

Memphis Agency Improves Profit Margins Thanks to Dramatic Efficiencies Digital Delivers

SITUATION: STRATEGIC BUSINESS APPROACH KEEPS FIRM ON LEADING EDGE

Lipscomb & Pitts Insurance, LLC, likes to operate ahead of the curve. Several years ago, before healthcare reform and the recession caused industry upheaval, the Memphis, Tennessee-based firm predicted the role of brokers would evolve.

“We could see that clients were no longer just shopping for insurance; they needed brokers to become involved in their money management processes and to operate as an extension of their human resources departments,” says Rick McKinley, CEBS, president, employee benefits, for Lipscomb & Pitts. Service was becoming paramount, he says, regardless of the size of the account.

The firm’s savvy prognosticators were right, of course, and changes the company instituted in 2003 -- including a partnership with Digital Insurance to manage the firm’s smallest accounts -- are paying off today. In a big way. Employee benefits has jumped from 15 percent to 23 percent of overall agency revenue, and the company was able to grow business during 2009, when many of its competitors were reeling from the economic downturn. A look at Lipscomb & Pitts’ experiences provides insights into how to transform a challenge into an opportunity.

Established in 1954 by Matt Lipscomb and John Pitts, the firm originally specialized in property and casualty insurance. During 1992 the founders’ sons took the reins, and McKinley joined them two years later to expand the benefits practice.

“When you basically start from scratch in an agency that specializes in commercial insurance, you just want to get numbers on the board,” says McKinley. “We wrote anything we could. The focus was on revenues; not on profits.”

Lipscomb & Pitts is renowned for its customer service. “Employees are trained to treat every client the same way; you give the best you can,” says McKinley. “When someone calls, you respond to resolve their issues immediately.” As business expanded, though, he began noticing that staff members devoted a lot of time to service small accounts. As a result, profit margins were not what they needed to be. “When you recruit top talent and train them

AT-A-GLANCE

Company	Lipscomb & Pitts Insurance, LLC
Business Lines	Property & Casualty; Employee Benefits
Location	Memphis, Tenn.
Established	1954
Size	Employee benefits comprises 23 percent of agency revenue

Partnership:

Digital manages accounts that produce less than \$2,500 in annual revenue or cover fewer than 10 lives

Primed for Success:

- Management has strategic business focus and analyzes key performance metrics
- Agency understands greater efficiencies lead to improved profit margins
- No fear of technology and systems that deliver enhanced service to the firm’s smallest accounts

Bottom Line:

By examining profit versus revenue, it became apparent that the agency’s smallest accounts were draining resources. Partnering with Digital created the dramatic efficiencies needed to achieve the firm’s growth objectives.

to put the customer first, it's hard to break that mold," he says. "And, frankly, you don't want clients to experience anything less."

By 2003, McKinley's team had grown the firm's employee benefits business from less than 2 percent of revenue to 15 percent of the agency's income. Yet the company's smallest clients were draining the firm's resources. "It's difficult to look at a revenue stream and say, 'I want to get rid of this,'" explains the organization's employee benefits leader. "But to achieve our growth goals, Lipscomb & Pitts needed to become more efficient." Enter Digital Insurance.

SOLUTION: AGENCY GROWS BY REMOVING SMALL ACCOUNT SERVICE BURDEN

"When we started talking to Digital, we closely examined our block of business," he recalls. The firm's executives wanted to identify a threshold where the man-hours required to service the account resulted in a net profit loss. After careful evaluation, Lipscomb & Pitts determined that the breaking point resided with accounts that produced less than \$2,500 in annual revenue or covered fewer than 10 lives.

But the decision to work with a partner wasn't that cut and dried. "The vast majority of our employee benefits leads come in through the commercial side of our business," McKinley explains. "The benefits side of the business might be minimal, but they could be very important accounts to our commercial producers. We needed a partner that would proactively manage our accounts, and Digital is able to offer that quality of service."

One of the most significant, immediate results of the partnership was that staff members could now focus on larger clients. "By removing the service burden account managers had with smaller customers," he says, "they were able to increase the volume of our business almost twofold." Another intriguing development occurred when the company hired new producers. Typically, more inexperienced personnel were assigned to small accounts until they mastered the learning curve. This often resulted in frustration and burnout -- and high turnover rates. Not any more. "We are able to accelerate their training so they can manage large accounts much sooner," McKinley says. "They get involved with larger cases, claims and data analysis at an earlier stage and their success ratio is much higher."

While the agency concentrated on growth of more profitable accounts, something wonderful happened with the firm's more modest-sized customers. "Our smallest

accounts are now getting class A service," McKinley reports. "Digital is very proactive. Their representatives stay in constant contact with our clients, ensuring they are happy. We get quarterly reports showing us how many times Digital reached out to our customers. It's impressive."

McKinley believes Digital offers advantages that other companies cannot duplicate. "A lot of shops have built their business models around the small employer segment, but they don't have the technology or systems to accomplish what Digital can do," he explains. Other firms try to conduct business the old-school way, but when staff is tied up managing an account worth a few thousand dollars, they lose profitability, particularly with carriers that have reduced their commission structure.

"Many small clients don't see brokers as their partner," says McKinley. "They try to get the best deal, yet they will work the broker to the bone." Businesses are stretched thin these days, many don't have a dedicated HR representative, and business owners don't have time to devote to education and enrollment. "The competitive landscape has changed and thanks to its scale," says McKinley, "Digital is positioned to better service these types of customers."

Lipscomb & Pitt's employee benefits president understands that the partnership with Digital "enables us to maximize our agency's abilities, while delivering the kind of service we want to our clients across the board." It's a model he is confident will work well for the future.

"I encourage anyone to look closely at their book of business," says McKinley. "Ask: where is your time being spent and is that really the most efficient way to conduct business? Is there a better way to take care of your small clients, particularly in a volatile business climate? With Digital as a part of your organization, you can focus your staff's efforts on your core market. If your experience is similar to ours, you'll be in a much stronger position."



IN THEIR WORDS

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-- Rick McKinley, CEBS, President,
Employee Benefits, Lipscomb & Pitts

