



Perpetuating Your Agency and Your Legacy

You've worked hard and grown your insurance agency over the years – from the early days selling insurance on your own to later creating an agency with producers and other critical staff. They're family, and this is your "baby."

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You love your business, but are you starting to imagine what retirement looks like? Playing golf whenever you want, traveling the country in an RV, visiting the national parks, relaxing on a quiet beach – it all sounds appealing. You've earned it, but are you ready?

Many independent insurance agency owners do not have a perpetuation plan in place to allow for retirement. Are you one of them? If you answered yes, we can help!

It's time to think about your future

Based on a 2020 analysis,¹ nearly 70% of survey respondents have more than 20 years in the P&C insurance industry and are agency owners. Of the total respondents, approximately 75% were over 50 years old.

Why are these numbers important? Insurance agency owners are getting older and there's a pool of younger, up-and-coming producers who could be the next greatest opportunity for you to include in your perpetuation strategy.

So, what is perpetuation really?

Agency perpetuation is a way of ensuring your business continues to grow and flourish in the future when you're no longer at the helm. Most agency owners neglect planning for perpetuation so it's best to get in front of it as early as possible. From a recent webinar Leavitt Group hosted on perpetuation strategy and planning, we saw some not-so-surprising polling results. Take a look:

“ A solid transition strategy should be put in place five to seven years before you officially perpetuate your agency.

¹Analysis conducted by ALM Intelligence in partnership with the NUPC/PIA Independent Agent Survey.

**At Leavitt Group,
we've infused
perpetuation into our
overall mission — it's
a core element of how
we operate.**

“Leavitt Group’s mission is to build, serve, and perpetuate independent insurance agencies as partners with able individual co-owners. Partnering with co-owners, LGE uses its collective scale to better serve customers, enhance profit, build capital, attract and retain great people, and expand business opportunities.”

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There's a lot that goes into preparing for perpetuation, so it is wise to get started planning at least five to seven years before you would like to retire.

First, ask yourself, “what is my exit strategy?” If you don't have one, you need a perpetuation plan. A good plan is critical to ensuring the business you've built over decades carries on once you've moved into the retirement stage of your life. Another upside of planning, and planning well, is your agency value will improve. And there's a lot that goes into agency valuation. We'll cover this later in more detail.

Taking your own advice

You can think about it in terms of the consultation and advice you give your own clients, whether personal or commercial lines of business. As an insurance agency owner, you're in the business of protecting your client's assets, inclusive of their people and their business. Perpetuation and planning for perpetuation is in the same vein of protection, but for YOU and YOUR business. In this case, the act of perpetuation planning is you taking your own advice.

Options for perpetuation

There are a few different ways you can plan for perpetuation.



Option #1

This option includes affiliating with a large national broker. For example, if you affiliate with Leavitt Group, you still retain a significant part of ownership in your agency (40%) while getting all the comprehensive operational support to grow your agency while you transition into retirement. In addition, we can help recruit potential new co-owner(s) to take over your agency, and we'll help your agency increase in value in the process.



Option #2

Another option is to identify someone internally already working for you, perhaps a family member, who can take over the business in a gradual manner. Where this can become challenging is that persons' ability to fund the investment – unless you have the support of a national brokerage firm you're already affiliated with or some other external funding support.



Option #3

You also have the option of looking at it very externally. Essentially, your perpetuation strategy could be to sell to an outside buyer where there is no owner succession required. This could be a brokerage firm that doesn't have the option of co-ownership like Leavitt Group. Or it could be a private equity firm where it's a straight up sale – you get your money based on the agency valuation **and** you get out of the business entirely and start traveling the country in an RV, sitting on a beach, or playing a lot more golf.

Agency Owner Successor... Hello? Where are you?

If you're an agency owner who doesn't have a person identified for perpetuation, you'll need to start looking for a successor. With our experience in this space, we've created a two-prong approach to finding perpetuation candidates. Since our affiliates have co-owners, we work directly with them to do the following. However, if you're a true independent agency, you can do some of these same things on your own — it's just a lot more responsibility that falls to you.

- ▶ **Industry Networking Events** – Become a familiar face at your local Big I, insurance carrier conferences, etc. Look at both agency and carrier candidate opportunities.
- ▶ **Business Commerce Memberships** – Are you a member of the Chamber of Commerce, Lions Club, Rotary Club, or other networking clubs? Attend these events and learn who is in your community. Your successor may not be currently employed in the insurance industry but should exhibit several key traits per your Perpetuation Profile (more on this later).
- ▶ **Recruiting** – Scour referrals and LinkedIn profiles to find the perfect match for your agency. If you don't have immediate access to an internal recruiter through the support of a national brokerage, seek to align yourself with a third party recruiter.
- ▶ **Affiliation with a National Brokerage** – At Leavitt Group, in addition to our recruiting department, we have the ability to scan our entire agency network to provide perpetuation solutions for individuals who may not have the opportunity at their existing agency for various reasons. The perfect candidate may not live in

your state but may be willing to relocate. We also have the ability to examine if a merger with another regional agency would make business sense.

What does it do for me?

Perpetuation transition needs to be put in place at least five years in advance of when you want to retire. A perpetuation strategy should help accomplish the following:

- ▶ Support a retirement plan and the ability for you to retire with financial peace of mind.
- ▶ Ensure your agency retains the culture you've built.
- ▶ Have the right people leading the agency when you're transitioning out and when you're gone completely.
- ▶ Find the right person who can also fund your buyout.

The actual planning for perpetuation is one of the most highly neglected steps of perpetuation overall. We make sure all Leavitt Group agency owners with five or less years to retirement have a perpetuation plan in place. When it comes to succession planning, the value of being affiliated with a large national brokerage brings a number of benefits, including:

- ▶ Support with recruiting both internally and externally.
- ▶ An internal business consultant who works with the agency co-owners to create what we call the Perpetuator Profile Builder.
- ▶ Agency valuation oversight.

Often business owners are fearful of facing the fact that their lives are soon to be changed by perpetuation in major ways. Regrettably, rather than

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proactively planning for those changes, they ignore them, hoping that somehow they'll disappear. This mentality is not uncommon, as an article from the New York Times explains:

“ Age is a sensitive issue in the workplace. As retirement begins to look less appealing and often less feasible, many older but still vibrant Americans want to hang on to their jobs longer. Corporations, on the other hand, usually encourage workers to retire at 65 or younger because they generally cost more in wages and health benefits.”

THE NEW YORK TIMES

Age and retirement are sensitive issues and perpetuation discussions should be directed with sensitivity and caution. They should not, however, be ignored. Ultimately, perpetuation is for your and your business' benefit. Like we said earlier, take your own advice and seek to protect YOUR business and its future.

What makes my agency more valuable?

It's important to understand what the basis of an agency valuation includes and what it does not. What it doesn't include is your sweat equity, all the weekends you worked, or the time you spent on vacation working off to the side while your family was out doing something fun. The downside of being a small business owner is that it's such an entrepreneurial journey, and the volume of work and time it took you to build your "baby" doesn't entirely count towards agency valuation. That's a tough pill to swallow.

REALITY CHECK

An agency valuation is based on revenues, profit, growth rate, retention, quality of carrier appointments, client list demographics, and other economic and intangible considerations. Your successor is going to want to be taking over an agency that has potential, is showing growth, and has a strong financial basis. The agency valuation is a huge part of creating some assurances for the potential new owner and convincing them it's a good move. It's not just about you. The buyer or successor needs to see the value in all of this as well.



Now's a good time to watch our on-demand webinar about the agency valuation process to really understand how this is all happening and why it's so important.

[Click here](#) to launch the video or bookmark it for later.

HOW DO I MAKE MY FINANCIALS STRONGER?

First and foremost, review your past financial performance to help predict future growth trends, profitability, and ultimately your agency's overall value. In addition, other elements that bring value to your agency include:

- ▶ Brand
- ▶ Reputation
- ▶ Quality of staff
- ▶ Niche markets or specialties
- ▶ How you invest in your producers
- ▶ Quality of leadership
- ▶ Technology
- ▶ Client retention rates

Also, you should consult with a financial advisor, CPA, and attorney to get a solid grasp on the financial health of your business. It's smart to get on top of any tax implications or legal concerns that come along with transferring a business. Be sure to involve all those helpful business partners in the process so nothing is overlooked.

What should I be thinking about as I prepare for perpetuating my agency?

As you begin the perpetuation process, there are a number of critical elements you need to consider and make specific decisions around. This includes really understanding what your culture is and the type of people who can continue what you've created. So much of perpetuation comes down to the human element of your business.

Creating and maintaining a strong culture is very important. You need to ask yourself, "What are

the most important values I hold as an agency owner when considering someone to take over my business?"

Here are some questions to help you get started:

- ▶ Do you emphasize achievements and results?
- ▶ Do you consistently operate with fairness, tolerance, and respect for individuals?
- ▶ Do you focus on and stress the importance of collaboration?
- ▶ Do you value precision and approach situations and problems analytically?
- ▶ Is your goal to always provide security and follow a predictable course?
- ▶ Do you encourage and expect experimentation and risk taking from your people?
- ▶ Do you create an environment that embraces a competitive spirit?
- ▶ Are you invested in research, marketing, and communications as a key component to growing your business?
- ▶ Have you placed emphasis on the need and value of new technology to advance your agency?
- ▶ Do you make new hires based on an equal mix of skills and the person's fit within your culture?



Do you have a list like this?

If you don't, you should consider creating one that is specific to your culture and values to help you choose a successor. It also is a valuable exercise in identifying what kind of outcomes you'd like to realize with your agency.



We build, serve, and perpetuate independent insurance agencies.

GOVERNING PRINCIPLES

In pursuit of our mission, LGE strives to follow seven governing principles:



BE HONEST &
OPERATE WITH
INTEGRITY



SERVE
STAKEHOLDERS



ALIGN
INTERESTS



GROW
PROFITABLY



ADAPT



COMMUNICATE
WITH REASON
AND CIVILITY



ENJOY

At Leavitt Group we emphasize specific cultural attributes when building out a perpetuation profile, all based on our seven governing principles that are core in all our relationships.

These principles are always taken into consideration in our interactions with partners, service team members, producers, and industry relationships. These principles are always kept in mind throughout the affiliation, personnel advancement, and recruiting process.

Recruiting

This is a big one. Recruiting the right people is one of the most integral pieces of your agency's success, even entirely aside from perpetuation. You've got to have a short- and a long-game strategy when it comes to recruitment and hiring.

The long-game strategy is where perpetuation comes in. When you're making producer hires, you need to think about whether an individual is someone who could be your successor. Especially if you don't already have someone on your team, whether a family member or not, who can take over when you're ready to move into the golden years of retirement.

In a recent Safeco survey, they found 58 percent of all new hires among independent agencies are millennials. This is a great sign and is creating a vast group of younger, tech savvy, and hungry insurance producers who could be next in line to run the agency you have built. An upside of this is that as you bring in these younger producers, they can better serve the needs of millennial prospects like themselves.

A growth-oriented approach like this will make your agency more profitable and more valuable – two

things that are also critical to your perpetuation plan while creating a sense of stability.

Pro Tip: Always have a plan B in case your plan A successor doesn't work out.

Hunting Unicorns

Recruiting can be difficult for a myriad of reasons. Every agency would love to find a match to a perfect profile such as this:

- ▶ Experienced insurance producer understanding everything to the 95th percentile of industry.
- ▶ Someone who can sell anything to anyone at any time.
- ▶ Age bank of mid to late 30s.
- ▶ Willing to sacrifice for the long-term value appreciation of stock ownership.
- ▶ Perfect relationship manager.

It's easy for us to fall into the trap of hunting unicorns or trying to find your mini-me. What you need to be doing is recruiting for the true needs of your agency. At Leavitt Group we built out a *Perpetuation Profile* for this reason. And you should consider doing something similar to help find your successor.



If you are interested in learning some new strategies about recruiting and how that can help your perpetuation strategy and planning long game, check out this webinar we have hosted on “Recruiting Producers to Grow My Agency” presented by Brent Davis, VP of Recruiting.

He offers great tips and strategies to support you in finding your future replacement. Watch the on-demand recording [here](#).

The Perpetuation Profile

We create a Perpetuation Profile as a collaboration between the agency co-owner and their internal corporate business consultant. Its purpose is to identify the following three items:

1. Identification of owner's key skills, relationships, and certifications that are necessary to maintain to perpetuate the insurance agency.
2. The agency's leadership team then rates the importance of each item on the worksheet on a scale of 1 – 5. Ranking of a 1 highlights the skill as important but not necessary while a score of 5 reflects extreme importance.
3. A job description is then built to reflect the key components within the *Perpetuation Profile* which will be used for internal development or external recruiting.

Using these key traits from the *Perpetuation Profile*, your next step is to create a *Candidate Scorecard*. This allows you to assess a candidate's profile match to your required profile traits. Keep the scorecard simple and rank your candidates on three scales:

1. Perfect match,
2. Somewhat a match, or
3. No match.

Once you have this in place, let the recruitment games begin!

Now that I'm ready, how do I implement a perpetuation plan?

Implementation and how it will play out will vary based on what perpetuation option you've chosen. Finding your successor is probably the most difficult aspect of the whole process so if you've gotten this far, you've accomplished a great feat. And hopefully you have found some sense of relief knowing you have someone you can depend on to carry your agency into the future in a way you can be proud of.

But now it's time to put the plan into action. Below are the most important next steps to get things moving in the right direction.

IF YOU HAVE AN INTERNAL PERPETUATION SOLUTION (SOMEONE ALREADY ON YOUR TEAM)

- ▶ As applicable, hold a perpetuation meeting with internal candidates and/or staff to discuss your plan and establish the rules of qualification, interview process, etc.
- ▶ Consider this step for external solutions as well. Timing is important but being open and preparing your staff for change is an important step to ensure a smooth transition.
- ▶ Don't forget, always have a plan B option in the back of your mind.

SHOW ME THE MONEY!

- ▶ Develop an agency valuation.
- ▶ Develop a stock purchase strategy – effective date, down payment, payment options, interest rate, duration, sweat equity, etc. You must also ask yourself if you are willing to have the candidate purchase chunks of stock over time, carry a long-term note, assist with the candidate’s loan qualification, or if you’re seeking a lump sum payout.
- ▶ Discuss with candidates their capital ability to finance the buyout.

IF YOU’VE GONE THE EXTERNAL PERPETUATION ROUTE (SOMEONE OUTSIDE YOUR AGENCY, OR EVEN OUTSIDE THE INDUSTRY)

- ▶ You have identified candidates and now it’s time to interview.
- ▶ Use your *Perpetuation Profile* as your guide to assess ability, character, and alignment with the agency’s cultural interests.
- ▶ Ask the candidate to complete a personality profile. This can provide additional insight for you about the candidate’s emotional intelligence, work pace, and more.

If you are considering affiliation with a larger national brokerage, when it comes to perpetuation and buyout, they will help tremendously with this step.

FINALIZE THE PLAN

- ▶ Complete interviews and select your candidate(s).
- ▶ Document your perpetuation plan and create necessary legal documents for implementation.

Ready! Set! Go!

WHAT SHOULD I INCLUDE IN MY PERPETUATION PLAN?

We've gone through all the various elements of a well thought out and well-planned perpetuation strategy and plan. Now to lay it all out in very simple terms. Here's a checklist you can follow:



Develop your agency's culture overview

What are my governing principles?



Recruitment strategy and tools

How will I identify my successor?



Advice and consultation with business partners

Who can help me understand all aspects of perpetuating and selling my agency?



Agency valuation

How much is my agency worth?



Agency ownership transferal

How will control of the agency be transferred?



Agency financials

How will the buyout be funded?



Tax implications

How can I minimize taxes due to the sale/transfer?



Timing

When will I move on? Will it be gradual? What's the end date?



With this playbook, you're ready to begin the process. If part of your perpetuation strategy includes affiliating with a national brokerage firm, especially where you can still maintain partial ownership in your agency, we welcome you to reach out to us to discuss affiliation options.



Have a question? Let's chat!

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