Connecting The Dots

Strategic planning in lettings & property management

by Ben White

LPMA
Leading Property Managers Association

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Connecting the Dots

Developing a viable strategy in your property management business

It's clear that effective strategy is at the heart of any successful business. Yet despite its obvious importance, there has not been enough targeted discussion on strategic thinking in our industry.

Too often the discussion has trended in one of two directions — either up towards future aspirations and hopes, or drilling down on small, tactical things that can be done today. It's easy and exciting to discuss five year growth plans. Likewise, opportunities relating to the day-to-day operation of a company, like using a new inspection app, are readily digestible topics.

But rarely does the discussion cover how to link these two topics together, where the aspirations of the business owner are matched to a company's capabilities and a specific plan for improvement is developed. This is hard work – balancing ambition with pragmatism and purpose.

Helping you achieve that balance is the purpose of this book.

What is strategy?

Strategy is often misunderstood as a concept. I favor the definition given by Bruce Henderson, the founder of my old firm Boston Consulting Group, who described it as follows:

"Strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it."

I like this definition because it highlights all the elements that drive true strategic discussions. The process must:

- be deliberate
- include a plan of action
- develop a competitive advantage
- explore how that advantage can be exploited

If you haven't covered off all of these elements, I would argue that you don't have an effective strategy.

How to choose a strategy

Ultimately the choice of strategy must be made based on a deliberate assessment of the business's existing capabilities and a comparison to the capabilities that will be needed for success. Personal preferences and ambitions are also a big part of this.

This book sets out a process to help you find and execute the best strategy for you. The most important step is that a conscious choice must be made. Failure to make any choice at all will lead to strategic drift, which in turns leads to a poor outcome for all involved.

How many choices are there?

It's a wonderful part of our industry that there is so much diversity between different businesses. Despite this diversity, it's not true to just say 'all businesses are different' and leave it there. That's a one-way ticket to avoiding any real discussion about strategy in a company.

My experience shows that there are four core strategies that a business can adopt. Each strategy is valid and appropriate under different circumstances and can be the basis of a strong and valuable business.

1. **Hyper-growth** - The whole company has a single-minded gambit for growth.
2. **Machine** - The company is a finely tuned machine that uses innovation and efficiency to stay ahead.
3. **Run lean** - The company has a focus on team and cost efficiency to maximize profitability.
4. **Other priorities** - The company uses a pragmatic and deliberate approach where the business owner has other pressing issues to deal with.

This book explains these strategies in detail and describes how to implement them to your business. I hope that you find it a valuable companion as you go through your journey of connecting the dots in change to lettings and property management.

— Ben White

My journey of Connecting the Dots

Getting involved

Like many business owners, I fell into lettings and property management almost by accident. But unlike some, I instantly fell in love with it.

My passion for the industry was piqued in 2005. I was in the 'wrong' meeting and happened to see a presentation by someone from outside the real estate industry who had an ambition to take over the lettings and property management industry. He had a fairly solid business plan that backed up his ambition. His final pitch was, "You guys won't ever change. Real estate agents will lose the property management industry to people who are prepared to think differently and actually do what it takes to get it right."

It's a challenge that still motivates me years later! From that point on I was both intrigued by the potential that the industry has, as well as aware of the devastating impact it would have on the real estate industry if we were to 'lose' property management to outsiders.

Once I became more involved in the industry, I came to develop the greatest admiration for the many people I've met who strive each day to find better ways of servicing their clients, pursue a career and build a business of value. I've seen these individuals courageously push themselves beyond their limits with an infectious energy that surrounds everything they do.

There are so many forces that operate to make the job of property management hard. It's my view that the industry is still being held back by some long standing cultural issues. Poor quality businesses have a disproportionate impact, tarnishing our collective reputations so that the best suffer from the sins of the worst. Core technology platforms in the market reinforce old practices and do not easily allow companies to give clients what they reasonably want. Relatively simple tasks can still take hours. Career pathways can be unclear and it can be a lonely experience trying to work out what is coming next.

These are structural problems in our industry. I am convinced that they need to be addressed if the best companies and best property managers are to reach their potential.

If we don't address them then I believe the future will see the best property management companies winnow away, undermined by the destructive

practices of the weakest competitors. At that point, our competitors won't be each other, but the person from outside real estate who has no love for the industry or the people in it and who will think only of opportunities for replacing the agent entirely with technology or a website.

The Leading Property Managers Association

Facing threats in the wings is not a unique experience for any industry to have. But where property management does suffer is that we have not yet found a mechanism to promote and deliver the scale of investment and innovation required to strategically improve the way we operate as an industry.

That, in a nutshell, is what LPMA was founded to be. LPMA exists to create a bright future for the property management industry as it emerges from its cottage-industry heritage to become a client-centric profession where the best are rewarded and clients have a superior service experience.

LPMA and its sister company Ailo combine collaboration and practice management to allow property management companies to offer higher services to their clients and for those in the industry to have more success. The Ailo platform is a manifestation of everything that we at LPMA believe.

A shared experience

One of the best things about my role in the industry so far has been the opportunity to work closely with hundreds of businesses and thousands of property managers. The ideas in this book are distilled from those collective experiences.

I am lucky enough to work with a range of extraordinary individuals who have each dedicated their energy to improving how our industry operates.

I can't think of anything that I now know about this industry that didn't start somehow with a discussion with that team, firstly with Michelle Delaney and Gerri Keays and then over time Jodie Stainton, Emily Sim, Bob Walters, Adam Hooley, Zac Snelling, Tricia Crombie, Meegan van Bussell, Brennan Hill, Ben Burling, Karmen Costigan, Joanne Macbeth, Janelle Drew, Peter Camphin, Lisa Pentland and John Gilmovich, to name a few. I am also indebted to them and the rest of the LPMA team.

I cannot claim ownership of all the ideas in this book. It's my honest hope that the ideas and concepts in it will be taken by you and others and built upon — challenged and extended for the benefit of us all.

I encourage you to join the LPMA community and engage in the ongoing discussion and debate, whether it be in forums, at conferences or on retreats. After all, if the most passionate people can find a way to come together and collaborate, anything is possible.

How to use this book

There are five chapters to this book. It is recommended that you take the time to work through each chapter, using the worksheet in the appendix as you go through. It is not designed to be read all in one go, but rather be a support for you as you start to understand your ambitions and follow them through to action.

1. Understanding the capabilities of a property management business:

Each property management company has core capabilities and competencies. These can be grouped into six areas of a business: growth, system, team, quality, risk and financial resources. Each strategy requires different capabilities in order to be executed well.

2. Measuring your company's capabilities:

A business can be tested and measured to get a clear understanding of its existing capabilities. The second section introduces 30 individual capabilities as well as the capabilities map, which displays the team's capabilities at a glance.

3. Understanding the strategic choices:

The third section gives an overview of the four different possible strategies. It sets out what each of the strategies are, what it takes to be successful with this particular strategy and, most importantly, what the strategy is not. Each strategy will yield different results. Some will bring more growth, others more profit. Some give you more capacity to manage other priorities, while some are designed for empire building.

4. Choosing a strategy:

Choosing a strategy is an ongoing process, requiring regular review of the balance between the capabilities needed to pursue your preferred strategy and the actual capabilities that your company has today. A good strategy effectively weighs up the gaps and you will need to work out what gaps can be closed and what gaps are realistically too hard to close within the given time period. Section four shows how to make a strategy choice. Everything will flow from there.

5. Developing an action plan:

Once you have decided on a strategy and you know what capabilities your company has today, you can quickly understand your 'capability gap'. This is the difference between the capabilities your company needs to pursue your chosen strategy and the capabilities your company has today. Section five shows you how to identify and prioritize these gaps and a list of initiatives can be drawn up to get to work on solving them.

Appendix – Capabilities Workbook:

Each of the capabilities we have identified can be measured and improved. In this section we explore each of the 30 capabilities. The workbook will guide you through the process of finding your strategy and implementing the actions required to execute it.

An electronic version of the workbook, along with team surveys and other resources, can be found at lpma.com

Getting the most from Connecting the Dots

Lessons from experience

In the years since we first launched **Connecting the Dots**, we have worked with hundreds of lettings and property management businesses to implement these ideas. From that process, we have learned so much. Although there is no definitive one way to implement these ideas into your business, there are a few things that have consistently been shown to work.

First and foremost, doing your capability maps should be a team exercise.

We have found that the best way to do the tests is to give copies of the questions to each team member and ask them to review one of the areas in the week before a team meeting. At the meeting, read aloud each question and then ask each person to give his or her answer. You will likely find that on some questions there will be a wide range of opinion. This is great! From every debate comes new insight and you will get a lot out of it if you let the discussion run a little. It is worth asking each person to describe why he or she gave the score, which will give you some more context.

It may also come out that the team is aligned on the state of the business, but just read the question differently. From that process you can develop an average score on each capability and then proceed to build out your map.

Choosing a strategy

If I could do my time again, I would change the name 'hyper-growth' to something else. Unfortunately everyone seems to feel that they want to be hyper-growth, and doesn't spend enough time reading what it actually stands for. Although growing fast sounds great, it is hard to do it and has its fair share of downsides too. It's like saying you want to be an astronaut, but don't think about all the years of training and discipline that would have to go into becoming one. (Yes, I would like to be an astronaut.)

Each of the four strategies are valid, and you should choose the one that is right for you. Also, I don't recommend doing your capability map and then, based on what it looks like, just choosing the strategy that is most aligned to where your business is today. That may well be the right way for you in the end, but it is not the right process. You should think about what strategy you want, not what is easiest to pursue based on where you are today.

Using our resources

Since the first edition we have been working to develop a lot of resources and tools that a company can use to help implement a lot of these ideas. We have financial benchmarking tools, team design and management tools, career passports, market opportunity frameworks, cultural tools and lots more. These are all within the LPMA foundry and are available to members.

I recommend you browse the resources in LPMA and join the ones that interest you. There are lots of great ideas and lessons from experience and the whole point of the LPMA community is that we can all learn from each other. After all, all the ideas for this book came from those same discussions.

LPMA also offers an affiliate program. This program supports consultants in building their own businesses based on the ideas in this book and our other ones. To learn more about the program and the range of services available to you, visit lpma.com.

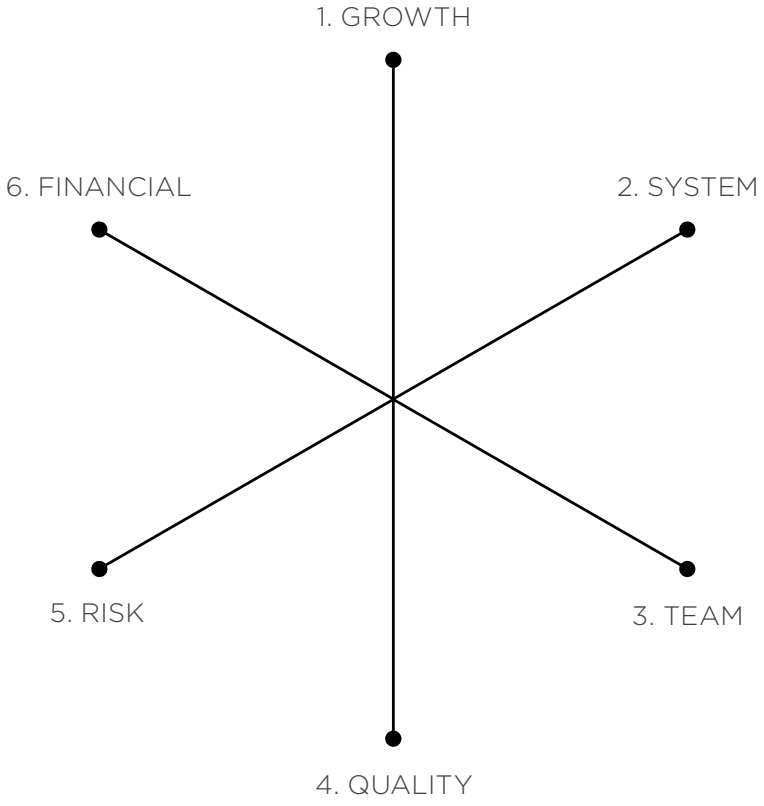
- December 2017

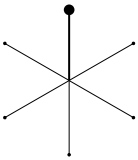
Chapter 1

The capabilities of a property management business

Capabilities of a leasing and property management business

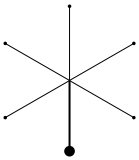
Capabilities are things that your business does or can do. They are the assets of a services business. Capabilities can be built and can be lost over time. They can be measured and tracked.





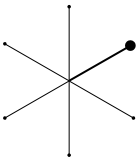
Growth

Growth capabilities are the resources you have that are aligned to growth. Are you coordinating your effort across the whole company? Do you have a compelling point of difference? Do you have a team dedicated to growing your rent roll?



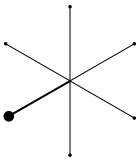
Quality

Quality capabilities give your company the ability to be better and be seen to be better. Does your company do what it says it's going to do and do you get credit from your clients for doing it? If so, do you have pricing power in your marketplace?



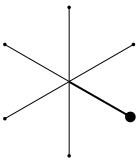
System

System capabilities support your ability to run a property management business like a well-oiled machine. Are you constantly innovating to get better results with less effort? Do you have well documented procedures for all areas of your business and are they being used?



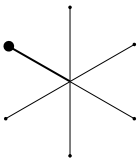
Risk

Risk capabilities determine the company's ability to accurately identify, mitigate and track risks. Do you know what your risk profile is and are you addressing key risks? Do you have a risk register in place? Does your culture support the deliberate management of risk?



Team

Team capabilities underscore the company's ability to run as a high performing and aligned team. Does each member of the team have a career plan and passport? Do you have the management resources in place to go after your vision? Are expectations clear and understood?



Financial

Financial capabilities underline the company's ability to pragmatically fund the business to support the strategy. Do you have enough business capital? Does your business plan factor in the resources needed? Are you making the most of every dollar?

The growth capability area

About growth capabilities

Growth capabilities run much deeper than a good-looking listing kit. Rent roll growth relies on a comprehensive set of capabilities that must run across the entire business and touch a number of cultural issues.

Traditionally, lettings and property management businesses have grown off the back of healthy sales businesses. As each of the businesses has grown, there has been a general trend towards structuring the lettings and property management business as a completely separate division to the sales business.

The decision to separate the two has generally been made for good reason. But what has sometimes been lost in the separation has been the underlying reality that a strong property management business is intimately connected to all the elements in the company, whether it be sales, loan brokerage or a buyers' company.

A business with strong growth capabilities will have a unified approach to business development, as well as a unified approach to its database model. It will have a strong culture that breaks down the traditional divide among the lettings and property management team, the sales team and the other teams, so that collaboration is spontaneous and mutually beneficial.

The company will also have dedicated resources focused on growing the rent roll. This business development department will not have any other responsibilities to juggle. They will be supported by professional marketing.

Ultimately, growth is a big numbers game. We have set out, both in training modules and in another book called **Numbers Game**, our approach to what we call the Five Channels of Growth. In short, we believe there are five distinct growth channels and it is possible to both know your company's potential in each and track your performance against that potential. Companies

that follow this methodology are much more connected to growth.

Perhaps most importantly, the entire company will understand and truly believe in the management business' point of difference. They will be committed to the provision of services to their clients, on the terms the clients wants. Gone is the race to the bottom on fees and services.

How you can improve your growth capabilities

I believe that the growth potential of most companies is not limited by its competitors, but by factors that exist within the four walls of the company itself.

The first place to evaluate will be the team's culture. Are your sales and property management teams working together? For example, is each person asked at an open home whether they are looking to buy an investment property, or if they already own one? If not, it's a good indicator that your company's growth capabilities are well below potential.

Do your letting agents and property managers really believe in the service they are offering? If your team doesn't, you will find that your business is needlessly reducing fees during the negotiation process. Unless there is confidence in the service the company is offering, then your business won't grow. It just works that way.

Once the cultural and confidence issues are addressed, you will need to invest in your growth capabilities. There is a lot of evidence to support the proposition that growth needs dedicated resources. If you don't have one already, a business development department should be considered, with a clear mandate to find new levels of growth outside the usual course of business. The enterprise should be supported by the whole-of-company approach to data. That is the future battleground. You will also need to be across the five channels of growth, particularly how your company is performing in each one compared to your potential.

Developing effective growth capabilities is not easy. The challenge runs across the whole company and deep into culture. Changing your growth capabilities takes time and effort, as does maintaining them, but the results are worth it.

The individual growth capabilities

G.1

A dedicated business development department

Dedicated people will be tasked with finding new sources of growth outside the usual referral stream from the sales business. The business development department should have no other responsibilities that compete with this role and its members should be managed and compensated as a salesperson.

G.2

Whole company integration

The company will have a strong cultural bias towards leveraging each and every interaction with existing and potential clients. Salespeople need to appreciate the value the management team can bring to a transaction and lettings agents and property managers must actively support the sales process. Loan brokers should work closely with the whole team.

G.3

A unified lead nurturing model

The team will have a unified approach to the company's database. Fields relating to each client's real estate investment strategy should be captured and relevant services from across the company should be offered at the right time and in the right context. Only one database should be used across the entire company.

G.4 A clear view of the five channels of growth

Growth is not a random process. There are five distinct sources of growth, with each having its own potential and characteristics and requiring different marketing efforts. The whole growth program should be defined, tracked and refined on a constant basis. Accountability should flow from that.

G.5 A point of difference

Growth requires your business to stand for something that must be real and must be seen to be real. There is no point making something up and there is no point being different in a way that no one cares about or believes in. The entire team must be committed to delivering a first class service to your clients. While it can be a challenge to maintain, a valid point of difference is the key source of sustained competitive advantage.

The system capability area

About system capabilities

System capabilities are the combination of tools and resources in your company that make your team more effective and productive. In short, the team can do more, in a way that not only makes your company look better, but actually makes your company perform better than other companies. As a basic principle, systems are only as good as the way they're used and how well they support your way of doing things.

The health of any system is measured by whether it changes with the times and whether innovation happens in the business. A good system doesn't stay good for long – expectations change, practices change and the market evolves. If you don't change your systems along with the times, then you will simply have a very efficient way of performing the old way. We call this effect the 'time travel test.' If you could travel back three years, would your business look the same, or would it feel old? If it would look the same, then you are not changing with the times.

My test for success on any system or innovation has three parts. The first is to determine whether it saves the business time and makes it more productive. The second question is whether the changes forge a closer relationship with the client. The third is whether the client recognizes those changes and gives you credit for them.

For instance, I believe mobile inspection apps hit all three targets – they save time, as well as easily delivering detailed photos to the owner of their property, increasing client engagement and making your company look professional. How good is that?

Ultimately, like in all capability areas, there is a strong cultural overlay to any discussion about systems. If you do not address the cultural dimension of system capabilities then you will find this capability area hard to master.

How you can improve your system capabilities

The most important way to improve system capabilities is to know what potential you have to better use the technology and resources you have today. Is your team using your software to its fullest extent? I can almost guarantee the answer is no. Is that because they don't know the features exist. (in which case they need better training)? Or is it because they don't think the change is worth it (in which case you may need to question your leadership style)?

You should also keep abreast of any new technologies and innovations entering the marketplace. Read the industry blogs and commentaries and talk regularly to your peers in other companies about what they are doing.

There are many different ways to support your company's systems. A common starting point is to search for a policies and procedures manual to buy. Although that has a place (and we have one in Ailo), you must be very careful to avoid the 'silver bullet theory'. No one thing alone can improve your systems; it requires a long view and discipline to change.

A good way to be exposed to new ideas is to organize an office visit to another company. Even if they're operating in a completely different geographic area, the fundamentals will be the same. Get out and see what other people are doing and be willing to adopt new innovations.

Ultimately, your systems are only as good as the way they are used. Don't confuse intent with the outcome.

The individual system capabilities

S.1 An integrated platform

Your business needs an integrated set of resources and technology that assists the team in delivering a first class service, supporting each individual whatever their skill level. There should be a high degree of automation in any process-driven task, so that time spent on low value work is reduced as much as possible. New and inexperienced team members should be adequately supported so that common mistakes can be avoided. Everything should be measured.

S.2 Effective team collaboration

Sometimes the best system of all is just people chatting to each other. Even with the best technology in the world, if you don't talk and communicate effectively, significant potential will be lost. Effective team communication and collaboration makes up for most of the things that technology can't do. It helps set goals and priorities, balances work around the team and ensures that everyone learns from others' experiences.

S.3 Comprehensive policies and procedures

Policies and procedures (P&P) have historically had a bad rap. They have a reputation for being dull reading and in the most part, irrelevant. If that's the case in your company, then you don't have this capability. P&P should be living documents and highly tailored to your company. The test of their effectiveness is whether a new and inexperienced team member can quickly get up to speed and integrate with the rest of the team.

S.4 Clearly defined goals that are tracked and measured

Measurement in a business is not really effective unless you also have clearly defined goals you're working towards. Some of the goals will relate to 'business as usual' indicators, like arrears and vacancy rates. Others will be more focused on changes you are trying to make in the business, like improving HR practices. Your progress against your targets must be measured and everyone should be working towards them.

S.5 Constant improvement

One of the most important system capabilities is your company's abilities to constantly seek improvement. The worst mistake is to believe that once you have everything set up you can relax – that's just the beginning of decline. Striving for constant improvement is the lifeblood of any system. If you haven't made significant changes in the past few years, there's a good chance you are falling behind.

The team capability area

About team capabilities

Your team is the most important asset in your business. Without them, no vision can be achieved and no system can be run. More importantly, without the cooperation of the team, strong relationships can't be developed with the company's clients.

Team capabilities are focused on building the best team – the right people working in a culture that supports a clearly articulated vision, who are supported by practices that empower and grow the skills of each team member.

To excel in this area you must combine the right level of leadership and management skills needed to execute your chosen strategy. A hyper-growth strategy can only be achieved with strong leadership and the vision to drive the changes needed to break through traditional thinking. Alternatively, a machine strategy needs a strong management skill-set to drive the development of solid systems and procedures. Other strategies require a blend of each.

The challenging aspect of team capabilities is that they degrade over time – just because you have them today doesn't mean you'll have them in a year. Driving the potential for decline are the changes that inevitably happen in any team – new team members joining, team members being promoted, or growth in the business.

All of these can place stress on the business and need to be handled well to strengthen the team dynamics rather than weaken them.

Your team's capabilities are the sum of each team member's capabilities, supported by your team practices and culture. We have set out in **Building Blocks** a framework for each team member to build a comprehensive career plan that identifies and tracks each person's competencies, and also a discussion on structural issues in the team.

When your team capabilities are strong, the company will automatically attract the best people. Your company will be a platform for a strong and rewarding career. Who doesn't want that?

How you can improve your team capabilities

The first thing to do is to recognize that all of these capabilities do not come naturally. Many business owners feel that seeking any help in improving team capabilities is an admission they're not good leaders. On the contrary, recognizing that this is an area that you need to develop is smart business.

It is important that the leader sets out a clear pathway for each person's career. By using the tools in **Building Blocks** you will be able to identify the competencies each person needs to succeed and help each person track their careers as they develop. If you offer a platform for careers, the best will want to work with you and if you have the best wanting to work with you, then extraordinary outcomes are possible with the right frameworks in place.

Many of the team capabilities can only be properly measured by engaging with your team and the HR support given can only be evaluated by asking if your team values it. Your values are only as good as the values that your team say they live by. All of this can be a little confronting, but if you have the courage to be evaluated by your team the rewards can be enormous.

The individual team capabilities

T.1

Strong leadership

Effective leadership is essential to conceive and drive the vision for the business. Without it, your company cannot operate efficiently or be a good business – it just won't be the business you wanted, nor will it reflect your own ambitions. The challenge for most business owners is that they do not have a strong foundation in lettings and property management and so tend to step back from a leadership role. Unfortunately, that will limit the team's potential.

T.2

Strong management

A strong lettings and property management business needs strong ongoing management skills. Often this vital factor is left out of the equation and half measures are adopted. Business management is a skill set that sits apart from the traditional property management skill set. The team's skills, and in particular those of the department manager, must be developed, nurtured and supported by the business owner. Without this capability, a business will never achieve its potential.

T.3

A high performance culture

Culture is never talked about enough. It can be easy to dismiss. But it is real. After all, the only real asset in your company is your team and how you collectively decide to do things. If your team doesn't share a common vision and understand what it takes to achieve its goals then you will all be pulling in different directions. Culture can be a challenging area to work on, especially if you are not happy with it, but the rewards are well worth it.

T.4

A platform for careers

Career building capabilities ensure you get the most out of your team and that each team member gets the most out of their career. This capability is at the heart of becoming a company where the best people want to work. It's based on the premise that the best want to stretch themselves and want to be supported in that process. They want to know what potential they have and what you expect of them. They want regular feedback and to be guided in the areas to work on and they want to be supported in building their career competencies.

T.5

A recruitment strategy

A strong recruitment capability ensures that you are hiring the right people at the right time. It might sound simple but it generally isn't. To recruit well you have to know in advance what your needs will be and have developed creative ways to build relationships with people that might be right for your business. Recruitment is not something you start and finish separately with each role that comes up. It's a permanent engagement with the best people.

The quality capability area

About quality capabilities

Quality capabilities strengthen your company's ability to deliver on its promises and to get credit for it.

The most basic principle in any discussion about quality is that quality can only be defined by your clients. What you think you're doing for them is often guess work. If you really want to understand your quality capabilities, you will need to talk to both current and former clients and spend time looking at and understanding your competitors.

To be able to deliver quality you also need the capacity in your company to ride through the ups and downs that are inevitable in lettings and property management.

Unfortunately you will be judged by the poor experiences as much as the good ones. To that end, your team will need to have the capacity to handle the ebbs and flows of the work load. This may mean that your team is not always busy, but you need to remember that very busy people cannot provide quality service.

The best quality companies view everything through the eyes of their clients. They use any tool they can – whether technology-based or a hand-written note – to increase the service they offer their clients.

Sometimes this may mean that some potential short cuts are not taken and the drive for efficiency will need to make way for a drive for credibility. This can be a challenging idea, but high quality businesses choose credibility over efficiency every time.

How you can improve your quality capabilities

As with most of the capabilities, the first step in any discussion about improving quality involves measurement. It takes courage to ask your clients, especially your old clients, what they think of your company and the service it provides. But unless you do, your quality capabilities are already seriously compromised.

There are lots of ways to get feedback. The most obvious one

is to ring and ask your clients, or send a web survey. You should look for answers to the important questions. Why did a former client leave your company? What were the real reasons? Would your clients recommend your company to their friends? Have they?

To maximize the chance of getting to the truth you might consider having an external person make the calls or run the survey for you. Sometimes the promise of anonymity can increase the accuracy of the survey.

Once you have the feedback, you need to act on it. It can be tempting to blame the client for negative feedback – "Don't they know how hard we work for them?" The answer is simple: No, they don't. And the only reason for that is that you don't do what you need to do to get credit and recognition for all that work.

Getting credit is such an important part of any quality program. This element impacts the company's culture because it involves looking at things differently. You have to look for ways to improve service, not cut time. It is a small change in thinking but one that compounds over time. The long term impact can be profound.

Like all the other capability areas, quality has a deep cultural dimension to it. You cannot have a business of quality if you do not have a culture that puts the client at the center of your company and if you do not take the time to understand what your clients want. A good culture does not dismiss client expectations as being unreasonable, but rather sees opportunity to find ways to meet them in a way that builds competitive advantage.

The individual quality capabilities

Q.1

Spare capacity

Every team has a capacity limit. At some point, more just cannot be done. When a team is operating at 100% capacity, chaos is almost certainly somewhere on the horizon. There is literally no room for error and any unplanned work (which could be a complex repair, a tribunal issue, or a sick day) will simply break the team. Operating at 80% capacity over a cycle is widely recognized as the best level to maintain. Above that and you will find maintaining any standards of quality very difficult.

Q.2

Seeking feedback and data

The only way to know if you have strong quality capabilities is to ask your current and past clients. Unless you are doing that, you are effectively blind on this topic. And unless your clients perceive that you offer quality service, you don't. Former clients are a particularly fertile area for investigation. You should also be benchmarking and mystery shopping your competitors to understand their positioning.

Q.3

Professional presentation

For longer than most can remember, sales companies have spent time and effort on presenting their businesses well with professional signboards, office displays, websites, open homes, vendor reports, professional photographs and floor plans. Yet even top companies mostly back away from similar efforts in lettings and property management, with shared email addresses, poor quality photos and poorly worded advertisements. In this day and age, not presenting all that we do with the highest level of professionalism limits the perception of quality.

Q.4

Pricing power

The highest quality property management businesses will attract the highest fees and have the reputation and cultural strength to resist fee discounting. It is as true in lettings and property management as in real estate sales and every other industry. A company that can set higher prices than its competitors is doing something right and has a reputation for doing something right. Those are core quality capabilities.

Q.5

Client-facing innovation

The mark of truly great innovation is that it changes the dynamics of your relationship with your clients. A quality company will always strive to find new ways of delivering better service to clients, not just ways to do things more efficiently. This type of innovation will increase engagement with your client and increase your company's credibility. Market power grows from this capability.

The risk capability area

About risk capabilities

Risk capabilities are often given a bad name. In fact, in the three years after the first publication of **Connecting the Dots**, we have never had a single company voluntarily ask for help in the Risk area. In a recent survey, when asked to nominate the two capability areas that they would like help on, 100% nominated Growth, and 0% nominated Risk.

It's a shame because risk capabilities don't have to be thought of as either dreary or part of a police state, checking up on people. In reality, risk capabilities strengthen a business and are as much a part of a healthy company as growth capabilities.

When thinking about risk capabilities, it is worth first understanding the specific risks inherent in a property management business. The obvious ones are issues with the management of client funds – whether malicious or inadvertent. Those are the deal breakers that fundamentally compromise the company and the business owner personally.

Unfortunately, given the nature of the traditional technology and the way we have trained the industry for so long, mistakes happen regularly. If you are not alert to them and don't have checks and balances to manage the inherent risks involved then, quite frankly, you are acting recklessly.

There is a much broader dimension to risk than just trust accounting. We are in a highly regulated industry and the economy is becoming increasingly regulated too. No matter what people hope for, regulation will continue to increase. Smoke alarms, pool fences, WH&S, environmental regulations, employment laws, liability for repairs, liability for not doing repairs – the full list is many times longer.

These are all real issues that you must come to terms with. Strong capabilities in this area do not mean that you are risk free, it means that you understand the risks and have in place appropriate measures to minimize and manage the risks and effectively deal with them when they do occur.

It may not be the most exciting part of lettings and property management, but it is a foundational issue for everything else.

How you can improve your risk capabilities

The first thing to do is to recognize all the risks that your company faces. It's a creative process – you have to imagine all the things that could go wrong. In some ways it is easier to imagine what all the risks might be to another company because that takes the personalities out of it.

As you go through this process, you shouldn't leave any sacred cows. Just because you trust your team does not mean you shouldn't include the risk of a property manager not putting the right license number on a management agreement, or not performing a reconciliation properly.

This will help you think about the entire range of risks clearly and also takes the current team out of the equation. After all, at some point some of those team members may not be there and may be replaced by new people that you don't know well. At that point, putting in risk management practices will be much harder.

Think broadly about the risks. Think about things like making promises to new clients that you cannot deliver on.

These are all part of the equation. Once you have listed all the risks out, give each one two scores. One score goes to the odds that the risk will actually happen. The other one goes to how big an impact that occurrence would be on the business. Once you have done that you can prioritize the risks that you need to start working on first. In short, you should prioritize issues that are likely to occur and, if they were to occur, would cause significant challenges to the business. This is called a risk register.

The art of any risk strategy is to identify ways that you can reduce the risk, by either reducing the likelihood of it occurring or the impact if it were to occur. Work down your list of priorities and keep reviewing your risk register every quarter.

The individual risk capabilities

R.1

A specialist trust or client funds account operator

Trust or client funds accounting is a specialist role. It's also the source of most of the risk and compliance headaches for any company. In many companies, this important role is left to a person who may not have a deep understanding of the underlying principles of trust or client funds accounting. The sooner this role is performed by a dedicated specialist with the appropriate skills, the quicker this risk is managed.

R.2

Formal contracting of tradespeople and inductions of owners and tenants

Formally appointing your company's preferred contractors and formally inducting your new clients and tenants are the foundations for professional and productive working relationships. Clear expectations and precise channels of communication solve most issues before they escalate. A systemic reduction of risk is gained when these important relationships start off on the right foot.

R.3

Strong legislation compliance

The property management industry is highly regulated and, on top of that, there are all the regulations that apply to every business. When a company starts out, these can all seem a little over-the-top and often short-cuts are taken. Unfortunately, it's a reality of doing business that unsafe practices at an open for inspection can expose both your company and you personally to significant legal and financial risks. Poor practices threaten your license and livelihood.

R.4 Risk identification and mitigation planning

It is not possible to eliminate all risks in your company or in any business. The best that you can do is to identify all of the risks in your business, estimate their likelihood of occurring, estimate the impact that they'd have if they were to occur and nominate some things you can do to mitigate all of that from happening. With that, you can implement a proactive and robust risk management strategy.

R.5 A file review and audit program

A simple way to limit the risks in your company is to regularly review your files. It is a simple yet effective way to see at a glance where your risk profile sits. This capability rests on your adoption of good audit practices that cover a significant enough sample of your company's files on a regular basis, as well as using the findings to conduct further investigations.

The financial capability area

About financial capabilities

There are two types of financial capabilities. The first is the raw power of cash – the deep pockets needed to fund changes, new team members and better resources. The second relates to being more productive with the resources you have – the insights needed to really understand each dollar of revenue and costs, off-loading business that is unprofitable and creating aligned incentives across the company to make sure everyone is pulling in the same direction.

Having deep pockets is a capability in and of itself, albeit a rare capability. If you have it you will have more flexibility to put on staff earlier and invest in newer technologies. You will also be able to invest in marketing and in improving your company's presentation.

To do all that isn't cheap. In some cases you may need to invest in new team members well before you can expect to increase your revenue, which is a big drag on working capital. When part of a well-executed strategy, this will all be paid back later, but the timing difference still needs to be funded in the interim.

Other than cash, good business practices will help get the most out of every dollar. Experience shows that having segregated accounts for the lettings and property management side and the sales side will give you more insight into the performance of each division of the company. It's also the start of understanding the profitability of each management.

It's almost inevitable that some of your clients will not be profitable. You need to hunt them down and find ways to turn that around, either by adjusting the services and fees or by selling the managements. Strong financial capabilities empower you to make better decisions earlier.

How you can improve your financial capabilities

The basis for strengthening your financial capabilities lies in having good information. The easiest place to start is by making sure you have segregated financial reporting so that your lettings and property management business has its own financial accounts, including its own balance sheet. Until you get this accounting separation any financial discussion is hard to have.

With clear information, you can keep drilling down. For example, if you dig hard enough you will find managements that are unprofitable. Ideally you can find ways to get more value from them.

The next thing to do is work all the numbers into your business plan and vice versa. If your business plan calls for growth, then the financial budget should include a provision for hiring more staff at some point during the year. Or the business plan may call for an investment in new technologies.

These all need to be put back into your financial forecasts to make sure you have the working capital to see it through. Too often, business plans are developed that cannot be supported by the financial resources of a company.

Once you have your plan in place you then need to monitor and manage it throughout the year. It is worthwhile re-reading it before the last team meeting of each month to make sure you are still on track.

Another useful resource is to exchange ideas with other business owners who are working on the same things. Sometimes discussing options with your peers is more valuable than reading about them.

The individual financial capabilities

F.1

Deep pockets

One of the most basic financial capabilities is access to the working capital you need to fund your ambitions. This is a raw calculation. In reality, most ambitions related to a hyper-growth or machine strategy will draw on working capital and unless the financial resources are there, success will be very difficult to achieve.

F.2

Separate P&L and balance sheet

For a lettings and property management business to be run and managed well, it is critical to have a clear understanding of the financial and wealth creation performance of the business. Having separate books is the basis for the insights you need to make strong and confident plans and decisions.

F.3

Financial reporting and benchmarking

Not every management is the same. Each has different fees. Each requires different amounts of time to manage for all sorts of reasons. Each has a different capital value. The more you can develop an understanding of the profit and wealth associated with each and every management, the better you can groom your business. Odds are at least 20% of your managements lose you money. If you can find them and perhaps sell them, it's a win-win.

F.4 An annual business plan

A good business plan helps identify the financial resources you will need to execute your strategy. The plan should factor in your capability gaps and the initiatives you plan to undertake to close them. It should have regard for the time it takes to achieve change and the risks involved. Your plan should also have regard to the market's 'laws of physics' to make sure it's achievable. A business plan with all of these things will give you confidence in the level of financial resources you will need to achieve your goals.

F.5 Aligned incentive structures

There are many different roles and people in a company, but each contributes to the success of the business. Each person has his or her perspective on what their role is and how they fit. Getting everyone aligned to the common goals can unleash everyone's potential.

Chapter 2

Measuring your business's capabilities

Measuring your business's capabilities

Any discussion on strategy needs to start with your business's capabilities. Knowing your own strengths and weaknesses in terms of capabilities can be a little subjective. On a good day you might think that everything is perfect and that you are invincible. On a bad day, things can seem beyond redemption.

The important thing in all of this is to have a way to be able to put these day-to-day ups and downs to one side and find a way to accurately measure your true capabilities over time.

To have a real discussion about your capabilities we also need to have a common understanding of what we are talking about. Is your definition of a 'business development department' the same as mine? What about 'career platforms'?

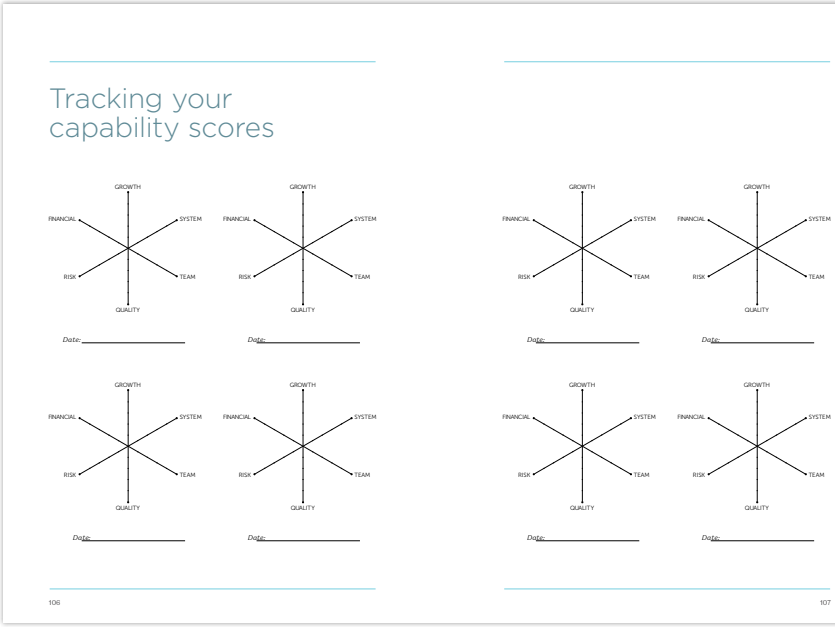
In the appendix you will find an overview of each of the 30 capabilities with a definition and a discussion of some of the pitfalls when the capability is not strong or is compromised.

Each capability sets out a short test for you to run through. The answer to the test gives you a score for each capability. The questions are mostly for you and your team to answer and collaborate on as a group activity, although for some of them I have recommended some tasks for you to do before taking the test to get a more accurate score.

The **Connecting the Dots** worksheet can be found in electronic and survey form at lpma.com, and is also reproduced at the appendix at the back of this book.

For example, in the team and quality capability areas, it's recommended that you survey your team and your clients so that you can get a clear sense of what is really going on. Without doing that work, the answers you give are always going to just be your opinion. Unfortunately, your opinion of your business is probably wrong.

There are 30 capabilities in all and 30 tests that go with them. Although I think they are all valuable, in reality you will prioritize the areas that mean most to you. As you will see later in this book, once you have chosen your strategy and identified your capability gaps, you will get a sense of which capabilities are more important and of a higher priority to work on than others. You should focus on these more and re-test yourself more often.



Tracking your capability scores

GROWTH
FINANCIAL
SYSTEM
RISK
TEAM
QUALITY

Date: _____

106

107

System S.1

An integrated platform

Summary

This capability describes an integrated set of resources and technology that assists the team in delivering a first class service while supporting each individual, wherever their skill level lies. There's a high degree of automation in any process-driven task, so that low value work is reduced as much as possible. New and inexperienced team members are supported so that common mistakes are avoided. Everything is measured.

What the capability gives you

An integrated platform will give you:

- Tools that can be used to improve its performance
- A learning culture
- A team ready for the challenges the future brings

The capability defined

Unfortunately, there's no one system in any business that does everything.

Most systems in businesses today are a collection of different software and technology solutions that have evolved over many years. Like any technology, the components were initially developed to solve a specific problem or issue, and as they matured features have been added to address more and more issues.

The challenge you have as a business is to find a way to assemble a set of systems that work well together, to make your business run more effectively. What effective actually means will depend on your chosen strategy. If you are pursuing a hyper-growth strategy, you will want to focus on the elements of your system that interact with owners. Machine agencies will prefer to focus on service level agreements and workflow, while run lean agencies will want automation and risk management. Other priorities agencies will target management reporting and insights.

Nice to have *Critical* *Should have* *Nice to have*

130

1 2 3 4 5 ___ /5

3 Does your system track all the promises you have made to your clients and alert you when you fail to meet those expectation?

1 point: Notes are added in the system for anything unusual and the agency does the best it can.

5 points: Yes, the agency knows what has been promised and is delivering on those promises. If there's a problem, the agency is the first to know.

1 2 3 4 5 ___ /5

4 Do all of your main systems talk to each other without having to re-enter data?

1 point: Mostly no.

5 points: Mostly yes. We have a true platform.

1 2 3 4 5 ___ /5

5 Do you know what is going on in the agency?

1 point: We get the standard reports from the software.

5 points: Yes, the system generates management reports each week that give insight into how the business is operating and what issues should be focused on.

Total

133

Figure 2.1 Capability worksheets

We have learned from previous experience that the best results are achieved when the capability tests are done in stages and with the whole team. I recommend focusing on one capability map each week, with each team member doing the tests privately before the weekly team meeting. Then, have each individual openly discuss their results with the rest of the team. The discussion that comes from those insights is always valuable, particularly when team members have a widely divergent opinion of the company's score in a particular area.

It is worth noting that it is not reasonable to expect any company to score well across all, or even most, capabilities. So don't feel you have to give yourself good scores for everything, or be concerned if you only score well in a few areas. Good strategy is the art of prioritizing so that you are only doing the most valuable things. That means to run you will have to spike in some areas to the sacrifice of other areas. For example, I would argue it is better to excel in one or two areas than be average in all six capability areas.

Ultimately, your score today is just your score today. It does not determine the future of your business. It only sets the baseline of where your business is now. It is part of choosing the right strategy for you and then developing an action plan to achieve your goals. Use the worksheet in the appendix to add up all your scores for each capability and capability area.

Creating your business's capability map

Once you have worked out your score in each of the six areas, you can represent your capability on the strategic framework we have developed, called a 'capability map'. (Figure 2.2)

Each of the six capability areas is represented by an arm on the map. Each arm has a maximum score of 100, with 0 in the middle of the map. Place a dot on each line, representing the score you received in that capability area. If you scored low, your dot will be near the center. If you scored high, you will place the dot near the outer edge. (Figure 2.3)

You can then connect the dots together to show the capability profile for your company. A business that scored well in team and systems, poorly in growth and financial capabilities and was mid-range in quality and risk would look something like the example on the right. (Figure 2.4)

Understanding your capability map

Your capability map gives you a quick and easy understanding of your lettings and property management business. The peaks reflect your strengths and the low points represent areas in which your company is not strong.

Each business has a different capability map. Some will score low in all areas, some will spike high on some areas and not others.

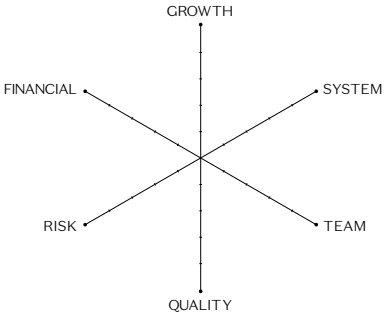


Figure 2.2
An empty capability map

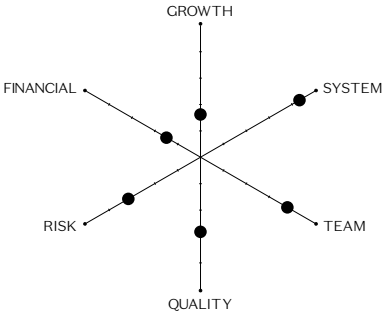


Figure 2.3
An agency score of each capability area

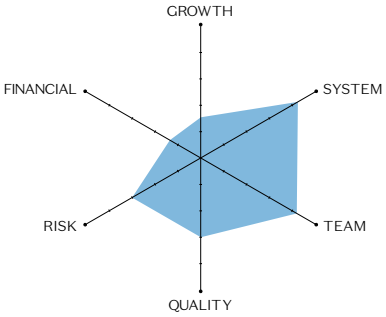


Figure 2.4
An agency that has strong team and system capabilities

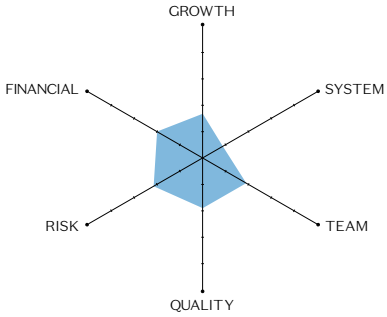


Figure 2.5
An agency with low capabilities across all areas

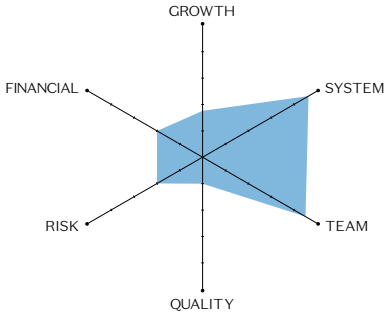


Figure 2.6
An agency with strengths in systems and team

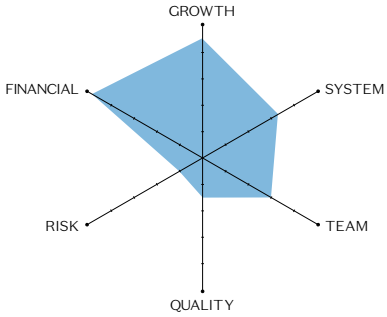


Figure 2.7
An agency with deep financial and growth capabilities

There is no right or wrong shape to the map.

Whether it is a good map or not depends on the owner's ambition and the strategy that he or she wishes to employ. (Figures 2.5, 2.6 & 2.7)

Naturally a healthy business will tend to have higher scores. But regardless, it is not realistic for any company to score highly in all areas. This exercise may be a little sobering or may be encouraging. Either way, the most effective way to use the map is to see that your business is what it is today, but not necessarily all it can be. The capability map is just your starting point for the strategic planning and action planning process you are about to go through.

An interesting way to evaluate the results is to compare them to what you thought your company's strengths and weaknesses were. Were your expectations validated or challenged? Do they ring true or do you disagree with the questions or the scoring methodology? If so, I would welcome the debate! Hit the LPMA forums to have your say.

Another thing to consider: are your strengths the result of deliberate decisions and investments you have made? If so, then you are to be congratulated for setting goals and having the strength to see them achieved. Are your weaker points in areas that you deliberately accepted would be compromised, so you could focus elsewhere? If so, then that too is something to celebrate because you made a deliberate choice upfront and with your eyes open.

A healthy map would reflect these decisions you have made for good reason. A less healthy map would show peaks and troughs in areas that have almost come about by accident, rather than as a result of planning.

You will notice that over time your capabilities will rise and fall as the business changes. Sometimes certain capabilities will decline over time. Although they do change, capabilities don't tend to change quickly.

To improve them you will need to set specific goals and invest time and energy into achieving those goals.

There is one point I would like to emphasize – left on its own, even the best property management business will tend to decline and its capabilities diminish. The center of the capability map has its own gravity and will pull the dots towards the center, weakening your company's capabilities over time.

Maintaining a moderate score in any capability area will require ongoing effort. Increasing your capabilities requires a campaign.

Chapter 3

The strategic choices

The strategic options

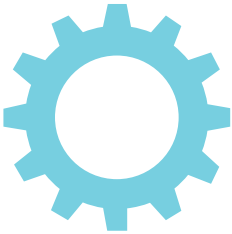
It is true to say that every lettings and property management business is different. Every leader is different. Every marketplace is different.

Despite this truism, there are also fundamental economic, business and cultural factors that operate across the industry. These forces apply to every real estate company and affect all of us.

Despite all the differences, these forces operate in such a way that I believe there are four core strategies that are open to a lettings and property management business. The understanding of these four strategies has evolved from broad experience in the industry and from extensive case studies.

1. Hyper-growth

The hyper-growth strategy is effectively a hell-for-leather gambit at growth in a company. It involves pulling on all the growth levers across your company at the same time.



2. Machine

The machine strategy supports a business that runs like a Swiss watch. It encompasses first class management with a clear view on how the business should be run, combined with endless energy to always seek improvement.

3. Run lean

The run lean strategy is based on a narrowly focused team that prioritizes cash flow. Pragmatic decisions are made while ensuring that the core risk areas are addressed.

4. Other priorities

The other priorities strategy utilizes a solid team to manage the lettings and property management division, freeing up the business owner's time to focus on other areas of the business that are considered more promising.

Hyper-growth

A hyper-growth strategy is intuitively what everyone wants – who wouldn't want their business to grow and grow fast? But to leave it at that would mean this strategic choice has no meaning – to be a real strategy, further investigations and assessments of required capabilities must be undertaken. There are significant challenges to executing the hyper-growth strategy effectively and if the capabilities needed to succeed are not present in the company, it is better to recognize that upfront and choose a different strategy.

The strategy starts with recognizing that 'business as usual' cannot lead to hyper-growth. Every lever at the company's disposal must be pulled simultaneously. An investment must be made in a dedicated department focused on selling the company's services to investors. Every person that the company collectively contacts must be profiled for their potential and they must all be actively marketed to, with compelling messages and content. The hyper-growth company will not allow or tolerate the old divisions that have existed between sales and lettings and property management teams.

A hyper-growth company must also have a clearly articulated and compelling point of difference that resonates with the market and the investor segments that the company is focused on. Each team member must understand that point of difference and be confident in its value.

A hyper-growth company will have an intimate understanding of the five channels of growth (defined in our other book **Numbers Game**), the potential of each of those channels and the company's performance in each. The definition of any strategy must also include what it is not. A hyper-growth strategy is not founded on discounted pricing or a tolerance of 'churn and burn'.

To execute a hyper-growth strategy, the company will need superb leadership. The leader must fight

all the old prejudices that suggest hyper-growth is not possible.

So many people have been trained to believe that the old growth limits are permanent, and a clear vision is needed to break through any preconceived ideas. On top of all that, the team will need to be resourced in a way that anticipates a high level of growth. There is no point putting the foot down on the growth pedal if the team is already operating at or near capacity. This will just create another bottleneck further down the line and the lost management rate will increase while the team burns out.

Ultimately, a hyper-growth strategy needs capital – new team members, professional marketing and extra team capacity. Depending on the circumstances, a company may need to add a number of new team members and invest in marketing resources just to launch the strategy. If the company is not in a position to access the necessary funding, then this strategic choice is not a realistic one and is best avoided.

The upside:

- Wealth creation
- Momentum that creates a virtuous circle between sales, lettings and property management
- Career paths for team members

The challenges:

- Leadership time and skills
- Financial resources
- Belief

Not suitable for:

- Those who do not have the leadership capacity to drive a cultural change throughout the company, particularly in the face of resistance
- Those who do not have deep financial capabilities

Capability requirements for a hyper-growth strategy

Growth

A virtual clean sweep of all growth capabilities is required. The growth ambitions must be supported by everyone in the company and all company resources will support the effort. There are dedicated business development department resources and absolute belief in the quality of the service offered. The company is actively pursuing all five growth channels.

System

The company must have clear KPIs set for growth targets and everyone in the company contributes to them. There will be clear and open channels of communication between the sales team and the business development department. There is creativity in experimenting with new ideas for growth. There is only one database for the whole company.

Team

The leader must have a clear vision for how an integrated and growth-oriented company is run. The doubters will either get on board or leave, to be replaced by like-minded people who are supportive of the company's stated point of difference. The energy is infectious. A skills program supports the vision.

Quality

The service to the investor must be at the center of the definition of quality. Promises are made, tracked and kept. The services offered will be customized to each investor type, with the company striving to meet their expectations and requests. The team must always have extra capacity to handle the anticipated growth.

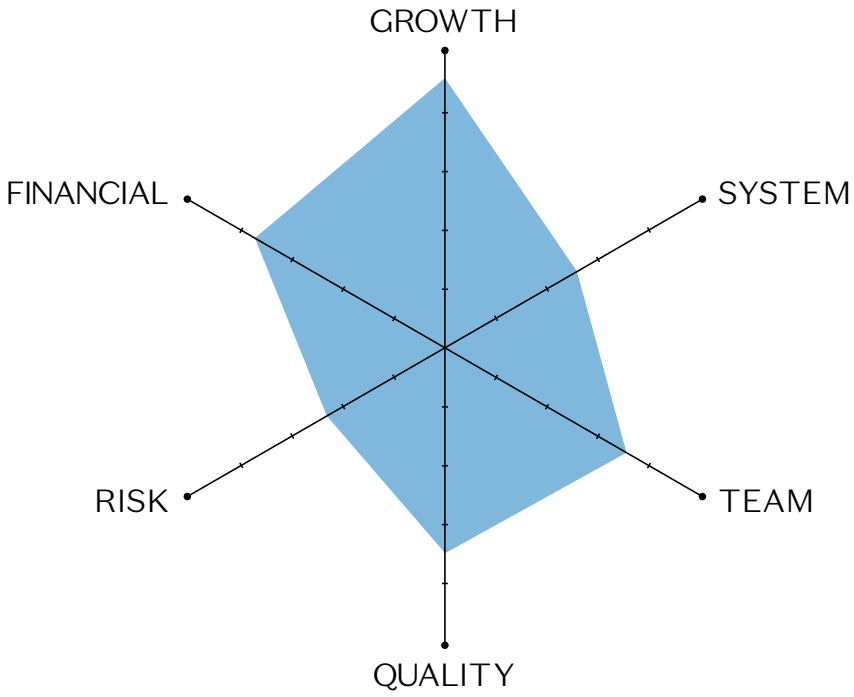
Risk

The company will focus on the core risk management processes.

Financial

The company must have the financial resources to fund the growth plans and recognize that most growth is initially cash-flow negative. The company will have a clear business plan that sets out its vision.

The base capability map for a hyper-growth strategy



Machine

Machine companies are almost always run by managers that have a strong background in lettings and property management and have a genuine passion for constant improvement and efficiency. They are the people that stand in line at a cafe thinking about how they would re-organize the process if they owned it. Under their management style, everything runs to a process and a schedule and it is run that way day in, day out.

It is this passion, along with a dedication to always finding a better and a more efficient way, that is the foundation of a successful machine strategy. The business manager's force of will, which is sometimes extreme, is at the heart of the successful execution of the strategy.

A machine company requires an effective and efficient way to do everything. More importantly, it will have processes in place to measure when things are not working according to plan. What does this mean? It means that a machine company just doesn't have a form for everything. The simple provision of a form is not enough, because the full process must also include training the team on how to use the form, measuring whether or not the forms are used and whether they're used at the right time, as well as being able to pick up any failure to use the form.

A machine company must have an effective, yet simple, KPI system in place to track compliance with the company's way of doing business. New team members are inducted into the company over a period of time and not just thrown into a portfolio.

Mentorship is critical and open dialogue will regularly occur across the team to discuss how things can be improved.

A machine company will use every tool at its disposal to find better ways of doing things. Each new feature in every product is used. Ideas are picked up and regularly experimented with.

The machine strategy can easily

be confused with more destructive approaches. Most commonly, it can be used as a foil to defend leadership that is too set in its ways and too resistant to change. 'My way or the highway' cannot be successful forever, particularly if the person saying it is not open to change and innovation. Unfortunately the line between stubborn and visionary can be very thin.

As a rule of thumb, if strict processes are being followed but the team cannot articulate why a particular process exists, then there may be an issue. The machine strategy is most successful when team members are part of the machine because they believe in it and understand it, not because they are pressured into it. A good machine company has a team of volunteers, not conscripts.

Another mistake is to confuse a machine company with a fast food restaurant. They are not at all alike. In a machine company, the process brings out the best in the team and empowers them to be fantastic. It is not about living on a production line. A machine company will attract the best talent, not repel them. A strong machine company will have a culture where some of the best ideas come from the ground up, not just from the leader down.

The upside:

- An efficiently run business
- No surprises
- Can take holidays and not worry

The challenges:

- Maintaining a focus on what policies should be, not just following them without thought
- Finding the right balance between strict process and being stagnant or becoming a company that disempowers team members

Not suitable for:

- Companies where a business manager doesn't have a genuine interest and passion for property management
- Those who are not curious about always finding ways to improve

Capability requirements for a machine strategy

Growth

Growth capabilities are not a focus for a machine company. Some basics will be done well, particularly elements that involve the use of data and other process driven initiatives.

System

This is where the machine business must invest most heavily. All system-oriented capabilities will be firing – the company has a strong sense of purpose and goals, everything is being measured and optimized, everything is supported by strong communication. There will be a permanent drive for further improvement and productivity gains.

Team

There must be a strong management resource in place, dedicated to the smooth running of the department. There will be a culture of excellence supported by best practice HR and skills development policies. The company has clear goals and everyone understands how they are to contribute to them. Each person maintains a career passport.

Quality

The business must be focused on making sure things happen when they should, in the most productive way possible. Quality comes from the consistency that arises from good processes. Although the processes can mean some creativity in delivering services is lost, clients will certainly be content.

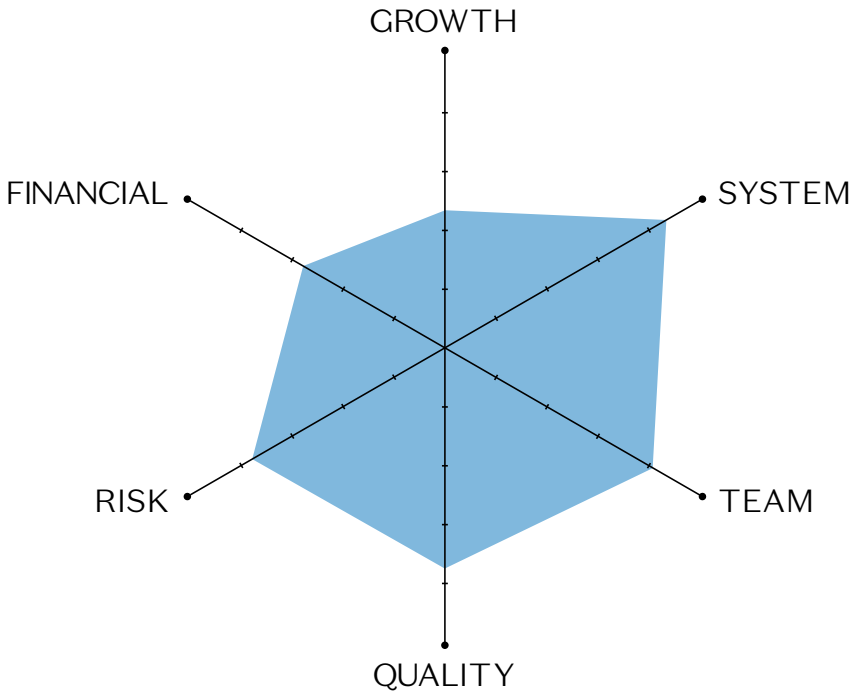
Risk

A machine business manages risk effectively with the safeguards that come from good and clear policies and procedures. The procedures will reflect the experiences of the team and will have evolved to include checks and balances for any significant area of risk.

Financial

The most important financial capability a machine company has is that it has a separate P&L for the property management business. This will empower the department manager to take ownership of the business and forms the foundation for measurement and goal tracking.

The base capability map for a machine strategy



Run lean

A run lean company makes pragmatic decisions about how the business will operate, with an eye to maximizing the cash flow for the business. Focus is less on growth and more on getting the most efficiency from the way things are done.

A run lean strategy is appropriate for companies that are constrained by limited resources and where the alternate strategies are not available because of these limitations.

Executed badly, a run lean company can feel manic. Things may run smoothly at times, but it has little-to-no ability to withstand the shocks to the system that are inevitable in business.

Risk is the core challenge for this strategy. A business that is running lean is vulnerable to significant setbacks should unplanned events occur. Success is all about thinking through the issues that will inevitably arise and planning a decent response to them. With so little room for error in the business, conditions can get challenging very quickly.

For example, from time to time team members will leave the business. If there is no planning, then the company will find itself 'recruiting by crisis': setting the business back months as quickly and poorly made decisions compound the original issues.

A good risk management plan identifies the things that are likely to happen and includes a practical backup plan for them. Creativity can make up for the lack of available resources.

A run lean company must be careful when setting expectations with clients. They cannot promise the world and must ensure that everyone's expectations are aligned.

Running lean also involves making use of technology and other innovations to save time and energy wherever possible. Rent payment systems should be used to systematically reduce arrears and accounting issues. Communications should be automated. Filing should be done electronically. The cloud should be used aggressively.

All of these small savings in time and cost add up and are culturally aligned to what a run lean company is all about.

Ultimately, good execution of a run lean strategy requires creativity and early adoption of technology and new ideas to compensate for the limited resources. Poor execution will just leave the business in a world of one step forward, two steps back and is bound to end badly.

The upside:

- A company moves forward on limited resources

The challenges:

- Finding the balance between efficiency and cutting things too close
- Managing risk

Not suitable for:

- Companies with resources that allow for more

Capability requirements for a run lean strategy

Growth

Run lean companies must always be looking for the most efficient way to do things. In terms of growth capabilities, that will mean working on tighter integration with the sales team. A run lean business focuses on getting this cooperation right.

System

The run lean company must always be refining its systems in the quest for greater efficiency. The goal is to find ways to shave time off tasks. The company will also have well documented ways on how everything is done to stop team members having to reinvent the wheel every time something comes up.

Team

The run lean company will have a constant challenge in the team capabilities area. The nature of the running lean strategy means the company will only invest where it absolutely has to. This is never an ideal dynamic and so the company must button down job descriptions and have a deliberate recruiting plan to avoid confusion and misalignment.

Quality

One of the trade-offs for a run lean company is that the quality capability areas will tend to be at the market average. The goal here isn't to be the best; it's to be the most efficient at service delivery. That doesn't mean low quality – far from it! It's just about being prudent and level headed.

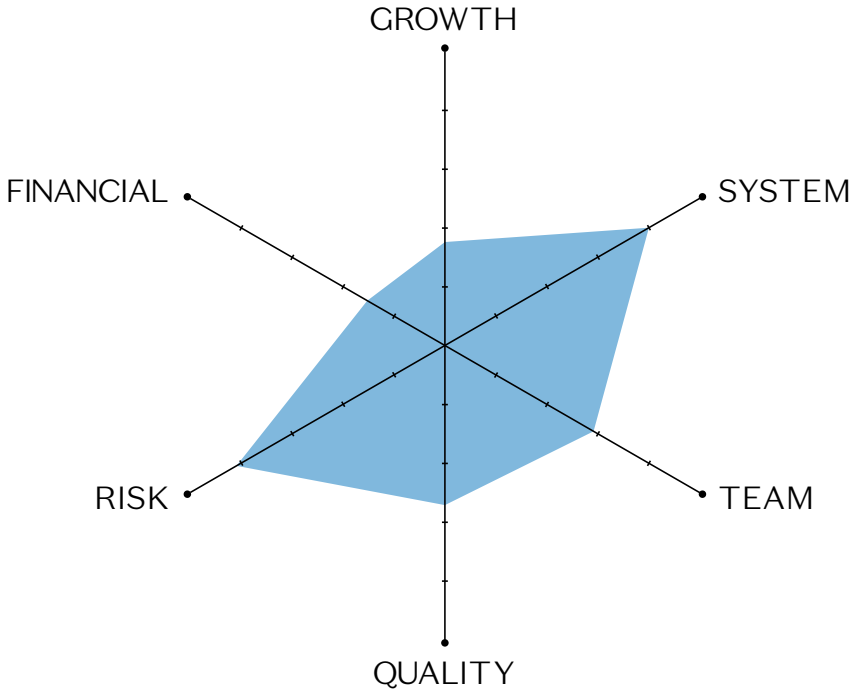
Risk

The run lean company must have the strongest risk capabilities. The risk management framework is designed to deal with the trade-offs that come with the strategy, recognizing that they too can be sources of efficiency gain. Good inductions and legal compliance checks are critical because, after all, they save time in the long run.

Financial

The run lean company does not need deep financial resources. In fact, it is designed to generate a positive cash-flow.

The base capability map for a run lean strategy



Other priorities

Sometimes the lettings and property management business doesn't make it to the top of the priorities.

The other priorities strategy is a completely valid strategic choice for a business owner to make. It is a pragmatic choice and a healthy business can still be built following the decision.

The art in achieving success with the other priorities strategy is to do it deliberately. It involves understanding the risks involved and compensating for the issues that follow.

To execute this strategy it is first necessary to understand what happens without an engaged leader who drives the business.

The biggest risk an other priorities business faces is a leadership vacuum.

This will manifest itself in a team that becomes fragmented. The natural end point is not a single, unified, business but instead a collection of independent and separate businesses operating under a common brand.

This risk needs to be managed by developing a management structure to compensate for the busy owner. This is done by appointing a development manager, or what we call a business manager, because that title is a better description of the role.

It would be a mistake to think of this business manager as just a senior property manager by another name. What makes a person a good senior property manager does not necessarily make a person a good business manager.

There are new skills to learn and a plan must be in place to develop those skills.

Also be aware that promoting a senior property manager to the management role can create team issues. When a colleague goes from peer to boss, problems can arise in even the best team. The process needs to be considered carefully and the new team leader needs to be properly set up for success.

The owner and the business manager need to develop a strong working relationship. The owner has to place a great deal of trust in the business manager, and in return, the business manager needs to be given the skills, resources and support to execute his or her role effectively.

Just because the owner has other priorities does not mean that he or she can wash his or her hands of the entire enterprise. Competing priorities is not an excuse for disinterest.

Unfortunately, a business manager will not have the authority and vision that an engaged owner will have. As a result, the business will not have the same potential as a hyper-growth or machine company. That's the trade-off.

The upside:

- Frees up the business owner to focus on other areas

The challenges:

- Developing the skills of the business manager
- Supporting the business manager

Not suitable for:

- An owner who is just disinterested

Capability requirements for an other priorities strategy

Growth

The other priorities company does not have strong growth capabilities.

System

The other priorities company must focus its system capabilities in the areas of goal setting, tracking and KPIs. These will help focus the business on what's important and support the business manager in running the business.

Team

The other priorities company must have a strong business manager in place who has the support and confidence of the owner. After all, without that relationship, the owner won't be free to tackle those competing priorities. There will be good HR practices in place to support the business plan well in advance.

Quality

The other priorities company must have a pragmatic and level headed view about its quality capabilities. This company is not out to be the leader in the marketplace, but to be a good strong follower.

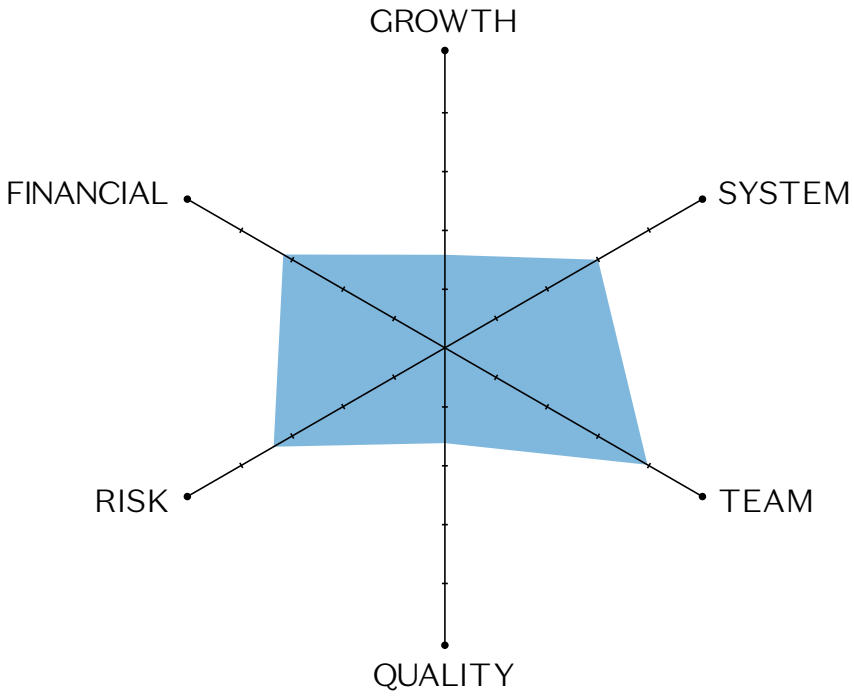
Risk

Given the nature of the strategy, the other priorities company must focus its risk capabilities on the big areas and get them right. There will be a dedicated trust account or client account operator and processes in place to make sure the company is and remains fully compliant. A file review process supports the effort and builds confidence.

Financial

The other priorities company must focus its financial capabilities on planning. A good business plan will give the business manager goals to shoot for and identifies the issues that will come up over the next year. A separate P&L will help in this process too.

The base capability map for an other priorities strategy



Strategic choice comparison

	HYPER-GROWTH	*MACHINE*
CAPABILITY REQUIREMENTS		
TEAM FOCUS	Customization	Productivity
IMPACT ON BUSINESS	Momentum	Excellence
TEAM CULTURE	Achievement and performance	Customer-centric, one team
RECRUITMENT PROFILE	Success-driven, hyper personality	Analytical, team work focus
MARKET SHARE TARGETS	>40% of market opportunity	20% of market share
PREVENTABLE LOSS RATE	Medium range	Low range
RENT ROLL VALUATION MULTIPLE RANGE	Medium range	High range
PROFIT EXPECTATION	Low	High
FEES VS COMPETITORS	Average	Above average

	RUN LEAN	*OTHER PRIORITIES*
CAPABILITY REQUIREMENTS		
TEAM FOCUS	Efficiency	The day-to-day
IMPACT ON BUSINESS	Steady	Hot and cold
TEAM CULTURE	Achievement and innovation	Autonomy
RECRUITMENT PROFILE	Pragmatic, street smart	Independent, confident
MARKET SHARE TARGETS	10% of market opportunity	5% of market share
PREVENTABLE LOSS RATE	Medium range	High range
RENT ROLL VALUATION MULTIPLE RANGE	Medium range	Low range
PROFIT EXPECTATION	High	Medium
FEES VS COMPETITORS	Average	Below average

Chapter 4

Choosing a strategy

Selecting the strategy that matches your ambitions

To make the right choice on an effective strategy for your business you need to weigh up the pros and cons of each of the four strategies. You can do this by considering what capabilities your company has currently and then comparing your capability map to the capabilities you would need in order to go after each of the strategies.

You also have to decide whether you have the energy and willpower to go after those capability gaps and close them.

Capability gaps

In the example capability maps on the following pages you can see a company's current capabilities being compared to the capability requirements of each of the four strategies.

To pursue a hyper-growth strategy, the company would need more financial resources to invest in growth capabilities. (Figure 4.1) A machine strategy for this business would require significant improvements in system and team capabilities. (Figure 4.2) Improvements in system and risk capabilities would be needed for a run lean strategy, (Figure 4.3) while similarly, team capabilities would require a strong focus to successfully pursue an other priorities strategy. (Figure 4.4)

The biggest mistake you can make now is to choose a strategy based on hope, with no regard for the capability gaps you may have in your business. For example, if you are determined to go after hyper-growth but don't have the financial capabilities to support it, your company will likely end up with a poor outcome. If you want to run a machine business but the management and the other team capabilities required to do so are out of your reach, then you will probably miss your target.

You may be tempted to cherry pick a bit out of each strategy and develop your own. In my experience, that approach can end up being difficult to execute — you'll generally need to become good in a lot of

areas at once and prioritizing will become a significant challenge.

Remember, in developing an effective strategy it's preferable to excel in some areas and accept compromises in other areas, rather than attempting to be just OK at a lot of things. Being stuck in the middle leaves you without any real strategic benefits.

The rewards

Of course, you need to weigh up the capability gaps you have with the rewards that come from a well executed strategy. The right strategic choice will balance the challenges and the rewards.

Time frames

When making the strategy decision, you should be thinking on a three- to five-year time scale. It is not forever, but neither is it a quarter-to-quarter proposition. Change in a company will take time to achieve, sometimes several years. Remember that you will have to bring your team with you, which will mean they will need new skills and resources.

When considering the capability gaps that you would need to close for any given strategy, it would be a good idea to think of the concrete changes that you would need to make in your business over the next 18 months to two years to achieve your goals. With those changes in place, you would then be set up to take advantage of the strategy in the remaining years of the time horizon you are using.

How to make the decision

Choosing a strategy is an ongoing process to balance the capabilities needed to pursue your preferred strategy with the actual capabilities that your company has today.

Weigh up how your business fits against the four strategies and look at the gaps. Could you close them? Can you? Do you want to spend the time to do so?

Each person will naturally drift towards one or two of the strategies instinctively. Try to understand why that is the case and if you can, recognize the emotional elements that may be biasing your decision making process.

Once you have gone through the process, a dominant strategy should naturally emerge. In the end, the choice should not be a hard one. If it is, I suggest you consider revisiting whether you have honestly and properly measured your capabilities.

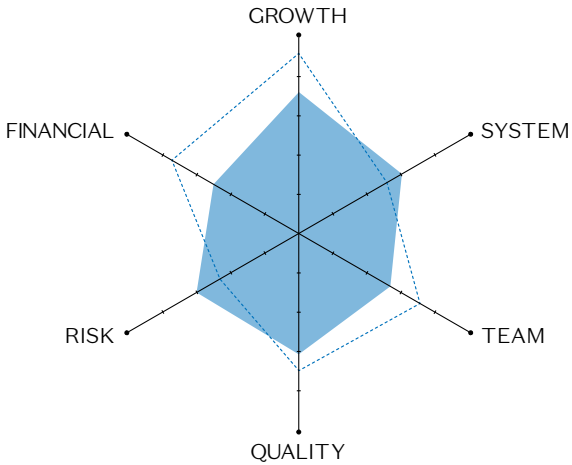


Figure 4.1
A business evaluating
the hyper-growth strategy

Current capabilities

Hyper-growth requirements

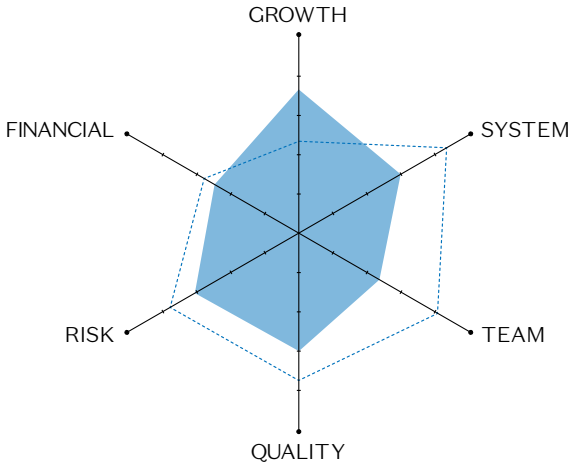


Figure 4.2
A business evaluating
the machine strategy

Current capabilities

Machine requirements

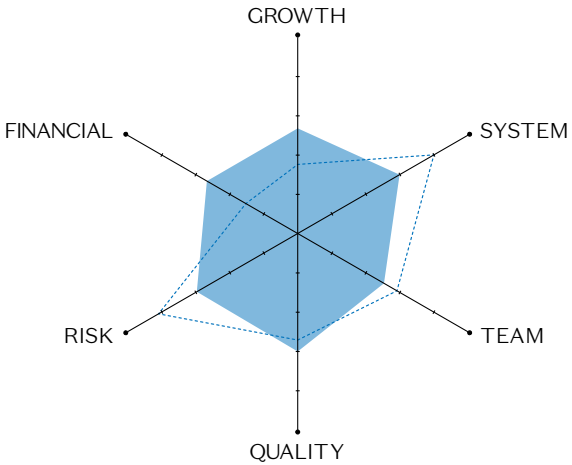


Figure 4.3
A business evaluating
the run lean strategy

Current capabilities

Run lean requirements

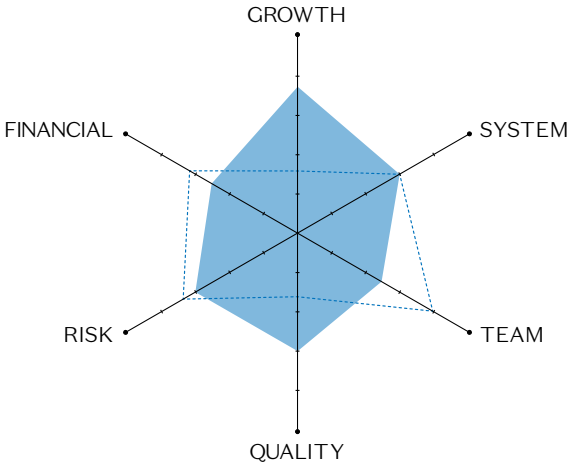


Figure 4.4
A business evaluating
the other priorities strategy

Current capabilities

Other priorities requirements

Case study 1: Why isn't there growth?

The background:

Peter is the owner of Harbor Village Realty. Over the six years he's been in business, the rent roll has grown to include 280 properties. During that time, he has had a number of property managers come and go, along with one long-serving team member called Jacquie. Some time ago, Jacquie was promoted to the senior property manager role and now has a property manager and leasing agent reporting to her.

Last year Peter put on a business development manager in the business to help drive growth in the rent roll. The results have not been as good as Peter might have liked and he's starting to question whether it was worth it. After all, he was told that a business development manager would drive growth for the company.

On top of that, Jacquie has been coming to Peter saying that she is frustrated about where things are at. Her team doesn't seem to be working as hard and as long as she is and the senior property manager role is just turning out to be more work without any upside.

The current capability map:

Peter went through the capabilities tests and developed his business's capabilities map. It shows that the company is doing well in most areas, but is not really 'spiking' in any particular area (see figure 4.5).

On reviewing the results, Peter can get a sense of why he isn't getting the growth rates that he had hoped to see. It's not just that his growth capabilities are not particularly strong, it's that his team and quality capabilities are also not high enough to support the growth plans.

Drilling down on the team capabilities, the 'strong management' and 'high performance culture' capabilities are the weakest. This suggests that Jacquie has not been given the resources and skills necessary to succeed. In these conditions, Jacquie will find that she is stuck in a world somewhere between property manager and business manager and the stress is causing her to burn out. Left unaddressed, Jacquie will become disillusioned with the role and may end up leaving the company.

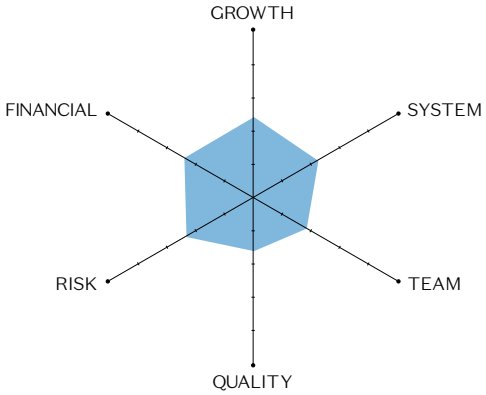


Figure 4.5 The business's current capabilities map

Considering a hyper-growth strategy:

Peter's first instinct is to fix the issues and chase growth. With that in mind, the first strategy he considers is hyper-growth. (See Figure 4.6)

Peter overlays his current capabilities with the capabilities needed to successfully pursue hyper-growth. A couple of issues jump out immediately.

The first is that although Peter has added a business development manager to the team, his growth capabilities are still well below the capabilities needed for a real shot at hyper-growth. To advance his capabilities, he will need to re-think how his sales and property management teams work together. The company doesn't have any real understanding of its point of difference and his team can't articulate it clearly.

The other thing is that his team capabilities are low. He does not spend much time in property management and he recognizes that his leadership of the business is weaker than what is needed to really drive change.

Lastly, his financial resources are not strong. He just doesn't have the working capital to start recruiting the extra resources he will need to break through to the next level.

After careful thought, Peter decides to not pursue a hyper-growth strategy. He just doesn't have the head-space to tackle all these issues at once.

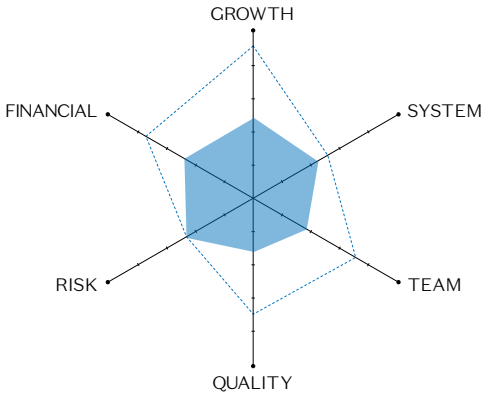


Figure 4.6 Considering a hyper-growth strategy

Current capabilities

Hyper-growth requirements

Considering an other priorities strategy:

After going through all the details, Peter next decides to look at the other priorities strategy. (See Figure 4.7)

For this strategy he sees that he is already out-performing in a couple of areas. His growth capabilities — particularly the dedicated business development manager — are more than what's needed to pursue this approach. Perhaps adopting this strategy would free up the business development manager to go into the sales division and boost the business there.

After reviewing the team capabilities, Peter starts to like this strategy more and more.

Importantly, he sees that to go after this strategy he would have to invest more in the team's management capabilities. He recognizes that Jacquie has not been given the support to allow her to really be a good business manager and he knows that she is not happy with the way things are going.

If he were to pursue other priorities, Peter would have to provide more mentorship to Jacquie and provide opportunities for her to improve her skills. This would make the business run more smoothly and also help Jacquie to get through the challenges she is currently struggling with.

This settles it. It's the right thing and the right time. Peter chooses the other priorities strategy.

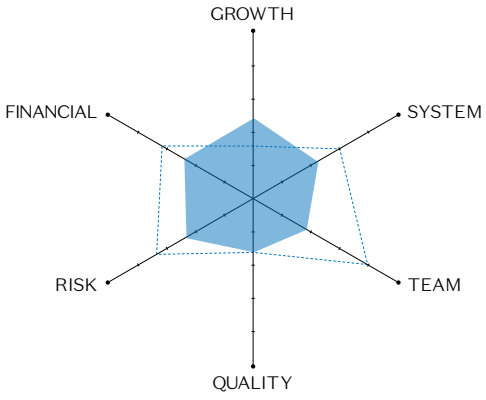


Figure 4.7 Considering an other priorities strategy

Current capabilities

Other priorities requirements

Case study 2: Why can't I find the right staff?

The background:

Oscar is the business owner at Dockside Realty. The business has 420 properties under management and has been growing at a rate of around 50 managements a year for the past three years. Most of the leads for new business have been coming through the sales business. The senior property manager, Alex, has been with the company for the past four years and Oscar thinks she's done a good job of getting the place running well. It's all been smooth sailing – well, at least until recently.

After years of hard work, Oscar has successfully developed the sales business, which is now approaching a healthy 15% market share. Despite the company's success, the rental division is starting to weigh on Oscar's mind. Lately there have been some staff issues — one property manager has left and her replacement is just not working out.

Oscar also gets a sense that another property manager wants to leave and might already be interviewing for a job somewhere else.

Oscar can't help but think, "Isn't it typical — one step forward, two steps back!" Although he's never really had a passion for the rental side of the company, it's not been a part of the business that kept him up at night either. Now he's starting to lose sleep. He can't put his finger on what's going on, but something is just not right.

The current capability map:

Oscar has gone through the capabilities tests and developed his capabilities map (see figure 4.8). Despite his expectations, the map shows a clear weakness in the system and team capability areas. He's surprised because he has always had great confidence in Alex and the growth in the business backed him up on this.

Oscar delves deeper into the system and team results. The weakness in the systems capability area is due to low scores on integrated platform, clearly defined goals and, in particular, constant improvement. On the team capability area, the

scores are low across the board, particularly in management, high performance culture and career platforms. It is sobering reading.

The interesting thing about the results is that the weakest areas are in those capabilities that affect the way the team is run and the culture of the team.

For example, in the high performance culture survey, the team members voiced that they don't have a clear direction and purpose or a clear set of expected behaviors. In the career platforms survey, the team answered that they don't get regular reviews, or know what is expected of them.

Oscar has always thought of his rent roll as a machine company. He's always seen Alex as a driver of this approach and has been impressed with her knowledge and drive. Oscar now knows that this is not in fact the case.

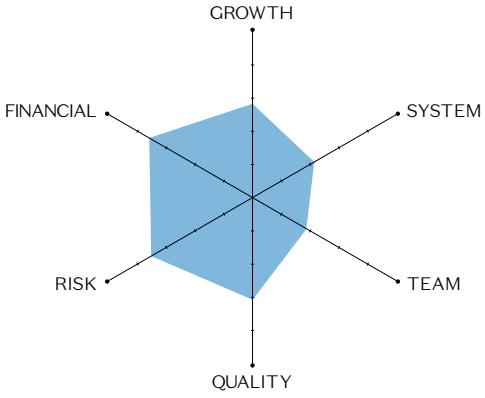


Figure 4.8 The company's current capabilities map

Considering a machine business:

When overlaying his business's current capabilities with those needed for a machine strategy, he's a little taken aback (see figure 4.9). Simply put, the company's system and team capabilities areas are well below the level needed to succeed under a machine strategy.

It's clear from the results that Oscar has some significant cultural and team leadership and management issues in his lettings and property management business. He sits down with the team members and gets the full story.

From these and other investigations, Oscar comes to see that Alex has been running the team with a 'my way or the highway' mentality that's been putting the team members off-side. Further, as the business has grown, it's been getting so hectic that Alex has been busy just trying to stop things from boiling over. There is no time for staff development, no time for innovation and no room for errors. It has, in short, become a miserable place to work and the challenges are just getting worse as the business continues to grow.

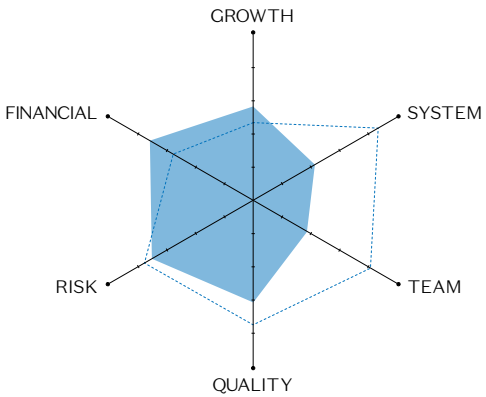


Figure 4.9 Considering a machine strategy

Current capabilities

Machine requirements

Until these issues are addressed, Oscar has to give up his hopes of having a machine business. He's surprised Alex has been able to hold it all together for so long!

Once Oscar has had the opportunity to better understand the state of his business, he comes to appreciate the challenges the team have been under.

For a run lean strategy, he sees that he has ample financial and growth capabilities and feels that with some good, solid decisions, the risk capability area could also be brought up to requirements (see figure 4.10).

Oscar discusses the team and system area results with Alex and discovers that Alex would love to be able to improve the way the team works and change the way things are done, but there's just never enough time.

Crises take over most days and it's all downhill from there. No one is enjoying what's going on. He decides to add another team member to take some of the load off the team and use that extra time to invest in team and system capabilities.

Given the scale of the challenges ahead and the natural growth rate coming from the sales team, Oscar decides to pursue a run lean strategy. Oscar sits down with Alex and they work together to develop an action plan.

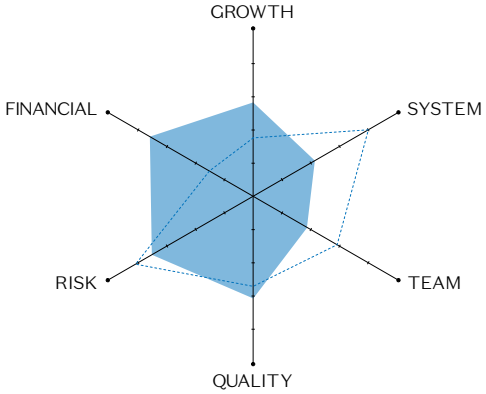


Figure 4.10 Considering a run lean strategy

Current capabilities

Run lean requirements

Case study 3: Taking the foot of the accelerator

The background:

Clementine is sitting pretty. Her company, Harbor Junction Realty, has just experienced five years of enormous growth. Her well executed hyper-growth strategy has seen her rent roll grow from 303 properties to 2,007. She always had a goal of 2,000 in her mind and, now that it's here, she wants to take the opportunity to reflect on what her next goal will be.

The company has changed so much in the past few years. What was a small rent roll with a few key staff has blossomed into a large team, centered on a well-resourced and trained business development department.

The business development team has five team members. In addition to that, there are seven portfolios, each with a property manager and property management associate. There is a full-time trust accountant and a business manager, Nora, who has been there since the early days.

Clementine's concern is that the company is about as big as she can manage. Although Nora has the day to day responsibility for the team, Clementine spends a lot of time in the business helping to shape the priorities and mentor the team. She is starting to feel like she's already a little out of control — she is noticing that complaints are starting to increase and the number of lost managements is drifting upwards. That has never really happened before, but it's unmistakable now.

To top it all off, Clementine wonders what she's going to do with all the managements she's gained. How big is 'too big'? Will she be able to find a buyer for her rent roll? She wants an exit plan at some point and needs to start thinking about options.

The current capability map:

Clementine has gone through the capabilities tests and developed her company's capabilities map (see figure 4.11). As she expected, she has a classic hyper-growth company and is spiking in all the areas that she should be, especially her growth

and financial capability areas.

A few things do stick out that are cause for concern though. She notices that her system and risk capability areas are middle-ranking. That's not much of a surprise — it's never been something she really ever thought about — but seeing it on paper brings it to the front of her mind.

Perhaps the relatively low risk capability score might explain the complaints that are starting to come in. And maybe the company's relatively low system score might be taxing Clementine's team as it's grown from four to almost 20. It's a warning that she best not ignore.

Considering a machine strategy:

Clementine has always liked the idea of running a machine company, but has never really known how to do it. After reviewing her capability map against the machine strategy requirements, it clarifies some of the issues (see figure 4.12).

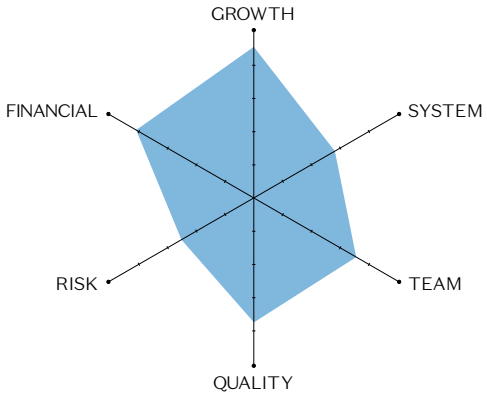


Figure 4.11 The current capabilities map

The biggest concerns are around system and team capabilities. Although the risk area is also low, Clementine believes that if the system and team capability areas could be worked on, the risk capabilities will follow.

What's clear is that the system capabilities are going to need significant work if the machine strategy is going to be viable. Moving the needle 30 points is going to involve some big changes in how things are done. Clementine sits down with Nora and talks about the options for the future. It turns out that Nora has decided that she's ready for a change too and wants to scale back her hours.

Perhaps she might be interested in moving into an office manager role. After so long working together, Clementine is happy that Nora is open about her ambitions and commits to finding a place for her.

Clementine now has the opportunity to reshape the team and the way it operates. It's time for new thinking and with a team this big, there is an opportunity for a new business manager to step up and take ownership of the path ahead.

To better understand the changes needed to successfully pursue a machine strategy Clementine takes a closer look at the system capability scores (see figure 4.13).

It's clear that there are real issues in the way the company is working. Clementine recognizes that the exceptional growth of the

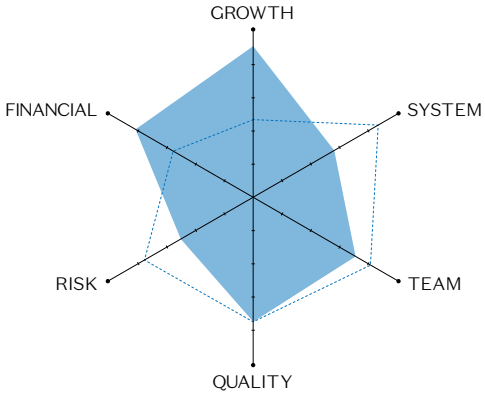


Figure 4.12 Considering a machine strategy

Current capabilities

Machine requirements

business has outpaced the systems needed to support it. She's not complaining — 2,000 managements were the original goal and that was achieved. It's just time now to backfill the systems needed to support the new path ahead.

Clementine sits down with each team member and asks for their feedback and ideas. She recognizes that out of her seven property managers, there are two who have clearly been thinking about how the business can operate better. One of them, Phoebe, has a passion for technology and the other, Adam, has a passion for systemizing each process, to drive more efficiency and better outcomes. Many of the property management associates also think that they're ready for more responsibility and are keen to step up.

It's welcome news for Clementine. She organizes a team retreat and out of the process, she comes out with a new team structure. She appoints Adam as the new rental business manager and tasks Phoebe with driving the creation of an integrated system, utilizing new technology available on the market. Portfolio sizes are broken down and reorganized across the larger team. Clementine commits to spending more time in the business and takes ownership of making sure the action plan is properly developed and executed.

SYSTEM CAPABILITIES AREA	*SCORE*	*OUT OF*	*IMPORTANCE TO MACHINE STRATEGY*
S.1 AN INTEGRATED PLATFORM	16	/30	Critical
S.2 INTERNAL TEAM COMMUNICATIONS	11	/20	Critical
S.3 COMPREHENSIVE POLICIES & PROCEDURES	13	/20	Critical
S.4 CLEARLY DEFINED GOALS THAT ARE TRACKED AND MEASURED	8	/15	Critical
S.5 CONSTANT IMPROVEMENT	7	/15	Critical
TOTAL FOR SYSTEM CAPABILITIES	**55**	**/100**	

Figure 4.13 An extract from the company's capabilities worksheet

Case study 4: Transitioning to growth

The background:

Tom is celebrating after receiving his company's latest market share data. He started his own business six years ago, full of energy on the back of a successful sales career. Tom was riding high and he had grabbed the opportunity to start his own company with both hands.

Over the last six years Tom has built a superb sales business and achieved all his original goals. His is now the largest company in his local market and momentum seems to be propelling it further still. The latest celebration marks the achievement of a 20% market share for the first time. He is quite rightly very proud of his achievements.

At the team drinks, Tom notices that his two property managers and leasing agents are not there. One is still at her desk and the leasing agent had already left before the party got going. "Oh well," he thinks, "They haven't really been part of this anyway." Tom has never thought much about that side of the business and always put it off for 'another day'.

For the first time he wonders what his company is actually worth and after a few moments, reality hits him like a bolt of lightning! He only has 130 managements — less than 1% of his market. "If I could do in property management what I have done with sales," he thinks, "I could build an empire!"

With renewed excitement for the future, Tom gets into the office early the next morning and starts to plan a strategy to do just that.

The current capability map:

Tom goes through the capability tests and develops his company's map (see figure 4.14). He was not really expecting to see much in the way of strengths and for the most part, he was right. Property management is operating well under its potential. His team is disengaged and Tom has been providing no leadership. It is rudderless and Tom knows that he is 100% responsible for that. He has spent no time or energy on the business and has what he deserves.

But Tom isn't the type of person to be discouraged. He sees some very encouraging things in the data. For starters, although he has no real growth capabilities today, he can see from the materials that he could have them all.

After all, his sales company has all of them working well already. The required capabilities are in his DNA. He also has plenty of free cash flow to invest in the business and the acumen to delve deeply into the financial data. Tom is now just as excited as he was on the day he opened the company. It's time for a new challenge!

Tom is now single-minded — he is going to build a hyper-growth company, come hell or high water. The only thing he needs to work out is how to do that! The first thing he does is compare his company's current capabilities to those needed to successfully pursue a hyper-growth strategy. There's no hiding the fact that there are some big gaps (see figure 4.15).

The growth capability area is weakest, but Tom doesn't fear that. He knows he has the proven skills and capabilities from the sales side to make all that happen.

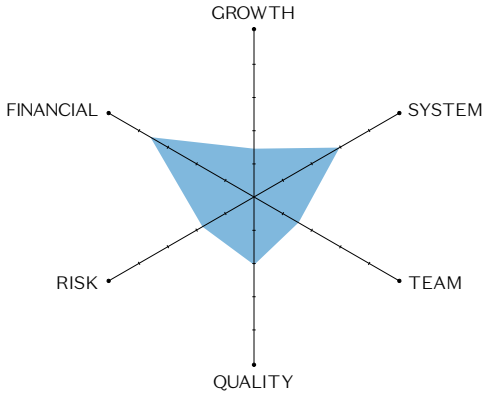


Figure 4.14 The current capabilities map

He's not sure how to do it but is confident he can work it out.

The area that concerns him most is the team and quality results. He has never really spent much time with the property management team, so is not really sure what to make of it. The property managers have said that they are just trying to get by each day and not make too much of a fuss. Quality capabilities are too low also, but from reading the worksheets, Tom thinks they will fall into place if he can get the team dynamics right.

All in all, Tom identifies around 14 capabilities that he needs to really work on to improve things (see figure 4.16). He draws up a list and wonders what to do next.

Getting started on the basics

Frankly, Tom's team dynamics are poor and that has all started with his lack of leadership. After talking more with his two property managers, Tom gets a clear understanding of what has been going on. Michelle, who has been with the company since the beginning, has long lost the excitement in her role.

It was all go-go-go when they were a small team at the beginning, but ever since the sales business started to grow, Michelle has felt shut out and unimportant. She doesn't even get invited to office celebrations!

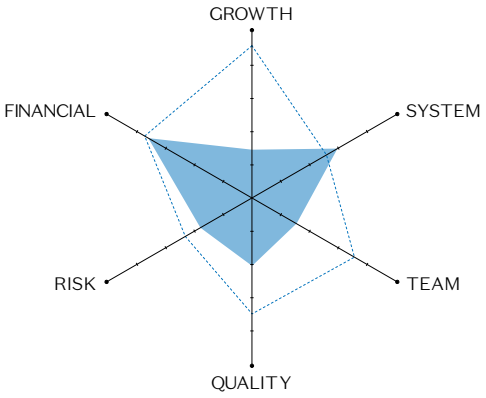


Figure 4.15 Considering a hyper-growth strategy

Current capabilities

Hyper-growth requirements

It's no wonder things have stagnated and Tom sees what needs to happen. He likes Michelle and wants her to be part of the team going forward, but he needs to start putting in the structure around her if the strategy is to work. He engages the support of a consultant to help address the HR issues and begin righting the wrongs. He also decides to start recruiting another property manager to support Michelle and to be ready for when the growth comes.

Next up he starts to look for a new member of the business development team. In the meantime, Tom's lead generator in the sales business is tasked with working across the company, while the marketing company he works with is contracted to start preparing materials for the property management side.

Tom sits down and reads **Numbers Game** and develops a growth target and marketing plan for each of the five channels of growth.

As these goals start to progress, he decides to take the team away for a two day retreat to start planning for the next phase.

TEAM CAPABILITIES AREA	*SCORE*	*OUT OF*	*IMPORTANCE TO TEAM STRATEGY*
T.1 STRONG LEADERSHIP	5	/20	Critical
T.2 STRONG MANAGEMENT	8	/20	Should have
T.3 A HIGH PERFORMANCE CULTURE	7	/25	Should have
T.4 A PLATFORM FOR CAREERS	6	/20	Should have
T.5 A RECRUITMENT STRATEGY	6	/15	Should have
TOTAL FOR TEAM CAPABILITIES	**32**	**/100**	

Figure 4.16 An extract from the company's capabilities worksheet

Chapter 5

Developing an action plan

Driving change in a company through planning and execution

The test of any strategic framework is whether it helps you develop and prioritize a list of things to start working on to improve your business.

By working through the strategic framework and the capabilities tests that we have set out, you will be able to develop that list.

Prioritizing your capability gaps

Once you have chosen your strategy you can start identifying all your capability gaps. These are the differences between the capabilities needed for your chosen strategy and the capabilities you have today.

You will find that some capability areas have bigger gaps than others. Also, some capabilities are more important to a particular strategy than others. For example, having a dedicated business development department is critical to a hyper-growth strategy, but not to others.

We have listed in the workbook the relevance and importance of each capability to each strategy.

Each capability is rated to be either a 'critical', 'should have', 'nice to have' or 'not a priority' for each of the four strategies.

This recognizes that some capabilities may just not be that relevant or valuable to one company, while critical to another. This is at the heart of your strategic decision making process.

When you work out the list, you will be able to quickly prioritize the capability gaps in your business. These will be the capabilities that are classed as either critical or should have for your chosen strategy and in which you have scored the lowest. Try and avoid the temptation to work on areas that are not relevant to your strategy; you're going to be challenged enough as it is without trying to solve every issue in your business at the same time.

Focusing on a few gaps

The challenge is that you're going to develop a long list of things that you want to change in your business. That's great, but if you actually want to achieve any real change you are going to have to start culling that list and culling it aggressively.

A good rule of thumb is to accept that each individual capability will take about three months to turn around and really develop. Achieving an improvement in any capability will require changing the way you do things and by its very nature, change of any kind presents numerous challenges. You will need to develop new skills, new cultural norms and new ways of thinking. You may need to recruit new team members or implement new practices.
In short, it is hard.

So, to help with the timing, the simplest thing to do is break your year down into four quarters. Each quarter will have a few capabilities to work on. This will help with keeping track of your goals and ensuring that everyone knows what's being worked on and how they can make a contribution to achieving success.

If you work through the whole process, it will become clear that there are realistically only a handful of capabilities that you can work on in any one year. Unless you have superb change management practices in place, even working on two capabilities in any one month can be a challenge. As a result, you are really going to have to focus and narrow down the changes you want to make in your business.

In the example below (see figure 5.1), the company is pursuing a machine strategy. In this case, the company's current capabilities are mostly well matched with the strategy's capability requirements, except in the team capability area.

The owner of this company should consider de-prioritizing work on improving any capabilities in any area outside the team area. Much as he or she might like to, the growth capabilities gaps probably just don't make it onto a focused list of areas to work on at this stage.

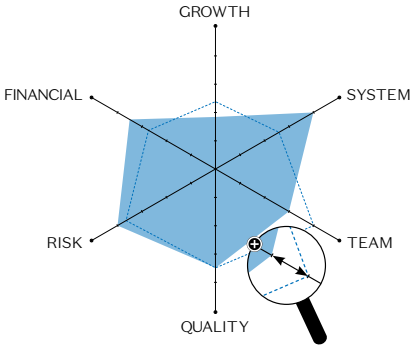


Figure 5.1
A company has a capability gap in the team area

Current capabilities

Machine requirements

When the owner focuses on the team capabilities scores in the worksheet, she notices that there are three major issues driving the lower than desired score (see figure 5.2). The strong leadership capability score is nine points short, high performance culture is nine points short and the career platform capability score is seven points short.

The owner also notices that the high performance culture and career platform capabilities are marked as critical for the machine strategy.

The owner decides that she only has the capacity to work on two capabilities this quarter, so she decides to choose the high performance culture (T.3) and career platform capabilities (T.4) to work on now. She accepts that her leadership of the lettings and property management business needs work, but that will have to come at another time, once the critical issues are addressed.

She has started developing her action plan.

TEAM CAPABILITIES AREA	*SCORE*	*OUT OF*	*IMPORTANCE TO MACHINE STRATEGY*
T.1 STRONG LEADERSHIP	11	/20	Should have
T.2 STRONG MANAGEMENT	17	/20	Critical
T.3 A HIGH PERFORMANCE CULTURE	16	/25	Critical
T.4 A PLATFORM FOR CAREERS	13	/20	Critical
T.5 A RECRUITMENT STRATEGY	14	/15	Critical
TOTAL FOR TEAM CAPABILITIES	**71**	**/100**	

Figure 5.2 An extract from the company's capabilities worksheet

ACTION PLAN FOR Q1 2014	JAN	FEB	MAR	OWNER
T.3 A HIGH PERFORMANCE CULTURE				
TEAM SURVEY	Run survey with team. Team offsite to discuss results	Team meetings to follow new process		Adam
IMPROVE MEETING PROCESS		½ day workshop to introduce 3Ps for meetings		Phoebe
TEAM EMPOWERMENT			½ day workshop to introduce GROW framework	Vanessa
T.4 CAREER PLATFORM				
JOB DESCRIPTIONS	Pull together all JDs in the agency	Each team member to comment on whether their JD is relevant to them and suggest changes	Publish new JDs to reflect how we work together	Joan
1-ON-1 REVIEWS	*Workshop to discuss ideas on objectives for review process*	*New framework to be shared with team*	*1-on-1 performed with each team member*	*Mathew*

Figure 5.3 An extract from the agency's action plan

ACTION PLAN FOR Q1 2014	GOAL	STATUS	OWNER
T.3 A HIGH PERFORMANCE CULTURE			
TEAM SURVEY	Run survey with team	Completed	Adam
TEAM SURVEY	Team offsite to discuss results	Overdue	Adam
IMPROVE MEETING PROCESS	Schedule Workshop	Completed	Phoebe
T.4 CAREER PLATFORM			
JOB DESCRIPTIONS	Pull together all JDs in the agency	Each team member to comment on whether their JD is relevant to them and suggest changes	Publish new JDs to reflect how we work together
1-ON-1 REVIEWS	Workshop to discuss ideas on objectives for review process	New framework to be shared with team	1-on-1 performed with each team member

Figure 5.4 An extract from the team's last meeting of January showing progress on the high performance culture initiative.

Building your action plan

When you have identified the capabilities that you want to work on, it is time to build out an action plan. The action plan is a quarterly project plan for the actions you intend to complete for each of your chosen capabilities.

When developing your plan, it's important to break down the work into small items or waypoints. A common way to do it is to list out all the steps you need to take on the way to achieving your goal.

There are no hard and fast rules about coming up with all these waypoints. Best practice is to break down the task into small enough waypoints that you can easily track them, assign ownership to team members and also create some quick wins that will build momentum in the team.

Ideally, you will find ways to allocate at least one waypoint to everyone in the team. By doing so, you will foster a greater sense of buy-in and increase the company's chances of success.

The benefit of this approach is that you can now develop a real rhythm to your business. With careful planning, you will go from small win to small win and once you are a month into the quarter, you will find that progress is being made. The mood around the office will lift as change starts to happen and a sense of achievement builds.

As you flesh out your plan you should be realistic in your goal and waypoint setting. It can be tempting to think that everything can just happen in a week. Remember that people have the 'business as usual' work on top of these initiatives.

Include your team in the planning process so that they can give their input and help shape the goals. Nothing can stop momentum quicker than just dumping a detailed action plan on a team without any consultation.

Tracking your progress

If you have prepared your action plan in a way that has monthly deadlines for each waypoint, then the last team meeting of each month is a natural point to check-in against your goals.

To prepare for that meeting, the owner of each waypoint should fill out what they have achieved in the past month and compare it to their goals for the month. Any missed goals should be explained and given a new time estimate. If the goals have been hit, then it's a time for celebration. Don't miss the opportunity to find wins when you can. After all, the team has worked hard to get where they have and success should be rewarded.

At the end of the meeting, you should make sure that the next month's goals are clear. It is a good time to revisit the goals for the month and make any adjustments or clarifications. If some goals were missed in the prior month, then the next month's goals are just going to get harder as the team plays catch

up. Consider reassigning waypoints to help balance out the work.

At the end of each quarter, each goal should be reviewed and judged. At that stage you should re-do the test for the relevant capabilities and the difference should be calculated. Have you achieved your goals? Have you made progress?

It is also a good time to reflect on the quarter that has passed and for your team to discuss the experience. Were the goals clear? Were they well planned out and achievable? What worked? What didn't? What could have been better? This should be an open, non-threatening and non-critical workshop. Keep notes of everything that was said and make sure you learn everything you can about what's happened. If you learn from each quarter's experiences then after a few cycles, you will become a change expert and well on the road to achieving your strategic goals.

Appendix

Capabilities workbook

The capabilities

In this workbook, I've set out a discussion on each of the 30 capabilities that have been identified in a lettings and property management business.

There's also an explanation of the role and importance each capability plays in the pursuit of each of the four strategies. After all, some capabilities are obviously going to be more important for one particular strategy compared to another. The art of developing a good strategy is based on knowing which capabilities you really need, which by definition means you may have to give up on others — at least for now.

Use this workbook to help prioritize what you need to do more of and what you can do less of.

How to use this workbook

I recommend you complete the tests in the appendix and then ask members of your team to do the same.

Discussing your results in an open, non-threatening and non-judgmental forum can be a fantastic way to get to the real results.

You'll find the different results provide a fertile ground to explore. Once you have agreed on the results, then you can create your own capability map.

Electronic Version

LPMA members can download spreadsheet and survey versions of the capabilities workbook. See lpma.com for more information.

Internal capability weighting

GROWTH	
G.1 Dedicated business development department	/20
G.2 Whole company integration	/20
G.3 A unified lead nurturing model	/20
G.4 A clear view of the five channels of growth	/20
G.5 Point of difference	/20
Total growth capabilities	/100

QUALITY	
Q.1 Spare capacity	/15
Q.2 Seeking feedback and data	/30
Q.3 Professional presentation	/15
Q.4 Pricing power	/20
Q.5 Client-facing innovation	/20
Total growth capabilities	/100

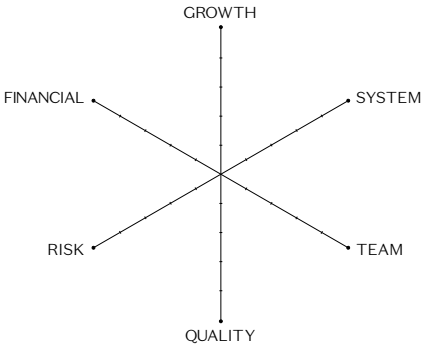
SYSTEM	
S.1 An integrated platform	/30
S.2 Effective team collaboration	/20
S.3 Comprehensive policies & procedures	/20
S.4 Clearly defined goals that are tracked & measured	/15
S.5 Constant improvement	/15
Total system capabilities	/100

RISK	
R.1 Specialist trust or client funds account operator	/15
R.2 Contracting of formal tradespeo-ple and inductions of owners & tenants	/20
R.3 Strong legislation compliance	/20
R.4 Risk identification and mitigation planning	/25
R.5 File review and audit program	/20
Total risk capabilities	/100

TEAM	
T.1 Strong leadership	/20
T.2 Strong management	/20
T.3 A high performance culture	/25
T.4 A platform for careers	/20
T.5 A recruitment strategy	/15
Total team capabilities	/100

FINANCIAL	
F.1 Deep pockets	/20
F.2 Separate P&L and balance sheet	/20
F.3 Financial reporting & benchmarking	/20
F.4 An annual business plan	/25
F.5 Aligned incentive structures	/15
Total financial capabilities	/100

Tracking your capability scores



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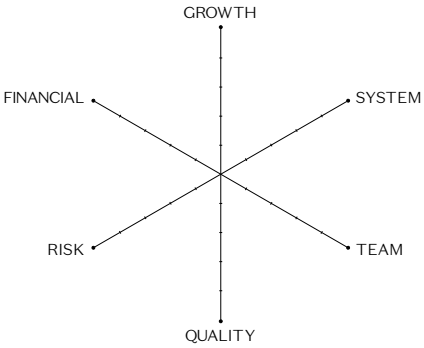

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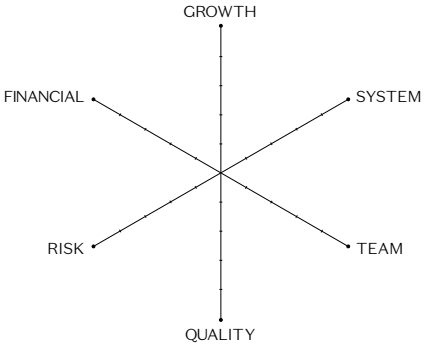

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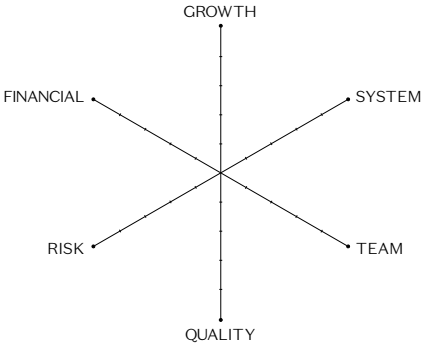

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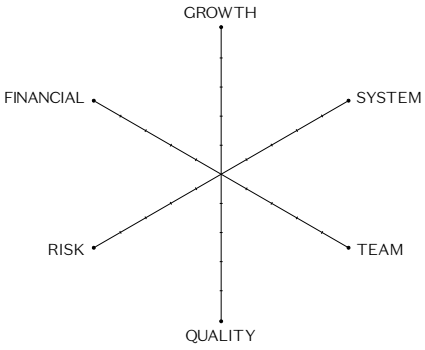

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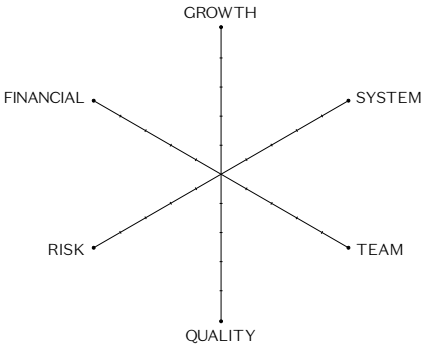

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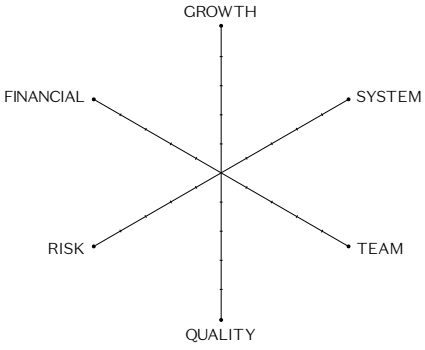

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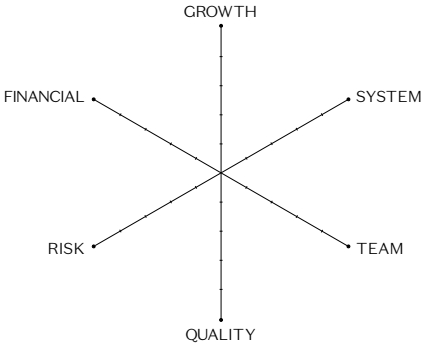

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Internal capability weighting

SUMMARY OF CAPABILITY		HYPER GROWTH	MACHINE	RUN LEAN	OTHER PRIORITIES
G.1	A dedicated business development department:	Critical	Nice to have	Not a priority	Not a priority
G.2	Whole company integration:	Critical	Should have	Should have	Nice to have
G.3	A unified lead nurturing model:	Critical	Nice to have	Nice to have	Not a priority
G.4	A clear view of the five channels of growth:	Critical	Nice to have	Not a priority	Not a priority
G.5	A point of difference:	Critical	Nice to have	Not a priority	Not a priority
S.1	An integrated system:	Nice to have	Critical	Should have	Nice to have
S.2	Effective internal team communications:	Should have	Critical	Should have	Should have
S.3	Comprehensive policies & procedures:	Nice to have	Critical	Critical	Nice to have
S.4	Clearly defined goals that are tracked & measured:	Should have	Critical	Should have	Should have
S.5	Constant improvement:	Nice to have	Critical	Should have	Nice to have
T.1	Strong leadership:	Critical	Should have	Nice to have	Nice to have
T.2	Strong management:	Should have	Critical	Should have	Critical
T.3	A high performance culture:	Should have	Critical	Nice to have	Should have
T.4	A platform for careers:	Should have	Critical	Nice to have	Should have
T.5	A recruitment strategy:	Should have	Critical	Should have	Should have

SUMMARY OF CAPABILITY		HYPER GROWTH	MACHINE	RUN LEAN	OTHER PRIORITIES
Q.1	Spare capacity:	Should have	Should have	Nice to have	Not a priority
Q.2	Seeking feedback and data:	Should have	Critical	Should have	Nice to have
Q.3	Professional presentation:	Critical	Should have	Nice to have	Nice to have
Q.4	Pricing power:	Should have	Should have	Not a priority	Not a priority
Q.5	Client-facing innovation:	Should have	Critical	Should have	Nice to have
R.1	Specialist trust or client funds account operator:	Should have	Critical	Should have	Critical
R.2	Formal contracting of tradespeople & inductions of owners & tenants:	Nice to have	Critical	Critical	Nice to have
R.3	Strong legislation compliance:	Nice to have	Should have	Critical	Should have
R.4	Risk identification and mitigation planning:	Nice to have	Critical	Critical	Nice to have
R.5	File review and audit program:	Nice to have	Should have	Should have	Should have
F.1	Deep pockets:	Critical	Nice to have	Not a priority	Should have
F.2	Separate P&L and balance sheet:	Should have	Critical	Nice to have	Should have
F.3	Financial reporting & benchmarking	Should have	Should have	Nice to have	Nice to have
F.4	An annual business plan:	Critical	Should have	Nice to have	Should have
F.5	Aligned incentive structures:	Should have	Not a priority	Not a priority	Not a priority

Dedicated business development department

Summary

This capability necessitates a dedicated person or people tasked with finding new sources of growth outside the usual referral stream from the sales business. They have no other responsibilities that compete with this role and are run and compensated as a salesperson.

What the capability gives you

A dedicated business development department will give you:

- An engine room for growth
- A cultural realignment
- A proving ground for salespeople

The capability defined

A dedicated business development department is comprised of one or more specialists who are tasked with growing the rent roll through all means available to the company.

It's an expansive role and its purpose is not just to wait for the sales team to refer a buyer – the role is much more assertive and impactful, requiring each team member to go out and generate business from the community at large.

Each team member will naturally leverage the connection with the sales team. For example, he or she will attend auctions and open homes, with an eye to generating business from not just the buyer but from the under-bidders as well. The business development team recognizes that any unsuccessful bidders are likely to buy another property in the marketplace soon and regardless of who they buy through, they may need lettings and property management services. The team will be active in local communities and get to know residents in the area.

In short, the business development role is a sales role. Thinking of the role any differently just avoids the reality of what this capability is all about.

Critical *Nice to have* *Not a priority* *Not a priority*

So much flows from that basic understanding. For starters, team members need to be trained as salespeople. They should learn the same skills the same way. It's as easy as just sending them to the same training.

Secondly, team members need to be compensated as salespeople. This means a low base package and a high commission structure.

For cash flow reasons, many companies limit the potential commission, rewarding the acquisition of a new management with no more than one week's rent. Because of the way the numbers typically flow, the business development manager's total annual commission is therefore typically under $20,000 according to most growth plans and, a result, the role must operate on high base salaries.

This pattern undermines the whole concept of this capability.

To solve this, the ambitions for growth need to be higher, the base salaries lower and the commission structure more aggressive. A hyper-growth strategy, for example, has targets that are likely to be double what most companies would consider to be high growth rates.

There is no reason why the commission for a business development manager's should be limited to one week's rent per new management. The management is worth many times that — after all, purchased on the open market the management would cost more than double its annual revenue. These issues are discussed at length in our other books **Building Blocks** and **Numbers Game**.

The point is that there are a lot of ways to be creative with the commission structure. Importantly, you should have an incentive scheme that's rewarding enough to forcefully drive the behavior you're looking for.

Given you likely have extensive experience in running a sales team, adopting this management style for the business development department role should be as easy as a duck taking to water.

Some pitfalls

The most common mistake is to be 'half pregnant' with this capability. This happens when the owner wants to put on a business developer, but isn't really sure it will work. A property manager is usually tasked with the role, although that person doesn't want to work on a low base/high commission arrangement. Also, while they're at it, the person attempting to fulfill the business developer role still has to manage a small portfolio.

In truth, that person is not a business developer and will be unlikely to succeed as part of a true growth capability. Unfortunately, this type of experience is often used as the proof that the model doesn't work.

How do you know if you have it?

1 2 3 4

____ /4

1 - Do your business development department team members have any property management responsibilities?

1 point: Yes, to make the numbers add up they still have to manage some properties.

4 points: No, they are all about new business and leasing the property once it comes on.

1 2 3 4

____ /4

2 - How are your business development department team members paid?

1 point: They are paid a salary with a bit of a bonus if they hit some high goals.

4 points: They are paid like a salesperson, with their package skewed heavily towards commissions.

1 2 3 4

____ /4

3 - How do you train your business development department team members?

1 point: They know property management well enough to sell it and don't need training.

4 points: They are salespeople and so are trained as part of the sales training program.

1 2 3 4

____ /4

4 - What is the role of the business development department team members?

1 point: To take the leads generated by the sales team and get them signed up.

4 points: To go out and generate new leads above and beyond what the sales team provide, utilizing all the company's resources across the five channels of growth.

1 2 3 4

____ /4

5 - Does each member of the business development team keep a career passport from **Building Blocks**?

1 point: No.

4 points: Yes, they actually seek to build their business development career competencies.

Total

Whole company integration

Summary

This capability calls for a strong cultural bias towards leveraging each and every interaction with existing and potential clients. Sales people understand the value the property management team can bring to a transaction, while property managers actively support the sales process.

What the capability gives you

Whole-company integration will give you:

- The ability to exploit every opportunity
- Better use of the resources you have
- Momentum

The capability defined

It's a good learning experience to describe the business of a modern real estate company to someone who knows nothing about the industry. Imagine — you might first describe how the business works with vendors to sell their properties. You would then probably tell them how the business offers home loan services to buyers. Next you would describe how it also manages properties on behalf of people that buy investment properties, as well as overseeing the tenancy. Lastly, you'd probably add that one day you hope the company will sell that property on behalf of the client.

Someone listening to that description would probably imagine a team of real estate agents working closely together to make all this happen. If you then said, "Well, actually, there are three distinct teams and they each do their own thing", then the listener would probably think we're all mad. Why run a business that way?

Of course there are long-standing cultural reasons why most sales, lettings and property management and loan broker businesses are run independently of each other. Those

Critical *Should have* *Should have* *Nice to have*

cultural differences are real and it would be naive to just dismiss them and declare those differences solved.

Yet it's equally important to challenge those old ways of thinking. The idea that each team should operate independently is, in most cases, a surrender to the difficult cultural challenges which will be faced when trying to bring the teams closer together.

But without true cohesion, there are so many opportunities that get left behind. For example, most companies have a practice where a purchaser of a property is asked whether he or she is going to rent their new property and if so, would they like to speak to the rental team.

Few companies recognize that the target lead for the lettings and property management team from the sales team actually occurs much earlier – it's anyone who is in the market looking to buy a property. The best time to make a referral is at the inquiry or inspection stage. This offer of assistance can be made not just to the buyer of properties sold by the company, but to all buyers in the market. If you have a market share above 20%, then it's likely that your sales team has had contact with almost every buyer in the market. If you can move the referral process to this earlier point, then the number of leads will automatically increase.

Similarly, few companies treat their rent roll as a market in itself. Each owner is an investor looking to maximize his or her return. Almost all would be interested in a regular appraisal and market commentary.

Exploiting all of these opportunities, along with many others, requires that each person in the sales and property management team change their perception of their role and break down the old barriers. It also requires strong leadership to drive through those changes.

Creativity and imagination go a long way in this capability. It's not unreasonable to say that no one has really got their heads around the potential that a whole-company approach could deliver, simply because no one has mastered it yet. The best and most creative companies are finding new ways of doing things time and time again, with each evolution bringing more opportunity. And the interesting thing is that most of them are seen as obvious ideas to someone who hasn't been trained to think otherwise.

Some pitfalls

The most obvious pitfall in this area is to buckle to the long-standing (and very real) cultural barriers to driving closer integration across the company. But there's so much potential for break-out levels of growth and opportunity that it's almost hard to see where the limits really are.

How do you know if you have it?

1 2 3 4 5

____ /5

1 - Do your sales OFI registers ask whether the buyer is looking for an investment property or own an investment property?

1 point: No, the sales team don't want to ask it.

5 points: Yes, the question is asked and all relevant leads are passed on to the property management business development department.

1 2 3 4 5

____ /5

2 - Do you treat your rent roll as its own market and do your sales team have a strategy to provide value to those people and nurture the relationship?

1 point: No, you get most of the sales out of the rent roll, without having to do anything anyway.

5 points: Yes, a market review document and regular commentary is prepared for all owners. The sales team remain involved in the relationship throughout the life of the management.

Total

A unified lead nurturing model

Summary

This capability requires a unified approach to the company's database. Data relating to each client's particular real estate investment strategy is captured, while relevant services from across the company are offered at the right time and in the right context.

What the capability gives you

A unified lead nurturing data model will give you:

- Power to communicate to your marketplace with what is relevant to them
- An end to wasted opportunities
- A vehicle for new levels of growth

The capability defined

Those who designed the early CRMs in our industry did us all a great disservice. You can imagine how it happened — a software engineer wanted a way to neatly put all the company contacts into neat boxes. So he or she put a little drop down box next to each contact and asked the user to nominate whether the client was a vendor, a buyer, an investor or a tenant.

And from that point on a whole generation of real estate agents have been trying to make sense of it all.

Of course there is no such thing as a buyer or a vendor or an investor or a tenant. There are simply people in your marketplace who at different times have different interests, all of which can be served by your company. To think of the world any differently is just giving in to a software programmer who never took the time to learn our industry.

The re-imagining of the 'database' over the past few years will surely be viewed as a strategic turning point in our industry. It has marked the change of the industry from a transactional 'catch and kill' mentality to a longer, relationship-driven, lead nurturing mentality. Companies now strive to be relevant

Critical *Nice to have* *Nice to have* *Not a priority*

to all people in their marketplace, wherever they happen to be on their property journey.

It's intuitive that the sales, lettings and property management and loan broker businesses should all operate a single database, while each part of the company should contribute to it with their knowledge and use it for the benefit of the whole company.

This is such a compelling, simple and logical idea that it is hard to find argument with it — yet so few companies do it. Why? Usually because the cultural forces at work resist it.

Once the data has been captured the company must nurture these relationships over the long term. This requires a mix of compelling content delivered to the right people at the right time, and good analytics to measure your progress. There are many ways to do this, but there are some tools and methodologies that have been developed for our industry.

Some pitfalls

The most common mistake made with this capability is to give up on the idea because of cultural resistance. Salespeople generally tend to want to keep their database to themselves and certainly not allow the leasing and property management team access to it. Leasing agents and property managers often don't see it as their job to be communicating about anything other than issues that strictly relate to the management of the property.

Changing these perceptions can take a strong will and a clear vision.

Another common mistake is to be boring in how you market to your database. It's a shame because we actually have a lot of collective knowledge that is interesting to the general public.

How do you know if you have it?

1 2 3 4 5 6 7 8

____ /8

1 - Do you have a unified opportunity pipeline across the company, including one united database and marketing effort?

1 point: No.

8 points: Yes.

1 2 3 4

____ /4

2 - Does each member of your company have a role in contributing to the database?

1 point: No.

4 points: Yes, everyone contributes information to the database and includes things like the client's hobbies, investment ambitions and areas of interest.

1 2 3 4 5 6 7 8

____ /8

3 - Do you have practices in place to offer relevant services to each client based on their profile, or is it one size fits all?

1 point: We email our open home list each week.

8 points: The services offered to each client in the database are carefully considered.

For example, investment seminars are held for clients looking to buy their first investment property, while home loan health checks are offered to clients who may have equity they could deploy into a new property.

Total

A clear view of the 5 channels of growth

Summary

Growth is not a random process. There are five distinct sources of growth (detailed in **Numbers Game**), with each having its own potential and characteristics and requiring different marketing efforts. The whole growth program should be defined, tracked and refined on a constant basis.

What the capability gives you

A clear view of the five growth channels will give you:

- A clear understanding of your growth capabilities
- A set of marketing priorities
- An ability to track your progress

The capability defined

Although it can be easy to think of growth as an 'art', like all sales processes there is an underlying science.

The first issue to explore is the potential of your marketplace.

Each market has different growth potential: different number of properties, different investment property rates and different competitive dynamics.

We argue that there are five underlying sources of new business, or 'channels', that define the growth potential in your market.

By using a mix of publicly available data and company data you can understand the size and potential of each of these channels.

Once you understand the size of each channel you can develop growth targets for each channel. For example, out of all the recent buyers of investment property who bought through your company, how many do you think you can win? What about those who bought through other companies? Will you expand your market footprint into a new suburb?

Each of these targets that you set will let you very quickly both determine your growth

Critical *Nice to have* *Not a priority* *Not a priority*

KPIs, and identify the most important marketing and growth initiatives you should pursue.

We have developed some tools to help you do this analysis in your company. For a much more detailed discussion of these ideas, see our book **Numbers Game**.

Some pitfalls

The most common pitfall is to assume that growth is just an art form that is incapable of real definition or rigor.

There is an underlying science to growth and you need to know your market's potential and develop strategies and initiatives to go after it.

The most destructive thing to the growth prospects of a company is an inherent belief that there is a natural limit to growth. People with this view will often quickly dismiss any talk of aggressive growth as naive and foolish. The reality is that extraordinary levels of growth are being achieved by companies, and there is nothing about those companies that cannot be learned and adopted if the belief and culture is right.

How do you know if you have it?

1 2 3 4 5 6 7 8 9 10 ____ /10

1 - Do you have an understanding of your market's growth potential and also how big each of your five channels of growth are?

1 point: No, I don't know what you're talking about.

10 points: Yes, we have built out the five channel model that is set out in **Numbers Game.**

1 2 3 4 5 6 7 8 9 10 ____ /10

2 - Have you set growth goals for each of the five channels?

1 point: No. I still don't know what you're talking about.

10 points: Yes, we have growth goals for each channel and we track our new business against those goals.

1 2 3 4 5 6 7 8 9 10 ____ /10

3 - Do you have marketing initiatives for each of the channels?

1 point: No...

10 points: Yes, we have a set of marketing initiatives targeted at our growth priorities.

Total

Point of difference

Summary

With this capability, your company must stand for something so that it stands out from the competition. The difference is real and is seen to be real. There is no point in making something up and there's also no point in being different in a way that no one cares about or believes.

The company's point of difference must be related to the service that's offered and the whole company has to be committed to delivering first class service to its clients. Maintaining a point of difference can be difficult, but it's a primary source of sustained competitive advantage.

What the capability gives you

A strong point of difference will give you:

- A basis for all your marketing
- A point of reference for all decisions you make
- A competitive advantage

The capability defined

A point of difference is a strategic imperative for any effective growth strategy. Unfortunately it's a topic that's often discussed superficially and ineffectively.

A point of difference must affect marketplace perception. This definition implies two things.

The first is that the difference must be relevant to your market. Your market is not just your physical trade area, although that's an important part of it. The difference must have been developed with consideration to your competitors and how they operate in the market. If you haven't really thought about how each of your competitors is positioned in the market, then there's a good chance you are not really standing for anything different.

Your market also includes the investor segments you've chosen to target. Using detailed research, we've been able to categorize investors

Critical *Nice to have* *Not a priority* *Not a priority*

into four distinct groups: the silent majority, the outsourcer, private investors, and the at risk investors. Each group has a different profile and is seeking very different things from their property managers. There's a lot to those profiles which is detailed in **Numbers Game**.

Critically, you need to understand how to target each of the investor segments you're aiming for and your point of difference must be relevant to those targets.

The second element of the definition is perception. To be well received, the point of difference must be true and credible. For example, if you promise a point of difference that is not actually true, then you're only setting yourself up for a poor reputation. Any exaggerations will get picked up by the investor. Your company will struggle to ever generate momentum with unhappy clients.

There is also no point having a true point of difference if no one believes you. If you are promising a certain level of service, then find a way to prove it before the investor signs up with you. For example, if you are promising something relating to how you manage a tenancy effectively, then include in your initial presentation a copy of the routine inspection reports that the company uses, highlighting the photos that are taken during the process.

Ultimately, the only people that can honestly tell you if your company has a point of difference are your clients. Ask them.

Some pitfalls

The most common pitfall when developing a point of difference capability is coming up with something that means something to you or to your property managers, but is completely irrelevant to your clients. For example, you might be proud of your win rate in tribunal. But if you highlight that fact, your potential clients might ask why you end up in tribunal in the first place; after all, for someone that doesn't know the industry, it may seem a reasonable question.

Another common pitfall is to articulate a point of difference that's too broad. For example, a company might claim to be great at communicating. But what does that actually mean? If you can't express the details of your point of difference, then you won't have relevance to (or credibility with) the local market.

Lastly, the worst of all mistakes is to articulate a point of difference that is just not true. If you claim a point of difference related to communication, are your company practices supporting that?

Do you have SMS and email integration? Is your team easy to contact or do they divert their phones? Your point of difference is a deeply cultural element and should be reflected in the way your entire company operates. If not, then don't claim it.

All of these concepts are discussed at length in **Numbers Game**.

How do you know if you have it?

1 2 3 4 5

____ /5

1 - Do you know what point of difference would be valuable to your chosen market and market segments?

1 point: The company does not have a good sense of what its competitors do and the team believes any client is a good client.

5 points: Yes, analysis has been performed to understand competitor positioning in the market. The type of investors and clients the company is targeting has been clearly identified and their needs and wants are understood.

1 2 3 4 5

____ /5

2 - Have you asked your current and former clients what they think your point of difference is?

1 point: Clients have never been asked what they think.

5 points: Clients have been extensively surveyed with specific questions asked about the company's point of difference.
Exit interviews have been conducted with past clients to understand their perspectives.

1 2 3 4 5

____ /5

3 - Have you asked your staff members what they think your point of difference is?

1 point: The team has not been asked and would not be able to articulate a clear point of difference.

5 points: The team can articulate a clear point of difference and everyone believes that the company delivers on it.

1 2 3 4 5

____ /5

4 - Is your point of difference reinforced in everything that the company does?

1 point: Nothing that the company does in particular supports the point of difference.

5 points: The point of difference is top of mind when the team is deciding how to do things. Company practices are changed to make sure that the team always delivers on the point of difference.

Total

An integrated platform

Summary

This capability describes an integrated set of resources and technology that assists the team in delivering a first class service while supporting each individual, wherever their skill level lies. There's a high degree of automation in any process-driven task, so that low value work is reduced as much as possible. New and inexperienced team members are supported so that common mistakes are avoided. Everything is measured.

What the capability gives you

An integrated platform will give you:

- Tools that can be used to improve performance
- A learning culture
- A team ready for the challenges the future brings

The capability defined

Unfortunately, there's no one system in any business that does everything. Most systems in businesses today are a collection of different software and technology solutions that have evolved over many years. Like any technology, the components were initially developed to solve a specific problem or issue, and as they matured features have been added to address more and more issues.

The challenge you have as a business is to find a way to assemble a set of systems that work well together, to make your business run more effectively. What effective actually means will depend on your chosen strategy. If you are pursuing a hyper-growth strategy, you will want to focus on the elements of your system that interact with owners. Machine companies will prefer to focus on service level agreements and workflow, while run lean companies will want automation and risk management. Other priorities companies will target management reporting and insights.

Nice to have *Critical* *Should have* *Nice to have*

Unfortunately, to get one integrated system you will probably need to stitch together some disparate systems and also make sure you are using all the features that are available to you. New technologies make this capability more achievable.

It has become accepted practice that only a fraction of the available features in any software system is ever actively used. That means you probably already have tools at your fingertips that can provide some assistance to your business, but you don't have a culture that encourages the adoption of all the resources available.

The team in a company where this capability is strong will be restless at finding ways to make their systems work better so that they may support the strategy.

Ultimately, it's a belief that this area of our industry could be so much better that led to the founding of LPMA and the development of the Ailo platform.

Some pitfalls

It can be easy to overlook the deficiencies in how your systems are operating with each other. It's the very nature of innovation that you often don't know you're missing something, because you don't even know the thing exists.

For example, if you haven't seen a well constructed management report for a property management business, you might think that the standard reports from your software system are insightful.

Or you might think that it's normal to perform a reconciliation with a pen and paper, or receipt money manually from the bank statement. But once you had seen what's possible today, you would probably look back on your old practices as being outdated.

The best way to keep up to date is to stay abreast of what other companies are doing. If you aren't getting out and looking around, you might be closing off the outside world and limiting your perspectives.

How do you know if you have it?

1 2 3 4 5 6 7 8 9 10 ___ /10

1 - How much of your existing technology do you use?

1 point: Only the standard features are used.
"If it ain't broke..."

5 points: The company tries to keep up to date with the latest version but not all the features are being used.

10 points: The latest version is in use and everyone in the company always uses all features to their fullest.

1 2 3 4 5 ___ /5

2 - Does your system automate most of the processes in property management?

1 point: The company is currently unaware this is even possible.

5 points: Yes, for example, the system automatically reconciles the bank statement and presents exceptions, while tenants in arrears receive automatic communications, as do tradespeople regarding repairs and maintenance.

1 2 3 4 5

____ /5

3 - Does your system track all the promises you have made to your clients and alert you when you fail to meet those expectation?

1 point: Notes are added in the system for anything unusual and the company does the best it can.

5 points: Yes, the company knows what has been promised and is delivering on those promises. If there's a problem, the company is the first to know.

1 2 3 4 5

____ /5

4 - Do all of your main systems talk to each other without having to re-enter data?

1 point: Mostly no.

5 points: Mostly yes. We have a true platform.

1 2 3 4 5

____ /5

5 - Do you know what is going on in the company?

1 point: We get the standard reports from the software.

5 points: Yes, the system generates management reports each week that give insight into how the business is operating and what issues should be focused on.

Total

Effective team collaboration

Summary

This capability recognizes that sometimes, the best system of all is just people collaborating. Even with the most expensive technology in the world, if the team doesn't talk and communicate effectively, so much potential is lost. Good team communication makes up for most of the things that technology can't do, including setting goals and priorities, balancing work around the team and ensuring that everyone learns from others' experiences.

What the capability gives you

Effective team collaboration will give you:

- An aligned team working cohesively
- A mechanism to solve for the imperfections in any system
- A quicker way to react to issues as they arise

The capability defined

An effective team collaboration capability is as important to your system as technology. In fact they go hand in hand and support each other.

Despite the advances in technology, lettings and property management will always remain at its heart a people-driven relationship business. There is no substitute for having people talk and engage with their colleagues. It's the mechanism for identifying issues, seeking support, providing mentorship and facilitating problem solving. It also enables alignment of the team to common goals and accountability.

There are some best practices in this area that are easy to adopt. They all rest on the basic idea that each of your team members has a fundamental desire to contribute to the goals of the team and that they'll become frustrated in their job if they don't have any clear

Should have *Critical* *Should have* *Should have*

understanding of what their role is, how it all fits, or what they can do to better contribute.

One easy way to foster better communication is to use the Ailo platform that we have built. It fosters a culture of collaboration within a team and network of people.

Another idea is to have a short stand up meeting every morning at the start of work, where each person talks for less than a minute on what their priorities are for the day and what issues are blocking them from achieving those goals. Afterwards the team leader or colleagues might go directly to particular people with ideas on what might be done to help them.

Another more formal mechanism is the weekly team meeting. This meeting must be well run to be effective. It's not a forum for people to just read out their reports from the software. Rather, it's the place where people talk about what's happened in the week along with any issues that have come up. Team members should be asking questions of their colleagues, so that they can learn from their experiences and mistakes. Without that discussion, each team member is doomed to repeat the mistakes of their colleagues rather than learn from them.

These meetings should have a clear purpose, with an agenda and outcomes that are published and followed up on. Without this discipline, you won't get any real traction in the goals you are trying to achieve.

On a longer cycle, at the end of each month and especially at the end of each quarter, the team should do a review of the company's action plan for the quarter.

This process is not just about sharing problems and issues. It should also be a way to celebrate the successes of the team and each person in it.

The more each person knows what's going on, the sweeter the wins will be when they do come.

Many of these things can also be supported by a simple communication tool – the office whiteboard. Put up a big whiteboard in the team room and list up the action items you're working on. When you achieve them, cross them off and take the win.

Some pitfalls

The most common mistake with this capability is to confuse an effective team meeting with sitting around a table reading software reports. If that's all your team is doing, then you're not really communicating — instead, you're just going through the motions.

How do you know if you have it?

1 2 3 4 5

____ /5

1 - How often does your team meet with a clear agenda and purpose?

1 point: A team meeting is conducted each month, although sometimes not everyone can make it.

5 points: The company has a series of different meetings that work together, including daily, weekly, monthly and quarterly. Each year, the team has a full planning day.

1 2 3 4 5

____ /5

2 - Do you have a culture and set of tools where team members seek to collaborate and share ideas?

1 point: Everyone pretty much puts his or her head down and gets through the day. What's there to talk about?

5 points: Yes, the team are always chatting - whether talking or via a collaboration tool - discussing what is happening and seeking perspectives and ideas.

1 2 3 4

____ /4

3 - Do you have a mechanism so that each person can learn from their colleagues' experiences and mistakes?

1 point: The team only really talks about things when there's a crisis.

4 points: Yes, in the weekly team meeting each person is asked to present something that happened to them during the week that they learned from and it's then discussed as a team.

1 2 3

____ /3

4 - Do you have a whiteboard where everyone can see what is going on at a glance?

1 point: The company either doesn't have a whiteboard, or only lists vacant properties on its whiteboard.

3 points: Yes, the whiteboard is maintained with all the things the team is working on and measuring. As goals are achieved, they're crossed off the list.

1 2 3

____ /3

5 - Do you celebrate your team wins when you get them?

1 point: We have a cake for birthdays, and that's about it.

3 points: Yes, in the weekly team meetings each person talks about the good things that happened in the week and each quarter, the team celebrates the achievements on the action plan.

Total

Comprehensive policies and procedures

Summary

This capability calls for solid policies and procedures (P&P). Historically, P&P have had a reputation for being dull reading and in the most part irrelevant — they're often a book of theories that sit on a shelf but have no part in the day-to-day business. If this is the case in your company, then you don't have this capability. The P&P manual is designed to be a living document, highly tailored to your company.

What the capability gives you

Comprehensive policies and procedures will give you:

- The most efficient way to do things
- Business continuity
- Lower risk

The capability defined

Little in property management is as important as having good P&P and, at the same time, they're possibly the most undervalued part of many businesses. The very idea of a P&P manual can make some people wince in pain. Everyone has had an experience working in a place where bureaucracy has taken over — one might as well work in a Soviet-era roads and traffic authority.

Unfortunately, all these bad experiences have tarnished what is actually a very powerful capability.

It is worth starting off by defining what a P&P manual really is. In short, it's a collection of concepts and documents that just describe the way the company does things. There is no mystery or art to it beyond this. In fact, if you renamed it 'The Book of How We Work as a Team', you might get further.

Most companies start out with a small team — perhaps even only one person — and the necessary tasks just get done. Because the team is small, it's simple; everything is organized and clear in the person's mind who's handling it. The small team develops a working relationship and as questions come up for the first time, a solution is developed and things move on.

The difficulty starts as the team grows. Suddenly, you have people who weren't there from the start and it's likely that the new people have different ideas about how things should be done. The challenges start at the point where conflicting practices begin to set in. At that juncture, action

Nice to have *Critical* *Critical* *Nice to have*

needs to be taken. The team needs to start looking at all the different ways things are done and agree on one practice.

At this stage in the process it's much more important to have one way of doing things than to have the best way of doing things – although of course you can have both. Great debates need not be had about which way is better, you just need to agree on one consistent way. And agreeing on one way of doing things immediately starts driving productivity through the office. For example, whether you send an SMS to tenants in arrears on day one or day three is less important than the fact you are consistently communicating with the tenant.

You need to start documenting these decisions – this is your P&P manual. When everything is documented, you then have a fighting chance of being able to take on board new people and have them integrate with the team successfully.

As the business evolves, the manual should be constantly refreshed. The best way to view your manual is as a living document. It should be updated to reflect how practices change, or to reflect new insights. As things come up for the first time, sit with the team to agree the way it should be handled, then document it.

The ultimate test of a P&P manual is whether it gets used as part of the day-to-day. If it's just gathering dust, it's less than useless because you are living a fantasy that you actually have a set of P&P. You don't.

The manual should be referred to regularly. Team members should consult it as part of their daily routine. Ideas for changes and improvements should be made at least on a monthly basis in team meetings.

You know you have comprehensive P&P when a person who is completely new to the industry can join your team and be supported by the contents of your manual. Most of their questions should be covered in it. Office hours? Dress code? Holiday policies? How to answer the phone? How to do a routine inspection? Which report to send to an owner after a routine inspection? How and when to send it? All of this and more should be in there. We maintain a community driven policies & procedures manual in the LPMA Foundry and it can serve as your starting point.

Some pitfalls

The most common pitfall connected with this capability is to have a printed P&P manual that is never read or updated.

Another occurs when people feel that the language in it must be formal. In this scenario, 200 words are used to explain the office hours when perhaps 10 would do. It ends up being a museum piece and not a living document.

How do you know if you have it?

1 2 3 4 5

____ /5

1 - What happened the last time someone was off sick for a week?

1 point: It was a difficult time. The affected portfolio essentially went into hibernation until the team member returned to work to clear out the backlog.

5 points: The rest of the team stepped in and the business continued without interruption — work was done as required.

1 2 3 4 5

____ /5

2 - How often are your policies and procedures used in the business?

1 point: The company has a P&P manual on a shelf somewhere.

5 points: The P&P manual is used by team members on a day-to-day basis. It's often open on people's screens or on their desks.

1 2 3 4 5

____ /5

3 - When was the last time there was a significant update?

1 point: No-one can remember the last time the team discussed making any changes.

5 points: In the last team meeting of each month, any proposed update to the P&P is discussed. Each team member is expected to make a contribution to the discussion.

1 2 3 4 5

____ /5

4 - Can a new person to the industry join your team and quickly be effective?

1 point: It can take a while for a new person to get integrated into the team. It is a bit of a 'learn on the job' kind of thing.

5 points: Yes, the P&P manual is simply and clearly written and easily accessible. The topics cover all the things that they would need to know to quickly get up to speed on how the team does things. We train new team members on it.

Total

Clearly defined goals that are tracked and measured

Summary

This capability requires the implementation of a comprehensive set of measurable goals that are regularly monitored. Measurement in any business is not really effective unless you also have clearly defined goals you are striving for. Some of those things will be the 'business as usual' KPIs like arrears and vacancy rates. Others will be more focused on the broader changes you're aiming for in the business, like better HR practices.

What the capability gives you

Clearly defined goals that are tracked and measured will give you:

- The ability to know whether you are on track to achieving your goals
- An early warning system for issues in your business
- Alignment across the team on what is important

The capability defined

The most simple system capability to implement is to clearly articulate the company's goals and then find a way to track and measure progress on them.

There are, broadly speaking, two different types of goals that your company can set.

The first are the 'business as usual' goals. This covers the type of goals that you're likely to already be tracking at the moment and include indicators like your arrears rate, the number of people being added to the database, or the number of file reviews completed as part of your audit program. They are well recognized, short-hand quantifiers for whether you're doing the basics right.

But well apart from the obvious ones, there are many hundreds of other indicators you can potentially measure in your day-to-day business

Should have *Critical* *Should have* *Should have*

— the list is practically limitless. It is worth stressing, though, that while it's great to be creative, you do need to ensure that there's a point to the things you are measuring. In particular, make sure you're focusing your measurement in important areas, like your point of difference. For example, if your point of difference has an emphasis on communication, aim to track your communication performance, including things like the average time it takes to return a call.

Ailo includes a KPI and dashboarding module that you can use to set goals and measure your performance against the goals and other benchmarks.

The second type of goal to measure relates to the broader initiatives your company will be working on at any one time. After you've used this book to help develop an action plan for the various capabilities you need to strengthen to achieve your chosen strategy, you'll have a clear list of what the company needs to focus on this quarter and what the specific waypoints are for each of these initiatives. For more on this, review the discussion in chapter five.

I can't reiterate enough the importance of including the whole team when setting your goals, waypoints and timelines. It is so much better to get the team involved in coming up with the targets, based on the broad objectives you set.

Research has shown that a team will often develop better goals and ways to achieve them when the process is done collaboratively and the team will work harder to achieve a goal that has been mutually agreed and was not just your idea. Even better, when success is achieved, it's a joint success that feeds the cycle of improvement.

Lastly, whatever you do, make sure you track your goals in the most visible of ways, celebrating the wins when you have them.

There are plenty of books that talk about this topic. We like the Balanced Scorecard approach and have included some ideas on how to implement them into a company in Ailo.

Some pitfalls

The most common mistake relating to the goal capability is when the company owner develops the company's goals as he or she wants them to be and then just announces them to the team. Goals developed this way will usually be seen by the team as unrealistic and out of touch.

Another common mistake is to treat the printouts from your software as the company's full KPI report. They are not. Standard reports generally only relate to a very narrow set of measurements. They can't tell the full story of your business, or even most of it.

How do you know if you have it?

1 2 3

/3

1 - Do you have a list of 'business as usual' performance goals and are you using a traffic light system to grade them?

1 point: Printouts from the company office software is used as the main report.

3 points: There's a full list of these KPIs on the office whiteboard and they're updated every few days. Each is marked as green, yellow or red.

1 2 3

/3

2 - Have you set some goals to work on as part of your action plan?

1 point: No, the company is not working on anything in particular; it's just business as usual.

3 points: Yes, one or two capabilities have been identified to work on this quarter and they've been broken down into waypoints. Each waypoint has a due date and a team owner. Progress is reviewed regularly.

1 2 3

/3

3 - Do you know what the three most important things are that you need to work on to improve your business?

1 point: No.

3 points: Yes, it's obvious from the company whiteboard where the team should focus its energies to get the best return.

1 2 3

____ /3

4 - Does your team know what the goals are and how they relate to their work? Is success shared?

1 point: It's assumed the team already knows what's expected of them without having to be told.

3 points: Yes, each team member has ownership of some of the goals. Their work is reflected in the numbers and they celebrate their successes when they occur.

1 2 3

____ /3

5 - Are your measurement systems aligned to supporting your point of differences?

1 point: No, the company just has the usual list of KPIs from the office software.

3 points: Yes, the company has a clear point of difference that everyone on the team understands and KPIs have been developed to support that point of difference.

Total

Constant improvement

Summary

One of the most important system capabilities is constant improvement, which calls for a company to always be seeking better ways of doing things. It's a common trap to believe that once a business is operating smoothly that it's time to sit back and relax. The reality is the opposite — the end of striving to be better marks the beginning of decline. Constant improvement is the lifeblood of any system.

What the capability gives you

Constant improvement will give you:

- An ever-improving business
- A culture that supports innovation
- Growth and profit opportunities

The capability defined

Any great system needs to continually evolve to stay optimized and on the cutting edge. Just like a garden, it must be regularly tended and worked on if it's to stay at its best. While a lettings and property management business can reach a great level of operation at a particular point in time, it's no assurance that things will continue that way. There will always be new technologies and ideas flowing through the industry and to keep your system capabilities strong you need a mechanism to seek out and embrace the ones that will suit your business.

A good test for whether your company is constantly improving is to consider how your company ran a few years ago compared to today. What has changed? What practices are new or different? What new technology have you put in place? How have your training or team management practices changed? I like to call this the 'time travel test'.

If you see that the business today operates more or less the same as it did then, you're probably not currently strong in this capability – either that or you had the perfect system then and have

Nice to have *Critical* *Should have* *Nice to have*

the perfect system still. Although theoretically possible, this is highly unlikely to be the explanation!

Do you have a way to find out what the latest innovations are in the industry? The industry is so fragmented that it can be hard to stay on top of what's out there. In reviewing many different companies, the starkest observation I've made is to see how well some companies seek out new ideas and technologies and how some people have not even heard that they exist.

Some pitfalls

The most common pitfall relating to this capability is to assume that because you had a good system in the past, you must have one now. That kind of thinking breeds complacency and is normally the point at which the rot first sets in.

If your system is not constantly improving, then there's a good chance that it might be a very fine specimen of a steam engine — once an engineering marvel, but nothing compared to what is available today.

How do you know if you have it?

1 2 3 4 5 6 7 8 9 10

/10

1 - If you went back in time five years, would the company and its practices resemble how it operates today?

1 point: It's hard to spot the differences.

5 points: The company was using the same technology back then, but it just does more with it.

10 points: The company practices from five years ago are unrecognizable to the way it operates today.

1 2 3 4 5

/5

2 - Can you identify any new technologies that you have implemented in the past year?

1 point: Our systems are so good they haven't needed improvement.

5 points: Yes, the company is using a number of new systems, like online inspection bookings and more efficient payment systems that auto-reconcile payments.

Total

Strong leadership

Summary

Scores of books and studies have been written on the subject of leadership but, in its simplest form, the leadership capability incorporates the skill of effectively organizing a group to achieve a common goal. It's all the possible ways you can go about doing this that's the cause of great discussion. Critically, although leadership and management often go hand in hand, they are not the same: a leader defines purpose, whereas a manager organizes and plans to achieve that purpose.

What the capability gives you

Strong leadership gives you the ability to:

- Build a strong cohesive team
- Share your vision and set goals
- Delegate but not abdicate management roles

The capability defined

Leadership in property management can take many forms. No one particular style is better than another and there are some important aspects to consider when evaluating your leadership capability.

The first is that any form of leadership requires you to be engaged and interested. You might be a fantastic leader of a sales team, but if you're not interested in the lettings and property management side of the company, your leadership capability just won't be there.

Naturally property management isn't for everyone all the time, so you should think about whether you are engaged honestly. There's no point in trying to fake it!

The second is that you must have a clear vision for what you want your rental business to be and to stand for. What is the company's purpose? What are the team's values? What are you passionate about? This is your opportunity to have the lettings and property management business that reflects your ambitions and personality. For example, are you the type of person that instinctively wants a machine

Critical *Should have* *Nice to have* *Nice to have*

business and is driven to do all the things needed to make it so? Or are you just single-minded about having a hyper-growth company and prepared to do whatever it takes to get it, regardless of the naysayers?

Engagement and passion — you have to understand these two concepts and how they apply to you and your relationship with the rental business. Once you do have that understanding, it's simpler to make a better and more informed decision about which of the four strategies is right for your company. Each strategy requires a different type of leadership style to achieve success.

For example, to pursue hyper-growth, you will need to face down all the issues that will naturally come up as you try to bring the sales and lettings and property management businesses together to work more closely and cooperatively. It might sound like an easy job, but it's actually very hard and that's exactly why so few companies do it well. Not only that, your team may not believe your new hyper-growth targets are possible, or be prepared to re-think the whole equation in order to make a success of it. As a result, you cannot be a delegator or a laissez-faire style leader. You will need to be more visionary and highly driven to make it happen. Hyper-growth requires strong leadership.

Alternatively, to pursue a machine business, you may be able to be more detached from the business, so long as you support and mentor a fantastic business manager who is prepared to drive the necessary changes through the business.

To pursue a run lean business, you would want to work more closely with the team to find each and every possible way to improve efficiency. You will need to empower team members to think differently and include the whole team in the mission to find quicker and easier ways to do things.

Lastly, the other priorities strategy will naturally be attractive to owners that are more laissez-faire. You will need to find and trust a good business manager who can essentially run the business and keep you as informed as you'd like to be.

As each strategy will require different types of leadership, it's smart to choose one that supports your personal level of engagement and passion. If you don't do that, you may find that you actually become the main barrier to achieving your goals. These ideas are set out in more detail in our other book **Building Blocks**.

Some pitfalls

The biggest pitfall of the strong leadership capability is to pursue a strategy that does not match your leadership style, your engagement with the business, or your passion for what the business could become. If you don't get the match right, then you will inevitably become a major part of why the company is not achieving your goals.

How do you know if you have it?

1 2 3 4 5

/5

1 - How would you describe your engagement levels with your lettings and property management business?

1 point: A good day in property management is a day where the leader doesn't need to spend any time with that department.

3 points: The leader attends every team meeting and dedicated time is spent with the business manager each week to mentor and discuss any issues.

5 points: Lettings and property management is naturally compelling to the leader, who finds the issues that arise challenging and rewarding.

1 2 3 4 5

/5

2 - How would you describe your level of passion for your lettings and property management business?

1 point: The leader's only passion is just to get more managements.

3 points: It's clear what the leader's goals are for the business, but it's difficult to know sometimes what to do to achieve them. Sometimes it's one step forward, two steps back.

5 points: The leader has a crystal clear vision for the future of the business and a clear understanding of what's required to achieve it. There's no lack of energy to make it happen.

1 2 3 4 5 6 7 8 9 10

/10

3 - Do you think about the behaviors you exhibit and the symbols you promote, and the effect those might have on the team?

1 point: No, I'm the boss so I do what I want.

5 points: The leader is a good person and people generally like him or her.

10 points: Yes, I regularly reflect on how I behave in the business and the way that supports, encourages and discourages certain team behaviors. I always try to improve how I lead.

Total

Strong management

Summary

This capability dictates strong department management. It is a skill set that's relatively new to the lettings and property management industry and rarely discussed. Put simply, leadership may set a vision, but management is what makes that vision become a reality.

What the capability gives you

Strong management will give you:

- Insight, not just reports
- A recruitment and staff development plan
- A culture that supports your ambitions
- A constantly improving business

The capability defined

Before any discussion about management can begin, it must be reiterated that this capability is not the same as leadership. That skill is covered in another capability: T.1 Strong Leadership.

Having a strong management capability in place is challenging. A real estate company will usually start small, perhaps with one leasing agent and a property manager, and grow over time. The property manager's skills grow along with the company's growth. At some point, a ceiling will be reached and in most cases, neither the owner nor the property manager knows what to do to break through it.

The reality is that the skills that were necessary to get the business to a decent size will no longer be enough to go forward. This is the juncture at which management skills and capabilities need to be developed. Just adding more people and continuing to do things the same way won't really help resolve the challenges faced.

In reality, management is a full-time job. The business manager should not have direct responsibility over a portfolio of properties. In such an environment, the property management work will end up swamping any business management time.

There are a few ways to know if you have good management in place. The first is that you are spending less time in the property management side of the business, but knowing more about it. There

Should have *Critical* *Should have* *Critical*

will be more insight into what is happening and less noise, letting you make more effective and impactful decisions. You won't be trolling through unintelligible reports from your property management software, but will instead be getting summarized, weekly reports that succinctly deliver the information you need to know.

The second is that your HR processes are running effectively (see capabilities T.4 and T.5). The company should have a clear plan for recruiting new staff over the next 12 months, including when they will join the team. No recruiting by crisis and no last minute jams.

The third indicator is when you're confident that your team has a clear and productive culture. There is a culture of learning and development of the team, a sense of camaraderie and cooperation and a genuine sense that each person has a fulfilling career in the company (see capabilities T.3 and T.4).

The fourth and perhaps most important indicator is that the company is constantly improving how it does things. Good management isn't about keeping things running as they always do. It's actually about always being on the lookout for ways to make things better — things like better use of technology, new ways of performing tasks, making sure everyone learns from each others' mistakes and finding every little opportunity for an advantage (see capability S.5).

Ultimately, a strong management capability makes a rental company an energetic and attractive place for all stakeholders. These ideas are set out in more detail in our other book **Building Blocks**.

Some pitfalls

There are a couple of pitfalls to look out for in the quest for good management. The most common one is where a business owner, in a misguided desire to reward long and loyal service, promotes a senior property manager to the role of business manager or team leader. This happens relatively regularly and although it is by no means impossible to make the dynamic work, it should be emphasized that the skills needed to be a good property manager are not aligned to the skills needed to be a good business manager.

A promotion of this type needs to be carefully considered and planned, or it can easily become the mark of a machine strategy gone wrong.

Another pitfall is an over-reliance on the senior property manager to work without any guidance or support. A common line heard among these owners is "I have the best property manager in the region and they take care of everything". Although meant as a compliment, it's not fair for anyone to shoulder this kind of responsibility. In my experience, this type of comment is usually a clear indicator of an other priorities strategy gone wrong.

How do you know if you have it?

1 2 3 4

/4

1 - Do you have a full-time business manager for your lettings and property management business?

1 point: The manager has portfolio responsibilities that occupy at least half of the person's day.

4 points: The manager has no direct portfolio responsibilities.

1 2 3 4

/4

2 - Does your business manager provide you with insightful and actionable weekly reports?

1 point: Basic reports from the company software are provided, but questions have to be asked if any interpretation is required.

4 points: Reports are provided that summarize the business and include recommendations for action.

1 2 3 4

/4

3 - Do you work as a team or a collection of individuals?

1 point: Quick, irregular team meetings are held to run through the software reports. The focus is on properties, not actions and measurements. Everything is 'OK'.

4 points: Well structured and well attended weekly meetings are held, and include learning and development sessions and written reports, while all action items are tracked.

1 2 3 4

____ /4

4 - Is the business manager taking responsibility for the achievement of your company's goals?

1 point: It's not obvious what the team's working on or how it's priorities are set. The company owner is losing sleep.

4 points: The business manager 'owns' the team's goals and performing against progress against those goals. The business manager is the one losing sleep.

1 2 3 4

____ /4

5 - Does the business manager have authority to make decisions and is he or she recognized by others as having that authority?

1 point: The business manager comes to the company owner for approval on even small decisions and team members will by-pass the business manager and go directly to the owner.

4 points: The business manager is empowered to regularly make team decisions without prior approval and everyone in the team respects those decisions.

Total

High performance culture

Summary

Culture is never talked about enough and it can be easy to dismiss. But although culture can seem an elusive concept, it is real. This capability calls for a team that shares a common vision, while everyone in the team understands exactly what is required to achieve the goals. Without this capability, the team will be pulling in different directions.

What the capability gives you

A high performance culture will give you:

- Tools that can be used to improve its performance
- A learning culture
- A team ready for the challenges the future brings

The capability defined

A high performance culture can sound complicated but, in reality, it's very simple — it's a culture that supports and nurtures setting and achieving goals. There are some basic team practices that go hand-in-hand with such a culture. These practices are simple and effective, but almost impossible to execute if the culture does not in turn support them.

When all is said and done, your company's culture will be one of the most decisive factors that determines whether you will achieve your strategic goals. Given we are in a service industry, it is one of the few assets that your business has. If culture is not nurtured and developed deliberately, your business will be compromised in its ability to get things done.

There are a range of tools that you can introduce to your team over a period of four to five months and each of them will build on the next. The purpose of these tools is to drive the behaviors that you want to encourage, making them just part of the normal way you do things.

Should have *Critical* *Nice to have* *Should have*

As part of the process, the team develops organizational values and a behavioral code that all agree to live under.

However you go about it, developing a high performance culture is of high strategic advantage. If you succeed in developing it, you will get more from your team and they in turn will get more from their careers. It's one of those rare opportunities in life where there's a genuine win-win for everyone involved. Your company will become a company of attraction and you will find that you retain the best people in your team, while those not aligned to your vision will choose to leave. The mood in the air will be tangibly different.

Most importantly, your team will be well placed to change and embrace new ideas with energy and passion. As you set your strategic goals, there are few things more valuable than achieving this capability.

These ideas are set out in more detail in our other publications **Building Blocks** and **Numbers Game**. There is an active discussion on these topics in LPMA forums and we have also set out there some resources you can use and ideas for further reading.

Some pitfalls

The most common mistake made in the pursuit of a high performance culture is to think that culture itself is some wishy-washy thing that has no real application to the day-to-day. Rather, culture is real, and can be built, nurtured and destroyed.

Another common mistake is to rely on your own judgment of whether your company's culture is a high performing one. The only way you are really going to know if you have a high performing culture is to ask your team.

How do you know if you have it?

1 2 3 4 5

/5

1 - Does your team have clear direction and purpose?

1 point: No, team is just another name for the group of people who work in the company.

5 points: Yes, the team knows why it exists, knows the vision and agrees with the team's goals. Each person knows how to contribute to them.

1 2 3 4 5

/5

2 - Are your policies and procedures aligned to the goals and do they help achieve them?

1 point: It isn't that complicated — the team just gets the job done.

5 points: Yes, policies and procedures are constantly reviewed to make sure they align to the goal. All team meetings are useful and have a purpose, while the output consistently meets clients' expectations.

1 2 3 4 5

/5

3 - Does your team have a clear statement about its values and expected behaviors?

1 point: The company has office policies around harassment and discrimination.

5 points: Yes, the team has developed a behavioral code and all team members agree with it. Their behavior is consistent with the code.

1 2 3 4 5

____ /5

4 - Does your team have good interpersonal communication?

1 point: We generally stay out of each others' portfolios.

5 points: Yes, everyone expresses themselves openly and respects their team members. Diversity of opinion is valued and any conflict is handled in a timely, respectful way.

1 2 3 4 5

____ /5

5 - What happens when you have a team member that does not support the performance culture?

1 point: We agree to disagree.

5 points: We try to work with the person but if it isn't resolved then the person is asked to move on.

Total

A platform for careers

Summary

Career building capabilities ensure you get the most out of your team and that each team member gets the most out of their career. This capability is at the heart of becoming a company where the best people want to work. It's based on the premise that the best stretch themselves and want to be supported in that process.

The best also want to know what potential they have and what you expect of them. They want regular feedback and to be guided in the areas to work on and supported in building their career competencies.

What the capability gives you

A platform for careers will give you:

- A business that attracts the right talent
- Alignment across the team
- Team members who are focused on high value areas
- Clearly understood expectations of what each person is asked to contribute

The capability defined

A rental business has at its heart its team. Of course, policies, brand and technology are important but they are for naught without the team.

I am resolutely convinced that our industry is transforming to a genuine profession. If that's right, then perhaps the most important strategic capability that a company must address is being a place where the best people want to work.

As an industry professionalizes, those in it will start to take more responsibility for their careers and will make decisions where they work based on what is right for their career in total, not just what pays the most next year.

As this happens, company owners must offer their teams and potential team members a platform to build a career.

Should have *Critical* *Nice to have* *Should have*

There are many elements to doing this. For example, the owner must be clear about his or her ambitions for the lettings and management business, along with the goals and implications for the team. This is a clear leadership statement and is vital if you expect people to want to contribute to the team.

He or she must also commit, as must the team, to a comprehensive learning and development program for each and every team member. After all, if your team is really your most important asset, then training is the most effective way to grow your wealth.

You must also develop a healthy culture that supports the things you want to do. That culture can act as a force multiplier for your team and the best people will be drawn to it when choosing a company (see capability T.3).

It is important to also set out a clear statement about what each person does in the team and what each person is responsible for. Ambiguity is the enemy here, and the clearer you are then the clearer each person will be about their role and, in turn, their career prospects. When you set this out, you will also be making statements about what roles each person may have in the future as the team evolves and business grows.

All of these ideas are set out in much more detail in our other book **Building Blocks**, particularly thoughts on how to structure a team for each strategy and how to evolve a team as it grows.

See that, and the accompanying career passport and management resources, for more help in implementing this process. There is also plenty of discussion on this important topic in LPMA forums.

Some pitfalls

The most common pitfall is to think that all of this will just work out on its own. Building your company into being a platform for careers is a deeply transformative process and will impact almost all elements of how you work together as a team.

Of course, if you don't think that your team members want or deserve a career, then you will naturally not be able to be a business that attracts the best in the industry.

How do you know if you have it?

1 2 3 4 5

____ /5

1 - Do you have a clear ORG chart and job descriptions for all members of the lettings and property management team?

1 point: No, everyone knows it all already.

5 points: Yes, we have all of those and we review them every year or as the team evolves.

1 2 3 4 5

____ /5

2 - Does each member of the team keep and maintain a career passport and regularly develop their career competencies?

1 point: No, we don't need any more training.

5 points: Yes, each person has his or her career passport and each year we set goals for each person to develop his or her career competencies.

1 2 3 4 5

____ /5

3 - Do you have a clear statement about the company owner's ambitions for the company and does everyone know it?

1 point: No, but everyone knows what I want.

5 points: Yes, as part of the business planning process, the company owner sets out his or her ambitions for the business and shares it with the team.

1 2 3 4 5

____ /5

4 - Does your career platform form a significant part of your recruitment process?

1 point: I'm not sure why people join us or not.

5 points: Yes, our career opportunities are discussed in the recruitment process and we know people have joined the team because of them.

Total

Recruitment strategy

Summary

A strong recruitment capability means that you are hiring the right people at the right time. This might sound simple, but it generally isn't. To recruit well you have to anticipate well in advance what your needs will be and have creative ways to develop relationships with people that could be right for your business in the future.

What the capability gives you

A good recruitment strategy will give you:

- An ability to recruit team members just before the business needs them
- A cohesive team of superb people
- The best chances of having a person starting armed for success

The capability defined

For all the talk of how to build a high performing team and how to be a platform for careers, the one common weakness that will limit a company's team capabilities is poor recruitment and induction processes.

Adding a new team member is perhaps the most important team decision you can make. There is no better way to build a good team than to make sure you recruit the right people into the right role, at the right time and induct them well.

A good recruitment strategy has a number of components. You will first need to have a good understanding of the team you have today and then consider the team you want to have in three years' time. What capabilities and resources will you need to develop to support your business for the future? Are you planning to grow aggressively or remain stable? How are the roles in the business going to change as the team evolves and people are promoted?

Should have *Critical* *Should have* *Should have*

To understand your requirements you need to be thinking ahead and recruiting early to support your ambitions.

Once you have highlighted a role you want to recruit for, you need to develop a job description for that role. Be clear about what skills you want to secure and what type of experience will be needed.

You should think about questions for the interview process that will help test for these capabilities and experience.

If you've mastered the high performance culture capability (See capability T.3), you will also have a clear and compelling purpose and cultural statement as well as a clearly articulated point of difference. The job description and interviewing process should support and test for compatibility with those.

Getting everything clear before you even write the job advertisement will arm you for success. The entire recruitment process will be set up to achieve your goal of finding the right person from the very beginning.

Of course, you need to have effective ways to market your new position. There are lots of ways to do that and each has pros and cons. Whichever you choose, make deliberate and serious decisions about it. Don't leave this important process up to chance. Ideally, you will be proactive in your search and approach people who you think might be right for your business. The interview process should probe for all the things you are looking for. There's a lot of research to support the idea that your team should be included in the recruitment process. The process will maximize the chance of you finding someone that fits your culture and the team will have a sense of ownership in the decision making process.

Once a new person does join your team, you need to make sure that they start in your company ready to succeed. Various studies show that most employees make a long term decision about their future in a business within the first three weeks of starting in a new role. The first month should be treated like an extension of the recruitment process and be planned out carefully, ideally continuing all the way through the probation phase.

Some pitfalls

The most common mistake with the recruitment capability is to recruit in crisis mode — always acting too late and desperately trying to find anyone who can fill an urgent gap. This is no way to build a team and you will never achieve your potential if you don't get ahead of that dynamic.

The other common mistake is to go through the entire recruitment process carefully, only to throw the successful candidate in the deep end when they start. It is almost certain that this approach will compromise the whole recruitment process.

How do you know if you have it?

1 2 3

/3

1 - Is your whole team involved in the recruitment process?

1 point: No, the team is usually only told about a new person once they've accepted the position.

3 points: The team is involved all the way from the decision to add a new person, right through to the recruitment and induction phase.

1 2 3

/3

2 - Do you develop a job description and interview guide before you start formally looking for candidates?

1 point: A job is posted and, after seeing what comes in, the best person is selected.

3 points: Yes, it is all planned out well in advance and we test aggressively for cultural fit in the interview process.

1 2 3

/3

3 - Is your point of difference supported in your interview process?

1 point: No, the aim is just to try to select the best person.

3 points: Yes, the point of difference comes up a lot in the interview process and candidates are tested to make sure they can support it.

1 2 3

____ /3

4 - When do you recruit people?

1 point: When it's absolutely necessary.

3 points: The company aims to recruit new people two months before they're really needed.

1 2 3

____ /3

5 - Do you have a first month induction program?

1 point: No, it's more like 'sink or swim'.

3 points: Yes, the whole first month is planned out. There are regular check-ins with the new starter over the first month to make sure the process is going smoothly and they are also allocated a mentor.

Total

Spare capacity

Summary

Achievement of this capability requires a company to have a reasonable level of spare capacity in the team at all times. Every team has a capacity limit and at some point, more just cannot be done. It's a recipe for chaos if a company is already operating at 100% capacity during normal business operation — there's literally no room for error and any unplanned work (like a major repair, a tribunal issue, or a sick day) will simply break the team.

Operating at 80% capacity over a cycle is recognized as the best level to maintain. Anything above that will mean that maintaining any standards of quality will be very difficult.

What the capability gives you

Spare capacity will give you

- An ability to handle the ups and downs
- Minimize chaos in a company
- Room to grow

The capability defined

In a hypothetical factory, there are only so many widgets that can be produced in any given hour. For example, if everything goes perfectly then it might produce 100 widgets in an hour. If anything unusual happens, like a person calls in sick or there's a problem with the supplier, then that number will drop.

If this company were agreeing delivery terms for a client order, it would be reckless to promise that it could guarantee 100 widgets per hour. A quality focused manager would perhaps promise 80 widgets per hour and then hit the target every time, regardless of any issues that may come up along the way.

On top of that, the manager would be unwise to run the machine at top capacity for very long. After a few days of trying to make 100 widgets an hour, things would start to break — machines would wear out, team members would get tired and mistakes would start getting made.

The same principle applies to a lettings and property management business. The only difference is that instead of producing widgets, we are creating and delivering a service.

When you design your team, you need to factor in the concept of spare capacity so that you can both

Should have *Should have* *Nice to have* *Not a priority*

meet your clients' expectations day' in day out' and ensure sure your team is well run and productive, while dealing with the inevitable challenges that arise.

How much spare capacity do you need? It depends on the strategy you're running. If you're pursuing hyper-growth, you'll need to have a larger spare capacity set aside to not only deal with the issues above, but also to give you the capacity to manage all the new properties that join the rent roll.

New business creates a lot of work (consider the entire leasing task and new tenant inductions just for starters) and so you will need room to grow into. If you don't have that room, things will get unmanageable very quickly and your team will burn out.

If on the other hand you are pursuing a run lean business, then you may make a calculated decision to take the risk of running at closer to full capacity.

It can be difficult to work out what potential capacity your team really does have and what spare capacity should be left over after the normal work is all done. There seems to be a basic law in lettings and property management that work expands to fill the time available. If you add capacity, the same things can just take longer to do. This dynamic can distort how you see your team's capacity.

The only true way to get a handle on this is to have every person on your team record the tasks they do over a week and the time it takes to do them. You will find that some team members take much longer than others to do the same task.

Once you go through that and understand how to share best practice, you will often find that your capacity levels are higher than you think.

If you don't want to or can't do this research, then there are some other things to look for to get an approximation on what's going on in the company. For example, are your routine inspections up to date? If not, how long would it take to get back up to schedule at your current rate of doing inspections?

Some companies get to a point that it becomes almost physically impossible to get back on track and they have to just skip an inspection cycle. This is a sure fire indicator that the team is operating well beyond its capacity.

All of this is important because if you are operating at too high a rate for your capacity, then you can't be delivering a high quality service. It is just a mathematical impossibility.

Some pitfalls

The key pitfall under the spare capacity capability is a failure to measure — if you are not keeping close track on whether you're consistently meeting your service promises to your clients, then you have no mechanism to monitor quality in your business.

How do you know if you have it?

1 2 3 4 5 6 7 8 9 10

/10

1 - Do you roughly know your team's capacity and what level you are operating at?

1 point: No, the team just has to make do. The team speaks up when it's all getting too hard to manage, at which point consideration is given to adding a staff member.

10 points: Yes, there's a way to track how time is spent by each team member in a day and there's a process for sharing best practices to make people as efficient as possible. All of this makes it clear how much spare capacity the company has.

1 2 3 4 5

/5

2 - How does your team handle capacity issues that come along from time to time, like team members calling in sick or taking a holiday?

1 point: Whenever someone calls in sick or is on holidays, it throws the team into a tailspin.

5 points: We are structured to survive and handle the "normal" issues that arise like sick days and holidays.

Total

Seeking feedback and data

Summary

To understand this capability you need to ask your current and past clients what they think about the quality of your business. Unless you're doing this, you are effectively blind on this topic. And unless your clients think you offer quality service, you don't.

Former clients are a particularly fertile area for investigation. Companies should be regularly benchmarking and mystery shopping competitors, both to understand their positioning and to plan a response.

What the capability gives you

Seeking feedback and data will give you

- Insight into the services your company really provides
- Insight into your competitors
- A prioritized list of things to work on

The capability defined

Quality is measures by your clients. It's really that simple. No matter what you think of the services and value you're providing, the only people who actually get a vote are your clients.

So, unless you are seeking their opinion on the quality of service you're delivering, you can't have any confidence in your quality capabilities.

There are a few ways you can get a sense of what your clients might think before you ask them. These all qualify as 'votes of confidence' in the services you are providing.

The first and least direct way is to look for tell-tale signs in your business. For example, how many of your owners have more than one investment property? In almost any rent roll, there will be investors who have multiple properties and ideally you can identify them. Once

Should have *Critical* *Should have* *Nice to have*

you know who they are, work out how many of those have given you their second or third property to manage. If you are managing most or all of the properties belonging to these investors, clearly you are doing something right.

Also, you can ask each new business prospect where they heard about your company. One of those options should be a referral from a friend or family member.

Again, if your clients are actively recommending your company, this indicates they are happy with at least some aspect of your management.

Another indirect measure looks at properties on your rent roll that have been sold. Out of those, how many of those owners/vendors chose your company to sell the property? If the number is above 85%, it's a good sign that your property management business has done a great job. If it's below 65%, it's a sign that the quality of your property management service was low enough that a third of your former clients chose another agent to sell the property.

All of these are indirect methods to work out what your clients think of your service. Of course the most direct and simple way is to ask your clients and former clients what they think of your service.

This should be a simple thing to do. The process should be straightforward for your client and ideally promise some form of anonymity for the respondent, to encourage honesty. You could either offer an anonymous survey or have someone independent conduct the survey on your behalf and give you a summary of the results.

Some pitfalls

The biggest pitfall with the feedback and data capability is to blindly believe your own marketing materials. You need to go out and find the truth.

How do you know if you have it?

1 2 3 4 5 6 7 8 9 10 /10

1 - Are you surveying your existing clients regularly and former clients when they leave?

1 point: Clients are never really asked what they think.

5 points: Clients are occasionally asked about the service the company is providing.

10 points: An outside party has been engaged to survey clients every year and to interview clients as they leave the company. The individual responses are anonymous to the company but insightful reports are provided describing what the clients think.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 ___ /15

2 - Do you have a customer feedback program?

1 point: Clients are asked for testimonials from time to time.

7 points: If a client refers a friend to the company, they're called and thanked.

15 points: We run a net promoted score process across our client base over the course of a year and we also seek client feedback after major work is done, like a routine inspection or significant repair.

1 2 3 4 5

____ /5

3 - Are you mystery shopping your competitors?

1 point: It was done once a few years ago but nothing really changed as a result.

5 points: Yes, there's a program in place to mystery shop and better understand competitors and their offerings. The company adjusts its way of doing business to incorporate the insights.

Total

Professional presentation

Summary

This capability requires a property management business to be professionally presented in all ways. For longer than most can remember, sales companies have spent time and effort on presentation, including professional signboards, office displays, website, open homes, vendor reports, professional photographs and floor plans.

Yet even top companies tend to back away from making a comparable effort in lettings and property management, with shared email addresses, poor quality photos and poorly worded advertisements. In this day and age, not presenting all that a company does with the highest level of professionalism will limit the perception of quality.

What the capability gives you

Professional presentation will give you

- A commanding presence in the marketplace
- A better perception of quality in your marketplace
- An ability to align your marketing efforts to your strategy

The capability defined

A well-executed professional presentation capability impacts so much of the equation in lettings and property management. For an industry that handles the marketing of properties worth many millions of dollars, there is a high level of reticence to properly market its services and people.

The great shame is that all the effort that is put into professionally marketing sales rarely extends to the rental business.

Professional presentation is important in lettings and property management because so much of an investor's decision about which company to use is based on his or her perception of the company. Research and common sense shows that if an investor cannot distinguish

Critical *Should have* *Nice to have* *Nice to have*

between two different property management businesses, they will simply choose the cheapest. This isn't any great mystery and is a perfectly rational decision.

The key to understanding the dynamic is to realize that most owners have no appreciation at all for what our role actually involves. Their perception is that it's only really about collecting the rent and occasionally getting a tradesperson in when something breaks.

Think of a marketplace. It's apple season and three vendors are selling apples all at the same price, but one of the vendors arrives at the market a little earlier than the others. He polishes all of his apples to a high gloss and stacks them in a pyramid, presenting them beautifully. They're still apples and they're still being sold at the same price as the competitors, but it's a sure thing that our vendor's apples will sell out long before the others. Better yet, there's unlikely to be any discounting or wastage at the end of the day. It's the same in our industry.

Even at its most basic level, professional marketing showcases your ability to do just that — to take properties to the market in a way that makes them more appealing than the competitions'. This evidence will prove attractive to those owners who value these skills and will pay for them.

More deeply, it begins to address the most pressing issue in our industry — that of investors not really appreciating what we do for them and the service offerings that are available.

The need for professional marketing extends beyond the listing kit and into the use of professional photographers, floor plans, newsletters, market review documents, investment research and the offering of broader services like home loan health checks.

If you are trying to build a first class business but are not presenting your company professionally, your ambitions cannot be met.

Some pitfalls

The most common mistake in professionally presenting a company is to confuse style with substance. Style alone does not cut it. There is little point in having elaborate listing kits if there is no substance to the content that's produced. Investors need to see documents that also demonstrate credibility, not just a flair for design. Make sure everything you do supports your point of difference and that each claim is substantiated, perhaps with a sample of the types of reports or marketing you do for your owners.

How do you know if you have it?

1 2 3 4 5

____ /5

1 - Do your marketing efforts support your point of difference?

1 point: The company doesn't really have a point of difference.

5 points: Yes, the company has a clear point of difference and it's always reinforced in all marketing efforts and practices.

1 2 3 4 5

____ /5

2 - Does your company put the same level of effort into marketing the rental division as it does the sales?

1 point: No, why would we? Sales is much more important.

5 points: Yes, we think about the whole company and the perception of each element of it in all our marketing efforts.

1 2 3 4 5

____ /5

3 - Are your marketing materials supported by evidence and are they credible to a skeptical owner?

1 point: Not really. Potential clients don't want to know about that stuff.

5 points: Yes, every claim that's made is supported by evidence. For example, sample reports and marketing campaigns are included in the listing kit.

Total

Pricing power

Summary

With the pricing power capability a company has the leverage and reputation to set higher prices than its competitors. The highest quality property management businesses attract the highest fees and have the reputational and cultural strength to resist fee discounting — this is as true in property management as it is in sales, lettings and every other industry. This is a core quality capability.

What the capability gives you

Pricing power will give you

- Higher fees
- More productive and valuable negotiations with potential clients
- Flexibility

The capability defined

Pricing power is the concept relating to the strength of your position when negotiating fees and services with your clients and potential clients.

On one extreme, some companies feel that the only negotiating strategy they have is to lower fees to get new business, particularly in the face of competitors who are offering even lower fees.

At the other extreme, some companies with pricing power have the ability to set prices above the market average and their negotiating strategy relates more to the services that are provided rather than the fees that are charged.

Having pricing power is an easy thing to talk about and a hard thing to achieve! The fact is that in any market, there are companies with below average fees and those with above average fees. You naturally want to be in the latter group.

The foundation for pricing power is quality. Quality has two dimensions — how good your company is and how good your company is perceived to be. Both have to be of the highest order for the company to truly have pricing power.

Should have *Should have* *Not a priority* *Not a priority*

There are plenty of parts in this workbook that discuss what it means to be good. Being seen to be good is a more complex discussion.

Making sure you are seen to be good starts with a mindset and cultural shift. More than just the core work has to be done in order to get credit.

For example, if a property manager does an excellent routine inspection, that's great. However, more needs to be done to ensure the property manager gets credit for his or her work. Unless a professionally presented report is prepared for the owner and an appropriate selection of photographs are included, the owner probably won't know or appreciate the fact an inspection has even happened, let alone the fact it was conducted expertly. The company must expend more effort to demonstrate their initial diligence but, unfortunately, this is the type of work that tends to fall off a busy to-do list.

To achieve the pricing power capability, your team needs to actually believe that the quality of service being offered is superb and deserves the premium price it attracts. If you don't have this underlying belief, no-one is going to believe your argument.

A good way to know whether they have this confidence is to simply ask them. Give them growth targets, but discuss how you want higher fees. Do they say it is impossible, or do they relish the challenge? Do they really think that the company is better than its competitors? Do they have pride in what they do?

Pricing power also requires a good negotiating strategy and skill sets. One of the fundamentals of a first-class negotiating strategy is knowing what constitutes a good deal for both your company and the client. For instance, the person negotiating the services and fees for a new management would need to know at what point a management would be unprofitable. This knowledge actually helps the person negotiate.

The negotiator should also know what is important to the potential client. Win-win opportunities can be created and explored when you can identify what is important to both parties.

Without these approaches your negotiations will quickly and inevitably move to a discussion solely focused on fees. When that happens, everyone is worse off. This is discussed in detail in our book **Numbers Game**.

Some pitfalls

The biggest pitfall with the pricing power capability is a cultural lack of belief that the company is actually better than its competitors. If that is happening, then your pricing power will be severely diminished.

How do you know if you have it?

1 2 3 4 5

/5

1 - Are your fees above or below the market average?

1 point: Fees are probably around the market average but the company always has to cut them to get the business.

5 points: Fees are generally 1–2% higher than the market average.

1 2 3 4 5

/5

2 - Does your team really believe that your company provides superior service and are they proud to work in the company?

1 point: The team doesn't really know what its competitors are doing but they suspect the company is not winning new managements due to competitors offering lower prices.

5 points: Yes and it's talked about often. The company has mystery shopped its competitors and has also spoken directly to some of their clients. The team knows it is better than its competitors.

1 2 3 4 5

/5

3 - Has your business development team been given specialized negotiation skills training?

1 point: No, the business development team just does the best they can. Our competitors have low fees and we have to react to that.

5 points: Yes, the business development team has a clear negotiating strategy aimed at creating 'win-win' outcomes for both the company and the client.

1 2 3 4 5

____ /5

4 - Do you charge different fees for different services?

1 point: No, all properties are managed the same way, but the company sometimes charges different fees for it.

5 points: Yes, depending on what services the client wants there are different fee options. If the owner wants lower fees the company can negotiate with lower service levels.

Total

Client facing innovations

Summary

The client facing innovation capability necessitates a constant striving to find new ways to deliver better service to clients. The mark of truly great innovation in this context is whether or not it changes the dynamics of the company's relationship with its clients. A quality company does not just look for ways to do things more efficiently in isolation – great innovations increase engagement with the company's clients and increase its credibility.

What the capability gives you

Client facing innovation will give you

- A path to supporting your point of difference
- Credibility
- An alignment of your culture to your strategy

The capability defined

Innovation in a business may result in you doing more with the same resources, or doing the same with less.

Sometimes you can actually do more with less, which is even more appealing.

Most discussion around innovation explores how to make the business operation easier and more efficient. These are critical considerations for any company. But there's a narrower set of innovations that are sometimes overlooked. These are the innovations that directly impact the service experience of your clients. This is what 'client facing innovation' is all about.

This type of innovation is not measured in terms of how much time it saves your team to do a task, but rather the change in perception your clients have of

Should have *Critical* *Should have* *Nice to have*

your service. It can even be that in some cases, client facing innovation actually increases the workload or time spent by your company.

A good example of this is Field Agent and other smartphone-based inspection applications. It's arguable whether or not an inspection can be done quicker using Field Agent and its peers or on paper — different people have different opinions. I would argue that this is not the right way to determine whether or not these apps are good innovations.

The real innovation of those apps is actually the impact that taking photos and producing a professional report has on your relationship with your clients. Experience shows that the impact of this innovation is substantial and can dramatically change the perception your clients have of your service.

To understand this, put yourself in the shoes of a client who has no real working knowledge of the industry. When most people hear that you have done an inspection, they probably think you've just done a quick walk through the property — the way you might inspect a rental car before taking delivery of it. It's not very exciting.

On the other hand, if instead of just telling them you were to send through dozens of photos and all the findings in a professional looking report, the owner could not help but appreciate how much work has gone into it.

All told, inspection apps are not time saving tools. They are credibility enhancing tools. And this is what makes them great client facing innovations.

If you're serious about building your quality capabilities, then you must work to implement client facing innovation so that your company can get the credit due to it for all the great work that the team does. Without it, you're just succeeding in secret and you'll get no credit for your diligence.

Some pitfalls

The most common misconception associated with the client facing innovation capability is that any innovation must be time or effort saving. Innovation can also be about improving the service, or the perception of the service the company offers its clients.

Even if the innovation adds to the workload to some extent, the benefits can be worth it if you know how to exploit your quality capabilities.

How do you know if you have it?

1 2 3 4 5 6 7 8 9 10

/10

1 - How has the experience your clients have with your company changed over the past three years?

1 point: It is essentially the same experience.

10 points: We have implemented a lot of changes in the way we do things and our clients now have a far superior service compared to before.

1 2 3 4 5 6 7 8 9 10

/10

2 - Is the service your company gives to clients demonstrably better than the service given by other companies?

1 point: We're all the same really.

10 points: We know from our mystery shopping and from feedback and surveys that our service is clearly superior to the competitors' and we can clearly articulate why that is the case.

Total

Specialist trust account or client funds operator

Summary

To satisfy the capability requirements for trust or client funds accounting, the associated responsibilities must be allocated to a specialist with the appropriate skills. Accounting is a specialist role. It is also the source of most of the risk and compliance headaches for a rental business. In many companies, this important role is filled by a person that may not have a deep understanding of the underlying principles of trust or client funds accounting. The sooner this role is filled by a specialist with the necessary skills, the quicker risk is managed.

What the capability gives you

A specialist trust account or client funds operator will give you

- Reduced risk
- Fewer mistakes that can compromise your relationship with your clients
- Better cash flow

The capability defined

It might sound obvious — make sure the person who operates your trust or client funds account really knows what he or she is doing. Few would argue with that. But the real question is, what does it mean to say a person really knows the underlying principles? This is a question that goes to the heart of one of the most pressing issues in modern property management.

The question can only be understood in the context of how the industry has evolved. Some years ago, there were fundamental differences in the way trust or client funds accounting was practiced compared to today. Most obviously all accounting was originally done with pen and paper. Over time, elaborate bookkeeping systems like Kalamazoo helped streamline the process. Whatever system was used, two things were common: the operator needed a deep

Should have *Critical* *Should have* *Critical*

understanding of the accounting principles involved and had intimate knowledge of every book entry.

Since systems have become computerized, much of that connection has been lost. It's fair to say that most operators today do not really know what book entries are being made into what accounts and journals when money is receipted or disbursed. They know what a receipt is, but don't make the connection to the accounting entries.

Many trust or client funds accountants in companies today are mislabeled — they are not really accountants. It's not a problem of course, but the title they're given is misleading. Also, most have grown up on a particular software package and are in essence power-users of it. Although they know how to perform most of the major functions, they are not strong at the foundations.

If this is the case in your company, you need to find a way to improve the basic accounting knowledge of your account operator. The more foundational knowledge that person has, the better he or she will be at the role and the lower the risk will be to your business.

There are some quick things you can check to get a sense of the depth of your account operator's skills. You might want to ask him or her to show you how the book entries, journals and statements associated with a hypothetical management would be processed.

For example – get some paper and have your accountant receipt some money, bank and reconcile it, pay commission, pay a tradesperson and then disburse the balance to the owner. This might sound silly, but it gets to the point.

Another way is to go into the system and look at the journal entries.

You may notice journal entries being made to try and force money through the system to correct errors. This can be a sign that your operator is not strong in accounting concepts.

The good news is that there are plenty of resources available to help in this area. For example, LPMA has developed courses that cover the basic, intermediate and advanced concepts in trust and client funds accounting and more information can be found in the LPMA Foundry. Alternatively, your account operator can connect with other professionals in LPMA.

Some pitfalls

The biggest mistake related to the specialist trust and client funds accounting capability is to confuse a power-user of your company software with real trust or client funds accounting knowledge. While it's an easy mistake to make, it's also a potentially serious one.

How do you know if you have it?

1 2 3 4 5 6 7 8 9 10

/10

1 - Can your company's trust or client funds account operator manually re-create the accounting lifecycle using paper accounts — including receipting money, banking it and reconciling, paying fees and disbursing money?

1 point: No, the operator is only comfortable using his or her preferred software.

10 points: Yes, the operator can do all of that and can even show the book entries for things like mistakes made when writing a check, or bank errors.

1 2 3 4 5

/5

2 - What type of entries are in your adjustments journal?

1 point: Journal entries are regularly made to 'fix up' issues in the accounts.

5 points: Journal entries are only used for transactions that are part of the normal course of business.

Total

Formal contracting of tradespeople and inductions of owners and tenants

Summary

This capability calls for formal appointment of all contractors and a formal induction process for all contractors, investors and tenants as the basis for professional and productive working relationships.

Setting clear expectations and explaining the correct channels of communications upfront solves most problems before they can arise. A systematic reduction of risk is gained when the company's important relationships start off on the right foot.

What the capability gives you

Formally contracting tradespeople and inducting owners and tenants will give you:

- Professional relationships from the start
- Clear expectations both ways
- Better risk management

The capability defined

A large part of lettings and property management is coordinating a number of different stakeholders to achieve a positive outcome.

Of course, investors are at the center of that equation, but the company must also work well with tenants and tradespeople to achieve good outcomes.

Unfortunately, stakeholders rarely have the same interests or priorities. To succeed, the leasing agent and property manager need good professional working relationships with all of these people and must formally establish clear mutual expectations from the beginning.

The simplest one is the tenant induction. Start with the assumption that each tenant is a reasonable person and will prefer a good working relationship with you. During the tenant induction process, clearly set out your company's

Nice to have *Critical* *Critical* *Nice to have*

policies in relation to things like rent payment, arrears, repairs and urgent repairs. You should explain the importance of the condition report and the bond and how everything works. The tenant induction process should take at least an hour in total, staged over a number of phases from the application stage all the way through to the first few weeks of the tenancy.

We've run a number of studies in relation to the impact a good induction process has on the ongoing tenancy. In one, the test company explained the arrears process in detail to half of the new tenants, with the other half receiving a much more superficial explanation.

The office's policy included sending an SMS on day two of the tenant being in arrears. Tenants in the first group had a noticeably lower arrears rate and if an SMS were sent, tenants in arrears responded professionally. Meanwhile, tenants in the second group had a higher arrears rate and generally responded abusively if they were sent the standard SMS.

The more formal and comprehensive your induction, the more credible your company will be. If your company is perceived as competent and serious, you will have the basis of a good working relationship. The investment of time at the start pays itself back many times over during the course of the tenancy.

The same basic principle applies to tradespeople and owners. For tradespeople, what are your expectations regarding how work orders are issued and when work is to be done? Do you expect photos? Do you expect status updates? How are invoices to be received?

All tradespeople should be formally contracted to the company and the details of the relevant certificates and insurances must be recorded and reviewed regularly. To give work to a tradesperson without confirming their insurances and certifications presents unacceptable risk.

In the case of owners, the induction process should clarify what the owner's wishes and expectations are and address any expectations that you're not confident you can meet.

Some people call those type of investor expectations unreasonable, but I argue that's a mistake — most requests are perfectly reasonable to a person who doesn't understand some of the issues a company faces with limited technology and the confines of the law. These can be explained to your client so that they can understand the context of the way you operate.

The owner induction process should be a long campaign and run over the first two months of your working relationship.

Some pitfalls

The biggest mistake with the contracting and induction capability is to look for time savings at the start of a relationship, instead of investing in good foundations and an ongoing professional relationship with your stakeholders. This is not the place to cut corners. Doing so will multiply the time cost later on.

How do you know if you have it?

1 2 3 4 5

/5

1 - Do you have a standard contract that you sign with tradespeople that outlines how you want the professional relationship to work, including insurance and certification details?

1 point: No, their contact details are just put into the system.

5 points: There is a standard contract and all details are set out. This is reviewed as the insurance certification details come out for renewal.

1 2 3 4 5

/5

2 - Do you have a clearly defined tenant induction process supported by professionally produced materials that outline your company's policies regarding the tenancy?

1 point: The new lease is left with the receptionist and the new tenant comes in and signs it in the reception area.

5 points: Yes, the induction process takes at least an hour and starts with the initial application. At the tenant sign-up meeting, all policies are explained to them. There's a follow up with the new tenant after two weeks in the tenancy.

1 2 3 4 5

____ /5

3 - Do you have a formal induction process for new clients?

1 point: No, the new management is celebrated and then the team gets on with it.

5 points: Yes, during a defined two month process, the company aims to understand the investor's expectations and explain areas where the company cannot meet those expectations.

1 2 3 4 5

____ /5

4 - Do you survey your new investors and ask them for any feedback on the induction process?

1 point: No.

5 points: Yes, owners are surveyed at two months, and we arrange a meeting with the company owner six months in to check on how things are going.

Total

Strong legislation compliance

Summary

This capability requires a strong compliance with all applicable legislation. The lettings and property management industry is highly regulated. On top of that, there are all the regulations that apply to every business in every industry. When a company starts out, these can all seem a little over-the-top and often short-cuts are taken.

Unfortunately, it's a reality of doing business that non-compliant practices will expose both you personally and your company to significant legal and financial risks.

What the capability gives you

Strong legislation compliance will give you

- Reduced risk
- Good HR business practices
- Confidence in how your business is operating

The capability defined

A large part of lettings and property management is coordinating a variety of different legislative requirements.

Like it or not, we are in a highly regulated industry and economy. Not only do all the rules relating to real estate companies and trust or client funds accounting apply, but the company is also subject to the broader economy-wide regulations relating to employment law, property law and the workplace.

Although it's difficult, you need to find a way to effectively manage all of these requirements. At some point, your company will be audited for compliance with the real estate regulations. It's also highly likely that your employment and workplace practices may find their way into the legal system and if this happens, you will be judged on them.

Nice to have *Should have* *Critical* *Should have*

Perhaps one of the most important trends in our industry is the ever-expanding bodies of regulations and laws relating to health and safety in the home. Pool fences, child locks, environmental regulations, fire safety, blind cords and other issues are regularly the subject of new rules, and there is a tendency to place responsibility for compliance on the real estate company. I believe this will emerge as one of the biggest threats to a company if the issues are not taken seriously.

Failure to be strong on this capability exposes you and your company to legal, reputational and financial risks. Ignoring those risks is just not a viable option in today's environment.

The regulations are so broad and so detailed that it's highly unlikely that you will ever know it all without external assistance. Even if you get your head around today's requirements, there's a good chance the landscape will be different in a year. This is a core challenge of owning and running a small business.

The only sure-fire way to protect yourself and your business is to enlist professional advice. Although this will be an added cost to your business initially, it's the only responsible way forward. There are a number of services you can subscribe to that will educate you on the current rules that apply, as well as keep you abreast of the changes that arise from time to time.

Some pitfalls

The main pitfall in this capability is to fail to take some of the issues seriously and instead just hope that they never come up. Unfortunately, in today's world it's likely you could have an employment or workplace issue end up in the legal system. This is a reality that you just need to accept and adjust your business to accordingly.

How do you know if you have it?

1 2 3 4 5 6 7 8 9 10

/10

1 - Do you keep on top of all safety-related laws and regulations affecting property and does the company both train staff on them and have a risk mitigation plan in place?

1 point: What risk? It's not our responsibility.

5 points: We read the circulars from the Real Estate Institute.

10 points: The company seeks professional advice on the issues and we have a plan to deal with the risks.

1 2 3 4 5

/5

2 - Do you have an external advisor or advisory service to educate you on employment and workplace laws and regulations?

1 point: No, that's not necessary.

3 points: Yes, the company subscribes to a service that sends through topics to consider. Occasional business workshops and expert presentations keep awareness at a reasonable level.

5 points: Yes, the company uses an advisor who works with the business. The advisor performs an annual audit of workplace practices and provides related advice and tools.

1 2 3

____ /3

3 - Does your team have regular legislation-focused training?

1 point: No, that's really up to them.

3 points: Yes, the whole team is given a half day training session on the laws in our industry and recent changes that have been made.

1 2

____ /2

4 - Do you review your professional indemnity and other business insurance policies each year to ensure compliance?

1 point: No.

2 points: Yes, a review is done each year.

Total

Risk identification and mitigation planning

Summary

It is not possible to eliminate all risks in your company or in any business. The best you can do is to identify all of the risks in your business and estimate their likelihood of occurring, the impact if they were to occur and some practical steps you can take to mitigate those risks. With that, you can implement a proactive and robust risk management strategy.

What the capability gives you

Effective risk identification and mitigation planning will give you:

- A clear framework for thinking about risk
- A process for making better decisions

The capability defined

Every business has risk. Property management businesses have more than usual – particularly issues related to property-related safety.

It is not possible to eliminate risk from the company.

There are, however, some basic issues that you can use to help manage risk responsibly.

The first thing to do is to identify all the risks in your company. You need to go through the business and think of everything that can go wrong. This isn't fun, but it's important.

There is risk everywhere. Errors can be made, key people can leave, fraud can be committed, tradespeople may let you down. Put all of the risks you find into a spreadsheet.

Next, for each risk, give them two ratings. The first is the likelihood of the risk occurring. Give each a 'very low', 'low', 'medium' or 'high' rating. Then estimate how bad it would be if the risk comes true. Give each a 'low', 'medium', 'high' or 'catastrophic' impact.

Once you have done that, you will have an easy way to prioritize the

Nice to have *Critical* *Critical* *Nice to have*

risks in the company. Look for risks that have a medium or high likelihood of happening and that would be, if they were to occur, have a high or catastrophic impact.

There are the risks you must get onto immediately. The rest can be dealt with in due course.

For each risk you must then develop a mitigation strategy. For example, the risk of fraud can be significantly mitigated by implementing some basic procedures in the office that segregates duties across a number of people. Other risks can be mitigated by rotating staff.

For each risk you will find some problematic things you can do to significantly reduce your company's risk. All of this is what is called building and managing your risk register. It is an important tool in any business.

Some pitfalls

The biggest mistake in any risk identification and mitigation plan is to fail to imagine all the things that can go wrong. Don't make the mistake in thinking everything will be OK and it won't happen to you.

Unfortunately, experience shows bad things do happen. Also, remember that no one who has suffered fraud or catastrophe saw it coming. Don't put your head in the sand and get ahead of the issues.

How do you know if you have it?

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15

/15

1 - Do you have a risk register in place?

1 point: No, we don't have one.

8 points: We identify and discuss issues from time to time, but there is no register.

15 points: Yes, it tracks all risks and the mitigation strategies, and we review it in our last team meeting of each month.

1 2 3 4 5

____ /5

2 - Do you have a clear plan in place for dealing with the major risk areas?

1 point: No, but I'm sure nothing will go wrong.

5 points: The team discusses the major items on the risk register at the last team meeting of each month and we discuss mitigation ideas.

1 2 3 4 5

____ /5

3 - Do you have a comprehensive approach to workplace health and safety and other workplace issues, like harassment and bullying in the workplace?

1 point: No, we all get along fine and we don't need that kind of thing.

5 points: Yes, we have developed policies that both align with the law and suit our culture. We have them reviewed from time to time by appropriately qualified consultants.

Total

File reviews and audits

Summary

This capability calls for a systematic file review and audit process. We operate in a highly regulated environment. Both the value of the business and the legal exposure of the company depend on whether you operate within the regulatory framework.

When properly managed, this capability operates to identify whether you are complying with the law and points to weaknesses in your processes that you can then correct.

What the capability gives you

Good file reviews and audits will give you:

- Confidence in whether you are complying with the basic regulatory requirements
- Knowledge of what risks you need to better manage
- A more valuable asset

The capability defined

The core capability here is not that you can do a file audit; it's that you are doing file audits and reviews systematically. An audit doesn't mean that you check everything in every file — that's not its purpose. An audit is instead an informed and deliberate process of sampling files and looking for the most common and most consequential risk areas.

There are some best practices that you should follow.

The first is that the audit should be performed by someone who is not responsible for the file. In short, one person audits someone else's work, not their own. For this reason, many people resist the idea because it feels like they're being checked up on, but that's not the intent.

Having someone check their own work has been proven time and time again to be ineffective for audit purposes. For starters, if someone is

Nice to have *Should have* *Should have* *Should have*

making a systematic error over and over, they're not going to find their own mistakes; to that person, what they're doing is correct practice!

Further, how many times have you written a letter and re-read it over and over, only to have another person pick up a typo within seconds of seeing it for the first time?

Secondly, the sampling process should be broad enough to cover a relevant proportion of files. Two or three file reviews is not statistically significant. In any year, you should be doing at least 50 and perhaps up to 80 file reviews. At that level, you should be getting into statistically significant figures. Of course, if you have a very large or small rent roll, that figure will go up or down accordingly.

A good rule of thumb is that over a course of a year you will want to have performed an audit of around 25% of your files. That means you will need to do around 2% of your files each month. If you have 200 managements, that means four files per month. It's not hard to get through the necessary volume if you make it part of your monthly routine.

Thirdly, you should be learning from and adapting to the results you find in the audit. If after 50 file reviews you have found no issue with your managements, it's a positive sign that things are going well. You might even slow progress after the first 25 if everything is coming out perfectly (highly unlikely!).

If, however, you find a pattern of issues — something being repeated over and over, or a consistent issue with the file of a single portfolio — you must investigate further. The audit should be broadened.

Some pitfalls

The most common pitfall with this capability is the development of complacency about compliance. It can be easy to just want to believe everything is going well, or that it's best to let sleeping dogs lie.

The worst reason not to have a file review program is that you don't want it to be seen as a vote of no confidence in your team. A good team culture will support the idea of risk management and transparency, while the team will welcome the insights that come from it.

How do you know if you have it?

1 2 3 4 5 6 7 8 9 10

/10

1 - Do you or your department manager regularly perform a full file audit on a sample of your files, ideally each month?

1 point: There is no regular file auditing process in place.

5 points: Each portfolio manager is asked to perform a file audit of their own files from time to time. An external compliance auditor comes into the company once per year.

10 points: The business owner or the department manager reviews 2% of all files each month. A written worksheet is filled in and signed during the process. Over the course of the year, the process covers 25% of the company's files.

1 2 3 4 5

____ /5

2 - Do you adjust how you do business based on the audit findings?

1 point: Practices do not change as a result of the audit findings.

5 points: At the first team meeting of each month, the business owner or the department manager presents the audit findings and the team implements changes to business practices to address any issues that have arisen.

1 2 3 4 5

____ /5

3 - Are findings from your file audit program added into your risk register?

1 point: We don't have a risk register.

5 points: Yes, our risk register reflects all the issues we find and deal with.

Total

Deep pockets

Summary

One of the most basic financial capabilities is having access to the working capital you need to fund the company's ambitions. Deep pockets equal access to working capital. It's a raw calculation.

Most ambitions relating to a hyper-growth or machine strategy will draw on working capital and unless the financial resources are available, success will be very difficult to achieve.

What the capability gives you

Deep pockets will give you:

- An ability to make longer term strategic decisions
- An ability to grow your team ahead of your needs
- An ability to fund your professional marketing campaigns

The capability defined

It is an unfortunate reality of this industry and perhaps any industry that growth requires working capital. Having a deep pockets capability is a pretty simple concept. Deep pockets equal access to working capital so that you can invest in resources before you need them.

The deep pockets capability is a raw financial calculation. A hyper-growth strategy would typically require investment in a business development team, professional marketing collateral and new team members to accommodate the growth that will come. Those team members must be recruited and on board a few months before you are scheduled to need them, so they can be up to speed by the time their capacity is needed.

All up, you will likely need sufficient working capital to add a few more people to the team. If you have

Critical *Nice to have* *Not a priority* *Should have*

access to the amount required to achieve your plans, you have the deep pockets required for your chosen strategy.

Other strategies will also require working capital of some description.

The other priorities strategy may involve having your business manager attend management skills training and workshops. A machine business may require an investment in new technology. But all of those will typically be less than the investment required for a hyper-growth strategy.

Some pitfalls

The only real pitfall in this area is to think that you can grow without investing in the business. Unfortunately, costs almost always come before revenue and you need to be realistic about your ability to fund the initiatives needed for your strategy.

How do you know if you have it?

1 2 3 4 5

/5

1 - Have you developed a three year financial plan that reflects your strategic choice and the things you want to do in your business?

1 point: No, we've always worked things out so why plan?

5 points: Yes, we have developed a detailed financial plan that factors in the team changes we want to make and the investments that will be needed to achieve our goals.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15

___ /15

2 - Do you have access to the working capital needed to fund the business to meet the plan?

1 point: No, but it should be OK.

10 points: No, but I'm working on a plan to free up that working capital.

15 points: Yes, I have access to the working capital and I am prepared to invest it according to the plan.

Total

Separate P&L and balance sheet

Summary

This capability requires separate accounting for the sales and property management businesses. For a property management business to be run and managed well, it's critical to have a clear understanding of the financial and wealth creation performance of the business. Having separate books is the basis for the insights necessary to make strong and confident plans and decisions.

What the capability gives you

A separate P&L and balance sheet will give you

- Insight into how you can increase profit
- Data needed to make good decisions
- Confidence in your strategy

The capability defined

It's hard to run a real estate business without good financial information. If you are serious about running your rental business as its own business, it's highly advantageous to have separate financial accounts for it. Many company owners resist having two separate set of books (one for sales and one for management) because it does involve some effort to separate and maintain them. Often the bookkeeper will resist the idea and highlight all the logistical challenges in doing so.

Those concerns may well be well founded, although the benefits will outweigh the costs if you're serious about running the lettings and property management business strategically. This is particularly true when your chosen strategy is either hyper-growth or machine.

What's the upside and why is it worth the hassle?

Should have *Critical* *Nice to have* *Should have*

The upside is having a better understanding of what's going in your business. If you structure your accounts appropriately you'll gain an understanding of the investment you are making in growth activities and the economic return (revenue and capital growth) that it's contributing. You will know where costs are in the 'business as usual' side of your business. Performed properly, you will know which costs are fixed and which are variable and what your financial profile will be as the business grows and evolves.

Some pitfalls

The most common mistake with this capability is to think that there's no benefit in having separate accounts. You may not want the benefits or might not think that they outweigh the costs, but there are significant benefits nonetheless. Make your decision having regard to all the factors.

How do you know if you have it?

/10

1 - How would you rate your knowledge of the basic economics of your business?

1 point: My accountant tells me if there is a problem.

10 points: I have a feel for where we are making money, where we can make improvements and where I should focus my time to make a better return.

/4

2 - Do you produce separate financial accounts for the rental and sales divisions?

1 point: No, what's the point? Cash at the end of the day is the same thing.

4 points: Yes, the company has a separate P&L for the sales business and the lettings & property management businesses.

1 2 3 4

____ /4

3 - Do you fully allocate all the overheads of the company to the business correctly?

1 point: No, it all comes out in the wash anyway.

4 points: Yes, all overheads have been reviewed and a reasonable decision has been made about how each of them should be allocated to the sales business and the lettings & property management businesses.

1 2

____ /2

4 - Do you properly account for the leadership team's contribution to the lettings and property management business

1 point: No, why would we do that?

2 points: Yes, I charge part of my time to the rental business to reflect the time I spend in it.

Total

Financial reporting and benchmarking

Summary

This capability requires the company to have good financial reporting and benchmarking in place. Not every management is the same. Each has different fees. Each requires different amounts of time to manage for all sorts of reasons. Each has a different capital value. The more you can develop an understanding of your profit and wealth associated with each and every management, the better you can groom your business. Odds are that around 20% of your managements lose you money — if you can find them and perhaps even sell them, it's a win-win.

What the capability gives you

Good financial reporting and benchmarking will give you:

- An ability to understand which clients make you money and which cost you money
- Options to raise funds by selling unprofitable parts of your business
- Better understanding of the services you provide

The capability defined

It's common for a company owner to know how much profit is generated by his or her lettings and property management business. It's far less common to understand how each one of the managements contributes to, or takes from, that profit.

Property-level financial reporting and benchmarking attempts to estimate the profitability of each management.

First, work out how much revenue each management generates in a typical year. To do this, you need to make assumptions around leasing and re-leasing fees, rent collecting fees and other fees associated with the management. For example, you might assume you lease a property once every 18 months and re-lease

Should have *Should have* *Nice to have* *Nice to have*

it every nine months. You might also assume a certain level of rent and increases, multiplying the figures into the fees for that management.

When you have calculated this data and ranked the managements from highest fees to lowest fees, it's common to find that the highest-revenue managements may generate up to twice the revenue of the lowest.

The next step is to take all your costs in the company and divide into that number the total number of active managements you have. This will give you an average cost to manage each property. Then, take the revenue for each property and subtract the average cost. This will give you an estimate of the profitability of each property.

Typically, around 10-20% of managements will be costing you money to manage. The figure may be acceptable for all sorts of reasons, but at least you know.

If you have the detailed data required, there is an even better way to do these calculations – try to work out the costs of managing each property specifically, rather than just using average costs.

The easiest way to do this is to ask the team to rate each management, giving a one to a management that requires relatively little time, and five to the ones requiring the most, with the rest in between.

When plotted on a graph, you will quickly get a view of which clients are profitable and which ones are likely to be losing you money.

My experience also suggests that most companies do not charge for many of the fees to which they are entitled. The typical under-charging rate is around 10%. When we perform financial performance audits we often identify breakdowns in core team processes that leave the company much less profitable. Good financial data can identify these issues.

We have a range of tools to help you do this work in the LPMA Foundry.

Some pitfalls

If you do not have good, segregated financial accounts for the lettings and property management business, this process will be compromised. Without good data you can't get valid results.

How do you know if you have it?

1 2 3 4 5 6 7 8 9 10

/10

1 - Do you charge all of the fees that you are entitled to charge?

1 point: No, the software handles that.

10 points: We have practices in place to review files to ensure we are charging all the fees we are entitled to. We look for things we should have charged for, things we should have done to earn more income and ideas we can take from best practice.

1 2 3 4 5

____ /5

2 - Do you know how much profit each client generates?

1 point: No, net profit is only reviewed at a department level.

5 points: Yes, we compare the revenue of each management with the estimate costs of managing each property, and from that we get a rough profit for each management.

1 2 3 4 5

____ /5

3 - Do you have an ongoing initiative to 'do something' with the unprofitable managements?

1 point: It's not clear which managements are unprofitable.

5 points: Unprofitable managements are regularly identified and the company either works to increase the revenue associated with those managements or packages them up to sell to a competitor.

Total

An annual business plan

Summary

This capability requires a good business plan to help identify the financial resources needed to execute the company's chosen strategy. The plan includes any capability gaps and the initiatives the company plans to undertake to close them. It has regard for the time it takes to achieve change and the risks involved. The plan also considers the market's 'laws of physics' to make sure it's achievable.

A business plan with all of these factors included will give you confidence in the level of financial resources you will need to achieve your goals.

What the capability gives you

A solid annual business plan and planning process will give you:

- A cohesive set of focused goals
- Clarity of purpose and mission
- Team alignment, energy and buy-in

The capability defined

A business plan that's revised and published each year is important to the pursuit of any strategy.

A good business plan connects your chosen strategy to your action plan. It should cover an assessment of your existing capabilities and identify the capabilities that you want to work on in the coming year. To be effective, you need to discuss the capabilities within the context of the marketplace in which you operate (including your competition) and closely integrate them with your financial projections and budget.

It is always better to develop your business plan with your team. Make it a collaborative plan and get input and feedback. You will be surprised how much impact this has on the business. The best thing you can do is be pragmatic. A more conservative plan that's actually achieved is much better than an overly ambitious plan

Critical *Should have* *Nice to have* *Should have*

that's not achieved. Successfully achieving the plan will build morale and momentum – and that's so much better for the business than failed dreams.

When developing your business plan it's useful to have two sets of goals. The first includes your 'business as usual' goals. These goals relate to the things that the company does day in, day out. For example, you may have a goal to increase the number of routine inspections you do, or to lower your arrears rate over a year.

The second set of goals covers the broader initiatives you want to work on during the year. These should be directly connected to the capabilities that you want to improve over the year. These should be grouped into quarters and have a clear theme. For example, you may decide that you want to review and improve all your HR practices in the second quarter of the year.

Most importantly of all, the business plan must be focused. There is no point saying you are going to work on 15 capabilities in any given year – it's simply not realistic. You cannot achieve that much change in a single year.

There is plenty of experience to show that any company cannot successfully work on more than two capabilities in any one quarter. That means that in any year, you can't work on more than eight capabilities and even that is only possible if you run flat out all year (which is also unrealistic).

When it comes to defining these initiatives, remember that you and the team have the normal workload to get through and that these initiatives will need to be achieved over and above the 'business as usual' tasks.

In terms of scheduling the initiatives across the course of the year, think about some of the dependencies and the order in which the initiatives should be completed. For example, it may be better to improve your management capability before trying to work on your team culture. Planning these changes in an appropriate order will give your newly up skilled business manager the opportunity to take ownership of the HR work that you want to do.

Remember to factor all these initiatives into your financial plan. Often, initiatives will have a financial impact — typically a cost upfront and then an improvement later on.

When done properly, the annual plan will be a document that helps you to manage and lead the team on a weekly basis. It's a living document.

Some pitfalls

The most common pitfall when developing a business plan is to confuse hope and ambition with realistic possibilities. Ambition is only useful if you follow it all the way through and connect it to tactical things you want to do.

Another common mistake is to do the plan and then put it on a shelf. The plan is forgotten almost as soon as it is prepared — it's not referred to when decisions are made or priorities are set.

How do you know if you have it?

1 2 3 4 5 6 7 8

/8

1 - Does everyone in your team know what the business's goals are for the year? Do they know what the action plan is and what contribution is expected of them?

1 point: The goals are so obvious they don't need to be talked about.

8 points: Everyone has a copy of both the business plan and the action plan and names are marked against each part of it.

1 2 3 4 5 6 7

/7

2 - Do you refer to your business plan regularly and talk about how the company is tracking versus the plan in team meetings?

1 point: "There's probably a copy of the plan somewhere around here..."

7 points: Yes, in the last meeting of each month, the team reviews its progress versus the plan and also discusses ways to get back on track in areas that are behind.

1 2 3 4 5

____ /5

3 - Does your business plan include a financial model that factors in all the things that you need to do to achieve your goals?

1 point: Well, costs don't change that much so current costs are just projected out.

5 points: Yes, increased costs are included to reflect the areas the company is investing in and new staff member requirements are budgeted in.

1 2 3 4 5

____ /5

4 - Did you develop your business plan collaboratively with your team?

1 point: No, the company owner sets the direction and tells the team what they're required to do.

5 points: Yes, the plan was developed during a team off-site that's run each year. The issues were debated and prioritized together and the team worked out how to get it done.

Aligned incentive structures

Summary

The aligned incentive structure capability calls for just that – ensuring the company's incentive structure aligns every team member to the common goals, unleashing each individual's full potential. Many different roles and people in a company contribute to the business' overall success and each person has his or her own perspective about what their role is and how they fit. An aligned incentive structure is an effective way to ensure everyone is applying their efforts to achieve the company's objectives.

What the capability gives you

Aligned incentive structures will give you

- Everyone working towards a common goal
- Higher levels of team engagement

The capability defined

When you work out what you want for your business and how to define the behaviors that are consistent with the team's mission and values, you can develop a robust business plan and financial model. You then need to design an incentive structure for your team to support all those goals.

An incentive structure need not just be about money. It can be designed for an individual's contribution or for a team as a whole, or any combination of those.

There is no hard and fast rule for what percentage of your incentives should be money based and how much should be individual or team based. But in any case, there are some clear design principles that you need to consider. It is worth considering that an incentive scheme poorly designed can create real problems in a business.

Should have *Nice to have* *Nice to have* *Nice to have*

Conversely, a well-designed one can be the tool with which you align and reward the behavior that you want to see in your business.

A necessary pre-condition to doing this well is that you have built your high performance culture capability (see capability T.3). This will have given you a set of goals and your team will have a clear purpose and behavioral code.

Once you have those, you just need to sit down and work out what type of incentives you want in place to support all of that. This is where you can put your own stamp on how your business operates and the culture within it.

Some pitfalls

The most common mistake in designing an incentive scheme is to create incentives that are inconsistent with what you really want to achieve in terms of behaviors and business practices. For example, badly designed incentive schemes can encourage individualism, short-term thinking or unmanaged risk-taking. This mistake can be easy to make if you don't have a clear strategy defined and you aren't running as a high performing team.

Another common mistake is to lose control of the incentive scheme in your office by making a series of piecemeal decisions over time. Perhaps a staff member asks for a bonus or pay rise and you feel you should give one. There is no long-term or deliberate plan. Over time you have a patchwork of incentives for different people and you can never seem to get it back under some sort of order.

Many also have a tendency to just use money as the only incentive. There are so many more creative ways to build team energy.

Lastly, it is just as big a mistake to have no incentive scheme. Not everyone is motivated by money and many don't want to take risks with their salary. That's fine and your incentive structure should include more than just cash rewards. There are lots of ways to drive the right behavior and you should be more creative than just offering money.

How do you know if you have it?

1 2 3 4 5

/5

1 - Do you have an incentive model for the team?

1 point: No, they should just do their job.

5 points: Yes, we have some team goals and we celebrate them when we achieve them.

1 2 3 4 5

/5

2 - Do all your rewards and incentives support your chosen strategy, your point of difference and your goals?

1 point: Rewards and bonuses are given when people ask for a pay rise.

5 points: Yes, there are a clear set of desired behaviors and outcomes, as well as a point of difference. Achievement of each is rewarded.

1 2 3 4 5

____ /5

3 - Does everyone understand the basic economics of the business and how they can contribute to its improvement and success?

1 point: "That's none of their business."

5 points: Yes, a basic financial model is explained to all the team members and their potential contribution is discussed.

Total

Numbers Game

The science of growing a rent roll

There are so many preconceptions about the limits to rent roll growth, which is strange because there are so many examples of companies that have broken through those traditional barriers.

In Numbers Game we explore the lessons from those leading property management companies and show how companies can define and pursue plans that are more aggressive than the levels traditionally thought possible. We introduce powerful consumer research to profile four core investor segments, and introduce the five channels of growth.

Numbers Game is for those companies that are seeking a fresh approach for rent roll growth.

Building Blocks

Building professional careers in lettings and property management

In a fast changing service industry the most important asset of any lettings and property management business is the ability to attract, retain and develop the best people.

In Building Blocks we explore the dynamics that run through a lettings and property management team and discuss the range of issues that often arise to both derail and strengthen a team.

The book identifies the core roles in a property management company, explores how teams grow over time and identifies the career competencies that each team member needs to succeed.

Building Blocks is for those businesses that are looking to grow and nurture a high performing team and is the second in the LPMA series.

Ben White joined the property management industry in 2005 and is the managing director of LPMA and the co-founder and CEO of Ailo.

LPMA is a member-driven association of the leaders in property management that are building the new standards in our industry.

Ailo is a technology platform that aims to help property management companies better understand their businesses and find new insights and growth pathways.

Ben drove the creation of Ray White's property management franchise offering, which was launched in 2007. Since then the business has driven significant and innovative change, setting a new industry benchmark for the practice of property management.

Before joining Ray White, Ben was a project leader at the Boston Consulting Group (BCG) in New York. At BCG he specialized in the consumer practice area, working with a number of the world's leading fast moving consumer groups (FMCG) and apparel companies. In an earlier life, he was a solicitor with Freehills in Sydney.

Ben holds bachelor's degrees in both law and commerce from the University of Queensland, as well as an MBA from Columbia University.

Ben is the author of a number of books on lettings and property management.

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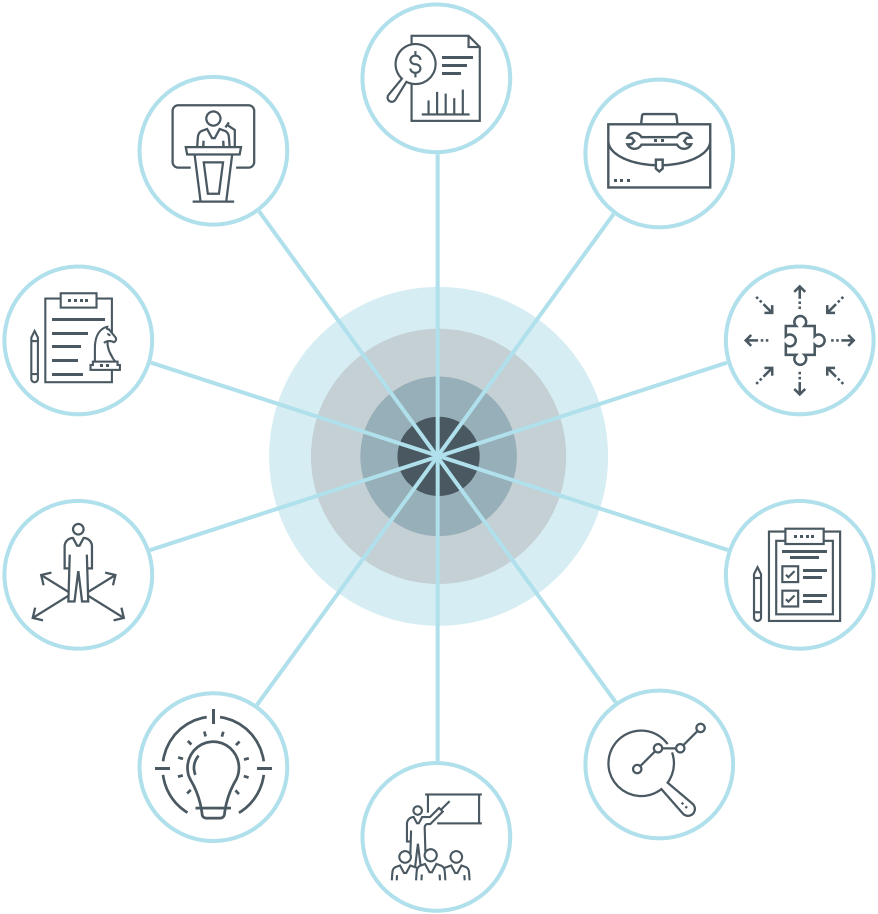

Don’t forget to claim the helpful tools that go with this book!

You can find them at: lpma.com/tools/connectingthedots

Connecting the Dots

Strategic planning in lettings & property management

Lettings and property management is a complex business, full of tradeoffs, challenges and rewards. To navigate all of these issues, an agency needs an understanding of its current position, a clear strategy for the future and a solid action plan to execute on it all.

While each agency is different, there are some common structural issues that shape both how a business operates and how its strengths and weaknesses manifest themselves.

Connecting the Dots explores these connections by outlining a framework for assessing an agency's capabilities and defining the four core strategies that can be effectively pursued in a lettings and property management business.

LPMA
Leading Property Managers Association

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