Real estate franchising: The case of Coldwell Banker expansion into China

Ilan Alon\textsuperscript{a}\textsuperscript{*}, Ke Bian\textsuperscript{b}

\textsuperscript{a}International Business, Crummer Graduate School of Business, Rollins College, 1000 Holt Avenue-2722, Winter Park, FL 32789-4499, USA
\textsuperscript{b}University of Oklahoma, Michael F. Price College of Business, 307 West Brooks, Adams Hall Room 206, Norman, OK 73019-0001, USA

1. The Chinese Market place

To most foreign investors, China presents a tremendous opportunity for exploiting cheap labor and accessing a growing consumer market with increasing purchasing power. International manufacturers have been staking their claims in China since the late 19th century. Since China’s reentry into the world arena in 1978, retailers, manufacturers, and service providers have flooded its market (Alon, 2003). Typical modes of entry for foreign investors into China are direct export, joint ventures, and foreign wholly owned businesses. However, as a new business format, franchising has recently gained momentum in China due to its unique advantages for both the franchisor and franchisee (Alon, 2001; Alon & Welsh, 2001; Alon & Bian, 2004). Franchising in emerging markets, including China, has grown significantly in recent years, both because of push factors, such as domestic market saturation and highly competitive markets in developed markets, and because of pull factors, such as the liberalization of political and economic systems in developing countries.

The successful implantation of foreign food and retail franchises in China, such as McDonald’s and KFC, prompts us to believe that it is likely that the operation of foreign professional service franchises...
will perform well in China. Coldwell Banker, the leading real estate brokerage firm in the United States, is an example of a company likely to be a successful pioneer in the field of professional service franchising in China.

This article examines the development of the commercial real estate market in China in a historical context. We look closely at Coldwell Banker’s internationalization strategies and master franchising development and also present an interview with one of the principle decision makers in the joint venture, who is in charge of master franchising development for Coldwell Banker in China.

2. The Chinese real estate market

In 1993, China’s government introduced a nationwide campaign promoting private home ownership, with long established subsidized housing (also called “welfare housing”) by state-owned enterprises having been phased out. Employees in state-owned enterprises were encouraged to buy houses or apartments with their savings and housing subsidies, which led the private housing market to experience tremendous growth (Realtor, 2002).

The real estate industry has become one of the seven main industries in China’s economy. The new construction and reconstruction of improved and modernized residences is in increasing demand by consumers whose living standards have greatly improved in the past few years. Successful bids for the World Expo in Shanghai and the 2008 Olympic Games in Beijing have had a tremendous impact on the residential housing market, attracting foreign real estate businesses to the two cities. However, inequalities in the distribution of foreign property investment and infrastructure make it very dangerous to generalize regarding China, as there are wide disparities in the values of real estate markets in different parts of the country (Realtor, 2002).

A two-tiered property market that divides properties into markets intended for domestic residents and for foreign buyers exists in China’s major cities. This has attracted substantial foreign investment, ensuring that domestic housing prices are more affordable to locals, with land premiums set at levels generally 25% to 30% below those for foreign buyers (Ness, 2000). However, two-tier properties in bigger cities such as Shanghai and Beijing began to converge in 1997, due to the drop in overseas sales caused by the 1997 Asian Crisis (Reier, 2003).

In general, China’s real estate market is less mature than that of the United States and other developed markets; presently, about 25,000 real estate brokerage agencies employ over 200,000 agents (Realtor, 2002). Many brokerage companies, though, do not possess business licenses to operate. In Shanghai alone, there were approximately 2000 brokerage firms registered with the City’s Industrial and Commerce Bureau by the end of 2001; however, in recent inspections in Shanghai, 982 real estate brokerage firms were found guilty of operating without registration (Realtor, 2002).

The resale housing, or secondary housing, market did not have a meaningful existence in China until 1999, when the government implemented its nationwide policy encouraging people to sell small, low-quality houses in exchange for bigger, newer, and higher quality ones. Shanghai earlier took a leading role in experimenting with the secondary market, having done so in 1996. In 2001 alone, approximately 14 million square meters, or 150.7 million square feet, of second-hand houses were sold in Shanghai (Xin Hua Agency, 2002). Since housing resale transactions are based on commissions (the current practice is 0.5% to 2.5% commission charged from sellers and 1% from buyers), it is easy to estimate how profitable this industry can be (International Finance News, 2003). It should be noted that the regulatory environment for real estate in China is in flux.

The growth in China’s real estate market has been fueled by economic and political conditions. Economically, the strong market demand, continuous economic boom, and government preferential policies supporting residential housing consumption have prompted further development of the market. China’s entry into the WTO and its successful bid to host the World Expo and the Olympics in 2008 presents unprecedented opportunities.

To encourage foreign investment, the Chinese government carried out a series of preferential policies, including exemption from investment tax, availability of funds to foreign investors, and the permission for foreigners to repatriate profits (Realtor, 2001). However, barriers that may make investment risky in emerging markets, such as China’s, include the lack of transparent and consistent laws and regulations, corruption, high regional unemployment rates due to restructuring of state-owned companies, and inconsistent regulations between local and central governments (Realtor, 2001).

3. Shanghai: An opportunity

Shanghai is China’s largest commercial city (Hong Kong Trade Development Council, 1995), with, according to the permanent residence registration,
a population of 13.34 million in 2002. This represents roughly 1% of China’s total population (Shanghai Municipal Government, 2003). In 2003, the average population density in the city stood at 2014 people/km² (Shanghai Municipal Government, 2003). Improving living conditions is an overwhelming task facing local governments. Data in Table 1 demonstrate that indicators of Shanghai’s real estate market are much higher than those of Beijing, China’s capital city, which is typically compared with Shanghai. Table 1 also indicates that Shanghai’s real estate revenue takes almost 18% of the total revenue in China, while “houses leased” holds an even higher ratio of 37.5%. Since “houses leased” represents transactions occurring in the real estate agencies to a considerable extent, the figure of 37.5% strongly suggests that Shanghai’s property market is the leader in China. Thus, analyzing market status in Shanghai is helpful in understanding China’s real estate market. By examining the current property agency market in this economic center and analyzing Coldwell Banker’s involvement in Shanghai, we hope to provide some insights on the current development of international franchising in China’s real estate agency market.

Significant changes have taken place in Shanghai’s infrastructural development in the past 5 years: Three tunnels have been constructed, five bridges have been built, two additional tunnels are planned, and an estimated additional 70 traffic lanes for crossing the Huangpu River will be added by the year 2007 (Ministry of Communications of the People’s Republic of China). In total, there are 17 projects underway to promote the joint development of the Puxi and Pudong areas, which are West and East of the Huangpu river, respectively. It is now much easier to travel from Puxi to Pudong. The old saying that one would rather have only one bed/bedroom in Puxi instead of a big house in Pudong is no longer borne out by the situation. The developed transportation networks, combined with the availability of public buses, taxis, subways, highways, tunnels, and bridges, along with further municipal government investment in the city’s infrastructure, provide an unprecedented opportunity to property developers and agencies.

4. Consumer groups and real estate in Shanghai

One important consumer segment is comprised of those who purchase newly designed apartments. Typically, middle-income consumers, such as senior managers of foreign invested or joint venture enterprises, professionals, government cadres, and small- to medium-sized company owners, are well educated, increasingly service/quality oriented, and familiar with famous foreign brands (Euromonitor, 2000). These consumers expect good service and are mostly likely to buy their own homes and cars. They are also the primary target market for financial services such as mortgages, loans, investments, and life insurance (Euromonitor, 2000).

Wealthy Chinese businessmen and international investors, who comprise another segment, typically buy new apartments or houses for speculative or investment purposes. In 2001, the Shanghai government began to allow foreigners, including overseas Taiwanese, to buy real estate. This helped to raise the prices of modern apartments, with the cost of villas in Shanghai rising 16% in 2002 and increasing 1.4% in January 2003 (Reier, 2003). As a result, investors often rent out their houses until the market appreciates, upon which they make the decision to sell. In recent years, a trend has emerged among Taiwanese business people to purchase and invest in property in Shanghai. Location is the main concern for these investors. It is estimated that the average rate of investment return for Shanghai’s luxury residential property is approximately 12—15%, compared with only 4% in Taiwan (Yang et al., 2002). Given the large appreciation of real estate prices, it is increasingly difficult to generate positive cash flows by buying and then renting property in Shanghai.

Second-hand houses, which used to be regarded as poorly maintained or dilapidated, are gaining

<table>
<thead>
<tr>
<th>Year/region</th>
<th>Total revenue (million Yuan)</th>
<th>Land transferred (million Yuan)</th>
<th>Commercial houses sold (million Yuan)</th>
<th>Houses leased (million Yuan)</th>
<th>Others (million Yuan)</th>
<th>Business tax and extra charge (million Yuan)</th>
<th>Operating surplus (million Yuan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001/China (total)</td>
<td>54716.6</td>
<td>1889.9</td>
<td>47294.2</td>
<td>1173.5</td>
<td>4359.0</td>
<td>2734.5</td>
<td>1254.7</td>
</tr>
<tr>
<td>Beijing</td>
<td>5922.4</td>
<td>346.1</td>
<td>5139.9</td>
<td>246.2</td>
<td>190.2</td>
<td>315.0</td>
<td>–104.6</td>
</tr>
<tr>
<td>Shanghai</td>
<td>9710.8</td>
<td>594.6</td>
<td>7009.4</td>
<td>440.5</td>
<td>1666.3</td>
<td>429.8</td>
<td>233.5</td>
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popularity in Shanghai. White collar workers, who historically purchased and kept homes for a lifetime, have begun to buy second-hand houses as investment vehicles and for personal use; while they have some expendable income, they can only afford second-hand homes.

In sum, changes in consumption of real estate came about as a result of the following:

1. An economic transformation leading to wealth and foreign investment
2. More transparent information between buyers and sellers
3. Favorable government polices in property tax
4. Availability of mortgage loans from banks
5. Easier and more fluent transactions due to professional services provided by real estate agencies such as Coldwell Banker.

5. Problems of domestic real estate agencies in Shanghai

The Shanghai real estate market is not without problems; however, these problems can present opportunities for professional service firms ready to make an impact. Difficulties and weaknesses include:

1. Entry barriers for property agency and required initial investments are both quite low. One usually rents a room, buys some furniture, and applies for a telephone line to open a new store. Tempted by huge profits, underground agencies easily swarm into this industry without licenses. Unregulated markets, vicious competitors, and the breaching of contracts spawn client dissatisfaction toward this opportunistic market, creating mistrust between clients and agencies.

2. A lack of professional agents and the absence of an efficient professional training system result in lower management skills and innovation. Customers choose agencies to represent their interests during transactions because they believe agents supply professional services above and beyond providing information about the property and its sources. However, practices among the local players may greatly disappoint them.

3. There are weak policies and regulations to regulate the market during the transition from planned economy to market economy, a lack of effective communication and coordination, poorly educated staff, few domestic brands with scale, and no professional industry association to govern transactions.

A large number of agencies in Shanghai are small single-unit storefronts. Multiunit, franchising, licensing, and chain stores are lacking. Accordingly, the market is not as efficient as it could be.

6. Coldwell Banker: Company background

Coldwell Banker Real Estate, a subsidiary of Cendant, has more than 3000 independently owned and operated residential and commercial real estate offices with over 72,000 sales associates, globally (Coldwell Banker, 2003a). Coldwell Banker Commercial is a registered trademark licensed to Coldwell Banker Real Estate and is one of the largest commercial franchise operations, with over 400 affiliates offering clients comprehensive buying, selling, leasing, acquisition, disposition, and management services (Coldwell Banker, 2003a). By the end of 2001, Coldwell Banker Commercial affiliates had achieved a record US$10.1 billion in sales volume, resulting from 25,000 transactions, an 84% increase in volume over the US$5.5 billion reported in 2000 (Coldwell Banker, 2003b).

7. Master franchise in Coldwell Banker and its international expansion strategy

The term “master franchise,” in the context of Coldwell Banker, is best defined as a business entity that has the exclusive rights to sell Coldwell Banker franchises and oversee the development of the Coldwell Banker brand for an entire country or geographic territory (Coldwell Banker, 2003c). The master franchisee, usually native to the particular national market, is responsible for selecting local franchisees, providing management support, offering operating capital, collecting a percentage of sales and fees, and providing both the cultural awareness and local network needed to develop the national market.

According to Mr. Wayne Vandenburg, Chairman and CEO of Coldwell Banker Europe, Coldwell Banker’s strategy in international expansion is to set up a joint venture partnership with a local, highly experienced, and successful organization in each country or region (Coldwell Banker, 2003a). This approach offers its affiliates and customers “local market expertise and knowledge” from Coldwell Banker’s global operating platform (Coldwell Banker, 2003a). This strategic thinking, combined with the cultural and management similarities between Chinese enterprises and Taiwanese enterprises, explains why, in 1999, Coldwell Banker selected Taiwan’s SinYi as its master franchise in China.
8. The master franchisee: Taiwan’s SinYi

With more than 120 stores, SinYi is the largest real estate agency in Taiwan. Entering Shanghai in 1993, it was one of the first overseas brands to market real estate in China. Currently, its brokerage businesses cover both residential and commercial buildings.

Due to the unprecedented opportunities available after the 1993 Chinese housing reform, SinYi needed to expand its market share rapidly and gain a strong foothold in the country. For SinYi, joining the Coldwell Banker family meant gaining access to Coldwell Banker’s developed operations systems, rich marketing resources, and unique intranet support network: CBNet, where SinYi could communicate with other Coldwell Banker Registered Trademark brokers and master franchisees. The most important incentive for SinYi, however, was the competitive advantage gained from partnering with a western-based brand, particularly when they shared target markets. Thus, SinYi succeeds by integrating Coldwell Banker’s famous brand and innovating its management systems to market directly to China’s local market.

9. Interview with Coldwell Banker’s China master franchisee

This interview was carried out on February 28, 2003, using a questionnaire developed by Dahlstrom and Nygaard (1999), to understand ownership decisions in U.S.-based franchising networks and factors influencing the franchisor’s decisions on expanding its franchise system. The following transcript is an abbreviated version of an interview with Mr. John Zhou, Vice President, Coldwell Banker Affiliates of China.

Q: Can you briefly introduce your company’s background and its services?

A: Sure. Our parent company from Taiwan, Taiwan SinYi Realty, was established in 1981 and is currently the number one real estate broker in Taiwan. It is the only real estate broker company publicly listed in Taiwan over the counter. The company owns 127 offices/chain stores in Taiwan. It started its Shanghai operation in 1993, and now has 20 company owned offices and 20 franchisees in Shanghai. The main businesses are real estate resale, leasing, and buying, which include the residential property and investment property business. We also lease new apartment buildings. The residential building business takes a share of about 90% of our company’s business, while the rest is the commercial property business.

Q: When did your company become affiliated with Coldwell Banker? Why did your company choose to be affiliated with Coldwell Banker?

A: In October, 1999, Taiwan SinYi signed a master franchise contract for the market of China, Hong Kong, and Macao with Coldwell Banker for 40 years. Before 1999, the stores in Shanghai belonged to our subsidiary. Taiwan SinYi is well known in Taiwan, and now is also well known in Shanghai’s local high end market. We had no experience in franchising before 1999; however, Coldwell Banker is very famous and has existed for 100 years. It started its international franchising in 1980 and has a very successful franchise system which transfers its business know how, famous brand, and experience to its franchisees. Westerners know this brand very well. SinYi’s target market in China is the high end market, including people from Taiwan, Hong Kong, as well as Westerners. Our market in Shanghai is divided as follows: high end market, 10% of our company’s business, and middle end market, 90% of our business. In the high end market, more than 60% are Westerners and Chinese from Hong Kong and Taiwan, while 40% are local Chinese.

Q: Why do you want to run the franchised stores and the company owned stores at the same time?

A: To capitalize the market and gain more profits, franchising is an easy way to control and expand our business at the same time. In the meantime, franchisees can take advantage of the resources and accomplishments we have achieved. For big cities such as Shanghai, stores inside the city are company owned, since they are more profitable, while stores outside the city are more likely to be franchised. At the beginning of 2001, we started franchising in the outskirts of Shanghai. Twenty are now franchised: One is in Suzhou, and five will open in March in Hangzhou. We focus on developing single unit franchising in the eastern China market and neighboring markets to Shanghai, since we can make good use of headquarter resources in IT, Marketing, Finance, etc. For more remote locations, we want to leverage the area franchisor’s resources.

Q: What is the capital requirement for starting up a franchise of Coldwell Banker in China?

A: They have to pay 80,000RMB (about US$9,756) as the initial fee. As to the royalty payment, it is 10,000RMB per month if the sales revenue is less than 120,000RMB (about US$14,634). If the sales revenue is more than 120,000RMB, an additional 5% royalty rate will be charged to each individual store.
Q: How did you convince your local franchisees to buy your system when it was not well known in China?

A: First, we advertised in TV commercials every week, real estate magazines, and several of the most popular local newspapers, including the Shanghai Jie Fang Daily, Shanghai Morning Post, and Xin Min Evening News. We advertise not only for our franchisees, but also for our customers. In 2002, for example, we spent an RMB 1 million (about US$121,951) advertising budget on Phoenix TV. We are the only broker in China to spend so much on advertising so far.

Q: What kind of training and support does your company provide?

A: We provide sales training, transaction procedures training, legal consulting services, and mortgage support to our franchisees. We have good relationships with major banks and have alliances with them due to the good image and credit of our brand; thus, franchisees can get mortgages easily. In addition, we provide legal, IT, and marketing resources for our franchisees. Actually, our sales training is very famous in the real estate agency industry, and its costs are included in franchising fees.

Q: What factors determine success and failure?

A: Entrepreneurship skills! Entrepreneurship is the most important factor. Training your own sales force and store location matter, too. If you recruit good personnel and staff, you will gain high profits.

Q: What is your average sales level?

A: All offices/company owned stores do better than franchisees. Usually company owned outlets could get 200,000—300,000RMB (US$24,390—36,585) sales revenue per month, while the franchisees can have 100,000—150,000RMB (U.S.$12,195—18,292) sales revenue for commission.

Q: How do your franchisees choose their store locations?

A: They choose the locations on their own. We recommend developed residential areas and executive communities with high end apartments. We have regulations that franchisees’ stores should be far away from company owned stores. We have a map which illustrates the territory inside the city is already closed for franchise development. Franchise development is only open to the market outside Shanghai.

Q: How do you monitor your franchisees?

A: We have meetings every month and we set up a special committee to solve the disputes among the franchisees, customers, and our own outlets. We have customer service representatives here in Shanghai’s headquarters who deal with these problems. Whenever we have new regulations, we will gather owners, office managers, and franchisees together to disseminate the information.

Q: Do you allow your franchisees to decide the layout of each store? Do they have control over their working time?

A: We have no special regulations on time. They follow our practices relating to corporate identity, menu, office logo and color, brand name, and layout of the office. All the offices should be clean. We check their signage, too. In the process of decoration, we examine their layout. Franchisees look for our suggestions and we will give them the menu and operational brochures to follow. But they have their own HR regulations and bonus/commission system. They can do things on their own, if it helps.

Q: Is there a special ratio of franchisees and company owned stores you plan for? If so, why?

A: Right now, the ratio is half and half. In the future, we will have more franchisees. In 10 years, we will develop 1000 franchisees in China and achieve territory sales in most big cities, including Chengdu and Guangzhou.

Q: Do territory franchisees pay different royalties from single unit franchisees?

A: Yes, territory franchisees pay more royalties, usually 10—20%. We charge them different initial fees, depending on how big the local market is. For example, the royalty in Beijing’s market is higher than that in Hangzhou, since Beijing is a much bigger city.

Q: What are the special traits or qualities you look for in a prospective franchisee?

A: He or she should be financially strong, but not necessarily a real estate broker. We prefer service based companies such as the retail and restaurant industry to join our system, since they know well how to deal with customers. A potential franchisee must share our commitment and values: serving the high end market, providing high quality service, and charging high commissions for business. That is also the reason why we collaborate with Coldwell Banker.
Q: Could you estimate the size of the market in China?

A: For real estate franchisees, the market of property resale is emerging. The resale property market is younger than the new home market in China. In 2000, it was estimated that 70–80% of the business was new home purchases, while around 20% was the resale and purchase of second hand property. In 2001, the corresponding ratio was 60% and 40%, respectively. In 2002, the ratio was 50–50. Now, as 10 years have passed, space for new apartment buildings is limited and there are less and less new buildings available for customers to buy, yet more and more second hand properties have appeared on the market.

Q: What about the potential for franchising in this market?

A: There are a lot of opportunities and great market potential in developing franchising in this market. Companies would like to be affiliated with good brands and systems. There are currently more than 6000 companies providing real estate brokerage services in Shanghai, but some are very small offices with staffs of one to two people and a fixed telephone line. They are uneducated, old, and not skillful. We try to convert some good companies/stores into our franchisees.

10. Discussions and conclusions

Much of today’s growth in international franchising is due to the use of master franchising. For international service sector companies, the movement into diverse markets is made easier by using master franchising arrangements (Quinn & Alexander, 2002). The foreign franchisee contributes to breaking up cultural and language barriers, bureaucratic red tape, and political problems by acting as an agent with “insider information” (Quinn & Alexander, 2002).

A number of interesting findings and discussion points from the interview are worth highlighting for the purpose of understanding the use of master franchising in China’s real estate market:

- Before SinYi joined Coldwell Banker as a master franchisee for China, Hong Kong, Taiwan, and Macao, SinYi had established its reputation in Shanghai’s market. This corresponds with Coldwell Banker’s headquarters’ strategy of consolidating existing successful businesses within local markets under the Coldwell Banker umbrella (Castrogiovanni & Justis, 1998; International Franchise Association, 1997).
- Great changes have taken place in the target market structure of real estate agencies. When SinYi opened in Shanghai in the early 1990s, the market was dominated primarily by purchases and sales of new houses. In the past 10 years, the company has shifted to the promotion of the secondary housing market. Both points indicate that SinYi’s position in the market was a great advantage for positioning Coldwell Banker for market dominance.
- One reason that SinYi chose Coldwell Banker as its franchisor is that it is a well-known brand among Westerners; thus, it was easier for SinYi to market its services to its high-end market, which is what initially occurred. However, comparative studies with other American brands, such as McDonald’s, KFC, Pizza Hut, Starbucks, Postnet, and Kodak Express Outlets, disclose a surprising phenomenon: These brands perform well in China because of Chinese customers’ affinity for American products. China’s market is a market that welcomes American brands that are high quality, unique, and services that will continue to increase in future demand. The American brand name is a competitive advantage for franchisors considering expansion.
- As the Chinese government owns all of the land, when consumers buy residential houses or apartments, they only purchase the right to use the land for 70 years. The uncertainty of the future status of land rights adds an element of political risk to Coldwell Banker’s investment and real estate buyers, alike.
- Compared with Coldwell Banker’s operations in North America, Coldwell Banker China offers fewer products and services due to Chinese government regulations and the immaturity of the market. For example, Coldwell Banker cannot currently offer corporate advisory services in China; thus, its economies of scope are not fully realized at this stage. In addition, Coldwell Banker does not provide any mortgage loans or home financing services in China.
- Creating value for clients is the only way to achieve success in the real estate market. Professional service firms need to invest significant resources in building their reputations and customers’ trust in the professionalism of their work, since it is often the quality of the services that the customers purchase (Noyelle & Dutka, 1988). One way to achieve this is through the establishment of large network systems (Alon & McKee, 1999). Coldwell Banker
China is aware that this network is necessary to establish a competitive advantage over its competitors. As stated in the interview, Coldwell Banker China plans to open 1000 stores in the following 10 years throughout the country. This rapid growth is attributed to the increase in the number of independent brokers affiliated with the company.

- The real estate market in Shanghai is highly competitive and nearly saturated with both professionally operated agencies, which have decades of rich experience in the field, whether overseas or in China’s local market, and small privately owned unprofessional stores that can be bankrupt overnight. Therefore, Coldwell Banker China does not want to develop any franchisees in the downtown area of Shanghai to avoid conflicts of interest. Because downtown locations tend to be most profitable and, therefore, more likely to be owned by the master franchisor itself, Coldwell Banker China prefers to develop its franchisees in suburbs of Pudong, where the market is not as profitable. There is also the danger of cannibalization. If more franchised stores are added to the currently developed network of downtown Shanghai, the system’s profits will suffer. These findings may help shed light on the question of ownership redirection in franchising.

- Coldwell Banker must resolve the problem of localization of employees during its international expansion, as human resource is decisive in the real estate industry’s success. SinYi has been doing well in Shanghai’s market for several years and has trained a group of property professionals familiar with local market industry regulations and business. Pooling them under the Coldwell Banker umbrella utilizes the best available professionals in expanding business in Shanghai. At the same time, Coldwell Banker invests tremendous resources in systematically training new employees via Coldwell Banker University worldwide and hiring experts in China’s real estate market.

- In 2002, China’s government introduced the National Examination for Professionals in Real Estate Agencies. Those who have not passed the examination and received certification are not allowed to operate. This regulation will help to develop professionalism in China’s real estate market, protect consumers, and introduce industry level standards.

- A good management team is a main factor contributing to the success of Coldwell Banker’s franchise system in China. Mr. Zhou, who worked in the Franchise Department of B&Q China before joining Coldwell Banker, has more than 10 years experience in retail franchise and business development. By recruiting qualified managers who know China’s market and industry competition well, Coldwell Banker China provides strong support and systematic training to its franchisees.

- Entrepreneurship is a byproduct of franchising in China, an area that China is trying to develop. Coldwell Banker and its joint venture partner, SinYi, are providing opportunities for entrepreneurs, such as allowing them to own their own businesses and providing training to gain more skills and resources for success. The contribution of franchising to emerging markets should be highlighted in franchising research.

- Coldwell Banker primarily targets the high-end market and does not plan to enter the mid-level market at this stage since the market is not developed and it does not want to become involved in price wars. Coldwell Banker’s current plan is to try to develop a larger real estate market by stimulating demand for real estate, which will benefit all players. This attitude exemplifies the Chinese preference for cooperative vs. competitive market structures and helps Coldwell Banker stress its quality differentiation strategy, as well as improve its competitive advantage over a more developed midlevel real estate market in Shanghai.

11. WTO and its impact on the real estate business

With China’s entry into the WTO and increasing domestic and overseas competition, many local businesses are looking for new ideas to remain competitive. A growing number of businesses are attempting to franchise foreign brands in China to form stronger ties with Western partners and receive continuous support in management and operations. Although foreign players such as Coldwell Banker have brought new business formats and management patterns into China’s real estate industry and have quickly taken a large market share, well-known domestic players are not easily defeated. On the contrary, they have achieved certain economies of scale themselves and learned from their foreign competitors. Some local players, under the leadership of the Ministry of Construction, have gained ground due to favorable governmental policies and have developed chain stores and franchisees all over China. They possess unique cultural, political, and economic benefits.
that foreign players find difficult to obtain. Compared with foreign players, local entities charge cheaper transaction fees and commissions, which are welcomed in the low-end markets. The competition between Chinese domestic players and foreign players will become more challenging as the market continues to develop.

The Chinese government has agreed to lift all restrictions on foreign companies engaged in franchising by the year 2004 (Hong Kong Trade Development Council, 2001). Entry into the WTO could provide international franchisors with both trademark protection and intellectual property rights in China. This is especially important in service industries, where the core technology can easily be copied and transplanted. The WTO may also bring new opportunities to housing financing in China. Foreign financial institutions will bring more financing channels to China’s real estate companies and help fuel the entire industry.

International franchising and the use of master franchising are both on the rise in China, as more franchisors from America, Europe, Australia, and Southeast Asia set their eyes on this market. Because of push factors, domestic market saturation, and highly competitive markets in their own developed markets, these franchisors are seeking expansion overseas.

Since China’s economy is playing an increasingly important role in emerging markets, we hope that this study will have some implications for understanding existing entry modes and current development of international franchising in emerging markets. We also hope that our study on the franchising of real estate agencies will provide some insights for other business services in entering this unique and challenging market.

References