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North America's Leading Real Estate
Coaching and Training Company™

The
Profitability
Report

By Mike Ferry

THE PROFITABILITY REPORT

What is it?

If you look at all the “Buzz” words in and around the Real Estate Industry ... “profit” is definitely not the one you hear being used in most offices. “I made \$290,000 last year!” “I did 7 million last year!” etc. is more likely what you are going to hear agents say as they describe their real estate business. Why do agents almost never refer to “Profitability?” It’s simple ... it’s not something that the industry, the company, management or most seminars spend any time on.

So what is “Profitability?” To define the word profit, we simply do what other business people do. Take the gross revenue of the business ... the total of the commissions the agent receives after the house split. Then total all the applicable business expenses (remember, the IRS is watching) and you subtract your total expenses from your income and what’s left is your pre-tax income or profit. As you can see, it’s really not that complicated.

We used the words “pre-tax profit” because that’s the amount you’ll pay taxes to your government on. A thought regarding taxes that we have to pay ... “taxes are the rent we pay for living in this country!” Believe me, everybody has an opinion regarding taxes and that quote is my opinion ... so let’s move on.

In all businesses, one of the ways to measure success is to look at their profits. In most cases whether it be an individual or a company, “the higher the profit, the better”.

So why then do we have a “Profitability Report ... for Agents” if we all agree that profits are not only a good measuring stick, but also a healthy part of any business? Because in doing seminars for more than 31+ years and counseling tens of thousands of agents, we discovered that a majority of all agents ***do not earn the profits that they feel they deserve or more importantly, the profit that they are capable of earning.*** So we are going to address the issue of an agent’s profitability very carefully.

Profit ... It's An Issue

The Real Estate Industry has numerous ways of measuring an individual’s success. Some of the most common are gross sales volume, gross income ... and if you believe in what we teach, we measure by the “number of deals you close annually” ... you’ll notice the word “profit” is not mentioned in any of these definitions or descriptions of success in real estate.

In the early 1980’s, we started talking about two words in our seminars that actually caused quite a stir and were additional reasons why I was banned from speaking to a majority of all real estate organizations during the 80’s and early 90’s. The two words were ... “business” and “profits”. In observing the industry daily, I realized that most agents did not understand the words business and profits. In most cases, I left the agent more confused than enlightened by saying things like “we must run our business like

any other business” or “it really doesn’t matter how much you earn, it’s only what you keep!” As stated, these statements left many agents totally perplexed because they had not been taught what business or profits were. The question, of course, was why was this so difficult to understand? Where do the agents come from? You won’t find this hard to believe ... “A majority of the people entering real estate sales have little to no background in business, running a business or in the field of Sales.”

Real estate agents come into the business from everywhere ... and everybody is a “former something” but we know that since a majority have no business background, the words “business” and “profits” don’t mean a lot to them.

Yet real estate sales is a business just like any other business and must be run in exactly the same fashion.

In a normal business, any and all of the following are prescribed to, or followed in detail depending on the leadership of the organization. As a real estate agent you are the Chairman of the Board, the CEO, President, the CFO, the Administrator, the Marketing Director, Sales Manager and last, if not least, the salesperson whose job it is to create income and profits. Therefore, you must follow carefully the following thoughts.

1. A sound business strategy or Business Plan. This is the guide that we use to measure our progress towards the goals we’ve set. The more detailed the plan, the easier it is to check our progress. (Go to www.mikeferry.com for an outline of a Real Estate Agent’s Business Plan.)

2. Good, sound business decisions made daily. Reality based thinking is a critical factor in making good decisions. By “reality based thinking” we are referring to learning to deal with the reality of where your business is versus where you want it to be and the steps required to get it there. It means leaving our emotions out of the process so we can make better business decisions.
3. Learning and applying the methods required to build a business. Non-business real estate agents hate to hear the word “prospecting” even brought up ... but the bottom line (profitability) is that without a plan on how you are going to go out and find new business, you’ll have to wait for it to find you or buy it, which is extremely unprofitable.
4. Handling the administrative side of the business. Most agents, as their business grows, will hire an administrative staff person to handle a lot of the various details that go with building and running a business. If you don’t have a staff person, you must become an expert at delegation and scheduling so you have the time to maintain and build your business. If you have staff, you also have to develop your leadership skills so you don’t get in the staff’s way.
5. Generating substantial profit that you can either reinvest in your business or take for your personal use. Profits allow the agent to reinvest in themselves and their business, whereas a lack of profits keeps growth at a minimum. What’s a fair profit for an agent to expect? If you work for a traditional real estate company, your expenses annually should run from 15% to 20% maximum of your total income ... thus realizing

an 80% to 85% profit. If you work for a rent-a-space company or a high commission company, your expenses should run between 30% and 35% maximum or leave you with a profit of 70% to 75%.

Take these five business principles and incorporate them into your business to not only strengthen the business side of what you do, but also to maximize your profit.

The Number One Profit Stopper ... EGO!!

Without question one of the biggest problems agents face in building their business and maximizing their profits is an uncontrolled ego. Why? Because an uncontrolled ego is not only expensive to maintain, but it also kills your business from the inside out, as you'll see in a few minutes.

An “uncontrolled ego” ... in my belief, is the “most destructive and unprofitable trait” that you can have. So, how does it hurt your business and profits? Look carefully at the following.

1. An uncontrolled ego will stop you from learning and growing ... therefore it eliminates new information from moving into your business and sales process and will stop growth and profit. When you know everything, you might as well get in a box and wait!
2. An uncontrolled ego will stop good communication between yourself, your staff, your prospects and customers. Why?

Because your communication focus is on you and your problems and not the people you are associating with.

3. An uncontrolled ego will dramatically reduce your referral and repeat business, which is very expensive. Why do your past clients and centers of influence not refer as much to the huge ego agents? ... Because they don't want to expose their family and friends to the same thing they went through.
4. An uncontrolled ego creates staff turnover which is time-consuming and therefore expensive. If you are always right and the center of attention, then the staff has to be wrong ... period.
5. An uncontrolled ego gets in the way of quantum leaps in production because if you already know everything and won't learn new skills and techniques, your business becomes complacent; therefore it is not as profitable as it could be.
6. If you are involved in coaching ... uncontrolled ego gets in the way of listening and acting on what your coach is teaching you.
7. An uncontrolled ego creates barriers which are very difficult to overcome, between you and the incredible profitable future you could have and deserve.
8. An uncontrolled ego restricts profits quickly and in many cases, completely.

So ... as you can see, we have to look carefully at the word “ego” ... which from the dictionary definition means “an exaggerated sense of self-importance, behaving in a manner that revolves only around oneself.” Just reading the definition should be enough for anyone who suffers from it to look at it carefully and set up a plan to change their behavior and increase their profits.

Why Is Changing So Difficult?

Whether it be changing our business practices, changing our skills, changing our expenses to increase profitability or changing our behaviors and reducing the role that our egos play in the business ... change is necessary ... and change is very difficult for most people. So let’s look at why and you’ll see how “not changing” stops you from making good business decisions and making substantial profit.

1. Changing one’s behavior is difficult because one’s habits are deeply imbedded in our subconscious mind ... why? ... because we’ve had them for so long. How long have you been selling exactly the way you’re selling (read or re-read the ***Coaching Report***) or thinking the way you are thinking.
2. Changing is difficult for many agents because of the “tenure” agents have in the business. Remember, 15 years of bad sales habits is still 15 years of bad sales habits and the 15 years of tenure does not make us great, profitable salespeople.

3. Changing is difficult because of the fear of the unknown. If you've been behaving one way for a long period of time, what's the worst that could happen to you if you start to change your behavior? You might get more business and become more profitable.
4. Changing is difficult because we are afraid of what others might say about the "New - - -" (ego). Isn't your goal to develop and grow as a human being, to build your business and become more profitable? If the answer is "yes" then changing your behavior is one of your goals.
5. Changing is difficult because it requires we exercise a lot of discipline in our day-to-day lives. The disciplines of prospecting, following a schedule, doing lead follow-up, and following scripts are all disciplines that lead to increased business and profit.
6. Changing is difficult because our emotions get in the way. We have to control our emotions if we expect to grow on the positive side. We need to exercise more, do more affirmations, eat better and practice positive thinking daily.
7. Massive changes are most difficult because of our egos. So, let's write the word "ego" down, then put an "X" through the "E" and what's left ... GO!! So, let's go earn higher profits through good, sound business and sales practices.

Other Profit Stoppers ... !!

Now that we've looked at how our egos can ruin our profit, let's look at some other profit stoppers ... then we'll look at "how to build our business and profits."

Every business has certain expenses that apply daily to the business and your real estate sales business is no different. You may have E&O expenses, Board dues, other liability insurance, cars, staff, signs, lock boxes and all the rest. The key to profitability is to identify your fixed (every month) and variable (once in awhile) expenses and work to control them.

There are only three ways to increase profits ... increase gross revenue, control and cut expenses or do both at the same time, which will build a stronger and more profitable business.

In real estate, there are a number of variable expenses that not only can we control, but in most cases we must eliminate, to maximize profits. Some of the common, controllable expenses are:

1. The constant turnover of assistants.
2. The constant re-training of assistants. Both of these take a lot of time and when we are spending our time here, we are not out building our business.
3. Hiring people based on emotion versus good, common sense or a Business Plan.

4. Listings we take that never sell. If you look at the number of listings you took in the past 12 months and the number that did not sell and multiply that number by \$1500, you'll see your exposure for unsaleable listings.
5. Continued personal promotion, classified ads and mass mailings ... three things that have for years proven to be expensive and unprofitable.
6. The money lost on leads generated that are never followed up on or converted. What does it cost in time and dollars to generate a good lead that somebody else also lists or sells?
7. The money lost on continuous lead follow-up or unqualified leads. Either they are qualified or they are not, and if they are not, throw them away ASAP.
8. Time spent on presentations with unqualified prospects. Too often agents believe they can sit down with an unmotivated, unqualified prospect and through their superior skills (ego) convince them to move or buy a home.
9. Spending time on transactions that you know are going to fall apart. In my opinion we could lose five while we are trying to save one. If the deal is dead ... let it go.
10. Getting off your schedule or not having a schedule is very expensive because your day either loses its purpose or has no purpose at all.

11. Cutting commissions ... next to an uncontrolled ego, a destroyer financially for agents (read or re-read *The Commission Cutting Report*).

Okay - How Do I Increase Profits?

So, we want to increase our profits ... right? There are a number of things you can do starting today to not only increase your revenue, but more importantly increase your profitability. Let's look at them individually.

First, we have to commit to giving the highest quality service possible to our prospects and customers. Our income will always be in direct proportion to the amount and the quality of service we offer. The higher the quality of service, the higher the income ... period. In real estate sales the primary service is either ... "getting the seller's home sold at the best price, with the fewest problems" or "finding the buyer a home in a short period of time that meets their physical and financial needs."

Once this service has been given, then the follow-up on the transaction must be prompt, continuous and efficient. Once the transaction is closed, we must follow-up to make sure all the points in the contract and all the promises were met ... and most importantly to smooth out any of the many wrinkles that may have occurred in the transaction.

Great service equals profit!!

Second, we have to get completely settled mentally, physically and emotionally that making a lot of money and a big profit is okay. We have to work daily at removing some of the “old” thinking habits about money ... remembering that money is the result of our doing our job and giving good service.

Third, we have to become clear on the fact that there are only two activities in the real estate business. They are a) producing listings/sales/income and b) administrating the transactions that come as a result of “a.” The challenge here is mental ... too many agents have been trained on simply believing that once a transaction is under way, they “must” spend the majority of their time “taking care of” or babysitting the transaction. This thinking process always limits the number of transactions a person can do. Delegate, Delegate, Delegate!!

Fourth, increase your revenue annually by 20% while working to decrease your expenses annually by 25%. That’s a 40% turnaround and a very profitable one.

Now the following are even more specific ideas that you can implement immediately to increase production and profits:

1. Write a detailed Business Plan that describes how you are going to accomplish your goals.
2. Follow a strict daily schedule ... that includes time for prospecting, lead follow-up, administrative and going on one to two appointments a day.

3. Prospect daily – past clients, centers of influence, for sale by owners, and expired listings and call around your own listings and sales.
4. Become an expert at scripts and dialogues ... more importantly, canned presentations.
5. Use the exact scripts we give you for your listing presentations.
6. Memorize and internalize every answer to every question and objection a prospect or customer will give you so you can become more persuasive with your answers.
7. Learn the proper closing words and phrases.
8. Become an expert at negotiating between buyers and sellers.
9. Delegate everything that does not generate prospects, listings, sales and income.
10. Have a Profit and Loss statement done every month for your business so you can see where you are.

Efficiency ... ?

One of the fastest ways to improve profitability is to improve efficiency. During a seminar several years ago I made the following statement to the audience, “There is so much time wasted confusing motion with accomplishment.” What I was

saying was that because of the lack of accountability in the real estate business, it is very easy for an agent to be involved in a lot of non-productive activities, which become an expense, instead of being involved in activities which create profit.

When an agent is involved in the above listed activities instead of non-productive activities or “motions”, ... profits increase.

Some of the most common “motions” of inefficient activities that agents are involved in are the following:

- Spending too much time working on files
- Spending time working on the computer
- Calling the same leads all the time
- Writing and preparing mailings and promotional pieces
- Talking to non-productive or negative people in the office
- Spending time previewing property before you show buyers
- Going on unqualified appointments
- Spending too much time working with your staff
- ... to name a few.

Efficiency is being able to accomplish a task quickly, without resistance, and very profitably, in less time compared to others. So as you can see, it's important that each of us work carefully on our efficiency if we want to increase our profitability.

If you're involved in one of our coaching programs, become more demanding of yourself and of your coach. “Demanding” meaning put the pressure on yourself to look at everything you're

doing and make sure that you're getting a good return on your time ... in terms of money. "Demanding" meaning, that you're asking your coach to be very tough on you when it comes to your time and your activities so you can increase the return on your investment for the coaching services you're involved in.

If you're not involved in our coaching, go to www.mikeferry.com and look carefully at both our Mike Ferry Sales System (MFSS) and One-on-One Coaching programs. With very few exceptions the return on your investment, in terms of profitability, will surprise you and you will see why thousands of people are involved in our coaching services today.

Coaching is an expense that is designed to increase confidence, skills, production and profit. As long as the agent takes and follows the advice of the coach ... the production will increase and the profits will follow.

Final Thoughts

If your goal is to move away from being a traditional real estate agent and to move toward being a service-oriented, highly productive, profitable business person whose job it is to list and sell real estate ... this report, along with ***our Commission Cutting Report, Marketing Report, and Coaching Report***, can move you in the right direction quickly.

Start studying the business of selling, study the business aspects of what you do so you can become an expert, hire quality people around you including a good CPA or accountant, demand

more of yourself and the business you're involved in. These thoughts will bring you the profits that you deserve. When you spend your time doing these types of things and you add good coaching to the process you're going to win the game and earn the money that other good business people earn. Call (800) 448-8423 and let us know how we can help.

Mike