Focused Business Plan

In each of the breakout sections, we will discuss focused business planning and your market niche. Your approach may be already fine-tuned, so the session may allow you to discover additional ancillary services to supplement your business income, tie your referral network closer to you and/or develop other uses for your business capital.

Marc has told us that we need a market niche, a specialization that can separate us out from our competition. We need to be clear first on who we are as a business. You may have some specialty niche, like Cash Balance Plans, or actuarial services or we cater to women owned businesses or minority owned.

Let’s develop the type of business first.

We have narrowed the choices of your current business plan to primarily three categories:

Low Cost Process Driven (functionalization)

Consultative high touch

High Tech (high automation approach)

Arguably, each business has some of each, but capital expenditures, channel distribution for sales, employees you hire and the types of customers you attract depend upon your focus. Let’s cover some basic definitions to see where you fit. There are no right or wrong approaches, just poor, mediocre or extraordinary execution of the plan.

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Your Business Plan

How do you take your core business approach and meld some of the attributes of the other business approaches to develop a profitable company?

How are you going to measure success?

Have you consider a disaster plan?

- If something were to happen to the leadership of the business or business unit, what would the company need to be successful?
- Is there a succession plan in place?
- Who are the qualified candidates to fill the roles needed?

If you own all or part of the business, do you have substantial assets tied up in one micro-cap stock?

- How do you diversify?
- Setting up a retirement plan?
- Add partners?
- Set up contingency plans with another company?

Do you have a board of directors? How about your attorney, key referral source, CPA?

Who is your ultimate client?

- The referral source, the plan sponsor, the plan participant?
- How do you direct your business to that client?

Profitability and Benchmarking

Your goal is to be profitable.

- What is your targeting profit margin?
- How do you track it?
- Do you track once a day, week, month, quarter, semi-annual or annual?
- Do you track it client by client?
- Do you track it employee by employee?
- Do you keep time records?
- Do you have an estimate of the time it takes for a task and do you benchmark against it?
- Do you practice the task to train your employees to get quicker, better and more accurate?

Benchmarking White Paper

“Managing Yourself- Getting Virtual Teams Right”, Harvard Business Review December, 2014, Keith Ferrazzi

Trust down 83%

Innovation down 93%

Satisfaction down 80%

Performance down 50%

BENCHMARKING A TPA PRACTICE

OBJECTIVE: To provide meaningful benchmarks to measure the key business indicators.

- Enhancing Profitability
- Achieving Excellence in Client Service
- Building Human Capital

Benchmarking is an essential component to measure various aspects of a business. Goal setting, minimum and maximum benchmarks, averages and performance measurement are key components. These benchmarks tell the relative health of the company against itself and its peers. They provide warning signs, as well as reward signs, to initiate responsive actions.

This paper was initially developed several years ago with the strong assistance and collaboration of Stephen Dobrow, President of Primark Benefits.

Benchmarking is different than cash management. Cash is king for any business. Positive cash flow and the management of cash are additional critical tools. They are more immediate in scope and proper resources must be maintained.

Similarly, capital budgets are needed to expand a business, provide for obsolescence and keep pace with technology.

Key Financial Benchmarks

There are a few key benchmarks that allow us to quickly view our financial health quickly. They are:

Benchmark	**Frequency**	**Value Range**		
		Min.	**b/m**	**Max.**
1. Revenue/Monthly Expenses	weekly	.75	1.25	1.75
2. Current Billing/Monthly Expenses	weekly	.75	1.25	1.75
3. Reserve/Monthly Expenses	monthly	.75	1.5	3.0
4. Ratio of Revenue/Staff	monthly	$100,000	$125,000	$200,000
5. Staffing/Case Loads	monthly	1300 hrs.	1800 hrs.	2200 hrs.
6. Ratio of Payroll/Gross Revenues	monthly	55%	50%	45%
7. Average Revenue/Plan	monthly	$3,000	$4,000	$5,000
8. Average Length of Receivables	weekly	35	45	55
9. % of Receivables over 45 days/Total Receivables	monthly	0%	15%	25%

In addition, measurements must be made from revenue per salary for each production person. The production of each individual should also be measured as a percentage of time used as related to the total 2080 hours available.

The key to measuring all of this is: What will you do with the information once you have it? Will it cause you, as a manager, to make a change right away? And if not, you are probably getting it too frequently.

A daily or "as changed" report on a credit hold list may be helpful. Do you work on a client's plan if they are on credit hold? A credit hold report should go out to the administrators so that your firm does not compound the problem.

SPECIFIC BENCHMARKS:

Receivables/Monthly Expenses:

Ratios of receivables vs. monthly expenses are a necessary indication for cash flow management. The billing produced over the last few months provides the cash flow to meet expenses. This is a daily snapshot that should be averaged over the week, month, quarter and year to date basis, with some comparisons to last year. The plotting of this benchmark provides the relative health of the business, identifies periods of poor cash flow and surplus cash flow so that reserves can be strengthened for the weaker periods.

Suggested minimums should be at 75% of monthly expenses at the low cycles of the year, targeted result at 125% of expenses and not to exceed 175% of expenses. You may want to breakout ordinary and extraordinary for these reports. High receivables indicate a lack of collection and are as dangerous as low receivables.

Current Billing:

How do you bill? Consider moderating the spikes of your billing process. Have you considered monthly billing on a service contract? If payments stop then so do services. This also smooth's out cash flow. There should be a level of special project work and additional charges providing the higher amounts. Your monthly billing will have periodic spikes at the end or beginning of each quarter due to the larger plans that pay fees from the assets quarterly. Monthly pay-as-you-go billing integrated with ACH, PayPal, or credit cards means that a TPA firm has far less of an A/R issue and sometimes, no A/R issue. You will still experience some collection activity for clients who stop paying or because of special projects, but A/R is a much lower priority to your firm.

The range of the monthly billing will need to be measured for the first year of 2015 in order to determine the range of acceptability. Beginning benchmark ranges are a minimum of 75% of monthly expenses, an expected of 125% of monthly expenses and a high mark of 175% of monthly expenses. High ratios may indicate pre-billing which should necessitate higher reserve ratios in following months.

Reserves/Monthly Expenses:

This is a critical ratio that provides the financial security of the firm when billing and work production is low. Ideally, we should have a 3 times multiple of reserve to monthly billing.

Higher reserves mean greater taxable retained earnings and low bonus compensation. This should be measured weekly and monthly with rolling averages established.

Ratio of Revenue/Staff:

The ratio of revenue/staff numbers provides you with benchmarks to measure the effectiveness of your associates, provides guidance for compensation levels, determines profitability of workload and allows you to compare yourselves with other firms.

The benchmark should be at a multiple of 3.5 billings to salary per associate. Clearly, administration personnel will have lower ratios, but should have reasonable billings. With more assistants, the professional should have higher ratios. The goal is to have the highest ratio of billings to salary. Productivity gains can easily be measured from this benchmark. As capital expenditures are made for efficiency, this benchmark will show results. Capital expenditures for product enhancements should show revenue increases, thereby maintaining a stabilized measurement tool.

Staffing/Case Load Work Capacity Reports:

These reports are essential for determining staffing levels. As clients and plans are gained or lost, these reports give you a measurement tool for each Client Manager's workload. You can determine the best Client Manager to handle the plan, determine when a new team needs to be established or eliminated. Benchmarks should have a minimum of 1500 hours assigned, maximum of 2200 hours, depending upon the number of assistants. Low numbers may be necessary if additional consulting work is distributed disproportionately to specific teams. An average case load that provides workloads below 1300 hours means a team should be eliminated.

Ratio of Payroll to Total Revenue:

The key benchmark is a common tool used by professional firms. Ideally, a 50% lower ratio is necessary to remain profitable. This tool allows us to determine if pricing and compensation are in line, if staffing exceeds regional numbers. A 60% ratio is very dangerous.

The smaller the firm, the higher the ratio at times so these benchmarks may need to be adjusted.

Average Revenue per Plan:

Average revenue per plan allows you to determine the ideal market for your business model.   You can measure the expected revenue from special projects, thereby helping to determine needs. This also can help you measure the types and sizes of clients you are attracting and help you provide better underwriting standards. You will be able to measure the contractual average revenue and additional average revenues per plan.

Outliers, such as your largest plans, will skew the results, as will the one man plans, however, this benchmark can offer good insight into the expansion of your business.

Average Length of Receivables:

This benchmark tells us how our collection process is going and, therefore, helps us monitor and measure cash flow. In periods of economic recovery and bullish markets, this figure should go down. In periods of economic downturns, we can expect this to go up. Again, this is an essential cash management tool that tells you when you need to step up your collection processes. The answer should be about 35 days, problems arise at 45 days.

Do you allow your clients to charge their services or have them automatically charged on their cards? This can be very helpful to collect. PayPal is another alternative but can be expensive. You can increase the cost to the client for these services.

% of Receivables over 45 days to Total Receivables:

Related to average length, this helps us with cash management. However, this benchmark tells us how ripe our receivables are getting. This ratio should not exceed 33%, should benchmark to 20%.

Key Client Service Indicators:

- Client Satisfaction Surveys
- Favorable letter or comments from clients
- Customers who leave and come back
- Client retention
- Customers providing referrals
- High billing and low receivables
- Through-put reports

Client Satisfaction Surveys:
Do you provided spot or systematic client satisfaction surveys? These surveys are often reviewed but little action taken based upon the results. This may be primarily due to the high marks, but also due to no accountability for the survey or for having a follow-up strategy.

On-going surveys should be provided for your product, delivery, compiling and reviewing results assigned, a team developed to handle both outliers and general trends.

Favorable Letter or Comments:
Encourage your client to write something about your business. Ask for a letter of referral. These can be framed and posted on the wall

Customers Who Leave and Come Back:
Those customers should be recognized and hailed. Your new business department must keep track of any occurrence.

Client Retention:
Client retention must be measured by each Client Manager. The reason for the loss recorded and counted, so that appropriate business decisions can be made.

Customer Referrals:
A key indicator for value added service is a referral from your customer. As deliveries are made and discussed referral should be requested. The referral should be moved over to the Sales Team for immediate action. You will need to develop compensation for the development and making of a closed referral.

High Billings and Low Receivables:
Clearly, if a customer is happy with results they normally pay quickly. A low receivable ratio coupled with high billings is a great indicator.

In order to achieve excellence in client services, you need to work on your efficiencies and on client contacts. A suggested book is "Winning Telephone Tips", by Paul R. Timin.

Through-Put Reports

What is a reasonable period of time for information to be in your office and the end product delivered? Tracking "turn around in days" on a case by case basis and aggregate by administrator is essential to meet client's expectations. Keeping track of when you receive complete information, and when you ship the package provides the necessary through-puts. This is a good productivity measure but more importantly, a client satisfaction tool.