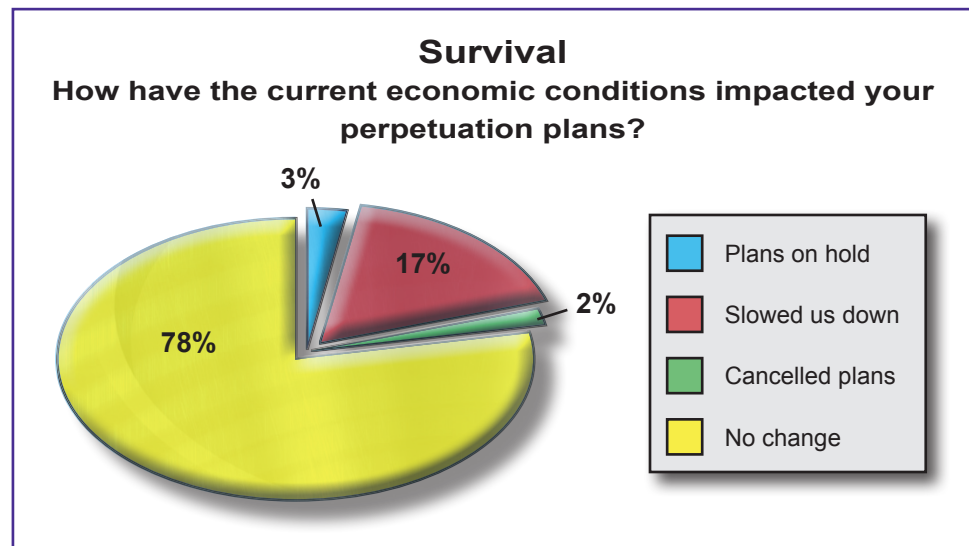


Perpetuation - Stay the Course

In a recent survey of insurance agency owners, MarshBerry asked, “How have the current economic conditions impacted your perpetuation plans?” At first glance, it was surprising to find that only 22% of agencies had indicated that their plans were put on hold, slowed down, or cancelled altogether. A significantly higher 78% indicated that the economic downturn had no impact on their perpetuation plans.

The past few years took a bite out of everyone’s net worth, and human nature is such that declines in net worth coupled with continued economic difficulties results in a risk averse populace. Combined with lower revenues and profits (resulting in lower values) at most insurance agencies, one could easily surmise that selling shareholders may be hesitant to pull the

trigger. With this as a backdrop, the collective 22% who indicated that their perpetuation plans had been affected appeared to be more realistic.



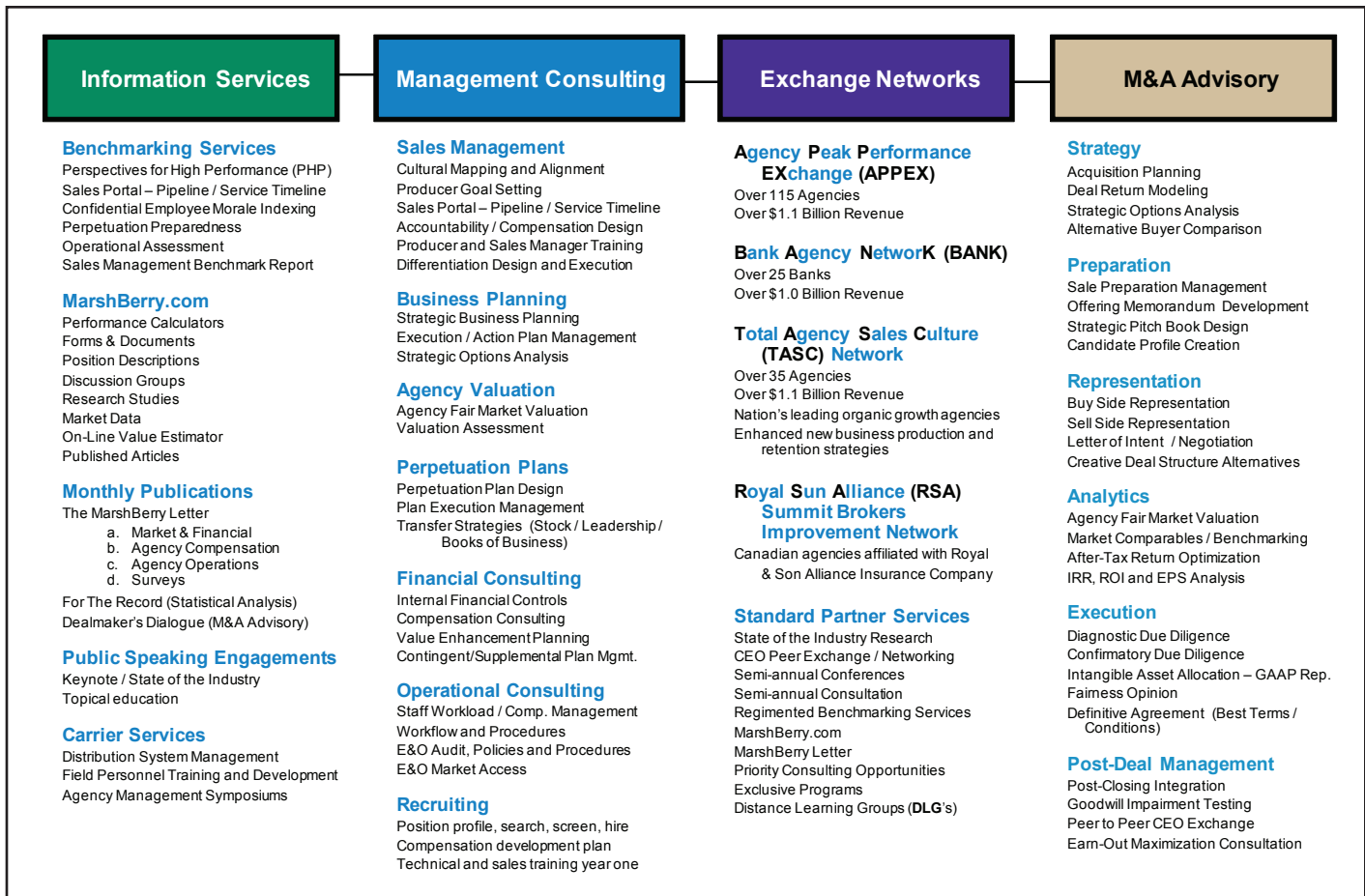
However, our survey question asked about “plans,” not transactions already in process, although it is clear that lower revenues and profits have put pressure on a buyer’s ability to make payments on perpetuation debt. For those agencies with “plans” for a future perpetuation transaction and those currently in the middle of it, top line growth, managing expenses and building a strong balance sheet will play a critical role in determining if perpetuation will be successful. While all of the above (top line growth, managing expenses and a strong balance sheet) are key to the continual perpetuation process, the object of any successful perpetuation strategy is people – capital is needed to attract, reward and retain the talent that will ultimately become shareholders and the new leadership of the agency.

In Berkshire Hathaway’s 2001 Chairman’s Letter, Warren Buffett is quoted as saying “...you only find out who is swimming naked when the tide goes out.” If the recent economic downturn did not thwart or slow down your perpetuation plans, you should be commended. But do not lose focus or the outgoing tide may catch you unprepared.

Authored by Alicia Thomas, AVA, Consultant, 440-392-6563



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MarshBerry • 4420 Sherwin Road • Willoughby, Ohio 44094 • 800-426-2774 • www.MarshBerry.com

