Are You Still Overpaying Your Producers?
By Chris Burand

I recently surveyed a group of top performing agency owners regarding producer compensation. The question was, "Should producers be compensated for all sales?"

The unanimous answer was, "No." The follow-up question was, "How many of you compensate your producers for all sales?" About 80% raised their hands.

I am sure the psychology of agency owners paying producers for sales for which the agency owners know they shouldn't be paying is different from smokers who don't quit smoking after they know smoking kills. I'm sure the psychology is different from drug users who do not stop using illicit drugs when they can clearly see the damage they are doing to their lives and the lives around them. However, in all three situations people are doing things they know they should not, but they keep doing it anyway. Whether it is a habit, practice, culture, tradition, or whatever, if an agency owner knows they should stop paying producers for all sales, especially unprofitable sales, the agency needs to find a way to achieve that beneficial goal.

A major barrier is breaking the news to the producers. How does an owner say, "I'm cutting your paycheck, but I hope you remain a happy, content, hard-working employee?" This would be a really difficult conversation for anyone–regardless of the logic involved.

One way to overcome this barrier is to carefully explain the problem, the solution, and the benefits. Begin by asking, "Since the agency needs to make a profit in order to stay alive, shouldn't the agency make a profit on each sale?" If the answer is "Yes," which it usually is, then explain that some accounts cost the agency more to write than the profit they generate. Then ask, "If the agency does not make money on all sales, should the agency encourage producers to make unprofitable sales by compensating producers for making unprofitable sales?"

If the producers protest at this point, I think it is pretty clear your producers are not the producers you really want in your agency. Assuming they do agree, provide an explanation of what constitutes a profitable account and the impact of any proposed changes on the producers' compensation.

There are many ways to cost an account. One method is to figure the hours involved. For example, if a CSR spends four hours on an account and is paid $18 per hour, the account needs to generate a bare minimum of $72 commission just to cover the CSR's time.

Another example is to divide total cost by total accounts. This over-simplifies the cost but it still makes a clear point because average commission per account must exceed the average expense per account, pure and simple. So if the average cost per account is $500, should the agency pay a producer to write $50 accounts? Should the agency pay the producer to lose money for the agency?

Next, calculate the impact per producer. This is important because the impact per producer is often very small. It is not unusual to see a producer lose 50 accounts for a total of $3,000-$5,000. It is so small that a good producer can easily make up the difference with less than ten sales−which is not bad: give up responsibility for a net of 40 accounts and still make just as much!

Assuming everyone is still on the team, the next step is implementing the changes. First, set a minimum account size. For example purposes only, I will use $250. The agency may then choose to pay their producers a one-time equivalent of all their compensation on accounts generating less than $250 commission. Another option would be to pay regular or reduced commissions for up to two years. Another option would be to pay new business commissions but not renewal commissions. There are a lot of choices but the important goal is to choose one. Do not get hung up on exactly which one is perfect, because none are.

Critical to this plan is to have designated people or a department ready to assume responsibility for those accounts because immediately upon implementing this change, the producers should lose all responsibility for those accounts. The staff, support producers (or "farmer" producers), or a small business unit assumes responsibility. This is a great windfall for the producers. They get paid and lose the extra responsibility.

In some agencies, producers already get paid for small accounts for which they are not responsible. In these situations, this plan offers no added incentive and the producers will need to believe more strongly in the team and in doing what's best for the health of the agency. These producers probably should have never been paid for the these accounts so they can be thankful for the "free-ride" they've had.

If the producers are team players and good producers, they will see this is a win-win situation. With their extra time, they can sell more. For producers who have had a free ride and are now losing it, at least they had a free ride for a while.

So the question is, "If you know and believe you should not pay producers for unprofitable sales, when are you going to quit?"

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