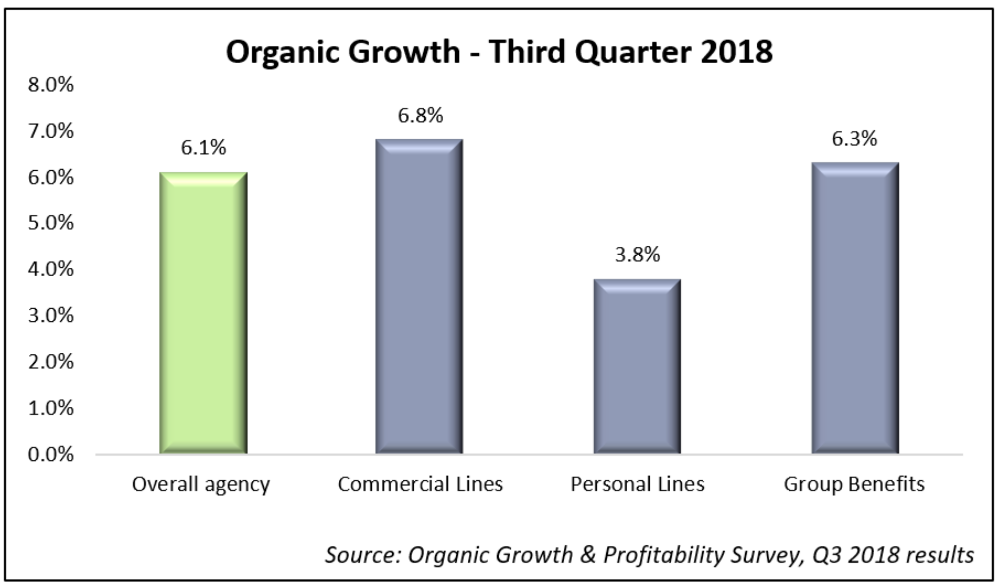
Reagan Consulting

ReaganView

The Importance of Growth on Agency Valuation

To our friends and clients,

We talk a lot at Reagan Consulting about the importance of organic growth, particularly as it respects agency valuation. If you are not growing at or above industry averages, your agency is likely under-performing. Through the third quarter of 2018, here are the industry's organic growth results. How do you compare?



While the average agency posted organic growth totaling 6.1%, top-quartile firms managed to grow by an average of 9.4%. So, even if you are operating at industry averages, you may be under-performing versus your actual potential.

When growth deficiencies arise in top-performing agencies, we often see them respond with a couple different strategies to address the issue(s): make necessary growth investments and/or raise the bar for producer new business results (if appropriate).

Growth Investments

agency management system upgrades, etc.), sales training, adding or improving sales leadership, value-added resources for clients, expanding into new markets, developing niche capabilities, etc.

The challenge for many agency owners is not knowing where growth investments should be made, but understanding better the cost-benefit tradeoff question: are these growth investments ultimately worth it? The answer is generally yes, and often a resounding yes.

Remember, from an agency valuation standpoint, one point of growth has the same impact on value as two points of profit. This means that if you spend less than two points of margin to achieve a single point of sustainable growth, you will positively impact your agency's valuation. Too many agency owners are penny-wise and pound-foolish when it comes to making necessary growth investments. Just like avoiding regular oil changes on your car to save a few bucks, this strategy can cost you big-time.

Raising the Bar for Producers

There is another growth improvement strategy that may cost you nothing – simply setting the new business bar higher for your producers (and yes, this includes agency owner-producers, too). This type of "no-cost" strategy is one of the best solutions, as every point of additional, sustainable growth with no change in your profit margins generates an agency value that is roughly 4.0% higher. There is a 1:4 relationship between growth rates and value improvement if your profit margins do not change. Want to increase your agency's value by 10%? Accelerate your growth by 2.5% without reducing your profit margins.

How do you know whether this "raising the bar" strategy makes sense? Start by understanding what a good new business result looks like for a producer – if your producers' numbers lag the norm, raise the bar. If your producers are at or above the norm when it comes to new business generation, look to increase their production by purging their books (moving smaller accounts to the house), adding more support staff to free up more of their time to produce, push more cross-selling, team younger producers with older, more experienced producers, etc.

As reported in the IIABA / Reagan Consulting Best Practices Study, here are the average annual new business results for producers, by agency-size and line-of-business.

Are your producers operating at or near these levels? If not, begin setting sales objectives that better reflect the potential for an agency of your size and begin holding your producers, and one another, accountable for results. If there are legitimate reasons your producers are operating at less than these industry levels (lack of training, tools, resources, etc.), get to work to provide your producers with the resources they need to thrive.

Agency Revenue Category	Lines	Lines	Benefits
<$1.25M	$31,022	$41,506	$23,126
$1.25M-$2.5M	$53,587	$31,394	$29,118
$2.5M-$5.0M	$56,039	$54,039	$50,311
$5.0M-$10.0M	$67,161	$59,240	$81,812
$10.0M-$25.0M	$98,353	$84,224	$119,590
>$25.0M	$149,339	$59,822	$180,882

Source: 2018 Best Practices Study

Commit to successfully addressing your agency's growth deficiencies in 2019 – the time and capital you invest to do so will likely more than pay for itself when it comes to your agency's valuation.

If you are unsure of your agency's valuation, **give us a call** and we'll be happy to help you determine it.

Tom Doran
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ReaganView is Reagan Consulting's forum for providing an occasional perspective on issues and opportunities relevant to the insurance distribution system

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