

RECESSION SURVIVAL STRATEGIES

Douglas Pointing on what we can learn from Estate Agents about how best to weather the recession.

Estate agents were among the first businesses to feel the effect of the financial crisis in the UK. How are they responding? And what can other businesses learn from them? In order to find out BPRI interviewed 250 agencies across England and Wales about the challenges in the residential sales market.

After a long boom in asset prices – in housing as in other areas – many businesses seem to have forgotten that markets can run in cycles and that recessions do happen.

Together with statistical analysis courtesy of Bonamy Finch¹, we have identified four strategies used by agencies to weather the storm. Crucially, the way businesses respond to the economic cycle can be segmented in much the same way as nature responds to the onset of Winter. Depending on the level of concern, and the level of action taken we get four clear groupings: Hibernating bears, Lambs to the slaughter, Migrating geese and Sensible squirrels.

THE BIG CHILL IN THE HOUSING MARKET



HIBERNATING BEARS



Some agencies are reacting to the downturn like bears hibernating in Winter: rapidly retrenching, firing staff, closing offices, cutting costs aggressively, reducing their operations to the minimum until such time as conditions improve, waiting for the Spring. The main priority is basic survival of the firm, which to them means shrinking rapidly and adopting a kind of bunker mentality. Many of the agencies in this group are relatively young – and do not have the memory or the coping strategies of those businesses who survived the booms and busts in property of the 1970s, 1980s and early 1990s. Nor is there any evidence of any specific plans to deal with a sudden drop-off in the volume of sales transactions on which they depend. These agencies believe that everyone else is to blame for the state of the market: Government, banks, the economy, media hype, vendors' unrealistic price expectations, the credit crunch, the shortage of first time buyers – the list goes on and on.

What is interesting is that these businesses are taking little action other than cutting back – in the hope that they will emerge leaner and fitter in the future when the market does recover.

LAMBS TO THE SLAUGHTER



Some agencies are in a complete state of denial: crisis...what crisis? For these firms it is strictly business as usual, with only actions taken being minor reductions in overheads and a continued reliance on the strength of their reputation in the market to carry them through the hard times. Eternal optimists, these firms have a stiff resolve not to retrench, close offices or downsize...rather the reverse: they are the most likely to increase their advertising activity to support the brand. Stoicism and a belief in the strength of the brand are key here. The view is firmly that it is the others, the fly by night operators and the amateurs who will suffer and disappear or go under.

These firms take the view that the current market squeeze is just a short term blip driven mainly by media hysteria, so see no real need to either shrink or adjust their business to face the challenge. Are they simply in denial, storing up problems that will be all the more painful further down the line? Or could they be right in thinking that a renewed focus on reputation and service will see them through this bad patch? Should they be more realistic, and have a better plan for survival through the Winter? Or are they like lambs heading for slaughter, naïve and trusting, blissfully unaware of what lies ahead?

MIGRATING GEESE



Fight or flight? Some agencies see the drop-off in residential sales as time to look elsewhere for opportunities, and are actively diversifying into other markets: lettings is one favourite area to expand into, but property management, consultancy and surveying are also popular. These agencies are like migrating geese, simply flying South for the Winter now that the residential sales market has dried up.

Adapt and survive may be a good plan for some firms, who may find new niches and new business to service. But how realistic is a mass-migration to other disciplines in the property world? The UK private rental sector is small, increasingly heavily regulated and already well served by a mass of specialist letting agents who will be stiff competition for new entrants trying to muscle in on their act. And the lettings market is simply too small – only 12% of households in UK are privately let – to absorb a mass of ex-sales side people moving into lettings. Any major change in the focus of the business also raises huge challenges with skills – as the skill set required to sell houses in a booming market may be entirely different from managing bedsits, tenants, repairs, planning enquiries, subsidence or leasehold disputes. Will some of these firms exit the residential sales market only to fail in other areas? Some of these businesses are doubtless going to make a success of adapting and surviving the Winter. Others could simply be fly-by-night operators who may disappear altogether...



SENSIBLE SQUIRRELS

Some firms are well aware that the sales market goes in cycles. Like woodland squirrels, they know that Winter will come one day and have stored up reserves of food accordingly. They are not taken by surprise. They are prepared. Typically these agencies are longer established than the average, and have seen recessions before. They already have a broader, more diversified base of property related activities than other agencies, so are better placed to withstand a downturn in sales. They have more experience of managing down markets, and more cash reserves gathered from the good times. They do not see the present freeze in sales as life-threatening, nor are they being panicked into knee-jerk reactions of making drastic cutbacks in staff or operations or abrupt changes in strategy. There is much more emphasis on motivating and looking after their talent pool, quietly re-deploying people rather than threatening job cuts. The actions are looking at their strengths and using those to their best advantage rather than making radical changes. This group is least likely to blame external factors such as banks or Governments, and most likely to see the current market as a reflection of supply and demand:

Vendors' high price expectations + credit shortages = a buyers' market where prices need to be realistic to achieve sales.

Overall, this is a measured, pragmatic response by firms that have seen recessions before and are prepared for bad weather.

To sum up, faced with the economic downturn, which segment does your business fall into? Looking at the strategies that Estate Agents have developed are there things you can learn and actions you can take to ensure survival? Clearly being a Sensible Squirrel is a good idea but is it too late for your business to take necessary action? Can you risk being a Lamb to the Slaughter when no one can predict how long any recession will be?

¹'Fluent in numbers'TM, Bonamy Finch provides analytics and strategic support to research and marketing projects. www.bonamyfinch.com