



INDUSTRY PERSPECTIVE

How direct marketing is revolutionizing an industry: residential real estate in the USA

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Abstract

Purpose – This paper seeks to discuss the history of real estate marketing in the USA and to assess the future impact of direct marketing on that country's real estate set-up.

Design/methodology/approach – The paper chronicles the history of real estate marketing in the USA and describes the present situation *vis-à-vis* direct marketing.

Findings – The paper finds that home buyers prefer online direct marketing to the traditional process of physical involvement and personal inspection.

Originality/value – The paper promotes the advantages of direct marketing as the future of residential real estate in that it offers lower prices, direct participation in the process and better access to information.

Keywords Direct marketing, Real estate, United States of America

Paper type Viewpoint

The history of real estate marketing in the USA

Residential real estate is undergoing a revolutionary change as the industry moves from agent-centric marketing to direct marketing. The changes taking place have profound consequences for an industry rooted in archaic practices and monopolistic attitudes. Like all revolutions, this one is coming from outside the industry. The revolutionaries are consumers who want more participation in the process plus a free and open market. Taking the side of consumers is the Department of Justice who sees the industry as excessively closed and protectionist. The catalyst facilitating the revolution is technology which has taken real estate listings out of the confidential listing book and put them on the world wide web for all to see.

The Multiple Listing Service (MLS) was originally created as a revenue sharing mechanism. Brokers pool their for-sale listings with a share of the commission going to both the listing broker and the selling broker (the split is usually 50/50). Initially, this sharing was done by means of listing books that were manual paste-ups. Books were typically published monthly which meant the data was quite stale even in a new book, and the production process costly and time consuming.

The next step in the data sharing process took place in the late 1970s and 1980s when computer data files began to replace manual production. Initially, pictures were still pasted in, but by the mid-1980s, affordable scanners allowed pictures to be stored on the computer along with the relevant data. At this point, computerization meant no more than a semi-automated way to print books. In a large metropolitan area, the books were phone book size with six or more listings per page. Listings were typically



grouped by geographic areas and sorted by price within those areas. The result was a collection of stale information that could only be searched by thumbing through the pages. The old term “needle in a haystack” aptly described the situation.

Time-share computer systems were the first to provide anything close to realtime data. Even then, the listing data and pictures had to be mailed to the MLS system provider for entry into the database. The interface was typically a TTY terminal communicating through a concentrator to a central system at the system providers location. The agent would type in a desired parameter such as price range and the system would respond with the number of houses found. By progressively working through a tree of desired parameters, the agent would arrive at a reasonable number of listings which he/she then printed. Note there were no pictures, only cryptic text such as BR = 3, FR = 1 (three bedrooms, one fireplace). It was not exactly a user-friendly process and most agents continued to rely solely on the book.

Based on the brief history outlined above, it's easy to see that residential real estate has historically been marketed not to consumers, but agent-to-agent. It was the agent who sat down with prospective home buyers, talked to them about their wants and needs, and then consulted the “secret” MLS book to find properties that might meet their clients' criteria. The books were generally limited to one picture of poor quality, so the next step was to be driven from house to house by the real estate agent. Not surprisingly, the houses on the top of the list were often “in-house” listings which were “owned” by the agent's broker. In-house listings are especially attractive because the broker takes a double-dip and gets both buy- and sell-side of the commission.

The key to marketing a home in this environment was to make it attractive to other agents because the agent decided who saw the house and who did not. Brokers called it “controlling the inventory.” It's as if car dealers put their inventory behind an enclosed, locked fence and brought cars out one at a time based on a customer's verbal description of what they want. Not exactly an efficient marketing process. It should be no surprise, then, that the real estate commissions charged by traditional brokers have remained almost constant at 5-7 percent in spite of housing prices that have climbed to record levels in recent years. It should also be no surprise that traditional brokers are opposed to any change that puts pressure on their traditional commissions.

Direct marketing and real estate

But a consumer tsunami, aided and abetted by technology, and encouraged by the Department of Justice is carrying residential real estate directly to the consumer. Who wants to drag themselves into a real estate office when they can search by multiple criteria and view multiple color pictures and even videos online? No more driving up in front of a house with your real estate agent only to discover there is no way you'd be caught dead living in something that ugly! How much better to do your shopping online from your home or office, and narrow your choices to a few hot prospects.

A 2006 study conducted by the California Association of REALTORS found that internet buyers spent an average of 2.2 weeks working with their agent and viewed 6.7 homes. Traditional buyers spent 7.1 weeks and viewed 15.4 homes. The key reason for this difference can be seen in the finding that internet buyers spent an average of 4.8 weeks doing research before contacting an agent; traditional buyers only 1.7 weeks. A further blow to the traditional process is in the 97 percent of internet buyers who

said they would use the same agent again compared to 50 percent of traditional buyers. Clearly consumers like the empowerment of online, direct marketing.

This and other studies confirm that the efficiencies of direct marketing apply to residential real estate. Another confirming factor is the emergence of discount brokerages that make heavy use of web technology to bring the product (houses) into consumers' living rooms. These new models substitute web-based and telephone interactions for lengthy hours spent in the back seat of a Lexus being driven from house to house. The educated, affluent home buyer is looking for an efficient process, not a chauffeur-driven tour of homes.

On May 13, 2007, the CBS news show, 60 minutes, aired a story entitled, "Chipping away at realtors' 6 percent". A Seattle-based discounter, Redfin, was heavily featured in the segment. Redfin relies on buyers to use the web for most of their house hunting process. Detailed descriptions, multiple color pictures, and online video bring the product into the consumer's living room or office.

With house hunting left to the consumers, Redfin's e-agents do most of their work on computers and the telephone. When Redfin represents the seller they charge a flat fee of \$3,000 instead of the traditional 5-7 percent, and when you buy a house through Redfin, they actually pay you. When they're the buyer's agent, two-thirds of the buy-side commission (which is usually 3 percent) is given to the buyer. Clear evidence that the efficiencies of direct marketing drive down costs.

The litmus test for a revolution is the intensity of the battle taking place between the "establishment" and the "revolutionaries." By that, or any other measure, this is a real revolution. As direct marketing replaces agent-centric marketing, efficiency increases dramatically and commissions fall. Not surprisingly, the real estate establishment views this as a bad thing as they futilely push legislation prohibiting Redfin-style "rebates" (currently 11 states) and mandating minimum standards of service that most discounters cannot meet (currently eight states). Steve DelBianco, the founder of failed discounter eRealty, told 60 minutes that, "Realtors embrace the idea of some automation and some use of the internet, but the minute it cut into their pocketbooks, well, all hell broke loose." Not surprisingly, direct marketing is a major threat to the entrenched establishment.

Most revolutions have some interesting subplots and this one is no exception. One of the most interesting involves information. Historically, very little value has been placed on objective information about the market and the market participants. In the monopolistic atmosphere of the traditional industry, such information has largely been unnecessary and irrelevant. The emphasis has been on establishing "high-touch" relationships with clients as a substitute for factual information. In the previously cited 60 minutes broadcast, Deborah Arends, a Seattle RE/MAX agent said, "Buying a house is a high-touch business, not high-tech."

High-touch may be the traditional strategy, but the strategy has failed miserably. A recent (2006) Harris poll on the prestige of 22 professions and occupations illustrates just how ineffective this strategy has been. Real estate agents ranked 21st (next to last, just above stock brokers). Similar polls conducted over the years have consistently shown the same results: real estate agents rank at or near the bottom in both prestige and trust.

Consumers are ready for a direct marketing approach that significantly reduces the agent's traditional role in the buying and selling process. Unlike the old high-touch

relational methodology of subjective opinion and a friendly smile, direct marketing relies heavily on objective information. Consumer information such as propensity to buy, likes and dislikes, wants and needs, and meantime to purchase. Market information that predicts days-on-market, best pricing, future market direction, and product demand. Brokerage information on the business, competition, clients, and agent best practices. This type of statistical and predictive information is fuel for the direct marketing revolution.

Looking to the future

In the end, the infighting and posturing currently taking place in the industry will not alter the outcome of the revolution. Direct marketing is the future of residential real estate in that it gives consumers what they want and need: lower prices, direct participation in the process, and better access to information. The latter is extremely important because home buyers very seldom can articulate their wants and needs in terms a real estate agent can understand, "I'll know it when I see it." Direct marketing brings consumers with varied and distinct needs together with a market where no two products are alike. Who better to decide which product best fits their needs than the consumer?

Like all revolutions, emergence of direct marketing in residential real estate will create some big winners, while others are run over by the juggernaut of change. Consumers will be the biggest winners followed by brokers who embrace the new paradigm. Those who attempt to cling to the old ways will end up as road kill on the highway of change. For consumers, this is great news; for brokers, it's an important choice.

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