

The New Reality in Real Estate: Cutting Commissions is Not the Answer



In October 2023, the real estate industry experienced a seismic shift when a Missouri court ruled against longstanding practices. This decision has left many wondering about the future. While opinions on the matter vary, multiple recent surveys indicate that cutting commissions is not the solution.

So, what is the answer?

The solution lies in developing, maintaining, monitoring, and adjusting a well-thought-out associate compensation strategy. This strategy should ensure the broker owner achieves the desired revenue and profitability while considering the well-being of the sales force.

In a market where all boats rise and fall with the tide, the compensation strategy one broker employs will likely mirror that of the competition. Agents can no longer demand higher compensation agreements by threatening to leave, as alternative opportunities are becoming scarce.

The right compensation strategy begins with a comprehensive financial audit of the broker's revenue and expenses. This audit provides an in-depth analysis of the broker owner's current financial position, laying the groundwork for balancing revenue, expenses, and profits. Informed decisions, rather than guesses, are crucial, especially when they significantly impact the broker owner's financial future. The break-even performance amount should not only cover costs, but include a reasonable profit too.

While it might be challenging to conduct a financial audit when revenues are already stretched, it's essential. This audit should be performed by a qualified financial analyst, often an external forensic accounting specialist.

Another popular decision is to replace expensive administrative staff with more affordable virtual assistants. Offshore virtual assistants are often highly skilled and can handle marketing and administrative tasks efficiently. Eliminating even one highly paid administrative employee can significantly boost the bottom line.

As the financial audit progresses, clear communication becomes vital. Broker owners and their executive teams must interact transparently with their sales force, explaining the

necessity of changes to remain in business. Agents need to understand the consequences of the Missouri decision and its fallout.

Reasonable agents will accept the new reality in real estate. Those insisting on maintaining the status quo may need to find another broker, who may not survive in the current market. Attempting to satisfy agents by keeping their current compensation is a path to bankruptcy.

Finally, employing specialized consultants with a proven success record is crucial. These consultants can create and test new compensation strategies using historical closed transactions and, if possible, pending transactions. They can develop “what if” scenarios to find strategies that benefit both the broker owner and the sales force.

Broker owners often find that simple, non-drastic changes to their compensation plans can be effective. Adjusting the break-even point to reflect new costs is justifiable when properly communicated. Strategies like modifying multi-level commission plans’ weighting can require higher year-to-date performance before advancing to the next level.

Another option is to index commissions based upon the shifting market values. In this strategy, if market values go down by 20%, then commission rates are adjusted downward to reflect the current reality.

Varying the commission rates for the role the agent played is another simple but yet effective way to increase revenues. For example, when market conditions make obtaining the listing agreement is more challenging than actually selling of the property, then the listing rate could be higher and the selling rate would be lower. This approach rewards agents who excel in specific roles, regardless of market conditions.

Gross commission rates can also be scaled in a multi-level approach, especially in high-end properties. This strategy divides the sale price into multiple values. Each value will have its own commission rate assigned to it. For example, a property that sells for \$500,000 could be distributed into three segments. The first portion could be \$200,000 with a commission rate of 3%, the next segment could be \$150,000 at 2.5% and the finally portion would have a commission rate of 2%.

Traditionally, off-the-top deductions collected franchise fees, but they can also serve as marketing or administrative fees, significantly impacting revenues. Adjusting off-the-bottom deductions to lower performance thresholds can make it harder for agents to reach the next commission level.

Can technology help?

Tougher markets require different approaches. All too often, the broker owner loses focus on the administrative technology they are using. This is understandable as a brokerage

operation, by its very nature, is a marketing enterprise. Antiquated administrative software can create costly and inefficient work arounds. This usually requires more administrators and increases administrative costs.

Excel worksheets might work reasonably well for smaller brokerage operations with a smaller sales force within a single office. However, even brokerages with 20 agents, should be using modern back-office software to process sales, calculate commissions and perhaps most importantly, provide real time business intelligence reports that empower their decision making.

While it is true that acquiring new administrative solutions will involve an up-front investment, the cost can often be offset by the savings achieved with a smaller, more efficient administrative staff.

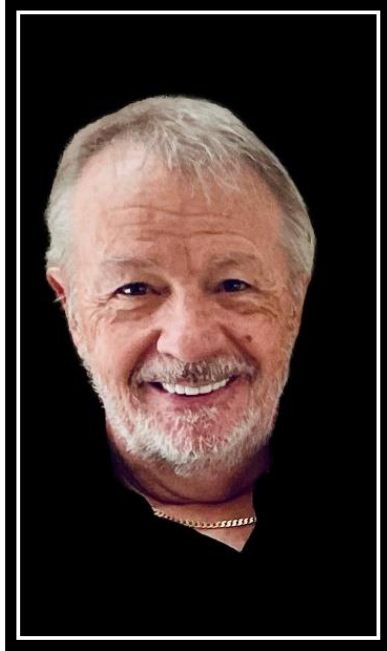
What about Data Analytics?

Data analytic technology, that incorporates AI, also exists that can allow broker owners to analyze their own commission strategies using their own historical data from their back-office software. The ability to instantly create, modify, analyze, test and compare multiple compensation strategies against historical data is a game changer. Equipped with the right technology, broker owners can create a variety of commission plans and within minutes compare each hypothetical plan with their own existing plans.

Combining the right analytical technology with a qualified consultant can be a great one two punch, when reviewing existing practices and making well informed adjustments. The WavGroup, www.wavgroup.com are a well-established real estate consulting firm, with a stellar track record in the marketplace.

Consider this. As a real estate professional, you advise buyers and sellers that using a real estate expert can remove the hassle, make the experience less stressful and in many cases, be cost neutral. The same applies when hiring a consultant to assist you in your new approach to achieving your goals.

These are just a few examples of how broker owners can adjust their compensation strategies to increase revenue without causing unrest among their sales force.



Ron Hurak, the founder of Profit Power, SMARTS, and CAP, is a seasoned real estate expert. He began his career in 1974 as an agent for his family's brokerage. In 1980, Ron became one of the first Canadian graduates of the CCIM program and subsequently one of its first Canadian instructors. Ron is also an author, speaker, jazz guitar recording artist and a black belt in martial arts. Ron also enjoys playing golf and outdoor summer activities. Ron has been married to his wife Kay, for fifty years.

In 1980, Ron's curiosity about personal computers led him to explore how this emerging technology could benefit his brokerage. This curiosity resulted in the development of the first version of Profit Power. Forty years later, Profit Power stands as the leading enterprise back-office software for many of the largest and most successful real estate brokerages in the nation.

Recently, Ron and his development team launched two new software solutions: SMARTS and CAP. SMARTS which is fully integrated into QuickBooks, is a streamlined version of Profit Power, offering many of the same features but in a more compact form, ideal for 90% of real estate brokers. CAP is a commission analysis toolbox that leverages advanced AI technology to help brokers analyze multiple commission strategies. For more information about Ron, Profit Power, SMARTS, or CAP, visit www.lantrax.com.