



Planning for a Profitable Succession



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Your Succession Plan

What is your succession plan for your business? Do you have a strategy to continue to generate income from your real estate career after you transition out of the business? Do you have a plan to leave your clients and referral partners in the hands of a trusted real estate professional after you step away from active selling?

Realtors® can earn a significant income every year, but most only earn that income so long as they are working full-time. At Berkshire Hathaway HomeServices Northwest Real Estate, our goal is to help our Realtors® build a business that has independent value. Most Realtors® believe that their real estate business is solely dependent on their personal abilities and commitment – their hard work, their dedication, their skills. It doesn't have to be that way. We have a solution for you to continue earning income beyond your career.

A “business” is a collection of assets that have their own independent value, separate from the owner of the assets, and which can be sold for a fair market value to a third party. BHHSNWRE’s program operates on the theory that your real estate business includes assets that have value apart from you personally – assets that can then be packaged and sold for that value. If executed properly, Realtors® have the ability and opportunity to develop those kinds of assets, and build a business that can be sold upon their ultimate transition. The key is to start preparing yourself for that possibility early enough in your career, and build your business in a way that it does have independent value from your own personal day-to-day involvement in the business. In doing so, it will allow you to walk away from the business you built with a financial reward at the end.



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Selling your Book of Business

Who is interested in Selling a Real Estate Book of Business?

- The Realtor® who plans to transition away from active sales

Who is interested in Buying a Real Estate Book of Business?

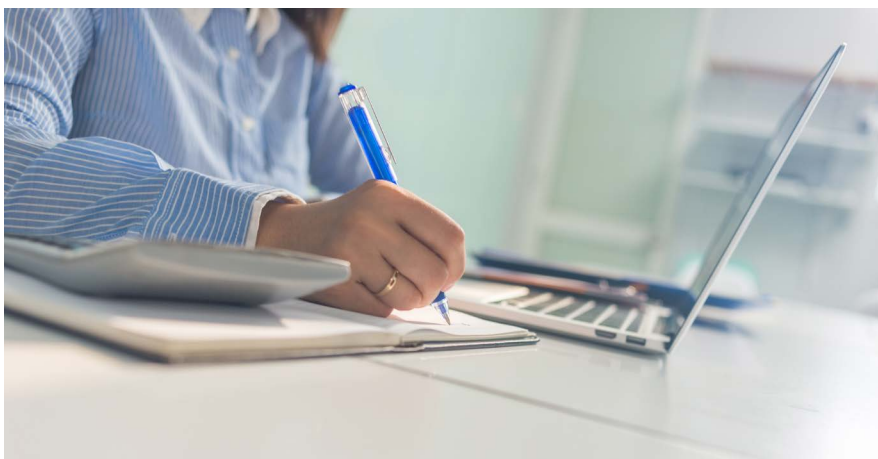
- The New Realtor®
- The Realtor® interested in increasing their business

Benefits to Selling your Book of Business

- If sold at the proper time, excellent passive income
- PASSIVE income = freedom!
- No longer carrying business/professional expenses
- Continuity for your clients and referral partners
- Grace in a transition out of the business

When to Sell your Book of Business

- After you have prepared yourself and your book of business for transition
- When the business is active
- Before the business and opportunities deteriorate
- When you are ready for a lifestyle change – or are experiencing one



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Selling your Book of Business *(continued)*

The Sale of a Book of Business Must be a Business Transaction

- A Book of Business has value to the extent that there are future earning opportunities
- Personal Service Model including systems, processes, marketing and database are being sold
- Selling your traditions/heritage/reputation aka goodwill
- Common practice to have Selling Realtor® stay connected to business for one to four years for the benefit of the Purchasing Realtor® (and to improve profitability)

Confidentiality and Respect from the Participants

- Each role in the Buy/Sell of the book of business is sensitive
- By strict definition this is a merger/acquisition
- For success, each participant must recognize the emotional and business side
- The evolution of a transition may vary from days to years
- When to reveal the transition plan is very sensitive

Preparing your Book of Business

- Updated and current database is in a CRM
- Contacts sorted by those that have used you or referred you business from those that have not (e.g. – categories of SOI/clients)
- Complete transactional history
- Marketing plan in place for consistent touch points
- Documented traditions with clients (e.g. - client appreciation events, seasonal gifts, etc.)
- Recorded systems, routines, procedures - service standards for Buyers and Sellers

Selling Realtor®: How to Choose a Purchasing Realtor® for your Book of Business

- Personality match
- Similar or common business practices
- Create a profile of the right fit Purchasing Realtor®
- Look for stability, business owners, success records
- “Test drive” applicant with a referral
- Don’t choose by proximity or convenience



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Selling your Book of Business *(continued)*

Purchasing Realtor®: How to Choose a Book of Business to Purchase

- Price and terms
- Is it a match of business models, ethics, practice, personality and reputation?
- What work will you have to do in order to make this profitable for you? Is there something to build on or are you starting from scratch?
- Review production: units, volume, fees, sources of business
- Discuss expectations and document terms!
- Only as valuable as the future business actually realized

Written Agreement

- Define compensation, expenses, roles, control, timing and memorialize in writing
- Who pays marketing expenses? Who pays business expenses? Who controls content? Co-branding? Transitioned over what period of time?
- Non-Compete/Solicitation Agreement and Right to Rescind
- Will Selling Realtor® have right to accelerate exit strategy? If so, is there a buy-out figure when Selling Realtor® resigns their license or transfers solely into referral status.

Marketing the Transition from Selling Realtor® to Purchasing Realtor®

- Two Phases
- Personal introductions are vital
- Selling Realtor® must lead the transition to Purchasing Realtor® with conviction and confidence
- Clear marketing/co-branding message is vital – clearly defined roles and responsibilities
- Selling Realtor® brings Purchasing Realtor® into the traditions, marketing, business events in phase one
- Purchasing Realtor® considers hosting a celebration of purchasing the Selling Realtor's® business



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Transaction Timeline

In most cases the Selling Realtor® and Purchasing Realtor® should reach an agreement at least one year before the Selling Realtor® intends to transition out of active sales. That will give both parties time to transition the business from the Selling Realtor® to the Purchasing Realtor®. During that time the parties will want to co-brand themselves as a partnership, giving the Purchasing Realtor® the opportunity to forge a relationship with the Selling Realtor's® sphere of influence and create a connection between himself/herself and the Selling Realtor's® brand.

Phase One (at least one year prior to transition)

- Selling Realtor® is still active
- Purchasing Realtor® is identified and terms defined (including commission sharing during this phase)
- Selling Realtor® continues to pay for and provide marketing materials to retain and promote book of business
- Purchasing Realtor® is silent in marketing
- Selling Realtor® is gently introducing Purchasing Realtor® to clients in “safe” unthreatening context
- Relationship and conditions are committed to in writing (parties are encouraged to seek legal counsel)
- Selling Realtor® plays active alpha role in all client contact

Phase Two

- Selling Realtor® hands book of business to Purchasing Realtor®
- Selling Realtor® is no longer “in charge” and takes a passive role
- Selling Realtor's® name appears in marketing at Purchasing Realtor's® discretion
- Purchasing Realtor® takes charge of marketing and expense of Selling Realtor's® book of business
- Selling Realtor®, as available, makes introductions and in-person transition of clients to Purchasing Realtor®
- Selling Realtor® must relinquish control and visibility
- Selling Realtor® may remain available for counsel at Purchasing Realtor's® discretion
- Selling Realtor® may put license in referral company reducing their expenses



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Two Financial Models

The Valuation Model

Is an assets-based approach to valuing a Realtor's® business. The model recognizes that the business owns assets that have independent value because they can generate future revenue even if they are separated from the Realtor® who built them. It then puts a specific fixed value for those assets, which becomes the "purchase price" for the business as part of a legal contract between the parties where the buyer agrees to purchase those assets and pay the seller the purchase price. The basic idea is simple: identify those assets, assign them a value, and then sell those assets to a buyer who will pay that purchase price over time out of his/her future income.

For example, the negotiated purchase price for a Realtor's® business is 50% of the Selling Realtor's® average net income over the past three years, paid out at 20% of the Purchasing Realtor's® net income until fully paid off.

The Referral Model

The traditional model for a Realtor® transitioning out of the industry is to find a Realtor® willing to enter into a referral relationship for a period of time, where the Selling Realtor® will get a sliding scale of referral fees from any transactions generated by a defined "sphere of influence" database.

For example, the Selling Realtor® might get 40% of any referrals out of the database for the first year, 30% for the second year and 20% for the third year. After that, the database would be "owned" by the Purchasing Realtor®.



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