2015 MassMutual Business Owner Perspectives Study

Insights from America's Economic Engine

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> "Whenever you see a successful business, someone once made a courageous decision."
>
> – PETER F. DRUCKER

Business owners are the engine that drive the U.S. economy. The small business community in the U.S. is the third largest economy in the world[1], represents a total buying power of $2 trillion[2] and has generated 66% of all new jobs since the 1970s[3]. They are also your peers.

The ***2015** MassMutual Business Owner Perspectives Study* takes the pulse of today's business owners. The study, conducted by HawkPartners for Massachusetts Mutual Life Insurance Company (MassMutual), reveals that today's business owners are spending the majority of their time working in their businesses instead of on their businesses. The reality for today's business owner is that long-term planning for the business is not always top of mind, even though many feel protecting the business is important. There is also a mix of positive and negative emotions associated with business planning.

However, business owner positivity increases with the more plans they have in place. This underscores the need for financial knowledge and preparation.

We recommend that you review this study with family members, business partners, and key employees. Then use these findings to create a meaningful dialogue about how you can best position your business for long-term success and stability. At the same time, consider the impact not planning could have on your business and on those who matter most to you. Evaluate what's important, keep those critical items top of mind, and seek guidance from professionals who are best equipped to meet the needs of you and your business. After all, your business is vital to the livelihoods of your family, your employees, and your community. Shouldn't you spend the same amount of effort protecting it, as you did building it?

The emotional side of business planning

This study aims to gain insight into what business owners think and feel about seven core business planning pillars:

1. Keeping key employees loyal to the business
2. Knowing what the business is worth
3. Protecting the business from the death of an owner or a key employee
4. Protecting the business from the disability of an owner or a key employee
5. Choosing who will take over the business if an owner leaves, becomes disabled, or dies
6. Transitioning ownership and/or finding a buyer upon retirement
7. Handling estate taxes generated from the business in the event of an owner's death

When asked how these core pillars made business owners feel, there were both positive and negative emotions shared. Upon further evaluation, there is a direct correlation between a positive emotional response and the number of plans and agreements the business owner had in place to protect their businesses.

That being said, why would a business owner not have plans in place? The respondents provided some insight, as well as motivations for putting plans in place.

TOP EMOTIONS

of those with **no plans** or agreements in place:
Stressed, nervous, anxious

of those with **5+ plans** or agreements in place:
Engaged, hopeful, secure

Top reasons for not having agreements/plans in place:

1. I don't feel like I need to think about these issues yet.
2. I am so busy with the day-to-day management of the business, I don't have time.
3. I don't have extra money to put towards addressing these issues.
4. I would not know where to go for help.
5. It is an uncomfortable conversation with my family/business partner.

Top reasons for having agreements/plans in place:

1. I wanted to protect my business.
2. I wanted to protect my family.
3. I was doing personal planning and it prompted me to think about business planning.
4. I witnessed a life event that made me think I should protect my assets.
5. I wanted to protect my employees.

The core business planning pillars at-a-glance

Many business owners say they are good decision makers, but are either not ready or too busy to address all of the core pillars.

At the same time, business owners feel they need to protect their businesses and families, but aren't confident in addressing the core pillars on their own and don't always know where to turn for help. This struggle between what a business owner thinks and feels can be a catalyst for effective business planning.

We asked the survey respondents to rate four aspects of the seven core pillars:

1. How important the pillar is to the business?
2. How often the owner thinks about the pillar?
3. How capable the owner is in solving any issues related to the pillar?
4. Who the owner would turn to for help?

> "Ideally you want a resource that gets to know you on a pretty intimate level and certainly knows your business. The idea of having to go a la carte with a whole bunch of other people is really time consuming and inefficient. I'd want someone who has the big picture."
>
> – MALE, PROFESSIONAL SERVICES

The following chart provides an overview of how business owners rate each core pillar in terms of those specific aspects. Keeping key employees loyal is viewed as the most important, most top of mind, and most solvable.

Protecting the business from both the death and disability of the owner or key employee are also viewed as highly important, and knowing what the business is worth is also very much top of mind.

Our survey results also indicate that business owners leverage many different resources for support in addressing the core pillars. Often times, the resource is either themselves, their business partners or their family members, meaning they may not always be turning to the most informed resource for help.

But, when business owners do look to experienced professionals for guidance, they say the most important characteristics they are looking for is someone who has their best interest at heart, a high ethical standard, and an understanding of the needs of small business owners.

The advisors who are the most trusted by business owners are:

1. Accountant
2. Financial professional
3. Lawyer
4. Spouse
5. Other business owner
6. Banker

A closer look at the core pillars

Keeping key employees loyal to the business

IMPORTANCE	PRIORITY	ABILITY TO SOLVE	GO-TO RESOURCES (TOP 3)
			• My business partner and I would figure it out • I would do it alone • Family member

As previously mentioned, keeping key employees loyal to the business is of the utmost concern — with 81% of respondents saying it is important to some degree. It is also very much top of mind — with nearly two-thirds saying they either frequently or often think about the issue. But the concern lies in the business owners' perceived ability to solve the issue — 70% say they would do it themselves or turn to their business partners or family members for help.

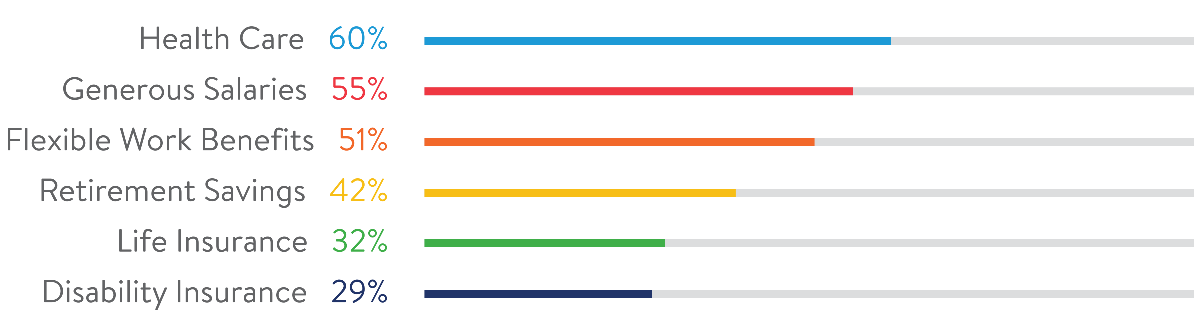
Offering a competitive salary and comprehensive benefit package is the most common method of attracting and retaining top talent. The good news is 90% of our survey respondents report offering some kind of benefits to their employees. But are they the right benefits?

> "It's pretty much me because it's cut and dry. I think after 35 years in business, we're pretty comfortable with how to address it [employee benefits]."
>
> – FEMALE, RETAIL

Not all employee benefits are created equal and certain ones are more valued by employees than others. Some of the most desired employee benefits aren't what you might think. Competitive pay is only the beginning. Flexible work schedules, work-from-home arrangements and paid time off should all be considered as part of today's compensation packages. In addition, bonuses used to pay life insurance premiums, employer-paid disability income insurance, or non-qualified deferred compensation programs can help keep your most valuable employees in place.

Considering the employee benefits that the workforce desires most will help you develop a benefit package that will help keep your current employees loyal and attract the best new talent in the future. Business owners could benefit greatly from speaking with a knowledgeable professional outside of the business or the family for information on the many types of benefits that may be of value to their key employees.

MOST COMMON BENEFITS OFFERED TO EMPLOYEES



Knowing what the business is worth

IMPORTANCE	PRIORITY	ABILITY TO SOLVE	GO-TO RESOURCES (TOP 3)
			• Accountant • Financial Professional • Business partner and I would figure it out

The next pillar is knowing what the business is worth. This pillar is of moderate importance — with just over half saying they've had their business valued in the last three years. However, it is considered a relatively high priority — with over half saying they frequently or often think about their business value.

The reasons given for wanting to know the value tend to focus more on measures of financial health rather than as a means of protecting the business or funding retirement. Many business owners also stated they would only need a valuation done when they are getting ready to sell.

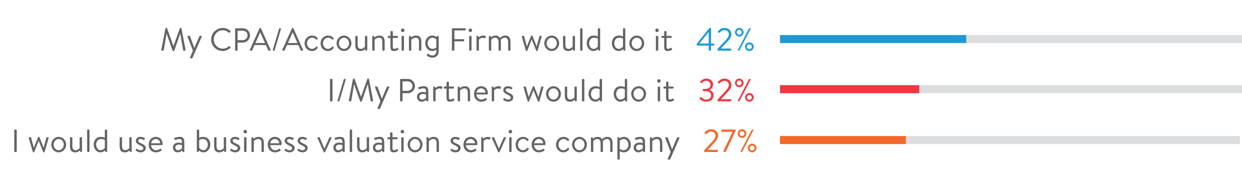
Business owners are confident they know who the right resources are to solve this issue. Most say they would turn to their CPAs as the go-to-person followed by a financial

> "As an entrepreneur, where we are in our lives, it's about the cash flow, keeping the business going. There's not so much thinking of what it's worth, what's the value of it because we're not looking to sell it now."
>
> – MALE, DESIGN/CREATIVE FIRM

professional. But here's the problem: one-third of those who claim to have done a business valuation in the last three years say they did it on their own.

A proper business valuation is not a "rule of thumb" or a figure agreed to with a handshake; it's thoughtfully crafted by a credentialed appraiser after thorough research and is documented in writing. Be sure that any firm or individual you hire to value your business has the proper credentials, such as: Certified Valuation Analyst (CVA), Accredited Senior Appraiser (ASA), or Accredited in Business Valuation (ABV).

WHO DO BUSINESS OWNERS TURN TO FOR BUSINESS VALUATIONS



There are critical times in the life cycle of a business when it is important to have an accurate valuation. In addition to measuring business health and preparing it for sale, here are other times when you may want to consider knowing what your business is worth.

Funding a buy-sell agreement

If you are obligated to buy out your partner, or his/her spouse, through a buy-sell agreement, you need to agree on a value that everyone (both the buyers and the sellers) is comfortable with ahead of time and have it in writing in the agreement.

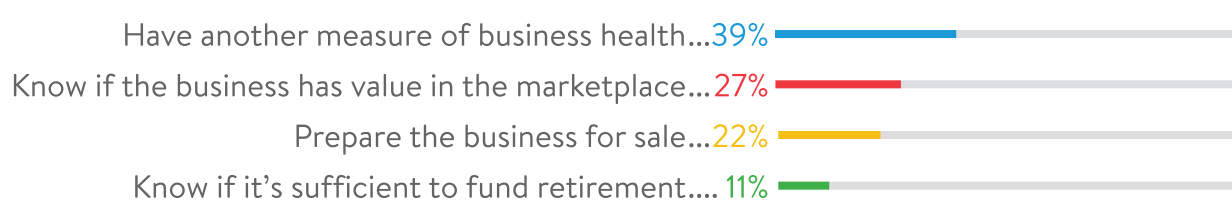
Retirement income planning

Your business is most likely your largest asset and a key component of your retirement plan. A valuation can help you reconcile your future retirement income needs with the current value of your business to help identify any shortfall.

Estate tax planning

The Federal Estate Tax exemption has helped to make estate taxes less of an issue. But for some, planning for a potential tax burden and the impact it could have on the next generation is critical for the long-term success of the business.

REASONS FOR HAVING THE BUSINESS VALUED:



Protecting the business from the disability and death of an owner or key employee

IMPORTANCE	PRIORITY	ABILITY TO SOLVE	GO-TO RESOURCES (DEATH)	GO-TO RESOURCES (DISABILITY)
			• My business partner and I would figure it out • Lawyer • Family member	• My business partner and I would figure it out • Family member • Self

The next pillars are protecting the business from the disability and death of an owner or key employee. To the business owners we surveyed, these pillars had the second and third highest level of importance, respectively, mentioned right after keeping key employees loyal. Disability is slightly more of a concern than death (44% versus 42%, respectively), which is a shift from MassMutual's prior research. This is not necessarily surprising when you consider that just over 1 in 4 of today's 20 year olds will become disabled before reaching retirement age.[4]

However, these two pillars were not very top of mind, with 55% saying they rarely or never think about the effect of disability and 59% saying they rarely or never think about the effect of death. Couple that with the fact that only 44% have a buy-sell agreement in place and you can see that many businesses may

> “So the business could end with us. We could die on a plane tomorrow and that could be the end of it.”
>
> – MALE, DESIGN/CREATIVE FIRM

be left unprotected should an unforeseen and unfortunate event occur.

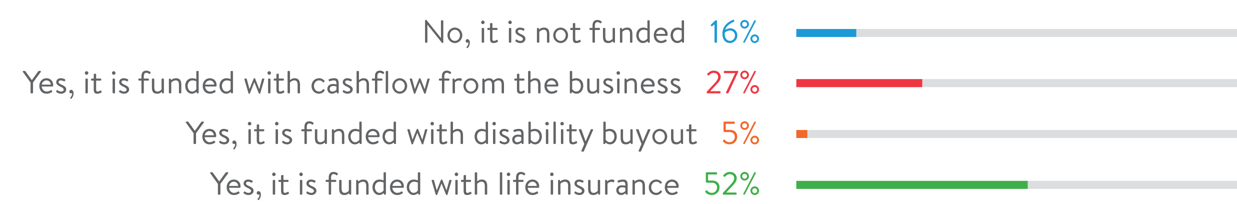
A buy-sell agreement should be designed to protect the business from the five D’s — death, disability, divorce, departure and disqualification. When properly executed, a buy-sell agreement can help ensure the continuity of the business when ownership needs to change hands for any reason. It is a legally binding agreement that requires one party to sell and another party to buy ownership interest in a business when a triggering event occurs, such as the death, disability or retirement of an owner.

A buy-sell agreement must also be properly funded. Funding buy-sell agreements with insurance products, specifically life insurance and disability buy-out insurance, is often the most effective method. These products make it possible for the remaining owner to purchase the business interest of the departing owner, or his/her family, without liquidating business assets or taking cash out of the business.

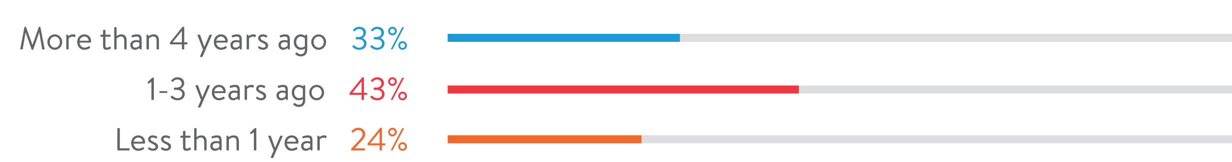
According to our study, of those with a buy-sell agreement in place, just over half say it is funded with life insurance, but only 5% say it is funded with disability buy-out insurance. The rest are either funded with cash flow from the business or not funded at all.

Finally, it is recommended that a buy-sell agreement be reviewed at least every three years. According to our study, one out of every three buy-sell agreements may be stale.

IS YOUR BUY-SELL FUNDED?



HOW LONG AGO WAS YOUR BUY-SELL REVIEWED?



Choosing who will take over the business if an owner dies, becomes disabled or leaves

IMPORTANCE	PRIORITY	ABILITY TO SOLVE	GO-TO RESOURCES (TOP 3)
			• Business partner and I would figure it out • Family member • I would do it alone

This pillar ties directly in with the previous pillar. You could have a well-drafted and properly funded buy-sell agreement in place, but if you haven't chosen the right person to take over the business, your succession plan may not work out as intended.

Most of the business owners we surveyed say they have chosen their successor — in most cases it's a family member. Of those, over 75% claim that this individual knows he or she has been chosen as the successor — although 23% don't know. Furthermore, 70% also say they are confident in their successor's ability to take over the business — however 30% are not.

Choosing the right successor is critical to the long-term success of your business. Here are a few tips for properly preparing an individual for taking over the business.

Encourage gaining experience outside the business

Successor candidates should ideally spend 3-5 years gaining work experience outside the business. This fosters new skills, fresh ideas and self-confidence. It also helps determine if taking over the business is truly the best course of action for the chosen successor and allows them to take over the business by choice rather than a sense of entitlement or fear of failure.

Implement a successor development plan

This is a written career path for the successor to follow. It begins with an assessment of the successor's current skills and interests and defines what additional experience, education, and training must be achieved.

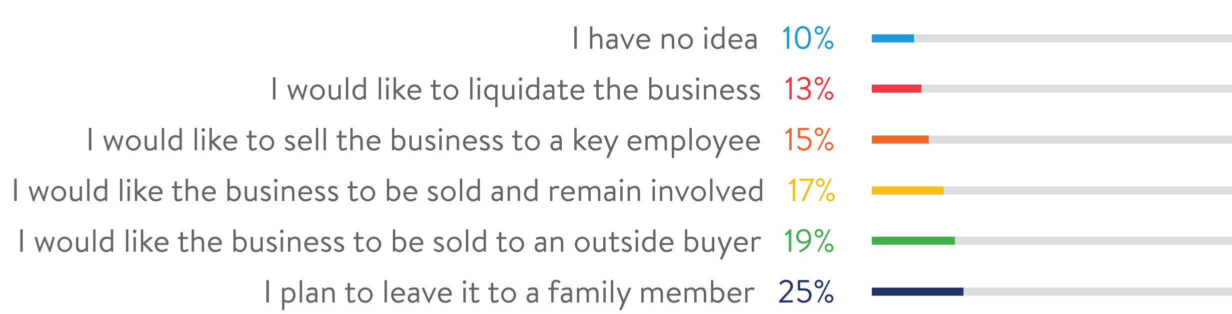
Coordinate the succession plan with family members and key managers

Have them participate as appropriate in structuring the succession plan and make sure they fully understand its impact on them. To achieve this, they must understand that there is a rigorous process of successor development and selection, not nepotism, that will determine the next leader of the business.

Recommend utilizing a mentor outside the family/business

Help the successor find and utilize a mentor outside the business to act as a coach, advisor, and educator. This might be a trusted person within the industry but not affiliated with the company, a professional career coach, or a professional development group composed of successors from other non-competitive companies.

WHO DO YOU PLAN ON TRANSITIONING THE BUSINESS TO?



Transitioning ownership and/or finding a buyer upon retirement

IMPORTANCE	PRIORITY	ABILITY TO SOLVE	GO-TO RESOURCES (TOP 3)
			• Business partner and I would figure it out • Lawyer • I would do it alone

The final pillar we will examine is transitioning ownership when the business owner is ready to retire. This pillar is ranked second lowest (ahead of only handling estate taxes) in terms of importance and priority. This is not all that surprising when you consider that nearly half of the business owners surveyed don't even think about retirement or can't imagine ever retiring.

As previously noted, those who do think about eventually stepping away from the business say they plan on leaving it to a family member most often, followed by selling it to either to an outside buyer or a key employee. Liquidating the business was a plan for only 13% of those we surveyed.

There are pros and cons to all methods of exiting a business. For example, leaving the business to a family member creates a wonderful legacy, but often times, it's a non-cash transfer (the family members don't

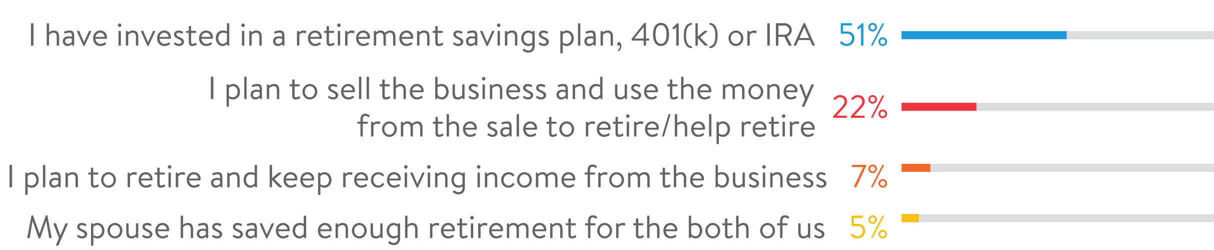
> “The way I’ve always thought about it is that we never talk about selling it. Maybe getting family members involved but I said, ‘you may take it over in a few years, but you have to give us an income stream until whenever.”
>
> – MALE, MANUFACTURING

actually buy out the previous generation) leaving the departing owners financially tied to the business post-retirement.

Selling the business to a key employee can make for a sensible strategy because typically that individual shares the owner’s passion for the business. But the reality is most key employees must purchase ownership via an installment sale (purchase the ownership interest over a period of time), and if that individual turns out to be a better employee than entrepreneur, it could force the prior owners out of retirement and back into the business.

This underscores the importance of having meaningful dialogue about who the right people are to take over the business when you are ready to step away. Passion, family and legacy are all important considerations, but there are other important factors as well, such as how the chosen exit strategy will impact your retirement income. The reality, according to our study, is that nearly 40% of business owners don’t have a retirement income strategy outside of their businesses.

HOW DO YOU PLAN ON FUNDING YOUR RETIREMENT?



A courageous decision is a good decision

A successful business begins with planning for and building a strong financial foundation. Business planning is not something that's done overnight. But our hope is that this research will provide you with ideas about the steps you can begin to take today to set your business on the road to a more financially secure future.

At MassMutual, we recognize the challenges you face and are equipped to help you prepare for the future with more confidence. Our goal is to help you stay focused on the task at hand — running your business — while working in concert with your trusted advisors to help you create a financial road map for the long term success of your business. In fact, we have financial professionals who are trained and qualified to work specifically with business owners like you.

Put our qualities of strength, experience and stability to work for your business. To learn more about how MassMutual can help you protect what you've worked so hard to build, visit **massmutual.com** to find a MassMutual financial professional in your community.

Methodology

The research was conducted by HawkPartners for Massachusetts Mutual Life Insurance Company (MassMutual) via a 20-minute online survey of 801 general population business owners from January 23 – March 9, 2015. HawkPartners selected U.S. business owners with the following screening criteria:

- Required to have 1–500 employees; max of 10% can be sole proprietors and max of 10% can be micro businesses (10 or fewer employees).
- Company must have been in business for at least 1 year; max of 25% in business for 1–3 years.
- Sales revenue in 2014 must have been a minimum of $100k for sole proprietors and $250k for all others; cap $100k–$250k at 25% for sole proprietors.
- Mix of industries represented, outside of government/municipality.

The sampling margin of error for this study is +/− 2.9% percentage points when looking at the results for the total general population. These are at the 90% confidence level.

Insurance products issued by Massachusetts Mutual Life Insurance Company, Springfield, MA 01111-0001.

[1] CIA World Fact Book, 2013
[2] SMB Insights, The Business Journals, 2014
[3] Small Business Administration, Small Business Trends, 2013
[4] U.S. Social Security Administration, Fact Sheet, April 2, 2014

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