**2013 Best Practices Study: Agency Specialization on the Rise**

*Latest study reveals new data on niche revenue, staff productivity and more.*

Since 2010, the percentage of agencies with a specialty or niche has increased significantly across all revenue categories, according to the 2013 Best Practices Study.

The comprehensive [2013 Best Practices Study](http://www.iiaba.net/cbsupx/education/index.aspx?page=evtpreview&evt=17939) is the 21st edition of the annual benchmarks provided in a joint effort by the Big “I” and Reagan Consulting. This year’s iteration, which marks the beginning of a new three-year study cycle, provides an expanded look at the activities of top agencies across the country, and includes additional information not available in the annual updates. The expanded information includes results related to specialty/niche revenue, employee productivity, technology issues, management practices, key challenges and more.

The **increase in specialization** is not surprising given the potential efficiencies and growth advantages of the practice. Developing an expertise or proficiency in a certain industry or product facilitates targeted leads and referrals, improves retention and provides a competitive edge for an agency. Specialization has increased across agencies of all sizes:

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| **BPS Rev Category** | **<$1.25 million** | **$1.25-2.5 million** | **$2.5-5 million** | **$5-10 million** | **$10-25 million** | **>$25 million** |
| **2010** | 25.0% | 44.2% | 51.4% | 55.6% | 64.1% | 68.4% |
| **2013** | 39.4% | 55.9% | 64.4% | 72.1% | 72.7% | 80.0% |

Another interesting result from the expanded study is the ranking of **technology investments planned for the coming year.** The top investment choice for agencies with revenue under $5 million will be in internet marketing and social media, while agencies with revenue over $5 million ranked investments in agency management systems as the No. 1 choice. Internet marketing and social media investments ranked fourth for the larger agencies, perhaps because many of these firms have already ventured into these fields. Across all revenue groups, the average number of agency staff members that devote time to social media activities is 1.3 employees, who spend about 10% of their time on these activities.

This year’s study also takes a new approach to measuring **service staff productivity.** Rather than identifying the average book of business serviced per account executive (AE) and customer service representative (CSR), the study combines all service positions—AE, CSR, processor, marketer/placer and claims—by line of business, and does not include administrative staff members like accountant or receptionist. This change gives readers access to the total number of people the typical Best Practices agency utilizes to service the revenue in its commercial, bonds, personal, group life-health and individual life-health books of business. The study also provides a salary range for each of the four service staff positions.

As expected, **organic growth** has continued to improve dramatically since last year’s study. The average growth rate in total commission and fee revenue was 9.4% (up from 2.1%) for agencies with net revenue under $5 million, and 9.8% (up from 4.5%) for agencies with net revenue over $5 million. Although a significant portion of the growth can be attributed to increasing premium rates and an improving economy, that’s not the whole story.

Between 2007 and 2010, when the soft market and an extremely weak economy made positive growth nearly impossible, Best Practices agencies continued to invest in **growth strategies** that would allow them to achieve organic growth and obtain a competitive edge as conditions improved. The results of those strategies—which include hiring new producers and equipping them with new tools and resources, enforcing more producer accountability, focusing on specialty/niche areas and expanding marketing/advertising activities—has paid off.

Strong revenue growth improved **profitability** as well. Although last year’s study results identified that growth was stronger than it had been in years, profit margins remained stubbornly flat thanks to waning contingent income growth. That trend has now reversed. This year’s results show that contingent income has grown an average of 21.8% for agencies with revenue under $5 million, and an average of 10.7% for those with revenue over $5 million. At the same time, agencies did a much better job of controlling expenses so that operating profits grew faster than contingent income. The result? Smaller to mid-sized firms enjoyed an average ProForma EBITDA margin of 29.3%, while the larger firms averaged 22.7%.

Finally, last year proved to be a solid year of **value creation**. The Rule of 20 scores, a simple growth and profitability balancing equation that provides a quick way to determine whether or not agency is creating value for its shareholders, were the highest they’ve been in several years. Small to mid-sized agencies earned an average score of 24.1, while agencies over $5 million earned 20.8. Generally speaking, an outcome of 20 or higher—regardless 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.

For more information about Best Practices resources and to obtain your copy of the full report visit [www.independentagent.com](http://www.independentagent.com/) > Resources > Best Practices or send questions to BestPractices@iiaba.net.