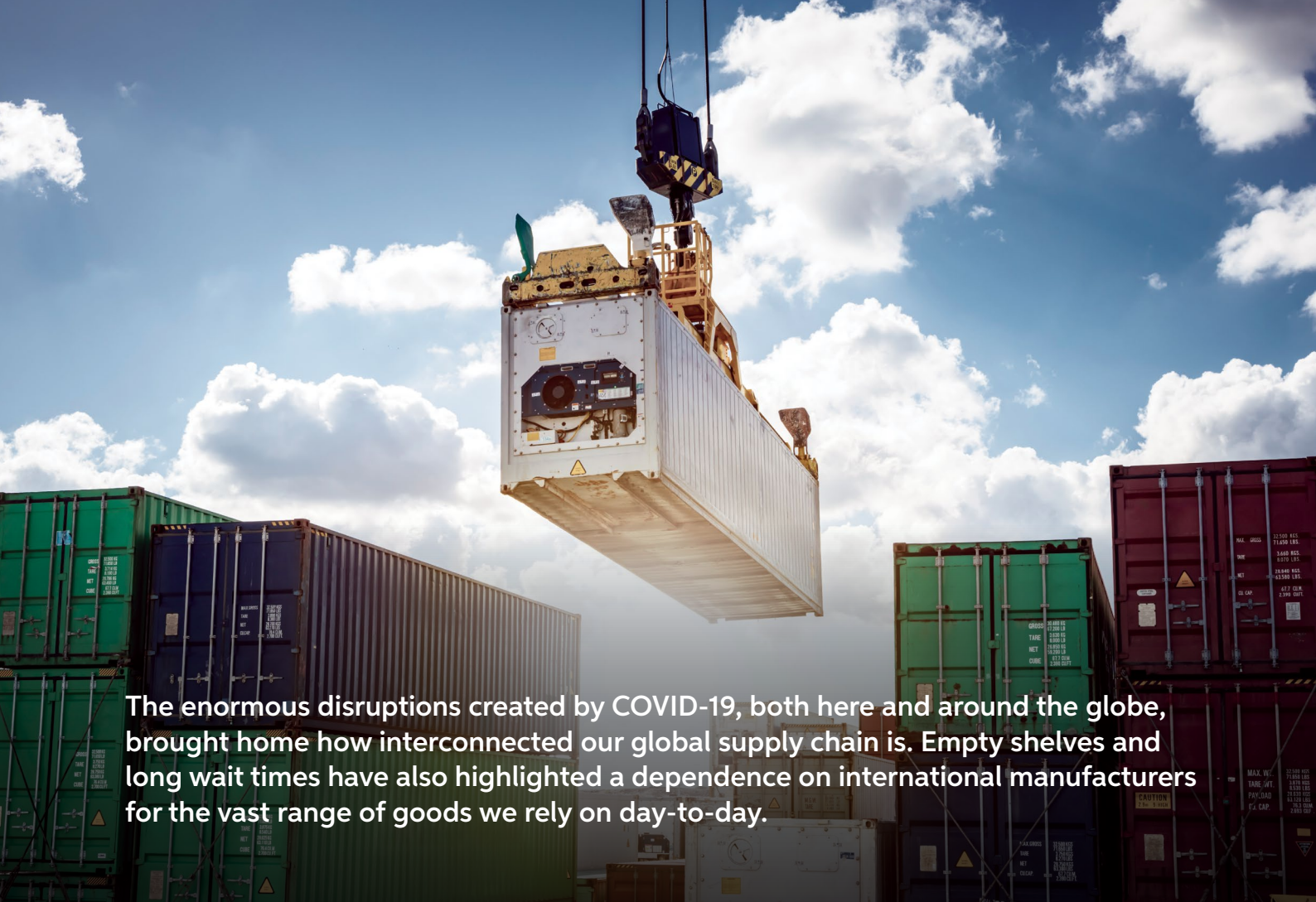


Making Advances

Performance and innovation in
Mid-market manufacturing businesses



The enormous disruptions created by COVID-19, both here and around the globe, brought home how interconnected our global supply chain is. Empty shelves and long wait times have also highlighted a dependence on international manufacturers for the vast range of goods we rely on day-to-day.

On both sides of the Tasman, the manufacturing sector has been under pressure for many years. In a highly competitive international market, rising costs like those seen in transport and labour have put Australia and New Zealand at a disadvantage – particularly compared to international manufacturing juggernauts like China and India.

However, our latest research into the mid-market manufacturing sector across A/NZ has highlighted that, despite the raft of challenges they have faced, our local manufacturers are resilient. They are also performing solidly in a market that has remained uncertain, with prices for key inputs like energy and shipping that are wildly fluctuating.

Even more encouraging, these manufacturers are confident they will see improvements in the economy and their own performance over the coming year.

Jobs, production standards, sustainability, even international human rights – there are many good reasons why we should support and celebrate a thriving local manufacturing sector. But to build on momentum gained this year, manufacturers will need to keep making strides in their productivity journey, like increasing automation and further digitisation of their business and production processes – an area where this report has revealed New Zealand is leading the way.

Our survey has also highlighted that the next half decade will be a period of enormous change for the industry and it's brilliant to see that one of the major changes expected was the return of manufacturing to Australia and New Zealand.

Now is the opportunity to not only shake things up, but to do them better. Our local manufacturers have a vital role to play in the future of our two economies. While commodities exports and tourism have traditionally shaped the perceptions of both the Australian and New Zealand economies, in many ways, it is the things that we make here that have the potential to redefine what we can achieve on the world stage.



Kim Clarke
MYOB General Manager – Enterprise





Economic confidence

Despite the ongoing impacts of COVID-19 and its effects on international supply chains, rapidly rising inflation and the lack of skilled employees, businesses in the manufacturing sector in both Australia and New Zealand are confident they will see an improvement in the economy over the coming year.

This is particularly true in New Zealand, where almost two-thirds of local manufacturers surveyed are predicting the economy will improve in the 12 months to July 2023. This level of confidence reinforces the trend seen in the latest New Zealand Performance of Manufacturing Index (PMI), which was 54.9 – the highest level of activity since July 2021.³

Almost half of Australian manufacturers surveyed are also confident that they will see better conditions over the coming year, while just over a quarter are expecting economic conditions to remain static. The Australian PMI also declined in the latest period (July) by 1.5 points, but still remained above the 50 mark at 52.5.⁴



● Improve

● Decline

● Remain the same

³ www.tradingeconomics.com/new-zealand/manufacturing-pmi

⁴ www.aigroup.com.au/resourcecentre/research-economics/PMI/

Business Outlook (continued)

Business performance

In Australia, the manufacturing sector's confidence reflects a solid revenue performance over the last 12 months. More than half of the manufacturing businesses surveyed in Australia saw their revenue increase in the 12 months to July 2022, while just a fifth saw revenue decline. This is despite growing pressure from increasing costs of transport, goods and overheads during the year, which saw unprecedented disruption to supply, extended wait times and significant increases in the cost of energy.

Larger manufacturing businesses, in particular, saw a very strong performance over the course of the year. Almost two-thirds (63%) of manufacturers surveyed with between 100 and 199 employees reported an increase in revenue in the last 12 months, while 61% of those polled who employ between 50 and 99 people also saw their revenue rise.

Performance in the New Zealand manufacturing sector has been more constrained, with the proportion of businesses surveyed reporting falling revenue (44%) exceeding those who saw revenue gains over the last 12 months (39%). This was particularly evident among smaller manufacturers, with just 22% reporting their revenue increased over the year (56% down). As in Australia, larger New Zealand manufacturers MYOB surveyed have performed better, particularly those with between 100 and 199 employees.

Looking ahead to the coming year, Australian manufacturers appear to be expecting a consistent level of performance, rather than a major increase in revenue. By contrast, New Zealand manufacturers surveyed are more bullish on their earnings prospects for 2023, with more than two thirds (69%) of businesses surveyed expecting improved revenue over the next 12 months.

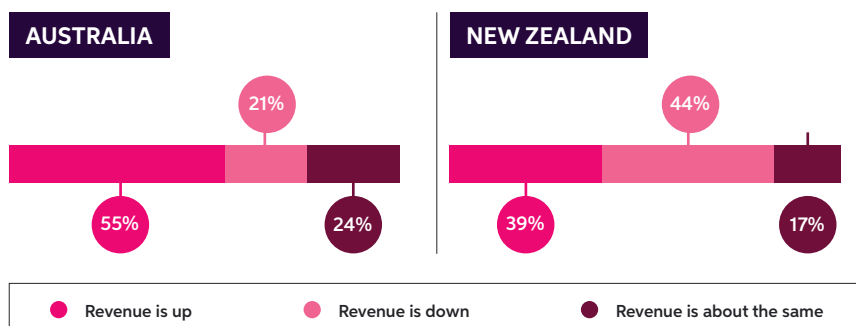


Pipeline activity for this quarter

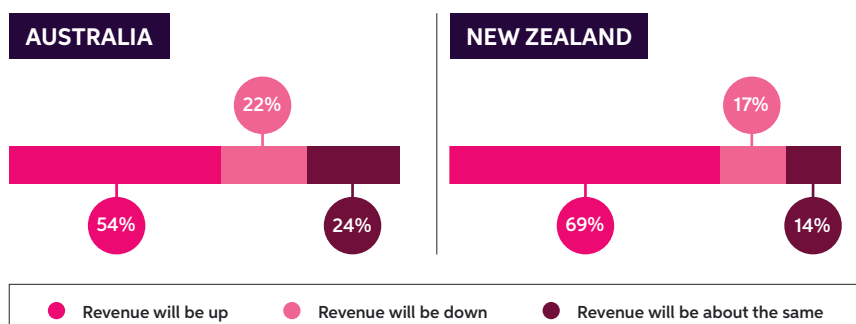
In terms of booked orders or sales, based on the responses to the survey, the New Zealand manufacturing sector is showing an improvement in activity, with over half of the manufacturers surveyed reporting that they have more work in the pipeline for the three months to the end of September 2022. Sales are also looking healthy in Australia, with less than 10% of survey respondents saying they have less work for the period from July-September.

Please indicate how much work you have got on, or what sales you have in the pipeline, in the next 3 months, compared to what you would usually expect?

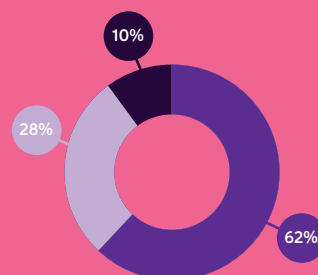
At the present time, is your business revenue up or down from a year ago, or about the same?



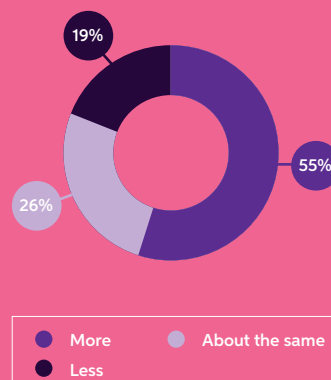
How do you expect your business revenue in 12 months' time to compare to now?



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NEW ZEALAND



Business Outlook (continued)

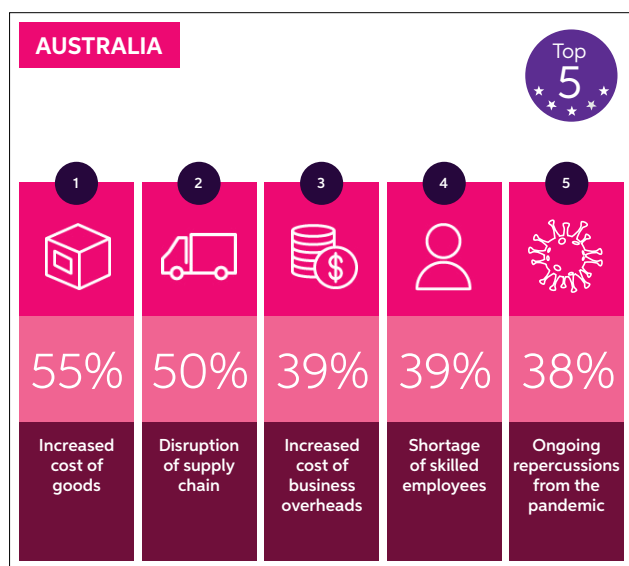
Business challenges

While dealing with the direct impacts of the pandemic remains a major challenge on both sides of the Tasman – with New Zealand manufacturers still citing ongoing repercussions of the pandemic as their most significant issue – it's the flow-on effects from the past couple of years which have created the biggest headache for manufacturers.

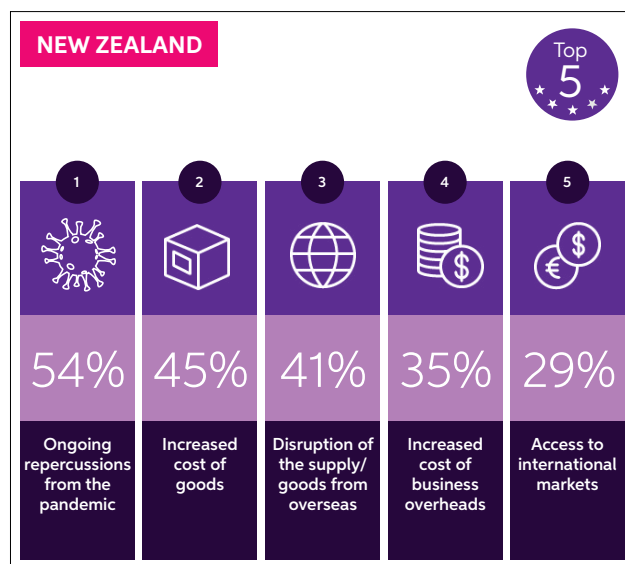
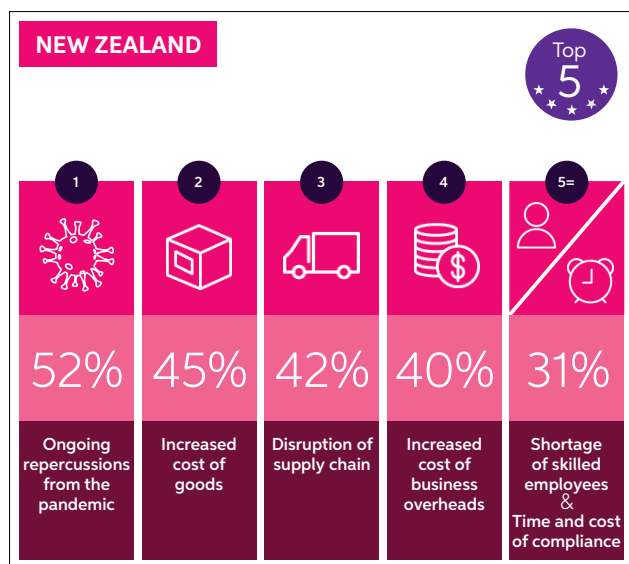
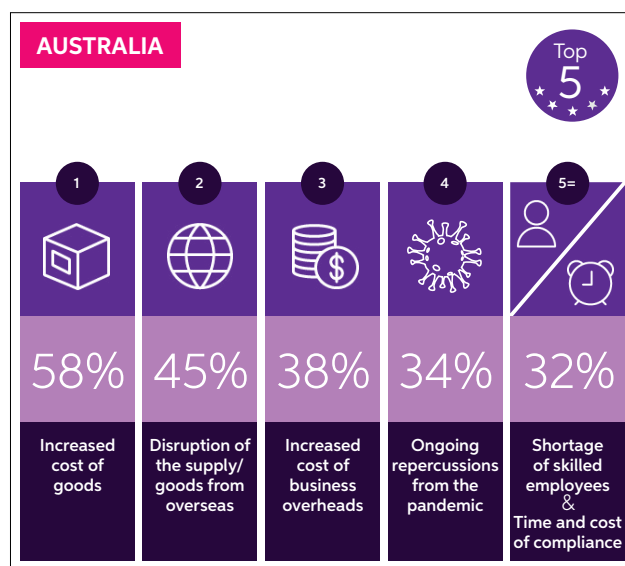
Chief amongst these concerns is the impact of inflation and its effects on both the costs of goods and components, and broader operational costs. And, while the industry has been grappling with a skills shortage for over a decade, this has been exacerbated by border closures and disruption to migration in both countries.

For a sector reliant on both importing parts and materials from overseas, and exporting goods to markets worldwide, the extended disruption to the supply chain has also been weighing on the industry. Few are expecting immediate relief from supply chain issues, with the majority of Australian manufacturers surveyed predicting global supply chain issues will continue to have an impact on their business for between another six months and a year (35%) or even 1-2 years (29%).

What are the major challenges facing your business?:



What do you think will be the major challenges facing your business over the next 6 months?:





Business Innovation

Despite the numerous challenges outlined above, manufacturing businesses in Australia and New Zealand are still working to become more responsive to customer demand.

Over the next 12 months, this will drive significant change in the industry. This includes a greater emphasis on 'make to order' processes which is likely driven by the need to reduce the costs of holding stock, while also providing greater choice and flexibility to respond to customer demand.

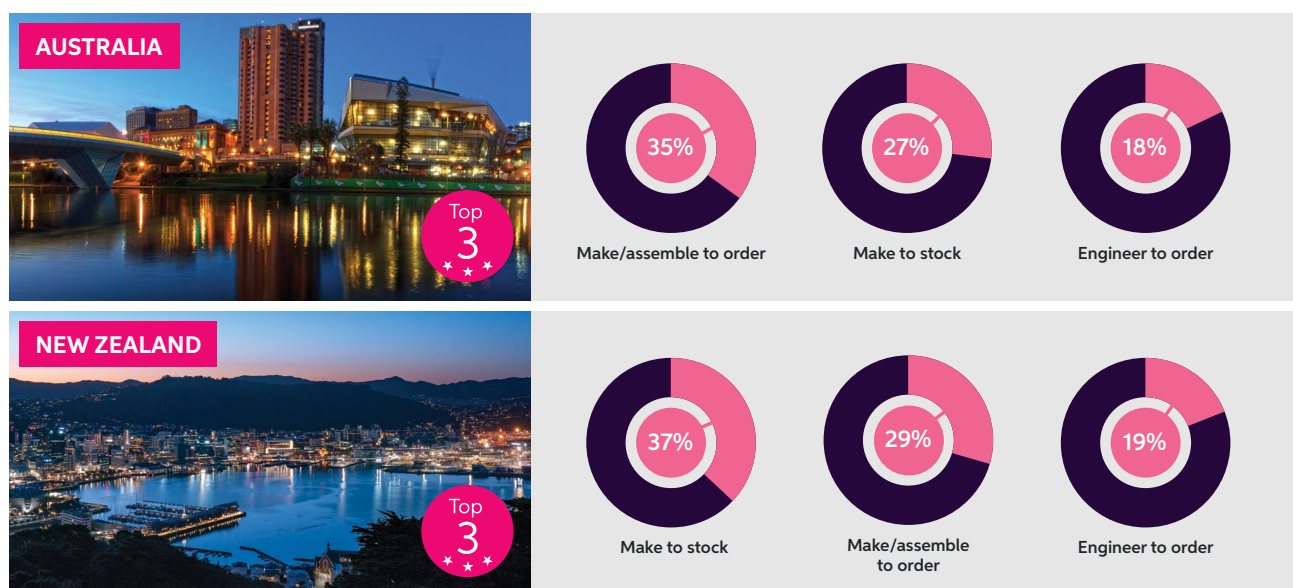
In Australia, almost half of the local manufacturing businesses surveyed are planning to change their business approach, driven by customer demand and the need to improve sales while remaining competitive.

While a smaller percentage of New Zealand respondents say they intend to change their approach, those that do so are set to increase the emphasis of the local industry on 'making' or 'assembling to order'. This change is being driven more by the need to increase their sales pipeline, than as a direct response to customer demand.

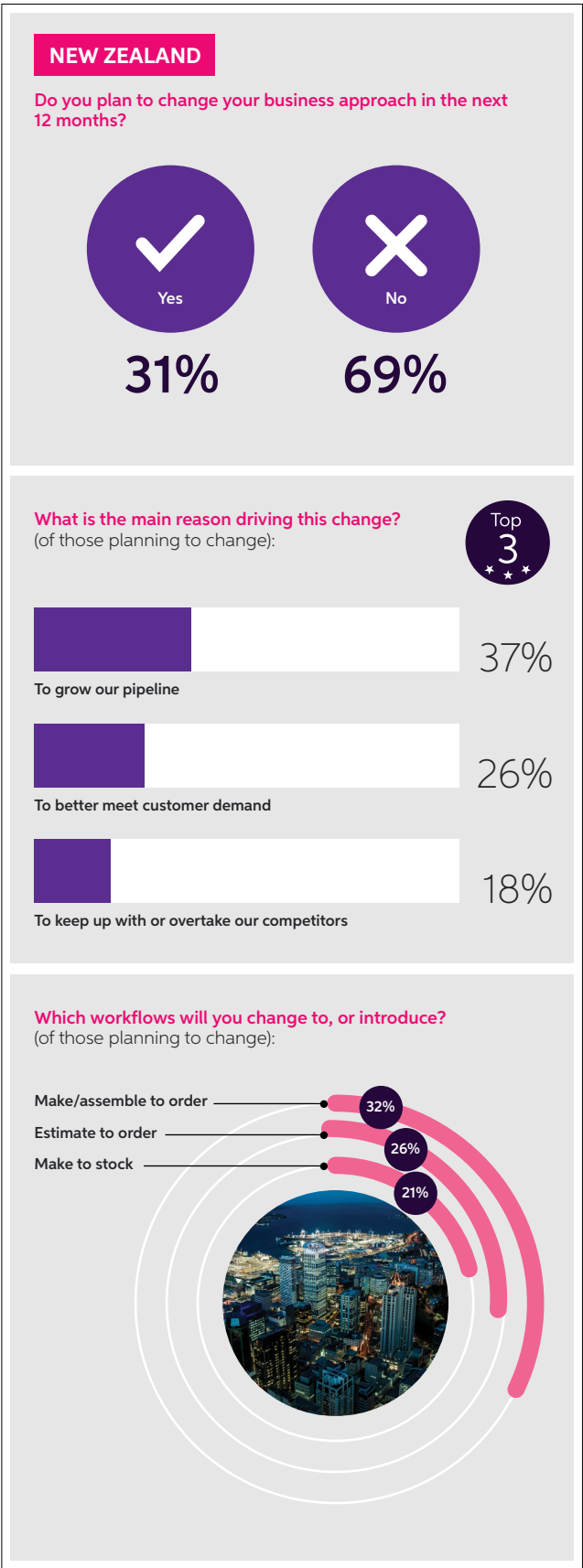
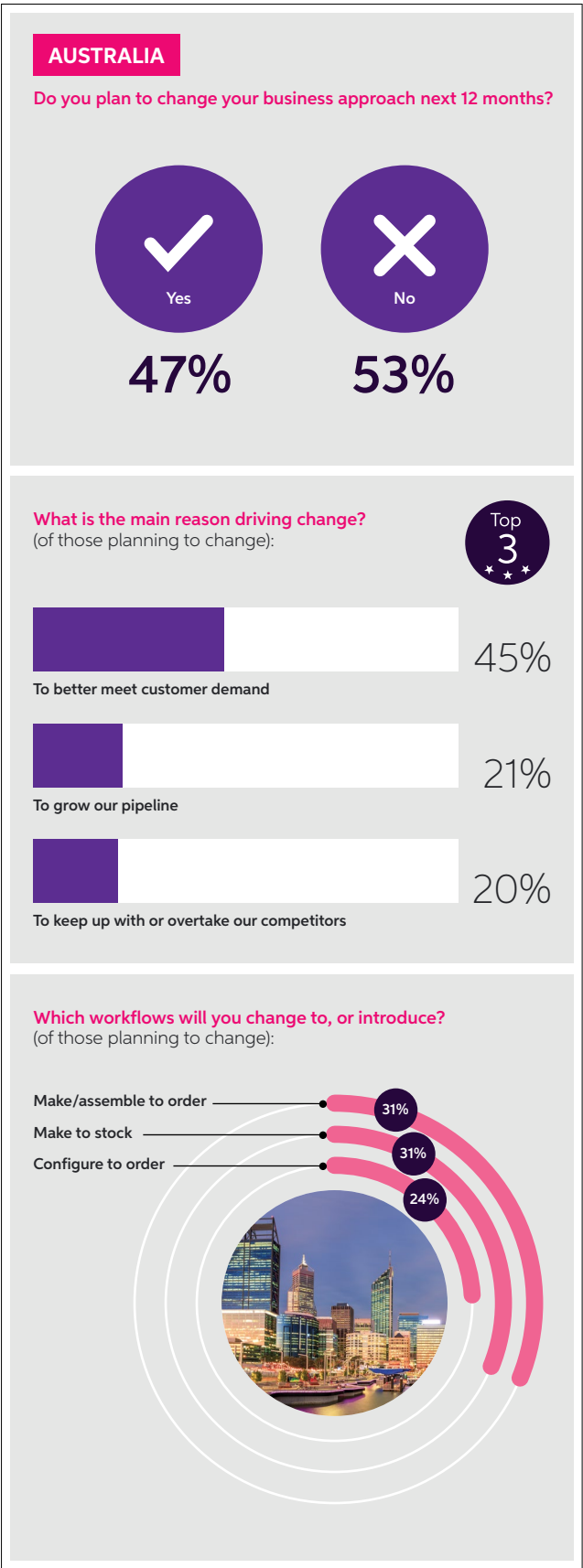
Primary workflows

The 'make to order' approach is currently more dominant in Australia, whereas in New Zealand, the 'make to stock' workflow is more prevalent amongst local manufacturers polled.

Which best describes your manufacturing environment or primary workflows?



Changes to business approach



Business Innovation (continued)

Investing in innovation

In both Australia and New Zealand, investment in innovation (traditionally known as R&D) is a major priority for the sector.

Over 8-in-10 (83%) Australian mid-market manufacturers surveyed said they prioritise innovation. Of those that didn't, costs and other financial priorities (30%), or more pressing business priorities (27%), were the major barriers to a focus on innovation.

However, despite most focusing on innovation, only 47% of Australian manufacturers have an annual innovation budget (53% don't), with 40% of this group spending between \$20,000 and \$50,000 per annum, and 39% spending over \$50,000.

While still significant at 73%, a smaller proportion of New Zealand manufacturers surveyed said that innovation is a priority in their business. Of the more than a quarter (27%) not prioritising innovation, a combination of more pressing priorities (59%), reaching the maximum level of their innovation (59%), as well as the need to tighten up costs (53%), mean they are less focused on this.

Innovation focus areas

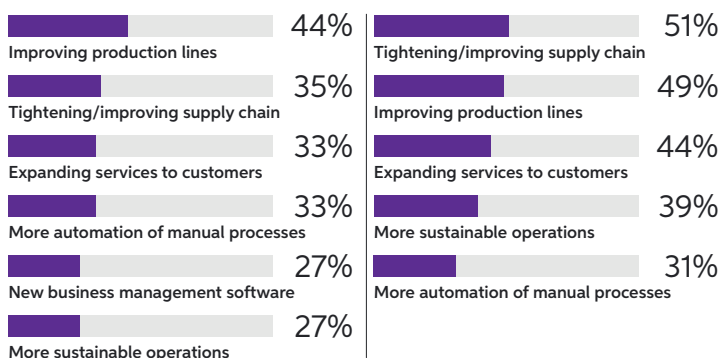
In the last 12 months, 70% of Australian manufacturers surveyed have invested in innovation, with a focus on improving production lines (43%), more automation (35%) and new management software (35%).

In New Zealand, almost two-thirds (64%) of those surveyed said they have made an investment in innovation over the same period, prioritising new business management software (52%) and automation (51%) over investment in lines (41%).

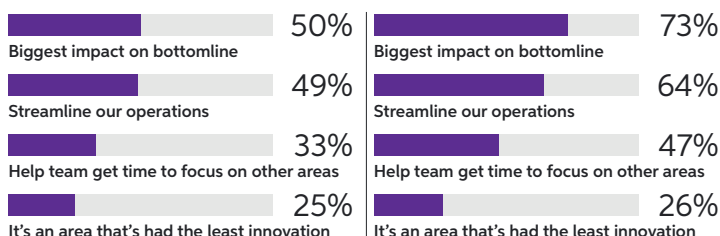
In the next year, manufacturers in both countries will approach innovation with a focus on areas which will have the biggest impact on their bottom line. Sustainability is also becoming a growing concern for local manufacturing businesses.

AUSTRALIA

What do you plan to innovate or change in your business in the next 12 months?



Why have you chosen these areas for further innovation?



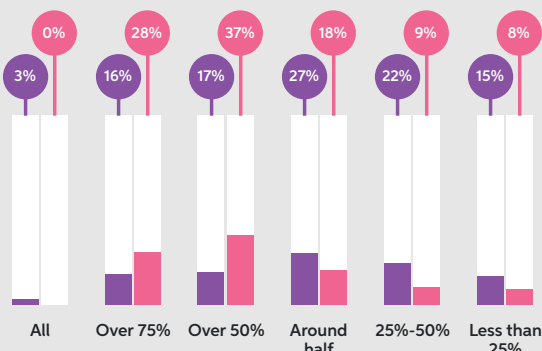
NEW ZEALAND

Digitisation in mid-market manufacturing

As an industry, manufacturing has become increasingly focused on automation, especially to manage significant and ongoing skills shortages. At the same time, the need to drive greater efficiency and productivity in order to remain internationally competitive, has seen digitisation become a major focus for the manufacturing sector.

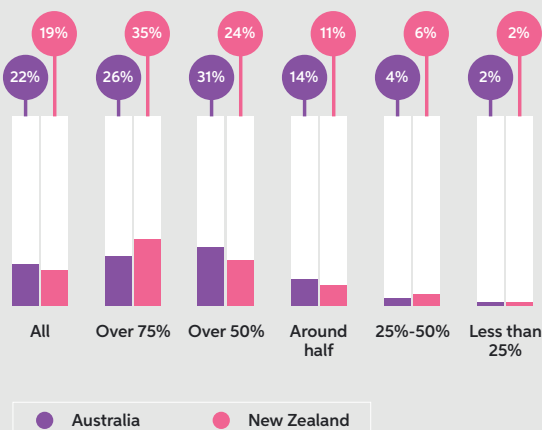
This is particularly true in New Zealand, where 65% of manufacturing businesses surveyed say more than half of their business is conducted using digital technology. The level of digitisation amongst Australian manufacturers appears lower, with 36% surveyed saying they conduct more than half their business digitally.

What proportion of your business is conducted using digital technology, tools and software?



Moving forward, however, many manufacturers in both countries are planning to put a strong emphasis on digitisation, with around a fifth of the organisations surveyed planning to carry out all their business using digital tools in the future, and three quarters aiming for more than 50%.

What proportion of your business would you like digitised overall in future?



Looking Ahead

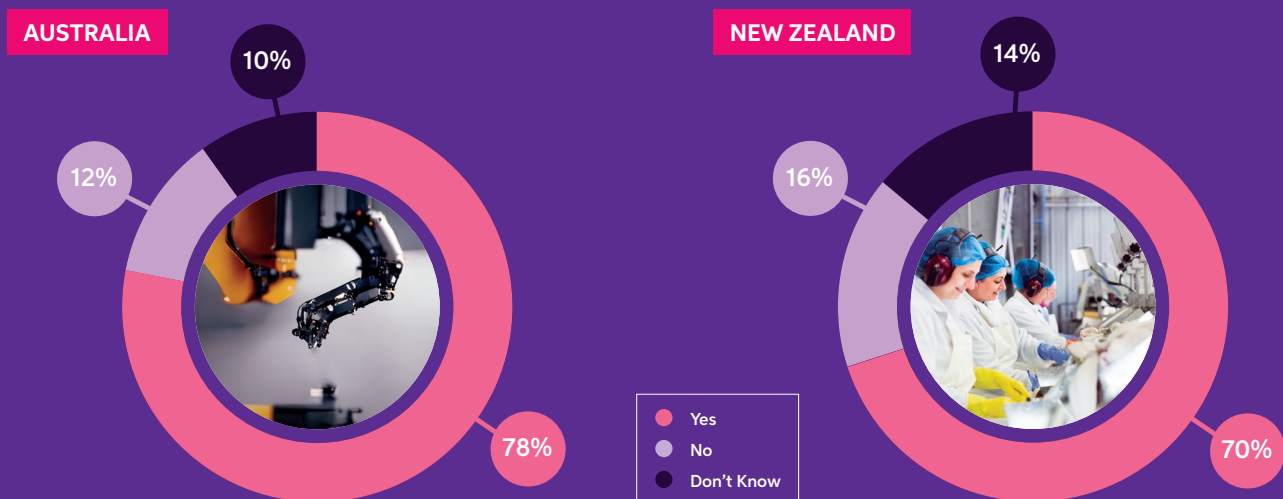
Similar to what we saw across the board from the mid-market earlier this year, the local manufacturing industry has strong growth ambitions. In Australia, more than three quarters (78%) of manufacturers surveyed want to scale their businesses in the future, while 70% of New Zealand manufacturers said the same.

One of the key drivers for change for the industry will be the growing demand for customisation. A significant 86% of manufacturers we polled in Australia are already seeing an increase in demand for customised manufacturing, while in New Zealand, 74% of businesses surveyed report seeing the same trend.

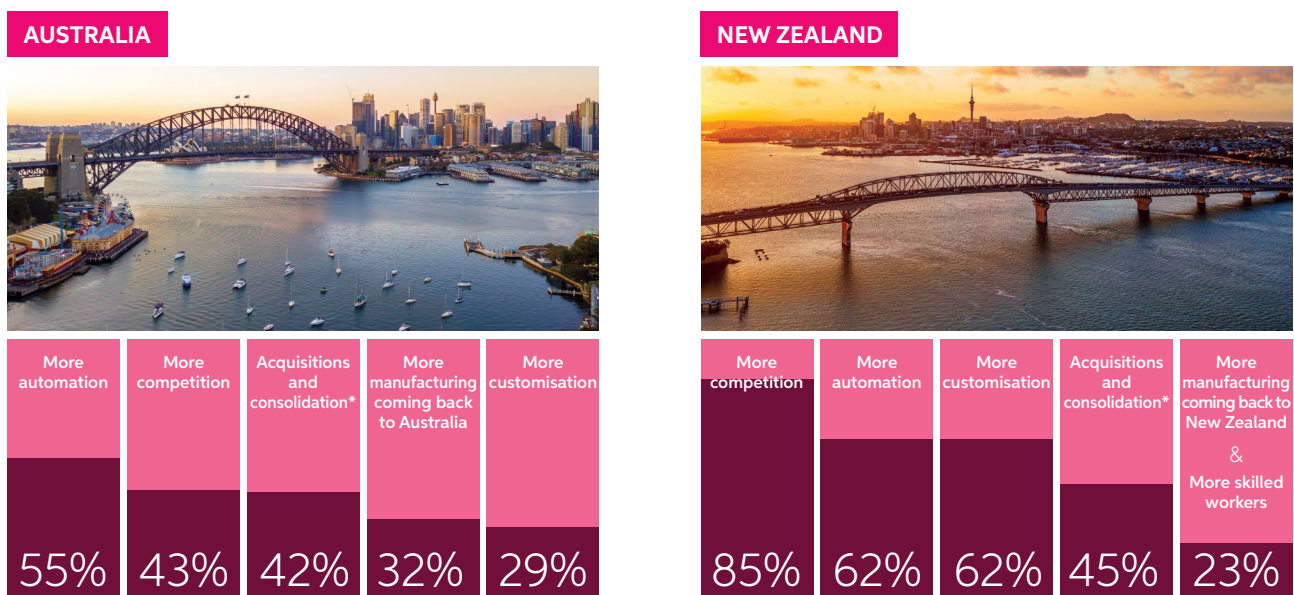
Manufacturers in Australia are also expecting to see rapid change in their sector, with 81% surveyed saying they expect the industry to change rapidly in the next five years. That pace of change may be slower in New Zealand, with 59% of survey respondents saying they think the industry will change rapidly over the same period.

On both sides of the Tasman, the drivers of that change are the same, with increased competition and the growth of automation the biggest changes likely to shape the local industry in the next five years.


Do you have ambitions to scale your business over the next 12 months?



What do you see as being the biggest changes shaping your industry in the next five years?
(of those who believe the industry will rapidly change)



* Bigger businesses acquiring small businesses



Local manufacturing businesses in both Australia and New Zealand have faced enormous pressure over the last few years. However, few businesses are standing still in the face of this pressure.

The majority of businesses on both sides of the Tasman have strong growth ambitions. They also recognise the need to move and adapt in the face of growing competition and increased demand from customers to offer more responsiveness and greater choice.

Key trends like automation and digitisation will support this evolution, providing increased productivity and the ability to adjust quickly to changing markets, building resilience while addressing the critical challenges the industry faces.

Manufacturers not only contribute significantly to our economy, but they also provide many good, well-paying jobs. Whether it's through our own Advanced Business platform and by doing what we can to help them on their digitisation journey, MYOB will continue to support their growth ambitions on both sides of the Tasman, all the way.

About the data

Research for MYOB's Mid-market Manufacturing Snapshot was conducted by Dynata. A combined total of 305 mid-market business leaders and decision makers (with between 20 and 500 employees) in the manufacturing sector from Australia and New Zealand took part in the survey. Respondents were sampled from the Dynata online business profiled panel sources, and screened to ensure they met the qualifying criteria. The survey was conducted from 20th July-20th August 2022.

About MYOB Enterprise

Scalable to meet the needs of growing businesses (from 20-1,000+ FTEs), MYOB Enterprise offers an integrated, all-in-one business management platform that helps mid-market businesses achieve their ambitions by connecting critical workflows through Enterprise Resource Planning and Customer Relationship Management, Payroll, and Workforce Management solutions – all backed by world-class software tailored specifically for the Australian and New Zealand markets. MYOB Enterprise also offers leading practice management solutions for Professional Services businesses. MYOB's award-winning Advanced Business platform (powered by Acumatica) has been rated 4.5/5 stars by mid-market customers across Gartner's Digital Market brands (Capterra, GetApp and Software Advice), and is named as a shortlist recommendation and 2021 category leader across the sites. MYOB Advanced has also been recognised as an ABA100 Winner in The Australian Business Awards 2022 for ERP Innovation and Cloud Innovation.

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