

## Agent Compensation...

### This Broker Customizes Compensation By Risk

Ross Webley was looking for ways to attract more agents and to boost his bottom line, so he recently introduced a variety of compensation plans to his agents.

Webley, broker-owner of Coldwell Banker First Ottawa Realty, in Ottawa, Canada, has 45 agents at three offices.

Among the choices are a salary for new agents who couldn't afford a career in real estate otherwise, and a more generous split for agents who work from home offices.

#### A Plan To Attract Young Agents

The salary plan pays agents \$1,000 to \$2,000 a month. Once the agents hit \$40,000 in gross commissions, they get 70 percent of their commissions.

"I'm trying to attract younger people," Webley says. "They do end up with less in their pocket, and they can be a little more profitable for the broker."

The plan appeals to recent college graduates who don't have the savings to make it through a couple of lean years, Webley says. He offers plenty of training and coaching, and he monitors the salaried agents closely to make sure he'll earn back his investment.

"You have to keep a close eye on them," Webley says. "You have to feel confident that they're going to do the job."

Clearly, a salary of \$12,000 to \$24,000 a year

isn't terribly generous, Webley says. The pay is meant to cover licensing fees, errors and omissions insurance, and other costs.

"Basically what it would do is pay a lot of their expenses," he says. "They're not going to get rich that way, but it takes a little pressure off them."

Webley says he'll have to limit the number of agents who collect salaries.

"As a small business, if all of a sudden 20 guys want a salary, you might not be able to handle that," he says.

#### Plans For Experienced Agents

Webley also offers other plans based on his break-even point of \$25,000. In one plan, agents pay for all marketing and advertising and receive splits ranging from 50 to 80 percent of gross commissions. After the agents produce \$25,000 in revenue for Webley, they keep 95 percent of their commissions.

There's the desk plan, in which Webley charges agents a monthly fee and a deal fee to pay expenses. In turn, the agents collect 95 percent of all commissions.

Webley's home plan lets agents who have computers at home and who use no desk at his office to start at a split of 70 percent of gross commission income, then keep 95 percent after they hit the break-even point.

Then there's the 50-50 plan, under which agents get only half of their gross commission income, but Webley pays for all of their marketing and advertising expenses.

The bottom line, Webley says, is to balance the risks and rewards from each agent.

"The less risk for me, I'll pay a little more," he says. "The more risk for me, I'll pay a little less."

#### A Boon To Recruitment

Webley works with each agent to decide what will work best for his or her situation, and he uses the plan as a recruiting tool.

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"I can sit down and customize a plan," Webley says. "I can do a spreadsheet to compare what I have to what they're on now."

Dave Cocks of Compensation Master helped Webley set up his new compensation plan, and Cocks says there's an almost endless variety of plans a broker can use.

You could customize a plan for one agent who specializes in listings and another who prefers to represent buyers.

"The buyer's agent may not spend a lot of money on advertising, so why do they have to have that attached to their commission plan?" Cocks asks. "The answer is, they don't."

Some brokers create personal marketing departments that take care of signs, closings and all other details for agents.

"The salesperson doesn't have to do anything but sell real estate," Cocks says.

In fact, a variety of plans will help you recruit agents, he says.

### **Choice Makes A Difference**

"Choice makes a big difference," he says. "If you have only one methodology it makes it difficult to please all the salespeople. The agents are more productive if they're able to make a choice."

But don't offer too many plans. Three to five compensation models are ideal, Cocks says. Base the plans on the type of business you and your agents do.

And don't be afraid to implement a new plan. Many brokers worry their agents will rebel at new models, he says.

"They believe they're going to lose salespeople because they make a change," Cocks says. "The salespeople are in the change business, and a lot of them are more receptive than the brokers think they are."

Make sure you use a compensation software package to track your costs and revenues, Cocks says.

As for salaried plans such as the one Webley has implemented, there are pros and cons, he says.

"The big thing with the salary plan is that there's a risk," Cocks says. "You've got to have deep pockets."

If your salary is simply a draw against commissions, then you'll limit your risk. In some cases, a broker might benefit from salaries.

"If you control the subdivision, then you can put people on salary," Cocks says.

"You have to run it a little in a military style. You need to supervise them, because it's your money at risk."

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### **Ten Common Compensation Pitfalls**

Considering revamping your compensation structure? Watch out for these common pitfalls, write David Cocks and Larry Laframboise in their guide to compensating agents.

**Mistake 1:** Offering only one option to agents. Instead, you should offer three to five compensation plans, Cocks says.

**Mistake 2:** Allowing low-producing agents to receive splits that are too high to allow you to cover their expenses.

**Mistake 3:** Forgetting to budget for expenses incurred by agents based on their gross commission income.

**Mistake 4:** Creating rolling average or retroactive plans with step levels at the wrong break-even points.

**Mistake 5:** Paying a higher percentage at the top end than you can afford, based on your variable expenses.

**Mistake 6:** Forgetting to plan for profit as an expense item. If you leave profit out of your break-even calculation, there goes your share.

**Mistake 7:** Failing to charge back enough on desk fee plans to cover your fixed and variable costs.

**Mistake 8:** Misunderstanding the effect variable expense commitments have on percentage splits paid to agents and on break-even points.

**Mistake 9:** Going from a fixed-expense recovery plan (desk fee) to a low money contribution plan. Consider this example: On a sale with a \$3,000 commission, a broker receives a fixed fee of \$1,000 from the agent to cover expenses. Say the broker changes to an expense recovery based on a percentage of commission. Does an agent payout of 71.25 percent sound fair? Maybe, but the broker just cut his own expense recovery to \$863, while boosting the agent's share to \$2,137.

**Mistake 10:** Lacking the ability to track expenses so that costs don't fall through the cracks.