MARKET ANALYSIS OF SPANISH REAL ESTATE MARKET IN COSTA BLANCA AREA

Case: Zariko Properties

Bachelor’s thesis
International business
Valkeakoski 27 January 2012

Lauri Myllymaa
Valkeakoski
Degree Programme in International Business
International Management

Author  Lauri Myllymaa  Year 2012
Subject of Bachelor’s thesis  Market analysis of Spanish real estate market in Costa Blanca area

ABSTRACT

This thesis was commissioned by Zariko Properties, Finnish-owned real estate agency based in Torrevieja, Costa Blanca, Spain. During his internship at the company, the author had talks with the owner and decided to do market analysis for the company.

The main objective for this thesis is to find out ways to increase Zariko’s market share and determine its options for expansion. Expansion can be done either through targeting new customer groups from abroad or extend its property portfolio to cover more areas within Spain. Logical ways to expand would be to increase their operations in Northern Costa Blanca or in nearby area of Costa Calida.

The market analysis was conducted in desktop research and theoretical framework used in this thesis consists of marketing and management tools learned during the studies. Primary data was collected from interviews with the commissioned company. Secondary data consists of business literature, publications and reports.

Zariko’s strengths come from its personnel’s knowhow, language skills and networking. Expanding the business would require recruiting new employees especially if the plans of opening a new office in different city come true.

Keywords  market analysis, Spain, Real estate business
Pages  41 p.
Tämän työn toimeksiantaja oli Zariko Properties, suomalaisomisteinen kiinteistövälitysyritys jolla on toimisto Torreviejassa, Costa Blancaan rannikkoalueella Espanjassa. Tehtävänä oli toteuttaa markkinanalyysi yritykselle.

Työn tavoitteena on löytää keinoja kasvattaa yrityksen markkinaosuutta ja selvittää mahdollisuudet laajentua. Laajentuminen voidaan toteuttaa joko kasvattamalla ulkomailta tulevia asiakkaiden määrää tai ottamalla myyntiin enemmän kiinteistöjä muilta Espanjan alueilta Costa Blancaan lisäksi.

Työssä on käytetty markkinoinnin ja johtamisen työkaluja selvittämään yrityksen vahvuudet ja yleinen markkinatilanne. Tietoa on saatu lukuisista aiheita käsittelevistä artikkeleista, oppikirjoista ja toimeksiantajan kanssa käydyistä haastatteluista.

Zarikon vahvuudet löytyvät sen henkilöstön kattavista yhteistyöverkostoista ja kielitaidosta. Liiketoiminnan laajentaminen vaatii uusien työntekijöiden palkkaamista varsinkin jos suunnitelmat uuden toimiston avaamisesta toiselle paikkakunnalle käyvät toteen.

Avainsanat markkina-analyysi, Espanja, kiinteistövälitys

Sivut 41 s.
## CONTENTS

1 INTRODUCTION ............................................................................................................. 1
  1.1 Research question and main objectives..................................................................... 1
  1.2 The research methods............................................................................................... 1
  1.3 Interview questions for the commissioned company ................................................. 2
  1.4 Company information ............................................................................................. 2
      1.4.1 History and operation ....................................................................................... 2
      1.4.2 Location ........................................................................................................ 3
      1.4.3 Employees ..................................................................................................... 3
      1.4.4 Product range ................................................................................................. 3
      1.4.5 Networking .................................................................................................... 4
      1.4.6 Marketing and advertising ............................................................................. 4

2 THEORY ABOUT MARKET ANALYSIS ....................................................................... 6
  2.1 Definition .................................................................................................................. 6
  2.2 Key components ....................................................................................................... 6
      2.2.1 Market size (current and future) ....................................................................... 6
      2.2.2 Market growth rate ......................................................................................... 6
      2.2.3 Market profitability ......................................................................................... 6
      2.2.4 Distribution channels ...................................................................................... 7
      2.2.5 Industry cost structure ................................................................................... 7
      2.2.6 Market trends ................................................................................................ 8
      2.2.7 Key success factors ......................................................................................... 8

3 INTERNAL ANALYSIS ..................................................................................................... 9
  3.1 Value chain ................................................................................................................. 9
      3.1.1 Zariko’s value chain ....................................................................................... 10
      3.1.2 Assessment ................................................................................................... 12
  3.2 SWOT analysis .......................................................................................................... 12
  3.3 Product portfolio analysis ......................................................................................... 15
      3.3.1 Theory about BCG matrix ........................................................................... 15
      3.3.2 Implementation ............................................................................................. 16

4 EXTERNAL ANALYSIS .................................................................................................... 19
  4.1 Market analysis ......................................................................................................... 19
      4.1.1 Current market situation ................................................................................ 19
      4.1.2 Recession in Spain ......................................................................................... 21
      4.1.3 Unemployment in Spain ............................................................................... 22
      4.1.4 Bank owned VS. privately owned properties ............................................. 23
  4.2 Customers .................................................................................................................. 23
      4.2.1 Theory about customer analysis .................................................................... 23
      4.2.2 Customer types ............................................................................................. 23
      4.2.3 The biggest customer groups ........................................................................ 24
      4.2.4 Great bargain opportunities for home buyers ......................................... 24
      4.2.5 Customer analysis ......................................................................................... 25
  4.3 Competition ............................................................................................................... 27
      4.3.1 Current competitors ..................................................................................... 27
LIST OF FIGURES

Figure 1  Maps of Spain and Costa Blanca ................................................................. 3
Figure 2  Porter’s value chain framework (Porter, 1985)........................................... 10
Figure 3  SWOT analysis for Zariko ........................................................................... 13
Figure 4  BCG matrix of Zariko’s products................................................................. 16
Figure 5  Example of price deductions in bank-owned properties ......................... 20
Figure 6  Spain’s statistical crash (Banco Espana and Spain’s National Institute of Statictics via Thomson Reuters, 2010)................................................................. 21
Figure 7  Spain’s Unemployment Rate from 2007 to 2011 (Eurostat, 2011)............ 22
Figure 8  Properties sold to different nationalities in Spain in 2010 (Annual Directory of Property Registrars, 2011)................................................................. 26
Figure 9  The percentage of properties bought by different nationalities in 2010. ....... 26
Figure 10  Porter’s five forces framework (Porter, 1980)......................................... 31
Figure 11  Ansoff market/product growth matrix (Ansoff, 1957)............................. 32
1 INTRODUCTION

1.1 Research question and main objectives

Research question for this thesis is the following: How to increase Zariko Properties’ market share by getting new customers?

Main objectives are:
- Research thoroughly the theory about how to conduct a market analysis
- To gather useful and new information for the commissioned company
- To conduct a proper and beneficial market analysis by using learned tools and methods
- Suggesting development ideas which would help the company to increase their market share

The Research Process

Research Question:

How to increase Zariko Properties’ market share by getting new customers?

Hypothesis:

There are two main directions available to increase Zariko Properties’ market share: to get new customers from bigger variety of countries or to extend its property portfolio to cover bigger geographical area.

Specific aim:

Conduct beneficial market analysis and find suggestions and solutions for Zariko Properties to increase their market share.

1.2 The research methods

The research approach is qualitative. The market analysis is conducted as desktop research. Primary data is collected from interviews with the commissioned company. The methods of the research are analysis of literature,
publications, journals and reports which provide the secondary data for the study. Theoretical framework consists of business and real estate literature and publications.

The observing the market was done locally (Costa Blanca) and internationally (global situation in real estate market). Further knowledge about the business was gained in interviews with the commissioned company. In addition, a lot of information about marketing, advertising and employees’ networking was gained during the author’s internship in Zariko during February-June 2011.

1.3 Interview questions for the commissioned company

During the author’s internship in Zariko Properties, he was able to get a good insight of the company. During the internship, the information about the thesis was shared and the most notable interview questions providing the best inside information are listed below:

What are the main benefits you are looking to achieve from this market analysis?

What companies are considered as your main competitors in Costa Blanca?
   a) in the field of selling properties
   b) in the field of renting properties

What are Zariko’s plans for the future (expansion etc.)?

1.4 Company information

1.4.1 History and operation

Zariko Properties S.L. is Finnish-owned, small-/medium-sized real estate company with employees from various countries. All information in their website is available in four languages, Spanish, English, Finnish and Russian. In addition, their employees speak Swedish, Norwegian and German which makes it easy for customers to approach the company and receive service with their own language.

The company is selling all types of properties: apartments, townhouses, villas, bungalows as well as business premises. Zariko also helps the buyer in all practical matters like furnishing, opening a Spanish bank account, getting NIE-residence number, helping with legal or any other issues that might arise.

Zariko is also renting apartments and bungalows for both short-term and long-term tenants. These include both holidaymakers as well as permanent
residents. In addition Zariko provides maintenance and cleaning service and can help customers with car renting and other possible issues concerning their stay.

1.4.2 Location

Zariko Properties is located in city of Torrevieja in Costa Blanca, Spain. Costa Blanca means “White Coast” in English and is divided into two parts, northern “Costa Blanca Norte” and southern “Costa Blanca Sur”. Torrevieja belongs to the province of Alicante. Costa Blanca has well-developed tourism industry but is still not as crowded as Costa del Sol in the south. Costa Blanca is a popular destination for British, Germans and Northern Europeans.

1.4.3 Employees

Zariko has permanent employees from 4 different countries; Spain, Finland, Russia and Sweden. In addition they usually have 1-2 Finnish interns from universities what provides mutual benefits for company and intern who gains important international work experience and improves language skills.

Each permanent employee has good connections to their home countries’ real estate market and agents. These connections and cooperation can be very profitable and important in order to approach new customers living outside of Spain.

1.4.4 Product range

Zariko Properties is selling properties throughout the Costa Blanca area. However, most of their properties are located in Torrevieja or Orihuela Costa nearby. Orihuela Costa is a popular tourist area with affordable bungalows and villas. It is located very close to Torrevieja, yet it belongs to the city of Orihuela.
Most properties sold in Torrevieja are apartments close to the city centre and bungalows. Some of them are being sold by private owners but growing amount of sold apartments are foreclosures by banks.

Even though Zariko’s main focus at the moment is on Costa Blanca Sur, they are selling properties also from Costa Blanca Norte, some areas in Southern Spain, Canary Islands and Mallorca. They can extend their property portfolio by cooperating with Spanish banks and other real estate agencies. That is done to ensure that they have enough properties to fulfil customers’ needs.

1.4.5 Networking

In addition to just staff’s language skills, each employee’s connections to their home country can provide huge benefits and opportunities to Zariko. Commonly they have good networks with their home country’s real estate agencies. These connections can be turned into profitable business cooperation. Good communication between agencies and having decent information available in various languages are the most important factors in creating networks.

Real estate agents working in Spain can share their property portfolio with corresponding agents in their home country who would then utilize this information to get customers for Zariko. By doing this they could earn some royalty payments while improving their status from national to international real estate agency. This co-operation would benefit customers as well, they could approach the agency in their home soil before leaving for property searching trip to Spain.

Having functional networks may turn out to be the deciding advantage compared to other companies in the same industry. Networking is a constant process which has invaluable benefits.

1.4.6 Marketing and advertising

In real estate business, marketing and inducing new customers is essential. Various ways of marketing include word-of-mouth, local advertising, online marketing and different fairs and exhibitions.

Local advertising plays a big role in real estate business where differentiation between real estate agencies is tough. For customers looking to buy or sell their property, local advertising through newspapers or outlook of the office can be the deciding factor in the end. Therefore agencies are trying to induce customers with their display window which includes the most of interesting properties for sale.

Word-of-mouth marketing cannot be undervalued. Encouraging past experiences about the given agency makes previous customers to recom-
mend the company to their family, friends or colleagues. Visibility in local events improves the company awareness. Reputation plays an important role in all businesses but especially so in real estate where high involvement deals are made. People tend to be afraid and cautious of dealing with unknown companies. Recommendations can be the deciding factor when choosing the agency to do business with.

With online marketing and due to technological developments, companies can reach customers from any geographical position. Part of online marketing is to update the website and sending newsletters for those who have subscribed. Online marketing also involves the exchange of information between the customer and the agency. Customers can contact the company prior to their trip and tell their wish list about possible purchase. Real estate agency can then choose the best possible properties and send details about those to customers. All this makes customers more familiar with the properties available and teach them about the market. When the customers eventually come to Costa Blanca, they already have quite specific needs and wants, what makes it easier for the agency to fulfil these.

Like in local and national marketing, participating on fairs and exhibitions is equally important in global marketing. Advertising abroad has been more and more important recently as the national borders are getting looser. Increasing number of customers these days are from emerging markets, such as Russia. Visibility in exhibitions related to travelling is vital for Zariko to make name abroad and get new customers. This strategy has so far been proven successful in Finland where new contacts were made in various travel exhibitions.
2 THEORY ABOUT MARKET ANALYSIS

2.1 Definition

In every business, there is a great need for proper understanding of the business market and consumer history. Market analysis or research is a great tool to convert the relevant information and findings into presentable form. It begins with problem definition and ends with a report and action recommendations. The goal of a market analysis is to determine the attractiveness of a market and to understand its potential opportunities and threats as they connected to the strengths and weaknesses of the firm. (Lehmann 1989)

2.2 Key components

David A. Aaker outlined seven important dimensions of a market analysis: market size, market growth rate, market profitability, distribution channels, industry cost structure, market trends and key success factors. (Aaker 2001, 22)

2.2.1 Market size (current and future)

Size of the market can be measured based on sales figures. Potential market size can be estimated by forecasting the future sales. Accurate forecasting is always difficult and requires a lot of market knowledge. The most common channels to get information are through customer surveys and financial data from governments and trade associations. It is recommended to examine various possible outcomes in order to be ready for different and sometimes unexpected outcomes. (Aaker, 2001, 22)

2.2.2 Market growth rate

Growth rate can be calculated by comparing annual sales numbers from the past to present. Broad market knowledge is needed to successfully forecast the future rate due to product life cycle. History has shown that a product or market growth rate cannot always increase. Ultimately it will meet the maturity and decline stages of the product life cycle. In this thesis BCG matrix is used in order to determine evolving market opportunities for different product groups. (Aaker, 2001)

2.2.3 Market profitability

Michael Porter’s "Five forces model” can be used to explain market profitability which is affected by five forces:
• Competitive rivalry within an industry
• Bargaining power of suppliers
• Bargaining power of customers
• Threat of new entrants
• Threat of substitute products

This framework is a very useful tool in evaluating market attractiveness and profitability. By using this guideline, company will know how difficult it is to make money in the given business. (Porter, 1980)

2.2.4 Distribution channels

Distribution channel is a path where goods and services move from vendor to customer and the payments move to the opposite direction, from customer to vendor. A distribution channel can be direct or have intermediaries such as retailers and agents. In the case of indirect channel, each intermediary receives the product with one price and sends it forward with higher price in order to remain profitable. Distribution channels can be divided into two subgroups, existing and emerging channels. (Aaker, 2001, 22-23)

2.2.5 Industry cost structure

Identifying the cost structure is important and helpful in order to determine the key success factors. Porter’s value chain can be used in every business but especially in industrial business as it clearly shows where the added value comes from.

The purpose of Porter’s value chain model is to analyze the internal operations of a corporation in order to increase its efficiency, effectiveness, and competitiveness. This happens by identifying the value that each part of the business adds to the final output and profit. Company-wide analysis can be done by evaluating company’s key activities and core competencies. Those activities that add most value, could most likely create strategic advantage. Activities causing the most costs should be subject for cost reduction. (Porter, 1985)

Porter identified two types of activities in an organization, primary activities and supporting activities. The primary activities are the main activities that add additional value to the output of the organization. The supporting activities support the primary activities and include functions such as financial management, IT development, human resource management and procurement. This value chain framework is examined further in chapter 3.1. ‘Value chain’. (Porter, 1985)
2.2.6 Market trends

Trends can be industry-specific or in some cases affecting all industries. They can take place regionally, nationally or globally. Changes in the market are important and effective as they often are the sources of opportunities and threats. If the company has sufficient knowledge and set of skills, they should be able to recognize industrial and regional trends in time. Therefore they would have enough time to react and act accordingly. (Aaker, 2001, 23)

2.2.7 Key success factors

The key success factors are those elements that are required to succeed in given business field. By excelling in these key elements, company can achieve competitive advantage compared to its competitors. Key success factors can be for instance access to unique resources or distribution channels, technological skills or ability to provide superior value for customers. (Aaker, 2001, 23)
3 INTERNAL ANALYSIS

3.1 Value chain

Value chain framework was developed by Michael Porter in the 1980s and introduced in his book “Competitive Advantage: Creating and Sustaining Superior Performance” (Porter, 1985). It was the first model to introduce added value through value chain. Added value can be utilized by organizations to develop competitive advantage. Every organization consist of activities that link together to create added value and these activities combined form the organization’s value chain. The main objective of the value chain model is to determine the industry cost structure and to be able to maximize value creation while minimizing the costs. It also shows those activities that can help the organization to gain sustainable competitive advantage. (Porter, 1985).

Value chain helps companies to identify their strengths and from where they can gain competitive edge. When conducting a value chain analysis, the organization is divided into primary and support activities (Figure 2). Primary activities are activities related with production while support activities are the ones providing the backup which is needed in order to be efficient. The strength behind Porter’s value chain framework is the linkages between different primary or support activities. (Porter, 1985).

Value chain analysis is an excellent tool not only in industrial but also in service sector. When applying to service sector, some adjustments to the common value chain model can be done. For instance, parts with inbound and outbound logistics can be hard to determine in most service-based companies. It is common that the nature of value chain activities vary significantly between different companies and industries. Generally with smaller enterprises the deviation is easier and the analysis can be done within one product group. In bigger companies with great variety of products, the analysis should be done in each product area separately in order to get the most accurate results.

Porter used the word ‘margin’ for the difference between the total value and the costs caused by performing the activities. Other way to describe that difference is ‘added value deducted by costs’ which leads to attaining a competitive edge through differentiation or cost advantage.
3.1.1 Zariko’s value chain

**Primary activities:**

- **Inbound logistics:**
  - The activities concerned with receiving the materials from suppliers, storing and handling these materials within the organization. For Zariko, the most important inbound logistics concern receiving and handling the information about properties. That includes taking pictures and detailed property information which is then used in marketing.

- **Operations:**
  - Consist of the activities related to the production of goods and services. Especially in bigger companies, this category can be split into subgroups. The activities related to the production of goods and services are relatively complex in case of a real estate agency. They include customer service in the office, showing properties for customers and all actions and paperwork needed to closing the deal. Operations related to properties for rent are maintenance work, providing cleaning service and pick-up service for customers.

- **Outbound logistics:**
  - The activities relate to distribution of the final product (goods or services) to the customer. In case of a hotel or real estate agency this means handing the keys of a move-in
ready apartment for customers. Distributing the final product to the customer includes taking customers to the office, property viewings and in case of a sale, handing over the keys after making sure everything is ready. Both the property itself and all paperwork should be ready when closing the deal. This applies to both for sale and for rent properties.

- **Marketing and sales:**
  - These activities relate to analysing the customer needs and defining the target group. Organization uses marketing tools (advertising, sales promotions) in order to improve company awareness and to attract customers to purchase their products. Various different media can and should be utilized in marketing. Due to fast-paced technological developments, the nature of marketing has been constantly developing in recent years. Nowadays social media is a major part of modern business and its opportunities should be well researched and identified.

- **Service:**
  - Includes all services either before or after the sale of the product. These can consist of arrangements, meetings and after-sales services. In real estate business, there is plenty of customer service to do, from initial customer contact to after-sales services. Usually even before the actual meeting, a lot of information about customer’s needs and property details are shared via email or website. Arranging a meeting with a potential customer finally determines how to proceed from there.

**Support activities:**

- **(Firm) Infrastructure:**
  - This includes planning and control systems, such as finance, accounting and corporate strategy. Working infrastructure is basically a must for any company willing to survive and succeed. It creates the foundation for the company to build on.

- **Technology development:**
  - Activities related to technological knowledge, equipment, training and innovation. In today’s business, these are crucial competences for most companies in order to be successful. In many businesses, this is the activity that determines which company can exceed its competitors by having a superior technology.
• Human resource management:
  o Consist of recruiting, training and motivating the employees. The importance of HRM is constantly growing in all businesses. More and more resources are put to development of human resource management. Competition between companies for highly-skilled professionals is fierce. That sets its own challenges to companies to have decent recruitment procedures. Also training and motivating the current employees play an important role in keeping them satisfied and not willing to leave to work for other companies.

• Procurement:
  o Materials needed to successfully run company’s operations. These can involve acquiring supplies needed to run everyday business. The goal is to use company’s resources wisely and obtain high-quality products with as low prices as possible.

3.1.2 Assessment

Links between different primary and support activities are decisive in creating added value. For instance, in order to successfully serve its clients, company needs to have functional technology and database to work efficiently. This creates a link between primary activity ‘service’ and ‘technology development’ and ‘procurement’. Another linkage in Zariko’s case can be formed between ‘operations’ and ‘firm infrastructure’. Without working infrastructure, all efforts of running the business would be in vain.

Part of Human resource management is motivation which includes rewarding, either through monetary or non-monetary rewards. Non-monetary rewards consist of feedback, recognition, gifts and promotion. Monetary rewards could be incentives from a sold product or other bonuses related to employee’s performance. Thus, there is a linkage between ‘marketing and sales’ and ‘Human resource management’. All these linkages create added value for Zariko, the amount depends on the costs occurring from achieving these activities.

To be able to fully maximize the benefits of firm’s value chain, following skills are required within the company: flexible jobs, adaptable employees, committed leadership with good co-ordination and collaboration. Also investments in information technology and organizational processes are needed in order to get the best results. (Porter, 1985)

3.2 SWOT analysis

SWOT analysis is a strategic planning tool originated in 1960s by Albert S Humphrey. SWOT analysis is divided into two groups:
internal factors: strengths and weaknesses existing internally in a company
external factors: opportunities and threats presented by business environment

SWOT analysis is a great tool to determine company’s strengths and weaknesses which are connected to business environment’s opportunities and threats. It gives the company a good image of the market with its evolving opportunities and threats.

<table>
<thead>
<tr>
<th>STRENGTHS:</th>
<th>WEAKNESSES:</th>
</tr>
</thead>
<tbody>
<tr>
<td>✞ multilingual staff</td>
<td>✞ high maintenance costs for renting apartments</td>
</tr>
<tr>
<td>✞ good regional networks</td>
<td>✞ limited resources and capabilities to expand</td>
</tr>
<tr>
<td>✞ reliable, all-inclusive sales service</td>
<td>✞ need for employees with certain language skills</td>
</tr>
<tr>
<td>✞ strong customer base due to current tenants and loyal Nordic customers</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPPORTUNITIES:</th>
<th>THREATS:</th>
</tr>
</thead>
<tbody>
<tr>
<td>✞ Good networks make it realistic to expand business regionally.</td>
<td>✞ Interest to Spanish real estate market will stagnate or decrease.</td>
</tr>
<tr>
<td>✞ To hire new employees with knowledge of new potential markets.</td>
<td>✞ Due to increasingly cautious buying behavior, properties will be sold with lower prices and demand for luxurious villas could decrease.</td>
</tr>
<tr>
<td>✞ To extend its property portfolio to cover more destinations and property types.</td>
<td>✞ Lower profit margins</td>
</tr>
</tbody>
</table>

Figure 3  SWOT analysis for Zariko

**Strengths:**
Multilingual staff and each employee’s networks for their home country are valuable assets for Zariko. It makes it possible for them to approach and cooperate with foreign clients which would usually be out of their reach. Staff’s language skills are a great marketing asset to entice people to the office where they know they can get service at their native language. All-inclusive sales service appeals to customers who are fairly unknown with the property purchase process. Zariko can help them with contracts and other legal issues.

Zariko has worked in Torrevieja for years and gained a decent customer base and broad variety of properties. Some of their customers are coming to Spain annually and renting an apartment from them. It is also possible
and highly likely that if they decide to buy a house from the area, they approach Zariko first. This is a big opportunity for Zariko and they are doing their best to convert these clients from renting to buying customers. Customers’ loyalty is important and therefore everything should be done correctly to keep them satisfied.

Weaknesses:
As the business is depending on foreign networks, Zariko cannot compete equally from all nationalities. It is highly likely that for instance French customer would do business with agency with French employees. However, it is impossible to master all languages so it is obvious that the customer base needs to be cropped rationally. The lack of employees is affecting another issue as well, the expansion possibilities. If Zariko wants to expand its business by opening new offices in other cities, it inevitably needs to recruit some new employees. It is impossible for them to be in many places at the same time. Hiring new, skilled employees would lower current’s employees’ workload.

Opportunities:
Expansion possibilities create various opportunities for Zariko. By moving to new regions, it can gain bigger market share from the overall market in Costa Blanca. New employees are required to implement this change. Recruiting skillful professionals will bring in their existing networks and knowhow. Another way to enlarge its business is through expanding property portfolio. When they have more properties of various types from different areas, it increases the possibility of meeting customers’ wants and needs.

Threats:
Possible threats exist due to global economical situation and customers’ preferences. Changes in world economy and especially within the EU, reflects on housing market as well. With on average less money to spend, customers are more cautious and calculative when doing big purchases like buying a house. Tight economical situation lowers customers’ budgets as well as banks’ capability of giving bigger loans. These combined gives people less money to use to purchase a property. That can lead into excess of houses from higher price category in the market. That would mean lower profit margins for real estate agencies.

Chance of customer preferences changing creates a threat of new touristic areas taking customers off from Spain. Another option is that the preferences stay current or change in Spain’s favor. Even though far away destinations are constantly getting more popular among tourists, it is highly unlikely that it would dramatically decrease the amount of tourists in Mediterranean countries. Therefore it can be concluded that bigger and further reaching of these two issues would turn out to be the worsened global economical situation.
3.3 Product portfolio analysis

The business portfolio is the collection of products or businesses the company is involved in. An effective portfolio should be backed by company’s strengths and help the company to achieve its goals. Product portfolio should be kept updated at all times by adding new products and businesses if necessary and getting rid of unsuccessful products. Probably the most notable tool to analyze product portfolio is BCG matrix. (Henderson, Boston Consulting Group, 1968)

3.3.1 Theory about BCG matrix

BCG matrix was introduced by Boston Consulting Group in 1968 in order to help companies to recognize their best products or strategic business units (SBU) as well as products which are liabilities and holding the company back. Then the company should decide which products should receive more or less investments.

Using the BCG matrix (implementation for Zariko illustrated below) a company classifies all its SBU’s according to two dimensions:

- On the horizontal axis: relative market share - this serves as a measure of SBU strength in the market
- On the vertical axis: market growth rate - this measures market attractiveness

The matrix is divided into four areas and four types of SBU can be determined:

**Stars:** Stars are high growth businesses or products competing in markets where they are relatively strong compared with the competition. Often they need heavy investment to sustain their growth. Eventually their growth will slow and if they are able to maintain their relative market share, they will become cash cows.

**Cash Cows:** Cash cows are low-growth businesses or products with a relatively high market share. They are already proven successful businesses with relatively little need for investment. All companies need to have cash cows in order to generate continuous profit which is needed for investment of question marks and stars.

**Question marks:** Question marks are businesses or products with low market share but which are operating in higher growth markets. This proves that they have some potential, but may require substantial investment in order to convert them into stars. Careful assessments should be done to determine which question marks are worth investing and which the company should get rid of or leave to less attention.

**Dogs:** The term "dogs" refers to businesses or products that have low relative share in unattractive, low-growth markets. At best, dogs may generate enough cash to get a break-even result, but they are rarely worth of investing. (Henderson, Boston Consulting Group, 1968)
The goal for every company is to have a balanced portfolio. Only then it can use its strengths to fully capitalize on its growth opportunities. The balanced portfolio should have:

- stars whose high share and high growth assure the future
- cash cows that supply steady funds for future growth
- question marks to be converted into stars with the added funds

At Zariko Properties’ case, strategic business units (SBU) can be divided into groups by property types. Each property type from apartment to villa needs distinctive marketing and selling strategies. Each property type also has different customer target groups as not all potential customers can afford to purchase a villa for instance. In addition there are apartments and bungalows for rent which can be listed as an individual SBU.

3.3.2 Implementation

Figure 4  BCG matrix of Zariko’s products
As seen in the BCG matrix above, Zariko has different property types which all bring different value for the company. Stars with high profit margin are villas and other properties such as renovated bungalows or townhouses with high quality and price. With them it is easier to gain higher profit margin than with apartments. On the other hand their demand fluctuates more than with city center apartments. Investing on these ‘stars’ would improve Zariko’s position and could make these property types cash cows for the company. Apartments with decent condition and location can be considered as cash cows. The demand for apartments close to all amenities is steady and their medium selling price means steady cash flow for the company.

Apartments for rent are in the verge of cash cow and dog. They as well bring steady profits but require quite a lot of maintenance and service. However, customers expect real estate companies to have them in their property portfolio. Divesting rentals from their business, company could focus more of their energy towards selling properties. At the end of the day, each company should do its decision based on their own profitability calculations. If the workload and financial investments are outweighed by profits, it is reasonable to continue providing rental services.

Zariko Properties also have a few question marks which are sometimes called ‘problem children’. They might prove to be success and after investing, considered as stars. If they are considered as unprofitable, they should be divested from the business. In Zariko’s case, these question marks are new developments in new market areas and used bank properties. Bank foreclosure properties are commonly in relatively bad condition and sold with reasonable prices. Their bad condition and high number raises challenges for Zariko when planning on marketing these properties. But mostly due to their low prices, there is a demand for foreclosure properties.

As Zariko is constantly looking ways to improve and expand its business, it has added some new developments from new market areas for its portfolio. Examples of these are properties in the Canary Islands and Mallorca. Along with opportunities, they bring some obvious constraints. Their remote location makes it hard for Zariko to be able to be physically present and observe the property development. Therefore they are depending on local partners who provide the information and possibly show properties for potential customers. In these kinds of developments good networking is vital in order to succeed. Another good example of expansion is a new building development in Mexico. Zariko is participating on promoting luxurious villas and apartments in a beautiful location. Lower price level compared to Europe makes it more appealing for Europeans to purchase a second-home from Mexico. But in order to make it profitable for Zariko, customers should contact them and show their interest. Then Zariko could contact its local partners and organize a property viewing for interested customers. In case of a purchase, Zariko would get their share from marketing the properties.
It is worth noticing that the Boston Matrix is just a way to generalize products. It is possible for cash cows to lose money while dogs can be very profitable at some particular time. It is all dependent on the circumstances and market conditions that determine the profitability of each strategic business unit. (Boston Consulting Group, 1986)
4 EXTERNAL ANALYSIS

4.1 Market analysis

4.1.1 Current market situation

Companies selling both new and re-sale properties have lately had to adapt to market demands and as a result, concentrate on finding well priced second-hand properties. Listening to customer’s demands and market trends is very important for every company to place themselves as a big player in the market. Companies spend countless hours meeting potential sellers who are interested in selling their houses and negotiate with them to find the optimum price. Price needs to be set carefully to be low enough to make it possible to sell, yet high enough to provide decent profit margins.

Companies also collaborate with many other estate agencies on and around Costa Blanca region to extend their property portfolio to ensure that they always have what their clients are looking for. Market circumstances have drastically changed the demands of possible property prospects. The lack of confidence in the banking system generally and low interest rates combined with low prices has increased the percentage of potential clients looking to spend under €100,000; something which agencies have been quick to recognize and acted accordingly.

There are huge amount of optimistic customers asking for properties with extraordinary prices, starting from €50,000. Agencies could use a lot more properties from that price category. However, that low price inevitably means relatively bad condition of an apartment. Agencies are also skeptical of adding these properties to their portfolio due to lower profit margins.
As seen in figure above, prices have come down significantly (‘antes’= price before and ‘ahora’= price now). This happens especially with bank-owned properties which come with more affordable price and often low or average quality. These apartments can be great investment and reform opportunities. Above listed apartments are all second-hand (‘segunda mano’ in Spanish) properties.

These particular apartments are from different towns of highly popular Costa del Sol area in Southern Spain. General price level in this more in-demand area is higher than in emerging touristic region of Costa Blanca. Still there are apartments available for as low as 49,000 €. In Costa Blanca, the cheapest apartments can be sold at lowest with 40,000 €. But inevitably, these apartments are in relatively bad condition and often lo-
cated in remote locations. Typically, decent apartment located close to amenities can be purchased with 70 000 € upwards.

4.1.2 Recession in Spain

Definition of recession:

The National Bureau of Economic Research (NBER), which is an American private nonprofit research organization, cites "a significant decline in economic activity spread across the economy, lasting more than a few months" as a definition for a financial recession.

Other definitions can be correct too, as long as they indicate similar economic results such as losing jobs, a decline in real income, a slowdown in industrial production and decreased consumer spending. Fall in consumer spending, as well as unemployment, has a huge effect on property markets.

Smaller companies are usually more troubled with recession as they don’t have the same cash reserves and resources than bigger corporations. It is harder for them also to gain additional finances due to their lower status and market share.

Three graphs below are indicating three different perspectives of Spanish economy. All of these graphs clearly fulfill the definition of financial recession, as significant long-term decline has taken place.

Good example of Spain’s housing crisis is Torre Lugano project in Benidorm in Northern Costa Blanca. Torre Lugano is tallest residential tower in Spain and was heavily promoted before the global financial crisis hit. It was supposed to be luxurious building with the best solutions and high-quality materials. However, the building company struggled financially and numerous faults were discovered from the structures of the tower.
Construction defects led into lawsuits and plummeting prices. Still today there are more than million residential units unsold across the Spain.

4.1.3 Unemployment in Spain

Unemployment means incomplete usage of production resources. It increases the amount of paid unemployment benefits, thus public expenses and decreases tax revenues, decreases the ability to work and the income level of unemployed persons, cause mental stress and reduces quality of life. Expenses are high measured in all meters. Unemployment does not direct to all population groups evenly. Young people, unskilled and aged workers are more prone to unemployment than other groups. (Pohjola, 2006, 158)

If debtors are troubled with their loan payments, so are the banks themselves. Savings banks such as Bancaja are in debt to Spanish central bank which requires believable improvement plan to improve each bank’s financial situation. Generally savings banks can be recognized from the Spanish word ”caja” in its name.

In order to meet the requirements set by central bank, savings banks have started controlled sales campaign to sale properties from their portfolio. However, it is essential to not to sell properties with too low prices because this would devastate the market and banks’ solvency would decline even further. Another serious issue for banks is Spain’s constantly growing unemployment which can let off the second wave of properties falling on banks. Unless the unemployment situation improves in coming years, this can create yet another economical setback. As can be seen from the graph below, the unemployment rate has steadily grown in recent years.

![Figure 7 Spain’s Unemployment Rate from 2007 to 2011 (Eurostat, 2011)](image_url)

It is also worth mentioning that properties are not automatically assets as some people might think. They only become one when someone purchases them and determines their monetary value. In this kind of negative eco-
nomical situation, owning an apartment or a house can be quite a liability due to maintenance costs.

4.1.4 Bank owned VS. privately owned properties

To meet the growing demand for low-price properties, at the moment there are lots of short sale apartments owned, either partly or fully by the bank in the market. Short sale means a two-step process where seller first accepts the offer and sends it to the bank which finally confirms or declines the offer. This process can be relatively lengthy and requires more patience from the buyer than regular on-sale property.

Bank-owned properties are commonly less expensive and often in low or average condition. However, customers can find great bargain deals among these properties. Banks are also more flexible on helping to set the finances right and offering good mortgage and loan conditions. One example of this is Spanish bank called Bancaja who has excellent loan promotion campaign offering flexible conditions for their customers when they purchase from their range of properties. Their promotion include mortgage without any payment for the first three years which encourages customers to buy. Banks are even giving out loans for 80% or even 100% of the purchase price. Another way of attracting customers is to offer their properties for rent with possibility to buy.

Above-mentioned situation is the worst not only in Costa Blanca but in all coastal areas with high tourism. During the past few decades new properties have been built constantly, without the fear of the future. After the global recession hit, the demand for both new and resale properties have dropped dramatically. According to recent study by Central bank of Spain, the country has 800.000 – 1.100.000 new apartments for sale. (Source: Central bank of Spain, 31.5.2011.)

4.2 Customers

4.2.1 Theory about customer analysis

Customer analysis involves identifying the organization’s customer segments and their motivations and unmet needs. Analyzing customer motivations is essential for the company to measure whether it can gain or maintain sustainable competitive advantage. Recognising unmet needs on the other hand, can provide valuable information helping the company to build strategy to overcome its competitors. (Aaker, 2001, 20-21)

4.2.2 Customer types

For most people buying a property is a huge step which makes it high involvement product or process. A lot of time and effort should be done in the process in order to make rational purchase decision. That rules out the possibility of emotional purchase.
From a company’s point of view, customers can be divided into four groups: suspects, prospects, first time buyers and repeat buyers.

Suspects are the target group of potential customers. In Zariko’s case that means variety of nationalities but they all must fulfill one common requirement: financial stability to be able to buy a second-home abroad or courage and resources needed to move to new country.

Prospects are customers who have already contacted the company. That means they could possibly be interested and their situation should be accurately followed.

First time buyers are customers who have showed strong interest of buying a house for the first time and the company should keep tabs on them and make sure everything goes smoothly in the purchase process.

Repeat buyers are fairly rare customer group in real estate business. Nevertheless, good relationship and connections should be retained with first time buyers who could possibly use the company’s service in the future.

4.2.3 The biggest customer groups

Zariko’s main customer group is Nordic clients, with biggest share coming from Finland. In real estate business one big advantage to gain customers is staff’s language skills. Due to Zariko’s Finnish owner and other employees, their main focus so far has been on Finnish clients.

They also have a solid share of Spanish and Swedish clients and currently trying to induce more customers from other countries. One of the biggest growth opportunities in the future will be Russian customers. Therefore, Zariko has hired a Russian employee who is constantly expanding his network in order to get more Russians interested of investing in Costa Blanca.

None of the staff is a native English speaker but all of their employees are able to provide service in English as well. Downside of this is that they are lacking the English contacts what makes it harder for them to try to increase their portion of all Englishmen buying a property from Costa Blanca. Same applies to other big target groups, French and Germans. However, the universal truth in business is that company cannot excel in every area. Sometimes it is better to focus on their strengths instead of getting greedy and trying to master everything.

4.2.4 Great bargain opportunities for home buyers

So far the buyers and the banks have been pleased with the campaign and positive effects were visible as sales increased in the last quarter. Spain started the second round of property realization in 1.5.2011 by expediting the sales promotions. During the first round, mainly “second class” apart-
ments with low quality came to sale but now there are increased amount of
good properties available. At the moment, some of the bank-owned prop-
erties are priced less than 650 € / square feet.

In the Valencia region, where Costa Blanca is located, the prices haven’t
been this low since the 1990s. For a few years already, there have been
good offers with discount bigger than 60% of the original purchase price.
Nevertheless, it is noticeable that some of these original prices were over-
priced. Buyers, who thought they were making a great investment by buy-
ing with low price and later selling with decent profit, disappointed badly
when the sinister financial recession hit and drastically bringing down the
property prices.

When purchasing a bank-owned property, it is recommended for custom-
ers that they would use independent consult when buying a property, in-
stead of using someone receiving provisions from the bank. By doing so
customers can be confident that the consult is working for customer’s ben-
etit. Bank’s prices are so called “pharmacy prices”, clearly shown on leaf-
let or brochure and commonly not negotiable.

Well-known investor and author Robert Kiyosaki has said: “You have to
analyze 100 properties to buy 1. That is the correct ratio.” This applies to
every business sector, analyzing and understanding the market is essential.
Another important factor in purchasing process is the timing. Too often
customers are hesitating too long and therefore lose the house they would
have wanted to buy.

4.2.5 Customer analysis

According to the reports by Annual Directory of Property Registrars,
18 561 properties were sold to foreigners (‘extranjeros’ in Spanish) in
Spain in 2010. That represents 4.45 % of houses sold in total in Spain.
That portion is below the percentage recorded before financial crisis, as in
2007, 8.9 % of properties were bought by foreigners. Since then they have
become far more cautious of spending money on housing.

Information on figure below is in Spanish and therefore also transformed
into a pie chart in order to better demonstrate the deviation of nationalities
who have bought a property in Spain.
Figure 8  Properties sold to different nationalities in Spain in 2010
(Annual Directory of Property Registrars, 2011)

Figure 9  The percentage of properties bought by different nationalities in 2010.

By property type, foreigners purchased more second-hand property (9,643 homes) than new property (8,918 homes). The report states that newly built property is usually chosen by buyers looking for a holiday home.

As seen from the figures above, the most active nationalities to purchase are English, French, Germans and Russians. That is a clear indication of what markets Zariko could target in the future. Thus far they are doing
some business with English and Russian clients but due to lack of lan-
guage skills and networks, they cannot compete from French and German
buyers. If skilled professional originating from either of those nations
would be available, Zariko should seriously consider hiring him. It would
mean a lot more work for HRM and marketing but open new doors for the
business. All information should be translated to new language which
would be too much of a work for a one real estate agent. Therefore, free-
lancer translator would be needed to execute the translating process so that
the actual real estate agent could focus on his real tasks.

Zariko could start to improve its marketing for British clients but it would
require hiring a local real estate agent. His expertise and networks would
be viable in approaching customers and maintaining a healthy customer
relationship with them. British buyers’ share of 23% indicates that they are
a customer group worth targeting.

4.3 Competition

4.3.1 Current competitors

Main competitors for Zariko are those real estate agencies who have an off-
lice in Torrevieja or at least nearby in Costa Blanca area. Secondary com-
petitors are real estate agencies who don’t have premises in the area or are
working mainly in other regions. Even in small town like Torrevieja, there
are surprisingly many real estate agencies with Finnish background. As
Finns are currently Zariko’s biggest customer group, Finnish-based com-
panies can be considered as Zariko’s main competitors.

One of the primary competitors is Remeca Invest who are a Finnish-
owned agency selling and renting properties in Torrevieja area. Due to
their similar location and Finnish background, they form a primary com-
petitor for Zariko. Other main competitor for Zariko is Elsamar, also Fin-
nish-owned real estate agency who is the biggest Finnish company renting
properties in Spain. They are renting properties throughout the Costa Blanca area as well as selling. However they are more focused on renting
than on selling.

Bonavida Spain is also Finnish-owned company with main customer
group being British and Nordic people. Their office is located in Torre-
vieja and their range of properties is focused on Costa Blanca and Costa
Calida areas. Costa Calida is located south from the province of Alicante,
Costa Blanca. It stretches approximately 250 kms of Mediterranean coast-
line and its biggest cities are Murcia and Cartagena. In Northern Costa
Calida is located La Manga del Mar Menor which is a popular tourist re-
sort among especially British. It is famous for its sandy beaches and vari-
ous sports facilities including high-class golf courses. It has a unique
shape, being a strip of 22 km long and 100 metres wide on average.

Northern Costa Calida area could be a potential expansion target area for
Zariko. It has a great reputation and it appeals to people interested in golf
as well as water sports. It is proven to be popular among tourists what also means fierce competition. There are plenty of British real estate agencies so it would require excellent British networks to be able to match and overcome the competition. Therefore it would be beneficial not to try to compete with British-based agencies, but to try to promote the area for Nordic clients. La Manga is located not too far from Zariko’s Torrevieja office and therefore it would be possible to effectively promote properties from Northern Costa Calida as well.

Valkea Marina is Finnish-Spanish agency with an office in Altea, in Northern Costa Blanca. That means they are mostly selling properties from Altea and other areas north from the city of Alicante. Therefore they are not the closest competitor for Zariko in all regions. However, Zariko is increasing its business in Northern Costa Blanca so in that area Valkea Marina is one of their fiercest rivals. Their strength is that they are operating in distinctive area, not in common, traditional touristic areas like many other competitors. In addition they have experienced staff of professionals as well as their own attorney which makes closing the deals more straightforward and clear. That can be appealing to customers pondering which agency to choose.

A few secondary competitors worth mentioning are Sundomus and Finnsol. They both are Finnish-based companies who don’t have premises on Costa Blanca and are doing business remotely. Their main selling channel is customers contacting the company via their website or telephone. These kinds of companies can make occasional sales but their sales volume will always be relatively low. Their reputation need to be created solely on word-of-mouth and without premises it is extremely hard to gain or retain a large market share. Their business is heavily depending on networks and local partners who can arrange meetings and property viewings with potential customers.

Many companies are also providing a viewing exhibition trips for people interested of purchasing a house from Spain. Before the trip, thorough list of properties is created in order to fulfil the customer’s needs. Then in Spain, property viewings are arranged by cooperating with local partners, real estate agencies and/or building companies. Most of the real estate companies also have partners in their target countries, in this case in Finland. Those real estate agents in Finland can already show information and promote properties for Finnish people interested about buying a house from Spain. If their interest is high enough, they can take join an organized trip to view apartments and make a possible purchase decision.

At the moment, above mentioned companies are Zariko’s main competitors. If Zariko decides to expand its business and open a new office elsewhere in Spain, it will need to compete with local agencies from that particular area.

One way of reducing competition is to start cooperating with competitors. It would not only lower the amount of competitors but would also prevent companies from lowering their prices too low in order to increase their
market share. These kinds of alliances would lower one company’s profit share from each done deal but potentially increase the amount of sales made. Therefore, the cooperation done in real estate business is commonly between an agency and a bank, not necessarily between two agencies. Banks have a huge amount of foreclosure properties with which they need help to promote and sell. Therefore it is profitable for them and an agency to cooperate and share the profit made from the sale.

4.3.2 Key success factors

The key success factors are those elements that are required to succeed in given business field. By excelling in these key elements, company can achieve competitive advantage compared to its competitors. Key success factors can be for instance access to unique resources or distribution channels, technological skills or ability to provide superior value for customers. (Aaker, 2001, 23)

None of the current competitors mentioned in previous chapter have a cost advantage compared to others. In local real estate business, it is more about differentiation as most companies operating in Torrevieja have similar resources. Obviously some differences exist but none of the companies have unlimited, superior resources. If there were one, for others it would be extremely hard to compete with them. Differentiation can be achieved through exceptional language skills and networking which enables access to unique target customer group.

Some of the key success factors are mandatory for every competitive real estate agency. They all need to have functional database and other technological solutions just to survive from everyday business. In addition, all agencies need to have proper web pages and marketing in order to be able to create and maintain customer relationships. The company that excels in finding the most profitable marketing and distributing channels, may gain significant edge compared other agencies. In this business especially, customer contacts and market share plays an important role in determining the most successful agency.

4.4 Spain compared to other holiday destinations

Spain as a holiday destination could be compared to various different touristic areas worldwide but in this study Spain is compared mostly on its closest rival, France. Especially the area in Northern Costa Blanca competes closely with its French counterpart, French Riviera. Spain and France have been the frontrunners in the ranking of purchased properties by foreigners for long but recently United States of America has grown its market share.

As in Europe, the housing market in USA has been affected by the financial crisis and the property prices came crashing down. This has enticed foreigners to look for purchase possibilities from American soil, mostly from beach resorts from California and Florida. More so than in Europe,
Europeans buying a property from USA, are buying it for a second-home overseas, not to move permanently as they could within the EU. Permanent move to USA for people from South America, Africa or Asia would require gaining a visa or green card which is more complicated than getting one from Europe. Nevertheless, competing with USA for wealthy clients would require heavy investments for marketing as well as change in customer preferences. Therefore it is more beneficial to focus on beating closer competitors, such as France.

Big cities in Riviera like Cannes or Nice are well-known from their prestigious lifestyle but also from high price level in European scale. That doesn’t raise only property prices but common living expenses as well. Costa Blanca and other Spanish coast areas provide great conditions with lower prices. Due to its geographical location, Spain also has more sunny hours per day on average and higher temperature compared to French Riviera. This is fairly significant factor especially for those want to spend their winter in warm conditions.

Alongside properties’ bargain prices, low interest rates have been playing a major role in housing market’s growth in last two years. Since the major setback of years 2006 and 2007, Spain’s housing market has shown signs of improvement and people are now looking to get great bargain deals. That is justified by the fact that the average prices for a property has come down with as much as a quarter from the peak before global financial crisis. The demand for properties in the coastal area is many times bigger than for inland properties. But potential customers should remember that premium location usually comes up with premium price. Yet sea view or walking distance to the beach can be decisive factors for many potential customers.

4.5 Market profitability

Michael Porter’s ”Five forces model” can be used to explain market profitability and attractiveness. By using this guideline company identifies which factors are affecting the competitive situation within the industry. Market profitability is affected by five forces shown in the figure below. (Porter, 1980)
Bargaining power of suppliers: In case of a real estate agency, suppliers are the ones selling or renting a property. They can negotiate with various agents and try to get the most profitable terms. Instead of only thinking about amount of incentives going to the agency, sellers should find out which agency is most likely going to actually be able to sell the property. Agencies’ reputation and knowhow plays an important role on making that decision. Often when the decision-making is tough, the winner is the one which succeeds in marketing and increasing company awareness. In order to improve its awareness, real estate agency can try to entice customers through visible advertisements and campaigns.

Bargaining power of customers: Customers can bargain through pricing or other benefits. Their position is fairly strong as they can do market research and comparison between different agencies. As there are plenty of real estate agents in the area, their bargaining possibilities are increased. However, they cannot bargain only with the agency but property sellers need to be taken into account as well. They are the ones accepting or rejecting the final offer.

Threat of new entrants: In a real estate business, there is always a threat of new entrants. This can happen through competitor’s expansion to area or new agency setting up its business in the same city. In both cases, the situation should be taken seriously and try to maintain own status and market position. Having loyal customers is a good way of reducing the impact of new entrants.

Threat of substitute products: For Zariko, threat of substitute products can come anywhere from travel industry. They can derive from changed customer behaviour in two different perspectives: 1) customers prefer properties in different regions, or 2) customers prefer to stay in all-inclusive hotels instead of renting properties from real estate agency. The first perspective concerns on both selling and renting properties. At the moment, Costa Blanca is considered as growing touristic area but no one can foresee the future and tell how the area is going to be in tourists’ eyes after a few years. New areas from Spain, from other South European countries or outside of Europe might start to obtain bigger share of potential customers. Currently, threat of that happening is relatively low as Spain has a proven track record of attracting tourists from many decades. Its popularity is based on short distance from other European countries and guaranteed good weather conditions.

The other perspective mainly concerns on rent properties. Currently there only few hotel chains operating in Torrevieja area where most of Zariko’s rent apartments are located. It is common for that area to stay in a rented property instead of hotel. But as all know, customer behaviour is somewhat unexpected and can change over time. However, as long as the price level of rented apartments remains competitive and supply by hotels remains low, there should be a demand for rented properties.
4.6 Growth potential

The Ansoff Product-Market Growth Matrix is a marketing tool created by Igor Ansoff and was introduced in his article "Strategies for Diversification" in the Harvard Business Review (1957). It helps organization to decide which way it can develop its business actions, changing the product, expanding to new markets or doing both simultaneously. This matrix includes four strategies: market penetration, product development, market development and diversification. In addition to four main strategies, other factors affecting the strategic choice should be considered, such as available resources, competition and condition of the market. Before entering a new market, it is essential to know whether the market is growing, declining or entering a saturation phase. (Ansoff, 1987, 135-138)

<table>
<thead>
<tr>
<th>Existing products</th>
<th>New products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing markets</td>
<td>Market penetration</td>
</tr>
<tr>
<td>New markets</td>
<td>Market development</td>
</tr>
</tbody>
</table>

Figure 11  Ansoff market/product growth matrix (Ansoff, 1957)

4.6.1 Market penetration

Company tries to increase its market share by staying at its current market with existing products. It tries to attract competitors’ customers by using advertisements, campaigns and other marketing tools. Market penetration is the least risky growing strategy from the Ansoff matrix. It uses company’s already existing resources and capabilities. Therefore, market penetration has its limits and once all its opportunities have been utilized, new growth strategy is needed to take the firm further. (Ansoff, 1987, 135-138)

4.6.2 Product development

Launching new products to the existing market is a common strategy by especially big companies. These days business is more competitive than ever and therefore product development is a key to success in many industries. In manufacturing industries, it is great way to approach current customers with new products. Customer loyalty towards the company and its brand determines at the end the success of product development. However, in real estate business customer loyalty isn’t as common as in other sectors as purchases are less frequent. Product development doesn’t solely mean
developing the product portfolio itself but also the services related to selling a property. (Ansoff, 1987, 135-138)

4.6.3 Market development

New markets can be either additional market segments or geographical regions. Market development is a good strategy when the company’s strengths lie on the product, not on particular market area or customer segment. This strategy has its risk as it usually requires heavy investments, for instance opening an office in new target area. Often this is required in order to expand company’s business and gain additional profits. In a real estate business, market development is a natural step forward. Nevertheless, accurate forecasting and knowledge about the target area is needed in order to plan and run the change successfully. (Ansoff, 1987, 135-138)

4.6.4 Diversification

Diversification is the most risky strategy as it requires both product and market development. Careful risk assessments should be conducted to make sure that the company is not overly optimistic with its ambitious plans. Trying to achieve too much too early can lead the company out from its comfort zone and into trouble. This growth strategy can be only recommended to big companies with high expertise and solid resources. Diversification can be divided into two categories: unrelated and related diversification. Unrelated diversification means that the company doesn’t have any previous experience about the new industry or market. Related diversification on the other hand, is used when companies stay in a market which they are somewhat familiar with. (Ansoff, 1987, 135-138)

4.7 Future sights

Future looks bright for Costa Blanca when it comes to travelling. While the property prices have come down, travelling to Costa Blanca has become easier than ever. New terminal opened in Alicante airport, as well as new airport opened in Murcia will provide more holiday-makers to the area. They are potential customers, either through renting or buying a property. The prices are still expected to remain low in 2012 as banks still possess a high variety of foreclosure properties at their portfolio. Spanish government is keen on attracting foreign buyers and banks are offering loans with great financial terms and conditions in order to do their part in attracting customers.

4.8 Expansion possibilities

Northern Costa Calida, especially the area of La Manga del Mar Menor could be a potential expansion target area. Its prestigious qualities mean higher price range for properties so this area should be targeted on people with high salary level. Often these people are also interested in leisure time activities such as golf and water sports. Knowing Finnish customers’
cautious buying behavior, luxury villas could be out of question due to their superior price. Thus, new building developments with many apartments or bank-owned properties in this area are more realistic property types sold to Finnish or Nordic clients.

Northern Costa Blanca on the other hand, can be attractive area especially for customers interested in authentic, calm and scenic living environment. Northern Costa Blanca offers all these qualities with reasonable property prices. However the competition for Nordic clients in the area is quite high with Valkea Marina currently being the top agency in the area for Finnish clients.

One possible marketing advantage for both areas could be improved travel possibilities. More routes from Northern Europe have been introduced to both Alicante and Murcia airports and have made Costa Blanca more accessible than ever.

4.9 Change in world’s economic power allocation

According to shared opinions by economists, Spanish economy alongside other Mediterranean countries is going to be one of the last in Europe to make it out of financial recession. This would decrease domestic house prices and offer great bargain opportunities for foreign buyers coming from stronger economies. Looking at growing number of French and German buyers in recent years, that prediction seems to have materialized and is likely to continue while Spanish economy is slowly recovering from recession.

Over the next decade, the mix of foreign buyers is expected to change considerably as the power allocation between world economies keep on changing. Most likely the investments from emerging economies, such as Russia, Brazil, India and China, will increase. This creates challenges for all companies to be able to provide information and service with bigger variety of languages.

Already there is statistical proof of decreased purchases by various nationalities from South America since 2007. Similarly, purchases by the Moroccans decreased from 6.5% of total purchases by foreigners in 2007, to 2.03% in 2010. This change in the structure of nationalities started in 2007 and is still continuing as situation in Spain remains unstable.

As the report by Annual Directory of Property Registrars shows, “these nationalities traditionally bought homes as a permanent residence in order to establish themselves to work in Spain.”

“The economic crisis has affected them more intensely than other nationalities, to a greater extent proportionally reducing their decisions to purchase property compared to citizens of other countries whose aims were solely to buy a holiday home,” they added.
(Kyero.com, the leading Spanish property portal)
Change in power allocation means that Zariko, alongside other agencies, could try to target more customers from emerging countries. They have already collected a good customer base from Russians and that process should continue as they most likely are going to be profitable customer group for Zariko. Other possible target nationalities could be Brazilians and Chinese but tackling those markets would require huge investments. Cultural differences play a big role and doing business with Asians or South Americans could turn out to be too challenging and time-consuming.

With these emerging countries, one of the Spain’s biggest strengths, nearby location, doesn’t apply. There is a huge variety of other destinations available for them in closer range. But customer behavior and their preferences are hard to predict and they may change over time. No one knows if ‘old continent’ starts to appeal to people from Asia or South America. That would mean increased demand for all types of properties in the Mediterranean area. Nevertheless, these nationalities should be kept in mind in the future.
5 DEVELOPMENT SUGGESTIONS

5.1.1 Benchmarking

Benchmarking can be very useful and practical way to improve business activities for Zariko. It can be done either inside the same industry or take a look at companies working in different business sectors. These could be for instance from banking or other fields in tourism industry. Similar booking or data systems could be used in real estate business than in hotels or travel agencies.

Apart from sole benchmarking, cooperation with travel agencies could be done as well. Customers, who have come to Costa Blanca and are staying in rented apartment, may well be interested in activities produced by travel agencies. On the other hand, travel agencies bringing people to holiday to Costa Blanca could give information and contact details about Zariko for holiday-makers if they are interested of purchasing a second-home from abroad or possibly moving permanently to Costa Blanca.

5.1.2 Marketing improvements

Good way to fully advantage the benefits of internet is to use various web pages which are specializing in publishing available properties. These pages are perfect spots for sellers to meet buyers and vice versa. With websites like ‘idealista.com’ or ‘kyero.com’ it is possible to advertise properties for rent and to sell. Customers can compare various properties from different agencies and then contact the company about the property they are interested.

It is said that the property is bought within the first 10 seconds that the customer has been there. That underlines the importance of marketing. Often the most important thing is not only the condition of the property but to get the customer interested enough to actually start to go and see the properties available. The most important things are that the property is priced correctly and advertised in the right places. Therefore staying constantly on the nerve and following the latest trends helps the company to do marketing most efficiently.

Zariko is involved in many media from websites to local Finnish newspapers. They are also providing valuable information for customers and sending them regularly newsletters including properties for rent and to buy. Due to recent years’ technological development and trends, marketing can be done in many ways. Social media with Twitter and Facebook is increasingly effective marketing tool for companies to improve company awareness. Different campaigns and promotions can be done to get people to follow Zariko in these social media sites. Regular offers and valuable information should be offered in regular basis in order to retain people’s interest.
5.1.3 Developing the operations

Zariko should try to turn first time buyers into repeat customers, whether by starting to rent their former or present house. Create sustainable networks by turning first time buyers/sellers into loyal customers. Many people especially those targeting a house for investment purposes, are interested in renting the property to get profits when they aren’t staying in Spain. This creates an evolving opportunity for Zariko to start a long-term customer relationship from buying a property to renting it out for tenants and possibly even selling it out for a profit later on.

Focus should be kept on their strengths instead of getting too greedy and trying to master everything. Like the saying goes, it is better to have a bigger piece from a small pie than a tiny piece from a bigger pie. If the company decides to expand, it should be done at correct time and with continuous steps. Change process always creates ambiguity so required resources and skills set are needed. All employees should be part of the process, giving their contribution for the change project.

Expansion should be done by combining both options: extending the property portfolio to cover more destinations and getting more customers from abroad. As Costa Blanca is seen as a growing touristic area, it is rational to try to cover as much of it as possible. Thus expanding by opening an office to Northern Costa Blanca, for instance to Benidorm, would have great advantages. At the moment the focus is too much in Southern Costa Blanca and the northern part is not utilized as well as it could. The expansion should not be too drastic and done in expense of current market area.

Another profitable expansion option is by getting more foreign customers from Nordic countries as well as from Russia. This is easier said than done as networks and customer relationships need to be created in order to succeed. So far Zariko has done a great job in setting up the business for Russian clients and their website with property details is now available in Russian as well. While looking to new market areas, the focus cannot be turned away from Zariko’s current customer groups which are essential for their success.
Zariko’s strengths are based on its multilingual personnel who make it possible for customers from various countries to approach the company at their native language. In real estate business this can truly be a decisive factor for people deciding which agency to do business with. Other important factors are recommendation by other clients and word-of-mouth marketing.

Expansion is a logical and justified way for Zariko to improve its business. By opening a second office in different city would give the company an access to bigger overall market with more potential clients. Due to its current location in Torrevieja, Zariko can run its operations effectively in Southern Costa Blanca but to able to fully compete with other agencies in Northern Costa Blanca it needs to have an office premises there as well.

Another business expansion possibility is targeting new customer groups from abroad. Currently they are successfully expanding their customer base with Russian clients. This progress is positive and could be applied to new nationalities as well. According to reports, British are the biggest customer group buying a house from Spain. Other major buyers include French and Germans who could possibly also be targeted as potential customers. Exciting newcomers investing in properties in Europe are Chinese. That clearly shows that there is a strong link between each country’s national economical situation and their buying behaviour. With more money to spend, Chinese are travelling in many countries and also looking for big investment opportunities.

Global financial crisis brought the property prices down dramatically all over the world and Spain’s housing market is still trying to survive from the recession. At the moment there are a huge excess of properties for sale what gives plenty of options to choose from for interested buyer. At this economical situation, great bargain deals are available and after noticing that customers are often unwilling to pay high prices. To fulfil this demand for apartments with low prices, banks have high variety of foreclosure properties in their listings. By cooperating with real estate agencies, banks have got help to promote those foreclosures. In addition to low prices, banks are also offering great loan conditions to people purchasing a house. Some of their campaigns include offers with no interest rate for first years and in some cases give out loans even up to 100% of the purchase price.

In order to meet all its ambitious objectives related to increasing market share, Zariko needs synchronized operations and effective marketing through various media channels. When the company grows, whether through new recruitments or expansion, it needs to have a solid firm infrastructure which helps them to operate effectively.

Zariko already has a broad property portfolio covering all types of properties from apartments to bungalows to villas. As shown in the BCG matrix,
apartments from city center are valuable properties for Zariko. They are often in decent condition and therefore in medium price range. They provide good profit margins for the company and good value for money for customers. These apartments are close to all amenities and possibly have a seaview or communal swimming pool. Good-conditioned villas are considered as stars as they bring higher profit margins. However, they are harder to sell and require more input and investments for marketing.

Zariko is currently well positioned in Costa Blanca’s property market and its future looks bright. There isn’t a big threat of substitutive products or new entrants in a form of new areas taking customers from them. As their position is solid, Zariko can look forward to expand its business. They have required market expertise and experience to implement the change successfully but they do need some investments in order to recruit more personnel and develop their information systems and other support activities.
SOURCES

**Literature:**


Porter, M.E. 1985: Competitive Advantage: Creating and Sustaining Superior Performance


**Internet sources:**

Theory about market analysis
http://www.netmba.com/marketing/market/analysis/
Retrieved 15 October 2011

BCG matrix
http://www.bcg.com/
Retrieved 2 December 2011

Effects of recession
http://www.investopedia.com/articles/economics/08/recession-affecting-business.asp#axzz1cjIlQ55y
Retrieved 10 November 2011

Spain’s housing bubble
Retrieved 18 October 2011

Ansoff matrix: product/market growth
http://www.quickmba.com/strategy/matrix/ansoff/
Retrieved 21 December 2011

The most popular overseas property search destinations
Retrieved 21 December 2011

Article about customer preferences
Retrieved 6 January 2012