Profit Share and Growth Share White Paper

KELLER WILLIAMS®
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Overview

The Keller Williams Realty model is built around the premise that associates actively participate in growing their Market Centers and building the dominant real estate company in their market. This principle of *success through others* is the mainstay of the unique business culture within Keller Williams Realty. It includes involvement in the operations and productivity of the Market Center, and an accompanying opportunity to reap the financial rewards.

In the United States and Canada, the financial rewards are offered through our Profit Share program, in which owners share almost 50 percent of their office profits back with the associates who helped that office to grow.

Elsewhere in the world, Keller Williams offers a Growth Share program in which master franchisee owners and Keller Williams reward associates who help the company grow.

Together, these programs make up the Keller Williams Wealth-Building Platform.

Because associates can participate in either of the two plans, and both Profit Share and Growth Share will be distributed across borders all over the world, both systems will create a synergistic wealth-building platform for those who help Keller Williams grow and succeed.

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 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 Share system, a revolutionary system that treated associates in the company as if they were partners in the business.

The group studied and analyzed business models both inside and outside the real estate industry. The model that resonated with the group the most was Trammell Crow’s. As one of America’s most prominent real estate developers, Trammell Crow rewarded his associates by treating them as partners. He gave them percentages of the profits for each deal they managed. In the book *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—the system still in place in the United States and Canada. As part of the Profit Share system, they created a formula to optimally reward both owners who risked their investments and associates who helped grow the company. When asked whether or not this system works, Gary Keller replies with surety: “It’s a mathematical formula. It’s not a question of ‘does it work or not.’ It’s a matter of plugging in the numbers.”

Sharon Gibbons, vice president of the Market Center Administrator (MCA) Division, was Keller Williams’ first MCA and worked through the numbers with Gary and the ALC. She was struck by the immense potential of this system and 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.”

In 2010, when Chris Heller, president of Keller Williams Realty Worldwide, was charged with developing operations and expansion for the rest of the world, he researched and created a wealth-building model that would work universally, regardless of how the real estate industry operated in a particular country. The result was Growth Share. “We built a model with absolute longevity for the international market,” explains Chris Heller, “It complements how the business of real estate is run throughout the world, while offering a wholly new opportunity—the opportunity to receive residual revenue like an owner, without any investment.”

Both systems are open to any associate in Keller Williams. When an associate refers someone to a Market Center in the U.S. or Canada and is named as that person's sponsor, they become part of the Profit Share system. When an associate refers someone to a Market Center outside of the U.S. or Canada and is named as that person's sponsor, they become part of the Growth Share system. The location of the associate making the referral has no effect on whether they receive Profit Share or Growth Share.

This wealth-building platform makes a bold statement and allows associates in the company to take on the mindset—and the opportunity—of ownership anywhere in the world where Keller Williams has a franchise. Gary Keller explains, "We created programs that treat our real estate sales associates like legitimate *stakeholders* in the business. Associates can build a stake inside this real estate company that is as powerful as if they owned the company themselves."

Profit Share, Growth Share, and Culture

Businesses all over the world have used profit sharing arrangements since they first appeared in France at the beginning of the nineteenth century. In the United States, companies as varied as Southwest Airlines to Verizon have profit sharing structures in place. However, in the real estate industry, no other company has a wealth-building platform comparable to the one offered by Keller Williams. Most likely such a system would be difficult to maintain without the unique Keller Williams culture.

As Mary Tennant, president and COO of Keller Williams Realty, 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, vice chairman of the board of Keller Williams Realty, stated that culture was "the glue that holds it all together." 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 at Northwestern University. He is also a coeditor of the *B.E. Journal of Theoretical Economics*, and serves as a 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 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 attract and retain good agents, while instilling a sense of ownership in associates.

The Growth Share system is equally extraordinary and could not exist as a business model without the solidity of the Keller Williams culture. An uncompromising belief in the opportunities of shared success creates an infrastructure in which associates are supported to both take their businesses to the highest level and to participate as partners in their company.

The Profit Share and Growth Share Models

In most real estate companies, associates pay a portion of their commission to their office and their region in exchange for services. The office and region use that income to pay their bills and what's left over is profit. Every real estate business is in business for profit, and usually the owners keep all of that profit. This practice makes sense: Owners invest in businesses with the hope of seeing a return.

In the Keller Williams Profit Share model, each month every Market Center splits its owner profit between the owners who risk their investments and the associates who help grow the company. Though owners receive a slightly larger percentage of the split, associates have enjoyed the significant benefit of more than $350 million (through 2011). The only difference in the Growth Share model is the origin of the money going into the system. In the Growth Share model, associates who help to grow the company will enjoy a portion of their Region's bottom line, rather than that of the Market Center.

The broader perspective of both systems was—and remains—the productivity and profitability of real estate agents. Though owner profit was and is critically important, these systems were crafted by real estate agents for real estate agents. Therefore, the first step was to create a stable environment in which agents could readily build thriving businesses. The belief was that when agents were flourishing, they would tell others about the opportunity and the company would grow, thereby increasing owner profit. With this critical insight, Keller Williams Realty acknowledged the essential responsibility the leadership has to agents in creating tools, materials, and programs to help them grow their businesses, and they decided to reward associates for the one activity that has the greatest impact on growing an office: referring associates.

In most other respects, the two systems function under the same governing rules. When associates join a Keller Williams Realty office, they name one person as the individual primarily responsible for bringing them to the company. It may not have been the first person or the last person they talked to about Keller Williams. It may be someone from their Market Center, or it could be someone from another state, province, or country. This is entirely the associate's decision—it was the person who was most impactful on their decision-making process. The person named becomes that associate's sponsor.

In the Profit Share system, this means that an agent's sponsor will receive a portion of the Market Center's profit attributable to that agent. In other words, if an agent is productive, hasn't yet met the cap of what they'll pay their Market Center, and the Market Center is profitable, a piece of that profit goes to the sponsors. In the Growth Share system, when an agent is productive, part of their commission is paid to the franchisee as a royalty. That associate's sponsor can receive a portion of that royalty payment as Growth Share from the company as their way of giving thanks.

In both cases, the potential is exponential. The Profit Share and Growth Share systems reward seven levels of sponsors, as follows:

- The Level 1 sponsor is the individual an associate chooses as their sponsor.
- The Level 2 sponsor is the Level 1 sponsor's sponsor.
- The Level 3 sponsor is the Level 2 associate's sponsor, etc.

In other words, associates benefit not only when they refer someone who names them as their sponsor, but also when people who they've sponsored refers someone—on down through seven levels. Because of its ability to grow great branches like a family tree, this system is oftentimes referred to as a Profit Share or Growth Share Tree.

In both cases, the Profit Share and Growth Share amounts are disbursed through the seven levels based on a set system that rewards both new growth and longevity in the system.

Level 1	= 50%
Level 2	= 10%
Level 3	= 5%
Level 4	= 5%
Level 5	= 7.5%
Level 6	= 10%
Level 7	= 12.5%

Once an associate has been with Keller Williams Realty for three years and a day, that associate is vested in the system—meaning that he or she will continue to receive Profit Share or Growth Share payments even if they leave the company. In fact, Profit Share and Growth Share can be bequeathed to beneficiaries—it is a gift that can live on to create opportunities in the lives of loved ones or others in the community. Once an associate is vested in the system, the Profit Share or Growth Share payments can continue so long as they have an active, producing agent in their tree.

When associates are part of the growth trajectory of any Keller Williams Realty office, they can literally be rewarded with potentially long-term earnings without any contribution of capital. The numbers are compelling: As of August 2011, Profit Share has amounted to a significant amount of money for a number of Keller Williams associates.

Level	Number of People
$1,000,000	19
$500,000	53
$100,000	454
$50,000	933
$10,000	5,064
$5,000	9,242
$1,000	23,643
$500	30,541

Reward Revenue

Associates from Keller Williams Realty tell stories of how the additional income stream from Profit Share has enabled them to send their children to college, to pay for medical bills, to buy cars, and even vacation homes. Associates tell poignant tales of this income being willed to families who desperately needed it, or to an elderly mother who no longer had someone to care for her.

Profit Share and Growth 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 and Growth Share Tree, they essentially establish themselves in the Business Owner quadrant.

As Gary Keller states, “This 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 W. Darrow Fiedler. Darrow didn’t receive significant income in his first year of growing his tree; however, since then, he has received more than $600,000. He explains that he enjoys using the money to make others’ lives better. It doesn’t happen overnight. Sharon Gibbons explains, “We’ve had some people who received a dollar in their first check, and now they live—and live well—off this income.”

Conclusion

The Keller Williams Profit Share and Growth Share systems were 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 Julie Fantechi, Curriculum Team Leader in Keller Williams University, to capture the history and success of the unique Keller Williams Profit Share and Growth Share systems for both associates inside the company and interested parties outside the company. The information in this paper was compiled through interviews, research from the Keller Williams archives, and a literature review of business models in a variety of industries, including real estate.

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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