Production and Profits
By Chris Burand

Whenever I write, speak, or consult about producer production and compensation, the response is always huge. Agency owners, producers, and CSRs all want to tell me more. They either want me to rationalize their lack of productivity or they want to know how to fix the problem.

Producers are always eager to rationalize their lack of production (unless they have books of $300,000 or more and then they just laugh at hearing how little most producers produce). Meanwhile, CSRs tell it like it is. Either the producers can sell or they can't. (When I'm looking for an honest opinion about an agency's producers, I always ask the CSRs.)

Agency owners most often rationalize their producers' (and sometimes their own) lack of production. The most common rationalization is "We are a small agency (or an agency in a small town). We do not go after big accounts (or our small town does not have big accounts) so our producers cannot build big books like producers in other agencies." If this is true, the agency may not even need a producer. If the accounts are too small, a producer's ability or knowledge is probably not necessary. Additionally, the agency probably cannot afford a producer unless they pay him or her much less than average. The breakeven point on most books is at least $150,000 in commissions (maybe $140,000 in small towns) and often as much as $200,000. If a producer cannot produce enough for the agency to turn a profit on their book (excluding new producers with less than five years experience), why have a producer?

Agency owners also rationalize that the market is just too soft to build books today. Recently, I spoke to an agency owner who started her agency from scratch three years ago. She is an immigrant to this country and her English carries a strong accent. In three years, starting from zero and only with one company, she has written $1.5 million written premium! That equals $180,000 to $215,000 in commissions. How many of your producers have written that much in their entire five, ten, or fifteen year careers?

Some agency owners believe they need a producer regardless of whether the producer generates a profit or loss for the agency. They believe they need the business, however meager it is, to keep their companies happy and to stay competitive. This is like skinning your knee and asking the doctor for an amputation to stop the pain. Better solutions do exist!

The next question then is, "How do I fix this problem?" Sometimes, the solution is pretty simple: fire the producer. The producer does not have what it takes or their personality does not fit the agency's environment. Hopefully, they will find an agency with which they are better suited and will thrive there. I have seen this happen and the firing was really a win-win situation for both parties. Recently, I saw two agencies fire all their producers (none were producing enough) and neither agency suffered any negative consequences. In fact, the owners are both happier and wealthier now.

If firing is not possible, then cutting their pay if production does not increase is the only other possibility. In fact, all producer compensation systems should be tied to the profitability of the book rather than being a simple x% on new and y% on renewals. Compensation tied to profitability allows the producer to build as big or small (within reason) as they wish and yet the agency will still make money.

As always, I am sure some readers are agreeing, rationalizing, fuming, seeing the light, or feeling some combination of these emotions. My goal is to get you thinking because the lack of producer production compared with what producers are paid is one of the top three problems agencies of all sizes face today. The more quickly the issue is resolved, the more quickly the agency's profits will rise!

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