



## 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.<sup>1</sup>
- Small firms employ over half of U.S. workers. Overall, small firms are responsible for 44 percent of the total U.S. payroll.<sup>1</sup>
- 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.<sup>2</sup>
- Recent results from The Principal Financial Well-Being Index<sup>SM</sup> 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 study<sup>3</sup> 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.<sup>4</sup>

### 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 Plan<sup>SM</sup>, 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<sup>®</sup> Select Reward Plan
- Owner benefits
  - Principal S Owner Plus<sup>SM</sup>
  - 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](http://www.principal.com/businessplanning).

<sup>1</sup> *Frequently Asked Questions*, SBA Office of Advocacy, September 2009.

<sup>2</sup> VIP Forum Analysis of 2007 Survey of Consumer Finances.

<sup>3</sup> LIMRA MarketFacts Quarterly, Spring 2009, James O. Mitchell.

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

### FOR MORE INFORMATION

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