Profit Share White Paper

Overview

The principle of success through others is the mainstay of the unique business culture within Keller Williams Realty. This tenet is the understanding that vast personal, professional, and financial achievements can be readily attained through collaborative business enterprises. From this understanding, the distinctive Profit Sharing compensation model—which gives nearly half of every Market Center's owner profit to the associates who helped grow the Market Center—was conceived, developed, and implemented with remarkable success.

History

In 1986, Gary Keller and the first Associate Leadership Council (ALC) convened to reinvent Keller Williams Realty. The young company, which was functioning as a traditional real estate company with traditional commission splits, had just lost seven of its top ten producers to a competitor. These agents didn't leave angrily; they were simply seeking better deals. Heeding the lesson, Gary turned to the ALC and began an extraordinary journey.

He proposed to the ALC that they work together to construct a company with a world-class environment and world-class people. He envisioned a company that agents could enjoy and prosper in throughout their career—and beyond. He asked the ALC, "How can we build a company that no one would ever want to or need to leave?" From the sessions that followed, this ALC constructed the WI4C2TS belief system, established higher commission splits, so that agents could make their own personal business spending decisions, and developed the Profit Sharing System, a revolutionary system that treats associates in the company as if they were partners in the business.

Top agent Gary Gentry was in those meetings as a member in the first ALC. He recalls, "We wanted to create something that had longevity. We wanted to attract and retain the best people."

He recalls the group studying and analyzing business models both inside and outside the real estate industry. One model that resonated with the group was Trammell Crow's. As one of America's most prominent real estate developers, Trammell Crow rewarded associates by treating them as partners. He gave them percentages of the profits for each deal they managed. In the book

"In everything that we do, we honor our associates, because we know that it is through our associates that our company flourishes and grows. The Profit Share system is no different."

Mark Willis, CEO, Keller Williams Realty, Inc.

Trammell Crow, Master Builder, author Robert Sobel explains that this system worked well for both Trammell and his partners. “If they succeeded, he would succeed. If they didn’t, he wouldn’t.”

Keeping the Trammell Crow system among others in mind as inspiration, Gary Keller and the ALC launched a revenue-sharing system in 1987. By 1989, the system had solidified into a Profit Sharing system.

Sharon Gibbons is now vice president of the Market Center Administrator (MCA) Division. Back in the late 80s, she was the first MCA. She recalls working through the Profit Sharing numbers with Gary and the ALC and realizing the immense potential of this system. She also recalls realizing the type of company they were building. “Think about owners giving back and investing in the people they work with,” she says. “When they take money out of their pocket and give it to the people they work with to stay in business with them, it says a lot about what they think about them.”

Top agent Althea Osborn was also in the first ALC. She recalls, “I knew Profit Share was the right thing to do because it put the agent and the broker into a partnership. We are not fighting over the same dollar. We are growing something together.”

Gary Todd was another member of the first ALC. He recalls, “In essence, it’s a really good example of the win-win. Back then real estate companies were folding. Gary had the same problem with overhead that everybody else had. In exchange for making business decisions that grew the company and saved the company money, he was offering to share the profit with us.”

Gary Keller knew that the Profit Sharing model was a bold statement and an opportunity for associates in the company to take on the mindset—and the opportunity—of ownership. He explains, “We created a program that would treat our real estate sales associates like legitimate partners in the business. We created a program that allows associates to build a business inside a real estate company that is as powerful as if they owned the company themselves.”

The Keller Williams Profit Sharing System

According to *Encyclopædia Britannica*, a wide range of businesses in a wide range of countries have used a variety of Profit Sharing arrangements since they first appeared in France in the first half of the nineteenth century. In the Unites States, companies as varied as Southwest Airlines to Verizon have Profit Sharing structures in place. In the real estate industry, other companies have income sharing structures in place, but no other company has a system based on a Market Center’s profits—and such a system would be difficult to maintain without the unique Keller Williams culture.

As Mary Tennant, president and COO, Keller Williams Realty, Inc., explained in the Stanford Graduate School of Business case study, HR-29, "We know for a fact that our systems don't work without our culture. We need our culture to reach our full potential."

In that same case study, Mo Anderson, VCOB, Keller Williams Realty, Inc., stated that culture was "the glue that holds it all together." While Sharon Gibbons described the balance in the relationship by saying, "the systems are written for the culture and the culture exists for the systems."

Marco Ottaviani is a professor of Management and Strategy at the Kellogg School of Management, Northwestern University. He is also a co-editor of the *B.E. Journal of Theoretical Economics*, and serves as member of the editorial board of the *Review of Economic Studies* and the *Journal of Prediction Markets*. He has taught the Keller Williams case study in his Strategy and Organization course and says that the case study is an opportunity to demonstrate to his students how a company might offer something different than what is being done in the industry. Of the Profit Share system specifically, he says, "This system would be hard for competitors to replicate. All of the other things that Keller Williams has—such as the open books policy, the ALC, and the culture—work together to complement the Profit Share system." In his course, Professor Ottaviani also covers the effects of Profit Share. He points out that it can help to attract and retain good agents, while inducing a sense of ownership in associates.

In the Keller Williams Profit Sharing model, each month every Market Center splits its owner profit so that the owners who risked their investments enjoy roughly 52 percent of the profit and the associates who helped grow the company enjoy roughly 48 percent of the profit. In 2008, Keller Williams Market Centers distributed more than $30 million to associates who helped grow the company. From the inception of the Profit Share system through the end of 2008, Keller Williams Market Centers gave their associates approximately $237.7 million in Profit Share.

In order to maintain the integrity of the system, the leadership team in every Keller Williams Market Center follows the Profit Share Accounting Policies and Guidelines as outlined in the *Policies and Guidelines Manual* and as voted on by the International Associate Leadership Council (IALC). Each Market Center utilizes a standard Chart of Accounts that allows uniform implementation in every Market Center. Additionally, each Market Center opens their books to maintain accountability to minimizing expenses and generating profitability. Finally, each Market Center utilizes standardized software to ensure smooth and efficient processing.

"Nearly half of the profit that the Market Center makes is distributed as a thank-you to associates for growing the company."

Mo Anderson, VCOB, Keller Williams Realty, Inc.

There are four steps to Profit Share employed every month:

- Step 1: The Market Center Calculates Profit
- Step 2: The Market Center Splits the Profit
- Step 3: The Profit Share Factor Is Calculated
- Step 4: The Profit Share Is Dispersed

The following example uses the actual numbers from the Antelope Valley Market Center in Palmdale, California, in January of 2009.

Step 1: The Market Center Calculates Profit

Market Center Gross Closed Commission		$1,070,124
Less Keller Williams Realty Royalty Fee	-	$27,416
Equals Net Gross Commission	=	$1,042,708
Less Associate Commission	-	$910,671
Equals Company Dollar	=	$132,037
Less KW Approved Expenses	-	$58,378
Equals KW Profit	=	**$73,659**

Step 2: The Market Center Splits the Profit

	Profit Share Pool		Owner Profit	
Level 1 First **$2,990** of profit	**25%**	$747.50	**75%**	$2,242.50
Level 2 Next **$8,250** of profit	**35%**	$2,887.50	**65%**	$5,362.50
Level 3 Any profit over **$11,240** ($2,990 + $8,250 = $11,240)	**50%**	$31,209.50	**50%**	$31,209.50
Totals		**$34,844.50**		**$38,814.50**

Step 3: The Profit Share Factor Is Calculated

On a monthly basis, the Market Center's Profit Share Factor is determined by dividing the Market Center's total Profit Share Pool by its Company Dollar amount. In this example, divide the Market Center's $34,844.50 Profit Share Pool by its $132,037 Company Dollar to find a Profit Share Factor of .2639.

Step 4: The Profit Share Is Dispersed

What each associate paid in Company Dollar for a month is multiplied by the Profit Share Factor to find the amount of Profit Share that will be distributed to that associate's branch in the Profit Share Tree on the 21st of the following month. In this example, if an associate paid $1,800 in Company Dollar in the month, multiply that $1,800 by the Profit Share Factor .2639 to find that $475.02 will be distributed to this associate's branch.

Each associate names a "sponsor" when they join Keller Williams Realty. A sponsor is the one person the associate perceives to be primarily responsible for bringing him or her to the company. In this example, the associate has $475.02 to be distributed. The person that they named as a sponsor will receive 50 percent of that amount or $237.51. The person their sponsor named as a sponsor will receive 10 percent or $47.50 and so on. Currently, the Profit Share system has seven levels.

Profit Share Distribution

1st Level	**50%**	x	475.02	=	$237.51
2nd Level	**10%**	x	475.02	=	$47.50
3rd Level	**5%**	x	475.02	=	$23.75
4th Level	**5%**	x	475.02	=	$23.75
5th Level	**7.5%**	x	475.02	=	$35.63
6th Level	**10%**	x	475.02	=	$47.50
7th Level	**12.5%**	x	475.02	=	$59.38
Total		**100%**			**$475.02**

Example distribution for an example associate.

"Profit Share is what you do to have integrity when you succeed through people."

Mark Willis, CEO, Keller Williams Realty, Inc.

Special Notes About the Profit Share System

1. A Market Center must be profitable in order for there to be profit distributed. If a Market Center is not profitable, an associate in that Market Center can still build his or her Profit Share Tree in anticipation of Market Center profitability. Additionally, an associate in an unprofitable Market Center can still receive Profit Share from associates in their Profit Share Tree who are in profitable Market Centers.
2. An associate must pay Company Dollar in a particular month in order for Profit Share to be distributed to that associate's branch in the Profit Share Tree.
3. The Profit Share system is coordinated throughout all of North America. An associate could join a Market Center in Massachusetts and name an associate in an Ottawa Market Center as his or her sponsor.

4. Once an associate has been with Keller Williams Realty for three years and a day, he or she is vested. When an associate is vested, he or she can leave Keller Williams Realty and still receive Profit Share.
5. Associates can will their Profit Share to a beneficiary.
6. Associates can—and often do—receive more in Profit Share than they pay to their Market Center Company Dollar cap.
7. Receiving $100 per month in Profit Share would be equivalent to having $24,000 after-tax invested for a year at 5 percent. However, Profit Share requires no investment on the associate's part.

The Formula

Gary Keller and the first ALC crunched the numbers to construct a formula that optimally rewarded both owners who risked their investments and associates who helped grow the company. In subsequent years the International ALC (IALC) has modified the Profit Share system, but it has ultimately underscored the strength of the numbers as they exist. In answering the oft-asked question regarding how these particular numbers were derived, Gary Gentry recalls with a laugh they were the result of "committee work."

When asked whether or not the Profit Share system works, Gary Keller replies with surety. "It's a mathematical formula. It's not a question of 'does it work or not.' If the business is profitable, Profit Sharing 'works.'"

Passive Income

The amount of profit any person in the Profit Share system receives is passive income. Associates share in the profits of the company like an owner would, but without any personal risks or investing any capital.

- No financial risk
- No legal risk
- No down payment

As Bryon Ellington, CPO, Keller Williams Realty, Inc., explains, "We jokingly call it mailbox money. Once somone names you as a sponsor, all you have to do to get it is go to the mailbox, and there's your check." Deborah Blue, currently Team Leader at the Atlanta—East Cobb Market Center in Georgia, recalls that when she began developing her Profit Share Tree as an associate, it took no effort. "When I left my previous broker, people started asking, 'Why did you switch?' My join date was in October, and I went to my first Family Reunion in February. And I couldn't stop smiling; I couldn't come off the cloud. People noticed it in town. All I had to do was tell them how excited I was and what the company was already doing for my business. I would just say, 'Let me introduce you to my Team Leader.'" As of March 2009, Deborah has 9 people in the first level of her Profit Share Tree. Since 2001, she has received $117,829.12 in Profit Share.

Associates from all over North America tell stories of how the added passive income stream of Profit Share enabled them to send their children to college, to pay for medical bills, to buy cars, and even vacation homes. Associates have heard poignant tales of Profit Share being willed to families who desperately needed income, or to an elderly mother who no longer had someone to care for her.

Profit Share can be the income stream that enables an associate to profoundly change their financial destiny. In *Cashflow Quadrant*, Robert Kiyosaki argues that individuals can find financial freedom through income streams in four quadrants: Employee, Self-Employed, Business Owner, and Investor. He explains that you can find success through any of the quadrants, but that of the Business Owner and Investor will help you to achieve greater wealth at a faster pace than the other quadrants. Whereas an associate may typically experience the Self-Employed quadrant, when that associate builds his or her Profit Share Tree, they essentially establish themselves in the Business Owner quadrant.

"We are the only company out there that can reward associates for being ethical, strong agents and have it impact their financial solvency forever."

Mary Tennant, president and COO, Keller Williams Realty, Inc.

Colette Ching, Team Leader at the Santa Monica Market Center in California, says in reference to *Cashflow Quadrant*, "I get the four quadrants. That's why I'm passionate about associates in my Market Center developing their Profit Share Trees. And when they succeed in growing their trees, the Market Center succeeds in profitability, and then I succeed too. This is what we mean by success through others."

As Gary Keller states, "Profit Share is an equal opportunity, unequal reward system." Associates who have made the decision to participate in the program have seen their lives changed forever—associates like Ed and Trish Hendel from Horsham, Pennsylvania, who received more than $245,000 in Profit Share in five years. It doesn't happen overnight, though. Sharon Gibbons explains, "We've had some people who received a dollar in their first check, and now they live—and live well—off their Profit Share checks."

Conclusion

The Keller Williams Profit Share system was constructed from the tenets of the company's unique business culture that promotes distinguished personal, professional, and financial success through collaborative business models. This system has allowed associates to develop financial freedom, while their company prospers.

About this White Paper

This white paper was written by Stacia Thompson, Curriculum Team Leader in Keller Williams University, to capture the history and success of the unique Keller Williams Profit Share system for both associates inside the company and interested parties outside the company. The information in this white paper was compiled through interviews, research from the Keller Williams archives, and a literature review of business models in a variety of industries, including the real estate industry.

The Keller Williams Realty case study can be purchased from Harvard Business Publishing:
http://harvardbusinessonline.hbsp.harvard.edu/b01/en/common/item_detail.jhtml?id=HR29&_requestid=80487

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