



Are “Clusters” Leading Some Start-Up Agencies Down the “Primrose Path”?

Today, many capable, licensed P&C insurance agents aspire to be agency owners. They find that affiliating with a “Cluster” is the only way to obtain the necessary markets in order to be successful. While this is basically correct, all clusters are not created equal, and many of them inhibit a rapid start-up and, more importantly, diminish the prospects of long term growth and success! Why? Because many leading Clusters have given in to excessive greed in terms of cost of entry, taking commissions, providing mediocre customer service, not providing any or sufficient profit-sharing, and, in many cases, not permitting affiliated agencies to own their entire book-of-business! Also, some require their affiliates to promote the Cluster brand along with the agency name. Essentially, the large, established Clusters have prospered immensely, even disproportionately, at the expense of their affiliates.

Let’s examine where these Cluster candidates come from. There is an exodus from the captive carriers, where their degree of competitiveness has diminished and recognition that sales are inhibited. The captive agents continue to experience eroding market share to independent agencies. Then, there are the successful, independent agents that envision the opportunity of applying their proven skills toward their own agency. In order to begin this quest, it is imperative to obtain the “blue-chip” markets, and an exploratory search with Clusters ensues.

It is crucial for start-up agencies to scrutinize the marketplace and apply some **serious strategic thinking** to the options uncovered to avoid a “bad” decision! Here are challenges to thoroughly contemplate and address:

- **Initiation Fee...** watch out for Clusters that start high in the **\$40K** to **\$60K** range and “negotiate” downwardly to get what they can. Do you really need to agree with an expensive, equity sapping payment in order to affiliate with a Cluster?
- **Commission Expense & Customer Service...** it’s necessary to determine how much is too much. Some Clusters will charge as much as **50%** of the commission to do the “back end” or customer service work. The quality of this support may not be sufficient to maintain a high retention rate, thereby, retarding your growth. Philosophically, you and your own agents are likely to be much more attentive and productive dealing with your policyholders, so relinquishing this responsibility and opportunity sub optimizes your agency results!

- **Profit-Sharing**... this is a meaningful “perk” that every Cluster should provide to affiliate agencies. However, some provide nothing, and many only contribute a very modest amount. Make sure you are able to capitalize on profit sharing, as this should be a non-negotiable benefit associated with your affiliation!
- **Ownership Rights**... this is really a “mixed bag,” since some Clusters don’t extend any ownership rights if an agency departs. Others may want expensive buyouts, so it’s important for any agency contemplating affiliation to carefully assess how much of their book they really own. Needless to say, seek opportunities that allow you to own your book-of-business!
- **Advertise the Brand**... the majority of Clusters require affiliates to use the Cluster brand name in conjunction with all communications vehicles. The use of the brand name by so many affiliates can compromise the agency brand building, and prospective policyholders may remember the brand more than the specific agency.

For those inundated with the details, expenses, and priorities inherent in an agency start-up, the challenge of affiliating with the right Cluster is a daunting strategic effort to successfully navigate through the prospects!

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