

RUNNING AN AGENCY LIKE A BUSINESS\$

Members of APPEX stress importance of a CEO's commitment to financial & operational issues

By Thomas A. McCoy

Agency owners traditionally have tended to measure their progress by revenue growth—a natural instinct, since most of them come from a sales background and continue to maintain significant personal books of business. However, as agencies become larger and more sophisticated, their owners are realizing the need to look deeper in evaluating agency performance. They are using benchmarks familiar to public companies such as overall value, return on equity and various peer group measurements.

*Jeff Scherschligt
Howalt-McDowell Insurance, Inc.
Sioux Falls, South Dakota*

One agency that fits this profile is Howalt-McDowell Insurance, Inc., a \$12 million revenue P-C firm in Sioux Falls, South Dakota. Operating in a sparsely populated area, the firm's revenue grew 12.5% last year, with employee benefits contributing 32% of revenues.

"We're still a sales organization," says Jeff Scherschligt, Howalt-McDowell's CEO, "but you need discipline."

One source for discipline at Howalt-McDowell is its membership in APPEX, a MarshBerry-run organization made up of 106 agencies from all parts of the United States. APPEX member firms, which average \$7.5 million in annual revenues, meet twice a year to share financial and operational strategies. They also receive quarterly financial



reports which compare their own agencies to other APPEX agencies. These include ratios for profitability, rate of growth, cash management, net worth and a number of other financial and operational measures.

At APPEX meetings, agency owners are divided into groups of 12 firms, called 12 PAX—those with similar characteristics grouped together, but not with agencies from the same geographic market. This small group of peers serves as “a virtual board of directors,” says Scherschligt. “We respect each other, so we can point out where we think a fellow member needs to improve. Because I’m a majority owner, the other partners in my agency might not tell me, ‘We think you’re headed in the wrong direction.’ But my peer group at APPEX can tell me that.”

Scherschligt takes the financial performance indicators he gets from APPEX—showing how his firm stacks up—and passes this information along to all 70 of his firm’s employees. He includes it in quarterly reports of Howalt-McDowell’s own revenue and profit results for each profit center in the agency. Then, in January, employees receive a 36-page agency financial and operational report giving results from the past year as well as its goals for the year to come.

The annual document, which looks a lot like a public company annual report, breaks down goals and results by department and individual sales people and shows bonuses paid. It assesses strengths and weaknesses of each department and provides comparisons to standards, based on APPEX data. Also included are a chairman’s letter, employee photos and a report of donations to charitable causes.

“The national public companies have to focus on quarter-to-quarter results. We can look a little longer term,” Scherschligt points out.

To provide that long-term perspective, the Howalt-McDowell annual report includes a chart showing the agency’s results in relation to 11 major goals over the past 12 years. It shows what agency profit-sharing contributions have been over that period (at least 10% of an employee’s salary contributed to a qualified plan each year) and that it reached its goal of a 20% return to stockholders in all but one of those years. A dollar figure for average compensation and benefits per employee also is disclosed.

“Looking at our annual report, I can be satisfied, not only in accomplishing what we set out to do, but in how we compare to the APPEX standards,” says Scherschligt.

One recent insight Scherschligt received from APPEX data was a cautionary one. “We’ve pushed our revenue per employee to \$170,000, and our revenue per service employee to \$280,000. The APPEX standards suggested something close to \$240,000 per service person. We think we may be pushing people a little too hard. So maybe we need to accept a little lower return for a while and make some investments that will take us to the next level.”

Gregory & Appel Insurance, a fourth generation firm in Indianapolis, Indiana, with 95 employees, has used customer feedback to measure its performance. “Two years ago we contracted with an outside firm to survey many of our clients,” says David Riley, president. “We were surprised by the results. We found that customers didn’t care as much about our history as we thought, and that we were perceived as not up-to-date in technology.”

The agency responded to the survey data by striving to make its clients more aware of the agency’s use of technology, and by introducing a branding project. The branding initiative took two years to complete and included a restatement of the agency’s core values, re-educating employees, and a logo change. “We want to stay ahead of the curve,” explains Roy Geesa, vice president and commercial sales manager. “If we don’t, our clients will tell us.”

Another course correction for Gregory & Appel came as a result of its membership in APPEX. “We could see that our accounts receivable management wasn’t that strong compared to other APPEX agencies,” says Geesa. “By making it a priority, we moved our average receivables from 30-40 days to two days. And our clients are just as happy.”

The Gregory & Appel executives, like Jeff Scherschligt, utilize the small group meetings at APPEX as a sounding board for their performance. “It’s positive peer pressure,” says Geesa. “Coming to APPEX keeps us from getting too big for our britches.”

Roy Geesa (left) and David Riley
Gregory & Appel Insurance
Indianapolis, Indiana





Ken Kessler (left), Lucille Shalometh and Steve Kessler of Sander A. Kessler & Associates, Santa Monica, California

Sometimes agency principals are so focused on their own books of business that they are diverted from their responsibilities of running the agency, according to Steve Kessler, CEO of Sander A. Kessler & Associates, in Santa Monica, California. He is determined not to let that happen. Steve has his own \$1 million book of business and his brother, Ken, who serves as president, has a \$2 million book of business.

"Until recently I served as both the CEO and CFO," says Steve. "Now I've given up the CFO role to our controller. Ken is responsible for managing external affairs of the agency, including carrier relationships, and overseeing the marketing of all accounts in the agency which produce over \$125,000 in revenue."

How do they stay focused on their management responsibilities? One way is by holding quarterly strategic planning meetings that include all agency owners, the controller, and their CPA. Tom Linn of MarshBerry, the consultant assigned to the agency as a result of its APPEX membership, also attends. "All meetings at the Kessler Agency, whether they involve owners, producers or others, must have an agenda," says Steve. "Everyone has to have his homework done in advance. We're very much into accountability."

Sander A. Kessler & Associates was presented with The Leverage Award at the spring '05 APPEX meeting. Leverage, as defined here, has nothing to do with borrowing money. The leverage being measured is the growth in the agency's value relative to its growth in revenues over a five-year period. Kessler achieved a leverage index score of 2.41. Value, as measured by MarshBerry, is defined as the book of business value plus the agency's tangible net worth.

No matter who is valuing an agency, or for what purpose, one key to building long-term value is effective sales management. Without a strong, efficient, and motivated sales force, an agency's engine will sputter. Yet, how can agency owners, who have their own deeply imbedded sales styles, measure and improve their firms' sales management activities?

Dawson Insurance of Fargo, North Dakota, was named the APPEX Sales Management Agency of the Year at the spring meeting. "We rank high in having a high percentage of our producers with significant books of business and significant new business every year," says Tom Dawson, CEO. "Other agencies have more producers, but maybe they have some with high books of business, and some with small books."

Dawson Insurance has 31 employees, and is made up of 25% personal lines, 65% commercial lines and 10% employee benefits. One way it has tried to maximize producer efficiency is by redefining roles of its servicing people. "In the last couple of years we've added a tier of account assistants," Tom says. "They handle invoicing, issuing of certificates and other processing responsibilities other than direct client contact."

"Attending the APPEX meetings has helped us focus on separating the sales and service functions, and concentrating on new business production," Tom continues. "Actually, one of the areas where we've gotten the most guidance from our 12 PAX group is sales management," says Dawson. "We discuss how to track what producers are doing in prospecting, giving them plenty of support, and not 'overserving' small clients at the expense of large clients."

Despite achieving most of its growth organically, the agency has added two sales people through acquisitions and is working on another acquisition that will add a third.

Like many of the agencies attending APPEX meetings, Dawson Insurance is represented not only by its CEO, but another executive whose responsibilities fall more into the number crunching realm. For Dawson, it is Jan Johnson, the controller and human resources manager. Among her areas of interest at the last APPEX meeting was a presentation by MarshBerry consultants on acquisitions and another on incentives.

"The biggest benefit for me has been networking with my peers and finding out what's working for them," Johnson says. "You form relationships at the meetings so that you can call members later to share ideas."

The presence of agency controllers at the APPEX meeting and an agenda that includes sessions on the budget process and agency acquisitions sets APPEX apart from a number of other agency groups where the focus is mostly on sales. But CEOs attending APPEX are acutely aware that financial and operational control is intricately linked to sales and, ultimately, to increasing their firms' value.

Tom Dawson
Dawson Insurance
Fargo, North Dakota



At the spring meeting, Carey, Richmond & Viking of Portsmouth, Rhode Island, received the PINnacle award for receiving the highest “PIN” (Performance Indicator Number) of all APPEX members. “Talking to other agents at our 12 PAX meetings makes me far from complacent,” says David Andrade, president of the 32-person agency. “There are so many non-financial factors that speak to an agency’s success.”

Andrade is still in the process of executing the firm’s perpetuation plan, paying his father for the agency’s stock, “so I need all the help I can get,” he says. “We’re concentrating on trying to better segment our book of business so that we continue to add value to our most important customers. I’m also particularly interested in learning from other APPEX members about how to build the management team and develop production talent.”

To hire two producers recently, Andrade tapped Woodgate Partners, an agency sales consulting firm, which identified the candidates—recent college graduates—and assisted with the training process after the producers were hired. “The training was important,” says Andrade. “An agency of our size isn’t always the best at training, and Woodgate gave us a framework to do that. When we were in the hiring process, one of the first questions we got from recent graduates is ‘What kind of a training program do you have?’”

The APPEX 12 PAX meetings have some parallels to the oversight structure that exists at publicly owned companies, where shareholders and outside directors scrutinize the performance of management. APPEX member agents expect to be probed, pushed and challenged—and to do the same to their fellow agents. However, owners of privately held companies have greater control over who sees their financial information. The 12 PAX format is designed to stimulate open sharing without compromising an owner’s need for some privacy. Discussions at the 12 PAX meetings are considered confidential (and as a press person, the author was not allowed to attend any of those meetings).

“I come from a culture of keeping information pretty close to the vest,” says Andrade. “When you get into the 12 PAX groups, you’re expected to share a lot of information, and open yourself up to a challenge of the way you do business. But it’s all done in a very positive way.” ■



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