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## How the leading Chinese real estate brokerage transformed into a digital platform business

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### Introduction

The power of digital platforms has fundamentally changed in our economy, as we witness successful platform companies dominate today's world, such as Google, Facebook, Microsoft, or Amazon. Now digital platforms are also transforming a growing number of traditional industries. In this article, we study how a Chinese real estate broker - Lianjia successfully transformed itself into Beike - China's leading digital platform for housing transactions and services, and in the process not only expanded its growth but also elevated the service quality of the real estate brokerage industry.

In recent years, Chinese Internet companies have become pioneers in many Internet trends, partly due to the size and intense competition in the Chinese Internet market. Large Internet companies such as Google and Facebook now look to their Chinese counterparts such as Alibaba and Tencent for the next big thing, such as digital payments, super apps, live streaming, etc. In traditional service industries such as real estate brokerage, seeing a major Chinese player's successful transformation from brokerage into a digital platform will no doubt offer inspiration and significant lessons to other companies inside and outside China as well.

After three decades of the Internet revolution, there have been enormous gains in information efficiency in our economy enabled by digital platforms. Now accelerated by the COVID-19 crisis,

digital platforms are penetrating more traditional industries previously left behind. Beike represents a new wave of platforms that add further value on top of the information efficiency gains by acting as a management tool to improve service quality and professional standards. This is especially useful in many of those service industries which are traditionally very fragmented and lack reliable quality standards with a large number of small to medium providers. In the following, we will explain in detail what Beike is and how it transformed from its predecessor, the goal and result of the transformation, and what lessons we can learn from this transformation.

### From Brokerage to Housing Transaction Platform

Beike or KE Holdings originated from Beijing Lianjia Real Estate Brokerage Co, or Lianjia, which was founded by Zuo Hui<sup>1</sup> in 2001. Beijing Lianjia grew rapidly to become the leading real estate broker and expanded nationwide. By 2017, Lianjia already owned around 8,000 stores in 28 cities in China, with 130,000 employees and an annual transaction value of over a trillion RMB. In 2018, the founder launched an open online platform known as Beike - [www.ke.com](http://www.ke.com). This platform provides housing information, transaction support, and other home-related services, and is open to all real estate brokerages including but not limited to Lianjia itself. Unlike other housing platforms which mostly focus on providing housing information and make most of the revenue from advertising or referral such as Zillow in the US or Fang.com in China, Beike represents a new type of housing platform that not only provides housing information but also support housing transactions on the platform.

This bold move to launch Beike met with much disagreement from management at the time. The main concern was that setting up a platform to share housing information and services to all real estate brokerages may detract from Lianjia's competitive advantage. However, Zuo Hui was determined to move forward despite the high risks involved. Along with the launch of the Beike platform, KE Holdings Inc. was incorporated as the holding company, and Lianjia became one of the subsidiaries under Beike or KE Holdings. Beike's spectacular success shortly after launch proved it was a brilliant move.

### Why the Transformation

Why was Zuo Hui so confident that launching Beike was the right move even though it may help the competitors to compete with Lianjia's brokerage business? We have identified three key considerations that strengthened his confidence to venture into a platform transformation.

1. To preempt the threat from potential platform competitors

Van Alstyne, Parker, and Choudary in their 2016 article *Pipelines, Platforms, and the New Rules of Strategy* (Van Alstyne *et al.*, 2016) explained the changing economics that leads to the power and superiority of the platform business model over the traditional pipeline model, such as demand economics of scale and network effects. Based on that, they made the strong prediction that when a platform enters the market of a pure pipeline business, the platform virtually always wins. Around the same time, Zuo Hui was getting increasingly concerned that Lianjia's biggest threat could come from Internet platform companies, despite Lianjia having grown to be the largest real estate brokerage in China. Zuo Hui realized that emerging Internet platforms such as Fang.com

and Anjuke.com, which have gathered a lot of housing data, could easily move into and disrupt the brokerage business. Incidentally, the US housing information platform Zillow's move into the iBuying market (direct buying and selling of real estate) showed that this is indeed a credible threat. Zuo Hui's insight and strategic vision led him to a sense of urgency to move into platforms before those platform companies move into and disrupt the brokerage business.

## 2. To overcome the growth ceiling and reduce asset risk

The transformation to a digital platform is the best way to overcome the growth ceiling and reduce the risk associated with heavy assets in a traditional business model. Real estate brokerage is a relatively fragmented industry and Lianjia, as the industry leader, was only accounting for about 10% of the market share in 2018. The platform business model, on the other hand, is much less reliant on building heavy assets such as storefronts and therefore can grow much faster. In addition, a light asset model can counter risks related to economic downturns and the unpredictable policy environment in China. So when there are new radical policies to restrict housing transactions (e.g. the recent limit on housing loans and sales), Beike would have access to more revenue sources instead of solely relying on commissions from housing transactions.

## 3. To create value by elevating industry standards

China's real estate brokerage industry was long plagued with a lack of transparency and ethical standards, as Zuo Hui lamented that it was still in a "pre-industrialized state". For example, brokers used to create fake house listings to attract foot traffic, and there was a lack of transparency in pricing which sometimes led to brokers profiting from the difference between the purchase price and selling price. All of these short-term behavior led to a deplorable lack of service quality and customer trust and affected the long term development of the profession. Since the founding of Lianjia in 2001, Zuo Hui made it his mission to change that by "doing what is right even though it is difficult". Lianjia has established new standards for the profession, such as transparency in pricing, the promise of authentic housing information, doing the groundwork of "housing census" and creating a housing database and verification system. However, even though Lianjia grew to be the top brokerage in China, its impact on the whole industry was still limited. By creating an industry-wide open platform, Zuo Hui was able to export Lianjia's values and standards to the whole industry and have a bigger impact on changing the industry's ethical and operational standards.

### Beike after the Transformation

Beike became extremely successful after its launch. Its revenue increased by 60.6% from 2018 to 2019, and by 53.2% in 2020 to US\$10.8 billion. In 2020, Beike facilitated over 3.6 million housing transactions on its platform and generated a GTV (gross transaction value) of US\$536.3 billion. This is more than half of the GMV (gross merchandise value) of Alibaba - China's largest eCommerce group, which is remarkable given that Beike only focuses on housing transactions. At the end of 2020, the platform had 279 real estate brokerage brands, approximately 47,000 community-centric stores, and over 493,0600 agents across over 100 cities in China.

The transformation from Lianjia to Beike has expanded its revenue sources greatly. Beike now derives revenue from three main sources, all of which have been growing rapidly: 1) commissions from home transaction services on the platform which includes existing homes, new homes, and rentals; 2) platform service fees e.g. from online marketing and infrastructure services; and 3) other home-related services such as financial services or home renovation. Beike is planning to further expand the home-related service offerings in its ecosystem to provide one-stop solutions to everything related to homes.

By creating an open industry platform, Beike has significantly increased its growth potential beyond that of Lianjia. Although Lianjia is still the largest brokerage brand on the Beike platform, the contribution from other brokerages to Beike's revenue has increased year after year. In 2018, Lianjia's transaction value made up 80% of Beike's GTV, and this number has decreased to 50% in 2019 and further to 37.5% in 2020. This shows the success of Beike as a platform and its immense growth potential beyond Lianjia.

Most notably, the launch of the Beike platform has significantly increased the service standards of an industry that was plagued by a lack of quality and trust. Compared to the US, China's real estate brokerage was like the wild west with less of a regulatory framework, which led to vicious competition, as brokers hoarded information and often resorted to unethical practices and frauds. To alleviate these issues and make the industry more reputable, Beike introduced the Agent Cooperation Network (ACN) as an industry-wide infrastructure that partitions a complete home transaction into nine different steps and allows multiple agents cross-brand and cross-store to cooperate in one transaction and share commissions fairly based on their roles. Brokers on the platform also need to adhere to professional standards which mandate transparency in pricing, authentic listings, and other customer protection measures. This has resulted in better cooperation among brokers, better prices for customers, and overall a better quality level in the profession.

### Lessons Learned

So how was Beike able to achieve such a quick and successful transformation into an open digital platform for the industry? What lessons can we learn from Beike to inform other companies moving in the same direction? We believe there are four key factors behind the success of Beike's platform transformation, which offer important lessons for other companies thinking about moving into platforms.

First and foremost, Beike's example highlights the importance of data in the success of digital platforms. Data is king in our current digital economy, and in the real estate brokerage industry, owning property listings has always been the source of power. By owning the largest and most trustworthy housing listings and information database, Zuo Hui has obtained confidence in attracting customers and brokers to its newly launched platform. Lianjia's years of groundwork doing the "housing census" and creating a housing database and verification system no doubt created an edge for the newly launched Beike, in competition to other housing information platforms such as Anjuke.com or Fang.com which rely on self-postings with much less accuracy.

Secondly, industry knowledge and experience also play an important role in Beike's platform transformation. In *Products to Platforms: Making the Leap* (Zhu and Furr, 2016), authors Feng

Zhu and Nathan Furr studied over twenty firms that tried to become platforms, and then identified four key steps that can make the difference between effective platform transformation and failure. The first of these key steps is to “start with a defensible product and a critical mass of users”, which fittingly characterizes Beike’s situation. Given that Lianjia was already the largest real estate brokerage in China before the launch of Beike, its brand and customer base ensured a critical mass of users and thus greatly increased the platform’s attractiveness and the likelihood of success.

Thirdly, Beike’s strong platform governance is a fundamental value creator as it enables better transparency, collaboration, and fair competition in the real estate brokerage industry. Central to Beike’s platform governance is its revolutionary ACN (Agent Cooperation Network) that it pioneered. ACN acts as an operating system on the platform and a powerful management tool that regulates the behavior of brokers on the platform, ensures fair compensation, and provides incentives for broker cooperation. To access the benefits of the platform, brokerages have to abide by the rule of the ACN. This has helped to elevate the level of service quality in the industry, with more price transparency, better collaboration, leading to more efficient transactions and better customer and broker satisfaction.

Last but not least, Beike’s platform transformation derives huge efficiency gains from the digital transformation it is built on, just like all the online platforms. This enables higher efficiency with cutting-edge digital capabilities such as SaaS, virtual reality, and AI, which form the backbone of the platform infrastructure and help unleash the full potential of the platform. Through its digital innovations, Beike can provide customers extensive and easily accessible property listings with virtual reality and 3D viewing capacities, facilitate better matches between potential buyers and sellers through AI, and fulfill the critical needs of real estate brokers in providing important digital infrastructure to streamline the housing transaction process.

## Conclusions

Beike’s case can help executives in traditional service industries think about how to expand growth via digital platforms. We summarize four key lessons learned: 1) data is central to success in platform transformation; 2) industry knowledge and experience also play an important role; 3) getting platform governance right is critical in value creation; 4) harness the double powers of platform and digital transformation.

Although controversial before launching, Beike’s open practice of sharing its knowledge and operational practices with the industry has turned out to be highly beneficial. Indeed, the more Beike’s industry peers use Beike’s platform and system, the more impact Beike has on the industry, and the more revenue and growth opportunities Beike can capture from the value created. A digital platform with the combined powers of digital and platform transformation enables significant value creation by increasing information efficiency and upgrading management standards.

Even more importantly, Beike’s case demonstrates how to use digital platforms to elevate the service quality of traditional industries. Similar to the real estate brokerage industry, there are many industries where customers suffer from a lack of quality and trust, with another typical example being the home repair industry. Just like Beike has improved the real estate brokerage industry’s practices such as transparency, standardization, collaboration, and ethical standards, a

well-designed digital platform well done can lead to enormous gains in both service quality and efficiency in these other traditional industries, which in turn will add great value to society.

There are still many challenges that Beike needs to grapple with. The biggest challenge is how to balance the relationship between self-owned Lianjia and its competitors on the platform and not be seen as favoring its child Lianjia? These are challenging questions that companies have to address when they move from products into platforms. Amazon has been facing similar criticisms of being both a coach and a player since it opened up its platform to third-party sellers, and many sellers have expressed a love-hate relationship with Amazon providing an important platform for them but also copying their hit products and competing with them after seeing their successes. Just like Amazon, Beike needs to strike the right balance and ensure fair competition so that the value created to players in the platform ecosystem continues to exceed the drawbacks.

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<sup>1</sup> Beike's founder and CEO, Zuo Hui, died in May 2021 at the age of 50. His successor is Beike's co-founder, Chairman and Chief Executive Officer Peng Yongdong, 41.