August 25, 2021

Are you Leaking Service Talent?

Check the doors, everyone. Service talent has been heading for the exits recently all across the country. The combination of capital and COVID has facilitated an environment for well-capitalized brokers to pick off key service personnel with offers of higher compensation and increased flexibility. This pressure on service talent has been building for some time but has largely been ignored. The advent of widespread virtual workforces and videoconferencing, though, has changed the game. Now, your best people aren't just targets of your local competitors. In the work-from-anywhere age, they are targets of any firm that can set them up with an email address and a login to the corporate Zoom account.

Lately, we've heard numerous stories of our clients' key account executives and CSRs approaching management with a familiar tale: they've been offered a 30% raise from another broker and the ability to work largely from home. Well-capitalized firms can afford to be very persuasive in efforts to poach service talent, knowing that the best service talent acts as an amplifier for production teams.

The question is how agents and brokers should respond to this increasingly intense competition. There are challenges in simply trying to match compensation with larger brokers – especially if the larger broker is headquartered in a bigger metropolitan area and is used to paying higher salaries. As we have conversations with our clients, we are recommending a four-pronged strategy to ensure that your firm is battle-ready.

- *Get flexible*. Even if your firm takes pride in a "work-from-work" culture, we'd encourage you to think about ways to introduce the flexibility that many service personnel crave. We don't think you have to go fully virtual to compete, but there are initiatives around the edges that can go a long way toward improving overall job

that fits your firm, the marketplace in general is giving workers more control of *where* they work. Your firm may need to take small steps in this direction as well.
- *Think long-term*. Privately-held brokers have a large advantage in retaining talent – an equity opportunity. However, this has traditionally been reserved for production talent and not service talent. As a result, producers often have a long-term economic incentive to stay with their current firm – but service talent often does not. As firms start to feel pressure in retaining (and finding) quality support staff, perhaps it is time to think about how to put long-term incentives in place for retention of key service individuals as well. Even if it isn't traditional stock ownership, other forms of deferred compensation (such as phantom shares or stock appreciation rights) can create the long-term economic incentive that might be missing.
- *Increasing compensation may be necessary*. There is a fine line here. While it may be difficult – and unwise – to start matching compensation with every offer your service team receives, there is likely room to increase compensation for your critical employees. The high demand for service talent along with record-breaking margin levels leads to a conclusion that now is not the right time to start getting penny-wise and pound-foolish with service payroll. Considering the alternative is also important – replacing that lost AE or CSR will likely be difficult and expensive. Moving compensation upward somewhat to retain a key player may be the most cost-effective solution.
- *Culture still wins*. A wise CEO once told me that his most important job was to work relentlessly to create the most innovative, attractive culture possible in his firm. That culture, he went on to explain, would be the thing that attracted the best talent and having the best talent is the only source of long-term competitive advantage. How is your culture? Is it an asset of your firm in attracting and retaining talent, or is it a hindrance? A lot goes into a corporate culture and it is difficult to change it overnight, but the environment in which your employees work is critical.

Maybe this phenomenon wasn't terribly difficult to predict. The high margins in our industry and the plentiful capital available are giving firms the means with which to pursue essential assets that haven't historically been tied down with long-term economic incentives. And thanks to COVID, they can pursue these vital service employees basically anywhere. All firms will have to fight to retain talented associates, but the firms best at addressing these four fundamental areas will come out on top. Don't be caught unaware.

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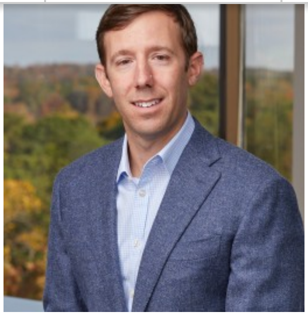

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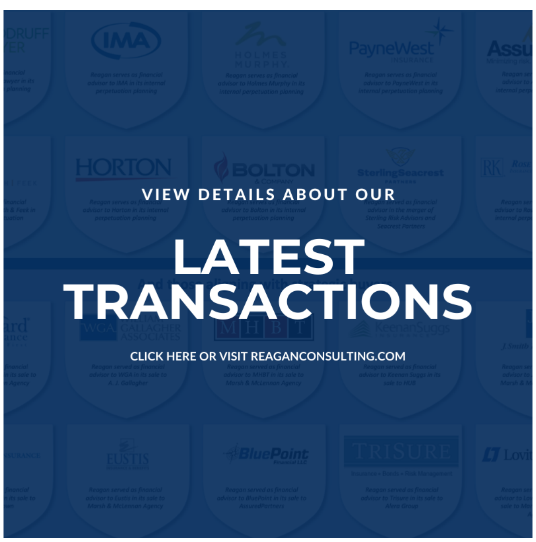

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