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# HOW BROKERS CAN COUNTER THE RISKS OF DISINTERMEDIATION BY EMBRACING AND LEVERAGING TECHNOLOGY TRENDS

by John Stanfill

Over the past few years many self-styled futurists have been fervently predicting that the Internet's ability to enhance communications between the principals in a commercial real estate transaction will lead directly to widespread "disintermediation" in which all traditional intermediaries will become extinct. Obviously such sweeping prognostication has been the cause for quite a bit of concern among real estate professionals in general and among commercial brokers in particular. In reality, the global reach and ever-expanding capabilities of the Internet represent a myriad of opportunities for forward-looking commercial real estate brokerages to greatly enhance their value-added services as well as improving their cost efficiency. By embracing these new technologies rather than avoiding them, brokers can turn the Internet into a source of new empowerment instead of a threat of elimination.

## ABOUT THE AUTHOR

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## RAPID EVOLUTION OF INTERNET E-COMMERCE CAPABILITIES

Over the past few years a virtual stampede of companies have stormed on to the Internet in a new and unrelenting "gold rush" to mine the mother lode of e-commerce. According to projections from Forrester Research, Inc., the online sales of hard goods alone will reach \$1.3 trillion within the United States by 2003. Already, the new frontier of e-commerce has produced many undisputed high-profile successes, such as Amazon.com, eBay, GeoCities, and Dell Computer Online. At the same time, the excitement generated by these new online commerce alternatives is continuing to fuel the unrelenting growth in the number of actively participating Internet users, currently estimated to include more than 80 million Americans, with

millions more joining in every month. Spurred on by the well-publicized successes of these e-commerce pioneers and the growing acceptance of mainstream users, the Internet now represents a major opportunity for transforming both the residential and commercial sectors of the real estate industry.

While much of the “buzz” associated with the Internet has been on the exciting new successes in retail-oriented, Business-to-Consumer (B2C) sectors, industry experts generally agree that the most dramatic impacts of Web-enabled commerce are just now beginning to emerge in the Business-to-Business (B2B) arena. While B2C applications offer a new way for retailers to reach broader markets, B2B eBusiness applications entail sweeping opportunities for completely re-engineering existing supply chain and transaction processing relationships for much greater efficiency using Internet-based technologies.

According to a new study conducted by Activmedia, the real estate market is predicted to be the second fastest growing arena for online commerce, exceeded only by the growth in computer software sales and ahead of publishing/information services, financial services, Internet services and computer hardware. The Activmedia report indicates that while overall business on the Internet is growing at an explosive 63 percent, the real estate sector is experiencing an amazing 310 percent growth rate. Although the bulk of this real estate e-commerce growth is in the retail-oriented residential sector, the commercial real estate sector offers major opportunities for re-engineering the entire intermediary process to greatly enhance brokers’ value-added services and overall profitability.

#### **DIFFERENCES BETWEEN RESIDENTIAL AND COMMERCIAL MARKETS**

In the early going, the residential real estate market has actively migrated to the use of online marketing and sales mechanisms because the Internet represents a fairly natural extension of existing standardized methodologies. For example, residential multiple listing services (MLS) have been automated for decades and are widely accepted as a core tool for the industry. Moving MLS databases online was a very logical step in response to the growing wave of agents and their customers who routinely use the Internet. Similarly, the enhancement of the marketing and sales process through the online posting of Web-based “brochure-ware” has become a routine part of the residential real estate arena. Because

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sales in the residential market are driven primarily by the ability to put standardized information into the hands of armies of local agents, the use of Internet-based marketing has quickly become a powerful tool.

On the other hand, the commercial real estate market has been somewhat slower to embrace the Internet because of the inherently different nature of the commercial process. Instead of being driven by the mass communication of standardized listing information as in the residential sector, the commercial sector has traditionally entailed much more complex and varied transactions that require a higher level of management by the broker throughout the entire sales and negotiation process.

Clients in the commercial sector tend to look to their brokers to provide a broader set of value-added services within the context of a deeper and often times ongoing relationship. Because of this need for a deeper relationship, many commercial brokers have traditionally been reluctant to “open-up” the process, preferring to maintain more control over exactly how and where the properties are marketed. Therefore, commercial brokers require much more functionality and flexibility from their investment in online systems.

As they implement new Internet-based e-commerce solutions, commercial real estate brokers need to be able to flexibly manage a variety of multi-dimensional marketing methods, such as:

- Worldwide marketing of their listings based on a variety of parameters that go well beyond just price and location;

- Options for privately posting listings within their own organizations;
- Capability to focus marketing efforts on pre-qualified principals;
- Ability to interactively search and retrieve listings according to a wide range of parameters;
- Flexibility to step the marketing process through distinct phases, such as starting with private listings and then transitioning to more widespread shared listings as required;
- Options for efficiently delivering both online and hard-copy color marketing materials and offering memorandum in real time;
- Efficient integration with existing legacy systems and desktop environments;
- Capability to supplement the sale with value-added support services at the point of transaction; and
- Built in analysis tools for ongoing management of the overall sales and marketing process to achieve optimal results for customers and profitability for the broker.

#### **OPTIMIZING LIQUIDITY, SPEED OF TRANSACTIONS, AND COST-EFFICIENCY**

The basic objectives for the ultimate success of any market-making activity include the need to optimize liquidity for the customers while ensuring a high degree of transaction speed and cost efficiency. As the commercial real estate industry has become increasingly globalized and institutionalized, the ability to provide ready liquidity has become an important consideration for professional investors, such as REIT managers and pension fund advisors. Likewise the ability to speed up the transaction process ensures greater effectiveness of the market by reducing the percentage of deals that are at risk of “falling out” of the process during protracted negotiations, due to conditions such as changes in the economic environment.

Therefore, an increasingly sophisticated customer base is turning to their commercial brokers to use all available technologies to optimize market reach, liquidity, and transaction speed. Similarly, the broker community is discovering that the well-integrated deployment of Internet-based technologies can greatly improve the underlying cost efficiency of their operations by helping them to more quickly target qualified prospects and to rapidly move their transactions from initial presentation to final completion.

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#### **EXTENDING GEOGRAPHIC REACH AND MARKET KNOWLEDGE**

Perhaps the greatest impact of Internet-based technologies on the commercial real estate market is the ability to immediately reach prospective customers anywhere around the world and around the clock with in-depth and highly effective information on the property being offered. Unlike residential sales, in which geographic location is the primary criteria for matching buyers and sellers, the commercial market has become an increasingly global arena, in which other business parameters generally outweigh geographic location. Therefore, to serve this worldwide marketplace, commercial brokers must leverage available Internet-based technologies to improve their reach.

By using Internet-based “infomediary services” that are tailored specifically to commercial brokers, such as the PropertyFirst.com system, agents can gain access to detailed listings for thousands of available properties, which can be easily searched and sorted by a wide range of criteria. Properties can be categorized according to location, size, price, and type, such as office, industrial, shopping/retail, multi-housing, hotel/resort, etc. This makes it a relatively simple matter for a broker to quickly compile a list of targeted candidate properties right from the broker’s desktop. Similarly, using services that provide databases of registered principals, commercial brokers can interactively search and sort according to detailed profiles and buying criteria in order to quickly match prospective buyer requirements with available properties.

Driven by the need to better serve their customers, most commercial brokers are now recognizing the benefits of tapping into some form of shared database services to extend their reach and speed up sales cycles. However, the highly competitive nature of the commercial marketplace and the

importance of the brokers' contributions to the process require that these shared marketplaces be designed to preserve broker autonomy and control.

Unlike the relatively wide open nature of Internet-based residential listings, it will be important for commercial brokers to make use of online databases that provide the ability to retain and enhance the importance of client/broker relationships. For example, by only accepting exclusively-listed properties from licensed brokers and building in mechanisms for automatic notification to the broker when a listed property is matched with a buyer, a system such as PropertyFirst.com can greatly streamline the sales process while simultaneously enhancing the broker's ability to capture the commission on both sides of the transaction.

By fostering highly-efficient and well-structured marketplaces that can be interactively used by both listing brokers and qualified principals, this new breed of online service has also laid a solid foundation for further enhancements to the commercial broker's value-added capability. Furthermore, by making use of shared database services maintained by database experts and trained research staffs, an individual broker and brokerage firm can turn into an industry-wide resource that would be too costly for any individual or firm to maintain.

#### **THE IMPORTANCE OF DESKTOP SEARCH CAPABILITIES AND DATA ANALYSIS**

Of course in order to enhance their added-value and efficiently manage their business activities, today's commercial brokers need much more than just access to an online database. Brokers also need powerful well-integrated capabilities to conduct data searches and analysis on their local desktop machines. As key participants in helping to shape deals from start to finish, commercial brokers must be able to provide their clients with in-depth analysis of market conditions, historical trends, negotiation strategies, etc.

In order to compete in today's global market, commercial brokerage firms need to equip their brokers with powerful local applications that can empower them to conduct in-depth, off-line analysis to ensure timely information, cost-efficiency, and a high level of security. By setting up their internal information systems to mirror and complement their use of external online services, brokerage firms can minimize learning curves and training costs while maximizing efficiency and bottom-line service to their clients.

Brokers and their managers can also leverage the same software and historical database to quickly generate custom reports on key performance parameters, such as sales volumes, transaction timeframes, and closing ratios. Using the off-line analysis capabilities, management reports can be easily generated by broker, by office, by property type, etc., which can also be easily compared to overall industry trends and benchmarks by tapping into the broader set of information in the external online database.

#### **LEVERAGING VALUE-ADDED SERVICES AT THE POINT OF TRANSACTION**

Another major area in which the use of new Internet-based technology can strengthen the commercial brokers' value proposition is in the provision of ancillary and support services that are often required at the point of transaction. As online marketplaces become increasingly popular mechanisms for matching buyers and brokers, the same sites can also be used to develop full-fledged communities or "portals" that bring together qualified providers of a wide range of related services. For instance, upon completion of a transaction for office space, the broker or their principal could also tap into the online service for referrals to space planners, moving companies, telephone system vendors, etc.

Because virtually everything in commercial real estate is ultimately driven by the transaction, it will make sense for the majority of support and ancillary services to gravitate toward sites that support the broker and principal in the transaction process.

#### **THE BOTTOM LINE**

By exploiting these new Internet-based technologies to streamline their operations and extend their market reach, forward-looking brokerages can empower their brokers to spend less time chasing deals and more time closing them. As a result, brokerages can simultaneously increase their revenue stream, improve customer satisfaction, and lower their internal cost structure to improve profitability. In addition, the ability to cross-integrate new Web-based services with in-house software tools will further increase efficiency by providing a seamless environment for analysis, managing, and optimizing the overall process. Finally, the ability to readily make a tailored set of ancillary services available to their clients at point of closing will enable brokers to enrich their intrinsic value and strengthen their ongoing customer relationships.

Ultimately, the bottom line is that the rise of the Internet does not signal either the threat of wholesale disintermediation or even the diminution of commercial real estate brokers. On the contrary, by intelligently leveraging the powerful capabilities of the Internet's new breed of "virtual marketplaces" along with enhanced internal analysis and management tools, brokerages can significantly increase their value-added proposition and even further justify their commissions by improving overall service to customers. One might consider the technology changes that will be brought about as a "re-intermediation" of the skilled broker vs. disintermediation.<sub>REI</sub>

#### **ABOUT THE AUTHOR**

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