Master’s thesis

Business plan: Real-estate brokerage company

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Declaration of ownership

I hereby declare that the Master’s Thesis herein is my own work, or fully and specifically acknowledged whenever adapted from other sources. This work has not been published or submitted elsewhere for the requirement of a degree program.

Prague, 10th of August 2017

Signature
Acknowledgements:
I would like to hereby express my gratitude to doc. Mgr. Ing. Martin Lukeš, Ph.D. for his support, time and academic guidance throughout the elaboration of the thesis, as well as valuable advice on variety of entrepreneurial issues.
Dedication:
I dedicate this thesis to my family who have expressed unfading support and encouragement throughout my entire academic career. My gratitude to you will always be part of every success in my life. Thank you.
Title of Master’s Thesis:
Business plan: Real-estate brokerage company

Abstract:
The goal of this thesis is to develop a viable business plan for a real estate brokerage company.

The first part of the thesis covers the theoretical background needed for the development of a business plan. Topics covered contain lean startup model, business model, business plan, lead generation, conversion rate optimization, trends in the real estate industry and an overview of real estate in the Czech Republic.

The second part focuses on a business plan creation for a real estate brokerage company. The business plan is partly based on customer research intended to discover the factors which influence a customer’s decision when they list a property for sale. The business plan covers a company description, business model, executive summary, industry analysis, marketing and sales plan, operations plan, risk analysis, company structure and basic financial projections.

Key words:
Business plan, entrepreneurship, real estate, brokerage, lead generation
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1 Introduction

Selling and buying real estate is still a very frustrating process with many inefficiencies. Traditionally the role of a real estate agent was to provide information. Lack of information and risk minimization were the main reasons to hire an agent. Before the internet era agents were the only providers of information on the real estate market. Only they knew what houses were for sale. With the rise of the internet many industries have changed significantly. The real estate market has seen changes with the freeing up of information which is now mostly available online. However, the underlying process of buying and selling a house is still frustrating. One example speaks for all - although the internet provides the tools to search for a property it does not reduce the search time for buyers and only incentivizes them to search more intensely. (Zumpano & Johnson & Anderson, 2003)

The role of an agent is changing from being the holder of information to being a local expert and service provider. Customers are becoming much more knowledgeable as they can do their own research online. Even though the human element might never be replaced in real estate transactions there’s a lot of room for technology to streamline these transactions and make the whole process more effective. (Sisson, 2016). The average agent sells around 3.5 houses a year and customer service expectancy is extremely low. With an average 3.5 transactions a year agents cannot have the experience and expertise needed to serve clients well. The odds are in favor of a client ending up with bad and inexperienced agent rather than a good one (Zeller, 2013). If the average agent finishes only 3.5 transactions a year the commissions need to be hefty for them to survive and make a living. It becomes extremely hard to justify commissions especially if the service is regarded as poor.

1.1.1 Motivation
The author of the thesis is one of the founders of Nexter company s.r.o. which can be regarded as a modern real estate brokerage that aims to remove the inefficiencies of real estate transactions. The main motivation for writing this thesis is to go through the thinking process of a business plan creation and come up with actionable steps that can be implemented in the company’s operations. At the same time, the company is in talks with investors and a business plan can help to formalize some of the founders’ concepts and thinking in order to potentially secure startup capital.

1.1.2 Objectives
This thesis describes a real-startup that has been operating on the market for about a year. The company has never prepared any formal business plans or formulated a strategy. Revenues are now stagnating and the current model is not very scalable. The goal of this thesis is to analyze the situation and formulate a viable business plan based on the finding of the research. The business plan will have two main uses. First, it will
be used internally to help the company grow and potentially increase the portfolio of services offered. Secondly, it will serve as material for communication with investors.

1.1.3 Structure
The thesis is divided into two main parts. The first part is the theoretical one and contains an overview of recent theories regarding business plan formulations and creation. There’s a special focus on lean methodologies which have gained popularity recently. Lean startup methods, business model canvases and customer validation models are described in this section. Alongside this, the structure of a business plan is defined and presented. The business plan formulation section is followed by a look into lead generation and conversion rate optimization tactics which are critical to real estate business success in 21st century. The theoretical section finishes with a general overview of the trends in the real estate industry and the real estate market in Prague. The first section builds a theoretical background for the second, practical section.

The practical section of the thesis builds on empirical research conducted on existing and potential customers. Research focuses on the identification of factors that influence a customer’s listing decision – they can either list and sell with an agent or list as “for sale by the owner”1 and sell without the help of any agent. Based on the findings a business plan is formulated. At first, a company and its team is described followed by their business model canvas. At the same time, the business plan and its subparts are analyzed and presented.

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1 Will be referred to as FSBO
2 Theoretical part

Entrepreneurship has many definitions. For instance, the venture capitalist Fred Wilson describes it as turning ideas into business. Ideas combined with opportunities can be used to build a viable business if the resources are combined well. Resources in this sense could be money, people, strategy and even a business model and plan. (Barringer & Ireland, 2016)

In recent years, new tools and models have been developed for smaller companies that are just starting. Founders of businesses were used to adapting tools from big businesses, learned in business schools or from their investors. This rarely worked and supported the notion that startups are not smaller copies of big companies. As opposed to big companies, startups operate under extreme uncertainty and are on a quest to find profitable business models. At the same time, big companies already know their customers and products. Recent changes in the business landscape and startup thinking has brought new tools to better tackle the challenges that startups face. Generally, these tools are based on fast iterations and small incremental changes to minimize waste. One of those well-known methodologies is a lean startup. (Blank, 2012)

The word startup has been already used several times but what is a startup? Paul Graham, famous startup founder and mentor, explains simply that startup = growth. This simple definition focuses just on growth and so the companies that are not growing fast are not startups. Everything else comes secondary to growth. While there are millions of business started every year just a few of them can be considered startups by this definition. For instance, a service business like a barbershop is not a startup. On the other hand, a social network is. The truth is most “startups” by this definition will fail and won’t grow fast - but they are still startups. The difference is relatively simple as well: making something which a lot of people want and reaching those people. While a barbershop makes something a lot of people want it has a problem with reaching those people effectively. Few people would travel far to get a haircut and if they do this barbershop would have trouble delivering the service because of capacity issues. On the other hand, software - and more specifically social network - is very different because it is something wanted by a lot of people and those people can be reached via internet effectively. (Graham, 2012)

2.1 Lean startup model

With the rise of the internet the world is entering an era of abundant opportunities. The cost of product development is the lowest in history. However, most of the startups still fail and the difference between a failed and successful startup could be that successful companies find a working business model before running out of resources. They iterate fast to find what is working. Lean methods are about speed, learning and making progress (Maurya, 2012). In general, a lean startup is a business development
method inspired by the concept of lean production. The primary role model for this methodology is Toyota and its production concepts. A lean startup brings a systematic approach to measure the progress of a startup. (Ries, 2014)

2.1.1 Validated learning
Startups operate in uncertain conditions so spending years to build a product just to realize nobody wants it is a huge waste. The goal is to create a sustainable business and so startups should learn how to do that in uncertain conditions (Ries, 2014 p8-9). It is crucial to decide how progress and success will be measured. Traditionally, progress is measured by being on budget, sticking to a plan and so on. When a company builds products which nobody wants, being on budget is irrelevant. Ries (2014) offers a method called ‘validated learning’ by which startups try to uncover the truths about the business and the market. Learning is in this case essential and thus progress should be measured only by how much the company is learning. Lessons that startups turn into action will eventually influence their key metrics. It’s important to cut down all activities that will not add value and minimize the waste to an absolute minimum. (Ries, 2014 p. 37-55)

2.1.2 Experimenting
Jeff Bezos, founder of Amazon, believes that experiments are critical to Amazon’s success. He argues that without experimenting companies place themselves in desperate positions in the long term. He adds that if the outcome is known it is now an experiment and experimenting by its nature brings a lot of failures. (Gibbs, 2014)

Every experiment should start with a solid hypothesis. A hypothesis is a prediction of what might possibly happen if underlying assumptions are true. At the same time a hypothesis should specify why an experiment is being run. Ries (2014) distinguished two type of hypotheses: a value hypothesis that tests whether product or feature delivers value to customers; and a growth hypothesis that tests the product adoption and discovery. For startups, the initial version of a product is an experiment as well. (Ries, 2014 p. 56-72)

Maurya (2012) emphasizes that when experimenting startups should focus on speed, learning and focus. If any of these are missing then experimenting won’t have the optimal effect. For instance, when the company does not learn the lessons of its experiments, it will go in circles and repeat the same mistakes. Ideally, results should be analyzed by looking at both qualitative and quantitative data.

2.1.3 Build – Measure – Learn loop
The ‘Build – Measure – Learn’ loop is a foundation of a lean startup methodology. The goal is to execute the loop’s steps as quickly as possible with minimal resources. A loop starts with an idea or hypothesis – it can either be a value or a growth hypothesis. The
next step is to build a minimal viable product\(^2\). MVP is a product prototype just good enough for initial testing, often lacking functionality and flair. It should be built rapidly with minimal resources. Next, iterations of the product will be based on user interactions with MVP. Data is then measured and analyzed to gain insights about the product. At this stage, it’s critical to choose the metrics properly. After the initial run the loop is re-entered again with the new knowledge, new hypothesis and often a changed MVP. It is essential to minimize the time it takes to go through loop. After the loop is finished startup founders are faced with a question whether to pivot or persevere. If the hypothesis was rejected a change of action plan is recommended. On the other hand, if the hypothesis was accepted, the next iteration within the same strategy might yield better results. (Ries, 2014 p. 76-78)

**Figure 1:** Build - Measure - Learn loop

![Build - Measure - Learn loop](image)

Source: (Ries, 2011 p.81)

### 2.1.4 Criticism of lean startup

Peter Thiel, founder of PayPal and investor in Facebook, is one of the critics of the lean startup methodology. He argues that lean methods are popular because of the dotcom bubble and misguided learning has come out of it. To fully understand his logic his contrary approach to business needs to be explained. He sees the challenge of today going from 0 to 1. He sees today’s world governed by globalization. For Thiel,

\(^2\) Will be referred to as MVP
globalization means everyone around the globe is copying what is working elsewhere. China is an example of a country that copies what is working in the West. However, globalization will not help it go from 0 to 1. Because of all the issues that the earth is facing – a growing population and global warming and so on - humanity needs to be doing much more with much fewer resources if it wants to survive. To achieve going from a 0 to 1 nation companies must innovate on a much larger scale and not rely only on globalization. Lean methods are in direct conflict with his thinking. Thiel (2014) sees lean methods as:

Doing small incremental changes
 Anyone with a big vision is viewed as a suspect who wants to inflate the new bubble and lacks humbleness. Only small steps forward are valued.

Being lean and flexible
 Lean also means unplanned. It’s better not to know what a business will do. Every plan is inflexible and arrogant. Lean methods propose to think about entrepreneurship as experimentation.

Incrementally improving on competition
 The only way to create a business is to start in an existing market with an existing customer base and just improve upon the products of the existing competition.

Focusing too much on product
 When a product does not sell on its own it means the product is not good enough and should be reworked. Advertising, as learned in the dotcom era, is wasteful.

On the contrary he argues that:
1. You should risk boldness rather than making small incremental changes
2. Any plan is better than no plan
3. Competition destroys profits
4. A product is as important as sales

Thiel (2014) argues that by following lean methods, it’s almost impossible to go from 0 to 1 and humanity will need that.

2.2 Business model
 Osterwalder, in his book ‘Business Model Generation’ defines a business model as: “a rationale of how an organization creates, delivers and captures value.” (Osterwalder, 2010 p.14). Others define it simply as a plan on how a company intends to make money (Ovans, 2015). Johnson (2010) provides the following definition: “A business model, in essence, is a representation of how a business is created and delivers value, both for the customer and the company.”
2.2.1 Business model canvas

A business model canvas is a tool that explains a business model through nine building blocks: customer segments, value proposition, channels, customer relationships, revenue streams, key resources, key activities, key partnerships and cost structure. A canvas should serve as blueprint and starting point for strategy implementation. This method is understandable, simple and relevant. (Osterwalder, 2010 p.15-17)

Figure 2: Business model canvas

Source: (Osterwalder, 2010 p.44)

Customer segments

Customers are at the center of any business model. No business can function without profitable customers. Companies can have just one or several segments of customers. They often make trade-offs and decide which customer segments to serve and which to ignore. Market segments can range from the mass market (given the fact that needs are homogenous), a niche market (a market segmented by various criteria), a diversified market and finally multi-sided platform market where a company serves two or more customer segments. Examples of a multi-side platform is a credit card company having to serve both final customers and merchants. (Osterwalder, 2010 p.20-21)

Value proposition

A value proposition focuses on satisfying the needs of a customer or solving their problems. A value proposition is often the reason why a customer chooses one company over another. It can offer either a qualitative benefit such as speed or price, or a qualitative one like customer experience. Other examples of a value proposition
are superior performance, customization, design, brand or risk reduction (Osterwalder, 2010 p.23-25).

Value propositions could be broken down into a value map and customer profile. A value map reflects how to create value that will attract a customer whereas a customer profile focuses on observing the customers. A value map consists of products and services, pain relievers and creators as indicated in figure XY. A customer profile consists of customer jobs, gains and pains. A customer profile describes a specific segment of customers within a business model (Osterwalder, 2014).

**Figure 3:** Value proposition canvas

![Value proposition canvas](source: Osterwalder, 2014 p. 61)

**Channels**
Channel blocks explain the communication and delivery of a value proposition towards customers. Channels are crucial in managing customer experiences. They are in connection to customer segments since different segments will probably be reached by different channels (Osterwalder, 2010 p.26-27).

**Customer relationships**
Customer relationships reveal the type of relationship a company has with its customers. Different types of relationships can exist within one customer segment. Relationships are driven by a company’s focus at a particular moment. It can, for instance, be on user acquisition or retention. Types of relationships range from personal assistance to automated services and communities (Osterwalder, 2010 p.28-29).

**Revenue streams**
Cash that a company generates from customers is represented by revenue streams. Revenues come from one-time business interactions or from ongoing ones. Companies can generate revenues by selling assets, usage and subscription fees, licensing, brokerage or advertising (Osterwalder, 2010 p.30-32).

**Key resources**
Every business needs resources to deliver value to customers and maintain relationships with them. Different businesses require a unique set of key resources. Some examples of key resources: physical, human, financial and intellectual resources (Osterwalder, 2010 p.35-36).

**Key activities**
Companies must perform certain key activities in order to deliver value and ensure that their business model works. This could be in relation to production or problem solving. In the case of a software company, the key activity is writing software and in case of consultancy it is problem solving (Osterwalder, 2010 p.34-35).

**Key partnerships**
Key partnerships focus on how companies partner with other companies for a mutual benefit. The reasons for such partnerships are often related to the acquisition of new resources or risk reduction (Osterwalder, 2010 p.38-39).

**Cost structure**
The final building block of a business model canvas describes the costs connected with the business model and all the operations. Different companies choose different cost structures to support their existing business model. For instance, in some businesses, low cost models are extremely important – such as a low-cost airline carrier (Osterwalder, 2010 p.40-41).

**2.2.2 Customer development**
Drawing on a lean methodologies and business model canvas Blank (2012) emphasizes the importance of getting out of the building and learning. He calls his framework ‘customer development’ which is a process involving a search for a business model that works. His framework has 4 stages:

1. Customer discovery
2. Customer validation
3. Customer creation
4. Company building

Customer discovery is about coming up with a hypothesis and testing this with customers, usually outside of the building. Customer validation focuses on sales and the goal is to find out whether economics of a business work. Customer creation is
about tuning the engine and increasing the spend in marketing and scaling activities. The last step is about building a company.

Customer development should be combined and complemented both by Osterwalder’s business model canvas and a lean startup. Blank (2013) proposes to start with the business model canvas and form a hypothesis about how business might work. As a second step, he recommends to “get out of the building” to test the hypothesis. This step combines the customer discovery method and a lean startup experimental approach. After the first round of the experiment, MVP should be built and the process repeated all over again in fast iteration cycles.

2.2.3 Four box framework for business model innovation

In his book ‘Seizing The White Space’ Johnson (2010) presents an idea of white space and business model innovation. White space is an area with a poor fit between how customers are being served by incumbents and how they want to be served. Incumbents are not addressing the needs of their customers well within their current business model. Business model innovation doesn’t require the creation of new technologies and markets, rather it is about delivering value to existing customers in existing markets (Netessine, 2014). The business model innovation and white space theory should not be mistaken with ‘blue ocean strategy’, another popular framework that focuses on what companies can do differently than competition to reach uncontested markets (Kim & Mauborgne, 2010). Johnson (2010) concentrates on what companies can do within their existing markets with existing resources.

Johnson offers a four-box business model framework that helps businesses to innovate their business model. The first part of the diagram shows a customer value proposition. A value proposition is a product or service that helps customers do the job that they are trying to do more conveniently, effectively or affordably. The second part of the diagram shows how a profit formula defines how a company turns value created into profits. The third and fourth parts of the framework are key resources and key processes. They describe how specifically a company delivers value to the customers and how it captures the value created and what processes are most important (Johnson, 2010 p.24-25). Although this framework was intended mostly for existing companies it presents an interesting framework and an alternative to the business model canvas for startups as well.
2.3 Business plan

“A business plan is a written narrative, typically 20 to 30 pages long, that describes what a new business intends to accomplish and how it intends to accomplish it.” (Barringer & Ireland, 2016 p. 182). A business plan is tool used by emerging companies - and sometimes even established ones if they want to change the direction of their business. A business plan should formalize marketing strategy, financial and operational activities (Staff, 2016). Writing a business plan has two important benefits. Firstly, founders will think critically about their venture. A business plan creation usually involves a lot of meetings in which strategy and various aspects of the plan are discussed. Secondly, a business plan communicates the new venture to outside organizations. It explains what the business intends to do and this could later be communicated to investors, suppliers and business partners in the form of business plan (Barringer & Ireland, 2016 p. 183-184).

2.3.1 Business plan structure

Executive summary
An executive summary is a shorter overview of a business plan. It is usually two pages long and provides a preview of the business plan. A summary is often requested by investors who will choose later whether they would like to see the full business plan based on how convincing the summary was (Barringer & Ireland, 2016 p. 190-191).

**Industry analysis**

Industry analysis is a critical part of a business plan as it intends to analyze the industry in which a company plans to operate and compete. Analysis should include data about the markets and competition and industry trends (Barringer & Ireland, 2016 p. 192-193).

One of the most well-known frameworks for industry analysis is Porter’s ‘five forces framework’. Porter identified the following five forces that shape the industry and predict the profitability of various players: rivalry among existing competitors, threat of new entrants, bargaining power of buyers, bargaining power of suppliers and threat of substitutes. Each of these forces could be analyzed and links to profitability of an industry can be found. The more powerful the force the more pressure will be put on costs and prices and thus the industry will be less attractive and suffer from lower overall profitability (Magretta, 2012 p.36-40).

In relation to forces, Porter (2008) advises to position a business where the forces are weakest. At the same time, he advocates taking advantage of changes in forces and changing the forces in your favor if needed. Power of forces can be managed and minimized.

**Buyers**

If buyers are powerful profitability of an industry will be affected. They will either demand better products or services or they will drive the price down. Buyers will capture more of the value for themselves. (Magretta, 2012 p.41-42)

**Suppliers**

The more power the suppliers have the more they will use their negotiating power in their favor. Industry profitability will be lower when powerful suppliers are present because they will capture more of the value created for themselves. When analyzing the power of suppliers, employees should be considered as well. The power of a labor union of which they are part of might be high (Magretta, 2012 p.43-44).

**Substitutes**

Substitutes are products and services that meet a similar set of needs and can be used as an alternative. Substitutes create a ceiling for the prices as the highest prices force consumers to choose alternatives (Magretta, 2012 p.45-46).
New entrants
Barriers of entry prevent new entrants from entering the market and gaining a market share. The threat of new entrants works in two ways. Firstly, it puts a ceiling on prices since higher prices attract new entrants. Secondly, incumbents invest more in serving their customers to discourage others from entering (Magretta, 2012 p.47-48).

Barriers of entry are formed by supply-side economics of scale, demand-side benefits of scale, customer switching cost, capital requirements, incumbency advantages, access to distribution channels and government policy. Supply-side economics of scale arise when firms produce higher volumes and thus reduce the fixed cost per unit of production. Demand-side benefits are the network effects where the value of using a product or service is higher with an additional user. Switching costs are incurred when a company is changing a supplier. The higher the switching cost the lower the attractiveness of an industry for new entrants. If large investments need to be made in order to compete, companies might be discouraged from entering the market. Incumbency advantages are independent of size and are mostly achieved by proprietary technologies or priority access to raw materials that new entrants cannot possess. New entrants must also secure distribution for their product or services which might be hard to do in existing markets. Lastly, the government can help to create a barrier of entry for incumbents (Porter, 2008).

Rivalry
Rivalry among current players predicts the profitability of an industry. The more intense the competition and rivalry, the lower value companies can capture for themselves. They will pass the benefits onto the buyers in the forms of lower prices, for instance (Magretta, 2012 p.48-49).

When analyzing an industry, the first step should be to identify the relevant industry. The next step is about assessing participants in the market and segmenting them into groups of buyers, sellers, competitors, substitutes and potential new entrants. After that each force should be analyzed and determined to ascertain which forces are strong and which are weak. Consequently, the overall industry structure should be mapped out. The last step in analysis is the prediction of future trends and changes in the industry combined with the aspect of the industry that can be influence by various players (Porter, 2008).

Company description
This part of a business plan introduces the company’s short history and details how the founders came up with the idea. A company description can also contain a mission statement, tagline or positioning statement, and an overview of unique features of a product or service as well as important milestones (Barringer & Ireland, 2016 p. 193-194).

Market analysis
Market analysis differs from industry analysis. It’s not an analysis of the whole industry but rather the in-market segments of customers. Customers are segmented in groups by various criteria such as geography, demography and so on. Market analysis could also contain an estimated market share and a firm’s projected annual sales (Barringer & Ireland, 2016 p. 194-196).

**Economics of business**
This section explains how the unit economics work and addresses the logic of how a company generates revenues and profits. At the same time, it projects what it takes to break even and how many units need to be sold to achieve that (Barringer & Ireland, 2016 p. 196-197).

**Marketing plan**
A marketing plan reflects how a company intends to market and present itself to potential customers. A marketing plan could be best described by the 4P framework: product, price, place and promotion (Barringer & Ireland, 2016 p. 197-198).

**Product or service**
This part of the plan is necessary when a new product or service is being developed. In particular, the status of the development efforts should be included. Many products in development turn out to be more complex than first anticipated and thus it is critical to assess the current state and the way forward (Barringer & Ireland, 2016 p. 198).

**Operations plan**
An operation plan focuses on the ways in which the new venture will be run and how the products and services will be created. This part should also mention and assess the location of a business and the equipment and facilities it possesses (Barringer & Ireland, 2016 p. 199).

**Management team and company structure**
Management team and company structure describe the people who are running the business – namely the founder and a few key employees. A brief introduction of the founder and employees is provided, highlighting why these people are the best to run the business on the basis of their strengths and abilities. A company structure presents how the venture will be structured and who is reporting to whom. Structure can be best illustrated by an organizational chart. (Barringer & Ireland, 2016 p. 200)

**Financial statements**
Finally, pro-forma statements should be calculated and presented. Pro-forma means that the statements are projected under certain assumptions. If those assumptions turn out to be true the same results featured in the projected financial statements could be expected. To assess the company’s financial potential, ratio analysis is often used. (Barringer & Ireland, 2016 p. 201)
2.4 Lead generation

Lead generation is a process of generating leads. A lead is a person who has shown an interest in a company’s product or service. The process of lead generation thus aspires to turn strangers into leads. Strangers are offered something of value in return for contact information which is then used to build a relationship and eventually generate sales. Companies generate leads to fill their sales pipelines. Lead generation is a typical online method and has couple of phases. Visitors first type the address of a company’s website into a browser. Next, they might be shown landing page with a certain offer and if the offer is attractive they decide to fill a form in exchange for something of value (Kolowich, n.d.).

2.4.1 Lead generation in real estate

In the real estate brokerage industry, almost nothing is more critical to success than the generation of leads. Without leads there’s simply no business and therefore companies should employ strategies to generate a steady stream of seller leads. However, lead generation on its own won’t guarantee success. Converting leads into customers is another critical task of overall strategy. Normally, leads go through various stages in the sales pipeline and only more qualified ones make it to the next step. In the case of real estate brokerage, leads need to be turned into appointments and then into contact agreements. (Keller, Jenks & Papasan, 2004)

Lead generation in the real estate industry is moving online, but success in an online environment commands a new set of skills. In today’s world, prospective clients almost always start their search for information online (Anonymous, 2014). The goal is to persuade a potential client with an attractive offer so that they will freely give their contact information. The offer should be something of value which helps to solve the person’s current problem. These attractive offers are usually referred to as lead magnets (Deiss, 2017).

Lead magnets

As previously mentioned, a lead magnet is a piece of value offered to a prospective customer. If the offer is attractive enough they might get the lead magnet in exchange for their contact information. The goal of a lead magnet is to get as many qualified leads as possible. Lead magnets don’t need to be complex or long. Examples of lead magnets are:

- Guides/reports
- Cheat sheets
- Resource kits
- Free trials
- Discounted or free shipping
- Quizzes or surveys
- Assessments or tests
For real estate agents and companies, it is typical to use the following offers as lead magnets:

- Home valuations reports
- Buyer and seller guides
- Market reports
- Investment opportunities

2.4.2 Lead qualification

All potential sales are not created equal. There’s a huge difference between a lead and a qualified lead. It is crucial to define what a qualified lead is and what the underlying criteria are. The definition of a qualified lead will almost always be subjective and opinions on it will vary. Companies will suffer if they spend time and resources on unqualified leads. The most widely used method for lead qualification is BANT:

B - Budget
A - Authority
N - Need
T - Time

The budget criteria make sure that a prospective client is able to afford the product. An authority focuses on the final decision maker and checks if the contact person can decide. It’s important to make sure that the prospective client needs the product or service the company is offering. Finally, time consider whether prospects will be ready for purchase in specified time frame or not (Rothman & Miller, 2014).

Another framework used for qualification of leads is DNA. DNA tries to determine the likelihood that a lead will convert into a client and is based on:

D - Desire
N - Need
A - Ability/Authority

Desire can also be thought of as motivation. When selling a property the desire to sell is critical in the process. Without desire, there won’t be any business. Need and authority have already been mentioned previously (Zeller, 2013).

2.4.3 Funnel management

After deciding on a qualified lead, the next step is to define a sales funnel, crucial for aligning marketing and sales efforts. Different companies will each define the funnel differently depending on their particular process. As we can see in the figure 5, the funnel usually has several stages.
In this example, the awareness stage covers all the prospective clients known to the company who are not yet in database. The all names stage refers to the prospective clients who have given their contact information to the company. After a meaningful conversation a lead is moved to the engaged step. Prospective clients are the ones who made it through the initial round of qualification. The lead in this case is a qualified prospective client who is ready to be referred to sales. A lead might have been qualified using the methods previously presented. As some prospective clients won’t make it all the way they can be returned as recycled to one of the previous stages. Finally, the two last stages are opportunity and customers. The goal is to increase conversion between the stages in the funnel. (Rothman & Miller, 2014)

2.5 Conversion rate optimization
Turning leads into customers is what every business ultimately wants, and the desired outcome is called conversion. The process of increasing the revenues without spending
anything on additional marketing is called conversion rate optimization. This method is often overlooked (Goward, 2013). Conversion rate optimization can also be thought of as a systematic process to:

- Increase revenues and profitability
- Minimize the costs
- Increase retention and loyalty
- Please the customers

(Sullivan, 2014)

### 2.5.1 Factors influencing conversion rate

While some factors improve conversion rates there are naturally those that negatively affect conversions. King (2008) proposed that even today non-optimized processes or websites will have a certain conversion rate. However, with the help of conversion optimization, this can be increased by as much as 200%. Among many here are few factors that might influence conversions.

**Asking for too much information**

Naturally, the more information wanted by the company the less people will want to fill out the form. Asking for too much information too early can negatively influence conversion rates. If they are critical to qualification, they can be collected later in the process. (Ash, 2012)

**Not keeping a promise**

As simple as it is, not keeping a promise is a common problem that affects conversion. Prospective clients always have an expectation which are reinforced by promises. If promises are not kept the business can expect frustrated customers and therefore a lower conversion rate. These customers will never conduct a desired action.

**Too many options**

When a prospective client faces too many options they might enter a ‘decision paralysis’. It is commonly thought that the more options the better, but actually the opposite is true when it comes to conversion rate optimization. The simpler the process, and the less the prospective client needs to think, the better. (Krug, 2014)

### 2.5.2 A/B testing

A/B testing is a backbone for conversion rate optimization. Unfortunately, this method is not widely used despite the fact it is quite cheap, easy to do and can help increase conversion rates. (Sláma, 2012) The method of A/B testing is most easily explained on a website example. At first it is crucial to decide what will be tested and how results will

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3 Will be referred to as CRO
be measured. Website traffic is then split in two versions: version A and version B. If the website gets 100 visitors, 50 of them can see version A and 50 of them will see version B. After the results are statistically significant they are analyzed and the winner is selected based on previously specified metric. (Siroker, 2013)

2.6 Trends in real estate industry

2.6.1 The internet and technology
Twenty years ago, searching for a house involved browsing through a newspaper advertisement or looking at notice boards at various venues. Real estate ads in newspapers were a big part of the revenues of publishing houses. Just as the internet disrupted other industries, real estate saw a shift with a move from offline to online. The big value of real estate brokers was that they had information about houses for sale. Clients had to actively seek agents. With the rise of the internet all of this information has become instantly available at the click of a button. Consumers are visiting real estate portals rather than seeking agents. The power of the consumer has grown and they have started to request data and information that was never before relevant in the industry. Consumers are suddenly interested in house price estimates, knowing whether the home is for sale by the owner or agent, or the track record of agents and the houses they have sold. New giants in the industry like Zillow, Trulia and Redfin have appeared in the US market. They offer new experiences for consumers that lie on internet connectivity and technology. This trend of moving online started twenty years ago and it continues today. It is commonly agreed upon that agents need to provide new value propositions in the tech-driven marketplace otherwise or they may become obsolete. (Cone, n.d.)

The move online brings threats to incumbents. Real estate brokerages traditionally depend on face-to-face meeting and human interactions. Technology reduces the importance of face-to-face meetings and thus presents a challenge for people-centered businesses, as real estate has traditionally been. To keep up with technological advancements a unique know-how must be possessed or big investments must be made (McGuire, n.d.). Recently, Compass.com, a New York based real estate startup, raised around $210 million at a valuation above $1 billion (Roof, 2016). Compass.com aspires to remove the frustration out of real estate transactions by combining the best agents with modern technologies. They see the value of an agent in helping clients understand what is going on in the marketplace and what decisions to make. Agents use their unique analytical tools to guide clients. Their systems get smarter on their own due to machine learning algorithms. (Titlow, 2015)

Surprisingly, the typical commission of a real estate agent hasn’t changed much in last twenty years, averaging around 5%. Today’s consumers can find most of the information they need online, as previously mentioned. Real estate transaction is simplified due to the internet but commissions haven’t changed despite the fact that
agents have an easier job. With the rising prices of housing, agents are still taking the same commission of around 5%. Therefore, the total amount of money they earn is higher than what it used to be, even if we discount the commission for inflation. (Frankel, 2017)

2.6.2 Blockchain and ownership
Blockchain is new emerging technology that might shake up things in the real estate industry. This technology has the potential to change the way real estate is bought and sold. It might do so by cutting hidden costs and traditional inefficiencies of the market (Wright, n.d.). Blockchain was originally the term for structuring data but it evolved to mean distributed databases which allow the storage and share of information. It is a digital ledger in which data is recorded and stored. It allows you to record a change of ownership of assets (Laurence, 2017). Blockchain is completely decentralized and it’s not owned by any corporation. It has the potential to streamline the process of a real estate transaction and eliminate the middle men (Wright, n.d.).

What blockchain technology will allow is a creation of “smart contracts”. These contracts will be automatically executed when certain conditions in the contract are met. For instance, an invoice could be paid by itself after certain job is finished. Although there’s a long way to go with a transparent system such as blockchain, a transaction can become self-regulated and self-enforcing (Cotter, 2017). Sweden is the first country to be experimenting with this technology. They realize that keeping track of who owns what is a bureaucratic process involving a lot of paperwork and documents. Current processes are human-based and therefore prone to errors. Blockchain can serve as a registry that cannot be manipulated with. Initially, various parties agree on certain facts. Later, it prevents these parties from making false statements as everyone can check the facts. At the same time, statements cannot be changed as all interested parties would be alerted. Sweden decided to give a green light to the experiment and savings have been calculated to an annual amount of around $106 million by reducing fraud and eliminating paperwork. However, full integration of blockchain faces several obstacles though – mostly legislative ones (Wong, 2017).

2.6.3 Marketing trends
The way real estate is marketed is about to undergo several changes. For instance, real estate agents are starting to use drones to capture footage and take pictures of houses for sale. As agents are battling for the attention of their prospective buyers, using drone technology can help to make a listing stand out and capture much-needed attention. Homes will be displayed in a different and more personal way. At the same time, the use of drone technology can create a buzz for agents. (Glink, 2017)

Another technological advancement can be found in the arena of virtual and augmented reality. Today, agents usually need to manage their time as they travel from house to another. Clients are often dissatisfied that a house does bear resemblance to
the pictures they have viewed. Virtual reality might help to tackle these two issues and allow buyers to visit a lot more places in a lot less time (Abbasi, 2017). On the other hand, augmented reality will not solve efficiency issues but might help clients better imagine what living in a house could be like. Augmented reality can add flair and show people how the staged home will look. It does so by connecting the virtual world with reality by adding virtual objects into the physical world. (Athwal, 2017)

2.7 Real estate market

2.7.1 Government regulation
The Ministry of Regional development analyzed the real estate market in the Czech Republic and found that there are 50 unsatisfied clients for every 1 satisfied. The Ministry is taking steps towards the regulation of the industry. They want to devise clear rules for agents in order to improve the quality of the service they offer. Currently, anyone can become an agent without any proper training and qualifications (Vejvodová, 2016). Regulation would enforce proper qualifications, mandatory insurance for damages caused by agents, and it would set standards for real estate transactions. The Czech Republic is among the few countries in Europe where the real estate market is not yet regulated. (Černý, 2015)

Newly qualified agents would need to get an official certificate issued by the Ministry. Certificates will only be issued if certain conditions for qualification are met. Agents with a master’s degree in law or economics will qualify automatically, and agents with a master’s degree in a different field would need to complete at least one year of relevant experience. Agents without a university education would need to complete three to five years of relevant experience to earn the certificate. Those who don’t meet this criteria will simply not be eligible. This should significantly reduce number of agents operating on the market. (Standlerová, 2016)

2.7.2 Market development
According to ČÚZK (2017) around 12,000 changes of ownership were recorded in Q1 2017 in Prague. In the Czech Republic, there were around 100,000 changes of ownership in the first three months of 2017. However, the number of changes do not represent the number of properties being sold on the market. For instance, some of those changes occurred within families, where ownership passed from one member to another. It is estimated that around a third of the cases involve properties being sold in the open market. Because the company presented in the practical section of this thesis operates solely in Prague, this specific market will be examined in more detail.

Prague, the capital of the Czech Republic, has an increasing population, as indicated in figure 6. Growth in this district is higher than anywhere else in the Czech Republic. Between 2015 and 2016, the population increased by 13,059. (ČSÚ, 2017)
To keep up with this increase in population, new apartments must constantly be built. The demand is currently larger than the supply and there is a lack of new developments. This is mainly due to permits issued by the administration. It is predicted that almost twice as many people could live in Prague given its current density. This prediction is based on comparison with cities like London and Brussels where the overall life quality is high and density is two times higher. On the other hand, it is hard to quantify non-economic causes that a higher density might influence such as health, criminality and a feeling of happiness. Developers now primarily sell projects started in previous years, and these projects account for most of their inventory. Getting approval for a development project of a larger size might take from five to ten years. A new development thus reacts only very slowly to changes in the demand and demography. The situation is not supported by the rental market either. Lately, there has been a trend to rent apartments for the short term via services like Airbnb. (Divinová, 2017)

As indicated in figure 7 by red line it’s clear that the new development slowed down in 2016. On the other hand, a higher number of apartments were finished as indicated by blue line. Overall, Prague might expect some issues due to the shortage of new apartments in the future (ČSÚ, 2017).
2.7.3 Property prices in Prague

Property prices in Prague rose significantly in the last couple of months as is suggested in figure 8. The steady growth of prices started at the end of 2015 and the growth peaked in the first half of 2017. The figure shows the offer prices per square meter – the price that a house is advertised for. The selling price and offer price might differ but not significantly.

Source: (ČSÚ, 2017)
One of the factors influencing the increase of housing prices is that there are insufficient new developments and simultaneously the population is increasing.

Another factor affecting house prices is the interest rates for mortgages combined with their affordability. In 2015 mortgages accounted for 190 billion CZK which is a historical maximum. This is mostly because interest rates went under 2% p.a. Low interest rates alongside high affordability of mortgages persuaded many people to take out mortgages. Banks were clearly lending money to customers who might have trouble repaying the loan in the future (Rampa, 2016). The Czech central bank became aware of the risk and decided to step in and regulate mortgages. Clients now need to have a higher capital and loans with more than 90% loan to value are limited (Bukovský, 2017).
3 Practical part

3.1 Company description

In this section, a short introduction of the Nexter company s.r.o will be given, beginning with the initial idea and thought processes of the founders, followed by a mission statement, a description of the unique features of the business and the key people in the company.

3.1.1 Initial idea

Nexter was started by two founders: Michal Makoš and Hynek Husník, who knew each other for a few years before they started their business. They first met in 2012 when discussing business between Storyous and Porad.cz, the companies they managed. Before starting Nexter, Hynek founded and sold a company called Storyous.com s.r.o. His first company was mostly known for its checkout system for coffee shops and restaurants. Since 2012 Michal and Hynek have met regularly, usually to discuss matters of business. After Michal returned from his study exchange in India he started to consider his options, knowing that he had a drive to start a business. Hynek was trying to sell his shares in Storyous at that time and was considering starting a new business as well. The two of them were meeting regularly, discussing their future and brainstorming their business ideas.

They examined several ideas but the real estate market became of interest to each of them. Michal had experience with running an Airbnb in his apartment and played with the idea of short term rentals. Hynek proposed the idea of crowd investing in residential properties. After some trial and error, they realized neither ideas should be pursued. Another idea was to build real estate management software for landlords, but after undertaking market research they learnt it would be extremely hard to succeed. However, the founders were slowly starting to understand the market and realized that real estate transactions are potentially stressful for clients. Hynek bought a flat and was disgusted with the service of his real estate agent.

After looking closely at the brokerage market several observations were clear: being a real estate agent is extremely hard and challenging; the reputation of real estate agents is poor; service quality is low; commission seems high and the whole process is overly complicated and protracted. Traditional brokerages haven’t changed much in the internet era and they continue to deliver the same service despite the fact that conditions have changed. When it comes to the job of the real estate agent the hardest part seems to be getting leads and signing clients. Commission is so high because the average agent sells only three to four properties a year. He is basically forced to take a hefty commission for the sake of survival. It is clear that generating the business is the

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4 Will be referred to as Nexter
hard part. The common practice is to knock on doors, cold call FSBOs\(^5\) or put leaflets in mailboxes. It is no surprise that the average agent sell only few properties a year. With so few transactions a year it is extremely hard for agents to learn all the ‘nitty-gritty’ details and deliver a quality service.

### 3.1.2 Company foundation and early history

The founders knew that real estate brokerage could work much better. They thought about cutting their commission in half, guaranteeing service quality and making the process transparent. In their view this could appeal to clients. The plan was also to optimize the process of generating business and simplify the transaction. It’s important to note that they didn’t have any prior experience with the real-estate brokerage market and so they had to learn along the way.

After the initial version of a website was launched, nobody came and nobody seemed interested. Michal had previous experience in experimenting and conversion rate optimization and so he proposed to experiment on channels and ways to attract clients. Two founders started experimenting, mostly using lean methods presented in the theoretical part of this thesis, and they learnt some initial lessons. People were not willing to order the service online. Although some of the feedback was positive it didn’t result in clients.

The first client the company attracted was a friend of one of the founders. At that moment, to look more professional, Nexter company s.r.o was officially founded on 29th of August 2016. It was founded by Michal Makoš and HH investment holding s.r.o which is company owned by Hynek Husník. Equity split was 33% for Michal Makoš and 67% for HH investment holding. However, the main problem of attracting and signing clients remained. Their experience with their first client helped the team realize how customer acquisition might be done. The team struggled to estimate the price, to prepare a house for sale, and to understand the process. With the knowledge that people won’t order the service online they thought that they might instead be willing to exchange contact information for something of value – something the team themselves had struggled with. Their strategy was changed and prospective clients were offered a free home price estimate and this move generated eight contacts overnight. Since then, the company have optimized their sales funnel, perfected lead generation strategies and learnt how to process real estate transactions.

### 3.1.3 Mission statement

Nexter intends to remove the frustration out of real estate transactions and combine the best agents with the best technology. It wants to deliver a high-quality service to its clients and help them to make optimal decisions in a data driven world.

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\(^5\) FSBO = For sale by the owner
3.1.4 Unique features

No offices
Nexter does not have an office and so the team is working on a remote basis. Only occasional meetings are mandatory but these can be carried out online. The only obligation the team members have is to their clients. This remote type of co-operation has its advantages and disadvantages. One advantage is that the working hours are flexible and people can work from anywhere in the world. On the contrary, there’s a lack in terms of the social element and it’s harder to get to know colleagues well. Further to this, having an office at a prominent place builds credibility. Nexter cooperates with an office provider and rents a meeting room whenever needed. When communicating with clients, having no office space could be turned into advantage. To provide a full service for lower commissions, the cost of traditional brokerages must be cut. These costs include offices, cars and so on.

Data driven
All performance is evaluated by metrics. Each position has certain characteristics, goals and metrics. Nexter is extremely performance driven and if goals are being met people can set their own schedules or work from anywhere. Every Monday there are team meetings where progress and metrics are evaluated.

Openness
All the information in the company is available to everyone. It is believed that when people are empowered they make better decisions. Minutes from every company meeting are held in a public folder. The public folder also contains all the financial and materials. Once a month there’s an all hands meeting where open discussion takes place. Even difficult questions are encouraged and answered. At the same time, the opinions of employees are welcomed in the discussion. Even newcomers are trusted and given access to all the information from day one.

Process separation
In a traditional brokerage company an agent is on his own. He is responsible for everything from start to finish, making it extremely hard to improve at certain tasks like sales skills, legal knowledge, empathy and so on. At Nexter it is believed that process separation is better. Agents are salesmen and sales skills are most valued. Agents are asked to complain about time wasters and any part of the process that they don’t want to deal with. Nexter has central lead generation, its own call center, photographers and transaction coordinators.

3.1.5 Key people in the company
In this section key people in the company will be presented, and their position and previous experience will be examined. Currently, the company is made up of by thirteen employees. Seven of them are working full time. This section shows the four key people in the company.
Hynek Husník

- Co-founder and CEO, 67% stake
- Responsible for operations, finances and internal systems

Hynek was the co-founder of Storyous, a startup focused on checkout systems for coffee shops and restaurants. He managed a team of 50 serving as a CEO and head of products. After working there for five years, Hynek decided to sell his stake and move onto other challenges. At Nexter, Hynek is mostly responsible for operations, finance and internal systems and their development.

Michal Makoš

- Co-founder, 33% stake
- Responsible for marketing and sales

Michal has experience from working at Avast software where he was responsible for the worldwide sales of Avast Cleanup, a product that makes tens of millions of USD every year in revenue. Before that he managed a Q&A portal Porad.cz. At Nexter he manages the sales and marketing teams.

Jakub Fařář

- Real estate agent

Jakub has a degree in law and held several sales positions before joining Nexter, such as selling education courses to middle size companies. Also, he had some experience in real estate brokerage as his brother owns a small company in his hometown. He is currently the best performing agent.

Marek Husník

- Real estate agent

Marek held several positions in Storyous and recently managed a small team as the head of logistics. He is educated in construction management. Marek didn’t have any prior sales experience before joining Nexter. He was the company’s first employee and helped to build some internal processes. As he was the first agent and has most experience, Marek has hold some critical knowledge of the company.
3.2 Empirical research

3.2.1 Goals of research
People selling property can do so with an agent or on their own. The aim of the research is to try to find the factors influencing a listing decision, collected via questionnaire responses from people who listed as FSBO or with an agent. At the same time, some general trends should be discovered from the questionnaires and telephone interviews. The findings will be summarized and the information will be used in the formation of a business plan.

3.2.2 Sample of respondents
Two main segments or respondents were identified: FSBO and people selling with an agent. Respondents were mainly taken out of the internal database of Nexter as their CRM system contains this information.

FSBO
Nexter has CRM software with thousands of client contacts. It stores and records various valuable data points. The company measures their sales funnel and collects statistics about drop-off between stages in the funnel. Clients that decided not to list with an agent form the first segment of respondents. The number of people in this group is 58. They got into the database by exchanging one of the lead magnets for contact information. Contacts were followed up on and calls or meetings took place. When the deal was closed, the reason was recorded in internal CRM software. These contacts were from Prague and came from online sources.

Considering the response rate and small sample size another segment of FSBO was found. Companies in the real estate market offer tools that monitor FSBOs. This tool allowed to filter out some of the FSBOs in Prague for the past three months. Around 300 email addresses were acquired and people were asked to fill out a questionnaire. The response rate within this segment was lower compared to the group from Nexter’s database.

Listed with agent
The second group of respondents was formed from people who listed with an agent. This group contained two main sub-segments. The first sub-segment were people who listed with an agent but decided not to list with a Nexter agent. Rather, they listed with the competition. The second sub-segment contained respondents who decided to list with a Nexter agent. Those who chose the competition accounted for 81 potential respondents. The questionnaire was also sent to another 42 who listed with Nexter. The total number of people who received the questionnaire was 123. All had either direct business experience with Nexter or exchanged contact information for one of Nexter’s lead magnets. All respondents within the segment were based in Prague and came to the database from online sources.
**Limitation of the sample**

The chosen sample has a few limitations: almost all of the respondents decided to exchange their contact information for one of the lead magnets. They came from an online environment and their contacts were stored in Nexter’s internal database. At the same time, all of them were from Prague. The sample size might be too limited to make valid general conclusions.

Regarding the first limitation, the sample is representative of Nexter users but not the market overall. Nexter uses online marketing and might attract younger demographics. While some participants in the internal database were 60+ in terms of age, they represent minority. Nexter captures contacts through various lead magnets and some people might not be willing to exchange their contact information. A respondent’s profile might thus reflect only a certain segment of customers in the market. Information about whether people will list as FSBO or with an agent is provided usually in the later stages of the funnel. It was critical for choosing the sample. Listing information is acquired mostly through phone or face-to-face interactions. Some people are not willing to provide and share this information. For the reasons above, the sample might be formed by some sub-segment of the market.

Secondly, Nexter focuses on generating contacts information only in Prague. The population of Prague is generally more educated and habitants earn a higher income than rest of the country. Respondents might not share certain parameters with the population outside of the capital. The results should be taken with regards to geo location. At the same time, property prices in Prague are the highest in the country. The real estate profession might thus differ significantly among the regions. Commission in Prague is in total much higher than in the rest of the country.

Finally, the sample had internal limits. There were simply no more contacts to send a questionnaire to. For the purposes of research and analysis more respondents would yield a better understanding and might produce more significant results.

### 3.2.3 Methods

**Questionnaires**

Questionnaires were created and sent to collect the data from respondents. This method had two goals: to provide customer insights and to collect data for further analysis. The Nexter database contained the contact information for customers so questionnaires were sent by email. To further increase the sample size some contacts were called on the phone and the questionnaire was filled in during these phone calls by the author. Phone interviews allowed a deeper conversation and provided valuable insights.

Logic jumps were used in the questionnaire, so if a respondent answered in a certain way a different question might have been presented. For instance, if the response was that he was not happy with how the sale went he was asked what went wrong. A
combination of various questions types was employed: multiple choice, yes or no, Likert scale type and open ended questions. The paid version of Typeform software helped with the formation of questionnaire.

The Likert scale type of questions were formed to discover the customer service expectations from the real estate brokerage. FSBOs were asked to rate from 1 to 5 how they see traditional real estate brokerages in the market. 1 meant strong disagreement with the statement while 5 meant strong agreement. Results should indicate the value the respondent sees in hiring an agent. On the other hand, people who were selling with an agent were asked to rate from 1 to 5 how important certain factors were when hiring an agent. The scale should again represent the customer’s expectations. For FSBOs, the high number would mean that a real estate agent would need to deliver outstanding service – otherwise the FSBO won’t see the value in the service. A high average number for those selling with an agent would mean high expectancy as well.

**Data clearance and setup**

The data from questionnaires could be analyzed on its own as they are. For the purpose of further analysis, they had to be cleared and set up. An Excel file with responses was downloaded and the data was consolidated. FSBOs were presented with five Likert scale type questions and respondents who were selling with an agent were presented with six.

The reliability of the Likert scale was tested by Cronbach’s alpha. It is a measure of internal consistency and indicates how the set of items are related to each other. For analysis in this thesis Cronbach’s higher than 0.7 will be regarded as acceptable as proposed by Bruin (2006). To analyze the internal consistency of the Likert scale type questions, SPSS software from IMB was used.

**Binomial logistic regression**

To further analyze which factors affect the listing decision, binomial logistic regression was used as recommended by Woodworth (2004). The dependent variable, in this case the listing decision, is binary. It is either FSBO or agent and it can be represented by values 0 or 1. Values of the dependent variable are in a logistic regression model explained by independent variables or a set of independent variables. Furthermore, assumptions of the regression model were checked and validated.

**3.2.4 Analysis**

Cronbach’s alpha for the Likert type of questions was 0.764 for FSBOs, meaning the scale is reliable. Removing any questions would result in lower values. The value for questions for FSBOs could be averaged out. For those who listed with an agent Cronbach’s alpha is 0.717. However, a higher value could be achieved if one of the questions was removed. Removing the question about the importance of an agent’s personality would yield a value of 0.746. This question was removed to get better results.
**Variables**
The dependent variable in the model is the type of sale – FSBO or agent. Independent variables are experience, age, education, sex, expectancy, moving and value appreciation. From the answers about a participant’s reason to sell a property the two most common answers were picked and dummy variables made.

**Dependent variable**

*Sale*

- 0 - FSBO
- 1 - Agent

**Independent variables**

*Experience*

- 0 - No
- 1 - Yes

*Age*

- 1 - 21-30
- 2 - 31-40
- 3 - 41-50
- 4 - 51-60
- 5 - 60+

*Education*

- 1 - Elementary
- 2 - Secondary
- 3 – Secondary with GCSE
- 4 - Higher professional
- 5 – University

*Sex*

- 0 - Male
- 1 - Female

*Expectancy*
Expectancy is a continuous variable with values of 1 to 5. Expectancy was calculated as an average of the values from the Likert scale type questions. Cronbach’s alpha test was run to find out the reliability of the scale. One of the questions for those who listed with agent was removed to improve the reliability of the scale.

*Reason – moving*

- 0 - No
- 1 - Yes

*Reason – value appreciation*

- 0 - No
- 1 - Yes

*Sample analysis*

A total of 123 of people listed with an agent were questioned and 60 of them responded. The response rate for this segment was around 48%. Some of those in this segment were called to get a higher response rate.

As indicated in chapter 3.2.2 FSBO respondents were formed by two sub segments. In total, 51 out of 394 filled the questionnaire. For the purposes of research 34 out of 58 people from the Nexter database answered. The response rate was 66%. On the other hand, only 17 out of 336 people from external sources answered. Response rate was around 5%. The total sample of respondents accounted for 111. From those 51 listed as FSBO and 60 with agent. The following table 1 contains information about the sample and the responses collected in questionnaires.

*Table 1: Sample analysis*

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs.</th>
<th>Male</th>
<th>University education</th>
<th>Expectancy</th>
<th>Past exp.</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSBO</td>
<td>51</td>
<td>53%</td>
<td>69%</td>
<td>3.56</td>
<td>0.87</td>
</tr>
<tr>
<td>Agent</td>
<td>60</td>
<td>57%</td>
<td>42%</td>
<td>3.75</td>
<td>0.89</td>
</tr>
</tbody>
</table>

Source: Analysis conducted by the author

As table 1 indicates, 69% of FSBO and 55% of those who listed with an agent had previous experience with selling a property. The mean for expectancy was higher for FSBOs: 3.75 compared to 3.56 for agents. Specific age was not measured but instead

---

6 Will be referred to as agents
age groups. The distribution of age groups for FSBOs and agents can be seen in figures 9 and 10. The biggest group represented in FSBOs is 31-40. For those who listed with agent it’s the group 60+.

**Figure 9:** FSBO age groups

![FSBO - Age Groups](image)

Source: Analysis conducted by the author

**Figure 10:** Agents age groups

![Agents - Age Groups](image)

Source: Analysis conducted by the author
**Variables and sample**
Correlation coefficients and their significance are indicated in Table 3. One of the assumptions of binomial logistic regression is that independent variables must not show multicollinearity. Moving and value appreciation show multicollinearity which is significant. For those reasons only moving will be used in the regression model.

**Table 2: Correlations coefficients**

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Experience</td>
<td>-0.133</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>0.319**</td>
<td>0.130</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>-0.306**</td>
<td>0.188*</td>
<td>-0.142</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sex</td>
<td>-0.047</td>
<td>0.058</td>
<td>-0.017</td>
<td>-0.045</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expectancy</td>
<td>0.106</td>
<td>-0.075</td>
<td>-0.012</td>
<td>0.134</td>
<td>0.240*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moving</td>
<td>0.129</td>
<td>-0.070</td>
<td>-0.100</td>
<td>0.080</td>
<td>0.163</td>
<td>-0.003</td>
<td></td>
</tr>
<tr>
<td>Value appreciation</td>
<td>-0.137</td>
<td>0.126</td>
<td>-0.081</td>
<td>0.127</td>
<td>-0.156</td>
<td>-0.079</td>
<td>-0.532**</td>
</tr>
</tbody>
</table>

Standard errors in parentheses ↑ p < 0.1, * p < 0.05, ** p < 0.01, *** p < 0.001
Source: Analysis conducted by the author

**Logistic Regression**
At first, only the demographic variables were contained in the model. The best guess without any model would be to assume that everyone from the sample listed with an agent. Guessing would yield correct results in 54% of the cases. Guessing naturally does not consider any independent variables. The predictive capacity of the logistic regression model is around 66% - which means that with the use of the model 66% of the listing cases can be explained by independent variables. The total number of observations was 111. The analysis produced one outlier. As having no significant outliers is one of the basic assumptions of the model this case had to be removed. Thus, the number of observations was 110.

**Table 3: Regression model with demographics variables**

<table>
<thead>
<tr>
<th></th>
<th>B</th>
<th>S.E.</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>Exp(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>0.540</td>
<td>0.182</td>
<td>8.819</td>
<td>1</td>
<td>0.003</td>
<td>1.716</td>
</tr>
<tr>
<td>Education</td>
<td>-0.569</td>
<td>0.199</td>
<td>8.144</td>
<td>1</td>
<td>0.004</td>
<td>0.566</td>
</tr>
<tr>
<td>Sex</td>
<td>-0.219</td>
<td>0.427</td>
<td>0.263</td>
<td>1</td>
<td>0.608</td>
<td>0.804</td>
</tr>
<tr>
<td>Constant</td>
<td>0.804</td>
<td>1.050</td>
<td>0.587</td>
<td>1</td>
<td>0.444</td>
<td>2.234</td>
</tr>
</tbody>
</table>

Source: Analysis conducted by the author
Table 3 contains the results for the logistical regression analysis with the demographic independent variables. Exp(B) (also known as odds ratio) shows the relationship between the dependent and independent variables. For instance, going from age group of 31-40 to 41-50 it is 1.7 times more likely a person will list with an agent given that all the other variables are held constant. On the other hand, with the higher education it is less likely a person will list with an agent given all other variables are constant. The table also shows how significant certain factors were for the predictive capacity of the model – shown in the column Sig.

Next, the regression model also contained expectancy, experience and moving reason variables that have been added. Analysis produced one outlier again and so the number of observations was 110. The best guess, without any independent variables, would be to guess that people will list with an agent. This guess would be correct in around 54% of the cases. The predictive capacity of the second model with the use of independent variables was close to 72%. It is an improvement over a first regression model with only demographics variables.

Table 4: Regression model with all variables

<table>
<thead>
<tr>
<th></th>
<th>B</th>
<th>S.E.</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>Exp(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>0.704</td>
<td>0.211</td>
<td>11.076</td>
<td>1</td>
<td>0.001</td>
<td>2.021</td>
</tr>
<tr>
<td>Education</td>
<td>-0.711</td>
<td>0.230</td>
<td>9.581</td>
<td>1</td>
<td>0.002</td>
<td>0.491</td>
</tr>
<tr>
<td>Sex</td>
<td>-0.621</td>
<td>0.479</td>
<td>1.677</td>
<td>1</td>
<td>0.195</td>
<td>0.538</td>
</tr>
<tr>
<td>Expectancy</td>
<td>0.523</td>
<td>0.277</td>
<td>3.552</td>
<td>1</td>
<td>0.059</td>
<td>1.687</td>
</tr>
<tr>
<td>Experience</td>
<td>-0.456</td>
<td>0.495</td>
<td>0.851</td>
<td>1</td>
<td>0.356</td>
<td>0.634</td>
</tr>
<tr>
<td>Moving</td>
<td>1.111</td>
<td>0.489</td>
<td>5.155</td>
<td>1</td>
<td>0.023</td>
<td>3.038</td>
</tr>
<tr>
<td>Constant</td>
<td>-1.092</td>
<td>1.423</td>
<td>0.589</td>
<td>1</td>
<td>0.443</td>
<td>0.335</td>
</tr>
</tbody>
</table>

Source: Analysis conducted by the author

From Table 5 it’s clear that age and education added most significantly to the predictive capacity of the model.

3.2.5 Results

In this section, the findings of the research and analysis will be presented. Results are based on the questionnaire responses, telephone conversations and the binomial logistic regression. Results will be used in the formulation of a business plan.

Age
The results show that the higher the age the more likely people are to list with an agent. If the variable of age is positively changed by one, listing with agent is much more likely. Older people might be more risk averse and an agent can be viewed as the one
who mitigates such a risk. As is indicated in Figures 9 and 10, the age difference among
groups is clearly visible. Figure 9 shows the age group of respondents who listed as
FSBO. The largest group is 31-40. On the contrary, the largest age group represented
in the segment of those who listed with agent is 60+. Data for a younger demographic
is not yet represented because they typically don’t yet own a property.

The trend is obvious, showing that younger generations are more reluctant to work
with an agent. They would rather list as an FSBO and hope to sell their property on
their own. In several conversations, it transpired that there’s no reason to work with
an agent anymore. Commission is deemed as being too high and working with an agent
as time consuming. While most would think that an agent should save time some
respondents didn’t agree. Those who already had an experience with an agent knew
that instead of just buyer and seller meetings they would also need to include an agent -
which makes the co-ordination harder. Real estate agents and companies on the
market need to find a new value proposition for the younger generations. While the
older population is used to going to agent (as they had to – agents were the ones who
held the critical information) the younger generation is not. The internet has made
information readily available and agents don’t offer enough value to some sellers –
especially those who are active online as they can do their own research.

**Expectancy**

The expectancy variable was only marginally significant but it shows that the higher
the service expectancy the more likely people are to list with an agent. If the expectancy
measured on a scale 1 to 5 is one point higher it is 1.5 times more likely that people will
list with an agent – given that the other variables are held constant. Expectancy is very
subjective and by its definition it’s hard to measure. In the theoretical section of this
thesis, it was mentioned that the service expectancy of people is among the lowest in
history. Research didn’t prove that and rather proved the opposite – people’s
expectations are quite high with the mean of 3.67. If people want a better service and
care they turn to agents. They often realize they are not experts in the field as indicated
in the questionnaire.

When choosing an agent, people indicated that they mostly look at their services and
their quality. According to the survey they want to know what services they pay for and
the services offered are one of the main reasons why they choose one agent over
another. The mean for this question was 4.21 of a scale from 1 to 5. On the other hand,
the least important factor is the experience and history of the real estate agent with a
mean of 3.29. It’s quite interesting because perfect service usually comes with
experience. One is extremely important and the other is less so. For people who listed
as FSBO the commission of real estate agents is too high. They think they can save
money on commissions by doing everything themselves. The mean for questions about
the commission was the highest - close to 4. On the other hand, they often see some
value in services of real estate brokerage and know that they cannot do everything
themselves.
**Education**

Research showed that the higher the level of education the more likely are people to list as FSBO. As the respondents were only Prague citizens the average educational level was high – most respondents had some sort of university education. The more educated people are the readier they feel to tackle the challenge of selling as FSBO. They can usually undertake their own research and learn some much needed information. Quite interestingly, few of the respondents valued their time and realized the time investment needed for property sale. However, they still decided not to list with an agent for various reasons. In general, education is one the options for targeting in online marketing and this information could be used in the business plan formation.

**Reasons to sell**

Figure 11 shows the reasons why people were selling their property. The total number of responses was 111. The biggest reason is moving to a new location followed by value appreciation and inheritance. Moving typically involves two common situations, as understood from interviews. The first situation is that a family want to move to a bigger place – their current property is too small. It is usually because the family has expanded. Those people often want to finance the purchase of the new property from the sale of existing one. At the same time, they feel the need to co-ordinate the sale and purchase well to prevent the troubles. The second situation is when children leave their older parents. The parents suddenly realize that the place is too big for them – it’s hard to maintain and some space is unused. They would prefer something smaller with less maintenance or they would like to relocate to the countryside. The model showed that when people move they are more likely to list with an agent. They often hire an agent to co-ordinate the selling and buying of a property. On the contrary, when the reason is value appreciation, people are more likely list as FSBOs. The model where moving was exchanged for value appreciation proves that.
Quite interestingly, value appreciation accounted for 25% of the cases and family problems and financial distress only for 9% combined. While family problems and financial distress are common reasons to sell, they were not represented much in the responses. It might be because Nexter don’t yet attract those people through online sources. Perhaps new lead magnets can be created to attract this group. Another reason is that people were not willing to share this information.

**How do people find agents?**

People who listed with an agent were asked how they found their agent. Interestingly, as seen in Figure 12, the majority found their agent online. Other options were through recommendations, personal relationships and being contacted by an agent. All the respondents in this segment were from the Nexter database and as such they might not represent the general population. Almost all the Nexter clients indicated that they found an agent online. Nevertheless, it shows the growing importance of the internet in relationship building. The internet and personal recommendations cover almost 70% of the cases. The majority of people who were interviewed by telephone indicated that they started their search online. They didn’t directly start looking for an agent but they read about the current market, then checked properties for sale in the neighborhood.
Figure 12: How do people find agents

**Finding Agent**

<table>
<thead>
<tr>
<th>Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet</td>
<td>44%</td>
</tr>
<tr>
<td>Recommendation</td>
<td>19%</td>
</tr>
<tr>
<td>Personal relation</td>
<td>22%</td>
</tr>
<tr>
<td>He contacted me</td>
<td>14%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: Analysis conducted by the author

**Listing as FSBO**
Those who listed with an agent were asked if they thought about listing as FSBO. The majority of the respondents answered that they did. Very often they even listed as FSBO but in doing so they realized that they cannot solve some obstacles themselves. In the end, they decided to turn to agents for various reasons. The most common reason seemed to be the fear of making a mistake and not knowing the specifics of transactions. They would rather hire an agent to minimize the risk and save the struggle.

This clearly indicates the trend of FSBO listing. It came up again that people generally don’t trust agents and the real estate brokerage market does not have a good reputation. Several respondents in the telephone interviews spoke of their dissatisfaction in working with an agent but explained that they didn’t have any other choice – their house was not selling.

**FSBOs finishing transaction**
In the theoretical section of this thesis, it was mentioned that some sources claim that only about 10% of people who list as FSBO truly finish a transaction on their own. While better statistics are missing and the sample was limited, some people turned to an agent in the process of the sale. They realized there was some part of the process they were not equipped to deal with, for example they couldn’t set the price of the
property properly, or they didn’t know how to assess buyer solvency and so on. At the same time, after listing as FSBO tens of agents called them to persuade them to re-list with them. FSBOs often become angry with these callers, or turn off their phones to avoid them, having a negative effect on getting real buyers. Another common practice is that people list without their phone number. This again limits the number of potential buyers as it is not easy to contact FSBOs. The above-mentioned reasons might result in FSBOs having trouble selling their property and turning to agents who often claim they already have a buyer - which they don’t. The overall satisfaction of FSBOs with a transaction is often low after going through the process, which at times can be stressful. More precise statistics would help to confirm these assumptions but this is a general impression after phone interviews and having some market experience.

3.2.6 Summary of the research
Research helped to uncover several factors that can be used in the formation of the business plan. Firstly, those from the younger generation and those more educated don’t see the value in hiring an agent. They view the commission as too high for an average service. On the other hand, they rarely finish a transaction truly on their own and they often turn to someone for help. Some sort of service between brokerage and FSBOs might be missing. Age and education in particular can help to explain the listing decision. The research findings can help to define target groups and offer more relevant services to the right customers.

Secondly, respondents mostly search and look for information online. They start with their own research and follow various sources. The decision to sell a property takes time and research. While Nexter attracts clients who are moving or selling because of value appreciation it might be lacking with the group of people who are selling because of financial distress or family issues. These are two common reasons to sell and they are not represented in the responses very much. The marketing or content might not be appealing to this segment of sellers and they are not willing to exchange contact information for one of the lead magnets the company offers.
3.3 Business model canvas

Figure 13: Business model canvas

3.3.1 Customer segments

Two main customer segments were identified. The job which needs to be done is very similar in both segments. However, some are more likely to list with an agent and some are more likely to list as FSBO. Research findings help with customer identification. It’s also crucial to point out that Nexter should focus on the sales of secondhand properties between 2-10 million CZK of value.

Before customer segments are presented typical uses cases for selling a property will be examined. They are: the birth of an offspring, death in the family, marriage issues, and ‘empty nests’ – meaning children leave their parents resulting in an investment decision. Apart from investment decision, all other reasons usually represent a hard and emotional time for a seller. In terms of demographics, the birth of an offspring situation is typical for people aged around 30. They want to sell their first house to move to a bigger one. These houses are usually smaller and will sell fast. These sellers are active online and usually adapt to new technologies easily. Death in the family is linked to inheritance - these properties are often being sold because no one wants to...
live there. This clientele is formed by people usually aged around 50 to 60. Marriage problems and divorce are other reasons for selling a property if a couple can no longer live together. ‘Empty nest’ is a situation when children leave the family and parents find the place needs to much maintenance or is simply too big. They often sell their place and move to the suburbs or to a smaller place. The next case is financial distress, where a property being sold is a way to pay off debts. An investment decision is the more straightforward and rational one. The decision is based purely on prices and other emotional factors are not considered. Aside from investment decisions, selling a property usually involves emotions or sentiment.

**50+, less educated, moving (sellers)**
The first customer segment identified is formed by those who want to sell with an agent. As the research indicated, older and less educated people are more likely to turn to agents. A typical reason to sell within segment is relocation – in these cases people are very likely to use an agent since it’s quite hard to co-ordinate a sale and a purchase. As was mentioned above, this segment is formed mostly by people in empty nests or with an inheritance situation. This segment will be referred to as sellers.

**30-50, more education, investments (FSBO)**
People within this segment are more likely to try to sell the property on their own. They often realize and admit to not being experts in the field but they want to save on the commission charged by agents. They believe that with help of a lawyer or a relative they will be able to finish the transaction. Some of them do see the value of real estate broker but they feel that their commission is too high and this prevents them from choosing to work with them. At the same time, they might already have had a negative experience with an agent. Research has indicated that in particular, younger and more educated people fall into this category. A typical reason to sell is value appreciation. This segment will be reference to as FSBO.

### 3.3.2 Value proposition

Value proposition distinguishes between two customer segments. It differs for sellers and FSBOs. For sellers, the value proposition is top value for a property, satisfaction guarantee and a transparent pricing and process. For FSBOs it is saving money and having support along the way.

**Top dollar for a property**
The biggest value that Nexter can deliver is selling a property for maximum value. It possesses a unique tool for price estimates and uses an external home stager that prepares properties for sale. Home staging is believed to increase the selling price by a few percent. Regarding pricing, it’s better to set the market price from the beginning. Testing the market with a higher price does not work. Buyers will find the listing and mentally reject it because of the price. When the listing is on the market for a long time buyers will notice they are seeing the same ad again and again. They will naturally think that something is wrong because the property has not sold. Even when the price drops it’s not enough for them to become interested. At the same time, they might
demand further discounts. The best time to hit the market is right at the beginning with the market price. Nexter’s unique tool makes sure that most of the properties are priced to sell for highest price.

**Satisfaction guarantee**
Most of the sellers have a negative view of the real estate market. They might be reluctant to co-operate with agents and they try to minimize the risk by doing their own research or by checking the contract with their lawyers. Nexter offers a satisfaction guarantee. The common practice is also to sign an exclusive deal for three or six months – meaning that a client must remain with the agent. Satisfaction guarantee might thus be incorporated into the contract. The contract could be ended within one week without questions asked. Even though the company invests in home staging and professional photos, clients are able to end the contacts when something is wrong. Nexter intends to be an authority that guarantees a certain quality of service.

**Transparent pricing and process**
Commissions and the process of real estate transactions are often not transparent. The process is overly complicated and unclear. Some companies on the market claim that sellers pay no commission which often results in even higher commission than in brokerages that are transparent. Commission is always paid from the value of the seller’s property. Even though some clients might prefer “no commission” brokerages, Nexter believes that transparency can be of big value to some clients. Commission is fixed at 2.99% which is among the lowest on the market. It supports the proposition of getting highest price for a property and is transparent. At the same time, due to software and internal systems, clients are always being told what step is next. From the start, sales people should set clear expectations about selling with the company to their clients.

**Support along the way**
It’s hard to sell as an FSBO usually because people find themselves in situations which they cannot solve. They want to - and need to - have someone on their side who has experience. Most FSBOs are not happy about turning to agents, but currently there is no alternative. FSBOs can be given online tips and email or phone support that will guide them through the transaction.

**Save money**
When FSBOs want to sell their property, they need to advertise. For that they need listing presentation. Quality photos can increase the price of the property as many buyers start their search online. Advertising needs to be paid for and might be quite costly for an FSBO. Nexter can offer listing under its name, saving the FSBOs money. Due to the volume, photos are cheaper than the standard market price, and so is advertising. FSBOs can be offered part of the services that Nexter uses in bulk and savings are passed on to the customer.
3.3.3 Channels
There are three main channels that the company uses to deliver value and maintain relationships. The first one is online advertising and communication. This is mostly used to acquire clients and build an indirect relationship through content and branding campaigns. Secondly, field sales are employed. As selling a property is often linked to a pivotal moment in life, a human touch is sometimes needed when managing transactions and interactions. Lastly, a call center that fills the hole between online advertising, communication and field sales.

Online advertising and communication
Online ads and communication are mostly used to acquire clients and deliver FSBO service. Clients are usually offered something of value in exchange for contact information. Once the client is moved into a different stage in the funnel, different types of online communication and advertising is served to them. The main platforms used are Google AdWords, Sklik and Facebook advertising as well as email.

Field sales
Because the sales funnel is quite complex and the total value of brokerage services sold is relatively high, a field sales team is employed. The goal is to move most of the process online and remove as much human to human interaction as possible. The human element is still critical though – especially in selling the service and in relationship building. People are still not ready to buy the full brokerage service online.

Call center
A call center is used for two main reasons: acquisition and support. Some leads generated need to be followed up on and the person may need to be persuaded to meet with a sales person. A call center can also handle inbound calls for viewings of properties etc. At the same time, a FSBO service would require some support and that can be phone based.

3.3.4 Customer relationships
The company tries to maintain its relationships in two distinctive ways: by automation and by personal assistance.

Automation where possible
The goal is to automate as many communications and customer relationships as possible. It improves the quality of a service and helps agents be more effective. Nexter intends to automate the less critical parts of relationship building. For instance, the weekly report is sent automatically – saving agent time. At the same time, communication with FSBOs should be as automated as possible.

Personal assistance of an agent
To maintain a relationship with a seller, personal assistance is needed. It has already been mentioned that the sale of a properly is usually linked with pivotal moments in
life and human interaction and therefore support might be needed. Personal assistance and relationship building is also critical for getting recommendations.

3.3.5 Revenue streams
The company can make money from three main sources: brokerage fees, payment for service and mortgage fees. All sources of revenue come from different types of customers.

Brokerage fees
The first revenue stream is most obvious one: real estate brokerage would make money from brokerage fees. Nexter sets the fee for 2.99% out of the sale value of the property. The advantage for the sellers is that the money is received by Nexter only after the transaction is in progress. It was received when the buyer made a deposit to buy the property. On the other hand, the prices of properties are currently relatively high, and the amount received from a commission is not insignificant.

Payment for service
The second type of revenue stream is payment for the service. Nexter could offer a service for the FSBO. Fees would be paid upfront and the customer would know exactly what they are getting for their money. However, compared to brokerage fees, payment for service would account for a smaller portion of the total revenue, especially at the beginning. Benefit of this payment is positive cash flow – no services would be offered before the money is received. On the other hand, money from one transaction and brokerage fee is way higher.

Mortgage commission
The third type of revenue stream is the mortgage fee. When Nexter has a lot of listings for sales it will naturally attract buyers. One listing might appeal to around 5-10 buyers. There is a potential to offer the services of a mortgage consultant who’ll try to close the mortgage agreement. While the process is not fully controlled by Nexter and the client is relayed to third party, it makes a nice additional income. Usually, commission on the market is around 0.6 - 1% of the total value of the mortgage.

3.3.6 Key resources
Key resources that the company possesses can be divided into three categories: data for price estimates, internal systems and know-how.

Data for price estimates
Data for price estimates is a critical resource that the company should possess. They are crucial to estimating property prices. If pricing is done correctly it helps to get highest price for the property and reduces the time on the market. It results in shortening the cash cycle. Analyzes on top of the data is another crucial part of the business model. When prices are estimated well it also helps to manage the
expectations of the seller. If the price recommended is too high and the property does not sell, the owner will be very dissatisfied.

**Internal system**
To support the business model, internal systems need to be in place and well set. The company plans to offer services for 2.99% which is among the lowest on the market. To be profitable the company needs to be efficient and automate work typically carried out by a human. Automation has already been mentioned in the customer relationship section of the thesis and the internal system might help with this process. Specifically, the internal CRM tool is extremely important.

**Know-how**
Lastly, know-how is crucial in brokerage business. The goal for the company should be to collect and store relevant know-how so that anyone in the company can use it to their advantage. With the use of an internal system, the company should set processes and methods to collect information from all the agents and situations they face. Thus, all the other agents might learn the lessons from the experience of others. At the same time, training materials for new employees should be created and provided. All employees will be representing the company while meeting and negotiating with clients.

### 3.3.7 Key activities
Lead generation, internal system development, employee training and sales are the key activities of the business. All key activities are needed to make other elements of the business model work.

**Lead generation and sales**
The theoretical section of the thesis mentioned that lead generation is one of the most important factors in the business of real estate. In traditional brokerages, agents generate leads by themselves. While some agents can perfect their lead generation they will have limits in other parts of the process. Nexter can generate leads centrally and then distribute them among agents. Without leads there’s no business and that’s why it is probably the most important activity the business will do. On the other hand, it’s not just about generating a lead. Leads must be turned into business and revenue – this is the goal of sales. Leads go through various stages in the sales funnel and different communication and care could is applied.

**Internal systems development**
Internal systems are one of the key resources the company should possess and thus they need to be set up and developed. Benefits to the business model were already described in the key activities sections. Both custom software development and working with third party services are part of this key activity.
**Employee training**

Another critical activity is employee training. The company employees will be in touch with clients most of the time and they need to represent the company well. At the same time, agents should possess the relevant sales skills and knowledge of real estate transactions. The higher the conversion the better the business will do. Training is not a simple task and it takes employees couple of months to learn the skills needed. It is an ongoing process and it should be one of the company’s top priorities.

### 3.3.8 Key partners

At this stage two key partners were identified: the mortgage expert and the property investor. Both will have a unique function to help the company generate additional revenue.

**Mortgage expert**

One of the revenue streams is commission from a mortgage. Nexter does not have know-how in that field but it has access to buyers. A win-win situation could be found between the company and a mortgage expert. The mortgage expert wants buyers leads and Nexter wants to make money. The company is in a better position because there’s a limited number of mortgage leads and almost all mortgage experts want them.

**Property investor**

Another type of relationship should be formed with a property investor. Customers sometimes demand a fast sale for their property. In this case, they usually understand that to sell fast they need to provide a discount. A property investor is someone who can pay in cash and simplify the process or speed up the transaction if the client wants it. This partner can also be used to solve non-standard situations.

### 3.3.9 Cost structure

There are four main types of costs: acquisition, transactional, administrative and software costs. All have a certain significance for the business model and they vary in size.

**Acquisition cost**

Customer acquisition and lead generation are critical activities in the business model. Lead generation does not come free and the company would have to pay a significant amount to generate contact information and acquire customers. Acquisition costs are among the highest costs a business can have.

**Transactions cost**

Once the client has signed a contract the process of selling a property takes place. After the buyer decides to buy the property the transaction must be processed. The transaction cost covers the cost of preparation for sale, professional photos and home staging, advertising costs, agent’s fee and payment to lawyers and any governmental organizations.
**Administrative**

Administrative costs are the costs that cannot be directly linked to the customer. Both acquisition and transactions are variable costs which are directly linked to customers. Among administrative costs are rents, management costs, employees and consulting costs.

**Software costs**

Finally, as the company depends on third party services and develops its own software, these costs need to also be considered. Software costs cannot be linked to customers but should help to increase the efficiency of the agent and the process.

### 3.4 Business plan

#### 3.4.1 Executive summary

**Introduction**

It is generally known that people spend around 30% of their income on housing. Selling and buying a property is usually connected with a pivotal moment in life: the birth of a baby, the death of a family member, a divorce and so on. Although the market usually follows the economic developments of society, people will be always buying or selling properties. There is room for a service that helps with the real estate transaction and supports people in those pivotal moments. Currently the quality of existing services is quite low and as the research showed, the younger generation is looking for alternative ways to sell their properties.

**Company description**

Nexter was founded by Michal Makoš and Hynek Husník with the idea to simplify and remove the frustration out of real estate transactions. The company wants to combine the best technologies with the best agents while helping clients to make optimal decisions. It invests in software development – for instance by creating a unique machine learning tool for property price estimates. The founders have known each other for several years. Both are working full time. The company employs around 10 people, with most of them working full time. Their initial business idea was different and by experimentation the founders have found potential in the real estate brokerage market. Nexter as a company can be characterized by four unique features: no offices, being data driven, openness and process separation.

**The management team**

The management team is formed by the company’s two founders, Michal and Hynek. Hynek lead a startup called Storyous where he managed a team of 50 while serving as CEO and head of products. He is responsible for operations, finance and software development. Michal has experience from the online Q&A portal Porad.cz where he
managed a small team of four. Following this he worked for Avast, overseeing the
global sales of Avast Cleanup. He is responsible for sales and marketing.

**Marketing and sales plan**
The goal of a marketing and sales plan is to turn the traditional strategy of annoying
people around. Nexter wants clients to come to them. It does so by helping clients to
solve their problems, by giving first and asking second. The company has a central lead
generation system and they acquire leads with the use of various lead magnets.
Something of value is offered to clients in exchange for their contact details. These
leads enter a sales pipeline and are further nurtured. Nexter relies heavily on A/B
testing and experimenting and they constantly improve their flows and conversions. In
the case of service for FSBOs, customer segment identification and upsells are critical.

**Industry analysis**
The real estate brokerage industry is defined by its fragmentation with a lot of players
and low net promoter value. Entry barriers of the industry are minimal and almost
everyone can enter the industry. The overall rivalry in the industry is high. The
competition to get and capture seller leads is intense. On the other hand, buyers and
suppliers are usually not as powerful as they are in different industries.

**Service offered**
Nexter focuses on two main services targeting two customer segments: brokerage for
those who want to sell with an agent and a low-end service for FSBOs. Brokerage is
transparently priced, clients can end the contracts when not satisfied, and property
should be sold for the highest price. The service provided for FSBOs is intended to hook
a client up by offering services for a low price, while building a relationship and
upselling higher margin services which they would need anyway.

**Financial projections**
The business is expected to make 8 million CZK in revenue in the first year. Net income
will be slightly negative. In second year, revenues should hit 16 million CZK with 1.4
million CZK net profit. In the third year, the revenues and net income should grow to
27 million CZK and 3.7 million CZK. Because the business is quite cash intensive it’s
important to watch the cash balance which will be negative in year one.

**Milestones**
8/29/2016 – Company was founded
9/03/2016 – First contract with client signed
1/14/2017 – First transaction finished
2/21/2017 – House price estimate tool goes live
4/01/2017 – Team grew to 10+ people
5/01/2017 – 10+ clients signed in one month
5/01/2017 – 5 properties sold in one month
3.4.2 Industry analysis

Market
It is estimated that around 100,000 properties are being sold on the market each year. From that around 7,000 are sold in the primary market – meaning that properties are new and are being sold by developers. That leaves more than 90,000 properties sold every year in the Czech Republic. It is estimated that Prague and the central bohemian region account for approximately one third of that number. It leaves the size of approximately 30,000 properties sold. Approximately third of the cases go through real estate brokerages. The rest consist of changes of ownerships within family, people selling as FSBO, auctions or confiscated properties sold by banks and so on (Zuzák, 2017).

Suppliers
Firstly, it’s important to define the suppliers for a real estate brokerage company. The suppliers are those whose services the company uses – in this case it’s mostly agents. Other types of suppliers could be lawyers, photographers and home stagers. Overall this force has little power. The bargaining power of individual suppliers is not particularly strong. They don’t belong to a union and if one is not willing to supply the service the company will simply switch to another supplier. The critical part is to choose the agents/suppliers that will offer a quality service. Force is favorable and it’s typical for individual agents to receive around 30% of the commission – the rest goes to the brokerage firm.

Buyers
The power of buyers depends to some extent on the market situation. Real-estate is a cyclical industry and when the market is high with a low inventory buyers have certain power since they can choose an alternative brokerage. On the other hand, if they need to sell in a low market they might not have many options. Overall, the cost of switching from one agent to another is quite low. This is under the assumption that the buyer didn’t sign an exclusive contract for many months. Although buyers are certainly more powerful in the market with low inventory and high prices they are not able to affect the commission too much. They might negotiate a bargain when the market works in their favor but the power of this force is low/medium.

Substitutes
A substitute for selling a property is a rental. However, in certain situations such as when people really need to sell, renting the property is not an option. The substitute for the agent is to sell the property as FSBO. However, only a small portion of FSBOs truly sell by themselves and most of them eventually work with an agent. The threat of the substitute is present because people want to save on commission and sell on their own but they rarely do. Now, this force is low/medium but the trend is clear and substitutes will occur as the market reacts to new demands from the younger generation of customers.
New entrants
The industry is not regulated in the Czech Republic and as such it’s extremely easy to become an agent. While it’s extremely easy to enter the market it’s much harder to generate a business. The threat of new entrants is high. There is no significant entry barrier that prevents other subjects from entering the market. This force significantly affects the overall profitability of the market. The main advantage that incumbents have over new entrants is know-how and in some cases a trusted brand. The only barriers that exist are geographical ones. Real estate requires some local knowledge and it’s usually hard to scale activities geographically.

Rivalry
Overall rivalry in the industry is high, and easy entry to the market heats up the competition. In a sellers’ market there is intense competition to find sellers and in the buyer’s market there is pressure to find and secure buyers. The industry is highly fragmented with a lot of players. While there are big players operating in the whole country they usually face local competition. Nobody has tried to consolidate the market yet or made steps towards it.

For instance, when people list as FSBO they immediately get around 60-70 calls from agents offering their services. In the seller markets, it is extremely difficult to find and secure sellers. A lot of time, effort and money is invested in this activity. Rivalry has a negative effect on the profitability of the industry. At the same time, it is extremely complicated to stand out and customers usually don’t see major differences among brokerages or agents.

3.4.3 Marketing and sales plan
One of the key activities in a real estate business is lead generation and conversion of those leads. Nexter marketing strategy intends to be inbound based. Helping clients at certain stages of their decision-making process, building a relationship and asking to co-operate at the right moment can be extremely effective. The goal is to have a scalable, measurable strategy. It is believed that the best way to reach customers is online. AdWords, Sklik and Facebook advertising platforms will be used as a paid channel. At the same time, content creation and emailing will be an organic channel. In general, the sales and marketing process is a funnel with several steps: lead generation, lead qualification, sales and after-sales.

Lead generation
Marketing strategy is built on lead generation tactics. Clients should be provided with something of value in exchange for their contact information. Lead generation might have several steps because some clients may be reluctant to give their contact information right away without knowing and trusting the company. Thanks to the options in online marketing, clients can be segmented and exposed to relevant offers.
From the start, it is crucial to decide what audience will see the ads. Ads can deliberately target people at certain, pivotal stages of life. Later, lookalike\(^7\) and remarketing audiences could be leveraged and may prove more effective. A good strategy is to create top of the funnel content in the form of advertisement - this can be the most shared article on the blog. Only those who showed interest in the article will be presented with one of the lead magnets. Another strategy is to write content appealing to search engines. All the traffic from a search could be remarketed and presented with lead magnets. Searching of and reading of articles would indicate an interest in certain topics.

When it comes obtaining contact information clients should be presented with interesting offers. The idea of a lead magnet has already been presented. Lead magnets can be:

- House price estimates
- Market reports
- Content upgrades for popular articles – e.g. how to sell and purchase property at the same time
- Cheat sheets
- Free classes on how to buy or sell a home

As the research indicated, people in financial distress and with family problems could be targeted as well. The best strategy of how to get these leads would be to use content upgrades. While experiencing financial distress or family problems, people search for solutions and they can be offered. In particular, content about property settlements have been identified as the right one to create and test.

Clients should be segmented by past interactions and presented with more relevant offers. For certain types of clients, different offers will be more effective. At the same time, clients are usually reluctant to give out their contact information. For instance, a house price estimate can be given out to users for free. This could be followed up with a question referring to if they want to receive the updated price monthly – in exchange for their email and phone number.

**A/B testing**

In some cases, it is almost impossible to guess how certain strategies would work. It is crucial to A/B test all steps in the lead generation funnel. Testing should involve audiences, placements and creatives – in that order. Also, different combinations of audiences, placements and creatives can point to a different landing page with different propositions or lead magnets. The only way to learn how to get systematically better is with the use of A/B testing. Of course, there will be a lot of failed tests, but conversions will improve in the long term.

\(^7\) Facebook and Google provide technology that allow to target similar people from the seed audience.
**Remarketing**

An extremely important part of the marketing plan is remarketing. Users who didn’t provide the contact information as well as those who did should be remarketed. This strategy can be very effective. Remarketed audiences should see different advertising – for instance with a stronger call to action or sense of urgency. An interesting strategy is to remarket to people who gave their contact information and are thinking about the sale of a property.

The decision to sell an apartment does not happen overnight. It usually involves a lot of steps and research. Nowadays the research is mostly done online. The behavior of clients who provide contact can be influenced. Online platforms like AdWords or Facebook allow advertisers to reach a huge amount of people and set the frequency of the messaging. Clients who gave their contact information and indicate interest in selling their property are extremely valuable and yet they can be reached at little cost. They should, for instance, see happy clients, positive references and so on.

**Lead scoring**

Generating leads from different sources creates a pain point – especially when the lead is processed offline. Leads are processed offline as they go through the call center and sales. There are a lot of offline interactions in the funnel. Simply optimizing for price of the lead is not enough because two leads do not hold the same value. For instance, a lead from Facebook can be significantly more valuable than a lead from AdWords. Similarly, a lead from a house price estimation tool could be more valuable than a lead from a content upgrade. Proper measurement strategy and lead scoring is required in this case. Without it, the campaigns could not be optimized.

Lead scoring will take into consideration:

- Source of the lead
- Lead magnet
- Behavior
- Any other relevant information

The business is not interested in generating leads but in converting those leads into sales. Some leads might be harder to convert than others. A higher price for a lead could be paid for better converting leads. Measuring the offline part of the business is not an easy task. Internal CRM and Google Analytics should be integrated to provide valuable information about lead quality. Campaigns can be optimized with a lead score in mind. At the same, some leads might not be converting at all. The ideal scenario is not to generate those leads but if those leads are generated they should not be followed up on by the call center. The principle should be to minimize the mistake at the lowest value stage.

**Lead qualification**
While lead scoring is mostly used to optimize campaigns, lead qualification is a process to assess whether a lead is sales ready or deserves some more nurturing. It would be ideal to qualify the lead automatically with the use of analytical tools and software but it’s not yet possible. A lead should be qualified by call center operators. They would call clients and ask them questions to discover whether a lead is ready to be relayed to the sales department. Again, the minimization of the mistake at the lowest value stage should be used. It’s much better to reject the contact by the call center then arrange a meeting for the sales person just to find that the person is not thinking about selling their property.

Items that should be checked on the phone:

- Ideal timeframe
- Authority of the person
- Need to sell
- Overall situation
- Whether they plan to list with an agent or as FSBO
- Price expectations

Sometimes this information can be hard to obtain on the phone but a meeting should be offered and arranged only after knowing the lead is qualified. The phone call should be conversational and the goal is to qualify the person on the other side. Qualification is best done by asking questions about the person’s situation, timeframe and so on. As the recipient of the call has already received something of value they will give the call center operators some attention and usually won’t reject the call right away. At the beginning of the call, it’s important to explain why the call has been made, followed by the qualification part and finally by offering further action that makes sense for both sides. If the person is qualified a meeting should be offered. If they are not ready yet but might be later a next call should be scheduled to build on the relationship. If they are not ready and won’t be, all expensive types of communication should be ceased. Regarding relationship building, the company should send relevant emails and include the lead in one of the remarketing audiences.

**Sales**

Qualified leads should be handed on to sales/agents. Initially, it’s important to inspect the quality of the lead and sales should decide whether to accept the lead or not from there. If they do accept the lead, a meeting should follow. Proper preparation is crucial. The purpose of the meeting is to sign a contract to sell the property of the seller or potentially offer the FSBO service. The meeting should follow a clear structure. The first step must always be to confirm the motivation of the seller and talk about what is already known. The second step should cover the client’s experience with real estate agents and real estate transactions. Once the motivation, experience and other important factors are identified, a presentation should be made. The sales
representative should present the service that best matches the client’s motivations and previous experience.

The presentation could either involve one or two steps. A one-step presentation involves the sales representative aiming to have contract signed during the first meeting. A good time for this seems to be after both parties have agreed on the selling price. A two-step meeting refers to occasions where only the motivation and situation of the seller was acquired at the first meeting, and contracts will be signed during the second meeting. It seems critical to try to obtain a signature immediately after the price discussion but only if the two parties have agreed on a price. Another critical consideration for a sales representative is to set clear expectations about the service quality, future steps and price. If clients want too high a price for their property the deal should be turned down as it will create more problems along the way.

**After sales**

Once the deal is finished, both the seller and the buyer should be contacted couple of times. There are two main goals: getting valuable feedback and recommendations. Feedback is critical for improving the quality of the service. Recommendations are a strong channel for growth and should be used to their maximum. The research has indicated that people found their agent mostly through the internet and recommendations. Agents must ask for recommendations during and after the transaction. The lifetime value of the customer will then be increased.

The ideal scenario is to call the client several times after completing the transaction and ask for feedback and recommendations. Interestingly, people are usually surrounded by friends in a similar situation. When a family is expecting baby, they know others in the same situation. There’s a great potential that both families will be selling. Once three to four follow up calls has been made clients should be called again on their birthday to remind them of the good service and care they received.

**Upsells for FSBO**

Listing as FSBO is gaining popularity but as it is already known very few of them finish the transaction on their own. The goal is to provide them with a very cheap service initially. For instance, advertising on a major real estate portal and eliminating annoying agent calls. Of course, this depends on the service package – more details about the service for FSBO could be found in chapter 3.4.5. The price of advertising should be lower than what it would cost a person to do on their own. Online tips and advice are also part of the package. Once the client is advertising there is a potential to upsell to him. He should be receiving personalized tips to enable him to sell the property for a higher price. He should be offered all the services of real estate brokerage in installments. By the end of the process, he might have paid for all of the services of a real estate brokerage but still have the feeling that he sold his property as FSBO. This concept has been tested in a pilot and FSBOs usually want to save on commission and have someone who’ll help them when needed. This help should be upsold in the process.
**Pricing and positioning**
The price of the service should be transparent and fixed. At the same time, commissions and prices for services should be reasonable. Commission for the full brokerage service can be 2.99% of the selling price and the price for services should entail at least a 30% profit margin. In terms of positioning, the company should be viewed as the best overall solution. Good quality service for an affordable price. Some distinctions between traditional companies and Nexter may be created. Nexter should be viewed as younger, faster and more open.

### 3.4.4 Operations plan
To be as efficient as possible, own and third party software needs to be used and properly set up. As a CRM tool Pipedrive will be used. Aircall will be employed for phone calls, Slack for internal team communication, Typeform for information exchange and Campaign monitor for transactional emails. The company’s own software will be used for house price estimates, KPI’s tracking and booking meetings for sales people. These tools will be connected by Zapier which allows to connect API’s of those services. The company’s own software tool should be developed to minimize the commute times for an agent and to help plan their time. This would allow them to be much more efficient than traditional agents and do much more in less time.

All these tools will help to deliver quality service, quickly. For instance, after the client has signed the listing agreement the property needs to be prepared for sale and it needs to be photographed. Right after the deal is signed, an agent will book a home stager and photographer who will prepare the listing. Once the listing is done and the client approves it, it goes to market. Minimal preparation time is desired. Once a buyer has been found the deal is relayed to a transaction coordinator who has experiences with legal issues and transfers of ownerships. The goal of operations is to reduce the time it takes to perform all the operational activities and finalize the commission payments as fast as possible.

Nexter won’t have any offices or facilities in the near future. It is built on the concept of a remote company. The most valuable equipment is the software that allows efficient collaboration of the team. The company does not have any physical inventory but there are deals in the pipeline that can be thought of as inventory. The traditional production concept will be used to manage the inventory. There should be a thorough inspection at any point during the journey of a deal. Work-in progress should be minimized and bottlenecks identified and dealt with.

### 3.4.5 Product or service
This section of a business plan covers the products and services offered by the company. There are two main services: brokerage and sell as FSBO.

**Brokerage**
Brokerage is the service with highest margin, but on the other hand, it is not an easy sell. It should be offered for 2.99% of the selling price of the property. The brokerage service contains following subservices:

- Price analysis and recommendation
- Home staging
- Professional photos
- Advertising
- Communication with buyers and viewings
- Help to secure a mortgage,
- Home staging
- Legal services
- Services connected to transfer of ownership

These services are included in the commission and the commission money is received only after the house is sold. The terms of service should be as transparent as possible. Once the client has decided to co-operate, a listing agreement needs to be signed. If the client is not satisfied they can end the contact without giving a reason within one week. The agreements are exclusive which means the owner cannot sell a property with another agent while the contract is in use.

**Sell as FSBO**

Another type of service is communicated differently to the customers. The company processes transactions and its agents use some internal services like advertising, legal services and so on. These functions and services could be opened to the public. People selling as FSBO will usually need some support along the way. At the same time, when they list as FSBO they immediately get around 60-70 agents calling them on regular basis.

Therefore, two types of packages could be created for the FSBO segment – basic and standard. These packages would be priced differently and offer different services as indicated in the figure 26.
Intentionally, some services are left out and the price is quite low. FSBOs want to save on commissions but they still need some services. Securing these services themselves costs time and money. The goal is to hook clients up and send them personalized tips on selling their property. Clients will be also presented with the option to expand and pay for other services of a traditional brokerage: negotiating, better advertising, communication with buyers and legal services. People will think they are selling on their own but they will have a strong partner. The main benefit is that money will be paid upfront. This concept is being tested while writing this thesis. While there are hiccups, the results are positive so far although some further testing is needed. Price sensitive people who don’t want to work with an agent appreciate saving on advertising costs. They often also realize that some further support will be needed.

3.4.6 Risk analysis
In this section potential risks the company can face will be identified along with tactics on how to mitigate the risk proposed. The risk can be segmented into five main categories: market risk, imitation risk, cash flow risk, internal risk and client risk.

Market risk
The real estate market is cyclical and follows larger macroeconomics trends. Currently it is a seller’s market, which means there’s not enough inventory on the market and thanks to low interest rates the demand for properties is huge. The competition among agents and brokerages is heating up and sellers have many options. Th company is focused only on sellers and their acquisitions. When the market turns around and is in a position with many sellers and a limited number of buyers, the company might find itself in trouble, because it does not work with buyers at all.
Real mitigation of market risk is not an easy task and to some extent this risk cannot be mitigated. A step the company could take is to start offering value to buyers as well. Sellers are offered something of value for their contact information, then the seller leads are nurtured and sometimes turned into business. In a similar fashion buyer contacts can be collected and worked with. This is a completely new and unknown segment of the business, however. By this strategy both the demand and supply side will be balanced but it won’t help significantly against the market downturn. What might help is diversification among the regions of the Czech Republic which may partly mitigate the market risk.

**Imitation risk**
At present, the company’s unique resource is the know-how of lead generation and the nurturing of such leads. Because of the founders’ backgrounds and the controlled experimentation, they carried out, Nexter can acquire many sales leads in a month. However, despite having resources and skilled professionals, the competition can probably imitate the lead generation methods that are so critical to real estate. Increased competition will drive up the price of a lead and might make the business model less attractive.

There are several ways to mitigate the risk of imitation in lead generation. The first is to optimize the funnel so that conversions are higher, then pay more for an individual lead. This would likely discourage the competition as the channel will be expensive. Secondly, “free” organic traffic should be built. If people learn to go directly to Nexter.cz or if the company can capture traffic from organic searches and turn them into leads it will be very hard for the competition to imitate Nexter. The price of a lead will be very favorable and a higher price for paid traffic sources can be paid. Finally, technology might form another barrier as well. Right now, a house price estimate is a lead generation tool but if using this tool becomes standard on the market it will create a barrier as well. To do that the technology and solution needs to be user friendly and unique.

**Cash flow risk**
Another significant risk is a cash flow risk. The cash conversion cycle is extremely long, due to the amount of time it takes for a customer to come to a decision, and so the process of selling a property takes time. It can take up to a year for properties in a higher price range. The moment a lead is created, first money outflows are made. Once the lead enters a lead qualification stage it is handled by the call center operations and those employees need to be paid. Often, a lead stays in one of the stages that is handled by the call center. Once it is relayed to sales, the customer usually takes up to a month to decide whether co-operation makes sense for them. Low and mid-range priced properties are sold within couple of months. Higher priced properties take several months, or even years, to sell. Not only scaling but also keeping the process going puts extreme strains on cash flow and its management.
Dealing with cash flow problems can be done in three ways. The first is to shorten the cash conversion cycle. It has already been presented in the operation section of the thesis that the time between signing a deal and putting it on the market should be minimized. The same could be done when qualifying a lead and signing an agreement. Clients should be pushed to make their decision as quickly as possible. This can be done by incentives, limited discounts and so on. Finally, the house should be sold quickly as possible. This can be done by setting the price correctly.

The second option is to take money upfront for services. However, in the brokerage industry this is not common and it will turn potential clients away. The service for FBSOs might be a different though. It will account for the minority of revenues at first but it might initiate the process of reverting the situation. FBSO clients would pay for services upfront, and so the cash conversion cycle would go from months to days. It’s important to mention that clients of a traditional brokerage would not pay anything upfront. The problem remains but FBSO and the payment for services might make the cash flow bit more positive.

Lastly, cash flow risk could be mitigated by finding sources of financing. Banks and other institutions tend to finance physical inventories. While leads are not a physical inventory, some line of credit could be opened and risk mitigated in this way. However, this should be done only after the model is 100% proven to be working.

**Internal risk**

Internal risk is mostly connected to the employees of the company. Agents don’t need to find their own clients as is common in traditional brokerages. They receive a qualified lead and attend meetings to sell the service. Funds are invested in agents and their business opportunities. After an agent signs and works with a certain amount of people he can start getting business from recommendations. At that point, he might decide to found his own brokerage or buy a franchise. Clients will want to work with him again because of the direct business experience they have with him. While his start was paid for in the form of leads he might still decide to quit after a certain time. The brand of brokerage is not as important as the agent. Sooner or later this might eventually happen.

The first way to deal with this issue is diversification. Having more agents would help to mitigate the risk of one agent leaving the company and significantly affecting its bottom line. Other options are long term but should be considered. One of them is building a brand and becoming a standard in the market for real estate transaction. Being an agent in Nexter should be a huge advantage if the brand is strong and trusted. Another eventuality is to simplify the process of transactions and build services without which agents’ own service would be significantly worse. Now, the simplest way would be to distribute the leads to more agents and diversify the internal risk.

**Client risks**
By the nature of the service, clients can end agreements when they are not satisfied. Research indicated that clients expect an agent to sell their property. They don’t expect much else. If clients end the contract mid-way through the process it significantly hurts the company. Money has been invested in photography and home staging and these costs are recovered only when the property is sold.

This type of risk could be mitigated by setting clear expectations at the beginning and deciding who to work with. It’s better to turn down a client who wants an unreasonable price than to sign him, pay for photos and home staging and then be unable to sell his property. Another option is to set criteria for clients in risk. For instance, when no one books an appointment to see a house in fourteen days, extra attention should be given to that client. Usually, frequent communication and reporting of activities should be enough to prevent clients from ending contracts.

### 3.4.7 Organization structure and management

Currently, the management of Nexter is formed by Michal Makoš who oversees marketing and sales and Hynek Husnik who is responsible for operations, software development and finances. The goal is to stay as lean as possible with a flat organizational structure. The plan is not to create management levels, especially since the team of agents is expected to slowly grow. After going through the training to use the internal system they should be able to operate on their own. Agents are viewed as suppliers of services and as such the company wants to prevent micro management and managerial meddling. It is believed that if the system is well set agents are able to operate on their own. In the process of scaling human work should be automated – reducing the internal demand for man-hours.

### 3.4.8 Financial plan

A financial plan will first explain the unit economics logic of both services. Secondly, revenues and operating expenses are projected. Thirdly, the income statement is presented followed by the cash flow statement. A balance sheet will not be created because of its simplicity. Equity is 1 million CZK and long term debt is 1.5 million CZK. On the assets side, the cash in the bank account accounts for 2.5 million.

**Unit economics**

Firstly, the unit economics of both products will be presented. Unit economics will be used in further calculations. For the brokerage, the average commission is 130,000 Kč. Nexter focuses on properties between 2-10 million CZK in value. With the commission of 2.99% the average selling price is around 4.3 million CZK. The assumption made is that the average commission will stay the same. The prices of properties might vary in the future but the commission can change as well. The overall cost of brokerage is 83,500 Kč. It is mostly influenced by acquisition costs and the salary of an agent. An agent’s commission in Nexter is 25% out the company commission. Total earnings from brokerage service are 46,500 Kč.
Table 3: Unit economics agent

<table>
<thead>
<tr>
<th>Revenues</th>
<th>130 000 Kč</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commission</td>
<td>130 000 Kč</td>
</tr>
<tr>
<td>Costs</td>
<td>83 500 Kč</td>
</tr>
<tr>
<td>Marketing</td>
<td>20 000 Kč</td>
</tr>
<tr>
<td>Call center</td>
<td>10 000 Kč</td>
</tr>
<tr>
<td>Sales</td>
<td>32 500 Kč</td>
</tr>
<tr>
<td>Photos</td>
<td>3 000 Kč</td>
</tr>
<tr>
<td>Listing</td>
<td>3 000 Kč</td>
</tr>
<tr>
<td>Transaction</td>
<td>5 000 Kč</td>
</tr>
<tr>
<td>Legal</td>
<td>10 000 Kč</td>
</tr>
<tr>
<td>Earnings</td>
<td>46 500 Kč</td>
</tr>
</tbody>
</table>

Source: Analysis conducted by the author

It is estimated that the service for FBSOs would yield on average around 40,000 Kč. It assumes that services will be upsold successfully to customers. One customer will buy more than just the basic low-priced package. In terms of cost, acquisition and service costs need to be calculated. It is assumed that marketing costs will be lower compared to brokerage costs because the FBSO package will be low-priced from the outset and the commitment of a buyer is not high as in the case of brokerage service. The average earning from the service would account for 15,000 Kč per transaction.

Table 4: Unit economics FSBO

<table>
<thead>
<tr>
<th>Revenues</th>
<th>40 000 Kč</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commission</td>
<td>40 000 Kč</td>
</tr>
<tr>
<td>Costs</td>
<td>25 000 Kč</td>
</tr>
<tr>
<td>Marketing</td>
<td>5 000 Kč</td>
</tr>
<tr>
<td>Services</td>
<td>20 000 Kč</td>
</tr>
<tr>
<td>Earnings</td>
<td>15 000 Kč</td>
</tr>
</tbody>
</table>

Source: Analysis conducted by the author

Structure of operating expenses

All the variable costs have been added to the unit economics calculations. This section concerns operating expenses and contains the fixed cost. The structure of operating expenses can be seen in Figure 16. Operating expenses consist of management and employee salaries, software development, payments for third party software,
consulting, rent and others. The biggest cost, accounting for 30%, are the management salaries. Employee salaries form 22% and software development 19%. It is expected that operating expenses will rise by 30-40% every year.

**Figure 15: Operating expenses structure**

![Operating expenses structure](image)

Source: Analysis conducted by the author

**Revenue projections**

This section presents the revenue projection for the company. The revenues come from two main sources: commission from brokerage and from selling the FBSO service. For the purposes of this plan, mortgage fees have not been included. They are not part of the core business and would form an insignificant portion of revenues. Brokerage accounts for the majority of revenues. The company already offers brokerage services and has the know-how.

Table 8 contains revenue projections for the brokerage service. Year 1 starts from August 1st, 2017. It is expected that the conversion in the funnel will grow, both for leads to a meeting and meeting to signatures. AOV which stands for the average order value will stay the same over the course of three years. The growth of revenue is projected to be 75% between year 1 and 2 and around 50% between year 2 and 3.
Table 5: Revenue projection agents

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leads</td>
<td>3857</td>
<td>4352</td>
<td>4675</td>
</tr>
<tr>
<td>Meetings</td>
<td>270</td>
<td>392</td>
<td>514</td>
</tr>
<tr>
<td>Signs</td>
<td>68</td>
<td>118</td>
<td>180</td>
</tr>
<tr>
<td>Sells</td>
<td>54</td>
<td>94</td>
<td>144</td>
</tr>
<tr>
<td>AOV</td>
<td>130 000 Kč</td>
<td>130 000 Kč</td>
<td>130 000 Kč</td>
</tr>
<tr>
<td>Revenues</td>
<td>7 020 000 Kč</td>
<td>12 220 000 Kč</td>
<td>18 720 000 Kč</td>
</tr>
</tbody>
</table>

Source: Analysis conducted by the author

Table 9 projects the revenue from the FBSO service. Because it is a new project, a slow start is expected owing to the fact that a lot of unknowns need to be uncovered. However, a growth in years 2 and 3 is expected. As the company creates a footprint in the online marketing space the generation of more leads is expected. Conversion will steadily increase as well. For the purposes of planning, the average order value is expected to stay the same.

Table 6: Revenue projection FSBO

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leads</td>
<td>443</td>
<td>1122</td>
<td>2009</td>
</tr>
<tr>
<td>CNV</td>
<td>7%</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td>Signs</td>
<td>31</td>
<td>101</td>
<td>221</td>
</tr>
<tr>
<td>AOV</td>
<td>40 000 Kč</td>
<td>40 000 Kč</td>
<td>40 000 Kč</td>
</tr>
<tr>
<td>Revenues</td>
<td>1 240 000 Kč</td>
<td>4 040 000 Kč</td>
<td>8 840 000 Kč</td>
</tr>
</tbody>
</table>

Source: Analysis conducted by the author

**Income statement**

The income statement projection considers all presented calculations and projections. Revenues come from brokerage and the FBSO service. Cost of goods sold is calculated from the unit economics of a given service. Operating expenses are projected to grow by 30% every year with the goal to stay as lean as possible. In the first year, the company will suffer a loss. In year 2 and 3 the company will make 1.4 million CZK and 3.7 million CZK respectively in net income.
Table 7: Income statement

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>8 580 000 Kč</td>
<td>16 260 000 Kč</td>
<td>27 560 000 Kč</td>
</tr>
<tr>
<td>COGS</td>
<td>5 484 000 Kč</td>
<td>10 374 000 Kč</td>
<td>17 549 000 Kč</td>
</tr>
<tr>
<td>Gross profit</td>
<td>3 096 000 Kč</td>
<td>5 886 000 Kč</td>
<td>10 011 000 Kč</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>3 180 000 Kč</td>
<td>4 134 000 Kč</td>
<td>5 374 200 Kč</td>
</tr>
<tr>
<td>EBITDA</td>
<td>-84 000 Kč</td>
<td>1 752 000 Kč</td>
<td>4 636 800 Kč</td>
</tr>
<tr>
<td>Interest expense</td>
<td>0 Kč</td>
<td>0 Kč</td>
<td>0 Kč</td>
</tr>
<tr>
<td>Depreciation</td>
<td>0 Kč</td>
<td>0 Kč</td>
<td>0 Kč</td>
</tr>
<tr>
<td>EBT</td>
<td>-84 000 Kč</td>
<td>1 752 000 Kč</td>
<td>4 636 800 Kč</td>
</tr>
<tr>
<td>Loss previous years</td>
<td>0 Kč</td>
<td>-84 000 Kč</td>
<td>0 Kč</td>
</tr>
<tr>
<td>Taxes</td>
<td>0 Kč</td>
<td>348 840 Kč</td>
<td>880 992 Kč</td>
</tr>
<tr>
<td>Net income</td>
<td>-84 000 Kč</td>
<td>1 403 160 Kč</td>
<td>3 755 808 Kč</td>
</tr>
</tbody>
</table>

Source: Analysis conducted by the author

Cash flow
As already mentioned, the starting cash balance is 2.5 million CZK. 1 million is equity and 1.5 million is a loan from the founders to the business at an interest rate of 3%. Table 10 indicated that the cash flow in first year will be negative. At the end of year 3, the loan to the founders will be repaid but the cash flow will still be positive. It is assumed that for a brokerage service it takes around three months to receive the money once the contract with a customer is successfully signed. On the other hand, cash to suppliers and OPEX need to be paid in the same month. For the FBSO service cash will be received immediately. It is also assumed that spring and autumn are stronger in property sales than winter and summer.
Table 8: Cash flow statement

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash operating balance</td>
<td>2 500 000 Kč</td>
<td>1 424 000 Kč</td>
<td>2 392 160 Kč</td>
</tr>
</tbody>
</table>

**CF from operating activities**

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash receipts from customers</td>
<td>7 800 000 Kč</td>
<td>15 870 000 Kč</td>
<td>26 910 000 Kč</td>
</tr>
<tr>
<td>Cash paid to suppliers</td>
<td>5 651 000 Kč</td>
<td>10 374 000 Kč</td>
<td>17 549 000 Kč</td>
</tr>
<tr>
<td>Cash paid to OPEX</td>
<td>3 180 000 Kč</td>
<td>4 134 000 Kč</td>
<td>5 374 200 Kč</td>
</tr>
<tr>
<td><strong>Net cash from operating activities</strong></td>
<td>-1 031 000 Kč</td>
<td>1 362 000 Kč</td>
<td>3 986 800 Kč</td>
</tr>
</tbody>
</table>

**CF from investing activities**

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>0 Kč</td>
<td>0 Kč</td>
<td>0 Kč</td>
</tr>
<tr>
<td><strong>Net cash from investing activities</strong></td>
<td>0 Kč</td>
<td>0 Kč</td>
<td>0 Kč</td>
</tr>
</tbody>
</table>

**CF from financing activities**

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>0 Kč</td>
<td>0 Kč</td>
<td>-1 500 000 Kč</td>
</tr>
<tr>
<td>Dividends</td>
<td>0 Kč</td>
<td>0 Kč</td>
<td>0 Kč</td>
</tr>
<tr>
<td>Interest</td>
<td>-45 000 Kč</td>
<td>-45 000 Kč</td>
<td>45 000 Kč</td>
</tr>
<tr>
<td><strong>Net cash from financing activities</strong></td>
<td>-45 000 Kč</td>
<td>-45 000 Kč</td>
<td>-1 545 000 Kč</td>
</tr>
<tr>
<td>Taxes</td>
<td>0 Kč</td>
<td>348 840 Kč</td>
<td>880 992 Kč</td>
</tr>
<tr>
<td><strong>Net increase/Decrease in cash</strong></td>
<td>-1 076 000 Kč</td>
<td>968 160 Kč</td>
<td>1 560 808 Kč</td>
</tr>
<tr>
<td>Closing balance</td>
<td>1 424 000 Kč</td>
<td>2 392 160 Kč</td>
<td>3 952 968 Kč</td>
</tr>
</tbody>
</table>

Source: Analysis conducted by the author

Figure 16 shows cash flow only from operating activities by months. Operating cash flow will be negative until the sixth month of the third year. The real estate business is very cash flow intensive and requires investments at the beginning. The starting cash balance would cover the cash outlays projected. However, some sort of financing should be secured and risk of not having cash minimized. The predictions are based on assumptions which might not turn out to be true. The situation in the fifth month seem particularly critical.
**Figure 16**: Operating activities cash balance

![Cash flow operating activities graph](image)

Source: Analysis conducted by the author
4 Conclusion

The business plan formulation fulfilled the goal of this thesis: to analyze the situation and formulate a viable business plan that can help the company grow as well as serve as communication material to investors.

Research helped to identify customer segments and discovered the factors influencing a customer's listing decision. In particular, the younger and educated generation might be reluctant to use the services of a real estate brokerage and agents. Thus, a service for FBSOs was proposed and its rationale proved a viable business case. It is a scalable service with positive cash flow that can help the company grow in the long term. At the same time, it will capitalize on current market trends and doesn’t require huge changes on the company’s side. The service can be launched in a matter of weeks. Further to this, some tweaks were proposed to the existing brokerage service. Room for improvement was found particularly in the sales and marketing section, and this has been covered in the business plan. Scaling the service to new markets is hard while maintaining a quality service. This why the service should be offered in Prague, a city which provides room to grow.

Finally, this thesis and business plan serve as a first formal formulation of a business strategy for the given business. Simultaneously, new ways to grow were uncovered and the business plan can be used as a material for communication with potential investors.
Bibliography


Maurya, A. (2012). Running lean: iterate from plan A to a plan that works.


Appendices

Appendix 1: Questionnaire

FSBO

1. Did you have previous experience with the sale of property?
   - Yes
   - No

2. On a scale 1 to 5 please state to which extent you agree with following statements: 8
   - By listing as FSBO I’ll save on commission (1-5)
   - Commissions of real estate brokerages are too high (1-5)
   - I don’t see value in services of real estate brokerages (1-5)
   - I can handle everything related to sale of property myself (1-5)
   - I can estimate market price of my property (1-5)

3. What is/was the reason to sell your property?
   - Moving
   - Inheritance
   - Financial distress
   - Family issues
   - Value appreciation
   - Other

4. Are you satisfied with how the sales of property went?
   - Yes
   - No
   - Still in the process of sale

5. What didn’t you like?
   - Open ended questions displayed only if the answer to question 4 was no.

6. Sex
   - Male
   - Female

7. Age
   - 21-30
   - 31-40
   - 41-50

8 1 is completely disagree and 5 is completely agree
8. Education
- Elementary
- Secondary
- Secondary with GCSE
- Higher professional
- University

**Agents**

1. Did you have previous experience with the sale of property?
   - Yes
   - No

2. Did you consider listing as FSBO?
   - Yes
   - No

3. On a scale 1 to 5 please state to which extent the following was important when choosing a real estate brokerage/agent:
   - Commission of real estate brokerage/agent (1-5)
   - Offered service and its quality (1-5)
   - Positive reviews and ratings (1-5)
   - Personality of an agent (1-5)
   - Experience and history of the company (1-5)
   - Proposed sale price (1-5)

4. How did you find your agent?
   - Online
   - Recommendation
   - Personal network
   - He contacted me
   - Other

5. What is/was the reason to sell your property?
   - Moving
   - Inheritance
   - Financial distress

---

9 1 means extremely unimportant and 5 extremely important
• Family issues
• Value appreciation
• Other

6. Are you satisfied with how the sales of property went?
   • Yes
   • No
   • Still in the process of sale

7. What didn’t you like?
   • Open ended questions displayed only if the answer to question 4 was no.

8. Sex
   • Male
   • Female

9. Age
   • 21-30
   • 31-40
   • 41-50
   • 51-60
   • 60+

10. Education
    • Elementary
    • Secondary
    • Secondary with GCSE
    • Higher professional
    • University