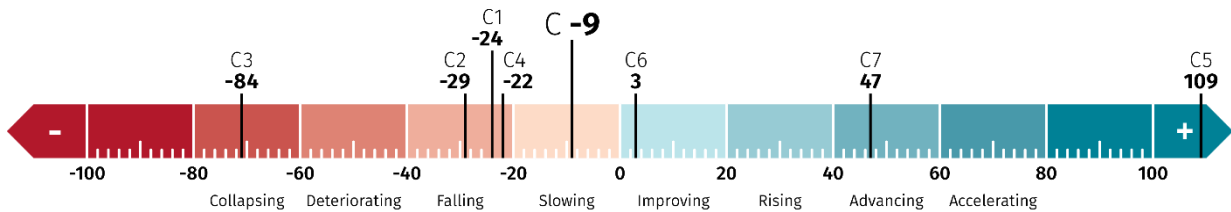
sentiment is shared by B2B organisations, however, with marginally higher scores for red tape and regulations (-63) and a more positive experience of government policy settings (-8).

B2B service providers are more likely than B2C providers to have experienced business expansion over the past 6 months. B2B providers indicate that their rate of business expansion is rising with a score of 24. This compares to B2C businesses who suggest business expansion is improving at a slower rate with a score of 3.

B2B



B2C



Business tenure insights

Newer owners feel more equipped to respond to changes

Those who have owned their business for a longer period are more likely to feel that recent changes in regulation and compliance have caused a significant/moderate increase in costs.

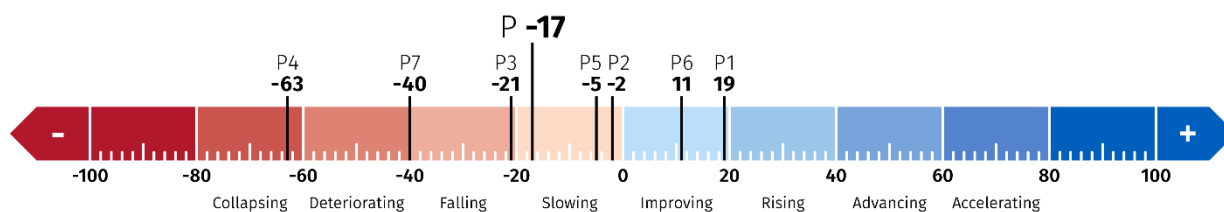
Around half of business owners and managers who have owned a business for between five and ten years (53%) or longer than ten years (48%) feel the costs associated with compliance and regulation have increased significantly/moderately over the past six months. This compares to 38% of those who have owned their business for five years or less.

Business owners more likely to experience growth after five years

Medium (five to ten years) and long-term business owners (10+ years) are almost twice as likely to have experienced significant/moderate business expansion over the past six months compared to those who have owned their business for a shorter period (less than five years).

One in five medium-term owners (21%) and a similar proportion of long-term owners (19%) have seen a significant/moderate expansion in their business over the past six months. This compares with one in ten (11%) newer owners (less than five years).

Performance



Measure	Key Indicator	2015	2016	2017	2018	2019	Change ('18-'19)
Earnings	P1 Sales and revenue	52	55	35	32	19	↓
	P2 Pre-tax profit	31	43	21	10	-2	↓
	P3 Business cash flow	24	35	9	-7	-21	↓
Expenses	P4 Business costs	-26	-44	-57	-65	-63	↑
	P5 Capital investments and expenses	-3	18	21	-2	-5	↓
Employment	P6 Staffing levels	18	31	28	23	11	↓
	P7 Staff wages and on-costs	-45	-58	-41	-39	-40	↓
Total score		3	6	-1	-10	-17	↓

According to business owners and managers in The Hills Shire, overall business performance is also slowing (-17). The total score for Business performance has been declining year-on-year since 2016 and it is currently at its lowest point since the first Business PSI in 2015.

Performance summary

Over the past 12 months, almost all indicators of business performance in the Hills have experienced decline. The only indicator that has improved is P4 which has risen marginally from -65 (2018) to -63 (2019).

Rising revenue and increased staffing

Despite many indicators declining over the past 12 months, two indicators have positive scores. As the Business PSI is a measure of direction, this suggests improving performance in both of these areas.

Sales and revenue (P1) is the highest scoring indicator of performance in the Hills, remaining positive at 19. Rising revenue is likely linked to the positive score for P6 (11) which indicates an increase in staffing levels. More staff, however, directly impacts expenditure on wages.

Consequently, indicator P7 (-40) has remained in the deteriorating category for the past five years.

Overall, the performance indicators reveal that while revenue has remained positive (19), rising business (-63) and staffing costs (-40) combined with a falling cash flow (-21) have resulted in pre-tax profits declining for the first time (-2).

Performance by business size

Performance is declining across all levels of business in the Hills

The region's sole traders are faring the best with a score of -9, indicating a slight slowdown in performance. These nimble personal ventures are protected from staffing costs (0) or pressure to invest heavily in capital (1). For sole traders, expenses are the biggest hurdle with business costs (-54) and cash flow (-23) presenting the largest performance challenges. Earnings for sole traders remain positive with recorded increases in revenue (29) and profit (5).

The largest businesses are experiencing the most significant performance challenges

A score of -24 suggests that businesses performance for those with 20+ employees is falling. This is largely due to a significant increase in business costs (-73) and challenges keeping up with staff wages and on-costs (-40). Growing expenditure, coupled with a reduction in cash flow

(-30), is causing a decline in profit for medium+ businesses (-27).

Similar challenges for smaller businesses

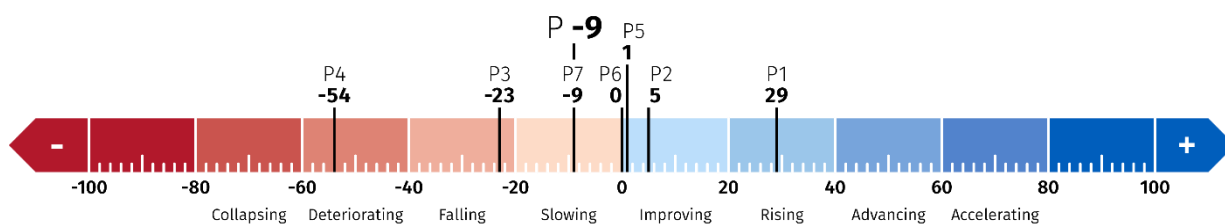
Micro (one to four employees) and small businesses (five to 19 employees) are experiencing similar performance challenges to larger organisations in the Hills. Micro businesses record a performance score of -20 which is closely followed by small businesses at -18.

Currently, the biggest performance issue for micro businesses are direct costs which record an indicator score of -73. This is followed by paying wages (-46) and maintaining cash flow (-27).

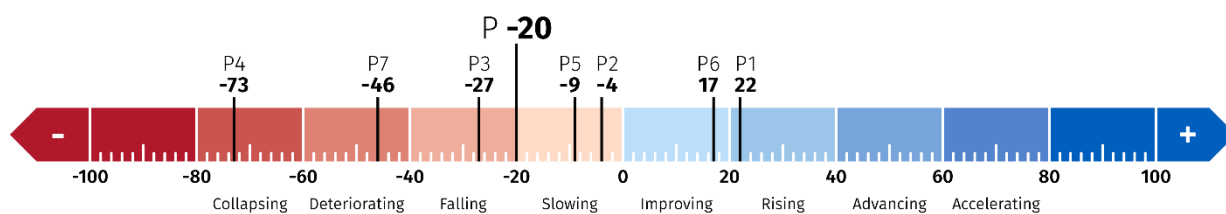
For small businesses the biggest performance challenge is staff wages and on-costs (-68) which are considered to be collapsing.

Despite performance challenges for businesses in the Hills, sales and revenue continues to be positive for each company size. Staffing levels are also growing for all employing business sizes.

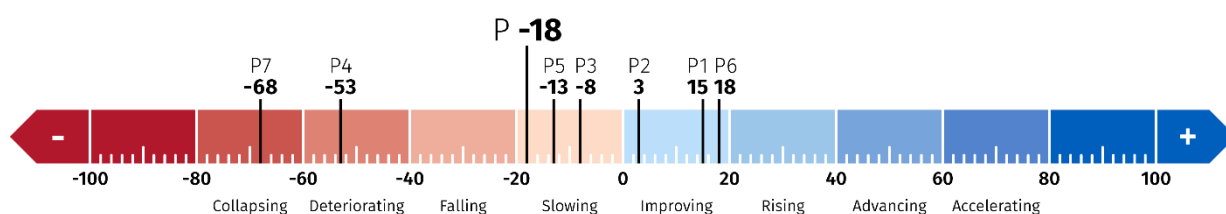
Sole traders (no employees)



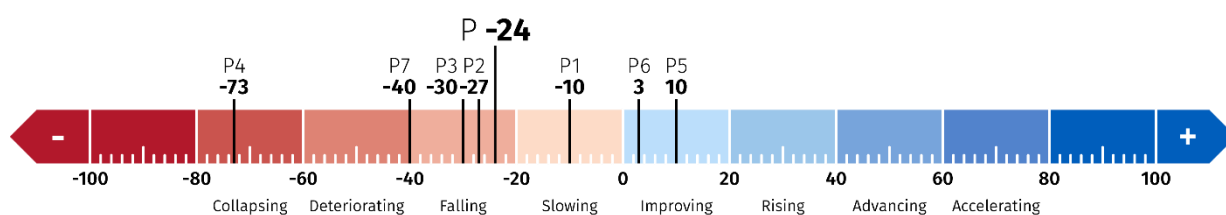
Micro (one to four employees)



Small (five to 19 employees)



Medium+ (20+ employees)



Performance in B2B v B2C

B2B companies are performing better than B2C

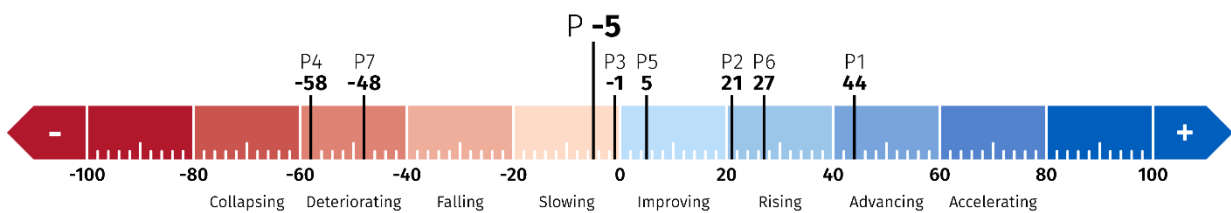
B2B companies have recorded a performance score of -5 suggesting a marginal slowing in business performance over the past six months. This compares to B2C companies for which performance has been falling (-28).

While costs have been rising for both B2B and B2C businesses, the largest difference has been in recorded earnings. B2B businesses report improvements in sales and revenue (44) as well as

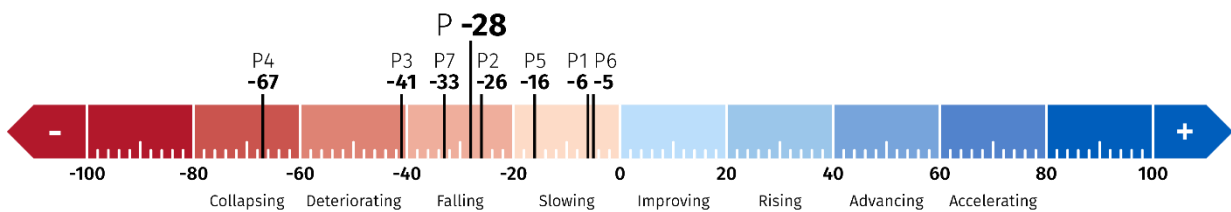
pre-tax profits (21). This is closely linked to higher staffing levels (27) and an increase in capital (5). These benefits are being counteracted by growing businesses costs (-58) and rising staff wages and on-costs (-48).

Unfortunately for B2C businesses, however, performance has been declining according to all seven PSI indicators. The largest challenge has been rising business costs (-67), followed by a reduction in cash flow (-41) and rising staff costs (-33).

B2B



B2C



Business tenure insights

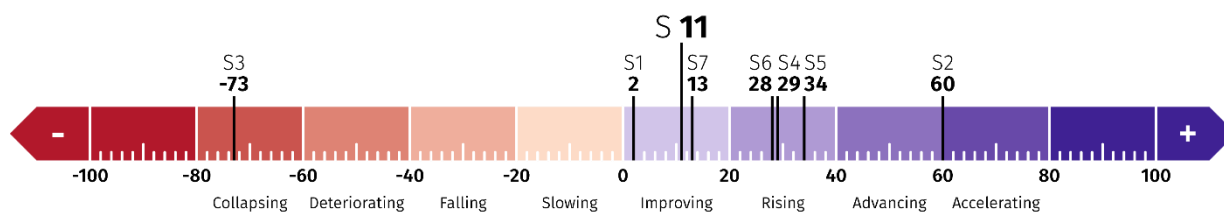
Long-term owners less likely to invest in capital

Mid-term business owners (five to 10 years) are twice as likely to be investing significantly/moderately more in capital compared to long-term owners (10+ years). Close to one in seven (13%) mid-term business owners are currently investing significantly/moderately more in capital compared to six months ago. This is more than double the proportion of long-term business owners who are experiencing the same level of investment (5%).

Mid-term owners most likely to increase staffing

Mid-term owners are also more likely than any other tenure types to have recently experienced an increase in staff capacity. Close to one in six (15%) business owners that have owned their business for between five and 10 years have increased their staffing levels (both numbers and hours) by a significant/moderate amount over the past six months. This compares to just 7% of those that have owned their business for a shorter amount of time (less than five years) and 6% of long-term business owners (10+ years).

Sentiment



Measure	Key Indicator	2015	2016	2017	2018	2019	Change ('18-'19)
Economic outlook	S1 National economic outlook	-31	14	-9	4	2	↓
	S2 Internal revenue outlook	46	78	73	61	60	↓
Cost forecast	S3 Expense forecast	-68	-65	-82	-64	-73	↓
	S4 Staffing level forecast	30	55	69	43	29	↓
Growth forecast	S5 Profit forecast	36	48	40	43	34	↓
	S6 Cash flow forecast	34	52	39	49	28	↓
	S7 Expansion forecast	16	41	38	28	13	↓
Total score		6	29	22	21	11	↓

Despite a decline across all seven indicators, future business sentiment in the Hills remains positive (11).

Over the past 12 months, business sentiment has dropped from 21 points (2018) down to 11. This has been impacted by shifting expectations in relation to cash flow (S6), business expansion (S7) and future staffing levels (S4).

Sentiment summary

Expense forecasts collapsing

Out of the seven indicators which measure future sentiment, only one is considered declining. The indicator for expense forecasts (S3) is currently at -73 which places it within the collapsing category of the PSI. Over the past 12 months this expectation has declined by nine points, taking it to its second lowest recorded level (cf. -82 2017).

Internal hopes remain high

Despite negative expectations relating to expenses, sentiment is improving across all remaining business indicators. Sentiment regarding internal revenue (60) has remained the highest measure of future performance over the past five years. This suggests that regardless of rising costs, owners and managers are optimistic that business activity will be positive, and that revenue will continue to grow.

Business owners and managers also expect their profits to rise (34). Over the past five years profit forecasts among business owners and managers have oscillated between rising and advancing on the PSI scale.

Expectations of future staffing levels (29) and cash flow (28) are also positive. Despite S6 (cash flow) experiencing the largest indicator decline over the past 12 months and staffing levels the third largest decline, both indicators remain within the rising category.

Adjusted expectations

The results reveal that expectations are adjusting due to sustained challenges in business conditions and performance. Despite these attitudinal adjustments, however, business owners and managers remain optimistic.

Sentiment by business size

Small businesses in the Hills are most positive about the future

Small businesses (five to 19 employees) record the highest sentiment score across all four businesses sizes (21). Their positive outlook is influenced by strong expectations for internal revenue (72) which is set to boost profits (47) and enable more staff to be hired (45). According to small businesses in the Hills, the only perceived negative on the horizon is an expectation of increased business expenses (-65).

Bigger businesses also optimistic

Sentiment is also high among medium+ sized businesses (18). This is being influenced by expectations that profits will advance over the coming months (55), which is linked to rising revenue (50) and business expansion (45). Medium+ businesses, however, are also sceptical about future expenses which are the only measure of sentiment to record a negative score (-63).

Sentiment is improving among sole traders.

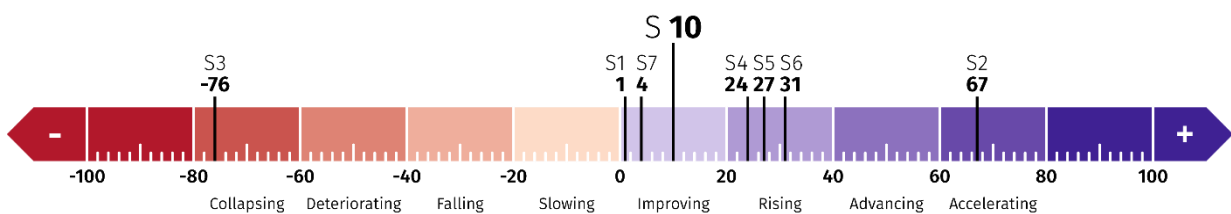
The expectation of revenue growth (67) is seeing sole traders anticipate a rise in cash flow (31) and a boost in profits (27). Expectations of growth might see several sole traders expand into a larger business category with plans to increase staffing levels (27) and further expand their business (4). This positivity has resulted in an overall sentiment score of 10.

Micro businesses are experiencing a marginal increase in future sentiment

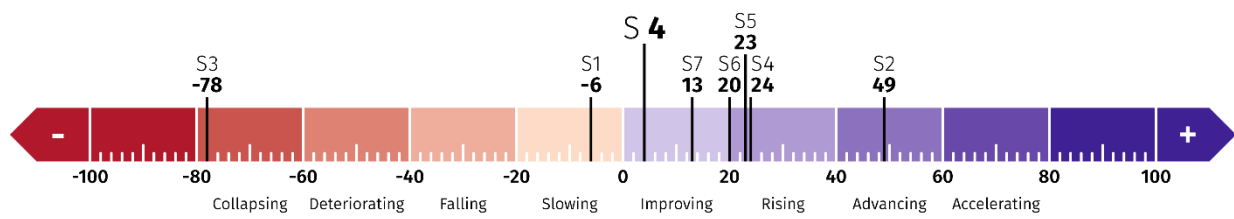
With a total sentiment score of 4 micro businesses are the least positive about the future. This comparatively low score is significantly influenced by a negative expense forecast (-78) as well as expectations that the national economic outlook is likely to slow (-6).

Despite future uncertainty, however, micro businesses remain positive that their internal revenue will continue advancing (49) accompanied by rising staff levels (24) and positive profit forecasts (23).

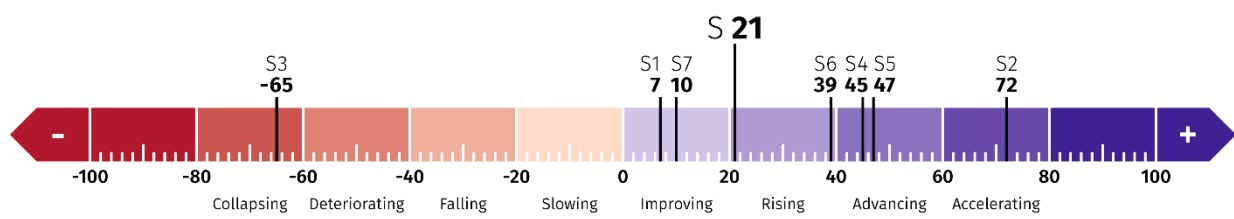
Sole trader (no employees)



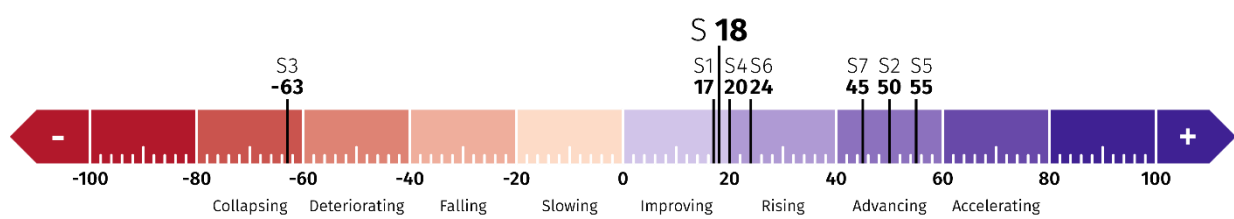
Micro (one to four employees)



Small (five to 19 employees)



Medium+ (20+ employees)



Sentiment in B2B v B2C

Future sentiment is rising among B2B companies in the Hills

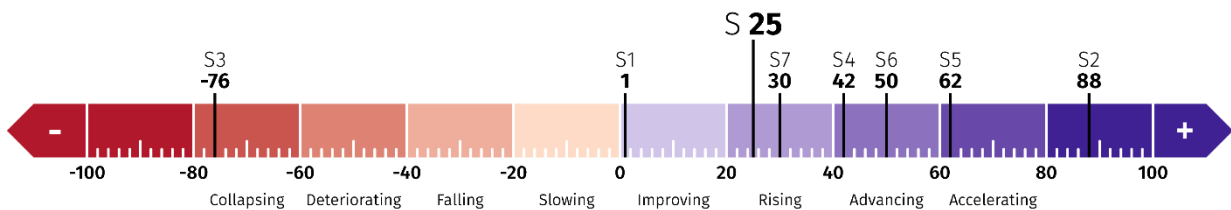
Future sentiment is rising according to B2B companies in the Hills (25). For B2C businesses, however, overall sentiment is slowing (-3).

B2B companies are highly optimistic about their future performance with expectations that internal revenues are likely to accelerate over the next 6 months (88). Growing revenues are likely to directly impact their profit forecasts (62) and expected cash flow (50).

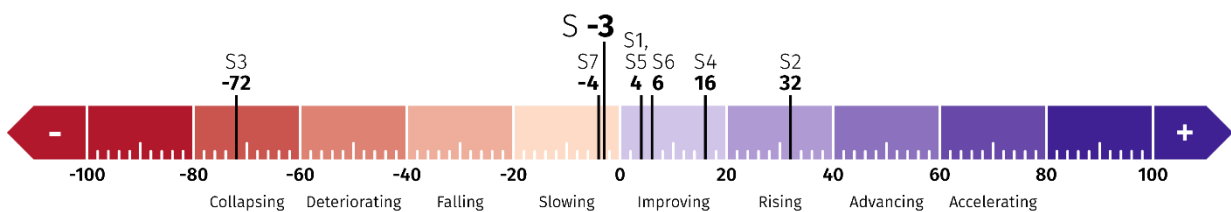
B2B businesses in the Hills plan to increase their staffing (42) and expand their business (30) in the future despite the expectation that expenses will be a challenge (-76).

Expectations are far more conservative among B2C businesses. A challenging expense forecast (-72) means B2C businesses don't expect to expand their businesses (-4). They also have little expectation that either cash flow (6) or profits (4) will increase.

B2B



B2C



Business tenure insights

Long-term owners draw on experience

Those that have owned their business for a shorter period are more likely to anticipate an increase in expenses.

Nearly one in four (24%) short-term business owners (less than five years) expect their costs (including input, staffing, materials etc.) will increase significantly/moderately over the next six months. This is marginally higher than the proportion of medium length owners (five to 10 years) who expect expenses to also rise (20%).

Those that have owned their business for more than ten years, however, are seemingly more confident in their established understanding of conditions and performance. Only 12% of long-term business owners expect expenses to increase significantly/moderately over the next six months. This is half the proportion of short-term owners (24%).

Further insights

Net Promoter Score

The Net Promoter Score (NPS) divides stakeholders into three distinct 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.

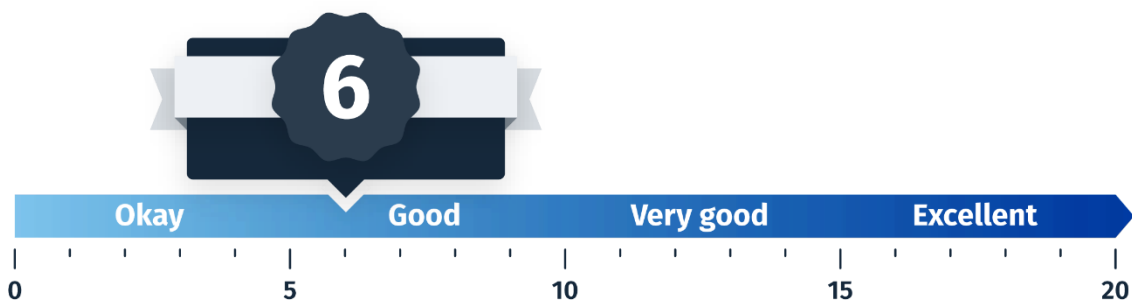
Result

In 2019, the NPS for doing business in the Hills is 6.

Over the past 12 months, the NPS score for doing business in the Hills has declined by three points. This returns the NPS to the same score as two years previous in 2017 (6).

While the NPS has shown a decline over the past 12 months, any result above 0 means that the proportion of promoters outweighs the proportion of detractors.

More than a third of business owners and managers in the Hills are classified as active promoters of the region (34%). Just under two in five are considered passive (37%), meaning they score the region a 7 or 8. The remaining 29% of respondents are detractors, which represents the smallest proportion of owners and managers.



Innovation

The following section of this report provides further insight into the strengths and challenges of doing business in The Hills Shire. The question below was first asked in 2016 and was not used during the first deployment of the PSI in 2015.

Business owners and managers are focused on service

When it comes to constant innovation, business owners and managers in The Hills Shire have revealed that service delivery (78%) is the most important component of their future growth strategy.

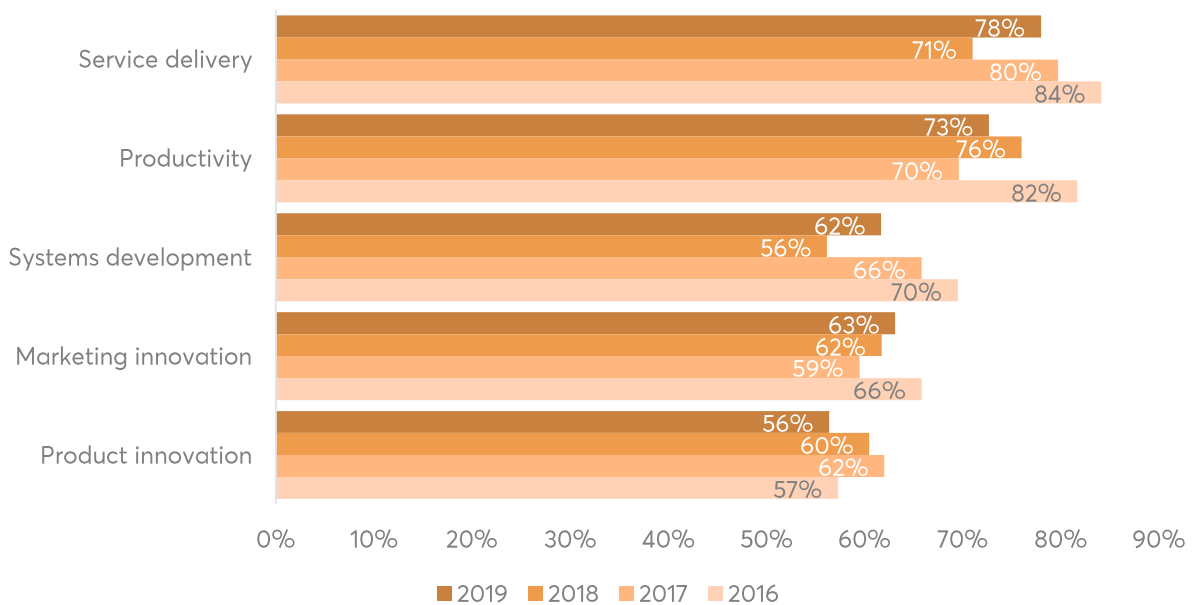
Service delivery, which has experienced rapid technological disruption in recent years, has replaced productivity as the top priority for investment in innovation. Over the past 12 months

productivity, while still important, has moved to the second highest priority according to business owners and managers in the Hills (73%).

Following the increase in priority for service delivery, the second largest change has been in the perceived importance of system development. Over three in five (62%) business owners and managers in the Hills indicate that innovating their systems is extremely/very important compared to 56% in 2018.

With nearly four in five businesses (77%) providing services (either to businesses or consumers) it is unsurprising that owners and managers are prioritising innovation directly linked to service delivery (78%) rather than developing physical products (56%).

How important is investment in innovation as part of your growth strategy in the following areas?
(extremely/very important)



External impacts

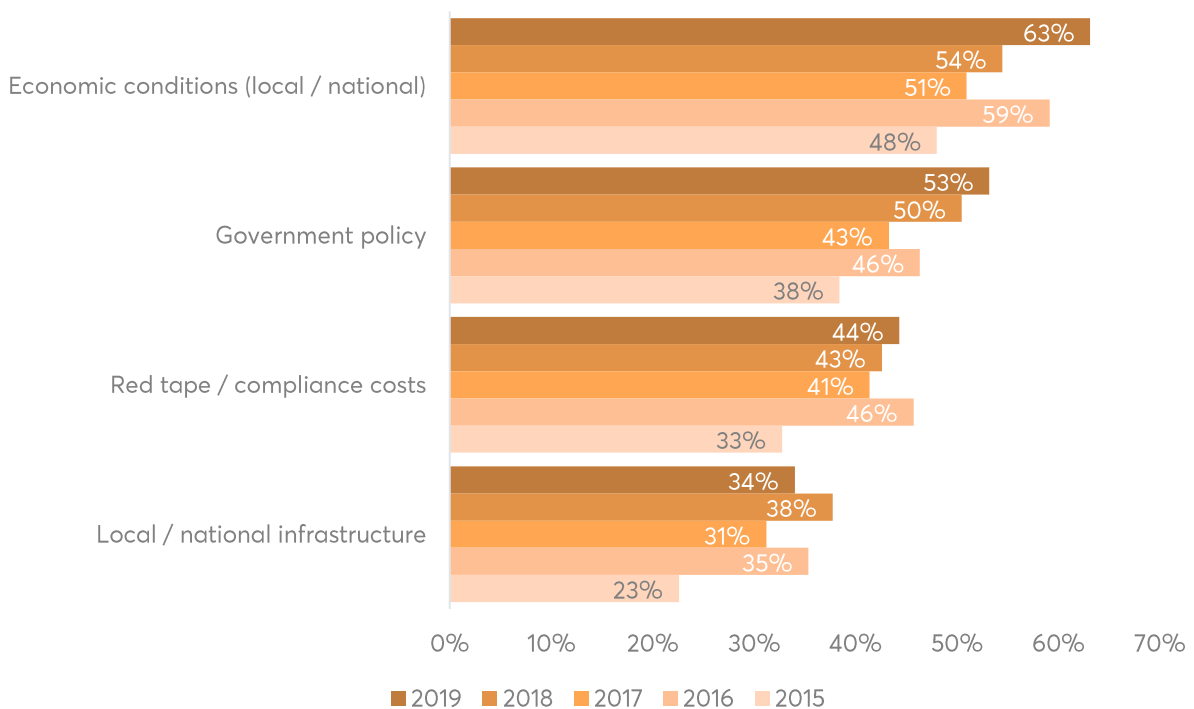
For the fifth year in a row, business owners and managers in the Hills reveal that economic conditions have the biggest impact on business performance. Nearly two in three business owners and managers (63%) suggest that the economic performance of their local business context, as well as Australia's overall economic performance, have an extremely/significant impact on business performance.

This is followed by the impact of government policy. Just over half (53%) of business owners and managers in the Hills indicate that government

policy setting has an extremely/significant impact on their business' performance. This is consistent with last year's result of 50%.

Local and national infrastructure, meanwhile, has continued to have the smallest impact on business performance over the past five years. Just over a third of business leaders in the Hills (34%) indicate that infrastructure provision has a strong impact on business performance. This means, that while many have responded positively to the opening of the Sydney Metro, for many it is yet to have a large impact on performance.

At the moment, how much do the following issues impact your business performance?
(extremely/significant impact)



Business priorities

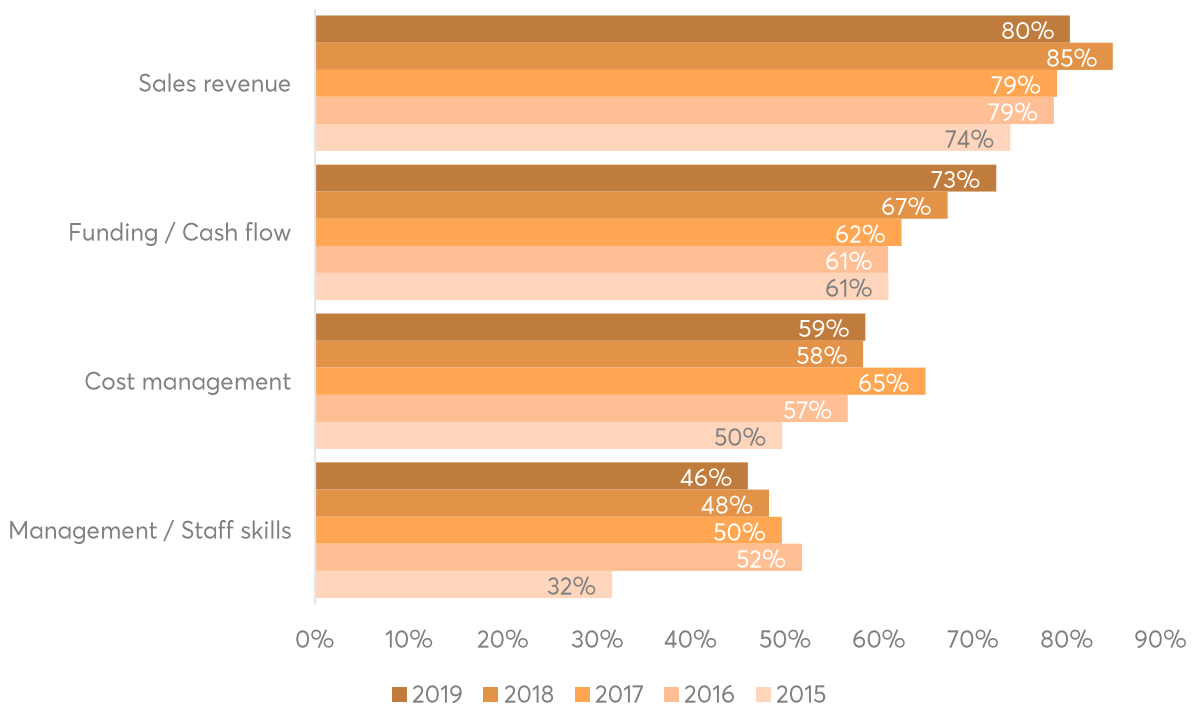
When thinking about the future, business owners and managers are focusing on revenue. Four in five owners and managers in the Hills indicate that increasing sales revenue is their top priority over the next six months (80%). This is historically consistent, as sales revenue has remained the number one future priority for owners and managers over the past five years.

Closely linked to sales revenue, nearly three in four businesses in the Hills are focused on increasing their funding/cash flow over the next six months (73%). This priority has grown marginally over the

past 12 months from 67% (2018) to 73% (2019), sustaining its position as the number two priority over the past five years (excluding 2017).

Business owners and managers are more focused on the bottom line (including revenue and cash flow) than improving soft skills. Less than half (46%) indicate that their management and staff skills are an extremely/significant priority over the next six months, choosing to focus instead on revenue (80%), cash flow (73%) and cost minimisation (59%).

Thinking ahead to the next 6 months, how much are the following areas a priority for you to address?
(extremely/significant priority)



Challenges faced by business in the Hills

Business owners and managers were asked *'What is the most significant challenge that your business is currently facing?'*

Some of the most common operational challenges for business in the Hills are surviving financially (particularly given current economic conditions) and access to clients, staff and parking.

Decline in the national economy

The most common challenge shared by business owners and managers is concern regarding the performance of the national economy. More than one in ten (12%) indicated their biggest challenge is growing their business in a national economy which they perceive to be in decline. Many suggested that economic uncertainty is negatively impacting spending, including business confidence and consumer purchases.

'Consumer confidence is down; spending is down, and cost of living is too high.'

'Financial downturn is having an impact on our clients; they are concerned about how this will impact their businesses and so are using our services less as a result.'

'The strength of the economy and the residential property market have a significant impact in the area and our business.'

The struggle to find clients

The second most common challenge is accessing clients and growing a consumer base. Just under one in ten respondents (9%) agree that finding and retaining clients is a particular challenge in the Hills. In some instances, this is closely linked to a perceived decline in consumer confidence due to the economy, while others struggle to identify new markets.

'Customer acquisition and retention.'

'Finding Clients in the Hills Region.'

'Networking opportunities and exposure.'

Concerns around traffic and parking

The third biggest challenge for owners and managers in the Hills is traffic and parking. Close to one in 12 (8%) people identified the availability of parking in and around commercial districts in the Hills (especially Norwest) as a significant business challenge.

According to owners and managers, adequate parking is a challenge for businesses as well as their clients. Several mention the difficulty of finding commercial space with adequate visitor parking while others are frustrated at the amount of congestion in the region and time lost spent in traffic.

While the Metro aims to alleviate some of the congestion pressures in the Hills, respondents identified challenges accessing parking at the new stations.

'Increased congestion on the roads costs my business economically and personally.'

'Traffic congestion in the precinct.'

'Wasted time in traffic.'

Attracting and retaining staff

A similar proportion (8%) find attracting the right staff to be a significant challenge. Some business owners and managers in the Hills have difficulty finding staff in the Hills region with the right skills set. Others find the pressure of covering wages and maintaining staff during tightening economic conditions to be challenging.

'Sourcing local qualified staff that understand legislation and have solid working SME experience.'

'Overall expenses regarding wages so cutting back on staff whilst still trying to maintain a high-quality service.'

'Finding good local staff.'

Strengths

For the past three years business owners and managers in The Hills Shire have been asked to indicate what they believe are the greatest strengths of doing business in the Hills.

Respondents were asked what they see as the current strengths of the Hills as well as what they believe the future strengths will be of the area. As the Sydney Metro opened in 2019, it has been included as a current and future strength.

Business owners and managers in the Hills value lifestyle

For the first time in three years, work/life balance has replaced future potential as the greatest strength of doing business in the Hills.

Nearly three in five business owners and managers in the Hills (56%) believe that a positive work/life balance is the greatest benefit of working in the Hills. This is followed by the geographical location of the Hills, with over half (51%) suggesting this is its greatest strength.

Just under half (49%) see being family friendly as one of the region's top strengths. This means that lifestyle benefits, such as a positive work/life

balance and being good for the whole family, outrank operational benefits such as business culture (37%), customer base (34%) or proximity to suppliers (9%).

Lifestyle expected to remain the Hills' greatest strength

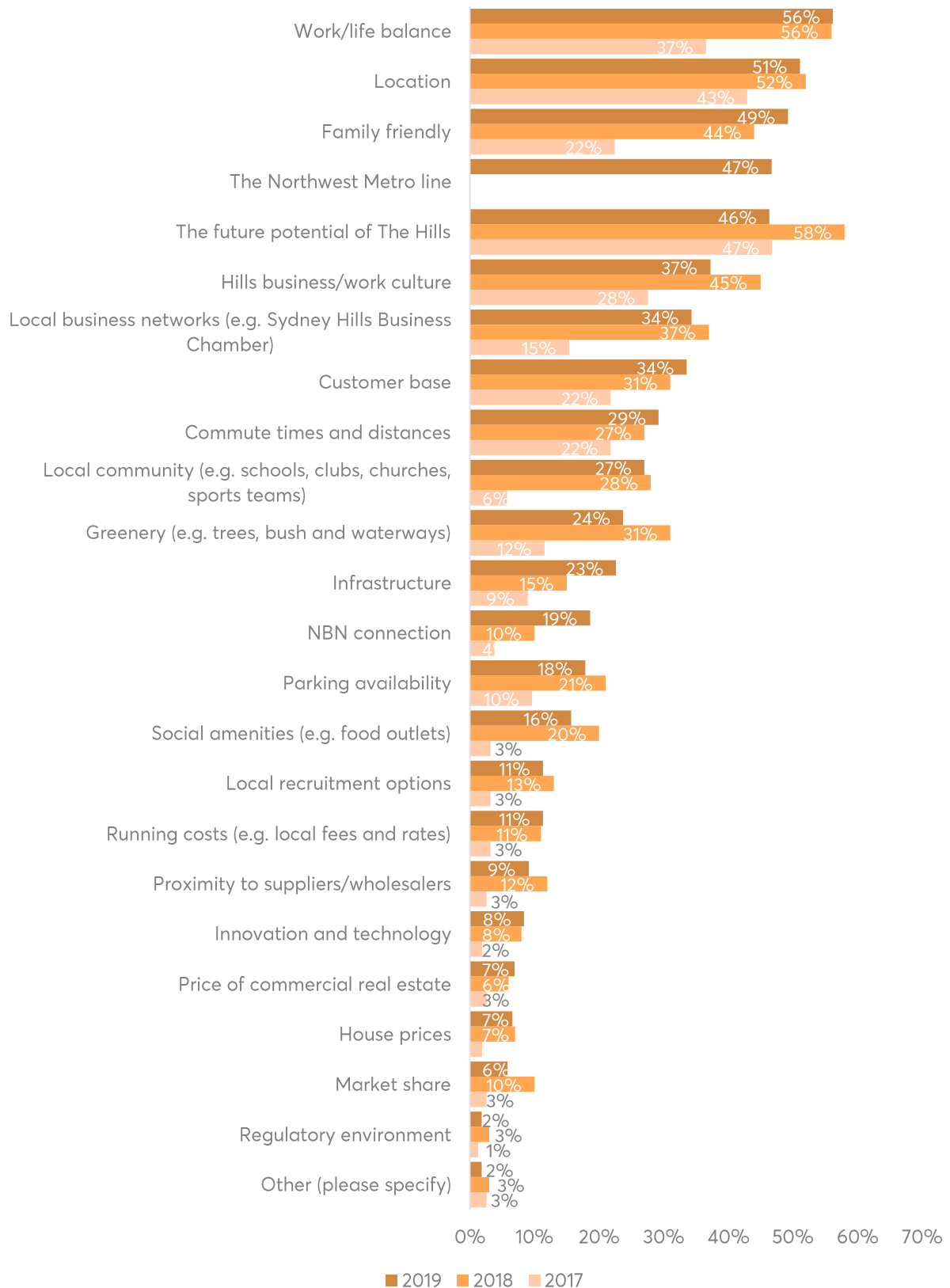
Looking forward, the positive work/life balance the Hills provides is expected to remain the greatest strength of doing business in the area (51%). This is followed by slightly smaller proportions that expect the location of the Hills to continue being a great strength (46%) and the work culture to be beneficial (40%).

The Hills is seen as a lifestyle location rather than a place of innovation or business performance

Lifestyle factors including work/life balance (51%), work culture (40%) and being family friendly (37%) have outranked business performance and innovation such as NBN connection (17%), innovation and technology (17%) recruitment options (16%) and running costs (12%) for three years in a row.

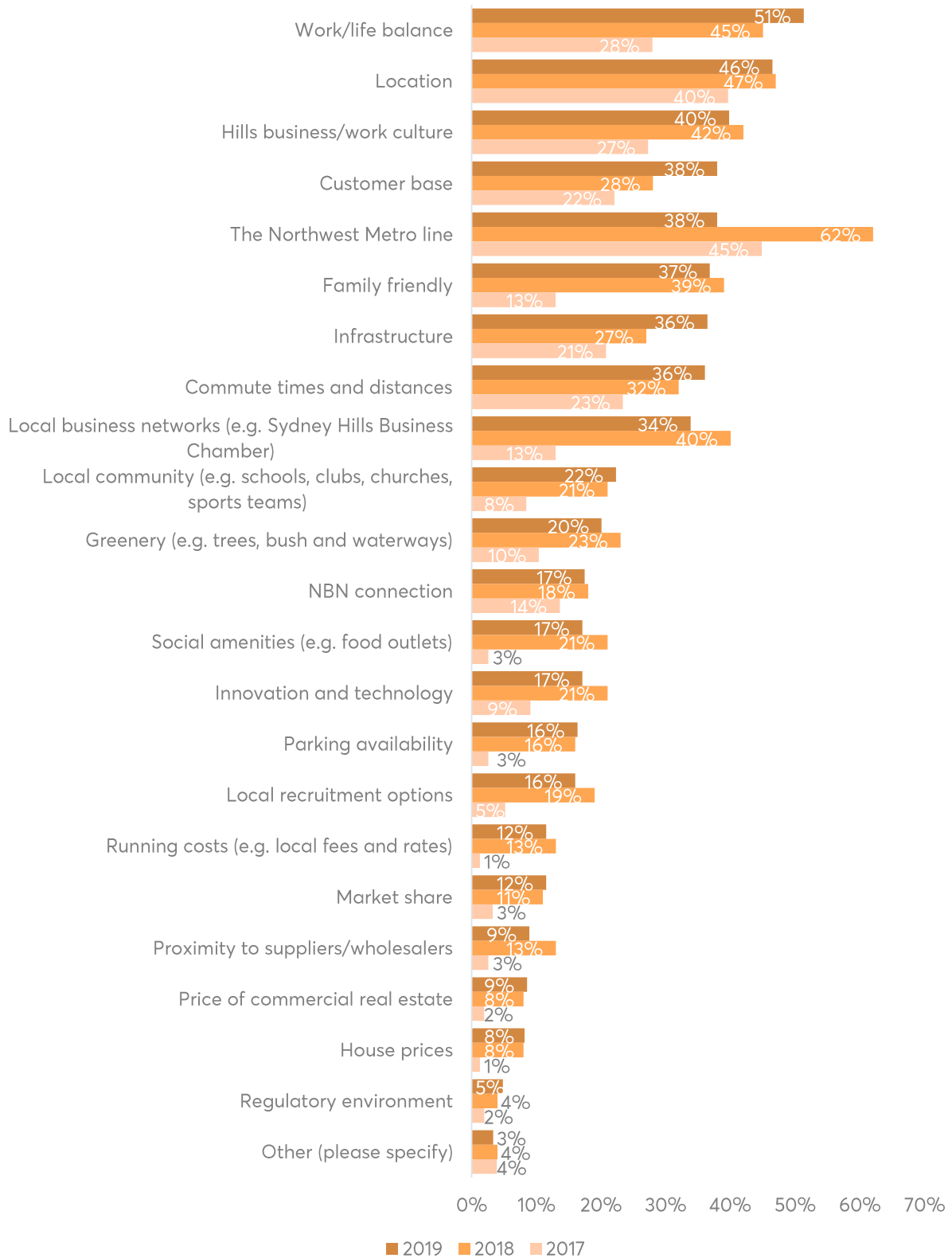
What are the current strengths of doing business in The Hills?

Please select all that apply.



What do you see as the future strengths of doing business in The Hills?

Please select all that apply.



The Hills Shire Council

Businesses that receive support from The Hills Shire Council are more likely to see an increase in sales and revenue

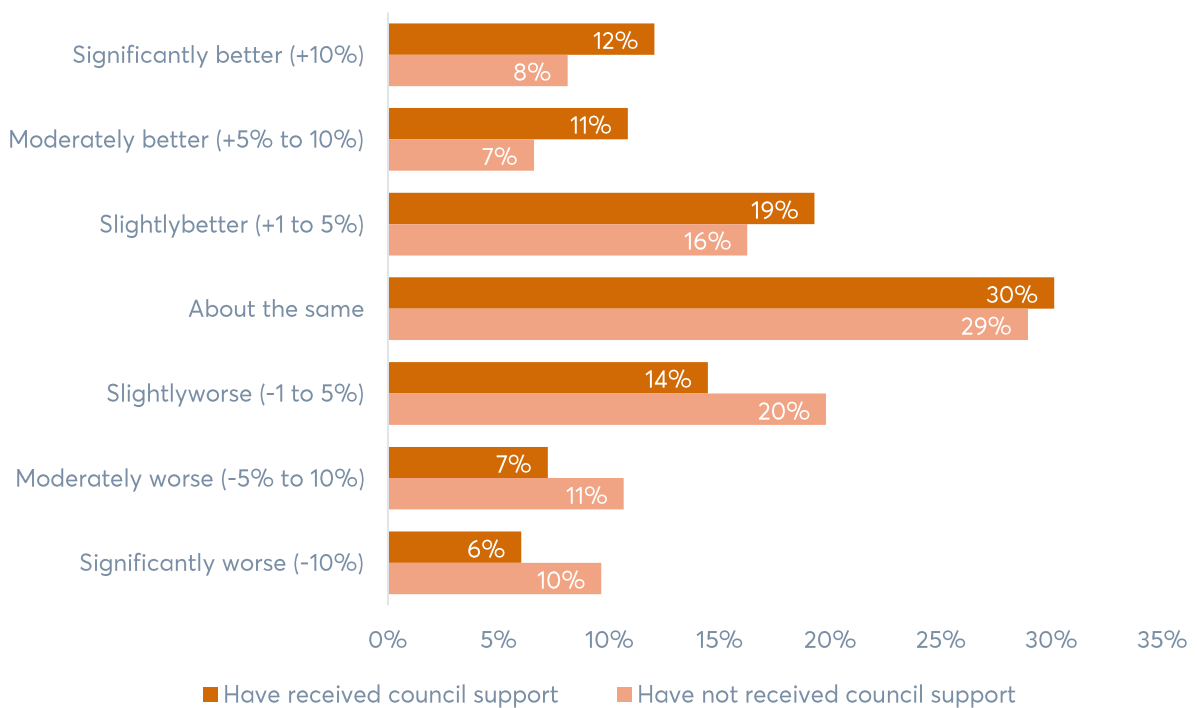
Business owners and managers that have engaged the services of The Hills Shire council over the past six months (30% of all respondents) are more likely to have seen tangible improvements in their business performance over this period than those who have not engaged the council.

Those that have received support from the council are 45% more likely to have seen a 5% or more increase in sales and revenue over the past six months (29% cf. 20%). These improvements in revenue are closely linked to improvements in the bottom-line. Business owners and managers that have received support from the council are 53%

more likely to have seen a 5% or more increase in pre-tax profit over the same period (23% cf. 15%).

Not only have these businesses benefited financially, they have also had a better experience navigating legislation and policy settings. The PSI found that red tape is one of the biggest performance challenges for businesses in the Hills. The results reveal, however, that businesses receiving support from the council or that use council resources have a measurably better experience. Three in ten owners and managers (30%) who have interacted with the council at some point during the past six months suggest government policy settings that support small businesses and assist their sector are better now than six months ago, compared to just 13% of those who haven't engaged with the council.

Thinking about your operating pre-tax profit at the moment, how does this compare to 6 months ago?



The Sydney Hills Business Chamber

Chamber members are more likely to experience improved performance and have strong hopes for the future

Business owners and managers that are members of the Sydney Hills Business Chamber (27% of all respondents) are more likely to have seen increased revenue and higher profits than non-members over the last six months.

One in three Chamber members (33%) have experienced a 5% or more increase in sales revenue over the past six months. This compares to nearly half as many who are not currently Chamber members (18%).

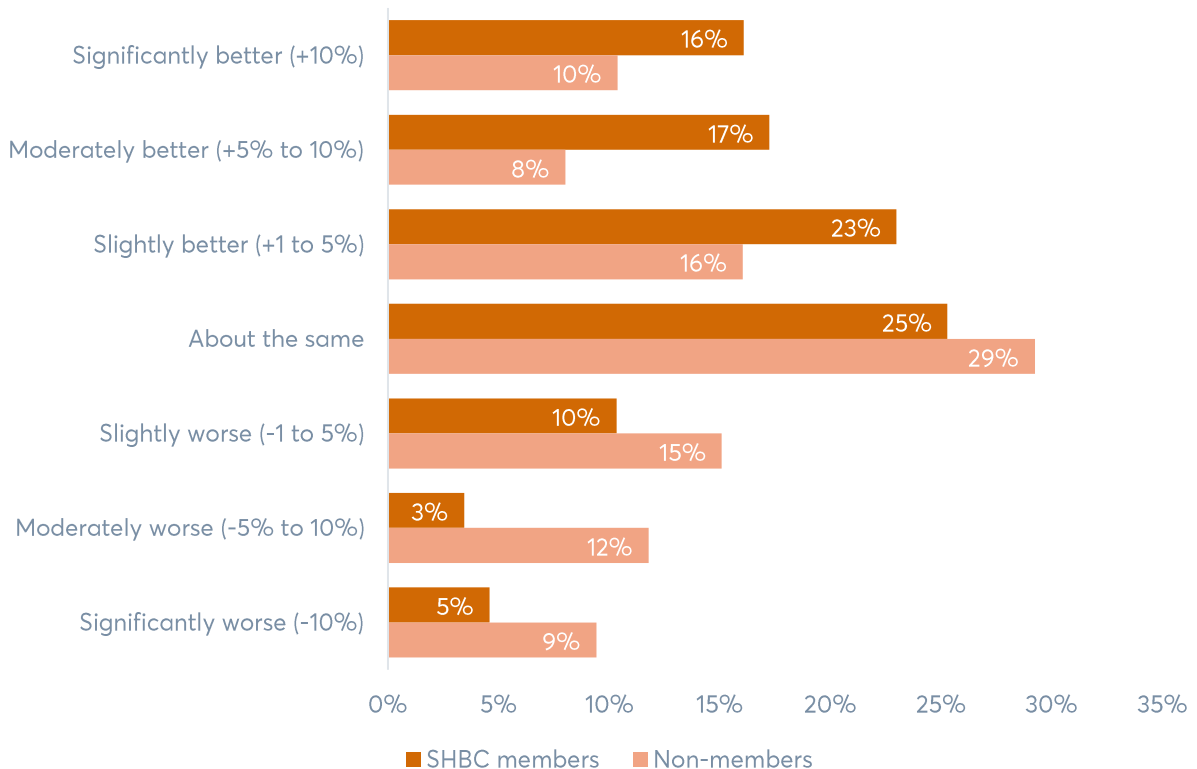
Chamber members are also more likely to have experienced a 5% increase in profits over the past

six months. Over one in four Chamber members (26%) have experienced significant/moderate growth in pre-tax profits over the past six months, compared to 13% growth among non-members.

Looking forward, Chamber members are also more confident in their future performance. Nearly two in five Chamber members (39%) expect sales revenue to continue rising over the next six months by at least 5%. This compares to 23% of non-members who feel the same.

They are also more likely to plan for growth with 10% of Chamber members expecting to undertake at least moderate expansion over the next six months (cf. 4% non-members).

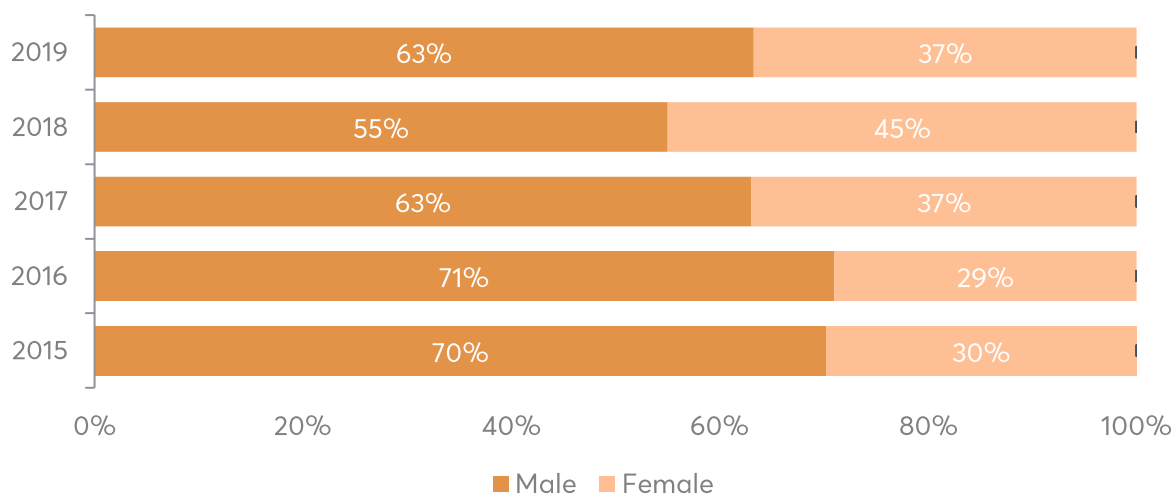
Thinking about your overall sales revenue at the moment, how do this compare to 6 months ago?



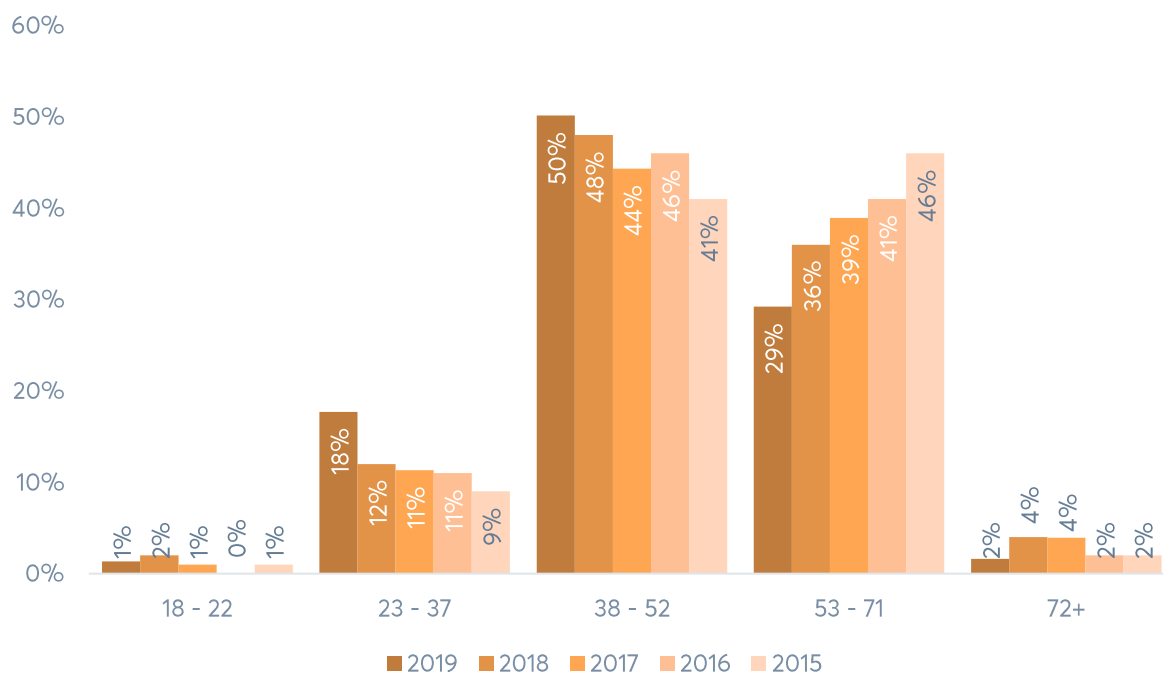
Appendix

Respondent characteristics

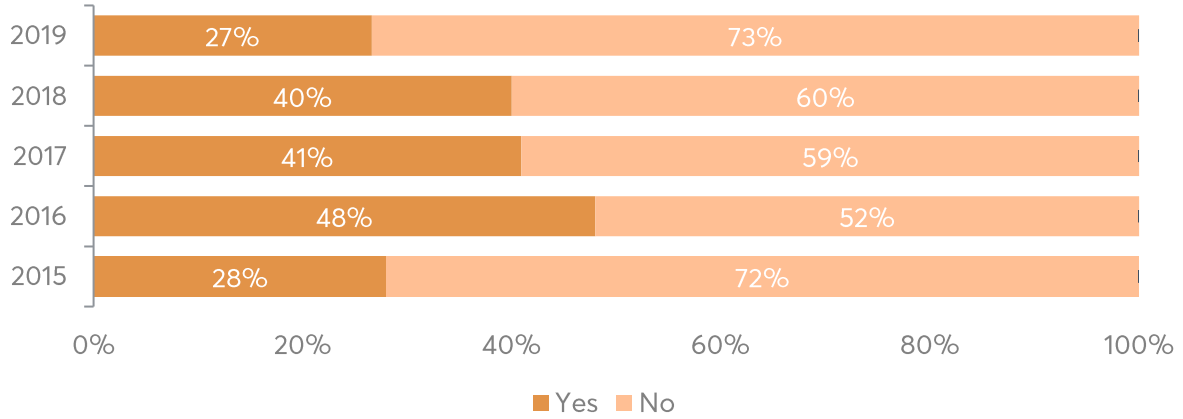
Are you male or female?



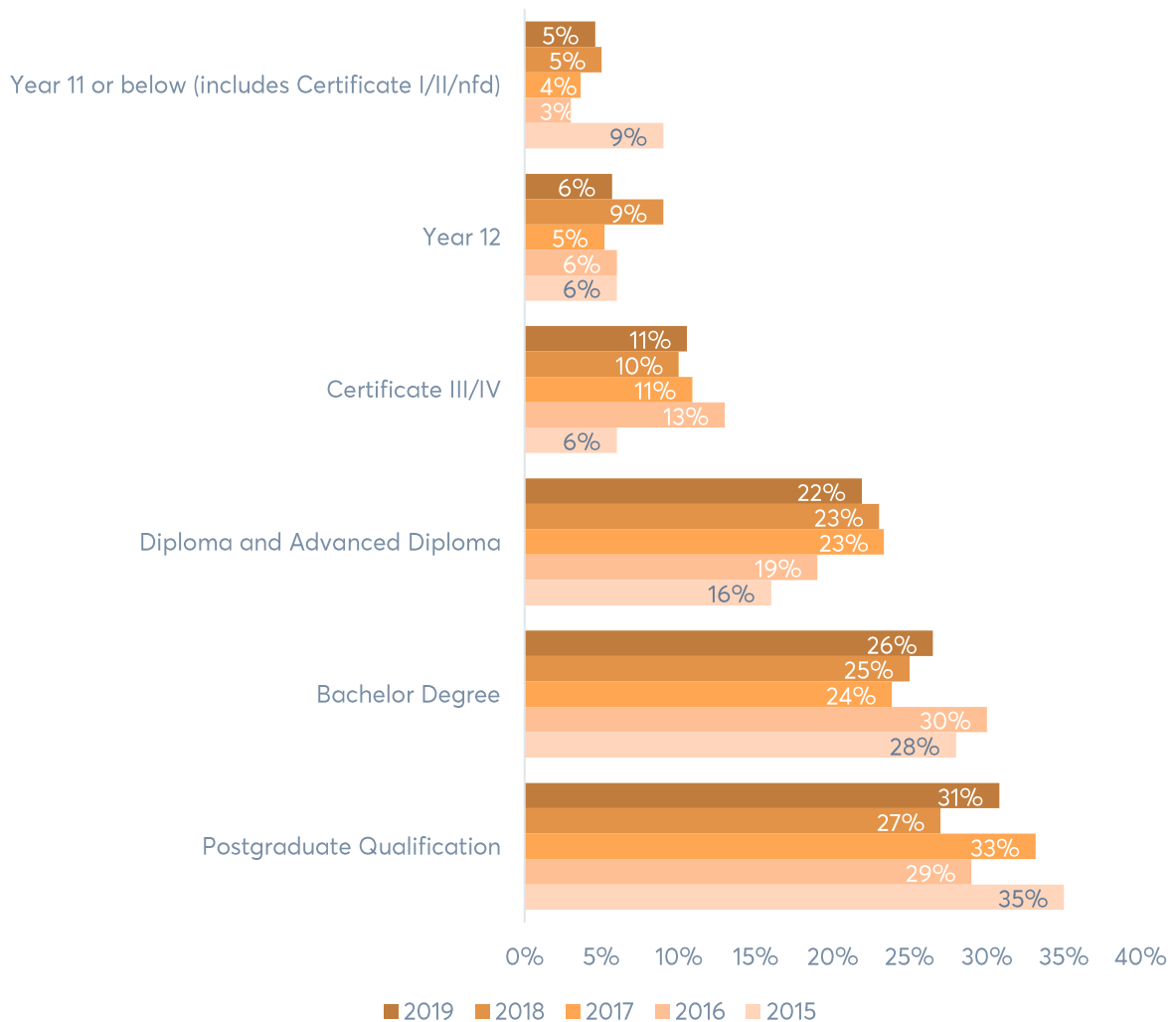
What was your age at your last birthday?



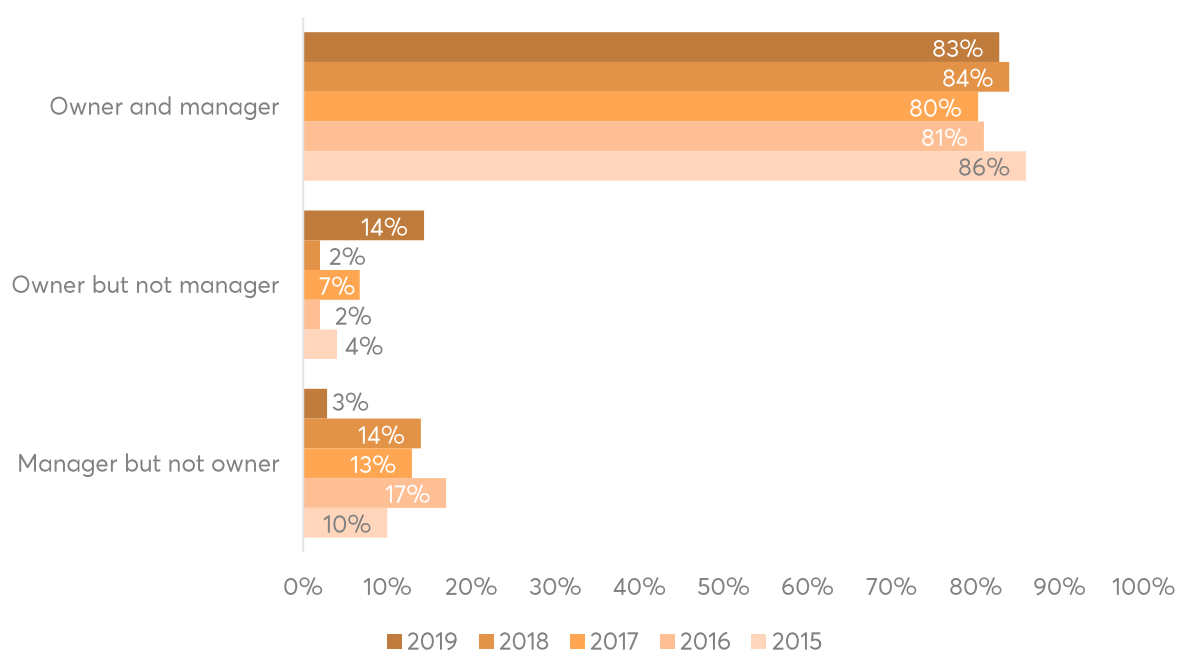
Are you a member of the Sydney Hills Business Chamber?



What is your highest level of completed education?



What is your role within your business?



What is the postcode where your business is located?

Postcode	2019	2018	2017	2016	2015
2117	0%	0%	2%	0%	2%
2118	0%	0%	1%	6%	2%
2125	2%	3%	2%	3%	4%
2151	2%	2%	1%	3%	4%
2152	0%	0%	2%	1%	1%
2153	39%	34%	44%	47%	30%
2154	25%	26%	21%	16%	24%
2155	17%	19%	15%	14%	16%
2156	5%	4%	5%	3%	7%
2157	1%	1%	0%	1%	2%
2158	0%	5%	3%	5%	4%
2756	1%	1%	2%	1%	1%
2765	3%	3%	1%	1%	1%
2775	0%	0%	1%	0%	0%

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 12 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 2019 Hills Shire Business PSI, contact Sydney Hills Business Chamber at membership@sydneyhillsbusiness.com.au or call (02) 9659 3366.

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