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TEAM BUILDING: TODAY'S DRIVER BEHIND EFFECTIVE RECRUITING AND RETENTION

As the saying goes: "No man is an island, entire of itself; every man is a piece of the continent" Traditionally, sales associates in residential real estate work independently—alone. However, more and more brokerages now encourage the concept of sales teams. This edition of Management Issues & Trends focuses on how creating productive teams can work favorably in recruiting and retention—and in meeting the bottom line.

Compensation guru David Cocks begins the issue by looking at both sides of the compensation coin—paying sales teams or sales partners and managers. Next, an independent broker/owner describes her compensation plans for her sales force of 10. Customization and company needs drive her strategies to build a tight-knit team.

Industry consultant Carla Cross reviews strategies for creating an effective team. Strong leadership, a common vision and accountability measures are key to a successful sales team.

Finally, read how a large regional company's commitment to community service inspires sales associates, managers and broker/owners to remain loyal to their brand and serves to attract new sales and management recruits in existing and new markets.

Compensation Strategies for Sales Teams and Managers



David J. Cocks

As real estate has become more and more competitive, compensation has increased in complexity. Today, the simple distinction between sales associates and brokers, with the old 50-50 split, is no longer sufficient. Compensation structures must accommodate assistants of different types, business partners and teams, as well as managers. Well-developed and well-executed compensation plans can give your company a competitive advantage in recruiting new talent and in retaining your top-performing managers and sales teams.

How to Compensate Sales Teams

More and more companies these days encourage teaming and partnerships among sales associates. Sometimes these are simple arrangements, such as providing administrative assistants to high-performing sales associates. Other times, arrangements are more complex. These involve teams of multiple sales associates, selling assistants and administrative help.

Often, brokers compensate these teams the same way they do regular sales associates. In theory, this would work if the group did not consume any more goods and services than one person would. In practice, though, a group is more expensive to support. For example:

- If an assistant is given an office, the company is deprived of the income that it might have received from a productive sales associate occupying that same space.
- Water, heat, air conditioning, wear and tear, telephone line usage and other costs may seem minor, but they add up.
- Personnel tasks, such as processing checks, making sure W-4s are correct and issuing 1099s, exist even if all but the primary sales associate work from home.

Many brokers ignore these costs, thinking they are too small to matter. However, we recently worked with one company with more than 300 sales associates and discovered it was losing \$280,000 a year on assistants alone. That's not an insignificant amount.

Most companies expect to recover these administrative costs through volume. While this will work if the split is low enough to offset the expense, this approach can be risky. Volume is neither consistent nor predictable. Using volume dollars to run your

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business can land you in serious cash flow difficulties if the market goes south.

A volume approach is particularly risky if the company does not offer separate compensation plans for teams. When two sales associates pool their resources, the team reaches a high split faster than one person would. While the sales associates benefit, the company loses one fixed expense recovery, and the company dollar decreases. (Splits should be determined on an individual basis.)

Instead, use a separate pay schedule for teams. Then the company can structure the compensation plan to recover the cost of supporting all team members. One strategy might be to have each team create its own business plan. This provides for the apportioning of commissions and expenses according to each person's expected contribution. Revisit the plan each year to make sure it still accurately represents each person's involvement on the team.

Assistants can be handled more simply, too. Typically, chargebacks recover administrative costs. Often, several levels of chargebacks make sense, depending on whether the assistant occupies office space. For instance, a monthly fee of \$30 to \$200 may be appropriate for administrative assistants who work from home. Selling assistants who have their own desk may cost \$300 to \$1,000 per month.

To determine the appropriate charges, you need to know what each extra person costs the firm. Once you calculate office expenses, you can determine the correct chargebacks. Regardless of the method used, the company must have a way to recover the cost of providing goods and services to its sales associates. The most fair and consistent approach is to have the people who consume those goods and services pay for them.

How to Compensate Managers

Compensating managers is far more complex. Managerial duties vary widely; some sell, some don't;

some own part of the business, while others are employees. Designing incentives that balance all these factors is challenging.

Managers should be compensated, at least in part, for their performance—the degree to which

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their decisions influence the company and contribute to its success. A well-designed plan typically includes a base salary plus incentives.

Base Salary: The base salary generally reflects the marketplace value of the manager's administrative duties. For example, if you expect those duties to take up to 60 percent of the manager's time, you must determine the cost of 60 percent of a full-time administrative manager.

Perquisites: Include perks in any compensation package offered to managers. Common examples are receiving company commissions for personal sales, management training, expenses related to conventions and business meetings, MLS dues, use of a company car, business cards, a cell phone and day care.

Overrides: Overrides can be calculated in many ways—on gross revenue, total gross commission income, net operating income, earnings of sales associates, or profit before taxes and interest. Typically, the higher the revenue on which the override is based, the smaller the percentage is. Make sure managers clearly understand what will form the basis of the override. Without that understanding, motivation is diminished.

With overrides, carefully consider

the impact of the incentive. For example, managers will experience the impact of poor sales by associates much more so if the override is calculated on the company dollar than as a percent of GCI. Paying on the company dollar also encourages recruitment and rewards managers who devote time to getting sales associates to the breakeven point. It provides a *disincentive* to a manager who readily gives large splits or offers bad plans to sales associates, because the manager's own income is affected proportionally.

While an override usually provides sufficient incentive, systems that ensure accountability are a good idea. A manager's performance should be monitored against recruiting, retention and the company dollar.

Task Completion Incentives: Consider instituting financial rewards for successfully recruiting sales associ-

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ates, offering training or coaching, increasing the percentage of productive sales associates, and raising the level of personal production.

Recruitment rewards are often handled as a flat rate, relative to the value of the new recruit. The payment may be made in stages, as the sales associate makes sales, to help guard against a "body shop" operation. An even better approach is to pay when a sales associate reaches breakeven, as this ensures that the bonus comes from profit built into the breakeven point.

Providing incentives for increasing the number of active sales associates on staff encourages motivation of all sales associates. It also helps prevent preferential treatment of high producers.

Managers can be compensated in many ways for encouraging training. Popular strategies include paying a flat fee for the amount of time invested or giving a bonus for helping sales associates complete further training on their own. Often this costs the company little, because the payment can be subsidized through training fees collected from the sales associates.

Bonuses: Companies may want to provide managers with rewards for reaching targeted production levels. For example, a company may set a goal of reaching \$100,000 of GCI each month. It may then decide to pay a manager a bonus for every month in which that target is achieved. Bonuses might also be given for reaching a certain level of profit or bringing down company expenses. Set those levels in terms of dollars rather than number of closings, because dollars determine whether expenses are met.

Profit Sharing: The company may pay a top manager a set percentage of profits retained by the company over a specified period of time. For profit sharing to work well, the company must have well-controlled expenses and a generally stable economic situation. Managers should have access to all of the company's financial information, and feel that they have enough influ-

ence in the company's day-to-day operations to control factors that affect profitability.

One possible risk: Relations between the manager and broker/owner may become strained if the broker/owner wants to make investments that will grow the business but temporarily affect profitability. For this reason, profit sharing is best used as a component of a compensation plan rather than as the whole means of compensation.

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Personal Production: In smaller companies and in many branch offices, managers must sell because there are not enough sales associates to require a full-time manager. Sometimes managers sell to keep in tune with the marketplace. Structure compensation so managers are able to make a living while allocating enough time to management activities.

Another issue: Sales associates may feel they are competing with their manager for leads. In this case, managers could handle a different type of lead than the other sales associates, perhaps all the commercial work, rentals along with some property management or new homes. This also provides more flexibility in structuring compensation.

Competitive Situation: One of the most important factors in manager compensation is the competitive situation in the market. Where lots of good managers are available, companies do not have to pay as much. However, where talent is scarce, more aggressive plans prove essential.

One innovative approach is to offer managers a choice of compensation plans. Just as you allow sales associates to choose the plan that best motivates them, you can allow managers to choose the compensation structure that best meets their needs. Someone with children in college may need the security of a higher salary, while someone with fewer fixed expenses may prefer to take on more risk with a larger percentage of incentive-based compensation.

Companies that only pay one way restrict their choice of managers to people who are willing to accept that particular form of compensation. By increasing available options, a wider labor pool opens up. Compensation software allows you to design a variety of plans that are fair to everyone.

The bottom line: Compensation plans should not only be attractive to managers, but they should also be tailored to the company's needs. Plans should also provide incentive to focus on those areas that most need improvement. When compensation is carefully planned, managers will be motivated to lead the company in directions well above and beyond the daily operations of the business. **MUST**

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2001 Editorial Lineup

Here's the remaining lineup for *Management Issues & Trends*:

- Compilation of Hot Industry Topics (Issue No. 5)
- Marketing Strategies That Appeal to Techno-Savvy Customers (Issue No. 6)

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