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The Secret Sauce

WHAT'S DRIVING BROKERAGE PROFITABILITY?

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inside real estate

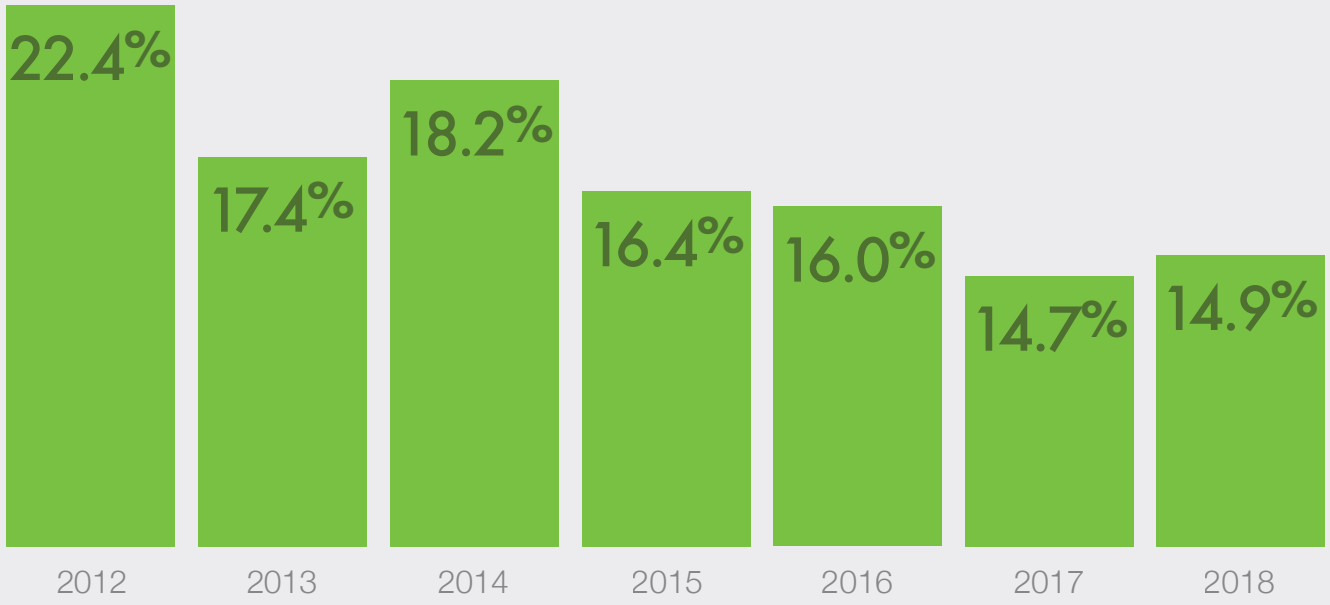
THE STRUGGLE WITH PROFITABILITY

REAL Trends has financial data on hundreds of residential brokerage firms across the nation. By far, the most important metric tracked is retained company dollar. If the lifeblood of any business is a return on revenue, then, in the real estate industry, the key is retained company dollar—how much the brokerage keeps after agents are paid.

In 2017, retained company dollar came in at a staggering 14.8 percent, which means that, on average, brokerage firms are now keeping less than 15 cents on the dollar. Consider that only a couple decades ago, the average retained company dollar was double what it is today. The chart below highlights the annual trends of retained company dollar decreasing year over year since 2012.

Gross margins, or company revenue, continue to face downward pressure. Brokerage firms that might have made 4 to 6 percent pre-tax in years past are either going to have to change their model to maintain those margins, or find a way to enhance those margins by being more valuable to the people they serve, such as through technology and other services.

RETAINED COMPANY DOLLAR - NATIONALLY



These numbers represent national averages for all brokerage model types. We do realize that average retained company dollar is materially different in Las Vegas than it is in New York City due to differing price points and markets. We also recognize that it differs between graduated commission plans, cap plans, and 100 percent plans. However, these national averages serve our purpose of expressing the industry's trend.

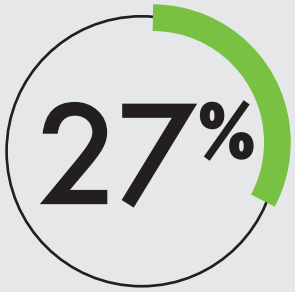
KEY DRIVERS IN PROFITABILITY

In an effort to understand what successful brokerage firms are doing today to maintain and drive profit, REAL Trends recently surveyed hundreds of brokerages to identify the top five key drivers positively influencing their profitability. In this Case Study, sponsored by Inside Real Estate, we'll breakdown the 5 key profit drivers as well as critical elements specific brokerages are implementing to execute on them effectively.

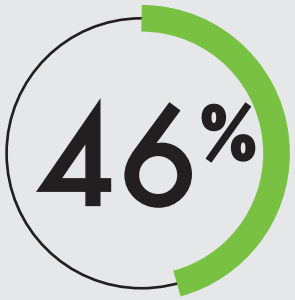
The top 5 Profitability Drivers Identified:

- **Driver #1: Team Productivity**
- **Driver #2: eLeads Programs**
- **Driver #3: Coaching and Training Programs**
- **Driver #4: Ancillary Services**
- **Driver #5: Technology Platform**

PROFILE OF BROKERS SURVEYED



fewer than 100 agents



100-499 agents

500-5,000 agents.

DRIVER #1: EMPOWERING TEAM PRODUCTIVITY

While teams have been around since the 1990s, they've gotten increasingly more popular in the past 10 years. According to 2019 REAL Trends America's Best rankings (based on 2018 data), the number of teams (within the criterion of either 75 closed transactions or $30 million in closed volume) has grown from 1,711 in 2013 to 6,356 in 2018, a growth of 271 percent.

In our survey, the majority of brokerages support teams, and some 66 percent consider teams an additional source of profit. However, 25 percent said that teams have no measurable impact on profit. That could be because those brokerages aren't effectively facilitating team growth and profitability—a common pitfall with many brokerage-sponsored technology platforms which don't offer robust enough tools for growing teams.

REAL Trends, in partnership with the California Association of Realtors® , surveyed teams from around the country. When asked about the top services that teams said are most valuable that their brokerage should provide are technology services, marketing services, low fees and costs, legal and regulatory support, and mentoring and coaching.

According to a CAR survey of teams nationwide, technology services were one of the top three services brokerages should provide to teams.

Are your teams using your broker provided technology or spending their money elsewhere? With our survey results showing that tech is one of the most valuable offerings a brokerage can provide teams, the technology platform you use can not only help you recruit and retain teams but make them more productive and profitable as well.

To drive higher productivity, your tech platform should be rich and robust enough that your agents would buy it themselves on the open market. **Some critical features top performing teams demand from their technology platform are:**

- **Database privacy:** The ability for teams to add their own personal contacts that are kept private from the brokerage.
- **Independent lead generation:** The ability for team members to generate additional leads independent from the brokerage through both free/organic channels as well as paid.
- **Independent lead routing rules:** The ability to customize lead routing rules specific for their team.
- **Team specific roles:** The ability to support various team roles, including sharing leads and contacts and assigning tasks.
- **Integrated add-on solutions:** The ability to seamlessly add on premium tools and services that are fully integrated into their core platform.

On average, teams are spending upwards of $1,500 per month on one or more software solutions, with significantly larger budgets being allocated to lead generation. ***Consolidating overlapping technology and driving down both software and lead generation costs are key drivers in both recruiting & retaining top teams but also in supporting maximum team productivity.***

FEATURED BROKERAGE

HOW BAIRD & WARNER IS EMPOWERING TEAM PRODUCTIVITY WITH TECH

Brokerage: Baird & Warner | Agents: 2,500+ | Offices: 28

Providing team-centric technology:

- Baird & Warner has empowered the growth and productivity of their teams by providing technology that allows teams to function as a "business within a business." Its technology platform, powered by kvCORE, allows teams to maintain a personal, private database of contacts not accessible to the brokerage.
- Teams may generate leads independently with team-specific roles and lead-routing rules.
- Teams also have access to individual and team-level productivity reports to gauge everything from advertising effectiveness, lead conversion, agent performance, and more, allowing for coaching and training opportunities.

Reducing team technology costs:

- Teams may deploy their own sub-account within the brokerage platform, powered by kvCORE, allowing them access to robust, team-specific tools that as a standalone product, would cost them nearly 10x more.
- Baird & Warner teams also have access to free and organic lead generation through kvCORE's popular IDX landing pages and squeeze pages which allow team members to supplement existing lead sources at no additional cost.

Integrated add-on services:

- Not all agents and teams are the same. Providing optional add-on services and tools within a fully integrated Marketplace allows Baird & Warner teams to further customize their technology solution with exactly what their business needs to grow.

"Deploying kvCORE in our brokerage has proven to be a breathe of fresh air, especially for our teams. The platform empowers our top teams with best in class lead generation & client nurturing tools while providing a scalable and flexible solution that can accommodate the unique needs of our brokerage."

—Mark Steward, VP of Technology
Baird & Warner

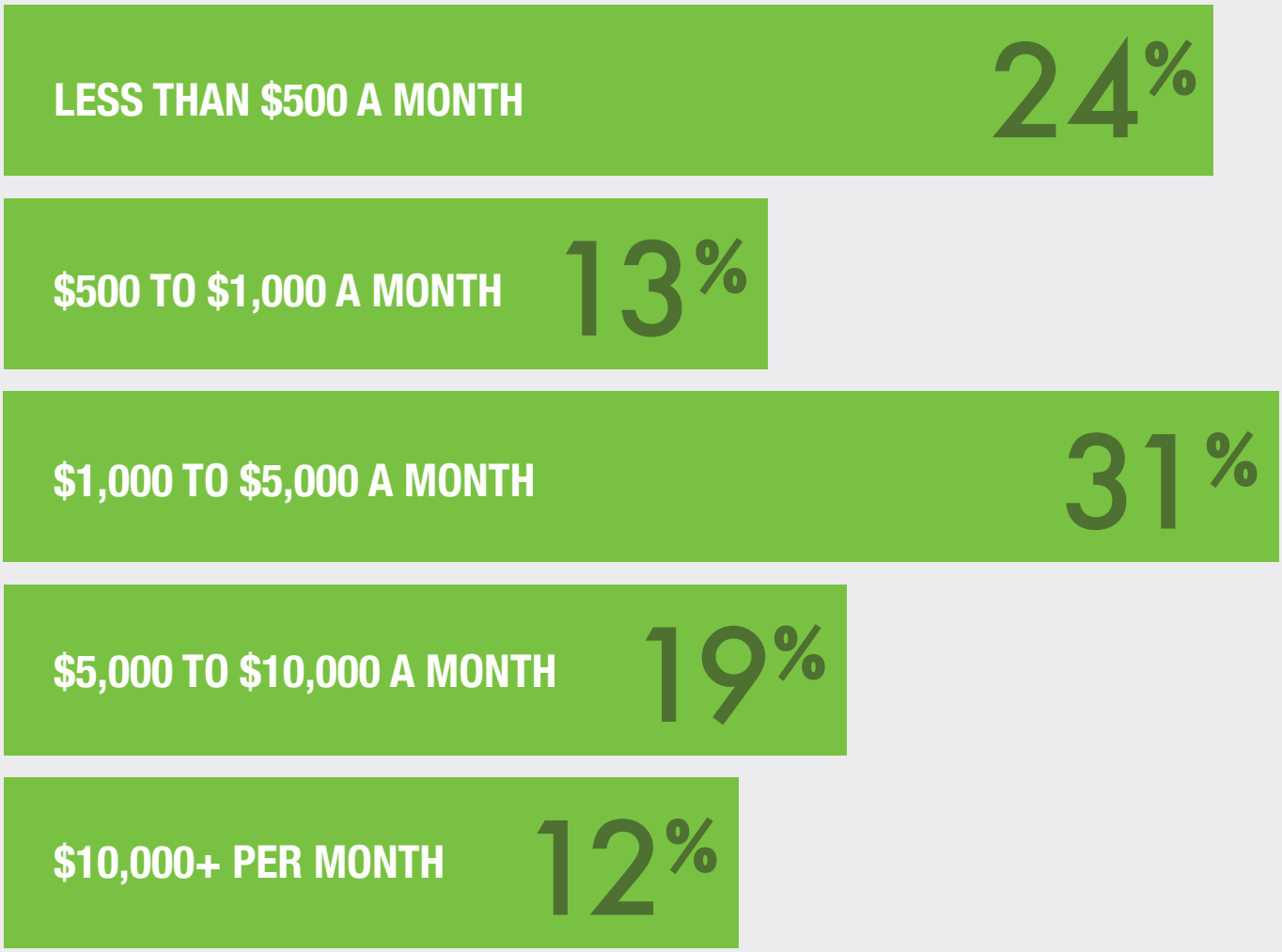
B&W
BAIRD & WARNER

DRIVER #2: MONETIZING ELEAD PROGRAMS

eLead programs offer a continuous pipeline of business to your agents, and in many cases, a positive revenue stream back to the brokerage upon charging an average 25 to 35 percent referral fee upon closing. The key to success lies in maintaining aggressive costs-per-lead and in having a system in place to effectively route and nurture those leads for maximum conversion.

In our survey, 59 percent of brokers said that they currently run a brokerage-paid lead generation program. Some 42 percent do not. Of those who do, 30 percent spend between $1,000 and $5,000 a month on that program.

HOW MUCH ARE YOU SPENDING TO FUEL YOUR ELEADS PROGRAM?



ELEAD PROGRAM CHALLENGES

With eLeads representing a significant budget for the average brokerage, it's critical to ensure effectiveness and ROI. eLeads programs don't come without challenges, with lead quality being selected as the No. 1 challenge by 54 percent of brokerages surveyed. Some other challenges (in order of most challenging to least challenging) include having an effective lead nurturing system, cost per lead, lead quantity, and lack of visibility/reporting to hold agents accountable.

BROKERAGE CHALLENGES IN MAKING ELEADS PROGRAMS PROFITABLE

(MOST CHALLENGING TO LEAST CHALLENGING)

LEAD QUALITY	27%
EFFECTIVE LEAD NURTURE SYSTEMS	20%
COST PER LEAD	19%
LEAD QUANTITY	18%
LACK OF VISIBILITY	16%

STRUCTURE OF A PROFITABLE ELEADS PROGRAM

eLeads programs can be structured in several different ways. How it's structured is individual to the brokerage; however, brokers must have insight to measure profitability.

- **Qualified Participants:** In this structure, agents volunteer to be a part of the brokerage eLeads program and are qualified by the broker through specific training.
- **Dedicated Team:** Many brokerages have dedicated teams to handle and incubate eLeads. Agents must remain in good standing by achieving an agreed upon response time and ensuring specific lead follow up activities are completed.
- **Lead Routing:** Leads are routed through a brokerage's customer relationship manager and can be distributed to e-leads team agents in a variety of ways: round robin, "shark-tank" first to respond method, geographic, price point, etc.

COMPONENTS TO CONSIDER

When implementing a technology platform, its ability to measure profitability as it relates to lead generation is vital. Your technology platform should have the following components to measure lead profitability:

- **Multiple channels of lead generation:** Diversifying your lead sources ensures you don't become dependent on any one channel. Have tools in place to generate both free and organic leads as well as more traditional pay-per-click leads from Google and Facebook.
- **Maintaining cost-per-lead:** Maintaining an aggressive cost-per-lead is critical in achieving profitability, especially as your e-leads program scales. While costs vary by market, brokers should target spending under $25 per lead as a benchmark.
- **Sophisticated lead routing:** Getting the right lead to the right agent at the right time is critical. Have a scalable, automated system in place to route leads intelligently based on a variety of criteria including agent success rate, agent skills, and specialties, (e.g. languages spoken) as well as geography, price point of the home, and more.
- **Automated agent accountability:** Ensuring your eleads team agents are following up appropriately with leads is one of the biggest challenges for brokerages. Your technology platform should automate much of this process by removing agents from lead rotation if they aren't meeting minimum program performance criteria.
- **Automated lead nurturing:** Even with proper agent follow-up, online leads often have an incubation period of nine or more months. Your technology platform should help nurture those leads throughout their lifecycle by delivering relevant, timely content (e.g. texting the prospect similar properties to what they've seen, etc.)

By partnering with the right technology provider, eLeads can be a major profit center and recruiting tool if managed correctly.

FEATURED BROKERAGE

HOW THE KEYES COMPANY IS MONETIZING ITS ELEADS PROGRAM

Brokerage: The Keyes Company | Agents: 3,600+ | Offices: 28

Controlling lead-gen costs:

- The Keyes Company was able to shift lead generation spend away from listing portals, which historically have been unpredictable and with uncontrollable lead costs.
- They've since transitioned that advertising spend to in-house channels available through their tech platform kvCORE.
- As a result, The Keyes Company was able to reduced their average cost per lead from $150+ to under $10 per lead.

Diversify lead sources:

- In addition to company-paid lead generation, The Keyes Company empowers agents and teams to generate leads independently through the kvCORE platform.
- Agents and teams have access to 20+ lead generation tools, including IDX landing pages, squeeze pages, and social media marketing to accelerate free and organic lead generation.

Maximize conversion:

- Having the tools to provide immediate and relevant follow-up with leads yields to more clients progressing down the sales funnel.
- The ability to create and deploy marketing campaigns using kvCORE's behavioral-based, lead-nurturing tools allows The Keyes Company to hone in on specific audiences with messaging and visuals that drive higher conversion.

"Our programs with national listing portals are sunsetting. What used to cost us about $100 to $150 per lead, now costs us under $10. The first month we generated 12,000 leads for our sales associates."

—Mike Pappas, President & CEO
The Keyes Company

The Keyes Company

DRIVER #3: MONETIZING COACHING & TRAINING PROGRAMS

A key component to any brokerage is the training and coaching programs they offer. In our study, 76 percent of brokerages who answered say they have a coaching program, with Ninja Selling being used by 32 percent of all brokerages surveyed.

Consider building a coaching and training program that integrates into your technology where it can serve as a stream of revenue for the brokerage, both in terms of fees associated with the coaching program but also with increased agent productivity. This is especially true with advanced coaching programs on topics such as lead generation, farming, negotiation, and more.

LEVERAGING YOUR TECHNOLOGY PLATFORM TO RUN A COACHING PROGRAM

21 percent of brokerages surveyed would like their coaching philosophies more integrated into their tech platform. By doing so, brokerages can run free, level-based, or fee-based learning systems that track agent production. With this accountability, brokerages can drive higher production, and limit eLeads and extra services to the most productive agents.

Your technology platform should have a branded learning portal that allows you to run multi-tiered learning programs to boost brokerage profitability.

FEATURED BROKERAGE

HOW FIVE STAR REAL ESTATE INCORPORATES ITS COACHING PHILOSOPHIES INTO THEIR TECH

Brokerage: Five Star Real Estate | Agents: 3,500 | Offices: 13

Automating core teaching principles:

- Along with providing agents access to a proven coaching philosophy- Ninja Selling, Five Star's technology aligns with and automates the principles taught by that program. For example, Five Star has deployed the kvCORE technology platform which provides its agents a branded, mobile dialer app prompting 10 new phone calls per day to both new leads and existing SOI contacts.
- The mobile dialer takes the guesswork out of who to call, automatically pinging contacts based on their recent behavior while providing the agent quick notes, and talking points. This built-in, fully automated tool reinforces the practices taught in Five Star's coaching program and allows the firm to operationalize the program at scale.

Freedom to customize:

- For coaching programs to harmonize well with a brokerage technology platform, the platform must allow for customization. Five Star was able to customize their platform, powered by kvCORE, with their own unique branding, customized marketing plans, and a fully integrated Marketplace for easy access to additional tools and services.

"The benefits from customization to automation and reporting have already become apparent. We're excited for where we're headed, and we're excited to have a technology partner committed to that vision with us."

—Paul Carlson, President
Five Star Real Estate

five star*
REAL ESTATE LEADERS

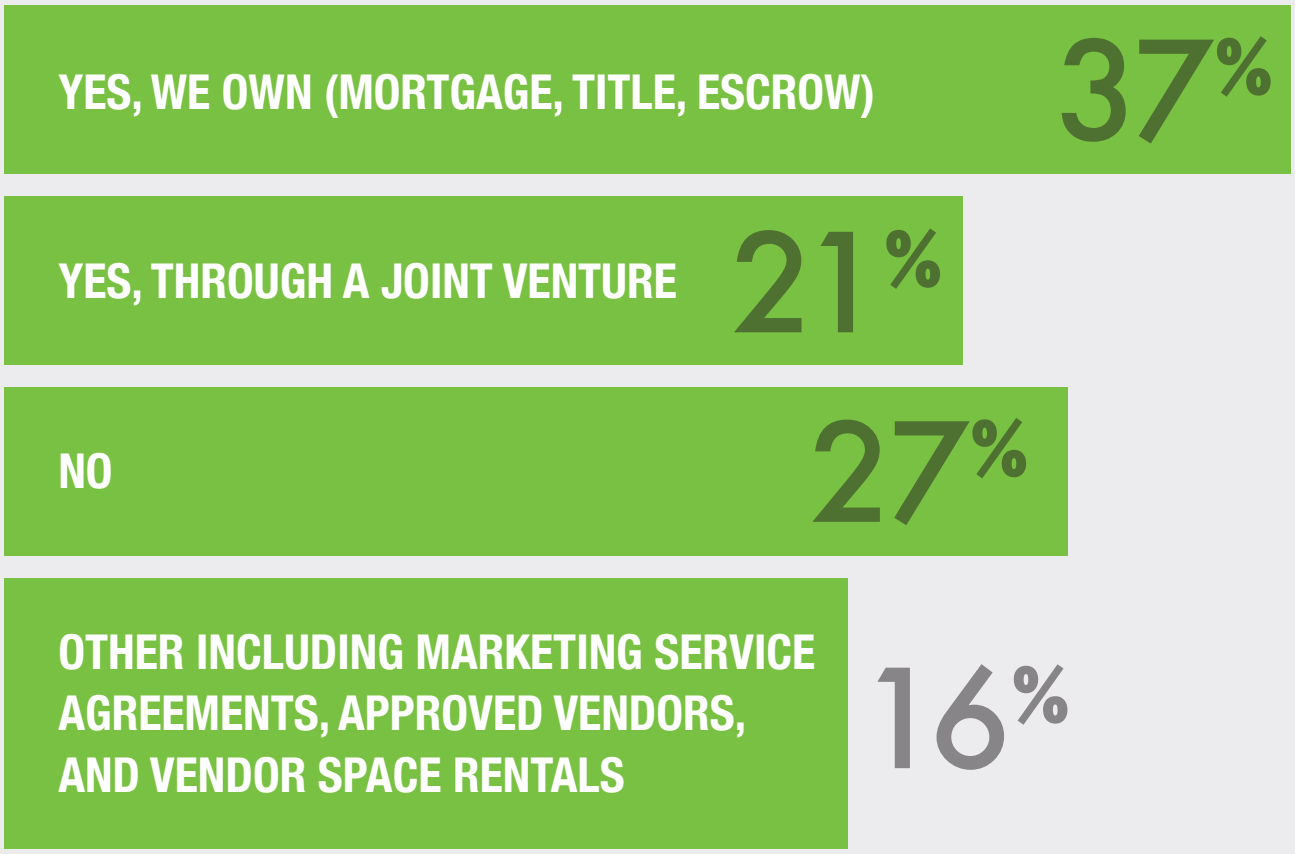
DRIVER #4: LEVERAGING ANCILLARY SERVICES

Given the downward trend in retained company dollar, brokerage firms have to be creative to remain profitable. Most have stayed true to their savvy entrepreneurial spirits to keep their bottom line in the black. At REAL Trends, we track this bottom-line performance. Most of the adaptation is happening below the line via managing operating expenses.

Another way some firms are battling retained company dollar compression is the addition of ancillary services. Not all brokerages are large enough, operate in the right jurisdiction, have the capital or the wherewithal to develop this kind of an income stream, but some are having great success in the mortgage, title, escrow, insurance, and property management arenas.

Of the brokerages who responded to our study, 73% percent offer ancillary services.

DOES YOU BROKERAGE OFFER IN-HOUSE ANCILLARY SERVICES SUCH AS: MORTGAGE, TITLE, ESCROW, ETC?



For the brokerages that do offer ancillary services, 40 percent subsidize technology or marketing service costs through those services either by integrating their technology offerings to increase in-house capture or by providing branding opportunities for ancillary services in their tech platforms.

HOW YOUR TECH PLATFORM CAN IMPACT PROFITS FROM ANCILLARY SERVICES

The right technology platform can allow you to maximize revenue from ancillary services such as mortgage, title, and more.

Branding and Exposure

Look for opportunities to brand your ancillary services throughout your front-end consumer website and app as well as your back-end, agent-facing applications.

Facilitate Collaboration

Providing loan officers an integrated CRM with the ability to collaborate with your agents can facilitate additional in-house mortgage deal capture.

Market Ancillary Offerings

An integrated Marketplace tied to your technology platform is an ideal space to promote ancillary services where your agents are actively engaged with current deals. Home warranties, insurance, moving service, and other post-close offerings can be made available and promoted when appropriate (i.e., just before and after closing for additional revenue streams.)

DRIVER #5: ESTABLISHING YOUR UNIQUE TECH ECOSYSTEM TO DRIVE PROFIT

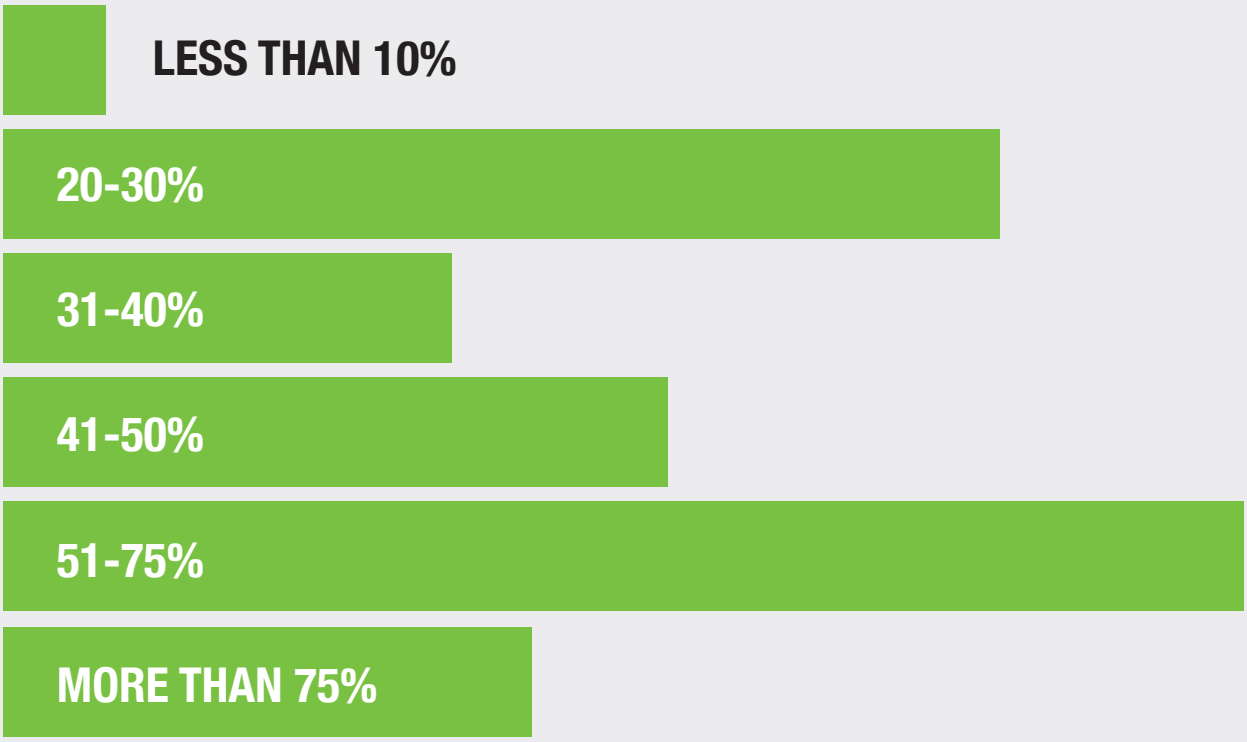
There is no doubt a comprehensive technology platform can drive profits for the brokerage. However, many brokerages are hesitant to start the process. According to our survey, brokers are overwhelmed by offerings, wondering whether they should build a system or buy one, worried about the expense, and concerned about agent adoption once that platform is in place.

However, according to our survey, some 37 percent of brokerages with a technology platform found it to be an additional source of profit. Not only that, but 72 percent say their technology platform has proprietary offerings and 83 percent say those proprietary offerings effectively differentiate their brokerage, which drives agent adoption and recruiting.

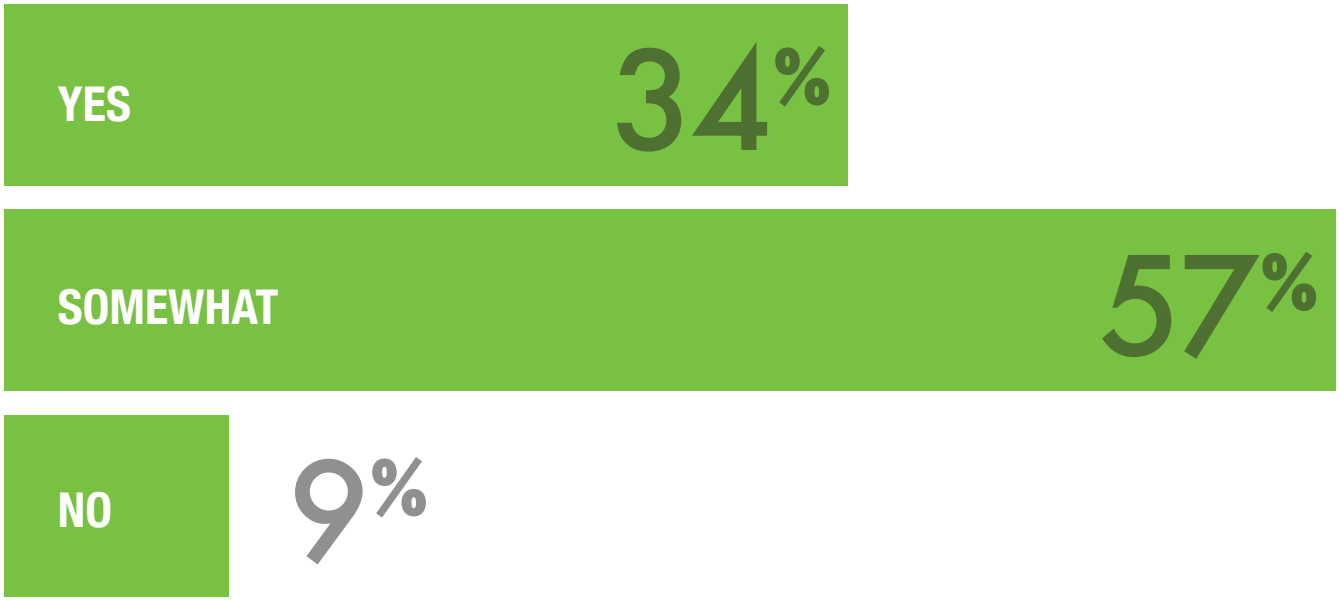
In addition, 53 percent of those surveyed charge a fee for the technology platform. Of those surveyed, that fee was between $25 and $85 per month. While agent adoption is always a challenge, the key lies in your rollout, education and overall value it provides to your agents. Of those brokerages surveyed, 31 percent said that 51 to 75 percent of their agents use their technology platform on a daily or weekly basis.

WHAT IS THE OVERALL AGENT ADOPTION OF YOUR BROKERAGE-PROVIDED TECHNOLOGY PLATFORM

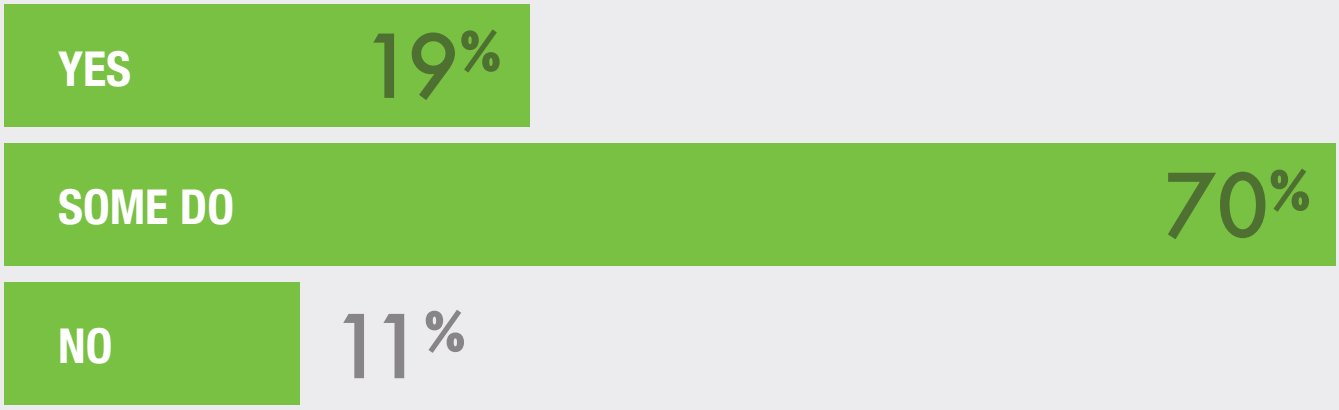
(Adoption defined as logging in at least one time per month)



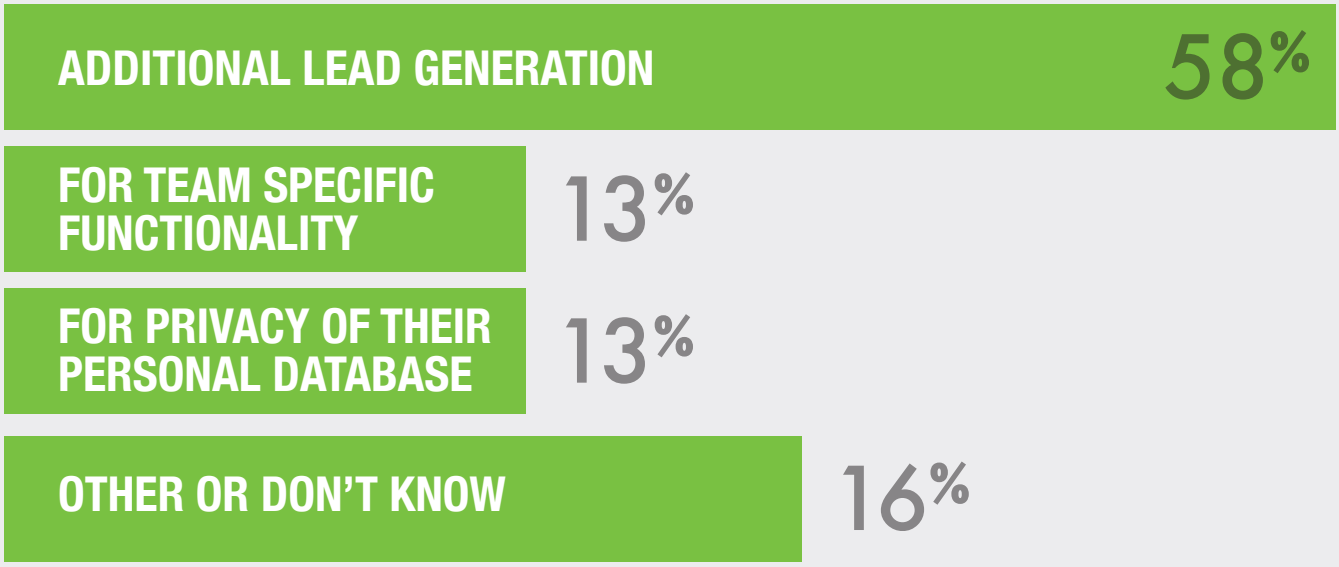
DOES YOUR TECHNOLOGY PLATFORM HELP YOU RECRUIT HIGH-PERFORMING AGENTS AND TEAMS TO YOUR BROKERAGE?



DO YOUR AGENTS PAY FOR ADDITIONAL TECHNOLOGY TOOLS/SERVICES OUTSIDE OF YOUR BROKERAGE PLATFORM



IF AGENTS PAY FOR OUTSIDE TECH SERVICES, WHY?



Incorporating a technology platform in your brokerage that empowers agents and teams will eliminate the need for them to pay for outside tools and services. Keeping team functionality within your ecosystem, ensures top teams and agents attribute the value of these programs back to your brokerage, driving lasting recruiting & retention.

KEY COMPONENTS OF A PROFITABLE BROKERAGE TECH PLATFORM

Drive Agent and Team Results

Profit within a brokerage is still largely driven from the bottom up through agent and team production. Make sure your technology platform has the depth of functionality to drive additional deal flow for your agents and teams along with the scalability to support brokerage leadership and staff needs.

Enable Teams to Create a Business Within a Business

Brokerage technology must cater to the unique needs of teams. Database privacy, team-oriented user roles, independent lead generation, and lead routing all are critical components needed for teams to grow production within your tech ecosystem.

Automation and Streamlined Workflow

Agents and teams touch, on average, 7 to 13 different technology tools a day, losing valuable time to a clunky, disjointed, and repetitive process. Wherever possible, eliminate one-off solutions and create a streamlined workflow which will increase productivity. Deliver as much automation as possible in both new lead follow-up and nurturing of SOI contacts to maximize agent's face-time with clients.

Consolidation and Cost Savings

Brokerages waste thousands of dollars on overlapping technology solutions and even more in the time and energy it takes to patch together these disjointed tools. To optimize profits, look for a comprehensive platform that eliminates the need for costly and redundant one-off point solutions.

Deliver a Unique, Branded Tech Ecosystem

Your brokerage technology platform should be truly unique, encompassing your company culture and embedded with your own operational practices. Ensure your technology platform has the flexibility to support custom branding and integration of proprietary tools and systems as well as the scalability to deliver ongoing innovation and meet evolving business needs.

FEATURED BROKERAGE

HOW JPAR IS DRIVING PROFITABLE GROWTH WITH ITS CUSTOMIZED TECH ECOSYSTEM

Brokerage: JP & Associates REALTORS (JPAR) | Agents: 1,800+ | Offices: 40+

Making it their own:

- JP & Associates has created a unique tech ecosystem called B.O.S.S.S. (Broker One Stop Shop System). Powered by kvCORE, the B.O.S.S.S. platform provides a differentiated offering to their agents, teams, and growing footprint of franchisees with custom branding, integrations, and premium add-on services within their Marketplace.

Providing unique value to agents, teams, and franchisees:

- The B.O.S.S.S. platform is an integral part of JP & Associates recruiting, retention, and franchise sales efforts as it delivers the highly sought-after lead generation and lead nurturing features kvCORE is known for, while allowing users to customize the system to meet the individual needs of their businesses.
- Front-end websites and back-end business rules are tailored to meet the specific needs of teams and franchisees, ensuring the B.O.S.S.S. ecosystem delivers bottom-line results at all levels of the organization.

Flexibility and scale:

- As one of the fastest growing brokerages in the country, JP & Associates required a modern, flexible technology architecture to support their growing organization. kvCORE provided the backbone to seamlessly scale their B.O.S.S.S. platform across dozens of new markets, accelerating their business growth.

"Having the flexibility to customize our tech platform to fit the unique needs of our brokerage has proven to be essential in the success of our B.O.S.S.S ecosystem. This has been a big win for not only our brokerage but for empowering our teams and agents with tech that they can also customize further themselves. We believe in keeping the main thing the main thing. And while we understand Tech is essential to the growth of our agent's business. Our main thing is selling real estate. We leave the tech to the tech companies."

— JP Piccinini, Founder / CEO
JPAR / Vesuvius Holdings

JPAR EXCEEDING EXPECTATIONS™

CONCLUSION

In this study, sponsored by Inside Real Estate, REAL Trends took an in-depth look at the top five drivers positively influencing brokerage profitability.

Those drivers are:

- **Driver #1: Team Productivity**
- **Driver #2: eLeads Programs**
- **Driver #3: Coaching and Training Programs**
- **Driver #4: Ancillary Services**
- **Driver #5: Technology Platform**

Increasing profitability in 2019 and beyond no longer needs to be a struggle for forward-thinking, innovative brokerages. In today's rapidly evolving real estate landscape, having a flexible technology foundation that incorporates these proven profit drivers can effectively curb the trend of decreased company dollar and gross margin. In conclusion, we encourage you to evaluate and take advantage of a core technology platform that can foster these revenue strategies while empowering your leadership to focus on execution. In doing so, your brokerage will immediately reap the benefits and gain greater control of your financial destiny.

There's a lot of disruption, a lot of noise in the space. And if you're not moving ahead to a complete system with mortgage, title, insurance, with technology, with post close services - you may not be viable tomorrow. You have to have the tools and the technology to be able to compete!

Mike Pappas, President & CEO
The Keyes Company

ABOUT REAL TRENDS:

REAL Trends has been The Trusted Source for news, analysis, and information about the residential real estate industry since 1987. We are a privately-held communications and consulting company based in Colorado. REAL Trends' areas of expertise include operational analysis, valuations, merger and acquisition advisory services, consumer and business research, and strategic planning. Residential real estate leaders find timely and trusted information and analysis through our yearly event—Gathering of Eagles—our monthly newsletter and other publications.

Visit them at realtrends.com.

ABOUT INSIDE REAL ESTATE:

Inside Real Estate is one of the fastest growing independently-owned real estate software companies and a trusted technology partner to over 200,000 agents, teams and top brokerages.Their flagship platform, kvCORE, is the most modern and comprehensive solution in the industry known for delivering profitable growth at every level of a brokerage organization. Built with a scalable and flexible infrastructure, kvCORE enables every brokerage to create their own unique technology ecosystem representative of their brand and culture. With an accomplished leadership team and over 175 employees, Inside Real Estate brings the resources, scale and vision to deliver ongoing innovation and success for their growing customer base.

To learn more about Inside Real Estate solutions, visit insiderealestate.com.