



## **BROKERAGE BUSINESS IN TRANSITION**

**T**he current brokerage business model must change if it is to meet and exceed the expectations of investors and tenants. This is the primary conclusion of a recent CEL & Associates, Inc. analysis of over 100,000 nationwide surveys completed by the primary users of brokerage services. Increasing levels of sophistication among users of brokerage services, corporate consolidation, and a shift in the perception regarding the role that workplace environments have in productivity are changing how companies view the use and role of a Broker. According to the CEL & Associates, Inc. study, the traditional brokerage business model will need to dramatically change in order to prevent a significant loss of revenue in the future. Today, the brokerage industry is at a crossroads. The decision of which way to go will have a major impact on future success and profitability for years to come.

Today, the traditional brokerage company is structured around a geo-centric business model. While some firms have expanded regionally and/or nationally (either by opening new offices or by affiliation), their business models have generally revolved around a few key performers, business-generating personalities and select client relationships. Today, only a small number of firms have progressed from a geo-centric to client-centric business model and no firm has shifted from a client-centric to knowledge-centric business model — the direction most industry leaders acknowledge is the future operating platform for brokerage. The self-imposed revenue caps created by the geo-centric and personality-centric business models contribute to the significant leadership

challenges facing the brokerage industry. Overall, industry revenues were down 15 to 17 percent in 2002, which followed a 22 to 25 percent decline in 2001.

Any objective observer of the brokerage industry would quickly discover a general lack of innovation in business practices, a tolerance for high maintenance producers and the 20/80 rule (20% of the Brokers producing 80% of the revenues). A recent CEL & Associates, Inc. study of desk costs within the brokerage industry discovered that between 30 and 45 percent of Brokers today do not cover their desk cost. Essentially, the brokerage industry has been personality-based with a few stars creating the revenues, profits and “spill over” opportunities for others. Lose a few top stars and the future success of the enterprise is in jeopardy. This is hardly a business model upon which future success can be attained... and clients know it.

Compounding the industry challenges are: an aging workforce; retiring founders; exiting personalities; pressure on fees; a more sophisticated and consolidated client base that expects and demands more for less; and a negative (or at best neutral) market identity. The two reasons many firms and individuals used Brokers in the past was for their: (a) data, a resource now available to everyone via the Internet; and (b) negotiating skills, now often reduced to adjusting standardized leases. Research capabilities in most brokerage firms today have become retrospective versus prospective. Investments in technology are under-utilized. Are these the characteristics of a growing and dynamic industry? Is there a solution to this dilemma... yes. Are there firms and/or individuals today who provide



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brokerage services in new, creative and exciting ways... yes. Unfortunately, there are not enough. Change is needed now if the future of brokerage is to be assured. The following seven actions are a likely response and outcome to revitalize the brokerage industry.

**Industry Consolidation:** There is room for only two to three national brokerage firms, two to three regional firms and one to two local firms per market. The current redundancy in systems, technology, research, support services, office and regional leadership and marketing expenditures are some of the many examples of wasted resources and could be dramatically eliminated. Literally millions of dollars could be recaptured through consolidation.

**The Label “Broker” Will Be Dropped:** Clients do not want to interact with individuals whose sole motivation is to receive a commission. In the new, client-centric business model the term Broker will be replaced with the term Advisor. Clients want qualified professionals who offer strategic advice and guidance, are willing to pass up a fee if it is in the best interest of the client and who think about the client’s needs before their services are needed. However, changing titles may also require a change in personnel.

**Prima Donnas Will Be Eliminated:** In the new brokerage business model, client teams and team building are encouraged and rewarded. Fiefdoms, prima donnas, and high maintenance producers are no longer acceptable. Coming to work will become a pleasure, not a contest. “What’s in it for me?” will be replaced by “what is in the best interest of the client?” Referral “favoritism” will be replaced by “competency” referrals

(e.g., who is best qualified).

**Client Ownership Will Change:** Every brokerage client deserves the best talent and resources for their needs. In the new brokerage business model, ownership of clients will become the responsibility of the firm, not the producer. Staffing of client assignments will be a firm decision on what is best for the client, not the procuring Broker. Bringing the best talent to provide the best solution for “our client” will replace “this is my client.”

**Knowledge Base Will Be Shared:** In the new brokerage business model, all leads, information, data and knowledge will be shared. Brokerage firms will no longer compete on personalities, but on who has the best knowledge and research that creates and adds value to each client’s transaction. Centralized data storage and exchange of client transaction information will be commonplace. Trust, not suspicion, will dominate workplace environments.

**The Reward System Will Be Revised:** In the new brokerage business model, compensation will be a balanced blend of base salaries, incentive rewards, team bonuses and profit sharing. Individual, team and company performance, client satisfaction, as well as extending/growing existing customer relationships, will be the determinants of compensation. Goal achievement, extension of client relationships, business development and value creation will be factors used in rewarding accomplishments. Fees will be based on value created and value added, not a fixed percentage of the value transacted.

**The Industry Will Downsize And Rehire:** According to many CEOs of brokerage firms, “at least one-third or more” of their Brokers



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are either not producing at the expected level, underperforming their potential and/or will likely never become a good producer. Assuming this number is correct (and some industry leaders think that figure is conservative), the new brokerage business model would eliminate at least 33 percent of today's Brokers and replace them with individuals who reflect the Broker of the future (e.g., strategic thinker, business acumen, team player, financial knowledge, relationship builder and expert negotiator).

**Conclusion:** Is traditional brokerage dead? No, but it clearly is at a crossroads. The current business model will, in the short-term, offer revenue opportunities. Rather than "work a little harder, recruit a few more producers or continue business as usual," a gradual shift to the new brokerage model may be in order. Rather than accept declining production as inevitable in tough times, growing client share that will endure for years to come should be the goal. While these seven actions are merely the first of many steps, it is the likely success prescription and outcome for an industry with incredible opportunities.

*For more information: if you desire to (re)establish an existing or a new brokerage business activity that will be successful now, and in years to come, you are encouraged to contact CEL & Associates, Inc. and we will assist you in achieving that goal. Contact us by calling 310.571.3113 or via email at [chris@celassociates.com](mailto:chris@celassociates.com)*