Why you should be charging more commission

First, let’s get the obligatory disclaimer out of the way: Real estate commissions are not set by law, there is no standard rate of commission and I will never tell you how much commission to charge. I’ll just tell you why you should charge more and how to do it.

Unless you’ve been living in a cave with no Wi-Fi, you have undoubtedly seen the downward pressure on real estate commissions escalate to a frenzy. On what seems like a daily basis, a hot new tech startup promising to “redefine real estate” raises a ton of cash and offers real estate services at a discounted or reduced commission.

This is not a new phenomenon. In fact, every time the real estate market remains hot for a sustained period of time, new companies come out with a discounted commission model. What’s new this time around is that many of these companies are coming out of the tech space and raising a lot of money. They see that the profit margins in our industry are high and they want a piece of the action. They also see that the easiest way to quickly compete is to offer a discounted fee. It’s perfectly understandable.

Yet, what everyone misses is that in a discounted fee model, the client always receives sub-par service and poor results. You can’t have it both ways. Of course, when the market shifts (which it always does), these companies go out of business or have to change their model.

In light of what is going on in the industry, you may be thinking of discounting your fee to remain competitive. Stop thinking this way! Instead, charge more.

> ‘No one ever made a difference by being like everyone else.’ – P.T. Barnum

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You might be thinking I'm crazy, but here are three reasons why you should take that first step to increasing your fee.

1. Increased value

By charging more, you will be forced to increase the value you provide to your clients. As a result, you'll improve the client experience, which justifies your higher fee.

This is not a sales gimmick or a parlor trick. To charge more, you must give more. Commanding a premium fee means you have to deliver more value and better results. And to deliver more value, you have to be more skilled.

Think about it this way: Neiman Marcus charges more than Gap, so their service, client experience and value must be higher. Clients will pay a premium to receive greater benefits.

Ultimately, deciding to charge more will actually make you a better real estate agent.

Several years ago, I realized our real estate team outperformed the marketplace when it came to number of homes sold, average days on market and final sales price to list price ratio. Because we delivered superior results, we shifted to charging a premium fee in our marketplace. When we did that, I challenged our team to provide our clients with the ultimate real estate experience, and that conversation forced us to increase our service offerings at all stages of the transaction. The result was that our client reviews skyrocketed because our clients were receiving not only superior results but also superior service.

2. Net more at closing

Consequently, by charging *more* you will actually net your clients more money at closing.

Follow my logic here. Real estate agents, unlike most other service professionals, are paid on a contingency fee basis. That is, we are paid at the close of a transaction out of the total proceeds, and not up front.

While homesellers are focused on the commission, the reality is that to a seller, the net proceeds of a sale are actually the most important figure. If one agent charges 8 percent commission but is able to net a client more money than an agent charging 4 percent, the commission becomes irrelevant to the client.

As mentioned above, though, by charging more, you must be a better real estate agent and deliver more value to your clients. Thus, by being a better real estate agent (for example, being a better negotiator), you should be able to negotiate a better deal for your clients, sell their home for a higher price through your marketing program, or make them money (or save them money) in other ways.

The result of this is that you will exceed any difference in commission with your skills and the value that you provide, resulting in higher net proceeds for your clients. That creates a true win-win for you and the client.

When agents on our team meet with a seller, they focus the conversation on the value we provide and how that value directly correlates with higher net proceeds for the client. The key is to remember that the client is hiring us because they want an end result — their home sold for top market price without any hassle, and the highest net proceeds possible.

Once we are able to educate the client in this way, any small difference in commission truly becomes a non-factor in the client’s decision making process.

3. Working with ideal clients

By charging more, it will also allow you to work with your ideal clients. When I first got into real

estate, I would work with anyone, anywhere, anytime. As my business grew and evolved, I became more selective about the clients that I worked with.

As a result of having higher standards, something interesting happened. I began to attract the exact type of clients that I wanted and those that I could best serve — clients who value my services and my expertise, and who understand the value that my team and I provide.

Not every client is a fit for me and my team and that is perfectly fine. But the clients who *are* a fit for us, and understand that it's all about the results, receive the ultimate real estate experience. Everyone wins.

If I've convinced you to start charging more — and, as a result, to become a better real estate agent that delivers superior results for your clients — how do you actually do that?

It all starts with your mindset. You must believe that you are worth the fee you charge — whatever that fee is. Once you believe it, and once you improve your skills and the service you provide, your ideal clients will gladly pay your fee because they will receive amazing results by working with you.

Irrespective of the marketplace or area that you serve, start charging more! It will make you a better real estate agent, you will be able to provide your clients with more value and a better client experience, you will end up helping your clients net more money and you will get to work with great clients, creating a business that is more exciting, more fun and more profitable for you (and your clients)!

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