

KELLER WILLIAMS
WEALTH BUILDING

A WHITE PAPER ON **PROFIT SHARE AND GROWTH SHARE**



KELLERWILLIAMS®

At Keller Williams, we believe that associates are the driving force in growing their Market Centers and building the dominant real estate company in their market. This belief is one of many ways we disrupt the market and dominate the game of real estate, and it is the cornerstone of the unique business culture within our company.

Our associates have an unparalleled and unlimited opportunity to actively participate in the growth and productivity of their Market Center—and receive the financial rewards that come from their efforts. In the United States and Canada, the financial rewards are offered through our Profit Share program, in which owners share their office profits back with the associates who helped that office to grow. In other countries around the globe, Keller Williams offers a Growth Share program in which master franchisee owners and Keller Williams reward associates who help the company grow by sharing a portion of the company’s revenue with those associates.

Because any Keller Williams associate can participate in either of the two programs, and both Profit Share and Growth Share are distributed across borders all over the world, the two different systems create a powerful wealth-building platform for those who help Keller Williams grow and succeed.

“We aren't waiting for change to come to us, we're envisioning what's next.”

John Davis, CEO, Keller Williams

THE EVOLUTION

In 1986, Gary Keller and the first Associate Leadership Council (ALC) convened to reinvent Keller Williams. 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. There was no discord; they were simply seeking better deals. Heeding the lesson, Gary turned to the ALC and began an extraordinary journey.

He proposed that he and the agents 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 program, a revolutionary system that treats associates in the company as if they were partners in the business.

Gary Keller and the ALC launched an early version of the program in 1987. By 1989, the program had solidified into a Profit Share system—one that is still in place in the United States and Canada. Sharon Gibbons, vice president of philanthropic administration, was Keller Williams’ first Market Center Administrator (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 owners take money out of their pocket and give it to the people they work with to thank them for helping to grow the company, it says a lot about what they think about them.”

In 2010, the need for a wealth-building model that would work universally, regardless of how the real estate industry operated in a particular country, became apparent and the Growth Share program was born. The model complements how the business of real estate is run throughout the world, while offering a wholly new opportunity—the opportunity to receive revenue like an owner, without any investment.

THE REVOLUTION

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 cover costs, and what’s left over goes toward 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.

The Keller Williams wealth-building platform is different—and revolutionary—for two reasons. First, for the first time in the industry, agents and brokers became interdependent, sharing a mutual interest in success and working together to achieve financial goals. Second, although associates do not assume financial, legal, or management responsibilities, they are rewarded for growth with a portion of the revenue, as if they were an owner.

The key to the platform’s success is the productivity and profitability of real estate agents. Keller Williams was crafted by real estate agents for real estate agents to be a company in which entrepreneurs could readily build thriving businesses. To create an environment sure to foster profitability and productivity, Keller Williams is committed to consistently delivering the world-class training, marketing, and innovation that will purposefully empower agents to grow their businesses.

It’s a virtuous circle: when agents are flourishing, they naturally tell others about the opportunity and this leads to further growth. A single office manager can never be as powerful as the combined efforts of every agent in the office.

These successful associates are then rewarded for the one activity that has the greatest impact on growing a Market Center or Region: referring associates. For agents and office owners, this means not only will they have more agents, they will also have more productive agents!

This wealth-building platform makes a bold statement and allows associates in the company to take on the mindset—and 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.”

THE MODEL

Because associates have the opportunity to participate in both plans, and both Profit Share and Growth Share are distributed across borders, the two systems are creating a synergistic wealth-building platform for all members of the Keller Williams family.

Profit Share

In the Profit Share model, each month the Market Center splits its owner profit between the owners who risk their investments and the associates who helped the office grow. Though Market Center owners receive a slightly larger percentage of the split, associates are recognized and compensated for their direct contribution to the growth of the company.

Growth Share

In the Growth Share model, when an agent completes a transaction, they receive a commission, which is split between that agent and their office. Every month that office sends a portion of their revenue to Keller Williams and the Region. Unlike the Profit Share model, the associates participating in Growth Share enjoy a portion of their Region's bottom line, rather than that of the Market Center.

The Sponsor

Each of these programs are set in motion when an associate joins a Keller Williams office and names 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 region, province, or country. It is the person who was most impactful on their decision to join the company.

The potential is exponential. Everyone names a sponsor when they join Keller Williams, and the system rewards seven levels of sponsors.

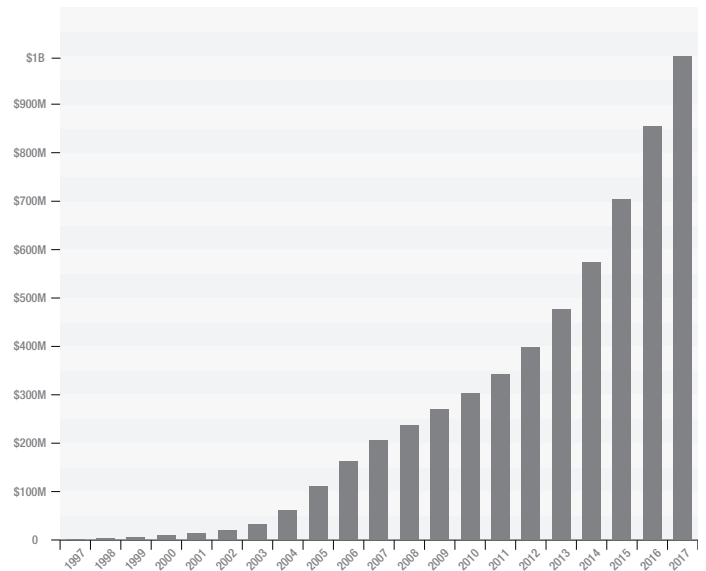
- Level One are the individuals who directly name you as their sponsor.
- Level Two are the individuals who name your Level One people as their direct sponsors.
- Level Three are the individual who name your Level Two people as their direct sponsors, etc.

The Formula

A percentage of revenue is disbursed by Market Centers or Regions through the seven levels based on a set formula. Because these programs grow great branches like a family tree, they are often referred to as either a "Profit Share Tree" or a "Growth Share Tree."

When associates are part of the growth trajectory of any Keller Williams office, they can literally be rewarded with passive, potentially long-term income without any capital.

As of November 2017, the Profit Share and Growth Share programs have resulted in more than \$1 billion shared with participating Keller Williams associates since their inception.



KW Cumulative Profit Share from 1997–November 2017

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 Associate Leadership Council (IALC) has refined the system, but it has ultimately underscored the strength of the numbers as they exist.

When asked whether or not the systems work, 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."

Distribution Percentages

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

Of Special Note

1. Once an associate has been with Keller Williams for three years and a day, he or she is “vested.” This means the associate can leave Keller Williams and still receive their Profit Share or Growth Share.
2. If allowed by local laws, associates can bequeath their Profit Share or Growth Share to a beneficiary. It is a gift—one that can live on to create opportunities in the lives of loved ones or others in the community.
3. These systems give associates an opportunity to earn “100 percent-plus,” meaning that a participating associate can earn far greater than the commission split they pay, effectively allowing them to earn more than if they were on a 100 percent split.

THE 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, large successful companies as varied as Southwest Airlines to Verizon have profit sharing structures in place. In the real estate industry, other companies use revenue sharing, but no other company has such a unique system based on an office’s growth and production—as such a system would be difficult to maintain without the unique Keller Williams culture.

Mary Tennant, former president and current board member of Keller Williams, 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, former CEO and current vice chairman of the board of Keller Williams, 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.”

Culture in a Market Center grows naturally and inevitably as a result of the models, systems, and resources that Keller Williams provides through its extensive training, marketing, and technology tools.

Marco Ottaviani is a professor of management and strategy at the Kellogg School of Management, 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 and Growth Share systems 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 system.” In his course, Professor Ottaviani also covers the effects of the system. He points out that it can help attract and retain good agents, while instilling a sense of ownership in associates.

These wealth-building systems are extraordinary and exist as a business model thanks to 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. This underlying belief makes Profit Share and Growth Share possible and viable.

“Our wealth-building models are fundamental to the value we provide. By rewarding the associates who help our company grow and helping them build passive income for life, we create more opportunities for them—and more opportunities for their families.”

John Davis, CEO, Keller Williams

FUNDING BIGGER LIVES

The amount of money anyone in the wealth-building systems receives is a reward. They are rewarded for growth like an owner, but without the personal risks of owning or investing any capital.

Unlike other forms of investment, these systems can boast the following:

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

Associates from Keller Williams tell stories of how the additional passive income stream has enabled them to

send their children to college, to pay for medical bills, to buy cars, and even to invest in 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.

These programs 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 or Growth Share Tree, they essentially establish themselves in the Business Owner quadrant.

As Gary Keller states, “Our wealth-building platform is an equal opportunity, unequal reward system.” Associates who have made the decision to participate in the program have seen their life 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 the lives of others 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 their passive income.” Indeed, Keller Williams now has Market Centers that distribute \$1 million or more in Profit Share every year and individual families who earn more than \$1 million in passive income in a single year. The Profit Share and Growth Share programs are helping Keller Williams associates fund their lives and create opportunities for their families.

ABOUT THIS WHITE PAPER

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 Case Study can be purchased from Harvard Business Publishing (<http://hbsp.harvard.edu>).

“Profit Share and Growth Share are distributed as a thank-you to associates for growing the company.”

Mo Anderson, Vice Chairman of the Board, Keller Williams

“Growth Share rewards our most valuable assets:
the people responsible for the explosive growth
of our unique culture across the globe.”

Bill Soteroff, President, Keller Williams Worldwide



KELLERWILLIAMS®

Keller Williams Realty International
1221 South MoPac Expressway
Suite 400
Austin, Texas 78746

Phone: (512) 327-3070

kw.com
kwworldwide.com

Revised November 2017