Strategic Alignment in a Residential Real Estate Brokerage Company

by

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ABSTRACT

My thesis strives to answer the question: How is information technology being utilized and exploited for competitive advantage in the residential real estate brokerage industry, and what are the managerial and organization consequences? Using Century 21 as a case study, I extend an understanding of the current residential real estate brokerage environment in order to develop my thesis that alignment between business strategy, organizational structure, and technology is the primary driver of organizational success.

Although organizational structure and technological design are born out of "Business Strategy," my thesis asserts that they can also serve to enhance or influence strategic objectives to leverage newer, unforeseen opportunities which are illuminated by the organizational and technological processes.

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INTRODUCTION

It is a popularly regarded notion that the residential real estate brokerage industry has been "headed for a meltdown" (Forbes, 1996) for some time. Analysts point to bad technical indicators such as excess supply and limited growth, poor management, and a general inability and disinterest in providing customer service. It comes as no surprise that residential real estate agents are hanging up for-sale signs on their own real estate practices (Real Trends, December 1994).

Given the pressure to find new and different ways to reach potential customers and to actually sell and deliver products and services to those customers, some real estate brokerages are searching for new ways of improving their business standing. The ongoing advances in relational database systems, remote communications technology, interactive media, mapping systems, and modeling and analytical tools should make it possible in ways never even imagined as recently as ten years ago to leverage technology investments creatively to build market share. However, residential real estate brokerage companies have not yet taken full advantage of information technology opportunities.

What is the future of the IT organization within the residential real estate brokerage industry? Volumes of research and academic literature have tried to understand how an organization differentiates itself from its competition with respect to its ability to successfully implement new technological systems to improve market share and provide excellence in customer service. In this thesis I assert that first-movers in the real estate information technology wave will reap the rewards of improved service efficiency and effectiveness as long as they properly implement the new technological design and appropriately balance this new technology with changes in organizational structure. I study Century 21, subsidiary of Hospitality Franchise Systems, as an example of a company which is presently trying to develop competitive advantage through information technology.
Chapter 1 of my thesis analyzes the current business environment for the residential real estate brokerage industry in order to assess significant changes and opportunities for emerging technologies. Chapter 2 provides a literature review of several theories and models of strategic alignment with organizational structure and technological design. Building upon this foundation, I then develop a framework for analyzing organizational systems with respect to strategy, organizational structure, and technology. Chapter 3 describes my fieldwork and results from Century 21 interviews and research. Chapter 4 analyzes the Century 21 case study using the framework developed in Chapter 2. And finally, in Chapter 5, I draw conclusions from my analysis, assess the strengths and weaknesses of my argument, and provide topics for further research.
Chapter 1:

Current Business Environment for Residential Real Estate Brokerage Firms

The residential real estate market is a $1 trillion industry with about half of the contribution derived from home sales and the other half from housing-related services such as mortgage origination and servicing, home remodeling, and security systems. Residential real estate brokerage presently concentrates on the home sales market which many analysts project is "headed for a meltdown" (Forbes, 1996). Only 1.3 million new households were formed by the end of 1995 while vacant housing units had grown to 12.7 million units in the same period. Home prices have typically lagged behind inflation for most of the last decade, dropping 10 percent from 1989 to 1993 and the pool of 25- to 44-year-old first-time homebuyers will decline by 5.7 million, from 84 million to 78.3 million, by the year 2010 (Forbes, 1996).

Consumers are still bogged down in debt, income growth is the lowest since 1991, and to suggest that a lot of consumers' pent-up demand exists after a four-year consumption boom is a stretch, we think.... Lower interest rates have not helped housing; sales of new homes bounced in January but existing home sales have fallen each month since September. The inventory of unsold new homes stands at the highest level since January 1990, suggesting that demand remains very weak relative to supply.

--Merrill Lynch, Investment Strategy (1996)

Without first time homebuyers to fuel the trade-up market and with household growth in the next decade anticipated to slip to just one percent annually from highs of 26.7 percent in the 1970s and six percent in the first half of this decade (Real Trends, April 1996), the question remains: can we expect to see home purchases and residential real estate brokerage to grow? Perhaps the answer lies in consumer buying patterns and/or needs.

As the end consumer for residential real estate brokerage companies is a home buyer or seller, the residential real estate market ebbs and flows according to segmented
population needs and tastes. A home is one of the largest purchases that a household makes and as such it carries with it emotional weight. The typical customer looks to the broker to offer information on price and product attributes, to protect the customer's interests, and to provide efficient transaction services while simultaneously giving the customer autonomy in the decision-making process.

However, the residential real estate brokerage industry is one which has for some time operated to meet the needs of brokerage company owners rather than those of its customers. Some customers perceive real estate brokers and agents* as "pushy," "insensitive," or "only interested in getting their share" (Telephone interviews with Century 21 brokers and/or agents, see Appendix A) Many real estate companies have preferred to lay still rather than take advantage of these service gaps (Real Trends, December 1994). It is not surprising that the residential brokerage business does not look too profitable. According to a study conducted by the National Association of Realtors (Real Estate Brokerage: Income, Expenses, Profits, 1995), one of every four brokerage firms reported a financial loss. In 1994, each closed transaction side contributed an average of just $49 toward a brokerage firm's earnings before taxes, in a year which was strong for housing sales. As a result of declining profitability, agents are hanging for-sale signs on their own real estate practices (Real Trends, December 1994).

Nick Alter, President of BORIS Systems shares a similar view to an overwhelming number of real estate professionals (Real Trends, December 1994, p.4):

We see three forces reshaping the industry and defining the information future: (1) the general need to cut costs and operate more efficiently, (2) the information demands of an increasingly sophisticated and discriminating marketplace, and (3) a developing trend among brokers looking for competitive advantages through the use of technology. A leaner and more efficient industry will be the result.

* In real estate brokerage terminology, broker refers to the owner of a franchise or brokerage business and agent refers to the licensed representative who is employed by a broker.
The direct cause of these changes may be the long-deserved emergence of the customer as the new king (*Real Trends*, December 1994). No longer content to abide by the rules and traditions set by the industry players, customers are seeking, and beginning to receive, the access and the pricing they have so long desired from the real estate industry. Since the recession has slowed the flow of home buyers transferring from other areas, the best growth option for a brokerage has been to go after a larger share of buyers who are moving within an area. In practical terms, this has meant adding offices and attempting to take business away from other firms.

Moore and Murray (1993) find six structural changes in the residential real estate industry that have created a more competitive business environment: (1) industry consolidation, (2) expansion and innovation, (3) management sophistication, (4) diversification, (5) institutional prospects, and (6) demographics.

*Industry Consolidation*

In 1989, according to a survey by the National Association of Realtors (NAR), 44 percent of all Realtors were affiliated with about 5 percent of the brokerage firms. In 1991, that number had shifted -- 53 percent of all Realtors were with only 3 percent of the firms. This demonstrates that not only is the number of firms declining, so is the total number of agents.

Market share is also consolidating. Moore and Murray (1993) cite that almost 40 percent of the residential business done in the United States by brokers is done by member brokers of the 25 largest non-affiliated brokerage firms and of the seven national franchise organizations (Better Homes and Gardens, Century 21, Coldwell Banker, ERA, Prudential, Realty World and RE/MAX). Given the concentration of associates and market share in the big organizations, many mid-size and smaller firms are developing niche strategies in order to compete.

According to Moore and Murray (1993), the firms that are falling out of the business are generally companies that are neither leaders in their marketplaces nor
have they successfully carved out specific niches and positioned themselves as leaders in those market segments. Some of these fall-out firms closed their doors, others were acquired by other brokers in what continues to be a frenzy of mergers and acquisitions: "Increasingly, the residential brokerage industry can be pictured as a bimodal curve with metro-market leaders on one end, niche brokers on the other and not many firms in between." (Moore and Murray, 1993)

Expansion and Innovation

In addition to expanding and refining their U.S. networks, major franchisers are turning a lot of attention toward developing franchise penetration outside the United States - especially in Canada, the Pacific Rim, Western Europe and Mexico. Firms like Windermere and John L. Scott, both in metropolitan Seattle, are signing up smaller firms in outlying areas and treating the small firm much like a branch office. They provide training, advertising and other services while allowing the smaller firms to operate using the parent firm’s name - all for a fee. New area development programs sponsored by Better Homes and Gardens and Realty World encourage their large franchisees to implement similar programs. Other examples of innovations include special marketing arrangements such as Fred Sands’ agreement with a Japanese brokerage organization that promotes Sands’ California listings in Japan.

Management Sophistication

Today's brokers face a productivity crisis, rising costs and a profitability squeeze (Real Trends, February 1996) along with all the other challenges of being in business. The downsizing of American businesses has forced large numbers of middle managers into the marketplace. As these sophisticated managers step into the real estate industry, the professionalism of the business should increase and competition will heat up.
Diversification

Moore and Murray (1993) predict that cross selling of other products and services will occur through strategies using the residential real estate sale as the fulcrum point for other synergistic services. Given a past history of entering new, differentiated markets, financial institutions may pose a threat to residential real estate brokerage firms. Financial institutions in the real estate business may have incentive to discount front-end services that lead customers to their true profit centers.

The convenience-driven consumer of today appears to view the one-stop-shopping concept more favorably than did yesterday's customer (Tapscott and Caston, 1993; Kotler, 1994). Firms with the ability to offer a full spectrum of services may have an edge in the market.

Institutional Prospects

New home sales, corporate-owned properties and institutional REO properties represent about 35 percent of the housing-for-sale inventory (Moore and Murray, 1993). In addition to this third of the business - which is already out of the hands of individual homesellers - employers are getting more involved in (and managing) the home sales and purchases of their local (non-transferee) employees. Moore and Murray see more and more of the residential business coming to brokers from employers and other institutional sources (1993). Tapping this market is different from reaching the individual homebuyer and seller. Responsibility for prospecting for this kind of business may fall to the broker rather than the agent.

Demographics

The baby boom, baby bust and age wave are all having an affect on housing demand. Historically, 78 percent of all homebuyers have been younger than 45 years old and more than 75 percent of first-time homebuyers have been under 35 primarily in the 26 to 35 age range (Real Trends, April 1996). Demographics show that the
number of traditional first-time homebuyer households will decline significantly in the next 10 years - the first-time homebuyer population is shrinking.

Households headed by those aged 36 to 45 will continue to increase until the year 2000, but by 2007, the baby-boom group will have moved out of prime homebuying years (Real Trends, April 1996). Additionally, total new household formations have dropped substantially. Even without a sluggish economy, in the short term, demographics would predict that housing demand will be fairly flat (Moore and Murray, 1993).

The unknown factor in the housing demand equation is attitudes about homeownership. Concerns about housing appreciation not keeping up with inflation and the declining tax advantages associated with homeownership will probably have a dampening effect on the market. On the other hand, if more singles and other non-married couple households opt for homeownership, there may be some small growth in demand.

In order to survive the consolidation trend, to keep up with innovation and expansion, to increase management sophistication, to take advantage of new market opportunities, and to minimize the negative effects of demographics, some real estate brokerage companies (e.g. Century 21) will try to market all home-related products to their customers. One might question the success of such product extensions given that some frustrated financial services companies have been moving away from diversifying their business to focusing on their core business. Nonetheless, this movement away from diversification comes at a time when both technology and regulation are making cross-selling and detailed market analysis much more viable propositions.

Given strategic moves to consolidate, residential real estate brokerage companies are looking to information systems to provide "business transformation." As the organizational structure changes, IT serves to enable this change and make it a more efficient and effective process as well as to initiate change in business strategy and scope,
implementation, and organization. As real estate companies move into the "informate" arena (Zuboff, 1985), they realize the following: increased effectiveness, improved quality, continuous improvement on the business front; flexibility in technology and organizational structure; and the need for ongoing skill development, new roles and structures for learning. Additionally, technology might enable these companies to extend their product line through cross-selling to better serve its public.

In effect, I argue that business strategy influences organizational structure which, in turn, impacts the way in which information technology is implemented and used. Over time, as usage of technology systems increases and as more technology benefits are realized, each organization will align its business strategy with its technology strategy and vice-versa. IT will effect the residential real estate organization's competitive position as a driver of competitive scope, an enabler of business governance, and an influencer of distinctive competencies (Henderson and Venkatraman, 1993). However, the firm's strategic objectives will define the role of information technology and serve as the groundwork for continuous organizational change.

My thesis strives to answer the question: How is information technology being utilized and exploited for competitive advantage in the residential real estate brokerage industry, and what are the managerial and organization consequences? Using Century 21 as a case study, I extend an understanding of the current residential real estate brokerage environment in order to develop my thesis that alignment between business strategy, organizational structure, and technology is the primary driver of organizational success. Although organizational structure and technological design are born out of "Business Strategy," they can also serve to enhance or influence strategic objectives to leverage newer, unforeseen opportunities which are illuminated by the organizational and technological processes.
Chapter 2:
Information Technology as Competitive Advantage

Change has emerged as the trademark of the 1990s' business environment, and changes in business and in technology are driving changes in the role and structure of the information technology (IT) function. Many authors, including Scott Morton and Rockart (1984); Ross, Beath, and Goodhue (1994 and 1995); Benjamin and Wigand (1994); and Weill, Broadbent, and St. Clair (1994 and 1995), have commented on the reasons, processes, and implications of change due to IT and have suggested that it is important that organizations be nimble and quick in their approach to change. A turbulent external environment requires imagination and thoughtfulness on the part of the business entity in order to ensure economic and social success.

In order to broadly assess the variables which determine how and why one organization is more successful than another and to determine what changes need to be made in order to achieve success within an organization, I developed a conceptual framework. Given the dynamic nature of both internal and external factors which impact organizations, I emphasize that all variables are interrelated and influence one another. My framework is based upon a variety of literatures on strategy, information technology and organizational structure. Thus, in order to properly credit previous work in this field, I will first summarize key theories as developed by a number of different academicians and practitioners, and then present my framework for analysis.

Strategy

Leavitt and Whisler (1958) and Chandler (1962) developed some of the first notions of causality and balance in organizational processes and structure. They observed that in their sample of organizations the organization structure of the firm was changed to follow the strategy the firm was pursuing. In a broadly analogous way, it is
generally believed today that in successful firms, information technology should be managed to support business strategy and must fit the current organization structure. Across a wide spectrum of markets and countries, information technology is transcending its traditional "back office" role and evolving toward a "strategic" role with the potential not only to support chosen business strategies but also to shape new business strategies. However, there is increasing concern that the anticipated value of the IT investment is not being achieved.

Henderson and Venkatraman (1993) argue that an inability to realize value from information technology (IT) investments is, in part, due to the lack of alignment between the business and IT strategies of organizations. They view strategy as involving both "formulation (decisions pertaining to competitive, product-market choices)" and "implementation (choices that pertain to the structure and capabilities of the firm to execute its product-market choices)" (p. 4). Henderson and Venkatraman's thesis assumes that (1) "economic performance is directly related to the ability of management to create a 'strategic fit' between the position of an organization in the competitive product-market arena and the design of an appropriate structure to support its execution" (pp. 4-5) and (2) "strategic fit" is inherently dynamic, i.e. "strategic alignment is not an event but a process of continuous adaptation and change." (p. 5)

Advantage, in the language of Henderson and Venkatraman, is thereby obtained through the capability of an organization to exploit IT functionality on a continuous basis. According to the authors (Henderson and Venkatraman, 1993, p. 5), "This requires a fundamental change in managerial thinking about the role of IT in organizational transformation, as well as an understanding of the critical components of IT strategy and its role in supporting and shaping business strategy decisions." More specifically, the authors contend that IT strategy should be articulated in terms of an external domain - how the firm is positioned in the IT marketplace - and an internal domain - how the information systems (IS) infrastructure should be configured and managed.
Henderson and Venkatraman's Strategic Alignment Model (Figure 1) identifies the need to specify two types of integration between business and IT domains. The first, termed "strategic integration," is the link between business strategy and IT strategy reflecting the external components: "it deals with the capability of IT functionality to both shape and support business strategy" (p. 8). Figure 1 displays "strategic integration" as the top two "boxes" corresponding to "External" on the vertical "Strategic Fit" axis and both "Business" and "Information Technology" on the horizontal "Functional Integration" axis.

The second type, termed "operational integration," deals with the corresponding internal domains, namely, the link between organizational infrastructure and processes and IS infrastructure and processes. This type ensures the coherence between the organizational requirements and expectations and the delivery capability within the IS function. Figure 1 presents "operational integration" as the two "boxes" corresponding to "Internal" on the vertical "Strategic Fit" axis and both "Business" and "Information Technology" on the horizontal "Functional Integration" axis.

The Strategic Alignment Model calls for the recognition of multivariate relationships or "cross-domain" relationships. The four dominant alignment perspectives defined by Henderson and Venkatraman include: (1) Strategy Execution (Figure 2a), (2) Technology Transformation (Figure 2b), (3) Competitive Potential (Figure 2c), and (4) Service Level (Figure 2d).

**Strategy Execution** (Figure 2a)

This alignment perspective corresponds to the classic, hierarchical view of strategic management and can be likened to Leavitt (1965) and Rockart and Scott Morton's (1984) organizational model which defines an organization as a balancing act (Figure 3). This model emphasizes that an organization's strategy, structure, people and their roles, technology, and processes have to remain in balance. Analytical methodologies to make this perspective operational include critical
Figure 1: HENDERSON AND VENKATRAMAN'S STRATEGIC ALIGNMENT MODEL

Figure 2a: Strategy Innovation Alignment Perspective
Figure 2b: Technology Transformation Alignment Perspective

Figure 2a: Competitive Potential Alignment Perspective
Figure 2b: Service Level Alignment Perspective


Figure 2 (a, b, c, d): HENDERSON AND VENKATRAMAN'S FOUR ALIGNMENT PERSPECTIVES
Figure 3: LEAVITT'S BALANCING ACT

success factors, business systems planning, and enterprise modeling. Top
management typically acts as strategy formulator whereas IS management plays the
role of strategy implementor. Performance criteria in this perspective are based on
financial parameters reflecting a cost center focus.

*Technology Transformation* (Figure 2b)

In contrast to the strategy execution perspective, this alignment perspective "is not
constrained by the current organizational design, but instead seeks to identify the
best possible IT competencies through appropriate positioning in the IT marketplace,
as well as identifying the corresponding internal IS architecture" (Henderson and
Venkatraman, 1993, p. 10). Thus, business strategy impacts IT strategy (IT
governance and systemic competencies) and the corresponding implications for IS
infrastructure and processes. Executive management provides technology vision that
best supports the chosen business strategy whereas IS management acts as
technology architect, designing and implementing required IS infrastructure that is
consistent with IT vision. Performance criteria in this perspective are based on
technology leadership, often utilizing a benchmarking approach to assess the
position of the firm in the IT marketplace.

*Competitive Potential* (Figure 2c)

This perspective is concerned with the "exploitation of emerging IT capabilities to
impact new products and services (business scope), influence the key attributes of
strategy (distinctive competencies), and develop new forms of relationships
(business governance)" (Henderson and Venkatraman, 1993, p. 11). Thus, business
strategy is defined by emerging IT capabilities. Top management plays the role of
business visionary, articulating how the emerging IT competencies and functionality
and changing governance patterns in the IT marketplace will impact business
strategy. IS management acts as catalyst, identifying and interpreting IT trends in
order to assist business managers to understand the potential opportunities and
threats from an IT perspective. The performance criteria are based on business leadership with qualitative and quantitative measurements pertaining to product leadership such as market share, growth, or new product introduction.

*Service Level* (Figure 2d)

The Service Level perspective focuses on developing a "world-class IS organization" through an understanding of the external dimensions of IT strategy and corresponding internal design of the IS infrastructure and processes. The IS organization must deploy resources and be responsive to the growing and fast-changing demands of the end-user population. Analytical methodologies require a systematic analysis of both the customer needs and the products and services that currently exist, along with those under development. Examples include end-user-needs surveying, service-level contracting, and architectural planning.

Top management in this perspective acts as prioritizer, articulating how best to allocate the scarce resources both within the organization and in the IT marketplace (in terms of joint ventures, licensing, etc.). The IS management team acts as executive leader, with the specific task of making the internal service business succeed within the operating guidelines from top management. Performance criteria in this perspective are based on customer satisfaction obtained with qualitative and quantitative measurements using internal and external benchmarking.

Henderson and Venkatraman (1993, p. 14) finalize their thesis with cautionary advice to practitioners: "We urge managers to recognize seriously the need to evolve from one perspective to another based on shifts in the business environment - both internal and external." The dynamic nature of the Strategic Alignment Model as well as the business environment is consistent with the need for organizations to become "learning organizations" (Senge, 1990) and to achieve successful organizational transformation.
Organizational Structure

Organizational structure defines both the way in which a firm employs internal and external resources, and the way in which employees interact with one another in order to achieve the firm's strategic initiatives. This suggests that effective and efficient communication among organization members is paramount. Driven by information technology's ability to produce ever cheaper unit costs for coordination activities, organizations are implementing at an increasingly rapid rate new linkages for the way they relate to each other. These linkages take many forms, among them: electronic data integration, electronic hierarchies and markets, strategic alliances, networked organizations, "federal" structures, and others. These new organizational settings suggest an ongoing transformation of value chains (Porter, 1990) due to technological change.

Networked Firm

Rockart and Short (December, 1989) find that information technology makes one form of organizational design, the networked firm, operate more effectively. A major premise of their thesis is that IT-enabled networks permit more effective management of organizational interdependence, or the firm's ability to achieve "concurrence of effort along multiple dimensions of the organization" (Rockart and Short, December 1989,p. 4). "Networks" are seen as innovative, organizational structures from both a design and performance standpoint.

From a design standpoint, "networked firms" are usually conceived of as communication-rich environments, with information flows blurring traditional intra-company boundaries. Networks are seen to foster, and utilize, important role changes in individual managers, increasing role complexity and requiring greater skills on the part of both workers and management (Zuboff, 1988; Drucker, 1988; Mueller, 1986). In short, the organization is seen as information-rich, and by connecting information, people, and skill (talent) together more effectively within the firm, the firm in aggregate is more
effective. Galbraith (1977) and Lawrence and Lorsch (1967), among others, have detailed the importance of enabling and enriching internal communications and information processing capability within the firm to increase performance. What is new about networks, however, is the tight meshing of the design of networks with the information technology required to enable them. IT is seen as a powerful design factor in organizational change and innovation, and not just as an enabler of more effective organizational functioning once a given design has been put into place (Antonelli, 1988).

From a performance standpoint, networked organizations are thought to allow firms to retain small company responsiveness while becoming larger and more complex. All other things being equal, the more complex the organization, the more it has to be organized along the principle of size (Drucker, 1973). Typically, large firms have been decentralized in order to ensure responsiveness. The attractiveness of the "networked firm" is that by adding information technology as a design factor, firms can simultaneously increase size, complexity and responsiveness. Mueller (1986), for example, argues that networks help enable the appropriate "balance" between organizational responsiveness and complexity: "human networks and the process of social networking are prime components for a properly balanced organizational system...One way to get things done quicker and better, given the barriers and complexities in our... institutions." (p. 2)

"Networks" are forms of social or work relationships and are one part of the firm's overall system of interrelationships to accomplish work (Winograd and Flores, 1986; Burgess, 1972; Hollander and Hunt, 1976). Networks are not organization structures per se, but one of several ways to organize and accomplish work. Figure 4 is Rockart and Short's (1989) initial attempt "to draw together several generic performance objectives with the characteristics of how networks function" (p. 21) and to preliminarily answer the question, "How does the improved sharing of work, enabled by improved information technologies such as EDI, CIM or office automation, contribute to our aggregate ability
Figure 4: LINKING NETWORK CHARACTERISTICS WITH AREAS OF PERFORMANCE EMPHASIS WITHIN THE FIRM

to service customers, or to produce and bring to market new products quickly?" (p. 21) As per Figure 4, Rockart and Short (1989) cite seven key attributes of the networked approach: (1) shared goals; (2) shared work; (3) shared experience; (4) shared decision making; (5) shared timing and issue prioritization; (6) shared responsibility, accountability and trust; and (7) shared recognition and reward.

Many authors (Eccles and Crane, 1988; Lawrence and Lorsch, 1967) have stipulated that a major effect of networks may be to enhance internal conflict, even while networks depend on and enhance the sharing of work, expertise, responsibility, decision making, and recognition within a firm. To paraphrase their point, the high degree of work differentiation resulting from specialization and the resulting need to integrate across this specialization, means that conflict is inevitable in the highly differentiated or networked firm. In short, professionals may disagree about how to work. Eccles and Crane (1988) identify organizational capabilities for resolving this conflict: flexibility and good communications. In addition to or parallel to flexibility and good communications, organizations that operate as networks compete for advantage through an open corporate culture and strong leadership initiatives.

**Federal IT Organization**

An organizational model which is similar to the "network" is the "federal" organization. Charles Handy (1990) first described the federal organization as one which follows the political model of the division of power between a central authority and local governments (e.g., the federal government vs. the states in the United States). This model allows for a significant measure of autonomy at the local level in business organizations, but also the "scale" which is necessary for organization-wide planning, resource allocation, centralized purchasing, and other benefits. Thus, this model raises the "centralization-decentralization" issue in an effort to delineate the exact locus of all, or parts, of decision-making power and the distribution of managerial responsibilities.
Hodgkinson (unpublished) has applied Handy's "federal" organizational theory to the IT organization. He notes that both decentralized IT and centralized IT have advantages and disadvantages. As depicted in the unshaded sections of Figure 5, real disadvantages of the centralized IT organization include unresponsiveness, lack of business unit ownership of systems, lack of business unit control of overhead costs, and the inability to meet every business unit's needs; real disadvantages of the decentralized IT organization include, excessive overall cost to a particular business group, variable standards of IS competence, "reinvention of wheels," and lack of synergy and integration among groups. However, both the centralized IT organization and the decentralized IT organization, as noted in the central ellipse in the Figure 5, provide many advantages. Decentralization of some decisions fosters user control over IT priorities and business unit ownership of their systems, for example. On the other hand, economies of scale and control of standards can only be gained from centralized activities.

Hodgkinson (unpublished) illustrates a "federal" organization which delegates some responsibilities to the center and much to the local organizations. What ties all of this together is a well thought-out IT vision, effective leadership, and a group-wide IT strategy and architecture. These, in turn, enable the benefits of both centralization and decentralization and allow strategic control and synergy throughout the organization.

The "federal" organization and the "networked" firm are very similar in nature. However, the federal organization might be viewed as relying more heavily on institutional measures of control rather than a loose set of psychological controls which more closely resemble the "network." Hirschhorn and Gilmore (1992) define "the new boundaries of the 'boundaryless' company" as psychological boundaries in a flexible organization in which differences in authority, talent, or perspective must creatively coexist. They claim that "authority in the corporation without boundaries is not about control but about containment - containment of the conflicts and anxieties that disrupt productive work" (Hirschhorn and Gilmore, 1992, p.112). Although both the federal and
The Federal IT Organization attempts to capture the benefits of both appropriate centralization & appropriate decentralization of IT resources.


**FEDERAL IT**

**Figure 5: HODGKINSON'S FEDERAL ORGANIZATION**
networked firms can be "boundaryless," my definition of the two organizations differs in that the networked firm must be "boundaryless."

*Implications for Managing Technological Change in Organizations*

Given the complications of defining strategic fit and/or organizational structure, one might instinctively reach for a set of quick-and-easy steps for success in the IT marketplace. Although there are no such guidelines, precautionary measures can be taken. Rockart and Ross (1995) explore some of the challenges IT units now face and define seven "imperatives" for IT management trying to respond to those challenges. The imperatives are: (1) achieve strategic alignment; (2) develop effective line partnerships; (3) select and implement new systems development process; (4) develop an effective infrastructure; (5) reskill the organization; (6) redesign and manage the "federal" IT organization structure (as described above); and (7) build appropriate vendor partnerships.

All of these "imperatives" point to the need for leadership within the organization. As the Chinese general Sun Zu (514 B.C.) writes of the importance of implementation, "Weak leadership can wreck the soundest strategy; forceful execution of even a poor plan can often bring victory." Recent leadership theories suggest two underlying control strategies: leadership behavior theory (Howell and Dorfman, 1981) and leadership substitute theory (Kerr, 1977). Leadership behavior theory emphasizes that an effective leader provides some type of guidance and/or positive feelings for subordinates as they carry out their tasks. Leadership substitute theory suggests that control can be achieved by minimizing the roles of leaders by substituting them with expertise, independence, and motivation in forms which personify the leaders themselves. Lee and Treacy (1987) conceptualize IT as a coordination and control mechanism and examine how IT can help a work group composed of individuals who may have different goals and attitudes manage tasks to achieve organizational goals.
Moreover, Zuboff (1983) examined IT's impact on managerial jobs and reported that the increased information processing capability due to IT increased the level of knowledge of lower subordinates thus expanding their job descriptions to include monitoring and decision-making based on this information. IT, therefore, enhances the information processing capability of an individual and thus enables him to better the impact of a decision. Zuboff extends her theory to include organizations which "informate," by using IT to improve quality and effectiveness through on-going skill development and learning structures.

Zuboff (1988) further argues that in the new "informated" organization, there is considerable interdependence among four domains of managerial activity: intellective skill development, technology development, strategy formulation, and social system development. She notes that intellective skill development cannot proceed without the social system management that helps to foster roles and relationships appropriate to a new division of learning. Similarly, activity in either domain cannot proceed without technological development that supports an informating strategy.

**Technological Design and Implementation**

As Zuboff (1985) points out, an important distinction is between the use of IT as a production technology and as a coordination technology. IT can be used as a production technology, to directly produce some output, for example. These uses should be distinguished from the use of IT as a coordination technology, for example, by providing the data necessary to more closely integrate two stages in a production line or to better make some decision.

An organization is not, however, limited to one of the two technologies. Instead, an organization can utilize both technologies so that they overlap each other or simultaneously enhance the organization's ability to foster growth and provide quality service to its customers. Since my thesis discusses the role of IT in the residential real
estate brokerage industry, it is important to note the magnitude of service delivery in the industry. Although many firms have not yet operated to fulfill customer expectations (as described in Chapter 1), some companies are presently trying to fill the service gap.

The overall evaluation of a specific service firm results from comparing that firm's performance with the customer's general expectations of how firms in that industry should perform. This evaluation is based on tangible outputs, reliability of service, responsiveness of the firm, assurance of quality, and empathy to the customer. The Gap Model of Service Quality (Kotler, 1994) says that a customer's expectations is a function of three variables: word-of-mouth, personal needs, and past experience. Service gap is then equal to the sum of the knowledge gap, standards gap, communication gap, and delivery gap.

The knowledge gap is the difference between consumer needs and provider perceptions of the need. Closing the knowledge gap involves sufficient research, adequate use, interaction, bottom-up communication and fewer layers. The standards gap is the difference between provider perceptions and actual standards. Closing the standards gap involves defeating unfeasibility perception, improving commitment to service quality, improving task standardization, and formal processes for setting goals. The delivery gap is the difference between the provider's standards and the actual service provided. Closing the delivery gap involves reducing role ambiguity, reducing role conflict, improving employee-technology job fit, evaluation and compensation alignment, increasing perceived control, and increasing teamwork within the organization. The final gap, communication gap, is the difference between what the provider promises and the actual service provided. Closing the communication gap involves reducing puffery, correspondence between advertising and operations, increasing communication between sales and operations, and reducing differences across locations.

It can serve to close a number of different service gaps. The analysis of a firm's transactions provides a framework for examining the potential changes in a firm's value
chain. Chandler and Daems (1979) noted that "every coordinative activity that improves organizational efficiency, speeds up flow through the system, or permits a more intensive use of the factors of production, is likely to improve the performance of the economic system." Thus, if a firm's IT can enhance service quality by closing any one or several of the gaps between firm and customer perceptions of service, it can create a competitive advantage within its industry.

Michael Porter (1990) uses the terminology "value system" for industry value chain in noting that "Competitive advantage is increasingly a function of how well a company can manage this entire system." If information systems dramatically economize costs of information and communications, i.e., coordination costs, this will result in fundamental restructuring of entrepreneurial opportunities and roles within industry value chains.

Proposed Framework for Analysis

At this point, it is almost second-nature to assert that an organization develops and sustains competitive advantage if it can balance its strategic objectives with information technology design and organizational structure. The organization must adapt readily and fluidly to external and internal challenges. I propose the following framework (Figure 6) to encompass and organize much of the literature to date.

I place "Alignment" at the heart of the figure because without "strategic alignment" an organization is only driven by luck. Organizational structure and technological design are born out of "Business Strategy" but can also serve to enhance strategic objectives. Once a mission is defined for an organization, organization structure and technological design can influence strategic objectives to leverage newer, unforeseen opportunities which are illuminated by the organizational and technological processes. Thus, all variables in the figure are interrelated and project a multi-dimensional image.
Figure 6: Multidimensional Alignment of an Organization.
The differences between this conceptualization of the organization and Rockart and Scott Morton's (1984) conceptualization (Figure 3) are that this framework assumes that management processes, corporate culture and individual roles and responsibilities are subunits of the organizational structure. Specifically, roles and responsibilities, as per Rockart and Scott Morton (1984) is implicitly included in Figure 6’s "Human Resources.” This framework is multi-dimensional in that it views each variable as a stand-alone multi-dimensional object with its own internal and external branches. Strategy, organization, and technology each operate in their own three-dimensional space and are influenced by their respective environmental economic and social factors. These factors change each variable independently of the other variables. However, once a variable is changed, it impacts one of the other variables.

**Business Strategy**

"Business Strategy," as per Figure 6, includes and is influenced by the following three dimensions: business environment, leadership, and organizational competencies. First of all, business environment refers to the types and extent of industry standards and regulations, financial market restrictions, globalization efforts, and competition, and affects an organization's ability to pursue proposed strategies, thereby restricting or defining the range of possible strategies. Branching out of "business environment" are capital constraints and new product development: capital constraints may arise from constricting financial markets and depend on both the type of ownership structure (public or private) and partnership availability in a given or related industry; new product development may arise from Research and Development (R&D) innovations, increased globalizations, and/or new products developed by partners or affiliates in similar industries.

Secondly, competencies are defined by a company's competitive positioning and may be organizational, technological, or brand-related. An organization's competencies
are dynamic in that they may change as a result of new leadership, a different business environment, technological innovations, and/or a different organizational skill set. Finally and perhaps most importantly (Sun Zu, 514 B.C.), leadership fundamentally affects a company's strategic objectives because, by definition, it is the leaders of an organization that essentially set the stage for future growth. Of course, other factors such as information technology may provide "boundaries" (Hirschhorn and Gilmore, 1992) or "coordination and control" (Lee and Treacy, 1987).

Organization

"Organization" refers to the skills, roles, systems, and structure of the entity in terms of the allocation of human capital, and is influenced by the following five dimensions: leadership, culture, human resources, management processes, and social programs. As in "business strategy," leadership has a profound effect on an organization and may also exhibit interdependence with organizational culture. Management processes include reward programs and other motivational "boundaries" and contribute to defining an organization's structure. Human resource administration includes recruitment and training initiatives, which aim to shape and enhance talent within the organization, and can be influenced by national or regional social programs.

My model encompasses both the "federal" organization (Handy, 1990) and the "networked" firm (Rockart and Short, 1989). With respect to the "organizational" dimension, I argue that the "federal" organization can be viewed as a more restrictive and controlling subset of the "networked" firm, as is suggested by the broader circle which encircles "federal."
Technology

The third multi-dimensional element in my model (Figure 6) is "technology" which is influenced by capital constraints, leadership, and new technologies. Emerging IT capabilities, as Henderson and Venkatraman (1993) state, impact new products and services, influence strategy, and develop new relationships; these can be achieved within the "technology" arena as well as within "business strategy" or "organization." Of course, a firm's capital resources and its technology leadership position may act as a catalyst or impediment to technology changes.

Figure 6 is multi-dimensional and dynamic because of the numerous subdivisional factors which influence each "leading" variable. "Business Strategy," "organization," and "technology" can direct their own course and/or be modified by forceful, continuous changes in interactions with other variables. However, as Henderson and Venkatraman (1993) prescribe, "alignment" between the business and IT strategies of organizations is necessary in order to realize value from IT investments. Thus, it is important to consider all factors and their effects on the status quo of a company and its industry.
Chapter 3:

Case Study - Century 21, subsidiary of Hospitality Franchise Systems (HFS)

METHODOLOGY

Given the lagging nature of the real estate industry which has been mostly organized and managed using outdated, ineffective industrial revolution models, I decided to study a company whose organizational structure appeared relatively flexible. Next, in order to analyze potential best practices in real estate, I targeted companies which had already initiated development of IT infrastructure. Finally, I studied the residential brokerage market which has close ties to the end consumer and, hence, more allegiance to electronic markets and the information highway. I chose Century 21, subsidiary of HFS, Inc., as my case study given its franchise organizational structure and recent strategic alliance with America Online.

I developed my framework through a consolidation of much of the published work on IT and its impact on organization and management. This framework (as described in Chapter 2, Figure 6) covers three initiatives: business strategy, organizational structure, and information technology. I developed different sets of interview questions for each initiative: (1) senior management for business strategy and organizational structure initiatives; (2) information systems representatives on the America Online/Century 21 team for information technology initiatives; and (3) franchise owners and brokers/agents at different geographical locations on their understanding of business strategy, implementation of technology and organizational structure.

Century 21 is a highly publicized company. I, therefore, drew much information from public speeches, journal articles, the HFS Annual Report and public relations commentaries. However, because of limited access to Century 21 executives and employees, and time constraints, my interviews were limited to the following (See Appendix A for Interview Questions/Guidelines):
Senior Management/Corporate Century 21: (1) Face to face interview with Gregory Rand, Product Manager, at Century 21 office at HFS headquarters in Parsippany, New Jersey on May 3, 1996; (2) Telephone interview with Elaine Kelleher, Business Consultant for the Massachusetts area west of Worcester, on May 10, 1996; (3) Telephone interview with Michael Wargotz, Director of Investor Relations at HFS, Inc., on April 4, 1996;

Technologists: (4) Face to face interview with Raymond Rafferty, Director of Applications Development, at Century 21 office at HFS headquarters in Parsippany, New Jersey on May 3, 1996; (5) Face to face interview with David Biel, Deloitte & Touche Consultant, at Century 21 office at HFS headquarters in Parsippany, New Jersey on May 3, 1996;

Brokers/Agents: (6) Telephone interview with Frank Francia, Century 21 Broker in Los Angeles, California on May 8, 1996; (7) Telephone interview with Larry Fry, Century 21 Agent in Euless, Texas on May 13, 1996; (8) Telephone interview with Tom Assad, Century 21 Broker in Cleveland, Ohio on April 25, 1996; (9) Telephone interview with Doug Brey, Century 21 Broker in Boston, Massachusetts on May 7, 1996; (10) Telephone interview with Phyllis Hale in Buffalo, New York on May 2, 1996; and (11) Telephone interview with Bill Severyn, Century 21 Broker in Cheektowaga, New York on June 1, 1996.

Due to time constraints and the lack of statistically adequate interview data, there are outages in my research methodology. First of all, I was unable to interview Henry Silverman, Chairman and President of HFS, Inc.; Robert Pittman, Chief Executive Officer of Century 21; and Mayo Stuntz, Executive Vice President of Century 21, to best understand Century 21's strategy and to gather more information about the company's strategic alignment and organizational structure. Secondly, I have not interviewed Human Resource personnel/executives in order to gather more information on Century
21's Human Resource strategies vis-a-vis organization design, training, and company culture. Finally, although I directed my field research with Century 21 brokers and agents in some of the largest population states, six interviews does not adequately represent the Century 21 network.

In order to effectively and efficiently represent the information collected on Century 21, I have organized the data according to the headings "Strategy," "Organization," and "Technology." These headings also correspond to the three main multidimensional variables in my model.

CASE STUDY

Strategy

HFS Inc., owner of Century 21, Electronic Realty Associates (ERA) and Coldwell Banker, is the largest franchiser of residential real estate brokerage offices with a total of 11,000 offices in the U.S. and Canada and a share of 25% of all residential real estate transactions in the U.S and 50% of the brand name market (Chicago Tribune, May 3, 1996, p. 1). Century 21 Real Estate Corp. is the largest real estate sales organization in the world, with approximately 6,000 independently owned and operated franchised broker offices in 14 countries and territories worldwide.

According to the HFS Inc. 1995 annual report, the HFS vision is to create greater shareholder value "by increasing the value of (its) brands, expanding (its) preferred vendor relationships, and opportunistically reinvesting (its) increasing level of cash flow." (p. 2) HFS institutes an acquisition strategy with respect to its franchise business. According to Henry Silverman, HFS is, through its acquisition strategy, "trying to change the paradigm for the (real estate brokerage) industry" (Chicago Tribune, May 3, 1996, p. 1). The company's strategy in residential real estate is to increase market share of U.S. existing home sales through Century 21, ERA and Coldwell Banker franchise systems
and to maximize the value of these world-renowned brands to the benefit of franchisees and shareholders.

A crucial element of HFS' vision for the industry is to expand the appeal of its real estate franchisees by making them the center for sales of a host of home-related goods and services from affiliated firms (preferred vendors), providing such things as mortgages, long-distance phone service, cable TV, satellite dishes and autos. Henry Silverman, Chairman of HFS, summarizes the company's acquisition strategy: "Our criteria are that it has to have the potential for profits from day one, be in a franchise or franchisable business. It has to be global, has to have the opportunity for unit growth and have significant opportunities for our preferred vendors." (The New York Times, May 3, 1996, p. 8)

All of these relationships represent HFS's conviction that, in the coming years, more and more companies will look to market their products and services directly to potential customers. The ultimate goal is to expand existing preferred vendor relationships and create new ones and to further license the brand name of Century 21 and all of its subsidiary franchise brands. Specifically, as Robert Pittman, Chief Executive Officer and Managing Partner of Century 21, said in his Keynote Speech at the Century 21 Annual Convention in Orlando, Florida (March, 1996), Century 21 will focus on building the strength of the brand name and consumer awareness, developing lead-generation systems, careful management of the operations, and reduction in bureaucracy of the business. (See Appendix B for Century 21 Convention Keynote Speech.)

Marketing

In the past, Century 21 had allegedly allowed its competition to reposition it:

When you are number one, you get to write the rules for the industry. Century 21 abdicated that responsibility. Now we're taking back the crown and assuming that leadership. We're acting like a giant again.

-- Robert Pittman, Chief Executive Officer and Managing Partner of Century 21 (Real Trends, October 1995, p. 1)
Moreover, according to Greg Rand, Product Manager at Century 21 and ex-President of RealtyVision Systems Corp, a company offering detailed real estate information to consumers through a combination of interactive media,

There are a lot of people in the industry that say that the competition considers Century 21 as a training ground: that's where you start in the business, they train you, and then you come to us (the competition) if you're going to make some real money.
(Interview, May 3, 1996)

Management had not recognized what a "big hammer" Century 21's brand is in the field. Advertising is now focused on comparing Century 21 to AT&T, McDonald's, Coca-Cola and other big national consumer-amenity brands in different categories rather than comparing Century 21 to its direct competitors such as Prudential or Coldwell Banker (which is now a part of the HFS franchise system). The ability to demonstrate strength and size is part of the Century 21 advertising campaign. The goal is to get consumers referring to Century 21 as "the AT&T of real estate."

For instance, Century 21 joined Wendy's and Coca-Cola in a $4.8 million promotional program designed to build visibility of the Century 21 brand name in the marketplace (Real Trends, September 1995). The point-of-purchase campaign, "Everyday Value Giveaway/You Could Win a Home," centers on participating Wendy's restaurants, which will distribute game pieces on 20-ounce cups of Coca-Cola and display posters, banners, ceiling hangers, window stickers, and tray liners which include the Century 21 logo. Paul Enghauser, Century 21's Vice President of Marketing and Advertising, said: "This innovative promotion links three trusted national brands." (Real Trends, September 1995, p. 5).

In addition to the Century 21 brand which targets lower and middle-income home buyers and sellers, Century 21 is introducing an upscale brand called "Century 21 Fine Homes & Estates" for people who feel that they are not "middle America." Brand
extensions for recreational properties and the like are being considered as a marketing tool in order to build a relationship between the brokers and the customers. Another example of brand extension is the Century 21 Farm & Ranch Catalog which contains full-page ads for farm and ranch properties listed with Century 21 brokers and sales associates in Colorado, Illinois, Iowa, Kansas, Kentucky, Missouri, Nebraska and Oklahoma and will be published in the spring and fall of each year.

HFS's acquisition of Century 21 and Coldwell Banker gives it a huge captive market of real estate offices for its franchise services such as marketing and accounting. "In keeping with our philosophy of brand management, Coldwell Banker will be managed separately from our other real estate brands and will maintain its own brand identity, while at the same time leveraging the existing HFS operating infrastructure," Chairman of HFS, Henry Silverman said (Reuters, May 2, 1996, p. 1).

Silverman was also quoted as saying that he sees "significant cross-marketing opportunities" with Century 21 (Reuters, May 2, 1996, p. 1). This "one-stop shopping" entails offering telephones, cable television service, burglar alarms, TV satellite dishes, home improvement services, mortgages, and title insurance -- all products associated with the purchase of a home. Through the implementation of preferred vendor initiatives, HFS negotiates more favorable terms for various products and services offered to franchisees. Additionally, the consumers who purchase or sell homes through Century 21 or ERA systems represent potential marketing impressions for many companies such as AT&T, Coca-Cola, CUC International, Pizza Hut and Kodak. The relationship with the preferred vendor enables a consumer-oriented company access to a point-of-sale marketing opportunity with a potential purchasing consumer. At the same time, these preferred vendor relationships typically provide a revenue-generating opportunity for franchisees and a highly additive earnings stream for HFS (HFS Inc. Annual Report, 1995).
Each preferred vendor falls into one of three categories or a combination of these categories: (1) increases profitability through commission revenues, (2) decreases cost of running the business, and/or (3) provides coupons or services to consumers, thereby increasing consumer loyalty or decreasing transaction times on the purchase of homes. For instance, Century 21 has an agreement with a title search company which gives consumers title information on a prospective house. Although Century 21 is not compensated for client referrals to the title company, this timely title information ensures a quicker sale for Century 21 agents. Another example is Century 21's capitalization of its brand name by making a deal with a home-improvement company, AMRE Inc., to set up Century 21 Home Improvement (Real Trends, October 1995).

Century 21 further leverages its vendor relationships to grant gifts to its customers. For instance, the "Bonus Box" program gives consumers $10,000 worth of discounts such as $3,000 off of a Cadillac and 20 minutes free air time on AT&T. This program was instituted in April 1996 and is one of many new marketing tools which Century 21 plans to use to strengthen customer and vendor alliances.

Organizational Structure

Presently Century 21 is headed by Robert Pittman, ex-CEO and Founder of MTV, ex-CEO of Six Flags Great Adventures, and acclaimed "marketing guru." Five Divisional Office Managers, segregated according to national geographic boundaries, report to him. Each Divisional Manager manages seven to ten Regional Directors who, in turn, manage two Business Consultants, one Inhouse Coordinator, and two Regional Trainers. Typically each region caters to 180 to 200 offices. (See Appendix C for Drafted Century 21 Organizational Chart.)

For instance, there is one Regional Director for the Northeastern New England region which includes 160 communities in Massachusetts and 28 in Maine. One Business Consultant manages all regions east of Worcester and the other manages offices...
in Maine, northern Massachusetts, and Worcester County towns. The Inhouse Coordinator is shared by all regional offices and is the direct contact person for some of the offices. Corporate resources such as senior management, Inhouse Consultants and Coordinators are centralized at HFS headquarters in Parsippany, New Jersey.

Business Consultants provide each franchise with the license to use the Century 21 name and are responsible for delivering services to the Century 21 training program as well as implementing new programs. Business Consultants take turns going to the divisional office and all work as a member of the "quick response team" which provides all franchise owners with help and training on an as needed basis. There are always two Inhouse Staff Consultants available for problematic issues and extensive training help.

Training

According to Rand, "Training is far and away a big part of what Century 21 does." It is important that Century 21 build a bond with its franchisees, the ultimate salespeople of the company. Brokers need to feel an alliance and to perceive that Century 21 offers them a distinct advantage over other franchise systems. As Rand said:

This is a strange business. There is the independence factor: you have corporate and then you have a bunch of independent firms. Because the other franchise companies are always going to the franchisees to get them to switch, there's sort of a "what have you done for me lately" attitude on the part of the franchisees. Franchisees get put on the pedestal by our competitors and it affects the way they behave towards us. And the exact same thing happens to them with their agents because there are no employees in this business -- they're all independent salespeople who have been taught how to run their own business under the roof of a broker.

But the independence is in someways damaging to the relationship .... (Although both the) broker and managing agent consider themselves independent, it's important for them to realize that it's not a bad thing to give the company credit for the business that they're doing. In other words, the agent is put on a pedestal and the broker is put on a pedestal so instead of having corporate/broker/agent (in decreasing ranking on pedestal), you have agent/broker/corporate. This has created a wedge in the ability to manage because there's a resistance to management that has made the agent not wanting the broker or corporate to know where the business is coming from. The agent wants to get credit for the business.
When asked how Century 21 planned to realign the "pedestal," Rand explained that they needed to come back to the drawing board and ask the questions "Who is the customer? What does the customer want?" Given that the customer is both the franchise system (brokers and agents) and the home buyer or seller (end consumer), Rand reiterated the fact that the needs of these two groups of customers may not always agree: the end customer "wants better service" and the franchisees want "independence and control." According to Rand, realignment of the "pedestal" will come from altering how brokers and agents relate to corporate: "The best way to get an agent to come to you is to say 'look, our market share grows because our advertising has more punch to it. And not only that -- Century 21 offers great ongoing training.'" (Interview, May 3, 1996)

Century 21 presently offers twelve training courses to agents, including the 21 Plus Program, Financing, VIP Referral, Self-Motivation Tools, and Investment Planning. The 21 Plus Program is a five-day beginner course for brand new agents who receive a marketing kit and other informational materials. The Financing course specializes in mortgage financing and the VIP Referral course is for agents working with relocation clients which often include corporate accounts. Each region has at least one training center, geographically located to accommodate all regional agents.

Management training is offered to brokers (owners of franchises) and other managers. These include ORBIT, a two-day management training program which is also available on video, and Excellence in Management, a Pacific Institute course taught by motivational speaker Louis Teiss. Moreover, given regulatory restrictions that preclude agents in some states from representing both the buyer and the seller of a transaction, Century 21 has instituted a program called "Buyer's Rep" which teaches brokers and agents how to implement a disclosable agency.
Training is free for all managers or business consultants but comes at a cost to franchises. Century 21 advises franchise offices on whether or not to charge individual agents for training but ultimately the brokers independently decide what is best for their particular practice.

**Reward Structures**

Franchise owners independently negotiate commission payouts with their agents. Commissions, according to brokers and agents (Interviews with six Century 21 brokers and agents), range from 20% to 80% and are based on performance. Franchises pay corporate Century 21 a fixed $25,000 to become a franchise owner and a 6% service fee on gross transaction amounts in return for corporate's investment in marketing, advertising, referral programs, accounting systems, management, etc.

**Culture**

As an independently-owned and operated franchise system, Century 21 is defined by its entrepreneurial nature. Elaine Rafferty, Business Consultant for the Massachusetts area west of Worcester, explains that Century 21 is very flexible in its operations:

"Century 21 puts a system or program in place, but if it doesn't work then they fix it right away." (Interview, May 10, 1996)

Century 21's organizational structure has undergone significant change over the past couple of years. Kelleher remembers the "inefficiencies of older days":

With Met Life, if you had a problem, you had to go to the office manager whose only job was to broker information between the franchise owners and the Regional Director. Back then we probably had ten regional office in the Massachusetts area alone; now we have zero.

(Interview, May 10, 1996)

Greg Rand echoes: "Century 21 cultivates strong entrepreneurial spirit and encourages creativity and good work ethic." (Interview, May 3, 1996)
Rafferty summarizes the culture at HFS-Century 21 with an example of the company's human resource management and recruitment. He points to two overriding qualifications for hiring metrics at HFS: "Can (the candidate) learn? Does he/she have the drive to learn?" The culture at HFS fosters this drive: "The incredible drive to accomplish begins at the top, to trim the organization and personnel." (Interview, May 3, 1996)

Information Technology

Century 21's acquisition and marketing strategies have prompted it to pursue information technology as an implementation tool and prospective competitive advantage. Specifically, Century 21's acquisition strategy in the residential real estate industry translates into increasing the number of agents and offices in the franchise as well as increasing their productivity. In an effort to increase productivity and efficiency, Century 21, HFS' largest franchise company, formed an alliance with America Online to create two online services -- Twenty-One Online and Century 21 Communities. As part of this agreement, Century 21 will become a major advertiser on America Online. Robert W. Pittman, Chief Executive Officer and Managing Partner of Century 21 Real Estate Corporation said:

This alliance brings together the market power of America's only true national brand in real estate with the vast networking capability available through America Online, the most successful and fastest growing consumer on-line service, to launch real estate into this new "interactive medium."

This alliance and others we have established will continue to build the already dominant Century 21 brand, provide additional leads, increase our training opportunities, reduce costs and dramatically expand the services and automation resources available to our broker network.

We will use this technology to fulfill our pledge to provide services never before seen in the industry, providing Century 21 brokers and associates a distinct competitive advantage and offering customers a new world of convenience and cost-savings. This breakthrough initiative with America Online furthers our commitment to brokers to be the most responsive, creative and entrepreneurial company in the real estate industry. (HFS Inc. News Release, January 10, 1996, p. 1)
Twenty-One Online, an exclusive proprietary on-line service within AOL, is scheduled to launch in the next couple of weeks and will provide Century 21 brokers and sales associates a competitive advantage as the first real-estate network linked on-line, with access to benefits not available through any other company. The Century 21 system of more than 6,000 offices and 80,000 sales associates will be able to transmit referrals and financial information, interact with their peers on-line, obtain daily news and information updates, access training information, and connect with the Century 21 corporate office and its "quick response team" of business consultants as well as a series of other information and assistance services.

Twenty-One Online will also allow the Century 21 system to implement its vision of "one-stop shopping" for real estate and related home services by providing brokers and agents the ability to access vendors ranging from mortgages to home improvements, and to complete applications and obtain these services for customers on the spot. The plan is that Century 21 customers will not only be better educated, but will directly save money, time and effort through its on-line services. While there may never be any substitute for face to face contact and value-added services of real-estate professionals, customers will come into Century 21 brokers' offices better informed and more prepared to begin the process of buying or selling a home or embarking on a home improvement project. Once there, Century 21 brokers and associates will be able to offer them a complete range of real-estate services, from mortgages to title searches to home improvements, on-demand and on-line.

Twenty-One Online will also create a management tool for franchise owners and Divisional and Regional Managers. Information systems will allow managers to keep track of which agents are doing well: production summaries on each franchise and/or agent will disclose the business source (for instance, which customers are personal
referrals and which are online referrals) and whether or not agents are following up on leads.

_Century 21 Communities_ is scheduled for launch in mid-1996 and will allow consumers to access real estate market conditions, community services and a broad range of other information about home ownership in cities and towns across America from any networked computer, whether at home or in Century 21 broker offices. Brokers understand that _Century 21 Communities_ is a lead generator. As a customer uses the website for information on a particular town or neighborhood, this customer will also receive information on the local Century 21 broker; this eventually will lead to business for the broker and its agents.

According to Raymond Rafferty, Director of Applications Development at Century 21, Century 21's information systems group (MIS) serves three functions: (1) back office, (2) franchises, and (3) general public. The whole point of these systems and, in particular, the system for the general public, is to (1) provide convenience, (2) decrease the transaction time, and (3) perform point of sale to all purchases. Information and convenience are the product and service that Century 21 provides to customers.

The America Online alliance was created as a result of the strategic direction to create a network. Rafferty believes that:

Direction comes from the top and it is something held close to Pittman's heart. Pittman says that the number one priority is the implementation of this alliance and new information technology. Grass roots movement must come from the top; unless leadership understands, there is no implementation.  
(Interview, May 3, 1996)

Given that HFS is in the business of buying brands, there is a core need for networking services, phone services, core services to all the organization. MIS groups are organized across brands so that information systems employees focus on maintaining and/or growing a particular brand. However, HFS builds efficiencies or economies of scale through centralization of the back office services for all brands.
Moreover, HFS leverages external and internal resources. The America Online system is created through a network of resources: David Biel, Deloitte & Touche consultant, manages the AOL project; Greg Rand, Product Manager at Century 21, is responsible for communicating the project to employees; outside consulting is building the web site; AOL provides direct manipulation of content and also produces the site; a Century 21 content management group determines what information should be communicated on the web site; and another group of representative staff consultants manages forums to review the information content provided by the site. Rafferty views technology as a means of getting the job done as well as a content-producer and enhancer.

Focus groups within the firm get together (6 to 12 people) at different stages of the project. Rafferty believes that:

You really only need one person in charge that knows what is needed and focuses on getting the job done. Sometimes the focus group is well-structured and other times it's informal and you just survey people for information. A well-structured group provides confirmation that something is a good idea and focus on what specifically should be delivered, thus enabling high-level design specification.

(Interview, May 3, 1996)

Furthermore, when asked how to gauge the success of information technology, Rafferty said:

There are no hard and fast metrics; it's more about overall organizational approval. Applause and negativity or lack of negativity give some indication. At NAR (National Association of Real Estate) convention, we could sense that our competitors are afraid of what Century 21 is doing. HFS wants its competitors to be very nervous about its direction and quick movement. Competitors are looking at what to do to catch up with HFS. Therefore, perception is everything.

(Interview, May 3, 1996)

In order to gather the appropriate information necessary to build Century 21 Communities, Century 21 is implementing a two-tiered approach. It is outsourcing some
of the data gathering and it is collecting much of the local color from its national brokers. A lot of the brokers who have relocation departments are accustomed to selling their town or county (schools, demographics, etc.) and they are relaying this information to Century 21's content department which is in the process of organizing the community system.
Chapter 4:

Information Technology as Competitive Advantage at Century 21? -- Application of Proposed Framework

In this chapter, I will apply Century 21's practice to my proposed framework (Figure 6). Given the framework's three "variables" - business strategy, organization, and technology, I will examine each one separately and then provide a summary of all three with respect to their current alignment within Century 21. Although the data is preliminary (Century 21 formed America Online alliance on January 10, 1996 and may have not implemented much of its intended strategy) and limited (due to limited access and time constraints of this research), analysis of Century 21 vis-a-vis Figure 6 is useful because it provides a foundation for beginning to test the framework and understand where Century 21 stands in relation to it.

Strategy

The HFS-Century 21 strategy is to increase shareholder value through increasing the value of its brand and expanding preferred vendor relationships. This further involves creating economies of scale in marketing (advertising the brand names of all franchises including Century 21, ERA, and Coldwell Banker), accounting and other back office functions, and technology.

Business Environment

Century 21 competes in an industry laden with declining volume and profitability, poor management, bad technical indicators, and overall consolidation. Given this highly competitive business environment, Century 21 needs to distinguish itself from its competitors in order to maintain its leadership position in the residential real estate industry.
Since Century 21 is a subsidiary of HFS, Inc., a publicly traded company, it has access to funding through financial markets; however, this means that the company needs to consistently present excellent earnings and innovativeness in order to keep shareholder investments within the firm. Described in this light, one might infer that the company and its executives' strategic objectives with respect to acquisitions and marketing are profoundly influenced by stakeholder expectations. If the Century 21 mission statements (i.e. Robert Pittman's Keynote Speech at the Annual Century 21 Convention) were simply rhetoric, their strategic objectives would not match their business initiatives. This does not seem to be the case since Century 21 has initiated significant changes. For instance, Century 21 formed a strategic alliance with America Online, recently sent its franchisees workable copies of the 21 Online system (Interview with Bill Severyn, June 1, 1996), has spent millions of dollars in marketing and advertising its main brand and line extensions, acquired Coldwell Banker to increase market share, and has begun to streamline its organizational infrastructure.

Another factor under "Business Environment" is "New Product Development." Cross-marketing and one-stop shopping involve selling related products to end customers. Century 21 is developing "preferred vendor relationships" as inroads to cross-selling various home-related products and services to the convenience-seeking consumer. Since Century 21 does not itself have access to new product development, it is strategically targeting partnership relationships in order to develop competitive advantage. In this way, Century 21 is "trying to change the paradigm for the (real estate brokerage) industry" (Henry Silverman, Chicago Tribune, May 3, 1996, p. 1).

**Competencies**

The second dimension of "Business Strategy" is "Competencies." First of all, Century 21 proves its leadership in the residential real estate industry with 25% market share of all domestic transactions and 50% of the brand market. However, Century 21
lacks technology prowess and competency in home-related products and services. It appears that Century 21 is fully aware of its strengths and weaknesses, as it has filled its competency gaps through strategic alliances and partnerships agreements.

Leadership

The third dimension which influences "Strategy" is "Leadership." Although much of the data presented in Chapter 3 is not primary data from the original interview source (i.e. it is from journal articles, press releases, Annual Report), the data suggests that Henry Silverman, Chairman and President of HFS, and Robert Pittman, Chief Executive Officer and Managing Partner of Century 21, are strong leaders. HFS's franchise acquisition strategy as directed by Silverman and Century 21's aggressive marketing strategy as directed by Pittman project images of strong strategic thinking. Moreover, all interviewed members of the Century 21 organization indicated that strategy and movement stem from senior management.

In summary, Century 21 appears to have assessed all factors (business environment, competencies, and leadership).

Organization

Century 21 has recently begun making the appropriate changes to its organizational structure so that it fits its overall strategic objectives (Elaine Kelleher, Interview, May 10, 1996). As a franchise system, Century 21 operates with a maximum level of independence and a minimum level of control. However, changing industry dynamics may lead to a greater level of interdependence (Rockart and Short, 1989) and a greater level of "containment" (Hirschhorn and Gilmore, 1992). Below, I analyze culture, leadership, human resource initiatives, and management processes, as per "Organization" in Figure 6. "Social programs," however, do not seem applicable
(because there is no supporting data and/or it is encompassed in human resource initiatives) and is, therefore, not incorporated.

Culture/Leadership

One characteristic trait of corporate Century 21 is entrepreneurialism and employee flexibility. As several Century 21 members pointed out, the culture is one which encourages team interaction and cross-utilization of skills throughout the organization. IT outsourcing, ad hoc focus groups, and outside consultants are just a few measures which represent Century 21's leveraging of organization-wide skills. However, Century 21 is not yet a "networked" firm with regard to its utilization of IT; for instance, interaction among regional franchises occurs at a slower pace than would be expected in a "network." Perhaps the Century 21 organization will become "networked" through future usage of IT in its operations. In this case, the organization will most probably become leaner because IT will replace the inefficiencies of current information sharing among agents.

Human Resources

It is clear that Century 21 emphasizes training throughout the organization. Franchise owners (brokers) and their agents are encouraged to take advantage of Century 21's numerous training courses which are both offered frequently and at a readily accessible location (regional training centers). Since 21 Online has been recently introduced to franchisees and Century 21 Communities is still in the development phase, I was unable to adequately assess franchisee training opportunities for these programs. If franchisees either do not buy-in to these online technology systems or they are not suitably trained to use them, much of Century 21's strategic efforts will have been wasted.
Management Processes

Century 21's franchise owners are independent operators with respect to negotiating commission payouts with their brokers. Although none of the franchise brokers and agents ventured to predict changes in service fee costs, one might ask whether or not current reward structures (i.e. commissions) will be needed to reinforce and incent information sharing and referrals. If corporate Century 21 adds technology infrastructure that adds significant value to its brokers and agents, perhaps it will demand a higher percentage of gross transaction sales or a fixed fee for usage of the new technologies.

In summary, given the influx of strategic IT (America Online alliance and internal systems development), Century 21 appears to have adjusted its organizational chart to reflect a more "federal" organization, as per Handy (1990) and Hodgkinson (unpublished). As a franchise operation from the top-down, Century 21's "federality" has advantages in centralization: scale economies, control of standards, and critical mass of skills. Of course, disadvantages such as unresponsiveness, lack of business unit ownership, lack of business unit control of overhead costs, and an inability to meet every business unit's needs are not relevant in the franchise system; franchise units (brokers) are autonomous in their decisions to pay for agent training or to control overhead costs or commission payouts. This is true as long as Century 21 can maintain an entrepreneurial culture throughout its corporate unit.

On the other hand, the decentralized portion of the "federal IT" organization, calls for advantages in user control priorities, business unit ownership and responsiveness to business unit needs. Century 21's training and "Quick Response" team serve franchisers with any problems, including technological ones, that arise since members of the "Quick Response" team are specialists in a given area. Disadvantages of the decentralized IT organization include excessive costs, variable standards, no synergy and integration. This
could occur in the Century 21 system due to a lack of obvious controls on the franchisors. However, given the nature of the business and the service provided to customers, much of the product/service standardization can be "contained" (Hirschhorn and Gilmore, 1992) through IT and training.

Going forward, the most challenging venture for HFS-Century 21 is to achieve organizational buy-in for the company's strategic position to cross-market preferred vendor products. This will most likely require both internal and external changes with respect to franchisee acceptance of the proposed strategy and improved vendor relations, respectively. A risk lies in the fact that brokers might feel loaded down with the responsibility to refer clients to a host of other services and this might prove counterproductive. The perception of the purchasing process must either be rediscovered or changed for the consumer and the internal culture of the organization must be aligned with its strategic vision.

Technology

"Technology" is influenced by three dimensions: capital constraints, leadership within the technology "group," and development of new technologies. If these three dimensions can be "conquered," technology may serve to maintain the high quality standards set forth by Century 21 senior management's strategy. It will also create control measures in order to ensure equitable disbursement to broker/agents through monitoring how and where human resource capital is being spent. Management will be better able to decipher differences in broker profitability and to determine proper training allocations in order to improve opportunities for franchises throughout the U.S. and abroad.
Capital Constraints

Given that Century 21 has access to financial markets through its parent company and that it has avoided direct investment in proprietary technological infrastructure through its alliance with America Online, it has been able to "jump-start" its pursuit of technology as a competitive advantage. Although Century 21 will be a major advertiser on the America Online network as per the alliance agreement, this can be perceived as another marketing/advertising investment for the firm.

Leadership and New Technology

Since Century 21's core competencies do not include technological strengths, it has formed an alliance with America Online. Within the IT organization, Century 21 has formed focus groups and Century 21/America Online team efforts to produce a technology system which aims to efficiently and effectively create an environment for information sharing. Thus, technology leadership and new technological development have been induced within the organization through partnerships and joint efforts.

In summary, Century 21's strategy presumes that information-sharing is a way of creating customer loyalty and trust and of changing the stereotype of real estate brokers. Online services extend this notion and provide support to this underlying strategic belief. These services will give the customer all pertinent information upfront with no pressure to buy. In essence, technology is redistributing power between the broker and the customer by reshaping the industry value chain. Century 21/America Online's idea is that information gathering will become a self-service operation, whereby the firm will shorten its transaction time (cost of doing business) in order to increase productivity of its franchise agents.

Moreover, technology will serve to extend Century 21's product offering by cross-marketing the products of preferred vendors. If customers agree to purchase home-
related products through Century 21 (a marketing ploy on the part of senior
management), then technology is simply a tool that can transfer product information to
the end consumer and result in extra earnings (through commissions on preferred vendor
product sales) and increased customer loyalty for Century 21. Of course, cross-marketing
requires a combination of other business factors, most importantly, organizational
structure.

Concluding Analysis

Century 21's senior executives appear to have strategically aligned their business
strategy, as per Henderson and Venkatraman (1993), with external and internal factors.
External business factors in the residential real estate brokerage industry call for
increased awareness of customer needs and expectations, cost cutting, and efficient
operations. Moreover, in order to attract other brokers and agents to the Century 21
franchise organization, additional marketing of the Century 21 name and training of the
agents will be necessary. Although many franchisees are not yet familiar with the new
America Online technology, corporate Century 21 is creating training services and
corporate controls with which to monitor successful integration. Thus, the internal
factors have considerable room to change.

Century 21 presently operates in the "Strategy Execution" and "Competitive
Senior management plays the role of strategy formulator/business visionary and IS
executives act as strategy implementors/catalysts with overall performance measured in
terms of ultimate cost to shareholders or business leadership. There are glimpses of
"Technology Transformation" through senior management's creation of a strategic
alliance with America Online. However, Century 21 is not yet operating in this arena as
performance is not based on technology leadership.
Perhaps one day Century 21 (and its fellow subsidiaries, ERA, Coldwell Banker, and any other future acquirees) will operate as a large "Service Level" organization, closing all service gaps and thereby capturing greater market share. This, however, can only happen if the company's organizational structure and technology systems are shaped to incorporate these new goals.

In terms of my model (Figure 6), Century 21 is most heavily weighted at the business strategy level as it is presently deciphering the proper actions for successful integration and implementation. Technology is in the development process and it will take some time for the entire organization to learn the new rules of the game. In terms of organizational structure, HFS-Century 21 benefits by its franchise structure in that standardization and "containment" are readily advisable. However, such a structure places much of the pressure on communications between corporate and its franchises through training and buy-in of the new technology.

Although Century 21 is in the preliminary stages of development where it is focusing on strategy, it appears to understand that IT has a larger role within the organization. Century 21 has proven valuable as a case study both because of its leadership role within the residential real estate industry and because of its transitional situation within my framework as per Figure 6. There are glimmers of great strategic thinking, some organizational innovation, and a breakthrough with information technology. However, Century 21 has only now begun: it must undergo many more changes in order to realize the true value of IT and organizational unity.
Chapter 5: Conclusions

SUMMARY OF FINDINGS

The residential real estate brokerage industry is indeed "headed for a meltdown." Information technology may transform the industry into a more efficient and effective service industry through which consumers will finally reap the benefits of increased information sharing. Companies which are able to take advantage of industry changes and implement operational solutions to pending organizational chaos will capture a bigger piece of the smaller pie. Century 21 will be one of these companies if it can soundly balance its strategic objectives with its IT and organizational design.

This thesis examines three broad multi-dimensional elements of an organization: strategy, organization, and technology. Although it is possible for organizations to temporarily step into disarray, long-term competitive advantage will be borne out of sound strategic thought in addition to cohesive IT and organizational structure. As Figure 6 depicts (and as many authors have previously posited), balance is a dynamic process but can only be attained through substantial investment in and alignment of all three arenas.

FURTHER RESEARCH

Several issues were not given adequate weight in this study. First of all, alliances can take on different forms and can impact firms in significant ways. Proper strategic or financial alliances can offer companies distinct advantages so long as the interests of each party are aligned with one another. Brown and Ross (February 1995) describe both individual balancing mechanisms used in Fortune 500 firms and a strategy for implementing suites of mechanisms to achieve information systems management goals. Balancing mechanisms, as per Brown and Ross, are structural overlays and process enhancements that leverage the strengths of an existing organizational structure while
compensating for its limitations. How partnership arrangements in the real estate industry can produce such promising results remains to be discovered. For example, can a real estate company which has for so long operated without information technology readily understand and coordinate activities with a technology partner? What will such coordination measures look like and how can they ensure long-term competitive advantage?

A second issue which has not been addressed in this thesis involves the overriding question: "Does Information Technology Lead to Smaller Firms?" Brynjolfsson, Malone, Gurbaxani, and Kambil (November 1989) find that information technology reduces transaction costs and coordination costs, enabling a shift from hierarchies to markets as a means of coordinating economic activity. They postulate the following transitions: decreases in firm size, a shift to externally provided services, less hierarchical management processes within firms, a shift from mass production to flexible specialization, and increases in product and service variety. How information technology impacts organization size of real estate companies, in particular, has not been explored in great detail.

A third topic for further research involves the future for electronic markets in the evolution of the emerging national information superhighway and electronic commerce. Many firms are developing the infrastructure they deem to be necessary to compete in the nascent electronic business environment. However, experts often question whether or not the consumer is prepared or willing to accept such impersonal interaction for the purchase of certain high-value items.

Paralleling and superimposing these above-mentioned issues for further discussion and review is the question of whether or not Century 21 and HFS will succeed. Time will tell if HFS' strategy is aligned with its organizational structure and technological design. Environmental factors may play a role in expediting or limiting Century 21's success.
Appendix A:

Interview Questions (Guidelines)
Interview Questions

Senior Executives

Strategy
What is your current business strategy?
What products/services does your company offer?
Who are your customers?
If your IT strength comes in the form of an alliance, please describe what this alliance entails. How did you choose this partner? How do you implement the alliance? Where are they located? How many people run the unit with which your organization is aligned?
Can you quantify the benefits of the alliance? How do you know it works? How do you judge success?
What would you say are the critical success factors for this IT engagement?
Who are your competitors?
Where do you see the residential brokerage business headed?
Given that IT lowers barriers to entry, have your competitors changed over time?
If you are aware of this, what are your competitors currently doing in IT?

Organization
How is your organization currently structured (organizational chart)? Would you say the organization is flat or hierarchical?
Before IT-times, how was your organization structured?
Who is in charge of IT at your organization?
How many people manage IT within the organization? Where are they located?
Centralized or decentralized?
How do you motivate employees? How are employees paid?
How do you assess quality in service and products offered by your company, i.e. cost savings or customer satisfaction surveys?
What is the internal culture of your organization?
Who makes the rules in your organization?

Technology/Implementation
What is the role of information technology within your organization?
What is the history of IT in your organization?
Will the standard franchise rules change with the new technology?
Interview Questions

Franchise Owners

Strategy
Who is responsible for the general business strategy for Century 21?
What rules do you need to abide by? Are these Century 21's standardized franchise rules?
What is Century 21's IT strategy? Do you think it reflects well on the current business environment?
Where do you see the residential brokerage business headed?

Organization
Who runs the day-to-day business of your franchise?
How is the organization structured? Would you say the organization is flat or hierarchical?
How many employees do you have? How many agents?
With the new IT, how will you gage whether or not you are successful in your business?
How are you paid?
How often and in what capacity do you interact with Century 21 executives? Do you feel that you have any say in Century 21's business decisions and its strategic direction?
Do you see any problems in organizational structure? Are there any tensions or frustrations?
What do you look for in an agent, ie what qualifications? How are agents trained? How are agents paid?

Technology/Implementation
What is the role of information technology within your organization?
What is the history of IT in your organization?
Will the standard franchise rules change with the new technology?
Do you think IT will, in the long-run, help Century 21 and, in particular, your business?
Do you think that the new IT will help you attract better employees/agents?
How will you determine quality of service and execution of transactions through the new IT?
How will you train your agents on this new technology?
Interview Questions

Franchise Agents/Brokers

Strategy
Who is responsible for the general business strategy for Century 21?
What rules do you need to abide by? Are these Century 21's standardized franchise rules
or are they specific to this particular operation?
What is Century 21's IT strategy? Do you think it reflects well on the current business
environment?
Where do you see the residential brokerage business headed?

Organization
Who runs the day-to-day business of your franchise?
How is the organization structured? Would you say the organization is flat or
hierarchical?
What is the culture like? Do you work in teams?
What pressures do you have? How are you paid?
With the new IT, how will you gage whether or not you are successful in your business?
How often and in what capacity do you interact with Century 21 executives?
Do you see any problems in organizational structure? Are there any tensions or
frustrations?
Have you been given adequate training?

Technology/Implementation
What is the role of information technology within your organization?
What is the history of IT in your organization?
Will the standard franchise rules change with the new technology?
Do you think IT will, in the long-run, help Century 21 and, in particular, your business?
How will you determine quality of service and execution of transactions through the new
IT?
Are you currently being trained or prepped on the new IT system? Who is training you?
Interview Questions

AOL/Century 21 Team

Who assigned you to this team?
Is this project driven by Board of Directors and executives or is it driven by franchise owners? Do you think that employees recognize the benefits of this new IT system?
How long is this project expected to last?
What is your role/position within your organization?
Why do you think you were chosen to work on this team?
What implications do you think this will have on the Century 21 organization?
What is your biggest frustration?

What would you say are the critical success factors of this engagement?
Appendix B:

Century 21 Convention Keynote Speech by Robert Pittman

(Orlando, Florida; March, 1996)
CENTURY 21®
CONVENTION
KEYNOTE SPEECH
BY
BOB PITTMAN
(CORPORATE ADDRESS)

You know, it's great to be here in Orlando because -- and this may come as a shock to you - I'm a real big Disney fan.

Despite the fact that I had them in my cross-hairs for five years as the head of Six Flags Theme Parks, I find the Disney characters delightful... and since coming on board at Century 21, I've particularly related to Snow White and the Seven Dwarfs.

Because when you think about our industry, there are some astonishing parallels with that fairy tale.

Here we are, Snow White -- the only true consumer brand in the business -- and there they are, our competitors, the Seven Dwarfs... virtually indistinguishable ... and fated never to rise above a certain height.

Sure, they may whistle while they work... but let's remember where they're headed... downhill... into a mine.

A great statesman once said. "We all live under the same sky, but we don't all have the same horizon."

Well, when you're toiling underground, your horizons are quite limited.

Century 21, on the other hand, is that castle in the air that I talked about earlier.

We have a wide open field of vision... and a horizon that extends as far as our imagination and creativity will take us.

We have a truly unique and fantastic opportunity at this moment in time to take that gulf that exists between us and our competitors... and make it an ocean.

Our vision is to clearly separate Century 21 from the pack.

And that's exactly what we're doing.
At Century 21, we have the brand name... we have the resources... and we have the raw talent to redefine our industry.....

When you look at our market... a fragmented 1 trillion dollar market that is rapidly consolidating -- and consolidating around brands....

When you look at the consumer: ... brand-buyers motivated by
convenience and cost-savings....

When you look at our position... #1 market share... unaided consumer awareness levels that swamp the competition ... and the only company with a predisposed customer ...

Then it's not hard to see why the future looks so promising for this organization... and, by extension, for this industry.

We are at a crossroads.
And as the industry leader, it is our right to chart the course the real estate business will take from here.

We haven't exercised that right in the past. But, you better believe we will now.

The Sleeping Giant is wide awake.
He's working out.
He's drinking Jolt Cola. He's demanding the respect and the benefits that go with being #1.

When you're #1, you can do things others can't.

You can write the rules of engagement... and we're scribbling furiously.

We intend to help you build a business that transcends the transaction ... and creates a relationship with the consumer... one that makes financial sense not only for him or her... but for you.

Because ... and you'll get tired of hearing me repeat this ... you are our customer.

Your success is our success.
Plain and simple.

Our mission is to provide you with a responsive, fast-moving, entrepreneurial organization that puts your profitability first and offers you services never before offered in real estate.

In designing these services, we started at the obvious starting point... in brokers' offices around the system.

Last August, we interviewed you.
We surveyed you.
We asked you what you needed.

And based on your feedback, we built our plan.

We took our natural advantages... and we leveraged them in
new directions to address the needs you identified as critical.
And that's what I want to talk to you about today.

First, our natural advantages... then the needs that you identified...
and finally, how we are fulfilling them.

[SLIDE 1: ONLY NATIONAL BRAND]
As I said, when you're #1, you can do things others can't.
And according to every measure -- size, market share, consumer preference -- we are the preeminent... and the only national consumer brand in real estate.

With 6,000 independently owned and operated offices nationwide, the Century 21 system has three times the market share of any competitor.

More important, more consumers know and want to do business with Century 21 than any other real estate organization... by a staggering margin.

I have just seen the results of the latest Wirthlin study... and it boggles the mind.

This audience took our already massive lead over the competition... and widened it still further.

Let me tell you about those new results.

(SLIDE 2: ONLY TRUE CONSUMER BRAND)

When it comes to consumer awareness, among homeowners Century 21 now leads the competition by 40 percentage points!

CENTURY 21 had 64 percent unaided awareness... versus 22 percent for RE/MAX and 19 percent for Coldwell Banker.

(SLIDE 3: #1 IN PREFERENCE)
But what's even more impressive is the fact that home owners expressed an overwhelming preference for Century 21 when asked who they wanted to do business with.

I mean, we swamped the field.

More home owners want to do business with Century 21... than our next five competitors... COMBINED!...

In fact, even those five competitors combined fall 10 percentage points short of CENTURY 21 in terms of consumer preference.
In my experience, those numbers are ... in a word ... phenomenal.

To provide a little reality check, let's look at some other industries.

(SLIDE 4: MOST INDUSTRIES HAVE MULTIPLE BRANDS)

Most industries have a leading brand ... but also a close number two. That's true with rental car companies, computers, airlines, and TV networks.

(SLIDE 5: C21 STANDS ALONE)

Only in real estate, do we see this sort of dramatic drop-off between the #1 and the others in unaided consumer awareness.

In fact, our consumer preference places us among the elite consumer brands in the country. And with 1 trillion dollars in sales ... we have staked out a leadership position even among these elite brands.

Because a brand is defined in terms of having a predisposed customer -- it is not to be confused with market share.

And in that regard, Century 21 also stands alone.

Our commitment is to leverage this advantage of being #1 for all it is worth, so that, as a member of the Century 21 team, you will find that advantage is of immeasurable value.

About eight months ago, we asked YOU how we should go about leveraging that advantage.

And you told us.

(SLIDE 6: MEETING BROKER NEEDS)

You told us the areas we needed to improve within the CENTURY 21 system.

And this is how we went about building the solutions.

The areas you asked us to focus on were:

#1 Brand Image

#2 Lead Generation and Management

#3 Automation and Technology

#4 Agent Recruitment & Retention
#5 Margin Improvement

#6 New Revenue Streams

#7 Corporate Communications

Well, we've done it.

We've made progress on all these fronts.

You're aware of many of these developments... some are already being implemented in your offices.

But I hope you took a strong shot of caffeine on your way in here... because I have 12 MAJOR NEW ANNOUNCEMENTS to make today.

That's right ... you heard me correctly ... in the next few minutes, I'm going to give you 12 major, new announcements that address your needs.

[SLIDE 7: BRAND IMAGE ZOOM]
Let me start with that first issue -- our brand image.

Brand identity is the number one value of the Century 21 system -- because it is our brand identity that gives you a predisposed customer -- and a big leg up on our competition.

So we are dedicated to taking our brand -- and the competitive advantage it brings you -- to new heights by continuing to build that brand... and also by segmenting, extending and leveraging it.

Let me show you what we've done -- beginning with our advertising.
[VIDEO 1]

[SLIDE 9: NATIONAL PRINT ADS]
We promised you hard-hitting, call-to-action advertising ... and we delivered.

What you see before you are not the "look-alike," feel-good, sing-it-don't-say it ads that have typified the real estate industry.

Unlike past advertising, (you can turn off the sound -- and can't put a competitor's name on it.)

Because we have revolutionized real-estate advertising with:

(SLIDE 10: CLOCK LOGO)
- A contemporary look -- featuring state-of-the-art
animation introducing the sleek, stick-figure "Minuteman"
- We have separated ourselves from the pack with a real jaw-dropper -- the fact that with 1 trillion dollars in sales, we rate among the truly elite brands in America.

- We have capitalized on that information to drive home the benefit of being #1 -- our ability to sell homes fast.

- We follow up that assertion with an unmistakable call to action -- it couldn't be plainer -- "CALL #1."
- And we provide the opportunity to do just that with an 800# ...
and a followup system that routes leads from the advertising directly to your offices.

Furthermore, this campaign is supported by a level of spending that no competitor can match.

And it began in January --not March-- because January is when people begin to make their listing decisions.

These ads will reach almost 100 percent of American homes 28 times during the year -- nearly twice the number of times we reached them last year.

But is it working?

(SLIDE 11: CALL VOLUME UP)
Well, the early returns are in... and the response has been outstanding.

In the first week the campaign ran, the call volume to our 1-800 number nearly quadrupled!

Let me show you the other evidence of how well that advertising is working.


Let's start again with that key determinant of brand strength -- consumer preference -- in which consumers are asked which real estate company they were most likely to use to buy or sell a home.

Since our ad campaign, our consumer preference numbers have leaped from 18 percent last year to 23 percent ... an increase of almost 30 percent.

We issued a call to action... and consumers are responding in force

Through this ad campaign, we're building this big brand even bigger -- separating us even further from the pack!
[SLIDE 13: SEGMENTING BRAND]
As I promised, we're also segmenting the brand. What does that mean?

That means that Century 21 will do more than blanket the mass market...

We will leave no stone unturned... no niche unoccupied... in our domination of this business.

So let me make the first of my Convention announcements -- the launch of Century 21 Fine Homes and Estates.

(SLIDE 14: FHE)
With CENTURY 21 FINE HOME HOMES AND ESTATES, we're introducing a brand to reach the upscale market with the consumer power that only CENTURY 21 can bring to bear.

Because you know what? Contrary to disinformation spread by competitors, the upscale market loves us!

(SLIDE 15: #1 AMONG UPSCALE)
In a survey we recently conducted of households that earn in excess of 100,000 dollars per year, there was a nearly 3 to 1 preference expressed for the Century 21 brand over its nearest competitor, Coldwell Banker... and notice that the King of disinformation, Re/Max, isn't number two, and isn't number three. They are no better than a puny number four... at less than 1/5 our size.

Now for my second announcement.

We're also going after the vacation and second home market with a brand called Century 21 Recreational Properties.

(SLIDE 16: RESORT LOGO)
You know COKE had much better luck with Diet Coke than they did with Tab. The reason was that they were able to use the consumer preference for Coke in a brand new market niche. We're doing the same with the niche markets in real estate.

By using the Century 21 name, we're using an asset that no one else has, and that no one else can duplicate in both the upscale market and the recreational property market. This unduplicated brand power will allow us to dominate the markets previously occupied by independent or boutique real estate companies.

Because like Coke, if we can fill the supermarket shelves with our products, we will push out the others that were there because we weren't.

And we're going to support these brand extensions like no
one in this industry ever has with ...

(SLIDE 17: RECREATIONAL LISTING)
- special listings: on your chairs, you should have found the new Century 21 HOUSE and HOME magazine. If you open it up, you’re going to see listing ads for Century 21 Recreational Properties....
(SLIDE 18: FHE LISTING)
and Century 21 Fine Homes and Estates.

(SLIDE 19: BILLBOARD)
We’ve also designed special ads for each of these brands. Tell me: How would this look as a billboard?

(SLIDE 20: AD WITH BANNER)
We’ll also have premium-quality, tailored sales presentation materials and proprietary databases, using the resources of a powerhouse to take over these niche markets.

In fact, we’ll use all the resources at our disposal to dominate these niches.
Let me tell you about the benefits of having these brands.

Let’s take CENTURY 21 Fine Homes and Estates as an example.

(SLIDE 21: BENEFITS)
#1 The very existence of this upscale brand counters any misperception in some agents’ minds that Century 21 doesn’t perform well in that market... this will aid in our recruiting efforts for the nation’s finest agents.

#2 We can now go head-to-head in this end of the market with realtors who purport to be exclusively upscale.

#3 It will help us get more upscale listings and help you make more money ...
and I define upscale as 750,000 dollars and above...
so you can do the arithmetic;

and #4 Century 21 Fine Homes and Estates will carry a positive patina that will "rub off" on the rest of the system.
If we can sell a $1 million dollar home, we’ll have no problem selling your $350,000 dollar home as well.

And we will unveil our commercial brand in the coming months.

With all the things we’re doing, our major focus is to help you improve your core business --selling houses--- and to help you sell more of them with greater productivity.

(SLIDE 22: EXTENDING BRAND)
But we also have real and tangible opportunities to extend the brand through new branded products and services that will extend the power of our brand name to:

-- Further build brand identification
-- provide additional advertising spending
-- generate new leads, and
-- create new profit opportunities for you.

You’ve heard about many of the exciting developments in this arena:

(SLIDE 23: HAH MAG)
-- Century 21 HOUSE AND HOME magazine, which, once again, you should have found on your seats;

(SLIDE 24: DEARBORN)
-- the Century 21 book series with Dearborn Publishing;

(SLIDE 25: CREDIT CARD)
-- Century 21 branded affinity credit card developed with GE Capital Consumer Card Co.;

And then there are the blockbuster coups... those deals we’ve managed to strike that truly distinguish us in this industry... that break us out of the pack:

(SLIDE 26: AOL LOGO)
-- Century 21 COMMUNITIES on America Online which I’m going to get into in just a bit; and

(SLIDE 27: C21 HI)
-- Century 21 HOME IMPROVEMENTS ... and we’re going to hear more about this exciting opportunity tomorrow from Rob Swartz, the President and CEO of Century 21 Home Improvements.

[SLIDE 28: LEVERAGING BRAND]

Finally, by leveraging our size and the power of our CENTURY 21 brand....

(SLIDE 29: LOGOS)
we can offer discounts on phone calls, affinity credit cards...

(SLIDE 30: LOGOS)
auto purchases and leasing and many other serves which improve your bottom line.

At the same time, we can also extend that leverage to the ultimate customer.

(SLIDE 31: BOX)
For example, I hope all of you have already heard about our spring "bonus box."

(SLIDE 32: BONUS BOX AD)
Every buyer who goes under contract or who uses a Century 21 agent during April and May, may upon closing, receive a bonus box filled with up to 8,000 dollars worth of welcome savings opportunities from such well-known brand names as AT&T, Cadillac, Disney and Black & Decker. You’ll hear more about this marketing innovation in this afternoon’s breakout sessions.

A wise man once said:
"Those who rest on their laurels are wearing them in the wrong place."

Well, we’re not sitting on the laurels of our brand. We are determined to build our brand and our image to your benefit through the most innovative, aggressive brand management program in real-estate history.

One more thing about the quality of our brand: I’m pleased to say that we are also literally transforming our organization through the exciting new members we are recruiting to join us.

(SLIDE 33: FRANCHISE SALES VOLUME)
In the months of January and February alone we’ve recruited new franchisees accounting for more than five times the GCC we recruited in the same period last year.

(SLIDE 34: AVG. OFFICE GCC)
What’s more exciting is that the average GCC of these new franchisees is higher than the average for our system -- and twice that of the franchisees added last year.

Because you told us to be picky about the members that we admitted to this club -- and we are.

They represent a level of quality, size, prestige and strategic locations that will build the CENTURY 21 system to new heights.

So that’s what we’ve done with brand image ... and there’s more to come.

(SLIDE 35: LEAD GENERATION)
The second need I promised to address was lead generation and leads management.

We are committed to providing you not only more leads, but the tools and systems to manage them. Because good leads are too often poorly followed up -- the equivalent of throwing "gold in the garbage can."
Tomorrow in our general session you’ll hear a description of our new and exciting leads management system ... which has just finished the beta test and will available for you after the convention.

We have developed systems, based on techniques developed in the publishing industry and by a select few top-producing real estate professionals, to make our current book of leads deliver many times the historical levels of production. It can be the equivalent of increasing your leads by four fold.

(SLIDE 36: UNMATCHED SOURCE FOR LEADS)
In addition, we are leveraging our own resources with the HFS system and databases to provide a combined source network for leads unmatched in the industry.

This combined network includes:

- The HFS Hotel Loyalty Club -- a database of more than 5 million names, including corporate relocaters

- the nearly 170 million visitors to HFS hotels each year;

- The Century 21 Preferred Client Club, a 600,000 name list that receives the Century 21 HOUSE AND HOME magazine. We’re in the process of expanding this exclusive club to provide a whole new range of services;

- The Century 21 toll-free 1-800-4-HOUSES leads line.

- Century 21 HOME IMPROVEMENTS’ telemarketing effort with more than 1 million consumer contacts and hundreds of mall kiosks, providing a unique source of leads exclusively to Century 21 brokers.

-And, finally an agreement with the nation’s largest manager of apartments to help generate leads from tenants wishing to move up to home ownership.

(SLIDE 37: AOL LOGO)
Moreover, the president of America Online Services is here today to show you not only our new proprietary network -- 21 Online
-- but also the initial look at another dynamic source of leads ... Century 21 Communities.

(SLIDE 38: C21 COMMUNITIES)
And let me remind you that’s the exclusive real-estate brand on the real estate page on America Online.
This will be the most comprehensive source of consumer information ever developed for prospective home buyers about communities across the nation... featuring easy
accessibility on the #1 commercial online service...

And, more to the point, a source of qualified leads that cannot be duplicated anywhere.

Through this service, if a potential customer is interested in a particular community or property that consumer can contact a Century 21 office immediately and directly on-line.

Ted Leonsis, as I mentioned, will be following me today and giving you more information on this unprecedented application.

It’s a first for both our industries... and represents an exciting new business horizon for Century 21 and AOL that allows us both to leapfrog the competition.

(SLIDE 39: CORPORATE RELOCATION)
Also high on your wish list was improvement in the area of corporate relocation.

We have for too long forfeited our leadership position in the industry in this area... by following the conventional wisdom.

We worked through a third party company instead of directly with corporations.

Although Western Relocation is one of the leading relocation companies, there is no way we’re going to capture the market share that should be ours through only one company.

So, we’re going direct.

We’re approaching human resources professionals at major corporations with a package of products, services and discounts that can’t be matched by any other company.

We’re going to show them that truly, when you’re #1 you can do things others can’t.

And within the next several months, we anticipate some major announcements on this front.

(SLIDE 40: FOLIO)
We’re also leveraging the HFS system in other ways.

Here’s a sample invoice from Ramada hotels.
You’ll notice at the top, it now reads, "Moving? Relocating? Let Century 21 help handle all your needs" and then our 800# number.

I wake up in the middle of the night muttering "leads,
leads, leads."

I know it's important to you and it's just as important to me.

I promise you we will have a lot of new leads by the time the next convention rolls around.

(SLIDE 41: AUTOMATION)
A third need was automation and technology.

We know your time is money.

So the Century 21 system is developing proprietary automation tools that will dramatically boost your productivity---you can get MORE out of your existing time and money.

(SLIDE 42: 21 OL LOGO)
The centerpiece of this effort is our exclusive TWENTY-ONE ONLINE communications network on America Online linking all 6,000 Century 21 offices.

(SLIDE 43: SCREEN)
This system---the only one of its kind in the industry, linked with the #1 commercial online service---offers the Century 21 system and its members the ability to:

-- speed communication back and forth with headquarters and from office-to-office

-- create an instant, virtual referral network;

-- participate in chat rooms and mentor networks;

-- access training, quality assurance and awards and recognition information;

-- order on-line from the system's catalogs for printed materials, apparel, signage and other merchandise; and

-- ultimately, add to your listing presentations with potential sellers or buyers with demonstrations of Century 21's full-range of services---on-site and on-line.

In addition, it is my pleasure to announce further developments on the information technology front.

(SLIDE 44: POWERPAK LOGO)
Announcement number 3 is that we're introducing PowerPak 21, a powerful, new office automation technology.

PowerPak 21 will revolutionize front office and back office administration and connects directly to the agent,
dramatically improving their productivity as well.

DevelopedBy Broker Online, this system is a totally integrated, first-of-its-kind solution that links the agent, the broker’s back office, the new leads management system... the front office and Twenty-One Online.

You can learn more about PowerPak 21 in the exhibition hall, the afternoon breakout session, and in tomorrow’s general session.

And I’m pleased to announce that those of you who sign up here at the convention will receive a special discount on an already favorably priced product.

(SLIDE 45: TV NETWORK)
Now for announcement #4: we’ll be launching the CENTURY 21 Television Network -- our own exclusive in-office and in-home direct satellite television service, featuring real estate industry programming from Realnet as well as programming exclusive to the Century 21 system.

Once again, as with our relationship with America Online, CENTURY 21 will be the only branded real-estate company on DirecTV, the most successful direct broadcast satellite company in America. The CENTURY 21 Television Network should prove to be a valuable training and industry news resource for professionals... and I’ll be announcing a deal shortly that will give you a dramatic discount on the satellite dish you’ll need to hook up to the network.

I would like to point out that all these new technologies...

Twenty-One Online, PowerPak 21 and the private television network will be demo’ed at the break-out sessions being held today and tomorrow.

I urge everyone to go to all three of the main afternoon sessions-- Technology, Operations, Marketing.

There will be a lot of valuable information offered there on all our new programs... that we just don’t have time to get into during the general sessions.

You’ll learn more in a few hours than you can all year.

(SLIDE 46: AGENT RETENTION)
The fourth need: agent retention and recruitment. The number one real estate brand deserves the best real estate professionals.

A great brand and a great agent are an unbeatable combination... because a great brand makes more money for a great agent... and a great agent makes a great brand even better.

The key to sales associate retention and recruitment is
convincing the great agents that Century 21 is the best place to be... so virtually all the programs we're putting in place across the board will help us realize our objectives in this arena.

(SLIDE 47: AGENT DETAIL)
Brand building...
lead generation...
Also training and recognition...
and a benefits package that is unique to agents in the Century 21 system.

In fact, announcement #5 is that we have successfully negotiated a medical, dental and disability benefits program from CIGNA, CNA and United States Life that, overall, is superior to any other programs now available in the industry and offers the first broad-based dental plan in the industry.

We'll be announcing the specific details in the next few months, but this unique package will use the volume leverage of HFS Incorporated to allow you to access this unique range of coverages.

Training and recognition was an area where Century 21 scored high marks in your view, so instead of overhauling a machine that didn't need fixing, we've merely introduced some improvements.

(SLIDE 48: AWARD)
For instance -- and here's announcement #6! -- this Convention marks the inauguration of a new award at Century 21, The President's Award.... which will be given out this evening.

It's for offices who successfully achieve both CENTURION production and the Top Quality Service rating in 1995... because that's the winning combination in this business.

(SLIDE 49: TRAINING)
When it comes to training, it is generally acknowledged that we have the finest member development programs in the business... bar none.

Our competitors' past raiding attempts are testament to that.

We haven't tampered with our existing success... but we are building on it... at your suggestion... by developing the Flight to Excellence program, which is specifically tailored to the unique needs of the largest and fastest-growing brokers.

And, of course, we'll be offering in-depth training on all the new systems we'll be introducing in the next several months... as well as the new programs and services we are already rolling out.

You see, one of the great ways to achieve agent retention is to provide them... as well as our brokers... with
volume discounts they can’t get anywhere else.

And that brings me to my next topic — margin improvement.

(SLIDE 50: MARGIN IMPROVEMENT - ZOOM)
We’re capitalizing on our size and our membership in the HFS family to create volume discounts for our system. Volume discounts are another way we can reward agents within our systems and improve the bottom-line performance of every office.
Such volume discounts are already in place with:
* AT&T, offering a low flat rate for phone calls from your office or home;
* Potamkin for car sales and leasing;
* Merrill May for business cards and marketing materials.

* But fasten your seatbelts ... because here comes a whole series of additional announcements in the area of volume discounts:

(SLIDE 51: HOTEL CARD)
- Announcement #7:
 Discounts for hotels...
 On your chair you should have found your new employee discount card.

(SLIDE 52: HOTEL LOGO)
This will give you tremendous discounts on hotels within the HFS family that no one else can match.

- Announcement #8:
(SLIDE 53: DANKA LOGO)
Discounts for office equipment: Under an agreement we’ve just reached with Danka, a leading national supplier of office equipment, you will be eligible for discounts of up to 40 percent on copiers, fax machines and other equipment that no one else can match.

- Announcement #9:
(SLIDE 55: AT&T LOGO)
Cellular phones:
We’ve just reached an agreement with AT&T Wireless that will provide you discounts for cellular phones and wireless phone service within their service areas ...
 that no one else can match.
- Announcement #10:
Paging systems:
Under another agreement we’ve just reached with AT&T, CENTURY 21 will be the very first company to have access to a special new AT&T paging system that enables the person paged to connect directly with the caller ... while the caller is still on the line.

Another service no one else can match ... because no one
else has it!
Have we been busy, or what?
But these announcements are just one more piece of evidence
that when it comes to phone service, cars, computers,
office supplies and equipment — everything our system
members need to run their businesses — we are committed to
ensuring that Century 21 brokers and associates have better
benefits and operate at a lower cost basis than anybody in
the industry.

In addition to leveraging our scale with these bold and
innovative volume discounts, as I’ve pointed out, we’re
boosting productivity by making your back offices, your
broker-to-broker networking and your leads generation
systems more efficient.

(SLIDE 56: REVENUE STREAMS)
We’re also increasing your margins by bringing new
businesses under the Century 21 umbrella... because the
impact from these ancillary revenue streams drops directly
to the bottom line, it’s almost pure profit.

[It’s just like the movie theater and theme park business.
The secret to the high margins of those businesses is their
ability to generate multiple revenue streams.
Theater owners don’t make their profits from ticket sales
...but from the popcorn they sell.]
In the same way, as in our theme park business, our
multiple revenue streams from "concessions," will allow us
to dramatically improve our margins and increase the
earnings for both our agents and brokers.

(SLIDE 57: NEW REVENUE STREAMS LIST)
New revenue streams include some of the licensing and
preferred vendor arrangements I’ve discussed,
- CENTURY 21 Home Improvements

- America Online
- GE Capital
- Dearborn Publishing

Now let me take this opportunity to announce a few more.

Announcement #11:
is a landmark deal we’ve just struck with Sony and DirectTV.
(SLIDE 58: SONY & DIRECTV)
And the CENTURY 21 Television Network is a part of this new
pl
You’ll be hearing more about it this afternoon during the
breakout sessions and tomorrow...
But basically, Century 21 brokers and sales associates will now be able to offer our customers SONY satellite dishes at deep discounts, as well as being able to sign our customers up for DirecTV entertainment services.

Again, here’s another #1 -- SONY -- doing a deal with number #1.

And in this deal, not only will we be able to give our customers a price break they can’t get anywhere else, and not only will we be the only real-estate company that can offer these deals but you... our brokers and sales associates ...will enjoy your own deep discounts.

And more important, you will make a commission on every dish you sell.

That’s more popcorn ... with butter on top.

Still, there’s more.

(Disney is signed - confirmed!!)

Very early on, when talking about the home, we all agreed that home security systems were a natural to be associated with CENTURY 21.

(SLIDE 61: ADT LOGO)
I’m pleased today to make my 12th and final announcement. And once again, it’s another #1 -- ADT -- doing business with #1, CENTURY 21: we will be providing qualified referrals to ADT for home security systems --you will be able to offer a price no one can match for the finest home security systems and receive a commission for each closed transaction. In addition to the leads it provides to us, we’re now ramping up our relationship with CENTURY 21 HOME IMPROVEMENT, generating new revenues for our agents and brokers. And we’re ready for the next giant leap forward... we will have a mortgage program launching within this calendar year and some of you will be asked in the next few weeks to participate in a beta test of this new system.

This, potentially, could be the most lucrative of all our ancillary services ... and we believe that again, our approach to this critical area will leapfrog the competition.
All of these new services we’ve just discussed, provide your customer with revolutionary cost savings and convenience.
More important, ancillary products provide you -- the broker and agent -- with incremental and substantial revenue streams without incurring additional costs or incurring additional overhead.

These are revenues that hit your bottom line with an incredible impact.
With new high-margin ancillary revenue streams, our vision is to double or triple your profit margins.
If that happens, we will not only have made the whole system dramatically more profitable for everyone involved -- we will have truly transformed this industry.

(SLIDE 62: CORP. COMMUNICATIONS)
The last need you identified was communications... and we've certainly been working hard in that arena.
You can never inform people too much. You can never listen too hard.

I hope that you have found the broker letters we've been sending out helpful.

Every time the ink dries on a new deal, we let you know about it first.

(SLIDE 63: MINUTEMAN)
We've also introduced the Minuteman ...

(SLIDE 64: LEADER)
overhauled the Leader...

(SLIDE 65: UP TO MINUTEMAN)
even added "Up to the Minuteman" bulletins.

(SLIDE 66: 21 OL LOGO)
We're introducing Twenty-One Online, which will make a huge difference in the timeliness of our communications...

(SLIDE 67: C21 TV NET)
and our new CENTURY 21 Television Network will add yet another dimension to these communications.

We're sending you tapes of speeches...
of the new advertising...
... but most important -I'm getting out and meeting with you face-to-face... and I'm learning what it takes to help you succeed.
[pause]

I hope I've managed to convey in the course of the past hour...
and the 12, count 'em, 12 new announcements we've made...
the progress we’re making and the incomparable benefits of being associated with number one. But of course the choice is always yours.

Let me ask you a few questions....

Do you want to be:
- part of the only national brand in real estate, the company that consumers think of when they think about selling or buying a home?
Do you want to be:
- AHEAD of the dramatic changes that will sweep this industry?
Do you want to be:
- participating in the new revenue streams and profit margin improvements that will be developed through "one-stop shopping?"

Do you want to be:
- the beneficiary of productivity-enhancing automation tools?
Do you want to be:
- the recipients of the highest levels of volume discounts?
Do you want to be:
- supported by the highest standards of quality and service and the best training and awards programs in the industry?

Do you want to be:
- with the leader in leads generation and management?
Do you want to be:
- part of an organization whose vision is to dramatically increase your profit margin?

If you do... then congratulations, you’re right at home. Our century is coming -- along with the opportunity to be part of the most successful, most dynamic, most entrepreneurial and most innovative organization in the history of real estate. When you’re #1, you CAN do things others can’t.

And I promise you, we’re gonna see just how profitable that can be.

Thank you.
(SLIDE 68)

(Pittman exit stage right)
Appendix C:

Draft of Century 21's Organizational Chart
here goes Century 21 org chart (redrawn)
References


Forbes, "From can't lose to can't win," April 8, 1996, p. 1.


Sun Zu, *The Art of War*, 314 B.C.