PERSPECTIVE

# People and efficiency – driving higher performance

## 2019 Strata Management Benchmarking Report

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# Contents

# Welcome

Times are good for strata managers. Across the country, strata businesses continue to enjoy the strong revenues and profits we've observed since first benchmarking the industry in 2006. Yet that doesn't mean every business has been equally successful in capturing the growth opportunities created by a buoyant market.

For this year's report, we've updated our definition of higher performance, using extensive analysis and industry acumen to pinpoint the unique characteristics of Australia's leading strata businesses. Our analysis reveals that around one in four businesses have achieved exceptional revenue growth and profitability, underpinned by engaged staff, above-average productivity, and a focus on client service. As a result, they are perfectly positioned to thrive and grow, no matter what the future holds.

This year's research is also unique in surveying staff sentiment as well as the views of business leaders. Comparing their different perspectives, we found a sizeable gap between employers' perceptions of the factors driving staff engagement and employees' self-identified motivations. The result is a significant opportunity to improve business performance by addressing the issues that truly matter to your staff. Our analysis suggests that the right approach could help you reduce turnover, increase productivity and retain talented people at lower cost – protecting your margins and building a higher performance culture that will underpin future growth.

**Tim MacKenzie**
National Head of Strata
Macquarie Business Banking

# Key findings
## The research

**Participant profile**

Conducted in November and December 2018, our survey captured the views of 202 strata leaders. Covering every state and territory, our survey revealed a mature and flourishing industry, with a healthy population of well established businesses managing a growing number of lots and plans.

Additionally, we surveyed the staff of a sample of businesses, to understand whether the sentiment and drivers of senior leaders resonated through their business.

### Role in the business (leaders survey)

| | |
|---|---|
| Owner | 71% |
| Principal | 11% |

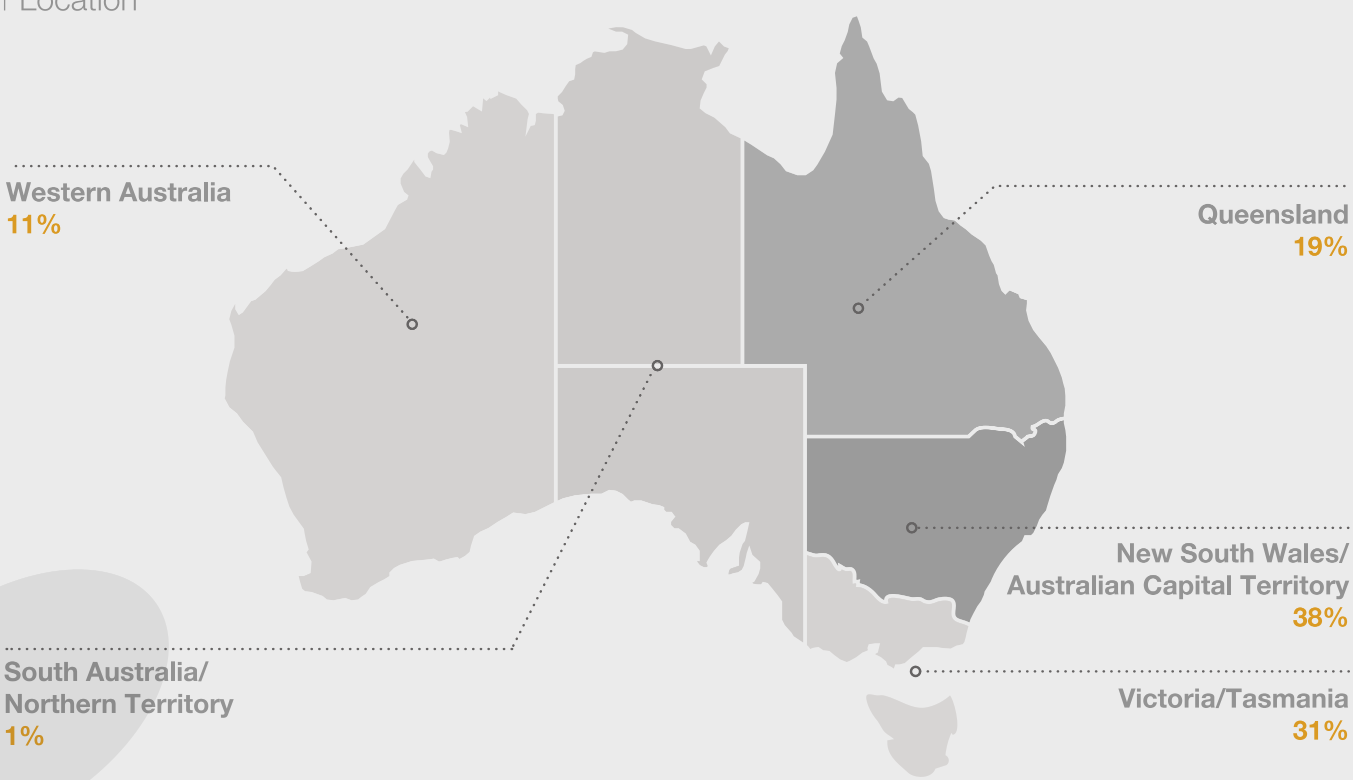
### Average age of participating businesses

| | |
|---|---|
| <4 Years | 16% |
| 4 - 10 Years | 31% |
| 11 Years+ | 53% |

## Average lots managed

| | |
|---|---|
| 2012 | 3,916 |
| 2015 | 3,275 |
| 2018 | 4,906 |

## Location



# Key findings

## Measuring performance: Defining higher performing businesses

For this year's report, we revised our definition of higher performance, to identify businesses which are not only highly profitable today, but which are ideally positioned to thrive in the future. Along with strong current revenues and forecast future growth, our analysis suggests that the proportion of expenses devoted to staff salaries is a key indicator of overall business efficiency, freeing funds for investment in marketing and innovation.

### How we defined higher performance

| | |
|---|---|
| Stable businesses | Revenue ≥ $500,000 a year<br>Number of lots ≥ 1,000 |
| Healthy margins | Profit margin ≥ 25% |
| Ongoing growth | Anticipated revenue growth in 2018/19 |
| Sound cost controls | Salary costs < 33% of business revenue |

22%

of the businesses in our survey were higher performers

# Key findings
# Measuring performance: The secrets of strata's higher performers

While higher performing businesses tend to manage more lots and plans, scale alone is not enough to achieve outperformance. The industry's best performing businesses are those who have learned how to scale efficiently, maintaining a focus on building and protecting profitability.

They do so by driving productivity and efficiency across the business – controlling costs, engaging and retaining talented staff, and maximising the revenue they earn from every customer.

## What makes higher performers different?

| | | Higher performers | Others |
|---|---|---|---|
| **Profit focus** | Proportion with a net profit margin ≥ 30% | **84%** | 31% |
| | Average profit per staff member | **$68,773** | $34,522 |
| **Efficiency** | Average lots managed per staff member | **415** | 350 |
| | Have lifted profits with efficiency improvements | **63%** | 45% |
| **Highly engaged staff** | Strata manager turnover | **10%** | 15% |
| | Have a collaborative and supportive culture | **55%** | 33% |
| **Diversified revenues** | Percentage of revenue from base management fees | **52%** | 58% |
| | Have increased average revenue per customer | **70%** | 59% |

Case study:

# A perspective on performance

Doug O'Mara is Managing Director of Civium Property Group, a diversified property services business with offices in four states. O'Mara believes the next few years will see a transformation in the strata sector, as large businesses with strong balance sheets invest in new technologies that will push down the cost of strata services. He believes that will put many business' margins under pressure, unless they are prepared to change.

Civium's response has been to continually re-invent itself, using new technologies to drive efficiency and automate key processes. "We break our structural model often," says O'Mara. "Just when we get to the sweet spot, we break it and try to improve it again. We've probably changed or enhanced our model three times over the past three years."

**Here are four ways Civium has reshaped its business model:**

## 1.

**Creating efficiencies through automation.**

"Civium is focused on efficiencies that can be generated through investment in IT, artificial intelligence and robotics. We've tried to automate as many roles as we can."

## 2.

**Focusing on client service.**

"We've segmented our roles so that our strata managers are client service managers. When they're out in the field, they can really focus on delivering customer service outcomes."

## 3.

**Creating a diversified service offering.**

"Our services are widening as our systems become more efficient. But you can't effectively sell other things you can do for your client unless they're happy with what you're already doing."

## 4.

**Measuring and improving performance.**

"We monitor every metric at a very granular level: from total revenue per staff member to total resources per dollar of profit. That's why we run a successful business."

# Key findings

## Three trends set to shape the industry's future

### 1.
### Higher performers ready to grow

The industry's outperformers are more productive, profitable and have better staff retention. By working on the sector's core challenges – people, profitable new revenue streams, and brand relevance – they're positioned to capture a larger share of ongoing growth as apartment numbers continue to increase.

### 2.
### Technological transformation

Rather than disrupting strata management, technology offers the opportunity to expand capabilities and add new revenue streams by solving unmet needs in the strata community. Already some businesses are using technology to enhance productivity and create a better client experience at scale.

### 3.
### Employee engagement

Many strata businesses have come to view high levels of staff turnover (particularly strata managers) as an unavoidable cost of doing business. Yet our data shows that business owners who invest in employee engagement initiatives can significantly reduce costs, increase productivity and, ultimately, build a more valuable business – especially as demand for skilled staff continues to grow.

On average, strata businesses expect 19% revenue growth in FY2019

60% of businesses plan to use technology to improve customer experience

89% of higher performers offer commissions and other incentives

# 1. Financial performance

# Revenue: A strong market drives ongoing growth

Buoyed by positive macro-economic trends, driven by high-rise residential construction, the market for strata management services has been consistently positive, with healthy revenues and strong ongoing growth.

84% of businesses in our survey increased revenues between FY2017 and FY2018 – slightly down from our last two surveys, but still an impressive result. Average gross revenues have increased 38% since our 2015 survey, with businesses reporting average growth of 21% in FY2018 alone.

## Average gross revenue

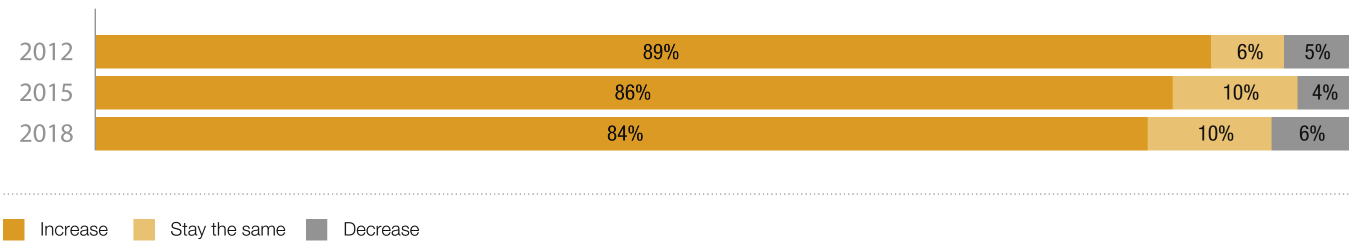
**FY2015: $1,499,090**

**FY2018: $2,062,981**

## Average revenue growth

**FY2018: 21%**

Change in revenue 2012 - 2018



## 1. Financial performance

# Revenue: Lots and plans

Revenue growth has been driven by a steady rise in management fees per lot, together with a rapid increase in average lots managed. Average lots per plan have more than doubled since 2015 as an increasing number of large developments come onto market, especially in Sydney and Melbourne. While that's good news for the industry, it also highlights the importance of creating scalable systems that can reliably expand to manage rapid growth.

| Average lots and plans | 2015 | 2018 |
|---|---|---|
| Average lots managed | 3,275 | 4,906 |
| Average number of plans managed | 234 | 262 |
| Average number of lots per plan | 14 | 34 |

### Average base contract management fees per lot

| | |
|---|---|
| 2010 | $185 |
| 2012 | $197 |
| 2015 | $222 |
| 2018 | $237 |

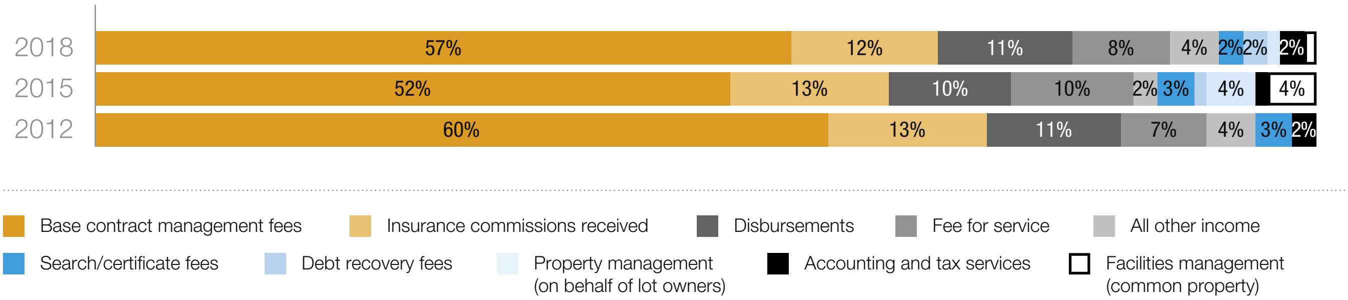
# Revenue: Higher performers lift revenues through diversification

With base contract management fees lifting consistently, most strata businesses have been content to rely on core activities to deliver revenue growth. Our survey shows that revenue sources have actually become less diverse since 2015, with businesses deriving an average of 57% of income from management fees in FY2018. As a result, many businesses may be overlooking opportunities to increase margins by lifting revenues from existing clients. Higher performers are the exception – by offering additional services such as insurance, property management, debt recovery, accounting and tax services, they have increased revenue per lot, lifting staff productivity and overall profitability. The diversification of income offers opportunities to offer greater value to lot owners and buildings, broadens the skill base of staff, spreads income-building activities across a broader base of team members, and is a competitive differentiator amongst industry peers.

## Proportion of revenue from base management fees, FY2018

**Higher performers: 52%**
**Other businesses: 58%**

### Sources of revenue 2012-2018



## 1. Financial performance

# Revenue: Growth forecast to slow

While most businesses anticipate a further lift in lots and plans managed over the next 12 months, the recent strong growth trajectory is expected to slow, as development releases edge lower. As a result, strata businesses will no longer be able to rely solely on an expanding market to provide the same level of growth as recent years. That could put margins under pressure and bring an increased focus on efficiency and productivity – especially among small scheme specialists with lower numbers of lots per staff member.

For those higher performers, this period of slowing building numbers growth may offer additional opportunities to expand into the additional areas of service, while their slower moving peers have an opportunity to focus on diversification of revenue.

### Growth in lots and plans

| | Average growth past 12 months | Forecast growth next 12 months |
|---|---|---|
| Lots | 30% | 24% |
| Plans | 28% | 20% |

### Lots per staff member

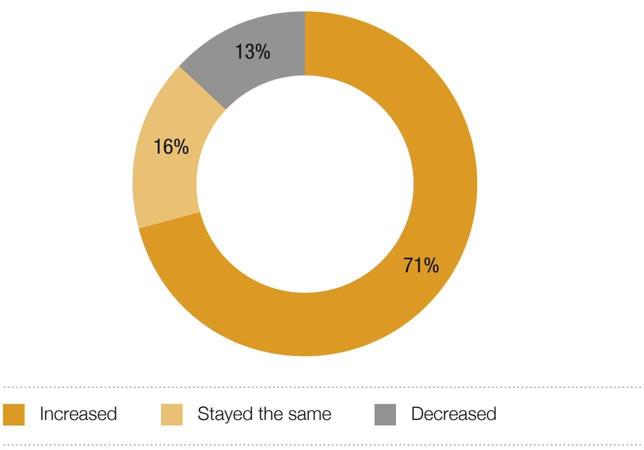
| Small plan specialists | Generalists | Large plan specialists |
|---|---|---|
| 319 | 401 | 478 |

# Profit: Margin pressures edge higher

Profitability across the industry remains extremely strong, with 60% of businesses reporting net profit margins of 20% or more in FY2018. Nonetheless, there are signs of margin pressure. While 84% of businesses grew revenues in FY2018, only 71% increased profits, showing that a significant number of businesses have found it difficult to maintain margins while adding scale. Almost one in four businesses reported slim profit margins of less than 10%.

In contrast, the higher performers in our sample had an average margin of 41%, indicating that they have succeeded in adding scale without compromising productivity or efficiency.

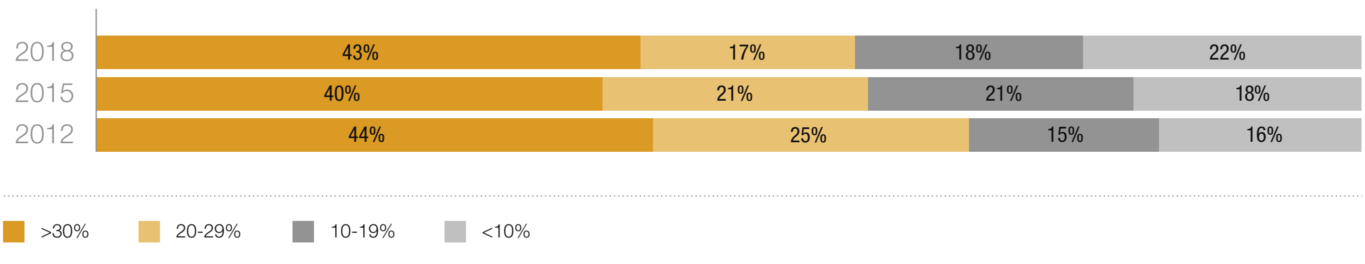
## Change in profit FY2018




### Profit

| | All respondents | | Higher performers | | Other businesses | |
|---|---|---|---|---|---|---|
| | Average | Median | Average | Median | Average | Median |
| Net profit margin | 27% | 24% | 41% | 42% | 23% | 19% |
| Profit | $733,026 | $295,000 | $1,085,602 | $655,000 | $629,167 | $150,000 |

## Net profit margins 2012-2018



## 1. Financial performance

# Finding new efficiencies: Protecting margins through scale and efficiency

Efficiency remains the key to profitable growth, allowing businesses to achieve scale without disproportionately increasing expenses and thus eroding margins.

When we asked businesses with higher profits about what had driven the increase, they were most likely to cite revenue growth, combined with efficiency improvements and cost cutting – highlighting the importance of staying focused on both top and bottom lines. In contrast, those with lower profits attributed the change to increased costs, especially staff costs, and downward pricing pressure.

Notably, high performing businesses were much more likely than others to have grown profits by increasing revenue per client and improving overall efficiency. Many had also increasing marketing activity – further evidence that higher performers have the robust systems required to add scale effectively.

| **Top drivers of profit growth** (Among businesses with higher profits in FY2018) | |
|---|---|
| Revenue growth from new customers | 78% |
| Revenue growth from increasing average revenue per customer | 62% |
| Efficiency improvements | 50% |
| Increase in marketing and sales activity | 36% |
| Cost cutting | 17% |

| **Top drivers of profit decrease** (Among businesses with lower profits in FY2018) | |
|---|---|
| Staffing cost increases | 50% |
| General operating cost increases | 33% |
| Capital expenditure | 28% |
| Lowering pricing to compete with competitors | 23% |
| Clients pressuring you to reduce charging | 20% |

**Reasons for profit growth – higher performers versus others**

| | **Higher performers** | **Others** |
|---|---|---|
| Revenue growth from increasing the average revenue per customer | **70%** | 59% |
| Efficiency improvements | **63%** | 45% |
| Increase in marketing and sales activity | **43%** | 33% |

# 2. People

2. People

# Hiring intentions surge

As demand for strata services grows, so too does demand for skilled staff. Hiring intentions have surged since 2015, with almost three out of four businesses now saying they plan to grow staff numbers in the next 12 months. As a result, competition for staff intensifies, making it all the more important to engage and retain the talented people your business relies on for its ongoing success.

## Percentage of businesses planning to hire staff in the next 12 months

| | |
|---|---|
| 2012 | 48% |
| 2015 | 49% |
| 2018 | 72% |

# Hiring challenges

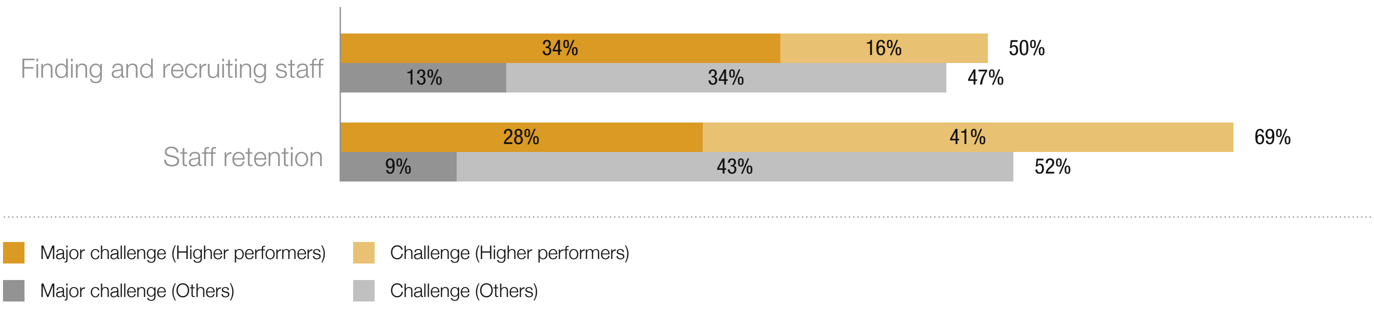
Recruiting people is already a challenge for around two-thirds of businesses, and almost one in two said they found staff retention challenging. Yet while higher performers were less likely overall to cite recruitment as a challenge, those who did so tended to see it as a major challenge, perhaps indicating a greater awareness of the importance of attracting skilled people.

However, despite these difficulties, only a small proportion of businesses said staff issues would be a significant focus area over the next 12 months – many fewer than the 72% who planned to focus on back office efficiency – suggesting that the industry has yet to fully grapple with the ongoing staffing squeeze. Perhaps this lack of focus is due to a lack of belief in the effectiveness of efforts to retain staff, but alternatively, not investing in these efforts seems to have eroded profits over time.

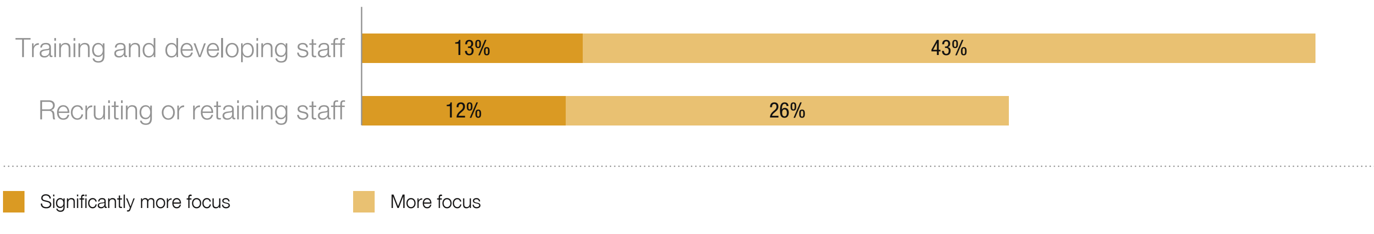
Macroeconomic growth has fuelled revenue lines and new business, but has also been a breeding ground for a level of complacency. Businesses focussed on winning new business at the expense of staff engagement (and, consequently, client experience). When new developments slowed, these businesses experienced no organic growth, and many experienced revenue decline over the “development shadow” period.

Businesses that see employee engagement as key to stability and client experience have dramatically outperformed during the same period. In essence – and as we have consistently conveyed to our client base – stability in your people – engaged staff – has always been the constant in higher performing businesses.

## Percentage of businesses with hiring challenges




## Focus areas over the next 12 months (all businesses)



2. People

# Staff levels and turnover

As most industry leaders would acknowledge, staff turnover remains a significant challenge across the sector, with average turnover of 23.7% across all roles over the last 12 months. Concerningly, strata managers have had some of the highest levels of turnover, along with other administration and support staff.

For businesses seeking to grow, these high levels of turnover can have a significant impact – not only in terms of business interruption and direct recruitment costs, but also through their effect on client relationships, your overall market positioning, and leakage of valuable intellectual property. Notably, higher performers have significantly lower levels of turnover in key positions than their competitors, with 10% turnover of strata managers, compared to 15% among other businesses.

Average number of staff
17.7

Average turnover in the last 12 months
23.7%

Average intention to hire over the next 12 months
18.6%

**Staffing levels and turnover by position**

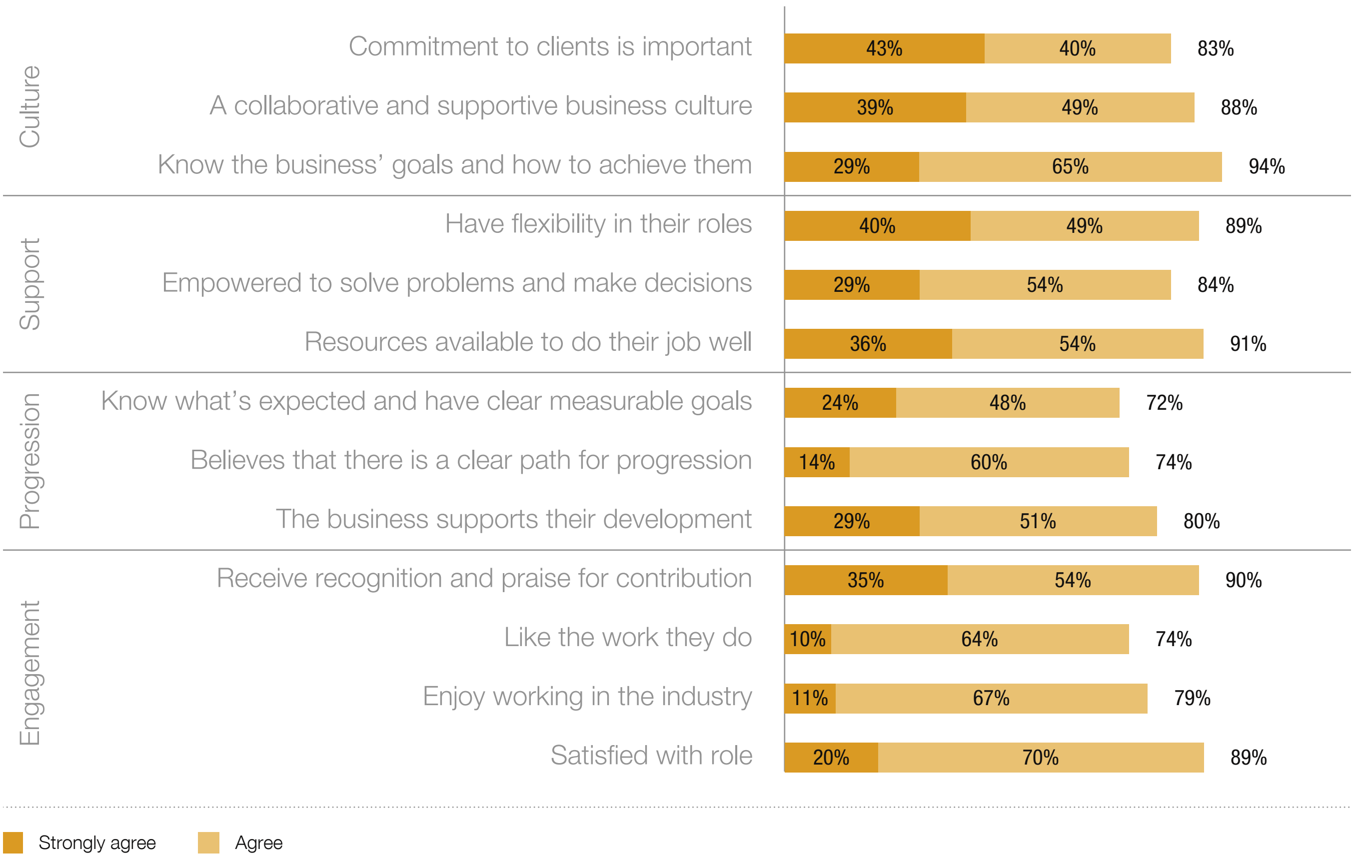
| | Average staffing level (full-time equivalent) | Turnover last 12 months | Recruitment intentions next 12 months |
|---|---|---|---|
| Strata manager | 7.4 | 13.8% | 16.8% |
| Other administration | 3.3 | 22.2% | 24.9% |
| Accounts payable and receivable | 1.3 | 12.6% | 8.7% |
| General Manager | 1.0 | 12.0% | 2.1% |
| Accountant/Financial controller | 0.7 | 4.7% | 3.8% |
| Other (includes IT, facilities management and operations) | 2.8 | 49.0% | 22.1% |

# Engagement: Employer perspective

These findings raise the question: how engaged and loyal are employees across the strata management industry?

When we asked employers to rate the engagement levels of their staff, they gave relatively modest assessments across a range of key indicators. While most agreed there was a strong commitment to client service and that their people believed the business culture was collaborative and supportive, many were less positive about staff perceptions of the level of support they receive. And they were even less positive about staff views of the strata industry, with just one in 10 strongly agreeing that their people enjoyed working in strata and liked the work they do.

## Employee engagement: What employers believe



## 2. People

# Engagement: Employee perspective

Yet our employee survey suggests that many strata business leaders are being unnecessarily pessi-mistic. Employees reported much higher levels of satisfaction than employers' own assessment, with three in four agreeing they were satisfied with their roles and one in three strongly agreeing – including 47% of non-Strata managers. However, they were significantly less likely to strongly agree that the business had a collaborative and supportive culture, and relatively negative in their assessment of goal setting and career opportunities. Strata managers were generally less positive than their colleagues, suggesting there are significant opportunities for employers to improve engagement in key roles.

### Employee engagement: What staff say

| | | Strongly agree | Agree | | Strata manager | Not Strata manager |
|---|---|---|---|---|---|---|
| Culture | Commitment to clients is important | 22% | 52% | 75% | 19% | 28% |
| | A collaborative and supportive business culture | 33% | 52% | 85% | 31% | 34% |
| | Know the business' goals and how to achieve them | 28% | 43% | 72% | 20% | 38% |
| Support | Have flexibility in their roles | 34% | 46% | 81% | 23% | 47% |
| | Empowered to solve problems and make decisions | 37% | 49% | 87% | 34% | 41% |
| | Resources available to do their job well | 34% | 45% | 79% | 26% | 44% |
| Progression | Know what's expected and have clear measurable goals | 33% | 54% | 87% | 29% | 38% |
| | Believes that there is a clear path for progression | 18% | 49% | 67% | 10% | 25% |
| | The business supports their development | 37% | 45% | 82% | 29% | 47% |
| Engagement | Receive recognition and praise for contribution | 21% | 48% | 69% | 14% | 28% |
| | Like the work they do | 33% | 45% | 78% | 23% | 44% |
| | Enjoy working in the industry | 28% | 51% | 79% | 26% | 31% |
| | Satisfied with role | 33% | 43% | 76% | 20% | 47% |

Strongly agree  Agree

# Engagement: The perception gap

These conflicting perspectives give rise to a significant perception gap – the gap between what employers believe their people think, and what they actually believe. Analysing that gap, we found that employers considerably underestimated their people's satisfaction with their roles, their work and the industry. However, they tended to overestimate their people's commitment to client service and their belief that good work will be recognised, along with key aspects of employee satisfaction such as business culture and flexibility.

## Gap between employer and employee perceptions

| | | Difference | Employer % Strongly agree | Staff % Strongly agree |
|---|---|---|---|---|
| Rated higher by employers | Commitment to clients is important for the business | 21% | 43% | 22% |
| | Receive recognition and praise for good work and their contribution to the business | 14% | 35% | 21% |
| | Business has a collaborative and supportive culture | 6% | 39% | 33% |
| | Have fliexibility in their roles, around how and where they work | 6% | 40% | 34% |
| | Have the necessary materials, tools and equipment to do their job well | 2% | 36% | 34% |
| | They know the business goals and how the business is planning on achieving them | 1% | 29% | 28% |
| Rated higher by staff | Feel there is a clear path for progression | -4% | 14% | 18% |
| | Business suports their development | -8% | 29% | 37% |
| | Empowered to solve problems and make decisions | -8% | 29% | 37% |
| | Know what is expected of them and have clear, measurable goals | -9% | 24% | 33% |
| | Satisfied with their role | -13% | 20% | 33% |
| | Enjoy working in the strata industry | -17% | 11% | 28% |
| | Like the work that they do | -23% | 10% | 33% |

## 2. People

# Engagement: What are employees looking for?

These findings raise an obvious question: which factors are most important in attracting talented people to your business, and preventing turnover of these same talented people?

To answer this question, we asked employees to choose the two most important factors they look for in an employer. While attractive incentives and remuneration clearly matter (especially for non–Strata managers), we found that the most important factors were non-monetary, falling into two key areas: a positive, supportive and fun culture; and flexibility in when and where they work. Notably, both are areas where employers currently overestimate staff satisfaction, suggesting once again that there are unrealised opportunities to attract and engage talented people.

### Pull factors – what employees want from their employers

| | | | Strata manager | Not Strata manager |
|---|---|---|---|---|
| Culture | A positive, supportive company culture | 45% | 50% | 38% |
| | A fun and social company culture | 34% | 33% | 36% |
| Core | Attractive incentives/remuneration | 41% | 32% | 53% |
| | Office location | 17% | 9% | 25% |
| | Clarity in role and know what is expected of me | 12% | 6% | 17% |
| | Scope to use my strengths in my role | 12% | 10% | 14% |
| Flexibility | Flexibility in work hours | 37% | 25% | 47% |
| | Workplacce flexibility – so can work from home | 36% | 35% | 37% |
| Growth | Prospects for development and promotion | 29% | 41% | 13% |
| | Feeling empowered to do great work | 20% | 19% | 21% |
| | Training and learning | 13% | 20% | 5% |
| Workload | Adequate resoucing and staff numbers | 28% | 24% | 32% |
| | Realistic expectations of workload | 18% | 25% | 11% |

# Engagement: What drives staff turnover?

Employee turnover is a significant issue for strata businesses, with business leaders increasingly feeling themselves forced to offer ever-increasing remuneration packages for experienced strata managers. However, our survey suggests that while remuneration plays a part in the decision to switch employers, most people leave because of general dissatisfaction; remuneration is a consideration, but not the catalyst for change.

When we asked employees what would encourage them to leave their current roles, most cited multiple factors, including development opportunities, culture and flexibility. So, while remuneration was the most frequently named driver, it was typically accompanied by other, non-monetary influences.

That suggests people generally do not look for alternative employment unless there is something lacking in their current role, such as career opportunities, the flexibility to balance work with personal needs, or a fundamental misalignment of values. However, when they do so, remuneration becomes increasingly important.

### Top 5 reasons for staff turnover

| | Leave current employer | Leave industry |
|---|---|---|
| Remuneration/pay | 58% | 48% |
| Opportunities for development and promotion | 34% | 34% |
| Company culture | 30% | 27% |
| Hours – flexibility | 25% | 21% |
| Location – flexibility | 21% | 16% |

## 2. People

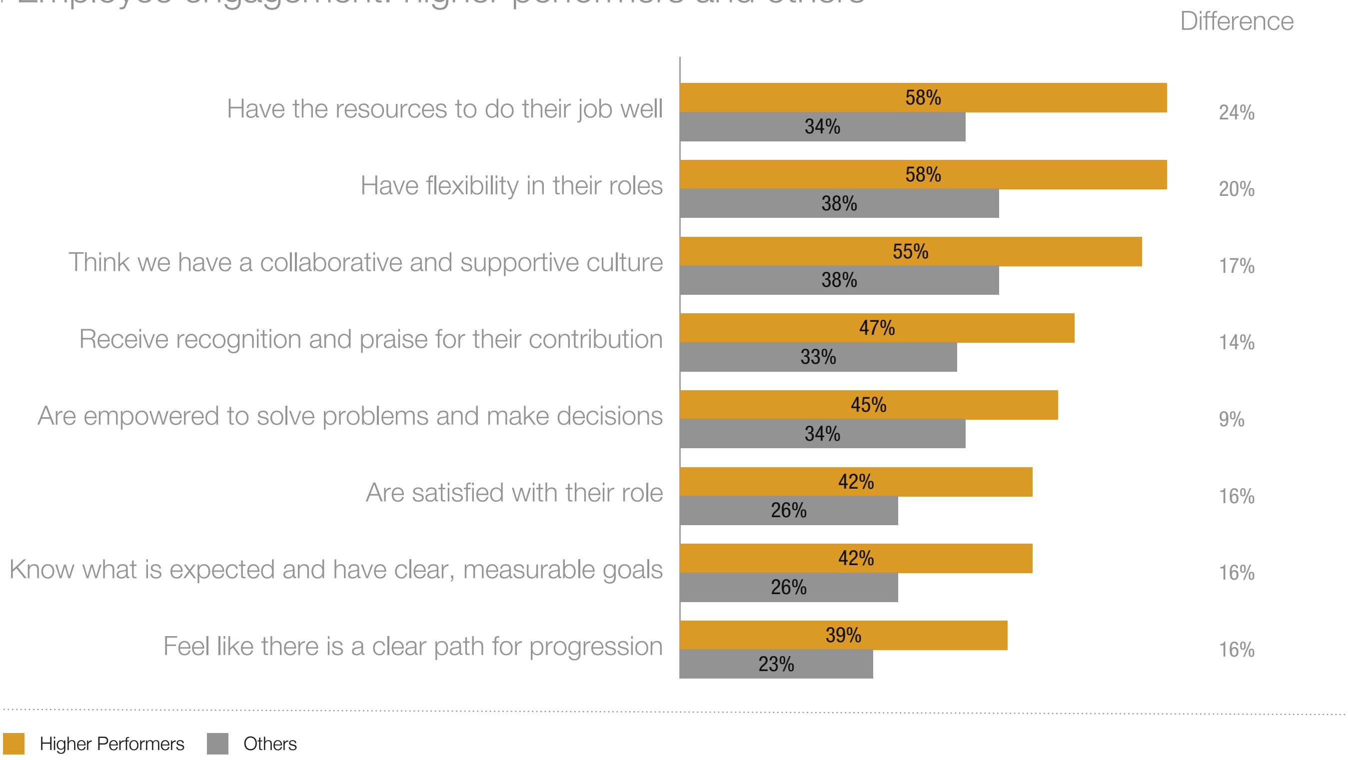
# Best practice: People, productivity and performance

Comparing higher performers with other businesses, we found a strong correlation between employee engagement, productivity and business performance. The turnover of strata managers was 50% lower for higher performers than for other businesses, reducing business disruption and creating a better client experience. And employer-assessed employee satisfaction was significantly higher in areas like job flexibility, culture and recognition – factors employees say are important in choosing an employer. Together, these higher engagement levels help to create the conditions for significantly higher productivity, with the average high performing business managing 19% more lots per employee and generating almost twice as much profit per employee.

**Staff productivity – higher performers versus others**

| | Higher performers | Others | Difference |
|---|---|---|---|
| Average lots managed per staff member | 415 | 350 | 19% |
| Average profit per staff member | $68,773 | $34,522 | 99% |
| Strata manager turnover | 10% | 15% | 50% |

Employee engagement: higher performers and others



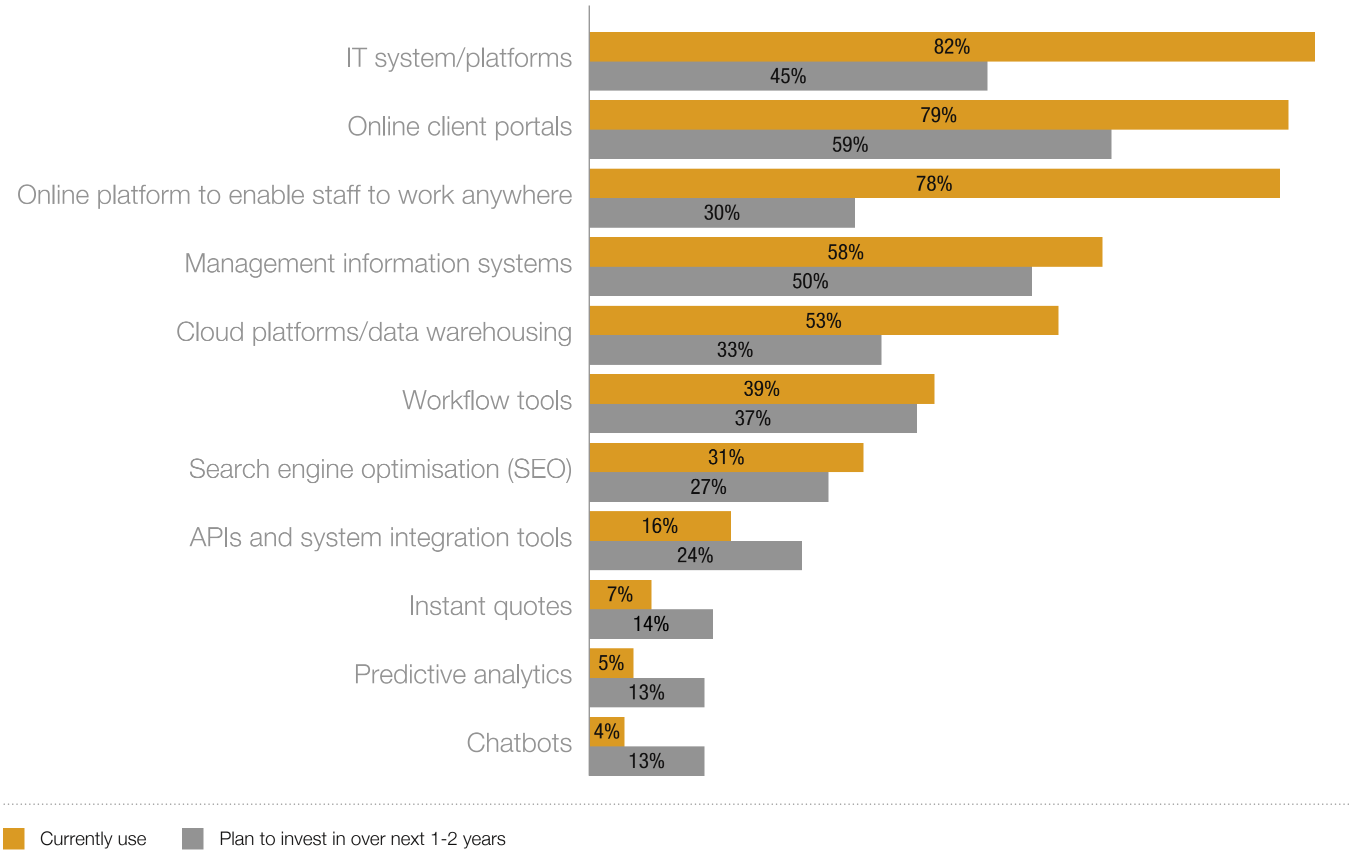
# 3. Operations and technology

## 3. Operations and technology

# Technology use – ubiquitous and set to grow

Technology use has grown markedly since our last survey, with some technologies becoming almost ubiquitous across the industry, including online portals and staff flexibility tools. Others look set to become equally widespread over the next few years, with an overwhelming majority of businesses either currently using or planning to invest in management information systems, cloud platforms and workflow tools.

### Current and planned technology use



# Investment focus areas

Increased technology adoption has seen investment levels edge higher, with around one in 10 businesses investing more than $150,000 in FY2018, double the proportion of three years earlier. Driving this increased focus on technology are an increased focus on client experience and back office efficiency; both key factors in businesses' ability to scale effectively. Nonetheless, most find it at least somewhat challenging to keep up with technological change, pointing to further opportunities to leverage innovation in future.

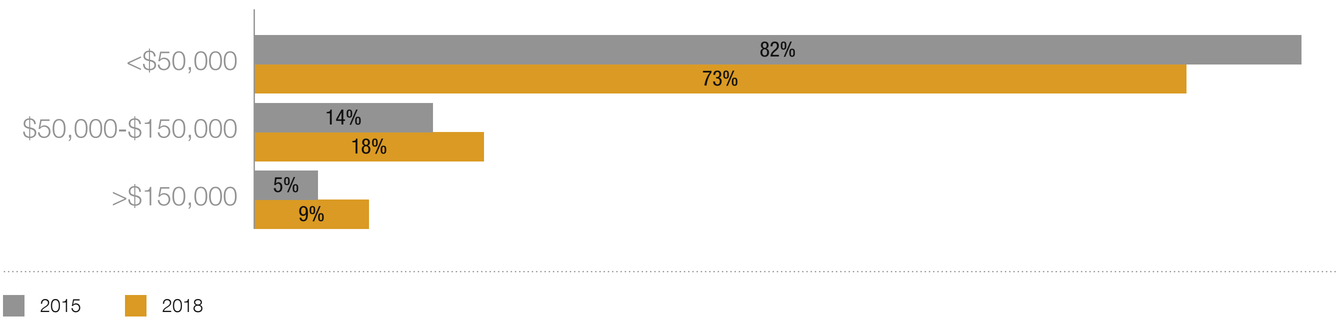
### Investment focus areas for the next 12 months

| | Significantly more focus | More focus | Total |
|---|---|---|---|
| Technology to improve customer experience | 21% | 40% | 60% |
| Technology to drive internal efficiency | 20% | 41% | 60% |

### Technology challenges

| | Major challenge | Challenge | Total |
|---|---|---|---|
| Keeping up with technology | 11% | 56% | 68% |

Technology investment over the last 12 months



## 3. Operations and technology

# Who's investing in innovation?

The strata industry has not increased its level of investment since 2015; 82% of respondents invested less than $50,000 in technology in 2015, compared against 73% in 2018. This shows that the industry lags others in terms of focusing on technology as a business enabler.

What we see from other industries is that when technology is harnessed to operational efficiency and staff engagement initiatives, the result is higher performing businesses, with more engaged and retained staff. In addition, these businesses enjoy higher profit margins, and greater stability in times of industry or macroeconomic turbulence.

In the strata industry, which has enjoyed significant revenue growth due to macroeconomic factors, the profitability of the industry has not squeezed businesses, and thereby not forced consideration for investment in operational efficiency and technology. However, increasing staff costs have slowly eroded profit in the industry, and when this combines with a slowing of construction, a requirement to invest will become more urgent.

Another observation is that stability in staffing occurs in businesses which operate efficiently. This happens with harnessing technology to systems. There is lower churn in staff.

Some businesses are investing for greater client experience, needs and services. The flip side is some are investing to reduce internal operational deficiencies. Larger businesses tend to have higher rates of employee turnover, and higher building turnover. Whilst revenues grow, margins contract. Technology becomes a greater focus to solve internal efficiency and employee requests for support.

Analysing the 27% of businesses who invested more than $50,000 in technology over the last 12 months, we found a number of distinctive features. Higher technology investors tend to be larger and more established businesses, with around three times as many lots and five times as many employees as their peers. They are also significantly more likely to be focused on increasing efficiency and reducing costs. And they tend to have relatively good levels of productivity when measured in terms of lots per strata manager. However, they are not necessarily higher performers, with the latter group only marginally more likely to invest in technology than other businesses.

Maturity of business certainly plays a role in terms of adoption of technology, particularly as it pertains to improving the efficiency of operations. It takes time to understand the pain points within a business, and to explore options to automate or use technology to alleviate.

### Profile of a technology investor

| | Higher investor | Other businesses |
|---|---|---|
| Average lots | 9,815 | 3,224 |
| Average plans | 473 | 189 |
| Lots per strata manager | 1,052 | 869 |
| Large scheme specialist | 31% | 14% |
| In business 11+ years | 74% | 43% |
| Number of offices | 3.7 | 1.6 |
| Staff (full time equivalent) | 42.8 | 8.8 |
| Number of offer areas | 1.4 | 0.6 |
| Average revenue | 7,521,172 | 1,404,049 |
| Average profit | 1,540,365 | 461,760 |
| Focused on technology to drive efficiency | 76% | 54% |
| Focused on reducing costs | 48% | 29% |
| Focused on client experience | 44% | 25% |

Case study:

# Creating new revenue streams

Since 2011, Netstrata has been developing its own proprietary strata management software – enabling the business to drive greater efficiencies and enhance the client experience. Managing Director Stephen Brell explains four ways technological innovation has helped Netstrata grow their business.

**Automating manual processes.**
An integrated document management and creation system provides a single source of knowledge, accessible from anywhere, and allows staff to generate and send meeting minutes, work order notices and other documents in moments. "What was once a six-step process is now a click of a button," Stephen says. "It gives us a lot more productivity."

**Scaling up efficiently.**
The internal efficiencies created by the software have helped Netstrata capture more growth and overcome the challenge of finding staff to manage large properties, with growth of 15-20% pa. "The software is intuitive, it does a lot of processes for us," Stephen said. "So we find that training staff is very simple and our staff can do more sooner".

**Creating self-service platforms.**
Property owners have 24-hour access to a self-service online portal that puts everything they need at their fingertips, including financial reports, meeting minutes, plans and specifications. "it's definitely a better customer experience," says Stephen.

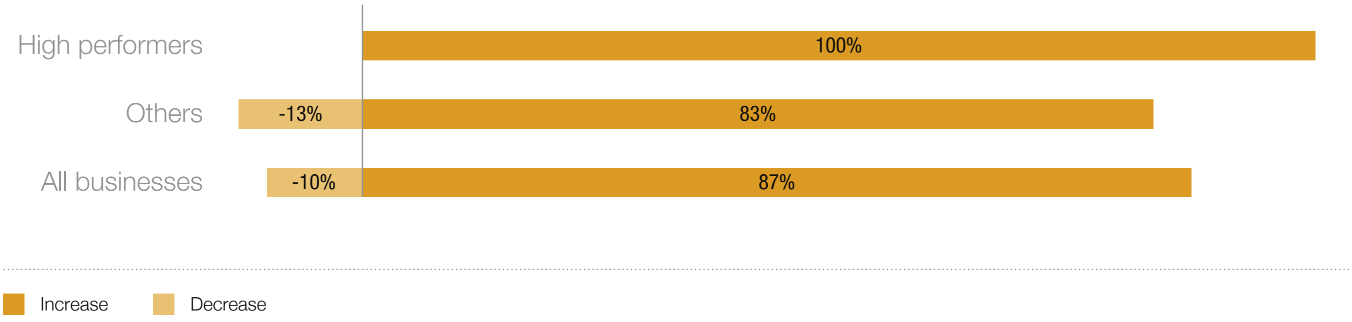
**Diversifying their service offering.**
Netstrata have been able to effectively integrate insurance broking and strata management services, with the software facilitating a streamlined exchange of data across different areas of the business. Leveraging the capabilities of technology, the firm intends to expand their offering even further in the future. "The strata business will be the hub that connects clients to all community services, providing a complete experience for the residence," Stephen says.

# 4. Outlook

# Financial forecasts

An overwhelming majority of businesses expect healthy market conditions to continue, with 87% predicting further revenue growth. But the consensus view is that the level of growth will edge lower in FY2019, from 21% to 19%, as growth in new lots and plans weakens.

## Revenue forecasts for FY2019



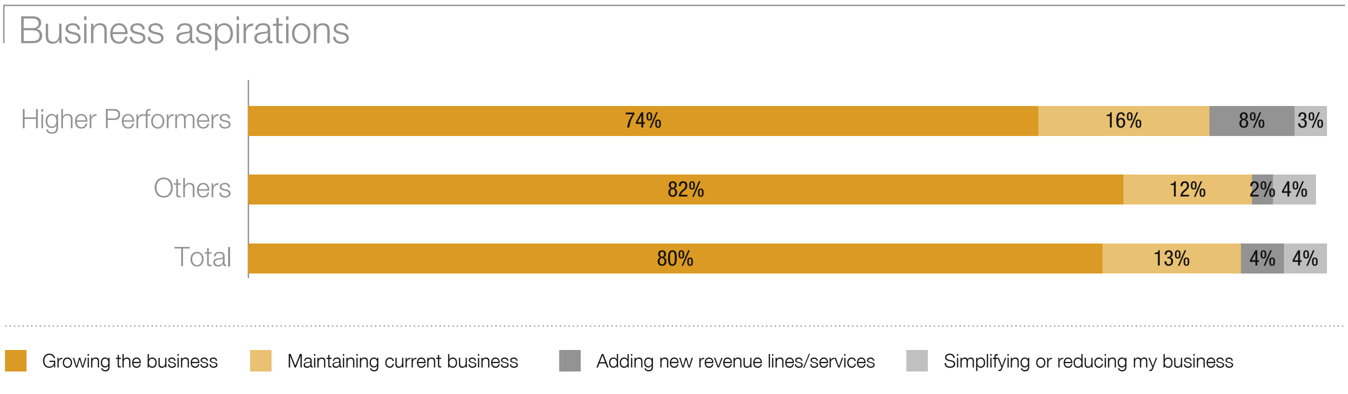

## Average expected revenue growth FY2019

19%

4. Outlook

# Business planning

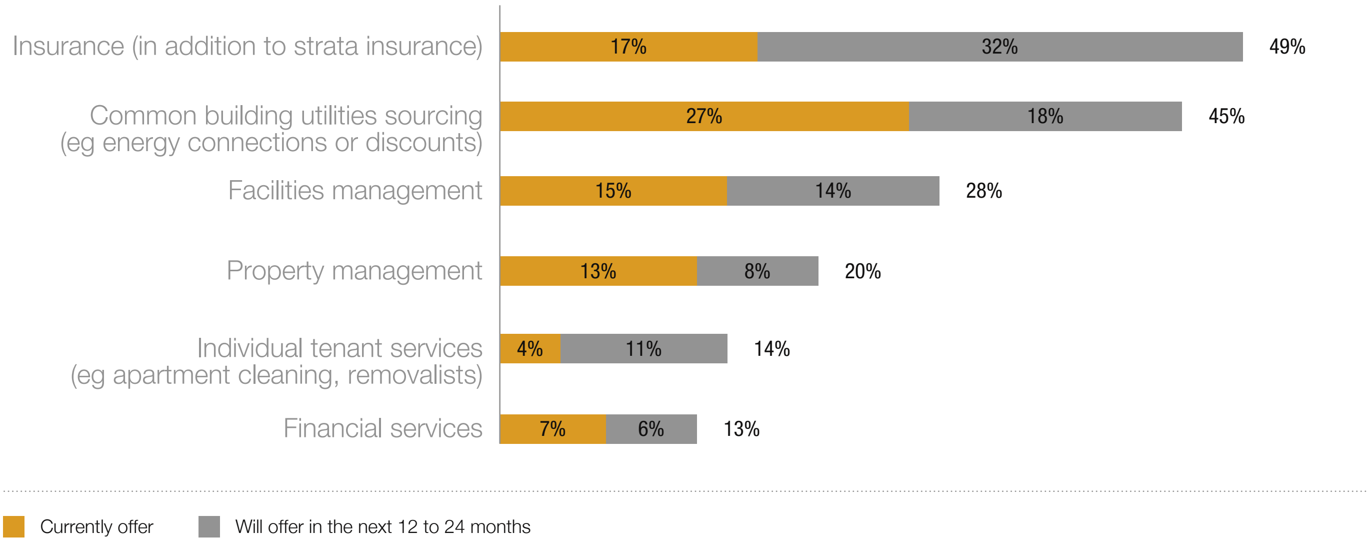
Asked about their plans for the future, eight in 10 business leaders said they hoped to grow their business further, taking advantage of the very positive macroeconomic environment. Higher performers were most likely to say they were happy to maintain their business in its current flourishing state or planned to diversify by adding new revenue lines. And unlike 2015, when 10% of business owners described themselves as willing sellers, no respondent in our benchmarking survey said they intended to exit by selling or passing on their business.



# Expanding the service offering

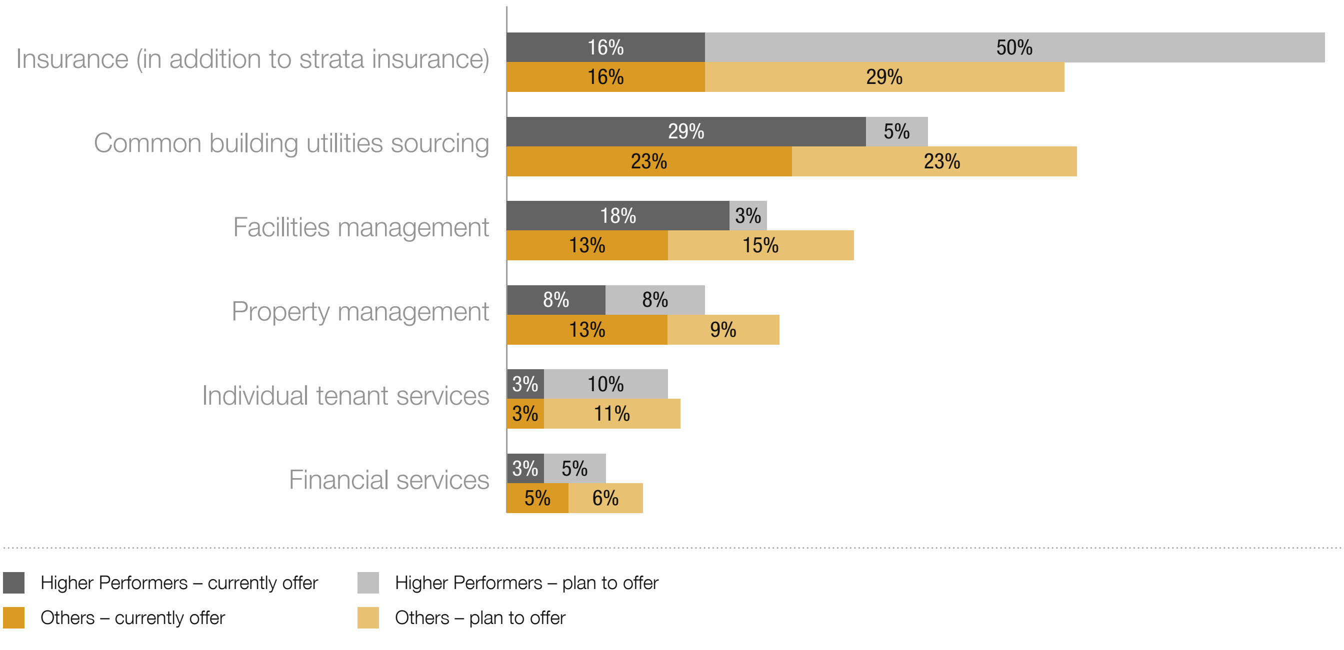
Many businesses were planning to expand their service offering, with insurance (other than strata insurance) the most popular new offer area. That makes sense; those who currently offer insurance services say they contribute 10% of their current revenue, with 76% agreeing that number can be increased. Higher performers were most likely to already offer a wide range of services, and were also most likely to be planning to add insurance to their offering, with one in two intending to do so within two years.

## New offer areas (all respondents)



# Expanding the service offering

## New offer areas: higher performers v other respondents



# Best practice

## How you can sharpen your performance

A holistic view of clients, willingness to invest, and a focus on people drives the greatest opportunities for business.

### 1. People

Consistently the key factor in higher performing strata businesses a is stable employee base.

Employee engagement, workplace flexibility, and purpose are key areas that many higher performing businesses consistently focus on.

Career development, employee recognition and delivering into your business purpose are all essential elements, yet often not given the focus or attention, as compared against other business priorities.

The importance of attracting and retaining good people will be one of the largest challenges and opportunities for businesses going forward. Finding talented people that fit your culture and vision, and nurturing them, will help your business to prosper and grow, outperforming your industry peers.

### 2. Brand

Word of mouth is still the primary source of organic growth, which is driven for strata manager consistency and good supplier relationships.

Higher performing businesses are broadening their 'value proposition" into the wider lot owner community – adding value via services not generally associated to strata management, such as cleaning, energy discounts or broader insurance offerings. If delivered well, lot owners associate the business more with helping and solving – value adding – rather than 'just managing'. People remember a great experience and are more likely to both remember and recommend the 'brand' to the broader community.

### 3. Profit

Good employee retention, coupled with added value into the community of strata provides opportunity to monetise solutions or additional services.

Simply put, changing the dial from a process and growth mindset and successfully evolving to people, brand and profit creates greater outcome in terms of profit, but also enterprise value (a multiple of profit).

The strata industry, on average, makes $125 per lot in EBITDA. Creating a profitable new service – say $20 per lot owner per annum has a dramatic uplift in business. An annual profit increase of 4% but a potential capital increase of 16%.

# Notes

# Ready to learn more

**If you'd like to learn more about putting our best practice insights to work in your business, please get in touch.**

**Tim Mackenzie**
National Head of Strata
Macquarie Business Banking

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