



VYSOKÉ UČENÍ TECHNICKÉ V BRNĚ  
BRNO UNIVERSITY OF TECHNOLOGY



FAKULTA PODNIKATELSKÁ  
ÚSTAV EKONOMIKY  
FACULTY OF BUSINESS AND MANAGEMENT  
INSTITUTE OF ECONOMICS

## MARKETING IN THE REAL ESTATE BUSINESS

MARKETING V REALITNOM OBCHODE

DIPLOMOVÁ PRÁCE

MASTER'S THESIS

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BRNO 2013

Tato verze diplomové práce je zkrácená (dle Směrnice děkanky č. 1/2010).

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# Diploma Thesis Assignment

**Novák Matúš, Bc.**

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European Business and Finance (6208T150)

Pursuant to Act. No. 111/1998 Coll., on Higher Education Institutions, and in accordance with the Rules for Studies and Examinations of the Brno University of Technology and Dean's Directive on Realization of Bachelor and Master Degree Programs, the director of the Institute of is submitting you a diploma thesis of the following title:

## **Marketing in the Real Estate Business**

In the Czech language:

## **Marketing v realitnom obchode**

Instructions:

Introduction  
Problem definition and formulation of goals of the thesis  
Theoretical outcomes  
Analysis of current situation and of the problems  
Recommendations  
Conclusions  
References

Literature / Sources:

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The deadline for submission for the diploma thesis is given by the Schedule of the Academic year 2012/2013.

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Brno, 3.12.2012

## **ABSTRACT**

This thesis deals with developing a marketing strategy for a regional real estate agency that will establish the agency on the market and differentiate it from its competitors. The author analyzes the regional real estate market, the competitive environment and applicable marketing strategies and applies the findings on his own company.

## **ABSTRAKT**

Diplomová práca sa zaoberá návrhom marketingovej stratégie pre regionálnu realitnú kanceláriu, ktorá bude viesť k presadeniu sa na trhu a odlíšeniu sa od konkurencie. Autor analyzuje miestny trh s nehnuteľnosťami, konkurenčné prostredie a vhodné marketingové stratégie a aplikuje získané poznatky vo vlastnej firme.

## **KEY WORDS**

Real estate, property, sale, rental, contract, marketing, ownership, client, promotion, advertisement, agent, analysis.

## **K Ú OVÉ SLOVÁ**

Reality, nehnute nos , predaj, prenájom, zmluva, marketing, vlastníctvo, klient, propagácia, inzercia, maklér, analýza.

## **BIBLIOGRAPHIC CITATION**

NOVÁK, M. *Marketing in the real estate business*. Brno: Vysoké učení technické v Brně, Fakulta Podnikatelská, 2013. 72 pages. Thesis supervisor doc. Ing. Vladimír Chalupský, CSc., MBA

## **STATUTORY DECLARATION**

I hereby pronounce that the Master's thesis is original and I have elaborated it on my own.

I pronounce that citation of the sources used is complete and I have not violated the copyrights (pursuant to Act No. 121/2000 Coll., referred to as the Copyright Act).

In Brno \_\_\_\_\_

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signature



## **ACKNOWLEDGEMENT**

I would like to thank my supervisor doc. Ing. Vladimír Chalupský, S.Cc., MBA, for his help with writing this thesis and my parents for their support during my studies.

Bc. Matúš Novák

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# 1. Introduction

This diploma thesis analyzes the market position and prospects of a new real estate agency, in order to develop a complex marketing solution that will enable the company to establish itself on the Slovak real estate market.

The real estate industry is a big and complex industry which includes many subjects and activities. In order to sufficiently cover the matter, the research was narrowed to several sections of the industry. The thesis focuses on a regional real estate agency that is engaged in agenting sale, purchase and rental of commercial and residential properties. Financing, developing and building services are examined only in a necessary part.

The aim of this thesis is to provide insight to the business with properties, explain the specifics of the market, analyze various transactions with properties, legal requirements and shape the market orientation of a newly set up real estate agency The Company based on the premise that true marketing is a philosophy that drives company's activities on all levels. Since the thesis discusses a business activity that is to a large extent regulated by a complex of civil and business laws, as well as by regional specifics, the thesis focuses purely on the Slovak market.

The outcome of the work is elaboration of a complex market oriented strategy and recommendations that will enable a regional real estate agency to penetrate the market, gain brand recognition, distinguish itself from the competition and provide solid foundations for further progress and expansion of the organization. The goals of the thesis are achieved by applying the personal knowledge and experience of the author to academic frameworks, theories and expert opinions.

## **2. Aims of the thesis**

The thesis shall serve as a guideline to understanding the real estate business and develop a suitable marketing strategy for running a successful business in this industry.

The structure of this paper is divided in two main sections. The first section is based on a review of industry related literature, descriptive analysis of the market specifics, legal system, types of real estate transactions, regional market behavior and marketing strategies that are applicable in the field.

The second section analyzes a real estate agency The Company and applies the findings in order to enhance the business of the agency, develop a marketing strategy for the company and suggest improvements to its daily operations. From a time point of view, this sections starts at the point of setting up the business of The Company, examines its performance during a one year period and presents suggestions for further development of the company. The author of this thesis is also the co-owner of the company that was examined and as such has access to all the data and practical information needed to critically analyze the subject. Meaning that a major part of this thesis was based on a real life experience, with an emphasis on practical implications of the findings gathered during the research.

### **2.1 The elaboration process**

The theoretical section of the thesis will be at first based on a descriptive analysis of real estate industry and its current state. Explained will be the basic terms and subjects involved and influencing the market. Further will be examined the real estate transactions and the applicable legislation that influences and regulates the market. Consequently, the thesis deals with the kinds of contracts that are being used in the business among the sellers and buyers, as well as among the agency and its clients.

The section continues with a critical review of literature which provides theories and guidelines for running the business, understanding the various situations that the agent needs to handle, as well as marketing concepts that can enhance the daily operation of the organization.

Once the basic principles and theories are established, the thesis continues with an analysis of the market of The Company, using the SWOT analysis, the Porter's model of five forces, SLEPT analysis and 7 Ps marketing analysis. These analyses serve the purpose of understanding the specific regional market in which the company operates, in order to be able to suggest concrete actions and solutions in the practical section of the paper.

The process follows with an analysis of the situation in the company at the beginning of the writing of this thesis in February 2012 and examines the progress and development of the company during the year 2012.

The practical section starts with suggesting improvements in the basic operation and structure of the company. After that, it continues with the core of this thesis, which is developing marketing and promotion improvements aimed at increasing the awareness of the company in a saturated market. The chapter proceeds with designing an implementation schedule with specific actions that need to be executed in order to achieve the desired outcomes.

## **2.2 Definition of marketing**

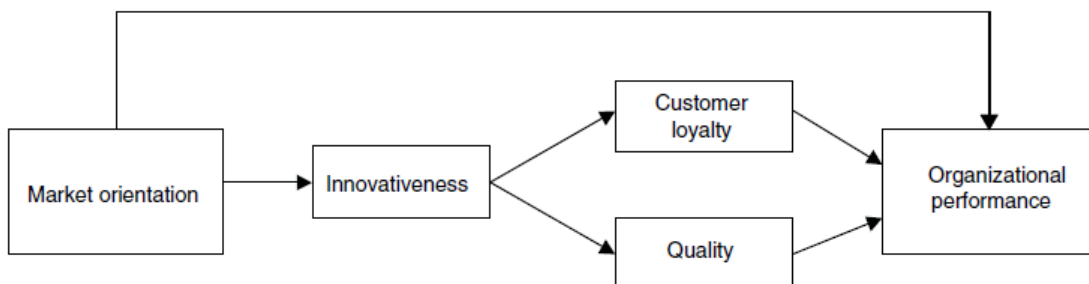
Seeing as the aim of this thesis lies in designing a marketing strategy for the real estate agency The Company, it is important to define what marketing and marketing orientation means and how is perceived throughout this paper. According to the research by Mr. Robert Clay of [marketingwizdom.com](http://marketingwizdom.com), marketing is traditionally perceived as a set of actions aimed at achieving desired sales targets by persuading customer that your products or services will serve their needs the best (16). However a true marketing orientation goes far beyond the standard definition of marketing and requires the whole organization to be market driven and customer focused. According to Mr. Clay, every business has four main functions: identifying customers, attracting customers, getting customers and retaining customers (16). Before a company starts carrying out those functions, it needs to thoroughly identify its market position, justify its market presence and benefits of its activities for the end users. This brings the

organization to the two most crucial activities, which are acquiring and retaining customers.

As might be clearly observed, none of the functions of the business can be separated. They all interlink and as the famous saying goes, a chain is only as strong as its weakest link. And this is what marketing orientation is all about. It requires the organization to carry out all of its activities with customer in mind. Therefore, the marketing strategy that is to be presented in this thesis, has been elaborated on the premise that every single activity and decision made, needs to contribute to a common goal of satisfying and exceeding client's needs and thus enabling the company to gain a comparative advantage on the market.

A different study by Kirca, A.H., et al. of the Duke University, USA, examines the benefits of market orientation as related to the organizational performance (17). As can be observed from the figure below, company's market orientation has a direct impact on organizational performance by concentrating on fulfillment of customer's needs on all levels within the company.

Figure 1  
(17)



By striving to increase customer's gains from the product or service offered, the organization is equally enhancing its own gains. Besides the direct correlation between market orientation and organizational performance, a market oriented company pays increased attention to innovations in order to benefit its customers from higher value goods and services. Through constant innovations, the company is reaching to other sub-targets. On one side, the innovations increase the quality of products and services offered, and on the other side the innovations are increasing customer loyalty by demonstrating company's commitment to providing ever improving products and services. In the end, both cases lead to boosting organizational performance.

### **3. Theoretical framework**

#### **3.1 Literature review**

There are two groups of primary literature sources that have been used during the research. The first group is comprised of professional publications that are essential for understanding the core components and legal concepts in the industry.

The first source is a book written by M. Be a, on legislation behind real estate operations. The author provides a complex system of information regarding the kinds of property ownership rights, kinds of contracts used in the real estate business and the cadastral proceedings. All situations described in the book are complemented by sample contracts with explanations. Even though the text is not directly cited in this thesis, it represents a valuable source of information. It is a similar case with the book by I. Tomšovová on rentals.

A very useful and topical source of information is the book by Š. Klein and P. Kesslerová, which deals with sale of properties in times of an economic crisis. The book starts with explanation of how the real estate market behaves during a recession. Compared to the market situation before the year 2007, we now find ourselves on a market where supply exceeds demand, sale offers exceed purchases, and the buyers possess a competitive advantage over the sellers and agents. As the authors point out, such situation requires the sellers, alt. the agent, to pay increased attention to how the property is being offered and how it can stand out among other similar offers.

In times when the market is flooded by similar offers, there are two aspects that make or break the sale. The property needs to either have the best, meaning lowest, price, or it needs to differentiate from other similar estates. The differentiation can be given by the uniqueness of the estate resulting from its natural characteristic, or by a good condition and effective marketing plan. As for the selling price, a mistake often made by the sellers and accepted by many agents, is setting the price high, assuming that it is always possible to give a discount once a buyer displays interest in the property. The reason why this mistake is so crucial is that interest in an offer is always the highest during the first days or weeks the offer gets published. By setting the price

unrealistically high, the seller with the agent are risking that the buyers who might be interested in the offer, will simply overlook it, because the estate is being offered in a different price category.

Another very important point stressed out by the authors, is close cooperation and regular communication between the seller and the agent. Many agents once they acquire a new offer only passively advertise the property and wait for a potential buyer to respond. They are therefore unable to reflect to the changes in the offer, either a price decrease by the owner or the sale being realized by someone else, in a timely manner. Regular communication among the agent and his clients represents one of the factors that distinguish successful agents from the unsuccessful.

The fourth literature source is a publication by D. Lakhani, dealing with strategies on enhancing sales during difficult economic periods. The work of the author is based on exploiting gaps on the market not seen by others and thus gaining a competitive advantage. Similarly to Mr. Klein and Ms. Kesslerová, Dave Lakhani emphasizes the need for frequent and regular communication and establishing closer relationships with clients. Even though the business relation between a real estate agent and his client lasts considerably shorter than between a salesman selling consumer goods to customers, effective relationship management is equally important. Not only does it increase the chances of closing a deal, but a satisfied client represents a valuable source of recommendations which can turn into new clients and new deals.

One of the ways of maintaining regular contact with current and prospective clients, is the use of social media which are gaining on their importance as a communication channel between the marketer and his clients. Relationship building through the use of social media is one the most effective internet marketing tools. Based on the findings of the author, there are two ways how a real estate agency can benefit from having a company profile on a social network. The first reason is that the profile provides additional advertisement space where the agent can export the offers. The offers will be seen not only by the members, or fans, of the agency, but they might further share and repost the offer among their circle of friends. The second and very important reason is that the social networks not only enable, but encourage communication and interaction between the author of the post and the audience that sees



it. This is a big difference compared to property advertisements on real estate portals. The feedback in form of liking and commenting on the offer is very important for the agent and enables him to adjust the offer and make it more competitive.

As was already mentioned above, Mr. Lakhani focuses in his publication on finding gaps on the market and exploiting opportunities that the competition does not see, or does not consider to be important or relevant. The author stresses out the importance of not only a regular, but also personal interaction between an agent and his clients and the importance of field work. The work of a real estate agent is based on working with people and building good and honest relationships with the current and prospective clients. Therefore, the agent needs to establish himself as an educated professional and needs to be recognized in the neighborhood where he operates. According to the National Association of Realtors, almost 60 % of all real estate transactions are made by agents, who are contacted based on personal recommendation (7). The number might be lower in Slovakia, but it is still true that a significant number of offers come from recommendations. What is even more important is that communication and cooperation with clients who turn to the agent themselves, tends to be much easier and the conditions for the agent use to be more favorable than in cases when the agent needs to acquire the offer himself.

One of the specifics of the real estate business compared to retail is that it is not possible to simply order a product and then sell it. Meanwhile manufacturers of goods need to develop a product, create a need for it and persuade the customer to purchase it, the need for real estates, for housing, is already there. People are moving, dying, getting promoted, their families are getting bigger or smaller and the preferences for their living standards are changing. The good news for real estate agencies is that there will always be a demand and supply of properties. The challenge is how to acquire the best properties that will sell, which is the biggest difference compared to most other sales professions. The agent can not wait for the clients to address him and ask him to sell their property. And he also should only advertise and wait for the buyers to call, once he adds the property to his offer. A good real estate agent should actively seek out available properties on sale, as well as actively promote and sell them.

To conclude the findings already noted by Mr. Lakhani, a good agent needs to be known in his neighborhood and proactively seek new offers. Therefore, it is recommended rather than to purely advertise in local newspaper and distribute leaflets, to prepare some promotional material and deliver it personally. There are several kinds of materials that can be distributed by the agent. He can prepare a promotional letter introducing the agency and its services, he can put notes to mailboxes stating what kind of properties is he currently searching for his clients, or he can address people in the neighborhood with a list of properties that are being currently on sale in that area (7). As for the last option, it may seem to be a strange way of acquiring new property to the offer, but it is actually a rather clever solution that can benefit the agent in two ways. At first, the people living in the neighborhood have friends, relatives and colleagues who might be interested in living in the area. Often parents move closer to their children once they have their own kids, to give a hand and spend more time with their grandchildren. Secondly, owners are always interested in prices of their properties, as well as those of their neighbors. By giving them an overview of the values of real estates in their location, the agent is sending out several messages. He is informing residents about values of their properties, which can be considered a free service, he is displaying his expertise and knowledge of the area, plus the agent is showing that he is an active seller who works with his portfolio and does not only passively advertise the offers (7). And that is what people value and what creates an attraction towards the agent. And as was already mentioned above, once people trust the agent and address him with an inquiry to sell their property, he has already half the bottle won.

The last primary literature source used in this thesis is the book *Buzzmarketing* by Mark Hughes. Buzz marketing is an alternative approach to marketing, which instead of big marketing budgets and massive promotion of a brand, focuses on creating a buzz which will attract attention and make people interested, rather than forcing them to take a notice due to omnipresence of your brand in the media. The traditional approach to marketing is based on developing promotion campaigns and heavy advertising, in order to address the target audience and build awareness about the company and its products or services. Meanwhile buzz marketing is about an original, striking message that is supposed to spread across the target audiences based on the natural interest of people to find out more. As a result, buzz marketing is not only significantly cheaper, as the message is being spread almost for free, but in most cases

also more effective, because people tend to be more eager to find out more about an issue that is unusual and novel to them, compared to messages they are being forced to observe (8).

This concept is very topical for a starting real estate agency, which needs to watch its marketing budget. In addition, buzz marketing is hardly being used by real estate agencies, which creates an opportunity to exploit this concept and take the market by surprise. The tricky part about buzz marketing is that the marketer needs to be much more creative while developing the campaign and also choose the right timing. It is important to closely hide the details so that they do not leak out, which would decrease the momentum and impact of the message, if not kill the surprise completely.

The buzz marketing campaign should unfold around an interesting message, something novel, shocking, or controversial. Such topics are usually the most interesting for people, which automatically imply they are interested for the media (8). Therefore is important to give them something they will inform about, without having to pay for it.

### **3.2 Introduction to the industry**

The business with real estates is by many considered to be very attractive and high yielding, but at the same time can be characterized as dynamic, sensitive to micro and macro economic factors and very challenging. The industry belongs to those most affected by the worldwide economic crisis that started to spread in 2008 and as of today, it still has not fully recovered.

The impact of the crisis can be assessed from three main viewpoints. Those of the investors, the banks and the buyers. The investors had to reevaluate their current projects and adjust them to a market where they no longer played the major role. The key to remaining in the business is higher effectiveness, cost cutting and paying close attention to the needs of buyers who started to play the main role. Similarly the banks have toughened their conditions and limited the availability of financing commercial and residential projects. As for the population, there are two ways of looking at the

situation, the impact on sellers and impact on buyers. In the market of buyers, where we find ourselves today, who has the money dictates the conditions. As the supply of properties currently significantly outweighs the demand, the bargaining power of buyers went up. This translates into a favorable market situation for buyers of properties. As for the sellers the situation is rather delicate and more complex. The prices of properties went back to the level before the real estate boom in Slovakia, which was ended by the crisis in 2008. For sellers who acquired their properties before the boom, might the current price situation be considered unfortunate, but not tragic. It is though a whole different case for sellers who acquired their properties during the boom at artificially pushed up prices. These sellers are creating a price imbalance among similar properties and have to either keep their properties, or suffer a financial loss. This problem will be examined more in detail in the practical part of this thesis.

### **3.3 Definition of terms**

#### **Land registry office**

The national property registration authority. It is a bureau that keeps track of all the properties in the country and records every change in ownership. During each sale, a proposal for change in the property ownership needs to be delivered to the land registry office, which changes the ownership to the buyer within a legally given period of the time. The change takes either 30 days in the standard procedure, or 15 days in case of an accelerated procedure.

#### **Cadastral territory**

Designates a measured land area under which falls a number of parcels. In Slovakia, every county is comprised of several districts, every district is further divided into towns and villages and every town or village has one, or several cadastral territories. It is very important to state the cadastral territory clearly, when identifying a certain parcel or property, along with property sheet number and lot number.

#### **Fee stamp**

Every transaction or request that needs to be handled by the land registry office requires the use of a fee stamp with corresponding value. Fee stamps need to be purchased in

advance and represent a cash payment supplement for operations with state offices in Slovakia.

### **Types of lots**

Currently, there are 10 officially recognized types of land in terms of their cadastral status (1). Each of those types has its own code: 2 – cropland, 3 – hop-field, 4 – vineyard, 5 – garden, 6 – fruit grove, 7 – permanent grass stand, 10 – forest land, 11 – expanse of water, 13 – built up area and courtyard, 14 – other land.

### **Cadastral proceeding**

During each sale, a proposal for change in the property ownership needs to be delivered to the land registry office, which changes the ownership to the buyer within a legally given period of the time. The change takes either 30 days in the standard proceeding, or 15 days in case of an accelerated proceeding.

### **Property sheet**

Is an identification document of each property. The form is legally given and includes information about the owner, area, location, cadastral territory, plot number and type, as well as possible burdens and liens.

### **Types of constructions**

The constructions are divided into commercial and residential buildings.

### **Mortgage**

Is a kind of loan offered by a bank to a borrower, who puts his property as collateral. Property financed on mortgage, are burdened with a lien that is recorded on the property sheet. In case the borrower loses the ability to repay the mortgage, the creditor has a right to seize the property in question. Such properties usually end up in public auctions.

### **Lien**

Is a burden recorded on the property sheet, which restricts the treatment of the property by the owner.

### **Cooperative**

In terms of the real estate business, cooperatives are organizations joining residents of apartment houses. The members own a share in the cooperative, but do not own the apartment in which they live, as the whole apartment house is owned by the cooperative. The sale of such apartments is different to sale of apartments in personal property. In case of a cooperative, the member is selling only his membership rights, not the actual apartment. Therefore, these transactions are not recorded by the land registry office and do not involve a change of owner on the property sheet. However, under certain circumstances, it is possible for a member to buy the apartment from the cooperative into his personal ownership. In such case, it is already a standard real estate transaction.

### **Deposit**

Is a down payment, usually up to 5 % of the total property selling price, paid by the buyer to the real estate agency, in order to confirm his intention to purchase the chosen property. The deposit is usually in the value of the agency's commission.

### **Types of ownership**

There are four types of property ownership, regardless of whether is the owner a physical, or a legal entity. In case of only one owner, the real estate is a personal property. The second situation occurs when the estate is owned by married partners. This case is referred to as tenancy by the entirety. By law, husband and wife always acquire the properties as common owners, unless their file for tenancy restriction. The third case is tenancy in common, when the property is owned by more than two owners. It is not uncommon, mainly in case of vast agricultural and forest land, that the property has tens or even hundreds of owners. At last, there is the state, or national ownerships.

## **3.4 Legal framework**

The real estate business is to a large content based on laws and contracts. In plain words, the activity of a real estate agency can be split in two main parts – marketing and law. It is generally assumed in the business that marketing takes about 60 % of the overall operation's pie, law 30 % and only about 10 % of all activities are represented

by technical expertise. A thorough understanding of the associated real estate legislation is not only essential from the legal point of view, but also determines the success of the transactions in the final phase of the sale. The legal essentials can often make or break the deal, if the real estate agent omits certain required actions, or gets them wrong. A close cooperation among the agent, the buyer, the seller and a lawyer is very important during each transaction.

There are three main legal documents that are being used in the real estate operations.

### **3.4.1 The Business Code**

The business code sets the legal requirements for the contract closed between the real estate agency and the owner of the property. The contractual relationship is described in section XVII of the Code and sets forth the legal duties and rights of the agent towards the licensor, in this case the owner of the property (2). This section of the business code describes also the conditions under which arises the right of the agent for the agreed commission. The right for commission usually arises at the point of signing the sale agreement between the seller and the buyer<sup>2</sup>.

### **3.4.2 The Civil Code**

The civil code is the main jurisdiction that determines the legal actions and obligations among citizens and represents the main collection of laws applicable also in the real estate business. All conflicts and legal disagreements that may arise during the transfer of property ownership rights are being handled on the basis of the civil code. This code sets forth also the legal requirements for the sale agreements.

### **3.4.3 Law nr. 182/1993 Coll.**

The law on ownership of apartments and nonresidential spaces. This jurisdiction applies only to flats and commercial spaces in apartment houses, since those need to comply with additional rules and requirements compared to private residential houses.

As the owners of the aforementioned properties live, or work in a complex of several residential or nonresidential units and share certain common spaces and equipment, the law 182/1993 exists to regulate the relations among the owners. This collection sets out also the conditions that have to be met in case of transfer of ownership rights (3).

## **3.5 Transactions**

Since the real estate business is very complex and deals with various situations, an analysis of all of them would exceed the scope of this paper. Not only are there plenty of transactions kinds, almost every case is to a certain level unique. The factors affecting the transaction and its nature are type of ownership, the presence of a lien or other burden, location in the cadastral territory, type of property, and others. However, the transactions can be split into three main groups.

### **3.5.1 Sale**

The sale of property is often referred to as the transfer of ownership rights. During this procedure, the estate passes from the seller into the exclusive ownership of the buyer. The rules for this transaction are explicitly set forth by the law and need to be followed in a consecutive order.

Naturally the first step is to find a buyer. Once he is found, he needs to express his commitment to purchase the property, preferably in a written form and a deposit paid to the hands of the owner, or the agent. The intention to purchase the property is usually confirmed by signing a forward contract, detailing the conditions of the future sale. This step is advised mainly in situation when the property will be financed on mortgage. In case the estate will be purchased with cash, the purchase agreement can be approached directly. The contracts can be elaborated by the agent in cooperation with a lawyer, by an advocate, or by a notary. In case elaboration of the contracts is entrusted to a notary, the contract is being called a notarial record.

In case the sale is handled by a real estate agency, the sale contracts are usually included in the admission. The purchase process starts by setting the price and rules of



the transaction. The agent works as a mediator between the seller and the buyer and once the conditions are agreed upon, the agent can start with preparation of the contract. In case the buyer intends to finance the purchase through a mortgage, a special report by a licensed expert in the construction field stating the physical condition and nominal value of the property, is required.

Besides the sale contract, the agent prepares also a proposal for the change of ownership on the property sheet. Once the documents are signed by both parties, the signatures need to be verified by a notary (4). The costs of verifying the signatures are usually paid by the agency and included in the commission. The next step is to deliver the documents to the cadastral office, along with the respective fee stamp. In case the object of sale is an apartment, it is required to enclose also a written confirmation from the administrator of the apartment house that the owner has no unpaid invoices for energies and associated services provided by the administrator.

Once all the necessary documents have been delivered to the cadastral office, the parties need to wait up to 15, or 30 days until the proceedings are finished and the new owner is registered on the property sheet. However, this period may be prolonged in case there are mistakes in the contract, or proposal. In such case, the proceeding is suspended until correction is made. The buyer and the seller are notified about the result via registered mail. The last step, once the new owner receives the property sheet with his name on it, is to register at the suppliers of energies and alternatively, the housing estate administrator.

There is still however one, and probably the most important part of the transaction, that needs to be described. Namely, the payment. There are several ways of settlement in case of property purchases. The payment can be made directly between the parties, or a safekeeping service can be used.

The first option that comes to mind in case of a direct payment between the parties, though the most risky one is cash payment (5). This option is still preferred and sometimes even required by some sellers. There is also a psychological aspect to this kind of purchase price settlement, as the prospect of having quick cash might be tempting to some, and may also lead to negotiating more favorable price conditions.

Though a bank transfer is more commonly used and generally more suitable for purchases of real estates, where higher amounts of money are involved. And evidence of a completed wire transfer is also more credible in case something goes wrong and the deal needs to be void. Such situation will not however be analyzed in this thesis, as it is a rather delicate matter. The timing of the payment depends solely on the mutual agreement between the parties. The whole amount can be paid up front at the date of signing the contract, on the basis of a new property sheet, or it can be split into two or more payments. It is highly recommended to meet the sellers claim after the cadastral proceedings are over and the buyer gets his new property sheet.

The second option of property purchase price settlement is using a safekeeping service. The possibilities are either a notarial custody, or pledging collateral in a bank. Both of these options incur additional costs, depending on the value of the transaction, but are generally considered to be the safest way of financing real estate purchases. The aforementioned service can be provided also by the real estate agency, though only a handful of agencies meet the required safety criteria for handling and storing higher sums of money.

### **3.5.2 Rental**

A frequent transaction in the real estate business is rental. Due to the current economic situation, rental of apartments in Slovakia is on the rise, as more and more people are limited by their financial situation to this kind of housing solution. Table 1 provides a comparison between the average interest of buyers in apartments for sale and apartments for rent and the average time an offer for sale and rental stays on the market. The data in the table are based on statistics of The Company during a period from January to August 2012.

As for the rental contracts, these can be closed for a definite, or indefinite period (6). In case the contract is closed for a definite period, the end of validity of the contract is set in advance along with conditions under which it can be prolonged. In case of contracts signed for an indefinite period, it can be canceled by either of the parties by a notice according to terms stated in the contract. If the period of notice is not clearly defined in the contract, then the period is 3 months, as prescribed by the legislation.

A rental contract needs to include details of the estate, the landlord, the tenant, the price and rights and obligations of both parties. The price may, or may not include utilities, depending on the mutual agreement between the parties. The rental contracts do not require verification of signatures by a notary.

### **3.5.3 Transfer of rights**

There are several situations when the buyer does not acquire sole proprietorship of the real estate, but only certain rights or a share.

The first situation is represented by cooperative housing. There can still be found apartment houses in Slovakia which are owned by cooperatives. In such case, a person is not an owner of the apartment in which he resides, but only a copartner in the cooperative. Once such apartment goes on sale, the person is selling not the apartment itself, but is only transferring his shareholder rights. The sale is therefore not being handled by the cadastral office, but needs to be approved by the cooperative. If the owner of shareholder rights wishes to acquire the apartment into his sole proprietorship, he needs to file a request addressed to the cooperative and purchase the apartment at its book value. In this case, the sale already needs to meet all the required formalities described in section 3.4.2.

Another situation when the buyer does not acquire the whole property into his sole proprietorship occurs in case of joint ownership. This means, that the property has several owners. Those can be business partners, family members, or sometimes even tens or hundreds of strange people, in case of aralia and forests. Once a joint owner decides to sell his share of the property, he is by law required to offer his share to other current owners (4). If any of the other owners expresses interest in purchasing the share, he is obliged to sell it to him, rather than to an outside buyer. If the joint owner does not receive answer from the other owners in 2 months time, it is considered as a declined of the offer and he is allowed to sell his portion. However, the selling price needs to be the same, as the price offered to the other joint owners. If the seller decides to decrease his price, he is required to go through the whole process again. Once all the conditions are

agreed upon, the sale needs to meet all the required formalities described in section 3.4.2.

The Company is keeping records of the proportion of executed sales and rentals and the average time the respective properties are available on the market. In general, it can be concluded that properties for rent stay on the market for a considerably shorter period of time and display higher interest among the clients. The same can be said comparing houses and apartments. Apartments are usually selling faster than houses. The statistic is presented in the table below. The data presented in the table come from internal records of The Company and may not apply to the whole market, or other agencies.

Table 1

[]				
[]	[]			[]
[]	[]	[]	[]	[]
[]	[]	[]	[]	[]
[]	[]	[]	[]	[]
[]	[]	[]	[]	[]

### 3.6 Contracts

Contracts might be considered the most important component in the real estate Business.

The important role of contracts is given by the nature of the business. Transactions with properties involve high amounts of money and real estates are sensitive objects for all the companies, citizens and the state. Therefore, an utmost attention needs to be paid to this topic. From the point of view of a real estate agency, the contracts can be categorized in two groups.

#### 3.6.1 Contracts between the agent and the client

For a real estate agency, the contractual relationship between the client and the

office is very important. A client who wishes to sell or rent his property can sign with the agency either an exclusive, or a non-exclusive agreement (5). An Exclusive contract means that the property is being offered only by one agent, which enables the agent to work with the offer in the most effective way. The client is communicating only with one person, has better overview about how is his property being sold/rented, the agent is willing to spend more money on promotion of the property and the exclusive cooperation often leads to a faster transaction and better price for the seller (5).

However, the exclusive agency is still not as common in Slovakia as it should be. Many property owners are afraid of the resulting commitment and obligations and thus prefer a non-exclusive agency. This means that the owner has the right to sell/rent his property on his own, or offer the estate via several agents. That leads to a situation when the property might repeat several times on the real estate website, with different pictures, prices and information (5). Such situation is rather unfortunate, as it decreases the credibility of the offer, as well as decreases the motivation of agents to invest into increased promotion of the property, because the buyer might be attracted based on their offer, but eventually buy the property from a different agent who has undercut the price. It also creates a competition between the agents offering the same property, who are as a result putting pressure on the seller to cut down the price (5). Based on the general experience in the field, non-exclusive offers often tend to remain longer on the market and sell for lower prices in the end, compared to properties being offered on the basis of an exclusive agreement.

Knowing the often dismissive attitude of property owners towards exclusive contracts, The Company tried to come up with a solution which might represent a compromise for both, the seller and the agent. The main idea being, that the owner is still allowed to find a buyer on his own, but will reimburse the agency with 40 % of the originally agreed commission. In return, the agency will elaborate the sales contract and proposal for change of ownership rights. Prior to introducing this kind of contract, The Company has conducted a survey on a sample of 30 current and potential clients. The results of the survey are presented in the following table.

Table 2

Privileged Exclusivity	
Would consider agreeing to the contract	17 respondents
Does not change their opinion on exclusive contracts	8 respondents
Not interested in agenting sale regardless of the terms of cooperation	5 respondents

### **3.6.2 Contracts between the buyer and the seller**

Contracts between the buyer and the seller are of equal, if not higher importance, though they are sometimes underestimated by the owners who try to save costs by selling their properties on their own and using contract samples from the internet. Based on exclusive information from a source, who does not wish to be named, from the cadastral office in Prievidza, Slovakia, almost half of the cadastral proceedings have to be suspended due to mistakes in the sale contracts. Once a proceeding is suspended, the parties need to come to the cadastral office in person and make correction to the contract. This not only increases the cost, but also extends the transaction time, which might be rather awkward mainly in situation where on sale is closely tied to another purchase, or to releasing funds from a bank. This fact underlines the significance of entrusting such important matter as sale of a property to a credible professional.

### **3.7 Regulation authorities**

The real estate business is naturally controlled and regulated by a complex of laws, directives and governmental agencies. One of those is also the cadastral office, whose role has been already described above. The cadastral office keeps record of all properties in its respective region, all property sheets and maps. The office also records every change in ownership and provides ownership information for citizens.

Another organs working on a municipal level are the construction administration and the department of urban planning. These two authorities issue building permissions for new constructions, for modifications to existing buildings, as well as make decision regarding the territorial expansions of towns and villages.

## **4. Analysis of the organization, its market and strategy**

### **4.1 Strategy**

Strategy is a long term vision of a company, aimed at achieving a desired market position. According to Michael Porter, in today's business environment, an organization should develop a strategy that would enable it to become competitive through a set of unique activities that will differentiate it from its competitors (21). All company's activities should be aligned and directed to achieving the desired market position; however, they should not be too obtrusive and make the company rigid. Regardless of the importance of pursuing the company's vision and adhering to the strategy, the organization needs to remain flexible and respond to the changing market conditions.

When developing a strategy, the organization should consider:

- What is the desired position the company strives to achieve
- Identify the market and its specifics
- Find points of difference, market gaps
- Critically examine its resources
- What will the company have to cope with

In order to find answers to these questions, an organization should carry out several analyses described below.

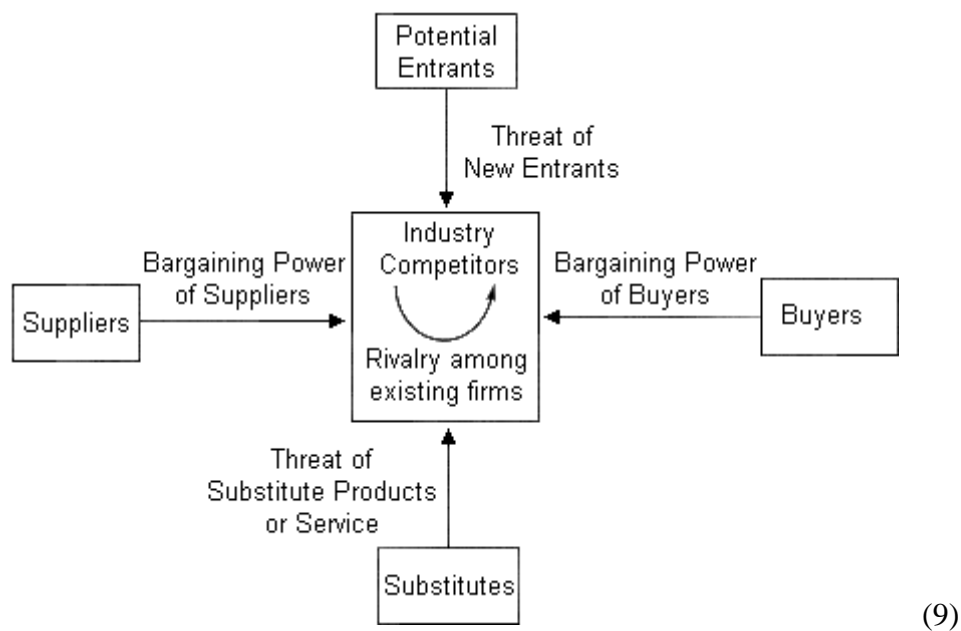
### **4.2 Market Analysis**

The purpose of this section is to analyze the current situation on the real estate market in the region where The Company operates. The concepts that have been used are the Porter's five forces analysis for analyzing the competitive intensity within the industry, the SWOT analysis for evaluating the opportunities and limitations of the project The Company, the SLEPT analysis for examining the external environment and the 7 P's Marketing Mix model in order to provide basis for shaping the marketing strategy.

#### 4.2.1 Porter's five forces model

The Porter's model of five competitive forces, is a commonly used approach to assessing market potential prior to entering it. The key words to understanding this model are competition, profitability and meaningfulness. As its name suggests, the model examines five market forces, which are: bargaining power of suppliers, bargaining power of buyers, threat of new entrants, threat of substitute products and the competitive rivalry within the industry.

Figure 2



(9)

#### Competitive rivalry within the industry

Based on the population census in the Priedviza district from year 2001, there are 140 444 citizens living in the district in 27 071 houses and 49 635 flats (10). This market is being served by 22 real estate agencies, meaning that the market saturation can be considered quite high. The Company finds itself among the last two entrants. Average number of agents per one agency is 4, meaning that The Company is significantly lacking behind in this regard. Considering the amount of real estate agents operating in the region, the rivalry is high and the market is considered, by agents and also clients, to be oversaturated. One of the examples of oversaturation is the fact that a



significant number of properties are being offered by several agencies, which is not good and it deforms the market.

What can be considered positive in the current situation is that there are very few differences among the agencies, apart from their sizes. There still might be a place for a new entrant, but he should differentiate from the competitors and bring something novel. The level of innovation in the industry can be generally considered to be very low. The companies are mainly competing in terms of numbers of agents and properties on offer, as well as by gaining exclusivity for individual properties and developing pressure on the sellers to decrease the prices, so that the agency has the best price. This competition in its current forms shows two main negative outcomes. The first one is the pressure on decreasing commissions which are sometimes falling on a level at which it becomes difficult to generate reasonable profit after deducting all the costs. The second affect is rather unpleasant mainly for the sellers, as the price wars are to certain extent driving down the values of properties. However, this is bad also for the agency, as the lower the selling price of a property, the lower admission can they charge.

### **Threat of new entrants**

Regulation of the subjects involved in real estate business is currently rather low. Once a company which to engage in the business, it needs to file for a license, which can be obtained as long as the company employs a person with a university degree in economics, law, civil engineering and architecture, or a person with high school education and five years of experience in the field (11). Other than that, there are no more requirements for obtaining the license, nor is there an obligation to acquire any additional industry oriented education and certificates. There is also no binding code of conduct. Even though there is a national chamber of real estate agencies, the membership is on a voluntary basis. This is very different compared to lawyers, or doctors, who need to by law joined in a chamber and obtained a specialized license which needs to be prolonged on a regular basis.

Due to the loose regulation in the business, the threat of new entrants can be considered high. However, as the market in the region is considered to be oversaturated, it is unlikely there will be many new entrants, if any.

### **Threat of substitute products**

The real estate business by its nature does not have a real substitute product. However, there are still some possible dangers from the point of view of a real estate agency. The first one is represented by tenementary apartment houses. These are experiencing a boom during the last couple of years, and are being building in many villages in small towns directly by the municipality. The reasons behind, might be the unfavorable economic situation which is causing that the number of people looking for apartments for rent is rising, meanwhile the number of persons seeking a flat to buy is declining. Another reason is the general demographical trend of moving to bigger towns in order to live closer to work and increase the standards and quality of living. Which might be good for the citizens, but it is not very good for the villages, because those are losing on taxes.

The tenementary apartment houses represent a potential threat for the real estate agencies, because these apartments are built and rented directly by the municipalities. Meaning that the agency loses some clients and can not even get involved in those transactions. And there is quite a demand for such apartments, as they are usually newly built, partially furnished, the tenants do not have to be afraid the tenancy might be terminated by the landlord, plus after several years, they will have the chance of buying the apartment for a book value.

The second potential threat is more arguable and depends on the point of view. It relates to investment properties. Based on the economic situation, market mood, availability of loans and the potential of other commodities, the investor might start putting their money into something else, or suspend investing completely.

### **Bargaining power of customers**

The real estate market is currently referred to as the buyer's market (5). Because the supply is greater than the demand, buyers possess a better negotiating position and they are aware of it. The situation is being influenced in a negative way also by the

media. Everywhere can be heard that the crisis which started in 2008 is still not over and the prices of real estate may still not have touched the ground. Plus there is also the current stress regarding the EURO currency and its possible affects on mortgage rates, which creates an uncertainty regarding real estate purchases on loan, which represent a significant share of overall transactions with properties. All of these factors combined, are influencing the behavior of buyers and contribute to an unfavorable situation for sellers and agents.

The buyers are aware that their position is strong and there are plenty of offers they can choose from. And because the whole situation is backed up by frequent alert information from the media, the buyers feel their status is strong. In practice, it can be observed in two most common situations. The first one is that buyers still expect future drops in property values and therefore are waiting. They are still interested in the market offers, they go have a look on the property, but do not make the purchase and keep waiting for a better bargain. The second scenario is rather obvious and is expressed by strong pressure on the sale price. The buyers are letting the seller feel there are plenty of other similar estates for sale and insist on substantial discount.

From the point of view of a real estate agent, there are only two solutions how to cope with this situation. The first one is simply to acquire offers from property owners who resigned to the price development and are willing, alternatively have to, sell the property at a discounted price. The second option lies in cooperation between the owner and the agent and can be used with interesting and special properties. The owner's task is to maintain the property in perfect condition so that it can fully demonstrate its uniqueness and advantages and the agent's task is to effectively promote the property to the right target audience which will be able appreciate the value of the property.

### **Bargaining power of suppliers**

Again, there are two main subjects who can be considered a supplier within the real estate business, looking from the point of view of an agent. On one side, there are companies offering services for real estate agencies. Those are mainly real estate advertising internet portals, developers of internet websites and specialized real estate administration software, as well as advertisement newspapers, magazines, graphics and

printers. Those could be considered the real winners of the real estate business. The reason why, is rather simple. If the market is doing well, the agencies have enough money to spend on advertisements, leaflets, posters and other promotion means. If is the market underperforming and the competitive fight is beefing up, the agencies need to be more creative and spend on promotion even more, so that they can slice at least something off the shrunken sales pie. Naturally, their profits are going down, but the suppliers of above mentioned services are doing even better.

On the other side, there are the property owners who are supplying the offers for real estate agencies. Seeing that we find ourselves currently on the buyer's market, the situation might appear to be favorable for the agents. It means that there are enough properties to acquire on offer and the agents should be able to negotiate better offer prices and thus make the sales faster. However, this often is not true. As there are still many seller unwilling to accept the current development of property values, many agencies have lots of overpriced estates on offer, which cost them money for advertising, but are unlikely to sell under conditions demanded by their owners. Yet another issue is represented by the behavior of many sellers. As was already mentioned above, there are people, and quite a lot of them, who believe that by advertising their estates through several agencies at once, their property will sell faster, which is rarely true. They are also not aware, and difficult to convince that selling a property in current economic situation requires an honest relationship between the agent and the client and regular communication.

To conclude, the bargaining power of suppliers in the business and in these times, can be consider high in case of providers of real estate oriented services, but also rather weakened in case of property owners. For a real estate agent, the buyer's market has the potential to provide exciting opportunities just like the sellers market, but requires an experienced agent who can and knows how to size the opportunity.

#### **4.2.2 SWOT Analysis**

The SWOT analysis examines a company by listing and understanding its strengths, weaknesses, opportunities and threats. The outcome of the analysis is a framework, which provides information about the current state of the company and its

market, suggests the areas the company should focus on and brings attention to issues that need to be taken care of, otherwise they may bring the organization and its plans down.

Table 3

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Balanced team</li> <li>• Connected companies – cost sharing</li> <li>• Novel ideas</li> <li>• CRM system</li> <li>• Investment capital</li> </ul>	<ul style="list-style-type: none"> <li>• Experience of owners with the industry</li> <li>• Brand recognition</li> <li>• Difficult recruitment</li> <li>• 3 owners – potential disagreements</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Lack of innovations from competitors</li> <li>• Development projects</li> <li>• Buying outs</li> <li>• High margins</li> <li>• Exploit market gaps ignored by competitors</li> </ul>	<ul style="list-style-type: none"> <li>• Legislative changes</li> <li>• Unstable market development</li> <li>• Seasonality</li> <li>• Tenemental apartment houses</li> </ul>

### **Strengths**

One of the main strengths of The Company is represented by the professional background of the owners. The team is comprised from people with several years of experience in direct selling, running a network of retail stores, construction and thus can utilize the know how from different activities, in order to develop a marketing strategy that will work in also in the real estate business. Furthermore, the company has hired a consultant with 12 years of experience with running a real estate agency, to provide professional advices and guidance. All the factors together, provide a powerful blend of novel marketing ideas and selling strategies, backed up by years of experience in the field.

Another strong point which provides a considerable advantage over competing similar sized real estate agencies is the fact that The Company currently operates as a division of a strong company, involved mainly in retail and distribution business. This enables the company to share costs in terms of accounting services, office space and equipment, advertising in the same media, design and programming services, as well as allocating capital. As far as the capital is a concerned, the ties to mother company enables The Company to engage in occasional buying outs of second hand properties, as well as small development activities that are currently being prepared.

Equally important is the use of new information technologies that give the agency an edge over competitors who are lacking in implementing the newest systems. The Company uses advanced web-based real estate software, which enables the agent to keep all client records in one place, effectively administer all offers and access the database on the go. In this regard, the agency yet again profits from the mother company, which is employing own programmer and graphic designer. This fact does not only save costs, but also enables the company to create better looking advertisements, compared to agencies which need to rely on the in-house programmer from the media where they advertise.

### **Weaknesses**

Despite the experience of the owners in sales and marketing, it needs to be admitted that the experience in real estate business is rather limited. However, this weakness has already been addressed by hiring an experienced consultant.

Another issue the company has to cope with is brand recognition. As was already noted, the real estate market in the region is oversaturated with competing agencies. This fact does not only create fierce competition, but also makes it more difficult for the residents to take notice of a new entrant. To overcome this problem and increase awareness of the brand, the company needs to not only extensively promote itself through the same channels as the established competitors, but mainly seek and exploit promotion opportunities that are not seen by the others. Considering however the current state of the market, this proves to be an uneasy task.

Problematic appears to be also recruiting and retention of new agents. The industry has a long-continuing issue with recruitment. Due to commission based remuneration and steep competition, a significant number of applicants get easily discouraged. Besides the very nature of the job which makes recruitment more challenging, needs to be mentioned also the fact that applicants interested in working in this field have a large choice of agencies to work for, as recruiting in most real estate agencies is an ongoing process and a new applicant is always welcomed. In general, hiring well performing and loyal agents is one of the main and most important challenges, in a field with high employee turnover.

## **Opportunities**

As far as the opportunities are concerned, the market still offers a chance for a new player to establish itself. One of the reasons can be seen in small level of innovations in the field. Almost all real estate agencies are using the same scheme and there is very little differentiation. The typical scenario looks as follows: higher as many agents as possible and let them collect all available offers at any cost, heavily advertise the offers on web portals, in regional magazines, on advertising boards in the town center, mark the best properties with banners and then wait for a call from a potential buyer. A lot of the agents do not even maintain regular contact with owners of properties they have on offer and thus is not uncommon that they advertise a property that was already sold. Agents, who are choosing their clients, are communicating with them on a regular basis and are offering only a limited amount of properties, are still rare. There is one agency in the region which attempted to be innovative and came up with a 3D technology, offering virtual tours of their properties, but the market response was very mild and the agency is stagnating on the same level. The rigidity of the established competitors gives a chance to a new player to exploit the market gaps and differentiate it from others.

Another opportunity for The Company emerges in the form of engaging in own development projects. By actively operating on the real estate markets, the agency has a higher probability of encountering interesting investment opportunities. On one side, the company keeps track of current trends and demand for housing, commercial or parking properties and can use its records and statistics to develop own projects and promote

them via already existing channels. As was already mentioned in the strengths section, the company can reallocate its capital from other activities to finance its real estate development projects and thus gain financial advantage over competitors that are limited to operating only with their funds originating from real estate activities.

An obvious opportunity is simply the financial prospects of working in the real estate business. Besides the regular commission with interesting margins ranging from 3 – 5 % of the property's selling prices and sometimes even more, the business offers the possibility of engaging in buying out of properties, investment purchases and development activities. These opportunities may not be regular and involve certain level of risk, but they make the business a whole lot more interesting and profitable.

### **Threats**

The success of The Company might be endangered by an unstable market situation. Since the big economic crisis in 2008, prices and sales of real estates have been constantly decreasing. The market still has not stabilized and the prospects of EURO currency add to the uncertainty in the business. The level of market saturation with real estate agencies does not add to the prospects either.

As was already mentioned, the real estate business is regulated by a vast complex of laws and directives. Increased tax burdens and tighten regulation might also adversely influence the market and slow down the growth.

The seasonality of the business needs to be mentioned as well. The demand for properties is not the same all year round. Affected is primarily the sale of residential houses, which have the main season from spring till early autumn, mainly as far as older houses are concerned. As for the rentals and sale of apartments, the season lasts almost whole year, though during months January, July, August and December, are the sales suffering a decrease.

All of the above mentioned threats do not imply that the market will freeze completely. There will always be the need for living. People are moving, getting married, having children, new jobs, or dying, and thus their living needs are changing.



What it means however, is that even though the market has currently started displaying small signs of recovery, there is still a substantial danger it could get even worse. In such case, the real estate agency will have to quickly adapt to the changing rules and only the strongest and most flexible will survive.

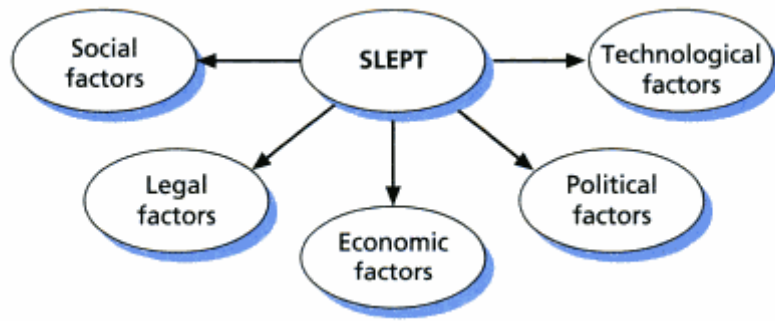
Last but not least, a potential threat can be seen also in the recent trend of towns and villages building their own tenemental apartment houses. There is a considerable demand for this form of housing with long waiting lists of applicants. Such apartments are usually new, partially furnished and the monthly rental is lower than a mortgage payment for equivalent apartment in the case of purchase. Moreover, after several years, the tenants are given a chance to acquire the apartment into their sole ownership for a favorable book value. The reason why is this mentioned in this section is that real estate agencies are excluded from this model, as the apartments are always being offered directly by the investor – the municipality.

However, the recent turn of events is suggesting that there might be a welcome change in terms of tenemental apartment houses during the next couple of months, as the national parliament is preparing a draft of new legislation that would allow private investors to apply for discounted government subsidized loans, which were so far available only for the municipality. In case the proposed legislation would pass, it would open brand new opportunities on the real estate market. As of now however, the tenemental apartments remain out of the reach for real estate agencies.

#### **4.2.3 SLEPT analysis**

The purpose of a SLEPT analysis is to examine the external environment influencing the organization. Under the SLEPT framework, the external factors affecting the business can be brought down to five categories: social, legal, economic, political and technological. These factors need to be considered when developing and organizational strategy, in order to account the recent trends and developments for the sake of modifying the business activities and making the products and services more competitive.

Figure 3



(18)

### **Social factors**

The two most important social factors influencing business activities are buying patterns and demographics (18). Just as with consumer goods, also the real estate business needs to respond to changing buying patterns and preferences. As the priorities and requirements of buyers of properties are changing, the real estate market needs to respond to these changes for the sake of satisfying the changes in buying patterns. Those sellers, who fail to reflect to the changing preferences, find themselves at risk of not making the sale. An example might be increased demand for single storey, energy efficient houses, which means that owners of old, two or three storey houses need to cut their prices and offer the buyers a price advantage, if they wish to sell their properties.

The demographic development needs to be considered mainly by developers of residential projects, in order to supply properties that are aimed at fitting the needs of the largest population group in the region. Young families looking to buy their first property have different needs and possibilities than old generation with lifetime savings and large families.

### **Legal factors**

As has been already pointed out, the real estate business is controlled by a vast complex of laws. It is very important in the real estate business to closely follow any related legislative changes, as these might to a large extent influence buyer's behavior, conditions for operating the real estate industry, or profitability of real estate transactions mainly through fiscal policy (18).

## **Economic factors**

Economic factors constitute the arguably most important category within the SLEPT framework because with no, or weak purchasing power, none of the other four factors really matter. The state of the economy influences purchasing power of buyers, availability of loans, as well as inflation / deflation (18). As is commonly known, economic development after year 2007 has significantly harmed mainly the real estate business. Besides the macroeconomic situation, it is equally important to consider the economic situation in the region the organization shall operate and adjust the offer to current demand and monetary possibilities of local residents.

## **Political factors**

Though this category tends to be often underestimated, it is the political climate that has direct impact on business environment and national economy (18). The political environment needs to be carefully assessed when planning on setting up a new business, as an unstable political situation with possibility of sudden changes might dramatically alter the conditions for doing business in a specific country or territory. This factor is relevant mainly in case of large investments, but is equally important and applicable also to small business, such as real estate agencies.

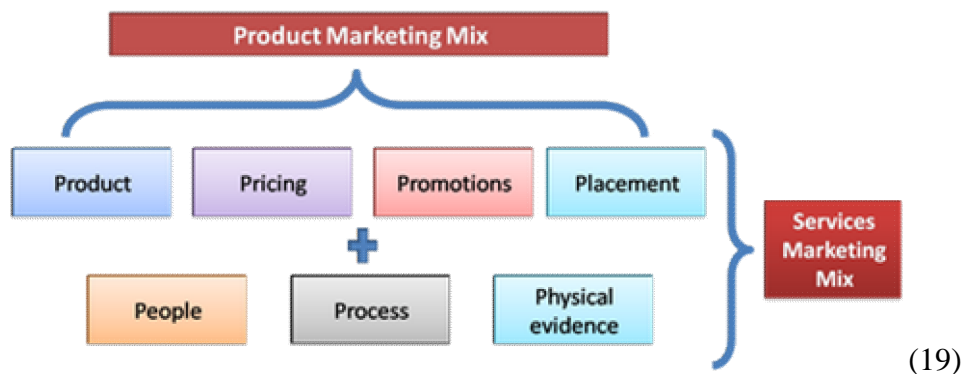
## **Technological factors**

Recent technological trends, innovations and inventions often not only dramatically change a whole industry, but sometimes even create industries and business opportunities that have never existed before (18). Use of new technologies and their application at the right time, often provides a considerable comparative advantage and can significantly set a business apart from its competition.

As far as the real estate business is considered, technological innovations during the last 20 years have brought the industry on a whole new level. From the use of digital photography, online advertising, smartphones, to CRM systems and property databases. These innovations have had drastic impact on productivity levels and create measurable difference between the old and new generation of realtors.

#### 4.2.4 7 P's Marketing mix

Figure 4



The 7 P's marketing mix is based on the traditional 4 P's marketing mix for products, but adds three more categories that are relevant for services. The standard marketing mix focuses on product, place, price and promotion. Several years later, in order to address the specifics of marketing services, the mix was complemented by three additional categories: people, processes and physical evidence.

#### **Product**

Seeing as services are intangible and can not be stored, they require a different approach than products (20). When preparing a marketing mix for a service, it is usual to define the service, but allow some room for customizing the service to customer's needs (20). This also means that the delivery of a service is always in a way unique. The task is to ensure that the service will always fit the requirements of a customer, but at the same time limit extensive variations in the delivery of the service.

When applying this theory to the real estate business, one can see that there is only a handful of possible transactions to occur and contracts that can be used. And yet almost every real estate transaction is in a way different. The challenge therefore is to clearly define each transaction scenario that might occur and prepare good contracts that will cover all probable situations that might occur, and that way the agent will be able to always adjust the deal to the specific situation, while making sure he will not be caught unprepared.

## **Pricing**

Similarly to defining the service, also pricing is more challenging than in case of products (20). As the final delivery of a service might change, also the associated costs and duration might alter and thus be more difficult to precisely state in advance.

This is very relevant in the real estate industry. It is never possible to estimate exactly how long it will take to sell a specific property, how much will be spent on promotion of the property, how many prospective buyers will visit the property, what will be the payment type, how easy will the cadastral proceedings go, how many appointments will be necessary to arrange with the buyer and many other factors. In the end, the associated cost of sale for the real estate agency may vary in terms of hundreds of Euros. It is therefore very important to bear this in mind when determining the commission fee and know when it is better to state it as a fixed sum and when to state it as a percentage of the sale price.

## **Place**

Delivery of a service is tied to the place where it will be provided and therefore is equally important to think about the location of the service (20). The location where the service will be provided shall correspond with the nature of the service and its target audience.

When applied to the real estate business, agencies tend to be located in city centers, close to banks, notary and the cadastral office. As for The Company, the agency could hardly wish a better location, as the office is located right next to a lawyer and notary, 100m from the cadastral office and 200m from the nearest bank.

## **Promotion**

Promotion of services is of high importance, as services can be easily repeated and in case of companies offering nearly identical service, it is often the promotion that decides who gets the customer (20).

Therefore the cost of promotion and advertising is hands down the biggest cost of every real estate agency.

## **People**

As the quality of a service is directly proportional to the quality and skills of the person who delivers the service, promotion of the service is inseparably bound to its provider (20). It is not uncommon, that the organizational performance changes dramatically after changes of personnel.

A real estate agent is therefore to a large extent promoting also his own personality and guarantees the quality of the service that will be provided. That is also the reason why almost all agents have their photographs on their websites and in their advertisements. The best specialists, not necessarily only real estate agents, often build their own clientele, which remains loyal to them regardless of the organization they work for. It is very important for realtors to be aware of the fact that not only the properties they have on offer determine the sale, it is to a large extent also their personality.

## **Process**

As was already mentioned in the product paragraph, it is crucial to maintain the level of offered service and eliminate unwanted variations in the delivery (20). In order to achieve high consistency of the service, organizations usually come up with manuals, regular trainings and workshops.

## **Physical evidence**

The last element of the marketing mix for services suggests that organizations tend to incorporate physical, tangible elements into the process of delivering the services in order to enhance customer's experience and make the service more memorable (20). This might be achieved by providing the customer with small memorabilia, creating special atmosphere, or delivering the service in a pleasing environment that corresponds with the value of the service.

As for real estate services, the options are having a nice office for negotiations and signing of contracts, providing the clients with refreshment they would not expect, or giving the client a present, or discount coupons for products, or other services that will be useful when furnishing or reconstructing their newly acquired property.

## 4.3 Company analysis

Figure 5

[]

### 4.3.1 Structure

The company was established by three founding members with different roles. The owners have academic background in economics and civil engineering and professional background in retail, b2b sales and marketing.

Furthermore the company closely cooperates with a professional consultant in order to provide guidance mainly in the legal area, preparation of contracts and psychology of real estate sales. As far as the legal issues are concerned, the company cooperates also with a lawyer. [].

The Company was set up as a division of another company involved in retail business, which helped the organization in terms of costs, marketing, contacts, capital, office space and equipment and thus helped to advance at an accelerated rate compared to stand alone start-ups.

### 4.3.2 Use of information technologies

The agency is using professional real estate software for administration of its website, offers, keeping client records, and exporting ads to advertisement portals. []

The software was developed specifically for the needs of real estate agencies and purchased in bulk with the website. The whole solution is using a template model which enables the agent to adapt the final product to his specific needs, through a user friendly admin interface. The software has not only saved the company considerable initial costs, but keeps saving significant amounts thanks to its extensive features and the fact that the software and website do not require the services of a programmer in order to implement new modifications.

Figure [[]]6

(12)

The software is web based, which enables the agent to access the system in various places and is not limited to the use of one computer. The system is accessible also through a smartphone, which enables the agent to access whole client database on the go and significantly helps the productivity.

The system keeps record of all current and past properties on offer, their owners, potential buyers and realized property inspections, and enables synchronization with Google calendar. The interface of the system is graphical, intuitive and user friendly. The software enables setting up of multiple user accounts with predefined rights, so that the agents can use only certain features approved by the owner.

Another substantial feature which helps to significantly improve time efficiency is the export function. Once an agent acquires new property on offer, he inserts the data, photos, documents and owner information into the system, sets the status of the offer and saves it. Consequently, with a few clicks exports the offer to the company website and other advertisement portals which are predefined in the software. Similarly, all changes to the offer and refreshing (changing the date so that the ad moves higher in the list), are done with similar ease. The time savings compared to the beginning of the company, when all of the above mentioned steps were performed manually and had to be repeated on every portal, are huge.

One of the features of the software which was designed by the developer specifically based on a request from The Company, is []



Besides using its own website, the company is advertising its offers on a number of advertisement portals. Internet is the main advertising channel for a real estate agency and therefore the higher the number of portals used the better. A survey conducted among the potential buyers who addressed the agency revealed, that almost [] % of all prospects made their call based on online ads. The number of portal used by The Company is currently around []. It is very difficult to provide a specific number, as the major websites have a number of their sub portals and automatically export the offers further.

The advertisement portals can be either free, or paid. In order to assess the returns of individual portals and justify their monthly charges, The Company is using the Google Analytics service (13). This tool enables to track and analyze the traffic coming from individual portals to the company's website, as well as evaluate the merits of other marketing campaigns aimed at increasing the awareness of company's website. It is a very useful service which enables to effectively allocate funds where they bring the most gains.

[].

[].

Being in the top spots in search results and on advertisement portals is ongoing struggle, as all real estate agencies are spending major amounts of their marketing budgets on internet advertisement and presentation of their offers.

The website of The Company is displayed in the picture below.

Figure 7

[]

### **4.3.3 Promotion of the company**

The Company has so far realized two main campaigns aimed at promoting the brand

name. The first campaign was based on distributing []leaflets to the post boxes in the region. Besides promoting the brand name, the campaign was aimed mainly at acquiring new properties into offer. The leaflets were distributed in two batches during April and May 2012. The campaign resulted in acquiring [] new properties and it was the most extensive and expensive yet. The campaign served its purpose and can be described as successful.

Figure 8

[]

The second promotion campaign took place in August 2012. The Company has become the first real estate agency which appeared on the cover of a regional advertisement magazine []

Figure 9

[]

(14)

Another mean of promoting the brand is in the form of banners placed on properties the agency is selling. These banners serve a double purpose. The first one is to let know the passers by that a property is on sale and the next one is using it as a marketing space, to promote the brand name. Such banners are one of the essential promotional tools used by every real estate agency and they use to always generate some response. Currently, The Company is using []

Figure 10

[]

#### **4.3.4 Advertising channels**

To advertise the properties, The Company uses a combination of internet advertisements on a number of portals, website presentation, print media and posters on apartment houses. As online advertisements on portals and presentation on company's

website have already been described in previous section, this part will focus on the remaining channels.

[].

Figure 11

[] (14)

This first issue [] response, as the agency was [] and the choice of colors and graphics was []. The advertisement was [] offers.

[]

Figure 12

[] (14)

The next channel is a regional newspaper []Considering the size of the ad compared to the newspaper format, it is a steep price for a small advertising space. This ad has been published so far only twice and thus is not possible to analyze its gain yet.

Figure 13

(15)

Another tool for advertising specific offers, mainly apartments, is sticking posters on the entrance doors of apartment houses. These posters are generated by the real estate software the company is using in a .pdf format. This form of direct advertising of specific offers is not utilized by any competitor and provides a cheap and easy form of letting know the residents of the house and other houses in the neighborhood that there is a flat available for sale. Mainly in cases of big apartment houses, the residents may not know that there is an apartment available in their house or the neighborhood, but may be interested in moving to a bigger or smaller apartment, or

it may be interesting for their relatives looking to live closer together. In most cases, this strategy has proven for the company to generate some response.

Besides sticking the above mentioned posters onto the entrance door, The Company always hands them out to a prospective buyer when going to have a look at a property. It does not only look professional, but it also prolongs the exposure of the buyer to the offer, as he usually puts the poster in his pocket and has at least one more look at it when he arrives home.

#### **4.3.5 Communication with clients**

[]

#### **4.3.6 Direct marketing**

As has been already pointed out, the current market situation does not allow the agent to be passive and wait for his clients to call. An agent wishing to be successful needs to be proactive and seek out new real estates, as well as potential buyers.

One of the ways of acquiring new offers that has proven to be the most effective is direct addressing of property owners. [] Important is to also check the civil advertisements on internet portals, as well as in print media. This includes both, demand and supply advertisements. Such advertisements represent one of most important, if not the most important source of new offers. The Company des not underestimate this opportunity and therefore a significant portion of all offers come from this source. However the downside is that this is the easiest way of acquiring new contracts and as such is being used by almost all agents. This is also one of the main reasons why the same properties appear in offer of multiple agencies. Regardless of the aforementioned, civil advertisements represent a valuable source of potential offer and as such can not be omitted.

#### **4.3.7 Supporting activities**

The company works also as an agent of a leading mortgage brokerage firm. The

decision to include financial services into the portfolio has been made due to several reasons. The first and obvious motive is financial. Being able to help the buyer also with a mortgage improves the cash flows of the company and generates additional revenue in case when the purchase is made on debt. Another reason is that the agency has the whole transaction under control and is able to better overview and coordinate the process of purchasing a property on mortgage. By leaving a separate mortgage broker out of the game, the agency is able to communicate directly with the buyer, seller and the bank, which helps to speed up the transaction and consecutively increase client's satisfaction.

Another activities that are not necessarily included in the core competence of a real estate agency focusing on sale of second hand properties, are buying outs and small development activity.

The buying outs take place in situations when a property owner needs to quickly sell his property due to personal, or financial reasons. The selling price in such case is lower than the actual market value of the property, but what matters is, to satisfy the current needs of the owner, when it is not possible to sell the property on the market under requested time frame. An agency which aims to involve in this activity, needs to dispose of available capital and be aware of the possible risks of the transaction and consecutive resale of the estate. On the other hand, the gains on such transactions tend to me much more interesting than the usual commissions.

At the moment the company is also preparing its first small development project. The details are as of this moment confidential.

#### **4.3.8 Ethical code**

The Company places strong emphasis on ethical behavior of its agents and fair and honest relationships between the agency and its clients. The main business values the company adheres to are:

- honesty
- never lie to a customer
- always keep the word
- never pretend to be a private buyer if you are an agent
- never hide the facts in order to close a deal
- provide fair working condition for the agent
- client's needs lay in the first place
- never disclose personal information of the clients and respect their privacy
- never acquire new offers at any cost
- never engage in business with clients whose behavior and requirements might jeopardize good name of the company, or well being of other clients

## **5. Marketing strategy proposal**

### **5.1 Evaluation of current activities**

The analysis of The Company has proven that the company is heading in the right direction and develops activities that provide the potential to distinguish the agency from its competition. Sales of the company during summer months have [] rest of the year. However, there are still areas that need to be addressed and improved, in order to establish The Company as a stable and profitable real estate agency in the region and create solid foundations for future growth of the company and expansion to other regions.

### **5.2 Application of the theoretical framework**

With regards to the aim of this thesis, which is developing an effective marketing strategy and differentiating the real estate agency The Company on the market, the outcomes of the market analysis can be summarized as follows.

[]

### **5.3 Organizational improvements**

The Company currently operates as a division of an existing company whose main sphere of competence is running a sale of retail stores. In order to minimize administrative and operational cost, the agency is using the existing structures and capacity of the company.

This solution has enabled the company to focus on its core competencies and allocate funds into marketing and promotion campaigns, with minimum expenses on operating costs. However, in order to increase the credibility of the company, improve



the working environment and act as an independent business subject, The Company needs to be set up as a separate enterprise. [].

By setting up the agency as a separate business, the owners will be able to better define the organizational structure and hierarchy and make decision making and assigning duties more transparent.

The SWOT analysis has characterized as one of the weak points also low level of experience of the owners in the field. This has partially been addressed by engaging a professional advisor. However, the company needs to pay more attention to further education

A crucial and urgent action that needs to be taken, is []

Proposed is to employ three new agents starting February 1, 2013. It is recommended to do this as soon as possible, so that sales of the company can maintain the increasing tendency. It is important that new agents never start working during seasons which generally display lower market performance, as they might get discouraged and demotivated with initial weak sales.

Based on the recommendation from experienced agents, it is advisable to employ new real estate agents in pairs, ideally a man and a woman. There are several reasons to back up this theory, as well as suggestions how to make it work. Due to the size of the local real estate market and saturation with real estate agents, there is a tough competition mainly in terms of acquiring new properties on offer. In this regard, it is undesirable that agents working for the same company should internally compete in acquisition of new clients. The optimal situation is when the agents cooperate and join their strengths and skills for the sake of achieving common organizational goals. By achieving close cooperation between two agents, those can mutually complement each other, fill in for the other one, as well as increase their productivity and work more effectively, while achieving higher results.

The benefits of having the agents work as a pair are undeniable and such solution has proven to be effective in other established agencies. A sensitive issue in this regard however, is the matter of remuneration. While the agents might be fully

aware of the advantages of mutual cooperation, they might be less likely to appreciate earning a common commission split evenly in the pair. If one agent achieves three sales in a month and the other agent zero, the more successful agent might object to half of his salary being taken away. However, the next month the situation might be just the other way round, and that is when the previously unsatisfied agent starts to appreciate the solution.

Besides the advantages for the agency, as well as the agents, it has to be noted that this arrangement requires very clear and precise definition of the conditions under which will the agents work together.

One of the reasons of problematic hiring and high fluctuation of agents during the first months of work is the fact that remuneration of real estate agents is commission based. Hence it is not uncommon that the agents get discouraged and leave the job within the first 3 months, due to earning no commission. A new agent, unless he is very lucky, needs to first create a database of clients and gather sufficient number of offers, until he is able to generate sales on a regular basis. In order to overcome this problem, [].

An opportunity in terms of recruiting new agents, might arise from the turbulent situation with main competitors that has been described in the SWOT analysis. The Company should seize this opportunity to attract already experienced agents who might not have been satisfied in their previous place and offer them better conditions with the future prospects of advancing to a higher position in a dynamic and progressive new company.

#### **5.4 Marketing and promotion improvements**

As far the marketing and promotional activities are concerned, the mantra of success for a real estate agency is rather straightforward. The more offers the agency has and the more is visible, the higher the sales. This has already been confirmed also based on the experience of The Company and the agency needs to strengthen its current activities and identify new ways of drawing attention to it.

One of the modern marketing tools the company is not yet using is a company profile on Facebook. The Company needs to set up a Facebook profile and export its offers also to this social network. The main advantage of advertising on social networks, is the duration of exposure of the offer to the prospective clients. People tend to spend significant amount of time on the network and thus are exposed to the offers for a longer period of time compared to tradition online advertisements. Another advantage of advertising on Facebook, is that the network enables the users to share posts they like among their friends. The reach of the ad is therefore wider than only the group of fans in the company's group.

The company also needs to increase the number of banners on properties and introduce full size banners on estates standing in frequented locations. As has been already pointed out in the analytic section, such banners do not only inform potential buyers about the availability of the offer, but also serve as promotion of the brand. This helps not only to increase the chances of realizing the sale, but has also psychological effects on potential sellers. When owners wishing to sell their property choose the agency, they take into account how visible the agency is and what strategies is it using to promote their current properties. Therefore, the owner is more likely to entrust his property to an agency whose marketing activities are clearly distinguishable in the region, then to an agent the owner has never heard of.

One of the promotional activities used by most real estate agencies, though not yet fully utilized by The Company, is the uses of bonuses and rewards that are supposed to stimulate the sale as a form of physical evidence. Such incentives can include a free holiday, kitchen furniture, electronics, or various discounts. However, the link between a purchase of property and holiday in Canary Islands is rather vague. Based on internal surveys, what matters to the buyers most, is the final price of the property, not the tokens they get. Therefore, the recommendation for The Company is to put together a list of cooperating business which will provide discounts for their clients for construction services, cleaning, moving, furniture, garden equipment and other, which are relevant in the context of property purchase and moving to a new home. Though in general, this should be presented to the clients only as a bonus, not as one of the reasons why to purchase a property through the agency.

The agency needs to further focus on internet advertising and increase the number of portals where it advertises. The analysis revealed the number is currently around 50, meanwhile the most successful competitors advertise on over 100. Online advertising of real estates has proven to be the main source of potential buyers and thus needs to be paid a lot of attention to it. The recommendation is to fully use the fact that the mother company employs its own programmer and analyze with him the options of making the ads of The Company more visible on the web and move higher in the search results.

Important is to also make the company more visible at the source. This point is related mainly to housing estates, where the concentration of potential buyers and sellers is highest and where most of the sales and rentals take place. The advisable actions including directing finding of new offers through addressing residents by leaflets inserted in their mailboxes, displaying current offers on posters in the neighborhood and design small stickers with basic information about the company's services and contact information and stick them on the entrance doors in the houses.

Another marketing tool that is being used by other real estate agencies, but not by The Company, are advertising known in their area and this kind of advertisements is supposed to appeal to the locals [].

The company needs to also explore further options of acquiring new, exclusive offers. Every apartment house has its confidence man, a person who takes care of the house and is informed about the current situation in the house. Those people usually know who in the house is planning on moving away, or might be forced by the circumstances to sell his property. It is important to gain access to the confidence men and establish cooperation on a tip base.

[]

[]

## **5.5 Implementation Schedule**

The implementation schedule of the proposed solutions from sec. 5.3:

- January – hire new agents
- February – establish The Company as a separate enterprise
- March – strengthen marketing activities – set up a Facebook profile, design the stickers, increase number of banners on properties
- March – commence the social responsibility program, start with renovations of sport grounds and parks
- August – start with placement of advertisements boards in the housing estates

Improvements in the marketing and promotional activities of the company will naturally incur additional costs. The projected marketing budget for the next year is based on the operating costs the company is spending at the moment and increased proportionally based on the extent of proposed improvements and new activities. The budget serves mainly an informational role, as it is based on the current situation in the company and thus does not reflect possible future changes, which would be difficult to take into account at this moment. It is understood that a substantial increase in the number of agents and expansion to new regions, will require significant adjustments to the budget.

Table 4

Lump costs	
□	□
□	□
□	□
□	□
□	□

Table 5

Monthly costs	
□	□
□	□
□	□
□	□
□	□
□	□

## 6. Conclusion

The aim of this thesis was to analyze the regional real estate market and its specifics, the current market position of a newly set up real estate agency The Company and develop a market oriented strategy that will enable to establish the agency on the market and provide solid foundations for future growth and expansion to other regions.

The thesis has provided insights to the real estate business in Slovakia, introduced basic terms and subjects involved in the business, analyzed the position of company that was examined and provided a set of recommended solutions that will enhance the company's performance and meet organizational objectives.

Findings that have been discovered during the elaboration of this thesis and the proposed solutions have already been to some extent implemented in the company during the second half of year 2012. The tangible results that can be evaluated and presented at the moment of submission of this thesis are as follows:

□

The outcomes of this thesis are believed to serve as a useful guideline for the company that will help define its direction and stimulate its growth. The results that have already been recorded once the company started introducing the suggestions presented in this work justify the proposed solutions and provide a presumption of achieving the desired objectives that served as a basis for elaboration of this thesis.

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