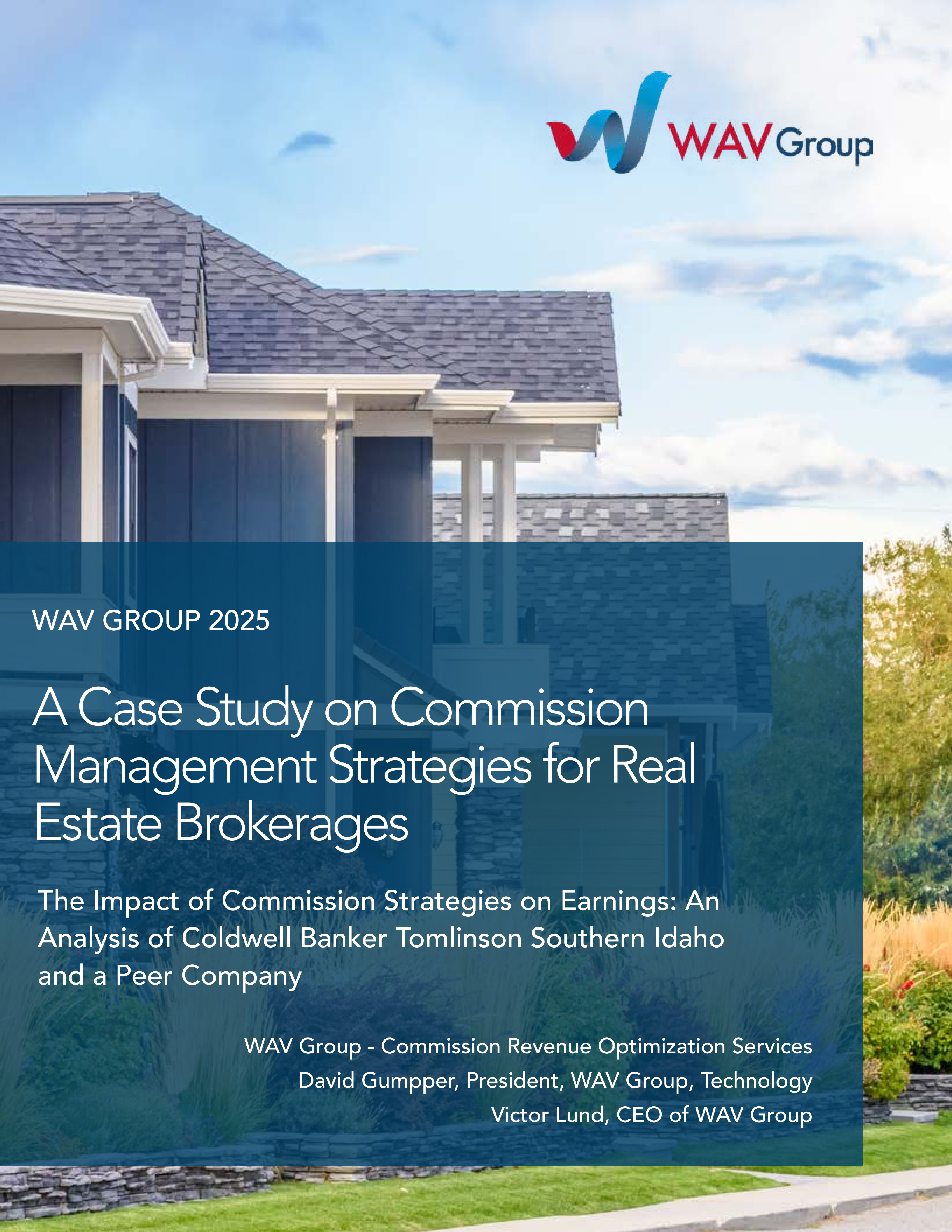

WAV GROUP 2025

A Case Study on Commission Management Strategies for Real Estate Brokerages

The Impact of Commission Strategies on Earnings: An Analysis of Coldwell Banker Tomlinson Southern Idaho and a Peer Company

WAV Group - Commission Revenue Optimization Services

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Introduction

In the current real estate market, brokerages continually strive to provide appealing commission structures that attract and keep agents while maintaining profitability. Many real estate brokerages use complex, multi-level commission structures that are difficult to administer, lack transparency, and often lead to financial losses for the brokerage. At an office level, it is not uncommon for brokerages to have 35 commission plans for 50 agents.

WAV Group collaborates with brokerage companies to analyze the commission structure across a firm to identify all of their commission plans, rank them in terms of agent income and brokerage income, and consolidate plans to drive commission management efficiency, agent retention, agent growth, and increase company dollar revenue.

This study compares commission structures at two real estate brokerages: Coldwell Banker Tomlinson (Boise) and a leading independent brokerage. The goals for each of these brokerages were different. Coldwell Banker Tomlinson had already modeled its commission strategy but wanted to validate its results. A leading independent brokerage wanted to gain insight into the financial impact of a new commission strategy and contrast it against existing commission plans.

Each brokerage emphasized the need for deeper insights into how commission plans would impact the economic landscape for their offices and agents. This understanding was essential for them to have before developing a communication plan for changes that would affect agent culture.

It is important to note that neither company has implemented the commission changes that the analysis interrogated, but each has used the research to either formulate a new or develop new implementation strategies.

The Commission Revenue Optimization service enables brokerages to understand commission structures better before adopting a strategy that might lead some agents to switch to a competing brokerage across the street.

Bob Van Allen, President, Coldwell Banker Tomlinson

"There is perhaps nothing more important to a brokerage's profitability and recruiting and retention strategies than having clearly articulated commission plans and implementing those plans successfully. Mistakes made when modeling agent compensation and brokerage company dollar can be catastrophic to a brokerage's financial future. In addition, commission plans that aren't competitive within a local market can also make it difficult to recruit and retain productive agents."

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Scope and Data Sources

The analysis applied the new commission plans against prior transaction data to see the differences in agent and broker income. Each brokerage used different time frames in its analysis, covering different market periods. Financial performance was assessed under various commission models, focusing on GCI (Gross Commission Income), agent earnings, and brokerage earnings.

Commission Management Strategies

Effective commission structures are critical in real estate brokerage operations, directly influencing agent recruiting, retention, motivation, and productivity, alongside brokerage profitability. Commission strategies align incentives between brokerage firms and their agents without sacrificing the firm's competitive position in the market.

Modern trends include performance-based tiered commission models, fixed commission rates, and blended models that allow for variable earnings as agents progress through different productivity levels.

Key Findings

One brokerage would experience increased profitability through commission plan consolidation and the use of blending models. Coldwell Banker Tomlinson's (Boise) study indicated an agent earnings decrease by a little more than 5% but achieved an increase in total company earnings by 30%. A model that Coldwell Banker Tomlinson invested time in researching its opportunities to reinvest earnings into improved value for agents and consumers and funding growth initiatives. Similarly, our other client's study revealed their model resulted in significant adjustments in their commission structure, which, if implemented, would substantially change agent and company earnings across various counties.

Recommendations

- Simplify commission structures to improve management efficiency.
- Implement blended models cautiously, monitoring their impact closely.
- Clearly communicate changes to agents, emphasizing benefits for long-term growth and sustainability.
- Gather information to make informed decisions before applying them.

Overview of Coldwell Banker Tomlinson's Proposed Commission Model

Because Coldwell Banker Tomlinson covers a large footprint, there are significant local market differences within each area it serves. Consequently, its commission model and agent services vary from market to market and state to state. This required the study to isolate the new commission modeling for Coldwell Banker Tomlinson's Southern Idaho markets in Boise and Idaho Falls.

Coldwell Banker Tomlinson selected WAV Group to study their new complex commission environment, which included numerous plans that were streamlined into three very well-thought-out plans: Plan 1, Plan 2, and Plan 3. They also wanted insights into the impact of performance blending and non-blending models on company profitability.

WAV Group produced an analysis for every agent against every plan to show the delta of change in forecasting agent and broker earnings.

Remember - Coldwell Banker Tomlinson has not fully adopted or rolled out these test plans.

- **Plan 1:** Four performance levels begin at 70/30% and continue to full cap at 100/0% commission split for agents with the previous year's adjusted GCI defined as Level 1 GCI.
- **Plan 2:** Three performance levels, beginning at 80/20% and capping out at 100/0% commission split for agents with the previous year adjusted GCI defined as Level 2 GCI.
- **Plan 3:** Two performance levels, beginning at 90/10% and ending at 100/0% for the previous year's adjusted GCI that is more than the top end of Level 2 GCI.

After an agent achieves their cap in the plans, an off-the-bottom transaction fee is placed on each transaction.

Transactions that were relocation, company-generated business, or non-residential business would not contribute to the agent's performance level.

Financial Impact on Agents

WAV Groups' analysis indicated that 65.7% of agents had an average earnings decrease of 16.9% for blended commission plans and 17.0% for non-blended commissions. The remaining agents would realize earnings increase of 5.4% for blended and 5.3% for non-blended.

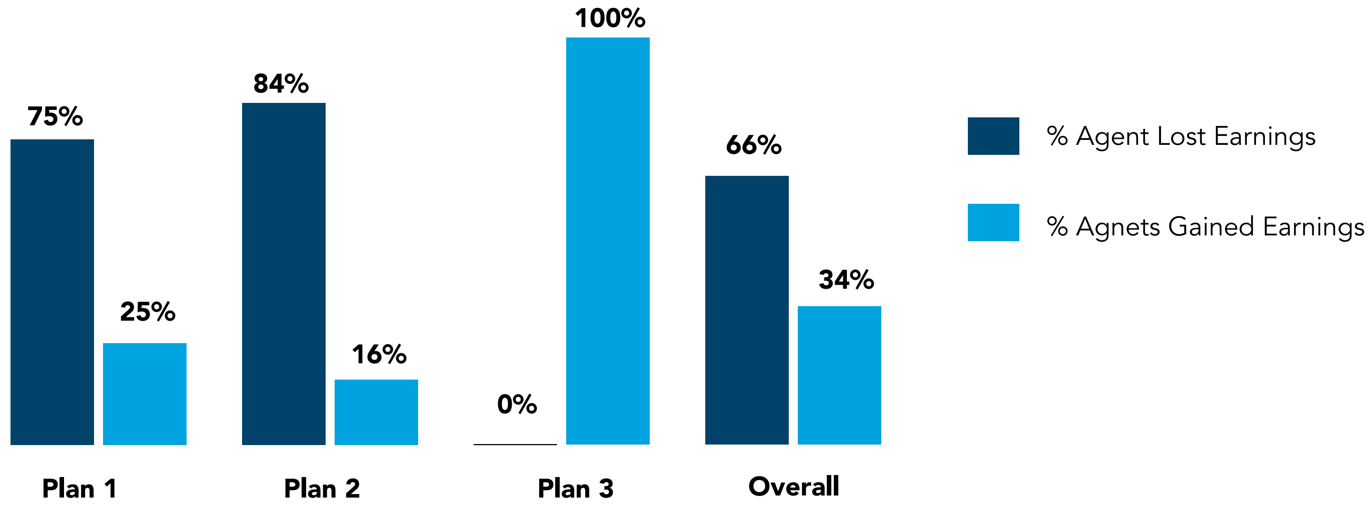
When performing a deeper dive into the analysis, it revealed that agent earnings were impacted differently based on their respective commission plan:

- Seventy-five percent of Blended Plan 1 agents experienced a 19.0% decrease in earnings, while 25% would have seen a slight 2.2% increase in earnings. The maximum earnings decrease was 26.2%.
- Eighty-four percent of Blended Plan 2 agents faced an average 9.7% earnings reduction, and 16% of agents would have seen earnings increase by an average of 9.1%.
- All agents in Blended Plan 3 would have experienced increased earnings. The average increase was 8.0%, with the maximum gain by an Agent at 36.2%.
- The NonBlend model consistently shows slightly larger losses for Agents than the Blended model
- Plan 2 level agents are protected from losses in both models
- Plan 1 and Plan 3 levels bear the majority of the revenue reductions
- The overall impact is negative, with the NonBlend model resulting in about $25,000 more in total losses compared to the Blended model

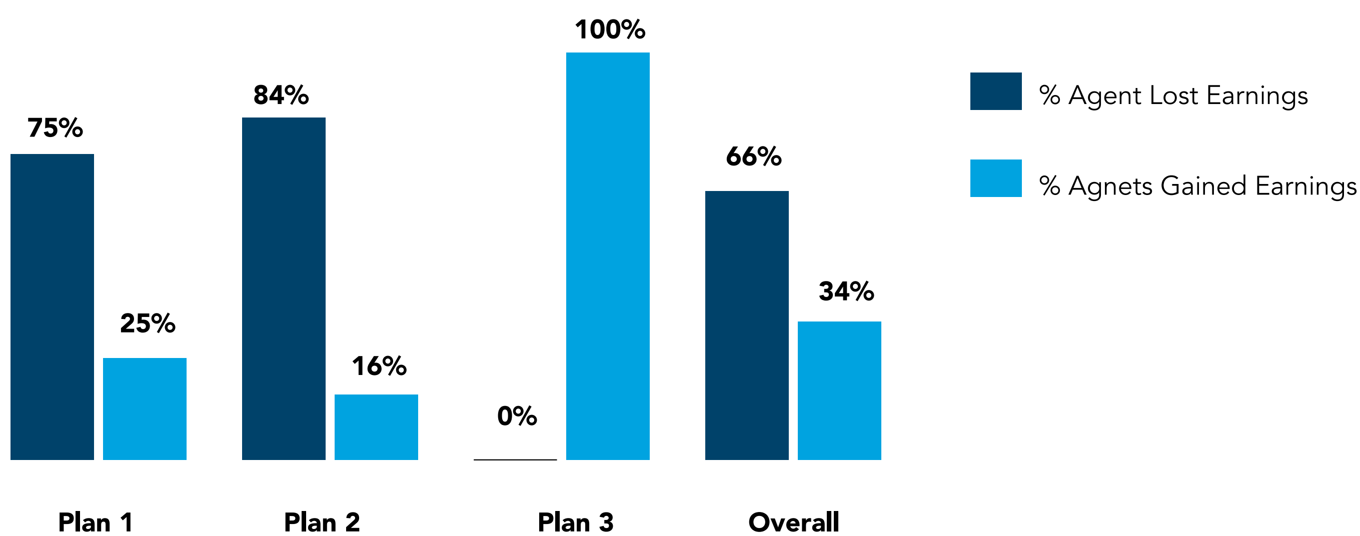
NOTE: Blending occurs when an agent has achieved a new commission level during the transaction. The commission paid to the agent is pro-rata between the two performance levels.

"This is why we engaged the WAV Group to validate our own internal modeling as we were modernizing some of the features of our agent commission plans in our South Idaho markets in 2024-2025. While we already had a clear mission with these changes – to recommit our company's focus to supporting and incentivizing productivity – we thought it was prudent to have an outside view from a "disinterested third party" to make sure the changes we were considering would make financial sense." Bob Van Allen, President, Coldwell Banker Tomlinson

Percentage of Agents Gain or Lost Earnings with Blending



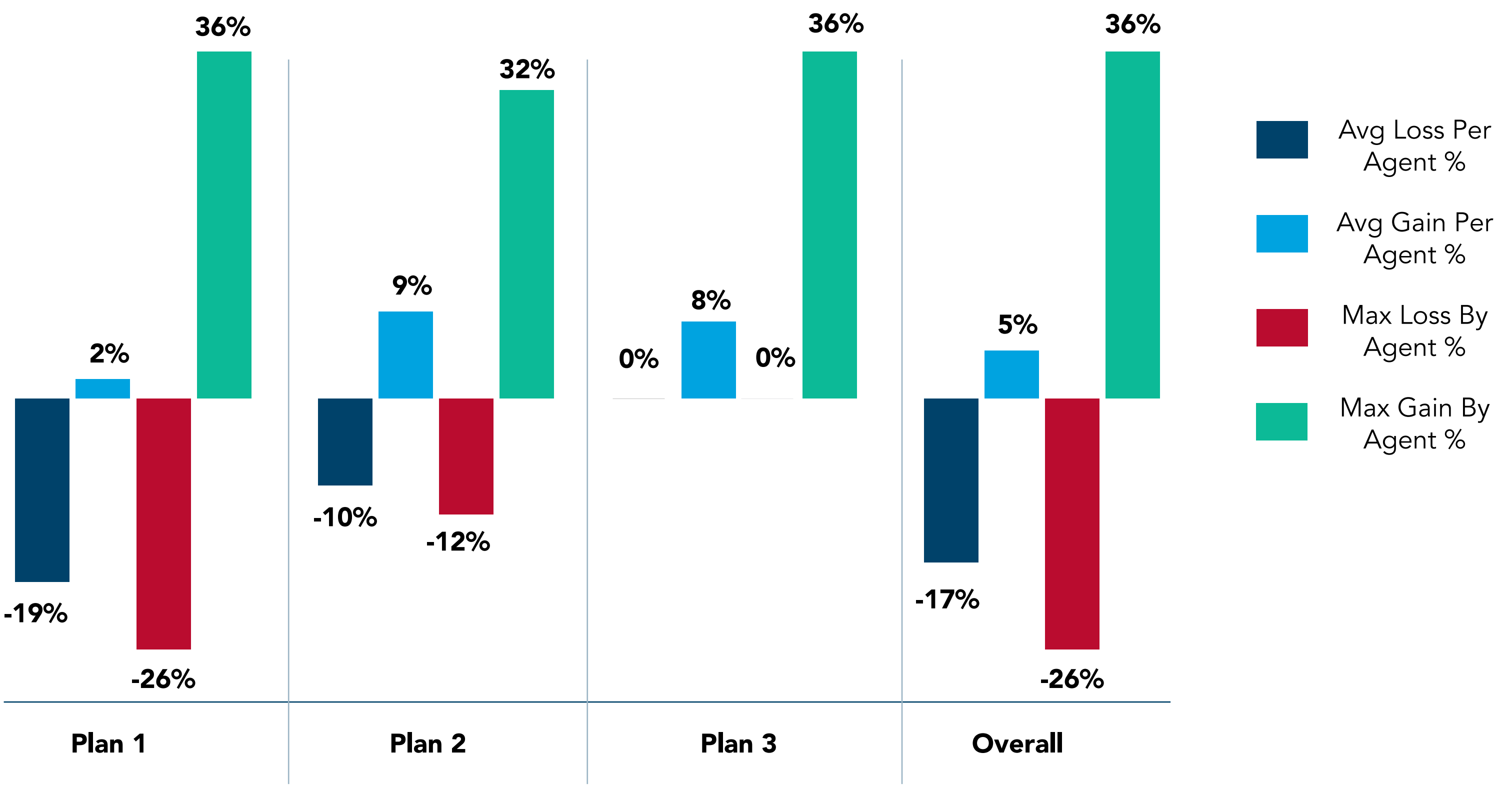
Percentage of Agents Gain or Lost Earnings without Blending



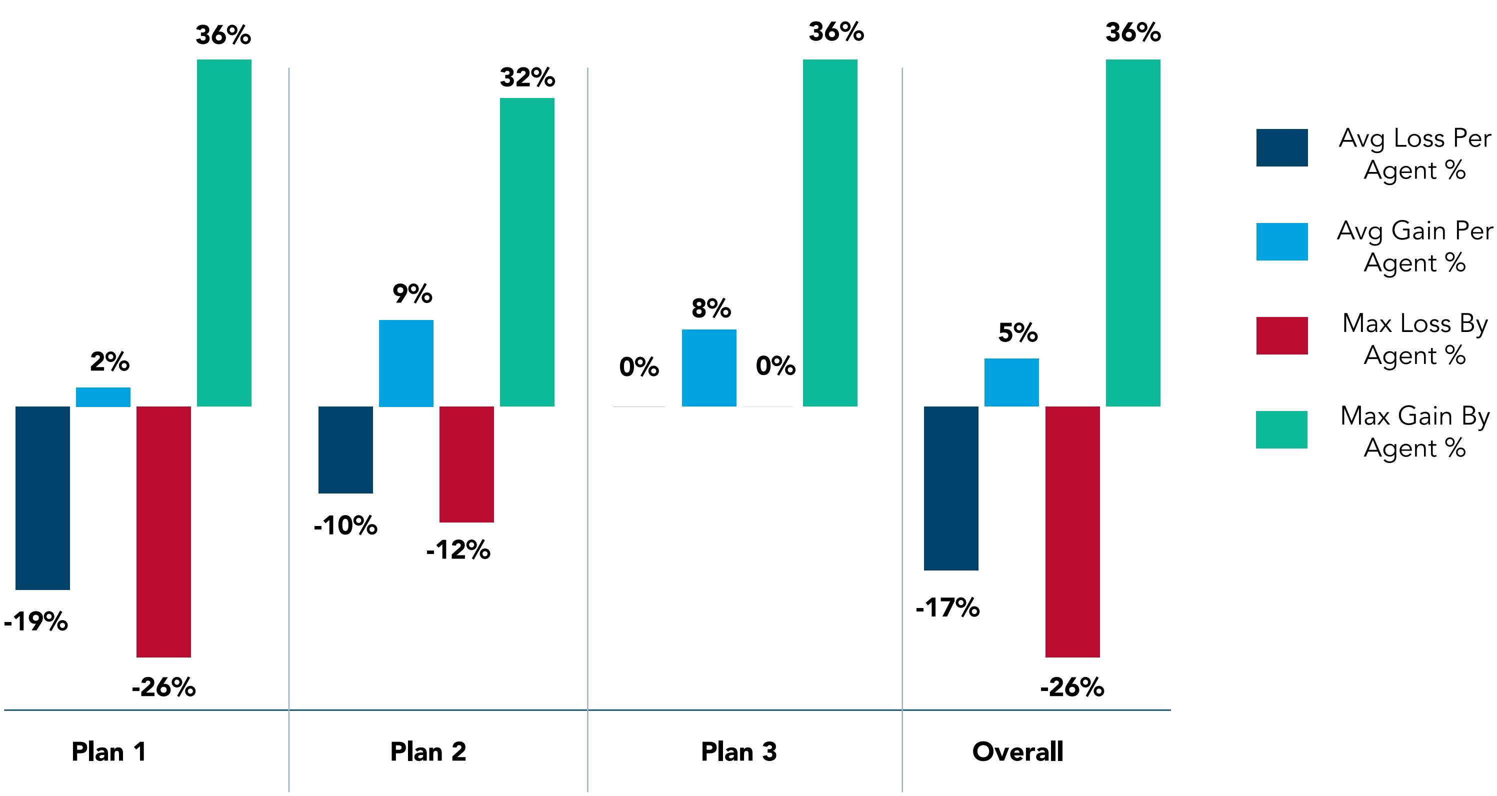
Financial Impact on the Brokerage

The WAV Group study revealed that restructuring agents at Coldwell Banker Tomlinson into these new plans could significantly boost overall company earnings (29.3% blended and 30.1% non-blended). This increase would mainly enhance compensation for top-performing agents while ensuring better cost management through franchise service and transaction fees. It presents a chance for Coldwell Banker Tomlinson to reinvest these earnings, enhancing value for both agents and consumers, while also supporting growth initiatives.

Agent Earning Loss or Gain with Blending



Agent Earning Loss or Gain without Blending



Leading Brokerage Commission Strategy Analysis

General Overview

Introduction

One independent real estate brokerage has quietly built a stronghold in a competitive market by doing what many aspire to: combining deep local roots with a sophisticated approach to luxury and resort real estate. This company has grown into a powerhouse without the banner of a national franchise, relying instead on long-standing relationships, strategic expansion, and a sharp focus on market positioning.

Production Highlights

The brokerage's transaction volume places it among the top-producing independents in the country. While it handles a high number of deals overall, its average sales price reveals a clear strength in higher-end transactions — a natural outcome of its focus on affluent buyers, luxury properties, and exclusive developments. Even when its deal count is smaller in certain markets, the dollar volume speaks to the caliber of the homes it represents.

Strategic Expansion

Rather than growing for the sake of growth, this brokerage has entered new markets through well-chosen acquisitions and mergers. It often absorbs respected local brokerages with deep ties to their communities and strong reputations. This approach allows for seamless brand integration, immediate local credibility, and a continuation of service standards.

Local Dominance

In its core markets, the company holds the leading position in both total sales and the luxury tier. Its dominance isn't by chance — it's built on decades of staying focused, serving repeat clients and their families, and continually reinvesting in agent support and local marketing. In new markets, it doesn't aim to be the biggest overnight — just the most trusted.

What Sets Them Apart

A few things make this brokerage especially effective. First, their agent network is tightly knit and extremely experienced. Many agents have long tenures and hyper-local expertise. Second, they've built systems and marketing tools that feel boutique but work at scale — which is no easy feat. Finally, the company blends local know-how with global reach, thanks to affiliations with several top-tier international real estate networks.

Global Reach Without Losing the Local Feel

Although fiercely independent, the firm is part of hand-picked global property networks that elevate their listings and connect them to buyers worldwide. This is especially impactful for high-end and second-home properties, where international exposure makes a difference — but the client still expects personalized, white-glove service.

Overview of a Leading Brokerage's Commission Model

This brokerage evaluated how potential adjustments in their commission structure would impact agent and company earnings across various counties.

The firm has not rolled out any of the analyses evaluated in this study. The results sent the brokerage back to the table to develop other strategies.

The brokerage was interested in testing its commission concept by using 2024 transaction history.

The models included slight commission adjustments and critically assessing the impact of performance incentives by keeping the agent at the same performance level they achieved as a starting point for next year. The models are:

- Plan 1 - Utilized the maximum performance level an agent achieved in 2024 as the starting level with the same 2024 production volume to compare agent and company earnings. A strategy that **eliminated the commission** reset on the anniversary date of their agent compensation plan.
- Plan 2 - Use the same requirements of Plan 1 with a **slight modification** to the commission splits from in-house transactions.

Financial Impact on Agents

Agent earnings varied significantly by county, suggesting regional market dynamics and agent productivity differences. Adjusting the performance levels to reflect actual market transactions had mixed outcomes on individual earnings, reinforcing the importance of customizing compensation plans to regional market conditions.

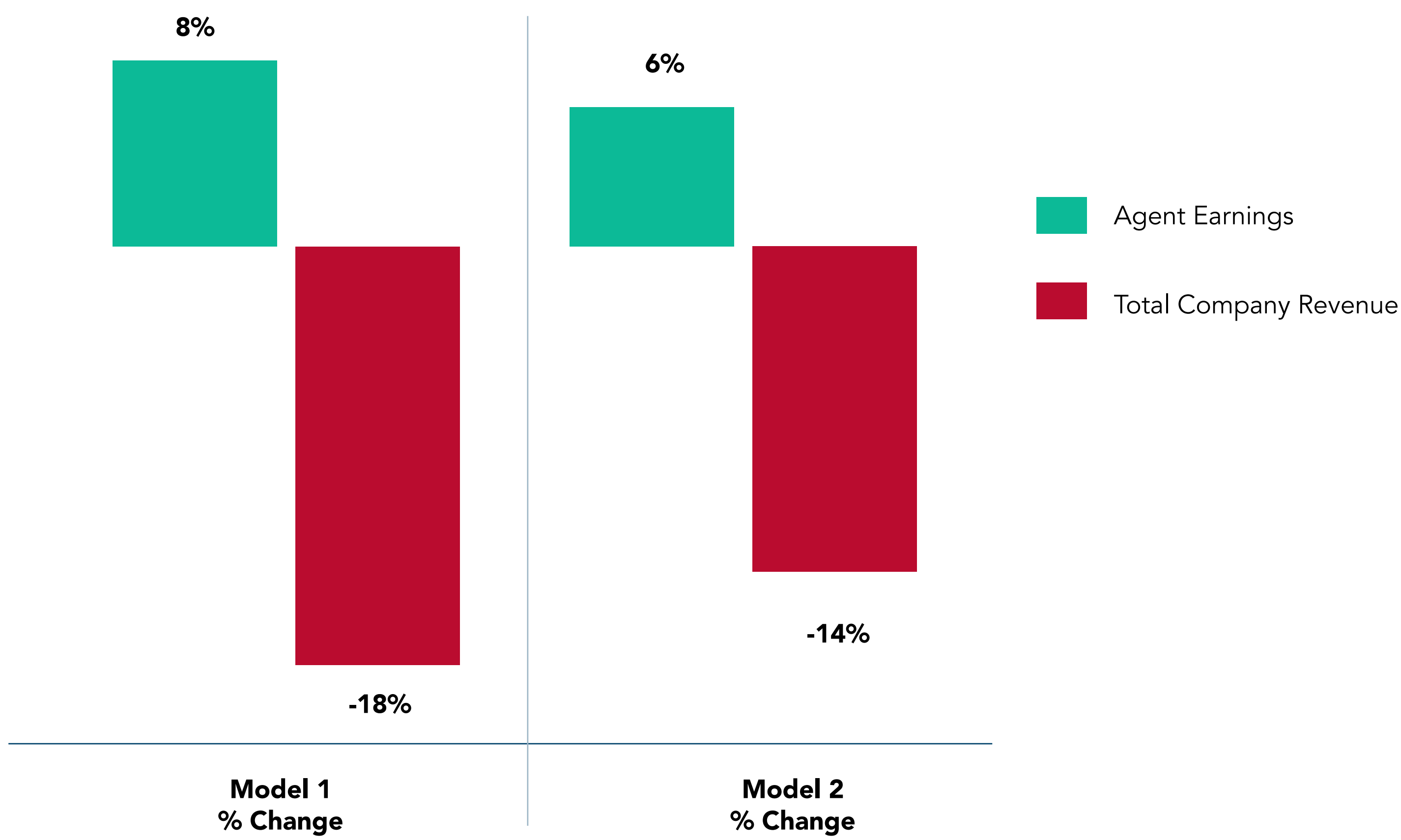
- Model 1 results indicated that all agents would see their earnings rise by an average of 7.99%.
- The slight modification in commission splits in Model 2 yielded a slightly different result, with agents' earnings rising by 6.17%.

Financial Impact on the Brokerage

Company earnings analysis, inclusive and exclusive of operating expenses, highlighted substantial regional variations. This approach demonstrated that carefully calibrated commission models can strategically enhance brokerage profitability by aligning agent incentives with the firm's broader financial objectives.

- The increase in agent earnings from Model 1 had a notable impact on the brokerage, leading to an overall projected decrease in company revenue by 18.05%.
- Model 2 indicated that the minor adjustment of commission splits only reduced the company's revenue losses by 4.13% from Model 1, or a 13.92% decline overall.

Agent Earnings and Company Revenue % Difference from Actual 2024



Comparative Analysis of Coldwell Banker Tomlinson vs. Leading Brokerage Models

Key Differences in Commission Structures

Coldwell Banker Tomlinson aimed to validate its existing commission strategy and explore potential optimizations. The brokerage sought to understand the financial implications of a new commission approach compared to its current plans. The brokerages were keen on uncovering profound insights into the challenges of commission changes for their offices and agents.

Agent Earnings Comparison

Both models proved advantageous for higher-performing agents. However, the earnings-based tier model used by Coldwell Banker Tomlinson identified agents on commission pay plans who were not meeting the plan's intended goals. As a result, the new strategy placed these agents into plans that offered lower splits and reduced earnings commensurate with their transaction volume and market conditions.

Having this new insight, Coldwell Banker Tomlinson began a general shift by the company to focus on recruiting and retaining more productive agents with these commission changes. The commission tiers, annual resets, cap, and additional fixed fees all played into higher producers coming out "ahead," while lower producers would fall back or stay stagnant in their commission plans.

In contrast, the leading brokerage's performance-based adjustments enabled higher-performing agents to enhance and maintain their earnings, while lower-performing agents remained at their current earning levels. However, this model failed to account for situations where a high-producing agent started to decline in performance; there was no mechanism in place to transfer them to commission plans that corresponded to their production levels.

Brokerage Profitability Comparison

Coldwell Banker Tomlinson's approach allowed the firm to understand possible increases in immediate brokerage earnings, reflecting the advantages of simplicity. Conversely, the Leading Brokerage nuanced approach might offer greater flexibility in regional market adjustments, potentially enhancing long-term sustainability, but at the cost of having a lower profit margin.

Key Findings

Both brokerages could experience greater profitability through commission plan consolidation and the use of blending models. Specifically, Coldwell Banker Tomlinson's analysis predicts a slight agent earnings decrease of a little more than 5% but achieved an increase in total company earnings of about 30%.

The Leading Brokerage's analysis shows that commission adjustments could significantly positively impact agents' earnings, while negatively affecting the company's earnings. The organization aims to balance market influences and business objectives by focusing on commission management to ensure profitability while incentivizing agent performance, attracting talent, and impacting market share. Their goal is a sustainable and equitable system that benefits agents and the company.

Key Takeaways and Strategic Recommendations

Recommendations to Others

- Simplify commission structures to improve management efficiency.
- Implement blended models cautiously, monitoring their impact closely.
- Invest time in discussing various implementation scenarios, which would lower any impact of agents' dissatisfaction or loss of company dollars. It may be better to apply change gradually than all at once.
- Communicate changes to agents, emphasizing benefits for long-term growth and sustainability of the agent community and the company.
- Keep testing different compensation scenarios to find the best for your brokerage and markets.

Best Practices in Commission Strategy

- Align commission structures clearly with your strategic financial goals.
- Utilize blended and non-blended models selectively, understanding their nuanced impacts on agent behavior and financial outcomes.
- Regularly assess commission plan effectiveness through detailed financial performance analytics and adjust accordingly.
- Anticipate broader industry shifts towards increased agent transparency and fairness in commission structures.
- Never implement new commission programs without an accurate analysis.

Summary

Commission management strategies significantly influence agent productivity, company profitability, and operational complexity. Coldwell Banker Tomlinson and our Leading Brokerage client will benefit financially from streamlining and optimizing their commission structures. It is all about searching the right balance.

The insights gained from this engagement with WAV Group allowed them to either proceed with a plan and adjust commission plans gradually or reconsider and explore alternative compensation strategies.

Implications for Real Estate Brokerages

Brokerages should strategically balance simplicity in commission plans with sufficient flexibility to adjust to market conditions and individual agent performance, leveraging modern data analytics to optimize results.

- Regular review and refinement of commission structures are essential.
- Brokerage leadership should prioritize communication clarity with agents during transitions in commission structures.

Future strategies should integrate robust analytics to continuously measure and refine commission policies to achieve financial goals and competitive market positioning.

WAV Group's case study offers invaluable insights that can help real estate brokerage leaders enhance their commission management strategies. By implementing the actionable intelligence presented, these leaders can significantly maximize profitability while improving operational effectiveness. Adopting these strategies not only streamlines processes but also positions brokerages for greater financial success in a very competitive market.

WAV Group
Commission Revenue Optimization (CRO) Service

The WAV Group offers a service called Commission Revenue Optimization (CRO) Service, which helps real estate brokers analyze and optimize their commission plans using data-driven insights. This service is particularly valuable in scenarios such as mergers and acquisitions, accounting system conversions, recruiting and retention efforts, new market expansion, and brokerage turnarounds.

CRO utilizes the Commission Analysis Prediction (CAP) program to model and compare different commission structures. By analyzing factors like agent production, market conditions, and brokerage costs, CRO helps brokers make informed decisions about commission plan adjustments. The ultimate goal is to strike a balance between agent earnings and company profitability, ensuring a sustainable and competitive business model.

One key benefit of CRO is its ability to provide insights into current pay plan production. Brokers can gather intel on the current pay plan based on historical closed sales transactions, agent rosters, and commission pay plans. This information is invaluable for deciding whether to extend an offer to a recruit or adjust existing commission plans.

Additionally, CRO offers flexibility in accommodating diverse models that brokerages may implement. For instance, brokers can model different strategies to increase revenue without infringing on the agent commission contract. By implementing various off-the-top and off-the-bottom strategies, brokers can increase their revenue depending on the agent's productivity and business growth.

For a deeper understanding of WAV Group's analysis solution, please refer to our whitepaper titled Commission Analysis as a Service - https://www.wavgroup.com/product/commission-analysis-as-a-service/

Overall, the WAV Group's Commission Revenue Optimization Service and CAP platform revolutionize how brokers manage and optimize their commission plans. This data-driven approach and comprehensive analysis tools empower brokers to make informed decisions that drive profitability and team retention. By partnering with WAV Group, brokers can streamline operations, attract top talent, and maximize their brokerage's potential.

About WAV Group

WAV Group, a leading consultancy in real estate, offers comprehensive advisory services tailored to brokerages. Their expertise spans commission management, technology strategy, marketing, recruitment campaigns, and mergers and acquisitions. With a diverse team of experienced brokerage executives and industry leaders, WAV Group leverages cross-functional expertise to help brokerages critically assess opportunities for business growth. Their services aim to enhance lead generation, reduce operational costs, and create pathways for market expansion. Learn more at www.wavgroup.com.

"Working with David Gumpper was a very positive experience for us, and the insights from his analysis encouraged us to make a few additional changes to our plans and gave us the confidence to implement these changes going forward."

Bob Van Allen, President, Coldwell Banker Tomlinson