

Questions to Consider When Buying an Agency – Part 2

In part one of this article, we discussed how analyzing your alignment with an agency is a great way to begin considering an agency acquisition's potential. Now we'll look at additional factors, including how well the culture of your agency of your agency fits with the potential acquisition, and some indicators of future success.

Performance

One of the best indicators of the future is the past. As you are assessing the potential purchase you need to look at their performance. This will also tell you a great deal about the culture of the agency. The best place to start is with retention. What is their retention? This can mean many different things, so it is important to be clear on what their current retention rate is for revenue, premium, policies in force (PIF), and customers. What type of business are they losing? Is there a trend? Are they growing? What is their growth rate over the past three years? Where is their new business coming from? What is their loss ratio? What is their revenue per employee? Do they align with yours or will the volume of work that your agency handles be a shock to their staff?

People & Relationships

The most valuable part of every agency is their people. They are the heart and soul of your business, the face of the agency and the core to the relationships. For many agency owners, taking care of their staff is one of the top priorities as they contemplate selling their agency. It is personal, their staff is considered part of their family. It is important that you take the time to understand the talent that exists, the desire to continue to work, their tolerance for change, how the team will fit together and complement each other and the culture and expectations that team operates within. To gain an understanding of this, you will need to ask about tenure, roles, accountability, compensation, expectations and the current leadership and management styles. Is the staff used to a hands-on manager, weekly sales meetings and metrics or do they work in an environment that is completely autonomous? Gaining an understanding of the people, talent and culture is one of the most important steps in an acquisition. The current owner is a key player in any acquisition, you will need to understand their expectations and willingness to work to transition their customer, carrier and staff relationships as well as their desire to continue to work. All of these details greatly impact the expected future performance, ongoing costs and ultimately the price that you may offer.

Technology & Culture

Integration of agencies and cultures will require a good understanding of the technology, processes that exist in both organizations. The staff inside an agency that operates with paper files will have a big learning curve if they are transitioning into agency that operates completely paperless. Agencies that are on the same systems can also have a much smaller learning curve but should still expect a learning curve related to the utilization of the technology or the processes and procedures that vary between the organizations. Taking an inventory of all of the technology that is utilized as well as any processes and procedures that are in place is a healthy exercise in considering the fit between the agencies.

Contracts & Agreements

In addition, you need to look at all of the contracts that are in place and how they may impact the purchase. What do the corporate documents state for both agencies, and what is the process they must go through to sell or buy an agency? Does the agency have network, cluster, aggregator relationships that could impact the sale of their agency? What is the approval process and is continued participation in that group a requirement? Does that fit with your goals, and do you have any agreements or relationships in place that will prevent you from joining or that may cause you additional fees due to your carrier relationships? Do they have referral partners that may be impacted by a transition of ownership and change the future new business leads and future performance expectations of the agency? Are their vendor commitments that will need to be satisfied?

There is a lot to consider when you are considering purchasing an agency or even a book of business, and you should expect that as you work through the process several other considerations will arise. If you stay focused on what your goals are and how this opportunity will help you achieve those goals, it will keep the process centered and focused. It is easy to fall in love with the idea of an acquisition. The more you know, the more likely you will make a strong decision that leads to a smooth transition. For more information visit www.agency-focus.com or contact Carey at carey@agency-focus.com