

Buy, Expand, Sell: What's Your Best Strategy for Success?

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In today's uncertain marketplace, you may be re-evaluating your plans for the future. To jump-start revenues and foster long-term success, you'll need to determine the best course of action for your practice – and that could include growing organically, acquiring another practice, or selling to another firm.

Whatever path you choose, it pays to act strategically rather than out of emotion and fear. Start by assessing your business' capabilities, and then take a hard look at each of the three options below.

1. Grow organically

Building your practice the organic way — through referrals, marketing, and pounding the pavement — has become increasingly challenging. Today, carriers prefer to deal with larger agencies and tend to offer them preferred rates and terms. Most experts predict that organic growth rates will continue to fall, lowering revenues for the average agent practice.

Key questions to ask:

- Which lines of business would you like to expand?
- Have you quantified the revenue potential available within specific markets?
- Do you have enough capital to invest in marketing, technology, staffing, and other areas?

2. Purchase another agency

Many agency principals who never considered themselves buyers are now learning how acquisitions can propel their growth beyond what they thought was possible. The recent drop in average agency valuations has created the most attractive buyer's market in decades. And experts predict that many smaller agencies will look to be acquired over the next few years.

Key questions to ask:

- Have you assessed your business model, growth strategy, capital requirements, and forecasted cash flow?
- Do you have enough cash to cover the costs of purchase and transition?
- Will you keep the acquired agency open as a branch office or consolidate its book into your current operation?
- Have you reviewed the other agency's book of business to determine factors such as client retention, types of clients, loss ratios, carrier contracts, and carrier persistency?

3. Sell to another agency

Selling your agency to another company can be scary, especially if you've put your heart and soul into building your business. Be sure you have a well-conceived exit strategy and understand that prospective buyers often value an agency based on projected earnings, not commissions, because they expect to cover debt service and earn a fair return on their investment.

Key questions to ask:

- What percentage of your book will you be able to retain after the consolidation?
- At what capacity do you intend to stay involved in the agency's operations?
- Are you emotionally prepared for losing much of the control of your agency's operations?

There comes a time in many agents' professional lives when they look toward growth, both individually and in terms of their practice. If you have your own practice, and you're at a crossroads, growing, expanding, and selling could be viable options for you. Make sure you take the step that's best for you and your clients, and success will follow.

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