

Success Factors of the Franchise-System in the Real Estate Industry

A Comparative Study of the self-proclaimed "Market Leaders"

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Summary

Franchising is a common business model, which gained popularity in a wide variety of industries in the previous decades. Franchising offers an effective method for building a national network without the essential management establishments, time and capital investment from the company. The other success factor of franchising is the scalability of a structured business model that can usually be applied to every sector, from catering to financial services.

Based on this insight, it is quite surprising, that one of the most successful franchise companies is based in the real estate industry, which is by its nature, a business with great regional differences, a complex product and a long decision process of the customer.

The company being referred to here is RE/MAX, which provides real estate services in commercial, residential, relocation and asset management, and was founded in 1973 in Denver, United States. Today it has become an international leader in the real estate sector; it built up the biggest and most productive brokerage franchise system in the world. RE/MAX operates with an average of 100,000 sales associates and with more than 6,000 offices in 95 countries.

Taking international market-insights into account, it can be concluded that in the long run, the global real estate market will be in the hands of a few huge real estate companies, which will be introduced in this thesis. How can the real estate franchise system be so successful and yet so generally applicable at the same time? The aim of this thesis is to show the main factors that lead a real estate franchise company to success and give an outlook on the development of the real estate brokerage market in Europe, as there are still numerous undeveloped opportunities in this sector.

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1. Introduction

In this empirical study of real estate franchise agencies helps to show how the market shares and popularity of the agencies influenced by their success factors. The competition is very strong in the real estate market. Many agencies and free lancers try to prevail in the same area with the same goals and additionally the agencies have to face with the fast-changing trends and the revolution of the Internet, which provides an easy possibility to sell and buy a property for everyone, "for sale by owner". Traditionally, real estate industry is based on the win or lose game; it is based on networking, marketing and deeply dependent on trends, linked with timing and a little bit of luck.

This thesis was written to give an extended picture about the residential real estate market. The aim of this thesis is to understand the main reason why a real estate agency could differ itself from others. In order to demonstrate how real estate franchise system functions in this specific market, this thesis will focus on four leading real estate agencies; Re/Max, Keller Williams, Century 21 and ERA. To appoint the success factors first the structure of the agencies will be concluded and ranked. Territorial studies are already revising many of the basic ideas of the real estate market participants but based on the primary and secondary data sources, such as observations, interviews and documentary analysis, this thesis provides a complex comprehensive picture of the leading agencies. The thesis also contain limitation because of every ranking is subjective in how its measured objectives and the and the fact that no centralised real estate exchange defined, from which long-term data can be obtained.

In the last decade the real estate business has grown popularity, and the franchising model was the best expansion way to keep up with this incremental. The background of growing affected by not just the technological revolution, which has changed the way of communication and the whole market, but also the labour market situation. Following the last depression and the difficult labour market conditions helped for the real estate market; many people started to look after a free way of income source, which the agencies could provide with their commission structure. Almost all analysed agencies established in the United States in the 80s, as a result of the variety of the business opportunities in that time. Franchise business model was a perfect way to these agencies to become a worldwide organisation. To become a national-wide organisation was not the biggest challenge for the agencies, but to enter the European market was.

The first insight is that all of these companies are very similar and at the same time completely unique. In analysing those real estate companies, or the market as a whole, it is difficult to stay objective, but in terms of number of agents, offices and global brand recognition, Re/Max is by far

the biggest on a company level. However, there are several competitors that have merged into a huge association, the Realogy Franchise Group, which has seen, as a corporation, by far the greatest market share. All real estate brokerages analysed in the thesis hold themselves to be the leader in the real estate market; basically all agencies are market leaders, just in different area. Every real estate franchise has the same common goal: they aim to deliver standardised professional services to people. The real estate market has numerous future opportunities in all sectors and continents. The Internet revolution and globalisation has created more possibilities and also brings cultures closer to each other.

1.1. Goals

Traditionally, real estate industry is based on the win or lose game; it is based on networking, marketing and deeply dependent on trends, timing and a little bit of luck. Ups and downs on the real estate market, constantly changing trends, investment hypes from both private and commercial sectors break down today's market into an individual mix of opportunities and threats.

The purpose of this thesis is to find the main success factors, that most attract customers to invest in the real estate market. This thesis is going to analyse the selected franchise companies and their differences using quantitative and qualitative methodology to find the success factors of real estate franchise systems.

In order to demonstrate how real estate franchise system functions, this thesis will focus on four leading real estate agencies: Re/Max, Keller Williams, Century 21 and ERA (Realogy). After reviewing the motivation and methodology of this thesis, in the second section, a basic definition for real estate transactions is being provided, whereas in the third section the workings of the franchise systems will be introduced.

General real estate market models characteristics will be discussed theoretically at first, afterwards an example of the selected companies will be analysed from the clients' point of view to find patterns that are common and are likely to make up success factors. The reason why the real estate franchise system has been growing over the last decade is the subject of section four. The theoretical foundations of this thesis build the foundation to the empirical part, which focuses on the United States franchise market, as all relevant franchise systems have been established in the United States. Hence, the legal and regulatory surroundings, which governed their operations in the beginning and therefore also gave distinction to their business model, are the laws of the United States. The first overseas expansion of these real estate agencies only meant changes in its political environment; methods and business models remained the same. When examining the overseas expansion one only needs to examine the causes and the market itself.

The fifth section will concentrate on ranking the four chosen real estate agencies, based on the performance of the agency and some international rankings, like Entrepreneur Report of the best 500 Franchise, which is an independent ranking report, that compares investment possibilities. The last section will show some possible future trends based on the insight, that Mr Weissenberger, former Vice President of Re/Max Europe provided.

1.2. Methodology

This thesis is based on observations, interviews and documentary analyses, as well as an interview with a former Re/Max Vice president who gave a valuable insight into the real estate market. The interview is the most flexible research method; In this case, the interview was a personal, face-to-face interview, which focused on questions concerning the rise of Re/Max and the expansion towards Europe, as well as future trends in the real estate market. The observation methodology included studies and rankings, in which these real estate agencies are already analysed from different viewpoints, and finally the documentary analyses covers all the available documentation that the real estate agencies published.

Aim of this thesis is to examine the agencies in all its bearings that are shown in the fifth section. Some of the biggest real estate franchise agencies will be examined using four success factors, the advertising tools, the expansion strategies through different types of franchising-systems, customer satisfaction, which is based on the effort and the motivation of the sales agent and therefore correlates a lot with the fourth success factor, the education, that a real estate franchise system provides. In this thesis four US-based real estate agencies and their expansion strategies towards Europe shall be analysed. As the first step, the main success factors of those four companies should be analysed.

In the next step, a SWOT analysis will be concluded, in order to highlight differences between the selected real estate agencies, while emphasising the factors that helped them become market leaders, because all of the analysed companies refer to themselves as the market leader. This statement is actually true, as the companies are all adopting different measures for claiming their leadership.

The companies will be analysed with quantitative and qualitative research strategies. This research used primary data sources, face-to-face interviews and secondary data sources, such as electronic databases, from the Internet and personal collections.

1.3. Limitations

Economic insight claims that real estate investments, beside the stock, bonds and bills investments are the hardest investments to analyse because there is no centralised real estate exchange, from which long-term data can be obtained. Every ranking is subjective in how its measured objectives are analysed.¹

The selected real estate franchise agencies are all worldwide, operating under several law and regulations frameworks, which also set a limitation to the thesis. While there are some common facts of the real estate market, which can be applied globally, a lot of written or unwritten rules, that the agencies, the sellers and most importantly, the buyers follow, are based on regional and cultural differences. The market and economic overview also includes some limitations due to the vastness of the subject. All real estate franchise agencies in this thesis were established in the United States, which is why this thesis shall concentrate on the US market and its challenges. However, the facts that allowed the agencies to enter into the European market will be also briefly discussed.

The aim of this research is to objectively define factors by which these real estate companies may be analysed. On one hand the market is quite sizeable, especially in case of the selected real estate companies, namely Re/Max, Keller Williams, Century 21 and ERA. All these brokerages are operating globally, in numerous countries. The connection is in their origins, because all were established in the United States, and in the same time period. „The web is an important tool for those interested in real estate and is a key tool for locating properties or researching loans.“²

¹ Dimson (2012) Triumph of the Optimists: 101 Years of Global Investments Return

² Straw - Real Estate (2003) Journal of Business & Finance Librarianship, p.265

2. General description of real estate brokerage

“Real estate is a key factor in national economies. Real estate prices are closely monitored by financial investors and by economic decision-makers, as these prices reflect sentiments and underlying values and as they might have predictive content for future economic conditions.”³ Whether the real estate is an apartment, a family house, a production site, an office building or a storage facility, the land and the buildings held by a private person, the public or an organisation, typically represent less of its real value. “Land and shelter are essential needs for all living human beings”⁴

This thesis focuses on the residential sector. The aim of this chapter is to describe the types of real estate agents, the common rules and the transactions themselves. Generally talking about a real estate brokerage, it is not cover the property, that the agents offer for sale, nor the person, who offers a property for sale or rent, but rather about the network itself where all transactions and exchanges happen, ranging from the first visit to a brokerage to the handing over of the keys to a property.

2.1. What is a real estate brokerage?

The primary business of a real estate broker is the representation of the interests of an owner, who is planning to sell his property or a buyer who is looking to buy a property.

Hence, a real estate brokerage supports a business network, which connects the buyers and sellers via an agent. „The role of real estate agents is to match buyers and sellers of a real property.”⁵ The agent functions as an intermediary⁶, usually working for commission, obtained after the transaction has been successfully completed. In the real estate industry, agents often cooperate in order to meet the supply with the demand. Then, each agent represents one party of a transaction, and their commission is split between the two agents involved.

There are two major areas of the real estate market:

- Commercial real estate, which involves the sale and lease of property for business purposes. Commercial real estate can be any office property, retail, restaurant, industrial property or multi-familial property, or any land used or owned by a commercial entity.

³ Franes (2013) Do commercial real estate prices are predictive content for GDP 4379

⁴ Straw (2003) Real Estate, Journal of Business & Finance Libarianship, p.265

⁵ Gee (2010) Residential Real Estate Data on the Internet: Benefits and Limitations, p.107-108

⁶ Ball (2007) Localisation versus globalisation: some evidence from real estate services organisations

- Residential real estate, which involves the sales and rentals of houses or apartments to individuals and families. Since the 1970s, the law heavily regulates the sale of residential property.⁷

This thesis shall focus on the residential real estate market. Throughout the thesis, when the term real estate will be used, it is referred to as the residential type.

The person who supports the real estate related transaction is referred to as a real estate broker or agent⁸ „In legal terminology, an agent is someone who represents another person in a business transaction.“⁹ A broker, who sells or offers for sale, buys or offers to buy, or negotiates the purchase, sale, or exchange of a real estate, but also may rent any real estate or deals with the improvement of one. „In general, a real estate broker can be a self-employed person or the brokerage company itself. Agents are not direct employees of the broker. Agents are brokers ‘representatives and work as independent contractors.“¹⁰ In many countries a broker must secure a license from the state to legally engage in “four core activities:

- 1.Provision of market information for buyers and sellers in terms of the properties that are currently available
- 2.Transaction agents for owners wishing to buy or sell real estate.
- 3.Cooperation with other transaction agents.
- 4.Valuations of properties. The valuation may be an initial assessment of market price for a potential property seller.”¹¹

Excursus: Regulations may be very country specific. There is a wide range of regulatory models used in the real estate sector. There are a certain number of countries, such as: Belgium, Denmark, Ireland, Spain, France, Croatia, Italy, Cyprus, Luxembourg, Hungary, Austria, Slovenia, Slovakia, Finland, Sweden, Iceland, Norway, Switzerland, where the real estate business is highly regulated. This is in total contrast with other countries such as Bulgaria, Czech Republic, Germany, Estonia, Greece, Latvia, Lithuania, Malta, the Netherlands, Poland, Portugal, Romania, UK and Liechtenstein, where the law does not regulate the profession but often self-regulatory authorities, offer a voluntary certification systems. In many countries, which have chosen self-regulatory, and the voluntary certification systems use existing standards, such as ISO¹² or CEN¹³ standards as an

⁷ Gotham (2006) The Secondary Circuit of Capital Reconsidered: Globalization and the U.S. Real Estate Sector, p.234-237

⁸ Ball (2007) Localisation versus globalisation: some evidence from real estate services organisations

⁹ Edwards (2007) Your Successful Real Estate Career, p.52

¹⁰ Gee (2010) Residential Real Estate Data on the Internet: Benefits and Limitations, p.107-108

¹¹ Ball (2007) Localisation versus globalisation: some evidence from real estate services organisations

¹² “ISO International Standards ensure that products and services are safe, reliable and of good quality.”
<http://www.iso.org/iso/home/standards.htm>, downloaded: 04.01.2016

alternative to the lawful regulation of the profession. For example, “in the Czech Republic real estate activities are considered as trading and applicants are only obliged to comply with the general rules set by the Trade Licensing Act (minimal age of 18, the legal capacity and integrity). Mandatory certification is not always legally required. In Lithuania, the activities of real estate agents are subject only to rules and principles of the civil code and consumer protection law; in Malta there are no voluntary certification systems, whereas in Poland, following the deregulation of the profession, some professional associations introduced internal certification schemes. In Estonia, the profession is not regulated, while in Greece, the profession is not regulated either and anyone who has secondary education can become a real estate agent, the only obligation being registration. In Bulgaria and Romania there is no obligation for registration and consumers’ interests are guaranteed through consumer protection and criminal law. In Latvia, the profession is not regulated, the proposal for introducing regulation was rejected because it was widely criticised by professional organisations. In Liechtenstein, due to the size of the country the real estate market is small and considered more transparent and therefore the profession is not regulated. There are around 20 – 25 real estate agents operating in the market and their reputation is well known. In Germany a licence is required to act as a real estate and property agent in accordance with the German Trade Regulation. The prerequisite for a licence is a clean criminal record and the European Standard to be noted is that according to regulators, such as Austria, such a system may in practice entail access restrictions or considerable entry barriers to the profession by promoting the development of professional associations which dominate the market”¹⁴

When one generally talks about real estate agent, one usually uses the terms broker and realtor interchangeably; people associate these terms to people who sell or buy or rent a house, but usually it is more complicated than that.

- “A real estate agent is a professional who has taken and passed all required real estate courses and classes, and owns a real estate licensing exam in the area in which he intends to work. It is a title, and a professional qualification. Agents are also referred to as a real estate associates.
- A real estate broker has continued his education past the real estate agent level and passed the brokerage exam, to get the real estate broker’s licence. Real estate brokers are the only ones, who can work as independent agents or have other agents.
- In the United States, real estate agents are more commonly structured into brokers or as it is officially called, real estate salespeople and realtors. A realtor is also a real estate agent but

¹³ “The CEN-CENELEC Management Centre (CCMC) offers a range of services. These support the standards-making process and facilitate a better awareness and understanding of the standardization system among stakeholders and other audiences.” <https://www.cen.eu/Pages/default.aspx>, downloaded: 01.04.2016

¹⁴ ec.europa.eu - Mutual evaluation of regulated professions, downloaded: 24.02.2016, p.4-8

with the difference that he is a member of the National Association of Realtors. To become a member, the potential member has to agree to abide by the association's standards and uphold its code of ethics."¹⁵

The most significant difference between these three types of real estate agents is that only a real estate broker can work alone, or open a real estate office while an agent or an associate has to work under a licensed real estate broker.

The description of real estate activities covers all business activities that the agency provides for its clients, such as buying, selling, renting, and operating or maintenance services. The activities that an agency covers, depends on the business and operation strategy the company follows. Generally, in case of a franchise, the mother company already provides its business operations. If we examine smaller companies, it can be concluded that their business will usually cover more from the optional business activities to maintain itself, and keep up with their competitors. Sometimes a real estate agent also has to develop into personal relationship with the clients, included „house-hunting trip“¹⁶ with dinner and hotel reservation. In that case the agent represents the buyers, but not prohibited by any law, that an agent could represent both parties.

Successful contracts will generate commissions, which are usually a percentage of the sales price, but it is also highly dependent on the country, region and location and the type of transaction: buying or selling a property. If more than one broker is involved in a deal the commission is also split.

In the real estate service it is difficult to measure the added value of an agent. Norm Lucas, the most successful Re/Max agent in California, U.S.A. wrote the following about the topic that he works very hard to provide quality service to the clients, who know that Norm Lucas, the agent is accountable for the service he provides them because a third party collects and makes an overall service performance record available to the buyers and sellers. This gives the clients a feeling of security. „Additionally, they love that I give them a written Quality Service Guarantee.“¹⁷

2.2. Types of transactions

With the Internet revolution the provision of real estate service and the process of transactions completely changed. A real estate broker is in the business of brokering real estate transactions, finding sellers or buyers for a property. „Before the Internet, people who wanted to sell their homes

¹⁵ <http://www.investopedia.com/ask/answers/101314/what-are-differences-among-real-estate-agent-broker-and-realtor.asp>, downloaded: 10.02.2016

¹⁶ Edwards (2007) Your Successful Real Estate Career, p.52

¹⁷ <http://www.qualitycertified.org/info/testimonials.aspx>, downloaded: 21.02.2016

mainly hired full service real estate agents to do all the work in finding a qualified buyer. Now with the Internet the direct sellers can instantly expand the scope of their reach to buyers across the country and overseas by listing on the FSBO Websites.”¹⁸ Brokers and agents can represent either the seller or the buyer in a transaction, and usually earn a commission after the transaction has been made. In order to make a successful business transaction, the real estate brokers and agents need to put lot of effort into the primary phase of a transaction. A real-estate transaction can be categorised into three types.¹⁹

- **Open listing;** The seller or the renter of the property authorises two or more agents to sell or rent out the property. After the parties reach agreement, the agent is paid an amount of money, usually a given percentage of the selling price or monthly rental fee. From one side this method could save time for the owner, because more agents advertise his or her property at the same time, but this method is only feasible, when the owner or others are not living in the property, to avoid any disturbance to the seller.
- **Only agent strategy:** The seller or the renter of the property authorises only one agent in a given period of time, to sell or rent out the given property. If the agent was not successful during that time period, the owner usually authorises other agents or other brokerage agencies. In this model the agent has to be active during the period, to prove his capability and professionalism. The agent develops his/her network through references, thus, if an agent is effective and professional, he/she can get more clients without any additional effort.
- **„Direct home seller, or for-sale-by-owner“²⁰ (FSBO);** the seller or renter completes any transaction pertaining to the property without any professional help. The reason why an owner may choose this method of selling his property is usually the money saved, which is the agent’s commission, which can reduce the selling price, thus it is beneficial for the seller as well as the buyer. The ubiquitousness of the Internet helps those people immensely, who decide to sell the property by themselves.

According to Volker Weissenberger the number and type of transactions is important for the real estate business for two reasons: first, it means a successful business, second, the number of transactions are public in many countries or region, thus economists can estimate the size of the market. The number and type of transactions gives a good basis to estimate the potential of the industry and a possible expansion into a new country. Before any agency would expand into another country in order to become a master franchise, a country though its potential, based on

¹⁸ Gee (2010) Residential Real Estate Data on the Internet: Benefits and Limitations, p.107-108

¹⁹ Interview Volker Weissenberger

²⁰ Gee (2010) Residential Real estate data on the Internet Benefits and limitations, p.109-110

the number of transactions made would be analysed. In some countries this data is public, but for example in Germany, all companies have to estimate the approximate number, because the relevant data is not published. Of special interest for the real estate agency is the number of sales by owner (FSBO). When that number is high enough it indicates that there is a better opportunity to enter the market. In other words, a market has higher potential, and is more appealing to a real estate brokerage, if the number of private sellers is higher.

2.3. Difference between real-estate transactions in the US and Europe

This chapter is based on the interview with Volker Weissenberger, the former vice president of Re/Max Europa Regional Development. The interview was made on March 1st, 2016, in Vienna.

Having worked for Re/Max more than 10 years, and having been one of the major developers of the Re/Max Europe strategy, Mr Weissenberger gave important insights of the differences between the U.S. and European real estate markets, which are the main reasons, why leading franchise systems have been established in the United States. There are three major differences between the North-American markets and the European markets; number one is the household concept in North America changed more often. „The people or investors willing to take a risk on their housing investment, the markets falling in the speculative category, that might represent a better opportunity.“²¹ People there buy a house, live in it until it increases in value and then sell the house, and buy a more expensive one, wait until it increases in value again, and sell it. In most parts of the United States, if people go bankrupt, nobody is liable for the debts with their entire private assets, but only with the asset backing the loan, in most cases the real estate. So everybody can basically walk away only with the loss of their down payments, but their losses are contained. In Europe, this is not possible as one personally guarantees that the client will pay back the whole amount owed, which makes people more careful, in their behaviour towards acquiring real estate. The first major difference is the banking system.

The second difference is the mentality and the diversity in North America where there is only one language, whereas in Europe there are several cultures with each using its own language and own mentality in buying a house. This is also dependent on the territory, even within one country the rural lifestyles completely differ from that of a city.

The third difference between the North American and European markets is the operational level, and how it structured. In the U.S.A. a common standard for business communications was created

²¹ News Room (2014) Mortgage Banking, p.16

and this system is called MLS, which stands for Multiple Listing Service. Basically MLS is a web platform, „a comprehensive electronic database of home listing (houses, condominiums, and co-operatives) for sale. In the U.S.A. there are about 900 regional MLSs. Agents pool together and disseminate data on properties onto a MLS database. Agents are the gatekeepers of this data.“²² The agents can upload properties with all details about a house in order to be promoted by other agents. The details include the full history of a house, previous owners, and sales prices; even how long has the house been on the market. Bringing a possible buyer into the platform also reveals the exact percentage of their commission after a successful transaction has been made. Their commission is non-negotiable; it is very clear from the beginning, that this amount cannot be changed. It is a regulatory requirement to upload these details, if not, the agent risks his/her licence. The system still does not exist in Europe. Corporation is a word that is not known in Europe. In North America the real estate agents are using other agents to sell a property; in order to generate more sales the agents are cooperating. Law makes it as easy as possible. In Europe countries tend to incorporate the market directly, and try to make it as difficult as possible for other agents to get in touch with the clients, because of the agents' unwillingness to share their commissions.

The technology behind handling real estate corporations is also unique to the U.S.A., where other agents do not have to call the agent who uploaded the data about the property to the MLS system; the agents are merely booking a time period the clients would like to visit the house, and if the other agency accepts, the agents can show the property to their client individually. Instead of keys, lock boxes are used, electronic cards to enter a home, which work with a special algorithm. „On the Internet, abbreviated variations of the MLS database are widely available to the public. However, agents still have control over the data input.“²³

For the real estate franchise company, the U.S. was the perfect ground to establish a foothold in the real estate market after which the biggest challenge is entering Europe. Europe has to develop a lot in this industry and improving its methods, and start encouraging working with other agents and other real estate brokerages to boost the market.

²² Gee (2010) Residential Real Estate Data on the Internet: Benefits and Limitations, p.109

²³ Gee (2010) Residential Real Estate Data on the Internet: Benefits and Limitations, p.111

3. General Description of Franchise Structures

„In the late 1960s and early '70s, as franchising began to gain momentum in the U.S. market and a variety of companies became available, franchisers had to determine the most cost-effective way to market their franchises to consistently bring in new franchise buyers.“²⁴ The following section will contain the basic definition of a franchise system and the most common types, as well as an examination of the advantages and disadvantages of an expansion through a franchise system as compared to other expansion strategies, from both the viewpoints of a franchiser and a franchisee. „Management literature emphasises that franchising facilitates rapid growth. Rapid growth is desirable for franchisers as it yields a high outlet share, which generates high market share, and high market share stands to yield high profits.“²⁵ A franchise system is always based on a competitive and successfully running business model, of that the franchiser sells the rights in order to expand and build up a new business in another area or region. „Franchising is a method of marketing and therefore entails a business operation in and of itself.“²⁶

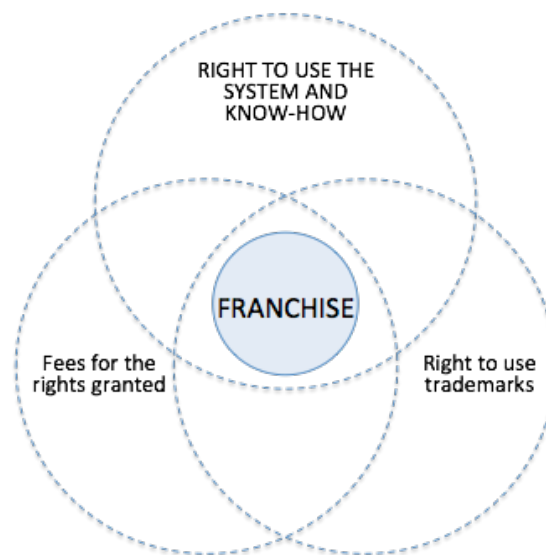


Figure 1: Continuant parts of a franchise system ²⁷

“Franchising can be defined as a contractual relationship for business opportunity by which the franchiser of a trademarked service or product grants exclusive rights to a franchiser of a trademarked service or product grants exclusive rights to a franchisee for the local distribution

²⁴ Keupt (2012) Franchise Bible

²⁵ Ehrmann & Meiseberg (2010) Benefits of Inner Strangth from Franchise System Expansion

²⁶ Keupt (2012) Franchise Bible

²⁷ Michailovska (2013) Highway to Business Success, p.12

and/or sale of the service or product in a defined area using prescribed methods, and in return receives a payment or royalty and conformance to quality standards.”²⁸

The main point of this transaction is the permission of using a well-known trademark that the franchisee buys with an on-going business. The market is already familiar and open for the service or product; the franchisee buys with a well-known franchise system. A franchise is usually paying a marketing fee periodically, which is usually a percentage of their revenue.²⁹ A franchiser is always in control from the franchise unit; they are highly dependent on each other. The franchiser’s return on the investment depends directly on the result of the franchisee’s operations. For this fee, the franchiser provides the business management tools. Regular reports, that are requested by the franchiser allows them, to identify problems and decrease risks associated with a new franchise unit. Although franchisees are independent business entities, which are fully responsible for their decisions with respect to executing policy decisions that the mother company makes.

The expansion of a franchise system is based on a lot of decision-making and preparation. „A key challenge for an expanding franchise system is to identify the factors that make attractive locations“³⁰ Before starting a franchised-based business, „a major step in the leap from the unknown to the commonplace is developing a strategic plan for growth.“³¹ The importance of a strategic plan is seeing the business with all benefits and costs. The franchiser has to invest a lot of money into the name and reputation, the quality, the testing phase and legal affairs to raise the market value of its franchise unit and to reduce the risks of unpleasant and unexpected surprises in the future.

3.1. Franchising as Business Model

Franchising model is close to the definition of business cloning. Each franchise is linked to the franchiser by all defined and regulated business relations. The franchise system includes several models; the franchise model describes the type of connection between the agreed parties.

The most common franchise models can be categorised into the following groups:

- **„Distribution franchise network:** almost a simple distribution agreement. The franchiser sells the product to the franchisee, which can use the trademark, the marketing support and distribution methods, and the franchisee holds the rights to define the main conditions, except for the selling price. In this model the franchiser does not provide the management

²⁸ Park (2005) The performance impact of strategic corporate real estate in franchise organisation

²⁹ Michailovska (2013) Highway to Business Success, p.13

³⁰ Ehrmann & Meiseberg (2010) Benefits of Inner Strangth fro Franchise System Expansion, p.194

³¹ Ehrmann & Meiseberg (2010) Benefits of Inner Strangth fro Franchise System Expansion, p.192

system, so it is also possible, that the franchisor does not have one, or, viewing the franchisee as a competitor, keeps in secret. It is typically in the industries of clothing, cosmetics, accessories, because of its similarities to a simple commercial model between distributor and supplier.

- **Production franchise**; this business connection is based on the technology the franchiser provides to the franchisee. It is most common in beverages and the food industry.
- **Business model franchise**: when one generally talks about the franchise system, this model is the most common. Under the business model franchise the franchiser provides all the support that it has to the franchisee: the management system, the trainings, the methods, the know-how and even the uniform of the workers. This is the franchise model that the real estate agencies generally use.

The franchise system can also be divided along the development methods, they adopt. In expansion of the franchise system the franchiser can sell its running business directly or indirectly (master franchising).“³²

The modern franchise system has two forms. The Single-unit franchising, in which franchises are granted directly from the franchiser, and the Multi-unit franchising or Master franchising, in which there is a master franchisee-franchiser, who is an intermediary between the original franchiser and the franchisee;

- „**Single-unit franchising**; the franchiser grants the franchisee the right to open a single business unit and operate it, with all trademark and operational support. Usually, at the beginning almost all franchise systems start with a sing-unit business model. The buyers are usually individual entrepreneurs, who plan to build up a one-store business and operate it; this model entails higher control from the franchisor while it also ensures the franchisee territorial protection.
- **Multi-unit franchising**: in this development method, the franchiser grants the franchisee the rights to open pre-defined business units over a certain period of time. Multi-unit franchisees usually already have the experience of a single business unit and this agreement is usually used to develop its own well-running business chain.

³² Michailovska (2013) Highway to Business Success, p.13

- **Territorial or area development franchising** is very similar to multi-unit franchising. This model grants to the franchisee the rights to open and operate units in a given territory, but the number of units is not regulated. This franchising expansion strategy is the fastest growing method. However, for a senior franchisee it may be the master franchising method that may be more lucrative to operate the business individually.³³

The following figures, the differences between the direct and indirect (master) franchising structures will be demonstrated.

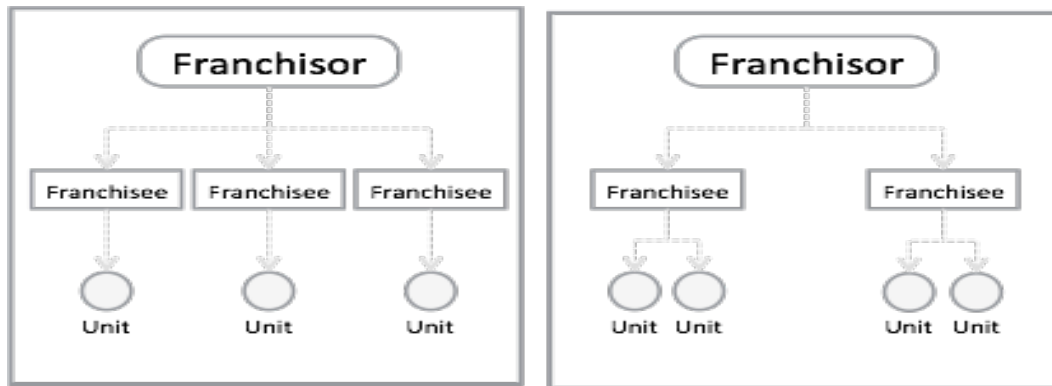


Figure 2: Single and Multi-unit franchise system structure³⁴

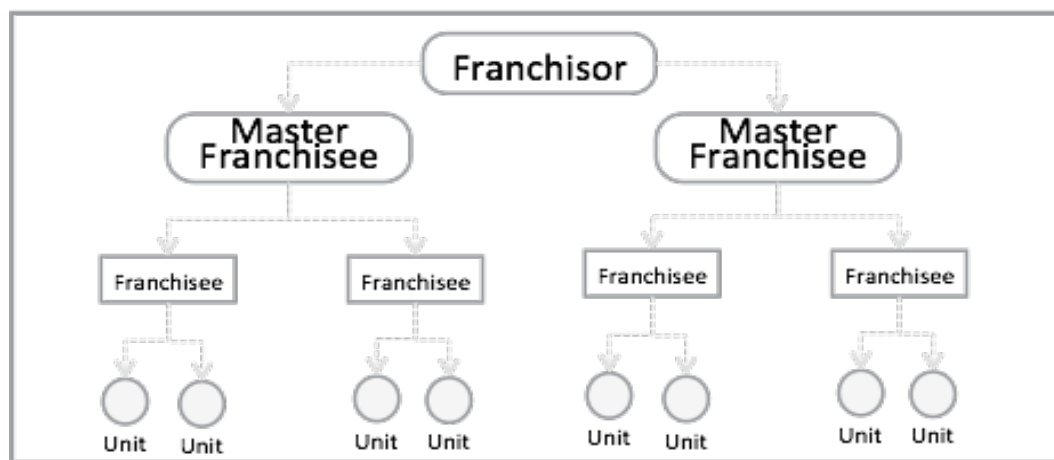


Figure 3: Master franchise system structure³⁵

The indirect or master franchise model is the most attractive business model, it gives an additional opportunity to the franchisee to build up its own franchise network; basically all pyramid-schemes are based on this franchise model. Generally, the franchiser will grant few franchisees the rights to operate as a master franchiser with the rights to further license third-party operations. In a predefined territory, the master franchisee will assume the role of the franchiser, but they typically will not own or operate the franchise. This model speeds up the expansion process. Every

³³ Michailovska (2013) Highway to Business Success, p.15-17

³⁴ Michailovska (2013) Highway to Business Success, p.17

³⁵ Michailovska (2013) p.16

franchisee has the right to sell individual franchise systems in pre-defined territories. Master franchises usually do not open individual units; their main profile is the development. It is beneficial to the original franchiser because without any effort or time, the company is growing, but it also loses the sales margin to the sub-franchisees, even though they get commission after all franchise units.

Both sides, franchiser and franchisee, have to be defined before the franchise-ability of a business. It means factors of the success must be examined, like the size and history of the mother company, the profitability of the industry, the effectiveness of the management support the mother company provides and the existing demand on the market. If all of the above are defined, and a franchise model is chosen the business parties may start the business. „Most franchisers require their franchisees to conduct preliminary research on potential sites. In most cases, real estate brokers or shopping-centre managers can provide the demographics and other commercial information pertaining to each potential site.³⁶

„The most common reasons why an entrepreneur might choose this expansion possibility are the following:

- They need rapid expansion if they believe that the demand is high enough. It is obvious that they cannot operate all business units around the world, so to achieve international goals; they have to build up a strong system.
- Demand for capital to finance rapid business expansion. Franchisees provide the initial capital necessary to open a new unit. For the franchiser it is more like a credit, but with the added benefit that the franchisee is deeply involved in the success of the business, whereas a simple creditor only requires his/her money back.
- High demand for human resources that ensure rapid business development; they have to train the workers to provide the same service quality as the franchiser.

A franchising business model can be viewed to be beneficial from a franchisee's point of view for the below reasons:

- The technology behind the business already exists.
- Using an already existing business model, the franchisee does not have to start from scratch.
- A new franchisee will be able to avoid all mistakes that a start-up business could commit.
- Know-how and training support already exists, that a franchisee can use from the beginning.

³⁶ Keupt (2012) Franchise Bible, p.98

- The trademark is usually well-known, they do not have to invest into brand marketing.³⁷

The success of a franchise system is dependent not just on the objective numbers but also on the reputation of the franchisors name or the company name, the origins of the mother company and the investment needed for the opening a new franchise unit, all of which are difficult to measure.

A franchiser makes the most effort on the marketing and recruiting process. „Finding qualified franchise buyers can be the most challenging element of a franchise endeavour.“³⁸ Entrepreneur's personality is a very important factor besides the skills of entrepreneur: „they have been categorised by their psychological traits, capabilities, education and networking and communication skills. The entrepreneur spirit alone is not enough to start or run a successful business.“³⁹

3.2. Expansion through Franchising

In the following chapter the franchise system will be described in more detail and a comparison will be drawn, between the franchise investment to other investment possibilities, such as subsidiary, joint venue, distribution and sales person system. „Many well-organised company programmes that are short on expansion capital have turned into efficient, highly profitable networks of franchise outlets. The desired end result is this popular business system called franchising is a highly motivated, cost-cutting, quantity-conscious retailer who provides a product or service to the customer. This method of operation can be far more efficient and profitable than a company-owned enterprise, which may be operated by high-priced and/or disinterested company employees.“⁴⁰

There are three alternatives to franchising a business:

- „Primary alternative is to let your business continue “as it is”, without franchising or expanding. This option, however, raises the possibility that, your business will be eliminated by a competitor who gains greater brand recognition. It may also restrict you and your business from reaching your full potential. Profits are limited to, unless a business expands, its risk elimination. In addition, if you choose to continue your company “as it is “, your advertising budget remains minimal compared with that of a franchiser's, whose local, regional, or national advertising fund is fed by a multiple number of franchise entities.
- The second alternative is the company-owned outlet alternative. In addition to the amount of capital necessary to expand your own business through company-owned offices, the amount of

³⁷ Michailovska (2013) Highway to Business Success, p.41-43

³⁸ Keupt (2012) Franchisor Bible, p.105

³⁹ Phillips (2013) Review of Entrepreneur.com and Inc.com, p.62

⁴⁰ Keupt (2012) Franchise Bible, p. 73

time spent in such a company expansion is likewise very demanding. Site location, general administration, lease negotiation and interviewing and hiring managers and employees all require considerable time and money that are not anywhere near the amount required for expansion through franchising.

- The third and perhaps least common alternative to franchising is association through leadership, licenses, incentive programmes, partnership, and joint ventures. Most dealerships, partnerships, joint ventures and licenses come about through negotiations between two parties having some adverse interest, resulting in a compromise agreement. In most such cases, to satisfy the whims of both parties, control will be split, even though it should be entered in the hand of one. Often when one party is supplying only the money, that party will insist upon some control over major decisions.⁴¹

A different approach towards categorising the the expansion strategies could be through business control level and risk factor.

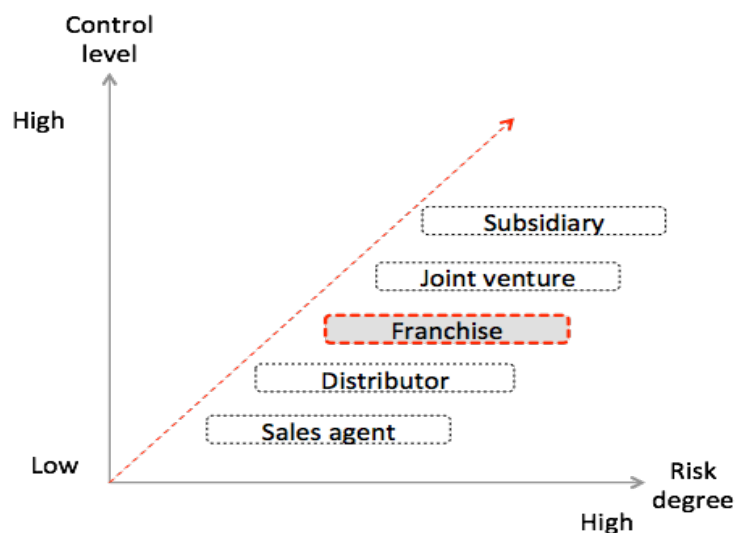


Figure 4: Comprehension of Business Expansion Models⁴²

Expansion through subsidiary

According to this graph, the highest control factor can be achieved using a subsidiary model where the parent company usually has a controlling ownership or interest in its subsidiaries. This expansion model is risky from the parent company's side, because considerable capital investment needed to enter a new market and build up exactly the same structure; the parent company has in the parent market. There are two options to enter a foreign market with this business model: one is to build up a new start up company and develop the market share, and all operating processes,

⁴¹ Keupt (2012) Franchise Bible, p.74-75

⁴² Michailovska (2013) Highway to Business Success, p.13

while the other is to acquire an existing local company within the industry. The advantages of a subsidiary system is that the risks are very low, because the parent company establishes the operation processes, and provides support from the beginning, which generates the high control level factor. If the subsidiary is able to show a strong operating history, the control level may also be decreased. Usually a subsidiary system works best in big business culture for national and multinational companies.⁴³

Expansion through Joint Venture

Another option for expansion is the joint venture, which is a cooperative business venture established by two or more companies. The high control level could be explained by the allocation of resources from the parent company, but operational responsibility is given to each member. The risk factor of a joint venture is the capital that the parent company provides. Joint ventures are more common than franchises, but have more in common with a strategic alliance, which is structurally more similar to a franchise. "A strategic alliance is similar to a joint venture in many ways—yet very different. An alliance may be formed when one organisation grants another the authority to exploit technology, research and development knowledge, marketing rights and so forth, but does not create a separate entity. A typical example of a strategic alliance is the basic manufacturer-independent sales representative relationship."⁴⁴ Through a joint venture or strategic alliance expansion a company will provide all its technology, know-how, intellectual properties and support to a foreign company to use for a limited time period. This structure is mainly advantageous for small and medium-sized companies, because these companies can afford to expand but without research and development, the risk could be limited with an already existing culture.

Expansion through a Franchise structure

Franchise structure is situated in the middle in this respect; it demonstrates an optimal ratio of control level and risk that the new entrepreneur takes. The control level depends on the franchiser's decision; usually from 30 % to 80 % ownership is allowed.

Expansion through distribution agreements

An expansion through distribution partner contract is less risky as ones listed above. The first thing the parent company has to decide before starting to look for a new distributor is whether it will be an exclusive or a non-exclusive distributor. "Alternatively, the right could be exclusive within a province, a country, a continent or on a worldwide basis. To avoid loss of control of its market."⁴⁵ Control level is also low, the distributor only has to follow the point they agreed in writing in the

⁴³ Basu (1998) What are the advantages & disadvantages of Establishing the Company's Own Subsidiary Overseas

⁴⁴ Manzella (1996) from: <http://www.manzellareport.com>, downloaded: 26.02.2016

⁴⁵ Lavery (1997) Intellectual Property and Technology Law, downloaded: 26.02.2016

distributors agreement, for example sales objectives, trainings, sales force, participation in trade shows, etc.

Expansion through sales agents

Finally, the least control and risk model is the sales agent one. The structure is the same as with a distributor relationship. The company agrees in a contract with an agent about individual sales activities. The only control element is the reporting obligation that the agent has for any given time. The agent is usually working for a commission obtained after any successful transaction, the amount of which is usually specified in the contract. The most common method to measure investment is the ROI, the return on investment, usually calculated by subtracting the costs of an investment from its gain and then divided by the total cost of the investment. The factors that affect the gain or cost could be varied. Speed is a special aspect in case of any business expansion model. In the franchising model the speed of the expansion is based on the success of the “mother company”, the franchiser and the franchisee network and its efficiency.

Financial forecasting is a key point in all-new businesses and is produced for a minimum three years. In a franchise system in some cases money saved by investing into an on going business instead of a building one may not be accurately measured. It is also difficult to evaluate the true monetary value of trademark; even in the case of a small business unit it is based more on intuition instead of financial planning. When a franchise opens the intended target market must be thoroughly analysed. For example at Re/Max the factors considered were cross commission income, numbers of transactions, sales associates, number of open offices, according to Mr Weissenberger.

4. International Real Estate Franchise systems

In the last decade, the real estate business has grown in popularity. The franchise model became a well-known and easy model for expansion; it even provides an expansion option to small and medium-sized companies. „The technology has changed, is changing and will change the way real estate professionals do business. Virtual tours of homes from the comfort of the real estate office or the home computer, software programs with bells and whistles for virtually every real estate need are all part of the landscape.“⁴⁶

It's not just the technology revolution that has changed the real estate market. Following the latest depression and the difficult market conditions in the previous decade, a high unemployment rates and a lasting detrimental economic situation also hit the real-estate franchise companies substantially where many agents had to give up their practices. Re/Max, for example, has felt a net loss of 700 offices till 2010, but this difficult situation also helped them to define a new strategy by investing and focusing more on productivity, trainings and business development options. Another example for a strategic repositioning, caused by those difficult conditions, is ERA Real Estate, which had to affiliate them with the largest franchiser in the Gulf South area, Latter & Blum Network. ERA needed a strong historical franchise system to develop further. Latter & Blum Network was established almost hundred years ago in New Orleans, and became the largest franchiser in the Gulf Area. ERA named this integration ERA Powered.

“In another notable strategic pairing, the fast-growing Casa Latino franchise, which specialised in the Hispanic market, announced in January that it would become part of Nextage Realty International. To be sure, independent brokerages that join large networks of affiliated companies like the Chicago-based Leading Real Estate Cos. of the world can obtain many of the same benefits that brokers and salespeople at franchises have.“⁴⁷

At the same time when the majority of national franchise brands are shrinking, because of the lacklustre market conditions, Keller Williams (KW) has continued to see a net growth in number of agents and offices. The CEO, Mark Willis, sees the success of KW as "People are drawn to the consistent models that we have implemented for every office. These models cover our organisational, operating, and economic structures," The company profit sharing programme between the agencies seems to be one of the best strategies to win more and more co-workers. The other success factor, that Mark Willis mentions is that "We embrace the agent as a

⁴⁶ Edwards (2007) Your Successful Real Estate Career, p.61

⁴⁷ Cole (2011) Franchise Report: What's in a Name? downloaded: 24.02.2016

stakeholder in the business. And, our training involves helping the agent think like a businessperson rather than a salesperson.”⁴⁸

To build up a franchise network faster, the franchisee could use several benefits that the franchiser provides, like the involvement of motivated and devoted people, the proven track record of past successes, its brand name recognition, the training in current best practices and technologies the franchiser uses, the operational support, such as marketing and advertising tools, the business model that the new company can easily adopt the partnerships with home inspectors and mortgage lenders.

The major findings in this thesis are aimed to prove the listed success factors in order to understand the differences between real estate franchise structures and forecast the possible opportunities for the chosen franchise companies.

The hypothesis, drawn in this thesis, is that the main success factors that drive a real estate market in the current market situation are as the following:

1. Brand Recognition
2. Expansion strategy
3. Education
4. Customer satisfaction

In the following sections the selected four real estate companies will be examined in order to prove the hypothesis, based on the effort that the companies put into raising their reputation, which include the brand recognition or to be more precise, the franchise system becomes attractive enough to sell its right or to find entrepreneurs who are willing to buy its rights. The next success factor, assumed, is the business development strategy, which is highly dependent on the management's personality and the investors the company works with. The third success factor is the educational level and training and if the product is complete, the service has been set up. The final one is customer satisfaction. In order to get deeper insight into how the real estate companies are using these factors to reach their targets and develop further, the four agencies will be examined along these methods to prove the importance of the selected success factors.

⁴⁸ Cole (2011) Franchise Report: What's in a Name? downloaded: 24.02.2016

4.1. Re/Max - above the crowds



Figure 5: RE/MAX Logo and Sales table⁴⁹

“To build a successful business, you need productive people. The RE/MAX system attracts top-producing agents and gives me the tool to reach out and communicate all that RE/MAX has to offer.” Janice Corley RE/MAX Premier Properties Chicago, Ill.⁵⁰

Real Estate Maximums, in short Re/Max, is an American International Real Estate company. “Re/Max was founded in 1973 by Dave Liniger, with an innovative, entrepreneurial culture affording its agents and franchisees the flexibility to operate their business with great independence.”⁵¹ Like all other real estate franchise systems, the franchiser provides all support, the management system, the trainings, the methods, and the know-how, even the uniform of the workers. Re/Max operates its franchise system directly, and is subcategorised into single-unit and multi-unit franchising, the difference between the two being that the multi-unit franchise system allows the franchisee to open two or more franchise units, the number of these units are specified in the contract. Re/Max expanded to Canada through a master-franchisee, which later established the companies in Europe, with a Re/Max headquarter in Vienna, Austria. The European franchise structure differs from the American; in Europe every country granted all rights by the headquarters.⁵²

Re/Max is market leader in several countries. It has held the number one market share in the United States and Canada since 1999, as measured by the number of residential transactions and it operates in nearly 100 countries. Re/Max was founded in January 1973 in Denver by Dave Lineger who did not consider franchising until the beginning of the '80s. His first hire was Gail Main, a former customer service supervisor; to serve as the firm's vice president of administration. As Dave recruited real estate agents and Gail managed the office, the two forged a professional partnership, fell in love and got married later. At the time of its conception, the real estate market was mostly a man's world and the brokers only worked for split commissions, which were often the case as multiple agents were involved in a single deal. David and Gail Lineger together changed

⁴⁹ remax.com, download: 26.02.16

⁵⁰ remax.com/histroy, downloaded: 24.02.2016

⁵¹ Re/Max National Housing Report Release, downloaded: 24.02.2016

⁵² Interview Volker Weissenberger

the industry with this strategic model; Re/Max started an unexpected growth with its first franchise office in 1975, in Kansas City, Missouri, where Dennis Curtis opened the first Re/Max franchise unit. The company opened nearly 100 more franchises in the next two years. 1977 was the year, when Re/Max opened the first franchise outside the U.S.A., in Canada, then Europe and around the world. In October 2013, the company successfully conducted an IPO on the New York Stock market under the name RMAX. The Re/Max website is the most visited real estate franchise website, and has so far generated 14 million leads for Re/Max agents.⁵³

The system is still based on attracting productive agents and providing them with valuable support, incredible brand awareness, educational opportunities and other competitive advantages. Customer service – built on a foundation of ambition, experience and education – is the cornerstone of Re/Max success. The Re/Max track record built over 40 years is proof that a focus on the customer's needs, backed by the ability to deliver, remains as important as ever. In other words, great things happen when driven individuals come together and treat real estate as a profession.⁵⁴

The company not only built up the biggest individual real estate franchise system, which has been in operation for more than 40 years, but it also put a great emphasis on the technical revolution of the company, when, for example, in November 1994, the Re/Max Satellite Network (RSN) was launched with four hours of programming daily, then more than 60 hours monthly, which included training and company news and this network was available to U.S. real estate agents using satellite dishes. In 2006, Re/Max updated their corporate website to include listings for all U.S. homes for sale, including homes being sold by competitors. Because of the great success of the network, Re/Max established a University in 2007 with an online educational platform, which was featured in Training Magazine's Top 125 Organisations recognising employee development. The Commercial division of Re/Max launched a new website in 2012 and has been recognised as a top real estate brokerage firm by the National Real Estate Investor. Re/Max was featured as the leading real estate franchise in the Entrepreneur magazine and Franchise 500 ranking and its list of top global franchises.⁵⁵ In 2016 surprisingly, Re/Max was not listed among the top 125 training organisations,⁵⁶ but still has the 21st place on the Franchise 500 ranking by the Entrepreneur.⁵⁷ Comparing Re/Max to Re/Max Worldwide, the agent count in percentage is almost the same, but in real numbers it has a significant difference.

⁵³ Re/Max Media Kit (2015) downloaded: 24.02.2016

⁵⁴ remax.com/history, downloaded: 24.02.2016

⁵⁵ remax.com/history, downloaded: 24.02.2016

⁵⁶ Firefield (2016) Training magazine Ranks 2016, downloaded: 28.02.2016

⁵⁷ entrepreneur.com/franchise500, downloaded: 07.03.2016

	RE/MAX United States	RE/MAX Worldwide
Agent count	57,105	98,010
	4,8	5,1
Office Count	3452	6751
Franchise Sales	253	767

Figure 6 Comprehension Table between RE/MAX and RE/MAX Worldwide⁵⁸

4.1.1. Re/Max Advertising

Re/Max uses almost every marketing tool available to reach its audience and build its reputation: newsletters, meetings, grand openings, toll-free phone lines between offices, internet platforms, field operations, evaluation, purchase cooperatives⁵⁹, and media platforms. But the biggest advertisement platform of the franchise is the hot air balloon. The red-white-blue hot air balloon became the official logo of Re/Max in 1978, during the first Hot Air Balloon Fiesta, and later became a unique sign of the company. To this day, a fleet of 120 balloons is flying across the United States, which make approximately 65 appearances a year. If added up, every event lasts for more than an hour that nets to about a total of 7,800 hours of advertising, which is equal to nearly 11 months of 24-hours-a-day of flying. The balloon speaks volumes, the McDonalds golden arches and Nike's Swoosh are two other prominent advertising platforms, and it puts the Re/Max Hot Air Balloon right up there beside them.⁶⁰ The Re/Max Design Centre is responsible for the in-house marketing resources that enable agents to create their own flyers, listing presentations, email campaigns and multimedia campaigns. A franchisee could choose from many customisable templates. Re/Max promotes a uniform appearance as it helps in building a name and an integrated company picture. The company network features 5 billion advertisements yearly since Re/Max TV, the company owned Satellite Network began operations in 1994, which, at the time, was used as their training system.⁶¹ Re/Max created the Quest for Excellence programme, to recognise the success of Canadian students. It is committed to help in raising awareness for an on-going need for organ donations. It has a sponsorship programme that supports the Canadian Breast Cancer Foundation, the Children's Miracle Network between several community care programmes, and worldwide sports events like Forma1, ski openings, and the UEFA CUP.



Figure 7: RE/MAX Sponsoring

⁵⁸ RE/MAX Year Review 2015, downloaded: 25.02.2016

⁵⁹ thefranchisemall.com/remax, downloaded: 25.02.2016

⁶⁰ remax.com/histroy, downloaded: 24.02.2016

⁶¹ Nielsen - AdViews-Methodology-by-Medium-InfoKit.pdf, downloaded: 25.02.2016

4.1.2. Re/Max Franchise system, expansion

Re/Max has had a very strong history since it was established in 1973. Apart from the clear legal history, and the balance the company brings between sellers and buyers adds to their name recognition in both the American and the European markets. Re/Max contracts usually authorise a country to open a master franchise system for 20 years, but the individual franchise units are granted only a five-year contract, after which it is due to be renewed. Before Re/Max grant a country a master franchise contract, the countries through its potential, based on the number of transactions made annually will be analysed.

The following figure demonstrates the franchise unit growth of Re/Max since its establishment. Between 2005 and 2015, the graph is more detailed in order to demonstrate the burst of the real-estate bubble after 2007. The depression in the real estate market turned around in 2013, when it started growing again.

Analysed along the success factors laid out in previous chapters, Re/Max has strong brand recognition in the United States as well as outside the U.S. market. The expansion strategy of the company is well known and people trust the name of the company. Re/Max was one of the first real estate franchises that started to develop into overseas markets. The above graph shows the number of Re/Max units in the United States and outside the US. The units of the company are in balance when the two markets are compared. Examining the financial factors, Re/Max is a cheap franchise, it needs an operating capital of at least \$50.000⁶², and only half of this amount is the initial franchise fee, which is usually a lucrative franchise investment option. Re/Max, as a cheap franchise system, has the danger of becoming unattractive to those, who are looking for higher quality. Examining the system from the company's side, the commissions after every franchise's revenue are huge; this system generated \$171 million revenue.⁶³ Re/Max was the first real estate agency that provided professional trainings to its agents; in order to increase customer satisfaction, but being the first in something is not enough to be the best at it. Their workers have to believe and trust in a name to adequately represent the company and increase its reputation. Based on a number of objectively conducted studies featuring Re/Max, it is in an excellent position from this aspect. It can be assumed, that the company could improve its efforts to satisfy its customer and improve its professional service or increase the number of advertisements, which is the key to its success in this area. The below word map demonstrates the 95 countries, where Re/Max has already expanded to.⁶⁴

⁶² thefranchisemall.com/remax, downloaded: 25.02.2016

⁶³ wikipedia.org/RE/MAX, downloaded: 25.02.2016

⁶⁴ global.remox.com, downloaded: 01.03.2016

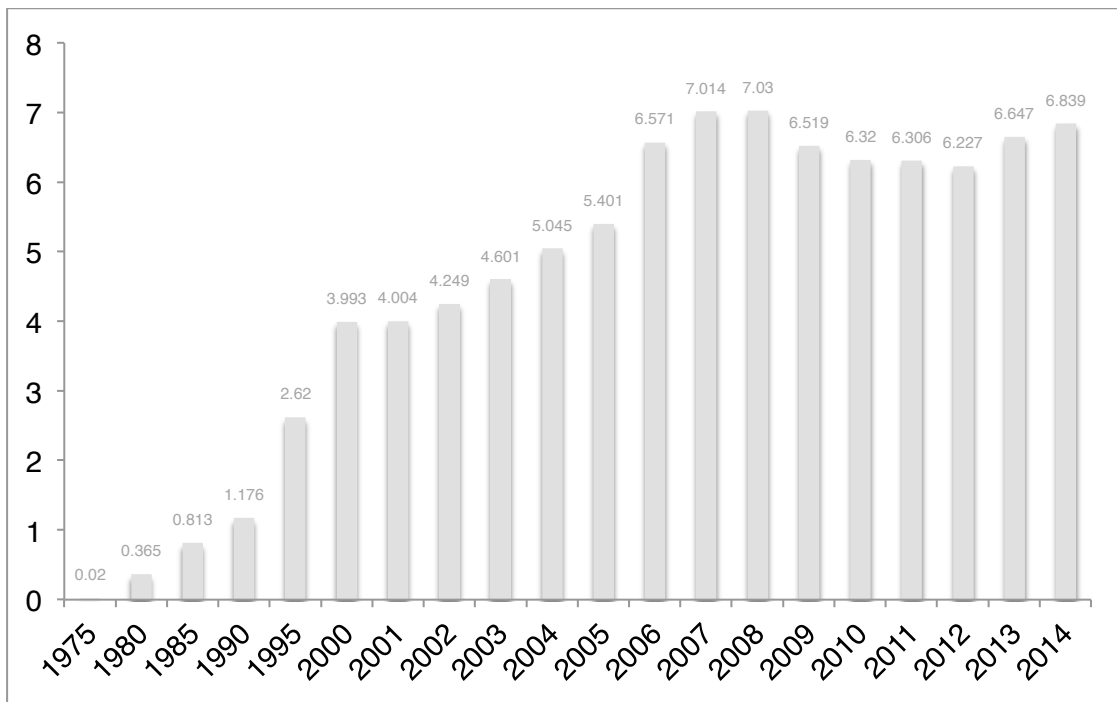


Figure 8 RE/MAX Franchise Unit Growth Numbers⁶⁵

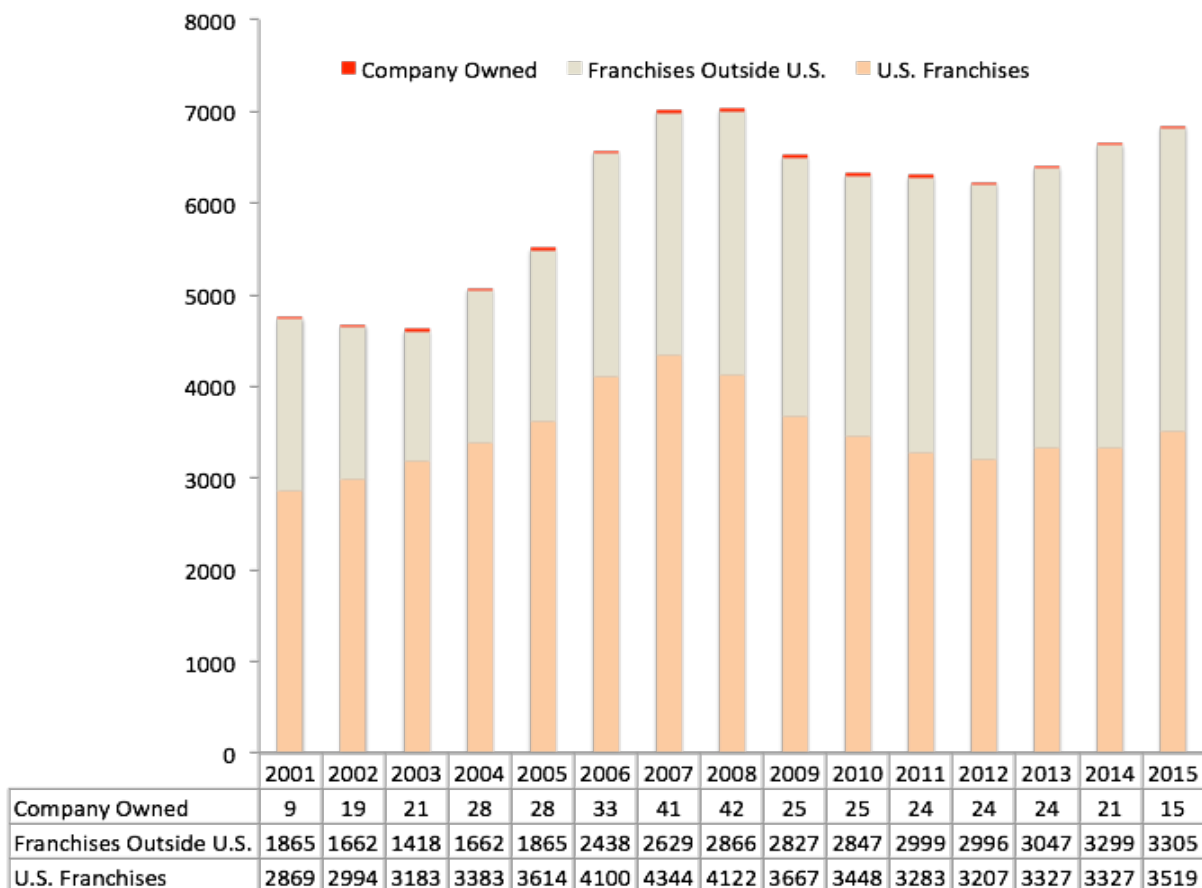


Figure 9: RE/MAX Unit Diversification⁶⁶

⁶⁵ remax.com/history, entrepreneur.com/franchises/remaxllc/282746, thefranchisemall.com/remax, downloaded: 27.02.2016



Figure 10: RE/MAX Around the World⁶⁷

4.2. Keller Williams



Figure 11: Keller Williams Logo and Sales table⁶⁸

“When we talk with top agents and ask them what attracted them to Keller Williams, they mention our models and systems, they mention our training, they mention our technology, and they absolutely mention our culture.” – Chris Heller, CEO⁶⁹

Keller Williams (KW) is using the same franchise structure as Re/Max. Its individuality is in the way the company works with their agents, the company uses a mixture of a single-unit and master franchise, and operates through market centres. The KW market centre is a unique marketing idea that still has to prove itself.⁷⁰ The idea is to cover a region where several units can be opened, one

⁶⁶ thefranchisemall.com/remax and entrepreneur.com/franchises/remaxllc/282746, downloaded: 27.02.2016

⁶⁷ remaxglobal.com, downloaded: 26.02.2016

⁶⁸ kw.com, downloaded: 21.02.2016

⁶⁹ Larcker (2015) How Important Is Culture: An inside Look at Keller Williams Realty, p.1

⁷⁰ Interview Volker Weissenberger

per district for example, or one large office that serves a whole city, for example Vienna. With only one market centre, the opportunity of the people who are just stopping by at the unit to check available houses is decreased, which in turn also decreases their options to meet with clients directly, which is strongly linked to brand recognition, while it also promotes a stronger image of the company.

„Keller Williams is the world's largest real estate franchise by agent count.“⁷¹ It was founded in Austin, Texas in 1983 by Gary Keller and Joe Williams. It is the main rival of Re/Max, Century One and Coldwell Banker. The company opened its first franchise in 1991, and opened its first international franchise in 1998 in Canada, almost 10 years after being on the market. A year after the establishment of KW, they had 71 sales agents, and in just 5 years the company raised that number to 130 sales agents, in the same office, without franchise system.⁷² Keller Williams can attract the agents with a family company image and the fact that in every year a given percentage of the company profit will be shared with all sales associates. The company employs not just sales agents but also associates who work in their market centres to operate its franchise system. KW grants a franchisee the right to open single- units, but those units have to be registered at the closest market centre. The company began its real expansion in 2012, and in the following 3 years, until early 2015, it had established offices in 10 regions. The success of this model is to keep the fixed costs low and working for the highest possible commission that generates a profitable market centre, and also the liquidity necessary to grow. A typical KW market centre contains 150 agents; franchisees are only allowed to open offices in large territories in order to maximise profits. In 2014, 98 per cent of the market centres opened at least a year before they were profitable, according to a Stanford study. The agents, who are working for KW “generally receive a 70/30 commission split for the first dollar of gross commissions income (GCI) generated from the sale of a home, but the agents must split this commission with the centre until reaching a predefined cap. This cap is determined by the owner of the market centre and is established at the time the centre is opened.”⁷³ But the real advantage of KW is that it offers a second source of income to its agents. The formula for distributing profits is based on the productivity of other agents that the agent directly recruits to the market centre, and is referred to as ‘level-one’ profit sharing. KW, with this economic model and the profit sharing system, is significantly different from its competitors. KW built up a strong company culture to motivate its agents, and encourages interdependent relationships and achieving success through the efforts of others.

⁷¹ Frost (2016) Press Release, downloaded: 27.02.2016

⁷² kw.com, downloaded: 27.02.2016.

⁷³ Larcker (2015) How Important Is Culture: An inside Look at Keller Williams Realty, 1-2

“It’s very difficult to separate the culture and the system - said Mo Anderson the Vice Chairman - The system is written for the culture and the culture exists for the system”⁷⁴;

KW uses the following slogans for the motivation of their agents:

- Win-win – or no deal
- Integrity – do the right thing
- Customers – always come and rest
- Commitment – in all things
- Communication – seek first to understand
- Creativity – ideas before results
- Teamwork – together everyone achieves more
- Trust – starts with honesty
- Success – results through people⁷⁵

The company differentiates four cultural parties: the agents, the owners, the market centre and the owners of the company. The main facets of the company culture are the involvement of the agents in its decision making, profit sharing, open communications of the financial statements and books, and the constant offer of trainings to their workers by way of online courses that are self-paced modules. Trainings magazine ranked KW as number one on its 2015 list of the top 125 companies providing learning possibilities for their employees across all industries. In 2016, KW won the 2nd place.⁷⁶ Keller Williams is an agent-driven company; every agent has access to view detailed revenue and expenses information, the agents can calculate if the company would get the fair value for their efforts. KW builds its success on the people, who are supporting the company in any form.

Keller Williams is using the bottom-up decision making structure, where the employees are more integrated into the company structure and culture. Compared with other competitors, who are focusing on strategy and business model instead of the agent and culture, Keller Williams could provide a unique working environment.⁷⁷

⁷⁴ Larcker (2015) How Important Is Culture: An inside Look at Keller Williams Realty, 1-2

⁷⁵ kw.com, downloaded: 25.02.2016

⁷⁶ [trainingmag.com/Training Magazine Ranks](http://trainingmag.com/Training%20Magazine%20Ranks) (2016) downloaded: 28.02.2016

⁷⁷ Larcker (2015) How Important Is Culture: An inside Look at Keller Williams Realty, p.1-2

4.2.1. Keller Williams Advertising

Keller Williams achieved everything it could in the United States, at which point the company began to expand in 2012, first into the Vietnamese market. The franchise invests a lot of money in international expansion. Since 1997, Keller Williams has dispensed more than \$687 million through its U.S.-based profit sharing system and worldwide growth share programmes.⁷⁸

Keller Williams uses every platform available to advertise: official blogs, where people can see their latest updates and share ideas on how to sell or promote their property, plain content. The company doesn't make cold calls but send messages. The strategy is using personal social networks. Emailing for KW is not a marketing platform it is a way of communications, where the agents reach their friends and business partners. The first step of KW marketing is to build up a personal relationship with the client, be their friend and the one person, whom they can trust.⁷⁹

Keller Williams launched two new growth concepts in 2014, both with the same underlying goal, to train its agents on how to become bigger.⁸⁰

- „Mega Agent Expansion is a new course. It teaches associates proven models and successful systems for retaining a core team.
- BOLD, the other programme that stands for Business Objective: Life by Design, is a 7-week long tuition programme and a significant factor of financial success for new associates, to increase their commission, or in other words, the effort they put into each transaction.“⁸¹

An advertising and brand promotion programme Keller Williams started in order to display a property from different view points as the others, the company made a study on how neighbours can affect the sales price of a property, and how the seller could avoid potential problems. The aim of the programme is to show social responsibility to other people. “Don't forget the golden rule. If you want good neighbours, you should be one too. By approaching the issues with empathy and understanding, you are most likely to have a successful dialogue and solution.”⁸²

As part of the profit-share programme, individual Keller Williams's market centre owners share close to 50 per cent of their office's monthly profits with associates who have contributed to its growth. Over the past five years, the profit share per agent across the franchise has nearly tripled.

⁷⁸ <http://www.kw.com/kw/pressrelease.html?pressReleaseId=761>, downloaded: 28.02.2016

⁷⁹ kw.com, downloaded: 28.02.2016

⁸⁰ <http://www.kw.com/kw/global-property-specialists.html>, downloaded: 28.02.2016

⁸¹ <https://www.gsb.stanford.edu/sites/gsb/files/publication-pdf/cgri-closer-look-48-keller-williams.pdf>, downloaded: 28.02.2016, p.4

⁸² <http://blog.kw.com/are-neighbors-affecting-property-values>, downloaded: 28.02.2016

Instead of sponsoring huge sports events and family reunion programmes and mega camps (the Keller Williams Realty International Conventions)⁸³ like other franchising companies, KW focuses on other social responsibility programmes for example “It’s easy, being green”⁸⁴, where the company puts great emphasis on how a property can be green, but still modern.



Figure 12: Keller Williams Green House trends⁸⁵

4.2.2. Keller Williams Franchise expansion

The power of Keller Williams lies in its agents’ professionalism. As mentioned before, the company uses a bottom-up decision making model, KW trusts in their agents and see the potential that the company is capable of in order to make responsible decisions. Education, which is the fourth important success factor with in. KW is very strong in this aspect as well. KW attempted to establish an individual programme to create additional income for its agents when they retire: agents can train new agents. It theory it is a compelling proposition, but in reality it is not feasible in the EU where ‘KW footprint is not really strong yet’, said Mr Weissenberger.⁸⁶

KW is unique in the way it franchises; associates have an independent relationship with the company, and this connection is based on a mutual interest in achieving success. The franchisee unit is established between a traditional company and a 100% owned company. KW allows its franchisee a maximum of 85% ownership. The investment that is needed to open a Keller Williams Realty Franchise is between \$174,600-\$557,500. There is an initial franchise fee of \$ 25,000, which grants the franchisee the license to run a business under the Keller Williams Realty name. KW did not go into mass franchising, like Re/Max, which could be a reason why KW is reported to be one of the most marketing-orientated companies.⁸⁷ „It is not necessary to join the franchising branch that is responsible for each market centre, the Financial Planning Committee (PFC), but the company provides an analytical option to every franchisee. KW provides franchisee continuous countrywide trainings, newsletter support, meetings, grand openings of new units, Internet

⁸³ <http://www.kw.com/kw/vendor-network.html>, downloaded: 26.02.2016

⁸⁴ <http://blog.kw.com/2015/10/27/green-homes/>, downloaded: 26.02.2016

⁸⁵ <http://blog.kw.com/2015/10/27/green-homes/>, downloaded: 26.02.2016

⁸⁶ Interview Volker Weissenberger

⁸⁷ thefranchisemall.com/franchises/details/10910-0-keller_williams_realty, downloaded: 28.02.2016

platforms and security procedures. In marketing KW provides regional advertising and the operation gives an option to own more than 30 % of a franchise unit with a condition that at least 3-4 employees are running a new unit. The maximum ownership is 85% in the current franchisee model.⁸⁸ KW provides the opportunity to decide individually or as a unit owner, but also provides the required support, if needed.

KW expansion strategy is completely different from the Re/Max one; it developed into market centres to provide a high quality service and collect information about its agents. The biggest success of Keller Williams is in the training programmes and the individual prowess of its agents. Since its establishment the company had been concentrated on the U.S. markets as compared with the other companies that expanded from the beginning.

The following diagrams show the KW expansion between 2005 and 2015. The detailed part of the graph is between 2000 to 2015, in order to demonstrate the last real estate bubble after 2007. The depression in the real estate market only began to turn around in 2013; it shows the same pattern as the Re/Max expansion diagram, and in the table below showing the annual growth rate of KW.

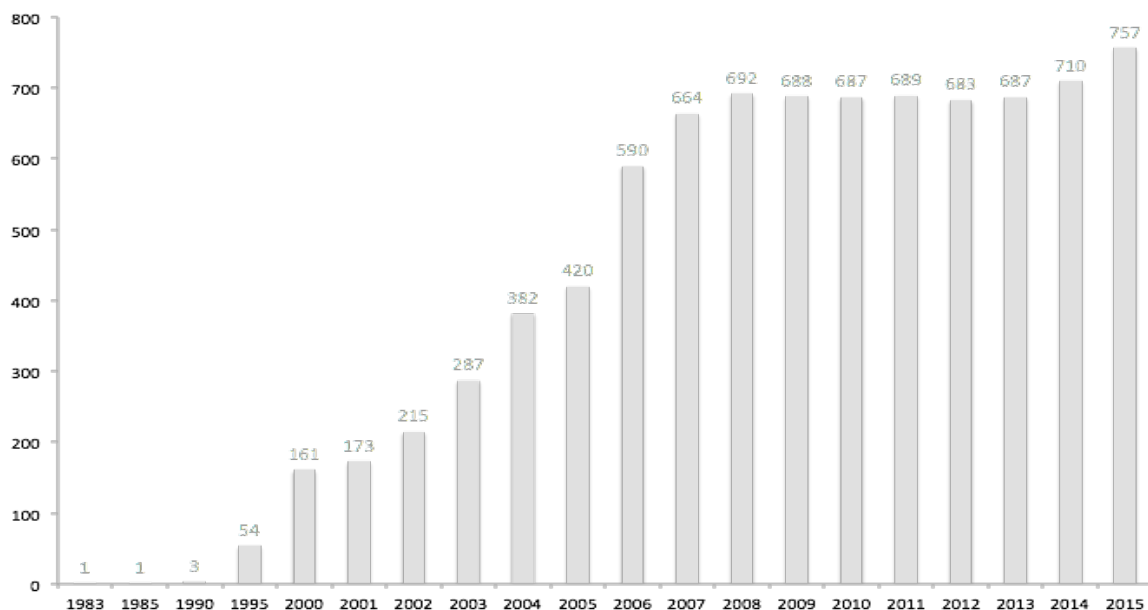


Figure 13: KW Franchise Unit Growth Numbers⁸⁹

⁸⁸ blog.kw.com/2014/12/17/understanding-financial-reporting/, downloaded: 28.02.2016

⁸⁹ www.kw.com and <http://www.entrepreneur.com/franchises/kellerwilliamsrealty/282493>, downloaded: 27.02.2016

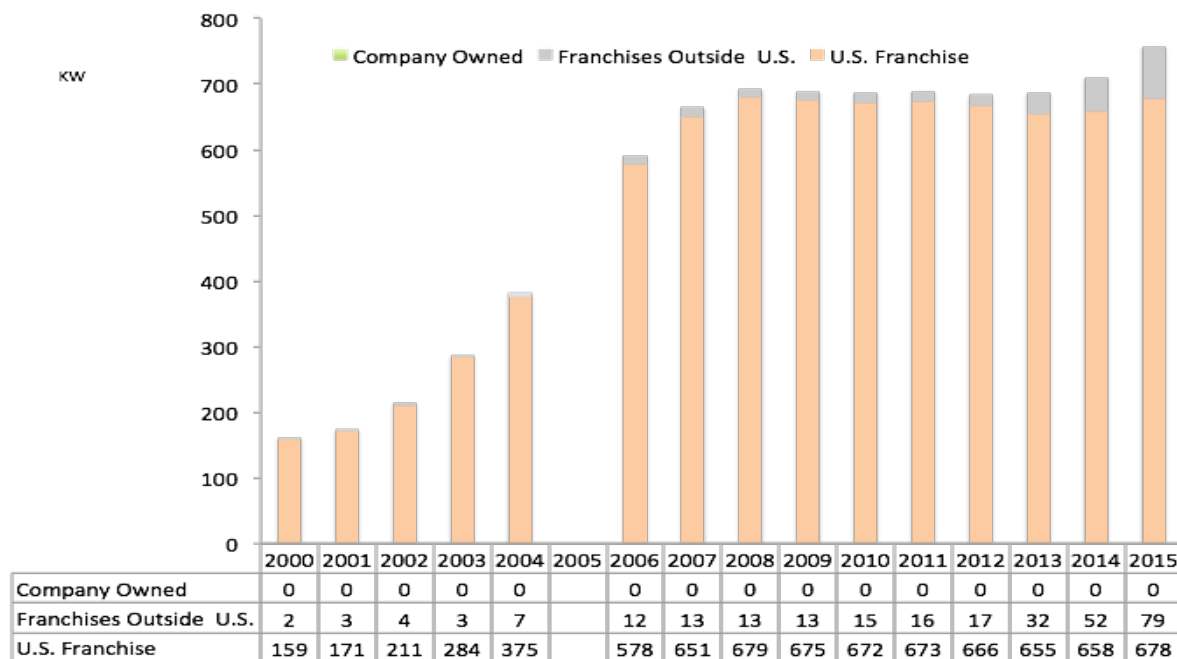


Figure 14: KW Franchise Unit Diversification⁹⁰

On the below graph the number of Keller Williams units both inside and outside of the United States are shown. The units of the company are in balance when the two markets are compared. KW has never fully owned the units. As we can see from the graph the number of units are much lower than Re/Max or Century 21. The reason for this is their market centre strategy. Instead of opening several offices to operate in a region, the company opens only one, through which all agents could work.

KW built its reputation based on the people the company works with, not on the units it opens. The company reported on its official website about its 4 main success factors which are the following:

1. Education
2. Marketing & Technology
3. Wealth Building
4. Culture⁹¹

According to the hypothesis, KW is an innovative real estate agency. This opinion is based on how it handles its associates and agents and the effort invested into their workforce. Taking the financial elements into consideration, this allowed the most freedom to its franchisees; 85%

⁹⁰ thefranchisemall.com/kellerwilliams and <http://www.entrepreneur.com/franchises/kellerwilliamsrealty/282493>, downloaded: 25.02.2016

⁹¹ www.kw.com, downloaded: 21.02.2016

ownership is allowed for a franchisee in a franchise unit. Its franchise costs are relatively high compared to other agencies. Keller Williams does emphasise their brand recognition. As we can see from the sale sign, the company highlights their agents, they invest heavily in their people to satisfy their customers. However, it is not the company itself that is making direct efforts to satisfy its clients, KW rather lets the agents build up their own reputations in this way. The expansion strategy has been focused on the American market from the beginning, as it is visible from the number of franchise units across the country and in other countries after the 2012 initial expansion.



Figure 15: KW Around the World⁹²

4.3. Realogy Franchise Group



Figure 16: Realogy Brands⁹³

“Realogy is a business franchise group of several brands in the real estate industry; Better Homes and Gardens Real Estate, CENTURY 21, Coldwell Banker, ERA, Sotheby’s International Realty,

⁹² www.kw.com, downloaded: 21.02.2016

⁹³ <https://www.realogy.com/about/rfg.cfm>, downloaded: 29.02.2016

ZipRealty, and Coldwell Banker Commercial, and three owner companies: NRT LLC, Cartus Corporation and Title Resource Group.”⁹⁴

Realty franchise is a community created to network between its brands and operate them successfully through a master franchise operation model, where Realty is the Franchiser, the brands are the master franchisees that are granted rights to open new franchise units. Realty creates a subsidiary that separately operates half of their brand. „The NRT LLC in the United States is based in Madison and had a total of 164,9 billion in sales revenue last year (2015). This makes the company the largest operator of residential real estate brokerages. It operates the following brands: Coldwell Banker, Sotheby’s International Realty, ZipRealty, The Corcoran Group, Citi Habitats and Coldwell Banker Commercial”.⁹⁵ Realty group has expanded not just through the franchise system; ERA Franchise Network is also a subsidiary of the Realty Group.

The Realty Franchise does not operate units but only provide the network, powerful national and international marketing and sales tools that were designed to generate a sales support system. The business model, which the franchiser follows, is a value circle model, exclusive to B2B Businesses.

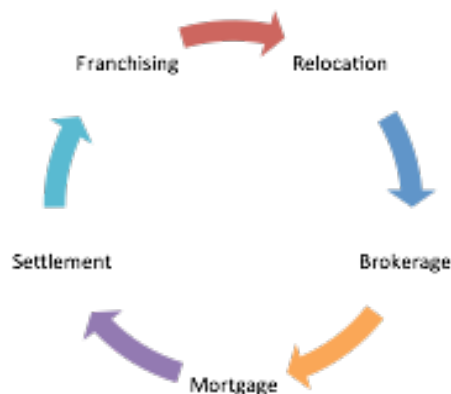


Figure 17: Realty Value Circle⁹⁶

“The integration of our company’s service offerings provides our business units with excellent cross-selling opportunities while enabling customers to enjoy the convenience of a single-source solution for all their real estate needs.”⁹⁷

Realty is built up to be a B2B franchiser. It provides many business opportunities, as it can be seen in the following figure. It provides opportunities to Real Estate Brokers around the world:

⁹⁴ realogy.com/about, downloaded: 29.02.2016

⁹⁵ realogy.com/nrt, downloaded: 29.02.2016

⁹⁶ www.realogy.com, downloaded: 29.02.2016

⁹⁷ realogy.com/about downloaded: 29.02.2016

supplier, lenders, corporations, small businesses and even the government. The company offers financial services through their three biggest individual agencies: the Century21, the Caldwell Banker and the ERA companies. Table 19 proves the fact that Realogy Franchise Group is more than just a real estate company; it is a consulting company with a strong and closed system, where the company can handle all problems in-house. Realogy provides all kind of investment possibilities to almost everyone.

Business Opportunities in Realogy		
Real Estate Brokers (U.S)	Real Estate Agents	Real Estate Brokers (International)
Franchising	Settlement Services	Franchising
M&A		
Settlement Services		
Suppliers	Lenders	Corporations
Realogy Procurement	Settlement Services	Relocation Services
Preferred Alliance Program		Commercial Real Estate Services
		Intercultural and Language Training
Small Business	Government	Transferees
Relocation Services	Relocation Services	Settlement Services
Commercial Services		

Figure 18: Realogy provided Business opportunities⁹⁸

“The enduring value of our commitment to ethics is that other people and companies can see our commitment, and so they choose to do business - and keep doing more business- with us, because of it”⁹⁹ Richard A. Smith, Chairman, CEO and President of Realogy Group.

In this thesis two real estate agencies from Realogy Franchise Group were chosen to complete the hypothesis in order not to constrict myself to examining single or multi-unit franchise systems, but also a master franchise system based agency structure. The first chosen company is Century 21, and the second is ERA. These agencies will be analysed in more detail in this thesis.

⁹⁸ <https://www.realogy.com/b2b>, downloaded: 29.02.2016

⁹⁹ cartus.com/Cartus_Ethical_Companies_Booklet.pdf, downloaded: 29.02.2016

4.4. Century 21 - Smarter, bolder, faster



Figure 19: C21 Logo and Sales table¹⁰⁰

Century 21 Real Estate LLC (C21) was established in 1971 by two real estate agents, Art Barlett and Marsh Fisher in Orange County, California. Today it has approximately 4700 independently owned franchise units in 78 countries worldwide, with 101.000 sales associates.¹⁰¹ At the beginning, Arthur Bartlett used mustard-coloured jackets to distinguish themselves as a company.¹⁰² Seven years later, Marsh Fisher sold the agency to MetLife after Bartlett's death, still running under the same name and structure, for \$89 million in cash and stock. Through this expansion, Hospitality planned to increase Century 21's revenue.¹⁰³

„Century 21 was acquired by Trans World Corporation in 1979, then in 1985, MetLife acquired Century 21, and in 1995 it was sold again to Hospitality Franchise System (later Cendant). When Cendant split, the company became a part of the Realogy Franchise Group.“¹⁰⁴ The company mission was to always provide best-in-class brokerage services to both buyers and sellers in the real estate market anywhere in the world. Even as the owner of the company kept changing, this mission was still maintained. According to J.D. Power, „In the home-selling experience, the same four factors are evaluated plus a fifth factor, marketing. Satisfaction is measured on a 1,000-point scale.“¹⁰⁵ Since C21 becoming a member of Realogy, its profile contains not just residential transactions but also B2B business sales and rentals.

The franchise company is specialising in the following areas:

- Office, industrial and retail leasing
- Investment sales for both institutional and private investors
- Corporate services
- Asset and property management
- In-house financial services: equipment, inventory, accounts receivable, payroll¹⁰⁶

¹⁰⁰ realogy.com/about/century21, downloaded: 29.02.2016

¹⁰¹ realogy.com/documents/C21 Facts, downloaded: 29.02.2016

¹⁰² Wikipedia - Century_21_Real_Estate, downloaded: 29.02.2016

¹⁰³ Heavens, 08.06.1995, Philly.com, downloaded: 29.02.2016

¹⁰⁴ http://america.pink/century-real-estate_903304.html, downloaded: 29.02.2016

¹⁰⁵ J.D. Power, Press Releases: 05.08.2015 downloaded: 29.02.2016

¹⁰⁶ century21.com/companyprofile, downloaded: 29.02.2016

Century 21 only provides sessional trainings, like its international management academy, a five-day business-oriented programme, a management certification programme, which focuses on leadership and company growth, and an online office-learning programme designed for brokers and managers. To open a new unit, industry experience, general business experience and marketing skills are required. The franchise provides heavy support with newsletters, meetings, toll-free phone lines and Internet platforms. In marketing, the company provides opportunities for co-op advertisings, ad slicks, national media appearances and regional advertisements. Absentee ownership of a franchise is not allowed.¹⁰⁷

The franchise opening process differs from other agencies. The company provides a 12-month on-boarding process, where the company provides all the support to the new unit. These 12 months is divided as follows:

“The First Month - After the signing of the franchise agreement a CENTURY 21 Director of Franchise Transitions works with you and your management staff to help integrate the CENTURY 21 franchise system into your company (or in the case of a start-up franchise, to help prepare the new company).

Month Two - In the first four weeks after the Opening Day, a CENTURY 21 staff member will present a one-day training session consisting of a morning session with the agents and an afternoon session with brokers.

Months 3-12 - After the first four training sessions are completed, you'll then work with the director of franchise development and the territory business consultant once a month for the next ten months to help you further implement CENTURY 21 tools and systems.”¹⁰⁸

4.4.1. Century21 advertising

The company put a lot of effort into being modern and trend-orientated to reach the younger generations, as a potential buyer and also as a potential agent. The company has its own blog and social websites to share the latest trends, ideas and news about the company, especially focusing on interior design trends. Writing blogs, being active on the social media sites, such as Facebook, Instagram or Twitter, are all part of the marketing platform of C21 as it helps them connect with the target group. Innovation is very important for the company: C21 has smart phone tools, and a large

¹⁰⁷ thefranchisemall.com/franchises/details/10038-0-century_21.htm, downloaded: 24.02.2016

¹⁰⁸ century21.com/careerfranchise/franchise/getstarted, On- Boarding process, downloaded: 29.02.2016

CRM system, besides other expert and support tools,¹⁰⁹ to keep in touch with clients and potential partners and in order to forecast the latest market trends to react as fast as possible to them. Century 21 provides specially designed templates to all franchisees. Templates include greeting cards, newsletters, postcards, recruiting materials, and drip campaigns in both English and Spanish, are provided free of charge.

Century 21 organises a lot of worldwide events designed to bring their people together, and also support its veterans. The company offers many extra services in the United States free of charge such as:

- Free registration for global conferences
- Up to 25% off of new agent materials like business cards, stationery, yard signs and more
- Free Continuing Education (CE) Course, First Year
- Free Customised Training programme
- 25% off online real estate pre-licensing courses, in selected states.¹¹⁰

C21 has appeared in national and international media as an Olympics, Super Bowl, US Soccer, Indianapolis 500, Little League World Series sponsor to increase its reputation and visibility. The company also provides online and offline advertising in printed and satellite media platforms.¹¹¹



Figure 20: C21 Sport-sponsoring¹¹²

4.2. Century 21 Franchise Expansion

Century 21 raised its recognition and reputation through participation in industry fairs. It is active in many market segments from B2B to B2C; Century 21 expanded Fine Homes & Estate, which provides the highest quality service and properties for luxury sellers and buyers, since its acquisition by the Realogy Franchise Group. The franchise combines its tools to provide the best options for every market segment. The additional tools that C21 offer are the business consultants,

¹⁰⁹ century21.com/careerfranchise/experttools- Expert Tools and Support, downloaded: 28.02.2016

¹¹⁰ century21.com/aboutus/veterans, downloaded: 28.02.2016

¹¹¹ century21.com/aboutus/mediacentre, downloaded: 28.02.2016

¹¹² century21.com/abouts, downloaded: 28.02.2016

who work with the person or the franchisee to assist with their business goals that can include market share and revenue growth as well as the implementation of CENTURY 21 systems, tools and learning programmes.

C21 implemented a special management consultant support that can be categorised into the following:

— Business Development Directors - support individual franchise growth through sharing strategies and best practices for franchisees to consider using for recruiting and retaining of both newly licensed and experienced/producing agents.

— National Recruiting Directors - help franchisees to manage recruiting lead generation programmes and assist in the conversion from recruiting leads to productive CENTURY 21 agents.

— Social Media Specialists - participate in a wide variety of social media activities with system members. They provide knowledge and share ideas and best practices. They also work with you to develop your own social media strategy to implement and execute.

— Leads Management Consultants - direct all processes and activities related to optimisation of all lead management initiatives. The consultants also assist you in developing a sustainable “first in class” and end-to-end lead management systems with accountabilities.”¹¹³

The success factors of C21 according to the century21award.com¹¹⁴ are the following:

1. Integrity
2. Service
3. Innovation
4. Diversity

According to the hypothesis, Century 21 has the largest potential of support and customer service opportunity. The Realogy Franchise Group stands behind the company, to provide the equity needed. The company has the power and resources to innovate and develop into new markets and areas. Century 21 is able to provide not just usual agents activity services, but also management consulting and financial services. Without Realogy, Century 21 could be a leader in the market; this is based on the company history, how many times it changed its owner, and Realogy financial power.

On the following illustration, the franchise expansion of C21 is shown. Because of the ownership changes, some annual data is missing from the table. It is mainly analysed in the years where the company was ranked on entrepreneur.com to be among the top 500 franchises. On the second

¹¹³ century21.com/career/franchise, downloaded: 28.02.2016

¹¹⁴ century21award.com/content/About_Our_Company, downloaded: 29.02.2016

figure, we can see that the company reached its peak in 2007, but the company could not recover to the same level since the great recession.¹¹⁵

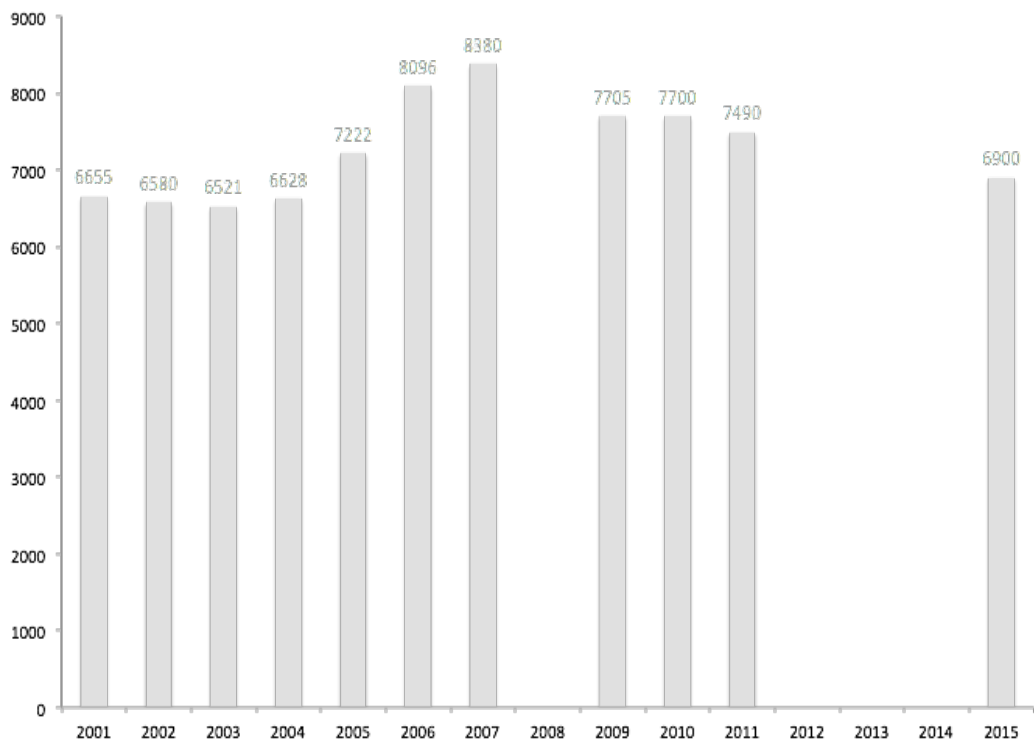


Figure 21: C21 Franchise Unit Growth Numbers¹¹⁶

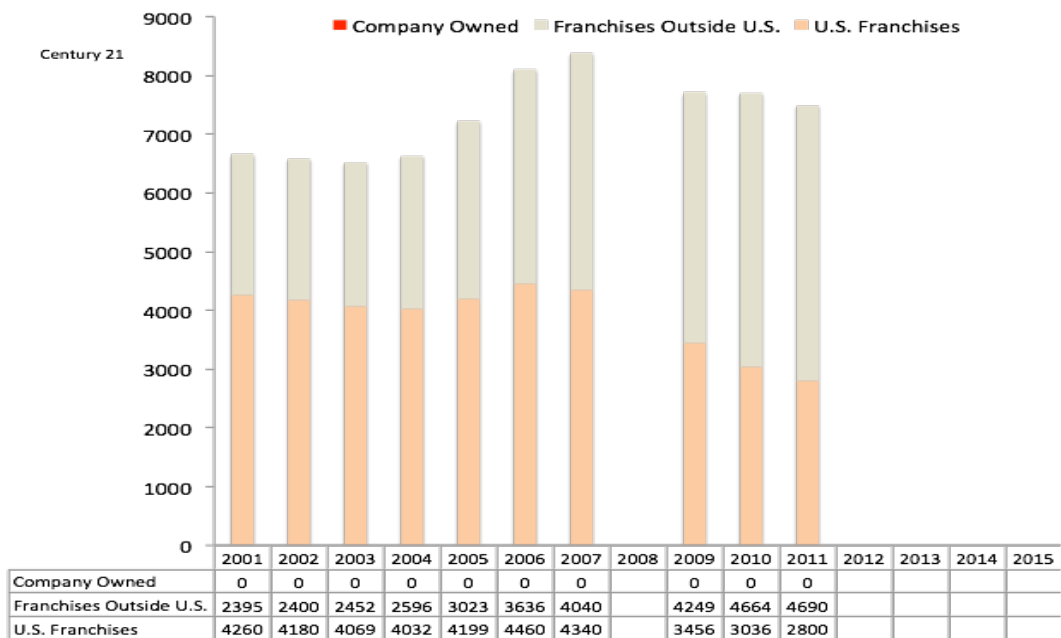


Figure 22: KW Franchise Unit Diversification¹¹⁷

¹¹⁵ entrepreneur.com/franchises/century21realestatelc/284269, downloaded: 29.02.2016

¹¹⁶ entrepreneur.com/franchises/century21realestatelc/284269 and century21.com, downloaded: 24.02.2016

¹¹⁷ thefranchisemall.com/kellerwilliams and <http://www.entrepreneur.com/franchises/kellerwilliamsrealty/282493>, downloaded: 25.02.2016



Figure 23: C21 Around the World¹¹⁸

4.5. ERA Real Estate



Figure 24: ERA Logo and Sales table¹¹⁹

“Positioned for the future. Positioned for success. It’s a new standard. It’s a new direction. It’s a new ERA Real Estate”¹²⁰ Charlie Young, President & CEO, ERA Real Estate

“In 1971, Jim Jackson founded the company with the name Electronic Realty Associates. His vision was to utilise the latest technology to provide the highest quality service to his clients. In 1973 ERA Real Estate was the first to offer a nationwide home warranty program and in a few years the second program the ERA Seller Security was founded in 1971.”¹²¹ The ERA Individual network includes approximately 38,700 brokers and associates in approximately 3000 offices

¹¹⁸ https://www.realogy.com/documents/C21_Facts_FINAL.pdf, downloaded: 25.02.2016

¹¹⁹ era.com/about-us, downloaded: 02.03.2016

¹²⁰ era.com/about-us, downloaded: 02.03.2016

¹²¹ era.com/about-us, downloaded: 02.03.2016

around the world with each office independently owned and operated. ERA Real Estate is a subsidiary of Realogy Holdings Corporation.¹²²

ERA individually operates as a franchise system from 1991. The company provides a complex consulting service to both buyers and sellers. According to the company website, it is important for them to share each other's successes and mistakes as well as understanding the necessary adjustments required to truly improve methods. The company provides continuous support in every lifecycle of a company ranging from "various meetings, training sessions and video conference calls held on a regular basis and customised for individual needs. It involves all aspects of our profession from providing assistance in the administrative organisation and setup of a master franchise company, to franchise sales assistance and servicing the needs of new and experienced brokers alike."¹²³ ERA behind the Realogy Group is capable of providing all technological support a franchisee could need. ERA is working thought a master franchise system, where the company puts great emphasis on the service and quality. The strategy of their expansion is the master franchising system with major and medium sized units. Usually, ERA Real Estate enters new markets by establishing master franchise operations, so as to allow the new franchisee all rights to develop the ERA brand in the given market. The ideal master franchise candidate has experience in the real estate industry or a related field such as banking or insurance.

The ERA Franchise Company has a proven track record of developing successful master franchise companies. With support from Realogy, ERA is working on building an international network system that operates successfully.

4.5.1. ERA Advertising

ERA Real Estate uses all marketing and sales tools that its parent company provides. The company also uses all social platforms, and advertising tools to reach their target group.

Besides corporate charity, the company has "in 35 years, committed to enriching the lives of children and adults living with muscular dystrophy and other neuromuscular diseases through our support of the Muscular Dystrophy Association (MDA),"¹²⁴ through sponsoring summer camps, and other experiences for them. ERA's biggest challenge is to connect with Generation Y because in this changing world, the biggest question for a real estate agency is how to attract younger people. The average age of a realtor is 56, while the average age of a first-time homebuyer is 30.

¹²² realogy.com/documents/ERA_Facts_FINAL.pdf, downloaded: 28.02.2016

¹²³ smartercommunity.info/OurValue/ourvalue.html, downloaded: 02.03.2016, p.4-5

¹²⁴ teamera.com/uploadedFiles/Content/ERA/ERA_Resources/Public_Relations/MDA/mda-summer-camp-challenge.pdf – ERA Charity, downloaded: 02.03.2016

Generation X does not have the numbers to replace the boomer generation in the workforce. Nowadays, Generation Y is large enough to replace the boomers. Another significant challenge for ERA Real Estate agency is to captivate the home shoppers, to gain recognition in the competitive real estate market and create better reputation for itself. Thus the company needs generation Y to understand all factors home shoppers take into consideration.¹²⁵ On their homepage, the company promotes research on how to value the owned property. In order to reach a possible business, the company invests heavily in building up the ERA mobile application as well.

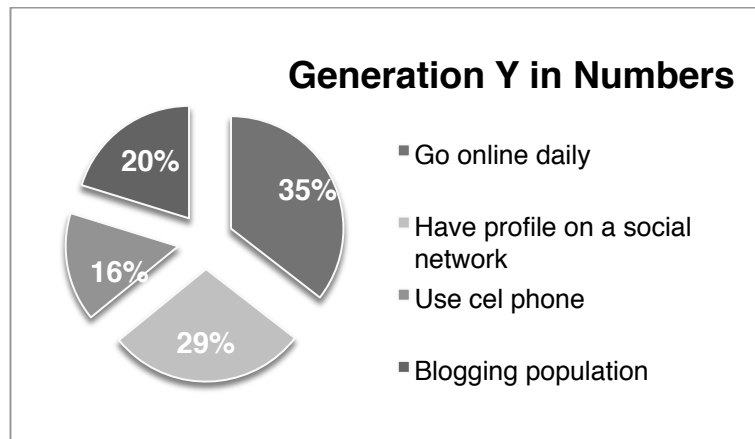


Figure 25: Generation Y in Numbers

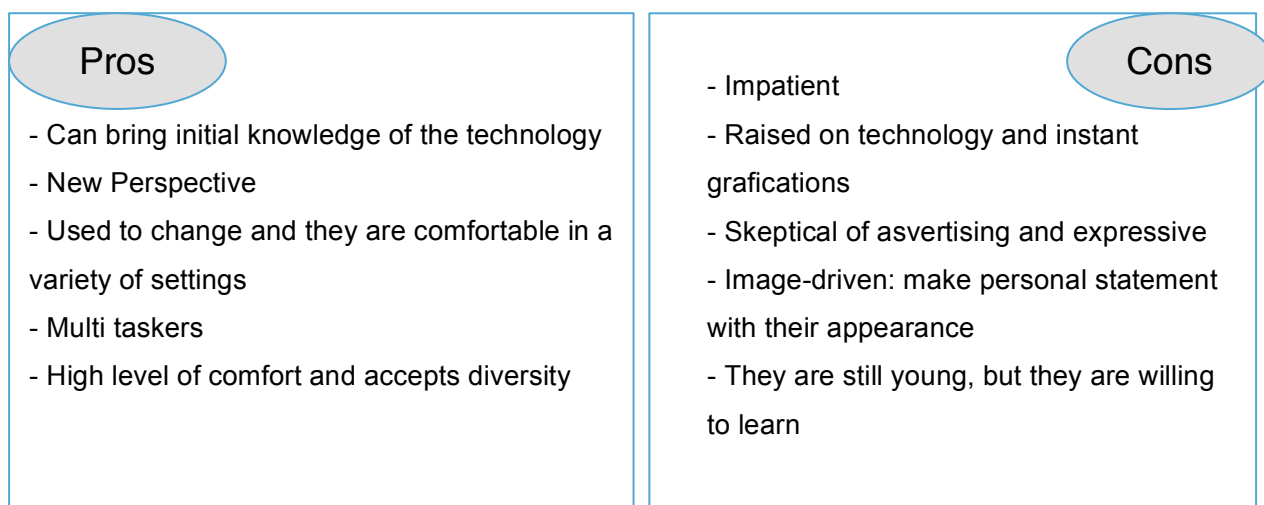


Figure 26: GENERATION Y Pros and Cons

The figure above demonstrates the pros and cons of this generation. ERA is using several platforms to reach its target group; Realogy group provides the opportunity to co-advertise with other brands, as the company is not competitors. With this, the group has created a perfect business model in order to cover the market from every side, from services to financials, from B2B to B2C businesses. The unique feature in ERA's advertising is how the company is trying to catch and hire generation Y.

¹²⁵ slideshare.net/ERARealEstate/recruiting-generation-y-era-real-estate, downloaded: 02.03.2016

4.5.2. ERA Franchise expansion

ERA is the leader in customer satisfaction that includes consulting and financial and insurance services. ERA has a really storied historical background, which reduces risk, if one examines ERA franchise from the investor's viewpoint. For the initial ERA franchise investment, a capital investment of around \$ 47,700 - \$ 209,900, of which the franchise fee is \$ 25,000, the system requires a predefined yearly advertisement fee from every franchisee which is an average of 2%, but with a minimum of \$362,000 and a maximum of \$ 1,259 for a main office and a \$362,000 minimum - \$ 895,000 maximum for a branch office.¹²⁶

"ERA Real Estate's unique broker-first approach allows brokers the flexibility and support to build their business in a way best suited for their individual market," said Bob Merrick, chairman and CEO of Latter & Blum, Inc. "As an ERA Powered® company, Realty Associates will continue to leverage its strong local name recognition and brand cachet while tapping into the offerings of a global brand to drive growth and expansion in a market of great potential."¹²⁷

Apart from the background support of Realogy Group and the unique broker-approach, ERA provides additional home services to the buyers as well as the sellers for example with the American home shield programme, a premium add-on that helps homes sell faster and raise a home's estimated value. Basically, it is a service contract that covers the repair or replacement of unexpected repairs. The system works through an online platform, where the customers have to register or explain the problem via a phone line that is available 24 hours a day, 7 days a week. The programme helps the seller in guaranteeing the fastest repair services and freeing buyers from the stress of unexpected repairs.

On the one hand, ERA decreased its units in the last decades, which is shown on the below graph, while on the other hand, ERA franchise expansion strategy focused mainly on the value added to properties, for example with its home service programme, financial opportunities, and other such socially responsible programmes: sponsored camps for children with muscle degenerative disorders, or sporting and other events focusing on bringing society closer to each other.

On the graphs below only those years shown, in which the company was ranked among the top 500 franchises is illustrated. From 2014 onwards, ERA is not ranked. The number of its franchise units is decreasing since 2006. The second graph shows distribution between its American and the overseas market presence. ERA tried to invest into corporate units from 2003, as it can be seen on

¹²⁶ entrepreneur.com/franchises/erafranchisesystemsllc/282315, downloaded: 26.02.2016

¹²⁷ https://www.realogy.com/media/pr/show_release.cfm?id=1806, downloaded: 26.02.2016

the second chart, but after the financial crisis, the company had to dissolve a third of its owned franchises keeping only the ones that are operating well.

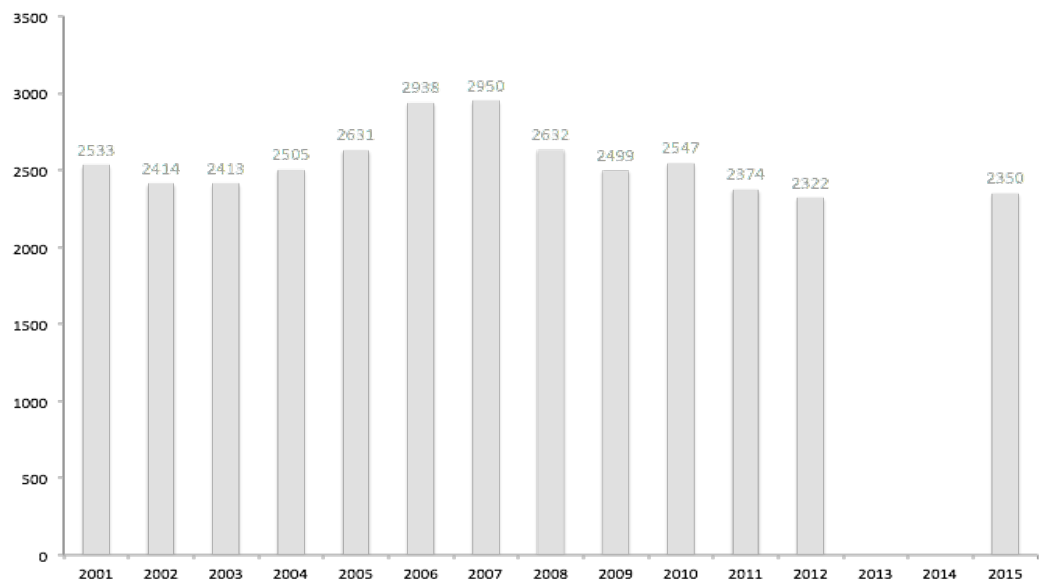


Figure 27: ERA Franchise Unit Growth Numbers¹²⁸

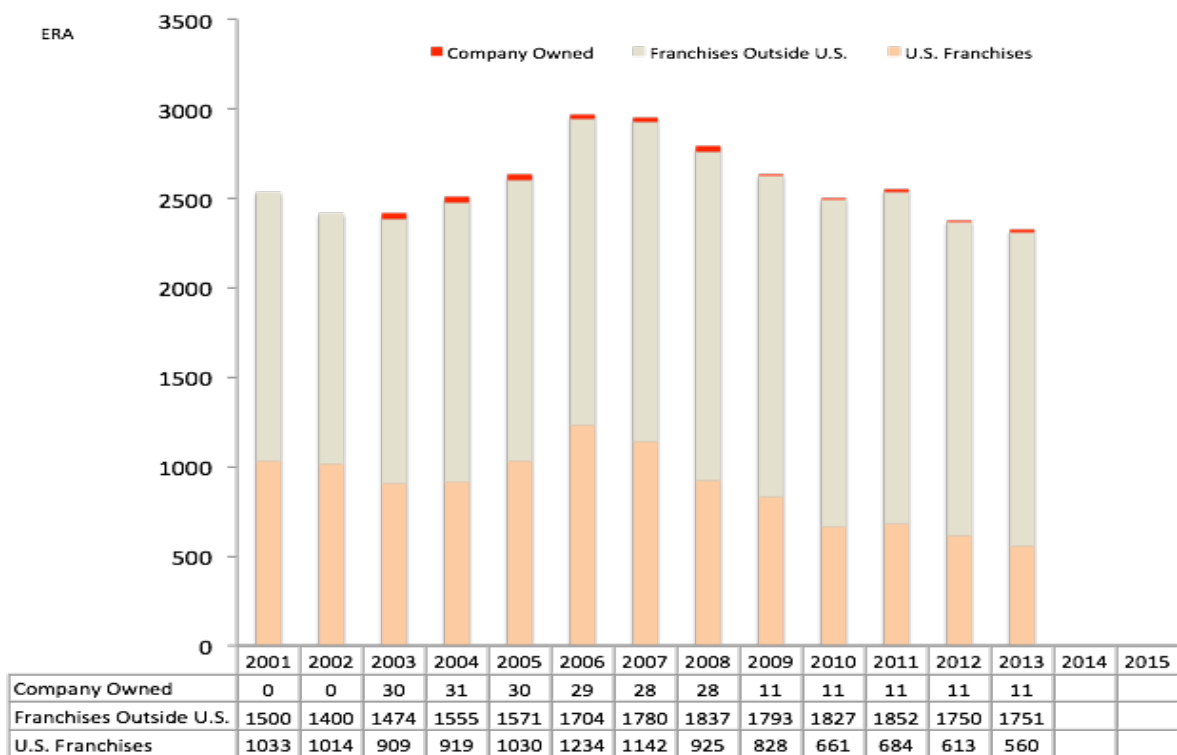


Figure 28: ERA Franchise Unit Diversification¹²⁹

¹²⁸ entrepreneur.com/franchises/erafranchisesystemsllc/282315, downloaded:02.03.2016

¹²⁹ thefranchisemall.com/century21, downloaded: 25.02.2016

Figure 29: ERA Around the World¹³⁰

5. Conclusions from the main success factors

All real estate brokerages mentioned above hold themselves to be the leader in the real estate market. The aim of this chapter is to compare the real estate agencies, along the lines of the hypothesis, drawn in the thesis, with the subjective ranking system, based on the secondary research and the primary interview, which was conducted, in order to prove that all agencies are indeed real leaders but just not in the same area. The report and studies, which have been chosen to show that in this thesis are based on the same methodology, but also based on the insight gained, none of the studies are capable of objectively comparing the agencies. The aim of the next section is to try an objectified comparison between those companies. To start with, the number of its franchise units, which have already been shown in the previous chapter is a simple and comparable way to start. But the fact that KW started expanding in the number of agents, while Re/Max always focused on the franchise level expansion, shows that the comparison is really not that easy, as Re/Max in the end will be larger, based on the number of franchise units, but KW based on the number of agents.

After the comparison of measurable numbers, the hypothesis of the success factors, which have been assumed, shall be proven. Finally, an analysis of the selected companies using a detailed SWOT analysis will follow. The below table shows the basic details of the four companies based on their measurable operational methodology.

	Re/Max	Keller Williams	Century 21	ERA
Establish in...	1973	1983	1971	1971
Number of units¹³¹	6751	700	6900	2300
Number of sales associates in 2015	100,000 ¹³²	134,000 ¹³³	101,000 ¹³⁴	38,600 ¹³⁵
Countries¹³⁶	95	11	65	30
Transaction/Agent U.S.¹³⁷	16,6	6,7	7,5	9,0
First Franchise U.S.¹³⁸	1975	1991	1972	1972

¹³¹ Re/Max vs the Industry 2015 Study, downloaded: 24.02.2016

¹³² www.remax.hu, downloaded: 24.02.2016

¹³³ www.kw.com, downloaded: 28.02.2016

¹³⁴ www.century21.com, downloaded: 28.02.2016

¹³⁵ era.com, downloaded: 02.03.2016

¹³⁶ Re/Max vs the Industry 2015 Study, downloaded: 24.02.2016

¹³⁷ Re/Max vs the Industry 2015 Study, downloaded: 24.02.2016

First Franchise in Europe	1994	2013	App. 1900	1981 ¹³⁹
Expansion through	Master (country) Franchise system	Sales Agents, market centres	Integrated into Realogy group 1995	Expansion through
Social Contribution	\$ 150 million to Children Miracle Network	Donation support, free training to people who have potential	-	ERA Summer Camp Challenge for muscle MDA disease
Revenue	\$171 million (2014)	\$110 Million	\$ 5,706 billion	

Figure 30: Comprehension Table with the basic facts

This table shows the most important details of the selected four franchise systems, as already described in detail in chapters above. ERA was the pioneer of opening the first franchise system in Europe, ERA and Century 21 are both part of a bigger corporation, while the Realogy Group, which uses an international network to promote their name and advertisement. Re/Max is, seen individually, the biggest of the analysed real estate company, if ERA and Century 21 are seen separately and not a part of Realogy. Keller Williams is the youngest of the respective companies, having been established only in 1983. This company uses a totally different business model, called a market centre, which could make it the leader franchise system in the United States in the number of sales associates. The company only started to expand into European and overseas market in 2012. All of these four companies are aware of the social responsibilities and the culture the companies operate in. All these real estate franchises have the same common goal: Delivering standardised professional services to the people, who would like to buy or sell a property.

The next table shows the differences between the franchise systems based on the support, that the companies are giving their franchisees and the financial cost that a franchisee has to contribute.

Individual Unit Costs	RE/MAX	KW	C21	ERA
Investment	35.000 - \$250.000	\$174,600-\$557,500	\$22.343 - \$528.285	\$47.700 - \$ 209,900
Franchise Fee	\$2.000 - \$25.000	\$25,000	\$12.500 - \$25.000	\$25.000

¹³⁸ entrepreneur.com, downloaded: 26.02.2016

¹³⁹ <http://www.safranchisebrands.co.za/era-real-estate>, downloaded: 02.03.2016

Individual Unit Costs	RE/MAX	KW	C21	ERA
Royalty Fee	VARIES	6%	6%	6%
Advertising Fee	NO	VARIES	2%	2%, min/max is given
Terms of Agreement	5 years	5 years	10 years	10 years
Renewal Fee	VARIES	\$2,5K	NO	NO
Experience Needed	NO	YES	YES	YES
FINANCIAL Cost				
Start-up Cost	NO	NO	NO	VARIES
Equipment	NO	NO	VARIES	NO
Inventory	NO	NO	NO	NO
Receivables	NO	NO	NO	NO
Payroll	NO	NO	NO	NO
Marketing & Support				
Training	Semi-annual convention and conferences	On-going trainings	NO	NO
Support	newsletter, toll-free phone, internet platform, field operation, evaluation	newsletter, meetings, grand opening, internet platform	newsletter, meetings, toll-free phone line, internet platform	newsletter, meetings, toll-free phone line, internet platform
Operation	Absentee not allowed	30% - 85% Absentee is allowed	Absentee not allowed	Absentee not allowed

Figure 31: Comprehension of the Franchise system¹⁴⁰

¹⁴⁰ thefranchisemall.com/franchises/compare, downloaded: 24.02.2016

In the table below, all advertising options have been shown. This table sums up the individual chapter and draws a comprehensive picture. Keller Williams is trying to use all tools available in order to reach the people, C21 and ERA focus more on the Generation Y and blogging in order to keep up with the spread of the Internet. Re/Max follows the traditional way of advertising.

Advertising Tools	RE/MAX	KW	C21	ERA
Media Advertising		X	X	X
Direct mail		X		
Cold calls		X		X
Online advertising	X	X	X	X
Blog			X	X
Place advertising	X	X	X	X
Sale signs	X	X	X	X
Billboards	X			
Cinema ads				
Store Signage	X	X	X	X
Cooperatives		Varies - depending on the country		
Event Marketing	X	X	X	X
Sponsorship of causes	X	X	X	X
Sponsoring Sports Events	X	X		
Personal Selling	X	X	X	X
Personal Connection	X	X	X	X
Training	X	X	X	X

Figure 32: Comprehension of the Marketing & Advertisement tools

In the next table, the main success factors of each real estate franchise agency are shown based on the hypothesis.

HYPOTHESIS	RE/MAX	KW	C21	ERA
Brand Recognition	Expansion strategy	Education	Brand Recognition	Diversity
Expansion strategy	Brand Recognition	Marketing & Technology, Wealth Building	Promotion	Additional services
Education	Education	Culture	Innovation	Costumer satisfaction
Costumer satisfaction	Diversity	Expansion	Education	Innovation

Figure 33: Hypothesis comprehension

“The value of the franchise affiliation to the real estate broker hinges on the quality it guarantees to buyers, and this implies the importance of policing quality standards.”¹⁴¹

Every company decides individually what business targets settled, Re/Max has concentrated from the beginning on the expansion to build up a widespread network system and reach more potential clients. Keller Williams focuses more on the quality, thus the company established the best training opportunity to the future agents. Century 21 promotes itself through advertisements. In 2012, the company reached 32% brand recognition in a study, which was conducted in the United States by Milward Brown.¹⁴² ERA sets its goals based on the next generation, the Generation Y. In the long run, all agencies would like to show that their profession and way of working is unique.

¹⁴¹ Feue (1986) The Value of a Real Estate Franchise, p.374

¹⁴² century21.com/pressrelease, downloaded: 04.03.2016



Figure 34: Millward Brown Study Methodology¹⁴³

5.1. SWOT Analysis

„SWOT is a structured planning method that evaluates the Strengths, Weaknesses, Opportunities, and Threats.“¹⁴⁴ SWOT analyses are used for marketing and strategic planning and gives a basis for decision-making. „In a business context, the SWOT analysis enables organisations to identify both internal and external influences. Outside of business, other organisations have found much use in these guiding principles.“¹⁴⁵ Strengths are highlight the advantages of the company and the processes, methodologies, where the company is better than its competitors. Weaknesses consider the areas where a company could improve and the problems that it should avoid. Both are internal aspects. Opportunities suggest the external facilities that the company has, and can identify. Technological revolution, governmental policy changes, social pattern or lifestyle changes could be opportunities and also threats for a company, depending on how well-prepared the company is for the changes.

¹⁴³ [century21.com/press realese](http://century21.com/press-realese), downloaded: 28.02.2016

¹⁴⁴ <http://www.realtor.org/ae/manage-your-association/strategic-planning-resources-toolkit/conducting-a-swot-analysis>, downloaded: 05.03.2016

¹⁴⁵ <http://www.businessnewsdaily.com/4245-swot-analysis.html#sthash.FCddTrPm.dpuf>, downloaded: 05.03.2016

RE/MAX SWOT Analysis¹⁴⁶

<p>Strengths</p> <ul style="list-style-type: none"> • Extensive distribution and sales networks • Attractive franchise strategy • Strong management team • „Cheap“ Franchise • European Headquarters 	<p>Opportunities</p> <ul style="list-style-type: none"> • Further market expansion • Product and service expansion • Growing Economy
<p>Weaknesses</p> <ul style="list-style-type: none"> • High loan rates are possible • „Cheap“ Franchise • No related experience required to open a franchise 	<p>Threats</p> <ul style="list-style-type: none"> • Competition • External changes: Government regulations • Price changes

Figure 35: RE/MAX SWOT Analysis

KELLER WILLIAMS SWOT Analysis¹⁴⁷

<p>Strengths</p> <ul style="list-style-type: none"> • Existing distribution and sales networks • Effective communication • Strong management team 	<p>Opportunities</p> <ul style="list-style-type: none"> • Global market expansion • Product and service expansion • Growing Economy
<p>Weaknesses</p> <ul style="list-style-type: none"> • High loan rates are possible • No Cash Flow require to startup 	<p>Threats</p> <ul style="list-style-type: none"> • Competition • External changes: Government regulation • Technological problems

Figure 36: Keller Williams SWOT Analysis

¹⁴⁶ <http://www.swotanalysis24.com/swot-r/90086-swot-analysis-re-max.html>, downloaded: 05.03.2016

¹⁴⁷ <http://www.swotanalysis24.com/swot-k/60623-swot-analysis-keller-williams-realty-canada.html>

http://www.wikiswot.com/SWOT/4_/keller_Williams_Realty_Inc_.html, downloaded: 05.03.2016

CENTURY 21 SWOT Analysis¹⁴⁸

<p>Strengths</p> <ul style="list-style-type: none"> • High profitability and revenue • Additional Services 	<p>Opportunities</p> <ul style="list-style-type: none"> • International Growth • Consolidation • New Product and Service
<p>Weaknesses</p> <ul style="list-style-type: none"> • Future profitability • Productivity • Reliance on Advertising • High loan rates 	<p>Threats</p> <ul style="list-style-type: none"> • Strength of Competitors • External changes: Government regulation • Price changes

Figure 37: Century 21 SWOT Analysis

ERA SWOT Analysis¹⁴⁹

<p>Strengths</p> <ul style="list-style-type: none"> • Barrier to market entry • Experienced business units • Domestic market • Existing distribution and sales network 	<p>Opportunities</p> <ul style="list-style-type: none"> • Growing Demand • Income level is at a constant increase • New acquisitions • New market
<p>Weaknesses</p> <ul style="list-style-type: none"> • Competitive market • Future debt rating • Investment in R & D 	<p>Threats</p> <ul style="list-style-type: none"> • Financial capacity • Price changes • External changes

Figure 38: ERA SWOT Analysis

¹⁴⁸ <http://www.swotanalysis24.com/swot-c/21284-swot-analysis-century-21-real-estate.html>

http://www.valueline.com/Stocks/Highlights/SWOT_Analysis_21st_Century_Fox.aspx#VuxUZsczPzl, downloaded: 05.03.2016

¹⁴⁹ <http://www.swotanalysis24.com/swot-e/37356-swot-analysis-era.html>, downloaded: 04.03.2016

The Internet has changed the whole real estate industry. The National Association of Realtors (NAR), who run the MLS system is the biggest competitor for all real estate agency, because the companies have to pay to upload properties on the public site. „According to NAR’s 2013 survey, 43 per cent of buyers found the home they actually purchased on the Internet all by themselves.“¹⁵⁰ On the market more similar websites exist as MLS, „the buyers don’t care about any of it, they just want access to homes.“¹⁵¹ All the analysed real estate companies operate through franchise system, which is a significant strength, they have the financial power for innovation. Re/Max has a great market share, but still has the threat of becoming a just low-cost franchise. Although the company has a high-end division for luxury properties, it could put more effort to change the judgment of people and secure clients also from the upper class. Keller Williams follows its individual way of franchising and has become the market leader in the education, but it started the overseas expansion only in 2012, which is still not too late, but the company is in a laggard position. Century 21 offers several additional services for its clients, which is the company’s biggest strength. ERA changed its leadership several times since its establishment, which made the company weaker than its competitors. The company focuses on the future generations, it has targeted to hire more people from the Generation Y in order to reach its target group, the strategy’s weakness is that it needs time, the company has to wait, until this generation grows up and establishes its future, but unfortunately the age of this change is extended. All real estate companies are dependent upon the constantly changing trends and the ever-tightening governmental regulations.

¹⁵⁰ Smith (2013) downloaded: 04.03.2016

¹⁵¹ Smith (2013) downloaded: 04.03.2016

6. Discussion – Possible Trends for Europe

„The real estate brokerage service franchise system has become a multibillion dollar industry which has barely started to achieve its expected potential.“¹⁵² This chapter is based on the interview with Volker Weissenberger, the former vice president of Re/Max Europa Regional Development. The interview was conducted on 1 March, 2016 in Vienna.

When analysing future trends, different types of real estate businesses must be separated. Generally there are three types: the residential, on which this thesis is based, commercial and luxury real estate markets. The selected companies specialise in the residential area, but all of the agencies also started operating in other segments as well. According to Mr Weissenberger, the commercial branch of Re/Max for example was unimportant at the beginning, but it has gained importance as some of Re/Max's clients wanted to buy a factory and also wanted to work with Re/Max in this area. Thus, the company in the U.S. established a separate brand, RE/MAX COMMERCIAL, which became a very strong company in its own right. The organisation recruited former commercial real estate associates and trained them with the best materials available: the CCIM, the Commercial Real Estate Institute, and built up a strong sub-brand of Re/Max LLC, which is now ready to develop further in the European and other markets. At the moment, Re/Max is still putting an expansion in the commercial unit on hold, as there are still enough opportunities, in the residential area, which can be achieved with less effort. If someone could make 80% revenue with a 20% investment, why would they choose another area, where the company had to invest 80% for 20% revenue?

According to Mr Weissenberger, Re/Max is also trying to enter into the luxury sector with the Re/Max Luxury Collection, but they are still hesitating with a big market rollout, as the company will be facing new competitors that have been operating in this area for years, and therefore have more experience. This, however, might be a future trend for Re/Max because demand is increasing for luxury properties.

¹⁵² Barin (1977) Real Property, p.580

7. Conclusion

„All Franchises have always been obsessive about real estate, trying to figure out exactly what locations and layouts drive traffic.“¹⁵³ In this thesis four real estate franchise systems have been analysed. The first insight is that all of those companies are very similar and at the same time completely unique. In analysing those real estate companies, or the market as a whole, it is difficult to stay objective, but in terms of number of agents, offices and global brand recognition, Re/Max is by far the biggest on a company level. However, there are several competitors that have merged into a huge association, the Realogy Franchise Group, which has seen, as a corporation, by far the greatest market share. The revolution of the Internet has put not just the companies on a more competitive role, but all other people. The real estate market is available to everyone through online and free of charge websites. The companies have to find a unique way to show their brokers professionalism and the added value that the company can provide. Some brokers believe that, „the three most important successes of a business are location, location and location. Recognising that this is as true for franchised business as non-franchised business“¹⁵⁴ Location is a really important factor in all cases, but alone is not enough. The tools and methodology and how the agent reach the owners is where the profession really starts. After analysing the businesses with the help of the four selected real estate franchise companies, it could be summed up, that the main success factors of real estate brokerages and Re/Max, are the on-going expansion, the initiation of a strong brand name and recognition, education provided to the professional service, and at the age of marketing orientation, diversifying the clients and measuring their satisfaction are key.

Re/Max has focused on the expansion strategy from the beginning. Expanding, where and when the market was not saturated has been the device from the beginning. The company has established a European headquarters quite early in order to keep up with the challenges of this fragmented market with different legislations and cultural backgrounds. Century 21 was only run out of the United States by bankers, without a real concept¹⁵⁵, but it provided many additional services to a home buying or selling transaction. Re/Max offers trainings, marketing services, technology, education, other events management while keeping in contact with all franchise units, but is not the leader in this area. According to the Training magazine Ranks 2016, Keller Williams owns the second place on the list, where none of the other selected agencies were listed. Re/Max provides franchisees as much freedom as possible, which has its pros and cons as well. On the plus side, this structure attracts more investors to join Re/Max, this philosophy helps the company to achieve its expansion goals. Additional efforts are avoided as they consume resources. On the

¹⁵³ Daley (2012) Land Rush, p.114

¹⁵⁴ Modell (1999) Franchise Law Journal, p.149

¹⁵⁵ Interview Volker Weissenberger

downside, if the company innovates, it would take more time to introduce these tools to all franchisees. ERA will probably make many points of interest with the huge innovation campaign and the Generation Y set as its target group, but the change needs time to prove itself.

According to Mr Weissenberger, the success of any franchise business is based on the following four factors:

1. Proper distribution needs to be set up. Products have to be high quality so that other people will want to buy its rights.
 2. Focus on revenue channelling activities. Some companies spend too much time on creating business plans and ensuring that everything is perfect and they completely forget to sell all of that.
 3. A charismatic leader who can really transmit excitement to the people and motivate them get out there and do business.
 4. Education. Re/Max insisted on countries giving training, which would be good enough to work in the real estate sector. This proved to be untrue, however. Companies in this market have to provide additional training to its agents and to pay more effort in being more professional.
- Every other success factor follows these four: the quality control, the operation, the business model are irrelevant without these four key points.

In the end of the day, every real estate franchise has the same common goal: they aim to deliver standardised professional services to people. The real estate market has numerous future opportunities in all sectors and continents. The Internet revolution and globalisation has created more possibilities and also brings cultures closer to each other. More different people, more different kinds of properties are needed, and the demand has already been created, but no matter what they say or how they say it, the business is essentially all about money.

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Annex 1: Interview with Volker Weissenberger

Interview with Volker Weissenberger, the former Vice President of Regional Development, RE/MAX Europa. Interview made on 01.03.2016, Vienna.

AK: Could you please introduce yourself briefly?

VW: I am Volker Weissenberger; I joined Re/Max in December 2002 and worked for Re/Max Europe until 2014. Re/Max was founded by a gentleman called David Liniger in 1973, who was not really thinking about franchising until the beginning of the 80s. He joined Re/Max just in the time; they opened an operational center for the whole European market. This operational center was based in Vienna, where Mr. Weissenberger managed the implementation of the American structure into the European market, basically to support and show how the daily task should be done, according to the American standards, but adopted the European culture. After he took over the franchise sales across Europe, which means the implementation of a development schedule in every new franchise unit. The gentleman, who owns Re/Max Europa are two Austrians, Walter J. Schneider and Frank J. Polzler, who bring the hot air balloon over the big pond. They are living in Canada, and they owned the rights of operating Re/Max in the East-coast of Canada and own several provinces in the U.S. They have decided in 1994 to bring the content to Europe and they attended an exhibition organised by Standard, the local newspaper, where they realised the high demand from the audience, after they decided to expand to Europe, but they had to ask a right from Dave Liniger, who allowed them to enter the European market, through a master license. They established Re/Max as a master franchise system, with a Vienna basis, afterwards they granted all countries with a master right, to develop further. The first country, who signed this agreement in Europe was Spain, then Israel, which in that time belonged to the European Region. But Re/Max was not the first real estate franchise, who entered to the European market, Century 21 was in the French market, which is the most franchised market in Europe.

AK: You were responsible for the regional development at Re/Max, could you explain how entering a new market looks like?

VW: The number of transactions gives a good basis to estimate the potentials, how many markets can be opened in a new country. When you open up a franchise you have to know how much of the market you want to reach through this expansion. At Re/Max it was cross commission income, numbers of transaction, sales associates, and number of open offices. Re/Max contracts usually authorise a country to open a Master Franchise system for 20 years, but the franchise units are only granted five years contract, after which the contract expires and should be renewed. Before they grant master franchise rights, they analyse the country through its potential, based on the

transactions made. In some countries the data is public, but for example in Germany, they had to estimate an approximate number, because the data is not reachable. This guess is based on the number of real estates sold by private sellers or that are currently for sale by their owners (FSBO) and not by agents. When that number is high (in Austria it's about 50%) it means more opportunity for entering the market. In other words, a market has higher potential, and is more appealing to a real estate brokerage, if the number of own sellers is higher.

So to open a franchise you need to estimate the number of transactions and set straightforward goals: how much market share you want to reach in those markets.

AK: In what aspects do you see the difference between the North American and European markets?

VW: There are three major differences between the North American and the European market. As I see, number one is the household in North America used to change more often. They buy a house, wait until it increases in value, and then sell the house, and buy a more expensive one, wait, until it increases in price, and sell it again. In most parts of the U.S when you go bankrupt, you don't have to guarantee your creditors with your personal wealth, you can walk away, of course you lose your down payments, but you can walk away. In Europe, this is not possible, you personally guarantee you will pay back the whole amount, but it is just a side thing, the most important one is the bank system.

The second is the mentality of buying a house is different in the U.S. In Europe it also varies from country to country. There are some, where people just like to own a home, there are some, where people, just like to rent it. There is only one language in the US, the communication and culture is the same, but in Europe, there are several languages and cultural differences, even within a single country, such as Spain or Germany.

The way how a real estate operates is also very different from Europe. North-America decided to create a common standard, how they communicate and do business; this system called MNS, and it is basically a web platform, where an agent can upload a house, that the other agents can see with details, but the others also could see, if they can bring a buyer, and after the transaction has been done, what is the exact percentage they can get from this business. There is no place for negotiating the amount of the commission, it is very clear from the beginning, the amount of the commission is already given and fix. It is rule to upload the new house, if not, the agent risks their license. In North America the real estate agents are using other agents to sell a house, they collaborate with each other to generate more sales. The market is as easy as possible. In Europe the agents and the brokerage companies are not cooperating, they don't like to cooperate, they

market directly, and try to make it as difficult as it possible for other agents to get in touch with their clients, because they don't want to split their commission. So MLS system includes the full history of a house, who owned it, who owned that before, what was the first selling price, what was the second selling price, how long has the house been on the market. In the US other agents do not have to call the agent who uploaded the house, they use a lock box system, electronic cards to enter a home; the agents simply have to register for an appointment on the MLS system, and if the operator allows them to go there at the time they booked, they get a code, or card with which they can enter. Even if the agent is not in the same agency. This way a Century 21 agent could show the house that a Re/Max agent has registered.

U.S. was the perfect grounds to establish the whole real estate big market industry, and then the biggest challenge was to enter Europe. Spreading from one culture to several different cultures. Future trends indicate that this system in will be established Europe, but to create a common standard people have to change their ways of thinking.

AK: How do you see Re/Max success factors when compared to other real estate franchise systems?

VW: In terms of number of agents and offices Re/Max is usually bigger, but there are several competitors, who merged with big associations, like the Realogy Franchise Group.

Re/Max is always bigger than each of them separately, but according to the published numbers, together they are bigger than Re/Max. But Re/Max was the only one that had European headquarters; Century 21 was run out of the U.S. by bankers. 100% core business is managed in countries where it already exists, providing trainings, marketing services, technology, educations, event, the management, generally keeping the contact. Others did not find all this necessary. Keller Williams was formed from former Re/Max agents; the agency recruited former Re/Max agents, for example the managing director of KW used to work for Re/Max Europa. Keller Williams' market centre is a unique marketing idea that still has to prove itself. The idea is to cover a region where several units could be opened, one per district or something like this, or you can open one large one, which serves the whole of Vienna. - With this you decrease the opportunities of people who are just stopping by at the unit to check the available houses, which also decreases any options to increase your brand recognition. It has many pros and cons. Pros; with this you could organise a better structure, the branding, and the advertisement. Cons: if you have more entrepreneurs, that want to look differently, obviously, there are some regulations that they have to follow, but also another reason why so many people joined Re/Max, is that the company allows them to follow their own operational strategies. Also Re/Max offices can look differently; here the investor decides what they want in the office. This strategy is completely different from other agencies, for example, ENGEL & VÖLKERS are doing the franchise system, just in the exact same

category. They are very corporate. But it attracts different types of agents than Re/Max attracts.

If you are a real estate agent and you work for Bank Austria, you will get a monthly fee plus commissions after each project. If you are really good at your work, you will reach the highest income level, and you will think okay I cannot make more money from here, but I generate the most income, if I open a new office where I am driven to do it better, I will earn more. Re/Max recruited agents who were motivated. The company gave two options to the agent:

- They rent of the office, the desk they use and the agent decides on a floor plan, where they want to sit, which office they want, and the fees depend from the choice. It will be a monthly fix cost for an agent, but in exchange, they can keep 80% of their commissions, and 20 % goes to the office, and the office pays to the regional headquarter and the regional headquarter pays the European headquarters and the European headquarters pays the American.
- The agents who are not sure, if they would survive without a fix salary, Re/Max offers a system, where the agents don't pay fix costs, but only get 50% of their commissions.

This gives the freedom to the agents to decide whether they want to own a franchise unit, or work for 80% or for 50% without rental costs.

All these real estate franchises have the same common goals: they want to deliver standardised professional services to the people, who would like to buy or sell a property.

AK: What are the problems, which Re/Max had to face with according to your experience?

VW: If you work for a seller your best interest is getting the highest price in the shortest period of time and negotiates it on behalf of the seller of the property. But from the buyer's side your best interest is to get the highest value for the lowest price, as soon as possible. You want an agent to speak on your behalf in a negotiation. An agent can only do that if he has all the relevant information about the property, how long it been on the market, how are the price adjustments. The agent needs intelligent market data what is the offer and demand on the market, is that price justified or it is overrated. You are relying as a buyer on your agent like an authority to really defend your interests. In Europe, there is a conflict on the interest level because the agents are representing both the seller and the buyer at the same time. That is a conflict of interest, but by law they are allowed to do that. In the US it is not a common practice. You either represent the buyer or the seller. If you represent both, you have to declare that.

The success of Re/Max was not an overnight success, it was really a clearing house of information in the European Headquarters, and creating master franchises, probably by someone who comes

from the industry, the headquarter job was to give the tools to this person to open-up offices, the tools for training, tools for managing the office, to training the sales associates. They have regional training, they had to create an academy in order to manage the trainings in all languages. This training place was also based in Austria.

They need to train the owners, the managers and the sales associates in their own languages.

The biggest threats, that Re/Max had to face within the time, I was working there was in Germany. Immobilien.net, or Immoscout, a company that built up a strong reputation and the people used to look for properties through this site. So the real estate industry has no choice to avoid this site. The agents have to upload the properties into this site and Immoscout charges for that content. It should be actually be the other way round, Re/Max or other real estate franchises have to charge Immoscout to be allowed to see the content. So for Re/Max the first step is to create the MLS system in Germany, then in Europe to save the costs that they are paying for Immoscout. The website changes this business vacuum. To make money, was a great idea actually, because the real estate agencies are still paying to upload properties on the site. It is a danger with this site that everybody can upload to this site in exchange for the fee. Even a private seller can use the site and because it is very popular, through this site it is easy to sell property on his or her own. It doesn't prevent raising the prices or if the uploader is really educated. So the industry actually created a competitor, because they were not able to cooperate in Europe. This costs 800.000 EUR annually just for Re/Max. I would rather channel this 800.000 EUR to developing an MLS system, and then channel it to an artificial competitor. MLS - probably something that each country will have, needs to operate as a generic entity, if Re/Max will start operating in Germany, the competitors will also feel a threat, because Re/Max owns one such entity of its own, versus if the real estate association will make it, because it is a general entity. If Re/Max would make it, they could define the rules to cooperate sales with other real estate agencies. Conducting this behaviour is not difficult, but requires significant investments, which could be founded through the biggest player of the real estate market, , but the problem is that Europe has many different languages and cultural differences.

AK: Could you tell us more about the different options of the real estate franchise system?

VW: Re/Max in the U.S. already operates individual units in residential, high-end division, called re/max collection and commercial division. Commercial area was not important for Re/Max at the beginning, then just becoming a bit important because some clients of re/max wanted to buy a factory, but they also wanted to work with the company. In the U.S they made a separate brand, Re/Max COMMERCIAL, a very strong association, with CCIM certificated sales associates, which is the Harvard degree in the commercial real estate area. They built up a brand around it, which can also develop in Europe; every country has the possibility for it. Only in Europe, they first

wanted to tackle the residential sector completely. In the commercial area you are expected to give a full professional service. Commercial real estates needs approximately 80% work, for 20% income, but Re/Max makes 80% income with 20% work in the residential area, which is why it has chosen to focus more into the commercial area. Re/Max could open up commercial units, and every country has the option to do that, but it is a completely different business.

AK: If you have to choose four success factors, what would they be?

VW:

1. You have to set up the distribution, your product has to be good in case other people want to buy your rights.
2. Focus on revenue channelling activities. Too much time is spent on creating business plans and making everything perfect and they completely forget to sell that.
3. Need a charismatic leader that can really transmit the excitement of the people, motivates them to get out there and do the business
4. Education

Everything else comes after these.