



Best Practices for Agency Operations *Webinar Series*

1 | Best Practices - Key Metrics

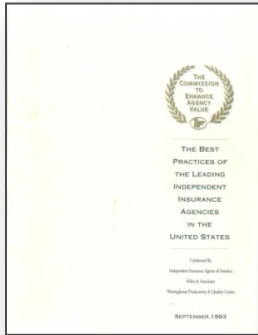
March 30, 2016
Susan Hughes

Best Practices Benchmarking - Why?

- **The best agencies focus on self-improvement**
 - Challenging and evolving marketplace - don't get left behind
 - Establish competitive advantages
 - Enhance agency value
- **Benefits of benchmarking**
 - Establishes a performance baseline (vs. peers and over time)
 - Reveals opportunities and problems
 - Helps identify priorities
 - Validates assumptions with data
 - Sets realistic performance expectations



What we measure, we manage



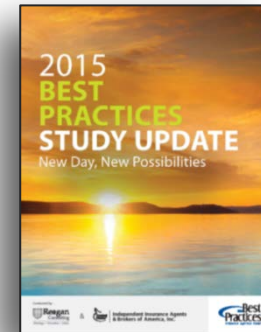
1993

**Pro Forma Profitability
12.0%**

**Revenue per Employee
\$80,793**

**Agency Value –
multiple of revenue**

Internal: 1.1x External: 1.4x



2015

**Pro Forma Profitability
29.8%**

**Revenue per Employee
\$164,362**

**Agency Value –
multiple of revenue**

Internal: 1.4x External: 2.0x

Source: Best Practices Study, 1993 and 2015, Agencies with Revenues between \$2.5M and \$5.0M

Key Metrics

A quick review of valuable benchmarks for

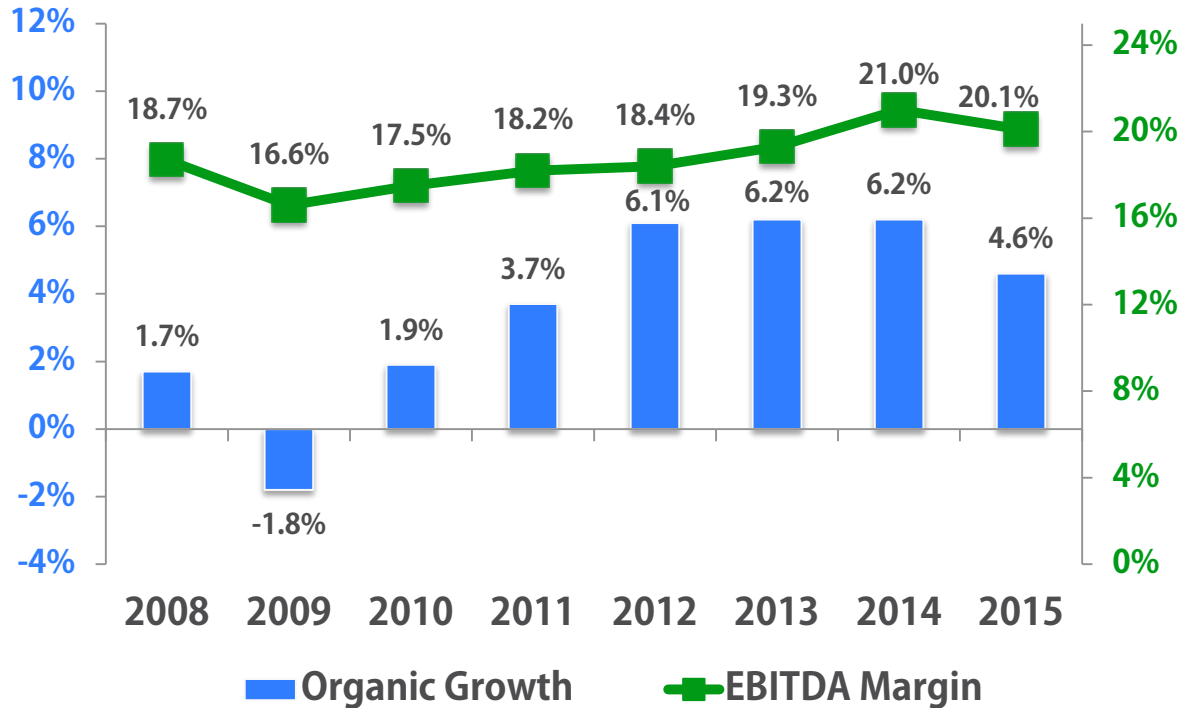
- **Growth**
- **Profitability**
- **Productivity**
- **Perpetuation Readiness**
- **Sales Culture**

Key Drivers of Agency Value

What two variables most significantly impact the value of an agency?

ORGANIC GROWTH

PROFITABILITY



THE RULE OF 20

- A measure of shareholder return on investment
- A growth and profitability balancing equation

=

Organic growth rate

+

1/2 EBITDA margin

*2015 Rule of 20 average,
agencies with \$2.5-5.0MM
revenue:*

24.1

Source: Reagan Consulting's Organic Growth and Profitability Survey

Productivity

What is the simplest and most insightful measure of productivity?

REVENUE PER EMPLOYEE

| Best Practices Study Revenue Category | Revenue per Employee |
|---------------------------------------|----------------------|
| Revenues <\$1.25M | \$131,714 |
| Revenues between \$1.25M and \$2.5M | \$142,005 |
| Revenues between \$2.5M and \$5M | \$164,362 |
| Revenues between \$5M and \$10M | \$170,743 |
| Revenues between \$10M and \$25M | \$184,830 |
| Revenues >\$25M | \$207,660 |

Source: 2015 Best Practices Study

Perpetuation Readiness

Which metrics provide insight on preparedness for perpetuation?

- Demographics - an aging industry

WASA 54.5 (2014 RVI Average)

WAPA 49.3 (2014 RVI Average)

- Producer hiring deficits

NUPP Net Unvalidated Producer Payroll

NUPP: Making Effective Investments in Producers

Calculating the NUPP

Step 1: Find the total compensation of all unvalidated producers

| | |
|--|-----------|
| <i>Number of unvalidated producers</i> | 7 |
| <i>Actual payroll of unvalidated producers</i> | \$500,000 |

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

| | |
|--|-----------|
| <i>Unvalidated producers' total book of business</i> | \$500,000 |
| <i>Agency blended commission rate</i> | 30% |
| <i>Implied ("earned") compensation</i> | \$150,000 |

Step 3: Calculate the NUPP as a percentage of revenues

| | |
|--|--------------|
| <i>Actual payroll of unvalidated producers</i> | \$500,000 |
| <i>Implied ("earned") compensation</i> | \$150,000 |
| <i>NUPP</i> | \$350,000 |
| <i>Agency Net Revenues</i> | \$20,000,000 |

NUPP as a percentage of revenues 1.75%

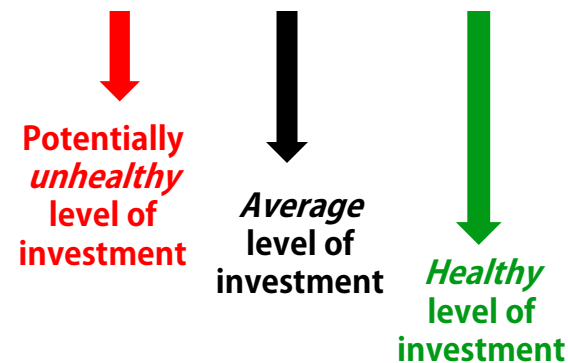


Less
than
1.0%

1.0%
to
1.5%

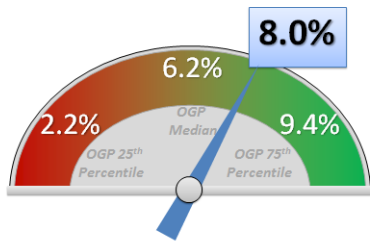
1.5% or
greater

Outlook

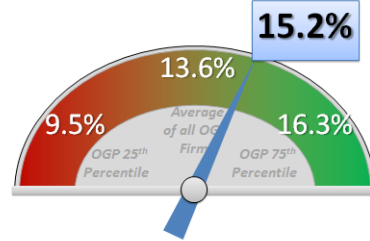


A Hypothetical Metrics Dashboard

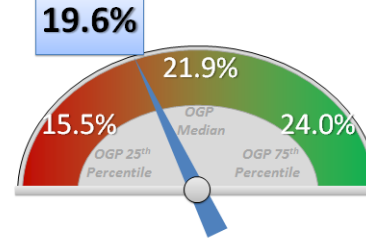
Organic Growth



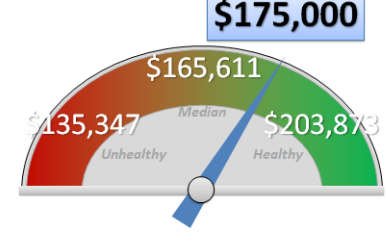
Sales Velocity



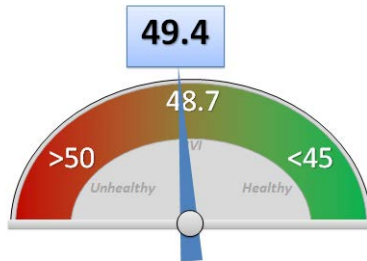
EBITDA Margin



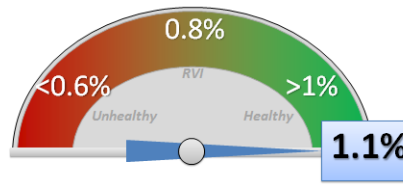
Revenue per Employee



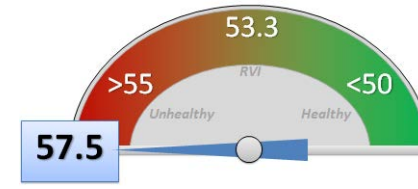
WAPA



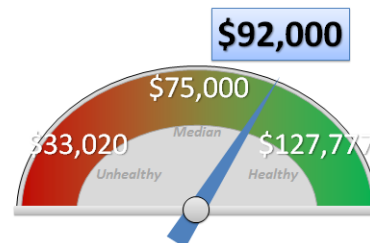
Effective NUPP



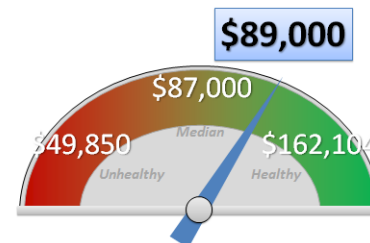
WASA



New Business per Validated CL Producer



New Business per Validated EB Producer



Note: Numbers above are for illustrative purposes only; they do not represent actual metrics for a particular agency or group.

Learn more!

Visit the Best Practices websites at:

Reagan Consulting - reaganconsulting.com/Research/Best-Practices *(under construction!)*

IIABA - <http://www.independentagent.com/Resources/Research/BestPractices>

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Register at <https://attendee.gotowebinar.com/register/7411932500766593283>

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