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Advertising Where It Counts

By Ted C. Jones and Larry Hart

With change surging through the brokerage industry, owners and agents must strive continually to control costs and reap the maximum benefits from expenditures. According to the National Association of Realtors (NAR), commissions alone have risen from 50 percent of the typical residential brokerage firm's gross income since 1990-91 to 58 percent last year. Advertising is integral to revenues and expenses.

Advertising not only communicates availability of properties to prospective buyers, but it entrenches the firm's image with consumers and agents. Given that advertising and marketing expenses are the second greatest expenditure for firms, they can be a key to profitability and success.

How much does the typical firm spend on advertising? NAR used two methods for quantifying costs. The first is known as the *company dollar approach.* It expresses expenditures as a percentage of the company dollar, which is defined as gross revenues minus commissions, Multiple Listing Service (MLS) and board or association fees, and referral and franchise expenses. In company dollar terms, the median expenditure on advertising was 15.5 percent (14.6 percent average).

Sales-promotion spending totaled another 3.8 percent, median and average. The significance of these expenses is magnified given that before-tax firm earnings based on the company dollar were 11.8 percent median and 7.2 percent average. Average residential brokerage firm advertising expense is more than double average earnings.

Newspapers accounted for 8.4 percent of the company dollar, institutional and direct mail brochures for 1.6 percent each, radio and television 1 percent total, signs and Yellow Pages for less than 1 percent each and other 1.5 percent. Responding firms had a median gross annual revenue of $260,000. The average gross annual revenue was nearly $1.5 million.

The second method in NAR's study for cost analysis is the *income statement approach.* Expenses are expressed as a percentage of gross revenues. Median advertising cost was 6.6 percent of gross income, with an added 1.6 percent spent on sales promotion. Average advertising cost was 5.4 percent with an associated promotion expenditure of 1.4 percent. Earnings before interest and taxes were a median 5.5 percent (2.9 percent average).

Advertising for Selected Industries

Industry	Ad Dollars as Percent of Sales
Air courier services	1.2
Communications services	1.3
Drugstores	1.6
Computer and office equipment	1.6
Scheduled air transport	1.9
Business services	2.7
Commercial printing	2.7
Cable and pay TV services	2.9
Dairy products	4.1
Educational services	6.9
Beverages	8.6
Top producing real estate agents	8.8
Real estate firms	14.6
Total residential brokerage	23.4

Source: *Introduction to Advertising and Promotion,* Third Edition, 1993 and National Association of Realtors

Thus, in the income statement approach, total advertising and marketing expenses were almost 1.5 times median firm earnings and 2.3 times average earnings. In comparison, total advertising expenditures in the air courier services industry are 1.2 percent of sales. Drugstores spend 1.6 percent, and the beverage industry spends 8.6 percent.

Recruiting and retaining top performers is a key facet of advertising that contributes to the firm's image beyond attracting seller and buyers. NAR reported that **company image in the marketplace** was the single most important firm attribute of top producers, according to 85 percent of respondents. The next three characteristics, all in the low 50 percent range, included office support staff, company-provided MLS and company market share. Fifth on the list was company advertising (37 percent), followed by firm referral network affiliation (36 percent), franchise affiliation (31 percent) and company education and training (30 percent). To be included in this survey, agents had to have either a minimum of 30 closed transactions or $3 million in commission income in 1994.

Top producers' best liked characteristic of their current firm was **the firm's image with consumers,** as noted by nearly one out of five respondents. The least liked characteristic of their current firm was the **firm's advertising support**, which at 18 percent was greater than **the firm's technology support** of 15 percent.

The most effective advertising media for these top producers was word of mouth (66 percent), for-sale signs (21 percent), farming newsletter (15 percent), home sales magazine (14 percent), newspaper classified (10 percent) and open houses (9 percent). On average, these top producers spend $960 per month on marketing and advertising expenses, with a $630 median. Given a reported median $130,600 gross annual income for respondents, personal advertising costs were 5.8 percent of the agents' median gross income (8.8 percent average).

Are the optimum spending amounts and patterns for firms and agents as noted in the top producer study? Probably not, given technological changes ranging from television slide and video shows to the Internet that are excluded from those categories. Prior research has shown that initial contact by an agent through television advertising is one of the most significant factors in attracting repeat buyers.

So what is the optimum allocation of advertising? No single rule works for all firms and agents, but a complete analysis of advertising avenues for cost and benefit analysis should include the Internet (a growing, target-rich environment in the higher price ranges), radio and television (in addition to the standard newsprint), signage and home sales magazines and supplements.

A recent Real Estate Center survey comparing advertising costs in Texas found a wide-ranging difference in the cost per contact. The typical cost per 100 readers of a three-line, single-column classified advertisement run for a period of two weeks was 4.58 cents per average week-day subscriber (2.35 cents median).

Radio advertising, a less-used medium for real estate advertising, averaged 14 cents per 100 listeners (12.6 cents median) for a 30-second spot. The radio ad is based on buying 30 spots per month on weekdays, with the ad aired from 6 a.m. to 7 p.m. and includes only those listeners in the 25- to 54-year-old demographic group—an attractive target market for prospective homebuyers and sellers. Television costs, based on a 30-second spot during the 6:00 p.m. local news weekdays, averaged more than 89.9 cents per 100 viewers (70 cents median).

Are these costs directly comparable? They are not, given the range of buyers and sellers actually reached in each medium. Only a systematic effort to record the benefits—long-term tracking of leads—will confirm the cost effectiveness for either the firm or agent.

Without question, the need to effectively target consumers in an advertising campaign is critical. Effective advertising builds the firm's and agents' images and, at the same time, optimally allocates limited promotional dollars. Advertising quality and costs warrant detailed scrutiny. Given that the firm and agent are spending a combined 14 percent of gross income on marketing and advertising, this one expenditure demands the highest priority.

Dr. Jones is chief economist and Hart a former research assistant with the Real Estate Center at Texas A&M University.

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