THE QUIET

The secret is out: Utah-based Leavitt Group is big – it now operates in 115 locations

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GIANT

Kelly Russell, a director and chief affiliation officer for the Leavitt Group, pondered the question put before him: What would most people be surprised to learn about the nation's 15th largest brokerage firm?

"Our sheer size," Russell responds after a long pause. "Most people don't appreciate that because we're a quiet company."

Indeed. Over the past 15 years, in good and soft markets, the Leavitt Group has grown in excess of 20 percent annually. The company now operates in 115 locations, with 2006 revenues of $155 million and premiums topping $1.2 billion.

The "quietness" of the Cedar City, Utah-based company is due to two things.

For one, its offices can be a bit off the beaten track. "Our roots go to small town agencies and places off the radar screens of most firms," says Dane Leavitt, CEO of the closely-held company.

More importantly, the company co-owns all its agencies with the onsite managers, who have wide-ranging authority in how the individual agencies operate, which takes the focus off the parent organization.

"The Leavitt Group is one of the largest independent agencies in the United States, but in the community we're still just Kim and David. I answer the phone and talk to the clients. A lot of people don't even hear the 'Leavitt Group' in our name — they just hear the 'McDonalds,'" says Kim McDonald of McDonald-Leavitt Insurance Agency in Santa Rosa, Calif.

Today the Leavitt Group has reached what one executive calls "a tipping point" in size and geographic reach. So it's launching new initiatives to capitalize on the organization's resources and breadth, even as it looks for ways to coax the independent agency co-owners to work more closely together. Of course, this is all being done in the Leavitt's traditional way — slowly, calmly, and quietly.

The 40/60 split

The Leavitt Group is defined by a 40/60 formula. When the first Leavitt Insurance Agency was incorporated half a century ago, Dixie Leavitt, an aspiring teacher who got sidetracked into the business, took 60 percent and his brother Bert, 40 percent. As they created agencies in Utah, Arizona, and Nevada, the Leavitts kept the 60-40 arrangements with the onsite managers. Each onsite co-owner was charged with hiring good employees, nurturing insurer relationships, increasing sales, writing business profitable for insurers, controlling expenses, strengthening profits, and building an adequate capital base within the agency.

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Today, the Leavitt Group still purchases a majority ownership in its agencies. The normal split is still 60-40, though occasionally that dips to 55-45 if there are multiple co-owners. Dane Leavitt says it's crucial for the agency partners to have "a big enough stake that it's worth doing," adding "90-10 doesn't work because 10 percent isn't enough; 40 percent is a nice chunk."

This division has led to a general sense of independence at the agencies. As the Leavitt Group puts it in its official history, "Some agencies are heavy commercial lines writers, others write mostly personal lines. One agency may target contractors and surety, while another focuses on Main Street retail. Some offices dress uptown, others downtown. Each office develops its own culture."

There are some common parameters including the use of the same automation system, standardized accounting codes, group-wide errors and omissions coverage, and enhanced underwriting access. However, when it comes to issues of day-to-day operations, each co-owner does his own thing.

That's apparent from the Web sites for the individual agencies, which can have strikingly different graphical appearances and tones. For instance, Barlocker Insurance Services in Southern California, which became part of the group in June 2006, doesn't mention the Leavitt Group on its Web site.

"It's not like Subway, where everything is cookie cutter," McDonald says. "They don't tell you how to run your agency."

The patient courtship

An agency acquisition is a courtship, and in the tradition of its Midwestern roots, the Leavitts make a patient suitor. "There's always a lot of work to get to a yes," Dane Leavitt says. "It's a wonderful process because it gives us a chance to get to know each other, usually with many visits over a year-and-a-half."

The approaches have ranged from buying out a retiring co-owner to "facilitating the orderly separation of feuding partners." Last June, for example, Barlocker Insurance Services became the largest transaction in the history of Leavitt Group, which spun it off into eight branch offices. "We brought key people from each of those branches into ownership," Russell says.

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Insurance Journal Top 100 Agency Profile

RANKING: No. 3

The Leavitt Group

Headquarters:
Cedar City, Utah
Year Founded:
1952
Additional Locations:
115 locations
2006 Premium Volume:
Total: $1.2 billion
% Commercial: 80 percent
% Personal: 20 percent
2006 Revenues:
$155 million

Principals: Dane Leavitt, CEO; Eric Leavitt, president
Mergers/Acquisitions: Most recent: Murria & Frick Insurance Agency in San Diego, April 24, 2007; Risk Services of Louisiana in Shreveport, April 20, 2007.
Number of Employees: 1,500
Number of Carriers Represented: More than 800 insurance carriers and general agencies

From left to right: Dixie Leavitt, Dane Leavitt, Mark Leavitt, Kelly Russell, Eric Leavitt

In its shareholders' agreement, Leavitt Group Enterprises (LGE) has an option to buy a co-owner's shares within 12 months of his leaving the agency. The remaining co-owner has the right of first refusal, protecting him against LGE selling the interest to someone "repugnant" to him, as Leavitt puts it. The "may buy," rather than "must buy," is an impetus to smooth succession of agency leadership — and another expression of the principle of "aligned interests."

The idea is that no matter what happens — from profit, growth and smooth succession to loss, decline, and chaos — the Leavitt Group Enterprises and agency co-owners share equally in the risks and rewards.

"We're not a good fit for agency owners who want to cash out and have a quick management transition," Leavitt says. "In most transactions, the people still have five to 10 years left in the agency."

When going into new geographic areas, Leavitt looks for a strong anchor agency, and in the process often comes across two or three other agencies that fold into it in an initial merger. The current emphasis is the Midwest and deep South. "We tend to run into a lot of good people there," Russell says.

"We concentrate on a good cultural fit, rather than look to acquire revenues to appease shareholders. We want to grow or build strong agencies, beyond setting in place perpetuation needs."

The deciding factor in a partnership is finding agency owners with high ethical standards and good work ethics. "We plan on being around a long time, so we're not interested in making a quick dollar," he says. "We're interested in making a good, long-lasting dollar."

"Integrity" and "honesty" are tossed about quite frequently but when Leavitt member agents use these terms to describe the organization as a whole, there is a sincerity in their voice.

"We had an issue where an agent committed fraud," McDonald says. "The carrier said they would not pay the client, so the Leavitt Group paid him. They have integrity so when they say they'll do something, they do it."

"WE BELIEVE MOST AGENCIES DON'T FOCUS ON PERSONAL LINES ENOUGH. THE MENTALITY AT LARGE COMMERCIAL-LINES AGENCIES TENDS TO BE THAT OF HUNTERS. PERSONAL LINES PRODUCERS TEND TO BE FARMERS."

For additional proof, consider Mike Flanigan, co-owner of Flanigan-Leavitt Insurance Agency, located in Quincy, Calif., a 1,879-population, mountain community not far from the Nevada border. With his partners ready to retire, Flanigan, who owned 5 percent of the agency, says he was "facing bankruptcy — it was basically the last one turn off the lights when you're done and I was the last one."

Over a year and a half, Flanigan and his partners discussed the purchase with the Leavitt Group. "What sold me was the integrity of Dane, and the honesty, integrity, and professionalism I encountered throughout the group," Flanigan says. "From the very beginning, when I met one of their regional vice presidents, I was comfortable enough to spill my guts about the perpetuation issues, which were complex because we had five partners."

The deal was sealed when "two Leavitt brothers came into little Quincy," Flanigan says. "It's a big deal when a twin-engine plane comes into town. They were just filled with the truth."

Liaisons and other services

The Leavitt Group agencies collectively own and govern Leavitt Group Agency Association (LGAA), which owns a general agency, an FDIC-insured bank, and a central placement facility. The Leavitt agencies have access to a variety of internal resources, including: controllers (accounting, audit, tax return preparation); payroll management; agency liaisons (budgeting, planning, insurer relationships) and computer networks principally using AMS for Windows (AfW).

"A lot of the carriers are technologically progressive, and the little agencies go by the wayside," Flanigan says.

The Leavitt Group Enterprises also serves as the main funding source for agencies needing to purchase books of business, upgrade computer systems, hire new producers, or meet other critical needs. The Leavitt Group acts as a stable shareholder and has a policy of carefully assisting agencies with their funding requirements.

"They give us the opportunity to not worry about computing and accounting and focus on sales," McDonald says. She and her husband worked at his uncle's agency for many years before purchasing. "It would be pretty hard for us to come up with a huge down payment and they definitely bring the money to the table," she says.

For the first five years, she says, "they basically taught us how to run an agency. A liaison came at least once a month, helping with accounting, trust funds, and other issues. "Now we hardly ever see our liaison because we don't need him anymore."

Since 1999, the agency has tripled in size. "People ask me if we wish we had done it on our own and I can honestly say no," she says. "We bought our building, and they helped financially."

Independent agents know the difficulty of limited access to markets. "The Leavitt Group's clout and the volume they work with are important for a small agency like us in a little community," says Flanigan.

In addition to their own agency appointments, Leavitt Group agencies can access markets through interagency relationships and the placement resources of the Group's central placement division, Agency Programs and Placement Services (APPS). If an agent has, say, a campground he needs to insure, he can send the information to the central placement facility. "A group of people look at this and

"WE DON'T LEAD BY FIAT, WHICH MEANS AFFECTING CHANGE IS A SLOW PROCESS. BUT SLOW IS GOOD BECAUSE IT ALLOWS A LOT OF DIFFERENT MINDS AND PERSPECTIVES TO THINK THROUGH AN ISSUE."

see if there is a better option to consider," says Mike Lewis, a senior vice president in charge of building out programs. "It's about coordination and cooperation to do a better job for the client."

Or, as Flanigan puts it, "If I am struggling to find a home for a certain class of business, I can get help at the click of a button."

Seeking organic growth

Personal lines now represent about 20 percent of Leavitt Group revenues — and Dane Leavitt wants that to increase. "We believe most agencies don't focus on personal lines enough," he says. "The mentality at large commercial-lines agencies tends to be that of hunters. Personal lines producers tend to be farmers."

He sees no reason agencies can't do both, and the Leavitt Group is building a separate sales organization for personal lines. "It's a different type of sale. We won't ask the commercial lines people to do personal lines, but they will coordinate and assist each other," Leavitt says.

In the same way, the Leavitt Group is seeking to build a parallel group of producers for benefits.

"The hardest thing is to find the right people who can continue to properly support the steady growth," Leavitt says. "Folks who have been with the firm for a long time tend to be those who grow into most leadership positions. However, increasingly, we need to turn to outside people to meet expansion needs and opportunities."

One of those new folks is Mike Lewis, who joined Leavitt last June. His team is now creating data models to evaluate the business currently on the books and determine how specialties at individual agencies can be expanded across the group. Such a process isn't unique to the Leavitt Group, of course. It's just that, as Lewis sees it, the organizations expansion has reached a tipping point of size and breadth to allow this.

Because the Leavitt Group owns its own captive reinsurer, the company is looking at ways to risk bear with insurance carriers. "All of this gives us a lot of flexibility in terms of how we serve our clients," Lewis says. "It's all about creating new sales opportunities as the market changes." Best of all, he notes, this is true organic growth rather than growth by acquisition.

The upshot? "I have been in the business 30 years and have never seen more opportunity than at the Leavitt Group at this point in time," Lewis says. "From the outside, I had thought they were buying local agencies that didn't have the highest levels of sophistication, but I am surprised by the programs I found."

Barlocker Insurance Services, he points out, has an impressive niche selling programs in agriculture that can be transferred to other areas. Lewis almost becomes giddy talking about the sophisticated risk-management programs he uncovered at Pride-Mark Everest Insurance Services, another recent addition to the Leavitt fold.

The challenge now is coaxing agencies to share their crown jewels. "Of course, they are carefully guarded," Lewis says. "We are working through the process of how to best offer them throughout our various regions." The stumbling block, he admits, is "taking a group of local owners who are used to doing things locally and expand their view."

The "figuring out" process is something of a Leavitt Group hallmark. "Autonomy is our strength, but also a weakness," Dane Leavitt says. "We don't lead by fiat, which means affecting change is a slow process. But slow is good because it allows a lot of different minds and perspectives to think through an issue. That results in better decisions, but it's not lightning quick."

And just the way the Leavitt Group likes it — constant growth in a careful, quiet manner, splitting things 60-40 all the way. IJ

From left to right: Kelly Russell, Dane Leavitt, Dixie Leavitt, Mark Leavitt, Eric Leavitt