

## The Best of Both

### *Exploring the Merger/Scratch-Start Combination Concept*

You are an existing Allstate agent who has performed well. Your earned premiums have been growing, your retention is strong, and you have been hitting your financial numbers. You are in a perfect position to capitalize on your expertise by merging an Allstate agency into your existing office resulting in a large jump in revenues and additional cash flow to invest in your agency. However, you are unable to act on this great opportunity because there no longer is an opportunity. Merger activity has ceased. Or has it...

For top-performing agents, there is a concept brewing that is sweeter than honey.

The idea is simple: top-performing Allstate agents will be given the opportunity to purchase and merge an Allstate agency into their existing provided they open a scratch office in the acquired agency's former space or another Allstate-approved location.

Let's think through the implications of this program and long-term opportunities that may result. To begin with, the agent will be able to establish a **super center location** that can serve as their primary operational hub for servicing – all calls to any agency location can be directed here. The location can serve as a launching pad for scratch agencies in their local community. Each smaller scratch start agency can direct their full energy towards sales while the main location focuses on servicing as well as sales. Though the agent will have multiple locations, it will almost function as one location as they will be able to oversee all sales and service for the multi-locational agency from the primary hub.

Secondly, besides the operational benefits, the agent will benefit from **economies of scale** at the primary location (i.e. lower average overhead costs per unit of production) such that ample cash flow is freed up to make necessary moves to best benefit the agency at large. The agent's super center location will fit the mold of Allstate's "ideal agency model"; this was pushed in 2009-2011 as the ideal size agency to allow for sufficient cash flow to invest in the agency for long-term viability and growth. However, rather than simply growing this primary hub, the agent will have the goal of duplicating itself through the scratch program at a satellite office.

Moreover, though the agent is able to attain economies of scale through the merger, total storefront locations are not reduced as was the case with the rampant merger activity witnessed over the last few years. With this program the expectation is that **storefronts are maintained and eventually grow** rather

#### CONTACT THE AUTHOR

Eric LeBlanc, Allstate Relationship Manager | (800) 456-2779 | [eric@ppcloan.com](mailto:eric@ppcloan.com)

than shrink as the super center location continues to reproduce itself and the overall agency operation becomes stronger. The fledgling start up agency can be placed in a fertile part of town that offers high visibility and growth prospects with the support of the “parent” agency back home that can provide financial support, full servicing of client needs, and guidance on how to succeed.

Not only is the new agency supported by the parent agency but the new agency will also qualify for enhanced commissions – thus the existing Allstate agent is **rewarded for writing new business**. Rather than the standard commission rate given for new business written at the super center location, this adolescent agency is given an extra allowance. The agent who takes on the extra legwork of opening a new location from scratch is appropriately rewarded through the enhanced commissions program.

As such, **those agents who perform well are well rewarded**. They not only have the door open for mergers but they also have the ability to enter into a well-planned startup venture that offers enhanced commissions. This is a great incentive for agents. Rather than a good performance resulting in 1) one-time bonuses and rewards and 2) the opportunity to continue performing well; there is now a pivotal carrot at the end of the stick. They have the opportunity to qualify for a merger that could take their agency to the next level – a level that allows them to grow into perpetuity through scratch startups; i.e. through replicating the parent agency.

Encouraging successful existing Allstate agents towards this opportunity will complement the existing scratch start program which is utilized primarily by outside buyers. To have the **scratch opportunity utilized by top-performing, established Allstate agents in addition to unknown and less-resourced outside buyers** is a great way to further the program. This not only allows Allstate to give this opportunity to individuals who have actually proven themselves able to successfully operate an Allstate agency, but also provides additional support for the scratch operation as detailed above.

Last, but definitely not least, is the fact that **lenders will be willing to provide financing** for the agent looking to start the scratch agency given the collateral provided by the super center location. The vast majority of lenders in the market today are not able to provide the requested amount and type of financing to an outside buyer for a scratch start. It is simply too risky. There is no cash flow base, the prospective agent has not yet proven themselves to be a successful Allstate agent, and collateral backing has yet to be established. However, just the opposite is true for this program. Lending institutions will be able to base cash flow projections off of the existing revenue stream, gain comfort with the borrower given their track record of success as an Allstate agent, and leverage the established equity in the existing agency, thus allowing them to provide the needed working capital for the start up operation.

#### CONTACT THE AUTHOR

Eric LeBlanc, Allstate Relationship Manager | (800) 456-2779 | [eric@ppcloan.com](mailto:eric@ppcloan.com)



No one expects a child to make it on their own in this big world. They must have a loving parent with aligned goals and a vested interest to guide them, assist them, provide financial support, and teach them. This is no different. **A vast array of benefits stem from having a parent agency established to support the fledgling startup.**

So, in a sense, the idea is simple. Create a strong, rock-solid, “parent” agency. One that generates sufficient cash flow and is set up functionally to serve as the agent’s operating hub. From there, the agent is strong enough and has the resources to begin “reproducing” itself through the scratch agency program.

**CONTACT THE AUTHOR**

Eric LeBlanc, Allstate Relationship Manager | (800) 456-2779 | [eric@ppcloan.com](mailto:eric@ppcloan.com)