

Stick to the Basics!

By Chris Burand

With all the newspaper headlines and CNBC announcements of huge first day IPO gains, record profits, tremendous growth, and instantaneous multimillionaires, the importance of business basics, like profits, is easily forgotten. The basics are just too boring in today's world. Just get big, profits be damned, and watch your company's value grow by the minute. To quote a venture capitalist from the *Wall Street Journal*, "Many would argue that it's hard to pay too much when the position of market leader is at stake."

In other words, become the biggest at any cost. This is like to selling widgets that cost \$1.10 to make for a \$1.00 each and telling yourself and your stockholders that if you sell enough, the company *will* make a profit! "We'll make it up in volume!" is the reassuring cry. This is similar to a comment I once heard a fellow traveler make. He exclaimed, "If my wife keeps saving so much on everything she buys, I'll go broke!" In fact, a recent study showed that the market leaders in most industries were not the most profitable companies in those industries. Still the push today is to get big, really BIG.

In the banking industry, Bank One is the current poster company for this strategy. They bought a lot of banks in the '90's. They bought so many banks they finished 1999 as the fourth largest bank in the U.S. They also initiated one of the first bank owned Internet banks, Wingspanbank.com. Unfortunately, all this growth and vision has not generated profits.

Many banks have decided to grow by buying insurance agencies. General consensus in the industry is that most to date have not made profitable acquisitions. But they did get growth. They can report greater revenues but profits have not yet followed.

Many agencies are going on buying sprees too. At least twenty large insurance agencies/brokers are regularly buying independent agencies. Many buyers are paying significant premiums but will not realize the synergies they predict (just like most buyers in all industries fail to realize the growth, expense savings, and productivity gains they predict when acquiring other firms). But they will grow.

Sooner or later a company has to make a profit and they have to grow internally, without acquisitions. This takes a lot of effort. Unprofitable growth is much easier. A firm can not simply grow so large, at any cost, that it will just miraculously become profitable.

For independent agencies, these companies' preoccupation with quick growth provide fantastic opportunities. Agencies have the chance to get great employees and producers during the turmoil of the acquisitions and subsequent shuffling of responsibilities. It is also a great time to woo new customers as their ties to the current agency are broken. They may have lost their CSR, producer, or even the owner and are therefore now less loyal to their current agency.

The basics may be boring but they are the keys to success. This does not mean to not take chances. After all, the turtle who won that most famous race with the hare did two things to win. First, he stuck to the basics and kept plugging consistently along. Second, he stuck his neck out!

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