

Focus on: health and education

International Business Report 2009 – Sector focus series

The Grant Thornton International Business Report (IBR) 2009 reveals that privately held businesses (PHBs) in the health and education sector were markedly less confident regarding economic prospects for 2009 than they were in 2008, dramatically affecting the 'big decisions' these businesses have to make. In 2008 a net balance¹ of +13 per cent were optimistic compared to -19 per cent this year. Across all sectors, businesses are also less optimistic (-16 per cent) than in 2008 (+40 per cent).

IBR 2009 has examined the optimism of privately held businesses across eight sectors which we are pleased to share through our sector focus series.

Of the eight sectors, hospitality is the most buoyant at just +2 per cent; ahead of technology (-7 per cent), financial services (-9 per cent), health and education (-19 per cent), manufacturing (-19 per cent), construction and real estate (-20 per cent), retail (-20 per cent), and transport (-39 per cent).

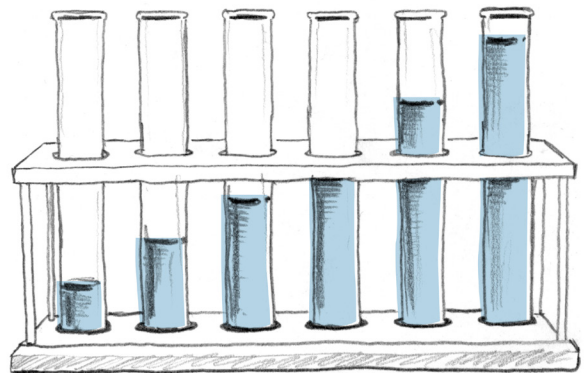
This series provides key findings, insights to specific national market sectors and our perspective on the outlook for each sector. It will also suggest what tactics businesses should consider in the current economic climate.

If you have 'big decisions' you need help with, please visit www.gti.org. For more information on IBR, visit www.internationalbusinessreport.com

The health and education sector

Growth has been robust in recent years as the global economic boom enabled individuals and the public sector to devote larger resources to health and education. Expansion in the health sub-sector has been spurred by advances in technology and

greater consumer sophistication, resulting in better preventative measures and more comfort in utilising and undergoing medical treatment. Fundamental demographic factors - an ageing population in the case of health and growing numbers especially in emerging markets - has continuously boosted demand. The sector is weathering the global slowdown reasonably well as health and education are universally perceived as priority spending targets. But the massive cost of bailout aid to the financial system is putting pressure on public finances in many countries, while the severe slowdown in global economic growth is straining household spending. Expansion in the sector is much less buoyant than in recent years.



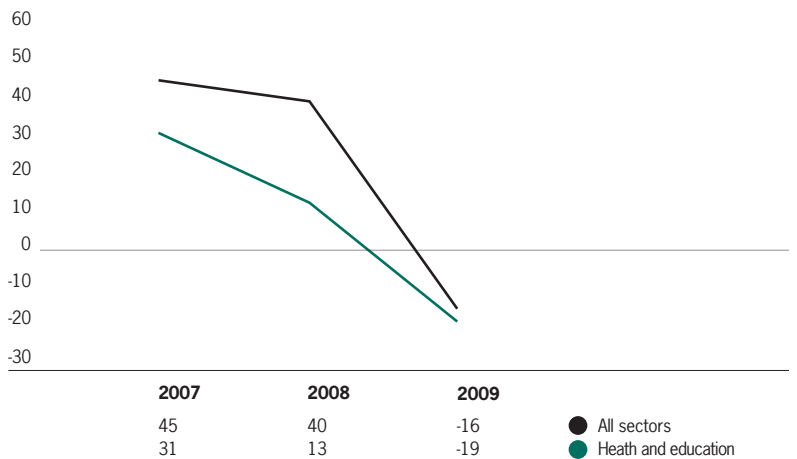
¹ the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

Optimism/pessimism

- PHBs in the health and education sector are considerably less optimistic about their country's economic outlook (-19 per cent) compared with 2008 (+13 per cent)
- levels of optimism regarding economic outlook across all sectors are down 56 percentage points compared with 2008.

Figure 1: Outlook for the economy over the next 12 months: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



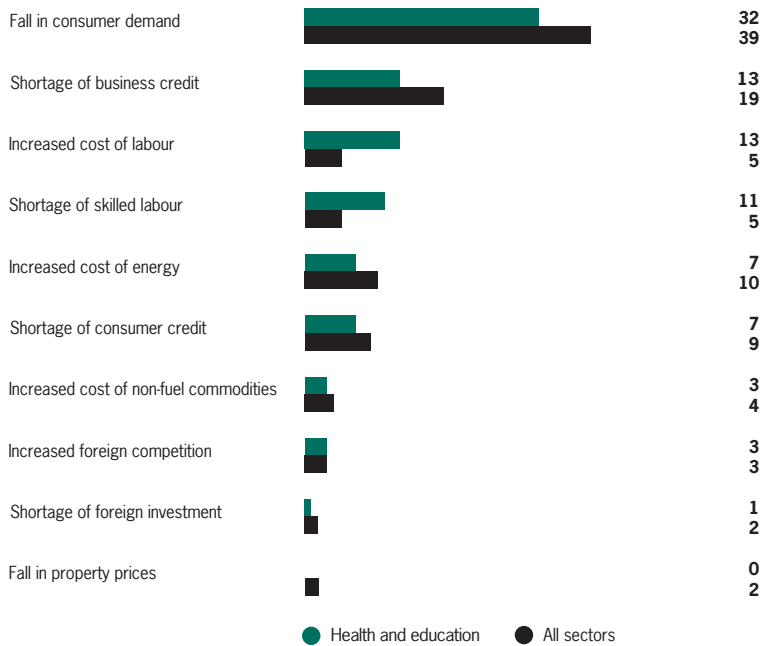
Source: Grant Thornton IBR 2009

Greatest concern

- a fall in consumer demand is viewed as the greatest concern restricting expansion for PHBs both in the health and education sector (32 per cent) and across all sectors (39 per cent)
- a shortage of business credit is the second greatest concern for PHBs in the health and education sector (13 per cent) and in all sectors (19 per cent)
- the increased cost of labour is of greater concern to PHBs in the health and education sector (13 per cent), than to businesses across all sectors (five per cent).

Figure 2: Greatest concern in the next 12 months

Average percentage of businesses



Source: Grant Thornton IBR 2009



Larry Ladd
Grant Thornton, United States

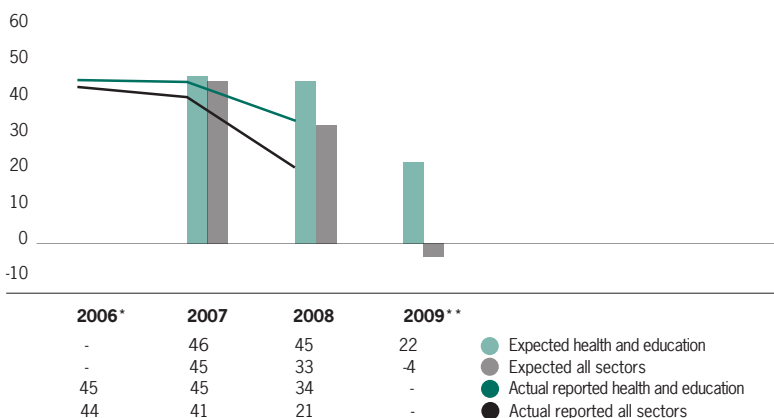
“Competition from the emerging for-profit sector is likely to make much of higher education more market-sensitive and cost-efficient.”

Employment

- similarly to businesses across all sectors, expected employment growth in the health and education sector has fallen sharply; from +45 per cent in 2008 to +22 per cent this year
- across all sectors PHBs expect employment to contract from +33 per cent in 2008 to -4 per cent this year
- actual employment growth in the health and education sector in 2008 (+34 per cent) was lower than expected (+45 per cent) in the sector.

Figure 3: Employment history: 2006-2009

Balance percentage of businesses



* expected data for 2006 not available

** actual data for 2009 will be available in IBR 2010

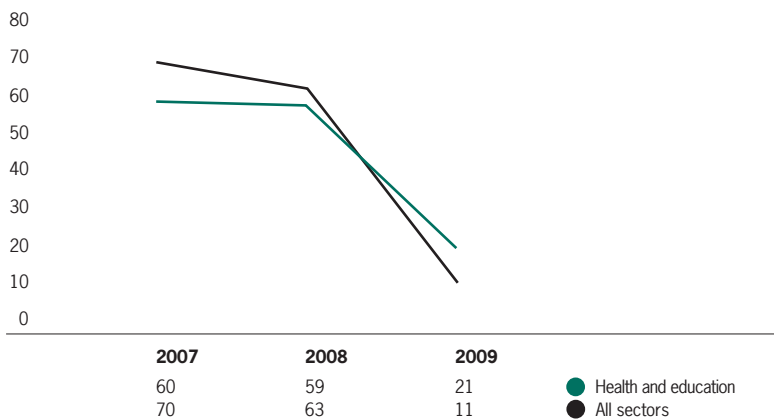
Source: Grant Thornton IBR 2009

Revenue expectations

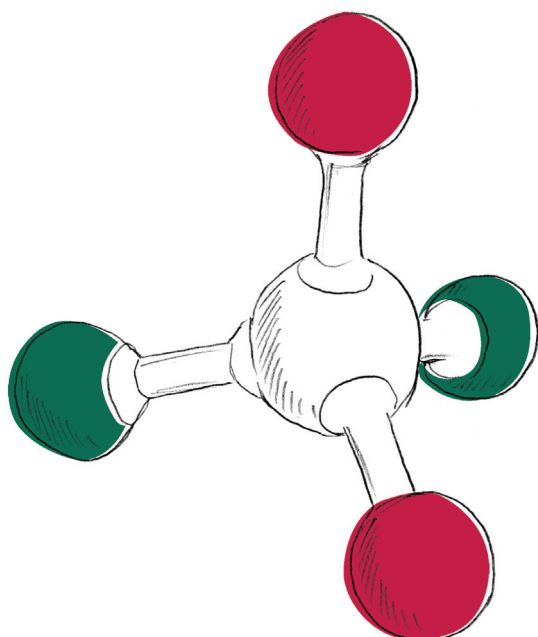
- PHBs in the health and education sector are much less optimistic about their revenue prospects (+21 per cent) compared with 2008 (+59 per cent)
- across all sectors, levels of optimism regarding revenue prospects are down 52 percentage points compared with 2008.

Figure 4: Revenue expectations: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2009

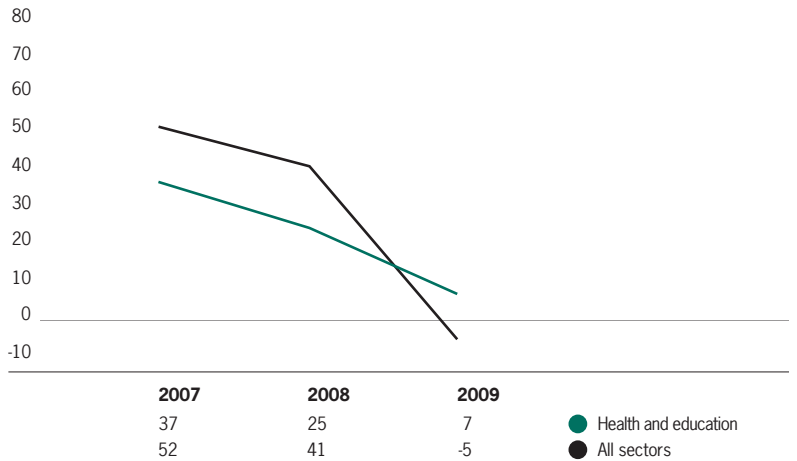


Profitability expectations

- PHBs in the health and education sector are less optimistic about their profitability prospects (+7 per cent) compared with 2008 (+25 per cent)
- across all sectors, levels of optimism regarding profitability performance have dropped even more sharply, falling 46 percentage points from 2008 levels.

Figure 5: Profitability expectations: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



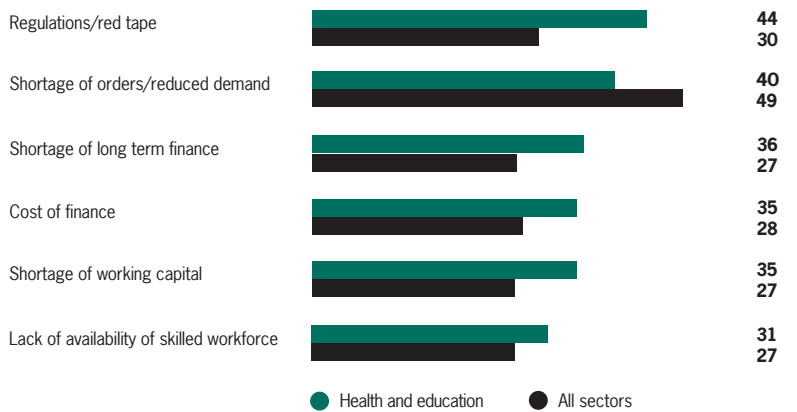
Source: Grant Thornton IBR 2009

Constraints

- regulations/red tape is viewed as the major constraint restricting expansion for PHBs in the health and education sector (44 per cent). This is well above the all sectors average (30 per cent)
- shortage of orders/reduced demand is viewed as more of a constraint for PHBs across all sectors (49 per cent), than for those in the health and education sector (40 per cent)
- financial constraints are proportionately more of an issue for PHBs in the health and education sector than for businesses in all sectors.

Figure 6: Constraints on expansion

Average percentage of business rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



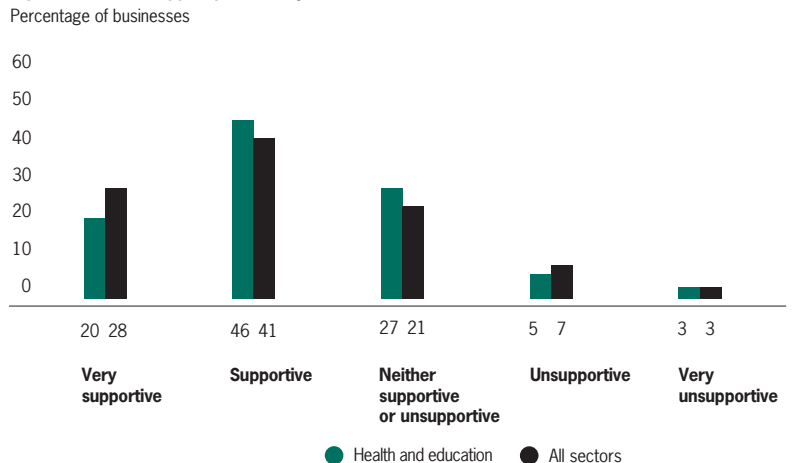
Source: Grant Thornton IBR 2009



Support of lender

- 66 per cent of PHBs in the health and education sector class their lenders as supportive or very supportive towards their business. This is slightly below the average for all sectors (69 per cent)
- just eight per cent of PHBs in the sector believe lenders are unsupportive or very unsupportive towards their business.

Figure 7: Level of support provided by lenders

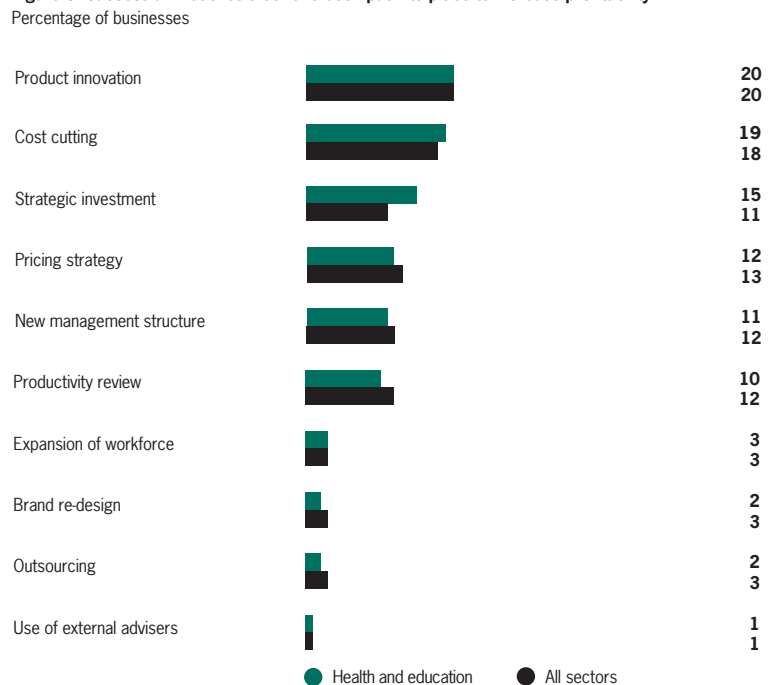


Source: Grant Thornton IBR 2009

Business planning

- at 20 per cent, product innovation is the most successful initiative introduced by PHBs to increase profitability across all sectors and in the health and education sector
- similarly to businesses in all sectors, cost cutting has been the second most successful initiative introduced in the health and education sector (19 per cent)
- strategic investment has been a more successful initiative for PHBs in the health and education sector (15 per cent), than for businesses across all sectors (11 per cent).

Figure 8: Successful initiatives that have been put into place to increase profitability



Source: Grant Thornton IBR 2009



Elma von Wielligh-Louw
Grant Thornton, Australia

“Rostering the appropriately skilled resources where the demand is required in a hospital is vital. Achieving the formula of right staff member, in the right place, on the right shift at the right cost is key for the operation’s success.”

Outlook

The next 12 months will be challenging for the sector, although healthcare and education are likely to be less affected by an exceptionally difficult economic backdrop than many other industries. These are priority areas for public and private spending. In addition, more sophisticated fundraising, aided by an increasing number of wealthy, socially-focused individuals, have provided a large number of institutions with adequate funds to weather the economic slow down.

Nevertheless, action will be needed to counter a raft of adverse factors. Tight public finances, rising unemployment, slow growth in disposable incomes and a temporary decline in donations, as fluctuating investments affecting wealth, will combine to constrain growth in the sector across the globe. In the health sub-sector, profits may be diminished as a decline in preventative procedures and an increase in emergency care, which is more expensive to administer, drives costs higher. Managing health and education businesses in this climate will call for tight control over costs to remain profitable. In the health sub-sector, the challenge will be to simultaneously maintain technology. The balance in terms of growth in the longer term will increasingly shift to the developing countries whose continuing rapid economic development underpins strong investment in the sector, and is producing an expanding middle class that will demand more from it.

Tips for survival

- reduce budgets
- focus on highest priorities and reduce inefficiencies
- maintain strong relationships with donors
- clarify and simplify ordering systems
- increase communication with your supply chain
- improve your workforce management - populate the best suitable resource with the most appropriate skill set, build and adjust payroll systems in an accurate/timely fashion
- establish and adhere to processes
- improve training.



Reasons to be cheerful

- interest rates and construction costs are low
- demand for higher education among high school graduates remains very strong
- unemployed are looking to gain new skills in preparation for the upturn
- increase in number of university placements
- new hospitals/extensions are going ahead
- external business executives have entered the marketplace due to the size and complexity of sector; lack of opportunities elsewhere.



The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,200 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com

The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina	Japan
Armenia	Malaysia
Australia	Mexico
Belgium	Netherlands
Botswana	New Zealand
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
Ireland	United States
Italy	Vietnam



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