

What Business Are You Really In?

By Chris Burand

Herb Kelleher, CEO of Southwest Airlines, which I believe is one of the very best managed companies in the U.S., long ago made a famous statement. To paraphrase him, he said “Southwest is in the people transportation business, not the airline industry.” The difference is key. Being in the people transportation business means considering private autos, buses, and trains as competition in addition to other airlines. Southwest’s business model is to have a low enough cost structure so they can entice people that would otherwise drive, take a bus, or take a train (or not travel at all) to fly Southwest. Then Southwest goes a step further and offers great service. As a result, they are the most consistently profitable airline in the United States.

Norm Brodsky, in his December 2000 *Inc.* column, notes how he thought he was getting into the record storage business when he started his company. He discovered he was really in the real estate business. The record storage business, he notes, is difficult to break into because of the nature of the customer contracts. To succeed, the benefits of customers changing companies must be very significant. Great service is important but a better price is also required to get customers to break their current contracts. The main cost of record storage in New York City (where he is located) is real estate so to cut costs, Mr. Brodsky had to use real estate more efficiently. Buildings are leased on a square footage basis regardless of how tall the ceilings are so by only leasing buildings with tall ceilings, he was able to build more storage space for minimal additional cost. The key was finding the right buildings which put him in the real estate business.

I met a preacher some years ago at a Small Business Administration seminar. He had concluded his business was not just saving souls but entertaining minds. To save souls, he had to get more people to his church. The competition for people’s eyes, ears, bodies, and souls is intense with 200 TV channels, Sunday sports (especially football and now NASCAR), fishing, golf, and all the other activities people enjoy on the weekends. His goal was to design a marketing plan convincing people church was more beneficial and enjoyable than all those other venues.

What business are you in? As these examples show, the answer is not always obvious. If your answer is selling insurance then prepare your agency for a slow demise. No future exists in selling insurance. People selling insurance will learn the same hard lesson Norm Brodsky and many airlines discovered. Mr. Brodsky discovered he could sell record storage but getting anyone to buy his service was another story. Going forward, traditional P&C insurance will become less and less important. Already, by some estimates, almost 50% of all commercial P&C insurance bypasses the traditional market and only 2% of corporations’ risks are covered by traditional P&C insurance. In the past, companies needed a fire policy because the risk of a fire was very great and the effects very severe on the financial health of the corporation. Today, the risk of a fire is often minimal and the effects are much reduced. The most important aspect of many corporations is their data and customer records all which can be stored off-site. The computers and office space can all be replaced relatively easily, yet few producers offer adequate coverage for data loss.

So what business are you in? Insurance is only one means for protecting assets. Insurance as we currently know it, only protects some assets and not necessarily those that are most important or most likely to be lost. Changing focus from selling insurance to helping clients protect all their assets, especially their most critical ones, will be a shocking cultural change for many agencies and companies. But for those who make the change and know what business they are in, the future holds great opportunity!

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