

Research Is About Risk Reduction

An Interview by James R. DeLisle

A Discussion with Rafael Gomes Pelote, Market Research Manager, Sonae Sierra



Rafael Gomes Pelote

Background

Rafael, thank you for your willingness to tell your career story and provide us with some of your “lessons learned to help guide our Next Generation of retail real estate professionals. Let’s start with your current position. Whom do you work for?

I work for Sonae Sierra (sonaesierra.com) as Head of Market Research. I am based in our office in Lisbon, Portugal, although I spend most of my time traveling throughout Europe. Sonae Sierra is an international shopping center specialist which was incorporated in Portugal in 1989. It is currently 50% owned by Sonae SGPS (Portugal) and 50% owned by Grosvenor (United Kingdom). Sonae Sierra operates in several countries in Europe including Portugal, Spain, Italy, Germany, Romania and Greece, as well as in Brazil in South America. All told, we manage 65 shopping centers, with some 2.1 million square meters (sq m) of gross leasing area (GLA). Over the years, our firm has introduced a number of innovations in Europe that include shop utilization contracts, themed shopping centers, “green” shopping centers and the full integration of leisure with retail and other services.

Whom do you report to and what is your current role at Sonae Sierra?

I report to a member of the Board of Directors responsible for the property management side of business, since most of the research done in the past was focused on property management and development. Today, however, the scope is wider and a lot of what we do is more strategic, looking beyond property-specific issues to form a view of the overall portfolio. My current mission is to support the decision-making processes within Sonae Sierra by providing knowledge about the non-financial aspects of the European

shopping-center markets, and being the repository of information about the market, consumers and customers, within the company. This responsibility spans several areas of our business, including investment and property management for our existing centers, as well as development of new centers.

Tell us about your role on the property-management side of Sonae Sierra’s business. What methods and tools do you use to gather data to support your research?

At Sonae Sierra, we regard research as a way to reduce risk in the decision-making process, as well as a way to add value to a specific property, to become more efficient in attracting new consumers to the center, and to increase the loyalty and spending of existing customers. Since we operate in seven countries, we track a wide variety of consumers and we need to understand how consumers in different markets make shopping decisions. By studying the demographics and shopping habits within our trade or catchment areas and by tracking our own shopping-center visitors, we have been able to understand how our centers relate to consumers and how they are affected by their competitors. To apply these metrics across our portfolio and to deepen our understanding, we have created a series of formatted tools, Geotracking® and Malltracking®. These tools include in-house surveys that are cross-referenced to provide information about shopping habits in a specific catchment area, as well as visitor demographics and consumer satisfaction. The indices generated from these surveys allow us to measure the efficiency with which individual centers capture the “right” profile of customers, as well as to quantify the impact of competition. We combined these inputs with Mallwitness® (our own mystery-shopping tool) and a commercially available methodology measuring satisfaction and loyalty to provide us with a broad view of center performance. This insight allows us to adapt our leasing, marketing and product strategies to improve performance and meet efficiency objectives for our individual centers, as well as our portfolio as a whole.



How does your market research approach the investment and asset management sides of your business?

The investment- and asset- management sides of our business are critical to our long term success. We take great care to ensure that decisions are based on an understanding of current facts and circumstances, as well as on future changes that will impact the operations and values of our individual properties. Supporting property management remains a longstanding commitment for our Market Research Department. Given higher in-house demand for contextual market information and benchmarks, we are constantly working to improve our ability to address these issues. We have expanded our role to support the strategic decision-making that is important to the investment side of our business. These efforts have benefited from the good relationship with the Research Department at our 50% shareholder, Grosvenor. Since most of its efforts are focused on the investment issues, Grosvenor has helped us to develop a broader view of the factors underlying economic performance.

A recent initiative for the Market Research Department is to provide more support for our Asset Management Department. To do this, we used our skills in long-term performance forecasting and competition-impact analyses that were initially developed to help our Development Department when we started our business activities in Portugal some 25 years ago. The fact that we got in on the ground floor when the shopping-center industry was in its infancy in Portugal and that we have continued to operate there over the years has given us the opportunity to learn about the property life-cycle phenomenon first-hand. This in turn has helped us to figure out how to extrapolate into the future and has allowed us to continually improve our ability to proactively anticipate opportunities and threats.

How do you use market research to support Sonae Sierra's development activities, which are by definition more forward looking than other activities you support?

That question leads me to think back to a recent article by David S. Rogers for ICSC's *Research Review* that raised some early memories of doing research to support development decisions. Most of the work in those days was based on fabled analog methods, since we lacked the historical data to support our decisions. Since my training was neither in real-estate research nor geography, it took me some time to acquire the necessary skills to be able to develop the first gravity models that we used in making development decisions.

Interestingly, we now find gravity modeling to be less accurate than analog methods, which we use extensively. We benefit from having data from the Geotracking® and Malltracking® surveys, as well as data about sales and foot traffic in each of the shopping centers we manage. We can forecast the performance of a new shopping center with a very low error margin. Our best forecast was within -0.3% deviation on the first 12 months of cumulative sales. Typically, our forecasts fall within 5% deviation from actual results. Our forecasts are for sales, foot traffic and rent levels. However, since we are long-term investors, we focus our analysis on the long-term sustainability of the projects. To accomplish this, we have done internal research on the life cycle of a shopping center, especially focusing on the first years of operation and on the rent sustainability, by studying the affordability concept.

Career Path

Let us turn our attention to where you came from and how you got to this point in your career. Where were you born? What was it like growing up?

I was born in 1969 in Lisbon, Portugal, and was raised by my grandparents. Unfortunately, when I was 17 my grandfather died and I acquired significant additional responsibilities. I went to work during the day and studied at night. As a result, and given my desire not to compromise on acquiring the technical skills I thought I would need, it took me seven years to complete my university studies, instead of the usual five years. This prolonged educational experience was advantageous in that it gave me professional experience to back up all that I was learning. Looking back, I think that helped me develop a better sense of what was going on than my colleagues who were full-time students.

What is your academic background?

I earned an academic degree in Management from Instituto Superior Ciencias do Trabalho e da Empresa (Superior Institute for Labor and Business Sciences), one of the better known Portuguese universities, and a post-graduate degree in Marketing and International Business from the Instituto para o Desenvolvimento da Gestão Empresarial (Institute for Management Development), a business school associated with this university.

How did your career start?

My first job was in a small construction company, a small general contractor, where I trained for six months in the Purchasing Department. After that, I moved to a larger company in a similar line of business, where I worked for a little more than four years in Human Resources. At that point, one of my teachers whom I



had impressed along the way recommended me to Sonae Imobiliária (the company which at a latter stage became Sonae Sierra).

So that was your first foray into retail real estate. How did that opportunity unfold for you? How did you start out there?

It is interesting how we remember certain turning points in our lives. In October 1992, I received a phone call from the Sonae Imobiliária, inviting me to an interview. In December, I was asked to join the company. At the time, the Property Management Division consisted of 30 employees, and only had five small shopping galleries under management. The overall company had no more than 50 employees. I was able to choose between two alternative roles when I was hired: I could be in charge of market research, or I could take on the role of operational marketing.

That was a difficult decision since my academic training was focused on marketing, and, as such, both roles seemed very attractive to me. However, market research was more interesting, perhaps because it better fit my personal characteristics. At the time, I considered myself a curious person, with an interest in understanding the big picture without losing sight of the details. At the time, market research offered that opportunity.

You stayed with the company for a long time. How did things unfold from those initial days?

Over the following 15 years, Sonae Imobiliária, now Sonae Sierra, expanded into seven different countries (Portugal, Spain, Italy, Germany, Greece, Romania and Brazil). It is now the owner or co-owner of some 50 centers, with a share of net asset value above €1.8 billion, and it also manages 65 projects. I am proud to say that in more ways than one my department has been involved in several aspects of each of these centers. Today, the Market Research Department consists of 12 people, based in Lisbon, Madrid and Milan, and covers all the European countries where Sonae Sierra operates. Additionally, I have found the company to be very much research-focused and challenging. This grew on me throughout the years.

Looking back, were there some specific events that were defining moments—either negative or positive—in your life? If so, what were they?

A curious fact about human beings is that we mostly tend to remember the bad moments. For example, the loss of a colleague and/or a friend to some sort of illness is something that makes us wonder about the real meaning of life and the role that work plays in our lives.

I have been lucky enough to find work enjoyable, so that work has helped me to get through the bad moments. However, I would like to share a brief story about a funny moment that was important in helping me to learn and to grow, both as a professional and as a human being. When I was invited to join Sonae, I remember telling the former Managing Director of the company, Mr. Danilo Picolo (a very good friend and a person I greatly admire), “Okay, I’ll join the company, but I must tell you in advance I know nothing about shopping centers.” His answer struck me: as good humored as ever, he responded, “Doesn’t matter... neither do we.”

If you could choose your career path again, would you do anything differently? Do you think you would be in the same position today or would you do something completely different?

With the benefit of hindsight, I might have done a few things differently. However, I would not change anything too significantly. At this point in life, I am happy with what I have done so far. Even more importantly, I am happy to have the opportunity to continue working and doing what I enjoy doing.

What was the best career-related decision you made or opportunity you took? Why was it important to you?

I would say that the best career-related decision I made was to remain at Sonae Sierra, even though I had several opportunities to leave. As most of your Next Generation leaders will experience, I received from time to time tempting invitations to join other organizations. Despite the appeal of something new, I always decided to continue my career with Sonae Sierra, where I recently celebrated my 15th year. As such, I advise the young generation to always try to take a long-term perspective in thinking about their careers. They should ask themselves the question, “What would I like to be doing in 20 years?”

Why did you stay on one job so long? Was it that you were comfortable with the firm and your role?

My decision to stay was driven by two main considerations. First, there was still a lot to be done at Sonae Sierra. While I believed we had done a good and effective job, I knew it could be improved upon and that doing it better was within my ability. I really enjoy the constant challenge. Today I feel that I am part of our success story; a story that is still in its early chapters and one in which I have been an active character. At this point, who knows when—if ever—this story will end?

Second, Sonae Sierra has given me the opportunity to improve not only myself as a professional and an individual, but also my team. I understand this



relationship is a reciprocal one, based on trust and awareness; as long as we have something that can be beneficial to each other, there is no practical reason to leave. Above all, there is a subliminal reason, which I endorse completely: I love to work with most of my colleagues in our firm, whether above, at the same level or below.

Professional Relations

What role did other people play in shaping your life? Was there a particularly important person or mentor who influenced your career and if so, who was it and how did he/she affect your life?

One good thing about my work is that I interact with lots of people, both inside and outside the company. I cannot say for sure if I ever had a professional role model, but I can say that I have learnt a lot from all those with whom I have worked closely. It may sound a cliché, but I am always learning. Very often, those who influence me the most—and is this not the definition of a role model?—are those on my team, reporting to me.

How important are relationships in market research careers? Are they as important to international careers?

I believe that relationships are the juice of life. Meeting new people, whether socially or professionally, provides an opportunity to develop new relationships. Nothing is more important than a good network, starting with a network at the company at which you work. It is also imperative to develop your own external network of researchers or research-related professionals.

You operate in an international arena. How important are relationships within an industry and networking to those on an international career path? What are you doing to encourage industry affiliations?

Industry affiliations and networking are both important to success. The ICSC's European Research Group, which I have chaired for the past couple of years, has provided a networking platform. In Europe, with such a multitude of countries and cultures, it is sometimes difficult to establish such a platform. However, I believe that our members realize that the mix of cultures adds to the experience. The opportunity to learn about other people's interests, the economic cycles in different countries, and how the industry is developing in other markets will help them in their daily jobs in the shopping-center industry. Additionally, they will also improve their own knowledge by sharing experiences amongst this group and they will find that

learning about the other cultures and languages becomes fascinating and rewarding in its own right.

In addition to helping understand shopping centers in various countries, the European Research Group has grown beyond just a group of research professionals sharing knowledge. Indeed, I have seen a number of friendships develop among its members, which is very gratifying and personally rewarding. All I can say to Next Generation leaders is that the opportunity to become a member of an organization such as the ICSC and to contribute to the development of the shopping-center industry is a privilege. Fortunately, it is also an opportunity that is open to many new and mid-career professionals.

Role of Research

How important is research to the industry? Is it receiving the recognition it warrants?

Research will always be a risk-reduction tool. As a joke, I often say that the purpose of research is to reduce anxiety, and therefore my department should be called the "Xanax" Department. As the marketplace becomes more competitive and less stable, knowledge becomes even more important in decision-making. The marginal impact of a bad decision is much greater today since we live in a business environment where efficiency is more and more important.

The role of research is to reduce risk and to support the decision-making process. However, for this to happen, it is crucial for the researcher to understand what is relevant and what is not. Since we are surrounded by lots of information, being able to distill all the information available to us and to select only what is relevant and important is a skill that is increasingly important for today's researcher. This skill can only be developed through experience and keeping an eye on the bigger picture in order to cultivate an understanding of the business in a broader sense. I believe that the role of research is partially to help the decision-makers maintain focus by providing pertinent answers to the really important questions.

How has research changed over the past several years? Where is research headed in the industry?

I would say that research has significantly evolved over the years that I have worked in the field. During that time, we have benefited from the introduction of new and better tools. Today, the development of new technologies and instruments has allowed us to be more selective and precise than in the past. For example, in Europe we have the necessary data to develop



sophisticated geographic information system models. These models result in time savings and higher quality work, as well as enabling the professional to take a more critical view of the real estate on offer. As the industry becomes more and more competitive, I believe we will see an increase in the importance of research. Indeed, I imagine that a significant share of the top managers in this industry in the future will have had some sort of research experience in the past.

Are “lessons learned” and research insights portable across country boundaries or are they materially different?

It really depends on several conditions, many of which are beyond the control of researchers and prior experience may not be the most important factor. For example, research methods and technology are very often portable. However, they cannot be applied across Europe, where countries have different levels of development and different access to data and other required inputs. In many cases, experience and the capacity to improvise to overcome such limitations are crucial to success. Such abilities will help the professional to interpret the market and make thoughtful, disciplined decisions, especially in markets that are at different development stages. Regardless of where the market is and what data are available, researchers must be able to understand different consumers, respond to different planning procedures, and react to different competitive environments. Thus, a casual observer from the U.S. might be surprised to find out about the significant differences between the Portuguese and the Spanish markets, two countries in the same peninsula, sharing some 900 kilometers of border! However, such distinctions must be explored before making major real-estate decisions.

Future Vision

How can young professionals prepare for the future world?

Young professionals should always try to understand the big picture of their business. At the start of your career, you will often be asked to perform tasks whose

purpose you may not totally understand. By keeping the bigger picture in mind, you will not only learn the fundamental skills that these tasks entail, but also how they contribute to the strategy and tactics of your firm. Secondly, you should ask questions; not just of others, but of yourself as well.

Do you have any career advice you would like to share with Next Generation young professionals?

Make sure you are always honest with yourself and with others. In many cases, it is better to say, “I don’t know how to do this,” rather than pretending to understand and to complete assignments through guesswork. Admitting your limitations will provide you with an opportunity to ask for help and to start building a base of knowledge. You will gradually build your reputation based on the quality of your work and you will find that your reputation is your most important and enduring asset.

Do you have any final thoughts or recommendations you would like to share?

There was a 16th century Portuguese poet who wrote, “All the world is composed by change, while continuously assuming new qualities.” When I consider that personal computers were quite a novelty when I started working, I wonder if one can be more visionary than that! Starting my career in the retail real-estate industry in Portugal some 15 years ago allowed me to gain an understanding of how a market that was nearly non-existent can evolve into a state of development where incremental gross leasable area is negatively impacting the returns generated by existing investments. I can only speculate about what lies ahead given the fast pace of change in recent decades. However, I believe that we must accept the inevitability of change and the pace at which it occurs. So, my best advice to Next Generation professionals is to be prepared for change and to remain ready to adapt throughout their careers.

On behalf of ICSC and Next Generation professionals, I would like to thank you for your time and for sharing your lessons learned.

This is part of a series of executive profiles of research-oriented industry leaders conducted by **James R. DeLisle, Ph.D.**, Director of the Runstad Center for Real Estate Studies at the University of Washington. The series explores the extent to which the mind-set and skills cultivated in research roles have been instrumental in their professional development, as well as how they have built on that foundation.