

MLS Consolidation: Challenges and Obstacles

Helpful Guidance in Overcoming Objections

Overview of NAR Survey

In February 2017, NAR conducted a survey of approximately 2,800 individuals: Local and State REALTOR® Association Executives, MLS Executives, MLS Volunteer Leadership, Local Presidents, and 787 individuals associated with CMLS. In order to inform the creation of online resources for MLS consolidations, the survey was designed to:

- Determine what challenges REALTOR® associations and MLSs face when considering consolidation;
- Determine what resources would be most beneficial to overcoming the most pressing challenges facing MLS consolidation.

The survey received 451 responses, yielding a response rate of 16%. According to the survey, the greatest challenges surrounding consolidation are related to:

- Governance
- Ownership
- Financial issues

The smaller the association or MLS, the greater the challenges in all areas. Many of the respondents have serious reservations about MLS consolidation, including loss of control of MLS finances, loss of income, lack of representation for their members, the inability to pay for current staff, and duplication of services. REALTOR® Associations in particular are also concerned about the ability to create a structure that is responsive to local broker needs, as well as about MLS rules enforcement and development.

Moreover, a number of respondents point out that geography and distance play a strong role in deciding against consolidation, since their members do not want other REALTORS® participating in their MLS who do not understand the local market. According to the survey, the most beneficial resources needed for dealing with the challenges of MLS consolidation are:

- Information about the variety of consolidation options.
- Case studies of successful consolidation or partnership efforts.
- Financial assistance/grants to help with vendor buyouts or other consolidation costs.

This page focuses on the biggest challenges to MLS consolidation and the recommended solutions. The analysis builds on the 2017 NAR MLS Consolidation Survey and leverages real-world experience of consultants.

To consolidate generally means to make something physically stronger or more solid and to combine a few things into a single more effective or coherent whole. In the MLS industry, consolidation means different things to different people. It comes in many flavors, including the consolidation of information (listings, photos, rosters), MLS systems and software, the MLS organization itself (e.g. a regional MLS where associations work together to create a bigger and better MLS structure and service), technology and decision-making. What it doesn't mean is hostile takeovers with winners and losers.

From the broker/agent perspective, MLS consolidation is about making it easier for brokers and agents to conduct business, remain relevant and make money. That means that they are interested in having ALL the information available to them in the markets in which they choose to work. They also demand professional-grade tools (better than what consumers have) for a one single fee... one-stop shopping.

In contrast, brokers and agents don't want to be forced to use multiple/different systems, be required to abide by inconsistent rules and practices, pay duplicate fees, enter the same information into multiple systems including consumer feeds of new listings coming from separate systems. They do not want to access many different sources of information e.g. MLSs, RPR®, realtor.com®, etc. The brokers, agents and appraisers are looking for efficiency and the current landscape in many areas is very inefficient. They are licensed to list and sell in their state(s) and yet they are required to work with many disparate MLS databases and organizations. Many brokers and agents are forced to use antiquated software. These are the main drivers behind MLS consolidation. It is what the brokers, agents, and others in the industry are demanding be reformed in the face of many challenges.

Primary Obstacles

1. Fear of the Unknown

Uncertainty and fear of the unknown is part of human nature and it is a major obstacle to consolidation in the MLS industry because it can encompass every aspect of the process. Common questions related to the unknown include:

- How much MLS income will we lose due to the loss of secondary members?
- How will we continue to offer the same programs? Will people lose their job(s)?
- How will we protect our members from outsiders who do not know our local market?
- How will our members' needs be represented in a larger MLS? What will we have to give up?
- What control will we lose in addition to income?
- What MLS software will our members use?
- What will change for staff, leadership, and our members? What will it cost to consolidate with others?
- How much will our members pay in MLS fees?
- Who will make the decisions if not us?

- How many seats will we have at the table; how much voice will we have?
- How will our association survive?

Overcoming Obstacles Related to Apprehension

The following recommendations are based on proven practices and real-world experience that have led to hundreds of successful consolidations of MLS data, systems, software and organizations.

- Begin by clearly establishing your concerns by developing an exhaustive list of questions regarding those concerns. This is best done as a group activity and you need to include the participation of your leadership, staff, and some key brokers who may not be on the board of directors. Discuss the findings at your next board of directors meeting with your staff and leadership.
- Conduct an online survey to discover what your members really want from you. Most boards have a defined culture and opinion about this topic: “We know what our members want and we know what’s good for them.” “But how do we know what they want if we don’t ask them?” Don’t reinvent the wheel with the survey, learn how to get the best results from your peers and advisors who have conducted surveys about the possibility of some type of MLS consolidation and related topics.

It is likely that you and leadership have questions and concerns about possible consolidation. Understand that your members know even less than you do and will have more personal concerns. It is crucial that you know what your paying customers really want in order to address those concerns in the consolidation process.

- If your members crossover with other MLSs/associations, invite the organizations to join you and conduct a joint survey together. A consultant can help you get questions right, how to interpret the results, and the best ways to segment the responses—by MLS, broker vs. agent, big and small etc. One of the key deliverables is to initially measure the crossover of duplicate firms and subscribers from the survey responses. With the right message and invitation to participate, you should be able to generate a 25 to 35 percent response rate.
- Take a complete inventory of your organization by gathering information about your products and services, fees, and ownership and governance structure. Identify what is working well and what isn’t and take ownership of it. Knowing where you are right now is the next best step toward considering your options and comparing/contrasting with other MLSs/associations in your market area.

Complete a self-evaluation to help you organize the information that is most important before you start to consider your options. You may find that your best option is not to consolidate. Encourage your peers to join you in this effort as the more you know, the less uncertainty and fewer unknowns will remain.

- Conduct a Market Assessment to determine how you stack-up in your market. This is a comparison of products, services, fees and crossover (duplication) of firms, subscribers, and listings between your MLS and others in your area. How many other MLSs/associations are within 45 miles of your facility? The results will give you a comprehensive market snapshot to help you identify and understand the unknowns. The Market Assessment is necessary to enable you and your leadership to make a well-informed decision based upon facts including many answers to your questions. Not only will the assessment provide useful information such as the number and percentage of duplicate listings and subscribers, it may also provide you with the number and percentage of firms that crossover. This information is critical as the decision to participate in your MLS (or not) is made by the most important voice in the process; the broker participant.
- Sponsor a meeting with other MLSs/associations. Based on the results of the previous recommendations, bring what you have learned along with your concerns and questions to the meeting. Encourage your peers (executives and elected officers) to do the same. Share the results of the self-evaluations and market assessments in order to learn as much as possible through your leadership and joint efforts.
- Ask an expert for ideas on how to define and quantify your concerns and develop the answers. This logical approach to dealing with the unknown has been used successfully hundreds of times by your peers and the industry experts.

2. Loss of Income

MLS consolidation typically results in some loss of income from secondary or “MLS-only” participants and subscribers. It is important to measure and project the amount of potential loss, and if you take the self-evaluation you will have some of the information you need.

The loss of income results from eliminating duplicate MLS fees paid by brokers and subscribers. While association or MLS sta and leadership might not want to lose the income, the brokers and subscribers (members) who are paying those fees certainly do want it eliminated. Who gets to decide?

The other side of that coin is that your members are paying other MLSs/associations for access to their services. From where you cite, this can be difficult to measure. It is, however, equally important to know what your members are experiencing in order to access all of the information they need to do their job.

In addition to the loss of secondary MLS income, there is also a corresponding reduction in your operating expenses related to MLS. It is not the lost income that matters – it’s the bottom line, the net MLS profit that remains with your organization that counts. Here are some examples of typical cost reductions that result from MLS consolidation:

- Lower MLS vendor costs due to collective purchasing power of a larger user base.
- Vendor costs have trended downward over the years and it is likely that additional cost savings can be achieved for your organization by renegotiating with others. The

surviving vendors want your combined business more than just yours. It's about money to them as well.

- Reduced operating expenses for the MLSs/associations by sharing services, staff, and working together.
- MLS billing and collections may remain with your organization
- or not, as you choose. Measure the time and costs of billing and collections and make a good business decision. There are various ways to construct a billing model that works for you.
- Hundreds of associations that have previously consolidated their MLS discovered that they had considerably more time to focus on the quality and scope of association services, instead of spreading their time between MLS and association duties. As a result, they identified new sources of non-MLS revenue and higher-valued associations services.

Overcoming Obstacles Related to Financial Matters

- Build on the previous recommendations to estimate potential changes in net profit from MLS income and expenses. Income and expenses are likely to go down and you can project the impact with a little budgeting exercise up-front. Take the uncertainty out of this ASAP and be the source of information for your leadership as they consider the pros and cons.
- Begin by measuring where you are right now by examining your MLS-related expenses. Do you have a separate profit and loss statement (P&L)? If not, create one by first removing the hard MLS expenses, including vendors, legal expenses, cost of MLS committee meetings, RESO certifications, MLS-related travel, and all other expenses related to running the MLS. Include your time and other staff costs as you allocate them. This financial information will be required to answer the questions to follow.
- Remove your MLS income from the MLS P&L to determine your projected MLS net profit. You will need to know before you can have a meaningful and factual conversation about the pros and cons of MLS consolidation with others. There will be unknowns at this stage of course, but this is far better than starting the discussion with others limited to just the projected loss of secondary MLS income. You need to include the reduction in MLS-related expenses to know you're the potential financial impact. There is no other way to do this.
- Learn about the options that are available to you and your organization; read Chapter 3 in the T3 MLS Consolidation Workbook.
- There are numerous ways to address the concerns about money. In most consolidations, there is enough money available to provide for a positive and acceptable outcome for all parties. There are various business models for handling money for groups of MLSs/associations like yours. Determine what works best for your organization based on your net MLS profit and preferred billing model. For example, consider the wholesale billing model, where the MLS contracts with vendors for services at a lower price based on the combined number of users. Under the wholesale billing

model, associations retain their MLS income and lower their expenses resulting in a potential net income gain, not loss. There are of course other business and billing models for consideration.

3. Loss of Control

Associations that own or operate a single MLS have unilateral decision-making power. A frequently asked question is, “what will we lose or what will we have to give up?” Good question. Compromises are an inherent part of all change and transformation including MLS consolidations. We may not like change, but there is no way to stop it forever.

Overcoming Obstacles Related to Control

- Begin by making a list of everything you now control. When this is done with groups of MLSs/associations, many are surprised at how little they control right now. For example: MLS rules. Most of the rules and regulations are determined by NAR, not the local association. There may be subtle differences in the way the rules are written, based on years of modifications by local board counsel, but they ultimately roll-up to NAR for approval and they are mostly the same with a few twists or local customs, which can be accommodated by the group at the right time (later in the process typically).
- Consider how each item on your list that you currently control might change under MLS consolidation.
- When this is done in a group setting, at the first meeting of the MLSs/associations in the market each considering its future options, the outcome is quite similar for most who participate. The result is typically a very short list of what they actually control under the current MLS model. In addition to getting past the loss of control obstacle, the group will end up with a list of topics to discuss and resolve in a collaborative manner, which often leads to governance (decision-making) discussions to follow.

4. Desire to Keep Others Out of the Market

Keeping others out of your market is a common topic of discussion, which some believe is more likely a challenge for resort markets. Determine what is stopping others from coming into “your market” right now. While there may be a desire by some to protect your territory, define what authority the board of directors really has over this issue.

Overcoming Obstacles Related to Market Control

Discuss the following questions and write down the responses:

- What is stopping others from working in the market now? How might that change if there was MLS consolidation?
- The listings and public records are already on the national portals and are continuing to expand over time. How would that change or be different under MLS consolidation?
- Is there any way to prevent or keep this from happening?

- Who is responsible for making sure that agents work within their area of expertise?
- What do your members really want?
- Do they want access to all the information available in the market to conduct business and make money or do they want you to try to keep others out of the market?
- Who gets to decide? Is it the members, brokers, board of directors, staff, or consumers?
- How does a potential MLS consolidation change this?

5. Pride in What We have Built/Created

Clearly there is a considerable amount of pride by elected leadership and staff in what they have created. But sometimes leadership and staff are so attached to what they have built, they never leave. Some don't want to give up control. By writing down what you actually have control over in the present MLS model, you are ready to discuss and debate it with others.

There are some in leadership who don't want to give up the benefits they receive through their volunteer position. For example, they may be recognized for their gift of service, there may be networking opportunities that lead to business or may receive financial reimbursement for events and meeting expenses. For many, it is important to be seen by others in the real estate space which can be good for business.

Overcoming Obstacles Related to Pride

- Write down and share what you are most proud of. Capture this now, since there will be a place and time to share that with other potential business partners - MLSs/associations in your market area.
- How "partner-worthy" are you? Why do you believe that? What is your objective basis for comparing and contrasting with other organizations in the area?
- Determine what you want to hold on to. Begin by creating a list and involve your entire board of directors and staff in the exercise. Ask a few key brokers who are not on the board to weigh in on this question. This might include specific products or services that you offer, local business practices or culture that makes your organization unique, training or education programs that are important to your members, broker/member meetings or luncheons, your building, etc. Share with your peer MLSs/associations at the first meeting so they know what is most important to you as you begin to look forward. In most MLS consolidations, there are both local services and regional services. The regional services tend to be associated with the "centralized database" e.g. the MLS system, software, IDX, data feeds, compliance, and quality of data, while other services typically remain "local" such as lockboxes, training facilities, REALTOR® stores, advocacy, local politics, networking events, etc.
- Imagine what it would look like if you created a MLS for your members that incorporated:
 - Increase in listing inventory available in the MLS they use everyday
 - Richer and deeper comparable data
 - Single source for IDX and other data feeds with consistent rules and one fee
 - Better software and professional-grade tools

- More choices - better products and services on the menu for one fee
- One client portal to serve customers and clients with all listings
- Integrated public records and mapping tools
- Best available mobile solutions
- Increased exposure of your listings and brands

Dream a little -- it's time to determine what is possible and what could be better than what you currently offer. Create a wish-list for discussions with your board and with key brokers. What is possible when you work together with others that you cannot achieve on your own?

- Have an initial meeting with other MLSs/associations to review everything you learned and collected so far, including all your concerns and questions – and you may have a lot of them. Encourage the leadership from other MLS/associations to do the same and talk about it.

6. Don't Know How to Accomplish Consolidation Or Believe That It's Too Hard or Expensive

Not knowing how to do this is understandable. After all, you have not done this before, right? However, failing to come to grips with that is one of the major hurdles that stands in the way of a successful consolidation. It may in fact, be the top reason leaders do not act to explore what is possible. It's easier not to do the work.

No one likes mandates, bullies, and being told what to do. However, it is the role and responsibility of the AE, MLS executive, and elected leadership to explore and research all the options available to best serve the members. Is that true for you?

Overcoming Obstacles Related to the Consolidation Process

- Talk with your peers who have done this before; it doesn't cost anything to ask, listen and learn. It is your duty to know the facts and the options available. Your board and members expect that from you.
- Contact a consultant for advice and ask questions such as:
 - What is the recommended process?
 - What do you need to do to prepare?
 - What are the most common obstacles to consolidation?
 - How long does it take?
 - What will it cost?
 - What are the best practices for successful consolidations or making informed decisions not to consolidate?
 - What are the next steps?

If you have followed the above recommendations, you are better prepared to benefit from these conversations.

- Ask yourself and your leadership, do you think the consolidation of MLS data and systems is inevitable? Is there any way we stop that from happening forever?
- Do you choose to lead or follow? Do you want to be proactive in researching the possibilities and the options available to you and your MLS/association – or will you wait and see and react to what happens? You always have this option.

Take Away

The primary goal of MLS consolidation is to deliver high-value products and services to brokers and subscribers and make it easier for them to conduct business, remain relevant and be successful. As your customers, they are interested in having ALL the information that is available in the markets in which they choose to work, along with professional-grade tools that are better than what consumers have as well as relief from paying multiple fees and using different systems. They are looking for efficiency in the marketplace and that starts with efficiency in the delivery of MLS.

These are your paying customers who are licensed to list and sell in your state (or states) and they don't want to have to deal with so many separate MLS databases and organizations, each with dissimilar practices, rules and duplicate fees. That is the main driver for MLS consolidation. It is what many of your members, brokers, agents are demanding right now.

Here is what your members want:

- Brokers and agents – REALTORS® and non-REALTORS® want at least as much information as consumers have, to enable them to do their job and make a living.
- Complete, accurate, and timely data and the best software and tools available from any sources.
- Significant value and low-costs for the most part.
- Choices.
- MLS services which are without borders with unrestricted information access for the professionals.
- No longer necessary to join and pay multiple MLS providers.
- One standard set of MLS rules, policies, data compliance, and enforcement.
- Single source listing feeds for IDX, websites, and back-office that follow uniform formats and rules.
- Single point of entry available for those who need it.
- On-demand access to the information they need to conduct business at a competitive cost.
- Accurate and consistent statistical information and reporting.
- MLS software which does not require extensive training to learn how to use it.
- Listing brokers control the distribution of their listings from a single source of their choice.
- Every market area is served by at least one high-quality MLS provider with multiple choices where possible.