Smart changes that save agencies money

Consider your employees, operations and expenses

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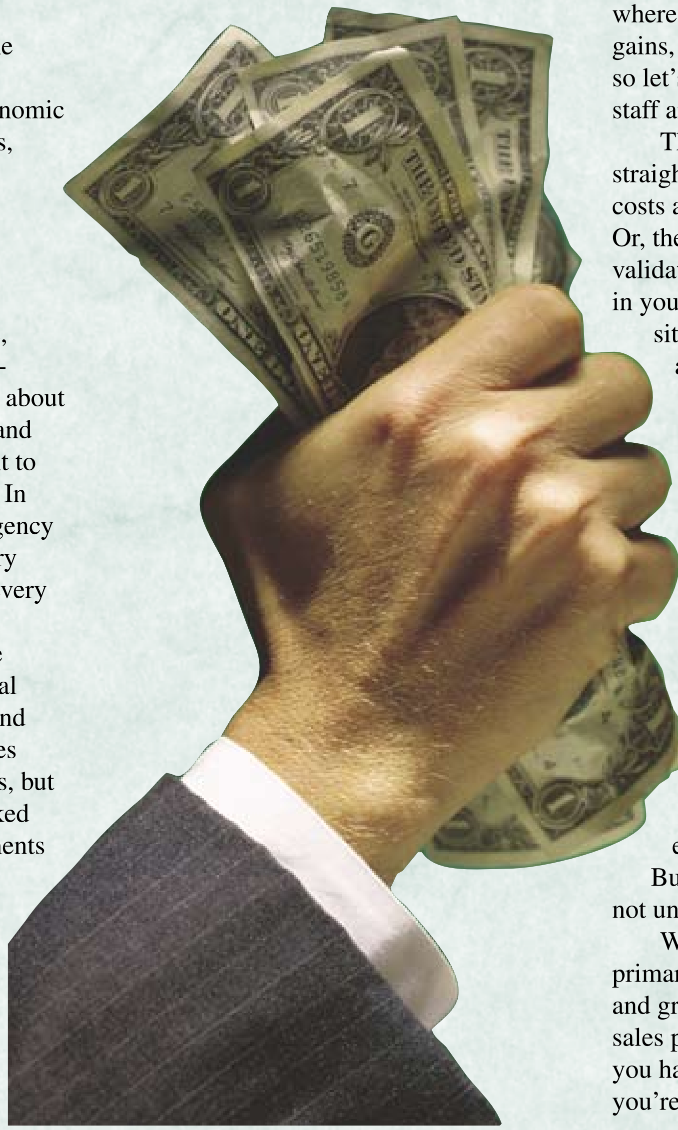

What's wrong with this picture? Consider the current state of business:

• The soft insurance market is depressing your commissions for the umpteenth year in a row.

• The global-national-local economic mess, around for the past 18 months, adds salt to your wounds and it is not improving.

• Your expenses keep going up, and there's less left over for you.

If this scenario describes your independent agency finances of late, the good news is you're not alone—and there may be things you can do about it. Agency principals need to grow and operate more efficiently if they want to retain the value of their investment. In other words, it's time to run your agency like a business and squeeze out every moment of unproductive time and every cent of unnecessary expense.

To do this, it's helpful to divide agency efficiencies into three general categories: employees, operations and expenses. A variety of sub-categories can be placed within these segments, but each main segment should be attacked independently. In this way, all segments can bear the burden, and each can produce savings in time and/or hard dollars to the bottom line.

Producers and employees

Staff compensation, including employer-provided benefits and obligatory taxes, generally consumes 50 to 60 percent of an agency's total revenue. If there's a particular place where opportunities exist for efficiency gains, it's probably within this category, so let's break it into two parts: production staff and support staff.

The production staff piece is fairly straightforward. Producers cover their costs and push profit to the bottom line. Or, they're in the process of becoming validated, so they represent an investment in your future. If neither of these situations apply, your producers are a drag on your time and resources.

Let's start with your experienced producers who retain their accounts; cover their costs; and keep everyone happy. But is that all there is to it? Are these men and women growing their books of business, or have they become stagnant over the past several years? You may find that even your best producers lose an account here and pick one up there, but generally keep their book flat. In their defense, it's possible that the current economy has set them back a step. But, this happened to everyone, so it's not unusual or unexpected, right?

Wrong. A good producer has one primary goal—to generate new business and grow the revenue base. If your best sales people aren't meeting this goal and you haven't lowered their compensation, you're over-paying for their results.

And, paperwork shouldn't be an excuse: If your producers use their support staff and account managers as effectively as possible, these staff members should be doing most of the work to retain existing accounts, which allows each producer to focus on production.

Other production areas in which we see agencies of all sizes hurt themselves are the development of new producers and/or the validation of experienced sellers. Almost always, an investment period is necessary to bring new producers new up to speed, but this period should run for a specific time and include well-defined requirements. Generally, nearly three years pass before producers build their books to the point of earning their keep—and this means handling revenue of three to four times their compensation. But, this doesn't mean you should wait 36 months to decide if your investment is going to pay off. Impose and monitor a variety of interim milestones, including monthly calls or quarterly production goals during the first nine to 18 months to determine whether or not a new producer will make it. It does no good for your agency or your would-be producer to hang on any longer.

Let's look now at support staff. The harsh reality is that not all employees are equal, and some just do a better job than others. Certain employees may drag down your business, due to performance or attitude issues, while others consistently provide support and build it up. The key here is to change the behavior of those that hinder growth and performance—or replace them. Changing behavior is difficult and often doesn't achieve the desired goals, so you need to be prepared to make tough decisions. On a related note, surveys have found that even high performers eventually tend to slow down if they don't perceive management as willing to take action on poorly performing peers. So be aware: Everyone is watching. Your entire staff knows who excels, who struggles and who gets rewarded, and they're hoping their hard work will be worth it in the end.

Operations

Let's examine how your personnel have implemented, adopted and adapted to agency technology in all its forms. Any technology investment you and your managers make should be designed to reduce the cost of completing various tasks, or to perform additional tasks in the same amount of time. But, if new hardware, software or business procedures have been introduced at significant cost without including the training and structural or work flow changes necessary to reap the benefits, you will lose the war.

To realize a return on your technology investment, your agency must change its work flow and many of the processes that make information available. In most cases, streamlining procedures to reflect new efficiencies either will identify excess staff capacity or highlight a needed change in employee skills.

Several illustrations of technology changes that have arisen over the past couple years are listed below. If your agency hasn't changed how these items are accomplished today compared to a few years ago, it may be time to take another look at your agency's automation capabilities:

1.) Is rating still a stand-alone function or an integrated part of the agency management system and customer file?

2.) Are staff members still printing and saving hard copies of all documents or are they scanned and electronically attached to the appropriate customer file?

3.) Are customers still faxing or mailing in documents that must be routed through the office manually and placed in a paper file, or are all these items scanned into your system and filed electronically where they can be found and accessed easily?

4.) Is your staff still working off hard-copy information from carriers, or is data automatically downloaded daily for direct interface with your agency management system and accounting system?

5.) Do your service employees still work with a single 15-inch monitor with an 18-inch depth, or have you moved to dual or even triple flat-screen monitors to allow easier access to multiple pieces of information?

These are not the first cost-savings and efficiency developments in the agency business to meet with resistance. Direct billing by insurance companies, transactional filing systems, image-based filing systems and insurance-company service centers are among some others. But, each of these has since been embraced by independent agencies across the country, although there still are a few hold-outs against the service-center concept.

An important development that is gaining traction is outsourcing non-technical, process-oriented tasks to third parties. We see a growing number of firms connect with domestic and foreign companies to manage initial policy checking, certificate-of-insurance issuance, account reconciliation and other backroom tasks. Outsourcing can be an effective way to save money and reduce turn-around time. Moreover, it can focus the agency's resources on what it does best: combining expertise with relationships.

Agency management systems have come a long way in recent years, not only in the capabilities of the systems themselves, but also in how they are delivered to agency personnel. The days of the huge IBM AS-400, which stands five-feet tall by two-feet wide and deep and requires a separate room with closely controlled HV/AC needs, have been replaced by the ability to plug a cord into the wall and get online with your customer and accounting database. If you want to make a change, you may find the not-so-old approach of having your own dedicated server, back-up process and personnel to oversee the system may not be the ideal solution. The costs of online systems and products have fallen over the last few years, and an online approach may be more cost effective than replacing your current hardware.

Finally, to save significant dollars through improved efficiency and a reduction in errors, focus on developing the right processes and get people to comply. The savings come from a reduction in the number of times a particular task is done (or has to be re-done to correct an error) and a reduction in errors and omissions claims paid under the deductible. Fewer E&O claims mean lower E&O premiums.

Best of all, however, is the fact that a well-developed quality management initiative can improve customer service—and customer service has a direct correlation to greater client retention. There are many parts to a quality management initiative, among them:

• well-developed procedures and job descriptions;

• standardized exposure and coverage-analysis documents;

• agency-approved proposal templates;

• an effective program of individual professional development;

• internal and external communication; and

• an internal audit process that focuses on employee compliance to agency standards.

Expenses

Non-compensation expenses consume 20-30 percent of an agency's revenue, including: travel and entertainment; occupancy costs; supplies; and E&O. Individually, most of these expenses won't impact the real profitability of the agency dramatically. But, finding savings in several areas and establishing expense controls and a consciousness throughout the agency can help lighten the revenue drag.

Specific efficiency gains can be realized within operational expense categories by taking these steps:

1.) Establish specific expense standards for employee travel and entertainment activities.

2.) Automate the expense-reporting process through third-party software to create streamlined processes in accounting; easier report completion by employees; and better reporting and reviewing capabilities to senior management.

3.) Implement a Vendor Management Program for various products and services to yield savings and efficiencies in purchasing and pricing.

4.) Change the configuration of leased office space to reflect developments in employee remote access, electronic filing and updated workstation space needs.

Virtually any expense category can, and should, be reviewed periodically to make sure your agency makes the best use of technology and purchasing standards to supply the required tools and resources your staff needs to meet customer needs. Efficient companies create a culture of expense-conscious employees who look for smarter and less costly ways of doing business. This doesn't necessarily mean doing things on the cheap, but rather looking for the longer-term benefits of spending wisely, for example: upgrade an employee who's capable of handling more tasks than two less expensive employees; or uses two support professionals at less cost than one expensive producer. Even placing everyone's cell-phone service through one vendor can result in lower rates and more features.

To survive this period of economic downturn and continued soft markets, agency principals need to embrace efficiencies throughout the organization. Knock a few points off the producer compensation scale; save on support staff, reduce travel and entertainment; shave supply costs and even management system costs to create significant savings. And, when the market turns and businesses once again start to grow, you'll have a lean machine ready to reap the benefits without corresponding increases in your expense base. The result will be more financial rewards for all who've invested in the well-chosen personnel and strategic new infrastructure.

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