

YOUNG PROFESSIONALS: REVERSE PERFORMANCE MANAGEMENT
AGENCY PARTNERS: FINDING THE RIGHT WHOLESALER
TECHNOLOGY: NOT YOUR AVERAGE RATING VENDOR
SPECIALTY LINES: THE MANY ASPECTS OF WEATHER INSURANCE

Rough Notes

PROPERTY & CASUALTY AGENTS

AGENCY MARKETING • INSURANCE MARKETS • NEW PRODUCTS

AUGUST 2015




AGENCY OF THE MONTH:

**UNIQUE M&A APPROACH
FUELS RAPID GROWTH
AT THIS JERSEY AGENCY**

ALSO: COVERING UBER AND OTHER RIDESHARING BUSINESSES

AGENCY OF THE MONTH



**BETTER
TO BE
LUCKY ... AND
GOOD**

Jersey firm focuses on niches, partnerships

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hen Robert Lull and Mark Weinraub worked together at a prominent retail agency, they learned a lot and contributed a lot, with both rising to executive positions. But they also both realized that they would never be equity partners. And that was something they wanted. They wanted to build an agency that was theirs.

So in 1990 they founded Capacity Coverage in a small office above a muffler shop in Upper Saddle River, New Jersey, with three employees. "I guess we brought some of the retail mentality with us," Bob remembers; "however, we chose a marketing plan that was a little exotic back then. We were pretty sure that the days of writing business over three-martini lunches were coming to an end. Insurance was simply too complex and too important to the success of a company, and becoming more so every day, to be sold in this manner. Businesses were starting to look for and demand expertise. They wanted to deal with professionals who understood their business almost as well as they did and understood the risks they faced and how to mitigate them even better than they did.

"In a lot of ways, we approached our business plan in the same manner college attendees approach their studies, choosing both a major and a minor where we could excel," Bob continues. "In short, we decided to become experts in a couple of fields so we could provide clients in those niches the kind of advice and risk management services that no competitor could ever match. Then we joined every association in that niche and immersed ourselves in their business so that we became a brand name in that market segment. We were niching and branding long before they became buzzwords. And we still are."

Beginner's luck?

"We got very lucky in our first year," Mark remembers. "We formed a relationship with an insurance company in South Jersey that wanted to write public transportation. That relationship involved a capital infusion that at the time represented a significant investment for us. But it paid off." When Bob and Mark left their previous employer, they were allowed to bring along a small amount of business that included two limousine accounts. "We immediately moved those accounts to the insurer and then



Photography by Paul B. Riley

The founding partners.

From left: Mark B. Weinraub, Chairman, and Robert G. Lull, President and Chief Executive Officer.



From left: Joyce Alimi, CIC, CLCS, Vice President, Standard Lines, Capacity Coverage Company; Michele Mugno, Vice President, Transportation, Capacity Coverage Company; Jon Ziman, CPCU, CIC, Director of Marketing, Capacity Coverage Company; Megan Morbee, Director of Marketing, All Trans Risk Solutions LLC; Donna Ward, Vice President, Personal Lines & Select Lines, Capacity Coverage Company.

started to learn everything we could about the public transportation business. We got involved with all their associations and quickly learned that we were missing an important piece. That business, particularly school buses, needed surety bonds.

“That’s a unique and complex specialty,” Bob continues, “so we knew we needed a surety bond expert.”

Acquisitions their way

Their previous employment taught them a lot, including how to successfully acquire agencies and how not to. And their personal experience concerning the need for equity was mixed into that knowledge to create a unique method that attracted “people like us who wanted to work hard and build something,” Bob says. “We wanted a surety expert who was going to stick around because he or she had a personal stake in the business, so we offered equity participation.”

That approach proved propitious when, because of it, Atlantic Coast Surety expressed interest in working with them. “We reached a deal whereby Atlantic Coast Surety became a member of the Capacity Group and the owner maintained an equity position,” Bob says.

“And our luck held out when we found an insurance company, Frontier,

that was willing to write surety for one of our specialty niches that was underserved,” Bob continues. “Because of our growth and knowledge in that particular industry, insurance carriers would approach us for our expertise and advice on creating value added. So we included abuse and molestation coverages. We were able to put together a package of coverages that included surety products, molestation, workers comp, and commercial auto, that was second to none. With an average account premium of around \$150,000, it allowed us to grow exponentially. By 1995, we were writing between \$5 million and \$6 million in revenue. We started with less than \$300,000 in 1990.”

Apparently, Capacity Coverage hit a nerve in a good way. Other agencies started looking to it for a potential partnership. “Soon after our acquisition of Atlantic Coast Surety, we were approached by a marine specialist who wanted to join us,” Bob says. “We set up Capacity Marine and gave him equity.”

And then things really started to click.

Careful growth

As the interest from other agencies and the available revenue increased,

Capacity was able to consider larger acquisitions/mergers. “Two milestone deals were accomplished in the late ‘90s when Property Life Planners joined the group, which added three major goals for our firm.” Bob says. “It brought in two specialties, courier and high-value homeowners but, just as important, it brought us our chief acquisition officer Carl Gerson.”

The second deal involved a former *Rough Notes* cover agent, PLB Insurance Group. When I wrote about PLB in August of 1990, it was a significant, established agency in the northeastern corner of New Jersey. Yet, as some of the owners looked to retirement and others wanted to continue with equity participation, Capacity Coverage offered the right mix to meet all their goals. Jay Bergstein, CPIA, and Ron Bergstein, CPCU, joined The Capacity Group from PLB in 2000.

“People really wanted to be part of our group,” Bob says proudly.

He continues by noting that “every acquisition has to make sense. We are extremely conservative fiscally. Every time we bring a partner on board, it has to be profitable for the new partner and for us. We aren’t looking to compete for agencies where the owners want to retire; we want to partner with those owners who want to move to the next level. That’s why we

offer—no—we actually insist on them having equity. We want everyone to have skin in the game. We believe that our growth and equity model is the best in the business, but it is aimed at people who want to stay in the business. We'll buy a percentage of their agency and help them grow by providing product, the infrastructure and the back office so they can focus on selling and serving their customer base.

"We consider ourselves to be a high-end niche insurance and risk management organization," Bob says. "In our focus areas, we are like Nordstrom, providing the best products and services to our customers."

Team concept

Because of the agency's focus on niching, it has developed a team approach under which the producer and the customer service representatives involved in that niche all become experts in their field. "Our people seem to like that because it allows them to get very good at what they do," Bob says. "Our clients treat us as respected business partners who offer risk management expertise that benefits their bottom line. Our people who love insurance like I do, do so because it lets them help people

and their businesses grow and prosper. And we are proud to boast that we have some 400 people who want to help our clients succeed and also help them through the shock of a claim so that they come out the other side whole."

"It's nice to be a professional and be treated like one. We're one of the top three advisors to our clients," Ron Bergstein states.

The agency is also very proud of its top-drawer technology, which is supported by three full-time MIS people. "They focus on making certain that our technology supports our niches," Bob explains. "We want our people to be able to turn to their computer or mobile device and find answers to customers' questions about coverage, risk mitigation and management, any legal changes due to recent court decisions and so on. We don't expect them to have all the answers—although they spend a lot of time in their niche so their knowledge is very deep—so our technology supports our team members with information that is new and relevant."

All clients are equal

"We firmly believe that every client and prospect is important regardless

of size," Jay points out. "Our producers receive commissions on every account. We think it's a mistake to differentiate based on size and send small accounts to a different business unit. That just means that when they grow and become the next large account, they'll leave to find an agency that treats them with respect. We don't know which client will be the next Microsoft, so we treat all of them as if they will be."

"And we also pay the same commission percentage on new and renewal business because we understand that maintaining a high retention rate means we don't have to scramble to find new business to make up for lost clients. New business should mean growth, not keeping up with losses," Bob says. "We also know that current clients are our best salespeople, particularly in niche areas. These are people who talk with their peers, meet with them at conventions and either recommend us to those peers or damn us with their silence. We prefer the former."

Bob concludes: "Our size and focus allows for all of our employees to find their own personal niche. They don't have to be a jack of all trades, as often happens in smaller agencies where there just aren't enough people to cover all the bases. For example, Jay Bergstein, who came to us from PLB, is



The Partners of The Capacity Group meet regularly to discuss the many avenues of client retention and growth.



Work hard and play hard. The Capacity Group offers many fun occasions to its employees including summertime picnics.

president of retail insurance operations and concentrates on maintaining strong relationships with our company partners. Ron Bergstein, director of sales, concentrates on sales and mentoring producers. That's what they love doing, and that's all they do because our other team members are in place to take care of tasks that they love to do. A wonderful synergy has developed within our ranks that has allowed for each person to find his or her passion. As the saying goes: "There's a lid for every jar," and we want to find the fit for every person in the agency."

Carl Gerson, CPCU, states, "We've developed a culture where the result is that we have good, knowledgeable, fun people who respect each other and their different talents and abilities. Egos are checked at the door."

And it sure seems to be working. Today Capacity Coverage boasts some \$90 million in revenue with over \$600 million in premium from more than 15 brand agencies with a variety of niches including public transportation, marine, surety, construction, hotel/motel, moving and storage, tow and motor carrier business and distributes its products through its retail, wholesale and MGU companies. The group has offices throughout the country.

Rough Notes is very pleased to recognize The Capacity Group as our Agency of the Month. Its acquisition model allows for a continuation of the entrepreneurial spirit that is the hallmark of the independent agency system. ■