MYSTIC CAPITAL ADVISORS GROUP, LLC

Keep Your Agency off the Road to Ruins

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Renowned 19th Century Writer and Humorist Josh Billings once said, "The road to ruins is always in good repair, and the travelers pay the expense of it." If you are not properly managing your agency and its expenses, you may be sending your agency down that ruinous road. Ask yourself these questions.

- **Is the functionality of your staff properly aligned?** If your agency has producers who are servicing clients and service staff who are servicing clients, then who is producing new business? Between 60 and 70% of expenses in most agencies relate to personnel, thus personnel should be managed as an expense. Roughly 90% of your Producer's time needs to be focused on bringing in new business. Time spent sitting in the office is not time spent growing the business. One successful agency even goes as far as to issue only hard wooden, uncomfortable chairs to its producers, giving them further incentive to get out of the office and in front of potential clients. Ideally, a producer would only be involved with an account at renewal time.

  Service staff, on the other hand should be focusing on keeping customers satisfied well enough to retain business and free up your Producers to concentrate on selling. If your Service Staff is not "making the grade", consider sending them to a training program. Once training is complete, if they still are not meeting your expectations, you need to make a hard decision and either replace them or put them in a different role.

  Many agencies utilize continuing education and professional development as a means of keeping their people sharp. Some even have a policy that all service staff should be pursuing a professional designation (CPCU, CIC, etc…) at all times. This professional development coupled with periodic service and cross sales training should keep your staff focused on retention and growing the agency, one account at a time.

- **Have you established simple, controllable goals for your employees?** A client was describing to me a new employee incentive program that he had established. He had aligned the goals of his employees with his own. He decided to give producers a bonus if the agency was profitable. He also decided to award the commercial lines manager a bonus if sales grew over 10% for the year. Effectively, he was trying to put a square peg into a round hole.

  Focus goals and incentives on directly controllable objectives, and keep it simple: (a) Producers should focus on new business, so give them a new business incentive (i.e. 40% new, 25% renewal), (b) Commercial Lines managers should have a Commercial Lines department profit margin goal, and (c) Sales Managers should have an overall sales growth goal. Goals for employees need to be specific, quantifiable, and aligned to desired results. Producers don't have as much ability to control the bottom line, so they shouldn't be as focused on it. Staff, on the other hand, have less control on sales, therefore, their goals shouldn't be sales focused. Focus your personnel assets on areas they control on a day to day basis. Ensure that they understand their goals. When possible, have them help to establish their own objectives. Post goals in a public place (i.e. on a bulletin board or on a wall in the pantry) and update progress vs. objectives on a periodic basis (i.e. weekly, monthly, or quarterly).

- **Are you overpaying on your rent?** Life in the high rent district is glamorous. Nothing like a nice view from the office. If you look out your window hard enough you just might be able to see your competitors selling into your customers. How important is the location of your office to your business? Think about who your clients are and how you got them to do business with you in the first place. Is it critical for your Agency to be in a high traffic, high visibility location? Is it critical that you be located in a posh business locale? In some cases the answer may be yes, however, there are many extremely successful agencies that have offices that are off the beaten path where the toll for quality square footage is more affordable. In most cases, Agents have to go out to get business anyway. It will not come knocking on their door. The money you overpay on rent could be more effectively used on business development and producer recruiting.

- **Is your advertising reaching its target?** I always wonder when I see a billboard along the roadside advertising a commercial lines agency, "Is this advertising really reaching its intended target: the decision-makers who purchase insurance for area businesses!" Probably not. It is even more amazing to find out that some insurance companies actually assist in funding these campaigns in the form of co-op Advertising.

  Determine who the target audience is for your products? Is it consumers? Is it Presidents, Chief Financial Officers or Human Resource Executives? If it is consumers, are they affluent consumers or price sensitive consumers? Once you answer these questions, you may find that advertising on a billboard or on television is not the answer. But don't let us stop you from spending your hard-earned dollars. We appreciate having something to read while stuck in traffic.

- **Are you really "investing" in automation?** How many times have you been told that automation is an investment? Automating out of date systems and manual processes can be an excellent way to make an agency more efficient and to ultimately lower expenses. However, too many agencies these days are too quick to "invest" in automation, only to process their workflow in the same old inefficient way that it has always been done. Take a long, hard look at why you are considering upgrading your system and hardware? You will still probably be able to play solitaire on that new system.

  Spending money on automation should not be done carelessly. Time needs to be spent on analyzing workflow and data processing in the agency. Don't take a vendor's word for it. If you had a dollar for all the system capability "over-promises" that vendors make, then automation might actually be an investment, but the reality is that automation is a cost of doing business. Before you jump into a new system do your own homework and ask yourself, "how much more efficiently will the agency operate?"

  Consider hiring an automation consultant to analyze your process and guide you through your true needs. There are a number of quality automation consultants in the industry can assist you with your automation spending. Take advantage of them. The price you spend on them will lower your overall automation cost in the long run

- **Are you actively managing your agency?** Overall, agency principals are all too often focused on the wrong items, spend funds on the wrong initiatives, and encourage bad habits by their own actions or lack thereof. Take an active role in your agency's development. Go down your P&L line by line, and ask yourself "How am I spending my hard earned dollars?" and "How is this helping me grow my profits?"

  Incorporate sound benchmarking techniques in your monthly, quarterly and annual financial analysis. Compare your results to top peer-sized agencies in the region. Set goals so that your efficiency is competitive with larger agencies. Track your results on a monthly, quarterly and annual basis.

  Some basic benchmarks that should be closely monitored include:
  - Production Results- Review each Producer's book of business and compensation as a percentage of the total agency book of business. Validated Producers should be growing their book of business and should receive compensation of approximately 30-35% of their book of business – if production is not validating compensation – your producers may be the biggest loss leader in your agency.

- Employee Productivity Ratios- Track commission per employee, commission per CSR, compensation per employee, and number of accounts managed per CSR.
- Liquidity Ratios- Review your Current Ratio and Days Excess Working Capital.
- Cash Management Ratios- Continuously monitor your Trust Ratio and Collection Ratio.
- Personnel Ratios – Analyze your personnel costs (compensation, payroll taxes and benefits) as a percentage of revenues. Break it down between (a) producers and (b) service and admin.
- Expense Efficiency Ratios- Analyze the advertising, rent and automation expenses as a percentage of overall revenues. Compare these percentages to your benchmarked peers.

- **Are we having fun yet?** Finally, Keep it simple and Make it fun! Dale Carnegie, the world famous motivational speaker, believed that "People rarely succeed, unless they have fun in what they are doing." He was right!! Give out fun awards in the office when a certain revenue per employee goal is achieved, or when a producer exceeds a new business production goal, or when an employee receives their CPCU, etc. Rewards don't have to be expensive to be effective. Agency-wide recognition is probably more important to your employees than you realize.

Keeping these questions in mind will help you to lead your agency down the golden road. Happy trails!

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