The single biggest threat facing mid-tier professional services firms in 2019.

Forget the usual suspects; technology, off-shoring, talent retention, keeping up with tax and other legislative changes – even succession planning. If firm's don't start getting this right, none of those will matter – and they might find they don't have anything worth passing on.

Since 2005, RevenueTEK has been tracking and studying how effectively and efficiently organizations convert their marketing and business development pipelines into revenue.

Last year's Revenue Performance Index (to view or download the 2018 Index report click on this link www.revenuetek.com) revealed that corporate pipeline conversion had reached a new low of 1.92%. For every one hundred opportunities developed by marketing in the first half of the pipeline, less than two now traverse to the end of that buying journey. In 2005 when the Index was first published, the comparable figure was 3.7%, which means that in the ensuing twelve years and in spite of nearly a trillion dollars invested in everything from CRM and marketing systems to data analytics, recruitment and training, corporate revenue performance, which is to say the ability to convert sales opportunity into revenue, has declined by nearly half.

Our 2017/18 data set included a total of 588 organizations across 16 different vertical industry segments on four continents. The Australian data included 30 accounting firms; three of the Big Four, ten mid-tiers and 17 smaller firms. Drawing thirty accounting firms from a population of 588, particularly businesses as culturally unique as accounting firms can be, hardly makes for a statistically significant sample, and we aren't pretending otherwise. However, what those 30 firms – and particularly the mid-tiers revealed courtesy of their survey responses is worthy of further examination and discussion.

If the directional conclusions suggested by their data are even close to being correct, the accounting profession faces a problem much bigger and potentially more threatening than any of the risks highlighted in any of the recent local and overseas industry reports published by the likes of CA, CPA or any of the specialist industry analysts. To be fair, most of their recent publications do make passing reference, even if they do so obliquely.

Highest ranking risks for firms

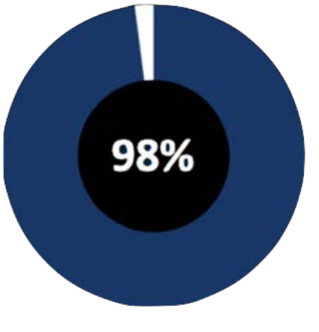
Last year, the Hinge Research Institute asked more than 1,000 professional services firm around the world – one quarter of them in the “mid-tier”, to rank the top ten threats they saw themselves facing in 2018 and beyond.

The biggest risk however, already facing firms - particularly in Australia, doesn’t appear. Perhaps because the pertinent question wasn’t asked in the survey.

The firms who responded to the 2017/18 Revenue Performance Index, converted fewer than two out of every 100 new business opportunities into new clients. Another way of saying that, is they **failed 98% of the time.** Before dismissing that because of the small sample size, note that the sample included three of the Big Four and half of the Australian mid-tier.

It’s important to understand the RevenueTEK data measures the new client’s ***full buying journey***, from raw lead to closed sale. Most firms only measure part of that process – usually the part that starts when the prospective client has become visible to one or more partners. Many Managing Partners and CEO’s are surprised to learn that the buying journeys of their new clients are already well underway by the time they become visible to partners or to BD or Marketing. That’s assuming they become visible at all.

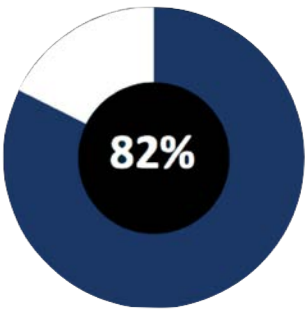
Brokers marginally outperform insurers and smaller brokers outperform larger ones (see data on page 4). On the RevenueTEK data, the insurance industry as a whole **underperforms the benchmark Australian revenue conversion index by a whopping 17%.**



Failure rate in 2018 for new customer acquisition for the Australian insurance industry

The strike rate on converting cross-sell and up-sell opportunities is better, but nowhere near as good as many expect it to be. The data excludes annual renewals i.e. re-signing the same coverage for the same client from the previous year, ideally at an increased premium.

This part of the process **only fails 82% of the time** – with clients who already know and supposedly trust their advisor.



Failure rate in 2018 for up-selling and cross-selling to existing customers.

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New business conversion – November 2018

	Total Aust (n=497)	Insurers (n=3)	Large Brokers (n=4)	Mid-sized Brokers (n=7)	Small Brokers (n=14)
LEADS → CONTACTS	34%	29%	29%	23%	17%
CONTACTS → OFFERS	33%	29%	35%	34%	49%
OFFERS → WINS	17%	12%	15%	15%	25%
WINS	**1.9%**	**1.1%**	**1.6%**	**1.2%**	**2.2%**

Insurers and brokers under-perform the benchmark Australian revenue conversion indices at nearly every pipeline stage.

Of the brokers, mid-sized firms perform worst, under-performing larger and smaller brokers by 25% and 43% respectively. Ignoring competition from non-insurance sources (e.g. banks) this mean that the only competitors mid-sized firms beat with any consistency – are other mid-sized brokers.

Cross and up-sell conversion – November 2018

	Total Aust (n=497)	Insurers (n=3)	Large Brokers (n=4)	Mid-sized Brokers (n=7)	Small Brokers (n=14)
LEADS → CONTACTS	62%	54%	52%	46%	38%
CONTACTS → OFFERS	78%	69%	81%	79%	97%
OFFERS → WINS	48%	36%	42%	41%	59%
WINS	**23%**	**13%**	**18%**	**15%**	**22%**

When it comes to cross-selling and/or up-selling to existing clients, no group reaches the end-to-end benchmark index.

Across the board, brokers miss out on four of every five opportunities in clients where they are already incumbent to some degree.

Note this data excludes annual renewals.

Ugly implications

What these two sets of numbers mean is that insurers and brokers of all sizes are steadily leaking revenue they should really be winning from their existing clients – while simultaneously failing spectacularly to win new business with any consistency.

The only thing keeping the whole show running is the annual premium increase. Although premiums are expected to begin edging upwards again after several tough years, relying on price increases in a hyper-competitive market being disrupted by low cost providers with alternative business models is not sustainable and fraught with danger.

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In any case, as premiums rise, clients will simply increase the pressure for value, and if they fail to find it, vote with their feet, accelerating the exodus to low cost alternatives.

Like the Doomsday Clock, unless something changes, by continuing to focus on other risks at the expense of winning and growing clients and revenue, the industry is sowing the seeds of its own destruction, and no amount of improvement in premiums, technology, compliance or claims processing will be enough to save it.

Five core areas of revenue risk currently exist for commercial and general insurance firms. None are being particularly well measured or managed, the preference being to loosely bundle them together under the label "customer risks"

- Increased competition from other firms and new service models
- Declining relevance of traditional services and brands
- Evolution of the Internet and decline of traditional media
- Proliferation of touch points demanded by clients when researching and buying

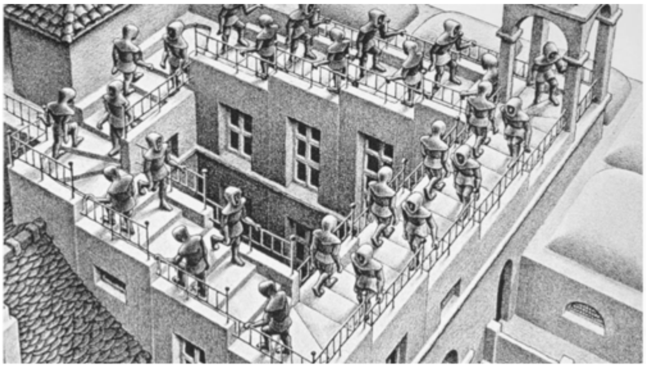
- Lack of meaningful lead indicators
- Management cannot see the future with clarity or granularity
- More data than ever before, but no insight
- Revenue forecasting is oxymoronic
- Processes are inconsistent or non-existent
- Marketing and BD metrics and processes poorly aligned – reinforce differences

- Simultaneous challenges of growth & cost containment
- BD efforts and Marketing siloed, misaligned & dysfunctional
- Lack of alignment with client buying journey
- No clear line-of-sight between strategy and revenue execution
- No repeatability, consistency or sustainability

- More stakeholders in decisions
- Longer, more complex sales cycles
- Increased scrutiny over value proposition and ROI
- Information asymmetry favours clients
- Clients demand more for less
- Online / social hampering traditional engagement

- Declining effectiveness and productivity
- Repeated investments in training not bringing results
- Decreasing BD executive / rep tenure
- Dearth of genuine BD "rain-making" talent
- Challenges to incent, motivate and reward people
- Cross-generational management challenges

The solution is to stand back from the noise and look at the problem from a different perspective, not simply work harder or worse, go around in the same circle everyone is going around in. In insurance - with only a few exceptions, everyone is doing almost as poorly.



The good news is there is a solution, and it is neither difficult nor particularly complex. In fact, it's surprisingly close to the way insurers and brokers view everything else they do in their firms – from assessing risks to processing claims. But it is different to the way they currently view revenue creation.

Since 2005, 152 organizations – including one of Australia's leading insurance brokers, have changed the way they go about revenue creation – and **averaged 24% and 130% year-on-year growth in revenue and profitability** by doing so.

Conversion benchmark for median mid-sized Australian broker as at November 2018

The median mid-sized broker in Australia converts 23% of leads into qualified opportunities, 34% of those opportunities into proposals and 15% of those proposals into wins – for an end-to-end yield of 1.2%.

By increasing those three conversion factors by just one percent each – 23% to 24%, 34% to 35% and 15% to 16%, the overall yield improves by 1.2% to 1.3%.

Which doesn't sound like much....until you consider that 0.1% is an **improvement in yield of 15%** on 1.2%.

Another set of one percent increments drives **a further 14% yield improvement – or 30% in total.**

Revenue risks and drivers

This RevenueTEK Heat Map taken from an insurance broker in Europe, illustrates how revenue is an outcome that results from a complex interaction of as many as 36 inter-connected risk drivers. The secret to consistent over-performance lies in understanding how the drivers relate to each other and how the various correlation coefficients between the drivers interconnect to enable to maximum performance hit for the minimum amount of effort and cost.

Each driver relates to - and to varying degrees is correlated with, all the others. Changes to individual drivers invariably result in flow-on effects to other drivers downstream and ultimately to the revenue outcome.

Get those changes right, and incremental – often almost imperceptible improvements, can multiply to drive disproportionately large improvements in overall revenue system yield.

Get them wrong, however, and the force multiplier effect works just as powerfully – in reverse.

(For a demonstration of the power of incremental improvements in individual drivers at different stages in the revenue cycle, copy the following link into your browser: https://youtu.be/FbrQdONteNg

Ultimately, managing revenue risk and consistently out-performing involves examining six questions, and using the insights gained from those questions to providing an informed base from which to decide what to do and what not to do. Not carrying on as the insurance industries continues to, with more poorly-educated guesswork, gut instinct and worse – what other companies are doing.

Six fundamental questions

1. How well your revenue "engine" is really running, as opposed to how well you think it might be running?

2. Which elements (i.e. drivers) are working well, and how well are they really working?

3. Which elements aren't working well, how badly are they affecting you and why aren't they working?

4. Of all the things you could potentially improve, which 4-5 will deliver the biggest kick for the least investment and risk. In other words, **where are the "one percenters"?**

5. What is the upside in terms of revenue and profitability for making those handful of changes, and how long until you see those results?

6. Are there any risks in the way you're running your marketing and business development that you can't see, or might have under-estimated?

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Since 2005, RevenueTEK has been helping organisations around the world use data and analytics to unlock the secrets to sustained revenue improvement. Across 154 clients to date, those clients have enjoyed year-on-year revenue improvement following engagement with RevenueTEK of 24%.

To learn more about how our Telemetry Revenue Performance Engineering solution could do the same for your organization, visit our website at www.revenuetek.com or email us at info@revenuetek.com.