Your agency's strategic business plan

'By failing to prepare, you are preparing to fail'

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To many agency principals whose primary focus is taking care of existing customers, prospecting and engaging new customers, the idea of business planning often is synonymous with getting a root canal from the dentist. Spending time preparing and reviewing budgets, updating forecasts, or worse—dreaming about the three-to-five-year plan—doesn't get the attention a new prospect does. Consequently, any real business planning seldom receives the undivided attention it deserves. However, as Benjamin Franklin said, "By failing to prepare, you are preparing to fail."

To make this task less daunting, separate your professional, independent insurance agency's plan for the future into different categories, such as the following:

1.) Financial planning
   a. Forecasts
   b. Budgets
   c. Long-term strategic plans

2.) Ownership planning
   a. Short-term emergency transitions
   b. Long-term perpetuation planning

Many insurance agencies go through their life cycle without thinking about the financial aspects of planning and they aren't necessarily worse for the wear. So, why do people harp about it? The simple explanation is: Without a plan, you are unable to measure the degree of success or failure. If the sole measure of success is: "Did we do better than last year?" how do you know if you have the right measuring stick if the market was up or down 10 percent?

The value that can be derived from any plan is weighted on the quality of the plan's construction—was it slapped together to get something on paper or was reasonably thought out and put forth with effort? "Big data" continues to be a trend in the insurance industry. In an agency, big data is stored in your agency management system. For planning purposes, the key information is the new, lost and renewal revenue information that can be extracted and used to gauge future revenue.

Financial planning

Financial planning—like many other kinds of plans—helps people focus on a desired result and assess whether changes are needed to achieve the goal. The three categories of financial planning identified above (forecasts, budgets and long-term strategies) deal with different time horizons, but they all should be linked (i.e., each its own part of the whole).

Forecasts. Forecasts are interim projections of the current fiscal year that take into consideration what's already happened.

Budgets. The most common

planning vehicle, budgets are projections of the financial performance of the agency for a one-year period, often with monthly or quarterly interim periods.

Longer-term strategic plans. Strategic plans look beyond the one-year period and provide an over-arch perspective of an agency's projected path.

Forecasts and budgets should be more tactical than the strategic plan. They should focus on the immediate issues (e.g., new and lost business; current staffing matters; and expense management). Ideally, the agency should establish a set of goals that become the basis for the strategic plan (e.g., doubling revenue over the next five years; expanding the agency geographic; or establishing a product-expertise footprint, etc.). These goals are the basis for overall direction. Individual decisions need to be considered for the short-term horizons.

Long-term ownership planning may not be a significant concern if the agency principals are 40 years old or younger. For older principals, especially those in their late 50s and into their 60s (e.g., the baby-boomer generation), this is the most significant issue facing the long-term viability of the agency. Unfortunately, many agency principals in the latter category don't know what to do—or have chosen not to address it—even though they know the 800-pound elephant is sitting right next to them.

Ownership planning

Based on the number of decisions that need to be made, the planned perpetuation of an agency does not happen quickly. Deciding what kind of car to buy; which customer service representative to hire; or which office location to move into are simple decisions made over a short time, with immediate feedback. Creating an ownership succession plan requires a number of decisions in a wide range of topics made over a long period. Successful perpetuation plans are long-term processes, which need to be viewed as such in order to grasp the magnitude of the transition.

The most important connection in the overall business planning process is between the long-term financial plans of the agency and the long-term ownership planning. Without a plan to time the departure of an agency principal and the financial implications of the required buy-out of the principal's ownership interest, how will anyone know if, or when, the transition can take place? To position the agency and the exiting agency principal for the best chances of achieving a successful perpetuation process (i.e., on time, at an acceptable price to all parties involved and fully paid without hiccups), there are four primary factors that must be addressed:

1.) People
- a. No plan will be successful without the right buyers involved.
- b. The perpetuation candidate(s) may or may not currently work at the agency.
- c. Children, often the candidate(s), may not be the right choice. It's better to figure this out before the transaction has been executed.
- d. It can take years to recruit, hire, train and mentor the right individuals to replace the sales leadership, executive management and strategic planner roles filled by the exiting principal.
- e. To be able to continue the growth of the agency, it may require more than one buyer for each exiting principal.
- f. Generally, perpetuation candidates should be at least 10 years younger than the exiting principal.

2.) Agency value
- a. All parties must agree to a fair value of the agency.
- b. Perpetuation transactions most likely will be priced at a material discount to a price the agency could sell for to an outside third party.
- c. If the seller's goal is to maximize the sales price of the agency, selling to internal candidates is not the answer. The seller must be prepared to "leave money on the table" in order to help make the transaction be successful.

3.) Capital
- a. Generally, executing a perpetuation plan requires more capital than the agency can generate within a given fiscal period.
- b. The agency should build up a cache of excess capital to be used to support the perpetuation transaction.
- c. The only way to build up capital is to retain earnings in the business.

4.) Time
- a. All of these factors take time.
- b. Depending on the state of the agency's finances and personnel, it could take as long as five to

b. 10 years before all conditions are ready to execute a transaction. It often will take five to 10 years (or more) to complete the buy-out of the exiting principal.
c. If these timelines are beyond the desired or available time for the exiting principal, there may only be one other choice—an external sale.
d. Without all the proper planning, it becomes unlikely that an internal perpetuation of ownership will be successful.

If you are considering an internal succession plan, incorporate the above ideas into the long-term planning of the agency to guide many of the business strategies. However, not every agency can or wants to perpetuate internally. Despite the different mechanics of selling internally vs. externally, many of the above concepts, in particular the "People" attributes, will help sellers maximize their value in an external sale.

Emergency perpetuation plan

Another topic that does not get the attention it deserves is the emergency perpetuation plan or the "hit-by-a-bus" scenario. Without planning for what would happen to the agency's customers and employees; the family members of the agency principal(s); and the agency's value if something happened unexpectedly to the agency principal(s), even the best long-term planning and years spent building the agency could be all for naught. Much like the technology disaster recovery plan, which spells out the actions to take in the event of a system interruption (or worse), management should develop a plan of action for agency leadership interruption.

Depending on the size of the agency, or more specifically the number of agency principals, some aspects of an emergency plan may be addressed in a shareholder agreement, which should include the following:

1.) Define situations that require changes in ownership positions. This should not be limited to just death of a principal, but also should include disability (short- and long-term), mental incapacitation and felony conviction.
2.) Describe how the basis of the agency's value is to be determined. Generally, this should involve engaging an industry expert to prepare a fair-market valuation rather than a simple revenue multiple or straight balance-sheet valuation as those may not yield an accurate assessment of value.
3.) Describe the terms of payment, including down payment and promissory note vs. immediate cash settlement, interest and term of a note, etc.

If there is one principal, the situation potentially becomes more cumbersome, especially if there is no clear successor within the agency. In a single-owner agency, one or more of the following should be identified in an emergency plan:

1.) If there is a viable successor within the agency, the plan should spell out the steps necessary for the successor candidate to replace the agency principal. This should include the items noted above, likely with some additional emphasis on addressing the ability of financing the transaction.
2.) If one or more family members, whether in the agency or not, is expected to step into the principal's shoes, the specifics of such a plan should be well defined to avoid a variety of family disputes.
3.) If no obvious successor exists, the agency principal needs to identify an outside party to step in and act in the best interest of the agency. This may be a "friendly competitor" who is familiar with the agency, the marketplace and the customer base. This also can be a precursor to an arranged sale-acquisition with the other agency in order to avoid any conflicts of interest or material issues being missed during the transition period.

In any of the above situations, life insurance on the key executives that is owned by the agency or in which the non-owner is the beneficiary with an obligation to execute a purchase-and-sale agreement can facilitate a less disruptive transition process. Other attributes of an emergency plan to consider may include the following:

1.) Define changes in banking authorizations to prevent any delays in the ability of the agency to continue meeting its premium and vendor payment obligations.
2.) Identify security and critical data considerations, including physical access to the office, back-up data and client information if the principal is involved.
3.) Review notification requirements to insurance company partners, key clients, vendors and other significant parties.
4.) Identify any immediate financial needs or considerations of the principal's family.

The purpose of sound business planning is to set a general road map for the direction of an agency; develop tactics and strategies to stay on point; and provide guidance on the actions to take in periods of success as well as when something goes awry.

Without a plan, these issues are left up in the air without clear definition. Assuming the agency value is a material portion of a principal's estate, does it really make sense to not put forth the appropriate time, energy and resources to manage and protect this asset?

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