Preliminary Findings from the *Producer Profile*

The National Alliance Research Academy has published its fourth edition of the *Producer Profile* study. This issue of *Preliminary Findings* examines some of the key findings related to commercial lines producer compensation and sales volume. The full study also includes research and statistics on personal lines producers, which are not included here.

The Academy surveyed insurance producers during 2009 to gather information in the areas of hiring and qualifications, training and professional development, compensation, production, and job responsibilities. A total of 815 producers completed the survey, with the majority of these being commercial lines producers. Participants received a special Participants' Summary of the Survey Results.

The Academy also interviewed seven people who work as insurance agency owners, producers, or sales managers to comprise an expert panel. This panel offered tips and suggestions for managing producers. Two of the interview summaries are included in this issue of *Preliminary Findings.*

Key Findings from the Study

Producer Compensation Numbers

Annual Compensation

The average annual compensation for commercial lines producers is $113,000. This includes all commission, salaries, and bonuses. However, this average is skewed upwards by the top-performing producers who are making more than $200,000 per year. The majority of producers, 59%, earn somewhere between the broad range of $30,000 and $110,000 annually, so there is great variability in how much commercial lines producers earn.

Compensation generally increases with an increase in years of sales experience, age, and agency size. Compensation also varies by the size of the metro area, with the attainment of a designation, and by formal education level. The *Producer Profile* study provides detailed compensation numbers based on the survey results for all these different categories; however, this information is not displayed in this issue of *Preliminary Findings.*

Compensation Methods

The following methods are used to compensate commercial lines producers:

	% CL Producers
Salary plus commission	34%
Commission only	30%
Draw against commission	21%
Salary only	11%
Other	4%

85% of producers receive commission as all or part of their compensation. With commission only or draw against commission, they receive no salary. It's all commission-based income for about half of the producers. About one-third receive salary plus commission. Younger or newer producers often receive salary plus commission to start, then over time they typically will go to 100% commission once they build a book of business and learn how to sell insurance. Very few commercial lines producers are salary only. With commission-based income, there is significant incentive to prospect for new business sales and good opportunity to earn a fairly high income.

Bonuses

A little less than one-half, 42%, of commercial lines producers receive a bonus as part of their total compensation package. Whether or not a producer receives a bonus and the amount of the bonus can be based upon one or more criteria. Bonuses are most often based on:

	% CL Producers
Individual total production	43%
Individual new business production	37%
Agency profit	35%
Growth of individual book	26%

Three of the top four reasons for bonuses are based on the producer's own production results; they are rewarded for achieving significant sales totals and increasing these totals from year to year. Some bonuses are based on the agency profit; all or most employees may receive a bonus if the entire agency does well on the whole.

Commission Rates

How much commission do commercial lines producers earn on the business they write? This varies among agencies, but on average, producers earn 36% commission on new business. This 36% is the percentage of the agency commission from the carrier that the producer receives. Average renewal commission is slightly lower at 30%. Agency owners want their producers to focus more on new business, so the commission rates are higher for new business. Again, whether it is new business or renewal business, commission rates vary from one agency to the next.

Benefits

Benefits are an important component to any producer compensation package. With the high costs of health care and health insurance, the health benefits are especially important. Good health insurance benefits can help to attract and retain top producers.

Benefits received by commercial lines producers include:

	% CL Producers
Health insurance	86%
Life insurance	62%
Dental insurance	59%
Disability insurance	58%

Most producers receive health insurance benefits from their agencies. Some producers had to contribute partially to the premiums, but of the 86% who receive this benefit, the agency is paying all or part of the premium. Group life insurance can be attained for producers and all other agency employees at a reasonable price with a group insurance policy. Dental insurance and disability insurance are two other important benefits that are provided for the majority of commercial lines producers, typically with group insurance policies.

Production

Annual Sales Production

How much revenue do commercial lines insurance producers attain for their agencies on an annual basis? According to survey results, the average annual production is $322,600 in commission for commercial lines producers; this includes both new and renewal business. This is merely an average and many producers achieve significantly above and below this figure. The top performing producers skew this average upwards. Nearly half of the producers write $200,000 or less on annual basis, so there is significant variability with production results.

The *Producer Profile* study provides more detail on sales production and offers production by insurance sales experience, age, and agency size. Production generally increases with an increase in these factors. Production numbers are also provided based on whether producers have specific designations, such as CIC, by education level, and by metro area size.

New Business Percentage

Agency owners like to see their producers writing a lot of new business and allowing CSRs and account managers to do a lot of the work with renewing accounts. On average, 36% of a producer's total annual sales volume is new business. With larger, more sophisticated accounts, producers may need to be more active with renewals and trying to retain this business, whereas they typically are not as involved with renewals of smaller accounts.

Compensation-Production Ratio

When evaluating producer performance in relation to their commission and salary, it's good to look at a simple ratio called the compensation production ratio. Agency owners and sales managers can look at this ratio to see how their producers are performing, relative to their rate of pay. To calculate this ratio, take all producer compensation with commission, salary, and bonus, and divide this total by their total annual production in commission, including new business and renewal.

The average ratio for commercial lines producers is 38%. Agency owners prefer to see a lower ratio which means the agency is getting a greater amount of sales production for every dollar spent on sales salaries and commissions. This ratio varies significantly from one agency to the next, and from one producer to the other. The *Producer Profile* study looks at this ratio at a more in-depth level.

Expert Panel

The National Alliance Research Academy selected seven experienced insurance industry practitioners to participate in an expert panel and answer questions about insurance producers, independent insurance agencies, and current industry trends. The panel consisted of insurance agency principals, managers, producers, and consultants.

The Academy conducted phone surveys to gather thoughts and ideas on how insurance producers are performing and how they are reacting to market conditions and trends in the industry. Agency owners, sales managers, and producers can use this information to evaluate producer performance and initiate sales planning for increased growth.

The following individuals participated on the expert panel:

Tom Barrett, CIC, AAI
SIAA MidAmerica, Inc.
Blowing Rock, NC

Mike Halter, CIC, CPCU, ARM
Bancorp South Insurance Services
Little Rock, AR

Fritz Koehler, CIC, CRM
Insurance Alliance
Houston, TX

Paul Monacelli, CIC, CPIA
ADP/Statewide Insurance Agencies
Morristown, NJ

Mike Morey, CIC
Bolton & Company
Pasadena, CA

Joan Sansing, CIC, ARM, AAI
Tanenbaum Harber of Florida
Miramar, FL

Ron Wanglin, CIC, CSRM
Bolton & Company
Pasadena, CA

Of the previous seven individuals, two were chosen to appear in this issue of *Preliminary Findings*. These two interview stories are from agency producers and sales managers who also are faculty members of the Dynamics of Selling program, so they have a great deal of knowledge and experience to share.

Selling is a Science

Tom Barrett, CIC, AAI
SIAA MidAmerica, Inc.
Blowing Rock, North Carolina

As president of SIAA Mid-America, Inc., Tom Barrett, CIC, AAI, manages 16 states. Prior to SIAA, Barrett was executive vice president of a Chicago-based insurance program administrator. He also served as COO of one of the largest insurance marketing organizations in North America, which was based in Los Angeles. The first dozen years of Barrett's career were spent as a property/casualty insurance producer for two prominent agencies in North Carolina, where he generated $1 million in commission income annually.

The Academy: Let's start with some questions about hiring and training. Where should agencies look to find new producers these days?

Barrett: Agencies traditionally looked to insurance companies because we thought we needed someone who knew the technical side. We ended up hiring a lot of really smart technical people. Not to discount those folks, but when you look at the profile we really need, we should be looking for someone that has sales traits. So at our agency, we're now focusing on specific behavioral traits. These individuals can be young students graduating from college or salespeople from other industries. They can also be producers in the business working for captives or direct writers. People have come to us from all walks of life, but they have either the behavioral traits we need or have had successful sales experience in another industry for serious consideration at our firm.

The Academy: What specific traits or skills do you look for?

Barrett: We've broken it down into several areas. One is the thinking style. Obviously, you must have the intellect to gather and process the information and support the analytical side of the business. They need to be able to understand and run the numbers and have the ability to learn. Good communication and verbal reasoning skills are important. You want somebody sociable. They should like being in public and enjoy the challenge of meeting people and creating new relationships. In addition, we want somebody who is assertive, but not overly aggressive. Producers also need an incredibly high energy level. You're defeating your purpose if you have to beat and threaten them to get them to do what they need to do every day. They should be out on the streets creating relationships and making sales, without relying on us to help them step by step and constantly look over their shoulder. Ideally, you want somebody who doesn't have to be managed constantly and doesn't require a lot of structure and close supervision.

The Academy: So they need to be self-motivated.

Barrett: Exactly. Positive attitude is important to us. Indecisiveness can get in the way. We have to have folks who can make a decision. Also, they should not be over-accommodating. If they're over-accommodating, they tend to give everything away in an effort to get the sale. Independence is important. We can teach the necessary skills if we find a really strong person with those behavioral traits. But they've got to have those core traits. What separates champions from mediocrity are the internal drive to succeed and the desire to win with the endless energy to continue until they have reached their goal.

The Academy: But new producers do not necessarily need sales experience for you to hire them?

Barrett: That's correct. If he or she has a profile that shows the person has sales potential and the core personality traits, then we feel like we can build on that individual. For instance, one of our folks likes to hire athletes. He historically goes to the local college in his community and hires the captain of the football team, the soccer team or the women's basketball team. Even though they are young people just getting started in their careers, he likes the fact that they are self-starters, energetic, competitive and understand working with a team for a common goal. He says, "That's what I look for in a salesperson." That's a good reason to hire a young person. People who have proven in other areas of their lives that they are aggressive, driven and competitive are good prospects. The advantage of young people is that the initial outlay is lower, there are no bad habits to break, no non-piracy agreement to outlive, and no baggage to leave behind.

The Academy: How do you make sure someone meets that profile before you hire them?

Barrett: I have to admit we've spent a lot of time and money in the past hiring the wrong people and we don't want to make any more mistakes. Hiring a new producer is expensive. The average agency spends $100,000 to $150,000 or even more when you include the training, education and licensing costs. And you may not know for two years if that person is going to work out. So we are constantly on the lookout for really good people. They may be driving a truck or working at the bank. We have a lot of coaches who come into the insurance business. We generally look for people who are competitive in their fields and are aggressive and achievement-oriented. When we find an individual like that, the first thing we do is test them. One of the things I tell all our managers is please don't fall in love with everyone you meet, which is easy when you have a vacancy in your office and you need someone in that chair. If the person scores roughly 80% of what we're looking for, then we actually start the interview process. The core traits are competitive, high energy, strong empathy, social, decisive, independent, and positive attitude.

The Academy: What kind of test do you use?

Barrett: The test itself is from a company called Profiles International. We've used a lot of tests, but we find that Profiles International does a great job of identifying the overall person. We use a firm named PeopleSense Consulting (Robin Eichert, President, robin@PeopleSenseConsulting.com) to administer the test for us. Once an applicant takes the test, this company scores it and then Robin gets on the phone and talks with us about that person's strengths and weaknesses and the areas to concentrate on in the face-to-face interview, actually helping coach us thru the hiring process. Next we do a telephone interview. The reason we always start there is that producers spend a lot of time on the phone and we need to know they have good phone skills. After that, we do the face-to-face interview. If that interview goes well, we get more people involved. It goes back to the old adage that you should hire slow and fire fast. Organizing our hiring process in this manner has enabled us to upgrade our salespeople. We've cut our turnover, increased our success and we have a better quality sales force.

The Academy: So have these tests been good predictors of future success?

Barrett: Yes, absolutely. And the interesting thing is we've had four or five producers who didn't score well, but we hired anyway because our local managers said they were wonderful people and they had to have them. Almost without exception, those people didn't last. This is why if the test says don't hire, I'm a firm believer that we shouldn't hire that person.

The Academy: What do you do when someone is borderline? Do you ever hire someone like that?

Barrett: We do, but it's usually a trial hire. They have 90 days. One person, for example, was an experienced salesperson working for another insurance agency and so we didn't have to incur the typical licensing and education expenses. In that situation we told the person the activity level he needed to hit – the number of presentations he needed to do and the number of accounts we wanted him to write and the commission goal. If things are going well at the end of 90 days, we will renew it for another 90 days, but we continue to watch that person very closely. If we don't feel comfortable at any point, we let him or her go. You're not hurt quite as bad if you only have three months into someone versus a year. Of course, it's hard to tell someone it isn't working out. That affects people's families and lives and their financial stability. We would rather not make the mistake for both parties. At least with this approach they know coming in that this is a test and they have to earn their way. So if someone's on the bubble we tend to box it in just a little bit more.

The Academy: Let's shift to the subject of mentoring. How important is it for new producers to have a mentor?

Barrett: I believe mentoring is critical. Years ago I created a mentoring program for the Chamber of Commerce in Raleigh, North Carolina, and it is still going today. We're celebrated our 25th anniversary in June.

The Academy: That's impressive. How does the mentoring program at your agency work?

Barrett: Ideally, We want the producer to have three to five mentors. I like to see about two mentors within the agency environment. It can be an owner, or a senior producer with three to five years left in his or her career. The mentors should have some time and a willingness to take someone under their wing and help train and develop the producer. Make sure it's not the "poor pitiful Paul" of the agency who will give all the wrong advice and looks at the glass as half empty. Sometimes we get a really sharp company marketing person willing to spend some extra time with the producer and make some sales calls with them.

The Academy: What are you hoping new producers learn from teaming with someone like that?

Barrett: Things like how a sales call is supposed to go and what questions they need to ask and what a presentation should look like. We forget new producers have never seen that. We hire young people and send them through licensing classes. Then we throw them out to the world and say, “Go get 500 or 1,000 x-dates.” That’s an unrealistic expectation if they have no idea what questions to ask or how to do a presentation or what the rules are for pre-qualifying a prospect. So you need to develop new producers by pairing them with successful, experienced people. Have a seasoned producer take them out on joint sales calls and let them see a diagnostic appointment. Have them watch a small company presentation and a board of director’s presentation. Give them some firsthand experience, a dress rehearsal, if you will, of how this is supposed to go before you totally turn them out on their own.

The Academy: What are you looking for from the other mentors?

Barrett: We want the remaining mentors to be people in the community, preferably some of our clients who are leaders in the community and who have great relationships with our agency. The idea is for the new producer to pair up with those three mentors and learn their specific business and eventually focus on working in the particular industry where his or her mentors are. I want new producers to become an expert in specific niche markets we work in, but even if you’re a generalist, there is nothing better than having a great relationship with key people at the YMCA, the Chamber of Commerce, your church or other organizations. Mentors are someone you can go to when you need a referral or a reference. You’ve got someone who’s prominent, whose name and company are recognized. This gives a new producer credibility.

The Academy: That’s interesting that you ask some of your clients to serve as mentors.

Barrett: I was hired that way when I took my first large agency producer position. The first thing the agency president did was introduce me to his top three accounts. He understood that doing so accomplished several things. It helped his producers get a quick start. Secondly, he was able to contribute back and offer exemplary service to one of his clients. Third, it deepened the relationship between the agency and the account. The really interesting part was when we completed our initial introductory meeting as we left, he said to his key client, “At some point you will be hiring new people. I'd love to mentor one of your new hires.” He understood that the depth of the relationship makes a difference. Mentoring programs are very important. New producers are under pressure to produce and a good mentoring process actually speeds up the process through accelerating the development of relationships and trust.

The Academy: How willing are your clients to become mentors? Have you ever had an issue where they’re just too busy?

Barrett: Sometimes, but what we usually find is really successful and talented people have a desire to give back. And we try to limit the time commitment. In our Chamber of Commerce program, the producer shadows a successful businessperson 12 times a year, spending part of a day with the mentor. Mentors should not have to give up their life. Even at this point in my career, 25 years later, I still have five mentors. Some of these leaders are hard to get to. I may fly to California at their convenience to spend a half a day with them. But I really feel like it's important to my personal development and I'm willing to spend that time and money in order to grow. Remember, leadership is about "follow me" and not "you first!"

The Academy: Have your mentors changed as you've progressed through your career?

Barrett: Most of them have. For the first four or five years my mentors were the same (local business leaders), and then I realized I needed more diversity. And so two mentors were constant from the insurance industry, both nationally recognized top performers, and every year the other three have changed. For example, the CEO of SIAA was my mentor long before he was my business partner. In fact, if I go back through my career, every major successful move I've made has come from one of my mentors.

The Academy: You've given us some compelling reasons for how a mentoring program helps new producers succeed. Now let's look at the flip side. When a producer fails, what seems to be the most common cause?

Barrett: The biggest factor we see is simple lack of effort. Another common cause is a lack of structure on the part of the agency. We need to be providing our new hires with references and referrals and mentors. Even if they're 50 years old, a new hire needs somebody they can rely on who has a relationship with our agency. It's not enough to buy a new person a database. We like to see agencies actually outline an activity level for their producers. And the agency should have a few x-dates and some prospects the producer can go see to help get them started. If you give new producers something to do and provide a formal training program, you set them pointed toward success and teach them early on that every day there is a schedule, a goal, and an expectation. If you fail to do this, young producers get out there and flop around. They're lost because they don't know who to see or what they're supposed to do. The next thing you know, they get discouraged and their effort stops and that's when you've got a real problem. It's hard to turn somebody around once they've become disheartened.

The Academy: How do you help producers with prospecting and cold calling, which so many find difficult?

Barrett: My personal opinion is that cold calling is good for you. It builds character and courage. Cold calling is a psychological test. If you don't have the courage to knock on someone's door and introduce yourself, you probably shouldn't do this for a living. I think even experienced producers need to do cold calls. When someone cancels an appointment and you've got an hour, you should go make a few cold calls and see what happens. Go in and see if they throw you out. And if you get thrown out, so what? You try again. The personal game I play is getting the process down to the point where I simply don't get thrown out nearly as much (but hey, it does still happen!).

The Academy: So you see cold calling as something producers just need to buckle down and do, and that their performance improves with practice and determination.

Barrett: Yes, it's a character builder. It is one thing for someone to tell you how to drive a car; it's another thing to drive one yourself. New producers need to sit in the seat and experience that. But they also need to develop professionally. We all begin at the same place. We start by knocking on doors and networking. We join groups like the chamber or Business Networks International and ask everybody at church about their insurance program. The only difference between seasoned producers and the new ones is the experienced producers have built their network and relationship base to the point where they don't have to cold call anymore. There comes a time in your career where your phone tends to ring and nice things happen to you. You're not out turning over rocks looking for new things all the time. But you've got to spend the time and learn the basics and build the calluses to get there.

The Academy: Let's talk about compensation. What's the best way to compensate new producers?

Barrett: It varies. You have to pay new producers something, but the nice thing is they don't have a lot of overhead and expenses. It's not like going to the guy down the street and stealing a producer who's already making a quarter million dollars and has a two-year non-compete agreement. Those are expensive. Beginning producers just need a reasonable salary for the first year or two and a validation schedule where you review their progress regularly. We follow the steps in Dynamics of Selling. We tell them that we expect them to see so many people each month and pick up so many x-dates and do so many diagnostic questionnaires, protection reviews and presentations. And as long as we see the effort, we go to the next month and continue to monitor their progress closely. This way there is accountability. It shouldn't be a surprise six months down the road that a producer hasn't done anything.

The Academy: How do you handle the shift from salary to commission?

Barrett: Most of our producers are independent contractors to us, but in the traditional agency environment we like to move them off salary as soon as they're getting enough revenue. If you're competitive and money-driven, you want to be on commission. And so I love to see these guys when they're totally on commission by the end of their first year or so. That's when they write themselves a blank check and put in whatever they want.

The Academy: How soon do most of them go on pure commission?

Barrett: We like to see it by about 24 months. I'll let a producer go for a year or a year and a half. All of a sudden, and this is always fun, they'll be working on a big account with a sizable commission. They'll do the math and think, "Wow, if I could get off salary and on commission, this would be a nice hit for me." So they come in and ask about getting on commission early. And we tell them, like an agency owner told me many years ago, that they can go on commission early, but once they go over to straight commission-based compensation at a percentage of their gross generated revenues, they can never come back. I was hired on a 24-month validation program, but went totally on commission in about eight or nine months. I just didn't want to leave that much money on the table.

The Academy: How much flexibility is there in that schedule as they move from salary to commission?

Barrett: We use a validation schedule that basically says within two years we need to be close to covering your expenses, whatever that number is. Now if one of our producers has a disaster in his life or some significant reasons why he's short on the number, we'll let it go another six months if they have made the effort and have the desire. We're going to look at that and be flexible. But it shouldn't be a matter of simply not having the courage to fire, because all of a sudden you'll be two and a half years into this person and you'll never get the money back. So we watch it all carefully. We know it takes a year to get started. An agency that hires a producer is going to have 12 to 18 months' worth of expenses, salary, benefits, training and licensing and everything else that goes with that just to see whether or not that person is going to work out. If I'm going to wrap up $100,000 to $150,000 minimum, then we want to make sure we are at least putting the right people in there to begin that process.

The Academy: Have you seen any different agency approaches to handing compensation?

Barrett: Some agencies handle it as a draw, but we think to hire a young person and say they have to pay you back if it doesn't work out is probably unrealistic. If you are that unsure of them, don't hire them.

The Academy: Let's talk a bit about experienced producers. How hard is it to get them to stay with the agency?

Barrett: Well, the grass is always greener on the other side, and some producers tell themselves, "My clients love me and, yes, I've got a two-year non-piracy agreement, but after two years those folks are going to drop everything and follow me wherever I go." The reality is that never happens. A very small percentage of clients may follow a producer, but not the majority. Some producers may also decide to ignore their non-compete agreements. Those folks end up in legal battles. I recently saw one of those hit $90,000 in legal bills for both parties. The producer should either buy that book, or honor their agreements. Two years is very short when you look at the rest of your life. If they can't get beyond that we would question their level of energy and commitment to begin with.

The Academy: What incentives do you offer producers at your agency?

Barrett: If they're doing a nice job, we give them incentives beyond benefits. Maybe we provide them with a nice car or help them with a country club membership. We may increase their commission, so they get a higher percentage and make more money after a certain level of production. What we think works best is to give them equity in their book of business. That's the ultimate because it provides a long-term focus and incentive for that producer to stay and continue to perform; after all, it becomes their equity and their profit center. Every agency and every producer situation is different so this needs to be looked at with some creativity and flexibility.

The Academy: Do you offer equity to all your producers who are doing well?

Barrett: Yes. This is our business model and we're a firm believer in letting them have ownership. When the agency owns everything, producers don't really care if the business is profitable or not. The agency pays the producer a certain percentage for new business and a lesser percentage for renewal. So the incentive is to just churn the business because you make more money getting a new account. If you use that approach, your agency needs to have a really good support structure and account executives and CSRs to maintain and manage the business and relationships so that you retain it.

The Academy: And what usually happens under different compensation models?

Barrett: If a producer gets a close to equal commission level for both new business and renewal business, they tend to want to keep the business. They get comfortable a little bit earlier, however, so that can become an issue. I've seen a lot of folks vary their commission percentages based on how large the income is. So producers get a lower percentage income for a certain amount. And then once they obtain a certain level, say $250,000 or so, the agency pays an extra level of commission. You can stair-step it up so that as producers are there longer and obtain higher commission thresholds, they make more money.

The Academy: Do you use non-compete or non-piracy agreements?

Barrett: A two-year non-piracy agreement is standard for us. What we say is, "It's not fair for me to tell you that you can't go to my competitor and make a living. You need to feed your family. What is fair is to say that you can't steal our customers for two years after you leave." The agency typically owns the clients, and for two years the producer can't touch them. Different states vary, however, in how you can enforce those agreements. Some allow you to put a 50 or 100 mile radius around your agency. Other states do not recognize the radius, but don't allow the stealing of client lists. Consult your attorney on this issue.

The Academy: Moving on to sales managers, what should someone in that position be doing to help producers?

Barrett: It really depends on the agency. A small agency simply can't afford a sales manager. That's an overhead expense they can't incur. But at a certain size, an agency needs somebody to manage sales and oversee the sales process. Typically, it's the agency owner who manages sales for a period of time. The problem with that is the owner has his or her own book of business and the agency itself to run. Sales management tends to be last in line and done haphazardly. As you move on to bigger agencies, what usually happens is the owners give one of their employees the position of sales manager, but also allow him to keep his own book of business. That can backfire. A friend of mine just went through this where the sales manager didn't do anything to help the sales team because he was on commission and was very focused on his own personal income rather than the income of the team. The team never received any assistance or support.

The Academy: So what do you think is ideal?

Barrett: I like to see incentives for a sales manager based on the success of the team. It should be a rewarding position within the agency. And if you have a sales manager who really is good at motivating the team and managing the process, maybe the agency should manage a portion of the marketing piece. One of our partner agencies mails 12,000 pieces of mail a year. The agency does this, not the producers, through its marketing department. The agency hires three or four new producers and each one goes through a training program and is assigned to a specific industry. They are handed a prospect list that's been pre-worked by a telemarketer. They're also assigned mentors. If they're doing the hotel-motel program, for example, they actually go work in a hotel-motel and spend some time learning that industry. This means they are able to speak the business language of their niche industries in a very short period of time. At that agency, the focus of the sales manager is to create a marketing and sales path to reinforce the sales process. New hires go out and make sales calls with experienced producers. They see them do appointments and presentations. And the new person's performance is critiqued and he or she is held accountable for their activity and whatever goals they mutually decided upon. This is how you manage the marketing and sales process within an agency.

The Academy: Shifting to a more general question, how has the role of the producer changed over the past decade?

Barrett: That's an interesting question. I was recently in Missouri and talked with Jack Burke, who does all our audio recordings. Jack commented that when you have a nice commercial account today, the first thing you should do is check if they're on Twitter or Facebook. If they are on Facebook, you need to join their fan club. You can get a great deal of information online through social media that they'd never tell you in person. We have producers who are actually "skyping" presentations if they can't get there because weather or delays or it's just too far and they can't afford to go there for a presentation. But you go into a room of older agents and ask them what "Skype" is and most of them won't know. The older generation is not involved in social media and doesn't understand it. Each generation has a specific buying and processing style: the Silent Generation, Baby Boomers, Generation X, and Generation Y. We need to be aware and approach each generation based on allowing them to buy the way they prefer.

The Academy: What about other types of technology?

Barrett: It's very important to have a good website. Many agencies spend money on advertising and marketing, but when you go on their website – if they have one – it's boring and flat. If you don't have a robust website today, you're not a credible business.

The Academy: Any other changes you've noticed?

Barrett: We've seen a change in the basic model of the independent agency. In 1985 or so, there were about 40,000 agencies. Now we're down to under 12,000. It's similar to what's happened in other industries. Large gas stations, for example, might have 47 bays. They don't run out and check the air in your tires or wash your windshield anymore. There's been so much consolidation. Look at product distribution through trucking and transportation, look at the airlines, look at FedEx and UPS as the two primary package distribution points. The whole distribution model is changing (constricting).

The Academy: So insurance agencies, like other types of businesses, are getting larger?

Barrett: Actually, two things are happening. Number one, independent agents are getting old, which means a lot of them are retiring. The opportunity here is for the acquisition by a well-funded player that allows the large to get larger. Second you've got the small entrepreneurial individual who wants to build a business. And opening an independent agency is a great way to do that. You don't have to buy an inventory or put up half a million dollars of capital. That is the other end of the scale. Our company has quietly helped 3,200 take that step while providing them the resources to do so.

The Academy: You basically just need an office.

Barrett: A little more than that. It's inexpensive and it's a great opportunity for a small entrepreneur. So that's a trend. In our particular company, we have 3,200 small entrepreneurial agencies that are part of our organization. We help them every way we can, but the problem is small entrepreneurs may not have the marketing skills, the sales skills or the business acumen. They're willing to learn, but they don't have that initially. There is a big learning curve. With the proper structure and support there are a lot of success stories being created--- And then you have the other extreme. The large agencies are becoming regional brokers. They've been absorbed by banks, and those banks have been absorbed by other banks. Big agencies have sold to even bigger agencies. National brokers are gobbling up everything they can. So you have the small entrepreneurs and the mega-agencies. And the spread between those two is getting considerably wider.

The Academy: There's not much in between.

Barrett: Yes, there is a huge gap. You've got the mega-agencies and the regional agencies working on middle market and large accounts. The entrepreneurs are everywhere writing small business and personal lines. And the internet and social media is right there helping small entrepreneurs build their business and the systems and processes they need to be successful.

The Academy: Given this shift we're seeing, do you feel there is an optimum size for an agency?

Barrett: In my opinion, I don't think there really is an optimum size. And here's one of the reasons. In a strong economy, agencies were growing, some with little effort and limited sales activity. Now you talk to those agencies today and they're down 20% or 30% because they're in construction or lumber and, all of a sudden, housing stopped. Not only did they have to give back 25% to 30% of their commission from the audit from last year, but when they renewed that policy the exposure base was 50% of what it was previously and they're getting hit with a 30% decline in revenue. There really isn't a safe spot. The big agencies are dependent upon the economy. Now look at a $2.5 million agency. That's typically a pretty comfortable agency, but all it takes is one change for them to drop below the line and all of a sudden be in trouble.

The Academy: Any final advice for agency owners and sales managers?

Barrett: In closing, I would simply say that marketing requires planning, and selling requires a process. Unfortunately, out of all the hundreds of agencies I see every year, only about 2% of them follow a really solid sales process. And just 10% of the agencies have a formalized business plan as far as their goals and how much they want to make and how much money they're going to set aside to grow their agency. You need to know where the revenue is going to come from and work toward some sort of a plan. New business acquisition costs money. The other 90% of the agency owners out there are letting the wind take them wherever it chooses. If you're going to be a successful agency in this climate, you have to do a better job of planning and utilizing your resources and execution.

The Academy: And, in terms of sales, agencies need to commit to a formal program and get everyone on board?

Barrett: Exactly. Selling is a science. If you follow a process that we know works, you'll be very, very successful.

Networking and Relationships Make the Difference

Joan Sansing, CIC, ARM, AAI
Tanenbaum Harber of Florida
Miramar, Florida

Joan Sansing is a Senior Vice President at Tanenbaum Harber, an agency that has offices throughout the United States and affiliations worldwide. An independent agency, Tanenbaum Harber has served the Florida marketplace since 1986, and has a staff of 60 individuals. Joan also serves as a faculty member for Dynamics of Selling, Dynamics of Sales Management and The National Alliance Producer School.

The Academy: What's the best place for agencies to find new producers?

Sansing: I think you should be looking everywhere. I am a fan of hiring from other sales industries. I'm less a fan of recruiting from other insurance agencies. If you limit yourself to producers from other agencies, the people you tend to attract are going to be the dissatisfied ones. Sometimes that's okay if there has been a significant change in that agency that would make a successful producer unhappy; just be sure that the same issue isn't a problem at your agency.

The Academy: How about recent college grads? Do you look at them much?

Sansing: Yes, I recruit heavily from college grads. If they're going to be brand new to the industry, they need to have a college education. But we have a diehard rule: we do not hire any college graduates who are not from our community. I have a lot of experience hiring new producers out of college and I can almost guarantee you that they're going to fail if they are new to your geographic area. They need a strong connection to the community. It's an advantage if they have family there. Now it's different for an experienced producer. I might relocate someone like that from another area. But when it comes to hiring young people without sales experience, my preference is to hire the children of prominent business leaders within the community.

The Academy: And why is that?

Sansing: The children may or may not be well connected, but their parents certainly are. Usually the parents will help their children in opening up doors.

The Academy: Any other tips for finding producers?

Sansing: I think the problem most agencies have is they don't look until they really need somebody. I'm a fan of continually looking for potential producers. Get the names of producers you compete against and establish a relationship; hopefully you will be the agency they call if they become dissatisfied.

The Academy: What types of skills or knowledge do you look for in a new producer?

Sansing: I look for attitude. Attitude is everything, especially for a newbie.

The Academy: When you say attitude, what do you specifically mean by that?

Sansing: I want somebody who really wants to be in sales. People won't do well in our industry if they are embarrassed by what they do. Think about it – we're in an industry that isn't even proud enough to call ourselves salespeople. Instead, we call ourselves "producers." So I want somebody with a positive attitude toward sales, and a positive attitude toward the insurance industry. One of the key questions I ask potential new producers is, "Why do you want a career in sales?" And they better have a good answer, because sales is a very difficult career.

The Academy: How do they typically respond?

Sansing: They stammer, and many of them have no idea what to say. Usually, after they recover, they'll talk about the ability to make a lot of money.

The Academy: What about the sharper ones?

Sansing: Those applicants have given it some thought and figured out that the people who ultimately run a company or are instrumental in a company usually come from the sales end. They also understand that being involved with revenue generation gives them job security. Businesses are less likely to let successful salespeople go than a staff person.

The Academy: What else do you like to see in an interview?

Sansing: I want somebody with a positive attitude toward learning. That's the reason we require new producers to have a college degree – that will usually take care of the ability to learn. I'm also looking for things like their verbal skills and how well they communicate.

The Academy: Do you use personality or aptitude tests?

Sansing: Yes, we use those tests and I find them to be fairly accurate. Let's say you test someone and then hire that person, and six months later this individual is not doing well. If you go back and really look at that Caliper test closely, you'll find the issues are usually all in the report. And I think this is one place where agencies often fail. They don't have a good understanding of what the test is measuring and lack experience in interpreting what the results are trying to say. Having somebody who is a match is only the beginning. And if the results say a person is a match with reservations, you have to look at what those reservations are. If the reservations are something I can train, then I may overlook them. If the reservation has to do with ego drive and ego strength and the basic internal motivation people have, I will not hire them.

The Academy: How about mentoring? What is your agency's approach to that?

Sansing: Number one, I think producers should have multiple mentors. It would be great to get everything you need from a single mentor, but new producers need to learn many different skill sets. Most of the producers on your existing staff aren't going to be the best at everything. There are roles for many different people within the agency to help a new producer. I do, however, think it's good for them to have a primary mentor. There's also value in having someone outside the agency serve as a mentor.

The Academy: Do you assign a specific person for each new producer?

Sansing: At our agency, it's the responsibility of the sales manager to identify needs and to find individuals within the agency who can help new producers.

The Academy: In terms of outside mentors, what are you looking for there?

Sansing: One of the key components of a producer's future success is that individual's ability to network. And networking takes place in many different ways, not just within the agency. That's why it's important for new producers to find mentors outside our firm. Before I hire newbie producers – after I've interviewed them and tested them and the test results come back positive – I require them to conduct four to five interviews with leaders in the community and come back with a report to me. What is interesting about this is most of them never come back. And that tells me something very important. If they can't contact four to five people and meet with those individuals, what are they going to do with cold calling and setting up appointments to work on accounts? The ones who succeed in contacting those prominent individuals and end up joining our agency often find that those people become mentors to them.

The Academy: What are the main reasons that new producers fail?

Sansing: Lack of training is the main issue. All too often agencies do not give new producers the time and the focus they need. Most agencies, for example, do not have dedicated sales managers. And we all know what happens when the sales manager has a book of business to take care of. The manager plans to meet every Monday morning with the new trainee. But every time one of the manager's accounts has a loss over the weekend or something significant happens, that manager blows off the trainee to go take care of the client. Before long, it sends a message to trainees that they are not important. If we want these individuals to grow and succeed, we must focus our resources and energies in the areas that support that goal.

The Academy: What other things contribute to producers doing poorly?

Sansing: Personally I don't think they do enough cold calling. After our new hires go through the Producer School, we give them the goal of acquiring 500 expiration dates over the next 12 months. We do this because everyone needs to have enough potential prospects. If I have 500 prospects and I can get 10% to meet with me, or if my pipeline has a strong 50 coming in every year, I can be successful. New producers who fail often just don't have enough in their pipeline.

The Academy: Do you help out new producers with prospecting or cold calling?

Sansing: I don't. Cold calling is a learned skill. If somebody else is making those calls for you, number one, you're not learning some critical skills. You don't learn how to communicate on the telephone. You don't learn how to deal with objections. And when a prospect has questions such as what market the agency plans to approach, outside entities or telemarketing firms aren't able to answer those questions. But young agents can, so we should have them on the phone. Now, we do give them leads while they go through training. And we give them tools like Salesforce.com that helps them stay focused. But until they become a validated producer, we're not going to set appointments for them.

The Academy: How does Salesforce.com work?

Sansing: It's a client relationship management system. It allows producers to move an account from suspect to prospect all the way through to a sale. It can help you identify opportunities, and the more you talk to somebody, the more information you can add. If your renewal is in December and you want to call the person in August, it can set up a diary entry so it pops up on your screen on the day you need to call this person. It's a great 24/7 tool that's available to our producers anytime, anywhere, from any computer.

The Academy: Let's shift now to more experienced producers. What is it about top producers that makes them so special?

Sansing: They know how to network. To me, the ultimate responsibility of a good producer is the relationship. They're the relationship manager of their account. And the best producers do that better than anybody. They stay in touch with their accounts. They don't waste their time doing service work their staff could be doing. They deal with true, significant problems and take care of the relationship. The primary reason we lose business – and when I say "we," I'm talking about all sales organizations – is because our customers feel ignored. In contrast, a good producer stays in steady contact with customers and, as that relationship strengthens, those clients start providing referrals. They become a vehicle through which the producer can network, creating any number of opportunities to continue to grow that book.

The Academy: And you think the average producer networks less effectively?

Sansing: That's part of it. The biggest problem, however, is many people don't understand what networking is. Networking isn't meeting people to see what they can do for you. It's about interacting with individuals in a way where you can be helpful to them. Ultimately, they feel an allegiance and maybe a responsibility to help you. So many agencies make that mistake. I meet you, and think, "Gee, what can you do for me?" Networking is really about making sure you put individuals in contact with one another so they can help one another and ultimately you're going to be rewarded, too.

The Academy: Let's shift now to compensation. How should new producers be compensated?

Sansing: I believe they need to taste what it means to make a commission check, so I prefer a combination of a salary plus commission. The salary should compensate them to an adequate degree, but not so well that they don't work really hard. We pay new producers a salary until they become validated.

The Academy: What kind of formula do you use?

Sansing: Let's say we pay 40% on new business. I might pay the trainee a salary plus 20% on new business and nothing on renewal until that person becomes validated. The renewal commissions being earned during that point is our return on our investment in hiring and training them. But I want new trainees to get that check. I want them to understand what it's like and be motivated to earn more than their salary in that first three-year period because that's what I anticipate – that it's going to take about three years from when we hire them and train them until they go on straight commission.

The Academy: Can you describe the validation process a little more?

Sansing: Validation to me is when the salary goes away and they're making at least what they made beforehand through a combination of new and renewal commission. In the past, I've worked on a declining salary base and I didn't like that at all. The pressure to maintain a monthly income level was probably more than some individuals could handle. They would become desperate and begin working on accounts that they shouldn't have been working on. I also found – not often but periodically – them turning away from our agency's standards in terms of qualified opportunities. All of a sudden, some of the facts were inaccurate because they were so desperate to bring in business. I don't ever want to put that kind of pressure on a new hire or a trainee. The integrity of our agency is important. We never want to compromise that.

The Academy: Let's talk now about more experienced and successful producers. How do you get those folks to stay with you?

Sansing: It depends on your agency. I've worked for large national companies where producers are never going to have ownership in their books. I've also seen the different incentives agencies offer to try to get a good producer to stay, including giving them equity. And as a producer myself I've worked in agencies where I earned equity. My position is I don't ever believe producers should have ownership in an agency quickly. I think allowing them to become slowly vested in an ownership portion of their book is a better way to do it.

The Academy: Do you give producers equity in their book of business?

Sansing: No, we do not.

The Academy: But you think it's a good idea?

Sansing: It can be. You have to be very careful about offering equity. If you do it right, it strengthens producers' ties to the agency.

The Academy: How do agencies that don't offer equity hang on to good producers?

Sansing: The way I look at it is I'm trying to make it hard for them to leave. I believe most experienced producers are probably looking for the levels of support that an agency can provide, such as good, solid markets, high-level account executive support, dedicated placers and marketing, and in-house loss control and claims management. Young producers don't understand why that support is important. When they compare one agency to another, they look at compensation and go, "Wow, this agency is paying an awful lot more than you're paying." But in exchange for what? Probably much less support for the producer.

The Academy: But, in time, producers realize they need that support to do their job.

Sansing: That's right. At some point producers hit a brick wall because there is just not enough time to continue to grow their book. My agency subscribes to the philosophy that, as a producer grows, we continue to add support so they can continue to sell. I would rather support a successful, proven producer of my own by adding additional high-level support help, than go hire another producer who is unproven and more than likely will fail.

The Academy: So you make it harder for good producers to leave because you keep providing them with more and more support?

Sansing: Exactly.

The Academy: Can you talk about the role of a sales manager? I know you were the national sales manager at Norwest Insurance, which ultimately became Wells Fargo.

Sansing: Sales managers are in the agency to support their sales force and remove the obstacles the sales team has to being successful. Many of the obstacles are internal. At too many agencies, operational procedures can actually get in the way of sales. It's the job of the sales manager to deal with that. Or the obstacle may have to do with the relationships an agency has with its insurance carriers. A sales manager should be responsible from the hiring all the way to the firing of an individual and everything that's going to happen in between. They need to mentor. They need to monitor. They're involved in goal-setting and then holding producers accountable for achieving their goals.

The Academy: While we're on the subject of obstacles, let's talk about the obstacles women have faced in commercial lines, traditionally a male-dominated area in most agencies. Are you seeing much of a shift in terms of more female producers breaking into commercial lines?

Sansing: There's been some improvement, but not a lot. Women are coming into the employee benefits side, but I don't see as much movement into the property/casualty industry. Part of it is many women aren't being given the opportunity. Also, most of the decision makers we deal with in commercial lines still tend to be male. That can make it difficult. Internal motivation is also a factor. The truth is, most producers are content once they reach a nice income level. And then you have your superstars – those individuals basically willing to compromise their personal life and everything else to be very successful. Oftentimes, women aren't willing to do that. But there are some extremely good women out there. When I interview, I'm always looking for them, but I haven't found as many good candidates as I would like.

The Academy: How has the role of the producer changed in the past ten years or so?

Sansing: Producers used to be more involved in service. We tended to hire them from our carriers because they knew the coverages. Producers back then would come in, work really hard for about 10 years, build up a book of business and then it was fairly easy. That's not the case anymore. Today's producers have the role of bringing revenue into the agency and that's how they're being compensated. What that means is they are responsible for new business production, year in and year out. Having a great year doesn't mean I don't have a responsibility the following one. A lot of longtime producers don't like that. They want to be comfortable and basically service the book they have.

The Academy: How do you respond to producers who balk at new business production requirements and just want to take care of the book they've built up?

Sansing: I tell them that's the role of the account executives and, if they choose to have that role, account executives are compensated differently than producers are. An account executive is usually an individual with a set salary and a bonus based on retention and account rounding. It's a completely different compensation model from that of a producer. In my opinion, too many agencies are over-compensating their producers. If I'm going to be a producer and I expect to be compensated for new and renewal business, I need to produce.

The Academy: How big an impact has social media and other technology had on the sales process?

Sansing: I think it's a function of networking. And obviously, through good networking, you're going to create opportunities. I see social media as a way producers can keep in touch with people, as opposed to just collecting x-dates and calling 90 days prior.

The Academy: Any final advice for agency owners or sales managers?

Sansing: I'd like to stress that the role of the sales manager and owner is to view their future production force the same way that we ask our producers to view prospects. Your role is to stay connected with your competitors – the producers in your community. They are your "expirations." If you wait until you need a producer to begin looking for one, you're going to have limited success. My goal is to make sure I stay connected with my friendly competitors so that when something happens at that other agency that makes the producer unhappy, I'm the person that he or she calls.