

FINANCIAL SERVICES

Health Insurance Industry Insight

Improving sales effectiveness to drive profitable growth

Over the course of the next few years, it is clear that the effectiveness of distribution processes will rise to the top of the list of strategic priorities for health insurance companies. Why? In a world where the traditional pillars of corporate differentiation – product, network, costs – have become increasingly commoditized, distribution will emerge as an increasingly important factor in determining a company's ability to maintain and enlarge its position in the market.



In order to gain a better understanding of the ways in which health insurers can improve the performance of their sales and service organization, Oliver Wyman recently undertook a study of sales effectiveness at health insurance companies across the United States. Our survey included responses from 22 different regional and national health insurance providers across the US.

The goal of the study was to address three primary questions:

- What metrics and measures can be used to define a high-performing sales and account management organization?
- What ‘best-practices’ can be identified at sales organizations in health insurance companies?
- To what extent does selling effectiveness drive profitable growth?

Our analysis of the survey results provides some answers to these questions and offers useful perspectives on ways in which health insurers can achieve a better return on their investment in sales.

Measuring sales effectiveness

Throughout the health insurance industry, the sales organization is typically measured and managed on the basis of one highly visible and all-encompassing number: revenues. Revenues – consisting of premiums and administrative service fees – are thoroughly tracked through all levels of the organization, with management and front-line staff always knowing where they stand vis-à-vis their revenue goals.

But the metrics that drive revenue are usually not well understood nor are they carefully tracked. Some of the underlying levers of sales performance are listed in Figure 1 (below). Understanding these metrics enables executives to quickly identify the reasons for the top-line performance the company achieves.

Figure 1: Key measures of sales performance

Sales productivity	<ul style="list-style-type: none"> ■ Revenue per salesperson ■ Profit per salesperson ■ Accounts covered per salesperson
Return on sales investment	<ul style="list-style-type: none"> ■ Member acquisition cost ■ Sales cost as a percent of total revenue
Customer acquisition and retention	<ul style="list-style-type: none"> ■ Close ratio ■ Retention rate ■ Quote volume ■ Quote quality

Oliver Wyman has found that the companies with the best practices in the realm of sales and marketing are characterized by a disciplined monitoring and analysis of these metrics in a way that facilitates a nuanced understanding of sales performance. For example, it is not sufficient to know the overall close ratio, but it is very useful to know this number by sales representative, by customer segment, and by broker. One of the

interesting (and alarming) things this study found is that many organizations do not collect this type of data in a rigorous or systematic way, leaving sales management in the dark about one of the most critical forward-looking clues into the performance of their business.

Drivers of superior sales performance

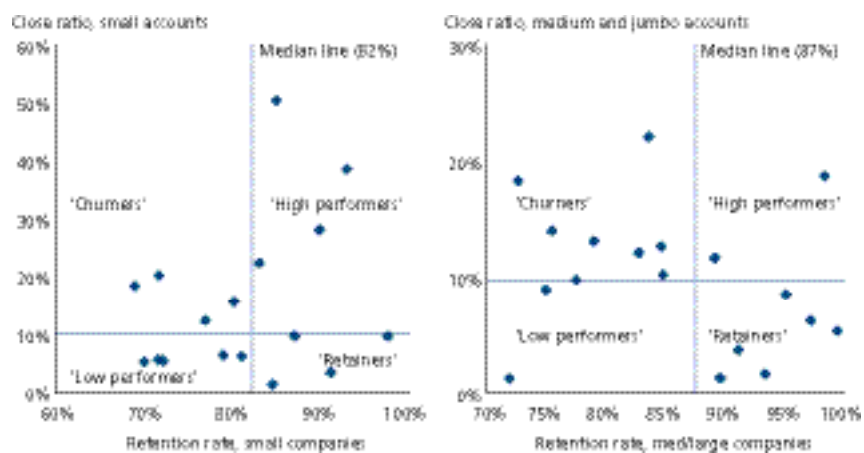
What defines a successful managed care sales organization? We found three distinguishing characteristics among the participants in the study:

Retaining existing business matters more than winning new business

- The more profitable and faster-growing companies in our study tended to have higher retention rates. There was a sizable gap between the top quartile performers (who averaged 96% retention of members) and the bottom quartile performers (who averaged 79%).
- Retention rates for mid-market and jumbo accounts were significant determinants of profitability, while small group retention rates were somewhat less influential.
- Having a very high close ratio often did not offset poor member retention. In fact, we found that a one point improvement in retention was equal to about a four to five point increase in close ratio. Moreover, companies that had substantial new business inflows and high churn were less profitable than those that had less incoming new business but higher retention rates.

Figure 2 compares companies on the basis of their close ratios and retention ratios. While a few companies are able to excel along both dimensions (they appear in the top right quadrant), most companies tend to cluster in the 'retainers' or the 'churners' quadrants. Given a choice, it is better to be a 'retainer' and to invest incremental dollars in figuring out how to keep existing customers rather than taking costly steps to win a major account from a competitor.

Figure 2: Retention rate vs. close ratio



Targeted investments in the sales function pay dividends

The health insurance companies in the Oliver Wyman study showed a very wide disparity in their investments in sales, from a low of one percent of revenue spent on the sales function to a high of 10 percent of revenue. Interestingly, there was not a high degree of correlation between spending on the sales function and revenue growth. One pattern that did emerge, however, is that spending to support account retention (using such mechanisms as Account Management compensation and broker commissions tied to retention) emerged as a key success factor, and companies that spent more in those areas demonstrated better performance. This finding was especially important because of the wide range in sales force cost structures that we observed among the study's participants (See Figure 3):

Figure 3: Sales cost components

	% of total sales costs (average)	Range
Sales compensation	20%	8%-68%
Account Management compensation	30%	3%-50%
Support staff compensation	14%	5%-22%
Management compensation	14%	3%-38%
Broker commissions	22%	5%-55%
Total	100%	

Another key finding is that broker commissions were not correlated with faster growth or higher profitability. This suggests that top performers do not just throw more money at brokers, but rather focus their investments on the top tier partners in this channel.

Sales productivity is driven by 'softer' incentives, not just 'hard' dollars

The most productive sales organizations – as measured by revenue-per-salesperson and profit-per-salesperson – were not always those with the highest compensation levels. In fact, the two most productive sales forces in the study were merely average in overall sales compensation levels (including bonuses and commissions). What seems to matter as much as offering competitive compensation is building an infrastructure and organization that creates an environment in which sales and account management professionals can be successful. Some of the most important productivity enhancers are:

- **Clear delineation of roles:** The biggest drain on sales productivity is the time spent 'putting out fires' and dealing with problems at existing accounts. Best practice organizations have a very clear line drawn around those who deal with the 'fires' so that the crucial time devoted to building relationships and prospecting does not get short shrift.

- **Targeted coverage models:** Sales reps in the medium/large segment cover anywhere from 25 to 250 accounts, with the average at around 50 accounts per representative. In general, the companies that had many more accounts per head tended to see lower overall performance. This is not to say that more heads are needed, but that it is better to cover fewer accounts well rather than try to cover more accounts with diluted resources.
- **Effective segmentation:** Successful health insurers have a clear understanding of which customers are most valuable to them, and resources are focused on those accounts. A robust segmentation system allows sales management to use resources most effectively by ensuring that time is being allocated to the highest priority areas.

Implications for health insurers

In the emerging era of competition among health insurers, distribution and selling effectiveness will be critical determinants of success. As our benchmarking indicates, the winners will not necessarily be the companies that spend more, but rather the ones that spend smarter to minimize account churn, maximize customer retention, and serve the highest priority accounts in the most effective way. There are a number of steps that can be taken in the short-term that can have demonstrable effects on a company's results. We would highlight three specific moves based on the findings of the study.

Build and use measurement tools and 'dashboards': Surprisingly few health insurers have accurate, timely management dashboards with critical sales and book of business information. Core sales productivity and investment metrics need to be monitored carefully in order to manage the business effectively.

Implement a coordinated channel management strategy: Most of the successful companies in this study do not treat brokers as a necessary evil but rather as a strategic partner. Effective management of this distribution channel is one of the surest ways to impact results. This does NOT mean simply paying higher commissions; instead, effectively managing this channel requires a coordinated strategy of focusing on top tier partners, providing them with an extraordinary value proposition (including commissions, service, marketing support, and dedicated teams), and consciously de-selecting channel partners that are likely to be a drain on resources.

Segment your customers: Prioritization and resource allocation are critical not just for the brokerage channel, but for plan sponsors as well. It can be tempting to have a strategy of outstanding service, but the reality is that there are some accounts for which it makes sense (both economically and strategically) to provide a highly customized, consultative service, and other accounts where this level of service is superfluous because they just want the lowest price.

It is clear from the study's findings that excellence in distribution pays huge dividends and that there is wide variation in how well health insurers are performing the sales function. Companies that achieve a high degree of sales effectiveness differentiate themselves from their competitors and this helps them realize a significant competitive advantage in their markets. The winners will be able to build competitive advantage through superior targeting, process, and sales execution. Their success will be measured not just in a growing top line, but in a more robust bottom line as well.

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