agency operations

Creating Millionaires

By Mel Clemmons

I wanted to write a book about helping agency owners sell their agencies for some time, and a few months ago, it became a reality. The title of the book is *Creating Millionaires*. Much of what you'll read in this article is based on information that is contained in the book. In the paragraphs that follow, I will share a few of the dos and don'ts I have witnessed over the years.

Let me begin by sharing a story with you. At one point in time, one of the insurance carriers we were representing was terminating a lot of agent contracts. These were people who had been in the business for 30 to 40 years. They were great insurance agents and great business owners, but they had no clue about how to liquidate their assets or how to retire, and when their contracts were terminated, they only had 90 days to get out of the business.

Being self-employed, we often wonder what's going to happen once we retire. We're great at running our businesses and at managing day-to-day operations, but at some point, we have to prepare for the next step in our lives, which is retirement.

As you can imagine, it was a very stressful time for the agents being terminated and a steep learning curve for anyone who was trying to evaluate what their business was worth. I've since made it my mission to help other insurance agents avoid the stress and headaches that those individuals went through when they had to sell under those circumstances. In all honesty, though, most business owners are unprepared about what to do when they go to sell their agencies.

Let me walk you through what it looks like when business owners sell the right way and with the proper education. In all of the successful transactions I've seen from afar, and the ones I've been involved in firsthand, there are a few key elements that are always present. First, the business owners do their research. They know exactly what the market is saying about the insurance field, or their agency. They've made the effort to find out how many people are looking for businesses like theirs. And they also look into how much this type of business is worth. After they've determined the value, they ask, "Who are the lenders playing on this field?" Of course, there is always a possibility that a buyer will come to the table with two or three million dollars in cash, but that's very unlikely. So, agency owners need to prepare themselves by learning which banks are lending to buyers who can buy their businesses.

Besides finding out what the business is worth, a successful agent will also take time to find out what the process is for selling the business. To sell an insurance firm successfully, the agent will have to know the answers to the following questions:

- *How do I get my carrier to approve my buyer?*
- *How do I identify where the potential buyers are?*
- *How do I know when I've found a good buyer?*

When it's done the right way, the agent either hires a professional to show him how to do these things, or he does the research and finds all of this information on his own.

A business broker or consultant is not mandatory for a sale to be successful, but education and knowledge are. Therefore, agency owners have to invest time and energy with potential buyers who are in the market for their business.

One of the reasons insurance carriers involve market leaders, such as FSLs, or outside people in helping agents sell their firms is because they know that sellers oftentimes become emotionally attached to their businesses. One of the things I've learned about business over the years is not to get emotionally attached. Even though the business may have been in the family for 30 to 40 years, there's no emotional attachment for the person acquiring it. It's a business transaction. The best transactions occur when sellers step into the transaction and separate their emotions from the process. It's not always easy, but it's imperative that they understand how to not involve their emotions. When sellers are emotionally attached, problems arise. They need to consider what's good for the buyers and what's good for themselves, and then find a happy medium. A lot of times, that doesn't happen.

Many business owners might think they have the knowledge and the skills needed to sell their businesses, but there's a reason why there are professionals who sell houses, sell businesses, or sell airplanes — it's what they've been trained to do. Business owners are trained to run their businesses every day — they are not trained to evaluate the terms of sale, negotiate with buyers, or market their businesses for maximum value. Even so, there are several places to get the needed information to sell your agency. There are several resources available to NAPAA members that can provide you with forms and processes to help you sell your agency. You can also visit the websites of major lenders in business sales and you'll find they have pages that describe how to sell a business. You just have to be willing to invest the time to learn.

People want to retire on their own terms. I often tell potential sellers that they have to maintain their position of leverage in the transaction. Buyers often have outside guidance or market leaders advising them of what they should pay or whether the book of business is good or bad. When you sell your agency, you need to know who all the players are. Never think you have no options. It's similar to selling a house; when the buyer thinks the seller is acting out of desperation, the buyer will just offer anything. But when the buyer knows that the seller has options to bring in other potential buyers, there is a very real threat of somebody else coming to the table, perhaps causing that buyer to lose out. It creates a different sense of urgency for the buyer, and that works to the seller's advantage.

How to Avoid Killing a Potential Sale

Why do some deals never make it to the closing table?

I'll share a few examples of some of the worst deal-killing actions I've seen. First, nothing's in writing. A business owner goes into a huge multimillion-dollar deal and it's all based on a verbal deal or a handshake. He talks to a brother-in-law who knows a guy who says he'll pay a certain amount for the business. Trusting someone's word and not getting it in writing can backfire. Second, a business owner doesn't ensure that a security deposit was made when it was supposed to be made. And third, no letter of intent was established, and as a result, there are zero repercussions preventing the buyer from just walking away from the deal.

With no adverse consequences for the buyer, it is easy for him to wait, and then 90 days later say, "You know what? Instead of paying $550,000, I've decided to only pay $350,000. Take it or leave it." And this can even occur on the day of closing! When there's no contract with built-in repercussions, this can and does happen. A clause should always be included to make sure the buyer is hit with financial repercussions if there's no closing. This provides the buyer with a financial incentive to come to the closing table and serves as a reminder that he doesn't hold all the cards. Otherwise, the seller, who is emotionally attached and thinking about retiring, can be blindsided a day before closing when the buyer changes the terms. The seller is then forced to accept the new terms or walk away. He finds himself behind the eight ball in terms of not wanting to take a big loss, yet he still yearns to sell and retire.

In one perfect example that I remember, the buyer went to the seller and convinced him that the bank approved him only for a certain dollar amount. The seller took him for his word and didn't do a proper investigation, and it cost him $260,000 of his purchase price.

Another nightmare that can cause the sale of an insurance brokerage to fall apart is the seller's eagerness to sell. If precautions are not taken, agency staff could be alerted before the appropriate time, causing them to become antsy and look for alternative work. So, in the process of trying to sell their greatest financial asset, the seller has key employees leaving. Now, the asset is worth less because it's missing key personnel. The buyer will say, "I don't want to buy your business when it's missing key employees." When the seller says that the employees quit because they heard the business was being sold, the buyer says, "That's not my problem." The seller is then stuck with fewer employees and no buyer.

It happens in real life.

I've seen a transaction wherein the seller actually had an open house before closing to introduce his new buyer. He alerted the employees and sent letters of introduction out to the community well before the closing date. But suddenly, he had no buyer because the buyer couldn't get financing. That blunder proved disastrous for his agency.

Another mistake sellers can make is alerting the wrong people before a firm deal is made. Before informing the public, the insurance carrier, or the appropriate decision makers, a seller should have a conditional letter of agreement. It's important to have certain terms already negotiated, because when the deal is on the table, both parties will be on the same page. Then, buyer and seller are one united front.

I've also seen sellers look at inaccurate revenue multiples. They look at the wrong documents and try to evaluate the value of their business, but they're not even looking at the proper factors.

This article provides an insider's secret peek behind the curtain at some of the things that can go wrong when selling your agency. Thankfully, bad things don't always happen, but if you want to ensure that everything goes right, do your homework and heed the advice you receive from NAPAA, your business broker and from lender websites.

In closing, there are many factors to consider during the sales process. The most important is to know what your business is worth. Next, know how to locate and identify good buyers. Lastly, know when to accept or decline an offer to purchase. And once you put them into action, you are well on your way to becoming a millionaire! ***Ef***

Content for the preceding article was adapted for Exclusive*focus from the new Mel Clemmons book,* Creating Millionaires. *To obtain a copy, visit* ***www.melclemmons.com***.