One Door Closes — Another Opens

In life, and in business, as one door closes — another opens. The April edition marks the end of the MarshBerry Letter. This publication through its many iterations and names has provided countless hours of consulting advice from the MarshBerry team on how to better run your agency and increase value.

However, over the last thirty years our businesses have evolved. To better accommodate these changes, MarshBerry is launching CounterPoint beginning in May 2015. CounterPoint will replace our current four monthly newsletters — the MarshBerry Letter, Dealmaker’s Dialogue, For the Record, and the Broker Tear Sheet in a free, monthly magazine.

If you already receive one of our publications — you will automatically begin receiving the new publication.

As a nod to the history of the publication, we dug through our archives and wanted to share the following MarshBerry Letter (f.k.a the Middleton Letter) from February of 1999. While market conditions may change — it’s interesting to reflect to see that the business challenges that affected agencies then — are similar to the concerns agency executives still have today.

Enjoy this look back — and look out for CounterPoint next month.

THE MIDDLETON LETTER
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Increasing Sales Activity

The principals of independent agencies that have survived this last decade of soft market conditions in commercial lines discovered some time ago that they had to change the prevailing culture in their firms. Where once they could pride themselves on being service-oriented, now an agency’s primary role in this distribution system is to sell. With the renewal premiums going down in commercial lines and with increased competition for personal lines, sitting on a book of business is no longer an option. New sales must be the primary focus and selling must become the predominant attitude in the agency, from the principals all the way to the file clerk.

Agencies that have not shown any real growth over the past several years point to market conditions as well as a number of other creative excuses for their lack of performance. But excuses will not pay the bills or increase the value of the firm. The average agency showed a net growth of 4.3% last year (1998) with two-thirds of the firms responding to our recent survey reporting an average growth rate of 8.4%. High performing agencies in all types of communities are once again achieving growth rates in excess of 10%. The first step in creating a sales culture is to not accept being simply average or, worse yet, below average. Expectations must be set that are high enough to put the agency in the above average category. This means that the projected growth rate for 1999 and 2000 needs to be at least 8% and preferably closer to 15%.

To achieve these above average results every producer must contribute his or her share.

Seasoned producers with more than $400,000 in total commissions may not be able to produce as much new business as a new sales person with only $50,000 in existing business to service. But everyone must make some type of commitment to new sales. If you are the Chairman of a sales organization it is your responsibility to set the tone. Establish reasonable goals for each person who is even marginally involved with the production of business and provide each of them with marketing, automation and other support systems. Clearly establish a reward scheme based upon the achievement of those goals and monitor the results monthly, taking corrective action when necessary.

In our consulting activities over the past several years we have noted a dramatically different attitude between the agencies that have embraced a sales culture and those that have not. This attitude translates into significantly different levels of expectations. Producers in the sales-oriented agencies routinely
have new business goals that are twice those of the sales people in the more traditional agencies. Most people are only going to jump high enough to get over the bar. If you set the bar at a low level, the results will follow accordingly. If your agency has had lackluster performance, try setting a goal that is double the amount of new business produced by each producer last year. If you want to get slightly more scientific about it, try the following formula to obtain an approximate new business target:

- If the average account size is under $500 in commissions, multiply that average size times 100. Example: when the average account size is $450 a good new business goal would be $45,000.
- If the average account size is over $500 but under $1,500 in commissions, multiply that average size times 75. Example: when the average account size is $750 the new business goal could be $56,250.
- If the average account size is over $1,500 in commissions but under $2,000, multiply that average size times 60. Example: when the average account size is $1,800 an appropriate new business goal might be close to $108,000.

To achieve these results there will have to be much more new sales activity than there may have been in the past. And that activity must be well-directed, with as little time wasted as possible. The producers must be able to present proposals on at least 50% of the leads they contact and get a hit ratio of 50% on those quoted. To write 100 new accounts you will need 400 qualified leads to follow up on. To accomplish these above average levels of production the sales people will need not only more leads but also better leads.

One of the first lessons that a new producer must learn is that all prospects are not good prospects.

The process of developing the requisite number of qualified leads starts with the realization that very few agencies are in a position to be “all things to everybody”. A concerted effort must be made to systematically target the type and size of accounts that the agency and its companies can handle efficiently and profitably. Niche or target marketing is not merely the latest trend. It will be the means of survival for successful agencies well into the next decade.

While there are a number of different ways to get started in specialized sales activities, the most successful ventures have come as a result of a conscious decision on the part of the agency management team to pursue a more focused approach to sales. This is an involved process that entails coordinating the selection of companies, producers and support personnel with an advertising and public relations campaign that targets only those accounts that fit into the parameters. Three things are necessary to make niche marketing work effectively: commitment, consistency, and persistency. Most programs will take at least two if not three years to start turning a good profit, so the agency owners have to be in it for the long haul.

They must be willing to invest financial resources and extensive management time into the effort without expecting an immediate return.

Once the decision has been made to enter into a target marketing program, the selection of the right niche(s) becomes of primary importance. Some agencies start with an industry in which they have an interest or a certain level of expertise and then search for a company or companies to provide an appropriate product. Others survey their markets and decide to target those industries that their companies currently have an appetite for. The industry should be one that is not already saturated with insurance programs, is still growing, and that hopefully has some unique risk management needs. There should also be enough members of the target group to provide an adequate number of qualified leads. The possibility of association access or sponsorship is usually a “plus” although it is not necessary for a successful program and may prove to be detrimental if the politics turn against the agency. And, as a rule of thumb, the individual accounts should have a minimum commission level of at least $500, more for larger agencies in metropolitan areas.

Sometimes the agency will be using existing policies and programs that are being provided by the insurance carriers. In other situations, agency personnel work with the company people to develop a unique product. In either case the products and ancillary services provided should be competitively priced (although they do not necessarily need to be the cheapest) and responsive to the needs of this particular market. While price will almost always play a part in the buying decision, intelligent custom tailoring in the wording of forms, underwriting, loss adjustment, loss control, and marketing activities will often offset some rate differential. And it is even better if the policies can be packaged with risk management or educational services that only technically proficient agencies like yours can provide.

In addition to a willing underwriter with a competitive and distinctive product, you will need to have a good list of target accounts for each area of specialization. Initial lists can be developed internally from Dun & Bradstreet or other marketing sources or they can be provided by insurance carriers or associations. No matter how reliable the source, however, it will be necessary to spend a certain amount of time qualifying the leads. Many of the businesses listed will either be too small, have poor loss experience or unusual exposures, or the buying decision is made at a home office far away. Selling from a prospect list is not like shooting ducks in a barrel; a lot of non-income producing background work has to go into the qualification process. The need for “prospect list management” is precisely why most agencies that have successfully made the transition to niche marketing have also instituted or reincarnated sales center operations.

Industry statistics show that a successful sales center will return the initial investment eight times. And it has repeatedly been shown to be the most efficient and profitable way to handle target marketing activities.
Managing a Successful Sales Center

In addition to programs, products, and prospect lists, a successful sales center operation will have four major ingredients, all of which are mutually dependent: reasonable set of expectations and an action plan; effective automated support; a well-trained and enthusiastic sales center coordinator; and consistent sales management accountability and control. If you drop the ball in any of these areas, your chances of success diminish significantly.

Setting reasonable expectations involves careful planning. Agency owners need to evaluate existing sales management information in the agency or industry averages to determine: how many calls the coordinator can make; how many appointments a producer can handle; what type of hit ratio can be achieved; how much money can be made; and how much it will cost. Based upon the number of producers you need to supply with leads and the number of leads they need to meet their goals, use the target number of a certain number of phone calls per week and set up an action plan for the sales center coordinator.

For some programs it might make sense to send specialty newsletters to prospects for several months before trying to make phone contact. At the very least a pre-approach letter should be sent to everyone at least one week before the initial phone call. This letter should give some information about the specific program and the agency and should also mention that a phone contact will be made shortly. The call can then start with “did you receive the letter...” and hopefully end with the coordinator obtaining enough information to pre-qualify the account and fill out basic data in the prospect profile. A list of ex-dates is almost worthless without a corresponding list of the prospects’ needs that your agency can address.

After the initial call, whether or not an ex-date or other information was obtained, a letter should be sent to all prospects who initially appear to qualify. If the prospect is one that has some immediate problems that your agency can solve or if the ex-date is near, schedule an initial fact-finding appointment as soon as possible. Otherwise, another call should be made 100 days before expiration to set the appointment for the producer. Letters should be sent after each appointment regardless of the outcome. If the agency is putting on a seminar for their type of business, invite them any time during the initial contact process. This will give you an opportunity to display your expertise regarding their industry and to have them meet the team that would be working on their account. Show them how easy and beneficial it will be to do business with you. The more contacts the agency has with the prospect, the better the chance of making the eventual sale. The 80/20 rule applies here as well: 80% of sales are made after the fifth call but only 20% of agencies and their salespeople make it that far.

Most telemarketing experts recommend that phone calls not be made on Mondays or on Friday afternoons when prospects are otherwise occupied. The coordinator can spend that time on administrative activities such as preparing/mailing letters, updating computer files, and preparing sales management reports. Since there are very few people who can stay on the phone eight hours a day, some of the time during the middle of the week will also be dedicated to administration. In this scenario the coordinator will spend about 20 hours a week on the phone, 10 hours mailing pre-approach and follow-up letters, and 10 hours updating the computer and preparing reports.

After the first year of operation, the agency will have a sufficient number of ex-dates so that some of the phone time can be diverted to calling existing clients to find out how things are going and to ask for referrals. It also provides the opportunity to see if they have been contacted by another agency that has also targeted that industry. In agencies with only a few producers that need new leads there will be a lower target for appointments so the calls to existing clients can begin almost immediately or at least sometime during the first year of operation of the sales center.

A substantial part of the coordinator’s job will revolve around the use of data and word processing so it is essential that the agency provide adequate automated support. Most of the major agency systems have sales modules and there are a number of stand-alone systems that will serve your needs. You need database software word processing, report-writing, and scheduling capabilities. It should be used not only for sales center activities but for all sales management record-keeping. For instance, management should be able to instantly know the level of activity and hit ratios by type of account and by producer in order to be able to take immediate corrective action.

The most critical element in the success of the sales center is the agency’s ability to attract and retain the right coordinator.

Many agencies have made the mistake of assigning the task to an existing CSR to do in addition to servicing accounts, or they have hired a part-time inexperienced person for minimum wage to make the calls. This position calls for a mature individual with office or sales oriented business experience (not necessarily in insurance) who is ready to make a long-term commitment to the program in return for appropriate support and compensation from management. Interview as many people as possible and test them carefully. The winning candidate will exhibit self-confidence, drive, and a high sense of professionalism and self-esteem. He or she will have above average empathy and be a very good listener. Grammatical skills should be excellent and the person should be articulate and poised. Above all, you need an enthusiastic team player with a positive attitude.

There are a number of different ways to pay the sales coordinator. If remuneration is based solely on the number of appointments or ex-dates the person will tend to opt for quantity over quality. But if there is no extra incentive for results the person may not stay motivated. We believe that the best approach is to start with a salary based on the median level for CSRs in the agency and provide quarterly bonuses based upon some combination of success factors. During the first year of organizational activity bonuses might be based on ex-dates or appointments. After that an effective bonus program might
simply be 5% of the new commissions received on accounts written as a result of sales center leads. The agency could fund this bonus by reducing the producers’ first year commissions by five points on the theory that they have been freed up to sell more accounts because the cold call, initial qualifying and appointment work has been done.

**Finally, you can have the best computer system and sales coordinator in the country but if the producers do not have to follow the system, it will fail.**

The Sales Manager must impose both accountability and control on the producers (including the agency principals) to ensure that they live up to their end of the bargain. The coordinator’s job is to track the account from suspect to client, organize appointments for producers, keep track of producer follow up on commitments, and to produce reports. The producer must attend all scheduled appointments and keep the coordinator informed of the results. The Sales Manager should meet with the coordinator weekly or bimonthly to: reassess the success of the programs; evaluate the success ratio in getting appointments; review the individual producer hit ratios; discuss the responsiveness of the producers; and provide emotional support to the coordinator to ward off burnout and frustration. The manager should then act decisively to deal with producer performance problems that are threatening the success of the venture.

**Another key aspect of sales management control is to carefully monitor the effect that the new business is having on the rest of the organization.**

If CSRs were already overburdened, a flood of new proposals will result in morale problems, E&O exposure, and turnover. The producers will become discouraged and stop following up on leads because responding to the prospects has become such an internal hassle. Management must stay on top of the situation and quickly move to reassign workloads, change the workflow, or hire more people when it becomes necessary.

**At the end of the second year and every year thereafter the management team should evaluate the success of the sales center and the entire target marketing approach. It is important not to confuse activity with results. Either the dollars are there, or they are not.**

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