Keeping us up at night

The big issues facing business leaders in 2024

January 2024

KPMG.com.au

CEO

Chief Economist

Introduction

The notions of danger, uncertainty and creativity have only magnified since the last edition of KPMG's *Keeping us up at night* released in early January 2023. In recent months, war has erupted in the Middle East, to add to the ongoing Russia-Ukraine conflict, now grinding into its third year.

The top two concerns for Australian leaders are consistent for both the next 12 months and the next three to five years: dealing with cyber risks, and talent issues, including recruitment/ retention and upskilling the workforce for a digital world.

From an economic perspective the world is still trying to tame the inflation genie that took off during 2022 largely because of the Covid pandemic. Fiscal and monetary policy prescriptions implemented to underpin demand overstimulated many economies, while production of goods and services slumped due to the health policy responses aimed at reducing transmission of disease. Central banks around the world have been rapidly increasing their policy rates – up from emergency levels set at the height of the pandemic when governments globally were unsure how bad it was going to get – to levels now not seen in many countries for 10 or 20 years.

This rising cost of debt, erosion of real purchasing power for households and fall-away in business profits has notably influenced this year's survey results, with 'cost control in an inflationary environment' entering the top five priorities for the first time in this survey's six-year history. We also see dealing with regulation entering the top three this year, up from fifth place a year ago, which is another indication that the current mindset is more about battening down the hatches and getting through a difficult business environment.

To confirm this, 'identifying and growing future market segments and/or innovation opportunities for growth' has fallen from second place in last year's priorities to seventh this year.

The top two concerns for Australian leaders are consistent for both the next 12 months and the next three to five years: dealing with cyber risks, and talent issues, including recruitment/ retention and upskilling the workforce for a digital world.

Cyber risks were only fourth top priority in last year's survey but recent high-profile cyberattacks and outages affecting large numbers of people and businesses have clearly seen them rise up the business agenda.

Given most business leaders do not come from a technology/cyber background there may also be a 'fear of the unknown' compared with challenges which are more in their comfort zone.

Talent was far and away the number one issue a year ago (74% of respondents nominated it) but this year, while still important, it fell to 42%, in second place just behind cyber risks as top priority. The unprecedented numbers of migrants who have entered the Australian economy over the past 12 months will have had some bearing on this. In the October 2022–23 Budget Papers, Net Overseas Migration (NOM) was forecast to be 235,000 for both financial year 2023 and 2024, but in the nine months to March 2023, NOM was already at nearly 380,000 and was 518,000 in June 2023.[1]

While the third top priority for the next year concerns dealing with regulatory processes, it moves to dealing with new technologies such as AI, machine learning and quantum computing over the next three to five years. This indicates that while business leaders are focused on 'nuts and bolts' issues in the here and now, they are seeing growth in a year's time and will be switching focus to new technologies to expand this business. Notably, the new technologies issue was only 15th a year ago.

The overall mood shown by our survey findings is consistent with the KPMG Global CEO Outlook, released three months ago, in which Australian respondents saw little growth over the next 12 months but a clear uptick after that. They also had cyber risks as a top concern – so the patterns are clear.

In other findings, concerns around declining consumer confidence (as a result of cost of living and interest rates pressures) entered the top 10 challenges for the first time in the history of the *Keeping us up at night* survey.

[1] Record high net overseas migration driven by temporary visa holders in 2022-23 | Australian Bureau of Statistics (abs.gov.au)

The erosion of real wages in Australia over the past 18 months has been substantial, while the latest RBA forecasts contained in the November 2023 Statement of Monetary Policy suggest real household disposable income will continue to fall in the first half of 2024, although will turn around in part because of the planned Stage 3 tax cuts.

The huge surge in immigrants relocating to Australia once our borders reopened following the Covid lockdown has helped alleviate the talent shortfalls identified by nearly three-quarters of last year's survey respondents, but it has had other impacts. Housing demand has skyrocketed, resulting in the tightest rental market and the highest growth in rents seen in decades. CoreLogic's median asking rent has increased by nearly 16% over the 12 months to September 2023, while KPMG's residential market analysis suggests NOM needs to be around 220,000 per annum for rental growth to return to the long-term average given the volume of residential construction work expected to be completed over the next couple of years. While national income has risen, per capita GDP has fallen.

The single largest social challenge identified by survey respondents this year related to 'geopolitical disruptions and shifting levels of regional/global tension and cooperation'. While this area of concern isn't new to the list of top social challenges identified over the past few years, it has been steadily growing in terms of the depth of concerns, such that about half of all leaders nominated it as one of their top five challenges in this year's survey, compared to 31% a year ago.

The apparent bifurcation of our relationship both with the US (an historical military ally) and China (our single largest trading partner) has been driving this upswing in respondents' concerns, although the State Visits by the Prime Minister to both China and the US late last year, and the recent announcements of China's lifting of some trade sanctions, may ease some concerns.

This report presents our survey findings in detail, including comparing this year's results against last year, and focusing on some key areas: Cyber, People, and Cost controls. We hope you will find this report valuable and helpful in understanding how other leaders in Australia's business community see the challenges ahead of them as they go to bed each night.

About our survey

KPMG Australia surveyed respondents between 22 September and 16 October 2023. We received a total of 319 valid responses. The respondents were a mix of C-suite executives and board members from private sector enterprises.

A summary of the respondent mix is as per Table 1 below.

Industry		Company Size		Role Type	
Corporates	43%	5,000+ employees	36%	C-suite/Owner	39%
Financial Services	35%	1,000–4,999 employees	28%	Director/Non-Executive Director	26%
Energy, Mining & Property	22%	501–999 employees	14%	Head/Team Leader	20%
		51–500 employees	16%	Manager	7%
		<50 employees	6%	Other	9%

We opened our examination on what's *Keeping us up at night* in the same way as previous surveys by asking respondents the simplest, broadest of questions, namely: 'What are the key challenges that you predict your organisation will be focused on addressing in 2024?' Respondents were asked to choose five challenges from a list of 14 preset responses, plus we also gave another catch-all option – 'Other' – where respondents could provide a short written response if they wanted to provide an alternative answer.

KPMG then asked respondents to nominate the five key challenges they are facing over a longer time horizon, being the next three to five years. We again provided respondents with the same list of concerns from which to choose their responses, as well as the opportunity to write a specific response.

Key findings

Key challenges for 2024 and for 3–5 years ahead

Top 5 challenges in 2024

Cyber

43% Protecting and dealing with cyber risks

Talent

42% Talent acquisition, retention and re/upskilling to meet a digitised future

Regulation

41% Dealing with evolving regulatory processes, reporting changes and impacts

Digital transformation

38% Digital transformation and optimisation, and extracting organisation value from it

Cost controls

38% Cost controls in an inflationary environment

Top 5 challenges in 3–5 years ahead

Cyber

35% Protecting and dealing with cyber risks

Talent

35% Talent acquisition, retention and re/upskilling to meet a digitised future

Emerging technologies

32% New technologies (AI, machine learning, blockchain and distributed ledger technology, quantum computing) and the use cases and ethics that arise when implementing

Digital transformation

30% Digital transformation and optimisation, and extracting organisation value from it

Regulation

29% Dealing with evolving regulatory processes, reporting changes and impacts

ALL RESPONDENTS % say top 5 challenge for their organisation	Top 5 challenges in 2024	Top 5 challenges in 3-5yrs
Protecting and dealing with cyber risks	43%	35%
Talent acquisition, retention and re/upskilling to meet a more digitised future	42%	35%
Dealing with evolving regulatory processes, reporting changes and impacts	41%	29%
Cost controls in an inflationary environment	38%	21%
Digital transformation and optimisation, and extracting organisational value from it	38%	30%
New technologies (AI, machine learning, blockchain and distributed ledger technology, quantum computing) and the use cases and ethics that arise when implementing	27%	32%
Identifying and growing future market segments and/or innovation opportunities for growth	25%	29%
Balancing short-term versus long-term value creation in your organisation	25%	18%
Designing and implementing an ESG strategy that will deliver benefits in short and long term	22%	23%
Declining consumer confidence as a result of cost of living and interest rate pressures	20%	8%
The need for greater agility and flexibility in your organisation to meet opportunities and challenges	19%	25%
Operating within a political, social and business environment that expects greater transparency	14%	19%
The challenges and benefits of hybrid working	15%	5%
Building diversity into leadership and talent mapping	13%	9%
Building greater purpose into organisational culture	12%	10%
Genuinely embedding innovation into your organisational culture and practices	15%	14%
De-risking supply chains	12%	8%
Sourcing investment to fund growth opportunities	9%	10%
Other	7%	3%

Key findings

Social issues impacting the business environment

Top 5 social challenges for 2024

50% Geopolitical disruptions and shifting levels of regional/global tension and cooperation

46% Social impact of new and disruptive technologies such as AI, autonomous vehicles, Internet of Things, biotechnology, and a different physical world

46% Embracing the economic opportunities that climate change, energy transition and the move towards Net Zero presents

33% Meeting the challenges of housing availability and affordability

46% Preparing for a future skills gap – technology, data scientists, health workforce shortfall

ALL RESPONDENTS

Social issues impacting the business environment	Top 5
Geopolitical disruptions and shifting levels of regional/global tension and cooperation	50%
Embracing the economic opportunities that climate change, energy transition and the move towards Net Zero presents	46%
Preparing for a future skills gap – technology, data scientists, health workforce shortfall	46%
Social impact of new and disruptive technologies such as AI, autonomous vehicles, Internet of Things, biotechnology, and a different physical world	46%
Meeting the challenges of housing availability and affordability	33%
Social licence to operate/reputation	33%
Meeting the challenge of an ageing population	32%
Tax reform and policy settings to increase productivity and inward investment	31%
Dealing with future income and wealth inequality through shifts in intergenerational equity – the balance of financial burden on younger versus older generations	30%
Inflation, rising interest rates and other economic impacts	30%
Building and managing physical and digital infrastructure to fuel productivity and growth	25%
Balancing the need to address inflation with keeping high levels of employment	23%
Changing citizen dynamics – the shifting balance between personal benefits versus community benefits	18%
Opportunities and challenges presented by policy shifting to deal with a long-term debt horizon	15%
Creating an environment that fosters inclusion, diversity and equity in the workplace and broader society	12%
Closer collaboration between the public and private sectors in dealing with social challenges	13%
Importance and practicability of flexible education and retraining	12%
Other	3%

Technology – the common thread linking the key challenges

The top five issues nominated by survey respondents as most impacting their future operating environment concern cyber, people, digital operations, regulation and profitability. These concerns not only impact leaders' day-to-day decision-making, but are also consistently there when they lift their heads and look towards the horizon. Technology infuses all of them.

The role of technology as an enabler, as a risk or as just even as a major expense, is coalescing as a key fundamental issue for leaders. There is a collective recognition that the market for goods and services is evolving to one where the influence of technology can either make or break a business.

In last year's report we noted that, 'most workers are digitally literate, but only to a point'. But from the responses in this year's survey, what has become more apparent is that most C-suite leaders see technology as a 'black box' and are dependent on the technical skills of staff and advisers to drive this part of their business forward.

This reliance often sits uncomfortably with them. Largely the current pack of (non-technology based) executives were promoted into leadership positions based on their operational skills, either as product, finance and/or management specialists, and have limited direct experience with the technology underpinning their organisation.

In challenging times these same leaders can understand and direct how the business should respond to downturns in sales, cost pressures, staffing issues and product development, but they often find it harder to work out the best response to issues like a cyberattack, IT system failure, software upgrade malfunction or the detection of spyware.

More and more it's these latter issues that are challenging business leaders. Over the past year we've seen numerous examples of technology risks materialising that were more than 'just' the sharing of private customer information, but also events that caused serious disruption to Australia's real economy. DP World effectively shut down trade flows into and out of major Australian ports in November 2023 following a cyberattack, while in the same month Optus experienced a major system outage that lasted for 12 hours that left both phone and internet customers without access to Australia's communication network.

Cyber hacking that disrupts our nation's critical infrastructure, regardless of whether it's owned privately or publicly, is a sovereign risk. Government, institutions and private business have a collective leadership role in working collaboratively to secure technology and systems so users and the public have the confidence to trust that the wider digital ecosystems will withstand attacks from bad actors.

Technology is inexorably linked to the other priority challenges nominated by business leaders in this year's survey too. In the People area, hiring staff that are already digitally savvy and able to take the business forward in an increasingly computerised world is critical. Time is money, and taking staff offline to train them in basic technology applications is costly and distracting. This clearly impacts on profitability.

Previous KPMG research has shown how growth in productivity – and real wages – is closely linked to capital investment in technology.

> **In the People area, hiring staff that are already digitally savvy and able to take the business forward in an increasingly computerised world is critical.**

Top 5 Challenges for 2024

1. Cyber
2. Talent
3. Regulation
4. Digital Transformation
5. Cost controls

Social challenges facing Australia

In addition to the issues facing respondents directly in the running of their own organisations, KPMG also quizzed leaders on the social challenges they saw impacting Australia's business environment. Different to last year's results on the same questions, there was a much higher degree of consistency in the answers provided by the business leaders.

The top three answers this year were:

1. Geopolitical disruptions and shifting levels of regional/global tension and cooperation
2. Embracing the economic opportunities that climate change, energy transition and the move to net zero presents
3. Preparing for a future skills gap – technology, data scientists, health workforce shortfall.

1. Geopolitical tensions

It is unsurprising respondents identified geopolitical tensions and rising global tensions as the top social challenge. The war between Israel and Hamas in Gaza commenced during the survey period, albeit that the 'formal' retaliatory response from Israel had not yet begun.

While the Israel–Palestine and Russia–Ukraine conflicts are prominently in the news, there are tensions and flashpoints all over the globe. The Global Peace Index (GPI), prepared by the Institute for Economics and Peace (IEP), deteriorated by 0.42% between 2022 and 2023 even before the escalation of conflict in the Middle East had occurred. This is the 13th deterioration in peacefulness in the last 15 years, with 84 countries improving and 79 deteriorating in peacefulness in 2022.

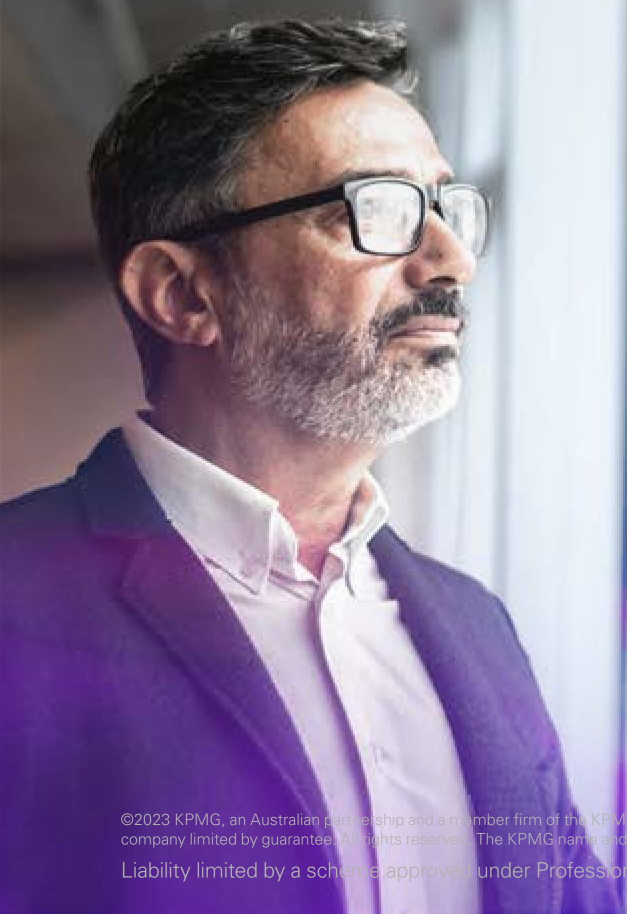
The 2023 edition of the GPI concluded by saying: Conflict is intensifying in several regions, with conflict-related deaths rising rapidly. The gap between the most and least peaceful countries continues to grow, and although many measures of militarisation have improved over the past fifteen years, the proliferation of cheaper advanced military technologies, increasing geopolitical competition, and an underlying current of political instability in many countries means that a continuing deterioration of global peacefulness seems likely.

Our respondents have clearly focused on the issue of overseas conflicts. While this 'the world is a more dangerous place' sentiment featured in our survey response, the IEP assessment of Australia saw its peace score improve over the past 12 months, pushing our ranking up four spots to be now positioned 22nd out of the 163 countries assessed in the GPI.

Geopolitical disruptions and regional tensions are viewed by our business leaders as much more than the risk of conflict and escalating military actions. Trade tensions, the weakening of Pax Americana, and the bifurcation of geopolitical alliances on an East–West basis have also impacted perspectives of the Australian business community. That being said, several events have contributed to a de-escalation of tensions between Australia and China over the past 12 months: the recent visit of Prime Minister Albanese to China and the agreement of a State Visit of President Xi to Australia in 2024; the potential lifting of tariff restrictions on Australian wine and lobsters being exported into China, following the lifting of anti-dumping tariffs on barley in August; and the release of Australian journalist Cheng Lei from detention in China.

Geopolitical disruptions and regional tensions are viewed by our business leaders as much more than the risk of conflict and escalating military actions. Trade tensions, the weakening of Pax Americana, and the bifurcation of geopolitical alliances on an East-West basis have also impacted perspectives of the Australian business community.

Climate change remains a top priority for business leaders, both socially and economically. Understanding the need for change to reduce our collective environmental footprint is now unquestioned; however, practically achieving that change within the net zero target period remains challenging.



2. Moving to Net Zero

Climate change remains a top priority for business leaders, both socially and economically. Understanding the need for change to reduce our collective environmental footprint is now without question; however, practically achieving that change within the net-zero target period remains challenging.

Australia has set ambitious 2030 targets, aiming for a 32% reduction in total emissions, but current projections indicate that only a 17% reduction will be achieved by that date.

Investment in carbon-reducing technologies, low-emission electricity generation and upgrading grid capabilities to better enable renewable energy utilisation are viewed by our survey respondents as fundamental for Australia to achieve its global obligations, as well as underpinning the future development pipeline for private and public sector investors.

3. Future skills gap

While people and skills remain a key economic concern for Australia's business leaders, both for today and into the medium term, it is also recognised as a key social concern in the context of our migration, training and education systems.

The principal concerns around Australia's future skills gap are linked to the expectation that technology will only play a greater role in society than it does today and the proportionally higher levels of our ageing population will need more (and not less) support than is currently provided; both specialty areas where Australia struggles to find both the volume and quality of workers currently needed, let alone what is anticipated to be required over the next decade and beyond.

Ensuring the training and development programs that exist within our higher education system are 'fit for purpose' and 'future focused' are basic requirements that our business leaders expect from government, while at the moment there appears to be uncertainty and caution that those expectations will be met.

Partner, Cyber – Financial Services Lead

KEY RISK 01

Cyber

This year's *Keeping us up at night* survey saw 'Protecting and dealing with cyber risks' as the number one risk facing business leaders as they look towards 2024, and it was the equal number one risk when they extended their horizon out to the next three to five years.

The Covid-19 pandemic accelerated our shift to digital channels and brought issues relating to data and its associated infrastructure into sharp focus. As global economies and supply chains were disrupted, organisations had to rethink their dependencies on goods, services and the digital infrastructure that underpins them.

Breakthrough technologies are expected to shape that future – artificial intelligence, blockchain, biometrics, hyperconnected systems and virtual reality, to name just a few. All can pose new security, privacy and ethical challenges and raise fundamental questions about our trust in digital systems.

With these changes comes a global drive toward greater cybersecurity and privacy regulation. This raises concern amongst organisations over the growing burden of regulation and the wide range of different reporting requirements. As a result, businesses are putting more and more emphasis on embedding privacy and security into how they operate, both in response to the changing threats and the need to comply with cross-border regulatory requirements.

Companies are beginning to acknowledge that cybersecurity is as much a strategic business element as an enterprise risk, with security a key factor in product development and data management. In its report, *Earning digital trust: Decision-making for trustworthy technologies*, the World Economic Forum writes, 'digital trust requires a holistic approach, where cybersecurity is one dimension of trust among many'.

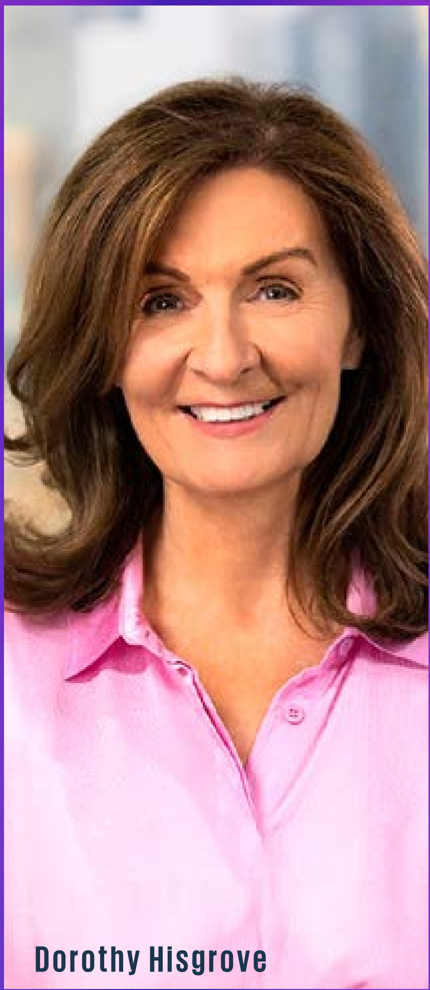
However, cybersecurity and the development and maintenance of digital trust cannot just be left to the responsibility of an organisation's Chief Information Officer (CISO) and their teams. The nearly daily examples of cyberthreats show that as an activity, cybersecurity should now, if it isn't already, be put at the heart of business and used as a foundation to build digital trust amongst customers, suppliers and staff.

The complex, highly technical and sophisticated issues impacting cybersecurity often means C-suite leaders find it difficult to know where to start and what to do next in the context of managing its associated risk. KPMG's *Cybersecurity Considerations 2023* report identifies a range of practical and commercial actions that CISOs and other C-suite leaders can pursue to help mitigate this risk to their individual businesses. These actions include:

- Prioritise a robust cybersecurity culture that interests, engages and inspires employees to do the right thing, with staff playing the role of human firewalls.
- Establish a security ecosystem comprising internal business line specialists, security professionals, data scientists, privacy-oriented legal advisers and external policy and industry professionals.
- Build consistent approaches to cyber risk management with an understanding of threat scenarios and attack paths to help inform and prioritise system improvements.
- Focus on fit-for-purpose security processes that feature consistent user experiences.
- Establish strict identity controls and work to achieve a mature state of identity governance and services.
- Segment legacy environments to limit the vulnerability of the system to any breaches.
- Have a proactive recovery plan focusing on the organisation's most critical workflows with a communication structure and stress test it often.
- Embrace automation of the security function – employ the latest tools, such as robotic processes, to security orchestration, automation and response (SOAR), and extended detection and response (XDR) systems.
- Work with cloud providers to help ensure broad visibility into how products and services are configured to avoid inadvertent vulnerabilities.
- Consider cybersecurity and privacy issues up-front when exploring emerging technologies, including the evolving risks associated with adopting AI systems.
- Assign responsibilities and establish accountability around how critical data is processed and managed and how it supports critical business processes.
- Be aware of changing regulatory trends and drivers and what they could mean for the company's future technology strategy, product development, and operations.
- Align security and privacy compliance strategy with the company's broad business strategy to help ensure consistency between inputs and outputs.
- Look beyond the letter of the regulation – understand the minimum the organisation needs to do to meet regulatory requirements and assess those actions in the context of what technical advisers suggest the organisation should do to achieve the digital trust expected by customers, suppliers and staff.

This list, while not exhaustive, should enable organisations to assess their current status quo and understand where they need to prioritise change. In the event of a cyberthreat materialising, this security plan enables (rather than exposes) the business, helping accelerate recovery times, and reduces the impact of an incident on employees, customers and partners.

The nearly daily examples of cyberthreats show that as an activity, cybersecurity should now, if it isn't already, be put at the heart of business and used as a foundation to build digital trust amongst customers, suppliers and staff.



National Managing Partner, People & Inclusion

KEY RISK 02

Talent

The acquisition, retention and skilling of people talent, especially in the context of a digitised future, has remained as a key risk in the eyes of C-suite leaders, even though the heat associated with this issue has dropped over the past 12 months – falling from 77% of respondents identifying talent as a top five challenge in the 2022 survey to 42% in this year's survey.

This decline in risk level is likely be related to the significant turnaround in the volume of labour now available in Australia following the huge upswing in overseas migration that has occurred over the past year. But despite the large numbers of extra workers and foreign students, which have certainly helped the hospitality and retail sectors, skills remain at a premium in professional workforces and the labour market is still tight.

Australia's labour force has grown to more than 14.6 million, with the women's workforce participation rates now at an all-time high of 62.7%. More Australians are working now than has ever been the case, and arguably the labour market has been operating well beyond full employment for some time. Unemployment remains very low, despite the consistent raising of interest rates over the past 18 months.

Despite the record low unemployment levels, Australia still faces an intractable problem with a skills deficit. There are not enough of the skills we need now and will need more of in the next two to three years to meet demand. The nation needs an estimated 6.5 million digital workers by 2026, which is why companies are still concerned about training or recruiting enough staff in the skills required in a digitised future. There is an issue of talent wastage where the skills of too many of the migrant workers do not end up being leveraged in the sectors where they could make the biggest impact.

While politicians and policymakers promote the upside benefits of having more people working, earning income, paying taxes and buying goods and services, it also comes with its challenges and concerns beyond a wage–price inflationary spiral. Labour productivity, as measured by GDP per hour worked, has fallen consistently since peaking in the March quarter 2022 and are at levels not seen since the middle of 2016.

There are various reasons proposed as to why labour productivity has been falling; a phenomenon that has been occurring not only in Australia but overseas as well. Some have suggested that there has been a disruption to the process of 'creative destruction' – and that the policy responses put in place to underpin the economy had the perverse effect of reducing firm exits, allowing zombie firms to continue well past their natural lifespan. This has had the effect of diminishing business dynamism, slowing the pace of innovation and technology adoption and impeding the reallocation of resources from less productive to more productive businesses.

Other explanations for the recent fall in productivity include the ideas that:

- the workforce available when the economy reaches below full employment comprises the lower skilled, less industrious worker (because otherwise they would have been employed already) and therefore their marginal contribution to firms is less than existing, higher skilled employees
- capital investment has been too heavily allocated towards buildings and structures rather than plant and equipment. KPMG's previous analysis shows that nearly 40% of changes in real producer wages (wages from the perspective of the employer) is due to an industry's propensity to employ more high-tech capital and engage in capital-deepening. But in Australia, the proportion of capital being allocated to plant and equipment – even excluding the capital intensive mining sector – has fallen from around 75% consistently of private investment spend between the early 1990s and mid-2000s to around 55% today.

Despite the record low unemployment levels, Australia still faces an intractable problem with a skills deficit. There are not enough of the skills we need now and will need more of in the next two to three years to meet demand.

This apparent fall in productivity matters; it matters at an individual firm level and at an aggregate economy level. There is the increasing risk of 'cost disease' (where jobs that have achieved little or no improvement in labour productivity seek wages growth consistent with other jobs that have experienced higher productivity growth). It has also been part of the rationale why the RBA has been continuing to lift the cash rate (essentially as a lever to help drive down unit labour costs and reduce wage inflation).

A most likely related matter to this shift in productivity, although it is too early to tell if there is a causal link between the two, is the rise of working from home (WFH). WFH was thrust upon many organisations during the pandemic as a health policy response aimed at helping minimising the transmission of Covid in the workplace, while at the same time ensuring the economy did not grind to a halt through restricting workers travelling to and from their employer.

These flexible working arrangements, turbocharged during the pandemic, have become an important feature of the relative attractiveness of roles – especially white-collar positions – when potential workers are evaluating applying for a job within an organisation. It has also become an important feature for existing workers in businesses who seek to negotiate a 'better' work–life balance. However, the concept of WFH has become increasingly contentious in terms of the right allocation of time working in the office compared to working outside of the office.

Recent research by KPMG International found more than half of business leaders have predicted that workers will return to offices for five days a week within the next three years. KPMG's annual outlook survey found that 90% of the 1,300 global chief executives polled thought that pay, bonuses and promotions would be linked with coming into the office more regularly.

KEY RISK 03

Georgie Aley

Partner and Consulting Sector Lead – Agribusiness, Consumer and Industrial Manufacturing

Cost control in an inflationary environment

Today's current business environment is becoming more and more challenging as consumers, whether they be households or other businesses, are finding themselves more financially stretched than any time since the beginning of this survey in 2018.

The RBA has lifted the cash rate 13 times since May 2022 in order to bring inflation back down to its target band of 2–3%; with retail lending rates for both residential and business loans rising due to corresponding increases in wholesale funding costs. Higher input costs, wages and debt costs are, where possible, being passed on to customers through increased final prices. For those industries where demand is more sensitive to movements in prices, we have already seen turnover falling in real terms during the past 12 months.

The risk of a wage–price spiral breaking out has, so far, been relatively contained, but nominal wages growth of 4% has also been putting pressure on the labour-heavy services sector. While inflation is lower today than at the same time last year, this wage–cost pressure is a key reason why inflation is still running at levels more than twice what it was prior to the Covid pandemic and is still expected to remain above the RBA target band well into 2025.

As of September 2023 – the time when the *Keeping us up at night* survey was being responded to – 7 out of 13 industry sectors analysed by the Australian Bureau of Statistics recorded lower real turnover compared to September 2022, with Mining, Utilities and Transport, Postal and Warehousing sectors recording the largest falls. Declining commodity prices, lower fuel costs and reduced per capita retail spending are likely to be the respective drivers of this fall-away in business turnover; all factors that were uncertain and difficult to predict 12 months ago.

KPMG's own client experience is one where businesses are now increasingly looking to identify inefficiencies and create cost savings with regards to inputs, operations, supply chains, distribution and resourcing, including optimising the workforce, to counter the ongoing effect of inflation and ensure competitiveness in the market. Implementing targeted initiatives to reduce costs, optimise outcomes, and minimise waste allows for an immediate uplift in margins, allowing for a more sustainable business into the medium term.

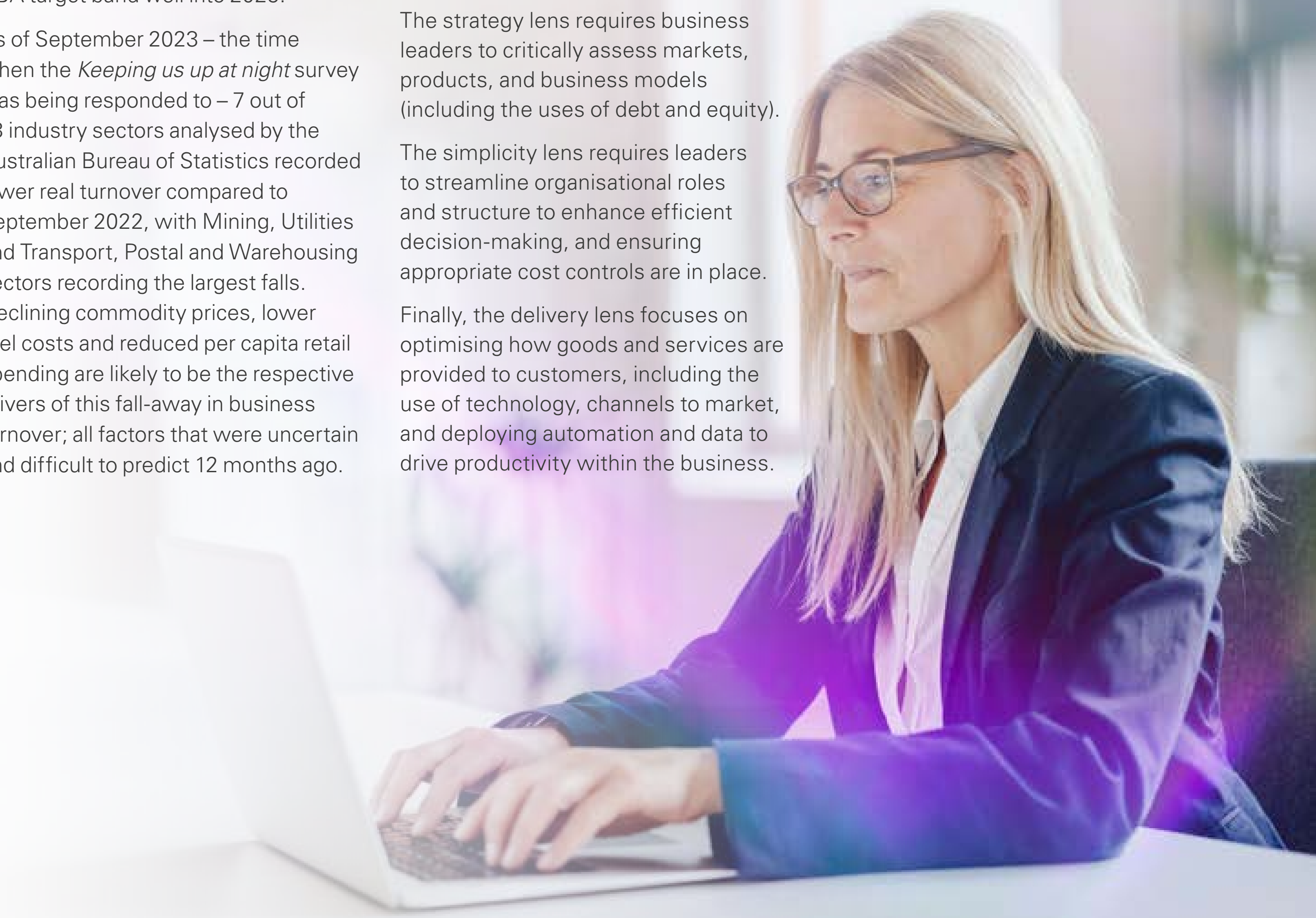
While each individual business is different and comes with its own set of challenges, KPMG's experience in reducing costs and targeting margin improvement across a range of businesses and industries tells us that the process for practical improvement requires business leaders to step back and look at their operations through three key lenses of strategy, simplicity and delivery.

The strategy lens requires business leaders to critically assess markets, products, and business models (including the uses of debt and equity).

The simplicity lens requires leaders to streamline organisational roles and structure to enhance efficient decision-making, and ensuring appropriate cost controls are in place.

Finally, the delivery lens focuses on optimising how goods and services are provided to customers, including the use of technology, channels to market, and deploying automation and data to drive productivity within the business.

Implementing targeted initiatives to reduce costs, optimise outcomes, and minimise waste allows for an immediate uplift in margins, allowing for a more sustainable business into the medium term.



Contact us

Andrew Yates
Chief Executive Officer
KPMG Australia
T: +61 2 9335 7545
E: ajyates@kpmg.com.au

Dr Brendan Rynne
Partner, Chief Economist
KPMG Australia
T: +61 3 9288 5780
E: bjrynne@kpmg.com.au

Dorothy Hisgrove
NMP – People & Inclusion
KPMG Australia
T: +61 3 8663 8699
E: dhisgrove@kpmg.com.au

Natasha Passley
Partner, Cyber – Financial Services Lead
KPMG Australia
T: +61 2 9273 5719
E: npassley@kpmg.com.au

Georgie Aley
Partner and Consulting Sector Lead – Agribusiness, Consumer and Industrial Manufacturing
KPMG Australia
T: +61 2 9335 7273
E: galey@kpmg.com.au

KPMG.com.au

December 2023. 1158755041CA.