

Should You Take on Debt to Grow?

by Rick Dennen, Oak Street Funding



Theories about the best way to grow a business are plentiful and change with the times. Just contrast the highly-leveraged '80s with today's infatuation with bootstrapping. Now that we're coming off one of the worst economic downturns of our lifetime, it's not surprising that business owners are conflicted about the best way to grow: organically or by investing using debt.

Despite which theory is in vogue, the decision of whether or not to take on debt really comes down to business fundamentals. I've worked with hundreds of insurance agency owners to determine if taking on debt is the best choice, and the decision always comes down to the following questions:

- 1. How do I want to grow?** Growing a business can mean different things to different companies. Some companies grow by expanding products and services, some by tapping referrals. Others grow by putting a lot of effort into sales and marketing, and some grow through acquisition. Still others grow by hiring. These methods require different levels of investment. Begin by understanding how you plan to grow your business and what kind of investment is required.
- 2. What is my growth timeline?** A young business owner may have decades to grow a valuable business. Conversely, an executive nearing retirement age may need to build value rapidly in order to sell the business. For executives with short timelines, it might be quicker to buy a business and fold the customers in. Determine your exit plan and how you can reach that goal within your timeline.
- 3. Are opportunities favorable now?** Timing is always important in business. Businesses grow by buying low and selling high. Right now, we're coming off a soft market and revenue streams are weak, making acquisitions relatively cheap. Business owners should always be ready to take advantage of a favorable opportunity, and a line of credit is a great way to do this. Similar to being pre-approved for a mortgage, a line of credit is available if and when it's needed. The time to be approved is before an opportunity presents itself, so you can move quickly knowing that funding is in place. Be aware of the resources available to you.
- 4. How do I feel about risk?** Everyone has a different tolerance for risk. Some view debt as a risk, preferring slow and steady growth through solid management. Others consider organic growth a risk, since the slower pace may result in competitive pressures. Balance these views with your growth plans and timeline to come to an acceptable level of risk.

Finally, consider how you conduct your day-to-day business. Are you an executive who participates in trade associations, gives time to nonprofits and spends time out talking with customers and other executives? These executives tend to see opportunities before others and need to be prepared to profit from them.

About the author

Rick Dennen is president and CEO of Oak Street Funding, which provides commission-based lending for insurance agents that need capital to buy, build or sell their agency. Dennen is a licensed agent in the state of Indiana for Life, Accident & Health products and a licensed Certified Public Accountant in the state of Indiana. In addition, he holds an MBA in finance and is an instructor of venture capital and entrepreneurial finance at the Indiana University Kelley School of Business. He can be reached at rick.dennen@oakstreetfunding.com.

Around the PIA Western Alliance States

Arizona — Disaster Declaration: Arizona Governor Jan Brewer has asked President Obama to declare the Yarnell Hill fire and the surrounding area a disaster area. The fire destroyed 109 homes and damaged another 23.

The state's two senators John McCain and Jeff Flake have also sent a letter to the president urging swift action.

Montana — An Active PIA: In a major victory for PIA members, both Montana and New York have passed bills backed by PIA to address the large and growing problem all producers face when handling certificate of insurance requests. Montana and New York are two of eight states so far to consider a model law developed by the National Conference of Insurance Legislators at the urging of PIA.

In Montana, State Sen. Fred Thomas (R), a past PIA National President, introduced the Certificates of Insurance Model Act (S. 158) and shepherded it to passage. It was signed into law on April 25, 2013 by Gov. Steve Bullock (D).

The New York State Senate passed a bill, which was already approved in the New York State Assembly, and sent it to Gov. Andrew Cuomo for his signature.

PIA National President Andrew C. Harris led the effort along with PIA National Assistant Vice President of Regulatory Affairs David M. Eppstein, Esq. Harris testified at several NCOIL meetings, urging the legislators to act because agents are increasingly being asked to add information to certificates of insurance that may not match the underlying policy terms. He also personally brokered a compromise with lenders to address their concerns.

PIA's leadership on this issue broke a stalemate that had existed for decades. This achievement is a powerful example of what PIA is able to accomplish for the benefit of PIA members everywhere, when everybody works together.

Montana — Flood Disaster Declaration: President Obama signed a federal disaster declaration for flooding that hit Montana between May 19 and June 3. It hit Blaine, Chouteau, Custer, Dawson, Fergus, Garfield, Hill, McCone, Musselshell, Petroleum, Rosebud, and Valley counties. Also impacted and included in the disaster declaration are the Fort Belknap, Fort Peck, and Rocky Boy's reservations.

New Mexico — USDA Drought Declaration: Rio Arriba and Taos counties have been designated as primary disaster areas by the Department of Agriculture (USDA). Drought has hit the two counties hard and farmers and ranchers will now be eligible for low interest emergency loans from the federal government.

Oregon — Drought Worries: Oregon Governor John Kitzhaber has issued drought declarations for four Oregon counties. The state is worried that farmers and ranchers will run out of water. Some cattle ranchers are selling off their herds because there is no pastureland available. Everything is dried and brown. Ranchers are not able to afford the high cost of feed.

Another big worry is fire.

Washington — Regulatory Update from PCI: This came to us from the Property Casualty Insurers Association of America (PCI).

Since the retirement of Insurance Commissioner Mike Kreidler's longtime Senior Deputy and Chief of Staff, Mike Watson, in April of this year, two additional high-profile deputies in the Office of Insurance Commissioner (OIC) have announced their departure from the agency.

Members may recall that Mike Watson, who was Commissioner Mike Kreidler's "right hand," while serving as his Senior Deputy Commissioner for most of Kreidler's 3-plus terms in the office, retired (for the second time) in April of this year. Watson was replaced by longtime staffer Jim Odiorne, effective April 24.

In addition, two other well-known deputies have recently departed the OIC. On June 25, Beth Berendt, who served as the OIC's Deputy Commissioner for Rates & Forms for more than 12 years, retired from her position (but is still working temporarily in the department on a grant-related project). Then, in an abrupt email on July 5, Deputy Commissioner for Policy and Legislative Affairs Brendan Williams announced it was to be his last day at the OIC, as he planned to "move on and find a new adventure," but left no indication of what that adventure might be.

Commissioner Kreidler has appointed Molly Nollette as Acting Deputy Commissioner for Rates & Forms. Ms. Nollette has been a Management Analyst with the OIC's Operations Division, and has served as a Project Manager for the Consumer Protection Division.

No appointment has been announced to replace Brendan Williams, nor has any comment been issued by the department.

Washington — Green River Update: A couple of years ago businesses and homes along the Green River near Seattle were threatened by a leaking Howard Hanson Dam. That threat has been addressed.

Construction has begun on a series of levees to help hold back water if the dam should happen to be breached. The project is priced at \$8 million. The Army Corps of Engineers spend \$44 million repairing the dam.

Just for Fun

Twinkies are back!

It's popular demand working at its best. Once bankrupt and in danger of never being seen again, the public outcry got action and bankrupt Hostess got a new owner. The ownership of the 83-year old brand stuck 50 million Twinkies in stores last week and more are on the way.

They went to 100,000 stores along with 40 million Hostess CupCakes and 6 million Donettes, the miniature donuts. Four bakeries are now running seven days a week and two shifts a day to keep up.

No worries. If all of them don't sell, it's not a crisis anyway. Some think — but there is no real proof — that the shelf life of Twinkies borders somewhere between eons and eternity.

The firm's new owner and CEO C. Dean Metropoulos said, "Wherever you find a Snickers bar or M&Ms, you should be able to find a Twinkie."

Do we hear an "amen?"

Critics of Twinkies and other fast foods say they are one of the reasons America is the most obese nation on the planet. No. Wait. Bulletin. Bulletin. That has changed. Mexico is now the most obese nation in the world and the U.S. has fallen to number two.

The question now is whether we're eating healthier and the number of obese people in the U.S. is falling, or if Mexicans are just eating more types of food that lead to obesity. Unfortunately, the report we found did not expand. All it said was that Mexico's urban

lifestyle and rising income levels combined with malnourishment among its poorest citizens led to the designation.

This particular report came from the United Nations and it notes that about 12% of the world's population can be considered obese.

One more interesting fact from the report. The official fattest nation in the world is Nauru. Unofficially, American Samoa is probably the most obese. No data exists but the World Health Organization thinks 95% of its inhabitants are overweight. Nauru — for those wondering — is a South Pacific island with a population of 10,000. A stunning 71.1% of the inhabitants are considered obese.

The least fat nation in the world is Japan with a 4.5% obesity rate.

Here's the U.N. data for the top 10 nations:

COUNTRY	OBESITY RATE
1. Mexico	32.8%
2. United States	31.8%
3. Syria	31.6%
4. Venezuela	30.8%
4. Libya	30.8%
6. Trinidad & Tobago	30.0%
7. Vanuatu	29.8%
8. Iraq	29.4%
8. Argentina	29.4%
10. Turkey	29.3%