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March 17, 2021

Size and Scale (Can) Matter

To our friends and clients,

In working with our insurance agency clients on strategic planning, a topic that comes up frequently is their ability to compete in the marketplace today and in the future. To compete successfully, you obviously need to be able to offer to your prospects and clients products and services that are at least as good as those offered by your competitors, if not better.

As we watched the evolution of our industry, there has been an “arms race” over value-added services and capabilities that (1) customers have demanded, and (2) agents and brokers use to differentiate themselves from their peers and competitors. Additionally, we see insurance carriers and wholesalers providing differentiated access and compensation based on size and performance.

In these areas especially, size and scale matter. Larger firms can leverage their clout with their carriers and wholesalers. They are also better equipped, with more capital at hand, to add capabilities and value-added services. In recent years, larger firms have also been best positioned to capture and leverage their data to better serve customers and attract prospects. All of these things can offer a material competitive advantage in the marketplace.

Does this lead us to conclude that, in today’s marketplace, the larger firms have a built-in competitive advantage? Is the largest firm at \$17B in revenues better able to compete than

not effectively leverage their size and scale and many smaller firms are finding ways to create scale and competitive advantage without being big.

Why do some of the larger firms fail to fully leverage their size? Consummating acquisitions is relatively easy when compared to what comes after closing. Integrating the firms that you acquire is much more difficult and is frequently executed poorly. What makes integration so hard? The primary reasons (which come from both sides) include: (1) the resistance of the acquired firm (which may have a “leave us alone” mentality) to fully integrate, (2) the consolidators not taking an active approach in building a unified, leveraged organization post-closing, and (3) disjointed and inefficient efforts in capturing and sharing information, expertise and capabilities. The successful large firms are going to be those that can overcome these roadblocks to build integrated platforms – optimizing their size and scale.

How do smaller firms create a competitive advantage in other ways? The four primary means are:

1. **Affiliations**
2. **Specialization**
3. **Technology**
4. **Strategy**

Affiliations can come in a lot of forms, from broker groups or associations (e.g. the Big I, Assurex, Intersure, etc.), to aggregators (e.g. Keystone, CAA, Secure Risk, ANE, etc). These organizations provide a forum for the sharing of information, combined clout in the marketplace, shared services, and capabilities and access to industry and underwriting data. Strategic partnerships and affiliations can allow participating firms to fight above their weight class.

Specialization is a second way for smaller firms to favorably compete – don’t try to be all things to all people. Pick a niche, do a lot of it, and do it better than even the bigger firms in that particular niche. Specialization allows smaller firms to develop scale in the areas that matter to that firm without having the overall size of its competitors.

Recent technological advances in our industry are also leveling the playing field. Access to information is spread broadly and for those proactive enough to find it, interpret it and leverage it, technology can allow smaller firms to gain business and market intelligence that only larger firms might have had access to in the past.

Finally, you have to realize that competitive advantage is not permanent. As a matter of fact, you can lose it or gain it quickly. Continually work to gain the high ground. Pick your battles. Play to your strengths, not your larger competitor’s strengths. Never get complacent. Adapt. Plan. Execute.

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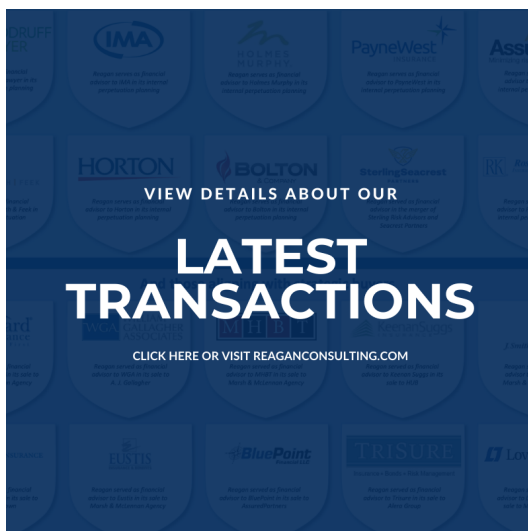


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