

Finding Producers and Keeping Them With A Solid Compensation Approach

BOSTON — Finding sophisticated producers and adequately compensating them is important to organic growth at any agency, according to Tom McGraw, CPCU, Everett Shaw, ASA, and Jason Hoepfner, CIC of B.H. Burke & Co., Inc., who spoke at the Massachusetts Association of Insurance Agents Big Event last week.

“We want to stimulate you to go back [to your agency] next week and satisfy yourself that you have a culture conducive to organic growth. We want you to satisfy yourself that you have a sound producer compensation approach that you can explain to a new producer you meet along the way. We want you to satisfy yourself that you are proactive and thorough in your recruiting. We want you to satisfy yourself that you have the right people involved in the administrative role, the mentoring role and the management role,” commented McGraw.

During the presentation, McGraw cited an article by B.H. Burke & Co, Inc. President Brian H. Burke, ASA, on sales management in independent agencies, which noted, “Virtually

all agencies need, and really benefit from, effective sales management. Few of them, however, will get that by naming a single sales manager.”

Fundamentally, McGraw noted, sales management at any agency should be a team effort between sales leaders and producers.

Stimulating Growth

Shaw examined the financial impact of a proper producer compensation plan and asked agency owners to look at their agency profitability in its entirety — expense structure and core operation.

“We continuously get calls from agencies about producer compensation from agency principals asking us “Do we have the right compensation plan? How do I compare to other agencies?” Shaw said.

He added, “Every line of revenue has been under attack for a few years now and the result of that has been a compression of profit margins. I would urge you that there’s never been a bet-

ter time as an owner of an agency to have a good handle on what the profitability of your agency truly looks like. What do your expenses look like?”

McGraw mentioned that a lot of agents are trying “to overcome the lack of organic growth through mergers & acquisitions.”

In order to tackle growth in an agency, Shaw urged industry professionals to do their “homework,” and look at what competitors are doing as well as determine not only overall profitability, but also profitability by every department of an agency.

“What expenses are associated with writing different lines of business, and how about with the size of the account? We’re finding that it’s hard to make money on small commercial lines accounts,” he said.

Shaw also noted that he sees “more and more minimal thresholds on renewal. People saying ‘We’ll pay you first year on anything you produce, but it has to produce a certain level of commission in order to qualify for

certain renewals going forward.”

Compensation Plans

Compensation for new producers should depend on experience and be within reason. “It is usually base or draw plus new business to get started, and you can set some thresholds if you want to give a bonus for extraordinary performance. But that draw or base usually lasts for a set period of time and goes down each year,” Shaw said.

He noted sample arrangements such as 50% new/25% renewal, renewal on everything, and also 40% new/30% renewal, renewal on accounts with commissions over the threshold. Some agencies have a base salary that equals 30% of the producer’s prior-year book.

“Producers know what they’re going to get, but at the same time if you lose a couple of big accounts, you don’t know what your base will be next year,” Shaw said.

Other producer perks could include “phantom” stock – not actual stock, but giving producers the “benefit of growth in the agency, not the book of business,” and giving them an “equity interest in their book,” Shaw explained.

“If you have a promising producer and you give them an equity interest in their book, you’re giving them incentive to write bigger business. If they grow their book, they grow their interest. It gives the producer something meaningful and can become a significant part of their retirement,” Shaw said.

McGraw added, “There are a lot of agents who have a hang-up about giving producers equity in the book. But you want them to be regarded as sophisticated. Do not fear giving a producer equity in the book, it will

not come back to bite you.”

Shaw also noted that if a producer is valuable to an agency, and the agency does not have a perpetuation plan in place, “we would encourage you to allow a producer who has built equity in their book to trade that in for equity in the agency.”

Finding Producers

Before initiating the search for producers, agency principals must have a solid compensation model and should examine their agency culture.

McGraw commented that a good agency culture maintains that producers are an “investment, not a cost or burden.” Agencies should have a mentor and a manager to the producer to provide support and encouragement, and all agency members should be supportive of the investment in a producer. Additionally, an agency must “treat failures as opportunities and management must have realistic expectations,” McGraw said.

A successful producer’s characteristics must not be compromised or overlooked, McGraw commented. Among the characteristics of a successful producer are “a drive to achieve, a work ethic, verbal skills, relationship skills, desire and cognitive ability. An abundance of all of these characteristics is what makes up the successful producer DNA,” he said.

In terms of assessing future producers, McGraw encouraged agency principals to look inside the industry, but also consider outsiders.

“I’m going to suggest you send a letter to 100 of your best customers and friends and just tell them the truth. You’re looking for someone with the characteristics of a successful producer in their DNA. Tell them you’ll teach them about insurance,” McGraw said.

Agency owners should also carefully assess producers by having other agency employees conduct extensive interviews, through testing (math and insurance tests), and reference checks.

Online Research & Social Media

Hoepfner spoke about the benefits of producers using online tools to build relationships and work more efficiently. Online interaction could help establish a connection with prospects and help with future face-to-face contact as well. He discussed the use of LinkedIn as a means to build a presence in a “niche market” in which producers can access information through groups and forums and also discover “key players” online.

“If you’re established in those groups to begin with, and you’re a known person, then your credibility is going to go up and you’re going to know more than the next producer who may be in that niche as well,” Hoepfner said.

He added, “I’m imagining when you first go to meet a prospect, you’re trying to establish a connection. How do you do that? You draw it out in conversation, you may know through a referral about this person where they went to school, what their interests and hobbies are, but even if you don’t know the person, or even if it’s a cold call, that stuff is online already if they’re there.”

Online research can teach agents about a company background and it “shows you care about the organization,” Hoepfner commented. Reading a blog on a company website can also provide you a sense of “character of a company,” and keeping online interactions “warm,” will keep in person relationships strong as well. ■