

FROM TOASTER OVENS TO CONDOS:
The Product Development Process
Applied to Real Estate

by

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on July 29, 1988
in partial fulfillment of the Degree of
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ABSTRACT

This purpose of this study was to address the following questions:

- . How do developers make decisions about what gets built once a basic product type and market location have been chosen?
- . How might these processes be, at worst, remedied, or at best, enhanced?
- . Given that real estate literatures ignore the topic of product development, how applicable is a product development process model from the consumer and industrial goods sectors in regard to the formation of the real estate "product"?

To answer these questions, many literatures on product development were studied and a framework of recurrent themes was synthesized from them. A single product type and a market context were chosen (condominiums in Toronto). Two product developers and two marketing consultants were interviewed, and the resulting cases were analyzed comparatively according to the product development framework.

This study found that the product development paradigm from the consumer and industrial goods and services sectors is applicable to the study of Toronto condominiums. Given the prior selection of a basic product type and market location, developers' product decision-making processes are part art, part science. Having market data is not necessarily a competitive advantage, but having in place an informed product development process and an internal mechanism for dealing with it *is*. While having no methodology at all could be disadvantageous for the RED firm in a downturn market, having a process that is too institutionalized could also be problematic.

The study concluded that the real estate development industry needs to become more marketing-driven in its approach to product development, and that firms can start to build learning bases by utilizing the experience and insights of marketing consultants.

Thesis supervisor: Gloria Schuck

Title: Lecturer, Sloan School of Management

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TABLE OF CONTENTS
=====

Abstract.....2
Introduction.....6
Chapter 1....THE PRODUCT DEVELOPMENT FRAMEWORK.....9
Chapter 2....THE PRODUCT DEVELOPMENT FRAMEWORK APPLIED TO A SITE
 INTRODUCTION.....24
 SITE SELECTION CRITERIA.....25
 THE CONDOMINIUM PRODUCT IN THE TORONTO MARKET....27
 DEVELOPER CASES:
 The Yorktowne Group.....31
 Rosedale Limited.....39
 ANALYSIS.....48
 MARKETING CONSULTANT CASES:
 Edmunds Marketing and Communications.....55
 Harrison Marketing Group.....62
 ANALYSIS.....69
Chapter 3....JOINT ANALYSIS.....75
 CONCLUSIONS.....78
Endnotes.....85
Appendix A...INTERVIEW PROTOCOL.....88
Bibliography A.....89
Bibliography B.....91

INTRODUCTION

"There is only one valid definition of business purpose: *to create a customer...* Because its purpose is to create a customer, the business enterprise has two - and only these two - basic functions: marketing and innovation..."

-Peter Drucker 1

"The process is very simple: we start with the envelope, which dictates the constraints. We go to an architect, and ask him to give us some ideas... His ideas come forward, and then we pick and choose [among them]. Our process is based on gut feel and *not* on the dictates of marketing."

-condominium developer

"We often find that developers think they have the greatest taste, and that their wives [sic] make the best interior decorators. This can make for a marketing disaster. As a developer, you really have to put your taste on the back burner. Your taste doesn't matter...the buyer's does."

-condominium marketing consultant

When not preoccupied with deal structuring, restructuring, or the political challenges of getting land rezoned, the real estate development (RED) industry concentrates on creating what it calls "product", including but not limited to office buildings, parking garages, shopping malls, and housing. A myriad of textbooks, academic papers and courses abound for the study of financial methods in real estate, and much attention has been paid to the political concerns of the developer, but virtually no attention has been paid to the product development process. How do developers make decisions about what gets built once a basic product type and market location have been chosen? What informs their processes? And how might these processes be remedied at worst, or enhanced at best?

Although the product development process has been little-studied with regard to real estate, a wealth of information exists on its counterparts in the consumer and industrial goods and services sectors. If a systematic method of development can be applied to a consumer good like a toaster oven, a conceptually similar method should be applicable for the design and marketing of an office or residential condominium building.

The aim of this research is to study product development and management frameworks from the consumer/industrial sectors and their application to the real estate business. The scope of this study is quite broadly based on a theoretical level, but becomes site-specific through the introduction of case studies, which hone in on a particular product (condominiums) in a particular market (Toronto). What marketing and organizational decision-making strategies were used at companies to arrive at a "product"?

The paper is divided into four parts:

1. A PRODUCT DEVELOPMENT FRAMEWORK

In the first section of the paper, a general framework for product development and management strategies is presented. Steps and considerations in the product design decision process are outlined, as are the ingredients of a thorough development policy. At the end of this section, the discussion of product strategy begins to focus specifically on the real estate

industry, through a series of questions.

2. CASE STUDIES

The purpose of the case studies is to place and study the product development framework in a real estate context. The case studies focus on a specific product type (condominiums) in a specific market (Toronto). This chapter presents the results of interviews with decision-makers at two RED firms and two marketing consulting organizations regarding their approach to real estate product development. The cases are prefaced by a brief history of Metro Toronto condominium development and current market conditions, and also by a rationale for the selection of interviewees.

3. ANALYSIS

Each pair of interviews (two developers or two marketing consultants) is followed by a comparative analysis, and then a third analysis is made, comparing and contrasting the points of views of developers and marketers.

4. CONCLUSIONS

In this chapter the author shares the conclusions of this research.

ONE. THE PRODUCT DEVELOPMENT FRAMEWORK
=====

"There is only one valid definition of business purpose: to create a customer... Because its purpose is to create a customer, the business enterprise has two - and only these two - basic functions: marketing and innovation..." 2

What creates a customer for a business? A product, a fabrication that fulfills the needs or wants of the purchaser. And what creates a product? An individual or company. And why is that product created? For any number of reasons, including the company's wish to earn profits, increase its competitive position, keep pace with technology, respond to demographic and lifestyle changes, or respond to pre-existing demand. "Products are means of solving problems for both buyers and sellers - bundles of expectations for both..." 3

Among the many products introduced by firms into the North American marketplace every year, failures are commonplace. Although "there are no reliable overall statistics on new product successes or failures" since these labels are relative to a company's goals, marketing consultants Booz, Allen and Hamilton estimate that "35 percent of products introduced into the market fail." 4,5

Reasons for product failure can include:

- selecting a market that is too small for the product
- failing to innovate or differentiate
- poorly positioning the product
- misunderstanding consumer needs
- forecasting errors in demand
- not anticipating a strong competitive response
- not anticipating changes in consumers' tastes
- yielding a product which is poorly matched to the company's attributes
- organizational problems (or "pathologies") 6

As with 'failure', product 'success' is relative to corporate goals. However, quite simply, "[products] succeed because customers find them superior, cheaper or distinctive." 7

A MARKETING/PRODUCT MANAGEMENT PHILOSOPHY:

The notion exists that a disciplined approach for business is necessary to manage the process of product development, to avert failure and to help ensure success.

"The task of product management is to find out what makes a product superior, cheaper, or distinctive from a particular segment of users. Once identified, such "winning features" can be built into new products and into the marketing programs supporting such products." 8

Literatures suggest that methodologies of new product development nest within a larger corporate philosophy on marketing. 9 Marketing is viewed as "an integral part of organizational strategy" and "the primary means by which the organization links itself with the external environment". 10,11 Its philosophies espouse the the necessity of "setting goals, establishing policies and programs, and implementing business

action for the entire firm." ¹² Marketing strategy must span the time period from "the inception of a new product idea to the decision to terminate an old [one]... to achieve...product goals rather than let circumstances dictate the[ir] fate." ¹³

In theory and practice, marketing "focuses on the business as a satisfier of consumer wants and needs." ¹⁴ Ideally, there should be a comfortable match between a company's capabilities and goals, and a customer's wants and needs, actual and potential.

"True marketing starts out the way Sears starts out - with the customer, his demographics, his realities, his needs, his values. It does not ask, "What do we want to sell?" It asks, "What does the customer want to buy?" It does not say, "this is what our product or service does." It says, "These are the satisfactions the customer looks for, values and needs." " ¹⁵

When a company is production oriented, it takes stock of its manufacturing capabilities, makes products, aggressively tries to sell them, and "aim[s] at [the] customer as a target." ¹⁶ In distinction, a marketing oriented company starts by examining "actual and potential customer wants and needs", looks at market opportunities, assesses and improves its manufacturing capabilities, strategizes on a mix of product, price and promotion, and only then engages itself in selling to a pre-targetted customer. ¹⁷

Another fundamental precept of marketing is that change is a constant:

"In accepting change as a constant, marketing management recognizes that customers and consumers change; markets change continuously; and the products and services, the marketing methods, and even the very nature of a company must change to meet them." 18

Marketing literatures suggest that such precepts and policies are totally ineffective if a firm lacks a suitable organizational design to carry them out. Product development should be dealt with on either a functional, customer or product basis.¹⁹ For example, General Electric might have approached the product development process for the toaster oven by way of a product development department (functional basis), residential consumer department (customer basis), or through a small appliance division (product basis).

"While there is no single organizational approach to assembling and coordinating the marketing function in a given enterprise, it is essential that a top level executive be responsible for the firm's marketing management activities...The key consideration is that the various functions associated with the marketing mix should be grouped together in an organizational design that facilitates the development of an integrated marketing strategy for serving the firm's target markets." 20

A MULTIPLICITY OF MODELS AND VIEWS:

As many models seem to exist on product development methods as there are textbooks written on the subject. The diverse models all agree on the precept that clear strategy, mobilization and discipline are needed to guide the product development process, rather than a laissez-faire or disorganized stance. They also all acknowledge that actual methods are unique to particular products. From recurrent general themes, a hybrid

model is presented in this research.

This hybrid model suggests that, before a product is introduced into the marketplace, there are three basic steps in its development: organizing (strategy development); design of the marketing mix; and testing. (Product introduction will not be elaborated on in this research).

(A) ORGANIZING FOR PRODUCT DEVELOPMENT

1. defining corporate mission or objectives
2. assuming a proactive or reactive stance
3. analyzing the market and market opposition
4. zooming in on a target
5. formulating specific marketing objectives and overall strategy

(B) DESIGN OF MARKETING MIX

1. product design
2. pricing
3. promotion

(C) PRODUCT TESTING

(A) ORGANIZING FOR PRODUCT DEVELOPMENT

1. DEFINITION OF CORPORATE MISSION AND OBJECTIVES

"Effective new-product development requires clearly stated corporate objectives."²¹ At the outset of the product development process, a company must have a clear idea of itself, its goals, and (most importantly) its resources and limitations. Establishing this self-knowledge will not only help to guide the firm through the process, but will also help to provide a bench-mark for after-the-fact evaluations.

"New product development should reflect the overall policy and strategy of the organization... [perhaps beginning] with an audit of the company's capabilities and its environment. What are we good at? Where are we vulnerable? Why have we succeeded in the past? Where are our major products in their life cycles? ...What business are we in, and what are our goals?" 22

2. ASSUMPTION OF A PROACTIVE OR REACTIVE STANCE

Once a company sets its goals and performance measures, one of its most basic strategic decisions is whether to be *reactive* or *proactive*. A reactive strategy deals with impinging forces as they occur and may be either:

- defensive, in which a firm makes "changes in existing products" as a response to a competitor's new product;

- imitative, also known as the "me-too" approach;

- "second-but-better", "[in which] case the firm waits until the competitor's product is revealed and then not only copies it but improves on it"; or

- responsive, ie. "purposely reacting to consumers' requests". 23

Proactive strategies "explicitly allocate resources to preempt undesirable future events and achieve goals" ²⁴ and tend to initiate change through:

- research and development programs;

- entrepreneurial visions (taking "an idea and making it 'happen' by building venture enthusiasm and generating resources"); or

- marketing approaches which "find a consumer need and ... [build] a product to fill it." 25

Competing companies are either followers or leaders in product development. Leaders assume a proactive stance, followers a reactive one:

"Product strategies may be a reaction to a competitor's moves and consist of adjustment of current product lines, or they may involve the development of new products... Some companies develop the reputation of being the first to research and develop a particular idea and bring it to market. They establish themselves as product and industry leaders. Others tend to a policy of followership - innovative imitation. They are neither in a position nor choose to risk the resources on the development of new ideas and new market segments. They wait for the acceptance of a new product idea before developing and marketing a similar product themselves. This strategy of followership is often used by small firms, but not necessarily only by them." 26

In some instances, a pre-established brand or product line leaves a very limited scope of development to its manager. For example,

"[t]he product can be reformulated, but only within fairly narrow limits... The price can be manipulated, again with narrow limits. (Changes are usually forced rather than voluntary)... The pack's structure and design can be altered quite significantly, but any such change has to preserve the brand's identity and suit its reputation and standing." 27

3. ANALYSIS OF THE MARKET AND MARKET OPPOSITION

The following chart ²⁸ summarizes the concerns of product developers within their operative market and competitive environments:

GENERAL CHARACTERISTIC	CONCERN
POTENTIAL	-SIZE OF MARKET -SALES GROWTH RATE
PENETRATION	-VULNERABILITY OF COMPETITORS
SCALE	-SHARE OF MARKET -CUMULATIVE SALES VALUE
INPUT	-INVESTMENT IN DOLLARS AND TECHNOLOGY
REWARD	-PROFITS
RISK	-STABILITY -PROBABILITY OF LOSSES

In analysis, the tools of the trade are many, and managers use concepts from a variety of disciplines, including quantitative, social and behavioral sciences to solve marketing problems." Firms may compile or purchase demographic studies and regression analyses for the macro- or micro- markets; they may also collect ear-to-the-ground information. In every instance, it is a merely a technique of the firm to collect data, but an art to translate that data into something more meaningful.

The competition should be studied to evaluate its vulnerabilities:

"...[C]ompetitive monitoring is usually limited to developing a picture of what competitors have done or are doing, as reported in trade and business periodicals, in syndicated research reports, or through field personnel. More often than not, this kind of intelligence focuses on pricing and promotional tactics... any deeper analysis tends to be product-line parochial, which obscures a competitor's total business strengths and vulnerabilities." 29

4. ZOOMING IN ON A TARGET

'Targeting' involves aiming all marketing strategies and the marketing mix (product, price, promotion) at a particular group of customers, like a dart at a board. As one of the most critical steps in the product development process, failure to define an appropriate target or any clear target at all could easily lead to product failure. Decisions on target choice are best informed by an analysis of the market and competition, and through a strong attempt by the company to match itself to its customers. Single or multiple targets may be chosen, and convergent or divergent strategies chosen for them:

" ... Converging strategy refers to the convergence of demand for product variety among individual market segments, so that distinct markets are satisfied by a single or limited offering... Divergent product policies adjust product lines to individual market segments..." 30

5. FORMULATION OF SPECIFIC MARKETING OBJECTIVES

AND OVERALL STRATEGY

"The importance of setting specific marketing objectives is so fundamental to marketing strategy design that it should be an obvious first step in the process. Yet in practice, there is a surprising number of firms that fail to formulate and quantify marketing objectives." 31

Specific objectives to be established include

"profitability, sales volume, market share, product insulation, and time requirements." 32 Profitability may be measured in terms of any of the following: specific absolute-profit target; gross-margin figure; return-on-investment (ROI); and/or return on stockholders' equity. 33 Market share tells a company how its

product is doing relative to its competition's. Lastly, *product insulation* may be desired.

"Product insulation means that a product or service has secured a protected niche in the market such that it is relatively immune to the marketing tactics of competition... [achieved generally] through the strategy of differential advantage." 34

In addition, a company needs to:

- (1) assess costs of product development and marketing;
- (2) create a schedule for the product development process:

"Too long a... process can result in lost opportunities, while too short a process can ignore key issues and result in failure... The usual time for developing, testing and introducing new products is probably longer than most people would think: two and one-half years for consumer products ...[and] five years for industrial products..." 35

- (3) assess market risks and create contingency plans:

"The strategy-oriented process has one additional element not present in traditional marketing, and that is contingency planning. In developing marketing plans founded on assumptions regarding future trends, it is important to have an escape hatch if one or more key variables start to veer off course."

"A sensitivity analysis of key variables and the development of "What if..." scenarios with trigger points and action plans will help to maintain a strategic compass heading and to elevate the comfort level of management... Any other approach to the future...could result in aimless wandering down unproductive side roads and blind alleys, in inverted priorities, in a misuse of marketing resources... To meet consumer...needs, to outflank competition, to leverage the competences of the business, and to meet management's expectations, the marketing plan...must have the appropriate strategic elements up front." 36

and (4) seek to position a proposed product in the marketplace, since a product is not only a physical entity but also a "psychological positioning." 37 Marketing literatures define

this "as matching a set of product attributes or benefits to a segment of the category market." ³⁸

(B) DESIGN OF THE MARKETING MIX

Ideally, in the first phase of product development, a firm defines its corporate mission or objectives, assumes a proactive or reactive stance, analyzes the market and market opposition, finds an appropriate target, and formulates specific marketing objectives and an overall strategy. The *marketing mix*, a package of product, price, and promotional strategy, logically flows from the aforementioned steps, and is subject to testing and iteration.

1. PRODUCT DESIGN

Product design has as its parameters and takes its cues from market studies (to determine specific product needs and opportunities), competitive analysis, target group analysis, and the specific marketing objectives and already-formulated overall strategy (product positioning, profile and differentiation). Ideally, design is based on the prospective buyer profile. Ideas may be "evolutionary" or "revolutionary",³⁹ and may be generated within the firm, by outside consultants, or "with members of the general public." ⁴⁰

The design process itself is "interactive...[and] not accomplished in one step", but iterative in nature: ⁴¹

"The process of design itself is seen by Mintzberg, Raisinghami, and Theoret (1976) to follow certain regularities depending on whether it is a custom-made solution or a modification of already available alternatives. The designers begin creating the custom-made solution with a vague image of some ideal one. They pursue a sequence of nested design and search cycles, working their way through a decision tree. The decisions at each successive node became more narrow and focused. Failure at any node leads to cycling back to an earlier node. A solution takes shape as the designers move along developing their solution without really knowing what it will look like until it is completed." ⁴²

In considering their competition, "[c]ompanies are faced with a drive to innovate because the outcome provides a differential advantage." ⁴³ Successful innovations "must be based on the familiar" , and are often instigated by marketing executives. Innovation's strongest enemy is inertia:

"Resistance to innovation may be external or internal...[externally coming] from customers and competitors as they react in the marketplace...[and internally] from the enterprise itself. Companies emphasizing standard operating procedures, routines, rules, budgetary limitations, and conformity place a damper on creativeness. Executives may resist innovations when they feel that innovations will limit their own progress and development." ⁴⁴

2. PRICING

Components of perceived value are: cost to produce; ability to obtain a certain price from the marketplace; and aesthetic value.

"Of all the decisions leading up to the introduction of a new product, setting the price is usually the most difficult and causes the most impact - although it often seems an obvious decision. Pricing affects demands, investment

levels, and ultimately profits. It is difficult because we have only the vaguest idea of demand for the product, let alone demand at various price levels. Further, researching price is, at best, a controversial idea (will people really buy a product at a specified price when they say they will?)." 45

Price may be determined on a cost-plus basis, or as a function of demand. Demand pricing "focuses on the product and its market",⁴⁶ and may take the form of price skimming or penetration:

"If you have the only product in the market, you have an interesting choice. You can price the product high initially, and skim the cream off the top of the market (really the top segment) before you lower it to be attractive to other segments. Of course, this takes time. If you fear a quick entry by a competitor, you may prefer a penetration strategy. This involves setting a lower price, and thereby capturing a large piece of the market before your competitor(s) arrives." 47

3. PROMOTION

Promotion should be designed to attract the attention of target markets, and as a complement to a product and its pricing. It embraces public relations, graphic design and advertising.

(C) PRODUCT TESTING

"Many companies launch new products...without test marketing, product testing, concept research or any of 'that kind of nonsense', because they are sure they cannot fail... Some companies place a great reliance on test marketing for predictive purposes. Some do not believe test marketing is worth the time or the dangers of competitors learning about new products and possibly beating them to...launch." 48

Three sound reasons for testing the product before launching it are *prediction, investment protection (risk related), and learning from mistakes.* ⁴⁹ The overall objective of test marketing is to test the acceptability and the receptibility of a product and its price by consumers. Specifically, a company will attempt to further define the psychological profiles of its target group; determine consumer satisfaction in the product; get an idea of appropriate pricing; and find out about competitors' comparable products.

Methods of gathering this information include the release of a product to a small testing area along with follow-up questionnaires or interviews, or the creation of *focus groups*.

The focus group interviewing technique:

"is similar to brainstorming except that the participants are potential customers. Respondents are led in a discussion of a product category for which they are potential users... Out of the session[s come] several important new product ideas." ⁵⁰

* * *

The three part model (organizing for product development, design of the marketing mix, and product testing) outlines critical product development process steps. To translate these theoretical steps into practice is difficult; "[the] process is important, but ...[making] it real requires managerial discipline and control..." ⁵¹ It must be noted that the product development process is neither so linear nor so systematic that it can be characterized as a science.

"No process for developing new products is foolproof, and though various elements in the process can be systematized, new product development is still as much an art as a science." 52

Even though much of the product development process is quantifiable and subject to regression or numerical sensitivity analysis...

"marketing people provide another important input to managerial judgment that must not be lost... That knowledge is knowledge that is almost intuitive of the nuances of the marketplace - a knowledge that cannot be reduced to a quantifiable state and analyzed - plus an understanding of the real people who comprise the segments and how they might react to change. These strong visceral impulses are based on experience and learned perceptions, and they are the ground on which the marketing structure is built." 53

Lastly, there is no one-size-fits-all process:

"There is probably no single solution to any problem in the field of marketing, though some lend themselves to fairly precise optimization, and there is certainly no way of developing new products - just as there is no single style of management. The problems, and therefore the solutions, will always be unique to the combination of market, company and personnel for which they occur." 54

* * *

Many questions arise regarding the applicability of the three step "toaster oven" model to the real estate product. Can real estate firms define their corporate missions or objectives in the same way that consumer product firms might? Do producers of penthouses analyze the market and opposition, choose their targets, formulate specific marketing strategies, develop marketing mixes, and test their products in much the same way as producers of canned peas? Chapter Two applies the product development framework to real estate.

TWO. THE PRODUCT DEVELOPMENT FRAMEWORK APPLIED TO A SITE
=====

To answer to the questions posed in this thesis on the applicability of the product development framework to real estate, a single product type and a market context were chosen (condominiums in Toronto) for study. Two product developers and two marketing consultants were interviewed. Finally, the cases resulting from the interviews were analyzed comparatively according to the product development framework.

SITE SELECTION CRITERIA
=====

This research examined aspects of the real estate product development process by focusing on a specific product type - condominiums - in a particular market - Toronto. Locating the cases in single market climate, and considering only one product type, enabled potentially differing philosophies to be compared and contrasted in a meaningful way. Also, since condominiums were relatively new to Toronto as a product type, it was interesting to study the forces that shaped them. The single disadvantage of studying only one specific product type and market was that the generality of the findings might be limited.

It was surmised that influence in the decision-making process came from two groups, developers and condominium marketing consultants. Therefore, representatives of both groups were contacted, and senior managers or principals of two RED firms and two marketing consultancies were interviewed in person. Each interview lasted between sixty and ninety minutes, and was presented to the same general protocol (see Appendix A).

In the site selection process for RED companies, seven likely "candidates" were approached. Four of these firms had no internal mechanism for dealing with the issue of product development (ie., no definable person or team responsible for issues of marketing and design). In the fifth instance, it was against the firm's corporate policy to divulge its product

development process. The remaining two firms employed managers who were responsible for design and marketing issues. They spoke openly about their work, experiences, and ideas.

The RED companies interviewed had been active in developing condominiums in Toronto within the last five years. Although these firms were of differing sizes, structures and norms, both created projects of a similar scale, and catered to similar market segments. In each case, condominiums were not the only product type handled by the firm.

The two marketing consultancies interviewed differed in focus: one concentrated on product image, and the other specialized in process management for condominium product development. Both were renowned within the Toronto market for expertise in their respective areas.

THE CONDOMINIUM PRODUCT IN THE TORONTO MARKET
=====

"Land in and around Toronto is at a premium, and single family homes are not only becoming unaffordable for some people, they've become just plain unavailable, especially in the downtown core..." No longer do people [in Toronto] think exclusively in terms of a single-family house with a white picket fence. For now, it's the case that, whether it be a first home, a retirement home, or something bought for the years in between, most Toronto residents will end up owning at least one condominium during their lifetimes." 1

Twenty five years ago, "there wasn't a single condominium in [Canada]... in those days, you either rented or you owned a house." 2 Condos, or "individually owned apartments", 3 appeared in Canada in 1966, when the Ontario government first permitted apartment conversion. They got a boost in the late '60s, when the federal government saw them as a way to increase property ownership, and created programs enabling people to buy units with \$99 down-payments. A number of developers began to produce new condominium buildings to keep pace with demand, especially in cities like Toronto. These developments, which looked exactly like rental apartment buildings, began to suffer a cruel turn when thousands of owners suddenly defaulted on their mortgages. "[F]aced with unexpected costs [of ownership]... they walked away from their units... because they had so little equity tied up." 4

It is with this shaky beginning that the condominium product type established itself in Toronto, and with it, developers who are still active today. One of them, Summit * 5, has produced about 14,000 condominium units in Toronto since 1970, mostly in

the suburbs.

The banks' fear of owner default gave rise to the birth of the "pre-sales"- programs designed to sell a building off before it was built. Lending institutions "wanted 60-70% of the sales delivered before they would arrange any more condo financing".⁶ To meet their demands for up-front cash, legendary high-pressure pre-selling tactics were developed, largely by the team of a real estate advertising executive and a Summit marketing and sales vice-president-turned-broker.⁷

Where the \$99-down program failed to sustain demand for the product, and the pre-sales were not always effective, the emergence of province-wide rent control took over.

"There was a critical shortage of rental housing. The last unassisted residential apartment building had been built in the City of Toronto in 1971; anything new would have required a rent of \$1,500 on a one-bedroom unit to make it economically feasible. Toronto's apartment vacancy had worn away to less than one per cent." ⁸

Since the early 1980's, Toronto's condominium market has been on a roller coaster ride. In 1981, the market hit a feverish peak but by 1982, a sudden glut of units caused it to bottom out.

"By 1981 the condominium market was hot - too hot, in fact. As the buying public started paying attention to condos, so did speculators. They began putting down payments of \$5,000 or so on several units at a time with the intention of flipping them - reselling the properties at a profit as soon as the building was built. The problem was that the speculator interest created an artificially high demand for condominium projects, and new developments soon started flooding the market." ⁹

In 1983, the industry began another climb 'up the track', a direction which has not yet been reversed. Toronto's healthy economy, combined with lowering interest rates, offshore investors and speculators, and a pent-up demand for shelter drove Toronto real estate prices through the roof, starting in 1985. People were buying up anything and everything in sight, and the city began a great expansion to the north, east and west.

"By 1986, they [prices] were skyrocketing: a record of 14,000 units disappeared off the market in Toronto and its surrounding areas..." ¹⁰

In 1988, condominium demand in the City of Toronto is very high, with "89% of the product currently available...[having] been pre-sold, in advance of construction starts." The average price per square foot has increased 49%, from \$179 (1987) to \$267 per square foot in the first quarter of 1988. ¹¹ At the same time, there has been an evolution from larger suites at lower cost to smaller suites at a higher per square foot cost (new "product").

Development controls have severely constrained supply at a time when demand for all sizes, locations and prices of condo units appears to be unsatisfiable.

"In the face of this shortage, demographic and house price factors are at work in the community favouring an acceleration of condominium development. These factors include an aging population, new household formations, and rapidly increasing prices in the resale housing market." ¹²

The suburban market, in contrast, is "thus far reasonably well supplied with product. However, those projects experiencing

the best sales absorptions this year generally have minimal competition in their local market areas..."¹³

The Toronto condominium development industry is now characterized by splintering and specialization, to cater to different consumer groups - urban and suburban, young professionals, empty nesters and senior citizens.¹⁴ The industry is led by four RED companies, listed here in descending order based on production volume: Summit*, Rosedale*, Masson* and Blackmoor*. There has been a refinement-to-an-art of high-pressure pre-sales, and generally, a growing sophistication in the industry. Many marketing consultancies have sprung up to aid developers, and their expertise is now being "exported" to the rest of Canada, United States and Europe.

DEVELOPER: YORKTOWNE GROUP
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COMPANY DESCRIPTION:

The Yorktowne Group* is a privately owned Toronto RED firm which began after the Second World War, initially building houses and then moving into lot development. Although the firm has since acquired or developed numerous properties in Ontario, Florida and Texas, Toronto land development is still the firm's primary business. It holds a current inventory of 1100 acres valued in the hundreds of millions of dollars. Yorktowne's staff totals eight in number, including a receptionist and two bookkeepers.

Yorktowne was introduced to the condominium development business in the early '80s, when Summit offered to buy a piece of land in the firm's inventory zoned for high-density residential development. Intrigued by Summit's idea of developing condominiums, Yorktowne chose to joint venture with them rather than sell the land off. Vice President Richard Rosen* saw an opportunity to learn as much as he could about a new industry: "They [Summit] were clearly the industry leaders, and we acted like sponges." This arrangement set the tone for many of Yorktowne's subsequent projects, in which joint venture partners exposed the firm to condo product development techniques.

The Summit-Yorktowne deal involved 3 buildings, with a total of 670 suites. Although a pre-sale program was well organized

for the first phase of 70 suites, only 10 were sold before the project broke ground. Rosen explained: "As soon as we started to build, the interest rates shot up." The market suddenly became so volatile that a third partner in the venture panicked and wanted out. "No sooner did [the third partner] sign the papers [releasing him from the deal] did the market turn around, and within 8 weeks, the 60 remaining units in the first building sold out." Within another two months, a pre-sale effort sold out a second phase of the project.

After a market roller-coaster ride and initial lesson on condominium development, Yorktowne decided to initiate its own condo project. They chose from their formidable inventory a suitably zoned suburban site. However, they realized that they still lacked sufficient know-how to proceed on their own, so they accepted a joint-venture offer from another firm, Acme Developments*.

After building a condo building with Acme, Yorktowne went solo on its third and most recent project.

ASSUMPTION OF A PROACTIVE OR REACTIVE STANCE:

Rosen believed that the condominium product development process was "definitely reactive". He observed from his work with Summit that if product already built was not selling, Summit's president "wasn't afraid to rip the guts out of a ten-storey column of suites already built and to start anew."

This was considered to be cheaper than holding on to the inventory. "What do you do when the market changes quickly? ...They [Summit] literally made changes to their product."

On the other hand, Rosen acknowledged that pre-sale activity offered the developer a chance to devise a proactive strategy. Before the pre-sale phase, a developer had the opportunity to shape his product, while the pre-sale period allowed him to sell it before it was actually fabricated. He saw this as a challenge:

"In a pre-sale market, people are buying from plans, without having seen the real product. The biggest problem is, "Are the people buying going to have faith in what they don't see?"

ANALYSIS OF MARKET AND MARKET OPPOSITION:

Yorktowne took its lessons in market analysis from Summit. In their first joint venture, Rosen watched Summit commence its work by obtaining a market study, prepared by an outside market analyst. However, he noticed that building design decisions were not based on this study but on the Summit president's intuitive understanding of the market.

Neither Yorktowne nor their joint venture partners seemed to have confidence in the market when their projects were initiated, so marketing people were hired. Rosen explained: "We were interested in what their perceptions would be, and took input from them." Even so, Rosen's observations led him to take very little stock in market analyses and their value in the product development process:

"It's impossible to forecast the market... I think that the market operates independent of [data] knowledge, no matter what you think you know... Market analysts give you a nice thick report [of data] on all existing condos. They're statistical analysts - good number crunchers, but not gurus."

ZOOMING IN ON A TARGET:

Rosen explained that certain marketing companies tried to target projects by soliciting responses to advertising for a particular location, "send[ing] out priority registration forms and creat[ing] a lot of hype. We don't subscribe to that." What Yorktowne did subscribe to was intuition and a do-it-yourself approach. Rosen identified targets for his firm's projects and oversaw their translation into design. To create appropriate suite designs, he said, "You have to divorce yourself from yourself and try to think like the person in the marketplace."

Yorktowne learned that purchasers fell into two distinct groups, the speculators and the "live-ins" (i.e., those who were purchasing a roof over their heads). A firm stance was taken with respect to target definition:

"We're in business for providing housing, not for providing a commodity. In a hot market, you don't need the speculator and in a weak market you don't want him because you don't know if he'll close... We can't stop speculators from buying in our projects, but we certainly don't design for them."

FORMULATION OF OVERALL STRATEGY:

Through its joint-venture work, Yorktowne developed a 'method' of product planning that was incremental, very informal, and learn-as-you-go. Rosen valued the use of intuition. On the

other hand, such informality of process resulted in inefficiencies.

At the outset of the Yorktowne-Acme joint-venture, an architect was hired; site plans and a full set of architectural drawings were generated for an 18 storey, 200 suite building. Once the drawings were completed, the developers realized that the design was inferior. Only then did it occur to them that the architect's expertise was in office rather than residential condominium buildings.

"We didn't think that [hiring an architect without condo experience] would be a problem, but it was... We took one look at the plans and threw them all out. Acme told us: 'Forget all about your architect and marketing people; we'll use our own.' So we threw out the whole team except for the electrical and mechanical consultants and the landscape architect, and started fresh."

The joint-venture partners decided to hold a "mini-competition" between the old architect and Acme's "new" architect. Rosen saw that "Acme's [architect] produced a much better design", and a choice was thus made. Even so, the developers were still not sitting comfortably. What was characterized as a "fear of the market" ultimately led the one building to be designed as two phases - one block cut in half. The developers needed to put all the amenities (pool, rec room, etc.) in the first half and were forced to duplicate hundreds of thousands of dollars worth of structural elements, stairwells and mechanical equipment.

Competing development firms and their projects were viewed

as "unknown quantities". In one of its developments, Yorktowne knew that Summit and Rosedale* were also planning projects nearby, but initially proceeded without any real strategy for dealing with this fact. As it happened, the competing projects were closer to traffic and noise than Yorktowne's building; once salespeople picked up on this "competitive advantage", they started to market the product accordingly. Yorktowne learned to capitalize on feedback from initial sales reports in this way.

DESIGN OF THE MARKETING MIX:

Rosen believed that location was the most critical factor in project success, surpassing design: "You can have a dog's breakfast [for a product] but *location* will sell [it]." However, he held, "You have a better chance of selling in a slow market if you've got better quality."

Yorktowne looked for "an egoless architect" to design its condo buildings. "A good architect knows room proportions... There are a few who do the lion's share of work [in Toronto], and know the market as well, since they're pumping out thousands of suites a year." Rosen worked with existing design standards.

"[We used] mostly his [the architect's] ideas, but we coached him... the process was 'You gotta pull this, squeeze this, change that...'" The process is very simple: we start with the envelope, which dictates the constraints. We go to an architect, and ask him to give us some ideas... His ideas come forward, and then we pick and choose [among them]. Our process is based on gut feel and not on [the dictates] of marketing."

Rosen believed that 'gut feel' improved with experience, and recognized the importance and usefulness of a track record for a developer. Product innovation, however, was not much of a concern. Rosen held that no creative ideas in suite layout or design were emerging in Toronto, but that the market had "made a quantum leap out of boxes, to boxes with amenities." The general rule of thumb was that "the developer tries to give the least for the most, and the sales person tries to give the most for the least."

Although Rosen seemed somewhat skeptical about marketing consultants' market reports, he believed in their condo pricing strategies. For one of its 'solo' projects, Yorktowne wanted a marketing program which would the greatest possible revenue from sales. Since the market was very active at the time, Yorktowne could possibly have sold off 250 units in a week, but Rosen did not feel that this was the most advantageous approach. Instead, he chose the following sales strategy:

"We went to Summit's marketing consultants, who told us that if we followed a certain pattern, we'd sell out in six months. They told us to sell 3 suites in certain locations - the price will jump - sell another 3 - the price will jump again... We kept the number of choices down to 3 suite types for the building, and used a price differential to move these suites... Sure enough, we sold out on six months to the very day."

PRODUCT TESTING:

Although Rosen did not engage in test marketing, he allowed: "I go over every suite with my wife...She looks for an efficient suite, one with 'good flow' and sensible room proportions."

VIEWS ON THE PRODUCT DEVELOPMENT PROCESS:

In Rosen's view of the product development process, "it was fairly obvious as to what the product was going to be." Choices that could be made revolved around factors of timing and around "the nature of the physical structure - how big? how dense?" Rosen summarized: "Like any developer, we want[ed] as big and as much as possible... It was a matter of fitting our blocks into a given envelope."

Rosen believed that even though RED firms were building condominiums, the government played a major role in the product development process. Legislators controlled many product decisions:

"The work is initiated by the municipality, which designates the [land] use, the maximum building envelopes... controls timing [of development]... [and sequence of] development release in a given area."

Cognizant of the favourable current market climate, Rosen hinted that a product development process was a moot point now:

"In a hot market, the biggest fool can be a good condominium developer... We've gone through a period in the last three years where everybody's selling everything and anything."

DEVELOPER: ROSEDALE LIMITED
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COMPANY DESCRIPTION:

Rosedale Limited* is a multi-billion dollar publically-owned real estate company, begun in the late 1950s. Employing over 2,000 people, it is established in 35 markets throughout Canada and the United States. According to its recent annual report,

"[t]he Company owns and manages more than 32 million square feet of leasable space in shopping centers, office properties, business parks, hotels and residential apartment complexes... As a developer and masterplanner of residential communities in Ontario and California, Rosedale also constructs and markets a wide range of family housing, from starter homes and elegant residences to luxury condominiums."

Rosedale entered the condominium business in the early 1970s, during their development of a new town near Toronto. Over the years, the firm evolved into the second largest condo developer in Toronto and all of Canada; in terms of volume, only Summit surpassed it. Since the early 1980s, Rosedale began a program of buiding "quality" condominiums in both urban centre and suburban fringe areas of Toronto, targeted to upper middle-class and "upper end" markets. While some of the earlier projects were immediately successful, a few others suffered from poor market timing (one took five years to sell out).

About ten projects were initiated in Toronto and Ottawa within the last 2 years, each with an average project value of \$25 million. The year 1988 saw an increase in production of 600

units over last, and Rosedale hoped to increase that number before year end. Condominium projects were handled by the High-Rise Residential Group, headed by Vice-President Dan Parks*. The division's Manager of Research and Product Development was Philip O'Connell*. Unless otherwise noted, all quotes herein are attributable to Parks and O'Connell.

CORPORATE MISSION AND OBJECTIVES:

O'Connell explained that Rosedale Residential Group's corporate aim was to have people "buy 'up'" in Rosedale projects:

"Sure, it's easy to sell off floor plans, but once they [purchasers] move in, we want them to be happy, because they'll be our future customers... We put more into amenities and landscaping... We want to be in it for the long term. We want to keep people buying from Rosedale because of quality... We're now going on an "In Search of Excellence Program"- we exist not to make money, but for the customer. We'll always have a customer, our base, our referrals - we have to take care of them to stay in business and be successful."

Vice-President Parks looked at condominium development through two lenses, *business* and *market*. He considered the business context (related to interest rates and hard costs) to be more critical and pivotal than marketing concerns in condominium development. Business decisions involved "intuition and crystal-balling", and "failures [were] based on a lack of business acumen in forecasting the future rather than on [poor] marketing strategies." Parks believed that it was easier to make business predictions than market ones since "[market] decisions

today [were] based on today's market", and that downside protection came from business rather than marketing policies. It was Parks' conviction that "if the market changed, the business approach [would] change but not the marketing [strategy]."

ANALYSIS OF MARKET AND MARKET OPPOSITION:

To make decisions about product possibilities on a chosen site, Parks asked: "What does the market want?" He and O'Connell had a wide network of people who provided Rosedale with both formal analyses and ear-to-the-ground information. Even so, neither put too much faith in market forecasts. O'Connell pointed out:

"In 1986, the market was supposed to slow down, but didn't. In '87, the market was *really* supposed to slow down, but we sold more units than ever before. Experience is critical: following the market is o.k. but not enough... The [market analysis] numbers cannot tell you everything ... we have to go by our experience."

Rosedale obtained demographic analyses of a site from outside consultants, to a level of detail depending on "how much time [was] available and on the level of comfort with the site." Such an analysis would be typically bounded by a radius of two miles around the site; it assumed that inhabitants of this area were the most likely future condo purchasers. Rosedale's next step was to find out as much as possible about potential buyers through "psychodemographics", a demographic analysis that quantified psychological profiles.

O'Connell pointed out Rosedale's emphasis on "conducting

research and getting feedback on architectural features, image and environments that people want". "Focus-study groups" provided a great deal of input. Throughout, the process was "more intuitive, less quantitative".

On the topic of competitive analysis and evaluation, O'Connell allowed that "there's no scientific method". To price a chosen site, Rosedale looked at the selling prices for comparable land for the last six month period. The next step was:

"[to] look at all the competition's stuff - what they are charging per square foot, what's successful in terms of suite size... [and to] find out about the best selling plans, their purchasers, and the kind of advertising which attracts them".

This information could be gotten from marketing consultants (in neatly compiled reports), but also from keeping one's ear to the ground. From the data, a determination could be made of the best mix of units (suite size and type) for the best capitalization.

Parks' attitude towards competition was that "they're all the same... [in the sense that] all [are] vying for the same buyer." Their research methods and market data were also viewed as potentially "the same [as Rosedale's]", since all other firms had access to the same basic market information. Parks stressed that his firm's competitive advantage was its track record, backed up by "pure [business] research". O'Connell also emphasized Rosedale's track record rather than its marketing

practices as its edge in condominium production:

"The one-time builder doesn't have the financial backing and expertise to stay in [the game] in good times and bad. A smaller builder may panic in bad times, or retract on promises, whereas a bigger firm is much more stable."

ZOOMING IN ON A TARGET:

Target markets were identified through the initial research, and were generally one of three generic types: the first-time buyer, the double-income-no-kids household, and empty-nesters. "People are buying a lifestyle... We have to target right... land is becoming more expensive," O'Connell said. Rosedale "paid a lot into marketing expenses" to achieve this end. Consumer responses to newspaper advertisements helped to further define the targets.

Rosedale viewed Toronto as a conservative market rather than a moving target. Except for the downtown market, the firm considered potential purchasers to be very unsophisticated.

FORMULATION OF SPECIFIC MARKETING OBJECTIVES; OVERALL STRATEGY:

O'Connell suggested that Rosedale had a regular process for condominium project development, one that began with land investigation, and continued with market and competitive analyses, target definition, proforma planning, project design and consumer testing.

At the outset, a land investigation team typically searched for land, either through a broker, a tip or through Rosedale's own planning investigations. Once a site was selected, research

was conducted into its planning status and history. O'Connell noted that a site was not purchased until a lot of front-end research had been completed and numbers run.

When the market analyses came in and the competition had been assessed, the construction and residential vice-presidents created a rough building programme, and then tried to ascertain hard and soft costs of the possible project to determine the land residual (i.e., the acceptable price of land). Rosedale worked to a minimum target of 15% profit, and devoted considerable attention to financial details. "We take pride in our pro-forma and construction analyses. All divisions are in place to protect against the downside," O'Connell explained.

As an example of his company's overall strategy, O'Connell described the very first Rosedale condo project to be located in particular Toronto suburb. Unsure about market acceptance of the proposal, the project team decided to spread the perceived market risks by targeting three groups in one building, and by dealing conservatively with the product design and price. O'Connell explained:

"In the first phase of any project, we try to cut out risks by playing very conservatively... We'll normally go with the market... then, [in the second phase, we build] less conservatively, and then - we 'go for it'. On the last phase, you [sic] want to be able to capitalize on what's been done before."

DESIGN OF MARKETING MIX:

Project ideas, architectural and otherwise, generally came from Parks. He initiated a project by gathering together his research team (headed by O'Connell), land investigation team, one on-staff architect and draftsman, and a representative from one outside architectural firm (which prepared the drawings). At the outset, a views analysis was often conducted (by helicopter) to help in architectural planning purposes.

The most risky aspects of the product development process, O'Connell believed, were "determining suite size and the image of a project". Suite sizing was very tricky: "Once a project is in the ground, it's next to impossible to change the unit sizes because the structure is in place." Image could whet or destroy a purchaser's appetite; people would "sacrifice suite size and money to get the aura of high quality" and were very fussy about externalities. O'Connell called this "snob appeal". Rosedale found that they could convey appropriate product images through thoroughly designed advertising, public relations, and graphics.

PRODUCT TESTING:

Once a target market was identified, advertising was often placed in a newspaper, vaguely describing a project and soliciting responses from interested parties. Those who mailed in their responses were often sent a short questionnaire to fill out, elaborating on their design preferences. Only then was a

preliminary building design produced, and potential purchasers (from the mailing list) invited to a group showing of individual suite plans. Such a "focus group" would provide the feedback for further design refinement. O'Connell described the process thus: "First we get their opinions [so that they'll be open and unbiased], and then we show them the [already-prepared] plans." As a follow-up, more elaborate and detailed surveys were sent through the mail to these people. "We attempt to find out what kind of features people are used to in their homes."

VIEWS ON THE PRODUCT DEVELOPMENT PROCESS:

On Rosedale's product development strategy, O'Connell commented: "We do the same in a weak or strong market, except we anticipate land prices to be lower [in a weaker market]." In a good market the company could "make more money by creating an aura of quality". Construction was deemed to be the least risky aspect of the whole process ("We have an excellent construction division").

Rosedale's competitive edge, according to O'Connell (the Product Development Manager), was "a strong product development process". At the same time, he pointed out the temptation of a never-ending process:

"In our product development, we use a chair analogy. We keep wanting to make a more comfortable chair, keep trying to improve on our product... Sometimes, Dan Parks has to tell us to stop, because we keep trying to make improvements, even at the very last minute."

O'Connell stated that the driving force behind the condominium product was a legislated one. New rent control laws convinced Rosedale to abandon its proposals for rental buildings in 1984, and to concentrate its efforts fully on the condominium product. "Rent controls have made the condominium industry what it is today."

ANALYSIS OF DEVELOPERS
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A distinguishing feature of the two interviewed RED firms was that each had a specific person (or persons) whose job it was to oversee the product development (or design and marketing) process. Many other firms contacted as potential sites had no organizational mechanism for dealing with these issues. In Yorktowne's case, one person handled product and marketing very informally, while at Rosedale, these concerns were handled in a highly structured way by the Executive Vice-President of the Residential Group and his Manager of Research and Product Development.

The firms interviewed were at opposite ends of the organizational spectrum; one (Rosedale) was a conspicuously large, publically-owned RED company, and the other (Yorktowne) a tiny, low-profile private company. Rosedale had a well-defined approach to the process of product development, while Yorktowne's method was ad-hoc and learn-as-you-go. When a company had two thousand employees and had to answer to thousands of stockholders, its product development and decision-making processes necessarily had to be methodical and highly rationalized. In the case of a company of eight employees, it needed only answer to itself, and did not necessarily require of itself a highly rationalized formula.

The firms were also at the opposite ends of the condominium

product experience spectrum, thus at different positions on the product development "learning curve". Rosedale had been producing condominiums for almost twenty years, and had a kit of efficient and effective techniques which it could use again and again. Yorktowne, on the other hand, commissioned and discarded an entire set of design drawings and switched architects before it could settle into its first project without Summit. Perhaps Rosedale was at Summit's stage twenty years ago.

Aside from the obvious difference in RED firm sizes and norms, another possible explanation for Yorktowne's and Rosedale's different marketing and product development approaches was rooted in the kinds of resources that each had. To initiate a project, Rosedale first had to search for land and produce fairly exhaustive detailed up-front studies to determine project feasibility and the price that they could pay for the land. Since Yorktowne already had a huge supply of well-located land, the single most sought after development resource in Toronto, it did not have to engage itself in such massive feasibility studies. Moreover, its riches attracted many suitors in the form of joint-venturers who could provide the necessary condo product development know-how.

CORPORATE MISSION AND OBJECTIVES:

In its product development process, Rosedale had a clearly articulated philosophies of "pursuit of excellence" and "customer

first". It wished to develop brand recognition and loyalty among its condominium purchasers so that they would continue to buy products under the Rosedale name. The firm catered to customers' needs and offered them the highest construction quality possible, and as a result believed it could cultivate a large group of repeat purchasers.

While Yorktowne lacked an elaborate corporate philosophy, Rosen stressed that his company was in the *business* of getting people housed. This company was not oriented towards brand recognition or loyalty (its volume of work was much smaller than Rosedale's), but concentrated on maintaining its credibility in the marketplace one project at a time.

Both Rosedale and Yorktowne had clearly articulated profit goals. Regardless of any marketing work which either undertook (and both firms were familiar with the marketing and product development concepts as per Chapter One), the overriding philosophy for each company was that it was *business-* rather than *market-*driven. This thinking is typical of the real estate industry, which tends to view "marketing" as disjointed from "business", not an integral part of it.

ASSUMPTION OF A PROACTIVE OR REACTIVE STANCE:

Yorktowne's approach to product development was "definitely reactive". It learned to make market-responsive changes by watching Summit's reactive methods, an incremental approach to

decision-making. Its products imitated the competition: the firm subscribed to the "me-too" school of design.

Rosedale could be reactive or proactive, depending on the perceived degree of business risk. During the first phase of any project, Rosedale adopted a highly conservative approach of "go[ing] with the market" [i.e., imitating competitors' products]. However, the firm's product research and development arm was used in later phases of a project, when the risks were perceived to be less.

ANALYSIS OF MARKET AND MARKET OPPOSITION:

Neither firm was overly trusting of market survey data, claiming that there was no scientific method to understanding market or consumer behaviour. Both believed that "experience" was the basis for intuitive forecasts.

Both Rosedale and Yorktowne considered every RED firm (big or small) as competition, since all sought the same targets as customers. Even so, the firms' views on their competition varied considerably. In Yorktowne's case, Rosen did not actively think or strategize about competitors or their products until his project was already on the sales floor. In contrast, Rosedale the benefit of twenty years of condo experience. Its competitive monitoring involved developing a picture of what competitors were doing (to guide Rosedale's product design direction), and cultivating an understanding of competitors' "total business

strengths and capabilities". As its edge over other RED firms, Rosedale valued its track record and its financial capability to withstand market ups and downs. Rosedale knew that it could afford to take more product-related risks than many of its competitors, since it was better cushioned for any fall.

ZOOMING IN ON A TARGET:

Both Yorktowne and Rosedale had clear target profiles to work with, Yorktowne's developed intuitively and Rosedale's through research (questionnaires and focus groups). The buying public (in the suburban market) was considered by both Yorktowne and Rosedale to be relatively unsophisticated.

FORMULATION OF SPECIFIC MARKETING OBJECTIVES; OVERALL STRATEGY:

Rosedale's objectives and strategy were explicit, organized, and institutionalized; Yorktowne's were ad-hoc and learn-as-you-go. Rosedale stressed that its marketing strategies would be the same in a weak or strong market; Yorktowne's unstructured approach was totally market responsive. While the firm with a strong product development process had a better chance of survival in a downturn market, a formalized and rigid process could threaten market responsiveness.

DESIGN OF MARKETING MIX:

Both Yorktowne and Rosedale believed that product design took its cues from market and consumer studies, but that it was the intuition and judgement of the developer which translated data into product specifics. Both the art and science of the process were valued.

PRODUCT TESTING:

Rosedale had a "by the book" test-marketing approach, one that relied on questionnaires, focus groups and extensive documentation of purchaser preferences. Yorktowne did not engage in this activity; Rosen took design drawings home to his wife for her review. In spite of such a difference, each method seemed to work well for its proponents, given the current market.

VIEWS ON THE PRODUCT DEVELOPMENT PROCESS:

Both Yorktowne and Rosedale stressed that the condominium product development process was highly intuitive, and at the same time based on a decision-maker's ability to interpret numbers and hard data. Overall, the small firm relied more on intuition, while the large one also used a defined process.

Both firms were of the opinion that government (local and provincial) was a major actor in the product development process, because of rent control policies and legal controls on zoning and building. Yorktowne and Rosedale also operated with the belief

that market changes could never fully be predicted and dealt with proactively. The firms thus inferred that the strongest forces behind a product and its fate were not its development process, creativity or innovation but legislated circumstance and an uncontrollable market climate. Even so, the firms had substantial latitude to develop, create and innovate, within those legislative bounds.

MARKETING CONSULTANT: EDMUNDS MARKETING AND COMMUNICATION
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"In downtown Toronto... [Bob Edmunds*] describes the market for...a mid-priced condominium... as "an attitude. A feeling. A style...Kiwis and persimmons. Balsamic vinegar. Fresh pasta and pesto. Calamari...jazz, beaches, cocaine..." " 16

COMPANY DESCRIPTION:

Edmunds Marketing and Communication, Inc. (EMC)*, a Toronto agency with a staff of 18, is involved in advertising and marketing activities for 30% of the condominiums in the Metro Toronto market. Of the approximately 8,000 condo units which Summit has sold over the past three years, about 5,000 of these were marketed by the Edmunds firm alone. Before starting EMC, company principal Bob Edmunds* studied marketing at a prestigious U.S. business school, apprenticed with a mid-sized developer, then served as Marketing Director at Rosedale.

It was Edmunds' contention that organized marketing and product strategies were necessary for successful condominium development. He clarified two kinds of condo marketing operations going on in Toronto: selling and imaging. Selling, which he did not do, was either "open" (allowing for a free flow of buyers into a sales pavilion) or "controlled" (involving the creation of a high-pressure, panic-bound sales environment which worked on a "Boxing Day sale" principle). EMC's special area of concentration was "imaging", applying consumer research to product design. Edmunds' role: "I apply personalities to

buildings."

EMC considered its product development management role to most valuable in the develt of a market downturn. Acknowledging the currently heated state of the Toronto condominium market, Edmunds felt that when the situation cooled down in the future,

"a company's track record will come to bear. The press is already starting to talk about the failure of some developers to deliver the product they've promised."

ASSUMPTION OF A PROACTIVE OR REACTIVE STANCE:

Edmunds observed that developers worried a great deal about the carrying costs associated with unsold product, and held that "initial market research [was] critical" in defining a product with the greatest chance of success (i.e., sales and revenue). He advocated a proactive stance to product development, and believed that the pre-sale mode encouraged such a strategy.

Because Edmunds had come into contact with many of Toronto's condo developers during his years as a marketing consultant, he was asked whether he considered the product development process to be reactive or proactive. He replied:

"Reactive. Developers are entrepreneurial by nature. But it's becoming more proactive because the stakes are much higher now... Marginal players [without a marketing strategy] will get wiped out."

ANALYSIS OF MARKET AND MARKET OPPOSITION:

For its hard data, Edmunds subscribed to a quarterly condo market report produced by Toronto's sole condo market analyst. Assuming that consumer appeal for a particular site extended in a

one to two mile radius from a site, regression analysis over this area provided a "smooth buyer profile" for EMC.

"The market is relatively simple to understand," Edmunds commented. "We look at two things: *affordability* and *preference*." *Affordability* was quantitative, referring to the kinds of down-payments and mortgage obligations that targetted people were likely to be able to handle. *Preference* was qualitative. It involved the study of psychodemographics, a merger of numbers and personality traits into a lifestyle profile, used to guide the program and design of a building. Edmunds said that this process was instinctive, but that his firm also "did some interviewing to find out why people were or weren't purchasing" in a particular project. He believed that potential purchasers were "a sophisticated group" that merited study.

Analysis of a developer client's competition involved studying competing projects, and looking for opportunities to make product differentiations. Edmunds acknowledged, however, that the Toronto condominium market was not necessarily product conscious, since some purchasers were motivated by investment criteria rather than product particulars. Sight unseen, "whole buildings have been sold off to Hong Kong investors."

ZOOMING IN ON A TARGET:

Targetting was seen as the most critical element of the product development process, and Edmunds believed that there was a serious problem of some developers "building to ego" rather than the market, missing issues of affordability, location and employment base. EMC got its rough buyer profiles from demographic analyses, and used responses to advertising ("priority registration" forms) to sharpen these profiles.

Edmunds used psychodemographics for product design decisions on Summit's Riding Club* project, a pre-sold, 700-suite downtown tower project. Targeted very clearly at "yuppies who weren't going to eat at home", the program included very small apartments with "adequate" [i.e., small] kitchens, and a very large fitness centre.

Another pre-sold condo project which Edmunds considered extremely successful was very clearly targetted towards "mid'market empty nesters". The targeting was so effective, Edmunds believed, that when the purchasers were invited to a cocktail party after completion of the sales program, "everyone who came was dressed exactly the same...it was a little scary." In Edmunds' estimation, he "[had] delivered an Olds to an Olds driver."

FORMULATION OF SPECIFIC MARKETING OBJECTIVES; OVERALL STRATEGY:

In a recent publication, Edmunds described the challenge of the condominium development process thus:

"The modern condominium represents one of the most complex real estate ventures undertaken today. Beginning with land acquisition and zoning, proceeding to land development and then to structural, mechanical and financial decisions demands the involvement of thousands of professionals. And the biggest complication is that you can't deliver just one unit at a time. You have to deliver them all." 17

Edmunds advocated the creation of project teams comprising many specialists to make product decisions. To illustrate a typical project organization, he described a recently initiated condo proposal for downtown Toronto. At the first project meeting, 14 consultants sat down at the table to discuss the direction that the building programme should take - including Edmunds, a sales consultant, project architect, landscape architect, interior designer, and Toronto's sole private condo market analyst. Edmunds held that marketing input was necessary right from any project's inception, and that in his own experience, a lot of control came from sales and marketing consultants.

Each project was handled differently. For reasons of differentiation and positioning, according to the dictates of marketing, every condo building needed to be imbued with a different personality.

DESIGN OF THE MARKETING MIX:

EMC's mandate of creating personalities for projects started with the naming of the project. Promotional graphics, a sales pavilion and a "price point" rounded out the project design. In Edmunds' opinion, architectural offices could not develop such overall concepts. He also held that many architects could not design both interiors and exteriors well, and had to be chosen for "their ability to integrate [the two]". On his own presence in providing design direction, he commented, "I am a para-architect."

Edmunds stressed that:

"initial market research is critical [in making decisions]... In the case of an experienced builder, the product is fixed once it goes to market."

PRODUCT TESTING:

EMC's consumer research work included the organization of focus groups, in which product not yet released for sale could benefit from the feedback of potential customers.

VIEWS ON THE PRODUCT DEVELOPMENT PROCESS:

In Edmunds' view, the least risky approaches to product development were "copying the last success ...[or] a safe product type", or "doing a project with obvious mass market appeal". Considered most risky: product differentiation and innovation, not being attuned to the market, and not being market-driven.

"Product differentiation is the craft of the marketer," Edmunds explained. His view of developers was that they basically saw condominiums as "a way to yield the maximum dollars out of the maximum land use", rather than as an opportunity to innovate. He believed, however, that the growing concern for exterior aesthetics from municipalities and the buying public was leading developers to revise their thinking.

According to Edmunds, a successful product was one that featured clear targetting; pre-sold rapidly at top dollar; maximized living space in small areas; had innovative finishes (carpets, colours, lighting details); and had carefully thought-out amenities. A marketing failure was typically based on poor targetting, leading to poor sales and lost revenues. Edmunds cited the case of a project whose advertising drew response from 10,000 people, for whom the project proved to be mismatched: "Too many units, too big, too expensive. Only 130 units were sold out of a 500 unit building."

MARKETING CONSULTANT: HARRISON MARKETING GROUP
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COMPANY DESCRIPTION:

Harrison Marketing Group (HMG)*, a Toronto-based marketing consulting agency with a staff of 6, has been involved in planning and sales programmes for over 40 condominium buildings in Canada, the United States and the Far East. It gained substantial press and acclaim for its marketing efforts in the United States, but the majority of HMG's earlier work is located in Toronto. Both the Yorktowne Group and Rosedale Limited have employed HMG as a consultant.

Company president Sandra Harrison*, and vice-presidents Donna McDowell* and Leigh Good* each began their real-estate careers selling condominium units in-house for major companies like Cadillac Fairview and Olympia & York. The thrust of their work at HMG was design input, sales strategy and overall process management.

According to a recent publicity brochure for HMG,

"The firm's president believes that each real estate development is unique, with its own individual position in the marketplace. This philosophy guides [Harrison Marketing Consultants] in analysing and evaluating every project. Every development presents a new opportunity for creative selling... [At the Harrison] organization...practical, step-by-step strategic planning and implementation of marketing begins at the conceptual stage of a development and only ends when the last home is sold."

Questioning the objectivity of many developers when it came to product development, McDowell firmly stressed that "You [the

RED firm] need a marketing person to protect yourself from yourself." HMG believed that it could effectively and objectively manage the product development process if "hired early enough".

ASSUMPTION OF A PROACTIVE OR REACTIVE STANCE:

Citing instances in the not-so-distant-past where Toronto RED firms built blindly without considering targets and suffered the consequences, McDowell acknowledged that "there is a growing trend for developers to involve a marketing team." She believed that condominium product development was only now becoming a proactive rather than reactive process and that producers were slowly becoming more marketing-driven in their approaches. (The necessity of pre-selling units compelled developers to engage in consumer research and strategy). Even so, Good conceded: "I know that most developers can't stand the idea of hiring marketing people or an advertising agency."

ANALYSIS OF MARKET AND MARKET OPPOSITION:

HMG's brochure claimed that:

"[a] residential development will only succeed if it suits the lifestyle of the target markets and has a perceived edge over the competition. By implementing our consumer research programme, specifically tailored to meet individual development needs, our research tells us who the target markets are, where they presently live, what they are looking for and when they want it."

HMG made a clear distinction between market research (i.e., demographic number crunching), which it did not do, and consumer research (preference related), which it did. McDowell suggested that developers not cling to market and demographic analyses, but rather, use intuitive market knowledge. On the issue of vacancy and absorption, she reiterated, "There's no fixed formula.. you need to understand the market intuitively." Good added: "I've never seen a market research report where they say: 'Do this!' "

HMG's consumer research process began with a qualitative competitive analysis, in which it "studied everything in the proposed project's radius, superior or inferior". Its overriding conviction was that "you have to sell what's unique to your project," and thus it began a process of product differentiation.

ZOOMING IN ON A TARGET:

Demographic analyses from the sole consultant studying the Toronto condo market provided a rough buyer profile, but HMG continued its consumer research to collect more specific data. A clearer target was defined by a "priority list", assembled from responses to site signage, newspaper publicity and word-of-mouth. Potential purchasers were then invited to meetings with HMG, where they filled out lengthy questionnaires ("wish lists") that encouraged them to share their views on what made for a desirable unit and unit mix. With this data in hand, HMG compared the wish

lists with the demographically-based buyer profile. Only then did the individual suites take form and were optimally arranged according to size, price, and view.

McDowell differentiated between live-in and investor targets: For "user" buildings, a marketing person would be needed, whereas for "investor" buildings, "you need a banker there [to convince the prospects], not a marketing person."

Since a condominium project could easily have several "products" aimed at an equal number of targets, HMG recommended that a "product" not be shown to a prospective purchaser until he had been "qualified" and matched to a particular unit. ("Qualifying" was defined as the process of finding out enough about a buyer to define his needs and wants).

FORMULATION OF SPECIFIC MARKETING OBJECTIVES - OVERALL STRATEGY:

HMG promised to provide very thorough input on marketing strategy and budget. They stressed, however, that no strategy was final or infallible: "Your initial strategy cannot determine what [design] they [the prospects] are going to pick... You always plan for the worst and hope for the best." Each project had a unique strategy, but all followed the same six basic steps:

1. compilation of priority list;
2. consumer research;
3. reservation program;
4. corporate holds;
5. pricing;
- and 6. a pre-sales program.

McDowell offered that HMG, although valuable in managing the total marketing process, was not a necessity for a RED firm:

"You can do things on an in-house basis... you don't [necessarily] have to go out and hire the Harrison* Group, but you do need to think a great deal about your marketing strategy."

DESIGN OF THE MARKETING MIX:

The following quotations reflected HMG's philosophy:

"We often find that developers think that they have the greatest taste, and that their wives [sic] make the best interior decorators. This can make for a marketing disaster. As a developer, you really have to put your taste on the back burner. Your taste doesn't matter - the buyer's does."

"Design for your target market and not for yourself...design for appeal, and be consistent."

"Planning should respond directly to the marketing needs of a building...I'm amazed at the number of well-respected architects who design a kitchen in such a way that the fridge door bangs against the wall as you're trying to clean it. If you don't have a brilliant architect, at least involve your marketing people...it's all just common sense."

"If you give the architect the pieces of the jigsaw puzzle, you can start to build a good project."

"Try to build in as much flexibility as you can [to the design] in case you're wrong... or in case the market goes into the garbage pail."

McDowell believed that building and fully outfitting a "site model" (full-scale mock-up) during the pre-sale was "critical to the sales process...[to] reflect the taste level of ...buyers." To attract purchasers, she also devised product "hot buttons" (i.e., strongly targetted selling features) such as particular kinds of security systems, lobby designs, amenities and views.

HMG approached the pricing of its real estate wares methodically. It disagreed with the pre-sales practices of one prominent local broker, who was known for hoarding priority registration applications from prospects for months, and then inviting hundreds of these people for appointments at his sales pavilion all at the same hour, on the same date. The sales pavilion would feature loud speakers "announcing" sold units, and in the ensuing panic, hundreds of people would be coerced to buy after five-minute high-pressure sales pitches. With this method, whole buildings could be sold out in a weekend.

McDowell's conviction was that "product can sell too quickly", and that a phased, orchestrated release of suites was necessary for real profitability:

"In one Toronto marketing effort, when the building sold like hot-cakes, it lost a million dollars... the price of windows or something went up [after the pre-sales], and the developers lost their shirts. The very first price list is not where you make the killing...you open a bit below the market to get things cranking up, and then start raising your prices."

PRODUCT TESTING:

Once the individual suites took form, optimally arranged according to size, price, and view, prospective purchasers were invited back to a meeting with HMG. They were typically shown a maximum of three "preliminary" floor plans, and asked for feedback. The suite designs would be reworked again for the opening of the pre-sale program, and these target-critics would be given the first opportunity to purchase ("reserve") the units.

VIEWS ON THE PRODUCT DEVELOPMENT PROCESS:

McDowell and Good stressed that product differentiation, innovation and an organized product development process would give a RED firm its competitive advantage. They spoke from the perspective of having seen the rise and fall of many condominium development firms.

ANALYSIS OF MARKETING CONSULTANTS
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Although HMG and EMC were two small companies (with six and eighteen employees respectively), they had been involved in the product development processes for a lion's share of the condominiums in the Toronto market. These firms were hired to manage and optimize the product development process for condominium developers. Both companies were valued by the RED industry.

Both of these consultants engaged in "marketing" and product development as per the framework in Chapter One. However, each had a different focus. Founded and staffed by individuals who cut their teeth as condominium salespeople in a poor market, HMG approached product development in a pragmatic and hands-on fashion. In contrast, the academic marketing background of EMC's principal made him more conversant with marketing terminology, formal product development frameworks, and issues of packaging and personality. While HMG dealt for the most part in process management, EMC concentrated on product design. Different methodologies aside, these firms had parallel philosophies about the condominium product development process.

EMC and HMG were in the business of managing the product development process for condominiums - coordinating the marketing mix of product, price and promotion. Both firms concentrated on defining targets, studying the customer profile and fashioning

the product in its likeness. The quintessential marketing paradigm of "customer informs product" truly framed their approaches.

ASSUMING A PROACTIVE OR REACTIVE STANCE:

HMG and EMC considered the Toronto condo development community to be very reactive, and themselves as proponents of a proactive approach. Inasmuch as a proactive strategy "explicitly allocate[d] resources to preempt undesirable future events and achieve goals", both HMG and Edmunds were involved in this mode of thinking. Both saw such strategies as means of capturing larger shares of the market in good times, and protecting the developer in a downturn. The very fact that they contracted to create game plans, do front end work and keep the whole product development process under control confirmed their proactive stances. Their approaches relied heavily on research and development, and on marketing approaches which "find a consumer need and...[build] a product to fill it." Both HMG and EMC had a strong belief in product differentiation and innovation as a means of positioning in the marketplace. Both saw pre-sales as perfect opportunities for proactive work.

Even so, both firms had reactive qualities, since they attempted to "deal with impinging forces as they occur[red]" on a project. No matter how much prior strategizing one did, it was expected that the winds of change (especially in the market,

customer and competition) could loom over a project's fate, and these had to be dealt with.

ANALYSIS OF MARKET AND MARKET OPPOSITION:

Neither company prepared demographic studies for projects, since they did not specialize in market analysis. To help them define targets, both made reference to analytic reports prepared by yet another consultant, a sole-source demographic number-cruncher for the condo industry. Since no one gained any competitive advantage by having access to the same market data, one's competitive advantage really came from an ability to implement this information most effectively and efficiently. Edmunds' approach was to overlay psychological profiles on the numbers ("psychodemographics"), while HMG was more interested in conducting its own qualitative survey of a project's physical and competitive context.

Both firms strove to differentiate their products from that of the competition for positioning purposes.

ZOOMING IN ON A TARGET:

Both consultants saw targeting as the central and most critical step in the entire product development process, since the marketing mix (of product, price and promotion) took its cues from a keen understanding of the potential customer. Both considered the buying public to be very sophisticated, since they

devoted considerable effort to developing purchaser profiles.

As mentioned previously, both firms started with a demographic analysis around a site, but developed clearer targets through the compilation of names from "priority registration" programmes.

FORMULATION OF SPECIFIC MARKETING OBJECTIVES; OVERALL STRATEGY:

Both consulting firms stressed the importance of having an overall product strategy thought out from a project's inception, and of having marketing consultants on the project team from day one to provide strategic input. Each consultant's project had a unique plan of action. Both articulated product goals, and mapped out process charts and schedules; however, HMG's approach was more precisely defined. Thought-out processes of product development are highly valued, but too much definition can become a liability rather than an asset. When formula and method override creativity and responsiveness, any marketing strategy can be adversely affected.

DESIGN OF MARKETING MIX:

According to both firms, design, style and taste were all sharp arrows to be aimed carefully at a specific target. McDowell believed that developers' biases, if allowed to dominate the product development process, could be disastrous since developers were not the customers. Both cautioned the danger of

developers "building to ego rather than to the market" (Edmunds). The role of the consultants was to dispense objective stylistic and planning advice for the entire marketing mix.

Both McDowell and Edmunds viewed themselves as important contributors to the architectural design process. In each case, they provided strong design input, Edmunds by giving projects stylistic identity, and McDowell by literally reworking architects' concepts and drawings.

Pricing and promotion were viewed as integrated portions of the marketing mix "whole". HMG's emphasis was on pricing and sales; Edmunds' was on promotional packaging (the design of project logos, brochures, advertising campaigns and the sales environment). In both instances, clear methodologies had evolved which were applicable to many projects.

PRODUCT TESTING:

Both firms conducted condo product testing, soliciting ideas and comments from prospects even before any product was shown to them. Once a preliminary product was shown to prospects, it was refined several times before it was released into a pre-sale environment.

VIEWS ON THE PRODUCT DEVELOPMENT PROCESS:

Both held that developers and architects were not necessarily capable of managing the design process, and that

outside expertise was needed for this challenge. When taken on a members of project teams, they believed that they held a lot of control in the product development process. It was their unique job to prepare and coordinate the marketing mix (product, promotion, price) for the RED firms' profitability.

CHAPTER THREE. JOINT ANALYSIS AND CONCLUSIONS
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**THE DEVELOPER AND MARKETING CONSULTANTS:
COMPARISONS AND CONTRASTS**
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While Rosedale and Yorktowne were in the business of producing condominiums, EMC and HMG were in the business of managing the condominium product development process. Their operating paradigms differed greatly, since the developers were business-oriented and the consultants were marketing-driven. The marketing people concentrated on finding a consumer need and creating a product to satisfy it. The developers, on the other hand, focused on production rather than on filling customer needs. For example, the developers chose sites and decided to build condos first before finding out about their potential customers.

The marketing consultants espoused a proactive philosophy (involving forward planning and innovation), while the developers generally had a strong reactive approach to condominium product development. In the event of a market downturn, the marketers came prepared with contingency plans; the developers generally did not.

Neither the developers nor the consultants were overly devoted to data; none of them believed that there was a

scientific method to understanding market and consumer behaviour. All understood that no one developer had a competitive advantage based on information, but that this advantage came from a firm's ability to translate data into business insight.

Whereas the developers reckoned that competitive advantage came from one's track record, the consultants held that a developer's edge came from market responsiveness and from product differentiation (the ability to fill new niches). However, having a strong and informed product development process was seen by all as an edge.

All parties believed that targeting was critical to a product's success, although the developers and marketing consultants did not share similar views on the sophistication levels of customers. While the marketers considered the buying public to be highly sophisticated, the developers inferred that the buying public was not overly discriminating. The notion of targeting comes from a marketing philosophy which never underestimates the customer, therefore the developers had either misinterpreted the term or espoused conflicting values.

The large developer had an explicit, organized and institutionalized strategy for product development, while the smaller firm had an ad-hoc way of proceeding through stages of a condominium project. In a similar vein, one marketing consultant had a more methodical process than the other. While a set process is better than an unspecified one for developers and

consultants alike, there is danger at both ends of the spectrum.

The developers held that they were capable of making all product design decisions, and that the product development process required intuition plus the decision-makers' ability to interpret numbers and hard data. In distinction, the marketing consultants believed that they were most valuable in providing objective input for the design of the marketing mix (product, price and promotion), since they considered developers to be lacking the necessary objective distance from product. HMG and EMC posited that developers and architects alone were not necessarily capable of handling the product development process, and that outside expertise was necessary to complement their skills.

CONCLUSIONS
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At the beginning of this research, the following questions were asked:

How do developers make decisions about what gets built once a basic product type and market location have been chosen?

How might these processes be, at worst, remedied, or at best, enhanced?

Given that real estate literatures ignore the topic of product development, how applicable is a product development process model from the consumer and industrial goods sectors in regard to the formation of the real estate "product"?

To answer these questions, many literatures on product development were studied and a framework of recurrent themes was synthesized from them; a single product type and a market context were chosen; two (each) of the product's developers and marketing consultants were interviewed; and finally, the cases resulting from the interviews were analyzed comparatively according to the product development framework.

Following are the findings of the study.

1. THE PRODUCT DEVELOPMENT PARADIGM FROM THE CONSUMER AND INDUSTRIAL GOODS AND SERVICES SECTORS IS APPLICABLE TO THE STUDY OF TORONTO CONDOMINIUM PRODUCT DEVELOPMENT.

The notions of developing a proactive or reactive stance, analyzing the market and competition, targeting, forming a strategy, developing a marketing mix, and test marketing apply as well for a condominium as they do for the proverbial toaster oven. Although it is beyond the scope of this study, it is

surmised that that the consumer product development model is applicable to other real estate products in addition to condominiums.

The obvious must be noted. A real estate product is a much more complicated one than an a household appliance, in scale, programme, and fabrication. A toaster oven model can be altered a countless number of times to suit market requirements or feedback, but a twenty storey condominium building lacks the luxury of continous adjustment once the base structure has been poured. This observation underscores the necessity of the RED firm "getting it right" the first time.

2. HAVING IN PLACE AN INFORMED PRODUCT DEVELOPMENT PROCESS AND AN INTERNAL MECHANISM FOR DEALING WITH IT IS IMPORTANT FOR ALL RED FIRMS.

In the interview selection process for RED companies, it was found that more than half of the firms contacted had no internal mechanism for dealing with issues of product development (design and marketing). If the function of these real estate firms is to produce condominiums for a buying public (i.e., products for consumers), who is 'minding the factory'? Requoting Rosen,

"In a hot market, the biggest fool can be a good condominium developer... We've gone through a period in the last three years where everybody's selling everything and anything."

In the luxury of a hot market (this study's context), a RED firm's product development process may not be that critical. At an acceptable price, "everything and anything" will sell.

Overseas investors have bought entire buildings sight unseen, and thousands of speculators have 'grabbed' units up with relatively little product discrimination. At this time, the real estate product is not a consumer's major focus.

In the not-too-distant future, when the market downturns (as it inevitably does), the issue of product will suddenly become important. Predictably, those who purchased units for investment purposes will attempt to unload them, realizing in some instances that their wares have serious flaws. Shoppers will not be spending their money so freely as in halcyon days, and when they do, they will insist upon "product" which suits them perfectly. They will look for design appropriateness, construction quality, and price value, whether they buy resale investment units or new construction. For a developer wishing to operate in this market, having a product development methodology in place will be a competitive advantage.

3. DEVELOPERS' PRODUCT DECISION-MAKING PROCESSES ARE PART SCIENCE, PART ART.

Given the prior selection of a basic product type and market location, developers' product decision-making processes operate on a continuum bounded by "science" on one end and "art" on the other. Scientifically, demographics are studied; artistically, the data must be interpreted and the product development process managed.

4. WHILE HAVING NO PRODUCT DEVELOPMENT METHODOLOGY AT ALL COULD BE FATAL FOR THE DEVELOPER IN A DOWNTURN MARKET, HAVING A PROCESS THAT IS TOO INSTITUTIONALIZED AND FORMAL COULD ALSO BE PROBLEMATIC.

The risk of the small-scale RED firm is its inability to implement market data; on the other hand, the risk of the large firm may be a tendency to formalize itself into a rigid decision-making process. Where a RED firm has institutionalized its product development process, there is danger of such formality destroying the spark and spontaneity of an essentially creative endeavour. For flexibility and a built-in anticipation of change, a looser structure paired with an emphasis on marketing skills may fare better than an emphasis on corporate order and method.

5. HAVING MARKET INFORMATION MAY NOT GIVE ANY COMPETITIVE ADVANTAGE TO A RED FIRM. HAVING DATA IS A COMMODITY.

For a price, essentially every developer in Toronto had access to the same market information and analyses. In a city of three million people, it seemed that only one private consultant prepared condominium market reports (which catalogued existing and proposed projects and made general forecasts based on demographic regression analysis). These reports were purchased by a majority of local condo developers.

Since no one gained any competitive advantage by having access to the same market data, the critical point was one's ability to implement (make sense of) this information in the most effective and efficient (i.e., profitable) way.

6. THE REAL ESTATE DEVELOPMENT INDUSTRY NEEDS TO BECOME MORE MARKETING-DRIVEN.

Although they talk a lot about "product", developers tend to be project-oriented rather than product-oriented, and engage in *project* development, not *product* development. Too often they may shun innovation as being too risky, and look for opportunities to copy rather than to differentiate. Some are myopic in vision, responding only to today's market climate.

Even though the consumer/industrial product development paradigm carries across to the condominium model with relative ease, one notes that the development industry has resiliently refused to accept this paradigm as its own. Real estate stubbornly operates according to a "business" point of view. The observation of developers clinging to a "business" paradigm reminds one of the recent history of Chrysler Corporation. Chrysler insisted on operating according to the rules of "business" until it realized that people had stopped buying its products. On the verge of corporate death, it had to adopt a marketing-driven paradigm to ensure its survival.

The main point here is that developers *do* make products for customers (to be sold or rented to them), which necessitates a marketing-driven approach in their real estate businesses. What is their "business" if not to develop *and* market their products?

6. A DEVELOPER SHOULD NEVER UNDERESTIMATE THE BUYING PUBLIC'S SOPHISTICATION.

...Especially not in a(n inevitably) crummy market.

7. A DEVELOPER'S PRODUCT DEVELOPMENT PROCESS MIGHT BE REMEDIED AT WORST, OR ENHANCED AT BEST BY TAKING A MARKET-DRIVEN APPROACH AND BUILDING ITS LEARNING BASE.

Even if a RED firm lacks a track record or substantial resources (money, land), it can gain ground by taking a marketing-driven approach to its products, and by building a product development process. The best time to build one's learning base and start moving up the learning curve is during a good economy. A developer can hire marketing consultants for their objectivity and cumulative experience, and 'pick their brains'; an experienced marketing consultant might prove to be one of the developer's best teachers. Then, in a market downturn, the developer will have acquired internal skills and processes in order to manage the product development process more effectively.

* * *

"We must have the foresight to identify the long-range issues, and the wisdom to plan for plan wisely for their resolution. Otherwise, we will be compelled to meet every...crisis on an ad-hoc basis, employing crash programs and hit-and-run approaches that waste precious resources and are only half effective." 1

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45. Cafarelli, Eugene J., *Developing New Products and Repositioning Mature Brands: A Risk-Reduction System that Produces Investment Alternatives* (New York: Ronald Press Publication, John Wiley & Sons, Inc., 1980), p. 171. Hereafter referred to as Cafarelli.
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47. *ibid.*, p. 174.
48. Andrews, Bryan. *Creative Product Development* (London and New York: Longman Group Limited, 1975), p. 236. Hereafter referred to as Andrews.
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50. Cravens, p. 475.
51. Urban (1980), p. 41.
52. White, p. 9.
53. Bailey, p. 9.
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1. Schier, Elizabeth, "Coming of Age", *Condominium Buyer's Guide, The Condominium Magazine* (Volume XII, Number 12, 1987), p. 8. Hereafter referred to as Schier.
2. Schier, p. 9.
3. Brown, Ian, "The Apprenticeship of Marty Atkins", *The Globe and Mail* (Toronto Magazine Supplement, July 1986), p. 52. Hereafter referred to as Brown.
4. Schier, p. 9.
5. All names asterisked thus (*) have been altered for submission of this thesis.
6. "Marketing is key to maintaining condo sales boom", *Financial Times Advertising Supplement* (June 13, 1988), p. B3. Hereafter referred to as Financial Times.
7. Brown, p. 52.
8. *ibid.*, p. 52.
9. Schier, p. 9.
10. *ibid.*, p. 11.
11. Urbanation/Lyon Consultants Limited, *Luxury Condominium Market Survey: City of Toronto* (April, 1988), p. 3. Hereafter referred to as City of Toronto Market survey.
12. City of Toronto Market Survey, p. 2.
13. Urbanation / Lyon Consultants Limited, *Luxury Condominium Market Survey: Suburban Toronto* (April, 1988), p. 2.
14. Financial Times, p. B3.
15. *ibid.*, p. B3.
16. Brown, Ian, "The Apprenticeship of Marty Atkins", *The Globe and Mail* (Toronto Magazine Supplement, July 1986) p. 54.
17. Financial Times, p. B3.

CHAPTER THREE

1. Risley, George, *Modern Industrial Marketing - A Decision-Making Approach* (New York: McGraw-Hill Book. Co., 1972), p. 318.

APPENDIX 'A': INTERVIEW PROTOCOL
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1. Description of firm: size, organization, range of products, existence of corporate philosophy?
2. Market identification: Why condo? What made you decide to proceed with this product type?
3. Market analysis: What makes for a well-rounded market analysis? How well is your firm able to meet this ideal?
4. In terms of information needed, what are the weaknesses or limitations of market analyses? How can you overcome them?
5. Do you find that your marketing strategies are mostly proactive or reactive? Qualitative or quantitative?
6. How/where do you get information regarding buyer behaviour and market segment analysis?
7. How and when do you determine the building program? (What are the sources of information? Which individuals are involved? Who makes the final decisions?)
8. Do you do test marketing? How?
9. Who makes the product design decisions?
10. How do you think that marketing strategy differs with the size of the organization?
11. How does the existence of competition influence your firm's product development process?
12. Are you familiar with your competitors' product development methods, and if so, can you compare and contrast them with your own?
13. What's the surest and least risky aspect of the process?
14. What's the most ambiguous and vulnerable aspect of the process?
15. How do you think the "traditional" product development process (for consumer goods) compares with that for the development of condominiums?

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