

GRI Designation Core Course

Business

SESSION ONE

Lesson Seven

There is no secret formula for running a successful real estate business. All agents are in the business to make money. But often, they make decisions that negatively impact the future of their business. Being a successful agent is not the ability to make money; it is the capability to retain what they make.

There are two simple keys to a building a successful business.

1. Stay in the black. Don't spend everything you make.
2. Pay attention to the numbers – always! Monitor your books at least once a month. In doing so, this helps agents keep track of goals and adjust them if necessary.

Numbers You Should Be Tracking

- **Conversion Ratio** – How many appointments, number of listings or buyers did you get?
- **The number of units you closed last year**
- **The average sales price**
- **Your average commission**
- **Your numbers against the MLS** – Sales, average days on market, average sales price and percentage listing price to sales price.
- **The number of website hits you logged**

What are Profit & Loss Statements and Balance Sheets?

Profit & Loss Statement (P&L Statement)

As the name indicates, a profit and loss statement simply measures the profit or loss of a business during a specific period of time. It summarizes the income and subtracts the expenses to calculate the profits or losses during that time.

The key components of a Profit and Loss Statement are:

- Income
- Cost of goods sold (In this case the cost of doing business.)
- Gross profit
- Expenses
- Net profit

P&L will be addressed in detail in the next chapter.

Balance Sheet

A balance sheet is a snapshot of where a business stands financially at a particular time. It shows what a business owns (assets) and what a business owes (liabilities). The difference between the assets and liabilities is called **Owner's Equity**. Owner's Equity is a company's net worth. The equity must equal the assets minus the liabilities, hence the name **Balance Sheet**.

Understanding these figures is an essential skill for a successful small business owner. Agents should understand and periodically track the current financial health of their business without relying solely on their accountant.

The Business Team

***NOTICE:** This publication is not for the purpose of rendering legal or other professional service. The services of a competent professional person should be sought if legal advice or other professional assistance is required.*

CPA

The accountant plays a vital role in any corporation, especially a small business. They serve as a trusted advisor allowing business owners to maximize profits.

Ask Your Accountant

Do I need to incorporate?

- **If no, when should I incorporate?**
- **If yes, how should I proceed? Do I register as a “C” corporation, as a “S” corporation, or as an LLC (Limited Liability Corporation)?**

Do I need a Federal Tax ID number?

Can you help me set up an accounting and record-keeping system?

What is the best way to track the following expenses?

- Mileage and automobile deductions
- Office space (Do I work from a home office?)
- Meals and entertainment

What other expenses can I deduct? What is the best way to keep track of those?

What do you suggest about retirement? There is no 401k, perhaps look into an IRA or SEP.

How much do you recommend I set aside for my quarterly payments?

Insurance Agent

An insurance agent provides protection for unexpected and unfortunate losses or events. An insurance professional is vital in helping keep agents informed on what coverages and limits are necessary for their particular type of business model.

Lawyer

A business lawyer can offer a different perspective on the same questions you ask an accountant or insurance agent. Significant tax advantages and operating your business in a certain manner are topics on which you can gain advice from an attorney. However, there may also be serious personal liability as well. An attorney can advise accordingly.

Mentor/Advisor

While the three previously-stated individuals are important to any small business owner, a mentor is the most significant person (or people) for a real estate agent just getting started. This is the most important catalyst for a REALTOR® to jump start his/her business.

Finding a Mentor

Compile a list of people whose skills, experience, drive or talent you admire. Age should not be a factor in doing so.

Make an appointment with each potential mentor. It can be as formal as a lunch or as casual as a cup of coffee. Most people are happy to give you an hour of their time, particularly if you are clear in your intentions for the meeting. The most important thing to remember when preparing for this meeting, the more specific your questions, the more value you will receive.

When utilizing the advice gleaned from your mentor, provide them with feedback on the results. A mentor is happy to invest time in someone who actively seeks their advice and who works out the best solution by applying their input. These people do not appreciate being ignored.

Notes: