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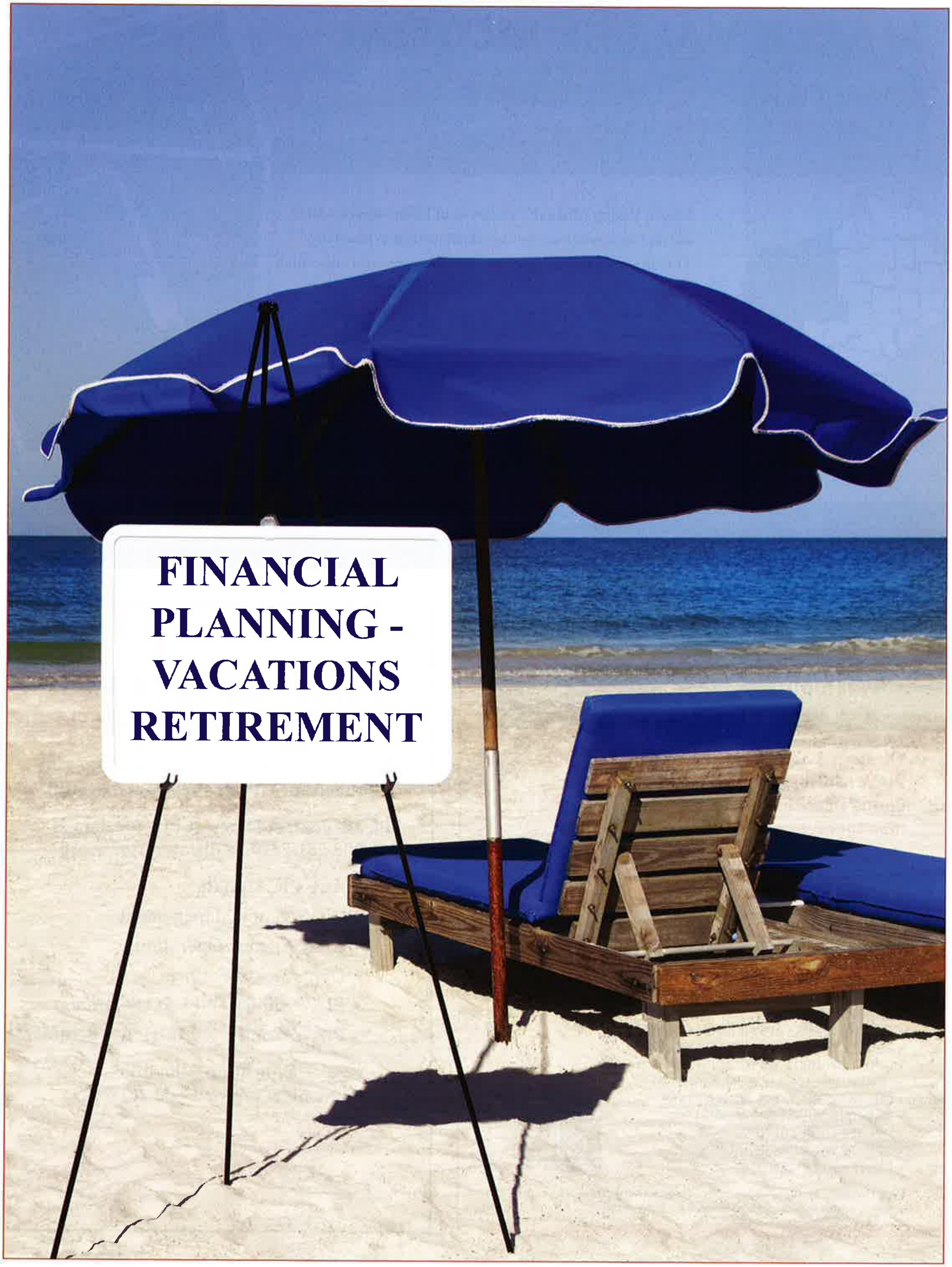
FINANCIAL
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RETIREMENT

Selling your agency sooner or later?

start *Planning* today

by Rick Dennen, President and CEO of Oak Street Funding

So you're ready to start thinking about retirement? Maybe, maybe not? If you're an insurance agent reading this article, it's likely you are in the beginning stages of considering how to make an exit from your agency.

With the majority of agents aged 55 or older, the need to start planning is urgent. Even those agents who have 20 or more working years would benefit from exit planning. There are factors that have to be carefully considered, and financing options evaluated to prepare for the eventual sale of your agency. Regardless of where you are in your retirement timeline, now is the time to start planning.

KEY FACTORS

As you think about selling your agency, the first thing you have to know is what you want to accomplish with the sale and what you need to get out of it.

What will be the purpose for selling and what are your goals? Will you sell to retire in your 60s or to make a career change in your 50s? If you retire, to what degree are you counting on the proceeds from the sale to fund your retirement and how much will you need? Is leaving a legacy important or will the focus strictly be business and financial? And what about your level of involvement once the business is sold – will you mind being involved as a mentor or in other role, or do you want to be finished with any attachments to the business? Are you concerned about your employees remaining, or will they find other work?

If you have business partners, these questions may be more difficult to answer as all parties may have differing opinions and needs that will have to be reconciled to make decisions and plans.

GETTING STARTED

Once you've settled on the answers to these questions, start outlining a high-level plan. Experienced brokers in the insurance industry typically say it takes two years of preparation to sell an agency. The questions outlined above are merely preliminary steps to developing and executing a solid sales plan, so they need to be asked and answered even prior to two years out.

Start by outlining the right sale structure, consider financial and management matters, find the right professionals/ advisors to assist with the process, and make sure the right agreements are in place with employed producers. It can be a daunting task even for the most prepared, so be ready to call on the same endurance and vision you used in the early days to get your business established – you're going to need those qualities once again!

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Selling Your Agency
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GET HELP

Preparing a business for sale and actually getting it sold is similar to selling a house: it often looks easier than it is. Just as people think you can easily do some cleaning and needed repairs, throw up a 'For Sale by Owner' sign and watch buyers rush in with offers, agency owners also mistakenly think they can tidy up their finances and post their business for sale. Like the homeowner who comes to realize their lack of knowledge and expertise is hindering the sale of their home, agents learn that selling a business usually demands professional help. It's advisable to find good brokers, valuation experts, attorneys and accountants to simplify the process, help increase the likelihood of having your expectations met, and to ensure the transaction is free of legal and tax issues that can derail or stall your plans.

BUILD VALUE

While you're going through this process, remember to work on making your agency one that can function well without you and other owners, if there are any. Manage your business like a parent raises a child, with the goal of making it self-sufficient and valuable. You want to demonstrate that your business is poised to continue thriving after there's new ownership and leadership. Not only will this help ensure the continuation of the business, it will help attract more potential buyers who might not be up for tackling management challenges. Work also on building value. There are a number of strategies related to finances, profitability, operations, sales and more to do this. Conduct some research and seek advice to determine what's best for your agency.

KNOW YOUR FINANCING OPTIONS

You also need to think about the financing options available to you. Your choice will affect the number and kind of purchasers you attract. And while you may have professional help making this decision, it's important to have a high-level understanding of your options.

The three most common financing options are seller financing, earnouts and third party financing.

With seller financing, the agency seller accepts a down payment for the business and then installment payments over a predetermined period of time. Because many people don't have the financial resources to buy another business, this option can increase the number of prospective buyers. The seller maintains a stake in the business until the purchase price is paid off. That may or may not be desirable to the seller.

A seller also continues to have a stake in an agency when an earnout is chosen for financing. In this case, an agreement is struck in which the buyer pays the seller a portion of the sale price upfront, and the seller has the potential to earn more money over a specified period of time (usually up to five years) if certain goals (i.e., profit, revenue, cash flow) are met. Again, a seller is still engaged with the company to see that growth goals are achieved. This can result in conflicts depending on how the buyer operates the business. If the arrangement doesn't go as expected, the seller's income from the sale can be reduced by a significant amount. So while this can be a risky option, as with seller financing, the pool of potential buyers can be expanded.

Third party financing is probably the most widely desired option of agency owners. First, the seller can get a large lump sum, which is often the goal when exiting the business. Second, the seller doesn't have to deal with the complexities of providing a majority of funding for a buyer. What's more, having a financial institution involved can benefit the buyer, since lenders are not going to fund risky deals. While the number of prospective buyers may not be as great as with other options, competitive rates and available funds may equate to a higher purchase price if buyers can borrow more money. Third party financing is attractive to buyers too. But sellers should be careful about investing a lot of time in negotiations with potential buyers before they have great certainty of their ability to secure a loan. If you're in this situation, you might want to make sure your buyer is pre-qualified to save yourself time, energy and even money that can be wasted on someone who is not able to buy your agency.

Selling an agency is not a simple undertaking, but being informed about what's to come, having reasonable expectations and properly preparing can simplify the process and help ensure a successful outcome.

Rick Dennen is president and CEO of Oak Street Funding, which provides commission-based lending for insurance agents that need capital to buy, build or sell their agency. He can be reached at rick.dennen@oakstreetfunding.com.