Breaking Strategic Gridlock

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Friends & Colleagues:

Do you ever wonder why some real estate companies consistently seem to outperform their peers? Or why some real estate firms seem to find the “next” opportunity before it is widely known? Do you marvel at how some organizations seem to capture more than their fair share of new customers? And…do you wonder why some companies seem to always finish first in a competition for a new client or deal? When pursuing new opportunities, can you honestly answer the question, “Why them and not us?” The answers are internally based and the source of why less than 20% of real estate firms are considered best in class by their customers/clients…thus this is the focus of this month’s issue of Strategic Advantage.

Decision-making paralysis arises from fear of the unknown, a reluctance to make a mistake or take risk, personal doubt and concern over what others might think. The compounding effect of conflicting economic, capital and market messages, plus an abundance of opportunities available to a transforming industry, can create the dreaded disease…entrepreneurial blindness, or better-known as strategic gridlock. The real estate industry is gazing at a new frontier of opportunities and challenges, hopes and threats, surprises and the inevitable. However, the balance between faith and doubt, facts and forecasts and actions and reactions can determine outcomes, success and prosperity. All strategies have risk, but attempting to succeed without a strategy is even riskier. To do so, one must get past strategic gridlock barriers.

I have always been fascinated to know why, when faced with identical facts, circumstances and opportunities, some real estate firms excel while others stand by, waiting for the tide created by others to raise their boat as well. Unfortunately, this is 2013 not 2003, 1993 or 1983, and the real estate industry has changed dramatically and continues to do so at a rapid pace. By 2020, slightly more than 60% of today’s real estate CEOs are expected to be gone. There will be 30% fewer real estate firms in 2020 than in 2000, fewer public REITs and fewer speculative opportunities. Growth will be by design, not by happenstance.
The core questions facing every real estate firm and professional today are:

1. Do you want to be relevant, profitable and competitive now and remain so through 2020?

2. What business are you in and want/need to be in?

3. Are you willing to re-engineer your vision, focus, business practices, priorities and strategies to win?

4. Can you embrace change, chaos and challenges in the New Normal?

5. Do you know how to increase the odds for success and eliminate/reduce the chances for failure in a rapidly changing marketplace?

6. Are you open to new ideas, new ways of doing things and new value-creating processes?

7. Are you clear about what you stand for? Do you have a compelling story to tell?

Real estate practitioners in the year 2020 must have the training, experience, values, communication skills, knowledge, tenacity, confidence, creativity, attitude, intuition and compassion to succeed. The real estate industry in 2020 will not be for the faint of heart or sideline observers. Constant change will abound in the New Normal. As Confucius stated, “Only the wisest and stupidest of men never change.”

To succeed, however, will require you and your organization to break the strategic gridlock that is preventing or inhibiting current and future success. Moving forward does not mean backing down or stepping back, nor is it looking in the rear-view mirror. To succeed, you must make choices, and as the Greek philosopher Pythagoras stated, “Choices are the hinges of destiny.” The crucible of those decisions is formed by the strategic choices that shape and guide immediate, short- and long-term business planning. Success tomorrow is based on your strategic decisions today.

Moving from good to great is not enough. Unfortunately, fundamentally sound strategy can fail due to what James O’Toole describes (in Leading Change, The Argument for Values-Based Leadership) as the “ideology of comfort and the tyranny of custom.” Today’s rapidly changing world and business environment is replete with surprises and the unexpected, so it is essential that strategy be aligned with reality. Strategic gridlock is caused by a bombardment of external forces and change requirements. How you avoid creating, or navigate around, those gridlock forces can make a difference between success and finishing last.

According to author Michael Porter (Competitive Advantage), the strategies of a firm create a sustainable competitive advantage over its rivals by “deliberately choosing a different set of activities to deliver unique value.” Making good strategic choices is not reacting to the crisis du jour and thus eliminating any chance of focusing on what is really important. A good strategy is not a vision; it is the outcome of making good decisions. What truly matters is an effective strategy to create a roadmap of what it takes to win...to achieve a competitive edge.

Within the real estate industry, many people work very hard, yet it is a narrow view of the evolving marketplace that limits individuals and their organizations from reaching and exceeding their potential. Good strategies have

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### Fundamental Drivers Of Real Estate Cycles

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<td>International Trade</td>
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<td>Access To/Cost Of Capital</td>
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<td>Job Growth (Quantity &amp; Type)</td>
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<td>Commodity Prices</td>
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<td>Demographic Shifts</td>
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<td>Infrastructure Investments</td>
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Source: CEL & Associates, Inc.
survived the cascade of discussion, examination, validation, testing and process analytics. Winning isn’t easy...frankly, it can be difficult and challenging. However, if you have decided to play, then why not have a plan to win and why not remove the barriers that create strategic gridlock and prevent success?

Memorable Quotes Regarding Strategic Planning

- “The virulence of external threats is far greater than those experienced internally.” Unknown
- “If you don’t know where you are going, you’ll end up someplace else.” Yogi Berra
- “All men can see these tactics whereby I conquer, but what none can see is the strategy out of which victory is evolved.” Sun Tzu
- “Strategy without process is little more than a wish list.” Robert Filek
- “However beautiful the strategy, you should occasionally look at the results.” Winston Churchill
- “Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat.” Sun Tzu
- “Consistent alignment of capabilities and internal processes with the customer value proposition is the core of any strategy execution.” Robert Kaplan
- “Strategy is about setting yourself apart from the competition.” Michael Porter
- “A goal is a dream with a plan and a deadline.” Harvey MacKay
- “Not everything that can be counted counts and not everything that counts can be counted.” Albert Einstein

Eight contributing strategies cause and/or contribute to strategic gridlock. If you can prevent these from occurring, the odds of success for you and your organization will improve dramatically. See if you have or have you experienced one or more of these strategies within your organization.

Strategic Mistake #1 – Adopting The “I-Can-Do-It-All” Strategy

Lacking focus, priority, practicality and executable reality, some real estate firms believe they can compete effectively and win by “doing it all.” Service companies are the poster children for this malady as they add on, include, promote and attempt to brand a growing list of services rather than achieving best-in-class status by offering solutions in only a few differentiating services. Growth comes from building in and around the core business, focusing on key customer segments, market dynamics, need/demand variables and prioritized choices. Serving customer needs is not achieved, and recurring business is all but negated when the growth strategy becomes “we can do it all.” Offering all things to all people all the time is a prescription for failure. Too often Founders, CEOs and even Boards of Directors fall into a trap of prior successes, legacy accomplishments and competitor-induced momentum. Rapid growth, falsely attributed to “the way-we-have-always-done-it,” can create a mendacious sense of invincibility.

Common sense gives way to a belief that strategic growth can be achieved by offering all things to everyone all the time. Best-in-class real estate firms, however, focus on core competencies, adjacencies, specialization and knowledge. According to studies recently completed by CEL & Associates, Inc., tenants rank “knowing our business” far ahead of market knowledge when selecting a Broker. When a real estate firm cannot articulate its priorities, when an organization’s leadership team pursues every opportunity in an unfiltered manner and when a company lacks clarity of vision or purpose, an I-can-do-it-all strategy has a greater than 90% chance of becoming an unfulfilled dream with many disappointing memories and what could have been.
Strategic Mistake #2 – Flavor-Of-The-Month Strategy

Real estate firms which lack transformational leadership, a platform for innovation and a succinct direction often replicate (or attempt to replicate) what their competitors or peers are doing. In the “herd mentality,” strategies are based on fads, momentary market preferences or what’s hot. From smart buildings to lifestyle centers or from Special Servicer to condo-conversions, following the trend-of-the-month can, at times, bring short-term success and more often than not, bring long-term grief. Real estate has permanence and as such, real estate firms should not succumb to “new ideas” with little or no facts to justify sustaining the strategy and outcome.

Timely Reading

Occasionally I like to share books, articles, reports or studies that I find informative, valuable and timely. Listed below are several recently released books I believe you may find of interest.

- Taking People With You: The Only Way to Make Big Things Happen, by David Novak. Publisher: Portfolio Trade, January 2013
- The Tools: Transform Your Problems into Courage, Confidence, and Creativity, by Phil Stutz and Barry Michaels. Publisher: Spiegel & Grau, May 2012
- Create Distinction: What to Do When “Great” Isn’t Good Enough to Grow Your Business, by Scott McKain. Publisher: Greenleaf Book Group Press, March 2013
- The Culture Secret: How to Empower People and Companies No Matter What You Sell, by Dr. David Vik. Publisher: Greenleaf Book Group Press, February 2013
- Clients First: The Two Word Miracle, by Joseph Callaway and JoAnn Callaway. Publisher: Wiley, October 2012

A primary goal of every organization should be to improve the quality and market perceptions of your offerings or product(s). Stay focused, and do not assume that you can successfully replicate what others have already accomplished. Being late to the game can mean lower margins, increased challenges, a higher level of financial and operating risk and a compounding of missteps. Turn away from the temptation to divert from what should be a focused – not a reactive – strategy.
Strategic Mistake #3 – Strategies Based On Dreams That Never Come True

It is OK to dream about what could be, but don’t create a strategic plan based on wishes, hopes and unrealistic expectations. Real estate firms that base their strategies on what-we-hope-to-be rather than what-we-can-become generally experience unrealized goals. I encourage all readers of Strategic Advantage to dial in on achievable instead of “feel good” goals. Perhaps the best remedy for validating dream strategies is the need to identify and quantify strategy proof points.

What milestones, metrics and/or benchmarks are achievable in two or three years and in four to five years? Strive for excellence not ranking, seek performance and execution excellence not outperforming your competitors and establish strategies that are believable and can bind your leadership team behind an aligned set of goals. As Machiavelli stated, “Whosoever desires constant success must change his conduct with the times.”

Strategic Mistake #4 – An All-In Strategy

Why bet the farm? Why base your future on the success of one growth strategy? Too often real estate developers or investors believe in “too-good-to-be-true” opportunities and become blind to the risks that are evident to all. There is a reason why many investors or developers pass on a deal, but there always seems to be one individual or entity that seeks to surpass the majority consensus. While this strategy has some success, failure to reach expectations is the outcome in nine out of 10 times.

If your firm is too dependent on one market, on two or three clients, two or three investors or two to three projects doing well, it is time to change. If your firm is too dependent on programmatic capital, make a change. The compression of time and events does not give “wiggle room” or time to “work things out” if challenges arise. Real estate customers want to spend their money where they perceive and receive the highest degree of value.
Strategic Mistake #5 – We Know It All Strategy

Have you ever participated in a strategic or long-range planning session facilitated by the Founder or CEO? These sessions can be entertaining, intimidating, predictable and self-validating. What participating executive in one of those sessions is going to challenge the founder or CEO? Who is likely to tell the company’s president that a certain strategy makes no sense? Who in their right mind believes that they have all the answers in the past, present and future? In an attempt to save money by not hiring an experienced real estate strategic planning facilitator, firms can see a loss of opportunities and monies at 10x, 20x or more of the cost to hire an expert. The strategic outcome is in doubt when there is a myriad of ideas to examine, a restricted environment for comments and a perceived penalty for challenging the present. Getting out of one’s comfort zone can feel harsh and a bit unusual, but the best ideas and strategies occur with freedom of thought, dialog and discourse. As Peter Senge of MIT Sloan School has articulated so succinctly, “People don’t resist change, they resist being changed.”

Strategic Mistake #6 – Pay Not Play To Win

Buying customers, contracts, talent and/or opportunities can bring short-term success but very often results in a loss of that customer, contract, talent or opportunity. Loyalty, trust, relationship and value are achieved over time, and not by the “highest bidder.” Think of all the real estate service firms acquired over the past 10 to 15 years. How much of the original leadership team for the acquired firm is still there? How many clients or customers remain? Did the purchase price result in a momentary or long-term gain? Successful real estate firms create winning plans based on a business model that capitalizes on strengths, talent, access to growth capital, core competencies, value creation, relationships and contemporary organizational architecture. If you and your organization cannot become engaged and emotionally committed to win, then be prepared to stand on the sidelines and watch your competitors pass by. While several very valuable real estate enterprises are likely to be sold over the next 12 months, acquirers must be careful to avoid the stampede to nowhere.

Strategic Mistake #7 – Great Strategy…No Resources To Execute

Perhaps the most frustrating long-range planning outcome is to develop great strategies that are embraced by everyone, yet the company lacks the financial or operating resources to execute. Creating the proper scale of actions capable of implementing is as important as the strategy itself. For example, if a firm wants to double its third-party work over a three-year period but is unable to allocate money for business development, marketing, brand awareness, advertising, prospective client events, promotional materials, website enhancement and staffing…how can this strategy be achieved? If a firm wants to develop or acquire assets but has no capital to do so, what’s the point? Either the strategy and goal must be scaled back or the necessary resources must be set aside. You can create a masterpiece, but with no way to display the artwork, the value is lost. In today’s rapidly changing and highly challenging marketplace, you no longer can stumble into success.
Strategic Mistake #8 – Playing Follow The Leader

Too many real estate leaders shape their business focus and strategies based on what others are doing. This copycat strategy places the competitors’ actions ahead of the customers’ needs. Don’t worry about losing to a competitor…figure out how to win customers. You should worry less about who moved your cheese…and worry more about how you can move customers to your company. Customers, not competitors, define who you are, and your customers’ experience determines whether they will return. More time spent on what you want and should do, with less time spent on what others are doing, will result in far greater opportunities to succeed.

Achieving A Winning Formula For Success

Now that the eight strategic gridlock mistakes have been identified and described, what should real estate firms do to succeed in today’s very challenging economic, financial and market environments? Highlighted below are the four steps to achieve a successful growth strategy.

Step 1 is the need to identify opportunities, define aspirations, determine measures of success and create a transforming vision. Imagine a funnel into which ideas, opportunities and unique circumstances are brought forth and discussed. However, among the 20, 30, 40 or more ideas, only three to five can be perfected. Ask and answer this question: Why would a customer select us or our building in a sea of other choices?

Step 2 is the need to select opportunities with the greatest probability of success…strategies that are contagious, compelling and distinct. What facts validate, prove and justify pursuing each opportunity? What are the probabilities for success? What is the competitive environment? What enhancements must be made to give the adopted strategies the greatest chance for success? In today’s world, real estate firms should focus on competing for customers rather than competing against one another. Focusing on your competitors is not a smart way to win and keep valued customers. In Step 2, core strategies are created based on facts, not opinions.
Step 3 is the perfection and inspiration stage, where the core strategies developed in Step 2 are tested and perfected. When growth and performance-based strategies are validated through sensitivity analysis, research and other quantitative and qualitative methods, the entire organization believes they are “do-able,” and that can inspire exceptional performance.

Step 4 is the creation of a 100-Day Action Plan, implementation process and communication plan. Enacting the agreed-upon strategies shifts the focus from the strategic to the tactical. Creating a plan to win capitalizes and builds Stakeholder value, which leads back to Step 1.

Core strategies in 2013 and beyond are essential for success. A strategy is more than a decision…it is the roadmap to achieving the stated vision and identified goals. Remember to study your past while understanding your future. In *The Art of War*, Sun Tzu writes, “Victorious warriors win first and then to go war, while defeated warriors go to war first and then seek to win.” Within the real estate industry, it is all about “Ready, Aim, Fire.”

The Role Of Leaders In Breaking Strategic Gridlock

The primary responsibilities of a leader are to establish a compelling vision and then convert that inspiration into reality. An effective leader is one who not only knows where to go, but is able to show the way and enable others in that direction. To break strategic gridlock, real estate leaders at all levels must become multipliers (i.e., create more leaders). The more leaders, the better chance to inspire confidence in actions and collaboration throughout the firm.

Great leaders recognize and acknowledge the eight mistakes of strategic planning described above and take steps to avoid the pitfalls of misdirected intentions of dreamers. Gathering facts, converting information to knowledge, avoiding personal preferences or biases and engaging the leadership team in the planning process are very important. Leaders are made by the actions they take and the results they achieve. Anyone can be successful in the real estate industry when the tide rises, but only the best can succeed when the tide recedes. Leadership is about influence, relationships, values and trust. Most important, great leaders are humble and committed to making changes and decisions that create value for all Stakeholders.

According to Paul Shoemaker and J. Edward Russo (*Winning Decisions: Getting It Right The First Time*), true strategic thinkers (i.e., leaders) do six things well: anticipate, think critically, interpret, decide, align and learn. The foundation of these six attributes is critical thinking. Leading a real estate enterprise to 2020 requires a strong foundation of critical thinking. In the July 2012 issue of *McKinsey Quarterly*, authors Chris Bradley, Lowell Bryan and Sven Smith suggest that to set strategy effectively during uncertain times is to bring
the senior leadership team together frequently. This echoes what readers of *Strategic Advantage* know as “100-Day Action Plans.” When you “think big,” you develop winning strategies and metrics that truly matter.

Dr. Jeanne Liedtka identified the five essential elements of strategic thinking: intent focus, a systems perspective, thinking in time, intelligent opportunism and hypothesis driven. For real estate companies, assuring success through 2020 must start with a dialog in which each question starts with “what if…” and ends with “how can we…”

In a strategic or business planning process, great leaders generally defer to getting the best result when they become active participants, rather than the guides to the eventual outcome. Effective leaders influence rather than make decisions, demonstrate passion not position and enable others and the organization to realize their/its full potential.

Strategic gridlock can happen to any organization, regardless of age, size or business focus. However, in today’s very uncertain and challenging environment, the integrity of intent, a focus on solutions not problems and a willingness to walk the tightrope between vision and practicality can assure success. Leading isn’t easy, but when you take steps to avoid the inevitable disappointments from strategic gridlock, future expectations can be realized. Do not be afraid to confront the anxieties and concerns of today to reap the benefits of tomorrow. Strategy selection is all about making choices to win.
Closing Comments

Achieving success is tough enough...why raise strategic barriers that cause gridlock and unpleasant outcomes? Every day I hear of exciting new opportunities and successes and what firms are doing to raise the bar of strategic and execution excellence. The real estate industry is a complex web of moving parts. Eliminating the barriers to making good strategic choices must be a constant priority. It can be done...go out and do it!

I would welcome comments, insights or ideas, please email them to newsletter@celassociates.com.

Regards,

Christopher Lee

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Simply click on this following link IREM and you will be directed on how to purchase your copy.

Full text link is below:
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- *Has The Real Estate Industry Lost Its Mojo?*

- *2013…A Time To Ascend*

- *“The Times…They Are A’ Changing” Eight Key Strategies for 2013*

- *The Great Generational Divide*

- *Becoming A Customer-Centric Company*

- *It Is Time To Get Rid Of Oldco!*
2012...A Year of Dubitare
http://www.celassociates.com/onlinenewsletter/2012...AYearOfDubitare-SA-K011712.pdf

Growth Is An Art As Well As A Science

A Contrarian Perspective

The Role Of Real Estate In Society
http://www.celassociates.com/onlinenewsletter/TheRoleOfRealEstateInSociety-SA-K091411.pdf

Tomorrow Has Already Arrived

Age Of Consequence & Opportunity
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Take Control Of Your Destiny

Real Estate Outlook 2010-2020 Part II

Real Estate Outlook 2010-2020 Part I

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