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King Admin

Of all the subjects that make up the curriculum of management consulting for independent agencies, the poor cousin in the last two or three decades has been internal admin. Oh, it got lip service — Who could deny the importance of a tight ship, after all? And parts of it have had a few nationally prominent experts, mainly in IT and the client-service functions. But for the most part, the internal-admin part of agency-management education has been eclipsed by subjects related to sales, finance, and planning. I think that is beginning to change and that over the next several years, effective internal administration will become recognized by agency leaders as critical to success in the ongoing quest to improve operating performance and build shareholder value.

Definition

The lines can get a little blurry here, but the functions embraced by the term *admin*, at least in this piece, are all the management disciplines *other than* sales and sales management, client-contact aspects of service, financial analysis, M&A, carrier relations, and longer-term planning. Thus, admin is meant to include workflows, record keeping and retrieval, accounting and bookkeeping, processing systems, communication systems, several aspects of traditional HR ... not an exhaustive list, but you get the point.

A Brief Look Back

Why have financially oriented disciplines overshadowed the admin function in management consulting and education? I have come up with three reasons. They are not academic — each has a connection to the next section about why admin is now emerging in importance. The first is psychological — basically, overcoming an insecurity. Many of the leaders of independent agencies, including some of the very best, came into the business in the last few decades with, shall we say, less than robust financial education and training. And independent agencies are financial animals. Their financial orientation is both outward, meaning that producers strive to be regarded as part of the customers' circle of financial advisers; and inward, meaning that profitability, growth, and business value are the triple-crown stats of the agency-management game. Thus, there was a natural inclination for leaders to seek professional help on financially oriented subjects, which came to dominate agency-management literature, seminars, and consulting engagements.

A personal comment: This observation about shortcomings in financial preparation among the last generation or two of agency leaders is offered merely to be accurate. It's not a cheap shot. In fact, I would put my money any day on a successful insurance agent learning finance before I'd put it on

a financial type learning insurance and succeeding at what an insurance agent does for a living.

The second reason that the admin function has taken a back seat is that in the past you could afford to get a grade of C- or even D+ at the admin piece of agency management and still do OK. Early in my consulting career, I met a true student of the business, named Charlie Homer (of the Deans & Homer MGA in San Francisco). Talking about the homeowners business, built originally on the old New York fire rates, he said, "Good underwriters make a ton of money, and lousy underwriters make good money." He was talking about rate redundancy. Retail agencies may not have had quite the cushion Charlie was referring to, but it is fair to say that if you could drive agency revenue, and you weren't an idiot or a crook, you could usually afford the power options and leather seats. Careful expense analysis, good information, tight controls, documented

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The BHBCo Team

We overlap a lot on our consulting work, and we all pitch in on M&A assignments, but here's a good run-down of our specialties:

- Jason Hoepfner — IT, workflows, system conversions, social media
- Tom McGraw — M&A, agency leadership, management practices, conflict resolution
- Dom Setaro — Agency accounting
- Everett Shaw & Brian Burke — M&A, valuation, perpetuation, financial analysis
- Bonnie Burke — Editing, communication, document improvement
- Kate Thompson — BHBCo reception, admin, & photography

workflows, productivity measurement, etc., were all acknowledged as good things. And a few agencies excelled at them. But most agency principals I've met along the way intended to get to that ... "next year."

The final reason I will cite for why the admin function has historically gotten less attention can be summed up thus: *Why bang your head against the wall?* Until relatively recently, it was really hard to be good at the internal-admin side of insurance-agency management. Twenty-five or thirty years ago, the purchase of agency-automation systems was becoming fast and furious and what was the biggest promise? — That there would be less paper and you'd save money. Less paper?!?!? Fuggedaboddit. For most of the '80s and '90s, independent insurance agencies that bought computer systems (and essentially all agencies did) were buried in clutter, paper and otherwise, and their expense ratios were getting steadily worse, not better. In some cases much worse. We have to move on here, so I won't even touch on the challenges to agencies that came from carrier automation and growing government compliance. Suffice it to say that admin was hardly a tool for better performance. It was an entangled briar patch you had to avoid. Very few people were actually good at it.

Looking Ahead

So what's this change I'm anticipating? If we were able to fast-forward the tape and see an array of successful independent agencies five or ten years from now, the explanation of that success for most of them would be effective management; and internal administrative management would be a pivotal component. Not sales, you ask? Of course sales would be a big part of the success story. It always is, and has to be, in this business. But the success I

envision is not sales performance that is unrelated to admin, or that prevails in spite of admin hurdles and traps, but sales performance that gets levered up by sharp admin.

Why the new respect for admin? Why the Royal Troublemaker's ascendancy to King? For one, agency leaders today are much more astute financially than their predecessors (or their former selves). Our firm still gets plenty of work on financially oriented topics because expertise is still valued and managers have their hands full with operating and client problems. But getting better internally is becoming the hot-button item with the better managers.

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Another factor is the well documented change in the population of independent insurance agencies in the U.S. — they are fewer and larger. Each one has more moving parts. Managing client relations, carrier relations, and a few key people is just not enough. Some small specialists still live in that world, but for most all-lines agencies, internal-management problems are becoming more complex, not less so.

Further, expense management is moving from nice to necessary. So-called margin compression (downward pressure on profit margins) is real. A full discussion goes beyond the scope of this piece, but three big challenges that exist right now are the trends in contingent commissions, especially for smaller agencies; the developments in broker compensation in the employee-benefits world; and the difficulty of making a buck on small P/C accounts. Over the last 15 years or so, a big payback item in agency expense reduction has been improvement in the sales-compensation line. Progress has come not so much by lowering the producer's split, but rather by being more selective about which accounts are subject to producer comp in the first place. But that goes only so far. By necessity, the spotlight is moving to other

avenues of expense management and productivity enhancement.

The final reason is a positive one. At long last, you can get good at backroom admin — well, at least better at it — if you make the investment. A big *IF*. But this once intractable weakness can now be turned into a strength. Being better at internal admin doesn't mean just learning to pedal your bike faster than the other guy, or faster than you used to. It means working on the right stuff, getting properly compensated for the work you do, and reducing do-overs. The first two are driven largely by better information. Insurance-agency managers are light-years better and more sophisticated than they used to be at using available technology. But for 90% of them, their improved IT competency is still limited to processing systems. Only a few have moved toward true information systems. The rewards to those who do, however, who work increasingly on the right stuff and get properly paid for doing so, will be great.

As an industry, we have become numb to the number and cost of do-overs. Minimizing them will probably call for your biggest investment. It will require people — expensive people who don't sell insurance. And it will require a discipline that will be entirely new to many agency managers. Part of the new practice will be adopting the principle of continuous improvement, which grew out of the discipline of total-quality-management, introduced to the manufacturing world a number of years ago. And part of the change will require a commitment to identify every single fumble, diagnose every one for causes, and train for improvement.

I don't mean to imply that tomorrow's successful managers will be green-eyeshade types and not people leaders. Effective recruiting and managing of people is and always will be the key to effective insurance-agency leadership. What I am saying, however, is that a leader's ability to attract, empower, and compensate good performers will be enhanced greatly by his/her agency's competency in internal admin. That competency will be a distinct competitive advantage and the source of big financial reward. — *BHB*

Ink Spot

**When tempted to
fight fire with fire,
remember that
the Fire Department
usually uses water.**