



# Professional Services Fact Pack

9 February 2015

THE BOSTON CONSULTING GROUP

# Note to the reader

**This material is one of seven fact packs produced by BCG across priority industry sectors in the space of a short, 4 week engagement**

**In compiling these fact packs, we have drawn on a range of existing sources**

- Research and information held within the Department
- Publicly available information and reports
- BCG research and experience
- Discussions within the Department, with a number of BCG experts and with select individuals within the relevant industries
- However, within the available time, we were not able to undertake broad engagement within the industries

**Data availability was highly variable across the seven industries covered**

- In some cases good public information (e.g. ABS data) was available
- In others we needed to draw on a variety of different (and sometimes inconsistent) sources of varying depth and quality, and to use proxies and other indicators where data was unavailable
- We have made our best efforts within the available time to synthesise the data available and to develop a consistent basis of comparison across industries, however, data gaps remain in a number of areas
- We have made an attempt across all industries to provide an indicative estimate of the potential opportunity by 2025. Some of these estimates are necessarily rough. The intention is to provide some basis for high level comparison of the relative opportunity rather than to provide an accurate forecast of growth by industry

**The objective is that these will form the starting point for further work by the taskforces within each industry**

- We have attempted to highlight gaps and questions for further investigation
- We have not had the time to model the potential impact of exchange rate movements on these sectors and that should also be the subject of future work
- We expect that details, and particularly industry forecasts, will be refined by the taskforces

# Industry snapshot

## Professional services

### Definition

Defined broadly to include **professional, scientific and technical services** (e.g. engineering, scientific research); **financial and insurance services** (e.g. banks, super funds, funds management); and **information communications and technology** (e.g. software and computer design services but excluding ICT equipment/manufacturing). Most of these services are protected from overseas/interstate competition.

### Current status (2012-13)

Metric	Size	Growth (08-13)	Comments/assumptions
GVA	\$27b PS \$32.6b FI	7.3% PS 1.6% FI	Total, including traded and non-traded component. Does not include ICT given overlap with ABS PS category; 5 year CAGR; FI growth rate low due to impact of GFC (10yr CAGR of 5.4%)
Employment	461K	3.2% PS 3.0% FI	Includes estimate for ICT based on DSDBI ICT survey; may be some overlap with ABS PS&TS category; 5 year CAGR (2008-13)
Export Revenue	\$2.2b PS \$0.4b FI	-2.7 PS 22% FI	Based on ABS data, which is problematic due to reliance on location of industry HQs rather location of activity

### Industry incremental opportunity (2025)

Metric	Size	Growth	Comments/assumptions
GVA	\$22b PS \$29b FI	5.1% PS 5.4% FI	For prof services, assumes maintaining CAGR of 5.1% (2003-13) For financial, assumes maintaining CAGR of 5.4% (2003-13)
Employment	172K PS 46K FI	4.4% PS 2.8% FI	For prof services, assumes maintaining 10 year CAGR of 4.4% (2003-13) For financial, assumes maintaining 10 year CAGR of 2.8% (2003-13)
Exports	\$3.3b PS \$4.3b FI		Difficult to estimate given limited data; for illustrative purposes it is assumed interstate and international exports comprise 15% of total GVA growth as defined above

### Competitiveness

-  **Access to resources**
-  **Infrastructure and regulatory costs**
-  **Scale**
-  **Market position**
-  **Innovation**

#### Key

-  Significant strength
-  Advantaged
-  On par globally
-  Disadvantaged
-  Significant barrier or risk

# Professional Services is a significant industry for Victoria, with strong growth expected over next ten years

**Professional services – broadly defined to encompass professional, scientific, technical; financial and insurance services and ICT software design and systems – is a highly valuable industry grouping in Victoria and metropolitan Melbourne**

- Combined, these sectors contribute more than 18% to Victoria's GSP (ICT share hard to quantify), with annual growth rates around 5% over the last decade
- Sectors account for ~15% of Victoria's working population, or over 460,000 people, but employment is growing more slowly than GVA
- Employees in these sectors are generally highly skilled, and earn on average 30% more than the average Australian weekly wage
- Knowledge hubs in the Melbourne CBD have led to Victoria's reputation as a leader in certain subsectors such as architecture and funds management

**Although there are limitations to state-level trade data given reporting against head office locations, trade is still small part of industry value**

- While developed countries remain biggest export markets, growth is expected in rapidly developing economies in Asia and South America
- Other states import a large number of professional and financial services; there is opportunity for Victoria to take a greater share of this market

**Five interrelated trends will impact the further growth of the Victoria's professional service industries**

- Resources, health, retail and construction investment and export activity have had a positive effect on service industries who provide specialist input
- Global demand for services from both developed and emerging economies is increasing
- Global supply chains are increasingly fragmented, with firms outsourcing formerly in-house professional services activities
- Continued rise in skilled labour demand, and advances in information technology will increasingly shift workers towards highly specialised, high value-added roles (at the expense on more clerical or lower value-added roles)

**If demand for services from other industries continues and historical annual growth is maintained, professional services could contribute an additional \$22b and 172,000 jobs to Victoria's economy by 2025; while financial and insurance services could grow by \$29b and 46,000 jobs<sup>1</sup>**

- Much of this growth opportunity is protected from interstate or international competition, although the tradeable element is expected to grow
- Limited data available makes it difficult to estimate the component of interstate and international export, however for illustrative purposes we have used an indicative estimate of 15% of the total professional services growth

**Attracting skilled labour will be the most significant challenge for Victoria in capturing this growth**

- Government can implement a number of strategies to help promote growth in professional services, including support for local businesses and SMEs; attracting and retain talent; and leveraging existing competitive foundations to incentivise more firms to build bases/HQ in Victoria

1. Only part of the growth (est. ~15%) applies to the traded sector; most of the rest will grow as function of growth in the broader Victorian economy

# Professional services defined broadly encompasses professional, financial, insurance and ICT services

## Professional Services defined broadly covers three sizeable sub-sectors...

Businesses engaged in providing these services apply **common processes where labour inputs are integral** to the production or service delivery.

Three broad categories are covered:

- **Traditional professional services** includes businesses mainly engaged in providing professional, scientific and technical services, e.g. engineering design, accounting, legal and scientific research services. As defined by the ABS, this sector includes computer design services<sup>1</sup>
- **Financial and Insurance Services** sector includes businesses mainly engaged in financial transactions involving the creation, liquidation, or change in ownership of financial assets, and/or in facilitating financial transactions
- **Information Communications and Technology (ICT)** sector includes computer software and systems design – for which there is overlap with the 'professional services category' and limited data on other subsectors

**This analysis has focused on professional and financial services – ICT data is referenced selectively where available**

## ...which encompass a number of smaller sectors

### Professional, scientific and technical services

- Architectural, engineering and technical services
- Advertising and market research
- Legal and accounting services
- Management and related consulting
- Scientific research
- Computer services, including design

### Financial and insurance services

- Finance institutions (banks, credit unions, financiers)
- Insurance services, including health
- Superannuation funds and funds management
- Auxillary financial and insurance services (asset broking, actuarial)

### ICT

- Software development and applications

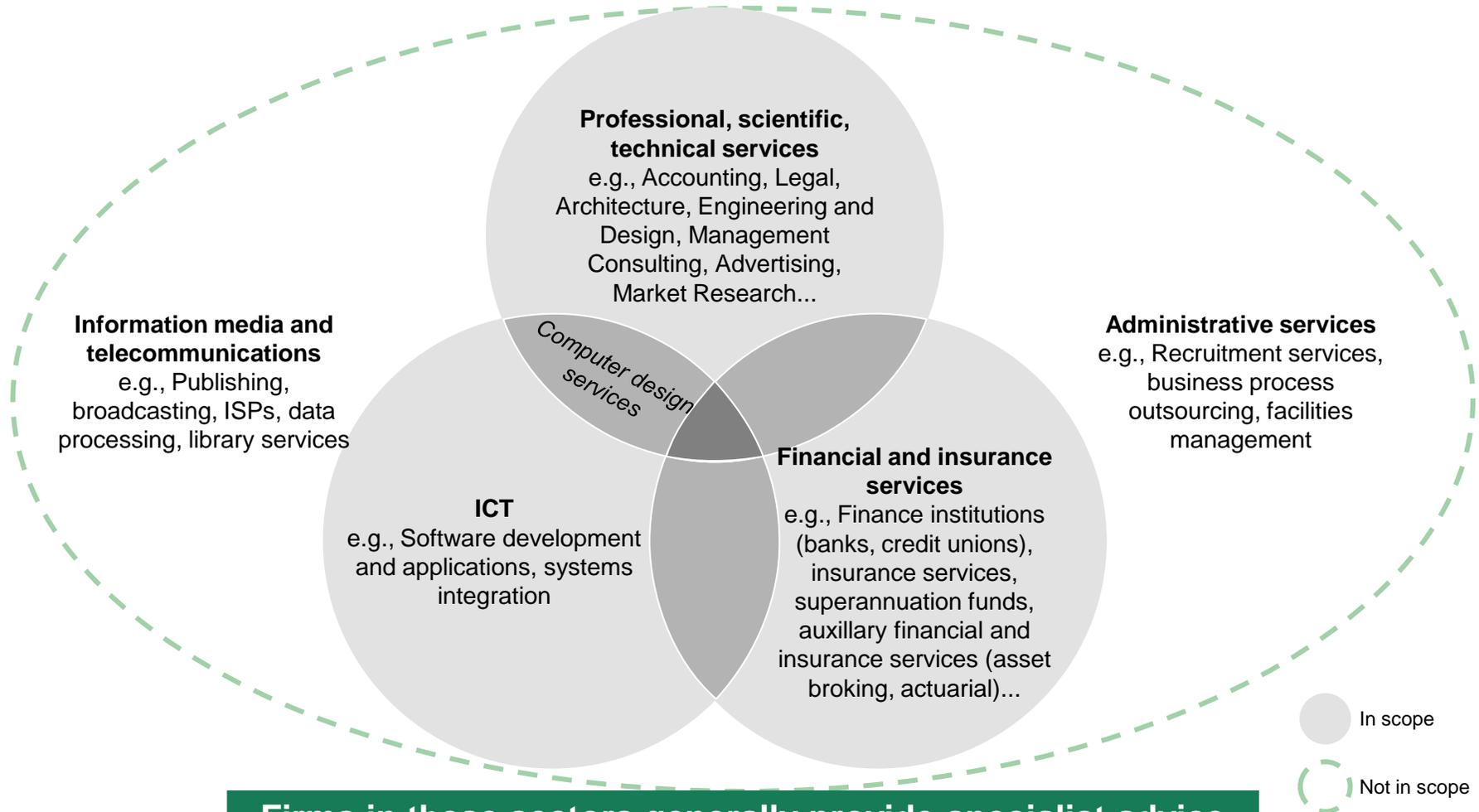
Areas of strength  
in Victoria

Note: Priority assessment primarily based on four factors, including: size/growth, data availability, diversity, client focus

1. Also included veterinary science services, which is a relatively small segment

Source: ABS Australian and New Zealand Standard Industrial Classification (ANZSIC) 2006

# Broad definition of Professional Services used to capture array of knowledge-intensive business services

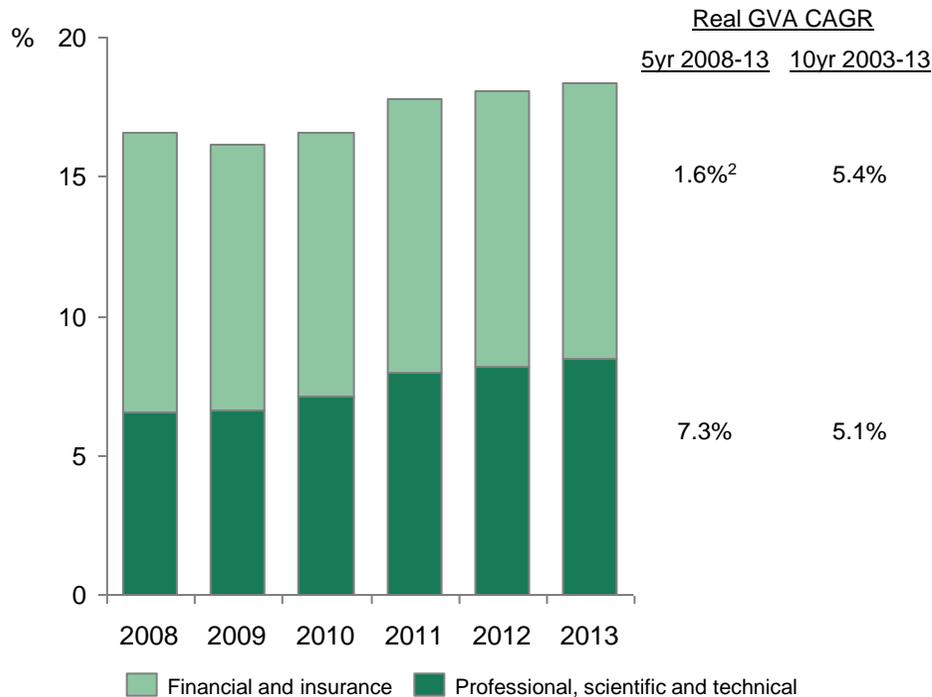


**Firms in these sectors generally provide specialist advice and support**

# Professional services comprises almost a fifth of the Victorian economy

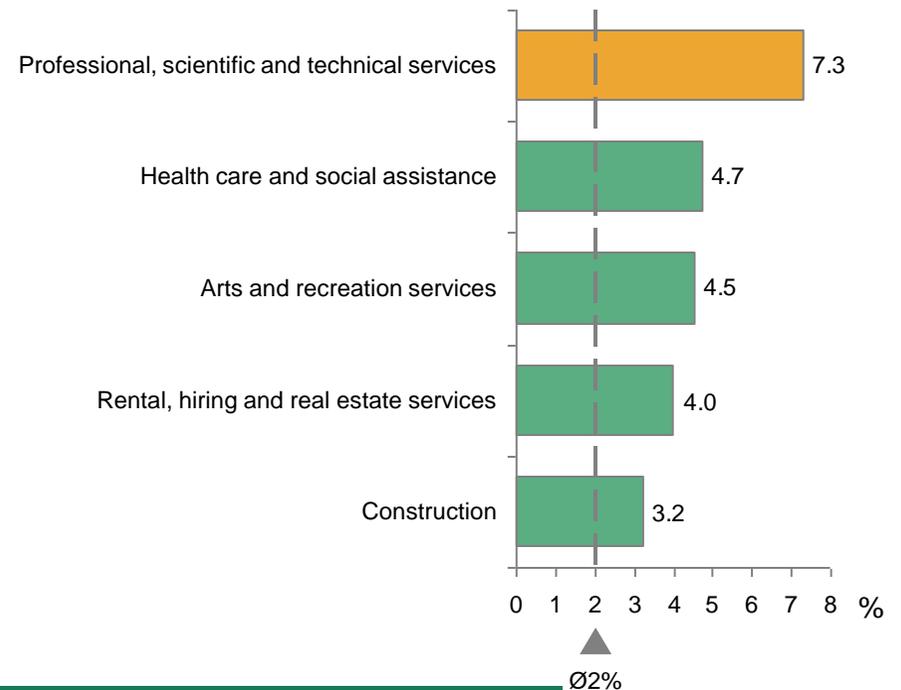
## Professional and financial services industries contribute >18% to GSP<sup>1</sup>

Industry GVA contribution to Gross State Product, Victoria



## Professional, scientific and technical fastest growing sector 2008-13

Fastest growing industries, Real GVA 5YR CAGR, 2008-13, Vic



**Computer design services are captured within professional, scientific and technical services**

1. Professional, Scientific and Technical Services includes the subsector of 'computer design' but not other ICT related subsectors such as ICT manufacturing 2. Growth rates over this 5 year period for Financial services were lower than other periods due to the impact of the global financial crisis

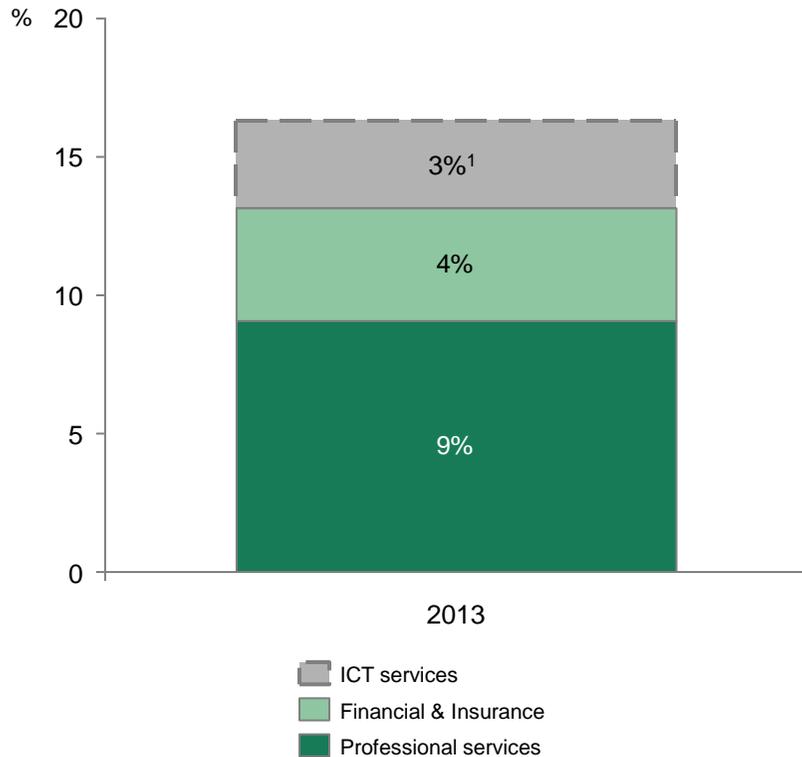
Source: ABS Cat. No 5220

# Sectors employ ~15% of the working Victorian population

Employment is growing but slower than GVA

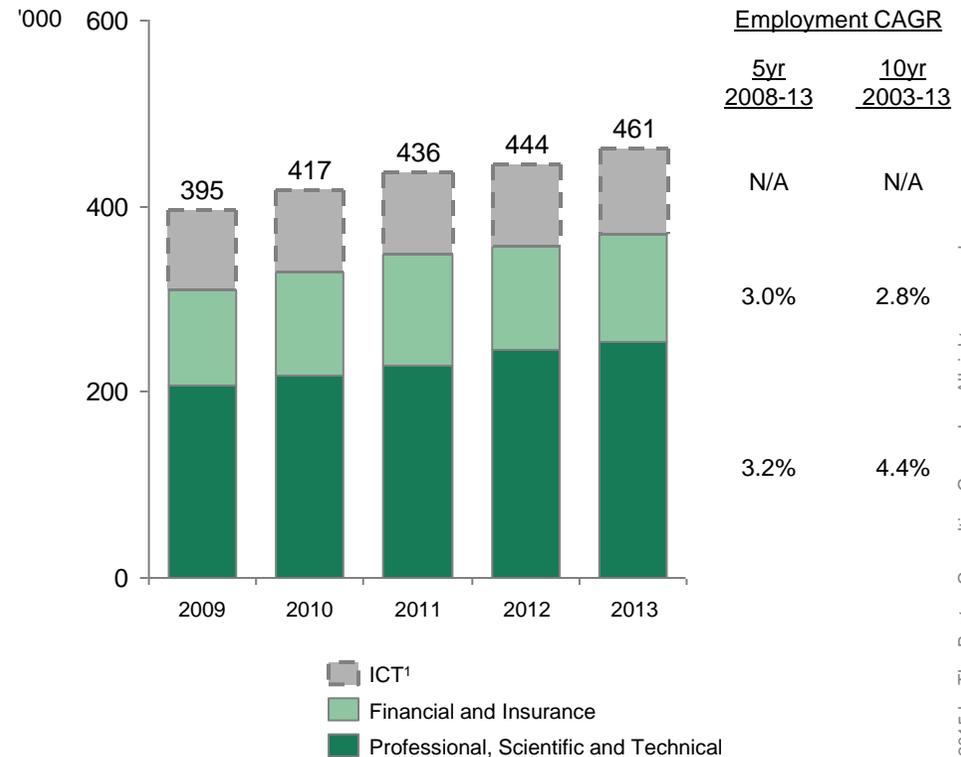
**~15% of working population is employed in professional services**

% working population employed by sector, Victoria



**Employment is growing, but slower than GVA**

Total employed by industry, Victoria

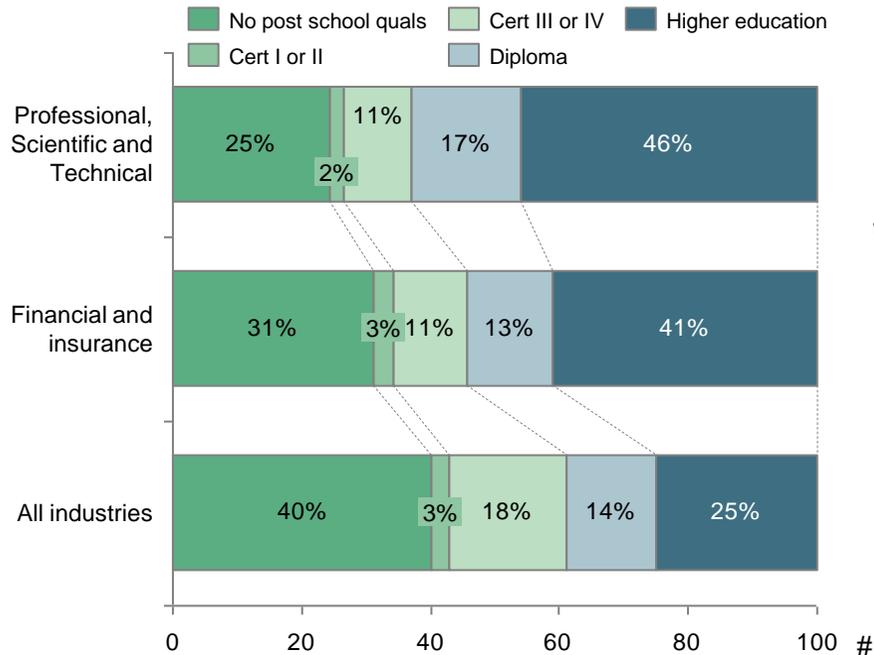


1. ICT industry employment figures are estimates from March 2013– some overlap may exist between employees in this classification and 'computer design' in Professional, Scientific and Technical Services  
 Source: Australian Bureau of Statistics 6291.0.55.003 Labour Force, Australia, Detailed, Quarterly, 6302.0 Average Weekly Earnings, Australia; Victorian Department of State Development, Business and Innovation ICT industry Survey (March 2014)  
 219720-94 150209 Professional Services Fact Pack.pptx

# Employees tend to be highly skilled and well-paid

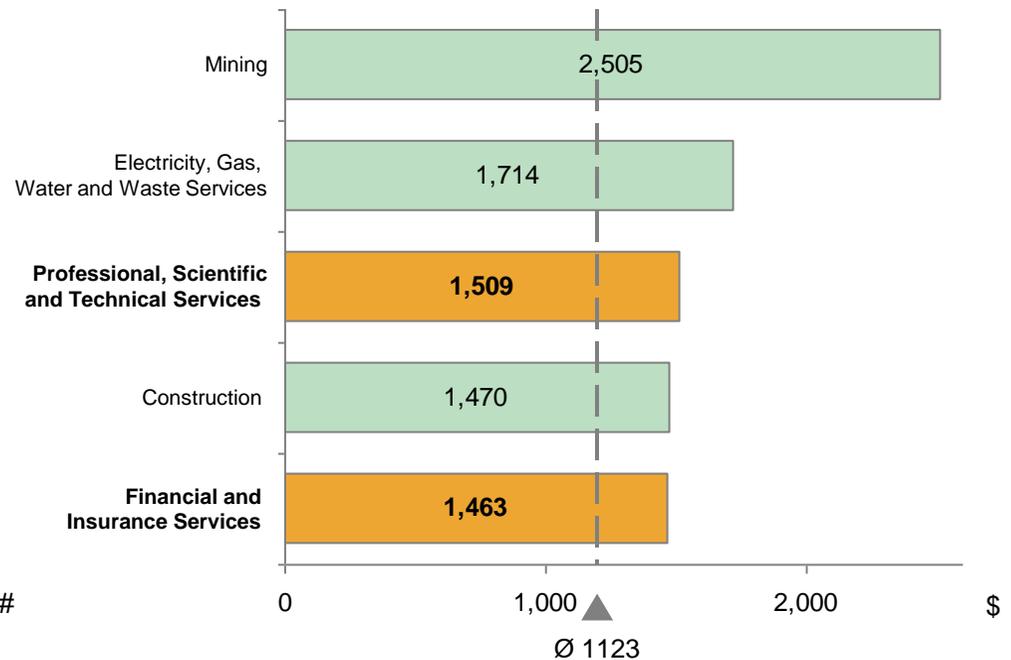
## Employees tend to be highly skilled

Proportion of employment by qualification level, Vic (2012-13)



## Salaries among highest in Aus, 30% above national average

Average weekly salary, Australia (2014)

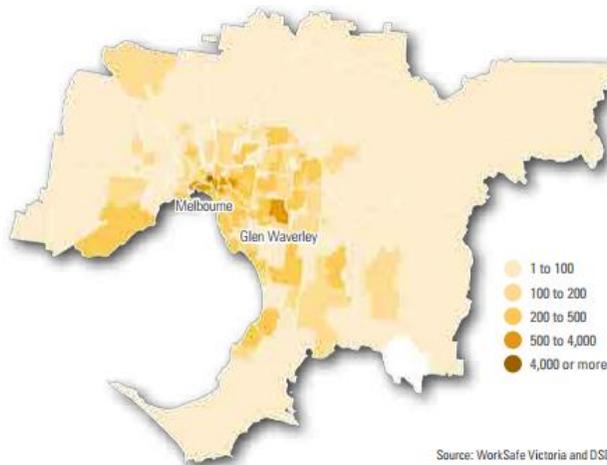


# Employment is highly concentrated in Melbourne CBD...

## Professional services workforce is highly concentrated in Melbourne

Employment in metropolitan Melbourne accounts for 86% of employment in Professional, Scientific and Technical Services, and >80% of employment in Financial and Insurance Services

Number of knowledge intensive services industries business establishments, Melbourne, 2010-11



## Knowledge hubs are particularly important for economic growth

According to the Grattan Institute, CBDs are natural hubs for knowledge-intensive and specialised services as the central location gives firms access to the largest possible pools of skilled employees

Proximity to suppliers, customers and partners also helps businesses to work efficiently, generate opportunities and come up with new ideas and ways of working

However, as the CBD expands in size, challenges may emerge – including access to and around an expanded CBD, and ensuring that agglomeration benefits still hold

**Ensuring Victorians have access to the CBD will be critical in further growing the professional services workforce**

Source: Victorian Department of Education 'Professional Services Industry Profile' (2013); Victorian Department of Education Financial and Insurance Services Industry Profile' (2013) Victorian Department of State Development, Business and Innovation 'Industry Atlas of Victoria' (2013); Grattan Institute 'Mapping Australia's Economy' (2014)

# ...with some emerging clusters seen outside the CBD

## Some centres outside the CBD have developed...

### Metro area growth

- In the decade to 2011, Victoria has seen an increase in professional services business establishments locating in outer growth municipalities e.g. Melton, Wyndham, Cardinia
- Major industrial areas such as Monash, Kingston and Knox also have high concentrations of professional services establishments. These areas often supply industrial sectors such as manufacturing, transport, distribution, logistics and warehousing

### Regional growth

- Financial Services business establishments in regional Victoria are generally concentrated in the major regional centres of Ballarat, Bendigo, Geelong, Latrobe Valley and Shepparton

## ...including signs of agglomeration in Geelong and Bendigo

### Insurance and personal injury services in Geelong

- National Disability Insurance Agency and Transport Accident Commission national offices
- WorkCover offices relocating to Geelong
- Other personal and health insurance providers and brokers with a presence in Geelong include GMHBA, Bupa, and Medibank Private

### Banking cluster developing Bendigo

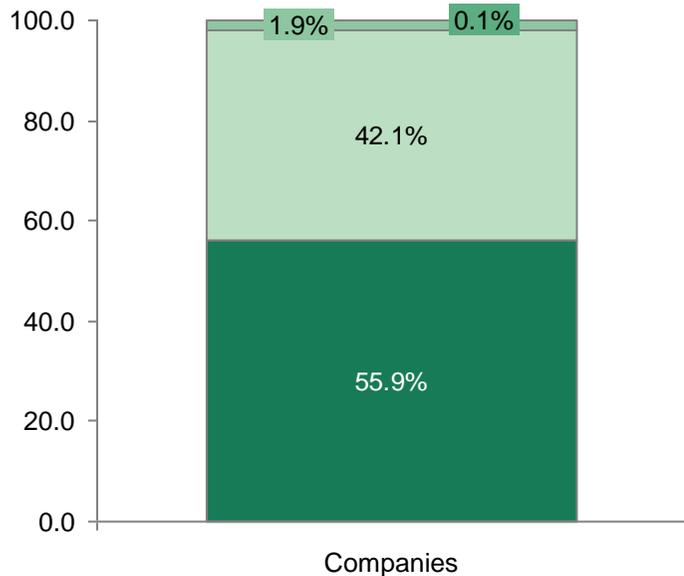
- Bendigo and Adelaide Bank's head office in Bendigo is the only Australian bank headquarters located outside a capital city
- All major banks are represented in Bendigo

**Government can play a role in encouraging the development and sustainability of emerging clusters**

# Sectors characterised by few large companies and long tail of SMEs

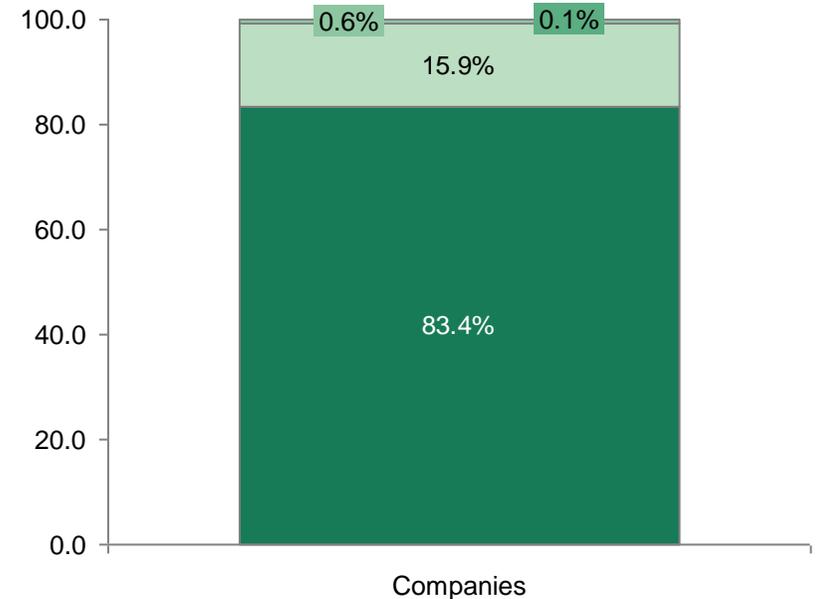
## Long tail of small firms in professional services

% Company size, share of total Professional, Scientific & Technical, Vic (2013)



## SMEs account for >85% of all financial and insurance firms

% Company size, share of total Financial and Insurance, Vic (2013)

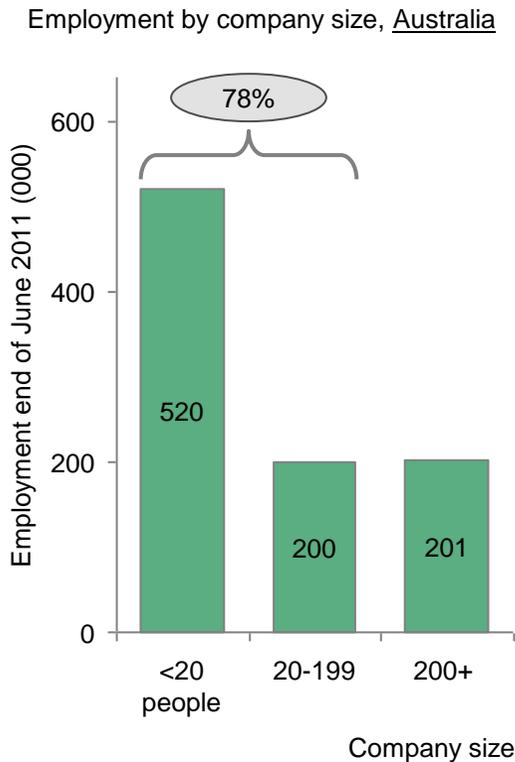


Non-employed
  <20 employees
  20-199 employees
  >200 employees

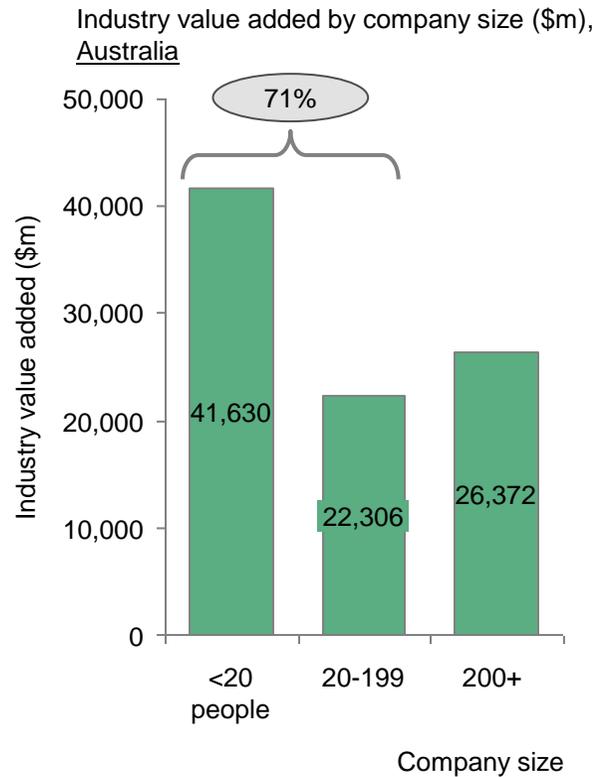
**What has been driving growth – SMEs or a few large firms?**

# SMEs employ 78% of professionals, deliver 71% of industry value added but have a lower value added per employee

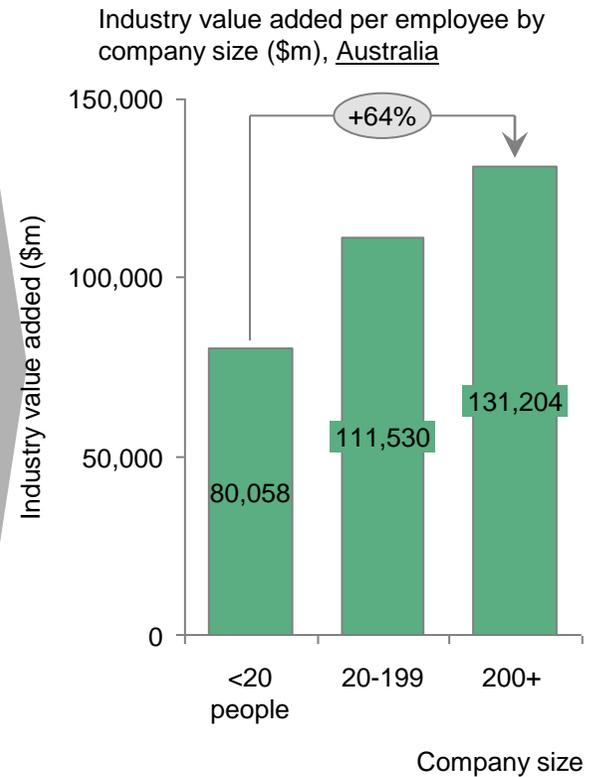
## SMEs employ 78% of Professionals....



## ... and deliver 71% of industry value added



## Employees in large companies have higher added value

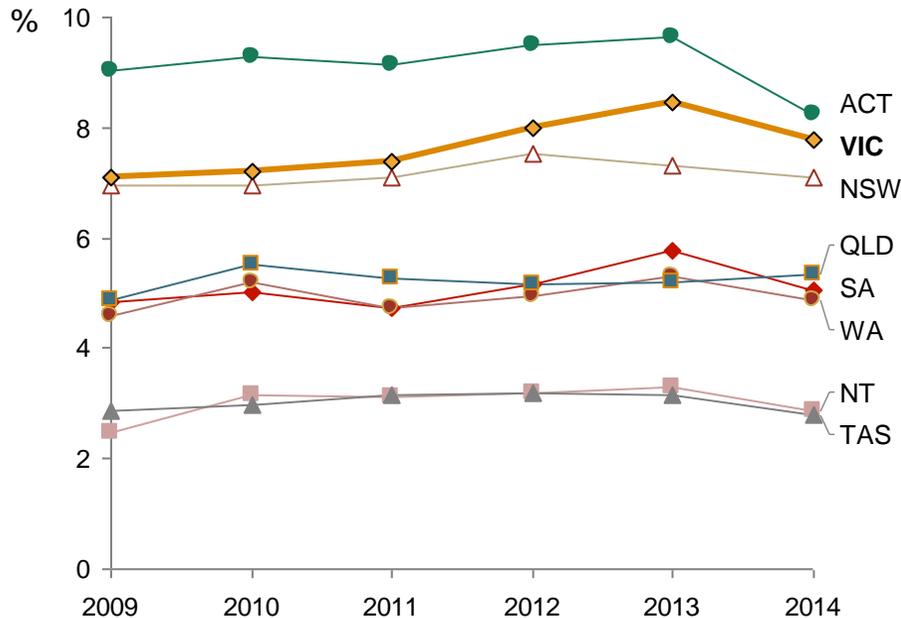


# Victoria's professional services sector contributes significantly to GSP compared to other states

Deep dive: Professional, Scientific and Technical Services

## Professional, scientific and technical services contribute most in ACT and VIC

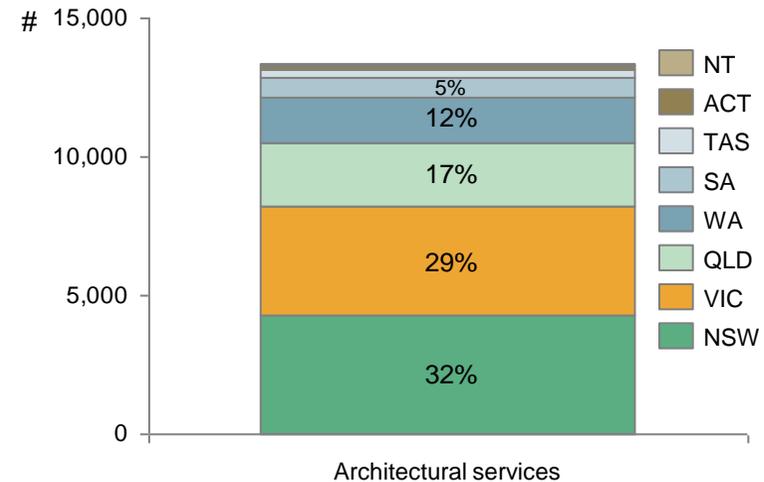
Professional, scientific and technical services industry GVA contribution to Gross State Product, Australia



## Victoria has relative strengths in architectural and specialist design

Victoria generally has more than a representative share of architectural and engineering design businesses, although NSW has an advantage in other specialist design

Total number of businesses, Architectural services, Aus, 2013



Professional services is a particularly important economic driver for Victoria

# Victorian-based professional services firms increasingly have a global footprint

**Deep dive:** Professional, Scientific and Technical Services



**SMEC**

**SMEC Holdings Limited is a large Melbourne-based professional services firm** with a global footprint that provides consultancy services on major infrastructure projects

**SMEC has been ranked in the Top 100 of Engineering News-Record's (ENR) Top 225 International Design Firms for the past 15 years.** In 2014, SMEC was ranked at Number 57 in the Top 225 International Design Firms and Number 76 in the Top Global Design Firms. SMEC was also awarded the 2010 BRW ANZ Private Business Award for 'Most Successful Private Business Trading Overseas – Asia'.

**SMEC has more than 75 offices** in Australia, Asia, the Middle East, Africa and North and South America. In 2014 the company generated total revenues of \$469m and had 5,236 employees



**99designs**

**99designs is a small business created and launched in Melbourne.** The firm pioneered the design contest, where designers submit competing designs in response to a customer's design brief—and the winner receives a cash payment for their work. Through more than 369,088 design contests, the company has paid out US\$92.8m to the designer community to date

**99designs is currently considered the world's largest online design marketplace. It has built a strong international presence,** with offices in San Francisco, Berlin and Paris, and over 75 employees.

# Victoria has many strengths in Financial and Insurance Services, but lags behind NSW

*Deep dive: Financial and insurance services*

## Victoria, particularly Melbourne, has a number of strengths in this sector

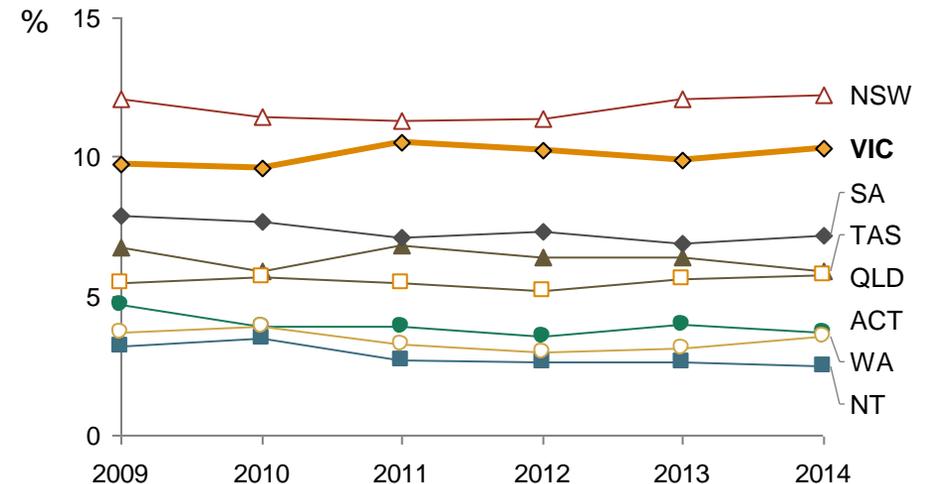
**Melbourne's financial services hub is home to a diverse range of financial services players from all segments of the market**

- Home to two of the four major banks, NAB and ANZ
- Home to eight of Australia's top 15 superannuation (pension) funds
- 60% of all Australian industry superannuation (pension) fund assets are managed out of Melbourne
- International investment firms located in Melbourne include Franklin Templeton, Aliier, Credit Suisse, Goldman Sachs, JP Morgan and many others
- One of the world's largest private equity firms, TPG has its Australian headquarters in Melbourne
- Australia largest health insurers Medibank, Bupa Australia and Australian Unity are all headquartered in Melbourne

## However, NSW (Sydney) has a more dominant position overall

**Up until the late 1970s, Melbourne was Australia's key financial sector, however Sydney has since established itself as the national hub**

Financial & Insurance Services Industry GVA contribution to Gross State Product, Australia



# Australian Unity and Jolimont Capital are two financial and insurance firms diversifying to capture new opportunities

*Deep dive: Financial and insurance services*



## Australian Unity

**Australian Unity is a national healthcare, financial services and retirement living organisation** that provides services to more than half a million Australians

A mutual company with a 175 year history, it was **formed as an entity in Melbourne in 1993**. It currently employs more than 2,000 staff in various locations across Victoria, New South Wales, South Australia and Queensland.

Australian Unity had revenues of \$1.3b in 2013-14, with more than \$3.5b funds under advice.

In recent years, Australian Unity has diversified its product offering to include residential and aged care, adjusting to the needs of the local market.

## Jolimont Capital

**Jolimont Capital** is a leading private equity fund manager in Australia and New Zealand specialising in fast-growth technology companies.

In 2010, Jolimont was awarded the 2010 Australian Private Equity & Venture Capital Limited (AVCAL) Chairman's Award which recognized the fund manager "who delivered outstanding returns to their investors via a portfolio company exit"

**Jolimont Capital has also diversified into other areas, establishing Jolimont Global Mining Systems** in a joint venture with Resource Capital Funds. The group invests in mining equipment, technology and services companies and currently has three offices across Australia and the USA

# Case study: NSW has undertaken targeted strategies to build its financial and insurance services sector

**Deep dive:** Financial and insurance services

## Starting situation

Number of business consolidations saw financial activity shift to Sydney over time, e.g.

- Consolidation of stock exchanges into the Australian Securities Exchange (based in Sydney)
- Merger of Australia's fifth largest bank – the State Bank of Victoria into CBA (based in Sydney)

## Objectives

To position Sydney's emerging position as a global financial services centre

## Government role

Austrade's financial service business development team was based in Sydney for many years, resulting in what some felt was a 'Sydney-centric' focus

Targeted industry action plans to develop professional services sectors, including financial services, and a particular focus on promoting Sydney as the premier destination for Asia-Pacific HQs of global firms

More recently, the NSW Government engaged KPMG to research and make recommendations on the opportunities arising from FinTech. The report recommended the creation of a not-for-profit physical hub in Sydney to encourage collaboration and innovation

## Outcome

Sydney is considered the dominant Australian city for finance and insurance, with the most significant cluster of industries and greatest concentration of employment

Sydney is currently home to nine of Australia's ten largest fund managers and is headquarters of 52 of Australia's 72 licensed banks. It's also home to the majority of finance sector industry and professional associations

The Global Financial Centres Index has consistently ranked Sydney higher than Melbourne, although Sydney has dropped down to #23 in the Nov-14 rankings

# Case study: Israel's rapidly growing venture capital sector

*Deep dive: Financial and insurance services*

## Starting situation

**Israel's venture capital industry was born in 1985** when the first Israeli venture capital fund Athena Venture Partners was established

## Government role

**Government initiative launched in 1993 offered attractive tax incentives to foreign venture-capital investments** in Israel and promising to double any investment with funds from the government

The **Israeli government also created a technological business incubator program** to leverage the strengths of approximately 750,000 scientists, engineers, and physicians who had just arrived from former USSR

As part of this program, the **Office of the Chief Scientist started six incubators** to foster seed and early stage technology development through entrepreneurship

## Outcome

**Israel's annual venture-capital outlays rose nearly 60-fold, from \$58 million to \$3.3 billion, between 1991 and 2000.** Between 2003 and 2012, Israel's venture capital funds attracted \$6.77b.

**Israel's venture capital industry now has ~70 active venture capital funds**, of which 14 are international VCs with offices in Israel. Among the leading funds, Sequoia V, Pitango VI and Magma III raised a combined sum of \$450 million in 2012

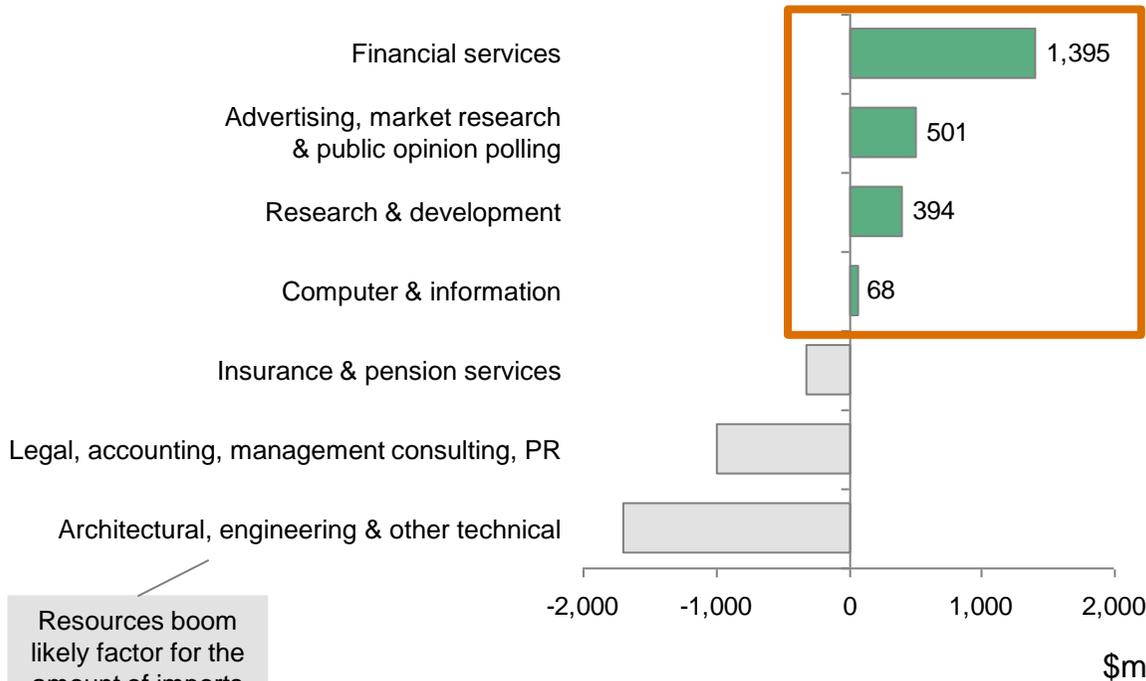
**Today there are 24 incubators located throughout Israel**, and 65% of the projects are science-related research and development

# Australia is net exporter of financial and research services

New Zealand, UK and USA remain top export markets

## Financial and advertising services are net services exports for Australia

Australia balance of trade in selected services, 2012-13 (\$m)



## Top export markets are largely developed economies

Australia's top 5 export markets for financial services are the UK, USA, Norway, Netherlands and Hong Kong

The top 5 export markets for other business services (including professional services) are USA, Singapore, UK, New Zealand and Hong Kong

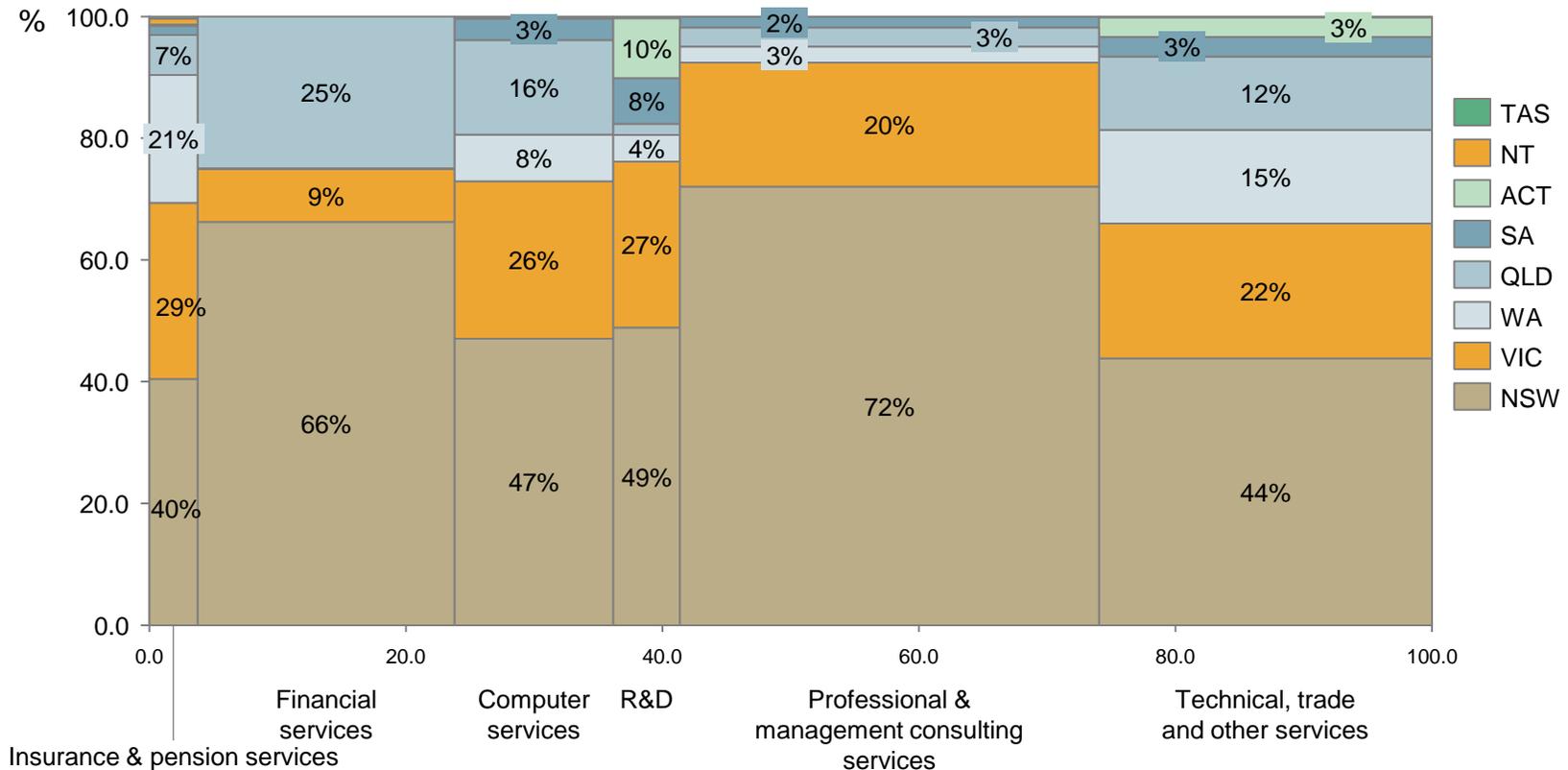
Although Australia's main export markets are primary developed countries, globally the demand for business services is growing fastest in developing regions such as Asia and South and Central America, as emerging economies in these regions have become more sophisticated and income and wealth increases

**How can Australia and Victoria aim to capture emerging demand from Asian and South American economies?**

Note: ABS data of services trade does not account for foreign affiliates, which in the case of Financial Services would comprise a significantly larger portion of 'exports'  
 Source: Department of Foreign Affairs and Trade: Australia Trade by State & Territory 2012-13; Reserve Bank of Australia The Business Services Sector Bulletin (2013); Victorian Industry Atlas (2013); Victorian Industry Atlas (2013)

# NSW is dominant exporter of services, but this primarily reflects a high number of HQs which skew data

International Trade in Services by Country, by State and by Detailed Services Category, 2013-14



**There is an opportunity for Victoria to capture market share from other states**

Note: ABS data captured against a firm's head office, meaning results are not representative of true State export activity. There are also issues in the collection of foreign affiliate export statistics which can lead to underrepresentation of the financial and insurance sector's contribution to exports

Source: ABS Cat No. 5368

# Opportunity for Victoria to further leverage tradeable skills

## NSW, WA, QLD import considerable amounts of services from overseas

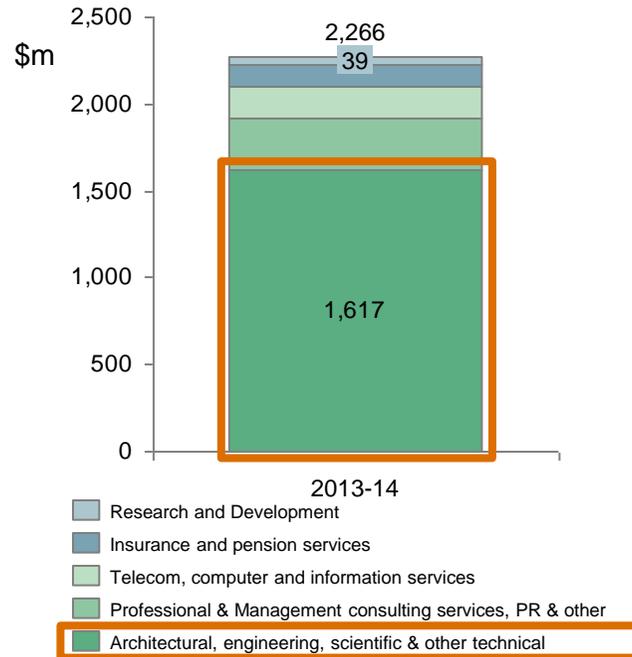
There is an opportunity for Victoria to grow its business services sectors by providing services interstate

Imports of business services by state (\$m), 2013-14



## For example, WA mining boom led to large demand for technical services

WA business service imports by sector (\$m), 2013-14



## Post resources boom, these skills can be exported overseas

Although difficult to get quantitative data on interstate provision of services, there is undoubtedly an opportunity for Victoria to provide more support to other States

Where Victoria is already exporting interstate, this can be further leveraged to follow clients overseas

Specialist skills such as engineering consulting and design are highly tradeable – service exporters can follow resource companies offshore to continue providing advice

Note: International import data only – interstate data not available

Source: ABS Cat No. 5368.0.55.0.03 (2014); Department of Foreign Affairs and Trade: Australia Trade by State & Territory 2012-13

219720-94 150209 Professional Services Fact Pack.pptx

# Five trends will shape future growth of professional services

Increasing importance of specialisation and niche services

## Global interconnectivity

### Demand from other industries

- Growth of resources investment and export activity have had a positive effect on many business services
- Demand for these types of business services from other sectors expected to remain strong, e.g. health, construction, retail

### Demand from overseas

- Stable demand for services from USA and Europe; fewer entry barriers in these regions
- Demand from Asia, South America for professional, scientific and technical services expected to increase as emerging economies invest in growing their industries and require specialist advice

### Fragmentation of supply chain

- Activities previously conducted in-house by many firms (e.g. accounting, computing) increasingly contracted to specialist business service providers
- Increased opportunities for increased interstate and international exporting

### Specialised capabilities

- Big data and analytics becoming increasingly important across numerous industries
- Demand for consulting services being generated from both globalisation and uncertainty resulting from the rapid pace of technological advancement

### Increasingly skilled labour

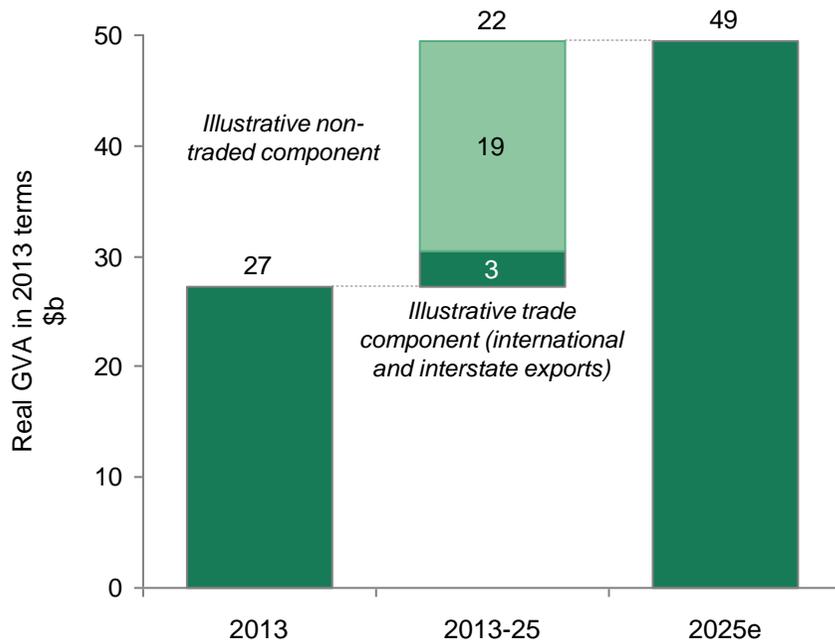
- Wages within the professional, scientific and tech industry have grown much faster than those in other business services
- Technological developments have seen a decline in demand for clerical staff (e.g. in banks), partially offset by employment in auxiliary or niche services

Source: Reserve Bank of Australia Bulletin 'The Business Services Sector' (March Quarter 2013); Victorian Department of Education 'Professional Services' (2013); Australian Services Roundtable and ACIL Tasman 'The New Economic Challenge: Responding to the Rise of Services in the Australian Economy' (2010)

# If historical growth is maintained, professional services could add additional \$22b and 172,000 jobs to Victoria by 2025

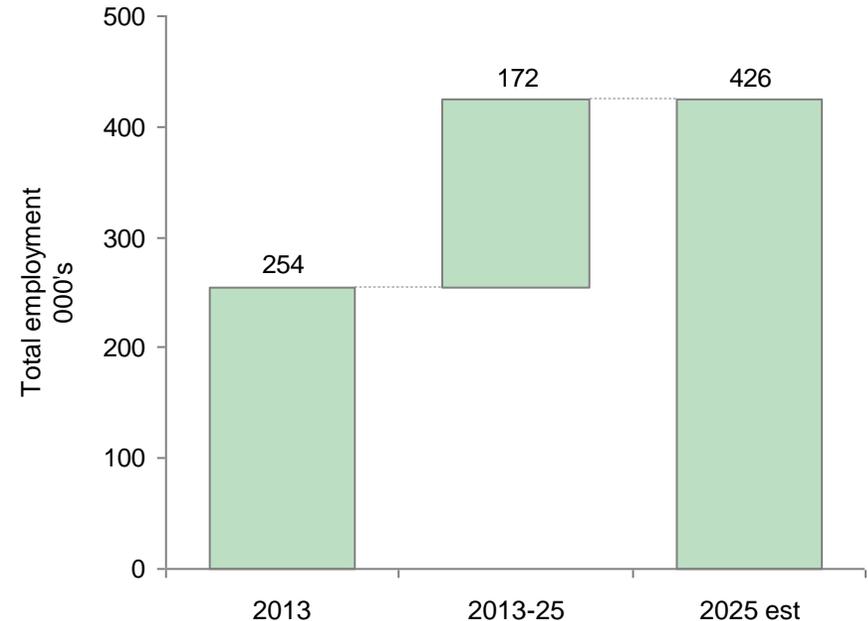
## Professional, scientific and technical services GVA would grow to \$56b by 2025...

Professional, scientific and technical services, estimated industry GVA by 2025<sup>1</sup>



## ... and add 172,000 jobs

Professional, scientific and technical services, estimated employment by 2025<sup>2</sup>



**Stronger growth could be achieved by increasing exports**

Note: Difficult to estimate interstate trade and exports given limited data; for illustrative purposes it is assumed interstate and international exports comprise 15% of total incremental growth

1. Assumes maintaining CAGR of 5.1% (which is CAGR 2003-13); 2. Assumes maintaining CAGR of 4.4% (which is CAGR 2003-13)

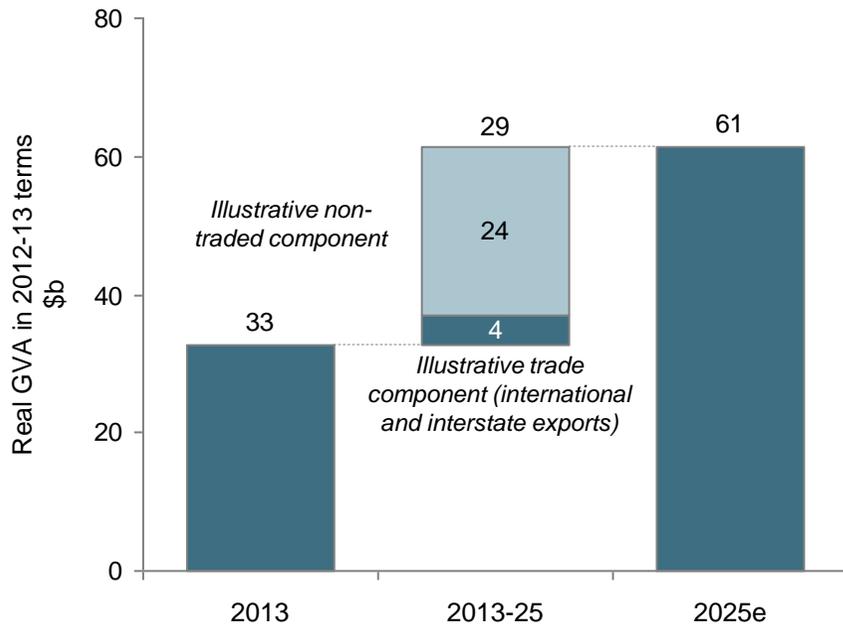
Source: ABS Cat. No. 5220.0 Australian National Accounts: State Accounts

219720-94 150209 Professional Services Fact Pack.pptx

# If historical growth is maintained, financial services could add \$29b and 45,000 jobs to Victoria by 2025

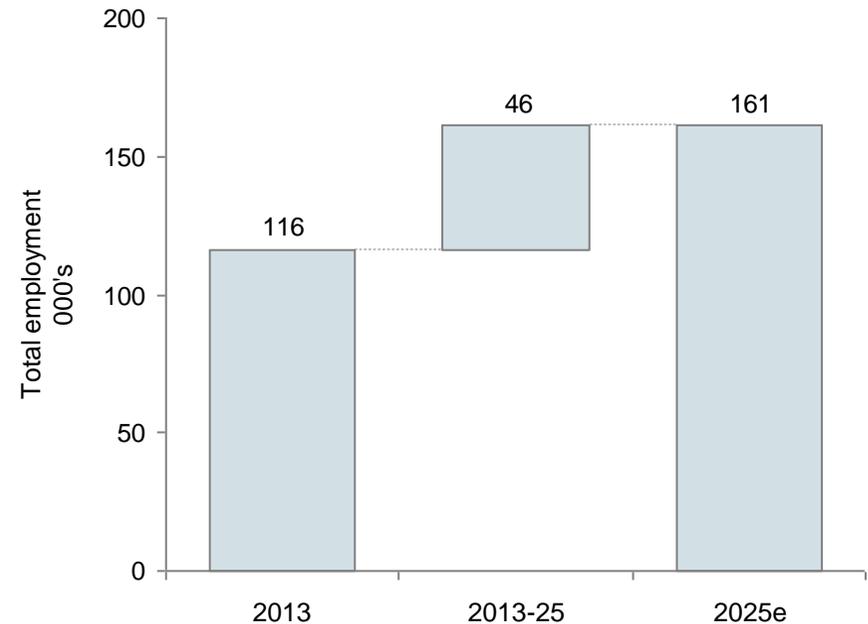
## Financial and Insurance services would grow to \$61b GVA by 2025...

Financial & Insurance, estimated industry GVA by 2025<sup>1</sup>



## ... and add an additional 46,000 jobs

Financial & Insurance, estimated employment by 2025<sup>2</sup>



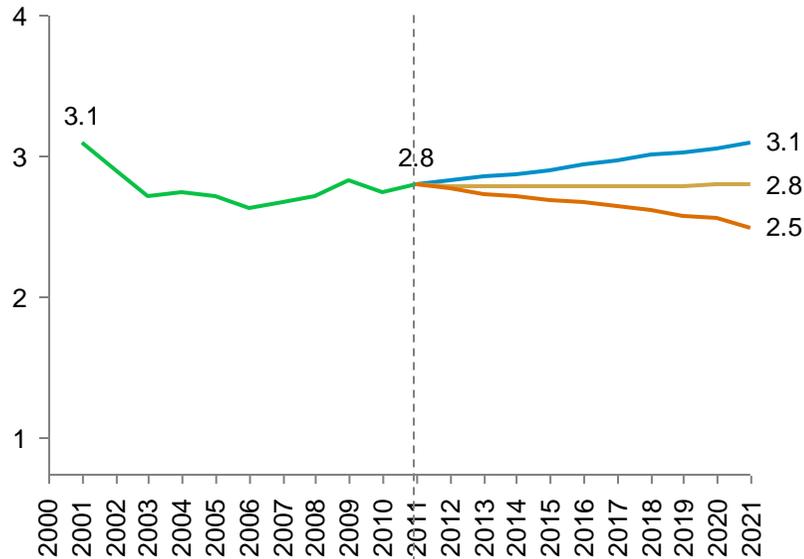
**Stronger growth could be achieved by increasing exports**

Note: Difficult to estimate interstate trade and exports given limited data; for illustrative purposes it is assumed interstate and international exports comprise 15% of total incremental growth  
 1. To smooth out impact of Global Financial Crisis, scenario assumes the sector maintains a longer-term CAGR of 5.4% (CAGR 2003-13). 2. Assumes maintaining CAGR of 2.8% (CAGR 2003-13)  
 Source: ABS Cat. No. 5220.0 Australian National Accounts: State Accounts

# Value of Australia's non-resource exports to Asia could double by 2021

## Australia's share of non-resource Asian imports is relatively low<sup>1</sup>

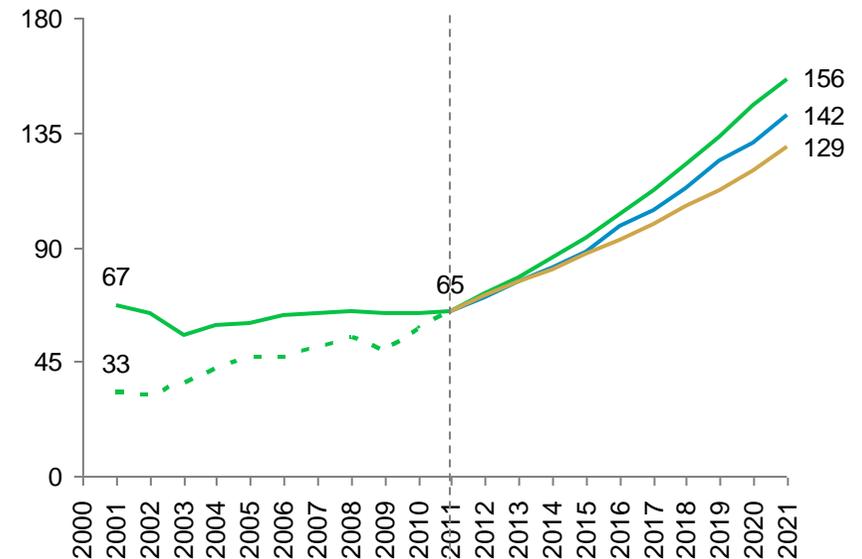
Australian share of Asian non-resource imports (%)



— Historical — Return to 2001 share — Maintain 2011 share — 2001–2011 trajectory — Historical at 2011 A\$:US\$ market exchange rates

## Value of Australian non-resource exports to Asia could double by 2021

Exports (2011 A\$b)



**What strategies can Victoria employ to increase its overall share of Australia's services exports to Asia?**

1. Does not include intra-Asian imports

Note: Asia includes China (excluding SARs), Hong Kong, India, Indonesia, Japan, Republic of Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand, and Vietnam. Asian imports calculated from ADB, World bank and EIU country data real GDP forecasts. Projections for the right panel are on the assumption that Asian non-resource import growth continues at the same rate in US\$ terms as for 2000–2011 and that real exchange rates remain at 2011 relativities

Source: Asia Development Bank, The Ties that Bind Asia, Europe and United States, 2010; US Bureau of Labour Statistics 2012; ABS; RBA; EIU country data; OzForex; World Bank; BCG analysis

# Case study: South Australian design firm HASSELL achieving success from long-term growth strategy in Asia

## Background

### Starting situation

HASSELL began operations in Adelaide in 1938, expanding to Melbourne in 1942. It is now one of the largest multidisciplinary design practices in the Asia-Pacific region

### Objectives

HASSELL saw Asia's growth as central to its multidisciplinary practice, acknowledging that Asia is one of the most dynamic parts of an increasingly global design industry.

## Actions

HASSELL's growth strategy in Asia was underpinned by a long-term commitment to the market and the maintenance of full ownership and control of its studio.

The firm opened a Hong Kong office in 1991, a Bangkok office in 1995 and a Shanghai office in 2003. It currently has eight studios outside of Australia

Key elements of HASSELL's strategy in Asia included:

- Early identification of long-term opportunities and potential, particularly in China
- Long-term commitment to and understanding of the region
- Discerning areas where its skills were highly valuable and unique

## Outcomes

In 2010, HASSELL was ranked 25th in a survey of the world's 100 biggest architecture practices, and 1st in Australia, with more than 900 employees. It is also now the largest foreign design practice in China

Its Asian practice benefits the broader business by

- Increasing the scale and depth of expertise across disciplines
- Increasing the cross-fertilisation of ideas and cultural understanding across geographies
- Creating international career opportunities for staff

# Competitiveness assessment

## Professional services

### Competitive advantage

+	<b>Access to resources</b>	<ul style="list-style-type: none"> <li>• Highly skilled workforce</li> <li>• Strong universities with global reputation</li> <li>• Land availability in and around Melbourne CBD; cheaper rents than Sydney</li> </ul>
~	<b>Infrastructure and regulatory systems</b>	<ul style="list-style-type: none"> <li>• Victoria has comparable regulatory systems to other States</li> <li>• Recent FTAs with China, Japan and South Korea will help facilitate interconnectedness</li> </ul>
~	<b>Scale</b>	<ul style="list-style-type: none"> <li>• Victoria has scale in certain areas (e.g. funds management), but not across all industry areas</li> </ul>
-	<b>Market position</b>	<ul style="list-style-type: none"> <li>• NSW has larger share of firm headquarters, leading to overrepresentation in export numbers</li> <li>• Victoria has established relationships with many developed countries, including Canada and Norway</li> <li>• Some non-tariff trade barriers remain (e.g. licensing protocols, regulation of foreign affiliates)</li> <li>• Recent FTA deals with key Asian markets should enable strong flows of service exports</li> </ul>
+	<b>Innovation</b>	<ul style="list-style-type: none"> <li>• A number of small Victorian firms have established global reputations and capabilities due to innovation and effective market strategies</li> <li>• Knowledge services hubs in metropolitan Melbourne contribute to sector innovation</li> </ul>

**Key**  Significant strength  Advantaged  On par globally  Disadvantaged  Significant barrier or risk

# Potential government actions to achieve growth

## Professional services

Challenges	Potential actions
<p><b>Attracting talent and global firms</b></p>	<p>Develop initiatives to attract head offices and key divisions of major corporations to Victoria, leveraging liveability reputation and existing/emerging clusters</p> <p>Targeted promotion of Victoria's areas of strength (e.g. funds management) and emerging opportunities (e.g. architectural services and design)</p>
<p><b>Market access</b></p>	<p>Actively represent and promote services in trade missions and regional forums</p> <p>Engage with industry to understand and address barriers to exporting (e.g. regulatory)</p>
<p><b>Increasing local and global competition</b></p>	<p>Stronger promotion of Melbourne's liveability rankings and advantages over other States (e.g. lower rents, land availability in CBD/Docklands)</p> <p>Ensure accessibility and suitable infrastructure e.g. investment in transport infrastructure, ICT infrastructure (broadband), planning and environment decisions</p> <p>Facilitate a supportive business environment (e.g. reducing costs, compliance)</p>
<p><b>Aligning stakeholders</b></p>	<p>Develop industry–government partnerships for growth (e.g. promotion, spending, projects,...)</p> <p>Collaborate with industry associations and intermediaries to promote and raise profile of key sectors</p>

# Case study: Government and industry collaboration helped turn New York into a digital city

## Background

### Starting situation

In the wake of the global financial crisis, former NYC Mayor Bloomberg launched MediaNYC 2020 to understand the future of the media and tech sectors and ways in which government and industry could work together to enhance NYC

### Objectives

- To diversify and expand NYC's economic base
- Create new jobs
- Bring new tech and media businesses into the city
- Attract and retain top talent to maintain New York City's competitiveness in the global marketplace

## Intervention

### Government role

Government played a significant role in developing the tech/information sector through targeted initiatives:

- Funding of multiple tech incubators and training programs for SMEs and entrepreneurs
- Rapid extension of broadband access including free wi-fi in key public spaces
- Broad-reaching Open Data initiative and the Applied Sciences competition
- 'Made in NY' marketing campaign to draw attention to local tech firms

## Outcomes

- Since 2007 New York City's tech/information sector has grown by 11% in employment terms, adding \$5.8b in additional wages to the economy
- The sector is now the second most important engine of the New York economy (behind financial services), surpassing the private health care sector
- The growth of Brooklyn's tech sector has outpaced every other large county in the country, with the exception of San Francisco. This includes traditional tech hubs such as Silicon Valley





# Case study: Singapore provides an example of targeted talent attraction programs

## Background

### Starting situation

Already a city with one of the highest quality of living standards in the world, Singapore recently upped their efforts to attract, develop and retain talent

### Objectives

To help position the country as a global talent hub

To further drive business and innovation in Asia

## Intervention

### Government role

- Ongoing focus on making Singapore a safe, liveable city
- **Home for talent** strategy to position Singapore as a local talent hub, with **Contact Singapore** as a one stop shop
- Targeting talented young people at an early age through the **Global School house program**
- Creating an education hub, with strong local institutions and regional campuses of global players (e.g. INSEAD, ESSEC)
- Developing the **Human Capital Leadership Institute** as a national centre of excellence,
- Developing the **Leadership Initiatives, Networks and Knowledge (LINK) talent and leadership ecosystem** to bring together talent supply & demand

## Outcome

- The Global Talent Competitiveness Index (produced by business school INSEAD) ranked Singapore second in the world after Switzerland in terms of ability to compete for talent
- Singapore's labour force ranks No.1 in the world (BERI, 2011 Labour Force Evaluation Measure report).
- Singapore continues to top the ranking as the best place to live for expatriates in Asia (The Global Competitiveness Report 2011-2012, The World Economic Forum)

# Questions to be answered

## Professional services

### Exports and access

- What is the real value and position of Victoria's professional and financial services exports (as opposed to the head office location)? How does this compare with other States?
- How significant are non-tariff trade barriers in the professional services space (e.g. international licenses to operate), and what should the Victorian government's role be in driving change?
- How can Government and Industry better integrate the service industries, especially SMEs into trade activities (e.g. into trade missions)?

### Workforce and talent

- In the face of increasing local and global competition for specialist skills and talent, how can Victoria retain existing talent, and how can it attract international talent?
- How can Victoria better leverage its global liveability reputation to attract talent?
- How able is the education and training systems to adapt to to changing industry needs (e.g. increasingly specialised and niche services, changing technology requirements)?

### Clustering benefits

- What more can Victoria do to attract global institutions and regional headquarters?
- How can Victoria leverage its advantages in land availability and rent prices (compared to Sydney) to attract more firms and head offices?
- How can Victoria best foster clusters/networks among emerging specialist services (e.g. big data)?
- On what scale do we see the agglomeration benefits of the CBD cluster? As the CBD expands in size do the agglomeration benefits still hold, and how can Victoria ensure easy access to an expanded CBD/Docklands?
- Can regional centres play a bigger role in professional services (e.g. Geelong and insurance)?

# Draft Taskforce brief

## Professional services

### Objective

#### Develop a targeted action plan to support growth in Victoria's professional, ICT and financial and insurance industries

- Draw out sector-specific actions alongside cross-cutting themes such as talent and cluster development
- Determine their potential costs, risks and benefits, including where the benefits will accrue

#### Attracting talent

##### Develop targeted strategies for attracting talent and global firms to Victoria

- Assess Victoria's competitive positioning and opportunities against key competitors (e.g. Sydney, Singapore), including assessment of the strategies employed by other cities
- Understand the drivers of and barriers to attracting individuals and firms and how the government might address these barriers and provide targeted support

#### Cluster benefits

##### Assess the role of the Melbourne CBD and select regional centres in facilitating professional services growth and the enabling role of Government in supporting cluster development

- Assess the potential benefits (availability of space, greater agglomeration) and challenges (including transport challenges and potential reduction in agglomeration benefits) of an expanded CBD
- Identify the planning and transport requirements to maximise the economic benefits of an expanded CBD and assess the costs and benefits of potential government actions to support them
- Assess growth potential for emerging regional clusters (e.g. insurance in Geelong), including the feasibility, potential benefits, and possible role of government in supporting the emergence of these clusters

#### Export opportunities

##### Understand Victoria's real position and tangible opportunities in the export of services

- Develop more accurate measure and understanding of interstate and international services exports (e.g. industry surveys, mapping against location of HQs)
- Work with industry to understand the main drivers and barriers to export growth (e.g. non-tariff trade barriers)
- Investigate opportunities for the government to unlock barriers to trade, and support global expansion of local firms

# Disclaimer

The services and materials provided by The Boston Consulting Group (BCG) are subject to BCG's Standard Terms (a copy of which is available upon request) or such other agreement as may have been previously executed by BCG. BCG does not provide legal, accounting, or tax advice. The Client is responsible for obtaining independent advice concerning these matters. This advice may affect the guidance given by BCG. Further, BCG has made no undertaking to update these materials after the date hereof, notwithstanding that such information may become outdated or inaccurate.

The materials contained in this presentation are designed for the sole use by the board of directors or senior management of the Client and solely for the limited purposes described in the presentation. The materials shall not be copied or given to any person or entity other than the Client ("Third Party") without the prior written consent of BCG. These materials serve only as the focus for discussion; they are incomplete without the accompanying oral commentary and may not be relied on as a stand-alone document. Further, Third Parties may not, and it is unreasonable for any Third Party to, rely on these materials for any purpose whatsoever. To the fullest extent permitted by law (and except to the extent otherwise agreed in a signed writing by BCG), BCG shall have no liability whatsoever to any Third Party, and any Third Party hereby waives any rights and claims it may have at any time against BCG with regard to the services, this presentation, or other materials, including the accuracy or completeness thereof. Receipt and review of this document shall be deemed agreement with and consideration for the foregoing.

BCG does not provide fairness opinions or valuations of market transactions, and these materials should not be relied on or construed as such. Further, the financial evaluations, projected market and financial information, and conclusions contained in these materials are based upon standard valuation methodologies, are not definitive forecasts, and are not guaranteed by BCG. BCG has used public and/or confidential data and assumptions provided to BCG by the Client. BCG has not independently verified the data and assumptions used in these analyses. Changes in the underlying data or operating assumptions will clearly impact the analyses and conclusions.



Thank you

[bcg.com](http://bcg.com) | [bcgperspectives.com](http://bcgperspectives.com)