Entrepreneur Spotlight – Bill & Tad's Excellent Adventure

By Arthur J. "Tad" Verney

Editor's Note: As a relative newcomer to this business of being a small consultant, I have found it helpful to hear the stories of others who have been successful and to learn from their experience. I've noticed some themes that seem to be repeated in every story of a consulting actuary (or any other entrepreneur) who has made it work:

1) It takes longer than you expect to start making money, so have plenty of financial resources in reserve.
2) Marketing is your most important work and where you should spend the most time, although actuaries often would prefer to avoid this.
3) Expect the unexpected – be flexible and learn from your mistakes, and don't assume these changes to the plan mean that your venture is a failure.
4) While these stories often sound like they hinge on a lucky break, when you dig deeper these breaks are always the result of smart thinking about the business plan and hard work – things you can control.

The experiences of Tad Verney and Bill Bossi, founders of Disability Insurance Specialists in Bloomfield, Conn, are good examples of these points. So I talked with Tad to get some details, in what I hope will be the first of several such profiles in *The Independent Consultant*.

The Independent Consultant: *Tell me the history of Disability Insurance Specialists – how you started and how you got where you are today.*

Tad Verney: DISpecialists opened its doors on October 15, 1996. Bill Bossi and I founded the company and hired one employee to start with us. After 16- to 18-year careers with major insurance companies, Bill and I had spent the preceding three years providing consulting services to a leading disability insurance carrier. We had observed the deterioration in financial results for carriers in the DI market, and watched the consolidation of the industry as firms merged, were taken over, or exited the business. Our business premise was that the smaller DI carriers needed technical expertise to be competitive and profitable in this market and that building that expertise in-house could be very expensive. We also anticipated that continued market demand for coverage would eventually lead to new entrants. We proposed to provide the expertise to allow carriers to compete with the cream of the crop without the investment or critical mass necessary to build the expertise in-house.

Our first significant opportunity presented itself in December. We bid on taking over the claim administration of a block of disability claims. We burned the midnight oil assembling a proposal that ran roughly 60 pages, providing extensive detail on the services we would provide and the results we expected to achieve. Our reward for our efforts was the feedback that our proposal was by far the most comprehensive, well-thought-out, and attractive of the several that had been received by our prospect. Unfortunately, we were deemed to be too new and untested to be awarded the contract. It was a discouraging result, but we'd learned the lesson that no matter how perfect we may feel we are for a business opportunity, there are many factors beyond our control that can sway a deal. One key to success is being resilient – when one opportunity is lost, move on to the next.

Our first paying customer was landed in February 1997, giving us an assignment to review a disability product they reinsured. I don't recall how we stumbled upon that first assignment. The $1,250 check was small and had taken some time to land, but we were excited to be on our way.

At that point, we embarked on a complementary strategy which we called our MGU strategy – building innovative products that we would market through independent distribution channels, administer on our systems, and write on partner company paper with the support of a reinsurer to assume some of the risk. If the market would not come to use, we would go to the market. We devoted resources to developing what we thought would be our hallmark product – an integrated combination DI and long-term care product. We hired a pricing actuary at the astronomical rate of $10 per hour - obviously she was attracted by the long term prospects of working with us, not the chance to get rich quick. We designed and priced our product, and with the help of a reinsurance intermediary, set out to attract partners to write and reinsure the product. This ultimately did two beneficial things for us . We found partners to help us bring our product to market, and we established relationships with organizations that could help us market our other services. Ultimately, we developed two versions of our flagship product, one for a company to write, administer, and sell through their distribution channels. The other would be written by a third-party carrier but administered by us and sold through distribution sources that we arranged.

In the meantime we had some additional good fortune. At this point, we were more than two years into our venture and our personal resources were running low. With our strategy for building and marketing innovative product we were able to attract an investment by one of our reinsurance partners. This allowed us to accelerate the development of our product and relieved us of the need to develop immediate revenue sources. We proceeded with the development of our DI/LTC products and purchased an administrative system to service our products. We continued to take on assignments for product development and were also able to grow our claim services. After launching our DI/LTC products, we also developed two new MGU products, a worksite DI product and a credit DI product to sell through banks. We began to market each of our three MGU products. We were optimistic that we were on our way, some three years into the adventure.

At this point, our ship ran into rocky seas. Our resources were running low, and our investor wanted us to cut back on the MGU strategy while we built short-term revenues through our consulting services. We believed that our long-term success hinged on the MGU strategy. After much discussion, some of which became somewhat heated, we mutually agreed with our partner to part ways. We negotiated a favorable repurchase of the share of the company we had sold to them and agreed to part as friends. We felt good to be independent again, but our financial condition was cause for concern. We continued to implement our strategies, while gaining more claim adjudication work. We were finally breaking even, but only because Bill and I were working for slightly better than minimum wage.

The next shock occurred when we were unable to get approval for our DI/LTC product in our client company's domicile state, New York. This caused our client to withdraw support for the product. That blow was followed by our MGU writing carrier crashing from its A-rating into receivership. We were suddenly, at least temporarily, out of the MGU business. We were discouraged and struck by the irony of the situation – our reinsurer partner had argued for us to exit the MGU business while we built our financial resources. We had held to our guns and lost their support, but we were now out of the business due to a series of unfortunate events.

Fortunately, our claim service business continued to grow, and we reached a level of profitability that would allow us to continue to operate – a mere five years into our venture. In the four years since, we have managed to grow our claim operations and have completed a variety of consulting assignments, from product development, to strategic and operational reviews, to expert witness work. Our staff has grown to a total of 35, many of whom are claim adjudicators. From time to time we run across an opportunity that has the potential to catapult us to a new level of success. So far, we have not brought any of these to fruition, but someday one will land (a healthy dose of optimism is essential for an entrepreneur). Until then, we continue to enjoy the rewards and the challenges of being small businessmen.

TIC: *How did you determine that there was a real opportunity that you were willing to bet on?*

Tad: We were comfortable with our analysis – hey, we're actuaries. We had developed our war chests from our corporate days and our consulting business, and were ready to give it a try. We figured that if it failed, we could always return to corporate America.

TIC: *Some practical questions: How do you generate leads and grow your business? How do you differentiate yourselves, especially to compete with bigger firms? And how do you manage the tight budget required in a smaller company – for meetings & seminars, staff support functions, etc?*

Tad: Over the years we have built a network of industry resources who know our work and the value we bring to our customers. We get referral work from our existing customers, and we see opportunities from partners we have worked with – reinsurers, intermediaries, other consulting firms or TPAs. We attend industry meetings, speaking formally and informally with people about our products and services. We have recently appointed a head of business development to track, manage, and generate sales opportunities.

To compete with larger firms Bill and I sell ourselves and our specific skills. We pride ourselves on seeing the services we provide from our customers' eyes. We communicate clearly and openly. We succeed in marketing when prospects are impressed by our knowledge, our clarity of thought and expression, our flexibility in meeting their needs, and, of course, our price. And we deliver on what we say we will do.

We manage our expenses very tightly. If it doesn't directly support a revenue stream, it gets great scrutiny. Because we are small, we are able to avoid some expenses that larger firms fund; for example, human resource departments (we are the HR dept), administrative assistants and receptionists (we have none), and corporate oversight departments (we do the oversight). We book our own travel and stay in modest accommodations. We minimize overhead - for example, our employees track their own hours and vacation time. We are very efficient with technology; we have built many of our own systems. And we spend wisely on equipment, like buying $900 copiers off of eBay rather than contracting with a vendor for copy service at $200 per month.

TIC: *What things turned out as you expected and what did not?*

Tad: First, the not: Things have certainly developed more slowly than we had envisioned. The nature of our business is not quite what we had thought it would be. We thought we would be managing blocks of business, ours and that of our clients. Instead, most of our efforts are devoted to short-term assignments or claim management. We still pursue block management opportunities in the hopes of solidifying our longer-term revenue stream.

Nevertheless, we have succeeded in our plan to build a company where people work hard, strive to excel, generate high quality customer service, and enjoy doing it. We have succeeded in generating superior performance for our clients. We've done well in getting repeat business from our customers. And we've managed to sustain the dream to the point that we don't expect to ever return to the corporate environment.

TIC: *What were the smartest and dumbest things you did, and what advice would you give others who are starting a business?*

Tad: Our smartest move was to align early on with partners that could help market our services. Our dumbest was attempting to be too creative and expecting to move the market with our innovative product. We also focused on the consumer and learned the hard lesson that in our business producers control sales and must be treated as customers. Although we continue to believe that our DI/LTC product has great merit, we should have started with something less radical and more easily accepted by the producers.

The key pieces of advice I would share with others are:

- Be prepared for it to take longer than planned to succeed. Capitalize it with sufficient resources and be prepared to stick with it while you build it to maturity.
- Invest in your marketing methods, whatever they may be. Building a client base is crucial.
- Don't succumb to pressure to grow market share at the expense of sound pricing of products and services.
- Stick with what you believe in. Even as we have struggled through difficult times, we were rewarded by what we were doing because we believed in it.
- Do whatever is necessary to provide exceptional value to your customers. If you are the new kid on the block, or a lesser-known name, you need to provide extra value. And your current customers are likely to be your best source of new business.

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