Cover Story

Avoiding Extremes in Technology Investment

By Gerald Fetty, President, Computer Networking Services, Inc.

Earlier this year, my son in Cub Scouts had to learn how to carry and use a pocket knife. One of the first things they taught him was that it is actually more dangerous to carry a dull knife than it is to carry a sharp one. This warning can be applied to an agency's automation system, as well. Agents who continue to rely on automation systems that have outlived their usefulness (i.e., they are "dull") are living on something I refer to as the fleeting edge.

The Fleeting Edge

Agents on the fleeting edge fail to make continual investments and improvements into their existing technology system and neglect to put in their annual budget any money for upgrading technology. As their system ages, the technology becomes obsolete, has mechanical failure, or simply does not allow employees to work at full speed.
Until one day, when suddenly, under any number of scenarios (of which I have seen more than my share) the agency owner faces a formidable obstacle—the task of replacing their entire technology infrastructure in one fell swoop. Yet, the large financial investment that often comes with this major overhaul is minor in comparison to the money the agency has been losing due to obsolete technology. Whether the agency realizes it or not, this lost productivity usually costs them far more than the dollars they would have spent with properly-timed regular investments in their automation system. Keep in mind, lost employee productivity is the real cost and danger of choosing to operate an agency on the fleeting edge.

The Bleeding Edge

On the flip side, agencies can fall into another extreme when it comes to IT investment—simply purchasing technology because it is new or the "latest and greatest." I (and many others) refer to this strategy as living on the bleeding edge, an accurate term, because financial hemorrhaging often follows this approach. Simply purchasing technology because it is the newest, cool gizmo may not be wise. In fact, very often new technologies that have not had a chance to mature or to be fully proven by the masses can actually impede employee performance and productivity as much as if not more than older technology. Just purchasing technology for the sake of keeping up is a fool's game.

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The Competitive Edge

The trick is to stay away from both the fleeting and bleeding edges. The ideal, of course, is for an agency to be on the competitive edge, which, interestingly enough is not primarily about which high-tech tools an agency has or does not have, but more about how an agency uses those tools.

So how does an agency keep itself on the competitive edge? There is no simple answer, especially in today's soft market. However, here are some strategies that can help to keep your agency competitive without getting cut.

1. Use your existing technology to its fullest.

Too often, agencies who have invested good money in sophisticated automation systems merely turn them into a very expensive contact manager, instead of taking advantage of all the tools built within the system. I don't have room here to go into detail on all the areas in an agency management system, but here's a short list of some of the features or tools many (perhaps most) agencies do not take full advantage of in their management systems:

- Downloading personal lines policy information
- Maintaining up-to-date policy information
- Marketing tools
- Proposal creation tools
- Reporting and auditing tools
- Direct Bill download reconciliation modules
- A unified data source for all agency personnel, including producers, principals, bookkeepers, and benefits department
- Customer follow-up tools
- Monitoring agent activity
- Receiving and processing faxes electronically

2. Make continual and regular investments in your agency's automation system.

We touched on the need for this above, but there are several different approaches to consider.

The first is replacing a certain percentage of your agency's technology system every year. I recommend trying to replenish about 20 percent of your system each year. That way, every five years, you have essentially renewed your entire system. Remember, prices on hardware and software tend to drop significantly over time. This difference in cost to your budget from the prior year should be invested towards additional enhancements to your system.

Some consultants recommend replacing about 30 percent of your system each year, which means you'll have a brand-new system every three years. That looks very nice on paper, but for most agencies, it does not make good financial sense.

Another strategy an agency may choose is to annually allocate a specific dollar amount per employee. An agency using this strategy might set aside in their automation budget $1,500 every year per employee. So, for example, a 30-person agency would invest about $45,000 each year in their automation system.

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Yet another strategy some agencies use is investing a percentage of revenue, normally 5-10 percent, every year in their IT budget. The beauty of this strategy is that it accommodates the ebb and flow of changing revenue stream. In hard markets the investment is more aggressive, helping to fund more growth. In soft markets, the spending is eased up, providing the agency some financial breathing room.

3. Don't forget to include training, retraining and downtime prevention costs in your IT budget.

Somewhere around 10 to 20 percent of an agency's IT budget should be allocated for employee training and retraining.

Also, don't forget about IT insurance. Most software and hardware systems need service agreements, contracts and/or warranties to keep them running healthy. Because one of the largest soft costs of automation is downtime, investments that keep your technology from going down or that minimize the amount of downtime typically cost much less than the losses that come from being down for an extended period.

Obviously, every agency is different. Your agency may choose one of the strategies outlined above, a combination of them, or some other IT reinvestment strategies. Whichever your agency chooses to do, the important thing is not so much the particular strategy as it is that you have a strategy in place and that you use it.

In this soft market, agencies have to make every penny count, but spending none at all on IT can be penny wise but pound foolish. I love the sign one of my customers has in his lobby. It reads "Beware of the high cost of the cheapest price."

In summary, take a hard look at your existing technology, utilizing it more and to its fullest. Do not shy away from spending on IT, but evaluate new technologies carefully to ensure they are proven and will deliver true advantages to your agency.

I hope these suggestions will help keep you on the competitive edge. ▪

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