Real Estate and Construction

Market Segmentation
What problem are We Trying to Solve - Strategic Level?

About the Construction Industry:

Characteristics
- Huge - $4 tr worldwide
- Local
- Project Based
- Unique end product
- Hundreds of firms all working with dozens of firms
- Low barriers to entry
- High barriers to exit

Traditional Implications
- Few economies of scale
- Fragmentation
  - (ENR 400 in aggregate < 25% of US market)
- Low margins
- High risk
- Same in related sectors - A/E, RE
Issues in Real Estate, Design, and Construction

- Fragmentation
- Low barriers to entry
- Low economies of scale
- Single projects
- Hard to find the incentives to adopt new technologies that rely on many companies sharing information
Strategic Planning: Key Concepts

Steps in Planning
Market Segmentation
Attractiveness: 5 Forces
Generic Strategies
The Firm Value Chain
Competitive Advantage (Ch. 1)

- Competitive Advantage stems from the basics: The value a firm is able to create for its buyers that exceeds the cost of creating it.
- Value is what buyers are willing to pay.
- Superior value stems from offering lower prices than competitors for equivalent benefits,
- or from providing unique benefits that more than offset a higher price.
Attractiveness and Strategy (Ch. 1)

- Two central questions underlie the choice of competitive strategy:
- The attractiveness of industries (and segments) for long term profitability
- The determinants of relative competitive position
Industry and Segment Selection (Ch. 7)

- You can select a segment in which to compete based on how profitable the structure should be in the long term.
- You can decide how to compete based on industry structure and the resources you have.
- You can shape your firm so that you can execute on this strategy with deliberation and efficiency.
Competitive Advantage Chapter 7: 
*Key Lessons to Retain:*

- There are many ways to define an industry.
- There are many ways to arrange a matrix.
- After trial and error, reduce the matrix down so that it is useful in helping you to think and explain.
- Segments have varying attractiveness.
- Attractiveness is based on a combination of:
  - Size
  - Growth Rate
  - Competition
  - Your Situation
- Consider buyer and seller channels in setting up the Segmentation Matrix
- You can indicate competitor positions, growth rates, or changes in firm positioning on the matrix.
Indicators of Segment Profitability: “Five Forces” Model - M. Porter

Attractiveness of an Industry or of a Segment is a function of these forces. Use them in selection of segments - and in defense of segments.

Strategic Management

John Macomber
About the Five Forces (Ch. 1)

- The collective strength of the five competitive forces determines the ability of firms in an industry to earn high rates of return on their invested capital.
- The strength of the five forces varies from industry to industry, and can change over time.
- The five forces model can be applied to an entire industry, or to segments of an industry.
- The five forces determine industry profitability because they influence the prices, costs, and required investment of firms in an industry - the elements of return on investment.
Firm Value Chain (within the firm) (Chapter 2)

- You can identify key elements in the firm value chain for your situation
- You can select which elements you should focus on as you concentrate your efforts
- In using this tool, the resource allocation among cells is the key.
- In particular, resource allocation is likely to CHANGE over time based on the market strategy that you will pursue. Use this tool to illustrate CHANGES in what you do internally.
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