REAL ESTATE DEVELOPERS AND CHILD CARE CENTERS:
LOSS LEADER OR COMPETITIVE TOOL?

by

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Bachelor of Architecture
Tulane University
1974

SUBMITTED TO THE DEPARTMENT OF ARCHITECTURE
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF THE
DEGREE OF
MASTER OF SCIENCE IN REAL ESTATE DEVELOPMENT AT THE
MASSACHUSETTS INSTITUTE OF TECHNOLOGY

SEPTEMBER, 1988

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ABSTRACT

This study examines the decision-making process in real estate development firms considering the provision of on-site child care centers in office buildings and mixed-use developments. Actual managerial practices are contrasted with approaches outlined in marketing research, strategic planning, and new product development literature. There is a relative lack of understanding, focus, and progress within the real estate development industry relative to the child care market. Currently, developers have little appreciation of the tangible and intangible competitive advantages that can accrue from on-site child care centers. This is due partially from a failure to systematically analyze the firm's current external and internal environments.

Three minicase studies of progressive real estate firms in various stages of developing on-site child care are used to isolate specific factors that motivate developer interest. The case studies, while pointing to the divergent ways in which decisions are actually made, establish the critical role of the child care project champion.

The principal conclusion of this research is that on-site child care can currently provide a new competitive tool for the real estate development firm, and that further refinement of this amenity, or product, through systematic marketing research and strategic planning, may ultimately yield a profit.

Thesis Supervisor: Gloria Schuck
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ACKNOWLEDGEMENTS

The generous support of many individuals from the real estate development industry, the child care industry, government agencies, academia, colleagues, friends, and family facilitated my ability to research an emergent real estate product. I have benefited from the varied experiences and candid insights of those professionals working to develop the child care market.

My greatest appreciation goes to Gloria Schuck, lecturer at MIT's Sloan School of Management, whose leadership as my thesis advisor enabled me to frame and remain focused upon the significant strategic and managerial issues faced by real estate development firms as they respond to the child care market. Gloria's experience, mentoring, enthusiasm, assistance, support, and professionalism were instrumental to the development and execution of this work.

Richard Eichhorn of Jaymont Properties, Gregory Winter of the Prudential Realty Group, and Ann Doyle, Deborah Carlson, Mary Pat Caputo, and Richard Rourke of the Flatley Company provided invaluable assistance in preparing the minicase studies. Their accumulated wisdom about marketing, strategic decisions, and child care operations within the context of real estate industry parameters provided me with current, relevant, empirical evidence, and insight.

Other child care pioneers, including Gwen Morgan of Wheelock College, Michael Traino of Greentree Learning Centers, and Teresa Kerns of the Government Center Child Care Corporation shared their knowledge and contacts.

Larry Ingrassia of the *Wall Street Journal* and Linda Mason of Bright Horizons facilitated further industry discussions and information gathering with venture capitialists, consultants, and real estate professionals including Roger Hall, Gregory Winter, and Michael J. Connelly.

Additional information was obtained as a result of the efforts of Chris Dillon of the Corporate Child Care Program, Barbara Silverstein of the State Office for Children. Randy Bairnsfather and Hope Brand of the Rotch Library at MIT were enormously helpful in locating published materials, as were Janet Taylor of the Wang Corportion, Kathy Weremiuk of the Center For Real Estate Development (CRED) class of 1987, and my sister, Barbara Seidler.

My sincere thanks goes to Sandra Lambert and Jim Becker of MIT who generously provided me with additional ideas, encouragement, and materials. In addition, Maureen Leech of MIT and Mary Littlefield of TAMS were invaluable in helping me resolve production problems in completing this research. My colleagues John Jagger, Harold (Chip) DeMoss, and Paul Sehnert in the CRED class of 1988 were very supportive and encouraging during my research.

Much of the credit for the finished form of this research along with my appreciation goes to my editor, Catherine Coleman. My very special appreciation goes to Carl Nelson for his devoted support.

My special thanks goes to the faculty at the Center for Real Estate Development for their diligent efforts throughout the CRED program to share their knowledge and personal insights about our profession and to the center staff for their kindness and support throughout the Class of 1988.

Harriet Seidler
July 29, 1988

About the Author

Harriet Seidler graduated from Tulane University's professional five-year architecture program in 1974. Since then she has worked in the private and public sectors as a planner, manager, and consultant in all phases of the development process. Her positions have included: Director of Facilitities Planning for Medivision, Inc., builders and managers of ambulatory surgical centers; Vice-President of Development and New Construction for Qualicare, Inc., a firm specializing in for-profit hospitals and medical office buildings; Project Manager for Folse HDR, an architectural firm concentrating on the design of prison facilities, and; Planner for the City of New Orleans. She has also consulted on a wide variety of residential, office, medical, and mixed-use projects. As an instructor at Tulane University, Ms. Seidler taught Historic Preservation and Adaptive Reuse of Landmark Buildings for a period of five years.

CONTENTS

INTRODUCTION

Some real estate developers are still asking, "Why should *we* pay for the child care crisis?" A new breed of developer, however, with entrepreneurial and visionary perspective, is being drawn to the highly fragmented, but rapidly growing child care market. These developers no longer question whether they should view child care centers as pivotal to the provision of superior amenity packages for office products and large mixed-use developments. They do *not* ask, "Should we?" Rather, they question, "Which location and at what cost?" Some will go the extra mile and embrace the child care center as a real estate product. Roger Hall, a Houston-based real estate broker and consultant active in the child care market, explains:

> *You don't have to be a rocket scientist to figure out that with two-thirds of the entrants to the work force being women in child-bearing years, there is a grand opportunity* (Ingrassia, 1988).

This thesis focuses upon the lessons to be learned from developers who recognized the opportunities to their organizations presented by the child care dilemma.

The first chapter of this research presents an overview of the literature in marketing research, strategic planning, and product development that directly applies to the research topic. University libraries are inundated with books and periodicals on marketing research, strategic decision making, and product development for consumer and industrial goods and services. Yet, these topics are not addressed from the viewpoint of real estate development companies.

The general business literature is useful, however, for the creation of an analytical framework for firms in the real estate industry contemplating their response to the child care market. From this framework it is possible to make an assessment of the fit between current real estate industry practice and practices recommended in the literature. A hierarchy of planning decisions, beginning with strategic planning and descending to product development and marketing research, ultimately forms the basis of the analysis developed in this research.

Strategic planning and product development are vast subjects. The literature survey is not intended to thoroughly investigate them; it focuses only on those portions that directly relate to the questions raised in this research.

The second chapter discusses legislation and market forces related to the child care dilemma from the perspective of the real estate industry. This dilemma is a serious social issue reflecting family and corporate economics.

The third chapter contains three minicases. Each is a vignette of a real estate development firm that considered providing a child care center in an office or mixed-use development. Each case demonstrates how the company evaluated the inclusion of on-site child care in selected projects and the outcome of this strategic decision.

Chapter four analyzes the decision-making processes of the three real estate firms relative to child care centers. Conclusions about the case data are developed from the framework created in the first chapter. The analysis isolates factors that motivate developers to furnish on-site child care centers in office complexes and mixed-use developments.

Chapter five presents conclusions based on the minicase analysis and recommendations for further research.

CHAPTER 1

LITERATURE REVIEW AND ANALYTICAL FRAMEWORK

Introduction

The first section of this chapter presents a historical overview and survey of marketing research literature. This is followed by a consideration of strategic planning and product development literature as it relates to strategic decisions in new product development. The second section outlines an analytical framework for this study based on the literature survey, which is used to analyze the site data presented in Chapter 3.

Section 1

A Review of Marketing Research, Strategic Planning, and Product Development Literature as it Relates to Strategic Decisions in Product Development.

HISTORICAL OVERVIEW

Marketing research is not a twentieth-century concept. One of the first known instances of applied marketing research dates back to 1380. Members of the Fugger family, who once dominated western European finance, exchanged detailed letters describing trade and finance across key geographic areas so they could base their business decisions on up-to-date information about changing economic conditions (Ferber, 1974).

Marketing research techniques first appeared in the United States when political canvassing for the 1824 presidential election was conducted by the *Harrisburg Pennsylvanian* and *Raleigh Star* newspapers. In 1879, a Philadelphia advertising firm, N.W. Ayer & Son, completed a market survey which was the first formal business-oriented marketing research study recorded in the United States. The first U.S. marketing research firm, The Business Bourse, appeared in 1911, and in-house research organizations were established in 1915 for the Curtis Publishing Company, U.S. Rubber Company, and Swift and Company.

Academic treatment of marketing research was pioneered around the turn of the century at the University of Minnesota, Northwestern University, and the Harvard Business School. In 1937, Lyndon Brown wrote *Market Research and Analysis*, which soon became a popular textbook in the marketing research field. After Brown's book, many other textbooks were written for university programs. Marketing research was infrequently presented in business schools before 1930, and infrequently omitted after 1937 (Ferber, 1974). Marketing research continues to play a significant role in business school curricula today.

EXTERNAL ENVIRONMENT: MARKETING RESEARCH

If you don't know where you are going, all roads will take you there. -- *Anonymous*

For most businesses today, marketing research is the primary source of information about the external environment and market conditions. It is the touchstone of decision making that affects the current and future relationships between a firm and its customer groups, vendors, and competitors. Marketing research guides the strategic planning process by providing a context for interpreting the environment, identifying target markets (customer groups), pinpointing challengeable competitors, isolating opportunities and threats, and choosing the product amenities that can effectively differentiate a firm's products and establish a competitive advantage (Day, 1984).

Marketing research is purposeful investigation that provides a structure for decision making. "Marketing," when coupled with "research," implies the presence of methodology. The American Marketing Association defines marketing to be: "The performance of business activities that directs the flow of goods and services from the producer to consumer or user." An effective decision-making process broadens that definition and includes criteria such as objectivity, reproducible research, relevancy, and control (Brown, 1980).

Objectivity implies eliminating personal bias to ensure a factual representation and examination of the decision problem. Personal bias can easily invalidate research results and distort strategic decisions.

Reproducible research implies that the same results can be closely duplicated by other competent researchers.

Relevancy suggests that the collection of market data is directly applicable to a course of action which falls within the realm of potential strategic decisions, given a specific set of circumstances. It further implies that the benefits associated with the research exceed the costs (Zikmund, 1986).

Control addresses the importance of drawing conclusions about the significance of specific variables while holding others constant. Results can be distorted by misinterpreting the importance of a suspected causal variable if one or more uncontrolled variables are present.

Marketing research activities are driven by the marketing concept, which places the consumer at the focus of all business decisions. Internal business activities such as product design, packaging, production lead times, and facility location influence consumer attitudes or behavior, and therefore, require input from marketing research. External factors such as legislation, general business conditions, competitors' activities, market opportunities and threats, and changes in the social climate can also impact consumer attitudes or behavior and are, therefore, integral to the marketing concept (Brown, 1980).

Systematic methodology is a prerequisite to data collection and analysis. Marketing research is mapped out in appropriate sequential steps. Planning and organization are crucial in addressing the interdependency of steps and data, the cohesion of the total project, and the potential for mistakes which can precipitate a loss of time, money, and the window of opportunity.

The marketing research process is divided into five steps: problem definition, research design, data collection, data analysis, and interpretation. Quantitative research begins after the research problem has been defined in order to avoid obtaining the *right* answer to the *wrong* question. A well-defined problem leads to clearly stated research questions and well-formulated hypotheses. Data collection procedures are employed to obtain appropriate data for the problem as defined. The data is processed, the results are summarized, and then translated into action recommendations (Brown, 1980).

Real estate firms function within industry parameters that affect the firms' decision-making process. In analyzing a new market such as child care within the real estate industry context, many questions must be addressed through marketing research, including which aspects of the external environment impact real estate development firms and what market opportunities and threats are attributed to these aspects? (Pitts, Snow, 1986). Most markets are influenced by social, economic, legal, and political factors; these require systematic monitoring and interpretation. Specific market intelligence should include the identification of target markets, desired levels of service, locational preferences, current and potential alternative solutions to unmet demand, applicable legislation, political allies and foes, and the activities of current and potential competitors.

Marketing research cannot be conducted in a vacuum. It is the critical link in the firm's understanding of its external environment; however, to be effective, it should be pursued within the context of the firm's internal environment and strategic goals.

INTERNAL ENVIRONMENT: THE ORGANIZATION

The firm's internal environment presents a portrait of the decision makers' goals and values. The organization's real, as opposed to stated, objectives are virtually indistinguishable from management's personal and professional aspirations. Management's personal goals range from the acquisition of power, financial reward, and the challenge of managing complex problems, to the opportunity of contributing to society and meeting human needs (Pitts, Snow, 1986).

The firm's environment is shaped by the composite strengths and weaknesses of the management team and support staff, management styles, and the flow of information and dollars within the organization. An organization takes on a personality that reflects the aggregate personalities of its decision makers.

An example of an internal personality characteristic of a firm is its attitude towards risk. A famous illustration of corporate attitude toward risk occurred at the end of World War II, when both Sears Roebuck and Montgomery Ward needed to make strategic decisions about expansion. Sears actively accepted risk, borrowed heavily, and expanded aggressively, while Montgomery Ward held back. Today, Sears is the largest retailer in the world, and Montgomery Ward is a struggling subsidiary of Mobil Oil Corporation (Taylor, 1984).

Real estate development firms, like other organizations, are made up of six basic parts linked by a common ideology (Quinn, Mintzberg, James, 1988). Top management is located at the *strategic apex* of the organization. The *operating* core executes the basic tasks within the organization. The *middle line* stands between these two parts, interpreting top management's policies and directing the work force. The *technostructure* focuses upon the design of systems for coordinating and controlling the flow of work. Finally, the *support staff* is part of the organization not involved with the standard work flow, such as marketing research and new product development (Quinn, Mintzberg, James, 1988). In small firms, several organizational functions may be executed by one individual.

Organizational analysis, whether conducted by external consultants or the firm's own management, is comprised of a careful evaluation of the strengths and weaknesses of the six basic parts of the organization as well as the relationships between these parts. Techniques for organizational analysis include the development of human resource management inventories, in-depth interviews and observations of the firm's management and work force, self study, comparisons with other firms in similar and unrelated industries and positions, and detailed reviews of organizational performance.

Real estate development firms have a definite need to understand their organizations and how they operate. Skillful managers grasp both the firm's internal environment and its interconnection with the external environment, and use this understanding for effective managerial judgment and strategic choice in new product development.

MANAGERIAL JUDGMENT AND STRATEGIC CHOICE: STRATEGIC MARKET PLANNING

> *We are all continually faced with a series of great opportunities brilliantly disguised as insoluable problems.* *-- John W. Gardner*

The strategic planning literature deals with strategy and its relationship to existing products and markets, acquisitions, and new products. In its simplest form, strategic planning answers the questions: where are we now; where do we want to go; and how do we get there?

Mintzberg proposes five formal definitions of *strategy* --as a plan, ploy, pattern, position, and perspective--and considers their interrelationships. As a *plan*, strategy is a consciously intended course of action which is determined in advance and explicitly outlined. As a *ploy*, strategy is a maneuver to outwit a competitor. As a *pattern*, strategy is observed consistency in behavior, even if it is unintended. Patterns that develop in the absence of a plan, or despite the plan, are called emergent strategies. These are distinguished from intended strategies, which are deliberate but can arise from emergent strategies. Strategy as a *position* pinpoints where a firm locates itself in the industry environment or the market. From this definition, strategy becomes the fit between the internal and external environments, and specifies the firm's market niche, or market domain. Finally, strategy as a *perspective* is the focus of a shared vision of the firm's collective mind. In this respect, strategy in an organization is analogous to the personality of an individual and her or his world view (Quinn, Mintzberg, James, 1988).

The link between marketing research and strategic planning is established by *strategic market planning*. A strategy that begins with the analysis of market responses will be ineffective unless it is fully integrated with the organization's other functional decisions. Strategic market planning is defined as "a process that encourages and guides the dialogue between functions and organizational levels on how a business unit can best compete in the markets it elects to serve" (Day, 1984, p. xiv).

The strategic market planning process can be divided into two categories: managerial judgment and strategic choice. *Managerial judgment* synthesizes information about the firm's internal and external environments. The internal environment includes a definition of the firm's business, current strategy, strengths and weaknesses, and objectives. The external environment includes an industry analysis, an assessment of competitors, an understanding of the firm's current regulatory, political, and social contexts, and a comparison of the firm's strengths and weaknesses to those of the firm's competitors (Porter, 1980). *Strategic choice* includes identification and evaluation of strategy alternatives, strategy selection, and the explicit process which ensures achievement of the objectives specified (Pitts, Snow, 1986). These two categories create the framework out of which new product development is born.

A firm may identify and select a combination of different strategic elements in order to achieve its objectives. These elements might include capacity expansion, price leadership, and promotional policies, among others. New product development, the strategic focus of this research, is one option. An organization's strategic planning process for new product development is generally one of three processes.

The *Management by Objective (MBO) process* calls for the development of a comprehensive list of tasks to be accomplished, followed by the identification of strategies to achieve the objectives. This approach often fails to take into consideration the environment or capabilities within the organization.

The *inside-outside process* identifies the organization's resources and defines what can be achieved with them. This process best serves firms with a unique market opportunity at hand, or those with an established and protected leadership position. Its downside is a tendency to focus on the organization's strengths while having tunnel vision relative to company weaknesses; this typically produces unrealistic assessments of company capacity.

The *strategic thinking* process focuses on defining multiple strategy alternatives within the context of the internal company environment and capacity; outcomes are assessed in light of risks, costs, and benefits. Of the three planning processes, this approach generally achieves the most realistic objectives in new product development (Day, 1984).

As with marketing research and organizational analysis, strategic planning processes are systematic and formal. What planning processes are used in the real estate industry? Real estate developers are typically viewed as entrepreneurs who are born with a special "sixth sense" that enables them to make omniscient decisions. Such a view is so wonderfully "larger than life" that it is difficult for many developers to resist the pitfall of attempting to live up to it, a temptation which often blocks them from choosing a more rational, systematic planning process designed to support complex decision making.

In addressing the real estate firm's decision to introduce new products such as child care centers, several questions should be raised within the organization to foster the use of an adequate strategic planning process:

- What information is necessary for the developer to formulate objectives?
- How does the developer know when to introduce a new product?
- Do new products need a "champion" with unyielding commitment in order for them to be successfully introduced?
- Is the "stroke of genius" method of strategic decision making fatally flawed for an ongoing real estate development firm?

NEW PRODUCT DEVELOPMENT

Nothing chastens a planner more than to have to carry out the plan. *--General Gavin*

Strengths and Weaknesses

New product development is an outgrowth of managerial judgment and strategic choice based on an assessment of the company's external and internal environments. It begins with a comprehensive assessment of the firm's strengths and weaknesses, and an audit of the company's capabilities and environment (Urban, Hauser, 1980). Companies generally succeed when they leverage their strengths and abilities, making fewer mistakes in familiar territory.

Business Definition

An important step in new product development is a thoughtful definition of the firm's business. Framing this definition is an art; too narrow or too wide an interpretation has far-reaching business implications.

The Paper Mate Company represents a classic example of the impact that business definition has on product development. For many years, Paper Mate sold medium-priced ballpoint pens to retailers. In the 1970s, a new company president decided to formally define the company's business. The first attempt concluded that Paper Mate made medium-priced ballpoint pens. Then, another definition emerged: Paper Mate was a company that facilitated written communication. This definition, which recognized both the customers and the product, not only spawned a series of new products, but also a new vision of the company's business. It implied that the customer group was composed of students, housewifes, and business people, and the customer benefits were activities such as taking notes and paying bills. As a result, Paper Mate acquired Liquid Paper Corporation and along with it, a new product line (Taylor, 1984).

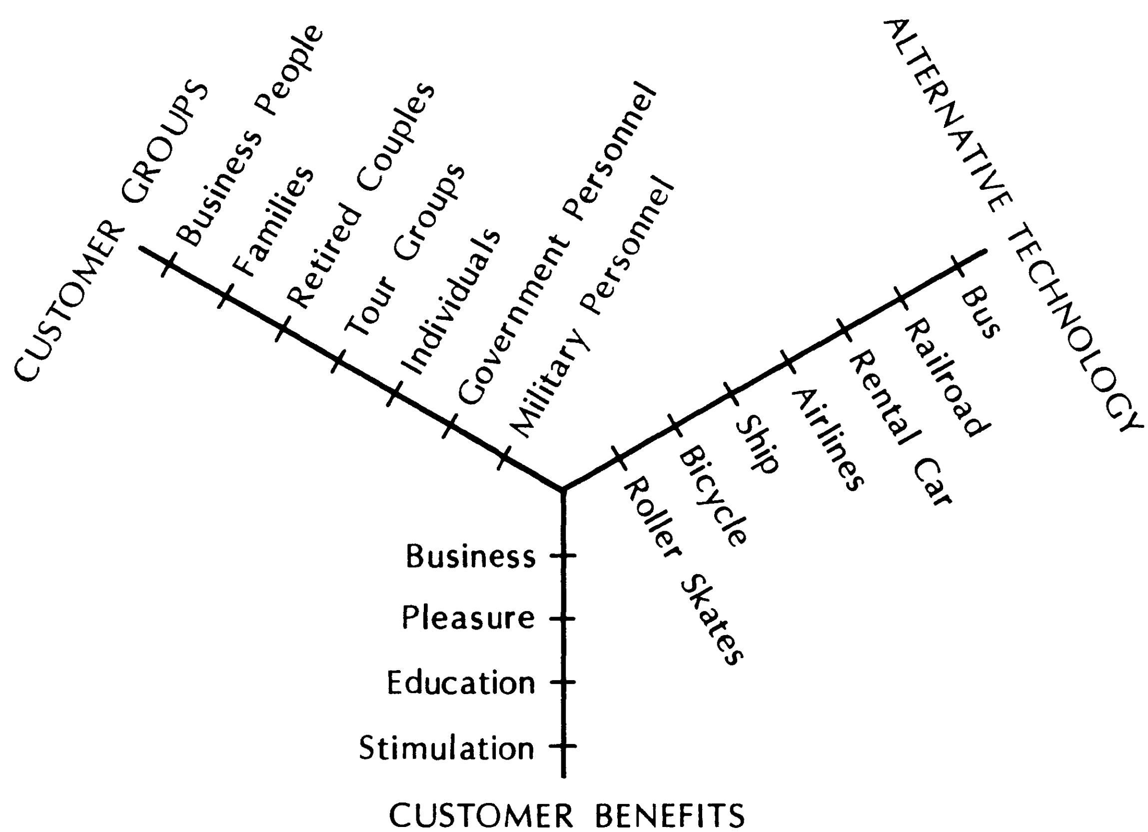
In real estate development, traditional firms focus upon fulfilling spatial needs and support services that relate to the direct operations of tenants. Innovative office developers provide support services such as dry cleaning, car washing, shared telecommunication, health clubs, and child care. This variation within product type directly relates to the scope of the developer's business definition.

The key to framing an appropriate business definition is based upon a recognition that a firm's market has three dimensions: customer groups, customer benefits, and alternative technologies. Unmet needs are identified by examining what customer groups need and what they currently obtain as benefits from existing products and services. *Customer groups* are the target market(s) or market segment(s) for a given product or service. *Customer benefits* are the explicit values created by obtaining specific goods or services.

Alternative technologies are the different means by which customer benefits are delivered to customer groups. Expanding alternative technologies can also lead to an expansion of the scope of the firm's business definition.

Each segment of the three-dimensional market can grow at different rates with varying degrees of attractiveness for new product development. This model can be used to identify "empty" market segments where new products may profitably create new markets.

For example, in the travel industry the customer groups, customer benefits, and alternative technologies can be mapped by the model (Taylor, 1984) shown in Figure 1:



THREE-DIMENSIONAL TRAVEL MARKET MODEL:
A MARKET SEGMENT

Figure 1

New Product Strategy Guidelines

Many firms establish a formal set of guidelines for product strategy which reflect the company's objectives and business definitions. These guidelines function as the criteria for identifying and selecting new products. Company-specific criteria can address a broad range of policy and financial issues, including sales volume potential, profit potential, product line compatibility, competitive strength analysis, unmet consumer need analysis, product differentiation, and distribution opportunities.

New Product Strategy Selection

A firm's product strategy can be reactive or proactive. A *reactive* product strategy results from a response to market pressures as they occur. With a *proactive* strategy, the firm initiates change (Urban, Hauser, 1980).

There are four types of reactive strategies: defensive, imitative, second-but-better, and responsive. The *defensive strategy* guards against market competition by making changes to an existing successful product that further strengthens the company's competitive advantage. The *imitative strategy* copies a proven, successful product. The *second-but-better* strategy copies a successful product while improving it, which avoids extensive market development expenses and introduces a superior product. The *responsive* strategy directly reflects consumer requests for specific product amenities if the market can adequately support them (Urban, Hauser, 1980).

There are also four types of proactive strategies: research and development (R&D), marketing, entrepreneurial, and acquisition. The *R&D strategy* introduces new products based on superior technical achievement. The *marketing strategy* defines consumer needs and introduces a market-driven product. The *entrepreneurial strategy* leverages an entrepreneur's ability to build venture enthusiasm and generate funds for new products. The *acquisition strategy* purchases firms with products that are new to the market and/or the acquiring firm (Urban, Hauser, 1980).

New Product Failure

New product development typically requires a large number of new ideas in order to generate *one* successful new product. For many reasons, failure can befall an idea slated for product development (Taylor, 1984, p.35):

- *The ideas originally identified don't meet the guidelines.*
- *They don't generate big enough markets.*
- *They fail to achieve sufficient distribution when they are introduced.*
- *Their profit margins are too low.*

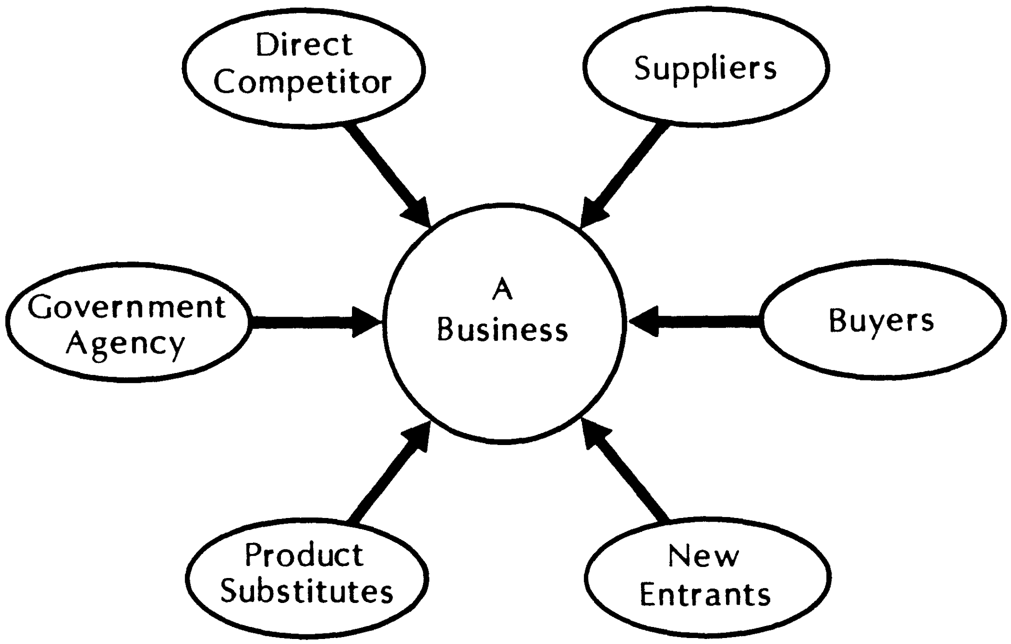
Studies that examine why new products fail have been consistent in their findings. While management cannot easily control technology and competitive reaction to new products, statistics show that new products rarely suffer from technological product failure or competitive reaction. The most significant reason for new product failure is poor internal company management of the product development process, which is the specific responsibility of senior management, and well within its control. Crucial to successful product development is the presence of real consumer need, relevant benefits from product design and operating concept, direct relationship between need and benefit, and effective advertising and promotion to communicate that benefit (Taylor, 1984).

Successful product development hinges on superb company management. It also attributes most of the risk, although not all, to managing the process itself; luck and genius play a minor role in most instances.

COMPETITIVE ADVANTAGE

The essence of formulating competitive strategy is relating the firm to its environment, and the key aspect of the firm's environment is the industry in which it competes (Porter, 1980). *Competitive advantage* is defined as the features of the business that enable the firm to earn a high return on investment while managing the pressures exerted by competitors. *Return on investment* (ROI) is a generally accepted index of profitability in consumer and industrial products and services. What indices do real estate developers use? Are profits the only index, or will issues of public image, shortened lease-up time, low vacancy rates, or building a market niche be included? In analyzing a potential real estate investment, does a combination of these factors provide the definition of the ROI?

A firm may be in competition with six basic competitor types to achieve a competitive advantage. Each competitor exerts downward pressure on the firm's ROI (Porter, 1980 and Pitts, Snow, 1986), as indicated in Figure 2.



MAJOR COMPETITORS OF A BUSINESS
From Robert A. Pitts And Charles C. Snow
STRATEGIES FOR COMPETITIVE SUCCESS
New York; Wiley, 1986

Figure 2

Direct competitors are companies that make products or offer services similar to those of the firm and that target the same customer group, directing their efforts to price reduction, promotional activities, and product or service development. Failure to follow market innovations could motivate the firm's customers to switch to competitors' products. Generally, defensive activity on the part of the firm temporarily increases costs, and causes ROI to decline. Each of the firm's competitors faces similar pressures.

Suppliers furnish raw materials and supplies to the firm. They achieve a competitive advantage when they can raise their prices, sell substitute products, and schedule deliveries at their convenience. This can lower the firm's ROI.

Buyers or customers seek lower prices, better products, and faster delivery of goods and services. Buyers exert leverage on the firm through their bargaining power and, ultimately, by purchasing competitors' products, which reduces the firm's ROI.

New entrants seek to copy the firm and its direct competitors in order to enter the market. This activity increases the number of direct competitors; as they target the same customer group and the threat of potential new entrants grows, the firm's ROI tends to be depressed.

Product substitutes compete indirectly with the firm's products. These limit the prices that the firm can charge for its products, since product substitutes are typically cheaper, causing downward pressure on the firm's ROI.

Government agencies regulate and monitor the firm's business activity. Taxes and compliance with regulations lower the firm's ROI, while subsidies, tariffs, and quotas on competitors' products raise the firm's ROI.

Research substantiates that market share functions as a major factor in the business unit's ability to withstand competitive pressures and preserve its ROI. *Market share* is defined as the percentage of the business unit's sales relative to the combined sales of all competitors operating in the same market.

Many studies on the importance of market share have been conducted by the Strategic Planning Institute, a nonprofit business research organization in Cambridge, Massachusetts. More than 500 corporate clients continually submit information to the Institute's data base. Ongoing research from the Profit Impact of Marketing Strategies (PIMS) Project, shows that the average rate of return for business units with greater than 40% of a market's share is approximately two-and-one-half times the average of those competitors with 10% or less. For each difference of 10% of the market share, there is a corresponding 5% increment in ROI (Pitts, Snow, 1986).

Large market share is an important element in competitive advantage. Other aspects of a competitive advantage include scale economies, specialization, automation, vertical and horizontal integration, learning curve benefits, and experience curve benefits (Pitts, Snow, 1986).

Competitive advantage can fall into one of three categories. The first type focuses on a *superior cost position* related to size of operation and effective overhead control. The second type centers on *product differentiation* as perceived by the consumer group. Consumer groups may perceive product differentiation based upon a variety of factors, including: superior value for the price; a superior service or technical support; reduced turnaround times;

increased flexibility; strong brand name recognition; a superior quality product; a complete product line and systems capabilities; innovative product features based on new technologies; and wide distribution channels. The third type of competitive advantage relies on operations in a *protected niche market* (Porter, 1980 and Day, 1984).

A meaningful advantage for differentiated products fails unless the various product differences can be translated into benefits which are easily recognized by a sizeable customer group. Substitutes must be scarce and the product quality must motivate consumers to seek out the product and pay its price.

Perpetuation of a firm's market share is a function of the resources, commitments, and strategies of competitors, and the facility with which they copy and mitigate the advantage achieved by the innovator firm. Advantage erodes as the market demand changes. Firms that effectively utilize feedback are difficult targets to unseat (Day, 1984).

Section 2

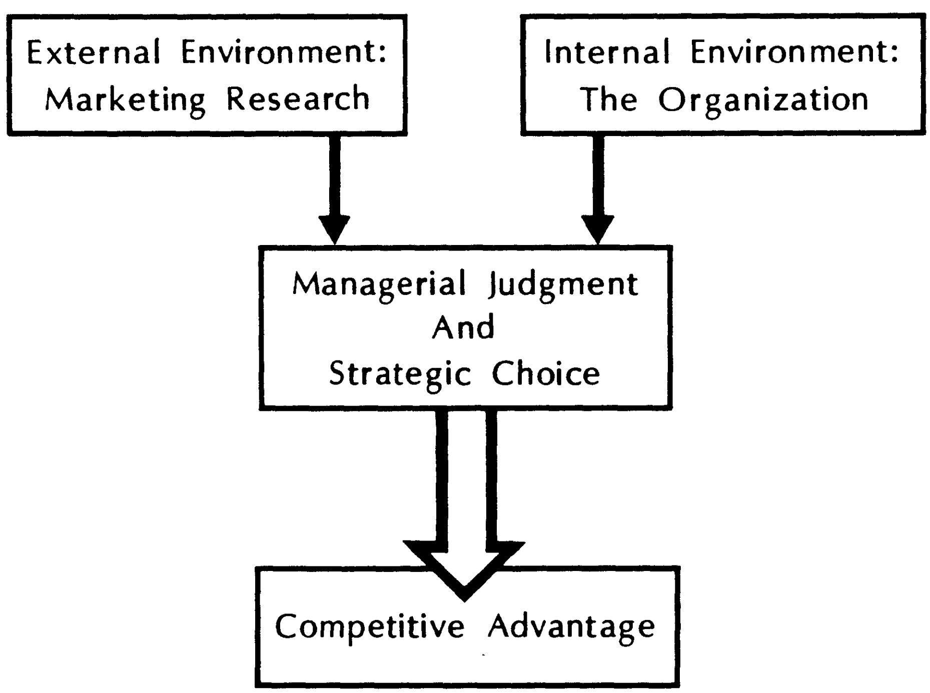
Analytical Framework For Strategic Decision Making

There are three types of companies:
Those who make things happen.
Those who watch things happen.
Those who wonder what happened.
--Anonymous

Real estate development is often referred to as an art. Time, money, and land are the external resources that the

the developer manipulates in the execution of her or his craft. What, however, are the underlying principals of this *art*? How do real estate developers make decisions about what to develop? Specifically, what framework, if any, does a developer use to generate a new product such as a child care center?

The external environment, identified through marketing research, and the internal environment, pinpointed by an accurate assessment of the organization, form the basis for managerial judgment which leads to strategic choices that position the firm to achieve a competitive advantage. Figure 3 is a graphic representation of the strategic decision-making model that will serve as the framework for this research:



A CONCEPTUAL MODEL OF THE DECISION-MAKING PROCESS IN REAL ESTATE DEVELOPMENT

Figure 3

EXTERNAL ENVIRONMENT: MARKETING RESEARCH

Marketing research identifies factors that characterize the external environment of the firm, including customer groups, market demand, current market trends, competitor activity, threats, and opportunities.

Specifically, in analyzing child care centers as a possible real estate product, development firms must identify answers to the following questions:

- How will the "child care dilemma" affect real estate development?
- What legislative and market factors are causing developers to look at child care?
- Who are the customer groups for child care outside the home?
- How do customer groups perceive the benefits of the child care center?
- Is market segmentation an issue in the child care market?
- How should the real estate developer define ROI relative to child care centers?
- What are competitors doing?

The best way to answer these questions is through marketing research. Are developers conducting marketing research? If so, is it a purposeful investigation that is objective, reproducible, relevant, and controlled? Furthermore do real estate firms develop a market concept that focuses on the customer group? Does their market concept cast the developer's ultimate customer as the ultimate market <u>prize</u>? Does the market concept sustain this focal point while coping with pressures from legislation, general business conditions, competitors, market opportunities and threats, and changes in the social climate? Do developers use a systematic methodology in analyzing the external environment to maximize time, money, and the window of opportunity? Do they follow a five-step marketing research process that involves problem definition, research design, data collection, data analysis, and interpretation?

INTERNAL ENVIRONMENT: THE ORGANIZATION

The internal environment is defined by an audit; it is akin to checking the firm's vital signs and deliberating a prognosis. The firm's environment is shaped by the composite strengths and weaknesses of decision makers and staff, management styles, and the flow of information and dollars within the organization. Do real estate developers have the organizational infrastructure to conduct marketing research on child care centers and, ultimately, to develop a new real estate product?

MANAGERIAL JUDGMENT AND STRATEGIC CHOICE

After studying marketing research relative to child care and the data from an internal audit of the organization, decision makers should be in a position to make judgments about the real estate firm's role in the child care market:

- What does the firm do best and how does this fit with offering child care related products?
- Is the firm vulnerable with these products? Without these products?
- Should the real estate developer be the new conduit for furnishing child care (customer) benefits to customer groups?
- Is there a consensus among the firm's decision makers regarding child care centers?

- What are the decision makers' preferences? Agendas?
- Is the firm staffed properly to introduce child care products?
- What skills, if any, are missing in the firm which would facilitate the successful introduction of child care products?

Answers to these questions, coupled with a clear understanding of the child care market and internal and external company environments will arm management with the data to make strategic choices. The decision makers should be in a position to identify alternative strategies, evaluate them relative to their fit with the objectives of the firm, and make an appropriate choice.

Specific criteria can lend clarity to the evaluation process. Selecting a strategy in response to the child care market will require the developer to consider several of the following questions:

- Are child care products threats or opportunities?
- Should developers support the child care fund (an alternative to child care centers) in response to imposed legislative pressure?
- Should developers adopt a proactive response to the child care market?
- Do developers have a social responsibility to take an innovative, proactive position in response to the child care dilemma?
- What factors in the internal and external environment make the child care center an attractive real estate product?
- Does the new product (child care center) need a "champion"?

COMPETITIVE ADVANTAGE

New product development is designed to provide a competitive advantage to the initiating firm by building, expanding, or protecting market share. New products, however, often require substantial resources and management time to prevent product failure.

Real estate development firms must ultimately be prepared to answer two pivotal questions regarding the child care market: Can child care centers provide a competitive advantage? How can the child care product be successfully introduced and managed?

CHAPTER 2

NEXUS BETWEEN REAL ESTATE INDUSTRY AND CHILD CARE MARKET

> *Government and businesses too often operate as if families were out of 'Leave It to Beaver' or 'Ozzie and Harriet'. Child care is a lifeline to independence for working families, and it must remain a priority for all of us. We need a national policy for affordable child care...but, the federal government is the key partner that has been consistently absent from the table* (Bickelhaupt, 1988).
>
> *Philip W. Johnson*
> *Secretary of Human Resources*
> *Boston, Massachusetts*

Introduction

Political sensitivity to the child care dilemma is driven by the reality that most women work out of economic necessity. There has been a shift away from the traditional family unit where the father earns an income that is adequate to support his family. Mothers who formerly served as the primary caretaker for their children are now functioning as the sole or partial provider of the family income.

The Child Care Market

Mothers of preschool children represent the fastest growing segment of the U.S. labor force; in 1982, 56% of this group was in the labor force, which is more than double the number of mothers with preschoolers who were working in 1970.

Only 11% of American families still fit the traditional mold (Friedman, 1984). By 1990, 60% of new employees will be women; 80% of these will be of child-bearing age, and 90% will have children during their careers. Also, 14 million preschoolers will be cared for by someone other than their parents, which is double the figure today (Hazelton, 1988). The impact of this departure from the traditional family unit has produced a generation of children that have been raised in a variety of full-time child care environments with a range of quality. Currently, in the United States, three out of every five women with school-aged children have a job outside the home. Nearly half of all children born today will live in single-parent family households at some point before the age of 18. By 1990, it is expected that 64% of all families will have working mothers with children under the age of six years (Friedman, 1984).

With demographics indicating that family size and span of age ranges has decreased, fewer children can take care of younger siblings. Relatives do not necessarily live in the same city with their grandchildren, nieces, and nephews; when they do, there is greater likelihood that they too need to work outside the home.

Because of these changes, working parents are faced with the difficult task of finding affordable, quality child care. The United States remains the only major industrialized nation in the world without a national child care policy.

WORKING PARENTS AND CHILD CARE

Parents rely on various combinations of child care alternatives to balance work and family responsibilities. There are basically five alternatives for working parents: adult care in the child's home, center-based care, family day care, care by adult relatives, and after-school programs in schools or other community-based settings.

Ideas about the child care market are shifting as market demand expands and children are cared for by nonparents. Traditionally, child care was considered a custodial function. But as the family unit shifts away from the traditional mold, working parents are more concerned about enrichment programs with developmental and educational components. In Massachusetts, the majority of child care teachers have a degree or training in early child development. The demand for child care services has far exceeded current supply. A large percentage of parents who want to work cannot pursue employment because they cannot find affordable, quality child care (Friedman, 1984).

COSTS: A TIGHT MARGIN

Child care costs are high. Labor accounts for 76% of an average child care center's budget (Commonwealth of Massachusetts, 1988). A center director's salary ranges from $20,000 to $25,000 per year; head teachers earn $15,500 to $19,500; teachers earn $7-$8 per hour; and assistant teachers earn $5.50-$6.50 per hour. These low salary ranges are typical of industry wages in child care.

Child care fees are expensive. Weekly fees for infants average between $135-$240. For toddlers, the range is $125-$175, and for preschoolers, $100-$125. Full-time child care in a child care center averages over $7,300 annually for an infant, and about $5,000 for a child between the ages of three and six (Commonwealth of Massachusetts, 1988).

EMPLOYERS: BENEFITS FROM ON-SITE CHILD CARE CENTERS

Child care has been called the employee benefit of the 1990s. Employers are discovering that they can no longer afford to ignore the child care issue. The group of female managers that joined the work force ten years ago is now in its thirties and contemplating pregnancy. Employers are looking to protect their investment in the pool of talented female managers who fit this profile.

According to Robert Shallenberger, Vice President of Real Estate Operations for The Prudential Realty Group:

> *Employers are realizing that salary alone no longer satisfies all employee needs; workers most in need are demanding more amenities and on-site [child care] services* (Hazelton, 1988).

While employees are demanding on-site child care, fewer than 150 companies provide on-site centers (Chapman, 1987). Employers today are faced with competition in attracting and retaining talented employees. Studies suggest, however, that child care centers significantly reduce absenteeism and tardiness of employees with children, increase employee productivity, improve the success rate of recruitment campaigns, improve employee retention rates, reduce stress in the workplace, contribute to improved quality in the work product or service, enhance community relations, and increase tax deductions afforded to the employer (Hazelton, 1988).

According to the cost benefit analyses of 147 companies surveyed by the National Employer Supported Child Care Project, child care positively affected the company bottom line through improved internal operations. Of 415 companies surveyed in another study, 49% reported increased productivity; 37% reported improved quality products or services; 90% reported improved company morale; 53% reported reduced absenteeism; 85% reported improved recruitment efforts; and 85% reported that child care was good for public relations (Commonwealth of Massachusetts, 1988).

A survey conducted by the American Federation of State, County, and Municipal Employees of Washington D.C., found that 28% of working parents had sacrificed a job or promotion because suitable child care was unavailable. The impact of statistics like these can be seen in the high-tech industry, where it is typical to spend $50,000 on recruiting and training a professional employee.

The child care dilemma is a serious social issue that, to date, has been poorly addressed. Meanwhile, it has become a business concern as employers face the domino effect of the child care issue. The statistics suggest that the provision of on-site child care is cost-effective.

POLITICAL AND LEGISLATIVE ISSUES

Working parents have captured the attention of the 1988 Presidential candidates and have framed child care as a public utility that is presently lacking. Parents are no longer willing to excuse the federal government from participating in the child care roundtable discussion.

Michael Dukakis has promised that, "As President, I intend to be the nation's number one advocate for affordable, accessible, and high quality child care." He stresses that helping single parents and families in which both parents work is one of the most important economic and social challenges the nation must deal with during the next decade; strong national economy and quality child care go hand in hand (Child Care Action News, 1988).

George Bush appears to be caught in the middle of demographic, economic, and political currents. He has vowed that as President he will work closely with Congress, the states, parents, and the private sector to examine the child care issue, but he does not think that the federal government should or could afford to provide child care services (Trost, 1988). He endorses tax credits and other incentives to the private sector, and encourages businesses to provide on-site child care and parental leave (Child Care Action News, 1988). In late July, Bush announced a plan to provide federal tax refunds of $1,000 to parents to help pay for child care (Pertman, 1988).

The political environment surrounding the child care dilemma in Washington, D.C. may be shifting away from the one that made child care a low priority through budget cuts: federal spending in 1988 for child care was cut down to 72% of the 1981 levels and 52% of the 1977 levels. This decrease occurred despite a recent Harris poll in which 73% of respondents said they would be willing to pay more taxes to support child care (Fattorini, 1988).

More than 100 bills relating to child care have been introduced into Congress this year (Pertman, 1988). Rep. Dale Kildee (D-MI) and Sen. Chris Dodd (D-CT) introduced the "Act For Better Child Care" (ABC) for consideration by the 100th Congress this year. This bill provides federal funds that will be matched by the state (20%) to make child care more affordable for low- and moderate-income families. Sen. Orrin Hatch (R-UT) and Rep. Nancy Johnson (R-CT) have introduced a substitute for the ABC bill that would provide states with federal grants and give employers tax incentives to expand child care programs, while deemphasizing direct resources to families and minimum federal standards for child care. Rep. Richard Schulze (R-PA.) recently introduced the "Toddler Tax Credit" bill, which offers parents a $750 tax credit for every child under the age of six. Rep. Clyde Holloway (R-LA.) would like to give all parents of preschool children a tax credit ranging from $150-$400, on a need-based sliding scale. A federal income tax credit is now available only for work-related child care expenses (Trost, 1988).

New legislation is being introduced at the local, state, and federal levels regarding child care regulations, family child care policy, parental leave, and child care subsidies. In October 1985, San Francisco adopted a law that requires real estate developers to provide on-site child care facilities in most new or renovated office buildings. At least twenty-five other city governments, including Los Angeles, Seattle, Chicago, and Boston, have similar bills on their agendas (Smith, 1988). But, if a mandate for developers to provide on-site child care is not legislated, the marketplace may demand it.

A TREND AMONG DEVELOPERS?

Articles appear regularly in newspapers and magazines calling attention to developer activity in the child care market. Some of the nation's largest developers are already including child care centers in office complexes and mixed-use developments. Rouse and Associates, Trammel Crow Company, the Flatley Company, the Prudential Realty Company, and the Voit Companies have taken the lead in this trend. Staff reporter Lawrence Ingrassia of the *Wall Street Journal* announced in a June 3, 1988 article: "The day care market is hot." Massey Burch Investment Group Inc. of Nashville, Tennessee is among a half-dozen venture capital firms that have recently financed child care centers. Architects, accountants, and real estate developers are starting child care businesses. Major corporations such as Wang, Stride-rite, Polaroid, Gillette, and Zayre have established on-site child care centers or other innovative solutions to assist their employees in obtaining child care. The child care issue is also being brought into the American home by way of NBC'S prime-time television situation comedy, "Day by Day," about a stockbroker and his lawyer-wife who start a child care business.

Child care is a social and economic issue that has captured the attention of Americans from all socioeconomic backgrounds. The market demand and political focus is significant enough to place this issue in the foreground for entrepreneurs who want to get out "in front of a trend," says Townes Duncan, partner of Massey Burch Investment Group, Inc. of Nashville, Tennessee (Ingrassia, 1988).

Urban child care centers encounter higher real estate costs, limited open space for playground areas, and opportunity costs incurred by adhering to current licensure requirements. In Massachusetts, state licensure requires that infants younger than 15 months cannot be cared for above the first floor. This typically is prime retail space in office buildings and represents a loss of $25 or more per square foot in monthly rental income for most downtown Boston office locations.

Real estate development companies like Henry A. Long and Co. in Washington D.C. and Faison Associates in Charlotte, N.C. are currently conducting feasibility studies on child care centers. Roger Hall, a Houston-based real estate broker and consultant, is active in the child care market; and

Leperq, deNeuflize, & Co. is a venture capital firm targeting start-up child care providers and real estate developers pioneering child care centers. The latter is focusing upon the "yuppie" market in order to establish a market niche among upscale families.

A growing number of child care consulting companies can help developers establish a functional program to develop a child care center. Those developers who do not want to be directly involved with the management of a child care center, can also contract with for-profit professional child care management companies.

Is the child care market a fad or a driving force? Will it compel real estate developers to invest in child care centers as an amenity to office buildings and mixed-use developments or possibly even as a real estate product? What data should the developer obtain concerning this market? What process should the developer follow in decision making? Is the child care center a loss leader or a grand opportunity for a competitive tool?

CHAPTER 3

MINICASES

Introduction

This chapter describes field research and focuses on the efforts of three real estate development firms in order to analyze the child care market. Each firm independently investigated the development of child care centers in office building complexes or mixed-use developments.

Site Selection

The firms selected for this research are pioneers in introducing child care centers in conjunction with office products. One firm programmed the operational and space requirements for a contracted, for-profit center in a new downtown Boston office building, but decided not to include it; another developed and managed a nonprofit, on-site center in an adapted reuse office development of the Schraffts Candy Factory Building in Charlestown, Massachusetts. The third company introduced a child care center into an existing downtown Boston office complex and operates the center on a contracted, for-profit basis.

The firms were selected from a geographic region that allowed the researcher to control for a common environment.

Research Methodology

The three minicases in this chapter are based on interviews with managers who were the proponents of child care centers in two of the firms, and with the child care center coordinator of the third firm. In the latter case, top management was unavailable for a personal interview with the researcher, so telephone interviews were conducted with the firm's Senior Vice President of the Commercial/Industrial/ Shopping Center Division and the Marketing Director. In-person interviews lasted approximately two hours, and were followed by subsequent telephone conversations to clarify data in the cases. The interview protocol, which is included in Appendix B, evolved from the literature survey and the analytical framework in this study.

Background information about real estate developers and child care was obtained from a wide variety of sources including local and national newspaper reporters, as well as authors of articles in professional and trade magazines in the real estate development industry. The author also consulted leading experts in the child care development field; visited many child care sites; and engaged in informational interviews with child care center directors, representatives from venture capital firms which fund start-up development companies, for-profit child care providers, and real estate developers across the country.

This research was conducted during a two-month period. It was constrained by the embryonic stage of the nexus between the real estate industry and the child care market. The market demand has surpassed all capacity and the industry is frantically attempting to respond within a myriad of extensive financial, policy, regulatory, and legislative constraints. There are marked differences among the child care experts in defining the problems of child care outside the home, coupled with significant pressure placed on parents to obtain child care services and on business leaders, real estate developers, employers, and government to provide it. The three case studies are a reflection of bold and innovative efforts on the part of three real estate developers who have championed the child care center within their firms, and within an extremely fragmented social and industry environment.

Case One: Jaymont Properties

Richard E. Eichhorn, Senior Vice President of Jaymont Properties, views himself as an entrepreneur, an innovator, and an unconventional problem solver. In 1987, he planned to include a child care center in a major new downtown office building located at 125 Summer Street in Boston.

EXTERNAL ENVIRONMENT

Though Eichhorn is single, he is sensitive to the child care dilemma:

Since the early seventies, I have observed many of my friends and colleagues having difficulty finding quality child care for their children. From what I can tell, this problem has only gotten worse with time.

Personal values and feelings of social responsibility, coupled with a "can do" attitude, motivated him to consider a child care center for 125 Summer Street. He developed an informal, in-house survey to determine the interest of pre-leased tenants:

The survey was not very encouraging; in fact, there was hardly any interest in child care. These responses had to have come from senior management with grown children. If this survey had reached middle management, I am convinced there would have been significant interest.

Eichhorn proceeded as if he had received a positive response.

INTERNAL ENVIRONMENT

Jaymont Properties, which is owned by a Saudi Arabian family, develops office buildings. According to Eichhorn:

Jaymont is in the business of making and keeping office tenants satisfied customers. To this end the company is interested in being the amenity leader in office building services. The company positions itself to lead its competitors in office amenities, not to follow.

Jaymont is structured as a hierarchical franchise, wherein each office is an individual profit center feeding the regional profit center above it. Eichhorn has full authority to make decisions as long as his division remains profitable; he determines the company objectives that the Boston office will pursue.

When Eichhorn decided to include a child care center in the 125 Summer Street building, he called in the "experts": he obtained input from for-profit and nonprofit child care providers regarding operations and the functional program for the child care center. In order to plan the space, he took into consideration factors such as licensure regulations, liability concerns, security, and staffing needs.

Three Jaymont employees contributed approximately four weeks of collective time over a one-year period to investigate the feasibility of a child care center at 125 Summer Street. People working on the project were not rewarded in any special monetary way. According to Eichhorn:

> *The entire office was interested in working on the child care center. In fact, it was difficult to give everyone a chance to participate in the planning processes.*

MANAGERIAL JUDGMENT AND STRATEGIC CHOICE

By the time Eichhorn had educated himself on how to develop a child care center, the rest of the building program was completed and the architects had entered the design development phase. It was extremely difficult, if not impossible, to then include ground floor child care and outdoor play space after the footprint, building access, and circulation had been established.

The learning curve portion of the development process had taken more time than anyone had anticipated, relative to the planning phase of the other building components. Valuable lessons were learned from this experience:

First of all, a marketing survey should be designed and targeted to the appropriate management level of the tenants. If you canvass senior management, the data collected reflects attitude rather than needs in the rest of the company. You can't start too early: planning for a child care center should precede the normal planning process of the office building, so the developer will be up to speed. The available land for outdoor space and the surrounding characteristics of neighboring property is critical and should be addressed early.

Eichhorn was also concerned that part of the licensure regulations were, unnecessarily, a disincentive to developers:

You just have to question the current licensure regulations applied to new buildings. When a new office building has been designed to meet the most stringent code requirements, common sense leads you to think that the "regs" are more focused on life-safety than is necessary to protect infants and toddlers. Infants seem to be the age group that has the greatest need and yet the requirement to use first floor space for infants in new downtown office buildings as a life-safety measure, creates a real barrier to increasing child care center capacity. And it may not be necessary. That requirement needs further study.

When Eichhorn develops another downtown office building, he will approach a child care center armed with a better understanding of the process involved:

In the future, I won't bother to do a formal market survey; I will include a child care center as part of the office building program. City officials and architects will be brought into the picture early in the process. I could see assigning a person full time to manage the child care portion of the office building and to support the project manager through the planning and design phase.

Eichhorn views innovation as an on-going part of his business in office products:

I feel like I have the staff in place to innovate new office amenities; I like to keep the staff lean and mean and hire consultants to fill in the gaps.

Though he views the child care center as an amenity to an office building, he feels that Jaymont's amenity packages differentiate his buildings from other office products.

COMPETITIVE ADVANTAGE

According to Eichhorn, a child care center in an office building creates a definite competitive advantage. His objectives with respect to child care centers have remained the same, since he still has an opportunity to be the first developer to include a child care center in a new downtown Boston office building. He has considered the downside:

> *The downside is related to building security, liability issues, building insurance, and the opportunity cost of using the ground floor for a loss leader. I think that building security is a matter of good design. The insurance issues most likely can be worked out, and I would like to think that the regulations can be studied further; a child care center should be okay on the second floor.*

Eichhorn does not envision any circumstance in the near future where his company would view the child care center as a profit center:

> *Jaymont is in the office development business, and in fact, part of my philosophy has been to limit my business to what a small staff can manage, and then hire consultants as needed. I will tell you that I have included amenities in my buildings such as laundry and car wash facilities, but we just break even on those. I am more geared to hiring a management company to run a child care center, than managing it myself. On the other hand, if other real estate developers get into the child care business, Jaymont will certainly follow suit to remain competitive. When it comes to new real estate products such as child care centers, Jaymont Properties positions itself as a market follower.*

As a real estate developer, Eichhorn is willing to admit the possibility that his perspective could evolve to a point where his firm would take on the management of a child care center. In his current position, however, he also adds:

> *I doubt that the owners of Jaymont Properties would view the child care center as a real estate product and profit center, unless other major developers had already taken the lead.*

He views child care centers from a market potential perspective rather than as an issue of social responsibility:

> *Developers do not have a social responsibility to provide child care centers. That is simply not the issue here. I do participate in organizations that are studying the child care issue, but that's Dick Eichhorn, the person, not the developer.*

Case Two: The Flatley Company

Mr. Thomas J. Flatley, President of the Flatley Company, is not an advocate of child care outside the home. Flatley provides child care centers because he considers them an inevitability of family economics. In spite of his personal views, though, several years ago he recognized the need for quality child care for mothers who work. In 1984, he initiated the planning process for an on-site child care center for the Braintree Office Park in Braintree, Massachusetts. Subsequently, the Flatley Company has developed child care centers in conjunction with office projects in Nashua, New Hampshire, and Charlestown, Massachusetts. The Charlestown site is the focus of this case study.

EXTERNAL ENVIRONMENT

The Flatley Company began to study the child care market in the late 1960s with the support of the Early Childhood Program at Boston College. Several years passed, however, before market factors motivated Flatley to seriously consider the inclusion of a child care center in office parks. In 1984, the Flatley Company worked with the State Office of Children, Wheelock College, and Child Care Resource Management Consultants to gain a better understanding of both the market and child care operations.

At that time, Flatley observed that there was a significant need for child care services. His firm's marketing department, with the aid of an outside consultant, designed a marketing survey to test Flatley's observations, which was distributed to Braintree Office Park tenants. The results of the survey confirmed Flatley's assessment of the market, and the Braintree child care center was opened, followed a few years later by the Charlestown child care center.

INTERNAL ENVIRONMENT

Flatley's management philosophy is based on providing high quality service to his building tenants. He sees a direct relationship between available tenant services and the ability to attract and retain tenants; he views hands-on company management as the means to maintain quality control. For example, it is typical for a Flatley office complex to offer an on-site bank, restaurant, dry cleaner, and health club.

According to Richard P. Rourke, Senior Vice President of the Commercial/Industrial/Shopping Center Division:

> *We outfit and equip our restaurants and control the food service through operating covenants and pricing structure. We feel that child care centers, like our health club operations, are so people oriented that with our employees managing them, we can be assured that we are in a position to react quickly and effectively to problems that arise. Operating covenants in these two instances would not give us that comfort level and control.*

MANAGERIAL JUDGMENT AND STRATEGIC CHOICE

Initially, the Braintree child care center was a for-profit center that was changed to nonprofit, a decision that set a precedent for the Charlestown center, which was developed on a nonprofit basis. The Braintree center lost money; this amenity was a loss leader for the office park. The decision to operate its child care centers on a nonprofit basis also allowed the company to take advantage of tax deductions for donations to nonprofit organizations. At the same time, the Flatley Company sheltered the rest of the firm from liability issues associated with child care. Flatley's $150,000 operating subsidy each year supported the three centers. According to Rourke:

> *Since our goal was to make child care affordable to the average working person, the only way to do that was to charge low child care fees and subsidize the centers to cover the costs.*

The Flatley Company's marketing department is responsible for the general management of its child care centers, and employs a staff child care coordinator who is responsible for center management of the three Flatley sites. The director of the child care center at Braintree was responsible for the successful start-up of the Charlestown site, for which she received a sizeable bonus. The child care centers were targeted to Flatley Company employees, building tenants, and parents in the community. Flatley Company employees received an additional 25% discount on child care fees. The "fit-up" time for the Charlestown site was three months, which was a six-month improvement over Braintree's center. Flatley child care centers have higher teacher/child ratios than are required by regulations and the fees are in the lower range for market rates. According to the marketing director:

> *The Flatley Company decided to provide child care centers to support its employees and to respond to the market demand for child care as a service for building tenants and the community. Little emphasis was placed on what was happening in the industry or with legislation since Flatley was one of the earliest pioneers of child care centers in office buildings. He preceded the wave of recent child care bills.*

Flatley expected that child care centers would reduce worker absenteeism and tardiness, increase office morale and work place anxiety, and improve worker productivity and retention, which lowers the cost of job training and recruitment. According to Rourke:

> *These expectations were based on observing patterns of behavior in our own employees and applying basic common sense. If employees are distracted by unreliable child care for their children, then that's the kind of problem that is going to spill over into the office. If you remove the source of the problem, then the symptoms go away, too.*

Corporate office tenants and the Flatley Company gained improved internal operations while their employees benefited from reliable quality child care--a win/win situation. The marketing department at Flatley later conducted a follow-up survey of the tenants at the Charlestown site, which confirmed these expectations.

COMPETITIVE ADVANTAGE

The benefits of providing a child care center have exceeded the company's original expectations. According to Rourke, a child care center provides a competitive advantage:

> *We don't attract tenants to office buildings, all things being equal, because we have on-site child care. So, our lease-up is not necessarily faster. Where we experience an advantage, today, is in tenant retention and in less community resistance to our new office development projects. Tenants don't anticipate the impact of child care services going in, but even that may be changing as employers and parents find it harder and harder to find the kind of child care they want. Once they are in an office building with a child care center, they are less likely to want to relocate because of the child care service. The positive impacts become so apparent in the tenant organization that the tenants are quite satisfied and our retention is high. Also, the goodwill that we have created with the community by including city residents has reduced neighborhood resistance to new office development projects. The child care center is a significant factor in tenant retention and community relations.*

Customer response has been exceptionally positive. The Charlestown center has a long waiting list, and will be expanded in the near future. But Rourke also discusses the downside:

> *There is quite a bit of risk associated with child care centers. In development, risk comes with the territory. The more risk you take, the more the potential reward, but that's not the case in taking risks with child care centers. Also, a subsidized center has less appeal than if it paid for itself. We can take a tax deduction, but at a rate of 28%, you don't make a $150,000 donation unless you need to.*

The Flatley Company views the child care market as an opportunity to provide a service in an overall amenity package. As Rourke describes the company's perspective:

> *We furnish a menu of services to building tenants and hope that they will pay for themselves. Child care centers don't even fall into that category, so it's hard to imagine that they could be a profit center. We focus our business on our leases; that's where we make our profit. If other major players get into the child care business as a real estate product, we would probably follow suit.*

He acknowledges that it would be possible to make a profit in the child care market, and that the key factor was probably "market segmentation." The Flatley Company addressed the child care market segment for the average working person.

For the Flatley Company, child care is not a developer's problem. Rather, child care centers are a component of the service menu available to office tenants, and not an issue of social responsibility.

Case Three: The Prudential Realty Group

Upon graduation from the Yale School of Management with a Masters in Public Private Management (MPPM), Gregory P. Winter joined the Prudential Realty Group in 1984 as an Investment Manager in the Property Company. His present position with Prudential includes oversight responsibilities for leasing and management activities at Boston's Prudential Center, a large, mixed-use office complex built in the 1960s.

EXTERNAL ENVIRONMENT

In 1986, Winter decided to explore opening a child care center for Prudential, perceiving a tremendous need for on-site child care in the Greater Boston area:

> *When I first got the idea for doing a child care center, I wasn't even married yet, but I had been watching my sister and many of my friends struggling to balance their careers with caring for their children. In 1986, a ground floor Prudential tenant had recently moved from the site leaving 5,000 s.f. of vacant office space. I wanted to see a child care center at the Prudential. I had just leased 400,000 square feet of office space and I felt that it would be beneficial to Prudential to put a child care center in that space.*

A child care center requires street level access with adjacent open space for playgrounds. The 5,000 s.f. space, and the layout of the Prudential Center along Huntington Avenue, which forms a "campus" setting of office and retail uses with pockets of open space between buildings, were ideal.

Winter did not see the need for formal market analysis:

> *I didn't give much thought to what was going on in the industry; competitors, legislation, market opportunities--those weren't really the issue. I knew that there was a significant demand for child care and I didn't need to spend money on a market survey to tell me what I already knew.*

Winter was politically astute in realizing that his company would benefit by providing an on-site child care center that was open not only to Prudential tenants, but also to the community and city residents.

> *I wanted Prudential Realty to view the child care center as an opportunity to contribute something of value to the community. I felt that we could display goodwill towards the community and further our goal of the Prudential Center redevelopment project scheduled in 1987 by initiating a child care center.*

INTERNAL ENVIRONMENT

Winter's personal values and sense of social responsibility motivated him to promote this center.

> *I took the lead in promoting this idea within the company; I was confident of the benefits that an amenity such as a child care center at the Pru would provide.*

He also felt that a child care center could enhance tenant retention and help maintain low vacancy rates.

MANAGERIAL JUDGMENT AND STRATEGIC CHOICES

Winter wrote a memo to the Vice President of the Eastern region of the Property Company outlining the benefits of leasing the remaining 5,000 s.f. of tenant space to a child care provider which would operate the child care center. Winter confesses that in the beginning:

> *This idea was somewhat novel and predictably raised concerns regarding liability insurance, building security, and the experience and background of the proposed operator. I was committed to seeing Prudential Realty give strong consideration to providing an on-site child care center. I was prepared to diffuse any problems by seeking a workable solution.*

Winter wrote a second memo that addressed these concerns, point by point, with positive results:

> *It took about a month before the Vice President of the Eastern Region formally approved the idea. I have done some innovative things before, but the child care center was probably in the category of being bolder than normal. It became a matter of defining how each concern expressed by the Company could be handled, and I guess I had made it pretty clear that I felt very strongly about the benefits and need...once the center was approved, I proceeded to learn everything I could about design considerations and regulations.*

Winter hired several consultants, including architects, engineers, and a construction manager, to develop the program and space plans. Approximately $15,000 was spent on a public relations campaign for the center. Winter personally managed this process, devoting the equivalent of three full months of his time over a nine-month period.

During the planning process for the child care center, Winter attended the tenth-year anniversary of the founding of the Yale School of Management. At that function he mentioned to a colleague that he was looking for a child care provider that could guide him through the program development of a child care center and enter into a contract to operate the facility.

> *As luck would have it, two graduates of the program had formed a child care management company in Cambridge and were in the process of opening their first center. They were definitely knowledgeable and I was impressed with the way they handled themselves. I didn't need to do comparison shopping for this service; I contracted with Bright Horizons for a nominal rent and, in exchange, this group furnished the programming data and the operational component of the center, including licensing, assumption of liability, partial start-up expenses, and staff. This allowed us to maintain an arms-length relationship on the liability issue.*

COMPETITIVE ADVANTAGE

The consumer response was extremely positive, and more than met the expectations of Prudential's original objectives. According to Winter, there was no downside and the Company did not really expect a return on their investment in a classic financial sense:

We were already nearly fully leased when I decided to do this, so achieving a faster lease-up was not really an issue. I guess the benefits are more intangible. You can't attach a monetary value to social contribution and public relations benefit. That was the motivation. Initially, I thought there was an opportunity to create and fill a market niche, but that hasn't really happened; it may be a factor when the Pru redevelopment is complete. Profit incentive didn't really have anything to do with providing the child care center; it's definitely a loss leader. I just felt it was the right thing to do.

Winter believes that a child care center can create a positional advantage for developers.

I think we have created a competitive advantage in establishing this center. We are one of the largest real estate development firms in the country, so it's hard to say who our competitors are without specifying the type of product or market. Around here, I know that the Flatley Company has child care centers. I know Hamilton Realty Company has a couple. Spaulding may be putting one in. But we are the only private developer that I know of that has put a child care center in a downtown Boston site.

Winter is committed to his view of the child care market as an amenity rather than the driving force behind possible product innovation; he does not see his company actively engaged in the development of child care centers as a real estate product.

Even though the market demand is there, we prefer to leave the operation of child care centers to experts in the field. Given the liability issues, operating costs, and regulatory issues, it will take a broad partnership of the public/private and nonprofit sectors to adequately address this issue.

Although his personal values led him to develop this project, Winter stresses that real estate developers do not have the sole social responsibility to respond to the child care dilemma:

With 10 million children in the U.S. between the age of one and six years old, and assuming a $10,000 per child annual cost for child care, you are dealing with a $100 billion per year issue. The "feds" can't decide how to deal with this or how to pay for it, so how can developers be expected to have the entire answer?

CHAPTER 4

ANALYSIS

Minicase Data

EXTERNAL ENVIRONMENT

Each firm was keenly aware of a growing need for child care centers in the Greater Boston area. Jaymont's informal market survey, which reflected the views of senior management in customer tenant organizations, suggested that there was no need for child care at all; but he decided this data was not valid and proceeded as though the responses had been positive. Winter was convinced that the market demand was so great that Prudential Realty did not need to spend money on marketing research to tell him what he already knew. The Flatley Company conducted a formal survey that confirmed Flatley's expectations. In each case decision making about marketing research had only been considered to ascertain demand. Marketing research to identify market segments or product design criteria was omitted from the decision-making process.

Winter and Eichhorn relied on their values, intuition, and personal observations about the market in order to make strategic decisions. Only the Flatley Company conducted marketing research that began to approach classic methodology. Because the survey was unavailable to this researcher, it is not clear whether its design generated data that was objective, reproducible, relevant, and controlled. If these criteria were omitted from the survey design, the data obtained by the Flatley Company may have been biased; biased data can lead the researcher to invalid conclusions, and the decision makers to distorted strategic decisions.

Omitting formal marketing research precludes its use as a source for defining the child care market. Valuable conclusions regarding market segmentation by income level and demographics, desired levels of service for children of different ages, locational preferences, preferred hours of operation, and current child care practices can be drawn from careful marketing research studies. This information is useful in programming the operational and spatial needs of the child care center. Additionally, market data can indicate how working parents are currently handling the care of their children, which in turn would help define potential customers, their child care requirements, and their ability to pay for these services.

Taylor's model referenced in Chapter 1 of this study maps customer benefits, customer groups, and alternative technologies; it can easily be applied to the child care market to analyze market data. Since the firms studied did not evaluate the child care market systematically, their decisions may not be optimal.

At the same time, these developers are pioneers in providing child care capacity. The need is so great at this time that parents, perhaps, may settle for what they can find. In this embryonic phase of capacity expansion in the child care market, the enrichment portion of the child care curriculum and center design may be secondary, since working parents do not have the bargaining power and options that they would have if supply were in balance with demand.

Under these circumstances, the risk of operating on intuition is mitigated. As this begins to change with more entrants into the market, the developer who omits a methodological approach to analyzing the market may be incurring unnecessary risk.

These firms did not research child care or parental leave legislation introduced in Congress during the fall of 1987. All three developers were aware of the linkage bill; however, other bills that have been in committee are also relevant (see Appendix A).

The three child care champions did recognize significant changes in the attitudes and demands of parents who are now calling for a national child care policy, subsidized child care, and increased child care capacity. These changes have applied pressure to elected and appointed officials at the federal, state, and local levels, which in turn has been partially deflected to developers.

Each of the three developers is politically aware; their decision to take a proactive response to the market demand for child care has prepared their firms to effectively deal with a linkage bill recently introduced in the state legislature, which calls for developers to create capacity for child care centers in large development projects or to contribute money to a child care fund (DiNardo, 1988). At this time, it is unclear whether the bill will become law, or if adopted, whether it would pass probable judicial review on its constitutional merits. All three developers, however, agree that child care should not be a linkage issue.

INTERNAL ENVIRONMENT

In all three cases, a champion within the firm was committed to introducing a child care center in a major Boston-area office building. After completing the lease-up of 400,000 square feet of office space in the Prudential Center, Winter had created a position of leverage and credibility from which he was able to sell on-site child care to senior management. Flatley and Eichhorn held senior management positions and possessed explicit authority to champion a new real estate product or amenity such as a child care center.

The internal environment of each firm can be described as a mirror of the champion's goals and values relative to the child care market. Ultimately, the firms' objectives with respect to child care centers were indistinguishable from those of the three developers. The driving force behind the decision to include a child care center in a major office building was rooted in the personal values of these developers, coupled with secondary objectives. These factors are summarized in the following table, which highlights three tiers of factors that appear to have motivated each developer to champion child care centers within the firm:

Companies:	Jaymont	Flatley	Prudential
Ranking	First Tier Motivational Factors: Personal		
1	Personal Values	Personal Values	Personal Values
2	Social Responsibility	Social Responsibility	Social Responsibility
	Second Tier Motivational Factors: Financial	Financial	Political
3	Set Industry Standard	Superior Amenity Package	Community Relations
4	Superior Amenity Package	Value to Tenants	Public Relations
5	Faster Lease-up	Tenant Retention	
6	Low Vacancy Rates	Low Vacancy Rates	
7	Tenant Retention	Faster Lease-up	
	Third Tier Motivational Factors: Political/ External Factors	Political/ External Factors	Financial/ Political
8	Public Relations	Community Relations	Tenant Retention
9	Community Relations	Public Relations	Low Vacancy Rates
10	Competitor Activity	Competitor Activity	Faster Lease-up
11	Legislation	Legislation	Legislation

Summary of Motivational Factors in Order of Importance:
The Driving Forces Behind Child Care Centers
Figure 4

The first tier of motivational factors apparently evolves from altruism. Each of the three developers has strong personal values that affect their commitment to supporting child care centers; all three are motivated by a strong sense of social responsibility. Also, the Flatley Company is large enough to warrant the inclusion of a child care center to support its employees.

The second tier evolves from combining sound business foresight with market opportunity and a strong entrepreneurial orientation. By creating an amenity package that includes a child care center, the Flatley Company and Prudential Realty believe they gain a competitive advantage in the market, while simultaneously creating value through on-site child care for tenants, their employees, and the community.

Jaymont's second motivational level is financial. Eichhorn's objective is to reinforce Jaymont's reputation for being a first-in provider of innovative amenities. Although the Prudential Center has a child care center, it is located in an older complex, and from Eichhorn's perspective it is advantageous to provide a center in a <u>new</u> office building in the heart of Boston's financial district. In addition, he is focused on creating a superior overall amenity package to shorten lease-up time and maintain low vacancy rates and high tenant retention.

The Flatley Company's second-tier motivation is financial. The company achieves an advantage by focusing on tenant needs. The child care center enhances the internal environments of tenants' businesses: tenants experience reduced absenteeism and tardiness, improved morale, greater productivity, employee retention, lower job recruitment costs, and lower job training costs. This phenomenon generates greater tenant retention and lower vacancy rates.

The Prudential Realty Company's second-tier motivation is political. The Prudential Center is at the end of the planning stage for major redevelopment and it was important to create strong community bonds with as much lead time as possible prior to the formal redevelopment review process.

The third-tier motivational factors grow out of the firms' anticipation of changes in the political climate and, subsequently, the real estate industry. Jaymont and Flatley are concerned about public image and want to perpetuate a strong positive position with respect to the child care issue. As a market leader, Jaymont is less concerned with competitor activity, and Flatley is so far ahead in office park child care centers that competition is not a major concern. The Prudential's third-tier motivation is based upon financial concerns. Because the building was almost fully leased when the Prudential child care center opened, Winter's focus was on low vacancy rates and tenant retention.

All three firms assumed that child care was a loss leader. No apparent attempt to analyze the profit potential of child care centers was made, nor was there a strong effort to identify existing profitable child care providers or centers to analyze what made them profitable.

Jaymont's organizational structure is deliberately restricted to a small group of professionals. Had Eichhorn proceeded with his original decision to develop a child care center, he would have contracted with a child care provider to manage the center operations; he omitted formal internal organizational analysis relative to child care management.

Flatley drew upon his company's internal resources to operate the Charlestown site. The Flatley Company philosophy stresses hands-on management by Flatley employees for tenant services. Since the child care amenity was viewed as a marketing tool, the marketing department took responsibility for the management of child care operations. This decision mirrored the middle line that Mintzberg describes as the part of the organization that interprets policy and directs the workforce.

Throughout its history, the Flatley Company learned about new service operations by working with knowledgeable consultants and hiring employees who were qualified professionals from the new service field. Flatley's strategy was to purchase expertise and train other employees to broaden the company's management talent.

Winter took responsibility for managing the planning and development process. He did not focus on analyzing the company's internal organization and its strengths or weaknesses, since his strategy was to bypass internal resources and contract for child care operations management.

MANAGERIAL JUDGEMENT AND STRATEGIC CHOICE

In the broadest sense, the three developers were asking, "Where are we now?" When "Where are we now?" is coupled with "Where do we want to go?" and "How do we get there?", a simplistic form of strategic planning is taking place. It is unclear what explicit a priori strategic thinking may have accompanied the decisions of these three developers to consider the provision of on-site child care centers.

If, as Mintzberg suggests, strategy can be a *plan*, a *ploy*, a *pattern*, a *position*, or a *perspective*, at the very least it is reasonable to say that each of these developers had an *emergent* strategy, even if it was not explicitly articulated. For example, Eichhorn's strategy to achieve his objective of being the first developer to provide on-site child care in a major new downtown Boston office building was to educate himself and implement a child care center. Flatley's strategy of repeating his successful Braintree development effort at the Charlestown site capitalized on previously gained expertise. Winter's strategy was to further the Prudential Center's redevelopment by introducing on-site child care.

Further application of Mintzberg's classification of strategic alternatives suggests that Eichhorn's strategy was to *position* Jaymont Properties as the first major developer to provide on-site child care in a major new downtown Boston office building. Flatley's *plan* was to repeat his success at the Charlestown site. Winter used a *ploy* which suggests that he chose a win/win strategy by combining the opportunity to contribute something of value to the community while furthering Prudential's goals relative to its future redevelopment project.

Each developer ultimately made a judgement call on child care centers. Did they combine their knowledge and understanding of the firm's business definition, its business objectives, its strengths, and its weaknesses with the current social, regulatory, and political environments within the context of the real estate industry and child care market...or were these judgement calls based on a highly intuitive, rather than systematic, process?

Flatley's decision to operate the Charlestown site as a nonprofit center was based on past experience at the Braintree site, which lost money as a for-profit venture. The change to a nonprofit center was not the result of a failed effort to make a profit, but was the outcome of the first year's loss. How did the Flatley Company determine that the child care center could not be managed profitably? Was this an assumption that may have been a missed opportunity? Flatley did not investigate why some centers could operate profitably and still charge affordable fees. If, for example, market intelligence revealed that excessive costs were driven by regulations requiring developers to use the most expensive building space for child care centers, then Flatley may have chosen to lobby for changes in state licensure regulations. With a successful child care management component in place, the Flatley Company could be in a position to leverage its experience to operate centers as a profitable real estate product. With several operational centers and current plans to build more, could the Flatley Company achieve scale economies to reduce costs? Does Flatley's view that children should be cared for in the home perhaps impede his firm's ability or interest in viewing the child care market as a profitable venture rather than a loss leader?

Eichhorn's and Winter's decisions to contract out for child care operations were consistent with their staffing and management philosophies, although their assumptions about the viability of the child care center as a profit center are somewhat inconsistent with their personal and philosophical positions on entrepreneurship and innovation.

COMPETITIVE ADVANTAGE

Eichhorn believes that a child care center creates a definite competitive advantage, and would like to be the first office developer to develop an on-site center in a major <u>new</u> downtown office building.

Although Flatley has indicated to senior management that he does not want to be in the child care business, in fact he <u>is</u> in the child care business. His company has developed and operated three child care centers and plans to build and operate new sites. Rourke, Senior Vice President of the Commercial/Industrial/Shopping Center Division, believes that the company has created a competitive advantage by developing and operating child care centers as an amenity on a nonprofit basis. He defines the Flatley Company's return on this investment as an intangible benefit, although he sees a direct correlation with high tenant retention and has experienced less resistance from neighbors of new office development sites where child care centers are open to the community.

Winter believes that his company has created a competitive advantage with on-site child care at the Prudential Center. He perceives the return on Prudential's investment as an intangible benefit, and part of a social contribution that yields value in the form of community and tenant goodwill. He anticipates a good relationship with the community when the Prudential Center redevelopment project is underway, partially as a result of having established a child care center that is open to the community.

Each developer acknowledged that he would be sensitive to other major developers who decide to operate child care centers as a profitable real estate product, choosing a reactive response to direct competitors and subsequent new entrants that might provide child care centers on a for-profit basis. Is there a competitive advantage to taking a proactive response by becoming a market leader rather than a market follower?

The government can exert a downward pressure on the firm's ROI. For example, a proactive response that might relieve this pressure could include the active lobbying efforts of an industry-wide coalition to study and initiate changes in child care regulations, to create subsidies for appropriate market segments, and to establish employer-supported child care benefits.

Flatley has created a competitive advantage through a combination of a superior cost position and product differentiation. In part, this advantage was created by generating value for his tenants in the form of improved internal operations through targeting a vulnerable internal problem. Flatley understood that employers (tenants) need labor (working mothers and fathers) for their operations; if employers provide the incentive (on-site child care services) to remove the major barrier to accessing the work force, employers could transform themselves into preferred buyers of a vital cost of production (working parents).

In addition, Flatley has been able to achieve some scale economies from volume buying for the three centers. He has decreased "fit-up" time from nine to three months, which reduces construction costs and the amount of time before the center can begin generating revenue. He offers an employee-managed child care service that provides higher teacher/child ratios than is required by regulations while remaining in the lower range of market rates. Did Flatley achieve a competitive advantage by internalizing the operations management of child care centers?

At this time, Winter has differentiated his office product by establishing a child care center in an existing downtown office complex. He has no competition from other developers, since other office buildings in downtown Boston do not currently provide child care centers.

From an internal perspective, each of the three development firms learned from their experience. From an external perspective, the Flatley and Prudential child care centers provided these firms with competitive tools to achieve a competitive advantage. The Flatley Company created a marketing tool they could use to their leasing and retention advantage, while Prudential created a political tool that could leverage its redevelopment project. Eichhorn hopes to achieve a marketing tool in his next downtown Boston office building.

Finally, the decisions about child care centers reveal that each of the three real estate development firms has only partially created a marketing concept which places the fulfillment of current or potential customer needs at the core of its operations. The business paradigm of each of these firms--and of the industry as a whole--centers on the profitable development and leasing of space. These developers continue to focus on location, cost per square foot, and tenant services as principal demand determinants. As the supply of office and mixed-use space further exceeds demand, and as current or potential tenants recognize the value of on-site child care, developers may have to revise their business paradigm to ensure profitability.

CHAPTER 5

CONCLUSIONS AND FURTHER RESEARCH

Personal values (i.e. social responsibility) can be the driving force which motivates real estate developers to innovate development concepts. These values can evoke a remarkable commitment and, when linked to the entrepreneurial drive of the developer, this commitment can create champions of new concepts within established businesses. With commitment and business acumen, the champion can secure and allocate the required resources to transform even a fragmented, complex issue into a clearly articulated, manageable objective. In 1988, this is one process by which child care centers are incorporated into real estate products.

The conviction to provide *quality* child care solutions should lead the real estate developer to obtain quality marketing research. The outcome of this research can be used to generate design criteria for tailoring a range of child care programs to appropriately targeted market segments.

Marketing research provides an invaluable source of information about the child care market. It can quantify the demand for a given location, but it can also disclose much more when it is designed to uncover information that cuts across social, political, legislative, economic, regulatory, and real estate industry parameters. This information can lead to a comprehensive understanding of the child care market to facilitate market segment identification, child care curriculum design, locational preferences, desired levels of service for children of different ages and socioeconomic backgrounds, preferred hours of operation, design criteria, and price sensitivity.

<u>Further marketing research can identify profitable, well-managed, well-designed child care centers across the country and ascertain which factors in their internal and external environments made them successful.</u> If this investigation were followed with a strategy to copy these factors, adapt them regionally, and develop them as profitable real estate products, then it should be possible for the real estate developer to gain the expertise to operate child care centers profitably.

In office development, profits traditionally have focused the developer's attention on leases. Although developers value tenant services and amenities in the context of maintaining low vacancy rates, in a downturn cycle real estate developers may scramble to make a profit from all tenant amenities in order to partially mitigate higher vacancy rates and low retention. In preparation for the inevitable downswing of the normal business cycle, the developer who knows how to operate child care centers profitably may have a financial tool that can be used to create a competitive advantage. For most real estate developers, a change in perspective regarding traditional profit centers will require the developer to rethink the company business paradigm. A broader focus, expanding the profit potential beyond tenant leases, will assist developers in making this transition.

Real estate development firms may also need to reconsider their macro-political strategies and direct lobbying and public relations efforts to preclude an anti-developer bias in what can be a win/win phenomenon in the child care market.

Instead of simply asking how much the provision of an on-site child care center for an office or mixed-use development will cost, real estate developers must consider its worth as political and financial advantages. Money invested in child care capacity can potentially yield greater financial returns than money spent on advertising, public relations, or other tenant services and amenities. On-site child care can provide the real estate developer with competitive tools to achieve an advantage.

. . .

Research initiated as part of this study can form the basis for further investigation in a variety of directions. Other examples of on-site child care centers in Boston area office complexes and mixed-use developments as well as those of other regions could be contrasted with the three minicases included in this study. Of particular interest is developer response in cities with existing child care linkage requirements such as San Francisco and Toronto.

By examining the decision-making process and outcomes of other real estate firms and child care providers, a profile of successful and unsuccessful practices can emerge. Moreover, further research could identify existing on-site child care models that provide tangible profit related-benefits. Further research is also needed to test the economic feasibility of different on-site centers: How is it possible that some developers are making a profit on child care? The caveat to such research is that its data is typically proprietary.

A more modest research effort could involve a statistically based, cross-sectional analysis of financial performance of new office and mixed-use developments with a range of tenant services. This research could establish the financial significance of the child care component. Further statistical analysis, based on times series data, could be used to judge the financial impact of adding child care to existing office and mixed-use developments.

Research into the interest in, and willingness to pay for, on-site child care by current and potential tenants is also important. Market research techniques can be employed to investigate these factors.

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This research project has shown how developers' personal values motivate them to develop innovative amenities or products that address a societal need. Although a common belief in the industry is that real estate developers do not have a social responsibility to respond to the child care market, those whose personal values motivate them to be champions for this market are welcome pioneers. As more models become available for further study, an increasing number of real estate developers will be able to identify the combination of factors that can transform the child care market demand into a profitable real estate product.

APPENDIX A

MAJOR CHILD CARE LEGISLATIVE BILLS IN 1988
FEDERAL AND STATE (MASSACHUSETTS) LEVEL

Title, Number, Co-Sponsors	Funding and Provisions
Federal ACT FOR BETTER CHILD CARE H.R.3660 S.1885 Dale Kildee (D-MI) Chris Dodd (D-CT)	$2.5 billion in first year. Allocations to make child care more affordable for low and moderate income families, improvements in child care quality and availability, and state administration.
CHILD CARE SERVICES IMPROVEMENT ACT OF 1988 H.R.4002 S.2084/S.2085 Nancy Johnson (R-CT) Orin Hatch (R-UT)	$375 million in first year. Block grant, liability pool, and loan fund for upgrading family day care. Tax credits for on-site or near-site employer supported child care.
FEDERAL CHILD CARE AND CHILD DEVELOPMENT COORDINATION ACT S.2009 Robert Dole (R-KS)	$300 million in first year. Dependent tax credits based upon income level. Start up funds available for on-site child care in small business concerns.
NEW SCHOOL CHILD CARE DEMONSTRATION PROJECTS ACT H.R.3841 S.1995 Dale Kildee (D-MI) Chris Dodd (D-CT)	$120 million in first year. $500,000 per state. Early childhood education projects in schools.
Massachusetts AN ACT TO PROVIDE CHILD CARE LINKAGE H.6023 Saundra Graham (28th Middlesex) John W. Olver (Franklin/Hampshire)	Requires developers of commercial or industrial property over 50,000 sq.ft. to provide space for a child care center or to pay a fee into a special child care fund. Developers are allowed to act in consortium. Child care required in state buildings.
AN ACT ESTABLISHING PARENTING LEAVE H.3333 Mary Jane Gibson (26th Middlesex)	Allows optional 18 week job-protected leave for either new parent. Health insurance to be paid by the employer during this period.

APPENDIX B

INTERVIEW PROTOCOL

1. What motivated your firm to provide a child care center?
2. How did the idea actually come about?
3. Is this typical of how your firm makes this type of decision?
4. Do you see this decision as proactive or reactive?
5. What kind of data did your firm use to arrive at a decision to include a child care center in an office complex?
6. How did your firm obtain the data that it used to make a decision?
7. What resources did the firm need to provide an on-site child care center?
8. How did your firm arrive at decision concerning the management of the child care centert?
9. How were people rewarded who worked on this center?
10. What lessons did you learn from introducing this center?
11. How would you do it differently?
12. What skills do you want to add to your firm that presently are not in place to support continued product innovation?
13. Did the inclusion of a child care center in the office complex achieve your firm's original objectives?
14. What customer benefits has the child care center actually provided? What has the response been?
15. What about the downside? Where is the firm vulnerable relative to the child care center? How does this vulnerability relate to ROI?
16. Does the real estate developer have a social responsibility to take a proactive position relative to child care?
17. Can real estate developers establish a positional advantage by introducing a new product or an amenity such as a child care center?
18. What have your competitors done relative to child care centers? Who does your company view as its competitors?
19. Has your firm created a competitive advantage?
20. If you have viewed a child care center as an amenity, what would shift your perspective to view it as a viable profit center that your firm could actively be engaged in?

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