A $200,000 Minimum
By Chris Burand

I found an August 12, 2005 press release from Morgan Stanley very interesting. The company had been going through tumultuous times and the new CEO was determined to fix things. One of the first opportunities he identified was to fire unprofitable brokers. He determined that brokers with at least eight years experience and less than $225,000 in annual fees were unprofitable. He also determined brokers with between four and eight years experience and $150,000 or less in annual fees were unprofitable.

A person could take out the word "brokers" and substitute "producers," and change the industry from investment banking to independent insurance agencies/brokers and the analysis would still be correct! Another interesting similarity is that such a huge multinational banking corporation seems to have the same problem so many small, medium, and large independent insurance agencies have. They too obviously employ less than profitable salespeople for years and it took a regime change to fix the problem.

I know some readers are protesting, "A $150,000 producer is profitable!" Maybe they are in your agency–but not in most agencies. The math simply proves otherwise:

35% renewal commission rate times $150,000	$52,500
Commercial CSR (industry average is one CSR per producer)	$35,000
Benefits for two people (industry average is 16% of wages)	$14,000
Sales expense (industry average is 5% of commissions)	$7,500
Administrative expense (industry average excluding all compensation expense is 23% of commissions)	$34,500
Total expense	$143,500

This total excludes the cost of the bookkeeper, the receptionist, management, and any profit. It also excludes new business commissions which are typically higher. So how is this producer profitable in any given year? Moreover, if this producer has six or more years experience, how has the agency recouped its initial investment? Most agencies spend $100,000-$200,000 developing a new producer from scratch. If the producer is not profitable, the agency will never recoup its initial investment. Even if I have over estimated cost by $10,000, how many $150,000 producers does your agency need to make a material profit? Morgan Stanley apparently tried to make enough profit by employing hundreds of such brokers judging by the estimated layoffs. Can you afford this strategy?

These underperforming producers are usually very nice and good people. The fact they are not producing enough sales has nothing to do with whether they are good people, which is how and why so many agency owners do not let these folks go. They hate to see a good person laid-off, so they do not let them go. Sometimes, these good people just are not meant to be producers. At the very least, they are not meant to be producers in your particular agency. Their lack of profitable production may not be their fault. They may not have the required training or in some extreme cases, the agency lacks the resources for the producer to succeed. I have seen producers fail in one agency and succeed incredibly at another.

I think that in many financial service industries, minimum sales probably must be $200,000 for the employer to generate an adequate profit regardless of the firm's size. In independent insurance agencies, size does create some variance but even in the smallest agencies assuming industry average costs, $150,000 must be considered the bare minimum breakeven point.

Leadership is recognizing the issue and doing something about it. Do your producers have the sales training and resources they require? After giving them the tools, resources, and close guidance, are you willing to let these nice, hard-working folks go if they cannot make you a profit?

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