

Business Conditions Survey Results



NOVEMBER 2016

MANAGEMENT
FOR
DESIGN

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Business Issues

WHAT ARE THE MAJOR ISSUES FACING AUSTRALIAN BUSINESSES IN 2017?

The Australian economy is forecast to gradually strengthen towards 3% in 2017 as the detraction from falling mining investment eases. The Australian economy is still transitioning to broader-based drivers of growth in the non-resource sector, aided by dollar depreciation and a steady increase in household consumption. Further falls in the rate of unemployment are not expected to generate strong inflationary pressures.

Historically low interest rates and a lower exchange rate since its peak in 2011 are helping to support growth. Consumption is forecast to grow steadily over the next 12 months supported by a continuing decline in the savings rate. Investment in housing is expected to remain at a high level, although the rate of growth is forecast to slow.

Employment growth is expected to remain solid across the forward estimates, albeit slightly slower than the strong pace seen last year, with the unemployment rate forecast to fall to 5½ per cent in the June quarter of 2017.

The global economy continues to provide downside risks for domestic growth. While growth in excess of 3 per cent is expected in the global economy and 4 per cent in Australia's major trading partners, over the coming year, risks to the global outlook are high and are present in both advanced and emerging market economies. Of significance for Australia are the implications of the transition of the Chinese economy towards a more balanced, consumer-driven growth model. The potential for this rebalancing to lead to a greater than expected slowdown in the Chinese economy remains a key risk to Australia and the region. Inflation remains low globally and monetary policy in major advanced economies is expected to remain accommodative.

WHAT ARE THE MAJOR ISSUES FACING AUSTRALIA?

1. **Boosting productivity** — This requires a focus on innovation including targeted R&D policy, university-business linkages and effectiveness and efficiency of financial support for research. Ensuring strong competition, regulation that accommodates new internet-platform-based businesses, sound ICT infrastructure and continuing education reform are also key for productivity performance.

...continued

2. **Delivering infrastructure** — Australia is at a cross road in regards to the infrastructure requirements for our growing economy - with enormous demand across the nation to improve the connectivity of people, places and freight to stimulate growth and job creation. The quality of Australia's infrastructure is a key indicator of the country's economic, social and environmental health. Our ability (or lack thereof) to identify, agree on, plan for, fund and deliver major infrastructure and transport projects is critical to sustaining and building on all that we value.
3. **Digital disruption** — This will continue to be a major influence on the success of businesses 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. How do they do this - by combining multiple emerging technologies to gather data, automate processes and build structures with more precision, accuracy and speed. These technologies also enable investors to see value from their large investments much sooner than in the past.

Interestingly, there has been minimal change in the confidence level amongst respondents to our Business Conditions Survey from this time 12 months ago. There is still a general sense of optimism with 90% of our respondents expecting growth in their businesses over the next 12 months although only 50% expect the economy to still be growing in 3 years

We interviewed property and design industry professionals via an online survey. All were senior executives, with 40% 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 has experienced 100 quarters of economic growth! This is the second longest continuous period of continuous growth of any advanced economy in the world. Notwithstanding the slowdown in China, activity in the major advanced economies rises and growth remains strong in our faster growing Asian trading partners.

The U.S. economic outlook is healthy but not robust. That's because the GDP growth rate will be slightly below the 2-3% ideal range, unemployment will continue at the natural rate and there isn't too much inflation or deflation. The unemployment rate is currently below 5% and expected to drop further and the housing market is expected to continue. Small business owners are upbeat on the U.S. economy, with only 8% planning to reduce staff. About 22% expect to hire new full-time employees during the next six months. Of course, the biggest unknown is what happens if there is a Trump presidency. Interesting times ahead!

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 still 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 clients and increased market share. Companies look set to continue their investment in marketing to win new work and increase revenue from existing clients. 30% of our respondents expect exceptional growth of between 20-40% over the next 12 months (compared to 10% 12 months ago).

The proportion of businesses expecting to increase their fees (50%) has reduced from 12 months ago and less firms expect to increase their salaries than 12 months ago.

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 that can invest whilst growing in uncertain times can go on to truly great things!

Confidence & economic outlook

90% of respondents expect that their businesses will experience growth over the coming 12 months! Albeit, this is a slight reduction from 12 months ago.

Business confidence in the property and related services remains strong in the face of an uncertain national economy for the next year — 30% of respondents expect their business to significantly grow and only 10% expect their business to face difficult conditions!

Having said that, 20% of businesses expect their profit margin to decline. This is an increase on the past survey results. Extraordinary profitability has been achieved over the past 2 years (if you've been doing things right) and it's

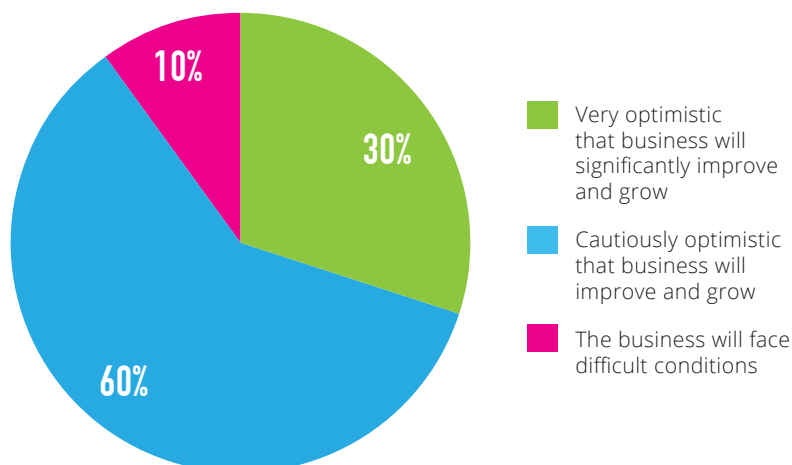
not unexpected that businesses may not see this continuing.

Looking out 3 years' confidence is more subdued. 50% of our respondents believe the economy will slow or stagnate during this period (this is similar to last year)

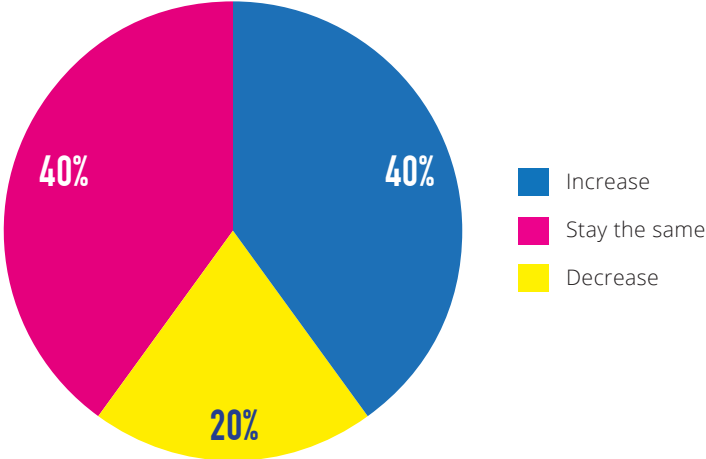


90% of respondents expect their business to grow in the coming 12 months

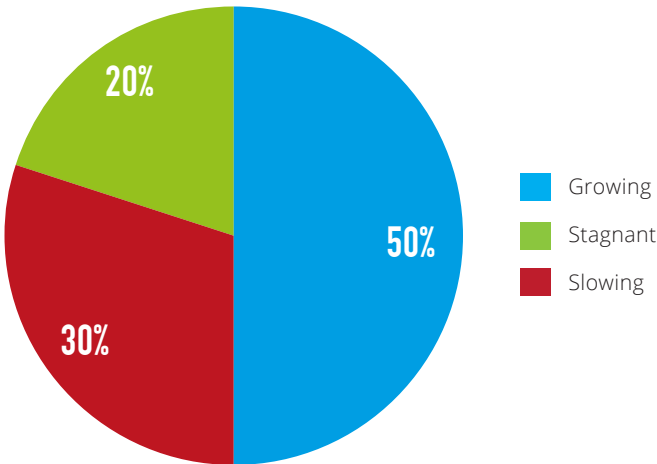
HOW CONFIDENT ARE YOU ABOUT THE GROWTH PROSPECTS OF YOUR BUSINESS IN THE NEXT 12 MONTHS?



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 from 12 months ago. In spite of a mixed economic environment, a majority (60%) of our respondents are expecting revenues to continue to grow over the next 3 years. Having said this, this is a reduction from 12 months ago when 75% of our respondents expected to grow. There is also a significant proportion of businesses that are anticipating their revenue to reduce (20%). So, optimistic but not as optimistic!

50% 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

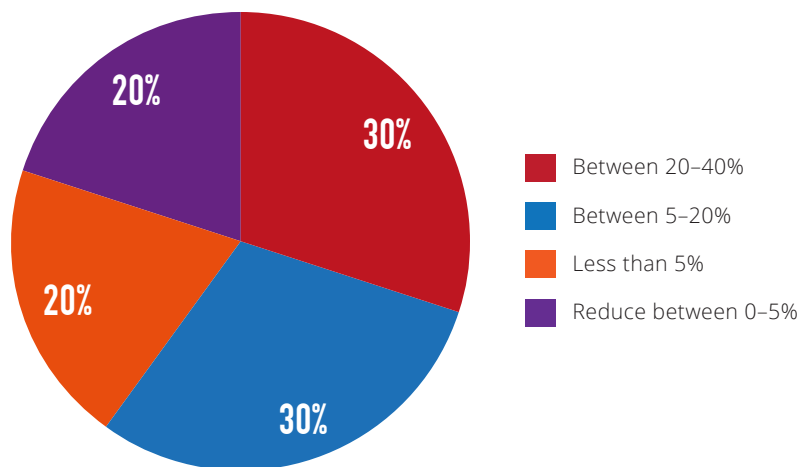
clients have experienced an average growth in revenue and profit of 15–20%.

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

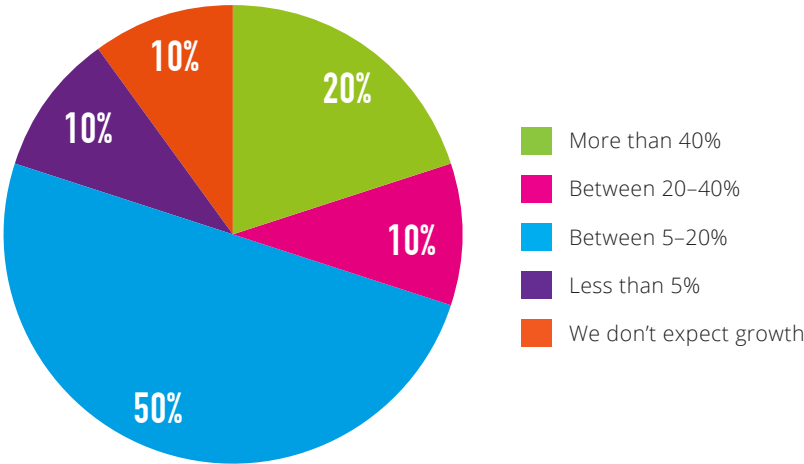


30% of businesses are expecting exceptional growth of between 20–40% in the next 12 months

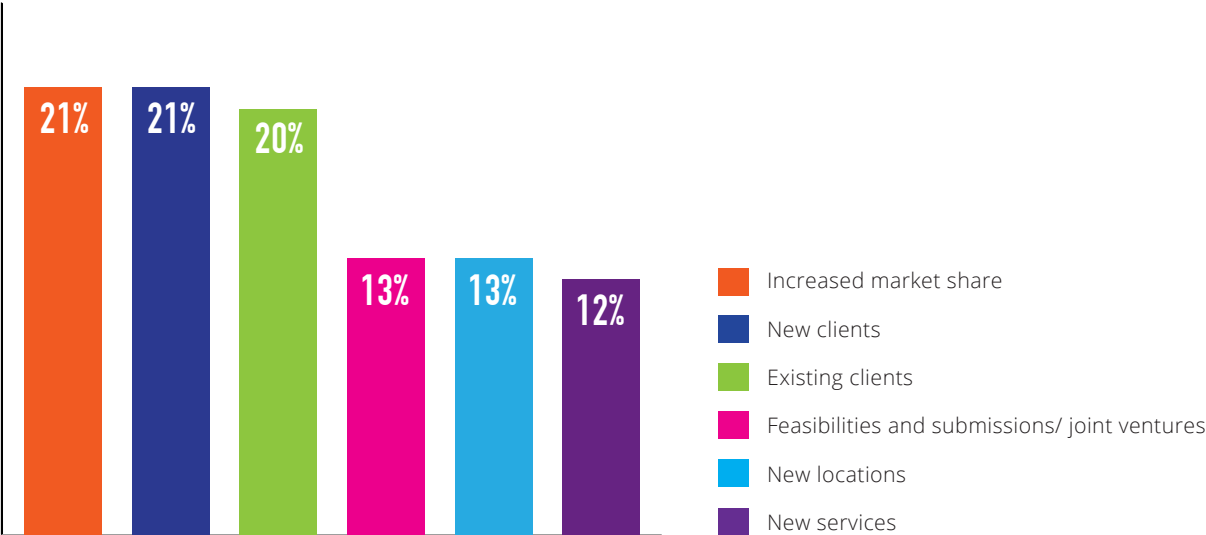
HOW MUCH DO YOU EXPECT REVENUE TO GROW/REDUCE BY IN THE NEXT 12 MONTHS?



HOW MUCH DO YOU EXPECT REVENUE TO GROW BY OVER THE NEXT 3 YEARS?



WHERE WILL YOUR GROWTH COME FROM?



Business Priorities & Issues

There has been a significant increase in improving operational performance as a business priority from 12 months ago. Not surprising considering businesses are striving to maintain high profit margins in an increasingly tight labour market and uncertain economic circumstances.

Improving operational performance is now the number one priority for a third of our respondents (historically this has been approximately one in six). More than half our respondents view improving operational performance, productivity and reducing costs as the main business priority currently.

Recruitment, retention and training is not as high a priority as previous years with only 6% viewing this as the main business priority. This is aligned

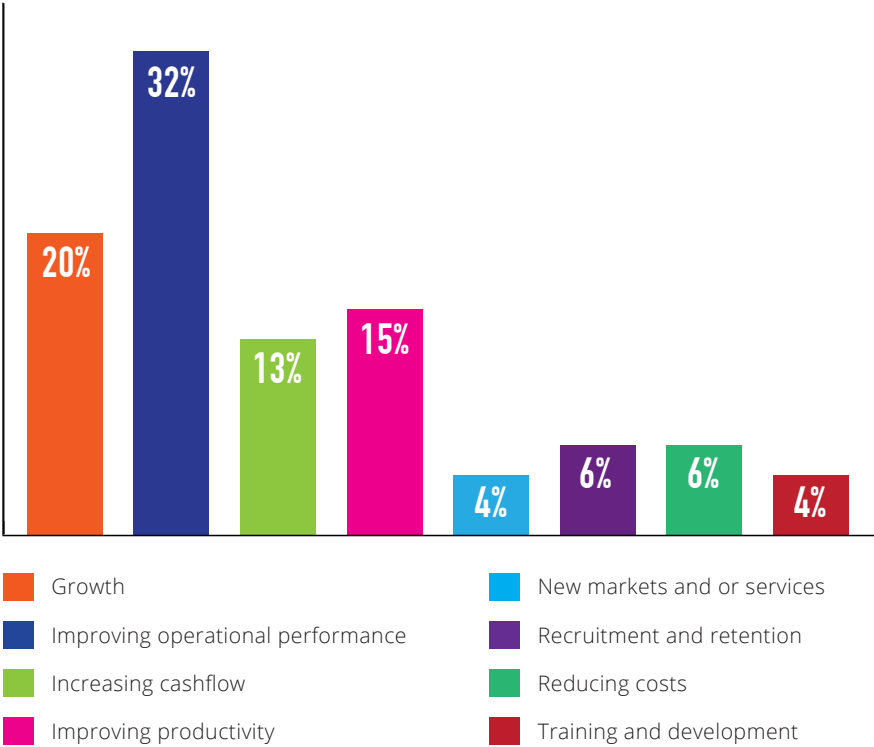
with a reduction in the proportion of businesses expected to increase salary levels. After a lengthy period of salary restraint salaries are at appropriate levels.

Sustaining historically high revenues is the main priority facing business over the next 3 years.



...business leaders will focus more on streamlining business processes and productivity to achieve growth.

WHAT ARE THE 3 MAIN BUSINESS PRIORITIES FOR THE NEXT 12 MONTHS?



Business Performance

There is a strong emphasis on the quality of the work when assessing business performance and this continues to be the most relevant indicator of business performance. 40% of businesses consider this the main indicator of business success.

Financial performance is considered the main indicator by 20% of respondents but this has reduced from previous years as effective and strong leadership is becoming increasingly recognised as contributing to business performance. Get this right and you will deliver quality work and strong financial performance.

There is a reduction in the proportion of businesses that are very optimistic about improving their business

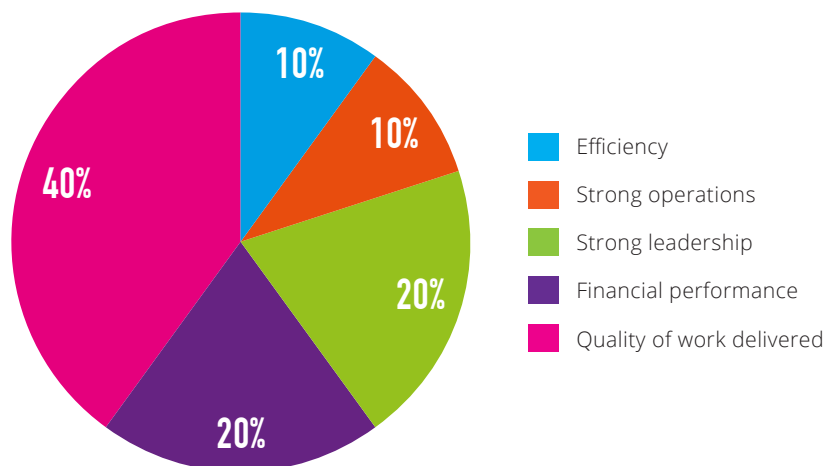
performance over the next 3 years (40% down to 20%). And the number of businesses that expect to be in a holding pattern has doubled (from 5% to 10%).

More than half our respondents do not expect to have a skills shortage in the next 12 months. A sign of the times!

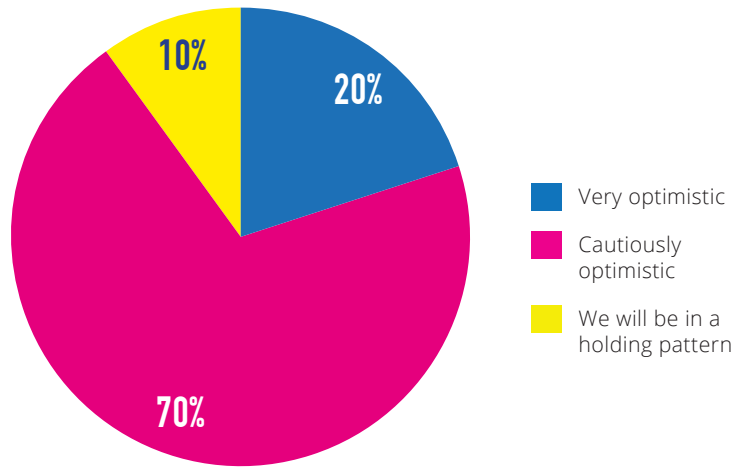


45% of respondents are very optimistic that business performance will improve.

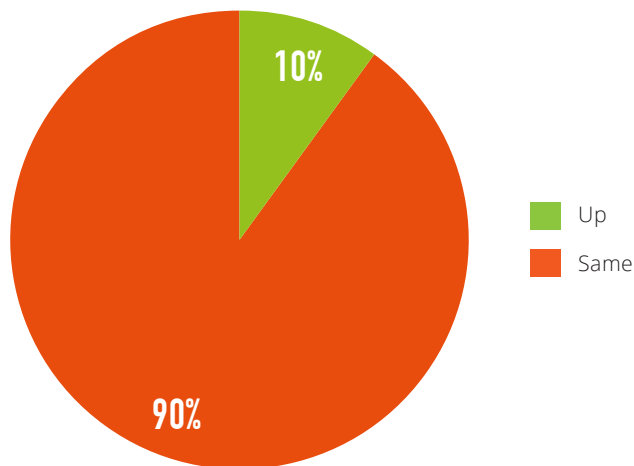
HOW DO YOU BEST DEFINE BUSINESS PERFORMANCE?



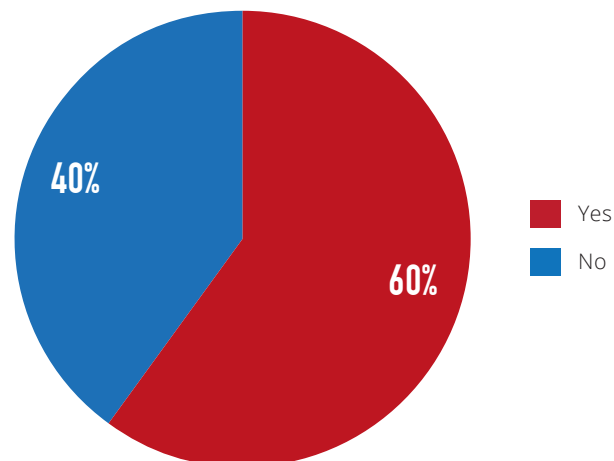
HOW OPTIMISTIC ARE YOU ABOUT YOUR BUSINESS PERFORMANCE IMPROVING OVER THE NEXT 3 YEARS?



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?



Opportunity

Refining business operations and leadership development and continue to be a key focus — both in building capability and delivering quality work and financial performance. The emphasis on strong and effective leadership is increasing. Improving business development capabilities will also be key driver for the year going forward.

The proportion of businesses that prioritise retaining and developing their people remains steady at 20% approximately. Investment in technology, while only prioritised by a small proportion of respondents, has received

more 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 leadership capabilities will be key drivers

WHAT DO YOU NEED TO WORK ON TO IMPROVE YOUR BUSINESS PERFORMANCE?



Productivity

Improving business systems and operations will be a major push in 2017, with business leaders looking to measure and optimise performance. Implementing improved business management systems will play a major role in this, as will improving the utilisation of resources and identifying inefficiencies to sustain current business performance.

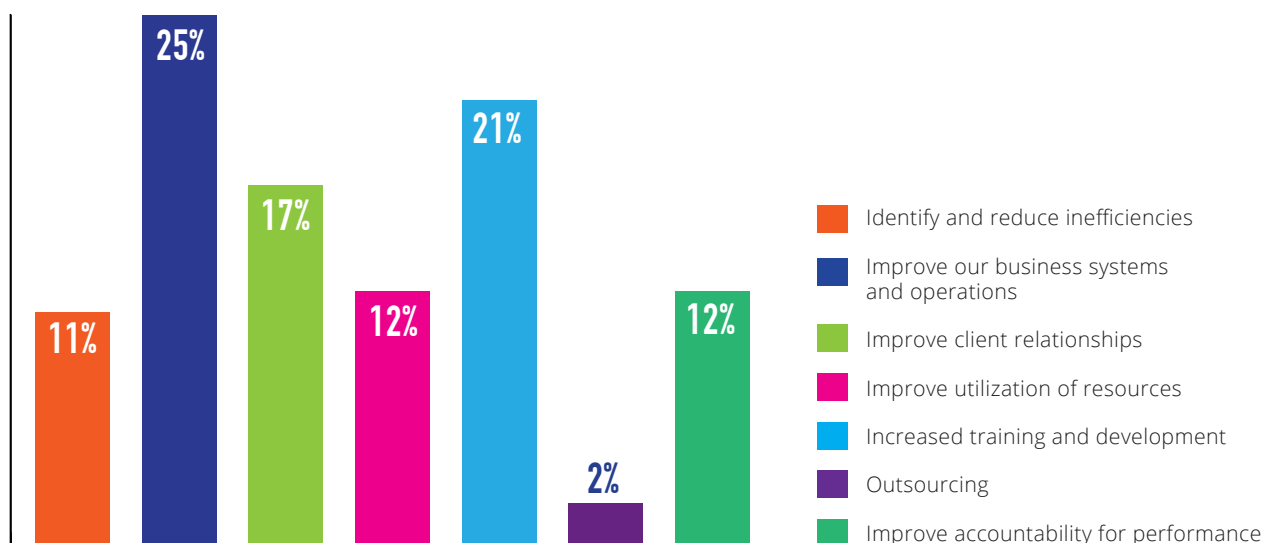
There is an expected increase in accountability for performance – 12% of respondents expect to focus on this. So, improved business systems, training people to focus on this and ensuring accountability are the focus. 40% of

respondents measure productivity through sales and growth – hopefully they are the same one's that need to invest in more effective systems so that they can truly measure productivity!

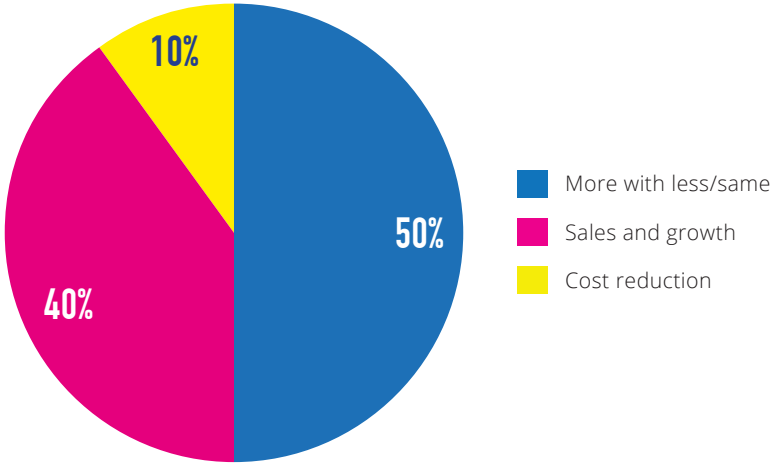


Improving the utilisation of resources and identifying inefficiencies to deliver increasing revenue is expected

WHAT ARE YOUR PLANS TO IMPROVE PRODUCTIVITY IN THE NEXT 12 MONTHS?



HOW DO YOU MEASURE PRODUCTIVITY?



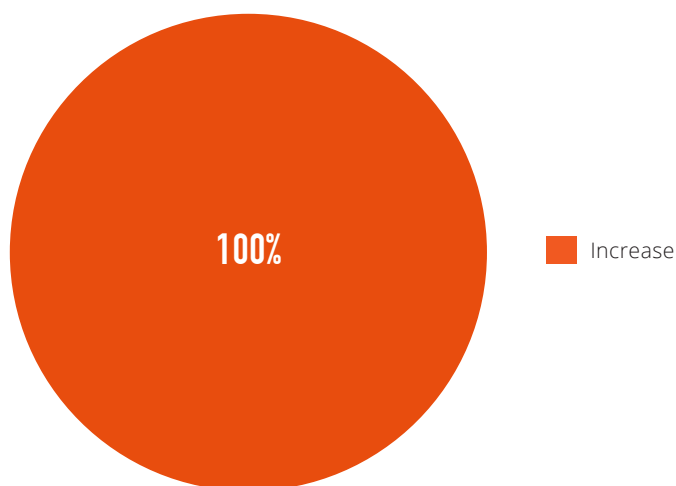
Investment

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. All our respondents (100%) expect to increase their investment. A positive indicator — historically approximately 25% have either maintained or reduced their investment.



...all our respondents expect to increase their investment in people, technology, marketing and infrastructure

WHAT DO YOU EXPECT TO HAPPEN WITH YOUR INVESTMENT IN PEOPLE, TECHNOLOGY, MARKETING AND INFRASTRUCTURE OVER THE NEXT 2 YEARS?
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People

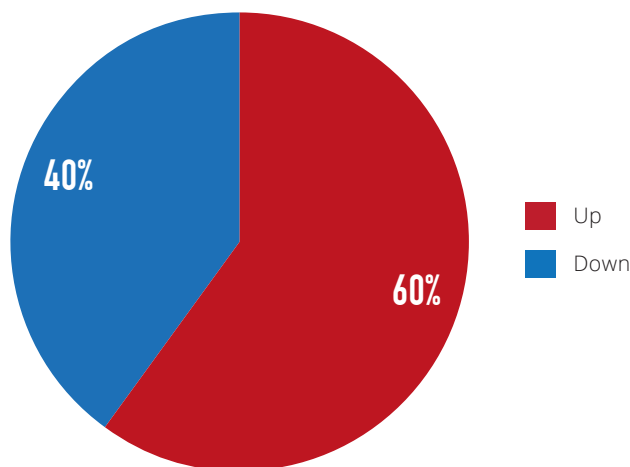
The majority of businesses look set to increase salaries in 2017 with 60% of businesses expecting an upward trend in salary levels. This, however, is a reduction on the proportion last year 83% of businesses. This number is in line with expected revenue growth and the need to attract and retain talented people although there is an anticipated slowing in salary increases!.

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

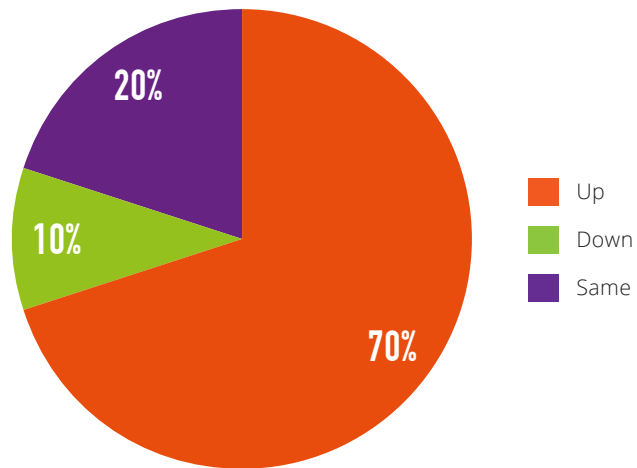


60% of businesses expect an upward trend in salary levels

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?



Pricing

50% 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 appears there has been a catch up from the previous 12 months. It will be interesting to see if this plays out in an increasingly competitive market.

12 months ago 80% of respondents expected to increase their fees, so, there has been a significant decrease in the proportion of businesses that expect to increase their fees.

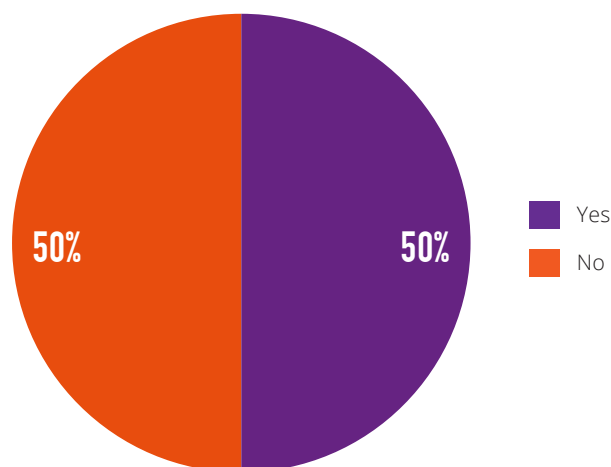
With the projected emphasis on improving operational performance,

efficiency and business development, businesses are looking to maintain (not increase) historically strong profit levels in an increasing competitive environment.



50% 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.