

Star Date 2011
***It's time to boldly go where no one has gone before:
Observations on the past decade—and the next.***

Fast Focus

- Ten years ago nobody could have imagined the events that would so dramatically affect the industry.
- Best case scenario: It will be late 2011 before we begin to make a measurable dent in unemployment
- If you are not incorporating social media strategies into everything you do, your competitors are passing you by.

Looking back on the insurance industry landscape in 2010 is like surveying the NASA space program: We have a fleet of old ships about to be retired, no snazzy new vehicle to shoot into the future, and a budget that everyone wants to cut. The only exciting prospects are so far away they appear to be dim specks of light in the distance. We're not exactly on the verge of going where no one has gone before.

The state of the industry seems even more astounding if you pile this year on top of the "aught" decade that began this millennium. I'd like to revisit the 2000s because this first year of the tens is linked in many ways to the last few years of the aughts.

We started off the aughts (should we rename it the oughts?) with new laws that gave banks the ability to acquire insurance agencies. As the decade unfolded, banks went gangbusters to quickly acquire many agencies in the attempt to cross-sell and increase wallet share. Who would have thought that banks would have had such an impact on insurance distribution in such a short period of time? Next followed the only hard market we saw during the decade, as revenues and profits reached record levels for most firms. Shortly after the end of this hard market, we watched valuations skyrocket in a robust merger-and-acquisition market, resulting in a record number of transactions in 2008.

But in some ways you can trace our current situation to the middle of the first millennial decade: The soft market started in 2005, and we have been entrenched for six years. This was further slammed by the Great Recession, which created the strongest headwinds since the Great Depression. Finally, healthcare reform became a reality, and the world of insurance became even more complicated.

Why mention these items? Because as we started the aughts nobody could have imagined the events that would so dramatically affect the industry. Visionaries would have been hard-pressed to guess the outcome of this rollercoaster ride. Fortune tellers would have gone broke. Even our most forward-thinking industry leaders with stellar track records and business nerves of steel have not been able to escape the decade without battle wounds. And for many, the climate has been disastrous.

I have spent the last six years writing for *Leader's Edge*, trying to provide insight into key strategic, organizational, operational and financial strategies to help firms continually grow and increase shareholder value. On a personal level, this has been very rewarding, as hundreds of readers have called, e-mailed and reached out to me at events to say that they look forward to my articles. Even

those who were not in full agreement with what I'd written said that it was refreshing to read articles that challenged the industry status quo.

So before we jump into 2011, I'd like to share some random thoughts. I think of it as clearing off the desk to make some space for new ideas and fresh approaches. Some of these thoughts might sound familiar, while others you will hear more about in the future.

THE ECONOMY

Besides being a financial advisor in the insurance industry, I also am a shareholder in a very large staffing firm, which has given me an inside look at the country's economic situation. The staffing industry is the number one leading indicator for job creation and growth, and although politicians may tell you we are in a recovery, trust me, it is not happening now. I hate to scare you, but over the recent few months, when our staffing firm has been talking with decision makers, we have definitely found the glass half empty. Best case scenario: It will be late 2011 before we begin to make a measurable dent in unemployment.

SOFT MARKET

I shed no new light on when the market will harden. You read and hear about this daily. The bad economy, excess capacity, no catastrophic events, and supply outpacing demand combine to equal an ongoing softy. But perhaps the biggest thing we need to overcome is the releasing of reserve redundancies that were built up during the last hard market. Until releasing these reserves is complete and there isn't a cushion to uphold profitability, the current market state is the norm. That next "wave" that will generate growth and profitability might as well be found in a lake.

EMPLOYEE BENEFITS

If population health management and wellness are not the foundation of everything you do in the benefits world, then you better punch the accelerator and get on that superhighway pretty quickly. Otherwise, I suggest you learn the definition of "irrelevance."

Cooperatives, captives and risk retention groups will become leading strategies during the next decade to help control the long-term cost of healthcare. This will be particularly true for employer groups of fewer than 100 lives (small to mid-sized businesses). With a little luck, the government may even help us in these initiatives. If you have not started researching these strategies, it is not too late, but just like wellness, don't wait any longer.

I am very bullish on the future of employee benefit distribution, but understand that the outlook is bleak for those firms that focus primarily on groups with 50 lives or fewer because it is unknown what the business model will be once states start implementing exchanges in 2014. With all business going through the exchange, how you will get paid (and, more important, how much) is unknown at this point.

To compete in that environment, you need to begin developing alternative strategies while you still have time, before the clock ticks down to Jan. 1, 2014. Drop old-school ways and become a new-school broker. Commit to this process while recognizing that revenue compression and increased costs are staring the industry in the face. Accept this, make the necessary investments, and you will have a much brighter future in that new environment.

SALES CULTURE

You often hear about the importance of building a sales culture. However, I do not see many firms implementing all the key strategies that build a true sales culture: effective recruiting, hiring and training; setting goals; pipeline management; setting accountability and responsibility; compensation that rewards success and penalizes non-performance; and organizational structure that supports a sales culture.

There obviously are other factors, but here is one that most people overlook: Look at your firm in the mirror. Are you a process-driven firm with many moving parts, some interconnected and some not, or are you a true results-driven firm that creates the results you want. In my view, few firms today are truly results-focused organizations.

SOCIAL NETWORKING

Face(book) it, social media is here to stay, and you need to get on board. Blogs, Facebook, LinkedIn, Twitter and YouTube are part of your future. If you are not incorporating these strategies into everything you do, your competitors are passing you by. Understand that social media is a long-term strategy that will pay off eventually. You may be 50 or older and wince at the thought of this, but believe me, your current employees in their 20s (and your future employees) use it and get value from it. And you can profit from it.

MERGERS AND ACQUISITIONS

The good old days of 2007 and 2008 are over, but the M&A market is still good. The market is ahead of 2009, and the fourth quarter of 2010 looks good. Deal values for good firms are still extremely attractive. However, a recovering economy and a hard market are not—read my lips—*are not* going to make your firm more valuable. If anything, a recovering economy and an improvement in product rates will help you during your earn-out, so if you thought of selling in the next five years, now is as good a time as any. Sellers, be realistic, take off your rose-colored glasses, and soberly assess your risks and opportunities. Don't be naive. Make the best decision for yourself, your family, your employees and your clients.

TALENT MANAGEMENT

Firms need to adopt the concept of talent management into their strategic plans. The future for agencies and the entire industry does not look bright unless we really focus on effective ways to recruit, hire and train talent in all functional areas, from sales to client service. While this might sound counterintuitive given the weak economy, now is the time to recruit and hire. Never have so many young, talented, college-educated professionals been out of work. Aggressively pursue this talent. Show them what the industry has to offer. In reality, five years from now this type of talent may not be available. High-performing firms are already taking advantage of this unique opportunity. Don't be left at the altar when it comes to recruiting and hiring.

BRANDING

Understand that brand equals reputation. Reputation is all we really have. In a business that has no "hard" assets, your brand consists of your relationships with clients, prospects, employees, carriers and the community. Brand increases revenue and profitability. Firms with a brand generally increase shareholder value by 100 basis points! When we talk about culture, brand is a key component. So why don't more agencies focus on brand? Because brand is new-school, something that most people have traditionally associated with a "tangible" product. Make branding a central part of your overall

strategy going forward. To borrow a phrase from one of my favorite movies, “American Pie,” make it a point to attend a “Brand Camp.” You will be surprised what you will learn.

CULTURE

I recently wrote about culture and its value in your agency. Culture is the foundation of any organization. The link is undeniable between high-performance firms and culture. Create a high-performance culture. Make sure that before the new year begins, you assess your firm’s link between culture, talent management, employee accountability and responsibility, and performance. Growth and profitability are at your fingertips.

Even though this sober look at the past shows many problems and challenges, I am looking forward to 2011 and the years to come. Despite the rollercoaster of the past year—and previous decade—I see great opportunities and rewards for those agencies that want to trade old-school ways for new-school thinking and those willing to challenge the status quo and throw out many flawed legacy strategies.

I’ll leave you with my final top ten pieces of advice for 2010:

1. Revisit your compensation strategies. Most are flawed.
2. Talk to Scott Addis, founder and president of Addis Intellectual Capital. You will learn something new.
3. Understand the true definition of a “trusted advisor”—one who is strategically important to your client and impossible to substitute.
4. Stop using the term “value-added services.” Use terms such as unique experience or extraordinary experience.
5. Great service is not a differentiator. It is a given, the foundation of any agency.
6. Invest during difficult times. You will incrementally move ahead of your competitors.
7. Business will not become easier; improve your prospecting skills and closing ratios to increase growth and profitability.
8. You can’t measure what you don’t benchmark.
9. Understand the value of raving fans and centers of influence. Life and business will become much easier, which leads to number 10.
10. Have fun. If you don’t learn to have fun, you ultimately will never succeed. Your attitude is catching.

In short, your space shuttle may be rusty and ready for retirement, and all the gray hairs in the room may seem a bit tired of going after the next frontier. But you need to realize that you’re not alone in the insurance universe—we’re all in this together. Pin some hope on those distant specks of light and realize that, with some smart steering and forward thinking, your firm will survive this period and again head for the stars.

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