The Value of a Satisfied Customer
By Chris Burand

According to a survey by the Insurance Information Institute, satisfied customers "would want to save about 20% on their [personal auto] premium before they would switch." The survey also found that "15% said they would not switch regardless of the amount of savings."
—Best's Review, September 1998

Every agency has three types of customers. First are those that will leave due to price—it is just a matter of time. Second are those on the fence. They are not true price shoppers, but they do not have real strong ties to the agency either. Third are those that are willing to pay more just to maintain a relationship. If an agency treats this third group well, they will stay with your agency even if they pay more.

Everyone has a limited amount of time and energy. Do you want to spend the time you do have on customers that will stay or leave? It seems many agents want to spend their precious time on those that will go. Consider, for example, late pays. Late payment problems are inevitably related to the same clients, month after month, year after year. These clients *cost the agency money*. The agency loses money because they have to spend too much time rewriting, reinstating, collecting, and following-up on their policies. The agency derives no benefit from writing these accounts. Yet, every single time I have suggested an agency not rewrite customers more than once and not accept money on direct bill policies, someone in the agency always protests. They did not want to lose these costly accounts!

On the other hand, by concentrating on profitable accounts, an agency can significantly increase its profits. For example, the average agency has a profit margin of 7%. If an agency could increase its percentage of satisfied customers by 25%, and assuming the percentage of satisfied customers was already 50% of the book, the agency could ostensibly have prices 10% higher than the market on 75% of its book, with no extra cost. On a book of $100,000 commissions, that equals $7,500 or a doubling of profits!

With so many new entities, the Internet, banks, and accountants and more intense competition from direct writers and captives, agencies are going to lose customers. This is not a bad thing. With options that suit these customers' needs better, they will leave agents. For agents, the key is to accept this fact and make sure your agency does not get stuck with unprofitable customers. Rise and meet the challenge of the competition. Let them have the low margin customers and make sure you do whatever is necessary to keep the high margin customers, the customers that will pay extra for the professional advice provided by an agency that represents multiple companies and works for the customer!

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