



Ballyhoo for Small Insurance Businesses — Capable & Relevant

By Karen Harris

Insurance Industry Trends

Mergers & Acquisitions are no longer a trend, they are a hard reality especially in the insurance industry. For agents and brokers, 2017 reached a record setting tsunami increase of 31 percent over 2016 according to Optis Partners Agent & Broker 2017 M&A Update. Most of the sellers were P&C firms while the majority of the buyers were private-equity backed firms.

In the insurer sector, 2017 told a different story. M&A activity was down about 13 percent from 2016, but that appears to be more of an aberration than a trend according to Deloitte's 2018 Insurance M&A outlook. The first half generated low numbers, reportedly in response to uncertainty in the 2016 U.S. election. The second half of 2017 picked up speed and experienced a 50 percent increase in M&A activity over the first half and is expected to continue into 2018.

Do these statistics foretell bleak prospects for long term survival of small independent insurance firms? Are there ways to stay small and independent and still be relevant and profitable?

As we see all types of industries consolidate, businesses folding, or going bankrupt we have to wonder what is in store for the insurance industry. Will entrepreneurial spirit and opportunity be a victim of progress or is it just a spurious short term trend that will reverse? As small insurance firms, do we want to wait to find out our fate or is it possible for small firms be proactive and try to buck the current trend?

If I get a vote, I'm choosing to buck the trend. There is nothing wrong with M&A or with large firms, but don't we all want options to make our own destiny? Take heart — the outlook isn't all bad. There are some advantages in being a smaller business and some industries seem to have success in being small, relevant, and successful.

Obstacles for small businesses to overcome — Competing against large companies

Small businesses have their share of disadvantages such as keeping up with technology, regulatory issues, expenses, competition from large competitors, access to capital, and attracting the best talent. But there are ways to overcome some of the obstacles or to help compensate by focusing on

the advantages of being small. In contrast, large corporations can be more cumbersome and less efficient mostly due to the sheer number of employees, departments, and inherent vertical layers of bureaucracy. However, they also usually have more access to cash, better technology, more staff, and bigger budgets.

Advantages of being small — Focus on the potential advantages of being a small company

Agility

A small company can often respond more quickly to a customer's needs or change operations to adapt to a market change. Their simplified structure avoids having to go through layers and layers of administration and departments. Time is money, so aim to use your size to respond quickly.

Customer Relationships

Offering personalized service should be a hallmark for every small business. Customers may find it easier to get to the right person and not get lost in "voice mail hell" where you never can get to the right person or sometimes even any person. As a bonus, if the person on the phone can't help, they most likely will know who can. Use your small staff to develop relationships with customers and be sure all levels of your company understand that everyone is in customer service.

Lean Machine

Small companies usually operate with little to no "fat." Everyone has a job — often two to three — and typically they work very hard because their work directly translates into the success or failure of the business. In a small company there tends to be fewer procedures, vertical layers, interface structures, and decision approvals needed. Build a reputation



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of working hard and working smart to gain the attention and appreciation of valued customers.

Engaged Employees

A 2017 Gallup report, "The State of the American Workplace," found that smaller companies have the most engaged employees and that large companies, especially those with 1,000 or more employees, need the most improvement in this area. Studies such as The Ringelmann Effect determined that individual productivity falls as the size of a group grows. Even Jeff Bezos, founder and chief executive officer of Amazon.com, recognizes the value of smallness in relationship to productivity. Reportedly, Mr. Bezos dislikes unnecessary meetings and limits the size of meetings based upon how many people two pizzas can serve. Maximize your small team advantages and keep employees engaged by giving clear expectations, recognizing good work, valuing opinions, and respecting the importance of every job.

Optimism

According to the National Federation of Independent Business 2018 report, the level of small business optimism is at its highest in years, and a 2017 Gallup study showed that 70 percent of Americans have confidence in small business and prefer small companies to 'big' business. Even though the trend of businesses overall seems to be on a trajectory of bigness, the reports seem to show that there is light for small businesses and an opportunity in the positive economic climate and attitude towards small businesses. Find ways to promote your business and what is special about it.

Strategies for success — Learn from what other successful small industries have done

Craft beer has seen tremendous growth over the years and some say has become more popular than mainstream large label beers. Even the name "craft" implies something special, made with skill in limited quantities. Large breweries took notice and started adopting similar 'craft' tactics and have eagerly bought up their small competitors. Small craft brewers typically struggle to expand and often have little choice but to sell to a competitor or to a private equity investor.

Greg Koch, a co-founder of Stone Brewing, in 2016 launched True Craft as a means to help small brewing companies grow without having to sell their businesses. Recognizing the difficulty most small breweries have to expand to the next level, Koch hopes to offer another way. He is creating a private-equity-backed entity established with a \$100 million fund that will take only minority positions in independent craft breweries and will provide financing and operations guidance.

Other types of small businesses are also making waves in their industries. A 2015 NY Times article "Small Food Brands, Big Successes" highlights the success that small food businesses have been garnering. Customers seem to appreciate local

Quadrant Corner

foods that they believe may be healthier or contain better ingredients. Despite the challenge of managing growth without sacrificing quality, some have found success. They are selling their products on the Internet or partnering with local or even large businesses, like Whole Foods, who give them another and sometimes more prominent platform to sell their products.

Not so long ago, the complete extinction of print and bookstores in the age of big box stores and Amazon seemed inevitable. However, it has not materialized. According to

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the American Booksellers Association, print book sales at independent bookstores increased about 2.6 percent in 2017 over the previous year. A 2018 Chicago Tribune article, "As e-book sales fall and audiobooks rise, print still dominates for the local booksellers," points to "screen fatigue" as a factor in the resurgence of print along with booksellers using some creative marketing techniques to set themselves apart.

Takeaways for small insurance practices:

Specialize: Have one or two niche areas that you specialize in. It can be a program, a coverage area, a special relationship — something that gives you a competitive advantage. At the same time offer other ancillary lines that you are good at. The challenge is to keep a good balance.

Relationships: As a small firm you can out-service your competition's clients and make yourself available at off hours for calls, emails, and meetings. Partner with friendly competitors — large and small — to find ways to support each other. For example, two wholesalers with different specialties can work together to broaden their individual capabilities.

Be prepared: Statistics show that only about a third of independent family businesses make it to the second generation and even fewer make it to the third generation. Have a perpetuation plan in place. Knowing where you want to go, makes it easier to get there. Acquisition is popular, but it is not the only perpetuation solution. Things like key person insurance, retirement plans, and buy-sell agreements are some options to consider.

Funding: Capital is always an issue, however, successful organizations don't have to relinquish control to attain capital. Some markets will assist if they believe in the firm's future. Consider becoming part of a group of independent agents who have a plan to share markets. Have production resources which continue to fund growth.

Marketing: Spend your money wisely to get the most bang for your buck. Invest in a quality website that is informative, user friendly, and professional. Keep it current and fresh. Blogs, email campaigns, testimonials, articles, speaking events, association meetings and social media are good ways to get your name out and improve branding often without great expense.

Talent: Keep your staff motivated and learning through training, continuing education and internal job challenges. Send your employees out to speak, participate in associations, and write articles. Outsource when needed to broaden your expertise or workforce.

Small and independent: Use your size to your advantage to keep your team agile, responsive, and productive. Work with a sense of urgency that will help keep you competitive. Independence provides freedom, which often can trump bureaucracy in terms of getting things done quickly.

Embrace technology: This is a tough one for small firms since technology can be very expensive. Best advice is to plan well for what you need and are trying to do. Don't jump on every new tech idea, but select the ones that make the most sense and give you the best return for your investment.

Lend a helping hand: As you grow and become more successful you will likely generate friendships with others in high places, which is great. But don't forget about your friends in low places. Remember the value of strategic partnerships and try to pay it forward.

Each industry has its small business challenges, and those that are succeeding appear to find creative solutions by thinking outside of the box — being different, employing creative marketing tactics, offering distinctive value, relationships — many or all of which hit on the reason why Americans prefer small businesses. They also find partners — banding together with other firms — to expand their reach or their capabilities. Large businesses shouldn't be seen exclusively as a competitor. They can potentially work together and partner on special projects or products by being an ally or even a client. Their needs and strengths can be complimentary. Small businesses that want to stay independent do so in part to retain what makes them special, that which has driven their success — sometimes it is to protect what they have created and sometimes it is out of the freedom being independent has provided or it may just be because they like being a maverick.

Small insurance companies, wholesalers and retailers each have their own advantages and challenges. But one common denominator is the struggle to grow and the reality of M&A/consolidation taking place in the industry. In order to survive and thrive, small firms need to stay relevant and focus on what sets them apart.

Competition is everywhere — big fish and small fish, grocery stores, sports teams, even plants and trees competing with kudzu for sunlight. Merriam Webster defines competition as “the act or process of trying to get or win something that someone else is also trying to get or win; the act or process of competing.” While the M&A trend seems to be growing, we shouldn't discount the importance and the capabilities of small insurance practices. There should be space for both large and small businesses without trying to annihilate our competition into extinction. Do we really want an insurance landscape with only a handful of insurance companies, a few mega-watt wholesalers and a few gigantic retail agents? What kind of future would that portend for the industry?

As Yogi Berra famously said, “It ain't over till it's over.” 🍷