What’s the value of digital advertising agreements?

Real estate advertising used to be so simple.

You’d buy a newspaper ad based on the number of column inches, a radio or TV spot based on the spot’s length or an outdoor billboard based on the size.

But the digital world has made things a lot more complicated.

“When you’re buying advertising digitally, you have to understand what it is you’re buying and make sure you’re getting the value that you need,” said Charles Irsch, a partner at MLinc Solutions, an independent provider of services agreement valuations. “When buying Internet advertising from another settlement services provider, you look at how big the ad is. Just because it says it’s a half page doesn’t mean it’s a half page. Where is the ad located? The top of the page is worth a lot more than the bottom of the page. The right-hand side is worth less than the left-hand side. There are a lot of factors that go into value and what people can charge for ads.

“Is it a framed ad? Does it appear in a menu? Does it have links associated with it? Is it in an ad rotation, appearing every 10 or 15 seconds? All those things are critical components in determining the value.”

Irsch’s remarks came from a RESPRO fall seminar session titled, “Understanding the Valuation of Web Site Advertising. His co-panelist was Mark Meyer, MLinc’s founder and CEO.

Whether on its own or as part of a marketing service agreement (MSA), digital advertising can be a great way for settlement service providers to market and promote another provider’s services in exchange for payment.

But before engaging in advertising via the Internet, social media, Intranet, third-party platforms, co-marketing or lead generation, it’s important to understand the characteristics and metrics of digital advertising exposure that drive cost.

Many loan officers or title branch managers come to Irsch believing they’ll get lots of exposure on by putting a glossy ad on real estate broker’s website.

“I say, `That’s great,’ Irsch said. “But how many consumers do you think actually go to that page when they’re on a real estate broker’s website? Just 2 percent, or 1 in 50 consumers will actually go to that page and look at that pretty mugshot.”

A better idea?

“We tell clients when you’re thinking about getting advertising and branding exposure from a settlement services provider, you want to be where the consumers are. And the consumers are going to be, in a real estate sense, on the listing pages of the property search. That’s going to be about three-quarters of your traffic,” Irsch said. “Get on those listing pages, get on those property search pages, get on the home page. Twenty percent of the traffic just hits the home page.

“Financing is another one. One in 20, or 5 percent of consumers, click on the financing tab. Those people may be very interested in a financing product. But don’t expect it’s going to generate a lot of traffic or a lot of impressions, which drives the value from a compliance standpoint.”

Irsch called social media an advertising jungle that is ever-changing.

“Different sites attract different types of people,” he added. “People think that because these sites generate an incredible amount of traffic that they’re worth a lot, and the reality is that they’re really not. We have to manage clients’ expectations a lot.”

For instance, many consumers are surprised that Facebook’s CPM (cost per thousand) is just $12 a thousand.

Another negative about social media advertising whether it be with a settlement service provider that’s doing advertising for you, or a co-marketing arrangement is that it’s difficult to control the dialogue going on about your brand.

“So if a real estate broker is putting a social media post out every month , it’s very easy for somebody to hashtag that, #greatvendor,” Irsch said. “It’s also easy for them to hashtag it #dirtyfilthyidiots. You have to be really careful how your partners are working with you to make sure your brand is being displayed in a way that potentially gives you more control. If your marketing partner that is helping you establish your brand doesn’t understand these concepts, you need to make sure you know what you’re getting into.”

Irsch added that third-party platforms such as Zillow and BoomTown seem to be everywhere these days. When looking at a relationship with another settlement service provider, look at whether it’s a platform that directly bills both parties, or is a site in which the Realtor, builder or title insurance company is actually taking and buying the product and then effectively reselling it to their marketing partners.

“You need to understand the compliance ramifications of that. Once again, you don’t want to overpay,” he said. “There’s a lot of functionality that comes with these platforms. Your marketing partner or software provider may or may not offer to you free or for a fee: lead management, full CRM capability, scheduling, apps, statistical reporting or outbound email. If you’re a lender, and you have a loan officer working for the local real estate broker, do you want your loan officer sending emails from a third-party system that you have no control and no audit over?”

Irsch said another thing to think about is whether they are asking you to contribute to the search engine optimization cost, which is effectively the money they pay to a platform like Google ads. And if they’re asking you to share those costs, what are you getting for it in terms of services?

“For third-party services, take a look at the actual traffic that they’re generating, either per agent or a listing basis. You will generally find that the numbers are really small,” Irsch said.

Lead generation is an especially tricky area requiring a lot of detailed analysis from a valuation.

“If you’re going to buy leads, make sure you work on them. Because if you don’t work on them, it’s like payment for an empty service,” Meyer said.

Meyer said it’s also crucial to employ key compliance components to defend web agreements with regulators.

“Make sure all the folks in your group who are working with digital advertising have got RESPA training,” Meyer said. “Make sure the agreement that you’re drafting is well structured from a RESPA perspective. You always want to understand the key drivers of value so you have a mutually beneficial kind of relationship. You really need to look carefully at how you’re getting exposed and branded, and if it isn’t what you expected, you have opened yourself up to lots of criticism as well as the compliance factor.”

“Independently value services, set fees appropriately and of course verify that those services are being performed and paid accordingly. Structure a digital advertising agreement paying for services, not endorsements. Avoid exclusivity, and certainly no direct sales pitches. With ads on the digital sites, I think it’s probably a best practice to have a good disclosure stating that it’s paid advertising and not an endorsement.”

RESPA Section 8(a) prohibits providing a thing of value for referrals. However, Section 8(c) expressly permits the payment for certain services rendered as long as they’re actual, necessary and distinct and not based on the referral of business.

Meyer noted that the Department of Housing and Urban Development (HUD) in 2010 issued interpretive comments stating it’s not a problem in and of itself to advertise on a real estate website.

Since the Consumer Financial Protection Bureau (CFPB) has said that the contract itself may be considered a thing of value, Meyer suggests paying a digital advertising partner less than the true value of the service to ensure you’re not going to pay more than the service is worth. There also should be an independent valuation from a third party to demonstrate there was no conflict of interest in setting the value.

“Value services and set fees appropriately,” Meyer said. “You need to determine the fees based on the cost of the advertising with no direct relationship to what you’re going to get in return. So you wouldn’t tie it to business, capture or anything else. When we do our valuation work, we look at the cost of advertising – not what the value may be in terms of business that may come as a result.

“Obviously, from a business standpoint, you want to look at your return on the marketing dollars you’re spending, but keep that separate and apart from your compliance group.”

Meyer added that third-party web platforms is an area that continues to grow. To stay compliant, Meyer suggests the platform work directly with the real estate broker and the mortgage or title company.

“If it’s a subscription a real estate broker has and they’re trying to get you to share in it, we have a valuation technique to tell you what it’s worth,” he said. “After you value it and set fees, you want to make sure services are actually happening, collect data and document. Pay in arrears based on what really happened.”