# INTRODUCTION

Since 1993 the annual Best Practices Study has served as a tool to help agency owners and managers understand how their business operations perform and measure up to the top performing firms across the country. It is a "must have" for those agencies that want to become the best they can be.

The ***2011 Best Practices Study*** provides critical performance benchmarks in six agency revenue categories ranging from *Under $1,250,000* to *Over $25,000,000*. Agencies can measure, evaluate, and compare results for agency operations including:

- Income & Expense Distribution
- Revenue & Profitability Growth
- Sales & Service Staff Compensation/Productivity
- Technology Expenses
- Property & Casualty and Life & Health Carrier Representation
- And much more

The agencies that participate in the annual study are selected for inclusion once every 3 years. This year's study continues to look at the performance of those agencies selected in 2010, the start of a new 3-year cycle. While it updates key financial and operational benchmarks, users of the 2011 update may wish also to purchase a copy of the *2010 Best Practices Study* which provides additional information on the agencies' business practices and philosophies.

The comprehensive 2010 study can be purchased from the Independent Insurance Agents & Brokers of America (Big "I") Education Department. Order forms can be downloaded at http://bp.reaganconsulting.com or at www.independentagent.com. For more information please call 1-800-221-7917.

# About The Study

## The History

The annual ***Best Practices Study*** originated in 1993 as an initiative by the Independent Insurance Agents & Brokers of America (Big "I") to help its members build and maintain the value of their most important assets, their agencies. By studying the leading agencies and brokers in the country, the association hoped to provide members agents with meaningful performance benchmarks and business strategies that could be adopted or adapted for use in improving agency performance, thus enhancing agency value.

The Big "I" retained the principals of Reagan Consulting to create and perform the first ***Best Practices Study***. Annual updates conducted by Reagan Consulting continue to provide important financial and operational benchmarks, and the study is recognized as one of the most thoughtful, effective and valuable resources ever made available to the industry.

## The Process

Once every three years the Big "I" asks insurance companies, state association affiliates, and other industry organizations to nominate for each of the studies' revenue categories those agencies they consider to be among the better, more professional agencies in the industry.

The nominated agencies are then invited to participate. They must be willing to share key business practices/ philosophies and to complete an in-depth survey detailing their financial and operational year-end results. Those results are then scored and ranked objectively for inclusion on the basis of operational excellence.

In 2010, the beginning of the current three-year study cycle, more than 1,200 independent agencies throughout the U.S. were nominated to take part in the annual study. More than 320 submitted the extensive data, but only 224 qualified for the honor. To be chosen, the agency had to be among the 30-40 top-

performing agencies in one of six revenue categories. Their year-end results and business practices were compiled to create the Best Practices benchmarks. Those benchmarks are updated annually.

Taking part in the ***Best Practices Study*** has become a prestigious recognition of the superior accomplishments of the top insurance agencies in the country. Those agencies that believe they have the qualities of a Best Practices Agency and wish to be nominated in 2013 for the next study cycle should contact their state association.

# About the Best Practices Gateway Website

The electronic version of this study can be accessed via the websites of the Big "I" (www.independentagent.com) and Reagan Consulting (www.reaganconsulting.com).

From the Best Practices Gateway home page users can do the following:

- View an HTML version of the current and past Best Practices Study Executive Updates
- Download a Best Practices comparison spreadsheet to compare their year-end results with the study's results
- Access other Best Practices studies, tools and products
- Download order forms

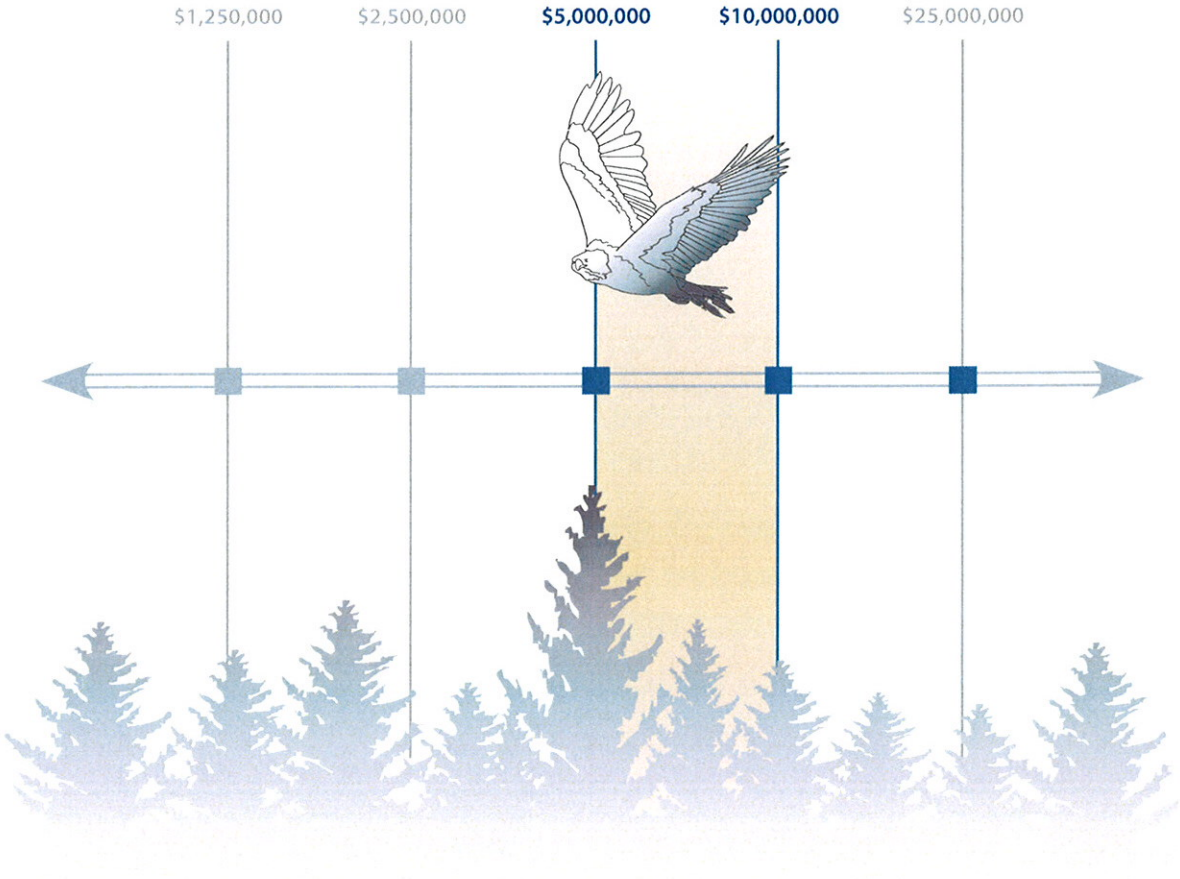
## Other Best Practices Studies and Tools

In addition to the annual Best Practices Study, many other useful studies, resources, and tools are available to help agencies improve their performance and enhance the value of their businesses. Two of the most frequently used tools are ***The Agency Self-Diagnostic Tool*** and the ***Joint Agency Company Planner***. These Best Practices tools are part of a complete line of Best Practices products and services. Order forms can be downloaded from http://bp.reaganconsulting.com or can be purchased online at www.independentagent.com.

## If You Have Questions

If you have questions about the information published in the 2011Best Practices Study please contact the Big "I" Education Department at 800-221-7917 or Reagan Consulting at 404-233-5545.

# Agencies with Revenues Between $5,000,000 and $10,000,000



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# Key Benchmarks at a Glance

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **Growth** | | | |
| Organic Growth By Line of Business** | | | |
| Commercial P&C | -3.3% | 0.6% | -0.8% |
| Personal P&C | 2.3% | 4.1% | 5.8% |
| Group Medical | 0.0% | 4.4% | 4.0% |
| All Other Group | 10.3% | 19.3% | 19.4% |
| Total Organic Growth | 0.0% | 2.3% | 4.0% |
| **Profit** | | | |
| Pro Forma Pretax Profit | 17.6% | 31.0% | 19.8% |
| Pro Forma EBITDA | 21.0% | 32.7% | 22.2% |
| Rule of 20 Score | 9.9 | 17.1 | 18.6 |
| **Financial** | | | |
| | Average | Top 25% | |
| Current Ratio | 1.36:1 | 2.04:1 | |
| Receivable/Payable Ratio | 38.6% | -2.9% | |
| Accounts Receivables > 60 Days | 11.0% | 2.7% | |
| Accounts Receivables > 90 Days | 2.8% | 0.6% | |
| **Productivity** | | | |
| | Average | +25% Profit | +25% Growth |
| Revenue per Employee | $156,843 | $190,952 | $162,299 |
| Compensation per Employee | $103,907 | $114,101 | $109,401 |
| Spread per Employee | $52,936 | $76,851 | $52,898 |
| Annual New Commission Generated per Validated Producer | | | |
| | Average | Top 25% | |
| Commercial P&C | $65,919 | $105,800 | |
| Personal P&C | $39,994 | $66,911 | |
| Life & Health/Financial | $93,467 | $198,935 | |
| Commissions Serviced per Service & Sales Support Staff | | | |
| | Average | Top 25% | |
| Commercial P&C | $266,786 | $574,013 | |
| Personal P&C | $224,246 | $421,788 | |
| Life & Health / Financial | $360,134 | $654,347 | |

***Excludes any acquired revenue*

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# Profile (of Agencies in this Study Group)

| A. Average Total Revenues: $6,995,812 | | | |
|---|---|---|---|
| | | | |
| **B. Population Density of Metropolitan Areas Where Home Office is Located** | | | |
| | Average | +25% Profit | +25% Growth |
| Less than 50,000 | 14.0% | 13.0% | 12.3% |
| 50,000 – 250,000 | 32.6% | 29.6% | 30.8% |
| 250,000 – 1,000,000 | 25.6% | 29.6% | 32.3% |
| More than 1,000,000 | 27.9% | 27.8% | 24.6% |
| **C. Corporate Structure** | | | |
| C | 26.2% | 24.5% | 28.1% |
| S | 59.5% | 60.4% | 57.8% |
| Partnership | 4.8% | 5.7% | 4.7% |
| LLC | 9.5% | 9.4% | 9.4% |
| Sole Proprietorship | 0.0% | 0.0% | 0.0% |
| **Average Number of Agency Locations** (Main Offices and Branch Offices) | 3.2 | 3.0 | 5.1 |
| # of States Offices are Located in | 1.4 | 1.1 | 1.8 |
| **Agency has an ESOP** | 11.6% | 18.2% | 27.3% |
| % of Stock Owned by ESOP | 68.2% | 87.3% | 57.6% |
| **D. Shareholders** | | | |
| **Number of Shareholders (excluding ESOP)** | 4.3 | 3.7 | 4.7 |
| High | 12.0 | | |
| Low | 1.0 | | |
| **E. Ownership Percentage** | | | |
| **% Owned by Largest Shareholder** | 54.2% | 67.9% | 51.6% |
| High | 100.0% | | |
| Low | 7.6% | | |
| **F. Shareholder Age** | | | |
| **Current Age of Largest Shareholder** | 58.7 | 59.9 | 57.8 |
| **G. Parent Corporation** | | | |
| | Average | "Other" included AAA and diversified holding company. | |
| **% of Agencies Owned by Another Corporation** | 4.8 | | |
| **Description of Parent Corporation** | | | |
| Financial Institution | 0.0% | | |
| National Broker | 0.0% | | |
| Other | 100.0% | | |
| **H. Member of Group** | | | |
| **% of Agencies Belonging to a Franchise, Cluster, Alliance/Network or Aggregator Group** | 16.3% | "Groups" consisted of Assurex, Keystone, Combined Agents of America, and Insurance & Risk Managers. | |

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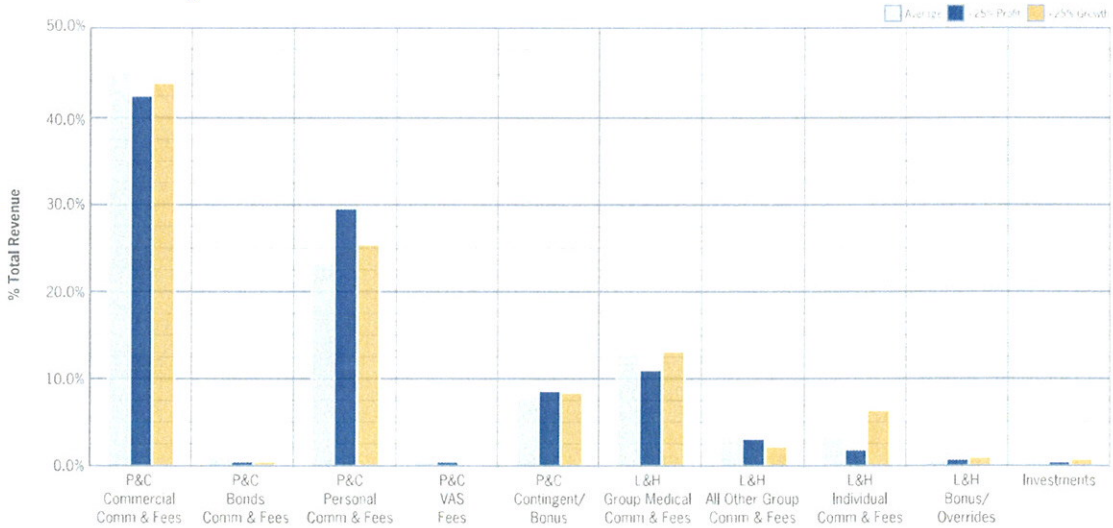
# Revenues

| (% by Source) | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **Property & Casualty** | | | |
| Commercial Commissions & Fees | 45.4% | 42.5% | 43.0% |
| Bonds | 1.0% | 0.4% | 0.4% |
| Personal Commissions | 23.5% | 29.6% | 25.4% |
| Value Added Services | 0.6% | 0.4% | 0.0% |
| Contingent/Bonus | 7.6% | 8.1% | 7.9% |
| **Total P&C** | **78.1%** | **81.1%** | **76.6%** |
| **Life & Health/Financial** | | | |
| Group Medical Commissions & Fees | 12.7% | 11.9% | 12.8% |
| All Other Group Commissions & Fees | 3.4% | 3.0% | 2.1% |
| Individual L&H Commissions & Fees | 3.6% | 2.0% | 6.6% |
| Bonus/Overrides | 0.8% | 0.8% | 1.0% |
| **Total L&H/Financial** | **20.5%** | **17.7%** | **22.6%** |
| Investments | 0.5% | 0.2% | 0.6% |
| Miscellaneous | 0.9% | 0.5% | 0.1% |
| **Gross Revenues** | **100.0%** | **100.0%** | **100.0%** |
| Brokerage Commission Expense | 1.4% | 0.6% | 3.9% |
| **Net Revenues** | **98.6%** | **99.4%** | **96.1%** |

# Revenue by Source (% of Gross Revenues)



# Revenue by Acquisition

| Acquired Revenues | | | |
|---|---|---|---|
| | % of Agencies Acquiring | Average Commissions Acquired | Percentage of Net Revenues |
| Acquisitions Made in Last 12 Months | 18.6% | $159,472 | 2.3% |

| What the Typical Transactions Looked Like | | | |
|---|---|---|---|
| Revenues Acquired per Transaction | | Multiples of Revenue Paid | |
| Average | $223,406 | Average | 1.4x |
| High | $413,000 | High | 2.2x |
| Low | $20,573 | Low | 1.0x |

# Revenue by Account Concentration

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **% of Revenue Derived from:** | | | |
| Largest Account | 4.3% | 3.5% | 5.0% |
| High | 16.0% | | |
| Low | 1.0% | | |
| 10 Largest Accounts | 14.9% | 10.7% | 15.1% |
| High | 47.2% | | |
| Low | 1.6% | | |

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **"Other" Group Revenue* (% from source)** | | | |
| Life | 30.2% | 34.0% | 21.1% |
| Disability | 17.0% | 22.5% | 15.0% |
| Dental & Vision | 30.1% | 23.8% | 23.4% |
| Retirement/Pension | 3.5% | 1.4% | 5.6% |
| Worksite/Voluntary/Supplement | 1.8% | 1.3% | 2.1% |
| Long-Term Care | 4.5% | 1.8% | 14.5% |
| Employee Benefits TPA | 4.1% | 12.1% | 1.3% |
| All Other | 8.6% | 3.0% | 17.2% |

**Excludes Group Medical*

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# Revenue by Account Size

| (as measured by Comm. & Fees – not premium) | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **Commercial P&C** | | | |
| **Total Commissions & Fees in Book** | **$3,199,237** | **$2,611,306** | **$3,383,382** |
| **Greater than $25,000** | | | |
| % of Book | 30.3% | 30.8% | 32.1% |
| # of Accounts | 21.0 | 18.9 | 20.2 |
| Total Revenue | $1,191,708 | $1,107,268 | $1,326,133 |
| Revenue per Account | $56,748 | $58,663 | $65,578 |
| **Between $10,000 and $25,000** | | | |
| % of Book | 19.4% | 20.6% | 18.1% |
| # of Accounts | 44.1 | 38.6 | 40.2 |
| Total Revenue | $704,084 | $592,660 | $671,771 |
| Revenue per Account | $15,954 | $15,354 | $16,711 |
| **Between $5,000 and $10,000** | | | |
| % of Book | 13.5% | 13.4% | 13.7% |
| # of Accounts | 66.7 | 55.8 | 65.9 |
| Total Revenue | $489,049 | $385,520 | $508,086 |
| Revenue per Account | $7,328 | $6,909 | $7,710 |
| **Less than $5,000** | | | |
| % of Book | 36.7% | 35.1% | 36.2% |
| # of Accounts | 1,986.4 | 1,582.6 | 1,857.6 |
| Total Revenue | $1,295,343 | $1,120,492 | $1,348,345 |
| Revenue per Account | $652 | $708 | $726 |

| (as measured by Comm. & Fees – not premium) | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **Group L&H/Financial** | | | |
| **Total Commissions & Fees in Book** | **$1,051,358** | **$778,779** | **$1,250,587** |
| **Greater than $25,000** | | | |
| % of Book | 44.5% | 51.8% | 41.4% |
| # of Accounts | 13.4 | 13.8 | 20.8 |
| Total Revenue | $804,666 | $887,861 | $1,422,758 |
| Revenue per Account | $60,229 | $64,338 | $68,567 |
| **Between $10,000 and $25,000** | | | |
| % of Book | 19.7% | 21.8% | 16.9% |
| # of Accounts | 19.3 | 20.8 | 24.2 |
| Total Revenue | $297,028 | $311,639 | $387,475 |
| Revenue per Account | $15,417 | $14,959 | $16,033 |
| **Between $5,000 and $10,000** | | | |
| % of Book | 10.0% | 10.4% | 5.7% |
| # of Accounts | 21.3 | 21.3 | 18.5 |
| Total Revenue | $151,245 | $149,141 | $130,514 |
| Revenue per Account | $7,090 | $6,991 | $7,055 |
| **Less than $5,000** | | | |
| % of Book | 25.8% | 15.9% | 36.0% |
| # of Accounts | 554.3 | 155.3 | 1,356.0 |
| Total Revenue | $342,458 | $151,398 | $619,687 |
| Revenue per Account | $618 | $975 | $457 |

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# Revenue Growth by Source

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **Commercial P&C** | | | |
| Renewals[1] | 85.9% | 88.3% | 89.7% |
| New Business[2] | 10.8% | 12.4% | 9.5% |
| Acquired Revenues[3] | 0.3% | 0.0% | 0.6% |
| Organic Growth[4] | -3.3% | 0.6% | -0.8% |
| Total Growth[5] | -2.9% | 0.6% | -0.2% |
| **Bonds** | | | |
| Renewals[1] | 52.5% | 66.6% | 70.0% |
| New Business[2] | 44.3% | 29.2% | 32.9% |
| Acquired Revenues[3] | 0.0% | 0.0% | 0.0% |
| Organic Growth[4] | -3.2% | -4.2% | 2.9% |
| Total Growth[5] | -3.2% | -4.2% | 2.9% |
| **Personal P&C** | | | |
| Renewals[1] | 92.2% | 90.2% | 94.4% |
| New Business[2] | 10.1% | 13.8% | 11.4% |
| Acquired Revenues[3] | 0.4% | 0.5% | 0.0% |
| Organic Growth[4] | 2.3% | 4.1% | 5.8% |
| Total Growth[5] | 2.7% | 4.5% | 5.8% |
| **Value Added Services** | | | |
| Renewals[1] | 69.9% | 53.9% | 55.3% |
| New Business[2] | 30.6% | 36.1% | 40.2% |
| Acquired Revenues[3] | 0.0% | 0.0% | 0.0% |
| Organic Growth[4] | 0.5% | -10.0% | -4.5% |
| Total Growth[5] | 0.5% | -10.0% | -4.5% |

[1]**Renewal Revenues** as a % of prior year's total revenues for this line of business. This figure is impacted by attrition (loss or retention of accounts) and by changes in premium and commission levels. The higher the %, the more favorable the results.

[2]**New Revenues** as a % of prior year's total revenues for this line of business. The higher the %, the more favorable the results.

[3]**Acquired Revenues** as a % of prior year's total revenues for this line of business. The % indicates the significance of acquired business.

[4]**Growth in Revenues** from prior year excluding acquired revenues.

[5]**Growth in Revenues** from prior year including acquired revenues.

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# Revenue Growth by Source (continued)

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **Group Medical L&H** | | | |
| Renewals[1] | 88.0% | 88.4% | 90.7% |
| New Business[2] | 12.0% | 16.0% | 13.3% |
| Acquired Revenues[3] | 0.2% | 0.0% | 0.0% |
| Organic Growth[4] | 0.0% | 4.4% | 4.0% |
| Total Growth[5] | 0.2% | 4.4% | 4.0% |
| **All Other Group L&H** | | | |
| Renewals[1] | 91.5% | 93.7% | 103.1% |
| New Business[2] | 18.8% | 25.6% | 16.2% |
| Acquired Revenues[3] | 0.1% | 0.0% | 0.0% |
| Organic Growth[4] | 10.3% | 19.3% | 19.4% |
| Total Growth[5] | 10.4% | 19.3% | 19.4% |
| **Individual L&H** | | | |
| Renewals[1] | 59.1% | 70.6% | 52.8% |
| New Business[2] | 37.3% | 34.4% | 42.9% |
| Acquired Revenues[3] | 0.2% | 0.0% | 0.0% |
| Organic Growth[4] | -3.7% | 5.1% | -4.4% |
| Total Growth[5] | -3.4% | 5.1% | -4.4% |
| **Total Commissions & Fees** | | | |
| Renewals[1] | 86.9% | 87.9% | 89.7% |
| New Business[2] | 13.1% | 14.5% | 14.3% |
| Acquired Revenues[3] | 0.5% | 0.4% | 0.4% |
| Organic Growth[4] | 0.0% | 2.3% | 4.0% |
| Total Growth[5] | 0.5% | 2.7% | 4.5% |
| | | | |
| P&C Contingent Income Growth | -7.2% | -15.4% | 16.7% |
| L&H Bonus Income Growth | -1.8% | -10.1% | -23.9% |
| Investment Income Growth | -22.6% | -26.5% | -15.9% |
| **Total Revenue Growth** | **-0.7%** | **0.9%** | **5.6%** |
| Brokerage Commission Expense Growth | -20.4% | -29.3% | -30.4% |
| **Net Revenue Growth (Organic)** | **-0.6%** | **0.7%** | **7.5%** |
| **Net Revenue Growth (Total)** | **-0.2%** | **1.0%** | **7.9%** |

[1]**Renewal Revenues** as a % of prior year's total revenues for this line of business. This figure is impacted by attrition (loss or retention of accounts) and by changes in premium and commission levels. The higher the %, the more favorable the results.

[2]**New Revenues** as a % of prior year's total revenues for this line of business. The higher the %, the more favorable the results.

[3]**Acquired Revenues** as a % of prior year's total revenues for this line of business. The % indicates the significance of acquired business.

[4]**Growth in Revenues** from prior year excluding acquired revenues.

[5]**Growth in Revenues** from prior year including acquired revenues.

## Future Revenue Sources

**% of agencies considering line of business as very important:**

| | | | |
|---|---|---|---|
| Surety-Bonding | 27.9% | Individual Life & Health | 37.2% |
| Personal P&C | 79.1% | Group Medical/Health Insurance | 76.7% |
| Small Commercial P&C | 62.8% | All Other Group Benefits | 51.2% |

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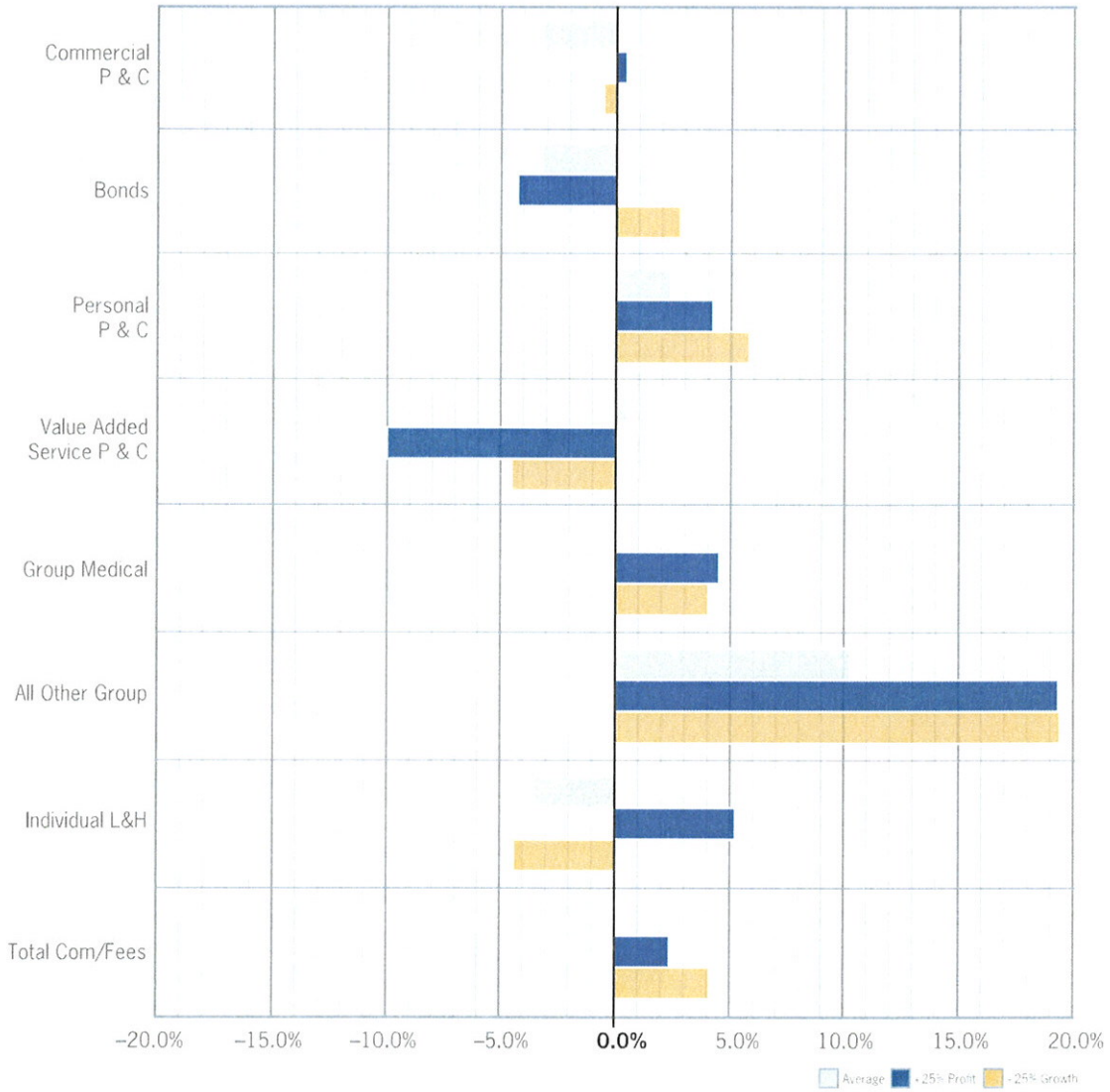
# Organic Growth

**The soft market and depressed economic environment continued to make organic growth difficult to achieve. The MEDIAN organic growth rate, which is the midpoint of the data when results are ranked in descending order, gives a more complete picture of the growth achieved by this study group.**

MEDIAN Organic Growth Rate: **-1.5%**

# Organic Growth by Line of Business



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# Expenses (as % of Net Revenues)

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **Compensation Expenses** | | | |
| Payroll: Employee | 51.7% | 43.6% | 48.8% |
| Payroll: "Non-Employee" - 1099 Producers/Temp Help | 5.7% | 8.2% | 7.9% |
| Total Payroll | 57.3% | 51.8% | 56.7% |
| Benefits: Payroll Taxes | 3.2% | 2.7% | 2.8% |
| Benefits: Retirement | 1.8% | 1.5% | 2.8% |
| Benefits: Insurance | 3.8% | 3.1% | 4.2% |
| Benefits: Other | 0.3% | 0.3% | 0.2% |
| Total Benefits | 9.2% | 7.6% | 9.9% |
| **Total Compensation** | **66.5%** | **59.4%** | **66.6%** |
| **Selling Expenses** | | | |
| T&E/Conventions | 0.9% | 0.7% | 0.6% |
| Auto Expenditures | 0.7% | 0.7% | 0.5% |
| Auto Depreciation | 0.1% | 0.1% | 0.1% |
| Total Auto | 0.8% | 0.8% | 0.6% |
| Advertising/Promotions | 1.5% | 1.2% | 2.1% |
| **Total Selling** | **3.2%** | **2.6%** | **3.3%** |
| **Operating Expenses** | | | |
| Occupancy Expenditures | 4.4% | 3.9% | 4.6% |
| Occupancy Depreciation/Amortization | 0.2% | 0.1% | 0.1% |
| Total Occupancy | 4.7% | 4.0% | 4.7% |
| Office Equipment Expenditures | 0.4% | 0.2% | 0.2% |
| Office Equipment Depreciation | 0.3% | 0.0% | 0.2% |
| Total Office Equipment | 0.6% | 0.3% | 0.4% |
| IT (Information Technology) | 1.7% | 1.4% | 1.3% |
| IT Depreciation/Amortization | 0.3% | 0.1% | 0.3% |
| Total IT | 2.0% | 1.5% | 1.6% |
| Telephone | 0.7% | 0.7% | 0.6% |
| Postage | 0.4% | 0.4% | 0.4% |
| Supplies/Printing | 0.7% | 0.7% | 0.7% |
| Dues/Subscriptions/Contributions | 0.8% | 0.6% | 0.5% |
| Taxes/Licenses | 0.3% | 0.2% | 0.3% |
| Insurance | 1.6% | 1.5% | 1.2% |
| Professional Fees | 0.8% | 0.6% | 0.5% |
| Bad Debts | 0.1% | 0.1% | 0.1% |
| Outside Services | 0.6% | 0.4% | 0.3% |
| Education/Training | 0.3% | 0.3% | 0.3% |
| Miscellaneous | 0.3% | 0.3% | 0.2% |
| **Total Operating** | **13.9%** | **11.5%** | **11.8%** |

*continued on next page*

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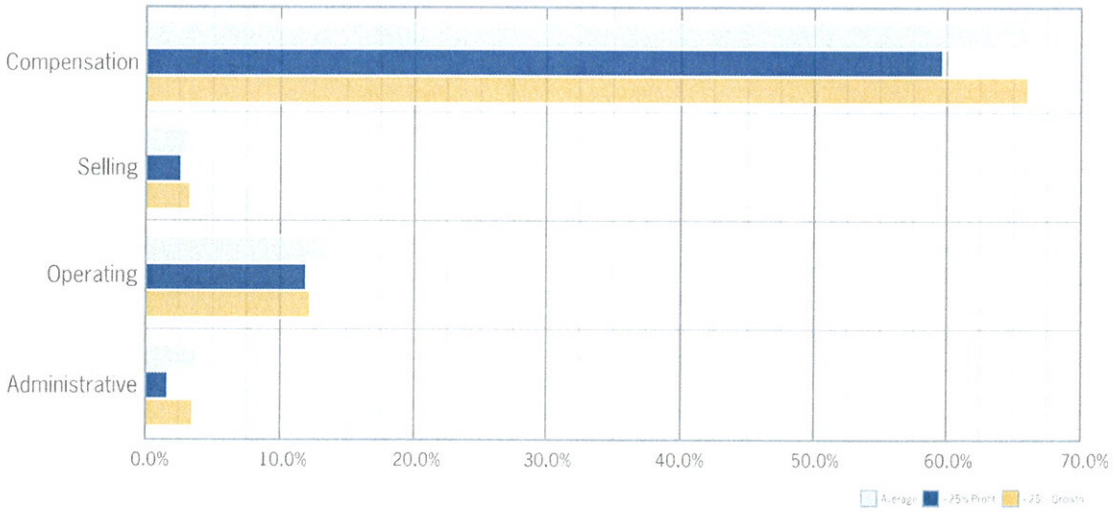
## Expenses (as % of Net Revenues) — *continued*

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **Administrative Expenses** | | | |
| Amortization of Intangibles | 1.4% | 0.6% | 0.7% |
| Officer Life | 0.3% | 0.4% | 0.3% |
| Interest | 1.1% | 0.9% | 1.1% |
| Other | 0.8% | 0.1% | 1.4% |
| **Total Administrative** | **3.6%** | **1.9%** | **3.5%** |
| **Total Expenses** | **87.1%** | **75.5%** | **85.1%** |
| **Pre-Tax Profit (Loss)** | **12.9%** | **24.5%** | **14.9%** |
| **EBITDA** | **16.3%** | **26.2%** | **17.3%** |

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **Expense Growth Over Prior Year** | | | |
| Compensation Expense | 0.0% | -2.0% | 7.6% |
| Selling Expense | 0.8% | 10.3% | 10.3% |
| Operating Expense | 0.4% | -2.0% | 0.7% |
| Administrative Expense | -0.4% | 3.0% | 0.4% |

## Expenses (as % of Net Revenues)



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# Profit/Loss Summary

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **Revenues (as % of Gross Revenue)** | | | |
| Commercial Lines | 45.4% | 42.5% | 43.0% |
| Bonds | 1.0% | 0.4% | 0.4% |
| Personal Lines | 23.5% | 29.6% | 25.4% |
| Value Added Services | 0.6% | 0.4% | 0.0% |
| Contingent/Bonus | 7.6% | 8.1% | 7.9% |
| Group Medical | 12.7% | 11.9% | 12.8% |
| All Other Group | 3.4% | 3.0% | 2.1% |
| Individual L&H | 3.6% | 2.0% | 6.6% |
| Bonus/Overrides | 0.8% | 0.8% | 1.0% |
| Investments | 0.5% | 0.2% | 0.6% |
| Miscellaneous | 0.9% | 0.5% | 0.1% |
| **Total Revenues** | **100.0%** | **100.0%** | **100.0%** |
| Brokerage Commission Expense | 1.4% | 0.6% | 3.9% |
| **Net Revenues** | **98.6%** | **99.4%** | **96.1%** |
| **Expenses (as % of Net Revenues)** | | | |
| Compensation | 66.5% | 59.4% | 66.6% |
| Selling | 3.2% | 2.6% | 3.3% |
| Operating | 13.9% | 11.5% | 11.8% |
| Administrative | 3.6% | 1.9% | 3.5% |
| **Total Expenses** | **87.1%** | **75.5%** | **85.1%** |

# Profit/Loss (as % of Net Revenues)

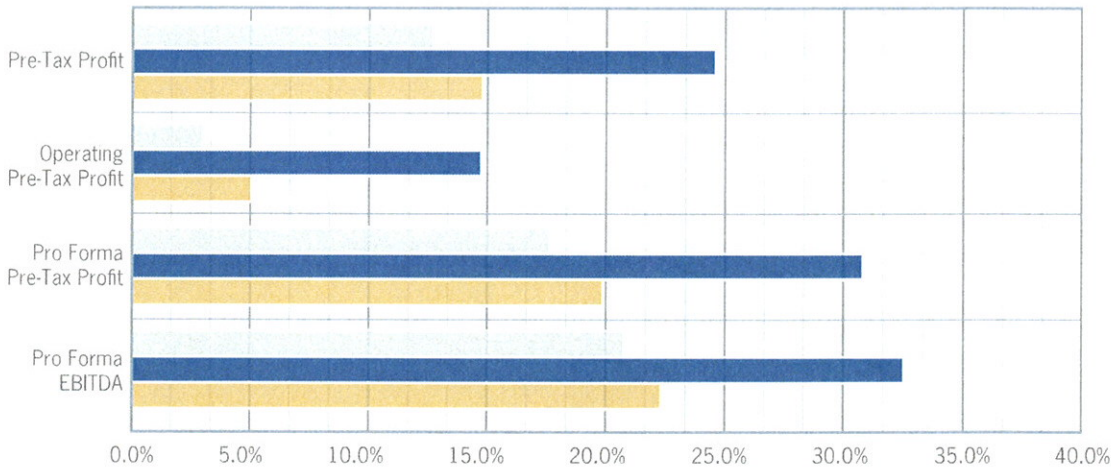
| | | | |
|---|---|---|---|
| **Pre-Tax Profit** | **12.9%** | **24.5%** | **14.9%** |
| **Pro Forma Pre-Tax Profit[1]** | **17.6%** | **31.0%** | **19.8%** |
| **Operating Pre-Tax Profit[2]** | **3.7%** | **14.9%** | **5.0%** |
| **EBITDA[3]** | **16.3%** | **26.2%** | **17.3%** |
| **Pro Forma EBITDA** | **21.0%** | **32.7%** | **22.2%** |

[1]Pre-tax Profits if discretionary expenses are eliminated and all owners compensated as employees

[2]Pre-tax Profits excluding contingents, bonus and investment income

[3]EBITDA—Earnings Before Interest Taxes Depreciation and Amortization

# Profitability



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# "Rule of 20" Score

The Rule of 20 is a simple growth and profitability balancing equation that provides a quick way to determine whether or not an agency is creating value for its shareholders. It states that an agency will drive industry-standard shareholder returns if the sum of (a) its organic growth rate and (b) 1/2 of its EBITDA margin equals or exceeds 20.

**Organic Growth Rate** + **1/2 of EBITDA Margin** = **Rule of 20 Score**

Generally speaking, an outcome of 20 or more, regardless of the different combinations of growth and profitability, indicates that the agency's shareholders can expect to earn 15% -17% per year through stock price appreciation and/or shareholder distributions.

## Rule of 20 Outcome

| Public Brokers | Organic Growth | EBITDA Margin | Rule of 20 Outcome |
|---|---|---|---|
| Willis Group | 4.0% | 27.3% | 17.7 |
| Aon | 0.0% | 21.1% | 10.6 |
| Brown & Brown | -4.6% | 34.9% | 12.9 |
| Arthur J. Gallagher | -2.1% | 18.8% | 7.3 |
| Marsh & McLennan | 2.0% | 17.4% | 10.7 |

*2010 was a year of continued soft pricing which prevented the public brokers from achieving an outcome of 20, as shown in the table above.*

Because organic growth is such a key input into the Rule of 20, the persisting soft market and the current depressed economic environment have made it harder to achieve a score of 20. A good rule of thumb is that an agency, while always striving for as high a Rule of 20 score as possible, will combine solid organic growth with an EBITDA margin that is at least twice as high as its growth rate.

| | Average | +25% Profit Average | +25% Growth Average |
|---|---|---|---|
| **"Rule of 20" Score** | **9.9** | **17.1** | **18.6** |

# Financial Stability

| | Average | Top 25% |
|---|---|---|
| **Balance Sheet** | | |
| Current Ratio | 1.36:1 | 2.04:1 |
| Tangible Net Worth (% of Net Revenue) | 11.8% | 32.5% |
| Receivables/Payable Ratio | 38.6% | -2.9% |
| Aged Receivables | | |
| % Receivables Aged Past 60 Days | 11.0% | 2.7% |
| % Receivables Aged Past 90 Days | 2.8% | 0.6% |

## Accounts Receivable

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **Agency Billed vs. Direct Billed by Carrier** | | | |
| % of P&C Revenues that are Agency Billed | 35.7% | 32.6% | 39.8% |
| % of P&C Revenues that are Direct Billed | 65.7% | 67.4% | 64.7% |

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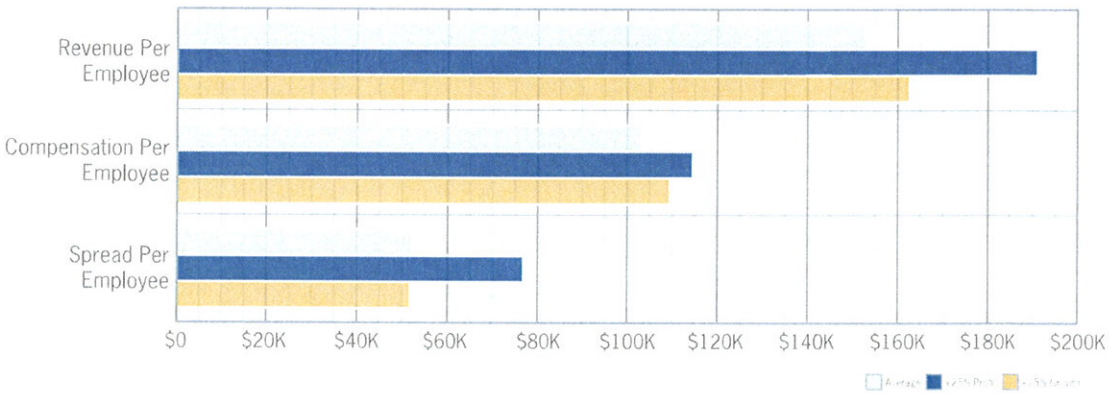
# Employee Productivity

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| Total Number of Employees (FTE) | 47.1 | 36.2 | 48.5 |
| Revenue Per Employee | $156,843 | $190,952 | $162,299 |
| Compensation Per Employee | $103,907 | $114,101 | $109,401 |
| Spread Per Employee | $52,936 | $76,851 | $52,898 |



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# Validated Producer Productivity

| | Average | Top 25% |
|---|---|---|
| **Commercial P&C Producers** | | |
| Average Validated Producers | | |
| # Validated | 6.5 | |
| High | 15.0 | |
| Low | 1.0 | |
| Average New Commissions Produced Annually | $65,919 | $105,800 |
| Average Book Serviced (Commissions) | $543,726 | $792,739 |
| Average Pay ($) | $174,567 | |
| Average Pay (% of Book Serviced) | 32.1% | |
| **Group Life & Health Producers** | | |
| Average Validated Producers | | |
| # Validated | 2.2 | |
| High | 11.0 | |
| Low | 1.0 | |
| Average New Commissions Produced Annually | $93,467 | $198,935 |
| Average Book Serviced (Commissions) | $569,314 | $864,699 |
| Average Pay ($) | $197,669 | |
| Average Pay (% of Book Serviced) | 34.7% | |
| **Personal P&C Producers** | | |
| Average Validated Producers | | |
| # Validated | 3.3 | |
| High | 10.0 | |
| Low | 1.0 | |
| Average New Commissions Produced Annually | $39,994 | $66,911 |
| Average Book Serviced (Commissions) | $241,403 | $499,688 |
| Average Pay ($) | $60,717 | |
| Average Pay (% of Book Serviced) | 25.2% | |
| **Multi-Line Producers** | | |
| Average Validated Producers | | |
| # Validated | 4.2 | |
| High | 17.0 | |
| Low | 1.0 | |
| Average New Commissions Produced Annually | $93,005 | $239,989 |
| Average Book Serviced (Commissions) | $534,301 | $899,647 |
| Average Pay ($) | $178,180 | |
| Average Pay (% of Book Serviced) | 33.3% | |

| **T&E Reimbursement** | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| % of Agencies That Reimburse All/Part T&E Expense | 74.4% | 54.5% | 63.6% |

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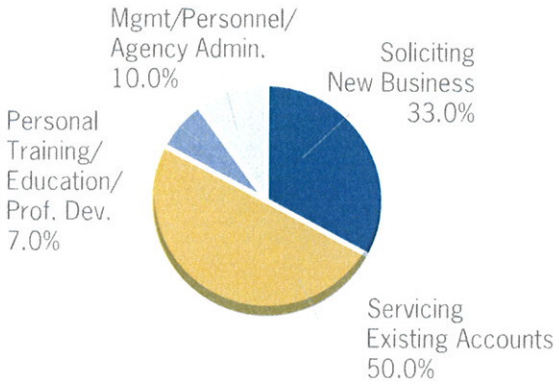
# Most Successful Producer Productivity

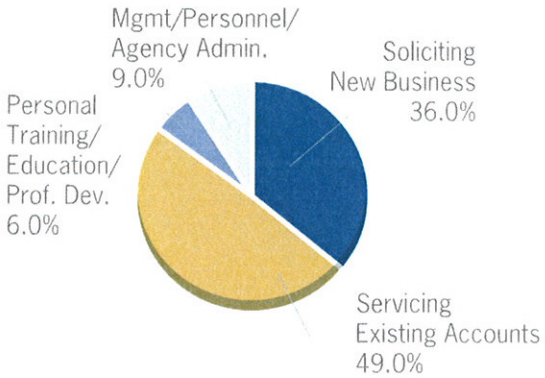
| Most Successful Producer Productivity | | | |
|---|---|---|---|
| | | Commercial P&C | Group L&H |
| **New Commissions Produced Annually** | **Average** | $95,541 | $106,194 |
| | **Top 25%** | **$154,038** | **$218,260** |
| **Total Commissions in Producer's Book** | **Average** | $969,487 | $682,809 |
| | **Top 25%** | **$1,778,396** | **$1,461,584** |
| **Average Commissions per Account** | **Average** | $10,305 | $7,299 |
| | **Top 25%** | **$24,223** | **$26,477** |

# How Most Successful Producers Spent Time

**Most Successful P&C Producer**




**Most Successful L&H Producer**



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# Net-investment in Unvalidated* Producer Pay

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **The NUPP** | | | |
| Expressed as a percentage of Net Revenue, the NUPP is the difference between what an agency pays its unvalidated producer(s) and what the producer(s) would earn under the agency's normal commission schedule. A NUPP of 1.5% is considered a healthy level of investment. | 1.2% | 1.0% | 1.4% |
| High | 4.7% | | |
| Low | 0.0% | | |

*An unvalidated producer is one whose production does not yet cover his/her wages

## Understanding the NUPP

One of the most important investments an agency can make in organic growth is in the hiring and developing of new producers. By measuring *pure payroll costs*, the NUPP benchmark allows an "apples-to-apples" comparison with other agencies regarding the amount of direct investment an agency is making in new producers. The NUPP benchmark is intended to be simple and is not designed to measure all other ancillary expenses that accompany the hiring and developing of new producers.

While the NUPP provides a general investment guideline, an agency should also consider the success rate of its new producers, i.e. the percentage of new producers hired during the past 5 year period that have achieved the sales goals set before them. By multiplying the NUPP by the producer success rate, an agency can further determine the effectiveness of its NUPP . High performing agencies typically achieve an Effective NUPP between 1.0% - 1.5%.

# New Producers

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **New Producer Hiring** | | | |
| % of Agencies that Hired New Producers Last Year | 60.5% | 54.5% | 72.7% |
| # of New Producers Hired Last Year | 3.4 | 1.7 | 8.9 |
| Average Annualized Wages per Producer Hired | $59,241 | $47,588 | $53,733 |

**"Successful" New Producers: 62.7%** of producers hired over the last 5 years have met their production goals

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# Service Staff Productivity

Service Staff is defined in the study as typically non-commissioned employees who are responsible for providing service to the agency's clients and/or supporting producers in the sale of new business and the retention of existing business. *(Some service positions may earn commission income but a majority of their pay is fixed.)* Senior level service staff is referred to as **Account Executives (AEs)**. All others including Account Managers, Customer Service Reps (CSRs), Assistant CSRs, Processors, Claims Specialists, Placers/Marketers, etc. are referred to as **Service/ Sales Support Staff**.

## Service Staff Overview

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **Total # of Service Staff:** | | | |
| (as defined above; excludes any TPA service staff) | 25.5 | 21.6 | 23.2 |
| **% of Agencies Having:** | | | |
| Separate/Dedicated Marketing Department | 51.2% | 45.5% | 18.2% |
| # of Marketing Staff | 2.0 | 2.8 | 3.5 |
| Separate/Dedicated Claims Department | 62.8% | 36.4% | 63.6% |
| # of Claims Staff | 1.8 | 1.3 | 1.7 |

## TPA Service Staff

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **% of Agencies Having:** | | | |
| Workers Comp TPA | 0.0% | 0.0% | 0.0% |
| # of Service Staff | * | * | * |
| Total TPA Revenues Serviced | * | * | * |
| Group Benefits TPA | 9.3% | 18.2% | 0.0% |
| # of Service Staff | 2.3 | 2.0 | * |
| Total TPA Revenues Serviced | $200,566 | $57,800 | * |

*Insufficient Data*

**Average # of Licensed Employees: 39.0** (includes sales and service/support staff)

## Service/Sales Support Staff

| | Average | Top 25% | Average | Top 25% |
|---|---|---|---|---|
| | **Commercial P&C** | | **Personal P&C** | |
| Number | 11.0 | | 7.6 | |
| High | 39.3 | | 25.0 | |
| Low | 0.5 | | 1.0 | |
| Average Book Serviced (Commissions) | $266,786 | $574,013 | $224,246 | $421,788 |
| Average Pay ($) | $49,683 | | $41,494 | |
| Average Pay (% of Book Serviced) | 18.6% | | 18.5% | |
| | **L&H/Financial** | | **Multi-Line** | |
| Number | 3.6 | | * | |
| High | 16.0 | | * | |
| Low | 0.5 | | * | |
| Average Book Serviced (Commissions) | $360,134 | $654,347 | * | * |
| Average Pay ($) | $48,607 | | * | |
| Average Pay (% of Book Serviced) | 13.5% | | * | |

**Insufficient Data*

## Account Executives

| | Average | Top 25% |
|---|---|---|
| **Commercial P&C Account Executives** | | |
| Number | 4.2 | |
| High | 14.3 | |
| Low | 1.0 | |
| Average Book Serviced (Commissions) | $608,383 | $1,150,375 |
| Average Pay ($) | $74,750 | |
| Average Pay (% of Book Serviced) | 12.3% | |
| **Personal P&C Account Executives** | | |
| Number | 4.2 | |
| High | 10.0 | |
| Low | 1.0 | |
| Average Book Serviced (Commissions) | $279,442 | $365,285 |
| Average Pay ($) | $51,611 | |
| Average Pay (% of Book Serviced) | 18.5% | |
| **L&H / Financial Account Executives** | | |
| Number | 2.1 | |
| High | 6.0 | |
| Low | 1.0 | |
| Average Book Serviced (Commissions) | $578,884 | $1,120,659 |
| Average Pay ($) | $67,262 | |
| Average Pay (% of Book Serviced) | 11.6% | |

The Account Executive is defined as a senior level service position whose responsibility is to manage the overall service plan/activities for an existing book of business. Although the AE may have limited sales responsibilities, for the purposes of the study, they are classified as Service Staff. The position is often created to support and enable a producer to focus on new business production.

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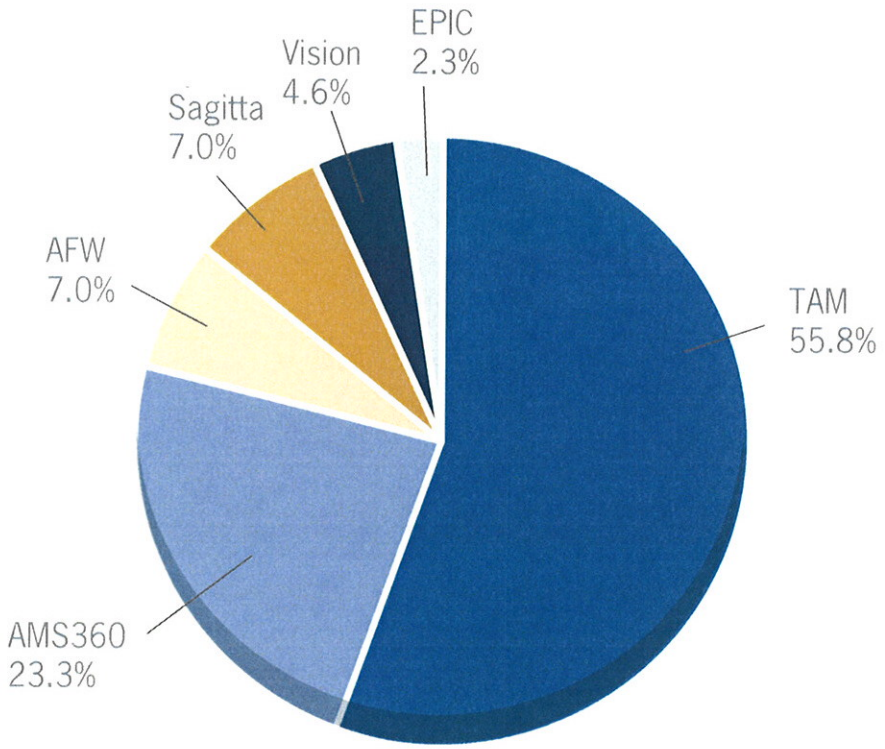
# Technology

| | Average | Top 25% |
|---|---|---|
| **Information Technology Employees (FTE)** | | |
| Number | 1.3 | |
| High | 3.0 | |
| Low | 0.3 | |
| **Total IT Payroll Expense ($)** | **$79,407** | **$130,818** |
| As % of Total Compensation Expense | 1.8% | |
| As % of Net Revenues | 1.2% | |

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **Total IT Expenses**[1] (as % of net revenues) | **2.2%** | **1.5%** | **1.8%** |

[1] Includes hardware/software leasing including offsite applications, supplies, maintenance & maintenance contracts, training, data lines, internet providers, website development/maintenance, outside consulting fees, computer depreciation, software amortization, and any non-depreciated hardware/software.

# Agency Management System Utilized



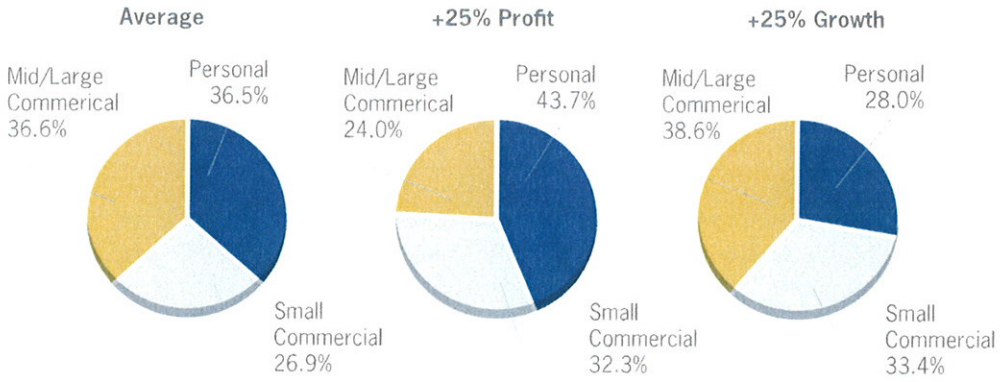
# Carriers

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **Carrier Representation** | | | |
| **Personal Lines P&C** | | | |
| National | 8.2 | 7.4 | 8.9 |
| Regional | 5.4 | 5.6 | 4.8 |
| **Total** | **13.6** | **13.0** | **13.7** |
| **Commercial Lines P&C** | | | |
| National | 19.4 | 10.4 | 13.3 |
| Regional | 11.1 | 7.8 | 9.5 |
| **Total** | **30.5** | **18.2** | **22.8** |
| **Group L&H / Financial** | | | |
| **Total** | **28.7** | **32.6** | **27.4** |

**Revenue from Top Carriers**

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| Commission Income Derived from Top Carriers | | | |
| % of Net Rev from Top P&C Carrier | 13.9% | 17.1% | 15.6% |
| % of Net Rev from Top 3 P&C Carriers | 27.2% | 28.4% | 28.5% |
| % of Net Rev from Top L&H/F Carrier | 8.3% | 7.6% | 9.0% |
| % of Net Rev from Top 3 L&H/F Carrier | 12.4% | 11.6% | 12.7% |

## Revenues from Top P&C Carrier–Breakdown By Line of Business

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## 12 Month Plans for Carrier Representation

**P&C Carriers**

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **% of Agencies That Will:** | | | |
| Increase the Number of Carriers Represented | 14.0% | 18.2% | 9.1% |
| Decrease the Number of Carriers Represented | 4.7% | 9.1% | 9.1% |
| Keep the Same Number of Carriers Represented | 81.4% | 72.7% | 81.8% |

**L&H Carriers**

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **% of Agencies That Will:** | | | |
| Increase the Number of Carriers Represented | 4.7% | 9.1% | 9.1% |
| Decrease the Number of Carriers Represented | 4.7% | 0.0% | 0.0% |
| Keep the Same Number of Carriers Represented | 90.7% | 90.9% | 90.9% |

## Use of Carrier Service Centers

| | Average | +25% Profit | +25% Growth |
|---|---|---|---|
| **Service Center Use** | | | |
| Total Personal Lines Commission placed in Carrier Service Center | 24.7% | 43.9% | 58.7% |
| Total Commercial Lines Commission placed in Carrier Service Center | 5.4% | 11.6% | 4.2% |