Agency Consulting Group
PIPELINE
For Independent Agents

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SPLITTING CONTINGENCY INCOME IN AGENCIES

Many agencies split contingency income among owners, producers, offices, cluster partners, VIA (Virtual Insurance Agency) partners, etc. Most do so solely based on volume. While this is simple (def. easy), it could also be simple (def. not very intelligent) because it is often over-simplified and does an injustice to one or more people or entities while benefitting others beyond their deserved share.

Most agents will say, simply, "We'll take our chances if the combination results in greater overall bonus income to the group." But I assure you that the agency experiencing the following scenario had serious second thoughts once he realized what was lost as the result of the oversimplification of contingent division by volume alone.

We're using earned premium (EP) in our examples because all contingency income is based on loss ratios using earned premium as the basis. But even if written premiums are used as the basis of the sharing of contingencies, the results would be the same.

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INTER-GENERATIONAL TRANSFERS OF INSURANCE AGENCIES

COMMON PROBLEMS AND UNCOMMON SOLUTIONS

The father is a successful insurance agent. He has supported his family and has grown his business to where he needs supporting employees. During the growth, his son or daughter grows up and, whether as a way for them to make money during their youth or by design, they become familiar with the insurance agency business. When they graduate from college or perhaps after high school, either after a foray into other jobs or directly out of school, they join the agency.

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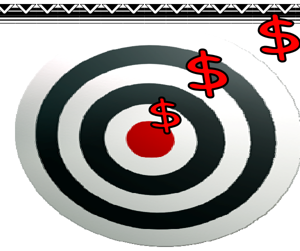
RADIATING MARKETING



Agents will all agree that referrals have a much higher chance of success than cold calls or than any other form of marketing. Our research also indicates that the clients of most agencies are concentrated in concentric circles around the agency's physical location. If you draw concentric circles around your agency in one mile increments, you will likely find the largest number of your clients are located within the first five or ten circles with the greatest concentration closest to your location.

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NON-COMPETE AND NON-PIRACY

WHAT ARE THEY AND HOW CAN THEY BE APPLIED?

A non-competition agreement is traditionally defined as the prohibition of a person from competing against a former employer. A standard definition is "a contract that restricts participation in a certain market by a company or individual under specific circumstances." Quite often an employer, an insurance agency for purposes of this article, requires an employee, such as a producer, to sign a non-competition agreement as a condition of employment. Sometimes an agency realizes that it is at risk to losing employees and having them compete with the agency and attempts to implement a non-competition agreement on existing employees.

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SPLITTING CONTINGENCY INCOME IN AGENCIES

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ACTUAL SCENARIO:

 # 1 has $2,000,000 with Company (EP); #2 has $1,000,000 with Company (EP). Contingency income is $52,500.

#1 gets 66% of $52,500 = $34,650; #2 gets 33% of $52,500 = $17,850

The combined loss ratio that earned the $52,500 contingency was 40%. However, #1's loss ratio was 28% = $560,000 in losses and #2's loss ratio was 66% = $660,000. The result was a 40% loss ratio and still generated $52,500.

BUT, if #1's contingency was generated on his production alone, he would have actually received much MORE contingency than the $34,650 that he received, but the losses of #2 acted to limit his share of the contingency to $34,650. ***SHOULD #2 HAVE THE SAME 33% SHARE OF CONTINGENCY THAT WAS SPONSORED BY VOLUME ALONE?***

In this scenario, #2 would have received no contingency based on a 66% LR, yet commands $17,850 as a simple percentage of premium. #1 could have received $60,000 or more (by most contingency contracts) had he NOT had the dilution of #2's LR and, as a result, lost at least $26,000 as the result of the combination in this year.

Of course, the conditions could have been reversed as easily as in the example above, hurting #2 and benefitting #1.

The answer is to consider both LR AND Premium Volume in your calculation of contingency distribution of a number of members in a common contingency program (i.e. partners, agency's in a Virtual Insurance Agency, clusters, etc).

THE SOLUTION:

The primary calculation should be the ratio of the higher agency's loss ratio vs. the combined loss ratio (in this case 66% divided by 40%) yielding the penalty for loss ratios higher than the combined (in this case 1.65). When the contingency division is made based on volumes, those total dollars for the participant experiencing higher than average loss ratios are diminished by dividing that amount by the penalty ratio (in this case 1.65) to yield the net amount due to the individuals or entities, whose loss ratios actually negatively affected the net contingency earned.

SCENARIO TWO:

As in the Actual Scenario, a $2,000,000 EP agent and a $1,000,000 EP agent enjoys a joint 40% LR based on the larger with a 28% LR and the smaller with a 66% LR. Agent #2's LR was 55% above the combined LR. On a volume percentage alone, Agent 1 would earn $34,650 (as above) and Agent 2 would earn $17,850. However, when contingency relativity is calculated, (1.65 as the ratio of 66% loss ratio against the 40% average combined loss ratio) Agency 2 would actually get $10,818 (the $17,850 divided by 1.65) and Agency 1 gets the higher amount of $41,682, a 20% benefit over the calculation by revenue alone.

One unusual aspect that would have yielded #1 even greater contingency income was that the proper contingency splitting agreement will ALWAYS identify the loss ratio above which the agency would not have received any contingency income and will eliminate all contingency income if either agency's loss ratio exceeds that level.

In this case study, Agency #1 would have received 100% of the contingency income of $52,000. While it is still not an adequate return for a 28% loss ratio (for the contingency program of the carrier in question) on $2,000,000 of Earned Premium, it provides a maximum return (and a minimum loss) to the successful agency while not negatively affecting the higher loss ratio agency (who would have received NO contingency anyway, but still maintains a good relationship with the carrier because of the acceptable combined loss ratio).

Background:

In our scenario, we became involved when #1 realized that over a five year period, he had "lost" well over

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$100,000 of potential contingency income because, whether through poor risk selection, weather related events or several once-in-a-lifetime losses, #2's results impacted #1 severely over the long term. #1 actually enjoyed $80,000 in contingency income during the period when his loss ratios, on their own, would have yielded him nothing but the potential loss of the carrier when analyzed on his own over five years. As a result, he continued to write the same type of business under the correct assumption that as long as #1 or the other participants loss ratios balanced his own, he would enjoy the market availability AND an undeserved bonus based on growth of a relatively high loss ratio business.

Case Study Result:

The end result was the split-up of the participants in this contingency-sharing arrangement. I won't disclose the form of the agreement they had because some are perfectly legitimate and accepted by carriers. Remember, they only pay out on the net loss ratio, so the carriers actually saved money on the arrangement, although they didn't ever realize that they had a losing agent building a book of business on their behalf. In fact, the carrier continued a relationship with each of the participants until they realized the actual loss ratio potential of each. Other forms of agreements, like the many clusters we see, whose ONLY purpose is the combination of volume for contingency maximization, are detrimental to the carriers because they simply cost them more money for the potential of no overall premium growth. Those cluster partners don't realize it, but the greed that prompts them to join with other agents for whose underwriting they can't vouch, may cost them dearly in situations like those shown above.

Combining in a merger, cluster or Virtual Insurance Agency may yield a more active contingency arrangement for the participants – as a side benefit. But entering into those arrangements ONLY for purposes of contingency splitting is gambling that the other parties involved will have as high quality business and will grow the business as well as you. Some work – for a time. But, insurance companies, like casinos in Las Vegas or Atlantic City, are not built by giving away more than they can afford over the long term. The casinos don't pay out over 100% of the take on every machine and every table and make it up in their rooms and restaurants. Otherwise they would be hotels and meal services. Those advertised returns are meant to lure you into putting more money into the machines. Insurance companies do the same with Contingency Agreements. They don't mind giving agents a piece of the excess profits generated from a combination of growth and loss ratio profitability. But they wouldn't last long if, profitable as they are, their premium volume shrunk every year. Or, grow as they might, the loss ratios were high enough to cause severe combined loss ratios for the company every year. They are enticing you to place more business and to underwrite that business carefully enough to warrant the "profit sharing" represented by contingency contracts.

So go ahead and find ways of splitting some or all of the contingency income generated each year. But do so in ways, like the case study above, in which the more profitable agent is not negatively affected by his partners. Agency Consulting Group, Inc. can assist you with defining a Contingency Calculation that is tailored to your specific situation. This case study involved two entities or individuals. However, similar programs can be created regardless of the number of participants adding another nuance for multiple profitable agencies into the calculation. Call us at 800-779-2430 for more information or e-mail to info@agencyconsulting.com or see our website for information about all of our services (www.agencyconsulting.com).

An Aside to Our Carrier Friends:

Over the past 15 years, we have been working on behalf of independent agents trying to convince insurance companies that strong agents are worthwhile because they can, in fact, both grow the companies, something they can do themselves with sufficient advertising, and underwrite the client base, something that the direct writers try to do through rigid qualification guidelines and rate manipulation at the point of contact. If the companies believe that, they would consider the elimination of contingency contracts in favor of different commission rates based on long-term (3-5 year) agency loss ratios. In this way start-up or marginal agencies will be compensated based on

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base commission rates and more profitable agents would enjoy both the underwriting latitude that would bring them quicker and more business at less cost to the carriers because of the limited underwriting oversight needed and the commission income that is justified for those bring the carriers both growth and profit. Commission rates would change, over time, if agencies deteriorated or ~~improved and truly unprofitable agencies would~~ depart on their own (instead of through emotional and long-term, and often futile rehabilitation programs because they would only be paid the commissions that were justified by their volume and loss ratio experience. The agencies would finally receive their compensation on a regular schedule, permitting them to pay for their own growth initiatives instead of hoping for a once-a-year payment that are often split up, as in the scenario above, instead of being used to sponsor the agency's development.

This is an attempt to once again professionalize and underwrite the agencies and give the agencies more latitude to underwrite individual business. When this experiment is done properly as it has over the years by a variety of companies, such as INA and it's COMPAR program, both the company and its agents are very successful. Only when the company relaxes its standards of agency appointment have these experiments gone awry.

INTER-GENERATIONAL TRANSFERS OF INSURANCE AGENCIES

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Many agents make the egregious blunder of giving their children an office, a title and a wage that is greater than what the agent would pay anyone else for the same quality and quantity of work effort. After all, they need the money.

Fast Forward 25 to 35 years---

Dad is now in his late 50's, 60's or even approaching 70. The son or daughter is now firmly ensconced in the agency business and either has captured the intricacies of underwriting, sales, service and administration, or has not. The next generation probably has a family of their own and begins to see the older generation as a roadblock to his generation of sufficient compensation to properly support his own family. If the potential successor is in his 40's or 50's, he feels that he can operate the agency as well or better than the older generation.

We rarely find the next generation without ANY virtues needed to perpetuate the agency. In some cases they have been well-prepared. But we often find this next generation with LESS of those virtues than their parents had. Sometimes it's just the 'Silver Spoon' syndrome. From the time they were in their 20's they knew, expected and were increasingly impatient for dad to yield the operation and then the ownership of the agency. The next generation generally believes that they know more and can operate the agency better than their predecessors. Of course there are some notable exceptions to this rule.

We have certainly encountered agents who brought their children into the agency properly, from the bottom up, not advancing them in responsibility or in compensation until they mastered the basic jobs first. Once the potential successor mastered each of the jobs in the agency, he was trained in sales and began building his own book of business that supported his growing compensation. Only when he proved able to understand and gain command of every job in the agency including sales was the successor given management responsibility. That management responsibility did not come fast nor was it comprehensive. It began with project management and grew to personnel, productivity and production management. Only when the successor proved capable of running the agency did the parent feel free to perpetuate the agency through the son/daughter/generational successor.

But these are the notable exceptions, rather than the rule. Most generational succession in agencies is still accomplished through the children of the owners. In most cases the next generation is not properly prepared for succession. Nor are they motivated by the same hunger and panic that forced their parents to work long hours and do whatever was necessary to grow the agency. By the time the next generation is ready to take control, the agency already generates sufficient revenue to sponsor both the older and younger generation because it has done so over the

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years that the next generation was ensconced in the agency. The next generation sees the departure of the older generation as potentially giving up some of the old owner's existing compensation for a number more years and then enjoying both the new owner's compensation and a bonus of the compensation of the retired owner.

So here is the problem. The old owner loves his children, or he loves the younger staff members who are his successors as if they were his children. You don't FIRE your child, especially if you still want to live with his mother. Not only do you feel parental, but the next generation knows that. So, you let him get away with things that you would not permit in any other employee. You always see his/her "potential" and believe that once he 'grows up' he will achieve that potential. You never see that you are the reason that he can't live up to his potential because you ENABLE him to do less than stellar work and still be rewarded. Some parents or bosses are *European Critical**. Others realize the error of their ways but don't know how to resolve the problem without losing the successor as the result of a 180 degree change of attitude and treatment.

> ****definition: European Critical = Sonny is "expected" to succeed, so no praise is necessary nor should he expect it. You didn't get praise for working hard and doing a good job, so he shouldn't either. But if he doesn't achieve the results expected, criticism is doled out as an educational tool (of course), very liberally – and sometimes very publicly so the employees can see that you're not playing favorites with your child. This was a strong trait of Eastern Europeans and they often brought this practice with them and taught their children accordingly.***

The end result is that, as time goes by, the old owner feels that he is in a corner. He knows that the successor may not be able to continue the business growth and success, but he can't do anything about it, just perpetuate the agency and hope for the best.

From the successor's standpoint things are not much better. He feels that he has been worked harder, sometimes for less remuneration, and has been less appreciated than anyone else in the agency. After 15 or 20 years in the job, he feels they have a good grasp of running an agency and understand the new carrier and client attitudes better than the old owner who seems stuck in the past "back in my time…" The successor is probably responsive to automation issues and knows how important they are to the agency's future. The successor may have established on-going carrier relationships and may have built a strong and loyal customer base – but the old owner doesn't recognize the contribution of the successor or the need for changing agency operations. The successor loves his/her dad or mentor, but would love to be recognized for his contribution to the agency in responsibility, in compensation, and in ownership; and he wants be given the ability to mold the agency into his vision of the future.

The successor is as frustrated as the parent. Both love each other and recognize what each is doing for each other, but they can't break the impasse to permit a smooth transition from one generation to another.

If the situations are not resolved, the father might hang on for much longer than he should in order to enjoy his later life while still able to do everything he wants with his loved ones, and the younger generation may not be able to take over until it is too late for him to both pay the older generation the value of the agency, build it to a larger value and perpetuate it again. Or, another common result is the abrupt transition of an agency and a long, tortuous period reorganization during which financial reverses and a slow-down of production, greater than expected erosion of customers and personnel transitions occur.

THESE COMMON ISSUES AND RESULTS NEED NOT OCCUR IF BOTH OLDER AND YOUNGER GENERATION RECOGNIZE THE SITUATION AND TAKE STEPS TO REMEDY AND TRANSITION THE AGENCY.

COMMON SENSE SOLUTIONS ARE OFTEN UNCOMMONLY APPLIED!

1. The problems of agency succession through family members and/or other generational successors cannot be resolved without being uncovered and discussed openly between the generations. Either do this yourself or use a facilitator. Agency Consulting Group is available and performs many such assignments (800) 779-2430.

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A. The agency owners and the agency successors each identify the Strengths/Weaknesses of the successor(s) in the following categories as well as any additional categories that may occur in the agency: agency transaction processing, personnel relationships, compensation vs. productivity and/or production, customer relationships, agency automation, carrier relationships

B. The agency owners and the agency successors each identify the Strengths/Weaknesses of the agency owner and of the agency in the same categories.

C. The owners and successors critique the written Strengths and Weaknesses identified and establish and agreed-upon common ground of issues that would make the successors stronger as perpetuators and are agreed to be issues that need remedied in the agency to make it stronger.

2. Note that the Succession Plan that is being built attacks the areas that trouble either the owners or the prospective owners and comes from a position of strengthening the agency, not criticizing the individuals. Once the common lists are generated, a Plan is created to progress areas of weakness and use areas of strength of both the successors and the agency and its owner in the evolution of the agency from one generation of owners to another.

A. Create Action Plans for the transition of weaknesses into strengths with monthly markers (benchmarks) to measure the progress of each Action Plan.

Most agency owners are seeking a comfort level from which to rationalize their transition of ownership and management of the agency. Even if every Weaknesses has not yet been converted to a Strength, the simple activity of the Action Plans defined by their Benchmarks will give the owner a growing comfort that the successors are doing that which is necessary to make the management and ownership transition successful. The successors must remember that the owners have wanted the succession plan since they hired the successors. Any resistance stems from the open question of whether the successor can successfully maintain the integrity of the agency once the old owner has relinquished control.

Of course every solution has caveats, as well. There are some owners who enjoy the ego boost of ownership and even the adrenaline rush of encountering and handling crises. If they have no outside interest or have no one beyond their career with whom to share the rest of their lives, these owners may "talk" a good game about succession and perpetuation, but may never be ready to turn over the reins. They know that their younger generation may be ready and that the carriers have harassed him about internal succession to maintain the integrity of their books of business and growth potential. Their customers may have asked about perpetuation as they judge who they should be using to counsel them about their insurance over the long term. So the owner proudly marches out his "next generation" even though, way down deep, he has no intention of yielding ownership or control. In many cases their attitudes are of the "pry it loose from my cold, dead hands" school of thought.

If you think that you are facing this type of owner, you have one of three very dramatic choices to make:

1. resign yourself to being second-in-command for the remainder of the owner's life – but make sure that sufficient life insurance exists in the name of the agency to buy the asset from his estate (not applicable if you are his only heir).
2. approach the owner with the option of giving you more management responsibility without a change in ownership (to provide you the tools necessary if and when the inevitable occurs)
3. approach the owner with the need for a management or ownership transition in order for you to remain with the agency. This last approach only works if you are acknowledged to be a strength in the agency (i.e. strong manager or strong producer) and are young enough to move, with or without your book of business, and build a stronger, more secure future in another organization.

Another alternative qualifies the successor for "phantom stock" that is a letter agreement that, if and when something happens to the owner, the successor is warranted ownership in a specified number of shares of the agency. Since it is phantom stock, to

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change of control or ownership is implemented until the sale, retirement or demise of the owner and the successor then claims the stock rights. The strike price of the phantom stock could also be pre-agreed as the transactions occur, limiting the tax liability when a triggering event occurs.

There are many, many ways to perpetuate agencies internally and many obstacles to successful agency transitions. **BUT ACHIEVING AGENCY VALUES AND FINANCING IS NO LONGER ONE OF THOSE ISSUES.** Anyone who expresses a primary concern related to finances and getting the appropriate value for an agency in transition is either unaware of the financing potentials or is really not interested in transacting the agency. We invite any agency interested in succession planning or internal perpetuation to contact us at (800) 779-2430 to discuss the process. The sooner this is done the better. The closer to the desired transition date that we start the process, the fewer options are available for financing.

NON-COMPETE AND NON-PIRACY

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We are NOT attorneys and don't purport to define the laws of the various States pertaining to non-competition. However, we do act as Expert Witnesses on cases regarding common practices of insurance agencies and many times these court cases revolve around unfair competition of former employees.

The first question you must ask is, "Why should my agency employ any form of non-competition wording?"

We have spent years helping agencies generate more value in their asset, the book of business owned by the agency that generates revenues and, subsequently, income and earnings that build the insurable and transferable value of the business.

How much would your agency be worth if the employees who produced that book of business or service employees and maintained the relationships between the agency and its clients were free to leave and solicit those customers **AT WILL**?

Obviously, the value of any insurance agency changing hands under that circumstance would be minimized. So the reason you want to establish the clear and total "ownership" of the book of business is to establish and maintain the value of your agency when you will need to sell or transition ownership. That means that if you NEVER intend to sell it, nor do you expect any residual value from the future conduct of the book of business after your ownership ends, you don't need a non-competition agreement in place with your employees. Of course, that also implies that during your ownership of the agency, any departure of a producer or service employee could affect you far beyond simply finding a replacement. They could leave and market themselves as having access to hundreds or thousands of the clients with whom they established relationships or about whom they had access while employed with you. Of course if they "steal" confidential information about your client from your files, you may have a cause of action, but not if they simply call the client and offer them services from their knowledge and memory of the client.

So it becomes apparent that a non-competition agreement is important to an insurance agency.

The Second Question is, "What's The Difference Between Non-Competition and Non-Piracy?"

There have been a myriad of problems applying non-competition agreements over the years as the courts have determined that a non-competition agreement can not stop someone from practicing their chosen profession in the community in which they live. Since most of the traditional non-competition agreements have been written with geographic considerations (i.e. non-competition within 25 miles of the former employer), many courts have routinely invalidated the entire agreement because of this consideration.

The answer is to change the definition of "Non-Competition" to eliminate geographic considerations and include a separate "Non-Piracy" consideration in employment agreements and contracts.

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Our definition of Non-Competition is different than the traditional definition. Non-Competition is "the prohibition for an "X" year period of a former employee from assuming or accepting the insurance products of the clients or of influencing the clients to move to another insurance entity or of accepting any remuneration from another insurance entity related to the clients of the former employer that the employee produced or renewed on behalf of the employer or for which they had service or administrative responsibilities."

Notice, that the definition prohibits the former employee from "assuming or accepting" the insurance products of the agency's clients, not just from soliciting them. The clients, of course, can go wherever they wish to fulfill their insurance needs. However, if this agreement is properly executed, while the client may leave your agency, the former employee may NOT become the client's agent for some agreed-upon period of time.

A Non Piracy Agreement is more liberally defined as "The prohibition for an 'X' year period of a former employee from 1) assuming or accepting the insurance products of the clients or active prospects of an agency or of influencing the clients to move to another insurance entity or 2) accepting any remuneration from another insurance entity related to the clients of the former employer for whose confidential information they had access."

Clients are further defined as "a) current clients with current policies at the time of the employee's departure, b) current prospects who were contacted by an agency employee within the last twelve months for the purposes of establishing and building a relationship toward the sale of insurance products or c) clients who had an active policy within twelve months prior to the employee's departure."

How Long Should a Non-Compete/Non-Piracy Agreement Be Enforced?

The period of time that would be acceptable to courts for a non-competition or non-piracy agreement really relates to the general fairness doctrine. We impose non-competition and non-piracy agreements to keep former employees from unfairly using confidential information regarding the agency's products and its clients to which the employee became privy while actively employed at the agency. We should have no problem with the employee using his/her knowledge to pursue his/her career. But they shouldn't be permitted to use information for which they were compensated by the agency about the agency's clients. The fairness doctrine would have the prohibition from competition or acceptance of those clients for a time "reasonable" for the agency's information to be accessible in the public domain or to become 'stale' and no longer useful in the solicitation of the client's policies. A second issue is a reasonable time period to permit the agency to replace the relationship management role for which the former employee was compensated with another current agency employee. This 'levels the playing field' to permit open competition between the agency and the former employee. Typically the time period acceptable to 'stale' current information about the agency and to permit fair replacement of the relationship management role is the balance of the current policy periods and two successive renewals, between two and three years.

When Should Non-Competition and Non-Piracy Agreement be Executed and For Whom?

In our opinion, every new employee should sign both agreements as a condition of employment. This is the most secure protection for the agency. The employee didn't have to take the job if he or she didn't agree with the prohibition against unfair competition once they leave the agency's employ.

In order to protect the agency, all current employees who deal with clients from a sales or service standpoint should also sign Non-Competition and Non-Piracy Agreements. However, if this might be viewed as a further limitation of the employee's rights, it can only be done safely with some form of compensation that a court would be considered reasonable for the acceptance of the perceived limitation on the employee's previous rights. This means that the consideration for the signing of the agreement must be sufficient for a court to agree that the employee was reasonably compensated for the elimination of his/her ability to freely competed with the agency should he or she leave.

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We are not trying to propose any legal agreements as the result of this article. Our goal is to explain the logic behind the implementation of Non-Competition and Non-Piracy Agreements for the protection of the books of business of insurance agencies. Appropriate legal advice should be solicited to create any legal agreement to adhere to the laws of your State.

RADIATING MARKETING

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I am always trying to find the easiest and least costly method of growing agencies. We decided that since most of the agency's clients were in tight concentric circles around the agency's location and since the most effective way of generating clients was through referrals, why not combine the two into the most efficient and effective way of expanding agency client base.

RADIATING MARKETING is the solicitation of individuals and businesses in concentric circles around your agency by identifying and eliciting referrals to those individuals and businesses from your existing clients. The process begins by simply asking a local friendly client for two names of referrals. If that client is close to your agency, there is a good chance that the people or businesses that they refer will also be close to the agency. As the two referrals are contacted and are made friends of the agency, they will be asked to provide the agency two referrals and that process continues forever. I wish I could claim this as our own developed marketing program. In fact it was our agents who evolved this using a few programs that we introduced some years ago. I was greatly impressed by the program that they created when they turned around and thanked US for the marketing support. It appears that they adopted a few of our programs and innovated to make them better!!

Several years ago we introduced a software solution titled **the Referral Tree**. This database program permits you to enter the identity of every referral from an existing client including the commission income value of the referral. Its use is to determine the importance of clients by virtue of the annual revenue to your agency measured in two ways. The first way is direct revenue through the client's account, and the second measurement is through revenue generated from every referral from that client for your agency.

As usual, agents are smarter than consultants. They began using the Referral Tree as the core of referral marketing that we eventually labeled Radiating Marketing because it radiates from one client to two, from two to four, etc, etc, etc, until the entire agency's marketing is being done through referrals from one client to another.

Not only did agents add to and improve our software through innovative applications, they also used our 3-prong approach to generating referrals in their innovation of the Radiating Marketing program. This approach asks every client three questions, always asked in person and never appropriate during a phone conversation.

Question 1: Are you satisfied with our service to you as an agent?

> If the answer is no, or if the body language of the responder belies his/her answer, stop here! Probe further! Find out what potential problems there has been with the "service" of the agency. Fix the problems (do not ask the follow up questions until the first has been fully resolved).

If the answer is an emphatic yes, go on to Question 2.

Question 2: Many of our new clients would like to hear from existing clients about our services before they begin using us as their agent. Would you mind if I used you as a reference to a new client once in a while? I promise not to abuse the privilege and will not use your name without telling you.

Most of the time, a friendly client will be flattered to be asked and will say yes.

Question 3: Many of our clients come to us from our existing customers. Could you give me the names of

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one or two of your friends that I could contact using your name as a reference?

50% of clients will provide you referral names.

The most successful agents who use this approach are obviously Relationship Managers, not price-quoters. They specialize in making friends and providing added value that neither the competitors (nor the gecko) can do. They are also committed to this approach in the long term. This is not a Get-Rich-Quick scheme. Actually this is a Get-Rich-Slow method that will assuredly provide you new clients and growth if used consistently by all of your staff.

A few agents we have encountered have actually curtailed their expensive marketing campaigns and costly advertising in favor of adding a few Relationship Managers to activate this program and are being very patient about how long it takes to gain new clients. Their rule is that the Relationship Manage is doing his or her job as long as the prospect relationship is building into a permanent client relationship at every meeting. They have abandoned the mass-mailing of marketing pieces that most of us discard as junk mail when we get it at home from other sales organizations in favor of frequent personal visits, perhaps 4-5 each year, by Relationship Managers to their block of prospects. For more information about Relationship Management and the process, call us for more information about the Asset Protection Method of relationship selling.

We are both proud and happy that our programs form the core of an evolving marketing program for our client agencies. Our goal with our client agencies is similar to their goals with their own clients. We do not SELL services, programs, or anything else. We provide the tools needed for our clients to advance their businesses in the most cost effective way possible.

PUBLIC ATTRIBUTION

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