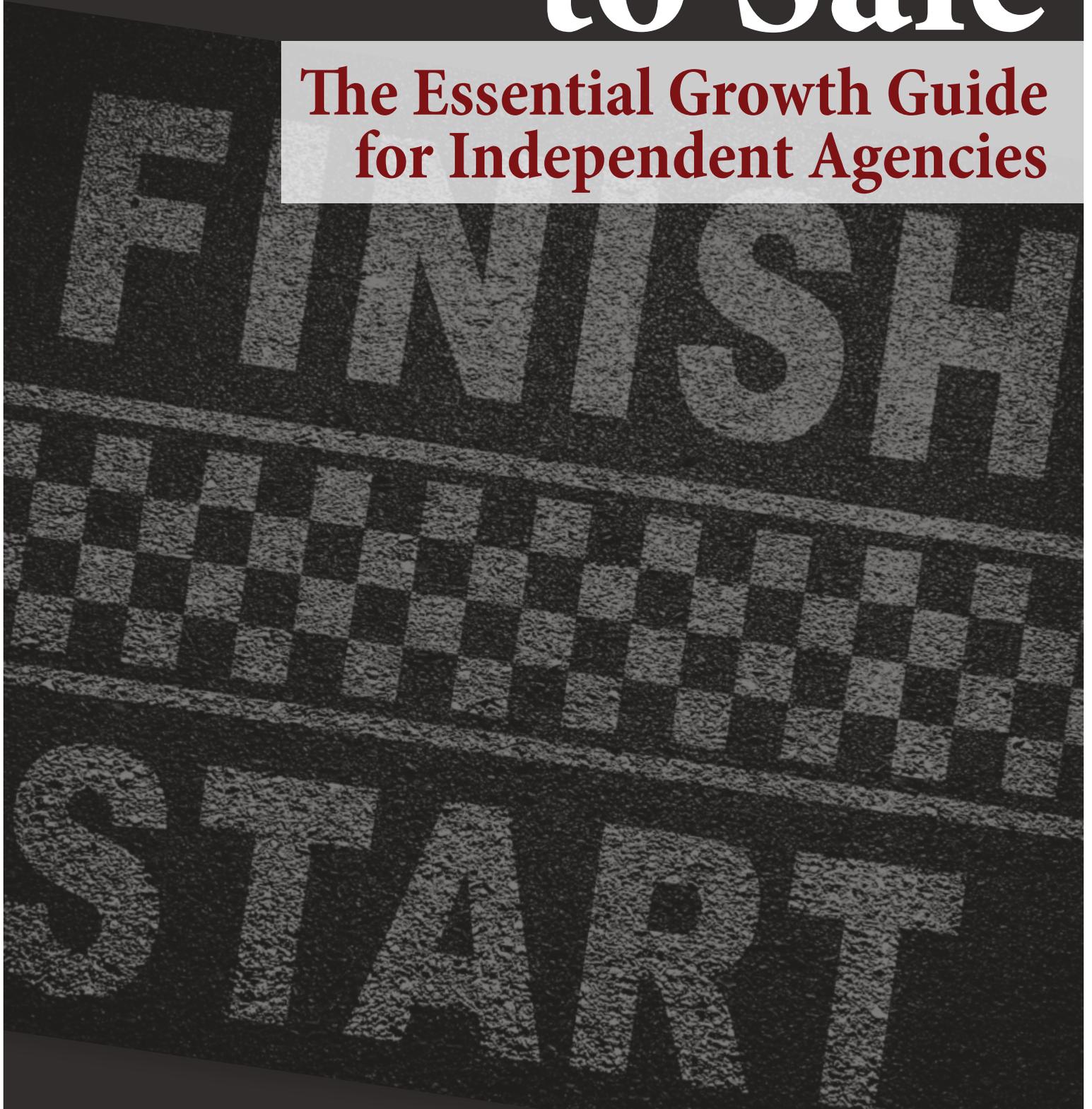


# From Start to Sale

**The Essential Growth Guide  
for Independent Agencies**





How much is your independent insurance agency worth? How much do you want it to be worth?

Your agency has an emotional value that's hard to quantify, but it also has a financial value you can calculate. Over the course of your ownership, your actions can drive that value up or drag it down.

Even if you're not thinking about selling anytime soon, conducting an agency valuation can strengthen your bottom line and support growth. In this report, you'll learn:

- Why It's Never Too Early to Start Thinking About Independent Insurance Agency Valuation
- How to Improve Your Agency's Operations to Increase Its Value
- How to Get Your Financial Records in Order
- The Importance of Setting Realistic Expectations
- What Can Go Wrong (And How to Keep It from Happening)



# Why It's Never Too Early to Start Thinking About Independent Insurance Agency Valuation

If you're just starting out or still early in your career, you may not be thinking about your agency's value yet. That's something that will become more important years down the road when you start thinking about selling your agency, or so many agents assume.

The reality is that it's never too early to start thinking about your agency's value and your eventual perpetuation or succession plan.

Sometimes life takes an unexpected turn, and you may need to sell your agency far sooner than you ever imagined. The better prepared you are, the easier it will be to get a good deal.

Even if you don't sell your agency anytime soon, being aware of your agency's value and how your decisions affect that value, can help you in the long run.

For example:

- **When you're choosing a name for your agency, are you considering how it will affect future valuation and ability to sell?** Many agents use their personal name because it's easy, or because they are understandably proud and excited, but this may decrease the agency's value when it's time to sell.
- **What about your website domain and email address?** Once again, using your name may seem easy and emotionally satisfying, but it can undermine your agency's value during a sale. Using your personal email address can be an even bigger problem, especially if it's not professional sounding.

- **Do you have a separate agency phone number?** Using your personal cell number may be easy now, but you won't want to sell it along with your agency, and that creates a hurdle. Secure a separate business cell number or a landline that can be sold with the business. It's easy to route that number to a personal cell phone.
- **What business structure are you using?** Operating as a sole proprietor may seem simple, but it doesn't provide protection, and it can complicate a future sale. An S Corp or LLC structure may be more advantageous in the long run.

Once you become established, changing these features becomes very difficult, so you need to select options that work for you now, with the future in mind.

## How Building an Agency Is Like Vacation Planning

*When you travel to Europe, you're excited about the upcoming adventures and not thinking about returning. But most people still book a return flight. You have a plan to leave before you even arrive because otherwise you risk getting stranded or having to pay exorbitant fees. Building an agency is similar. Thinking about your exit strategy from day one puts you in a stronger position once that day finally arrives.*





# How to Improve Your Agency's Operations to Increase Its Value

Whether you're planning to sell now or years from now, you can increase your agency's value by upgrading operations.

Think about how your agency is run. Then think about how an agency with a higher value is run. You may have fallen into bad habits or sloppy record-keeping that hurt your agency's value. By addressing any issues, you can increase your agency's value. Just as importantly, you'll improve your agency, and that's good for your clients, your employees and your bottom line.

“ If you look at a very, very profitable, well-run, efficient agency, it's usually reflected in a greater bottom line, which can fetch a larger price. ”

- Mike Strakhov,  
President of Smart Choice Retail

## Here are five things to examine:

- **Technology.** Consider the ideal tech stack. What do you need to boost efficiency, improve responsiveness and elevate customer experience? Look carefully at your agency management system, your CRM and your quoting processes.
- **Talent.** Adding new team members can help you take more off your plate so you can focus on growth and operations. Consider adding additional agents to help you expand into other lines. Also make sure your HR documentation is current and that all job descriptions are clearly defined. Do you have strategies and compensation in place to retain your top producers and other key people?
- **Carriers.** The right market access can help you grow and having contracts with preferred-brand carriers can also make your agency more attractive to buyers who want that access. Consider whether you need to pursue additional carrier contracts. Also review your existing contracts to make sure they're current and transferable.
- **Loss Ratio.** Carriers may decide to terminate your contract if your loss ratio stays high over a prolonged period, so this can hurt your agency. Even if that's not likely to happen, a high loss ratio can also be a red flag to potential buyers. Although some high loss ratios can be explained easily – for example, after a widespread disaster – ratios that are worse than expected for the area or line of business may be a cause for concern.
- **Workflows.** Are your workflows as efficient as possible, and could someone else step in easily? Assess your Standard Operating Procedures (SOPs). Verify that everything is clearly documented and as efficient as possible, and adjust as needed to enable an easy transfer.

# How to Get Your Financial Records in Order

Running an agency involves a lot of paperwork. Selling one requires even more. At a minimum, you'll need several years' worth of financial statements. Collect and store these safely and securely in both your office, offsite and in the cloud.

## Important documents include:

- Profit and loss reports
- Balance sheets
- Revenue by carrier
- Revenue by line of business
- Commissions
- Producer compensation and performance data
- Revenue growth
- Customer retention rates
- Book of business analysis
- Expense reports
- Debts
- Tax returns

## *Not ready to sell yet?*

Keeping these documents in order will make the process easier once you are ready – and in the meantime, you'll have all the information you need to make sure your agency is running smoothly.

Create a system to ensure that all your documents are organized, complete and up to date.

## *Thinking about selling soon?*

Review your documents to make sure everything is in order. As you go over your financial records, consider how they will look to a prospective buyer and whether there's any room for improvement.

Have you mixed personal expenses with your business operations? Implement processes to keep all expenses separate.

Do you have any unnecessary expenses? Think about eliminating them to enhance cash flow.



# The Importance of Setting Realistic Expectations

Knowing what your agency is worth can help you avoid bad offers and plan for your future.

Don't just pick a number out of the air when estimating your agency's value. Do your research to understand what a strong offer should look like.

- 1. Study the market.** The M&A landscape changes over time. Use industry sources like Big "I" and AgencyEquity to get a sense of the market, including current supply and demand and how much other agencies are selling for.
- 2. Learn how valuations work.** Determining agency value can be based on annual revenue, but this method is typically only used for smaller agencies. EBITDA (earnings before interest, taxes, depreciation and amortization) is more common for larger agencies.
- 3. Understand the types of potential buyers.** You can sell to another independent agency, or you can sell to a larger organization. There are pros and cons to each option. Consider any incentives that are offered and how the buyer will treat your brand, employees and clients after the deal, and make sure you verify everything. Some buyers will want the prior owner to stay on for a period of time to help the transition, so you have to decide if you're comfortable with that.

“ Anytime someone is contemplating selling, there's the financial component of wondering how much money a sale can produce. But there's also a huge emotional component. ”

- Mike Strakhov,  
President of Smart Choice Retail

## Who Should You Talk To?

Does the process of selling your agency seem overwhelming? Don't worry. That's to be expected.

You're an expert in insurance, but if you've never sold an agency before, you're going to need some help with the process. Trying to navigate the process on your own can cost you more in the long run, and the sooner you bring on experts, the easier it will be to avoid serious missteps.

**Here are some resources that can help you with your sale:**

- **Business financial planner.** Discuss how to optimize your agency's finances and get your records in tip-top shape.
- **Personal financial planner.** Discuss how you'll use and invest the proceeds from the sale and whether you'll have enough for your retirement.
- **Accountant.** Discuss the tax implications of the sale and smart tax strategies.
- **Lawyer.** Discuss the structure of the deal and how to alleviate future liabilities.
- **Valuation firm.** Find out how much your agency is worth and what you can do to maximize that value.
- **Consultants.** A consultant with M&A experience can help you navigate issues like negotiations and nondisclosure agreements.
- **Network.** See what resources and support your insurance network offers.

# What Can Go Wrong

## (And How to Keep It from Happening)



You want your sale to go as smoothly as possible. To make sure this happens, don't just cross your fingers. Understand how things can go wrong so you can take proactive steps to avoid problems. Here are two disaster scenarios to avoid.

### Disaster One: The Devil Is in the Details

You sell your agency and think everything is settled. Then you hear from the buyer, who's furious because operations are not as expected. Maybe there's a problem with the lease, and the buyer is going to have to relocate immediately. Maybe the client files are disorganized or incomplete. Regardless, there's a problem, and now it's your problem because the buyer is suing you.

How can you avoid this? First, you need to get everything as organized as possible before you put your agency up for sale.

Second, be transparent. If there are any potential problems, adequate disclosure can protect you from litigation. Work with a consultant and lawyer to understand your responsibilities.

### Disaster Two: The Family Feud

If your agency is a partnership or a family business, you're not the only one who will have strong opinions about how a sale should proceed, including when it should happen and who should get to buy.

Family feuds can get ugly fast, especially when large amounts of money are on the line or you're dealing with multigenerational legacies.

In some cases, other people may have the power to veto your decisions because they share ownership. In other cases, they may not have an actual say in the matter, legally speaking, but disputes can still make family gatherings unpleasant.

How can you avoid this? If other people have an emotional or legal stake in the agency, avoid hitting them with surprise decisions. Be open and transparent about your plans from day one. Also make sure your paperwork is in order and that legal ownership is clearly defined.

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## What Do You Want Out of a Sale?

When you decide to sell your agency, there are two basic mindsets you can take.

- **Take the money and run.** Agents who adopt this mindset view their role in the agency as finished. They want to get as much money from the sale as possible. What happens to the agency after that is not their top concern.
- **Build a legacy.** Agents who adopt this mindset want to ensure that the agency's customers and employees are taken care of, and they may want the agency name and operations to persist. They may accept a smaller offer to ensure this.

Neither approach is right or wrong, but it's important to reflect on what you want so you can reach a satisfying deal. If you're acquiring an agency, it's also important to know what kind of deal you want as a buyer and whether the seller is a good fit.

## What Do Sellers Regret?

- **Selling too early.** You may think you'll get enough money to cover retirement, but retirement can last a long time, and taxes and inflation can chip away at your nest egg. Some retired agency owners wish they would have worked five or ten more years.
- **Missing out on deferred payments.** Some sales involve a payment at closing as well as additional payments contingent on certain responsibilities. Agents who lose focus after the sale can fail to meet these responsibilities, resulting in significant financial loss.
- **Inadequately planning for your life after insurance.** Some agents dream of a perfect retirement, but reality can be more complicated. Think about how you want to spend your time and how much money you'll really need. Some retired agency owners discover that they feel bored, or they miss the sense of purpose they once had as an agency owner.
- **Staying on, under new leadership.** "If you are a seller and you stay on with the agency after the sale closes, you will probably have a boss, an employer, rules, and other limitations on your decisions and control that are completely foreign compared to how you ran the agency in the past. That can create some seller's remorse," Strakhov explains.



## How Smart Choice Adds Value

The sale of your agency is a big deal, and you only have one chance to get it right. Advance preparation can help you maximize your agency's value and avoid decisions you may come to regret.

Here at Smart Choice, we help independent agency owners build on their existing value, create additional value, and access resources so they can grow. We also acquire independent agencies, rewarding what you've built and supporting what's next.

We have the experience to provide a seamless conversion for your clients and employees – with a high percentage of both customers and staff being retained after a merger. We are also uniquely qualified to expand your business.

When you partner with us you can rest assured that the agency you created will not only endure but also will grow and thrive.