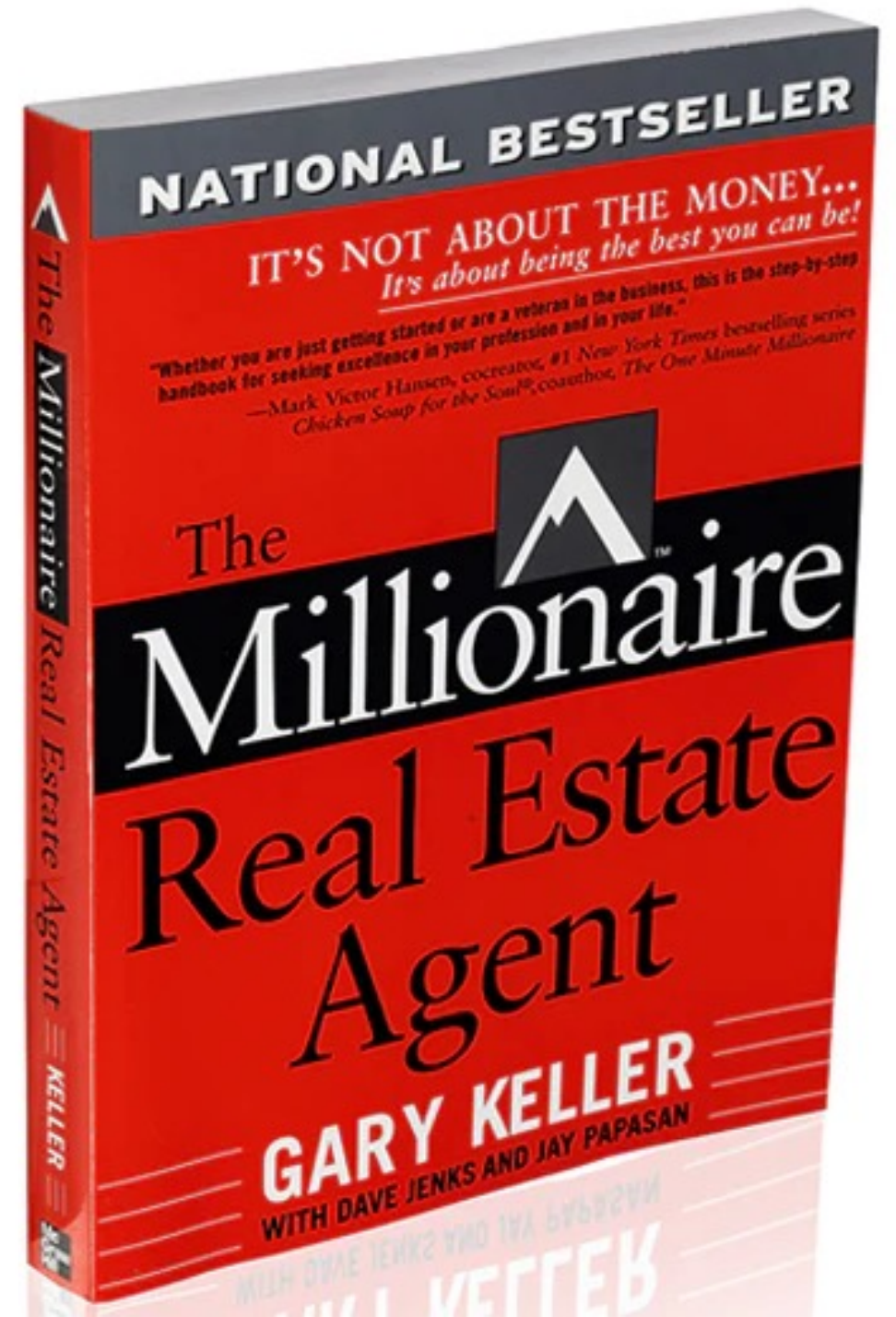




# Know Your Numbers

*The MREA Book Club*





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- calculation of profit share contributions and distributions;
- calculation of agent compensation;
- agent productivity strategies; and
- estimates of return on investment.

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# THE FIVE FUNDAMENTAL MODELS (ELBO)

**1 Economic Model**  
What's left over for you

To achieve the amount of **net income** you desire ...

**2 Lead Generation Model**  
Where your money comes from

You will need to **generate** X number of **leads** ...

**3 Budget Model**  
Where your money goes

**Spend** X amount of **money** in specific areas to support these efforts ...

**4 Organizational Model**  
When and who to hire

**Hire** X number of **people** to service it all, and ...

**5 Expansion Model**  
When to expand

**Apply** your systematized business model in additional locations.

**THE ECONOMIC MODEL**

\$1,000,000 **NET INCOME (40%)**  
**+** \$750,000 **OPERATING EXPENSES (30%)**  
**+** \$750,000 **COST OF SALE (30%)**  
**=** \$2,500,000 **TOTAL GCI**

**÷** \$7,150 **AVERAGE COMMISSION AMOUNT**  
**=** 350 **TOTAL UNITS SOLD**

SELL SIDE

BUY SIDE

**×** 50 **% SELLERS LISTINGS SOLD**  
**=** 175 **TOTAL SELLER LISTINGS SOLD**  
**÷** 70 **% SOLD CONVERSION RATE**  
**=** 250 **TOTAL SELLER LISTINGS NEEDED**  
**÷** 75 **% APPOINTMENT CONVERSION RATE**  
**=** 333 **TOTAL SELLER APPOINTMENTS NEEDED**

**×** 50 **% BUYERS LISTINGS SOLD**  
**=** 175 **TOTAL BUYERS LISTINGS SOLD**  
**÷** 70 **% SOLD CONVERSION RATE**  
**=** 250 **TOTAL BUYERS LISTINGS NEEDED**  
**÷** 70 **% APPOINTMENT CONVERSION RATE**  
**=** 357 **TOTAL BUYER APPOINTMENTS NEEDED**

**7/ WEEK** ← ··· **28/ MONTH** ← ···

····· **30/ MONTH** ··· **7/ WEEK**

# ELEMENTS OF THE ECONOMIC MODEL

**30 / 30 / 40**

Gross Closed Income (GCI)

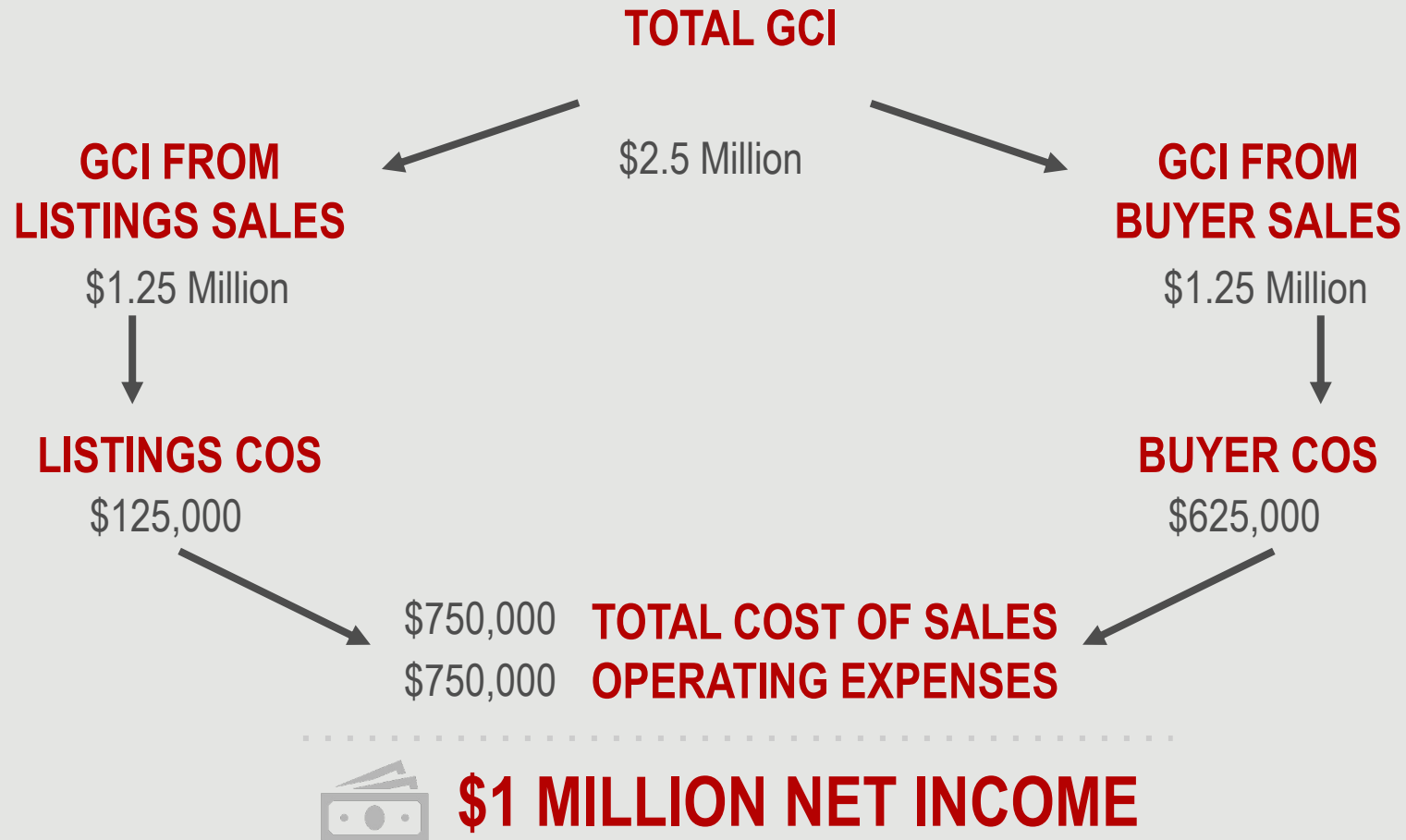
— Operating Expenses (30%)

— Cost of Sales (COS) (30%)

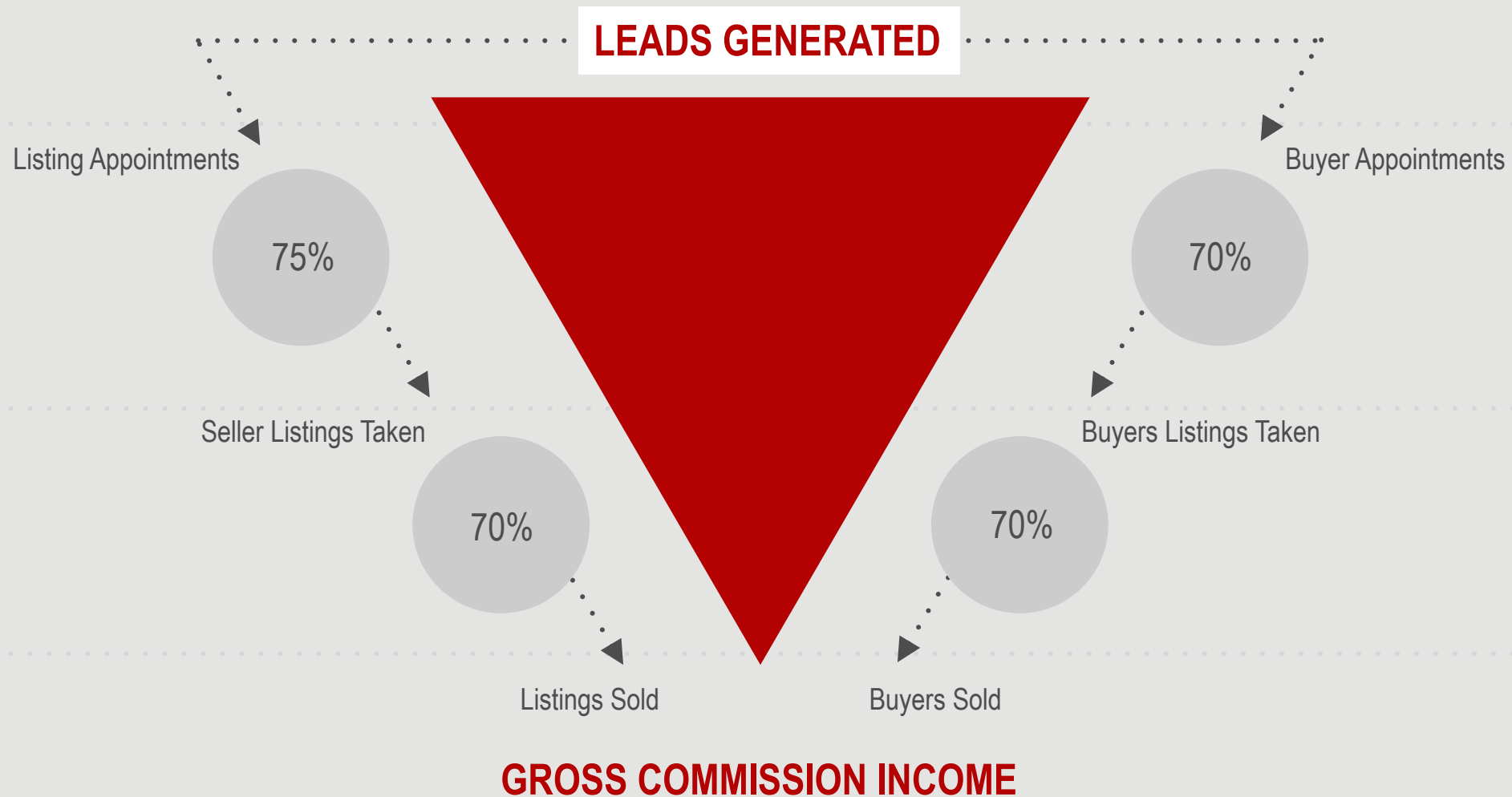
= Net Income (40%)



# CASH FLOW OF THE ECONOMIC MODEL



# CONVERSION RATES





# TWO TOOLS IN ONE

## BUDGET

- Planning Tool
- Created Annually
- Projects Expected Returns and Cash Flow
- “Restrain the Gain”

## P&L

- Management Tool
- Review Bi-weekly
- Shows Actuals vs. Projections
- “Adjust to Win”

1. Invest, Don't Spend
2. Practice Accountability, Not Accounting

# THE MREA BUDGET TERMS

**1** **Cost of Sales**  
Cost of acquiring revenue

**2** **Gross Profit**  
Revenue left over after Cost of Sales

**3** **Operating Expenses**  
Costs of running business whether or not a transaction occurs

**4** **Net Income**  
Pretax income after Cost of Sales and Operating Expenses

# COS AND OPERATING EXPENSE PERCENTAGES

COST OF SALES	MREA	
	\$\$\$	% OF GCI
Listing Specialist(s)	\$125,000	5%
Buyer Specialist(s)	\$625,000	25%
Other COS	minimal	
<b>TOTAL COS</b>	<b>\$750,000</b>	<b>30%</b>

OPERATING EXPENSES	MREA	
	\$\$\$	% OF GCI
Compensation	\$360,000	14.4%
Lead Generation	\$225,000	9%
Occupancy	\$25,000	1%
Education and Coaching	\$62,500	2.5%
Supplies/Office Expenses	\$25,000	1%
Communication and Tech	\$25,000	1%
Auto	\$15,000	.6%
Equipment	\$7,500	.3%
Insurance	\$5,000	.2%
<b>TOTAL OPERATING EXPENSES</b>	<b>\$750,000</b>	<b>30%</b>

# BUDGET BENCHMARKS BY GCI

AVERAGES							BEST PRACTICES	
GCI	\$150,000	\$340,000	\$640,000	\$970,000	\$1,600,000	\$3,400,000	\$1,000,000	\$2,500,000
<b>COS</b>	\$19,500 13%	\$88,400 26%	\$211,200 33%	\$368,000 38%	\$624,000 39%	\$1,530,000 45%	\$250,000 25%	\$750,000 30%
<b>GROSS PROFIT</b>	\$130,500 87%	\$251,600 74%	\$428,800 67%	\$601,400 62%	\$976,000 61%	\$1,870,000 55%	\$750,000.00 75%	\$1,750,000 70%
<b>EXPENSES</b>	\$57,000 38%	\$122,400 36%	\$236,800 37%	\$329,800 34%	\$560,000 35%	\$1,122,000 33%	\$360,000.00 36%	\$750,000 30%
<b>NET INCOME</b>	\$73,500 49%	\$129,200 38%	\$192,000 30%	\$281,300 29%	\$416,000 26%	\$748,000 22%	\$390,000.00 39%	\$1,000,000 40%

# OPERATING EXPENSES CATEGORIES BY GCI

AVERAGES		BEST PRACTICES							
GCI		\$150,000	\$340,000	\$640,000	\$970,000	\$1,600,000	\$3,400,000	\$1,000,000	\$2,500,000
Compensation	Salaries/Benefits	\$8,370 5.6%	\$33,218 9.8%	\$90,304 14.1%	\$108,446 11.2%	\$223,840 14.0%	\$496,400 14.6%	\$191,000 19.10%	\$347,500 13.9%
	Professional Services	\$3,270 2.2%	\$4,454 1.3%	\$6,016 0.9%	\$6,887 0.7%	\$9,600 0.6%	\$17,680 0.5%	\$7,000 0.70%	\$12,500 0.5%
	TOTAL	\$11,640 7.8%	\$37,672 11.1%	\$96,320 15.1%	\$115,333 11.9%	\$233,440 14.6%	\$514,080 15.1%	\$198,000 20%	\$360,000 14.4%
Lead Generation	Listing Management	\$5,055 3.4%	\$10,608 3.1%	\$16,832 2.6%	\$29,294 3.0%	\$47,040 2.9%	\$112,200 3.3%	\$23,000 2.30%	\$62,500 2.5%
	General Prospecting & Marketing	\$11,760 7.8%	\$24,242 7.1%	\$49,984 7.8%	\$87,882 9.1%	\$133,120 8.3%	\$219,980 6.5%	\$50,000 5%	\$162,500 6.5%
	TOTAL	\$16,815 11.2%	\$34,816 10.2%	\$66,816 10.4%	\$117,079 12.1%	\$180,160 11.3%	\$331,840 9.8%	\$73,000 7.30%	\$225,000 9.0%
Occupancy		\$4,275 2.9%	\$6,290 1.9%	\$10,304 1.6%	\$12,610 1.3%	\$25,920 1.6%	\$77,860 2.3%	\$20,000 2%	\$25,000 1.0%
Education and Coaching		\$7,500 5.0%	\$18,020 5.3%	\$29,504 4.6%	\$36,860 3.8%	\$53,760 3.4%	\$78,540 2.3%	\$23,000 2.30%	\$62,500 2.5%
Supplies/Office Expenses		\$4,110 2.7%	\$7,446 2.2%	\$10,944 1.7%	\$12,707 1.3%	\$19,520 1.2%	\$40,460 1.2%	\$10,000 1%	\$25,000 1.0%
Communication and Technology		\$5,535 3.7%	\$8,942 2.6%	\$13,248 2.1%	\$17,169 1.8%	\$21,920 1.4%	\$32,640 1.0%	\$16,000 1.60%	\$25,000 1.0%
Automobile		\$4,440 3.0%	\$5,984 1.8%	\$8,000 1.3%	\$10,379 1.1%	\$12,800 0.8%	\$19,380 0.6%	\$10,000 1%	\$15,000 0.6%
Equipment/Furnishings		\$915 0.6%	\$1,190 0.4%	\$1,664 0.3%	\$2,619 0.3%	\$5,280 0.3%	\$12,240 0.4%	\$5,000 0.50%	\$7,500 0.3%
Insurance		\$2,415 1.6%	\$2,482 0.7%	\$3,008 0.5%	\$4,559 0.5%	\$5,120 0.3%	\$7,140 0.2%	\$5,000 0.50%	\$5,000 0.2%

# Build Your Plans

**MY BUSINESS PLAN - BUDGET MODEL**

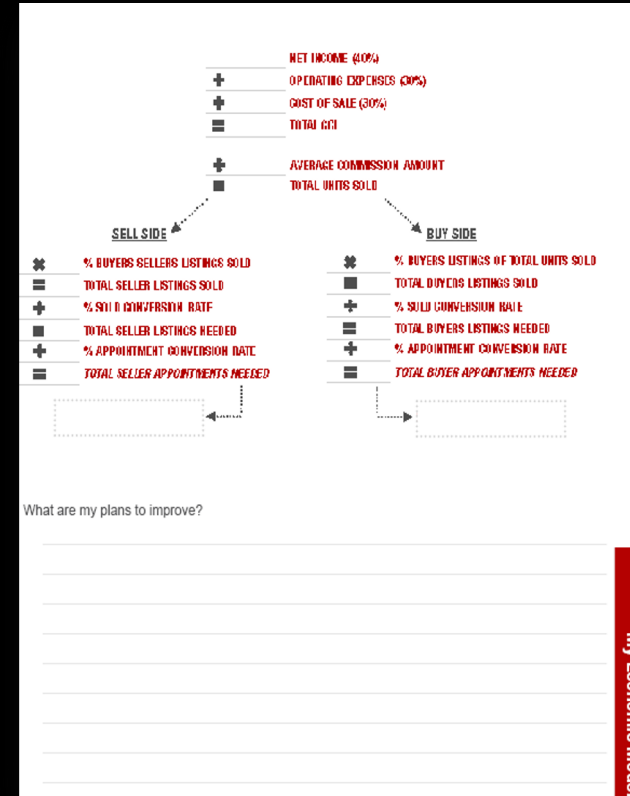
1. Begin with your GCI Goal from your Economic Model.
2. Enter values for **My Budget Plan** based on your GCI and how you run your business.
3. Compare to an **MREA budget**. Multiply the percentages in the "% of GCI" column with your GCI. Enter the result in the "\$\$ Based on MREA" column. This provides a look at what you would be spending if your expenses followed the model. This may not reflect your business.

My GCI Goal: \_\_\_\_\_ for year \_\_\_\_\_

COST OF SALES	MREA		\$\$ BASED ON MREA	MY BUDGET PLAN
	\$\$\$	% OF GCI		
Listing Specialist(s)	\$125,000	5%		
Buyer Specialist(s)	\$625,000	25%		
Other COS	minimal			
<b>TOTAL COS</b>	<b>\$750,000</b>	<b>30%</b>		

OPERATING EXPENSES	MREA		\$\$ BASED ON MREA	MY BUDGET PLAN
	\$\$\$	% OF GCI		
Compensation	\$360,000	14.4%		
Lead Generation	\$225,000	9%		
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Communication and Tech	\$25,000	1%		
Auto	\$15,000	.6%		
Equipment	\$7,500	.3%		
Insurance	\$5,000	.2%		
<b>TOTAL OPERATING EXPENSES</b>	<b>\$750,000</b>	<b>30%</b>		
<b>TOTAL EXPENSES</b>	<b>\$1,500,000</b>	<b>60%</b>		
<b>NET INCOME</b>	<b>\$1,000,000</b>	<b>40%</b>		



Use the KWU Business Planning Clinic excel Economic Model calculator