



Building Profitable Relationships with Brokers

PETER BELSEY, sector head of Huthwaite International, continues his series of articles on the interaction between insurance company account handlers and brokers. Here he writes about building successful relationships with brokers based on shared commercial considerations.

Arguably the most important change we have witnessed in an insurance market which has seen more than its share of turmoil and disruption is the emergence of relationship building as a key aspect of successful selling.

Gone, it would seem, are the days when product knowledge and technical skills were enough to see you through. In today's increasingly complex and unpredictable commercial environment providers need to take a consultative approach and build a broader, more secure association with their key intermediaries, in order to ensure a long term future for the business.

In recognising its importance however, one should not make the mistake of seeing this development in terms of a situation in which transactional selling is outmoded and somehow "bad" and relational selling, by contrast, "good" and, in effect, the Holy Grail to which any successful trading relationship must aspire.

As ever, the reality is far more complex. There will, for example, continue to be situations where the transactional, product led approach may remain the most appropriate, or indeed the only, option for continuing the business relationship.

Therefore in order to understand and address the problems faced by insurance providers' key account

managers, it is essential to identify precisely the nature of the existing commercial link, assess the resulting needs and, more broadly, ascertain what kind of relationship would best suit the achievement of the company's - and the intermediary's - future goals. Only then can a plan be developed to "bridge the gap" and provide a solid foundation for mutual success.

This is no easy task. Yet consulting companies have a range of tools to help identify and develop what is required and the specialist training skills to support the transition.

Pressures

Regulatory uncertainty, a hardening market forcing unprecedented hikes in premiums and a disgruntled - and less tolerant - private and commercial customer base, have made the insurance industry an uncomfortable place to be at present.

Employers' liability premiums, for example, have doubled in the last five years, "because we live in a riskier and more litigious society", says Mary Francis, director general of the Association of British Insurers. And it is a global problem.

According to Insurance Information Institute figures, in 2001 US insurers paid out \$8.9 billion more in losses and expenses than they received in

premiums.

At the same time, against a background of uncertainty and concern, the insurance industry itself has gone through a period of considerable change and consolidation. This has involved the creation of a number of large multinational brokerage firms and national networks, contributing to a swing in the balance of power in the provider/broker relationship.

Commoditisation

So what problems face the typical insurance provider in such a climate?

Strategic Access

With fewer, and larger, brokerages, it is increasingly hard to gain access to the strategic decision makers needed to sell upwards effectively. Indeed, many company account managers find themselves pushed down the decision making hierarchy to a purely product based level. Further, any previous access to directors and partners in brokerages may be reduced as a result of restructuring and the appointment of professional buyers.

Cost Saving

In addition, brokers are seeking to commoditise the product offering, as they strip out unnecessary costs and negotiate better deals.



Cross Selling

With growth opportunities restricted or even exhausted within the existing line of business, account managers are under pressure to cross-sell the product and services portfolio into other parts of the client business. Within a more transactional environment, this is again restricted by lack of strategic access and poor credibility as a result of limited brand awareness outside the core trading area.

Technical Bias

Many relationships will have been with senior managers and directors of a similar level of technical competence. The transition to a new breed of professional buyer, less technically astute perhaps but more commercially aware, can present problems for account managers less experienced in negotiating at a broader business level.

Networking

Reliance on too narrow a spread of contacts and relationships within a brokerage can leave the provider exposed to changes in personnel, and reduce the power to resist any move to create distance between the buyer and seller by pushing the relationship down the "food chain".

Overall Account Managers Feel Under Pressure from all Sides. The growing domination of a small number of large brokers, looking to change the way they do business and pass on some of the pressures they themselves face will, at best, put pressure on the ability of providers to maintain account profitability. At worst, it will present

the risk of rationalisation out of the supply chain altogether.

Potential

Yet equally, their very growth also offers real potential for providers, who will see broker account management as spearheading the drive for broader, deeper and more profitable partnerships with such key accounts.

Needs

None of these problems of course are in themselves new, but together they now demand a complete reappraisal of how to sustain customer relationships, as the essential basis of ensuring the long term health and profitability of the provider.

Maintaining, or succumbing to a downward move to, a relationship at a purely transactional level will inevitably reduce the ability to resist pressures on volume and margin. The key, I believe, is to ensure that the business is fully *embedded* and *entangled* within that of the intermediary.

This will increase the importance in the contribution made to the intermediary's business and, at the same time, make it more difficult either to reduce the level of trading between the two companies or, ultimately, the threat of being dropped from the intermediary's panel.

Complexity

However, as highlighted earlier, providers and brokers can operate

effectively within a broad spectrum of B2B relationships, ranging both in intensity from the straightforwardly transactional to the fully relational, and in organisational complexity depending upon the structure of the brokerage and the number of people involved.

In order to create this "embedded and entangled" relationship, at whatever level, account managers must identify accurately where they are and where they want to be with each intermediary, without which it is impossible to develop an effective business plan to turn aspiration into reality.

This throws up a number of critical issues, such as how to determine what kind of relationship is wanted with each intermediary and how to identify those accounts worth developing.

For example, in determining the kind of relationship desired in each case (with often very different types of brokerage), it is essential to identify the objectives of both buyer and seller and ensure they are aligned, to deliver mutual benefit. In other words, to provide a maximum level of entanglement and embeddedness – even at an essentially transactional level – to show what's in it for the broker.

Compatibility

For insurers to get from A to B they need to be able to determine precisely what "A" and "B" are. A common problem at this diagnostic stage is the failure to identify precisely which accounts are worth developing. Typically, providers will select the largest accounts as the ones in which they wish to invest



most time and money nurturing and building closer relationships.

Yet big is not necessarily beautiful. A study in the US highlighted a not uncommon change in profitability generated by major accounts. For one company in the B2B arena, its top 20 accounts were all delivering a healthy profit in 1987: ten years on, only six were still achieving this, whilst five were being serviced at a loss.

A distinction therefore needs to be made between "major" and "strategic" in assessing those accounts offering the greatest potential for the kind of close relationship desired. This means moving beyond such quantitative, operational criteria as current volume, profitability and share of spend – or, put simply, "the numbers game" – to more qualitative, strategic (and more difficult to measure) issues, including fit, value opportunity, management commitment and cultural alignment.

In so doing, some large accounts may be identified as only capable of being dealt with at a transactional level. Such a valuable insight will thus determine, for example, the need for high quality negotiation skills. *(This will be developed in the next article, which will look in particular at relationships from the broker's perspective.)*

Facilitation

Having identified which brokers to focus on in this way, the next step is to determine how to create value in each case, beyond the straightforward provision of products or services.

Research has been done to ascertain critical success factors in

managing strategic accounts, in order to develop a set of tools and skills for key account managers.

A model has emerged which enables account managers to analyse the level at which they are working with an intermediary - both in terms of typical problems within the intermediary's own business and those issues with which they jointly deal.

Traditionally the most common provider/broker interaction is at the product level - what it is and does, together with primary user benefits and competitive positioning. The next level, that of process, centres on how the product links to the intermediary's processes and impacts on the broker's own efforts to create value. This requires a deeper understanding of how the product is delivered to the end user and the provider/broker relationship at this level is likely to involve a number of functional specialists.

Here, for example, providers may help in the design and implementation of marketing campaign support, by providing templates for premium renewals or marketing collateral for new product introductions.

Heart

Finally, the third and most embedded level - that of facilitation - really gets to the heart of how the companies do business together, in order for the provider to contribute to the achievement of the intermediary's strategic objectives. Simply asking "what is your strategy?" is *not* evidence of operating at this facilitation level, if all that results is a recommendation that such goals will

be achieved just by pushing the provider's products harder.

By contrast, it means getting "under the skin" of a broker's strategy - rather than making assumptions - in order to understand fully what they want to achieve. This demands an ability to communicate at a broader business level, being open about the provider's own strategic imperatives and creatively exploring alternative ways of working together - which may require significant change from the way business is currently conducted.

This kind of model has proved an excellent way of helping account managers recognise the nature, and current level, of interaction. In a climate in which many brokers are moving towards operating at arm's length, it may identify specific examples of the increased emphasis on working at a product level. Brokers are unwilling to enter discussion on strategic issues which would enable facilitation to take place, and account managers in turn feel powerless to arrest this decline in influence and involvement.

Communicating

Understanding where you are today is clearly an essential start point, but how do you break this vicious circle and engage - or perhaps re-engage - such intermediaries in communicating at the deeper levels of process and facilitation and so make a more critical, and thereby indispensable, contribution to their success? What equipment does the account manager need in order to make this transition?

Fundamentally, a change of mindset is required, to move away from the narrow concept of "seller"



to a broader and more entrepreneurial concept of business manager. In order to help insurance company managers think and behave differently therefore, they will need both diagnostic, analytical and planning tools and improved behavioural skills.

As outlined earlier, at the outset they need to: assess how their brokers would rate them as suppliers; measure the depth of current relationships; identify which accounts they need to focus on; and how to produce business plans and the resources required to help meet the objectives set.

Having done this, there is a corresponding need to improve behavioural skills - to move "beyond selling" into effective networking - by identifying, reaching and influencing previously inaccessible decision makers; investigating the broker's strategic vision and demonstrating that it is both understood and

shared; developing creative and practical solutions; and by impacting positively on the broker's business in this way, become embedded as a primary supplier.

Such skills will be required both externally *and* internally. Account managers will, for example, need the practical, political ability to persuade everyone within their own organisation to work together and rise above the (seemingly) inevitable internal conflicts. They will also need to help broker contacts handle similar pressures, coordinating and focusing their teams on the value which the seller and buyer can jointly deliver.

Acceleration

In short, we are now moving way beyond selling skills to the creation of relationship managers capable of handling a range of contacts at all levels across both organisations (insurer and brokerage).

Do such high level skills already exist? Within a typical provider the answer is almost certainly yes, but is likely to be limited to a small number of managers. Yet if providers are to arrest and reverse any decline in influence within their key broker base - and justify the continued existence of costly face to face sales relationships - they will need to "raise their game" and accelerate the process of broadening these skills across the whole account management team.

The final article in this series will look at what effective relationship management looks like from the broker's perspective.

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