

Fixing the scarcity of agencies to buy

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BOSTON — With all of the agency mergers and acquisitions that have taken place recently, many prospective buyers are wondering if there remain any agencies worth buying.

David A. Bakst, a lawyer with the Boston-based firm of Morrison, Mahoney and Miller, recently delivered a talk to the New England 1752 Club on this timely topic and outlined some of the traits that he thinks make an agency acquisition-worthy.

Bakst said one of the greatest problems in the marketplace today is finding an agency to buy, because most of the important mergers and acquisitions have already taken place. He said one way to keep the cycle going is to become an acquisition-worthy agency yourself. He listed six characteristics that buyers look for in an agency.

The first characteristic is a well-run business operation, he said. The questions a buyer should ask, (which incidentally are the same questions a hopeful seller should ask of themselves) are if the levels of customer satisfaction are high enough, if the staff is reliable and productive and generating enough revenue to make each member worth keeping. Too many companies make their living off premium flow, said Bakst, which does not bode well for a business.

Other characteristics Bakst cited are the company market, a high level of automation, and how producers are compensated. Regarding the last of these traits, he said it is important to leave room for profitability in compensating producers. It is also important, he said, to have covenants not to compete.

"Many agencies operate without these and when the producer leaves he or she takes the company's entire book of business," said Bakst.

Bakst also stressed the importance of having a good back-up staff.

"Anything to let the producers produce is good," he said, citing instances where producers have to do administrative work as counter-productive.

A marketing plan is another must for agencies looking to be acquired. Agencies have to devote resources to a particular area, such as a niche market, but also have to be able to look for new clients. It is restrictive to have too much of a niche, he cautioned.

Bakst said acquisitions should be viewed not only as a way to grow, but also as a way to pick up markets, personnel, better equipment and better consultants. He said it is not always easy to find a good match, and cited difficulties such as the partner who doesn't pull his or her own weight.

"One of these people has fallen asleep at the switch while the other one has doubled or tripled his business, yet you're still equals and the one person who has been more successful begins to resent the other individual who hasn't pulled as hard and is living off the fat of the more successful one," he said, drawing a scenario he has seen all too often.

Bakst also offered some humorous advice about how to spot a good candidate for acquisition.

"Going to meetings where there are people speaking on agency mergers and acquisitions, who are the people in the room? They're either interested in buying or selling," he said. "But as you look out across the room, which I often do, and perhaps I do a little bit of profiling, I assume that the grayer the hair, the more likely they are to be sellers than buyers." □