



# Passing the Torch

## **Most brokerage succession plans end in failure but careful preparation can improve the odds**

By Bruce Rabik and Eric Walker

The average age of the thousands of brokerage owner-managers in Canada is estimated to be 52 years old. Given those demographics, a looming issue for many brokerages is succession planning. Who will take over the business? How will the owner get his value out and secure his retirement?

The concern over perpetuation extends to other stakeholders as well. Underwriters should be concerned about who will be controlling large blocks of their business. By one estimate, there is one large insurer in this country that is now in the position where more than a quarter of its most important brokers are controlled by their competitors, usually because the lack of a succession plan led the owner to sell out.

In our national consulting practice we hear from many customer service representatives and producers who are anxious about who will be their next boss. They too have a right to be worried. It is well established that most succession plans end in failure -- or that lack of a plan almost inevitably will lead to failure.

If a business is passed on to a son, the odds are less than one in three that that business will still be around in the same form only a few years after the transfer, usually due to deteriorating results.

Emerging evidence is leading to the conclusion that passing the business on to a daughter is more likely to work out because it appears that fathers and daughters tend to have a more realistic appraisal of their respective abilities versus the more complex relationship that fathers have with their sons. However, even with daughters the odds do not point to success in the majority of cases.

If a business is not passed onto children but rather to non-family employees, the chances of success are improved but remain low enough as to justify concerns about succession planning.

The lack of proper succession planning in the brokerage industry opened a huge window of opportunity for the consolidators who gobbled up firms run by brokers facing retirement. Today, there is a significant number of insurers who are using the same opportunity to buy up brokerages that lacked succession plans.

What does a proper succession plan look like? How can brokers improve the odds of a successful transfer of their business? How can they ensure that the business will remain an independent brokerage and that they will secure the value of their lifetime investment?

Consider a couple of examples of succession planning that truly succeeded.

### **Lloyd Sadd Insurance of Edmonton, Alberta**

Tom Sadd began his insurance career in 1967, filing and performing other clerical tasks for his father's brokerage. When he graduated from university, he continued with his father's business, assisting with everything from typing declarations pages to doing the bookkeeping. When he had learned all that he could, Tom purchased his own small brokerage in 1972 and then began building it through internal growth and the purchase of other brokerages, including his father's upon his retirement.

Having been part of a successful transition from one generation to another, Tom applied the same lessons to his own son, Marshall Sadd.

Marshall also began his insurance career while at university, assisting with the rewriting of a personal lines portfolio. Graduating to personal lines sales, he soon established himself as the top personal lines producer in the office. From there, he moved to commercial sales, where he quickly established an impressive sales track record, with three consecutive years of new commissions in excess of \$60,000.

"Both Marshall and my daughter Jill worked for LSA," explains Tom Sadd. "They were managed by someone other than myself and were accorded no special privileges. Jill made it clear early on that she did not care for the business. Marshall on the other hand could not seem to get enough of it.

"I could see Marshall's sales experience, work ethic and people skills were advancing him faster than I had imagined," Tom recalls. "He was an independent thinker and a hard worker."

To prepare for the final stages of his own succession plan, Tom took a two-year sabbatical to move to Toronto to become chairman of Zenith Insurance, a major call centre operation. During that stint, he gradually relinquished more control of the brokerage to Marshall.

Tom saw that his son's talents lay in sales and sales management. Through his own experience, he realized that while sales skills are of course critical, sales talent unsupported by management expertise will reach its limits long before it reaches its potential.

With the full support of Marshall, Tom began a search for the right person to fill

that gap, discovering Kevin Boyd, who was managing the insurance operations of a large credit union in British Columbia. He now had his succession team in place and could retire knowing that his firm was in good hands.

"From my own experience and what I had observed with many brokers, I realized that more often than not many suffered from either management or sales issues or both," says Tom. "Kevin had the experience and skills to manage LSA far better and further than I ever could, and I knew that if Marshall and Kevin could get along it would be a great partnership."

Tom had built the business from two employees to 40 by 1998. Along the way, his firm had been at the forefront of automation -- for example, it was the first brokerage in Canada to go paperless in commercial lines, building a sophisticated personal lines call centre. The business was successful and it was much more complex than in 1972.

Marshall and Kevin have continued that record of innovation with strong internal growth and high levels of profitability, and the firm now has 60 employees.

### **Dale & Morrow Insurance of Brampton, Ontario**

According to Bruce Cartwright, his succession story "really started as looking for good people and the realization that, because success had significantly grown our firm, the people that came after me had to be better in some respects than I was."

Bruce had bought a small personal lines shop in 1984. By 1989, after strong internal growth, he realized that he needed more help if the business was to continue to expand. Mark Lowry responded to an ad that Bruce ran to find that help. Mark had been on the fast-track management program at a large insurer but was looking for greater opportunity.

Within a few years, Mark established himself as an exceptional producer. "People put great confidence in Mark after spending only small amounts of time with him," explains Bruce.

Like most great producers, Mark was good at relationships and technically very proficient, but he was less interested in the details of administration. Through a series of discussions, Bruce had explored his strengths and weaknesses and the possibility of eventually taking over the firm. Bruce suggested that to be truly successful, Mark needed a partner who could take charge of administration and manage operations.

Fortunately, an ideal candidate was already with the firm. Lucille Belben had begun at Dale & Morrow as a typist and, through hard work and exceptional performance, had risen to be a supervisor, responsible for the brokerage's now-

sizeable personal lines operation. Bruce approached her and with the full support of Mark and Lucille, a perpetuation plan began emerging.

A key part of the strategy was for Mark and Lucille to recognize their weaknesses as well as their strengths. Bruce, for example, realized that while he had been comfortable through the years with the financial management of the firm, this would become an even more important responsibility as the business grew. He saw that Lucille had the aptitude for the role and, with some training, could be much better at it than he ever was.

With the aid of outside consultants and through the use of training and courses, their personal development continued to the point where Bruce was comfortable that his firm would be in good hands.

There was a first-stage transaction, wherein Mark and Lucille purchased significant portions of equity but Bruce retained control. Then in 1997, Bruce sold his remaining equity to them. Since the new owners took control, the firm has grown 40 per cent in only four years and is now largely in commercial lines.

The chemistry between all three remained quite good and, even after he sold his equity, Bruce continued to be involved for a few years as a producer on some key accounts. However, he understood that to allow the new owners to succeed he had to let them run the firm and he had to resist the temptation to involve himself in the management unless he was asked for his help.

"A mistake many of my peers make in perpetuation planning is going through the process and then never really letting go," agrees Tom Sadd. "This, in my view, is hard on everyone and stifles initiative and development of the very people who you're planning to have replace you."

### **Legacy**

Successful perpetuation planning means finding the right people and letting them demonstrate their competence, typically over the course of a few years. It entails considerable self-awareness on the part of all the participants, including the retiring owner. Getting it right will lead to increased wealth for the owner, happier staff and a legacy that will continue for many years.

The individuals profiled in this article earned their success and their positions in every way. The two firms in this article remain strong, independent operations that continue to out-perform most brokerages. Aside from a happy personal life, what better legacy can a broker leave?

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