

Snow Trees

By Chris Burand

One morning last winter, I awoke to a snow-covered world. The trees and grass were covered with a thick, heavy spring snow. Beneath each pine tree was a circle of dry ground. The bigger the tree, the bigger the circle.

I was looking at the bigger circles thinking the big trees' branches prevent moisture from falling close to the tree trunk, so they have to send their roots out far to search for water (tree roots generally go out rather than down where I live because we have no soil—just rocks). I wonder though which came first. Did the roots expand first, enabling the limbs to grow wider or did the limbs grew wider forcing the roots to follow?

This “chicken and egg” question applies to agency growth as well. On average, the bigger the agency, the bigger their average account size. This is a fact. Every study and every set of benchmarks show that larger agencies write, on average, larger accounts. So, do agencies get bigger because they write larger accounts or are bigger agencies forced to write larger accounts? This question is important for two reasons. First, it impacts how agencies grow. Second, it impacts profitable account acquisition.

Agency Revenue (thousands)	< \$500	\$500-\$1,000	\$1,001-\$2,000	> \$2,001
Average Commercial Lines Account	\$394	\$556	\$735	\$1,173

(Source: *Growth and Performance Standards 2002-2003*, Academy of Producer Insurance Studies)

If growth is generated by writing larger and larger accounts, then the key to growth is simply going after larger accounts. Growth becomes secondary. However, if agencies are like trees and are forced to grow to survive among the other trees/competition, growth is not secondary. It is primary.

Like trees with big roots to support their growing branches, as agencies grow, they can't keep servicing small accounts the way they could when they were small. Small accounts generally consume as much time and effort as large accounts. Therefore, agencies too must grow their accounts bigger to support the agencies' growing size.

Most agency owners, producers, and employees though do not want to act snobbish toward smaller accounts. They do not want to throw away revenue. They often feel a sense of community responsibility to these accounts. But agency size and account size are like an Einstein theory: indisputable. As an agency grows, average account size will increase. If it doesn't, the agency will probably fail. This relationship is inevitable. Agencies that accept and adapt to this reality enjoy greater success.

To adapt, agencies have several strategies available:

- Minimize small accounts:
 - Eliminate them.
 - Sell them.

- Service small accounts differently:
 - Use a Service Center:
 - Company service center.
 - Create an in-house agency service center.
 - Have account executives service and work all facets of the accounts rather than producers.
 - Do not encourage producers to write small accounts:
 - Mandate a minimum account size.
 - Do not pay producers for writing small accounts, or at least pay less.

- Write larger accounts:
 - Work current accounts where it makes sense by cross-selling them.
 - Use coverage checklists to make sure customers are being offered all the coverages they need. While providing better protection for your customers, this will also increase your average account size.
 - Take away potential excuses for not working large accounts. Humans have a tendency to keep working within their comfort zone and therefore producers will find excuses to keep working small accounts. Whatever those excuses may be, work to remove them.
 - Get to work. As managers this means taking a more proactive approach to sales and sales management.

As agencies grow, bigger accounts are required. This is a fact. If you want to grow, small accounts must be serviced differently and larger accounts must be written. If you want to grow, consider how your agency will do it. How will you keep your larger accounts from leaving as other growing agencies also focus on large account development? Growth must occur, the only question is how.

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