Benchmarking

Measuring Progress and Success

In any kind of business, including commercial real estate, it is always important to gauge how you measure up, competitively and according to your business plan. What are desk costs? Where do commission splits fall? Are you providing more or less support than competitors?

According to Rod Santomassimo, founder, Massimo Group, benchmarking is an integral measure of business success. "You absolutely have to be benchmarking to be able to achieve your goals, objectives and your visions," he said. "Benchmarking should be integrated into your business plan."

When benchmarking, Santomassimo says you have to look at size and infrastructure, whether you are a national flag or a boutique and are located in a primary, secondary or tertiary market. Doing so, he adds, you have to come from the same basis or it isn't accurate.

Benchmarking means different things to different people and may be defined by the size of the firm and when it was formed. For Jeff Pollock, CCIM, principal, Pollock Commercial, Inc., a firm founded just over one year ago, benchmarking is part of a goal setting process that "helps me navigate and keep accountable."

His benchmarks fall into three categories: operational—things that help him run the business, revenue—things that help him generate more revenue, and long-term visionary—things that help him look three years out to the future of firm.

Some of the critical and most common benchmarks, for boutiques and national firms alike, are desk costs and commission splits. Desk costs reflect what resources the firm must invest in the company and its brokers. At Colliers International, the firm uses desk cost as a measure of comparative performance metrics as well as a benchmark for profitability per professional.

According to research done by The Massimo Group, desk costs range from $72-$85,000 or more in major cities, $45,000 to $50,000 in secondary cities and $25,000 to $35,000 in tertiary markets, where the vast majority of firms are located. The high costs in the major markets can be attributed in large part to real estate and labor costs.

Representatives of various firms say standard starting commission structures remain a 50/50 split. The operative word is starting; everyone knows there are exceptions.

"Commission splits have to be competitive in the local marketplace and relate to the platform of services that are offered by a firm," Daniel Spiegel, executive vice president, US Operations, Colliers International, said. "In some markets, splits would be considered low by a national standard, but the level of support services or other expenses paid high."

John Coleman, executive managing principal, Newmark Knight Frank Epic in Chicago, said his firm raised its commission splits in order to retain talent. "Ours are the highest in the market outside of one other firm," he added.

As Pollock looks ahead to the day when he adds people, he believes market forces will dictate commission policy. "My value proposition is different," he said. "I wouldn't bring the same wealth of resources as a larger firm, so I'd be offering a higher split along with the specialized focus and expertise of a boutique firm."

Santomassimo says commission rates cannot be above 68 percent and still be profitable for the firm. Yet he notes there are increasing pressures by companies because of various "hybrid" structures where firms may provide fewer services but pay higher splits.

"Companies often find themselves in the situation where they can't afford to lose a top producer, so they increase commission rates to keep them," he says. "At the same time, everyone knows what everyone else makes. So when one gets an increase, others will seek one, too."

Some benchmarks may not necessarily make or break a business, but nonetheless are closely monitored by firms, including referral business, marketing expenses and technology investments.

Colliers International looks at referrals and the amount of business that involves more than one geographic location and more than one business line. The firm strives to generate at least 20 percent of all business for a professional from either another geographic area or business line.

Common Benchmark Measures: Revenue • Operations • Vision

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—Rod Santomassimo, CCIM

"One of the roadblocks to increasing referred business is building trust between geographies and business lines," Spiegel said. "We have an internal program in place to break down barriers and increase the amount of business generated by peers."

Coleman says a significant component to the Newmark Knight Frank relationship is the inbound/outbound referral deal stream.

"Referrals are 'found money' and usually we don't incur any execution cost for business we export," Coleman says. "It is not so material yet for us that we have created a benchmark, but I suspect we will within the next two years."

At Newmark Knight Frank Epic, the company originally worked on a marketing expense ratio of five percent of potential revenue, but revised that downward in 2009 to be more tactical. The firm estimates the total cost per listing is $1,800.

"We seek a $1,000 marketing reimbursement from all agency clients," Coleman says. "Clients agree about 65 percent of the time to between $500 and $1,000, and we collect 80 percent of the money."

Spiegel says the amount of marketing expense is the result of a discussion with clients about their goals. Colliers relies on a default percentage, then applies it to pay for a standard level of marketing expenses such as signage and brochures. Variances are dependent on the client need, not the level of success of a professional.

Virtually all firms, large and small, make significant investments in technology and related resources. Yet Santomassimo lends a cautionary tone, saying there is a technology solution for everything today—buyer and seller listing portals, email marketing and reporting.

With any tool, it is all about investment and utility; what is your return on investment and involvement? Santomassimo says, "a firm's leadership needs to ask three questions: Do they use it? Do they need it? Can they live without it?"

Some tools sell better than they tell. He also suggests, "Look at utility, asking yourself if the new technology will help you find, win and close business. And finally, does the client care."

Another important metric, in the industry as well as within an international organization like Colliers, is the level of support provided.

Spiegel says support varies by type of business line being supported as well as the nature of the market. In some markets, like the northeast, high levels of support services are necessary to be competitive in the market, while the same ratios are not required in other parts of the country. He added that a discipline such as industrial brokerage, also doesn't necessitate the level of support that investment or account management practices might require.

In addition the long list of benchmarks, new social media marketing metrics may be emerging. Pollock says he sees a day when the use of tools like LinkedIn and Twitter will be an important measuring tool gauging a broker's effectiveness, and a reason to hire or not hire.

Proficient in the use of LinkedIn, and a regular on Twitter, Pollock says, "I think there will come a day when if I wanted to bring on a broker I would investigate their use of LinkedIn and Twitter."

Most real estate execs believe benchmarks are essential yard sticks, but that real estate remains a people business, and brokers are critical to the process. Hitting metrics is very important. Everything starts with accountability, which can be measured and achieved through benchmarking.

Newmark Knight Frank Epic, for example, makes hiring and internal investment decisions based on various benchmarks. "We have minimum production expectations for each level of employment," Coleman said. "We terminate non-producing brokers, not to save on desk costs per se, but to clear space for prospective new producers."

The consequences are real for principals, too. Coleman said if principals don't achieve their production expectations for two consecutive years, they run the risk of having some or all of their ownership percentage redeemed.

Santomassimo concludes, "Hitting the benchmarks is fine, but doesn't automatically mean you'll be successful and profitable. It's more than that. Success is all about you and your market." CC