

## Business Strategies

### **Long & Foster reworks compensation plans, boosts recruiting**

Reconfiguring compensation plans for a company with 200 offices and more than 13,000 agents is a massive undertaking.

So it's no surprise that Long & Foster spent 18 months studying and implementing new plans for agents. What is surprising is that Long & Foster rolled out new plans that promise more generous compensation for agents. The new plans are such a good deal that nearly 1,000 agents have flocked to the company since it changed its compensation, says Gary Scott, the company's president of real estate brokerage.

Compensation plans that once topped out at 80 percent now reach 90 to 95 percent. The new structure makes Long & Foster's compensation much more competitive, Scott says, and less likely to drive away agents who seek better deals elsewhere.

"Our previous plan was not very competitive," Scott says. Under the new plan, he adds, "Our sales force will not leave our company because of a non-competitive compensation structure."

As the nation's largest independently owned brokerage, Long & Foster faces a more complex set of challenges than most brokers. It has offices in seven states and the

District of Columbia. After letting its compensation plans languish, the company decided to look at how its agent pay compared to competitors.

"It had been a while since we had done a deep dive," Scott says.

Long & Foster started by gathering input from agents and managers in all of the regions where it does business. The company wanted to make sure agents were on board with any changes.

"This was not a top-down approach," Scott says.

Scott is cagey about the details, but he says once agents produce a certain level of company dollar, they move to higher splits.

"It's very transparent," Scott says. "It basically says there's a certain amount of money the company needs to operate effectively. We've come forth and said, 'This is what we need from you, and you can get there any way you want.' Once you've delivered that pre-determined amount, our position is we want to pay you a lot of money."

**"One size does not fit all, so we wanted to create a strategy that was very competitive and provided a variety of different choices."**

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## Regional distinctions are important

Because Long & Foster does business in such a large geographic area, it rolled out the new plan in one region at a time, with the new plan arriving at the final geographic territory in January.

The plans vary somewhat by region, with differences based on factors such as different cost structures, different competitors, and different agent expectations in each market.

Long & Foster's new plan is based on four core ideas:

- **Motivation.** Scott says the old compensation plan let agents reach the top levels of compensation only if they met ambitious sales goals.

"You had to reach a pretty significant earnings level to get that," he says.

The new plan says that after agents sell enough to make the company profitable, they can move to the 90 percent or 95 percent caps.

"The key is that it gives our sales force a chance to get to levels that our old plan did not allow," Scott says.

The result is that agents on the new plan are selling more than they did on the old plan, and they're selling more than Long & Foster agents who have stayed on the old plan.

David Cocks, head of Compensation Master and a consultant who helped Long & Foster revamp its compensation, says the motivational effects of the new plan are "amazing."

"The people who went on the plan are so much more productive," he says.

- **Flexibility.** Agents are free to stay on their old plans. But Scott says the new plan is a good enough deal that large numbers of agents are moving to that plan.

Scott won't divulge details, but he says there are a variety of plans designed to appeal to different types of agents. These include differences such as monthly fees.

"One size does not fit all, so we wanted to create a strategy that was very competitive and provided a variety of different choices," he says.

- **Performance.** The compensation plan wasn't designed to drive away laggards, but Scott says part of his goal is to move sluggish producers off of unprofitable splits.

He points to the example of an agent who was promised a high split for life years ago but no longer sells enough to justify the split. In that case, the agent is a money-loser for the company.

"It hopefully gets us away from paying higher splits to non-productive agents," Scott says.

- **Fairness.** Unequal compensation plans are a source of friction throughout the real estate industry.

When two agents sit next to each other but earn different splits, the inequality creates distrust, Scott says. To avoid that sort of ill will, Long & Foster's plan gives every agent the same goal in terms of the company dollar they must generate each year.

## Revamping agent pay

What Long & Foster considered when it changed agent compensation:

- **Pay for performance.** Higher splits encourage more sales. Splits reach as high as 95 percent, depending on the market.

- **Broker profitability.** Agents cover their costs before getting higher splits.

- **Flexibility.** Agents don't have to move to the new plan, but new recruits must.

- **Geographical differences.** Because the company covers a large geographic area, it geared plans to address regional distinctions.

## Eliminating pain points

Long & Foster labeled its new structure “Plans for Success,” and Scott says the company moved from a traditional commission schedule to something he calls “comprehensive compensation.”

Part of Long & Foster’s mission was to address gripes about issues such as compensation for rentals and relocations and for expenses, areas Scott says were “pain points” for agents. Compensation Master’s Cocks says the advantage of bringing in an outside consultant is that agents can be more honest.

“We hear stuff that the broker wouldn’t hear,” Cocks says.

Because the new plans offer agents the opportunity to make more money, Long & Foster has used them as a recruiting tool. The company added 930 agents over the past year.


“The opportunity to recruit to these plans has been spectacular,” Scott says.

Long & Foster’s rivals have been forced to respond.

“It’s caused a little bit of chaos for our competitors,” Scott says. “They have now been forced to step out of their plan and make deals with people.”

Meanwhile, Scott acknowledges that more generous compensation alone isn’t the best way to grow. Services such as marketing and technological support play an important role in long-term competitiveness.

“You better have strength in the balance of your value proposition, because compensation alone is not a great way to grow your business,” he says.

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