Calibrating Producers:
A Key Tool for Effective Salesforce Management

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Managing the productivity and growth of the salesforce is of vital importance to securities firms, life insurance companies and other financial product distributors. Based on experience with several large brokerage firms and life insurance companies, The CBM Group, Inc. has developed an effective quantitative tool for measuring, predicting and managing the performance of salespeople, be they brokers, insurance agents, or financial planners. This new tool, the "producer caliber", provides a much sharper view of salesforce performance than that provided by traditional measures.

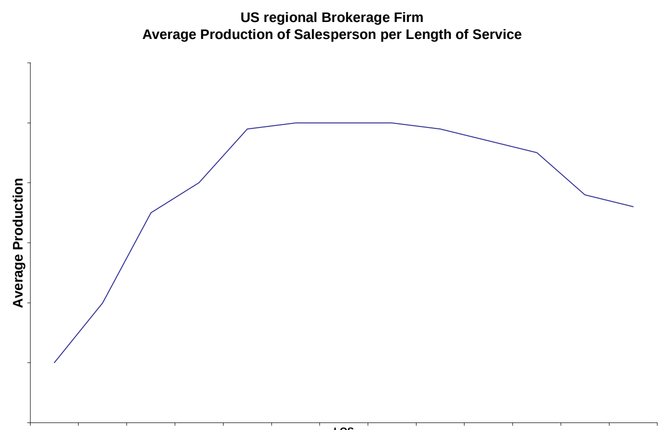
Traditionally, firms have measured performance in terms of gross production ("gross") for brokers and first-year premium (FYP) or first-year commissions (FYC) paid to the agent for life insurance salespeople. Such measures track the revenue or premium/commission associated with a salesperson, but they offer limited insight.

Firms therefore started to *rank* producers and/or classify each producer in quartiles, quintiles, deciles, etc. relative to the overall salesforce.

Rankings are interesting. They show a salesperson's relative performance as compared to the overall salesforce. Furthermore, they have some predictive power: producers tend to remain relatively consistent over time. Top producers remain top producers, mediocre ones remain mediocre.

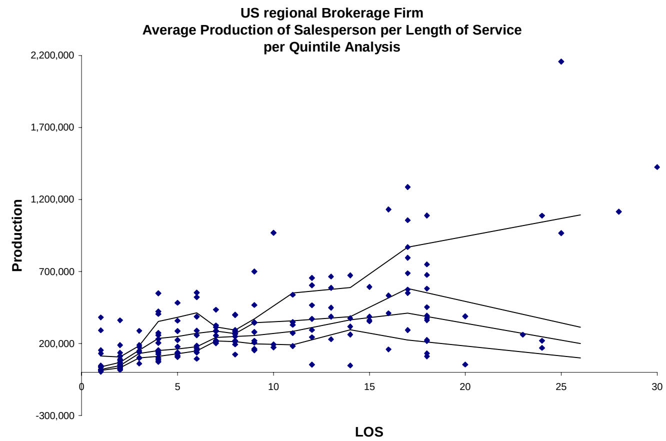
A more sophisticated and useful measure can be obtained by "benchmarking" salespeople relative to their own "length-of-service" (LOS measured as years in the business) class or cohort.

As is well known, salespeople tend to follow a characteristic "lifecycle", as illustrated in the graphs below.



In the beginning of their career, production increases at a rapid pace, and then its growth rate slows down. After a few years, many salespeople tend to level off at a comfortable "cruising speed". The best salespeople however continue to grow their production throughout most of their career. As salespeople age, their production eventually declines. Clearly, producers should be ranked not relative to the overall salesforce, but relative to a relevant peer group, their LOS cohort.

The “lifecycle” view of the producer can be used to develop a more insightful view of performance for the salesforce. We call this the “spaghetti” chart analysis. On the graph below, each of the “spaghetti” strands symbolizes a quintile (top 20%, second 20% etc. of the population). Each point represents a producer, with his length-of-service (LOS) and production level. The analysis represents a snapshot of the salesforce at a point in time.

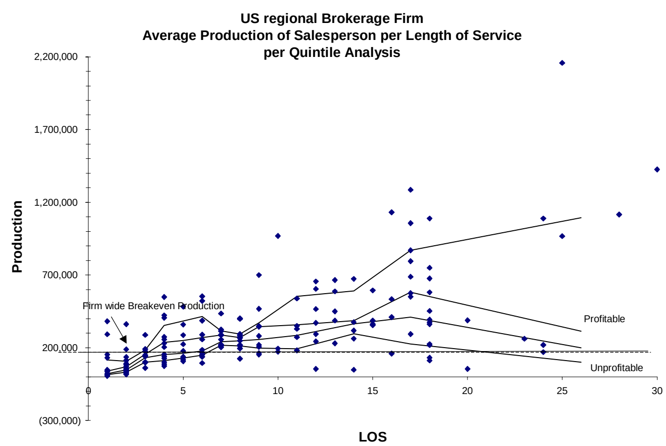


For each of the length-of-service (LOS) cohorts, producers can be ranked or “benchmarked” within a meaningful peer group: all of the producers who started out in the business at the same time, in similar market conditions.

Typically production is widely skewed within each LOS category. For a typical securities firm, the “lowest 10%” broker production might be around $150,000 of “gross” while the “top 10%” broker production might be around $2,000,000 of “gross”.

For a typical insurance companies, the “lowest 10%” agent production might be about $25,000 in FYP equivalent and the “top 10%” agent production about $300,000 in FYP equivalent.

Moreover, the “spaghetti” chart provides useful management insight into the economics of the salesforce. We estimate a reasonable breakeven production per broker is about $200,000 or so on a full cost basis and about $35,000 for a life insurance agent. Based on these estimates the chart highlights the unprofitable salespeople.



Going beyond the tools outlined above, CBM has developed a brand new metric – the producer caliber - that allows management to predict accurately a producer's future performance based upon his early track record on the job.

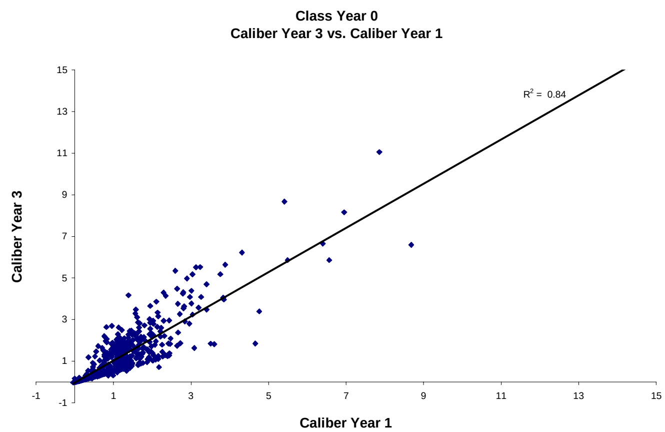
The caliber concept is based on an empirical observation: producers preserve not only their production ranks but they also preserve their production ratios to each other. In other words, take any two brokers from the same cohort.

- Assume that in the year 2001 broker A did $300,000 "gross" in 2001 while producer B did $150,000. The ratio of Production A to Production B is thus 2.
- Next year, assume the market is up and A will do $400,000.
- Most likely broker B will generate $ 200,000.

Producers also tend to follow a characteristic pattern in the growth of their production over their career. In the first year, a broker's production tends to double, in the second year it increases by about 50% , in the third year by about 25% and so on.

Given that ratios of production among brokers are stable and that growth rates of production over time follow a characteristic pattern, it is eminently possible to predict broker performance by expressing a producer's performance as a multiple of an LOS-adjusted, carefully defined, benchmark production (CBM has developed appropriate benchmarking methodology). We called this metric the "caliber" of the producer.

We have confirmed empirically that the caliber metric is remarkably stable for any given salesperson, over time, as illustrated below.



We have found out that a producer's caliber can be accurately determined fairly early in the producer's career, perhaps as early as after 6 to 12 months.

The caliber concept explains production skews better than raw production or rankings. So-called "ratio scales" are always more satisfactory than "ordinal scales". A producer's caliber, if properly calculated and properly benchmarked, is a constant parameter of the producer, his/her intrinsic sales ability.

The caliber can be readily combined with an appropriate index of market activity or volume to forecast the salesperson's performance over various market cycles.

The caliber metric is thus a powerful tool for several applications that are key to effective management.

It can be used to manage producer-training programs.

> The caliber metric enables management to identify, early on and accurately, those trainees that will become good producers and those that will in all likelihood remain substandard performers throughout their career. Many of these will eventually drop out of the salesforce of their own accord. Since brokerage firms and life insurance companies commit major resources to training programs (we estimate it may cost $250,000 on average to train a producer), the caliber analysis supports a rational approach to weeding out trainees unlikely to become satisfactory producers. By weeding out such mediocre producers early, the firm can achieve major cost savings and re-allocate resources to training more promising trainees.

It can be used to determine salesforce retention and downsizing policies in bear markets

> The caliber metric can also be an invaluable guide to management in a downturn or bear market. When business volume declines, production will decline. For any given producer, gross production will be proportional to his caliber multiplied by an appropriate index of market volume or activity level. Management can hypothesize various scenarios for the downturn and based on these, determine which producers will still meet breakeven production levels. At the very least this methodology arms management with a rational salesforce downsizing policy which cuts "fat" rather than "muscle".

It can be used to analyze the cost-benefit of recruiting experienced producers and the economics of sign-on bonuses in various market conditions

> The caliber metric can also be the basis of a rational recruiting program for experienced producers. Firms pay large sign-on bonuses to attract producers from competition. The sign-on bonus (or accelerated payout programs) should reflect the probable economic contribution of a candidate over the long run. That is clearly a function of the producer's caliber – which predicts his future production - and the firm's outlook hypotheses for the market.

The caliber concept can provide salesforce management with invaluable insight into sales performance, a sharp diagnostic of salesforce performance problems and specific recipes for improving it. It deserves to become part of the standard tool kit of analytics for salesforce management.

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The CBM Group, Inc. is a management consulting firm specialized in financial services. For further information visit our web site at www.thecbmgroup.com or call Andre Cappon at 646 282 0051