

## If You Can't Beat 'Em, Join 'Em

*By improving your skill in constructing compensation plans, you can provide a valuable service to teams within your brokerage and beat the competition. By David Cocks, CRB*

**S**ometimes trends we don't like overtake us. We can complain about them, fight them (usually futilely) or give in. Giving in doesn't have to be a painful surrender. Instead, it can be an effective response to market realities. Two market realities I see my clients dealing with today are the growth of teams and how to match or beat the competition's compensation structure.

### **Compensating Teams**

One of the hottest topics in compensation right now is how to compensate teams effectively.

More and more agents are forming teams. The problem with teams, from the broker's perspective, is that when agents combine their revenue, the team reaches a higher split faster. The company dollar drops, but expenses stay the same.

The solution is to offer separate commission schedules for teams, and design those schedules to recover the costs associated with supporting each member of the team, such as office space, administrative expense, mana-

gerial support and utilities.

Some brokers are afraid of losing market share if they don't keep teams on the same commission schedule as individual agents. They are willing to give up company dollar for the sake of keeping the peace. But that puts the long-term profitability and stability of the company at risk.

The way to get a more positive response from agents is to provide support to those agents who want to form teams, helping them structure the teams more effectively. This kind of support can be highly valued; most agents don't know how to design team compensation effectively.

What tends to happen is that one of your top agents, who is currently receiving 80%, will talk to an agent who might be getting 50%. She'll offer him 70% of what she gets if he joins her team. That's a good deal for him, as 70% of 80% is 56%. He's now getting an extra 6% on every deal.

She keeps 24% of what he makes. That's good, but it may not be enough to compensate her for the overhead and additional expenses she carries for him, plus the loss of the time it takes to manage him. She may end up making less than she was before—and adding management headaches.

The brokerage loses, too, as it now keeps 20% of the revenue for the lower-producing agent instead of 50%—a loss of more than half of its

margin! So in this example, the person who benefits the most is the underproductive agent, who was only at the 50% level. That's just not satisfactory.

You can get better results working with agents who want to build teams, providing advice and helping them formulate solid business plans. This support can be part of your total package for teams, which would also include a separate commission structure. When you take this approach, you'll have more productive teams, happier primary agents, and you'll be able to keep your margins where you need them.

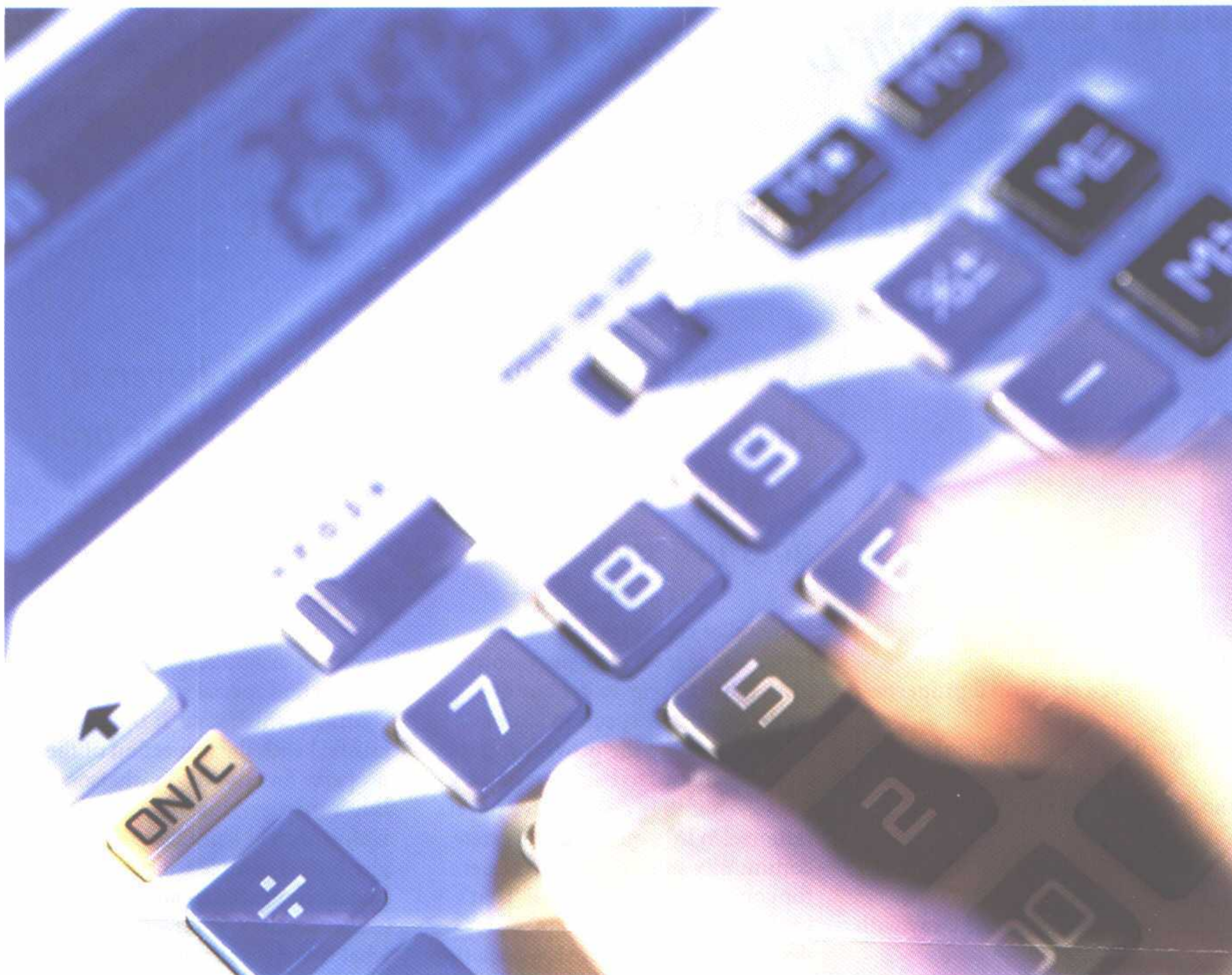
### **Beating the Competition**

Lori Hawkins, CRB Candidate and president of John L. Scott Southern Oregon, started offering a choice of compensation plans because the sales associates she was recruiting wanted commissions similar to those their previous companies offered.

Hawkins was also concerned about getting the company dollar from associates whose productivity was dropping. "We wanted to base compensation on productivity and make it fair to everyone," she says.

She worked with Compensation-Master to design five plans customized to meet the competitive pressures of her market:

**Partner plan.** Associates start at a split of 50% to 70%, determined by



their prior year's gross commission income. Upon achieving a certain associate earnings level, they accelerate to 88.5% or 90% with a unit fee.

**Daily rolling average plan.** This plan stabilizes the associate's income on an annual basis, so associates don't have to return to a lower level at the start of a new year.

**Entrepreneur A & B plans.** Both Entrepreneur plans have a monthly desk fee. The split for plan A starts between 60% and 70%, depending on the prior year's gross commission income and accelerates to 90% with a transaction fee. Plan B starts at 70%, accelerates to 95% and tops out at 100% (with the transaction fee) once associate earnings reach a defined level.

**Executive plan.** Associates pay a monthly overhead fee, a transaction fee and all expenses. This plan starts at 95%; once associate earnings reach a certain level, the split increases to 100%.

Helping people choose the right plan was the most difficult part. "It was interesting to us that the associates were more interested in their split level than in total earnings," explains Hawkins. "However, we didn't lose any associates over the commissions, and the top producers were ecstatic," Hawkins continued. "They had been paying the major portion of the company's expenses and could see the benefits immediately."

"The main reason to introduce these new plans was to increase profitability, no question. This has changed our bottom line dramatically," says Hawkins.

In 2000, the brokerage had one office with 50 associates. It acquired four other companies and opened one new office, for a total of six offices with more than 145 associates. When the plan was put in place in 2002, the company grew to 1,500 transactions,

up from 837 in 2001. Volume increased 108%, and company dollar increased 62%.

Profitability increased in subsequent years too. Hawkins said during the second year of the plan profits were nearly 10 times what they were for the previous year.

"Profitability is your only sustaining power," concludes Hawkins. "In today's marketplace there's so much competition. The only way you can survive is to have compensation plans that increase your staying power." ■



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