



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

- Small businesses represent 99.7 percent of all employer firms.¹
- Small businesses are responsible for 42 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
- 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.
- According to LIMRA, approximately 20 percent of small firms pay for life insurance coverage through the business. Of those firms, nearly half do so to reimburse the company in case of the loss of a key employee or owner.³
- The most common reasons small firms carry business life insurance are to reimburse the company for the loss of a key employee, repaying business-related loans or mortgages, providing estate liquidity for an owner’s family and funding a buy-sell agreement or stock redemption plan.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.

Companies engaging in criminal activity – This includes businesses, such as marijuana dispensaries, where a conflict exists between state and federal law as to the legality of the business.

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 annually reviews hundreds of buy-sell agreements and prepares thousands of informal business valuations.

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
 - Principal SERP SelectSM
 - 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 (BB10847C)
- Information on any existing insurance

¹ The U.S. Small Business Administration (SBA) Office of Advocacy, *United States Small Business Profile, 2014 and Employer Firms, Establishments, Employment, and Annual Payroll Small Firm Size Classes, 2011*.

² VIP Forum Analysis of 2013 Survey of Consumer Finances.

³ LIMRA, *Small World Trends in the U.S. Small Business Market*, January 2013.

⁴ *Small World: Trends in the U.S. Small Business Market, LIMRA, 2012 Data*.

FOR MORE INFORMATION



WE'LL GIVE YOU AN EDGE®

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