Beyond Budgeting
By Chris Burand

One of the first things every high school business course and even every college business 101 class teaches is that a business must budget. The reasoning is that if a business does not budget, they risk spending too much money. As a result, a lot of ink and paper are dedicated to budgeting.

With the risk of committing heresy, I do not think most independent insurance agencies really need to budget. An agency owner can spend days and days budgeting next year's postage, auto, telephone, etc., expenses but their efforts will be largely wasted. Agencies typically cannot spend more than 1% or maybe 2% of revenue in most of these line items, even if they tried. So it is not usually worth an agency owner's time to scrutinize and budget these items.

Even in a worse case scenario when a larger expense is underestimated by, say, 15%, like administrative expense (which I have never seen barring a massive law suit or some other expense that would not be covered in a budget anyway), only increases overall expenses by 3% (assuming an industry average administrative expense of approximately 20% of revenue). This is hardly enough to break most agencies. The owner may have to take a smaller bonus, but probably not enough to significantly impact their lifestyle.

Even budgeting our greatest expenses, wages and benefits which average 60%-75% of revenue, does not provide a lot of benefit. How many agencies are going to pay their staff less next year? Producer compensation, the single largest expense as a percentage of commissions, is a direct variable of sales so budgeting it makes little sense.

If wages and benefits are truly an issue, the problem is much better addressed through better productivity management. Address productivity, and profits should increase without anyone necessarily taking a pay cut or even having their wages capped.

There are times though when budgeting does have advantages. For example, budgeting for major strategic improvements is usually well worth the effort. One example is hiring a new producer. This is an easy $100,000-$150,000 hard dollar expense if done right. If an agency is going to make such an expenditure, they need to budget it to ensure they have the money committed to do it right.

Another time budgeting is valuable is with acquisitions. When planning an acquisition or merger, budget the cost and include your increased working capital needs. I have worked with several agencies who did not include increased working capital requirements in their acquisition planning resulting in very significant cash crunches.

Budgets are also excellent for preventing partnership implosions. If an agency has partners, the partners should have very specific auto, travel, and entertainment budgets. These budgets may be flat dollar amounts or percentages of their books of business, depending on their jobs and the agency's organization.

At the risk of being laughed at by business professionals everywhere, I do not believe agents that are not budgeting are missing many gains. The exceptions are noted above. One last reason budgeting is not key to many agencies is that if an agency were to come up short, a good agent can always cure the problem with more sales. Enough sales can cure a lot of problems. Spend your time selling, not budgeting!

Chris Burand is president of Burand & Associates, LLC, an insurance agency consulting firm. Readers may contact Chris at (719) 485-3868 or by e-mail at chris@burand-associates.com.

August 2005