# Notes from Duke's Casebook

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## About this edition

*Just for Commercial Real Estate Professionals*

I hate puzzles… really hate them. If I make the mistake of starting one, the obsessive-compulsive in me just has to complete it. Of course, the entertainment value of puzzles is that they are supposed to take a long time to finish. For me it's always longer than I want.

Well I have been working on the puzzle of commercial real estate networks for too long. I started writing this on July 14, 2005, sitting on an airplane returning from a meeting with the words of an outraged network principal still ringing in my ears: "my firm's not going to do that!."

I knew then that I had to devote some space in my newsletter to the subject of networks. What started out as a few paragraphs grew to take over a whole newsletter.

As much as I hate puzzles, I love networks. And I want them to succeed. Any business model that levels the playing field for independent businesses to compete against big corporations rates high in my book. On top of that, there is something particularly American and democratic about the model. Networks like these are pretty much the only remaining habitat where independent business people, entrepreneurs and the occasional oddball can prosper.

Please don't take these comments as criticism of the great people I have worked with trying to build successful networks. Their diligence and ingenuity deserve praise, not disapproval. These remarks point to flaws in a system and are not meant to pass judgment on those who labor so hard to overcome those deficiencies.

And by the way, thanks Jeff, Michael, Dave, Ross and Tom. You all do a extraordinary job, I'm hoping these comments make it easier.

Duke Kuehn

June 22, 2006



**Questions? Comments? E-mail me: kuehnll@msn.com**

## The Network Reconsidered

*Time for the next generation?*

A favorite way of mine to begin strategic planning is with a question*: if you could start over, what would you do differently?* When the subject is commercial real estate networks the answers I get comprise a long list of frustrations and complaints.

This is not to say that the networks are failing. They are not, but most would agree they have yet to fulfill their potential. By now we have enough experience with them to see how they could work much better.

When I speak of a network I mean an association of independent firms who affiliate voluntarily and agree contractually to adhere to certain policies about branding and practice. They are not franchises *per se* and they guard and value their independence greatly. In the domain of commercial real estate providers, networks fall in between national corporations with branch offices, CBRE being a good example, and independent, unaffiliated locally-based "boutique" firms.

The invention of the network was a brilliant idea, an intelligent counter to the oligarchic shift to big national commercial real estate firms servicing big national clients. The networks are working: firms have been able to retain their independence, national brands are in place, affiliates and brokers have made money from multi-market transactions. Not all, but some.

But from the outset the effectiveness of the networks was limited by structural and conceptual design flaws.

*Structurally*, in creating voluntary alliances among like-minded independent firms the networks assumed safety in numbers. They could match their array of firms against their rival's array of offices. If counting were the game, the networks would be winners.

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## *The Network Puzzle*

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Corporations succeed, however, not just because of their size, resources and well-known brand identity… they succeed because they have built into their structures command and control systems to assure offices and broker-employees are held accountable in implementing company strategies.

*Conceptually* the networks have not taken advantage of the unique competitive advantage that comes from having a platform that allows strong local firms to connect regionally. While all the networks give nod to the local market, too much time is spent pursuing the market niche already occupied by the big corporate real estate companies: big corporate clients.

That's why the networks use branding, sophisticated data-mining systems and business development initiatives to suggest they offer as wide a variety of services in as many locations as their corporate competitors and to drive business to their firms.

But in attempting to look like something they didn't really want to be, a large bureaucratic corporation, the affiliated firms can't overcome the fact that corporations succeed because, branding and data-mining aside, they can mount and consistently deliver coordinated national campaigns. Their primary market is the client who needs consistent and reliable representation in multiple markets. Profits are made from volume, one-size-fits-all, off-the-shelf marketing.

Once again we learn form follows function. Corporations are big because they are correctly organized to meet the needs of their big clients.

Corporations possess another advantage missing in the networks: they treat brokers like employees, expecting them to follow company policies and strategic directives. Replacing commissions with salaries is just another way of controlling brokers

It comes down to this, to succeed the networks have to take on some of the attributes of a corporation, most notably systems for guaranteeing consistency in the levels and quality of service provided by each of their affiliate firms. Firms can (and must) keep their independence, but they will never fulfill their potential unless they willingly give up some of their liberty to assure quality service to all their clients.

## The Strategic Gourmand: Just Plain Steak

**It doesn't get much better than this: a cold cocktail, a simple salad, thick steak and baked potato. Maybe an onion ring. Every city has its own signature steakhouse and, next to the cheeseburger, a good local steak tells me a lot about the community.**

**You should NOT be able to experience the wonders of a great steakhouse anywhere else. It's meant to be in the city where it is located. A chain of steakhouses is, in the spirit of this newsletter, just another example of corporate cloning. I say eat independent!**

**The best: *Gene and Georghettis*, 500 N. Franklin, Chicago. This is a house… really, just a big house with funky paneling, nooks and crannies, indifferent service and sharp knives. The steak is no frills, cooked perfectly with a good char on the outside and rich and delicious inside.**

**Tied for second (it's got to be the milk): *Eddie Martinis,* 8612 W Watertown Plank Rd, Milwaukee or *Mo's a place for Steaks*, 720 N. Plankinton Ave. Milwaukee. No doubt about it, Wisconsin has the best beef in the US and they know how to cook it. The meat is buttery, sweet and succulent. Forget Kobe, Brew City's chefs know what they are doing.**

**Third place: *the Hereford House*, 2 East 20th Street, Kansas City, MO. Just a hint of KC barbeque here, smoky, rich beef. Simple uncomplicated edge of the prairie eating.**

**Honorable mentions*:* *Alfred's*, 659 Merchant St, San Francisco, what happens when excellent Italian cooking meets the wild west. *Restaurante Loma Linda,* Paseo de la Reforma y Prado Norte, Mexico City, DF. Grilled right at your table. New York City… you could get in a brawl over this one. I like *Keen's,* 72 West 36th St, as old-fashioned as they get, but must confess I've never eaten at *Peter Luger's*. Since it's home base is here, I don't count *Smith & Wollensky,* $49^{th}$ & $3^{rd}$, as a chain… you must have the roast beef hash (thanks Joe).**

**Home cooking. It's not all fish here in Seattle. *El Gaucho*, 2505 1st Ave, or 2119 Pacific Ave, Tacoma. Sophisticated, inventive, the French cut ribeye is superb. *Metropolitan Grill*, 820 2nd Ave, is the Emerald City's celebrity hang-out and you'll be treated the same way. Outstanding service and excellent steaks. Even vegans will feel at home here.**

## *The Network Puzzle*

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As long as any affiliate member is permitted to pursue its business free of any network expectations of branding or performance, the organization's quality must be defined by the lowest common denominator.

In this model, the least reliable shall lead the way.

Ultimately, the maintenance of affiliate freedom comes at the real risk of losing the trust and confidence of the client and, most interestingly, discerning brokers who are with networked firms. An effective network requires high levels of trust among its members and stakeholders and that can only occur when there is adherence to some uncompromised basic values.

Trust is the fundamental element of all sustainable relationships and I would argue that commercial real estate networks are meaningless unless they can guarantee their members *and* their clients that the allied firms can be trusted.

Let's assume we could start over. Our goal would be to create an enterprise that could compete with large corporations, guaranteeing consistency in level and quality of service across markets without compromising the independence of our member firms… and make a boatload of money in the process.

To gain trust among their members and their members' clients networks need to:

1. refocus their mission, stressing quality service to the end-user client (buyers, sellers, lessees, lessors, tenants and landlords of commercial real estate properties) over sales.
2. redraw the boundaries of networks, concentrating first on local business, then expanding regionally, lastly globally.
3. grow some teeth, set standards and hold members to those standards.

This new kind of network would create strong, mutually supportive relationships between reliable partners who can be trusted by their clients to consistently provide superior service.

Each of the three points requires more detail.

Commercial real estate is still a local business. Most of any firm's transactions are going to occur within 20 miles of their office.

Clients brand to the firm, often to a specific broker in that firm. I know of no successful brokerage whose "brand," the name of the local firm, is not stronger, better and more clearly identified than any national network brand.

Branding and business development efforts have value, but I'm increasingly skeptical as to the wisdom of investing considerable resources in trying to capture the attention of large corporate clients Network resources might be better invested in helping brokers provide better services to their clients.

Branding pays off for the large well known corporate commercial real estate firms because it positions them to users as "safe choices," providing a reliably minimum, but satisfactory, level of service. Corporations lack the resources to do custom work, they depend on dealing with clients whose cultures and budgets require standardized approaches.

The clients best suited to work with the network firms are those who are actually looking for a great deal more than safety… they want a long term, reliable relationship. They want a firm that knows the local market and can make *dependable* connections to other cities. They want, expect and appreciate custom work and a personalized approach.

Branding makes sense for a network if it is associated with high quality, locally based, custom-fit service, everything the corporate giants *can't* provide. Name recognition among Fortune listed companies is nowhere as valuable as a local reputation for quality.

The emphasis needs to shift to the broker. Networks would make a lot more money if they helped brokers close deals, not find them. Brokers could use help finding ways to meet with the needs of clients, especially in a world where financing, regulation and institutional ownership present added challenges to getting the deal done.

The networks are far too principal-oriented. Satisfying principal needs is understandable; they pay the annual fees. Once principals recognize that they'll make more money when the networks arm their brokers with the tools to close more deals, networks will reach their true potential.

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## The Network Puzzle *continued from page 3*

Where principal involvement is of greatest value is in recruiting, training and supporting talent at the local level to do the kind of business the network aims to capture.

Creating a forum for the sharing of best practices among principals is something the networks have done well. Exchanging successful strategies that help brokers use the affiliation would be meaningful and valuable to sales staff.

Network firms will also prosper more from their affiliations when they recognize that their local/regional market niche is bigger than any national corporation's tie to Fortune 1000 clients. I'm not saying network affiliates shouldn't or can't compete for large corporate business, but case after case has shown that beating the big boys means picking the time and place.

Smart marketing *never* attacks the competition head-on; they work off the margin. Market success has always been tied to occupying a position of high quality, good price aimed at increasing market-share. Think Japanese autos and electronics; they worked off the edge and burrowed their way into US markets.

Again, all business is local. If a client in your market is likely to have multiple sites, it's a good bet that those additional locations are regionally contiguous. Instead of pursuing global business, the networks would be far smarter to form internal regional alliances and fully work all those connections.

Global business, Fortune 100, 500, 1000 business is alluring… and exceptionally lucrative if you capture it. But it's expensive and hard to acquire and, quite frankly a distraction, from money-making deals more easily made by connecting firms regionally.

Finally, networks need to set and maintain high standards. I know no network of affiliated firms as recognized for its quality anywhere near that provided by the designations CCIM and SIOR. Stories abound of the SIOR or CCIM member who went outside his or her unreliable network to do business with a trusted colleague who carried the same designation.

Networks would benefit more from a branding strategy that links their names with dependability and high standards than to one promoting full service coverage by geography or discipline.

Telling the story is one thing, living it is another. Unless member affiliates consent to hold each other accountable to those standards they will never be seen as a credible choice by other firms or clients. Networks need to develop those standards, monitor performance and levy sanctions against those who fail to meet them.

There is a viable niche between corporate firms and stand-alone boutiques. The networks have an important role to fulfill. They will not live up to that potential unless they reconfigure their thinking and operations.

Put simply, networks will break through to higher levels of performance when they:

≈ focus on helping brokers serve clients,
≈ leverage local market strength,
≈ move to dominate regional markets,
≈ connect regions nationally (in that order),
≈ guarantee reliability,
≈ brand for quality.

It's time for a better model.

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## PROFILES IN LEADERSHIP:
## Gerry Finn
## Chairman & CEO, NAI Global

**I can think of no-one who has devoted more thought to the idea of the network than Gerry.**

**Leadership is about being visionary, and Gerry looked at this industry 28 years ago and realized there was a different, better, way to do things. He created New America Network, which begot NAI, which is, today, NAI Global.**

**Gerry had the foresight to see that an alliance of really good local firms could become a force to be reckoned with internationally. Much credit goes to Gerry for recognizing the viability of the commercial real estate network and having the will to build one.**

**To be the pioneer, the innovator, is perhaps the toughest of all leadership roles. But Gerry has done it well and everyone in the industry owes a debt of thanks for his clear vision and his willingness to bring it into focus.**