

In major pivot, Compass to license its tech

“Powered by Compass” will be available to firms in non-core markets

By [E.B. Solomont](#) | July 18, 2018 06:00PM



(Composite by Kerry Barger for The Real Deal)

UPDATED, July 18, 8:15 p.m.: Since landing [\\$450 million](#) in funding from Softbank last year, Compass has been aggressively scooping up brokerages and agents [across the country](#). And now, the venture-backed company is employing a new line of business: licensing its technology to other firms.

On Wednesday, Compass announced its inaugural licensing deal with Leading Edge Real Estate Group, a 200-agent firm with offices in Boston and Eastern Massachusetts, which until recently was a franchise of RE/MAX.

The pivot — which some predicted years ago — represents a new revenue stream for the brokerage, which has spent the last seven months in acquisitions mode.



“More entrepreneurs can now build their business on Compass,” Ori Allon, Compass’ chairman and co-founder, said in a statement to Inman, which first reported the news. “This new venture ... provides an

additional revenue source beyond our core business, which is on track to double in size this year.”

“Powered by Compass” will give brokerage firms access to the firm’s search tools, marketing tools, collections (its Pinterest-like client collaboration tool) and “insights,” a custom dashboard of listings data. Financial terms were not disclosed.

However, Compass isn’t bringing the program to its core markets — such a move would conflict with its bid to attain 20 percent market share in 20 U.S. cities by 2020.

Elizabeth Ann Stribling-Kivlan, president of Stribling & Associates, said this latest venture is “another cog in the wheel” for Compass’ growth plan. “We’ve all seen this coming and were waiting for it to happen,” she said.

Still, sources said the news, while not surprising, represents a dramatic shift for a company that until now has focused on building tools to make their own agents [more productive](#). “They are playing both ends to see which works better,” groused one brokerage chief.

Others said the two-pronged approach has been Compass’ strategy from Day 1.

“It’s always been part of the plan — very explicitly,” said Clelia Peters, president of Warburg Realty and a co-founder of MetaProp, a real estate tech accelerator.

Peters conceded that she’d been somewhat skeptical of Compass’ ability to pull off both brokerage and licensing since it would be difficult to be both a competitor and service provider to other real estate agencies. But, she said, “it’s potentially possible that you create a two-tiered system and you compete with your own brand in high-value markets and then offer tech services for a fee in other markets.”

The option to license tools from Compass would likely be valuable to smaller firms, especially those that haven’t invested in technology of their own, said Stribling-Kivlan. But, “for those of us who have those tools, we already have our own systems.”

For that reason, others questioned the viability of the business model.

“If you’re a brokerage, even a small one, but Compass is a competitor, would you want to use technology that says ‘Powered by Compass?’” said the head of a major residential firm. “It doesn’t make sense to me.” The brokerage chief also said the licensing option could undermine Compass’ ability to recruit agents by offering them access to ground-breaking tools.

But those who have criticized Compass for burning through investor capital said it provides a much-needed revenue opportunity.

“The only way Compass has a chance to substantiate their ambitious valuation is by licensing their technology to other companies,” Michael Nourmand, president of Beverly Hills-based Nourmand & Associates Realtors, said in an email. “I still have not seen anything that they are doing that is different than what’s available in the marketplace.”

Still, for small firms that don't hold a candle to Compass — in size, funding, agent support or sales volume — the option to license the company's tools may provide leverage in a competitive landscape.

Paul Mydelski, chairman and founder of Leading Edge, said the deal with Compass will give his 200-agent firm a leg up while allowing it to remain independent.

"We feel very strongly about being an independent," he told Inman. "But adding this incredible technology platform with Compass just makes us complete."

The timing of Compass' deal with Leading Edge is notable in that it comes seven months after SoftBank's massive capital injection, which valued the company at [\\$2.2 billion](#) and turbo-charged its national expansion. Meanwhile, Compass' rapidly-growing footprint — it has north of 4,000 agents and over 90 offices nationwide — has been a testing ground for its tech tools.

"They have taken in an enormous amount of investor money," said one VC source, who said Compass' model hasn't yet disrupted the status quo. In other words, the company needs to address the low margins in the brokerage business, the source said. "To justify a tech valuation they need to diversity into higher-margin businesses."

In addition to licensing, there are other signs that Compass may broaden its revenue-generating business lines. Sources said it is weighing a move into the title and mortgage business. On Wednesday, Compass debuted a new, illuminated brokerage sign that agents can control from their smartphones. But the signs will also have beacon technology so that when prospective buyers (with the Compass app) come within 20 feet of the sign, they get pinged on their phone and will be taken to the listing page.

The first run of signs — which will start shipping October 1 — will cost less than \$1,000 (including a digital ad campaign with Waze). Compass said the cost will come down during subsequent release cycles.

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