Matthew Ferrara & Company

Why Technology Matters

Real Estate in the Post Boom Cycle

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For five years, real estate sales growth came down to one factor: who could take orders the fastest. The proof of this was the rapid growth of newly licensed agents who were "successful." By 2005, the National Association of REALTORS® reached record membership levels and many real estate agents had adopted a "drive-through" attitude, buoyed by price appreciation, tight inventory and cheap mortgage money. The giddy pace of sales meant that the weakening fundamentals of brokerage - sales skills and cost-efficiencies –were papered-over with profits. Who needed to master a Blackberry or bother replying to consumer emails when they were writing record-breaking deals on sticky-notes? When the "opportunity" was so easy, who needed a "plan"?

And then, in mid-2006, it all came to a stop.

In 2006, the real estate industry experienced its own "dot-com" market correction. Just as the dot-coms of the '90s touted their "who-needs-a-sound-business-plan" models to sustain false business practices that ultimately were their undoing, real estate companies across America similarly set themselves up for troubles handling today's market correction. Who needed a goal-oriented business plan based upon prospecting, relationship building and technology-efficiencies when most agents were simply taking bids for the scant homes available on the market?

Today, while many are "surviving" the down-turn, most brokerages face the legacy of seriously weakened fundamentals that will take years to correct. Some fundamentals are already being corrected: less "easy" sales are whittling away at the bloated agency population. Some estimates are that 20-25% of the agent population will disappear over the next 24 months. Other fundamentals have caught brokers by "surprise." Hundreds of companies found their marketing budget blown by mid-last year because their "throw it in the newspaper" marketing strategy was broadsided by a sudden doubling of inventory and days-on-market. And long-disregarded fundamentals, such as infrastructure efficiencies, agent skills and internet technology usage – are now back in the spotlight as companies struggle with lower margins and higher costs. While many companies *invested* in technology during the boom, their total *effective use of it* remained marginal. Even companies who are off a few percentage points from last year will tell you that the loss is compounded by top-heavy operational costs, overpriced listings and long market times.

Peter Drucker once said that companies do not "suddenly" find themselves outmoded in the marketplace. What he meant was that the erosion of a company's performance capacity is usually underway for years before it becomes a crisis – even during boom times.

This is exactly what is happening to the real estate industry today.

Nothing really "happened" to the industry. No "disruptive" technology transformed the process of *selling*. No "disintermediation" (from the banking industry) suddenly reorganized the market. Nothing actually "smashed" the brokerage model. It simply withered.

What simply happened was that real estate brokerage fundamentals were allowed to erode for half a decade.

Any industry that rapidly absorbs a 25% increase in participants will certainly find itself top-heavy at some point. Given that sizeable numbers of agents wash out in any market, it is only a deep inattention to the business fundamentals that leaves brokerages vulnerable to the serious consequences of a cyclical downturn. Much of this inattention was in technology maximization.

For example, companies got caught with heavy newspaper advertising bills. They couldn't claim they *didn't know* that newspaper advertising of listings was largely ineffectual: *that data has been available for decades.* Similarly, they couldn't claim that there wasn't an *alternate* method of marketing those listings: email *inquiries* on web-based listings have increasingly replaced calls on newspaper ads for five years (the same time as the boom). Yet internet inquiries resulted in very low *deals* during the same period. This was *not because online consumers were somehow less interested than those that called on the* *phone. Rather, it was because the agents hired into the industry to simply take bidding orders were ill-trained in the skills necessary to incubate and convert online consumers – using online tools.* Essentially, everyone skipped sales training as long as buyers readily knocked down the door. Deals could be done without the need for deep sales and technology tools – two fundamentals of any sales industry. Companies thought they could "afford" not to prepare for the rainy day when fundamentals would be back in demand.

Today, it's finally raining. Fundamentals like basic training, negotiating, technology usage and marketing efficiencies are suddenly back in fashion. The question remains: did they return in time?

A recent article on *RealEstateJournal.com* should make the point: In *Amid Slump, Real-Estate Agents Hang Up Their Blazers*, authors Hagerty and Athavely provide a glimpse of a real estate industry filled with $37,600 average-income agents (mostly due to overpopulation). Their brokers fare not much better, trying to carry the expenses of a quarter more agents who are highly inefficient at lead conversion and marketing. At the same time, operational costs have grown, as companies pour money into marketing, staff and technology to "combat" the market slowdown. Yet Hagerty and Athavely found that most brokers now believe that 2007 will be the year that *one out of four agents* will call it quits.

Most companies erroneously think this is *good news* for them, that *less agents* will mean *less competition*. But reconsider for a moment: *Less agents* means only the *best* will remain. Slower markets are driven by *better competition from those who stay in the game*. Working the boom market was not the hard part. Thriving through tough markets requires serious strategies. The competition will be defined by masters of brokerage fundamentals: well-trained, well-financed and most likely, well-versed in the technology tools that keep them competitive.

That's why technology matters more than ever.

When markets tighten, competitive advantages are critical. Enhanced technology skills provide competitive advantages across every segment of the business: prospecting, leads generation, communications, marketing, transaction tools and client relationship management.

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Every one of these areas can benefit from technology that saves time, cuts costs and expands opportunity to maximize the market. Especially for agents who are struggling to catch up with basic skills like prospecting, relationship building and internet marketing. Technology mastery becomes more critical than ever.

This is not to say that most companies didn't invest in technology during the boom. Certainly websites expanded, email usage grew and a vast majority of agents traded their desktop computers for laptops. Yet countless studies show that *investment* in these areas has not returned the levels of *return* primarily because the strategies that drove their adoption did not include an emphasis in using them to *transform the sales process.* Rather, most technology was used to *sustain* old habits and high-cost practices. Examples include the massive use of color printers to print direct mailing pieces, the use of computers to "transmit the weekly newspaper ads" and the flat-line trend that while 80% of agents report *owning* a laptop, less than 2% report ever *taking it* to a listing presentation or open house.

Clearly, the vast majority of technology investment was focused on maintenance of traditional performance standards, *not transformation of the process*. Even highly advanced technologies – such as leads management systems – have made only marginal dents in real conversion rates since *technology itself is not what makes the sale.*

If the skills *behind a technology* are not sufficiently competitive, then speeding the process up simply results in faster "dead" results. This is evident in very simple examples, such as the number of agents who "use" *Microsoft Outlook* merely to "send and reply" to emails. Dozens of other time-saving features remain un-clicked and therefore un-leveraged. Other examples easily come to mind.

It is time for technology to start making a *difference,* as a fundamental part of the sales business and *in support of* other fundamentals such as marketing and communications.

There are four areas technology must focus on right away:

Customer acquisition. One of the greatest expenses for real estate professionals is the cost to find new sellers and buyers. Let's start with some honesty: agents are ill-trained to pick up the phone and call prospects. Even if trained, they are hardly motivated to use the phone (or email or instant messaging) when the option to conduct *postcard* mailings remains.

While agents remain unaccountable for the return-on-investment for their prospecting expenses (too much of which is paid for by the company), they will prefer writing newspaper advertisements on their word processor – rather than learn to upload ten photos per online listing. Such approaches to real estate sales violate a number of fundamentals: prospecting effectiveness (by measuring return metrics), marketing research (the historical ineffectiveness of newspaper property advertising) and the growth in consumer shopping preferences (the fact that listings with more than 5 photos have a triple-chance of inducing consumers to inquire).

It's time to unleash the web and correct customer acquisition costs. Real estate sales <u>must</u> start by finding consumers interested in selling their homes. The low-hanging fruit are *owners* who populate the hundreds of FSBO portals online. To acquire listings, agents must use the internet to *search* websites, not *create personal ones.* Agents must pursue the client, not the other way around. They must master methods of using email *meaningfully,* which means writing messages around building relationships, not bragging about themselves. Since owner-prospects will also become *buyers,* one use of technology can result in *two* potential acquisitions of new business. *That's a cost efficiency driven by a change in sales practices that leverage technology.*

Communications. Companies must *mandate* that every agent in the company gets a Blackberry or leaves the company. Two wonderful things will happen: creation of a mobile-empowered workforce *and* elimination of those agents who won't come up with the $300 investment in their business. *The persistence of mobile salespeople without mobile technology is absurd.* Since consumers are decreasingly using *telephone*-based communications (calls, voice mails) in favor of messaging tools (email, IM and SMS text), agents *sans* mobile tools are anti-competitive. Agents without Blackberries or similar devices are simply cut off from consumers. Worse, they are cut off from economic reality – as they are attempting to set the rules for how consumers can contact them. This *supply-sided communications mentality* is a fundamental impossibility in an industry that offers consumers so many ready alternates to those who hide behind such barriers.

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Routing emails to the *agent,* rather than to their *computer* also means better customer service, faster first-response to new leads and a dramatic time-savings daily. It also begins the process of building skills that agents will need to communicate with the increasing segment of Generation Y buyers in the market – for whom text and instant *communicating* are more critical than voicemail and email *messaging.* This demographically-driven communication change also heralds good news for budgets, lowering the voice costs in cell phone bills while simultaneously using data messaging to reach more contacts.

Text messages (SMS) also reduce direct and broad-media marketing costs: SMS can eliminate newspaper ads in favor of directly communicating open house times to prospects. Websites featuring an RSS feed (a form of broadcast-text) can enable agents and consumers to receive updated market information on basic smartphones. The possibilities to leverage wireless text are endless and endlessly inexpensive.
Business runs on instant communications today – a fact that is frequently looked upon skeptically by Baby-Boomer agents who mistakenly think instant messaging is "for kids." That self-deception may keep them from having to master the technology today, but as the buyer demographic changes, they will have to play catch-up to IM-ready rivals. Only by embracing mobile tools and non-voice-driven "messaging" technologies can agents save *time – the resource with the highest scarcity.*

Marketing. Text on the web is dull. Snore. Boring. Old school. Today's most competitive web sites – in every industry – are alive with video, sound and interactivity. To view a prime example of a multimedia website, visit the Mercedes Benz website. These kinds of tools are known as *immediacy technologies* – tools that do not require the consumer to do anything except pay attention. Rather than requiring consumers to read (or in some cases, *translate* jargon-heavy marketing), video clips, audio blogs and instant chat with real people offer comparative advantages to "read-me only" websites.

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The vast majority of real estate websites today are glorified *catalogs*. Text describes the property and some photos (usually too few) display rooms with nebulous clarity. Silent-movie-era fish-eye-nauseating virtual tours make buyers move on. If marketing technology is going to make a difference this year, it's time to make websites grow up – and that means *multimedia*.
First, cut the costs of creating virtual tours by doing it in-house. If you have a marketing department, then develop a simple application to make videos. For agents, downloading free software like *Microsoft's Photo Story 3* turns any sequence of photos into animated; voice narrated video clips *with minimal training*.

Since standard video clips don't require plug-ins or pop-ups, moving away from proprietary video products is the only way forward for web sites. And moving forward means getting video onto cell phones, PDAs and iPods, not just websites – something virtually none of the virtual tour companies does well – or at least inexpensively. Simply teaching agents to use the standard video clip functions of their digital cameras would be a start in the right direction, *because at least the video clips could be narrated.*

Add video to websites, listing presentations and email marketing. Require at least one video per listing, along with at least 10 photos (why not 20?). Remember, *only a tiny fraction of adults learn by reading – so the faster you move your marketing to multimedia, the faster you'll get the advantages that television advertising already enjoys.*

Client Relationship Management. Start by dispelling a myth: Sending canned letters and emails to prospects on a "drip campaign" is *not* client relationship management. It may be mass mailing, drip advertising or even junk mail – but it is not the way to create and keep relationships. Nobody ever created a relationship through a postcard. Awareness, maybe. But relationships require real human interaction. This requires any medium that can provide agents with real-time communication with prospects (in lieu of mail or meeting in person): phone, instant messaging, and video conferencing.
Understanding this distinction between generating messages and developing relationships will reposition campaign-manager technology far more advantageously. Much time and energy can be saved from creating endless mass-emails filled with pithy maxims.

Using technology is not selling; it merely enhances the sales process.

Contrary to popular thought, the only technology agents need to develop relationships is a *reminder on their calendar.* And while it may involve a paper-letter, an email or a personal meeting, the technology should never be used to substitute for the actual *doing* of the activity. Sales can only be done by the salesperson.

The biggest misunderstanding about modern technology is that email campaigns somehow substitute for real sales activities.

Does the "senior" client prefer a phone call? Set a reminder to place it. Does the GenXer prefer an instant message while online at work? Get online and start chatting. Does the luxury client prefer an invitation to a round of golf? Put it in the mail. The biggest misunderstanding about modern technology is that *email campaigns somehow substitute for real sales activities.*

If letter and email campaigns really built more business, then any of the mass-mailing houses should have become successful brokerages by now. But mass mailing is only an applicable method of selling a commodity – even a commodity service. The danger lies in using technology to send canned content in highly differentiated industries like real estate, for it tends to reinforce the consumer's suspicions that the brokerage industry has become a commodity as well.

Every time agents send "stuff" rather than build relationships marginalizes their ability to hold off further commoditization.

Companies that believe that technology should not replace the human professional should stop acting like it could.

To remain more than a mere transactional functionary, brokerages need a better understanding of customer relationship management. The key word is *relationship,* not *management.* If they focus on management, then they focus on drip-systems and automated production processes. If they focus on relationships, they must focus on the sales process – empowered but never replaced by technology. The laptop must accompany the agent to the listing presentation; never arrive there on its own.

The challenges are clear. Market fundamentals can no longer be overlooked. A bloated industry can no longer support itself on easy money - waste it on old-school sales habits and dis-integrated from technology. History has shown us that these are the times where simply *trying harder* won't protect businesses. Brokerages are going to have to *try smarter.* They must use technology to transform sales fundamentals to make up the difference.

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