

MANAGEMENT
FOR
DESIGN



BUSINESS
CONDITIONS
SURVEY RESULTS
DECEMBER 2017



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BUSINESS ISSUES

WHAT ARE THE KEY ISSUES FACING AUSTRALIAN BUSINESSES IN 2018?

The good news is, current conditions are very favourable for Australian businesses in the Architecture, Engineering and Built Environment Sector, according to our recent Business Conditions Survey.

Key points in our recent business conditions survey are:

- Increases in revenue and profitability drive business conditions higher
- Leading indicators including forward revenue projections point to minimal softening in the year ahead
- Employment continues to be solid but is constrained by the ability to find and keep talented and experienced people

According to the recent NAB Business Survey - *"Australian businesses are in the midst of the best economic conditions in two decades, with rises across all industries, including retail. The construction industry is still performing incredibly well, thanks to support from both a large pipeline of residential construction and a likely improvement in non-residential construction activity."*

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 be just under 5.5% at the end of 2019.

If you're not thriving in the current environment, then you're doing something wrong!

The bad news is that this may be as good as it gets for some time! And in a warning shot to confidence, economists have suggested the conditions have reached the peak of their cycle and may not last.

Non-mining business investment growth has been relatively modest in recent years. This is despite many of the conditions being in place that would normally encourage stronger investment, such as low interest rates, tax incentives for small business and high capacity utilisation rates.

WHAT ARE THE KEY ISSUES FACING AUSTRALIA?

- 1. Delivering infrastructure** — Australia remains at a cross road regarding 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. Now we can add the stalling NBN to the list of concerns. 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.
- 2. Boosting productivity** — Through good or tough times, the equation that defines business success for professional service businesses remains the same: optimising people, skills and capacity = increased profitability. While the math may be simple, of course, the realization of this potential can be a lot more challenging. This requires a laser focus on innovation, business systems, a strong competitive position, sound ICT infrastructure and continuing people development.
- 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 innovative 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 45% expect the economy to still be growing in 3 years.
- 4. Gender imbalance and inequity** — Across both Architecture and Engineering we are still confronted with significant gender based wage discrepancy. Our industry, in particular, still reports one of the largest wage gaps across all industries and this sees women earn approximately 85% of the comparable male wage on average. In 2017, women account for only 1 in 8 of those in engineering jobs in Australia but this is not a new problem.

However, the sector is keen for its workforce to reflect the diversity of the country it serves. This is becoming increasingly important as studies have shown that mixed teams (of age and race, as well as gender) are naturally less competitive, more creative and better communicators.

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 45% 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


GDP growth in the major advanced economies is likely to remain above potential, over the next couple of years and monetary policies are expected to remain accommodative, whilst US fiscal policy is expected to become expansionary.

While considerable uncertainty remains about the economic policies of the new US administration, reductions in personal and corporate taxes looks certain. These fiscal policy changes could be expected to boost growth in the United States at a time when there is already limited spare capacity in the US labour market. This is expected to increase inflationary pressures and could have spill overs to higher growth and inflation in other economies. There is also a rising risk that more restrictive and protectionist trade and immigration policies, under the new administration, could harm global growth prospects. Inflation remains low globally and monetary policy in major advanced economies is expected to remain accommodative.

Australia has experienced **105 quarters of economic growth!** This is the second longest continuous period of growth of any advanced economy in the world. And in 2018, the RBA is currently forecasting that **GDP will grow by 3%**. Notwithstanding the slowdown in China; activity in the major advanced economies rises, and growth remains strong in the US and our faster growing Asian trading partners.

Despite the very strong outcome for business conditions, more benign business conditions elsewhere suggest a degree of caution should be exercised. The contribution to GDP growth from dwelling investment over the forecast period is expected to be minimal. Home building approvals have been lower than their recent peaks for some time now, which suggests that the pipeline of work to be done will start to reduce over the forecast period Building approvals have been lower than their recent peaks for some time now.

Our survey continues to indicate **strong confidence levels for revenue, profit and growth** for the next 12 months and looking out to 3 years. Doesn't seem like more than 25 years of continuous growth, the continued unpredictability in the emerging economies, uncertainty in the capital markets, threats of terrorism, and the 'Trump' factor, are having much of an effect. Most of our respondents continue to be flat out winning and delivering an increasing workload.



Most respondents expect business to grow in the key areas of new clients and increased market share. Just under 20% of our respondents expect exceptional growth of over 20% over the next 12 months (compared to 30% 12 months ago).

The proportion of businesses expecting to increase their fees (60%) has increased from 12 months ago (50%) although a higher proportion of firms expect to increase their salaries than 12 months ago.

While the industry continues optimistically, opinions differ on the best ways to improve and grow over the coming year. With the economy experiencing difficulties, we suggest you enact a 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

Business confidence in the property and related services industries remains strong, in the face of an uncertain national economy for the next year — **just under 30% of respondents expecting their business to significantly grow.**

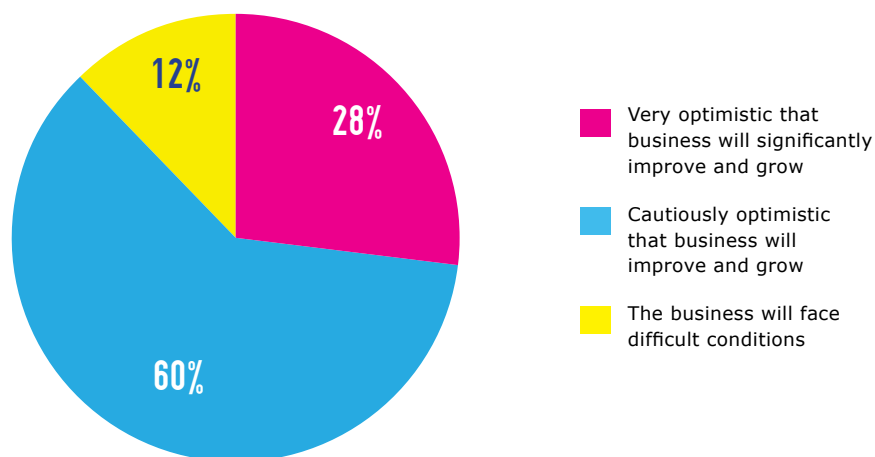
Overall, just under 90% of respondents expect their businesses to experience growth over the coming 12 months, a similar result to 12 months ago.

Interestingly 56% of our respondents expect to increase their profit margins, and there is a reduction in the proportion of businesses expecting a reduced profit margin (7% for 2017 and 20% for 2016).

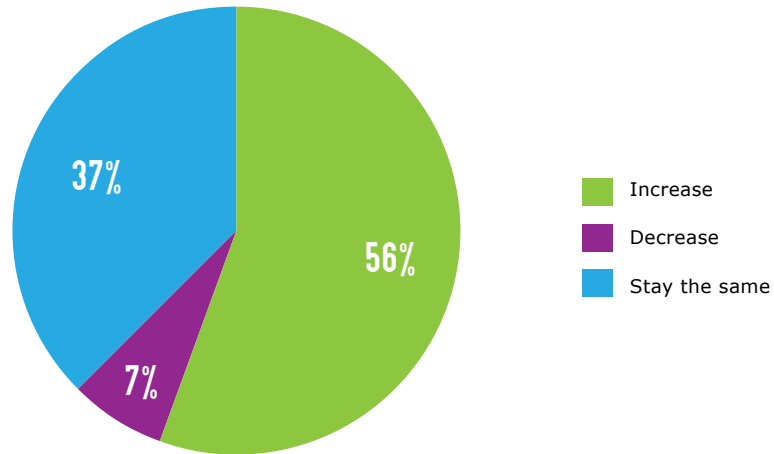
Looking out 3 years, confidence is more subdued — 55% of our respondents believe the economy will slow or stagnate during this period (50% in 2016)

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

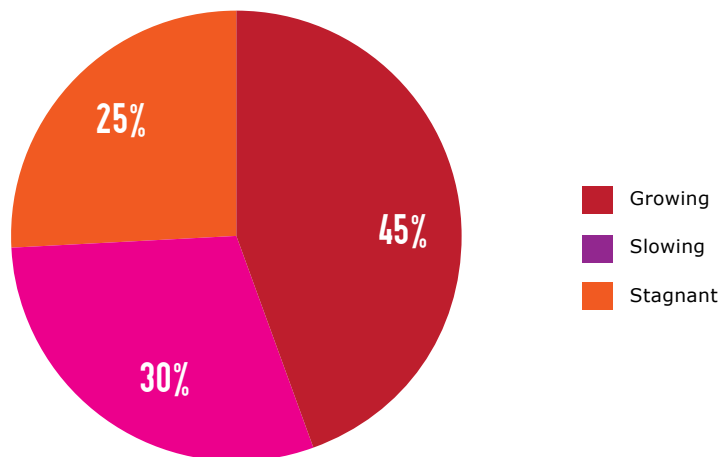
HOW CONFIDENT ARE YOU ABOUT THE GROWTH PROSPECTS OF YOUR COMPANY IN THE NEXT 12 MONTHS?



WHAT DO YOU EXPECT TO HAPPEN TO YOUR PROFIT MARGIN OVER THE NEXT 12 MONTHS?



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.

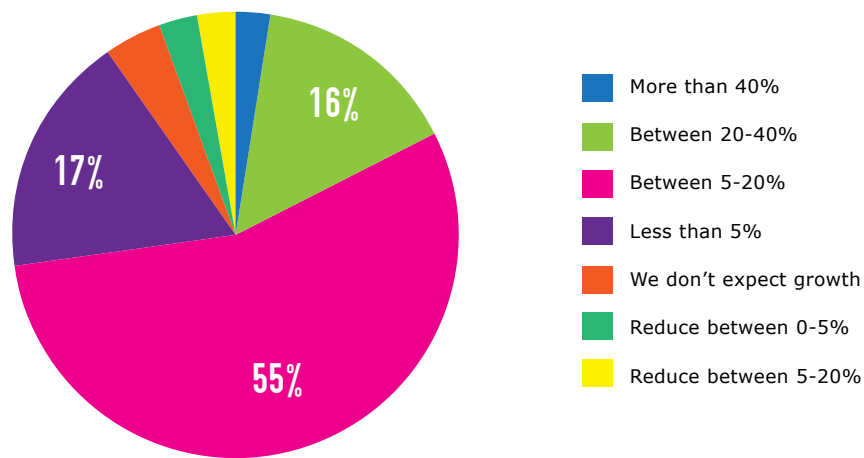
In spite of a mixed economic forecast, just under 90% of our respondents are expecting revenues to continue to grow over the next 3 years (this is similar to last year). Only a very small percentage are anticipating their revenue to reduce. So, optimistic!

Although optimism prevails, it appears that the rate of growth is predicted to slow – 16% of our respondents are expecting exceptional growth of between 20–40% (with a small number expecting even more) in the coming 12 months (compared to 50% last year) and 55% expect robust 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%.

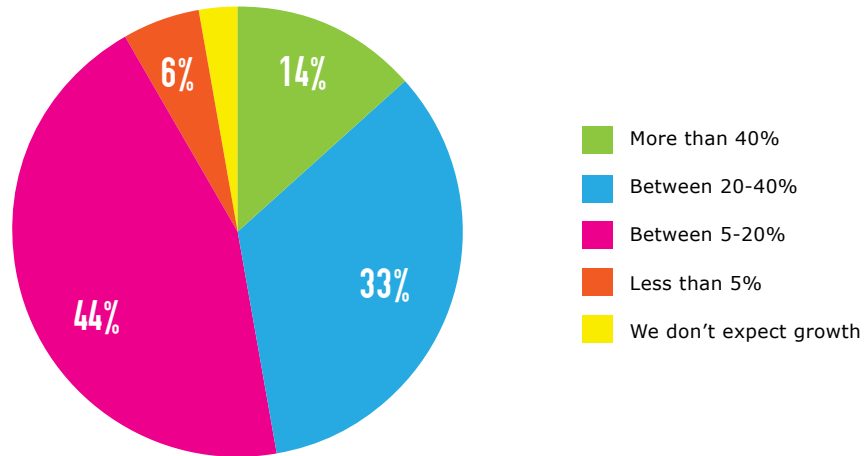
Increased market share and increased fees are expected to be the main drivers of growth over the coming 12 months, and 45% of respondents expect the economy to continue to grow. The trend to establishing strategic alliances continues to increase, with 1 in 6 businesses expecting this to drive revenue growth, while a greater number of businesses are expecting growth from new markets and locations.

18% of businesses are expecting exceptional growth of over 20% in the next 12 months

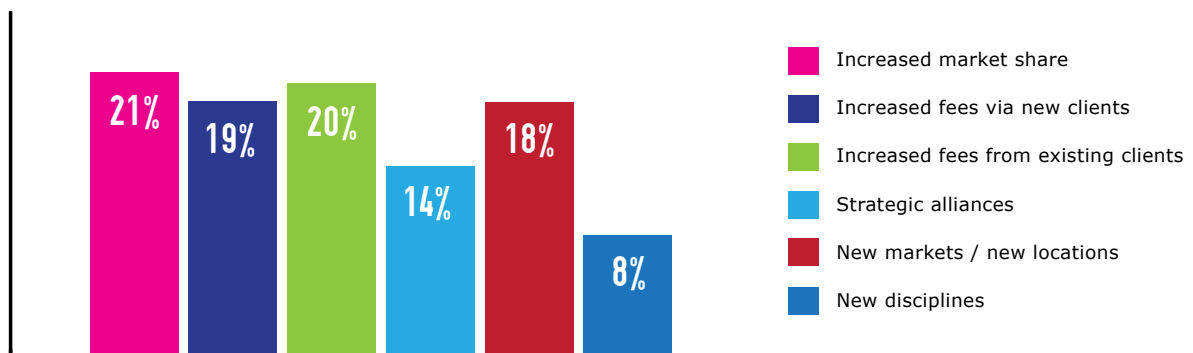
HOW MUCH DO YOU EXPECT REVENUE TO GROW / REDUCE BY IN THE NEXT 12 MONTHS?



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



WHERE WILL YOUR GROWTH COME FROM?



BUSINESS PRIORITIES & ISSUES

Improving operational performance is still the main priority for businesses – approximately 17% of respondents consider this the top priority. Further to that, almost one third of respondents view improving operational performance, productivity and reducing costs as a business priority currently. Not surprising considering businesses are striving to maintain high profit margins in an increasingly tight labour market and uncertain economic circumstances.

Growth continues to be a high priority for businesses moving forward - highlighted by over 16% of our respondents. Alongside this, there has been a significant increase in recruitment, retention and training as a business priority from 12 months ago. Over 12% of our respondents considered this a top business priority for the coming year as opposed to only 6% last year.

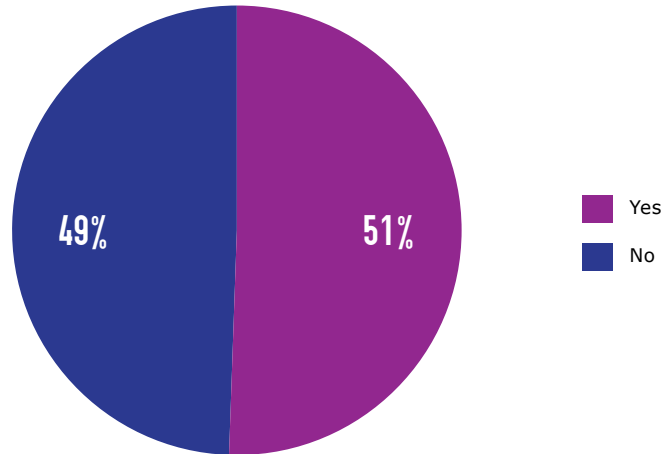
Similarly, companies are increasingly prioritising expansion to new markets and locations.

With over 50% of respondents expecting to have a skills shortage moving forward, a tight labour market continues to tighten!

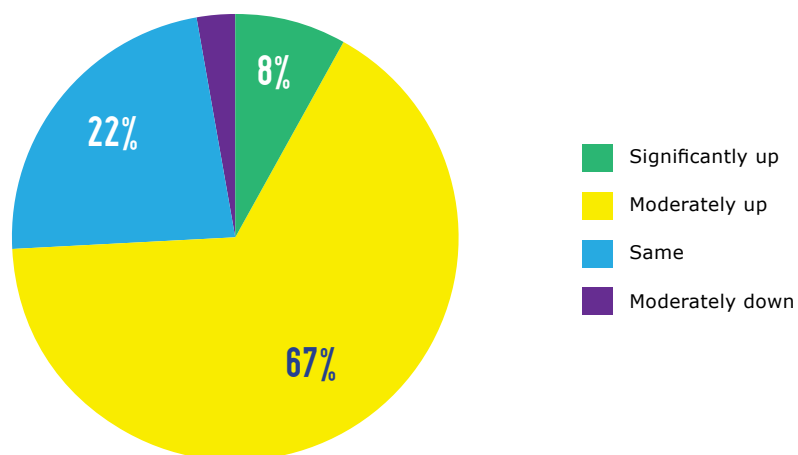
This is aligned with a similar result regarding businesses expecting to increase salary levels - over two thirds expect salaries to be moderately up and just 8% of respondents expect salaries to increase significantly. A similar response to last year – **continued salary restraint!**

Improving operational performance is still the main priority for businesses...

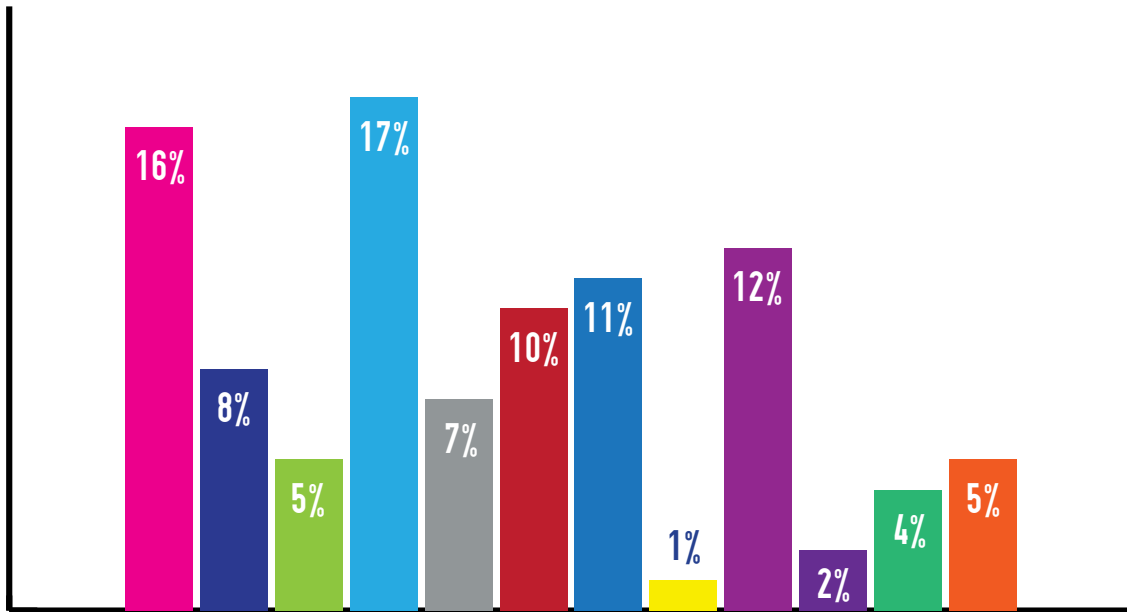
DO YOU EXPECT TO HAVE A SKILLS SHORTAGE OVER THE NEXT 12 MONTHS?



WHAT DO YOU EXPECT TO HAPPEN TO SALARY LEVELS OVER THE NEXT 12 MONTHS?



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



- | | |
|---|--|
|  Growth |  New markets and / or locations |
|  Controlling or reducing costs |  Outsourcing training and development |
|  Innovation and R&D |  Recruitment and retention |
|  Improving operational performance |  Reducing costs |
|  Increasing cash flow |  Technology |
|  Increasing productivity |  Training and development |

BUSINESS PERFORMANCE

There is a strong emphasis on the quality of the work when assessing business performance, and this continues to be a relevant indicator. 30% of businesses consider this the main indicator of business success. Having said that, **financial performance is now considered the main indicator by our survey respondents** (selected by 33%).

20% of respondents consider strong leadership when defining business performance – a similar result to last year. Get this right and you will deliver quality work and strong financial performance.

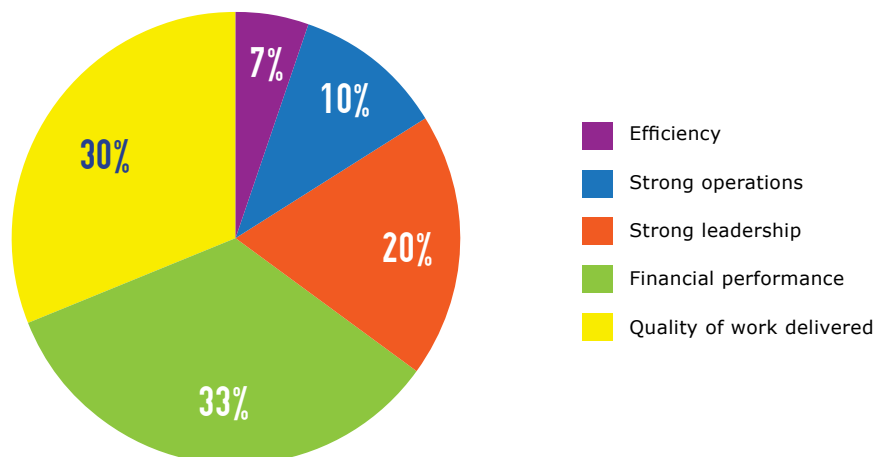
Consistent with our other results and indicators of confidence in the economy, over **90% of our respondents expect to improve their business performance over the next 3 years**. There is also an increase in the proportion of businesses that are very

optimistic about improving their business performance over the next 3 years (30%, up from 20% last year). And the number of businesses that expect to be in a holding pattern is similar to last year (from 5% to 10%).

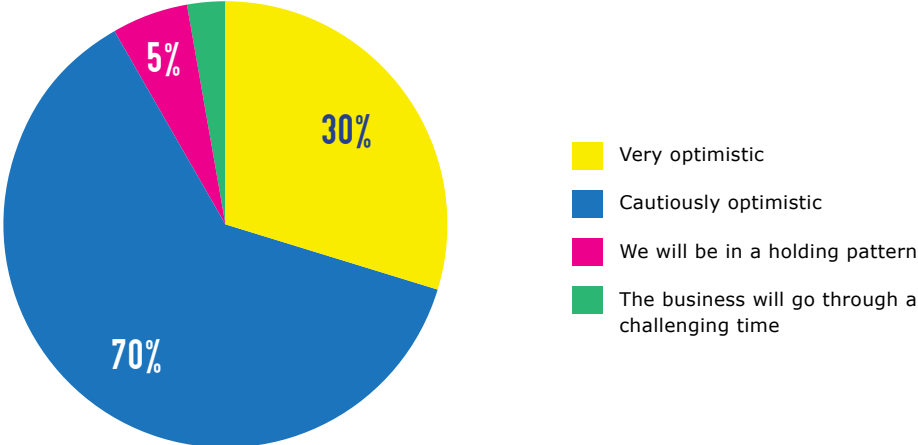
More than half our respondents expect to have a skills shortage in the next 12 months. A sign of the times!

30% 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?



OPPORTUNITY

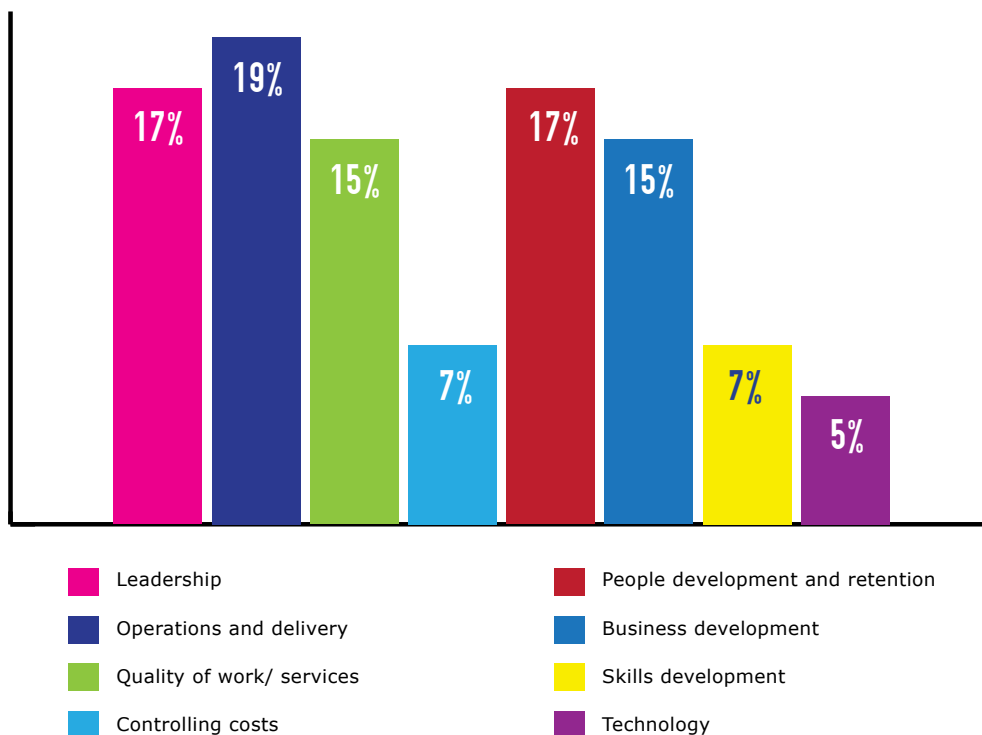
Refining business operations and leadership development continue to be a key focus — both in building capability and delivering quality work and financial performance. The emphasis on strong and effective leadership is increasing. Improving business development capabilities will also be a key driver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

Despite a slightly reduced focus on the quality of work as an indicator of business performance, there's been an increased focus on improving the quality of work or services, with 15% of respondents highlighting this as a priority (up from 7% last year).

Investment in skills development, 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 need to optimise people, skills and a capacity to boost productivity.

Refining business operations and improving leadership capabilities continue to be key drivers

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



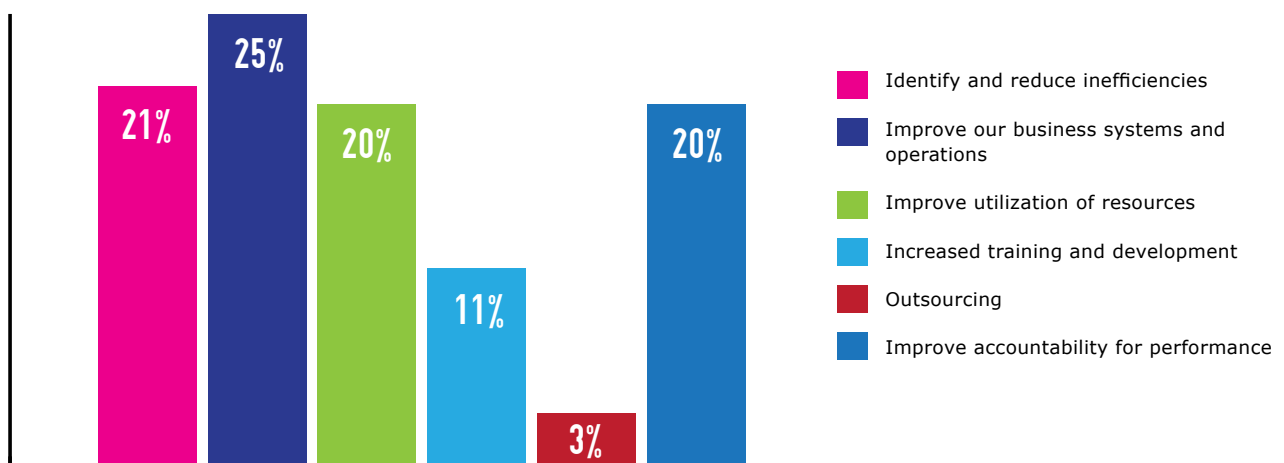
PRODUCTIVITY

Improving business systems and operations will continue to be the major push in 2018, with business leaders looking to measure and optimise performance, and increase output from a tight labour market. Implementing improved business management systems will play a key 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, with 20% of respondents expecting to focus on this. So, improved business systems, training people to focus on this and ensuring accountability are the focus.

There is an expected increase in accountability for performance - 20% of respondents expect to focus on this

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



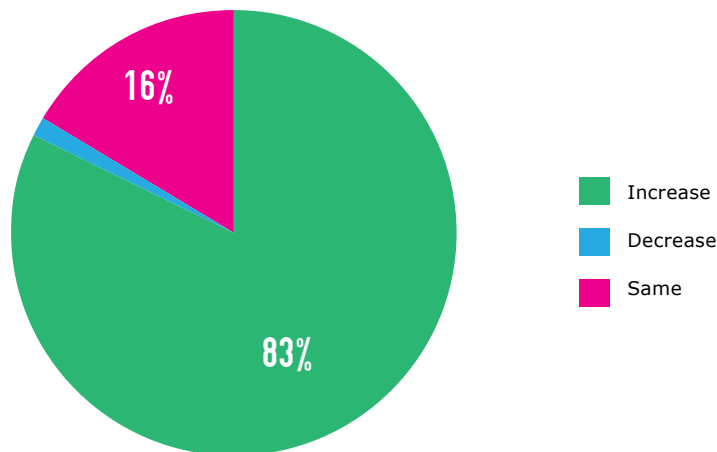
INVESTMENT

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

This year, 83% of our respondents are expecting to increase their investment in these areas (historically approximately 25% have either maintained or reduced their investment).

...83% of our respondents are expecting 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?



PEOPLE

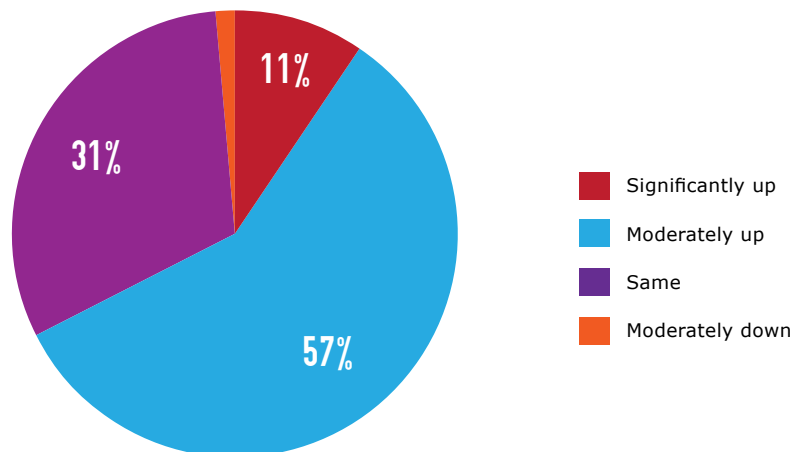
Significantly, more than two thirds of employers responded that they expect to increase their number of employees, with 11% predicting a significant increase.

Hours worked per week is expected to largely stay the same, or only moderately increase.

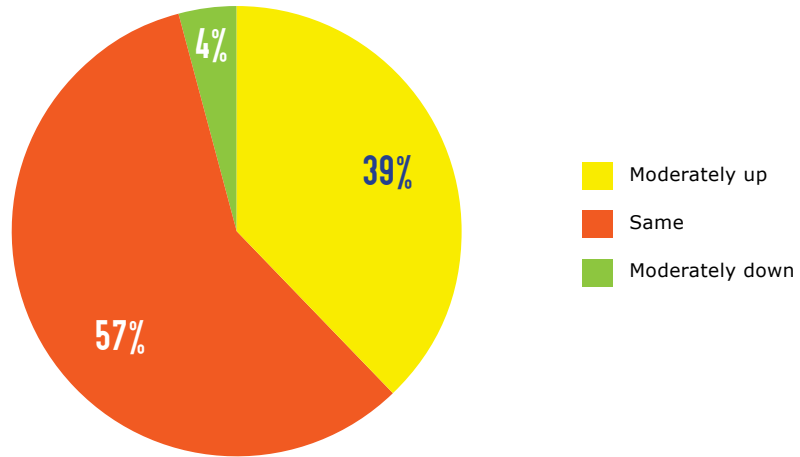
So, in summary – **a talent shortage**, moderate wage increase, similar hours to be worked by people; bring on productivity! Onward and upward? ...we'll see!

...a talent shortage, moderate wage increase, similar hours to be worked by people; bring on productivity!

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?



PRICING

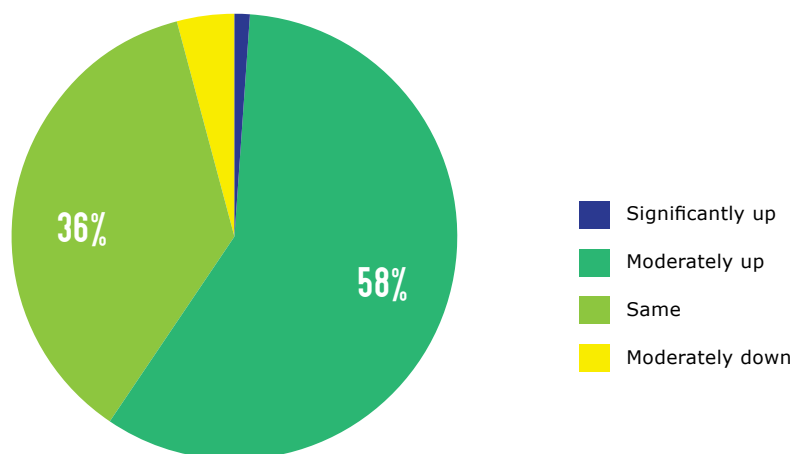
Almost 60% of our respondents expect to increase the price of their services in the coming 12 months after an extended period of price restraint (and reduction!) it appears there has been a catch up from the previous 12 months. It will be interesting to see if this plays out in an increasingly competitive market.

12 months ago, 50% of respondents expected to increase their fees – although we haven't really seen this eventuate consistently across the industry.

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 increasingly competitive environment.

Almost 60% of our respondents expect to increase the price of their services in the coming 12 months

WHAT DO YOU EXPECT TO HAPPEN TO 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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