



Adopting an e-Business Model May Be a Requirement, Not a Choice *How Web Integration Can Offer Value-Building Opportunities*

When Seattle, Washington-based McKee & Schalka Real Estate Appraisal Services & Consultants wanted to ramp up its business operations to compete more effectively, it could have limited its efforts to the traditional route: increase its sales efforts, take out media advertising and work the crowds at industry gatherings.

Instead, McKee & Schalka chose to work with financial institutions such as GE Business Asset Funding, which has integrated the Internet into its operations, gaining speed and efficiency and adding value to its clients.

Digitizing the real estate process offers significant advantages, according to Bates McKee, founder and president of McKee & Schalka. "Our company – and the entire industry – is trending toward a paperless model," he says. "Digitization offers dramatic increases in efficiency and can slash the appraisal order, review and process time. It can let clients access information on the Web even as we're holding a phone conversation with them."

McKee & Schalka Vice-president John Schalka adds that the administrative efficiencies may save money for clients, too. "Digitizing lets us spend more time on the appraisal function and less time on overhead activities like fulfilling information requests," he says. "In turn, the time and other savings achieved by appraisers can translate into lower fees for clients."

With proper planning, say experts from Wharton and GE, a digital strategy can offer operating efficiencies that save considerable time and money. To successfully implement it though, CFOs and other top managers must be willing to discard some preconceived notions and commit to a long-term investment mindset.

According to Wharton Professor Raphael Amit in a paper titled "Value Drivers of e-Commerce Business Models," the Internet's system of open standards "supports the emergence of virtual communities and commercial arrangements that disregard traditional boundaries between firms along the value chain." He adds that business processes may be flexible enough to be shared among firms from different industries.

Taking the First Step Toward Web Integration

Web integration has the potential to enhance operations, increase productivity and decrease costs. But to get the most out of the process, it's vital to first lay out a comprehensive strategy.

"About three years ago, when GE Business Asset Funding decided to ramp up its commercial real estate function with Internet connectivity, we knew the benefits — to our clients, our vendors and our company — would be tremendous," recalls Craig Planetz, the company's Vice-president, e-Commerce. "But we also knew that prior to launching or expanding a Web initiative, we had to identify the labor-intensive tasks that could be replaced with Internet-enabled measures. It's a matter of adding value with automation."

Planetz says that GE Business Asset Funding views Web integration as an evolving process. "It's important to have a strategy in place before implementing an electronic network," he says. "Once the process is launched, the original plans should be reviewed periodically and updated in light of changing technology and business conditions."

In fact, the relationship between technology and business takes place on multiple levels, according to research conducted by Wharton faculty member Harbir Singh and Ph.D. students Sendil Ethiraj and Isin Guler. In their paper titled "The Impact of Internet and Electronic Technologies on Firms and Its



Implications for Competitive Advantage,” the authors note that Internet technology has three broad effects on business activity:

1. A communications effect - the Web dramatically reduces the cost of finding and transferring information.
2. A brokerage effect – the Web makes it easy to connect buyers and sellers.
3. An integration effect – the Web transforms buyer-seller relationships and has a major impact on supply and value chains.

When the GE Business Asset Funding team harnessed the power of the Web, a methodical approach was adopted — the initial activity was limited to setting up secured access enabling clients to view their accounts online. Later, the company set up links with suppliers and vendors. “Commercial real estate has traditionally been a paper-based industry,” notes Mitch Stevens, Vice-president, Risk, GE Business Asset Funding. “But specific tasks like appraisal order, review and processing, lend themselves to an automated, Web-enabled environment.”

Currently, GE Business Asset Funding is implementing an imaging project that will enable the business to digitize paper copies of commercial real estate transaction documents in electronic format. Paper copies are preserved in off-site storage, while employees are able to access the documents electronically at dispersed locations. An important element of imaging is indexing – this enables employees to easily locate the documents once they have been scanned. The benefits to both front- and back-office activities are enormous, including a wealth of efficiencies derived from closing down on-site archives of cumbersome, rarely accessed paper files. Other benefits include:

- Reduced documentation costs
- Resolution of lost document problems
- Increased storage capacity
- Enhanced speed of internal handoffs
- Improved customer service

Upfront development costs may deter some companies from migrating to a Web business approach. GE Business Asset Funding, however, was able to implement its program for a “minor” sum (in part due to the ability to leverage already existing systems) and quickly recover the investment through cost savings generated by the new electronic network approach.

Other firms have also experienced a positive return on their investment in Web integration. During a recent Wharton meeting -- organized by the Samuel Zell and Robert Lurie Real Estate Center -- Christopher Peacock, president of Jones Lang LaSalle, a global real estate services firm, detailed the Web experience of his company's property management business. The company, which buys services worth \$6 billion from more than 35,000 vendors, previously placed and processed sales orders by fax. But after the company moved these operations online, it was able to slash costs by 10% — saving \$600 million.

An e-Business Model May Be a Requirement, Not a Choice

Some real estate professionals have perceived the Internet revolution as a threat. They fear that e-commerce's ability to move business from physical to virtual space (while replacing brick-and-mortar storefronts with digital ones) could spur businesses to abandon real property in favor of a virtual online presence.

But as John Bucksbaum, CEO of General Growth Properties (the nation's second largest self-administered, regional mall Real Estate Investment Trust), commented at a recent Wharton meeting, “As e-commerce becomes normal, we had better be part of what is normal rather than outsiders looking in.”



General Growth Properties (GGP) previously entered into a partnership with Internet networking giant Cisco Systems to deploy a broadband cable network, wiring together most of the 137 malls GGP owns or manages in 13 cities around the United States. Among other benefits of the system, high-speed broadband connections at malls are enabling merchants to approve credit card transactions faster, resulting in shorter checkout lines during busy shopping seasons.

Although GGP isn't entirely paperless, Bucksbaum is encouraging its lawyers to negotiate leases electronically and its architects to review plans and blueprints online. The company is also moving toward introducing an Internet-based accounting system.

According to Steve Little, Vice-president, Risk, GE Business Asset Funding, companies really don't have a choice when it comes to a decision about upgrading to an electronic network. "To a large extent, it's a customer-driven process," he says. "Clients are looking for a time-saving 'one-stop-shopping' experience, and they'll migrate to the firms that offer it."

Little notes that a Web-enabled system can significantly reduce cycle time; in his company's case, slashing up to 16 hours off the time it takes to complete a single transaction.

"Previously," he says, "an analyst would have had to contact appraisers by phone and fax to submit proposals and get bids. Now, the entire procedure can be done with a few clicks, without worrying about coordinating everyone's schedule." As a result of these internal efficiencies, GE Business Asset Funding is able to offer *SMART Mortgage*, a commercial real estate loan at reduced cost to borrowers with much shorter timelines from application to closing.

"The open network of the Internet has also enabled us to build databases of performance, property history and other information that is used to generate analytical, performance, actual vs. budget and other reports," says Little. "This gives us a competitive advantage, by enabling rapid access to facts and data. This process may have started at the sales level, but it quickly flowed into the entire organization."

CEO McKee agrees that Web-enabled processes will become the way to do business. It's becoming more and more likely, observes McKee, that "old-style, paper-bound appraisal companies may fall by the wayside as digitization continues to deliver process efficiencies and clients increasingly expect to access information on a real-time basis."

Related Web Links

Measuring the Performance Implications of Business Model Design: Evidence from Emerging Growth Public Firms

<http://www-management.wharton.upenn.edu/amitresearch/documents/BusinessModelDesign011702.pdf>

Value Drivers of e-Commerce Business Models

<http://knowledge.wharton.upenn.edu/PDFs/978.pdf>

Real Estate Developers Can Expect Relocation, not Dislocation, from the Internet

<http://knowledge.wharton.upenn.edu/articles.cfm?catid=8&articleid=125>

The Evolution of Real Estate Markets

<http://knowledge.wharton.upenn.edu/PDFs/292.pdf>

The Network as Knowledge

<http://knowledge.wharton.upenn.edu/PDFs/424.pdf>

The Impact of Internet and Electronic Technologies on Firms and Its Implications for Competitive Advantage

<http://knowledge.wharton.upenn.edu/articles.cfm?catid=7&articleid=244>