



Australia's International Business Survey: 2014 Report

Survey partners



Finance for
Australian
Exporters



THE UNIVERSITY OF
SYDNEY

ABOUT THIS REPORT

Australia's International Business Survey 2014 (AIBS 2014) provides important insights into Australia's international business community.

AIBS 2014 is an in-depth study of Australian companies involved in international business.

The survey was conducted between 22 October and 16 December 2013 and during that time more than 2,700 responses were achieved which translated into a sample of 1,618 businesses.

AIBS 2014 was commissioned by the Export Council of Australia (ECA), with the support of our partners Austrade and Export Finance and Insurance Corporation (EFIC), and was conducted by the University of Sydney (USYD).

AIBS 2014 represents some of the most extensive research into Australia's International businesses since the Australian Bureau of Statistics (ABS) published "A portrait of Australian exporters" in 2000, drawing on data from 1994/5-1997/8.

For more information on the survey methodology, see Appendix A.

ACKNOWLEDGEMENTS

The Export Council of Australia and survey partners would like to thank the many export companies who took part in the survey and made it a success.

DISCLAIMER

The information presented in this report is based on information received from a survey which was conducted in late 2013.

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EXECUTIVE SUMMARY

This report outlines the findings of a major survey of Australia's internationally active businesses. It is one of the most comprehensive investigations into the international business operations of Australian companies in the last 15 years. The objective of the survey is to gain insights into the international engagement of Australian businesses, their challenges and their future expansion plans.

Key findings

Diversity of international businesses: The survey participants are from diverse industry sectors and operate in over 120 overseas markets. Small and medium-sized enterprises represent 84 per cent of participants, with the remainder large businesses. The median length of experience in international markets is five to ten years.

Nature of international engagement: Almost half of survey participants currently service between two and five overseas markets. Only 13 per cent service one market outside Australia. Overseas markets are most commonly serviced either by exporting via a foreign agent or distributor, or exporting directly from Australia. Respondents also engage in other international business activities besides exports, such as importing or outsourcing.

Most important overseas markets: The main international markets for participants comprise a mix of both advanced and emerging economies. While China is the second-most important destination, advanced economies (the United States, United Kingdom, Japan and New Zealand) represent four of the top five markets. The most important markets vary by industry. The United States is the top market for elaborate manufacturing, software and media, technical services and mining support; China for education and training, food and beverage manufacturing, professional services and agriculture.

Barriers faced abroad: While the ease of doing business varies across countries, the most important barriers to international business across industries are access to information relating to local culture, business practices and language; information about local regulations; and customer payment issues.

Constraints faced at home: When asked about the most important factors adversely affecting their international competitiveness, 50 per cent of respondents selected the value of the Australian dollar. This is double the number who selected transportation and freight costs, the next most important factor. Labour productivity, regulatory compliance and access to finance were also cited as important by respondents.

Financing challenges: Of the one-third of survey participants who had sought finance in the 2012-13 financial year, a majority rate the task as difficult or very difficult. In particular, obtaining debt or equity financing for international business from a financial institution in Australia is regarded as harder than sourcing it from overseas.

Future outlook: Survey participants are optimistic about international growth prospects and 74 per cent plan to expand over the next two years into two or more countries. A wide range of markets are of interest for future expansion, the most important being China and the United States.

INTRODUCTION

This report provides an overview of results from Australia's International Business Survey 2014. The report is based on a survey conducted in late 2013 which resulted in the collection of 1,618 useable responses received from a total of 2,712 businesses responding to the questionnaire (122 declined to participate, 355 dropped out, and 617 were invalid or duplicate entries—see Appendix A for details of the survey methodology).

The report consists of five major sections. In the first section, a demographic profile of survey participants is provided, including the extent of their international revenues and other international activities. In the

second section, the main geographical destinations for respondents are analysed, including the key barriers that companies face offshore. The third section outlines the plans that respondents have for further expansion and the markets they want to expand to. The fourth section is focused on the financial needs of respondents and their sources of funding. The final section reviews the key constraints on international competitiveness that survey participants face at home, the sources of advice they use and support they identify as being most useful in developing their international business.

What do we already know about Australia's international businesses?

The Australian Bureau of Statistics (ABS) provides estimates of the number of Australian businesses that earn international revenue. In 2011-12, the most recent data available, 7.2 per cent of a representative sample of Australian businesses earned overseas income. This is a decline from the 9.1 per cent who declared they had earned overseas income five years earlier in the 2006-07 survey (ABS 2013f).

While the ABS tracks the size of the business community that is internationally active, there is a shortage of information about the international operations of these businesses. ABS publications largely provide an aggregated view:

- An annual analysis conducted by the ABS of the Characteristics of Australian Exporters covers exporters only, not capturing other forms of earning international revenue offshore (ABS 2013b). It also under-reports certain categories of exporters (in particular service businesses) and is not able to provide much information on the export behaviour of individual businesses.
- Data on Australian outward FDI are available from the International Investment Position series produced by the ABS (2013d), but this is provided at the industry and country rather than company level.
- The ABS publication *Selected Characteristics of Australian Business* (2013f) reports the overseas income of a stratified random sample of businesses covering most industries (but excluding education and training). While this annual series provides

valuable insights into the number of businesses earning overseas income, it does not inquire into how and where this income is earned.

The AIB 2014 survey is designed to complement these existing sources by providing a more comprehensive overview at a company level. It includes a broad range of industries and ways of earning international revenue; examines not just whether but how and where survey participants operate offshore; and investigates their challenges and future plans. As such, it provides one of the most detailed portraits of Australia's international business community since the publication of 'A Portrait of Australian Exporters' 15 years ago (ABS/Austrade 2000).

Given the lack of existing company-level knowledge about the population of Australia's international businesses, it is not possible to be precise in estimating the representativeness of this survey. A comparison with ABS data on exporters (2013b) suggests that this survey has captured businesses with a relatively higher value and frequency of international sales to a greater number of markets. ABS statistics suggest that there is also a large group of occasional exporters with infrequent and small value transactions, of which only a small proportion has responded to this survey. The limited coverage here of this group of occasional exporters is likely explained by their lack of identification as international businesses and hence motivation to respond to the survey. A more detailed discussion of ABS data is provided in Appendix C.

1. AUSTRALIA'S INTERNATIONALLY ACTIVE BUSINESSES

Highlights

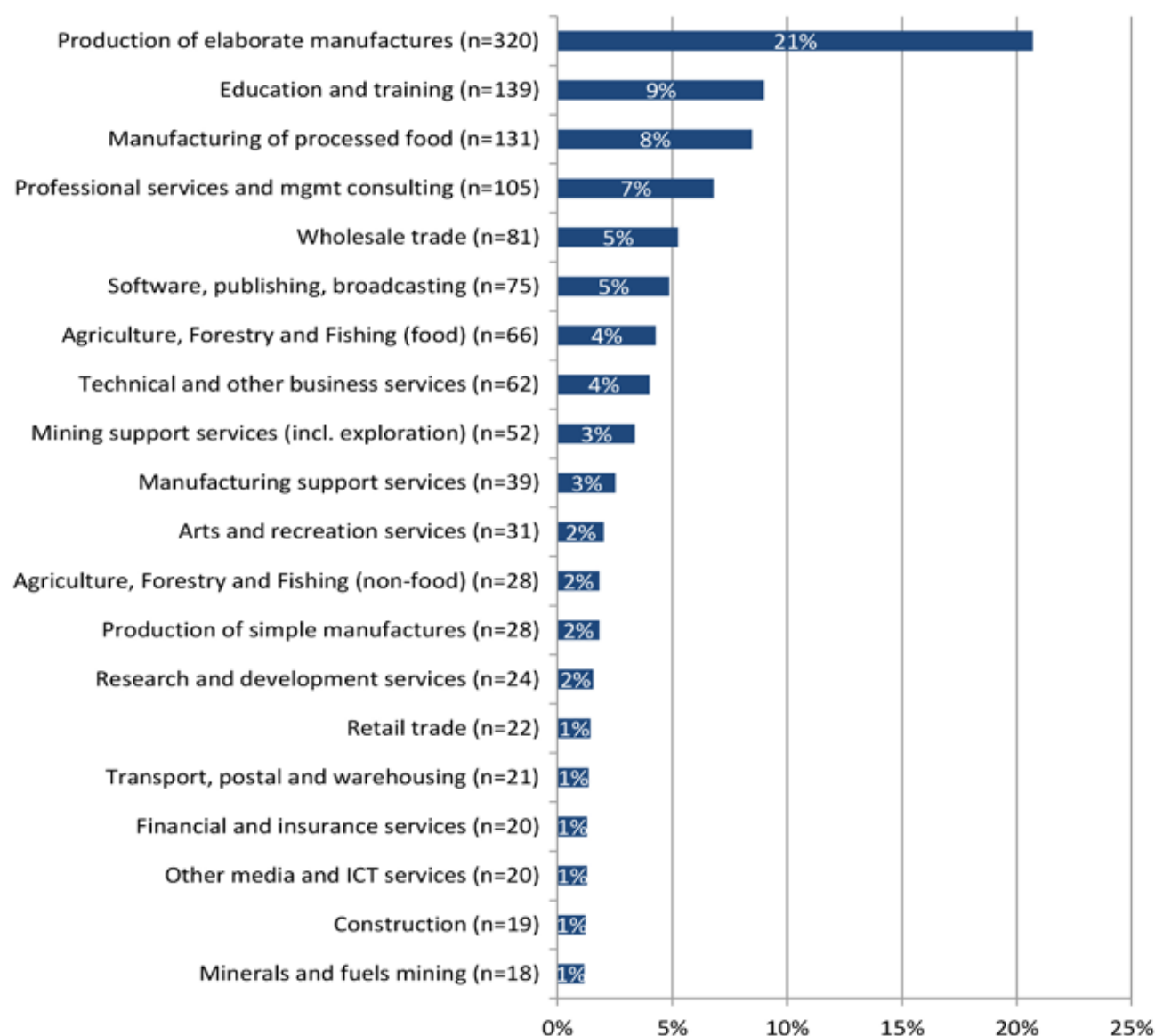
- Survey participants are mostly small and medium-sized enterprises (84 per cent), with large businesses comprising 16 per cent of responses.
- Businesses surveyed are from diverse industries, including service-based industries that have been under-represented in other surveys. Nearly half the businesses surveyed earn international revenues from services.
- The majority of respondents have more than five years' international experience. About half earn revenue from two to five overseas markets.
- The smallest companies depend more on international revenue than larger companies.
- The majority of businesses, regardless of size, engage in a range of other international business activities in addition to international sales, such as importing/outsourcing, foreign investment/offshore production, and research and development.
- The majority of survey participants report that profitability from international operations is equal to or better than profitability from domestic operations.

Respondent Profile

Participants in the survey provided demographic information relating to their industry sector, company size and age, and the location of their headquarters. Participants are mostly well-established small and medium-sized companies (SMEs). The manufacturing sector comprises the largest industry overall in terms of number of responses. Education and training is the largest service-based industry.

The analysis in this report will highlight those industries from which the greatest number of responses were received. These nine industries consist of:

- **Product-based industries:**
 - elaborately transformed manufactures (see Appendix B for a definition);
 - manufactures of processed food and beverages; and
 - agriculture, forestry and fishing (unprocessed food and live animals);
- **Service-based industries:**
 - education and training;
 - professional services and management consulting;
 - software, publishing and broadcasting;
 - technical and other business services; and
 - mining support services.
- **The wholesale trade industry**, which in this report has not been classified as either product- or service-based, due to its hybrid nature. This industry offers an intermediary service to other businesses, but largely exports a diverse range of goods produced by others (and hence is included in counts of goods exporters by the ABS, see ABS 2013b).

Figure 1: Number of international businesses per industrySurvey question: *Which sector best describes the business of your company?*

Sample size by number of respondents: n=1546

Note: Due to rounding, bar charts do not always add up to 100 per cent; only the 20 largest industries are included in this figure

The manufacturing industry is the largest in terms of the number of responses to the survey (Figure 1). Two of the top three industries in the survey are manufacturing based: elaborately transformed manufactures (21 per cent of respondents) and processed food and beverages (8 per cent). Mining support services are in ninth place and the mining and fuels sector is placed twentieth.

The importance of manufacturing is broadly consistent with ABS data (2013b) on goods exporters. While the mining industry is the largest by value, accounting for

54 per cent of Australian goods exports by value in 2011-12 (ABS 2013b, the most recent figures available), it comprises only one per cent of the number of exporters. The manufacturing industry accounted for 14 per cent of goods exports by value in 2011-12, but 21 per cent of the number of goods exporters. If wholesale trade is excluded, this makes manufacturing (simply and elaborately transformed manufactures, and processed food and beverages) Australia's largest export industry when calculated in terms of the number of exporters.

A distinctive feature of this survey is the large number of respondents from a range of service sectors, including education and training; professional services and management consulting; software, publishing and broadcasting. The largest service-based industry in this survey is education and training, which is also Australia's largest services exporter, accounting for 28 per cent of services exports in 2012-13 (DFAT 2013a).

The ABS (2013b) reports that in 2011-12, there were 43,080 exporters of merchandise goods, amounting to \$264 billion worth of exports, and 2,937 exporters of services, valued at \$51 billion. According to these numbers, which include some double-counting, only 16 per cent of exports by value and seven per cent of exporters were service related. However, ABS statistics (2013b, 2013c) show that many businesses in service-based industries (even if wholesale trade is not classified as a service) are counted among goods exporters. In order to calculate the volume and value of goods exports, the ABS uses data recorded by the Australian Customs and Border Protection Service. Accordingly, service-based businesses are counted as goods exporters if they have sent physical goods offshore. Analysis of ABS statistics (2013b) shows that over a third of the businesses exporting goods in 2011-12 (and whose ABN number was reported, allowing identification of an industry) are from service-based industries such as transport, financial, professional and retail services.

At the same time, the ABS (2013b) acknowledges that its statistics under-report the international activities of service industries. There are various reasons for this. The first is that the services data are based on a survey which has not captured a representative sample of smaller businesses. The second reason is that the ABS dataset does not include all types of cross-border service delivery. ABS statistics do not count the servicing of foreign customers in Australia. Yet this is the most important form of delivery for the education and tourism industries, which together accounted for 60 per cent of Australia's services exports in 2012-13 (DFAT 2013a).

ABS data on exports also do not count foreign affiliates trade; that is, businesses that establish a commercial presence in the foreign country in order to service customers there. It is known that this mode of delivery is particularly important for services (DFAT 2013b). The ABS has not conducted a survey of total foreign affiliates trade since 2002-03, but at that time, it found that 65 per cent of Australia's cross-border services were delivered this way (ABS 2004).

In this survey, business size calculated by the number of employees follows a classification used by the ABS (Table 1). Small and medium-sized enterprises (SMEs) have fewer than 200 employees and large businesses over 200. The ABS delineates three sub-types of SME: micro, small and medium (see also Appendix B for a definition).

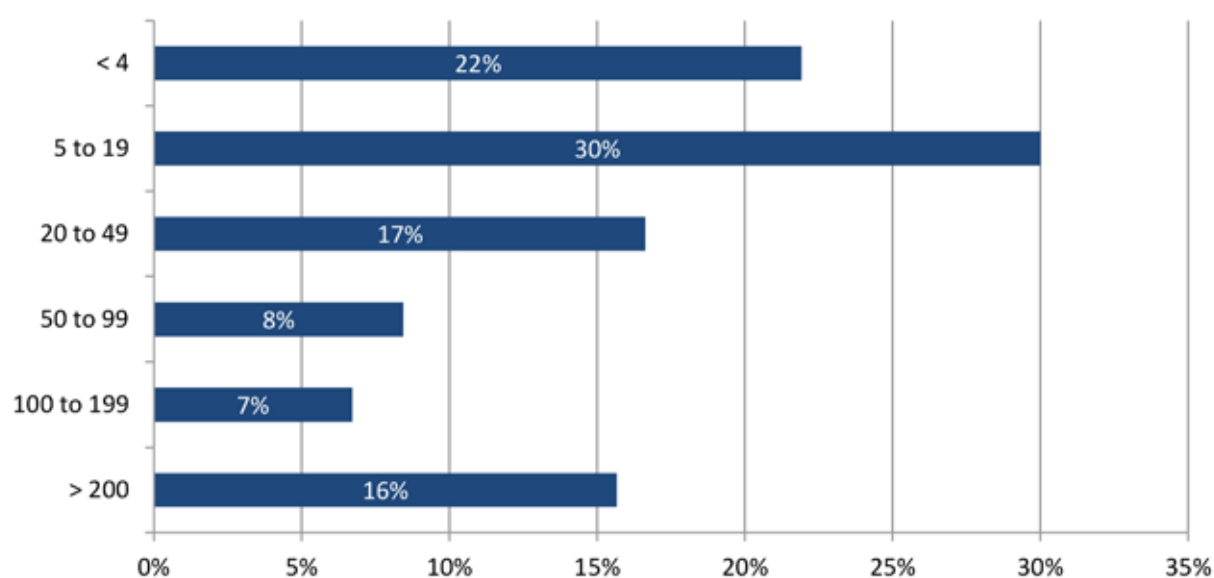
The median size of companies in the survey is between five and 19 employees (Figure 2). SMEs form the overwhelming majority of respondents (84 per cent). Micro and small businesses with up to 20 employees represent 52 per cent of international businesses in the survey (22 and 30 per cent respectively), medium-sized businesses with fewer than 200 employees make up 32 per cent. Large businesses with more than 200 employees account for 16 per cent of survey participants.

Additional analysis was conducted to uncover industry differences in terms of business size. Of the main industries covered in the survey, the median size of mining support businesses is 50 to 99 employees. Businesses in agriculture (unprocessed food) are mostly small, with a median of five to 19 employees. This also holds for service industries, with the exception of the education and training sector. Businesses in this industry have a median size of 20 to 49 employees. It also has the highest proportion of large firms (30 per cent), as does technical services (24 per cent). The software and media industry has the highest percentage of firms with fewer than 20 employees (74 per cent).

Table 1: Definition of business size

| Definition of business size | Number of employees |
|-----------------------------|---------------------|
| Micro | Less than 4 |
| Small | 5 to 19 |
| Medium | 20 to 199 |
| Large | More than 200 |

Source: ABS (2001)

Figure 2: Number of employeesSurvey question: *How many employees does your company have?*

Sample size by number of respondents: n=1551

Note: Only the 20 largest industries are included in the figure

As Figure 3 shows, the median, and largest, group of respondents comprises businesses with \$1 million to \$5 million in revenues (28 per cent). This is closely followed by businesses with up to \$1 million in annual revenues (26 per cent). As would be expected, business size as calculated by the number of employees is highly correlated with size as measured by total revenue.

An analysis of responses from the main industries in the survey found that those with the lowest median revenues are service based. Businesses in software and media, wholesale trade, professional and technical services, as well as education and training, reported median revenues of \$1 million to \$5 million. Businesses from product-based industries – manufacturing (elaborately transformed manufactures and food and beverages) and agriculture (food) – as well as mining support services had median revenues of \$5 million to \$20 million. The category of participants reporting revenues of \$200 million or more is made up of food and beverage manufacturing, mining support, elaborate manufactures, and technical and other business services. No businesses from the software and media industry had revenues of \$200 million or above in the 2012-13 financial year.

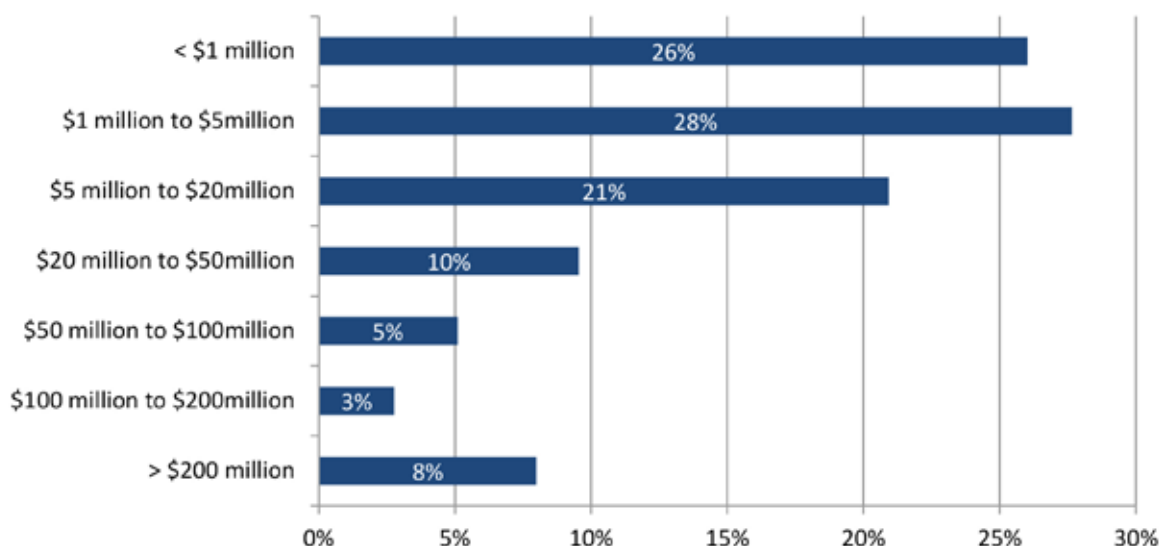
The majority of participants are from older businesses, with 44 per cent more than 20 years old, while only six per cent of businesses were founded less than three years ago (Figure 4). Other data on the age of international businesses are hard to come by, but an ABS (2013a) panel survey of SMEs found that a majority of businesses reporting overseas income were over 30 years old.

An industry-level analysis of responses reveals that the oldest businesses covered in the main industries are from mining support and elaborately transformed manufacturing: 48 per cent of mining support companies and 57 per cent of elaborate manufacturers are over 20 years old. As a group, education and training and software and media businesses are younger; their median age is between ten to 15 years.

The headquarters location of most respondents is in New South Wales, Queensland or Victoria (Figure 5). It should be noted that five per cent of respondents are subsidiaries of a parent company headquartered overseas. Businesses with overseas head offices have more employees, higher revenue and a larger proportion of revenues earned overseas.

Figure 3: Total revenue (financial year 2012-13)

Survey question: *What was your company's revenue for the last financial year?*



Sample size by number of respondents: n=1541

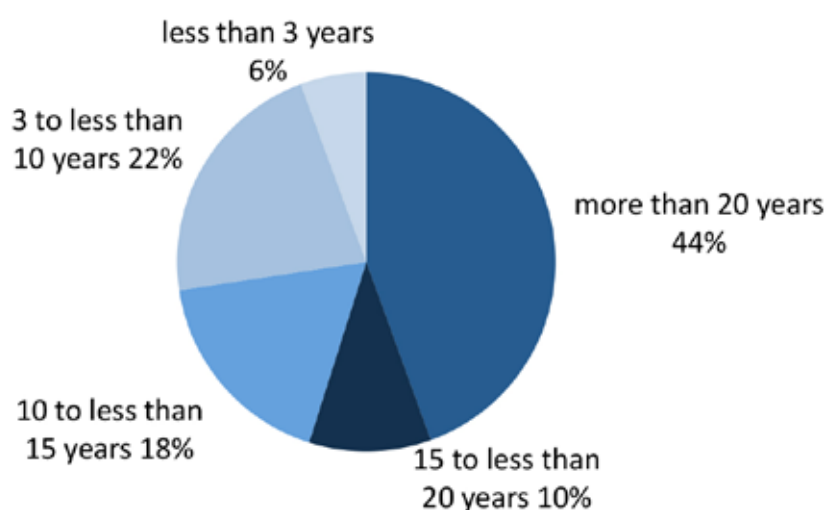
Note: 'Don't know' and 'Would rather not disclose' categories have not been included; they accounted for n=127 responses

It is difficult to assess whether these results for headquarters location are representative of the international business population as a whole. The geographical information provided by the

ABS (2013b) is based on the state of origin of the exported goods (information on services is not available), rather than the geographical location of an exporter's head office.

Figure 4: Company age

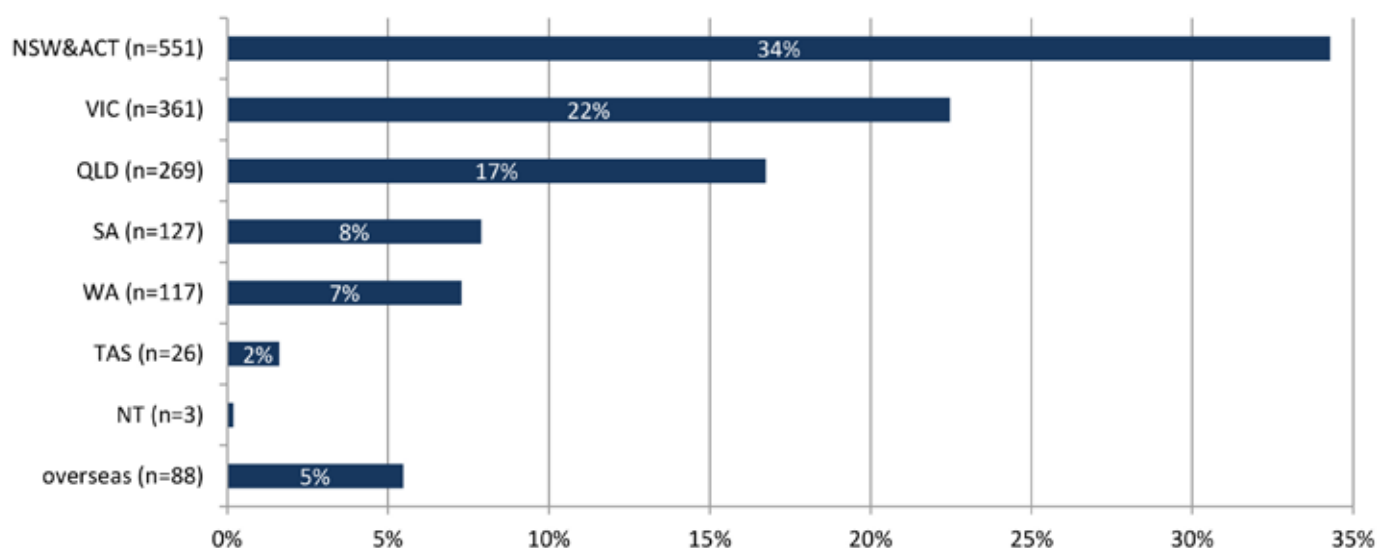
Survey question: *How long has your company been operating?*



Note: 'Don't know' category accounted for n=1 response

Figure 5: Location of respondents' headquarters

Survey question: *Where is your company's head office located?*



Sample size by number of respondents: n=1554

Note: 65 respondents did not provide their location and were not included in the figure

International business activities of respondents

Survey participants were asked to indicate when they started to earn international revenues, the revenue share earned internationally and the nature of their various international business activities. Most respondents have been active in international business for more than five years, and a majority earn between ten and 25 per cent of their total revenues offshore.

Almost half operate in two to five markets. Only 13 per cent operate in one. Most reported that their international profitability is equivalent to or better than that of their operations in Australia. Most respondents earn international revenue on a weekly or monthly basis and engage in other international business activities, typically importing or outsourcing.

Of the businesses responding to this question, 44 per cent had been earning revenues internationally for more than ten years, 26 per cent for five to ten years, and 29 per cent for less than five years (Figure 6). The median category for first earning revenue from international business is five to ten years ago. Given that the largest group in the survey is comprised of companies over 20 years' old, it is perhaps not surprising to find such a high level of international business experience. Analysis of the major industries in the survey found that apart from software and media companies, 39 to 52 per cent of businesses from the major industries in the survey had been earning international revenues for more than ten years. In software and media, the youngest among the main industries in the survey, the figure is 24 per cent.

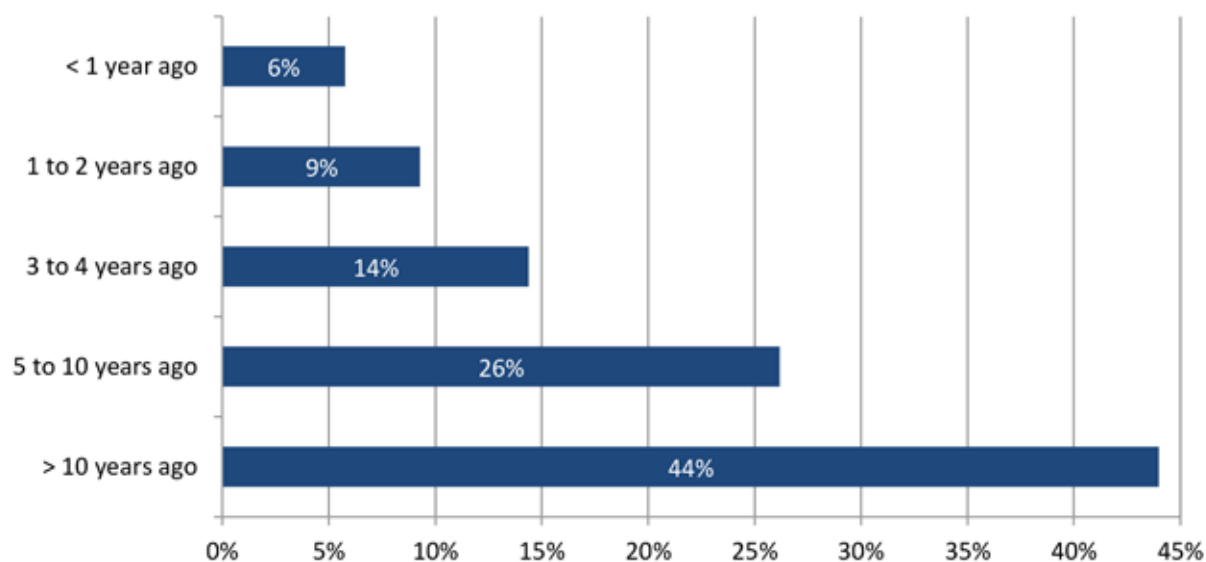
Existing data published by the ABS provide no points of comparison when it comes to the international experience of businesses. It is therefore not known whether this profile is typical of the broader population of internationally active businesses in Australia.

The median revenue earned from international operations in the preceding 12-month period is ten to less than 25 per cent of total revenue (Figure 7). At the other end of the scale, 18 per cent of respondents earn over 75 per cent of their total revenue internationally.

The largest companies (revenues over \$200 million) surveyed are more dependent on the domestic market than the smallest companies (revenues less than \$1 million): 34 per cent of the former earn less than ten per cent of their revenues offshore, compared to 24 per cent of the latter. However, analysis of survey responses did not find an overall relationship between international revenues and size.

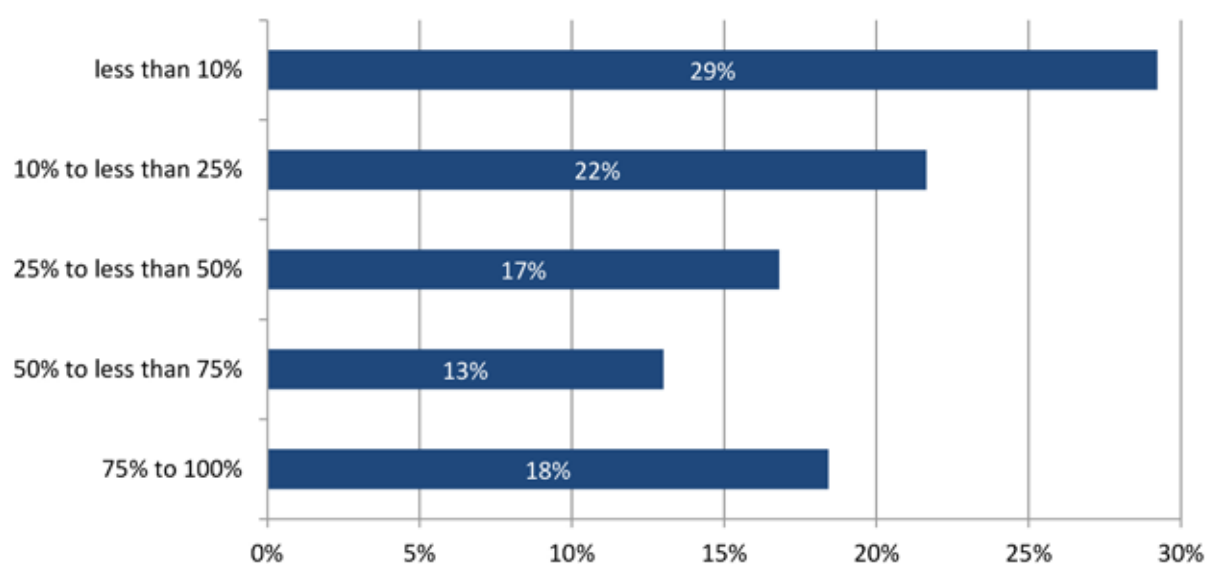
Analysis of the major industries covered in the survey found variation in terms of their dependence on overseas markets. Forty two per cent of respondents from the agriculture (unprocessed food) industry reported earning 75 to 100 per cent of their revenue overseas, making this the industry with the greatest number of companies with a very high dependence on international operations. The industries reporting the least dependence on overseas markets are professional services, mining support, elaborately transformed manufactures, food and beverage manufactures and wholesale trade.

The ABS (2013b) relies on different measures of export revenue – GST turnover and the value of exports – to those used in this survey, making comparability of the two datasets problematic. It is nonetheless worth noting that the value of the exports of a majority of businesses counted by the ABS is small. In 2011-12 (ABS 2013b), 30 per cent of the total number of goods exporters were recorded as exporting less than \$10,000 in value, and 68 per cent less than \$100,000.

Figure 6: Time when company started earning international revenuesSurvey question: *When did your company start earning revenue from overseas?*

Sample size by number of respondents: n=1509

Note: 'Don't know' category accounted for n=6 responses

Figure 7: Percentage of revenues earned outside Australia (past 12 months)*Survey question: *What percentage of your company's revenue was earned outside Australia in the last 12 months?*

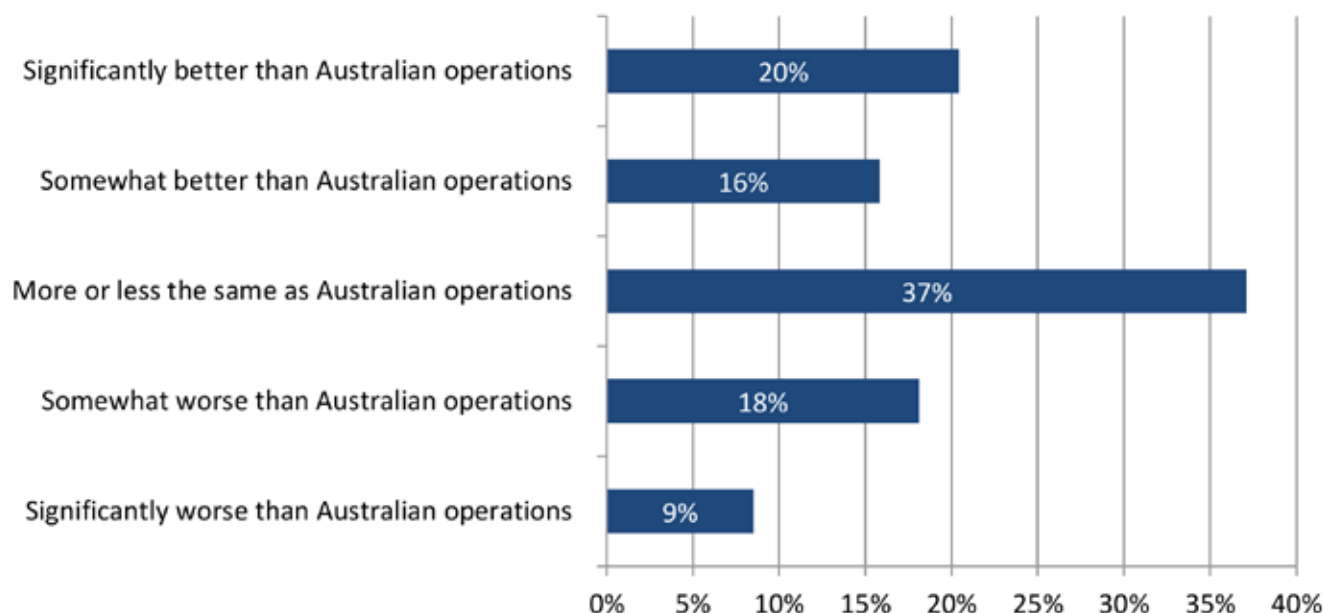
Sample size by number of respondents: n=1553

Note: 'None' category accounted for n=14 responses

* 'Past 12 months' refer to the period from November 2012 to November 2013

Figure 8: Profitability of international operations (past 12 months)

Survey question: *Describe the profitability of your company's international operations over the past 12 months*

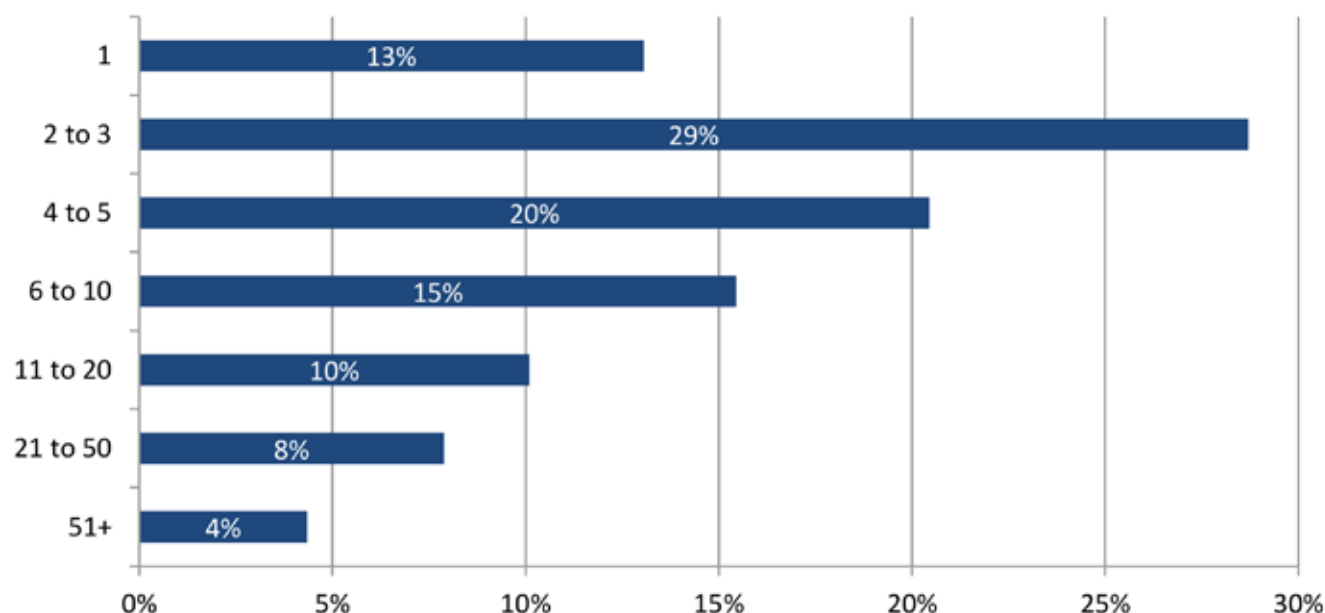


Thirty six per cent of participants indicated that their international operations were somewhat or significantly more profitable than their Australian business in the preceding 12 months (Figure 8). Further analysis of the responses found that medium-sized businesses reported worse international profitability levels relative to their Australian operations than both their smaller and larger counterparts. Large businesses reported the best results, with 76 per cent of respondents from large companies assessing the profitability of their international operations as comparable to, or better than, domestic operations.

Eighteen per cent of respondents reported that profitability levels of their international operations were somewhat worse than their Australian operations in the previous 12 months, and nine per cent significantly worse. Relatively low levels of profitability may not necessarily be an indication of poor performance; it could also indicate that the business is new to, or seeking to expand in, overseas markets. It could also be a reflection of the fact that some survey participants are waiting for profitability to return with a lowering of the value of the Australian dollar against major currencies.

Figure 9: Number of overseas markets where revenues were earned (past 12 months)

Survey question: *How many overseas countries has your company earned revenue from in the past 12 months?*



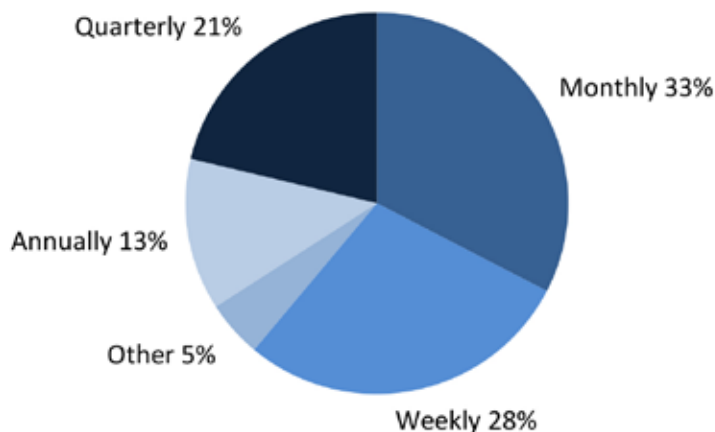
Almost half the respondents (49 per cent) earn revenue from two to five overseas markets, with the median category being four to five countries (Figure 9). Only 13 per cent of respondents reported that they earn revenue from a single international market. This figure is in marked contrast to ABS data (2013c) which found that in 2011-12, 59 per cent of goods and service exporters earned revenue from just one foreign market.

The difference in results can be attributed to sampling decisions: this survey aimed to include not just exporters, but all businesses earning revenue offshore. In addition, response rates to the survey are likely to have been influenced by the degree to which companies are involved in international business. It can be expected that regularly active international businesses were more motivated to complete the survey, rather than those who fill orders on a sporadic basis.

At the other end of the scale, eight per cent of the sample reported they sell to 21 to 50 countries and four per cent of companies are truly global players, operating in more than 50 countries. Additional analysis confirms that, as would be anticipated, the category of companies earning revenue from more than 50 countries is predominantly comprised of businesses with at least ten years' international experience (83 per cent), and 54 per cent of this group are large in size (i.e. firms with more than 200 employees). This group is dominated by two industries: education (37 per cent) and elaborately transformed manufacturing (19 per cent).

Figure 10: Frequency of international revenues

Survey question: *How regularly does your company earn revenue from overseas?*



Sample size by number of respondents: n=1518

Note: The 'Other' category also provided qualitative evidence

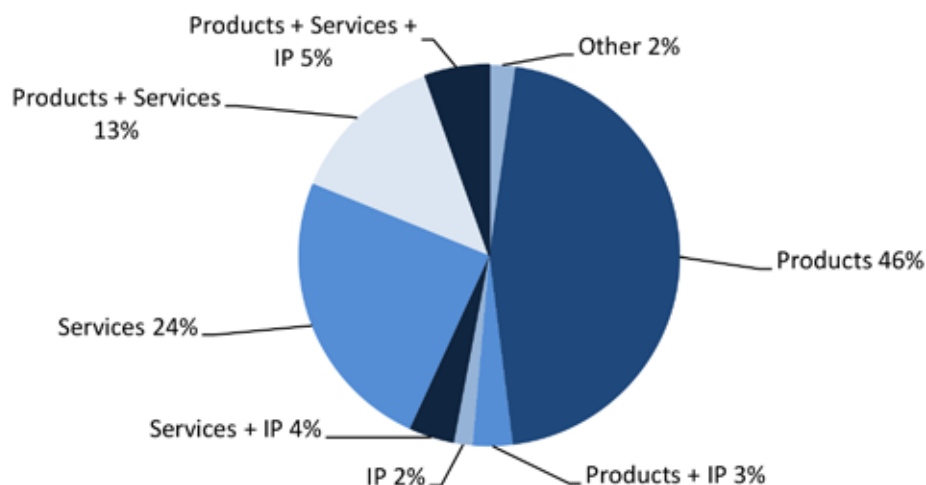
The median frequency of international income is monthly, and 61 per cent of respondents reported their businesses earn international revenues on a weekly or monthly basis (Figure 10). On average, micro businesses reported earning international revenues less frequently than other respondents.

In open-ended feedback they provided, 71 respondents describe their frequency in earning international revenue as ad hoc, irregular, intermittent or infrequent. Those who provided a reason for this irregularity point either to the seasonal nature of their products or the fact that revenues are project based. In such cases, irregular sales would not necessarily be an indication of poor performance. As one respondent characterised it, international sales could be 'occasional' but 'high value'.

The frequency of overseas income reported by respondents is additional evidence that they are more committed to international business than a substantial proportion of exporters covered by ABS statistics. In 2011-12, the ABS (2013c) data indicate that 35 per cent of goods exporters had conducted only one export transaction that year. This group represents only 13 per cent of respondents to this survey.

Figure 11: Sources of international revenues

Survey question: *Does your company earn its international revenue from the sale of products/services/intellectual property? (select all that apply)*



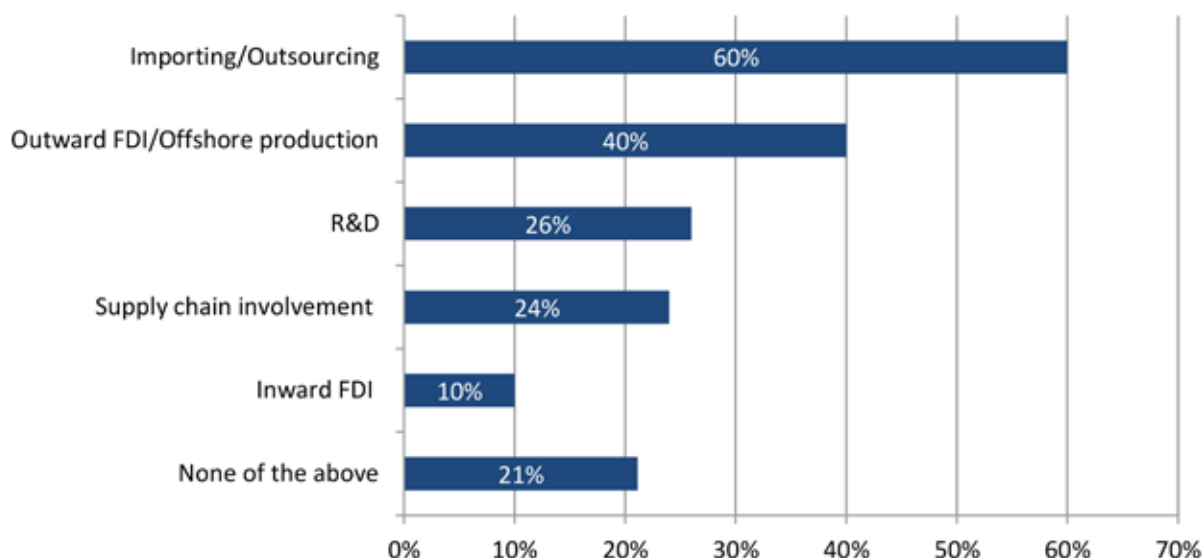
Sample size by number of respondents: n=1599

The majority of survey participants reported that they derive international revenues from the sale of products (67 per cent), although only 46 per cent are reliant on product sales alone (Figure 11). The rest sell products in combination with services and/or IP. Nearly half the respondents reported that they derive international revenues from services (46 per cent), and 18 per cent sell both products and services, or products, services and IP. Fourteen per cent sell IP, usually in conjunction with products and/or services, with only two per cent of respondents dependent on IP alone.

Further analysis of responses found some variations among businesses related to their sources of international revenues. Businesses that reported earning revenue from a combination of products, services and IP are larger in terms of employee numbers and revenues, reported more frequent overseas income from a large number of countries, have greater levels of international experience, and are much more likely to have an overseas head office. Pure IP businesses tend to be younger, smaller, less experienced, and are less likely to be subsidiaries of a multinational headquartered overseas. They operate in fewer countries and they earn revenue less frequently.

Figure 12: Involvement in other international business activities

Survey question: *Is your company involved in any of the following international business activities? (select all that apply)*



Sample size by number of respondents: n=1438

Note: The total exceeds 100 per cent because multiple responses could be selected

International business is not just confined to earning international revenue. This survey differs from prior studies (ABS/Austrade 2000; ABS 2013b) in that it seeks to capture multiple ways of earning international revenue, not just exporting from Australia. Other ways of generating revenue include setting up a foreign affiliate (a foreign branch or subsidiary), establishing an offshore joint venture or partnership, licensing or franchising, or selling goods produced offshore rather than in Australia.

Survey participants were accordingly asked about the additional international business activities that they undertake offshore (Figure 12). Importing/outsourcing (60 per cent) and outward FDI or offshore production in foreign facilities the company owns (40 per cent) are the most commonly reported activities, followed by technological or research and development (R&D) collaboration with a foreign partner and involvement in an international supply chain (26 per cent and 24 per cent respectively). Attraction of inward FDI is the least commonly reported activity (10 per cent).

Twenty one per cent of respondents reported performing no international business activities apart from generating revenue offshore. Those businesses conducting only one additional activity are most likely to be importing/outsourcing. Only 16 businesses – of which half are manufacturers of different kinds – perform all activities surveyed.

Additional analysis of the main industries covered in the survey found that businesses in the education and training sector are less likely to conduct additional international business activities. Businesses producing elaborately transformed manufactures reported the highest number of additional activities. They are also the respondents who reported the highest rates of importing/outsourcing (80 per cent).

2. CURRENT OVERSEAS MARKETS

Highlights

- Survey participants generate international revenues from a mix of advanced and emerging economies. The top five markets from the survey are the United States, China, New Zealand, United Kingdom and Japan. Notably, advanced economies represent four out of the five most important overseas markets for respondents.
- The most important overseas markets for respondents vary by industry. The United States is the main market for elaborately transformed manufacturing, software and media, technical services, and mining support; China for education and training, food and beverages manufacturing, professional services and agriculture; and New Zealand the most important market for wholesale trade.
- The most commonly reported barriers to doing business internationally are (1) a lack of access to information related to local culture, business practices and language; (2) information about local regulations and tariffs; and (3) customer payment issues.
- The survey confirms that emerging and advanced economies differ in terms of the nature and extent of barriers they present and the relative ease of doing business (see Appendix D for key country profiles).

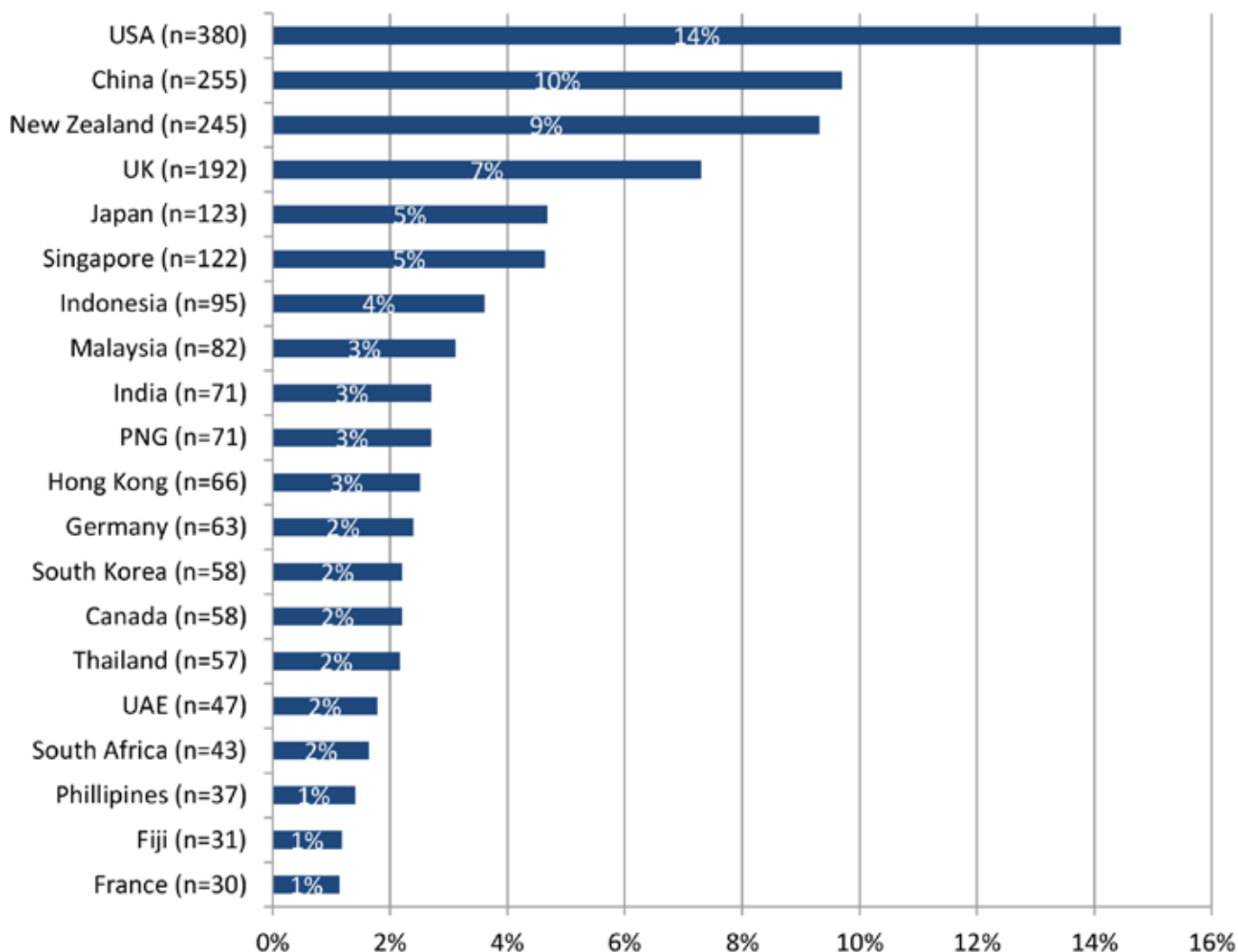
Main overseas markets

Respondents were asked to list their first and second most important overseas markets in terms of international revenue. The top ten destinations are a mix of countries that are geographically close (e.g. Papua New Guinea), possess historical and

linguistic ties with Australia (e.g. United Kingdom), and/or are large economies (e.g. China). The top destinations for Australia's internationally active businesses also vary by industry.

Figure 13: Main overseas markets

Survey question: *Which countries does your company earn most of its revenue from? (top two countries)*



Sample size by number of responses: n=2629, including 1337 first and 1292 second most important countries indicated by each respondent

Note: Only the 20 largest countries are included in the figure; 15 respondents indicated that they trade with Australia's top ten trading countries without specifying which countries

Survey participants were asked to nominate their two most important markets (Figure 13). While the results from this question show that some markets are clearly more important than others, they also underscore the diversity of respondents' international operations. The market that is most often nominated as the most or second most important, the United States, was still only selected by 14 per cent of respondents. In total, respondents provided 123 different countries as one of their top two countries.

Of the ten markets most frequently nominated as the most or second most important, five are advanced and five emerging economies. However, amongst this top ten, advanced economies were nominated as one of their two most important markets by almost twice as many respondents as were emerging economies. Advanced economies are four out of the top five destinations, while emerging economies comprise the bottom four. China is the only emerging economy to be ranked in the top five.

The top ten markets as nominated by respondents are similar but not identical to Australia's ten largest export markets by value in 2011-12 (the most recent data available), as reported by the ABS (Table 2). Countries such as the United States, New Zealand and the United Kingdom are more highly ranked in this survey, whereas Korea and Taiwan are less important (number 13 and 22 respectively).

These differences can be attributed to at least three factors. First, this survey measured markets not by value but by the number of businesses for whom they are important. As a result, destinations for Australia's raw materials are less prominent, given that the mining sector is dominant in terms of value but not the number of international businesses (ABS 2013b). Second, the higher weighting of services in this survey compared to data provided by the ABS (2013b) is likely to have affected the results, as service industries show different market preferences to those of exporters of goods. Third, ABS statistics (Table 2) capture exports but not other sources of generating foreign revenue, for example trade through foreign affiliates.

Table 2: Top ten overseas markets: survey and ABS results compared

| Country | AIB survey ranking | Ranking – goods exporters by number ^(a) | Ranking – goods exports by value ^(a) | Ranking – services exports by value ^(b) | Overall ranking – total goods and services trade by value ^(c) |
|------------------|--------------------|--|---|--|--|
| United States | 1 | 2 | 5 | 2 | 4 |
| China | 2 | 4 | 1 | 1 | 1 |
| New Zealand | 3 | 1 | 8 | 4 | 6 |
| United Kingdom | 4 | 7 | 7 | 3 | 8 |
| Japan | 5 | 9 | 2 | 6 | 2 |
| Singapore | 6 | 3 | 9 | 5 | 7 |
| Indonesia | 7 | 13 | 11 | 11 | Not in top 10 |
| Malaysia | 8 | 8 | 12 | 9 | 10 |
| India | 9 | 16 | 4 | 7 | 5 |
| Papua New Guinea | 10 | 6 | 15 | 18 | Not in top 10 |

Sources:

(a) ABS (2013b)

(b) ABS (2013e); 2011-12 data used to be consistent with ABS (2013b)

(c) DFAT (2012a); based on ABS data

Analysis of the ten most important markets nominated by survey participants reveals the following characteristics:

- Nearby markets are heavily represented in the top ten destinations, even if they are relatively small in terms of their population size. New Zealand is the third most important market and Papua New Guinea the tenth, with three ASEAN countries (Singapore, Malaysia and Indonesia) also present in the top ten.
- Large markets (in terms of population and total GDP) are heavily represented in the top ten: the United States and China are ranked the most and second most important market respectively, with Japan, Indonesia and India also in the top ten.
- Commonwealth countries comprise six of the top ten destinations selected by respondents. All but one of these countries has English as an official language (the exception being Malaysia, where English is nonetheless a common business language). With the addition of the United States, this means that English is the official language in six out of the ten top markets. For companies new to international business, the trend is even more pronounced: seven out of ten (and three out of the top five) of the top destinations are Commonwealth countries and seven out of top ten are English speaking (and four out of the top five).

Some variations can be observed among the major industries in this survey (Table 3). For businesses in the agricultural (unprocessed food) sector, the top three destinations are China, Japan and Malaysia. For producers of elaborate manufacturing goods, the top three are the United States, New Zealand and the United Kingdom. Food and beverage manufacturers earn their international revenues mainly from China, Singapore and the United States. China is overwhelmingly the most important market for education. For software and media, the top three markets are the United States, United Kingdom and New Zealand. Education is the only industry in which more than five per cent of respondents nominated India as the most important market.

Table 3: Most important markets by industry

| Industry | Market no. 1 | Market no. 2 | Market no. 3 |
|---------------------------------------|---------------|----------------|----------------|
| Elaborately transformed manufacturing | United States | New Zealand | United Kingdom |
| Education and training | China | India | United States |
| Food and beverage manufacturing | China | Singapore | United States |
| Professional services | China | United States | United Kingdom |
| Wholesale trade | New Zealand | United States | United Kingdom |
| Software and media | United States | United Kingdom | New Zealand |
| Agriculture (unprocessed food) | China | Japan | Malaysia |
| Technical services | United States | New Zealand | Indonesia |
| Mining support | United States | Indonesia | New Zealand |

Mode of servicing and ease of doing business in main overseas markets

Respondents were asked how they service their two most important markets and how easy they find it to do business in these markets. The businesses surveyed mostly rely on servicing their important markets directly from Australia or using a foreign agent or distributor. A comparison of the ten most important markets reveals

that advanced economies are perceived as the easiest in which to do business, with Malaysia the most highly ranked emerging economy. Among the top ten markets, India is rated as the most difficult in which to operate, with Japan perceived as the most difficult advanced economy.

Respondents were asked how they service their two most important markets. Two modes predominate: servicing the market by exporting directly from Australia and exporting via a foreign agent or distributor (Table 4).

Among the ten most important markets for respondents, Papua New Guinea is the outlier. Seventy per cent of businesses reported that they service this market directly from Australia, ten per cent use agents and distributors in Australia, and only six per cent foreign agents or distributors. Otherwise, the popularity of direct servicing from Australia ranges from 33 per cent in the case of the United Kingdom to 49 per cent in the case of Malaysia and New Zealand. With the exception of Papua New Guinea, the use of foreign agents and distributors ranges from 26 per cent in New Zealand to 42 per cent in Japan.

The third most commonly reported mode of servicing is sales via a foreign affiliate, which could take the form of a subsidiary, branch office or joint venture. The United Kingdom and United States are the countries most commonly serviced through a foreign affiliate (20 per cent and 21 per cent respectively), closely followed by Indonesia (19 per cent). The United Kingdom and United States are also the exceptions when it comes to the use of e-channels in the form of a company website or online retail/auction sites such as eBay. While the rate of e-channel use is very low in most of the top ten countries, there is modest usage of websites and online retail channels to service the United Kingdom and United States (11 per cent for both countries).

Table 4: Mode of servicing for top ten overseas markets

Survey question: *Mode of servicing (top two countries)*

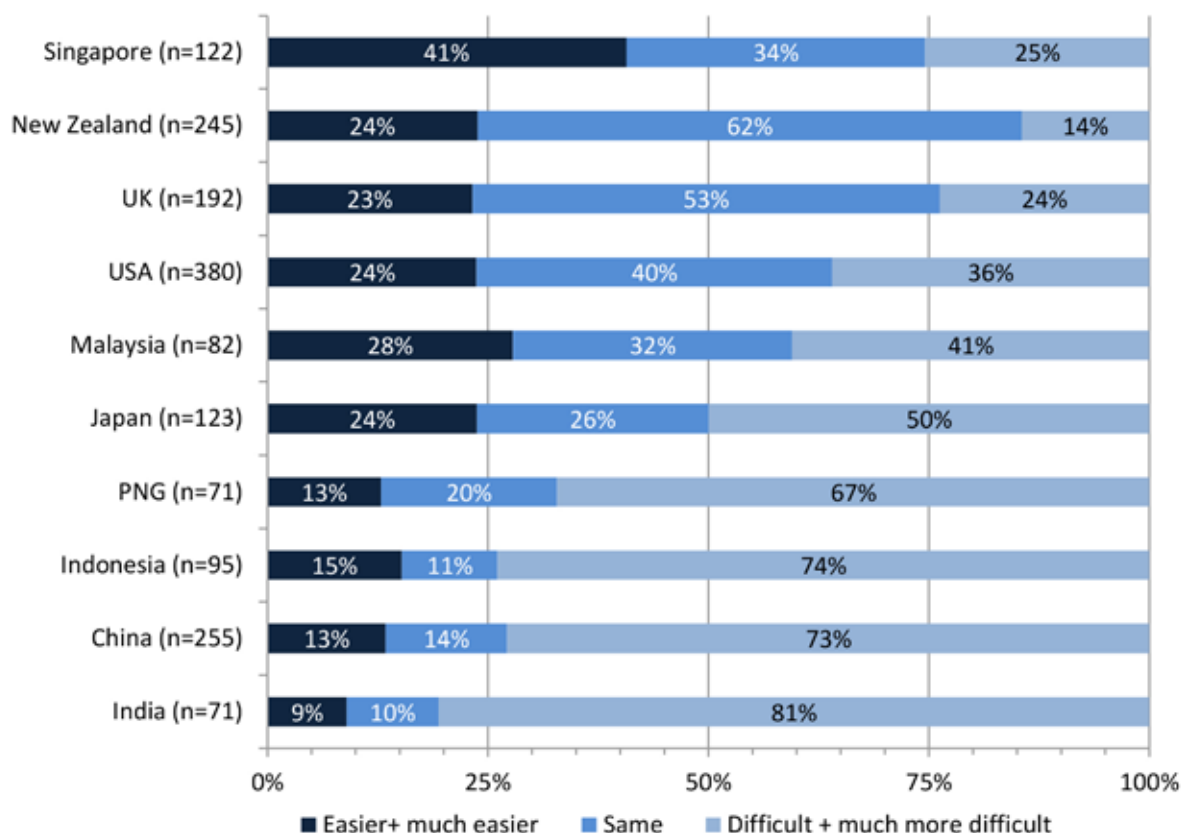
| Country | Directly from Australia | Agent/distributor overseas | Foreign affiliate | Website/online retail channels | Agent/distributor in Australia | Other |
|------------------|-------------------------|----------------------------|-------------------|--------------------------------|--------------------------------|-------|
| China | 40% | 32% | 17% | 1% | 4% | 6% |
| India | 41% | 35% | 16% | 4% | 1% | 3% |
| Indonesia | 41% | 35% | 19% | 0% | 2% | 2% |
| Japan | 44% | 42% | 9% | 1% | 4% | 0% |
| Malaysia | 49% | 38% | 6% | 2% | 1% | 2% |
| New Zealand | 49% | 26% | 12% | 5% | 4% | 4% |
| Papua New Guinea | 70% | 6% | 6% | 4% | 10% | 4% |
| Singapore | 45% | 28% | 17% | 5% | 2% | 3% |
| United Kingdom | 33% | 30% | 21% | 11% | 0% | 4% |
| United States | 36% | 27% | 20% | 11% | 1% | 5% |

Sample size by number of responses: n=2554, including 1299 first and 1255 second most important countries indicated by each respondent

Note: 'Other' and 'Don't know' categories accounted for n=96 responses

Figure 14: Ease of doing business compared to Australia

Survey question: *Ease of doing business (top two countries)*



Sample size by number of responses: n=2507, including 1275 first and 1232 second most important countries indicated by each respondent

Survey participants were asked to rate the ease of doing business in their first and second most important markets as compared to Australia (Figure 14). Among the ten most important markets for respondents, Singapore is rated as the easiest market in which to do business. Among those for whom it is an important market, 41 per cent find it an easier or much easier environment in which to do business than Australia, compared to 25 per cent who rate it as more or much more difficult. India is regarded as the most challenging of the ten countries in which to do business. Only nine per cent of businesses for whom it is an important market perceive it as easier or much easier than Australia, with 81 per cent regarding it as more or much more difficult.

The order in which respondents rank the ease of doing business is broadly in line with other indices offered by international organisations, as shown in Table 5: (1) the World Economic Forum's Enabling Trade Index, which

measures barriers to the flow of goods across borders and (2) the World Bank's Ease of Doing Business Index, which assesses factors more relevant to setting up a local entity.

Among the ten most important markets to respondents, advanced economies represent five out of the top six in terms of ease of doing business, with Malaysia the only emerging market in the top five. Japan is regarded as the most difficult advanced economy, with about twice as many rating this market as more/much more difficult in which to do business (50 per cent) than easier/much easier than Australia (24 per cent). Almost two-thirds of respondents who selected the United States regard it as the same or easier in which to do business than Australia. However, the results also show diverging experiences of the United States: while 24 per cent find it easier or much easier than Australia, 36 per cent regard it as more or much more difficult.

Table 5: Ease of doing business in top ten overseas markets and international benchmarks

| Country | AIB survey ranking ^(a) (/10) | Enabling Trade Index ^(b) (/132) | World Bank Index ^(c) (/189) |
|------------------|---|--|--|
| Singapore | 1 | 1 | 1 |
| New Zealand | 2 | 5 | 3 |
| United Kingdom | 3 | 11 | 10 |
| United States | 4 | 23 | 4 |
| Malaysia | 5 | 24 | 6 |
| Japan | 6 | 18 | 27 |
| Papua New Guinea | 7 | n.a. | 113 |
| Indonesia | 8 | 58 | 120 |
| China | 9 | 56 | 96 |
| India | 10 | 100 | 134 |

Sources:

(a) AIB Survey 2014; only the ten most important countries are included.

(b) World Economic Forum (2012); the index includes 132 countries and rates the extent to which countries have put in place the institutions, policies and services required in order to facilitate the free flow of goods across borders (i.e. services are excluded).

(c) International Bank for Reconstruction and Development/World Bank (2013); the index includes 189 countries and rates the extent to which the regulatory environment is favourable to establishing and operating a local firm.

SINGLE-COUNTRY FOREIGN TRADERS

Only 13 per cent of businesses surveyed trade internationally with only one country. While the top market of single-country exporters is China (20 per cent of respondents), it is closely followed by more traditional markets, such as New Zealand (16 per cent) and the United States (9 per cent). The top ten markets for this group also include other emerging economies, such as India and Indonesia (2 per cent each). Single-country foreign traders have varying degrees of international experience: 34 per cent of businesses had more than five years' international experience.

Businesses trading with only one overseas market typically service it directly from Australia. Two notable exceptions from this trend are Japan and United Kingdom where local agents or distributors are the main mode of servicing (they represent 50 per cent and 67 per cent of these markets, respectively). On-line retail channels, such as eBay are particularly popular when trading with Indonesia (40 per cent) and China (19 per cent).

China tops the rankings for single-country foreign traders as the most popular and is also one of the most difficult destinations, with 70 per cent of respondents assessing it as 'more' or 'much more difficult' than the domestic market. Only the Indian (80 per cent) and Indonesian (75 per cent) markets are perceived to be more challenging than China. Four markets out of the top ten are seen as easier or comparable to Australia: New Zealand (84 per cent), United States (68 per cent), Singapore (100 per cent) and the United Kingdom (84 per cent). The only country about which perception of trade is polarised between easier or more difficult is Japan.

Most difficult overseas markets

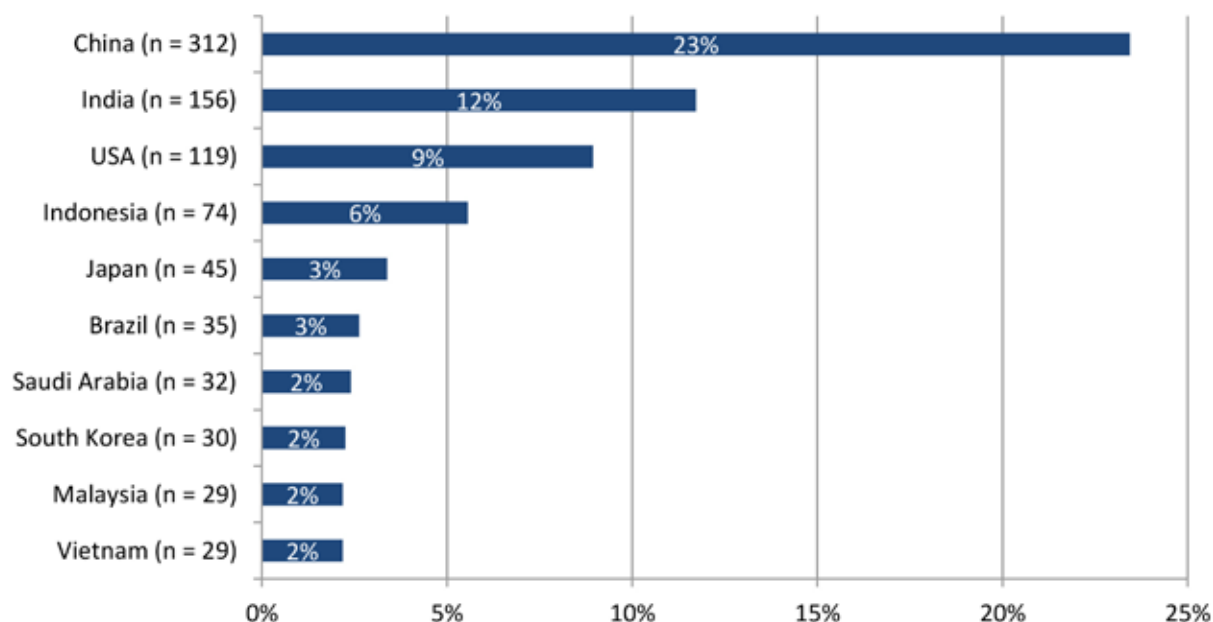
Respondents were asked to nominate the most difficult overseas market of all the markets in which they currently operate, and the reasons as to why this market poses such a challenge. While the nature and extent of perceived barriers vary depending on the country and industry, three concerns are most

prominent: lack of information regarding local culture, language and business practices; lack of information about local regulations; and customer payment issues.

Eighteen per cent of respondents had exited a market in the previous 12 months.

Figure 15: Top ten most difficult overseas markets

Survey question: *Which is the most difficult overseas country that your company does business in/with?*



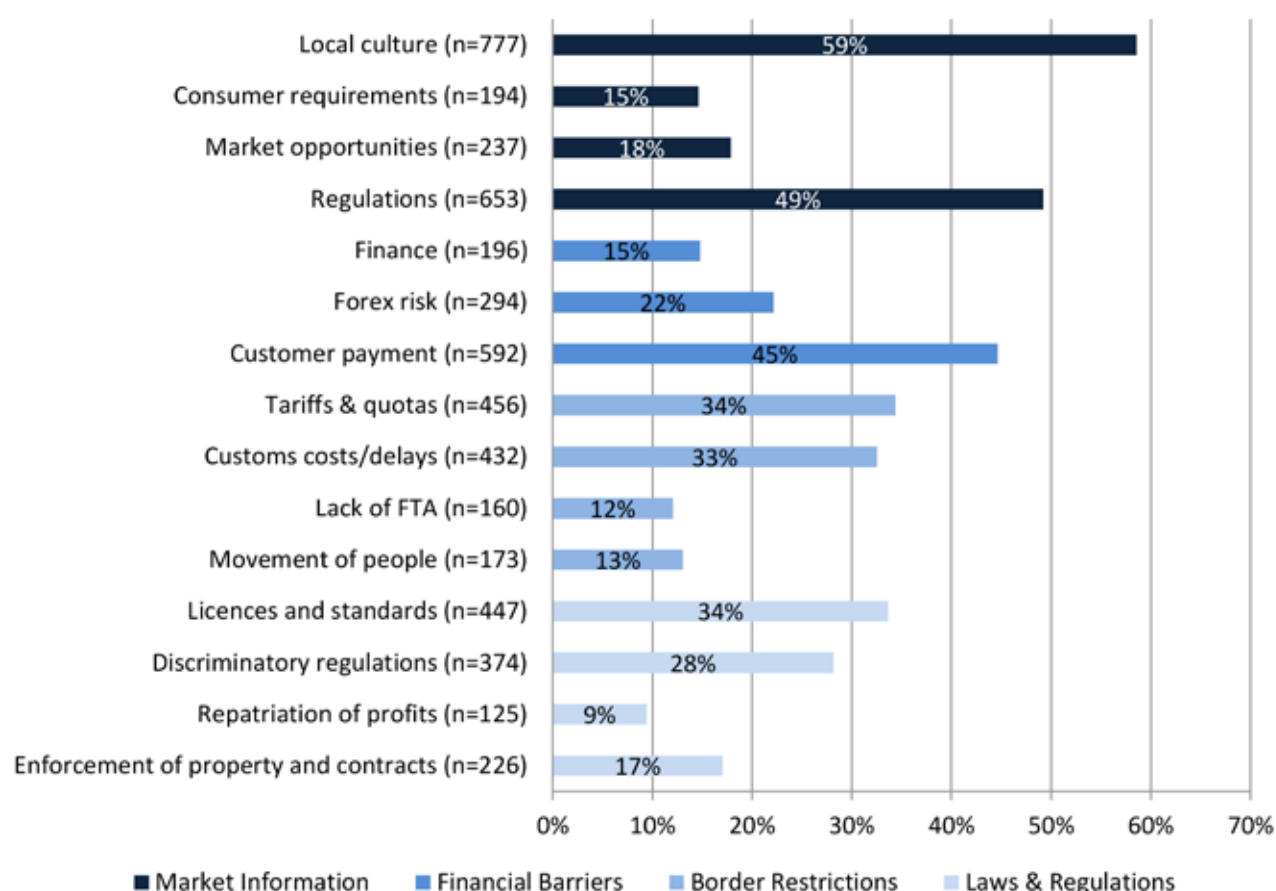
Sample size by number of respondents: n=1327

How many times a market is reported as the most difficult is clearly related to the number of respondents doing business there. This number was not captured in the survey, as respondents were not asked to list all the markets in which they earn revenue (about half the respondents operate in two to five markets; see Figure 9). Survey results are able to show that of the top ten most difficult markets, six are also among the ten most important destinations for many companies (Figure 15).

A total of 99 markets were nominated as the most difficult in which respondents operate. In all the major industries surveyed, except software and media, China is most frequently reported as the most difficult market in which respondents currently do business (23 per cent of respondents). It is nominated as the most difficult market by 34 per cent of food manufacturers, the highest proportion of any of the major industries covered in the survey. Businesses in the software and media industry most often report the United States and India as the most difficult markets.

Figure 16: Barriers faced by Australian businesses

Survey question: *What are the barriers that make (this country) so difficult for your company? (select all that apply)*



Sample size by number of respondents: n=1327

Sample size by number of responses: n=5336; multiple responses were possible

Respondents were asked to select the most significant challenges of doing business in the market they regarded as the most difficult (Figure 16). Lack of market information is the most prominent type of challenge that they selected. More specifically, the most commonly raised challenges are:

- Lack of information about local culture, business practices and language (selected by 59 per cent of respondents);
- Lack of information on local regulations (49 per cent of respondents);
- Problems in obtaining customer payment (45 per cent of respondents);
- Tariff, quotas and import duties (34 per cent of respondents);
- Licences, permits and product standards (34 per cent of respondents).

Three concerns – lack of information regarding local culture, language and business practices, local regulations and customer payment problems – cut across all industries. Movement of people is seen as an issue for some service- but not product-based industries. On the other hand, border restrictions are a more prominent concern for product-based than for service-based industries.

The education, software and food and beverage manufacturing industries provide an illustration of the differences that were found across industries. Lack of information about culture is a concern for food and beverage manufacturers, but they more frequently reported facing border restrictions in the form of customs costs, tariffs, quotas and duties, as well as regulatory barriers such as licences and standards. Software and media businesses reported facing the fewest barriers of any major industry.

Their main concerns are lack of information about culture, language and business practices, as well as customer payment issues. These are also the main concerns of the education industry, which in addition reported barriers in the form of local regulations.

The five most difficult markets are also among the top ten destinations for survey participants. Two are advanced (Japan and the United States) and the rest are emerging economies (China, India and Indonesia). When it comes to local regulations, the biggest difference between these advanced and emerging economies is the degree to which enforcement of property rights and contracts is a problem; unsurprisingly, this is much more a concern in emerging economies. Problems in receiving customer payment are regarded as less of a concern in the advanced than emerging economies, although there is also a marked difference between the results for Japan and the United States. Twenty nine per cent of respondents for whom the United States is the most difficult country nominated customer payment as a problem, but only four per cent of those selecting Japan did so.

There are also similarities found across the five most difficult markets among the top ten destinations. In terms of barriers, the greatest similarities are experiences of border-related barriers and lack of information about local regulations. Overall, businesses see themselves as discriminated against compared to local competitors, no matter the market. While culture and local business practices are not perceived to be as great a barrier in the United States as in other markets, it was nevertheless reported as a problem by 26 per cent of respondents who nominated it as their most difficult market.

In Appendix D, seven key markets for Australian businesses are compared: China, India, Indonesia, Japan, New Zealand, United Kingdom, and United States. These are chosen not just because they are among the most important destinations for respondents (they represent the top markets, excluding Singapore), but they also provide informative contrasts, particularly when it comes to the nature of the challenges that Australian businesses face offshore.

Market Exits

Over 80 per cent of respondents reported they had not exited an overseas market in the past 12 months (Figure 17). An analysis of the main industries in the survey reveals withdrawal rates ranging from nine per cent for software and media to 31 per cent for manufacturers of processed food and beverages.

There is little existing data with which to compare these market exit rates. ABS statistics capture the number of businesses that cease exporting in a particular year, but not the rate at which continuing exporters withdraw from particular markets. ABS data provided to Austrade (ABS 2013c) suggest considerable churn in the number of companies that cease exporting in a given year: 15,764 between 2009-10 and 2010-11 (35 per cent of the 2009-10 total) and 15,901 in 2010-11 (36 per cent of the 2010-11 total). However, the businesses in the ABS counts are overwhelmingly small in size, and had a relatively lower average value of exports compared to the respondents in this survey.

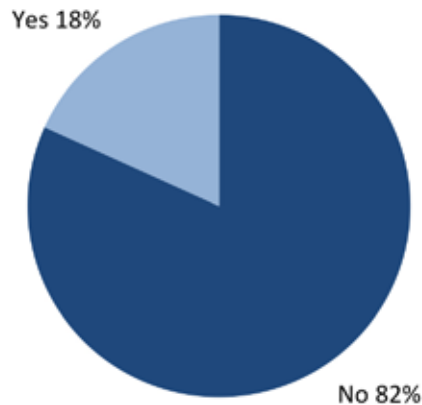
The rate of market exits reported in this survey is likely to have been influenced by the fact that many respondents have operated in international markets for a substantial period of time. It could be anticipated they would be less likely to withdraw than companies relatively new to international business. It is also possible that market exits are under-reported in the survey, given that respondents may be less likely to share negative than positive information, and businesses which have ceased to earn overseas income completely were not included in the survey.

While no single country dominated among the 18 per cent of businesses that did report a withdrawal, in absolute terms, the markets most commonly exited from are India and China (Figure 18). These results are consistent with survey responses to other questions on geographical markets. As well as being popular places in which to do business, both China and India are perceived as difficult operating environments.

As in the case of Figure 15 (the most difficult overseas markets), how many times a market is reported as having been exited is related to the number of respondents doing business there. This number is not known, as respondents were not asked to list all the markets in which they earned overseas income at the time of the survey.

Figure 17: Terminated business (past 12 months)

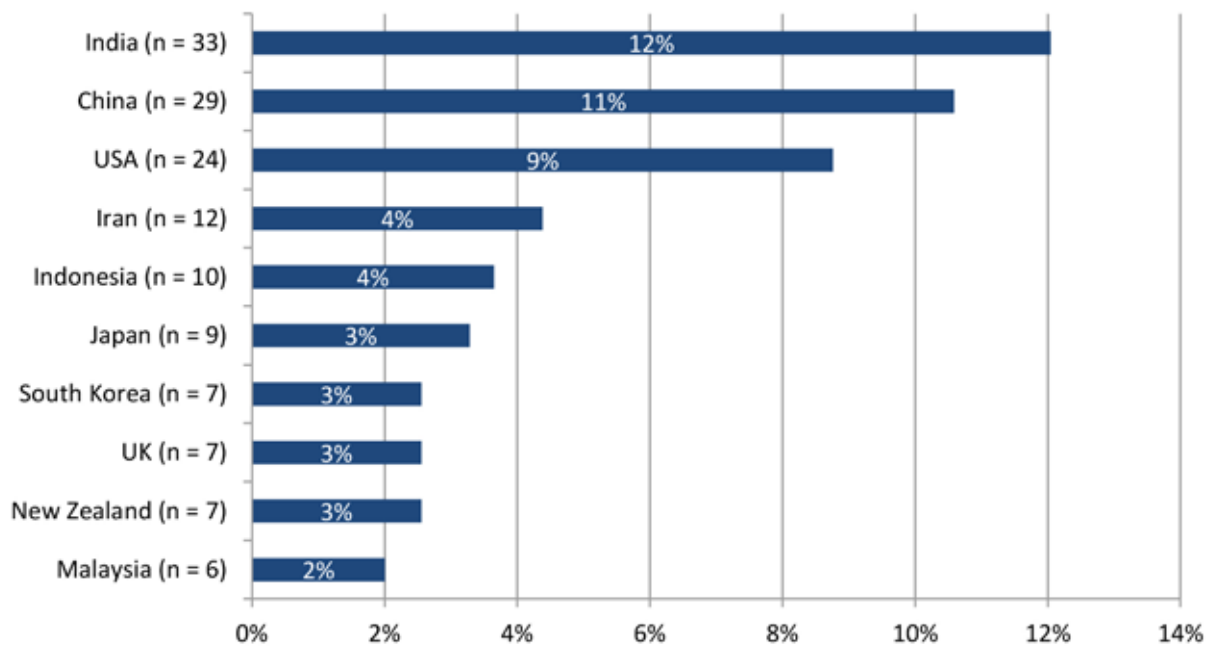
Survey question: *In the last 12 months, has your company stopped doing business in/with one or more countries?*



Sample size by number of respondents: n=1497

Figure 18: Ten most common countries exited (past 12 months)

Survey question: *Please name the most important country that your company has stopped doing business in/with in the last 12 months*



Sample size by number of respondents: n=271

3. MAKING THE MOST OF FUTURE INTERNATIONAL OPPORTUNITIES

Highlights

- The majority of internationally active businesses surveyed have plans for further expansion into two or more overseas markets in the next two years.
- Major destinations for the future are diverse, featuring a mix of advanced and emerging economies, although China and the United States stand out as the most important.
- Survey participants are driven first and foremost by perceived growth prospects in international markets, followed by personal networks/contacts and familiarity with consumer requirements.

Future international expansion and top target markets

Survey participants were asked for information about their plans to do business in new overseas markets in the next two years. The majority of respondents plan to expand into new markets, with growth

prospects the main driver when selecting the most desirable markets to target. China and the United States are the two most popular future markets, but diversity in market choices was also found.

Survey participants are optimistic about the immediate future, with 74 per cent indicating that they intend to expand to two or more countries over the next two years (Figure 19). Only 13 per cent reported no plans for further expansion, while 13 per cent plan to target one additional market.

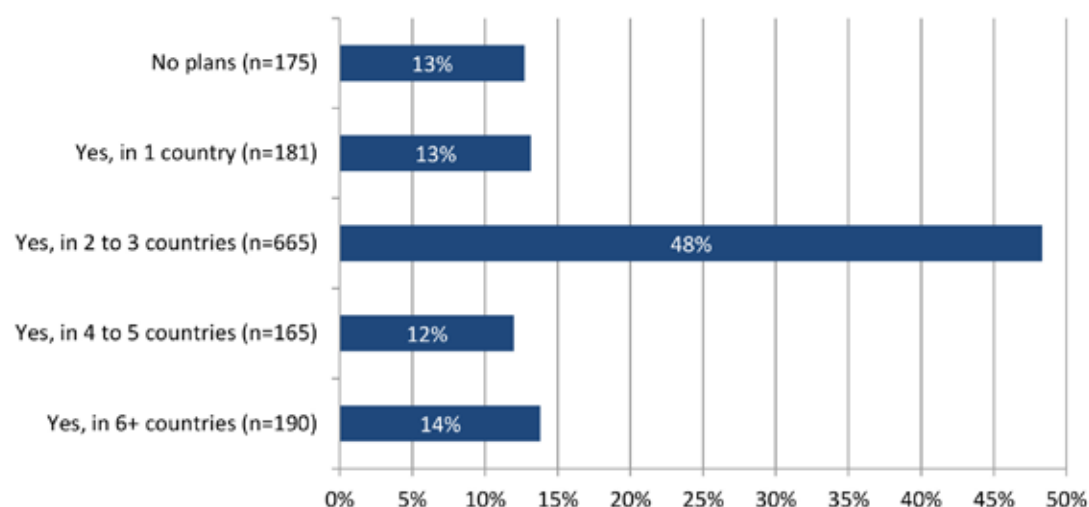
This optimistic outlook holds across all the major industries in the survey. Plans for future expansion do vary based on business size, but not greatly. Micro businesses with less than four employees are marginally less ambitious in their plans than large firms: 14 per cent of micro businesses have no plans for expansion, compared to 11 per cent of large businesses; 11 per cent of micro businesses are planning to expand to more than six countries, compared to 22 per cent of large businesses.

Just as future intentions do not differ much by business size, nor do they differ in terms of profitability. Respondents' future plans do not vary greatly based on the profitability of international as compared to domestic operations.

Survey participants were asked to identify the market (if only intending to enter one) or most important market (if planning to enter more than one) into which they were planning to expand within the next two years (Figure 20). Of those who responded to the question, 34 per cent chose either China or the United States: China by 19 per cent and the United States by 15 per cent. As future markets, these two countries considerably outrank any others in terms of popularity. At the same time, a total of 81 countries were nominated by respondents as markets to which they intend to expand. When interpreting these results, it should be recalled that a majority of respondents reported plans to enter two or more markets (Figure 19), but were only asked to report on what they viewed as their most important market for future expansion.

Figure 19: Business with plans for future international expansion (next two years)

Survey question: *Does your company expect to do business in/with new overseas countries in the next two years?*

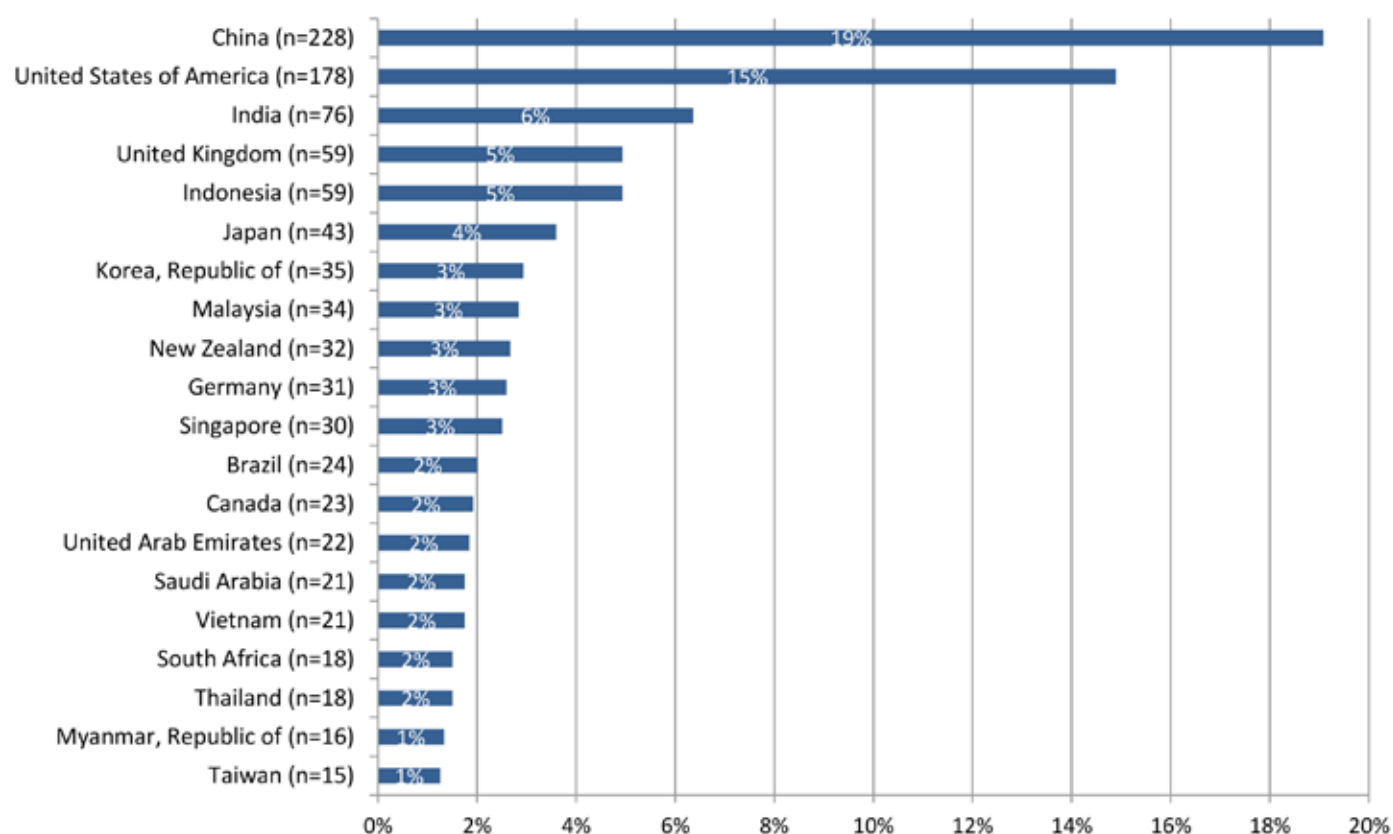


Sample size by number of respondents: n=1488

Note: 'Don't know' category accounted for n=112 responses

Figure 20: Top 20 overseas markets to be targeted in the next two years

Survey question: *Which overseas country is/which is the most important overseas country your company planning on doing business in/with in the next two years?*



Sample size by number of respondents: n=1195

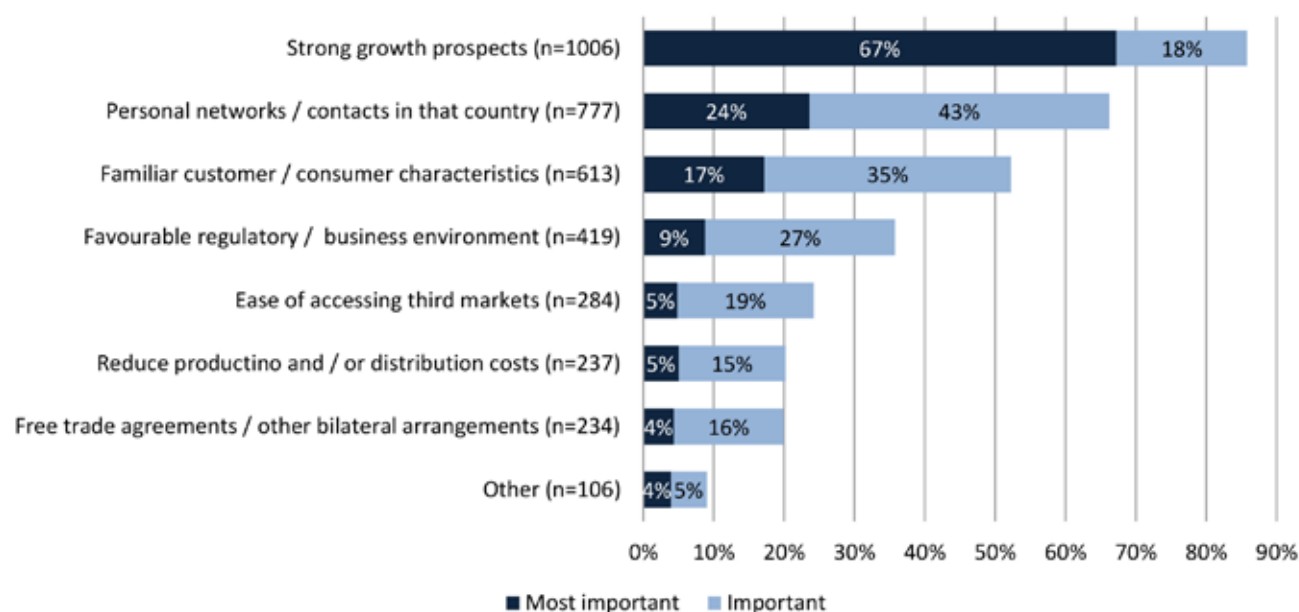
Survey participants were asked to rank the importance of factors influencing their choice of future market (Figure 21). The most prominent motivation for targeting a particular country is its perceived growth prospects. This factor is rated as the most important issue by 67 per cent of respondents to this question, with a further 18 per cent rating it as an important consideration. Personal connections and familiarity with the market are, however, also rated as important to market selection. Sixty-seven per cent of respondents regard personal contacts and networks as important, and 52 per cent familiar customer or consumer characteristics.

Respondents were also able to provide qualitative comments on why they had chosen a country for future business. Overwhelmingly, the 106 who did so point to the customer base they feel exists in that country. Many comments made it clear that respondents have already identified a specific business opportunity, either due to an upcoming event (such as the Olympics or the launch of a new product), their own market research or prompting by external connections (such as following an existing client, or an unsolicited approach from a potential customer in the country). Other respondents were less specific, but clearly feel that the country is 'the next step' in terms of their overall strategy.

Respondents not planning to do business in new markets within the next two years were asked to provide their reasons for not intending to undertake further expansion (Figure 22). Difficulty in finding international customers and opportunities is reported as the main reason why businesses do not plan further international expansion (15 per cent of respondents to this question indicated it as the main issue). The majority of respondents who selected the category 'Other' explained in open-ended comments that they are already present in the most desirable markets. These businesses are either focused on improving their presence in existing international locations or consolidating their activities across multiple geographies. Among alternative reasons provided by respondents in the open-ended section of the question are lack of international competitiveness due to the high cost of freight, high labour costs and the high value of the Australian dollar.

Figure 21: Reasons for selecting this market for future business

Survey question: *Why has your company chosen to target this country for future business? (select all that apply)*



Sample size by number of respondents: n=1173

Sample size by number of responses: n=3676; multiple responses were possible

Note: The 'Other' category also provided qualitative evidence

Figure 22: Main reasons why no expansion to new overseas markets is planned (next two years)

Survey question: *What are the main reasons your company does not expect to do business in/with new overseas countries? (select up to three most important)*



Sample size by number of respondents: n=336

4. SOURCES OF FUNDING FOR INTERNATIONAL BUSINESS¹

Highlights

- International business was mainly financed internally in the 2012-13 financial year; external funding was primarily in the form of debt from a financial institution located in Australia.
- External finance was obtained with a moderate to high level of difficulty and thus poses a significant challenge.
- Respondents perceived it as more difficult to obtain financing for international business domestically than from overseas institutions.

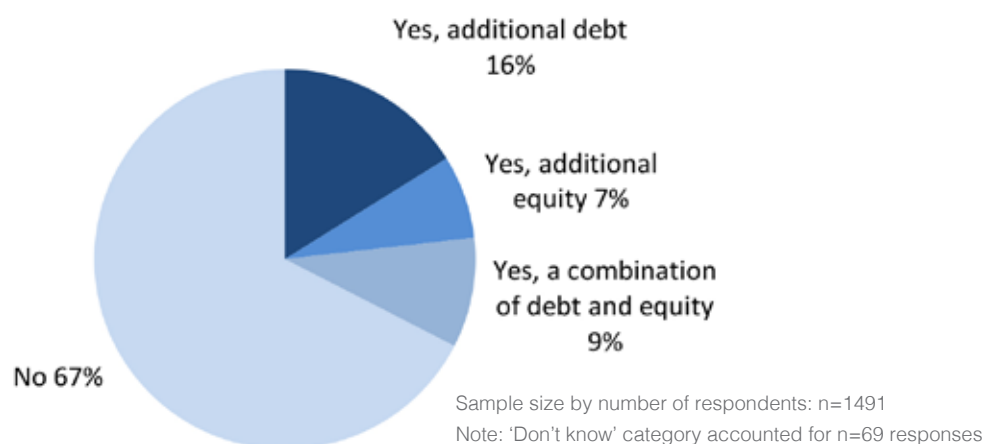
Future international expansion and top target markets

Survey participants were asked about their needs for additional funding to support their international business activities. One-third of businesses surveyed had required additional financing in the 2012-13 period, with a majority of this group rating it as difficult or very

difficult to obtain either debt or equity funding. Obtaining debt or equity financing for international business from institutions based in Australia was perceived as harder than sourcing the funding from overseas.

Figure 23: Need for additional funding for international business opportunities (financial year 2012-13)

Survey question: *Did your company need additional funding for international business opportunities in the last financial year?*



Around two thirds of respondents to this question (67 per cent) indicated that they did not require additional funding in 2012-13 (Figure 23). In its survey of Australian businesses, the ABS (2013f) likewise found that most respondents (82 per cent) had not sought additional finance during the 2011-12 financial year (the most recent data available).

Thirty three per cent of survey participants stated that they had searched for additional sources of finance in 2012-13, both in the form of debt and equity as well as

the combination of the two. Businesses that had exited a market in the previous 12 months were significantly more likely to report needing debt.

Businesses with significantly better international than domestic profitability sourced more debt and equity funding in the 2012-13 financial year than other respondents (43 per cent). During this period, debt was a more common source of additional funding than equity, no matter the profitability levels of international operations relative to Australia.

¹ Given the small samples of respondents to finance questions, the analysis below should be considered as illustrative of existing practices and trends.

Debt financing

Two-thirds of respondents who sought debt financing in the 2012-13 financial year were successful in obtaining it within that period (Figure 24). Fifty three per cent of those respondents who indicated that they sought additional funding obtained it from a financial institution in Australia, while only 14 per cent of businesses obtained funding from financial institutions abroad. Of SMEs which obtained debt, 88 per cent did so in Australia. Of large businesses which obtained debt, 52 per cent obtained it domestically and 48 per cent from overseas.

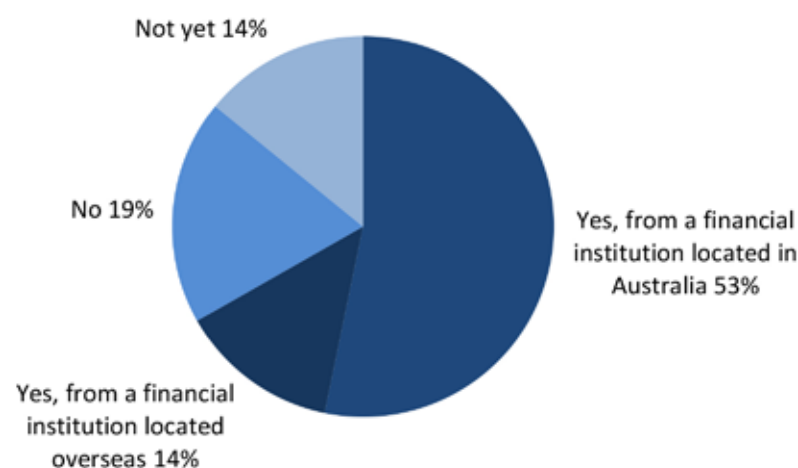
Thirty three per cent of respondents to this question reported that they were either still in the process of obtaining finance or had failed to do so. Given that survey respondents are typically more experienced international businesses with an established track record of international operations, it may be that the rate of unsuccessful funding attempts is even higher in the overall population of Australia's international businesses.

When asked about the principal type of debt financing, 69 per cent of respondents to this question indicated that they had used the services of financial institutions, including bank loans, trade finance facilities and business credit cards (Figure 25). Of these, 22 per cent financed their international business activities in 2012-13 with a specific trade finance facility from a bank. A quarter of respondents (26 per cent) did not access funds from a financial institution but turned to owners, friends or family.

In contrast to the funding of domestic business by financial institutions in Australia, which is perceived to be slightly easier to source, financing of international activities (whether from a financial institution at home or abroad) is perceived as difficult by more than half of respondents to this question (Figure 26). It is seen as particularly difficult to source financial support for international business from Australian financial institutions (62 per cent of respondents rate this as difficult or very difficult).

Figure 24: Success in obtaining debt funding (financial year 2012-13)

Survey question: *Was your company successful in obtaining this debt funding?*

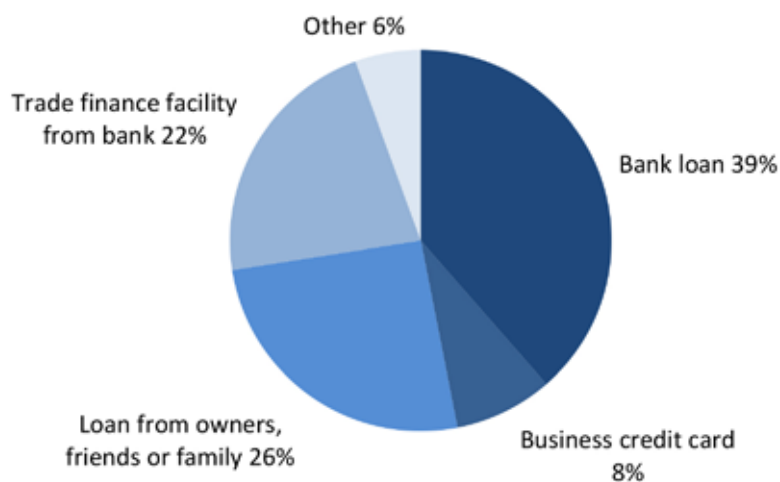


Sample size by number of respondents: n=352

Note: 'Don't know' category accounted for n=12 responses

Figure 25: Principal type of additional debt financing (financial year 2012-13)

Survey question: *What was the principal type of additional borrowing?*

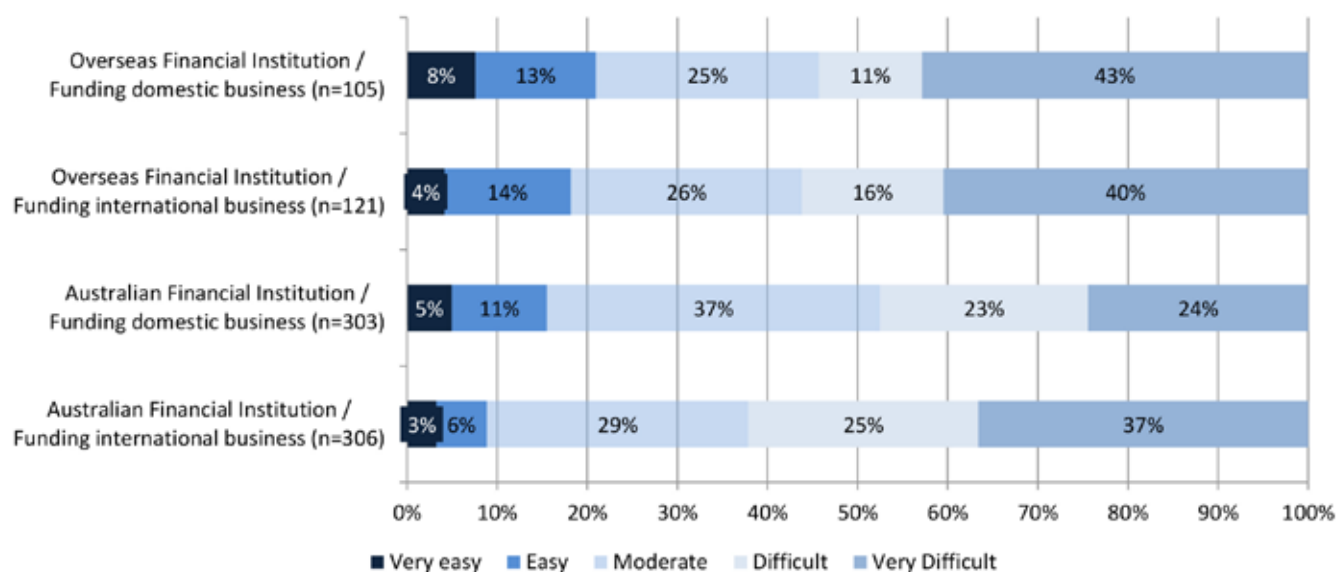


Sample size by number of respondents: n=342

Note: 'Don't know' category accounted for n=18 responses

Figure 26: Ease of sourcing additional debt financing

Survey question: *How would you rate the ease of sourcing additional debt financing?*



Sample size by number of respondents: n=360

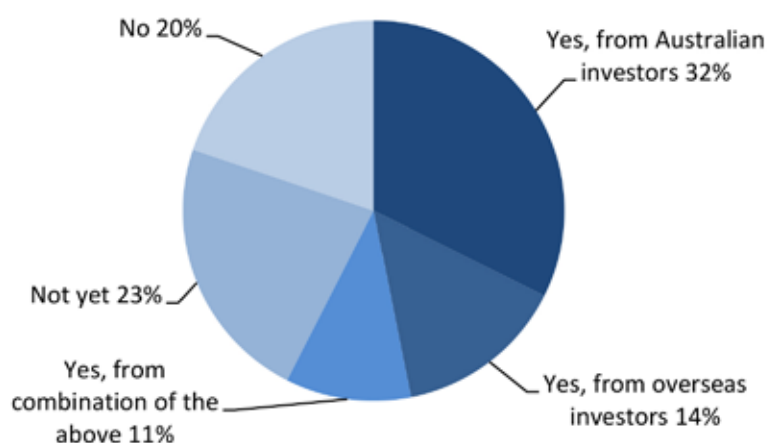
Equity financing

Thirty two per cent of respondents to this question sourced additional equity in Australia in 2012-13; another 25 per cent obtained additional equity from international investors or a combination of domestic and foreign investors (Figure 27).

While it is more common to obtain equity financing in Australia rather than abroad, the process is considered difficult or very difficult by 68 per cent of respondents (Figure 28). About 52 per cent of respondents reported that access to equity financing abroad is easy or moderate.

Figure 27: Success in sourcing additional equity (financial year 2012-13)

Survey question: *Was your company successful in sourcing additional equity from investors?*

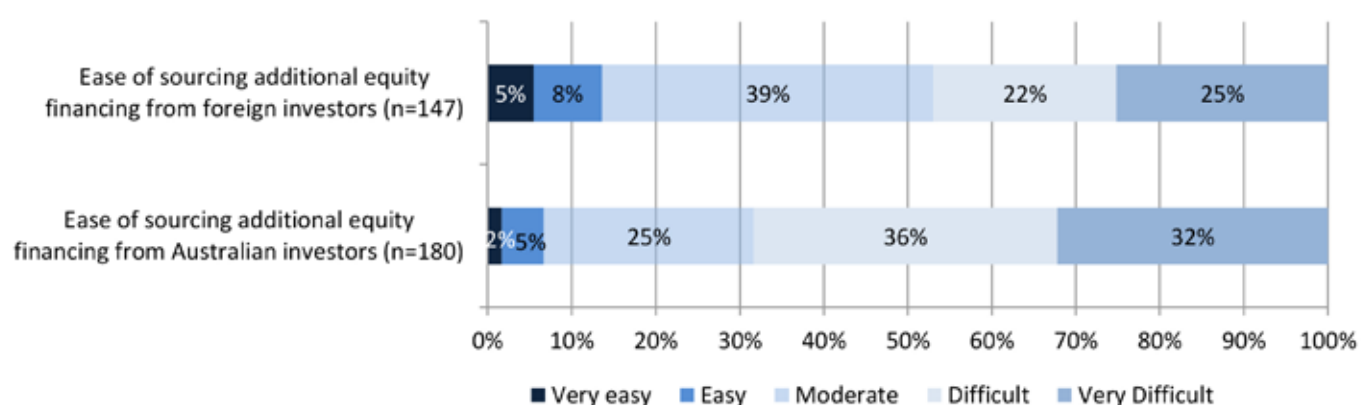


Sample size by number of respondents: n=222

Note: 'Don't know' category accounted for n=15 responses

Figure 28: Ease of sourcing additional equity financing

Survey question: *How would you rate the ease of sourcing additional equity from external investors?*



Sample size by number of respondents: n=233

5. THE AUSTRALIAN DIMENSION: COMPETITIVENESS AND SUPPORT

Highlights

- When asked to identify domestic factors hindering their competitiveness offshore, respondents most often nominated the value of the Australian dollar. This was followed by transportation and freight costs.
- Most respondents are positive or neutral about the impact that Australia's reputation has on their international operations.
- Participants mostly seek advice from existing customers, suppliers, agents or from other businesses.
- In their open-ended comments, businesses view the support that would most benefit their plans for growth as being:
 - improvements to the current levels and types of support offered by Austrade (including the Export Market Development Grants Scheme)
 - better access to market information;
 - assistance with the development of quality contacts and networks from people with on-the-ground experience in target markets.

International competitiveness of Australian businesses

Survey participants were asked to select and rank the factors in Australia that most impact on their international competitiveness. The value of the Australian dollar is the most critical concern across

all the major industries in the survey. Australia's reputation in international markets is overwhelmingly regarded as having a positive or neutral impact.

Respondents nominated the value of the Australian dollar as the single most important factor adversely impacting on their international competitiveness: 50 per cent of respondents selected it as among the most important constraints, and a total of 85 per cent ranked it as an important or most important factor (Figure 29). This holds as the most critical factor across all major industries included in the survey. These results may reflect the timing of the survey, which was conducted in late 2013. The latter part of 2013 marked the end of a period when the value of the Australian dollar had been at historic highs against major currencies, including the US dollar (Figure 30).

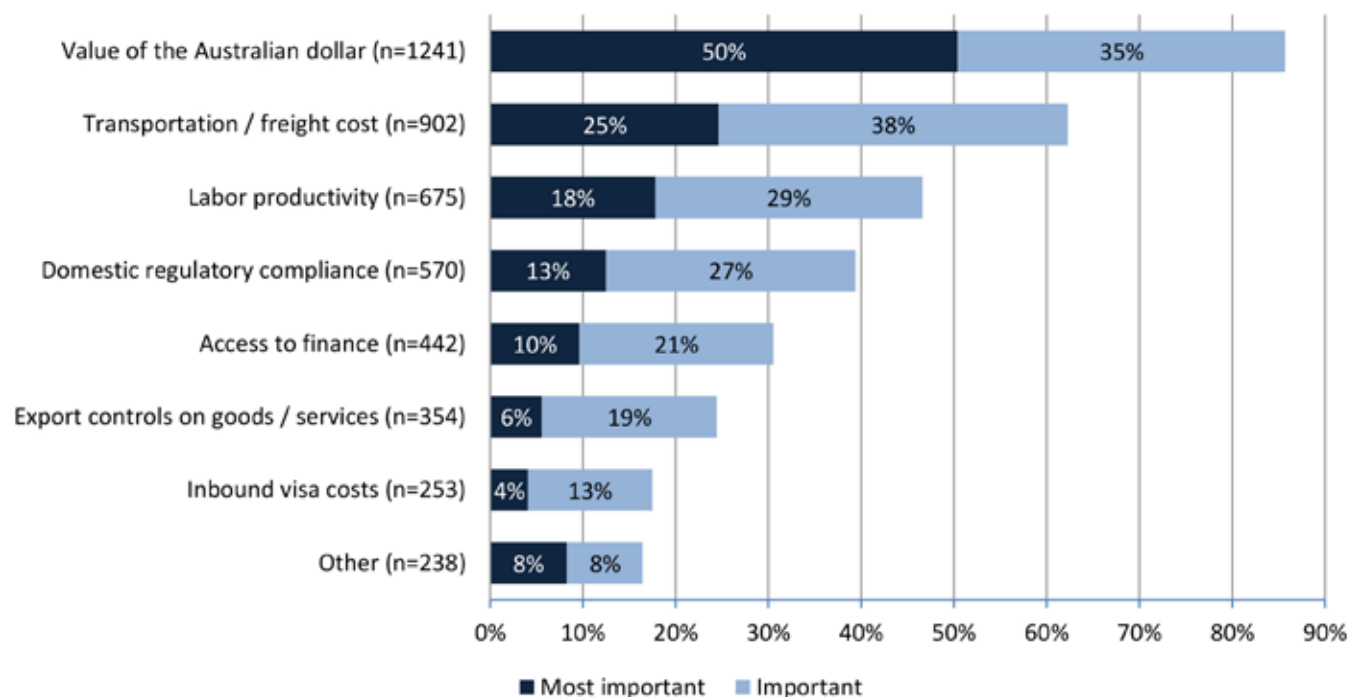
The second most important factor adversely affecting international competitiveness is regarded as transport/freight costs, followed by labour productivity. This result is also supported by respondents' comments in the open-ended section of this question, most of which point to the

negative effects of Australia's high costs relative to those of competitors overseas. As well as emphasising high input costs (particularly labour costs) and the degree of regulatory burden, some respondents point to the obstacles posed by Australia's physical distance from foreign markets, which raise the costs of travel and transport.

Additional analysis of responses reveals some industry variations. Regulatory compliance and inbound visa costs are of greater significance to the education sector compared to other major industries. In this industry, respondents indicated that the most critical negative factor apart from the value of the Australian dollar is regulatory compliance, followed by inbound visa costs. In other industries, domestic regulatory compliance and inbound visa costs are seen as less critical concerns.

Figure 29: Factors in Australia that adversely affect international competitiveness

Survey question: *What are the factors in Australia that adversely affect your company's international competitiveness?*
(select all that apply)



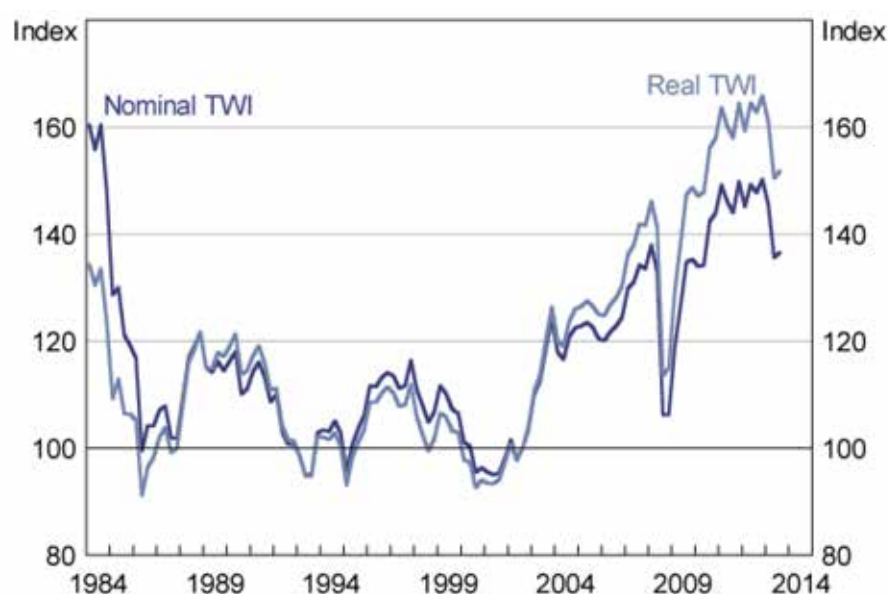
Sample size by number of respondents: n=1448

Sample size by number of responses: n=4675; multiple responses were possible

Note: The 'Other' category also provided qualitative evidence

Figure 30: Change in value of the Australian dollar, 1984-2014

December quarter 2002 = 100, quarterly

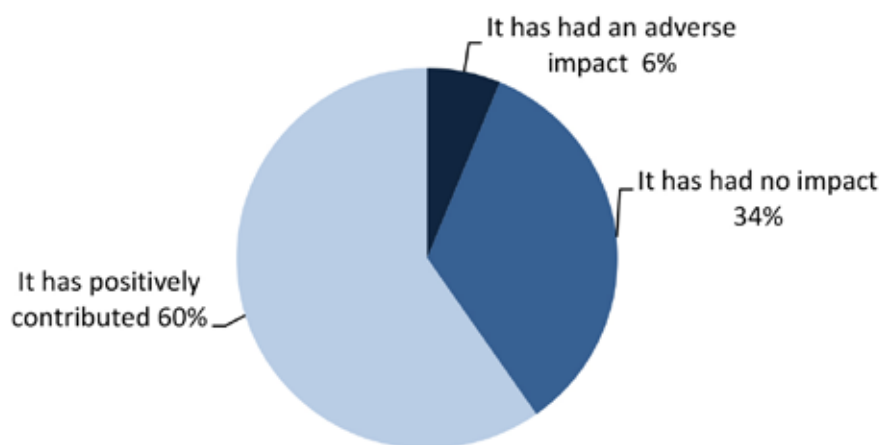


Source: Reserve Bank of Australia 2014

Note: TWI = Trade-Weighted Index

Figure 31: Reputation of Australia and Australian products

Survey question: *How is your international business affected by the reputation of Australia and Australian products?*



Sample size by number of respondents: n=1524

Most respondents reported that Australia's reputation has either a positive (60 per cent) or neutral (34 per cent) effect on their international operations (Figure 31). Respondents in the agriculture (unprocessed food) industry are the most positive about Australia's reputation internationally. More than 80 per cent of respondents from this industry believe that it contributes positively, while none feel it has had a negative effect.

In some industries, Australia's image might also be regarded as not relevant to the product or service. Survey results suggest that among the main industries covered, this is most commonly the case in the software and media industry. Over 55 per cent of businesses in this industry judge that Australia's reputation has had no effect on their operations in overseas markets.

Only six per cent of respondents reported that Australia's reputation has had an adverse impact on their international operations. Among the main industries in the survey, the education and training industry is the most polarised. While 57 per cent indicated Australia's reputation has had a positive effect, 25 per cent believe it has had a negative effect.

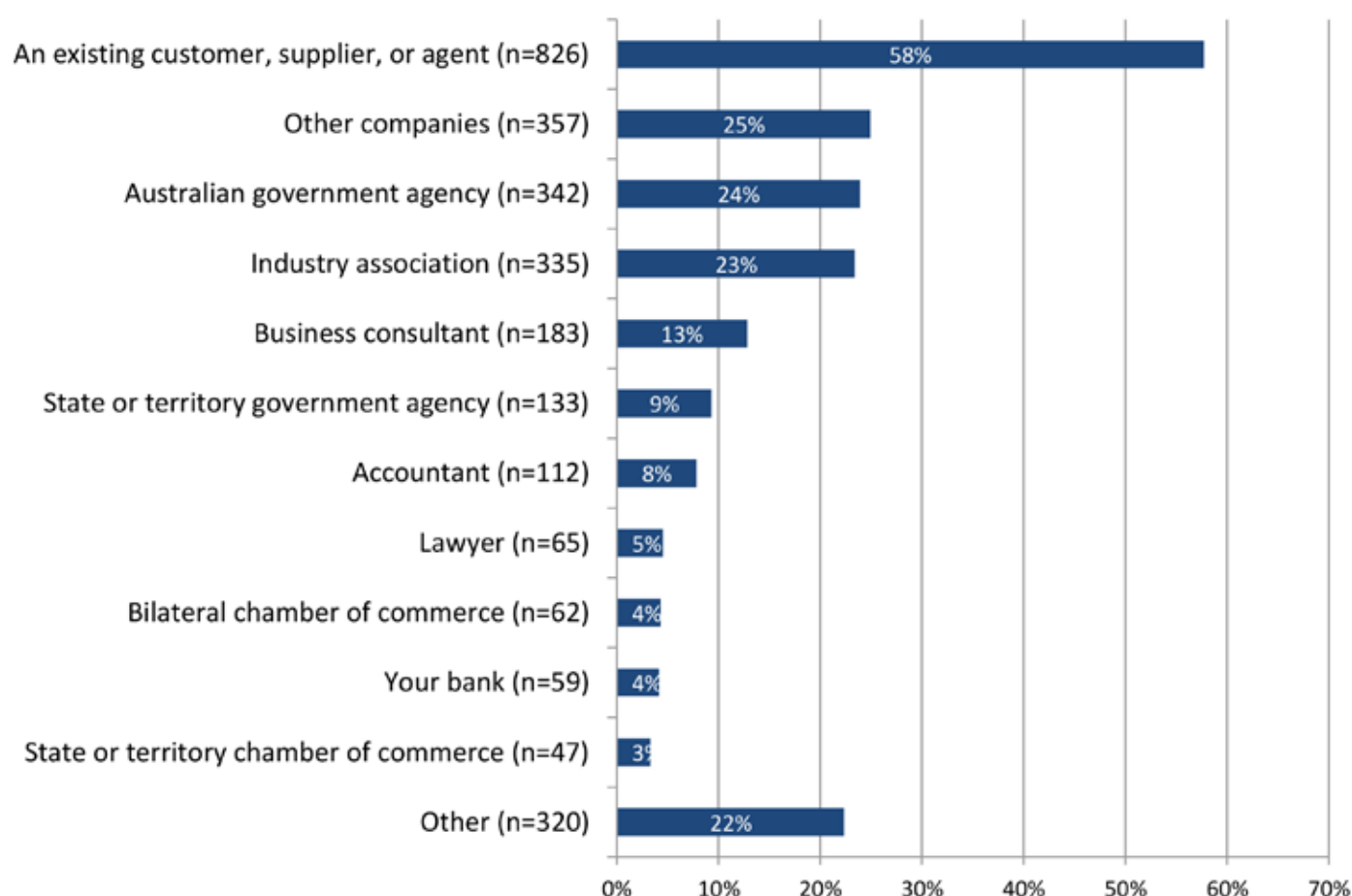
Sources of advice and support

Survey participants were asked to whom they turn for advice on growing their businesses internationally, with other businesses most frequently indicated as the main source of advice. Respondents were also given the opportunity to suggest which forms of support would be most useful to them in undertaking future expansion.

These open-ended responses call for improvements in the levels and types of support from Austrade (including the Export Market Development Grants Scheme) and other institutions, and the provision of marketing support and access to relevant information.

Figure 32: Sources of advice

Survey question: *Who is your company's most important source of advice regarding growing your business internationally? (select up to three most important)*



Sample size by number of respondents: n=1524

Respondents mostly turn to existing networks and other businesses for advice on international operations, no matter their length of international experience or size (Figure 32). This consists of existing customers, suppliers, agents (58 per cent) and other businesses with whom they are in contact (25 per cent). The next most important source of advice comprises government agencies, both at the Commonwealth (24 per cent) and state/territory levels (9 per cent). Industry associations account for 23 per cent of advice provided. Banks, lawyers and chambers of commerce are not organisations that respondents commonly turn to for advice about international operations. The importance of other businesses as an information source is also highlighted in open-ended feedback provided by respondents.

Of the major industries in the survey, the education and training sector reported the highest usage rates of government sources of advice: 41 per cent at the Commonwealth level and 19 per cent from state or territory governments. The other main recipient of government advice is mining support. Large businesses with more than 200 employees are the heaviest users of advice from government (35 per cent at the Commonwealth level, ten per cent at the state or territory level).

Additional comments about the most useful support in developing international operations

Respondents also had the opportunity to provide qualitative feedback on the support they would find most helpful in developing their international operations. A total of 314 respondents took the opportunity to provide this additional feedback. The issues most frequently raised relate to the Export Market Development Grants Scheme (EMDG) scheme and other services provided by Austrade. Improvements in current levels and types of support were called for. Some respondents compared the support available to Australian businesses unfavourably to schemes offered by foreign governments. Austrade's in-country assistance is valued by many respondents, but the lack of support on the ground currently available in key markets such as the United States was raised as an issue of concern.

Open-ended feedback was received from respondents who do not feel that the EMDG scheme, as it functioned at the time of the survey, met their needs. This is mainly because they had already used up their entitlements under the scheme, or because they are too small to be able to meet the threshold spending level of \$20,000. Uncertainty surrounding the level of funding that would be provided and the degree of red tape involved in making an application for funding were also cited as disincentives to applying.

As well as support for marketing activities (especially trade shows), access to information emerged as an important theme (i.e. market research, opportunities and trends, duty rates, international agreements, potential partners and the practical application of the law in international markets). Open-ended comments point to the role that government could potentially play as a channel for such information. Even finding out more information about government grants and assistance that are available was raised as being a complicated process.

Respondents also feel that changes to current domestic policies and regulations would assist in their offshore efforts. 'Buy local' provisions for SMEs, support for R&D, tackling border restrictions (particularly quarantine and visa regulations), progressing free trade agreements (FTAs) and negotiating to reduce non-tariff barriers are the most common regulatory issues raised in the feedback.

While respondents stress the important role that government can play, they also point to the usefulness of information provided by other firms. Qualitative comments therefore reinforce the finding (see Figure 32) that contacts and networks with other businesses are highly valued as information sources. Some respondents feel that they are not well enough connected and are keen for more opportunities to network, find mentors and learn from more experienced exporters.

What Australian businesses say would help them expand internationally

*“Be identified with like minded companies to be able to **network and share ideas**; successes; contacts.”*

*“**Continuing support from Austrade** and their overseas staff.”*

*“Better assistance to try to **locate distributors** in other countries.”*

*“More **support for traditional markets** is required.”*

*“**Knowing what advice is available** to us would be very beneficial in helping access new countries.”*

*“More available **market research** for small businesses.”*

*“Customer and supplier **networking**.”*

*“**Availability of EDMG** to enhance the level of marketing we can do.”*

*“**Expand and extend the EDMG scheme** which I believe is a fantastic investment in SME export development.”*

*"The EDMG program was of tremendous benefit to our company in **securing distribution of our products** into North America."*

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APPENDIX A: METHODOLOGICAL NOTES

The main objective of the survey was to investigate the international business activities of Australian businesses: to gain insights into their international operations, their challenges, and their future expansion plans. As a starting point, the available literature on exporting and international business in academic and policy publications was reviewed. Similar surveys and studies previously conducted by international organisations such as the Organisation for Economic Cooperation and Development (OECD), and national organisations such as the Australian Bureau of Statistics (ABS) and the Australian Trade Commission (Austrade) were also reviewed.

Survey questions were then drafted based on the literature review and further inputs from the major stakeholders in the survey consortium: the Export Council of Australia (ECA), Austrade, and the Export Finance and Insurance Corporation (EFIC). These inputs were aimed at aiding in the process of crafting questions to identify specific characteristics of Australian international businesses, specific aspects of their international business activities and experience, future international plans, and support requirements.

The survey was further refined through an iterative piloting process that involved seeking feedback on the survey questions, form, structure and length from prospective survey respondents. This piloting process was conducted through a combination of face-to-face meetings, document reviews and online tests.

The survey was conducted by researchers in the University of Sydney Business School. The project was approved by the University of Sydney Ethics Committee (USYD Project No. 2013/726).

The final version of the survey was created on an online survey platform licensed to the University of Sydney Business School. The survey site was built and managed by the University of Sydney Business School research team, and the link to the site was progressively sent via email to the databases of the various stakeholders in the survey consortium, industry associations, state agencies and other stakeholders. This was done to ensure the broadest possible reach for the survey given the lack of a pre-existing sampling frame, and increase the probability of recruiting respondents from a wide variety of sectors.

The survey was open from 22 October to 18 December 2013. At the close of the survey, a total of 2,712 questionnaire responses were collected and recorded on the online system. Responses of those that declined to participate (122 responses), drop-outs (355 responses), and invalid and duplicate entries (617 responses) were removed from the original dataset. This resulted in a final sample of 1,618 useable responses.

The survey responses were primarily from Australian businesses currently and regularly active in international markets and are thus not necessarily representative of all Australian businesses with some international activities, especially occasional exporters.

As is the case for any analysis based on self-reports, the possibility of error cannot be excluded. For example, survey respondents may have interpreted questions incorrectly or may not have provided accurate answers.

Charts in this report do not always add up to 100 per cent, due to rounding and questions that were structured to permit multiple responses and/or rankings of options.

APPENDIX B: GLOSSARY

Advanced economy The International Monetary Fund (IMF 2013) defines 35 economies as advanced. For the purpose of this report, the most important of these are the United States, United Kingdom, the Euro Area, Japan, newly industrialised countries (Hong Kong, Korea, Singapore and Taiwan), Canada and New Zealand.

Elaborately transformed manufactures (ETM) In this survey, the classification of manufacturing follows DFAT's Trade Import and Export Classification (TRIEC) system (DFAT 2012b), which seeks to capture the degree of processing involved. TRIEC distinguishes between simply and elaborately transformed manufactures. The former undergo minimal transformation (e.g. refining, metal manufactures) and are intermediate goods, whereas the latter are finished goods that have undergone a complex transformation process, e.g. textiles, clothing and footwear, motor vehicles, pharmaceutical and professional and scientific instruments.

Emerging economy In this report, 'emerging economy' is used to refer to the 153 economies that the IMF (2013) classifies as 'emerging market and developing economies'. They represent all but the advanced economies.

Foreign affiliate The ABS (2011) defines foreign affiliates as offshore branches, subsidiaries and joint ventures that are majority or fully owned by Australian businesses. In this survey, respondents were not asked to differentiate between foreign affiliates that are minority, majority or fully owned by their business.

Industry classification In this report, industries were defined in accordance with ANZSIC division codes. Additional sub-categories were introduced, based on DFAT classifications (2012b), in order to capture more finely grained distinctions within industries, such as the degree of processing for manufactured goods and different types of agricultural goods and services:

Agriculture, Forestry and Fishing (Division A)

- Unprocessed food and live animals
- Unprocessed other (non-food)
- Agricultural support services

Mining (Division B)

- Minerals and fuels mining
- Mining support services (including exploration)

Manufacturing (Division C)

- Processed food and beverages (e.g. meat, dairy, wine, packaged foods)
- Production of simple manufactures (e.g. clay bricks, paper, pig iron, plaster, etc.)
- Production of elaborate manufactures (e.g. electronics, cosmetics, clothing, motor vehicles, machinery, paint, etc.)
- Manufacturing support services

Electricity, gas, water and waste services (Division D)

Construction (Division E)

Wholesale trade (Division F)

Retail trade (Division G)

Accommodation and food services (e.g. tourism) (Division H)

Transport, postal and warehousing (Division I)

Information media and telecommunications (Division J)

- Software, publishing, broadcasting and audio-visual services (incl. online)
- Other information services

Financial and insurance services (Division K)

Rental, hiring and real estate services (Division L)

Professional, scientific and technical services (Division M)

- Professional and management consulting services (e.g. lawyers, accountants)
- Technical, trade-related and other business services (e.g. architects, engineers)
- Research and development services

Administrative and support services (Division N)

Government, public administration and safety (Division O)

Education and training (Division P)

Health care and social assistance services (Division Q)

Arts and recreation services (e.g. performing arts, sports) (Division R)

Other services (Division S)

International business Any organisation, regardless of ownership structure (i.e. not-for-profit as well as for-profit), that generates revenue internationally, and may also engage in other activities such as importing and outsourcing.

International business activities In this survey the activities that international businesses can undertake are classified as follows: 1) generating international sales; 2) importing; 3) outsourcing; 4) engaging in outward foreign direct investment (FDI); 5) producing in offshore facilities the company owns; 6) engaging in offshore research and development; 7) participating in international supply chains; and 8) engaging in inward foreign direct investment. Survey respondents were not asked to provide information about their offshore portfolio investments.

International revenue generation International sales can be generated in multiple ways. Traditionally, the focus has been on goods and services exports. A company can use a variety of export channels: directly, via an agent or distributor in Australia, via a foreign agent or distributor, via its own branch office or subsidiary and via websites and online retailers. In addition, a firm can generate revenue from licensing or franchising, or through a joint venture or partnership that it does not fully own.

Small and medium-sized enterprise (SME) The ABS definition of a small and medium-sized enterprise is followed in this report. Accordingly, an SME is defined as a company with less than 200 employees. This definition includes micro businesses as a sub-type of SME.

APPENDIX C: KEY ABS SOURCES ON INTERNATIONAL BUSINESS

(1) Business Characteristics Survey

The ABS surveys a random sample from the Australian business community on an annual basis. The survey includes a question on how many earn overseas income, broken down by size and industry. Results from 2006-07 to 2011-12 are provided below. The percentage of businesses reporting overseas income declined during this period, from 9.1 per cent in 2006-07 to 7.2 per cent in 2011-12 (Table 6). The decline affected businesses of all sizes, although there were minor variations found across industries (Tables 6 and 7).

Table 6: Percentage of businesses with overseas income by industry

| Industry* | 2006-07 % with overseas income | 2007-08 % with overseas income | 2008-09 % with overseas income | 2009-10 % with overseas income | 2010-11 % with overseas income | 2011-12 % with overseas income |
|---|---|---|---|---|---|---|
| Agriculture, Forestry and Fishing | n.a. | n.a. | n.a. | 7.4% | 6.7% | 7.3% |
| Information Media and Telecommunications | 25.3% | 21.0% | 24.4% | 27.5% | 21.3% | 25.6% |
| Professional, Scientific and Technical Services | 15.1% | 13.9% | 11.6% | 13.4% | 15.7% | 13.3% |
| Mining | 25.7% | 22.7% | 19.6% | 18.2% | 25.3% | 22.5% |
| Manufacturing | 17.0% | 16.6% | 16.1% | 14.0% | 13.5% | 17.0% |
| Wholesale Trade | 21.8% | 22.3% | 20.0% | 22.7% | 22.4% | 22.4% |
| Total | 9.1% | 8.3% | 7.1% | 7.4% | 7.3% | 7.2% |

Source: ABS (2008-13), Business Characteristics Surveys

Note: The education and training industry is not included in the Business Characteristics Survey

* Only the main industries in the survey have been included

Table 7: Percentage of businesses with overseas income by size

| Business size | 2006-07 % with overseas income | 2007-08 % with overseas income | 2008-09 % with overseas income | 2009-10 % with overseas income | 2010-11 % with overseas income | 2011-12 % with overseas income |
|---------------|---|---|---|---|---|---|
| Micro | 7.4% | 5.9% | 5.4% | 5.5% | 5.7% | 5.8% |
| Small | 9.8% | 10.4% | 7.9% | 8.5% | 8.4% | 7.6% |
| Medium | 18.4% | 17.8% | 15.0% | 15.3% | 13.7% | 14.7% |
| Large | 36.2% | 37.9% | 35.0% | 32.8% | 34.6% | 33.1% |

Source: ABS (2008-13), Business Characteristics Surveys

(2) Characteristics of Australian Exporters

Data for this annual publication are derived from two sources: 1) for merchandise goods, data provided by the Australian Customs and Border Protection Service; and 2) for services, a sample of service businesses surveyed for the Survey of International Trade in Services (SITS). When analysing the data collated from these two sources, the following limitations need to be kept in mind:

- The most recent statistics are from 2011-12;
- Goods that have been re-exported are included in the counts;
- The numbers of goods exporters contain some double-counting, due to the fact that businesses may trade under multiple ABNs;
- The number of goods exporters does not include exports via an Australian-based intermediary;
- Smaller service-based businesses are under-reported;
- Data on services exports do not include all forms of service delivery;
- The counts of goods exporters include businesses from service-based industries that have exported goods.

Table 8 shows the trend in the number of exporters and the value of exports in the period 2006-07 to 2011-12. The increase in the total value of exports during this period can be attributed to the rise in the value of goods rather than services exports. Overall, the number of exporters has declined since 2008-09, largely due to a decline in the number of services exporters. The value of goods exports is dominated by the mining industry, even though they represent a very small number of exporters (1 per cent in 2011-12).

Table 8: Number of exporters and value of exports 2006-07/2011-12

| Exporters and exports | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|----------------------------------|---------|---------|---------|---------|---------|---------|
| Number of Exporters (No.) | | | | | | |
| Total goods exporters | 42 654 | 43 098 | 43 259 | 42 652 | 42 734 | 43 080 |
| Total services exporters* | 3 562 | 3 562 | 3 420 | 3 124 | 3 264 | 2 937 |
| Total exporters** | 45 195 | 45 623 | 45 569 | 44 581 | 44 766 | 44 751 |
| Value of Exports (\$m) | | | | | | |
| Total goods exports | 168 099 | 180 857 | 230 829 | 200 720 | 245 724 | 264 027 |
| Total services exports | 47 154 | 50 878 | 52 283 | 51 311 | 50 310 | 50 814 |
| Total value of exports | 215 253 | 231 735 | 283 067 | 252 031 | 296 034 | 314 841 |

Source: ABS (2013b), *Characteristics of Australian Exporters*

* The number of exporters that deliver services to foreigners in Australia (such as travel, insurance, financial and government service types) is unknown. This number cannot be estimated as the Survey of International Trade in Services does not collect the data needed to obtain a measure of these service types

** The count of total exporters has been adjusted by the estimate of the number of exporters that export both goods and services to avoid double-counting.

(3) Business Longitudinal Database

The Business Longitudinal Database tracked a sample of small and medium-sized businesses over a five-year period, from 2006-07 to 2010-11. The panel was representative of the SME population as at 30 June 2007. The panel was stratified by business size and industry, although some industries were excluded (the most relevant for the purposes of this survey being education and training). As part of the annual data collection, panel members were asked about their overseas income. Results, as displayed in Table 9, show that over the five-year period of the survey, there was an overall decline in the percentage of surviving panel members who reported overseas income, although there were some variations by industry.

Table 9: Percentage of businesses with overseas income by industry

| Industry | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|--|---------|---------|---------|---------|---------|
| Accommodation and Food Services | 3.3% | 2.3% | 3.6% | 3.1% | 3.2% |
| Administrative and Support Services | 5.8% | 6.1% | 5.8% | 6.7% | 7.2% |
| Agriculture | 10.6% | 10.8% | 8.8% | 8.7% | 7.3% |
| Arts and Recreation Services | 11.3% | 12.5% | 12.1% | 12.6% | 10.3% |
| Construction | 4.9% | 0.9% | 1.0% | 1.1% | 1.1% |
| Information Media and Telecommunications | 28.4% | 26.5% | 31.5% | 31.6% | 25.0% |
| Manufacturing | 22.7% | 21.8% | 22.0% | 22.3% | 20.3% |
| Mining | 17.3% | 15.9% | 12.2% | 13.5% | 13.9% |
| Other Services | 6.7% | 3.4% | 1.8% | 2.0% | 3.0% |
| Professional | 20.3% | 20.2% | 17.6% | 17.8% | 17.3% |
| Rental | 2.5% | 1.0% | 2.1% | 2.1% | 3.4% |
| Retail Trade | 5.8% | 4.7% | 5.6% | 5.0% | 5.7% |
| Transport | 10.0% | 5.3% | 4.5% | 4.0% | 7.4% |
| Wholesale Trade | 24.0% | 25.6% | 25.4% | 25.0% | 24.6% |
| Total | 13.5% | 12.7% | 12.3% | 12.5% | 11.7% |

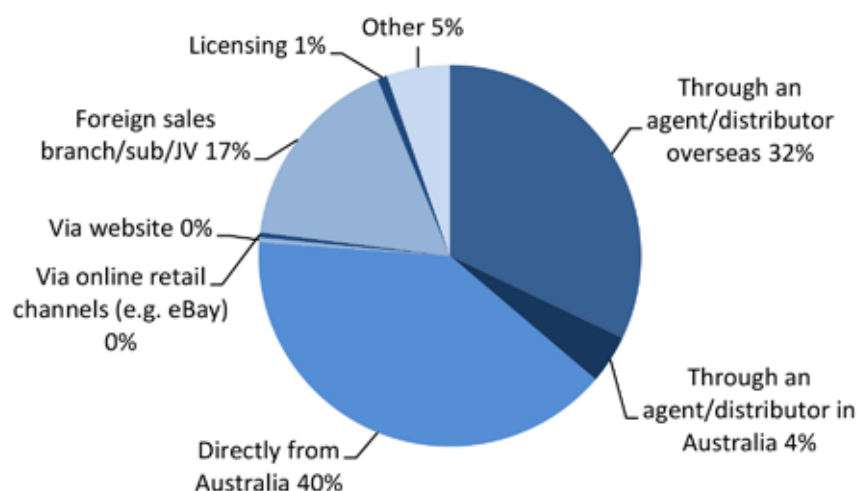
Source: ABS (2013a), *Business Longitudinal Database, 2006-07 to 2010-11*

APPENDIX D: COUNTRY PROFILES

CHINA

Figure 33: China - Mode of servicing

Survey question: *Mode of servicing (top two countries)*

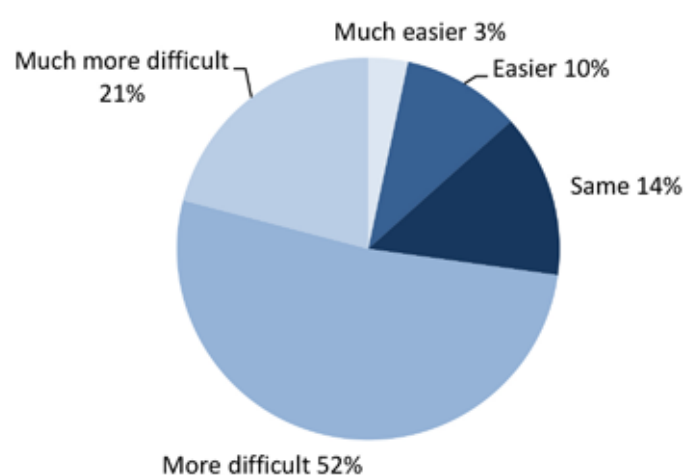


Sample size by number of respondents: n=255

The range of modes used by respondents for whom China is the most or second most important market does not differ greatly from those used in other countries. As Figure 33 shows, the Chinese market is most commonly serviced either directly from Australia (40 per cent) or via an agent or distributor based in China (32 per cent).

Figure 34: China - Ease of doing business compared to Australia

Survey question: *Ease of doing business (top two countries)*

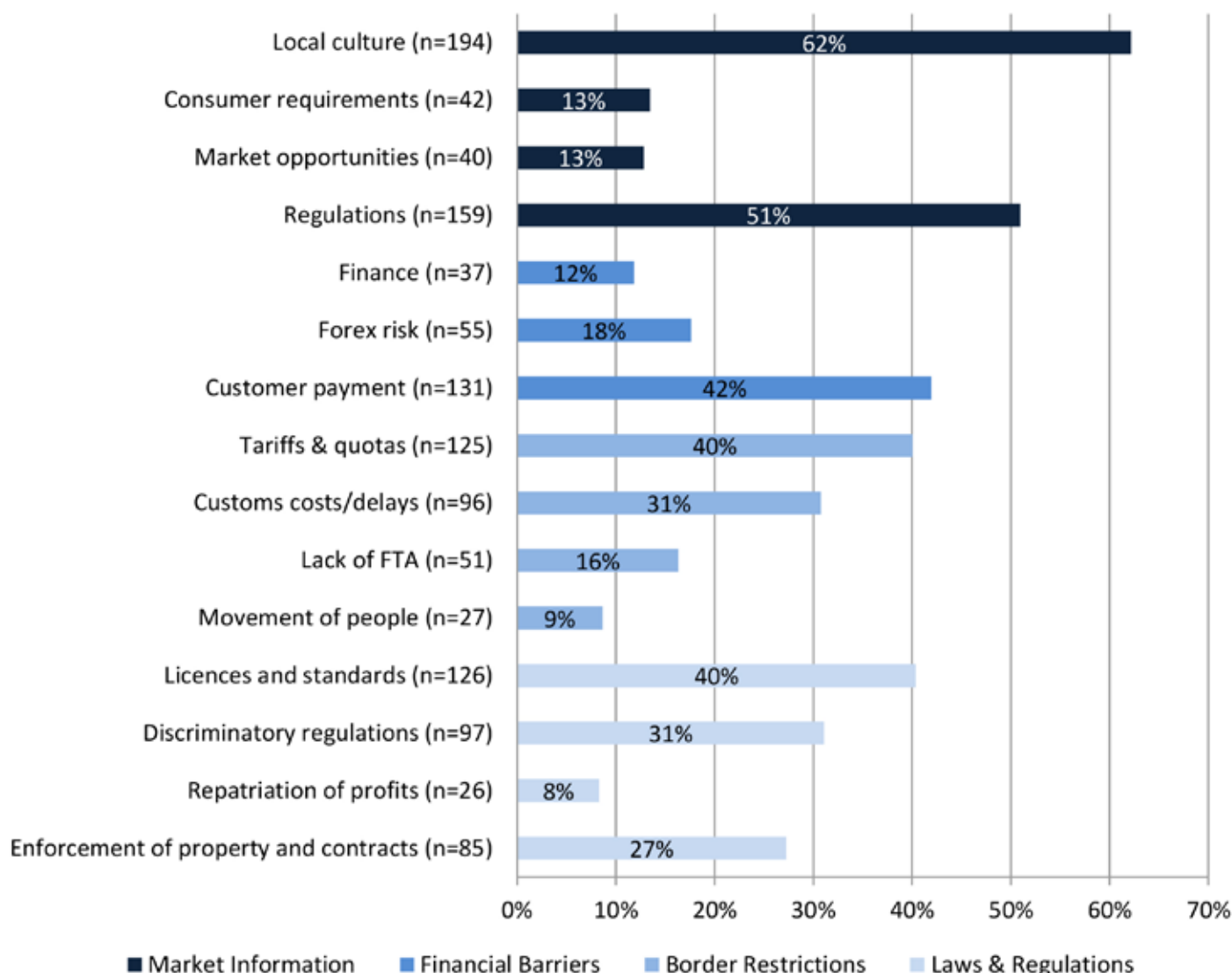


Sample size by number of respondents: n=255

Of those respondents for whom China is an important market, 73 per cent regard it as more/much more difficult to do business in than Australia (Figure 34). Interestingly, 13 per cent regard China as easier than Australia.

Figure 35: Barriers to doing business in China

Survey question: *What are the barriers that make (this country) so difficult for your company? (select all that apply)*



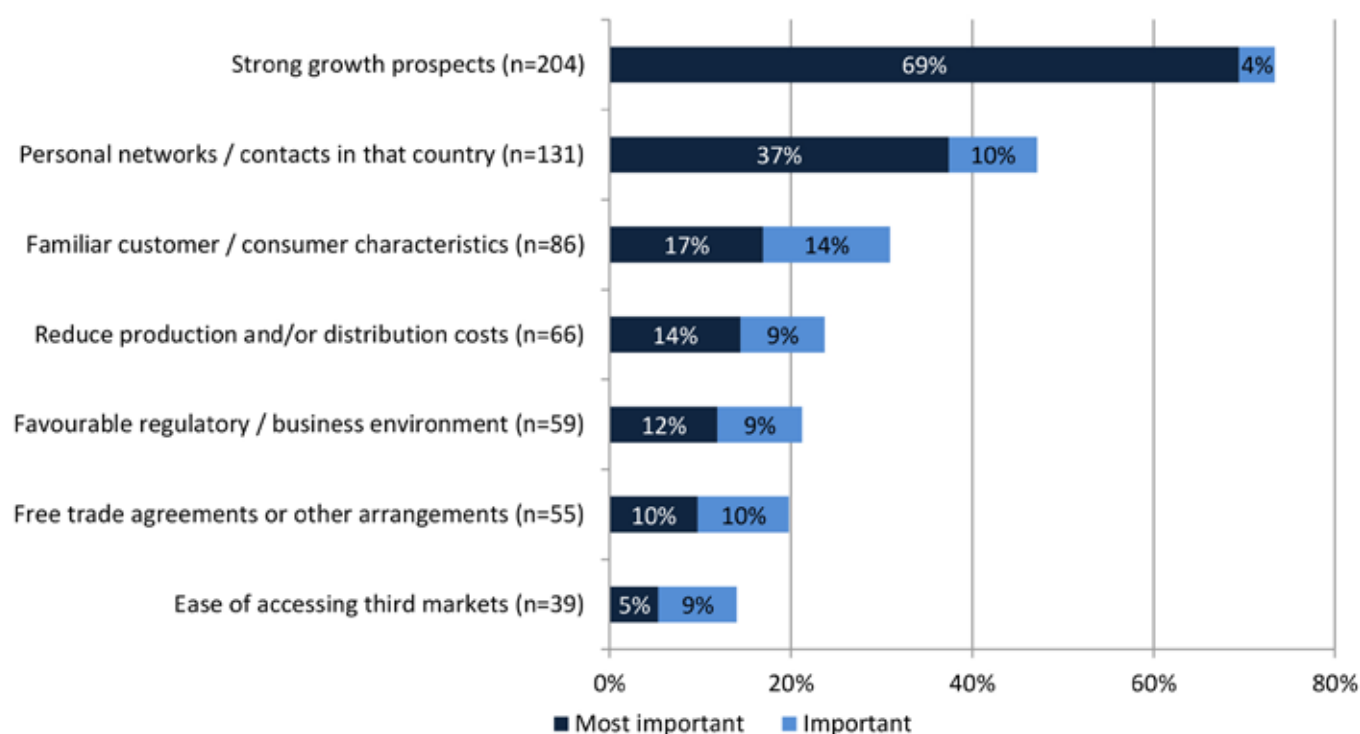
Sample size by number of respondents: n=312

Sample size by number of responses: n=1291; multiple responses were possible

Lack of information about local culture, business practices and local regulations are the most frequently reported barriers to doing business in China (Figure 35). Lack of information about local culture and business practices is more commonly perceived as an impediment by respondents with the least amount of international experience, but remains a significant barrier even for businesses with more than ten years' experience. Obtaining customer payment is also a common concern. This remains a barrier even for businesses with higher levels of international experience. Respondents are also affected by border restrictions and non-tariff barriers such as licences, permits and product standards. In contrast, restrictions on the repatriation of profits and the movement of people, the lack of an FTA and lack of information about consumer requirements and market opportunities were less frequently identified as a challenge.

Figure 36: Why was China selected for future business?

Survey question: *Why has your company chosen to target this country for future business? (select all that apply)*



Sample size by number of respondents: n=278

Sample size by number of responses: n=657; multiple responses were possible

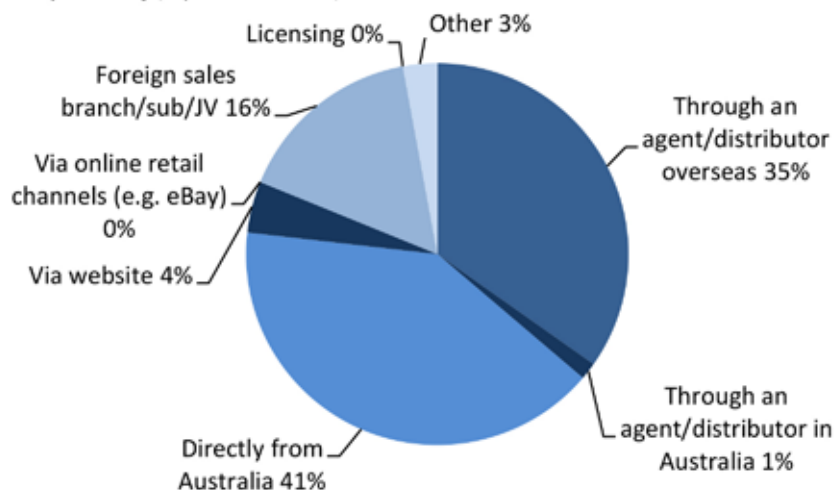
Note: 'Other' category accounted for n=17 responses

By far the most important reason for planning to do business in China is perceived growth prospects (Figure 36). Other reasons for expanding to China, while present, are clearly a lesser consideration than the perceived opportunities in the market. The second most important reason for selecting China as a future market is the existence of personal contacts or networks in the country.

INDIA

Figure 37: India - Mode of servicing

Survey question: *Mode of servicing (top two countries)*

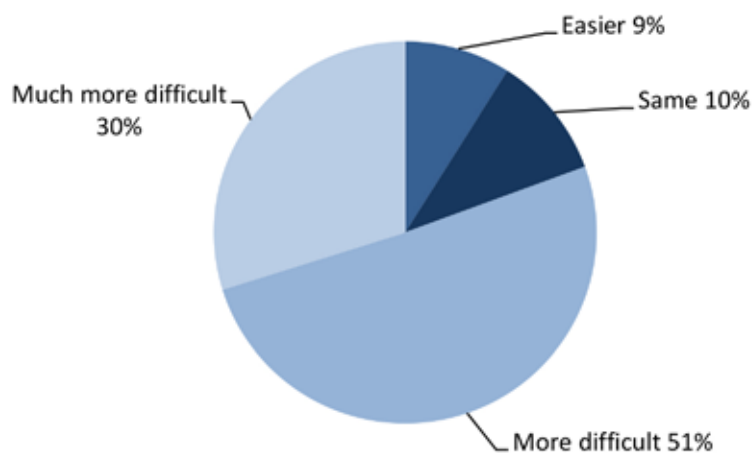


Sample size by number of respondents: n=71

Unlike China, India is being serviced via websites by a small number of respondents, as Figure 37 shows (4 per cent). Otherwise, the choice of modes used to service the Indian market is similar to those selected for the Chinese market.

Figure 38: India - Ease of doing business compared to Australia

Survey question: *Ease of doing business (top two countries)*

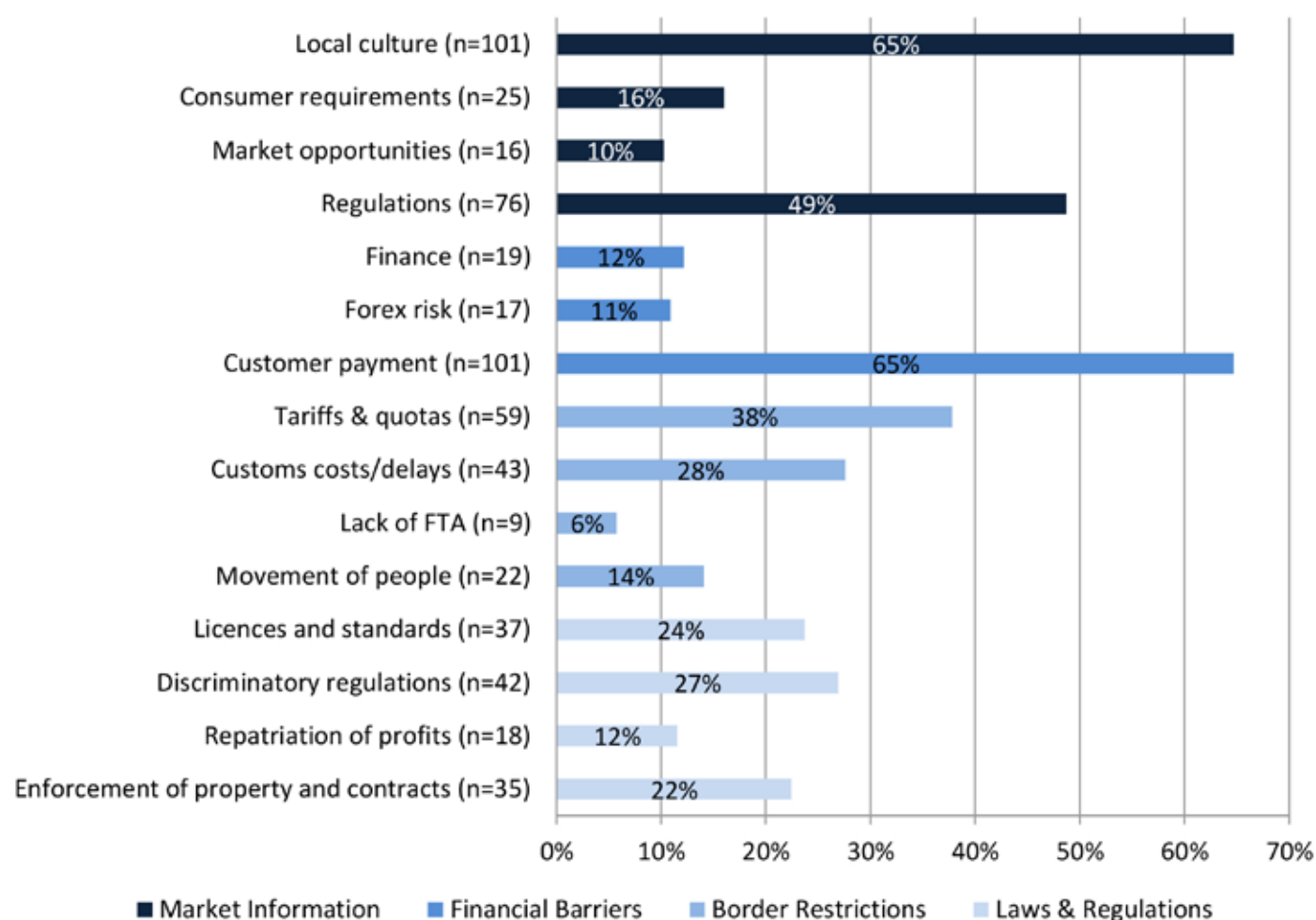


Sample size by number of respondents: n=71

Of those respondents for whom India is an important market, 81 per cent regard it as more/much more difficult than Australia (Figure 38), a higher proportion than for China. No one thinks it is much easier than Australia. Perceptions of the difficulty of doing business in India hold across all industries.

Figure 39: Barriers to doing business in India

Survey question: *What are the barriers that make (this country) so difficult for your company? (select all that apply)*



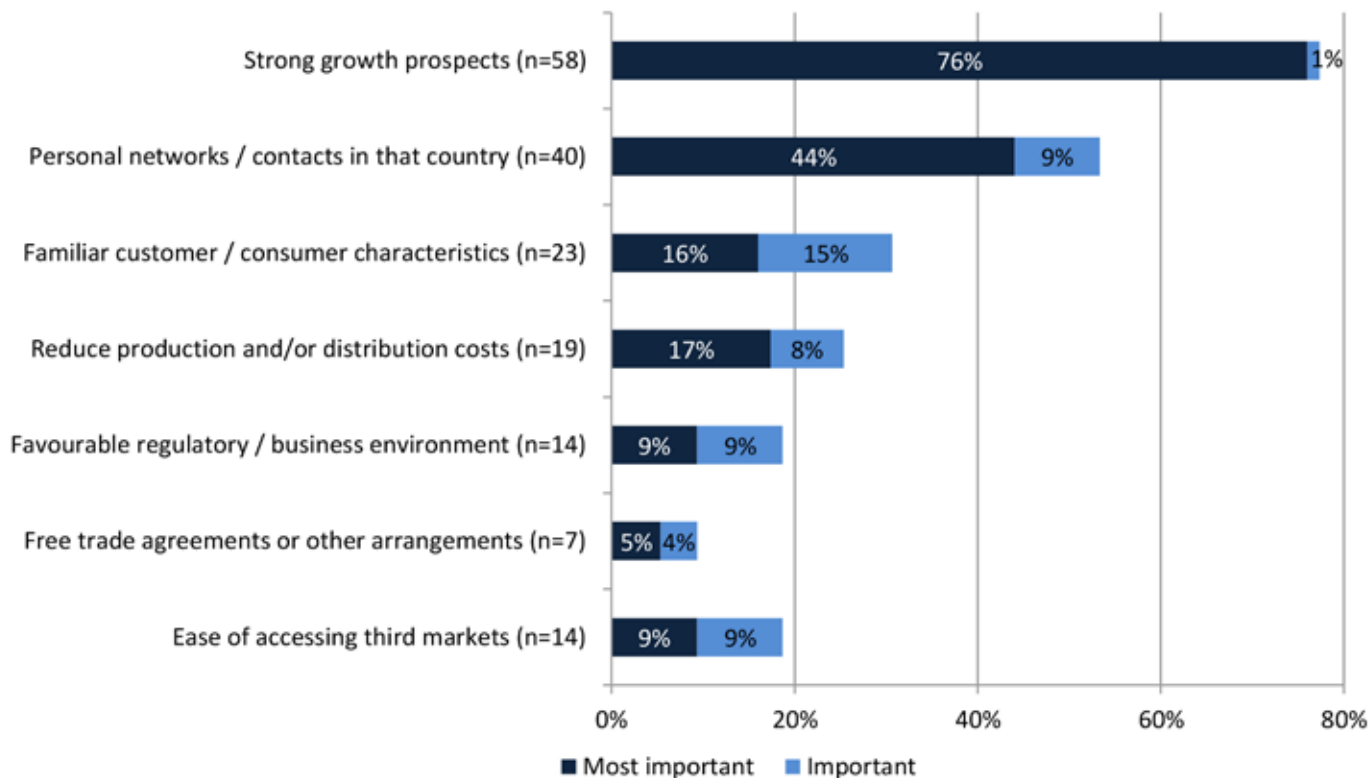
Sample size by number of respondents: n=156

Sample size by number of responses: n=620; multiple responses were possible

Lack of information about culture and business practices, as well as problems concerning customer payment, are the most commonly selected barriers to doing business in India (Figure 39). Such challenges assume greater relative importance the longer a company has done business in India, so experience does not seem to mitigate the adverse effect of such barriers.

Figure 40: Why was India selected for future business?

Survey question: *Why has your company chosen to target this country for future business? (select all that apply)*



Sample size by number of respondents: n=75

Sample size by number of responses: n=181; multiple responses were possible

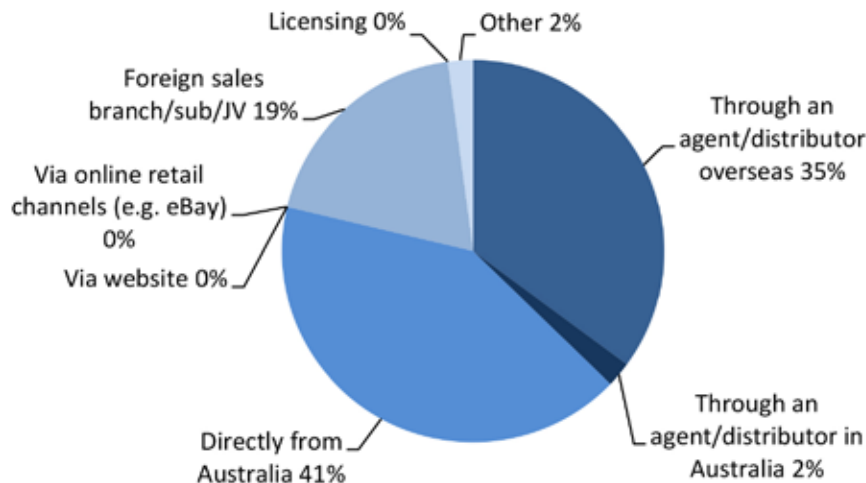
Note: 'Other' category accounted for n=6 responses

While strong growth prospects are overwhelmingly the most important reason provided for planning on doing business in India in the future, personal contacts/networks do play a secondary role (Figure 40). While this is mostly not the primary motive for planning to expand to India, it does suggest that personal connections are regarded as facilitating entry to the country.

INDONESIA

Figure 41: Indonesia - Mode of servicing

Survey question: *Mode of servicing (top two countries)*

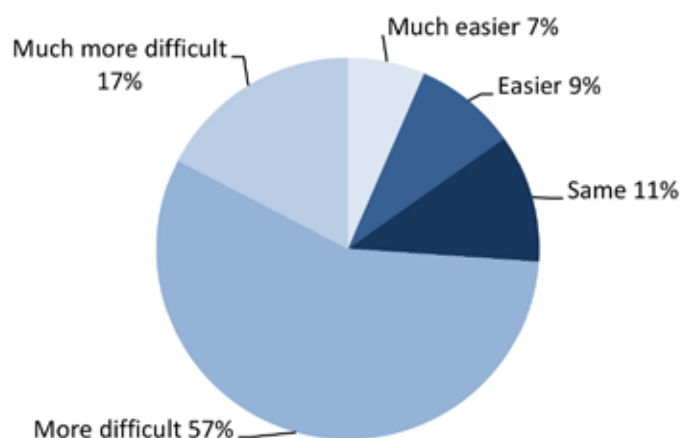


Sample size by number of respondents: n=95

The choice of modes for servicing the Indonesian market is broadly in line with those used in China and India. In order of importance, the mode choices are: servicing the market directly from Australia, using agents and distributors (mostly based in Indonesia) and setting up a foreign sales branch, subsidiary or joint venture (Figure 41).

Figure 42: Indonesia - Ease of doing business compared to Australia

Survey question: *Ease of doing business (top two countries)*

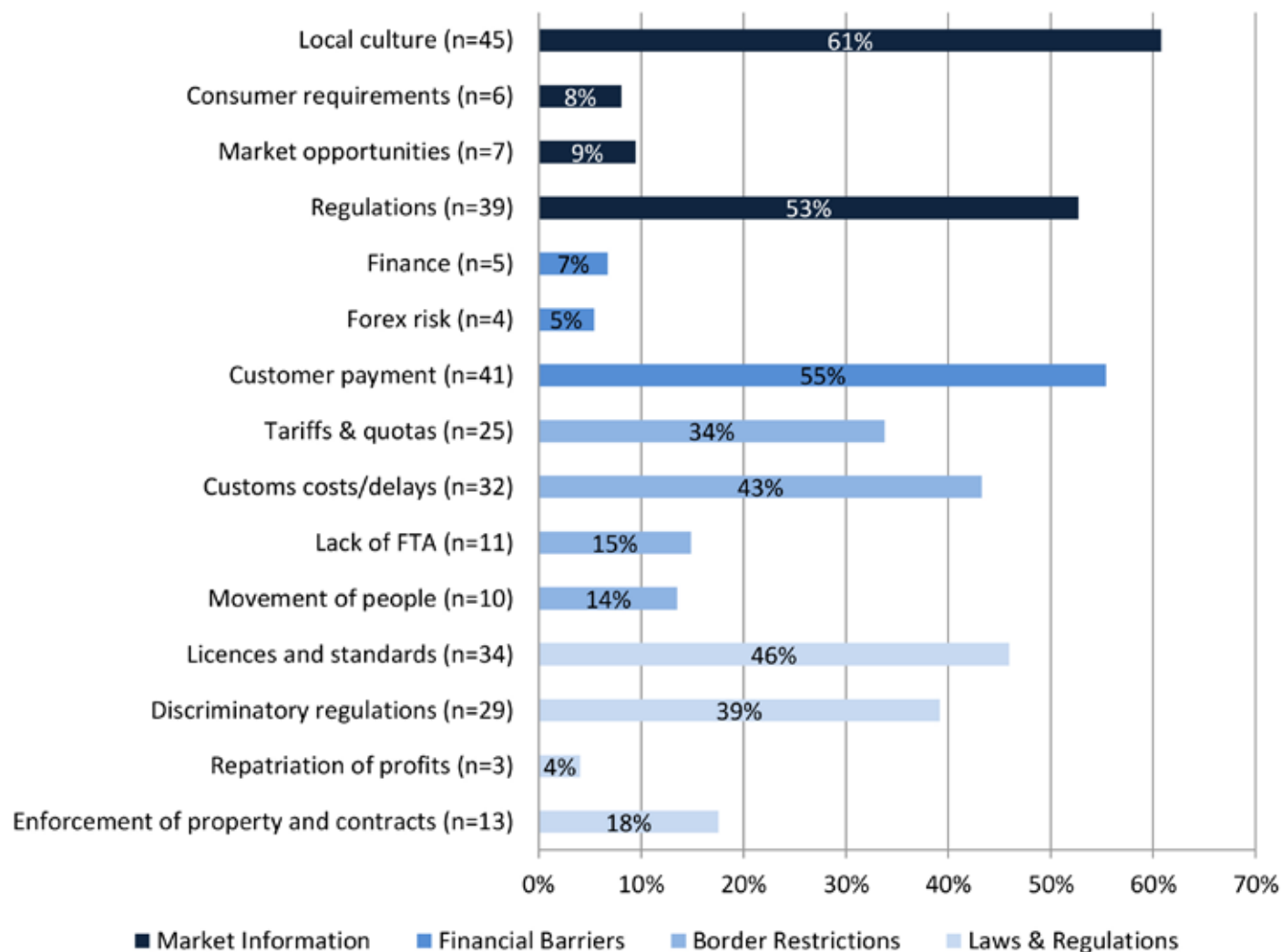


Sample size by number of respondents: n=95

The difficulty of doing business in Indonesia (Figure 42) receives similar ratings to China. The percentage of respondents that regard the country as easier/much easier in which to do business than Australia is also comparable to that for the Chinese market.

Figure 43: Barriers to doing business in Indonesia

Survey question: *What are the barriers that make (this country) so difficult for your company? (select all that apply)*



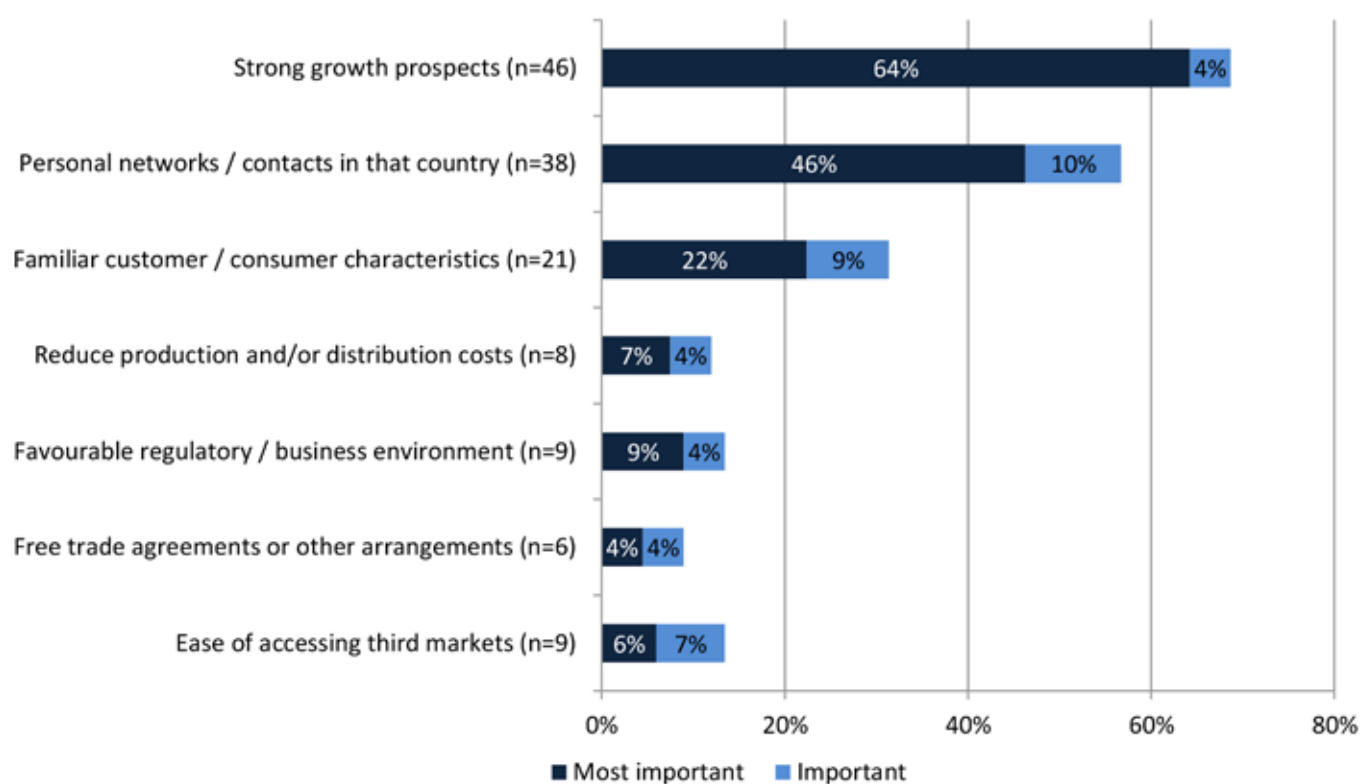
Sample size by number of respondents: n=74

Sample size by number of responses: n=304; multiple responses were possible

As in the case of most markets, lack of information about local culture and business practices is the barrier most often selected by respondents (Figure 43). Customer payment issues are also a particular concern in Indonesia.

Figure 44: Why was Indonesia selected for future business?

Survey question: *Why has your company chosen to target this country for future business? (select all that apply)*



Sample size by number of respondents: n=67

Sample size by number of responses: n=141; multiple responses were possible

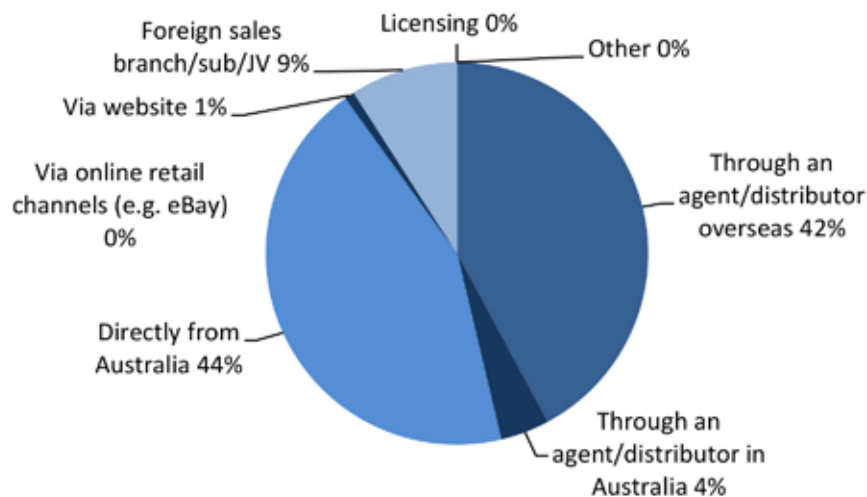
Note: 'Other' category accounted for n=4 responses

While strong growth prospects in the country are the overwhelming reason why Indonesia is selected as the most important future market, personal ties between Indonesia and Australia do feature as an important secondary motivation (Figure 44).

JAPAN

Figure 45: Japan - Mode of servicing

Survey question: *Mode of servicing (top two countries)*

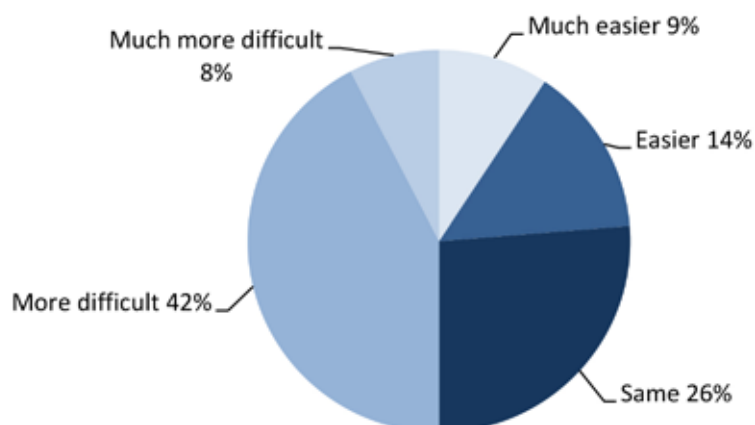


Sample size by number of respondents: n=122

A higher proportion of respondents use agents and distributors to service the Japanese market than any other of Australia's top ten international markets: 42 per cent rely on agents in Japan, and four per cent on agents in Australia (Figure 45). The proportion of businesses that use a foreign branch, subsidiary office or joint venture to service the market (9 per cent) is relatively low compared to the other countries profiled.

Figure 46: Japan - Ease of doing business compared to Australia

Survey question: *Ease of doing business (top two countries)*

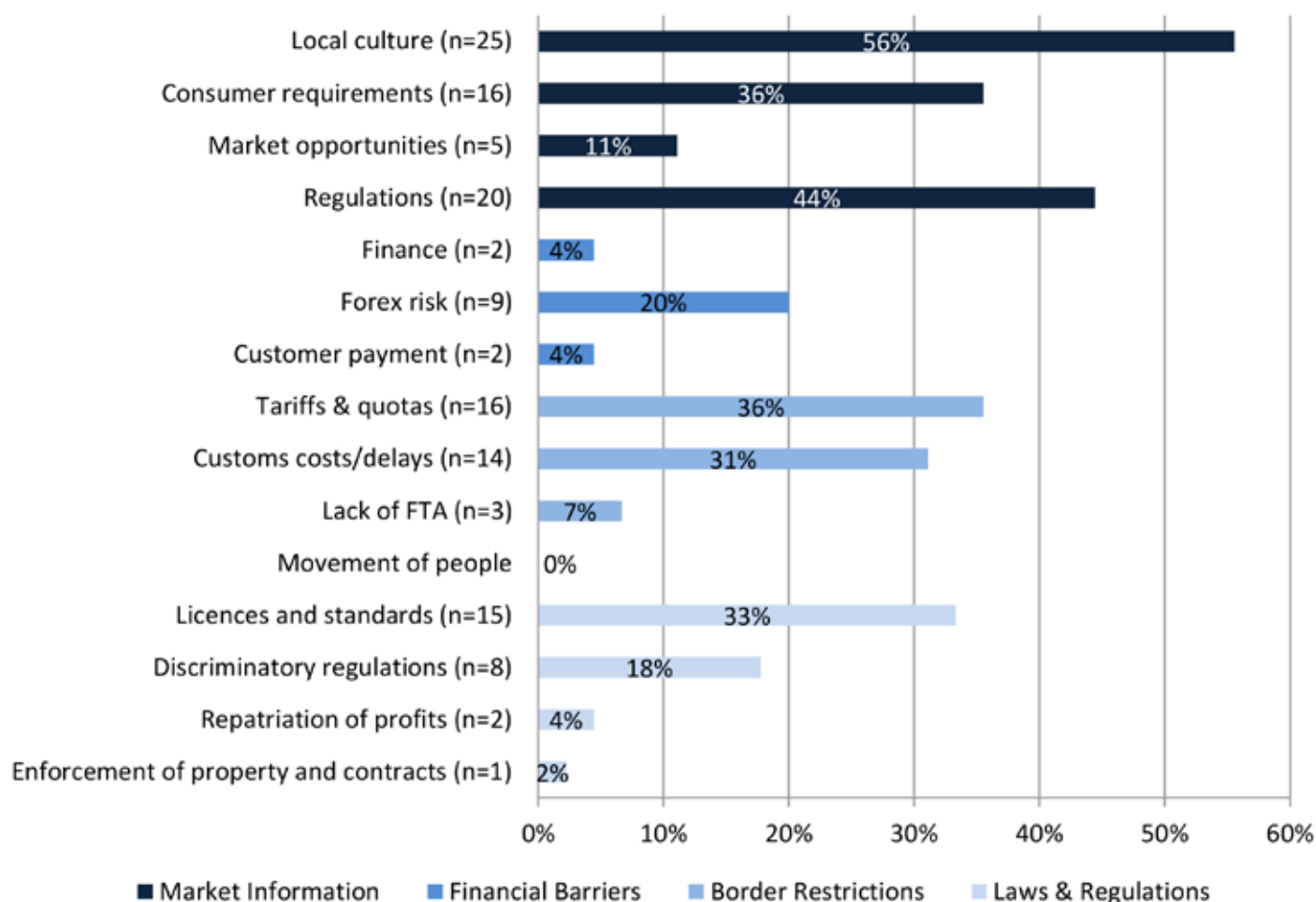


Sample size by number of respondents: n=122

Japan received the lowest scores for the ease of doing business among the developed countries profiled. At the same time, 50 per cent of respondents who selected Japan regard it as the same or easier than Australia as an environment in which to do business (Figure 46).

Figure 47: Barriers to doing business in Japan

Survey question: *What are the barriers that make (this country) so difficult for your company? (select all that apply)*



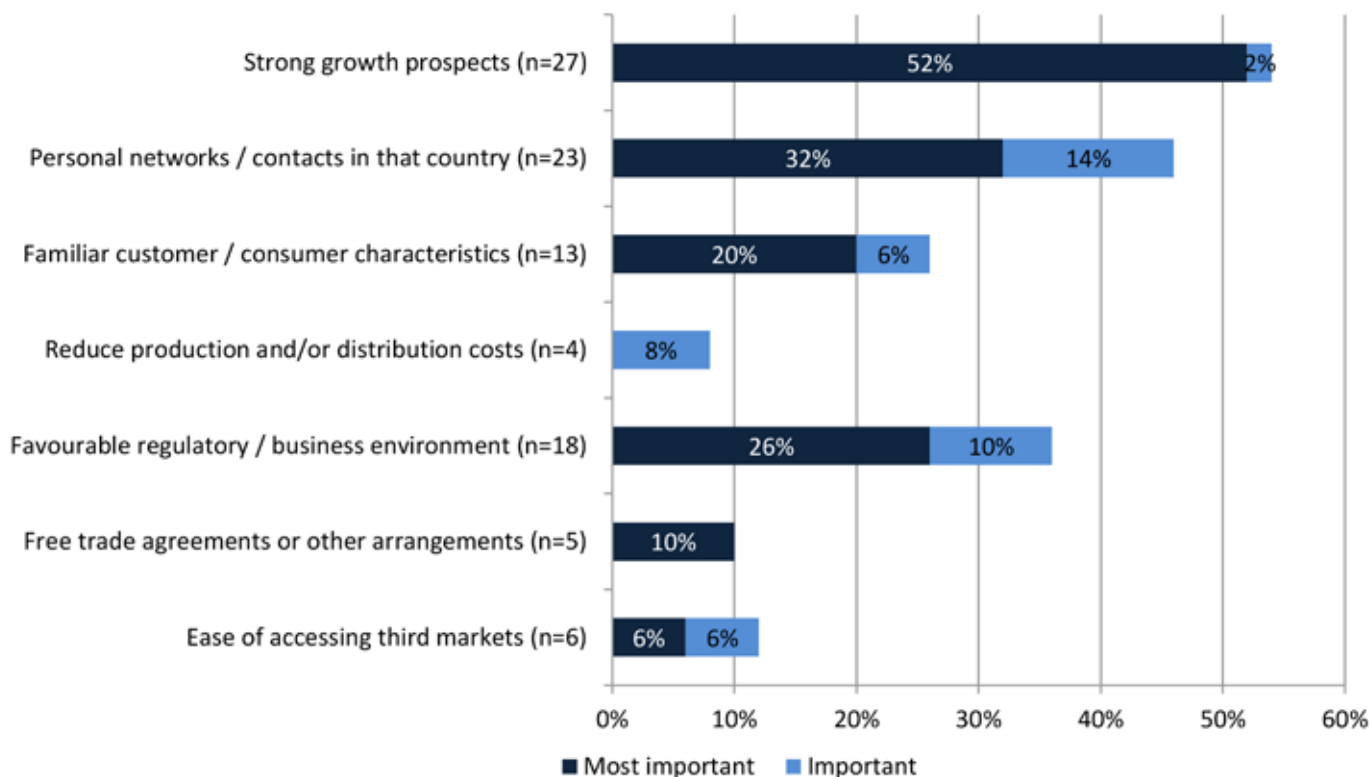
Sample size by number of respondents: n=45

Sample size by number of responses: n=138; multiple responses were possible

While respondents who nominated Japan as their most difficult market point to a variety of regulatory barriers, as well as a lack of information about business practices and culture (Figure 47), the business environment is seen as providing some advantages when compared to that of other countries profiled. A low percentage of respondents is concerned about customer payment issues, barriers to the movement of people and the enforcement of property rights and contracts.

Figure 48: Why was Japan selected for future business?

Survey question: *Why has your company chosen to target this country for future business? (select all that apply)*



Sample size by number of respondents: n=50

Sample size by number of responses: n=101; multiple responses were possible

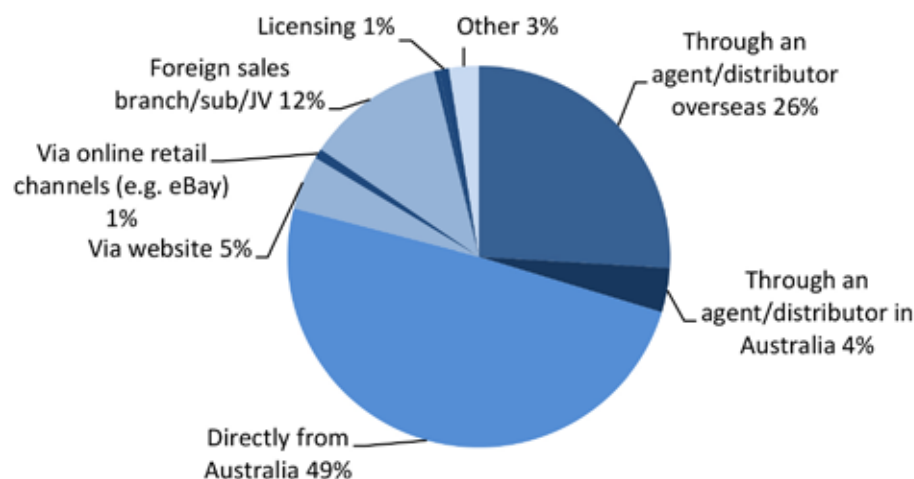
Note: 'Other' category accounted for n=5 responses

Japan is similar to the other countries profiled to the extent that strong growth prospects are the primary motivation for plans to do business there, reinforced by other perceived advantages (Figure 48). Respondents planning to expand to Japan regard it as a country in which they are comfortable to do business, given the existence of personal connections, a favourable regulatory environment and familiar customer characteristics. There are, however, only a small number of businesses that select Japan as a future destination.

NEW ZEALAND

Figure 49: New Zealand - Mode of servicing

Survey question: *Mode of servicing (top two countries)*

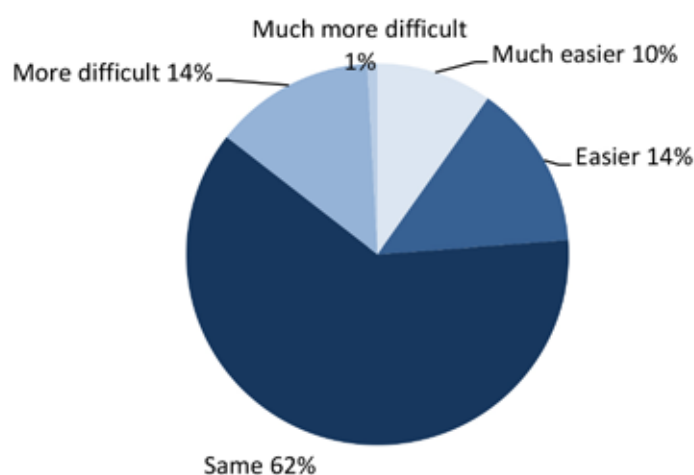


Sample size by number of respondents: n=245

Almost 50 per cent of respondents who nominated New Zealand as one of their most important markets service it directly from Australia (Figure 49). Among Australia's top ten international markets, this proportion is only surpassed by Papua New Guinea.

Figure 50: New Zealand - Ease of doing business compared to Australia

Survey question: *Ease of doing business (top two countries)*



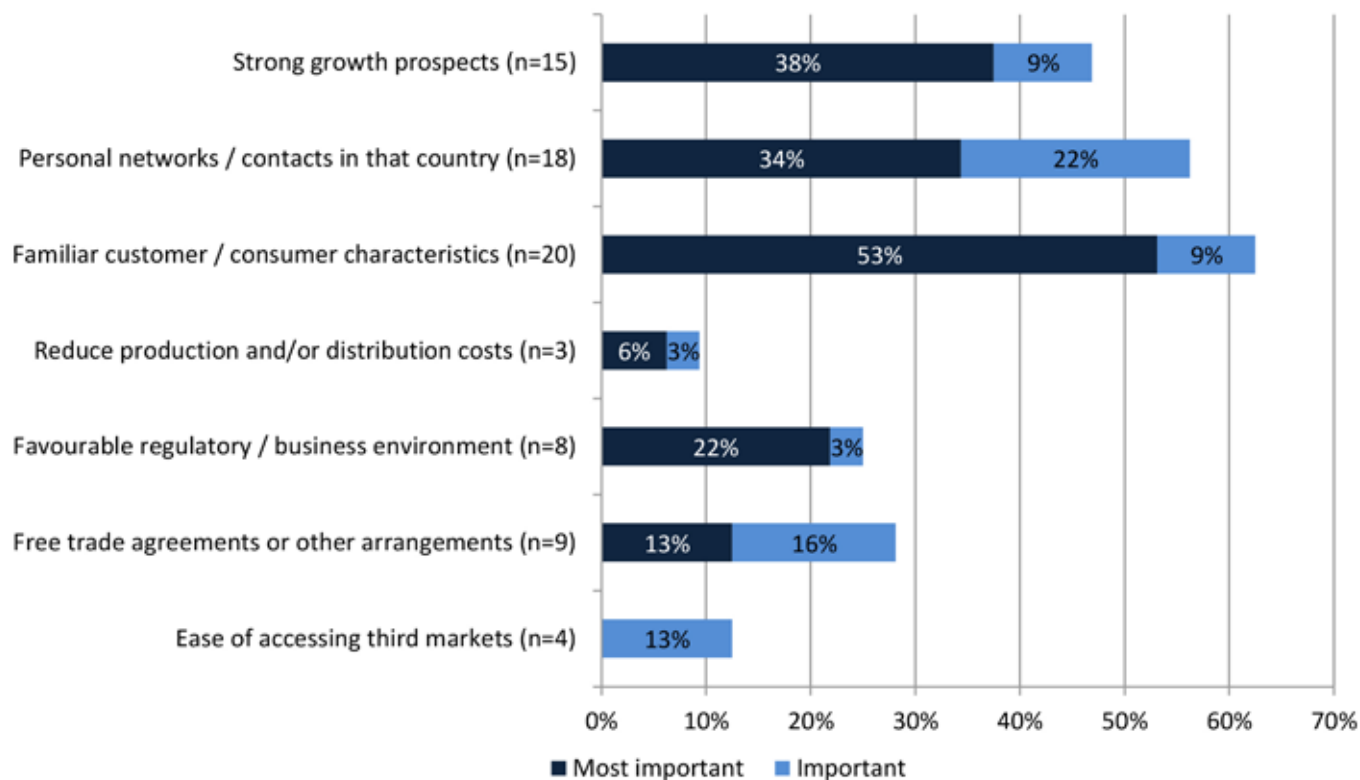
Sample size by number of respondents: n=245

As Figure 50 shows, more businesses reported that New Zealand is easier to do business in compared to Australia (24 per cent) than reported that it is more difficult (15 per cent). A majority (62 per cent) regard business conditions in the two countries as being the same.

Only 21 respondents selected New Zealand as the most difficult market in which they do business. About two-thirds of these businesses earn revenue from two to three markets, and New Zealand is one of their most important overseas markets. Lack of information about market opportunities and local regulations, foreign exchange risks and border restrictions (tariffs, quotas and import duties) are the most common barriers selected by respondents.

Figure 51: Why was New Zealand selected for future business?

Survey question: *Why has your company chosen to target this country for future business? (select all that apply)*



Sample size by number of respondents: n=32

Sample size by number of responses: n=77; multiple responses were possible

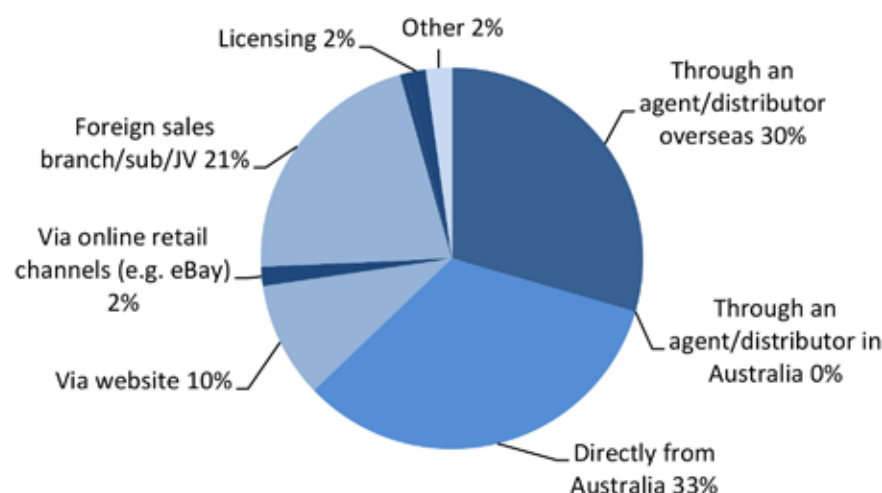
Note: 'Other' category accounted for n=0 responses

Unlike the other countries profiled, growth is not the most important reason respondents provide for planning future expansion to New Zealand. The main motivation for choosing New Zealand is rather that it is seen as a 'comfortable' market in terms of personal contacts and familiar customer/consumer characteristics (Figure 51). The existence of the Closer Economic Relations Trade Agreement is not a highly motivating factor among those planning to expand to New Zealand.

UNITED KINGDOM

Figure 52: United Kingdom - Mode of servicing

Survey question: *Mode of servicing (top two countries)*

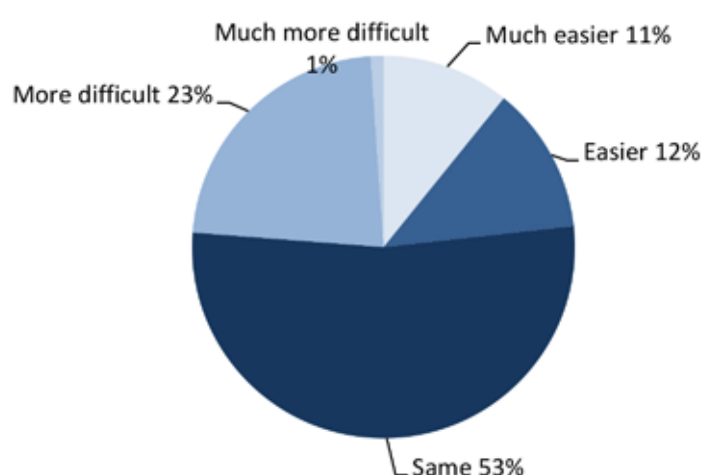


Sample size by number of respondents: n=192

The types and popularity of modes chosen for the United Kingdom market are broadly in line with those used to service other advanced economies, such as the United States. E-commerce has become the preferred channel for servicing customers for a modest percentage of respondents (12 per cent) for whom this is an important market (Figure 52).

Figure 53: United Kingdom - Ease of doing business compared to Australia

Survey question: *Ease of doing business (top two countries)*

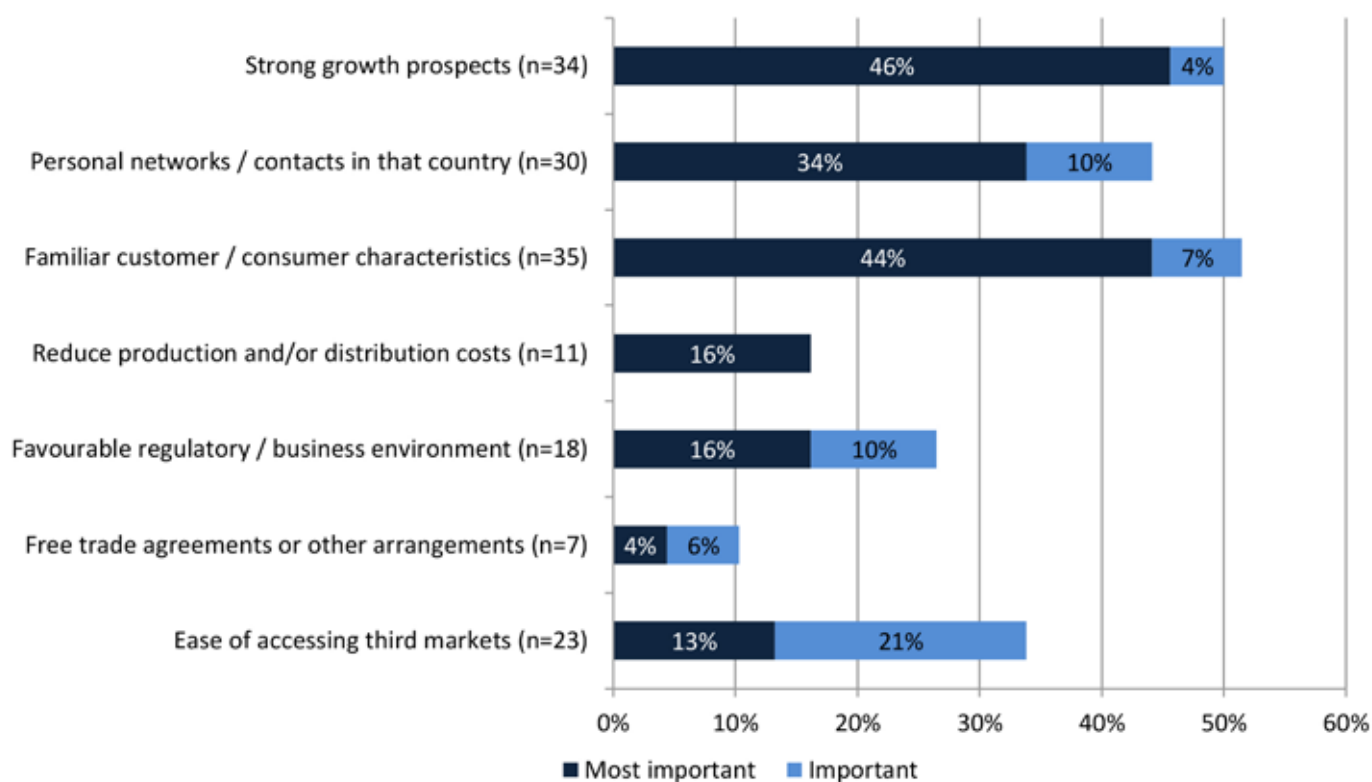


Sample size by number of respondents: n=192

As Figure 53 shows, about as many businesses reported that the United Kingdom is easier to do business in than Australia (23 per cent) than reported that it is more difficult (24 per cent). Of those, 11 per cent regard the United Kingdom as being much easier while only one per cent regard the United Kingdom as being much more difficult. A majority (53 per cent) regard business conditions in the two countries as being the same. Only 26 respondents nominated the United Kingdom as the most difficult country in which they do business. For this group, foreign exchange risks, tariffs and non-tariff barriers and lack of available market information are the most prominent factors mentioned. Eight businesses even nominated lack of information about culture and business practices as being among the barriers they face. This finding is a reminder that cultural differences should not be discounted even in countries with strong historical and linguistic ties to Australia.

Figure 54: Why was the United Kingdom selected for future business?

Survey question: *Why has your company chosen to target this country for future business? (select all that apply)*



Sample size by number of respondents: n=68

Sample size by number of responses: n=158; multiple responses were possible

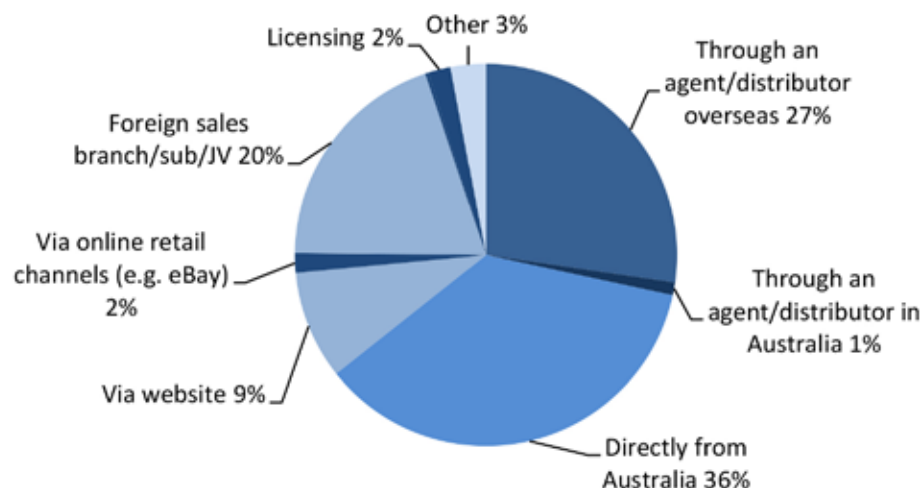
Note: 'Other' category accounted for n=0 responses

Like New Zealand, the United Kingdom scores highly on factors related to the familiarity of the business environment. While growth prospects are the single most important motivation for businesses planning to expand to the United Kingdom, familiar consumer or customer characteristics and existing personal connections to the country are also strong 'pull' factors (Figure 54). The United Kingdom also scores the highest among the top destinations for Australian businesses with regard to access to third markets, reflecting its membership of the European Union.

UNITED STATES

Figure 55: United States - Mode of servicing

Survey question: *Mode of servicing (top two countries)*

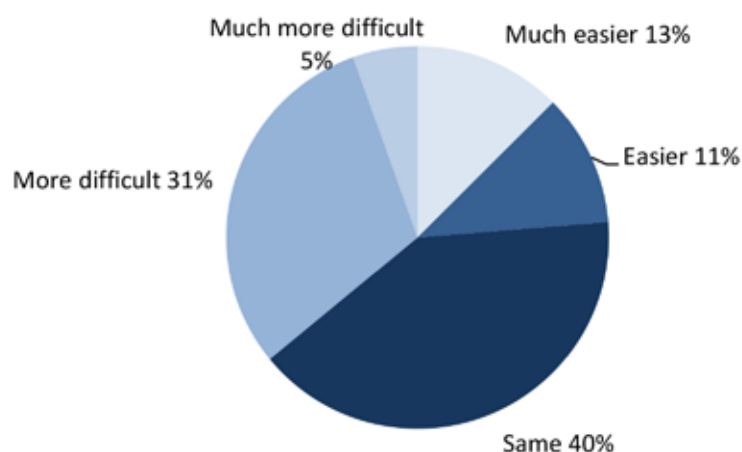


Sample size by number of respondents: n=380

The rise of e-commerce is most pronounced in the United States and United Kingdom. Eleven per cent of respondents for whom the United States is an important market use online means (either websites or retail channels such as eBay) to service their customers there (Figure 55).

Figure 56: United States - Ease of doing business compared to Australia

Survey question: *Ease of doing business (top two countries)*

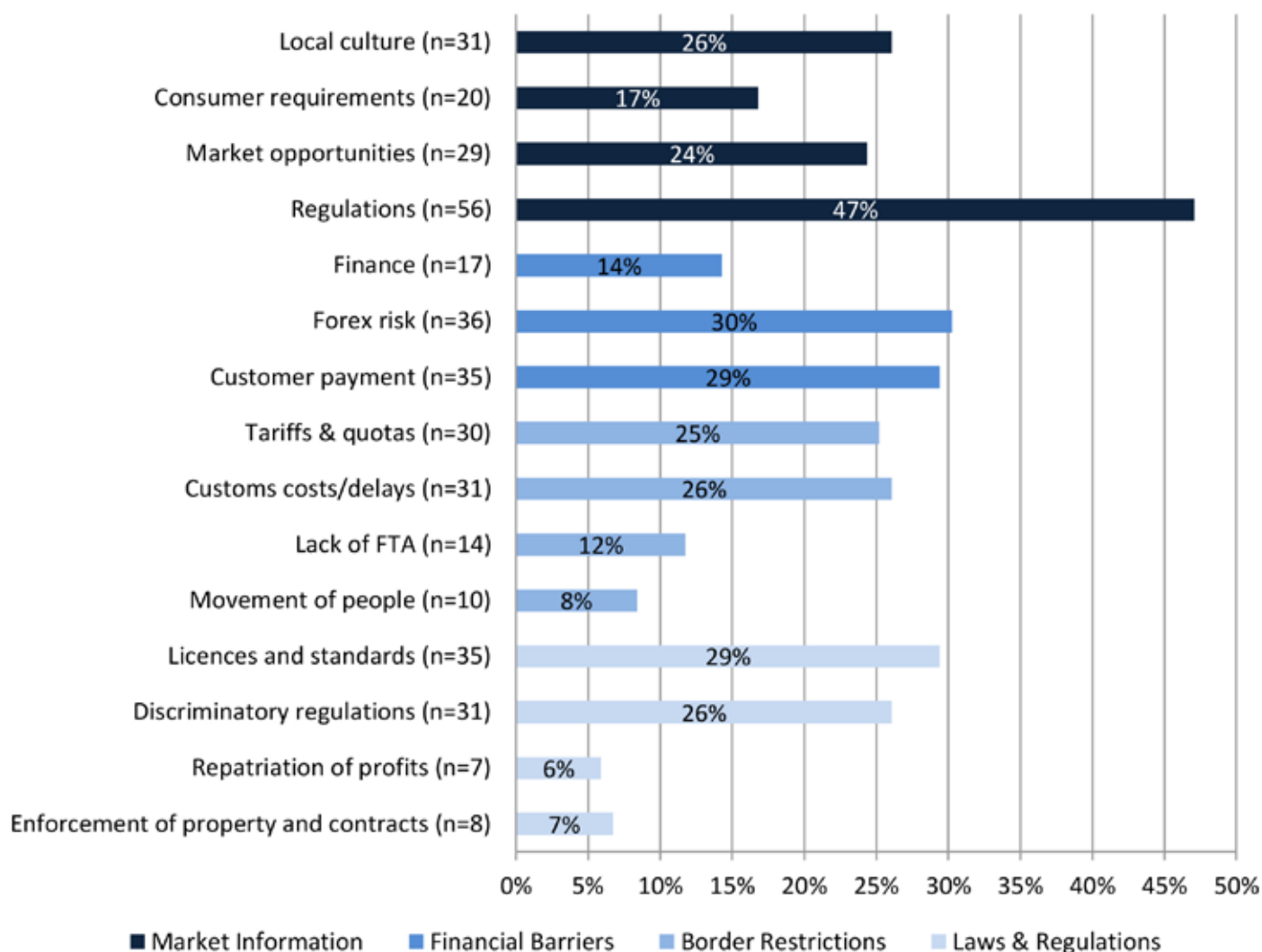


Sample size by number of respondents: n=380

Respondents have divergent experiences of the United States: while 36 per cent for whom it is an important market regard it as more or much more difficult than doing business in Australia, 24 per cent characterise it as being easier or much easier (Figure 56). There are differences in responses both within and between industries. Businesses in wholesale trading and manufacturing (food and beverage and elaborately transformed manufactures) find it to be more difficult a market than do professional service firms.

Figure 57: Barriers to doing business in the United States

Survey question: *What are the barriers that make (this country) so difficult for your company? (select all that apply)*



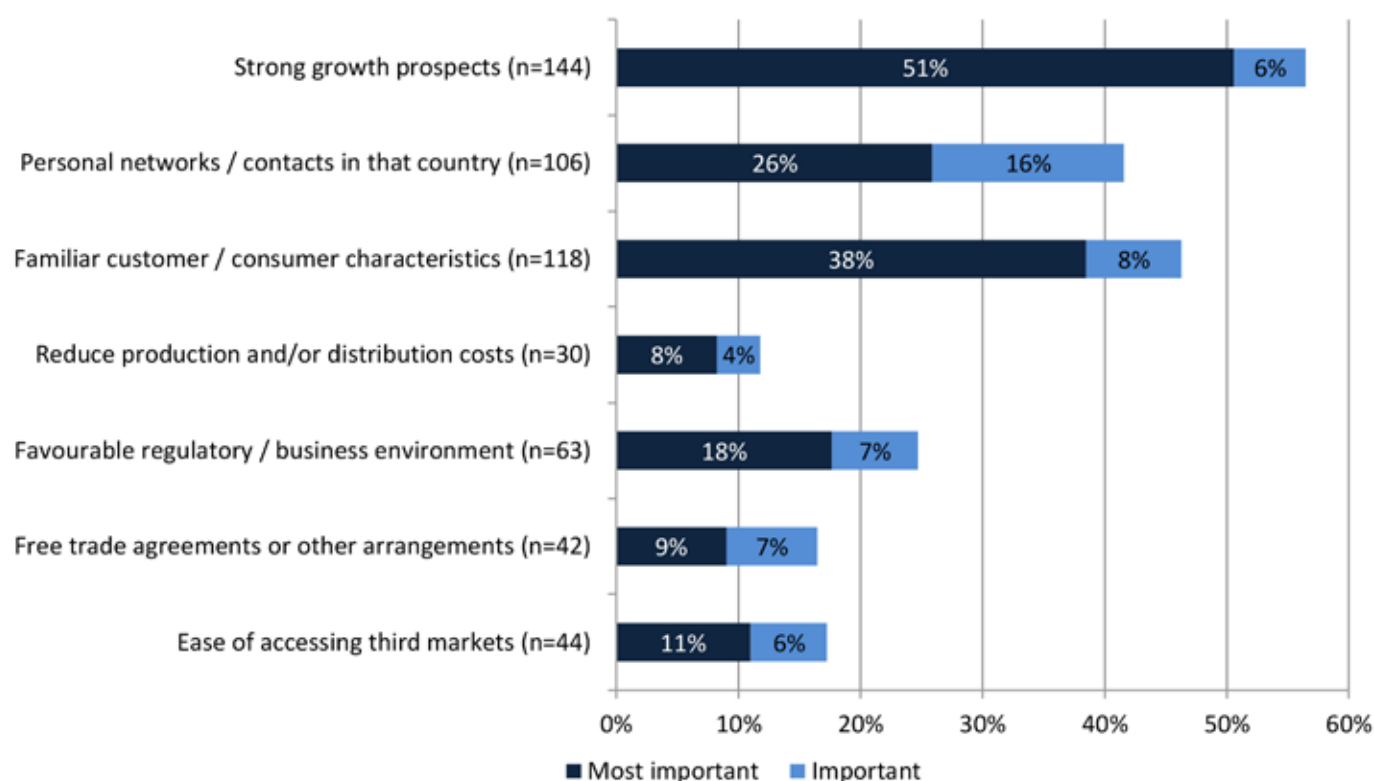
Sample size by number of respondents: n=119

Sample size by number of responses: n=390; multiple responses were possible

Various types of regulatory barriers – lack of information about regulations and customer payment risks as well as border restrictions and licences and standards – are regarded as the main challenges to doing business in the United States (Figure 57). These barriers are also a concern to businesses with a high level of international experience. Along with these regulatory challenges, foreign exchange and customer payments are of concern to respondents who nominated the United States as their most difficult market. Lack of information about local culture and business practices was selected by a quarter of respondents. This suggests that, as in the case of the United Kingdom, culture and business practices can still pose barriers even in countries possessing strong linguistic and cultural ties with Australia.

Figure 58: Why was the United States selected for future business?

Survey question: *Why has your company chosen to target this country for future business? (select all that apply)*



Sample size by number of respondents: n=255

Sample size by number of responses: n=557; multiple responses were possible

Note: 'Other' category accounted for n=10 responses

Respondents are optimistic about growth prospects in the United States in the next two years (Figure 58). Such optimism is accompanied by the pull of familiarity. Businesses are encouraged by similarity in terms of consumer/customer characteristics, and the existence of personal contacts in the country.

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