"The Producer Paradox: Part One"

By
Dan Romain

Part One

I have very few pre-conditions before accepting a "gig"; and I'll waffle on most of them. The one condition I never capitulate on is: "You're paying for the diagnosis. Since you run the place; are you prepared to hear that the condition, as unlikely as this may sound, may have something to do with you?" The guys who smile and nod "yes" are my ideal clients. The guys, who don't, pay in advance.

Shall we begin…?

Stock?

I'm known to say that there are three sources of power in any firm: a sizable book, knowledge, and stock. When I say "stock"; think equity, in all of its forms and permutations, to include: vesting, co-ownership of books, deferred comp; and yes, even the book inheritance plan, some agencies use when a Producer retires. When I say "stock"; I mean 'enterprise value' that inures to a group of individuals, one-way or the other. ESOP equity is kind' of a "tweener" and I could argue both sides; but shares of Putnam, compliments of Marsh (once upon a time), isn't stock.

Why is Producer Comp so high? (I bet you get that one all the time at the Sales meetings!)

Ultimately, in privately-held firms, it's because Producers must earn enough to buy stock and fund internal perpetuation. When you add it all up, Willis and Marsh pay producers half what you do. Their producers aren't owners; even if they own nonvoting non-recourse, un-"putable" company stock. Neither are your CSR's and Account Managers (excludes ESOPs and nepotism).

I don't quantify "high", because it's all relative. What's high in Petticoat Junction wouldn't interest a slug in Metropolis. "High" is relative and the only true benchmark is in your neck of the woods; does the comp plan cash-flow your perpetuation plans by attracting and keeping Producers, who like-want-need to make a pile of money so that they can stroke a check for the stock?

Stock Buying Producers:

In an independent shop dedicated to staying that way, there can be no other kind.

(Corollary: If they're not buying stock at the end of the fourth year, then there's a problem or there's no intent to layer ownership thru age groups. Yes Dad! That includes Junior! Design it. Help fund it, but do it by the 49th month. I will explain this next month if you so desire.) Frankly, I prefer doing it sooner than this, because it forces math and motivation, in equal proportions, down the throats of those who aspire to become owners.

Producers in privately-held firms, which are dedicated to internally funding the perpetuation plan, are machines! They are studs and studettes. They generate a lot of revenue, a ton of chaos, a boat-load of headaches, an occasional E&O near-miss, near-fist fights at times; and at least once a year they stroke a serious check back to the agency, so that some day they can ride rough-shot over the young Turks, the way you're riding them now.

If you have a good-to-great Producer who isn't buying stock, because you're hording it or he/she wants to own more than one "villa", then you're for sale to an external buyer. Period. Stop acting surprised! Tomorrow, maybe not, but you're for sale just the same.

Compensation is the most precious asset you have in funding the culture. If your management style is to "grease the squeaking wheel" with unearned and/or undeserved compensation, then you are placing your agency and the livelihood of its owners and employees in jeopardy. For example, if you have six different deals with six different Producers, all on various "splits" forged over time, and everyone is happy, then you are probably misusing compensation in one or more of the following ways:

1. You pay more than your competitors, even though you have lower new business expectations, and you're more willing to overstaff the teams to suppress the noise. You call some things "new" that really aren't.
2. You never, ever, ever say anything to any Producer other than, "We're not for sale"; lest you open a can of worms, you're in no mood to swallow. If this is you, at least one (if not all) of your Producers has vested interest in his/her book, valued at something around 1.5 times revenue split 50%-50%, with various rights to exercise buy-sell.
3. No one shares accounts, nobody team-sells, and specialization is a rare thing indeed. 94% of your revenue is "generalist" business. 6% is contingencies. (+/- 5%)
4. You know what your agency is worth. In most cases, you keep a vague list of firms you might be willing to sell to. The older you get/got, the smaller the list becomes. Curiously enough, it's the same list as competitors you've golfed with over the past year. Usually, no-one locally is on that list and at least one of your Producers used to work for one of those firms and another left you to work for them.
5. You take-home so much that the thought of achieving a "Best Practices" type operating margin isn't really worth it.
6. Your best employees work your accounts and mail-out a growing number of your renewals.
7. Your best new business Producer is hated by the staff and, if truth be told, by the other Producers as well. (My bias is that this Producer is almost never the problem.)

So, you've decided to work with him/her under the auspices of "helping", but everyone knows you're just drawing close to his accounts.

Conversely, for the high-flying firm, down the street, where everyone is producing and buying stock, their management criteria is easy to follow: "Is this guy/gal ever going to afford to buy a lot of stock from a book he/she produced (with a little help)? If so…that person will get the help, some accounts, a few lay-downs (hot-leads), and a taste of what it's like. The others will get the "spit'n distance" chat as in: "You better be within spit'n distance of $X dollars in six months or you're gone". I should know. I got that talk once upon a time before things "clicked" (roughly around the time my first-born arrived!)

If you run this shop, then after 90-days, you privately tell yourself whether the Producer has what it takes. You're almost never wrong, even if you were convinced at the time of hiring that the Producer would make it. You buck the conventional wisdom: "He's been struggling, so I'll give him even more help". Your firm showers attention on new Producers, who show promise, and almost an abject disregard for those who don't. Good? Bad? Harsh? (Maybe)…but it's just the way it is.

Lastly, no one steps thru the door of this shop without a seasoned pro stepping-up, to be a new Producer's mentor and yes…"Mentor" is defined!

Definition of a Validated Producer:

Can afford more stock after distributions than you're willing to sell him/her or he/she is willing to buy. Marrying into money or picking your parents doesn't count. "Books buy stock". Distributions based upon stock funds stock. High-margin operations fund stock. High quality, long-term clients fund stock. Under-drawing funds stock. New business and great account retention funds stock. Forget about the small math unless you're hording the stock. If you are, a validated Producer, you wouldn't validate in a culture that doesn't horde it (Sorry, it's TRUE) unless you have some sort' of vested interest, "earn as you go" plan in place.

Corollary: If the "Producer" hasn't built a book substantial enough to become a meaningful buyer of stock (under any condition: notes, loans, vested interest exchanges, whatever) then selling them stock is a ruse you're using to make them feel good and "validate" themselves without actually much of the equity sticking to their ribs. I'm not judging that by the way. "Validation" has multiple meanings and it's OK to have the trusted manager in the room.

Stock-buying Producers need agency distributions (dividends and bonuses) to help fund the stock. Contingent income is a live-or-die component, the larger the firm gets, and they have to get larger every year or things begin to squeak. Internally perpetuated firms can't let their distributions go-out without some of the money coming back to pay for stock (or ESOP funding, or off-balance sheet payments directly to retired stockholders).

New Producers:

To 70% of you, they are the well-liked, up-beat youthful souls who make a Hollywood production after every new-business call. To the staff, they're pariah who quote hopeless misadventures and squander resources and patience in equal proportion. They don't fill-out apps, they don't even know the questions to ask, and God-forbid they try. Your P&C Supervisor will beat them senseless or just the opposite, afford them only a passing interest (think: Your mother-in-law just asked you a question with 22-seconds left in game 7 of the NBA finals…AND SHE CALLED YOU AT THE GAME!).

Sadly, in many shops, the only time a grizzled Producer pays a New Producer heed and invites them along, after the first two weeks; is when the freeway's a mess, the car-pool lane is still open, or when it's apparent the Producer won't work out; and he/she has a few nice accounts that will come-up for grabs once he/she is gone. That or if his/her last name is the same the senior partner/owner, who is about to retire.

As for the other 30% who "get it"…, you get the crème of the crop, prospective overachievers. New Producers to the best-of-class firms become the number one priority of whomever signed-up to mentor, train, motivate, teach, and pal-around with the new Producer. I go as far as to insert a financial component to the mentor, even if that person has a pile of stock.

Why?

New Producers fail without constant, patient, learned mentors who literally place them on-par with the senior person's book. Yes, it is another one of Dan's litmus tests! **If** the mentor can afford to do this **then** it's because the place runs great and has lot of resources which touch his/her clients. It's one of my first questions, "Tell me Mr. Big-time Producer…, other than you and your lead CSR, who touches your client and how often would you say that occurs?" **If** the Producer brags (literally brags!) about all the institutionalized touches (Claims, Loss Control, Co-Producer involvement, etc) **then** I'll invariably find a covey of new Producers at various validation stages and a rock'n roll culture. That senior Producer makes an obscene amount of money and everyone, especially the younger folks, wants to be him/her someday. Chances are, they will.

The reason some (OK...many) owners are grumpy is because they came thru a Darwinian "kill or die" and "here's your phone book" new-Producer program and somehow managed to survive (or fool enough, long enough). It's the reason most of them are horrible at bringing-on new Producers. The firms that commit to constant non-stop mentoring almost never waste a dime on a bad Producer and unilaterally see their equity piece in the firm grow (tax deferred by the way). They universally retire much earlier and much "better" than the other firms in spite of the minority discount to their stock. To the very last stockholder, they honestly believe they are superior in almost every way to their competition…and they are probably right.

Producer Math: Part One

Divide estimated annual commissions reported on the new-business log by the number of distinct personalities you observe the Producer to have.

Producer Math: Part Two-"We barely break even with a new Producer if they last three years"

Huh?

Suppose you pay $175,000 over 24 months on all costs associated with a new Producer and he/she has "only" produced $50,000 of run-rate revenue. You decide to part company because you're "losing ground" and the Producer, after two years, wants a pay raise. You let him/her go and come to find out that most of the accounts are impish, one-off types that you can give the staff to renew, at least that way you reason, in a few years, at a modest retention rate you'll recoup your loss. Right?

If you said yes, then the Hank Paulson TARP plan made sense to you.

Let's say $50,000 sticks around after Prince Charming is gone. Maybe there's some marginal expense and maybe you comp a staff member's gas to see the accounts, once in a blue moon. If you "spend" $10,000 I'd eat my hat, but I'll cede the point to over-sell how most owners miss the real point.

Anyway, $40,000 drops (trickles?) to the bottom line and maybe a dollar or two, if you get contingencies, but I don't want to count that either. Even in today's market, your firm probably trades at a six-multiple which means, in English, your enterprise value (Agency value) just went-up $240,000 and you'll make $40,000, on top of that, for the foreseeable future. On the day you sent the Prince packing, you basically doubled your original investment at a time when your "other stocks" dropped 50%.

Just think if the Prince hadn't turned-out to be a frog?

CEO's with Producer-populated Boards who plot a future without new Producers, believing they can take more money home, invariably take less of it home over time and the math isn't even close! They don't commit to feverish support of young talent because they can't commit to dedicating their time to a young Producer. "What's in it for me," is the remark I've heard consistently, over my 28 years, and never as loudly as I heard it in my own Board room at times.

Ironically, the most selfless owners in the end will make a pile more money "in the end" than if they slightly grow their seasoned books, year-over-year, and dabble a time or two on a new Producer, until that Producer is gone and they re-code the accounts to the other owners. I should know. I "retired" before age 51 and everything we had was in the agency's stock.

Existing "Producers"

At some point, even the great ones begin to slow-down. As a rule, most Producers slow-down before they should. I confess. I did too.

If tenured Producers are solid citizens, buying stock, and making solid contributions to youthful Producers then leave'em alone. I know…I'm not supposed to say that, but the reality is that most of those Producers helped you become the CEO/President and along the way "you owe them". So my advice is not to fake it. Leave'em alone. If the culture becomes energized, they'll feel the pressure to produce without your bringing it up to them. Instead, try convincing them to mentor the youth. They'll make a huge contribution and enjoy every minute of it.

BUT!

If the Producer; sits in his/her office and largely communicates to clients, Carriers, Staff, and other Producers via emails; almost never pretends to be interested in new business, looses a few long-term accounts each year, whines about who got the best parking stall, misses sales meetings; always lunches with you, has a hard time keeping a team, acts as though there is such a thing as "Junior Partners", and has begun to over-draw or under-fund perpetuation obligations without unsupportable distributions, then you gotta heat'em up. If you don't, you're doomed. The Phantom…, this "hardly noticeable" figure, is the most vivid example to everyone blasting neon conclusions about your leadership. You're in a river in Egypt, if you think otherwise!

Nothing is more powerful than holding "The Phantom" to the same standards everyone else is held to. Sell some stock to the younger folks, who totally believe in you, to offset the loss of confidence (and votes) this guy implies…but don't backdown! Cut a Producer some slack if he/she has had a good-run and is slowing down or has hit a rough patch. But if they are less than that, believe they are "above" the unwashed and they aren't open to accepting help or a new role, then you need give them "the Whammy".

(Please, make certain you communicate to a stockholder in a way that your employment practices attorney supports because the stakes are high and doing things according to Hoyle has no short-cuts. Nothing is more critical, more risky, and more lasting to your legacy so, if you must do it, do it with hands-on advice.)

All those cracks I make about HR? Fa'geda'bout it! HR will be your godsend and if you don't have HR advice, even the pay-as-you-go variety, then at Hales we have a special name for you. We call you "motivated sellers".

Executive separation is a high-stakes table on every conceivable level. You'll suffer terribly, believe me I know. It's the most God-awful, miserable, thankless, humbling, totally necessary, most procrastinated, ignored, non-stop conversation that nobody admits to talking about constantly. If you are fair, trusted, compassionate and driven to excellence"…you'll be fine (If you listen to HR!)

Big Fat Files

"Hey Bob! "What are you working on?" you ask, noticing a big fat file strewn across his desk.

Bob is working on a big fat opportunity alright. That file didn't get that way overnight…or in one or two years. It got that way because he's quoted the account every year since the Carter Administration. Producers like Bob with bookshelves of big, fat files are time-sucking vampires who drain the lifeblood from your P&C marketing department with annual quoting exercises that he's not going to write. (OK…he's also a good guy…sorry!)

Now prove it to yourself by going to your favorite new-business Producer and look at his/her files…if he/she has any that aren't digitized. They are razor thin! They are one, maybe two years old, at best, and I'll bet there's at least two prospect files in his/her trash can, under the desk, that "aren't going anyplace anytime soon," you're told so he/she kicks the prospect to the curb by keeping in touch periodically without an emotional investment…waiting…just waiting.

Yes, it's true.

The good Producer has a tiny piece of paper in his/her wallet/purse with the names of (say) 30 accounts that are in various stages of animation, at all times (or on a PDA). The only fat files on his/her desk are renewals which don't seem to be opened and mysteriously re-appear on his/her CSR's/AM's desk, late at night, with an attending email asking them to "do stuff". You'll know who that CSR/AM is. They are the most ironically happy employees you have. The two of them seem to make a "couple" of sorts which defies logic because, at times, they want to kill each other! (They also laugh twice as much and truly respect each other.)

At least you have confirmed that Bob is aware of his less than stellar new-business report and wants to do something about it, but be honest and help him come-out from hiding behind those big fat files. He's not a Producer but he may be the quintessential Account Manager that young Producer down the hall needs, to grow his book more rapidly. Bob was a solid citizen until you decided to get serious about the agency's direction and performance. Now he's not, and Bob knew it before you.

Take Bob to lunch.

Nine out of ten times, Bob is too proud or oblivious to see himself in a "Handler's" role which he'd be great at. He can do the math too, so try to work with him by linking compensation to helping the young Turk(s). Maybe he trusts you enough to allow you to help him and his family? Maybe he remembers many of "his" accounts were inherited from past Producers, you gave him to justify his compensation? If so, he'll be a loyal and productive example until the end of time and you are well on your way to transforming the culture! But, blue boy…don't hold your breath. Hold your nose and forge ahead.

"Sales Managers"

1. I'm the lone-wolf on this one, but even in larger firms, only the people who have the "juice" in a firm, sit on the Board, or have massive books, and everyone knows it. If one of them is your Sales Manager then... 'Sales Manager" in name only.

OR

2. Your Sales Manager is probably the next President (even if he's not on the Board just yet) and everyone knows it and loves the idea! (Including you…as long as you get your run!) Biff drives leads, makes things fun, unselfishly helps others write accounts without a peep about "coding", is loved by the Carriers, is unbelievably approachable and insightful, is always upbeat and optimistic (even under pressure), and has brought-in three new Producers just like him.

Unfortunately, for most firms, the Sales Manager does little more than compile stuff. They report stuff. The not-so good ones horde stuff (good leads). Change all of that. Use the position as the platform to test the next generation's possible leaders…not reward someone for production, loyalty, or as a consolation prize to the corner office.

Here's another litmus test. Do you have such a person as #2 above? If not, ask why and then solve for "why". If you do, then why isn't that person the Sales Manager? If he/she is, you're a peach. You're the gold standard in your area. If you have that person, but he/she isn't the **S**ales **M**anager then:

A. You can't force the job on him/her because neither you nor he/she want to derail his/her sales contribution. If this is the case, you *really love* the TARP plan. (See: "Big picture" in Webster, code accounts to the guy to juice his book and compensation, put him on the Board, double his auto allowance and turn him loose!) Don't offer him $50,000 to take the added duties. I tried it a few times. It won't work. Offer him/her $300,000 in revenue, you have coded to yourself. Nothing warms his/her heart like that. Don't forget to given him/her an AM, who will cover his book too!

OR

B. Politically, it's not as easy as I make it sound. (Translation: you're threatened or will be threatened by "others" if you make the move, so you won't.)

Your "best" Producer maybe somewhat of a putz (insert the word I was thinking). Rarely, your best sales person is an open, nurturing, patient, understanding, and sage personality who delights in a "team sale" and is allergic to the bright-hot spotlight. If you've got one of those, for crying-out-loud, canonize the person.

Dan Romain
Broker's Path
Brokerspath.com
503-577-3866