Is $200,000 gross commission per producer a dream or reality?
By Chris Burand

I have received many incredulous looks and many e-mails asking what planet I was from in response to my speeches and articles suggesting producers must produce $200,000 gross commissions for an agency to break even on their producers.

Many agency owners have responded that their town is just too small to ever expect a producer to generate $200,000 in commissions. Not enough large accounts exist, the accounts are too small, and/or the agency just does not go after enough large accounts to generate $200,000 commissions per producer. If this sounds like your situation, I encourage you to take a honest, hard look at whether or not the large accounts exist and whether you can write them. Often these beliefs are self-fulfilling prophesies.

I will always remember giving a presentation in a prairie state where the audience advised me my suggestions were not practical for their sparsely populated farming counties. Sounds reasonable, right? Wrong. During a break, an agent told me about the several $50,000 - $100,000 farming accounts he wrote in the same counties in which the vocal agents lived. Moreover he advised, those vocal agents were not even his competition because they never even tried to write these large accounts. I have found this to be the case many times where I have consulted for two different agencies in the same small town. One agency will advise that large accounts do not exist in the town, while the other agency will be writing many large accounts. It is almost like the Twilight Zone or Parallel Universes.

If an agency is simply not going to write any large accounts, is it still critical that producers produce $200,000 commission? Consider how much it costs to support a producer and his or her book (industry averages are based on the *Growth and Performance Standards*, The Academy of Producer Insurance Studies, 2000):

	Industry Average	Big City Agency	Small Town Agency
Producer's book (commissions)	$170,000	$170,000	$170,000
Producer's cut: 40%	$68,000	$68,000	$68,000
CSR[1]	$30,000	$32,000	$28,000
Benefits[2]	$9,800	$10,300	$9,300
Selling Expense[3]	$27,200	$27,200	$27,200
Administrative Expenses[4]	$61,200	$64,600	$56,100
Total Expenses	$196,200	$202,100	$188,600

Whether in a small town with lots of small accounts or a large city with more large accounts, *every year, a producer with an average book costs an agency $18,600 - $32,100 more than they produce*, or 11% - 19% of the book. This does not even include management or owner compensation, staff other than the CSR, benefits for anyone other than the producer and CSR, profit sharing, or profit!

Some producers with smaller books may share a CSR. Even if the CSR's expenses are split, here are the results:

Producer's book (commissions)	$140,000
Producer's cut: 40%	$56,000
CSR	$15,000
Benefits	$7,100
Selling Expense	$22,400
Administrative Expenses	$46,200
Total Expenses	$146,700

Even if we only pay the CSR half the going wage, the producer still costs the agency money. In other words, being in a small town does not adequately decrease an agency's cost of sales. The producer must still generate at least $190,000-$200,000 for the agency to break even ($150,000 if CSRs are shared). Since money spends the same regardless of whether we are writing large or

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[1]The average agency has one CSR for every producer. Rural agencies pay CSRs about $4,000 less per year than urban agencies according to the Middleton Report's salary survey.

[2]10% of producer's and CSR's compensation. Benefits and employment taxes do not vary greatly

[3]16% national average for medium size agencies. Selling expense does not consistently vary. In many cases, rural areas pay more auto expense and travel.

[4]36% national average for medium size agencies. Rent and a few other items are usually less expensive in rural areas so this has been set at 33% for rural areas and 38% in big cities.

small accounts, what do we do about it?

First, does the agency really need a producer or as many producers? Many agency owners believe they need producers to legitimize their business. In other words, with a producer (and sometimes the more the merrier), the agency owner feels more important. Without producers, or as many producers, they sometimes feel inferior to their larger competitors. So they hire producers, even if it costs them their wallets. This is fine if the owner understands the cost.

Second, if the goal is to make money, producers must be treated as investments and those investments must produce more than they cost. Therefore, for an agency with average costs, its producers must each generate at least $200,000 in commissions. If the agency writes small accounts, the agency's cost does not decrease enough to allow producers to write less total commissions (and in fact, small accounts often increase the cost because the time involved on small accounts does not vary much from larger accounts). When agencies pay producers a cut of what they produce in total, the producer cost is the same regardless of whether the agency is writing small or large accounts or is in a small town or a big city.

Third, pay producers for making profitable sales. A compensation system that pays a straight commission of x% on new and y% on renewal encourages producers to write anything and everything and gives them inadequate incentive to build large books. The only benefit to such a compensation system is that it is extremely simple. With our information systems today, more complex compensation plans can be administered. I strongly recommend compensation plans that consider such critical factors as account size, book size, hit ratios, growth, and retention.

$200,000 may still be an eye-opening amount but that is what a producer, making the average commission split, must generate for an agency to make money on that producer. Anything less is a money pit. Improve your agency's producer compensation and productivity and your agency's profitability, growth, and value will improve as well.

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