

Cross-Selling Realities

By Chris Burand

In a page 1, November 24, 2006, *Wall Street Journal* article, Allstate outlined its new strategy: life insurance. Allstate's plan is to leverage its great relationships with its current clients to sell them life insurance, annuities, etc. According to the article, they had considerable success growing financial service sales from \$334 million in 1999 to \$2.8 billion in 2005, contributing to nearly half their growth! So maybe Allstate is on to something.

On the other hand, having worked with a lot of agents, I find very few can successfully sell P&C and health, much less life and annuities. Do Allstate agents have some ability independent agents don't have? Those are big numbers they have achieved, far exceeding the success of most independent agents, so what talent do they possess?

But consider this: the article describes an agent that Allstate touts as being successful selling life and annuities in Florida. The agent says 20% of his P&C customers want to know more about life and annuities. Of those, 40% buy something. This is a cross-sell rate of 8% from a producer who has little choice but to push these other lines. Additionally, this is in a market full of retirees so there should be more interest. Yet, the cross-sell rate is only 8% and this is a success story! Allstate is big enough that 8% here and there adds tens of millions of dollars of revenue, but 8% extra revenue in an independent agency, after costs, especially producer compensation, is unlikely to make much difference. In a \$2 million revenue agency running a 20% profit margin, this is only \$32,000. Not small, but definitely not earth-shaking.

When contemplating a cross-sell strategy, it is important to fully analyze the strategy and set realistic expectations to ensure it is successful. With better analysis, agents can improve their strategy and tactics or maybe choose a totally different strategy, but to assume cross-selling is going to be universally successful is pure folly.

Cross-selling is only a good strategy if it meets three criteria:

1. It is adequately profitable.
2. It is the best opportunity.
3. It prevents or at least minimizes competition.

Profitability

If an agency's normal profit margin is 20%, what is the profit margin on a cross-sale if both producers (because usually two producers must be involved, one for the benefits sale and one for the P&C sale) receive full commission? The answer is probably very little. Many readers will exclaim that no one would ever pay both producers full commission, but some agencies do.

Even if both producers are not paid full commission, is the total paid more than the agency's normal producer commission? What is the cost of something going wrong?

What if one line makes a mistake and causes the loss of the entire account? If the agency manages the process tightly, the answer is that cross-selling can be adequately profitable. But many agencies do not manage the process tightly, they do not consider all the costs, and they do not measure the actual profit. The result? A losing strategy.

Opportunity

I know one agent that preaches the benefits of cross-selling as though it is the best solution to all agency problems. For his agency, it is not only the best solution since sliced bread, cross-selling has literally saved their agency because their P&C people cannot sell to save their lives. The benefits department has saved their agency by selling benefits insurance to their existing P&C clients. Now that the agency has cross-sold as many P&C clients as possible though, someone in the agency is finally going to have to address the agency's real problem: they do not have anyone that can obtain new clients. Cross-selling should be seen as the dessert, not the main course.

Therefore, if an agency has great people and tight management, its best opportunities are to find new clients followed-up by cross-selling—provided the agency has the expertise and tools to provide a high level of service in the ancillary lines. Too often agency owners, usually P&C people, will say their agency can easily sell benefits because selling benefits is cake and requires no effort and nothing special. This is absolutely wrong. For the agency's benefit, and the agency's customers' benefit, expertise is always required.

Minimizing Competition

I do not believe that by writing all lines an agency limits competition. Clients still get proposals from other agencies and if an agent cannot compete any other way, this is simply a temporary and poor solution.

Cross-selling, however, may provide another opportunity to beat the competition. If Allstate is pushing its agents to sell life and annuities, independent agents may have a great opportunity to take P&C business from Allstate while their agents are distracted. One man shops cannot be experts in all areas, some will be frustrated by being pushed to sell products they do not like to sell, and some will not have time to provide the services they were providing resulting in discontent clients.

The odds of this opportunity being created are quite high. Most companies have found being all things to all people has not worked. The great book, *Profit from the Core* by Chris Zook, studied thousands of companies and found those trying such a strategy only had a 27% success rate.

Consider Allstate's own results. Allstate was part of the one-stop financial shop with Dean Witter, which failed. The article also noted that recent research shows "consumers' inclination to buy home and life insurance policies from the same company seems to be on the decline." Another report cited in the article notes "that cross-selling rates of car, home, and life insurance has barely budged in recent years."

Many agents have implemented cross-sell strategies or are considering cross-sell strategies. Before embarking blindly down the cross-sell path, carefully consider whether the strategy is adequately profitable, provides the best opportunity, and offers a competitive advantage. Also consider whether the agency's resources are better spent elsewhere, like taking advantage of a competitor's incompetent attempt at cross-selling.

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