

Get in the Game

Prepare your business to acquire

Over the years, I have spoken with hundreds of insurance agents interested in purchasing an agency. The size and backgrounds of these hopeful acquirers have run the gamut; insurance veterans ready to break into the world of ownership, well-established agencies looking to expand their footprint, and large firms who have completed several purchases. No matter the size or experience level, you can set yourself up for the best possibility of success by answering the following questions before stepping up to the plate to take a swing at buying an agency.

Have you considered all of the available options?

Naturally everyone wants to acquire a multimillion dollar firm, at a rock-bottom price, with a great staff and extensive carrier list that immediately vaults them into the upper echelon of agents. If you are set on purchasing this type of operation, be prepared. In today's M&A market, you will need to fend off several other suitors and pay a premium for the company. You also could end up empty-handed after spending countless hours and resources searching for these companies, reviewing documentation, and submitting offers only to be told another buyer swooped in and outbid you. It is a story I have heard repeated many times the past few years from large, experienced buyers. Many are puzzled why they are now struggling to complete for the types of deals they have bought in the past. Fortunately there are other acquisition strategies that have the potential to be just as fruitful. Considering a few other options can help increase your success rate in buying another business.

Reevaluate your size requirements

Instead of only looking at businesses at a certain commission size, try dropping a level or two and completing multiple deals to get you to the same acquired revenue figure. I have had many clients who are serial acquirers find great success with this route. A nice side bonus is that you may find you are paying lower multiples than what you would have had to on the larger deal.

Buy only a book of business

While taking this route may not move the needle as much as you hoped when you were swinging for the fences, this type of acquisition can often end up being the most profitable for an acquirer. In this scenario you should be able to fold the seller's book right into your current operation and not have to absorb the additional overhead costs of another physical location.

Is your house in order?

If you immediately found yourself answering, "well of course it is" take a few minutes and dig a little deeper. I often think our house looks fine but my wife's keen eye can always spot the dust on the desk from across the room. Do a quick self-assessment to verify you are in a good position to acquire another business.

Capabilities of your current staff

Before acquiring another operation, are you confident your current business can continue to operate at a high level if you are not there to oversee the day to day activities? Chances are good that you will spend the majority of your time in your new agency for at least 3 – 6 months after the deal is closed. What will

happen to your current company without you behind the wheel? There are only 24 hours in a day, so while working longer hours may be an option, it is a limited one and your performance could suffer by trying to take on too much. If you don't have someone who could take on several of your current responsibilities, start cultivating that person now. You could get lucky and find a seller who has a superstar office manager who allows you to simply oversee the new business, but why not have that situation already in place within your own agency?

Technology

Is your current management system and accounting software easily capable of integrating the seller's book of business and financials? Some of the ease of integration will depend on what the seller currently has in place, but be sure your agency isn't the weak link. Think about the kind of information you will want to see from the seller during due diligence as well as the reports you will need to track progress and retention after closing. Are you able to produce that type of documentation within your own agency right now?

What are your financial capabilities and resources?

If you have your staff and agency running like a well-oiled machine and have found the perfect agency to acquire, it's time to work on the deal. Well, not quite yet. How are going to pay for your new business? Best case scenario is the seller would agree to finance the entire deal and you could pay him or her from the future commission stream. While that can happen, it is very rare and if you were in the seller's shoes, would you want to play the role of a bank? To put yourself in the best position to get a deal done, plan on having 20 percent of the purchase price in cash available to put down. You may be able to negotiate a lower down payment, but the less you put down, the more strain you will put on the agency's cash flow and thus lower the odds of receiving approval from the lender financing the deal.

Putting your strategy together

If you really want to acquire an agency, you need to put yourself in the best position possible to succeed. Take some time to evaluate what your profile as a buyer looks like to a seller, the seller's advisor or a lender. If you see some areas that need improvement, start to work on them immediately. Set aside more of your profits for a down payment, reinvest in technology or train your staff to become more efficient are all excellent ways to become a very attractive buyer.

While there is nothing wrong with pursuing a larger agency, don't narrow your search so much that you waste time and become disenchanted if you come up empty handed. Worse yet, what will happen if you find the exact agency you have been looking for but you don't have the staff, resources or financing in place to get the close and are forced to watch someone who is prepared get the deal done.

If you are ready, keeping an open mind will ensure you don't miss opportunities you may have previously passed on in pursuit of a larger agency. Some of the most successful buyers I have worked with over the last few years have embraced this approach and are reaping the rewards of their new found flexibility.

About INS Capital Group

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