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Plan today to sell your agency

Ask yourself the right questions, get the right help and consider all your financial options

By Rick Dennen

Are you ready to think 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 55 or older, the need to start planning is urgent. Even those agents who have 20 or more working years left would benefit from exit planning. There are factors to consider and financing options to evaluate 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 is your focus more business and financial gain? What about your level of involvement once the agency is sold—are you interested in being a mentor, or do you want to sever any attachments to the agency? Are you concerned about your employees remaining with the agency or are you confident they will find other work?

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

Get started

Once you've answered 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 preliminary steps to develop and execute a solid sales plan, so they need to be asked and answered before you start your two-year plan.

Start by outlining the right sale structure, consider financial and management matters, find the right professionals/advisers to assist with the process, and make sure the right agreements are in place with employed producers. Even for the most prepared, it can be a daunting task. 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!

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 they can 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 homeowners who come 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 finance 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 to make this decision, it’s important to have a high-level understanding of your options.

The three most common financing options are seller financing; earn-outs; and third-party financing.

Seller 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.

Earn-outs. A seller also continues to have a stake in an agency when an earn-out 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 still is 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. Third-party financing probably is the most widely desired option of agency owners. First, the seller can get a large lump sum, which often is 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 prequalified 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.

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