

Questions to Consider When Buying an Agency – Part 1

The best place to start in evaluating a potential acquisition is with you and your own agency. If you are clear on what you are looking for in an acquisition the process of evaluating opportunities becomes much more efficient and effective. Ask yourself these important questions:

- What are your current agency goals?
- How does this acquisition help you achieve those goals?

It is always best to pause and consider what you are trying to accomplish to ensure that you are able to maintain focus. An acquisition is a big undertaking, so if it is not aligned with your overall goals, it can impact your ability to achieve what you are trying to accomplish.

Here are some questions to consider before you get too deep into the process of evaluating another agency. I believe these will help you determine if the acquisition opportunity has the potential to be fit for you and your agency.

- What is your current growth plan? What would strengthen it?
- Are you trying to grow into a new geographical location? Niche? Line of Business?
- Are you looking to add a particular carrier or gain access to certain markets?
- Are you looking to expand your team and expertise? Which roles? What expertise?
- Are you looking to gain and develop future owners of your agency?
- Are there specific relationships that you are trying to develop and build?
- Are you looking to expand within your current footprint or into a new or complimentary niche?

We all know that acquisition add premium volume and revenue to your agency, but not all revenue is created equal. It is important to consider how a potential acquisition will fit into your overall plan. Once you have an idea if this potential acquisition fits into your overall plan, spend some time considering how it aligns with you and your agency. You will need to look at it from several perspectives including, geographic location, carrier and markets, current relationships and contracts, expertise, performance, customer type and behavior and most importantly culture.

Book of Business Alignment

What is the makeup of their book of business? What is the average size of their accounts? Are there any large accounts, specialized accounts, or accounts that would be at risk in a transition due to personal relationship with the current owner? Is the book heavy in personal lines, commercial lines, Life & Health? If it is heavy personal lines, what percentage is home, auto, monoline? If it is heavy commercial lines, what is their focus, and do you have the right expertise to facilitate a seamless transition of their accounts? Are there opportunities to expand and cross-sell?

Customer Alignment

What type of customers does the agency attract? Gather data on their average account size, average policies per customer, where customers they located, and how long have they been with the agency. In addition, be sure to ask questions that help you understand the customers expectations and behaviors like: How often do you talk to your customers? What percentage of your customers come into the office

for appointments? To make payments? What percentage pay online? Utilize your app or website? Expect to pay in cash? What percentage of your customers have minimum limits or are monoline customers? Asking questions like these will help you understand the fit and alignment with your agency and your practices, the gap in expectations, the need for cultural change and ultimately help you determine the risk that may exist in retaining the business.

Carrier Alignment

This is an area where alignment can make a huge impact and misalignment can do the same. What is the current carrier overlap? What will this purchase do to your volume, loss ratios, commission rates, potential contingencies, and overall revenue? For those carriers that both agencies have access to, be sure to consider how each of the agencies are accessing the carrier. Do both agencies have direct appointments or is their access through a network or aggregator? Do not assume that the shared carrier will automatically move all of the business to be written under the direct appointment, based on your volume and performance the carrier may decide otherwise.

For the carrier appointments that differ, it is exciting to consider the potential impact that gaining access can have on your agency. It may open up an opportunity to cross-sell and expand your book, but do not overlook the process you need to go through to gain access to that carrier. You will need to consider the approval process that the carrier has in appointing new agencies. You should not assume that the carrier will appoint you automatically upon the purchase of an agency. This consideration often times happens too late in the process and agencies are faced with rewriting books which is both time consuming and laborious on top of the integration activities that they are already facing.

Geographic Alignment

There is no question that our world is getting smaller, but many agencies still have large concentration of their business within a close radius of their location. It is important to consider where the agency is located, and how much of their business is local. This will help you determine the need to maintain multiple locations, the potential commute time, and how easy will it be for the team to work together and the potential synergies that may exist if this merger occurs. You will also need to consider how you will logistically manage the integration in the short-term and what the management of multiple locations will look like in the future.

The above factors are just a piece of the bigger puzzle that you should analyze during your vetting process. In part two of this article, we'll discuss some of the more "internal" factors to consider as you weigh your decision on agency acquisition. For more information visit www.agency-focus.com or contact Carey at carey@agency-focus.com