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How Robin Raina readied Ebix for a crisis, then made the needed tweaks to get through

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Robin Raina, Chairman, President and CEO, Ebix Inc.

Robin Raina acknowledges that the last four years provided a stern test to his prudent leadership throughout the last 13 years as he turned Ebix Inc. into a highly profitable, efficient company designed to weather tough times.

The recession hit the insurance industry hard, putting many insurers out of business and forcing many others to tighten their belts drastically. As a result, companies that supply goods and services to the insurance industry felt the pinch too.

The Atlanta-based supplier of software and e-commerce services to insurers, weathered the storm better than most. Ebix made it through — not unscathed but a stronger, wiser company whose leaders have grown and learned a lot in the process.

“The insurance industry wasn’t prepared for the economic downturn,” says Raina, chairman, president and CEO. “When people are not able to pay their mortgage, insurance becomes a luxury, so insurance companies were suddenly having a hard time. As a result, they tightened their purses and started spending less money on new projects, new initiatives, new distribution media.”

At the same time that the recession forced insurers to start curtailing their spending, a handful of other developments made life tougher still for Ebix. The health reform movement put even more downward pressure on the insurance industry. Some insurance companies declared bankruptcy. Many insurers started getting acquired by other companies, shrinking Ebix’s pool of potential customers even further.

“The health reform movement created a lot of inertia in the insurance industry,” Raina says. “Around the same time, a lot of acquisitions started happening. A lot companies in the financial world — the banks who were our clients, the insurance companies who were our clients — got acquired. And some of them went into bankruptcy mode. They had lots of difficulties."

A large part of Ebix's business comes from setting up exchanges to streamline insurance transactions. Thus, insurance transactions are the lifeblood of Ebix's business.

"The more policies that get written, the more transactions we do and the more money we make," Raina says. "It's as simple as that. And when the insurance industry shrinks, less policies are written, less prospects are offered insurance, and Ebix's exchanges are utilized less. So you have a direct impact — an inhibiting factor in terms of your revenue growth.

"That was the biggest challenge we faced. In spite of the state of the economy, and at a time when the insurance market was shrinking, we had to somehow keep the company growing and still report profitable results."

Lay the groundwork

To a great extent, Raina had been preparing Ebix from the day he became CEO in 1999 for the economic storm that hit in 2008.

"We didn't just sit down and create a plan on how to respond when this thing happened in '08," he says. "To me, that's a mistake. Companies have to be ready. Companies that are designed to be run when the economy is strong are not good companies, in my view. You have to have systems in place and the fundamental strength to still do well if the economy goes south.

"For us, this journey of still being able to do well in spite of the economy didn't happen because we put our heads together when the crisis hit and said, 'Let's figure this out.' We were always prepared for it."

How did Raina and his leadership team members build Ebix to weather the recession? The ways were many. They made prudent, careful investments. They avoided growth for growth's sake. They went after new business when it made sense to do so, and had the restraint to pull back when it didn't. They streamlined and centralized many of Ebix's business processes. They converted the company to paperless operations, and taught its customers to do the same.

"It's a series of things you have to be doing," Raina says. "The fundamental strength of Ebix has always been that we created the systems so that our business scales up as our revenue scales up. And we run a very common-sense kind of business where anything we do has to come up with a particular model operating margin."

Fiscal restraint, careful investing and caution in executing big transactions have been key elements in Ebix's leaders' ability to build resilience into the company's design.

"Many people underestimate the value of financial discipline," Raina says. "If you have a business model where you say you want 40 percent operating margins out of everything you do, and you run into a situation where you're offered a big revenue deal but it will take your margin down quite a bit, then don't do it.

"Focus on what you evolved as your business model. Have the courage and the financial discipline to be able to say no to such opportunities."

In many ways, efficiency has been built into Ebix's model for years. This played a big part in the company's staying power when it ran into tough times.

"We had centralized and streamlined our business operations," Raina says. "We had converted Ebix into a paperless company, where very little paper is transacted, and taught our customers to do the same. What did that all result in? It resulted in a highly efficient company."

Make adjustments

That efficiency served Ebix well when the recession struck in 2008. Not that it made the ride entirely smooth, but it served as a base of strength, a stabilizer to enable Ebix to traverse the rough road without breaking down.

"We were well prepared, but that's not to say it was easy," Raina says. "We were able keep our head high and make it through, keep growing, stay profitable and maintain our operating margins.

"Obviously, the revenue growth becomes lesser when you go through times like these," he says. "It might not have been as good as it would have been if the economy was in good shape, but we were still able to show revenue growth."

As Ebix moved through the storm, its leaders had to make many modifications to keep the company on course. They had to make sure the company's existing revenue sources were secure. As Ebix's clients were being snapped up by acquirers, they had to convince the new owners of the value of the company's products and services. Some of Ebix's customers' budgets were cut, so there were issues of price sensitivity that had to be dealt with sensitively.

"The last four years have been an issue of doing small adjustments here and there, and restructuring certain things," Raina says. "You become more controlled than you ever were. You focus back on making sure you don't lose a single client because you know in a time like this there's a possibility that some clients might get price-sensitive, so you have to form a different plan.

"Overall, we didn't run into a lot of price sensitivity, fortunately. Our bigger issues had to do with the extent of overall budgets, and whether the clients had budgets that were sanctioned or not. We had a few exceptional cases where we had to come up with a solution for them because they had a lesser budget, and we had to somehow help them through that. So we did."

Ebix managed to find ways to retain most of its customers who were hurting financially by working within their smaller budgets for temporary periods.

"You have to look at the client, and you have a choice to make at that point," he says. "One choice is you can basically say, 'Well, I'm not going to change anything that I do.' The second way to look at it is you look at the client and say, 'Are they genuine? Do they genuinely have an issue?'

"You look at how long they've been your client, and if you think they've been a sincere client, you make a decision that this is a time for you to show that you're a true partner. You tell them, 'I'm going to work with your present budget, with a basic assurance that as you get into better times, you're going to come back to the normal level.'

"If they're willing to do that, you give them a break. That's what we did with a few of our clients because they had shown that they were true partners to us by staying with us for many years."

Diversify your business

Asked what advice he would give other CEOs facing a similar challenge, Raina says he believes it's critical to keep your business diversified and maintain your customer concentration as low as possible.

"It's important to understand that you can't have a business that is too heavily focused in any one business area or with any one client," Raina says. "This was a key learning point for us. If you step back a few years, Ebix had a fair amount of customer concentration. If you go back to 2003, 2004, we had a situation where one client accounted for 40 percent of our revenue. Today, our customer concentration is minimal. We deal with hundreds of thousands of users, and our largest client accounts for less than 2½ percent of our revenue.

"I see publicly traded companies today who are doing extremely well — at least in the stock market they're doing very well — and they have customers accounting for 52 percent of their revenue. To me, that's a bad business model. It's too risky. If one customer moves out, their entire business could be at risk. You have to diversify your business."

Raina recommends keeping your company's structural elements simple — your vision, your business model, your financial model — especially when the going gets rough.

"That's the biggest mistake I see companies make: They get carried away by their own vision," Raina says. "It's very important to have a simplified vision, a vision you can explain in a few words, in a few sentences. If it takes longer than that to explain your business model, it means it's not a good business model. I'm a firm believer in that."

It's equally important to have a straightforward financial model, according to Raina.

"You've got to have a very simple financial vision and a simplified way of making money," he says. "It really comes down to this: If you can figure out that your selling price has to be a lot higher than your cost price — if you can figure out that basic fact — then you've arrived, in my book. Many people laugh at that statement, but too many companies ignore this. You've got to get down to the basics of the business."

Lastly, Raina says that being able to learn continually and to adapt to constant change are crucial survival strategies for CEOs faced with guiding their companies through harsh economic times.

"You must keep learning all through this process," Raina says. "Lots of managers are very proud about saying, 'I came up with a vision a decade back, and that vision has worked very well.' And they stick to their vision too long sometimes.

"It's a real-time world we live in, so you have to be dynamic," he says. "You have to be ready and willing to learn, to change, to keep evolving: the way you sell, the way you deploy, the way you market, the way you host, the way you implement services.

"To me, the key issues are simplification of your vision, simplification of your business plan, being able to spell it out to your employees and your partners, and being ready to change all the time and learn from everything you do."

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THE RAINA FILE

Robin Raina

Chairman, President and CEO

Ebix Inc.

Born: Kashmir, India

Education: Bachelor's degree in industrial engineering, Thapar University, Punjab, India

What important business lesson did you learn during your time in school?

Engineering doesn't necessarily teach you everything you're going to need in terms of technical skills because times keep changing. But what engineering does teach you is an aptitude to learn. It gives you an aptitude of knowing that everything can be understood as long as you're willing to apply yourself. You don't get overawed by things because you learn how to analytically think everything through.

Do you have an overriding business philosophy that you use to guide you?

Be sincere, transparent and truthful to your customers. You have to be able to talk to your clients in a very open manner through thick and thin. If you're running into a problem, you've got to be able to tell them what it is. Today, in the new world that we live in, all the companies are trying to create recurring sources of revenue. We're trying to create annuity sources of revenue. What does that mean? That means you've got to have clients who really want to stay with you, because that's the only way you will get recurring revenue.

What traits do you think are most important for a CEO to have in order to be a successful leader?

Conviction and the ability to listen. These are key, because we're not perfect, we make mistakes every day, and people have to be able to relate to you, to talk to you, and you have to be able to listen to them. Ultimately, you make the final decisions, but you have to have the ability to listen and to digest in your mind, am I doing this wrong? Maybe they're correcting me in the right fashion. So that becomes a key.