Behavioral Profiling . . .
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with the hiring decision, and then help you better manage staff to attain their potential after you have hired them. For example, a multiple-use instrument can help you to use individual behavioral profiles to recruit *and then* to help you understand how to motivate people, better communicate or deal more effectively with conflict. Why pay for a different instrument for the second, third or fourth use?

Work with someone skilled at using the instruments. Many organizations that market these instruments have never been trained on how to use them or the psychology related to getting the most from these instruments. Work with experts who know what they are doing.

Get a system that is easy to use. Our system can be used via a paper-and-pencil answer sheet, or it can be done directly on a password-protected Internet site developed specifically for an organization. The Internet site also allows for immediate access of completed reports and our systems.

Use systems that are cost-effective. Some instruments alone cost more than $200 each. Add systems or expert interpretation to this, and your costs can be as high as $400 to $500 per report. Look for instruments that are well under $100.

Use instruments that keep you out of legal trouble. Our particular instruments have always passed this test. The systems we train you to use make legal issues a "non-concern."

Have we found an owner's manual for humans? Maybe not one that is as accurate as the one that came with your high-tech gadget. But the right instrument with the right systems is an incredible tool!

***Dr. Michael Abelson** has 20 years' experience as an industry expert and consultant. He can be reached at abelson@abelson.net or 979.696.2222. Visit www.abelson.net to learn more about his programs and systems.*

Offer a Choice of Compensation Plans to Gain a Competitive Advantage

David Cocks

Twenty years ago, David Cocks, CRB, *FRI, was on the verge of losing yet another top producer to a competing firm. Frustrated by the difficulty of determining whether his company could afford to meet their offer, he started looking for a better way to design commissions.*

Today, Cocks is a top sales force compensation expert who has worked with hundreds of brokers and more than 30,000 sales associates around the world. His strategies address two issues: designing compensation plans that enhance recruiting, retention and motivation; and enhancing corporate profitability so the company maintains financial stability and can grow appropriately.

Cocks recently shared some of his compensation strategies with Management Issues and Trends *and offered tips for brokers who want to implement them.*

MI&T: You have said that offering agents a choice of compensation plans makes brokers more competitive. How does that work?

Cocks: By designing a variety of compensation plans, you can better meet the needs of different types of agents. You can provide a high split plan for top producers, a standard plan for mid-tier people, maybe salaries for certain types of work. Agents can select a structure that matches the way they like to work, offers a level of risk with which they are comfortable, and motivates them most effectively. You can also design plans specifically to attract agents from competitive firms.

Many companies already offer a variety of plans, but it's done under the table—they're all exceptions. By explicitly defining several plans, you're being fair to everyone, and you can better control the effect on corporate profitability.

MI&T: How do multiple compensation plans affect profitability? Can broker/owners do this without losing money?

Cocks: When you structure your compensation plans correctly, you build in a predefined level of profitability. Many brokers are still using plans that were designed 10, 15, even 20 years ago. They're getting by, but they never sit down and analyze their commission structures, so they don't realize how unprofitable their companies really are.

> *"By designing a variety of compensation plans, you can better meet the needs of different types of agents. You can provide a high split plan for top producers, a standard plan for mid-tier people, maybe salaries for certain types of work. Agents can select a structure that matches the way they like to work [and] offers a level of risk with which they are comfortable ..."*

Whenever you make changes to your compensation plans, you always need to analyze them and determine the implications for your company. CompensationMaster uses our Commission Planner software to do that; it lets you see very quickly whether a plan is profitable. Your goal should be to design plans so the company receives the same amount of profit on each one—that way it's fair for everyone.

Keep in mind that by designing commission structures to meet the needs of different types of agents, you are better able to recoup your costs. For example, someone who is new to real estate needs extensive training and support that an experienced agent doesn't. You can customize compensation plans so that agents receive—and pay for—the support and services they need, without having to pay for things they don't want.

MI&T: How many different plans are typical?

Cocks: Most companies find they need three to five plans. But there is no typical answer; every company is different. Your plans need to be tailored to your circumstances and your marketplace—you never want to copy plans that are working for another broker. Their company may have a different cost structure than yours or face different competitive pressures.

MI&T: How is the selection of a plan made with an agent and broker?

Cocks: The broker or manager works with the agent to find the right plan. The choice is based in part on the agent's experience or production, but the issue really is the ability of the agent to function within the style of the plan. Sometimes, you'll see people choose a 100 percent plan from peer pressure; but if it isn't right for them, they will focus on the payments and not on selling. It's important that the agent be comfortable doing business in the style of the plan he or she chooses.

We recommend that brokers follow several steps when working with agents. First, don't assume you know what the agents want. Talk to them and find out what style they are looking for. Then go through the pros and cons of each plan. Make sure the agents understand what they will be paying for, as well as what you, the broker, will cover. Review their sales over the past several years. Is their sales history changing? What does their sales cycle look like? What are their goals? Then look at which plan is the best fit.

MI&T: How do the plans build in agent accountability, especially when the plan may offer an agent a high percentage of the

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Multiple Compensation Plans in Action

Brokers say plans provide fair treatment of agents, better bottom line.

Allyn Burt

Agents were demanding more and more of the total commission, which was eating into the company's profits, according to Allyn Burt, president of Charles Burt Realtors in Joplin, Missouri.

Burt heard about David Cocks' approach at a real estate conference. "We were intrigued by the possibility of offering different plans to agents based on their style of selling," says Burt. "Some agents are very good at managing their money and want a lot of freedom. Others want all the support they can get. They do better when they have people pushing and helping them."

The company worked with Cocks to implement three plans:

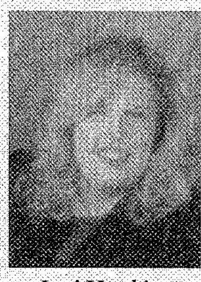
- ***Win-win plan.*** The company provides considerable support to the agent, paying for most of the advertising and splitting other expenses 50-50. The split starts at 50 percent and goes up to 80 percent. Agents with a proven track record can start out as high as 65 percent, but they stay at that level longer before going up to 80 percent.
- ***Entrepreneur plan.*** Agents must maintain a volume of $2 million or more to qualify for this plan, which offers a desk and support staff, but has the agent pay for most advertising. The split starts at 70 percent and increases to 85 percent.
- ***Executive plan.*** This 100 percent plan has the agents pay for everything. However, the company still provides support staff.

"We give the agents the opportunity to change plans on their anniversary date," says Burt. "A lot of new agents start out with the win-win plan. As they gain experience, they move to the entrepreneur plan or the 100 percent plan. It's a natural progression."

Over the past four years, Charles Burt has grown from 50 agents in one office to 116 in three offices, and the company's total volume has more than doubled. "It's hard to increase company dollar because you have to control your expenses, but our company dollar has gone up 132 percent," he adds.

"Agents are highly competitive people," says Burt. "They usually leave a company because they feel they were treated unfairly. This is as fair as you're ever going to get. With these plans, agents feel that the sky's the limit. That's not something you can do in most professions."

"This is going to be the way everybody in the whole country will do it," adds Burt. "I can't imagine anyone doing anything differently."



Lori Hawkins

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

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

She worked with David Cocks, managing partner of CompensationMaster, to design five plans customized to meet the competitive pressures of her market:

- ***Partner plan.*** Agents start at a split of 50 to 70 percent, determined by their prior year's gross commission income (GCI). Upon achievement of a certain agent earnings level, they accelerate to 88.5 percent or 90 percent with a unit fee.

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

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

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

Helping people choose the right plan was the most difficult part. "It was interesting to us that the agents were more interested in their split level than in total earnings," explains Hawkins. "However, we didn't lose any agents over the commissions, and the top producers were ecstatic. 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. A year and a half ago, the company had one office with 50 agents. It has since acquired two other companies and opened one new office. Total revenue for 2002 has grown by 38 percent over 2001, and company dollar has increased 80 percent.

"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 overall staying power."

[Editor's note: Although Burt and Hawkins have plans with similar names, their structures are different. Cocks considers it essential to customize plans to the individual firm and market.]

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commission split, i.e., checks and balances for the broker?

Cocks: You build in accountability when you design the plans. The way we do it is to set a goal of having everyone reach a break-even point, where they have contributed their fair share of the company's expenses. The break-even point is calculated mathematically, based on the company's production and expense levels. You need to ensure that the agent has enough sales to cross the break-even point, so the office can recover its necessary margin.

MI&T: What are the benefits of offering multiple compensation plans?

Cocks: From my experience, three benefits accrue when companies offer a choice. First, it improves motivation. When agents choose their compensation structure, it empowers them, motivating them effectively and permanently. Second, recruiting is easier. Offering a choice of compensation plans is a very attractive benefit for potential recruits. Third, multiple plans expand the labor force. There are many people for whom the typical style of real estate compensation is not appropriate, yet who would make excellent agents. By offering different plans, perhaps even salaries, you expand your potential pool of recruits. The net result is a powerful competitive advantage in the market.

MI&T: Do you have any tips for brokers who want to start offering multiple compensation plans?

Cocks: First, you need to design the right plans. You want plans that benefit the agents and company equally. Getting the right break-even is critical. Don't just divide expenses by the number of agents. There are more sophisticated and accurate ways to calculate break-even, such as the method incorporated in CompensationMaster's software; take advantage of them. You need to present the plans in a way that the sales force understands what you are doing. Explain why you are changing plans—what the business imperatives are—and how the agents will benefit. If your plans are designed correctly, you're in a win-win situation with the agents. You're not taking any more money from them than you need to run the company. When they make more, they keep it. That's highly motivational.

Finally, don't make the assumption that your accounting department understands the way the plans were designed. Sit down with them and discuss the details. There are so many little nuances with accounting and brokerage management software; you don't want mistakes to slip in. Then go back from time to time and check to make sure they are paying agents correctly.

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