MANAGEMENT
FOR
DESIGN

Business Conditions Survey Results

January 2015

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Business Issues

What are the major issues facing the Australian businesses in 2015? Expect the property market, the federal budget, commodity prices and the exchange rate to drive economic performance this year. The broader Australian economy remains weak, employment continues to track well below population growth and Australian incomes will continue to suffer the effects of the sharp fall in the terms-of-trade. The federal budget is another issue that will refuse to go away.*

Chinese growth will continue to be a major factor on our economy as will the weaker exchange rate. 2015 is likely to see okay but uneven global growth, low inflation and easy monetary conditions. While the US is likely to start gradually raising rates, other countries including Australia are likely to ease monetary policy. The main things to keep an eye on are: when/if the US Fed starts to raise rates, Europe, the Chinese property slump, and growth outside of mining in Australia.

Despite this uncertain economic outlook, the overwhelming mood amongst respondents to our Business Conditions Survey is one of optimism. A full 90% of respondents are cautiously to very optimistic that their businesses will experience growth over the coming 12 months.

We interviewed property and design industry professionals via an online survey. All were senior executives, with 45% being business owners. 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: AMP Capital, The Guardian Business*

The Outlook

The recent slow-down in China has been somewhat offset by improving economic conditions in the US where unemployment has fallen to pre-GFC levels. The true test for the world's largest economy will come if, as predicted, the Fed ceases quantitative easing and starts to lift interest rates above their historic lows.

The Australian economy remains quite steady in the face of numerous outward pressures and political instability and has ventured further into negative territory. Interest rates remain low in the face of lackluster consumer confidence.

According to the Australian Housing Association, the construction index fell further in the November quarter, dropping 8.0 points to 45.4. A threshold of 50 separates growth from contraction.

Our respondents are evenly divided on the question of economic growth. Uncertainty about the national economy remains but businesses anticipate significant opportunity for improved business performance going forward.

The majority of respondents expect business to grow in the key areas of profitability, margins and overall revenue. Companies look set to increase their business development activity to win new clients and increase revenue from existing clients. It seems that many businesses are planning on increasing their fees after a long period of restraint but are also planning on minimal salary increases. This is in line with businesses attempting to recover the loss of profit margin that we have seen over the last 3 years.

While the industry is reasonably optimistic, opinions differ on the best ways to improve and grow over the coming year. With the economy experiencing difficulties, we suggest you enact clear strategy, think outside of the box and implement best practice policies to enable your business to triumph. History shows that businesses who can grow, not just survive, in tough conditions can go on to truly great things!

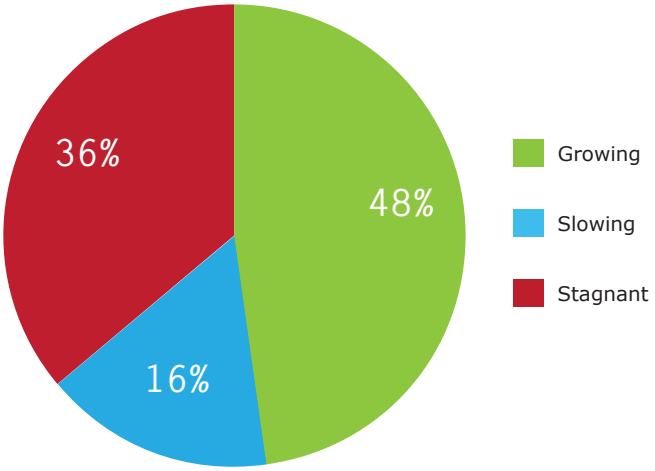
Confidence and economic outlook

Business confidence remains strong in the face of an anaemic national economy. Almost half of our respondents believe the economy will slow or stagnate over the coming. In spite of this the overwhelming majority – 90% of respondents – expect their business to grow in the coming 12 months and a full 29% expect to grow by a significant amount! Only 10% expect to face tougher conditions for growth.

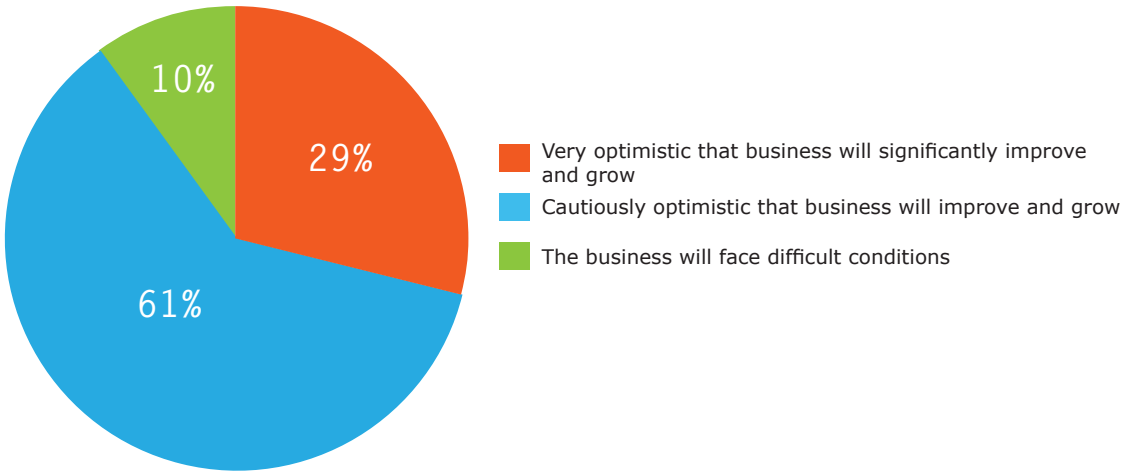
Another great insight into business confidence can be found in that only 16% expect their profit margins to decline. The remaining 84% expect margins to either gain or hold their place.

> "90% of respondents expect their business to grow in the coming 12 months"

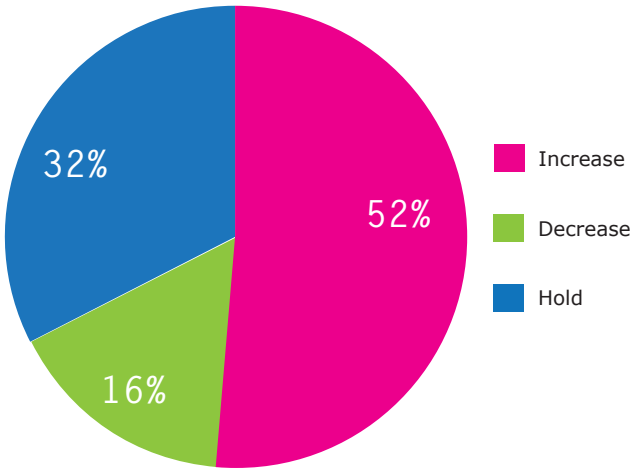
Looking ahead for the next 3 years, how do you perceive the economy?



How confident are you about the growth prospects of your company in the next 12 months?



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



Growth

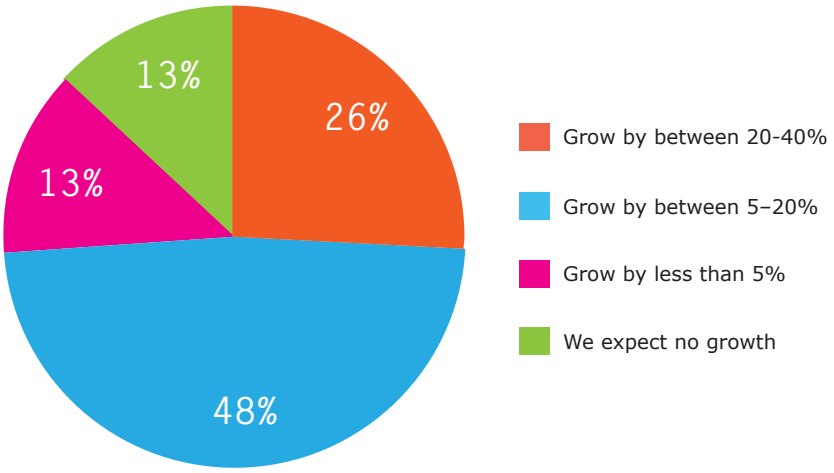
In spite of a troubled economic environment, most of our respondents are confident business will continue to grow over the next 3 years.

26% of businesses are expecting exceptional growth of between 20–40% this year and 48% of our respondents expect strong growth of up to 20%. Confidence is reinforced further when looking into the medium term with 90% expecting to grow. None of the businesses surveyed expect negative growth in the medium term.

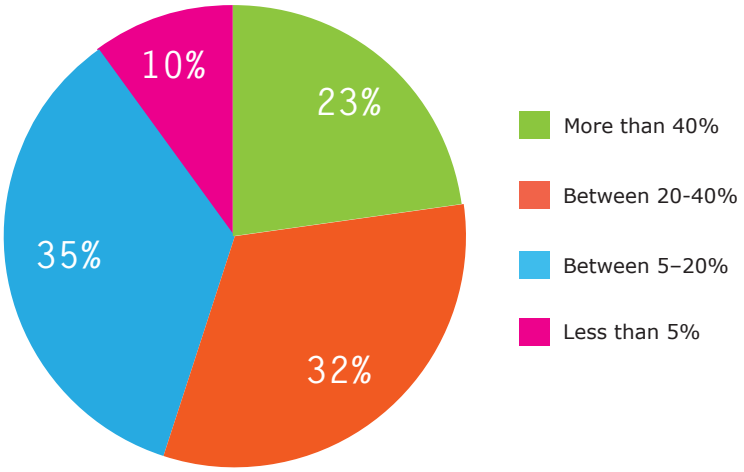
Once again increased business development activity is expected to be the main driver of growth over the coming 12 months. This closely echoes the results from the previous two years. Surprisingly productivity increases ranked lowest amongst the responses.

> "26% of businesses are expecting exceptional growth of between 20-40% this year"

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



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



Business Priorities and Issues

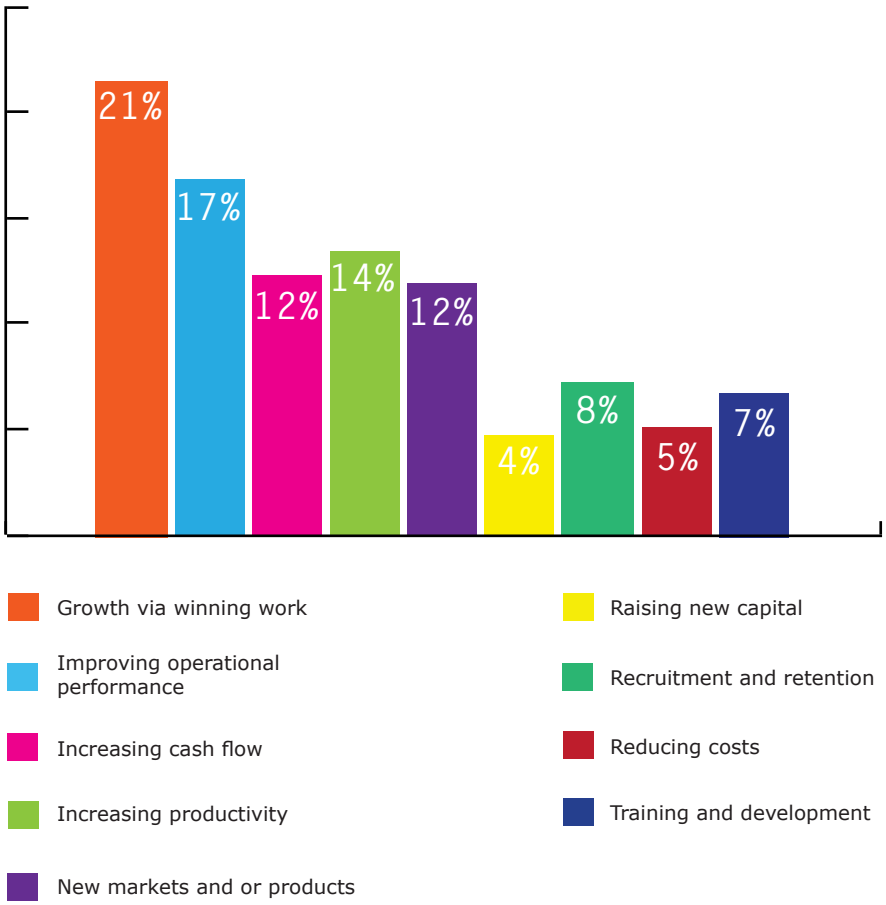
Once again growth via winning new work has ranked as the most important business priority although the results between categories were more evenly spread than in previous years.

Our respondents believe that there is significant opportunity for the generation of new work whilst at the same time improving operational performance. Even though productivity gains feature lowly in the previous question, data shows it is still near the front of the minds of management. Over the next year it will be interesting to see if this can be achieved with investment in people and training having a lower priority!

Only 5% of respondents view cost reduction as their top business priority. This is another indicator that the belt tightening in response to the competitive fee environment over previous years is now the norm!

> "the belt tightening the industry has engaged in will continue"

What is your top business priority for the next 12 months?



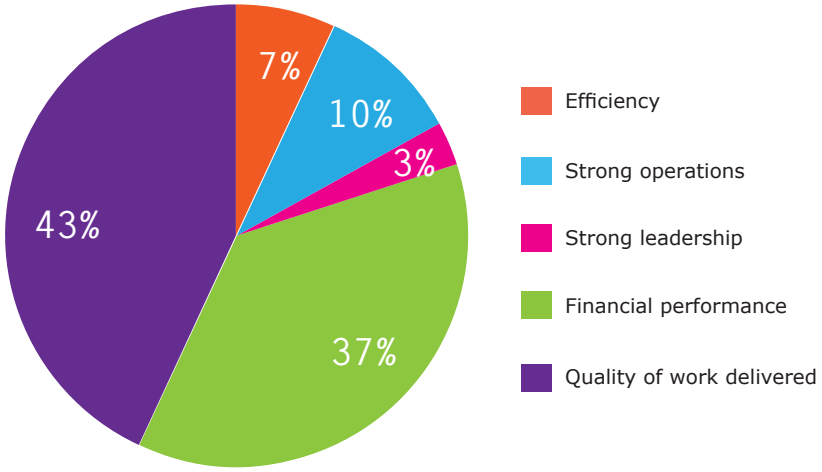
Business Performance

Quality of work has overtaken financial performance as the best indicator of business performance. The results though, are quite close with 43% and 37% respectively. This reflects the growing necessity for businesses to differentiate themselves in an increasingly competitive and international market. Delivering a differentiated, sustainable service, that your clients return to and that you believe in are necessary qualities.

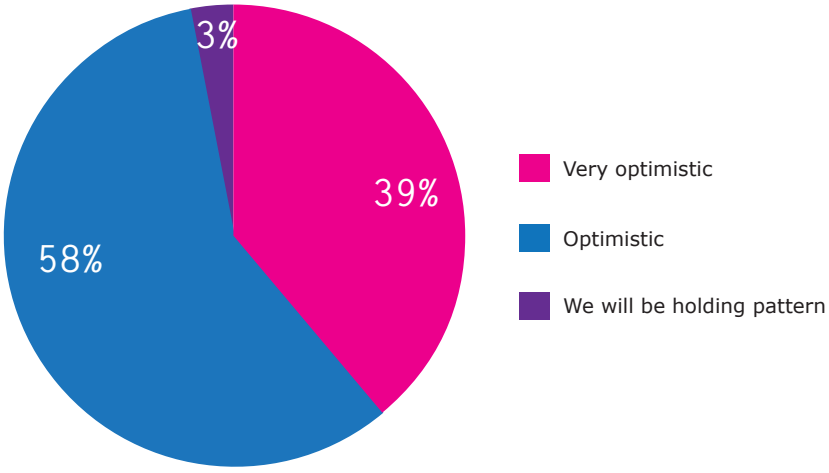
Optimism reigns supreme once again and has even increased slightly over previous results with 58% believing business performance will increase over the next 3 years. None of our respondents believe their performance will contract in the next 3 years.

> "None of the respondents believe their performance will contract in the next 3 years"

How do you best define business performance?



How optimistic are you about your business performance improving over the next 3 years?



Opportunity

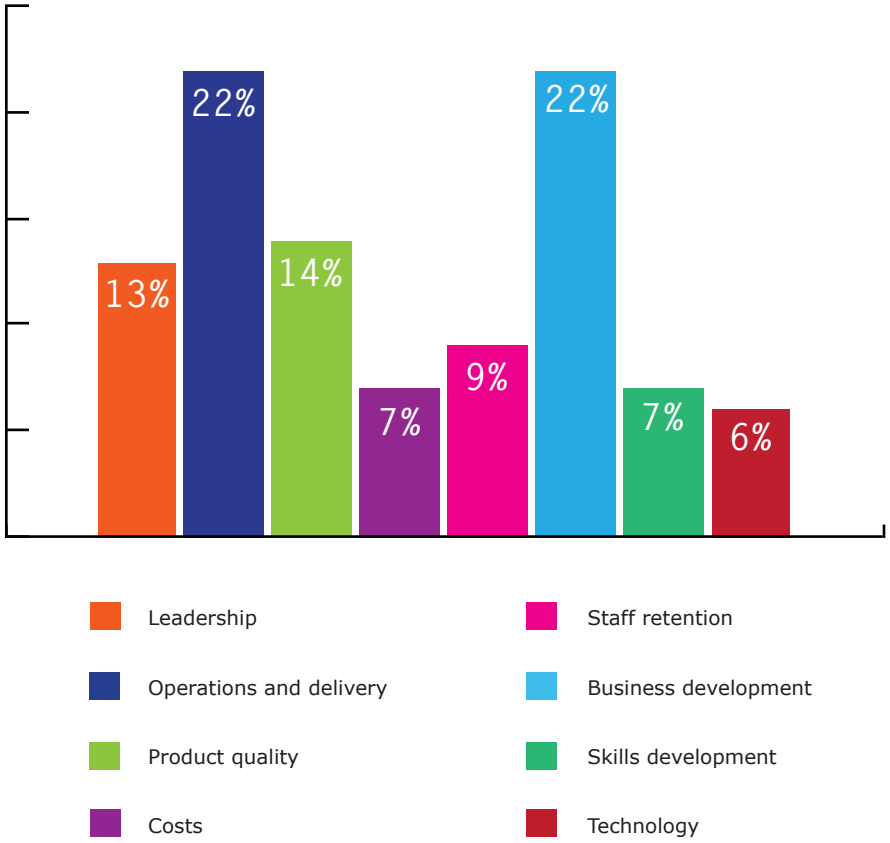
Refining business operations and improving business development capabilities will be key drivers for the year going forward. They continue to be key areas for improving business capability.

Interestingly, investment in technology has received the lowest priority this year and suggests that the considerable recent expenditure over the past 3 years may be diminishing.

Leadership development continues to be a key focus – both in building capability and succession planning.

> "Refining business operations and improving business development capabilities will be key drivers"

What is the number one thing you need to work on to improve your business performance?



Productivity

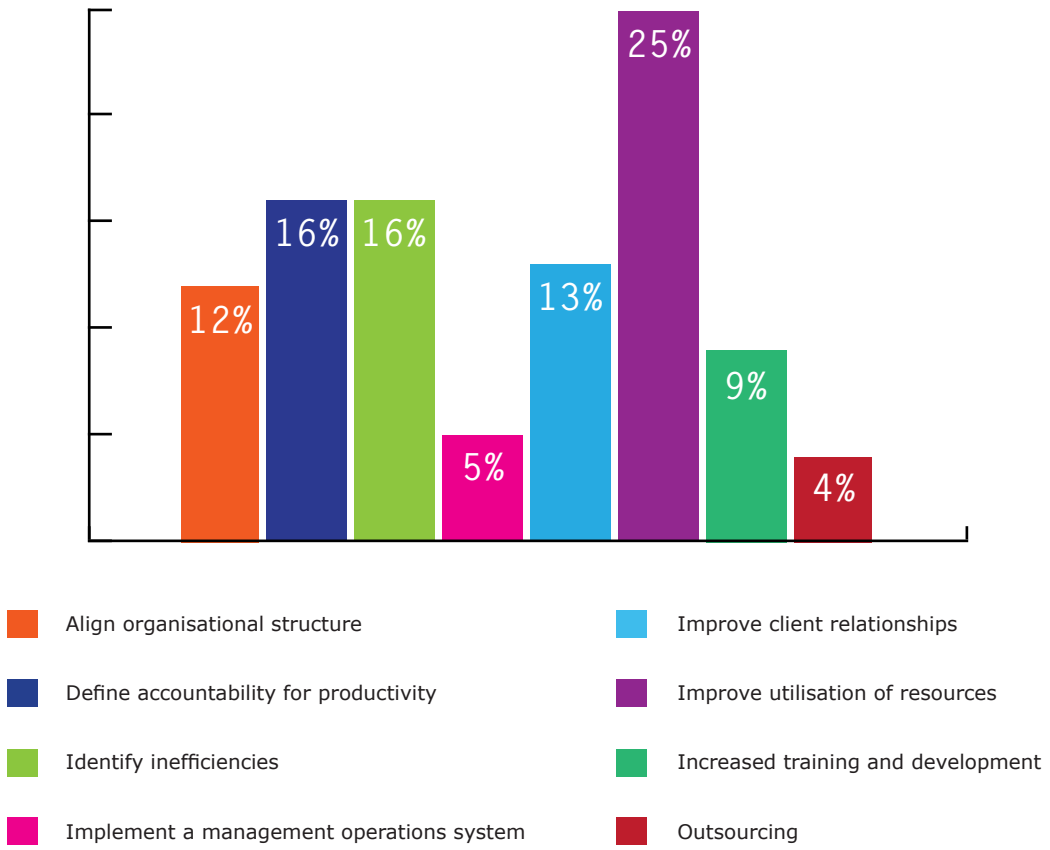
Businesses are expecting more from their people whilst at the same time expecting salary restraint. Improving the utilisation of resources and identifying inefficiencies to deliver increasing revenue is expected.

Interestingly only a minority of our respondents are looking to outsourcing as a means to gain productivity improvement. This reverses a trend that has been building for a number of years and aligns with the demand for quality.

The costs of complying with the taxation system are an ever increasing burden on today's businesses. This is demonstrated by the strong desire of our respondents to not have to deal with new taxes and to simplify what is a highly complex (and inefficient system).

> "Businesses are expecting more from their people whilst at the same time expecting salary restraint"

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



Investment

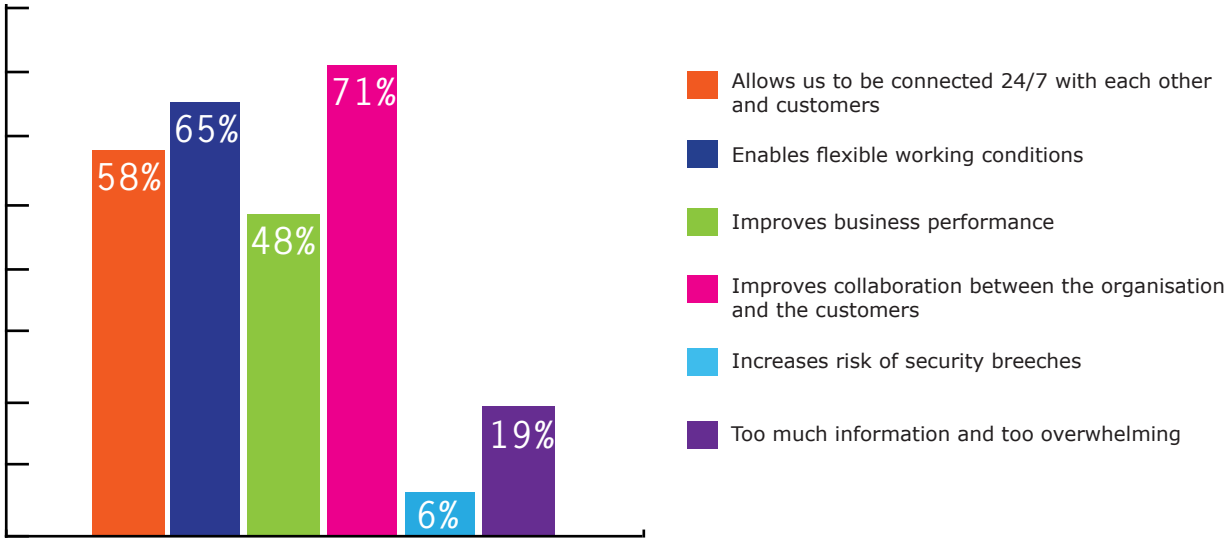
The workplace has changed dramatically over the past decade. The rise of new media has had some profound effects on how we conduct business. 71% of our respondents value how new media has empowered their business to personally involve their clients with their business and the brand.

Greater workplace flexibility and increased business to client connectivity are now expected in the industry. Our respondents understand that new media has had a positive effect. 19% of respondents see the increased risk of security breaches and the flood of information as posing a problem.

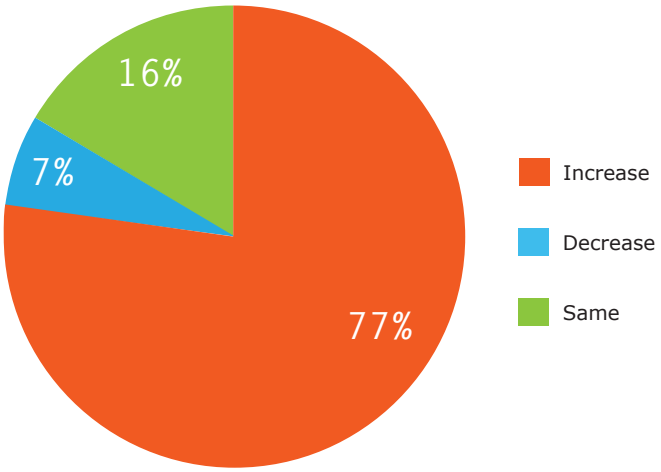
The majority of our respondents (77%) expect to increase their business investment to help grow in the next 2 years. This is an increase from 65% from the previous year and 50% from the year prior. Only a small minority say they will decrease their investment although this will be difficult to sustain if the competition does indeed spend more.

> "71% value how new media has empowered their business to personally involve the client"

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



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



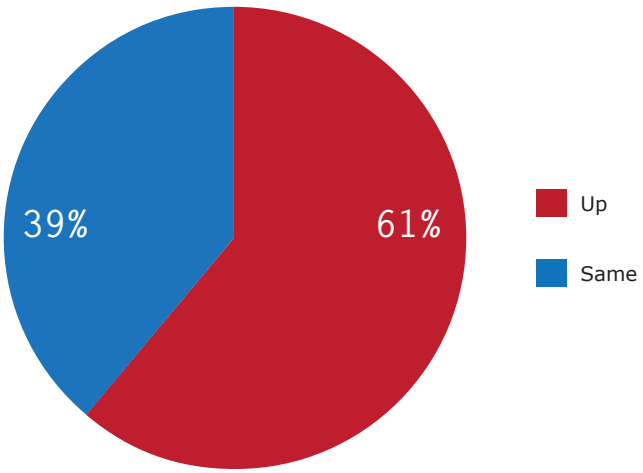
People

The majority of businesses look set to increase salaries in 2015 with 61% of businesses expecting an upward trend in salary levels compared with 50% from last year. However, it appears they will be modest increases in line with CPI with 2/3rds of those expecting salaries to increase by no more than 5%.

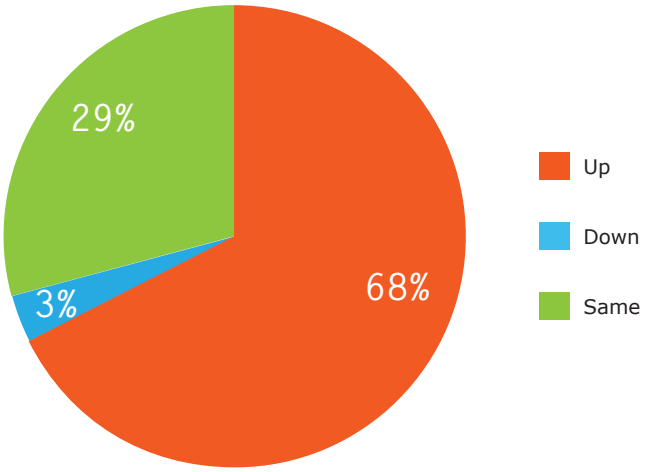
Significantly, more than two thirds of employers responded that they expect to add people. Up to one third of respondents say the number of hours worked may also increase for employees.

> "61% of businesses expect minimal salary increases"

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



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



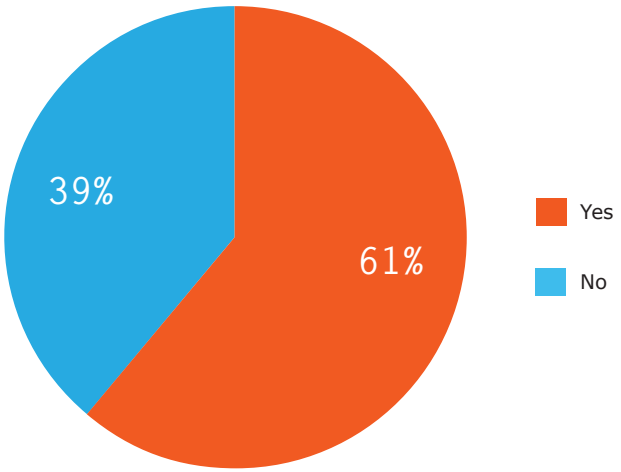
Pricing

61% of our respondents expect to increase the price of their services in the coming 12 months after a long period of price restraint (and reduction!). It will be interesting to see if this plays out in an increasingly competitive market.

With the projected emphasis on quality, improving operational performance and wage restraint, businesses are anticipating increasing profitability. The 39% of businesses that are not increasing their prices will look to generate more business and improve efficiencies to maintain or grow their business.

> "61% saying they intended to increase the price of their services in the coming 12 months"

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.

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Management for Design provides integrated business systems and services to the design industry across Strategy, Finance, Information Technology, Human Resource Management and Business Systems.

By working with Management for Design our clients are enabled to focus on what they are great at and to control and build their businesses. For more information visit www.m4d.com.au or phone 03 9645 8834.