



## buying and selling

# The Five Critical Cs of Acquisitions

By Rick Dennen



**Q**uick romances don't usually make happy, lasting marriages. It's easy to be in love when a relationship functions on the surface. But the romance quickly fades as the daily grind exposes each person's true character. That's why divorce rates are extremely high for hasty unions.

The statistics regarding mergers and acquisitions are similar, as many fail to meet buyer expectations. How could that be? I believe both sides forget about the "merge" and focus on the "acquire" part. They romanticize the entire deal, setting their sights on the financial results because that's usually the motivation for buyers and sellers.

A key lesson I've learned after funding and servicing hundreds of agency acquisitions is how critical it is for agency

owners to acquire the right company with the right people.

Even when agency owners start the acquisition process with an open mind, patience and the willingness to involve experienced brokers, accountants, attorneys and other professionals, they can drift towards transactions that aren't ideal because they overlook or rationalize away crucial details. On paper, the financials and commission projections show great promise. On the surface, the selling agency's principals are decent, solid business professionals with prudent management philosophies.

The real story may be slightly or extremely far from appearances. While the hidden details, once they surface, may not be enough to render the deal worthless, they may result in lower profit

and expose new issues that must be addressed. These problems can often drain resources – both human and financial – that were perfectly fine before. Sometimes an acquisition can even put your existing business at great risk.

Here are the five Cs to remember when considering an insurance agency acquisition. An acquisition, no matter how we might view it, is a merger. Keep these factors in mind to avoid hidden issues that can lead to buyer's remorse.

### **Culture**

Culture clashes can hurt both employee and customer relations. If one agency has a quiet doctor's office-type culture and the other is akin to a bustling café, there's going to be friction. Disparities in management styles, office environments, compensation philosophies, personalities and other differences can be enough to cause employee conflicts and deteriorate morale. Both can negatively affect how customers perceive the agency and how they are treated.

### **Contracts**

Depending upon agreements made during negotiations, you may have to take on carrier, employee, lease agreement and other contracts that were secured by the selling agency. Hidden loopholes or overlooked details can result in extra demands or expenses that your agency is unprepared and ill-equipped to handle. They can change the dynamics of your agency and render healthy aspects unhealthy and vulnerable.

### **Carriers**

Selling agents are often motivated by rumored or confirmed carrier changes that are anticipated in the near or distant future. Let's face it, through tightly-knit networks and contacts, people learn big

news about carriers or discern changes long before official company announcements are made. Agency sellers may be fairly certain of new requirements that will be enforced, system or policy changes planned, significant product modifications or other major shifts that may negatively impact the agency's ability to grow and maintain its existing customer base.

### Customers

The value of an acquisition rests squarely on the ability to continue the selling agency's commission stream; the ability to retain its customers. Some customers have little, if any, contact with their agents and, therefore, they have little loyalty to them. Others are so connected with their agents they would never consider switching. In either scenario, there's a real risk of losing customers after an acquisition. There must be a strong knowledge of the selling agency's customers and what their disposition is likely to be once the agency is dissolved or merged into another.

### Competition

Just as agents can be motivated to sell based on real or predicted carrier changes, they also can be prompted to enter the market because of impending competition. It's critical to know what competing carriers are planning for your market. Is there a national or regional strategy to expand through new start-up agencies? Are they infusing more capital into existing agencies or into advertising to increase business? And what about competing agencies? What information do you have about their future moves? Agencies can be shocked and derailed by competitive forces if they are unaware of plans that may have been in the works long before an acquisition. **Ef**



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