Flex and Core Strategy

JOE VERGHESE elaborates on the need for a flex and core approach to improve strategic advantage.

Businesses are being challenged everyday with economic turbulence, regulatory and geopolitical risk as well as business disruptors. From M&A and diversification to downsizing and restructuring, companies across sectors have adopted various and at times, multiple strategies to compete and survive in this new world. However, companies without a clear and committed strategy are unequivocal victims of uncertainty.

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The idea leasing model

To address this strategy paradox – and using an analogy from Collier's Workplace Solutions, companies will have to adopt a 'flex and core' strategy. The concept of the flex and core leasing model is that an occupier takes space on a long-term deal for their core operations together with an agreement with a flexible workspace operator to accommodate volatility in headcount. Similarly, companies will need to define a core strategy, based on their inherent strengths and aspirations, as well as flex strategy, which is nimble and allows for quick reactions and alignment with changing market conditions.

Tiding over challenges

Over the past few years, a handful of global investors have institutionalised the commercial real estate sector, acquiring majority of the Grade A office stock in the country, thereby creating an oligopoly. Leveraging access to cheap capital and a contrarian investment strategy to acquire quality income-generating assets, these investors have generated enviable returns despite the impact of currency depreciation. Developers, on the other hand, have used collaboration and consolidation to tide over the challenges of a prolonged slowdown, regulatory upheaval in the form of demonetisation, RERA and GST, as well as emerging disruptors like co-working. Cash-strapped developers straddled with inventory overhang and slow sales have been forced to adopt a retrenchment strategy by reducing debt and delaying expansion by focusing on completion of existing projects. Particularly in the residential segment, developers with a trusted brand and delivery track record have been able to take advantage of inorganic growth opportunities and pursue growth. With a view to de-risk operations, most developers are again considering a multi-city approach, though with much greater diligence and caution as compared to the reckless expansion before the global financial crisis. Finally, occupiers have been spoilt for choice with the arrival of workplace-as-a-service models, offering quality space and cost savings along with unprecedented flexibility, though the impact of the disruption in this segment is still at its infancy.

Future business models

The next decade will see a significant change to conventional real estate business models, forcing them to reorient themselves as services and solution providers, backed by robust technology platforms. Companies will need to introspect their strengths and vision to assess the role they seek to play in this landscape and the strategy best suited to their size and scale. This will form the 'core' of their strategy, requiring full commitment from the management and sponsors. However, companies will also need to assess their vulnerabilities, shred non-core assets and formulate a 'flex' strategy that would allow them to navigate disruptions and take timely defensive action to avoid business casualties. | CW |

About the author:
Joe Verghese, Managing Director, Colliers International India, started his career with financial consulting followed by equity and custody services. His experience also includes setting up a software services firm (Blastasia, Philippines) and leading the E-Business Division, South East Asia to build a Web Services and CRM platform for Austrade (Singapore).