

Outside Looking In

By Chris Burand

I found myself arguing an extremely silly point with an agency owner at a conference. Everyone but the agent saw the silliness of his argument. I explained the point every way imaginable, to no avail. I could see from the looks on others' faces, they were tiring of him not getting the point either. If he had been one of the audience members watching someone else argue, he probably would have seen the errors in his thinking, too. But, sometimes you just have to be outside looking in to see a point.

As a consultant, I very often find myself facing this type of situation. The four points below are the most common positions held by agency owners that create immovable and serious roadblocks to their agencies' success. If any of these sound familiar to you, take a step outside of the situation and look back in. You might see your position in a different light.

1. We must write small accounts because you never know which one will turn into a large account. This commonly expressed position presumes an inability to identify clients with great potential versus those with no potential. This means agencies believing in this philosophy should write absolutely as many small accounts as possible.

An average agency abiding by this philosophy has at least 1,000 small accounts and maybe one, over 10 years has grown big. But let's say there are two accounts that grow big. So out of 10,000 renewals, two get big. Can the agency write enough large accounts to cover the 1,000+ small accounts that soak up huge amounts of time, effort and expense? If so, this may be a great strategy. If not, it is time to rethink the agency's strategy.

2. We do not use coverage checklists because we might leave something off. The belief here is that if you don't have a list, you can't leave coverages off. This presumes nothing is left off when a checklist is not used. So if an insured does not get the correct coverage because the producer does not use a list and the absence of a list means the coverage wasn't necessary to offer, then by default, the customer could not have needed the coverage and therefore, the uncovered claim is just a figment of their imagination. Right? If you believe this, then keep on going without using coverage checklists.

Another perspective is that if the agent does not use a coverage checklist, there is no need to recommend coverages a customer needs. In other words, if I don't know the customer needs a coverage, I don't have a responsibility to offer the coverage. For a peddler of insurance, this makes perfect sense because peddlers only take orders. Why pay commissions to peddlers? Web sites are quite capable of taking orders and issuing policies.

3. We do not need to hold our producers accountable. The reasons given for not holding producers accountable are numerous and include that accountability might make them angry. What is the price of an angry producer? In some cases, say \$500,000 commission producers,

not making them angry might be a good strategy. But is the price reasonable for not making \$100,000 producers angry? An incompetent producer may leave the agency or become a good producer through accountability. Either way, the agency may find itself way ahead by enforcing accountability.

Other common reasons given are that they are nice guys and that they have never been held accountable so it is unfair to do so now. That is fair enough. But to be really fair, if the producers are not held accountable, why hold anyone accountable? Why hold the customer service representatives (CSRs) accountable? Why hold new producers accountable?

Another reason given is that by holding them accountable, the ultimate outcome is that they would be fired and the emotional trauma of firing a producer is too much. That makes sense. Of course, if you are not going to fire a producer, how can you fire a CSR? Is their trauma any less?

Then there are the producers that should hold themselves accountable negating the need for management to do so. How well is that working in your agency?

4. All agencies have the same value as a multiple of sales or EBITDA. I am often asked, “How much are agencies worth today?” This presumes that all agencies are alike, all agencies are commodities and nothing is special about any agency. Is this correct? Is there nothing special about your agency?

Let’s assume some common multiple applied to all agencies. If one agency is losing 10 percent of its commissions annually and another agency is growing by 10 percent, then they should have the same multiple. The same goes for the agency that has a 25 percent profit margin versus the agency that has a -5 percent profit margin. Even the agency that has \$1,000,000 of extra cash on its balance sheet versus the agency that has spent \$500,000 of trust monies will have the same value.

The question presupposes such material differences do not exist. It’s like someone is asking, “What’s the value of a 2005 Ford F-150?” They expect I can look up the blue book, ask how many miles the agency has on it, the condition of the body, and whether it has any extra features.

Quite often, the agency owners who ask this question have problematic agencies and the reason they ask the question this way is because they do not want their problems taken into consideration in the valuation.

I do not believe any reader likes the logical result of these incredibly common beliefs and practices. I’m not going to argue these ideas are wrong. If you share these beliefs, take a step outside and look back in. Think through the complete concept and if you still believe in it, then go for it 100 percent!

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