

Prudential Chamberlain Stiehl: The Evolution of an IT Architecture for a Residential Real Estate Firm, 1996-2001

Andy Borchers
Kettering University, USA

Bob Mills
Prudential Chamberlain Stiehl Realtors, USA

EXECUTIVE SUMMARY

This case describes the evolution of an IT architecture for Prudential Chamberlain Stiehl Realtors (PCSR), a 14-office, 250 sales agent real estate firm located in Southeast Michigan. Initially, the CIO of the firm concentrated on providing basic connectivity to sales agents and a simple World Wide Web (WWW) presence. Although this was accepted by users and moved the firm forward technically, management questioned the value of this technology. In the next phase of development, PCSR worked to build a “rich” set of applications that enhance the firm’s relationships with clients and agents. At the end of the case, the CIO ponders future moves in technology and their impact on the firm’s strategy.

BACKGROUND

Prudential Chamberlain Stiehl Realtors (PCSR) is a residential real estate brokerage operating in the upscale northern suburbs of Detroit and Flint, Michigan. The firm’s roots go back to 1948, but their current organization came about through a series of mergers between several area realtors in the 1990s. In 2001 the firm has two owners that believe that control of the residential real estate market will belong to a set of very large firms and small niche players. The owners have worked aggressively to stake out a significant share of the area’s real estate market and survive in an era of escalating competition and declining profit margins.

Current Operation

In 2001 the firm’s operation includes 14 sales offices. The organization’s employs about 300 employees, including 250 sales representatives and 50 support personnel. The offices are spread across a 70-mile span from north of Flint to Royal Oak, a Detroit suburb. This area comprises one of

the richest markets in the state of Michigan. Oakland County, the heart of PCSR's market, had a median income of nearly \$60,000 in 1997. The area is home to over 1,000,000 people. PCSR's annual real estate sales in 2000 were approximately \$600 million. Broker commissions on these sales were about \$18 million per year. The firm is the largest Prudential franchisee in the state of Michigan and one of the largest in the United States. PCSR has a sizeable market share. In the Flint area, for example, nearly 40% of all home sales are through PCSR.

The belief that the company needs to grow to survive is largely created by market conditions. The Southeast Michigan real estate brokerage business is highly fractured with small market share per broker. The sales associates who actually deal with clients (both sellers and buyers) are independent contractors paid on a commission basis. Typically, associates receive commission on a sliding scale. Associates can only be compensated by one broker. However, associates can easily move from one broker to another.

Industry Composition

Although there are a number of national real estate firms, including Century 21, ReMax, Prudential and others, all of these firms franchise local operations. The national firms provide marketing and advertising support. Operation of the local business, however, is strongly controlled by local brokers and their agents.

The industry has seen a reduction in the number of associates, coupled with a sharp increase in sales volumes per associate. For example, during the five years ending in early 2001, nearly half of all sales associates left the Southeast Michigan market. In all likelihood this trend will continue for the foreseeable future. The cost of participating as a sales associate, nearly \$4,000 per year to maintain memberships and licenses, plus fierce competition leads weaker associates to leave the field. Strong associates, however, have much to gain by selling more and more homes given the sliding commission scales used to compensate them.

This environment has created intense competition among brokers to recruit effective sales associates. High selling associates can easily change brokers if they see the potential for higher return or better support. This has forced brokers to pay higher commissions to associates and has hurt their profit margins. The competition for sales associates has had other effects besides increased commissions. Brokers are under pressure to provide sales associates with more support. Services such as office facilities, marketing and technology have become points of comparison that sales associates now use to compare brokers.

As a class of goods, homes have several unique characteristics. First, home purchases are typically the single largest purchase made by a consumer. Unlike other major purchases, such as automobiles, each home is unique and the "market" for a home is made through a bid and counter bid process. While comparable properties may be known in the community, putting a home on the market and seeing what a buyer will pay for it is the only true way to determine value.

Purchase Process

The process of buying a home can be viewed as a series of steps taken by buyer and seller. In most cases sellers are simultaneously in the process of buying as well.

1. Education – In this phase the buyer asks, "What can I afford?" "What features do I want in a house?" and "What is available in the market". The seller asks, "What is my house worth?"
2. Listing – In this phase the seller arranges to list his property with a broker.
3. Matching–In this phase one or more sales associates works to match buyers and sellers. Associates arrange open houses and visits by prospective purchasers.
4. Negotiation–In this phase buyers make offers and sellers accept, counter or reject these offer.
5. Financing–In this phase the buyer obtains financing for the home.
6. Closing – In this final phase the deal is legally executed.

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