

Businesses are Meant to be Profitable

BY PAUL CLARKE

I understand Allstate's desire to have its agents reinvest in their agencies in order to stimulate growth. I also understand the desire of individual agents to meet those goals set forth by Allstate, since doing so means greater commission income and job security.

However, I think some agents lose sight of the real goal in owning their own business, which is to maximize shareholder value. Yes, you are likely the only shareholder of your business, but that doesn't lessen the obligation to maximize your own shareholder wealth. Yet, many agents are busy maximizing shareholder value for Allstate Insurance at the expense of their own shareholder value.

I can hear NAPAA now. What about the threat of termination? What about quotas? I know about all this. I didn't say it was easy to maximize shareholder value for individual Allstate Agents. I am saying there are many agents who need to spend a lot more time developing a real plan for doing business, a plan that includes a healthy mix of meeting Allstate's goals while also maximizing personal income.

So, how is shareholder value maximized for an Allstate agent? This needs to be answered individually by each agency owner. However, I do know that spending nearly every penny you make on growing your business is not the way to maximize value. Living off of a spouse's wages and borrowing on a home equity loan or credit cards, with the hope of one day getting your money back on a sale, is not a smart strategy for maximizing your personal shareholder value.

Wealth in the Service Sector

The most tried and true way to get wealthy owning a service sector business is through

the accumulation of cash during your years and decades of ownership. Run the numbers and you will find this strategy produces a much higher return than putting all your hopes into getting top dollar for the sale of your agency.

Let's compare an Allstate Agency sale to a sale of a home in your neighborhood. Everyone wants to know what homes are selling for in their own neighborhood and the benchmark is the Price Per Square Foot. Most homes in a neighborhood will sell for just under or just over the average Price Per Square Foot for the area. Little increase is realized for having a highly desirable floor plan, a large lot, or a new pool. These "perks" need to have been enjoyed fully by the seller, because at the time of sale, you are unlikely to get your money back on these items.

The same is true for Allstate Agencies. A great retention ratio, low loss ratio or excellent business profit will result in some increase in price for the selling agent, but it will be nominal. This is the main reason why agents should take a good portion of their business profits to save for the future and diversify their wealth. Failure to do so will result in significant loss in value. As we have already determined, a well-run agency only realizes a nominal increase in the sale price, at best.

Diversification

What would you say if I told you to take all your free cash-flow, retirement and personal liquid savings and put it into a really hot stock that is a sure winner? Would you think I was crazy? I hope so. You might even mention diversification of wealth. And I would agree, however, I regularly see Allstate Agents with 80-90% of their personal net worth tied up in

their Allstate Agency and it is usually a result of an extended period of "reinvesting all free capital back into the business."

Don't get me wrong, I think Allstate Agencies are a great investment. I have assisted in lending over \$500 Million in Loans to Allstate Agencies. They are successful businesses that repay their loans on time. In fact, there may be a year or year(s) where neglecting retirement savings or wealth diversification in the name of "growing at all costs" may be a good short-term strategy. However, I can't see this as a one-size-fits-all long-term strategy.

Follow the Leader

Allstate holds Investor Days, which provide commentary on how Allstate as a company is going to maximize shareholder value and why potential investors should invest in Allstate's stock. If you held an Investor Day, what would you say? Call me at (281) 419-0400 and let's practice. Do you think I would be interested in investing in your business? Or do you think I would hear a lot of talk that would be more for the ears of Allstate Management and less for someone wanting to invest in your business.

So, why all the fuss? Why am I talking about this subject? Because I know there are many great Allstate Agents out there who are struggling to survive. It's not because they paid too much for their agency. It's not because Allstate isn't competitive enough. It's because they keep banging their heads against the wall by not making wise decisions about how to run their business.

What's at Stake?

I know how important an Allstate Agent's business is to its owner. It's personal, it's emotional and there is a lot on the line. These are not passive investments where an individual might be willing to "walk away" if things don't work out. The majority of Allstate

Agents are self-employed and their agency serves as their sole source of income and the means by which they provide for their families. Let's all do some early year planning in 2012 and position ourselves to meet our personal, as well as Allstate's goals.



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