The Follies of Cross-Selling
By Chris Burand

We all know how valuable cross-selling is to agencies. In fact, virtually every month I read in at least one trade publication about its critical value. Numbers I have read suggest profit margins on the second sale are two to three times higher than the first sale and retention is 60% higher. But the average number of policies per customer has not changed in independent agencies in twenty years. How can something so important, something preached constantly for year upon year, be so elusive? It is like we all know how to become millionaires but we just ignore the facts. The truth is cross-selling is a complicated process and it fails for many logical reasons.

One reason is too many producers sell price. When a salesperson sells price, they build fear into their own psyche. They fear someone else will offer a better price. Add to this the fact that, to most people, the loss of a dollar is psychologically twice as valuable as the gain of a dollar. Therefore, because so many producers sell price, they are constantly worried they will lose clients (dollars) to other agencies and because they value these potentially lost dollars twice as much as any potential gains, they spend all their time worrying about how not to lose sales rather than how to make more sales.

The fear of losing dollars counteracts cross-selling because once a producer makes one sale, they do not want any contact with a client that might cost them that sale. This includes trying to sell additional products because the client might perceive the producer as being greedy by trying to sell them more insurance than they need. I think this is a key reason so very few producers offer EPL insurance even though virtually every commercial client needs it and from an E&O perspective, producers should offer it to every commercial client. However, it is a relatively new product most clients have probably never been offered, so offering it might cast suspicion on the producer. Consequently, the producer does not offer it. Better to be happy with half a loaf than no bread at all and so goes an excellent cross-sell opportunity.

Another reason producers do not cross-sell is that the more policies a client purchases, the more likely clients are to have something go wrong. When I worked for an insurance company, many commercial marketing reps would not even mention the company's personal lines products to their agents for this very reason. Our personal lines division did not have high error rates but a personal lines policy that went bad for an important commercial account (i.e. the business owner's son gets a D.U.I. and the business owner does not understand why the company is canceling his son's auto insurance) could jeopardize the bigger commercial account. K.I.S.S. was the philosophy. Not a bad philosophy either because one division can cost another division a sale even more easily than one division can cross-sell another division.

Therefore a key criteria to successful cross-selling is that the first division (if divisions or departments are involved) must have confidence that the second division will provide great service and products and reasonable prices. Because most independent agencies focus either on commercial or personal (smaller agencies tend to focus on personal lines while larger agencies tend to focus on commercial and a very few have producers that focus on health and life), their energy and efforts are focused on one or the other. The secondary product/division gets the scraps. For example, if a client already has a commercial policy and the agency is trying to sell them a health policy, the commercial producer must have complete confidence in the health department, which, as mentioned, is often staffed by lesser quality people. Similarly, when different departments are not involved, the producer may know one product and lack confidence and knowledge in other products so they do not sell those. If a producer does not know a product, they should not sell it. So this is a smart strategy but another reason cross-selling fails.

Big egos can often be a useful characteristic for selling, but a death sentence for cross-selling. A problem arises when the salesperson believes, "I'm better than anyone else so anyone else is going to do a lesser job selling the next product which will increase the risk of something getting messed up." And so goes another lost opportunity.

Another reason cross-selling is not more successful is that salespeople have a tendency to cross-sell all customers equally. In other words, all homeowners customers are approached with an offer to sell them auto insurance. Not all customers are fit for a cross-sell though, so our failure rate is higher than we believe it should be. For example, suppose a customer, regardless of known problems, is approached for the second sale. The customer buys, complications arise and the second sale messes up the first. After touching the fire once or twice, we quit trying and another cross-sell plan bites the dust. An even more rigorous qualification of the account should occur before the second sale is made. In fact, in my business, I often intentionally fail to mention additional services I provide to some clients because I do not feel they would make good candidates for my other services.

In essence, these reasons speak to what Chubb's CEO said regarding cross-selling bank products with insurance products two years ago. To paraphrase, he said "to base mergers and acquisitions on the great potential for cross-selling is to assume the combined company will offer the best products on both sides." If not, producers will not sell both products and customers will not want to buy both products. To be better than the competition in one area is tough enough. Being good in multiple areas is very difficult.

Successfully cross-selling will dramatically increase profits because, as mentioned, profit margins on the second sale are two to three times higher than the first sale and retention is 60% higher. But, as Adam Smith proved in *Wealth of Nations,* written in 1776, a nation (this applies equally to a company) that is better than all others in two areas, will still make more money if it only focuses on the product it builds best and lets someone else produce the second product.

Similarly, it is often more beneficial for customers to buy from multiple parties. Cross-selling is rarely as successful as salespeople expect because not all clients will buy from one agency even if your products, service, and prices are better than any other agencies'. Buyers want to spread their business for emotional and logical reasons. Emotionally, they feel more secure doing business with multiple parties. Logically, buying from multiple parties is smart because it is safer to keep personal and business affairs separate. Keeping two agents involved may keep both working harder for the client. And, like investments, spreading business diversifies the risk of something going drastically wrong with an agency (and with so many agencies out of trust, this is not a bad strategy). Diversification can also be politically beneficial enabling the client to develop relationships with more people.

Without a doubt, successful cross-selling is very, very profitable but successful cross-selling is also very, very difficult. Cross-selling is so difficult and problematic that focusing on what we do best, heeding Adam Smith's insight, and not cross-selling is often more profitable and easier than cross-selling no matter the benefits. After all, if a cross-selling effort fails, which most do, are profits any higher? What if all the time and money spent on the cross-selling program was used to sell what the agency does best? Before embarking on a costly, in time and money, cross-selling program, make sure you have bridges that cross all the pitfalls that accompany cross-selling. If you have bridged those chasms: having the best products and services in all areas, having good pricing in all areas, having expertise in all areas, and you can execute the plan, mountains of profits await your agency.

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