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## STRATEGIC SEGMENTATION OF CUSTOMERS IN THE MARKET OF PRIMARY REAL ESTATE

**Abstract.** The authors emphasize the special significance of customer service on the primary market of residential real estate. There is carried out segmentation of the primary real estate market with the account of such a criterion as a residential housing class. There are singled out the following segments of this market: premium-segment, business-segment, comfort-segment, and economy-segment. The features of each market segment are described. An analysis of the cost of housing on the primary real estate market is carried out, depending on the readiness of the facility, namely: “foundation pit”, “foundation”, “readiness of floors”, “the gray key readiness” and the supply of housing in the primary real estate market. A detailed elaboration of strategies for cooperation with clients in the primary real estate market and strategies for establishing cooperation “client-enterprise” for certain segments of the primary real estate market are proposed. The strategy of servicing the clients of the primary real estate market according to the specifics of the product and services programmes is offered.

**Key words:** segmentation, service, client, strategy, market, competitiveness.

**Formulation of the problem.** The dominance of the customer on the real estate market determines the need of offering unique products and exclusive services. It means that there is an aggregate orientation on the needs of the client and the tendency towards the aggregate product offer complemented by the service is becoming visible. Today, customers often consider the price, technical characteristics of the product and their quality

performance as permanent elements; therefore, in the process of making a decision to purchase a product, they assess the complex of services provided as well as the quality of the service. [12]. Determining factors of competitiveness in the market of primary real estate are the individual approach to each customer, the high level of service and an effectively developed service system according to international standards.

In conditions of today`s market, the main tasks for an enterprise are to work out the strategy of customer service and to set standards and level of customer service. The spectrum of services provided to the customers must take into account all their demands: from the stage of the first contact to the stage of monitoring their satisfaction level.

**Analysis of recent research and publications.** The basic principles of customer service are considered in works of such foreign scholars as S. Kerdel [4], F. Kotler [5], D. M. Lambert [18], A. Mat [9], L. B. Mirotin [11], I. Petecki [16], Jorge. R. Stoke [18], I. Z. Tashbaev [11], as well as such domestic scientists in the field of marketing and logistics as M. Y. Hryhorak [3], V. V. Kuzyakov [8], V. Krychevskyi [19], T. V. Nakonechna [12], M. A. Oklander [14], O. S. Teletov [20], L. M. Shulgina [24], T. V. Charchuk [23], N. I. Chuhrai [19, 21] etc.

The above authors in their scientific works consider the range of problems of a customer service through the prism of affiliate marketing as one of the factors of increasing competitiveness of the enterprise. At the same time, despite the many differences in views and approaches regarding the meaning of customer service it is possible to note insufficient number of theoretical developments that reveal the essence and importance of customer service exactly in the primary real estate market. The range of customer services should take into account all of the customers' requirements: from the initial contact stage with the customer to monitoring of the customer satisfaction level. Enterprises (developers) have to elaborate a strategy of customer service, to set the standards and the level of customer service.

**The purpose of the research** is to study basic tendencies of the primary real estate market, to single out the basic segments of the primary real estate market and to substantiate theoretical positions and practical recommendations in relation to the customer service of primary real estate market.

**Materials and results.** The companies should make more effort and look for new ways to achieve advantages over competitors, because of increased competition. An important direction of obtaining competitive advantages is the high level and high quality of customer service [16]. After all, a set of proposed customer service elements and their quality play an important role in ensuring customers' expectations and in forming their perceptions about the company. The orientation of the company's activity to a high level of service in practice ensures maximum consideration of the needs of the clients and gives them the maximum value. Consequently, it leads to the achievement of high customer loyalty, the creation of high entry barriers for new players and the formation of stable competitive advantages over competitors in the market [12].

Of particular importance is customer service in the primary real estate market, the feature of

which is both small-scale and individualization at the same time; this being caused by the specificity of the product itself (housing), as housing in the primary real estate market can be of the same type, on the one hand, and quite individual, on the other hand. In turn, this explains the selection of various segments of the primary real estate market, the specifics of which companies - developers should take into account, developing and differentiating customer service programmes. The formation of the segments of the primary real estate market is possible through taking into consideration classes of accommodation: the premium-segment, the business-segment, the comfort-segment; the economy-segment.

The above described segments of the primary real estate market (the city of Lviv) require a detailed study that will outline the necessary set of services, depending on price and technical characteristics of the housing.

We will analyze the class level and cost of housing with the aim of developing strategies for the customer service market. The economy segment remains most attractive, if we take into consideration the statistics of the real estate companies-developers. The evidence of it is new buildings that have been commissioned since the beginning of 2016, where the concentration of budget apartments is 64.7 % [1]. Recently, on the market of primary real estate there is a tendency to increase housing of the comfort-segment by 8.7 % due to a decrease of demand for housing of economy-segment by 7.5 % and the reduction in supply in the premium-segment and the business-segment by 0.6 %. As the analysis shows (Fig. 1), there is almost no demand for the housing of business-segment, especially the premium-segment. According to our research, two segments – the economy and comfort are interesting for investment, because the total volume of these apartments (both demand and supply) in the total volume of primary market of real estate is 95.4 %. At the same time, with the growth of 8.7 % in the volume of construction of housing of comfort segment, the price of 1m<sup>2</sup> of housing in this segment decreased by an average of 4.3 %.

Special features of housing segments of the primary real estate market\*

No	The name of the segment	The characteristics of housing
1	The premium-segment	It is characterized by the increased comfortability and exclusivity, in particular, special control over construction and quality of materials, individual planning, large area, small number of apartments in a house, location in the central part of the city, well-developed own infrastructure, which includes a supermarket, a kindergarten, a pharmacy, a laundry, underground parking, there is also available the recreation area and no tall buildings in the nearby area. There are also private security services and the maintenance of buildings and territories, the remoteness from industrial zones and businesses, and so on.
2	The business-segment	It is characterized by high comfort, large area, construction is done on an individual project, taking into account the architectural appearance; houses are erected in the central part of the city with good transport interchange and infrastructure. A characteristic feature is also the usage of high quality engineering equipment, the presence of internal infrastructure, aesthetic improvement of the local area, the presence of underground or above-ground parking, security area, own maintenance service and independent boiler.
3	The comfort-segment	It is characterized by a high comfort level, special requirements for construction materials during the construction process; there are used high-tech methods, good planning, large housing area, the presence of internal infrastructure; there is also foreseen the availability of entrance halls with security.
4	The economy-segment.	It is characterized by such criteria: built on the outskirts of the city, the sectional (accumulative) technology is used in the construction, a small area, the same type of housing planning, absence of a local territory.

\*based on [7]

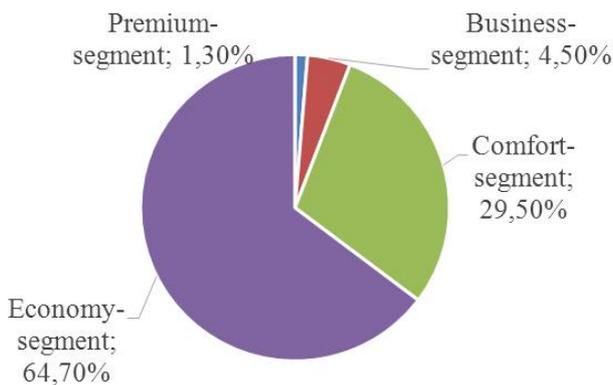


Fig. 1. The ratio of different segments of housing in the primary real estate market in Lviv

Note: created on the base of [10]

The research of the housing costs in the primary real estate market of Lviv. The price of housing on the primary real estate market depends on the class of the accommodation, location and

credibility to the building company. In 2015, the cost of housing in dollars USA decreased by an average of 8.21 % comparing to 2014.

The reduction in construction costs was caused by fluctuations in the currency market, since the growth rate of the U.S. dollar occurred in the range from 90 % to 157 %. Some prices on construction materials in the UAH equivalent increased from 69 % to 98 %, and the cost of construction works also increased, from 29 % to 61 %. Such a disproportionate rise in prices for building materials and the U.S. dollar allows the developer, at this stage, to reduce some of the cost of new housing [10].

In the housing segment of economy and comfort classes the price will also depend on the technology of construction: frame-block; monolithic and panel technology. For the housing of economy-segment the real estate developers use, as a rule, the monolithic and panel technology. The lowest

housing price is on prefabricated houses, as this is the cheapest and fastest way of construction [13]. The price of housing including using prefabricated construction technology will range within 400 USD/m<sup>2</sup> – 500 USD/m<sup>2</sup>. The monolithic-frame construction technology is the most appropriate technology for building housing in the comfort-segment (partly for economy-segment). Housing, which built using this technology of construction, is spacious and characterized with improved sound insulation and heat conservation. Cast-frame construction technology makes possible the redevelopment of housing at the customer request [6]. The price of housing with using cast-frame technology of construction will fluctuate within 700 USD/m<sup>2</sup> – 900 USD/m<sup>2</sup>.

In recent years in the comfort-segment the most often used technology for construction of housing is the frame-block technology. The advantage of such buildings is high reliability, the ability for dwellers to plan their own housing, since the carrier element is a frame, inside which there are mounted blocks and bricks [13]. The main disadvantage of frame-block houses is its high price of 800 USD/m<sup>2</sup> to 1,000 USD/m<sup>2</sup>. We also need to say that in premium- and business-segment real estate developers use only two technologies: monolithic-frame and frame-block [13].

The analysis of the housing prices on the primary real estate market shows that it depends on the readiness of the object, namely, “Foundation ditch”, “Foundation”, “Floors readiness”, “Under a grey key”. Let’s give some explanations of the presented classification. The stage “Foundation ditch” implies investing at the stage of excavation. The phase “Foundation” implies investment at the stage of construction and installation works for the construction of the foundation. The stage of “Floors readiness” envisages investing in housing during the frame construction of the house, and the amount of investment will depend on the readiness of the frame of house. The last stage of the investment is called “Under the grey key”, which means that the developer performs 100 % of the external works, also partially internal works, such as: walls are plastered (without painting and facing work); floor – cement screed (without clean floors); entrance doors – fireproof, open outside; without internal doors; windows – metal-plastic; water supply and sewerage – installation of risers; gas supply – installation of pipes and gas meters; electricity – installation of a wiring and meters of electric power; heating – individual (a boiler of foreign manufacture, radiators). Dynamics of the apartments’ prices changes in the primary housing market, depending on the readiness of the object is shown in Figure 2 (data for 2013–2014).

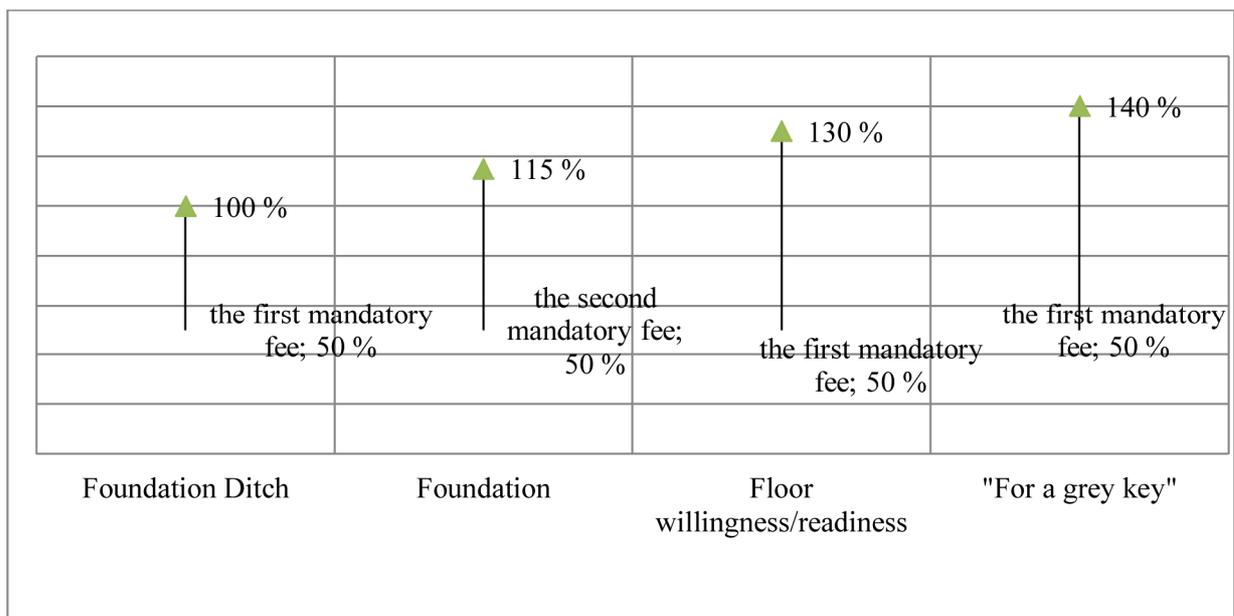


Fig. 2. The apartments’ price changes in the primary real estate market depending on the readiness of the object

Note: compiled by the author

### Strategic Segmentation of Customers in the Market of Primary Real Estate

The growth of housing prices depends on the degree of the object readiness, and can vary from 10 % to 40 % at the first stage of construction (foundation ditch). Typically, the developer offers the first mandatory installment, it being 50 %, the investor may pay 100 % of the price at the stage of “Foundation ditch”, it being the initial price. In the second stage (“Foundation”) the value of the apartment increases typically by 10–15 %; the third stage, which depends on the readiness of floors, envisages an increase in the price of the apartment by 15–30 % of the original price, and therefore, the highest price is the 30–40 % of the original price in the fourth stage, especially, at the moment of commissioning a building “Under a grey key”. However, if the developer is trusted by the investors, at the stage of commissioning “Under a

grey key” the maximum price of the object of housing construction will be 110–115 % of the initial price. Today, in the primary real estate market the highest demand for apartments in new buildings is at the stage of “Under a grey key”, and therefore to find suitable housing at this stage of construction is quite difficult. The market displays a small number of such apartments as the majority of them have been bought at the initial stages of construction (Fig. 3).

Considering the whole segmented row, the average price of 1m<sup>2</sup> of supply of newly built buildings in Lviv is 697.5 USD/m<sup>2</sup>, the highest bid price is 1,500 USD/m<sup>2</sup> (in the premium-segment), and the minimum price among those that were considered is 530 USD/m<sup>2</sup> (in the economy segment) [2].

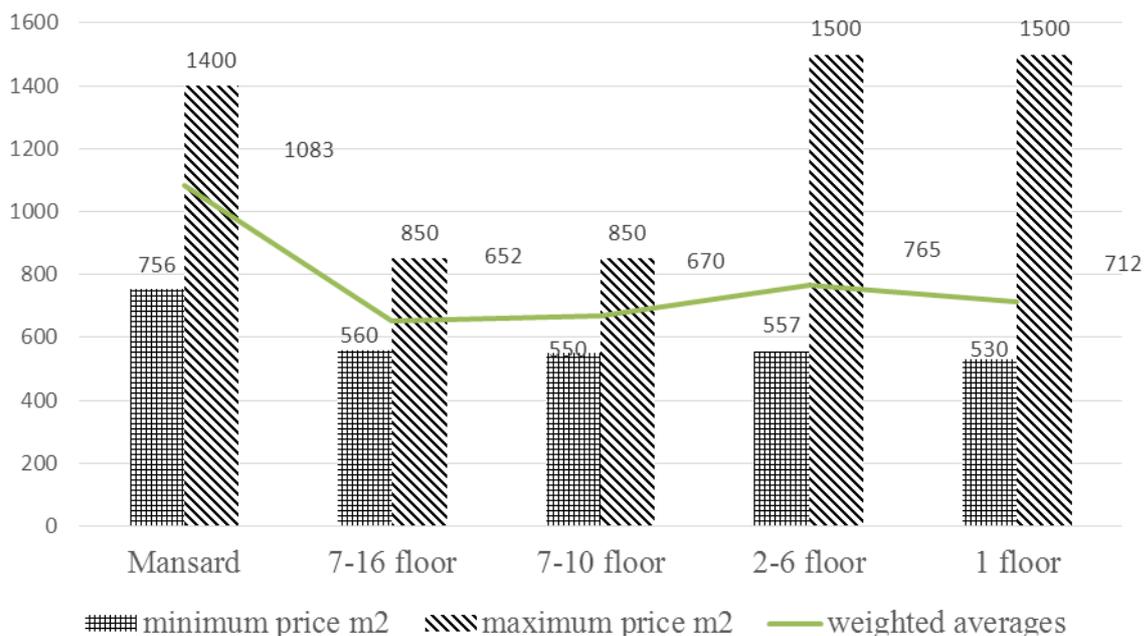


Fig. 3. The graphical interpretation of housing supply in the new buildings, given the floor of the house, at the “Foundation” construction phase

Note: compiled by the author

The analysis of housing supply in the primary real estate market showed that in the premium-segment and the business-segment the highest demand is for: three-bedroom apartments with the total area of 104 m<sup>2</sup> up to 160 m<sup>2</sup> (39 % of the total number of apartments), two-bedroom apartments with the total area of 86 m<sup>2</sup> to 104 m<sup>2</sup>

(28 % of the total number of apartments), four-bedroom apartments with the total area of 124 m<sup>2</sup> to 192 m<sup>2</sup> (20 % of the total number of apartments), the lowest demand in this segment is for Studio apartments (one-bedroom) with the total area from 48 m<sup>2</sup> to 73 m<sup>2</sup> (13 % of the total number of apartments). In economy- and

comfort-segment, the situation is slightly different, the highest demand is for: two-bedroom apartments with the total area of 59 m<sup>2</sup> to 88 m<sup>2</sup> (48–54 % of the total number of apartments), three-bedroom apartment with the total area of 86 m<sup>2</sup> to 92 m<sup>2</sup> (19–21 % of the total number of apartments), also one-bedroom with the total area from 42 m<sup>2</sup> to 55 m<sup>2</sup> (18–20 % of the total number of apartments), the lowest demand in this segment is for four-bedroom apartments with the total area from 88 m<sup>2</sup> to 123 m<sup>2</sup> (9–11 % of the total number of apartments) (Fig. 4).

In the context of high inflation, the demand for housing in the primary real estate market in Lviv in 2015, according to the research, began to decline.

The increasing quantity of flats in new buildings, which are on sale at the stage “Under a grey key”, shows the reducing demand in the primary housing market. In 2013–2014, at the stage of “Under a grey key” there were sold 87–92 % of housing on the primary real estate market in Lviv, since the fourth quarter of 2014 and in 2015, accordingly, 69 % and 81 % [2].

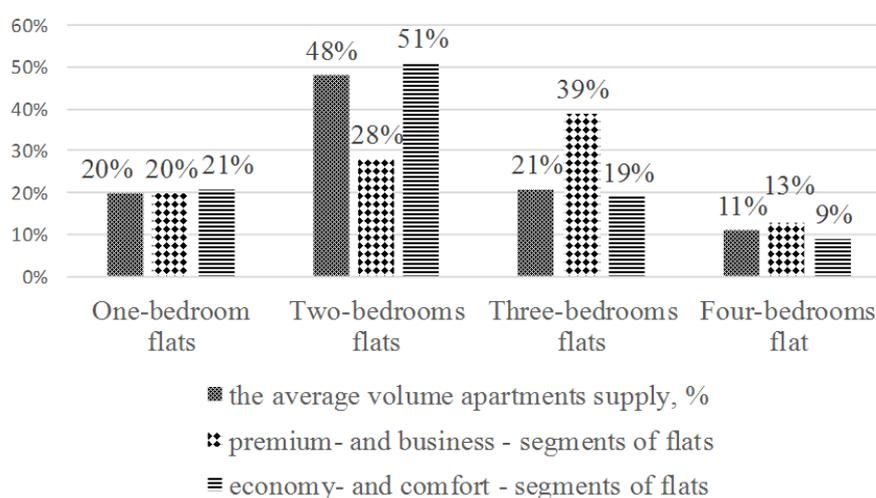


Fig. 4. The graphical interpretation of the supply of housing on the primary real estate market of the city depending on the number of rooms.

Note: compiled by the authors

There is a decrease in demand for housing in the primary real estate market, in 2016 in Ukraine and in Lviv in particular, in connection with reduction of the majority of citizens incomes, with a relatively high cost per square meter, with the large size of the first installment, that sometimes is 50 % of the cost of housing, with high rate of housing loans [22]. With the account of these factors, and in conditions of changes in the environment of the enterprises-developers and customers, which are manifested in the allocation of new segments of the primary real estate market, the increasing varieties of property offered, market saturation, in the emergence of new technological

opportunities, as well as the constant dynamics of the needs of the customers, there emerges the necessity of introducing service strategies and developing relations with customers [12]. The development and selection of service strategies for each individual segment are possible, when the enterprise-builder will determine the prospects of cooperation with the customer (Fig. 5).

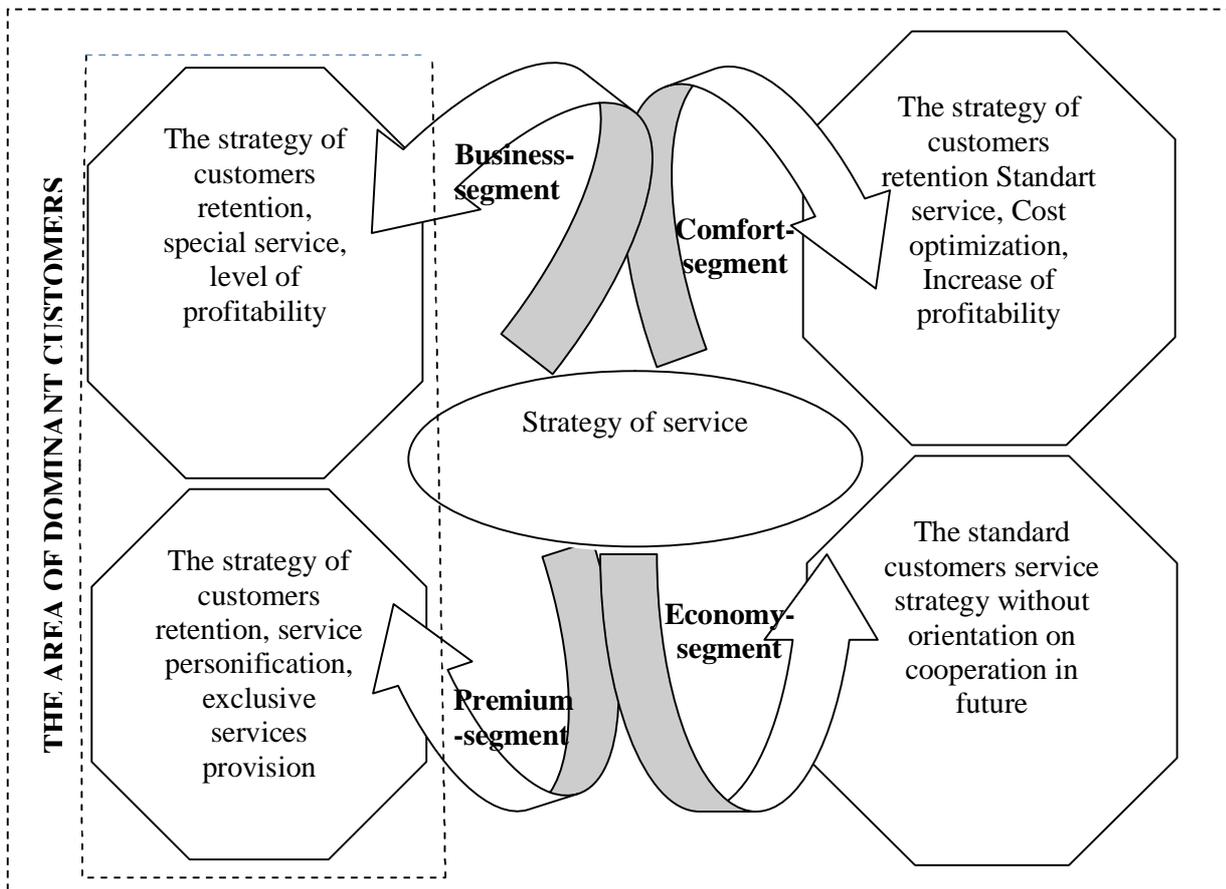
The detalization of cooperation strategies with customers should occur in such directions [21]:

- Formation and application of individual standards and customer service levels for each segment of the primary real estate market.

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- Formation and application of the programmes of increasing clients' loyalty to the building company.
- Formation and implementation of effective programmes to attract potential customers to cooperate with the construction company.

- Implementation of the system of total quality management in the company-developer, development of customer service standards for each segment of the market, with taking into account the level of profitability and the potential for the developer.



*Fig. 5. The strategy of cooperation of the developer with a client in the market of primary real estate*

*Note: compiled by the author*

Customer service on the primary market of real estate consists in providing a wide range of services that allow the developer not only to satisfy the needs of their customers, but also to receive a number of strategic advantages. First of all, “integrated services” are increasingly becoming a direct source of profit and their use can significantly increase the revenue and profitability of the developer company [15]. Another benefit is that it helps to form a stable housing market, reach new segments, markets or increase market shares. Service strategies, which are customer-oriented, provide the solution of customers’ problems through providing them

with greater reliability, lower operating costs, faster response to their requests, facilitation of procurement and quality assurance of goods and services [8]. Since the specificity of the primary real estate market consists in the developer’s offers to the customer of both a commodity (housing) and services [12], the directions of their development can be defined in two-dimensional space, which, in turn, separate system strategies of customer service: strategy of customization of orders, strategy of core competencies in the service, strategy of expensive leadership and strategy of high added value (Fig. 6).

		Housing	
		Standard	Individual
Customers service	Standard programme	THE STRATEGY OF EXPENSIVE LEADERSHIP	THE STRATEGY OF CUSTOMIZATION OF ORDERS
	Individual (special) programme	THE STRATEGY OF CORE COMPETENCIES IN THE SERVICE	THE STRATEGY OF ADDED VALUE

Fig. 6. Strategies of customer service in the primary market of real estate

Note: based on [12]

The retaining of the competitive advantages by the company-developer on the primary real estate market, achieved through cost leadership or excellent competence, is a continuous process which reinforces itself, if it was well planned and proceeds successfully. Achieving the benefits should bring results in the form of customer loyalty, their satisfaction, and profitability, which in turn will make it possible to increase investment in key competencies and tools, and it strengthens the competitive position of the building enterprise [8].

**Conclusions.** The proposed strategies of cooperation of the developer with customers in various market segments of the primary real estate market and service strategies will increase the number of customers in each of the segments and will strengthen the competitive position on the market of primary real estate in connection with the use by enterprises-developers of customer-oriented service strategy in their activities. According to the importance of the customer service market, further research of potential directions of optimizing the level of customer service and assessment of its economic efficiency is relevant.

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