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Broker Hyper-consolidation: Passing Fad? or Catalyst for Radical Change?

To our friends and clients,

Consolidation continues to be the most talked about story in our industry. For the first time in history, over 600 M&A transactions were reported in 2019 and things don't appear to be slowing down in early 2020.

With valuations at all-time highs, there are many players out there choosing to stay the course on independence. The economic concept of "opportunity cost" suggests that each these firms, by forgoing the opportunity to sell at an all-time high valuation, is actually "paying" that valuation to preserve their independence. In other words, those agencies that aren't sellers in today's market are buyers. Not long ago a client of mine explained that his leadership team had turned down a blockbuster offer to sell their agency. I laughed and said "congratulations, by turning it down you just 'paid' among the highest prices ever paid to secure your independence – you better get to work to make your investment pay off!"

1. **Hyper-consolidation is a passing fad without a significant impact.** Consolidation is largely a financial phenomenon, riding a perfect storm of low interest rates, plentiful private equity capital, strong industry performance and record valuation multiples. The money-grabbing frenzy will inevitably subside and the brokers that remain will operate much like they do today. Many who sold will regret their decision and look for an opportunity to return to the greener pastures of independence, which will continue to be the best model for attracting and retaining happy and satisfied employees, so this theory goes.
2. **Hyper-consolidation is a catalyst for radical change.** Our industry is experiencing a metamorphosis to a new and different brokerage model, where size matters more than ever before. Consolidation is an accelerator toward a world where the benefits of scale will provide a compelling competitive advantage. Independent brokers need to adapt quickly or face irrelevance.

Reagan Consulting recently hosted our [Best Practices Symposium](#), an invitation-only meeting that occurs every three years for those that qualify as the industry's top performers. Nearly 200 executives attended the symposium. When asked which of these theories they favor, a large majority - 71% - agreed with the catalyst for radical change theory.

If you find yourself in the radical change camp, you are in good company. But the real question is how are you responding to it? Is the magnitude of your response enough to ensure your firm's continued success?

In working with and observing many of the industry's top performers, here are a few questions you and your leadership team might want to consider:

- ***Who is your firm's most recent high-impact hire and who is your next one?***
- ***Is it obvious that your firm is getting younger and more diverse?***
- ***Are you developing ways to make life significantly easier for your clients?***

- ***Is your office space cool (yes, cool) and energizing?***
- ***Does your firm have a “why” that attracts and inspires the most talented members of the next generation?***
- ***Are you truly developing your next-generation leadership team by giving them an amount of responsibility that makes you uncomfortable?***
- ***Are your goals and performance expectations materially higher than those of your competitors?***

We've got plenty of clients able to affirmatively answer each of these questions. They are doubling down and investing heavily today in order to thrive in a Radical Change environment. They do this with an awareness that the climb is getting steeper while the stakes are getting higher. But like extreme athletes that seek out the most difficult challenges, they believe the greater the challenge, the more satisfying the experience.

Kevin Stipe

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. . . as well as those aligning with strategic buyers

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