

Is the Future Positive for Small, Traditional Agencies?

by Chris Burand

As with most broad looking-into-the-future answers, it depends. It depends on knowledge, commitment, and recognizing reality.

Knowledge

I find one reason many small, traditional agency owners are discouraged when looking into the future is partially caused by a lack of knowledge. Sometimes they read too much industry press written by inadequately knowledgeable people and sometimes they just don't read. (As Mark Twain famously asked, "What is the difference between a man that doesn't read and one that can't read? Nothing.")

The inaccurate information being written and causing consternation includes the aging industry, the inability to develop new people, and how a few heavy advertising direct writers are having all the success.

First, the industry is not really aging. Individuals are aging, as are their peers, making it seem like everyone around them is aging. The average agency owner age has not changed materially since I've been in this industry which has been 25 years. It was 56-58 years old then and its 57-59 years old now. Writers expressing concern the industry is nearing collapse because of aging agency principals are simply Chicken Littles.

Second, the ability to develop new people has never been better. The resources for testing, hiring, educating, and training new people are of far higher quality and abundance than any time in my career. The problem I see is that few agency owners know of the resources or they do not use the resources appropriately.

Third, the heavy direct advertising is having an effect. It is successful. However, it is a strategy that ONLY APPLIES IF the company/agency is big enough to spend enough AND if the client target is not primarily interested in more than a superficial transactional relationship. The independent insurance agency system WAS DESIGNED TO AVOID BOTH CONDITIONS. The carriers that originally distributed insurance through independent insurance agencies did not advertise to the general public because they relied on their agents to advertise. Those agents in turn advertised generally on a community platform and marketed on a social platform. The advertisements were at the Little League park, high school year books, local newspapers, and so forth. The marketing was through relationships and true social networking versus electronic social networking. These methods worked because the client target was someone wanting a relationship. Going forward then the question becomes, who is your client target and if it is people wanting superficial transactional relationships, can you afford to advertise adequately?

Commitment

The question is not only can you afford to advertise adequately, but will you commit to advertise so significantly? Your advertising budget may have to quintuple. Historically agencies, especially smaller

ones, have not had to make much of a commitment once established. This is because once established, agencies' retention rates were adequate to generate safe cash cows and since a great many agency owners were satisfied with the cash generated, they could just ride along. I hear the concern in many agency owners' voices these days because they see they have to make a commitment and they don't want to do so. One reason they enjoy the business is the flexibility they have and a commitment can sorely limit that treasured flexibility. The emotion tied to committing oneself to building a future is what causes so many to wonder about their future.

On the other hand, approximately 5,000 new agencies have been created in the last five years. That is an amazing number and many of these agencies have made a commitment to the future. They haven't yet experienced the cash cow and flexibility so they're just busting their butts to pay the bills. They don't really have the same concerns. They are playing offense to win and the traditional agents are playing to not lose. Playing to not lose is rarely a winning strategy and insurance carriers recognize the difference when appointing agencies.

The solution many such agencies have latched onto is a cluster or aggregator. Done well, clusters and aggregators may be a solution, but the majority of these entities have been established sloppily. Sloppiness seems to abound because the members do not want to make a true commitment to an enterprise that ultimately requires a true commitment. These entities are partnerships and any partnership that truly succeeds requires a complete commitment.

Going forward then, the future is truly bright for those willing to make a true commitment to building their agencies every single day. This means selling every day. This means developing people using the great tools available.

Accepting Reality

The reality is that owning and running an independent insurance agency is going to get tougher. More business operational knowledge will be required, more insurance technical knowledge will be required, and more leadership will be required. Instead of resting on one's sales, reality is that no amount of volume will ever be enough. For example, historically in small towns many agencies would grow to some large percentage of the market and then plateau because the reality was that with their market share, they could not grow much more. The new reality is that it is time to start selling insurance in the next town over.

The reality is that more structure is required to minimize E&O exposures, to appeal to younger employees, and to develop new employees more effectively. The reality is that your companies are no longer going to depend on just agencies to make their sales. They know some people only want superficial transactional relationships and they're going to advertise to that audience. They know some agency owners are committed and they know some are not, they know some listen to too many tall tales about what is happening and they know some are quite well informed.

In sum, the reality is that in the past, to put in the terms of the wonderful book by David McNally, *The Eagle's Secret*, Survivors could do just fine in this industry. Going forward, this industry has a great future for Thrivers, but maybe not Survivors. In fact, I don't think I have seen more opportunity for

Thrivens than ever before because historically, the ease with which Survivors survived was an important impediment to Thrivers thriving. Companies protected Survivors, customers would not leave Survivors easily, and the historic independent agency distribution model was designed to protect Survivors. The upheaval pressure Survivors are feeling, causing them to question the future of small traditional agencies, is directly correlated to their position as Survivors. Thrivers are not concerned about their futures because their futures are so bright, they have to wear shades.

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