An Analysis of Globalization Strategies for Real Estate Service Providers

By

James H. Gasperoni

M.B.A., University of Massachusetts, 1998

B.S., Accounting, Boston College, 1989

and

David R. Ravin

M. Architecture, University of Michigan, 1995

B.A., Architecture, University of North Carolina, 1993

Submitted to the Department of Urban Studies and Planning and the Department of Architecture in Partial Fulfillment of the Requirements for the Degree of Master of Science in Real Estate Development

At the

Massachusetts Institute of Technology

September, 1998

Signature of Author ______________________
Department of Urban Studies
July 31, 1998

Signature of Author ______________________
Department of Architecture
July 31, 1998

Certified by ______________________
Blake Eagle
Chairman, Center for Real Estate
Thesis Supervisor

Accepted by ______________________
William C. Wheaton
Chairman, Interdepartmental Program in Real Estate Development

AN ANALYSIS OF GLOBALIZATION STRATEGIES FOR REAL ESTATE SERVICE PROVIDERS

by
James Gasperoni &
David Ravin

Submitted to the Department of Urban Studies and Planning and the Department of Architecture on August 4, 1998 in Partial Fulfillment of the Requirements of the Degree Master of Science in Real Estate Development at the Massachusetts Institute of Technology

ABSTRACT

The technological advancements developed within the past decade have severely influenced the way national real estate companies do business. Geographical boundaries that once segregated companies into specific regions of dominance have all but disappeared. As other industries expand their operations overseas, real estate companies have had to devise their own international strategies in order to capitalize on the new 'global' market.

This thesis will begin by stating three traditional hypotheses on how real estate companies should attempt to make the transition into becoming global real estate providers. These hypotheses include establishing a joint venture with an existing international corporation, acquiring a local presence by absorbing foreign real estate firms, and finally by marketing a firm's particular expertise to other foreign markets. The best solution depends on a particular company's strengths and weakness. Every international strategy requires a different strategic plan and implementation process.

The second half of the thesis will involve three case studies on real estate providers that have already attempted the "globalization" transition. These companies include Lend Lease, CB Richard Ellis, and LaSalle Partners. The companies on the front line of any new industry venture are the first to test the academic hypotheses. We will compare and contrast the success of the aforementioned strategic plans with respect to these three companies.

By carefully reviewing the successes and lessons learned by the industry leaders, other real estate companies can better understand their particular opportunities by going global. It is apparent to most of the real estate industry that the local specialized service provider is a dinosaur. Some companies have started the transition into tomorrow and it seems logical that other service providers will not want to reinvent the wheel.

Thesis Supervisor: Blake Eagle
Title: Chairman of the Center for Real Estate

ACKNOWLEDGEMENTS

The authors would like to thank Mr. Jacques Gordon of LaSalle Partners for his thoughts and assistance throughout the preparation of this project.

We also wish to thank our supervisor, Blake Eagle, for his support, guidance and contributions to the thesis.

Special thanks are given to those members of the real estate industry who provided us with their insights. Particular thanks are given to Mr. Stewart Forbes whose contributions were invaluable.

James H. Gasperoni
David R. Ravin
Cambridge, Massachusetts
July 31, 1998

TABLE OF CONTENTS

LIST OF FIGURES

1. The Global Market

1.1 Introduction

As large multinational companies continue to expand their operations internationally, and foreign based companies have begun to demand more and more advanced real estate services, the real estate industry has found itself faced with a dilemma. In order to maintain their customer base, and thereby profits, most large real estate service providers have realized the need to quickly assemble their own overseas operations. The ability to grow company operations into a "global' real estate service provider is a new challenge faced by the real estate industry as a whole. The tight US real estate market has left many companies with little choice; the markets and clients of tomorrow are overseas. (Prahalad, 1987)

Large multinational firms have always been driven to enter foreign markets in order to seek out untapped customer bases. This has required the purchasing or developing of new office space, factories, and distribution centers. Multinational companies, and their stockholders, realize the large capital constraints real estate places on their balance sheets, and therefore want to make the best possible decisions when it comes to purchasing or renting new real estate (Lands, 1988). International markets present an even greater challenge because of the uncertainty of foreign real estate laws and protocol. Instead of trying to solve these problems internally, multinational companies rely on the experience of the real estate service providers at home.

Real estate service providers realize the need to capitalize on this new demand. Not only are the large multinational companies requesting real estate providers to gain an international presence, but foreign-based firms within developing countries are now seeking the expertise of the real estate service providers as well. However, bringing regional and national expertise overseas is not a simple task, and most real estate providers are struggling to find the best approach. Expanding operations internationally does not merely suggest developing a foreign division. Instead the entire mentality and focus of the company must change to successfully adopt a 'global focus'.

"The international dimension of a company, in the long run, will wither, disappear or be an essential dynamic component of its overall competitive strength" (Jenster & Jarillo, 1994 p.15). Going international means rethinking the entire profitability structure of one's own company. A true global real estate service provider can no longer solely depend on a constant client base at home, but instead must seek out profits from new markets, new services, and new clients.

Martin Nass, in his article "Excelling at the Top", discusses the new global marketplace and what additional skill sets real estate executives will be required to possess in order to handle the changing playing fields. No longer does a real estate transaction merely entail a desire to purchase property, going to a lender, borrowing the money, and arranging to pay it back over an established and prolonged period. Instead the services required by multinational clients are much more extensive and complicated.

The global real estate executive must possess a greater knowledge of the protocol of other countries, including marketing, languages, cultures, currencies, and nuances. He/she must be retrained in order to compete in a new marketplace. This retraining is crucial and expensive and knowing what new skills are required is still somewhat of a guessing game.

Just as the multinational companies do not feel adequately prepared to deal with international real estate, national real estate service providers also realize the large risks associated with entering foreign markets. As a result, the domestic providers struggle with the same questions. The real estate companies ponder the same external factors:

- What foreign markets should our company enter? Are the barriers to entry too much to overcome or do the barriers help keep competitors out?
- How does our company enter a foreign market? Joint venture with another multinational firm or a local foreign firm, or simply attempt to acquire local expertise? (Staerkle 1996)

Once these questions have been answered, the next step is to devise a strategic plan of action on how to implement international operations. This requires a more detailed analysis and focus, and thus new questions arise:

- What type of management structure makes the most sense? Should the foreign offices be self-contained business units or should they merely be satellite offices located in another country?
- How should the offices be staffed? Does it make more sense to transplant personnel from headquarters or instead should local personnel be hired?

The answers to these questions are different for each company. No longer is the question "should we go global?", but "how do we go global?" There is not one correct solution each real estate company can turn to for the right action plan. Instead, each company must feel its way through the 'global' market pitfalls and make their decisions accordingly. Several companies are on the front line of this global expansion, and each has chosen a separate path to success. The object of the thesis will be to evaluate three of the most dominant theories of global expansion, and to then analyze how different companies have carried out these theories. These include:

1. Incorporating one's real estate expertise into an existing multinational company. This "corporate real estate" service or "CRE" has been a very popular option due to the fact many multinational companies have found it beneficial to just incorporate a real estate service provider into their existing company 'umbrella'.
2. Forming an alliance with another 'global service' provider or other local foreign firm. As mergers become more and more popular in today's economy, many real estate firms see the opportunity to join forces with other service providers in order to establish a more unified front and provide a variety of fields of expertise.
3. Acquiring local firms. This is considered a 'do it alone' approach since the real estate company will still maintain its national presence but will acquire any local expertise it finds necessary.

The first half of this thesis will consist of defining a global service provider as well as an in-depth study of the three expansion theories briefly described above. During the second half of the thesis, these three theories will be investigated further by analyzing the companies Lend Lease, CB Richard Ellis, and LaSalle Partners. It will be important to see how these real estate companies are already establishing themselves as true global providers by applying the theories of global expansion to real life situations.

The object of the thesis will be to provide an analytical framework a company can use to better understand the existing theories on international expansion and see the validity of how these theories hold up in actual global expansion operations.

1.2 Publications and Thesis Structure

The decision to go global is no longer an ideal, but an existing reality. Unfortunately, the select number of real estate companies that have made the leap in to the global market have been very reluctant to publicize or discuss their experiences. Whether this is because the companies are nervous about informing competitors about their future plans, or because their international efforts are in their infancy and no real discoveries have been made, still remains unresolved. Several authors including Porter (1986, 1990), Ghoshal (1987), Yoshino (1995), and Cauley De La Sierra (1995) have put forth several hypotheses and theories on how to go global, but their research remains untested. Two M.I.T. master theses, Charles Staerkle (1996) and Michael McGoldrick (1993), have established a solid framework through which global real estate service providers could be analyzed, but the testing of the prominent hypotheses with actual strategic globalization plans have yet to be fully accomplished. The object of this thesis is to research the hypothetical theories on globalization into one thorough matrix that can be overlaid on three company experiences to determine the validity of going global.

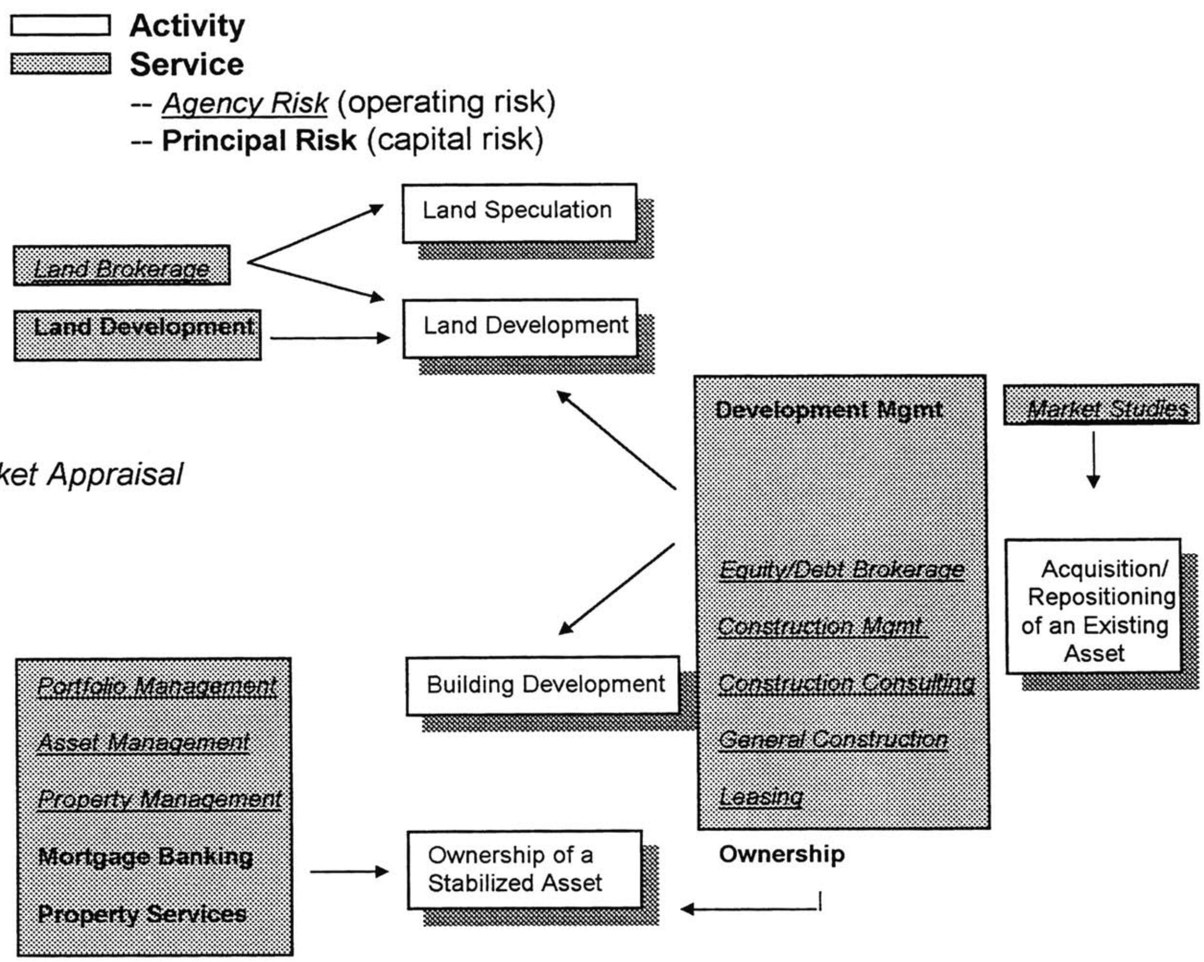
The thesis is organized into eleven chapters, with chapter one acting as the introduction and statement of purpose. Chapter two defines what real estate providers are and how they operate in the marketplace. Chapter two also analyzes the appeal of going global with respect to future profitability. Chapter three is the formulation and development of the matrix through which the three companies will be analyzed. Chapter four through six analyzes three existing hypotheses on to achieve a successful global position. Chapters seven through nine consist of analyzing the three selected international real estate providers and an analysis of what, if any, globalization theories they have utilized. Chapter ten summarizes current industry trends and overlapping strategies of the selected companies. Chapter eleven addresses the lessons learned through the writing of this thesis and proposes further areas of investigation. This thesis is not the answer on how to establish a global service provider; rather it provides further insight in to what is one the hottest topics within the real estate industry today.

2. Real Estate Service Providers

2.1 The Real Estate Industry

There are several ways one can create value through real estate. These options include land speculation, land development, building development, and asset management. Each of these activities requires different services that real estate service providers strive to fulfill (Leinberger 1993).

Figure 1



Real estate service providers receive revenue by offering services to companies involved in the activities shown above. Service providers can assume either the agency or principal role. Agency roles typically refer to arm's length consulting services that are provided for standard fees. Principal roles, on the other hand, imply that the service providers are more closely tied to the asset. Principal roles typically assume the service providers have some ownership interests in the asset. Service providers that assume the agency role act only on the behalf of the owners. These service providers are therefore not directly liable for the success or failure of the particular project. Their fee is predetermined and their upside is capped. However, service providers that assume the principal role do not have a capped upside. Their profitability is tied directly to the asset. This comes at a price though, because service providers that assume principal roles assume project liability as well. Unfortunately this means their potential downside is also not capped.

Leinberger discusses risk with respect to capital and operating roles. Similar to the agency and principal roles, a capital risk role implies a direct tie to the asset. An operating risk role, on the other hand, implies an indirect relationship with the asset. An operating risk role only assumes consulting risk. Leinberger discusses the differences between capital risk roles and operating risk roles in his book, <u>Strategy for Real Estate Companies</u>. Corporations will traditionally assume the capital risk role by providing the equity for a particular activity. Capital risk takers assume the riskiest position by being directly invested in the project. However, they stand to receive the most returns if the activity becomes financially successful. Real estate service providers have traditionally only assumed operating risk roles because they only risk their particular service fee. Although they are not directly handcuffed to the relative activity, they do not have the opportunity to receive any of the upside. This is changing however as the service providers move into principal roles and begin to assume ownership positions. The lure of large profits has helped move service companies from their traditional agency roles into more lucrative yet riskier principal roles. A brief discussion of the activities is described below.

Land Speculation -- Land speculators receive profits by purchasing land at a low price and then reselling the land at a higher price when the market provides appreciation. An example of this is when surrounding parcels become favorably developed and the original parcel's "location" suddenly improves. The obvious risk of this activity is the lack of liquidity. However, land speculation can yield the highest returns with value appreciation. Land speculation has always been a simple activity many companies with large capital reserves participate in. International speculation, while quite risky, does hold a large potential return.

Land Development – Land development involves adding value to a piece of land. This can include adding roads, utilities, grading, etc. This activity is almost as risky as land speculation because the asset is not liquid. However, the potential returns are high enough to warrant companies to assume the high risk.

Building Development -- This activity refers to actual vertical development that takes place on the site. The risk of this activity depends on the type of building being constructed and the resulting cash flows the building will produce. If the building is pre-leased the risk is relatively low. If the building is speculative, the risk increases. Substantial risk is involved with the construction process itself. Cost overruns can ruin a project's financial projections because the rents anticipated at completion are not enough to offset the cost of the building. While returns are lower than those experienced in land speculation and development, a corresponding decrease in the risk profile is found.

Acquisition/Repositioning of an Existing Asset – This activity typically involves the purchasing of an existing building and then attempting to increase the cash flow by improving building management operations. The risk of this activity lies in the ability to make the building more profitable. Existing cash flows and operating history allow for ease in projecting future income streams.

Ownership of a Stabilized Asset – This is obviously the least risky and thus the least profitable real estate activity. The cash flows can easily be estimated and the only risk comes from the tenants defaulting on rent payments.

Principal Roles

- *Land development management* – This is a principal role because the company becomes directly involved with the success of the property. In this case the company also assumes the capital risk role. This service requires strong contacts with the local planning and entitlement agencies.

- *Building development management* – This service is typically offered by companies that will assume the principal role because of the large potential up side. Companies accept the capital risk because of the future payoffs. These developers posses the ability to pull together and drive the real estate value added process. A building developer is the key position in the creation of real estate (Staerkle, 1996). These skills and capabilities do not require a local presence and can therefore be easily imported.

- *Ownership* – This is the most obvious principal role in the real estate industry. Owners of real estate assume all of the capital risk, but they stand to inherit any future profits their property might provide. Their up side is therefore limitless. Strong economies often reward real estate owners with a large appreciation in their property's value. This financial temptation is often attractive enough to draw companies from the agency side to the principal side relatively quickly.

- *Mortgage Banking* – Mortgage bankers are typically indirect property owners because they provide the money needed by the owners to purchase the property. Therefore, the mortgage bankers do have a principal interest in the property. Should the owner default, the property is immediately turned over to the mortgage lender. Because of this close relationship with the asset, mortgage banking is often considered a principal role. Mortgage bankers do not have to have a local presence, but they do need to have access to local market information in order to determine default probabilities.

- *Property Services* – Often times an owner will decide to internalize property services. When this occurs, they are no longer agency roles but instead principal roles because of their direct ties to the success of the property. Some of these services include brokerage, property management, and leasing. The owner will decide to link these services directly to the success of the project. The potential profitability for these services rises, but with that profitability comes the capital risk.

Agency Roles

- *Land brokerage* – Land brokers typically represent the landowners. They assume only the agency role and the operating risk. They do not have an equity stake in the property. Their job is to assist the landowners in locating potential buyers and then to represent the landowners during the purchase negotiations. Land brokers must be very familiar with the particular piece of property they are trying to sell. Therefore, land brokers require local expertise. Land brokers also require large networking capabilities in order to locate buyers from outside markets.

- *Market Appraisal* – Appraisers attempt to quantify the market value of a particular asset. They operate on a fee basis thereby qualifying them as agents. Appraisers are never expected to assume anything but the operating risk. This service does require a strong local presence due to the fact that the appraiser is judging the market value in conjunction with the local market the property is located in.

- *Debt and equity brokerage* - Debt brokers are responsible for finding debt capital for their clients. They work only as agents whose primary responsibility is to line up potential land or building purchasers with lenders. Equity borrowers, on the other hand, line up land or building purchasers with equity partners. Only in the past 20 years have real estate service companies entered in to this traditional merchant bank function (Staerkle, 1996).

- *Construction management and consulting* – These services are provided by architects, engineers, construction managers, construction consultants, project mangers, planning consultants, cost estimators, and general contractors. They typically work for standard fees and assume only the agent's role with the associated operating risk. Some vertically integrated full service real estate companies that perform both the capital and operating risk roles have begun to acquire these necessary professionals. These services have a long tradition of being internationally offered and are increasingly becoming a cross-border activity of established players (Staerkle, 1996).

- *Leasing* – A leasing agent can work for either the landlord or the tenant. Similar to the land brokers, the landlord's leasing agent is charged with locating and negotiating with potential tenants. This requires a thorough understanding of the future leaseable space. The tenant's leasing agent, on the other hand, requires a thorough understanding of the tenant's particular needs. This does not require a local presence. The tenant's agent is only responsible for scanning potential sites and then negotiating a favorable lease.

- *Market and feasibility studies* – These studies are conducted to determine the optimal "type and mix of uses, market opportunities, competitive positioning, product definition, market depth, potential absorption, cash flow projections, leasing terms, and advertising required to market a project," (Staerkle, 1996). These agency services are almost always removed from the equity positions in the project. This type of service does require some local contacts, but the financial projection expertise can be imported from other developed markets.

- *Portfolio management* – Portfolio managers assume responsibility for a client's entire real estate portfolio. They traditionally operate on a fee basis are not awarded equity or principal positions. Their job is to manage the portfolio's long-term value by analyzing and improving cash flow and bottom line performance. Most portfolio managers have had to gain international experience due to the fact that their clients have sought international diversification.

- *Asset Management* – Asset managers are very similar to portfolio managers except they manage the long-term value of one particular asset instead of an entire portfolio. They also act only as an agent. Asset mangers will typically report to a portfolio manger. This is a very local service because it requires anticipation of local market trends.

- *Property Management* – Property managers run the day-to-day operations of the particular asset. They are responsible for building maintenance, the collection of rents, and tenant relations. They are not typically involved with the ownership of the property. In fact, property managers are often agents hired from third party management companies. Property managers must have a local presence in order manage the building and its tenant base.

The most lucrative (and, therefore, the riskiest) activities take place early in the development cycle. Land speculation is very risky due to the fact that the land's future value is almost impossible to predict. Ownership of a stabilized asset is easy to estimate and therefore the risk and return is minimized. Multinational companies are traditionally involved in all of these actives. In the past, they have been the capital risk takers that seek the services from the real estate service providers in order to maximize their returns and minimize their risk.

However, in recent years the lines between capital risk takers and operational risk takers have become blurred. Some traditional capital risk takers, such as the multinational corporations, have tried to divest their risk by having the service providers assume principal roles. On the other side, multinational companies have absorbed real estate services in to their corporate hierarchy and have therefore assumed both the operating risk and the capital risk. This will be discussed more in Chapters 4 through 6.

Real estate service providers provide all of the services shown above. A completely vertically integrated service provider would offer each of the services to all of the activities. However, there are very few US real estate companies that do provide all of the aforementioned services. There are several reasons for this, and that will be discussed further in the next chapter.

2.2 Service Providers

John McMahan discusses the real estate service provider industry in his article titled "Challenges Facing Real Estate". A large number of organizations have emerged to service the real estate industry. Architects, planners, engineers, and market consultants are involved with the creation of buildings and land development. Others, such as real estate brokers, mortgage brokers, investment bankers, property management firms, leasing agents, and tenant representatives are involved with real estate transactions and management. Still others measure the performance and value of real estate investments, such as accountants, appraisers, investment consultants, and research organizations.

Real estate service providers are very dependent on their personnel's skill sets. Similar to a law firm or medical practice, the value of the firm is in its employees. As a result, the competition to hire the best professionals between rival service providers and even other vertically integrated clients is often quite fierce.

By having so many players popping in and out of the market place, differentiation has become very important to service providers. Some service providers have specialized in certain activities and only offer certain types of services as a result. Specialization is difficult, however, because of the ease at which key personnel can be attracted to another competitor. (Porter 1980) "Lacking hard assets, enterprise value for service providers comes from an organization and management. Franchise positions are created through industry thought-leadership and maintained through branding, distribution, and customer loyalty." (McMahan, 1997)

Service providers have often struggled with the appropriate size of their company. A smaller firm limits one's access into other possibly more lucrative markets. However, a larger firm runs the risk of laying off the personnel the firm worked so hard to attract.

Large service providers have therefore had to seek out new markets in order to obtain additional profits and to escape the competition form the smaller more agile firms.

The answer is with large multinational companies who want service providers that can provide a variety of services to their operations in all parts of the world. As a result, the larger service providers have made a rush to capture these global market players, while the smaller service providers have had to remain content pursuing local companies that have not typically required such a wide variety of services.

Besides the heavy competition, service providers are vulnerable to technological innovations as well. Computers have drastically effected brokerage listings, architectural drawings, and accounting data. What used to take a team of professionals a month to complete can now be accomplished by one person sitting at a computer for only a couple of hours.

Corporations are usually some of the largest owners of real estate and it these consumers that most real estate service providers target as clients. Some companies own their own real estate because they want to assure operating flexibility and control industrial security. Other companies spin off their real estate to REITs, REOCs, or other vehicles where they can then outsource the management of their facilities, but can continue to reap any real estate returns. Finally, other companies simply lease their facilities because real estate is viewed as a cost rather then a profit center (McMahan 1997).

Real estate service providers have tried to respond to all of clients' needs and some service providers have even made the transition into becoming landowners themselves. Instead of trying to cater to the ever-changing world of the multinational corporations, service providers have decided to take their expertise and use it to develop properties in house. This has of course meant higher risk levels, but the potential for higher rewards has made the risk acceptable. Chapters 3 through 6 will take a closer look at three theories on how service providers are dealing with globalization and what risk roles they assume as a result.

3. Designing the Matrix

Figure 2

Matrix	Alliance	CRE	Acquisition
Market			
Buyer Type			
Market Risk			
External Scan			
Company			
Competitive Advantage			
Company Operations			
Strategy			
Scope			
Diversification			
Resources			
Financial			
Personnel			
Organization			

3.1 Framework

A real estate service provider must determine what markets their company should compete in and what effect globalization will have on their company's profitability, strategic planning, and organizational structure. A matrix framework and a series of visual analysis tools will be used to diagram the different characteristics associated with each of three identified theories of globalization; corporate real estate, forming an alliance and acquisition. Each of these three theories has been developed to respond to particular market conditions. The next step will be to discover what market each theory of globalization targets, and how the resulting company operations should be designed in order to compete in the chosen market.

3.2 Strategy Design

> "Before all else, a company must develop a specific strategic plan that will allow its operations to outperform all other competitors. A strategy must therefore provide the company with a unique, not easily duplicated, competitive position"
>
> (Macomber, 1998)

A company strategic plan is the end result of a thorough company investigation and market analysis. John Macomber refers to the process of designing a workable strategic plan in his article "8 Steps to Success". The strategy is the resulting detailed blueprint the company will use to benchmark its activities and successes. All company activities and decisions will be dictated by the company strategy (Ghosal, 1987).

Figure 3

Company

1. Mission Statement

↓

2. Internal Scan

↓

3. External Scan

↓

4. Formulation of Strategies

↓

5. Definition of Strategic Programs

↓

6. Resource Allocation

↓

7. Execution

↓

8. Measurement

3.3 The Company Mission Statement

The company strategy is originally formulated from the company's mission statement. The company's mission statement is the written embodiment of the company's value system and goals. It is usually a short and concise paragraph stating the general ideals and principals of the company and its employees. The mission statement should represent an ideal or set of beliefs everyone in the company can buy into and comprehend, since it will be from this mission statement that the rest of the company operations will be based. "The mission statement must be flexible enough, however, to be modified as the strategic planning process takes place and new information is reacted to" (Macomber, 1993).

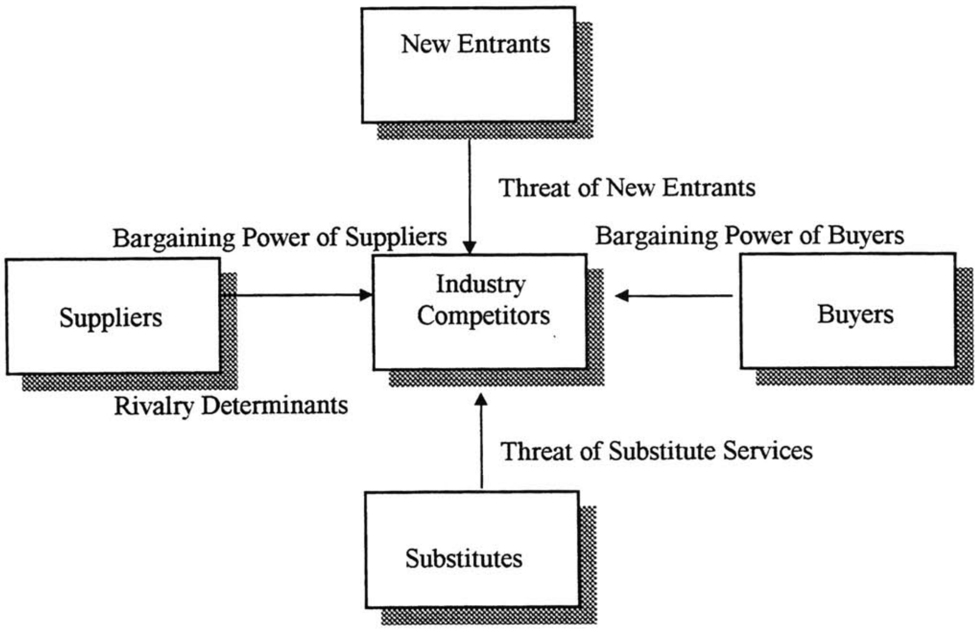
3.4 Environmental Scans

Before the company can begin to devise a workable strategy, the company must conduct both internal and environmental scans. The company has to consider the condition of its operations and analyze the markets in which it wants to compete. The environmental scan must be applied to both international and local markets because each market will have different characteristics the company will have to identify and react to in order to develop the best possible strategic plan. Some companies will sometimes elect separate strategic plans for the different markets in which it intends to compete, but there must be a unifying plan that will identify the separate strategic plans and how they come together under the company umbrella (Ghosal 1987).

The environmental scan requires the company to consider the general economy, the labor market, and the quality and strength of its competitors (Porter 1986). Michael Porter devised an external scan analysis tool called the Five Forces Model that helps companies identify market attractiveness.

Figure 4

Five Forces Model



The Five Forces Model breaks up a market into five separate sections. Each of these sections, or forces, has a direct effect on future market conditions. All of these forces must be analyzed in order to gain an acceptable understanding of the market characteristics.

The threat of new entrants force refers to the ease at which new competitors can enter the market. In international markets, proprietary access to information, cultural protocol, and government policy are usually three of the largest barriers to entry that most companies have to overcome. Once a company has firmly rooted itself within a market, it will try and use the barriers to entry against any new competitors trying to gain market share.

Rivalry determinants refer to the competitiveness of the companies already within the market. Exit barriers are also considered within this sub-heading. The ability of a company to leave the market that it has entered will determine the ferocity with which it will try to compete. If the capital requirements to enter the market are substantial enough, the company that makes that investment will put in a large effort to try and secure market share and profits. If the capital requirements are easily transferable to another market, the company might be less likely to compete in a saturated market.

The determinants of supplier power refer to the availability of substitute inputs. In international markets, inputs such as materials, labor, and information are considered supplies. Real estate service providers must be able to purchase all of these inputs in order to sell the requested services to the buyer. The threat of forward integration by the suppliers must be analyzed as well. If the suppliers decide to compete in the same markets as the real estate companies purchasing the products, then the sudden loss of inputs can drastically affect operations.

The threat of substitutes refers to the ability of the buyers within a given market to seek services others than those provided by the service provider. In international markets this threat is usually hard to examine. Multinational companies need real estate services and it is next to impossible to ignore purchasing those services. The threat of substitutes comes only from competing companies and their ability to offer the services the buyer needs. One substitution effect might be the government regulation that no multinational corporation can hold international real estate. However, even in this case, the multinational company would have to hire a real estate service provider to renovate the buildings it was interested in renting. The conclusion is there is little substitution available for real estate services.

Determinants of buyer power define buyer leverage. In a truly competitive market, the buyer will have many choices and will therefore have substantial buyer power. Heavy buyer power causes the competitive nature of the real estate companies operating in the market to become magnified. Each company will compete heavily for market share, maybe to the point where profits are undermined. The switching costs the buyer will undertake by switching real estate service providers are also very important. If switching costs are minimal, market share between competing companies will change hands very often as buyers switch back and forth searching for the best service and price. Price sensitivity is also under this sub-heading as is the threat of backward integration by the buyer. Buyer power is the single most important sub-heading every real estate provider will attempt to analyze. If the buyers within a market are surrounded with very similar products, the potential for great gains within that market is drastically reduced.

3.5 Internal Scan

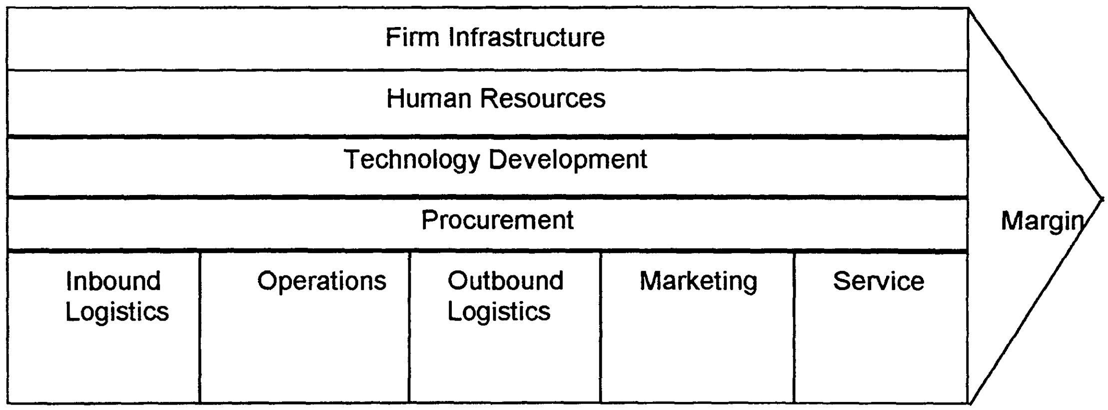
After examining the market, companies must analyze their internal operations in order to evaluate productivity and their ability to compete. The internal scan requires the company to consider its own strengths and weaknesses. Once the company identifies the particular strengths it can exploit, the company can then focus on locating buyer demand. Some companies conduct the inverse of this logic and discover untapped areas of buyer demand and then try to reposition their internal operations to meet that market. Either direction requires both internal and external scans.

Before a company can thoroughly investigate its internal operations, the company must determine whether it is project or process oriented. A project-oriented company typically handles one project at a time and dedicates all of its resources toward that particular project. The result is higher returns, but at a higher risk as well. The company assumes a higher risk level because the company's profitability depends on only one project. Finally, a project-oriented company places little to no resources toward locating the next project. On the other hand, a process-oriented company assumes a continuous stream of business. The process-oriented company reduces risk but it reduces margins as well. Company resources are spread out among different projects. If one company project fails, the company has other operations it can then depend on. The project- oriented company is really a job shop full of very flexible personnel, while the process-oriented company prefers assembly lines and worker efficiencies (Leinberger 1993).

After the company has determined its orientation preference, it must then gauge its internal operational relationships. Michael Porter uses the firm value chain to help companies identify their operating process's strengths and weaknesses.

Figure 5

Firm Value Chain



The firm value chain helps companies visualize their operations. Any company wishing to conduct an internal evaluation of itself must dissect how it processes materials, information, and personnel in order to generate a service it can then sell to a potential buyer for a profit. The five primary activities of any company are represented on the lower half of the diagram shown above. Inbound Logistics refers to how a company receives information and/or materials. In the case of real estate service providers, it would represent how the incoming market information, personnel, and buyer requests are all handled by the company. Operations describe how a company adds value to the product or service. With real estate providers, it refers to how information is processed and services are provided. The Outbound Logistics analyzes how a company distributes its particular product or service to the buyer, whether it is over the Internet, hand delivered, or constructed. Marketing and Sales refers to how the company tries to position itself within the marketplace with such means as advertising. Finally, Service describes how a company follows-up and tracks the product or service it is selling. With real estate providers, this can refer to follow up maintenance checks and inspections.

The top section of the firm value chain describes the support activities each company uses. Procurement describes all purchasing functions, whether it is raw materials, personnel, or information. Technology Development is a very broad category that encompasses several activities such as research, communication, and product design. Human Resource Management refers to the hiring and training of personnel for all of the aforementioned activities. Finally, Firm Infrastructure analyzes how a company is managed; a company can either be centralized or diversified depending on its particular operating plan.

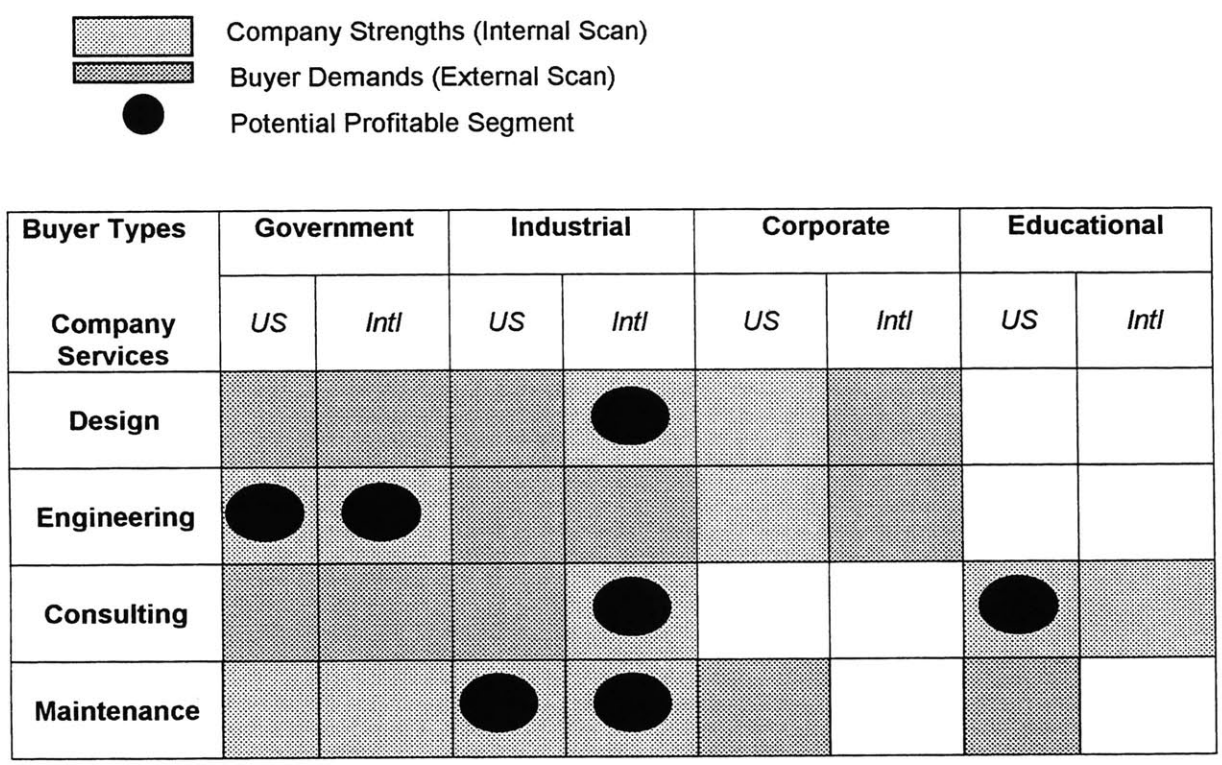
The firm value chain is a very helpful tool that will be used later in the paper to help understand individual company processes. The value chain is too company specific to be used in the three theory matrix, but it is important to identify all the internal scan analysis tools that will used in the second half of the thesis to research company strengths and weaknesses.

3.6 Formulation of Strategies

After the company has successfully completed both the internal and environmental scans, an initial formulation of areas of concentration must be conceived. A segmentation matrix is considered one of the most helpful tools to help companies visualize the opportunities in the market (Porter 1986). A list of company services is cross-referenced with buyer needs. Overlaps of company strengths with profitable buyer demand segments reveal areas the company can decide to compete. Some market segments will require extra focus while others may have to de-emphasized.

Figure 6

Example of Segmentation Matrix



After completing the segmentation matrix many companies develop a generic segmentation matrix, also developed by Michael Porter, to further investigate each of the profitable blocks. The generic matrix is a two-by-two matrix that is helpful in determining how a company is going to compete within each of the identified blocks above. The horizontal axis refers to how a company intends to compete. The company can choose to either provide the service at the lowest cost or provide more quality and specialized services at higher premiums. The vertical axis refers to competitive scope. A firm can either target a broad range of clients or focus more on a specialty market.

Figure 7

Generic Two-by-Two Matrix

		Competitive Advantage	
		Lower Cost	Differentiation in Quality and Service
Competitive Scope	Broad Target Market	Cost Leadership	Differentiation
	Narrow Target Market	Cost Focus	Differentiation Focus

The Cost Leadership position refers to a real estate company interested in providing a broad scope of services in a broad range of markets for relatively low costs to the buyer. This position typically requires the company to have operations in many markets where it can begin to exploit its economies of scale. The product or service the cost leadership company sells is therefore a standard, no frills product or service. This position requires the company to have several advantages it can hold over its competitors. These advantages include proprietary technology, preferential access to raw materials, or market share dominance. A real estate service provider wishing to occupy this position would have to devise a standard service that it could offer in several markets at a relatively low price. Since most of what a real estate service provides is service and expertise, it would have to hire, train, and inform its personnel for considerably less than its competitors and thereby offer its service for less. This would basically entail establishing an assembly line of standard services.

The Differentiation position refers to a company that decides to enhance certain characteristics of its service, relative to its competitors, and then seeks to gain a premium for that differentiation. A company can differentiate its service in numerous ways, including better service delivery, additional services, or higher service standards. An important consideration for the differentiation position is the company has to make sure the additional value added to its service must return additional profits so as to offset the additional costs. An example of a real estate service provider differentiating itself is an architectural service that specializes in high tech energy plants. Since energy plants are so unique, it would impossible to standardize that service, so the low cost providers would not compete in that market. Of course, by offering that service, the real estate provider would have to employ a higher standard of employees and keep those employees active even when no new energy plants are being constructed. Specialization often means more profit on fewer jobs.

Both the Cost Focus and Differentiation Focus positions require a company to target smaller niche markets within the larger overall market. These niche markets are referred to as target segments. Certain buyers that operate within these target segments require special or unusual services that can not be satisfied by either the low cost producer or the differentiated producer. These buyers desire a standard service, but they need it tailored to their special parameters. Real estate service providers can choose to operate in these target segments much in the same way they do in the larger overall market. The cost focused company will still try to use economies of scale or other proprietary advantages to service several companies operating within the target segment. For example, a cost focused real estate firm might offer brokering services to companies only in an Eastern Europe market that require specialized industrial space. The differentiated focused company will try to specialize their services even more and take advantage of services that are very important to certain buyers within the target segment. For example, the differentiated focused company might offer brokerage services to Eastern Europe customers that require industrial space with special toxic machinery. Companies that operate in either of these segments are especially specialized and are particularly susceptible to changing consumer demand.

John Macomber claims it is unwise to try and operate in more than one box because, "it can lead to schizophrenia. There can be conflicting requirements when writing contracts, preparing correspondence or interacting with designers". It is impossible for a company to exist in all four segments of the matrix. One company cannot be all things to all customers, instead a company must focus on a particular box or segment and tailor its strategic plan to dominate that corresponding market.

3.7 Diversification

After a particular market is identified, the company must decide on how many markets it wishes to enter. Diversification in several markets can allow for the greater earning of profits because of the reduction of costs of management. This reduction of internal costs is due to the exploiting of similarities and differences between neighboring markets. Sushil Vachani refers to two types of diversification strategies; related and unrelated. Related international diversification refers to the dispersion of business activities across homogenous countries and markets. An example of this is offering a particular real estate service, such as land brokerage, to the United States, Canada, and England. The skills and customer base are quite similar and the company's strategic plan will require little modification. This type of diversification can result in lower coordination and operational costs due to spill over effects.

Unrelated international diversification refers to the marketing of services across heterogeneous markets. This type of diversification allows a company to transfer its expertise within a developed market to an emerging market. For example, a company can offer its space planning software developed within the United States to other markets such as India, Argentina, Russia, and Vietnam. By entering such a variety of markets, an unrelated international diversification strategy can allow a company to diversify its risk to the heterogeneous characteristics of the other markets.

3.8 Resource Allocation

At this stage of the strategic planning process, the company has defined its mission statement, analyzed the environmental and competitive situation in which it must operate, identified the company's major strengths and weaknesses, and targeted potential market segments. The company must then decide what appropriate resources it will use to operate and compete in the selected markets. This includes dedication of money, people, and management attention.

Financial

The investment of company resources in a particular market is a crucial decision every company must make, "the financial philosophy of a particular firm is the means to determining a firm's level of globalization" (McClenahen, 1991). The investment in globalization depends on the financial allocations a company puts forth. Any attempt to dominate a foreign market will require a substantial investment. A company cannot hope to be the low cost provider and dominate a foreign market without considering the amount of resources it will take to accomplish that goal.

Personnel

Similar to financial investments, personnel investments must be properly accounted for as well. There are many options for investing in personnel. The personnel can either be relocated from headquarters, acquired from foreign markets, or a combination of the two. It depends on the particular strategic plan of the company on how it handles staffing requirements.

Management

There are several organizational structures a real estate provider can choose to implement. Henry Mintzberg describes five distinct configurations; simple structure, machine bureaucracy, professional bureaucracy, divisionalized form, and adhocracy. Mintzberg breaks up the management functions into five categories. They consist of the strategic apex, middle managers, the operating core, the technostructure, and the support staff. The strategic apex consists of the company's top executives, while the middle managers act as liaisons to the operating core which is made up of the personnel actually performing the work the company is paid to do. The technostructure consists of the analysts who design the technological controls of the company's work. The support staff provides all the indirect services that every company requires. How a company is structured depends on its strategic plan. The particular arrangement of each of the management functions determines what type of management configuration the company will use.

Simple Structure – The simple organizational structure consists of a small group operators who are managed by a select number of top managers, "little of its behavior is standardized or formalized, and minimal use is made of planning or training" (Mintzberg 1981). This type of organization depends heavily on direct supervision. The organization, while small, remains quite flexible and can outmaneuver the larger bureaucracies. The chief executive uses centralized control to maintain direct control over all of the company's operations. A simple structure organization is typically selected by a young firm. As the company matures, new organizational structures are usually selected.

Machine Bureaucracy – This organizational structure is often associated with industrialization. The emphasis of this organization type is on standardization of work. The operators are typically low skilled and highly specialized. A large set of middle managers coordinate the activities of the operators. The formal decision making power still rests at the top of the organization with the executives. This type of organization is well suited for mass production where the company services can be rationalized into a set of standards. Companies wishing to compete in the cost leadership position of the two-by-two matrix often try and select this type of organizational structure since the standardization of work reduces internal costs.

Professional Bureaucracy – Similar to the machine bureaucracy, the professional bureaucracy attempts to standardize its operations. However, instead of attempting to standardize products, the professional bureaucracy standardizes the skills of its employees. It relies heavily on its workforce of trained professionals. Due to the fact that a large amount of reliance is put on the operators, much of the decision making power is decentralized. The operators are trained to work independent of one another, yet they are assured each colleague possess the same skill set. This large operator base requires very little direct supervision so the middle managers are often eliminated. Universities are good examples of professional bureaucracies. The disadvantage of professional bureaucracy is the ability to remain flexible. The standardization of skills and the decentralization of power is often hard to change.

Divisionalized Form – Just like the professional bureaucracy, the independent operators are joined together by a thin band of top executives. However, instead of being individual operators, the divisionalized form is made up of specialized groups or divisions. The divisions consist of a team of operators that specialize in certain product types. Each division is usually self sufficient in terms of internal decision making power, but each division must answer to the quotas set by the top executives. So the power is not decentralized, like in the professional bureaucracy, but centralized around the top executives and divisions. This type of organization depends heavily on the standardization of outputs. The specific operational details are left to the divisions. The top executives measure performance only by the quality and quantify of the outputs.

Adhocracy – This is a very fluid and flexible type of organizational structure in that is very little standardization of anything. Instead, the entire organization depends on the skills, flexibility, and decision making power of its employees. There are two types of adhocracies; the operating adhocracy and the administrative adhocracy. In the operating adhocracy, the company functions on behalf of its client. Depending on what the client has requested, the organization adopts to meet the demand. The decision making power is transferred to whoever is the expert in the service they are presently providing. Administrative adhocracies are very similar to the operating adhocracy except they act on their own behalf instead of for a client. NASA is a good example of an administrative adhocracy. Many companies in today's market are beginning to experiment with the adhocracy organizational structure.

4. Theory 1 - Acquisition

> "Many mutltinationals would prefer going it alone since it enables them to retain management control over all elements of the business system - technology, design, products, manufacturing, marketing, distribution and service"
>
> (Cauley de la Sierra, 1995)

Figure 8

Matrix	**Acquisition**	CRE	Alliance
Market			
Buyer Type	**Broad**		
Market Risk	**Operational**		
External Scan	**New Entrants**		
Company			
Competitive Advantage	**Economies of Scale**		
Company Operations	**Process**		
Strategy			
Scope	**Cost Leadership**		
Diversification	**Unrelated**		
Resources			
Financial	**Moderate/Substantial**		
Personnel	**Standardized**		
Organization	**Professional**		

One of the first globalization strategies most companies consider is the "going-it-alone" approach. The single biggest advantage to this strategy is complete control over the entire globalization process. There are no corporate hierarchies dictating what markets the company can or cannot enter, and no information has to be shared or protected from a partnering firm. There are several specific "go-it-alone" strategies, including incremental internationalization, global integration, and direct acquisition or merger (Leinberger, 1993). A company's particular strategy of choice depends on the company's goals, strengths, and weakness. In this chapter, we will specifically concentrate on the acquisition or merger strategy. This is a strategy where by a company absorbs another international or local company in order to gain a specific competitive advantage. The company being acquired completely loses its corporate identity and instead assumes the existing identity of the acquiring company. It should be noted, however, that this approach can be quite expensive for the acquiring company due to the high acquisition costs as well the need to support and train all of the new personnel and overhead (Mishra, 1995).

In the scope of this thesis we will consider the acquiring company to be a large national or multinational real estate service provider who has decided to acquire another local or multinational firm that will offer some immediate gain to the acquiring firm. For example, a real estate service provider might decide to acquire another service provider in order to reduce direct competition, or in order to gain access to a new market, or finally, to gain new personnel and resources in order to be able to offer a new service. The specific reasons behind an acquisition will vary depending on the particular companies involved.

As service providers expand their operations globally, they require the ability to enter new markets. The need for service providers to penetrate new markets or to improve market share in an existing market will often require the company to consider an acquisition strategy. Christopher Leinberger discusses three market penetration scenarios in his book, Strategy for Real Companies.

Figure 9

Market Penetration Options

	Same Product/ Same Product Segment	New Product Segment/ Same Product	New Product
New Geographic Market	*In-house Service to New Homogenous Market*	*Proven Service to New Homogenous Market*	*Unproven Service to New Unproven Market*

Low Risk → Highest Risk

New Geographic Market/Same Product and Product Segment -- This is a market penetration strategy where by a company takes its proven product or service "on the road". The company brings the service that has had strong success in the home market, to other homogeneous markets. This is a relatively low risk strategy since the demand levels in the similar markets are anticipated to be the same as the home market. An example of this strategy can be found with property management firms. Successful property management firms quickly introduce their services into markets that have similar tenants and rental regulations.

Using this particular strategy, a service provider might acquire another service provider offering the same services in order to reduce competition. Basically, the company acquires other companies operating in the same market and offering the same service in order to gain more market share.

New Geographic Market and Product Segment/Same Product Strategy -- This is similar to the previous strategy, accept that the company penetrating the new market has not perfected the service in-house. Instead, the company realizes the strong demand for a certain service in other markets, so it attempts to enter untapped markets in order to introduce the popular service. The obvious risk to the company is that it has entered a new market trying to sell a service with which it is unfamiliar. Leinberger uses the example of a retail developer in Atlanta who realizes the demand for multifamily housing in Tampa.

A real estate service provider might attempt to negate some of the risk associated with this type of market penetration strategy by acquiring a company that has already perfected the popular service in another market. The acquiring company will take the newly acquired service and then introduce it to the new markets. By acquiring the expertise, the company only has to concern itself with the risk of entering the new market.

New Product and Geographic Market Strategy -- This is potentially the riskiest market penetration strategy of all since a company is entering an unpredictable market with an untested product that the company is unfamiliar with. Leinberger claims this strategy almost always leads to failure, regardless of the resources contributed to the operation. A real estate company can help better their success rate by acquiring a company already present within the new target market. Although both companies may be unfamiliar with the untested service, at least the acquired company will have local knowledge of the market (Porter, 1996).

A company will typically use an acquisition strategy when the acquisition costs can be justified and when the acquisition directly complements the company's guiding strategic plan and maximizes the performance of the company (Cauley de la Sierra, 1995).

4.2 Acquisition Market

Buyer Type

A company considering an acquisition strategy must begin by targeting the consumers the company is attempting to reach. If the company wants to decrease competition by acquiring smaller competitors, the company makes a conscious effort to reach more customers and therefore attempt to increase its market share. A non-real estate example of this can be seen when the U.S. car companies purchased several railroad and trolley lines in the early 1900s. The car companies immediately shut down the newly acquired railways in order to increase the number of people requiring cars thereby increasing their profitability in the car manufacturing industry. The acquisition was seen as an economical way for the car manufactures to increase their customer base (Strickland, 1990). When a company acquires a local firm in a foreign market, the acquiring company is either anticipating the ability to reach new customers or the opportunity to inherit new expertise that it can then offer to existing markets in order to gain market share.

Market Risk

A real estate service provider will consistently inherit only the operational risk. This is primarily because a real estate service provider only offers the buyer services. Once the service provider becomes an equity partner in the real estate transactions, the service company becomes a developer. Some real estate service providers have started to see the equity position as an attractive opportunity, but the risks are much greater. Spaulding & Slye, a regional developer in Boston, MA, and Washington, D.C., made the opposite transformation. Originally a development company, the company shifted to become a service provider when the market collapsed in the late 1980s. Spaulding & Slye realized the risks associated with being the developer. Although development offers higher returns, the capital risk makes the returns harder to achieve.

External Scan

"If you can't beat them, buy them"
Bill Gates, 1996

A real estate company can acquire another company for all of the reasons mentioned above. However, one of the most common reasons a company is acquired is due to the fact that it directly competes with a larger company (Day, 1984). Microsoft is one of the most popular examples in today's global economy. Anytime a smaller technology firm begins to steal market share from the Microsoft Corporation, Microsoft quickly responds by acquiring the smaller operation (Strickland, 1990). The acquisitions allow Microsoft to maintain its dominant market share. Real estate service providers that have the capital necessary to acquire smaller companies will also quickly absorb any smaller service company that has started to successfully target the same customers (Leinberger, 1993).

4.3 Acquisition Company

Competitive Advantage

The biggest competitive advantage to any company attempting to acquire another is the access to new personnel and customers. By absorbing another company, the acquiring company inherently accepts the acquired company's customer base. However, another large advantage to an acquisition strategy is access to new personnel and skill sets (Rugman, 1976). Since a service provider depends heavily on the skill sets of its employees, the additional skill sets obtained through the acquisition are often invaluable. The ultimate goal of almost every global service provider is to dominate the market by being able to provide any service to any company at the lowest possible cost (Oster, 1990). The ability to acquire new talent and expertise and then spread that talent globally gives the service provider a wider selection of services as well as the opportunity to achieve economies of scale. By standardizing the acquired services, the company is can quickly offer the new services to multinational customers in countless markets.

Company Operations

Global real estate service providers must generally remain process focused when attempting to market their consulting services in the global economy. "The goal of a global firm is to penetrate a number of markets in order to gain experience and exposure of standardized products or services. By operating in many markets a global firm can begin to exploit similarities between markets and benefit from the economy of scale" (Porter, 1986). If the real estate companies were to move toward a product focus they would become too specialized to operate in the global market. Global real estate firms attempt to increase their customer base while reducing their overhead by standardizing their services (Stephens, 1995). Occasionally a service company will supply a specific service to a unique market, but the danger then lies in how long that service will be required. By having a process focus, the service providers can achieve economies of scale over a larger number of markets (Porter, 1986).

4.4 Acquisition Strategy

Scope

By acquiring new companies in foreign markets, the global real estate providers are able to offer standardized services to multinational companies at lower prices. The service providers must therefore adopt a cost leadership focus. By targeting the broad market of multinational corporations and by offering standardized services at the lowest costs, service providers are forced to incorporate a cost focused strategy (Porter, 1986).

Global service providers can not compete with the specialized local service providers because they risk losing their economies of scale competitive advantage. Instead, the global service providers let the highly specialized service providers continue to operate in their local markets. It would be too expensive for a global service provider to try and standardize specialized services that would not be required in most other markets.

Diversification

Global service providers must introduce standardized services to heterogeneous markets in order to seek out new profits. A global service provider can not set any limits on possible locations merely because the markets are either homogeneous or heterogeneous. A true global service provider will use the barriers to entry in heterogeneous markets to their advantage (Vanchani, 1991). Service providers must be able to offer the same standardized services to multinational companies regardless of their geographic location. Global service providers that cannot operate in every market quickly lose out to the service providers that can (Stephens, 1995). Multinational companies strive to hire service providers that can offer certain services wherever the multinational company considers locating. That is the reason the specialized local service providers do not compete with the global providers; they do not have access to all of the foreign markets. A service provider should be willing to accept low profits in one region if that regional activity helps the overall business system (Porter, 1986).

4.5 Acquisition Resources

Financial

The costs of acquiring another real estate service provider can be substantial due to the fact that the company has to access a large amount of capital. This cost is often negated if the acquired company was self-sustaining and those profits can properly be maintained. However, each company runs the risk of bankrupting the acquired company's operations due to the change in corporate philosophy. As a result, the anticipated funds from operations after the acquisition needs to be carefully analyzed (Linsenmeyer, 1991). If the acquiring company improves profitability after the acquisition, then the original costs of the acquisition are eventually minimized.

Personnel

There are several theories on what the ideal workforce of a global real estate provider should look like. Some authors believe the top management should be country neutral, maintain a global focus, and conduct their business as "corporate citizens of the world" (Barlett & Ghoshal, 1992). The workforce should be flexible but not specialized to the point where they could become obsolete. Global opportunities should be viewed as though they exist in only one market (Reich, 1991). The workforce should be standardized enough to work in global market, yet flexible enough to adapt to the changing needs of the multinational consumers.

Organization

Similar to the company's personnel, the company's organization must be flexible enough to allow for the flow of new ideas and skills, but standardized enough that a multinational client can expect the same quality of service regardless of the market in which they are working (Mintzberg, 1981). The professional bureaucracy is an ideal organizational structure for an acquisition strategy because it minimizes the layers of supervision to allow for flexibility, but it standardizes skill sets enough to preserve continuity throughout the company. The management of a global service firm must be non-hierarchical in order to remain flexible and responsive to new and changing opportunities (McClenahen, 1991). The professional bureaucracy allows the workforce to be market specific but they can handle each project by relying on their standardized skills as guidelines.

Real estate providers that attempt to devise a global strategy often see acquisitions as a first step to gaining an international presence. It is very difficult for a real estate service firm to merely transplant its home based personnel into foreign markets and expect to have a local presence. Each foreign market holds different obstacles and opportunities that only locally trained personnel are aware of. Service providers realize this problem and attempt to overcome it by acquiring and standardizing local talent. Both the disadvantage and advantage of this strategy is having to "go-it-alone". Trying to establish a successful standardized global presence that can service the needs of multinational companies located in almost every type of market is very difficult. One service provider absorbs all of these risks and any incorrect market decisions made by that company might bankrupt the entire organization.

5. Theory 2 – Corporate Real Estate (CRE)

> "...the role of CRE management is shifting from that of administrator to being a planner for the future."
>
> (McMahan, 1997)

Figure 10

Matrix	Acquisition	**CRE**	Alliance
Market			
Buyer Type	Broad	**Defined**	
Market Risk	Operational	**Capital**	
External Scan	New Entrants	**Buyer Power**	
Company			
Competitive Advantage	Economies of Scale	**Client Strength**	
Company Operations	Process	**Process**	
Strategy			
Scope	Cost Leadership Focus	**Differentiation Focus**	
Diversification	Unrelated	**Unrelated/Related**	
Resources			
Financial	Moderate/Substantial	**Substantial**	
Personnel	Standardized	**Flexible**	
Organization	Professional	**Adhocracy/Divisionalized**	

Corporate Real Estate (CRE) remains a very complicated topic that is difficult to analyze as a global growth strategy, but it is important to understand the CRE unit as a popular alternative that is being used by many multinational companies in order to increase their own competitive advantage with regard to real estate in the global market place. CRE is unique in that it is incorporated into a corporate umbrella of a business whose primary function does not have to do with developing, owning, or selling real estate. Originally started as a support department, the CRE unit's primary goal was to monitor the company's real estate transactions. The CRE unit was grouped together with the other internal support departments like the finance department, human resources, and internal relations (Lambert, 1998). The CRE unit was merely a transaction oriented, ill-equipped, centralized department that assisted the corporate executives in making occasional in-house real estate decisions. Often, CRE departments were discontinued during times of downsizing due to the fact that they were seen as non-critical (McMahan, 1997). If a company really needed real estate support, they could hire a third party real estate service provider.

However, as companies began to expand their operations overseas, they realized the importance of including CRE units into their globalization strategy. Third party real estate firms could not offer all of their services in all of the markets in which the corporation was competing. The company executives did not have time to try and establish relationships with several different real estate firms offering varied services. As a result, the corporate executives realized the importance of re-establishing the CRE units. However, now instead of being transaction oriented, the CRE units have become the company's real estate portfolio managers, taking responsibility for all of the company's real estate assets in all of the international markets. The CRE units now act on behalf of the corporation, offering some real estate services in-house and hiring outside support when necessary. The CRE units function as liaisons and consultants between the corporation and the outside vendors. This new responsibility requires the CRE units to monitor real estate investments and returns, establish design criteria for new factories or plants, oversee construction services, and supervise facility management (Lambert, 1998). As the CRE units moved from a transactional support function to a portfolio management leadership role, the CRE units are expected to deliver more full service real estate functions. These include both standardized services, designed to reduce costs and enhance quality, as well as company specific services, designed to reduce cycle time and increase innovation (Lambert, Poteete, 1998). The CRE units have become more than just support groups, instead they have started to become a vital part of several corporations' globalization strategy. As the CRE units are given globalization objectives by their corporate employers, they have had to invent an internal globalization strategy for themselves. The CRE units' globalization strategy, while difficult to thoroughly investigate due to their close ties with the corporate globalization strategy, can still provide some insight to an alternate globalization strategy.

5.2 CRE Market

Buyer Type

For the CRE unit, the customer being served is always the corporation employing the CRE functions. However, despite serving just one corporation, the services demanded can be quite varied. One corporation can demand such services as information on existing sites, cost effective strategies, design samples and standards, construction and project management services, acquisition and disposition of existing sites, and facility management (Lambert 1998). Besides having to merely provide or hire all of these services, the sites are usually scattered throughout different international markets making the CRE unit's job even more difficult.

Market Risk

By being directly tied to the company owning the real estate portfolio, the CRE unit inherently accepts all of the capital risks associated with the assets. The operating risk is outsourced to the third party consultants that assist the CRE unit with each site. A CRE unit cannot fulfill every service required by the corporation and therefore has to outsource some of the services to specialized service firms and related service firms. CRE units use specialized service firms when they encounter sites in countries whose regulations are unfamiliar to them. Specialized service firms can include lawyers, financial consultants, and tax consultants. Related service firms are technology and business consultants that can assist with the CRE units with the initial investigation of new markets. However, these outside service firms only take on the operational risk as they are only offering their services. The CRE unit must realize that it is directly tied to the asset and should make it decisions not as a consultant, but as an equity partner.

External Scan

The biggest benefit to a CRE unit is that all of the buyer power has been eliminated due to fact that the CRE unit is already incorporated into the buyer's corporate umbrella. The CRE unit can release all proprietary information directly to the buyer since they are essentially the same entity. Buyer switching costs and backward integration risks are negated. The CRE unit must still be concerned, however, with industry competition due to the fact that it must represent its client in finding and managing new and existing sites. If the outside real estate service providers are eventually able to perform the CRE unit's responsibilities for less cost, then the CRE s is are in danger of being downsized again.

5.3 CRE Company

Competitive Advantage

The most obvious competitive advantage a CRE unit has is access to capital. Although it has been argued that CRE units do not have as much decision making power and access to capital as might be expected (Lambert, Poteete, 1998), the CRE units still have better access to the revenue being generated by the rest of the company than would an outside service provider. Any profits generated by the CRE units are secondary to the primary revenue-generating source in which the corporation is involved. In fact, the CRE unit's primary responsibility is to reduce internal costs so as to enhance the profitability of the primary revenue generating operation (McMahan, 1997). As a result, the CRE unit has the potential luxury of not being as susceptible to real estate cycles due to fact that company is involved in other industry cycles. The CRE unit also has the potential to acquire any third party service and/or personnel it deems necessary due to its access to large amounts of capital.

Company Operations

CRE units can be found in all types of corporations. Depending on what type of corporation the CRE unit is associated with usually dictates whether the CRE unit will be process or product oriented. There are times when the CRE unit can become product oriented and offer very specialized real estate services to the corporation. Typically, however, the CRE unit has to be process oriented. Although corporations do require site specific services, the CRE unit usually has to outsource most of the services that are too expensive to perform in-house (Lambert, Poteete, 1998). The financial and personnel requirements necessary to become a product oriented CRE are typically too high for a corporation to justify. The CRE unit cannot possibly supply all of the real estate services to every market the corporation is competing in. Instead, the corporation would rather have the CRE unit concentrate on standardizing certain common real estate services that are constant among all of the markets. Standardizing certain services will keep the company interests aligned with all of its new markets. Therefore, the CRE unit becomes very process oriented in trying to establish guidelines that it can use to deal with most types of real estate issues.

5.4 CRE Strategy

Scope

By servicing a corporation that is involved in many different markets that require a variety of services, the CRE unit has to have the ability to offer differentiated and customer specific services. This does not contradict the previous paragraph because although the CRE unit has to standardize its services, the services have to be standardized according the specifics of the parent corporation. The CRE unit does not attempt to standardize services that can be used by any corporation. Instead, the standardization is tailored specifically to the corporation's requirements.

The CRE unit also has to provide the corporation with the specialized services that the other outside real estate service providers cannot offer. The CRE unit can outsource all of the services that it cannot competitively offer. As a result, a large emphasis must be put into custom tailoring the services the CRE unit can competitively offer so as to make the CRE financially beneficial. If the corporation were able to get all of the services the CRE units provide from outside vendors at lower prices, then the CRE units would be considered useless. In fact, during the downsizing of 1980s and 1990s, many companies did believe that the third party real estate service providers offered the same CRE services for lower costs. Thus, many CRE units were eliminated. This changed when the corporations realized that there were very few real estate providers that could provide company specific services to all of the markets in which the corporations were operating (McMahan, 1997). As a result, the CRE units were brought back to specialize in areas where the larger cost leadership service providers could not operate. Today, the CRE units remain focused only on the corporation for which they are working, and offer only the specialized services other service providers cannot offer.

Diversification

CRE units must be able to operate in all types of markets because the parent corporation can potentially move into any target market. In mature markets, the CRE units are concerned with consolidating real estate sales and distribution activities, scrutinizing costs and space utilization patterns, and significantly reducing the costs of occupying space (Lambert, Poteete, 1998). These services dictate a related diversification strategy since the CRE unit is essentially concentrating on reducing costs and overhead in homogenous markets (Vanchani, 1991).

In developing or emerging markets, the CRE units have to focus on multiple constraints to growth, such as the lack of a suitable infrastructure, restrictions on site size, and ownership regulations. These constraints usually rule out collocation strategies and often force the CRE unit to focus on exit strategies. The CRE units must concentrate on making sure the real estate-related agreements do not impede with the corporation's growth strategy (Lambert, Poteete, 1998). These services call for an unrelated diversification approach since the CRE unit is essentially trying to install traditional corporate services into new emerging markets.

5.5 CRE Resources

Financial

Incorporating a CRE unit into a corporation's umbrella requires a substantial financial investment due to the fact that the corporation is suddenly responsible for the CRE unit's overhead. With a third party real estate service provider, the corporation only has to purchase the services it requires. With the internal CRE unit, the corporation must financially support the entire CRE operation. While the CRE unit works only for the corporation, the corporation must still bear the burden of paying for equipment, personnel, support staff, etc. Similar to internalizing a legal department, the costs are substantial. The corporation must bear the costs for idle time when the CRE unit has little real estate opportunities. As mentioned earlier, many site-specific services have to be awarded to outside service providers anyway. However, the CRE unit is trained to represent the goals of the corporation, and that is next to impossible to do with outside service providers who cannot be concerned with the internal strategic plans of all of its clients. The corporation must therefore build a CRE unit that is large enough to offer the services other third party service providers cannot, yet small enough to not be a financial burden on the rest of the corporation. It is better for the corporation to support CRE units through the dry times then it is to dismantle and then attempt to rebuild the CRE units during more profitable times.

Personnel

The CRE unit must be one of the most flexible organizations within the corporation due to the fact that it must be able to cope with all types of problems in each of the company's target markets. The CRE personnel has to research new markets from a real estate perspective, monitor the company portfolio holdings, hire outside service providers when needed, and constantly reassess the corporation's strategic plan so as to properly align real estate decisions (Lambert, Poteete, 1998). To be able to operate in all of these settings requires very knowledgeable, highly flexible personnel that are familiar with the parent corporation's business culture. To be able to translate and install the corporate culture into new markets is often very difficult, and the CRE personnel have to be able to work with both the corporate policies and any international regulations in order to arrive at a feasible solution. Once the right personnel have been hired and trained, it is imperative for the corporation to make sure that they retain that personnel base. The costs of locating, hiring, and training new CRE personnel is very time consuming and expensive.

Organization

The specific organizational structure of a CRE unit really depends on the parent corporation. However, due to the highly flexible nature of a CRE unit, they have to have an organizational structure that will allow them to react quickly to new developments.

Sandra Lambert and Jean Poteete discuss two types of CRE organizational options; *centralized* and *decentralized.* A centralized CRE organization allows for direct measurement of corporate goals. The CRE unit can be easily monitored and all decisions can be made locally. On the other hand, a decentralized CRE unit allows the personnel in the field to respond quickly to changing conditions within their specific market. The centralized CRE unit usually remains a self-sustaining unit, but a decentralized CRE unit is usually incorporated into the international business units that are positioned in each of the corporation's target markets. The business units are simply the regional corporate divisions that handle corporate operations in each of the target markets. The business units report back to corporate headquarters. The CRE personnel in the decentralized organizations will not report directly to headquarters, and will instead report to the managing business unit that will then rely on the relevant information. Sometimes with a decentralized organization there is a central CRE unit that consults on the corporation's general strategic plans, but that CRE unit has little contact with the CRE personnel located out in the markets.

A decentralized CRE organization would most likely mimic a professional bureaucracy in that the CRE personnel would be highly trained and could provide on-site supervision to the individual business units. They would be trained to understand and translate corporate goals into real estate decisions, but they would be given the autonomy to operate within the different foreign markets. Corporate policy cannot dictate a corporate culture that can fit into every culture, so the on-site CRE personnel have to be given the flexibility to deal with the real estate problems as they arise, but they would all have to use the corporate ideals for a guideline.

The centralized CRE units could act more as an adhocracy since they have to respond to each strategic plan for every new market. The centralized CRE unit has to quickly adapt to each corporate decision. The centralized CRE unit cannot function in a bureaucracy due to the fact that the CRE unit has to remain fluid and cannot standardize anything. In fact, it can be argued that the centralized CRE unit has to remain more flexible than the rest of the corporation's organization due to that fact the corporation can keep internal operations constant, but each new market requires new real estate procedures and operations. For example, the corporation may want the same manufacturing plant to go into three different countries, but the CRE unit has to make three separate real estate decisions based on the three different government regulations.

The actual type of organization a CRE unit will require can vary as many times as there are corporations. However, the professional bureaucracy and adhocracy hold a lot of merit due to the general requirements of most CRE divisions.

The CRE units are specialized because they are formed within a corporate umbrella. Their strategic plans are dictated by the parent corporation. However, the CRE units must act as internal service providers that can prove their worth within the corporate hierarchy. Proving this worth means being able to offer certain real estate services in-house and hiring outside service providers when necessary. CRE units are increasing in their popularity. Many corporations have found the in-house expertise very useful when entering new markets. The CRE units are able to translate corporate goals into the appropriate real estate decisions. As more and more companies begin to expand operations internationally, and third party real estate providers offer more and more services, it will interesting to see whether the CRE units begin to grow and steal market share from the expanding third party service providers or if the third party service providers begin to offer some company specific services that detract from the worth of the CRE units.

6. Theory 3 - Alliance

Alliances are a big part of this game (of global competition)....they are critical to win on a global basis....the least attractive way to win on a global basis is to think you can take on the world all by yourself."

(Welch, 1987)

Figure 11

Matrix	Acquisition	CRE	**Alliance**
Market			
Buyer Type	Broad	Defined	**Broad**
Market Risk	Operational	Capital	**Capital/Operational**
External Scan	New Entrants	Buyer Power	**Industry Competitors**
Company			
Competitive Advantage	Economies of Scale	Client Strength	**Pooling of Expertise**
Company Operations	Process	Process	**Process/Product**
Strategy			
Scope	Cost Leadership	Differentiation Focus	**Flexible**
Diversification	Unrelated	Unrelated/Related	**Related/Unrelated**
Resources			
Financial	Moderate/Substantial	Substantial	**Less**
Personnel	Standardized	Flexible	**Pooled**
Organization	Professional	Adhocracy/Divisionalized	**Divisionalized**

Multinational companies enter into strategic alliances for one general reason; to enhance their competitive advantage within the marketplace. A strategic alliance, loosely defined, means the beneficial trade of technologies, skills, or products between two separate companies (Yoshino, Rangan, 1995). Margaret Cauley de la Sierra, in her book titled Managing Global Alliances, describes a strategic alliance as a partnership between two strong international companies that remain competitive within their individual marketplaces outside of the relationship. If one company is completely acquired by the other, then this is referred to as an acquisition or merger, not a strategic alliance. Most alliances have well-defined goals that are designed to help serve both companies' interests. Each company views the alliance as a pooling of resources for mutual gain. There are several examples of non-real estate related companies that have already entered into strategic alliances. One of the most popular examples is the Fuji-Xerox global alliance. They are both technology based companies that produce and service office equipment such as copiers and fax machines. This is a 50-50 joint venture between US based Xerox and Asia based Fuji. Fuji wanted to enter the US market and market its technological knowledge and Xerox, which already had national connections, needed more advanced capabilities to improve its own systems. The two agreed to share their technological advantages and national contacts to better compete in the US market.

Cauley de la Sierra discusses the top ten reasons why companies decide to enter into global alliances. The most basic reason is need. A company that is relatively weak in one area where another company is strong, can together make the sum of the parts greater than the whole. A strategic alliance does not require a merger, only a partial pooling of resources. Some of the specific reasons behind forming a strategic alliance include:

1. Building global market capabilities by tapping into emerging market contacts.
2. Coping with escalating technology and R&D costs by pooling and sharing resources.
3. Pre-empting competitive threats from other larger multinational companies. The "if you can't beat them, join them" approach.
4. Narrowing the development-to-market lead-time by combing production capabilities.
5. Coping with the integration of technologies and markets by pooling expertise in customer service.
6. Building world class capabilities by using alliances to capture new ideas and developments.
7. Establishing global standards by making global technologies compatible.
8. Avoiding market barriers in emerging markets and regional trading blocks by seeking local partners.
9. Cutting exit costs by pooling factories and overhead.
10. Tapping into new opportunities by combining the control and management of global environmental regulations. Countries and firms vary in their pollution control technologies and this cost has in recent years become very substantial.

All of these reasons for forming a strategic alliance stem from one central idea; to gain a better competitive advantage by working together.

Michael Yoshino and Srinivasa Rangan attempt to categorize any company's strategic alliance goal into one of four categories. They claim a company will form a strategic alliance to either "enhance firm effectiveness" or "prevent loss of firm effectiveness". They also maintain a company entering in to a strategic alliance must be careful to monitor its strategic flexibility and not allow the other company to restrict any company objectives. In essence, the firm must make sure to guard its core competencies from its strategic partner. Proprietary knowledge is often the most valuable asset any company can own and therefore the company must make sure the strategic alliance does not compromise that position.

Figure 12

Typology of Alliance

		Extent of Organizational Interaction: Low	Extent of Organizational Interaction: High
Conflict Potential	High	Precompetitive Alliances	Competitive Alliances
	Low	Procompetitive Alliances	Noncompetitive Alliances

In the chart above, conflict potential refers to the competitive nature between the two companies considering the alliance. Sometimes the companies do not directly compete against one another, other times they target the exact same customer. The existing rivalry between the companies usually determines the extent at which both companies will enter into the alliance and what proprietary information will be carefully guarded.

The extent of organizational interaction refers to the type of functional areas that will be shared by the alliance. This measures whether the information or resources to be shared in the alliance is critical or noncritical to one or both of the companies.

Procompetitive alliances are usually vertical value chain relationships between buyer and supplier. The two companies are not targeting the same customer and do not consider the other company a rival. The companies' core competencies and proprietary information are never compromised or shared because the companies do not have to exchange vital information. Their previous arm's length relationship is merely brought closer together through the alliance.

Noncompetitive alliances are typically formed between companies operating in the same industry but in separate markets. They work together to develop the same product but they then sell that product to their respective markets. The two companies work closely together, but do not worry about the other company stealing proprietary information because they are not viewed as immediate rivals.

Competitive alliances are similar to noncompetitive alliances in terms of working together on one project, but instead the two firms do sell to the same markets. Here proprietary information must be heavily guarded since each company will attempt to sell the joint product to the same customers. The final value added components or marketing strategies of the respective companies are the only differentiating characteristics between products.

Precompetitive alliances are formed between firms that must work together in order to invent a new product. Each company by itself does not possess the necessary components or skill sets. In this type of alliance, the research and development personnel from the respective companies work together to develop a new prototype. The markets for that particular prototype are yet to be established. However, once the product is developed the companies might compete against one another in selling it to the same consumer. Therefore, although the proprietary information is not yet compromised, future developments might change all that.

Yoshino and Rangan explain the contradiction in every alliance is the attempt to learn as much as possible from one's partner while carefully guarding one's own information. That is really the objective behind every strategic alliance; to use the other company to propel one's own company further ahead.

6.2 Alliance Market

Buyer Type

Companies can enter into alliances in almost every market place. Alliances can be formed to target specific products or services within certain markets or they can be formed to target broad markets with several products and services. An alliance offers a very flexible alternative and can be formed to fit almost any company's strategic goals as long as an appropriate partner can be located.

Market Risk

Companies entering into alliances can assume either the capital or operational risk of a particular activity or service. In procompetitive alliances, one company might directly own the asset and therefore assume all of the capital risk, while its alliance partner only offers the land development and consulting services and will therefore assume just the operating risk. However, in a competitive alliance, both companies may be speculating on the same piece of land in a foreign market and will therefore assume all of the capital risk together. The type of risk each company assumes depends on the specific goal of the alliance.

External Scan

Real estate service providers can form alliances with other real estate providers in order to offer a wider spectrum of services (competitive alliance), or they may form an alliance with a multinational company in order to develop a specific site (procompetitive alliance). The primary reason for entering into any alliance is dictated by the fear of other industry competitors. Companies entering an alliance typically view other companies as having a possible market advantage that the alliance needs to respond to and overcome (Lands, 1988). A service provider believes that by forming an alliance it can further enhance its competitive advantage over its direct competitors.

6.3 Alliance Company

Competitive Advantage

The competitive advantage behind a strategic alliance lies in the ability to pool together expertise. The success of any company depends on their ability to offer the customer a higher quality product or service for less then the competition (Porter, 1985). Whether the necessary expertise comes from another service provider or a multinational client does not matter. The advantage to the companies in the alliance is the belief that the sum of the parts is greater than the whole.

Company Operations

An alliance offers great flexibility to the company because the alliance can either be product or process oriented depending on the participating companies' goals. If the alliance is formed to reduce overhead costs by standardizing and incorporating both of the companies' services, it would be a process-oriented alliance. If the alliance were formed to develop a unique type of service for a specific market, it would have a product orientation. The benefit to any alliance lies in the flexibility of focus. Both companies can predetermine what type of orientation and focus the alliance needs to maintain (Yoshino, Rangan, 1995).

6.4 Alliance Strategy

Scope

The competitive scope of an alliance again depends on the particular reason behind forming the alliance in the first place. If the alliance is formed to offer a wide range of services to a broad range of consumers in several different markets, the alliance would have a cost leadership focus. However, if the alliance were formed between a real estate service provider and a multinational company requiring only a specific one time service then the alliance would have a differentiation focus (Porter, 1986). Again, the benefit behind forming an alliance is in its flexibility.

Diversification

An alliance is typically formed to deliver a service to a new market. By forming an alliance, real estate service providers could reduce overhead costs by sharing duplicate resources and personnel. This type of alliance would call for a related diversification approach if the two companies were then to continue offering their pooled services to same homogenous markets they were already operating in. However, a real estate service provider can also form an alliance in order to introduce an advanced service to new underdeveloped markets. This could involve forming an alliance with a local service provider within the desired market that lacks the advanced services. The alliance would then call for an unrelated diversification approach because the resulting service would be new to the heterogeneous target market

(Vachani, 1991). The specific type of diversification approach is dictated by the goals of the alliance.

6.5 Alliance Resources

Financial

A large benefit to any alliance is that it minimizes the amount of financial capital each company has to come up with (Yoshino, Rangan, 1995). The companies must be careful, however, to make sure they are able to monitor their own investment relative to the other's. This is easier said then done when the two companies are contributing different resources to the alliance such as technology and political contacts. It is hard to measure the amount of proprietary information awarded to the alliance when it is not easily quantifiable. The monitoring of contributions is a large problem that all companies trying to form an alliance must deal with (Rugman 1979).

Personnel

Similar to financial obligations, personnel investments in to an alliance are typically less then what would be required if the company attempts to go it alone. However, just like financial contributions, each company must be careful about the type of personnel they are contributing to the alliance. Personnel can switch companies or trade proprietary information very easily. Companies must monitor how much personnel they are awarding to the alliance and what kind of risks and returns they receive as a result (Cauley de la Sierra, 1995).

Organization

The management styles of alliances are somewhat flexible, but traditionally they have been divisionalized forms. The reason behind this type of organization is due to the fact that the partner company has a hard time measuring the productivity of an alliance and traditionally the best way to measure most operations are by their outputs (Mintzberg, 1979). Companies are usually unsure of what type corporate hierarchy will exist in the alliance, so they instead turn to measuring and quantifying the alliance's outputs. Both companies know what they expect out of the alliance and so by measuring the actual success rate versus the expected, the companies can gauge the success of the alliance (Mishra, 1995).

Alliances are very useful due to the fact that they are flexible in their goals and organization. Companies can form alliances in order to achieve almost any goal. However, the major disadvantage with alliances is the fact that they hard to measure and control. Having two corporate cultures attempting to join forces while maintaining their own identities is often too big of an obstacle for the companies to overcome (Cauley de la Sierra, 1995). The alliance is only as strong as the effort put in to making them work, and often companies fear they are contributing more than their fair share and decide to dismantle the alliance. As a result, a large amount of resources are wasted that could have been put to better use somewhere else within the company. Even worse, if the partnering company gets out of the alliance with proprietary information, that company can use their new competitive advantage to put the first company out of business. The worry of losing a major competitive advantage is often the reason most potentially successful alliances are never acted upon.

7. Profiles and Analysis - Lend Lease

7.1 Introduction

The primary focus of this chapter is the discussion and analysis of some of the largest service providers active in the real estate industry today. As a method of selection, publicly traded companies were selected to improve information flow. The three companies: Lend Lease, LaSalle Partners, and CB Richard Ellis are considered to be indicative of the larger, multi-national service providers emerging on the scene. Their recent acquisitions, pursuit of global strategic alliances, and international expansion strategies provide excellent evidence of the current market for real estate services on a global scale.

7.2 Lend Lease Corporation

Lend Lease Corporation, founded in 1958, is a fully diversified Australian real estate and financial services group. Headquartered in Sydney, the company has 7,000 employees.

Lend Lease had its beginnings as a building and heavy construction company. Australian projects included major public works, the Sydney Opera House, the Olympic Village in Melbourne, and the famous Regency Hotel in Sydney. This tradition continues with current projects such as the Sydney Olympic Village, Bluewater (United Kingdom), and Admiralty Industrial Park (Singapore). Other visible projects include Coca Cola bottling plants in Brisbane.

Its growth over the years parallels the transfer from a project orientation to a process orientation. Its foundation in contracting led to development for both clients and its own account primarily in Australia, New Zealand, Asia, and Europe. Concurrent with this transition, the company began offering other support services. The entrance into fund management is highlighted by the establishment of the General Property Trust, an Australian fund available to smaller investors originally designed to fund Lend Lease developments. The company now has numerous funds with holdings internal and external to its home country. While services were initially added to augment the internal operations of the company, the diverse expertise is now offered to external clients. These services now extend to areas such as equity investments, life insurance, and a full line of real estate and development services.

The growth history of Lend Lease is also one of transition. The company has been a publicly traded concern for many years. Although it is listed on many of the world's exchanges, its home market is the Australian Exchange. Typical of many firms' growth strategies, Lend Lease initially grew through an individual effort. Its addition of geographic and product offerings were the result of internal and client needs. However, joint ventures, particularly in capital risk projects, were seen as a viable route toward expansion. This along with other loose alliances provided an expanded presence in synergistic services and markets. These associations continue today; most prominently in development and infrastructure projects. The company has and continues to pursue acquisitions achieve its growth. Additions to its divisions were life insurance companies, funds, real estate investment companies, and information technology providers. The result is the diversified, multi-divisional company of today that has the capital (financial and human) to conduct a global expansion strategy.

As it pursues its global strategy, Lend Lease maintains a corporate culture that accentuates its roots in the contracting and development disciplines. These origins provide a strong engineering and entrepreneurial attitude. The company continues to emphasize these core beliefs as it approaches all of its functions. Its service menu continues to provide strong expertise in the development and financial areas; key disciplines of its culture. It now provides services and products to institutional and small investors, tenants and build to suit real estate clients.

With regard to its matrix composition, we have identified the components as illustrated on the following page.

Figure 13

Matrix	**Lend Lease**
Market	
Buyer Type	**Broad –** Provides advisory services, fund management services, life insurance, and direct capital investments
Market Risk	**Operational/Capital –** Assumes operational risk with advisory services, but assumes capital risk by developing property in-house.
External Scan	**New Entrants –** Purchased Yarmouth Realty Advisors and Equitable Real Estate Investment Management. Included in the Equitable purchase was Compass Realty, a UK property management company.
Company	
Competitive Advantage	**Economies of Scale –** Has dominate local expertise in home market of Australia. Merged with US based ERE Yarmouth and Compass to gain additional services and personnel.
Company Operations	**Process –** Despite the product oriented direct investments, Lend Lease's personnel are trained to cross sell other services and obtain economies of scale. Standardization is used continuously to describe work process.
Strategy	
Scope	**Cost Focus→ Differentiation –** Until recently, Lend Lease primarily targeted Australia and offered a broad range of low cost services to that specific market. With the US mergers, Lend Lease has started targeting a broader market while trying to offer more specialized services.
Diversification	**Related –** Lend Lease is entering the US market from Australia. These are two very homogenous markets.
Resources	
Financial	**Moderate –** The acquisitions of ERE and Yarmouth have been costly to Lend Lease, but the US operations have been allowed to continue operating, giving some additional immediate revenue back to Australia.
Personnel	**Standardized –** By trying to establish a 'cross-selling' organization, Lend Lease has had to standardize its personnel. This is further emphasized by the fact that home based Lend Lease personnel are transferring to help train US personnel on the Lend Lease corporate strategy.
Organization	**Divisionalized –** Lend Lease has five distinct business units that offer very different products and services. Any corporation that can offer life insurance as well as real estate advisory services will be required to adopt a divisonalized organization.

7.3 Company Operations/Internal Scrutiny

As of January 1998, the Lend Lease Corporation provided services and invested in the following areas:

- Project Management
- Property Development
- Fund/Asset Management
- Life Insurance
- Property Investment
- Facilities Management
- Information Technology
- Equity Investments

In the discussion of real estate services, Lend Lease provides the following services:

Figure 14	*Lend Lease*
Principal Roles	
Development Mgmt./ Consulting	X
Ownership	X
Mortgage Banking	
Property Services	X
Agency Roles	
Land Brokerage	
Market Feasibility	
Appraisal/Financial Consulting	
Construction Mgmt.	X
Initial Leasing	
Building Brokerage	
Debt/Equity Brokerage	X
Technical Professional	X
Portfolio Management	X
Asset Management	X
Property Management	X
Maintenance Services	X
Property Marketing	

Today, Lend Lease has divided its services into five (5) distinct business units:

- *Real Estate Investment Services:* Through its home office and satellite offices in New York and Atlanta, the real estate investment arm of the corporation provides the best example of its global approach. Offering investment and funds management, property and facilities management, development management, and advisory services through Lend Lease and its recent acquisitions Equitable (now combined with Yarmouth and Compass, the corporation is attempting to lead the way with a global scale strategy.

- *Property Services:* This arm includes core competencies in project management and construction and property development business with presence in Asia, Australia, and the UK. Both operating and capital risk roles are undertaken by this real estate services arm.

- *Funds Management and Life Insurance:* Through dual companies MLC Funds Management and MLC Lifetime, the corporation provides both fund management and life insurance products and services to various clients. The primary focus is on mature markets in areas with mature economies.

- *Capital Services:* A dual group that provides expertise in infrastructure, project finance, and development capital to both internal (other group divisions) and external clientele.

- *Equity Investments:* This group focuses on direct investment placement and business investment with companies or projects having synergies with Lend Lease businesses (IBM Global Services, etc.).

The management and governance of the many divisions is headquartered in the corporate home offices in Sydney. Meanwhile, regional offices are situated throughout the world.

Operationally, the deployment of labor is essential in a well-established service industry. With global offices, Lend Lease integrates native labor pools and its home work force. Relocation of employees from Australia to work side by side with local persons is a strategic plan to combine core cultural attributes with regional operational and customary procedures.

A final component in the discussion of the internal scrutiny is the consideration of corporate culture. Lend Lease attempts to pursue a differentiation strategy based upon their motto: "Dare to be Different." (Annual Report, 1997) Their management enforces an environment that "welcomes challenge, encourages creativity, promotes innovation, pursues excellence." (Annual Report, 1997) These missions are designed to ensure present and future clientele that the labor force is given ability to succeed within the company organization.

7.4 Firm Value Chain and Competitive Advantage

While the firm consists of many divisions and functions, the unit as a whole represents a source of value to the client and, ultimately, provides a foundation for differentiation and competitive advantage. The use of a value chain analysis (Chapter 3) is appropriate to analyze the competitive positioning of the firm. In the case of the service industry for real estate, primary activities such as service (value enhancement through product maintenance) are considered to be unrelated given the nature of the service type being created. Rather, intense focus is placed upon operations, outbound logistics (distribution and deployment of service), and marketing and sales. Inbound logistics would refer to personnel and information, both covered in other areas of the chain.

Primary Activities

- *Operations:* Five distinct business units providing menu of services worldwide. Control maintained in head office in Sydney with ERE/Yarmouth (now Lend Lease Real Estate Investment) maintained in New York. Dedicated and competent work force with combination of resident workers and Lend Lease employees to combine effective corporate culture with local expertise. Institutionalized knowledge base with emphasis on well-defined procedures to create and maintain cost and economy efficiencies.

- *Outbound Logistics: Four* geographic influence zones provided through Lend Lease Asia, Lend Lease Europe, Lend Lease (Australia), and Lend Lease US. Provide local presence under corporate aegis with local service providers included. Property development projects devised using joint venture relationships

- *Marketing and Sales: Sophisticated* marketing network with emphasis on expertise, corporate culture, and commitment toward globalization through "best practice" export. Long term relationship emphasis. Cross-selling through other units and vertical integration.

Support Activities

- *Firm Infrastructure: Policy*, planning, finance, and strategy devised through corporate channels and deployed through satellite business units worldwide. Effective management team emphasizing an environment of excellence with strong culture. Ability to approach capital risk opportunities.

- *Human Resource Management:* Commitment to hiring and training "best and brightest." Emphasis on interpersonal, technical, and cultural strengths. Effective recruiting channels. Strong training and compensation strategies.

- *Technology Development:* Commitment to forging alliances with providers (IBM, etc.). Substantial investment in information technology and research to maintain competitive ability. Standardization of work processes achieved.

- *Procurement:* Integration along industry value chain to capture full cadre of services. Presence of sophisticated logistical network that is suitable to provide support for expansion of geographic presence and service reach.

The detailed firm value chain is presented in Figure 15 on the following page.

Figure 15

Firm Infrastructure: Established management team, strong corporate culture (engineering, and opportunities for capital risk.

Human Resources: Hire intelligent persons, emphasis on interpersonal, technical, & cultural strengths, effective training and compensation procedures.

Technology: Forging alliances, investment in research and info. tech., and standardized processes.

Procurement: Integration along value chain to capture full cadre of services. Sophisticated network for expansion.

Operations	*Outbound Logistics*	*Marketing & Sales*
Commitment to globalization Combination of labor and procurement of patriot work force. Institutional knowledge Dedicated/well educated work force.	Four geographic influence zones. Corporate aegis for acquisitions of companies. Joint ventures for capital risk projects.	Cross-sell through commitment to vertical integration. Long term relationship establishment. Standardized fee structure. Established campaign to market to present and future clients.

7.5 Global Expansion Strategy

The core beliefs of Lend Lease with regard to financial objectives are:

- diversify earnings by geography and markets
- develop existing and new businesses.
- expand capabilities through joint ventures and key relationships
- selectively seizing entrepreneurial opportunities with all risks managed in a rigorous and integrated manner. (Annual Report 1997, p.44)

Each one of these core beliefs, in some manner, relates to the development and execution of a global expansion strategy. Lend Lease is approaching this growth through the implementation of the "Year 2000 Organization." Within this organization, the company envisions diversified services to be provided on a global scale through a combination of acquisitions and joint ventures. Both short term and medium term objectives have been determined to provide for the achievement of this visionary company.

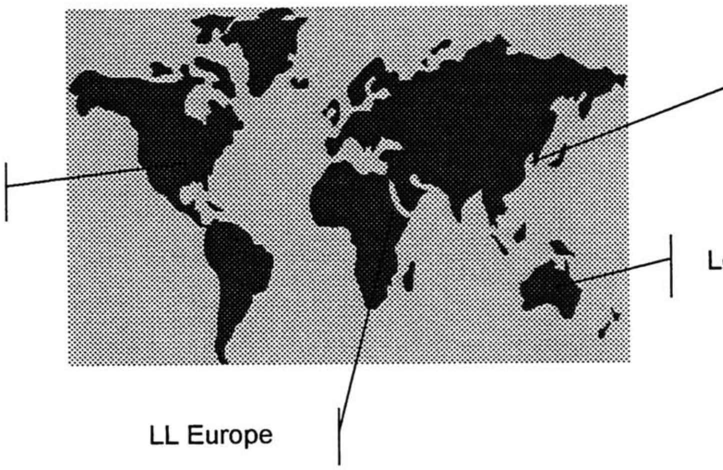
The primary short-term goal is to effectively merge the operations of ERE and Yarmouth with Lend Lease. Although the firm has been developing large real estate projects in Europe and Asia, it considers the acquisition of this diversified real estate organization, completed in June of 1997, to be the first truly global business of Lend Lease. Preliminary indications are that operations of these business lines will remain in the ERE/Yarmouth offices in New York, New York. The Compass entity, a facilities management and information technology provider, will continue its operational base in Atlanta, Georgia. Recent reports indicate that Compass may be on the market for divestiture. This would not be an unusual move given the many functions that Compass provides. These services tend to parallel the well-established core competencies that Lend Lease has constructed through internal management or external acquisition or relationship building.

The primary medium term goal is the integration and exportation of the company's culture to its global reach. The emphasis has always been on providing a "unique best practice" worldwide.

In addition to the company acquisition mode described above, Lend Lease has embarked upon an aggressive property development program. Consistent with its origins and corporate culture, these are capital risk functions. With 12-15 projects underway at any given time, its competitive advantage is derived from its commitment to effective joint ventures with competent local or international partners. Endeavors pursued close to Australian soil can and are often undertaken with Lend Lease as the primary, and, in some cases, sole participant. Current projects include developments in Asia, Australia, and Europe.

Lend Lease operations are distributed as outlined on the following page.

Figure 16



7.6 Financial Performance and Progress to Date

On a segmented basis, the company reported the following income (after tax) for 1996 and 1997:

Lend Lease Segment Performance				
Operating Profit After Tax ($M)	**1997**	**%**	**1996**	**%**
Fund Management & Life Insurance	*109.7*	*52%*	*99.3*	*56%*
Property Services	*17.0*	*8%*	*15.7*	*9%*
Real Estate Investment Services	*13.7*	*6%*	*11.8*	*7%*
Capital Services	*3.9*	*2%*	*2.0*	*1%*
Equity Investments	*68.6*	*32%*	*48.3*	*27%*

Source: Lend Lease Annual Report - 1997/ 12/31/97 Exchange Rate US= A$1.5309

Notably, the large percentage of contribution from the Funds Management division illustrates the development and financial aspect of the corporate culture. Funds such as the General Property Trust and other real estate holdings are reflected in this division. Current reported divisional performance in the Real Estate Investment

Services segment reflects earnings exclusive of the ERE division that reported some $56 million in revenue in 1997 mostly in the United States. Nonetheless, the emphasis remains with fund management, life insurance, and equity investments; functions related to the original core real estate activities.

This recent financial news provides insight into the progress that Lend Lease has made in the globalization expansion process. The 1997 Annual Report indicated that a full 34% of company assets are external to Australia; compared with a scant 5% in 1996. Many of the newer assets are directly attributed to the ERE acquisition. However, substantial development projects and aggressive approaches to its other business units are expected to increase the external assets in the future.

From an earnings standpoint, Lend Lease reported increases in segment profits from both property services and real estate investment services as a full 14% of company totals in 1997. The company anticipates that this percentage will increase to 51% in the year 2000 as part of its growth strategy.

8. Profiles and Analysis - CB Richard Ellis

Another of the most visible participants in the real estate service industry is CB Richard Ellis, a company that was officially formed in May of 1998 following the merger of Los Angeles based CB Commercial and the international unit of UK based Richard Ellis. The combined company boasts more than 8,000 employees in over 200 offices around the globe.

The origins of CB Commercial date to 1906 following the great San Francisco earthquake when it was formed as a real estate brokerage concern. Similar to the experiences of Lend Lease, the expansion into other services and markets illustrates the transfer from a product to a process orientation. Like development, brokerage revenues are generated on a deal by deal basis. The addition of other services was as much a function of client need as a necessary income-generating move.

Unlike the Lend Lease experience, CB Richard Ellis has its roots firmly in the agency role of the real estate industry. Having never been a property owner or developer, the company specialized in the client service area. Thus, the company assumes only those operating risk roles.

The diversification of services occurred primarily through internal growth over the years. Synergies were discovered with other like services. Thus, acquisition and sales, property management, tenant representation, leasing, and market research were complimentary services to offer its clients. In addition, appraisal and market feasibility were identified as tangential services to offer. Its expansion is completed with the addition of portfolio and asset management, mortgage and financial services. The company provides development advisory services as an agent.

The growth history of CB Richard Ellis is also one of transition. The firm has been actively traded on the New York Stock Exchange since its first public offering in November of 1996. As was the case with Lend Lease, CB Commercial grew initially through focusing on its home market and expanding through a multi-domestic effort. It attempted to become a national real estate firm through satellite offices in North American markets. Also, it viewed a globalization focus as best served through an alliance network with companies having similar service offerings in other geographic spheres of influence. A referral network was established with international partners. DTZ International, a European service provider based in the United Kingdom and CY Leung, an Asian concern based in Hong Kong, were companies looking for such an alliance and the association was established. Simultaneously, acquisitions in its domestic market were increasingly viewed as necessary. In 1997, it acquired Koll Property Services (property services) and L.J. Moody (mortgage) to expand its market share and offerings. Ultimately, the expansion strategy entered into its current phase with acquisitions pursued globally. Last year, the international alliance network was abandoned to acquire Richard Ellis, one of the world's oldest real estate services firms based in the United Kingdom. The result is the present company having financial, human, and intellectual capital to conduct a globalization strategy.

Throughout its growth, CB has maintained its core culture as a brokerage concern providing agency services. The company views its deal-oriented roots as one of its main competitive advantages. This orientation provides for numerous synergies among its many services while allowing for the cross selling of these functions. In addition, its culture provides the basic foundation for information collection and dissemination; the essential component of understanding real estate markets.

With regard to its matrix composition, we have identified the components of the CB Richard Ellis matrix as outlined on the following page.

Figure 17

Matrix	**CB Richard Ellis**
Market	
Buyer Type	**Limited –** CB Richard Ellis targets three distinct types of real estate customers; investors, owners, and occupiers, however all of the customers are associated with the "ownership of a stabilized asset" activity. By dominating brokerage services, CB Richard Ellis is able to market their services to the large number of clients who require just brokerage services; buyers, sellers, and renters.
Market Risk	**Operational –** CB Richard Ellis assumes only the operational risk associated with advisory services. CB Richard Ellis rarely makes equity investments.
External Scan	**New Entrants –** The merger between CB Commercial and Richard Ellis has significantly reduced the opportunity for new smaller brokerage companies to go global. CB Richard Ellis has over 200 offices around the world and can offer a multinational company access to many more markets then any regional firm can.
Company	
Competitive Advantage	**Economies of Scale –** The merger with Richard Ellis has propelled CB Richard Ellis to become one of the largest brokerage providers in the world. The ability to cover foreign markets with fewer and fewer personnel will allow CB Richard Ellis to continue utilizing its economies of scale.
Company Operations	**Process –** CB Richard Ellis must maintain a process orientation in order to make certain that the company is able to both retain as well as cross sell services to customers located in varied markets. Brokerage services require less specialization and more access to information.
Strategy	
Scope	**Cost Leadership –**CB Richard Ellis will have to differentiate itself from the regional brokerage service providers, by offering global contacts as well as lower costs. CB Richard Ellis will be able to maintain lower cost by utilizing economies of scale.
Diversification	**Unrelated –** CB Richard Ellis is able to bring the brokerage skills learned in the US and England, and apply them to heterogeneous markets around the world. CB Richard Ellis is attempting to take a mature market real estate service to foreign markets with unknown demand.
Resources	
Financial	**Moderate/Substantial –** By merging instead of acquiring Richard Ellis, CB Commercial was able to significantly reduce capital expenditures. However, the high number of acquisitions by the financial services department has led to much higher financial risk.
Personnel	**Standardized –** By establishing itself as a global brokerage service provider, CB Richard Ellis has had to standardize its personnel. A broker must be familiar with the skill set and capabilities of any other CB Richard Ellis broker since multinational clients will require the services of different brokers in numerous markets.
Organization	**Professional Bureaucracy –** By having brokers in over 200 global offices, CB Richard Ellis can only teach the brokers general company guidelines and then let the brokers deal with the specifics of their individual markets on their own.

8.2 Company Operations/Internal Scrutiny

As of May 1998, CB Richard Ellis provided services in the following areas:

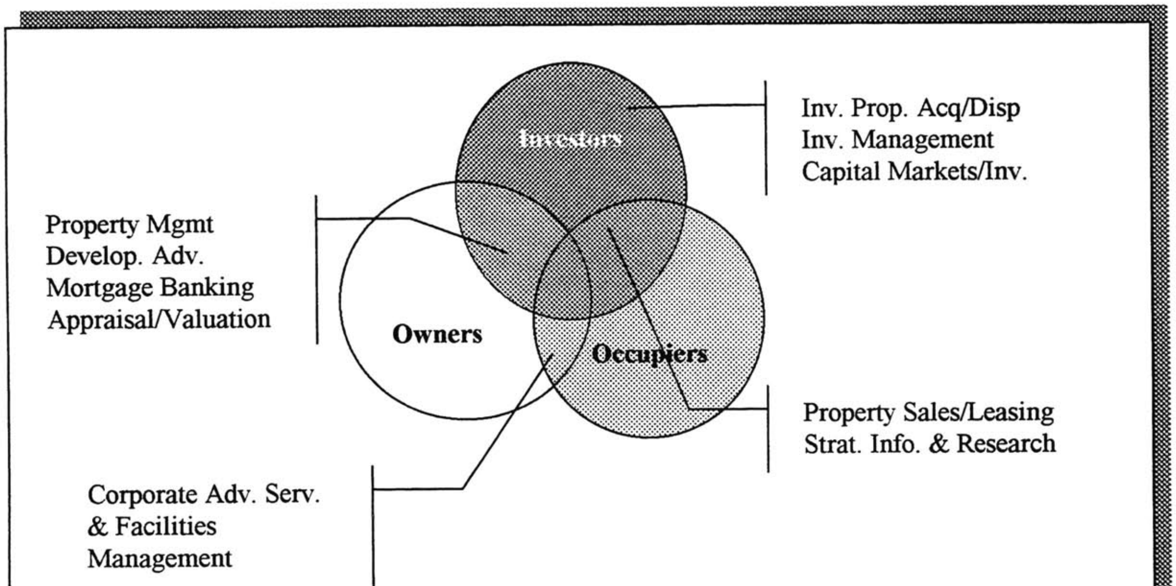
- Property Sales and Leasing
- Investment Property Acquisitions and Dispositions
- Property Management
- Corporate Advisory Services and Business Management
- Development Advisory
- Mortgage Banking
- Investment Management
- Capital Markets and Investment
- Appraisal/Valuation/Property Tax Services
- Strategic Information and Market Research

In the discussion of real estate services, CB provides the following services:

Figure 18	*CB*	*Lend Lease*
Principal Roles		
Development Mgmt./ Consulting		X
Ownership		X
Mortgage Banking		
Property Services		X
Agency Roles		
Land Brokerage	X	
Market Feasibility	X	
Appraisal/Financial Consulting	X	
Construction Mgmt.	X	X
Initial Leasing	X	
Building Brokerage	X	
Debt/Equity Brokerage	X	X
Technical Professional		X
Portfolio Management	X	X
Asset Management	X	X
Property Management	X	X
Maintenance Services		X
Property Marketing	X	

These functions enable the company to service owners, investors, and occupiers of real estate in the manner outlined in Figure 19 below.

Figure 19



Source: CB Richard Ellis Web Site

The diagram above illustrates the coverage gained from the integrated service provided by the company. Many of the core competencies pursued are utilized for the service of multiple client types.

From an organizational standpoint, the company breaks down its businesses into four (4) business segments:

- *Brokerage Services*: This unit is responsible for leasing, purchasing and selling assets for the CB client base. The main provider of revenue for the company, it is viewed as both a revenue generator for both present and future service lines as well as a support arm for providing market intelligence to these various segments.

- *Corporate Services:* This business segment provides strategic advisory, transaction management, and facilities management to corporate clientele including Whirlpool, Ford Motor Land, and Nortel. This division strives to become an "extension of a corporation's real estate department. (Annual Report, p. 5) This is achieved through the cultivation of long term relationships. The company considers itself to be one of three top players in this area.

- *Institutional Management Services:* This segment provides property services to various owners of real estate. Emphasis in this area is on value enhancement with the client as central focus. The acquisition of Koll Real Estate Services last year greatly increased revenues and capability in this segment. Like other segments this group leverages information generated from the brokerage services component to add value.

- *Financial Services:* This division provides a wide variety of services in mortgage banking, investment property acquisition/disposition, appraisal, advisory, capital markets, and market research. Numerous acquisitions in these areas have led to the ability to provide the breadth of services outlined above. Westmark (advisory) and L.J. Moody (mortgage) are examples of such acquisitions that have occurred in the past few years. In addition, an association with Alliance Capital provides clients with access to mutual funds.

The management and governance of the many divisions has historically taken place in Los Angeles. However, with the recent merger only just completed, the centralization of the operational headquarters could become more disparate. Currently, the organization possesses established offices throughout the world for delivery of services.

Finally, the core beliefs of the company have been promoted for future success:

- A commitment to industry leadership in each of the disciplines in which [they] compete;
- A commitment to being among the leaders in each of the geographic markets in which [they] compete;
- A commitment to profitability;
- A commitment to developing and maintaining consistent client service quality across business lines. (Annual Report, 1997)

As was the case with Lend Lease, these beliefs provide boundaries and macro organizational directives for overall strategy development

8.3 Firm Value Chain and Competitive Advantage

With regard to the firm value chain, the authors have compiled the following.

Primary Activities

- *Operations:* Five distinct business units with vertically integrated menu of services worldwide. Traditional control maintained in head office in Los Angeles. Competent work force with local/national/international expertise. Institutionalized knowledge base with emphasis on well-defined procedures to create and maintain cost and economy efficiencies.

- *Outbound Logistics:* 200 offices worldwide with 8,000 employees. Provide local presence under corporate aegis with local service providers. Strategic alliances and associations also pursued. Abandoned exclusive reliance on partnership with DTZ International and CY Leung in favor of international acquisitions. Many acquisitions currently being explored in the United States, New Zealand, United Kingdom, Canada, and Australia.

- *Marketing and Sales:* Sophisticated marketing network with emphasis on one stop shopping for clients. Long term relationship emphasis. Cross-selling through other units and vertical integration.

Support Activities

- *Firm Infrastructure:* Policy, planning, finance, and strategy devised through corporate channels and deployed through business units worldwide. Effective management team emphasizing an environment of diligence and success. Ability to approach capital risk opportunities.

- *Human Resource Management:* Commitment to hiring and training competent individuals. Emphasis on interpersonal and technical strengths. Effective recruiting channels. Strong training and compensation strategies.

- *Technology Development:* Commitment to technology advancement and research. Substantial investment in information technology and research to maintain competitive ability. Standardization of work processes achieved.

- *Procurement:* Vertical Integration along industry value chain to capture menu of services. One stop shopping concept for clientele. Presence of sophisticated logistical network that is suitable to provide support for expansion of geographic presence and service reach.

The detailed firm value chain is presented in Figure 20 on the following page.

Figure 20

CB Richard Ellis Value Chain

Firm Infrastructure: Established management team, strong corporate strategy, and opportunities for capital risk.

Human Resources: Hire intelligent persons, emphasis on interpersonal & technical strengths, effective training and compensation procedures.

Technology: Investment in research and info. tech., and standardized processes.

Procurement: Vertical integration along value chain to capture full menu of services. One stop shopping concept. Sophisticated network for expansion.

Operations	*Outbound Logistics*	*Marketing & Sales*
Commitment to globalization	200 offices worldwide.	Cross-sell through commitment to vertical integration.
Local, national, and international expertise.	Continuing to seek out acquisitions for global reach.	Long term relationship establishment.
Institutional knowledge	Corporate aegis for acquisitions of companies.	Standardized fee structure.
Dedicated/well educated work force.		Established campaign to market to present and future clients.
Five business units		

8.4 Global Expansion Strategy

The core beliefs of CB Richard Ellis with regard to financial objectives have been discussed in the prior section. The basis for the future well being of a firm such as CB Richard Ellis has been its attempt to provide one stop shopping to its clients. As its Sr. Executive Vice President, William Rothe stated:

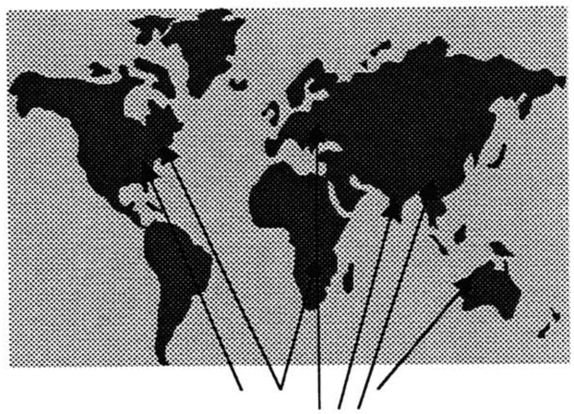
> "Clients want horizontal and vertical integration. They want accountability. They want consistency through reduced transaction costs through using a single service provider."
> (Rothe at MIT CRE Members Meeting, 5/1998)

The coverage provided through its recent acquisitions allows CB Richard Ellis to extend its horizontal and vertical scope and scale.

The primary focus of the global expansion strategy is the merger of CB Commercial and Richard Ellis. The companies viewed the global reach achieved by the merger as essential to the ability of capturing the growing business of global real estate services from corporate outsourcing and the increased desire for quality and continuity of service. The acquisition strategy presented, according to Jim Didion, Chairman of CB Richard Ellis, ". . .a real marriage born of a common vision and philosophy about the best way to help clients navigate the increasingly complex world of real estate decision-making. (CB Press Release, 1998)

The alteration of the strategy from alliance building to consolidation came at the expense of DTZ International (UK) and CY Leung (Japan), two real estate service providers, who, prior to the merger, had been the link to global influence for CB Commercial. The global reach of the combined CB Richard Ellis is provided below:

Figure 21



8.5 Financial Performance

Segment performance as reported in the CB Commercial 1997 Annual Report is as follows:

CB Segment Performance				
EBITDA ($M)	**1997**	**%**	**1996**	**%**
Brokerage Services	*52.1*	*58%*	*31.2*	*50%*
Corporate Services	*2.5*	*3%*	*0.6*	*1%*
Institutional Management	*6.6*	*7%*	*5.8*	*9%*
Financial Services	*28.9*	*32%*	*24.3*	*39%*
Source: CB Commercial Annual Report - 1997				

Similar to Lend Lease who showed a large concentration of profit originating from its original business focus (Fund Management, Ownership of Assets), CB Commercial continues to derive over 50% of its profits from its brokerage services divisions. The acquisition of Richard Ellis will serve to enhance this competitive advantage given the instant access to global markets and the complimentary services the acquisition provides.

The progress of the merger and the success of the globalization strategy cannot be quantified as of now. The merger, only two months old, has not been truly felt from a financial standpoint. However, global influence has expanded for both firms. CB Commercial immediately gained a presence worldwide with the addition of more than 50 new offices to its organization.

9. Profiles and Analysis - LaSalle Partners

The final member of the real estate service industry given in depth attention is LaSalle Partners, a vertically integrated real estate service provider founded in 1968 and headquartered in Chicago, Illinois.

The firm was founded by William Sanders who recognized the increased need of corporations for real estate services. As is the case with the other firms examined, LaSalle added a wide menu of services to its business lines over the past three decades as it grew from a project orientation to a process orientation. As a compliment to its corporate focus, the company began offering build to suit services to its clients. This also provided opportunities to develop properties for other users of real estate. Finally, process oriented services were introduced such as investment banking, investment management, and land services. The firm employs over 1,400 persons. In addition, the firm has an arrangement with LPI Service Corporation for the provision of 3,000 employees that provide engineering, property maintenance, and janitorial personnel.

The addition of these many services was achieved largely through an internal growth strategy. More than the other two companies studied, LaSalle chose to grow on its own. National offices were developed in major markets with 8 corporate offices and over 300 property offices. Initially, the company expanded into global markets through a similar strategy. It attempted to expand as an exporter firm with its own personnel relocated to its new offices. However, this strategy soon evolved into a combination of exporting human capital and acquisition/alliance pursuit.

The highlight of its growth is the proposed merger with Jones Lang Wootten (JLW), an international real estate services firm based in the United Kingdom and founded in 1783. While LaSalle has acquired investment management firms such as CIN Property Management (UK) to augment its geographical presence, this merger would catapult the company into instant globalization and add some 3,500 persons to its organization. While both firms possess similar business offerings, JLW will supply a valuation (appraisal) and market research component that LaSalle is lacking. In addition, JLW maintains a presence in 32 countries. LaSalle, by contrast, has only 8 international offices.

LaSalle Partners maintains a culture founded in its original business direction. It is corporate focused with emphasis on corporate capabilities and processes. Its existing business lines accentuate corporate and financial services; key cultural disciplines. JLW provides a culture reflective of its agency heritage. Its CEO comes from a brokerage background. Thus, it is likely that a brokerage culture will continue to pervade its operations.

With regard to the LaSalle matrix, we have identified the following components.

Figure 22

Matrix	**LaSalle Partners**
Market	
Buyer Type	**Broad –** LaSalle provides a wide assortment of services that target several core real estate activities. LaSalle is involved in the entire value added process, including: development, management, and acquisition.
Market Risk	**Operational/Capital –** A majority of LaSalle's operations are strictly advisory, thereby only forcing LaSalle to accept operational risk. However, the Investment Management Division will acquire some capital risk if it assumes an equity position in any of the private investments it is advising on.
External Scan	**Supplier Power → Industry Competitors** – Before the announcement of merger negotiations with JLW, LaSalle had vertically integrated all the necessary expertise to become a one-stop service provider. In essence, LaSalle could assist a client with financial obligations, land acquisition recommendations, development supervision, and leasing guidance. However, the merger with JLW implies a corporate fear of other large service providers gaining a powerful global position. The merger with JLW will bring LaSalle up to the same level as the other industry giants. Although JLW is more activity focused then most of the other global providers, LaSalle still realizes the need to stay competitive within the global market.
Company	
Competitive Advantage	**Pooling of Expertise** – By offering services for the complete real estate value added process, LaSalle depends on maintaining a base of specialized yet flexible personnel that can assist a client with any problems anywhere in the cycle.
Company Operations	**Process/Product** – LaSalle has very broad core beliefs. LaSalle attempts to simultaneously maintain a global position while still remaining customer oriented. By becoming a global service provider, LaSalle has realized the need to standardize some its services. However, LaSalle still wishes to offer the full spectrum of services to any real estate activity, and that requires more of a product focus. LaSalle attempts to standardize its global operations (process) by remaining a one-stop service provider for any national or multinational client (product). In summary, being product focused drives the standardization of the process.
Strategy	
Scope	**Differentiation** – By offering such a variety of services, LaSalle can attract new customers who are less price sensitive and instead are more interested in making sure their projects are constantly monitored. LaSalle has the ability to act as an external Corporate Real Estate (CRE) provider since LaSalle can advise a project from start to finish.
Diversification	**Related → Unrelated** – Traditionally LaSalle has concentrated operational efforts in relatively homogenous markets (US, Canada, England), however the new trend has been to increase market penetration into more heterogeneous markets. The merger with JLW will provide access to numerous markets LaSalle had not previously competed in. By attempting to introduce the full spectrum of services globally will require LaSalle to take an unrelated diversification approach.

Resources	
Financial	**Moderate/Substantial** – By merging instead of attempting to acquire JLW, LaSalle was able to avoid making large capital intensive purchases. However, the discussion of acquiring several other companies, including Compass from Lend Lease, tends to border on capital aggressive since the merger with JLW is so new.
Personnel	**Specialized** – LaSalle's ability to offer a broad range of services, requires them to maintain divisions of specialized personnel. One employee cannot possible advise a client on the entire development cycle. Instead, a team of experts from the different activities must work together to handle a project from start to finish. LaSalle has decided to move its own personnel to new foreign offices probably due to the fact that the company has installed a team approach to solving client problems, and LaSalle believes it would too expensive to train local personnel the skills its home based employees already possess.
Organization	**Professional Bureaucracy → Divisionalized** – LaSalle presently bases most of its operations out of its headquarters in Chicago. The personnel are specialized and they are allowed to make local or regional decisions, but since a majority of LaSalle's markets are homogenous, a considerable of corporate decisions could still be made in Chicago. However, the merger with London based JLW will cause LaSalle to move towards a divisionalized organization since it will become impossible to maintain global control from one or two offices. The divsionalized organization will allow each market-based subsidiary to respond quickly to individual market demands.

9.2 Company Operations/Internal Scrutiny

As of January 1998, LaSalle Partners provided services in the following areas:

- Property Management and Leasing
- Facility Management
- Development Management
- Project Management
- Tenant Representation
- Investment Banking
- Land Services
- Public Equity Investments
- Private Equity Investments

In the discussion of real estate services, LaSalle provides the following services:

Figure 23	*LaSalle*	*CB*	*Lend Lease*
Principal Roles			
Development Mgmt./ Consulting	X		X
Ownership	X		X
Mortgage Banking	X		
Property Services	X		X
Agency Roles			
Land Brokerage	X	X	
Market Feasibility	JLW	X	
Appraisal/Financial Consulting	JLW	X	
Construction Mgmt.	X	X	X
Initial Leasing	X	X	
Building Brokerage	X	X	
Debt/Equity Brokerage	X	X	X
Technical Professional			X
Portfolio Management	X	X	X
Asset Management	X	X	X
Property Management	X	X	X
Maintenance Services			X
Property Marketing	X	X	

As was the case with CB Richard Ellis, the diversity of services offered is designed to allow LaSalle to service owners, investors, and occupiers of real estate. Today, LaSalle is divided into three (3) business segments:

- *Management Services*: This segment is charged with the task of creating value on the property level through the development and implementation of strategies for corporate owners and users of real estate. Four functions: property management and leasing, facility management, development management, and project management are employed within the scope of this segment.

- *Corporate and Financial Services:* Through tenant representation, investment banking, and land service (advisory for land acquisition and assemblage for development), this segment is designed to provide the variety of transaction and advisory services to its clients.

- *Investment Management:* This group, LaSalle Advisors Capital Management, Inc., provides money management products and services. The focus is on private equity and debt instruments as well as public investments (REITs and public operating companies).

The management and governance of the many divisions has historically taken place in Chicago and through the additional corporate offices in the United States. However, the recent drive towards globalization will lead to the decentralization of the operational headquarters, perhaps by region. Currently, the organization possesses established offices throughout the world for delivery of services that they have formed both with and without acquisitions.

Finally, the core beliefs of the company have been promoted for future success:

- Serve [their] clients.
- Build [their] firm
- Support [their] people(Annual Report,1998)

Of the three companies, these core beliefs appear to be broadest, setting up a mere framework within which the company is to direct itself. Intrinsic in these beliefs is the pursuit of a global strategy that serves to satisfy all three themes.

9.3 Firm Value Chain and Competitive Advantage

With regard to the LaSalle firm value chain, the authors have compiled the following.

Primary Activities

- *Operations:* Three distinct business units with vertically integrated menu of services worldwide. Traditional control maintained in corporate offices throughout the United States with Chicago as home base of operations.

Competent work force with local/national/international expertise. Institutionalized knowledge base with emphasis on well-defined procedures to create and maintain cost and economy efficiencies.

- *Outbound Logistics:* 318 offices worldwide with 1,400 employees. Provides local presence under corporate aegis with local service providers. Strategic alliances and associations also pursued. International strategy pursued with 8 offices in Europe, India, China, Canada, and Mexico. Combination of acquisitions and diving in with own people.

- *Marketing and Sales:* Sophisticated marketing network with emphasis on single source for clients. Long term relationship emphasis. Cross-selling through other units and vertical integration.

Support Activities

- *Firm Infrastructure:* Policy, planning, finance, and strategy devised through corporate channels and deployed through business units worldwide. Effective management team emphasizing an environment of diligence and success. Ability to approach capital risk opportunities.

- *Human Resource Management:* Commitment to hiring and training competent individuals. Emphasis on interpersonal and technical strengths. Effective recruiting channels. Strong training and compensation strategies.

- *Technology Development:* Commitment to technology advancement and research. Substantial investment in information technology and research to maintain competitive ability. Standardization of work processes achieved.

- *Procurement:* Vertical Integration along industry value chain to capture menu of services. Single source concept for clientele. Presence of sophisticated logistical network that is suitable to provide support for expansion of geographic presence and service reach.

The detailed firm value chain is presented in Figure 24 on the following page.

Figure 24

LaSalle Partners Value Chain

Firm Infrastructure: Established management team, strong corporate strategy, and opportunities for capital risk.

Human Resources: Hire competent persons, emphasis on interpersonal & technical strengths, effective training and compensation procedures.

Technology: Investment in research and info. tech., and standardized processes.

Procurement: Vertical integration along value chain to become single source for services. Sophisticated network for expansion.

Operations	*Outbound Logistics*	*Marketing & Sales*
Commitment to globalization Local, national, and international expertise. Institutional knowledge Dedicated/well educated work force. Three business units	318 offices worldwide. (8 external to US) Continuing to seek out acquisitions for global reach. Corporate aegis for acquisitions of companies and deployment of resources	Cross-sell through commitment to vertical integration. Long term relationship establishment. Standardized fee structure. Established campaign to market to present and future clients.

9.4 Global Expansion Strategy

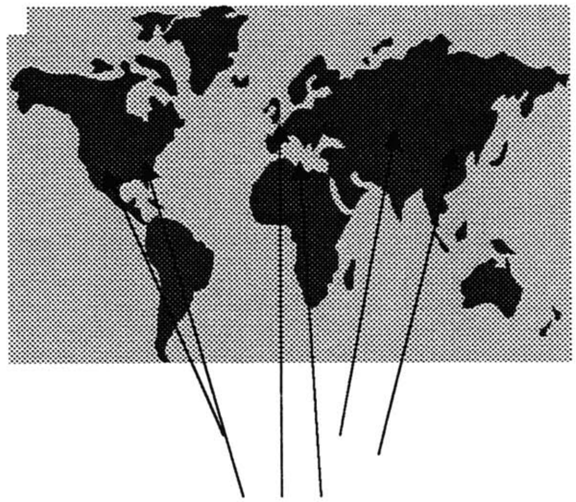
The beliefs of LaSalle with regard growth are defined by Lynn C. Thurber, Co-President of LaSalle Advisors Capital Management, Inc.:

> "LaSalle's growth strategy is based upon globalization, consolidation, and merchant banking. Globalization mandates expanding LaSalle's scope-horizontal integration." (Thurber at MIT CRE Members Meeting, 5/1998)

With globalization featured as part of the core growth strategy of the company, LaSalle has pursued expansion on both the acquisition and joint venture sides. In addition, LaSalle has placed its own people on the ground in new markets; a move not fully attempted by the other two companies. However, internationalization has come more slowly to LaSalle with eight offices worldwide versus the global reach of both CB Richard Ellis and Lend Lease.

The greatest feature of the global expansion strategy to appear on the horizon is the contemplated merger of LaSalle Partners and Jones Lang Wootten (JLW). JLW, based in London, is one of the oldest international providers of real estate services. With 84 offices on four continents, the integration of its operations into the LaSalle umbrella would provide a catalyst to its globalization momentum. Announced on June 17, 1998, the initial discussions are just taking place. In addition, a concurrent discussion is taking place with Lend Lease for the purchase of the Compass division. As was discussed earlier in the chapter, the possibility for service overlapping may have enticed Lend Lease to divest of this business unit so that further diversification strategies could be explored. The global reach of LaSalle is illustrated below.

Figure 25



LaSalle Partners

9.5 Financial Performance and Progress to Date

The 1997 Annual Report indicated the following segment operating performance:

LaSalle Segment Performance EBITDA ($M)	1997	%	1996	%
Management Services	*11.5*	*26%*	*12.8*	*40%*
Corporate and Financial Services	*17.1*	*39%*	*11.5*	*35%*
Investment Management	*15.6*	*35%*	*8.1*	*25%*
Source: LaSalle Annual Report - 1997				

Of the three companies, LaSalle offers the most balanced contribution from its three segments. Their penetration into the corporate and financial services is the greatest as a percentage of company income in keeping with their original corporate strategy. Unlike Lend Lease and CB Richard Ellis, profits are provided from broader areas than the original firm focus. The proposed merger will likely continue this trend given the diverse business lines offered by JLW.

With its attempt at global diversification just beginning, the success of the globalization strategy cannot be quantified as of now. The proposed mergers would certainly lead to greater service and geographical diversification and would assist the company in becoming the single source for services that it desires to be.

10. Industry Trends: Globalization and Consolidation

10.1 Introduction

The focus of this chapter is to recap and analyze some of the current trends impacting the motivations and strategy formulations of today's global real estate service providers. The evaluation of these trends, in concert with the in depth examination of the real estate service providers, serves to provide a basis for comparison of theory and practice as they interact in the increasingly competitive market for services today.

10.2 Company Comparisons

Lend Lease, CB Richard Ellis, and LaSalle provided very valuable insight in to the globalization strategies being used in the real world today. What was even more remarkable was the fact that the three theories closely paralleled actual company strategies. For example, Lend Lease almost completely adheres to the Acquisition Strategy. They merged with ERE and subsequently combined its organization with the Yarmouth division to dominate new markets. Lend Lease was then able to gain a competitive advantage over all their regional competitors by offering certain standardized services world wide, and that was very appealing to the growing number of multinational clients.

CB Richard Ellis also matched up with the Acquisition Strategy. The merger between CB Commercial and Richard Ellis was not formed to offer new services to old markets, but rather to dominate the global market with the limited number of services they already offered. This merger has put CB Richard Ellis at the top of the global brokerage industry. CB Richard Ellis can now adopt the Acquisition Strategy due to their dominant market position. No competitor is going to be able to compete in the niche market CB Richard Ellis has decided to dominate. Any company that could attempt to compete stands to be acquired since it would be a direct threat to CB Richard Ellis' limited service lines. Lend Lease, on the other hand, has several different service lines that could make up for any loss of profitability in one particular service.

Finally, LaSalle has been a company in transition. Unlike Lend Lease and CB Richard Ellis, LaSalle has tried to remain a one-stop service provider. Lend Lease, however, has tried to standardize only certain services across all markets while CB Richard Ellis has concentrated on dominating only one specific service. LaSalle has started the transition into an Alliance Strategy due the merger with JLW. It will be interesting to see if LaSalle can remain a full service real estate provider or if the heterogeneous global market will require them to limit and standardize their broad range of services. If LaSalle does decide to mimic the other global service providers and thereby limit and standardize services, then it will difficult for LaSalle to differentiate themselves from a company like Lend Lease. Or, is the global market large enough to handle several service providers that offer similar services.

10.3 Exogenous Influences on the Real Estate Service Industry

Before any conclusions about the future of global service providers can correctly be drawn, a quick analysis of the exogenous influences affecting the global market must be made. The examination commences with consideration of the exogenous forces driving the strategies of real estate service companies. An understanding of these forces reveals the actual trends impacting the business environment encountered today and tomorrow.

Real estate serves as a vital function in the operation of all enterprises and in the maintenance of life (companies need storage/manufacturing space, offices, and distribution facilities while shelter is one of the basic components of sustaining life). Hence, few industries and markets are as dependent upon exogenous influences as is real estate.

Recent developments in macro business systems and the impact of technology and innovation have produced dramatic effects within the real estate service industry. Entirely dependent upon client needs, this component of the real estate market has experienced many of these forces as they impact the roles in which they are called upon to play.

With regard to the principal exogenous influences, we have discovered four factors that have affected the real estate service industry and the strategies of its main participants.

These are:

- Corporate Outsourcing
- Globalization of Corporations and Industries
- Growth of Information Technology
- Maturing Market

10.4 Corporate Outsourcing

The primary role of a real estate service provider is the service of the client. Increasingly, the needs of clients include support roles regarding real estate that were previously performed in-house. LaSalle, for example, is able to offer services throughout the value adding process of developing real estate. LaSalle is able to operate as an external Corporate Real Estate advisor because it can offer a company a one-stop service. The idea of outsourcing functions is a trend that includes more than just real estate. Companies are now farming out services that do not include their core competencies, thus freeing them from diversionary but essential roles. In order to render this strategy effective, the outsourcing of many functions results in the need for a broad menu of services from an outside provider. An excellent example of such outsourcing is the growing need for tenant representation for corporate clients. A relatively new service, this feature allows for corporate clientele to receive expert consultation on leasing decisions without the costs of maintaining an internal leasing expert. Thus, an outside contractor, freeing the firm resources for its primary mission, services this periodic need. This example illustrates the growing trend in corporate outsourcing as a direct impact on the real estate service industry. Evidence suggests that such outsourcing provides cost benefits to corporations (Staerkle, 1995) and, thus, this trend is expected to continue.

10.5 Globalization of Corporations and Industries

Consistent with the premise introduced in Chapter 1 of this paper, a major driving force in the metamorphosis of the real estate service industry is the increasingly global scope of corporations and industries. While competition now exists across national borders and across continents, firms recognize that viable profit centers can be obtained through an international focus. In seeking out these new and untapped customer bases, these multinational corporations require offices, distribution facilities, factories and, in some cases, infrastructure. In obtaining such assets to employ in their expansion strategy, the companies desire appropriate decision making support systems to assist them. In conjunction with the outsourcing trend described above, the corporations find that external guidance is needed to mitigate many risks associated with a global investment (political, currency, etc.). Thus, the opportunity for global service providers to remain active in the global market is expected to continue.

10.6 Growth of Information Technology

The impact of information technology has been felt in virtually all industries in all corners of the globe. However, in the real estate industry, its growth has been of particular importance. As William S. Rothe, Senior Executive Managing Director of CB Richard Ellis indicated: "Real estate is information, not bricks and mortar." (Rothe at MIT CRE Members Meeting, 5/1998). The emergence of information systems that provide vital data on properties, markets, and users of real estate has resulted in increased importance on such data. The need to establish, maintain, and update effective information networks has become essential to sustain a competitive advantage in the rapidly expanding global marketplace. With companies operating in far-flung markets worldwide, the ability to deploy and share information is not only requested but also required of service providers to add value to their clientele. Thus, commitment to information technology is regarded as an essential component of competitive scope.

10.7 Market Maturity

A final exogenous impact is the overall status of the real estate service industry. Up until recently, the industry could be described as a fragmented, decentralized market with many competitors offering commodity type services on either a regional or national scale. Proprietary information and intense competition were considered industry norms. Few companies had ventured beyond their regional enclaves with only national service providers benefiting from economies of scale and broad information sharing benefits. The result is a market environment with little more than a domestic focus based upon the Five Forces Model of Michael Porter as follows:

- *Intensity of Rivalry – High: With* a fragmented industry structure, numerous competitors compete within finite markets (regional, national) for clientele.

- *Threat of New Entrants – Medium:* Local servicers can be added on local scale. National providers have scope and scale difficult to penetrate in short term. National/International trade associations (Oncor) and companies such as Colliers provides benefits to regional firms and stave off major threats.

- *Bargaining Power of Suppliers – High:* With numerous firms, no power of suppliers for effective economies and alliances. While deviations exist (fee development/management require inputs and may have leverage), overall this is the least influential of the forces model.

- *Bargaining Power of Buyers – High:* Numerous firms offering homogeneous services results in commodity product. Buyers can switch providers easily.

- *Threat of Substitutes – Low:* Few substitutes for real estate services except for conducting services in house.

The result is the status of the real estate service industry of a few years ago with overall fragmentation and commodity services leading to low margins and growth. Such forces continue today. According to Rothe:

> "Real estate will grow about as fast as the economy which means 2-2.5% in 1998. We all provide undifferentiated products and services and we are all experiencing over capacity of service providers leading to commodity pricing" (Rothe at MIT CRE Members Meeting 5/1998)

10.8 Real Estate Service Industry Trends

The impact of those forces outlined above has created a competitive environment for the attraction and maintenance of client relationships with the structure of the real estate service industry. In response to these forces, the industry participants have reacted. This has resulted in a changed atmosphere that has transformed the nature, hierarchy, and system in which services are performed and delivered.

The result of the forces is a rapidly changing atmosphere for the delivery of services. The primary reaction of industry participants has been to move from a cost focus (narrow target market with lower costs) with simultaneous generic strategies to provide a menu of services to a specific target market through individual business units to a strategy of cost leadership (broad target market with low cost) through integration of services to cross-pollinate other services.

Figure 26

Competitive Advantage

		Lower Cost	Differentiation in Quality and Service
Competitive Scope	Broad Target Market	Cost Leadership	Differentiation
	Narrow Target Market	Cost Focus	Differentiation Focus

In order to achieve the conversion of strategy from narrow to broad focus, the industry has embarked upon the following trends:

- Increased Access to Public Capital
- Increased Investment in Information Technology
- Global Focus
- Industry Consolidation

10.9 Increased Access to Public Capital

In the 1990s, the real estate service industry embarked upon a new method of raising capital. In 1991, Koll Real Estate Services had an initial public offering becoming the first services firm to do so in the real estate industry. By 1993, Marriott Corporation had divided itself into a capital risk real estate holding company and a second company that undertook only the operating risk of firm assets. Wall Street's analysis placed greater value on the purely operating risk company which indicates the emphasis placed upon real estate industry companies versus hotel industry companies (Leinberger, 1993). The trend continues to this day with all three of the highlighted real estate companies (See Chapter 7-9) now being held in a public ownership format. This access to public capital is viewed as essential to the achievement of an effective growth strategy:

> "Access to capital is critical as an engine of corporate growth. Investors no longer want a middleman. The cost of developing an infrastructure for information technology and for the creation of new products and services is high – it demands access to patient, low cost capital. Only the public markets can provide that." (Rothe at MIT CRE Members Meeting, 5/1998)

> "We don't have any choice. If you want to do business, you have to be national and you cannot finance that kind of structure as a private company." (Raymond O'Keefe, New York Times, 5/97)

The availability of this capital also presents a barrier to entry for smaller firms who are unable to go public:

> "In general, it is only the larger, more sophisticated players that are able to raise public money. The result is a potential barrier to entry within certain segments of the income property industry and an eventual trend toward consolidation." (Leinberger, 1993, p.82)

10.10 Increased Investment in Information Technology

With the increased complexity and size of the real estate industry, many companies are investing in and promoting information networks. Collier's was one of the first providers of a central information database to its many member firms. Today, information comprises the primary resource (after labor) that a real estate service provider requires. Every company has invested heavily in one of three means of information network building:

- Developing an information network internally.
- Acquiring information network capability.
- Aligning with information service providers.

Procuring the ability to evaluate and utilize information is only half of the need. Firms have also invested in the ability to deploy information to its persons in the field:

> "The winners will be those who can gather, disseminate, and use perpetually fresh information better than anyone else." (Rothe, 5/1998)

The result is the growth of companies and divisions whose core competencies is the information gathering and deployment business. Examples of such investment are the growing implementation of market and investment research programs with outbound logistics in place to effectively notify personnel. Compass, Torto-Wheaton Research, and Collier's are all examples of organizations that are dedicated to the gathering and maintenance of real estate market information.

10.11 Globalization

Of the major trends impacting the real estate service industry, two have served to transform the market. The first of these is globalization. According to Staerkle (1995), firms decide to go global for one of three reasons:

- Follow Customers
- Gain Efficiencies
- Exploiting Superior Know-How Abroad

In addition, he indicated offensive and defensive reasons for firms to globalize:

- Defensive: slow growth/saturation of services in home market.
- Offensive: seek faster growth, higher profitability, and less competition.

The current environment (mature markets, clients expanding international) presents a blend of these reasons for globalization. Indeed, clients are expanding into foreign markets and demanding that their agents accompany them. Evidence of the increasing demand for global services for corporations includes increases in exports to overseas production levels as reported by Staerkle (1995).

Emerging and already established markets have presented potentially lucrative expansion possibilities for real estate service providers. Less certain is whether globalization occurs as a result of a firm's desire to gain efficiencies through economies of scale. This benefit would depend largely upon the strategy employed to globalize (See Chapters 7-9). Finally, the ability of companies to exploit know-how advantages could be a vital component in their decision to globalize. Each of the companies profiled in this paper has established reputations built upon years of superior service delivery in each of the areas in which they operate. Such advantages (whether information or personnel superiority) or process economies can be easily exploited in markets where competition is scarce and the need for services is growing.

The ability of firms to achieve an effective globalization strategy will ultimately depend upon its expertise, access to capital, and selection of appropriate markets for penetration.

10.12 Consolidation

The final trend impacting the real estate service industry is the current wave of consolidation. In tandem with the trend of globalization, this effect is considered to have the influence to change the very nature of real estate service delivery.

While the forces outlined above are all responsible for the wave of consolidation, the specific advantages it provides and the potential weaknesses of such combinations must be examined. With regard to benefits from a consolidation, the following immediate advantages are thought to arise:

- Diversification (Geographic and/or Product)
- Addresses Client Needs
- Globalization Risk Management
- Economies of Scale Benefits

The primary objectives of such a strategy is to maximize shareholder wealth through the simultaneous achievement of servicing client needs and minimizing operating risk. Through a diversification of either geographic or product scope, both goals can be achieved. Consider a company who views the market segmentation matrix (Chapter 3) with a desire to maximize its presence in those cells indicating a potential profit center (where client need and firm expertise/presence intersect). The acquisition of or merger with another company offering complimentary (but not overlapping) expertise or geographic presence would maximize the ability to capture those profit centers. This combination of horizontal and vertical integration is viewed by the industry as essential for long term success. Both CB Richard Ellis and LaSalle have identified the need for horizontal and vertical integration to maintain competitive.

The third benefit is the ability to mitigate globalization risks. Two of these risks are market penetration and political. From a market penetration perspective, initial product (firm) introduction is one of the riskiest parts of the product life-cycle. Thus, alliances or mergers with a native firm is a means to achieve instantaneous market penetration while capturing human capital that possesses an understanding of cultural, operational, and political nuances that would require evaluation if the company were attempting a "go it alone" strategy.

While all three of the above are reasons why many firms are involved in consolidations, they do little to differentiate the benefits of consolidation from other forms of alliances. However, the final factor presents one of the perceived benefits that is viewed as exclusive to a consolidation strategy; an economies of scale benefit.
As was stated in the five forces analysis conducted earlier, the industry is evolving from a fragmented collection of cost focused companies to a consolidated group of cost leadership firms. The ultimate goal is to mitigate those threats viewed as high in the analysis (power of buyers, suppliers, and rivalry).

The goal of those providers who have the ability (capital, logistics) to become involved the consolidation wave is to supply the one stop shopping concept heralded by those companies analyzed (See Chapters 7-9). A client would recognize the horizontal (global) and vertical (service diversification) and be compelled to maintain a relationship with its service provider. The result is lower costs and the ability to cross-sell services to clients.

The result of this consolidation, it is believed, will be the inversion of those high threat forces discussed. Rather than have bargaining power in the hands of buyers of services, the firm, through its wide scale and scope, could provide so many benefits to the client that little power to switch remains. Thus, the client would have few options open due to the high switching costs involved. In addition, suppliers would be forced to recognize increased influence of the larger firm and be sensitive to its needs. Finally, the ability of only a few companies to pursue this strategy would result in a separation of tiers within the industry:

> "Consolidation is complete in the U.S. services industry now. The winners are those with access to public capital-maybe five companies-everybody else is going to be a boutique." (Rothe, 5/1998)

11. Conclusions and Summary

This thesis was undertaken to examine the current theories available on globalization as it pertains to a real estate service provider. Each of the three strategies was analyzed in an attempt to reveal those characteristics required, both externally and internally, for successful global penetration.

11.1 Insights of Globalization Strategies

Three of the largest industry participants have been examined for organizational structure, strategy, and globalization activities. In general, all three have exhibited that they possess effective networks, logistics, expertise, and commitment to pursue a global expansion strategy. All three have also recognized the influence of the consolidation trend sweeping the industry and have incorporated this phenomenon into their expansions. Each company has completed or has entered into discussions with major competitors or firms providing complimentary geographic or service benefits to achieve global scale. While acquisitions and joint ventures continue to be represented, the alliance path, in its many forms, has clearly emerged as the preferred route to immediate globalization. All three of the examined firms typify providers that parallel those internal strengths and external market characteristics that emphasize the alliance strategy. This strategy allows for the capitalization of these strengths in light of those forces in their respective environments.

Equally viable and less evident in these firms are the CRE and acquisition strategies. These methods are best employed in those circumstances that emphasize different strengths and market conditions than those experienced. Despite their absence from our case study, these strategies are considered by the authors to be of similar value to the firm's globalization strategy should they be necessitated by existing internal and external conditions.

11.2 Overall Conclusion

It is clear that those exogenous forces identified in the previous chapter have changed the competitive atmosphere in which real estate service providers compete. Globalization is here to stay. The reactions of the larger, well-capitalized players have been to pursue consolidation through mergers, and alliances. Their hope is that clients will recognize their ability to offer a broad menu of services in all markets at a low cost.

In the final analysis, these firms are attempting to acquire and maintain competitive advantages through the alliance strategy. In the future, firms may find that market forces or internal scrutiny will determine that one of the alternative strategies is preferable.

REFERENCES

Bacow, L., "Foreign Investment." Working Paper, MIT Center for Real Estate, 1990.

Barnenk, P. & Kanter, R.M., Global Strategies, Harvard Business School, Cambridge, MA, 1994.

Barnet, R. & Doz, Y.L., The Multinational Mission, New York Free Press, New York, 1987.

Bartlett, C. & Ghoshal, S., Managing Across Borders, Harvard Business School Press, Boston, MA, 1991.

Betwee, J. & Meuel, D. & Bergguist, W. Build Strategic Relationships, Jossey-Bass Publishers, New York, 1995.

Bhambri, A., and others., Strategies and Structure of Real Estate Development Firms. Washington, D.C.: Urban Land Institute, 1991.

Bleeke, J. Collaborating to Compete, John Wiley & Sons, New York, 1993.

Bloomberg Information Network, 1998.

Buaron, J., "New-Game Strategies," The McKinsey Quarterly. Spring, 1981.

Cauley de la Sierra., Managing Global Alliances. Reading, Massachusetts: Addison Wesley Publishing Company, 1995.

CB Commercial, Annual Report, 1997.

CB Richard Ellis, Web Site, 1998.

Chandler, A.D., Strategy and Structure. Doubleday, Anchor Books, New York, 1966.

Day, G.S., Strategic Market Planning: The Pursuit of Competitive Advantage. West Publishing, St. Paul, 1984.

DTZ, "Property Obligations of Occupancy, "1998.

Eitman, D., and others, Multinational Business Finance, 7th Edition. Reading, Massachusetts: Addison Wesley Publishing Company, 1995.

Gates, B., "Microsoft, Still Growing!", Newsweek, June, 1996.

Ghemawat, P., "Sustainable Advantage," Harvard Business Review, September-October, 1986.

Gomes, C., The Alliance Revolution: The Shape of Business Rivalry, Harvard University press, Cambridge, MA, 1996.

Goshal, S., "Global Strategy: An Organizing Framework" In R.Z. Aliber & R.W. Click (Ed.) (1993). Readings in International Business, Cambridge: The MIT Press, 1987.

Hamel, G. & Prahalad, C.K. & Doz, Y., "Collaborate with Your Competitors – and Win," Harvard Business Review, January-February, 1989.

Hergret, M. & Morris, D., "Trends in International Collaborative Agreements," Cooperative Strategies in International Business, Lexington Books, Lexington, Mass, 1988.

Heskett, J., Service Breakthroughs. New York: Free Press, 1990.

Holusha, J., "The Future of Real Estate Networks: Mergers Squeezing Loose Brokerage Alliances", New York Times, May 18, 1997.

Inklebarger, L., "Future Lies in Building Global Bridges", National Real Estate Investor, February, 1995.

Jenster, P.V. & Jarillo, J.C., Internationalizing the medium-sized firm. Copenhagen/Denmark: Handelshojskolens Forlag, 1996.

Kanter, R.M. World Class: Thriving Locally in the Global Economy, Touchstone Books, 1997.

Lambert, S. Lecture During Course: Managing the Real Estate Company (Spring, 1998) Center for Real Estate, M.I.T. Cambridge.

Lambert, S & Poteete, J., "Managing Global Real Estate." IRDC Foundation, 1998.

LaSalle Partners, Annual Report, 1997.

Leinberger, C., Strategy for Real Estate Companies. Washington, D.C.: Urban Land Institute, 1993.

Lend Lease Corporation, Annual Report, 1997.

Lend Lease News, "ERE Yarmouth changes name to Lend Lease Real Estate Investments, Inc." 7/13/98.

Linsenmeyer, A., "Go East Young Developer," Financial World, November 12, 1991.

Macomber, J., "8 Steps to Success," Construction Business Review, 1993.

Macomber, J., Lecture During Course: Construction Management (1998, Spring) Construction Management, M.I.T, Cambridge.

McClenahen, J., "This Matrix was Made for You," Industry Week, September 2, 1991.

McGoldrik, M., "Globalization." M.S. thesis, Massachusetts Institute of Technology, Architecture, 1993.

McMahan, J., "Real Estate Enterprise 2000," Harvard Business School, 1998.

McMahan, J., "Challenges Facing Real Estate," Harvard Business School, 1997.

Mintzberg, H., "Organization Design: Fashion or Fit?" Harvard Business Review, January-February, 1981.

Mishra, U., "Risks and Rewards of Going Global," National Real Estate Investor, June, 1995.

MIT Center for Real Estate,"Is Bigger Better?: Consolidation in the Real Estate Industry." Unpublished Highlights of Member's Meeting, May 1998.

Nass, M. "Excelling at the Top", The Real Estate Finance Journal, Summer, 1995.

Olson, M., The Rise and Decline of Nations, Yale University Press, New Haven, 1982.

Oster, S.M., Modern Competitive Analysis, Oxford Free Press, Oxford, 1990.

Porter, M., Competitive Advantage. New York: The Free Press, 1985.

Porter, M., "What is Strategy?" Harvard Business Review, November-December, 1996.

Prahalad, C.K. & Doz, Y.L., The Multinational Mission, The Free Press, New York, 1987.

Reich, M., "Who is Them?" Harvard Business Review, March-April, 1990.

Rugman, A., 'Risk Reduction by International Diversification," Journal of International Business Studies, v. 7, 1976.

Sinderman, M., "Strategic Alliances: Making the Marriage Work," The National Real Estate Investor, November, 1995.

Staerkle, C., "Real Estate Advisory Services." M.S. thesis, Massachusetts Institute of Technology, Architecture, 1995.

Stephens, P., "Two Biggest Brokerages Form Global Alliances," National Real Estate Investor, v. 37, January, 1995.

Strickland, A. & Thompson, A., Strategic Management: Concepts and Cases, Richard Irwin, Boston, MA, 1990.

Vachani, S., "Distinguishing Between Related and Unrelated International Geographic Diversification: A Comprehensive Measure of Global Diversification," Journal of International Business Studies, Second Quarter, 1991.

Welch. J., CEO, General Electric, Lecture given to Harvard Business School, October 28, 1987.

Yoshino, M.Y. & Rangan, U.S., Strategic Alliances: An Entrepreneurial Approach to Globalization. Boston: Harvard Business School Press, 1995.