

Brokers' bottom line

The technology drain

As tech costs mount, brokers revamp compensation plans to reap returns.

BY ROBERT FREEDMAN

Gary Hardy discovered something curious after he installed a wide-area computer network and made other technology upgrades in his three-office residential brokerage company a couple of years ago.

The productivity of his sales force went up and the company's gross commission income grew. But only a modest amount of that new income helped the bottom line of Hardy's company, Prudential Aegis Realty in Tucson, Ariz.

What Hardy experienced is hardly uncommon today: a big technology investment that boosted salespeople into higher productivity—and higher commission splits.

Higher splits mean fewer commission dollars to the brokerage, further weakening the bottom line of companies that have just made a big technology outlay.

"It was great that my associates got this benefit from the investment," says Hardy, who invested about \$171,000 in technology and technology-related support services over the last two years, about 4 percent of his total expenses. "They retained more of the dollars in proportion to what I retained, even as my expenses went up. But now I'm revamping things so that we all benefit from the investment equally."

Other factors went into Prudential Aegis's income



jump, of course, not the least of which was the record home sales market over the last three years. But it was clear that the new system, which gave his 170 associates 24/7 access to high-speed Internet and desktop connectivity, was a key part of their ability to sell real estate more efficiently, he says.

"Anytime you make a big investment you're faced with pressure on your bottom line if you don't factor that investment into your overall business plan," says Saul Klein, president of Internet Crusade, a technology consulting firm that works principally with real estate companies and salespeople.

What sets technology investment apart from other investments, such as office space, is that it has become so big so quickly, and it's hard to link that investment directly to increased revenue. In essence, it's simply upped the ante for brokers who want to stay in the game, says Chris Egle, president of Koenig & Strey, which has about 700 associates in 13 offices in the Chicago area.

"Ten years ago, technology wasn't even a budget item," says Egle. "Now all of a sudden it's a huge expense, and I don't think one additional person has bought or sold a house solely because of that investment."

Hardy says there's no doubt that his tech investment has been crucial to his ability to attract and retain a successful sales force, and he's hoping it stays that way.

"If I retain my producers and my company is an alternative when associates are making choices about where to work, then I'd say my investment is working," he says.

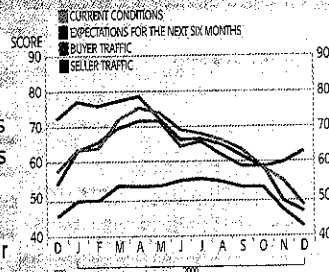
Given the rich ante to stay competitive now, brokers should examine their income and expense structure

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BUSINESS CONFIDENCE

Rosy outlook

Confidence in future housing sales is on the upswing as practitioners' expectations about the market six months out brightens. The view of current conditions remains moderate, in line with cooler end-of-year sales conditions.



*Surveys were sent to 1,549 large and small real estate offices throughout the country. Results are based on 492 responses. The survey asks NAR members to indicate whether conditions are, or are expected to be, strong (100 points), moderate (50), or weak (0). Responses are averaged to derive results. Source: NAR Economic Research

FRONTLINES

The new administration

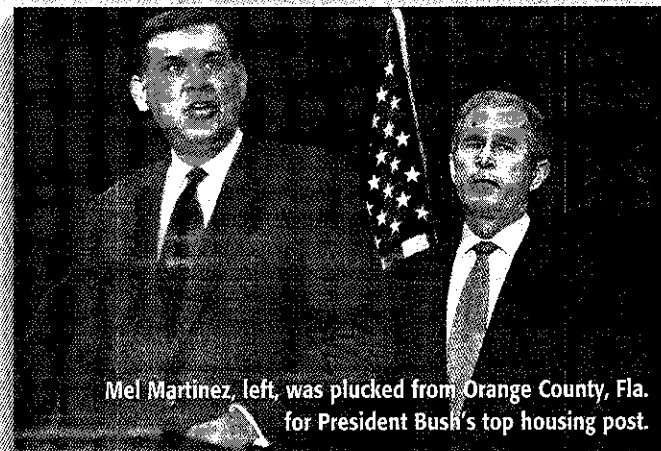
HUD pick brings housing-needs focus

WASHINGTON, D.C.—Mel Martinez, President Bush's choice to head the U.S. Department of Housing and Urban Development, brings practical experience on issues ranging from affordable housing to sprawl. That promises to help him build bridges to the real estate industry, say NAR analysts.

"Because of his years of service at the local level, Mr. Martinez clearly knows the issues that are crucial to REALTORS®," says Lee L. Verstandig, NAR's senior vice president of government affairs. "We're looking forward to a close and productive relationship."

The long-time Republican supporter brings an eclectic mix of local government experience to the HUD job, which is the federal government's top post for addressing the nation's housing and community development needs.

In his current post as chief executive of Orange County, Fla., Martinez has gained first-hand knowledge on one of NAR's most pressing issues, smart growth. During his two years as top official for the county, which encompasses the high-growth Orlando area, he appointed a task force to look at sprawl and urban redevelopment issues and another to look at affordable housing issues. He advocated homeownership programs for low- and



Mel Martinez, left, was plucked from Orange County, Fla. for President Bush's top housing post.

moderate-income households and took a lead role in lowering property taxes. He also made a name for himself by finding market-sensitive ways to address development in areas suffering from overcrowded schools.

Martinez, a Cuban-born immigrant, got direct experience in low-income housing issues when he headed the Orlando Housing Authority from 1984 to 1986. The agency runs area public housing and administers Section 8 rent subsidies, both of which are federally funded.

Once he's confirmed by the Senate, Martinez will be the second Hispanic to lead the agency in just over four years. Former San Antonio mayor Henry Cisneros held the post during former President Clinton's first term.

The Senate could vote on Martinez's nomination by mid-February, and NAR analysts say no major opposition is expected.

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before they make major investments in technology, says Klein.

That includes looking at changes to their commission structure.

The rule of thumb is, the more services a broker provides the sales force, including technology services, the lower the commission split to the sales force, says Klein.

Hardy's now phasing in a plan that's intended to help him recoup the pro rata share he spends for each salesperson before that salesperson moves to a higher commission split.

"I made my tech investments without first making changes to my com-

ensation plan, so I learned the consequences the hard way," he says.

The key to revamping compensation is to get away from traditional desk-cost calculations, says David Cocks, managing partner for Compensation Master's USA operations. The company provides compensation software and consulting to real estate companies.

Instead, brokers should treat each salesperson as a separate business that must generate a predetermined amount of income before moving into a higher commission bracket, says Cocks. That predetermined amount must factor in broker costs, including tech outlays.

"Traditional compensation plans

were written for manufacturing companies," says Dennis Gould, Compensation Master's managing partner for international operations. "They've never made sense for brokerages, where each salesperson generates different income levels."

Does revamping compensation mean less money for associates? Hardy and Egle say no. Both have revamped their plans in a way that lets associates get to higher splits than they could have before, but they first must hit that cost threshold.

"We want our salespeople to earn more money and we want to start reclaiming some of the company dollar that we've seen eroded over the past several years," says Egle. 