

# Carrier Management

## Nonorganic Growth Strategies: Building Niches With Lift-Outs & Bolt-Ons

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You are the president or CEO of almost any size property-casualty company. You have just met with your board of directors, and their clear direction is that growth is needed.

### Executive Summary

Given the perils of acquisition and organic expansion into unfamiliar territories, the clearest path to growth may be nonorganic growth—growth led by new talent acquisition—in new niches. Consultant Paul Stulgaitis gives a step-by-step guide to building teams to execute nonorganic growth strategies.

In the competitive soft market you have seen competitors fail who fell into the trap of competing primarily on price.

No matter how much granularity can be attained by analysis, those efforts have become largely unsuccessful from a profit and revenue standpoint.

That will not change as the market hardens. Three goals are evident:

1. You want to grow profitable revenue.
2. You need to avoid price competition.
3. You want to enhance your franchise value.

This can best be accomplished by a strategy that:

1. Rounds out your product offerings.
2. Affords greater satisfaction for your distribution network (by providing more efficient ways to earn commission).
3. Balances your premium and profit cycles by product.

More specifically, to the first point, if there is a coverage that is normally expected or would facilitate writing a complete account, then that might be a target. Adding floaters or excess coverage to homeowners and auto in personal lines would be one example.

To the second point, producers often appreciate and reward with loyalty and better risk selection the ability to write additional premium and avoid going to multiple markets for the same risk.

As to the third point, different lines of business are often countercyclical in their patterns of hardness and profitability. In this case, diversification could definitely work to a carrier's advantage.

Potential paths to growth are:

- **Organic growth in familiar lines**, where “organic” refers to the use of current resources. *Here, a potential drawback is fierce price competition in mature markets.*
- **Organic expansion into new segments** - *without significant prior experience this strategy is loaded with execution risk.*
- **Acquisition** *In addition to being potentially fraught with risk, this path may be impeded by the company's structure and regulation.*

**Conclusion:** The clearest path to achieving your goals for growth is developing a well-defined niche that provides a sustainable competitive advantage.

### So how can you initiate a “niche strategy”?

The best place to start is to define your parameters by asking a series of questions:

1. Are there any “off-limits” lines of business—lines that the company would not consider writing under any circumstances for a variety of reasons?
2. What is a sensible scope to undertake (number of target niches)? Unless there is a remarkable opportunity or a pressing need, it is probably better to consider one niche at a time.
3. Are there geographical constraints or targets?
4. What scale do you feel comfortable pursuing? Restated, what is your premium goal per niche in 3-

to-5 years. This might reflect a balance of the appetite of the market and the company's resources.

5. What investment level—in terms of people, IT, facilities, etc.—makes sense for return. This is perhaps the crucial operational question: does the return (ROI) make sense?
6. What is a realistic profit target by niche, based on the historical performance of the target line of business?
7. Are the niches considered complementary to the current book composition?

Once the parameters have been defined, a search for the best niche can begin.

Current staff members who have prior experience, reinsurers, or board members could provide input.

In the end, decisions must still be made by the company management. It is incumbent on them to do the research—to sift through details of profitability, scale, resources and other factors that will decide the most appropriate and beneficial niche to pursue.

### **The Search For Talent**

Once the strategic approach has been determined, you need to proceed to the implementation stage— and that means finding the right talent to carry out your plans.

An important first step is to develop a position description for the person who can lead a team of individuals in the newly defined area. A leader is someone who has exhibited leadership and technical skills, an ethical reputation, a knowledge of the markets, has access to a clearly identified distribution channel (or channels), and a willingness on the part of this distribution to supply substantial business— in short, a market following. In addition, the leader must also have access to the talented individuals to help execute the plan, and assure that is successful on both a tactical and strategic level.

Using the company's niche plan, the human resources department can then construct a viable position description. An outline of this critical document should include: a profile of the company, which can be generic (size, culture, etc.); the position responsibilities; the candidate requirements (experience, education, etc.); and, if desired, the company web site.

Since the existing talent to implement the niche strategy is often not on staff, the focus will need to shift to individuals currently employed at another carrier.

### **Where To Look**

So far this process has been mostly internally focused. The surest and quickest next step is to utilize the position description to identify and contact individuals who fit that profile. These are people who have successfully written business in the market segment, and who can provide valuable insights in this process.

The most successful approach has been an open one, along these lines: “We are considering entering the niche and would like to discuss it with you. We think we understand what we would like to do, but would value your input.”

While not strictly an interview, this discussion will not only provide valuable information, but it may help identify the leader. These would not be standard interviews, but rather informational meetings. For both sides, they would be confidential with the understanding that there are no guarantees of employment.

Positioned correctly, potential leaders normally have no problem in entering into such discussions and find them useful in a market knowledge sense. Often through this process, the individual becomes aware of the appealing nature of the company, especially, if in comparison they are underutilized or underappreciated at their current employment. The key thing is that this activity will give further clarification of what is needed and what can be expected.

After two, three, or possibly more of these meetings, an analysis or summary of what has been learned will likely result in a better view of the potential benefit of pursuing that class of business. Adjustments will likely have to be made in terms of areas such as budget, premium size, lines of business, IT feasibility, and culture to name a few.

Once this is done if the conclusion is to proceed, the next step will be to thoroughly analyze the characteristics for success to assure that both sides will be benefited in the long run.

## 'Lift Outs' & 'Bolt Ons'

A "lift out" involves hiring a team of people to underwrite a discipline that the company has either not previously or satisfactorily addressed. This team will normally form its own practice within the company.

A "bolt on" is usually the addition of niche underwriting expertise that is added to an existing practice at the company. These options are often less risky than completely inventing the solution yourself and less expensive than outright acquisition.

In either case, considerations of strategic direction, cultural fit, and historic performance on both sides, are critical to a successful solution.

Since these terms are bound to come up in a discussion of niche initiation, it should be noted that there have been cases where allegations that confidential material, information, or intelligence have been transferred, which have caused these terms or these concepts to sometimes be viewed in a negative light. This is due to awkward or inappropriate handling of the transition. When handled correctly and with the utmost professionalism, there is nothing wrong or improper with this approach.

You now have a good picture of the type, size, and location of the target. You now also have the bare bones of the kind of experience and talent from a size, responsibility, and profit standpoint of the individual to lead the effort. Often the critical person in the equation is the leader, who usually has access to additional members of a team if needed.

At several points in this process, it may be advisable to draw on the experience or expertise of an outside party or parties. This could be the company's reinsurance broker, a knowledgeable contact in the industry or an independent consultant. As in the case of leadership experience not existing on staff, the experience to identify the components of the niche strategy and cohesively joining them may also need to be sought from the outside.

If the decision is made that the project is viable, and the individuals to execute it are identified, the planning and resource acquisition to make it happen can proceed.

## Ending Notes & Thoughts

The chemistry between the individuals brought in to direct a niche strategy and your organization will be a key determinant of success or failure. Do the individuals fit with the culture of the company? Do they not only embrace that culture, but also have a desire to function in the type of environment your company offers?

This can be evaluated by objectively measuring values, philosophy, profit orientation, growth potential, and other factors. It calls for honesty on the part of both parties, and any mediator or third party involved in helping to coordinate the arrangement.

Both parties have to benefit. The company goals are outlined at the top of the page, and the individuals' needs for growth and fulfillment in a positive environment must be met as well.

Often the individuals, talented though they may be, are available or would consider an opportunity because their current employer is heading in another direction, does not value their contribution, or any variety of other legitimate reasons.

It needs to be understood that the focus of this approach is recognizing and creating opportunities rather than stealing employees, books of business, or intellectual property.

In the end, it is about creating value, for the individuals and the company that absorbs them.

## CONTRIBUTOR



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