

# **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**

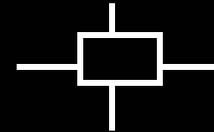
# Strategic Planning: Key Concepts

Steps in Planning

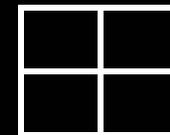


Market Segmentation

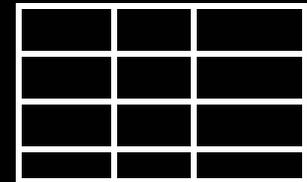
Attractiveness: 5 Forces



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)

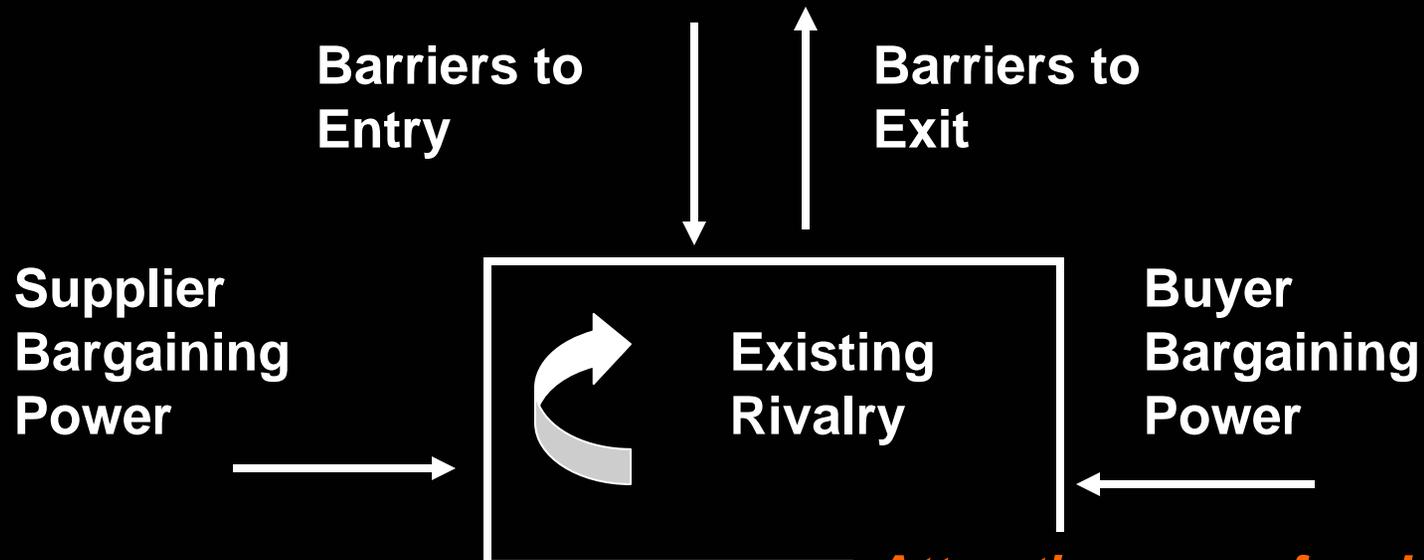
- **You can select a segment in which to compete**  
*based on how profitable the structure should be in the long term.*
- **You can decide how to compete**  
*based on industry structure and the resources you have.*
- **You can shape your firm so that you can execute on this strategy**  
*with deliberation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

# 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.

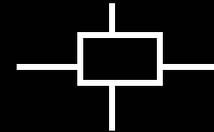
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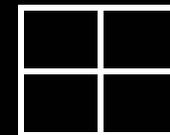


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The Firm Value Chain

