

# Engine Room Survey 2021

Engine Room businesses  
demonstrated resilience amid  
COVID-19 and are prepared to  
lead the post-pandemic recovery.



# Introduction

It was a year like no other. In 2020, New Zealand private businesses faced significant challenges created by the impact of the global pandemic. Amidst the uncertainty and rapidly changing business environment there have been significant growth opportunities for some businesses, while others have been ravaged by border closures, reduced demand and continued supply chain issues. These polarising impacts are driving a two speed recovery, split predominantly by industry and business model. The sentiment among the vast majority of businesses surveyed at the end of 2020, was that experiences from this pandemic will allow them to return stronger and better equipped to deal with future challenges and build back opportunities.

In our Engine Room Survey 2020, clear themes emerged from the challenges outlined by respondents. There has been an acceleration and prioritisation of existing changes that COVID-19 forced leaders to address. The top challenges from our recent survey were:

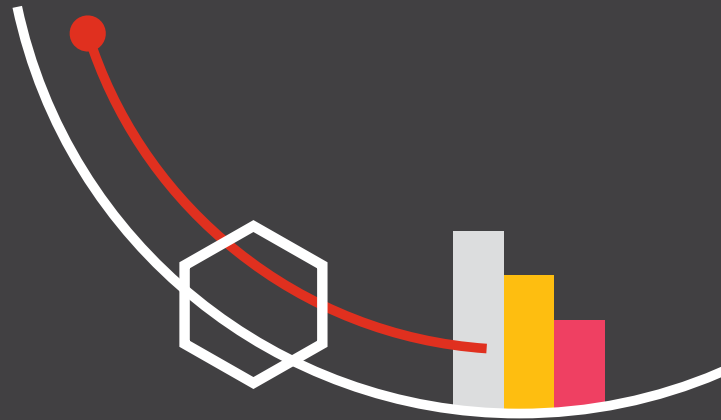
- 1. Ability to grow sales**
- 2. Talent and capability**
- 3. Supply Chain**

## **Digitisation**

Around the world, owners and operators have digitised their businesses at surprising speed, advancing two or three years of their five-year plan in just a few months. The New Zealand businesses we surveyed were no different, with company resilience a common theme amongst respondents. This started with changes from within, where businesses began looking at operational efficiency, cost reduction and implementing wider business transformation.

**New Zealand's Engine Room includes NZ companies with a turnover between \$5-\$200M who make up 39%, the largest share of NZ businesses.**

\*Stats NZ Annual Enterprise Survey 2019 Financial Year provisional.



## Acceleration

These change activities occurred at speed, due to the rapid and changing nature of the pandemic and were significantly enabled by digital technologies. The acceleration of digital business growth and remote working of staff were by far the biggest changes for many 'Engine Room' businesses in 2020. We witnessed a large number of businesses being forced to change to contactless customer experiences and adding ecommerce channels to keep the virtual "doors open".

## Workforce

On the staff front there was a major need for setting up employees for remote working. After the immediate hardware issues were resolved the key challenges were adopting new means of communications and cloud based software solutions.

To reflect how Engine Room businesses responded and adapted to changing external factors and the path forward, our report looks at the survey findings through the following three lenses:



### Looking inwards



### Looking outwards



### Looking forwards

While significant challenges have been faced and still remain for Engine Room businesses, we note the positivity and optimism that was highlighted from respondents for a strong recovery and more resilient businesses.



# Looking inwards

## Setting the right foundation

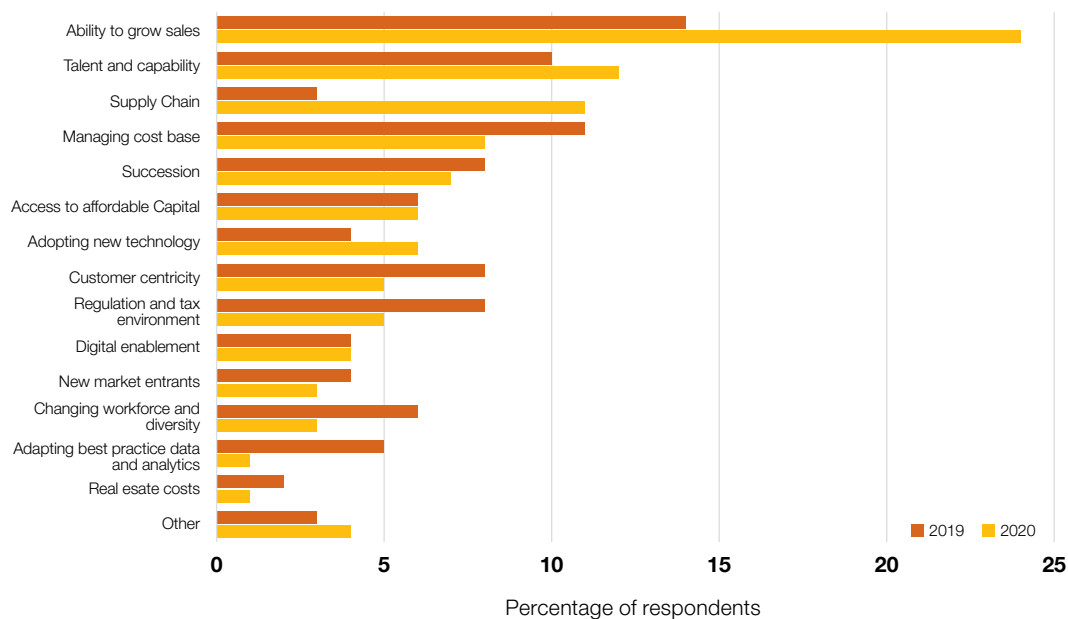
Looking inwards is about factors within the organisation's control. It looks at challenges businesses are facing with their operating model, internal efficiencies, capabilities, digitisation and supply chain.

The top three challenges in 2020 broadly remained the same as in the 2019 edition of our survey (Sales Growth, Talent & Capability and Supply Chain). This is with the exception of supply chain issues entering the top three since the prior year. In 2019 "managing cost base" was number two and has dropped to fourth. Similar to 2019, the real surprise is the relatively low ranking of technology challenges. We observed that 9% of respondents find either adopting new technology or digital enablement challenging, while the most impactful long-term changes in consumer behaviour from COVID-19 were thought to be in increased contactless experiences (22%) and increased demand for online and digital marketing (20%).

## The underlying challenges:

- 86% agree that their organisation has become more resilient due to COVID
- 24% believe sales growth is the most significant challenge facing the business, doubling and still remaining as the top challenge from last year's survey
- COVID-19 has decreased annual revenue for 52% of respondents

## Top challenges in 2020 and 2019.



## The key challenges for setting a strong foundation for recovery and sustainable growth.

24%

### Sales Growth

In 2019, sales growth had been the number one challenge for many businesses. This didn't change in 2020, but the reasons behind this challenge are more COVID-19 centric. The main drivers of this particular challenge have been accentuated by border closures, restriction of movement and gaps in sales team capability.

12%

### Talent and Capability

Similar to the challenge of growing sales during the COVID-19 pandemic, border closures have added to the shortage of skilled labour in New Zealand. This has been the key sub-challenge identified in previous years, but became particularly difficult in 2020 for some businesses.

11%

### Supply Chain

The COVID-19 business impacts we see today, may only be a fraction of the total fallout. The supply chain issues created through global disruptions to shipping and supply pushed this challenge to the top of many businesses' priorities in 2020.



# Looking outwards

## Innovation and digitalisation

Looking outwards is about factors outside of the organisation's control. It considers environmental factors such as economic conditions, competitor activities, consumer behaviour and technology trends.

Throughout 2020 we witnessed significant uncertainty in the global economic environment and the acceleration of trends that influence the internal adoption of new perspectives, methods and tools.

In our 2019 survey, 77% of respondents were concerned about the uncertain economic environment in the 24 months ahead and 45% believed the economy would decline in the 12 months ahead. At that time nobody could have predicted the turmoil of the COVID-19 pandemic.

## The underlying challenges:

- 84% believe they need to operate with a greater digital footprint
- 75% believe they need to spend more on advertising and brand-building
- 65% expect to invest in cyber security and data privacy over the next three years
- 65% plan to take significant steps to undertake a digital transformation

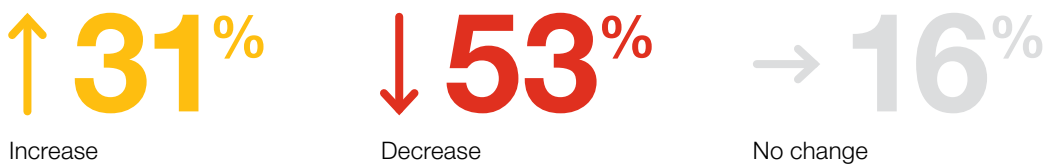
## The majority of businesses surveyed (86%) felt more resilient than in 2019, signaling a K-shaped economic recovery.

A projected 3% decline in national GDP in 2020 is a significant result amidst a pandemic. However, the strong recovery has not been shared equally across sectors and there is still a huge amount of uncertainty in the system including:

- International economic conditions
- Changing consumer behaviours
- Border closures and restriction of travel due to COVID-19
- Disruptions in global supply chains due to supply shortages and transportation bottlenecks

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### Impact of COVID-19 on year to date revenue (excluding grants and wage subsidies)



### Expectation of business performance over the next 12 months



### Economic outlook over the next 12 months

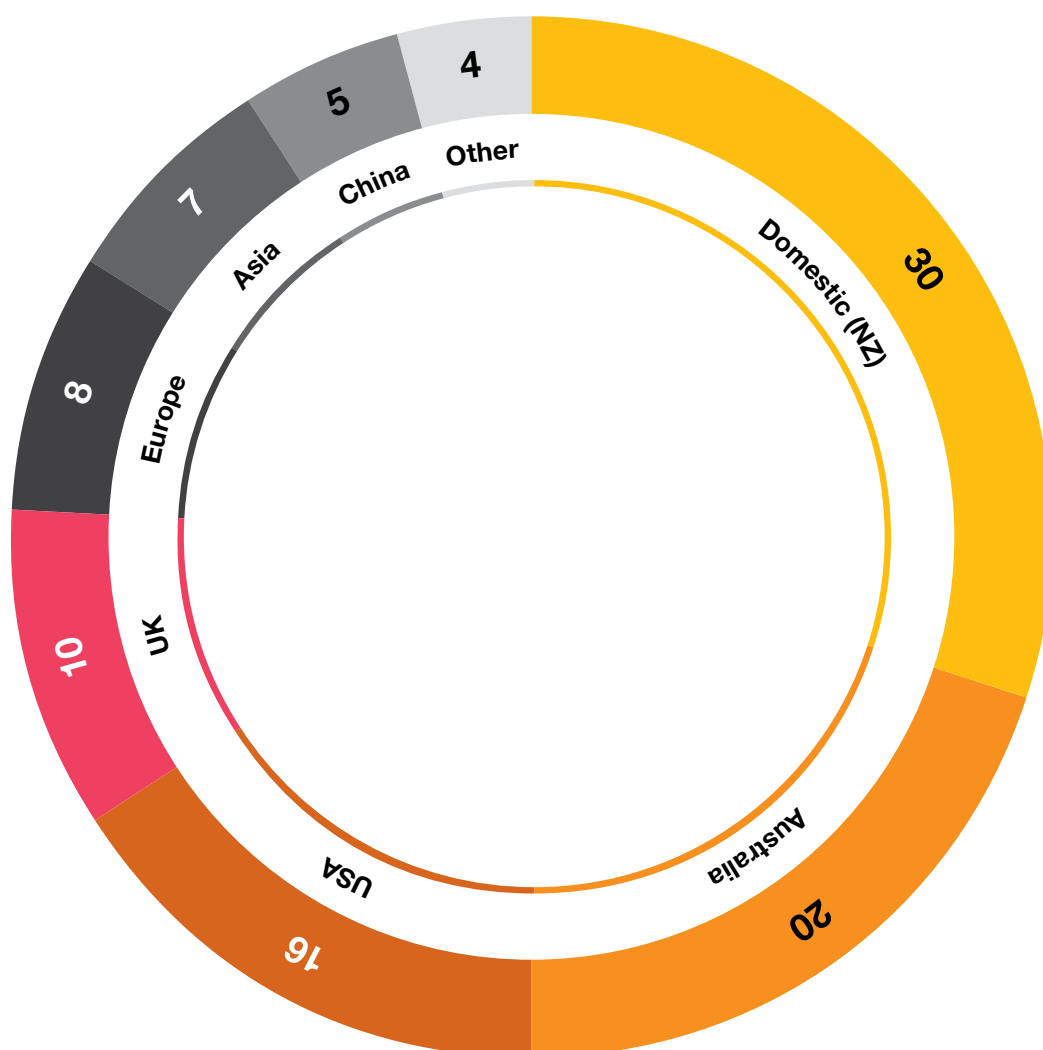


## As a result of closed borders the Australasian market is a big focus

Unsurprisingly, the domestic market (30%) has been a significant focus for many businesses during the pandemic due to measures taken by governments to respond to the health and economic crisis. In total, Australasia accounts for nearly half of the market focus in the next 12 months and this will be helped by the establishment of a trans-tasman bubble.

There has been a significant reduction in respondents focussing on China and the rest of Asia compared to 2019. This is especially notable given the GDP growth forecasted in emerging economies for 2021 compared to other territories.

## Market focus in the next 12 months







# Looking forwards

## Creating sustainable value

Looking forwards is about looking at how businesses will respond and perform in the next period. This includes recognising changes that will endure from the pandemic, and devising strategies to increase the chances of commercial success in the years to come.

There is optimism from New Zealand owners and operators that 2021 will see strong business performance. As greater certainty on the future operating environment changes in New Zealand and globally, businesses will resume planning in a more normal manner. In the meantime, businesses will need to continue with best practice scenario planning and remain vigilant and flexible. There are many positives that businesses have taken from the difficulties of the pandemic and some of these include:

- Becoming more resilient to future crises and learning from the COVID-19 response
- Creating contactless customer experiences and shifting to online channels
- Creating greater flexibility for employees and less business travel
- Having the ability to problem solve and demonstrating agility within teams
- Lifting the technology capability amongst customers and staff

[Read more in Five key issues private businesses need to address in 2021](#)

## The underlying challenges:

- 81% of businesses expect business performance to improve in 2021
- 62% believe the economic environment for the business will improve over the same period



## Challenges still remain, with some industries facing greater challenges. The way forward:



### Sales Growth

In an increasingly competitive environment, and as channel behaviours change, businesses need to be clear on how they will grow sales. This does not just mean having a sales plan. Having a coherent growth strategy means ensuring that you understand:

- how to retain your customers and acquire new ones
- changes in consumer behaviours and the competitor landscape
- key data signals and trends
- how to build strong internal sales capability

Enduring changes from COVID-19:

- permanent channel shifts
- brand differentiation through experience
- increased value of trust between buyer and seller



### Digital

All organisations need to focus on digital enablement, and to understand the opportunities (or threats) that increased digitisation provides. Current and emerging technologies can unlock critical value in driving operating efficiencies and in enhancing customer value.

Being clear on how to address these two areas is key to competitive differentiation and out-performance.

Enduring changes from COVID-19:

- increase in demand for contactless experiences
- increased demand for online marketing
- increasing digitisation across the value chain business travel.



### Talent

Although employees might have the right skills for businesses today, they might not have the right skills for business tomorrow. Engine Room businesses need to continually invest in building capability in their current staff to ensure their skills remain relevant.

Businesses also need to work on their culture and employee experience to become an employer of choice in order to attract strong talent in future.

Enduring changes from COVID-19:

- increase in demand from employers wanting overseas talent to move to New Zealand
- increase in demand for flexible working.

“Due to supply chain challenges I believe customers will be more receptive to knowing where the product comes from and how transparent the supply chain is. Also, there will be more of an opportunity for dual supply rather than a customer having a single supplier.”

Engine Room Survey 2020 respondent



## Supply Chain

When supply chain issues arise there is no time to waste – having a plan that ensures business continuity based on potential future scenarios is the best way to prepare for future crises.

Both reactive and predictive capabilities are essential to help your supply chain to Prepare, Respond, and Recover.

**Prepare:** Quickly establish a task force, and leverage data analytics to gather insight.

**Respond:** Establish a short, mid and long term mitigation plan for demand, supply and workforce.

**Recover:** Working in an agile way to translate lessons learnt into a more resilient supply chain.

Enduring changes from COVID-19:

- decrease in demand for partnering
- building supply chain resilience for future crises.



## Cybersecurity

The likelihood of cyberattack is greater in 2021 than ever before. The previous year brought a surge in intrusions, ransomware, and data breaches, along with an increase in phishing attempts.

New technologies and business models – and the fast pace of adoption – bring new risks. Cybersecurity makes high-speed digital change a lot safer, but in our experience is often seen as an afterthought in engine room businesses.

The broad scope of the cyber risks for private businesses brings the advantage that investments in cyber security can deliver returns simultaneously on multiple different fronts. The disadvantage they face is that, historically, private businesses have tended to be reluctant to spend money on securing their back office, preferring instead to invest in growth and innovation. But today's reality is that a successful cyber attack could destroy everything a private business has built up – so investments in preventing that represent money well spent.



[Read more in PwC's Global Family Business Survey 2021](#) and [Five key issues private businesses need to address in 2021](#)

# How we can help

2021 will be an important year for many engine room businesses and what leaders do now will determine the future success of their business.

From strategy and governance, to business optimisation and private wealth, to putting your values in action, PwC's Private Business Strategy Advisory team is here to help you build sustainable value. Offering specialist strategy, digital technology, operations and supply chain expertise, the team works extensively with local and international businesses across a range of industries.



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## Methodology

In November and December 2020 PwC undertook a comprehensive analysis of the 'Engine Room' ecosystem in New Zealand. The aim was to provide insights into how New Zealand private businesses perceive the economic environment, growth strategies, key opportunities and risks that might limit growth ambitions. To gain business owners and operators perspectives, a representative survey of 60 small and medium-sized businesses was conducted online. The findings were analysed and evaluated by PwC private business strategy experts. The results were compared and contrasted against PwC's 2019 Engine Room Survey as well as PwC's Global Family Business Survey 2021.



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