MANAGEMENT
FOR
DESIGN

Business Conditions Survey Results

November 2013

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Business Issues

The Australian economy is continuing to remain unsteady and recently has deteriorated to its lowest growth levels in more than four years. Annual GDP growth is running at under 3% (below trend) and forward orders and capacity utilisation remain at subdued levels. Combined with even weaker employment conditions this suggests little improvement in near-term demand.*

Weak conditions continue in manufacturing, retail, wholesale, transport & utilities and construction although personal services continues to outperform all other industries. Property services generally continues to perform relatively strongly.

Coinciding with this uncertain economic environment our recent Business Conditions Survey indicates that over 80% of our property and design related industry respondents are either cautiously or significantly optimistic that business will improve and grow over the next 3 years.

The Business Conditions Survey aims to accurately assess the prevailing economic and business climate and to drive thinking and decision making to assist businesses to work through the current circumstances and deliver sustainable growth.

**Source: NAB Quarterly Business Survey*

The Outlook

The rate of recovery of the major international economies is improving although a sustainable recovery is not firmly established.

In Australia, the economy is moderating and in fact business conditions have slipped into even deeper negative territory in the last 12 months. Underlying inflation has remained and will continue to be subdued, interest rates are expected to remain low compared to historical levels and unemployment is projected to rise. We are seeing mixed signals in economic indicators and business confidence levels.

Total construction activity is projected to be at similar levels to the last 12 months with the decrease in heavy engineering activity offset by increasing residential activity both in single and multi-dwelling developments. The commercial sector is projected to remain flat if not reduce.

Approximately 50% of our respondents expect the economy to improve whilst approximately 50% expect the economy to be slow or stagnant! So, uncertainty about the state and future of the economy remains - who's right? We all have access to the same commentary and analysis.

Based on these results it's obvious that the industry does not have a clear picture going forward. So if you are relying on an improvement in economic conditions we'd suggest you change your thinking to how your business can thrive in this uncertain market-place!

Confidence

General business confidence has lifted to its highest level in two years! This, we believe, appears to be fundamentally driven by mostly political factors – along with the lower AUD and rates, and no doubt, stronger asset markets.

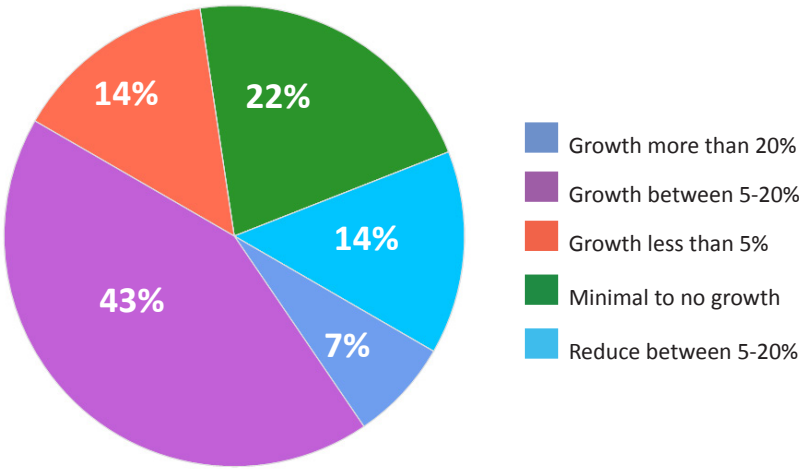
Our survey of property and design businesses indicates a general sentiment towards business conditions improving - 50% of our respondents expect revenue to grow over the next 12 months.

There are, however, a high proportion of respondents that expect no growth in revenues - a third of businesses are expecting a reduction or indeed no growth in revenue in the next 12 months. This is a poorer result than our survey indicated 12 months ago - not great. Perhaps the profession is starting to come to grips with the new world order.

How do they expect to deal with this? "Increase our business development". Our analysis, however, is indicating that there has been no significant increase in business development activity - neither in people nor systems.

> "A third of businesses expect a reduction or no growth over the next 12 months"

How much do you expect revenue to grow / reduce by in the next 12 months?



Growth

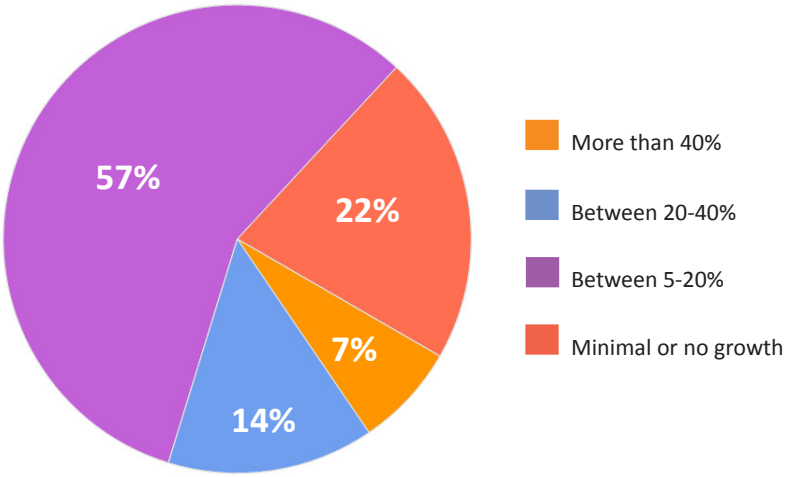
Businesses are more optimistic when we look forward 3 years with 20% of the design industry expecting revenue to grow by at least 20%. Very few of our respondents expect no growth over the next 3 years and indeed no business is forecasting decreased revenue. Overly optimistic? We shall see.

Similar to last year businesses are still expecting growth to come from increased business development activity, either strengthening existing relationships or harnessing new ones - rather than investing in new services or investing in new markets. Although our numbers – based on inputs and effort - don't indicate an increased investment in human resources in these areas as yet!

Interestingly over 70% of our respondents were optimistic of growth at the same time last year, whereas only 50% did in fact grow!

> "78% of businesses expect to grow revenue over the next 3 years"

How much do you expect revenue to grow by over the next 3 years?



Business Priorities

Growth via winning new work was ranked as the most important business priority by more than 60% of respondents - this is up from 50% a year ago. Improving operational performance is a distant second priority at 15% of respondents.

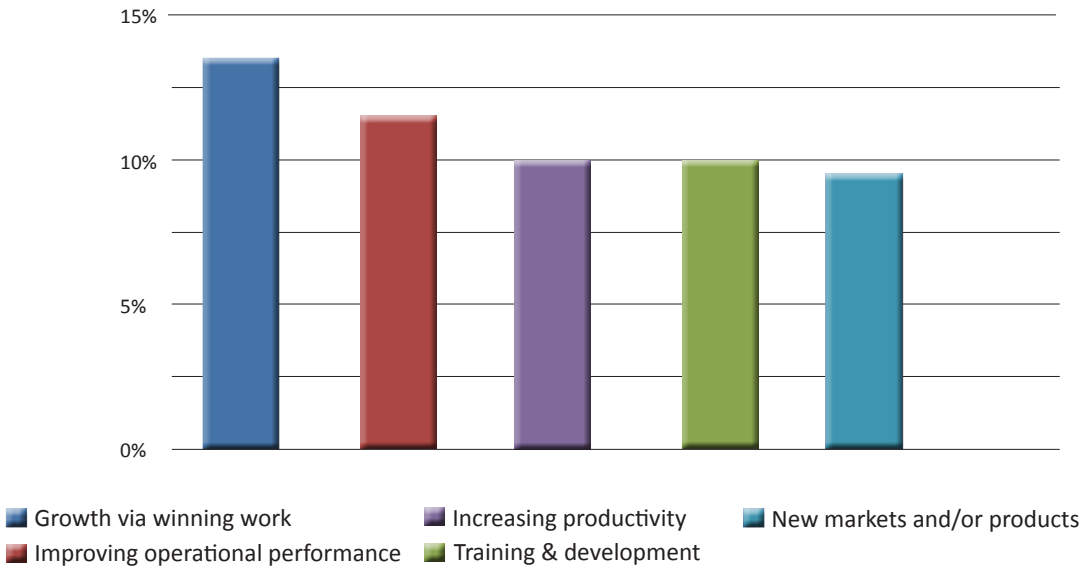
There is, however, a significant increase in businesses seeing cost management as a high priority business issue. In this more competitive environment at least 45% of our respondents might be starting to understand the environment in which we are going to continue to operate in.

In light of a flat-lining economy, an unstable world economy, increasing competition and a world-wide market place for human capital is it not unreasonable to expect more pressure on fees and costs?

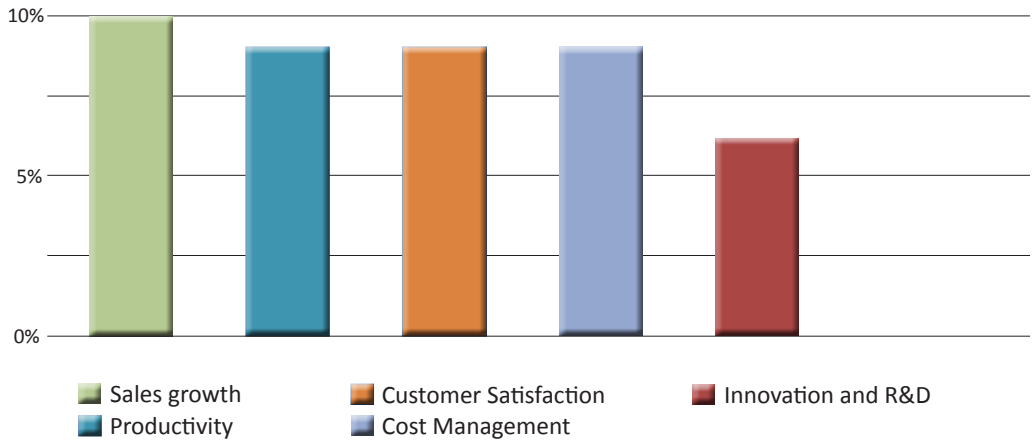
Other critical business opportunities for improvement over the next 12 months include increasing productivity and developing skills in a slow growing economy.

> "There is a significant increase in businesses seeing the management of their costs as a high priority business issue."

What are your 5 main business priorities for the next 12 months?



What are the critical business opportunities facing your business over the next 12 months?



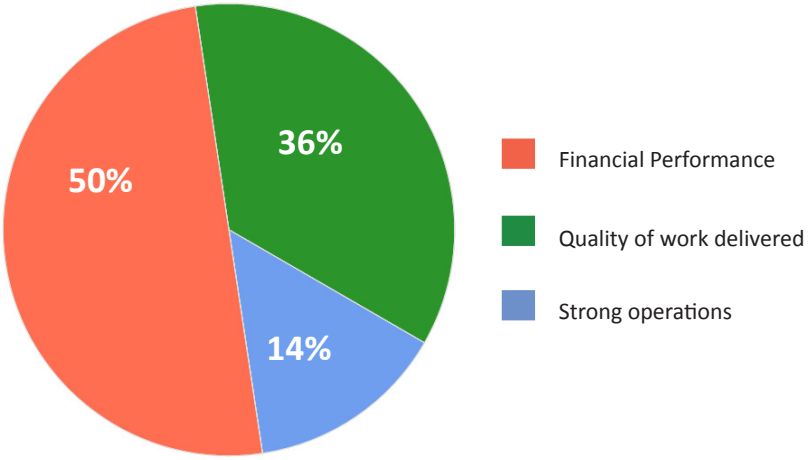
Business Performance

Financial performance is still the main measure of business performance for our respondents – 50%. Quality of work is the second ranked indicator – 36%.

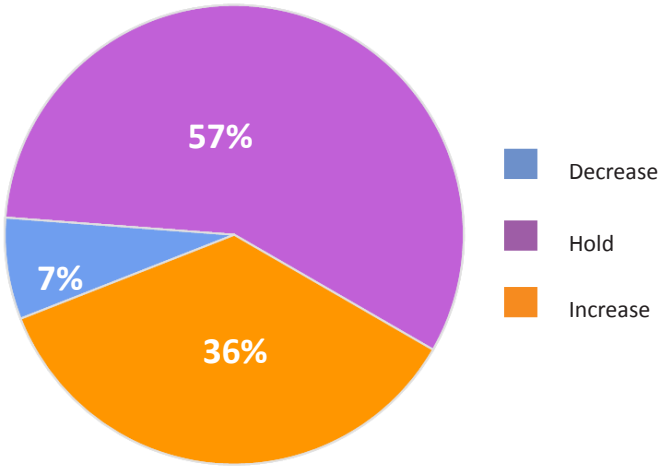
Similar to last year approximately 57% of businesses expect to hold their profit margin over the next 12 months. There was a significant decrease in the proportion of respondents that expect their profit margin to decrease. Our analysis indicates, however, over half of design businesses are not performing to expectations.

> "Over 50% of businesses are dissatisfied with their current financial performance"

How do you best define business performance?



What do you expect to happen to your profit margin over the next 12 months?



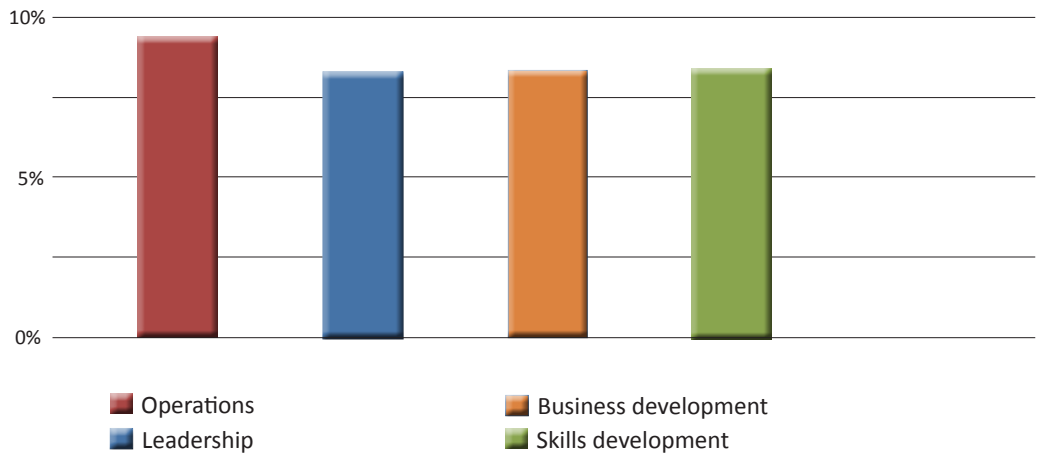
Opportunity

There are many areas to work on. Operations, leadership, business development and skills development, all had a strong response with more than 90% ranking these as their top agenda items to improve their business performance. Investment in technology remains an increasing focus area for investment of resources with over 75% of our respondents ranking this as their second priority.

Businesses agree that they need to improve their leadership although there is not an increasing recognition that there will be an increase in investment in this. Maybe it will just happen! Interestingly staff retention is now seen as distant third in businesses priorities.

> "Technology is still an increasing focus area for investment"

What do you need to work on to improve your business performance?



Productivity

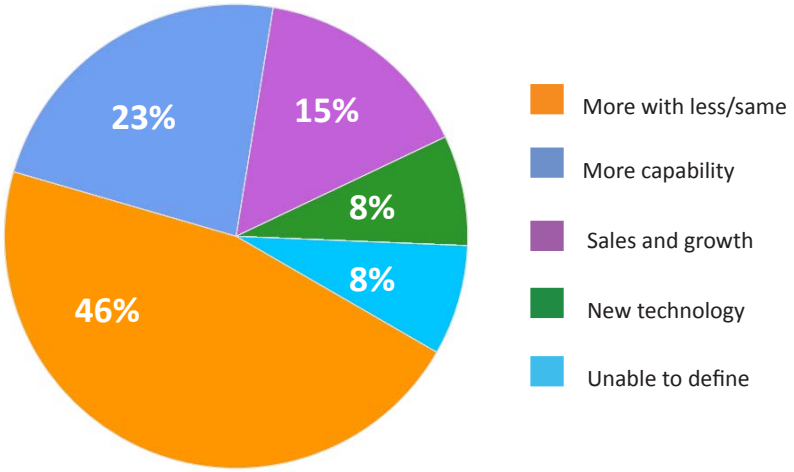
Improve productivity! Increase accountability! Reduce inefficiencies! Management Systems! Overwhelmingly these are considered the keys.

Similar to last year businesses are trying to do more or the same with less. Improving the productivity of our resources is now an industry given. If you are not doing this you will be left behind! Our results are reinforcing this trend with the increasing disparity between the high and low performers.

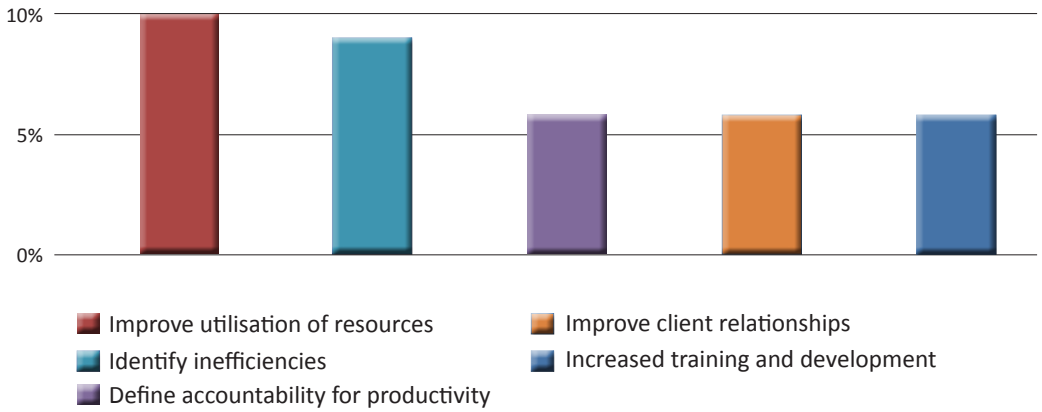
Participants responded with strong sentiment towards 'we are struggling with the pressure on fees and the competition for work'.

> "Improving the productivity of our resources is now the industry norm"

How do you measure productivity?



What are your plans to improve productivity in the next 12 months?



Investment

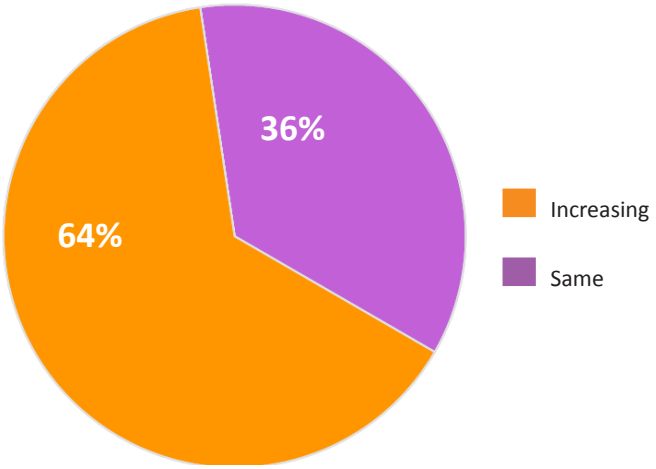
Businesses still expect technology to have a positive effect on their performance – enabling flexibility and improving collaboration. Over 70% of respondents were encouraged by technology and the ability to be connected 24/7 with each other and their clients.

There is a strong belief that technology improves business performance. 40% of businesses believe that they are realising these gains with increasing collaboration and productivity. There is still a strong movement to increase or maintain investment with over 65% responding that they would be continuing to increase their investment in people, technology, marketing and infrastructure.

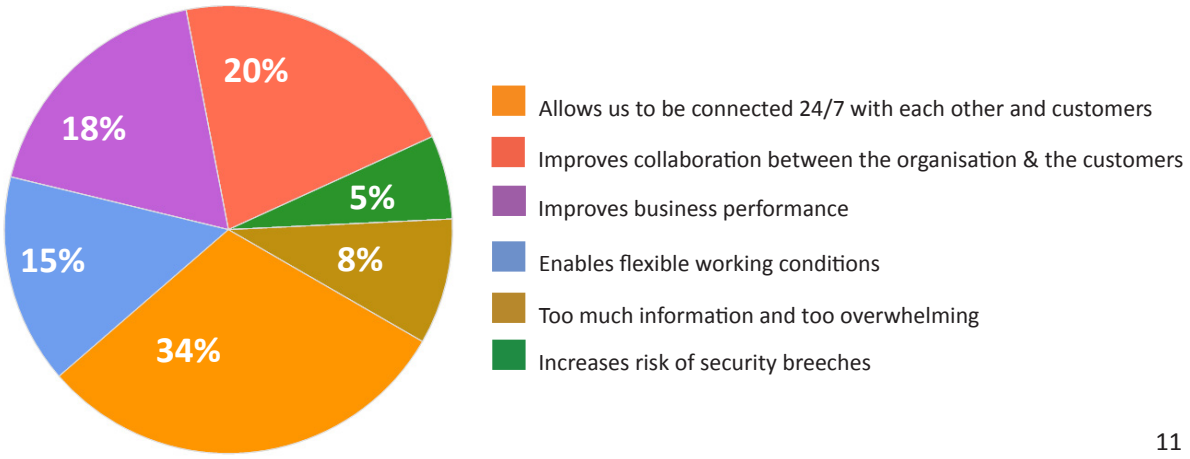
This is up from 50% last year. Respondents were not interested in decreasing any investment and if anything are maintaining their current investment structures.

> "More businesses are looking to increase their investment over the next 2 years"

What do you expect to happen with your investment in people, technology, marketing and infrastructure over the next 2 years?



What are your thoughts on the impact of new media (smartphones, social networks, text messages, etc on productivity?



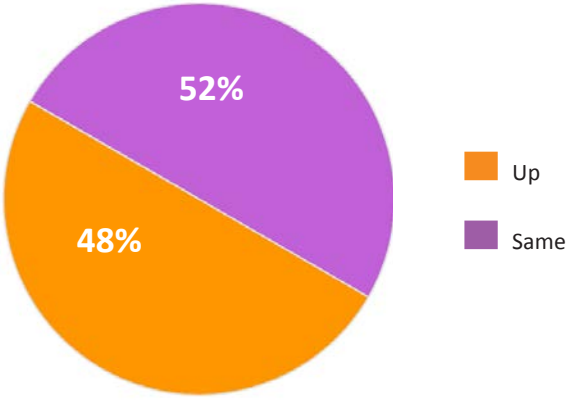
People

It appears that employment numbers and salary increases will continue to be subdued. 50% of respondents expect these to remain the same. Average hours worked will be consistent with last year.

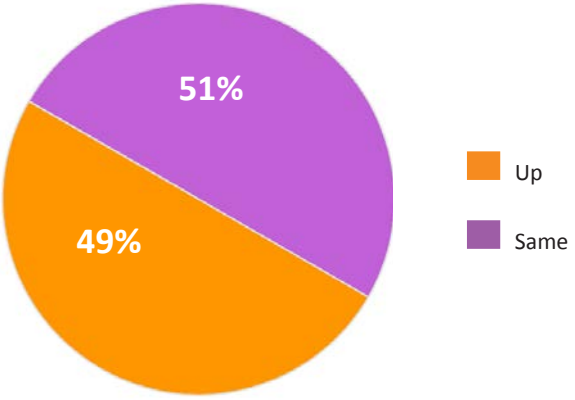
Few businesses expect a skill shortage in the short to medium term - over 70% of respondents do not see this as an issue. (Although this is less than last year, at 90%). So with minimal employment and salary growth and minimal skill shortages the productivity pressures in design businesses aren't going away.

> "Productivity pressures in design businesses aren't going away"

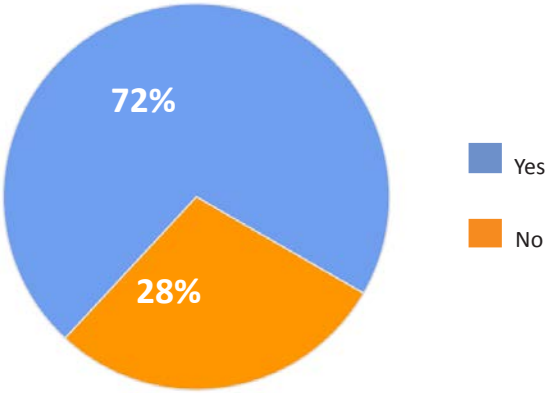
What do you expect to happen to salary levels over the next 12 months?



What do you expect to happen with the number of employees?



Do you expect to have a skills shortage over the next 12 months?



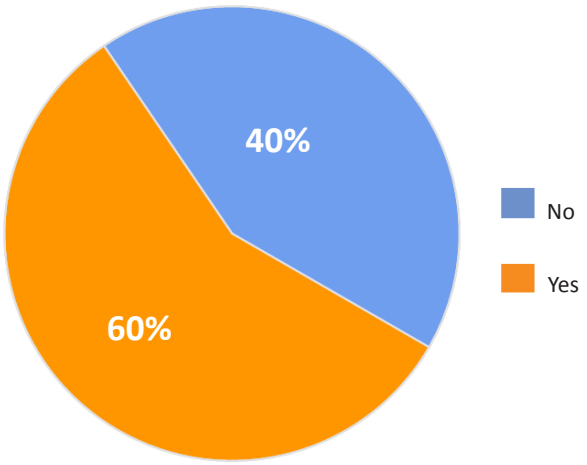
Pricing

Surprisingly 60% of respondents answered that yes – we intend to increase the price of our services – up from 50% last year. This would appear to be either the need to claw back diminishing profitability or to sustain the increased investment in technology, and is more than likely related to business confidence, but not necessarily backed up by the facts!

No businesses responded that they would be decreasing their prices.

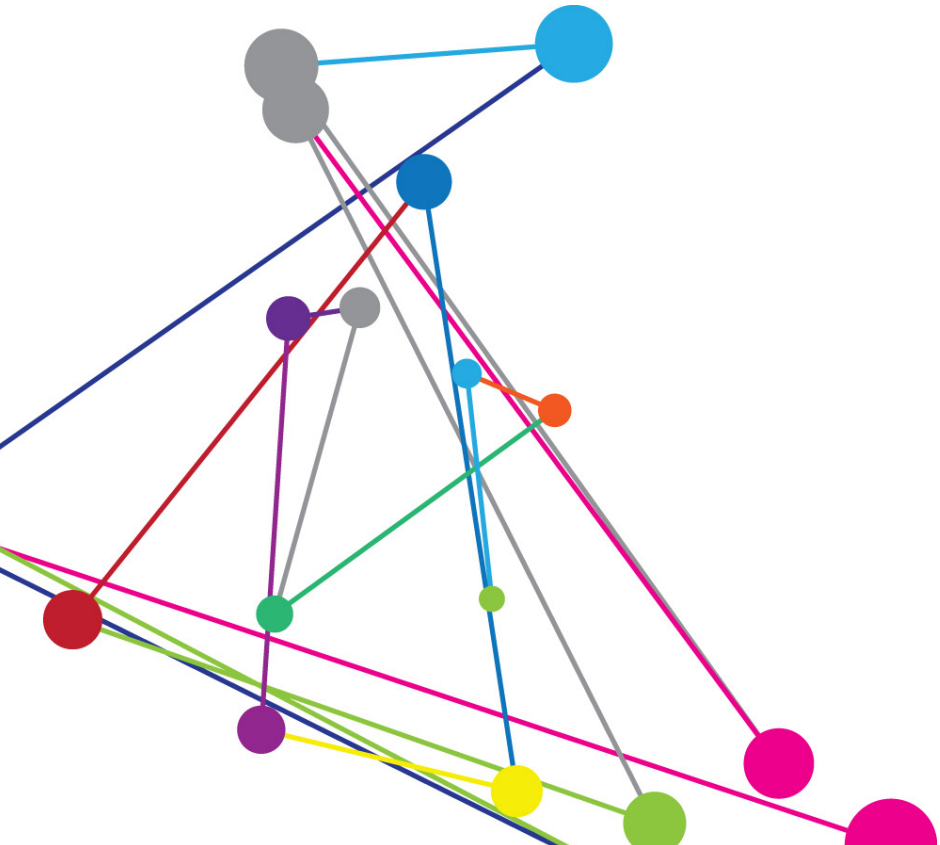
> "60% of respondents answered that yes - we intend to increase the price of our service."

Do you expect to increase the price of your services over the next 12 months?



About Management For Design

Our team can take care of your everyday business management functions, from finance and accounting to business management, IT, business systems and people organisation. Our most important contribution can be assisting you with strategic business planning and change management. Refocusing your way of working means you'll spend less time micro-managing, but the key decision-making will always remain firmly in your hands.

We understand all the fundamentals that need to be in place to run an efficient and highly productive design practice. Our systems provide the critical business information you need to make informed decisions to enhance performance, improve operations and generate more business.
For managing work we have proven processes to deliver effective project management, resource planning and project costing.

We are firmly positioned around where business is heading – information anywhere/anytime, business intelligence and out-sourcing/partnering to enable your business to focus on your area of expertise.