Are You In Business to Make a Sale or Make a Profit?

By Chris Burand

The title of this article is the title of a popular seminar I've given across the country. I've asked this question of hundreds of people, mostly agency owners. Between 95 and 99 percent of audience members have stated they're in business to make a profit.

If only that were true. It is hard to accept that agencies are in business to make a profit when the new *Growth and Performance Standards* (by the National Alliance Research Academy) shows the average agency has almost no profit without contingencies. It is hard to accept that agencies are in business to make a profit when agencies regularly write hundreds of unprofitable accounts and when at least 25 percent of producers are unprofitable. One fact to remember—because it is too often forgotten—is that not all sales are profitable.

This is the softest market the property and casualty insurance industry has ever experienced. Agencies today are desperate to increase sales to make up for lost premiums. In their desperate search for help, more and more agencies are turning to the myriad of sales and marketing programs being sold.

Some of these sales and marketing programs are good but many are not so good. Even if they result in sales, the return on investment is often still negative or, at best, marginal. The agencies make sales, but not profits.

The fact that not all sales are profitable is a key factor missed by these programs. Some of them appear to address this fact by suggesting agencies avoid small accounts, but large accounts can be just as unprofitable as small accounts. Some of the web-based marketing programs are excellent examples of not differentiating between sales and profitable sales. This begs the question of what an agency is really getting for its money.

I have reviewed and analyzed some of these web-based marketing programs. Some contain great advertising, assuming the services and benefits promised are real. If prospects see that advertising, and the agency has decent rates, then the agency using these programs should write lots of accounts. But the agency is likely to lose a lot of money in the process because the truth is that few agencies can live up to the promises advertised. Sooner or later, the agency will lose its shirt in an errors and omissions (E&O) lawsuit because it is not performing the services or the quality of services advertised on its web site.

Agency owners need to understand that while advertising hyperbole has never been smart, only small portions of people ever paid attention to the hyperbole in paper brochures. However, Internet advertising never disappears. Search engines can quickly find all the promises an agency has ever made, meaning the agency facing a complaint stands little chance. How many sales does an agency have to make to cover an E&O claim? When calculating this cost, be sure to include your time, frustration, stress, higher E&O premiums, and damaged reputation.

Another factor to consider is: What makes a prospect's phone call or email funneled through a web site any better than one funneled through a Yellow Page ad? Is the hit ratio better? Is the retention rate better? Is the quality of the account better? In fact, what is the profitability of accounts generated by web-based advertising? If you invest a bunch of money on web-based advertising, or any advertising or marketing for that matter, without knowing what profit margin to expect, then you are in business to make sales, not profits.

I have asked this question regarding the difference between Yellow Page call-ins and web-based call-ins many times. The typical response is outrage, followed by charges of heresy. It is as though the web is the equivalent of medieval churches whose righteousness could not be challenged. I simply am asking a question to which a solid, factual answer should exist. Otherwise, you're just making sales.

Some agencies searching for sales, turn to sales consultants promising agencies that if they invest tens of thousands of dollars, they will increase sales. That is a pointless promise. If an agency invests enough in any sales system, sales will increase—the agency may go broke in the process, but sales will increase.

One popular program will work in extremely limited situations because it works well with large numbers. Otherwise, the investment in value-added tools beyond the original consulting fees is so high that most agencies will lose money. It is like a doctor telling a patient that the cost for a particular therapy will only be $10,000, which the patient thinks is a good deal. But the therapy requires drugs, other professionals and further treatments that cost an additional $100,000. Is it still a good deal?

The worst systems are the ones with high upfront charges that do not include a SWOT (strengths, weaknesses, opportunities and threats) analysis. This is usually an extra cost for the agency because the agency probably has to hire another consultant to complete the analysis. Agency owners should not do the analysis for themselves either—this is something best done by an outside party.

A SWOT analysis is a must because most agencies do not have the strengths or opportunities to make these sales systems work. Some sales consultants make this problem the agency's fault and most owners fall for it because they acknowledge they did not push their producers hard enough.

But this is a false premise. First, if an agency does not have the right people, the system used is meaningless; all systems will fail. A huge percentage of people employed as producers have as much chance of becoming successful salespeople as they have of becoming great surgeons. Every sales system will fail if this very basic fact is not dealt with first.

Second, an agency must have a sufficient number of quality accounts available. For a sales system to generate $1,000,000 commission in short order—as some of these systems promise and others require to justify their price—an agency MUST have access to many quality accounts.

Just think about the practicality. Writing $1,000,000 in $1,000 accounts in three years is 1,000 new accounts or 333 annually or almost one per day for 36 straight months including weekends and holidays. Even assuming a great 75 percent hit ratio that is 1,333 proposals. Take a look at your prospect list. Do you have 1,333 quality prospects generating at least $1,000 annually? Does the sales system or consultant have a way to generate this result? Will the consultant or system guarantee it?

Even at $2,000 per account, that is 500 accounts or 167 annually, which means 222 prospects annually or 667 total quality prospects. What does your market research show is feasible? Is the consultant even providing this research? Even at $5,000 per account, this requires 200 new sales and 267 new prospects. Few agencies can write 200 new, $5,000 commission accounts in 36 months.

So even if the sales program is great, the bigger question is whether it will work to make sales or profits. Today agency profit margins are in the basement due to the soft market and bad economy. Consider a typical 15 percent profit margin. In a $3,000,000 revenue agency, the agency is making $45,000 in annual profit. If it has to spend $100,000 on the system and E&O claims, how much new revenue has to be generated for the system to pay for itself?

No matter how much someone is willing to pay, there is no magic sales pill. Agents must believe that success should reside with those who work the hardest and smartest rather than with those who simply spend the most.

This solution is basic. The first step is to complete a SWOT analysis to determine what is feasible and what strategies align the agency's strengths and opportunities. This includes an honest analysis of the producers' abilities and management's discipline in holding themselves and their producers accountable for results. It also includes analyzing the relevant market and carriers.

This analysis will put the cart after the horse so that any subsequent sales strategy will be going in the right direction. This may mean paying $50,000 for a marketing system or a sales consultant, but, then again, it may not. A great many agencies can make simple and cost-free improvements that will produce a bigger increase. One simple solution is to actually provide the quality service the agency's web site advertises rather than just paying for the advertising. This usually means analyzing ALL clients' insurance coverages annually.

Some of you may be thinking you cannot afford to do this. If that's the case, then make sure you do not advertise it! Sure, your advertising may then be then boring but at least it will only advertise actual services. Another option is to use a coverage checklist. Sales increase, E&O exposures decline, clients get the coverage they need, producers begin focusing only on profitable accounts and their clients' needs, and the quality of the accounts improves because price shoppers do not sit still for coverage checklists. The best thing about this option is that coverage checklists are free!

Someone will still have to generate new sales. However, with a SWOT analysis and discipline, agencies can increase sales in a much smarter way, with much less risk, and they can make profits rather than just sales.

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