

Allstate Agencies – Why so Valuable?

The value Allstate agencies receive is very unique compared to their peers in other service sector industries (see chart below), and those who have been successful as a captive agent at Allstate Insurance have been rewarded nicely. Let's take a quick look at some of the driving factors as to why Allstate agencies are so valuable:

1. Renewal Income

Those in the personal mortgage origination business receive a single commission check at the time of their customer's loan closing and no additional residual income is received. When they wake up the morning after a closing, they have to start from scratch and do it all over again. For businesses without renewal income, a single bad month or quarter can be disastrous. Entrepreneurs prefer the reliability that renewal income affords a business owner, as well as the challenge associated with trying to grow the businesses renewal income base. In fact, renewal income is essential for creating enterprise value and is the number one driving factor as to why Allstate agencies sell for such a high multiple of revenue.

2. Cash Flow/High Profit Margin

According to BusinessWeek, Outpatient Care Centers' net profit margin is 12.1%, child care services net a whopping 10.4%, and Lumber Wholesale's profit margin is on average is 1.7%. To generate \$1M in revenues, but only net \$17,000, is like watching a movie with a thrilling beginning and a horrible ending. Certainly, Allstate Agencies yield a much higher bottom line than these aforementioned businesses, something that highly contributes to the large multiple of revenues value received at the time of the sale.

3. Selling a Base Need/Inelastic Product

The value of selling a base need product shines in a down economy as discretionary spending decreases. During this time, many businesses selling "want-based" items suffer while those selling "need-based" items do not (at least not as much). The ultimate base need product is one that consumers are required to purchase – such as insurance. Selling an inelastic product is to own a business that is moderately affected by the ups and downs of the economy.

4. Devoid of Large Capital Expenditure

Capital expenditure is the ongoing upgrade of physical assets for the business. Almost every small business has some form of ongoing capital expenditures. Owners of cleaning companies, medical practices, and restaurants have to regularly replace very costly equipment. Capital expenditures reduce free cash flow and thus, many savvy investors avoid industries with high CAPEX. Outside the occasional computer purchase, Allstate agencies have little to no ongoing Capital Expenditures.

5. No A/R or Inventory Management

What a hassle for your average medical professional, having to dedicate staff solely to collect on overdue accounts receivable. Allstate agents also avoid the sometimes dreaded hassle of having to manage inventory, specifically perishable inventory associated with restaurant businesses.

6. Available Resources

You may be able to make it across the Atlantic in a homemade raft, but it would make a lot more sense to leverage resources that may be available to you such as a large boat, navigation system, weather information, and plenty of food. There are many business endeavors that are akin to building your own boat and then trying to take it overseas. This fruitless expenditure of effort may be avoided by placing yourself in a business that provides you with substantial resources to increase your likelihood of success. Allstate agency ownership is the perfect example of an abundance of resources available to agents, all of which assist the business owner from having to re-create the wheel.

As mentioned above, the following chart illustrates Allstate Agencies' superior values compared to those of other major industries where an organized buy/sell market exists. Being an Allstate owner has many traits that separate itself from other business opportunities. However, when it comes to business valuations, the proof is in the pudding.

INDUSTRY	REVENUE	SALES PRICE	CASH AT CLOSING	SALES MULTIPLE
ALLSTATE INSURANCE	\$400,000	\$1,100,000	UP TO 100%	2.75
INDEPENDENT INSURANCE	\$400,000	\$600,000	UP TO 80%	1.5
INVESTMENT ADVISORY	\$400,000	\$800,000	UP TO 50%	2.0
ORTHODONTIST	\$400,000	\$260,000	UP TO 100%	0.65

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