Registered Rep.

Measuring Broker Performance

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The CBM Group, *a New York-based consultancy, has amassed data about the performance of reps and other sellers of financial products, from which it has created a new way of measuring broker performance. The "caliber" method ranks a rep against his or her true peers — brokers who entered the business at the same time they did. The methodology also makes it possible for firms — and brokers — to figure out early on whether a rep has the right stuff.*

Traditionally, firms measured performance in terms of gross production and ranked producers relative to the overall sales force. Such measures tracked the revenue or commission associated with a salesperson, but offered limited insight.

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

But there is a more sophisticated and useful measure that can be obtained by benchmarking salespeople relative to their own length-of-service, or LOS, colleagues.

As is well known, salespeople tend to follow a characteristic "lifecycle," as illustrated in the accompanying graphs. In the beginning of a career, production increases at a rapid pace, then the growth rate slows. After a few years, many salespeople tend to level off at a comfortable "cruising speed." (The very best salespeople, however, continue to grow their production throughout most of their career.) Finally, as salespeople age, their production declines.

The "lifecycle" view of the producer can be used to develop a more insightful picture of performance. We call this the "spaghetti" chart analysis. On the graph above, each of the "spaghetti" strands symbolizes a quintile (top 20 percent, followed by the next 20 percent). Each point represents a producer, with his length of service and production level. The analysis represents a snapshot of the sales force at a point in time.

For each of the LOS cohorts, producers can be 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 percent” broker production might be around $150,000 of gross, while the “top 10 percent” broker production might be around $2 million of gross.

Moreover, the graph above provides useful management insight into the economics of the sales force. We estimate a reasonable breakeven production per broker is about $200,000 or so on a full-cost allocation basis. 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 accurately predict a producer's future performance based upon his early track record.

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. Any two brokers in the same LOS class can be compared to forecast future production.

- Assume that in the year 2001, broker A did $300,000 gross, while broker B did $150,000. The ratio of Production A to Production B is 2-to-1.
- 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 careers. In the first year, a broker's production tends to double; in the second year it increases by about 50 percent; in the third year by about 25 percent, 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 possible to predict broker performance by expressing a producer's performance as a multiple of an LOS-adjusted benchmark production (CBM has developed appropriate benchmarking methodology). We called this metric the “caliber” of the producer.

Sales Caliber

We have confirmed empirically that the caliber metric is remarkably stable for any given salesperson, over time. We have found out that a producer's caliber can be accurately determined fairly early in the producer's career, perhaps as soon as six 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:

It 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 sales force of their own accord. However, by weeding out such mediocre producers early, the firm can improve efficiency, and brokers who won't ever make the grade can look for different careers.

Cut Fat, Not Muscle

The caliber metric can also be an invaluable guide in a 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 sales force downsizing policy that cuts “fat” rather than “muscle.”

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 program) 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 sales-force management with invaluable insight into sales performance, a sharp diagnostic of sales-force performance problems and specific recipes for improving it. And it helps brokers because it provides a more equitable measurement system. It deserves to become part of the standard tool kit for sales force management.

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