



## Improving Home Services Revenue

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# WAV GROUP

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## Introduction

Home services offerings beyond real estate sales have the potential to achieve long-term sustainability and stabilization for real estate brokerages. However, undermining this potential for enterprise brokerages are disparate technology solutions that do not seamlessly connect or share consumer data. As a result of this and other factors, many consumers do not take advantage of enterprise brokerage home services offerings because they do not know that they exist. This is a massive, industry-wide problem that does not have a simple solution. In 2013, WAV Group will be working with brokers to design specific strategies and business practices to improve the effectiveness of delivering home services to consumers effectively and efficiently.

The objective of this paper is to provide an overview of the challenges of generating incremental revenues and profits derived from successful home services offerings. Because the blend of home services offerings are so varied, there is not a magic process that can be built and followed every time. The enterprise resource plan must be refined and adopted differently to suit each individual company, culture, and marketplace. Thus, our goal in this paper is to provide a high level strategic thesis rather than a specific tactical roadmap.

From the outset, it may be helpful to clarify some terms. First, the term “enterprise services broker” is used to describe a brokerage that has separate but affiliated companies or joint ventures to offer home services. Next, “home services offerings” vary from company to company, but generally include one or more of the following: residential brokerage, commercial brokerage, property management, mortgage, property casualty insurance, escrow, title, and home warranty.

## Why Does Success with Home Services Elude Many Brokers?

From 2010 to 2012, WAV Group worked with enterprise services brokers on a variety of data and web service projects. We gained a deep understanding of operational practices by cataloging the practices of independent business units, capturing the strengths and weaknesses of a variety of strategies deployed across the nation. In essence, we have been mapping the enterprise resources in place today for our clients, and creating specific enterprise resource planning. In addition to hands-on resource management, WAV Group has identified a few hundred brokers that offered some set of home services, and remotely cataloged their online communications, including their website, newsletter, social media, and listing presentations. The goal was to identify best practices for communicating full home services offerings to the consumer through intentional resource management.



We discovered only a handful of enterprise brokers that received a grade of “C+” or better at enterprise resource planning (integrating the benefits of their home services offerings into clients through the touch-points we identified). Our review captured a preponderance of lead capture for homebuyers found everywhere, but scant articulation of seller offerings and home service offerings. Few brokers were successful at communicating any unique full-service proposition beyond brand differentiation. There was little evidence that homebuyer leads were being shared across all home services companies through enterprise resource management.

## Size

Offering home services is only an appropriate strategy for enterprise level brokerages. If you are not a large residential brokerage company, you do not have the transaction volume necessary to support developing a home services strategy either financially or operationally. The overhead cost of operating one or more home services companies is too great and too distracting for small and most medium sized residential brokerage companies.

We chose “number of agents” as the guiding factor in determining size because it is simple. Depending on home prices, the size threshold varies between 350 agents and 500 agents. The threshold establishes the minimum size requirement to break even in home service offerings. It is important that you build a profit and loss forecast for your home service offering if you are just getting into the business. In doing so, you will recognize how this threshold leads to your breakeven point. There are many other variables beyond number of agents that influence the size necessary for success (like unit volume and dollar volume).

Profits from home services offerings are derived from volume and realized through a blend of cost per unit and percentage of transaction. The brokerage needs to have one or both of these to succeed and execute effectively as an enterprise brokerage. A 350-agent brokerage that has high-dollar homes in luxury markets (percentage of sale) can be equally as effective as a large brokerage selling lower cost housing at scale (transaction volume). California brokerages have a distinct regional advantage in offering home services because of the high rates of both unit volume and higher dollar value of sales throughout the state. There are plenty of other regional markets where this also holds true, particularly in large MSA's and dense metropolitan markets.

## Poor Client Records

The most significant challenge that undermines home service offerings is that many enterprise brokers do not know how to contact their customers by phone, email, and social media. Real estate agents tend to guard their customer lists and contact information. Most brokers only have the information contained on the HUD-1 – name and address. In many cases, the client record resides on the



desktop of the real estate agent or other sales associate (sometimes only on their cell phone).

Few companies have been successful in building a single customer database that is shared across all home services companies. Residential brokerages often store customer information on paper, filed away in a storage facility somewhere. This is less likely to be the case in the home services companies because more service providers are employees rather than independent contractors. Regardless, client records are not being shared. Without easy access to customer data, companies are helpless at re-marketing and cross-selling services to existing customers.

## Competition

In any marketplace, competition may also be a strong mitigating factor for success. Enterprise brokers will always face challenges from competing independent mortgage, title, or home warranty companies that have great service representatives building long-term trust relationships with agents and consumers. Productive agents have learned that their home services teams are valuable assets in producing efficient transactions, securing “favors” and in creating happy clients. Enterprise brokerages must offer competitively priced products and exceptional services to effectively drive agent and consumer reliance on company offerings. Don’t presume that any product will suffice. *Your offerings must be “best of breed” in terms of competitive pricing, features, support, and margin.*

## Integration into Consumer Communications

There is a fundamental resource management process that many enterprise brokerages have not yet figured out. They operate their home services companies as independent companies that do not work together very effectively at supporting the consumer. Cooperation between the companies is so limited that the only thing they usually have in common is the shareholder. Cross selling is poorly executed and poorly communicated. Insurance and mortgage service providers generally get most of their in-house referral business by literally bumping into an agent in the office who is working with a customer. *Enterprise brokerages must have enterprise resources in place that allow all home services companies to share consumer information across the enterprise.*

The structure for enterprise resource management is a combination of Business-to-Consumer and Business-to-Agent-to-Consumer.

- The Business-to-Consumer communication has a number of prongs. Among them are the broker website, broker advertising, and leads generated by the brokerage. In addition, brokerages should be developing communications to clients who have already completed a transaction with the brokerage. There is always some friction with agents on this strategy.



Agents do not want the broker communicating to “their” client. The brokerage must solve for this in their resource management. *You must be able to demonstrate that the company is not stealing the client from the agent for the purpose of mining future real estate transactions.*

- Business-to-Agent-to-Consumer communications are one way to solve the friction issue with agents. The brokerage develops a communications plan that is branded to their service provider, and delivered through their service provider. Depending on the solution you choose, the agent either has the ability to modify and send the communication, or the enterprise broker automatically sends it.

All home services offerings must be communicated in a meaningful way in all of these communications. Consider your audience and compose your message accordingly. Enterprise resources used to effectively reach these audiences include email, website publishing (or blogging), and social media publishing.

## Transaction-Based Mindset

Most enterprise brokerages operate each home service company with the focus on transaction volume per month. The marketing to support monthly transactions is overweighed in the direction of new business acquisition and ignores the potential of assisting past clients. This is perplexing and irrational since every piece of data (e.g. NAR, CAR studies and others) indicates that repeat and referral business constitutes 80% or more of sales. If anything, communication and marketing to past clients should be outweigh efforts made to acquire new business. A strategic shift toward past client social networking, newsletters, and mailers may secure increased sales penetration beyond the transaction.

There are not as many new buyers in the marketplace today, as some have purported. First-time homebuyers are generally scarce and have difficulty in today’s market obtaining traditional financing. Before the mortgage crisis and Frank-Dodd, first-time homebuyers made up 1/3 of the market. Today, in most areas, they represent less than 20% of transactions because of new and more stringent lending guidelines. Another factor to consider in allocating marketing budget to new homebuyers is that many new buyers choose their agent from a family or friend’s referral.

Resourceful companies will profile a consumer’s entire family and endeavor to market mortgage refinancing, second mortgages, and annual renewals in insurance, and home warranty. *Brokers need to stop focusing on unit sales, and begin focusing on sales over the lifespan of the customer. Profit per transaction is a variable that is dependent upon the use of all available home services. WAV Group uses the common term “Customer for Life” in developing the core elements of this critical strategy. Sophisticated direct marketing firms refer to this strategy as the lifetime value of a customer.*



## Departments Stored in Silos

If you look at the organizational chart of an enterprise brokerage, you find regional managers and office managers are solely responsible for individual departments rather than an umbrella of service offerings across all companies. The office manager is typically responsible for residential sales agents only. Other home services personnel in the office are self-managed or report up to a corporate manager for their service.

There are several realities that cause this. Typically a real estate office manager does not have experience with managing mortgage, insurance, or other home services. Moreover, home services staff for insurance, title and other services are attached to more than one office. In addition, manager compensation is normally one-dimensional to a single home services company.

Considering using a single-point-of-contact for home services is an interesting concept. Corporate relocation companies practice this strategy very successfully. Done to minimize the impact of multiple contacts, the result is a more focused outreach to customers that is the preferred choice for corporate transferees. In such cases, the real estate services portion of the overall home services offering is presented as a spoke in the overall transaction rather than the hub.

## Marketing in Silos

*Many consumers do not take advantage of enterprise brokerage home services offerings because they do not know that they exist.* Reasons for enterprise brokerages failing to communicate an end-to-end home services offering begin with the marketing department. Marketing staffs in a residential brokerage do not focus on providing consumers with a complete home services offering. Instead, the marketing team's primary job is to support agents by marketing listings with mundane activities like publishing open house ads.

If the other home service companies have any marketing support at all, it is not focused on offering integrated services; they focus on their individual service. It feels like each product is marketed independently, rather than as a cohesive set of products that are combined to continually support the consumer in all aspects of home ownership. *At every consumer touch point, all home services offerings must be communicated like a well-rehearsed chorus.* More than that, companies need to create a compelling story about **why** using a single company for multiple services makes sense.

## Software in Silos

The information technology (IT) infrastructure presents the primary challenge in understanding the key to the home services puzzle. There are two strategic pieces that we frequently see missing:



- Business software does not “communicate” across home services companies; and
- Enterprise services broker websites do not blend the home services offerings cohesively

Enterprise resource planning and management practices aim to solve this detrimental disconnect.

Our reviews indicate that enterprise services brokerages website developers are overly focused on residential property search and lead generation. If home service offerings are to be presented to the consumer, they are now presented as a link to another website, or buried under a separate navigation tab. Home services must be pronounced clearly and cohesively as an elegant, fluid blend - not a bumpy road that bounces the customer all over the Internet from one domain to another.

In addition, few developers of residential brokerage software design their systems to support enterprise services brokerages that want to share information across all home services businesses. They support national, regional, and office levels for brokerages, but do not have additional categorizations that relate those residential entities with other business units. As a result, the separate business units create separate database and application resources – and, in many cases, duplicate the customer record. For example, the residential brokerage software may have a record of home sale information, but no information about the mortgage or insurance products.

Developing a central repository for customer records that is shared with all home services companies, rather than being duplicated with fragments of service-specific information, defines the most critical element of enterprise resource planning. *The common focal point of software that supports the consumer should be the consumer - not the agent, the home services representative, the residential brokerage, or the mortgage company.*

### **Why Don't Enterprise Brokers Use Enterprise Software?**

Business services solutions for a customer centric enterprise exist outside of the residential real estate industry. Enterprise Resource Planning (ERP) software environments like Salesforce or NetSuite deliver this already. These solutions allow enterprises to network companies and service offerings together in a customer-centric environment. *Unfortunately, the price per agent (\$60 per agent per month) makes them prohibitively unaffordable. Moreover, real estate ERPs require MLS data integration to be useful, and that type of integration into ERPs is costly and difficult.*

### **What about Real Estate Specific ERP Solutions?**

There are some real estate technology companies that offer brokerage ERP solutions that are affordable (less than \$20 per agent per month). However,





these solutions are only focused on providing ERPs for residential real estate, not residential real estate plus home services.

We have found that the number of brokers using ERP solutions for their residential business is limited. Even when the broker offers these solutions, agent adoption is lower than expected and there is little actual home services integration.

Moreover, few brokerages with these solutions have dedicated staff to train agents, support agents, design communications, or write content. These ERP solutions come with stock content, content that absolutely *must* be modified to communicate the broker's unique selling proposition and home services offerings. *In our experience, most brokers with residential brokerage ERP failed to make this investment to produce the outcomes they desire from home services.*

On another note, each real estate brokerage ERP solution excels in executing a few aspects, but is not effective at executing a comprehensive plan. This is a natural occurrence. Some companies are very good at processing transactions. Some are very good at CRM. Some are very good at managing content on the broker website. Very few have a great CMA. Very few are good with document management or transaction management. Very few have decent mobile solutions. As a result, any enterprise brokerage ERP solution tends to be a custom solution with custom integration to multiple products across all businesses to create a complete resource management solution. In short, this presents huge challenges to the enterprise services companies.

### **Sharing Information on an Open Platform**

WAV Group reviewed Salesforce and NetSuite to understand more about how they were able to succeed at meeting the demands of so many large enterprises across so many industries. We found that those companies do not try to be all things to all industries, putting applications and resources and information into silos. Rather, they offer an "open platform" that allows companies to integrate any application that suits their unique business needs or choices. In real estate we tend to dive into the weeds demanding functionality that is seldom actually used by the agent or the customer.

*Fundamentally, information is required to be shared as needed, anywhere, at anytime and with all applications.* In "tech speak," this is called an "API" or "Application Programming Interface." Companies have the choice of either selecting a product that is already integrated into Salesforce from their authorized partner community or developing their own integration using an industry-specific API.

*Having an open platform, that leverages APIs or information exchanges between software applications, is what brokers must pursue to eliminate the silos that*



*exist between software applications used across their residential, commercial, property management, escrow, title, mortgage and other home services businesses.*

These do not exist in real estate today. Hence, enterprise brokerages need to do the heavy lifting of stitching software together on their own.

Exchanging customer record information is the cornerstone objective of integrating software across all home services companies in the enterprise. This ensures that every service provider can easily understand the service need of each client, and what is required to effectively market that solution provided by the specific service to the client.

## Goals and Recommendations

### **New Focus on Lifetime Value of a Customer**

Brokerages need to begin to think about clients differently. They must broaden their perspective beyond gross commission incomes and the profit ratio targeted for the overall transaction. In addition, the company needs to start building methods to measure the lifetime value of a client – not only as an individual, but as a multi-generational family. Companies also need to show how this enterprise services relationship will offer critical services today, and over the long term. This includes notification of mortgage rate reductions triggering refinance opportunities, and opportunities to challenge tax assessments.

### **Ongoing Consumer Assessments**

Most brokerages WAV Group works with have conducted little (if any) consumer research to understand their businesses' strengths and weaknesses from their customers' perspective. It's nearly impossible to build a stronger business without a fundamental understanding of how your customer views you. Many brokerages believe their core customers are their agents. Wrong! This is a shortsighted view in our estimation. Successful companies are intimate with those that provide them with revenues. Ideally, brokerages will begin to measure consumer perspectives on a variety of levels regularly. They will understand how real estate consumers view their quality of customer service, data accessibility, product quality, transaction effectiveness, brand differentiation and many other elements.

### **Become the “One Stop Shop”**

We have heard talk about the “one stop shop” forever. To actually achieve this objective, companies need to create compelling stories as to why there is an advantage to the consumer and the agent to use their full range of enterprise services. Regardless of how the consumer touches the enterprise, they are presented with the home services “story.” Brokerage company leadership needs to carefully select best of breed partnerships and joint ventures to ensure



adoption of each element of their home services business, measured by both agents' and the customers' expectations for service and pricing.

### **Enterprise-Wide Customer Transparency**

Anyone in the enterprise should be able to access current and prior products that a consumer has purchased from any home service company by looking up the client record. This allows broker staff to understand how valuable the client is to the venture and what services they have engaged in with the firm and may need in the future. The home purchase is the first occurrence of the use of enterprise home services but it should by no means be the last.

### **Enterprise-Wide Database**

Enterprise brokerages should get over the hurdle of fractured and incomplete databases. There is a need to work with their agents in each division to create a company-wide database with actively managed and updated customer contact records

### **Enterprise-Wide Reporting and Accountability**

Ideally, the leadership of the brokerage across all business units will begin to share reporting across the entire company. The staff works together to improve the profitability of the entire operation, while supporting growth in their own areas of responsibility.

### **Non-Regulated Enterprise Services**

When it comes to applying a fully integrated enterprise home services model to the brokerage company, brokers need to think outside the "RESPA box". This means they need to consider offering services to their customers that are essential to the transaction but do not have anything to do with mortgage, title or closing services.

According to recent CoreLogic statistics, sellers and buyers transact purchases every 11-14 years (depending on the region). This reduces consumer familiarity with the process, and the awareness of quality services providers. But brokers do. Local specialized services like home warranty providers, home inspectors, geological reports, structural engineers, pest control inspectors, appraisers, environmental professionals and household goods moving service providers are mostly foreign to today's seller and buyer. Every one of these professionals supplies an important home service "looking for a transaction".

A true enterprise services brokerage company will engage or refer such professionals to provide such services to customers who are in need of their help based upon their level of quality service and pricing history in the local market. Agents are a great source for making such referrals and for the historical performance data. If there is a revenue opportunity for such a referral, with proper disclosure of the relationship, the broker should be able to generate fees



associated with the placement of such services with these types of providers. This practice is done routinely by corporate relocation services providers and in some cases the fees available to such companies; in the case of a single interstate household goods move referral, the fee earned can be hundreds or even thousands of dollars paid to the broker.

WAV Group has researched and is researching such relationships now to be shared with selected brokerage firms in an effort to enhance their enterprise homes services offerings in 2013.

*These are broad goals and represent a challenge for your brokerage. As we mentioned earlier, creating a plan tailored for your specific company is key to achieving success with home services offerings. WAV Group is here to support you in this endeavor as you elevate your business to new levels of success and profitability in our amazing and ever-changing industry.*





**WAV Group** has a depth of experience in technology, strategic planning, research, business development, sales, product development and marketing in the real estate industry. We work with your brokerage as virtual executives and help you meet the objectives of your business, more quickly, more effectively and more

affordably. Our partners have collectively launched over 25 businesses and have led several hundred business process evaluations and system installations in North America, Europe and Asia. We have created significant increases in sales and profits for Fortune 100 to start-up companies. Our clients include real some of the largest MLS's in North America, International real estate franchise organizations, technology companies and trade associations. This diverse collection of global industry experience allows the **WAV Group** to cross-fertilize ideas and bring best of breed solutions to its clients. All of the **WAV Group** partners have been CEO's, Executive team members or founders of Fortune 100 and venture-funded corporations and approach each relationship with a clear understanding of the challenges that face our client's businesses today. We are here to help you take your association or business to the next level and create the next wave of success!

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