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Lighthouse's Strategic Dilemmas

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Case Overview

This case concerns a small business at a tipping point in the owner's life cycle immediately before the global financial crisis hit. Students should be able to identify a number of areas where the company can improve its strategy in a highly competitive industry. The case is geared towards college juniors or seniors and can be taught in a one to two hour class. Although the case takes place in the U.S., the basic concepts and problems presented in the case are applicable to many areas of business and many countries.

Keywords Product life cycle, entrepreneur, small business, medical real estate

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Case Synopsis:

Susan Christiansen, a real estate broker in Ohio, had big plans. It was early 2008, and her small real estate brokerage had recently reached a significant milestone: its 25th commercial real estate transaction and 66th residential transaction, healthy achievements for a relatively new regional broker. Her achievements were all the more impressive because all of her agents were women, and the commercial real estate market was truly an “old boy’s network” where more work was conducted on the male-dominated golf course than in offices.

Susan had started her business, Lighthouse, in 2004 with \$200,000 in borrowed money from her second husband, a physician at a local hospital. Despite having a background in pharmaceutical sales and no experience in real estate, Susan grew her business from nothing to a small regional player with a staff of three residential real estate agents and three commercial real estate agents. Susan did so by recruiting experienced agents from big-name brokerage firms, wooing them with larger-than-average commissions. This recruiting practice kick-started Lighthouse’s business, especially its commercial real estate sales. It also eliminated the need for specialized training in an area that Susan did not have much experience in.

Lighthouse had also grown by using a combination of traditional and on-line residential real estate services. Traditionally, homebuyers and homeowners would be shown a few houses or sign a contract to have their home sold by the broker, then, once a deal was made, come into the office again to sign the closing agreement. Brokers for both the seller and buyer would each take 3% of the sales price to split 50/50 with the real estate agent. Susan, however, recognized that more and more residential real estate was being offered online for sale by owner for a very low flat fee online, completely eliminating the need for traditional brokerages like Lighthouse. She recognized this as a growing trend so partnered with an existing online broker to capitalize on flat-fee real estate sales. For 20% of the \$500 fee that home sellers paid the online broker, Lighthouse provided extra home selling services such as preparing the home for staging and providing “for sale” signs to home sellers. In addition, Lighthouse was given leads for home sellers who were frustrated when their online efforts failed and wanted a traditional broker. Susan was able to hire her third residential real estate agent in 2007 as a

result of these online sales leads. Since the number of Lighthouse's residential sales - from both traditional and online leads - grew 20%, Susan felt that partnering with an online real estate brokerage was a wise business decision.

Lighthouse's commercial real estate business grew more slowly. Her team of three women went after sales of indoor shopping malls and stand-alone restaurant buildings as well as other types of commercial real estate that they'd heard was going to be put on sale. Susan felt that, as a newcomer to the market, she needed to cover all areas of the business to make her name well-known. Susan felt very pleased that her strategy led to so many sales.

Although Lighthouse had experienced strong growth, the company had also experienced numerous difficulties. Net income was 33% lower than Susan had originally expected due to her decision to give significantly higher commissions to her agents. She also was experiencing high turnover of residential real estate agents who, upon quitting, told her that they had better offers elsewhere. The lack of training for agents also was viewed a negative by potential real estate agents who could get free training at other brokerages. Susan was able to make a living and make regular payments on the principle on her debt to her husband but was not able to pay it down as much as she had initially promised him. He was quite understanding but his patience was growing a bit thin.

Susan was happy with her recent successes but was intent on growing her business at an even greater pace. She felt that she was at a tipping point in her company's life cycle. Since commercial real estate transactions were so much more profitable than residential transactions, Susan started investigating ways to grow that area of her business. One area that she hit upon was the idea of working in medical office building sales. If Obama became president, it was possible that he would try to reform the country's health care system. Regardless, the country was aging considerably. With age comes more medical problems which means more doctors and health services would be needed. As Susan began to explore this idea, she became more and more confident that medical office building sales were the way to go. She'd have to decide quickly, though, since commercial real estate sales took many, many more months to fully conclude than residential real estate sales. She'd have to get started now.

Discussion Questions:

1. What mistakes, if any, had Susan made before early 2008?
2. Do you believe Susan is making a good decision in deciding to take on the medical facilities sales? What factors could help or hinder her efforts?
3. What are some marketing strategies Susan could use to enhance her commercial real estate sales? What strategies could she use to improve her residential real estate sales?
4. Conduct a SWOT analysis of Susan's business. What are some of her most serious issues?

Instructor Notes:

1. What mistakes, if any, had Susan made before early 2008?

Lighthouse's decision to enter the low flat fee residential sales market was most likely a loss-making decision. Lighthouse only received \$100 for preparing a home for making signage and preparing a home for staging. (Staging a home takes hours to do.) The labor costs alone would have cost more than \$100.

Although the residential real estate agents who quit Lighthouse told Susan that it was because they had better opportunities elsewhere, it was highly likely that they felt their services were being made more of a commodity and that they felt they were being replaced with an online service.

Susan made a bad hiring decision with the third residential real estate agent. Although the number of total real estate sales grew 20% when Susan added a third real estate agent, they really should have increased by up to 50% if the real estate agent had been as good as her other two agents and the marketplace had remain unchanged. (In 2007, the real estate market

was still very hot.) In other words, her real estate agent was underperforming and Susan should take measures to replace her.

Lighthouse's growth had been hampered by her decision to hire only female agents for the commercial side of the business. Commercial real estate transactions were often initiated and discussed among men on the golf course, out of reach of most women. (Only exceptional female golfers were permitted on many country clubs' courses during normal playing times. Average female golfers were strongly discouraged from playing at those times.) This meant that Lighthouse's growth was not as strong as it could have been if it had hired men as well. However, Susan felt that hiring only women was both a good marketing tool and a good way to empower women. For her, therefore, this was not a mistake. Some students may also see it that way.

Susan took a haphazard approach to the commercial real estate market by trying to cover everything at once. Commercial real estate sales also have long lead times so growing them properly took focus and patience. As the case states, it also takes the strong relationships which, given Lighthouse's all-female staff, would be harder to develop. The fact that Lighthouse had 25 commercial transactions under its belt was likely a result of existing relationships that her agents had rather than new relationships developed under the Lighthouse name.

2. Do you believe Susan is making a good decision in deciding to take on the medical facilities sales? What factors could help or hinder her efforts?

Students may argue for or against her decision. What should be pointed out, though, is that Susan currently lacks focus and clear direction.

Help: her background in pharmaceutical sales and her husband's knowledge of what was required in office buildings could help her understand what type of buildings may be needed. This knowledge, though, could result in Susan being overly confident in herself and lead her to make mistakes.

Hindrances: Most commercial real estate brokerages were also likely thinking that the aging population would drive the medical office building market upwards. In addition, the real estate market was beginning to see some cracks in early 2008. Recruiting agents away from big name firms may be harder than normal since big name firms are perceived as being safer than smaller firms.

3. What are some marketing strategies Susan could use to enhance her commercial real estate sales? What strategies could she use to improve her residential real estate sales?

Commercial: Susan had never done a STP analysis; doing this would be a good first step. She could then focus on a few markets only, learn the customers' needs more in-depth and make those markets the focal points of her company.

Residential: Because residential real estate agents are very independent and hyper-competitive, trying to get them all to focus in one direction may prove futile. Instead, Susan could focus on helping her agents develop more leads. One way Susan could attempt to gain more sales is by branching out and offering home stagings and other home-selling related services as side income. Although she might break even on those services, the real benefit would come from leads generated by doing a good job.

4. Conduct a SWOT analysis of Susan's business. What are some of her most serious issues?

Strengths: willingness to take risks, no bank loans and one very forgiving husband, experienced agents, no "extras" offered to agents that would take her away from generating leads, like training

Weaknesses: lack of focus, lack of brand name (even after 4 years), high turnover, female agents only (some may argue that this is not a weakness), no free training to agents

Opportunities: medical office buildings, online business, additional realtor services

Threats: many very large commercial brokerages, threatening economic slowdown that began in 2007, lack of loyalty of agents, marital problems could lead to financing troubles

Note 1: A real estate transaction could either be a sale or a purchase.

Note 2: This case is entirely fictional and bears no relationship to any existing persons or organizations.

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