

Producer Compensation Issues and Answers



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MarshBerry Overview

Offices

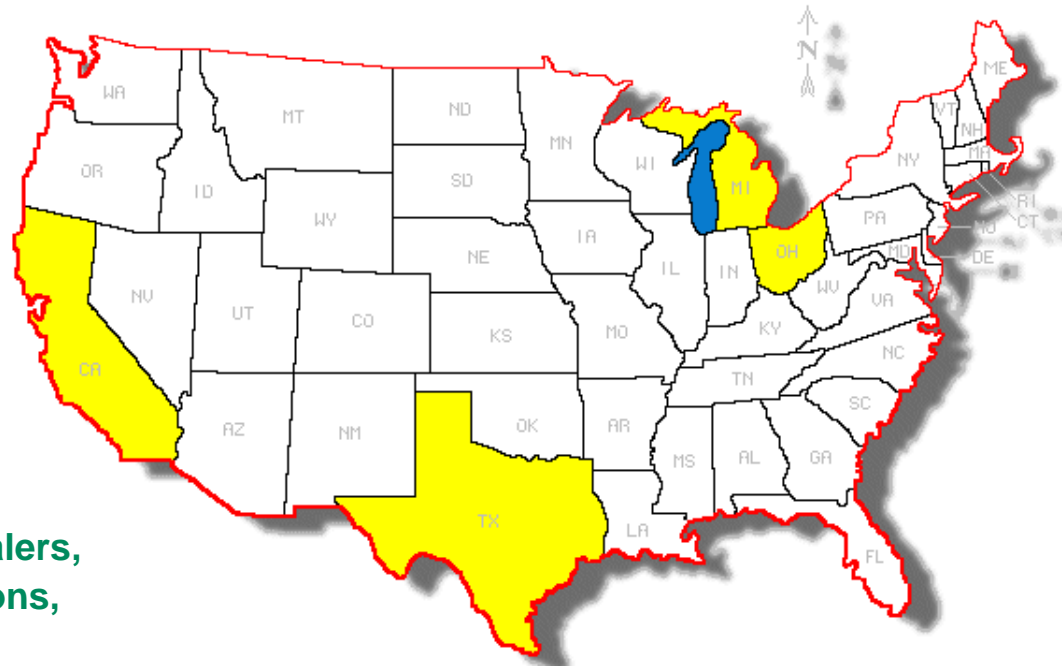
1. Willoughby, OH (corporate office)
2. Dana Point, CA
3. Grandville, MI
4. Frisco, TX

Cientele

1. Insurance Agencies, Brokers, Wholesalers, Program Managers, MGAs, Credit Unions, Insurance Companies and Banks
2. National Firm with Over 900 Clients in 50 States

Firm

1. Founded in 1981
2. Privately-held
3. 17 Shareholders
4. Perpetuated Ownership



MarshBerry Solutions

Information Services

Benchmarking Services

Perspectives for High Performance (PHP)
Sales Portal – Pipeline / Service Timeline
Confidential Employee Morale Indexing
Perpetuation Preparedness
Operational Assessment
Sales Management Benchmark Report

MarshBerry.com

Performance Calculators
Forms & Documents
Position Descriptions
Discussion Groups
Research Studies
Market Data
On-Line Value Estimator
Published Articles

Monthly Publications

The MarshBerry Letter

- a. Market & Financial
- b. Agency Compensation
- c. Agency Operations
- d. Surveys

For The Record (Statistical Analysis)
Dealmaker's Dialogue (M&A Advisory)

Public Speaking Engagements

Keynote / State of the Industry
Topical education

Carrier Services

Distribution System Management
Field Personnel Training and Development
Agency Management Symposiums

Peer Networks

Agency Peak Performance EXchange (APPEX)

Over 115 Agencies
Over \$1.1 Billion Revenue

Bank Agency Network (BANK)

Over 25 Banks
Over \$1.0 Billion Revenue

Total Agency Sales Culture (TASC) Network

Over 35 Agencies
Over \$1.1 Billion Revenue
Nation's leading organic growth agencies
Enhanced new business production and retention strategies

Royal Sun Alliance (RSA) Summit Brokers Improvement Network

Canadian agencies affiliated with Royal & Sun Alliance Insurance Company

Standard Partner Services

State of the Industry Research
CEO Peer Exchange / Networking
Semi-annual Conferences
Semi-annual Consultation
Regimented Benchmarking Services
MarshBerry.com
The MarshBerry Letter and other Monthly Publications
Priority Consulting Opportunities
Exclusive Programs
Distance Learning Groups (DLGs)

Management Consulting

Sales Management

Cultural Mapping and Alignment
Producer Goal Setting
Sales Portal – Pipeline / Service Timeline
Accountability / Compensation Design
Producer and Sales Manager Training
Differentiation Design and Execution

Business Planning

Strategic Business Planning
Execution / Action Plan Management
Strategic Options Analysis

Agency Valuation

Agency Fair Market Valuation
ESOP Valuations by Certified Appraisers
Valuation Assessment

Perpetuation Plans

Perpetuation Plan Design
Plan Execution Management
Transfer Strategies (Stock / Leadership / Books-of-Business)

Financial Consulting

Internal Financial Controls
Compensation Consulting
Value Enhancement Planning
Contingent/Supplemental Plan Mgmt.

Operational Consulting

Staff Workload / Comp. Management
Workflow and Procedures
E&O Audit, Policies and Procedures
E&O Market Access

Recruiting

Position profile, search, screen, hire
Compensation development plan
Technical and sales training - year one

M&A Advisory

Strategy

Acquisition Planning
Deal Return Modeling
Strategic Options Analysis
Alternative Buyer Comparison

Preparation

Sale Preparation Management
Offering Memorandum Development
Strategic Pitch Book Design
Candidate Profile Creation

Representation

Buy Side Representation
(including Search and Screen)
Sell Side Representation
Letter of Intent / Negotiation
Creative Deal Structure Alternatives

Analytics

Agency Fair Market Valuation
Market Comparables / Benchmarking
After-Tax Return Optimization
IRR, ROI and EPS Analysis

Execution

Diagnostic Due Diligence
Confirmatory Due Diligence
Intangible Asset Allocation – GAAP Rep.
Fairness Opinion
Definitive Agreement (Best Terms / Conditions)

Post-Deal Management

Post-Closing Integration
Goodwill Impairment Testing
Peer to Peer CEO Exchange
Earn-Out Maximization Consultation

Producer Compensation

Lower the compensation %, the higher the compensation \$



Lowest W2

- ◆ Inflated renewal compensation
- ◆ Level new and renewal commission %



- ◆ Lack of cash flow to upgrade service staff
- ◆ Producers are the account executives



- ◆ Low new business production
- ◆ Small books of business
- ◆ Lower retention
- ◆ Lower contingents and growth bonuses
- ◆ Higher E&O
- ◆ Failure to shift to a sales culture

Highest W2

- Lean renewal compensation
- New %, renewal % differential



- Cash flow to upgrade service staff
- Account executive staff in place



- High new business production
- Large books of business
- Higher account retention
- Higher contingents and growth bonuses
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- Total agency sales culture

How Can We Grow?

Economics 101

GROWTH DRIVERS

1. Acquired Growth

2. Organic Growth

a. Add a new Product to the Mix

b. Increase Price

c. Sell More Existing Products/Services

d. Rates/Exposure Base Increase

Agency Control

Limited

Limited

Direct

Market/Limited

Can Your Agencies Reach the Top 25?

TTM as of 6/30/2011	Average	Top 25%
New Business as % of Prior Year Comm. & Fees	13.2%	21.1%
- Leakage (Rate, Retention, Compression)	<u>12.0%</u>	<u>12.4%</u>
= Organic Growth	1.2%	8.7%
+ Acquired Growth	<u>1.2%</u>	<u>3.0%</u>
= Total Growth	2.4%	11.7%

Bank Owned Agency Statistics

2008-2011 Averages

1. **New Business as a % of Prior Year Commissions and Fees**
 - a. **Average:** 13.35% (2011: 14.8%)
 - b. **Best 25% of Average:** 20.60% (2011: 23.3%)

2. **Organic Growth (Commissions and Fees)**
 - a. **Average:** -1.65% (2011: -1.2%)
 - b. **Best 25% of Average:** 7.13% (2011: 4.9%)

3. **Leakage**
 - a. **Average:** -15.00% (2011: -16.0%)
 - b. **Best 25% of Average:** -13.25% (2011: -17.5%)

Sustaining and Predictable Organic Growth Challenge

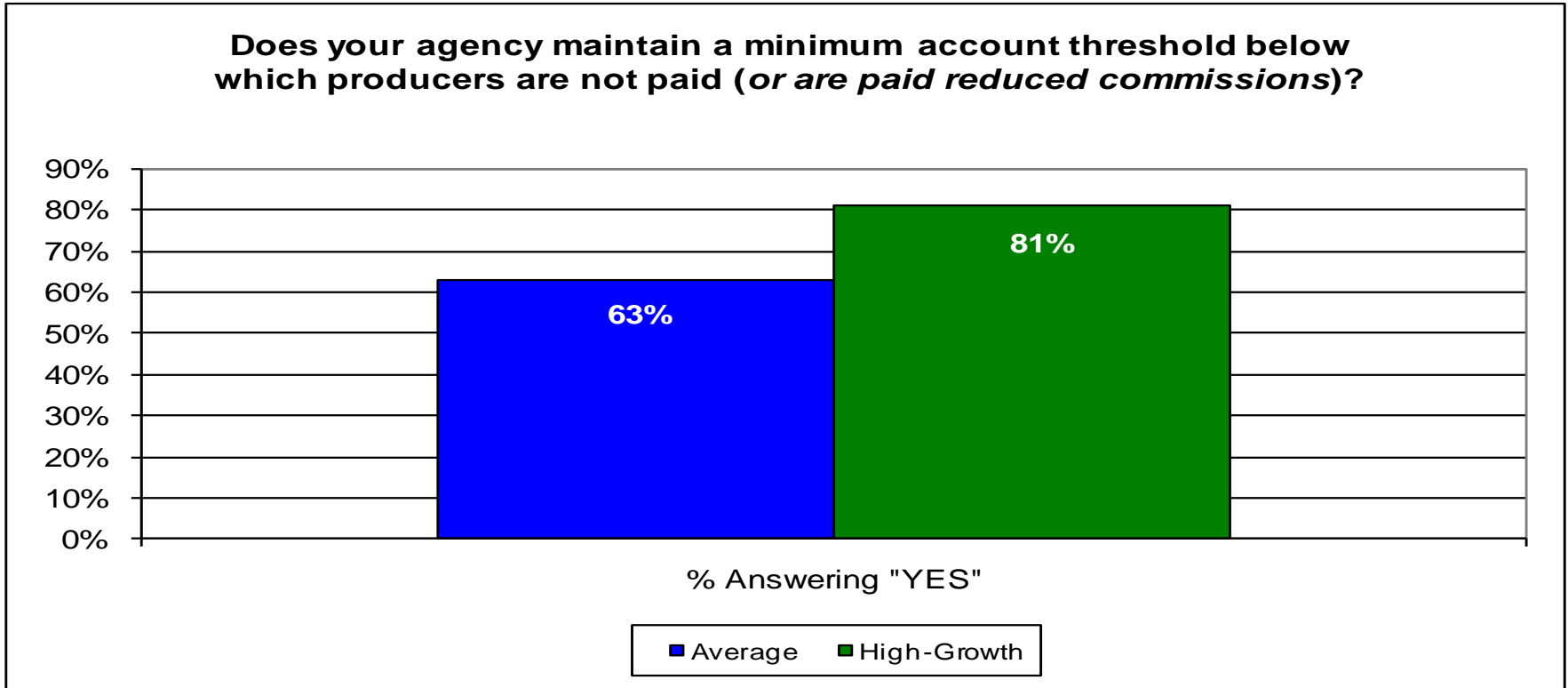


The Challenge of Organic Growth:

- Average organic growth rates are ranging between *negative* 1.0% and 4.2%
- Retention rates stagnant at 85% to 90%
- Increasing competition on the horizon
 - Top-line brokers attacking middle market accounts
 - Limited agency reinvestment/tight expense controls
- Absence of world class sales practices
 - Account management
 - Goal setting, accountability & tracking
 - Executive level coaching
 - Meaningful and consistent client communication
 - Differentiated customer contact
 - Proactive vs. reactive retention strategies

Implication: Fair investment returns to shareholders becoming increasingly difficult

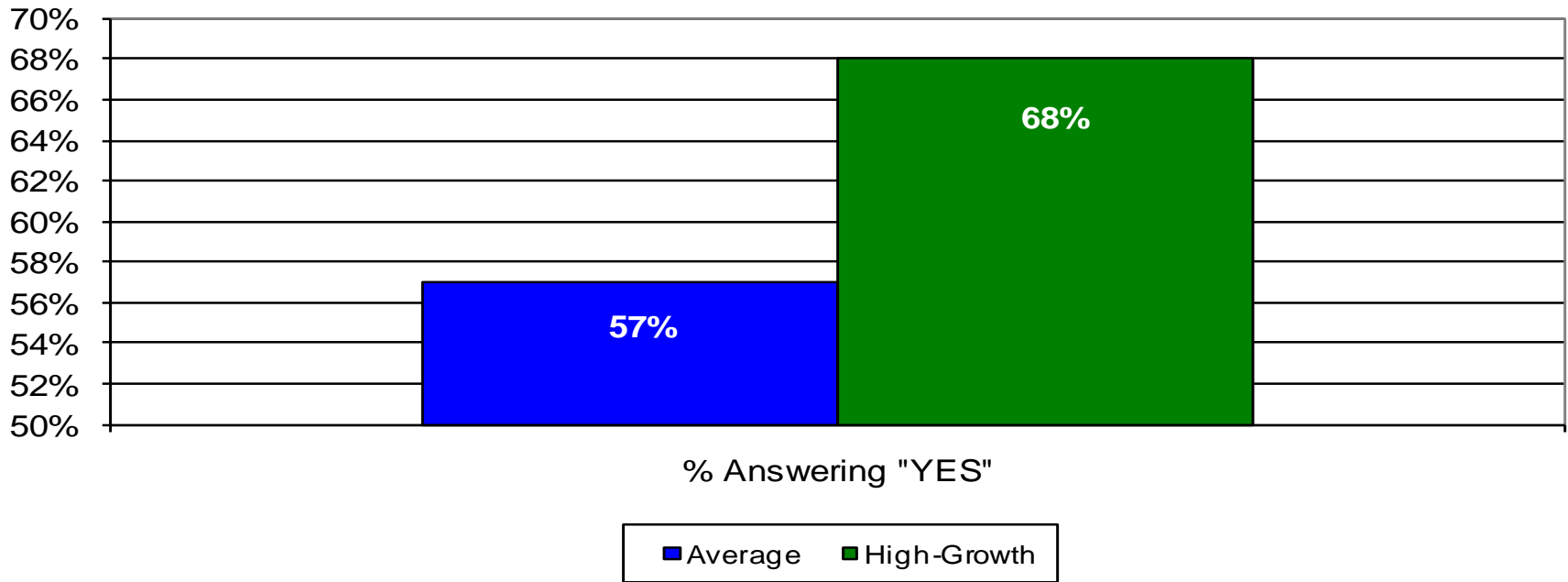
Create a High Growth Agency



High Growth Agency's don't pay under \$4300 for CL

Create a High Growth Agency

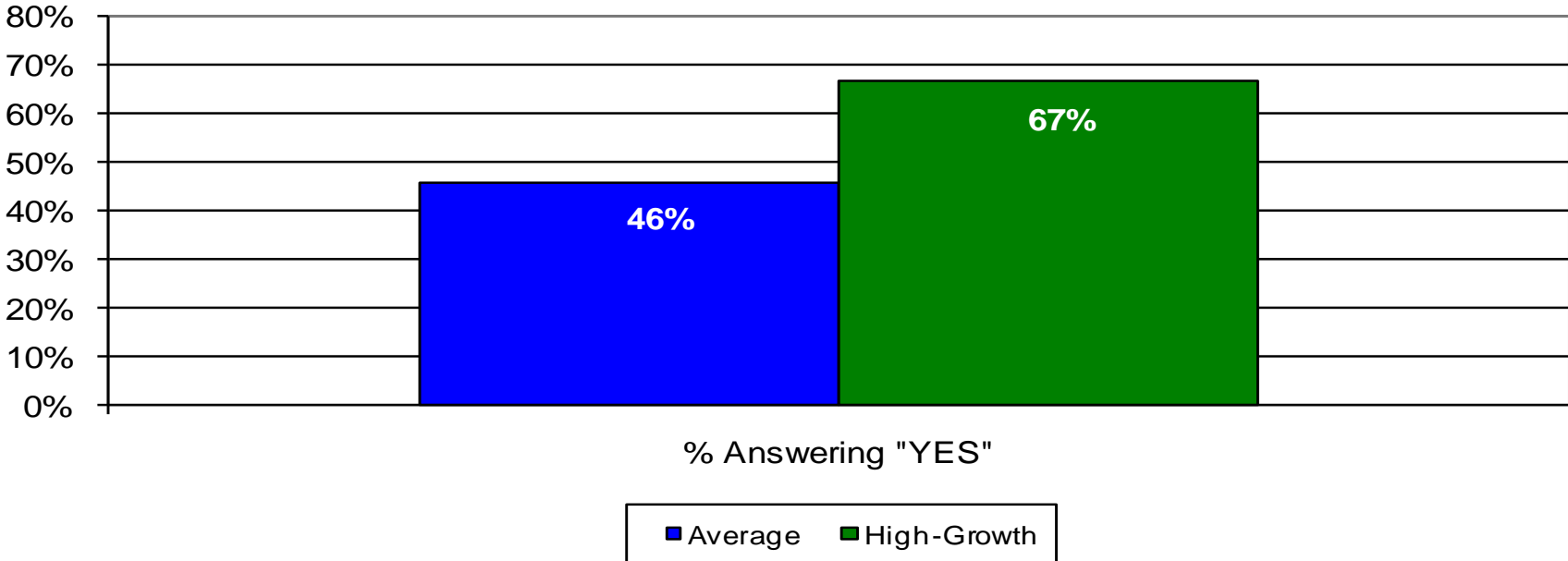
Do producers have minimum annual new business production goals to retain producer status?



High Growth Agency's minimum is over 83k! What is yours?

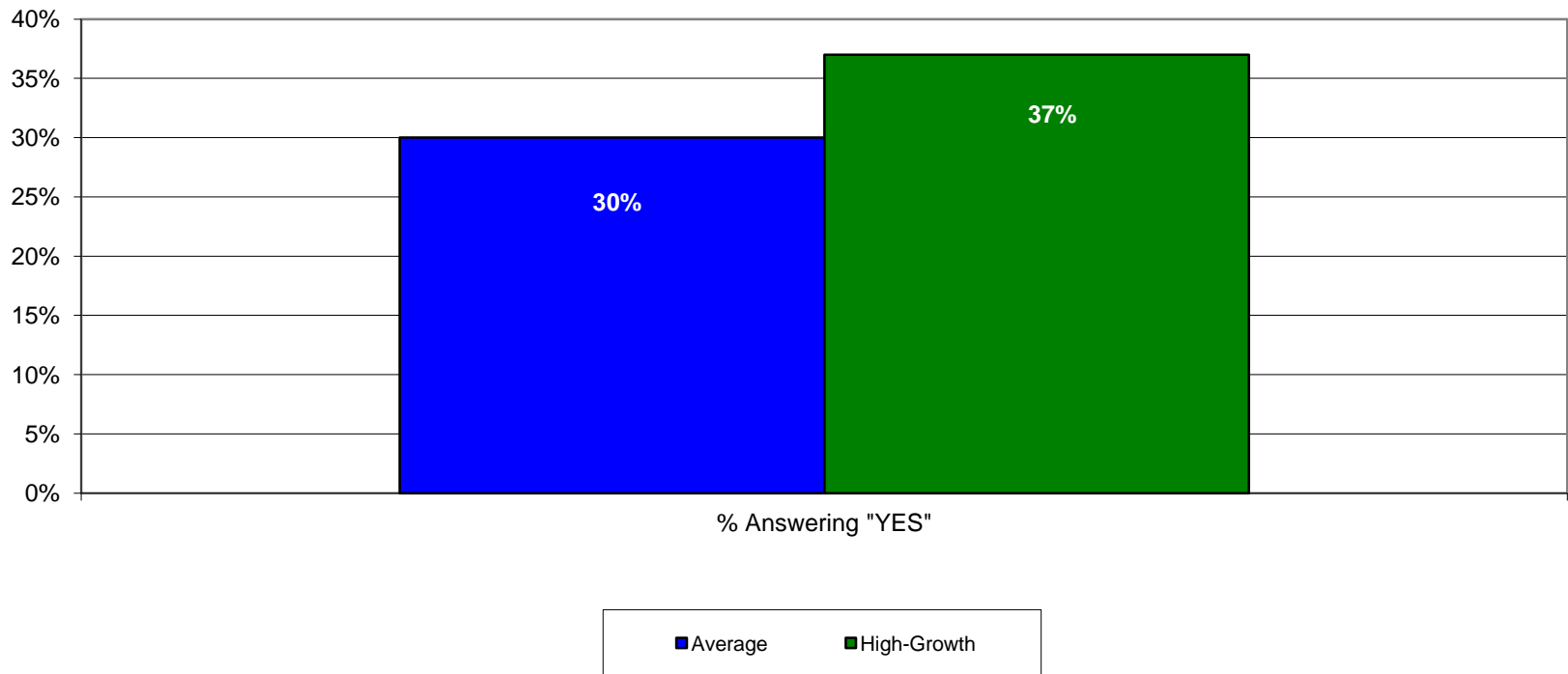
Create a High Growth Agency

Does your organization maintain producer accountability & tracking systems (i.e. relative to number of calls, appointments, submissions, proposals, accounts closed & new business commissions)?



Cross Sell Goals

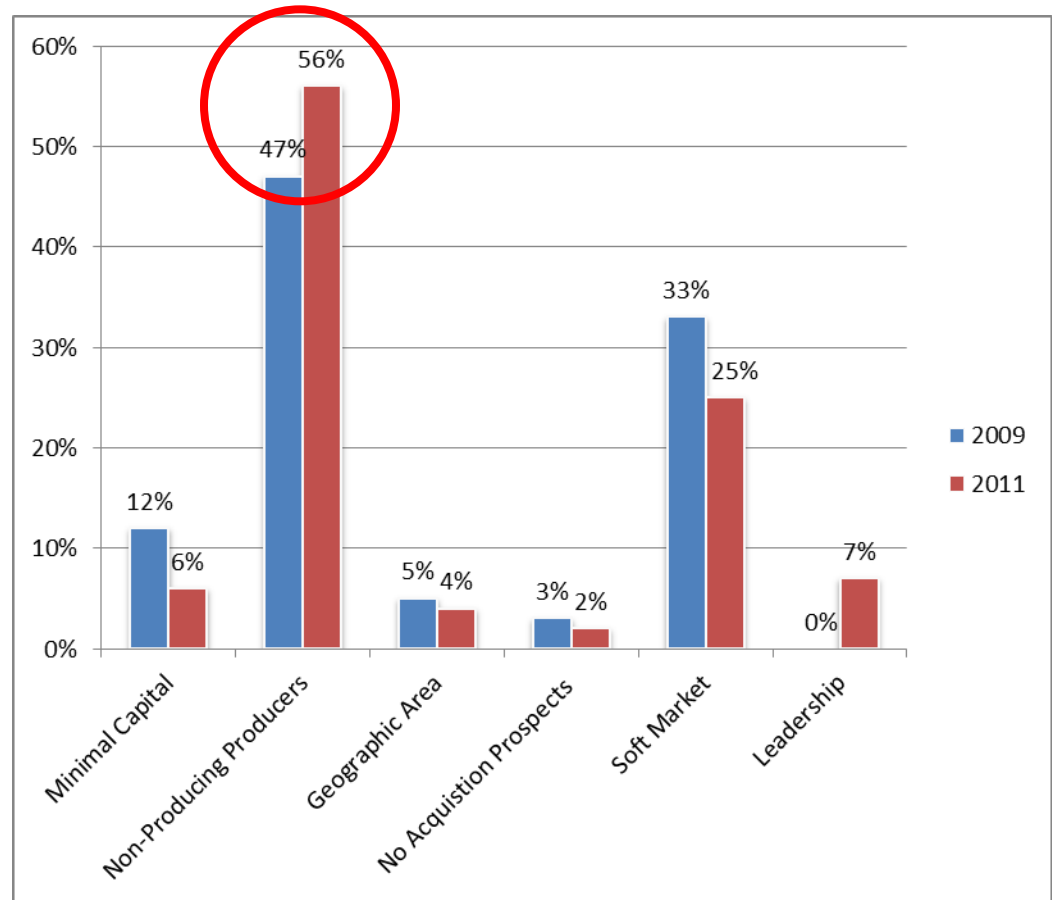
Do you have established internal cross-sell / referral goals between production lines of business?



Growth

What is your single largest obstacle to growth over the next three years?

1. Non-producing producers
2. Soft Market/Economy
3. Leadership
4. Minimal Capital
5. Geographic Area
6. No Acquisition Prospects



Producer Capacity

Define roles and restructure to drive growth



Producer → Producers produce new business

Account executives manage producer books of business

Compare Your Agency's Producers:

Do They?

- Effectively manage capacity of getting new while maintaining existing
- Know what subjects to chase based on carrier appetite
- Consistent Sales Strategy/Methodology to your product offering
- Constantly Developing/Qualifying business opportunities
- Building successful joint business relationships

Case Size vs. Account Size

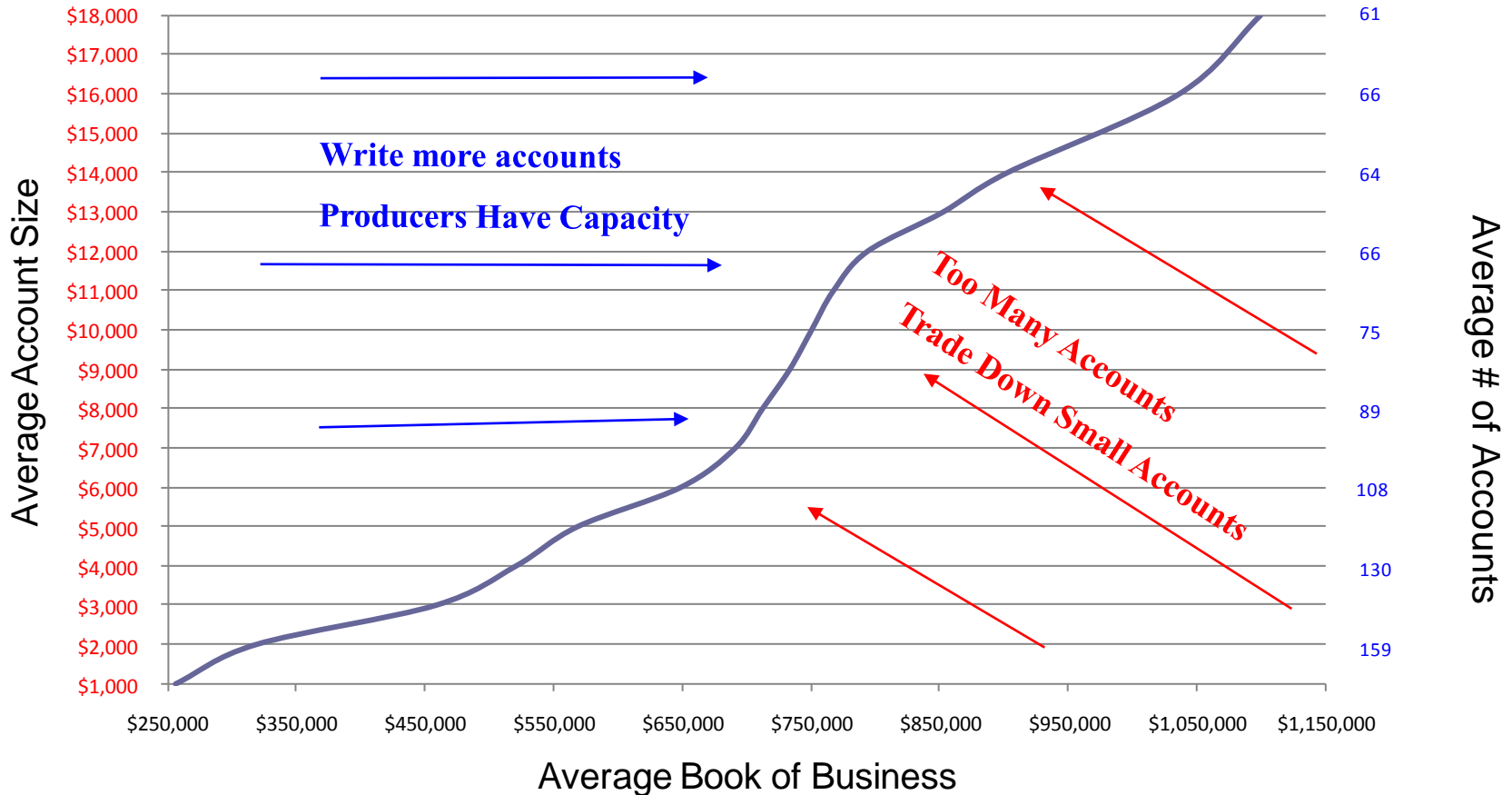
Average Account Size

<u>Producer Average Account Size</u>	<u>Producer Average Performance</u>	<u>Producer Best 25% Performance</u>
\$ 1,000	\$ 354,143	\$ 533,153
\$ 2,000	\$ 443,254	\$ 659,124
\$ 4,000	\$ 554,787	\$ 814,859
\$ 6,000	\$ 632,622	\$ 922,500
\$ 8,000	\$ 694,384	\$ 1,007,390
\$ 10,000	\$ 746,413	\$ 1,078,579
\$ 12,000	\$ 791,804	\$ 1,140,464
\$ 14,000	\$ 832,329	\$ 1,195,550
\$ 16,000	\$ 869,106	\$ 1,245,411

Practices of High Growth Agencies

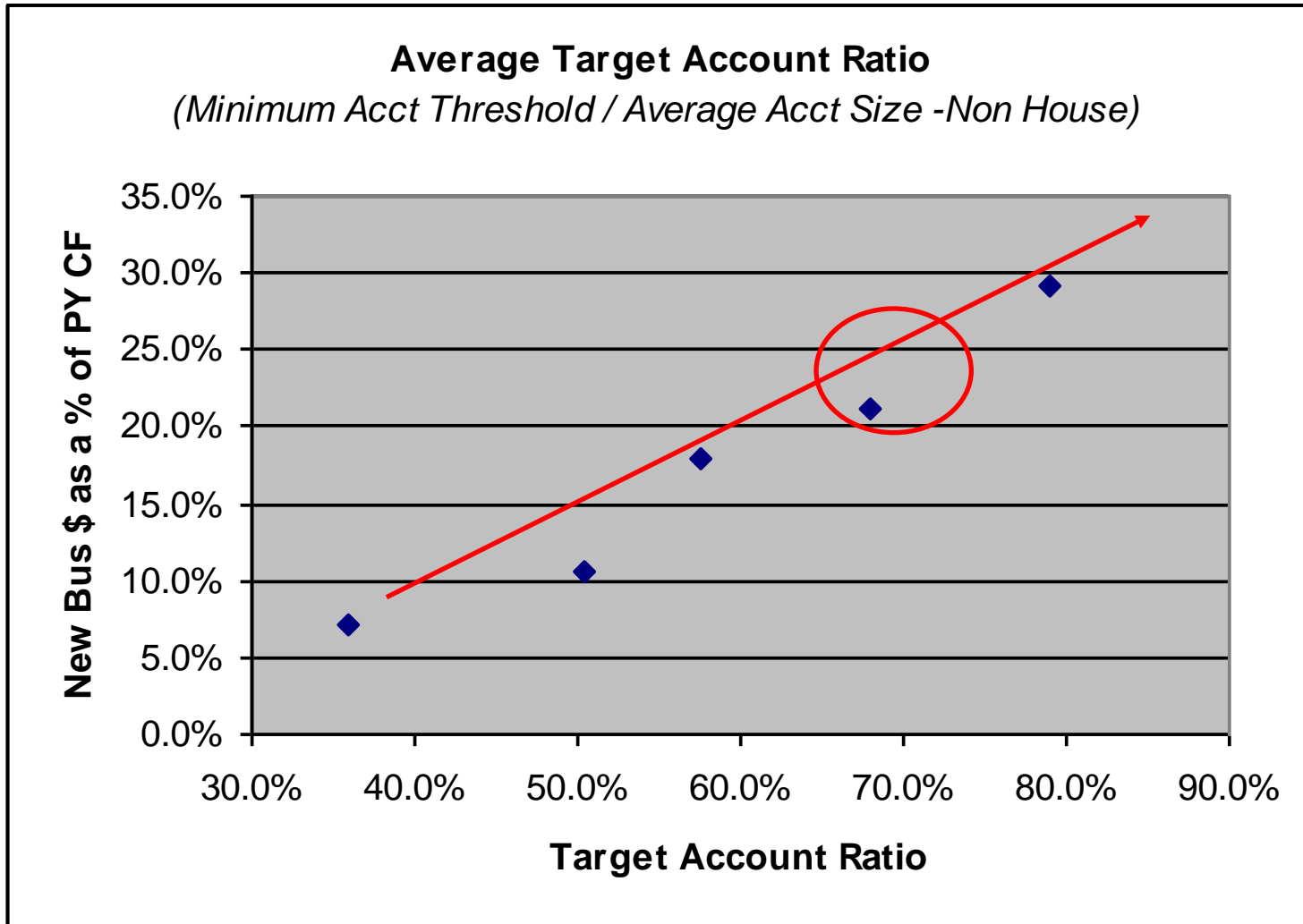


Average Book of Business Relative to # of Accounts and Account Size

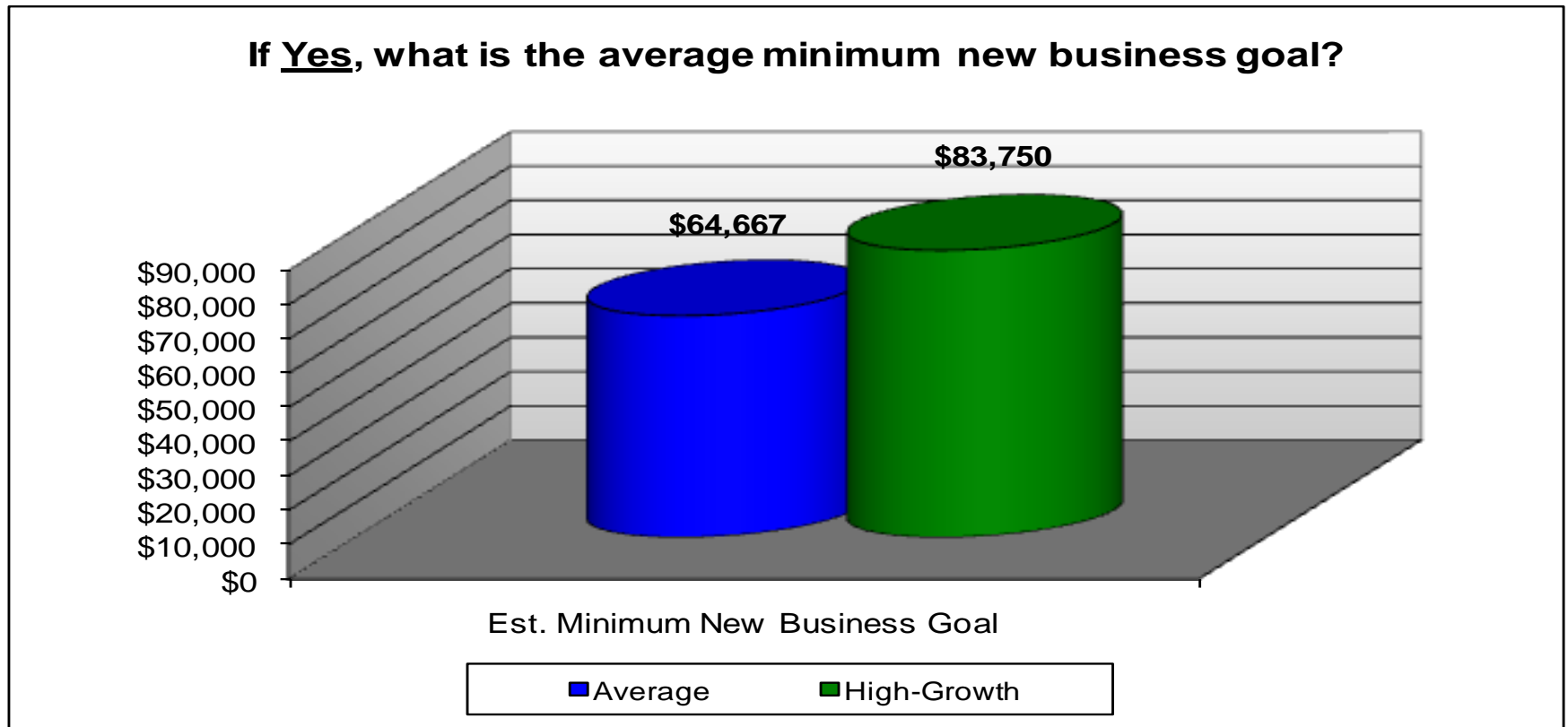


Focus and Clarity:

Establish Your Minimum Account Threshold at Minimum of 70% of Average Account Size (Non-House)



New Business Goals

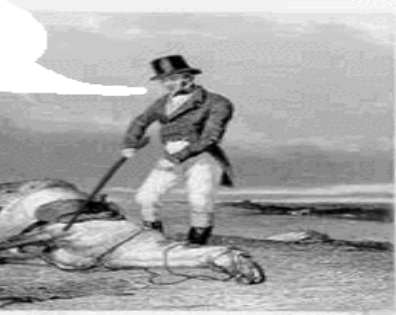


Goal setting is the driving force for your prospecting methodology! Where you're headed.

Change Prevails

Redefining The Roles/Responsibilities of a Producer

Come On Get Up
and Go!!!!

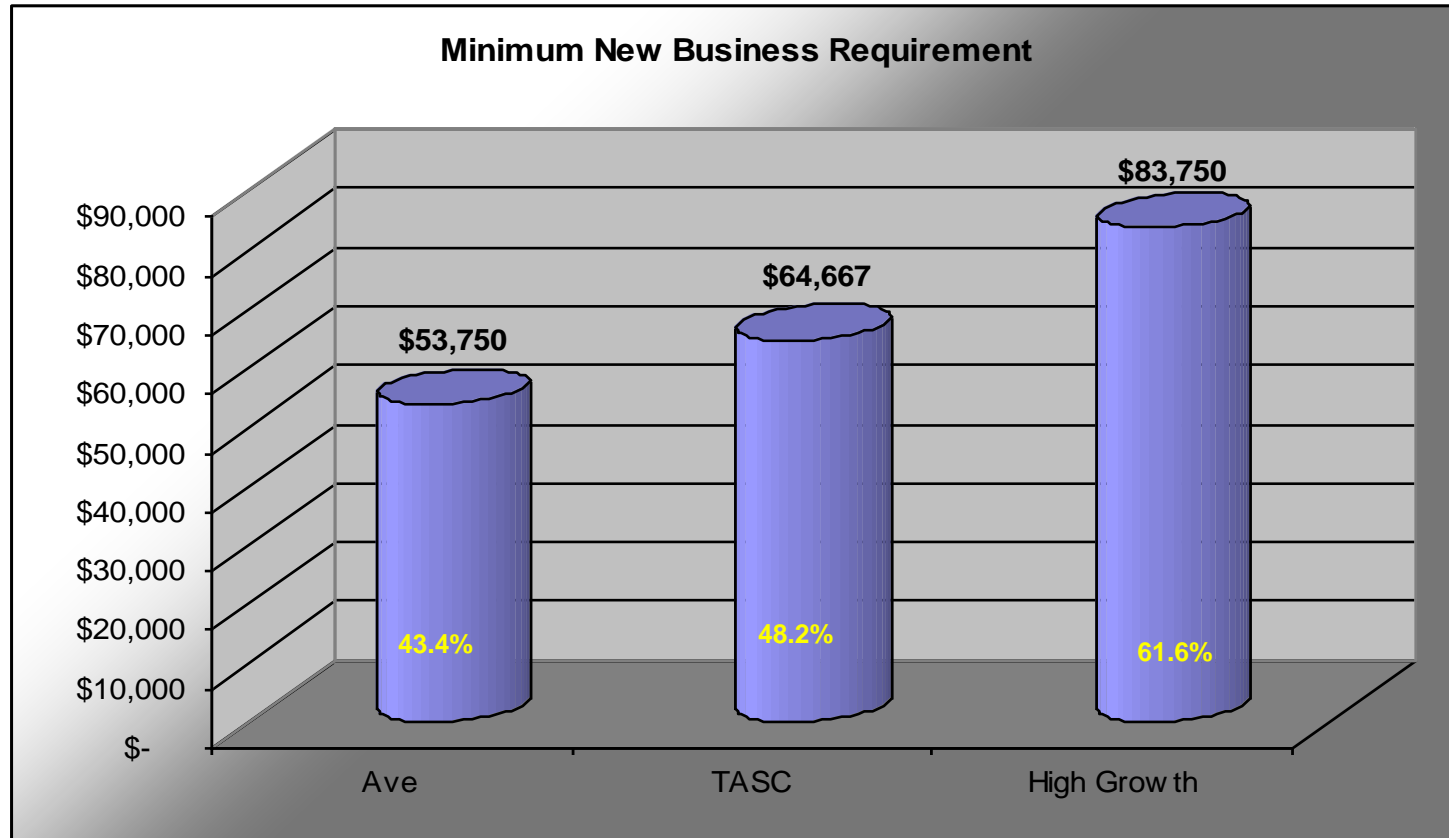


Tribal wisdom: “when you discover you are riding a dead horse...”the best strategy is to dismount.”

- Buy a bigger and stronger whip for the dead horse
- Change Riders
- Visit other agencies to see how they ride dead horses
- Appoint a special team to revive the dead horse
- Create a training session to increase our dead horse riding ability
- Harness several dead horses together to increase speed
- As a last resort.. Promote the dead horse to management

Setting and Enforcing Minimum Expectations

Raising the Bar



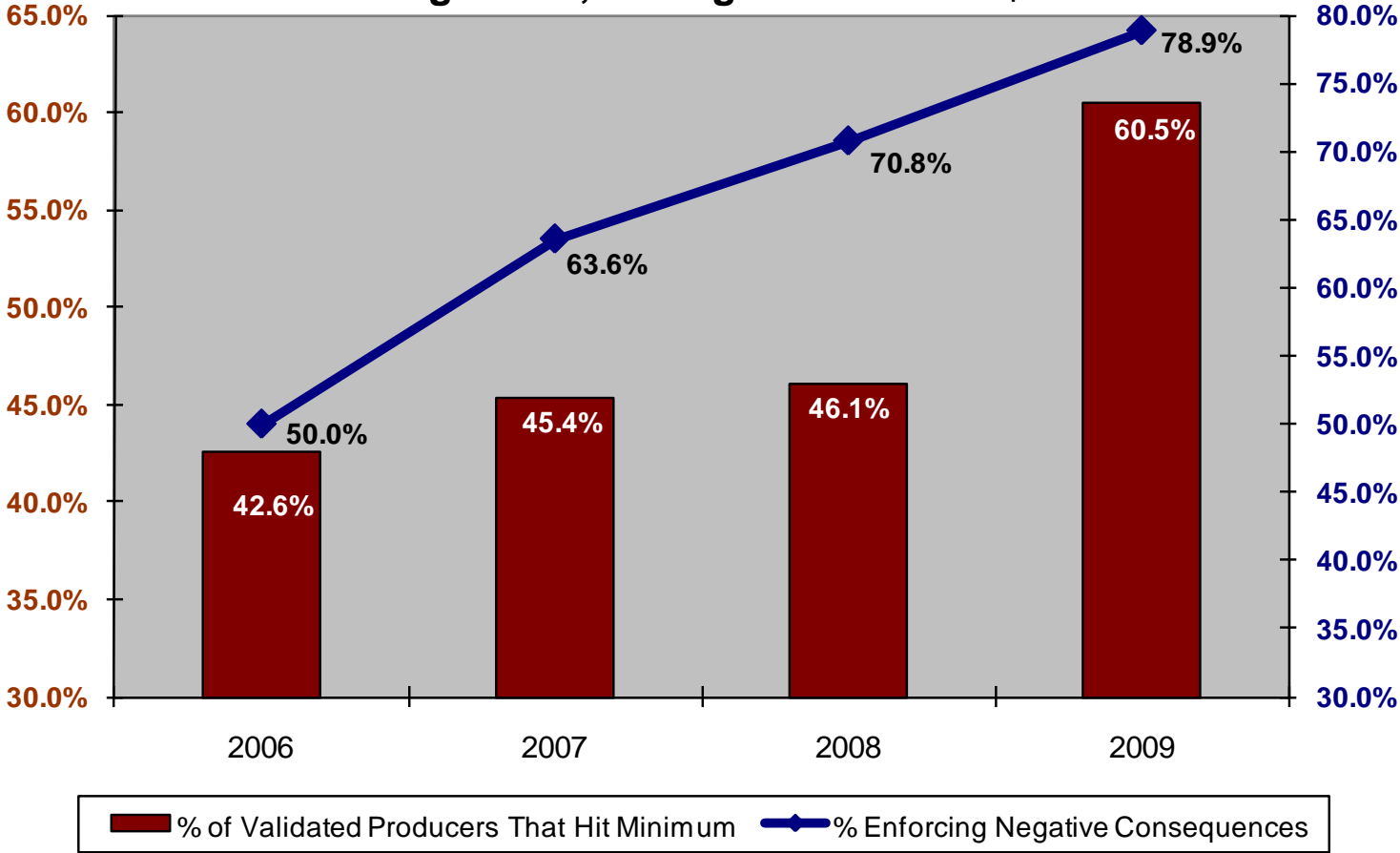
** %'s represent the percent of senior, executive and million \$ producers who achieved the minimum new business requirement*

Producer Accountability

The Majority Have Drank the Kool-Aid, Have You?



Large Agency Organic Growth Study Group:
40 Agencies, Average Revenue of \$30M



Producer Accountability

The Carrot: Excess Compensation Potential



NB Target: 20.0% PY Book

New Business Percentage

Renewal Percentage

Current Split	Exceed Target By:		
	<u>20%</u>	<u>30%</u>	<u>40%</u>

40%

45%

50%

55%

25%

25%

25%

25%

Producer Accountability

The Stick: Negative Consequence Enforcement



Minimum Target: 15.0% PY Book

	Current <u>Split</u>	Miss Minimum		
		<u>Yr 1</u>	<u>Yr 2</u>	<u>Yr 3</u>
New Business Percentage	40%	40%	40%	0%
Following Year Renewal Percentage	25%	20%	15%	10%

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**In a market with firming renewal rates,
don't let 2012 become the year of
complacency.....**



MARSHBERRY

Exceeding the Standard

