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*July 9, 2020*

## **Redeploying and Reinvesting Your Insurance Agency's Capital**

To our friends and clients,

Feeling stuck? With the ongoing COVID-19 pandemic, limited travel and remote work still seem to be the norm and thoughts of returning to a pre-pandemic schedule are looking less and less likely for the remainder of 2020. Given the decrease of travel and time in the office, many agencies may be able to redeploy or reinvest some of the funds previously used for those expenses.

**It's likely that 7%-10% of your agency's revenue is spent on selling and occupancy expenses. In the current environment, is that best use of those dollars?**

The chart below outlines selling and occupancy operating expenses, as a percent of agency revenue, for agencies based on their revenue size. Selling expenses (i.e. T&E, auto, advertising) are variable and can generate short-term savings whereas occupancy expenses are more of a long-term savings

This data comes from [Reagan Consulting's 2019 Best Practices Study](#) which benchmarks key metrics for over 265 leading insurance agencies.

	EXPENSE AS A % OF AGENCY REVENUE				
	\$1,250,000	\$2,500,000	\$5,000,000	\$10,000,000	\$25,000,000
Travel and Ent./Conventions	1.2%	1.2%	1.2%	1.2%	1.2%
Automobile Expense	0.9%	0.7%	0.7%	0.6%	0.6%
Advertising/Promotions	2.4%	1.7%	1.2%	1.1%	0.9%
Occupancy Expense	5.4%	4.7%	3.9%	3.8%	3.7%
<b>Total Expense %</b>	<b>9.9%</b>	<b>8.3%</b>	<b>7.0%</b>	<b>6.7%</b>	<b>6.4%</b>
<b>Total Available \$ to Reinvest</b>	<b>\$123,750</b>	<b>\$207,500</b>	<b>\$350,000</b>	<b>\$670,000</b>	<b>\$1,600,000</b>

Short-Term Savings

Long-Term Savings

As illustrated in the above table, there are considerable funds, that with a little bit of innovation, could be redeployed to support growth. If all employees are no longer needed in the office daily, is there an opportunity to reduce costs with a smaller space and reinvest the remaining funds in new business development? Or with the current lack of conventions and sponsorships, is there appetite to use some of those funds in a new producer endeavor?

I'm not suggesting that your agency should move out of your office and away from tried and true advertising methods overnight, although it feels like that happened in March. But what if your agency redeployed just 25% of your current selling and occupancy expense into growth capital? Depending on the size of your agency, \$30,000 to \$400,000 could be reinvested annually! I challenge you to reimagine how funds could be redeployed to advance growth. To stimulate some creativity, here are a few moves we've seen our clients make since COVID hit.

**1. Boost new business production with technology.** Don't let your new business pipeline run dry. Get creative and test out some new technologies. Invest in a CRM and track producer activity, following up with any lost or prospective clients. Institute a new lead generation strategy that employs digital marketing.

**2. Think long-term about [talent recruitment](#).** One of the biggest threats to growth and retaining an agency's privately held independence is the lack of a talent pipeline. During the 2008-2009 Great Recession, firms that did not seek

are hiring opportunities that didn't exist 60-90 days ago. Is your firm taking advantage of these?

**3. Seek opportunities to acquire books of business.** Leverage your firm's scale and resources to acquire a small agency or book of business. Folding a book of business into your agency creates synergies and generates enhanced cash flows, which can be redeployed to fund your agency's larger growth initiatives. Firms that are most successful in this strategy are not just aggregators of volume, but rather view each acquisition as a strategic piece in their larger puzzle.

While the world seems to be hitting pause, agencies should use this time wisely to rethink historical financial metrics and develop ways to more nimbly and efficiently operate in a rapidly evolving market. The challenges of 2020 just might be the catalyst for creating an even more robust, dynamic, and resilient brokerage industry.

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