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The Commission Cutting Report

*Why they're being cut ...
and what you can do about it!*

By Mike Ferry

THE COMMISSION CUTTING REPORT

Why am I writing a report of this type? ... Why is a report of this type necessary and are these really issues that should be discussed? The report is being written because commission cutting is getting out of hand and it's hurting buyers, sellers, selling agents, brokers on both sides of the transactions and the agents who list the properties ... therefore, this report needs to be written. The trend in commission cutting is, at best, not good. For years commissions have been shrinking, the real estate organizations are the ones that witness it at the highest level and more and more agents complain about it every day. Then you add the fact that we have a real estate recession in progress and an economy that is weakening and you see the need for strengthening every real estate agent's position on commissions. Yes, these issues have to be discussed and we know that there are all sorts of legal ramifications regarding price fixing and the discussion of commissions. Since I am not a licensed agent, I can talk about, discuss and analyze and, hopefully, offer suggestions regarding the commission cutting that's going on in the marketplace today. So, let's begin.

Who Cuts Commissions ... And Why?

It seems that many agents, experienced or not, seem to cut commissions. There really doesn't seem to be a lot of common denominators ... with the exception of two words, "***weakness***" and "***desperation***". Why would I use the words weakness and

desperation? Let's be honest ... it certainly doesn't take a lot of sales skills or tremendous strength to walk into a seller's home and offer a four or five percent commission in the first twenty to thirty minutes of a listing presentation. It doesn't take a lot of strength to run ads offering four to five percent commissions or to mail into neighborhoods offering lower commissions. What commission cutting usually means is that the agent isn't loaded with confidence in themselves nor do they have powerful sales skills or, what's worse, they're going up against an agent who is powerful and the "*path of least resistance*" becomes the easy one to follow.

*Does this make some of you mad? Good ... I hope so ... in fact, I hope it upsets you enough that you take a good look at yourself and realize that not only are you *not* a professional salesperson but you're also hurting the entire industry as well as hurting a lot of other people by cutting commissions. Hopefully, it makes you mad enough that you look at the sales skills you're demonstrating and realize that you have some work to do to improve these skills so you can not only charge a fair commission for the services that you render but you can improve the quality of the services that you offer to your sellers. Remember ... ***"sellers pay commissions in direct proportion to the services that they receive."*** The other side of that, of course, is that the agents offer to accept commissions based on the services that they offer.*

The word "***desperation***" was used ... Why? There seem to be two types of desperate agents. First, those agents who are financially strapped and who cut commissions in hopes of generating a fast sale and a fast paycheck, and, second, there are those agents who can't compete on a level playing field by offering strong services to the seller so they use the commission as the close

to convince the seller to sign. There is a third circumstance we'll discuss later and that is "ego". This is in reference to those agents whose egos are so big that they can't stand to lose. Therefore, they cut commissions to build the inventory and to look like they are making a lot of money in the community.

Let's talk about "*desperate financially*". There's probably nothing worse than being in a terrible financial situation. When you're in trouble financially, you lose your confidence, your self-esteem slides and, in most cases, you simply feel like a failure. The truth is, when you're financially desperate, it means you've made some bad decisions and you have to rectify those decisions and if you don't, your financial slide will continue. There are not too many things that are harder on a person's confidence, self-esteem or ego than being in a tough financial situation. You'll notice it's very difficult to put on an air of confidence when your bank account is low, your credit card balance is high and overdue and you can't do the simple things you'd like to do for yourself and your family because of a lack of money. In most cases, you've made poor decisions to get to this point and you continue to make bad decisions and turn to "quick fixes" to solve the problem. Taking a listing by cutting a commission looks like a solution but in most cases it just magnifies the problem and hurts the self-esteem in the long term ... it's a quick fix.

"The non-competitive agents cut commissions" because the competition they are facing is too tough ... **PERIOD**. Instead of working to build their sales skills and personal strengths, improving their listing presentation and giving good service they take the easy way out. Instead of building a strong, effective

service-oriented presentation for the seller, they just give in at the first sign of trouble and cut the commission.

So, who cuts commissions? ... “People who don’t know any better, who haven’t been trained, people who are desperate financially and agents who can’t compete.”

There are two things you can do to solve these problems today. First, start working today to build your sales knowledge base ... work on your sales skills to build your confidence. Understand that as you grow with these skills you become a more powerful salesperson and your need to cut commissions will start to diminish and even the thought of cutting a commission will disappear from your mind. Second, go out and try the new skills you’re learning to gain the experience necessary so you can see that what we’re saying works. Experience the challenge of trying a more persuasive approach; experience the challenge of saying “no” to the seller and walking away. Believe me, you’ll feel better about yourself when you work on your sales knowledge and you gain some more experience.

Let’s take a look at the word “ego” and its role in commission cutting. When you look up the word “business” in the dictionary you’ll find definitions that revolve around words like service, productivity and profits. Profits are an integral part of any business and the agents who allow their egos to run their businesses generally don’t have the profits that other agents have.

“Ego” means we’re more concerned about how we feel and how we look to other people than how the customer across from us feels. Our ego causes us to make weak business decisions and

many times makes us look and act in very non-businesslike ways. One way to eliminate the ego from the transaction is to put the entire emphasis of the conversation on the person you're talking with ... "the seller" ... and remember that the seller is the most important person in the transaction, not the agent.

So who cuts commissions? ... "Poorly trained salespeople, uneducated salespeople." These salespeople can learn to sell and increase their income to the level they deserve.

Who Wins When Commissions Are Cut?

The truth is ... nobody wins when commissions are cut. Why? ... Okay, you're an agent doing 12 to 15 deals per year or an agent doing 125 to 150 deals a year and you have a qualified, motivated buyer whom you're showing property and you're planning to sell today. Whose properties are you probably going to show? Let's be real honest here. Are you going to show the listings that are at four to five percent, or three and a half to four percent, or the listings that are at six to seven percent? I think we all know the answer.

It's hard to get excited when looking through the MLS and you see listing after listing that is at four to five percent.

So, who are the losers when commissions are cut? First and foremost, are the homeowners ... the sellers. Yes, they think they're winning by saving one to two percent which they believe translates into money in their pockets but in reality, they lose because the highly professional salesperson is, unfortunately, less

likely to show those properties that are at lower rates. In case you're wondering, this is simply called good business. The agent's attitude showing property is "if I have to work 'x' number of hours to put this deal together, I might as well get paid a fair commission for the time spent". The seller loses because the agent who took the listing was weak in the first place. When and if an offer to purchase does arrive, the listing agent has already demonstrated a weakness in negotiating so the seller who thinks they have "won" will probably lose twice. They have fewer showings and a less than competent agent to negotiate for them. Remember this thought, "*if an agent will negotiate their commission for you quickly during the listing presentation, what will they do during the negotiation on the selling price of your home?*"

The buyers lose ... because they may not even see the home that could be right for them. As you can see, there are too many professional agents who simply won't show homes at less than what is considered a fair commission rate. So now we have the two most important people in the transaction in a position to lose.

It's critical to remember that when the buyers and sellers lose in any real estate transaction, then everybody loses.

The showing agent loses because if they eliminate listings with lower commissions, they then have less inventory to show their buyers, and therefore are reducing their chances of making a sale. All of this is because of a weak or desperate listing agent. The owners of the real estate companies who have the listings lose when the home does sell because they have less capital to work with which affects their ability to make sound business decisions in the future. Finally, the listing agent loses because ... the respect

from the seller is diminished, their personal income is reduced or gone and eventually, they will be gone from the business. The more we look at the whole concept of commission cutting, the less appealing it is.

Why Do Sellers Ask Agents To Cut Commissions?

For a lot of reasons, and most of them are valid. There are always a certain percentage of people who simply “want a deal”. They don’t just ask agents to cut commissions; they look for a deal in everything they do. You’ve seen them before, when they bought the home they made a low-ball offer to the former seller, when they applied for the mortgage they beat up the mortgage company. The car salesperson hates to see them walk onto the lot because they are people who simply believe they deserve “a deal” on everything and they want to negotiate everything in their favor. They are probably not purposely trying to hurt somebody or trying to hurt somebody’s financial position ... they are simply trying to enhance their own financial position and are not concerned about who gets hurt in the process. When you meet this type of person, you have the right to walk away and to work with somebody else. If you are doing your job every day, which is to develop new business, you can walk away from anybody who behaves or acts like this. If you’re not actively developing new business every day you’ll probably fall into the desperate category and probably have to work with this type of seller.

Let’s look at a second scenario. The agent goes on the listing presentation and does not have a well-planned, question-oriented, professional sales presentation and, to make matters worse, the

seller recognizes this early during their time together. The thing we have to remember is that even though sellers don't sell homes every day, they are smart enough to recognize agents who are weak ... and, since it is human nature to take advantage of people who are weak, they go right after the agent by either asking them to leave or they start to voice objections ... one after another. The one objection they'll give if they doubt the agent's confidence is "Will you cut your commission?" When the agent hesitates for a moment, or if the agent does respond by cutting the commission, you're now putting the seller in control of the transaction and the only decision the seller has to make is how much further they want to go to control this agent. Once the seller has control of the transaction ... watch out ... it isn't going to get any better. Remember that people look for weaknesses and pounce on them and if you're a weak agent, the first thing they pounce on is your pocketbook.

If you walk in showing strength and confidence ... if you're well organized ... ask qualifying questions ... are direct in your approach and if you demonstrate the confidence that is necessary to get a home sold and, most importantly, believe 100% that what you're doing is the right thing for the seller ... they are not going to ask you to cut your commission. Oh, they might bring it up. But by smiling and simply saying, "No, any other questions?" you will not only demonstrate your personal strength but also let them know who is in charge.

There's a third scenario that we need to look at. It's the sellers who are in a desperate financial position and usually want more money than the house is worth to bail themselves out and want the agent to cut the commission so that they can have the

highest net possible. They could possibly have little to no equity or whatever equity they have is going to be used to pay off some bills when the home sells. In some cases they simply need every bit of money they can generate to purchase another home once this home is sold. There's nothing a seller likes better than meeting an agent who is also desperate because they know the agent is not going to make a wise decision, and therefore the agent will cut the commission.

The fourth scenario as to why agents cut commissions has to do with pricing. The "high end" homes in every area can range in price from \$500,000 to millions of dollars. In the case of the "high end" properties, the six percent that an agent charges can add up to a tremendous amount of money ... so, sellers who have high end properties "expect a deal" because of the size of the total commission being paid. If a seller owns a \$400,000 home and it's the highest priced home in the area, the six percent commission is \$24,000 and the seller is going to look carefully at what the agent says to justify paying that amount of commission. Move up the ladder to a three million dollar home and suddenly the commission is \$180,000. In this case, it's not common for the seller to look at you, to smile and nod a quick approval at a \$180,000 commission. Working the "high end" requires great sales skills and the ability to handle objections. They may look at the \$180,000 and ask for a reduction in commission.

“As professional salespeople, we have to work harder at pre-qualifying sellers thoroughly, we have to work on building a stronger, more efficient listing presentation, we have to memorize the answers to the objections we're going to receive regarding

commissions and we have to have the courage to ask for the signature.”

The fifth scenario is probably the most common. The agent goes on the listing presentation and is doing just fine. Out of nowhere, the seller simply smiles and says, “I have an agent who will list this property for five percent, will you do the same?” In this case the agent is caught off guard and too many times, simply says, “Okay.” And then, the excitement begins. The seller really wasn’t looking for a cut in commission ... they just threw it out to see what would happen and instead of demonstrating the confidence required, the agent folded and walked out with a four and a half percent commission instead of six ... a loss of \$4,500 on a \$300,000 home.

What Motivates Most Agents To Cut Commissions?

As we said at the beginning of this report, there are many reasons why the agents cut commissions. Obviously, there are agents who are weak ... they simply don’t know how to sell ... they lack confidence, so, therefore, they really can’t do anything more than what the seller says. We also have, unfortunately, agents who are desperate. They can be desperate financially, meaning they are broke or close to it, or, they can be desperate in terms of getting business because they don’t know how to go out and develop business the way good producers do. So, to compete, they cut commissions. Obviously, the ego involved with many agents motivates them to make poor business decisions and to cut commissions. So what is the solution to this ongoing problem?

Solutions

1. As agents we have to make a decision to become better business people instead of just becoming good real estate agents. By becoming a better businessperson we start to make better decisions. We need to make our decisions based upon facts and reality ... instead of making decisions based upon emotions. The fact is a lot of people get hurt when agents cut commissions. When we look at the facts and then work on our own personal skills we can walk into sellers' homes and make valid business decisions, which ultimately help the seller and the agents themselves.
2. The income we earn is in direct correlation to the service we offer the customer. The higher the level and the quality of service extended, the more money the salesperson gets in return. Our job, then, is to focus on doing the best possible job for the seller and, if anything, over-servicing versus under-servicing. By walking into the home and being strong and efficient on your presentation and showing the seller exactly what you're going to do to get the home sold, they will see that you deserve the commissions you're going to earn. Develop a specific action plan that you'll show the seller and use once the property is listed.
3. We have to remember that the ***“purpose of business is to give service and make a profit.”*** Sellers believe you're in the business of selling homes. They understand that you have a right to be paid for the service you extend. The pay

you receive, as I said above, is in direct correlation to the service you give. By performing the service the seller wants, you can then ask for and expect to be paid the money you deserve.

4. More specifically ... we need to become experts at pre-qualifying before going out on the listing presentation. By pre-qualifying, not only do we discover where they are moving to and how soon they have to be there but we also discover the amount of equity they have in their home, who else they are going to be talking with and if they are willing to list their home with you upon your making a presentation. When questions like, “What commission are you going to charge?”, come up in the pre-qualifying process, you, as an agent, can address it and give your position and then decide if you even want to go out on the presentation or not.
5. We have to develop a strong, question-oriented, effective, to-the-point, service-oriented presentation. We have to be enthusiastic, full of energy and show the seller that we are the expert at getting the home sold and that any question about receiving less than full commission would simply be foolish. By creating value and offering good service in your presentation, you define yourself as a professional and, not only eliminate the competition, but you also eliminate the question of cutting commissions.
6. One of the unique parts of the listing process is the fact that sellers always give the same objections day after day. If you’ve been to my seminars you’ve heard me say that

sellers are not smart enough to think of new objections ... but the agents aren't smart enough to think of the answers. The objection, "I want you to cut the commission" is as old as dirt. "No, any other questions?" ... is one of the simplest and most direct answers to the objection. "But the other agent said they would charge less, why won't you?" ... "I can charge less only by reducing the services that I offer ... I can't give you full service for less money. Which of the many services we're offering would you like to eliminate?" You may not like any of the suggestions that we're giving you here but the truth is, having a defined direct answer restores order in the presentation and shows the seller that you're strong enough to stand up to their objections.

7. Don't be afraid to ask for the order in spite of what the seller says. "Would you cut the commission?" ... "No, any other questions? ... Would you sign the contract, please?" A good portion of the time, the seller is simply giving you an objection to delay the process of signing a contract. They need a minute or two to think about what they want to do, so they give an objection which causes most agents to stammer and stutter for fifteen minutes and then either they cut the commission or don't get a contract signed. The close is a natural ending to a good presentation so when you get to the end, rather than spend ten minutes handling an objection, smile and go for the signature.
8. Don't be afraid to walk away if you can't get the terms that you want. Look at the incredible number of expired

listings that appear every day. Why do listings expire? ... In most cases, because they are overpriced, but, there are a lot of cases that revolve around location, condition, poor marketing on the agent's part and there are many cases where the seller demanded a small commission be paid and nobody showed the home. Great agents have learned that walking away and not taking a listing, not only strengthens their personal resolve, but also saves them time and money in the future. You're the person in charge; you're the person deciding what is supposed to be done. Therefore, you're the person who can make the decision to turn the listing down. If you do turn it down, don't be surprised if they change their mind and want to list with you if you've been strong during your presentation.

9. Solution ... Start prospecting at a higher level of intensity to increase your chances dramatically. If you don't prospect for new business on a regular basis you're subject to whatever a seller says. By prospecting every day you are in control when you walk in the door because you know that only a certain percentage of the time will you decide to take the listing. If you only have one presentation a month, you really don't have any choice. If you're prospecting daily and making 10 – 20 – 30 new contacts a day, you have a lot of choices. If you're contacting expired listings, for sale by owners, calling your past clients for referrals and your centers of influence, you have tremendous power to do what you want to do on a listing presentation. Use the power you have.

10. An obvious solution ... call my office today and enroll yourself into either our Action Workshop or our Productivity School seminar. In either case, for very little money and time spent, each of these powerful four-day training seminars will teach you exactly how to overcome the objection of “cutting your commission”. Remember, knowing what to say is critical in building the confidence to save more of your commission dollars.

In Closing...

Okay, do you and I really believe that what's been written here can solve the problem of commission cutting? *Yes ... I believe it.* Yes ... we've trained tens of thousands of agents who, in many cases, are the most productive agents in their marketplace because they've taken this type of thinking and made it part of their business. *Yes ... you can believe it if you're willing to be open-minded and have the courage to change.* We, at the Mike Ferry Organization, have been in the business of assisting agents in changing, not only their behavior, how they think, but also how they address the daily problems of selling real estate for over 31 years. We can help you to do the same.

I want to strongly encourage you to visit our website www.mikeferry.com ... learn all that you can about our company, who we are and who we work with. Then call our office and learn how the *Superstars* are using our systems, sales techniques and scripts to sell hundreds of homes a year.

Call our office at (800) 448-8423 and ask to speak with any one of our sales people to find out which services and solutions will best serve your needs.

Mike