

| BUILDING EQUITY VALUE | BUILDING EQUITY VALUE

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THE BUILDING BLOCKS OF SUCCESS

Does your agency have a strategic plan of growth and profits?

When surveyed, 75% of agency owners say they have a strategic plan of growth and profits. However, from our experience, this percentage is closer to 25%. Why the difference? Most agency owners answer, "Yes we have an annual strategic plan" because they perform one or more of the following:

- Prepare an annual budget.
- Establish producer sales goals each year.
- Conduct off-site or on-site management or shareholder meetings regularly.
- Meet with their CPA and/or attorney regularly.

While all of these activities are important, these actions individually and collectively do not necessarily constitute strategic planning as they may not address the essential elements to sustainable growth and profits: leadership, culture and operating strategy/model.

Having a proper strategic plan can mean the difference between success and failure in today's fast changing insurance and business environment. In fact, many of the agencies sold externally each year are the result of *inadequate* strategic planning. Shareholders and management often have a plan that is based more on hope rather than one that is established through a disciplined planning process and grounded in a documented strategic plan.

This article will discuss the primary elements of business planning—leadership, culture and operating strategy/model—which are essential to sustainable growth and profits.

Leadership

As the owner leader, you make decisions every day. These decisions have a profound impact on your business. Accordingly, it is imperative that you focus your time, energy and efforts on what creates a growth- and profit-oriented agency, as well as what makes a successful leader today and tomorrow. Successful leaders:

- Are thorough and rigorous in people decisions.
- Continually focus on getting the right people in the right positions and eliminating redundant/inefficient positions.
- Recognize the current state of the agency, confront the challenges and refine the operating strategy and model on a regular basis.

- Create a growth- and profit-oriented culture.

Ask yourself: Do you have the right people in the agency and are they in the right position? If not, you will limit your growth potential and more than likely de-motivate your best people. The most common example we experience is an employee who is paid as a producer but in reality is an account executive/customer service representative with minimal new business production and most or all of whose book of business is a result of assigned or referred accounts. This situation will de-motivate those producers who year after year continue to generate new business. The ultimate long-term driver of growth for an agency is not markets/products, technology, or acquisitions; rather, it is the ability to attract and retain the right people. The right people will be self-motivated. The key is not to de-motivate them. One of the primary ways to de-motivate people is to ignore

the current state of the agency as well as fail to develop and communicate a strategic plan.

Does your agency confront the critical business issues facing the agency on a regular basis? If not, it is imperative that you conduct a strategic planning session to confront those critical business issues and establish a path to profitable growth. It is impossible to make good decisions without honest confrontation and debate of such critical issues.

Leadership is about vision. However, leadership is equally about creating and driving a culture where the reality of your situation is dissected

and growth *and* profits are the norm. The culture is the means by which the vision will be realized.

Culture

If you were asked to describe your organization, how would you answer the following questions:

- What five words best describe your company?
- In your company, what is really important?
- In your company, what behaviors get rewarded?
- Who fits in and who does not?

Culture is the sum of "how your organization does things" and acts as the operating system of the agency. It drives the agency and its actions as well as guides how employees think and act. Culture is shaped by leadership, priorities, people, processes and incentives. An organization's culture is not the list of values developed at an off-site meeting and framed in the lobby. These are ideals. What you strive to be

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as an organization may be different from the values and norms displayed in your practices and behaviors. Often, the strongest indicator of culture is what management pays attention to and rewards. This is frequently quite different from the values it verbalizes or strives to achieve.

Does your agency reward employees for coming up with new ideas and challenging old ways of doing things or diminish those who challenge established norms and practices? Is change the norm or does management protect the status quo? Is there an opportunity to be heard (and ultimately the truth to be heard) or are decisions predetermined by management? Is there a consistent disciplined focus on the core business or always a move toward another “once in a lifetime” opportunity? Is there disciplined thought before action or just a move to action? This kind of questioning can give you insight into the real culture of your organization and some of its underlying values and norms. It may not even resemble the culture management thinks it has created.

There is a profound difference in the culture of companies that are delivering profitable growth and those that struggle with it. For example, consider an agency that pays the same commission rate on new and renewal business. When we encounter this producer compensation structure at an agency, the resulting culture is typically service oriented vs. sales and profit oriented. Those agencies that are sales and profit oriented have a greater disparity between the new and renewal commission rate (for example, 40% new/25% renewal). This disparity creates a significant incentive for generating new business each year rather than building up a book of business and sitting on it.

Agencies that struggle with attaining profitable growth also suffer from the “I wish” or “if only” syndrome. You hear statements such as: “If only we could find good new producers.” “I wish our culture wasn’t so service oriented.” “If only our producers had capacity to write more new business.” Furthermore, these agencies lack discipline. Agencies that achieve profitable growth do not suffer from the “I wish” or “if only” syndrome. Rather, everyone in the agency is busy growing the agency and excited about their achievements as well as the future of the agency. A growth- and profit-oriented culture can be built, but not by hoping for it. It takes discipline, commitment and effort to change the key drivers that affect how your agency works.

If the agency wants to maximize its ability to achieve its strategic

objectives, it must know if the existing culture will support and drive the operating strategy/model and the actions necessary to attain its goals.

Operating strategy & model

Imagine you were asked to describe your organization’s operating strategy and model, how would you answer the following questions:

- What is the ultimate strategic goal for the agency in terms of growth and profits?
- What is your organization’s structure? (Is it scalable and will it develop future leaders?)
- Are results objectively measured based on the organization’s structure on a fully allocated and costed basis?
- Do you have an incentive compensation plan that supports and drives the operating strategy and model?

An operating strategy should be simple and straightforward so it is easily communicated and understood by all employees. Consider an agency with \$5 million in revenue, 5% annual growth and 12% profit margins that has now committed to 10% annual growth and 20% profit margins on a sustainable basis, exclusive of contingent income. Every employee in the organization should be aware of the strategy and progress toward the goal. In our example, the obvious strategic goal is to obtain 10% annual growth and 20% profit margins on a sustainable basis. However, from our experience, while management has committed to the strategic goal, most agency employees would not know the agency’s strategic goal. Therefore, the likelihood of accomplishing the strategic goal is remote. To achieve the goal will require a significant shift in the culture and operating model, which will not happen overnight. Specifically, the organization’s structure, system of accountability and incentive compensation plan will need to be evaluated and revised.

The operating model serves as the framework to achieve the strategic goal. It should also be simple and straightforward as well as drive the culture of the organization. Many agencies that have a strategic goal have not evaluated and established the operating model necessary to achieve the strategic goal. As a result, employees cannot be expected to think, act and behave in a manner that will allow the agency to achieve its strategic goals.

Does your agency have a simple and straightforward operating strategy and model that is understood by all employees? More specifically, have you

addressed the following questions during your strategic planning process: What lines of business do you want to sell? What lines of business are the most profitable? Are there clearly defined leaders for each department and/or location? Do you departmentalize by line of business (commercial lines, surety, personal lines, benefits, administrative, etc.) and by location? Are all revenues and expenses allocated to the revenue generating departments so each department has a fully allocated and costed profit and loss statement? Do the departmental leaders have substantial authority over their department including the profit and loss statement? Is the compensation for the departmental leaders based, in large part, on the growth and profitability of their department?

Regardless of your goals, these questions should be evaluated in the context of your current operating environment.

Growth *and* profits are a matter of choice. If you want to have a strategic plan of growth and profits, we would suggest the following steps to begin down this path:

- 1) Decide that profitable growth is your strategic goal.
- 2) Identify your top internal team members.
- 3) Identify outside resources needed to help you move forward to profitable growth (advisory board of peers, industry consultant, etc.).
- 4) Hold strategic planning meetings to:
 - Assess and define your leadership, culture and operating strategy/model.
 - Establish a strategic action plan for growth and profits (including goals/objectives, individual(s) responsible and deadlines).
 - Create a growth budget to fund action plan (including developing a five- to 10-year cash flow forecast).
- 5) Establish a review process to ensure implementation of strategic action plan.
- 6) Develop and implement incentive compensation plan that is driven by growth and profit targets. ■

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