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Leveraging Commission Income through Value-Added Differentiation

As agents seek enhanced growth metrics, differentiation is the name of the game. Agency organic growth rates continue to decline as both P&C and Benefit premium rate advancement slows. While agents rode the hard market wave during 2002 to the tune of 14% organic growth, reality is now hitting home. Agency organic growth estimates for 2006 reside in the 5% to 8% range.

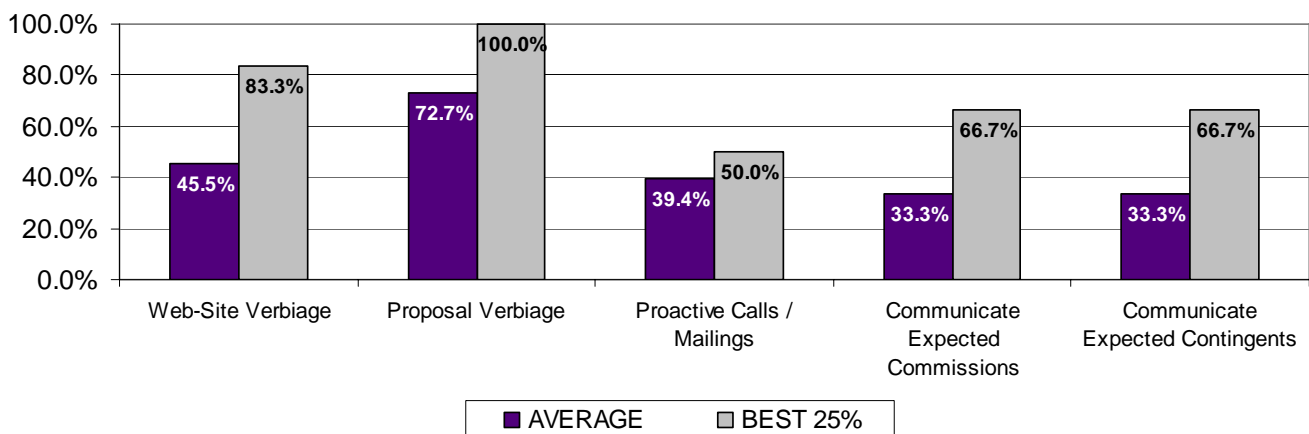
To add insult to injury, transparency and disclosure has solidified itself at the forefront of

insurance distribution along with compensation justification to insureds. Leading agents have turned these market challenges into opportunities and are proactively designing, implementing and executing differentiation strategies through value-added service timelines. While 72% of leading banks and 70% of large, regional independent agencies are traveling down this path, few have a fully functional program in place. Community-based independent agents are now starting to enter the race as well. Additionally, over 60% of high growth agencies are fully disclosing commissions and contingents to insureds through web-sites, proposals, and other communications. Why? Because

they are comfortable with the service-to-price value proposition.

Insureds are trained to buy on price. A value-added service platform allows agents to help their clients reduce current risk exposure and the severity of claims by designing a comprehensive risk prevention program for each insured. When these converge with adequate market representation, insurance agents and brokers are in a position to compete on both price (through lower premium pricing) and service. Competitive advantages are gained through new business production differentiation and increased account retention. Many agents and brokers are laying the

How are you Handling Transparency/Disclosure?



foundation. Those first to the finish will be well positioned to achieve targeted organic growth rates of 10%.

The keys to creating a differentiated value-added service platform reside in the following:

Developing a comprehensive menu of value added services

The first step in developing a value-added services program is identifying those services your agency is capable of providing. Services offered may apply to all clients or to specific clients. For example, agencies may dictate that all insureds be offered monthly industry newsletters or invitations to a semi-annual presentation. An agency may also mandate that all voicemails and e-mails be returned within 12 hours. While these may not necessarily be viewed as value-added services by many agencies, they can indeed provide a regimented “touch” process while delivering clients superior service relative to other competitors. Specific, more comprehensive value-added services should be listed by the agency’s P&C or Group capabilities.

Some examples of value-added services could include items like:

- ◆ *Quarterly claims review meeting to review reserves and open claims*
- ◆ *Exposure Review*
- ◆ *Review of Risk Management Goals & Objectives*
- ◆ *Facilities Assessment*
- ◆ *Wellness Programs*
- ◆ *Risk Transfer Alternatives*

The goal is to define all service related activities that the agency can provide as part of an overall servicing relationship.

Establishing time and/or cost criteria for each service

Once you have identified the services your agency can provide, you should estimate the cost or time of delivering each solution. The goal here is to understand internally how much money or time it takes your agency to deliver a particular service. You could use a dollar amount, time allocation, point system, or another way to rank these services. The more time and resources needed for a specific service, the more cost/time/points should be allocated to that service. Using the point system, for example, an

Annual Exposure Review may have an assigned point value of 40 points, while a Quarterly Claims Review meeting to review reserves and open claims could have an assigned point value of 125 points.

Aligning client profitability with the cost of services provided

The next step is to group your insureds into buckets based on account size or profitability. When analyzing each account relative to the cost/time/points for services your agency provides, you will have a much clearer understanding of the resources you can efficiently dedicate to a particular account. It is also critical to conduct a needs analysis with each client in an effort to design a custom-tailored service program that will benefit that specific operation. Agents should not waste time and resources delivering a service that the client never asked for or wanted, but only accepted because a producer or AE offered it to them based solely on a ranking system. Again, the point is to know what you can offer a client, dissect the client needs, and then design a program.

Client Grouping Sample

<u>Account Type</u>	<u>Account Size</u>	<u>Available Points</u>
Jumbo Commercial	\$250k and above	1,000
Large Commercial	\$30k - \$250k	750
Middle Market Commercial	\$10k - \$30k	500
Emerging Commercial	\$3k - \$10k	250
Small Commercial	\$3k and below	100

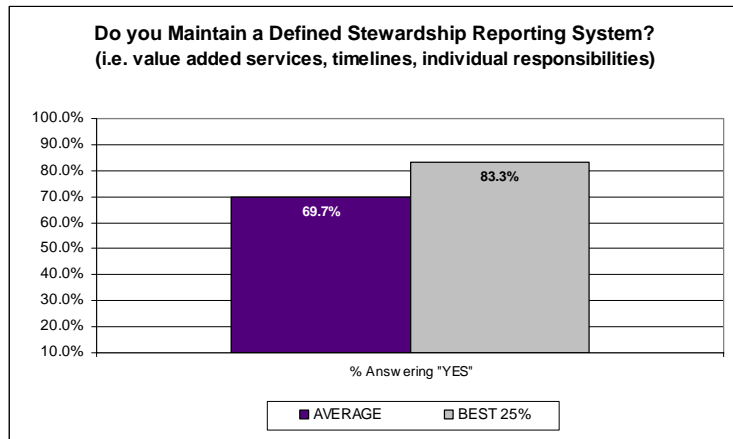
Using the point system, you can assign a point value to each insured and for each prospect. One way to do this is group client by commission dollar size and complexity of client. The table below shows an example of how to group clients.

By establishing a point system and ensuring all services provided to an individual client reside below the designated "available point" threshold, you will be better positioned to know internally that the agency is still profitable relative to overall commissions received.

Empowering Account Executives

Often producers spend so much time servicing their book of business that there is limited time to generate new business, thus hindering agency growth. With the value-added services platform, agencies must empower quality service personnel to manage the process. This is a great opportunity for those agency personnel who may not possess a strong sales aptitude, but are solid technicians and relationship driven. Such people are often current account executives, high-level CSRs, or even producers who are no longer generating new business income.

Agency owners often focus exclusively on producers with respect to organic growth. With a value-added service timeline, however, the staffing model inherently supports agency growth initiatives. As AEs assume much of the control over the annual service process (not necessarily over the entire client



relationship), producers have more time to prospect new accounts. In order for this to work, the AE's must be given the responsibility and authority to execute the service timeline process.

Designing a custom tailored program for each insured

Each insured has different needs. That is why it is important to facilitate a needs assessment before designing a value-added service timeline. By first conducting the needs assessment, you can offer a client only those value-added services that would prove beneficial and those you can efficiently deliver. Producers and AEs should not simply provide a client with a list of everything you offer or everything that "fits" into the time/cost/point system. Doing so limits the value the client perceives in the insured-agency relationship while diminishing the profit potential of the account for the agency.

Agencies with the highest quote to close ratios have excelled at this. Instead of merely selling the prospect insurance, successful producers have instead taken on

the trusted advisor role of helping their clients buy insurance. They are approaching their prospects by offering a needs assessment meeting to determine the risk management services that would be most beneficial for them and then explaining the value-added services the agency offers that address those needs. Be cautioned: The presentation to the client should not be centered around what each service you are providing costs the agency. Instead, the presentation to the client should be more focused on how such services reduce the insureds premium dollars. Remember, insureds are trained to buy on price. As such, agents need to "sell" their services as a solution to keep premiums in check. Once agents can integrate services provided with premium dollars saved or claims avoided, compensation justification becomes reality.

Driving consistency across the organization

With the services, costs/time, and pitch identified, you can now go out as a united front in your prospecting. It is essential that your producers and service personnel are approaching this

program in a similar manner. There should not be different services or point values assigned to different producers nor should each person create their own personalized timeline. Management should ensure that the service timeline delivery process is well defined, properly communicated internally and externally, conforms to corporate standards before delivery, and periodically reviewed for corporate consistency.

Establishing a service timeline compliance audit to ensure promises made are promises kept

Many agencies have implemented a value-added service program, but haven't seen the expected benefits through increased production or retention. Oftentimes, services are pitched to the client to close or retain the account, but then are not completely delivered. The key to retaining these accounts is delivering the services you said you would provide when you sold the business. One way to do this is to establish a formal service timeline that breaks down what services will be provided, when it will be delivered, and who from the agency is responsible for delivering. This service timeline should be presented to the insured and signed by both parties. This provides some semblance of insured buy-in to the service timeline and gives them some confidence that the services will be delivered.

The service timeline also holds your agency accountable by providing a system for agencies to manage the process internally. Your sales manager and/or agency owner can run exception reports at any time to track which promised services have been completed by the target date and which promises are behind schedule. By reviewing such exception reports, agencies can be proactive in the service delivery versus reactive.

Delivering results to each insured – Bilateral Contract

All of these services are useless if you aren't delivering a formal Stewardship Report to the insured. While you may be comfortable that you completed all assigned service timeline activities, it is imperative that the key decision makers at the client organization know you have delivered. Your competition already is, or will be soon, pitching value-added services to your insureds. Even though you may be executing on services and you have great relationships with a client, you need to ask yourself whether you're willing to lose an account because you did not take the final step of "forcing" a formal and defined Stewardship Review.

Just as compliance audits are meant to hold internal staff accountable for executing services promised to the insured, the Stewardship Report holds the agency accountable for communicating delivery. Many successful agencies are

periodically meeting with insureds to review the service timeline, track progress (whether completed on time or not) and discuss next steps. There is a risk in approaching a client and stating that a defined target date was missed, but most insureds are pretty understanding when you are open and honest about what has not been completed, why, and what you plan on doing to make it right.

While simple in nature, we can not underscore enough the importance of communicating to ALL key client personnel that promises made were actually kept. Executives turn over, ownership changes, employee relationships are transferred, and your competition is moving in. Differentiation is great. Communication is mandatory.

Summary

Value-added services are no longer the wave of the future. They are a current reality.

Market differentiation and compensation justification will come to those insurance distributors who both sell the value of services provided and deliver on promises made.

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