

# **The Business of Real Estate**

**Valuing Diversity Conference**

**May 6, 2016**

**Parksville, BC**

**Craig Hennigar, CFA, AACI, MBA, MA**

# Topics To Be Covered

- Lay of the land for service business
- Vision, Mission and Strategy
- Competitive Advantage
- Competitive Analysis
- Start-up and Lifecycle Planning for Business
- Financial Planning
- The Marketing Concept – 5Ws
- Indirect Business Development
- Personal Selling Skills
- Setting Up Your Practice

# Audience – The Three Types

Three predominant types of services business entrepreneurs

1. Mid-cycle owners – refine current strengths
2. Horizon owners – exit strategy
3. Pioneers – new / pending business owners

Focus on what can help each group

# Mid-cycle Owners – Refine and Explore

Current success in building business

Time to revisit key strategies

Redefine organizational goals / vision

Consider changing employment environment

Make long-term plans with action today

“If everything you do is a success, you cannot fail to succeed”

# Horizon Owners – Create Exit Plan

Successful business

Desire to exit at some point

Focus on factors that will enhance value

Recognize how changes in the market impact choices

Exit planning takes 5 to 10 years in some cases

# Pioneers – Select Best Path

Long-term horizon

Desire to grow business

Need to develop market presence – or buy it

Recognize demographic factors

Invest in what you need, not what you don't

# What a Service Firm Is

Service firms have intangible value from:

- Reputation
- Network of clients – if transferrable
- Specialized skills
- Organized team
- Historical data and format for organization
- Legal business formation and licences

# What a Service Firm Is Not

The following factors may not add value to your service firm

- Technology – obsolescence is constant
- Office premises – leases may limit business structure
- Staff – if not in possession of specialized skills
- Network of clients – if disintermediated by other disruptive businesses (AMCs)

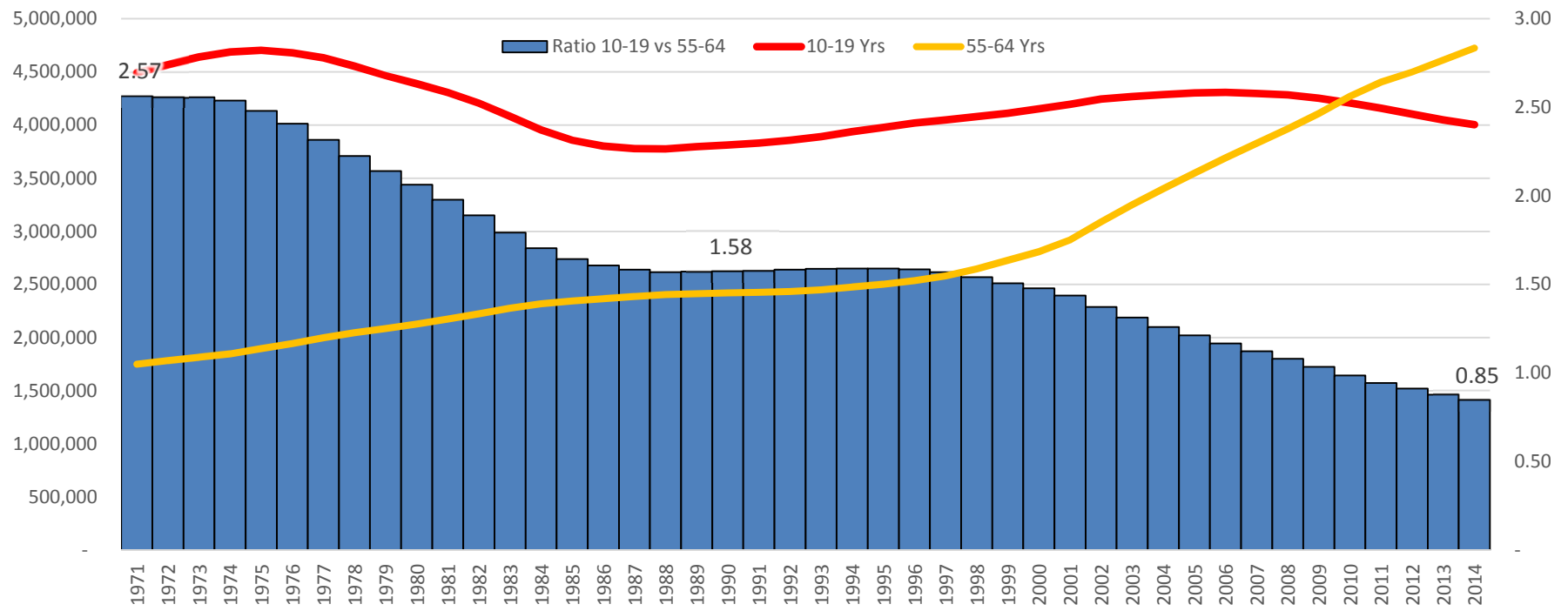


# Demographic Shift - Canada

How will the next 20 years differ from the past 60?

- Pre 1970 until 2010 future workers have outnumbered future retirees
- Factors that have caused this are starting to reverse

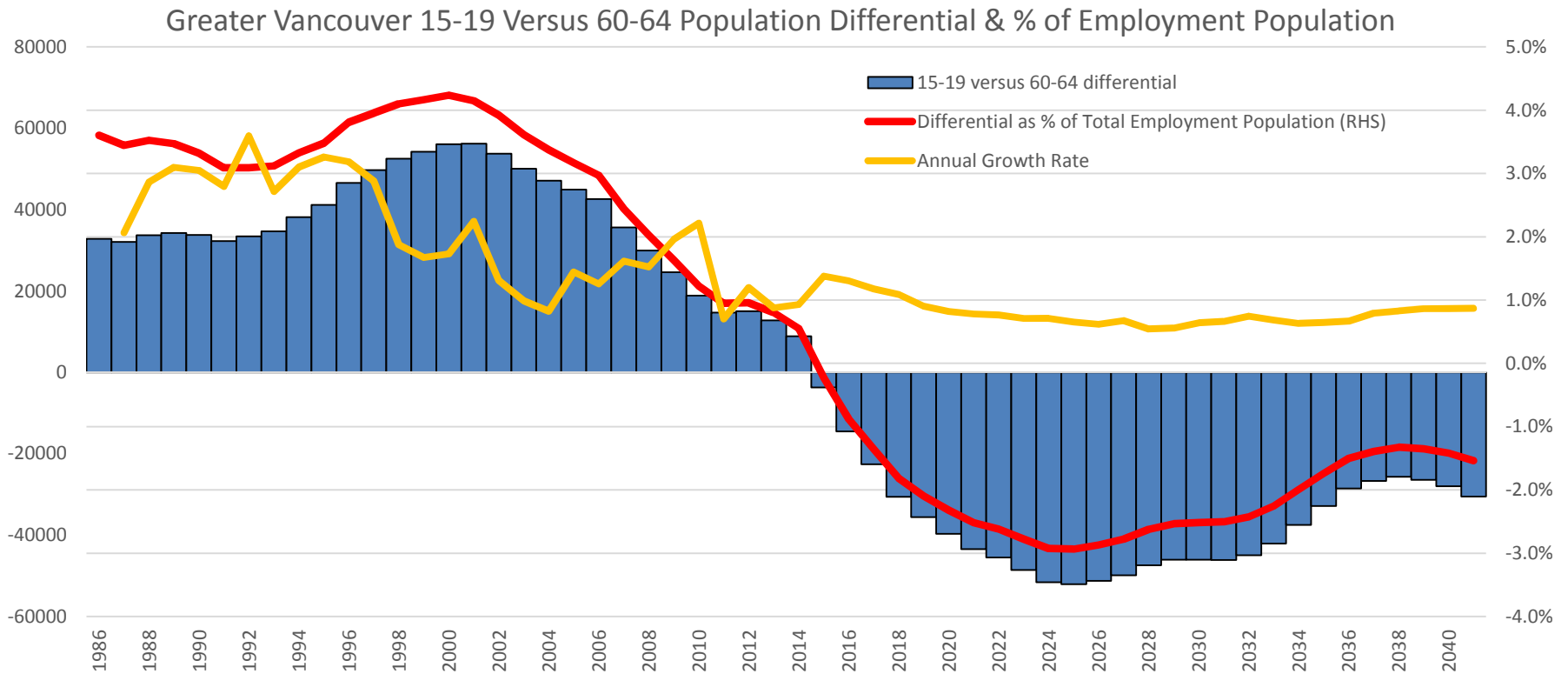
Population by Pre Work and Pending Retirement Age



# Demographic Shift - Vancouver

Demographic shift is continuous

- Youngest Baby Boomer is now 51, eldest is 70
- Smaller population following – Gen X & Gen Y



# Demographic Shift – Too Many Vendors

Who is going to remain in business?

Ageing appraiser profile – fewer appraisers in the coming decades

Realtor profile may be better distributed

Limited buyers for private businesses – accreditation/licensing required

Potential purchasers:

- Employees
- In market Competitors
- Out of market competitors

# Playing Field Has Changed

## Appraisal Focus

AMCs have changed the market

Fewer potential purchasers

Margins have been reduced

Need for formal office is in question

Business needs to be lean and flexible

What was of value in the past is no longer seen as valuable

# New Entrepreneurs - Visions

Need to be flexible

Recognize new formats / processes

Not reminiscent of past business

Know pending shortage (in appraisal)

Technology focussed

Realistic expectations

Unrealistic competitive advantage strategy

- Best service & Fastest service - *Quoted by potential entrepreneurs*

# Mid-Cycle / Horizon Opportunities

Firm growth is being eroded (overall)

Labour pool starts with apprenticeship

Share successes early

Build platform for transition

Do not withhold partner opportunities

Limited quality accredited individuals (appraisal)

Have specific markets / new services

- Treat your business plan as a recruiting document

# Types of Entrepreneurship

## Revolutionary - New concepts

- Survivorship bias
- Place perceived for most entrepreneurs
- Unfamiliar to most investors

## Evolutionary - Refinement of product or service

- Excellence, evolution in solving a problem
- Familiar business processes/concepts
- No need for the “flash of lightning” to proceed

## Intrapreneurs - Driving change in an existing firm

- Work environment promotes skills and traits

**Breaking Down Your  
Vision / Mission / Strategy  
Into Actions and Success**





# Vision for Service Firms (Reality)

- Long-term idea as to what firm aspires to be
- Motherhood (ego) vision statements are the norm  
Be biggest, be fastest, be smartest
- Little differentiation for clients...so,  
Take time to think like a client  
Remember your place in your client's delivery chain
- Vision is the direction for the mission and strategy  
Try to write your vision in common language  
  
“We protect property owner interests during expropriation”

# Mission for Service Firms

Mission statement is a tactical statement

- What is to be done today and tomorrow to meet vision goals

Mission

- What do you provide?
- To whom?
- Why would they want to work with you?

Firm's personality

- Align employees and stakeholders
- Stake ownership of firm's beliefs

# Strategy for Service Firms

## Realistic strategies for RE service firms

### Differentiation

- Most common – be different, like everyone else

### Cost Leadership

- Occurs in commodity services, or response to slow revenue (ad hoc strategy – the race to the bottom)

### Elimination

- Stop providing low revenue service (residential appraisal)

# Strategy for Service Firms

Realistic strategies for RE service firms

Diversified

- Appraisal firms offering reserve fund studies

Defensive

- Reducing overhead costs / reallocating resources

Small business strategies are limited

- You only need one good strategy
- Simple strategy is easier to communicate

# **Competitive Advantage**

## **What it is, and what it isn't**



# Components of a Competitive Advantage (CA)

Many quoted CA factors are “motherhood” statements

See if you recall these gems...

- Superior talent
- Thinking like a customer
- Better data / information
- Faster / better
- Largest network / personal service
- Better management
- Reputation / Trustworthiness

# Components of a Competitive Advantage (CA)

## Criteria

- Uniqueness
- Value – to the customer
- Inimitability

## Classifications

- Position  
Most locations / professionals  
Specialty – Submerged land
- Resources  
Owns proprietary data  
Demonstrated customer service
- Capabilities  
Well capitalized  
Progressive management

# What is Competitive Advantage in Reality?

Are you competitive or creative?

How do you deliver leading customer experiences?

“Pie” getting larger or smaller – your perspective?

In the end, people (companies) buy people

- Personal sales is still key for many service areas in real estate
- Corporate alignments can circumvent relationships



# Building Future Success

Maximum business capacity / scalability

- What is long term growth strategy
- Staffing plans / compensation structure

Fee erosion and black Friday – if it were every day

People, your best resource

# Competitors

What they are and what they are not...

- Never underestimate your competitors
- Never undermine your competitors
- Learn from them, you were once behind
- Strong competition makes everyone better

Remember the golden rules...

- Do unto others as you would have them do unto you
- Be humble, a lot was done before you came along

# Innovation

## Where is there a market gap/niche?

- Not earth shattering – not a problem
- What makes life easier for clients
- Fuels speed and accuracy
- Saves time and money
- Don't be too far out (or don't strive for only this)

## Clients are nervous of change and want certainty

- Too much change can just be too much change

# Ongoing Operations

Day to Day Business: What else besides completing reports?

- Collecting fees - Manage A/R
- Financial planning / Taxes
- Client liaison

What do you do every day to grow?

- Networking
- Bidding
- Knowledge leadership
- Volunteering

# **Competitive Analysis**

**How to look at your firm,  
your environment,  
and your competitors**



# Analysis of the Competitive Environment

## SWOT

- Strengths (firm specific)
- Weaknesses (firm specific)
- Opportunities (environment specific)
- Threats (environment specific)

## Porter's 5 Forces

- Supplier Power
- Buyer Power
- Substitutes
- New Entrants
- Rivalry

## PESTI

- Political
- Economic
- Social-Cultural
- Technological
- International

# Analysis of the Competitive Environment

- SWOT/PESTI and 5 Forces in the context of the service industry
- Key Factors for Service Industry
  - Buyer Power / New Entrants / Rivalry
- What barriers to entry are there
  - Economic limitations - **None**
  - Licensing / Qualifications - **Temporary**
  - Conflict of Interest - **Limited**
  - Market specific level of competition - **Limited**  
(Toronto vs Vancouver vs Brandon)

# Client's Decision Making Reference

Is the flow of information making things easier or harder for real estate clients

- Cost of a poor service provider selection versus benefit of a good selection (does the benefit outweigh the risk)
- Need local expertise, but many want to hire a national/international firm
- Ego and the real estate services purchase decision process



# Summary

Choose the market model that makes sense to you

- Don't complicate your market
- Find clients, help them, collect fees, repeat...

Remember each client's concerns

- Risk of mistakes
- Prestige
- National/international/big vs personal service
- You can't be everything to everybody

# **Startup and Lifecycle Planning**

**If you fail to plan, you plan to fail**



# Planning For Your Company

## Clients – most important

- What do you sell, to whom?
- Find clients, repeat

## Paying the freight

- Burn rate and solvency
- Working capital is a key factor

## Plan for future sale

# How to Start – Establishing Your Company

Establish formal office location (if necessary)

Register company name

Establish E&O insurance

Maintain/update professional standards

Marketing / branding

# No Business Exists Without Clients

Identify ideal client types

Join associations / networks

Register with other firms (sub contracting)

Work on sales / marketing plans

Execute again and again

# Paying Basic Costs

Determine monthly costs

Determine burn rate

- How long can you operate without collecting fees?

What costs can wait until later

- Prepare for data and software subscriptions, but defer use and payment

Office needs - Can you work in a virtual organization?

# Financing Choices

## Limited sources of finance for services businesses

- Savings
- Loans/Lines of Credit (personally guaranteed)
- Leasing
- Trade Credit
- Investors
- BDC
- Banks

# Staff or Independent Contractors

What is your business model

Growth = billings > professional staff cost

## Revenue Models

- Pure commission
- Blend – salary (draw) + commissions
- Salary only / salary + bonus

## Cost savings from contractors

- No CPP / EI payments
- Tax savings for contractors
- Beware of CRA penalties!



# Managing Working Capital

The key to managing a growing company

Working capital – what it is for

Example – Month Revenue \$40,000

A/R takes 60 days, during which

\$30,000 staff (\$20K comm\*+\$10K support)

\$4,500 benefits & employer contributions

\$5,000 office rent & \$5,000 office expenses

5,200 HST Paid

\$49,700 Working capital required

\* Possibly a trade financing receivable (contractors)

# How to Grow - Working Capital

As revenue increases, so does working capital

Working capital – what it is for

Example – Month Revenue \$60,000

A/R takes 60 days, during which

\$40,000 staff (\$30K comm\*+\$10K support)

\$6,000 benefits & employer contributions

\$5,000 office rent & \$5,000 office expenses

\$7,800 HST Paid

\$63,800 Working capital required

\* Possibly a trade financing receivable (contractors)

# How to Grow - Staffing Support & Alternatives

## Hiring salaried staff

- What tasks are you hiring for
- Administration / Writing / Filing / Reception
- Accounting / Banking
- Other

## Use consultants if possible

- Higher rates but infrequent (lower total cost)
- Scalable as business grows

# How to Grow – Dealing with Risks

Risk of work - Will there be enough

- Do not stop marketing when jobs awarded

Risk of competitors

Risk of fee erosion

Risk of revenue - Collecting fees is paramount

- Collect deposit (50% of fee for new clients)
- Reserve/Collect Visa/MC for fee amount
- Early pay discount/charge interest monthly
- Send statements to A/R monthly
- Always Phone A/R companies

# How to Sell – Company Form / Structure

Issues to consider

What are you selling

Partnerships

- Selling assets, information, clients, goodwill
- Purchaser buys elements at market value

Corporation

- Selling shares – may be tax advantage
- Capital gains deduction
- Purchaser buys elements at book value

# How to Sell – Competitive Advantage

## Purchaser may be competitor

- Expansion purchase – company absorbed
- CA may not be important

## Purchaser may be entering market

- CA may be relevant

## Purchaser may be employee(s)

- Founder / senior staff remain for transition
- CA likely important

# **Financial Planning**

**Is It Time to Reconsider Strategy?**



# Fees and the Bidding Process

Service firms sell expertise

- Your revenue is based on your hourly fees or commissions
- Understanding your competitive environment is essential

Remember:

- No one wants to hire the cheapest surgeon
- Differentiation: Premium services=Premium Price
- Not always possible – recognize a commodity service



# Economics and Services Pricing

Econ 101: In a perfectly competitive market...

Marginal Revenue = Marginal Cost

What will your competitor charge

- What about with no work to do
- Beware of the race to the bottom
- Beware of anticompetitive practices
  - Canada Competition Act

# Realistic Forecasting and Sensitivity Analysis

## Tracking Costs (Cost Accounting)

- What does it cost to deliver a service (report)
- What can be eliminated without compromising service

## Sensitivity

- How long can you survive a 40% drop in fees
- What is your contingency plan

# Realistic Forecasting and Sensitivity Analysis

Good forecasting includes understanding:

- Fixed Costs
- Variable Costs
- Tracking Costs (Cost Accounting)
- Sensitivity

# Capital Requirements for Service Firms

Real estate service firms - few capital requirements

Capital Assets May Include:

- Office (leased)
- Furniture (leased)
- Computers (leased)
- Automobiles (leased or provided by employees)
- Software / Data (annual subscription)

# Operating Requirements for Service Firms

Operating Expenses May Include:

- Contractor/Professional Commissions
- Staff Salary and Costs
- Data Subscriptions / Telephony
- Marketing / Promotion / Web
- Insurance
- Rent
- Professional Services
- Office Supplies

# Realistic Forecasting and Sensitivity Analysis

## Fixed Costs

- Most fixed costs have a stepwise progression
- Rent, Computers, Telephony, Data, Vehicles

## Variable Costs

- How do variable costs change with volume
- Economies of scale
- When do you reach diseconomies of scale?
- Hire admin/research staff

# **The Marketing Concept & The 5 W's**



# Marketing

The marketing concept

Why will someone hire you - what is your “brand”?

What are you selling?

Who is your target market?

Where do you provide your services?

What do you know about your competitors?



# Reality of Marketing in the Service Industry

The service industry is a one-on-one competition

Sales and marketing is essential for success

Remember, 10% inspiration and 90% perspiration

Or:

10% inspiration, 40% planning and 50% perspiration

Focus on success and plan for it

# The Marketing Concept

Find out what people want, then provide it to them...

## 2 Issues / Challenges

- How do I determine this, many people don't know what they can have
- Are my current skills limiting the services that I can provide

Finding what your clients need is a challenge

- Creativity and empathy are essential
- "I'll know what I want when I see it"

# What is Your Brand?

Brands are not just for large consumer products companies

Branding defines your company

Clients will be drawn to your values

Branding dictates pricing and competition

- Why is a Toyota/Hyundai less expensive than a Mercedes?
- Brand should flow from an honest vision statement

# Why Should Someone Hire You?

General perception that all RE service firms are the same

- Determine what is unique about your company

Specialization - Fill an unserved market niche

Is your business a “High Touch” or “Low Touch” service?

- AMC based appraisals versus tax appeals
- Is computer integration important to your clients?

Fantastic customer service

- Many promise but few deliver

# What Are You Selling?

This would seem to be a simple question...

E.g. Appraisal – Do you sell reports?

Or do you sell certainty?

Or the reduction in uncertainty?

Do you sell financial security – by accepting liability?

Do you sell your time, or your expertise?

*Define your service in terms clients relate to, you will have little difficulty differentiating yourself*

# Who is Your Target Market

Choose the level you want to work and start there

Never try to “work your way up”

Do not be afraid to make mistakes, each step you will become more knowledgeable / wise / confident

Have a clear Target Market

- Write down the criteria
- Sales is a numbers game - List at least 100 potential clients
- If you can't find this many, segment your target market

# Market Segmentation

## Types of Segmentation

- Geographic
- Real estate type
- Service type
- Benefit – owner or user of real estate
- Demographic
- Others

# Where Do You Work?

Decide what your geography is

Define the types of real estate you work with

Clearly state this to prospects and clients

Are there areas where you can provide services where at present there is no local company?



# What Do You Know About Your Competitors

Once you decide on the rest of the elements...

Make a detailed list of your competitors

- Do not underestimate them

Find weaknesses in their offerings

- This may lead to new service offerings

Discover their major clients

- Pursue them, or leave them alone

Seek opportunities for alignment if appropriate

- Be appreciative, you may be sharing information constantly

# Marketing Summary

Focus on the marketing concept

Define your “brand”

State what you are selling – put it in writing

Identify your target market(s)

Decide where provide your services

Know your competitors

# **Indirect Business Development In The Professional Services Industry**



# Networking and Business Development

## Different forms of selling

### Direct:

- Selling directly to potential clients

### Indirect:

- Getting influencers to direct clients to you
- Using advertising and promotion to make others aware of your services and expertise

# Networking - COI – Centre of Influence

Referrals (warm calls) from trusted advisors:

Bankers

Lawyers

Accountants

Developers

Property managers

Other consultants (non competing)

Have a target for meeting new people each month

# Paying It Forward

Enter into each meeting offering something to the other person

Trust in the “Law of equal exchange”

Understand what each COI may need from you

Prepare a “cheat sheet” of topics for each meeting

Pass on “insights” to each contact in exchange for new information

Offer to assist if they need information or help for a client (no financial obligation)

# Networking Strategies

Identify places / functions to meet new contacts

Prepare a list of types of network contacts you value

Research the firms in each field in your market

Compile a list of contacts to meet at each firm

Ask clients to recommend other professionals

Consider starting a networking group of people from different fields to meet monthly for lunch/coffee

Always sit with strangers at trade functions

# Networking Fears

Not having anything of value to offer

- Always come with 5 interesting “insights”

Not being able to remember names

- Tackle head on, learn techniques and use contact names often upon hearing them

Fear of not being recognized

- Take the lead and reintroduce yourself

Fear of not fitting in

- Focus on asking about the other person



# Referrals – Getting and Giving

Ask for referrals, or to be part of a shortlist

Do not expect to be the only party on shortlist

Most COIs cannot merely provide one name

Always support referred clients and the referrals will more than likely come to you in the end (persuasion)

Provide referrals – note these are also non-exclusive

Ask COIs what type of business they want, and what they do not want

# Advertising

Cost is a critical element

What are your choices?

Who is your target?

Direct mail / addressed mail

Yellow pages & associated online references

Sponsorship / Board of Trade / Trade Magazines

# PR Strategies

Can be closely tied into thought leadership (TL)

DIY or hire a press agent

Submit directly to [www.newswire.ca](http://www.newswire.ca)

Find news services that may carry your articles

Publish your own Blog (may be linked to TL)

Network with news writers in your area / field and be available for quotes and interviews

Purchase “advertorial” space in local papers

# Social Networking

Select the media you intend to use

Stick to your plans

Do not spread yourself too thinly

Seek to be pushing out messages to draw in interest

Leads back to thought leadership activities

Determine how your clients use this medium

# Requests for Proposals

Key source for larger government tenders (merx)

Time consuming (particularly the first time)

Use the RFP to hone your message, and research an industry

Use your knowledge to pursue different prospects

# Seminars – Thought Leadership In Action

Planning and managing your promotion is essential

Team up with other complimentary services

Target either COIs or prospects

Make sure you provide value, materials, examples

Investment may be significant in cost and time

Find out if attendees can get continuing education credit for attendance (appeal to associations)

Keep the scale manageable at first, then build

# Indirect Business Development Summary

Don't put your eggs in one basket

- Networking
- Advertising
- PR Activities
- Social networking
- Requests for proposals
- Seminars

# **Personal Sales Skills**

## **Always Be Closing**

**The ABCs of Converting Leads Into Mandates**





# The Personal Selling Process

## Direct Selling:

- Selling directly to potential clients
- Invariably you will be dealing with another person
- Direct contact
- Referrals from COI Network
- Referrals from Clients
- Referrals from Competitors

# Always Be Closing

Classic Perspective, but difficult to be good at

Stereotypical “Pushy Salesperson”

In reality, this is difficult, but it is 2 steps:

1. Tell client what you will do and what you want in exchange
2. Ask for the business
  - Most people are afraid to commit in case they receive a rejection
  - Consider, is a fast no better than a slow maybe?

# Develop Your Skills

Read books on sales processes

Practice “closing” when you work with people

Be confident in your own “right” to get to do the work

Try a few “closes” and don’t take the first no

Remember the law of large numbers and don’t expect to get a positive response every time

Move on to the next prospect

# Avoid Inertia

Keep the ball rolling; don't lose the mandate after you have a verbal agreement

Get a LOE signed (have a blank one on hand)

Get a deposit

Visit the site

Meet the clients

Engage others to assist you

# After The Project Is Completed

Conduct a post project survey

Can use Survey Monkey or other tools

Evaluate service levels and opportunities to improve

Try to be consistent – NPS Score is example

Take feedback with a grain of salt

- Customer is always right, even when wrong
- Friendly excuses are easier to provide than the hard truth
- Even ask why you didn't get a mandate

# Transfer Success to Next Project

Keep clients in an update file

Ask for permission to continue to send information

Ask for referrals

Decide what you can do to assist clients and business associates of past / current clients

Keep testimonials and ask for permission to have prospects contact previous clients

# Seven Habits of Highly Effective People\*

1. Be proactive
2. Begin with the end in mind
3. Put first things first
4. Seek win-win solutions
5. Seek first to understand, then to be understood
6. Synergize
7. Sharpen the saw

\*Stephen R. Covey

# Personal Sales Skills Summary

Personal selling is a must

Always be closing

Sharpen the saw

After the project is completed

Transfer success

Remember the 7 habits – post-it note reminders



# **Setting Up Your Practice in Real Estate Services**



# Types of Business Formations

		Administrative Cost		
		Low Cost	Medium Cost	High Cost
Complexity	Simple	Sole Proprietorship		
	Medium Complexity	Partnership	Limited Partnership	
	Complex		Limited Liability Partnership	Corporation

Disclaimer: Always seek professional accounting and legal advice when making business formation and tax decisions.

# Key Risk Factors – Business Formation

Liability

Regulatory Compliance / Annual Costs

Tax Consequences

Set Up Time / Resources

Long-Term Wealth Management

Capital Sourcing / Transparency / Scalability

Operations Management / Severability

Future Sale Value / Process

# Sole Proprietorship / Partnership

Provincially organized

Registration of business name

Registration of partners

Partnership agreement recommended (not required)

Simple banking arrangements

Income taxed in proprietor/partner hands

Unlimited liability

Low annual cost

# Incorporation

Provincially or federally organized

Registration of corporation

Registration of directors and officers

Annual (or other) reporting and bylaws required

Complex banking arrangements

Income taxed at the corporate level

Limited liability

High annual cost

# Incorporation

## Types of corporations

Canadian Controlled Private Corporation (CCPC)

Personal Real Estate Corporation (PREC)

Personal Services Business Corporation (PSB)

Other Corporations

# Limited Liability for Corporations

Liability limited to investment in company

- In theory, this will protect your personal finances

## Appraisers - CUSPAP

- Professional Liability Insurance Program (PLIP)
- Written on the individual
- PLIP bypasses corporate structure

# Managing Income and Expenses

Another Primary benefit of business structures

- Redistributing income / earnings
- Income splitting
  - Salary options
  - Partnership profit sharing
  - Dividends (corporations)
- Deferring taxes (corporations)



**Thank You**

