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## The **Real** Challenges of Real Estate

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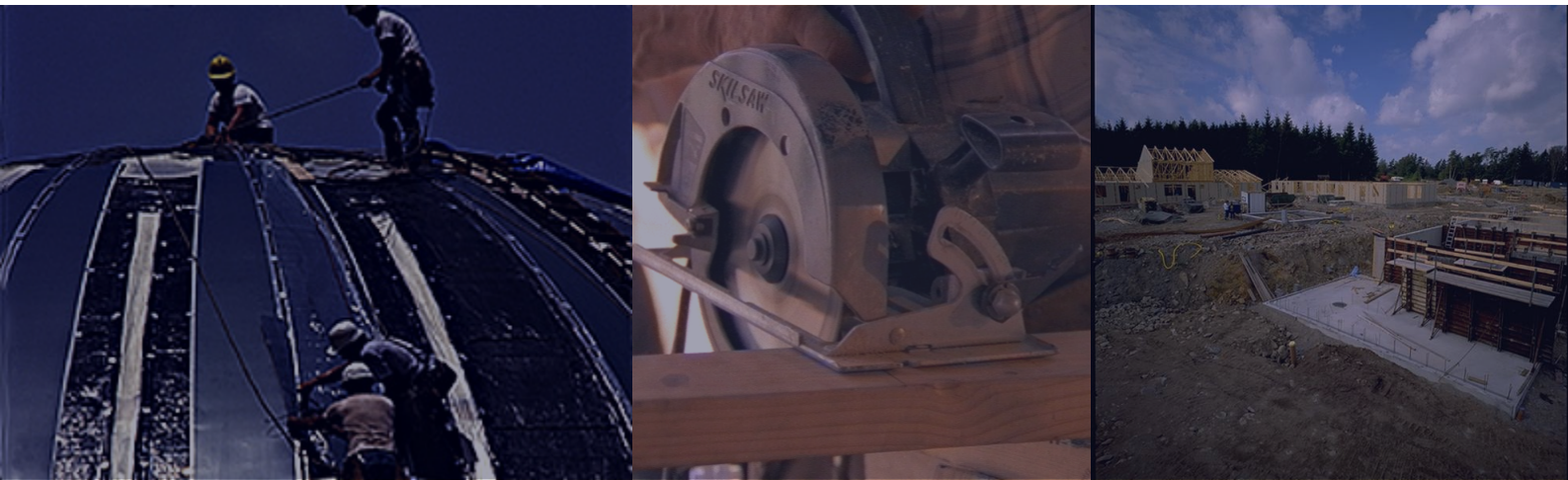
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THE QUALITY OF BEING PREDICTABLE WITH GREAT CONFIDENCE



## Introduction

The real estate industry is closely watched as it represents a substantial amount of capital in the form of investment for any economy. The sector in India, is now **developing through two modes:**

1. Organic growth of the smaller players and
2. The entry of big conglomerates.

However, as in every business it is not always hunky dory in this business as well. Let us try to get a better view of the challenges associated with this sector.

## Key Market Drivers Today

As real estate fixed assets are more of an 'investment', the key market drivers are economic in nature. Critical among them include:

1. Economics of rentals vs. purchases,
2. Economics of self performing vs. outsourcing services,
3. Money availability in the market,
4. Perceptions on the political environment and
5. The extent of ease or the challenges posed by regulatory agencies involved in the business(licenses, etc.).

## Structural Transition

The nature, complexity and scale of the business vary considerably from one segment to the other. However, one must understand that this sector spans across all possible business environments, viz. B2C (Business to Customer), B2B (Business to Business), B2G (Business to Government) and B2S (Business to Society). Over the past two decades, however, there has been a substantial increase in the degree of organization in the sector. This is supported by the fact that educational institutions across the globe have started new programs and curricula in these areas to respond to this market need and we are seeing the increasing dominance of big players and medium-scale enterprises over small-scale businesses.

## Major Areas of Operation

Traditionally, real estate management grew from what one called the 'developer' and the 'service provider' to a more comprehensive sector that looks at more than just these issues. At the core, therefore, there are four major areas of operation:

1. Planning: that comprises of services like site selection, feasibility studies, concept design, architectural services, etc.,
2. Construction: comprising of activities involving the construction and its management,
3. Maintenance and Services: which actually involve activities to renovate and maintain the property, the facilities and providing them with services like air-conditioning, security, canteens, issue management, etc.
4. Disposal: which involves various disposal measures including sale, quarantine, etc. for the real estate property and could be extremely intricate at times. These areas of operation generally spread over three fundamental business segments viz. residential, commercial and industrial businesses.

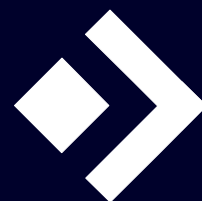
## Drivers of Competition

From the perspective of understanding the challenges from the competitors (drivers of competition), issues like:

1. Understanding financing options for the business and the clientele /or customers,
2. Getting a handle on pricing and the price sensitivity of the environment,
3. Quality issues and
4. The sheer timing of the projects are extremely critical.

Each of these have different fallouts or implications and could drastically change the business environment pertinent to the sector.





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### Challenge 1: Portfolio Optimization

Most companies in the real estate sector actually understand the concept of the business cycle. However, there are few companies that realize the need for a portfolio optimization. It is evident that the different areas of operation have different correlations to the general economic cycle. However, transferring this to an operative model is often a challenge for most companies. Most companies do not have an active team managing their portfolios. Are you one of them? Are you optimized in your portfolios? Are you having your organization aligned to the business condition? Do you have the right area spearheading your company in the time of crisis? If not, you could be a candidate for improved portfolio optimization. Contact us for more details on how to institutionalize an effective and efficient Portfolio Management System

### Challenge 3: Business Models in terms of the Investment / Cash Flow Model

In order to maximize the potential, getting the appropriate cash flow model is a key. The tricky interface between the financing, the payments and the linkages with the cost structure provide several clues to this effect. Construction investments, due to the nature and the huge amounts of 'overheads' and 'workarounds to expedite activities' often have to rely on financing through 'networking'. This has different connotations in different situations. However, at the bottom of it all, one needs to ensure a proper balance of the business model with sound trade-offs between the returns and the risks. Every business strives to achieve this balance. This, therefore, needs to be optimized by each business. When markets change at the macro-economic level, these changes are often serious. Innovating your cash flow models is undoubtedly, the key mantra of success.

### Challenge 5: Service Orientation

At the end of the day, the real estate sector is all about service. One needs to ensure adequate/appropriate service orientation. Many companies fail in their strategies because they are unable to implement a strong service orientation. Ask your customers if they felt a difference in the service after they committed to buy say a house from your company. If yes, you might want to look at improving your customer orientation. While this is true for every sector, in the real estate sector, a good service orientation can work wonders in terms of sustainability. This is especially true because the interface with the customers is typically long term and hence, it poses a significant challenge to have good customer orientation. Good customer orientation definitely provides a sustained competitive advantage to this sector. Two direct fallouts of this are (a) the successful productization of your offerings and (b) creating a robust management system to guarantee satisfaction levels. Contact us to assist you productize your service functions and streamline your management system.

### Challenge 2: Identifying the True Economies of Scale

As companies diversify and grow, they often have issues in identifying their 'true' economies of scale. For every organizational setup, for a given business exposure, there could be different economies of scale for the business. How big should the operations be? Where should the operations be? What technology would be ideal? What skill sets would be desirable? These are some of the numerous issues that go hand-in-hand with the understanding of the economies of scale. Do you have a good handle on the optimal set of operations your company needs to have? Has it been scientifically derived at? My team has developed a cross-linked model involving the business environment with the operational processes to improve the pay-offs from the scale of operations. Contact us to identify some of the issues with your scale of operations and work around them.

### Challenge 4: Innovation in Products

As societies develop, their needs and preferences change. For instance, people have different expectations from apartments, bungalows, neighborhoods, townships, office areas, malls, theaters, their associated services, etc. The extent of change is often a demographic and an economic parameter, and is also related to the innovation in technology and the degree of penetration of newer technologies. In this context, companies need to understand the definition of their products and ensure that they innovate on their products appropriately. Do you have special 'products' for senior citizens? Do you have special 'products' for addressing issues like after services? Do you have specialized forms of service delivery? Learn the value and the impact of the directions of innovation. Contact us for a confidential discussion on innovating your product base.

### Challenge 6: Control and Management of Projects and Operations

The biggest challenge in most companies is successful control and management of projects and operations. The real estate is traditionally not considered as a high skilled sector. Although there are several schools of thought in this area and different opinions, it is a known fact that adequate management tools and methods are most times not in place in several organizations. If you disagree, ask yourself if your projects are always punctual and to the costs. Do you require to undergo multiple rounds to 'optimize' your offerings during the course of your project? If yes, you probably are a candidate for revamping your methodology of project and operations management. Contact us for more details on how you can improve your management systems in these areas.

To summarize, we see that real estate management actually delves into more intricate issues when it comes to successful businesses differentiating themselves. As this sector works on the most 'expensive' component of the core needs of man viz. Food, Clothing and Shelter, it is also essential to understand the dynamics of this element in the broader business environment.

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## About the Author



*Rotarian Nikhil S. Gurjar is the President of Consulting Connoisseurs, a new generation management consulting company based out of Navi Mumbai. The company specializes in providing solutions based on both conventional methods in management consulting as well as the state of the art tools using modeling and simulation. With several years of experience in Europe and the US, Nikhil Gurjar is one of the few experts in the country who understands and uses these tools for business applications and policy research. He is also associated with agencies like CII, PPMAI, MSME for different types of services. Before the launch of the company, Nikhil was the Head of Planning at a very large Greenfield steel project in the US. For more details, visit [www.consultingconnoisseurs.com](http://www.consultingconnoisseurs.com).*