

## **MATURING PRODUCERS THROUGH STAGED COMPENSATION PLANS**

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Every new producer in an agency tries to maximize his/her compensation when they join the organization. They are fearful that if they begin at a lower level of compensation, they will stay at that level or that they will never achieve high earnings potential. Unfortunately, it takes experienced producers from months to over a year to get productive and inexperienced producers up to three years. During that time, the agency must supplement their income to permit them to function. But the agency should not be enriching the producer at agency expense before a producer is able to justify his/her existence through active production. This means that, while a producer is not yet productive, the agency should not be expected to provide him/her monthly excess expendable income beyond their household and living expense needs out of agency funds.

The answer to this dilemma is to begin a producer at a compensation level sufficient to manage their households, but not rich enough that they are paid excess expendable income from the agency's coffers without their earning those income dollars. However, as the producer balances the agency's investment through production, (s)he should either automatically (or by choice) move from minimal compensation to a compensation program that will enrich them while they enrich the agency.

The best type of compensation plan combines Validation of a minimal draw with bonuses for production in excess of draw converting to one of three compensation methods (at the discretion of the producer) each of which will give the producer more compensation (and more risk). Finally, a Tier system allows the more productive producers to earn more money as their efforts yield higher returns to the agency. Here's an example of the compensation scenarios.

Stage One: Validate with commission/draw program to permit producer compensation sufficient to meet his/her needs while resulting in a return of agency's investment within three years

Stage Two: Convert from validation to salary, draw against commission or straight commission

Stage Three: Add tiering to reward producers who provide a higher marginal return to the agency through the size of their books of business.

## **STAGE ONE**

Whether an experienced producer, an experienced salesperson from another industry, or a trainee, it will take some period of time for the producer to offset his ('his' will hereafter always referring to 'his or her') expense to the agency with commission income.

An appropriate compensation plan including base salary and commission based on projected income earnings expectation is designed for each producer individually based on his income needs (not his income desire or expectation). Needs-based compensation assures that the producer can pay his base expenses but does not reward him before he can produce for the agency beyond his base needs. Why should a producer enjoy excess income over expenses at the 'dead' cost to the agency before he has matured his participation enough to produce sufficient commissions to earn that income?

The total compensation (including salary and any incentive compensation in the form of commission or bonus) must be offset by production over no longer than three years to balance the producer's total compensation at 25% - 33% of commissions generated. If his production balances to compensation sooner than the validation schedule, he can be transferred to Stage Two earlier, qualifying him for additional compensation and incentives.

The Validation Schedule **guarantees** the producer's position with the agency for three full years as long as his **sales call activity** is maintained at levels targeted by the agency (i.e. 3 calls/day, 4 days/week). The validation is measured by commission results. If commission results fail to meet expected levels for two quarters in a row, the salary is diminished by 10%/quarter until the validation commissions meet expected results. At that point the salary returns to original levels.

Example:

Producer hired and requires \$30,000 to manage his bills and expenses.

Validation Schedule for first year would result in \$30,000 of gross commission after which he would get 25% commission thereafter.

The Validation Schedule for the second year would require growth to \$60,000 commission with 25% for growth commission over \$60,000

The Validation Schedule for the third year would require growth to \$90,000.

As soon as the producer achieves \$90,000 of gross commission, or as soon as he attains a compensation level equal to 30% - 33% of commissions generated, he converts to Stage Two.

## **STAGE TWO:**

As soon as the producer validates to between 30% and 33% of generated commission in compensation, he qualifies to move into one of three permanent compensation programs (his choice);

1. Straight salary at 25% of prior year's gross generated commission (no decrease in compensation, even if gross commission decreases, but no increase until and unless annual gross commissions exceed 4X compensation)

2. Draw against commission at 30% of commission with monthly draw amounts adjusted annually based on prior year gross commission
3. Straight commission at 33% of gross commission generated each month

**AND**

5% additional commission for every commission dollar generated for the rest of the year after the producer achieves the level of gross commission generated in the prior year.

The producer can choose to move from program 1 to 2 or 3 or from 2 to 3 at any time but can only move backwards in compensation program at the beginning of any year. A backward move DOES cause an adjustment to compensation in accordance with the program selected.

Once the producer achieves an agency-specified gross commission level (i.e. \$200,000), he qualifies for Stage Three.

### **STAGE THREE:**

At each additional \$100,000 level of annual gross commission from \$200,000 to \$400,000, that the producer achieves, he will earn an additional 5% above whatever form of compensation he has selected.

Example:

At \$200,000 of gross commission, the salaried producer gets 30% of commission as salary, the draw producer gets 35% and the commissioned producer gets 38%.

Producers in Stage three still qualify for the additional 5% for commission in any year after exceeding prior year gross commission. So a high tier (i.e. \$500,000 gross commission producer on straight commission could earn as much as 48% commission AND a 5% bonus for commissions generated over \$500,000 as he continues to grow). It is assumed that high level stage three producers are considered for agency equity in which case compensation may convert to straight executive salary with a commission bonus.

This tiering of commissions for highly productive producers is justified because the marginal expenses of managing a \$200,000 is smaller than that of less productive producers and at each \$100,000, more of the revenue falls directly to the bottom line of the agency.