



Business Planning Services

Generate Sales with Informal Business Valuations and Buy-Sell Reviews

Step into the Business Market by offering a value-add service that sells! These complimentary services are great “door-openers” for business cases that can lead to life and disability insurance sales.

The opportunity

- Today small businesses with fewer than 500 employees account for 99.9 percent of all firms in the United States.¹
- Small firms employ over half of U.S. workers. Overall, small firms are responsible for 44 percent of the total U.S. payroll.¹
- Consider the real opportunity for you as a producer. Small-business owners represent a lucrative market with significant risk-protection needs. More than half of all U.S. individuals with more than \$3 million in investable assets own a business.²
- Recent results from The Principal Financial Well-Being IndexSM from the Principal Financial Group®, and results from other research, show that small-business owners’ existing coverage levels reveal opportunities to increase sales. We also know from a LIMRA study³ that they want life insurance for estate liquidity and key person coverage.
- In fact, the most common business life insurance purchases are to provide liquidity for the owner’s family, manage continuity planning after the loss of a key employee, repay loans and mortgages and cover the costs associated with a buy-sell agreement.⁴

What is a good prospect?

Buy-Sell Reviews

- Any company with a buy-sell agreement if it’s been two years since the agreement was drafted or reviewed.
- Any company with an operating agreement or partnership agreement, but no buy-sell agreement.
 - Operating and partnership agreements are generally less comprehensive with regard to buy-sell provisions, such as addressing valuation formulas and insurance provisions.
 - Operating and partnership agreements create great opportunities for you to provide value to clients by helping them implement a buy-sell agreement.



Informal Business Valuations

- **Manufacturing companies**
- **Construction companies**
- **Professional service-related companies** such as architects, healthcare systems, law firms, dental, engineering, accounting firms, etc.
- **Information technology companies**
- **Profitable, growing businesses** with gross revenues of \$500,000 and above.

What prospects present challenges?

Buy-Sell Reviews

There really are no challenging prospects from a Buy-Sell Review perspective. We can generally provide value to all business clients requesting a review.

Informal Business Valuations

Farms – Value is generally equal to the value of the livestock, equipment, land, etc., as calculated by the various market indexes. Valuations of farm-related commodities and land require specialized knowledge and data.

Nonprofit organizations – These organizations are generally not intended to be sold for a profit.

Publicly traded companies – Generally, the Fair Market Value will equal the stock price; no value is added by our providing an informal valuation.

Nonprofitable businesses – These are businesses with negative book value and net losses.

Sole proprietors – With sole proprietors, it is difficult to distinguish between company and personal assets. Sole proprietors don't create separate balance sheets for their businesses.

Real estate holding companies – The value of this type of business is generally equal to the appraised values of the respective properties being held.

Financial services firms – Valuing these firms is challenging because compensation can vary widely among all parties. Additionally, clients may choose to change financial professionals as a personal decision.

New companies – It is difficult to trend data with new companies, as there is generally more expense in early years. The investment in the companies is a good place to start. In addition, these companies need to protect their key people and cover any outstanding business debt.

The approach

So how can you approach a small-business owner? Once you are introduced, ask if he/she has a buy-sell agreement; if the answer is yes, ask when it was last reviewed. And, ask when the business was last valued. Our Advanced Solutions team reviews hundreds of buy-sell agreements and prepares hundreds of informal business valuations annually.

Below are some probing questions to ask based upon the most common issues revealed in our reviews:

Exit Planning

- *I see you have an installment payout for your buy-sell agreement. What is your plan for handling the cash flow?*
- *I see you have an optional buyout at death in your plan. How would that protect your family in the event of your death?*

Retirement Income

- *What are your proposed revenue sources for retirement? Do you have a qualified plan in place? If so, are you and your key employees limited in what you can contribute?*

Business Protection

- *I didn't see any disability language in the document. How do you plan to deal with the possibility of a disability?*
- *Would your profits be affected if a key employee were to leave, die or become disabled?*

Wealth Transfer

- *Recognizing that your business is a big part of your wealth and your estate, do you have family members who are in the business, and others who are not in the business?*

These questions may offer a great opportunity to sell life insurance, disability insurance or other financial products. Don't miss out on this lucrative business insurance market.

What sales opportunities can be uncovered?

Exit Planning and Buy-Sell

- Match up existing agreement, valuation and funding.
 - Identify unmet financial needs for lifetime, death and disability triggers.
 - Align life insurance and disability insurance definitions and ownership.
- Establish and fund new buy-sell plans.
- Recommended plans for single-owner companies are the Principal Select Buy-Out PlanSM, One-Way Buy-Sell, and No-Sell Buy-Sell.

Business Protection

- Key Person (Life and Disability Insurance (DI))
- Loan Protection (Life and DI)
- Business Overhead Expense (DI)

Retirement

- Executive Benefits
 - Deferred Compensation
 - Bonus
 - The Principal[®] Select Reward Plan
- Owner benefits
 - Principal S Owner PlusSM
 - LLC member bonus

Estate Planning

- Inheritance equalization
- Family transfers
- Estate tax exposure determination

Additional Protection

- Survivor income
- Individual disability income insurance

What's needed to get started?

Collect and Provide:

- Any buy-sell agreement or related document
- The most recent three full years of company financials or business tax returns
- A completed Business Planning Fact Finder (BB10446)
- Information on any existing insurance

Marketing materials

The Principal® offers a variety of valuable tools to get you started. For more information, go to www.principal.com/businessplanning.

¹ *Frequently Asked Questions*, SBA Office of Advocacy, September 2009.

² VIP Forum Analysis of 2007 Survey of Consumer Finances.

³ LIMRA MarketFacts Quarterly, Spring 2009, James O. Mitchell.

⁴ *Marketing to Small Business Owners*, James O. Mitchell, LIMRA, March 19, 2009.

FOR MORE INFORMATION

Contact your local representative.



WE'LL GIVE YOU AN EDGE®

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