# Case Study #7
# The Case of the Breaking Brokers

## The Situation: A Merger Facing "Breakage"

A well-known real estate brokerage firm had agreed to acquire and merge into its operations one of its large competitors. Historically, up to 50% of the real estate brokers and agents of an acquired company leave for a competitive firm. (This exodus is referred to in the industry as "breakage.") Brokers supervise agents, who tend to be loyal to their brokers rather than their firms, and they often leave with their broker. Brokers and agents are licensed and therefore difficult to replace, particularly when many leave simultaneously. Their departure therefore impacts deal flow and can severely decrease the performance and value of the acquired company.

## The Goal: Prevent an Exodus

Before the acquisition was publicly announced, Frontier Associates was engaged by the acquiring brokerage to minimize "breakage" as a result of the acquisition.

## Our Analysis: Give Brokers a Unique Reason to Stay

Staying with the merged company needed to be made more attractive to the brokers and agents than moving to a competitor. Retaining brokers was the key, as their agents would tend to stay with them. Since financial compensation terms were fairly standard in the industry, and some of the target company branches were more upscale than the buying company's branches, the benefits of staying had to be unmatchable by the competition.

Brokers generally leave because they believe that the acquiring company will make conditions worse for the brokers in the acquired firm. To counter that perception, we recommended that management commit to an approach based on the perspective that a brand new company was being formed, led by a consolidation of the management of both companies. Together the managers would design the new company, giving members of the two "legacy" companies visible and public roles in the decisions, and thus in the "ownership" of the culture of the new entity. The resulting policies and procedures would not be solely those of either of the two original firms. Rather they would be based on what


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was best for the new firm, and would treat the brokers, agents, and managers of the acquired company the same as those of the acquiring company.

The theory was that brokers, agents, and managers would stick around to see what new policies and procedures would be adopted, particularly if it were clear that they would be treated equally with their counterparts in the acquiring firm. Some might leave over a period of time, but these would be individuals for whom the new policies were not a fit. Such departures would maintain the productivity and value of the acquired company, particularly relative to an abrupt, massive exodus of agents fearing that they would be forced to adopt the policies of the acquiring company.

**The FAI Solution: A "New Company"**

In advance of the public announcement, we met with the senior management of the acquiring company to help them tune the initial message to the employees. Immediately after the announcement, the combined senior management group conducted multiple meetings so that every broker and agent had an opportunity to see and hear firsthand the commitment to the new approach. During these presentations brokers and agents saw the combined management group literally standing together and speaking with one voice. Rather than trying to conceal issues that had not yet been resolved, the managers pointed them out, together with the principles that would be used to resolve them. For example, the managers expressed a commitment that when a single compensation plan was developed to resolve the differences between the two companies' compensation programs, everyone would experience that they had been treated fairly.

Subsequent to the initial meetings, senior management held many face-to-face meetings with the brokers and agents of both companies to directly communicate the message that a "new company" was being created. We coached them in speaking this message powerfully.

We then conducted a workshop for the combined senior management to help them establish themselves as a leadership team and train them in tools and skills to design and communicate the new company's culture and to lead the development of new policies and procedures.

**The Result: "Miraculously" Low Breakage**

Rather than a retention of only 50%, the retention was around 95%, and the deal delivered more profit to both the sellers and the buyers. Where reduction in workforce was needed, the company was able to make the choices. The management team described these results as "a miracle."


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## Summary

It is possible to acquire a company and merge operations without losing the valuable assets that were the objectives of the acquisition. Actions that supported such a result in this case included the following:

- FAI was called in before the acquisition was publicly announced. This permitted senior management to be coached and to agree on a philosophy and action plan to be implemented immediately after the announcement.
- The concerns and attitudes of the workforce were made an important component of the merger plan.
- Senior managers made themselves directly available to the workforce so their faces, tones of voice, and body language could all communicate and reinforce the intended message.
- Delivering on what the senior managers said they were going to do was made a high priority. Their promises were followed by appropriate actions.

## Postscript

In a meeting many years later, one of the senior team leaders reported an additional result of the training she received: “Ever since your leadership workshop, I just won’t put up with conflict on my team. When the nasty emails start, I call the two people in and tell them that for the next 30 days, they may communicate with each other only on the phone or in person. It always works.”


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