



**NATIONAL ASSOCIATION OF
REALTORS®**

2005 Scenario Project

Executive Summary

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Executive Summary

The NATIONAL ASSOCIATION OF REALTORS® (NAR), representing more than 700,000 REALTOR® members, is currently facing several challenges.

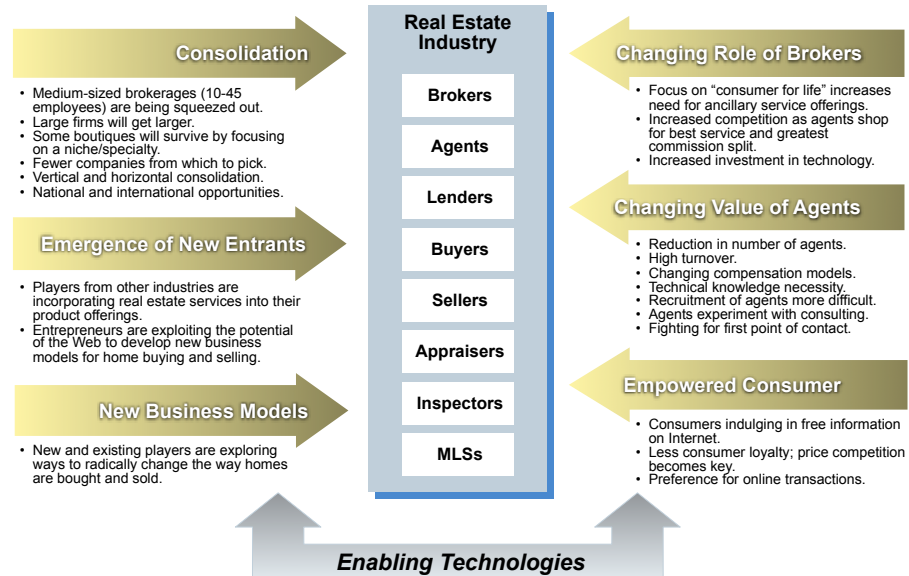
NAR Situation and Challenges

- From 1988 to 1999, sales have increased by 20 percent, but NAR membership remained relatively flat: 788,700 to 752,708, respectively.
- In a time of new forms of competition, pressure on profitability, new business models, and a growing need to invest in technology, it is unclear what member services the Association should provide.
- Members' perceptions of the value of the REALTOR® brand are ambiguous and limited in scope—e.g., only benefit is government affairs.

NAR Membership Situation and Challenges

- Broker profitability is decreasing due to a squeeze on revenues and an increase in operating expenses.
- Empowered consumers and new business models (consolidation, new entrants) are impacting performance and pay.
- Firms are struggling to address uncertainty and expense associated with technological change.
- Members need to build new capabilities to leverage technology.
- Individual agents and brokers are being threatened by intermediaries.

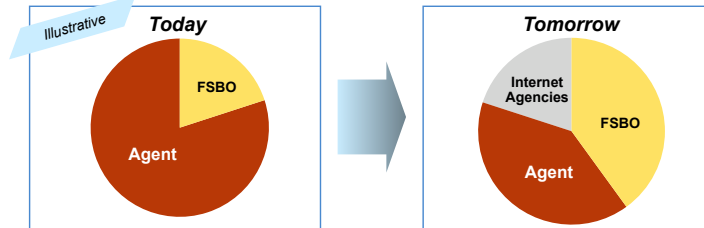
Technological advances are challenging the membership as well as creating opportunities for REALTORS® and new entrants.



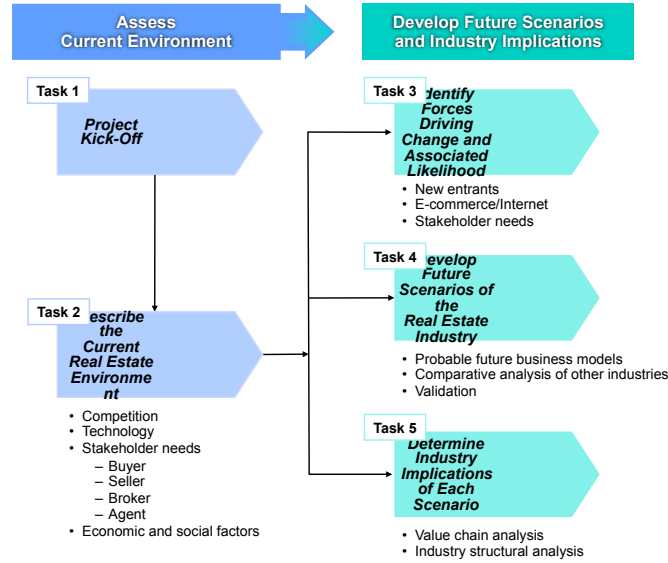
**The critical question for the real estate industry and, specifically, NAR is:
“What will be the future role of the broker/agent?”**

Key Questions and Issues

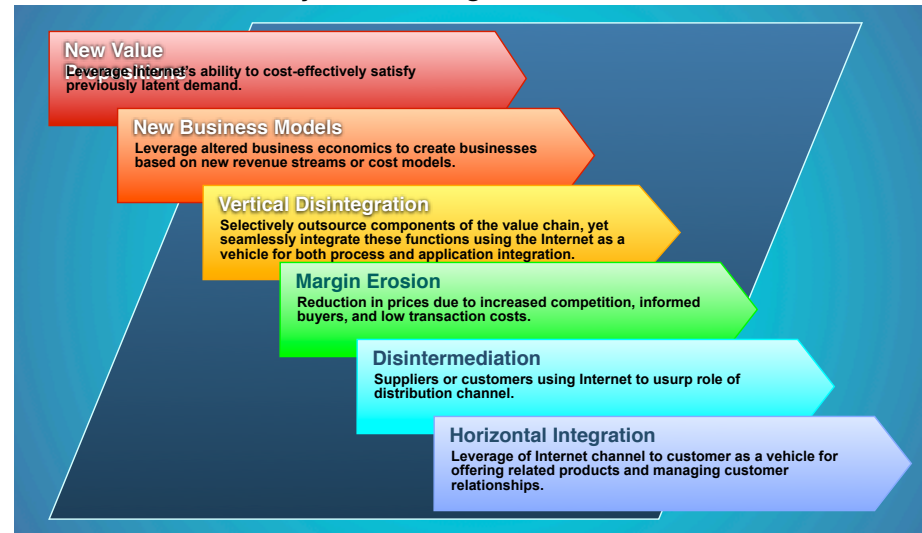
- How will the role of the broker/agent be redefined?
 - Can the broker/agent reposition himself or herself to be at the center of all transactions?
 - How much of the market will convert to FSBO?
 - Will Internet agencies take away part of the broker/agent market?
- Will the industry undergo consolidation?
 - How severe will it be?
 - Who will survive? Who won't?
- How will the economics of the industry change?
- How does or will technology contribute to these changes?



To answer these questions, we developed future scenarios of the real estate industry as inputs to NAR's strategic planning process.

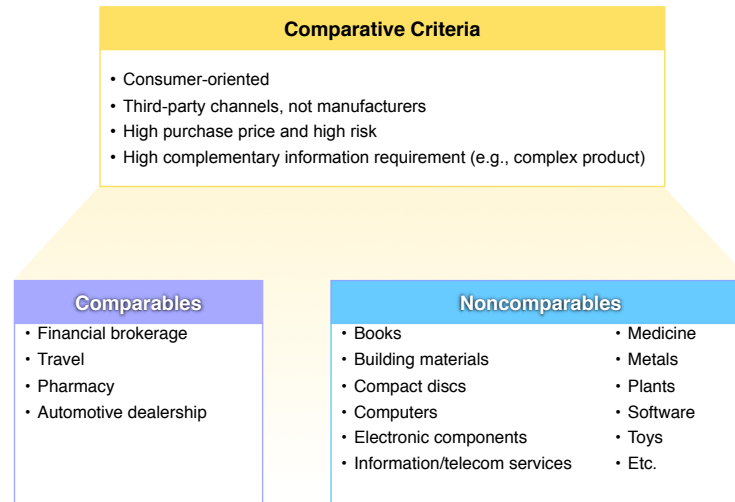


The open information environment of the Internet has unleashed six major forces which are already restructuring selected industries.¹



1. See Arthur D. Little publication, *Prism*, Q1 1999, pages 53-79: "How Electronic Commerce Is Reshaping Industry Structures."

The brokerage, travel, pharmacy, and automotive dealership industries were selected as comparable industries for further analysis.



The travel industry is furthest along and suggests how an entire industry can be reengineered to the detriment of incumbent mid-tier agents, even if most customers are still offline.

Forces on Industry	Brokerage	Travel	Pharmacies	Automotive	Real Estate
New Value Proposition	●	●	◐	●	?
New Business Models	◐	●	◐	◐	?
Margin Erosion	●	●	○	●	?
Disintermediation	◐	●	○	○	?
Horizontal Integration	●	●	◐	◐	?

Major Lesson	Even for high-risk transactions, empowered consumer will drive down cost of distribution, integration with similar underlying products, and industry consolidation.	An industry can be radically transformed with most major customers still being offline; end-result: declining profitability and consolidation of agents.	None	Empowered consumers with pent up demand for information will drive down dealer margins.
Caveat	Commodity products; vary in simple transactions.	Commodity products; nonphysical transaction not complex.		Commodity products. Dealers take title and provide life-of-car service.

Impact:

- = Low
- ◐ = Medium
- = High

Although the parallels are not exact, the travel industry, like the real estate industry, is experiencing major restructuring due to lower distribution costs and customer access to information.

Similarities to Real Estate Industry

- Free flow of information has empowered the customer while enabling lower distribution costs for suppliers.
- Industry is experiencing consolidation.
- Some customers are risk-averse and seek trusted third party.
- Influx of new Internet entrants, while existing players are trying to carve out space on the Internet as well.
- Many participants in end-to-end travel transaction (e.g., hotel, car, air and day leisure suppliers, payment firms).
- Middlemen seek to provide consultative value beyond the transaction (destination knowledge, individual preferences).

Differences From Real Estate Industry

- Smaller-scale purchase in terms of price.
- Unlike real estate, many of the products sold, especially air travel, are commoditized and customers base their purchases on lowest price.
- Few legalities in the transaction.
- Agents are paid commissions from sellers, but sometimes also receive fees from buyers.

Potential Future Developments

- Online agencies move from information channel to transaction channel, as customer acceptance grows.
- Seamless integration of Internet and call centers for making travel reservations.
- Enhanced personalization and customization provide ability to offer information based on travel and usage patterns tailored to specific customers.
- One-to-one marketing.
- Standardized data exchange solution for supplier inventory and pricing (e.g., XML can combine the database structure of EDI standards with the flexibility and user-friendliness of HTML).

Scenario planning helps to quickly frame key questions and formulate possible responses about the plausible range of future industry conditions and the roles of different types of industry players.

- A scenario is a “story” describing a picture of one possible future business environment.
 - Scenarios are *not* “wild guesses” or minor variations on a “best-guess,” single-point forecast based on trend analysis.
 - Instead, each scenario describes a *plausible* but *qualitatively* different future, shaped by some forces that are likely *and* others that are uncertain; both categories could have a significant impact on the real estate business (impact can be evolutionary or discontinuous).
 - To help organizations recognize the possibilities of discontinuous change and avoid parochial thinking, we construct each scenario end-state to be independent of our actions.
 - This approach helps organizations understand what the scenario means to their businesses and what steps they should take to prepare for the future.
 - Each is unique, internally consistent, and has decision-making utility—specific enough to test alternative strategic courses of action.
- Together, the scenarios span a broad range of possible future worlds.

The scenario-building process began with a determination and assessment of the important forces and trends that will drive the real estate industry's future environment.

Key Force Categories			
Technology	Regulation	Demographics	Global

- Identify emerging trends and force categories:
 - Economy
 - Technology advancement
 - Buyer/seller power
 - Distribution
 - Regulatory/tax

Level of Impact	Degree of Uncertainty		
	Low	Medium	High
High			
Medium			
Low			

- Estimate the impact and uncertainty of the forces in each class:
 - High-impact, low-uncertainty forces would become central to all scenarios.
 - High-impact, high-uncertainty forces would become differences between scenarios.

Key Force Categories			
Technology	Regulation	Demographics	Global

- Determine plausible alternative outcomes for each group or category of forces.

Key Force Categories			
Technology	Regulation	Demographics	Global

- One possible combination of alternative outcomes represents the ingredients necessary to construct a scenario option.

The forces identified fall within one of five force classes.

Force Class	Economic	Forces impacting the economic or macro environment and, therefore, supply and demand for real estate and services.
	Technology	Hardware, software, and communication systems affecting the working environment and economics of the real estate industry.
	Buyer/Seller Power	Forces related to consumer influence and how consumers utilize technology to exercise influence in the industry.
	Distribution	Forces which impact the channels through which buyers and sellers obtain residential or commercial real estate services.
	Regulatory/Tax	Legislative and tax policies that affect the real estate industry either directly or indirectly (through consumer initiatives).



Base forces are common elements to all scenarios. The critical uncertainties will be laid over these forces to develop variations in scenarios.

Scenario Base Case Inputs

**Base Forces
(High Impact/Low Uncertainty)**

- C
- Internet companies entering real estate business
- Broker profitability decreasing
- E-commerce policy
- Changing demographics
- Reduced loyalty of customers
- Personalization tools
- Electronic publishing: extensible mark-up language
- Encryption/security technologies
- High-speed networks
- Agent independent contractor status
- Increasing number of small to medium online purchases
- Database technology
- Prices for services decreasing

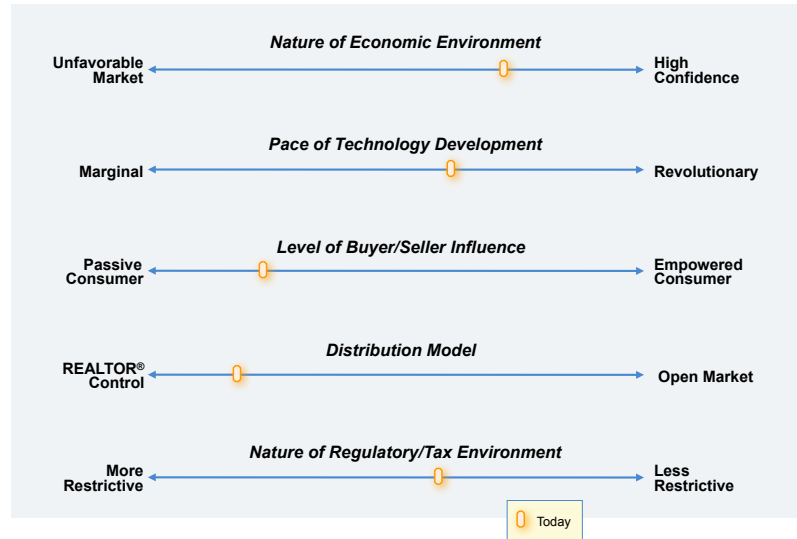
Scenario Drivers

**Critical Uncertainties
(High Impact/High Uncertainty*)**

- E
- Affinity relationships
- Listing status
- Prevalence of free-agent models
- Real estate firms on Wall Street
- Interest rates
- Comfort purchasing: high price, touch, and risk products and services online
- Adoption of Web-enabled real estate applications
- Changes in RESPA legislation
- Sales force automation
- Transaction platforms
- Advanced contact management

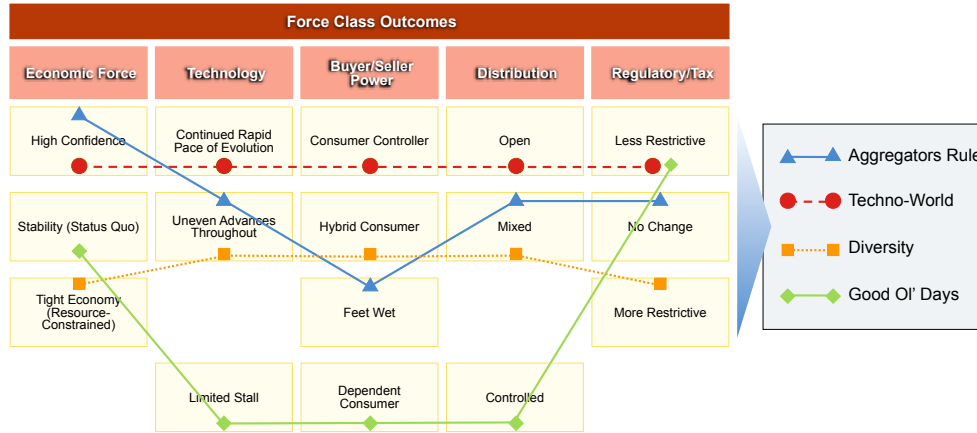
*Includes medium/high-impact and medium/high-uncertainty forces.

Along each force class dimension, there are varying degrees of freedom relative to potential outcomes.





Four robust scenarios incorporate elements of each force class.



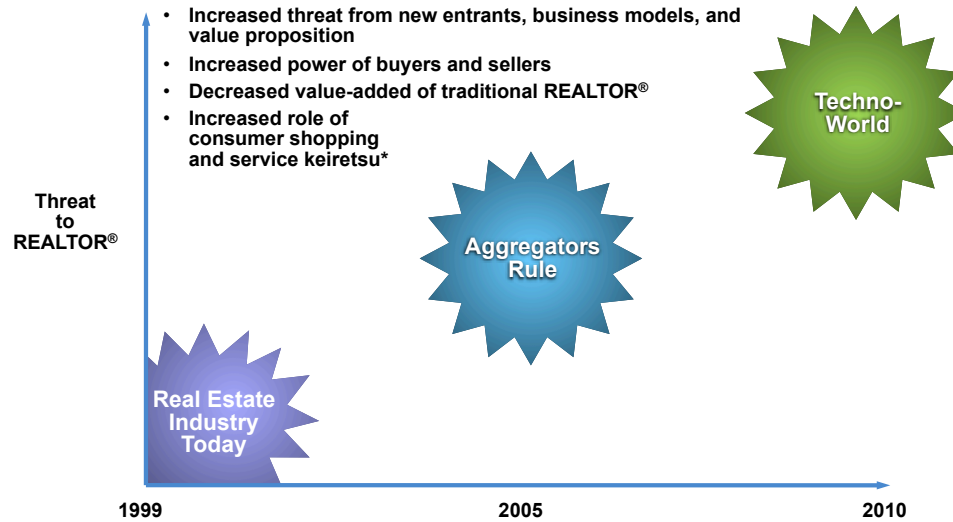


The scenarios which follow should be evaluated in the context of certain limitations.

- We considered geographic differences in the state of supply and demand only in certain scenarios, to illustrate how one might think differently if an imbalance of power exists between buyers or sellers.
- Due to the significant degree of diversity in performance and business practices within business models, we have not shown how firms within business models may fare differently in each scenario.
- To appreciate the role of the real estate brokerage more fully, we excluded distinctions specific to brokers who continue to sell as opposed to managing the firm's business (i.e., for sell activities refer to agent descriptions).



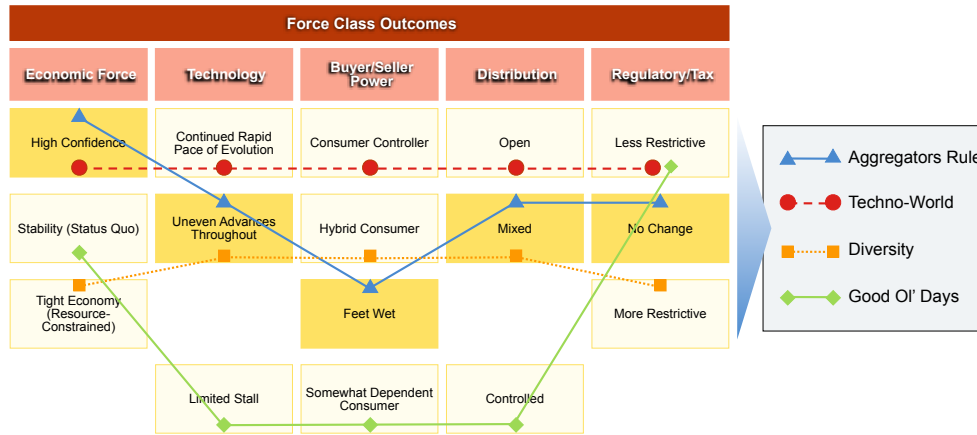
Aggregators Rule, which is the most likely scenario in 2005, is a potential stepping stone to a longer-term Techno-World scenario.



*The term "keiretsu" describes modern Japanese networks of companies linked by mutual obligation, sharing experiences, insights, knowledge, and information.



In 2005, the real estate industry is expected to be in the scenario Aggregators Rule. It is the scenario with the most likely set of force class options.





In Aggregators Rule, dominant players are online consolidators of real estate information and services who rely primarily on advertising revenues for profits.

Description

- Online aggregators consolidate and then deliver property information collected from brokers in an open listing environment.
- As new intermediaries, aggregators collect advertising revenues and referral fees from participating suppliers. Both auctions and FSBO facilitators begin to emerge as competitive business models.
- Buyers and sellers complete the majority of the thinking and looking activities because they now have access to listing and other complementary information.
- Brokers redefine roles to maintain margins and value added lost in thinking, looking, and preparing stages to offset online aggregators.
- Virtually all brokers and agents have diversified into home services; however, increased value added to client does not offset erosion of commission fees due to alternative service aggregators or value of distribution to home service providers.
- Suppliers partner with online aggregators and brokers.



Healthy competition from both new and existing players, combined with an empowered consumer, has begun to shift the balance of power in the industry—with negative economic consequences for brokers.

Change in Competitive Dynamics			
Forces on Industry	1999	2005*	Description
Threat of New Entrants			<ul style="list-style-type: none"> Aggregators have assumed dominant role. There is an underlying threat of an imminent seamless online transaction that will redefine the major industry players.
Bargaining Power of Suppliers			<ul style="list-style-type: none"> As online transaction platforms develop, suppliers position themselves to work with aggregators and major traditional players to generate volume as defensive mechanisms, but have virtually no power.
Bargaining Power of Buyers/Sellers			<ul style="list-style-type: none"> Consumers have access to a wealth of information, yet cannot own the transaction. They are not interested in packaged services that have no value to them.
Threat of Substitutes			<ul style="list-style-type: none"> In selected hot markets, auction services are successful in attracting inventory and generating demand. Some auctions work with agents while others work with alternative gatekeepers. Online FSBO facilitators can help buyers and sellers through the early stages of the transaction.
Rivalry Among Existing Firms (Brokers)			<ul style="list-style-type: none"> In order to maintain healthy margins, existing firms ally to protect their traditional business models against online firms. Since listings are no longer controlled by MLS boards, industry players construct "imaginary" barriers to information (consumers cannot access all listing details online). Bases of competition remain ability to build and retain longer-term relationships with buyers and close sales more quickly.

*From the perspective of brokers in 1999 looking into the future.

Impact: ○ = Low ◐ = Medium ● = High



The Internet has been the primary catalyst for the unbundling of distribution costs across the industry.

	Impact	Explanation
New Value Propositions	●	New value proposition for buyers and sellers is access to information such as listing information, neighborhood data, etc., allowing them to self-serve on early stages of value chain.
New Business Models	◐	Though not dominant models, online aggregators and auctions offer alternatives to buying and selling; even if proven unprofitable in the long term, they will initially hurt the traditional players.
Margin Erosion	◑	Consumers use power to redefine agent value added and decrease cost of distribution. Consumers are unbundling components of transactions online and using search capabilities to price the pieces a la carte.
Disintermediation	◒	Online services are able to grab first point of contact with buyers and sellers through the Web and serve needs formerly provided by the agent (e.g., full-motion video, property and neighborhood comparison prices).
Horizontal Integration	◓	Major Internet portals—e.g., Yahoo!—partner with or create their own aggregation business. Focus is on providing additional information through electronic channel to customers.

○ = Low ◐ = Medium ● = High

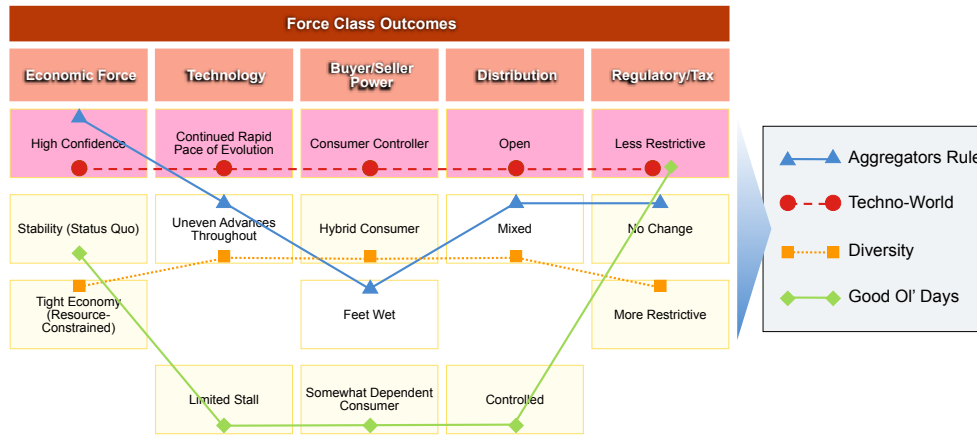


Traditional business models that rely on commission-oriented structures are extremely vulnerable. Mega-players that adopt alternative pricing models will leverage scale for competitive advantage.

Traditional Business Model	Impact
Traditional Split	Competitive pressures are causing margin erosion from revenue side—decreased commission basis—and cost side—increased technology investments.
Mega-Players	Purchase or participate in online aggregator market to generate leads for its sales force. Those adopting noncommission pricing can leverage scale to survive as high-volume/low-cost leaders.
Alternative Business Model	Impact
100 Percent Commission Company	<ul style="list-style-type: none"> • Brokerage lags in use of online technologies; individual agents invest as they deem necessary. Those who don't invest rely more on traditional networks and suffer in the long run.
Noncommission-Based Selling Broker	<ul style="list-style-type: none"> • Strengthened because they offer appealing value proposition to customers. Buyers and sellers appreciate the ability to choose the services they want to pay for.
Buyer Agency Only	<ul style="list-style-type: none"> • Redefine themselves online. Online vendor(s) specifically serving buyers needs have entered the market. Offer option of commission, fixed priced, or hourly.
Salaried Agents	<ul style="list-style-type: none"> • These brokerages struggle to maintain profit and offer similar services as traditional split players.
Online Listing Service/ Company	<ul style="list-style-type: none"> • Exist as online aggregators or suppliers to online aggregators.
FSBO Facilitator	<ul style="list-style-type: none"> • Package services to sellers include marketing and advertising with optional paperwork processing at a very low cost; able to perform most services online; direct sellers to concierge specific to their needs.
Affinity Firm	<ul style="list-style-type: none"> • Interest lies primarily in lending service; redirect customers to brokerages in their network.
Relocation Firm	<ul style="list-style-type: none"> • Maintains current position; improves services by letting corporate customers manage their transactions online (early adopter of seamless transaction applications).



In 2005, the scenario Techno-World is unlikely; a seamless integrated transaction platform and high consumer use of Web-enabled real estate applications are overly ambitious.





In Techno-World, seamless transaction platforms enable online transactions, leading to the demise of traditional brokers and agents.

Description

- Empowered by available technologies, buyers and sellers constantly pressure industry to decrease distribution costs.
- New business models prevail:
 - Transaction integrators are formed by new ex-industry players (AOL, Yahoo!, etc.) and earlier real estate aggregators.
 - Auctions prevail in most markets as demand outpaces supply.
- Brokers “disappear,” are absorbed by new players, or reinvent themselves as real estate consultants (RECs).
- FSBO experiences tremendous growth.
- Appraisers and title companies become obsolete, while most other suppliers are absorbed by transaction integrators.



Ultimately, two significant changes support the increase in buyer/seller power: broker/agent control of listing access and online transaction platforms. Transaction integrators become complements to FSBO models.

Change in Competitive Nature			
Forces on Industry	1999	2005*	Description
Threat of New Entrants			<ul style="list-style-type: none"> Nontraditional players have already entered market with brand leverage, online experience, and customer base (AOL, Yahoo, E-Loan). New entrants undermine profitability of brokers and agents. Window of opportunity starting to close for transaction integrators, given their first move advantage in customer base, aggregated inventory, and supplier relationship. New entities of RECs and inspectors still flourish.
Bargaining Power of Suppliers			<ul style="list-style-type: none"> All are either reliant on others for leads, or have been acquired by or folded into large conglomerates or online players' networks.
Bargaining Power of Buyers/Sellers			<ul style="list-style-type: none"> Consumers have maximum control. Consumers have gained free access (in exchange for their business) and now have capability to complete much of the transaction unassisted and efficiently.
Threat of Substitutes			<ul style="list-style-type: none"> New dominant provider transaction integrators have co-opted auction models and complement FSBO.
Rivalry Among Existing Firms			<ul style="list-style-type: none"> Among few transaction integrators, high fixed costs and low transaction margins create oligopolistic competition. Remaining broker/agents fight for survival, particularly in the low end.

*From the perspective of brokers in 1999 looking into the future.

Impact: ○ = Low ◐ = Medium ● = High



In Techno-World, Internet commerce disrupts the structure of the entire industry to the benefit of consumers, who realize transaction cost savings.

	Impact	Explanation
New Value Propositions	●	<ul style="list-style-type: none"> Value proposition to buyers and sellers shifts from shopping/marketing support to low cost, speed, simplification.
New Business Models	●	<ul style="list-style-type: none"> Many new business models flourish. Transaction integrators. Online auctions. Tour guides. Home-service aggregators. Independent provider, objective supplier evaluators. Specialized RECs—e.g., legal, structural, home presentation, negotiation.
Margin Erosion	●	<ul style="list-style-type: none"> The efforts of both buyers and sellers to reduce the cost of distribution have successfully reduced total fees.
Disintermediation	●	<ul style="list-style-type: none"> FSBOs flourish. Buyers and sellers step into controlling roles, supported by transaction integrators.
Horizontal Integration	●	<ul style="list-style-type: none"> Ex-industry entrants assume transaction integration role. Today's early horizontal integrators (e.g., AOL, Amazon, Yahoo!) evolve into keiretsu, providing not just real estate home services, but complete portfolios of nearly all consumer goods and services. Need to access large volumes of customers to make profit from entire transaction and vendor fees.

○ = Low ◐ = Medium ● = High



Most incumbent business models have to reinvent themselves in order to survive in a seamless transaction environment.

Traditional Business Model	Impact
Traditional Split	Commissions are nonexistent for online players; niche players make low commissions or rely on fee revenues.
Mega-Players	Survivors operate as four divisions: transaction integrators, high-end customers, low-end special need customers, consulting support services.
Alternative Business Model	Impact
100 Percent Commission Company	<ul style="list-style-type: none"> Agent focus on high-end, time-constrained customers.
Noncommission-Based Selling Broker	<ul style="list-style-type: none"> Dominant revenue basis for remaining brick-and-mortar real estate firms; primarily a REC with specialized role providers.
Buyer Agency Only	<ul style="list-style-type: none"> Survive as a REC buyer expert, requiring one-on-one support.
Salaried Agents	<ul style="list-style-type: none"> Serve role as low-end market consultants (knowledgeable of FHA, VA, special lending terms). Acquired by mega players or newer business models for expertise and talent. Take jobs with new service models (show homes, aggregate services).
Online Listing Service/ Company	<ul style="list-style-type: none"> Do not exist, absorbed into transaction integrators.
FSBO Facilitator	<ul style="list-style-type: none"> Become specialized RECs (how to market or prepare your home) trusted by seller to support home sale.
Affinity Firm	<ul style="list-style-type: none"> Develop strategic relationships with prominent transaction integrators to deliver customers.
Relocation Firm	<ul style="list-style-type: none"> Acquired by newer players in their attempt to capture revenues from the value chain service providers.



Consumer-oriented business models that focus on lowering the transaction cost and support buyers/sellers will succeed.

New Entrants	Impact
Transaction Integrators	The availability of technology that supports seamless transaction platforms is exploited by large nontraditional players who leverage current distribution channels and transaction platform experience to quickly dominate the real estate market.
FSBO Players	Technology enables growth of FSBO.
Auctions	Online auctions prevail in markets with high demand and tight supply.
Real Estate Consultant (RECs)	<ul style="list-style-type: none"> • When traditional bundled services become unbundled, new roles are created that target specific parts of the transaction at much lower cost to customers (e.g., home tour guides). • Former brokers/agents or other professionals who are paid (not through commissions) to provide specific services for buyers/sellers.
Rating Services	<ul style="list-style-type: none"> • Needed for transaction integrators to ensure quality service. • Provided nationally (inspectors help serve this function).



Scenario Alternatives



In Good Ol' Days, consumer confidence in technology is low, helping to reinforce the role of the traditional agent but with the benefit of RESPA relief.

Description

Traditional agents to perform the majority of the real estate transaction. Some Web-enabled real estate applications exist for looking and listing.

- **Brokers remain major players in the transaction but have adopted technology to increase efficiency and transaction speed.**
 - Brokers move into post-settlement and home services.
 - Relaxation of RESPA allows vertical integration into title, insurance, and mortgage brokerage services for true one-stop shopping.
- **Consolidation of brokers occurs due to increased technology investments and price pressure from traditional and new competitors.**
- **Suppliers rely on traditional networks for the majority of their business; some are acquired by brokers. Independents primarily serve smaller brokers and independent agents.**
- **New business models, such as aggregators and auctions, do well with early adopters, but do not flourish in the mass market.**

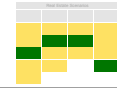
Note: Technology adoption slowed due to major disruptive events: Y2K failure, significant security breaches in major corporations, violation of consumer privacy in several highly publicized cases.



Diversity is driven by a resource-constrained economy which affects technology development and consumer adoption. No one customer segment is dominant, resulting in multiple successful business models.

Description

- **Buyers/sellers have gravitated to service options that meet their specific needs to complete the transaction.**
- **All segments are unified over the desire for low distribution costs.**
- **Suppliers are attempting to provide value directly to the buyer/seller through consolidating services, yet still rely on leads from other parties.**
- **Business models:**
 - Mega-models trend toward mass customization; be all things to all customers (e.g., one-stop shopping).
 - New entrants/models have unbundled services to target specific segments, lower costs, and pass savings to buyers/sellers.
 - Traditional models of business still prevail, yet they have evolved in order to compete with new entrants and serve specific customer needs.



Conclusions

Conclusions

Both of the Aggregators Rule and Techno-World scenarios should be considered descriptive of the likely future (five to seven years) business environment and incorporated into Association planning and direction-setting processes.

The scenarios indicate that the Association and REALTORS® should prepare for an increasingly technology-driven environment. In this environment, empowered consumers will drive the market and competitive dynamics, and new entrants will also be major influences.

- ***Headed toward Aggregators Rule, stepping stone to Techno-World:***
Warning indicators suggest that we appear to be headed toward Aggregators Rule in the near term. Aggregators Rule is a potential stepping stone to Techno-World. Techno-World, by pushing the extremes of each force class, is indicative of what could happen in a more extended time frame and cannot be readily dismissed.
- ***New and nontraditional players focus on cost reduction:***
A plethora of new and nontraditional (or substitution) players, who focus on reductions to both buying and selling costs, will emerge to capitalize on technology, thus enabling emergence of new business models and value propositions.
- ***Business models must be fluid:***
Eventual margin erosion will be due both to the changing competitive environment and newly empowered buyers and sellers. Business models must be fluid to change with the business environment.

Conclusions

Both of the Aggregators Rule and Techno-World scenarios should be considered . . .

- **Increased acceptance of self-service models:**
In addition, there will be increased acceptance of self-service models, initially for information access components of the buyer/seller value chain. This will eventually lead to extending self-service to potentially the entire value chain as sellers begin to disintermediate traditional brokers.
- **Mega-Players will attempt to muscle in:**
Mega-players, from outside the industry, will muscle into the industry by leveraging their electronic channels, initially as aggregators or infomediaries, eventually as transaction enablers.
- **Dramatic impacts can emerge quickly:**
If the experience of other industries can be a guide, once the forces of fundamental change are unleashed, dramatic impacts can emerge surprisingly quickly, particularly from the perspective of industry incumbents.
- **Techno-World can occur with a minority of consumers online:**
Even more significant, the experience of the auto industry (national corporations with local distributors) suggests that Techno-World type results could occur even if a distinct minority of consumers use online channels (e.g., Autobytel, Carsdirect, Carpoint.com.).
- **Increased competition among traditional brokers:**
These changes will occur on top of a base environment characterized by increased competition among traditional brokers and declining profitability.

Conclusions

The future strategies of NAR and its members will be dramatically affected if Aggregators Rule is adopted as an endpoint, as opposed to an evolutionary stage leading to Techno-World. In either instance, NAR can choose to passively respond to events as they unfold or seek to proactively shape the organization's destiny by exerting its power and size to influence the real estate industry's developmental trajectory.

- **Strategies of NAR and its members will be dramatically impacted:**
Regardless of the adoption of Aggregators Rule as an endpoint or evolutionary stage, the strategies of NAR and its members as contributors to an efficient marketplace will be dramatically impacted. In the current environment, everyone understands their role and tends to line up in one direction. In the Aggregators Rule scenario, there could be a fracturing of old alliances as priorities and focuses shift, resulting in stakeholders with different points of view and a weakening of the Association. NAR will need to determine how to manage an environment where a few members may have the influence, but the majority continues to create barriers of entry. NAR should seek to establish methodologies for recognizing watershed events.
- **Development of an intelligence-gathering strategy:**
The Association might consider development of an intelligence-gathering strategy that identifies and tracks business environment indicators, evaluates the scenario the industry and Association are headed for, on what trajectory, and at what speed.
- **Processes and discipline to deal with issues in a timely fashion:**
Along with development of an intelligence-gathering and analysis strategy, the Association might consider development of the processes and discipline to surface, articulate, and deal with issues in a timely fashion.

The future strategies of NAR and its members will be dramatically affected if Aggregators Rule is adopted as an endpoint . . .

- **Researching and prototyping business models, qualifying the signals:**
In light of the likelihood of eventual margin erosion resulting from changing competitive dynamics and empowered buyers and sellers, business models must have the fluidity to change with the business environment. NAR might want to consider researching and prototyping business models, qualifying the signals that indicate the need for a shift or implementation of an exit strategy.
- **Leverage Association influence and size:**
Anticipating that mega-players from outside the industry will attempt to muscle into the industry as aggregators, intermediaries, or transaction enablers, NAR might develop a strategy for leveraging its influence and size to the benefit of its members. In addition, NAR can continue to pursue strategic alliances and partnerships that further extend the REALTOR® value in the transaction process.
- **Refine the membership value proposition, customize the product/service mix:**
Changes in agents' productivity and the nature of the work they perform will likely lead to a changing member profile. As the profile changes and the membership diversifies, the Association should be prepared to explore and refine its membership value proposition to meet the needs of new classes of members. Just as REALTORS® must learn new ways to extend and add value to the customer relationships, the Association must explore an ongoing capacity to refine and customize its product/service mix to add value to and extend the member relationship. The Association might begin by examining its competency to serve a diverse membership.

Conclusions

The future strategies of NAR and its members will be dramatically affected if Aggregators Rule is adopted as an endpoint . . .

- **Acceptance of diverse “rallying points” :**
Membership diversification will likely impact the nature of the Association’s advocacy initiatives; the traditional “rallying points” for collective action may lose relevance as real estate practitioners’ roles evolve to transaction processors and service providers from that of traditional agents and brokers. NAR may be in a difficult position in choosing desirable outcomes insofar as its membership is highly diverse.
- **Address the dynamics of its deliberative processes:**
As the membership diversifies, it may be necessary for the Association to address the dynamics of its deliberative and agenda-setting processes to assure that these are reflective of the marketplace.
- **Redefine the REALTOR® organization’s scope and functions:**
As these scenarios play out, the interaction between NAR and other organizations (e.g., mortgage bankers) may be impacted, resulting in collaborative efforts (if not outright mergers) beyond the scope of political issues. As traditional lines of differentiation blur or overlap, it may be necessary to redefine the REALTOR® organization’s scope and functions.
- **Development of contingency plans:**
While the inclination will be to continue focusing on major issues the Association has identified in the past as critical issues, the pursuit of these should not interfere with developing appropriate strategies for the Aggregators Rule scenario. This strategy should be modified by developing contingency plans for the Techno-World scenario. While this is an ambitious planning assumption for 2005, it is plausible and cannot be safely ignored. Contingencies would allow NAR to respond appropriately should the environment move toward Techno-World faster than expected.

Conclusions

The following conclusions were developed by NAR based on the scenarios described in the Arthur D. Little project.

The future strategies of NAR and its members will be dramatically affected if Aggregators Rule is adopted as an endpoint . . .

- **Significant drop in membership can occur:**
As the scenarios play out, a significant drop in membership may occur (as technology-enabled agents handle greater numbers of transactions, and information-empowered buyers/sellers increasingly disintermediate the traditional agent). Although this prognostication has been heard for a number of years within the Association, the fact that it has not yet happened does not mean that it cannot or will not occur. Therefore, this possibility cannot be safely discounted and should be reflected in the Association's contingency preparation.
- **Avoid an unwinnable position:**
Finally, NAR should modify its strategy by deciding which aspects of the scenarios are most appealing and what actions it could take to encourage its occurrence or, if fundamentally unattractive, what actions it could take to delay or prevent its occurrence. The Association must exercise discipline in this approach to avoid an unwinnable position founded in trying to prevent the inevitable.

Conclusions

Like the Association itself, REALTORS® can choose to passively respond to events as they unfold or act to shape their own. Strategies that REALTORS® may consider include:

- **Deploy technology in the firm:**
Aggressively deploy technology within the firm as a means to increase agent productivity and reduce costs.
- **Embrace the Web as a transformational tool:**
Embrace the Web as a tool for revolutionary transformation in the shopping and marketing of properties, and in transaction facilitation by adopting seamless work flow both within the firm and with other transaction partners.
- **Build scale to reduce overhead:**
Use acquisitions to build scale and exploit the resulting economies to reduce overhead, invest in technology, adopt best practices, and consolidate brick-and-mortar locations.
- **Add value at delineated stages:**
Unbundle the traditional transaction and seek to excel and add value at delineated stages— agents, experts at selected stages; brokerage, experts at all stages.
- **Manage the customer relationship as an asset:**
Shift the focus from managing the transaction to managing the customer relationship as an asset. Use the transaction as opportunity to initiate and maintain a relationship based on a high tech and data-driven understanding and anticipation of all home-related needs. Extend product mix to pre-sale and after-sale moving and home-related services.

Conclusions

Like the Association itself, REALTOR® can choose to passively respond to events . . .

- ***Create one-stop transaction fulfillment:***
Vertically integrate, creating the capacity for both increased value capture and one-stop transaction fulfillment for buyers and sellers.
- ***Experiment and test:***
Continuously experiment and test new value proposition and business models. Monitor the experiments of others and look for successes to either replicate or acquire.
- ***Exit at the right time:***
Develop well-timed exit strategies, where appropriate.