



How To Succeed in Running A Small Real Estate Brokerage

Large real estate brokerage secrets will be revealed

Created by

LANTRAX

Real Estate Back Office Solutions Since 1980



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Secrets to Operating a Successful Real Estate Brokerage

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Chapter 1. Why you should read this guide

With so much information available today how do you decide what to read and perhaps more importantly, what to **believe**?

This guide was compiled by our team of experts that collectively have decades of real life expertise, experience and success in helping real estate brokerages of all sizes to achieve their business objectives.

Who are some of our customers?

Our products and services are designed to fit any size real estate organization from just a **few agents** to enterprise companies with **thousands of agents**. Our scalable solutions make it easy and affordable regardless of your brokerage size.



You may recognize some of these mega firms that we have had the privilege of serving for decades. These well recognized firms represent a major portion of the entire US real estate community and collectively process **billions** in real estate sales, process **tens of thousands** of transactions, earn **hundreds of millions** in commissions and pay out millions of dollars to their sales force on an annual basis.

Why is this important to you?

- The sheer size of their sales force and the number of transactions they process creates the greatest amount of challenges for this type of brokerage
- A great number of these firms have been using our products and services for many years (*decades in some cases*) which means our products and services are proven with a long history of success
- These companies selected our organization because we were the only supplier capable of managing the most complex sales and commission processes. ***If we can solve the challenges of these major companies, what does this mean for real estate brokerages with less demanding requirements?***
- Larger firms have more resources to perform stringent due diligence when selecting a supplier. If we can pass their scrutiny and continue to provide the products and services they require (*for more than forty years*), imagine what we can do for you?
- These firms continue to grow, prosper and enjoy financial success year after year. ***What do they know about us that you don't?***
- You can leverage (*copy*) their decision to make your selection easier

It's been our privilege to be a part of these amazing organizations throughout our forty plus years of being in business. A side benefit of working alongside these firms is observing how they operate, why they continue to succeed year after year (*where many do not*) and what do they do that we don't always see in smaller real estate organizations.

This guide was developed to share our observations with you so that you can compare what you are doing in your real estate business and decide if "change" is in your future.

Our team consists of approximately **30** highly skilled trained professionals who have been directly involved with the design, creation, development, implementation, training, service and support of real estate technology for many years.

The senior members of our team have over **200 years** of combined expertise in real estate administration practices and collectively, our entire team represents over **350 years** of hands on experience in developing and deploying real estate technology!

		Years
		of
Name	Title	Experience
Aaron Taylor	CEO- Senior Design Analyst	25
Ron Hurak	Founder - Senior Design Analyst	40
Kay Hurak	Founder - Senior Design Analyst	40
Stan Chmielewski	Senior Analyst	45
Tony Dittmer	Senior Trainer	40
Phil Eyre	Senior Support Manager	35
Jim Hobbs	Senior Programmer/Analyst	17
Keith Hunter	Executive Account Manager	30
Patrick Gaughan	Executive Account Manager	17
Jason Santerre	Software Programmer/Analyst	16
Reg Mellon	Software Programmer/Analyst	15
Dee Dee Pressley	Senior Trainer/Implementor	17
Susan Evans	Senior Trainer/Implementor	16
	Total Years	353

Why is this important to you?

The answer should be obvious. You want the ***absolute best most qualified people*** on your team! Your business is too important! You cannot afford to gamble with companies or their products that have not proven their reliability or long term success in the real world of real estate.



**COLDWELL BANKER
ADVANTAGE**

"Anytime an issue arises, it is addressed very quickly by the Profit Power support team. They keep us in the loop as to what is going on until the issue is resolved. Also, the training was great and it is ongoing. We feel we have continuous training from a very knowledgeable and friendly staff "

Susan McKenzie
Accounting Manager
COLDWELL BANKER ADVANTAGE



"The support team at Profit Power is amazing. Our previous software provider was very unreliable. We didn't have a number to call or an email to send requests to. With Profit Power we can always get in touch with someone and they make sure they understand our questions and always offer quick feedback."

Cora Thompson
Office Coordinator
ADAMS CAMERON & CO. REALTORS



"Since implementing Profit Power we've strengthened the reliability of our data. We've seamlessly integrated into the Dynamics accounting system platform and implemented central processing for most of our real estate transaction activity. We've also improved workflow so that brokerage offices can focus more on listing and selling.

The Profit Power team is very knowledgeable about their product and responsive to support inquiries. The one critical thing for us, based on bad experiences with other vendors, is that the Profit Power team doesn't attempt to address every little nuance that a client might request for their environment. If it makes sense and adds value for all clients, then consideration is given and implemented within a subsequent software release so that all users benefit."

Scott McGrory
Chief Financial Officer
DIANE TURTON REALTORS

Chapter 2. The main ingredients for success

(what successful broker owners already know)

As with any business in any chosen industry, there are some key reasons why some broker owners are successful and others are doomed for failure.

As the saying goes "*hindsight has 20/20 vision*".

So let's deep a little deeper into why some real estate firms (*especially enterprise sized ones*) are successful year after year and why others (*often smaller firms*) have limited success or fail completely.

Here's what we have observed and learned from being a supplier with many of the **top 100 real estate brokerage firms in the US** for the past forty plus years.

- **Team Approach** - successful firms are rarely guided by a single individual. Enterprise firms, through the very nature of their size, must use a team approach to operating their real estate brokerage. Although the broker owner(s) will have some influence with strategies, direction, goals, implementation and execution of their business plan, they rely heavily upon their executive and management teams to create, suggest, plan, research and even decide upon various projects. ***Shooting from the hip is not a strategy the larger more successful firms use***. Unfortunately, all too often we do see this method used in smaller organizations. It is usually the reason smaller firms struggle, fail to reach their goals or even survive the competitive world of real estate.
- **Knowledge is Power** - once again, larger real estate companies have no choice but to fully understand ***every aspect*** of their brokerage operation. In this enterprise environment, guesswork and snap decisions made without knowing all the facts, cannot survive. Here, knowledge is "***king***"! We have observed that the more sophisticated the real estate organization, the more they depend upon ***real-time data*** to provide a true picture of where the company has been, where it is today and where it will be in the future. Very few decisions are made without serious research and analysis of the company's business data!

- If knowledge is the "**king**" of any well run organization, then "**data**" is the "**queen**" of the empire. But not just any data! The data must be:
 - accurate
 - complete
 - real-time
 - audited (error free)
 - easily accessible
- The collection of accurate data is omnipotent in the cycle of business intelligence. Successful firms understand and invest in "**state-of-the-art**" practices and technology when it comes to managing the high volume of information that is a natural extension of the real estate business. They know that "**garbage in is garbage out**". Successful real estate firms create administrative policies, training and communication within the entire spectrum of the brokerage. "**All**" data is critical information. An email address for a client may not seem critical unless the company has a "**stay-in-touch**" marketing strategy in place. Error free financial data is vital for analyzing performance at all levels of the real estate firm. Unfortunately and all too often, less sophisticated broker owners spend a majority of their time focused on marketing, sales and revenue producing activities. Clearly these are also major activities and critical to the growth and prosperity of the organization. **No revenue equals no company!** However uninformed administrative practices can also create an environment of poor decisions, bad business policies, the lack of direction and ultimately . . . **failure!**
- **Constantly Improving** - larger firms are constantly improving. Being just "**good**" is not a recipe for long term success. Good companies strive to be "**great**" companies! They accomplish this by constantly questioning their day to day processes, past decisions, existing technology, sales force, recruiting, compensation plans, administrative requirements, business goals, to mention just a few!
- **Forward Thinking** - we have noticed that all successful brokers do not rest upon their past successes. They understand the importance of planning and

improving their company's performance for sustained success and future growth. ***How do they do this?***

- Creating an environment for effective and efficient processes that feed their knowledge base and provides for real time accurate business intelligence and performance analysis
- Use all and any resources necessary to assist them in obtaining their objectives including but not limited to outside consultants, advisors, partnerships, suppliers, collaboration with like-minded brokerages, etc.
- Constantly training their executive, administrative and marketing teams to expose them to new methods, procedures and skills
- Reviewing their technology platforms to weed out inefficiencies, critical errors and potential shortfalls in an evolving, ever changing and competitive real estate marketplace
- Staying open minded to new concepts, ideas, suggestions, products, and services that can assist them in growing their business and maintaining their competitive position within their marketplace
- Copying others. Great ideas can often come from outside an organization. Another great reason to join a collaboration of like-minded (*yet non-competitive*) broker owners. Discussing challenges and opportunities with those who might be experiencing the same situation allows for creativity and thinking "***outside the box***".

Chapter 3. Your weakest link will challenge your ability to reach your goals

Real estate brokerage is a very challenging career (*as the failure rate points out each and every year*). Great companies are lead by individuals who understand that running a progressive brokerage requires many skills, talents and intelligence.

Although it is possible to find a small percentage of people who possess every skill necessary to manage their real estate enterprise, in most cases, broker owners often have a "**weak link**" in their toolbox of skills and talents.

A weak link can be just about any one thing or even multiple shortcomings. Here's a partial list of possible "**weak links**" that we have observed over the years:

- **Lack communication skills** - great leaders can communicate with anyone at any level within their organization from the janitor to a senior executive. In many cases, problems within an organization can be directly attributed to **poor communications**. We have observed that the leadership of great real estate firms are always looking for effective methods of communication to ensure confusion and chaos are kept to a minimum. How do you become a better communicator? Simple answer. You work on it! Training is one way to improve any under-developed skill. Self assessment is another way to analyze your current level of effective communications. If the broker owner has surrounded themselves with quality people, an honest and candid discussion can open up opportunities to improve.
- **Lack administrative skills** - this is probably the biggest short coming we see within smaller real estate organizations. Broker owners are often charismatic, highly skilled in marketing and sales, great communicators and quite often just a nice people. All of these characteristics are vital for any business leader, but so is the administrative component of running a business. Unfortunately many marketing/sales driven broker owners view this aspect of their business as **boring**. All too often they just allow their administrative staff to run that "**side**" of the business without fully understanding the vital importance it has in the company's success! Even the most talented of back office administrators have very little

understanding of real estate marketing, sales, recruiting, revenue creation and the delicate balance of managing a sales force and staying profitable. Accountants and administrators didn't choose their professional because of their outgoing and charming personality. Where administrators excel in managing processes and data collection and paying the bills, most back office employees would have little to no idea as to how to make a real estate brokerage firm a success! The good news is that with some training, sophisticated technology and adjusting your focus just a bit, this weak link can be eliminated or least not be an impediment for success!

- **Lack understanding in technology** - Many broker owners did not grow up with an iPad in their hands or played with video games as a kid. Today, technology continues to integrate itself into just about every aspect of life which of course includes every facet of business. Real estate is more prone to technological advances than many other businesses. Just visit any real estate convention trade show or review the list of topics being discussed in the educational sessions. All too often technology stands out front and center. For many, what they don't understand they will often fear. Unfortunately people will avoid what they are afraid of. The challenge is that **technology is confusing** and for some broker owners even magical. Too many senior broker owners watch a sci-fi movie and believe that Hollywood and reality are identical. They are not! The challenge is **separating** what technology is and what it can deliver. It's highly unlikely that you understand how your cell (mobile) phone works (*technically speaking*) but you do fully understand how to use it and benefit from its mystic powers. Unfortunately when computers and technology first emerged upon the real estate scene, many educators tried to explain the many components of technology. Terms like CPU, RAM, hard drive, servers, firewalls, wifi and even coding were bantered around and pretty much scaring the hell out of an unprepared business world. This earlier and totally ineffective education just confirmed to many senior business people that technology should be left to the "**experts**" and poking their noses in the IT department was to be avoided at all costs. Here's the truth about technology. You don't need to understand how it works (*just like the*

example of the cell phone) but as a smart business owner you must understand what it can deliver. Here's a few benefits that technology can delivery any real estate organization:

- **Business intelligence reporting** - this is probably the largest deliverable that proper back office technology can provide to a broker owner. We have already established that knowledge is power. That power comes from vetted data that has been collected in an accurate manner. Data collection must be timely, error free and as complete as possible. When great data is made accessible to a leadership team, their world opens up to a greater and deeper meaning of the trends and activity that surround them. This is accomplished with business intelligence reporting. Simple put . . . **real time** formatting of financial data allows non-technical people to review and analyze what's happening within their organization whenever they want to. Armed with **up-to-the-minute** information allows senior management to confront potential issues in a real-time fashion. Knowing about a problem six months (*or more*) after the fact makes it impossible to make positive adjustments when it matters most. Think barn door and horses!
- **Complex compensation plans** - regardless of your business size or the marketplace your company operates within, competition is everywhere and it's often fierce. In many cases, especially in larger cities and urban centers, your competition includes larger enterprise sized real estate organization. To succeed your firm must compete with all players, including these mega operations that have the resources to use every tool available to them. If you are not following suit, then you are falling behind making it difficult to reach your business goals. Compensation plans is one area where we see smaller broker owners unable to compete. In today's climate, agents want more and more of that piece of the commission pie and squeezing the broker owner's bottom line. The defence that larger real estate firms employ is the creation of complex agent compensation plans with two major elements. First is the actual commission rate schedule. Many firms use a sliding scale to calculate an agent's commission amount. This traditional method usually

finds a lower commission rate at the beginning of the agent's commission year. As the agent produces more sales revenue throughout their commission year, the agent's commission rate increases and as a result lowers the broker owner's profitability with that agent. The second component is using a series of "deductions" that can be applied at the top of the financial calculation, off-the-middle and finally off-the-bottom. Off-the-bottom deductions are usually agent-centered where off-the-top deductions are sales centric (*shared between agent and company*). Deductions can be for any number of financial activities within the sale. Off-the-top deductions are usually for outside referral brokers or franchise fees. Off-the-top deductions are shared by the brokerage firm and the agent (*think franchise fee*). Off-the-middle deductions are often used as an additional marketing fee that the brokerage charges against the sale. Off-the-bottom deductions are specific to each agent. Each agent will have one or more off-the-bottom deductions that may be applied to their commission amount when calculating the agent's final commission (*on a sale*). As a result, the lower commission amount for the agent will increase the profitability for the broker owner. Using advanced technology, even smaller real estate broker firms can compete in their respective marketplace by offering their agents a balanced compensation plan that fits the needs of the agent and the brokerage operation.

- **Automated collection of funds** from various players in a real estate transaction. Keeping track of who pays what to whom can be a confusing and often error prone process. Smart technology can be used to create automated processes that have a set of rules that match the real estate company's business practices. One example would be a client closing fee which the client pays to the brokerage on closing. Automated processes can be introduced to ensure the closing fee is paid. Agents are often responsible for informing the client of the fee, and ensuring its payment at closing. In the event the client fails to pay the fee, an automated rule can transfer the amount of the fee directly to the

agent's commission calculation (*as an off-the-bottom deduction*) thereby reducing the agent's commission amount.

- **Real time financial income statements.** By using a modern general ledger accounting solution (*like QuickBooks, Microsoft Dynamics, etc.*) broker owners can receive instant financial statements to illustrate the financial health of their company.
- **Paperless reporting.** Technology can greatly reduce the cost of creating and distributing management and sales agent reports. Older technology requires a senior administrator to create the reports, organize them and prepare them for distribution. A modern solution completely eliminates the labor cost, the printing cost and the distribution cost of reporting. Another huge advantage of a real time reporting solution is that those authorized to receive the reports can request them without the aid of an office administrator. Agents can review their financial data whenever they want (*in real time*). The number of "*support*" calls to the brokerage's administrative office are greatly reduced because the agents can simply look up the information they want (*and authorized to see*) whenever they want. In most cases reports can just be viewed on a monitor or within a mobile agent app and not printed at all. This reduces waste and of course the cost of printing.

As Albert Einstein once said, "***The thinking that got you into trouble rarely works to get you out!***"

Finding your weakest link and taking corrective action to improve the ability should be a constant mission for all broker owners, their management team and those responsible for managing the agent sales force.

Chapter 4. Compensation plans

As previously discussed above, compensation plans can make or break any real estate organization. When properly implemented, compensation plans can create the right balance between satisfying a demanding sales force while maintaining a profitable bottom line. When recklessly done, hard earned profits can ***leak out the door*** and all too often without the broker owner or their management team even aware of the losses.

Smaller firms are often challenged to compete within marketplaces where agents have a wide variety of choices as to where to work. Agents will often demand higher commission rates leaving tough choices for smaller broker owners. If the compensation plans do not factor in break even plateaus or profitability margins, a broker owner can slowly go broke trying to balance market demands and staying in business.

Bad technology can play a hand. Inflexible back office solutions can take away choices and options that could make the difference in the broker owner's bottom line. Smaller real estate firms can level the playing field by implementing back office solutions that are similar to their larger competitors.

So what should a sophisticated back office solution offer a real estate brokerage when constructing an agent's compensation plan?

Flexibility and customization are the key words when designing multiple compensation plans for the firm's sales force. Here are a few things to consider:

- Unlimited compensation plans - the back office solution should not limit the number of compensation plans that can be created and maintained
- Commission calculations should be fully automated using a pre-assigned commission plan rules and the agent's year to date performance values
- Commission rates should be allowed to be separate for a listing side sale or selling side sale
- Commission rates should be allowed to be different for a sales that was produced in-house (*without an outside broker*) and a sale that was shared with an outside broker

- Agents should be able to have multiple commission plans with the ability to switch back and forth between multiple commission plans throughout the year
- A commission plan should not restrict the number of performance levels an agent can reach. Each performance level should be linked to a different commission rate. As an agent produces more revenue for the brokerage, the higher the commission rate on subsequent transactions
- Commissions should be allowed to "blend" between performance levels. Instead of just jumping to the next level when the next sale is processed (*because an agent has crossed a performance level*), blending a commission among multiple performance levels within the **same sale transaction** provides an accurate computation of the agent's commission amount. Blending commission levels greatly increases flexibility and offers a competitive advantage when recruiting new agents
- Commission plans should be allowed to be overwritten manually thereby "turning off" the automated commission calculation process. This should be allowed at any time for any side of a sales transaction
- Commission plans should be able to process "additional" commission income, like a bonus, for any side of any transaction for any agent(s)
- Commission plans should be linked to the agent's profile record as well as their assigned branch office. When multiple agents from different profit centers (*branches*) are involved with a single sale, the back office solution must organize the sale transaction data to allow business intelligence reports to reflect the activities by agent and by the branch office they are assigned to (*regardless of which branch office originated the sale*)
- Commission plans should allow for variable commission year periods. Not every company or agent for that matter works within a calendar year (*January through December*). It's not uncommon to see every agent within a firm have a different commission anniversary year. Generally the agent's commission year is established by the date they joined the firm

- Commission plan anniversary year ends for each agent should not interfere with the real estate company's year end. In other words, the brokerage's year end date and each associate's commission anniversary year end date can remain unique and separate from one another

Illustration #1

Commission Pay Plan Details

More Detail | Stats | OTB | Recurring AR | Check Register

Associate **2418** **Beneduce L Perry**

Commission Plan **1012**

Plan ID: **1012**
 Plan Name: Plan to Test Blending
 Comparator: Personal Commission
 Last Changed: 5/7/2020
 Blend Levels: Y Mktg Fee Rate: 6.00%

Base To Use: Revised Rolling Plans: N /

Outside Broker	Dollar Values	Outside Broker Deals		In-House Deals	
		List Rate	Sell Rate	List Rate	Sell Rate
Level 1	\$0.00	50.00%	50.00%	50.00%	55.00%
Level 2	\$20,000.01	55.00%	55.00%	55.00%	60.00%
Level 3	\$35,000.01	60.00%	60.00%	60.00%	65.00%
Level 4	\$65,000.01	65.00%	65.00%	65.00%	70.00%
Level 5	\$100,000.01	70.00%	70.00%	70.00%	75.00%
Level 6	\$0.00	0.00%	0.00%	0.00%	0.00%
Level 7	\$0.00	0.00%	0.00%	0.00%	0.00%
Level 8	\$0.00	0.00%	0.00%	0.00%	0.00%
Level 9	\$0.00	0.00%	0.00%	0.00%	0.00%
Level 10	\$0.00	0.00%	0.00%	0.00%	0.00%
Level 11	\$0.00	0.00%	0.00%	0.00%	0.00%
Level 12	\$0.00	0.00%	0.00%	0.00%	0.00%
Level 13	\$0.00	0.00%	0.00%	0.00%	0.00%
Level 14	\$0.00	0.00%	0.00%	0.00%	0.00%
Level 15	\$0.00	0.00%	0.00%	0.00%	0.00%
Level 16	\$0.00	0.00%	0.00%	0.00%	0.00%

Minimum Commission Level: 1
 Lock Comm Level: N
 Use Minimum Level on Year End:

Fast Start Set Up

Use Fast Start Plan:
 Associate Promoted:
 Months To Check: 0
 Target Performance: \$0.00
 Comparator:
 New Plan To Use:

Team Set Up

Team Role:
 Team Percentage: 0.00%
 Team Amount: \$0.00

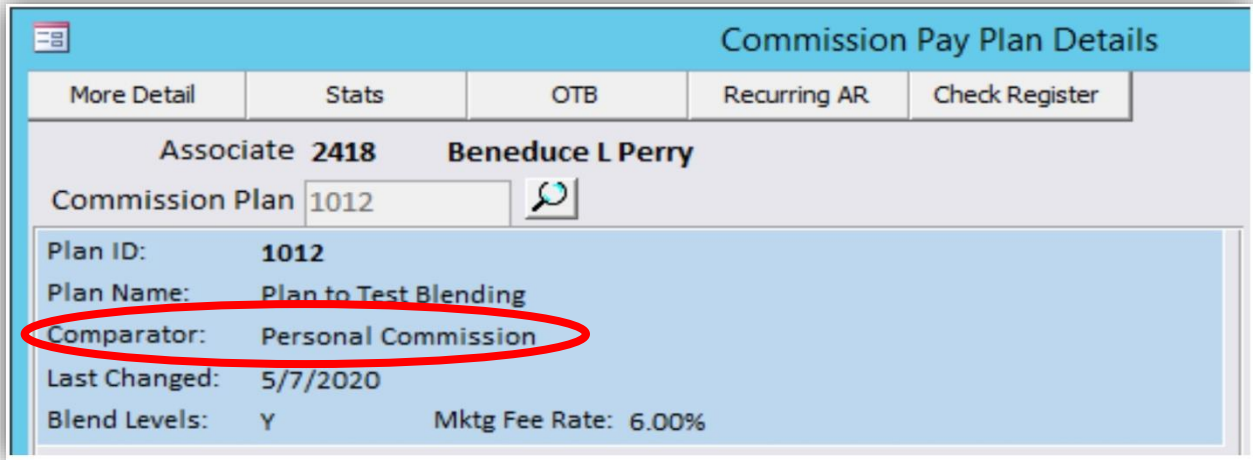
This Associate's Commission Year begins 11/01/2019 and ends 10/31/2020.
 The Commission Year has 12 months.
 YTD Plateau \$11,865.15
 YTD Marketing Fee \$239.70

Maintain Commission Plan History | Close

The picture above is an illustration of a commission plan set up screen for a specific agent. Let's take a closer look at some of the customization features which allow for automated commission calculations. A sophisticated back office solution should allow any number of commission plans to be created.

Once a commission plan has been set up, it can be assigned to one or more agents. When an agent is added to a sales transaction, the back office solution will look at the commission plan set up information for that agent and automatically calculate their appropriate commission.

Illustration #2



Focusing in on the upper section of the commission plan set up screen you can see that there are some powerful options available. The option labeled "Comparator" provides for multiple methods when determining the agent's year-to-date performance numbers. Here's a list of possible options for the comparator (*there are more comparator options available but for the purposes of this discussion we will only provide the basic ones*):

Company Commission - this option will use the total gross commission revenue that an agent has produced on any single side of sale. This option simply uses the total commission amount prior to any adjustments. For example. Assume a sale price of \$200,000 and a gross commission rate of 3% for each side of the sale (list or sell). In this scenario the performance level value will be $\$200,000 \times 3\% = \$6,000$. When this comparator is used, the performance level values in the commission plan set up screen will reflect gross commission amounts.

Gross Commission Less Referrals - this option is similar to the gross commission comparator described above except for an adjustment for outside broker referrals. Assume a 25% referral broker commission on the sell side of the

transaction. $\$200,000 \times 3\% = \$6,000 - (\$6,000 \times 25\% = \$1,500) = \$4,500$ is the adjusted gross commission less referral amount. The performance level values in the commission plan with a gross commission less referrals comparator would be lower than those amounts with a gross commission comparator.

Personal Commission - this comparator uses the actual amount of commission the agent was awarded when specific adjustments are applied. Using the same sale price example as above, the personal commission amount would be as follows:

Gross commission amount of \$6,000 as previously calculated. Less any outside broker referral which was \$1,500 (*in previous example*) for an adjusted gross commission amount of \$4,500.

Assume there is another agent on same side of the sale receiving 50% of the adjusted gross commission (*splitting commissions with other agents is very common especially with teams*). This would leave $\$4,500 \times 50\% = \$2,250$ as the agent's personal commission value. The performance level amounts in a commission plan that uses this comparator would be much less than that of the gross commission or gross commission less referrals comparators.

Taxable Income - in many cases an agent's commission will be adjusted for various transaction charges that the broker owner applies to the final commission amount. Using the same sale example above, let's assume that the broker owner has an administrative transaction fee of \$50 per side of sale. The agent's taxable income will be $\$1,125 - \$50 = \$1,075$.

Net Company Dollar - some broker owners believe that tracking the success of any agent should be determined only by what the agent earns for the company or the **net company dollar**. This comparator uses the amount of commission that was left over after all other commission (*and related deductions*) have been calculated. The performance level values (*within the commission plan set up*) for this comparator will be the lowest of all of the options available. If a sales agent was at 90% within the commission pay plan, the remaining 10% would be the net

company dollar portion. Obviously the 10% net company dollar portion is the smallest portion of the gross commission on the sale.

With each comparator, the adjustments applied at each stage of commission calculation reduce the performance level amount awarded. The commission plan performance level amounts will be lower to reflect the lower commission amount used to determine performance. Here's a quick summary of the comparator options using the sales transaction example from above:

- Gross Commission \$6,000
- Gross Commission Less Referrals \$4,500
- Personal Commission \$2,250
- Taxable Income \$1,075
- Net Company Dollar \$1,125

It is interesting to note that regardless of which comparator is selected the sales transaction of \$200,000 hasn't changed the gross commission of \$6,000. So when selecting a comparator for a specific commission plan the performance amount (*YTD Plateau*) attributed to the agent for each sales transaction will depend upon which comparator was used. The commission plan performance levels for each comparator type (*within the commission plan set up*) will also reflect the adjustments made to the original gross commission of \$6,000.

Illustration #3

The screenshot shows the 'Commission Pay Plan Details' for Associate 2418, Beneduce L Perry, Commission Plan 1012. The plan name is 'Plan to Test Blending' and the comparator is 'Personal Commission'. The last changed date is 5/7/2020. The 'Blend Levels' field is circled in red and contains the value 'Y'. The 'Mktg Fee Rate' is 6.00%.

Plan ID:	1012
Plan Name:	Plan to Test Blending
Comparator:	Personal Commission
Last Changed:	5/7/2020
Blend Levels:	Y
Mktg Fee Rate:	6.00%

Blending is a more advanced method for calculating the agent's commission amount (*regardless of the comparator selected*). Simply put, blending uses multiple performance levels within a commission plan when a single sale is entered and the commission amount awarded crosses one or more performance levels within the commission plan. Let's illustrate this:

Illustration #4

Base To Use: Revised		Rolling Plans: N /			
	Dollar Values	Outside Broker Deals		In-House Deals	
		List Rate	Sell Rate	List Rate	Sell Rate
Level 1	\$0.00	50.00%	50.00%	50.00%	55.00%
Level 2	\$20,000.01	55.00%	55.00%	55.00%	60.00%
Level 3	\$35,000.01	60.00%	60.00%	60.00%	65.00%
Level 4	\$65,000.01	65.00%	65.00%	65.00%	70.00%
Level 5	\$100,000.01	70.00%	70.00%	70.00%	75.00%
Level 6	\$0.00	0.00%	0.00%	0.00%	0.00%

In the screen shot above, the commission plan performance levels start at level 1 using a year to date performance amount that ranges between \$0 and \$20,000. In the beginning of the agent's commission anniversary year the agent will use the level 1 commission rate (*the rate varies depending upon which side of the sale the agent was involved in and whether or not the sale including an outside broker or not*).

As soon as the agent crosses over the \$20,000 performance threshold and advances to level 2, the commission rate to be applied to the remaining personal commission amount will be the rate assigned to level 2.

In a **non-blended** commission plan, the agent's performance level used within any commission calculation will be based upon the previous closed sale entered even if the commission performance amount (*YTD plateau*) for the previous sale exceeds the next level. A demonstration might make this easier to understand.

Let's assume that the agent has closed a number of sale transactions and currently has \$19,000 accumulated in their year to date performance amount (*YTD plateau*). Based upon the performance levels in the commission plan, the agent is just \$1,000 away from advancing to the next level in the commission plan and a higher commission rate.

Using the sale transaction example above, the agent earned \$2,250 in commission performance (*using the Personal Commission comparator*). In a non-blended commission plan the agent would only have the level 1 commission rate applied to the commission calculation.

In a **blended** scenario, the calculation is adjusted when a portion of the personal commission amount reaches the next performance level in the commission plan. Therefore, the first \$1,000 of the personal commission amount would have the level 1 commission rate applied (\$500). This partial amount would now push the agent's performance level to level 2. The remaining \$1,250 would be calculated using the level 2 commission rate or $\$1,250 \times 55\% = \687.50 .

Adding the two partial calculations in a blended calculation would equal $\$500 + \$687.50 = \$1,187.50$. In the non-blended calculation the agent's commission amount would be just \$1,125 or \$62.50 less. Most real estate broker owners select the blended option, because the competition in their marketplace is offering a similar plan. Recruiting new agents will often determine the commission pay plans offered. The bottom line is that if your technology cannot calculate blended levels within a commission plan and your competition can, ***where does that leave you?***

Illustration #5

Base To Use: Revised		Rolling Plans: N /			
Level	Dollar Values	Outside Broker Deals		In-House Deals	
		List Rate	Sell Rate	List Rate	Sell Rate
Level 1	\$0.00	50.00%	50.00%	50.00%	55.00%
Level 2	\$20,000.01	55.00%	55.00%	55.00%	60.00%
Level 3	\$35,000.01	60.00%	60.00%	60.00%	65.00%
Level 4	\$65,000.01	65.00%	65.00%	65.00%	70.00%
Level 5	\$100,000.01	70.00%	70.00%	70.00%	75.00%
Level 6	\$0.00	0.00%	0.00%	0.00%	0.00%

When reviewing the commission pay plan set up screen above you can see that each level can have a completely different commission rate based upon the **sale type** and the **role** the agent played within the transaction (list or sell side). Commission plans can be totally customized to fit whatever requirement a brokerage firm may have.

Notice in the illustration above, that **in-house sale transactions** have a higher commission rate for the sell side of the deal. This is a useful feature that allows the brokerage to adjust incentives depending upon current market conditions.

Even more interesting is that any one agent can have multiple commission pay plans assigned to them to fit specific transaction types. For example, if the agent is involved with rental transactions or commercial leases or industrial sales, each one of these **sale categories** can have a completely different commission pay plan assigned to the agent.

Illustration #6

Level 14	\$0.00	0.00%	0.00%	0.00%	0.00%
Level 15	\$0.00	0.00%	0.00%	0.00%	0.00%
Level 16	\$0.00	0.00%	0.00%	0.00%	0.00%

This Associate's Commission Year begins 11/01/2019 and ends 10/31/2020.
 The Commission Year has 12 months.

YTD Plateau \$11,865.15

YTD Marketing Fee \$239.70

The lower section of the commission pay plan set up screen assigned to this agent displays the agent's year to date performance credit (*referred to as YTD plateau*). The plateau level is constantly being calculated each time the agent is involved with a closed transaction within their

commission anniversary year. It's the year to date plateau (*performance credit*) that determines which level within the commission pay plan will be used to calculate the agent's commission amount.

Each commission comparator type or option determines the YTD plateau amount that the agent will be rewarded with each closed sale throughout the agent's commission anniversary year. Each comparator type will have matching performance level values within the commission plan set up screen. The Gross Commission Comparator will have much larger performance level amounts than the Net Company Dollar option.

Another important feature for any back office solution when considering commission plan options would be the ability to **automatically** reset the agent's commission plan level whenever the agent's commission anniversary date is reached. In other words, the agent's YTD Plateau amount (*performance credit*) is adjusted to zero. When the agent has a new sales transaction entered after their commission anniversary date has been passed, the performance level will revert to level 1 within their assigned commission pay plan.

More sophisticated back office solutions can also use **year end rules** when determining whether or not the agent will start at level 1 within their assigned plan when their commission anniversary date (*year end*) has been reached.

For example, assume that an agent reached the highest level within their plan (*that would be 75% based upon the screen illustration above*). An option would allow the agent to be reset to a performance level that is higher than level 1.

In this scenario, even though the YTD Plateau (*performance credit*) for the new anniversary commission year has been reset to zero, the agent will use a higher pre-determined performance level (*within their plan*) and subsequently a higher commission rate associated with that performance level. The pre-determined level will be a setup option

when configuring the commission plan (*totally customized by the broker owner's administrative staff*).

The more commission pay plan options a broker owner can have to offer their sales force, the more flexibility they have to retain their existing agents and recruit new ones! Larger enterprise size brokerage operations understand the vital importance of balancing company profitability and satisfying their agents within the competitive nature of real estate.

Chapter 5. Recruiting agents and sales force balance

Regardless of their size, recruiting is the life blood activity for most real estate brokerage operations. Although smaller brokerage firms generally have fewer turnovers of agents than their larger counterparts, the fact remains that recruiting new agents is vital to maintaining existing sales performance or growing the brokerage business.

Even a hand full of **poor producing agents** will have some sales activity during their time at the brokerage firm. Multiplying a few agents with a few sales will still have created a revenue stream that will disappear when you let these agents leave the company.

To maintain the current level of revenue after these agents are gone means that the broker owner must somehow replace those lost sales. Quite often this means recruiting new members to their sales force.

The challenge many smaller broker owners have is determining the **type of agent** they need to add to their sales force. Too many of any one type can be financial disaster waiting for a place to happen.

For example, let's assume that a broker owner recruits a number of "**new**" agents with no real estate sales experience (perhaps *recruited right out of real estate school*).

In most cases, new agents (*with little to no sales experience in real estate*) will begin with a commission pay plan with a level 1 performance rate of 50% or maybe even less. This means that any sale made by a new agent provides the broker owner with a much higher net company dollar profit from the sale. Very good!

Unfortunately, only having new agents in the broker owner's sales force means slower sales growth and potentially not enough sales to stay in business. Not good!

Conversely having only experienced agents with a 70%, 80% or 90% commission rates equates to much lower net company dollar revenue.

In this scenario the business could be booming in sales but the broker owner is barely making the cost of running their brokerage business. Again, not good! Balancing the sales force with new agents, experienced agents and some agents somewhere in the middle is optimum for real estate brokerage success.

As a side note, it is ***not a good business practice (strategy)*** to have all agents on the same commission anniversary year. Having the entire sales force on the same commission anniversary year end will create major cash flow issues for the company at the end of the commission anniversary year. This is due to the fact that most of the agents will have reached the higher levels within their commission pay plan. The result of course is reducing the company's profitability with each closed sale. Not good!

A strategy or business practice used by many of our largest firms is to use the "***join date***" or perhaps "***birth date***" to establish the commission anniversary year for any single agent!

How does a broker owner know which agent type to recruit?

Business intelligent reporting is the only method to research and analyze the broker owner's current sales force to determine the current "*mix*" of agents within their firm. This is accomplished with a superior back office solution capable of producing real time reports to illustrate who's contributing the most to the broker owner's bottom line.

As mentioned in a previous section of this guide, large broker owners never shoot from the hip. They don't guess at what might be. They ensure they are collecting the right information (*accurate, complete and timely*) to enable them to review their sales activity whenever and wherever they are. Let's take a look at a few examples:

Illustration #7

Run Date 04/21/20 14:15 PM Associate Sales Ranking - Closed All Companies All Offices From 1/1/2020 To 12/31/2020 Page 1 Of 2

Each column is clickable (sortable)

Associate(s)	List Units	Sold Units	Total Units	Rk	List Volume	Buy Volume	Total Volume	Rk	List GCI	Buy GCI	Total GCI	Rk	Company Dollar	Rk	Comp\$ Contrib
Paoli, Chris (1199)	4.46	5.46	9.92	2	5953849	6309208	12263057	1	155100.37	143251.71	298352.08	1	61456.89	1	11.03%
Metlen, Nick (1018)	5.54	3.38	8.92	3	4229888	2534808	6764696	2	51197.23	91857.79	143055.02	3	56929.40	2	10.22%
Dragovic, Martin (1256)	8.75	3.96	12.71	1	3898000	1160816	5058816	5	91135.62	31532.28	122667.90	5	37000.00	3	6.64%
Becker, Kelly (1309)	1.75	4.15	5.90	6	590000	2817250	3407250	12	21608.69	79884.35	101493.04	7	30037.01	4	5.39%
Cook, Coleman (1304)	3.48	0.48	3.96	12	2649747	715366	3365113	13	60148.84	21084.23	81233.07	11	27999.99	5	5.02%
Eid Pels, Real Estate LLC (1287)	1.00	3.00	4.00	11	475000	1973000	2448000	16	13822.50	55430.65	69253.15	16	27717.75	6	4.97%
Williams, Amy (1217)	3.00	2.85	5.85	7	1103000	889750	1992750	18	27356.43	23963.85	51320.28	17	25660.15	7	4.60%
Morrison, Loraine (1522)	1.00	0.00	1.00	31	3450000	0	3450000	10	83662.50	0.00	83662.50	10	25098.75	8	4.50%
Land, Dean (1103)	1.00	2.00	3.00	17	315000	1292000	1607000	21	9166.50	37102.50	46269.00	20	23134.50	9	4.15%
Hannaway, Randall (1021)	1.58	1.50	3.08	14	3633285	775000	4408285	8	54997.60	20127.50	75125.10	19	20537.54	10	4.04%
Stempel, Sue (1310)	1.65	3.00	4.65	9	815500	2920000	3735500	9	23731.05	84972.00	108703.05	12	33900.00	11	3.90%
Witcher, Ashley (1366)	0.00	1.00	1.00	35	0	2195000	2195000	17	0.00	47900.00	47900.00	11	3444.00	12	3.44%
Harley, Dave (1088)	1.00	2.00	3.00	16	1350000	3625000	4975000	6	39285.00	55000.00	94285.00	13	3399.00	13	3.39%
Vivata, Kalle (1357)	1.00	5.04	6.04	5	12000	1429484	1441484	23	582.00	4000.00	4582.00	14	3011.00	14	3.01%
Dietrich, Kevin (1261)	1.58	1.50	3.08	15	3633285	775000	4408285	7	54997.60	20127.50	75125.10	15	2700.00	15	2.70%
Anderson, Mary (1326)	2.00	0.80	2.80	18	933000	368000	1301000	25	25894.15	10000.00	35894.15	16	2166.00	16	2.16%
McKnight, Rusty (1365)	0.00	1.00	1.00	34	0	990000	990000	29	0.00	28800.00	28800.00	17	2079.00	17	2.07%
Alford, Allison (1348)	0.55	0.55	1.10	29	599500	992750	1592250	22	7509.01	28889.05	36398.06	18	1969.00	18	1.96%
Enderson, Joanne (1258)	0.00	1.80	1.80	24	0	1085000	1085000	28	0.00	31573.50	31573.50	27	10592.40	19	1.90%
Brewer, Greg (1495)	3.50	0.90	4.40	10	5995698	5991	6001689	3	148997.33	2905.85	151903.18	2	9000.00	20	1.61%
Brookshire, Troy (1091)	1.00	0.00	1.00	39	1225000	0	1225000	26	39212.25	0.00	39212.25	23	7842.45	21	1.41%
Hugh, Donna Mae (1292)	3.00	2.20	5.20	8	928000	771000	1699000	20	13158.05	8589.35	21747.40	30	6791.93	22	1.22%
Plach, Tom (1298)	0.50	0.00	0.50	47	695000	0	695000	32	16853.75	0.00	16853.75	31	6741.50	23	1.21%

52.37%

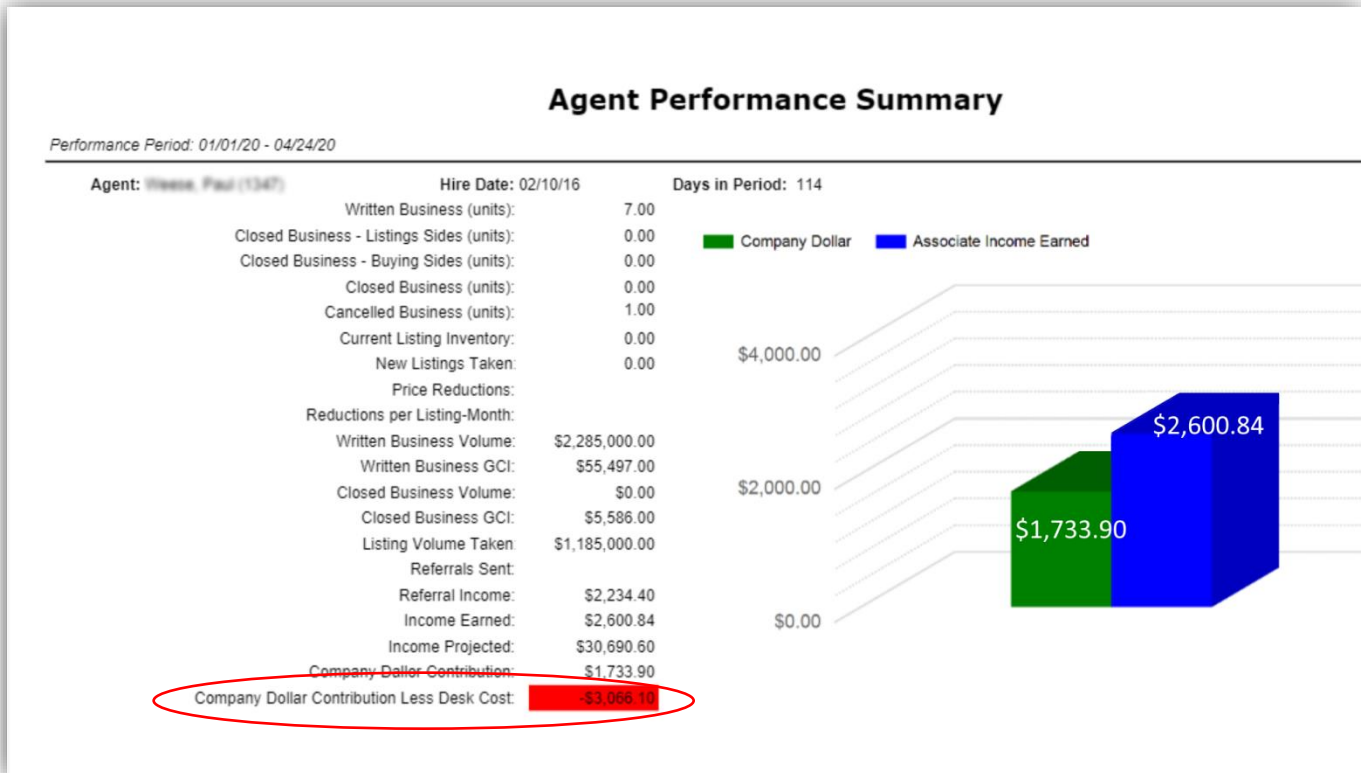
52% of your Company Dollar is being generated by 8 associates

If you were the broker owner looking at this report, **what would be your reaction?** Perhaps a more important question is what do you do as a broker owner when **you don't have this report available** to you whenever you want it?

This particular report is very powerful because each column within the report can sort the rows based upon the sales activity type such as list units, sell units, listing or selling volume, GCI values, company dollar and overall net company dollar. By permitting multiple viewing options, the broker owner is equipped with the vital information they require to make informed decisions as it related to recruiting and agent retention strategies.

If you don't know your numbers then you don't know your business. What you don't know about your business will probably put you out of business!

Illustration #8



Once again, you are the broker owner and you are reviewing this agent's year to date performance (*date ranges can be selected*). **What does it tell you?** Do you have this type of reporting in your organization? We guarantee that our customers do and they are competing in many of the same marketplaces you are. Where does this leave you?

As established earlier in this guide, recruiting is a vital activity within any brokerage firm regardless of their size. We have tried to illustrate that just "**throwing a bunch of agents into your sales force**" is not a long term strategy for success! Research and analysis using high quality data and advanced business intelligence reporting are major weapons that a broker owner can use to stir through the maze of choices when building a solid and long lasting sales force. It starts with quality data (**accurate, complete and real time**) and ends with easy access to that data to create a series of business intelligence reports.

Chapter 6. Added strategies for increasing income (without adding more sales)

Our most successful real estate firms understand the important of generating additional revenue streams without necessarily adding more agents, branches or even sales!

How do they do this?

There are a number of strategies employed throughout the real estate industry. This guide will provide some of the more popular methods that larger real estate organizations have integrated into their business practices.

- ***Closing Fees*** - most of our largest firms levy a closing fee that is paid by the client (*buyer and seller*). The fee varies from region to region. Some brokerages charge a nominal fee of say \$50.00 per side of sale. Others, especially in larger urban centers, the closing fee can be quite high charging up to \$500.00 per side. The closing fee is described as an "*administrative fee*" to cover the cost of managing the transaction from initial contract, to financing and other related administrative activities the brokerage is responsible for during the entire sale transaction process.

The client pays the closing fee but many real estate companies make the agent responsible for its collection (*usually on closing*). This means that if the agent did not properly inform their client(s) about the closing fee and the client refuses to pay it, the agent will have the closing fee amount deducted from their commission. Agents do not share in the closing fee revenue. Therefore the income derived from the closing fee goes right to the company's bottom line (*profit*). This can often provide more revenue (*profit*) than the actual profit the brokerage made on the sale transaction.

A sophisticated back office solution should allow for the calculation and collection of the client closing fee. Advanced back office solutions should also allow the automatic deduction of the closing fee from the agent's commission in the event the client has not paid fee. Regardless of the closing fee amount, brokerage firms not charging an administrative reimburse fee are missing out on a simple and rather easy way to add profit to the income statement.

- ***Stay-in-Touch Programs*** - **Company** controlled stay-in-touch programs are becoming more and more popular among larger real estate companies looking for ways to increase business. Unfortunately most sales professionals (*regardless of the industry they are working within*) are lousy at following up with past clients.

This creates a huge missed opportunity to create repeat and referral business for the agent and of course the brokerage. Repeat and referral business are ***two of the easiest ways*** to form a strong and lasting relationship which eventually will create new revenue opportunities.

The ***antiquated*** thinking that the agent ***owns*** the client information is falling to the wayside within many brokerage firms. Larger firms have struck a balance with their agents that provide for a smooth transition for creating a company controlled follow up campaign.

In most cases, the agent will benefit from any and all new sales resulting from the company run stay-in-touch program ***as long as they remain with the firm***. However, once the agent leaves the firm or quite often, leaves the industry, the company will take full ownership of the client information related to that agent. Some agreements between the brokerage firm and the agent would allow the agent to take their client data with them and are given a set period of time to create their own follow-up campaign.

When an agent leaves the industry (*gave up on a real estate career*) they orphan the clients that they did business with. Smarter more sophisticated real estate organizations realize that these past clients can be a gold mine for increasing sales and profitability in the future. Let's look at a few possible opportunities that a company controlled stay-in-touch program can create.

When one agent leaves another one takes their place. As mentioned earlier, recruiting is a major activity that every broker owner must engage in to maintain revenue or grow their business. New agents that are new to the real estate industry can find the first year very challenging. Once a new agent gets past family and friends, prospecting for new clients is often scary and difficult.

Imagine a scenario that allows the brokerage firm to "**feed**" their new agents with potential clients that know the company, have been involved with a sale with the company, like the company and more than likely will do business with the company again **IF** there was a stay-in-touch campaign in place that constantly reminded the client of their relationship with the real estate firm.

Two things happen that benefit both the new agent and the company. Obviously a new agent will appreciate being fed new potential clients. Their chances for success within the first year or so are greatly enhanced. Second, the company totally controls the past client and therefore can apply any commission policy they like. Generally, the past client will be treated as a company referral. As a referral, the broker owner can set the commission rate (*regardless of the commission plan level the agent has earned*).

Take it one step further and assume that the brokerage firm's policy with past client referrals is that the company is paid a referral fee that is taken off-the-top of the sale transaction commission.

Boom! More revenue from the off-the-top referral commission fee plus additional profit on the sale because the company dictates the commission rate policy on this type of transaction. Obviously this strategy can include veteran agents as well as new ones.

Integrating a company controlled follow-up strategy within a real estate organization will take some time before the revenue numbers start to increase. It will also require the company's administrative policies to be enhanced to ensure that client contact information is complete and accurate. This strategy really gets exciting when one considers even the most conservative predictive modelling.

Illustration #9

Stay-in-Touch Revenue Opportunity						
Assumptions used in forecast model						
Number of sales per year	100					
Percentage of clients that will be orphaned due to agent leaving the firm	10%					
Percentage of clients that will result in a new sale from orphaned clients	10%					
Percentage used to calculate the Off-the-Top Referral Fee	25%					
Sale price	\$ 200,000.00					
Commission rate used for a single side of the sale (listing or selling side)	3%					
Gross commission amount earned from the sale(listing or selling side)	\$ 6,000.00					
Company revenue created by applying referral fee (added to company earnings)	\$ 1,500.00					
Commission rate applied to agent's side of sale (based upon commission policy)	50%					
Commission amount paid to agent less the referral fee (\$6,000-\$1,500)* 50%	\$ 2,250.00					
Net company dollar earned from sale (created by the stay in touch campaign)	\$ 3,750.00					
		Year 1	Year 2	Year 3	Year 4	Year 5
New company dollar revenue created from orphaned clients follow up program						
	New revenue created using 100 sales per year	\$ 3,750.00	\$ 7,500.00	\$ 11,250.00	\$ 15,000.00	\$ 18,750.00
	New revenue created using 200 sales per year	\$ 7,500.00	\$ 15,000.00	\$ 22,500.00	\$ 30,000.00	\$ 37,500.00
	New revenue created using 300 sales per year	\$ 11,250.00	\$ 22,500.00	\$ 33,750.00	\$ 45,000.00	\$ 56,250.00
	New revenue created using 400 sales per year	\$ 15,000.00	\$ 30,000.00	\$ 45,000.00	\$ 60,000.00	\$ 75,000.00
	New revenue created using 500 sales per year	\$ 18,750.00	\$ 37,500.00	\$ 56,250.00	\$ 75,000.00	\$ 93,750.00

This illustration forecasts potential revenue that could be earned that would go directly to the brokerage's bottom line (*profit*). The assumptions are listed at the top of the spreadsheet. Using year one, the model assumes 100 sales were closed. The model used increments of 100 sales per year to allow a simple calculation for 200, 300, 400, 500 sales and so on.

The model assumes that in each subsequent year another 10% of the closed sales will orphan 10 clients (*because agent left the company and/or quit the business*). From the 10 clients that were orphaned 10% of them came back and created a new sale transaction (which is 10 clients * 10% = 1). Very conservative!

In year two, because of the stay-in-touch campaign, another orphaned client from year one will result in a new sale along with one additional sale from an orphaned client in year two. Year three will repeat the trend with one orphaned client from each previous year creating a new sale plus one new sale from the current year. Year four and five just follow the same logic.

The assumptions within the model are very conservative using just 10% of 10% to calculate the number of new sales per year created through the company controlled follow-up campaign. As illustrated, even with the conservative values used in the calculations, the result is HUGE!!!!

Who pays for the stay-in-touch program?

Our observation is that each firm will have their own method for funding the follow-up campaign. Some pass the entire cost to the agent in a form of a marketing fee. Others, especially if the follow-up program is operated from within the organization (*to keep costs low*), will pick up the cost. By picking up the expense of the stay-in-touch program, the brokerage firm can ensure all agents are participating. It also allows the company to control what the follow-up program will entail.

There are some great third party follow-up companies that offer a low cost service that will "touch" the past client in multiple ways over a period of five years or more.

The bottom line is that if your company is not protecting past clients from wandering to other real estate firms in the future, your

company is losing the opportunity to increase sales with minimum cost.

One final note on this subject of creating a company controlled follow-up campaign. Our customers have told us that they noticed a sizeable increase in sales from their existing agents when the campaign is in the second year and beyond. Sales 101 have proven time and time again that staying in touch with past clients creates repeat business. The same study also illustrates that past clients that have not been included in a stay-in-touch campaign will lose their "loyalty" and drift to another firm the next time they are in the market to buy or sell a home.

And what about referrals that may come from past clients?

Past clients that are happy with their transaction will often tell others of their positive experience ***if encouraged to do so in the follow-up marketing content they are receiving***. All past clients have family, business associates and friends who might be in the market to buy or sell a home sometime in the future. Capturing this potential business can enhance both the company's and the agent's financial position. Its ***win-win*** no matter how you slice it!

- ***Break Point Setting*** - as you know, a break point setting is the amount the agent must earn for the broker owner to cover the agent's costs and make a profit from the agent's sales activities. The commission plan performance level plateaus must take into consideration the cost of having the agent on the sale force. The break point will also factor in the profit the company is expecting to earn from the agent's sales.

When creating a commission plan the broker owner will usually ensure that the break point amount is reflected in the first level (*level 1*) within the plan. This strategy will make sure that the company has recouped all of the agent's cost including a reasonable profit amount

BEFORE the agent can advance to level 2 within the commission plan. Break point amounts will vary between branches and even between agents. This means that it is vital that the broker owner and their administrative staff constantly review the company's cost of doing business and reflecting this cost in the break point setting (*for each agent*).

Break point setting amounts can be altered on a regular basis to reflect the reality of expenses the company is responsible to pay. In many cases, the adjustment can be quite small (*even unnoticeable to the agents*). As an example, assume that your company wants to implement a stay-in-touch marketing strategy. The company wants the agent to pay all or a portion of the cost for the program. A direct deduction or monthly charge to the agent's account might cause some dissention in the sales force.

Adding the stay-in-touch cost to the break point amount will make sure that the agent's commission rate is not increased until all costs have been recovered. Assume that the cost of the follow up marketing campaign was \$25 per client per year. In our example let's assume that the agent does 12 new sales per year. Adding the \$300 to the break point setting will be nominal.

Some of our customers will use third party consultants like The Wav Group (www.wavgroup.com) to audit their financial position and create new compensation plans to reflect the company's short and long term financial goals.

What's important is the realization that broker owners must constantly review overhead costs and ensure that the agents are covering their costs. Using the break point amount allows the brokerage to recoup their expenses before agents advance in their commission plans.

- **Commission advances** - a number of our clients will provide their agents with a commission advance on a sale that is just waiting for the closing date. Obviously some care is required to make sure that the deal will close on time. Providing a commission advance option for agents can create a very positive relationship between the company and their sales force. ***How does this increase a brokerage's profit?***

The agent would not expect the bank to advance them a loan without some form of fee or interest or both. Some brokerages will outsource this service to a third party organization like eCommission (<https://www.ecommission.com/>). Many of our customers provide this service using their own in-house resources. When doing so, the broker owner will apply a fee as well as a reasonable interest rate until the sale is closed and the advance is repaid. With some simple policies and safe guards this strategy is win-win for the company and the agent.

- **Agent Accounts Receivables** - most real estate brokers will allow their agents to charge expenditures to the agent's receivable account. In many cases, the broker owner will have no choice as the outside suppliers will insist that the broker owner pay their invoices and leave the recovery of the expense to the real estate company.

Depending upon the size of the sales force, the accumulative amount of money the agents owe to the company can be substantial. Most of our broker owner customers charge interest rates (*and late fees when an agent defaults in reimbursing the company*).

A sophisticated back office solution will not only calculate and apply the accounts receivable fees set by the brokerage, but automatically deduct the agent accounts receivable balance directly from the agent's commission on closing. In the event the agent does not have any closing coming up, the back office solution should automatically

use the agent's credit card to settle the account. Ultimately the broker owner will either break even when handling agent accounts receivable balances or in some cases, make a profit from interest rate and other related fees.

- **Commission policies** - depending upon market conditions, **agents** (*not the real estate firm*) might consider offering their selling clients a discounted commission rate. The challenge the broker owner might have with this practice is that the amount of commission remaining for the company will be far less than the brokerage firm can afford. In other words, all sales should provide the broker owner with a profit from the sale. Discounting commission rates potentially can squeeze the profit amount to an unacceptable amount or worse, create an actual loss to the brokerage.

A sophisticated back office solution would allow the broker owner to set commission policies to adjust the brokerage's commission when an agent offers a discount that leaves the broker owner short of the expect revenue to be earned from the sale. This adjustment would automatically transfer some of the agent's commission to the company's net company dollar to make up for the loss the company would have incurred.

The amount transferred from agent to brokerage would be a customized setting that the real estate firm would deem to be appropriate. Typically the fully automated calculation would calculate the difference between what the broker owner should have received (*without the discount*) and the amount the brokerage firm actually received (*with the discount*).

- **Off-the-Bottom deductions** - another method of creating new revenue without adding new sales is by striking a balance with the agent sales force that would allow the brokerage firm "**charge back**" to the agents specific costs of doing business. Error and Omissions

Insurance, administrative costs, marketing fees, are some of the deduction types. Some brokerage firms will add a small administrative fee to each deduction to cover the costs of managing these expenses and their collection from each sales transaction. Some amounts can add up over time and depending upon the volume (*number of sides*) that a brokerage produces, these small amounts can be a substantial amount. The right back office solution makes off-the-bottom deductions easy to customize, set up and automatically calculated and deducted from the agent's final commission amount for any given sale.

Chapter 7. Knowing is better than guessing

(a case for business intelligence reporting)

Throughout this guide the topic of "**knowing**" and "**business intelligence**" are mentioned as key reasons for the success of any business organization and this also applies to real estate brokerage. Business intelligence reporting is not new and not difficult to integrate into any brokerage operation. Even modest real estate firms have some form of business intelligence reporting to guide them through the financial maze of running a brokerage firm.

The larger the brokerage company the more advanced they are in collecting, vetting and organizing their operational data. When great data is matched up with a great business intelligence reporting solution, the broker owner and their entire team are better equipped to handle the many complexities they face each and every day. Conversely, poor business practices results in bad data and poor or inadequate reporting.

Larger firms invest heavily in affordable technology to streamline the entire process of recording, tracking, managing and maintaining high quality data. These firms work hard at creating practical policies and processes for collecting the data and ensuring that the information is accurate, complete and timely. As mentioned earlier, "*garbage in will equal garbage out*".

As you can see, the first step in creating an awesome business intelligence reporting solution is to create the best practices and procedures in the brokerage's administrative department. This starts with the agent and working through the entire company's the branch office administrative staff, branch managers and head office administrators.

The next step is for the broker owner to validate that their current back office solution is creating the best and most accurate reporting available. This step requires the broker to take a hard look at each report within their current solution and determine whether or not their reports are meeting the needs of the entire company from management to the sales force.

It's been our experience that a majority of the companies that select our products and services do so because their current solution is antiquated and lacks the flexibility to produce meaningful business intelligence reports. All too often, these older systems make it difficult to collect and correctly enter the business information into a well organized central data base. We are sometimes surprised to find that the business reports management is relying upon for accurate and timely information are full of errors, omissions or incomplete! Ouch!

Illustration #10

Associate Period Comparison

Agent: *Michael, Mark (1019)*

Period 1: 01/01/19 - 05/08/19 Period 2: 01/01/20 - 05/08/20 **Days in Period 1: 128** **Days in Period 2: 128**

	Period 1	Period 2	Comparison
Contracts Written (units):	9.73	14.80	152.09%
Contracts Closed (units):	9.73	10.80	110.99%
Contracts Cancelled (units):	0.00	0.00	N/A
Percent of Contracts Cancelled (units):	0.00%	6.76%	N/A
Sales Volume Written:	\$8,864,950.90	\$11,610,913.72	130.98%
Sales Volume Closed:	\$8,864,950.90	\$9,086,663.72	102.50%
Listings Taken:	0.00	34.00	N/A
Listing Volume Taken:	\$0.00	\$28,760,000.00	N/A
Referrals Closed:	\$0.00	\$1,128.37	N/A
Agent Income Earned:	\$169,011.16	\$148,869.46	88.08%
Contribution to Company Dollar:	\$58,000.00	\$51,999.99	89.66%
Total Sales Volume:	\$8,864,950.90	\$9,086,663.72	102.50%
Total Units:	9.73	10.80	110.99%

Excellent Improvement (≥ 40%)

Performance Warning (-20% to -40%)

Good Improvement (20% - 40%)

Serious Performance Alert! (≥ -40%)

The above report provides the broker owner or their management team with critical reporting to illustrate an agent's sales performance over two periods. Whether the report reflects a positive or negative overview of the agent's activities, having this type of intelligence provides the foundation for better decision making.

Imagine that you have the ability to create this business intelligence report at any time for any agent or group of agents?

How more effective would you and your management team be when armed with this real time reporting?

Illustration #11

Associate Cash Flow Projection

Projections for Weiss, Paul

Projections By					
Next 7 Days:	\$0.00	Overdue:	\$3,666.60		
8 to 14 Days:	\$0.00	Next 30 Days:	\$7,638.75	Red	- Greater than two weeks over the estimated closing date
15 to 21 Days:	\$0.00	Beyond 30 Days:	\$13,851.61	Yellow	- One week over the estimated closing date
22 to 28 Days:	\$0.00	Total Pendings:	\$25,156.96	Green	- Closing within one week of the estimated closing date

Number	Contract Date	Estimated Close	Days	Seller/Buyer/Property Address	Office Involved	Units	Volume	GCI	Income
S109-001-1711-1076	Listing 11/25/19	01/31/20	-81	Buccino/Sandoval/39870 Main Street	Steamboat Springs	1	\$180,000.00	\$5,400.00	\$3,666.60
S109-001-1711-1184	Selling 03/07/20	05/22/20	31	Gontkof, III/Peetz/27140 Sunset Lane	Steamboat Springs	1	\$525,000.00	\$13,125.00	\$7,638.75
S109-001-1711-1202	Selling 01/13/20	08/31/20	132	Lyman/Yarbrough/2575 Copper Ridge Dr	Steamboat Springs	1	\$405,000.00	\$12,150.00	\$8,249.85
S109-001-1711-1192	Listing 01/09/20	08/31/20	132	Buccino/Haack/39870 Main Street Unit 2	Steamboat Springs	1	\$165,000.00	\$4,125.00	\$2,800.88
S109-001-1711-1089	Listing 01/10/20	12/30/20	253	Buccino/Haack/39870 Main Street	Steamboat Springs	1	\$165,000.00	\$4,125.00	\$2,800.88
Total						5	\$1,440,000.00	\$38,925.00	\$25,156.96

This report is another example of business intelligence reporting that makes the job of a broker owner or their management team much easier. If this agent were to ask for an advance on future sales, what would you do?

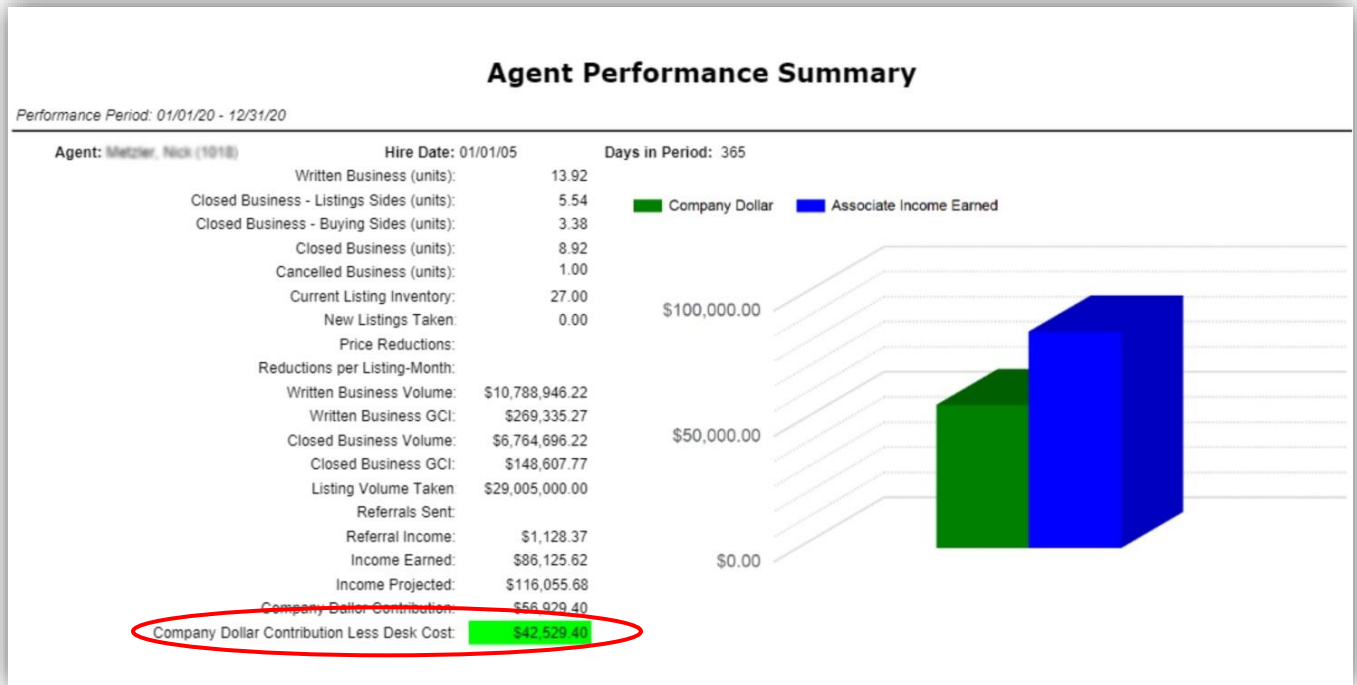
Illustration #12

Cash Flow Projection														
Projections By														
Next 7 Days:	\$19,780.90	Next 30 Days:	\$137,337.76	Total Pendings:		\$474,608.81								
8 to 14 Days:	\$40,570.50	Next 31 to 60 Days:	\$71,953.72	Red	- Greater than two weeks over the estimated closing date									
15 to 21 Days:	\$20,919.02	Over 60 Days:	\$113,938.79	Yellow	- One week over the estimated closing date									
22 to 28 Days:	\$55,873.34	Overdue:	\$151,378.55	Green	- Closing within one week of the estimated closing date									
Branch Name	Assoc Name	Sale No	Estimated Closing Date	Property Address	Role Played	List Units	Sell Units	Volume	GCI	Ref. Share	Agent Comm	Company Dollar		
Investment Services	Mark Clark	S109-001-1711-1083	1/31/2020	1608 Lane 6	Selling	0	1	\$2,700,000	\$67,500.00	\$0.00	\$33,750.00	\$33,750.00		
	Mark Clark	S109-001-1711-1076	1/31/2020	39870 Main Street	Listing	1	0	\$180,000	\$5,400.00	\$0.00	\$3,666.60	\$1,571.40		
	Mark Clark	S109-001-1711-1076	1/31/2020	39870 Main Street	Selling	0	1	\$180,000	\$5,400.00	\$0.00	\$3,666.60	\$1,571.40		
	Mark Clark	S109-001-1711-1135	2/12/2020	Sundance Plaza, LLC	Listing	0.65	0	\$3,119.07	\$3,119.07	\$1,169.65	\$1,890.94	\$0.00		
	Mark Clark	S109-001-1711-1135	2/12/2020	Sundance Plaza, LLC	Listing	0.25	0	\$1,199.64	\$1,199.64	\$449.87	\$363.64	\$363.64		
	Mark Clark	S109-001-1711-1135	2/12/2020	Sundance Plaza, LLC	Listing	0.09	0	\$422.27	\$422.27	\$158.35	\$128.00	\$128.00		
	Mark Clark	S109-001-1711-1135	2/12/2020	Sundance Plaza, LLC	Listing	0.01	0	\$57.58	\$57.58	\$21.59	\$34.91	\$0.00		
	Mark Clark	S109-001-1711-1069	2/28/2020	56025 Moss Drive	Listing	1	0	\$820,000	\$32,800.00	\$0.00	\$31,816.00	\$0.00		
	Mark Clark	S109-001-1711-1072	3/27/2020	1901 Curve Plaza	Selling	0	1	\$3,900,000	\$78,000.00	\$0.00	\$39,000.00	\$39,000.00		
	Mark Clark	S109-001-1711-1096	4/8/2020	1750 Indian Trail	Listing	1	0	\$1,180,826.88	\$11,808.27	\$0.00	\$5,727.01	\$5,727.01		
	Mark Clark	S109-001-1711-1197	4/9/2020	1875 Hunters Drive	Listing	1	0	\$794,000	\$31,760.00	\$0.00	\$23,419.63	\$7,387.57		
	Mark Clark	S109-001-1711-1204	4/9/2020	700 Yampa Street	Listing	1	0	\$415,000	\$0.00	\$0.00	\$0.00	\$0.00		
	Mark Clark	S109-001-1711-1204	4/9/2020	700 Yampa Street	Selling	0	1	\$415,000	\$0.00	\$0.00	\$0.00	\$0.00		
	Mark Clark	S109-001-1711-1206	4/13/2020	TBD Grouse Ridge Lane	Selling	0	1	\$310,000	\$9,300.00	\$0.00	\$5,412.60	\$3,608.40		
	Mark Clark	S109-001-1711-1075	4/15/2020	305 Old Dairy Lane	Selling	0	1	\$600,000	\$18,000.00	\$0.00	\$9,000.00	\$9,000.00		
	Mark Clark	S109-001-1711-1086	4/15/2020	1714 Alpine Vista Court	Listing	1	0	\$875,000	\$17,500.00	\$0.00	\$9,384.83	\$7,590.17		
	Mark Clark	S109-001-1711-1086	4/15/2020	1714 Alpine Vista Court	Selling	0	1	\$875,000	\$26,250.00	\$0.00	\$17,823.75	\$7,638.75		
	Total				Grand Total			36	40	\$49,539,825.44	\$1,217,236.20	\$1,799.46	\$762,516.98	\$410,471.29

Business intelligence reports should allow the ability to filter the data to produce reports that are specific to any particular requirement. This Cash Flow Projection report is a great example. This business intelligence report can be filtered by agent, by branch office or for the entire company (*all branches*).

How concerned would you be if this report reflected your company's cash flow projection for the next 60 days?

Illustration #13



This report is similar to an illustration used in a previous chapter of this guide. This one is slightly different in that the agent in this report is showing a positive company dollar contribution. As mentioned earlier, a sophisticated back office solution should allow business intelligence reports to be filtered to reflect the data the management staff wishes to review. In this illustration, the report was filtered by a date range and a specific agent.

Just these few examples should be enough evidence that high quality business intelligence reporting is vital for any real estate business regardless of their size.

Chapter 8. How technology can be a major contributor to success

Antiquated technology can create serious challenges for real estate broker owners. From poor data collection practices to lousy reports, an old tired system can limit any brokerage firm's ability to grow and prosper. It's another reason most of our customers selected our products and services. Our customers realized the obstacle that their current solution was creating. Ask anyone of our existing customers if they regret their decision to select our organization as their supplier. Many of our customers have been using our products and services for decades. That just wouldn't happen if our technology was not delivering the results the brokerage firm requires year after year!

Flexible, customizable, scalable, proven and reliable are just some of the key words that describe a modern back office solution. If this doesn't describe your current solution, then it's time to make a change.

Affordable is also a major ingredient when deciding which solution to select. Quality should not be sacrificed because of price. Cheap solutions are generally worth what you paid for them, not much! Expensive solutions that can do everything you want can also be problematic. It's not much of a solution if you cannot afford it.

When considering a new solution, ask yourself whether or not the new technology can save you money or make you more competitive. Perhaps increase revenue through creative commission plans or by applying new administrative fees to the sale. The cost of the technology should be considered an investment that creates a "*return on and of your investment*". Sure there is a cost to doing business, but if technology can pay for itself in a reasonable period of time, then the cost of the technology is somewhat irrelevant.

Our customers continue to tell us that their firm would have experienced serious issues if they continued on with their older solution. They also tell us that our products and services pay for themselves very early in the process.