UNDERSTANDING AGENT COMPENSATION

A GUIDE TO COMMISSION PLANS FOR TEAM LEADERS AND BROKERS.

PRESENTED BY: BROKER'S OPEN PODCAST

You shouldn't say you're a great team leader without having a strong fundamental understanding of the variety of compensation plans available today in the real estate industry. Further, you cannot just tell someone a commission split and believe that they understand their financial responsibilities related to running their business in tandem with your team or your brokerage. More often than not they just don't get it. Many team leaders, managers, managing brokers, and companies mask the specifics of a plan in an attempt to downplay the benefit that the team or brokerage will get from their alignment with the agent. Many business people understand there must be a financial benefit to individuals working together when it comes to a business partnership. You must be able to actually explain the value of your plan. You must also take into account, by at least acknowledging, the differences between options available in your market. This will allow you to articulate the lasting benefits received by the agent when joining your team or being hired by your brokerage. If done properly your explanation will justify the company dollar received by your brokerage in a way that helps the agent truly commit to your team because the value they receive outweighs the cost they pay.

If you cannot do this effectively, your reputation will most likely not recover from the perceived lack of transparency and value. Whether you are a team leader or a brokerage you must be able to answer the question, "Why are you in business?" All reasons will be valid but you must be honest with yourself of why you are taking on the liability of having others work on your team. Are you simply doing it so that you can have other people contribute some money towards your overhead? Is it because you want to be recognized as a leader? Is it because people are asking to work for you? Or some combination of these reasons? You must have a solid understanding of your foundational reason because it really does shape your compensation plan offering. So unless you're willing to pay for all the ordinary business expenses out of your own commission dollars, all while letting other people receive the benefit of those services, you are going to need a carefully considered compensation plan. One that requires some level of contribution from you agent population.

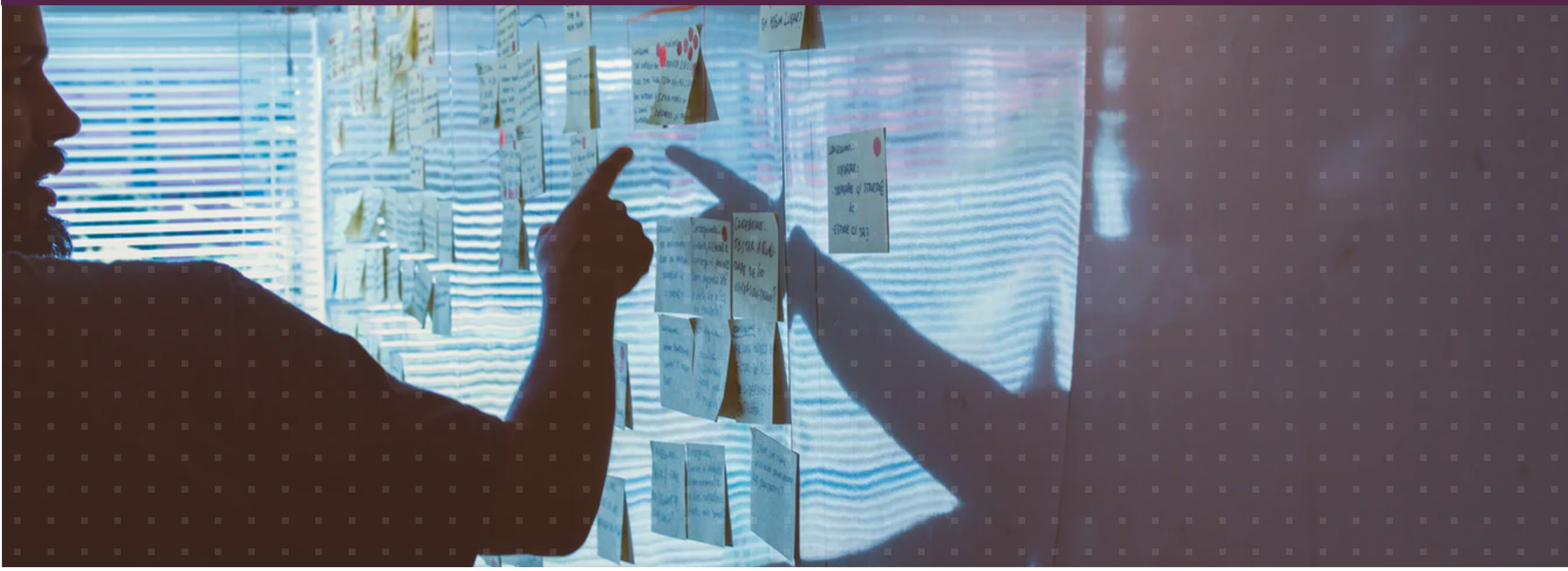
This is a good place to start:

Different.

This is a drastic example but a good representation of the constant creep of ordinary business costs that brokers run into on a regular basis. So knowing the number of agents that you can and will work with is a must when shaping your commission plan.

1. KNOW THE NUMBER AND TYPES OF AGENTS YOU NEED.

You must have complete clarity of your vision of the number of agents you are willing to work with along with a definite number of how many you will actually need! If the services you offer are not proportionally scaled to the number of agents hired or you will never catch up from a cost/benefit standpoint. In other words, you will never get paid back for the tools and systems you provide unless they are easily scalable. For example: You offer a 100% commission plan for agents that join and charge a transaction fee of a $100 and include "just listed" postcards as your value proposition? Let's say it works and you hire 5 agents who list several homes. There is a really good chance the cost of the postcards and signs are coming out of your pocket. However, if you're going to recruit aggressively and plan for the number of agents you need for 6 months for "buyer's agents" and you hire 5 agents a month on that plan your cash flow will be dramatically different.



2. WHAT EXACTLY IS YOUR VALUE PROPOSITION TO YOUR TEAM MEMBERS AND AGENTS.

This boils down to the services you fundamentally want to offer, how you plan to train them to use those tools and systems, and how they utilize them to compete for business in your market. Further, it means how to contain the expenses related to those services. Are you just a place for people to hang their licenses? Do you only want to be a "mom and pop"? Are you just collecting commissions on the properties you buy and flip? Do you want to be a profitable company that gets purchased so you can retire? Are you just trying to operate a business that you and your friends can sell some real estate part time? Do you love training agents and want to be known for that? Do you want to be a place for just "top agents", or is it some combination of these motivating factors?

For Example - Your physical space, staff, utilities, and tech costs, $300k per year. You would like a 10% profit and you to earn $75K in salary and other compensation (not including your commissions). That puts you around $415,000. If you and your staff can and are willing to support 15 agents then you need to collect $27,500 in CO$ per agent. That's a lot. If you have a cap rate plan that capped at $6k you would need 70 people +- ...that is a lot! If you had a cap plan at $20K you would only need 40 people IF THEY ALL CAPPED! Due to the uncertainty of production with agents the key is cost containment while having a consistent plan that allows you to earn while your agents earn. They are the majority owner in a business that you work together to run profitably.

3. SOLID ACCOUNTING STAFF AND PROCEDURES.

When you're trying to create a compensation plan, put one in place, or launch a new one it has to be simple for the agents and equally simple to administrate. We all know that when your staff makes mistakes on commissions the reality is most of the time it was just a simple error. That means the more difficult a compensation plan is for your staff to facilitate the more chance for those simple errors. Errors create distrust especially when they happen often. Regardless of how small an error, the seeds of distrust are planted and are difficult to overcome.

There are a few simple rules to ensure that a compensation plan is easy administrate.

A. It cannot be more than one page, EVER
B. There should not be more than 2 calculations that are made to get the company dollar and agent revenue.
C. It should be so simple that you could email it to every competitor in the market and they should be able to understand it.
D. Your accounting staff should be able to confidently explain it to anyone that asks.
E. You should be proud to explain the company dollar portion of it! Quite often, the agents do not truly understand the commission plan they are on.

A strong team or brokerage should be proud to discuss their plan but it should not take more than one minute to explain and be understood.

4. IF YOU CHANGE YOUR PLAN, IT MUST BE IMPACTFUL FOR THE RIGHT REASONS.

As we have discussed your compensation plan must be easy to understand, transparent, and simple to facilitate for agents and staff. That is especially important to keep in mind if you are changing to a new plan after having your current one for a long time. I have worked with companies that knew they needed to adjust their compensation structure and their 1st inclination was to adopt something that was even more difficult to understand than their current plan. They wanted to be as transparent as possible but ran into the complexity of a difficult transition. When a team leader or company decides to change plans the tendency is to not "rush" into a new plan that might not work. Therefore, they want to keep components of what they currently have that benefit everyone and then baby step into a new plan just to "make sure it works". That is a mistake. A big one! If you know you need to make a change with your compensation plan, make the change. Know the market, understand your numbers, make the cuts where needed, expand the spending where it's needed, but make sure that it is ALL based on a sound business plan. As you are making your plan just remember that YOU are going to have to explain it.

You will get about 1 minute of objective listening if you are lucky. After that, you should be selling benefits not explaining conditions. If you go to your agent population with, "Hey, we are going to do something new and better for everyone, and all they see is the same old plan or worse and something they cannot understand, it will fail. The simplicity should eliminate the doubt! When you are ready to launch it create a spreadsheet then sit down with your top agents ahead of time and show them how it will impact them and ask for input before you do a hard launch. Once introduced there must be blatant examples of the difference to their bottom line. To be clear, I am not saying make a change and just give up company dollar. Nor am I saying make a change that allows both of you to put more money in both of your pockets. Introduce a new beginning threshold but keeping your split for your top people the same while paying their reoccurring cost (which you can get in bulk) out of the co$. Ultimately, it is your job to lead, offer guidance in uncertain times, and to do the math! Remember, if all of your conversations are about commission splits then you are only competing on commission splits and you become a commodity. Dig in and understand your value, articulate it, and stay competitive.

5. THINK OUTSIDE THE MODEL.

Many brokerages begin doing business one way and then refuse to adapt to the changing market conditions around them because they get complacent or comfortable. They are fearful that agents will leave their team after they have invested in those agents. The truth is the opposite. Team leaders and brokers making a shift to be competitive in the market is more likely to help them keep agents and grow than it is to lose agents and fail if done thoughtfully. A well vetted commission plan renews excitement in your agent population. Especially if you are concerned with their interest as well as the health of the company in an everchanging market. Always remember to review your plan and how your company earns its revenue. As you create your 1-3-5 and 7 year business strategies it is important to include at least a SWOT analysis for each step of the way.

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SUMMARY:

The key is that you cannot keep all agents all the time. However, if you have a strong plan that is reviewed on a regular basis you can improve your agent longevity. If you typically earn $14,500 co$ per year on average for each agent how much will that net you over a 10 year period to keep each agent 18 months longer? The quick math says at least hundreds of thousands of dollars! This can reduce the strain on your training, recruiting, and staff, just because you planned for change when it comes to costs and revenue.

See below some helpful information related to compensation plans.

100% plan – infers that the agent will be paid 100% of the commission earned by the brokerage relationship with the customer or client and fees will be collected to create the co$.

Graduated plan – means that when X level of production is met then the agent is at Y compensation level.

Flat Rate Plan – means the agent pays a set amount on each closing regardless of the commission collected.

Cap rate plan – similar to a graduated plan but usually only has one level adjustment. You start here and when you hit this level you go to 100%. Typically how it is but not always. It can be based on company dollar, units, or total commission collected.

Effective commission percentage – means the commission rate and agent has once you take their annual collected commissions and divide it by their earnings. Effective is after the commissions have been earned, hence "effective".

Blended commission percentage - is the "projected" commission rate an agent can expect during the course of a year based on the compensation plan. Effective rate takes into account actual numbers which must be given after they occur (such as x amount of business being relocation and how that impacted earnings). When discussing commission with an agent you must be able to articulate the difference between these two especially if you are explaining what is projected to happen to their income.

Your plan could take into account the following items:

- ❒ Longevity - rollbacks
- ❒ Annual anniversary based on calendar or anniversary of affiliation and how it effects calculations
- ❒ Plans based on volume vs. units - personal property sales - investment property
- ❒ Sales - family sales
- ❒ Commercial vs. residential vs. property management – transaction fees
- ❒ Monthly fees
- ❒ Anniversary or annual fees
- ❒ Bonuses
- ❒ Franchise fees
- ❒ Marketing provided by the company
- ❒ Company leads vs. agent generated business
- ❒ New construction sales

And so much more…

If you can create the right plan for you market, a great option for your current agents, an attractive option for future agents that are a great fit for your team, all while generating the profitability your company deserves it will create an environment than will keep agents for a longer period of time which is a win for everyone involved. Changing plans does not need to be overwhelming but it does need to be thoroughly thought through! A well-prepared plan creates a path to long term success for you and your agent population!