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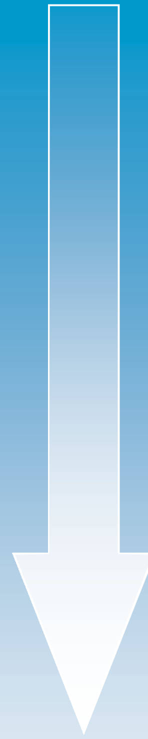
Corporate Behavior Analysts, Ltd.

Tactics and Tips

Finding the Right Path to Your Business Success



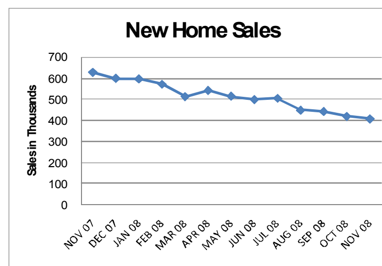
LEADERSHIP IN AND OUT OF A DOWN MARKET

In 2007 and 2008, the real estate industry and financial services sector suffered the worst downturn in business since the great depression. Although economists and financial pundits predict that a recovery will occur by 2010, it is obvious that the road to recovery will not be easy, and many businesses will fail before the nation and real estate industry recover.

One of the industries hardest hit by the dramatic down turn in real estate sales is the Title Insurance Industry and the independent Title Agent. Coming on the heels of a number of major financial scandals and lawsuits involving the top underwriters, the down turn in residential and commercial sales, and the unavailability of financing, has driven uncounted Title Agencies out of business and at least one underwriter into bankruptcy.

For those Title Agencies who have survived, it is likely the companies have undergone a number of significant changes, including: reductions in staff, office closings, and pay cuts. As a small independent business owner, the Title Agent has no control over the political and economic forces that are responsible for the downturn or return in real estate. Nonetheless, there may be a number of business actions owners still can take to offset any further reduction in orders and closings, and there are actions owners should be taking to prepare for the eventual recovery in real estate sales and financing. These actions include: setting realistic financial goals, staffing for profit, improving productivity, staying focused on customer service, targeting new sales, and keeping employee morale high.

In the article to follow, we discusses how staffing for profit will position your agency in the current economy and help you prepare for a future recovery in real estate



STAFFING FOR PROFIT

The single largest expense category in any Title Agency is Wages and Salaries. Collectively, wages, salaries, bonus, retirement, employee taxes, and employee benefits make up the budget category called **Labor Expense.**

In managing the finances of a business, there are two ratios related to Labor Expense that are important to understand.

The first is your Labor Expense to Total Expense Ratio, or Labor to Expense ratio (LTE). In professional companies, like doctor practices, law firms, and consulting firms, labor expense can be more than 50% of the total expense. In manufacturing companies and companies with a heavy investment in brick and mortar or technology, labor expense can be less than a 25% of the total expense, i.e., a Labor to Expense ratio less than .25.

In Title companies, providing good service typically requires people, therefore, labor expense can be as much or more than 50% of the total expenses. However when labor expense becomes too high (over .70), it usually means there are a few highly paid employees. In terms of staffing for profit, since labor is the single biggest expense,

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NEW CBA WORKSHOPS IN 2009

In addition to CBA's existing leadership, management and staff workshops, we are offering five new topics for 2009

Recruitment Interviewing and Hiring Practices

As the market starts to recover, and you start planning to add new staff, you want to make sure that you make good hires who can hit the ground running and are a good fit with your current staff and company. We can help you develop a successful interviewing and hiring process that will ensure you do not take any false steps or waste valuable time and resources.

Putting Great Customer Service back into the Equation

During this recession, many title agencies have seen customer service levels suffer due to reduced hours of operations and staff reductions. It is time to start planning for how you can raise customer service levels, throughout your company, to attract and retain new customers and ensure loyal customers do not look elsewhere. CBA's WOW Customer Service Training provides a step by step process for managers and staff to put customer service back into the equation for staying competitive in the market place.

Developing New Sales Strategies and Tactics

Now is the time to start targeting new sales opportunities and tactics for 2009. Improved interest rates and the freeing up of credit will mean that your customers will once again begin to see greater opportunities in the market and you need to be first in line to help them. CBA can help you develop a simple but thorough sales plan that will target your sales opportunities and detail what sales actions are needed to meet your revenue goals.

Using Performance Measures to Make Management Decisions

It is critical that you have a process in place to track your monthly performance and that enables you to make timely management decisions. As order volume increases in 2009, you need to be able to change staffing levels at points where profit and productivity levels merit adjustments. CBA will help you install and manage a set of performance measures that will help you stay on top of the critical financial and operational decisions you need to be making.

Building a strong Management Team

Your people are one of your most important resources and successful companies in the 21st century need strong leadership teams to help steer staff in the right direction. CBA can help you evaluate your management bench strength and provide training to develop a management team that works well together. Building a strong management team will be one of the most important steps you can take to make your company successful.

New CBA Workshops in 2009

1. **Recruitment Interviewing and Hiring Practices**
2. **Putting Great Customer Service back into the Equation**
3. **Developing New Sales Strategies and Tactics**
4. **Using Performance Measures to Make Management Decisions**
5. **Building a strong Management Team**

Finding the Right Path to Your Business Success

Other CBA Workshops

MANAGEMENT

- Executive Leadership
- Unit Management
- Supervision
- Coaching
- Managing performance
- Setting business goals
- Measuring performance
- Employee evaluation
- Employee profiles
- Achieving goals
- Team management
- Team development
- Implementing change

SALES AND SERVICE

- Basic sales
- Customer interviewing
- Customer profiling
- Market planning
- Sales planning
- Sales in the 21st century
- Sales management

STAFFING FOR PROFIT

what you are spending on labor relative to revenue, becomes a critical ratio.

For our purpose, Labor Ratio expresses labor expense as a percentage of total revenue (LTR). In terms of staffing for profit, Labor Ratio is the single most important factor in determining the health and profit of a Title company. In our experience, even in good times when the ratio of Labor to Revenue (i.e., Labor Expense / Gross Revenue) exceeds .50, a Title company will have unacceptable profit levels. In some areas of the country, this ratio will have to be significantly below .50 for a company to be profitable because their other fixed expenses are high.

Given the long period the market has been down, it is likely that your current labor ratio is less than .40. In some cases, we have seen labor levels less than 25% of revenue. At some point, a reduction in staff (i.e., labor ratio) will cause products and customer service to suffer, so the lowest ratio possible for a Title business is a question best left to customers and employees.

Determining a proper level of staffing in order to ensure both profit and good service is a complicated question. The problem for a small company is predicting orders and revenue in an uncertain future. Without a good measure of future revenue, it is nearly impossible to determine how large a reduction or increase you need to make. The question for companies today, even a year and a half later is whether your labor ratio is sufficiently low enough to be profitable in 2009?

If you are currently operating at a loss or just breaking even, it means that your labor is still too high. Determining the proper level of staff in order to make a profit is not complicated at one level. It is a mathematical question and only requires the necessary financial and performance data, and the right metric. What is difficult is determining which people to keep and whether you have the right people for the future. In our next newsletter we will consider these issues.

So far, we have discussed Labor Ratio as a metric that can be used to determine the likelihood that a Title Company will be profitable. The difficulty with using Labor Ratio for managing a business is that it is a trailing measure, meaning that it is determined after the orders are closed, employees are paid, and the work is done. Long term Labor Ratio is an excellent metric, but you need one you can look at every month.

In Title companies, we use a simple, easy to understand metric that relates revenue to labor expense like Labor Ratio, but one that can be measured earlier in the business cycle. For most companies, determining what a company will spend on wages and salary is easier than determining all labor expense, i.e., including incentives and benefits. For that reason, for the remainder of the article we will use "salaries" to mean all wages and salaries and we will refer to salaries as a substitute for total labor cost.

Likewise, orders is a simple leading measure that can be used as a substitute for revenue. Orders can be easily counted and tracked and they come in a month or two before revenue. Closings or actual paid orders are measures that may seem like a more reliable substitute for revenue because they have a higher correlation with revenue, but they are not leading measures.

In the end, you should pick the measure that best represents your mix of income and the measure for which you have the most data. In our example, we will use new open orders each month. Using orders as a substitute for revenue has some obvious problems. One problem is that not all orders turn into closings or paid orders. A second problem is the revenue on different types of orders can vary considerably.

If you use open orders as your metric for future revenue you may want to determine your capture rate or fallout rate. For example, for every 100 open orders, 82 orders end up closing or being paid, i.e., an 82% capture rate. If you do not determine your capture rate, then your average income per order will seem lower than your invoices suggest, because some orders never close.

Likewise, you may need to classify orders by type, for example, residential versus commercial orders, because your average income from these different types of orders can be significantly different.

For this discussion, we are going to use the ratio of Orders to Employees as a metric. In Title companies, we measure OTE by dividing open orders by the number of employees. For example, if a company has 10 employees and opened 100

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Finding the Right Path to Your Business Success

LABOR RATIO

"The single largest expense category in any Title Agency is Wages and Salaries. "

In 2008, the real estate industry and financial services sector suffered the worst downturn in business since the great depression.

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orders in a month, we could say their OTE was 10 orders per person per month.

In this metric, Orders is a substitute for revenue and Employee is a substitute or short hand measure for salaries. In using the metric we assume that the average salary is representative of 80% of your work force.

One complication with using employees or head count as a substitute for Labor Expense is Labor expense can vary significantly based on the number of days in the month, the number of hours that each employee worked, and the number of overtime hours paid in a month. For example, if there were 20 days in the month, the OTE in the above example would be 5 orders per day or .5 orders per person per day. But, if there were 21 days, the OTE ratio becomes .47 orders per person per day or 9.87 orders per person per month.

In order to take into account the days in the month, paid hours and overtime, we calculate a number called Full Time Employees or Full Time Equivalent (FTE). To determine your total FTE's, you divide the total number of paid hours you have in a time period by the regular paid hours in the time period for one full time employee.

Table 1 shows an FTE example taken from a Title Agency in the month of August of 2008. In that year, there were 21 working days in August and the agency had eight employees who are paid hourly and seven employees who received a salary. In this example, there were seven salaried and eight hourly employees (15 employees). In total, with overtime the company paid the equivalent of 16.25 full time employees. In other words, the agency paid for the equivalent of one and a quarter extra persons (1.25 FTE) in the month of August. For this agency, simply eliminating overtime hours and finding a way to get the work accomplished during normal working hours would eliminate the expense equivalency of one and a quarter persons, thereby improving the labor ratio and making the agency more productive.

In order to calculate FTE for a company, you will have to include all the employees in the company regardless of their contribution to revenue or orders and closings. This means counting sales, administrative staff, managers, and executives.

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"Determining a proper level of staffing in order to ensure both profit and good service is a complicated question. "

Table 1
FTE Example for the month of August for Example Agency

1	Number of days in the time period.	21
2	Number of paid hours in a regular work day.	8
3	Calculate the regular paid hours in the time period for one full time employee. In this example (21 * 8 =168)	168
4	Determine the number of regular hours paid in the time period for all hourly employees, including all paid time off (PTO), i.e., vacation, sick, holidays.	1344
5	Determine the number of hours paid in time period for salaried employees	1176
6	Determine the number of hours of overtime hours paid in the period. Multiply the overtime hours by 1.5. In this example 140*1.5 = 210	210
7	Add the total paid hours for hourly employee, salaried employees plus overtime. In this example, 1344 + 1176+210 = 2730	2730
8	Divide the total paid hours by the regular paid hours for one employee in the time period. In this example, 2730 ÷168 = 16.25	16.25
9	Total Full Time Employees for Agency	16.25

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In companies with a small number of full time employees and no overtime, head count can be used instead of calculating FTE.

Because we are using FTE as our substitute measure for salaries, our metric now becomes Orders to FTE or OFTE.

Establishing OFTE standards or goals for your business may make all the difference in 2009. To start, we recommend establishing an OFTE standard for your agency as a whole and then creating separate title and escrow standards. By standard, we mean the level you need to have to meet your profit goals. Your OFTE standard represents the level below which you do not want to go in any given month.

Returning to our agency example, the company paid for 16.25 FTE in August of 2008. That year, the agency opened 225 orders in August. Using our OFTE formula, the agency's OFTE ratio for August would be 13.85 open orders per person per month (i.e., 225/16.25 = 13.85), meaning 13.85 open orders per person per month for the 21 working days in August, or .65 open orders per person per day.

At this point it is important to ask how good is a result of 13.85 open orders per person per month? The reason that a simple statistic like OFTE is useful is because orders can be used as a substitute for revenue and FTE is a substitute for salaries. For example if we know that the average income from an order is $500.00, and that the average pay for an employee is $3,000.00 a month, then we know that we need at least 6 orders per person just to cover our labor cost. Likewise, if labor is 50% of our expenses, then we know we need more than 12 open orders per month per person before we have a dollar of profit.

Armed with this knowledge we can set a goal for an agency's OFTE ratio that should keep the agency in the black. Naturally, the number for your operation will be different from our example. It may even be different from the number for the agency down the street, because each title agency operates under different conditions, markets and regulations and has different structures designed for their operations to deliver their products and services. The right number for your agency has to take your particular situation into account, the revenue from an order, the cost of an employee, etc.

In order to help you set your own standard or goal for OFTE we have developed a simple step by step process. In explaining the model we will use a number of terms that have proven to be useful in our consulting. Because this is a financial or budgeting model, we want to start with an adequate amount of financial data, probably six or twelve months.

In Table 2 we have listed information you will need. The order in which you complete these steps is not critical, rather having a reliable set of data that reflects your current conditions is.

Table 2

Information and calculations you will need or find useful.

1.	Determine your total open orders in a year
2.	Determine your total revenue from orders for the year.
3.	Determine your total expenses annually, including all expenses before profit distribution.
4.	Determine what you spend on total salaries annually.
5.	Determine how many FTEs or paid hours you had in a year.
6.	Determine your profit or loss for the year.

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Finding the Right Path to Your Business Success

"Establishing Orders to FTE standards or goals for your business may make all the difference. In 2009. "

In future issues

TOPICS

Managing Staff Levels

Managing Performance

Wowing Customers

You tell us!

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For this model we are going to talk about annual numbers and monthly numbers. In the end, we find using a time period like a month makes the most sense.

In Table 3 we have summarized the calculations that you will need to perform on the information obtained in Table 2. Once these calculations are completed, you can put together a simple table or spreadsheet to determine your current OFTE ratio and use that number to set a standard or goal for the future.

In Table 4, we show an example where an Agency breaks even when they take in 10.91 orders per person per month, or 150 orders and 13.75 FTE. It should be noted that this example was created simply to show the

Table 3.
Monthly averages

Average open orders per month
Average income per order (Total Revenue / Total Orders)
Average FTEs per month.
Average Total Expenses per month (Total Expense / the number of months in the period).
Average salaries expense per month, (Total salaries / the number of months in the period).
Average Expenses Other Than Salary (OTS) each month, (Expense – Salaries = OTS)
Average Salary per FTE (Salaries / FTE)
Calculate the percentage salaries represents of your total expenses. (Salaries / Total Expense). We will call this your Salaries to Expense ratio.

Table 4.
Calculating Profit based on Orders to Full Time Employees

Measure	Calculation	Result
Monthly Revenue from orders	From P&L or calculated	$75,000
Average Income per Open Order	Revenue / Orders	$500
Average Open Orders per month	Total Open Orders / months	150
Cost of Sales (e.g., Underwriting, etc.)	From P&L or calculated	$15,000
Salary Expense	From P&L or calculated	$33,750
Other than Salary Expenses	From P&L or calculated	$26,250
Estimated Total Expenses	From P&L or calculated	$75,000
Average Total FTEs per month	From Payroll	13.75
Average Salary per FTE	Salaries / FTEs	$2,454.55
Open Orders to FTE	Open Orders / FTEs	**10.91**
Salaries to Gross Revenue Ratio	Total salaries / Gross Revenue	**45%**
Salaries to Total Expense Ratio	Salaries / Total Expenses	**45%**
Estimated Profit	Revenue - Expenses	$0.00
Profit per Order	Profit / Orders	$0.00
Profit Margin	Profit / Revenue	0.00%

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mechanics of calculating Orders to FTE. In our example the Agency averages $500.0 on an order, a value that is probably below your average. Based on this information, the company makes no profit when the Orders to FTE ratio is 10 to 1. Considering the numbers, in this example, the question is, at what point does the company make money?

In Table 5, the company makes a little over 10% profit (the industry average) when orders increase from 150 to 172 per month. This increase in orders results in 12.51 orders per person and lowers the Salaries to Revenue ratio to .39.

In Table 6, the same level of profit also could have been obtained at the original level 150 orders, if the level of staffing (FTE) had decreased to 10.5 FTE per month. Reducing staff by 3.25 FTE not only improves profit and profit margin, but it improves both the Orders to FTE Ratio to 14 to 1, and lowers the Salaries to Revenue Ratio to .34.

In setting a standard for your business, you have to determine your break even point and the level of profit and profit margin that you desire.

Measuring OFTE by the method presented will provide you with a simple way for evaluating staffing levels based on trends in monthly orders.

If you know that fewer orders are coming through the door then you can take steps to improve your OFTE ratio before your profit suffers.

Measuring OFTE on a monthly basis gives you a method to help determine whether your agency's staffing patterns are correct, provides an important set of measures for employee feedback and evaluation, and it also provides a way to think about adding staff when orders start to increase.

END

Table 5
Increasing orders from 150 to 172 improves the OFTE ratio to 12.51 and results in +10% profitability.

Average Open Orders per month	Total Open Orders / months	**172**
Average Total FTEs per month	From Payroll	13.75
Open Orders to FTE	Open Orders / FTEs	**12.51**
Estimated Profit	Revenue – Expenses	$8,800
Salaries to Gross Revenue Ratio	Total salaries / Gross Revenue	**39.24%**
Salaries to Expense Ratio	Salaries / Total Expenses	43.72%
Profit per Order	Profit / Orders	$51.16
Profit Margin	Profit / Revenue	**10.23%**

Table 6
Decreasing FTE to 10.50 improves the salaries to expense ratio and improves the OFTE ratio to 14.29 resulting in the over 10% profitability.

Average Open Orders per month	Total Open Orders / months	150
Average Total FTEs per month	From Payroll	**10.50**
Open Orders to FTE	Open Orders / FTEs	**14.29**
Estimated Profit	Revenue – Expenses	$7,977.33
Salaries to Gross Revenue Ratio	Total salaries / Gross Revenue	**34.36%**
Salaries to Expense Ratio	Salaries / Total Expenses	**38.45%**
Profit per Order	Profit / Orders	$53.18
Profit Margin	Profit / Revenue	**10.64%**

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