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Daft.ie (Ireland)

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Daft.ie (Ireland)[1]

Eamonn and Brian Fallon sat in their office at the Digital Hub near the Guinness Brewery in Dublin and reflected upon their success. It was a beautiful day outside and the sun shone warmly through the windows. About them on the walls was an array of awards that they had collected over the past two years. Indeed they had received a telephone call earlier that day informing them that the radio programme 'Down To Business' on NewsTalk 106 had selected them as a leading example of best business practice and wanted to interview them. It was yet further recognition that the decisions that they had taken in the past were paying rich dividend. The company's website daft.ie was now receiving over 650,000 unique visitors a month and it was generally regarded as being Ireland's biggest property website.

One of the key lessons that the Fallon brothers had learned early in their business careers was that you cannot stand still for long as the environment is constantly changing. A variety of competitors had noted their success and they were looking to eat into their market. Eamonn and Brian started to brainstorm what their growth options might be and listed the following as possible opportunities: (1) go international, (2) develop the area of overseas property, (3) upsell opportunities for existing customers, (4) develop the commercial property sector, (5) have other classifieds such as jobs and motors, (5) develop different language versions for foreign nationals coming to work in Ireland, (6) develop the mortgage centre activities, and (7) place a greater focus on the advertisers rather than the users. While each of these options had merits, they also had negative aspects to them. The Fallons had created their success by being focused in their product and service offering, spending only retained funding to finance growth, and using word-of-mouth as their solitary promotional tool. They did not want to alter these principles, although they considered that this may not be possible. They also recognised that growing the business would require significant changes to the internal organisational structures and that the sales function would also need to be substantially reinforced. It felt like their success was causing them more difficulties than solutions, and that the challenges they faced were getting bigger and bigger. They also knew the importance

[1] This case was prepared by Dr Thomas M. Cooney as the basis for class discussion rather than to illustrate either the effective or ineffective handling of a business situation. This case was first published in the book "Ernst & Young Entrepreneur of the Year Case Series" which was edited by C. Henry (2007) and published by Blackhall Publishing.

of the decisions that they now needed to take as the future success of the company was dependent upon them making the right choices.

Background to the Company

The idea for the business initially arose from a discussion around the Fallon family dinner table. One of the members of the family was leaving home and was looking for rented accommodation in Dublin. It was 1997 and the principal way of finding rented property at that time was through the classified advertisements in the newspapers. But there were a number of limitations with this system, the greatest of which was that the advertisement gave very limited information regarding the property. To secure suitable accommodation required many telephone calls and visits, sometimes taking weeks to find a suitable property. But the system was also inefficient for landlords as they had to take a block booking for three days and although the property may be taken after the first day, people would still be making contact over the next two days. It generally was an unsatisfactory way of doing business for both parties but the only alternative was to go through an agency and that was more expensive.

Around that time Indigo had launched a consumer internet package and the brothers had purchased one as a gift for their father. However, they soon realised that he was not interested in using it so they started to explore its benefit themselves. Eamonn had also just started an engineering degree at Trinity College Dublin and so wanted to know more about this new channel of information. It was the early days of the internet and its uses were still narrow, with limited information available. They researched the internet looking for websites that had a real-time list of properties, with photographs and extended information, and giving the date when the property was entered. Trawling through the different search engines revealed that no such website existed for Ireland and together with the discussion about the family dinner table, they realised that they had identified a real business opportunity.

Nothing happened for some time as Eamonn pursued his studies in Engineering at university and Brian was still at second-level education. However, a business ideas competition for second-level students prompted Brian to explore the possibility of using the properties online idea as his entry and so he started to develop a very basic website. He began by building a homepage which offered two options: house sharing and property to let. People would email

their requests to brian@indigo.ie and he would copy and paste them onto the website, where they remained until such time as the property was taken. It was a free listing service and the website was promoted by Eamonn through posters, primarily located in the third-level colleges about the city. The only income stream was through businesses advertising but that remained small for a considerable time. Brian reached the final of the competition but people's lack of understanding at that time of how the internet worked did not help his chances of success. However, more heartening was the discovery that a very large accountancy firm in Dublin was telling its new recruits to check out the website when looking for property, as this endorsement took its activities away from the student market for the first time.

The website had used a variety of domain names during the early days including www.indigo.ie/brian and www.property.tp. In 1999, they finally took the name www.daft.ie when they realised that the opportunity was more substantial than they had ever imagined and a definite brand name needed to be established. A highly reputable estate agent had been frantically calling Brian at his secondary school wanting him to upload his properties urgently as customer demand was requiring a fast turnaround in properties to let. This demand for the website also coincided with Eamonn finishing his studies at university and so he began to spend more time working on the business. He was also working for a web consultancy business at that time which allowed him the opportunity to build up his knowledge and contact database of people within the internet industry. The website was totally revamped at the end of 1999 to give it a more professional look and this remained until 2004.

Until late 1999, the website was a small niche player getting approximately 5,000 hits per month. However, with the revamping of the website, the change in name to daft.ie, and the decision to go nationwide with its services, the company suddenly began to grow quite quickly. It was still a free-listing website with the only revenue stream coming from banner advertising. The growth of the business however was supported by the dot.com boom of the early years of the new millennium but despite the tales of fabulous wealth being generated by internet entrepreneurs, the Fallon brothers decided to grow the business organically. They felt that the internet industry needed to settle down and mature before they would consider making any large investments in the firm.

It was September 2003 before Eamonn joined the business in a full-time capacity with Brian following in the summer of 2004. The company initially employed a part-time person in December 2003 but since then have expanded to employing 10 full-time employees. As part of the development of the business, the company needed to improve its customer service capability and so dedicated one employee to give a customised response to every email that they received, as well as delivering other highly-tailored emails to all of its different types of users. They also added features such as a time-delay to give the impression that automatically generated responses have been highly considered and that the company has a large support team. As part of their customer service strategy, they were not prepared to pay large sums of money for above-the-line advertising for their website and so they focused on word-of-mouth promotion. They sought to "build a community" of people who would tell their friends about the service in much the same manner that eBay had succeeded. They now have 350,000 registered users who they believe act as advocates for their services. But the expansion of the business had not gone unnoticed in the wider community either, for in 2004 the Fallon brothers were rewarded for their efforts by being nominated as finalists for the very prestigious Ernst and Young Entrepreneur of the Year awards. They have since gone on to receive an array of awards including 4 Golden Spider Awards in 2004 and the Small Business of the Year Award in 2005. Indeed, these awards have also given the company significant promotion without the need to spend any money.

Current Activities

The website daft.ie is now widely recognised as being one of the premier players in the accommodation market in Ireland and it is also one of Ireland's most recognised internet brands. The company delivers 26 million pages of properties a month to over 1,300,000 visitors with more than 40,000 properties to sell or let at any one time. The company also has over 1,000 estate agents and approximately 45,000 landlords/homeowners advertising regularly on the website. The company has expanded its original accommodation offerings of sales, lettings, and sharing to also include short-term, commercial, and overseas properties. It is this combination of broad property offerings that makes it unique within the Irish marketplace. More recently it has also created a mortgage centre as an additional feature which allows users to apply online for a mortgage. The company also offers parking spaces for rental, reflecting the increased demand for this facility in the major cities of Ireland.

Indeed, when a person rents a property from daft.ie, a list of parking spaces available nearby is automatically generated for the user.

A major change in recent times for the company is that the revenue streams for the business have been extended beyond the original banner advertising fees. While that income stream remains quite strong, the business now receives income from a wider variety of sources including fees paid by estate agents and landlords for advertising their properties, and sponsorship from property related companies such as mortgage and insurance businesses. Interestingly, despite the additional income streams and customer markets, the company remains faithful to its policy of not having above-the-line advertising (even when daft.ie enters into new markets), which means that its marketing costs are kept quite low. Simultaneously, one of the most effective marketing tools developed by the company in recent times has been the daft.ie Quarterly Property Report which is an analysis of recent trends in the Irish rental market. The report is used by the Central Bank, mortgage institutions, financial analysts, and by the general public as the most definitive barometer of movements in that particular market.

The original business concept for daft.ie was based around accommodation letting and sharing. While Eamonn Fallon believes that the company has no direct competitors, he does accept that the company has many indirect competitors. Apart from word-of-mouth, evening newspapers such as the Evening Herald and the Galway Advertiser remain the major opposition for the letting market, although there is some evidence of newspapers moving this element of their activities online also. The management of daft.ie believe that the company retains the same advantages over newspapers as it did when the company started almost 10 years ago and that these newspapers cannot compete with the breadth and depth of properties offered by daft.ie. Other competitors for daft.ie would include traditional letting agencies (such as Home Locators in Dublin) that in addition to their office facilities also have their properties on their own website. Again none of these agencies would have the number of properties offered by daft.ie. These agencies however would also advertise their properties on daft.ie and so they are a customer and a competitor at the one time. Brian Fallon reckons that in excess of 90% of the rental properties in Ireland will be found on daft.ie and therefore these types of traditional letting agencies cannot be legitimately classified as a competitor.

Research by the company discovered that its users remain very loyal to the company and so as they traded up the property ladder, they returned to daft.ie for help. Because of the strength of this relationship, the house sales element of daft.ie was launched in 2003 and it has become particularly strong amongst first-time buyers as the transition is made by users from accommodation rental to home purchase. The general public would perceive that the biggest online operator for house sales is myhome.ie which has a strong brand name and a good market presence. However, it does not have the range of property activities (i.e. sales, lettings, sharing, short-term, commercial, and overseas properties) offered by daft.ie; this would also be true for its other competitors in this market such as propertypartners.ie and sherryfitz.ie. However, management does recognise that within the house sales markets, these websites have an excellent reputation and are more likely to be many people's first destination when looking to buy a house as daft.ie is still generally considered to be primarily in the accommodation rental market. However, both brothers do not believe that these types of websites are direct competitors to daft.ie.

As part of the services for those users wishing to trade-up or extend their property portfolio, daft.ie introduced foreign properties as a natural extension of its services to its clients. By June 2006, it offered properties in all of the following countries:

- **Europe**
  Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, France, Germany, Greece, Holland, Hungary, Italy, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Serbia and Montenegro, Slovakia, Slovenia, Spain, Turkey, United Kingdom
- **North America / Central America / South America**
  Brazil, Canada, Caribbean Islands, Dominican Republic, Panama, Peru, United States
- **Middle East**
  United Arab Emirates
- **Asia / Oceania**
  Australia, China, India, Indonesia, New Zealand, Thailand
- **Africa**
  Cape Verde, Morocco, South Africa

The overseas properties are supplied by foreign partners who view the Irish market as a wonderful opportunity for holiday home investment. The overseas property element of the business clearly demonstrates the key strengths of the management team within daft.ie: a

willingness to develop new target markets, relationship building with new partners, innovation in terms of product offering, and a continual desire to enhance the value that it brings to its users. Interestingly, one of the primary customer groups for overseas properties is the landlords who have previously advertised their Irish properties through daft.ie. They are now seeking investment opportunities and overseas property is a natural progression for them.

Another development with regard to international linkages is the development of partnership agreements with websites that are focused on sending workers to Ireland (such as recruitment agencies in Poland and other eastern European countries). These websites offer links to daft.ie's accommodation lettings section thus enabling the user to find accommodation before they arrive in Ireland. This new form of advertising, which is an advert and user link at the same time, allows the company to develop a new group of customers from outside the usual target markets. As with previous users, once they have established themselves in Ireland and are seeking to purchase their own home, it is the ambition of the company that these users will continue to use the broad product and service offerings of daft.ie.

It has been a key strategy of management that the company would continue to grow with the needs of its users. But another critical cornerstone of their success has been their ability to stay focused within the property market and not get diverted into activities that are outside their core strengths or knowledge. However, continuing to grow to meet user needs while not moving away from their key abilities may prove to be an increasing difficult task to achieve.

Challenges to Success

While some observers view their management approach as conservative due to their twin policies of achieving growth through retained funding only and without committing to above-the-line advertising, the Fallon brothers view their approach as sensible organic growth. They point to their continued success among the rubble of the dot.com generation as proof that their methods have been successful to date. But even as the company continued to grow impressively (tripling its hit rate in 2005) from its modest beginnings, a number of key challenges still face the business.

The sustained growth of the company has meant that the Fallon brothers are no longer able to manage all of the activities of the business directly and there is a strong need to delegate responsibilities among its staff. Indeed, an immediate task for the firm is to hire four new staff but finding the right people for the position and the right fit for the company is proving difficult. Once the four people have been hired, they will then need to restructure the organisation and current consideration is to departmentalise it along functional lines. While they are uncomfortable with this traditional structure, they are certain that they cannot run the day-to-day management of the business in the same way that they have been doing since the foundation of the company. This growth in staff numbers will mean that the office space that the company currently uses will no longer be big enough to hold all of their employees. They have rented space at the Digital Hub for a number of years now and have enjoyed a very positive relationship with their landlord. Each time they needed to expand, office space has been found for their operations. However, there may be no further room available for them and while not wishing to leave, they may have no choice. The upheaval in moving to another location would also seriously disturb their focus on increasing revenue and profitability.

The threat from internet businesses such as myhome.ie and traditional businesses such as the Independent News and Media Group (owners of the Evening Herald) means that daft.ie cannot afford to ignore the changing business environment. Management have identified the need to secure a very good salesperson as sales are not happening as quickly as is needed to fund future plans. If sales do not increase significantly in the near future, then either the plans will have to be shelved or alternative sources of funding will have to be accessed. This latter option is not in keeping with a fundamental financial policy of the firm and not developing the business activities of daft.ie could lose it significant market share. However, the search for a good salesperson has proved difficult and the right person has yet to be located.

Future Opportunities

The area of the business that provides greatest excitement for the Fallon brothers is with reference to future opportunities. They believe that as with any business participating in the property market in Ireland, there are many wonderful possibilities to expand their operations. Interestingly, one of the strongest opportunities that they have identified is not within the Irish market but to go international with their operation. As a business model they have proven that it works so there is no reason why it cannot work equally well in other countries.

They have considered franchising the business model but would prefer not to take that option. Instead they believe that they could run the operations for each country from Ireland, although they believe that each country would require its own locally based sales office. Such a move would also feed into another opportunity which is to attract non-Irish investors into the Irish market. They see this as having enormous potential although better value property deals can possibly now be found in eastern European countries. Another possibility within the same arena is to develop different language versions of daft.ie, particularly for the Polish and Chinese markets which have a substantial number of their people located in Ireland. The negative to this possibility is that it would require a full-time native speaker for each market doing the translations and the return on investment through increased revenue would be poor.

Apart from these international opportunities, management believes that a significant number of possibilities to increase revenue continue to be available within its existing services, particularly through upselling to its current users. There are a large number of different types of markets each with substantial potential customer numbers that have not been fully exploited. For example, commercial property was one of the fastest growing market segments in 2004 and yet the daft.ie website does not push this area of its business offerings. Equally, parking spaces are available through the website but their revenue potential for the business remains relatively untapped. Equally banner advertising is a considerable source of revenue for many internet companies who innovatively utilise their space to create further income. While revenue from this activity has always featured strongly with daft.ie, there undoubtedly remains significant potential for the company to increase its financial returns. Similarly, the recently developed mortgage centre is undersold and requires the attention of dedicated time to improve its revenue generation capacity. In fact, on reflection at a recent management meeting, the brothers agreed that all of the company's operations needed to be closely analysed to see how each area could have its financial potential maximised.

There was one other possibility recently discussed although there is a combined reluctance to further develop it. Some other websites see themselves not simply as a property website but as a 'classifieds' website which also offers products such as jobs and cars. The positive of this opportunity is that it greatly expands the customer base and the potential for revenue generation is substantial. The negative is that the company would no longer be focused in its operations and it would be copying traditional media. While neither brother had much enthusiasm for the idea, the potential opportunity that it offered meant that it could not be

dismissed easily. It also opened up the discussion whereby diversifying its operations into other types of products beyond property was now being considered.

Time To Be Interviewed

As the brothers discussed all of the issues and opportunities that the business faced, there was a knock on the office door and the reporter from NewsTalk 106 was introduced to them. He had come to record an interview with them for the following week's edition of 'Down To Business'. Apparently the programme had been running a series over the previous six weeks dealing each week with different examples of good business practice. These principles included:

- Listen to your customer,
- Constantly improve your product or service offering,
- Everyone in the organisation is responsible (for the customer, quality service, etc),
- Exceed expectations,
- Treat others as you would like to be treated,
- Focus, focus, focus.

As part of the series, listeners had been invited to nominate businesses whom they believed best exemplified these principles and daft.ie had won the award. Without ever really setting out to deliberately implement these principles, they agreed that their management style had intuitively introduced them as the business grew. They always felt that they were primarily in business to help people and that it was by doing this properly that they could be successful. Their philosophy was obviously working so far!