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UNVEILING BOARDROOM INSIGHTS: THE KEY TO SUCCESSFUL MERGERS AND ACQUISITIONS

*A vision is crucial to be prepared
for a future that might seem
improbable today.*

BY DOUG DINGMAN

Mergers and acquisitions have woven themselves into the fabric of business, reshaping industries, including the auto sector, and affecting stakeholders on multiple levels. In the realm of independent agents, their influence runs deep. The complex and detailed process of negotiations and strategic alignments hold power to steer individual agents' trajectories, prompting the question: How does M&A impact independent agents, and how can those uninterested in selling maintain their business vitality and profitability?

In the context of M&A, a fascinating shift in circumstances emerges. Agents often find themselves in one of three buckets: those who have sold their businesses, those contemplating a future sale, and those firmly resolved against selling. What adds depth to this dynamic landscape is its unpredictability; what might seem improbable today could effort-

lessly transition into a strategic consideration tomorrow. This underscores the necessity of a forward-looking vision, even as agents navigate their current endeavors.

The impact of M&A within the dealer domain is well-documented, with prominent players, such as AutoNation, Lithia and Asbury, setting the tone. However, the impact on independent agents is often less explored. M&A-driven consolidation doesn't always have a uniform effect on profitability. Interestingly, some private equity players started acquiring administrative providers and agencies to boost and stabilize their distribution channels. The motivations behind agency sales resonate with the drivers behind dealer sales: retirement, succession concerns, and enticing financial opportunities.

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The first-quarter 2023 auto dealership buy-sell market exceeded all past first-quarter records, commencing the year with significant momentum. A total of 103 transactions were finalized—a remarkable 43% year-over-year surge. This data is outlined in the recently published Blue Sky Report. Amid this dynamic scenario emerges the notion of building a business with an acquisition in mind, stretching beyond administrators to include the possibility of being acquired by a larger agency. This approach should serve as a motivating force for those overlooked as acquisition targets to enhance and grow their business. It’s a sentiment Craig, my business partner, and I shared when we faced a similar situation, prompting us to build PRO Consulting into an attractive prospect strategically. We grew! But it didn’t come easy, as we put deliberate efforts into every step of the process.

We realized the significance of aligning our financials, enabling us to effectively measure policy counts and profitability across various products and dealers. This transition marked a pivotal shift from a personality-driven agency to a finely tuned process-oriented one. To establish a foundation built on data-driven methods, we engaged resources to conduct comprehensive market research and SWOT, or strengths, weaknesses, opportunities and threats, analysis. This yielded valuable insights and contributed to the growth of our brand—transforming it from its origins as “Craig and Doug’s agency” to the recognized entity and resonating name of PRO Consulting. Yet, the development wasn’t confined to branding alone. It extended to building a cohesive team, expanding our staff strategically to foster both expertise and synergy.

This holistic approach, encompassing financial accuracy, brand maturation, skilled team expansion, and well-structured operations, paved the way for PRO Consulting to evolve into a compelling and sought-after acquisition target.

Let’s break it down when it comes to agencies – you’re looking at three distinct tiers. Tier 1 embodies a one-person show, where weekends often involve balancing finance and building the company. Advancing to Tier 2 marks the transition into a full-fledged business: bringing in hires, seeking external training and development resources, and putting in the extra effort. Then there’s Tier 3, where things get bigger – this level involves administrators, district managers, regionals, establishing in-house training and development programs, and more, all coming into play as the business expands its horizons. Interestingly, we’ve traversed each tier at different points, experiencing the evolution firsthand.

As we reflect on these tiers of agency growth, the journey underscores the importance of scalability, exceptional service, and an unwavering focus on the “why” behind the numbers. The equation for success, often summarized as People, Training, Pay Plans, Processes, Accountability and Goals, is a constant reminder of the critical ingredients. Relationships are forged through increased performance and profitability and retained through exceptional service.

As your agency gears up for a merger, let’s uncover key boardroom insights for successful M&As. Among these considerations, selecting the right partner-administrator is paramount. The role of an administrator extends beyond mere contracts; it should be instrumental in fostering your agency’s growth rather than hindering it. Legal guidance when reviewing dealer agreements adds an extra layer of assurance. It’s noteworthy that, in some cases, administrators might perceive your clients as their property. Hence, it’s crucial to align with an administrator that recognizes that your clients constitute your customer base. This mindset shift can positively impact the agency’s approach to client relationships. Efficient claim adjudication processes and strategic diversification measures, such as considering acquisitions or mergers with companies already integrated into our domain, further contribute to the overall success of the merger.

The acquisition process brings growth opportunities for businesses. In the M&A process, two main paths emerge: joining a big brand and potentially sacrificing identity for a national presence, or remaining a subsidiary, upholding identity while reaping the rewards of an extended reach.

Stay hungry—our own journey showcases its virtue. The hard work that led to success in the early days can continue to inspire, even after reaching significant growth milestones. I vividly recall the day we reached our first monumental goal – celebrating with Rolaxes, a tangible reminder that we had indeed arrived. Nevertheless, it’s worth highlighting that complacency can be a dangerous thought to entertain, as it has the potential to stall your growth. The hunger for progress propels agents forward; stagnation often leads to setbacks.

Ultimately, the path for independent agents in the M&A domain has a dual nature. Building a business to attract acquisition interest doesn’t necessarily translate to selling, but it ensures a legacy of sustained growth. Opting out of acquisition doesn’t impede ongoing development for the business. Whether embracing the acquisition path or standing resolutely against it, the art lies in nurturing a company that thrives, regardless of the external dynamics. As the wheel of M&A keeps turning in the dynamic auto industry, independent agents’ resilience, strategic thinking, and dedication shape their paths forward. **AE**



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