



# Best Practices Study: Top 5 Things It Can Help in YOUR Agency

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# Benchmarking for 20 Years





# Why Benchmark?

## Improvement

Not get left behind

Become better in an  
area than others

Enhance agency value

# Benefits of Benchmarking

Establishes  
Performance  
Baseline

Reveals  
Opportunities &  
Problems

Identifies  
Priorities

Sets  
Performance  
Expectations

Measures  
Improvements &  
Monitors Change



# Benchmarks

Revenue & Expenses  
 Profitability  
 Financial Ratios  
 Book of Business  
 Producer Productivity  
 Service Staff Productivity  
 Carrier Representation  
 Technology

6 revenue categories  
 <\$1.25M to >\$25M



# Top 5 Benchmarks to Help Your Agency

- Shareholders Return on Investment (Rule of 20)
- Revenue Growth (Organic Growth Rate)
- Profitability (Pro Forma EBITDA)
- Financial Management (TNW)
- General Risk Factors (Various)

# Shareholder Return on Investment

- Agency Value is primarily a function of two variables
  - **Growth**
  - **Profitability**
- Which to focus on, growth ... or profitability ... or both?



# Shareholder Return on Investment

## What is the Rule of 20?

$$\text{Rule of 20 Score} = \frac{1}{2} \text{ EBITDA Margin} + \text{Organic Revenue Growth}$$

- Provides a tool to benchmark agency performance
- Helps frame the trade-off between growth and profitability

	Average	+25% Profit	+25% Growth
Rule of 20	15.7	25.7	25.1

Rule of 20 Outcome			
Public Brokers	Organic Growth	EBITDA Margin	Rule of 20 Outcome
Willis Group	2.0%	26.5%	15.3
Aon	2.0%	20.9%	12.5
Brown & Brown	-2.5%	34.1%	14.6
Arthur J. Gallagher	4.7%	19.0%	14.2
Marsh & McLennan	5.0%	17.4%	13.7

Benchmarks shown are from the 2012 Best Practices Study for Agencies with Revenue between \$2,500,000 and \$5,000,000

# Top 5 Benchmarks to Help Your Agency

- Shareholders Return on Investment (Rule of 20)
- Revenue Growth (**Organic Growth Rate**)

# Revenue Growth (Commissions & Fees)

	Average	+25% Profit	+25% Growth
<b>Commercial P&amp;C</b>			
Renewals <sup>1</sup>	90.6%	94.9%	93.7%
New Business <sup>2</sup>	14.4%	14.1%	16.5%
Acquired Revenues <sup>3</sup>	0.0%	0.0%	0.0%
Organic Growth <sup>4</sup>	5.1%	9.0%	10.2%
Total Growth <sup>5</sup>	5.1%	9.0%	10.2%

	Average	+25% Profit	+25% Growth
<b>Personal P&amp;C</b>			
Renewals <sup>1</sup>	90.2%	90.4%	92.9%
New Business <sup>2</sup>	11.7%	12.6%	14.3%
Acquired Revenues <sup>3</sup>	0.1%	0.0%	0.0%
Organic Growth <sup>4</sup>	1.9%	3.0%	7.2%
Total Growth <sup>5</sup>	2.0%	3.0%	7.2%

	Average	+25% Profit	+25% Growth
<b>Group Medical L&amp;H</b>			
Renewals <sup>1</sup>	89.1%	92.8%	94.2%
New Business <sup>2</sup>	12.1%	10.9%	10.4%
Acquired Revenues <sup>3</sup>	0.0%	0.0%	0.0%
Organic Growth <sup>4</sup>	1.2%	3.7%	4.5%
Total Growth <sup>5</sup>	1.2%	3.7%	4.5%

Benchmarks shown are from the 2012 *Best Practices Study* for Agencies with Revenues Between \$2,500,000 and \$5,000,000

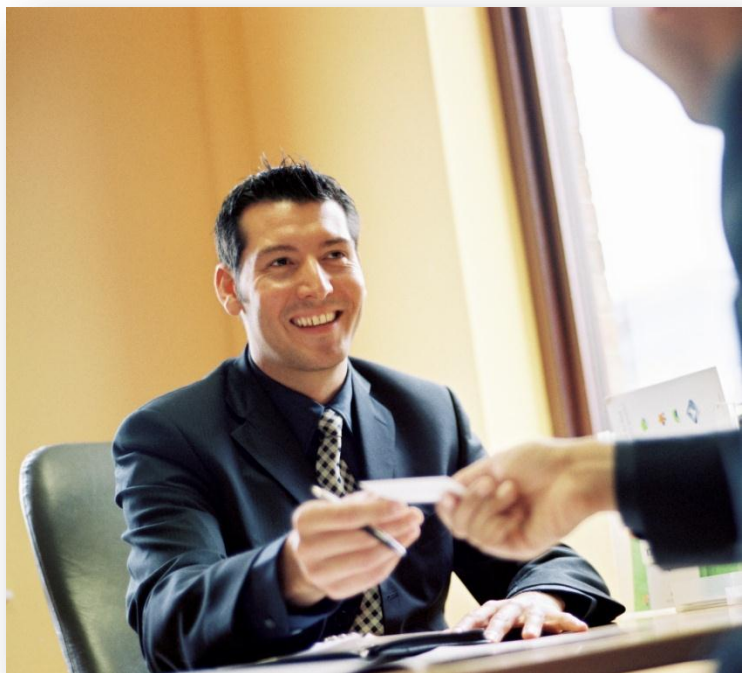
# Revenue Growth (Organic)

	Average	+25% Profit	+25% Growth
Agencies with Revenues of:			
Under \$1,250,000	1.9%	5.4%	11.6%
Between \$1,250,000 and \$2,500,000	1.3%	2.6%	12.1%
Between \$2,500,000 and \$5,000,000	3.0%	7.6%	12.2%
Between \$5,000,000 and \$10,000,000	3.2%	4.3%	9.6%
Between \$10,000,000 and \$25,000,000	4.7%	4.1%	12.4%
Over \$25,000,000	5.6%	7.7%	21.9%

Benchmarks shown are from the 2012 Best Practices Study

# Revenue Growth

## *How Much Should We Invest In New Producers?*



- Consider your NUPP  
Net-investment in  
Un-validated  
Producer  
Pay

# Revenue Growth

## The NUPP

- “Net-investment” in Un-validated Producer Pay
  - Difference between pay and what producer would earn under agency’s normal commission schedule

*Example:*

$$\text{\$50K} - (\text{\$100K} \times 35\%) = \text{\$15K}$$

- Not to be confused with “gross investment”



# NUPP: Net Unvalidated Producer Payroll

## Step 1: Find the total comp of all unvalidated producers

*Number of unvalidated producers* 3

*Actual payroll of unvalidated producers* \$150,000

## Step 2: What would the unvalidated producers earn under the agency's normal producer commission schedule?

*Unvalidated producers' total book of business* \$175,000

*Agency blended commission rate* 35%

*Implied ("earned") compensation* \$61,250

## Step 3: Calculate the NUPP as a percentage of revenues

*Actual payroll of unvalidated producers* \$150,000

*Implied ("earned") compensation* \$61,250

*NUPP* \$88,750

*Agency Net Revenues* \$5,000,000

**NUPP as a percentage of revenues**

**1.8%**

# Key Findings

## *Importance of New Producer Hiring*

### *Producer Recruiting: Who/Where From*

Age/Industry Combination	% of Firms	Success Rate	Organic Growth
Over 30/Inside Insurance Industry	<b>40%</b>	<b>55%</b>	<b>2.8%</b>
Under 30/Outside Insurance Industry	<b>39%</b>	<b>50%</b>	<b>3.5%</b>
Under 30/Inside Insurance Industry	11%	60%	0.5%
Over 30/Outside Insurance Industry	10%	51%	0.7%

Source: Reagan Leadership Series – Leading Sales Organizations

# Revenue Growth

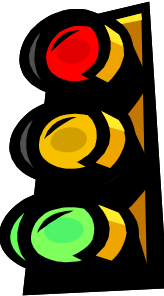
## *Recruiting and Developing New Producers*

<b>Net Investment in Unvalidated Producer Payroll (by Revenue Category)</b>	<b>NUPP</b>
Under \$1.25M	2.5%
\$1.25M - \$2.5M	2.2%
\$2.5M - \$5.0M	1.4%
\$5.0M - \$10.0M	1.1%
\$10.0M - \$25.0M	1.5%
Over \$25.0M	1.6%

Benchmarks shown are from the 2012 Best Practices Study for Agencies with Revenue between \$2,500,000 and \$5,000,000

# Revenue Growth

## *What is a Healthy Level of New Producer Investment?*

<b>NUPP as a % of Revenues</b>	<b>Outlook</b>
Less than 1.0%	 Potentially unhealthy level of investment
1.0% to 1.5%	Borderline low level of investment
1.5% or greater	Healthy level of investment

# Revenue Growth

## Equipping Producers to Succeed



# New Business Production

<b>New Business Production (by Revenue Category)</b>	<b>Personal P&amp;C</b>	<b>Commercial P&amp;C</b>	<b>Employee Benefits</b>
Under \$1.25M	\$22,333	\$40,953	*
\$1.25M - \$2.5M	\$34,089	\$51,431	\$31,261
\$2.5M - \$5.0M	\$32,164	\$59,086	\$32,164
\$5.0M - \$10.0M	\$40,427	\$56,103	\$87,307
\$10.0M - \$25.0M	\$59,241	\$92,968	\$125,050
Over \$25.0M	\$57,265	\$100,091	\$143,142

Benchmarks shown are from the 2012 Best Practices Study for Agencies with Revenue between \$2,500,000 and \$5,000,000



# Revenue Growth

## Equipping Producers to Succeed



# Revenue Growth

## Enhanced Advertising / Marketing

### Digital Marketing

- Email
- Social Media

### Target Marketing

- Carrier Co-op Programs
- Trusted Business Relationships

***1.3% of Net Revenue***

# Top 5 Benchmarks to Help Your Agency

- Shareholders Return on Investment (Rule of 20)
- Revenue Growth (Organic Growth Rate)
- Profitability (Pro Forma EBITDA)

# Profitability

	Average	+25% Profit	+25% Growth
<b>Revenues (as % of Gross Revenue)</b>			
Commercial Lines	53.7%	45.7%	46.6%
Bonds	1.7%	0.9%	1.5%
Personal Lines	21.8%	32.9%	19.3%
VAS – P&C	1.5%	0.3%	0.3%
Contingent/Bonus	8.2%	8.8%	9.6%
Group Medical	8.4%	5.4%	10.0%
All Other Group L&H	1.4%	0.9%	0.9%
Individual L&H	2.1%	3.5%	1.9%
Bonus/Overrides	0.3%	0.5%	0.7%
Investments	0.6%	0.7%	0.9%
Miscellaneous	0.2%	0.4%	0.5%
<b>Total Revenues</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Brokerage Commission Expense	1.1%	0.4%	0.0%
<b>Net Revenues</b>	<b>98.9%</b>	<b>99.6%</b>	<b>100.0%</b>
<b>Expenses (as % of Net Revenues)</b>			
Compensation	62.2%	58.9%	60.7%
Selling	3.8%	2.7%	4.3%
Operating	14.6%	11.3%	12.6%
Administrative	2.3%	0.6%	1.8%
<b>Total Expenses</b>	<b>82.9%</b>	<b>73.4%</b>	<b>79.3%</b>

	Average	+25% Profit	+25% Growth
<b>Profit/Loss (as % of Net Revenues)</b>			
Pre-Tax Profit	17.6%	27.5%	21.9%
Pro Forma Pre-Tax Profit <sup>1</sup>	21.7%	34.5%	27.8%
Operating Pre-Tax Profit <sup>2</sup>	9.0%	18.1%	11.6%
EBITDA <sup>3</sup>	20.3%	28.5%	23.2%
<b>Pro Forma EBITDA<sup>4</sup></b>	<b>24.4%</b>	<b>35.4%</b>	<b>29.2%</b>

## Definitions:

1. Pro Forma Pre-tax Profit is Pre-tax Profit if discretionary expenses are eliminated and all owners compensated as employees
2. Operating Pre-tax Profit is Pre-Tax Profit excluding income from contingents, bonus and investment income
3. EBITDA is Earnings Before Interest Taxes Depreciation and Amortization
4. Pro Forma EBITDA is EBITDA if discretionary expenses are eliminated (e.g. certain owner's perks/benefits), and one-time or extraordinary revenues are excluded

Benchmarks shown are from the 2012 Best Practices Study for Agencies with Revenue between \$2,500,000 and \$5,000,000

# Profitability

## *Employee Productivity*

	Average	+25% Profit	+25% Growth
Total Number of Employees (FTE)	23.9	22.4	18.9
Revenue Per Employee	\$150,931	\$167,543	\$174,917
Compensation Per Employee	\$93,833	\$99,815	\$105,742
Spread Per Employee	\$57,097	\$67,728	\$69,175

Benchmarks shown are from the 2012 Best Practices Study for Agencies with Revenue between \$2,500,000 and \$5,000,000

# Profitability

## Producer Productivity

	Average	Top 25%
<b>Commercial P&amp;C Producers</b>		
Average Validated Producers		
# Validated	3.8	
High	9.0	
Low	0.5	
Average New Commissions Produced Annually	\$62,236	\$133,726
Average Book Serviced (Commissions)	\$420,985	\$560,160
Average Pay (\$)	\$146,358	
Average Pay (% of Book Serviced)	34.8%	

	Average	Top 25%
<b>Group Life &amp; Health Producers</b>		
Average Validated Producers		
# Validated	1.2	
High	2.5	
Low	0.5	
Average New Commissions Produced Annually	\$59,086	\$130,027
Average Book Serviced (Commissions)	\$284,920	\$548,444
Average Pay (\$)	\$103,244	
Average Pay (% of Book Serviced)	36.2%	

Benchmarks shown are from the 2012 Best Practices Study for Agencies with Revenue between \$2,500,000 and \$5,000,000



# Producer Compensation

## (as % of Book Size)

Total Producer Compensation As % of Book Size (by Revenue Category)	Personal P&C	Commercial P&C	Employee Benefits
Under \$1.25M	27.4%	32.3%	*
\$1.25M - \$2.5M	24.6%	31.9%	55.4%
\$2.5M - \$5.0M	26.1%	34.8%	36.2%
\$5.0M - \$10.0M	24.8%	33.5%	35.1%
\$10.0M - \$25.0M	27.5%	33.1%	33.1%
Over \$25.0M	25.1%	28.7%	29.0%

Benchmarks shown are from the 2012 Best Practices Study for Agencies with Revenue between \$2,500,000 and \$5,000,000



# Profitability

## CSR Productivity

### Service/Sales Support Staff

	Average	Top 25%
<b>Commercial P&amp;C</b>		
Number	5.5	
High	16.2	
Low	1.0	
Average Book Serviced (Commissions)	\$309,011	\$447,375
Average Pay (\$)	\$44,300	
Average Pay (% of Book Serviced)	14.3%	

	Average	Top 25%
<b>Personal P&amp;C</b>		
Number	3.3	
High	13.0	
Low	1.0	
Average Book Serviced (Commissions)	\$199,013	\$348,920
Average Pay (\$)	\$35,798	
Average Pay (% of Book Serviced)	18.0%	

Benchmarks shown are from the 2012 Best Practices Study for Agencies with Revenue between \$2,500,000 and \$5,000,000

# Profitability

## *Technology's Role*

Agency Revenue	Uses Social Media to Build Brand	Has Optimized Website for Search Engines	Participates in Paid Search Programs
Under \$ 1.25 M	50.0%	42.0%	20.0%
\$1.25M - \$2.5M	39.5%	55.8%	23.3%
\$2.5M - \$5M	56.8%	62.2%	27.0%
\$5M - \$10M	33.3%	64.4%	22.2%
\$10M - \$25M	23.1%	43.6%	12.8%
Over \$25M	42.1%	63.2%	31.6%

Source: 2010 Best Practices Study

# Top 5 Benchmarks to Help Your Agency

- Shareholders Return on Investment (Rule of 20)
- Revenue Growth (Organic Growth Rate)
- Profitability (Pro Forma EBITDA)
- Financial Management (TNW)

# Financial Stability

	Average	Top 25%
<b>Balance Sheet</b>		
Current Ratio	1.34:1	2.19:1
Tangible Net Worth (% of Net Revenue)	9.5%	29.7%
Receivables/Payables Ratio	36.2%	-5.2%
<b>Aged Receivables</b>		
% Receivables Aged Past 60 Days	15.0%	1.1%
% Receivables Aged Past 90 Days	4.9%	-7.8%

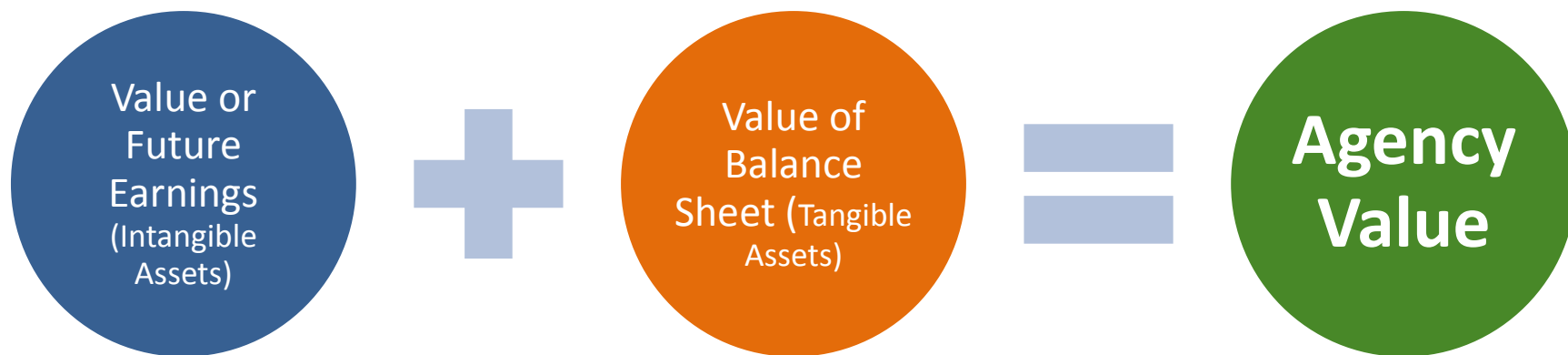
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# Financial Stability

- Tangible New Worth
  - Total Equity less Intangible Assets
  - Important for meeting future capital needs
    - Hiring new people
    - Introducing/Evolving New Products or Services
    - Making Acquisitions
  - Adds \$ for \$ value to your business



# Financial Stability



# Top 5 Benchmarks to Help Your Agency

- Shareholders Return on Investment (Rule of 20)
- Revenue Growth (Organic Growth Rate)
- Profitability (Pro Forma EBITDA)
- Financial Management (TNW)
- General Risk Factors (Various)

# General Risk

## Revenues by Account Concentration/Size

	Average	+25% Profit	+25% Growth
<b>% of Revenue Derived from:</b>			
Largest Account	5.0%	4.7%	5.6%
High	21.5%		
Low	1.1%		
10 Largest Accounts	18.2%	14.6%	21.1%
High	37.6%		
Low	2.9%		

	Average	+25% Profit	+25% Growth
<b>D. Shareholders</b>			
Number of Shareholders (excl ESOP)	3.3	3.6	4.0
High	7.0		
Low	1.0		
<b>E. Ownership Percentage</b>			
% Owned by Largest Shareholder	61.9%	62.1%	56.1%
High	100.0%		
Low	29.4%		
<b>F. Shareholder Age</b>			
Current Age of Largest Shareholder	54.6	57.4	55.9

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# General Risk

## Carriers

	Average	+25% Profit	+25% Growth
<b>Carrier Representation</b>			
<b>Personal Lines P&amp;C</b>			
National	5.7	4.1	4.1
Regional	5.0	4.6	5.6
<b>Total</b>	<b>10.7</b>	<b>8.8</b>	<b>9.7</b>
<b>Commercial Lines P&amp;C</b>			
National	11.6	5.7	15.3
Regional	10.3	5.9	10.3
<b>Total</b>	<b>21.9</b>	<b>11.6</b>	<b>25.5</b>
<b>Group L&amp;H/Financial</b>			
<b>Total</b>	<b>14.2</b>	<b>8.3</b>	<b>9.1</b>

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## To find Best Practices resources, visit this link:

- <http://www.independentagent.com/Resources/AgencyManagement/BestPractices/Pages/Home.aspx>

## For questions, send email to:

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