



The decision to undergo an agency acquisition can be a big risk that requires careful planning and due diligence. Here's a short list of items to consider.

What's your why?

When agents do an acquisition, their reasons differ. Some of the primary reasons agents choose to undergo an acquisition is geographic location expansion, revenue growth can be achieved faster than organic growth, carrier diversification, and operational expertise or efficiencies gained from economies of scale. Make sure you understand your primary motivation so that you can tailor your selection of an acquisition target for those agencies that meet your primary objective.

Growing or a steal?

As you look to do an agency acquisition, you should also think about whether you want to target a strong, growing agency, or if one that's declining or stagnant is more your desire. For an agency that's growing there is an increased likelihood that you will pay more. Although the idea of paying a higher price may at first glance seem unappealing, it may be worth it if the agency is already operating efficiently. This may be a good option if you have little experience in acquiring another book. Although you may pay less for a troubled or stagnant agency, the time that will need to be invested early on will be greater to get it to a point of financial stability or growth. A stagnant agency may be an acquisition for someone who has successfully acquired other agencies and is familiar with the process.

Are there operating efficiencies to be gained?

Don't just focus on the revenue side of the business. Examine the expenses of the agency. What are the primary costs for the agency? Some of the larger expense items may be salaries and benefits, rent, and marketing. If the agency is operating at a low efficiency level with high overhead, determine if there are any cost savings that could be made or staffing or process changes which may improve efficiency.

Seven Considerations Before An Acquisition

What's your why?

Growing or a steal?

Any operating efficiencies?

What's the quality of the book?

Desirable location?

Is the transition risk high?

How will you pay for it?

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Quality of the book?

In your due diligence, consider the quality of the book and if it meets your objectives for the target. Are you looking for an agency that has many of the same carriers you have so you can build scale with each carrier? Or is there a key carrier relationship that you don't have that you could obtain with the acquisition. Focus on retention rates, loss rates, E&O claims and revenue concentration of the agency's current customers. Read more on this topic in "[Questions to ask your seller.](#)"

Desirable location?

The economy of the geographic area of the agency can determine if the target is a good fit for your goals. Is the area where the agency is currently located growing or is it stagnant? If the economy of the location is growing, you may want to keep the agency where it is, but if the area seems to be stagnant it may be wise to merge that office to another within a reasonable distance. Even though we are in an ever increasing digital world, drive by and foot traffic for an insurance agency can sometimes play a large part in its success.

Transition Risk?

Be sure to think through the transition risk with an acquisition. Will you as the new owner be able to retain the customers associated with the acquired agency? Is retention dependent on key employees remaining with you after the acquisition? Consider the relationships with the carriers and ensure that existing carriers will consent to transferring the book post acquisition. Are there any new carriers that you need to contract with in order to transfer the full book and will you be able to obtain those contracts? For those carriers that won't contract with you, consider whether you carve that out of the acquisition or if you will be able to move those customers into new policies with existing carriers.

How will you pay for it?

This is not just answering the question of "Can I get a loan?". If your answers to the other considerations suggest that selling agent cooperation is needed or that there is risk in the book that needs to be addressed, the structure of the purchase agreement and related payments structure can be an important element in protecting the buyer and ensuring the success of the transaction. Use of seller notes, contingent payments and earn out provisions are all elements of the purchase structure and important complements to traditional financing. Proper structure of the purchase price can significantly enhance the ability to obtain the needed bank financing.

In order to make your acquisition successful, go into the acquisition process carefully and ensure that the targets you are looking at meet your goals and objectives.

Our team at First Mid Agency Finance has been helping agencies like yours grow through acquisition for over 15 years. We take a consultative approach to help guide you and simplify the lending process.

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