

# A Tale of Two Agencies

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Published 8/29/2011

"It was the best of times, it was the worst of times ..." The opening line from Charles Dickens' *A Tale of Two Cities* wasn't describing the last decade of the employee benefits industry, although it certainly applies. While the outlook is far from gloomy, the agencies that flourish tomorrow will operate very differently than the independent model that has historically dominated the benefits landscape.

According to ASJ's 2011 Employee Benefits Market Study, benefits agents are increasingly concerned about how health care reform will change their business. This comes as no surprise. The good news, though, is that there is more than one path leading to a successful future that doesn't involve an exit strategy. Partnerships, alliances, outsourcing, mergers and acquisitions are all valid considerations in today's changing climate. Here, I examine the approaches of two agencies that led to different outcomes: one merged; the other engaged in a partnership.

## **Richmond, Va.: A new deal for dominion benefits**

What can you do when you love your thriving business and want to continue doing what you do best, but your clients demand technological resources that are out of your reach? Is it possible to restructure your financial model, yet retain control of the agency's destiny?

Dominion Benefits, a leading employee benefits firm in the Richmond, Va.-area, found itself in such circumstances. In 2010, managing principal Tim O'Shea began exploring options. Yet none of the deals delivered exactly the components all partners desired.

Along the way a bad thing happened to a good agency. A longstanding, satisfied client jumped to a competitor because it offered a technical advantage (an administrative database resource). While the loss was not a significant blow, it seemed a harbinger of things to come.

The group re-evaluated its options, gaining clarity in the process. "If you don't know what you're fishing for, it's difficult to catch anything," commented O'Shea. "Defining our organizational objective was essential to moving forward." As the group assessed their situation, several criteria emerged: First, it was crucial for the firm's leadership to remain involved, maintain independence over the regional market and become an influential component of a larger team. Second, they sought to partner with a company who had a national platform to help market a patented analytic tool.

Suddenly, the choices narrowed, and one option stood in a field of its own. As O'Shea presented the opportunity to his partners, he said, "This may not be the perfect deal for anyone, but it a good deal for everyone." The team agreed, and Dominion Benefits decided to join forces with Digital Insurance. It simultaneously established a separate company, Dominion Analytics, LLC, a consulting firm with proprietary analytic tools, which has a long-term arrangement with the partner. The agency's 25-member staff remains in place, serving clients primarily in Virginia, Washington, D.C., Maryland, and the northern region of North Carolina.

"This business relationship enables us to enhance client service through a broader array of capabilities and economies of scale, while providing the resources and operational backbone to more efficiently navigate health care

reform,” said O’Shea. It also relieves the area market leader of tremendous responsibilities. “I no longer worry about technology, administration, agency compliance and the issues you have when 20-plus people work for your firm. This wasn’t your typical acquisition. It was a deal that enables a guy like me to focus on clients and growth.”

### **Washington, D.C.: A perfect partnership for Reese, Yeatman & Associates**

In 2005, Mike Reese Jr., president of a Washington, D.C.-area P&C and employee benefits agency, saw the handwriting on the wall. The employee benefits component of his firm’s business was getting complicated and time-consuming. Commissions were flattening and more changes were brewing. Reese was in his early 40s and had no interest in retiring or selling his business.

“I was seeking solutions to elevate our market status and better meet client needs,” Reese explained. “As an independent agency, we couldn’t afford to invest in the types of services our clients will need going forward.” His requirements: to remain in business and focus on sales.

He researched numerous options to prepare for the future. Five years and 10 heavily scrutinized proposals later, Reese, Yeatman & Associates closed a partnership deal. “The new arrangement elevates our competitive position and delivers a method to achieve long-term stability and growth,” said Reese. The partnership achieved all of the desired objectives, creating immediate liquidity for the firm and addressing risks associated with health care reform.

While two of the firm’s staff members are now employed by the new partner, they remain in Reese Yeatman’s office. “We have the same people in place, so there is consistency for our clients,” he explained. “They are used to dealing with certain individuals, and that hasn’t changed.” One unanticipated benefit: “We no longer have to manage and train customer service representatives to support the employee benefits component of our business. That’s a huge time-saver.”

The partner pays the agency a management fee based on commission flow. In addition, Reese Yeatman continues to sell new employee benefits business and splits commissions. “What are we getting in return? A lot,” he clarified. “And our customers benefit as well.”