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Features

Departments

05.18

{ May | Two Thousand & Eighteen | Volume Seventeen | Number Three }

BY SARA LIPNITZ, SFR, PMN

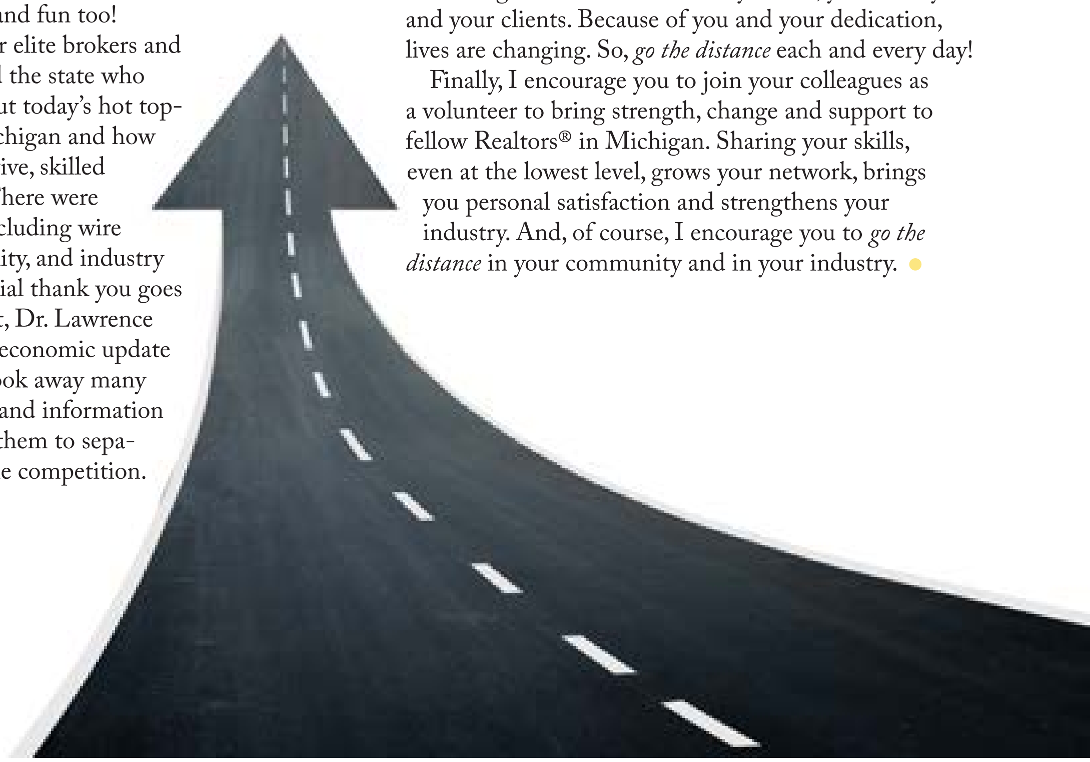
Going the distance

Spring has finally sprung in Michigan and this season of rebirth and renewed optimism isn't just for the flowers and the trees. Here at Michigan Realtors®, we are also feeling the hope that the season brings as we continue learning, building, growing and *going the distance* with you every day.

In this letter, I want to make sure that you note a key deadline. Applications for 2019 Michigan District Director Elections are due no later than Friday, June 13, 2018, and online voting opens on Tuesday, August 28, 2018. Do you qualify to run for one of the important and engaging seats? Consider being a part of something significant and be sure to get your application in on time. Taking the first step toward making a difference in the future of the real estate profession in Michigan is an exciting one (I know!), so don't miss out.

If you were able to attend the Broker Summit last month, you will surely agree that The Inn at St. John's in Plymouth was the perfect backdrop for an event that brought the most powerful insight into our industry, with a hearty side of networking. It was rewarding, and fun too!

We brought together elite brokers and Realtors® from around the state who helped us all learn about today's hot topics in real estate in Michigan and how to be the most productive, skilled Realtors® we can be. There were some unique topics, including wire fraud, broker profitability, and industry disruptors. A very special thank you goes out to our special guest, Dr. Lawrence Yun, who provided an economic update for 2018. I hope you took away many useful strategies, ideas and information and have begun using them to separate yourselves from the competition.



Looking ahead, there are a few more key events coming up that you won't want to miss, so get them on your calendar now! Ready to stay on top of your game and go further? Start here.

Realtors® Legislative Meetings & Trade Expo
May 14-19, 2018
Washington, D.C.

Michigan is always well represented, so don't miss being a part of it and voicing your concerns!

The Convention
September 26-28, 2018
Grand Traverse Resort & Spa, Traverse City, MI

Online registration opens in June!

I am so energized by the successes of our members this year - and we aren't even halfway in! As you digest and implement what you have learned at the Broker Summit, I encourage you to remember the important role you play in making dreams come true for yourself, your family and your clients. Because of you and your dedication, lives are changing. So, *go the distance* each and every day!

Finally, I encourage you to join your colleagues as a volunteer to bring strength, change and support to fellow Realtors® in Michigan. Sharing your skills, even at the lowest level, grows your network, brings you personal satisfaction and strengthens your industry. And, of course, I encourage you to *go the distance* in your community and in your industry.

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COMING EVENTS

June 7, 2018
NAR Tech Edge
The Cadillac Room, Lansing

May 14-19, 2018
Realtors® Legislative Meetings & Trade Expo
Washington, DC

September 26-28, 2018
The Convention
Grand Traverse Resort & Spa, Traverse City

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BY BRAD WARD, VICE PRESIDENT
OF PUBLIC POLICY AND LEGAL AFFAIRS

Statewide Septic Code: Could This Be the Year?

It wouldn't be a legislative session without some discussion of working toward a Statewide Septic Code. For the nearly 17-years that I have been with the Michigan Realtors® (I started in elementary school), attempts at adopting a Statewide Septic Code have involved significant time and energy poured into research and stakeholder meetings — each attempt getting flushed, starting us back at square one.

Historically, this issue has generated no end to odorous puns associated with the subject matter. Being the last state without a statewide approach carries with it a badge of dishonor that we hope to soon relinquish. The silver lining to be found in the various fits and starts to adopt a Statewide Septic Code is an enormous amount of institutional knowledge and work product regarding the key positions of stakeholders. Tracking these past iterations provides a detailed map of the remaining areas of disagreement that require the most attention.

While it remains too soon to predict success, Representative Jim Lower (R- Cedar Lake) is spearheading this important issue and has engaged with several of the longtime stakeholders to hammer out a workable approach. As a result, House Bills 5752 & 5753, sponsored by Representative Lower and Representative Abdullah Hammoud (D- Dearborn) are now introduced. While the Michigan Realtors® Public Policy Committee has yet to take an official position on the bills, we are engaged on this issue through our Septic Task Force, putting us in a good position to craft the best version of the legislation. Let's wade into some of the specifics.

AS INTRODUCED

The basic structure of the legislation follows the preferred Michigan Realtors® model that we've sought before: (1) regular and reasonable inspections, (2) prescribed statewide standards, (3) qualified inspectors, (4) enforcement by the state and by local health departments, (5) elimination of additional or conflicting local government requirements, particularly at point of sale.

An owner's responsibility is not ambiguous – it is to get the system inspected when required, and if it has failed, repair it. The goal is to create a clear definition of when a system has failed, using simple, objective standards.

As Realtors®, the appeal of a statewide code goes beyond just clean water and a healthy environment. It establishes consistency when representing buyers and sellers in different jurisdictions, keeps government out of the real estate closing and provides for the possibility of alternative systems.

THE ASSESSMENT

At least once every 10 years, an owner must get a limited, four-point assessment by a licensed septic servicer or inspector. If an owner chooses to get an inspection for any other reason, a uniform evaluation with two additional criteria is called for. That six-point evaluation is also used in instances: 1) the health department finds reasonable cause that the system has failed, 2) a change in use on the property that increases use of the system, and 3) construction that may cover or interfere with the system. Those inspection reports go to the owner, local health department and a statewide electronic database. The limited 10-year review is intended to help identify and correct groundwater contamination from old systems that no longer properly treat sanitary sewage, or never did.

THE END OF POINT-OF-SALE

Under the new proposal, any new local point-of-sale ordinances are prohibited, and existing point-of-sale ordinances are subject to a three-year sunset.

The legislation includes clear language stating that jurisdiction to regulate and inspect belongs exclusively to local health departments and the DEQ, not city and township governments. These measures would keep local health departments out of the real estate closing, remove Realtors® from the role of enforcer and allow buyers and sellers to reach agreement on how to address any identified problems in the transaction.

OPENING THE MARKET TO ALTERNATIVE SYSTEMS

Regarding alternative systems, the marketplace is currently very limited and treatment varies widely. Alternative systems used and encouraged in one county are often prohibited or discouraged in the neighboring county. This legislation would provide that alternative systems would be evaluated using statewide standards that prescribe the conditions where they can be used, to eliminate local variation on acceptance. Over the next 3 years, with the assistance of a statewide advisory

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panel, the DEQ will develop a statewide code to address qualifications for inspectors and the design, siting, installation, operation, inspection and maintenance of systems. Those functions are all to be performed by professionals, not property owners, whose sole job, again, is to get an assessment every 10 years.

THE BAD

In a word: *Time*. While this legislation represents a very solid work product with some room for improvement and continued negotiation, we are now entering the spring in the final year of the legislative session. The work that needs to be done will need to be done quickly. To that end, Michigan Realtors® will remain engaged and proactive, working to ensure a focus on keeping the standards in the legislation simple, measurable, uniform and objective.

As always, we'll keep you updated on progress and movement through the legislative process.

Please be sure to stay up to date on all the latest goings on with Michigan Realtors® Public Policy by visiting *http://www.mirealtors.com/Advocacy-Initiatives*, or subscribing to and liking our YouTube channel *https://www.youtube.com/MICHREALTORS.* ●

March 2018 Capitol Report Correction | Page 4
Representative David Maturen *(R - Vicksburg)*

The Five Magic Questions of Recruiting

How do you articulate your value proposition to a prospective sales associate?

BY LARRY KENDALL

At a recent recruiting workshop with top managers and owners, I observed them focusing on their traditional value attributes, such as brand, technology, marketing, training, market share and commission program. I heard a lot of, 'Well, I tell them XX,' as if preaching their company's value will make a difference. I didn't hear them asking any questions. Questions are the key when recruiting.

Recruiting should be an interview, not a presentation.

Knowing your value proposition and continually looking for ways to improve it is important in recruiting. However, ***before you can be the answer to someone's prayers, you need to find out for what they are praying.*** You find out with questions. Here are my five favorite recruiting questions.

1. **START WITH F.O.R.D. QUESTIONS.** Always start your conversation with connection questions. You really can't recruit someone until you connect with them. F.O.R.D. questions are a great way to start the connection and continue it when you meet again.
   - **FAMILY/FRIENDS:** *Ask about their family and look for common friends*
   - **OCCUPATION:** *How's business?*

- **RECREATION:** *What are you doing for fun?*
- **DREAMS:** *Ask any questions about the future—what are your plans for the holidays?*

2. **PAIN QUESTION.** What is the biggest challenge in your business right now? For top producers, I usually hear that they are working too many hours or can't get to all the business they have right now. Occasionally, they will comment on a frustration they're having with their current company—perhaps technology, staff or a manager. This question reveals that for which they are praying.

. . .before you can be the answer to someone's prayers, you need to **FIND OUT FOR WHAT THEY ARE PRAYING.**

Now you need to provide an answer to their prayers. Do this in a Socratic manner by asking questions such as, 'Would it be helpful if XX?' versus 'Let me tell you XX.'

3. **PLEASURE QUESTION.** If you could wave a magic wand and have your business just the way you want it, what would it look like? Tell me more about that. They will often offer the solution to their pain question.
4. **ENVIRONMENT QUESTION.** Do you feel you are in the environment you need to be in to make that happen? Here's where you connect your value as a solution to their pain and pleasure.
5. **VALUE CLARIFICATION QUESTION.** Do you believe your income is fixed regardless of your company, or do you believe you have a range of income that is influenced by the environment you are in, the people you work with and the systems available to you? Many sales associates have not thought about this question. They assume they will make the same income per hour regardless of where they work, so they look for a company where they can pay less. This question opens their thinking (and belief system) about their possibilities.

Two years ago, I was interviewing the top producer of another company and one of the top associates in our market. I like to use the word ***interview*** versus ***recruiting*** because, again, we are asking questions versus telling and selling. Here's what she said:

- *On the pain question, she said she was a "gerbil on a wheel" working 24/7.*
- *On the pleasure question, her magic wand was to have a least one day off a week, so she has time with her daughter after school and to take four extended vacations with her husband and daughter.*
- *On the environment question, she looked at me, and with tears welling up in her eyes, she said "If I stay there, it will be groundhog day won't it? It will be the same as it ever was."*
- *On the value clarification question, she never thought about it and said, "Do you think I can have the life I dream about if I come to your company? Can you help me increase my per-hour income, so that I can have a life?" I assured her we could and showed her how our systems would help her.*

She joined us and increased her income by 45 percent the next year. More importantly, the first sales meeting of the new year, she came bounding down the stairs, gave me a big hug and said, "It's true! It's true!" I said, "What?" She said, "I attended every one of my daughter's events, we took six vacations, my husband and daughter are happy with my career change, and I have a life again!"

Would she have joined us anyway? I don't think so if our recruiting approach had been telling and selling instead of interviewing. The five magic questions are the key.

*

Larry Kendall is the author of Ninja Selling and chairman emeritus of The Group, Inc.

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Fair Housing Is Good For Our Business And Our Clients

For Pat Combs, it's as simple as that. What the Fair Housing Act promises, is the right thing for her to support as a Realtor®, a member of her community and a citizen of the United States.

When Pat joined the real estate industry in 1971, she entered at a "contentious time." Realtors® in Grand Rapids, Michigan, were being tested to see if they were complying with the Fair Housing Act, and the legacy of the race riots of the 1960s were still felt in Michigan's communities. While Pat felt comforted by the knowledge and training she had been given by NAR, she knew that some of her colleagues felt the testing was unfair and they feared legal consequences.

In her own practice, Pat described witnessing acts of racial discrimination throughout the 1970s. On one occasion after showing a home to a black couple, a bigoted neighbor found her contact information and called her home. The neighbor threatened to do physical harm to Pat if she sold the house to the couple. Her response? She asked

for their contact information and told them she would report them to the FBI because this was a violation of the Fair Housing Act.

Pat, while shocked, did not shrink in the face of this harassment and continued to do her best to follow fair housing practices. She was instrumental in developing self-testing and training programs for the Grand Rapids Association of Realtors® that have been adopted throughout the country. She wanted veteran and rookie Realtors® to be able to oppose housing discrimination because it "was good for all of us," clients and the real estate industry people alike. By partnering with the local Fair Housing Center, Pat created a strong support network for everyone involved in real estate.

As she has continued to be a part of equal opportunity initiatives at the local and national level in addition to serving as President of NAR in 2007, Pat has had the opportunity to see the tremendous progress in the fair housing movement. Describing the young people entering the business, she sees "more openness [to fair housing] and less prejudice." She believes that training and education in fair housing is key to maintaining this progress.

After all, Pat acknowledged that the fair housing fight is not over. There are new pressures ranging from gentrification to the difficulties of enforcing fair housing practices with international investors. Racism remains an issue. "Back in the early days of fair housing, people thought it was a black and white issue. That still needs attention, but these days we're [also] seeing a lot of discrimination toward people with disabilities and of the LGBT community. We're finding a lot of rental discrimination."

It is not enough, of course, to just see the problem. Pat believes NAR can continue to give members the tools to "understand [how] to do the right thing to help them with their business and to practice fair housing techniques for those [vulnerable] communities." Combating modern problems in fair housing will require efforts on multiple fronts – legislation, community-building and education. ●

* *Article reprinted with permission from https://homeownershipmatters.realtor*

What's an Average Advertising & Marketing Spend?

Trends from the REAL Trends Brokerage Benchmark Report

BY SCOTT WRIGHT

Operating a profitable real estate brokerage business is simple—spend less than what you're bringing in! Of course, it's the bringing in part that is the ultimate challenge. It's a constant battle to recruit and retain talent.

As the nation's leader in valuations, mergers and acquisitions as well as consulting in the residential real estate industry, REAL Trends gets to see the inner workings of hundreds of brokerage companies each year. From small one-office firms to regional power players to firms struggling to stay afloat and those swimming in money; we see it all.

The brokers who are profitable go about it many ways, but they all adhere to the principle of spending less than they're bringing in. This practice is easier said than done, especially in an environment where retained company dollar continues to trend from the northwest to the southeast.

BELOW-THE-LINE SPEND

Managing below-the-line operating expenses, or spend, is a challenge in every business. With less control above-the-line, controlling below-the-line spend is especially important for real estate brokerage firms. Brokers' largest expenses are on salaries, payroll and occupancy, which for most is at least half the budget. Next up is usually monies spent on advertising and marketing, and this is an area where we see wild variations.

As a percentage of gross margin, we see brokers spend between 0 and 20 percent on advertising and marketing. On the low side are firms affiliated with Keller Williams and RE/MAX, with Keller brokers spending practically nothing in this department.

According to our Benchmark Report, the national average for advertising and marketing spend is less than 5 percent of gross margin, but this is skewed to the downside by the aforementioned franchises. If we remove Keller Williams and RE/MAX, we see the national average just above 8 percent. As implied by the rule of averages, there are outliers well above and below par.

BROKERAGE MODEL DRIVES MARKETING SPEND

In our observation, it's the brokerage model that drives where they fall within the advertising and marketing spend spectrum. On the lower end are the 100 percent, flat-fee and low-cap models. Agents working for firms that operate these models typically keep a bigger piece of the pie. As a trade-off, their brokers tend not to spend as much on advertising and marketing. With tighter margins, the broker can't afford to spend a lot in this area if they hope to turn a profit.

On the flip side are more traditional brokerage models running fixed splits or graduated commission plans. Some firms employing these models pour a ton of money into advertising and marketing on print ads, television, radio and mass mailings. Some also invest heavily in online marketing and lead generation. Agents who work for firms like these greatly benefit from this spend and rely on it to support their businesses. As a trade-off, these agents accept lower splits. Lower splits lead to higher retained company dollar for the broker, which ultimately allows them to spend more on advertising and marketing.

TURNING PROFITS

We see brokers turn spectacular profits using variations of any of these models. Brokers must be careful as there's an art to making sure advertising and marketing spend falls in line with the operating model. When we run our valuation clients through the benchmark, this can be an area where they may either lead or lag their peers, and this variance can be the differentiating factor in whether they achieve profitability or affect return on revenue.

The bottom line is that advertising and marketing are major parts of brokerage's overall spend. A wise man once told me, if your outflow exceeds your inflow, then your upkeep will be your downfall. Spending less than you're bringing in is no easy feat, but those disciplined in doing so will live to see another day. ●

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Service and Assistance Animals – The Applicable Law and Where to Draw the Line

BY MELISSA HAGEN, ESQ.
MCCLELLAND & ANDERSON, LLP.

By now, many of you have heard or read about the emotional support peacock Dexter, who was denied boarding by an airline company onto a flight leaving Newark, New Jersey. Under the Air Carrier Access Act and United States Department of Transportation ("DOT") regulations, a wide variety of service animals and emotional support animals are permitted onboard aircraft flying to and within the United States. "Unusual animals," according to the DOT, are "evaluated on a case-by-case basis." Guess poor Dexter didn't pass the evaluation.

How does this story impact Realtors® you may wonder? Well, very similar laws and regulations impact both commercial buildings and apartment buildings – in particular, "no pets" rules. Under federal law, there are two applicable statutes: the Americans with Disabilities Act (ADA), which applies to retail establishments and other buildings that are open to the public, and the Fair Housing Act (FHA), which applies to housing units. The service/assistance animal accommodation requirements under the two statutes are not the same.

The ADA applies to retail and office buildings, including rental offices at apartment complexes. Generally, under the ADA, service animals must be permitted to accompany their owner who has a disability, even if the business has a "no animals" policy. Under the ADA, a "service animal" is a dog that is individually trained to do work or perform tasks for the benefit of an individual with a disability, including a physical, sensory, psychiatric, intellectual or other mental disability. A new ADA regulation also compels public and commercial facilities to accommodate miniature horses – yes, you read that correctly – miniature horses that are trained and perform functions similar to those performed by dogs must be permitted to accompany their owner in places of public accommodation.

Service animals perform a wide variety of tasks. Some of these tasks, such as reminding a person to take medication, do not readily alert the casual observer to the fact that the animal in question is indeed a service animal. Therefore, the ADA provides that the person requesting entry to a public facility with a dog (or miniature horse) may be asked two (but only two) questions:

1. Is the animal required because of a disability?
2. What work, or task has the animal been trained to perform?

Documentation of certification, training, licensure and the like may not be requested. And, obviously, where the nature of the tasks performed by the animal are readily observable, such as pulling a wheelchair, even the two permissible questions should not be asked.

Similar to the ADA, the FHA protects persons with disabilities from discrimination. Specifically, the FHA requires landlords and homeowners' associations to provide reasonable accommodations to persons with disabilities so that they may have the equal use and enjoyment of their housing. Such accommodations include waiving a "no pets" rule and/or a pet deposit requirement.

The FHA is broader than the ADA in terms of the types of animals it covers. As stated earlier, under the ADA, a service animal must be a dog (or, more recently, a miniature horse) that works, provides assistance or performs tasks. The FHA, however, requires landlords to permit a tenant's use of any animal (not just a dog or miniature horse) that works, provides assistance, performs tasks or provides emotional support. Therefore, under the FHA, an "assistance animal" includes animals that qualify as "service animals" under the ADA as well as cats, hamsters and any other companion animals that, although not specifically trained to perform tasks, provide a therapeutic benefit to their disabled owner as a result of living in the home.

The FHA applies to almost all types of housing, including apartments, condominiums and single-family homes. There are some exceptions, as follows:

1. Buildings with four or fewer units where the landlord lives in one of the units;
2. Private owners of single-family housing sold or rented without the use of a broker so long as the owner does not own more than three single-family homes
3. Housing operated by private organizations or clubs that restrict occupancy in housing units to their members.

Accordingly, the FHA covers apartments with "no pets" clauses, as well as condominium projects that prohibit pets or regulate the size, type or breed of permissible pets.

The FHA, similar to the ADA, limits the questions a landlord (or homeowners' association) may ask when considering a request for a service animal as follows:

1. Does the person seeking to use and live with the animal have a disability – i.e., a physical or mental impairment that substantially limits one or more major life activities?
2. Does the person making the request have a disability-related need for an assistance animal? In other words, does the animal work, provide assistance, perform tasks or services for the benefit of a person with a disability, or provide emotional support that alleviates one or more of the identified symptoms or effects of a person's existing disability?

When the answers to both of these questions are "yes," the landlord must provide a reasonable accommodation by means of waiving or modifying its pet policies and/or limitations.

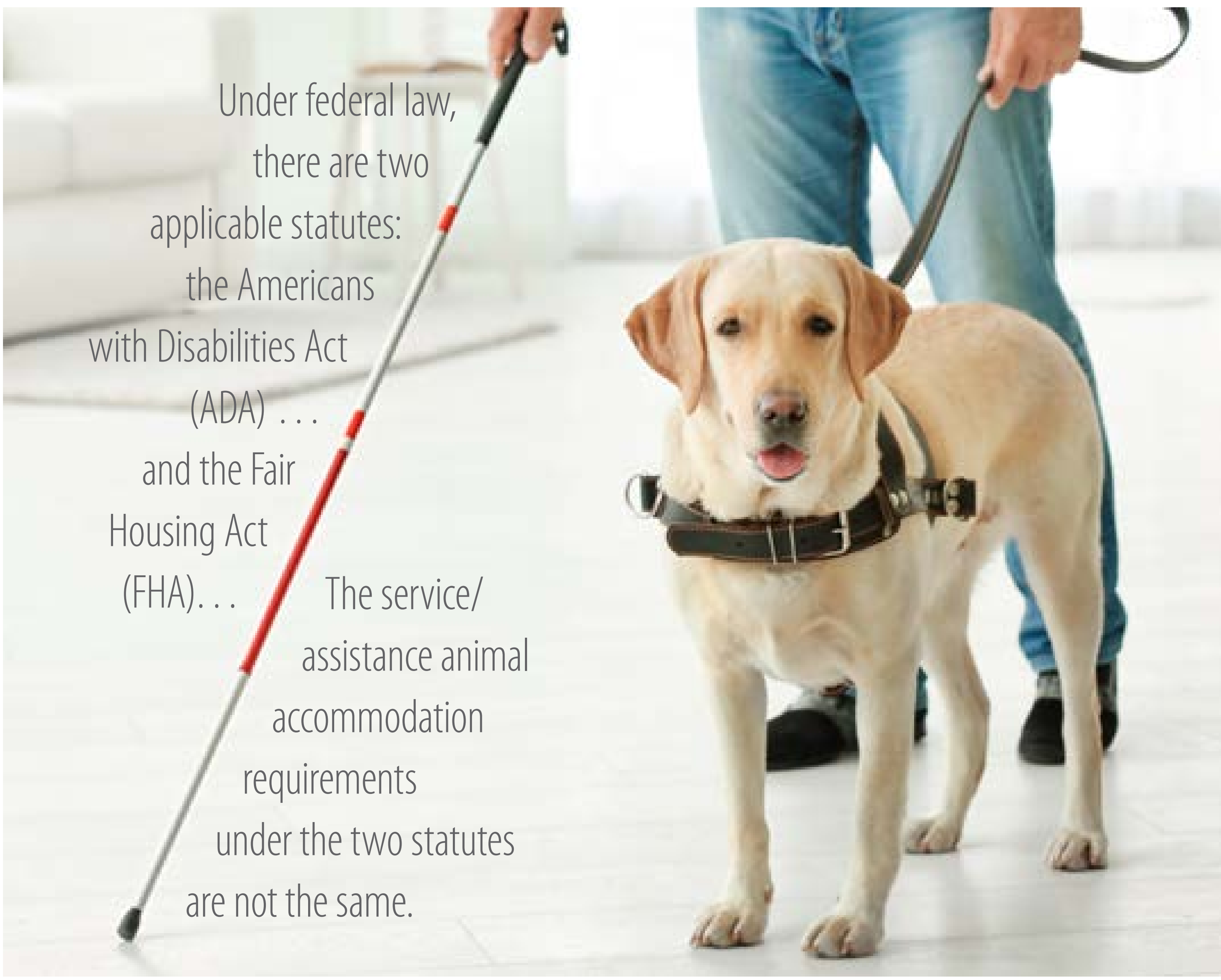
A landlord cannot deny a request for accommodation based on the breed, size or weight of the service animal. However, the request may be denied, notwithstanding "yes" answers to the questions above, if:

1. The animal poses a threat to the health or safety of others which cannot be reduced or eliminated by another reasonable accommodation
2. The animal would cause substantial physical damage to the property of others which cannot be reduced or eliminated by another reasonable accommodation
3. Allowing the animal to reside in the home would impose an undue financial and administrative burden or would fundamentally alter the nature of the housing provider's services

These exceptions contain a lot of legal "buzzwords" to be sure. However, what you need to know is that these exceptions are extremely narrow and apply only in very limited circumstances. For example, for the exceptions to apply, there must be objective evidence about the specific animal's actual conduct – not speculation – and not evidence of harm that similar animals have caused.

There is one last major difference between the FHA and the ADA: documentation. Recall that under the ADA, a person may not be required to provide documentation in order to prove that the individual is disabled or that the animal is trained. Unless the disability is readily apparent or already known to the landlord, the FHA does allow a landlord to request reliable documentation of a disability and disability-related need for an assistance animal. According to HUD, a physician, psychiatrist, social worker or other mental health professional can provide such documentation. However, this list does not appear to be exclusive. Typically, the documentation is a note from the individual's doctor. The documentation should explain how the assistance animal mitigates or alleviates one or more symptoms of the disability. The documentation does NOT need to disclose the nature of the disability nor is a landlord permitted to ask for documentation of the disability or any personal medical details or records.

To summarize, in recognition of the FHA's goal in providing persons with disabilities an equal opportunity to use and enjoy housing, the requirements imposed upon tenants in order to have an assistance animal are fairly minimal. So, where does a landlord or property manager draw the line? In general, upon receipt of "yes" answers to the two pivotal questions along with appropriate documentation, a landlord must allow the animal and should not charge a pet deposit. Should the situation become unworkable for any of the reasons discussed above, the accommodation can always be reconsidered and, ultimately, withdrawn. A landlord or property manager should always seek the advice of an attorney before denying a tenant's request for an assistance animal or withdrawing approval previously given.



Under federal law, there are two applicable statutes: the Americans with Disabilities Act (ADA) . . . and the Fair Housing Act (FHA). . . The service/ assistance animal accommodation requirements under the two statutes are not the same.

Brokerage Firms Dead?

Why the predictions are wrong.

BY STEVE MURRAY

We read recently that Robert Reffkin, founder and CEO of Compass said that, essentially, brokerage firms as we know them would be dead and gone in ten years, that technology and agent teams will become the prevalent model at that time and that Compass will be a market leader. This comes on the heels of Reffkin saying last fall that Compass would have "a 20 percent market share in 20 large markets by 2020." We weren't at Inman recently where Reffkin supposedly commented on the future of brokerage, but we will accept the written words and the recollections of an Inman writer on this issue.

I suggest that all leading brokerage firms call us and let us sell your firm quickly before all of this happens and there are no buyers left.

JUST KIDDING.

Some 40 years ago, in the fall of 1977, one of the largest financial services firms in the country gathered over 50 of the top firms in the brokerage industry to announce that they were going to buy them or attempt to buy them. In the ensuing years, that financial services firm threatened many of these firms with the statement that "if you don't sell to us we will put you out of business." True story. That firm was Merrill Lynch Realty. In less than 12 years, they left the industry after running through a few hundred million dollars. For the record, that is only slightly longer than the other big giant at the time—Sears—lasted in its ownership of Coldwell Banker.

This isn't the first time that someone or some organization has entered the residential brokerage business, backed by a big pile of money, and threatened brokerage firms with extinction. And, it certainly won't be the last.

WHY IS THIS HAPPENING?

Here are our views of why real estate makes such an inviting target for so many people with so much money.

1. The industry, in 2017, had gross revenues of $72.4 billion.
2. The two largest national franchise organizations have about 10 percent national market share each.
3. The 10 largest national or regional brands have less than 50 percent market share, which has not grown appreciably in 15 years.
4. The two largest owned-and-operated brokerage firms, NRT LLC and HomeServices of America, after spending billions buying brokerage firms over the last 20 years, together will handle about seven percent (7%) of all transactions in the country for 2017 (700,000 transactions divided by about 10.2 million brokerage-assisted transactions.)
5. The best 20 percent of brokerage firms, regardless of brand, business model or location, have average EBITDA margins of 4 to 6 percent. There are outliers above that, but they are few. There are many more who don't do that well.
6. Depending on who you ask, 40 to 50 percent of all Realtors® did one deal or less last year and likely the most productive 20 percent of all Realtors® did close to 75 to 80 percent of all sales.

Residential brokerage, therefore, is highly fragmented at the brokerage level, more concentrated at the agent level, with low margins (at the brokerage level), low productivity generally and somewhat inefficient.

NEW COMPETITORS

We have new competitors—Compass, Open Door, Offer Pad, Purple Bricks, HomeSmart, Realty One Group and EXP. As Jamie Dimon, chairman and CEO of JP Morgan Chase said, "new competitors are a fact of life, and they often will try to be lower cost, more efficient and more appealing…that is what capitalism is." Incumbents must change and innovate to stay competitive. They have no other choice.

Compass has some advantages. One, they have a lot of capital. Two, they likely have no pressure to actually make money at what they are doing. Three, their investors think they are a technology firm, not a brokerage, and we all know how much the investing world loves technology companies—at any price.

Sooner or later, their money may run out. Sooner or later, their investors will likely want to get a return from their investment (not a sure thing at all). And, sooner or later, the world will find out that Compass is not a technology firm, but a realty firm like most of your companies. In the meantime, they are creating challenges for incumbents.

CHANGE THE WAY YOU DO BUSINESS

I recall that once it became clear that RE/MAX wasn't going away, incumbent traditional brokerage firms had to change the way they did business. At the time, none thought there was any way they could survive with gross margins of less than 30 percent (the portion of total commissions retained by the brokerage firm). Then, they said they couldn't survive if it declined under 25 percent. Then, no way under 20 percent gross margin.

Yet, today there are dozens of large brokerage firms with gross margins under 20 percent, or even 15 percent, that are profitable and growing firms. They adapted and moved forward.

As a leader, you can't control what your competitors do. You can only do what you need to do to grow your business and your profit. A leader should anticipate that new competition will always appear and, for the most part, try to manage with lower costs, new technology and perhaps more efficiency than incumbents.

A leader's key question is how to change to adapt to these new circumstances. Pining about yesterday doesn't help, and it has never worked as a business strategy.

I don't think Compass will get 20 percent in all 20 markets by 2020. We know those markets, know the top incumbents in most of them and know the top agents and teams in those markets. The numbers say it is not likely. Maybe they get there in one or two markets—maybe. But, it doesn't mean they won't be disruptive in the meantime.

"We have data on the top brokerage firms, agents and teams in the 20 largest markets in the country. We know which firms can be bought (although Compass executives say they are not buying large market-share brokerage firms now). We can also compile the 2017 lists of top teams and individual agents in the 20 largest markets and say with some certainty that even if Compass bought every one of them, they wouldn't get to 20 percent market share in any of these markets." —*Steve Murray*

* *Reprinted with permission by Real Trends.*

A leader should anticipate that new competition will always appear and, for the most part, try to **MANAGE WITH LOWER COSTS, NEW TECHNOLOGY AND PERHAPS MORE EFFICIENCY** than incumbents.

A 2018 Trend You Can't Afford to Ignore: Customer Experience

"The deepest principle in human nature is the craving to be appreciated." — William James

BY BUBBA MILLS

Getting a customer in real estate today can be as tough as a $3 steak. But keeping the customer can be tougher than a $1 steak.

Competition has crept in from every corner and the market grows more and more crowded every day. What's more, customer expectations are always on the rise. They want more, better, faster – all the time.

It's a fact not lost on businesses of all types. And, some forward-thinking and super innovative companies (Zipcar, Dun & Bradstreet, and Visa are among them) are already ahead of the curve by going beyond customer service and creating "customer success" departments. In essence, the job of these departments is to ensure:

- Customers are the absolute number one priority at every turn
- The company consistently delivers above-and-beyond all customer expectations -- even if it takes more time or money to do it
- Customers have an amazing experience when they engage with the company.

Think of the old saying "under promise and over deliver" and then stir in lots of steroids. The end goal is this: make the customer experience so good that they will stick with the company until they die. Businesses, the good ones at least, know it's much smarter to do what's necessary to keep a customer than to attempt to win back a customer who's left.

This customer experience trend is real – backed by research. Salesforce.com, a sales software company, surveyed 3,500 companies for its recent fourth annual State of Marketing Report and says nearly two-thirds are adopting customer experience efforts.

Other revelations from Salesforce's research:

- Over the past 18 months, **64 percent** of marketing execs said their company had **sharpened their focus on customer experiences** because of changing customer expectations.
- About **65 percent** of consumers said they'd **switch vendors** if a seller didn't personalize customer experiences.
- A whopping **89 percent** of consumers say they want companies to **better understand their needs** and expectations.

What these statistics say to me is this: Realtors® need to get serious about making their customers' experiences more than memorable. They need to make their experiences astounding.

So, how do you make their experiences astounding?

Here are some tips:

- **BE PROACTIVE**, NOT REACTIVE – Up until now, the world of customer satisfaction has been about reacting to problems customers had. But today, in the new "customer experience" economy, it's about preventing problems by ensuring the experience is not only problem-free, but also, as I mentioned earlier, astounding. To do that, carefully map out the journey customers have with you, from the first time you meet them and then at every contact point afterwards. This will help you think ahead to prevent problems.
- **KEEP THE FOCUS** ON THE CUSTOMER AT ALL TIMES – I know, the world of real estate is crazy and things pop up all the time and it's easy to get distracted and lose focus on the customer. But remember, it's ultimately the customer who pays the bills. Keep a reminder on your desk, on your phone, in your car -- something as simple as a post-it note with "The customer is always #1." Or, before you do anything, ask yourself this question: "How will this help my customer?" When you take care of the customer, other problems take care of themselves.
- DO A **WEEKLY RESEARCH** ON "ABOVE AND BEYOND" SERVICE – The beauty of living in the information age is, well, there's a lot of information out there. So take a little time each week to find some examples of how other Realtors® (and other businesses) are taking customer experiences to the next level, then up your game with what you find.

Think of the old saying

"UNDER PROMISE AND OVER DELIVER"

and then stir in lots of steroids.

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