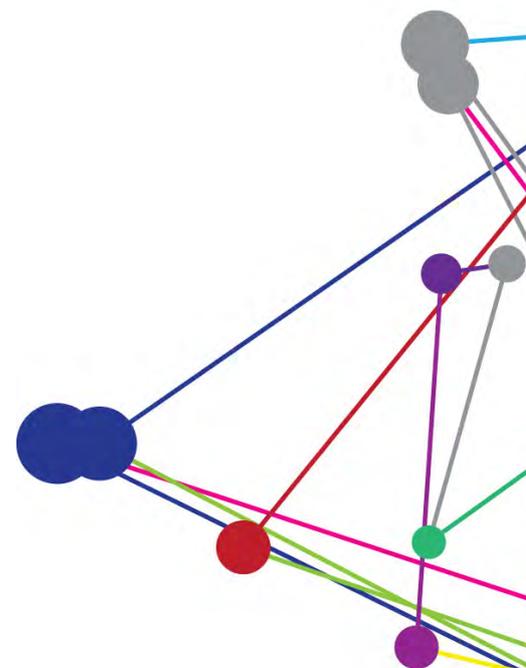


MANAGEMENT
FOR
DESIGN

Business Conditions Survey Results
December 2015



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Business Issues

What are the major issues facing Australian businesses in 2016? Fluctuation in the local economy and inconsistent global performance continues to be an issue for Australian firms. A potential slowdown continues to loom, emerging markets and capital markets are unpredictable, causing continued uncertainty in the business landscape for the year ahead. Competition and investment from overseas is having an increasing impact on Australian businesses with economic and legislative implications that will be interesting to follow in 2016.

The slowdown in China is predicted to continue and this will have a negative impact on our economy as will the weaker exchange rate on our services based economy. While the US has staved off another rise in interest rates in November 2015, this hold is unlikely to last for long and a rise in the US Fed is on the cards for 2016.

Foreign technology companies such as Airbnb, Uber and Netflix are causing major disruption to local business and are raising issues surrounding globalisation and the impact of technology and innovation on Australian industries. Digital disruption will be a major influence on the success of architecture and engineering businesses next year and those with the capacity and thirst for innovation will reap the rewards of effectively utilising new technologies to streamline business and build client engagement.

Despite this uncertain economic outlook, the overwhelming mood amongst respondents to our Business Conditions Survey is one of optimism. A full 100% of respondents expect 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 36% 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.



The Outlook

Australia is in its 25th consecutive year of growth! This is the second longest period of continuous growth of any advanced economy in the world. Notwithstanding the slowdown in China, activity in the major advanced economies is rising and growth remains strong in our faster growing Asian trading partners.

The recovery in the United States is becoming increasingly broad based and will provide support for world growth. Jobless claims in the US are at the lowest levels since they began to gather this data in the 1960s and the biggest problem currently is a tight labour market. In India, growth has accelerated and is expected to exceed growth in all other major economies.

Residential investment in Australia continues to grow strongly and consumption is growing at its fastest rate in almost three years! The outlook for growth remains positive even in the face of the adjustment underway as the resources investment boom unwinds.

One would have thought that the continued unpredictability in the emerging economies, uncertainty in the capital markets, 25 years of continuous growth and threats of terrorism may have created uncertainty in our business landscape for the year. Not so, most of our respondents are flat out winning and delivering an increasing workload to let that get in the way!

The majority of respondents expect business to grow in the key areas of new markets/locations and increased market share. Companies look set to continue their investment in marketing to win new clients and increase revenue from existing clients. 82% of businesses are planning on increasing their fees after a long period of restraint and are also increasing salaries in line with fee increases.

Over the next 3 years 64% of our respondents expect the economy to slow. Uncertainty about the national economy remains but businesses anticipate significant opportunity for improved business performance going forward.

While the industry is 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 that can grow, not just survive, in tough conditions can go on to truly great things!

Confidence and economic outlook

A full 100% of respondents expect that their businesses will experience growth over the coming 12 months!

Business confidence in the property and related services remains strong in the face of an uncertain national economy for the next year — 64% of respondents expect their business to grow and the remaining 36% expect to grow by a significant amount in the coming 12 months!

Another great insight into business confidence can be found in that no-one expects their profit margins to decline. 100% of respondents expect margins to either gain or hold their place.

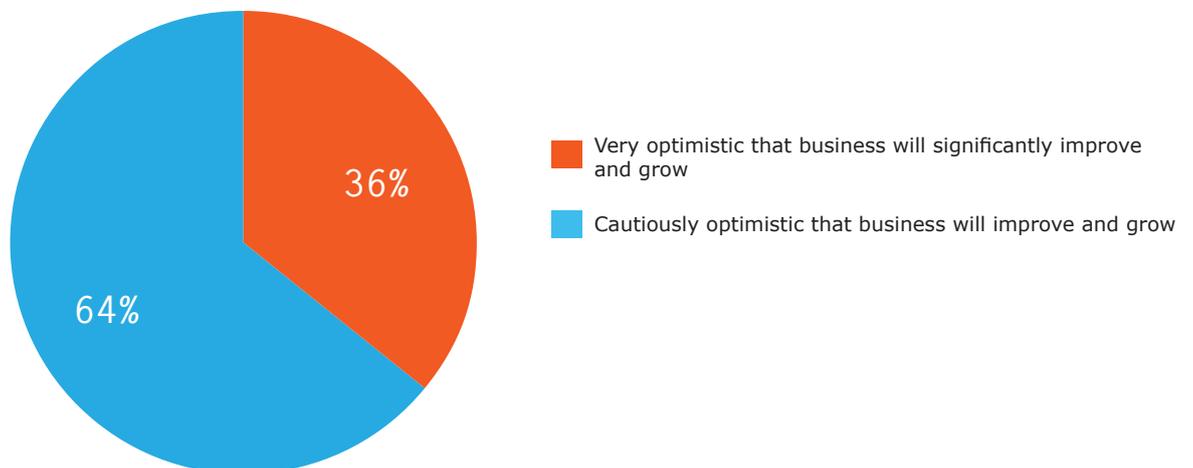
Looking out 3 years, confidence is more subdued. 82% of our respondents believe the economy will slow or stagnate during this period.



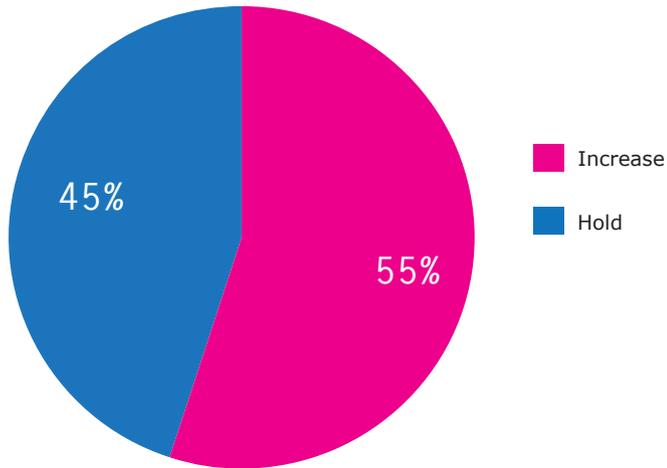
100% of respondents expect their business to grow in the coming 12 months.



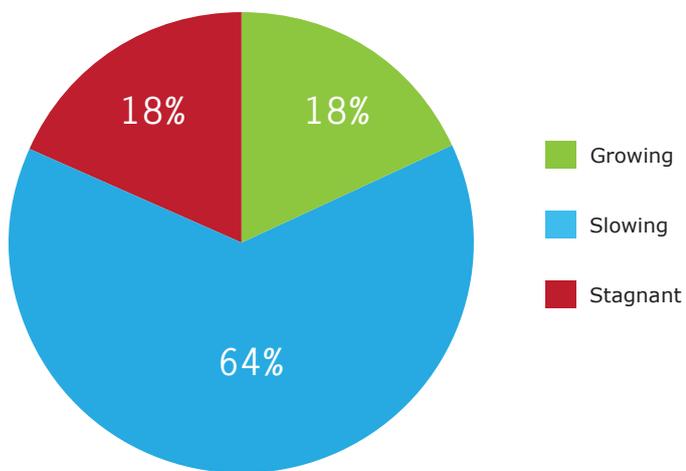
How confident are you about the growth prospects of your business in the next 12 months?



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



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



Growth

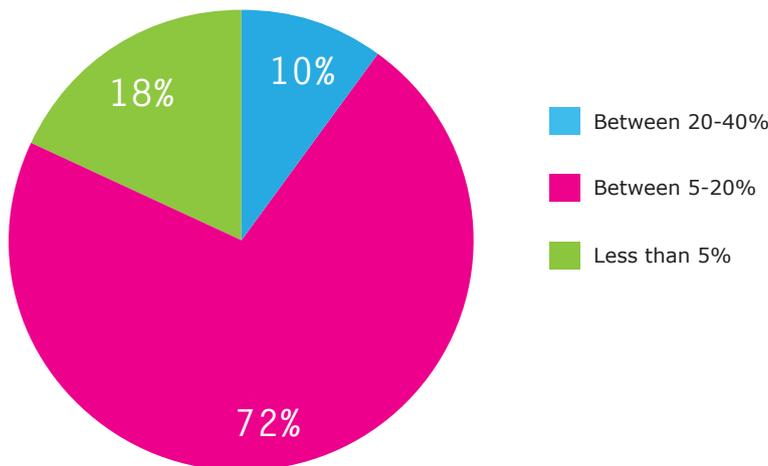
Revenues are up and profit is up. In spite of a mixed economic environment, most of our respondents are expecting revenues to continue to grow over the next 3 years.

10% of our respondents are expecting exceptional growth of between 20–40% in the coming 12 months and 72% expect strong growth of up to 20%. In line with this Management for Design clients have experienced an average growth in revenue and profit of 15–20%.

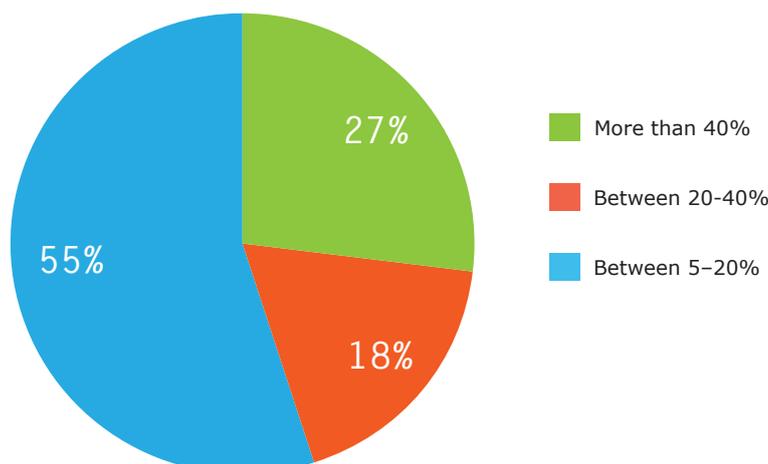
New markets and locations and increased market share are expected to be the main driver of growth over the coming 12 months. This closely echoes the results from the previous two years.

10% of businesses are expecting exceptional growth of between 20-40% this year.

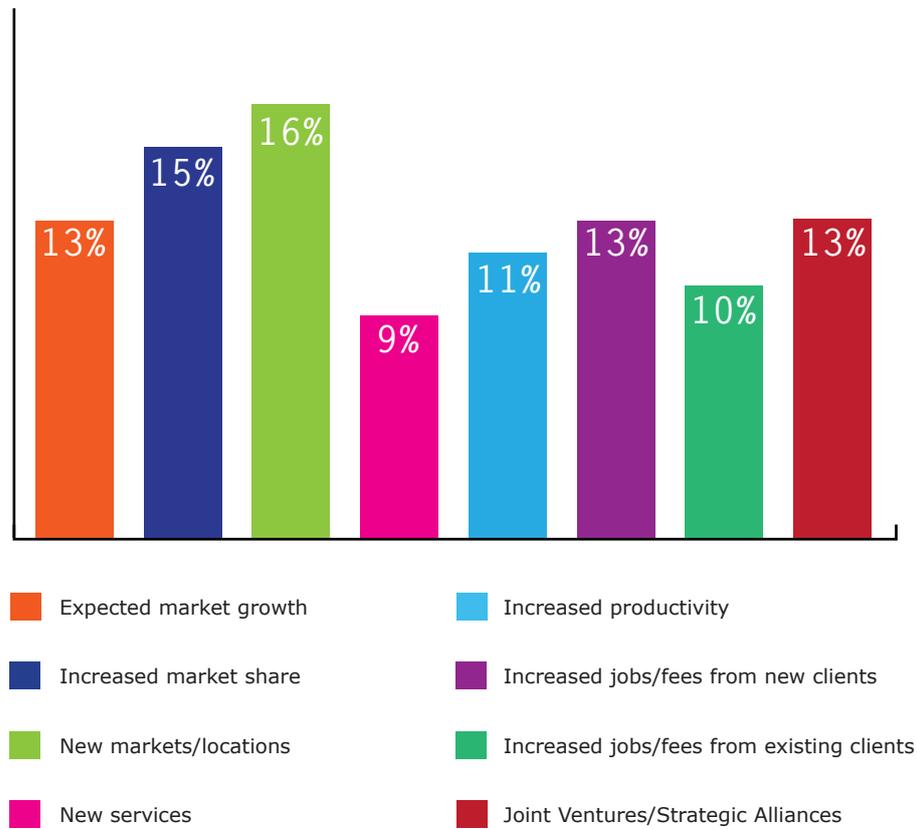
How much do you expect revenue to grow/reduce by in the next 12 months?



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



Where will your growth come from?



Business Priorities and Issues

There has also been a significant increase in attracting and retaining talent as a business priority from 12 months ago. Not surprising considering the current talent shortage and workload.

We expect there will be increasing salary pressures after a lengthy period of reasonable restraint in salary levels as business grapples with an increase in workloads. Our respondents also believe that a key business issue is leadership in the business — leaders having to deal with an increasing workload and attracting talent to deliver this. There is also the associated issue of transitioning the responsibility to the next generation (who don't necessarily desire it).

It will be interesting to see if this can be achieved in the coming years with investment in people and training having a lower priority!

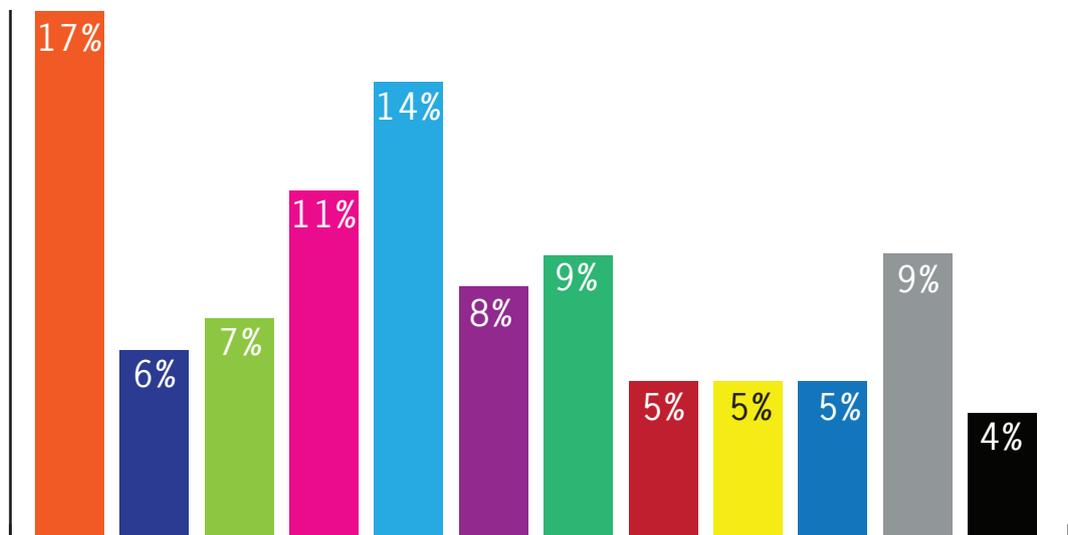
Effective and new leadership is becoming an increasingly important business issue (14% as opposed to 9% last year). Increasing growth in revenue and profit is expected — increasing the need to match this with corresponding leadership within the business.



Increasing focus on retaining and attracting talent and leadership.



What are the 5 critical business issues facing your business over the next 12 months?



- Attracting and retaining talent
- Reducing costs
- Competition
- Status of the economy
- Leadership in the business
- Technology
- Generating revenue
- Outsourcing
- Cost management
- Credit availability
- Client satisfaction
- Capital expenditure

Business Performance

Financial performance has overtaken quality of work as the most relevant indicator of business performance. This reflects the growing necessity for businesses to continue to improve profitability in a volatile market. Quality of work delivered is still a major concern for 27% of respondents, who believe that quality is what will allow them to differentiate themselves in a competitive market. Delivering a differentiated, sustainable service, that clients return to and that you believe in are necessary qualities.

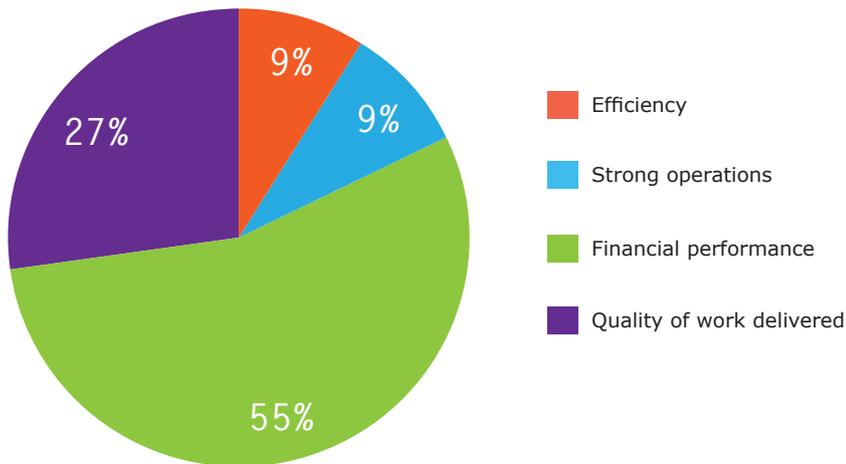
A large proportion of our respondents — 45% — are very optimistic that business performance will continue to improve over the next 3 years. None of our respondents believe their performance will contract in the next 3 years.



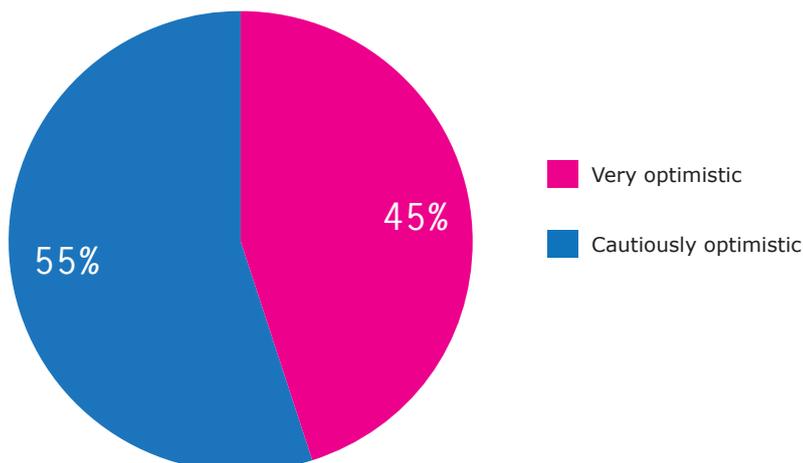
Optimism reigns supreme once again with 45% of respondents very optimistic that business performance will improve.



How do you best define business performance?



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



Opportunity

Leadership development continues to be a key focus — both in building capability and succession planning. Refining business operations and improving business development capabilities will also be key drivers for the year going forward. They continue to be key areas for improving business capability.

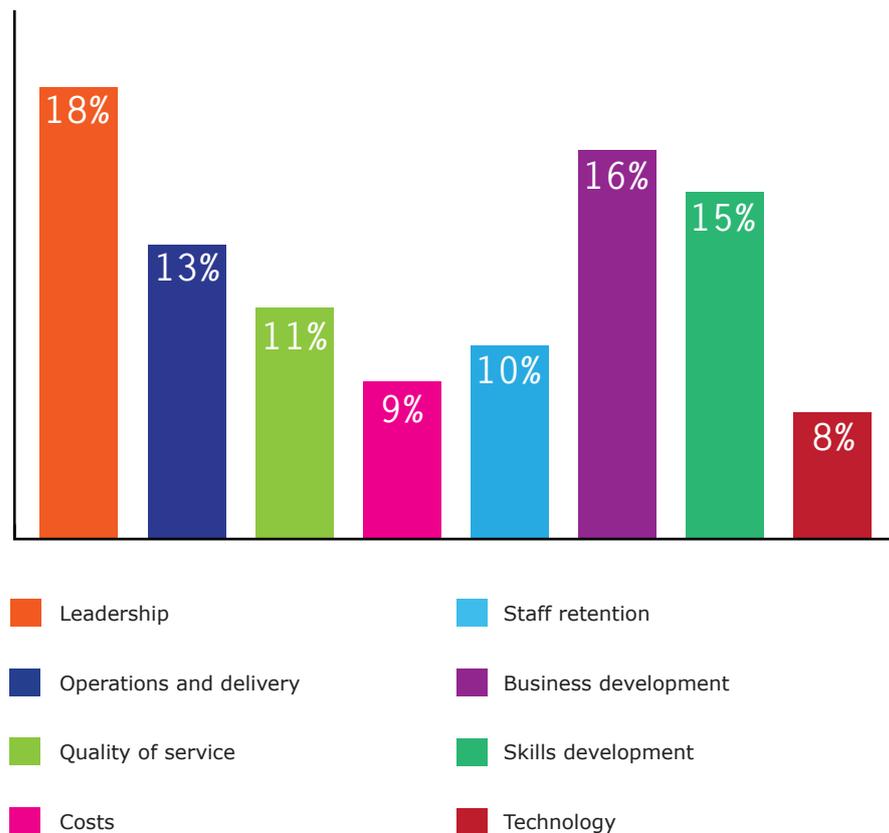
Investment in technology, while only prioritised by 8% of respondents, has received higher priority this year than in previous years, reflective of increased awareness of the role of technology and digital disruption across business.



Refining business operations and improving business development capabilities will be key drivers.



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



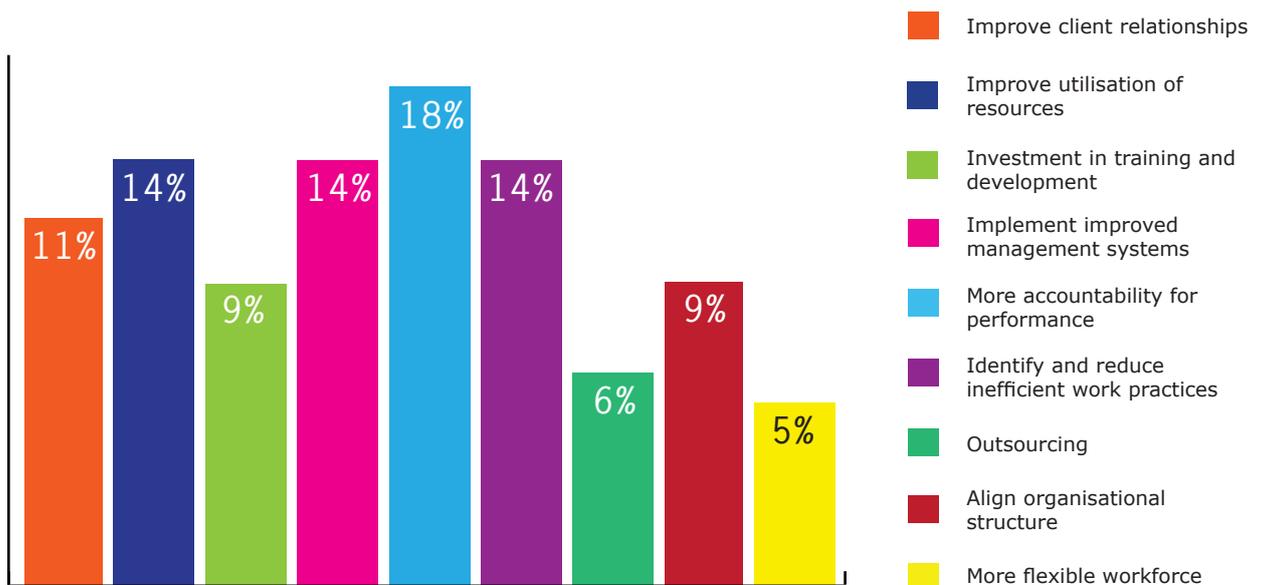
Productivity

Accountability for performance will be a major push in 2016, with business leaders looking to measure and optimise performance. Implementing improved management systems will play a major role in this, as will improving the utilisation of resources and identifying inefficiencies to deliver increasing revenue is expected.

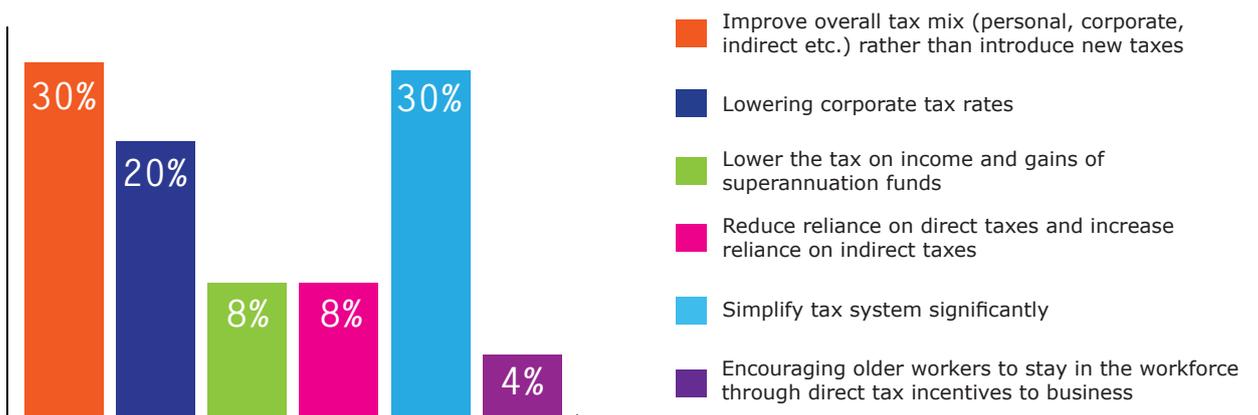
The costs of complying with the taxation system are an ever increasing burden on today's businesses. This is demonstrated by the strong desire of our respondents to not have to deal with new taxes and to simplify what is a highly complex (and inefficient) system).

Accountability for performance will be a major push for 2016.

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



What taxation reform is required for business to improve productivity and performance?



Investment

Increased business-to-client connectivity are now expected in the industry. Our respondents understand that investment in people, technology and marketing infrastructure has a positive effect on business performance as well as on client relationships.

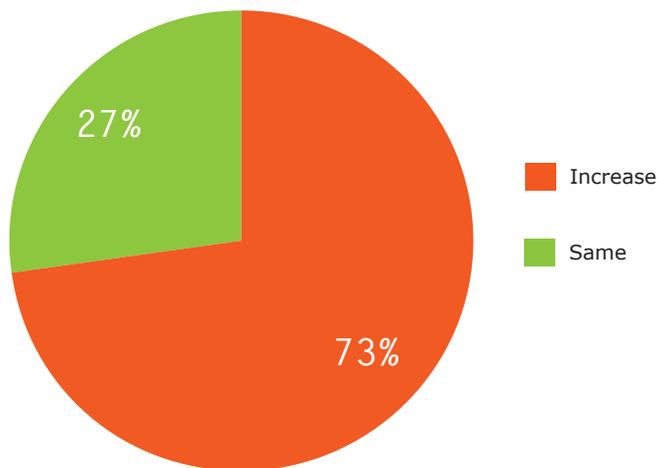
The majority of our respondents (73%) expect to increase their business investment to help grow in the next 2 years. This is an increase from 65% from the previous year and 50% from the year prior. Only a small minority say they will decrease their investment although this will be difficult to sustain if the competition does indeed spend more.



...investment in people, technology and infrastructure will increase.



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 2016 with 82% of businesses expecting an upward trend in salary levels compared with 61% from last year. This number is in line with expected revenue growth and the need to attract and retain talented people.

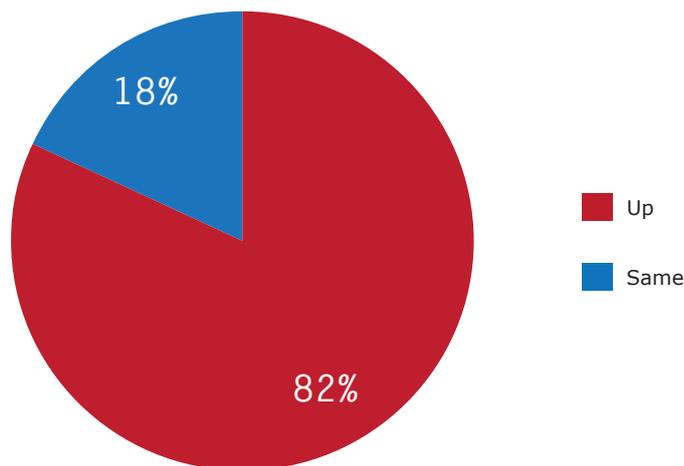
Significantly, more than two thirds of employers responded that they expect to increase the number of employees. Onward and upward! We'll see!



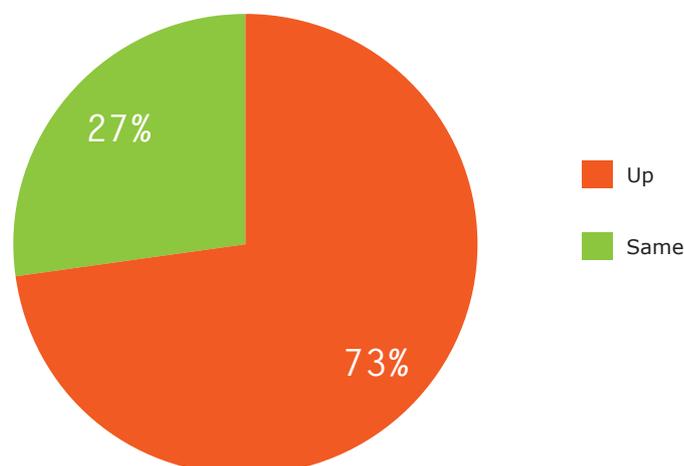
82% of businesses expect an upward trend in salary levels.



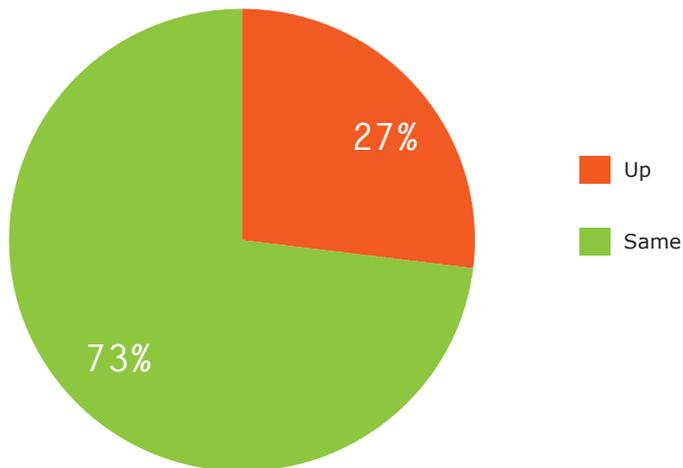
What do you expect to happen to salary levels over the next 12 months?



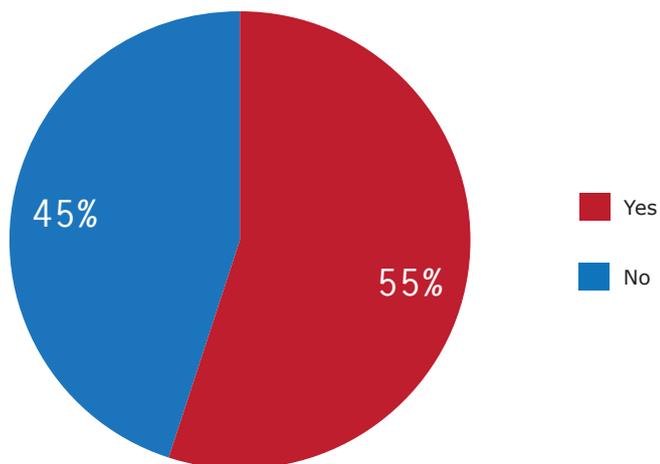
What do you expect to happen with the number of your employees?



What do you expect to happen with the average number of hours worked per week?



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



Pricing

78% 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.

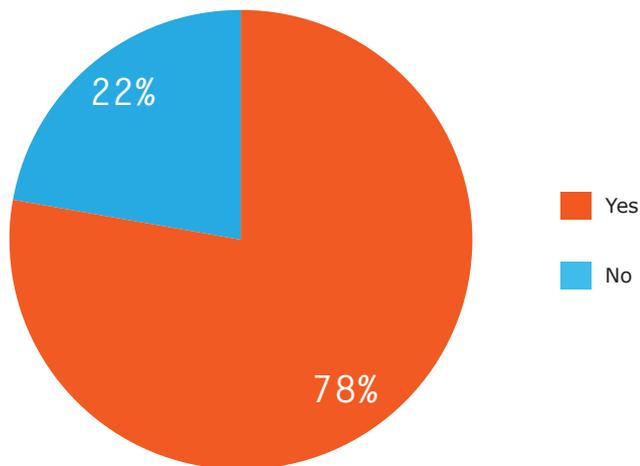
With the projected emphasis on improving operational performance and business development, businesses are anticipating increasing profitability. The 22% of businesses that are not increasing their prices will look to generate more business and improve efficiencies to maintain or grow their business.



78% of our respondents expect 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.