

REAGANVIEW

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The Organic Growth Equation is Out of Balance

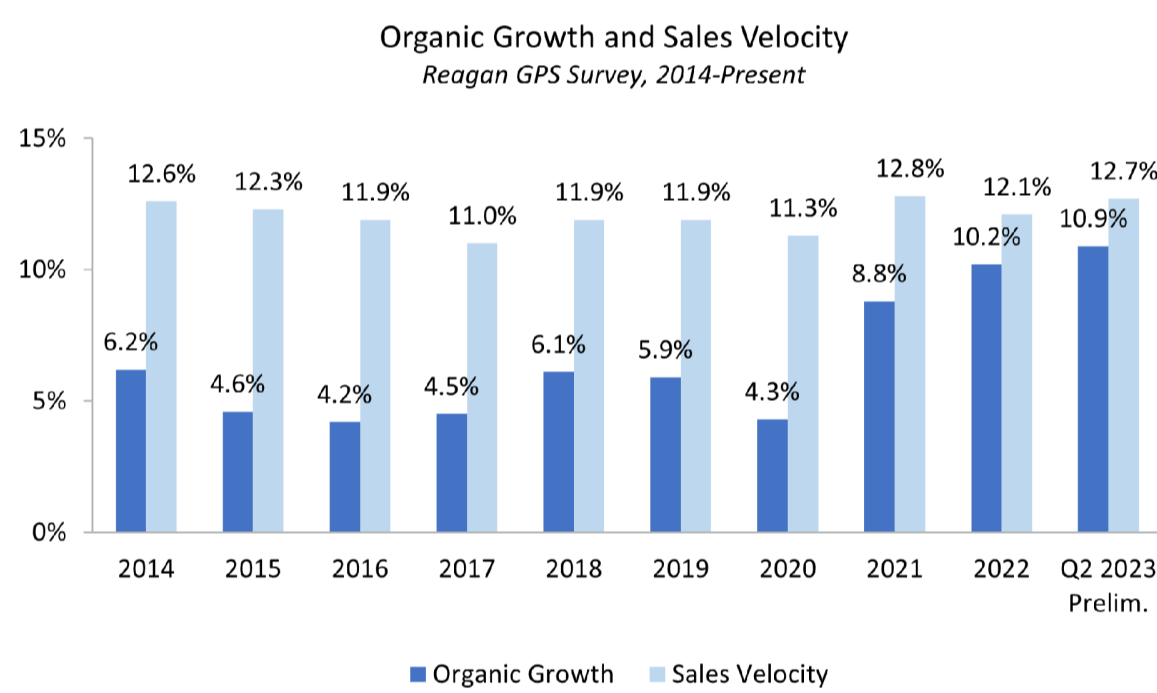
Agents and brokers everywhere are enjoying quite an organic growth run. The industry set an organic growth record in 2021 only to break it again in 2022. This year's results are on pace to set another record, with median organic growth through the first half coming in at a preliminary estimate of 11.0%.

Organic growth is driven primarily by four factors:

1. **New Business:** How many new clients and policies did we add?
2. **Client Retention:** How many of our existing clients and policies did we retain?
3. **Rate:** How is P&C pricing impacting our book of business?
4. **Exposures:** Are the underlying exposures covered by our policies growing or shrinking?

We measure this new business using a statistic called Sales Velocity, a term Reagan coined in 2014 in a [research piece](#) on producer recruiting and development. Sales Velocity is defined as new business divided by the base book of commissions and fees. So, for example, if an agency that finished 2022 with \$10 million in commissions and fees writes \$1 million in new business in 2023, Sales Velocity would be 10% for 2023.

For most of the last ten years, there has been a relatively stable relationship between Sales Velocity and organic growth. From 2014 through 2020, Sales Velocity was approximately 12%, which was slightly more than double the organic growth rate. This means that agents and brokers had to generate Sales Velocity of 12% or more to grow organically at 5% or 6%. The combination of client retention, exposure growth and P&C pricing – the other three elements of the organic growth equation – was a net deduction in the growth equation of 6% or 7%.



The last three years have been different as agents and brokers have been able to double their organic growth rates without significant changes in Sales Velocity. The market has changed. Exposure growth and P&C pricing are now a tremendous tailwind for brokers, who are delivering double-digit organic growth quarter after quarter.

The market is cyclical and eventually it will turn. Agents and brokers are operating in a moment of almost dizzying financial performance but should be careful to recognize how they are getting there. Are they driving growth through Sales Velocity or simply riding the market wave? When the market turns, only the firms that have built a high-performing new business engine will still be able to deliver strong organic revenue increases.

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