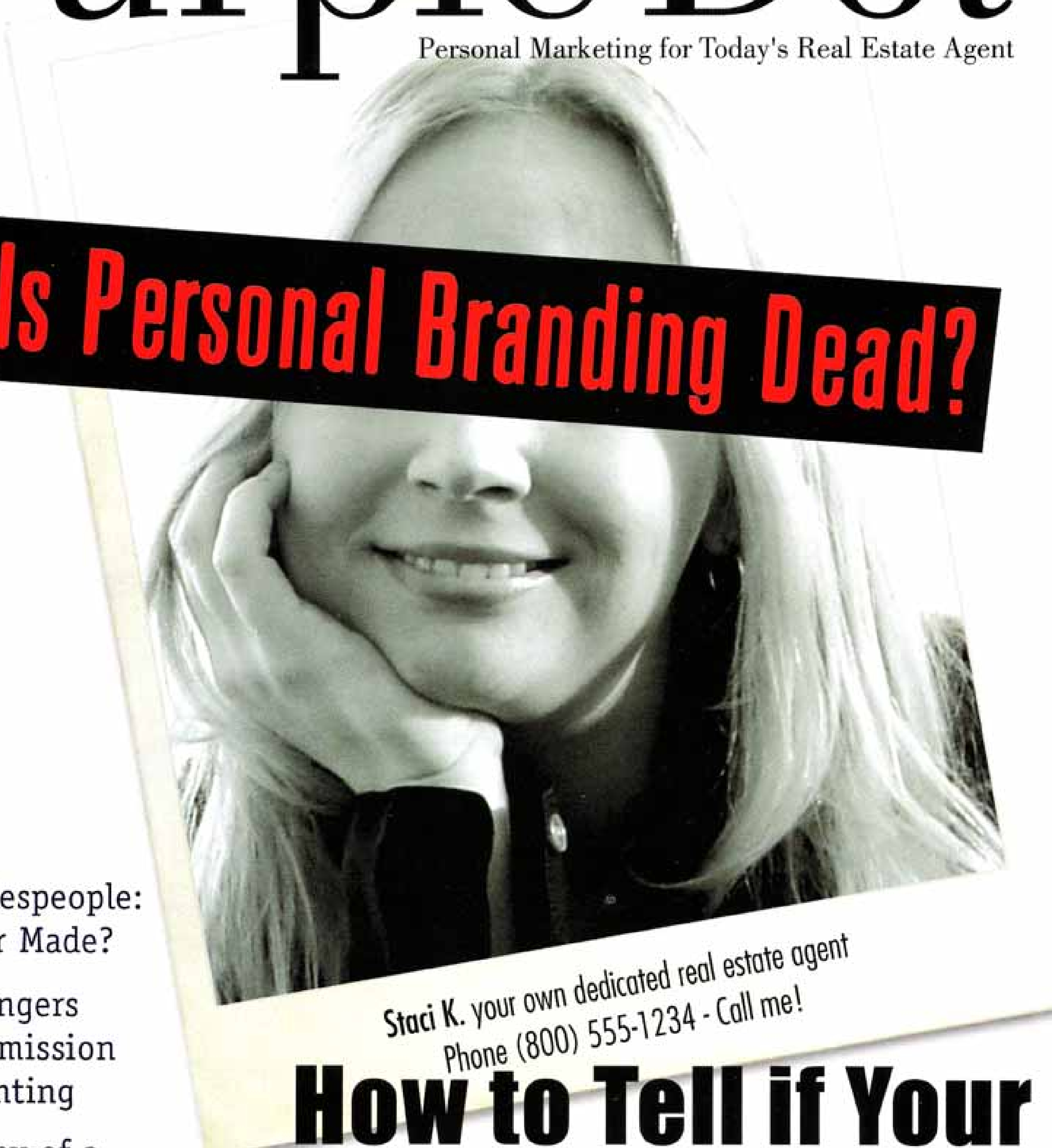
Purple Dot

Personal Marketing for Today's Real Estate Agent

Is Personal Branding Dead?



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How to Tell if Your Marketing Makes Any Difference

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The Hidden Dangers of Commission Discounting

Until recently, few people knew that real estate commissions were negotiable. Clients thought the standard, six percent commission rate was set in stone, and they were willing to pay for help with complex and lengthy real estate transactions. The internet changed that. Real estate information, including listings for home buyers and sellers, became easily accessible online. Armed with this knowledge, clients began to feel that the effort involved in selling a house did not merit the traditional six percent commission rate.

Why should they pay six percent if they could get it down to four? And why should they pay four if they could sell their homes themselves?

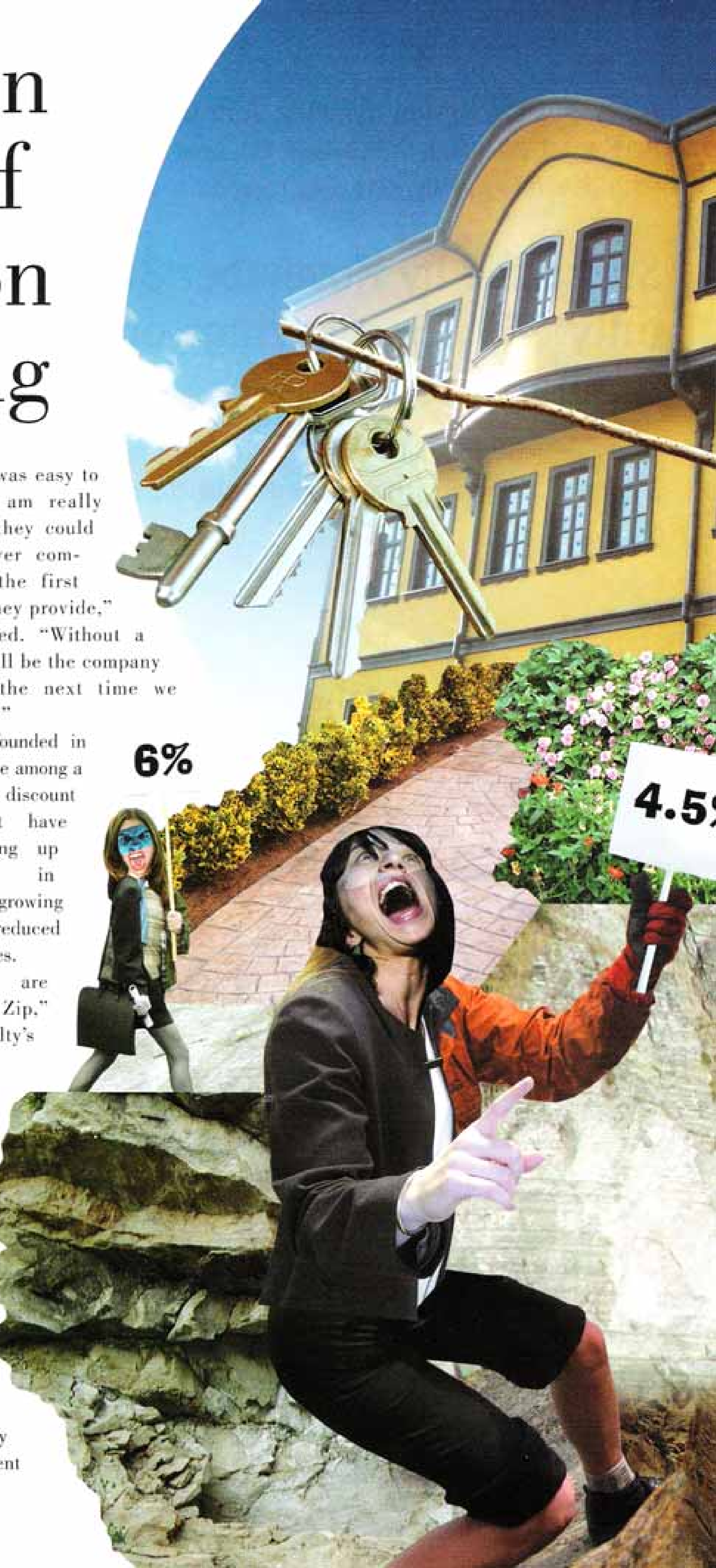
"We felt paying six percent for the market we were in was just too much," said Tony Roth.

Roth, who has sold two of his houses using ZipRealty, said that he was very satisfied with the service. "At first," said Roth, "we were skeptical of the lower commission rate, but after our first contact with the ZipRealty agent, we knew we were in good hands."

One of the houses sold at a four percent commission, and Roth estimates that he saved about $13,000 on the transaction. Roth commented that both of his Zip transactions were very smooth, his agent was extremely helpful, and the Web site was easy to navigate. "I am really amazed that they could charge a lower commission for the first rate service they provide," Roth continued. "Without a doubt, they will be the company we'll go to the next time we decide to sell."

ZipRealty, founded in 1999, is just one among a new breed of discount agencies that have recently sprung up nationwide in response to growing demands for reduced commission rates.

"Clients are attracted to Zip," said ZipRealty's Los Angeles district director, Cynthia Nyquist, "because they do not have to compromise customer satisfaction for a better deal. ... Agents in the company earn a 94 percent



satisfaction rating among its customers compared to the industry's standard 32 percent."

Commission and service standards are changing, and the one-size-fits-all model is being replaced by an array of choices designed to best fit clients' needs. Help You Sell, for example, offers a service whereby a home seller pays a flat fee. In return, an agent handles advertising and paperwork and evaluates offers from buyers. If the seller wants the agent to show the house, the fee goes up. Assist 2 Sell also conducts "paperwork only" transactions, while For Sale by Owner offers, among other services, neighborhood profiles and other resources regarding relocation, moving, and mortgages.

"It's clear that the old commission system no longer makes sense," said Colby Sambrotto, COO of For Sale by Owner. "It's loaded against consumers, for brokers."

Indeed, real estate commissions have seen a decline in recent years. In 2005, according to a survey conducted by Real Trends, the nation's average home sales commission rate fell from six percent to 5.1 percent. And in 2004, real estate commission rates fell to four percent in metropolitan areas as increasingly internet-savvy sellers turned to online discount brokerages.

Is Slashing Prices a Good Thing?

Most customers, naturally, are happy with reduced commissions, and cutting fees will attract more of these price-sensitive clients. Profits may even be sustained solely based on the higher volume of clients.

But there are dangers to cutting commissions that must be considered. According to Guy Smith, president of Silicon Strategies Marketing, the real estate market is red hot right now, and housing prices have escalated and will continue to do so. As prices rise,

there will be a national decline in real estate agent turnover as more people rush to become agents.

"This," Smith said, "will increase pressure to cut commissions and the competition and commission slashing will become even more acute. … In short, expect things to get much worse."

But what happens once the bubble bursts and real estate prices either come crashing down, or taper off and become more stable? At that point, with fewer clients buying and selling, many discount brokerages simply won't be able to make the profits needed to sustain themselves. Keep in mind that it's much easier to reduce prices than to raise them. The moment you raise them, you'll lose the clients you attracted solely on price. As a result, only the strongest agencies will survive, and the newer, weaker ones will find themselves out of business.

And while slashing commissions may hurt the industry, it is also, as many experts argue, detrimental to clients. According to the National Association of Realtors profile of home buyers and sellers, the typical FSBO home sold for $163,800, compared to $189,000 for agent-assisted home sales. Even if the client had paid the standard six percent commission rate, or $11,340, he would have received $13,860 more than if he had sold without an agent and "saved" on the commission fee.

"There will always be people," said Anthony Marguleas, a realtor in Los Angeles, "who, in their attempt to save money, will actually spend more. It's the penny-wise, pound-foolish approach."

Janet Leavitt, a realtor for Coldwell Banker in California, added that people who sell with a real estate agent generally get about 15 percent more for their property. Leavitt says that

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reduced commission rates could mean lower-quality services and agents who care less about the interests of their clients. Full-priced brokers also argue that agents who work at discount brokerages are commonly overworked and underpaid. They often service large areas for which they have little or no expertise, and they usually have more clients than they can handle.

As vigorous price slashing continued, the smaller airlines began to compete against each other at a rate that was no longer profitable or even sustainable.

"You get what you pay for in life," said Kathy Braddock, partner of Braddock and Purcell, a residential real estate consultancy. "The consumer needs to ascertain if they lose out on anything when they deduct commission points from the agent's commission. Will their house be properly marketed? Will every effort be made that their home is seen by as many customers as possible?"

Houses listed with lower commissions for sellers agents may not be. While some brokers will make every effort to show all properties equally to as many prospective buyers as possible, most will want to show only those that bring them the highest commissions.

"A lot of full-priced brokers will see a listing that pops up but offers lower than the six percent commission rate and will not want to show that listing," said Steve Aguilar, founder of Boardwalk Realty. "They're thinking, 'Why should I show a listing for 1.5 percent when I can get one for 3 or 3.5 percent?'"

Clients and Price

Lowering price too drastically can also create a negative impression of your service in the minds of customers—a service positioned as the cheap alternative may be considered inferior. On the other hand, there are those who are willing to sacrifice quality and service for a low price. These people, however, often don't make the best clients. In general, they tend to be disloyal and will leave the moment they find a better deal.

It may be more worth your while to focus on clients who are willing to spend more for superior service from experienced professionals.

"For Sale by Owner sounds like too much of a hassle," said Aftab Mathur, a New York banker. "If I'm planning to sell a house, I'd spend the additional six percent if it lets me explore all my options and make an informed decision about my investment."

Home sellers like Mathur may be more likely to become long-term clients and refer you to their friends and neighbors—exactly the type of client you want to attract.

Price Cutting in Other Industries

Consider the effect of price cutting on other mature industries. Take airlines, for example. After 9/11, air travel reached an all-time low, and the market was flooded with budget airlines and ruthlessly low prices. At first, all seemed to go well. The low-cost airlines had traditionally hired a younger work force for lower salaries, skimpier benefits, and less lucrative retirement plans. At the same time, they loaded new planes with amenities and high-tech entertainment. By 2003, low-cost carriers were competing so well that they accounted for almost forty percent of the domestic market, and many larger, older carriers, including US Airways and United Airlines, were forced into bankruptcy.

However, as vigorous price-cutting continued, the smaller airlines began to compete against each other at a rate that was no longer profitable or even sustainable.

They no longer had the money to pay for their elaborate in-flight entertainment; worse, some companies didn't even have enough to cover repairs. In 2004, Air Tran Airways, Frontier Airlines, and FLYi reported losses due to low fares and high fuel costs.

Even though passenger traffic has increased again, the industry is still in decline. Since 2001, losses have exceeded \$32 billion. Analysts estimate that U.S. carriers will lose another \$5 billion in 2005. Both larger and smaller airlines have been affected by price-cutting, and larger companies like US Airways and America West are talking about mergers. If there is a lesson here, it is that price alone does not build a successful business. Other things matter and, at least as to airlines and real estate brokerage, those things are good service and dependability.

Another lesson about price-cutting can be learned from the legendary tale of Wal-Mart, famous for its policy of offering lower prices than its competitors. Millions of customers flock to Wal-Mart and vendors are made, and broken, by it. In 2005, however, Wal-Mart sales growth sagged due to external factors such as rising gasoline prices and job uncertainty, prompting low-income workers to spend less at stores.

At the same time, internal factors such as poor service at checkouts, unflatteringly displayed goods, and uninspiring stores also affected Wal-Mart's profits. Wal-Mart became and continues to be a target for environmental groups, community activists, and unions that have come to criticize its foreign policies. As a result, Wal-Mart is not the giant it once was. The future of Wal-Mart depends on whom you ask: Wal-Mart spokespeople insist this is a trend that will soon reverse itself. Analysts say that the downward spiraling effect will be long lasting and Wal-Mart may eventually lose out to low-priced competitors like Target.

Tying this back to real estate, Guy Smith from Silicon Strategies Marketing restates a possible drawback of low-priced agencies. "An agency may develop the reputation as the low-cost provider of a service. This is not a brand that anyone except Wal-Mart wants." ●