# The Pros and Cons of Working with Brokers

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Many PEOs prospered during the business boom of 2005 and 2006, but in 2009 many PEOs face a harder selling environment. Some have trimmed marketing and sales training budgets, and most face prospects who want lower admin fees.

Although PEOs and brokers have not always understood each other, sometimes it's appropriate to explore using brokers. Just as with any other vendor relationship, the PEO should analyze the business reasons and investigate the possibilities. Sometimes the PEO may dread the idea, but knowing the pros and cons and how a broker-PEO relationship should work can make investigating the possibility worthwhile.

## What PEOs Need to Know About Brokers

It's good to know what to look for in a broker and what to avoid. There are several types of brokers, including:

- Insurance agents. Some insurance agents understand how PEOs work, some don't. However, all can be a source of business.
- "Mom and pop" brokers or freelance brokers. Small outfits, small output, but because they are historically relationship-based sales, the quality of the prospects passed on to PEOs is generally high.
- Internet brokers. These can generate a large number of referrals, but they may not be prequalified to your PEO's niche.
- Broker agencies. These agencies have sales forces, employ some of the marketing techniques described previously, generally focus on relationship-based marketing, will likely deliver high-quality leads, and provide the most service, but also will insist on a higher commission and may have their own contracts.

When choosing among these types, consider what kind of clients you are looking for, including their risk profiles, what value you and the broker place on the broker-PEO relationship, the volume of leads you expect, whether you need leads to be prequalified, whether the PEO or the broker will do the marketing, and what kind of commissions will be paid.

## Broker Service and Payment

Some brokers are very service oriented, while others are more of a referral source. There is a wide range to be expected here, and in fact expect it to vary by client as well. Some brokers provide services beyond mere brokerage. They may provide payroll services or claims processing. That would be the extreme end of the full service spectrum. Naturally, such broader service brokers ask for a higher commission.

Brokers can be paid in a variety of ways:

- Residual commissions. This is the most common method of remuneration, and many brokers prefer it. Residuals can be based on a variety of things. Commonly, it is a percentage of the payroll (1 to 2 percent is typical for smaller clients), or of the admin fee (30 to 50 percent is typical), or a per head fee. Sometimes, the formula can get confusing, including things such as a commission on the health or the workers' comp programs if the broker is a licensed insurance agent.
- Sign-up fees. These are usually charged to the client and a portion goes to the broker.
- One-time referral fees, aka "finders' fees." These may be a percentage of the estimated annual admin fee or profit received by the PEO. Most brokers do not prefer this method.
- Service fees. These are negotiated fees based on the level of service provided by the broker. These services could include payroll, delivery, risk management, etc.
- Per worksite employee fees. These are negotiated fees based on the number of employees. For example, the PEO plans on making $1,000 per WSE per year and pays $500 to the broker.

## Objectionable PEO Practices

Sometimes PEOs do things brokers consider objectionable. For example:

- Enforce quotas. Brokers prefer to be paid based on results and not penalized because of fluctuations in volume. Brokers also prefer to be compensated for the long-term profitability of the client.
- Failure to "value the sales event" by setting low commission rates. Brokers feel it should be acknowledged that building the relationship with the client is half the battle and they should be compensated proportionately, especially if the broker is maintaining that relationship.
- Altering the admin fee. Brokers do not like it when a PEO reduces a client's admin fee by restructuring it into multiple fees, such as delivery fees, service fees, claims management fees, risk retention fees, etc. This is why many brokers choose not to be paid based on the admin fee.
- Failure to acknowledge referrals. Referrals from a broker's client should at least in some way be credited to the broker. After all, without the broker there is no referral.
- Canceling contracts without reason. Say a broker brings a PEO a significant book of business, then for no easily explained reason, the PEO decides to cancel the contract and cease paying commissions. While legitimate reasons for terminating the client may exist, they should be spelled out in the agreement between the PEO and the broker, and brokers have the right to seek reparations when a client is terminated for a vague or spurious reason.
- Paying less, late, or not at all. Broker relationships should be treated the same as any other vendor relationship. Why should brokers be treated any differently?

While what the PEO wants and what the broker wants may seem to be at odds, PEOs should thoroughly research the types of brokers, the parameters of services, the payment structure, and their own expectations and responsibilities.

## Objectionable Broker Practices

Brokers have their silly moments too. For example:

- Stealing clients. Some brokers have actually stolen clients from one PEO and moved them to another so they can get commission, which is incredibly shortsighted of the broker. We also recommend this be addressed in the contract.
- Stealing client lists. Yes, it's happened.
- Additional undisclosed charges to clients. A broker should not be charging anything to a client without the express, written permission of the PEO.
- Moving happy clients just to get a higher commission. This is not long-term thinking!
- "Shopping" PEOs for potential clients. This is not a commodity business. There is value in the PEO's services. It is *not* about price. There is a significant difference between cost and price. Brokers should not turn it in to a "beauty contest" and present multiple quotes to the client. Brokers are the experts and they should know enough about their clients to determine who is the best fit.
- "Shopping" PEOs for "a better deal" for current clients. Same principle. Brokers are also supposed to act as intermediaries. Moving a client is a last resort, only after all attempts to reconcile the situation have failed.

## Working Together

The relationship between the PEO and the broker is ultimately set out in the contract. While what the PEO wants and what the broker wants may seem to be at odds, PEOs should thoroughly research the types of brokers, the parameters of services, the payment structure, and their own expectations and responsibilities.

As you can see, there are perils and pitfalls in the relationship between PEOs and brokers. A good contract is essential. A mutual trust is helpful but it is really important to get it on paper and signed. Ten years from now, the people who signed the contract may not be around anymore, and the contract is all you will have go on at that point.

PEOs and brokers can work together for mutual profit and growth. It takes some negotiation, some understanding, and a mutually acceptable contract. Don't let the fear of brokers keep you from enjoying the relationship.

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