



HOW TO OPEN YOUR OWN **(PROFITABLE)** REAL ESTATE AGENCY



PITTARD.
PEOPLE
PROFIT
PURPOSE

HOW TO OPEN YOUR OWN (PROFITABLE) REAL ESTATE AGENCY



If you are thinking about opening, or acquiring, a real estate business, no doubt you are experiencing both excitement and trepidation. On the one hand you want the freedom and lifestyle a good business can give you. On the other, you may be concerned about your likelihood of success.

This is only natural, and it is also healthy. You will need to work hard and you will need excitement, passion, expertise, and a good grasp on reality if you are to make this venture a success.

Go about it the right way and you will build a successful business. Go about it in the way many people do and you can become a slave to an ailing business, making your life more difficult.

• THE REASON FOR HAVING YOUR OWN BUSINESS

The primary reason for having your own business should be to IMPROVE YOUR LIFE. This may seem obvious, but more than 90% of business owners never achieve it.

Optimism is a good characteristic
but it must be balanced with realism.

The rewards of building a great business can be high,
but there is a price to be paid.

• THE PRICE OF BUSINESS

The price of business goes beyond the cost of purchasing the business, or the cost of setting it up. There is a personal price to pay too – building a business requires hard work, stress and forgoing some family events to name a few. It is not a matter of opening and then regularly emptying the cash register!

Business is not like *'Field of Dreams'* – *"If you build it, they will come"*. Opening is the easy part. Staying open and thriving require a lot more thought, planning and work.

Business is not for everybody. It can exact a high price on you and your family. Be sure you have the temperament for it, the support of your family, and the willingness to learn all you need to learn to build a great business.

• DEFINING SUCCESS

Successful businesses give their owners five rewards:

1. An Improvement in your Life

Why would you start a business if not to make your life better?

2. Independence

You work for your own goals. Right or wrong, you make the decisions. Your company's success or failure is your responsibility.

3. Pride

You are proud of your business – its reputation, your team, your accomplishments, your culture.

4. Financial Rewards

You have no more money worries. Profits from a successful business can far exceed what you could earn as an employee.

5. Freedom of Choice

You work in your business on a daily basis because you want to, not because of necessity.

If you think this cannot be done,
we would be happy to
introduce you to many leaders who have
achieved Freedom of Choice.

• DEFINING FAILURE

Continuing to trade is not a definition of success. There are many businesses that manage to keep the doors open, while enslaving the owner and showing little profit.

These businesses are failures. A business that requires its owner's efforts to survive is not a business: it is a job, and often a low-paying job at that.

If your business requires your constant presence to survive, no matter how much money you make from it, the business is a failure.

• TAKE THE RIGHT ADVICE

You cannot have a successful business unless you take advice. There are always people willing to give you advice on how to succeed. But which advice is the right advice?

Most real estate profit problems stem from
heeding the wrong advice and
from imitating agents who appear profitable,
but are not.

Appearance is often not reality. Many agents use systems that are typical to the real estate industry but, despite being widespread, many of these systems are not profitable. The typical real estate business does not make large profits.

Before taking advice from any real estate agent, be sure that they are qualified to offer such advice. They should be making high profits (ask to see their Profit and Loss Statement) and they should have happy clients.

Always listen to people who earn high profits and can show evidence of large numbers of happy clients!

- **SIMPLICITY**

Simplicity is one of the biggest secrets to success in business. The intricacies of every industry can be reduced to a simple formula. Real estate's formula is amazingly simple but, to many agents, it is incredibly hard to practice. There are many temptations to deviate from simplicity.

Real Estate's 3-step formula for making sales:

- A. Find Sellers**
- B. Find Buyers**
- C. Match them**

Much accompanies this formula, but these are the three steps that must be practised daily to generate sales and income.

There is also a formula for Real Estate Management:

- A. Create Income**
- B. Control Expenses**
- C. Make a Profit**

Much accompanies this formula, but these are the three steps that must be practised daily to survive and thrive in business.

• PURPOSE

The purpose of business is to MAKE A PROFIT. Without profit, the business will not survive. If the business does not survive, no other goals can be accomplished. People, clients, systems, community sponsorship – all are meaningless if the business does not exist.

The welfare of the business is the most important priority. Too often profit is regarded with shame and embarrassment. One measure of the honesty, competency and quality of a business is the measure of its long term PROFIT LEVELS.



THE 7 FEATURES OF A REAL ESTATE AGENCY

1. An Office

You have an office, which has a licence to trade. This is your primary place of business.

2. Salespeople

You have salespeople. The major purpose of salespeople is to find and list properties for sale by selling your agency's services to property owners. Once listed, salespeople must sell their listings.

3. Listings

Your salespeople find property owners who wish to sell properties in your area. These property sellers are persuaded to choose only your agency to find a buyer for their property. You MUST obtain many listings. You cannot sell properties if you do not first have them listed.

4. Buyers for your Listings

Using cost effective marketing methods (Smart Marketing), you bring your listings to the attention of buyers. Most real estate marketing is done through signs, online advertising and Social Media. There are many pitfalls to watch in this area and if you are not careful, your advertising 'spend' can quickly get out of control.

5. Payment for your Services

When a buyer signs a contract to purchase and that purchase is complete, your agency is paid a selling fee. Your salespeople must be trained to obtain the full fee without ever resorting to discounting.

6. Income and Expenses

Your major source of income will be selling fees from property sales. You will need to be careful with your expenses to make sure you do not spend more than you receive. This might sound obvious, but many real estate businesses go broke because they spend more than they earn.

7. Profit

Your aim is to make a profit. Keep your Break Even Point as low as possible and avoid leases and other debt, and fixed expenses. Guard your profit margin.

**These 7 features describe exactly how
a real estate agency operates in all areas.**

• ETHICS

When salespeople leave one agency to join another, or to open their own agency, taking leads from a former employer is stealing. Justify it how you may, there is no way to sugar-coat this. If your former employer has done the right thing by you, is there any reason why you would want to open in competition with her or him? Whether you have a restraint-of-trade clause is irrelevant. Ask yourself, how would you feel if one of your salespeople opened in competition to you, or even worse, stole leads from you? If you wouldn't like it, don't do this to somebody else.



You cannot switch
ethical behaviour on and off.

You either are ethical or you are not.

You can build a successful business without resorting to such behaviour. When you leave, do so under the right circumstances. Do the right thing – leave all leads behind and don't open in competition with a former employer.

• FRANCHISE, MARKETING GROUP, OR INDEPENDENT AGENCY?

Whether you purchase an existing agency, or open from scratch, you will need to decide on a name. An important decision is whether to join a franchise or marketing group, or open as an independent agency.

Being Perceived as 'Big' and a Sense of Belonging

Being perceived as big, and satisfying the human desire to belong, are the underlying reasons why real estate agency owners are attracted to franchises and marketing groups.

Many agencies feel that Pittard® satisfies these needs through its Leaders Circle. Pittard® works with many successful agents – independents, franchise and marketing group offices. Many of our clients remain fiercely independent and do not see the need to join a franchise or marketing group.

We would be happy to discuss your options with you and put you in touch with agency leaders for more advice.

As business consultants, over the past 25 years we have seen franchised offices, marketing group offices and independent offices go broke. We have also seen many thrive, trading successfully for decades.

What makes the difference between success and failure? Is it the name? No. Definitely not. The difference between going broke and profiting over the long term is the calibre of the person who owns the business. All successful businesses need competent leadership. What these competent business leaders choose to call their businesses makes little difference.

What's in a name? In our opinion, very little.

When you join a marketing group or a franchise, you are leasing a name. This is a name you do not own and over which you have no control.

The big problem with leasing a name is that there are so many available, and they all claim to be better than each other. There are so many that they have all lost their uniqueness in the market place.

Can you really see much difference between any of these so-called big brands? All claim to be different, bigger, offering better branding, but honestly, what does one offer that another doesn't? Whether marketing group or franchise, we do not see much difference between one or another.

Is being part of a large group really that important to your typical real estate home owner or buyer? We have seen no evidence that it does. Buyers will go where the listings are. Home owners will go where the skill is; they will list with the real estate agent whom they feel will get them the highest price. Skill is far important than the name you choose to put over your door.

And speaking of skill, it takes management and leadership skills to earn high profits from a real estate sales department.

Profit is a good indicator of skill. It's interesting to note that franchises and marketing groups do not use the profits of large numbers of their business owners – not salespeople, BUSINESS OWNERS – as a way of attracting new members.

They talk about turnover, the power of the brand, the systems, the marketing the franchise does, etc., but never the profits of their franchisees.

Groups who sell their names want as many offices as possible – the more offices they have, the more money they make. Over the years, we have heard agency owners complain that their networks have allowed another office to open in a neighbouring suburb. These principals have complained that often they lost business to the new agency because clients thought they were listing with the established agency.



This can be a problem whenever you buy a name. If you are successful, others nearby may want the name, thinking that is why you have been so successful. Essentially, you have helped sell the name to your opposition, and the opposition benefits from your work. And when two offices in neighbouring service areas have the same name, how can clients tell you apart?

So, what is the best option for your business? Should you join, or stay in, a real estate franchise? Should you join, or stay in, a real estate marketing group? Should you be an independent real estate agency? The option you choose can greatly affect your profit, and it can affect the long-term saleability of your business.

Franchises

What is the difference between a marketing group and a franchise? In effect, the answer is cost, although those trying to convince you to join them will almost certainly disagree.

In marketing groups, you pay a flat monthly fee. With most franchises, you pay a percentage of your gross income, which usually makes belonging to a franchise a far more expensive exercise.

Buying a franchised name can get very expensive, and unlike a mortgage that will eventually be paid out, this expense is ongoing. If you have 4 salespeople who each produce \$300,000 in gross fees per annum – and this is the bare minimum salespeople should be producing – that's \$1.2 million in fee production from those salespeople. Add your own personal production, let's say another \$300,000 and your agency's fee production is at \$1.5 million. If you pay a franchise 8% of your gross turnover in sales income, you pay \$120,000 in franchise fees per year.

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You might think that \$120,000 is not a big expense when your TURNOVER is \$1.5 million, but always remember that **TURNOVER IS NOT PROFIT**. You have expenses to pay.

Typical real estate agencies, using typical industry reward systems for paying salespeople, struggle to achieve 10% gross profit on sales income. A turnover of \$1,500,000 reduces to \$1,380,000 after the franchise fee is deducted. A 10% profit leaves \$138,000 for the owner, while the franchise takes \$120,000. **The franchise received 46% of the net profit.**

8% of the gross is a lot more than 8% of the profit!

Despite doing all the work, the owner of the business earned a mere \$18,000 more than the franchise!



But some franchises also charge a percentage of rental income, so that adds to the cost of buying the name. Add the fact that many franchise agreements require the agency to sign over the ownership of the phone number to the franchise should the franchisee leave, and you have a lock-in contract that offers few benefits when weighed up against the cost.

Be careful before you sign away 8% of your gross income, 8% of your rental income, and your telephone number. If you decide to join a real estate franchise, never agree to signing over your telephone number and never agree to signing away 8% of your rental income - there will not be enough profit left for you if you do.

Remember, too, that there may be marketing expenses the franchise expects you to pay. When you market a business that is part of a real estate franchise, your marketing dollars are spent promoting a name that you do not own. Should you leave, all of your marketing money is wasted because you promoted the franchise and not you.

**Would the \$120,000 you paid the franchise,
\$10,000 per month,
go a long way toward marketing your name
as an independent real estate agency?**

You know it would!

By the time you factor in 8 percent of the gross sales income, 8 percent of the rental fees, and loss of the agency's telephone number, it could be argued that you pay a lot for the name and that you should see a huge increase in your PROFIT, not TURNOVER, PROFIT, as a return on this massive investment.

Franchise agreements have been refined over many decades and from a legal standpoint could be argued as being bullet-proof. Once you're in, you aren't going to find any legal loopholes to get you out. You usually sign up for seven years and the only way out is to wait for the day when the agreement expires.

You could sell, but even that may be subject to your franchise agreement. We heard of an example where the owner of a franchised agency was trying to sell his business due to poor health. The buyer planned to buy the business and brand it as an independent agency once the franchise agreement expired. Contracts were exchanged between the parties.

But when the franchise was informed, the franchise told their franchisee that according to his agreement, he had to find a buyer who would agree to sign up for a new seven-year term with the franchise. Sell to a new franchisee, or no sale, he was told.

The buyer refused to take on the franchise, and although contracts were exchanged, he kindly allowed the seller to rescind the contract without penalty. The agency stumbled along, with a person who had no energy to run it.

Marketing Groups

When you join a marketing group, you pay a flat monthly fee. There may be some other levies, such as group marketing levies, but mainly your fee is fixed.

It costs less to belong to a real estate marketing group than it does to a franchise. This does not mean that marketing groups are the best option, however.

You get access to some training, group buying discounts, branded marketing, some business advice, and you have freedom to leave with little notice. In my opinion, these groups are like a big club – you get the feeling of belonging, you can claim to be part of a national brand, you may receive network referrals, but whether this is worth the cost of losing your identity, is something you should consider carefully.

Independent

Before you are tempted to buy a name, consider the one you were given by your parents. It's the name on your birth certificate, a name you can use for free. If you do not want to use your own name, you can choose another name, one that does not require you to pay 8% of your gross income to use. This is your third option – be independent.

Does an independent agency have any hope
of competing against these 'big names'?
We say yes.

What do you believe to be more important: your name, or your REPUTATION? When you belong to a large group, the bad operators have been known to give the good operators a bad name.

“ If an agency develops a respectable reputation within the community it serves, do you believe that this reputation was earnt because of the franchise, or because of the leader, the team and the agency's culture? ”

If an agency develops a respectable reputation within the community it serves, do you believe that this reputation was earnt because of the franchise, or because of the leader, the team and the agency's culture?

An agency is only as good as the people working in it. And if the team is doing such good work, why would the owner feel the need to hide behind somebody else's name, especially when you have to pay 8% of the gross income for the privilege?

You can't buy respectability, and a bought name for a business requires more than just that name to make the agency profitable. It requires well-trained winners

working in the company to carry the message to clients and to prospective clients. It requires the agency to have profit management systems in place so that the agency makes large profits from the income generated by the salespeople, without the principal having to list and sell. And by not having to list and sell, the agency owner is free to spend time hiring, developing salespeople, marketing the company – in other words, building a business instead of working in the business.

But think about this: if you had this sort of business, would you need to pay large amounts for somebody else's name? If you have a team of winners and if your agency is profitable, why do you need franchises and marketing groups? Especially when your parents gave you a name for free!

If you look at the main street of any suburb over a ten-year period, you will see the real estate equivalent of Musical Chairs. Agency names change – the independent joins a franchise, another agency leaves its franchise and joins another. Another agency picks up the name that the other office just abandoned.

What are these business owners trying to do – buy credibility? As respectable as some of these bought names are, do these agency owners think that a respectable name by itself will change their fortunes? Does anyone really believe that a respectable name will do your branding for you, that a name you buy will save your business, or rocket it to new heights?

• LEGAL REQUIREMENTS

Licensing requirements: you must be sure that you are legally able to operate an agency in your region.

Each country, state and territory has different laws, and you must obey the law. You can be certain that competitors will be watching you and will use any opportunity to report you for any breach, real or otherwise.

Licensing regulations vary by region, but most follow this structure:

- Corporation Licence – the agency's trading company is usually required to be licensed. There can be requirements for one, several, or all of the company's directors to hold a real estate licence.
- Licensee-In-Charge – this person holds a full real estate licence and is the effective officer-in-charge. The licensee is responsible for the conduct of the agency and is liable in the event of a legal breach.
- Salesperson's qualifications (includes Property Managers) – in most regions there is provision for a lower level qualification for a salesperson, working under the supervision of a licensee-in-charge. The regulations for onboarding salespeople can be straightforward or complex, depending on the region. The regulations are particularly onerous in New Zealand, South Australia and, to a lesser degree, Tasmania.

Development Application: if starting your agency from scratch, or if you plan extensive modifications to your new office, or if you are moving into a building and changing its current use, you may require a DA from your local council.

You should also check with the council over its **sign policy**. Some councils have strict regulations regarding For Sale and For Lease signboards. You should know the regulations, otherwise you may incur a heavy fine. Also check the legalities of placing sandwich boards on the footpath outside your office.

Business Registration: your business name should be registered with the authorities (ASIC in Australia) to protect your ownership of the name and ensure that it's not already claimed. In Australia, you must have an Australian Business Number (ABN) which you can obtain online.

Insurance: most licensing regulations require you to have Professional Indemnity Insurance (PI). You should also take out general business insurance to cover Public Liability and your office fitout and contents. Contact a good insurance broker. Usually you can arrange monthly premiums to spread the cost.

Bank Accounts: Pittard® recommends at least four bank accounts:

- General Transaction Account
- Trust Account (Tell the bank that this is a trust account)
- 'Caesar Account' in which you set aside funds to cover legal liabilities like GST, tax and superannuation
- Interest-bearing Saver Account for any spare cash

Employment requirements: the following information applies to Australian businesses. Before your first employee starts you must arrange Workers' Compensation Insurance. The providers vary from state to state.



You must register with the tax office as an employer, which can be done when you get your ABN. You will be required to deduct tax from your employees' wages (your accounting software will do this for you) and remit it to the tax office, usually quarterly.

Employee superannuation must be paid every quarter to a super fund of the employee's choice. The easiest way is to use the tax office's Small Business Superannuation Clearing House.

Marketing regulations: check the legality of marketing in your region. Australia and New Zealand have anti-spam legislation, for example. Small businesses in Australia are not obliged to have a privacy policy, but it is illegal to door-knock on Sundays and after 6PM every day. Know what you can and cannot do.

You should check the appropriate government agencies in your region for registration and licensing requirements for the corporation, licensee-in-charge, salespeople and property managers.

Know the law and always obey it.

• YOUR QUALIFICATIONS

Legal qualifications are important for compliance and for trading legally, but just as important are your personal qualifications to run a business.

To survive and thrive, you personally must possess the following skills:

- **Sales success** – if you do not know how to list and sell real estate, you almost certainly will go broke. Somebody must bring in revenue to pay the bills and this is not an area where you want to be held to ransom by salespeople. Competence in listing and selling will prevent you from having your financial security at the mercy of one or more salespeople.
- **Business ability** – being good in Sales does not necessarily qualify you to run a real estate agency.
- **Leadership ability** – real estate agencies need leaders, managers, and revenue producers (salespeople, HomeFINDERS, property managers and Business Development Managers). All are different job descriptions requiring different knowledge and skills. Being in charge does not make you a leader – it makes you a boss. Leadership is the difference between success and failure and is a skill that is essential. Fortunately, leadership can be learned.

Motivation and Work Ethic

Business is not for lazy and unmotivated people. It is also not for the easily discouraged.

It will take five years to build a highly profitable business and most days will throw up new challenges, all of which you must overcome. If you are the type of person who looks for the easy way – for shortcuts to success – or if you lack motivation and resilience over the long term, think twice before you go into business.

Running a business is hard work. You will need to put in a lot of thought and hard work if you are to build a great business.

Be willing to learn constantly and to work hard. Hard work without learning is a sure way to become a hardworking idiot!

• MAJOR CHALLENGES IN A REAL ESTATE BUSINESS

1. Financial Control

Your business must be built upon solid financial foundations. An owner of a business must always be abreast of the 'financials'.

There are only TWO WAYS to increase the profits in any business:

- i. INCREASE SALES**
- ii. DECREASE EXPENSES.**

The big danger is that sales results tend to fluctuate while expenses tend to rise and become fixed. There is no point pursuing sales unless expenses are set on a solid foundation. A business owner needs daily financial status updates. You must know how much has gone into the bank account, how much has come out, plus how much is going to come in soon and how much will go out soon.

2. Sales Results to Profit

There is a vast difference between income and profit. Some of the biggest income producing agencies are some of the lowest profit agencies. The real estate industry is obsessed with turnover to the dreadful detriment of profit. How many sales equals how much profit? How many listings equals how much profit? A business needs certainty.

**Financial success should be measured
in PROFIT not INCOME.**

For the sake of simplicity, success should be measured in SALES AND DOLLARS ABOVE BREAK EVEN POINT (BEP). Once the leader knows how many listings and how many sales equals how much profit, the focus can be concentrated on NUMBERS of listings and sales.

3. Listings

“Control the stock and you will control the sales”. That is a phrase that makes an impression on the most successful owners. The pursuit of listings must be a daily ritual.

- Where do I find them?
- How do I list them?
- How do I beat the other agents?
- How do I keep the listings?
- How do I sell the listings?
- How do I replace them once I have sold them?

Each of these challenges is a chronic problem for most agents. These are all challenges that must be overcome.

4. Salespeople

The challenge is to find salespeople who consistently produce good figures. They need to get listings, stay motivated, not complain, handle problems, make sales, chase business and do all this without demanding a bigger share than the agency can afford.

According to typical agents, such salespeople are rare. And, if they do discover a great salesperson, keeping them and managing them profitably is a huge challenge.

**A winning sales team is essential
to a successful business.
Leaders must become
TALENT SCOUTS.**

5. Freedom

Often the owner of the business is the best salesperson. He or she gets the best listings. Ordinary salespeople often lose listings to other agents. It is a loss many owners can't afford. Therefore, they find themselves doing almost everything – listing, selling, managing, bookwork, property management, hiring, advertising, and cleaning. Many owners do it all.

The fifth challenge is best described by one owner at a time of immense frustration:

***“The business was totally dependent on me.
If it wasn't for me, we would never have made it.”***

While this may be flattering, it is not practical. It makes no sense to become a slave to your business. If this is the case, it is no business at all.

Your challenge is to implement systems that enable you to find, develop and keep a winning team.

An equally important challenge is to groom a successor. From within your growing team, you should identify a person who can move into sales management – we call them Sales Controllers. This person will eventually run the sales team, allowing you to step back and enjoy Freedom of Choice.

QUESTIONS YOU MUST BE ABLE TO ANSWER

- Should I buy an existing agency or start from scratch?
- Where do I open an agency?
- What are real estate agencies worth?
- How much money do I need to get started?
- What equipment do I need to start?
- What staff do I need?
- How do I obtain a licence to operate?
- Do I join the Real Estate Institute?
- Do I join a franchise or trade independently?
- Where can I go for support, advice and assistance?
- How do I find salespeople?
- How do I pay salespeople?
- How do I train salespeople?
- How do I find listings and buyers?
- What methods do I use to sell properties?
- Should I have a Property Management department?
- What should be my trading hours?
- How do I promote my business and get established?
- How do I market my listings?
- How do I take care of my clients?
- How do I defeat my competitors when I am new and they are established?
- How do I write a business plan?
- What systems will I use to operate my business?
- What software will I use?

• TYPE OF BUSINESS

What type of business do you want?

- ✓ Sales?
- ✓ Rentals?
- ✓ Strata?
- ✓ Stock and Station?
- ✓ Buyers' Advocacy?

Your decision will greatly influence the premises you need. If you choose, for example, sales and rentals, you will require more office space than if you chose sales alone.

Do not feel that you need a rental department when you first open. Rental departments are labour intensive and not as profitable as good sales departments.

**Many of the offices Pittard® works with
have sales departments only.
Others began with sales departments and
later built their rent rolls organically.**

Be very careful buying a rent roll using borrowed money. By the time you add interest payments to your other rental department expenses, you will find that the profit is very low. Far better to build organically, over time.

If starting from scratch, we strongly recommend that you begin as a sales operation. After three years you can look to appoint a rentals Business Development Manager and a Property Manager, and build a rent roll.

You should understand that sales, rentals, strata, stock and station, and buyers' advocacies are SEPARATE BUSINESSES. It is unwise to try and build all at once.

You can get a sales department 'off the ground' quicker and make it more profitable sooner. A rent roll is an asset that takes time to build.

One-Stop-Shop

Over the years, we have seen many unprofitable one-stop-shops. Success requires focus. You cannot focus on several business departments at once. Choose the core aspect of your business, work on it and make it profitable.

Then, if you crave distractions, you can look to creating another department, but get your sales department profitable first!

Opening Hours

Ideally, your office should be open 7 days until at least 6PM, but not in the beginning. If you open from scratch as a selling principal, working 7 days a week will burn you out.

As the team size grows, however, you should work towards opening the office 7 days per week until 6PM, regardless of what your opposition do.

We stress that 7-day trading is dependent on a team size that supports this without overworking anybody in the agency, INCLUDING YOU.

Should you join the Real Estate Institute?

This is not necessary and you should weigh up your options. Many Pittard® member agencies are members of their state REI, and many are not.

If you are joining your Institute because of the training offered, you should evaluate the training received against its ability to improve your team's income and your agency's profit.

You should compare the training offered by other providers (including Pittard®) to see if there are better options.

There are other advantages to being an Institute member and these may appeal to you:

- Legal support and advice
- Information and interpretation of legislative changes
- Standard forms such as listing and rental agreements.

Whether these and other benefits
are worth the fee,
we leave this to your judgment.

Should you join an employer group?

Membership of an employer group can provide legal support, advice and updates. In Australia, the Real Estate Employers' Federation (REEF) is the leading workplace advisory service for real estate employers. Membership is recommended.

Vehicles

If you have a good car – a recent model, clean, and presentable – keep using it. If you need to buy a car, \$20,000-\$30,000 will get you a respectable vehicle. Don't lease a vehicle. You will incur a large liability on a depreciating asset and may be tempted to buy an expensive vehicle.

Ask your accountant how to handle the cost. It may be worthwhile having the company own the car or it may be best for the business to pay you a car allowance or running costs.

Employees should use their own vehicle for work. You can pay them the award car allowance as part of their package. If an employee asks to sacrifice salary to put towards a car lease, make sure it's a 'novated' lease, which reverts to the employee if they leave.

• **PROFIT**

We believe that a real estate sales department should produce a profit of \$400,000 per annum WITHOUT THE PRINCIPAL HAVING TO LIST AND SELL.

With today's selling fees, this can be achieved with a small sales team of 3 salespeople, but 4 is recommended.

Instead of being the primary income producer in your agency, your future depends on you persuading at least three potential winners to join your company, and then developing them into a productive sales team.

To achieve this level of profit requires that the agency, beginning with its leader, adhere to high standards of culture, training, activity and results focus.

Despite the industry average gross profit being below 15%, your profit margin must be 30%. This is being achieved by large numbers of Pittard® clients, and should be your standard too.

The main factors affecting profit are:

Gross Selling Fee

You can be in a high-priced area, or you can charge a high fee. Your ability to earn a full fee that is higher than your competitors' fees depends on the quality of training you instil into your company. Fee discounters earn lower profits than those who do not discount.

Number of Team Members

The minimum number of salespeople you need for profit and security is four. When you first commence trading, you may be the sole salesperson. Hiring must become a priority if you want to build a business rather than having a job.

Quality of Team Members

Every team member must be excellent!

Be careful of taking salespeople from your previous employer. In fact, be careful of hiring experienced people. The success rate with experienced salespeople is lower than we are achieving with inexperienced people, selected carefully and trained the right way. Refuse to tolerate mediocrity.

Payment to Team Members

Never offer large percentages to attract salespeople. Nothing kills your profits faster. There is no evidence to indicate that the percentage a salesperson is paid has any bearing on the salesperson's take-home earnings at the end of a financial year. A salesperson paid 30% will not necessarily earn less than a salesperson paid 50%.

Pittard® recommends salaries paid monthly and bonuses paid quarterly. We have proved this method to be more profitable than the reward systems typically offered by the industry.

Percentage to Yourself

The typical real estate agent is aware of the percentage paid to salespeople, but is totally unaware of the agency's PROFIT percentage. **Guard your gross profit of 30%. This is your reward for effort.**

• EXPENSES

Your expenses must be split into only 5 groups:

1. Wages
2. Marketing
3. Training and Education
4. Sundries (everything that does not fit into the other four groups)
5. Bonuses

You must make sure the percentage of income spent on expenses does not exceed 67%.

Two Types of Costs

The most critical stages of a business are the early stages. Decisions you make when setting up can have long-term effects on your business's profit.

There are only two reasons to have an expense:

1. To CREATE INCOME that exceeds the expense.
2. To REDUCE other expenses.

Every expense must be LINKED TO PROFIT. Expect a return on every dollar you spend. Ask, “*Will this expense give me an increase in listings, sales, income or savings?*” If it doesn't, reconsider whether the expense is necessary.

Here is another question you should ask before agreeing to an expense:

“Is ego driving this expense, or profit?”

Be wary of the statement, “*You’ve got to spend money to make money.*” This is not necessarily true. In fact, as a business owner, you should constantly be seeking ways to achieve results without undue expenditure. Is there another way that you could achieve the same result by spending less money or no money?

Many business owners drive up their business expenses by committing to expenditure based on pie-in-the-sky income forecasts. The worst of these expenses involve leases, which add to the company's fixed expenses and are very difficult to eliminate.

• FIXED COSTS

Be wary of fixed costs. You are stuck with them for the long term. These often take the form of lease payments for items that quickly depreciate – cars, office equipment, furniture, etc.

These expenses can quickly add up, eventually choking the business. **We recommend that the only lease payment you should incur is for office premises. Pay cash for everything else.**

Every dollar you incur in monthly expenses adds to the number of sales you need to break even.

Beyond Break Even Point,
you begin to make a profit,
so shouldn't your Break Even Point
be as low as possible?

Beware of “It’s just one more sale” mentality.

Business owners often take on a lease payment thinking, “It’s only one more sale”, or “It’s just a half a sale”. This might be true if you got to keep every dollar in income, but you don’t.

The typical real estate agency averages less than 15% gross profit per sale**. Even with a gross average selling fee of \$15,000, at this profit margin you earn \$2,250 per sale once you have achieved approximately 3 sales ABOVE BREAK EVEN POINT. Add \$3,000 per month in fixed expenses, and you need to be at least 4 sales above Break Even Point BEFORE you begin to earn this meagre profit margin of 15 percent.



*** It does not have to be this way. If your profit margin is this low, you should contact Pittard® for advice.*

• VARIABLE COSTS

You can remove these expenses almost instantly. Many businesses could improve their profits immediately by eliminating 10% of their variable expenses. **It is a good exercise to do every six months once you commence trading.**

Profit Tip:

**The money you receive is never 100 percent yours,
so be careful when committing to any expense, particularly a fixed expense.**

**You keep only a percentage of your INCOME,
but every dollar you SAVE IS 100% YOURS TO KEEP.
Keep your Break Even Point as low as possible and never allow it to creep up.**

• BUY OR START FROM SCRATCH?

Buying an existing agency and starting from scratch each offer advantages and disadvantages. Weigh up the pros and cons before deciding which of these four options is best for you.

1. Start From Scratch

Advantages:

1. Largest choice of where you can open.
2. A fresh name of your choice.
3. 'Perceived' lower cost.
4. NO 'bad will'. Can use the 'power of difference' to great effect.

Disadvantages:

1. No enquiry to begin with.
2. No contacts or leads of any description.
3. Takes time to build the business.
4. Competitors try to close you down.

The buy price is not applicable, however there is a set up price that should not exceed \$50,000.

2. Failing Existing Agency

Most businesses that are sold are failing businesses, although the owners will rarely admit it.

Advantages:

- 1.** An instant source of leads.
- 2.** Some listings.
- 3.** Equipment and fittings in place.
- 4.** Staff.
- 5.** Goodwill.

Disadvantages:

- 1.** No choice of location.
- 2.** Inherited problems.
- 3.** Debt on equipment and fittings.
- 4.** Poor staff.
- 5.** Bad will.

Be careful with these. They are the most common agencies on the market. You must not get saddled with the debts and commitments that are inherent in these businesses, unless there is a sizeable adjustment in the price. A person with a failing business – no matter what you are told – is often desperate to get out. Each month they are getting further into trouble.

Do not pay for the errors of a failing business. It does not matter what the owner of the business has paid for fittings. If you would not buy them, they will be almost worthless. The owner will have no choice but to include them in the final sale price.

3. 'Tired' Existing Agency

Usually has been operating in the area for years. Most property listings come from their rental departments, as the salespeople in these agencies seldom prospect for new business. The owners seldom market for new business either.



Advantages:

1. A few leads.
2. Some listings, but usually poor quality.
3. Tired equipment often obsolete.
4. A receptionist.
5. Often have a long history of company records, which can be a good source of listings.
6. A small, loyal, following.
7. Perhaps an established and known name.

Disadvantages:

1. No choice of location.
2. Often perceived, rightly, as ineffective in sales. Incoming business is rare.
3. Debt on equipment and fittings.

The rent roll forms the most expensive portion of the purchase price of a real estate agency but it is also the most labour intensive and has low profit margins for the effort required to run a rental department successfully.

“ The rent roll forms the most expensive portion of the purchase price of a real estate agency but it is also the most labour intensive and has low profit margins for the effort required to run a rental department successfully. ”

A more neglected aspect of purchasing a real estate agency is its listings and contacts. These can be a 'gold mine', which can bring hundreds of thousands of dollars in income. And they are often to be found in the tired old agencies.

Unless you have a skilled Property Management team you can bring with you when you purchase the business, you would be better off to have the owner sell the rent roll to another agent and then sell you the sales operation only. You should be able to buy this portion of the business for a very low price.

Before buying, insist that all contacts remain in the agency's database. You may not be interested in purchasing the rent roll, but you are purchasing the data – the names and contact details of property owners in the agency's service area. This includes landlords, whom you will approach to see if they wish to sell their rental properties. Make this a condition of sale.

For a tired sales-only business you should pay no more than \$30,000.



4. **Successful Existing Agency** These are very rare and justifiably very expensive.

Advantages:

1. An instant source of good leads.
2. Many listings.
3. Equipment and fittings in place.
4. Excellent staff.
5. Strong and genuine good will.
6. Systems that work.

Disadvantages:

1. Hard to find.
2. Expensive to purchase.
3. May not be as successful with a new owner.
4. High risk if borrowing is used to purchase and then profits fall.

If you can find such a business, it could be a magnificent opportunity. The biggest disadvantage is the price. This sort of business has a genuine value based on its constant profits and its large number of listings. The price is also a disadvantage to THE OWNER.

While the business may be valuable, few people can afford it. You can make an offer to buy this type of business by giving the owner the opportunity to fund you. This is how you may one day sell your successful business.



Of these four options, two are often the best.

These are:

‘TIRED’ EXISTING AGENCY.

The price is usually very low. You get an instant albeit small, client base from which to build more rapidly than you may if starting from scratch.

And...

START FROM SCRATCH.

In this instance, you have complete control. This option also involves enormous amounts of effort in the first two years. It is a lonely and often frightening way of going into business. However, it is one of the best financial options.



BUYING A 'TIRED' EXISTING AGENCY



PITTARD.
PEOPLE
PROFIT
PURPOSE

• BUYING A 'TIRED' EXISTING AGENCY

Just as home sellers most often do, business owners tend to think (at first) that their business is better than it is, and is worth more than it is. The owner's perceived value may not match reality.

The Value of an agency

What they are worth and what they sell for are often two different things. What you should pay and what you would sell for are also two different things.

“ Just as home sellers most often do, business owners tend to think (at first) that their business is better than it is, and is worth more than it is. The owner's perceived value may not match reality.”

Value is measured in 4 ways:

1. The amount of PROFIT earned in the past year.
2. The ability of a new owner to earn the same PROFIT.
3. The history of the PROFIT.
4. The amount of TIME & SALES INPUT by the owner.



WARNING: This method of valuing a business is acceptable business practice, but is often ignored in the real estate industry, where more focus is given to INCOME than PROFIT. The industry's method of valuing rent rolls is an example of this mentality.

Real estate agents manage investment properties on behalf of owners. For this service they are paid fees of between 4 and 12 percent on the rent they collect. They are also paid letting fees (from half a week to one month's rent) to find a tenant.

In the real estate industry, rent rolls are often seen as highly prized possessions. The main reason is they produce a predictable source of income. Unlike Sales Departments with erratic levels of income, the Rental Department can be counted on to always produce income. It is seen as a solid asset that keeps the agency going in hard times.

Instead of selling for \$3 for every \$1 of annual profit, rent rolls are sold for \$3 for every \$1 OF ANNUAL INCOME. There is a BIG difference between income and profit. **INCOME IS NOT PROFIT.**

There is no other industry where businesses sell for multiples like \$3 per \$1 of income. You will only find this in real estate.

**For this reason, we recommend
building rent rolls organically,
rather than buying them
(especially with borrowed money).**

WARNING: Be careful when buying the company and its assets. **If you buy the company, you not only buy its assets: YOU ALSO BUY ITS DEBT and any potential legal liabilities.** If you buy the company in its entirety, thorough due diligence is essential.

We recommend that you do not buy the company, but instead buy the assets, contacts and IP from the selling agent's company, through your own company.

Branding

Whether you buy an existing agency or start from scratch, branding your business is essential.

The principles of branding are the same for new and existing businesses. **See the tips for branding your business under the section Starting From Scratch (coming up next).**

Never think that you are saving money by not promoting your business.

There will be much wrong with the marketing systems and messages you inherit with the purchase.

You must think about where your target market is located, the messages you deliver to your target market, and the media you use to deliver those messages.

Regular, consistent marketing will bring in listings. Haphazard or non-existent marketing will starve your agency of stock.

If your agency has a sales team, all team members must prospect for new business. This should be a non-negotiable.

A hand is shown holding a white paper house model. A key is inserted into a ring at the base of the house. The background is a solid light green color. A thin blue line runs diagonally across the top left corner of the image.

STARTING FROM SCRATCH



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PROFIT
PURPOSE

• STARTING FROM SCRATCH

As daunting as this can appear, opening from scratch is often the best option.

Points to consider:

- ✓ Area
- ✓ Premises
- ✓ Setting Up
- ✓ Costings

AREA

You can open a real estate agency almost anywhere and make it a great success, provided you follow five simple rules:

1. Plan it before you start.
2. Work very hard to get it established.
3. Treat your clients really well.
4. Be very different from your competitors.
5. Implement systems to create a profitable business.

You should not live too far from where you plan to open your agency – no more than 30 minutes' driving time in peak hour. While you are working to establish your business, you will be working many hours. Adding extended travel times can make things even more difficult.

Don't choose the area based on size of selling fee alone, or because you 'like the houses' in that area. Liking the houses you sell is irrelevant.

The area you choose ideally should consist of 10,000 properties with a good turnover – a healthy amount of sales per year.

“ Do not be overly concerned about the number of agents that operate in the area. Some are better than others, but do not be fooled by appearances. Many agencies that look successful often are not; they can be debt-ridden businesses that struggle to survive.”

Some properties sell more easily than others; they are common properties that, when priced correctly, sell quickly. They might not be particularly attractive, but they are in demand. We call these ‘bread and butter’ properties. You should identify this type of property and aim to list as many as possible when you open your agency.

Do not be overly concerned about the number of agents that operate in the area. Some are better than others, but do not be fooled by appearances. Many agencies that look successful often are not; they can be debt-ridden businesses that struggle to survive.

It is also good, but not essential, if the area has a growth corridor – new stock will be built and your service area will expand.

Do your best to avoid small service areas. Small country towns with 1,500 properties and three or four agents are difficult areas in which to open. You might enjoy living there, but if your aim is to build a successful business, you need stock – properties to sell. Some areas are just too small to support much more than a ‘one-man-band’.

Another thing to consider is borders – roads, rivers, hills – between areas. You may be only a few minutes away, but it can be another world on the ‘other side’.



Areas That Are Often Easier To Work:

- Established more than 5 years but less than 20 years.
- Trendy areas with a street café flavour.
- Expensive areas with many cheap 'pockets' (units, duplexes).
- Good condition, or young, homes at lower prices.
- First home buyer areas.

Areas That Are Often Harder To Work:

- Very well established with older residents.
- High crime areas.
- Many builders (units) or house and land packages.
- Boom and bust areas, with many wealthy investors as owners.
- Old areas that are not trendy.
- City areas.
- Industrial areas.
- Semi-rural areas.

Areas That Can Be Both Easy and Hard Have The Following:

- Holiday areas.
- High number of absentee owners (more than 45%)
- Boom and bust areas, with 'nouveau riche' investors as owners.

Please Note: *These characteristics are a guide only.
You can have a highly profitable agency in almost any area.*

**The biggest real estate excuse is:
It's different in this area.**

PREMISES

The purpose of your office premises should be the same as with every other expense: **to help you MAKE A PROFIT.** Everything you do with your office must contribute to this purpose.

Setting up your office should be done using cash, and you should exercise care with every spending decision.

It is easy to fall victim to 'Managing Director' syndrome, which is a business virus fed by ego. Looking good without substance is not a long-term recipe for business prosperity. It is best to open a modest office with low monthly fixed costs than it is to open a beautiful office with high monthly expenses.

Successful business people develop a smart FINANCIAL attitude. It is this attitude, more than anything else, which will make you a success. Less than five percent of real estate agents have this attitude.

What type of office will you open: a shoebox or a dazzler?

When you open, go for the shoebox. Build it into a dazzler. Do not try to start at the top. Do not try to buy success with debt, leases and high financial commitments. PREPARE for the WORST and AIM for the BEST.

**SPEND as if the worst is going to happen.
Spend for where you are now,
not for where you are going to be
in the future.**

When your financial attitude is reflected in your financial actions, you will succeed. It is better to have SPACE problems because you have outgrown your shoebox office than it is to have FINANCIAL problems because you cannot afford to pay the bills racked up with a dazzler office. **The first object of your new business is SURVIVAL.**

Where do you locate your office within the area?

You may be tempted to lease premises in a main shopping strip, because of passing foot traffic. Try not to be lured by exposure. It is one of the biggest traps for budding real estate businesses.

Your goal should be to buy your own premises within five years of trading. This will become harder if you subject your business to crippling rent payments in the early years.

Thanks to the Internet, location has become less important for real estate businesses, and so too has passing foot traffic.

When starting out, you are better off choosing premises with a reasonable amount of space and as low a cost per square metre rental as possible.

You do not need ground floor premises PROVIDED YOU ARE WILLING TO MARKET YOUR AGENCY, AND PROVIDED YOU HIRE PEOPLE WHO ARE WILLING TO PROSPECT FOR NEW BUSINESS. First floor premises are not suited for those who sit and wait for business. Nor is the real estate business for that matter!

You can set up a real estate business in 80 square metres (excluding parking). The more space you rent, the higher your rent, and the higher your fixed costs will become.

**Rent, as a percentage of gross income,
should not exceed:
6% for any business,
new or established.**

Few clients will visit your real estate business, so do not fall for the need to look flashy and successful. Do consider how the space will work as a functional, pleasant work environment, but always be mindful that ego will send you broke very quickly!

PLEASE NOTE: this figure is our recommendation only. In some areas you may have to negotiate hard to achieve 6%, but you should be aware that for every percentage point you exceed this figure, you give away approximately 10% of your profit. For new businesses, this figure of 6% should apply for the first six months' trading only, and should then reduce as salespeople join the company and revenue increases.

For example: Rent at \$700 per week, or \$3,033 per month. At \$10,000 gross average fee, with all sales being made by a selling principal, it is reasonable to expect the first month's sales to be 5, or \$50,000 in gross income. At this level of sales, rent represents 6% of gross income.

However, in six months' time, when a salesperson has joined the team, sales should rise to a minimum of 8, or \$80,000. The rent of \$3,033 now represents 3.8% of gross income. All new businesses should be in this position after six months' trading.

'Premises Blindness'

**Be careful that you don't fall in love
with an office so much that you 'must have it'.
This can hamper your ability to
negotiate good terms for your business.**

We have seen people fall in love with offices, opening in areas that are less than ideal, or entering leases with less than favourable conditions, simply because they love the premises. Had they not suffered from 'premises blindness', they might have opened with lower expenses or in a more lucrative area.

Branding

It's the agency principal's job to brand the agency. You will ultimately win or lose, not because of the name over your door, but because of the quality of the salesperson you send out to turn a lead into business.

If less thought, expense and investment were given to profile – to the 'name' – and more given to the skill of every individual working in the agency, including the leaders, more agencies would be hugely profitable.

Regrettably, profile is given more credence than skill, and profit suffers... enormously!

You can brand an independent agency and compete effectively against the 'big names'.

The way to do this is to have a branding system, which comprises:

- ✓ Effective marketing with Unique Selling Propositions
- ✓ Distribution System
- ✓ Distribution Plan
- ✓ CRM with a high quantity of accurate data

Pittard® works with many successful independent agencies.

Contact us if you would like to know more about how to market your agency.

If you have decided to brand as an independent, as soon as possible after leasing your premises, registering your trading name and obtaining a telephone number, you should have the logo designed.

You should also secure a domain name, and construction of your website and other digital marketing systems should be under way. **Be sure to arrange your new web address as soon as you have decided on your new name!**

We recommend expert advice in deciding on your name and corporate look.

Think about engaging the services of a marketing company. Michael Field Strategic Marketing Consultants in Sydney is a good place to start – michaelfield.com, telephone +61 2 9299 8883. Professional advice covers naming your business, the right colours, logo design and taglines. If you want to make a good first impression with clients and potential clients, don't leave this to a graphic artist and opinions from friends.

A specialist brand or marketing consultancy can also provide you with the necessary advice on business name, brand and domain name availability. It is an expensive mistake to create signage or print stationery, only to discover the business name or domain is not available – or worse, protected by Trade Mark.

If you are looking for a good graphic artist, contact Allen Larkin at GR8 Graphics, www.gr8.com.au. The telephone number is +61 2 4751 7086.

You will find some sample marketing letters in the podcast
How To Rebrand to an Independent Agency at
pittard.com.au/free-real-estate-agency-resources-and-tools

Once you have your new corporate look, you can begin printing stationery, ordering signs, signage, fitout, etc.

Attributes of a good website:

To get a website built from scratch can cost \$10,000 to \$30,000 or even more. For a more economical option, most CRM suppliers offer website templates that can be tailored to your business 'look' and which will interface with the CRM. There is usually a set-up cost of, say, \$3000 plus an ongoing monthly fee. If you are using a strategic marketing company, discuss your options before making any decisions.

Websites should not be designed 'on the cheap'. They are important lead generators and the 24/7 public face of your company. Here are some attributes of a good website:

- ✓ Simple, clean attractive look
- ✓ The services and locations where you provide your service
- ✓ Keyword-rich for prominence in online searches (Search Engine Optimisation - SEO)
- ✓ Display your listed properties
- ✓ Contain helpful information for sellers, buyers and investors
- ✓ Outline who you are and your company's values
- ✓ 'Calls to action' – opportunities to subscribe or connect with your agency
- ✓ Interface the calls to action with your CRM
- ✓ Testimonials
- ✓ Links to your social media
- ✓ Contact details
- ✓ Privacy Policy

CRM (Customer Relationship Management) Software

From the moment you begin trading, you must have selected the CRM (database) system you will use. It should be operational at the time you begin contacting potential clients. **The quantity and quality of your data is crucial to your success. Your goal should be to have the contact details for every property owner in your service area.**

The best results from direct mail come from personally addressed correspondence, and not 'Dear Homeowner' or 'Dear Neighbour'. Ensure that you have a good CRM and have records of all, or nearly all, home owners in your service area.

You will also need a team of walkers to regularly deliver your printed material to your service area.

Develop your office's capacity to market for listings.

Your marketing must cover the following:

- Personal
- Digital
- Print

Personal: until you build a team of salespeople and HomeFINDERs, you must prospect the area. Getting out and meeting people is an underrated strategy, but essential to building a successful agency. Relationship building and developing trust around your new brand is a crucial element of real estate sales.

Digital: this includes your website, social media strategy and email campaigns. Hard copy leaflets can be converted to digital format and emailed to your database. Home Alerts to advertise your new listings can be delivered online.

A coordinated digital marketing campaign is a worthwhile investment but can be complex to set up. Again, we recommend you seek expert advice to get this working effectively. A marketing company such as Michael Field Strategic Marketing Consultants can be a profitable partner www.michaelfield.com.

Social media should not be given to an office junior simply because *“he or she grew up with this technology”*. To quote digital marketing expert, Jay Baer, *“It is easier to teach somebody who knows a lot about the business how to tweet than it is to teach somebody who knows how to tweet everything they need to know about the business”*.

Get digital marketing working properly so it can generate leads 24/7. Don't do it and you will need to rely on Print and Personal marketing.

Please contact Pittard® if you would like help getting started with your digital marketing campaign.

Print: you will need to create brand awareness in your service area. Print marketing is mostly in the form of personally-addressed letters and printed leaflets, including signs. Newspapers will be of little value in most areas and for the most part are not worth the cost. In regional areas, newspapers may offer a better return.

If you do not have a good CRM with many local home owners' names and contact details, it is even more important that you have a team of walkers to deliver leaflets into every letterbox in your service area at least once a month. **Leaflet delivery under doors is a smarter strategy.**

When you launch your new brand, blanket your entire service area with leaflets announcing your new brand.

Please contact Pittard® if you would like advice on your first leaflet.

Letters, even when personally addressed, should not be posted as this is too expensive. Print your letters, sort them, and have them delivered to each street by walkers. It will save you a lot of money.

Marketing should commence four to six weeks BEFORE you open. Once you and your company are licensed and legally allowed to trade, you should begin listing properties.

On opening day, the goal is to have AT LEAST 10 EXCLUSIVE LISTINGS.

You cannot make sales if you do not have stock. Stock up before you open!

Profile Versus Profit

Do not fall victim to the 'Profile Trap'. Agency owners spend a huge amount of marketing dollars to increase their profile. The pursuit of profile can send you broke. You do not spend marketing dollars to improve your profile; you market to bring LEADS into your agency. Then you send WINNERS out to turn those leads into SALES.

The purpose of marketing is to make SALES and not to make a PROFILE.

Much of the money spent on marketing by real estate agents is completely wasted.

STAGE 1 – STARTING WITH A ‘SHOEBOX’ AGENCY

This is your smartest option – start small and grow from the income you earn and save, and not from borrowing.

If you are starting out on your own, you should do everything you can to:

1. Keep your Break Even Point as low as possible
2. Reduce your debt liability in the event of failure (it happens)
3. Give yourself an opportunity to prove to yourself and your spouse that you can do this
4. Build up a cash reserve to fund Stage 2 – moving into larger premises

You are already taking risks, so wouldn't it make sense to have risk mitigation strategies in place?

In this stage you open with only the bare necessities. You operate from a SERVICED OFFICE, which comes equipped with office machines, furniture and a receptionist, whom you will train to answer the telephone as you wish it to be answered.**

** If the serviced office does not supply receptionist services, you can hire a Virtual Assistant for approximately \$1,300 per month. This has not been factored into the ongoing monthly expenses for opening in Stage 1, but you will need to add this expense to your ongoing monthly costs if you engage one.

Rent for premises can be a crushing cost for a fledgling business, which is why it is recommended that you start from a serviced office.

If you rent premises, you will be obliged to offer a Director's Guarantee, which could see you lose your family home if your new business fails. We have seen people lose from \$150,000 to over \$350,000 in failed start-up real estate agencies. A large part of this has been due to rent guarantees. Start small!

In your first year your aim is to establish a 'footprint' in your chosen area. Brand your agency, market aggressively, and prospect heavily.

You can also hire during this period. Actively seek a salesperson to join your new business, so that when you move to Stage 2 (premises) you will have the foundation for a winning team.

Your goal in the first year is to finish with \$100,000 in cash in the bank. With low monthly expenses, this is a realistic goal.

Average Selling Fee: \$12,000

Monthly Expenses: \$10,000

Break Even Point: <1 Sale

**Make 2 sales per month and
you are well on your way!**

At this point you may be thinking, "What about wages for me?" Welcome to the world of business ownership! Your income comes from the profit your agency makes. Make no profit, but still pay yourself a wage, and you are eating into your capital – more than likely your family home.

Keep all expenses,
including your personal expenses,
as low as possible.
Focus on results and
build your bank balance.

SAMPLE BUDGET – SHOEBOX AGENCY

• Costings for setup

| | |
|--|-----------------|
| Fitout | Nil |
| Window Display (you will not have one) | Nil |
| Furniture (supplied) | Nil |
| Office equipment with exception of computer | Nil |
| Signwriting | Nil |
| Computer (laptop) | \$2,500 |
| Image design (tender for this. Check GR8 Graphics too) | \$1,500 |
| Signage | \$2,000 |
| Website | \$2,500 |
| Licences and Approvals | \$2,000 |
| Stationery, business cards and other office supplies | \$2,500 |
| Accounting fees for company setup | \$3,000 |
| <hr/> | |
| Total setup costs (maximum): | \$16,000 |

• Trading Cash

From the time you first make sales, you will have to wait several weeks for the fees. So, in addition to your start-up costs, you must provide for the reality of no income for three months. Therefore, you will need an additional cash reserve equal to 3 months' expenses.

Estimated monthly expenses = \$12,000 per month.

Cash for 3 months' trading: \$36,000

Total cash required to open and trade for first three months: \$52,000

• Ongoing MONTHLY costs first year

| | |
|--------------------------------------|----------------|
| Listing Marketing (Print) | \$ 2,000 |
| Listing Marketing (Digital) | \$ 1,000 |
| Hiring Marketing (Digital and Print) | \$ 500 |
| Property Marketing (includes signs) | \$ 2,500** |
| <hr/> | |
| Total Marketing: | \$6,000 |
| <hr/> | |

** Property marketing is a controversial issue for real estate agents.
Most property marketing is wasted money.

| | |
|--------------------------------|-----------------|
| Rent – serviced office | \$1,500 ** |
| Phone and Internet | \$ 200 |
| Insurance | \$ 1,000 |
| Subscriptions | \$ 600 |
| Vehicle | \$ 500 |
| Training and Consultation | \$ 1,200 |
| Other | \$ 1,000 |
| <hr/> | |
| Total Monthly Expenses: | \$12,000 |
| <hr/> | |

** This should get you a physical office out of the CBD of Sydney or Melbourne. CBD offices are approximately \$2,000 plus ongoing charges such as internet. You can work from home and have a virtual office for under \$300 per month, but we feel that having an office may be better because you have fewer distractions than working from a home office. Remember to add the cost of a Virtual Assistant if you need to engage one.

You can open a real estate agency for approximately \$50,000, which includes 3 months' expenses.

You can allow the business to grow with low operating costs of around \$12,000 per month.

You can build a cash reserve that you can use to fund Stage 2!

STAGE 2 – EXPAND INTO PREMISES

Your goal should be to fund your expansion into premises from cash earned in your first year (or more) of trading.

Learn to fund growth from cash,
and not by accruing further debt.

By operating from a serviced office in your first year or so of trading, you know how to find business without hoping for foot traffic to walk in. You know that you do not need ground floor premises with high passing traffic, AND THE HIGH RENT THAT GOES WITH SUCH PREMISES.

This model does not allow for ground floor premises, and so no window display has been factored into the costings.

- **Costings for setup**

Fitout

As with every other aspect of your business, every dollar you spend on fitout should be based on economy. You want to achieve the highest value for the lowest cost, a high quality of presentation for the lowest spend.

Get quotes for fitout, painting and decorating. You may be tempted to paint the premises yourself, but this time is better spent prospecting for listings. Consider carefully what you take on. Balance the desire to save money against the necessity to find stock to sell.

**The best use of your time in the early stages
is looking for new business.**

You will starve without it.

Pay upfront for everything, avoid fixed expenses – lease premises only – and remember that being flashy can send you broke. Spend with care.

Maximum Fitout Allowance: \$10,000

Setting Up and Equipping Your Office

You do not need as much as you think you need.

- **Furniture** – agents commonly spend up to \$30,000 on buying furniture for their new office. This will be more than your entire fitout costs. If there is one place you can make huge savings, it is with office furniture. Desks, chairs, filing cabinets, prints for walls and maybe a coffee jug are all you need. Even a fridge can wait. Use second hand furniture and fixtures wherever possible. You can do a lot of research online. Check out auction and classifieds sites, and check out the private ads and liquidation sales. Maximum Allowance: \$4,000.
- **Office Equipment** – as with everything, at this stage, you are only going to purchase what you NEED. What you want can come later. You will need the following items:

A phone system (5 lines). Maximum Allowance: \$5,000

Multi-function printer. Maximum Allowance \$5,000

Results Whiteboard: Maximum Allowance: \$500

Computers: Maximum Allowance: \$4,000

- **Signwriting:** Maximum Allowance \$3,000
- **Image redesign:** Maximum Allowance \$3,500
- **Stationery:** business cards and other office supplies: Maximum Allowance \$3,500
- **Miscellaneous:** \$1,500

Maximum Setup Allowance: \$30,000

Total Maximum Allowance for Fitout and Setup: \$40,000

- **CASH FLOW ESTIMATES (Trading Cash)**

At the time you move in to the new premises, you should have some settlements coming in, but you need to keep income flowing – set up and commence trading as quickly as possible so that you can get back into creating results.

For safety's sake, in addition to your start-up costs, you must provide for the reality of low income for three months.

**It would be wise to have a cash reserve that is
equal to 3 MONTHS' EXPENSES.**

If you open with just yourself, a receptionist, and one salesperson, your monthly expenses will be approximately \$30,000 per month.

We do not recommend expanding until you have at least one winning salesperson on your team. Your Break Even Point will be hard for one selling principal to achieve alone, at least regularly.

Your trading cash required is \$90,000

Total required to expand into new premises: \$130,000**

** You will still have to keep your living expenses low, unless you and your salesperson are exceeding 5 sales per month between you.

Starting from Scratch versus Buying Existing Office

Starting from scratch in Stage 1 requires: \$50,000 (including 3 months' expenses)

Can you do better by buying an existing business?

- Operating costs will be similar to your agency in Stage 2, with monthly expenses of \$30,000 per month. You will still need operating cash, so you will still need to have \$90,000 in cash to trade until settlements occur.
- The team you inherit will most probably not be the team you want. If the previous owner relied on his or her sales income to help pay the bills, you are buying a business with an incompetent sales team.
- You may be obliged to purchase the rent roll and, with it, many problems that you are not ready to face.
- If you do purchase the rent roll, you may be tempted to do it with borrowed money. Rent rolls are extremely overpriced and to buy them with borrowed money wipes out most of the profit. We do not recommend buying rent rolls with borrowed money.
- Even if you buy the business for the cost of fixtures and fittings, say \$30,000, you will need \$120,000 for the purchase price and cash reserves.

**You have all the risks
that come with starting at Stage 2!**

• MONTHLY EXPENSES (First 3 months)

Based on the owner being a selling principal, with one salesperson and one receptionist/secretary. This is a very lean start, but a good foundation upon which to build a great business, if money and time is allocated to hiring.

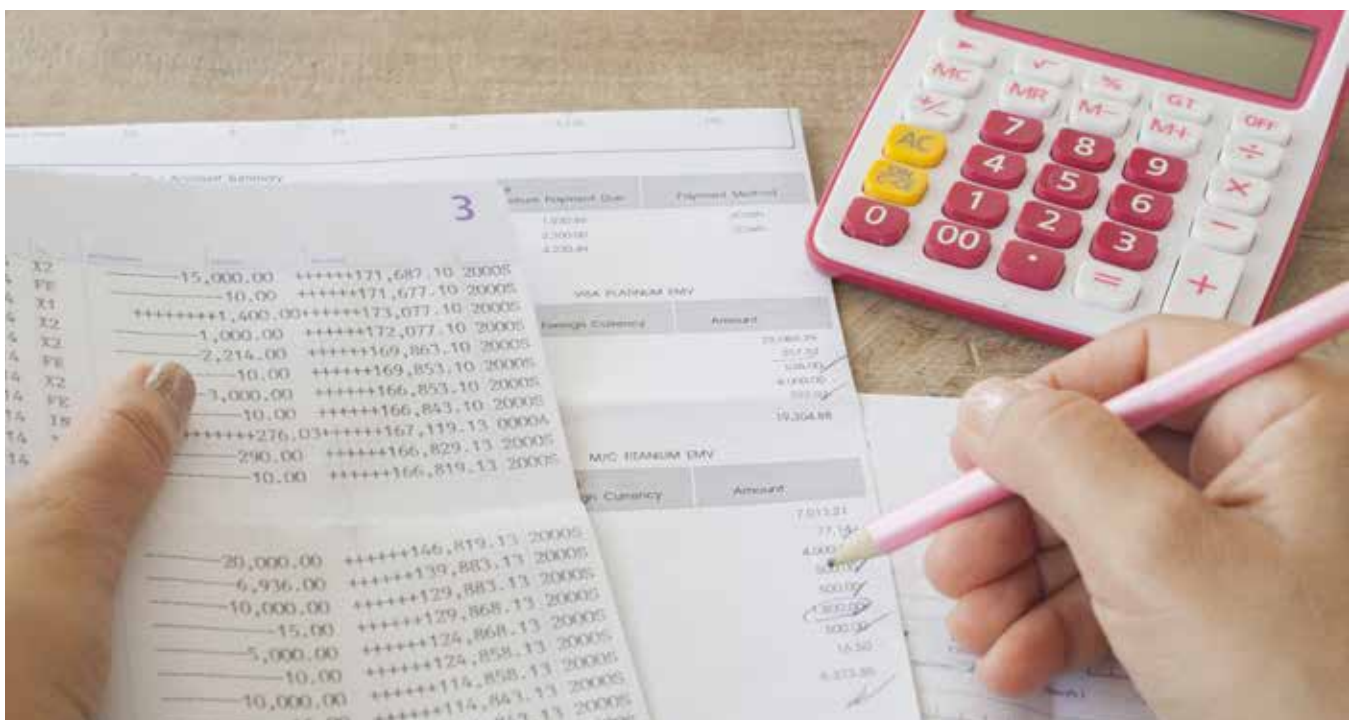
The following costings are a guide only. Because your salesperson will make some sales, on which commission or bonuses are payable, and you will make sales that do not attract commission, the figures included are BROAD ESTIMATES.

Much will depend on your method of rewarding salespeople. If you use the reward systems common to the industry, you will not make anywhere near as much profit as you would if you pay by salary and bonus, as recommended by Pittard®.

You and your salesperson MUST MAKE SALES.

You cannot afford to have an underperforming salesperson, at any time, but certainly never when you are expanding into larger premises.

With a small team of winners and a low Break Even Point, you will make profit. Business management systems such as Pittard's Agency Profit System® make you aware of your Break Even Point. Your profit is in the number of sales you make ABOVE BEP.



Monthly Expenses (for the first 3 months)

1. WAGES and ON-COSTS

On-Costs are employment costs, such as superannuation, allowances and Workers' Compensation Insurance.

| | |
|----------------------------|----------|
| A Receptionist/Secretary** | \$ 5,000 |
| Salesperson | \$ 6,000 |
| Leader (you) | \$ 0 *** |

** Start with somebody who is dynamic, mature-minded, and interested in helping you grow the business. Receptionist is not this person's main skill-set. It is administration, organisation and secretarial. Eventually this person will become your Administration Controller and be responsible for hiring a receptionist and secretary (or secretaries) as the business grows. Don't scrimp on your start-up receptionist. Hire somebody who will grow with you. **This person will keep you organised.**

*** Agency Leaders are paid from profit. Paying yourself a wage is 'swapping pockets' – taking money from start-up capital to fund your personal expenses. You may take money from the business to live, but our advice is to take the minimum you can until regular income starts to flow and the team builds in size. Don't plunder the life out of your growing business.



Total Costs: \$11,000

2. MARKETING/ADVERTISING

| | |
|--------------------------------------|------------|
| Listing Marketing (Print) | \$ 2,500 |
| Listing Marketing (Digital) | \$ 1,000 |
| Hiring Marketing (Digital and Print) | \$ 1,000 |
| Property Marketing (includes signs) | \$ 2,500** |

Total Marketing: \$7,000

** Property marketing is a controversial issue for real estate agents. Most property marketing is wasted money.

WARNING: under no circumstances should you commit to Premiere-All contracts with a property portal. This advertising has been known to increase by 15% per annum, meaning that this type of advertising can become a crippling expense in no time.

You may argue that Vendor Paid Advertising covers this cost, but this strategy is clearly not working for many agents, who now sell “Off Market” to avoid having to pay the cost of premium advertising. They are not selling off-market to do the best thing for their sellers; they are trying to avoid paying for premium advertising. Don’t fall for this.

The advertising spend per property should be no more than 10% of the Gross Average Selling Fee – a property that will yield a fee of \$12,000 should have no more than \$1,200 spent on it. We recommend a Marketing Levy, not Vendor Paid Advertising. This, and marketing in general, is explained in the Agency Profit System®.

3. TRAINING & EDUCATION

| | |
|---------------|----------|
| Entire office | \$ 3,000 |
|---------------|----------|

Total Training & Education: \$3,000

4. SUNDRIES

| | |
|----------------------------|----------|
| Phones and Broadband | \$ 1,000 |
| Rent | \$ 2,500 |
| Signs, Stationery | \$ 1,000 |
| Electricity | \$ 500 |
| Software and Subscriptions | \$ 500 |
| Insurance | \$ 1,500 |
| Vehicle | \$ 500 |
| Miscellaneous | \$ 1,500 |

Total Sundries: \$9,000

5. BONUSES

Not applicable in first 3 months

MONTHLY EXPENSES GRAND TOTAL = \$30,000

Comments on Monthly Expenses for the First Three Months

Monthly expenses of \$30,000 may seem excessive for a total headcount of one selling leader, one receptionist/secretary and one salesperson. You may be tempted to cut out some expenditure. Be careful if you do.

While we encourage leaders to cut expenses wherever possible, there are some expenses that should not be cut. It was mentioned earlier that expenses fall into FIVE GROUPS – Wages, Marketing and Advertising, Training and Education, Sundries and Bonuses.

But these five groups fall under two broader groups.

Expenses are either: FAT or MUSCLE.

Cut as many Fat Expenses as you like. These add up over time to bloat a company's Profit and Loss, leading to loss of profit. Every Fat Expense you find should be eliminated.

Muscle Expenses, however, are entirely different and should not be cut. Muscle Expenses either lead to income, or to saving a greater expense elsewhere.

**Cut a Muscle Expense
and you will lose profit.
This is a certainty.**

All expenses built into the above expenses forecasts are Muscle Expenses:

- A high-quality receptionist/assistant who can grow into more responsible roles as the business grows
- Marketing for listings
- Marketing for future winners – income producers – salespeople
- Marketing of properties
- Bare operating expenses
- Training and Education

Which of these would you cut and not lose income? More than likely you will not spend on hiring marketing. Do this and you will remain a one-person sales operation.

You will also be tempted to 'save' money on Training and Education. Do this and you will foster a culture of incompetence.

While you are in start-up phase, you have a job and not a business.

So, the question is,

DO YOU WANT A JOB, OR DO YOU WANT A BUSINESS?

If you want a business, you must market for good people to join your company. Always be hiring until you reach the optimum, and most profitable, team size. This is a minimum of three salespeople (four recommended), ALL OF WHOM ARE WINNERS. And they will only become winners if you train them!

- **CALCULATING YOUR BREAK EVEN POINT (BEP)**

As a selling principal, when you are the only person selling in your agency, you do not pay commission to salespeople when one of your listings sells.

If you have Monthly Expenses of \$30,000 and a Gross Average Fee (GAF) of \$12,000...

Calculating the BEP for a selling principal is simple:

$$\text{BEP} = \text{MONTHLY EXPENSES} \div \text{GROSS AVERAGE SELLING FEE (GAF)}$$

$$\text{\$30,000} \div \text{\$12,000} = 2.5 \text{ Sales BEP}$$

When you hire commission-only salespeople, calculating BEP becomes more complicated. You have a mix of sales – some being made by salespeople and attracting 50% commission**, while some sales are made by the selling principal with no commission payable.

**** A common commission rate for salespeople is 50%. Pittard's Agency Profit System® DOES NOT RECOMMEND THIS.**

For illustration purposes, see how different the Break Even Point is when the principal makes no sales and all sales are made by salespeople on 50% commission:

To calculate BEP for a team of salespeople paid 50% commission where the principal does not list or sell, you must consider THE OFFICE'S SHARE OF THE GROSS AVERAGE FEE.

BEP = MONTHLY EXPENSES ÷ OFFICE'S SHARE OF GAF

**Gross Average Fee = \$12,000, of which 50% is paid to salespeople
Office's share of GAF = \$6,000**

\$30,000 ÷ \$6,000 = 5 SALES BEP

Although this scenario will never happen – principals with commission-only salespeople are almost always selling principals – it illustrates that paying percentages of gross income before all expenses are paid is a sure path to low profits.

**Commission-only and Debit-Credit are
not the most profitable systems
for rewarding salespeople**

This is why so many agency owners have to list and sell properties – so that they can earn income that does not attract large commissions to salespeople.

• COST PRICE

It is common to hear people say, *"In real estate, your stock costs you nothing"*. Unfortunately, much of real estate industry practice and beliefs is erroneous.

Agents with high stock levels have more staff, do more advertising and have higher expenses than agents with low stock levels. If your agency had 10 exclusive listings, would it consume less time, less money and less office resources than if your office had 100 listings? Stock costs!

The higher the Cost Price, the higher your Break Even Point, and the harder it is to make a profit. **Be careful that you do not pay more for a dollar than the dollar you earn.**

Monitor your Cost Price regularly. Work at getting it as low as you can.

The Cost Price Formula:

$$\text{Total Expenses} \div \text{No. of Sales} = \text{Cost Per Sale}$$

$$\text{\$30,000} \div 5 = \text{\$6,000 Cost Per Sale}$$

As the number of sales increases, Cost Per Sale - Cost Price - decreases.

- Calculate the PROFIT PER SALE by deducting Cost Price from the Gross Average Selling Fee (GAF):

$$\text{GAF} - \text{Cost Price} = \text{Profit Per Sale}$$

$$\text{\$12,000} - \text{\$6,000} = \text{\$6,000 Profit Per Sale}$$

- To calculate the PROFIT MARGIN, divide the profit per sale by the average selling fee:

$$\text{PROFIT PER SALE} \div \text{GAF} = \text{PROFIT MARGIN}$$

$$\text{\$6,000} \div \text{\$12,000} = 50\%^{**}$$

****** This might appear high, but after BEP, the income is pure profit and, as a selling principal, you have no commissions to pay on the income. Remember, however, that you will not make all the sales; some will be made by your salesperson. These sales will attract commission and so the profit per sale will be lower.

A man in a dark blue suit, white shirt, and red tie stands in a modern office interior, holding a brown tablet. He is smiling and looking towards the camera. The office has large windows, white pillars, and a light-colored wooden floor. A green banner is overlaid on the image, containing the text "GROWING FROM A JOB TO A REAL BUSINESS".

GROWING FROM A JOB TO A REAL BUSINESS



PITTARD.
PEOPLE
PROFIT
PURPOSE

GROWING FROM A JOB TO A REAL BUSINESS

Whether you purchase a going concern or open as a single-person operator, to grow the business into a vibrant, profitable real estate agency you need knowledge, plans and systems.

From the moment you open, your FIRST FOCUS must always be SURVIVAL, to reach and then exceed Break Even Point as soon as possible each month. From the day you open, every month where you fall below BEP eats into your capital and cash reserve. You cannot sustain this for long.

Winning businesses focus on results. Break Even Point is never a target; PROFIT is the target and to reach acceptable profits that are in line with your goals, you must make exceeding BEP a habit.

**Your SECOND FOCUS is finding winners
to join your company.
You must not neglect hiring.**

Nobody succeeds alone. For this reason, a portion of expenses is allocated to recruitment marketing. Never become too busy to seek and hire potential winners.

If you follow our advice and hire a top-notch receptionist with secretarial and administration skills, this person will now prove invaluable in helping you set up your recruitment marketing and will also contribute to the early vetting stage as CVs arrive.

You will burn out without a sales team.

Points to consider

- ✓ Structure
- ✓ Staff
- ✓ Reward Systems
- ✓ Business Systems
- ✓ Marketing (prospecting, CRM, etc.)
- ✓ Training
- ✓ Results
- ✓ Survival
- ✓ Success (goals and vision)

• STRUCTURE

You must determine the roles for every person in your company and provide each with a written job description or a summary of their tasks. This equally applies to salespeople.

A business must achieve a high level of competence in three main areas:

1. Management

This involves deciding what must be done, how it is to be done and ensuring it is done. It requires a person to think, to analyse, to question and to decide. It also requires that a system of procedures and check points be installed and maintained. Management must always know the correct status of the business. Management keeps a careful eye on the income, the expenses and the profit. Management guides the business.

People who are good at sales do not always
make the best managers.

If you fall into this category, you should hire a good manager as soon as possible, that is if your start-up receptionist is not suitable for the role of Administration Controller.

2. Sales

At the time you start, you are first and foremost a SALES operation. You must make sales, sufficient to exceed your BEP each month and make a profit.

Once you determine the required income and profit levels per sale to reach your goals, you must guide the business and create and maintain an upward climb in sales. The sales department of the business must have plans, systems and a method of achieving its aims.

Salespeople are critical to the success of the business. Their attitude, their skill and their level of improvement has a colossal effect on the prosperity of the business. It is the duty of management to ensure that salespeople are selected, supported and directed. **The greatest sale a company can ever make is to find and keep a great salesperson.** The sales team in a business are the RESULTS CREATORS.

3. Leadership

Management decides the direction. Leadership provides the inspiration. A great leader is essential to great success.

The importance of leadership is often underrated. The role of the leader is probably the most difficult of all. However, leadership can be learned. The owner of a business must constantly study leadership. Leadership keeps a team together. Leadership provides stimulus for action.

People work for managers. People follow leaders. A leader is the visionary, the person who draws and binds the team together, and then takes the business towards the leader's long-term vision.

The most important role in a business is MANAGEMENT.

Poor Salesmanship causes MEDIOCRITY.

Poor Leadership causes fluctuation and stagnation.

Poor management causes BANKRUPTCY.

Determine your strengths and weakness in all roles and hire people who complement your weaknesses.

A manager need not be a great salesperson. A manager only needs to know what needs to be done and then find a way to get them done. A good manager can build a great business.

Sales is a vital role. The owner must know how to get listings and make sales. Many business owners who make the transition from good salesperson to management are totally incompetent managers. Most salespeople do not enjoy management. A good salesperson cannot build a great business, unless the salesperson becomes, or hires, a good manager. This is the major challenge facing most businesses.

The Number One cause of real estate problems is POOR MANAGEMENT by people who are better suited to Sales.

Leadership is the growth role. Without a great leader, a business has a limited future. Many failing businesses are over-managed and under-led. Good salespeople can become great leaders. They can learn to simplify the management tasks and attract people to help.

In the beginning, it is necessary to do all you can to cover your expenses. If this means you sell real estate, you must do it. However, you must allow time to build the business to the stage where it does not require your input into the sales department.

Building a business does not necessarily mean building the income of the business – turnover is not profit. Building a business means building yourself a future where the business works for you and repays you for your effort, risk and investment.

Your aim in building a business is to have a business that can function effectively without you. If you do not do this, you will never have a successful business.

- ✓ Leaders determine the direction and keep the company moving forward
- ✓ Managers create SALESPEOPLE, who create income.
- ✓ Salespeople create INCOME.

Income is the first step to achieving the purpose of a real estate business.

• STAFF

Upon opening your agency, your entire team will possibly comprise yourself and a receptionist/secretary who will grow into the role of Administration Controller, ultimately running the office, staffing it with non-sales support people.

While in this start-up phase, you are a one-salesperson operation. As the agency leader you wear 'three hats' – Leader, Manager and Sales Team. You should aim to remove two of those 'hats' as soon as practicable. Those hats are Manager and Sales Team.

If you selected the right person for the receptionist/secretary role you have a person who will grow into the Manager role. This person should help you design and implement systems for running the 'back of house' tasks and hire support people as the agency grows.

If you decide to implement business systems such as Pittard's Agency Profit System®, this person will also assist you with their implementation. **The Administration Controller is a valuable person in your company and, if you are the sole salesperson in your company, this person should be your first 'hire'.** He or she will keep administration distractions away from you, freeing you to make sales and hire salespeople. You will also be supplied with regular financial reports by this person so that you keep abreast of the company's financial status.

This person will also coordinate the office's marketing for listings and recruits.

Note for those who purchase an existing agency:

If you purchase a going concern,
you have inherited staff.

This creates as many challenges for new owners
as does starting from scratch.

As a leader, you need to know your team. If you inherited staff, you should get to know the team as quickly as possible. **As you understand each person better, you should quietly begin categorising each team member:**

- ✓ **Yes** – definitely a winner, well suited to the role, a good fit for the company and the culture you are trying to create. As you build a great business, this person will be coming with you.
- ✓ **No** – definitely not a winner. Not suited to the role, not a good fit for the company and the culture you are trying to create. You should remove this person from the company as soon as possible.
- ✓ **Maybe** – you are not sure whether they are a 'Yes' or a 'No'. Your priority should be to move them into the yes or no category within two months. If no, they leave the team.

Receptionist

As the agency's results climb, your receptionist/secretary cum Administration Controller will hire a replacement receptionist, who also should have secretarial skills. Small companies need utility players.

HomeFINDER

This person is a full-time prospector whose only task is to prospect for listings. Their salary is built into your listings marketing budget.

Salespeople

Whether you open a Shoebox agency, open a larger agency, or buy an existing business, it is essential that you start hiring salespeople as soon as possible.

Do not get trapped into remaining a 'one-man band' for long. The future of your business depends on you surrounding yourself with the right people.

You may be tempted to contact salespeople from your previous agency. We do not recommend this. The most common hiring method used by the real estate industry is to poach competitors' salespeople. This is a one-way ticket onto the revolving door of mediocrity. If they are doing so well where they are, why would they leave and come to a start-up agency? The answer: higher commission.

And if you pay higher and higher percentages to attract salespeople of dubious skill, you will see your profits go lower and lower, and you may even begin to lose money.

Another temptation is to hire anybody, using 'gut feel' as your guide. This is another bad way to hire.

**You cannot build a winning agency
on a foundation of mediocrity.**

**You owe it to your business,
your family and yourself to
find and keep
the best people.**

• **HIRING SALESPeOPLE**

Anybody you hire for a sales role should be put through a Hiring System, which allows you to make a hiring decision quickly, but which also gives you the greatest chance of identifying winners and eliminating those who will not suit the role.

**Pittard® clients are building
exceptional teams hiring inexperienced people
and teaching them how to sell real estate
– the right way.**

Pittard® clients seldom hire experienced people, with bad habits to unlearn, and they certainly do not get caught up in commission auctions to attract people. Typical industry reward systems are a sure path to low profit.

A good hiring system encompasses:

- ✓ Attraction – creating a flow of potential candidates for the leader to interview
- ✓ Selection – vetting systems to identify suitable candidates
- ✓ Induction – bringing the right people into the company and making them productive quickly
- ✓ Training – recruits must be trained, with some training before they commence with the agency
- ✓ Trialling – moving rookies through a series of tasks toward a sales role
- ✓ Ongoing Development – winners never stop training. The more you learn, the more you earn

Pittard's Agency Profit System® contains a comprehensive Hiring System that helps agency leaders find and create winning salespeople. Although Pittard® has contractual obligations with some agents in some areas, if you are not competing with a Pittard® agency, we are happy to offer you an obligation-free inspection of the Agency Profit System®.

Good training systems should be:

- ✓ Targeted – salespeople should have access to programs that improve areas of weakness
- ✓ Diverse – any topic that agents need to know should be available in your office
- ✓ Current – old CDs can have good material, but advanced agencies need advanced training
- ✓ Online – platforms such as Pittard's iTrain® deliver training anytime, anywhere.
- ✓ Appeal to differing learning styles – seminars, online, webcasts, manuals, video, audio and interactive events. Keep your people interested

Pittard's iTrain® is a revolutionary way to train your team.

Two Hiring Excuses

Most experienced leaders use two excuses for not developing a winning team. They say, *"I can't find good people"*. They also complain that the biggest challenge with salespeople is getting them to do what they should do.

Both are quite accurate, with one caveat: you cannot find good people, and you cannot get salespeople to focus on the right actions over the long term IF you have inadequate hiring, induction and training systems. But, in fact, you CAN find good people and make them productive!

• REWARDING SALESPEOPLE

As mentioned previously, we advise caution before rewarding salespeople using standard industry schemes.

Commission-only

The standard commissions used to reward salespeople result mostly in low-paid salespeople and struggling agencies. Commissions offered by agencies range from 40% to 80% (and beyond). Even at 50%, your salesperson takes half of the fee, leaving you with 50% AND ALL THE EXPENSES.

Commission-only remuneration is an admission by leaders that most salespeople will fail, so this method of payment is better because *“If they fail, at least they don’t cost me anything”*. This is nonsense as it fails to take the cost of MEDIOCRITY into account.

Would it be reasonable to say that a salesperson could lose one listing per month through incompetence? That’s 12 listings a year. If only half of those sold, at a \$12,000 average selling fee, the salesperson has lost \$72,000 in fees for the agency.

Incompetence is the greatest cost to an agency.

Commission-only remuneration allows salespeople to earn a living from low results. Many average one sale per month – much less in many cases. Some operate in high selling fee areas – \$20,000 gross average fee and higher. At 50% commission, these salespeople ‘earn’ \$120,000 per annum, while the agency may not have made any profit from that salesperson. How is this fair?

The big problem is that there is no money left to take the company forward, no money for training, very little for marketing and insufficient funds for expansion.

If you doubt this, why are so many agencies struggling? Why do so many salespeople leave the industry, and why are so many salespeople earning low incomes?

Debit-Credit

Under a debit-credit system, salespeople are paid a small retainer or salary. Their commissions are withheld until they have repaid the retainer.

Once salespeople have earned sufficient income to repay their debts to the company, he or she falls into the same category as commission-only salespeople, with all the disadvantages previously mentioned.

Debit-Credit retainers are traditionally very low, bordering on pathetic. They too are an admission that agency leaders expect most people to fail. **These low retainers fail to attract the best people.**

Salary and Bonuses

Pittard's member agencies have been using salary and bonus structures for more than 25 years. The average profit of a Pittard® member agency is three times greater than the published industry averages. Fair reward structures are at the core of these agency profits.

Be very careful before you give away percentages of your gross income, whether to franchises or to salespeople. IT IS FAR FAIRER TO SPLIT PROFIT, NOT GROSS INCOME.

This is what Pittard® recommends. **Sales teams in our member agencies split the agency profit between the sales team and the agency principal.**

Salespeople are rewarded by salary and bonus. Salaries range from the low \$60,000s to over \$100,000. Bonuses are calculated QUARTERLY, which rewards salespeople for consistent performance.

Salespeople share their listings and work as a team. Bonuses are paid from profit, and not while the agency has yet to cover expenses, as is the case with commission-only and debit-credit remuneration schemes.

You CAN have successful salespeople AND HIGH PROFITS!

Pittard's Peak Performance Payment Plan is explained under the Hiring and Selection section of the Agency Profit System®. Although Pittard® has contractual obligations with some agents in some areas, if you are not competing with a Pittard® agency, we are happy to offer you an obligation-free inspection of the Agency Profit System® and iTrain®.

• BUSINESS SYSTEMS AND CONTROL

Regardless of market conditions, your business must produce predictable results. It must deliver the PROFIT YOU CHOOSE.

This requires a system. You control the system. The system controls your business. This is the only way you can achieve your potential, and reach a level of great success in a real estate agency.

- ✓ Your sales always reach a minimum standard, set and decided by you.
- ✓ Your team perform how you want them to perform. They all reach or exceed their targets.
- ✓ You select and achieve your PROFIT LEVEL.
- ✓ Your agency becomes profitable without you having to make sales.

In other words, a business!

“

This requires a system.
You control the system.
The system controls
your business.

This is the only way you can
achieve your potential, and
reach a level of great success
in a real estate agency.”

These are your rewards for the investment, the hours and the risks. You can choose to be involved or not. You can have what is known as FREEDOM OF CHOICE.

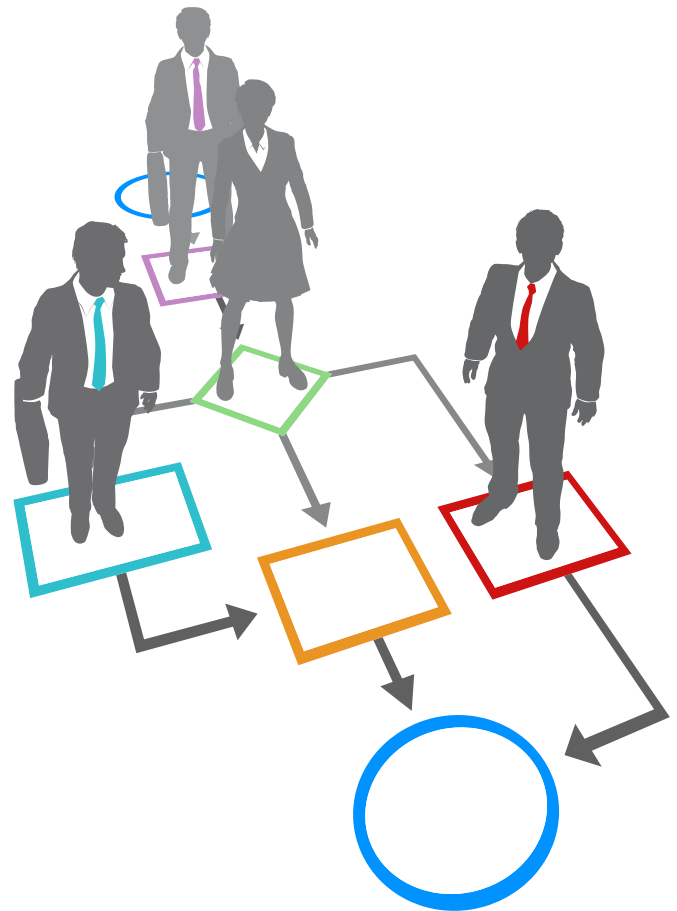
A good business can give its owner freedom of choice. A real estate business is a perfect business for this to happen.

Control Systems

Control is achieved with a system that focuses on achieving the results forecast in the company's business plan. It takes time to devise a plan and to write a system. And then it takes time to implement the system.

It takes much more time than you may have as a selling principal.

Most real estate businesses do not have a system for controlling the results of the sales department. And this is why most agencies exist at bare survival level, many for decades.



You will struggle without a business system, which is why you should at least INSPECT the Agency Profit System®. Consult with Pittard® prior to opening (or taking over an established business) and we will give you an initial consultation at no charge.

Pittard® has the only comprehensive business system for the creation of a profitable real estate business available in the marketplace and it gets results.

**A great system gives you control of your business
instead of the business controlling you.**

5 Essential System Elements

1. Financial Control

There is no point making sales unless the income from the sales exceeds the expense of obtaining it. You must have a system that controls all financial aspects of your business so that you always know your present and forecast financial status. You must have no unpleasant 'financial surprises'.

2. Focus Control

You must consistently focus on the key profit components that will lead to achievement of your personal and company goals. Regularly monitor your progress, in finances and in results, so that you know exactly where you are at any given time, and know exactly what action you can take immediately to keep your profits high.

3. Team Control

The quality of your life is determined by the quality of your people. And the quality of your people is a direct reflection of the quality of the systems you have for finding, training and supporting them. A winning sales team is one of the surest elements to achieve if a system is followed. It is an element that can totally change your life. A team of dedicated champions will make you rich.

4. Listings Control

Listings are the lifeblood of your agency. Searching for listings must become routine.

There is a huge range of print and digital marketing material available to Pittard's member agencies. Listing Flow is an essential element for the creation of a profitable agency and is explained fully in the Agency Profit System®.

When you control the listings, you control the sales. Reward your team members fairly, and you also control your profit. Listing Flow is an essential element to controlling your future.

5. Controllers

Very seldom do we see people who are competent in all three areas: Leadership, Management and Sales. And even if you are competent in all three, do you want to be consumed by all three roles?

If you are to build a business, you must build a leadership team around you. You need an Administration Controller (manager) and a Sales Controller. These two people 'finds' will set your business up for greatness and Freedom of Choice.

The Administration Controller:

- ✓ Hires and supervises the support team
- ✓ Assists the leader with hiring salespeople and HomeFINDERS
- ✓ Coordinates listings marketing
- ✓ Coordinates property marketing
- ✓ Coordinates recruitment marketing
- ✓ Financial reporting
- ✓ Office management
- ✓ Removes distractions from the sales team
- ✓ Supports the sales team

The Sales Controller:

- ✓ Lists and sells to a base level
- ✓ Works with the sales team to achieve personal and company targets
- ✓ Facilitates Sales, Training and Planning Meetings
- ✓ Liaises with the leader on sales team issues
- ✓ Is responsible for results
- ✓ Assists leader with sales hiring
- ✓ Coaches the team

The Sales Controller may become a partner in the business, or buy the business when the leader decides to retire.

• SUCCESS

In your first three months' trading, the money you have used is your start-up capital. It is your investment of your own money into your future. It will get you to the end of three months' trading without excessive weight loss through undue stress. However, you will need money for the future.

**There is only one method you should ever use
to fund the maintenance and growth of your business.
This is money that comes from sales INCOME.**

Once your business is established – at the end of 3 months – you should never obtain money from any of the following methods:

Sale of Assets: if you must sell assets to keep your business going, this is an indication that you are losing money. It is an indication that you are doing something wrong. Selling assets is not the solution.

Corporate Borrowing: borrowing money to keep your business going is an indication that you are losing money. It is an indication that you are doing something wrong. Corporate borrowing is not the solution.

Leasing: apart from your office premises, you do not need anything that needs to be leased. Do without until you can pay cash. Leasing is one of the greatest traps, adding fixed costs to the business's Break Even Point. Leasing is a quick solution in the short term, and can cause almost insurmountable financial problems in the long term.

Mortgage on the Family Home: you may have put your family home at risk to start your business. This is the only time you take such a risk. One of the main aims of your business is to have your family home totally paid out. Keep the family home out of the business and do not use it as a gambling chip.

Before mortgaging the family home, consider selling an asset to fund your business with proceeds from the sale.

Wages for you – the owner: if you pay yourself a wage from the business you are reducing your operating capital. Owners are paid from profits. After the business is regularly making a profit you can take a draw, but until then, run as lean as you can, both in personal and business expenditure.

Separate Entities

One of the first habits you must develop with your business is the habit of seeing yourself and the business as SEPARATE ENTITIES.

You are going to build this business to the point where it gives you a magnificent life, where it works hard for you, not the other way around. To be sure, in the first couple of years, you will work very hard IN the business. But always remember that the secret to a truly successful business comes from working ON the business.

Being able to work ON your business begins with developing the habit of seeing your business as a separate entity to yourself. This is the way of successful leaders.



Five Success Habits

1. Keep Expenses Low

This means start-up expenses and operating expenses. And when we say low, we mean really low.

If you have seen and appointed a financial administrator in a troubled company you understand this concept. These people are brilliant with expenses. **Their method is: unless every dollar is guaranteed to create more dollars, no dollar will be spent.** You can learn more in three days from watching such an administrator than you can learn in three years from watching a typical company.

2. Follow a Successful System

Successful businesses are run with successful systems. Either design your own or go to the market and find one that works for you, one that guarantees results – not higher turnover, but high profit.

You have 3 options:

i.) Use typical industry systems

With so many real estate businesses struggling, or barely surviving on the owners' personal sales, the efficacy typical industry systems must be doubted.

ii.) Design your own systems

It is possible to write and design your own system. The information from this course may help you design a successful system for your business.

iii.) Use the Agency Profit System®

The Agency Profit System® is worth considering if it is available in the area you wish to open an agency. If you plan to open an independent agency, it should be at the top of your must-inspect list.

If you do not compete with a Pittard® member-office, we would be pleased to give you an obligation-free inspection of the Agency Profit System®.

3. Employ the Best

This applies to all roles within the agency. From the receptionist through to the leader. Hire for attitude and practical fit. Train for knowledge and skill. Everybody studies including the leader. Pursuit of Excellence is a requirement for employment.

**You will have setbacks and disappointments,
but always remember that it's not
the ones you lose that matter,
it's the ones you keep.**

4. Work on Yourself

Leadership, Management and Sales are different roles. Each requires competence. All can be learned. Leaders who do not study leadership are destined for mediocrity as surely as are salespeople who do not study Sales.

5. Set Goals and Make Plans

Set goals and have a business plan. At a minimum, have plans to achieve 5 Clear Financial Goals:

- i.) A family home fully paid
- ii.) No dumb debt**
- iii.) High cash reserves
- iv.) Secure investments
- v.) A source of passive income

**** Dumb Debt is borrowing on anything that depreciates, cars for example.**

The 7 Greatest Mistakes of Real Estate Agents

1. Emulating Competitors

There is no greater or more common error in real estate than agents using the same systems as their competitors. It is the biggest profit-killing trap. More than 98% of agents fall straight into it. These agents do not understand how they are hurting themselves. They use the “*that’s how it’s done in this area*” line to explain why they do the same as their competitors.

The most incredible aspect of this error is that the systems being copied are not successful.

2. Accepting MEDIOCRITY

You don’t meet negative winners. In the positive-thinking stakes, most real estate agents have capitulated. Mediocrity rules. Mediocrity makes sense because it is so common. Let it be common to other agents. Never accept it in your agency.

If you accept low standards you get low results. When you demand high standards and you absolutely, totally refuse to accept mediocrity, in any form, you get high results. Eradicating mediocrity is one of the hardest things a leader will ever do.

3. Focusing on Turnover

It is one thing to fool others into thinking you are a success when you are not, but it’s something else entirely to fool yourself. Turnover, or gross income, is the second most common measurement in real estate.

It is very dangerous as it makes no allowance for expenses. Many agents win awards for high turnover, at the same time as they are making a loss!

The most important success measurements, in order, are:

- i) PROFIT – the amount of income less the amount of expense.
- ii) TEAM INCOME – the amount your sales team earn.
- iii) CLIENT SATISFACTION – the people who dealt with your agency would willingly repeat their experience.

4. Overspending in LOW or NO return areas

Many common expenses have disadvantages not realised by most agents. These are the expenses that cause the most hardship. They leave agents perplexed as to why they work so hard and receive so little.

These expenses have the following characteristics:

- They greatly reduce or eliminate profit.
- The financial return is less than the expense.
- The expense could have produced a far greater return if spent in another area.
- Occasional successes become justification for continuing the expense.

Examples:

- **Premiere Advertising** – a total waste of money. Many agents who have committed to this expense now regret the decision.
- **Franchises** – you pay a lot of money to use somebody else's name. For more information, see podcast *Why Join a Franchise* on the Pittard® website [https://pittard.com.au/free-real-estate-agency-resources-and-tools?why_join_franchise]. You can build a successful independent real estate agency. Pittard® is the independent alternative.
- **High Commissions to Salespeople** – the high percentage of sales income paid to poor performing salespeople means the entire profit from the sale is often lost.
- **Purchasing Rent Rolls** – agents who borrow to purchase rent rolls make a dreadful mistake. Rent rolls are overvalued and labour intensive. If you want to create a rental department, build a rent roll organically. Never buy a rent roll with borrowed money.

5. Underspending in HIGH RETURN areas

Simple and enormous profit opportunities are unknown to many agents. Successful agents spend in high return areas and not in low return areas.

Examples:

- Marketing for listings (most agency marketing is spent marketing properties)
- Recruitment marketing
- Training and education
- Competitive salaries to attract winners
- Business Profit Consulting

6. FEAR of Sales Team

Leaders have become so fearful of their salespeople that they will do almost anything to keep them. This has ruined many real estate businesses.

In Singapore, for example, salespeople are paid 90% commission, and there can be also a 5% override paid to a Team Leader. Business owners in Singapore claim that they need 1,000 salespeople just to break even!

Every year, 30,000 people leave the industry and roughly the same amount of new people enter the industry. Most of the salespeople make little money. No wonder – there is no for support and training in most agencies.

“ Every year, 30,000 people leave the industry and roughly the same amount of new people enter the industry. Most of the salespeople make little money. No wonder – there is no for support and training in most agencies.”

With hiring, induction, and training and development systems, you can hire inexperienced people and rid yourself of the fear of replacing those who do not fit the culture.

7. Working IN, not ON the business

When you start a new business, you must work in it. Survival is your priority. Survival, however, can become a habit if you are not careful. Do not become trapped in the role of a selling principal. For as long as you remain in this role, your business development will suffer.

Once the business cash flow is positive, you must step back and work ON the business. **Again, we come back to the necessity of a proven winning system.**



The aim is to develop the business to the point where it is not entirely dependent on you.

If you can do this you will have a true business – one that gives you a great life, not one that consumes your life.

YOUR 20 POINT SUCCESS CHECKLIST

- 1. RIGHT ADVICE:** Don't be lured into following systems that produce results that are common in the industry. Many systems typically used in the real estate industry produce low profits.
- 2. LEGAL REQUIREMENTS:** Understand the legal requirements for opening and operating a real estate business. Be sure to obey the law.
- 3. YOUR QUALIFICATIONS:** Do you know how to list and sell real estate? Can you sell sufficient property each month to exceed your Break Even Point?
- 4. TYPE OF BUSINESS:** It would be foolish to take on too much at once. Sales, Rentals, Strata, etc. are all different businesses. Know the type of business you will be in the beginning.
- 5. AREA:** Where will you open, or purchase your new business? Some areas are more lucrative than others.
- 6. EXISTING BUSINESS OR START FROM SCRATCH?** Will you buy an existing business, or start from scratch?
- 7. PLANS:** Prepare a business plan. Understand the types of expenses, fixed and variable. Also understand the difference between Fat and Muscle expenses. Forecast your listings – know where they will come from, prepare your marketing plan and forecast your income.
- 8. PREMISES:** If you start from scratch, you will need to choose premises. Don't go too big, and don't fall in love with premises. Consider whether you need a main-street location.
- 9. NAME:** Will you join a franchise, a Marketing Group or go independent? We recommend the latter.
- 10. BRANDING:** Graphic design, signage, stationery, domain name, website, CRM (database), etc. Prepare to go to market in all three areas: Print, Digital and Personal.
- 11. OPENING HOURS AND MEMBERSHIP TO INDUSTRY BODIES:** What hours will you open? Will you join your any industry bodies?
- 12. FITOUT:** The basic internal structure of your office, partitioning, etc. Stay within the budget.
- 13. EQUIPMENT:** Buy your equipment in accordance with your budget.

14. CAPITAL: Do you have trading cash sufficient for three months' trading, until you receive a regular flow of settled sales? Have you fitted out and set up within the budget?

15. TEAM: If you start from scratch, open with one team member, a top-notch person who can act as a receptionist, and then grow into a management role as the business develops.

Build your team from this one hire. You need salespeople and HomeFINDERS as soon as possible. To do this you need effective hiring system and reward systems. Contact Pittard® if you need advice.

16. SYSTEM: Choose or develop a system that will give you the success you expect. This is not the time for 'ready, fire, aim'! Without a successful business system, the business runs you and not the other way around.

17. SYSTEM CHECKPOINTS: Have checkpoints prior to opening, and have them once you open. Progress comes from doing the right actions repeatedly. Each evening you check what needs to be done the next day. Each week you check what needs to be done next week. So too each month and each year.

18. RESULTS FOCUS: It is too easy for selling principals to be distracted from the primary objective: survival. If you do not make sales sufficient to exceed your Break Even Point, you are losing money. Nothing should get in the way of making a profit. Your first focus each month is to exceed BEP.

19. MIX WITH WINNERS: If you follow our advice and 'go independent', you should associate yourself with other successful like minded business people. Remember, there is appearance and there is reality. Some people appear to be successful, when in reality they are struggling. We do not recommend that you follow the advice of such people.

We invite you to check out what Pittard® can offer you. Pittard® is the independent real estate agent's alternative to franchises and marketing groups. We are not industry trainers: we are real estate agency PROFIT CONSULTANTS™.

If you do not compete with one of our member agencies, we invite you to an obligation-free inspection of the Agency Profit System®. You are also welcome to speak with members of our Leaders Circle – we have no doubt that you will find conversations with these people like a breath of fresh air!

20. STUDY LEADERSHIP: From the moment you hire your first employee, you have joined the ranks of leaders. In what direction are you going to lead your company – up or down? What culture will you instil in your company? What are your values and standards? What are your goals and what is your vision? Leadership can be learned. Great leadership can be directly linked to high profits.

THE PURSUIT OF PROFIT

1. Profit is the purpose of business.
2. You can never go broke making a profit.
3. Profit and Turnover are not synonyms. You do not keep Turnover. You keep Profit.
4. Ego is one of the biggest causes of lost profit.
5. Profile-seeking has caused the death of many businesses. Seek profit instead.
6. Link every expense directly to profit and cut expenses that lead nowhere.
7. Your largest profit is in your people. Hire well, train well and support well.
8. To build a profitable business requires a minimum of 5 years hard effort.
9. Many people pretend to be profitable. Be careful who influences you.
10. Integrity and long-term profit are closely linked. Be proud of how you made your profit.
11. The education of your people is your second greatest link to profit.
12. Your greatest link to profit is your attitude.
13. Devote an hour a day to learning your craft.
14. Action without thought is the cause of all loss.
15. Thought and sustained action is the cause of all profit.
16. Your profit level is a direct reflection of your ability to serve others well.
17. You will always earn only the profit you deserve and not a cent more.
18. Do more than you are paid for. Value is rewarded with profit.
19. Pay cash and avoid debt. Become financially impregnable.
20. There is more profit to be earned than you could ever have time to count.
21. There are hundreds of excuses for losses, but never any good reasons.
22. Set fundamentals in place, set goals and work hard. The profit will come.
23. Never be too proud to admit errors. Seek help. You won't make it alone.
24. The team is a reflection of the leader. You get the team, and the profit, you deserve.
25. Never be ashamed of profit. It is a sign of your honesty and effort.

THANK YOU

Thank you for taking the time to study
How To Open Your Own (Profitable) Real Estate Agency.

We will never tell you that taking on your own real estate business is easy but it is rewarding IF you do it properly.

You need the right level of start-up capital so that you have no immediate money worries when you open, or when you take on an existing business.

You will also need determination, goals, planning and resilience. But especially you must have a willingness to learn.

Pittard® enjoys working with some of the best agencies in Australia, New Zealand and South East Asia. At these agencies we see:

- Leaders who set high standards for themselves and their teams
- Leaders who are respected by their teams
- Leaders who focus more on results than process
- Leaders who make exceptional profits
- Leaders who have plenty of free time with their families
- Leaders who have succession plans

With the right systems, and with the right guidance, you can build a dynamic sales operation that is a formidable force in your local area.

Please contact us for advice BEFORE you undertake your real estate venture. It is easier to prevent mistakes before they occur than to fix them afterwards. This pre-setup consultation is at no charge.

After you open, we would relish the opportunity to work with you on an ongoing basis. Many Pittard® clients have been with us for over 20 years and together our businesses have grown.

We would love to have you join our family.

Best wishes,



Gary Pittard



LEADERSHIP, MANAGEMENT & SALES

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