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IMPROVING PERFORMANCE THROUGH BENCHMARKING

It's important to understand the connectivity of various benchmarks

Typically, an agency will use some form of performance benchmarking during the budgeting process as a mechanism to either validate or challenge expectations, which means that most of you have recently completed this process. This form of benchmarking is strictly a comparison with your peers in the industry. However, performance benchmarking alone will not provide you with a true understanding of your operation. If you just look to a benchmark, see that you are above average and believe that your performance in this area is appropriate, you may be missing a chance for improved performance. You should look further into your operation to determine if your performance is adequate given the best practices of the industry.

Assessing your operation

Effective benchmarking begins with a self-assessment process to identify your firm's strengths and weaknesses. The process involves an in-depth review of several key areas: sales acumen, leadership, financial governance and operational structure. With a clear understanding of each area, you will be able to accurately measure your agency's performance with respect to best practices.

Once you have completed the self-assessment, you will be able to determine where the greatest needs for improvement exist. For example, if the review uncovers that the service staff has been letting telephone calls go to voice mail so they can complete paperwork, management must decide whether a change in the procedure will enhance productivity.

Priorities and resources

The next step in effective benchmarking is to prioritize the list developed in the self-assessment phase. In this step, you rank the issues to determine which are the most important to the overall success of your agency. Once the issues are prioritized, you can decide on the number of resources that will be dedicated to addressing each area of concern. Obviously, you do not want to commit

substantial resources to an issue if the resources far outweigh the potential improvement in the agency's performance.

However, agency owners must keep in mind that even small tasks can be beneficial to the overall benchmarking process. Assuming that minimal resources are needed, success in a small area can keep the entire organization on board with the process and can lead to improvement in overall agency morale. Do not discount an area of concern simply because the task is deemed low on the priority list.

Measure and compare

As you may have noticed, we have not even begun to develop measurements until this point. Measuring your agency's performance before going through the assessment process and the prioritization can generate a false sense of security with respect to a particular area. One key measurement that all agencies review is revenue per employee. The average revenue per employee and best 25% of average for different sized agencies are shown below in Table 1.

You can calculate this performance metric for your operation and compare it to industry standards. However, the self-assessment phase would have helped you understand why your measurement may be different from the standards. The difference may be attributable to your agency's specialization, niches for particular producers or service structure.

Table 1.

	\$1.5M Rev.	\$4.0M Rev.	\$10.0M Rev.
Average Revenue per Employee	\$100,000	\$127,000	\$144,000
Best 25% of Average	\$140,000	\$164,000	\$186,000

Table 2.

	\$1.5M Rev.	\$4.0M Rev.	\$10.0M Rev.
Average Revenue per Employee	\$100,000	\$127,000	\$144,000
Less: Average Payroll per Employee	\$58,000	\$71,000	\$80,000
Equals: Average Employee Marginal Profitability	\$42,000	\$56,000	\$64,000

Table 3.

	\$1.5M Rev.	\$4.0M Rev.	\$10.0M Rev.
Non-Comp. Expenses as a % of Total Commissions & Fees	30.1%	26.0%	25.1%

In many cases agency owners will look at revenue per employee and believe that because it is higher than the average, everything's great. But this number is only one component of staffing, employee efficiency and, ultimately, profit. While higher revenue per employee may give an agency the propensity to be more profitable, the proof is in expense control as well.

After determining revenue per employee, a logical next step is to determine your total payroll per employee and use that to calculate a metric called employee marginal profitability. The metric is simply the *Revenue per Employee* minus *Total Payroll per Employee*.

This is a meaningful measure of productivity as it reflects the agency's payroll expense and isolates each employee's contribution to overhead and profit. In short, it measures the worth of employee efforts rather than the extent of their efforts. Based on the same sized agencies as used above, the averages are as shown in Table 2.

Based on these figures, the average \$1.5 million agency has \$42,000 per employee, after payroll, to service overhead expenses and augment profit. The chart also illustrates the gains to be realized with critical mass as the average \$10 million agency retains \$64,000 per employee, after payroll, to cover service expenses and build profit. Once again, owners need to seek the answers behind specific agency numbers to fully justify or challenge current performance. After defining payroll expenses, owners will want to assess non-compensation expenses, which include total selling expenses plus total operating expenses plus total administrative

expenses. These expenses essentially represent overhead.

Another benchmark agency owners will want to assess is non-compensation expenses as a percentage of total commissions and fees. This metric is calculated by taking the overhead figure and dividing it by total commissions and fees.

This metric should decrease or, at worst, remain relatively stable over time. If not, the agency is failing to realize economies of scale. This metric uses commissions and fees rather than revenue because expenses are more highly correlated to commissions and fees (vs. contingents, investment income and miscellaneous income). Let us now look at average non-compensation expenses as a percentage of total commissions and fees. (Table 3.)

From here, we can see that the average \$1.5 million agency spends 30.1 cents of every commission and fee dollar on overhead expenses. We can also see critical mass at work again as the average \$10 million agency spends 25.1 cents of every commission and fee dollar on overhead. Again, such factors as geographic location, number of offices and lines of business handled may justify or challenge your specific organization's numbers.

Research

Researching best practices is the step that is often missed by an agency, and it is the most crucial. To improve the measurements for your agency, you must take the process a step further and research the best practices within the industry. To be in the best 25% of average, you must be

able to identify, capture and implement the best practices of similar size firms. By spending the time to research the reason another agency is exceeding the standard, you will be able to determine whether changes are needed to help your agency become an industry leader.

Team selling, scanning and dual monitors for the service staff are all examples of best practices that are commonplace in the industry. These best practices were institutionalized by agencies that are constantly looking to improve their performance metrics and become industry leaders. Changes in the industry will be led by agencies that focus on driving performance, not just measuring performance.

Best practices benchmarking takes performance benchmarking to another level. The process involves identifying, capturing and implementing the best practices within the industry to ensure that your organization is performing at the highest level possible. It also involves an understanding of the connectivity of various benchmarks and how changes in one particular area can affect many other areas of your operation.

It is important to understand that the ratios or metrics used in benchmarking are intertwined and must be evaluated at the process level to truly understand the impact of making a change. By consistently understanding and establishing a specific baseline for an agency's metrics, management can prioritize and provide the appropriate resources to implement changes that can make a meaningful difference in overall performance. ■

