Agency Consulting Group PIPELINE For Independent Agents

PLEASE VISIT OUR WEBSITE: WWW.AGENCYCONSULTING.COM

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Welcome to The PIPELINE, the premier newsletter for agency owners and principals published by Agency Consulting Group, Inc.

"Your Road to Success Begins With Agency Consulting Group!"

MANAGE YOUR CASHFLOW - DON'T BE MANAGED BY YOUR CASHFLOW

Some agencies have plenty of cash in hand and feel no stress at month-end in meeting their cash obligations with income and cash-in-hand. Others are stressed every month hoping that the combination of direct bill statements and collected agency bill invoices meets their payroll and other cash obligations.

Regardless of whether you are a cash-rich agency or a cash-poor agency, every agency owner wishes (s)he had a way to project monthly cash in and cash obligations in order to know if and when cash infusion is needed and, if not, whether cash must be left in non-interest bearing bank accounts or can be put to more productive use.

We don't get many agents asking for Cashflow Projections simply because it takes a bold and brave owner to actually predict if and when a cashflow shortage will occur even though we already know which of our months is traditionally strong and which are weak. Most of us would rather hide our heads in the sand and hope for better results than we expect or have had historically. Then we hound our bookkeepers or keep an eye on the bank account in fear of the worst.

Cashflow CAN be projected. It's not voodoo or guesswork. It's a process and if you follow the process every month not only will you be more certain of your cash needs, but you will also build a track record of data that will make the task easier every year.

Our cashflow projections are built on historical revenue receipt and historical monthly cash disbursements with agency annual projections of revenue receipts and budgeted expenses acting as the core of future projections. If the revenues are generated as projected, the cashflow projections based on historical performance will be quite close. If either the revenues or the expenses do not achieve the expected levels in the projection period (usually one year), the cashflow projections will be off and the Deviation Report that stems from the on-going analysis will reflect that.

Begin the process by listing on a spreadsheet your income month by month for at least the last three years --the longer the view the more accurate the trending analysis. Calculate the percentage of income generated in each month compared to the entire year as a percentage of the year. When you have done this for the years reviewed you can form the basis of calculating the average percentage of revenue generated in each month. Those trended percentages can be applied to your planned annual revenue for the next year to identify your average expected income per month based on the three or more years studied. You have built the rudiments of an income projection.

If you perform this analysis for at least three years or more, you also have a basis for changing the % Income by Month into a Trended Percentage that reflects the average changed to follow the trends in your agency. Make sure the Trended Percentages total 100% (your averages will automatically total 100%). Trending is more art than science. The more years you have available in front of you the better you can visualize a trend. We include space to physically change the averages to trended expectations when a trend upwards or downwards becomes apparent for a month. The results are measured against the historical average AND the trended average.

I've included below displays of our Cashflow Analysis software that we use for our clients for whom we do annual Cashflow Analysis. Our first sample display is the Income Projection for a client agency (with their permission, of course) for whom we do Strategic Planning and Cashflow Analysis.

CASHFLOW HISTORY

HISTORICAL REVENUES

	Revenue		
	LAST YEAR	PRIOR YR 1	PRIOR YR 2
JANUARY	35333	33253	30224
FEBRUARY	42166	44353	41111
MARCH	18054	21002	23148
APRIL	39876	41645	38777
MAY	44366	40376	41987
JUNE	76354	72222	68937
JULY	65893	68377	63498
AUGUST	72372	69834	66876
SEPTEMBER	63476	59654	55987
OCTOBER	38455	39866	41012
NOVEMBER	32637	35478	37721
DECEMBER	87678	93235	88745
	616660	619295	598023
Of Prior Yr	99.6%	103.6%	

	Monthly Percent to Total Year			Average and Trended Average/M	
	LAST YEAR	PRIOR YR 1	PRIOR YR 2	AVG % MO	TRENDED AVERAGE
JANUARY	5.7%	5.4%	5.1%	5.4%	6%
FEBRUARY	6.8%	7.2%	6.9%	7.0%	6.70%
MARCH	2.9%	3.4%	3.9%	3.4%	2.60%
APRIL	6.5%	6.7%	6.5%	6.6%	6.6%
MAY	7.2%	6.5%	7.0%	6.9%	6.9%
JUNE	12.4%	11.7%	11.5%	11.9%	12.60%
JULY	10.7%	11.0%	10.6%	10.8%	10.80%
AUGUST	11.7%	11.3%	11.2%	11.4%	12%
SEPTEMBER	10.3%	9.6%	9.4%	9.8%	10.60%
OCTOBER	6.2%	6.4%	6.9%	6.5%	6%
NOVEMBER	5.3%	5.7%	6.3%	5.8%	5%
DECEMBER	14.2%	15.1%	14.8%	14.7%	14.7%
	100.0%	100.0%	100.0%	100%	100%

Included in our analysis are average income per month over three years, projections for the following year based on both average and trended expectations based on their planned revenue changes AND the results for that agency for the projection year in question.

	PROJECTED ANNUAL REVENUE		630000	2.2%	Growth
				Deviation Report	
					From
	Mo Avg	Trended Mo	Mo Actual	From Avg	Trended Avg
JANUARY	33922	37800	38325	113.0%	101.4%
FEBRUARY	43836	42210	23987	54.7%	56.8%
MARCH	21398	16380	20064	93.8%	122.5%
APRIL	41318	41318	41156	99.6%	99.6%
MAY	43544	43544	46876	107.7%	107.7%
JUNE	74700	79380	75319	100.8%	94.9%
JULY	67924	68040	70111	103.2%	103.0%
AUGUST	71810	75600	77865	108.4%	103.0%
SEPTEMBER	61505	66780	60488	98.3%	90.6%
OCTOBER	41016	37800	42354	103.3%	112.0%
NOVEMBER	36391	31500	33765	92.8%	107.2%
DECEMBER	92637	92637	97428	105.2%	105.2%
	630000	632989	627738		
			99.6%	99.6%	99.2%
			of latest Proj		

You will notice that the results appear to be very close to the agency's projections. But you will also notice that the Projections bear a revision date of October, right after the end of the third quarter. The reason for this is that this spreadsheet reflects PROJECTIONS, not budget goals. The budget goals of this agency were for a 4% growth the year. They came in at 1.8%. But this is a Strategic Planning agency. That means that at the end of each quarter, the owners revised the budget projections for revenue and expenses to project as closely as possible the realities of the year from a financial consideration. For some agencies that plan conservatively, they may have to increase their projections based on growth beyond expectations. For this agency, it altered projections downward after the first and second quarter and made a few minor adjustments at the end of the third quarter.

Even without any projection change, this agency's expected revenue only deviated more than 10% in January (11% deviation due to late billings from December) and February (53% deviation lost a few large accounts). As they made their corrections to identify cashflow projections for the balance of the year, those deviations changed to 13% for January and 57% for February.

The same exercise is done for cash expenses every month. Cash expenses should exclude the non-cash deductible items in your Operating Statement like Depreciation, Amortization and Bad Debts. See the display, below reflecting the three-year expense history of our sample agency including the year's results.

HISTORICAL CASH EXPENDITURES

***Note - Use Cash Expenses ONLY for cashflow purposes**

	LAST YEAR	PRIOR YR 1	PRIOR YR 2	LAST YEAR	PRIOR YR 1
JANUARY	37054	41171	42011	6.9%	7.4%
FEBRUARY	43037	44830	44386	8.0%	8.1%
MARCH	27543	43838	39853	5.1%	7.9%
APRIL	38500	39691	41045	7.1%	7.1%
MAY	41189	38138	37390	7.6%	6.9%
JUNE	78132	72344	76555	14.5%	13.0%
JULY	51076	41410	37645	9.5%	7.4%
AUGUST	43701	40464	36785	8.1%	7.3%
SEPTEMBER	51000	38139	34672	9.5%	6.9%
OCTOBER	37723	43864	39876	7.0%	7.9%
NOVEMBER	28634	41419	37654	5.3%	7.4%
DECEMBER	61333	70991	64537	11.4%	12.8%
	538920	556297	532409	100.0%	100.0%
Of Prior Yr	96.9%	104.5%			
Cashflow Profit	12.6%	10.2%	11.0%		

While agency revenues can be relatively accurately projected (by expiration lists and renewal income generated), expenses are much easier to project. There are two types of expenses, regular periodic expenses (like rent, phone, utilities) and singular expenses that are incurred as needed, once a year or unexpectedly. Projecting normal monthly agency expenses is an easy exercise. Projecting singular expenses can be done but are sometimes out of your control. The key to cashflow projections is to schedule all expenses possible toward months with positive cashflow and delay any cash expenses possible from weaker to stronger months.

Deviation Report

PROJ AND ACTUAL	Mo Avg	Trended Mo	Mo Actual	From Avg	From Trended Avg	AVG % MO	TREN
JANUARY	40086	35263	38034	94.9%	107.9%	7.4%	6
FEBRUARY	44089	42858	41700	94.6%	97.3%	8.1%	7
MARCH	37028	37028	37202	100.5%	100.5%	6.8%	6
APRIL	39762	37975	37500	94.3%	98.7%	7.3%	7
MAY	38917	38917	46388	119.2%	119.2%	7.2%	7
JUNE	75736	75736	76583	101.1%	101.1%	14.0%	1
JULY	43385	54250	42987	99.1%	79.2%	8.0%	1
AUGUST	40311	45028	43002	106.7%	95.5%	7.4%	8
SEPTEMBER	41287	41230	39965	96.8%	96.9%	7.6%	7
OCTOBER	40460	40460	39675	98.1%	98.1%	7.5%	7
NOVEMBER	35861	35861	34312	95.7%	95.7%	6.6%	6
DECEMBER	65577	65100	67543	103.0%	103.8%	12.1%	1
	542500	549706	544891			100%	1
			1.1%	100.4%	99.1%		
			vs. Latest Proj				

Cashflow projections tell you when you can afford to purchase equipment or make investments in growth, marketing or advertising and when those expenditures will cause you financial stress and force you to borrow funds to pay your bills. Cashflow projections will show you the months that you are stressed and may influence you to target your NB activities toward those months when possible. The use of a Cashflow Projection program (designed by you in Excel or using our program) will permit you to change expense habits to avoid multiple negative cashflow months and will permit you to shift expenses to those months that your Plan indicates will provide the cash to pay the bills.

CASHFLOW				
	CashFlow Expenses as % of Mo Rev			
	% of Income			
	THIS YEAR	LAST YEAR	PRIOR YR 1	PRIOR YR 2
JANUARY	99.2%	104.9%	123.8%	139.0%
FEBRUARY	173.8%	102.1%	101.1%	108.0%
MARCH	185.4%	152.6%	208.7%	172.2%
APRIL	91.1%	96.5%	95.3%	105.8%
MAY	99.0%	92.8%	94.5%	89.1%
JUNE	101.7%	102.3%	100.2%	111.1%
JULY	61.3%	77.5%	60.6%	59.3%
AUGUST	55.2%	60.4%	57.9%	55.0%
SEPTEMBER	66.1%	80.3%	63.9%	61.9%
OCTOBER	93.7%	98.1%	110.0%	97.2%
NOVEMBER	101.6%	87.7%	116.7%	99.8%
DECEMBER	69.3%	70.0%	76.1%	72.7%
		CASH SHORT/LONG		
	Current Year	LAST YEAR	PRIOR YR 1	PRIOR YR 2
JANUARY	291	-1721	-7918	-11787
FEBRUARY	-17713	-871	-477	-3275
MARCH	-17138	-9489	-22836	-16705
APRIL	3656	1376	1954	-2268
MAY	488	3177	2238	4597
JUNE	-1264	-1778	-122	-7618
JULY	27124	14817	26968	25853
AUGUST	34863	28671	29371	30091
SEPTEMBER	20523	12476	21515	21315
OCTOBER	2679	732	-3998	1136
NOVEMBER	-547	4003	-5941	67
DECEMBER	29885	26345	22244	24208
	82847	77740	62998	65614

We recommend that all planning agencies also create Cashflow Projections and manage them to determine when and if they will be financially stressed by normal or singular expenses. The longer you keep your historical records in this format, the more accurately your projections become. Please call us if you would like to become a Strategic Planning agency or add Cashflow Projections to your management tool belt.

<u>HOW CAN MY SUCCESSORS PAY ME FOR MY AGENCY?</u>

This may be the most common question asked by retiring owners who would like to perpetuate their agencies through their children, producers or employees. Most young people who are the likely agency successors also have young families and are asset poor and debt-rich already. Too many agents feel they have no choice but to sell their agencies to another firm in order to get their equity from the business because of the agency successors' cash-poor status.

In reality no one purchases an agency solely with outside money. That's because an agency must pay for itself through its own cash flow to make sense for any investor acquiring an agency asset. So whether a retiring owner sponsors a buyout himself, taking the risk of holding the note and gaining the maximum return through interest, or takes a 100% cash payment, eliminating all his risk but often discounting the agency's long term value to make it a cash deal, the view from the buyer's side and the primary question is always the same.

"Can the agency throw off enough cash to pay either the owner or a financial institution the principal and interest required to buy the business?"

When we calculate the value of an agency we also determine the agency's cash flow to identify the terms needed to satisfy the value of the agency.

For example, if we determine an agency's value (the value of its future earnings potential for the perpetuator over a period of time acceptable to the buyer before achieving full returns for the acquired agency) is $1,000,000 and the agency's cash flow allows for $100,000 to be available each year to pay for the acquisition, the agency would need 13.5 years to pay for itself (including interest on the principal to someone). However, if the agency's potential cashflow was $200,000/yr, the buyer could reap the rewards of the acquisition after only 5.75 years.

So, you can be assured that if we as appraisers of insurance agencies calculate both the agency's future earnings value, AND its cashflow- so does either financers of agency ownership transfers or other agencies considering purchasing your agency. And, if that is the case, your internal successors have the same options for paying you for your interest in the business as do outside investors. No one sells an agency in expectation of a default. We calculate cash flow to be assured that any offer is reasonable to both the agency's value and cash flow potential. Agency Consulting Group, Inc.'s Liquidity Audit tool used in concert with agency sales (Marci, link the title, Liquidity Audit, to the website section for Liquidity Audit) assures a seller (or the financer of the deal) that the buyer will always be able to make the payments on a note.

Now the world opens up to all agency owners considering retirement.

If there is a close relationship between the owner and the perpetuator (especially in family transfers) with no urgent cash need by the seller, long term payouts at moderate interest makes it easiest for the perpetuator to pay for the deal and makes it financially rewarding for an owner to self-finance the deal. If there is a need for a cash amount to offset a retiring owner's immediate needs, cash is readily available through a number of Agency Consulting Group, Inc. financial partners. And if a total cash deal is required because of debt or need, we have financial institutions ready to sponsor the transactions as long as an Agency Consulting Group, Inc. valuation and cash flow analysis substantiates the agency's ability to meet the obligation over a reasonable period of time.

We invite you to call us at (800) 779 2430 to discuss your succession or perpetuation plans, either internal or external. Sufficient financing is currently available to sponsor new or departing owners, to refinance agencies at historically low rates, and even to sponsor new producers to help agencies grow.

Deferred Compensation

The simplest deferred compensation programs defer a specific amount or percentage of compensation to a period after the death, disability (permanent) or retirement of the individual. Unless these programs are tied to longevity and productivity, it is one-sided and only favors the employee.

However, programs may be tailored especially to producers and to managers to relate the amount of deferred compensation to individual, or agency productivity, growth and profitability.

Deferred Compensation amounts are liabilities to the agency. The agency promises to reward the producer for production efforts made during the producer's career with additional compensation paid to the producer or to the producer's estate for some period of time after the producer terminates employment as a reward for loyalty and exemplary performance. Most Deferred Compensation awards are made for producers who retire, die or must leave the agency due to permanent and total disabilities and acts as a retirement benefit. We recommend against deferred compensation agreements that reward producers who voluntarily terminate employment and move to another agency because the host agency may end up rewarding former employees who become active competitors. For this reason a deferred compensation agreement is invalidated by employees who leave the agency voluntarily for any reason besides death, disability or retirement from the business of insurance.

The exception to this rule is the payment of deferred compensation to producers who are terminated by the agency in sponsorship for non-piracy, non-solicitation agreements. If the former employee takes accounts in violation of his agreement, it would invalidate the deferred compensation Program and would terminate further payments from the deferred compensation agreement.

The source of deferred compensation is a dollar amount based on the producer's earned production either during his term at the agency or in his final year at the agency or a percentage of the producer's earned book of business based on growth incentives.

The deferred compensation agreement should be crafted to sponsor the non-solicitation and non-piracy clauses of a producer contract. To that end the deferred compensation is terminated if the producer accepts any agency policy in defiance of the non-competition, non-piracy or non-solicitation sections of their contract. For that reason, the term of the deferred compensation program should be, at minimum, the term of the non-solicitation agreement in the contract and has been utilized to functionally extend the term of non-solicitation because of the penalties involved.

The amount of the deferred compensation may be determined by the total commission earned in the last twelve months prior to the trigger date of the deferred compensation agreement or by any other formula linked to growth of the producer's generated book of business

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MONDAY MORNING MARKETSCHANGES ITS NAME TO USA INSURANCE NETWORK

Monday Morning Markets, a new concept in marketing for insurance agency growth, is celebrating its first full year of operation by changing its name and its look and upgrading its marketing efforts for independent agencies. As of August 1, 2017 Monday Morning Markets will be known as **USA Insurance Network** (http://www.usainsurancenetwork.com). www.mondaymorningmarkets will still be active to educate agencies about the **Monday Morning Markets/USA Insurance Network** concept**.** **USA Insurance Network** will be the the brand identification for the personal and business consumers.

Monday Morning Markets was born out of the agents need for more proactive marketing and customer growth. During our consulting efforts with agents all over the U.S. and Canada we've heard the same primary need, "Help us busy up our production staff with contacts with new customers for lines of business for which we have distinct advantages."

George Nordhaus responded with a new concept in which we at Agency Consulting Group, Inc. have taken a leading role to allow agencies to sell as many as 700 specialty coverages with territorial exclusivity to avoid having other agencies in the same areas able to sell the same products. **Monday Morning Markets** was designed to attract prospects local to **Monday Morning Markets** agencies directly to the appointed agencies to visit, create relationships and make new sales.

As the concept and its Featured Programs grew, George expanded the marketing to attract ANY insurance prospect to the Monday Morning Markets agencies. So the new brand is **USA Insurance Network** and its expressed goal is to attract insurance customers of all types to its appointed agencies, helping the agencies market to those prospects with **USA Insurance Network** PKV's (Product

Knowledge Videos) and optimizing search engines to cause more prospects to visit each agency's website. The Product Knowledge Videos are short but effective sales tools showing prospects why the Featured Product is right for them and why the **USA Insurance Network** agency is the logical supplier of all of the prospects insurance needs.

Here's what **USA INSURANCE NETWORK** can do for your agency:

1. It will add video content to your website making it attract more viewers.

2. It will add products to your agency through both the Featured Programs and through Rough Notes Insurance Marketplace 700 available programs. YOU are the agent. YOU make the sales. YOU get all the commission.

3. It will direct non-specialty lines prospects in your area to your agency and to your website through **USA Insurance Network** search engine optimization.

4. It will give you a dedicated territory of about 200,000 population - you will be the only **USA Insurance Network** agency in the area for that population base. You may market anywhere but you will not have many other agencies with similar programs.

5. It will actually conduct multi-step marketing campaigns for your agency for any specialty market with all leads accruing to only your agency's benefit *

6. It will offer you Agency Consulting Group, Inc. services to enhance your production capacity and capabilities through consulting efforts.*

7. There is NO cost to agents to join and participate in **USA Insurance Network**

*extra cost services