5 Steps for Making Fee-Based Relationships a Success for Your Agency

By Susan Toussaint, Co-Founder of The WorkComp Advisory Group

For the last several years, my partner, Frank Pennachio, and I have been discussing the need for agencies to develop a fee-based approach with their clients and prospects. We've seen the positive impact it has had for our members as well as the struggles they've faced implementing it.

How your agency enters into fee-based relationships is as important as the types of fee-based offerings your agency provides. When considering revenue diversification through fee-based consulting, there are five steps to ensure success.

Step #1: Establish Your Goals

Once you understand your state-specific requirements, it's helpful to gain clarity on your agency's goals and objectives around fee-based consulting. Agencies must first consider why they are adopting this approach. Is it to create more profitable existing accounts, to increase opportunities with prospective clients or both?

Many agencies consider fee-based consulting for prospective clients, but fail to see it as an opportunity to increase profitability in their existing book of business. Setting fees for the services you currently deliver for free is an important strategy that can increase your agency's profitability. All agencies have unprofitable accounts. Over-serviced accounts that don't generate revenue commensurate with the time, talent and resources deployed are low-hanging fruit for fee-based services.

Most producers are reluctant to charge for something that was once "free"; however, maintaining unprofitable accounts ultimately puts the agency and producer at risk and can prevent your clients from receiving the services they need to improve their business and outcomes.

In the August 2011 edition of WorkComp CommonSense™, an e-newsletter by The WorkComp Advisory Group, Frank Pennachio writes in his article *Three Ways to Enter Into a Business Relationship:* "The objective of every agency is to create and retain new clients. There is no rule that says these relationships are created only through the placement of insurance policies." He further outlines the various types of client-broker relationships:

1. Commission only
2. Commission plus fees
3. Fees only

It's extremely important that you clearly identify which type of business relationship will ensure your agency's profitability and appropriate servicing of an account early in the sales process. Producers must understand the financial impact client on-boarding has on an agency and how to best position the client for future agency profitability.

Step #2: Consider Your Offerings

Once your agency decides to implement a fee-based strategy, you must gain clarity around what services are going to be fee-based. Sometimes, this can be the most challenging aspect of implementation. Frequently, agencies are unsure of the value they deliver to clients because they focus on the tool or the person delivering the value rather than the outcomes the client will experience.

Here are some questions agencies need to ask themselves:

- How do we deliver our capabilities?
- Can we deliver these capabilities profitably and consistently?
- What outcomes do our capabilities help our clients achieve?
- What is the value to our clients when their outcomes are improved?

Brainstorming these questions and gaining clarity on the answers will help your agency better determine its value proposition and where there are opportunities to charge fees.

Step #3: Effectively Communicate Your Message

You've made the decision to charge fees. You know when you'll charge them and you're confident in your value proposition to clients and prospects. The next step is to effectively communicate your offering. Positioning the types of business relationships your agency offers must come into play early in the sales process. Generally speaking, many agencies use their first appointment as an introduction or positioning meeting. The initial assessment process of determining if the agency and the prospect are a good fit and in alignment with regards to business philosophy and strategy is a perfect time to outline the various types of business relationship offerings. This conversation also provides an opportunity for the agent to be transparent and share with the prospect how agents are compensated for placing a policy. Helping clients understand what potential commissions look like and if additional value can be offered within the existing commission structure positions the fee conversation perfectly.

Step #4: Measure Your Impact

There are two critical areas of measurement in fee-based relationships:

- Account profitability
- Client outcomes

If agencies adopt a fee-based initiative to improve account profitability, there must be a process to measure improvements. The process is different for existing accounts than for new accounts that start out with a component of the compensation being fees. Either way, your agency must be clear on how you're measuring account profitability and improvements.

Determining if a fee-based engagement has measurably improved the client's business requires an understanding of the indirect and direct costs that the relationship is attempting to impact. This requires collaboration between the agent and the client to address these questions:

- What agreements were made in the sales process?
- Were specific goals and objectives created?
- How were they to be measured?

It is important to remember that fees can be flexible. Assessing outcomes and understanding the impact of the business relationship may mean that fees set initially will need to be adjusted if the client no longer warrants the same level of service.

Being able to demonstrate a ROI both financially and through improved outcomes will support future fee conversations.

Step #5: Know Your State Regulations

Regulations for charging fees in the insurance industry vary from state to state. It is essential for agency owners to understand what implications fee-based consulting has on their organization prior to implementation.

In some cases, it may make sense for an agency to create a separate consulting entity to implement the strategy effectively. Understanding when fees can be charged, what disclosure requirements are necessary and under what conditions fees are not allowed to be charged takes some investigation, but will protect you and your agency moving forward.

Offering alternative business relationships with prospective clients can open doors and opportunities that may not have been previously considered.

When planned and executed properly, fee-based relationships benefit both the agency and the client. Getting there may be difficult, but in the end it is worthwhile.

About the Author

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About The WorkComp Advisory Group

The WorkComp Advisory Group provides leadership, training and processes to producers and agencies so they may achieve exceptional results in meeting the following business objectives:

- Increased Organic Growth
- Agency Differentiation through Sales and Technical Capabilities
- Revenue Diversification with Fee-Based Strategies
- Increased Success Among Their Young Producers

