Chapter 5

Recent Global Marketing Strategies of Construction Businesses
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5.1 Introduction

Studying the nature of real estate is complex considering that it is not a product or service, per se, but a whole sector, comprising of distinct businesses (Porter 1989). Thus a retail shopping mall is a different business from residential dwellings or industrial plots and warehouses. However it becomes a complementary construction activity to the rest of the construction activities in the real estate sector.

The study of global marketing strategies used in real estate can be traced from various sources that lie more in the concurrent development of research in areas of economics, public policy, law, engineering and finance. In India original, empirical and case study based research in real estate strategy and related literature is not easily available for secondary literature reviewing. On surveying dedicated journal literature in the area of effective marketing strategies being used by firms one finds slim data sources.

However studies in international journal sources with respect to macro level market determinants like land management, risk management, housing policy, urban policy and design, taxation, return on investment in real estate projects, occupancy rates of commercial real estate, have been extensively researched and are available in the form of journal papers, large-scale commissioned studies, and government and private consultancy reports. In fact, the study of above mentioned spheres together shape the micro-level plans and strategies adopted by firms to survive and grow their individual market shares.

Study of micro level data reveals a focus on studying very narrow areas such as studying neighbourhood characteristics to arrive at ideal product mix, target customer or demographic and psychographic features of the property markets. This form of research advances only particular project strategy, and/or firm level strategies.

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1 Professor Michael E. Porter, Competitive Strategy and Real Estate Development Harvard Business School Copyright 1989 Michael E. Porter
In this chapter some of the macro and micro factors that affect strategies are examined. Also the effect of consumer behavior on real estate is researched. It is found that leading global real estate companies use strategic management tools to expand into new markets with different project portfolios and entry strategies.

5.2 Macro - strategies

Changes in property prices influence consumer price inflation, and affect a country's competitiveness. Property cycles in a country are linked to the economic growth of a country as was proved in a study of the cyclical behaviour of housing prices in the Asian markets of Tokyo, Singapore, Taiwan, and Hong Kong (Ming-Chi Chen et al, 2004). Similarly the rise of cities like Shanghai, Gurgaon, Bangalore and Chengdu can be attributed to the sustained GDP growth prevalent in India and China. This attracts domestic or international property investors to include real estate investment in their portfolio diversification strategies.

Highly developed markets like the USA, (some countries in) Europe, Australia and Singapore use highly sophisticated finance driven strategies to enter and garner sustained market share in diverse markets. Very few major industries are as dependent on borrowed money, as is housing and real property. This industry has moved from being small, and unorganized with localized and skewed risk portfolios towards utilizing institutional real estate funding. Further the establishment of Real Estate Investment Trusts, Real Estate Mutual Funds, and Real Estate Venture Funds, alongwith other traditional financial institutions like pension funds, insurance companies, mortgage companies and banks all drive the property markets through their diversified portfolio management strategies. These institutions are active in property markets in two ways, physical acquisition of property as well as funding development ventures for future returns. All real estate properties are characterized by huge upfront investment and high gestation periods; this mandates long term project financing with prolonged payback periods.

International development finance corporations work closely with city governments in devising policy and providing leadership in rationalising policy and regulatory frameworks, and removing impediments to the movement of capital to infrastructure.

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sectors. Once infrastructure financing and development takes off, real estate valuations begin to rise. In so doing other global investors get attracted to buy property in such locations to earn return in an increasing market price scenario.

The importance of financial institutions investment (FIIs) is so great that in 1974 in the USA there was a severe shortage of money in the market, resulting in a hard blow to housing and construction industry in general, due to the flight of capital from major mortgage institutions to seek higher returns from other investments (US Treasury Bills). Thus the government brought in a relaxation of norms such as inclusion of spouse’s income in computing loan advance quantum to increase gross income. This resulted in the U.S consumers taking advantage and buying more expensive homes and luxury homes. Also the average house buying age diminished in this period to 25-34 yrs. age due to home buying by ‘baby – boomers’ (Weidemer, 1983). The developer firms responded to this phenomenon by strategically increasing the supply of top-end property for such buyers.

5.3 Market Characteristics

Real estate is distinct from other markets, in that it contains within its ambit different ‘sectors’ (residential, commercial, industrial, agricultural retail, office etc.). For e.g. residential property serves a completely different purpose as compared to corporate property (Chris Leishman, 2003). These differences prevent marketers from defining real estate as homogenous and well structured. This market is a series of quite different yet potentially interlinked sectors. Even within one sector, individual properties are likely to exhibit a degree of heterogeneity. For e.g. a rental office property has a wide array of options with respect to property / construction types, stock conditions, space specifications, size and so on at any one time. Even two properties of an identical design, age and condition are not completely identical since there are always locational differences. This heterogeneity can be described as

1. **Uniqueness:** Physical differences of property (age, construction type, condition, specifications and so on).

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4 Chris Leishman (2003), Real Estate Research and Analysis, Chp 2, Pgs 17-33, Chp 11, Pgs. 193-210, Palgrave & Macmillan.
2. **Locational Differences**: Position within city, neighbourhood or street location.

3. **Legal/ Regulatory Differences**: Property tenure, zoning, lease conditions etc.

   This is the most important difference because property law and regulation not only adds heterogeneity of the real estate market (short/long lease, leasehold/freehold) but also divides the market into distinct institutional sectors, because of its "consumer durable" nature.

Real estate yields a flow of services to its occupiers. Therefore the dynamics and behaviour of the user market is distinct from the investment market.

### 5.4 Market Size estimates of Indian real estate

The current estimate for the size of real estate in India is $50 billion. It is slated to grow upto $180 billion in the year 2020 (Economic Times-PHDCCI study), assuming a 6-7% annual growth rate in the coming years. This growth will realize due to the investment in infrastructure like roads, ports, airports, telecom and urban infrastructure.

According to India Brand Equity Foundation (IBEF), investments in the retail sector real estate segment yields 13-16% return which is quite high compared with the residential and office segments except in areas like National Capital Region (NCR), wherein residential property prices appreciated by 20-30% since 2003.

According to property consulting firm CB Richard Ellis (CBRE, Global Market Rents Survey), office space in Mumbai is more expensive than Manhattan. The survey ranked Mumbai as the 15\textsuperscript{th} most expensive place, Manhattan as 20\textsuperscript{th}, while Delhi was in 32\textsuperscript{nd} position. The property boom in India is being fuelled by global investors. For example Vancouver based Royal Indian Raj International Corporation (RIRIC) is investing $2.9 billion in a real estate project called Royal Garden City in Bangalore over a period of 10 years. The retail value of the property is estimated at $8.9 billion.

In India over 200 malls with a combined retail space of over 2.5 crore sq. ft have already been developed in the country. Moving forward, organised retailing is projected to grow at the rate of 25-30% p.a. and is estimated to reach over an astounding Rs 100,000 crore by 2010. Its contribution to total retailing sales is likely to rise to 9% by the end of the decade. In case of industrial real estate too, potential is high due to the sustained 11%
growth rate of manufacturing sector (Express Textile KSA Technopak, 2005. The recent announcements of Special Economic Zones with state of art infrastructure are further likely to boost industry exports and general growth. Already a total of over 200 SEZs have been sanctioned by the Ministry of Commerce (2006). The total infrastructure invested is estimated to be to the tune of Rs. One lakh crore with a potential of generating Rs. 44,000 crores and 5 million in additional employment (Shankar Aiyar, 2006).

In case of residential real estate the Integrated Township Development Act of 2002 looks at mitigating the severe housing shortage by inviting Foreign Direct Investment (FDI). The current required investment in housing is upto $ 25 billion (Tenth Five Year Plan, 2002). The new FDI rules allow foreign companies to bid on construction projects without Indian partners. They have also lowered the minimum development size from an initial 100 acres to 25 acres. This is estimated to bring in FDI of over USD $ one billion annually (Sarah Drummond, 2006)^.

5.5 The Investment Climate Analysis

Real estate requires huge capital investment with longer payback period, thus investors whether domestic or global require very strong contractual recourse and security of tenure. With the adoption of full capital account convertibility more global investors will invest in India (Tarapore Committee recommendations, 2006). The real estate market in developed countries is far ahead of its Indian counterpart due the following factors

- Very strong legal and regulatory bodies that govern and organize the working of markets
- Title insurance
- Transparency in enforcement of title security rights
- Simplified tax and stamp and registration structure that enable ease in transacting and the very quick conveyance of property
- Property valuation is undertaken on very scientific bases due to the organized, structured and transparent nature of property market

^ Sara Drummond India Calls (Feb, 2006) - U.S. Real estate companies pick up on the vast opportunities in this growing market, Commercial Investment Real Estate, CCIM Institute, http://www.ciremagazine.com/article.php?article_id=894
• The players (the developers) show a very high degree of professionalism because they have access to institutional finance for financing real estate projects. Developers engage in development of property by forming consortia or Real Estate Investment Trusts.

5.6 Customer Characteristics

Firms and individuals alike are involved in the purchase, maintenance and disposal of real estate assets. For both real estate is a huge capital investment that looks at long term commitment from the firm or individual. Both utilize the asset predominantly for consumption. Both acquire additional assets in case they accumulate surplus for investment. The difference between the two lie in respect to the scale and purpose of investment.

5.6.1 Individual buyer characteristics

The individual buyer buys house property to fulfill shelter needs and as a security option. The choice of a house is heavily driven by the individual’s affordability, search time, individual preferences, family size and stage in life (bachelor, full nest, empty nest) and similar parameters. Consumer behaviour in house property purchase is driven by such factors like search costs, prior experience in house buying, educational qualifications of buyer or external or environmental influences like cultural, subcultural and reference group influences on the house buyer.

The individual differences among consumers that affect behaviour may be characterized as resources, knowledge, attitude, motivation, personality, values and lifestyles (K. Gibler and S. Nelson, 2003). Developers and property brokers study in depth and classify potential clients based on these parameters.

5.6.2 The corporate buyer

There exist complex inter-relationships between strategy, behaviour and systems of firms that buy real estate. For most companies, Corporate Real Estate and facility costs are next
only to people and technology costs. These buyers use real estate to compete and thrive in their marketplace (Martha O'Mava, 1999).

2 critical roles of Real Estate

1. Supports physically the production process. Well-designed spaces support communication between people and the actual flow of work.
2. The symbolic representation of the organization to the world.

Fig. 5.1: Corporate Real Estate and Strategy

Corporate Real Estate integrates Strategy, Technology, and People with Place


5.6.3 Strategies for Real Estate purchase of corporate buyers

Real estate buying in companies is usually done through formal buying committees involving systematic search processes before finalisation of the property choice.

In fact corporate real estate purchase is distinctive in comparison with individual buying behaviour because the former employs rational and well laid out procedures for property purchase based on corporate objectives and policies. The resources at the disposal of corporations for choosing suitable properties are greater, compared to individuals. The driving factor for particular property choices of corporate buyers would be locating an ideal property, in Central Business Districts (CBDs), or specialized organized clusters

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like Technology Parks, Industrial Development areas etc. which provide adequate infrastructure for the optimal transportation of employees, material and finished goods. In so doing companies make decisions based on the critical mass of the company like its size, profitability, corporate image etc. These are

1. **Incrementalism** – Corporate Buyers pursuing this strategy are small and do not put much emphasis on amenities or visual aesthetics. Space may be acquired in an ad-hoc manner over a period of time either by short term lease arrangements. Reasons for using this strategy are

- Uncertain product demand in the future.
- Lack of management time and plan and decision making during periods of high growth and rapid development
- Financial consideration – desire to conserve capital for future commitments.

2. **Standardisation**

A standardization strategy attempts to control and coordinate facility design and real estate optimization across the entire organization. These standards may specify design, colour, size, materials, and manufacturers of interiors. Standardization is all about control. Standardization has advantages like

3. **Value Based Approach**

Firms are directly involved in the management process from the initial design stage and through the ongoing management of the place. This is done in order to add to the distinctive corporate identity.

**5.7 Micro-level Industry or Firm Strategies**

As a result of the macro developments in the market, the developer concentrates on product improvement, understanding customer needs, buyer behaviour, process improvement, customer satisfaction, devising loyalty programs etc.,
5.7.1 Market Development

Real estate firms are on constant lookout for new marketing opportunity to supply physical structures to emerging industries. For instance, up to the 1980s Indian construction industry was not well defined and builders undertook little or no product and market development. Refer Fig. 4.1 Product/Market Strategy Matrix below.

**Figure 5.2: Product/Market Strategy Matrix**

<table>
<thead>
<tr>
<th>Current Products</th>
<th>New Products</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market Penetration</strong></td>
<td><strong>Product Dev. Strategy</strong></td>
</tr>
<tr>
<td><em>Indian Firms 1990s</em></td>
<td><em>Global US/European firms (Trump Intl/Emaar Properties, Asian firms (Jurong, SHA))</em></td>
</tr>
<tr>
<td><strong>Market Development</strong></td>
<td><strong>Diversification</strong></td>
</tr>
<tr>
<td><em>Indian firms 2000 onwards</em></td>
<td><em>Mahindra Gesco, Bombay Dyeing</em></td>
</tr>
</tbody>
</table>

Table: Construct: M.N. Shah


Global firms are far ahead in developing strategies in the both areas; product development as well as market development. For instance, the number of 13 foreign development firms investing in India since the year 2004 brought in an investment of $3.75 billion (FICCI Report, 2006). This can be attributed to their strategy of entering new markets like India and China due to the saturation in their home markets. Michael Porter ascribes the 5 Forces Model that drives companies’ growth and diversification strategies to be equally applicable to real estate firms like it is to any other industry. These are:

1. Threat from competition
2. Clout of suppliers
3. Strength of consumers
4. Government policies
5. Threat from substitutes
Globally firms are redefining their activities and products to create maximum utility for the consumers; a new term called “metamarkets” has been coined by Prof. Mohanbir Sawhney (1999). This phenomenon has occurred due to the rise in the use of the internet as the most convenient medium for consumers to search, view and order products and services. The metamarkets concept can be applied to real estate as explored by Mona N. Shah (2005), wherein developer firms operate in multi-utility segments in order to maximize customer satisfaction.

The above trend is experienced in the increased establishment of “Integrated Townships” being constructed and managed by the firms themselves, e.g. Magarpatta Township, Pune has residential, commercial, software Technology Park, public gardens, school and hospital all within its township.

In case of the real estate intermediaries their role too has undergone a change. From offering plain brokerage services, a “metamediary” (full service agency) will also coordinate the mortgage, move household goods, and locate schools, plumbers, and babysitters in the new neighborhood. This is known as the full service listing services offered by companies like Century 21 in the USA. (David Lawson, April 2000)7.

5.7.2 Product Improvement

Product improvement is done by researching buyer needs and service requirements. Property once built is a flow of services. The better managed the property (amenities and facilities), the better the levels of consumer attraction and satisfaction. These services are not restricted to only the property per se, but also the surrounding locality. Thus a house with sophisticated amenities, good locales and surroundings is not ideal for a family buyer with school going children because a hospital, school, Public Park, and other recreational facilities would be necessary to complete the household’s living environment.

Likewise in case of corporate buyers an ideal location alongwith the requisite infrastructure, availability of finance, marketing and logistic services, qualified manpower and ideal local government policies would be required to encourage investment.

7 David Lawson (April 2000), E-team aspires to be real estate metamediary, First published Property Week, http://www.davidlawson.co.uk/
The use of technology such as the Intelligent Buildings (use of fibre optic cables for internet broad band, energy saving devices, security systems) is an ideal way of improving the ‘flow of services’ of the building. Use of mechanization, prefabricated structures and use of renewable energy to reduce recurring costs for the occupants are ways of improving the product.

5.7.3 CRM and Loyalty Programs

An extensive study conducted by Prof. George Day (2003)* of Wharton University covering all major businesses and sectors including real estate revealed that there are 3 main approaches to CRM, namely 1) **market driven approach** - making CRM a core element of strategy focusing on delivering superior customer value through exceptional service and willingness to cater to individual requirements, 2) **inner-directed initiatives** aimed at better organizing internal data to cut service costs, help sales staff close deals faster and better target marketing activities 3) **defensive actions** – such as loyalty programs based on redeeming points in a frequent-flyer or frequent-buyer program – designed to deny an advantage to a competitor.

Customers tend to leave organizations because of service, quality issues or delivery problems. Due to the complicated nature of the real estate business, there may appear a lot many places whereby a customer may slip out of the firm’s net and be lost forever. With real estate this loss is always a very substantial like an outright purchase, or a future loss of rental income and higher search costs for new customers in case of both.

5.8 Concluding statements

Real estate micro-level strategies are closely related to the development of macro factors such as investments level, home loan climate, and laws & regulations. Based on this the firm develops its own strategies in localized market scenarios. Individual development corporations may base their individual strategy based on the type of market they cater and the stage of real estate development such as incrementalism, standardization, or value based approach.

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* Q&A with George S Day (October 28, 2003), The Customer-Centric Approach