

MANAGING A REGIONAL ACTUARIAL CONSULTING FIRM

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In the current business environment of consolidation, the challenges and opportunities for a regional actuarial consulting firm are somewhat different than those faced by a large national or multi-national consulting firm as well as the very small one or two actuary firm. At Conrad M. Siegel, Inc. our growth over the last 35 years puts us squarely in this niche. As a matter of perspective, we are a regional actuarial consulting firm servicing approximately 1,200 corporations, governmental entities, associations and non-profit organizations. We currently have 75 employees, of those employees, 21 are members of the Society of Actuaries. There are only a handful of firms in America with more than 10 and less than 100 actuaries.

Our firm was founded in 1963, and I joined the firm in 1978. Over the years we have grown our business and our staff through a variety of techniques. The purpose of this paper is to review those issues, in particular our efforts in staff development, business referrals, line of business specialization, alliances and ownership.

STAFF DEVELOPMENT

Among our major strategic goals are to maintain our independence and to provide excellent service to the business community of our region. To achieve that staff development is critical. In our early years staff development was generally done by hiring individuals who were experienced at major national and multi-national firms. More recently this has grown into an internal function since most of our hiring is at the entry level. Our business is, of course, cyclical having greater business demands between January and July of each year and somewhat lessened demands between August and December. In that August through December timeframe, we dedicate significant resources to staff development and system development. Our staff

development program is run by one of our owner-actuaries who specializes in compliance related issues. The CMS, Inc. Academy educates our staff on all facets of our business. This fulfills our needs with respect to cross-training, staff development, and has the byproduct of providing continuing education credits for our enrolled actuaries. The CMS, Inc. Academy has become a cornerstone of our continued success and our future growth.

Various consulting actuaries within the firm are assigned to teach topics. The program outlines and handouts used through the process are added to our internal manual and often times the exchange that occurs within each class results in an improvement to our system.

Also during this timeframe we utilize outside resources to develop consulting skills, marketing skills and sales skills. The Conference of Actuaries and Society meetings are very valuable in the development of our senior people. Many of our competitors find it difficult to allocate resources to staff development. By organizing the process to also benefit systems development and training of personnel, we have made the cost manageable. Staff development is vital to our objective of constant improvement of service.

BUSINESS DEVELOPMENT

In order to keep our organization growing and within striking distance of "the cutting edge" we also need to continually develop business. Business development breaks down into two components. One is the marketing and sale of the services that we currently provide and the second is to be constantly evaluating what, if any, new services need to be added to our repertoire.

With respect to our network of referral sources we have found over the years that the absolute best referral source is a satisfied customer. A key to our business development is that a consulting actuary is assigned as the primary contact with any client. Even if the client's particular needs are non-actuarial in nature, there is a member of the Society of Actuaries assigned to that project. Many clients have multiple contacts and only in rare exceptions is a non-actuary consultant assigned as the primary contact. This allows us to be constantly marketing the other services that we can provide to already happy customers.

Another important way we have found to get business referrals is through the professional networks. We maintain contacts with all of the major accounting firms, legal firms and investment management firms within our region. One interesting sidelight is that we have one partner who specializes in expert testimony on actuarial issues. This has become a virtually full-time job for this individual and while the profit margins are not as significant on this type of work as they are in some of our other types of work, this proves to be an excellent marketing tool for us. The actuary who does this testimony is very well respected within the legal community, therefore any time a member of that legal community has a client who needs other actuarial services, Conrad M. Siegel, Inc. immediately comes to mind. We have had many business opportunities emerge from our expert testimony work.

Another process to develop new business is cold calling. We recently added a full-time marketing person to do cold calls. However, the important distinction from "sales" is that we do not ask our marketing person to close these deals, rather his role is to identify those potential clients that make sense for our organization and then quickly bring in the actuarial personnel that can move on to closing the deal. It is important that we do not have marketing individuals whose compensation is determined by the number of deals closed. Our marketing staff has compensation that is determined by the amount of good, new, high-quality business brought into the organization. If we were structured in a more typical sales fashion, an individual might be inclined to bring on business that is not good long-term business for the organization in order to meet compensation or other goals. We are careful never to promise more than we can deliver and so before we take on any major project the consulting actuaries become directly involved.

Another important source of referrals is other actuarial firms. The consolidation of firms has resulted in conflicts of interest in client mergers and spinoffs. We are called upon to express our professional opinion as a disinterested outside source.

The second major component of business development is the new services that need to be provided by Conrad M. Siegel, Inc. This is, of course, a very important component of continued success. However, it can be a very risky component when allocating resources (time, people and money). Our philosophy in this area is to not be on the cutting edge of new developments, rather to be on the second wave in new product development. One of our competitors recently indicated they wanted to be the first to provide a new service in Central Pennsylvania. Our response has

always been we want to be the first to correctly provide that service. In this area we have watched our competitors and the national and multi-national actuarial firms and followed only after some of our major clients have expressed interest in heading in that direction. While we do miss out on some early wave of business, it has served us well as fads come and go in the employee benefit area. Once again, Conference and Society meetings are very important resources in this arena.

Using these techniques over the years we have been able to grow a business which started as a pension consulting business into a business which now includes expert testimony, ESOP consulting, health and welfare benefit consulting, employee communication consulting, workers' compensation consulting, and have recently begun to move into some wage and salary consulting efforts.

It is our intention and goal to be able to provide to the employers of our region all of the employee benefit consulting services that they may need.

CORPORATE STRUCTURE

Many of our fellow actuarial consultants are operating within very large organizations or very small organizations. The mid-size actuarial consulting firm has a unique set of issues with respect to ownership, management, and succession. Of course, we would all like to be consulting actuaries 100% of the time and just let the business run itself. However, this would not be a good strategy in our competitive world. Time must be allocated for marketing, staff development, technological development and other management responsibilities. Ownership also needs to be structured so that there are not periods of selling pressure caused by retirements or termination of owners that would force us into the marketplace to be acquired by a larger organization.

Our policy with respect to ownership is that anyone who is representing our firm in terms of consulting needs to own shares of the stock of the corporation and that those individuals who are moving up the ladder aspiring to become consultants need to buy into our philosophy and our stock as they move up that ladder. Currently, we have 14 shareholders, each of whom own at least 2% of the stock. No one individual who owns more than 10% of the stock. As individuals get closer to their retirement age, they are asked to begin to sell stock in small pieces to those

individuals moving up the ladder towards consulting. The transaction is based on the price that comes from a predetermined formula set into an agreement amongst all of the owners. No owner above the age of 50 owns more than 6% of the stock and those owners above the age of 50 are asked annually about their retirement plans. This enables our more senior owners to go into a part-time status that retains their valuable insight into the consulting world; however, reduces their compensation in accordance with their own personal productivity. They positively impact the profitability of the overall corporation.

Therefore, all of the consulting work is being done by owners of the firm or people near ownership. By the time an individual becomes an owner of the firm, they have developed close to a full consulting load. The additional work that is asked of each owner is some contribution to office management. The office management is divided into five categories: finance, business development, systems, personnel and compliance. Historically an owner has headed each of these committees although recently we have moved to a situation where a non-owner, non-actuary who is a professional in the appropriate field heads up the business development function, the personnel function and the office systems function. However, at least one owner sits on each committee and most committees have more than one owner. Therefore, the office management responsibilities are directed by owners of the corporation.

These dual roles and this ownership policy accomplish many good things for the mid-size regional actuarial consulting firm. First, very little time is wasted on budgeting and financial projections since each committee understands the resources available and that the prudent allocation of those resources results in greater profits to the owners. Having owners represented so directly eliminates the need for extensive budgeting which often times is counterproductive to proper allocation of resources. The second thing that this does is that it removes the need for financial incentives to your consultants and office management staff since the rewards (and penalties) are so real and so direct to the owners of the firm.

By having each owner have a consulting assignment and an office management assignment makes communication between areas of responsibility that much more immediate. Any owner knows the effect of a system improvement and all owners feel the effect of any system failure. The same holds in all areas in that the owners all immediately understand the impact of any business development, compliance, personnel success as well as feel immediately the effect of any failure in those areas.

The president's role in such an organization is to make sure the communications continue to flow freely and that each job that is required of the total organization has been properly assigned to a committee. The organization solves the problems, creates the new business, services the existing business, and continues to thrive.

THE FUTURE

The future is not without its challenges for a mid-size firm such as ours. These challenges can also present great opportunities. Technology allows us to service bigger clients and to expand our geographic area. The world has become more complicated for our clients, so we have the opportunity to provide more employee benefit services to our existing client base.

On the flip side, our competitors have those same capabilities and the larger competitors have access to greater amounts of capital and greater resources. We, however, believe that the business community within our region values the hands-on, professional service that a regional firm can provide. The stability of our workforce over the years, combined with the staff development and local ownership of the organization gives the business community within our region a high level of service. The technology that we continually improve and develop enables us to provide such a high level of service at a very reasonable cost. The future for the mid-size regional firm is bright, but full of challenges. A missed step in this fast paced environment could, of course, be costly. However, we believe excellence and independence will always represent added value.