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The Impending Death Of Small Business Brokerages? **Not So Fast**

In November 2018, Jeff Bezos said, "Amazon is not too big to fail," adding: "In fact, I predict one day Amazon will fail. Amazon will go bankrupt. If you look at large companies, their lifespans tend to be 30-plus years, not a hundred-plus years." When the wealthiest man in the world — a self-made billionaire and entrepreneur of one of the largest companies we've ever seen — makes a statement like this, we should pay attention. What does Bezos know that we don't?

Successful companies are born to entrepreneurs who see a need in the market for a new product or service and believe they have the solution. That goal is almost never to "be the biggest." Walmart, for example, began in 1962 when Sam Walton opened one store in Rogers, Arkansas with a mission to have friendly people help others save money on everyday items in the most convenient way possible. It was born in the science of logistics: getting inexpensive goods to people inexpensively. Walmart's massive growth was not the intent, but rather the result of this mission: cheap, easy, fast and with a smile. Over the next 50 years, Walmart dominated the marketplace — that is, until Amazon came along. And Amazon did the same thing, only cheaper, easier, faster and with a smile right on the box. Amazon won the game, for now. In the business of logistics, bigger is better and maybe even necessary, however difficult to sustain in the long run. There is always someone just around the corner that can perfect the science.

On the flip side, residential real estate is far more art than science. Yes, a certain amount of money will buy a certain property. The differences are the interpretive and emotional elements. A home is typically the largest single purchase and greatest asset a person will ever have. Understanding the market and navigating the complicated financial and legal hurdles of buying or selling requires a level of expertise. Additionally, homeownership is more than just a piece of property; it is a person's community, their neighborhood, their home. There is no purchase that has so much financial and personal implications on the line.

The job of the real estate agent is to help buyers navigate this incredibly complicated process. Providing comps and data is a small part of the work. More important is understanding the people involved: Why do they want to buy or sell? What do they want in a neighborhood? What can they afford? It is the exact opposite of the cheap, fast and easy model. Real estate agents, at their best, are highly professional, incredibly knowledgeable and extremely savvy. Finding a home is often much more than numbers — it's about relationships and there is no technology to account for that when such high personal and emotional stakes are involved.

That is why I find it so interesting to see the real estate industry aggressively shift toward automation and technology. Large companies are rapidly becoming larger by infusing massive capital into growth and acquisition. Data has, in many ways, become the agent. Knowledge is being replaced by numbers. We have seen a similar trend in many industries, from tax preparation to travel planning and legal services. However, some individuals will always feel more comfortable working with professionals in those fields. The choice between agents and technology typically comes down to time, priority and money.

I see the future of real estate branching into two directions: One will be a more science-based approach using technology to allow easy buyer to seller transactions. Why? Because it is cheaper, fast and easier. This will be the preferred method for less complicated deals at lower price points. The second direction will rely on expertise, whether that be related to price point, building type or location. Highly specialized brokerages will employ well-educated, premier real estate professionals who are experts in their field and they will work with clients who value — and can afford — this level of service.

The next five years will set the stage for the new world of real estate brokerage. Those currently in the space and companies choosing to enter the business will have to decide the path best for them. Bigger, tech-heavy firms will need significant capital to advertise and purchase data and acquire staff. It is a volume game. This model will be ideal for clients who are self-reliant and cost-conscious. These firms can charge and pay lower commissions because a seasoned agent is not necessary. On the flip side, smaller, boutique brokerages will find their niche with those clients in the very high end of the market who demand expert service, or those clients with more complicated deals. It will also be the choice for people who simply feel more comfortable working with a seasoned professional. Brokerage owners will be able to charge higher commissions for their services, but they will be paying higher commissions as well to retain top agents.

What did Bezos mean by his take on large companies? It is hard to sustain a logistics-based, volume-reliant business when there are those right around the corner who can find a way to improve performance. Client loyalty is more to the price and simplicity aspect, rather than the company itself. Clients who favor small companies tend to do so for the expertise of the people working there and the personalized service received. These things are built over time and are focused on the art of the business — understanding, knowledge and compassion. As long as people continue to purchase homes, I believe there will always be a need for this level of personal service — and I stake my career on this belief.

So is it getting harder for small firms to fight off those larger Goliaths? Absolutely. Boutique brokerages and agents might have it tougher in the short term, but by staying true to our values, I suspect we will be around long after the large firms have slugged it out.