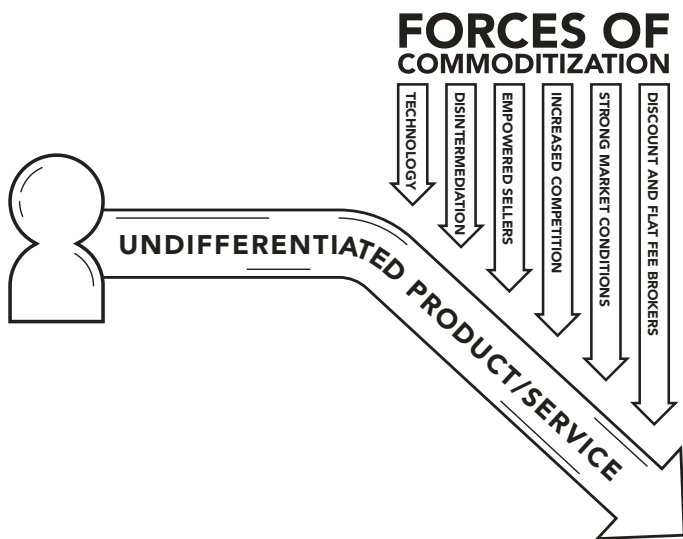


THE COMMODITIZATION TRAP

It's no secret that the real estate business landscape is changing. Technology, market conditions, inventory crunches, and the online revolution have fundamentally altered the way our industry provides service to buyers and sellers. What might be less obvious to those of us who make a living in the real estate sales environment is another silent and invisible set of forces that are systematically commoditizing our businesses as brokers and agents. We refer to this ongoing process of commoditization (and resulting devaluation) of our industry as the "Commoditization Trap."



COMMODITIZATION – The process by which goods that have economic value and are distinguishable in terms of attributes (uniqueness or brand) end up becoming simple commodities in the eyes of the market or consumers.

Commodities are fundamentally, by definition, undifferentiated from each other and are therefore sold or exchanged on the basis of their price. Think of a bag soybeans. If there are two separate bags of soybeans of equal size and variety being sold, the market will buy the cheaper of the two bags before the more expensive. After all, a soybean is a soybean, is a soybean! If market conditions drive any one supplier of soybeans to drop their prices, other suppliers will be forced to drop their prices to compete. This is a commoditized market, where

products or goods are sold or exchanged solely on the basis of price.

In a service industry like real estate, where our product/good is the services we provide buyers and sellers in the market, we have become increasingly subject to a set of forces leading to the systemic commoditization of our value proposition to buyers and sellers.

As these downward forces work in our industry, it is increasingly likely that a buyer or seller views real estate agents as commodities. After all, an agent is an agent, is an agent! Right? So Agent Bob chooses to begin listing houses at (let's say) 6% instead of 7% because he has no differentiating value proposition over Agent Sally, who always lists at 6%. Agent Frank, new to the industry, who also has no fundamentally different value proposition to his clients, begins listing at 5% to gain traction in the market. And so on and so forth. This process of increased commoditization, and resulting "race to the bottom" in an effort to compete, is the commoditization trap at work in our industry.

We believe that both real estate agents and real estate brokerages have a crucial strategic decision to make in their businesses.

OPTION 1: Compete as a commodity product or service on the basis on price.

OPTION 2: Provide specialized value-driven service that consumers gladly pay a premium for.

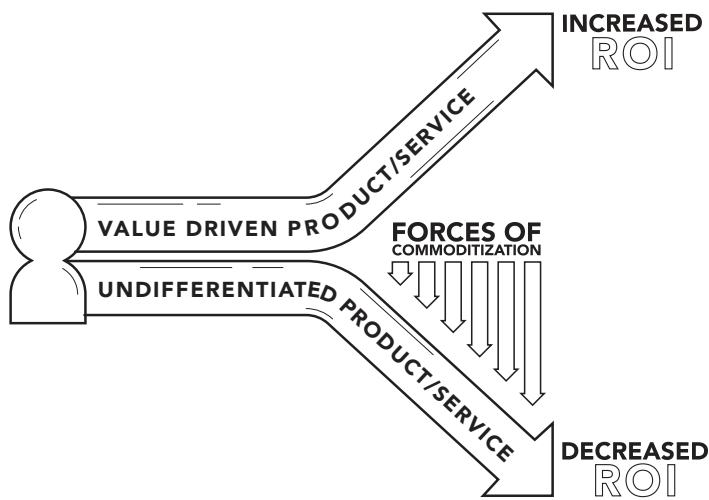
For most, option 2 sounds like a stretch and as a result, they will find themselves increasingly squeezed by ongoing commoditization and price pressures. The reality is that the decision to work against the process of commoditization is one being made by businesses across the globe in numerous industries.

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THE COMMODITIZATION TRAP

VALUE CREATION

Consider the difference between Apple computers and PCs. An Apple computer sells for anywhere from 2 to 4 times the price of a PC. But consumers not only buy Macbooks and iMacs for significant premiums over alternatives...they do so with a smile. The same is true in a comparison of Walmart and Nordstroms. This is not to say that one model is better than the other. Any agent can choose to compete on the basis of price rather than value. It's a viable model of operation; Walmart is a multi-billion dollar player in the market. To compete in this market means playing a volume game. For agents, this means more sales, more time, and more risk for the same money. The alternative, a value based premium service, means more return per transaction and a higher ROI and bottom line. It also means that an agent **must create value** for their clients greater than that of their commoditized competitors.



Agents must decide which strategy they want to compete in. Not creating a value proposition to differentiate in an environment experiencing downward commoditization **is to become commoditized**. To take no action is to compete as a commodity!

Taking action means shifting from a commodity service (being the same as all other agents) to

providing a Unique Experience in what we call "The Experience Sector." Before we move to creating a Unique Experience, we need to take a look at the "Two Economies" and "The Two Success Decisions" all agents need to make to move forward down this path.