

It's Time for Brokers and Agents to Remargin Their Businesses

Real Estate

confronts

PROFITABILITY

Swanepoel & Tuccillo

Real Estate confronts Profitability

Authors

Stefan Swanepoel B.S., M.Com (cum laude) & John Tuccillo Ph.D., CAE

Contributors

David Cocks, Dennis Galloway, Larry Liebross and Terri Murphy



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Preface

The revolution in the accumulation, interpretation and transmission of information has dramatically changed the nature of the real estate business. It has changed from a business where people skills were paramount and information was the sole property of the Realtor® to a business in which information is democratized and knowledge creation, as a service to the consumer, drives success. This change has caused turmoil and general uncertainty about how to conduct business in this new environment.

However, a far more important change was occurring in the industry even before the information revolution. That change was the shift in leverage from brokers to agents, resulting in a steady decline in broker profitability. In this new environment the pure practice of brokerage is insufficient to sustain a business unless the broker can marshal a large volume of transactions.

Fortunately, the same information revolution that has shaken the industry also provides the solution to the profit problem facing broker-owners. Technology has blurred the lines between brokerage and real estate related services which allows for the extensions of real estate businesses. Thus, the decline in brokerage revenue can be offset by the generation of revenue from ancillary businesses. In other words, share of market is replaced by share of customer.

The time has come to re-evaluate your business and your position in this industry. Are you just another real estate professional, or are you more? Are you happy being a “*Mom and Pop*” real estate company selling a few houses, or can you become a full service, home and lifestyle advisor.

To make the transition you have to think strategically, which requires discipline and focus. To think strategically, you must first create a vision of the future. To create a vision of the future, you must believe in, and accept change. *Change is natural. Change is good. Change can create opportunity. Change can create more profit, and profit makes the journey worthwhile.*

We hope that this whitepaper will contribute towards your finding an improved path to profitability. If you have any suggestions, ideas or questions, feel free to contact either one of us.

Stefan & John

Stefan Swanepoel and John Tuccillo

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	About the Authors	

Companies Profiled

Adigida
www.adigida.com

Compensation Master
www.compensationmasterusa.com

Fidelity National Information Solutions (FNIS)
www.fnis.com

L&G Mortgagebanc
www.alff.net

LeadMaXX
www.leadmaxx.com

Companies Referenced

Cendant
www.cendant.com

Coldwell Banker
www.coldwellbanker.com

eRealty
www.erealty.com

EXIT Realty
www.exitrealty.com

Help-U-Sell
www.helpusell.com

Home-Link
www.home-link.com

Keller Williams
www.kw.com

John L Scott Real Estate
www.johnlscott.com

National Assn. of Real Estate Consultants
www.narec.com

National Association of Realtors® (NAR)
www.realtor.org

NRT
www.nrtinc.com

Prudential Northern California
www.pruweb.com

Real Estate BUYER'S AGENT Council (REBAC)
www.rebac.net

RealtyU
www.realtyu.com

RE/MAX
www.remax.com

Weichert Realtors
www.weichert.com

yhd Foxtons
www.yhd.com

zipRealty
www.ziprealty.com

Revisiting Your Business Plan

SECTION

1

1.1 State of the Real Estate Brokerage Industry

Historically the fundamental driver of the real estate industry was the control of information. The real estate agent and the real estate office were the only sources of comprehensive information on which properties were for sale and those who might be interested in buying them. With this control revenues were practically guaranteed. Moreover, because this exclusive control was akin to a monopoly by virtue of the multiple listing service (MLS) any firm of any size could serve the customer equally well. As a result, the number of real estate companies grew without regard to market efficiencies.

In recent years increased market leverage by the consumer has begun to transform the real estate industry. None of these transformations are as profound as the restructuring of agent fees which, in turn, has undermined the profitability of brokers. Agents are claiming an increasing share of commission revenue, thus further diminishing the broker's profit. When 50-50 splits were standard, most real estate businesses were highly profitable. Today however, profit margins are so thin that most real estate brokers have been forced to reevaluate and remargin their businesses.

Many industry leaders have acknowledged that the next three to five years will witness the demise of the "stand-alone" residential real estate company as we know it today. There is, however, considerable debate as to the details of how and when this transition will occur. There is however, consensus that new models will emerge, resulting in real estate brokerages offering a much broader base of services.

Compensation Master, a leading financial consulting company, has researched hundreds of real estate brokerages in an effort to determine the optimum cost structures and profit levels. According to CEO David Cocks, the average net profit margin for today's real estate brokerage is between 1-3%. This equates to a per transaction profit ranging between \$44 and \$132 based on the average sales price for single-family homes. (According to National Association of Realtors® the average sales price in 2001 was \$151,800). This portrays an industry teetering on bankruptcy.

The key to remargin your business is changing your business model. NAR describes the current and emerging business models as follows.

Current and Emerging Business Models

Residential real estate brokerages have developed three primary models to meet changing customer demands.

Traditional Brokerage

In the traditional brokerage model all sales associates are independent contractors and 55% indicate they belong to a national, local or regional franchise. Typically, they offer few, if any, ancillary services such as title insurance. They generally serve one geographic center and focus on smaller and niche markets.

Vertically Expanded Brokerage

In the *vertically expanded brokerage*, real estate brokerage remains the core but new revenue streams have been created through ancillary services. In a recent survey, 91.7% offered mortgage lending services and 58.2% offered title and other insurance services. Some firms using this model are offering homeownership/concierge services including landscaping, security, appliance and home repair. They seek new business through membership in relocation/referral networks. Cutting edge firms are completing the entire real estate transaction on the Internet.

Agent Service Bureau

The third dominant model is the *agent service bureau* providing office and marketing support to independent sales agents who retain the full commission and pay a fee to the firm. This approach transfers the generation of income from transactions to agents.

Three other models are also emerging.

Unbundled Services

One is unbundled services. In this model, the consumer is offered a menu of services and can tailor their selection. For example, the seller may choose to market and negotiate the deal but want the firm to prepare the contract. This model targets the FSBO market, which is approximately 13% of the total residential market that comprises about \$110 billion in transactions.

Market-Makers

Another emerging model is *market-makers*, in which an auction format is used to determine fair market value and speed the sales cycle while the real estate professional guides their client through the process and interprets information.

Corporate Model

The third emerging model is the *corporate model*. With today's low cost of capital and heightened competition, non-brokerage firms such as title companies and financial services

businesses are seeking to leverage their geographic dispersion and strong capital base by acquiring a real estate brokerage and using it to generate clients for their other business lines (possibly as a loss leader).

Within any of these models, there are numerous possibilities to increase profits.

1.2 Agent Compensation

Compensation is the largest cost component for any real estate firm, often accounting for 80% of expenses. Therefore, the best way to reach a higher level of profitability is to design commission structures to ensure that fixed expenses are covered and profitability is built in. Large companies, for example, can offer commission splits up to the point at which the company achieves a revenue goal equal to the costs of maintaining the agent. At that point, the split becomes steadily less favorable to the broker.

Certain of the real estate business models described above are associated with particular types of compensation. For example, unbundled services are frequently associated with salaried agents. But the reality of the industry is that (aside from the traditional brokerage model) most firms will use a variety of business models. So, it makes sense to offer a choice of compensation plans as Compensation Master says that past experiences has shown that giving your agents a choice of commission structures almost invariably lowers the company's breakeven point.

1.3 Increasing Margins Through Ancillary Services

Companies having profitability problems are increasingly finding an additional source of revenue in ancillary services. These services can provide a significant additional revenue stream that compensates for lack of profitability in the core business. David Cocks states that real estate brokerages that provide ancillary services, without changing any other aspects in their companies such as compensation plans, have considerably higher net profits of between 4% - 7%, or \$132 to \$309 per transaction.

1.4 Increasing Margins Through Growth

One of the solutions to a declining company dollar is to grow the business and thus increase volume. Obviously, growth requires expenditure, so not all of the increased revenue generated by expansion will become profit. But if you can hire more agents without expanding your physical space, more revenue goes directly to your bottom line, reducing your breakeven point and improving profitability.

1.5 Revisiting your Business Plan

In the past the value proposition for real estate has been the control of information. The real estate professional possessed it and the consumer needed it. But this is no longer the case. As technology allows the consumer to control information the traditional role of the real estate professional has begun to change. A new consumer-centric value proposition based on reducing time and stress and increasing convenience and service will be necessary for success.

In his book, *The Eight New Rules of Real Estate*, John Tuccillo outlined the seven new competencies that allow you to create this value proposition:

- Counseling the consumer;
- Negotiating the contract;
- Managing the transaction;
- Marketing;
- Building and maintaining a brand;
- Acquiring, managing and using information;
- Thinking strategically.

Mastery of each of these is necessary to provide an attractive value proposition to the empowered consumer in a world where information is available to all.

Conclusion

Simply stated – it is the brokerage industry’s responsibility to figure out how to meet the changing demands of sophisticated consumers that are demanding a more comprehensive and superior service at a lower cost. At the same time we still must provide a practical, real world, profitable business model in which all components prosper; it is a prudent and wise business decision.

New Real Estate Business Models

SECTION

2

2.1 Overview

Over the last five decades the real estate industry has been in a constant state of evolution. Looking back one can today clearly identify business models and trends that have noticeably changed the way we manage a real estate brokerage company. Quite simply, a business model refers to a firm's core architecture, specifically how it deploys all relevant resources (not just those within its corporate boundaries) to create differentiated value for customers.

The 60's automated the MLS. Franchising and the emergence of new brands such as Century 21 and ERA became the legacy of the 1970's. The 100% concept and RE/MAX punctuated the 80's as the industry changed from a broker-centric to an agent -centric model. During the early 90's technology gained universal real estate acceptance while the latter part of the 90's saw the emergence of the Internet.

And so here we are, at the beginning of the 21st century. Although the dominant trend for the current decade has not yet been established, various trends are already flexing their muscle. We will most likely look back at the early years of this decade and refer to this period as the decade of the dominant consumer and the disgrace of corporate America. When we look at the degree with which the new economy has evolved and affected the real estate industry, it becomes evident that technology and the Internet have taken away the control previously enjoyed by the industry and triggered a process that is fundamentally changing its entire core structure.

The last few years have also introduced us to a deluge of new business models. We are clearly at the early stages of development and success is still, as yet, undetermined. There are however numerous models that are very appealing to the consumer and starting to show creditable success. It is hard to foresee winners or to construct exact definitions around new emerging concepts, yet when sifting through the smorgasbord of service and products, similarities in strategy and offerings begin to emerge.

In *RealeConnections* (2002), an audiotape set by Stefan Swanepoel, he outlined the following categories of new business models:

- Buyer Brokerage
- One-Stop-Shopping
- New Paradigm Companies
- Annuity Agencies
- Fee-Based Services
- Employee Agents
- Superstores

2.2 Buyer Brokerage

Almost an unknown term a decade ago, Buyer Agency has today become a common practice among real estate professionals nationwide. Barry Miller, dating back to the mid-1980s, is most frequently considered the father of the concept. However, it was under the leadership of Tom Dooley and Charlie Dahlheimer of the North American Consulting Group, in the late 80's and early 90's that the original fledging group of about 250 proponents grew to 6,000. This had taken place by the time the NAR acquired the Real Estate BUYER'S AGENT Council (REBAC) from Dooley and Dahlheimer. Since then, with NAR's intense involvement, the organization has grown to over 40,000 members, making it the world's largest association of real estate professionals focusing on representing real estate buyers.



Ongoing consumer pressure to separate the simultaneous representation of both the buyer and the seller has already caused major changes to the structure of the industry, and fostered courses, designations, books and legal proceedings frequently dealing with the issue. Its ongoing impact will most likely further sensitize the value of each side of the transaction (listing/sale), which were previously perceived as equal contributors. In the long term it will contribute to the overall restructuring of standard real estate commissions.

2.3 One-Stop-Shops

This business model is by no means new. It was introduced a few decades ago by some of the largest real estate brokerages in the country. However, this logical extension of services was only popularized in the mid 1990's by the new wave of Internet real estate companies. It became the flavor of the day when new start-ups promoted this *'new cool concept'* as the key driver to achieve the ultimate goal of quicker, cheaper and simpler real estate transactions. This *"Integrated Model,"* as it also became known, has as its core the goal of providing consumers with a single source or place to have all their real estate needs met.

Although this vision was pure and admirable, the implementation curve was far more complex than anticipated. Very few "dotcom" companies survived to deliver on the promise, yet they left behind a legacy of consumer perception that has required many large real estate companies to realign their existing business models.

Today, five years later, most large traditional real estate brokerages consider one-stop-shopping an integral strategy against the onslaught from outsiders (non-traditional brokerages) and dwindling commissions. By adding and incorporating mortgage, insurance and escrow services, many have seen their business become much more financially stable.



However, as much as this strategy has significantly contributed to the profitability of many real estate companies it has also encouraged financial institutions to refocus on their opportunities to enter the real estate brokerage arena.

2.4 New Paradigm Companies

Largely associated with the “dotcom” era, this business model has also been referred to as “*Online Offices*,” “*Internet Brokerages*,” or “*Virtual Real Estate Companies*.” Their purpose was to leverage technology to provide consumers with a faster, cheaper and better real estate transaction experience. A great many of these companies understood the technology very well, but did not understand the real estate business at all. So, as the market quickly became saturated with new players during the period 1996 – 1999, these players just as quickly disappeared in the aftermath of the tech sector collapse in the Spring of 2000.

As a result many traditionalists have written off companies that were born during that era. It is true that many former Internet brokerages did not live up to expectations, but a select handful did survive the crash and are working hard to validate their belief in a more streamlined, cost effective, and quicker real estate transaction. Good examples are companies such as eRealty, yhd Foxtons and ZipRealty.

It is naïve thinking to believe that they have disappeared, or that the concepts they subscribe to will not leave us an inheritance. Together with the concept of one-stop-shopping, they empower a consumer who is constantly placing downward pressure on the overall cost of the home buying transaction.



2.5 Annuity Agencies

In a period when top-producing agents wanted more, slicing and repackaging real estate commissions in a different way helped launch a new business model. That model catapulted RE/MAX, in the 70's and 80's, into one of the worlds largest and most respected real estate companies in the world.

Today, in a period where many top producing agents are approaching retirement, slicing and repackaging real estate commissions in a different way is contributing to the growth of another new business model. This time companies such as Keller Williams and EXIT Realty are rapidly expanding and changing from “multi-level marketers” to large, national real estate companies.

The core of this new business annuity agency model revolves around a “*Profit Sharing*” or “*Residual*” system. Through a residual income stream, agents can now earn dollars even after

they stop listing and selling real estate. Although not appealing to everyone it is very attractive to the many baby boomer real estate professionals who are contemplating slowing down, if not retiring. Therefore, it would be unwise to turn a blind eye to this new model as it, like the 100% concept, will most likely require you to re-evaluate the compensation structure within your company in the not too distant future.



2.6 Fee-Based Services

Fee-based services date as far back as the 1970's and are frequently incorrectly associated with the concept of For-Sale-By-Owners (FSBOs). Today, fueled by the growing inclination of many homeowners to use the Internet to try and sell their own homes, this concept, also referred to as the Consumer Assisted model, dissects the traditional real estate brokerage service into a more menu-driven type system. It affords consumers the opportunity to select those services for which they would like to be responsible for and those for which they are willing to pay.

Back in 1976, Don Taylor started a company based on this premise, called Help-U-Sell. The company stalled in the late 1980's under its then owner, Mutual Benefit Life Insurance, and was ultimately repurchased in 1996 by Roger Steiner, a longtime franchise. Since then the company and concept seems to have gained renewed momentum.

Although the Consumer Assisted model is still at an early stage of development, it has however gained sufficient momentum to experience the birth of its own association, the National Association of Real Estate Consultants (NAREC). Julie Garton-Good started NAREC in 1999, and today with a 1,000 members, it would appear to be at about the same stage of development as was REBAC a decade ago.



2.7 Employee Estate Agents

The concept that real estate agents might one day work as salaried agents remains as controversial as ever. During the last three decades various companies have considered changing from the existing independent contractor structure to some form of salaried compensation structure. A few companies even tested this model but there were no meaningful results.

However, today's real estate environment is considerably different from just five years ago. Many real estate companies have reached critical mass, access to listings are now no longer under MLS lock and key, the unbundling and rebundling of real estate related services is common place and most large companies are fairly advanced with automation. These changes create a significantly different platform from which to launch a new compensation structure.

It's true that most successful real estate agents operating under the traditional model will resist working for a fixed income. However, there are literally tens of thousands of experienced and new young professionals that may welcome a regular paycheck with perks.

Currently there are a few new companies testing this model, and although still in stealth mode, unofficial results are promising. Looking at this model from the point of view of a large bank, an insurance company or corporate America in general, the numerous management benefits are obvious and to ignore this alternative business model would be unwise.

2.8 Superstores

Mergers and acquisitions, consolidation and roll-ups have been around for decades and are not foreign to the real estate industry. Historically the acquisition of one real estate company by another has been the industry norm. But the industry has also seen a number of new players enter the industry, such as Metropolitan which acquired Century 21, Sears which acquired Coldwell Banker and Prudential which acquired Merrill Lynch.

In the aforesaid two examples (Century 21 and Prudential), the parent company changed, and although management changed as well, their overall involvement did not fundamentally change the business itself. In the case of Coldwell Banker, Sears actually did endeavor to re-engineer the home buying process and introduced the concept of one-stop shopping with very limited success.

However, the entrance of Cendant (formerly HFS) in August 1995 (refer to *Real Estate Confronts Reality* by Swanepoel, Dooley and Abelson) introduced a previously unknown consolidation strategy to the industry. Not only did parent company Cendant become the first ever holding company to simultaneously own more than one major national real estate brand (currently owning Coldwell Banker, Century 21 and ERA), but its subsequent creation of NRT created the largest and most successful real estate consolidator of all time.

Furthermore, in selecting Coldwell Banker as their brand of choice, NRT propelled what was already a premier brand and arguably the third largest real estate company in the nation, to super stardom and the number one brand in the country.



The 1980's introduced us to the concept of superstores and since then consumers have become enamored with giants such as Staples, Home Depot and Walmart. It was therefore just a matter of time before it would happen to the real estate industry. Even though the industry is very fragmented and often resistant to new trends, we have sufficient proof that it can be done. Whether its by introducing an outside industry brand and creating a new giant real estate brand (Prudential) or acquiring existing companies in multi states and weaving them effectively into one unit (NRT).

The big question is of course: *Is there room for another and, if so, who will be next?*

Conclusion

Remember that none of these new business models are perfect and neither should you expect any one of them to dominate the industry. Neither franchising, the 100% concept nor technology has achieved that honor.

However, the aforesaid concepts have all contributed significantly to the evolution of the traditional real estate model and so will the above new business models. Ignoring them is unwise and may well leave you standing on the outside looking in.

By staying current with the latest changes and trends, evaluating the value proposition of each new model, and then adding certain new business tools as they become available, brokers and agents can prepare themselves and strengthen their business to adapt to the changing market.

Tools to Remargin Your Business

SECTION

3

3.1 Overview

We have been bedazzled with *e-commerce*, *palm pilots*, *blackberries*, *m-life*, *t-mobile*, *bluetooth*, and more. But however overwhelming, real estate professionals must remember that e-business is nothing more than traditional business being done online. M-business in turn is little more than wireless e-business, and v-business is basically voice-enabled m-business. So in the end, the new alphabet soup is nothing more than traditional business restructured. Therefore you must also re-invent yourself to adapt to using these new repackaged tools.

The first technology wave brought us personal computers (PCs), Local Area Networks (LANs), and advanced applications such as word processing, contact managers and network communication. The first wave of communications did away with much of the paper and made it easier to save, file, retrieve and share information.

The second wave was the Internet, which expanded the LAN to the public domain. Indeed, this development is still a work in progress – with the Internet increasing in size, speed and efficiency almost daily.

The third wave is the current deployment of cheaper and faster bandwidth (DSL, cable and T1), which enables the convergence of pre-existing technologies into integrated desktop and software applications.

The fourth wave, just now beginning, is the deployment of wireless high-speed bandwidth that makes the desktop mobile. The primary drivers making this possible are low cost bandwidth to the home and office in the form of cable, T1 and DSL and near DSL performance on wireless laptop and palmtop devices.

Thanks to the Internet, the confines of time and space have disappeared. Thanks to the NRT, bigger does actually mean bigger profits. Thanks to the new business models we are experiencing a RE/MAX-type revolution once again. Thanks to the “dotcommers” we now understand that real estate professionals in the future will have to offer more for less. But that’s OK. Realtors® are not going away. They will not be dis-intermediated. Home buying transactions will always require the “high-touch” component of an effective, well-educated and well-equipped facilitator and negotiator.

The change in information processing may seem overwhelming and confusing. But real

estate brokers need not be technologists. In fact, they shouldn't be. Rather, technology is a tool and, like any tool, can be used efficiently only if you know when to use it to accomplish your business goals.

Your first job is to determine what you want to accomplish. That means developing a business plan. Second, you need to choose the right tools to implement that plan. Fortunately there are vendors who are putting together the tools you might need for success. These tools can roughly be divided into three categories:

- Communications
- Information management
- Personal (or business) management

The following sections describe representative companies delivering technologically innovative tools to the real estate industry.

3.2 Providing Brokers and Agents with Better Information

Company Overview

Fidelity National Information Solutions (FNIS) was created in August 2001 when Fidelity National Financial merged its existing data and information services with Vista Info, a company that was listed on NASDAQ. Since then, FNIS has assembled an impressive array of software solutions and data companies to become the world's largest data and technology company specifically serving the real estate marketplace. Acquisitions have included Micro General, ComStock, Vista Info (Moore and Boris), iProperty (RISCO), HomeSeekers (MLS division), Reez, and Eastern Financial Services to name but a few. Today FNIS has over \$400 million in annual revenues and provides data and technology services to more than 400,000 real estate professionals.



Products and Services

FNIS offers three types of services:

1. Provisioning of data about real estate and consumers (both in an aggregated and customizable format).
2. Business solutions that improve customer efficiency and lower costs.
3. Services that eliminate paperwork and processes. The core products of these services are: a lead and listing management solution (Paragon BrokerOffice or AgentOffice); a MLS platform interface (IDX, VOWs, etc.); a transaction processing service (TransactionPoint); and an e-commerce and transaction processing service (RealEC).

FNIS Customers

FNIS is not a competitor to real estate brokers or agents but rather a facilitator enhancing their services. FNIS operates as a B2B (business to business) service provider and serves four

industries: 1) Real estate brokerage; 2) Mortgage lending; 3) Settlements services; and 4) Homeownership services.

Value Proposition to Brokers

FNIS has come a long way in enabling cross-platform functionality, thereby adding to potential broker profitability. By offering these services to your customers, brokers and agents can now create additional revenue sharing opportunities as well as use a larger array of tools to help identify and acquire new on and offline customers.

One of these tools is the listing aggregation tool developed by FNIS that solves the problem for brokers and agents working with more than one MLS. The system not only aggregates the listings from the MLS providers operated by FNIS (Moore, Boris, RISCO, and HomeSeekers) but will also work with other systems such as Interealty, Realtron, GTE, MarketLinx, and Rappatoni.

Conclusion

Although FNIS is still a year or two away from standardizing and integrating all of their product offerings into one seamless solution, no other company comes close to the extent of what they offer: real property information for some 1,250 counties across the nation, arguably the most dynamic MLS system in the nation, a great Realtor® desktop, a good broker back office product and a transaction coordination system. Realtors® no longer need to go far to find a total one-shop data solution.

3.3 Expanding Your Core Business

Company Overview



L&G Mortgagebanc (L&G) was established 18 years ago and is headquartered in Scottsdale, Arizona. In the last few years L&G recognized the emerging trend in homebuyers' demanding one-stop shopping for the home buying process. It was one of the first mortgage companies to offer a unique program of lending-related products and services to real estate agents, enabling them keep up with these industry trends.

The L&G system is unique because the borrower receives instant loan approval (within an hour) from a live underwriter rather than an automated underwriting program. This assures the real estate professional and the borrower of the highest level of service and eliminates inaccurate information being input into a loan application. In addition, the L&G 4Way Warranty ensures that its service and rates will be comparable to the best in the industry. Mortgagegenie.net and Alff.net are divisions of L&G.

Loan Finding and Funding

Automated Loan Finding and Funding (ALFF) provides an opportunity for real estate agents to earn additional income through a origination-type fee, while offering their buyers a quality third party service.

The key components of ALFF are:

- A simple and efficient loan origination program designed for real estate agents, which ensures that agents do not compromise their existing core business of selling real estate.
- A live underwriter available 7 days a week to counsel with your borrowers and assist them in completing their loan application as well as counsel with your borrowers. This ensures that your loans will be correctly structured upfront and close seamlessly.
- Instant loan approval (not a pre-qualification) within one hour of receipt of the application, from a live underwriter.
- Twenty years of mortgage banking experience with a full variety of mortgage products.
- A fully RESPA compliant system.

Value Proposition for Brokers

- Creates an additional profit center for real estate brokers by providing mortgage services without the risks involved in owning a mortgage company.
- Enables brokers to provide a quality service to their agents, thus enabling them to recruit and retain more agents.
- Enables brokers to offer a superior service to homebuyers thereby improving customer retention.

Value Proposition for Agents

- Offers your buyers a one-stop service, saving time and money.
- Provides additional income from mortgage origination fee.
- Eliminate third party communication problems.
- Loan approval received directly from the underwriter.
- Enables agents to offer a superior service to homebuyers thereby improving customer retention.

Marketing and Training Support:

- The 4-Way Warranty guarantees competitive pricing, excellent service and on time closings in writing.
- The Customer for Life Program assures agents of ongoing business from existing and past borrowers.
- Free customized web page designed for a more convenient loan process and a professional image to your borrowers.
- Training and marketing support provided on an ongoing basis.

Conclusion

There are many ways to add mortgage services to a company's portfolio. The L&G system is however specially designed for real estate professionals and is an ideal way of getting into the business without going through the risks and effort involved with starting and operating a mortgage company. With the hot refinancing market, this also seems to be a great tool for real estate professionals to increase their profitability.

3.4 Improving Lead Management for Brokers and Agents

Company Overview



LeadMAXX and 360house.com are wholly owned subsidiaries of the X-variant Corporation, a NASDAQ listed company. Together these companies service the real estate industry with lead generation, lead qualification, and digital imaging tools.

Products and Services

Their suite of products include:

- A lead qualification service through both e-mail contact and “call center” personal contact to ensure the highest percentage of lead scrubbing and conversion.
- A multi media 360° tour of homes, including virtual tours, still shots, interactive floor plans, printable property brochures, and detailed statistical reports (called TourMAXX and PlanMAXX).
- For new home sales, a buyer web page that displays job progress, photos of new home and model, community, and builder/agent information (called MailMAXX).
- A means of communicating with buyers, using automated surveys, to improve customer satisfaction (called SurveyMAXX).
- A customizable experience to the broker’s site by providing a personalized web page to store favorite properties.
- A “Plug in” IDX/VOW search engine.
- A comprehensive, integrated backend that helps manage Internet leads.

Value Proposition for Brokers and Agents

Websites are no longer just brochureware. It has become important for brokers and agents to realize that they can obtain measurable returns from the Internet. LeadMAXX has created a way to provide for the capture and qualification of meaningful numbers of web users early enough in the home purchase process to make “one stop shopping” a possibility. They allow for real estate sales at potentially higher company retained commission levels along with the ability to garner increased mortgage, title and post-closing service conversion and revenue. Additionally, as a result of the LeadMAXX program, agents secure better-qualified Internet leads and avoid dealing with early users who are not ready to buy thereby increasing agent income, morale and productivity.

Conclusion

Internet leads are considerably different and in most cases less time sensitive compared to a lead generated by a walk-in, however the Internet lead still has significant value. Although we do not yet completely understand the buying patterns and habits of the e-buyer, LeadMAXX has one a long way in facilitating real estate professionals to more effectively obtain and market listings and attract and retain more potential web home shoppers with better web site content.

3.5 Providing Ongoing Customer Contact



Company Overview

Adigida Solutions, headquartered in Minneapolis, Minnesota, was founded by a former real estate company executive. His mission was to create the first Internet-based customer relationship, business retention and sales management service. It is the company's integrated, web-based application called *RealFuture* that we have included in this whitepaper.

Maximizing past clients

Repeat sales and referrals from past customers is well recognized across industries as the lowest-cost method for generating revenue. Yet in the real estate industry, repeat sales account for only about 10% of revenue. An obvious roadblock to marketing to this clientele is the average seven-year sales cycle. The passage of time coupled with a typical agent's failure to stay in contact tends to sever the bond between agent and customer. However, with a database of customers, well-devised information and communication programs and the use of technology to automate most of the tasks, the after-sale bond between agent and customer does not need to be severed. Rather it can be nurtured with resulting referrals and repeat business.

Product Summary

RealFuture provides a structured series of automated customer "touch points", that allow the sales professional the ability to effectively -- and non-obtrusively -- nurture their customer relationships through the seven-year home-buying cycle.

The key components of *RealFuture* are:

- A private web site "branded" by the sales agent and automatically created for each customer (called HomeHub).
- A Client Relationship Management system that works in concert with HomeHub Connect to feed real-time data to the customer's site, while promoting the client relationship through other traditional touch points (called Client Connect).
- A service that allows all the members of a team to work in unison, with real-time data and from multiple locations, while giving the team leader an overall view of the business (called Team Connect).
- An ability for brokers to easily work with their sales trainees, to better monitor and coach them during the critical early months of their career (called Management Connect).

Conclusion

Stand-alone and shrink-wrap CRM and Sales Management software invariably do not work very well in the real estate industry. Adigida's web-based services are a welcome improvement and offer many advantages. Perhaps the greatest advantage lies in the increased profitability the sales agent and/or broker can generate with a returning customer. Studies have shown that if the customer retention rate can be increased from 12% to 40-50%, then the overall profitability for the real estate sales professional will increase with about 50%.

Strategies to Remargin Your Business

4

SECTION

4.1 Overview

The past quarter century has seen the gradual erosion of the broker's profits, and as stated in Section 1, the average profit per transaction today ranges between \$44 and \$132. Unless the company does a large volume of business, this is insufficient to produce the revenues needed to stay in business.

Even larger firms have taken notice of the shrinking return to brokerage and have commenced an attempt to control other parts of the transaction. They have purchased other companies, created companies or partnered with existing companies to offer mortgage, title, home inspection and escrow services to the home buying public. Since margins in these businesses are greater than that of brokerage, it makes sense to generate more business in these areas to enhance profitability. On another level, brokers have instituted transaction fees, usually (and ultimately) paid by the consumer, to cover their overhead expenses and technology fees to help offset the cost of providing agents with modern transaction systems.

All these measures represent broker reaction to the reality of the market as seen through the filter of conventional wisdom. These are the only ways in which most brokers are able to make up for the decline in profits occasioned by the increasing commission share claimed by agents. There is another way to look at this, however.

In today's environment the real estate agent engages a consumer (buyer or seller) when that consumer enters the real estate market and accompanies the consumer through to the closing of the transaction. This involves helping the consumer sort through available properties (an increasingly less important function), helping the seller prepare the property for the market, preparing and negotiating a contract, and managing the transactions (arranging for financing, inspection, title clearance, settlement and so forth).

At this point, the agent leaves the consumer with a parting gift and turns their attention to the next most pressing transaction. And while the best agents maintain a cadre of customers who might return, the average agent moves from customer to customer, rather than building a "customer for life." If there is any long-term relationship, it consists of referrals from past customers to new customers.

4.2 New Economy Brokers

But if you widen the definition of the real estate transaction, the term "*customer for life*" could have real bottom line implications. The degree to which the household uses property-

related services *after* the closing of the sale is actually greater than before the sale. Thus, the potential revenue from the customer relationship expands dramatically after the sale.

This “move and improve” stage encompasses all the changes a household wishes to make to the property in order to make a house a home. Almost more importantly, the consumer will reenter the housing market as both buyer and seller, and *will likely refinance the mortgage on the house several times while still living in it*. All of these activities represent opportunities for ancillary income that a broker or agent might wish to seize upon. Creating the customer for life is thus a key strategy for brokers in the new economy in order to both preserve and enhance profitability.

The challenge to the broker-owner is to find ways to capture the revenues that are available in the market place. Those that are attempting to do so are pursuing one or more of three different but interrelated models for real estate brokerage in the new economy.

Model 1: Extension of Services

The brokerage attempts to reclaim the money left on the table at closing by extending the aftercare services it provides to consumers. The broker attempts to position the company as the first point of contact for consumers whenever they need any product or service to fill their homeownership needs. The company’s revenues come from brokering these services to households. Various large independent brokerages and national franchises have their own version of this model, while others may use a third party vendor such as Home-Link.

Model 2: Direct-to-Consumer

In this model, the brokerage recruits and services customers directly rather than relying on the real estate agent. Services may be offered in a package (as is standard in the industry) or on a fee-for-service, menu-based system. The companies using this model tend to be new in the business and rely heavily on technology to develop and deliver service. They also tend to use salaried agents (who may or may not be employees) rather than a fully commission-based sales force. Revenues are derived from capturing as much of the transaction for the company as possible and increasing profitability by using technology to reduce cost.

Model 3: Servicing the Agent

Most traditional brokerage companies see the real estate agent as its primary customer and seek to create a business “cocoon” that allows the agent to be as successful as possible. Usually, these models create systems that allow the agent to execute as many functions of his/her business (and in some cases personal life) as possible. These range from the traditional information and transactions management functions to extended business services like commission tracking, office supply orders and even travel arrangements. Revenues in this model come from the payment of monthly fees by agents to use the system.

4.3 Giving the Consumers What They Want

The above alternatives are of course not mutually exclusive, and some companies combine them, usually integrating the extension of services model with one of the other two. More significantly, larger companies may use a range of models within a single entity. But the introduction of any of these new models of real estate brokerage hinges on a structural change in the current business model.

Right now, the agent “owns” the customer. The agent recruits the customer, cultivates the customer, brings the customer to market and ultimately guides the closing of the transaction. The broker usually only enters the picture at the point of contract. Theoretically, up to that point, the broker has had no need to know of the existence of the customer. Only after that point are the records of the transaction and the information available on the consumer available to the company.

Clearly, the implementation of these new models require that brokers be more connected to the consumer both at an earlier stage of the process and in a much more intensive way. In the direct-to-consumer model, the path to this relationship is obvious; in fact, the need for the broker to have greater access to the consumer for the offering of ancillary services is the prime motivation for moving to this model. But for the others, an agreement might be required with your agents. In return for access to the consumer earlier and more frequently, the broker could include the agent as a partner, creating the process of selling ancillary services to the customer and sharing in the revenues generated from these sales.

It is undeniable that the Internet has brought a world of options within everyone’s grasp and has forever changed consumer-buying habits. New Internet empowered consumers are now more savvy, more sophisticated and more demanding than ever before. They now require the best price, greater efficiency in their transactions, and in some cases instant gratification. Retail has created a “24 x 7” mentality, intertwined with a one-stop approach and enhanced customer service. In most major cities individual grocery and liquor stores, butcher shops and more recently even drugstores have gradually been incorporated into the mega retail chains.

When that philosophy is transferred to real estate it becomes important to describe what it is that the home buying consumer might expect to be offered as the “*total home solution*.” Does it encompass all off and online services that integrate sales and settlement services to facilitate the entire home purchase transaction? Does it include everything that manages the process before, during and after the closing, while extending to include a “lifestyle concierge” service for the entire home ownership period?

The one indispensable element that remains is personalized service. Real estate companies have to maintain a strong component of their existing brick and mortar operations but must add, and continue to add, increased ancillary and online transactional capabilities. By doing this they have a high probability of remaining the primary gatekeepers of the home purchase transaction. However, the shift will have to be from gatekeepers of the information to gatekeepers of the process. If real estate brokers don’t make this transition they may find their role, as we know it today, decreasing and maybe even disappearing.

4.4 The Decisions: A Guide to Remargining

The correct decision for you hinges on a smorgasbord of interrelated issues. The first step is to think through and answer the following questions and to then prepare a detailed implementation plan. The successful introduction of a new ancillary service or technology almost always depends on which combination of choices you make and how well you see the rollout through. The decision to enter any ancillary business requires on a fundamental decision of whether you are going to build a new business from scratch, buy an existing business, or align with a strategic partner.

The WHAT Question

In order to consider what makes sense, it's necessary to understand what you want to accomplish. Are you interested in maximizing market share? Do you want to focus on profitability? Does real estate brokerage constitute your primary identity? Going forward in a new economy setting absolutely requires that you have a business plan that charts your course over the next several years. If you do not have a plan, then it is impossible to evaluate options for developing ancillary income.

Then, ask yourself whether the services that you will be adding to your existing portfolio is a "must" (*Category A - Important*) to remain competitive or to keep the customer, or are the services only a "value-added" (*Category B - Optional*) to have, but not critical to customer retention and basic service. Services frequently considered important include mortgage, title, escrow and insurance. Services usually placed lower on the list and therefore considered more or less optional would include those that play a smaller role in the home buying transaction or have less probability of interfering with your relationship with the customer. Such services might include pest inspection, appraisal services, repairs, and so forth.

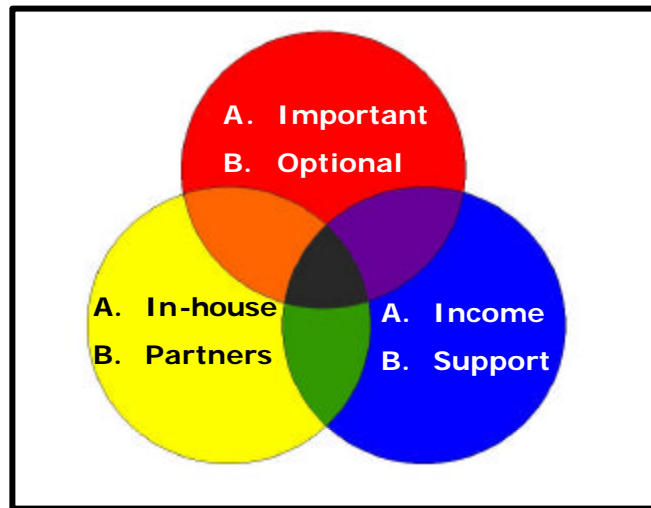
The WHY Question

Why are you offering the specific service, and how do you wish to have this specific service positioned in your company? *Category A - Income* refers to additional service if it is being introduced as a primary revenue source that will one day become a major source of income. *Category B - Support* is when a new service has, as its goal to only support your existing core services and protect your customer base, and you really don't mind too much whether the service is profitable or not.

Certain services, such as mortgage and title insurance, tend to fall very easily into *Category A*. These are both core services of the home buying transaction and both have the potential to generate fairly significant revenue income. On the flip side, the profit margins on services such as pest inspections and appraisals is fairly small and customer loyalty is generally low. As such, they would most likely fall into *Category B*. The importance of determining whether a service is in *Category A* or *Category B* will determine the level of your investment and commitment to offering that service.

The HOW Question

Now that you know what services you are adding and why you are offering them, you can focus on how you are going to offer them. If the services falls in both previous A categories (Important and Income) you will most likely lean towards doing it yourself (*Category A - In-house*). If the services again are both in the previous B categories (Optional and Support) you will most likely lean towards finding an alliance that can help you offer those services (*Category B - Partner*). The many other variations such as AB or BA usually can be equally satisfied by either an in-house or partner solution. Generally your decision to buy or build should be based on your own competencies and the relative cost of developing it yourself versus buying it from an outside source.



No business can be entered without a cost attached, but some require more investment than others. For example, beginning your own mortgage company requires far more in the way of capital than entering into a joint venture. Long and Foster, one of the largest independent real estate brokerages in the country, could certainly enter the mortgage business by itself. But it chose to form a joint venture with Wells Fargo, a tactic that allowed for a smaller investment in both capital and human resources.

The WHO Question

If you decide to invest in an ancillary business your next step is to determine who your partner will be. In today's real estate industry, state of the art is frequently required and usually also means that any system necessary to enter an ancillary business and to remargin your brokerage business, is already available somewhere.

For example, Fidelity National Information Solutions and First American Title are both close to offering full information and transaction management systems to the real estate industry. Home-Link already provides full after-sale care. L&G offers a great addition of ancillary services. LeadMAXX and Katabat offer excellent transaction and lead management systems.

And of course there are a myriad of other software companies that have developed systems that will enable you to do a variety of things.

Clearly this whitepaper does not even begin to contemplate all the alternatives and tools that exist, and your decisions on the what, why, how and who, should be based on the benefits you will receive.

4.5 The Implementation

Most new models can only be successfully developed with the cooperation of your agents since they are in today's model and still the primary point of contact with the consumer. In an effective implementation, a major consideration is the attitude of your real estate agents. Clearly, the more value they see in the relationship, the easier it will be for you to implement new businesses, the more customers they will recommend the business to and the longer they will stay with the company.

So, if you think that the evaluation process was complicated, those who have walked the path before you, will caution that the execution and implementation is even harder.

In closing we share with you some tips to guide you to a more effective implementation:

- Do your homework well. Make sure you know what, why, how and with whom, before you begin a new venture.
- Share the vision with your management team, administrative personnel and the sales force.
- Show everyone that you are committed to the project and that it is an integral and equally important part of the total company.
- Motivate those you expect to participate in driving the new program on a regular basis; especially your sales force.
- Remember to cross-sell and cross-pollinate your services everywhere, all the time, in brochures, on business cards, websites, sales rallies, and so forth.
- Manage the roll out by setting targets, obtaining meaningful and regular statistics, monitoring progress and correcting inefficiencies.
- Ensure that one person has the primary responsibility of championing this vision and has real authority to make it happen.
- Give existing managers in other divisions/departments additional incentives to participate and ensure the project's success.
- Always continue to promote change, share and inform your team about the ongoing changes and trends in the real estate industry while rewarding new ideas that initiate growth and success.

Conclusion

Real estate has traditionally offered a single price service to the consumer. All the services, whether required or not, were bundled into one set fee, always quoted as a percentage of the sales price. With the removal of information barriers, consumers are finding that they can perform some of these bundled tasks themselves, and the traditional model is under desperate attack.

Simply put, the traditional model is too inflexible. Consumers are seriously questioning the value of a real estate agent. They frequently feel that many of the traditional tasks undertaken by the agents are now either no longer required or can be done by the consumer themselves.

So, the most effective way for existing real estate brokers to thrive in this consumer-centric environment is to re-engineer their existing traditional business; by remaining the first and key point of contact with the client; and by providing unparalleled customer satisfaction.

Like a chess game, real estate business is strategy as well as tactics.

You know what you have, but you do not know what your competitor is going to do next and thus you need to think ahead, further than he or she will. You have to plan, plan to make the right move, as often and consistently as you can. You have to know what your ultimate goal is and how you intend getting there. You need to play fair, ethically and wherever possible, lead by example.

Follow these seven steps and you should stay on the winning track:

- Revisit your thinking.
- Re-evaluate all business models.
- Redesign your service offerings.
- Rewrite your business plan.
- Restructure your operations.
- Retool your e-infrastructure.
- Restate and resell your vision to your team.

PS: Don't forget to have fun along the way.

About the Authors

Stefan Swanepoel



Stefan is widely recognized as the leading visionary in the US real estate industry. He is a high-energy speaker, weaving rapidly through complex subject matter in an informational and entertaining manner. His enthusiasm is contagious and his messages intermingled with interesting statistics and thought provoking ideas. He has received numerous awards including “*Businessman of the Year*,” “*Best Idea in Real Estate*” and has been ranked as one of the top 20 Movers and Shakers in the Real Estate Industry.

His academic accomplishments include a bachelors degree in science, a masters degree in business economics (cum laude) and diplomas in arbitration, computer science, marketing and mergers and acquisitions. Today Stefan serves on the Board of Directors/Advisors of real estate, financial, technology, educational and telecommunication companies.

Stefan is a prolific writer with a penchant for the impact of technology on real estate. He has penned five books including “*Real Estate confronts Reality*,” (ranked as the #1 Real Estate Business Book for 1998 by Amazon.com) and his current best seller, “*Real Estate confronts the e-Consumer*” (2000). He has also written various white papers including “*Real Estate confronts Technology*” (1999) and “*Real Estate confronts the Banks*” (2001).

Prior to calling California home he lived on three continents and developed a broad international business background centered in the real estate and technology industries. In 1994 Stefan, his wife and their two boys immigrated to the United States and in 2002 they became US citizens.

Stefan can be reached via email at Stefan@Swanepoel.com

John Tuccillo



John is widely recognized as the foremost real estate and housing finance economist in the United States. His current consulting practice is focused on strategic and business planning, and his experience and counsel are sought out by trade associations, major real estate and other private firms.

His presentations on the economic outlook, real estate markets and change in the real estate business are invariably witty, informative and accessible to both lay and professional audiences.

He has served as a director or advisor to a number of technology firms, which shall remain nameless, since they are out of business and still owe him money.

He was educated at Georgetown University and Cornell University, and holds a doctorate in economics. His books, *The Eight New Rules of Real Estate* and *Click and Close* (written with Jim Sherry), are best sellers and have been instrumental in shaping the thinking of real estate industry leaders as they approach the challenge of changing their business models. His new book, *New Business Models for the New Economy*, was released in June 2002.

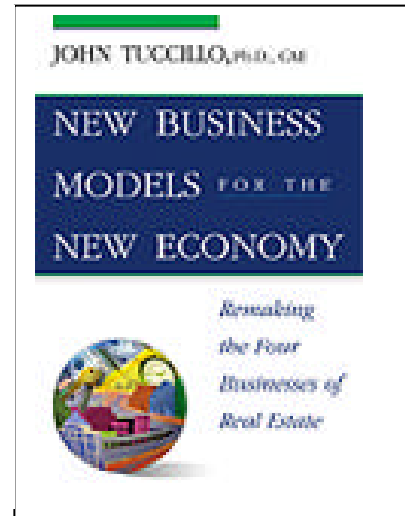
From 1987 to 1997 he was Chief Economist for the National Association of Realtors. He now runs his own consulting business, JTA, LLC, specializing in strategic and business planning. His clients have included Fannie Mae, Microsoft, GMAC, Prudential Real Estate Associates, Re/Max, Cendant, Ellie Mae, Windermere Realty, and a host of other large real estate firms.

He is a regular columnist for *The Real Estate Professional*. John can be reached via email at tumler@aol.com

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