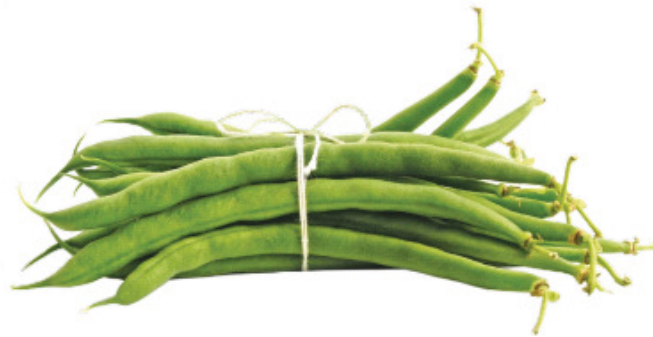


# Ray White Partners Retreat 11<sup>th</sup> June 2009

**UHY** Haines Norton  
Chartered Accountants



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## John Knight

# Overview

- > As always our focus is on profits not sales!
- > Our specific focus in recent times has also been to;
  - a) Reduce risk
  - b) Reduce exposure
  - c) Reduce breakeven
- > Improving efficiency = reducing waste
- > Processes either add 'value' or 'waste'
- > Waste can account for **up to 30%** of the operating costs of an organisation

# Overview

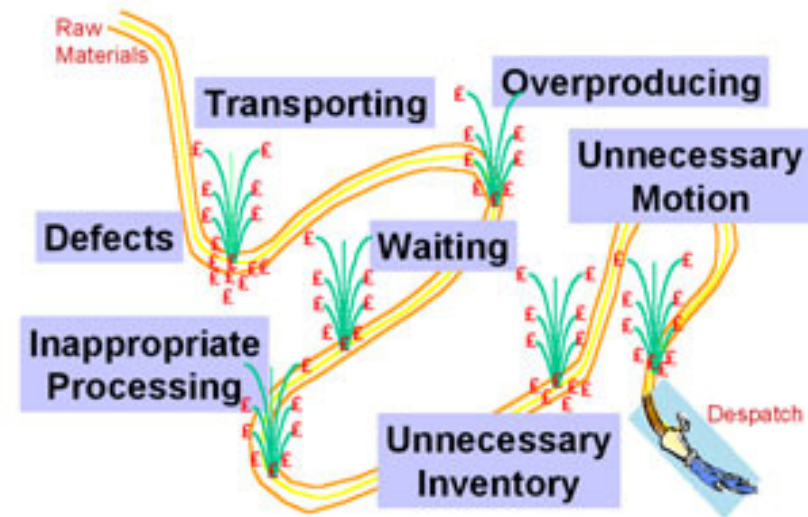
1. Identifying waste
  - Basic benchmarking
  - Types of waste (7 Deadly Wastes)
2. Strategies to remove waste
3. Top financial issues
4. Questions

# Waste

- > To combat the impact of this waste, most businesses will devote more and more energy to increasing sales, however pushing more business through an inefficient system makes no sense.
- > Toyota, the Japanese automobile manufacturer, after years of work to remove waste from their business, identified seven common areas of waste.

# 7 Deadly Wastes

- > 1. Overproduction
- > 2. Waiting
- > 3. Transporting
- > 4. Inappropriate Processing
- > 5. Unnecessary Inventory
- > 6. Unnecessary Motions
- > 7. Defects



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# Application to your business

- > Although based on a manufacturing environment, these categories of waste can be applied to ALL businesses.
- > Real Estate business are different to many more traditional businesses but the 7 Deadly Wastes are still relevant.
- > Apply to the 4 areas of your business:
  1. Sales
  2. Property Management
  3. Administration
  4. Directors
- > Create a culture where waste is not the norm!

# Benchmarking

- > Benchmarking can play a valuable role in identifying waste.
- > Usual precautions need to be taken when benchmarking your business.
- > The purpose of the questionnaire sent earlier this week was to enable us to undertake some very basic benchmarking of key drivers within your businesses.
- > I want to discuss the results in an attempt to identify areas of potential waste in your business.

# Benchmark Sample \*\*

- > 18 offices responded
- > Average sale price = \$482,835.
- > Average number of properties sold per month\* = 13
- > Average gross sales per month \* = \$6,529,387
- > 7 respondents had average sale price > \$500,000
- > However, everything is relative to size and some of the smaller business can be the most profitable.

\* Excluding new offices or offices that did not operate for the full year.

\*\* All results are based on sales for the 10 months from July 08 to April 2009.

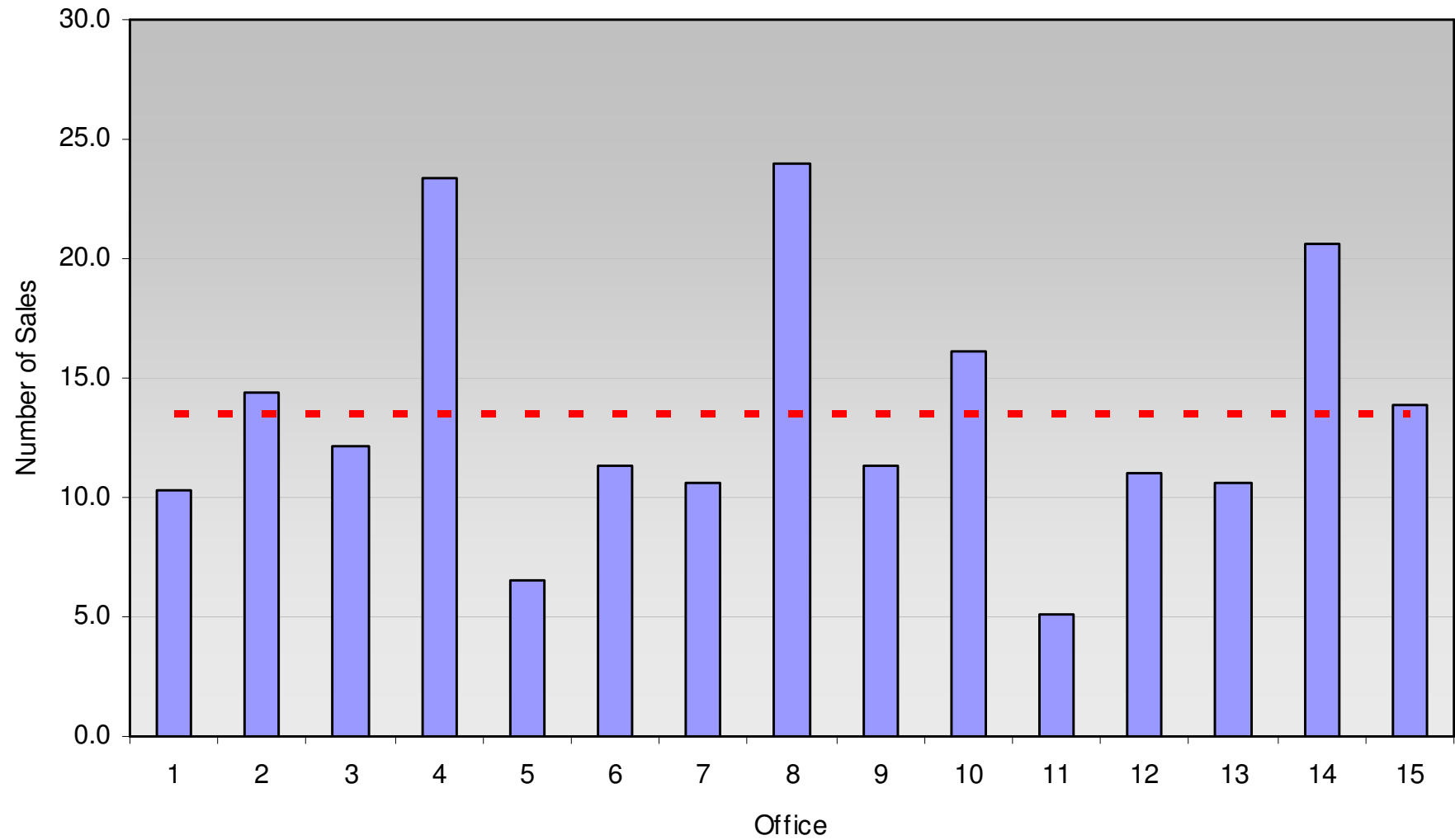
# Sales Staff

- > Average number of salespeople per office\*\* = 12.4
- > Median number of salespeople per office = 19
- > Average excluding new offices\* = 13.8
  
- > Average annualised number of sales per salesperson\* = 13.4
- > Maximum annualised number of sales per salesperson\* = 24
- > Minimum annualised number of sales per salesperson\* = 5.1

\* Excluding new offices or offices that did not operate for the full year.

\*\* Excluding principals.

Average Annualised Number of Sales per Salesperson



# Sales Staff

- > 6 respondents had above average number of sales per person
- > Are staff being utilised to their full capacity?
- > Does this in itself represent waste?
- > What are our expectations?
- > Do our commission structures reflect our expectations?

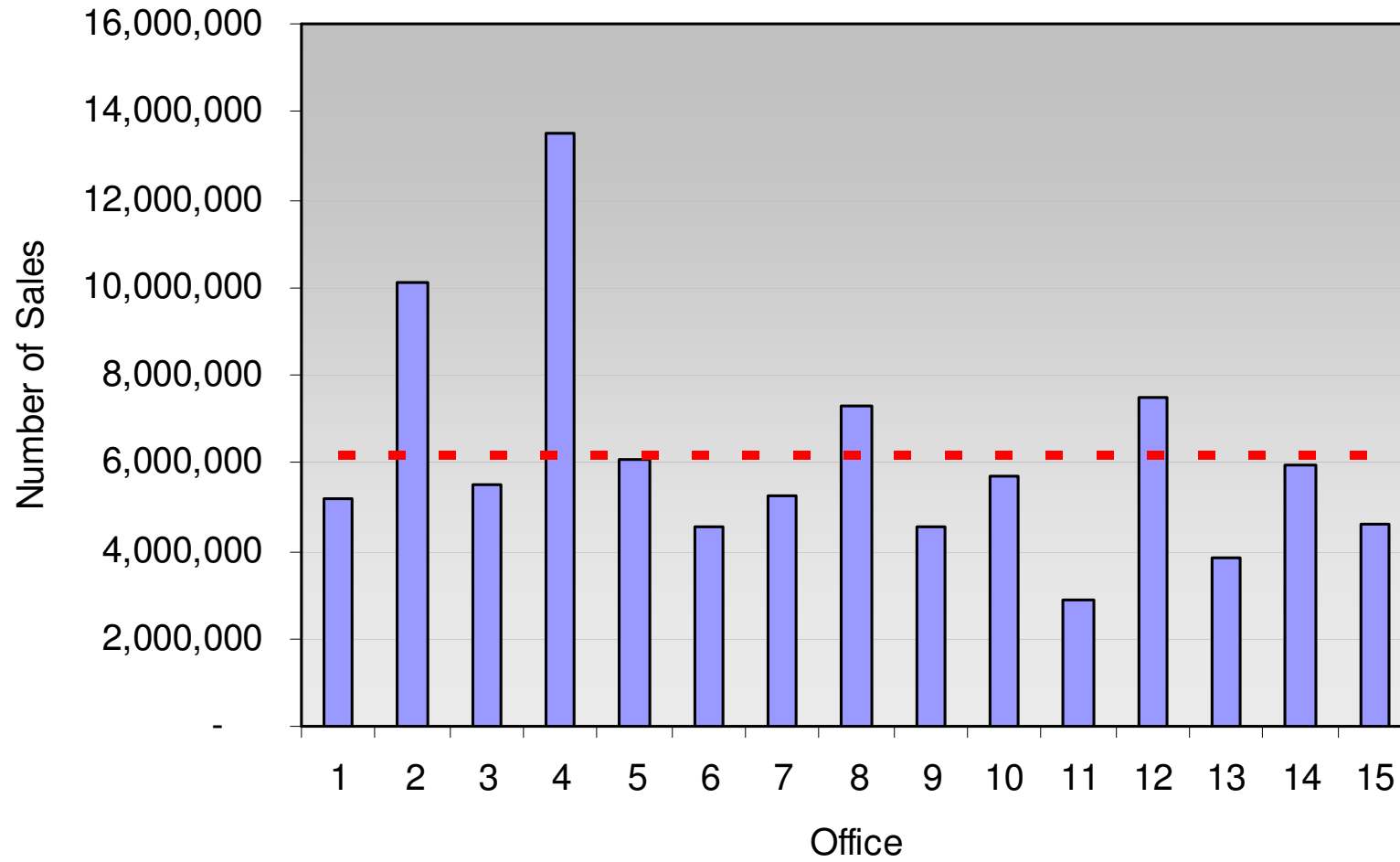
# Sales Staff by Value

- > Average annualised value of sales per salesperson\* = \$6.16m
- > Maximum annualised value of sales per salesperson\* = \$13.5m
- > Minimum annualised value of sales per salesperson\* = \$2.83m

\* Excluding new offices or offices that did not operate for the full year.

\*\* Excluding principals.

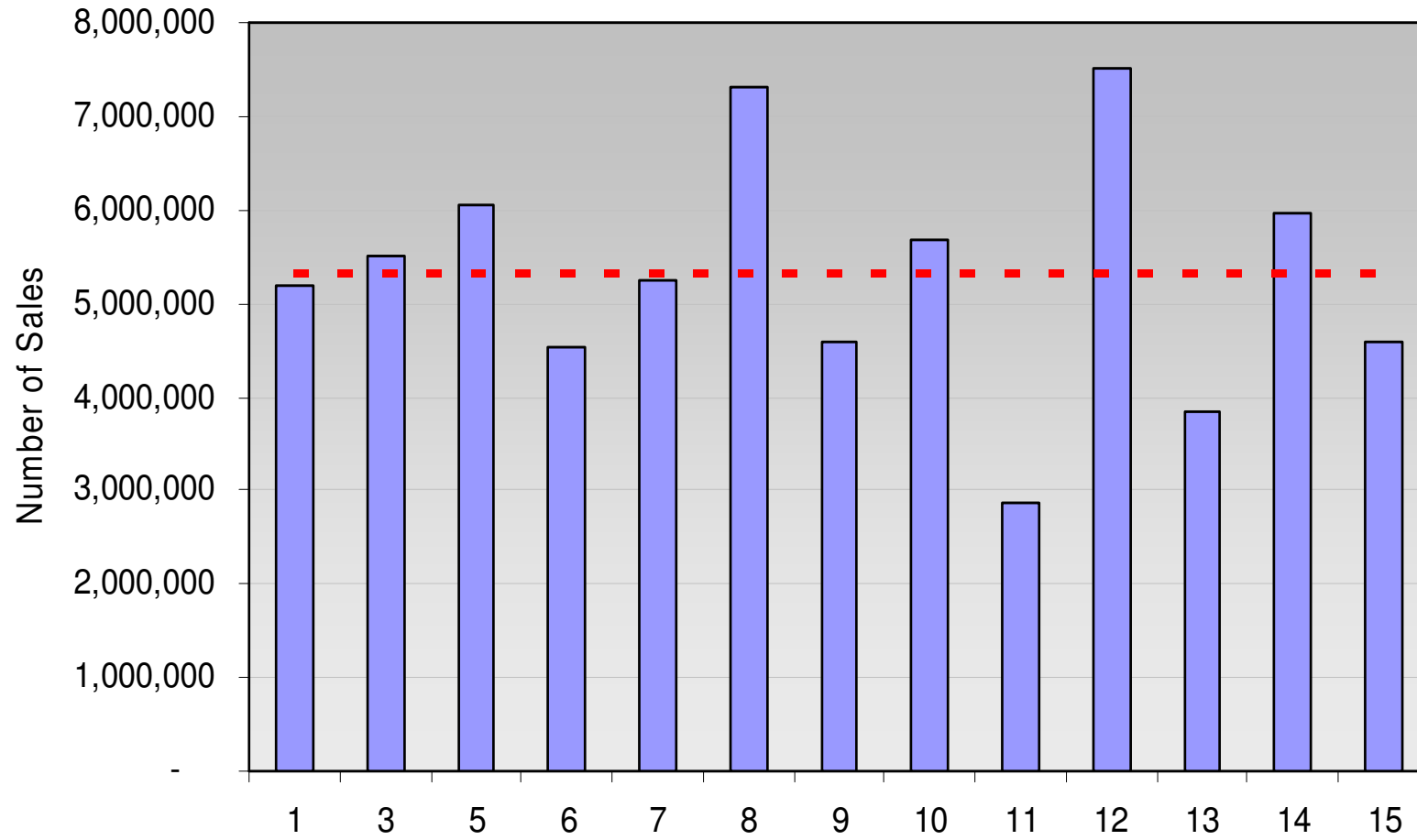
Average Annualised Value of Sales per Salesperson



# Sales Staff

- > 4 respondents had above average sales \$ per person
- > Does this in itself represent waste?
- > What impact does the local dynamics have on this?
- > If we eliminate the top 2 respondents, the average annualised value of sales per salesperson reduced to \$5.29m per person.

Average Annualised Value of Sales per Salesperson  
(Excluding top 2 respondents)



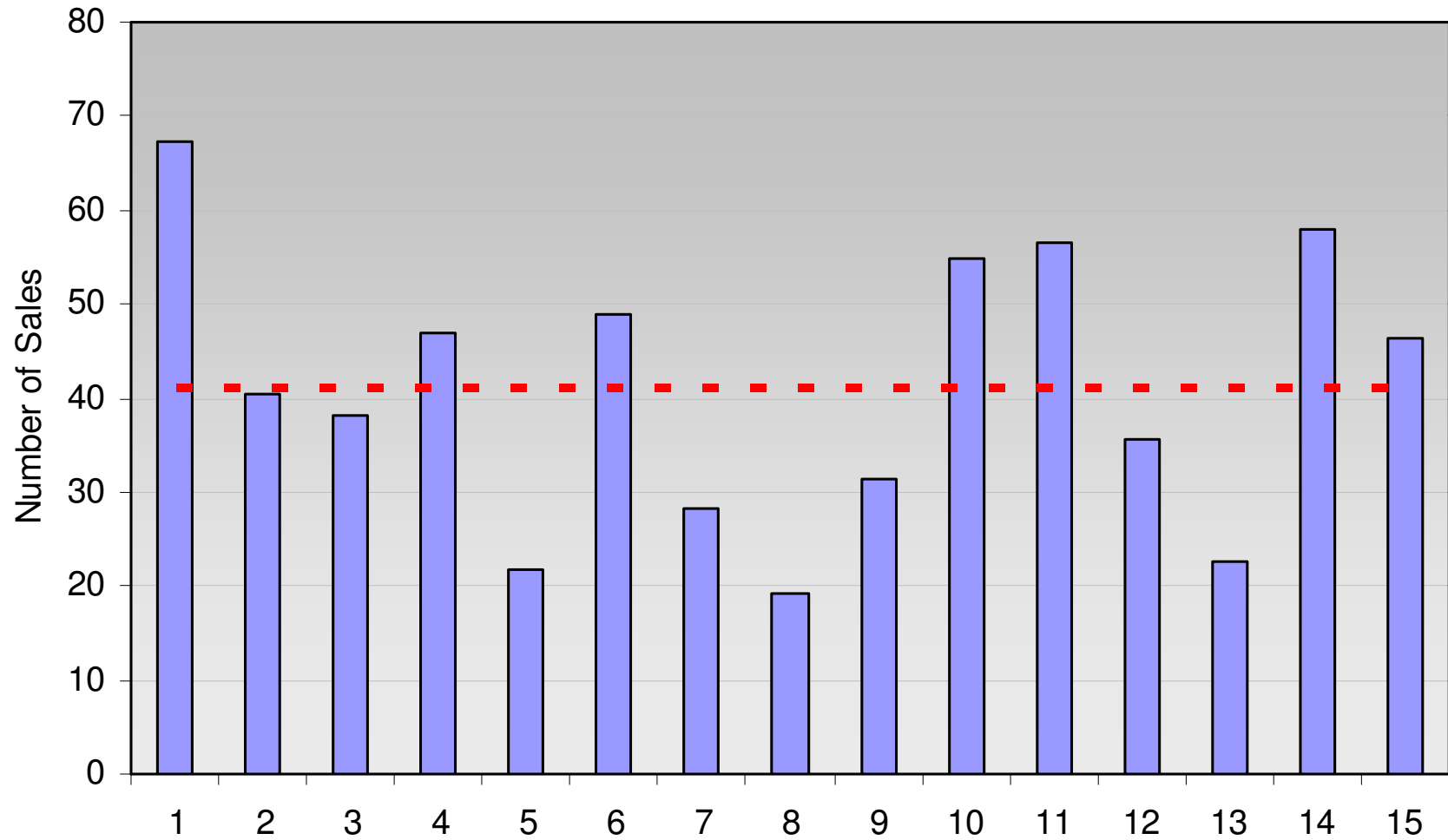
# Admin Staff Efficiency

- > Average annualised number of sales for admin staff \* = 41
- > 7 offices performed better than the average
- > Maximum annualised number of sales per admin person\* = 67
- > Minimum annualised number of sales per admin person\* = 19

\* Excluding new offices or offices that did not operate for the full year.

\*\* Excluding principals.

Average Annualised Number of Sales per Admin Staff



Number of Sales per Admin Staff

Average

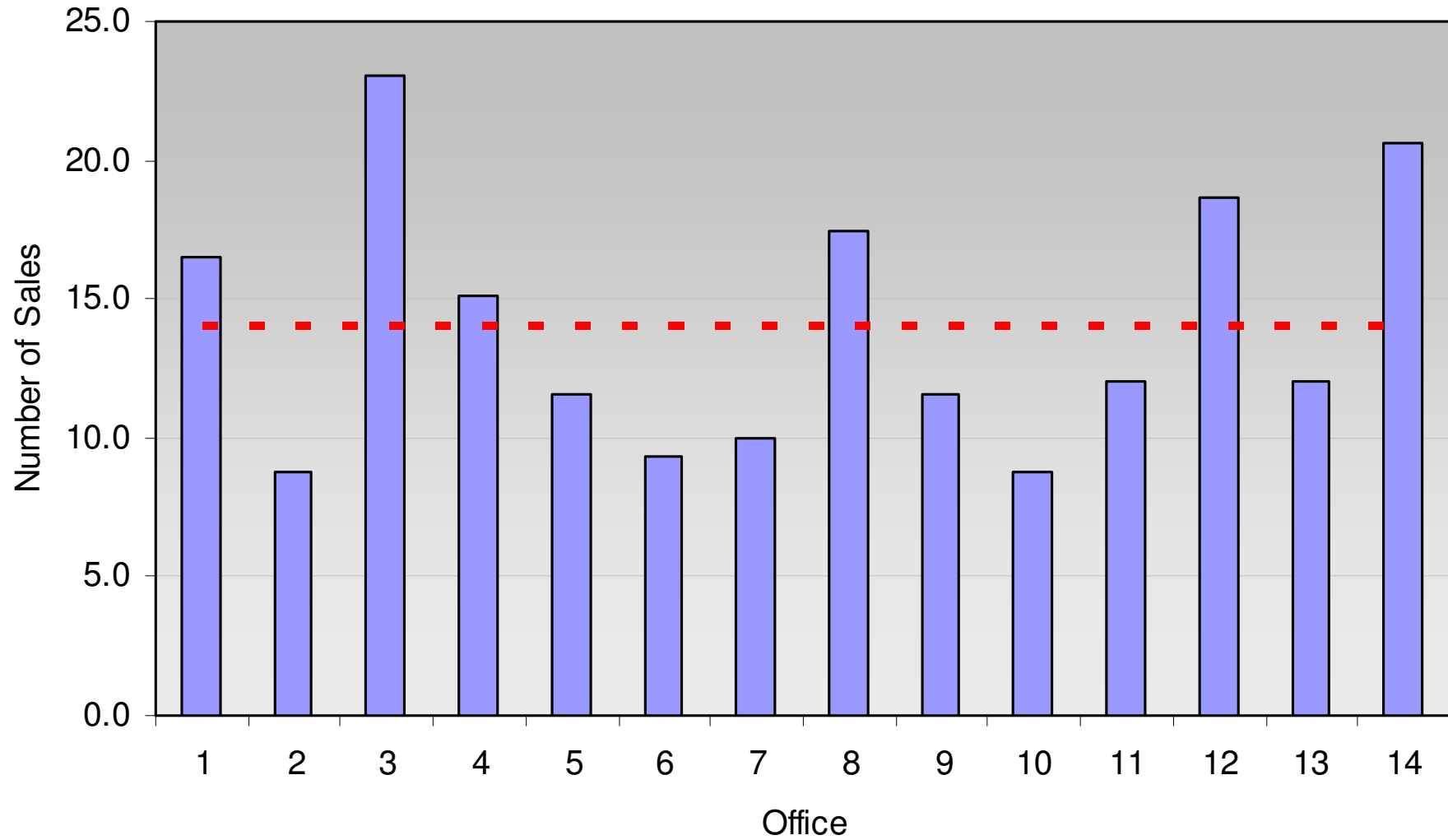
# Admin Staff Efficiency

- > Strategies to fix?

# Space Utilisation

- > How efficiently are you using your space?
- > Rent is one of the greatest fixed costs in your business.
- > Note: Only 14 offices included in this sample
  
- > Average sqm per person = 14sqm
- > Maximum sqm per person = 23 sqm
- > Minimum sqm per person = 8.7 sqm

Sqm Per Person



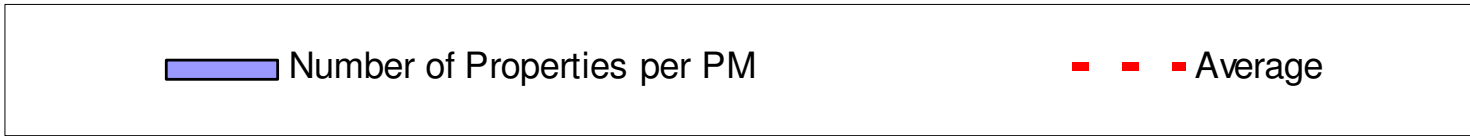
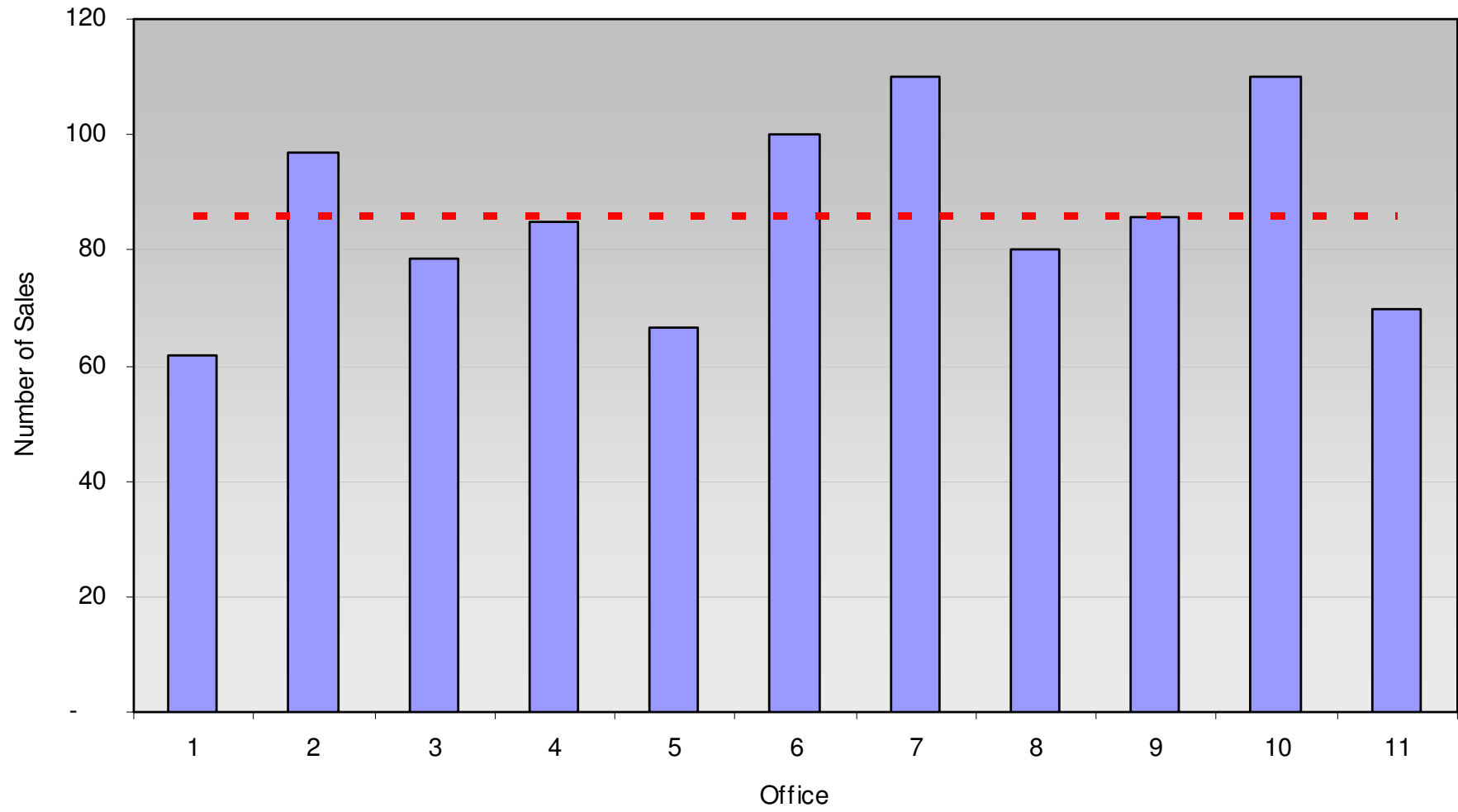
# Space Utilisation

- > Strategies to fix?

# Property Management

- > How many properties per property manager?
- > Note: Only 11 respondents included in this sample
- > Average number of properties per PM = 85.8
- > Maximum number of properties per PM = 110
- > Minimum number of properties per PM = 55 sqm
- > Fixed costs compared to capacity

Number of Properties Per Property Manager



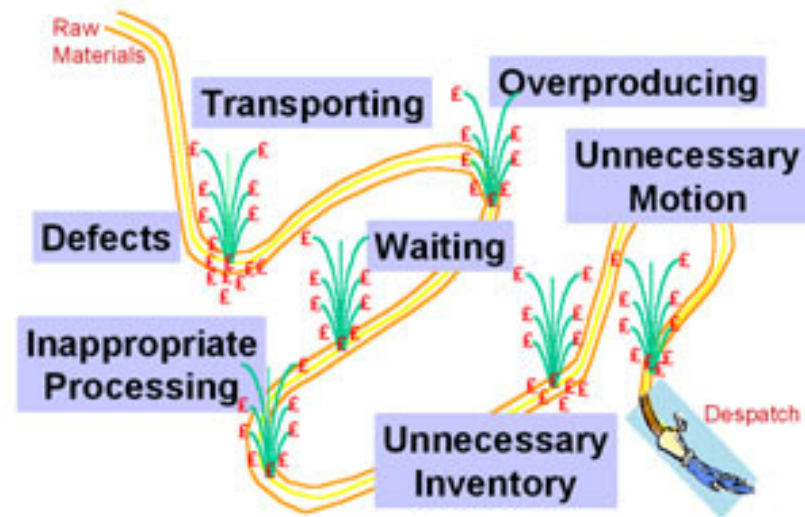
# Benchmarking

- > Have you identified any waste in your business?
- > What do you need to look into further to confirm your business is running as efficiently as possible?
- > Action List
- > Note: Usual restrictions on using benchmarking data applies here!

# 7 Deadly Wastes

# 7 Deadly Wastes

- > 1. Overproduction
- > 2. Waiting
- > 3. Transporting
- > 4. Inappropriate Processing
- > 5. Unnecessary Inventory
- > 6. Unnecessary Motions
- > 7. Defects



I have used some traditional business examples to help understand each type of waste.

# 1. Overproduction

- > Overproduction exists when a business produces more than needed or before the product is required.
- > It is the result of producing 'Just in Case' rather than 'Just in Time'.
- > Remember it is only waste if the value provided is less than the cost.
- > Some wastes may fit under more than 1 heading

# 1. Overproduction

- > **Example – Manufacturing**
- > Producing product with no guarantee of a sale
- > Overstaffing
- > Product range
- > **Example – Service**
- > Producing more services than required by the client
- > Quoting/proposals (frequency – not price)
- > Over designing
- > **Example – Wholesale/ Retail**
- > Over-purchasing goods
- > Working overtime

# 1. Overproduction Examples

1. Listings that will not sell (unmotivated vendors)
2. Going beyond the call of duty for a landlord or vendor
3. Advertising that does not suit the target market
4. Too many properties for property manager to efficiently manage at required level of service (depends on systems though)
5. Purchasing too much stationery
6. Producing reports for landlords in excess of requirements (depends on the value landlords see)

# 1. Overproduction Examples

7. Too many open houses
8. Excessive office opening hours
9. Paying overtime
10. Over-servicing
11. Over-paying creditors
12. Booking a room for an auction in excess of attendees
13. Advertising not required or wrong type of advertising

Remember: A culture that discourages waste will slowly but surely remove these inefficiencies.

## 2. Waiting

- > Waiting occurs whenever time is not being used efficiently. It includes the lead time of each step within a process.
- > This usually is because the material flow may be poor, the production run too long or the distances between work centres are too great.
- > It is not unusual for a product/service to spend 99% of it's time waiting.

## 2. Waiting

- > **Example – Manufacturing**
- > Machine repair
- > For subcontractors
  
- > **Example – Service**
- > Client response to queries
- > For a management decision
  
- > **Example – Wholesale/ Retail**
- > Stock supply lead time
- > Customer waiting for goods

## 2. Waiting Examples

1. Waiting for the next listing
2. Waiting for phone calls to be returned from vendors, buyers, tenants, landlords, suppliers, management
3. Machine repairs eg photocopier
4. Advertising to be paid by vendor (so you can place adds)
5. Management approval / decision
6. Authorisation of creditors for payment (set a threshold)
7. Someone else to do their step in a process (eg office manager to authorise invoice before is entered into MYOB)
8. Waiting for advertisements to be put together
9. Sale documents to be drafted
10. For contact database to be updated
11. Staff absenteeism

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## 2. Waiting Examples

12. For vendors, landlords, tenants, buyers to arrive at appointments
13. For subcontractors to make repairs
14. Customers waiting for receptionist to answer phone or speak to them.
15. Waiting to contact potential purchasers once properties listed (eg waiting to advertise before purchasers know about the property)
16. Being able to provide feedback
17. Admin questions to be answered so can process transactions
18. Rent in arrears or outstanding VPA receivable
19. Longer settlement periods (possibly extended settlements)
20. To be able to utilise advertising funds in trust account

## 3. Transporting

- > Customers do not want to pay for the cost of transport between steps in the production process (e.g. transporting a car to a different factory for painting).
- > This is a clear source of non-valued cost. More than this, every transport event is an opportunity for damage or loss to occur and quality to deteriorate.

# 3. Transporting

- > **Example – Manufacturing**
- > Excessive material handling
- > Multiple delivery locations
  
- > **Example – Service**
- > Travel to clients
- > Use of couriers
  
- > **Example – Wholesale/ Retail**
- > Too Many suppliers
- > Warehouse layout

# 3. Transporting Examples

1. Travelling to meet vendors, buyers, tenants and landlords
2. Excessive handling of documents
3. Multiple locations (transporting information and staff between)
4. Updating information into contact database (getting information from salesperson into the database)
5. Use of couriers
6. Office layout (location of photocopiers, faxes and printers)
7. Travel to conferences
8. Travelling to and from work
9. Order of meetings for a day

# 3. Transporting Examples

10. Servicing clients outside target region
11. Transporting supplies
12. Order of open houses
13. Travelling to open houses

## 4. Inappropriate Processing

- > This type of waste can be easily explained with the analogy, 'using a sledge hammer to crack a egg'.
- > Are you using the right tool/process for the job?
- > Are you using big expensive high precision equipment when simpler tools would suffice?
- > Are you using the right person for the job?



## 4. Inappropriate Processing

- > **Example – Manufacturing**
- > Wrong machine for the job
- > Lack of documented systems and procedures
  
- > **Example – Service**
- > Wrong person for the job (experience level, skill)
- > Emails rather than talking
  
- > **Example – Wholesale/ Retail**
- > Use of Information Technology
- > Sales staff doing admin

## 4. Inappropriate Processing Examples

1. Wrong machine for the job (eg photocopier)
2. Inappropriate use of software for managing admin functions
3. Lack of document systems and procedures (people change the procedure)
4. Wrong skill level for the job
5. Accountant doing data entry versus bookkeeper
6. Emails rather than talking
7. Sales staff doing admin
8. Matching skills to task (eg listing, selling and administering contracts)
9. Manual processes for something that can be automated
10. Use of outdated equipment (increased maintenance and downtime)

## 4. Inappropriate Processing Examples

11. Not computerised processes
12. Management not delegating responsibility and wanting to make all decisions
13. Printing emails instead of viewing on screen
14. Electronic document management system versus paper files
15. Colour printing when black and white sufficient
16. Single sided printing instead of double sided printing
17. Listing properties that will not sell
18. Double handling of documents and information
19. Level of salesperson required to sell the properties (match experience to difficulty of sale)
20. Salespeople doing open houses instead of PA's
21. Wrong accounting system

## 5. Unnecessary Inventory

- > Work in Progress (WIP) is unnecessary inventory and is a direct result of overproduction and/or waiting.
- > Reducing WIP allows the real problems within a process to surface. Think of the analogy, 'a ship sailing along on a sea of WIP hides the rocks below the water'.
- > By lowering the water level of the sea of WIP, slowly the problems will surface and can be addressed.
- > WIP in a real estate business is time spent on listings that have not yet sold

# 5. Unnecessary Inventory

- > **Example – Manufacturing**
- > Raw material, WIP, Finished Goods
- > Product range
  
- > **Example – Service**
- > Work in progress
- > Too many services
  
- > **Example – Wholesale/ Retail**
- > Working capital (opportunity cost)
- > Pallets, finished goods

## 5. Unnecessary Inventory Examples

1. Too much stationery on hand
2. Taking too long to move a listing
3. Taking too long to let a rental property
4. Unnecessary Signage
5. VPA outstanding
6. Settlement days
7. Unnecessary office equipment
8. Overdraft (interest) if VPA outstanding
9. Unnecessary information retained on sales and or contacts

## 6. Unnecessary Motion

- > Unnecessary motion relates predominantly to ergonomics and is seen in all instances of bending, stretching and reaching.
- > For example, how much time could be saved if staff had a printer on their desk and didn't need to walk to a printer?
- > What is this possible increase in efficiency worth to your business?

# 6. Unnecessary Motion

- > **Example – Manufacturing**
- > Production line
- > Factory layout
  
- > **Example – Service**
- > Stop/start mentality
- > Access to information via IT rather than manually researching
  
- > **Example – Wholesale/ Retail**
- > Picking up a piece of paper and not actioning it
- > Stock picking

## 6. Unnecessary Motion Examples

1. Authorisation processes
2. Office layout
3. Location of printers
4. Location of intrays
5. Desk layouts
6. Proximity of property managers to reception
7. Stop/start mentality
8. Picking up a piece of paper and not actioning it
9. Disorganised desk / office
10. Travel
11. Access to management
12. Use of PDA's to access information

# 7. Defects

- > Defects will cost money either now or later and their costs come direct from the bottom line.
- > They can be internal defects found before sale such as the costs of scrap, rework and delays.
- > They can also be defects identified once the product or service has been delivered and include warranty claims, onsite repairs and potential loss of a customer.
- > As a rule of thumb, the cost of a defect increases tenfold for each step in a production or supply chain.

# 7. Defects/Rework

- > **Example – Manufacturing**
- > Scrap – trim
- > Computer input errors – misread orders
  
- > **Example – Service**
- > Poor instructions
- > Missing deadlines
  
- > **Example – Wholesale/ Retail**
- > Returned stock (measured by credit notes)
- > Poor quality of purchased products

# 7. Defects/Rework Examples

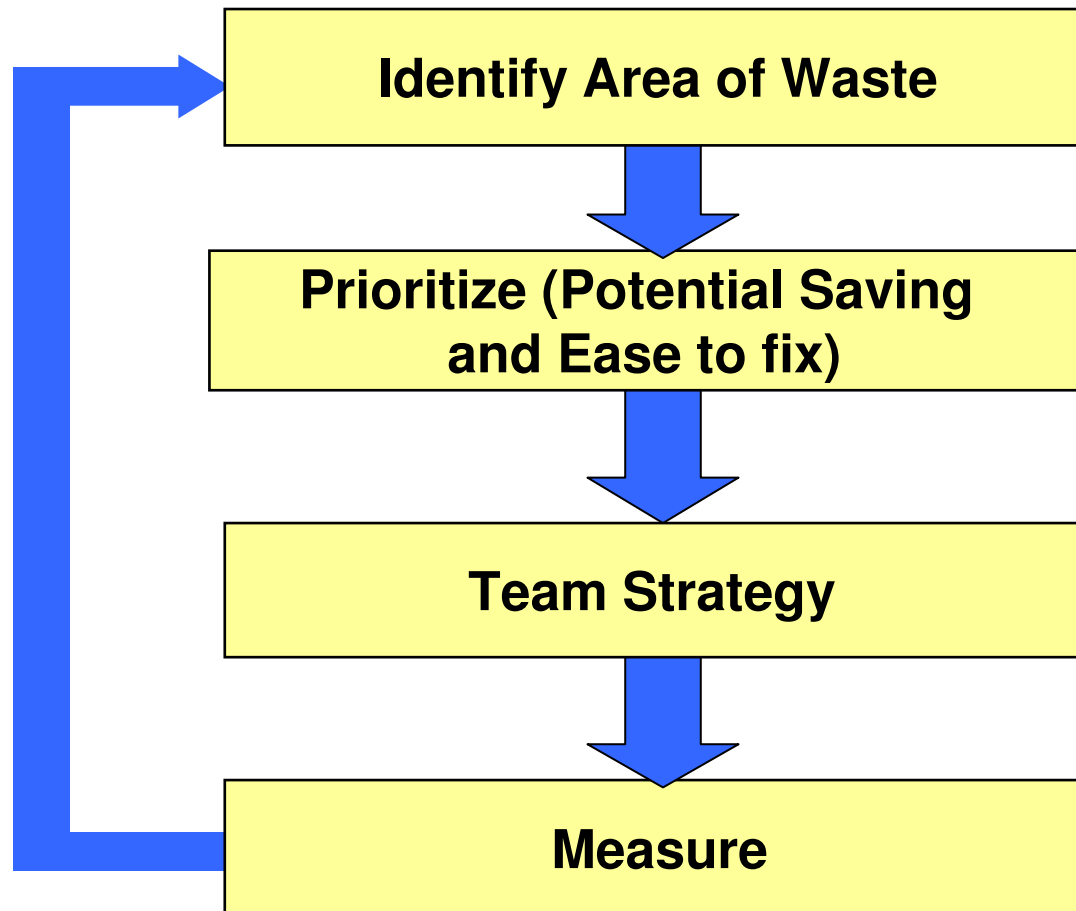
1. Scrap paper
2. Incorrect advertisements or marketing material
3. Computer input errors eg bookkeeping
4. Poor instructions
5. Missing deadlines
6. Lost listings (sales and rentals)
7. Incorrect management reports
8. Miscommunicated information (including phone messages)
9. Equipment faults
10. Human errors
11. Poorly marketed properties
12. Inefficient advertising
13. Errors in contracts

# Strategies

- > Process Mapping
- > Document systems and processes
- > Document roles and responsibilities

*Key is to create a culture that does not tolerate waste.*

# So Where Do I Start?



NOW	<p align="center"><b>COMPANY XYZ DEFECTS PLAN</b></p> <p align="center">Date Revised: 16<sup>TH</sup> April 2009</p>	WHERE	
<ul style="list-style-type: none"> <li>0.5 avg hrs per day performing rework</li> </ul>		<ul style="list-style-type: none"> <li>Avg hrs per day performing rework to be reduced:               <ul style="list-style-type: none"> <li>3mths = 0.3 hrs</li> <li>6mths = 0.1hrs</li> </ul> </li> </ul>	
STRATEGIES	ACTION PLANS	TIMING - Who & When By	
<p><b>KPIS</b></p>	<ol style="list-style-type: none"> <li>Determine appropriate targets</li> <li>Review pay structure</li> <li>Link KPIs to employee pay</li> </ol>	<ol style="list-style-type: none"> <li>MP</li> <li>JS</li> </ol>	<p>Immediate</p> <p>January</p>
<p><b>STOP CORRECT POLICY</b></p>	<ol style="list-style-type: none"> <li>Communicate policy with staff</li> <li>Corrective action plans</li> <li>System to notify delays</li> </ol>	<ol style="list-style-type: none"> <li>JS</li> <li>JS</li> </ol>	<p>December</p> <p>December</p>
<p><b>EQUIPMENT &amp; IT</b></p>	<ol style="list-style-type: none"> <li>Equipment upgrade</li> <li>External support</li> </ol>	<ol style="list-style-type: none"> <li>BM</li> <li>JS</li> </ol>	<p>January</p> <p>February</p>

# Waste

> Any questions?

# Top Tips for Ray White Businesses

# Where have all the profits gone?

## **Tip #1: Review your Balance Sheet (not just sales & not just P & L)**

If you don't understand the Balance Sheet,  
talk to someone who does!

# Owners Drawings & Finance Commitments

**Tip #2: Know your cash and profit breakeven**

# VPA Recoveries

**Tip #3: Recover all VPA upfront from  
Vendors or Staff  
(one you have surely heard before)**

# Fixed Costs v Improved Efficiency

**Tip #4: Think before you spend.  
Explore the alternatives.**

# Fixed Costs / Overheads

**Tip #5: Know your business formula.  
Know your fixed costs per month.**

# Business Formula (example)

<b>Sales</b>	<b>X</b>
<b>x Gross Margin</b>	<b>40%</b>
<b>= Gross Profit</b>	<b>Y</b>
<b>- Net Fixed Costs</b>	<b>(\$100k)</b>
<b>= Net Profit (see note)</b>	<b>Z</b>

**Note:**

- Fixed Costs**
- + Owner Remuneration**
- Director Sales**
- Rental Income**
- = Net Fixed Costs**

# Commission Structures

**Tip #6: Focus on “average rate of commission”**

# Thresholds

**Tip #7: Don't jump in head first when reviewing commission structures. Understand the full impact of the proposed changes and consider the number of sales required to reach thresholds.**

# Staff Mix

**Tip #8: Staff mix is key. Understand who is making your sales and have a target staff mix.**

# Incremental Profits

**Tip #9: Review Profit & Loss by salesperson.  
Or, at the very least know the incremental  
profit by person.**

# Financial Reporting

**#10: Implement standard financial reporting regime (including P & L by person and division)**

# Financial Controls

## **#11: Implement a structured month-end process**

# Strategies to Reduce Breakeven

**Tip #12: Reduce your long-term business risk (breakeven point). But consider the impact on the overall business. (including non-financial)**

# Wrap Up

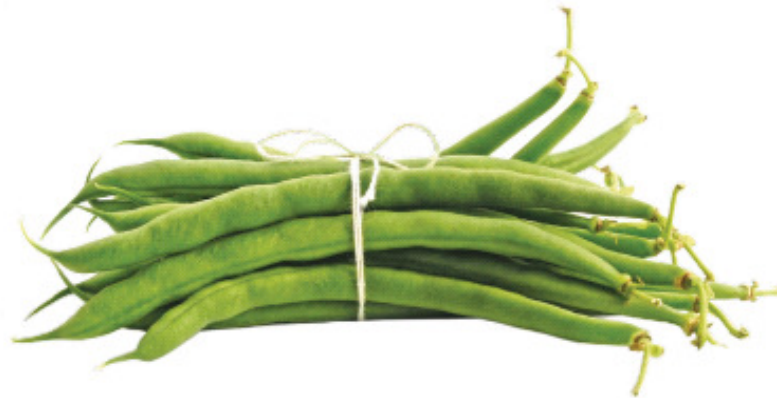
- > Hopefully something for everyone to learn.
- > You need to know your business and the critical drivers of profits and losses.
- > I've focused on the financial aspects of your business – you need to consider the impact of all of this on staff.
- > Questions / Discussion



# Disclaimer

- > **Please do not rely on the information or calculations within this presentation without first seeking specialist advice based on your specific circumstances.**
- > **Many assumptions have been made within the calculations that are not detailed within this document.**
- > **It is important that the principles detailed within this presentation are applied to your specific circumstances before they can be relied on.**
- > **We accept no responsibility for any loss suffered as a result of relying on the information within this presentation.**

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**John Knight**

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