

[View this email in your browser](#)



ReaganView

Producer Recruiting and Development - A Necessity

To our friends and clients,

Producer recruiting and development continues to be a necessity for agents and brokers. Why is this? Producers are the lifeblood of the agent and broker business. They produce the revenue that allows others to be employed. They are analogous to the machinery in a manufacturer or the source code in the software world. Without them, the company does not exist. As our industry has continued to age, producer recruitment has received additional attention, as production talent is not only needed to generate new business, but also to retain the revenues originated by retiring producers.

This is an issue for all agents and brokers, regardless of size. In 2018, we were able to represent several agents and brokers that decided to partner with larger, national firms. During the evaluation process, sellers often ask the potential partners about their current strategic priorities. Almost without exception, producer recruiting and development is at or near the top of the list. This is the #1 issue for the industry, perhaps now more than ever.

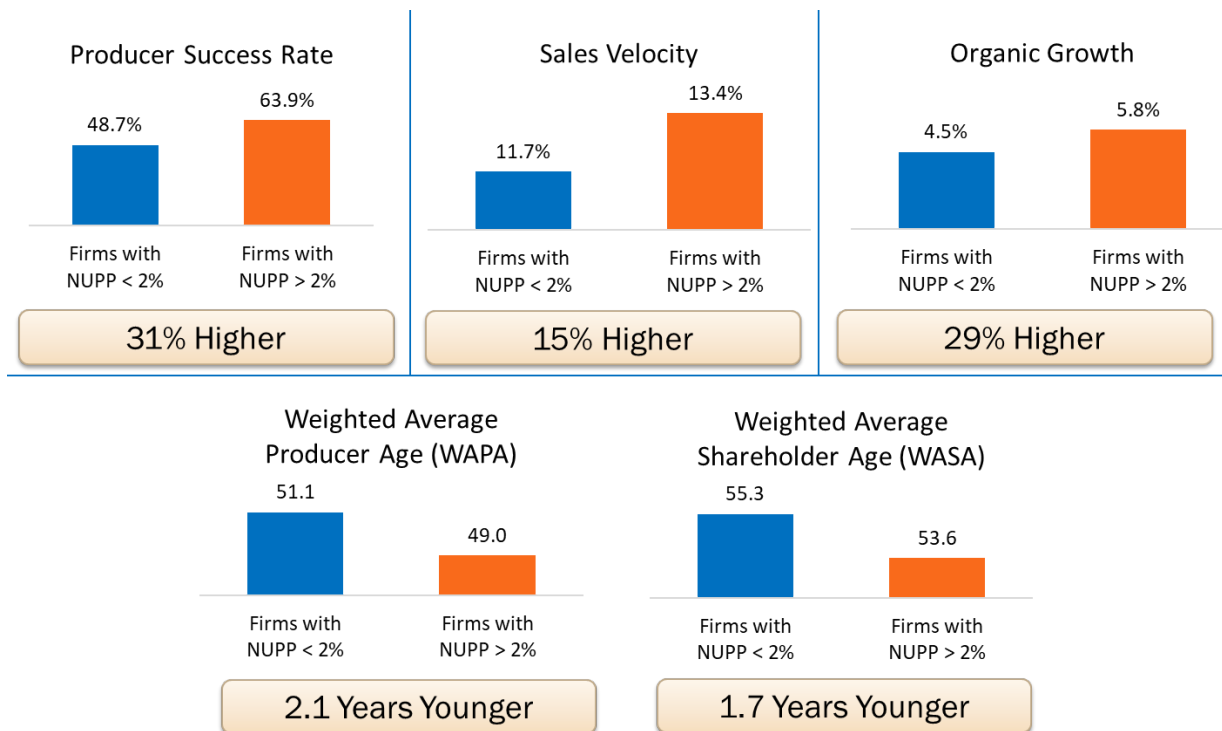
Regardless of the demographics, trends or what others are doing, some firms still have not embraced producer recruiting and development, with one broker executive stating, "producer recruiting and development is one of the worst investments an agent or broker can make." Others have embraced producer recruiting and development, but not at levels that will sustain them into the future.

So, what is an appropriate level of producer investment? While the answer varies for every firm, depending on their demographics and past hiring practices, we developed a metric called the Net Unvalidated Producer Payroll, or NUPP, that serves as a good benchmark. It is a simple calculation that is demonstrated below.

Producer	Book of Business	Agency's Blended Commission Rate	Validated Compensation	Guaranteed Annual Compensation	Unvalidated Compensation
Producer 1	50,000	28.0%	14,000	60,000	46,000
Producer 2	100,000	28.0%	28,000	125,000	97,000
Producer 3	9,000	28.0%	2,520	40,000	37,480
Producer 4	-	28.0%	-	50,000	50,000
Total	159,000		44,520	275,000	230,480
Agency Net Revenue		10,000,000			
NUPP		2.30% $C - (A \times B) / \text{Net Revenue}$			

We advise clients to target a NUPP between 1.5% and 2.0% as an on-going level of investment. These levels of investment produce tangible results and ensure long-term sustainability, as well as value creation.

To test this recommendation and to provide some data from clients who push back on this level of investment, I recently analyzed the most recent results of the 2017 Reagan Value Index (RVI). The RVI is a select group of approximately thirty privately-held independent agents with a median net revenue of \$30,000,000 for whom Reagan Consulting performs annual fair market valuations. In one data set I evaluated RVI firms with a NUPP less than 2.0%, and in another RVI firms with a NUPP of 2.0% or greater. As it turns out, those with a 2.0% or greater NUPP are experiencing materially higher success across the board and generating better returns for their shareholders. Here is a look at the key findings:



Producer recruiting and development works, not just for ensuring the sustainability of your firm, but for generating strong shareholders returns as well. Regardless of the path you choose, it is a necessity.



ReaganView is Reagan Consulting's forum for providing an occasional perspective on issues and opportunities relevant to the insurance distribution system

Contact Us

[Check out our Latest Transactions](#)



Copyright © 2019 Reagan Consulting, All rights reserved.

Want to change how you receive these emails?
You can [update your preferences](#) or [unsubscribe from this list](#).