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I'm outta here

Plan now to maximize your agency's value

It is in an insurance agency owner's best interest to focus on a long-term strategy to increase the value of his or her agency years before the person wants to retire. It is advisable to start planning to transition and exit the agency at least five years before the owner wants to sell it. This will give the owner the time needed to maximize the value of the agency.

Whether you want to transfer the ownership of your agency to a family member; sell the business to a key employee(s) or a third party; or become a passive owner in retirement, you need time to prepare. Agency owners who wait until the last minute may find that they cannot make enough money on the sale to support their desired lifestyle in retirement. Or, they are forced to work longer than they want to get the agency ready to sell at a higher value.

Decide on the right path for you

Before you start to plan to sell the agency, you need to consider your objectives, the value of the agency, and the tax consequences of your exit strategy. Begin by asking yourself these five questions: 1. When do I want to leave the agency or transition out? 2. How much money will my spouse and I need to retire? 3. Who is the best candidate(s) to buy my agency?; 4. Do I want the agency to stay in the family?; and 5. Do I want to remain involved in the agency?

Depending on the answers to the above questions, you may decide on one path over another. For example, you may want to transfer the agency for cash, but do not feel that selling to a third party is in your agency's best interest. In this case, you might decide that an Employee Stock Ownership Plan or carefully designed sale to a key employee group or family members is the best exit route. External influences including business, market and financial conditions may make selling to a third party impossible at the price you want.

Once you decide on your objectives and motives, you must determine the value of your agency and its marketability. You should engage a merger-and-acquisition advisory or business valuation firm that is familiar with the insurance industry to assist in the performance of the valuation of the agency. Usually, this analysis provides direction and can eliminate potential exit paths. For example, if the value of the agency is high, but market conditions are not favorable, selling to a third party could be out of the question. Instead, selling to an "insider" may be more practical.

Evaluate the tax consequences and strategies of your various exit paths. Many tax planning strategies require years to implement fully. They also may be linked to the entity or person to whom you wish to transfer the agency.

Delegate to key personnel

Agencies that rely too much on the owner(s) to function successfully will sell for less money than those with a good management team in place. Buyers place a lot of emphasis on how well the company will be able to function when the owner(s) is no longer active in the day-to-day operations of the agency. This is especially true when the owner(s) writes most of the new policies and/or when major client relationships are too closely tied to the owner(s).

Put a client transition plan in place years before the sale. Start by identifying the best person to work with the client. Keep in mind the client's age (the agent should be 10 years plus or minus the client), demeanor and other characteristics when deciding on which agent to transition the client. Take the time to introduce the new agent and gradually turn more responsibility for the client relationship to the agent. In the best-case scenario, you should be "hands-off" at least one year before you retire to ensure that the agent is handling the relationship well and the client is happy.

Assemble your transition team

Make sure that you assemble the right team of advisers with experience selling insurance agencies to work with you through the process. Include transition and estate planning attorneys, a certified public accountant, investment adviser and other key consultants such as a merger-and-acquisition specialist or business valuation expert. It is important to involve all of your advisers in strategy meetings to ensure everyone is on the same page and in agreement with the direction you want to take.

It is equally important to include family members who are working at your agency in the planning process. Getting their buy-in on your succession-and-exit plan can ensure a smooth transition of ownership. While you should listen to their concerns and take in account their priorities, keep in mind that what you do should be based on the best interests of the company and not the family. It is never a good idea to choose a successor based on the personal relationship you have with that person. He or she may not have the skill set and temperament to be in a leadership position. Instead, pick the most qualified person(s) who has a vested interest in the future of the agency and shares your vision for the company.

Plan for the timing of the sale

The best time to sell your agency is when its revenues and profits are on the upswing; the economy is good; interest rates are low; and tax rates are favorable. Focus more on profitability than gross revenue when you are preparing for a transition and exit. Your bottom-line cash flow is one of the most important factors in determining the value of your business.

Focus on value drivers

There are six main strategies or value drivers that you should implement at least five years prior to making a move. They include:

No. 1: Build a stable and motivated management team. Savvy buyers know that an effective management team will increase the likelihood that your agency will continue to be successful and profitable after the sale. Without a strong management team, it may be difficult to sell your agency to a third party or transition ownership to an insider. Consider an incentive compensation program based on company performance to entice key employees to stay with the agency. Employees can earn cash or stock options for hitting performance goals. An effective incentive plan will provide an annual bonus or payment shortly after it is earned, as well as deferred compensation with continual vesting. Key employees will be more likely to stay with the agency after the sale and sign a noncompete and nonsolicitation agreement if they benefit from a continual vesting program. It also will help you to enforce confidentiality agreements.

No. 2: Develop operating systems that substantially improve cash flow. Develop the systems and procedures to operate efficiently so you can generate revenue, control expenses and create cash flow. Consider innovative technologies to streamline operations, manage workflow, track progress and measure outcomes. Look to develop systems to help identify profit and loss centers so you can determine where to focus efforts for future growth. Buyers will look at your business practices to ensure the agency can be maintained profitably after the sale.

No. 3: Sustain a solid, diversified base of clients. Typically, buyers look for a customer base where no single client accounts for more than 10 percent of total sales. Too much reliance on a single or small group of clients can be problematic. If most of your business comes from a handful of clients, consider ramping up your business development activities and investing in additional capacity.

No. 4: Implement a realistic and achievable growth strategy. Having realistic and achievable growth goals typically will increase the value of your agency. Invest the time to write a business and marketing plan focused on the future growth of your agency and how you will obtain your goals. Include information on industry and market trends; target market demographics and psychographics; buyer personas; demand for your products and services; and new product lines and growth strategies, including possible acquisitions and joint ventures.

No. 5: Develop effective financial controls. Financial controls are critical to the success of any business. Effective internal controls will help you to manage and safeguard your agency's assets. Your financial statements tell a powerful story about your agency. Buyers want proof that your agency has been, and continues to be, profitable. Consider investing in an audit to validate for a buyer that your historical and current financial statements are in compliance with generally accepted accounting principles and your financial controls are adequate.

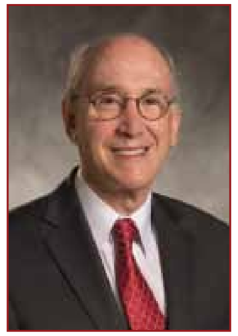
No. 6: Have a stable and improving cash flow. You can start to increase cash flow by focusing on ways to operate your agency more efficiently by increasing productivity and decreasing costs. It is imperative to invest in accounts receivable and accounts payable management to ensure that cash inflows are more than sufficient to cover cash outflows. Buyers like seeing that an agency can meet operating, payroll and other expenses without relying on a loan or line of credit.

Benefits of a planned exit

Strategically planning your exit from the agency will allow you to maximize the value you receive from your business. Selling your business usually is the largest financial, and one of the most emotional, events in an agency owner's life. Furthermore, in the unfortunate circumstance that you become disabled or pass away, your family will receive what you intended for them to have. You will have peace-of-mind by knowing that you did everything possible to protect your agency and loved ones.

Selling your agency can be emotional. Think of it as an investment that is no different than if you bought stock in a public company. Try to stay objective, keep in control and minimize your emotional attachment to the agency. You worked hard to build equity in your agency. Now is the time to reap the rewards and benefit from years of hard work.

You only have one chance to get this right. Exit and transition planning can help you to cash out at the right price.



Klein is a partner with Klatzkin, a New Jersey-based accounting and advisory firm. He has been advising business owners on succession, exit planning and the sale of their business for more than 40 years. Klein has represented sellers who have sold to Fortune 500 and private equity companies, as well as key employees and family members. Reach him at (609) 337-1986 or sklein@klatzkin.com.

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