



IF I HAD
MY TIME
AGAIN

Real Reach speaks with
John McGrath

#REALREACH

JOHN MCGRATH

McGrath Estate Agents

John McGrath is living proof that anyone can achieve anything if you have the right mindset. After finishing school with a total score of 95 out of a possible 500, John McGrath has gone on to become one of the most influential and highly recognized persons within the real estate Industry.

From not being able to pay staff wages, John McGrath has built a multimillion-dollar business and is about to step back in and re-take control. He admits that he has had a lot of mentors but the lessons learnt through sport have held him in good stead for the challenges he has faced in business and continues to face with the new challenges ahead.

As he puts it “training hard, preparation for the game, visualisation. We were always the underdog, so our coach taught us that what mattered was how you played on the field, not how you looked on paper.”



Interview facilitated by Kevin Turner of Real Estate Uncut [Real Estate industry thought leader], with comments from John Knight and Jacob Aldridge of businessDEPOT [Real Estate industry business advisors].

KEVIN: John McGrath is my guest.

John, you've helped many people start out in business. What's the best piece of advice you'd give anyone wanting to open their own agency?

JOHN: Kevin, I think it's going to be right for some people and not right for others. For those who are prepared to back themselves and really want to go into it, I think the key thing is ultimately this is a people industry and it's all about people, inside the business and outside of the business. Often you're a good salesperson, but you need to bring some leadership skills to a new role, because moving from salesperson to principal is probably more different than people really believe.

I think you have to be aware of what are the new skills and you have to work hard. Most salespeople, of course, their natural talent is connecting with people, but leadership is more than that. I always just make sure that they really know what they're putting themselves up for and the challenges of running a new business.

KEVIN: Of course, the changeover from being a top salesperson to becoming a good business leader is one of the challenges. Do you think that's the biggest challenge that many start-ups face, John?

JOHN: I think there are layers of different challenges, Kevin. One of them clearly is leadership skills, because it's a new skill. Another one is the distraction that affords to your own personal sales business, because a lot of people are writing big numbers – seven figures and beyond – and they're saying "Oh, I'm going to open my own office," and I have seen people halve their own personal revenue in the process of building a business, which is fine if you have a plan and you plan for it.

But, for a lot of people who don't expect that, that can become quite a stressor. In fact, we've had a few people do the reverse.

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They've come back to work for us having gone and started their own business and they've actually found their revenue goes up significantly.

I think one of the other things, Kevin, that challenges people is a lot of people underestimate the cost to get the cash flow positive in a new small business. I think that you really need to get an expert to help you run the numbers over an extended period of time, be conservative in your estimates, and make sure you don't undercapitalize yourself because then it's a real stressor. If six months in, you're having trouble paying the bills, that can be a big stress on the business.

"Even for businesses that survive this initial stress of being under-capitalized, the effects can linger. For example, they may find in later years they are reluctant to invest cash when necessary 'just in case', which holds them back further."

- John Knight, businessDEPOT

KEVIN: How much of a buffer, John, do you think someone should have when they go into a business? Is it six months, twelve months?

JOHN: I say to people "Have six months of all your fixed overheads in the bank ready to go." I'm not even talking about available to borrow; I'd like you to have it in the bank. If it's going to cost you \$400,000 a year to run the business in terms of your fixed overheads, I'd like a rainy day fund with \$200,000 in the bank, so if you don't sell anything for six months, you can still cover all the overhead costs.

And, if you're at that level, Kevin, you can really be confident going forward about giving yourself the time you might need to grow a successful business.

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KEVIN: John, if you could just tell me what you believe are the keys to setting up and running a successful business. Someone who wants to start out now, starting to make the list, what should they be writing down?

JOHN: You have to be a good planner, and you have to have the numbers planned. You have to have the strategy planned. You have to make it very simple. You really have to have a strong business plan behind you, because that's the roadmap that you're going to have to fall back on, on a daily basis.

The next thing is the right people in the right places doing the right roles, being well remunerated. So, again, make sure your organizational chart fits your roadmap or your business plan going forward and you have that.

“Average businesses often do their growth planning from the top down – revenue plus 10% - and their staff mix from the bottom up – who wants to do what jobs. Great businesses plan their growth from the bottom up – what capacity is our team truly capable of – and their staff from the top down – what mix of people do we actually need.”

- Jacob Aldridge, businessDEPOT

The next thing is advisory team. Clearly, things like legal and financials are becoming more and more complex in this day and age, and you do need to have the right people to give you solid advice, because they're not the sort of things you want to wing along the way. You want to have really solid advice from a good-quality team who understands your business plan, who understands your personality, what you're up for, and they can help you navigate those issues.

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KEVIN: John, of course, if you're looking at going into partnership with someone else, that brings on a whole different layer of complexity, doesn't it, in terms of legals and how you set those agreements up as well?

JOHN: Yes, it is, Kevin. We often refer to it – and I think it's probably a good metaphor – like a marriage. You have to make sure that there's alignment around the range of things: values, strategic, end results, succession planning, those sort of things.

I've seen some partnerships work terrifically well, and yet I've seen some fall apart within a year or two. So, I think be cautious about moving into a partnership, if you are going to embark on that. Definitely you need to write legal structures and the right structural advice or technical advance, but you also need to sit down and make sure what do you really expect from each other?

I've had people say, "I'm bringing in all the sales. I'm bringing 75% of the revenue, and they're bringing in 25% of the revenue and I'm really getting frustrated." And yet I've seen other partnerships... There's a great partnerships we have with Jamie Woodcock and Mat Steinwede in our Central Coast businesses. They're one of the best examples of a partnership that works particularly well.

Jamie sells nothing and Matt sells \$5 million worth of real estate, and they get on like a house on fire, because up front, it was established what are their roles, what are their strengths, and what are they going to expect from each other? That built a brilliant business and a brilliant relationship off the back of clarity and alignment around roles and expectations.

KEVIN: Yes, I think the key thing with any kind of partnership is to really clearly define those roles, as you've said there with that team, getting their groundwork in place. Also, there's nothing wrong with having an exit strategy, understanding what's going to happen if it all goes wrong, John.

JOHN: Yes, I think so, Kevin. One shouldn't be embarrassed about that, because I don't think you ever have to press that button to exit the business, but you should set it up, so if ever there's an issue or you have a split in the partnership or you just decide you're over it, then you should be able to exit a business seamlessly and profitably. I think it is a good example.

I remember one of mentors told me in ancient Jewish tradition, they used to sign the divorce papers when they got married, so if ever there was a problem, they could easily get out of the relationship.

I guess you could use that same in a business situation. If you do have a divorce clause in terms of a business divorce clause there that everybody agrees on, and if you do part ways, here's how the business will be valued and here are the options. That's probably a sensible thing to have. You put it in the bottom drawer, and hopefully you never look at it again.

KEVIN: Yes, a bit like a prenuptial agreement, isn't it, really? The same thing.

JOHN: Exactly.

“Having this kind of legal agreement prepared in advance is much easier than paying lawyers down the track if the relationship does fall apart. It also saves a lot of sleepless nights worrying, and that energy saved can go into actually growing a successful agency with your partner.”

- John Knight, businessDEPOT

KEVIN: John, the business... how have you seen it change since you opened your first business? Things like social media – you and I have talked about that – and how we now run businesses differently.

JOHN: The obvious ones – digital and social media – are the massive changes in terms of promoting brands, agents, and of course, properties. I think you look at those and you say that is probably the biggest change I've seen in the last 20 or 30 years.

I think the other one, Kevin, is the rise of the agent brand within the brand. Of course, once upon a time, it was L. J. Hooker and Ray White and the agents were relatively unknown. I think as a result of social media and digital marketing and a lot more vendor-paid marketing, agents have become mini celebrities. And of course, nowadays, YouTube and Facebook and the like, they promote that and they allow that and they give channels to everyone to have their own television channel in a way. So, I think you have to become better at managing high-performing and often more demanding agents than in the past.

And probably if you spoke to a principal 20 years ago, they might have had a team of six and they were writing \$150,000 or \$200,000 GCI. Now, you might have a team of six, of which two are writing seven figures and one might be \$2 million or \$3 million, and there's a whole new expertise and potential challenge that goes with managing people at that level of their business.

So, I think the rise of the high-profile agent – some people call it celebrity agent – social media and digital, and all those things, they're just new skills. It's not a bad thing necessarily, but it does take a whole new set of skills to manage that. You definitely need your finger on the pulse around digital and social marketing, so you have to either hire someone who's brilliant or you have to upskill yourself around those area, and indeed a bit of both.

KEVIN: That emergence of what I think you referred to as the personality agent or the high-profile agent, not only has that brought on a challenge for the business owner but it's also brought on a challenge for the franchise groups in terms of where is the power of the relationship? Is it the individual salesperson, or is it with the owner of the business, John?

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JOHN : Yes, I think there are multiple layers. I think as a franchisor, you have to have a great relationships with franchisees, but you also have to have very strong relationships with probably all your agents, but certainly your top 25% or 30%.

You're right; they are now seeing themselves as a sub-branch of your franchisees, and they're expecting more. Some of them are bringing in far more than other franchise offices, just as individual agents.

And I think that's a reasonable expectation, and I think that can be managed at a franchisor level. As long as you're not seen to be sidelining or cutting out the franchisee, I think a good franchisee will see value and benefit from head office providing some love and some affection toward their top agents as well.

"I still see some Principals who are wary of their top agents being poached by their franchisor to open up next door. In reality, they need to embrace that extra love – because you actually need to protect against the competing franchise groups who are definitely courting your top agents."

- Jacob Aldridge, businessDEPOT

KEVIN : We talk about the generational change and how agents have changed, and I reflect back 20 or 30 years ago when if we had a selling principal, they were almost seen as being in competition with their salespeople, whereas now it's the other way around: sales teams look for a strong leader to give them the inspiration to sell more, John.

JOHN : Yes, I think there are two models. We've certainly had some of our bigger franchise groups – usually more than one office – that have had strong non-selling principals who really are the CEO in a genuine sense. They're non-competitive and they're very good business leaders, and they're really there supporting their team.

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Typically when it's a little bit smaller, though, you do find that there's a reliance – both at a financial level and a leadership level – upon a principal who is really a strong salesperson in their area. They're leading by example. They're spreading the brand word. They're coaching and mentoring their team around advanced sales skills.

I think either model can work, but I think in most instances today, the size of most franchise businesses or even independent businesses, a strong selling principal is still a great asset.

KEVIN: John, just to close out – and thank you very much for your time – how do you see the business evolving in the next decade? What do you think are going to be the influences on us?

JOHN: I think there's going to be a lot more around technology, Kevin, but I also think data analytics going forward. At the moment we collect a lot of data every week, and it's even basic things like names of people who come to open for inspections and their phone numbers. I think going forward, there will be much more of an emphasis on actually getting a little bit more data – e-mail addresses and a little bit of data around the demography of the people who are coming to visit our homes and selling our properties – and then utilizing that data to do more pinpoint marketing.

I can see sometime in the future where there will be a lot of properties that are sold more directly to buyers, because if I list your home, I'll know exactly the six buyers who are highly likely to be the best buyers, and I'll be able to go directly to them. I think there will be more of that.

The other one, and I think the really big one going forward, Kevin, is predictive algorithms. We know at any given point, statistically 6% of every community is going to sell, and every suburb, every postcode gets about the number of people that turn over each year. The question, of course, every agent wants to know is which 6%?

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It's easy to say "Well, people sell about every seven or eight years, so I'll just go back seven or eight years and start ringing," and that's not a bad strategy. At a crude high level, that's not a bad way to go. But if you could identify based on demographics, based on other things, triggers in someone's life cycle, who are the people you should be putting the most attention and giving the most focus right now who are the highest likelihood that are going to sell in the next three, six, nine, or twelve months, that's extremely valuable for agents, and it's going to save a lot of time and money from letterbox drops that go around every week and every month.

I think data on top of digital on top of social is going to become a much more important part of an agent's or a franchisee's or a principal's business going forward.

KEVIN: Yes, one of the things we've learned out of social is that we can tap more into what people are doing, keywords, and one of the benefits of social is that it's allowed us to predict more about what people are going to do, John.

JOHN: Yes, definitely. I think exactly the stuff that I just talked about is a very simplistic version of what Facebook and LinkedIn and all those incredible businesses are doing. But at an agent level, what's important for us are two key things. One is to identify the people most likely to sell in the near future, and secondly is to be able to effectively distribute the properties that we have for sale to the right buyers and to identify potential buyers who might not be actively out there.

I think data will be a conduit to be able to do that going forward, and therefore I think it's going to be a very important skill. I don't expect agents and franchisees necessarily to have the skill, but I expect them to be hiring in the skill and at least being across and understanding where the market's going.

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KEVIN: Great talking to you, John McGrath. Thank you very much for your time.

JOHN: Thanks for having me, Kevin.

IF I HAD MY TIME AGAIN

The Series

One of the greatest aspects of the real estate industry we all love is the abundance of supportive people willing to share their experience and reach out their hand.

But there's a flipside to that abundance. Sometimes, it's too much, and especially for new or future Principals it's hard to know which parts of a model business to replicate, or which past experiences you can still profitably apply.

Our mission at Real Reach is to cut through that noise, and bring context to all that content. Starting right here, at the beginning of great businesses, asking Australia & New Zealand's leading Principals what they would do ... if they had their time again.

Because if you're starting your agency today, you can't copy what the top agencies are doing today. You need to learn what they did when they began ... and more valuably, if those top Principals were in your shoes, what they would do differently.

We hope you enjoy the series 'If I Had My Time Again'. More importantly, we hope you can take some of the experiences shared and use them to guide your strategic planning, and the execution of your agency to achieve your dreams.

If you have any questions about this series, or the online coaching and training offered by Real Reach, please let us know.

- > **Kevin Turner** (Real Estate UNCUT)
- > **Jacob Aldridge** (businessDEPOT)
- > **John Knight** (businessDEPOT)



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