

If you thought 2011 was a challenging year, wait until 2012. There are a range of issues that managers and business company owners need to look out for. The idea is to watch out and plan ahead. Each business will have a different strategy, depending on their outlook and appetite for risk.

1. ☐ ☐ ☐ **Markets**

With only a few weeks left in 2011, the Australian All Ordinaries is down by 11% for the year and the ASX 200 is 10.5% lower. Only three of 22 industry sectors are up in 2011 – telecommunications, food, beverages and tobacco and utilities – all defensive stocks.

That's likely to continue in 2012. Some investment strategists are tipping that the market will slip even further in 2012. The chief of an Australian equities management firm, who did not want to be named, says all signs tell us that the mining boom is likely to cool down. Commodity prices are now slipping, Chinese manufacturing has fallen to a 32 month low and the World Bank forecasts that China's growth rate will fall from 9.1% this year to 8.4% in 2012. Then there is the mining tax and the carbon tax.

“Booms are made of two things: demand and price and the price component has been extremely favourable, but more recently, copper and iron ore have witnessed significant falls,” he says.

“I am not sure the market has fully considered the implications of lower commodity prices.”

With the mining sector holding the market together, it's not a good sign and a downturn in the market will flow through to the rest of the economy, hitting consumer and business confidence. The fact that futures markets are now gunning for interest rates to slip to 3% by mid next year confirms that investors think the economy will be weaker.

Business owners and investors will have to adjust to that. George Boubouris, head of investment strategy and consulting at UBS, says that for the next 12 to 18 months, it would be prudent to be conservative.

“You focus on income quality, that is, term deposits, fixed income and defensive income stocks in the ASX100,” Boubouris says.

2. ☁ ☁ ☁ The cloud, data analytics and outsourcing

Research company Ovum predicts that governments around the world will turn to these three areas in 2012 to respond to pressures for austerity with the growing realisation that the debt crisis will get worse before it gets better. That will open new business opportunities for ICT vendors next year.

The Ovum report says: “Governments that can maintain and even increase competitiveness in a down economy will be best poised for growth once the need for fiscal austerity fades, and the tension between putting one’s house in order versus becoming more competitive and sustainable will be at the front end and centre for policy makers in 2012. ICT will be one of the key focal points in addressing this tension and vendors that can sell a value proposition here will enjoy wins that can provide long-term momentum.”

The report says that while governments are still trying to get their heads around security issues, standards and interoperability of cloud computing, the scale and cost effectiveness of the model “will in 2012 ensure a large and growing market for vendors with proven cloud services”.

It says companies that can help sort through big data will also be picking up business. Once upon a time, it was oil that drove the economy, now it is data.

“2012 will present tremendous opportunities for large IT vendors, start-ups and fast growing companies alike to sell differentiated and verticalised products providing high returns on investment for governments that are swimming in data but unable to optimally convert it to actionable intelligence,” Ovum says.

The report also says that governments will be outsourcing more of their functions to cut costs.

“Payment processing (for anything from child support to healthcare claims), records management, traffic management, document processing and customer care are examples of the back office functions that governments will turn to private companies to provide,” the report says.

However, it says outsourcing will be constrained by political pressures to save jobs. Nonetheless, governments will be looking to bring in more private companies.

3. ☐ ☐ ☐ Australia – the lucky country

RMIT economist Sinclair Davidson says we should get ready for an influx of migrant workers from the debt-stricken Eurozone. It means businesses should get ready for an invasion of talent from overseas with Australia likely to take in the skilled from Spain, Greece, Italy, Ireland and North America.

“We will see the internationalisation of the labour market,” Davidson says. “We might see demand for Australia as a relocation venue.”

KPMG demographer Bernard Salt agrees and sees it as something that could change the face of Australia.

“The young and the talented who see the writing on the wall will see themselves as global citizens and see Australia as a good place for a five year stint,” Salt says. “The issue for them is that they will put down roots and form relationships and end up staying, so we could find ourselves benefitting from the collapse of Europe.”

4. ☐ ☐ ☐ Continuing pressure on retail

Bernard Salt is gloomy about prospects for retailers for next year. He predicts we can expect more stores and chains to close down in 2012. At the moment, the internet accounts for about 5% of retail sales. That is likely to grow to 10% or even 12% over the next few years, and that could spell the end for many retailers.

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Written by Leon Gettler

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We can expect that growth rate to continue in 2012. Salt says the retailing sector is now going through a structural shift. It's not just about a tight economy, people are just buying more online.

"If internet retailing does get to 10 to 12% by 2020 that must mean 10 to 12% of retail jobs must disappear," Salt says.

"You have to remember there has been no net growth over the last three years in retail jobs, despite the fact that over the last three years we would have added 600,000 people."

Salt says retailers most exposed to the internet, like those selling books and CDs, will be the ones that struggle to stay in business. Others will not be affected.

"It won't be high fashion, it won't be supermarkets or 7/11 convenience foods," he says.

Sinclair Davidson says the internet has become the greatest source of creative destruction and that trend will gather momentum in 2012 as more entrepreneurs develop business models using the web.

"It's taken the internet a long while to generate a viable business model but people have now worked out how to make money on the internet," Davidson says.

"The small business sector has always faced challenges but the challenge they have now is that they have relatively high cost structures. Small business will be squeezed more by the online environment than big business."

Davidson says business operators will have to watch out for new business models being created through the internet. He says JB Hi-Fi protecting its image as a discounter by sourcing cameras sold on its web site directly from overseas and cutting out the distributors as the middle man is a taste of things to come.

5.□□□ Re-channelling

Salt says one of the trends to watch out for in 2012 is businesses switching channels. One of the big patterns with consumer trends is that there are some channels where budgets seem to be limitless and others where there is no elasticity. For example, people are sensitive to petrol prices, interest rates and tax. On the other hand, they happily spend money on mobile phone plans and plasma screen TVs. He says this is an issue for businesses trying to get customers to pay for goods online.

Watch out for businesses next that strike a deal with other online businesses where consumers spend freely.

“The issue is that if there are gateways that are closed and gateways that are open to the consumer wallet, you need to find a way to Trojan Horse those and attach your product or service to something that goes through Checkpoint Charlie unchecked.”

He says we can expect to see companies rechannelling. News Limited, for example, might have difficulty persuading people to pay for content online. The answer is obvious.

“News Limited needs to do a deal with Optus or Telstra and say ‘sign up to the plan’,” Salt says.

“In other words, you bundle something that would normally go through a closed channel and slip it through the open channel.” Rechannelling and rebundling will be the growing trends.

6.□□□ Reskilling

According to the official figures, Australia added just over 500,000 jobs from August 2008 to August 2011. In the three years prior to that, it had added 853,000. Many jobs have been lost in manufacturing and agriculture and retail, which is supposedly linked to population growth, has been absolutely flat. Most of the job growth has been in health and allied services, an inevitable result of an ageing population. The other sectors that are growing are in the professions and public sector jobs.

In 2012, we can expect to see more workers being redeployed and reskilled by schools and colleges. As the skills shortage increases with demand outstripping supply, there will be more pressure to retrain and re-skill. Health firms will be hit hardest next year by the skills shortage along with engineering and education companies. At the same time, businesses will have to start checking out universities, TAFEs and even senior high school classes or alternatively, start hiring older workers.

7.☐☐☐ Changing ethnic composition

Salt says one of the big trends now is the shifting of ethnic influence from Mediterranean to Asian, and that will have a major influence on society, organisations and business.

“Notwithstanding the Greeks and Italians who might be coming out at the moment, the number of Mediterranean migrants to Australia has collapsed over the last 15 years or so and what we have seen is the rise of Asian influences,” Salt says.

The most obvious example, he says, is the growing popularity of tea. Mediterranean people drink coffee, Asians drink tea. Melbourne might be Australia’s coffee hot spot but these days, you can get green tea, white tea, black tea, yellow tea, oolong tea and Chai tea. This would have been inconceivable 10 years ago.

“It prompts the question of what other influences we might see,” Salt says. More home owners, for example, wanting to sell their house will be looking to make sure the Feng Shui is right with the back and front doors perfectly aligned.”

“If you want to maximise the resale value on your commercial or residential property, the design will shift,” he says. In an Anglo culture, organisations tend to be flat, he says, whereas Asians tend to come from more hierarchical cultures. This could see organisations changing.

Maybe not in 2012, but it’s a trend to watch out for. It will change the face of Australia, and present businesses with new opportunities.

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