Abuse and Misuse of Productivity Benchmarks
By Chris Burand

Agencies are making some serious mistakes using productivity benchmarks, especially revenue per person, to manage their agencies. The scope of products sold and varying levels of talent and responsibilities in agencies mostly negates the importance of any overall average. For example, some might consider an agency making $150,000 revenue per person to be an excellent achievement, but unless that $150,000 results in greater profits, it simply does not mean much. In a regression analysis I completed of the publicly traded brokers, there was no correlation between high revenues per person and profitability. NONE!

If an agency desires to look at revenue per person as a management tool, they should look at revenue per position. For example, using the GPS study of national agencies with $1 million to $2 million in revenue:

Position	Industry Average	Agency Revenue per Person
Owner/Executive	$734,041	
Producer (including owners)	$273,466	
Commercial CSR	$209,244	
Personal Lines CSR	$119,323	
L&H CSR	N/A	

A major mistake agencies make with using an overall revenue per person figure is the productivity burden almost always falls on the staff. In other words, if the agency is not adequately productive, management typically looks at the staff for the problem. Sometimes they let staff go. Sometimes they forego hiring more staff. This usually does not make sense and is often counterproductive. If an agency has too many CSRs, odds are the producers are inadequately productive. CSRs cannot process more than producers produce.

The producer number above is simply the result of dividing total revenues by the total number of people occupying a position. Therefore, even including contingencies, interest income, miscellaneous income, and all the house business, the average person in a sales position is getting credit for a lot of revenue they do not necessarily generate and yet the producer average is still only $273,000. That means the average producer is personally responsible for considerably less than that. For example, according to the same GPS study and only considering commercial commissions, the average commercial salesperson is only responsible for $137,647!

My experience suggest that any experienced producer only generating $137,647 is probably not working effectively. Based on this industry average then, any productivity problems the average agency has is producer productivity rather than staff productivity. Yet, most agencies are going

to place the burden on the CSRs.

The solution in most cases takes two steps. First, the agency must stop focusing on useless industry averages. Second, help your producers produce more:

- *Invest in sales training.* Most agencies spend less than ½ of 1% of sales on sales training. Obviously, producers are not selling enough, so 0.5% is an inadequate investment.

- *Employee producers that can sell.* No amount of sales training is going to enable all producers to succeed. For those producers already employed by your agency that cannot sell, do them and yourself a favor by helping them find other employment. Odds are they know they are not successful and that would be horrible to be stuck in a job at which you know you are not going to be successful. Help them get unstuck and find success elsewhere.

  Then hire people that can sell, which is much easier said than done. A good place to start is with good hiring tests. I particularly like Behavioral Science's Call Reluctance® Test at www.bsrpinc.com, contact Jacqui Calder.

- *Manage, manage, manage!* Of course it would be great if producers needed no assistance, guidance, motivation, direction, or management. But that is not the case. Management must pull its head out of the clouds and accept this responsibility. I hate to be so blunt, but I have learned after spending many hours trying to convey this message that a blunt approach to accepting this responsibility is the only one that ever works. Someone in the agency has to dedicate material time, every single week, to managing producers. There is no other way.

Before using benchmarks to manage your agency, ask yourself, "Why manage to others' results? Why manage to an industry *average*?" Every agency is unique. I suggest agencies manage to achieve their own goals. For example, manage to 10% annual organic growth or 15% profit. These goals have the advantage of being immediate and doable. Going back to revenue per person, if an agency is at $75,000 and wants to get to $100,000, that is a 33% increase. 33% is very significant and imposing. I find that setting a goal of 10% improvement per year is much less imposing, more believable, and much more doable. Furthermore, once an agency sees that 10% per year is doable, they do not stop at $100,000 but keep going. After all, why stop at 100,000? This method helps build momentum. Start small to get the ball rolling.

Another weakness of benchmarks is the correlation between end results and actions. For example, are the benchmarks for fast growing agencies or slow growing agencies? This is important because growth cost money. A fast growing agency is likely to have lower profits (as shown in the latest Best Practices study). So, if an agency looks at a benchmarks and sets a 15% annual growth goal and a 20% profit margin, odds are they will fail one or the other. When setting goals and using benchmarks, agency owners must understand how the various measures are correlated. Otherwise, the greatest intention will definitely run afoul of the law of unintended consequences.

Benchmarks are great for making general judgements and when completely analyzed and understood, they can be useful management tools. However, partially considering one or two benchmarks, as I usually see being done, only leads to problems. As the old adage says, do the job right or don't do it at all. Use benchmarks correctly, or don't use them at all.

Chris Burand is president of Burand & Associates, LLC, an insurance agency consulting firm. Readers may contact Chris at (719) 485-3868 or by e-mail at chris@burand-associates.com.

NOTE: None of the materials in this article should be construed as offering legal advice, and the specific advice of legal counsel is recommended before acting on any matter discussed in this article. Regulated individuals/entities should also ensure that they comply with all applicable laws, rules, and regulations.

August 2005