



# Current Challenges for the Industry

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# Coverage

- Current state of the industry
- What direction for the industry?
- The emergence and impact of industry consolidation
- The changes that are likely to follow
- Challenges for consolidators
- Challenges for everyone else
- Common factor – increasing value of businesses
- Other risk factors for Queensland



# Current State of the Industry



- Efficiency issues at both business and portfolio management levels
- Little or no focus on strategic planning
- Customer focus and service level issues
- Basic technology – no strategy or capacity to improve
- Poor marketing
- Low profitability



# State of the Industry (continued)

- Widespread staffing issues
  - Low wage structure
  - Staff shortages
  - Low skill levels – lack of qualifications in key roles
  - Poor HR practices
  - No focus on training and skills development
  - No defined career paths
- Cottage industry (in transition)



# What direction for the industry?

- Must move to a professional services model
- Must embrace “internal professional management”
- Must capitalize to fund business technology
- Must re-engineer portfolio management processes
- Must use technology to automate processes
- Must re-focus its service offering





How will this happen

?



# The most likely way is -----

## INDUSTRY CONSOLIDATION

- Some large firms will become larger
  - Organic growth
  - Merge with each other
  - Acquire smaller firms
- New firms with a charter for consolidation will emerge
- Some small firms will become larger



# The “drivers” of consolidation

- Consolidation trends in the service industry sector generally
- Current profile of the strata management sector
- Age and objectives of a significant proportion of principals
- Regular debt free cash-flow





# The “drivers” of consolidation

(Continued)

- Amount of money handled by the sector
- Underperforming nature of the sector
- Opportunity to aggregate and vertically integrate the supply of goods and services to stakeholders
- Rapid future growth profile



# Likely changes



- Strategic and professional business management
- Quantum leap in technology
- Process re-engineering
- More focused portfolio management (People + Core asset)
- Aggregation and vertical integration of goods and services supply chain
- Per lot revenue increases
- Increased profit margins



# The challenges for the consolidators



- Raising on acceptable terms the large amount of capital required
- Limiting the role of adventure capitalists
- Finding executives experienced in managing rapid growth strata businesses
- Funding the technology and systems process infrastructure



# The challenges for the consolidators

(Continued)

- Finding sufficient quality businesses to acquire
- Managing the integration process
- Finding suitable portfolio managers
- Increasing revenues per lot without destabilizing clients
- Charting and achieving an exit strategy



# The challenges for everyone else



- How to position yourself
  - Compete head on
  - Make yourself attractive (i.e. prepare to be a seller)
  - Become a boutique player
  - Do nothing
- How to judge the timing
- How to increase the value of your business



# Increasing the value of your business



The value of a BCM business is influenced by –

- Value of physical assets
- Quality of the portfolio
- Contracted fee revenues
- True profitability of the business
- Strategic relevance to the buyer



# The tenets of quality



- Size and nature of buildings in the portfolio
- Total revenue per lot per annum
- Length of management agreements
- State of the body corporate records
- Customer satisfaction levels



# Fees and profits component of value

- Traditional valuation method – rate per \$1.00 of contracted revenue
  - \$1.60 per \$1.00 is the “norm”
  - .75¢ - \$2.80 is the “actual”
- Likely new valuation method – earnings based methodology
  - Capitalization of future maintainable earnings





# Risk factors (Queensland focused)



- Ability to meet service level demands
- Government reaction to dissatisfaction levels
- Changes to the body corporate manager's regulatory environment
- Changes to the body corporate regulatory environment
- Continuing low growth of fee levels



# Risk factors

(continued)

- Lack of capacity to invest in business infrastructure
- Continuing labour and skills shortages
- Future activity in the management rights sector



# Summary



- A number of challenges face the industry in Queensland
- Many of those challenges are structural
- BCM's need to undertake a strategic review of their businesses to determine future positioning
- This is likely to lead to a “consolidation”, “growth” or “exit” strategy
- All should focus on increasing business value





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