

# Isms

by Donald Teel



Isms, misunderstood and misapplied, have always created problems in the world and the real estate industry is no stranger to the same phenomena. Traditionally, owners have allowed the industry to paint them into the corner of an “ism” that once served us well. This ism is known as “territorialism.”

Territorialism has been a part of the natural evolution of the real estate industry business model. Think about how consumers used to relocate. They would most likely visit a city where they considered to be their new home, grab the local newspaper to read the real estate ads, drive neighborhoods looking at houses with for sale signs in the front yard and ultimately, if they wanted to purchase a property, they had to end up in a real estate office in the city they were moving to. All information was territorialized and localized, then placed under the watchful care of the real estate company’s Broker.

Later, in the 60’s, 70’s and 80’s, territorialism became well defined through the introduction of what we now know of as the real estate franchise. Franchisors recognized the territorial nature of the business, i.e., brokerage firms operate in fixed, vertical markets where information is controlled by the brokers via the Multiple Listing Service. Franchisors then successfully developed and marketed their national franchised brands and sold the rights to use their brand in fixed geographic market areas where broker/owners were promised “rights” to national relocation and referral leads from other members of the same franchise.

Several factors made the territorialism work. One was the absolute control over property information by local brokers. Another factor that enabled territorialism was the lack of any consumer driven information resource, such as we now have with the Internet. A third influence that fueled the growth of territorialism was the broker’s lack of independent connection to multiple markets. The connection to multiple markets was provided by the franchisor and the local protection by the franchise agreement. In effect, the broker had no real option that could compete with the high cost of franchising. It was pay if you want to play, so to speak.

Territorialism was the first and most powerful “ism” in the real estate industry. It remains the number one controlling force within the industry today but is now falling under the lens of examination by the *Non-Brokers*<sup>1</sup> and the *Neo-Brokers*<sup>2</sup>, not to mention the Justice Department, now investigating the policies and practices of the National Association of Realtors.

The second great “ism” in the real estate industry is “consumerism” which I believe is emerging as the dominant force that will challenge the first ism, territorialism. Whereas the later seeks to define an owner’s business geographically and statically, consumerism is the opposite.

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<sup>1</sup> A “Non-Broker” is a person or legal entity that provides real estate related information services to consumers without being a part of the industry. The non-brokers seek to generate consumer loyalty and to then transform this relationship into a revenue model at the expense of traditional brokerage firms. Some, perhaps most, of the “Non-Brokers” loathe the industry and its practitioners calling them of late a “cartel.”

<sup>2</sup> “Neo-Brokers” are the new emerging agile brokerage firms who are the first generation to actually operate their companies without the baggage of the old-line culture stemming largely from the Multiple Listing Service rules.

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Consumerism carries with it the idea of open access to market and property information that is not retrained by personality traits associated with territorialism. The *Non-Brokers* and *Neo-Brokers* fully understand and have aligned themselves with the belief that consumerism will triumph over territorialism and their models are beginning to reflect this belief..

Traditional Brokerage firms have always been erected within market areas where their existence and business was defined and defended from a territorial paradigm. Franchisors pounced on this concept with their own market penetration and extraction service models allowing them to enter into agreements that empowered them to siphon-off some of the gross proceeds in exchange for a menu of marketing programs, relocation and referral service. They have been able to do this with little or no performance guarantees.

Territorialism works well as long as it is encased within a static market model and access to information and opportunity are controlled; a model where the broker is fixed, (actually nailed) to the territory and must embrace territorialism or face stiff competitors that do.

Permission to re-market the territorial firm in other market places must be granted by the territorial licensor, a.k.a., the Franchisor. Growth is controlled within territories to assure maximum ROI franchise performance.

Consumerism, by its nature (open information systems in free, open markets) strikes against models that are built and sustained on the basis of controlled territorialism. What is truly amazing is the recent manner in which the Franchisors are advocating, investing in and embracing freedom models, not for the owner's sake but for their own sake. There is a kind of territorial mentality to the manner in which Franchisors adopt new models then deliver these to their franchisees further enhancing their grip on the markets.

The consumer preference is unfettered access to the market information that has traditionally been controlled by the brokers. Consumerism means that the new real estate operating model will be limitless market access via the Internet. There is a tremendous play (I should say "war") underway for control over what the consumer see and who controls it.

Have you noticed how often I have used the word "control" in this document? It seems that within real estate control is very important. Each player is attempting to control something. This is the problem with the model...control. Real estate markets are limitless and free! They are limitless because of the emerging and pervasive technologies such as e-Partner<sup>®</sup> that allow owners to engage in multiple market penetration without permission.

Are you an owner whose business model is predicated on your embrace of static territorialism? Or, are you implementing new market business models that allow you to put the pedal to the metal, recruit agents in any city and meet the consumer?