

Corporate Real Estate Management in the Retail Sector: Investigation of Current Strategy and Structure

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Abstract Retail organizations are often cited as being at the forefront of corporate real estate management. This research found that the retail sector is characterized by diversity both in terms of the degree to which organizations are vertically integrated and in terms of the range of modes of retailing they engage in. This in turn led to diverse real estate portfolios. However, regardless of this diversity, the over riding strategy was focused on supporting the core activity. This study provides a snapshot of current practice however it also uncovers the need for a greater understanding of the diversity in practice.

Introduction

During the last two decades, corporate occupiers of all types have started to examine their real estate needs in a more systematic manner in order to gain greater value from the space they occupy and, in some cases, own. There have been a number of studies in the United States and the United Kingdom that have examined the management of occupational real estate (see Veale, 1987; Avis, Gibson and Watts, 1989; Debenham Tewson Chinnock, 1992; Joroff, Louargand, Lambert and Becker, 1993; Hillier Parker, 1994; and Avis and Gibson, 1995). These have been broad reviews covering a variety of aspects from corporate real estate strategies to information systems. The aim of much of this work has been to document the current state of corporate real estate management practice. As well as covering the breadth of corporate real estate issues, they have also tended to cover a wide range of business sectors. These studies have made a valuable contribution by providing a strategic framework for evaluating corporate real estate management practices from a macro perspective.

However, there has been only limited work that has concentrated on an individual issue or a specific business sector. One of the sectors that might appear of particular interest is retail. This is because corporate real estate is thought to be closer to the core activity in retail organizations than in many other sectors. This article will report on a research study undertaken during the summer of 1998,

which focused on the retail sector. The aim of the research was to establish the current range of strategies and structures adopted by listed retail companies for their real estate portfolios with a view to identifying what constitutes a “good” structure.

The article will review findings under three of the core areas of investigation, namely:

1. The corporate real estate strategy adopted by retailers;
2. The way in which they structured their corporate real estate management function and its relationship to the strategy; and
3. The way in which this strategy and structure might develop as result of changes in the business environment.

The following section outlines the motive for the study and the background literature that was reviewed. The research methodology and characteristics of the organizations participating in the research are reviewed in the third section. This is felt to be particularly important, as one of the suggestions is that retailers form a very heterogeneous group, which in turn may lead to a wide range of real estate strategies.

The next two sections will examine the current corporate real estate strategies adopted by these organizations and aspects of practice, followed by an analysis of the key changes in retailing and the likely management response. The final section draws together the conclusions and makes recommendations for future research.

Motivation and Background Literature

A major retailer had approached us with the question: What is the ‘best structure’ for managing corporate real estate within a retail organization? The motivation for asking this question stemmed, on the one hand, from the fact that a number of U.K.-based retail organizations had taken a high profile approach to the management of their corporate real estate portfolios. For instance, some of the largest retail groups had established real estate subsidiaries that were active in the real estate market. Included in this group were the formation of Chartwell Land by the Kingfisher Group, Barclays Property Holdings by Barclays Bank and Boots Properties by Boots. The structure and remit of each of these groups varied but their effectiveness had never been investigated. On the other hand, other retailers had chosen different approaches but generally these had not been well documented.¹ It was this apparent difference in approach to the management of corporate real estate that led to the question of appropriate structures being addressed.

The retail sector had not been specifically investigated in any depth yet it was often cited as being at the leading edge (Avis, Gibson and Watt, 1989; Avis et

al., 1993; and Weatherhead, 1997). The reasons given for this view related to the significance of real estate to the core business and therefore the greater understanding at all levels of the organization of the contribution of real estate to performance. Given the substantial literature on retail geography (*e.g.*, Jones and Simmons, 1990) and the debate in the real estate literature on retail markets and location (Vandell and Carter, 1993; and Benjamin, 1994) this view is not surprising. On further investigation however, it became clear that there was little specific research on the management of corporate real estate within any particular business sector.

The trend to set-up real estate subsidiaries indicated that retailers were faced with a broad strategic choice. Should they make real estate decisions purely in response to the current and future needs of the core business or should they consider diversifying into real estate investment and development as an activity in its own right (Nourse and Roulac, 1993)? Firms in the retail sector, it might be hypothesized, are more likely than most to have opportunities for creating shareholder value within their portfolio of real estate assets. Such opportunities might include the exercise of valuable development options, the exploitation of market information generated within the retail operations and the utilization of well-developed retail real estate expertise where it exists.

Finally, retail organizations had been facing and continue to face new challenges. The impact of technology on shopping trends, changing consumer preferences, and government intervention in planning and transport all have the potential to have a significant impact on the nature and scope of the real estate portfolio required by retailers (Roulac, 1994; and Burke and Shackleton, 1996). The way they determine their strategy and establish an appropriate structure will also be influenced by these broader environmental factors.

Given this context, we reflected on the way in which we might interpret the request to identify the 'best structure'. Previous research in corporate real estate had looked at the way in which the capital market had taken into account the corporate real estate portfolio of large corporations (Rodriguez and Sirmans, 1994). Research had also been undertaken that investigated the reaction of the capital market to a specific change in corporate real estate, for instance, by examining the impact of the stock market to sale and leaseback decisions (Adams and Clarke, 1996). Although reflecting the way that shareholders and the capital market might react was one way to consider the impact of structure, we felt that this financial approach would not be an appropriate way to identify the best structure. The key reasoning was that we felt it would be difficult to claim that any specific structure was the cause or linked directly to overall financial performance. There were too many other variables that would have to be considered.

It therefore became evident that, in order to undertake this type of investigation, we would need to understand how corporate real estate fits into the overall organizational structure and supports the core business and overall corporate strategy. Many commentators had emphasized that corporate real estate should be

managed to support the core functions and that the real estate strategy must therefore be linked to corporate strategy (see Norse and Roulac, 1993), but they had not looked in depth at how this was actually taking place within organizations.

The aim of this study, therefore, was to investigate how and why corporate real estate portfolios were being managed in a particular way, and the degree to which this structure was perceived to be robust in terms of supporting the organization in the future. Best, as identified in the original brief, was consequently interpreted as being best for that organization at a particular point in time from the perspective of the most senior corporate real estate manager. The practical objective for this study was to map out the corporate real estate management practice within the retail sector so that there was a clearer understanding of the issues driving the sector which would in turn help direct future investigations. The key research objective was therefore to develop a number of frameworks, which could be used as the basis for further inquiry.

Methodology and Profile of Respondents

The lack of existing evidence concerning what makes a *good structure* for managing corporate real estate, or even the range of structures, which are used in practice, led us to undertake an exploratory study. A grounded theory type approach was adopted, which had been used successfully both in general management research (Sekaran, 1992) and recently in an investigation of corporate real estate decision-making (O'Mara, 1999). The purpose of such work is to develop knowledge and theories from a broad investigation. The theory or frameworks emerge from systematic analysis of the data gathered (Strauss and Corbin, 1998). It is therefore inductive rather than deductive in approach.

It was however, not feasible to deploy a full grounded theory methodology given both time and resource constraints. Consequently, the approach was adapted to draw on this methodology but, as in other business management related studies, using existing knowledge to help inform the research design and analysis (Sekaran, 1992).

Given the exploratory nature of this research and the use of an approach broadly based on grounded theory, the identification of organizations that should participate in the study was based on what is termed judgement sampling. This is a non-probability sampling method where subjects are chosen on the basis that they are in the best position to provide the information required due to expertise in the subject area (Sekaran, 1992). Consequently, the sample was derived on the basis of three criteria: large retail organizations in terms of market capitalization, current financial performance of the firm and known interest in developing innovative real estate solutions. We based our sample on the Top 100 (by market capitalization) list of retailers and by reviewing both the annual reports and the popular real estate press to identify those organizations that appeared to have the greatest interest in real estate management. We contacted approximately sixty firms and, of these, twenty-seven participated in the study.

The data was collected by means of a semi-structured in-depth telephone interview. The interviews took place during April and May of 1998 and each took between forty minutes to an hour to complete. Using a grounded theory approach meant that the interviewer had to allow the respondent the freedom to examine each of the issues in a way they felt was most appropriate. This approach resulted in detailed interview notes from which the analysis evolved.

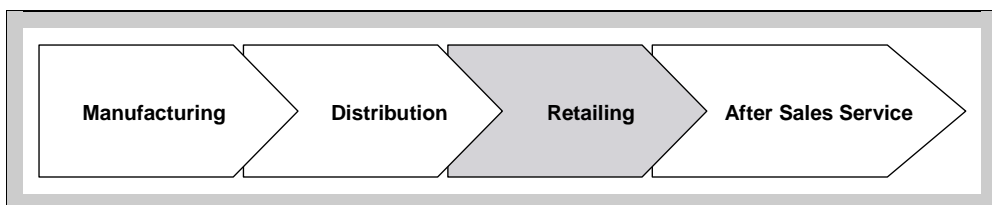
Profile of Respondents

In order to understand the issues of strategy and structure, which are reviewed later, it is first necessary to consider the characteristics of the sample. The intention was to gain insight into a particular group of organizations, namely large U.K.-based retailers. What became clear was that, even when examining this more focused group of firms, there was considerable disparity within the group. There were many ways in which the retail organizations could have been examined; however, we decided to explore aspects of these organizations which would have the most significant impact on the real estate portfolio required to support the business. We therefore selected the degree of vertical integration and the range of modes of retailing each organization pursued.

Although most of the companies in the survey were well known, it was not clear which activities each organization chose to undertake in-house and which were bought in or outsourced. Retail organizations are vertically integrated to varying degrees. For instance, their involvement may span the entire value chain from manufacturing to after-sales-service or concentrate on only a proportion of these activities. In order to ascertain the overall scope of activity, we asked the organizations to provide a breakdown of the types of activities they were engaged in upstream and downstream from the core retail activity. Exhibit 1 shows the four broad categories of operation that were examined.

Not surprisingly, all of the companies that participated in the study undertook all of their retailing activity in-house. However, only eleven firms of the twenty-seven participants were approaching self-sufficiency in distribution while ten organizations had no distribution function in-house. Although the vast majority of companies had no in-house manufacturing activity, a quarter appeared to undertake

Exhibit 1 | Vertical Integration by Organizations

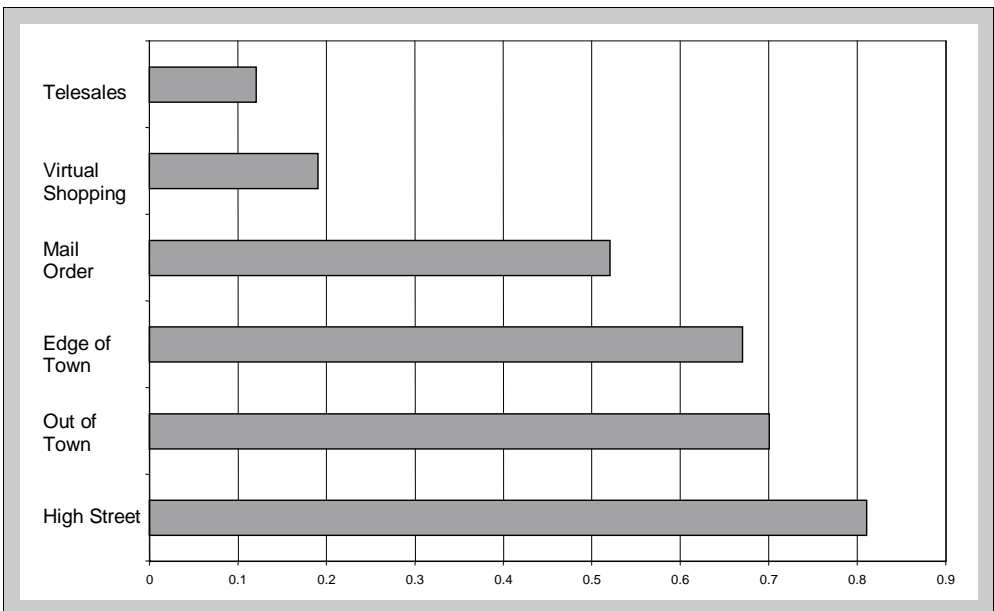


their after-sales-service in-house. It became clear that individual companies had different business models for procuring and delivering goods and services to the consumer, undoubtedly reflecting the sector as a whole. Depending on the range of activities an organization was directly involved in, the associated corporate real estate portfolio would also have different degrees of scope and complexity, ultimately resulting in different pressures and challenges in terms of real estate management.

Moreover, retailing itself is a very diverse activity and can encompass different modes of sale from mail order to electronic commerce. We therefore examined the modes of retailing and balance of income from these sources in greater depth. Again, we see (Exhibit 2) a wide variety of strategies related to retail delivery pursued within the sample although only a minority (less than 20%) were involved in telesales and virtual shopping. In terms of the relative income earned from each of these activities, only a very small number of respondents (3) were able to break down their turnover according to the categories provided. Given that we were interviewing the head of corporate real estate, this may not be surprising. Nevertheless, it is worth noting that these senior real estate managers did not appear to have basic management information related to the retail activities at hand, which may impede their ability to manage the assets proactively. This will be considered later.

These two features of a retail organization's activity are likely to lead to very different real estate requirements. For instance, organizations that are highly

Exhibit 2 | Modes of Retail Activity: Percentage Involvement



vertically integrated and involved in a number of modes of retailing are likely to have very diverse portfolios ranging from manufacturing sites and distribution centers to retail units in various locations, as well as call centers to support customer service. We asked the survey respondents to provide some information on their company's real estate portfolios. Most managers were unable to quantify the extent of their total real estate holdings by square footage or capital value. In general, however, managers were more familiar with the dimensions of the retail portfolio. This focus on retail real estate may not be surprising as this is most closely linked to the perceived "core" business and is also likely to be the highest value real estate in the portfolio.

As well as managing the operational real estate, one in three of the organizations indicated that they owned investment real estate. This indicates that, while the real estate activities of the majority of firms are focused on the retail mission, there is a sizeable minority engaged in real estate investment as a business activity in its own right. However, some care is required in the interpretation of this information. A number of respondents referred to the fact that *some* of their investment real estate was residential space above retail units, not all of which, due to security and management issues, is let and much of which is unavoidable when purchasing a high street retail location.

In conclusion, the data gathered from the sample of retail organizations provides evidence of the highly heterogeneous nature of this group in terms of the range of activities they pursue and, apparently, in the way in which they own and utilize their real estate resources. This has implications for the way in which corporate real estate research might be undertaken in the future, and raises questions about the appropriateness of business sector studies. This issue will be considered further in the conclusion. Nevertheless, the key to this study was that all the participants appear to be driven by their "core" retail activities and therefore have a common bond. Regardless of the diversity within the group, the appropriateness of examining strategy and structure is still valid.

Current Real Estate Strategy and Practice

In much of the business literature there is a theme which suggests that structure follows strategy (Chandler, 1962). Therefore, it is necessary first to examine the real estate strategy being adopted and then how the firm organizes and undertakes the required real estate activities. This section reports on the findings related first to the strategy for corporate real estate, secondly to the structure and remit of the real estate function, and finally to the way in which this function has changed in the recent past.

Strategy

In management terms, a corporate real estate strategy would be seen as a functional strategy that provides direction to those who are responsible for the

management of a particular resource, real estate in this instance. Nourse and Roulac (1993) developed a set of generic real estate strategies, which encapsulated a number of key objectives for corporate real estate teams. These included: to minimize occupancy cost, to promote marketing message, to promote sales and selling process, to facilitate and control production, operations and service delivery, and to capture the real estate value created by business. These were seen to describe the variety of ways real estate decisions might be guided within organizations. In order to capture this strategic intent, we asked the respondents to provide us with their real estate department's "mission statement," if one existed, or to encapsulate what they felt it might be. A framework was developed to categorize these strategies. The comments were placed into one of four categories in a two-by-two matrix (see Exhibit 3). The first dimension, represented by the columns, was the degree to which the strategy seemed to focus on *cost minimization* or *added value*. The two terms were chosen to show the financial orientation of the respondent. Those in the cost minimization area were concerned with real estate as a cost to the business or overhead and therefore focused on ways to reduce expenditure related to property. The added value group perceived the real estate as a financial asset, which could be exploited to enhance the value of the organization.

The second dimension focused on whether the strategy had a real estate or a business (retail) orientation. These were represented by the rows. The real estate category reflected a group who appeared to be concerned with real estate issues first and foremost, with the benefits to the business coming from good professional real estate management. The group, which had a business orientation, appeared to be looking at ways in which the real estate could improve the business performance, whether financially or by providing a better environment, or better service to the customers. These four categories were selected, as they appeared to encapsulate the orientation of the real estate teams. Overall, the review of comments strongly suggested that the majority of companies managed their assets by focusing on the retail business by adding value or minimizing costs. Put simply, the real estate team served the needs of the retailers first. This is an important finding as it demonstrated that the corporate real estate strategy was derived from the broader retail strategy.

However, as outlined in the previous section, there has been a tendency in recent years for retailers and non-retailers to imbue their real estate units (however structured) with the mission of creating returns through pure real estate activity namely: investment, trading and development. In the case of our sample, approximately one-third holds investment real estate and therefore may be seen to have, at least partially, this remit.

Although there is little documented evidence on this subject, anecdotal reports suggest that the pursuit of pure real estate objectives by organizations whose core business is non-real estate may lead to internal conflict. In the sample of firms within this study there appears to be little evidence of the pursuit of pure real estate objectives and some indication of the problems this may cause. For instance,

Exhibit 3 | The Strategy for Corporate Real Estate Management in Retail Organizations

Cost Minimization

Real Estate Orientations:

To ensure that real estate assets held for operational purposes are on the most appropriate tenure and terms. To dispose of properties not required for operational purposes.

Minimize rents, ensure leases give flexibility. Spend as little as possible on real estate . . . this is difficult to achieve.

Aim to minimize occupation costs, maximize rental income and in doing so optimize asset value.

Aim to be as cost-effective and cheap as possible with as little involvement from senior management staff. With a major thrust to open new stores.

(Approx. 17% of respondents.)

Business Orientation:

Keep overheads to a minimum in real estate management terms.

Potentialize the use of real estate, maximize the use to provide the best function for retail.

Maximize the advantage of each location and reduce costs and the right square footage and right location for each town.

Aim to minimize expenditure and maximize income. Provide convenient and operational shops.

Investment portfolio is usually acquired with a retail unit *i.e.*, flats above shops. If you are a retail organization then investment real estate is not a primary concern.

Increase the quality of the fleet, by looking for bigger and better retail units and getting rid of the dross.

Aim to be lean and mean.

Aim to maximize asset value, minimize occupational costs.

(Approx. 32% of respondents.)

Added Value

Aim to ensure that we achieve best rents at review, maximize income and carry out responsibilities in accordance with leases. Ensure that we get what we are entitled to.

Development side . . . make maximum development profit; Asset side . . . maximize return and enhance capital; Services side . . . shops at the right place at the right time.

Effectively manage the real estate to provide a cost effective and efficient service.

Aim is proactive asset management.

(Approx. 17% of respondents.)

Main role of the real estate group is to aid company expansion.

Aim to maximize the return to the business and to manage from a retail perspective.

Aim to be active in the management of real estate to maximize the benefit for the retail function.

Aim to maintain high standards as a retailer with a customer focused real estate management and maintenance side.

We are customer driven, our aim is to find new properties to benefit our customers and the stores. (Customers are both customers and the retailers.)

Manage it proactively and efficiently for the retail function and at the same time aim to create value where we can.

Focus on customers (operations and retailers).

Provide the best possible service to the client.

Aim to make sure the real estate suits the needs of our retailers and therefore customers and by doing so add value to the business (from the real estate perspective).

(Approx. 33% of respondents.)

one respondent mentioned that his organization had “once operated in this way but this caused some bad feelings within the company.” As a result, they have since changed their way of operating. Similarly, another respondent said that “our firm had thought about going down this route but decided against such a move because of the danger of intra-company conflict.” Generally, the majority of organizations are committed to providing a platform for the success of the retail operations. In fact, the commitment to supporting retailing activity is one of the strongest factors uniting the group.

This focus on supporting the retail operations by the majority of firms should impact the structure adopted. This aspect is reviewed in the following section.

Structure

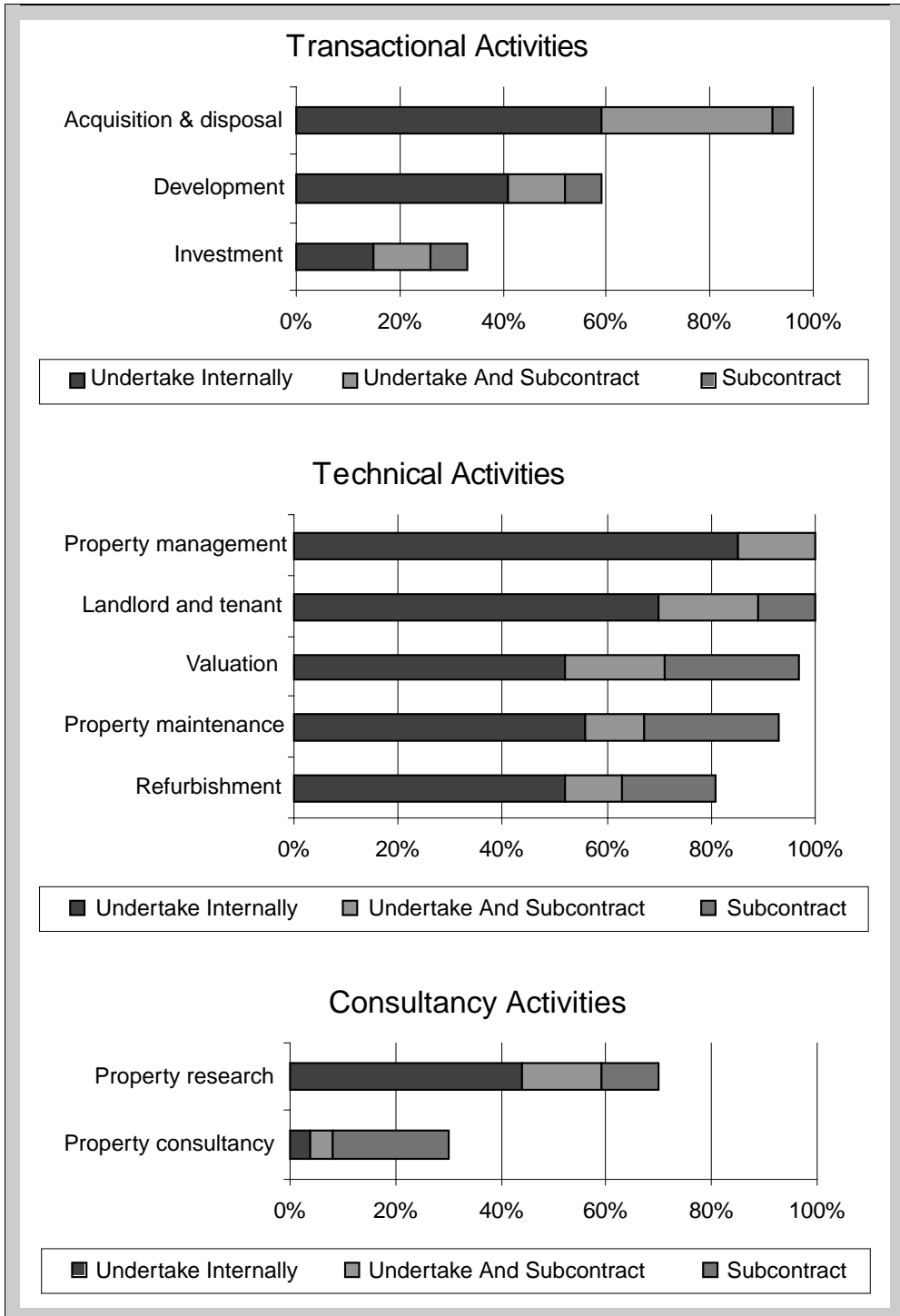
The structure of the corporate real estate function concerns who, where and how decisions about corporate real estate are made within an organization. In order to examine the structure adopted, we asked the respondents whether real estate was (1) managed centrally; (2) managed by a dedicated subsidiary; or (3) managed by separate teams within individual retail business units. All but one organization stated that real estate management was carried out centrally as a headquarters-based function. Undoubtedly, this reflects the key strategic role of real estate within the retail organization and the need for a strong relationship between real estate strategy and retail strategy.

Exploring this further, the role of the real estate function was examined. The respondents saw their main role as one of information provision as well as serving the needs of the retailers. In many cases, specific real estate activities can be subcontracted, but most retail organisations see it as important to have a group within the firm that provides an independent view of the market and manages the activities of outside contractors. This function is increasingly being called the “intelligent” or “informed” client.

The balance between in- and out-sourcing was investigated by looking at three broad categories of real estate related activities: transactional, technical and consultancy (Gibson, Jones, Robinson and Smart, 1995c). Exhibit 4 shows which transactional activities (*e.g.*, acquisition, disposal); technical activities (*e.g.*, maintenance, landlord and tenant work,² valuation) and consultancy activities (*e.g.*, research, technical and management consultancy) the central group function was responsible for and which were outsourced. Again, there was great variation in the approach to the management of real estate but still an emphasis on those activities that would have the greatest impact on the retail functions.

The transactional activities are the first group of activities to be considered. Perhaps the most basic real estate activities are acquisition and disposal, re-balancing the portfolio in the light of the changing needs of the organization. Yet, this activity is perhaps the easiest to subcontract. A high proportion of retailers actually engaged in acquisition and disposal activity and this undoubtedly reflected

Exhibit 4 | Activities Undertaken by Group Real Estate Function



the fact that there was a strong need to have a centralized overview of the way in which the retail portfolio was developing. It may also be the case that retailers undertook acquisition and disposal because it is possible, utilizing information generated in other activities, to take advantage of the real estate market's undoubted inefficiency³ to generate returns for shareholders. Finally, given that the real estate team appears to focus mostly on the retail portfolio, they feel that they have a greater insight into what makes a successful store than any external agent could have.

There were a considerable number of retailers who responded (eleven of the twenty-seven firms) who did not undertake real estate development. Those who did engage in property development tended to carry out this activity in-house. The reasons for this are probably similar to those for acquisition and disposal. Most importantly, there is considerable opportunity to make gains from development, if it is carried out judiciously, which would relate to Nourse and Roulac's (1993) strategy of capturing the real estate value creation of business. As noted, relatively few retailers engaged in real estate investment for its own sake but, for those that did, investment was generally undertaken in-house or in conjunction with an external organization.

The second grouping in Exhibit 4 gives an indication of the range of technical activities that the group real estate function undertakes. That such a high proportion of real estate maintenance and refurbishment was undertaken in-house undoubtedly reflected the fact that upkeep of retail real estate is an essential part of maintaining an all-important brand image. Again, this can be related to the Nourse and Roulac (1993) strategy of promoting the marketing message. There was also a high level of landlord and tenant activity, such as negotiating rent reviews and lease renewals, and property management undertaken within the central group function. This need to have direct control over these functions is also likely to be due to the mission of the real estate group to enable the retailers to carry out their activity as effectively as possible.

The final category of activity concerned whether research and consultancy advice was related to the real estate market or, more generally, to the real estate management process. Organizations were more likely to investigate the real estate market than seek management or technical advice. It appears that these retailers are running their real estate organizations on the basis of professional expertise and accumulated wisdom, rather than systematic research or external advice. However, it is also apparent that these organizations continue to attempt to improve and develop their own in-house real estate management function.

Overall therefore, the centralized approach to real estate management and the focus on real estate activities, which could be linked directly to retail operations and performance, are consistent with the strategy adopted. However, organizations do not remain static and the recent changes in structure are likely to shed light on the issue. The following section examines recent changes.

Management Change

Reflecting perhaps the dynamic nature of the retail sector as well as developments in corporate real estate management, four out of five of the companies acknowledged that they had changed the way they managed their corporate real estate over the last five years. Exhibit 5 reproduces, with some editing, the comments made by respondents that are instructive about trends in the sector.

Again, it is possible to provide a framework related to the drivers to change. These have been grouped into the following categories: (1) matured over time and gained greater sophistication in approach; (2) re-focused on the core retail support activity; (3) obtained greater support from key business decision-makers; and (4) change of personnel both at the top level and lower down.

These comments also reflect the fact that the respondents were drawn from a set of reasonably successful retailers and therefore a certain proportion of the comments reflects change due to growth. It is also evident that competitive pressure was an important source of change in real estate management.

One of the most intriguing aspects of the section is that there is evidence of a retreat from real estate functions operating as independent 'arms length' landlords. These comments are complementary to all the earlier findings that these organizations' main objectives were driven by the retail business. Overall therefore, the research findings confirm the realization that real estate management can never drift too far from the needs of the core retailing business.

Change and Future Response

As well as considering current strategy and management practice, the research also sought to review how the corporate real estate managers saw the future trends in retailing and the impact of those on the way in which they managed their real estate portfolio. Therefore, we asked respondents to comment on the likelihood of future changes in the balance of their activities. It is difficult, due to the wide range of replies, to summarize the responses. Instead, we have provided a review of responses in Exhibit 6. Comments seem to fall into two categories: those concerning the location of retailing and those dealing with the emergence of new modes of shopping.

The Location of Retailing

Corporate real estate managers do not seem to be signaling that larger changes should be expected in the location of retailing. For instance, there is no evidence of a strong pressure on sample companies to move out of town, quite the contrary in fact, with some companies seeking to increase their High Street presence.⁴ What

Exhibit 5 | Changes in Real Estate Management Practice**Maturing Real Estate Management Function**

We have grown the business considerably, therefore we have had to become more professional in the way we do things. The real estate function has matured.

Changing management because we have grown, as a result we have become more formalized and systematic in our work.

We are more proactive in terms of dealing with issues before they arise.

Become more professional, more proactive in asset management and the management plans for the stores.

Have become more structured.

The company has grown bigger over the last 5 years. Five years ago real estate was managed centrally but now, real estate is independent.

Has improved, most people are under pressure to analyze and be on top of everything. There is pressure to be more comprehensive . . . there is always the threat of outsourcing if we are not efficient.

We have become more market-driven and have a better relationship with our landlords. We have changed to reflect the economy. Whilst we are function-based we get involved across the whole spectrum of activities, we are team players and this underlies everything we do.

We talk to other retail real estate departments and have a good relationship with them . . . better than with the commercial departments of surveyors. Retail real estate departments understand each other because of the nature of retailers and our specific requirements.

Increased Focus on Core Retail Activity

There is a closer examination of financial returns from retail sites. Don't manage as a landlord anymore as it caused problems for us in the past. A 'them and us' situation existed and this didn't foster good relations. They (the retailers) felt that real estate was taking money from them to put in our own coffers. There is a closer examination of financial returns from retail. Because most are on short leasehold there is little potential to exploit potential sites.

Real estate division used to be a separate subsidiary company. The retailers decided that real estate should not be a business in itself, but an advisor and support. It does work better because we are retailers and therefore more sensitive to retailers' needs and not just looking for a good real estate deal.

More cost-orientated.

Have diminished in importance; decisions and power have been transferred away from real estate . . . everyone other than real estate make real estate decisions. Although they are generally unaware of the consequences of those decisions . . . Marketing rules today! Don't think the current structure is appropriate . . . any ideas welcome but can't change the world I'm afraid.

Closer Link to Business Decision-Makers

We have become more focused and targeted as a result of board level decisions.

Have had to become more professional because retailers are now more interested in real estate.

More stores, more computerization, more specialized parts of the real estate market and therefore only we can meet our needs. Real estate research is increasing in importance. We are always looking to improve. The structure is OK but retailers don't always understand real estate. There is never really enough time to increase the potential of real estate . . . not enough staff.

Performance measures are more sophisticated . . . we need to prove that we are more cost effective.

Changing Personnel

There has been a rearrangement of the management functions, a new director of real estate was appointed two years ago and this resulted in another level to the management structure.

We do manage more, but we are involved more; possibly, because we have more staff we can afford to cover a greater number of things.

Structure has changed as a result of downsizing and restructuring . . . we are better for it.

Exhibit 6 | Future Changes to Retail Operations**Changing Location of Retailing**

Diversification: see that the company may increase its role within the high street and reduce its role out-of-town.

Some move in the future towards factory outlets, but this would be fairly insignificant.

More in-town as a result of Government promotion of town centers. More home shopping.

Look to move towards other forms of shopping like on the Internet and out-of and edge-of-town.

No real plans to change the structure of retail activity, though there may be an increase in the ratio in favor of out-of-town.

Will expand High Street and edge-of-town assuming that the 'policy' status quo remains the same.

Policy to stay in the town center if we can.

Changing Mode of Retailing

I'm a real estate person, I don't know about retail strategy. XXXX started looking into virtual shopping so I suppose we will have to.

There will be an increase in XXXX Direct in the future.

No plans for change at the moment but believe the Internet will be looked at in the future.

Increase mail order.

We need to look at other ways of selling goods. Possibly, the selling of advice is the way forward.

Mail order, home shopping will increase in the future but will only amount to a small proportion of retail sales.

Virtual shopping is likely.

Telephone ordering and mail order are likely to increase.

Looking at lots of things, the Internet is one.

Can't really see a change in the retail activity we are involved in, people like going out of their homes to go shopping. The Internet is good for standard items like CDs it is not so easy for clothes.

We are however looking at interactive technology within the stores, and have considered the Internet.

Looking at the Internet, but no real change expected.

is unclear at this stage is whether this is a reaction to current government policy or is driven by consumer demand. The real estate professionals who responded are going to be acutely aware of the influence of PPG6⁵ and other planning guidance, which is attempting to drive retail activity to the town center.

New Modes of Shopping

Much more significant perhaps is the way in which many of the firms are considering increasing their share of mail order and Internet delivery, although many of the comments are rather muted. They do not appear to signal a significant or fast shift in the modes of retailing. This aligns with recent research on the impact of new management practices and technology on office usage where it was felt that the changes to new ways of working (hoteling, hot desking) would gradually result in an evolution in associated real estate requirements (Lizieri, Crosby, Gibson, Murdoch and Ward, 1997). It also confirms that the corporate

real estate managers are driven by the broader retail strategy and do not attempt to act in a proactive manner.

However, any substantial drift towards distance shopping would obviously have profound implications for the value of traditional retail units and the future of the town center. As yet, Internet sales represent a relatively small proportion of retail turnover, a fact that is confirmed by our study, but there is some expectation that this share will grow (Borsuk, 1997; and Knight Frank, 1997). Were this to increase in importance, there would obviously be a transfer of value from retail properties to warehousing real estate and other real estate, which enter the retail value chain such as call centers. A key issue in retail research in the future is estimating the way the retail sales will be divided between the new forms of retailing (telesales and internet delivery) and the traditional store-based retailing (Borsuk, 1997). This has implications for the role of real estate based retail outlets, moving from the place where transactions occur to showrooms or promotional platforms.

Exhibit 7 | Appropriateness of Current Structure

Delivering the Appropriate Operational Real Estate for the Retail Function

Need more staff. Need to change the regional structure into more distinct units that correspond to the retail units. The estates functions don't always know whether they are responsible for certain shops.

Need more clarity.

More staff are needed to improve the situation.

We are a retail company; it is not a retailer's job to understand real estate. They need to know how to make profits on retailing.

Structure is set up by talking to retail colleagues. Overall, brief to get to know the stores and the problems associated with them. Retailers would like someone local to shout at when things go wrong.

Real estate is an extremely valued department in XXXX.

Ensuring that the Value of Real Estate is Understood by Both Retailers and Senior Managers

More staff are needed to improve the situation.

Difficult to get the retailers to understand the changes in the future retail market and work accordingly.

Don't look to maximize the resource from real estate. Talked about breaking away and becoming a real estate subsidiary but felt that our real role was one of support.

We have a problem with the vacant investment real estate. This needs to be intensively managed, especially with regard to rent collection etc. Often better not to let flats above shops. But now becoming involved with Housing Associations and living above the shop program . . . good. Also heavily into town center management.

We have focused activity on development and asset management . . . as a result development meets retailers' needs and asset management meets real estate needs and ensures that real estate is being used effectively.

Exploiting the Latent Potential of Real Estate Assets Owned by the Group

We are personnel poor, we could be doing more but lack the manpower to do it.

Don't know of a practical solution to this one.

Changing Management Structures

A final point to make on the subject of change concerns the suitability of current arrangements for real estate management. Eighty-five percent of the respondents thought that the current structure was the most appropriate for delivering operational real estate to the retail function. Eighty-two percent believed that the current structure was appropriate for ensuring that the value of real estate is understood by retailers and senior managers. Seventy-seven percent believed that the current structure was suitable for exploiting any latent potential in the value of real estate assets owned by the group.

It can be clearly seen from this that the majority of respondents were happy with the way corporate real estate units are currently organized except that many seemed to be short of staff (see Exhibit 7). Without introducing undue cynicism, these findings must be treated with some caution since they probably reflect a quite normal human desire for stability and lack of self-analysis. It is probably true that to a certain extent, real estate management has become more sophisticated over the past five years but it is most unlikely that the pace of change will diminish (Gibson, 1995b). The business environment will change (Gibson, 1995a), in particular, Internet shopping is likely to develop, and real estate managers will have to change as well. This point is substantiated by some of the comments that were made alongside the responses to the current structure questions. These are contained in Exhibit 7 and, to a certain extent, indicate that managers are not entirely happy with their current arrangements and are aware of some of the implications of such changes.

Conclusion

This study has investigated the corporate real estate strategy and practice within the retail sector by examining a group of large successful U.K.-based retailers who appeared to be interested in innovative corporate real estate management solutions. It provided an opportunity to look at the strategic business drivers in the sector and their implications for the real estate. Although this article investigates a single business sector, it is clear that there is as much diversity as there is commonality within the group.

The diversity is not just in terms of the type of goods (convenience, comparison and leisure) but also in terms of the way in which each organization approaches the market. The degree of vertical integration and the range of modes of retailing will have a significant impact on the scope and complexity of the real estate portfolio required to support the core business. In addition, some retail organizations have also diversified into real estate investment and development activity in their own right and therefore hold properties with objectives related purely to financial return. This adds yet another layer of complexity to the already multi-faceted set of real estate related objectives.

However, when examining the real estate strategy and practice, there does appear to be a degree of mutuality, at least at the highest level. By developing a framework to classify the various strategies, it became clear that the overriding remit of the majority of the corporate real estate managers and their teams is to support the core [retail] business. Thus, the strategy and structure emerge from this focus. This is apparent not just in terms of the way in which organizations currently manage their real estate portfolio but also in terms of the way in which they feel they should do so in the future.

In general management terms, these are not surprising findings. Functional strategies should emerge from business unit strategies, which in turn are derived from the overall corporate strategy. An organization cannot decide how it should best mobilize its resources until it is clear about which businesses it intends to be in and how it will compete within those business sectors. A corporate real estate strategy concerns how to mobilize the real estate resource to support the business objectives. This appears to be exactly what the group of retail organizations within the sample is attempting to do.

However, the implementation of that strategy again reflects the diversity of the group but also appears to depend on where on the path to improved real estate management practice they currently stand. Again, this supports other research which has investigated the stages of how corporate real estate teams evolve and mature over time (Joroff, Louargand, Lambert and Becker, 1993).

In terms of the future challenges, the group appears to be rather near-sighted in their views. On the one hand they are conscious of local trends (pressure to move to town centers) while being rather muted in their views about the impact of new modes of retailing, particularly internet-based transactions. Again, this is not necessarily a fault if one accepts that the real estate strategy is derived from the higher level corporate and business unit strategies. However, the question remains whether the most senior corporate real estate manager should be taking a longer-term view so that the real estate issues are brought into the analysis at these higher levels. At least one of the themes for future improvement (Ensuring that the value of real estate is understood by both retailers and senior managers) is an attempt to get real estate on the strategic agenda.

So what are the lessons for future research? Corporate real estate research is still in its infancy. This study, like many that have preceded it, has mapped out a picture of the current situation. Additionally, it has developed a number of frameworks for making sense of a rather complex and messy picture. It has answered the question, What is currently taking place? Therefore, it makes a valid and interesting contribution to the debate. It has also demonstrated how corporate real estate managers in other sectors might benefit from similar grounded theory style research as done in the present study. The financial services, telecommunications and utilities sectors are but a few which would provide an interesting focus for further sector studies of this type.

However, for the field to move forward, a more detailed understanding of both *how* and *why* questions needs to be further developed. These are by far the most difficult to answer and are likely to require more detailed information and longer-term involvement from the participating organizations. These questions also require the continued application of qualitative research methodologies that are less familiar to real estate researchers. This therefore is the real challenge for corporate real estate researchers and practitioners. If corporate real estate research is to move onto the next level, it will take openness and a partnership approach to answer some of the more fundamental questions that this research has started to uncover.

Endnotes

- ¹ See Weatherhead (1997) for a case study of Marks and Spencer.
- ² Landlord and tenant work is a term used in the U.K. to describe the activities that are required for lease management such as rent reviews, lease renewal and exercising break clauses.
- ³ In an asset market that is inefficient it is possible to buy low (*i.e.*, lower than the gross present value of the income stream) and sell high (*i.e.*, higher than the gross present value of the income stream) (see Barkham and Geltner, 1995).
- ⁴ It should be remembered that this study is based on U.K. practice where retailing still tends to be located in town rather than in edge-of-town or out-of-town locations. This is due in particular to zoning/planning pressures, which are currently being intensified.
- ⁵ Planning Policy Guidance 6 relates to the desire of the U.K. government to reduce car journeys and therefore to concentrate retailing within existing town boundaries.

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