

The business plan behind 50% growth in tough times

Digital Insurance continues to see exponential growth as other firms worry over industry and revenue change

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While many brokers are worried about the future, Mike Sullivan of Digital Insurance is excited about it and the many opportunities that will present themselves.

As executive vice president and chief marketing officer of the Atlanta-based employee benefits agency, Sullivan knows that his business is going to change in the future, whether it be from the Patient Protection and Affordable Care Act, 'the un-affordability of the current path,' carrier consolidation, or any number of issues.

Digital has used these looming changes as a catalyst to reinvent the way benefits are delivered into the marketplace, by continually evolving its current systems and processes. The company has built a health care reform resource center, acquired 12 other companies in the past 18 months, worked with technology providers to develop new tools and created a team to expand revenue vis-à-vis voluntary products. With all this, the firm's revenue is increasing 50% a year and now has more than \$50 million in annual revenue.

EBA spoke with Sullivan for insight on how other firms can follow this lead and experience continued growth in the ever-changing market.

How important is it that benefits agencies and brokers evolve leading into the implementation of PPACA and other reforms?

As you might imagine, we spent a great deal of time trying to understand, and probably have done some of the most sophisticated analytics around, what we think the impact will be to the small and midsize markets.

Really, what we are trying to do is eliminate the noise from what we think is reality. We have a team of people within the company from sales to operations - really every aspect of the company - that is focused on strategy and what is it that we need to build to prepare for the future. I think we're continually challenging everything. What do we do, how do we get paid and who pays us and how is that going to evolve downstream. I think it could be very, very different in the future.

For those firms that are looking in the rear view mirror, thinking about the good old days as opposed to looking toward the horizon and making some pretty straightforward, albeit difficult at times, decisions, we need to evolve and there needs to be a pace to it for us for benefit advisers to remain relevant in the future. [At Digital Insurance] we view PPACA as a catalyst for our business.

There's a flipside to that. It's going to be very bad for a lot of people.

Many other industry insiders are worried about the change coming. How are you so positive?

It really comes down to because [of] what we've built to manage our outsourced business. We have a \$10 million-plus investment in infrastructure to really drive efficiency and productivity into an agency environment. We have technology that other people don't have and it's all a function of our getting started in the outsourced business. We were really the only ones, and still to this day are the only ones, in the country that serve as national outsourced solutions brokers for businesses below a certain size.

That investment really allows us to look at the changes in the marketplace. Our entire discussion is around what might be, not, 'oh my God, look what's coming.' There's a huge potential for us to expand beyond what we do today and really who we define as our customers.

We have historically lived in an employer-centric environment. The employer is really viewed as our customer.

Downstream the individuals and families - the insured within that group - are going to be much more relevant as customers, as consumers, and if you don't have technology and/or an integrated call center ... you're really not going to play in that business.

We've been building and investing in [this] for 10 years. It's almost [like we] started preparing for PPACA not two years but 10 years ago.

How can companies plan for the future when the future is so unknown? For example, the Supreme Court won't rule on PPACA until later this year.

Part of it, without sounding flippant, is to say, 'hope for the best and plan for the worst.' That to me is the most reasonable approach. But begin to take a hard look and what you do today.

I think there are certain things that, irrespective of what happens with PPACA, agencies simply need to acknowledge that the future is going to be different.

Whether PPACA is a catalyst or whether it's the un-affordability of the path we're on right on right now, things are going to change in the future. [However,] carrier consolidation, MLRs, we don't think that's going to change.

So when you start looking at high-level issues like:

* What is our staffing model within an agency?

* How do we drive organic growth and diversify revenue?

* How do we segment our client base to compete where we are most competitive and not sort of take all customers based on opportunities?

* What role can technology play in the future? And honestly the discussions we're having about that.

*Who we are talking to? We're not even talking to the same vendors as other relationships. We're spending our time with organizations like Microsoft and Microstrategies and firms like that because our technology and analytics needs are going to be different downstream. And there's a huge opportunity to do more in that particular arena.

But you have to really understand what you can bite off based upon the size of your agency. Is a 'go at it alone' strategy or an 'alignment' strategy the better one for the future? I think all of these things really need to take place.

Irrespective of PPACA, the competitive landscape is changing and firms really [have] to understand where they fit.

You have purchased other related businesses. Why have you done this and what have been the results of doing so?

It sounds pretty simplistic but we're a platform and we're looking for other potential platform level agencies that we can grow with and that really need what it is we do.

But first, second, and third on our criteria list is are they a cultural fit for us? And do we see the world through a similar lens? If so, there's very little we can't do together with the right teams.

To us, it's not necessarily about the math but about the cultural fit first. The market sort of determines the math of the acquisition and we're looking for folks who view this not as an exit strategy but an inflection point to enter the next stage with somebody like us.

Digital has [always] been different . . . and different represented its challenges. Now being different is a good thing. It's kind of funny how the worm turns sometimes.

Describe your company's recent growth and expansion.

We have expanded recently to really add an entire new division of the company. Digital Insurance and our partnership or outsourced model, we've been in that business for the better part of 10 years. Probably around 18 or so months ago we began the process of building Digital Benefit Advisors, [which] is our agency solution around the country. We expanded, and in 2011 we did eight acquisitions into the Digital Benefit Advisors platform.

There are three prongs to our growth. [First is the] partnership and outsourced model, which we have an entire division dedicated to that. We have our Digital Benefit Advisors which is the retail agency organization and [third] it's really organic growth in the agency platform and across Digital specifically. It's really the three legs of the stool that have led to pretty consistent 50%-plus growth top line and bottom line over the past few years.

What is the future for your industry and your company?

I've been at Digital since the beginning [with a handful of others.] [We're] very focused on what the next 10 years looks like. To us, we think the next 10 years are going to be better than the past 10 years. We haven't run across a lot of firms that think that.

. . . It's a very, very complex set of issues and challenges and if anyone thinks for a minute that the DMV of health care is going to solve this problem or be the go-to solution, [they are wrong.] It may play a role, but if we can't compete and win every single day as a solution in the marketplace . . . shame on us.

But the future is going to be very different and embracing that and letting go of the past, [must be done] as an industry. . . . It can't just be Digital. It has to be lots of firms that figure out what does it mean to play this intermediary role and really assist with simplifying all this complexity that's out there.