

Eight Ways to Justify Your Commission

by Michael Lee, MBA,CSP

Broker Agent News-September/October 2007

In the old days, (more than ten years ago) we never had to justify our commissions to anyone. We controlled information about the inventory via the multiple listing services, sellers had to pay whatever we asked or they could try and sell their homes themselves. Thanks to the availability of listings over the Internet and the rising prices of homes across the country, over the past ten years consumers are increasingly questioning the value of the commissions paid to real estate professionals.

Even the federal government is looking into how we are paid because of the prevalent myth agents all receive about six percent of the sales price of any house. While most real estate professionals have always earned their fee through hard work, saving time for their clients and by reducing their liability, today we have to explain our value if we want to be fairly compensated. Because the assault on commissions is a relatively new phenomena, many of us are like fish out of water when it comes to explaining why we should be paid what we're worth

Here are eight tips to help explain your value to clients from my new book, *111 Ways to Justifying Your Commission*:

1. Make a list of all of the activities necessary to help a client sell or buy a house in your area. My list for sellers has 132 items on eight pages and it visually blows clients away as to how much work is required. I have similar lists of over 100 items for buyers, expired listings and for-sale-by owners.
2. Show pie charts about how small the commission really is to anyone agent My listing pie starts out showing a hypothetical six percent commission being split in half between the listing and selling brokers. Then it is reduced by a third for the broker's cut (use whatever percentage applies to you). Another third goes to expenses leaving me with only one percent of the commission before taxes.
3. Explain how much tax you pay on your net income. Don't forget that most of us pay about 28 percent federal tax plus a 15.3 percent self-employment tax and then add an appropriate state tax. In California, it's about 5 percent, bringing my total tax to nearly 50 percent. This means I only receive about one-half of one percent of the sales price of a house after taxes to feed my family and put a roof over our heads. Once my clients understand I get only about half a percent to do more than 100 activities, they usually say that I'm underpaid as well as overworked and the commission is no longer an issue.
4. Don't quote other brokers' commissions. When a prospective seller asks you how much you charge to sell a property only quote your half of the fee which is generally 2 to 3 percent. If the seller chooses to pay about the same or more to the broker who

brings the buyer that's his or her choice but none of your business. In fact, by quoting both fees there can be an implication of sub-agency. Once people recognize each broker only gets half of the listing fee it reduces the resistance substantially.

5. Remember, most clients want quality first. Studies show that only fifteen percent of all consumers make a buying decision based primarily on lowest price, Eighty percent are concerned quality more than price and five percent want to pay a premium price because it connotes prestige and possibly higher quality. So sell the quality of your services to the eighty five percent who will appreciate it.

6. Develop a marketing plan to bring you more clients than you need. An effective marketing plan enables you to pick and choose your clients. Obviously, the first clients you want to eliminate are pure price shoppers. Also, by rejecting those who don't value your services implies you are a special and unique agent who is in high demand. Exclusivity also implies higher quality.

7. Show clients the thickness of a closed transaction file. It always amazes the public to learn how much work is actually involved in putting together any real estate deal. Explain that each document is there to protect the client's interests and to help meet their needs. Be careful not to violate any past client's privacy by showing sensitive documents but just seeing the volume of paper should be sufficient to show that you do more than merely put a for-sale sign on a seller's house or drive buyers around to earn your fee.

8. Never quote your commission until you have diagnosed the client's need. Just as a doctor would never prescribe treatment without doing tests to determine the cause of an ailment, a real estate professional should not quote a fee until he or she finds out the scope of the work to be done. Obviously, helping clients conduct an IRS 1031 exchange is more work than a straight sale and a short sale is more complex than a standard one. You may wish to charge a different fee depending on the amount of work and expertise required. Also, if you quote your fee at the beginning it focuses your whole relationship on cost rather than service.

More than ever, we must explain the value of our services to prospective clients. Remember, most people assume we get paid six percent or more and do almost nothing to earn it so you might as well deal with the misimpression right away. Remember, it doesn't take any special skill or training to be the cheapest agent on the block. Sell the value of your services to those clients who appreciate it and send the rest to someone who can't justify his or her commission.