

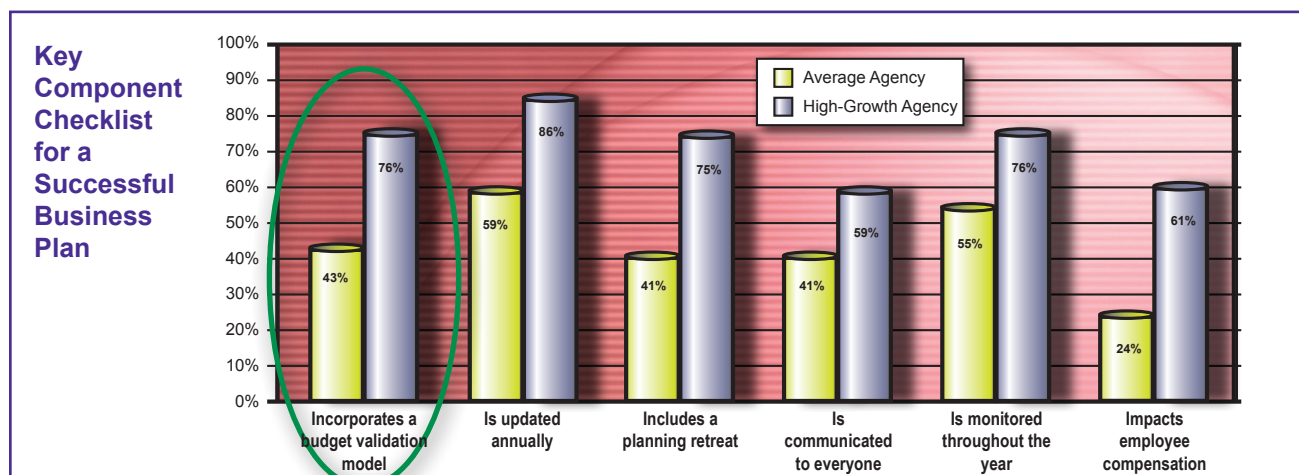
Establishing an Attainable Growth Budget

During the business planning process, many agencies build their growth budget reactively, based on a gut feeling, or with just the end result in mind. While this may be the easy way, the likelihood of success is very low. Success is limited because the growth budget has not been “validated” or reconciled to a business plan to ensure that it is achievable.

A proven practice used to develop an attainable growth budget is to use a “budget validation model”. This model is a process used to reconcile growth, identify the gap and build a plan for bridging the gap. The place to start is from the bottom up, or by estimating the new business production that is expected from each producer. Once individual targets are established, the next step is to estimate the retention rate that each producer will experience, factoring in changes in rate, exposure base and the probability of loss for any account at risk. The result is a projection of net growth by producer and total agency commission income. This process often highlights the fact that the existing staff cannot produce enough for the agency to attain the growth budget. The focus then must become “how to bridge the gap”.

A budget validation model should be a key component of any business planning process. If employed correctly, it will enable leadership to establish a growth budget that is achievable. In order to bridge the gap, a budget validation model should consider the following:

- How many new producers at what success ratio need to be hired?
- Should the market territory be redefined and expanded to create additional new business opportunities?
- What is an ideal profile of an account where the agency has differentiated expertise, market or relationships?
- What are the most desirable and prevalent prospects available (i.e. industry, average account size, product types, etc.)?
- Which producers are uniquely suited to target which industry segments?
- Does the staff understand and communicate the agency’s unique capabilities to win accounts?



As depicted in the graph above, our research shows that the majority of high-growth agencies incorporate a budget validation model into their business planning process. Identifying the gap and building a process to bridge the gap turns a growth “wish” into an “attainable growth budget”. Too many agencies fail to perpetuate because of missed profit projections. Most often, this occurs because expenses are accurately projected, but growth targets are seldom attained. Remove luck from the equation. Incorporate a budget validation model into your planning process and control your future.

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