

## National News

### COMMENTARY

## How to Establish an Agency Growth Culture

By Patrick T. Linnert

August 18, 2010

Why is agency growth important? Agents and brokers are faced with a continued economic downturn combined with sustained soft market conditions; insurance companies continue to tier agents based on future growth; acquisitions are costly; expense cuts are short-term profit enhancing Band-Aids; while top line growth that translates into additional earnings drives all facets of the value equation.

Agents and brokers must focus on the revenues most in their direct control — commissions and fees. The primary initiative regarding commission and fee growth remains new business production. Client retention is critical as a foundation for growth, however, if client retention becomes the sole focus of an organization, it will be out of business within 10 years. The core difference between average and high-growth agencies resides not in retention rates — those are pretty consistent. The principal difference is that high-growth agencies write twice as much annual new business than average agencies.

The burden of new business production success can no longer be placed squarely on the shoulders of the sales force. Instead, executives must look in the mirror and ask themselves if they have created the organizational policies, practices, rules and tools to arm the sales force to do battle.

### The Total Agency Sales Culture

In a MarshBerry survey of 250 insurance executives, when asked, “What is the biggest challenge facing your agency regarding commission growth?” the overwhelming responses centered on the internal dynamics of the organization versus external market factors beyond the agency’s control. Of those sur-

veyed, 76 percent responded either “Non-Producing Producers” or “Not Enough Producers.” So while the external operating environment severely influences agency growth, most owners believe the primary defect resides within the walls of their own organization — and within their control.

In benchmarking the practices of high growth agencies, we have been able to correlate three common attributes necessary for creating a cultural shift from a service to sales organization: planning, infrastructure and hiring.

### Planning

Too often agency executives become so engrossed in the day-to-day activities that they lose focus on their direction or never chart a course of direction in the first place. An integral component of this planning is to decipher whether the agency owners want to run the business as a mechanism to maximize annual compensation or whether they want to build a growing and viable enterprise that can be perpetuated over several generations. There is a delicate balance between current return (the periodic dividend or interest income of an asset) and total return (sum of the dividend or interest income and the capital appreciation of the stock value over time).

Most investors would prefer to receive all of their return on an investment as reliable periodic current income payments (current return). Most agencies operate under the current return model and deplete the agency of reinvestment capital by taking large annual dividends or distributions. This is fine as long as agency owners understand that they are “realizing” the agency value each and every year via large W2 income. They must understand that they are not driving the stock value of the enterprise and will not perpetuate stock (whether internally or externally) at a peak valuation multiple.

Long-term growth, however, requires short-term monetary investments. In this scenario, owners do indeed take an annual distribution, however, they also reinvest monies back into hiring, technology and process improvement to drive the stock value over time. High-growth agencies consistently fall into the

total return camp as they balance short-term income with long term asset appreciation.

Too many agencies claim that they do not have any money to invest in a sales culture (people, processes, technology) that will generate total return. But every organization has the money; it's just that many choose to spend it in less productive areas.

## Infrastructure

Infrastructure serves as the next step in the results process. Agency executives must establish the policies, practices, expectations and rules of the game under which the entire staff will abide. Clearly defining roles and responsibilities serves as a foundation in building a sales culture. Most agencies find a void in expectations versus realities within the sales staff.

The word "produce" means to create or to manufacture something new. High-growth organizations have rewritten sales position descriptions to incorporate a mandatory minimum level of annual new business sales. The fact that many producers simply service and maintain books of business, with little new business production, is not the individual's fault. After all, these servicing producers are only abiding by the decades old rules.

Today, sales organizations are establishing new rules and expectations. They recognize that implementing a sales culture is a constant evolution. Average agencies, on the other hand, refuse to implement performance expectations. They refuse to embrace change and thus trade future viability for current complacency. They bypass leadership for consensus.

Through our internal Sales Management Benchmark Report, we found 68 percent of high-growth agents — versus 37 percent for average agencies — enforce minimum new business production goals. Some believe such practices destroy the culture, however, the exact opposite proves true. The culture is enhanced when everyone is held accountable for performance. Cultures are more apt to be destroyed when executives do not take action against poor performers.

According to the MarshBerry survey, the non-performing producer is one of the biggest problems in the industry. To combat this, leaders need to design compensation and accountability platforms that mandate minimum performance standards and then they must enforce these requirements.

Think about a carrot and stick approach. Reward overachievers with increasingly higher tiered new business commissions for exceeding goals but at the same time penalize the underperformers with reduced renewal commissions for underperformance. In this scenario, executives are not forced to fire anyone, but instead the infrastructure allows each producer to win or lose based on their own performance. This model also mandates that producers sell new business.

Telling an individual to sell more business is the easiest part of the equation. Much more difficult is arming the sales staff to do battle. Three tools high-growth agencies provide to the sales force via their infrastructure are pipeline management systems, sophisticated service staffs and a differentiated story to sell.

## Hiring

Once the first two steps are accomplished and the internal house is in order, an agency can begin to seek new external sales talent. With respect to recruiting successful sales people (producer investment), approximately 39 percent of all producers in the average agency are over the age of 50 years, compared to only 28 percent in high-growth agencies. Additionally, the producers over the age of 50 years control 48 percent of all agency commissions and fees and 43 percent of all new business sales.

High-growth agencies recognize the five-to seven-year future risk associated with an aging production force and mitigate such risk by implementing a consistent, annual producer recruiting, hiring and retention plan. Peak organizations seek proven sales talent; they are slow to hire, and quick to fire. The key, however, is that consistent hiring is seen as a necessary short-term investment to achieve not only organizational revenue growth, but long term value as well.

Creating a sales culture takes time and resources. It all starts with the realization that executives must lead, a commitment to long-term viability, and the acknowledgement that change is good.

*Linnert is executive vice president with Marsh, Berry & Co. Inc. MarshBerry provides financial, operations and sales management consulting services to insurance agents, brokers and financial institutions. Phone: 800-426-2774.*

*Article as printed in Insurance Journal, 8/18/2010*