

## Creating Cash Flow for Perpetuation

Agency perpetuation is not a transaction, it is a process. While many processes must be established to make perpetuation successful, very few go so far as to “create cash flow” for a pending stock purchase. Cash flow can be created by several means, however, it often times requires sacrificing a resource. In this example, a process is demonstrated where cash flow is created without surrendering resources.

In this example we have made the following assumptions:

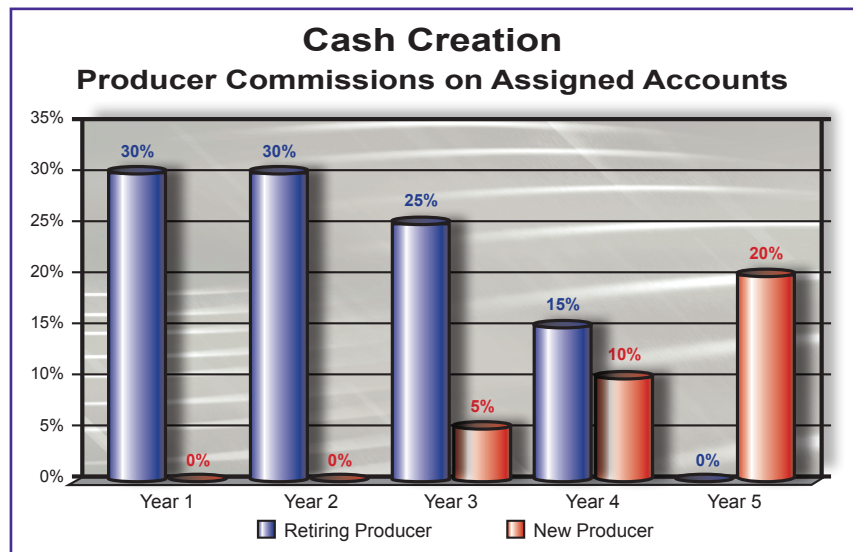
1. We are focusing on accounts that are in the top 20% of the retiring producer's book-of-business.
2. The retiring producer is currently being compensated 30% on renewal business.
3. Commission is shared for joint handling of accounts starting in the third year.
4. The plan is for five years.

In the first year the new producer is introduced to the account. In year two, the new producer visits and learns the account with the retiring producer.

In the first two years, the retiring producer maintains the current commission level. By year three both producers renew the account with a split of 25% for the retiring producer and 5% for the new producer. In the fourth year both producers renew the account with the new producer assuming a significant portion of the duties. The commission split is 15% for the retiring producer and 10% for the new producer. By year five, the new producer has completely taken over the account and receives the full 20% assigned commission.

It is important to recognize commission paid on the account was 30% before this transition started. By the end of the transition the commission paid on the assigned account is 20%. Some may argue because the commission is reduced there is risk the new producer may neglect the account, favoring more highly commissioned accounts. While some may take this posture, most will embrace the opportunity to be compensated 20% on a seasoned producer's top account. Savvy producers recognize the acquisition cost on an assigned account is less than on a new account.

The beauty of this model is that it creates an additional 5% in year four and an additional 10% ongoing of the retiring producer's book-of-business as agency cash flow. These additional proceeds can be part of the funds used to purchase the retiring producer's stock. Keep in mind, the percentages used in this example are fluid. Substitute your renewal percentages in this model and see if you can “create cash flow”.



Authored by Albert Lloyd, Executive Vice President, 440-392-6562



# MarshBerry Solutions

Information Services	Management Consulting	Exchange Networks	M&A Advisory
<p><b>Benchmarking Services</b>                      Perspectives for High Performance (PHP)                      Sales Portal – Pipeline / Service Timeline                      Confidential Employee Morale Indexing                      Perpetuation Preparedness                      Operational Assessment                      Sales Management Benchmark Report</p> <p><b>MarshBerry.com</b>                      Performance Calculators                      Forms &amp; Documents                      Position Descriptions                      Discussion Groups                      Research Studies                      Market Data                      On-Line Value Estimator                      Published Articles</p> <p><b>Monthly Publications</b>                      The MarshBerry Letter                      a. Market &amp; Financial                      b. Agency Compensation                      c. Agency Operations                      d. Surveys                      For The Record (Statistical Analysis)                      Dealmaker's Dialogue (M&amp;A Advisory)</p> <p><b>Public Speaking Engagements</b>                      Keynote / State of the Industry                      Topical education</p> <p><b>Carrier Services</b>                      Distribution System Management                      Field Personnel Training and Development                      Agency Management Symposiums</p>	<p><b>Sales Management</b>                      Cultural Mapping and Alignment                      Producer Goal Setting                      Sales Portal – Pipeline / Service Timeline                      Accountability / Compensation Design                      Producer and Sales Manager Training                      Differentiation Design and Execution</p> <p><b>Business Planning</b>                      Strategic Business Planning                      Execution / Action Plan Management                      Strategic Options Analysis</p> <p><b>Agency Valuation</b>                      Agency Fair Market Valuation                      Valuation Assessment</p> <p><b>Perpetuation Plans</b>                      Perpetuation Plan Design                      Plan Execution Management                      Transfer Strategies (Stock / Leadership / Books of Business)</p> <p><b>Financial Consulting</b>                      Internal Financial Controls                      Compensation Consulting                      Value Enhancement Planning                      Contingent/Supplemental Plan Mgmt.</p> <p><b>Operational Consulting</b>                      Staff Workload / Comp. Management                      Workflow and Procedures                      E&amp;O Audit, Policies and Procedures                      E&amp;O Market Access</p> <p><b>Recruiting</b>                      Position profile, search, screen, hire                      Compensation development plan                      Technical and sales training year one</p>	<p><b>Agency Peak Performance EXchange (APPEX)</b>                      Over 115 Agencies                      Over \$1.1 Billion Revenue</p> <p><b>Bank Agency Network (BANK)</b>                      Over 25 Banks                      Over \$1.0 Billion Revenue</p> <p><b>Total Agency Sales Culture (TASC) Network</b>                      Over 35 Agencies                      Over \$1.1 Billion Revenue                      Nation's leading organic growth agencies                      Enhanced new business production and retention strategies</p> <p><b>Royal Sun Alliance (RSA) Summit Brokers Improvement Network</b>                      Canadian agencies affiliated with Royal &amp; Son Alliance Insurance Company</p> <p><b>Standard Partner Services</b>                      State of the Industry Research                      CEO Peer Exchange / Networking                      Semi-annual Conferences                      Semi-annual Consultation                      Regimented Benchmarking Services                      MarshBerry.com                      MarshBerry Letter                      Priority Consulting Opportunities                      Exclusive Programs                      Distance Learning Groups (DLG's)</p>	<p><b>Strategy</b>                      Acquisition Planning                      Deal Return Modeling                      Strategic Options Analysis                      Alternative Buyer Comparison</p> <p><b>Preparation</b>                      Sale Preparation Management                      Offering Memorandum Development                      Strategic Pitch Book Design                      Candidate Profile Creation</p> <p><b>Representation</b>                      Buy Side Representation (including Search and Screen)                      Sell Side Representation                      Letter of Intent / Negotiation                      Creative Deal Structure Alternatives</p> <p><b>Analytics</b>                      Agency Fair Market Valuation                      Market Comparables / Benchmarking                      After-Tax Return Optimization                      IRR, ROI and EPS Analysis</p> <p><b>Execution</b>                      Diagnostic Due Diligence                      Confirmatory Due Diligence                      Intangible Asset Allocation – GAAP Rep.                      Fairness Opinion                      Definitive Agreement (Best Terms / Conditions)</p> <p><b>Post-Deal Management</b>                      Post-Closing Integration                      Goodwill Impairment Testing                      Peer to Peer CEO Exchange                      Earn-Out Maximization Consultation</p>

MarshBerry's clients are committed to realizing their fullest potential with respect to growth, profit, survival and shareholder value. Our agent, broker, bank and carrier clientele engage us to achieve their goals within the retail and wholesale channels of the insurance distribution system. Our unparalleled industry-specific services include consulting, performance benchmarking, peer-to-peer exchange networks, merger and acquisition intermediation and producer recruiting.

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

