



# The Good, The Bad, and The Unprepared:

A Segmentation of Well-Off Business Owners by Exit Planning Priorities

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# Presentation Outline

- ◆ About the Study
- ◆ The Well-off Business Owner Market
- ◆ Approaching the Reality of Business Transition
- ◆ Implications of the Business Transition Boom
- ◆ Segmentation by Exit Plan Priority
- ◆ Segmentation Profiles
- ◆ Additional Observations
- ◆ About bizownerHQ

# About the Study

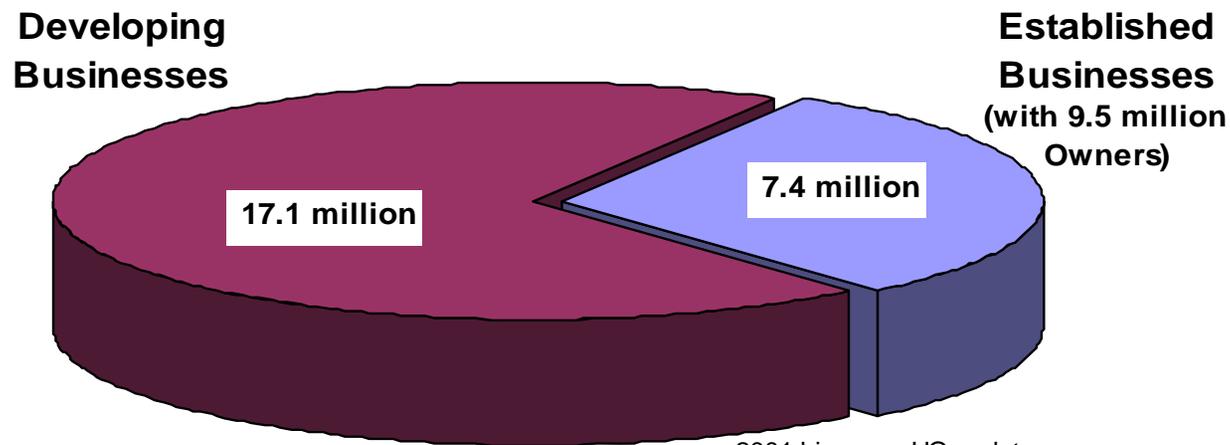
## ◆ Study Author:

- Roger Winsby directed a number of large market research studies of the well-off business owner market for major financial services companies from 1994 to 1999, first while EVP/COO of Chadwick Martin Bailey and then as a principal consultant at Abt Associates Inc. Since co-founding Axiom Valuation Solutions in 2000, he has continued to conduct primary and secondary research on the established business market.
- Axiom Valuation Solutions develops expert system solutions to aid owners in effectively managing business life events. The Valuation GURU™ is its first solution.

## ◆ Study Information

- Except where noted on individual pages, all information presented here is from a 1998 Segmentation Survey conducted for a financial services company that gave permission for its dissemination.
  - ◆ Phone survey of 319 U.S. private business owners randomly drawn from ABI lists and screened for ownership, income and net worth
- In late 2001, Axiom Valuation Solutions undertook a brief survey of well-off business owners and found that the exit planning priorities and segment demographics from the 1998 survey were still valid.
  - ◆ Phone survey of 115 U.S. private business owners randomly drawn from ABI lists and screened for ownership, income and net worth

# Almost all well-off business owners are found in the Established business segment



2001 bizow nerHQ update on  
1998 estimates based on IRS, SBA and WSJ data

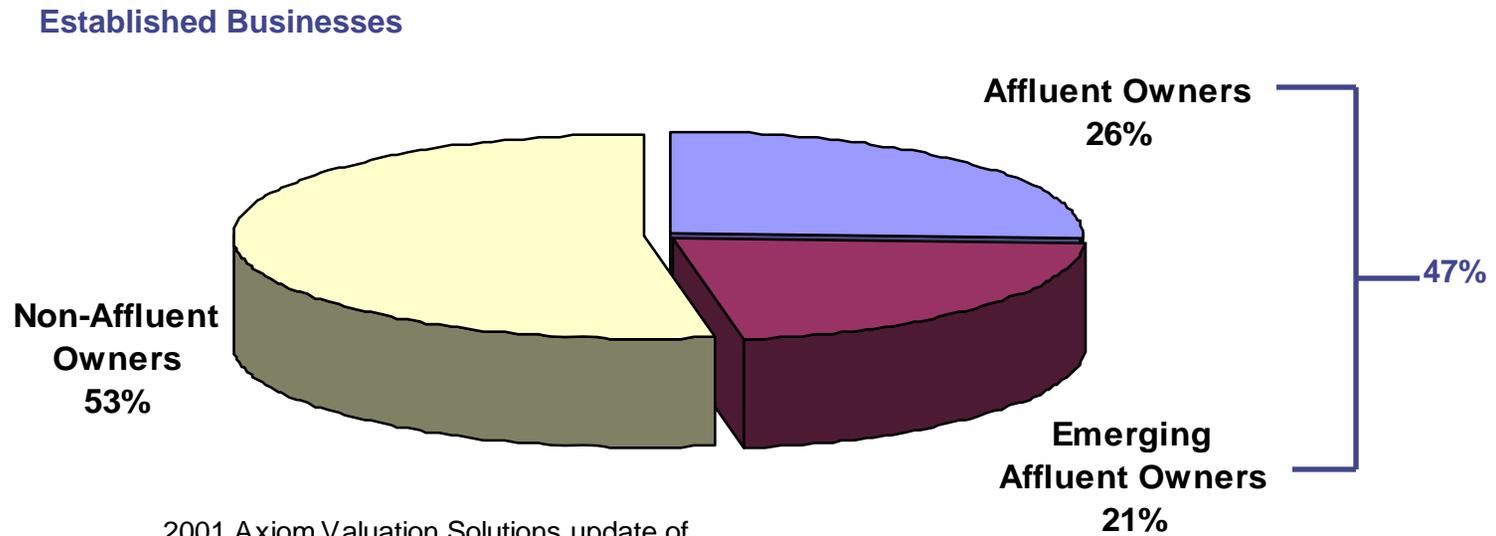
## Developing Business Examples:

- Home-based businesses – full-time and part-time
- Start-up businesses that will become “established” or die
- Seasonal businesses

## Established Business Attributes:

- 2 or more FT employees beyond owner
- In business for 3 or more years
- Location separate from owner’s home

# Well-off business owners make up 47% of the established business owner segment



2001 Axiom Valuation Solutions update of 1998 estimates based on SRI, PSI, and SBA data

Segmentation Structure	Net Worth (Not Including Principal Residence NIPR)		
	Under \$300K	\$300K - \$1M	Above \$1M
Under \$100k	Non-Affluent	Non-Affluent	Affluent
\$100k and above	Non-Affluent	Emerging Affluent	Affluent

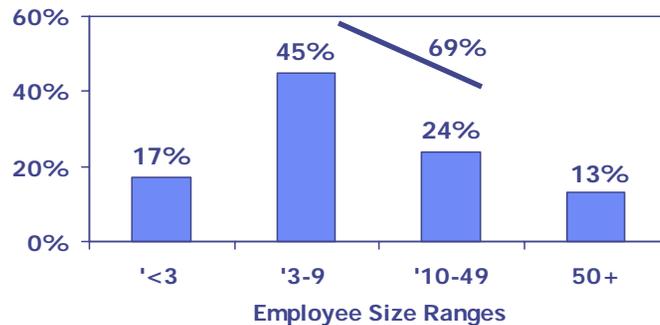
- Well-off Business Owners:**
- 4.5 million Owners
  - 3.5 million Established Businesses

# Well-off Business Owners

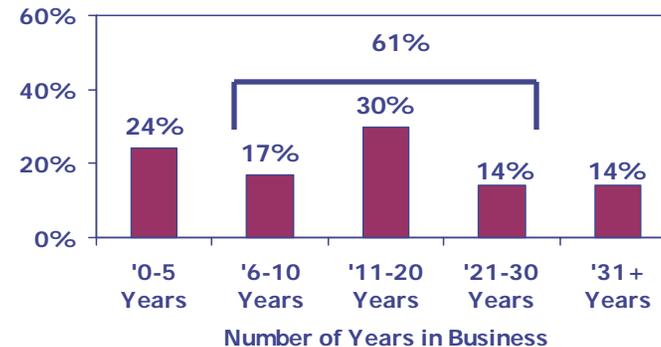
Approaching the Reality of Business  
Transition

# Well-off owners own well-established businesses & are starting to face retirement

Distribution of Well-off Owners by Employee Size of Business (as of 1998)



Distribution of Well-off Owners by Age of Business (as of 1998)



## Well-established businesses:

- 69% of the businesses (2.42 million substantial businesses) owned by well-off owners have between 3 and 49 employees

## Dilemma- Many private businesses of this size are:

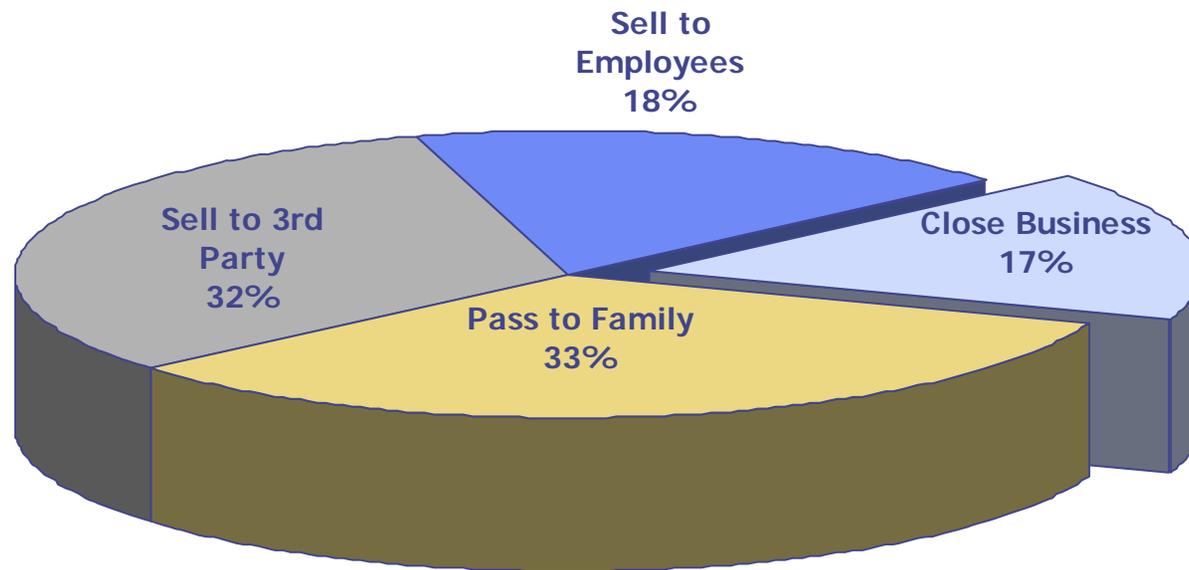
- Too small to be bought by a public company
- Too valuable to close down
- Too expensive for managers or employees to buy

## Growing number of company founders approaching retirement by 2010:

- 61% of the well-off owners (2.75 million) have been in business for 10 years or more as of 2002
- We have assumed that for the 14% of businesses that are 31 years of age and over, there has already been an ownership transition from the founder(s) to a second or subsequent generation of owners.

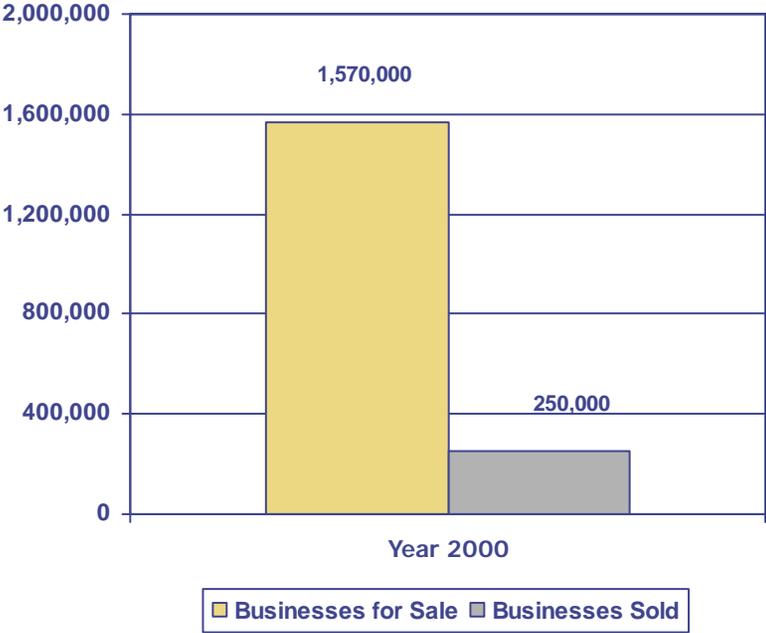
# 83% of well-off owners expect their business to continue after their exit

Only 17% Expect to Close Their Business Upon Retirement



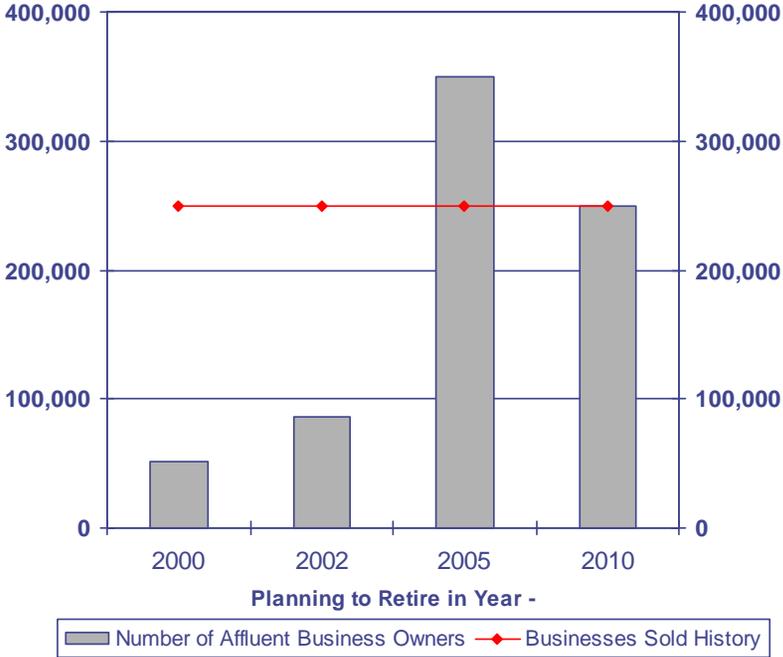
Given this intent of owners to sell their business, the approaching retirement of the Entrepreneurial Boomers is likely to bring many more businesses for sale into the private business market.

# Implication: Recent stability in the private business for sale market may be over



The number of private businesses for sale and the number of private businesses sold each year have been relatively stable for several years around the Year 2000 levels shown. These include businesses sold for all reasons, not just owner retirement.

Source: 2001 Business Reference Guide, Tom West



Just the number of affluent business owners wanting to retire in the next 10 years may create a glut of private businesses for sale.

Source: Maria Erickson, NFO, "Affluent Small Business Owners: Investment Needs and Behavior", November, 2001

# Implication: A likely boom in business transition-related financial services

**By Number of Employees**

NUMBER OF EMPLOYEES	% OF 3+ PRODUCT CATEGORY <sup>1</sup> OWNERS	CUMULATIVE PERCENTAGE
<3	15%	15%
4-9	32%	47%
10-49	32%	69%
50+	21%	100%

**By Years in Business**

YEARS IN BUSINESS	% 3+ PRODUCT CATEGORY <sup>1</sup> OWNERS	CUMULATIVE PERCENTAGE
0-5	12%	12%
6-10	17%	29%
11-20	29%	58%
21-30	20%	78%
31+	22%	100%

As established businesses grow in size and longevity, the average utilization of financial services increases significantly. The shaded sections are the areas with the highest percentage of well-off owners (see Slide 6) and the highest financial services product utilization.

<sup>1</sup>Product categories include complex estate plan, retirement plan, disability plan, succession plan, deferred compensation plan and company paid financial plan.

# Implication: Significant growth in demand will likely strain the existing support network

- ◆ Accounting and legal services for:
  - Implementing business succession plans
  - Buying and selling businesses
  - Estate planning, gifting, trust services
- ◆ Business valuation, business brokers, and investment banking
- ◆ Financial Advice Services for:
  - Pre-transition retirement and estate planning
  - Post-transition management of owner assets (now liquid)
- ◆ Insurance Services for:
  - Business succession/key person insurance
  - Executive disability insurance
  - Insurance for estate tax obligations

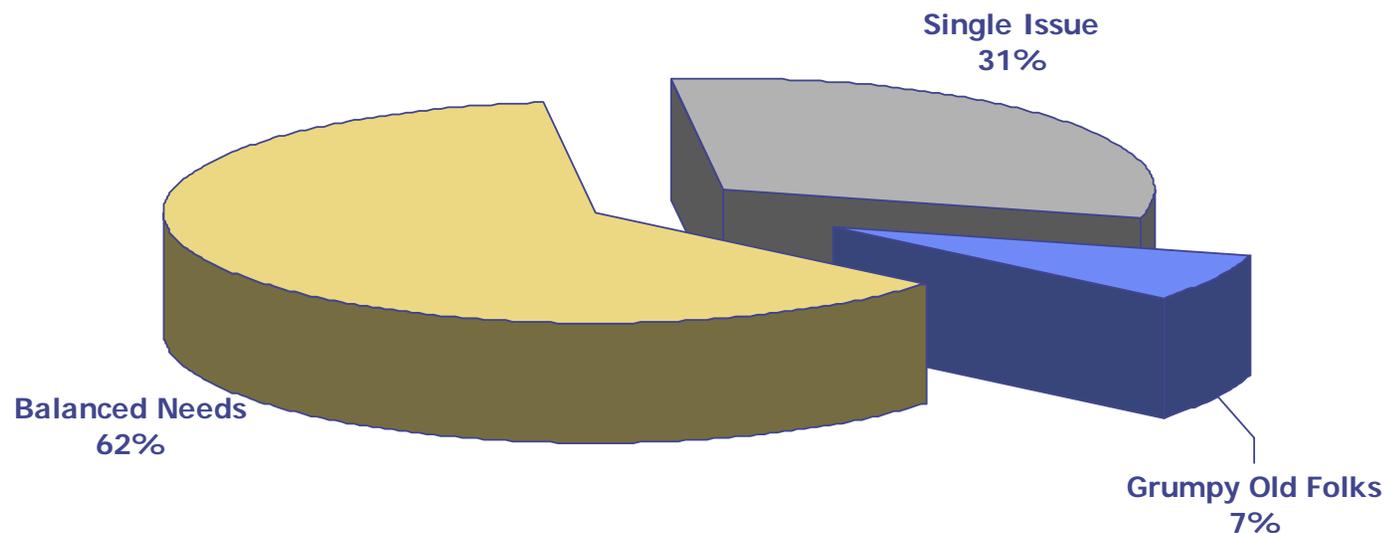
# Well-off Business Owners

Segmentation based on Exit Planning  
Priorities and Attitudes

# What do well-off owners have in common?

- ◆ The 4.5 million well-off owners of the 3.5 million established businesses are very heterogeneous by:
  - Industry
  - Age
  - Location
  - Size and stage of business
- ◆ Three Common Elements:
  - There is no easy way to sell all or part of a private business
  - They all will have to “exit” the business eventually
  - Few are prepared or have plans in place for managing risks
    - ◆ Only 17% report having 3 or more transition solutions in place

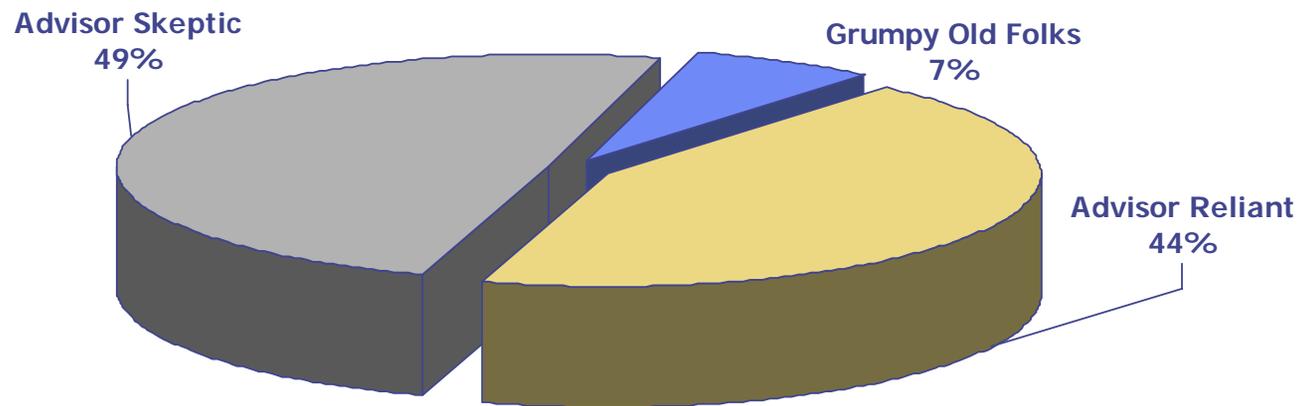
# Most well-off owners want to address a wide range of needs in their exit planning



Asked to allocate 100 points among activities (retirement plans, disability plans, deferred compensation plans, business succession plans, and advice on personal financial planning) that are most important to achieve their business goals, business owners diverge into three segments:

- ◆ **Balanced Needs** - those who assign roughly equal priorities to all 5 areas
- ◆ **Single Issue** - those who focus on a single issue as their top priority
- ◆ **Grumpy Old Folks** - those who say they are reluctant or unlikely to plan ahead.

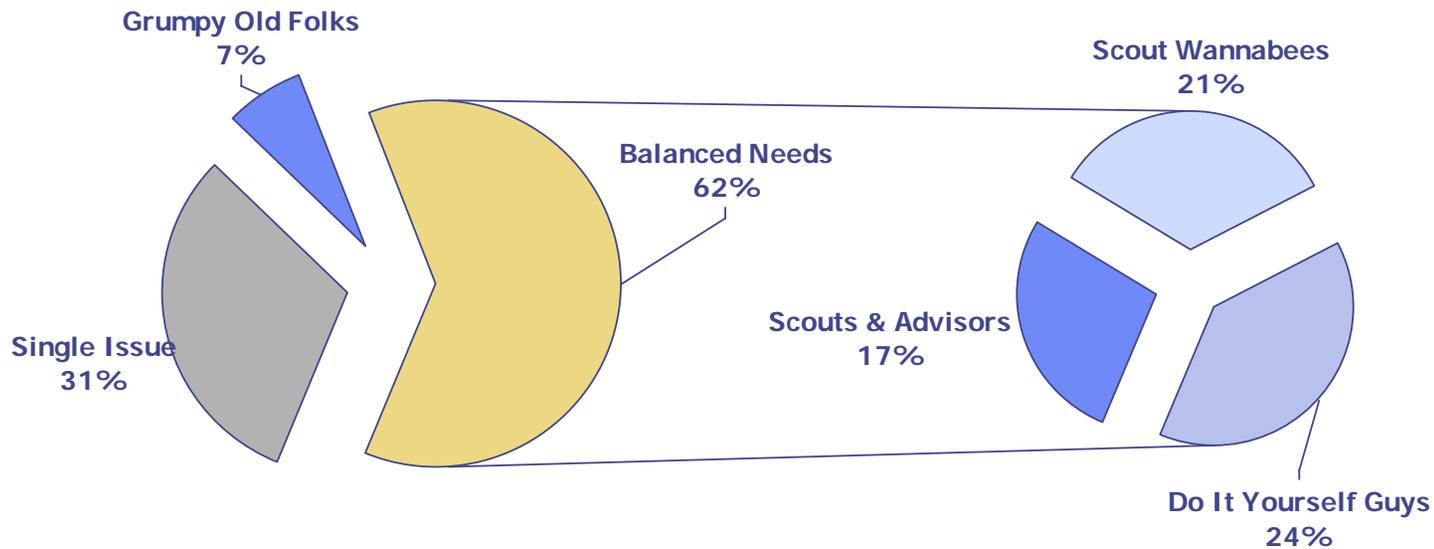
# Well-off owners are split about the role of advisors in their transition planning



Another important dividing point among well-off business owners is their attitude toward working with advisors. Again, we have three segments:

- ◆ **Advisor Sceptics** - Those who want to develop transition plans but are reluctant to rely heavily on advisors for assistance in transition planning.
- ◆ **Advisor Reliant** – Those who have developed trusting relationships with one or more advisors and who rely heavily on these advisors for help in transition planning.
- ◆ **Grumpy Old Folks** – The group of owners who are reluctant to plan and do not trust advisors either.

# The Balanced Needs segment has three important sub-segments

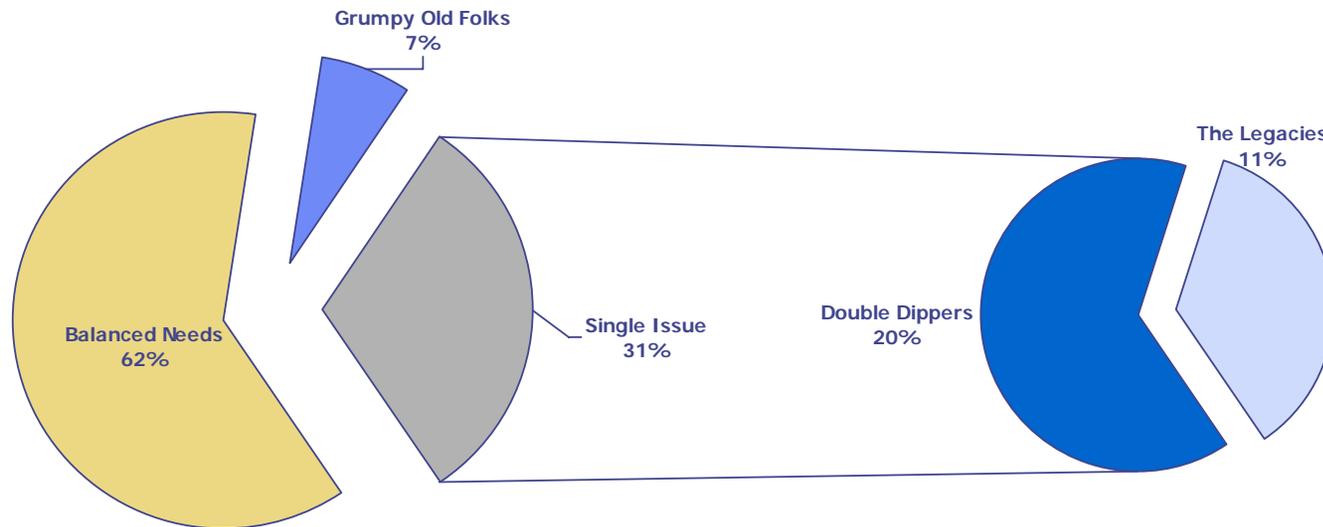


**Scouts & Advisors:** Boy & Girl Scouts are “always prepared”. This group is well prepared for business transition. They have 3 or more transition solutions (estate plan, business succession plan, disability insurance, etc.) in place. They rely heavily on their advisors. This is the GOOD group.

**Scout Wannabees:** Similar in demographics, a broad range of owner needs, and advisor reliant attitudes to the Scouts & Advisors, this group primarily differs in that they have not yet implemented much to prepare for transition - they are part of the UNPREPARED.

**Do-It-Yourself Guys:** This largely male group has balanced needs but is also UNPREPARED, and they are advisor skeptics and want to be in full control of their planning – if they ever get around to it.

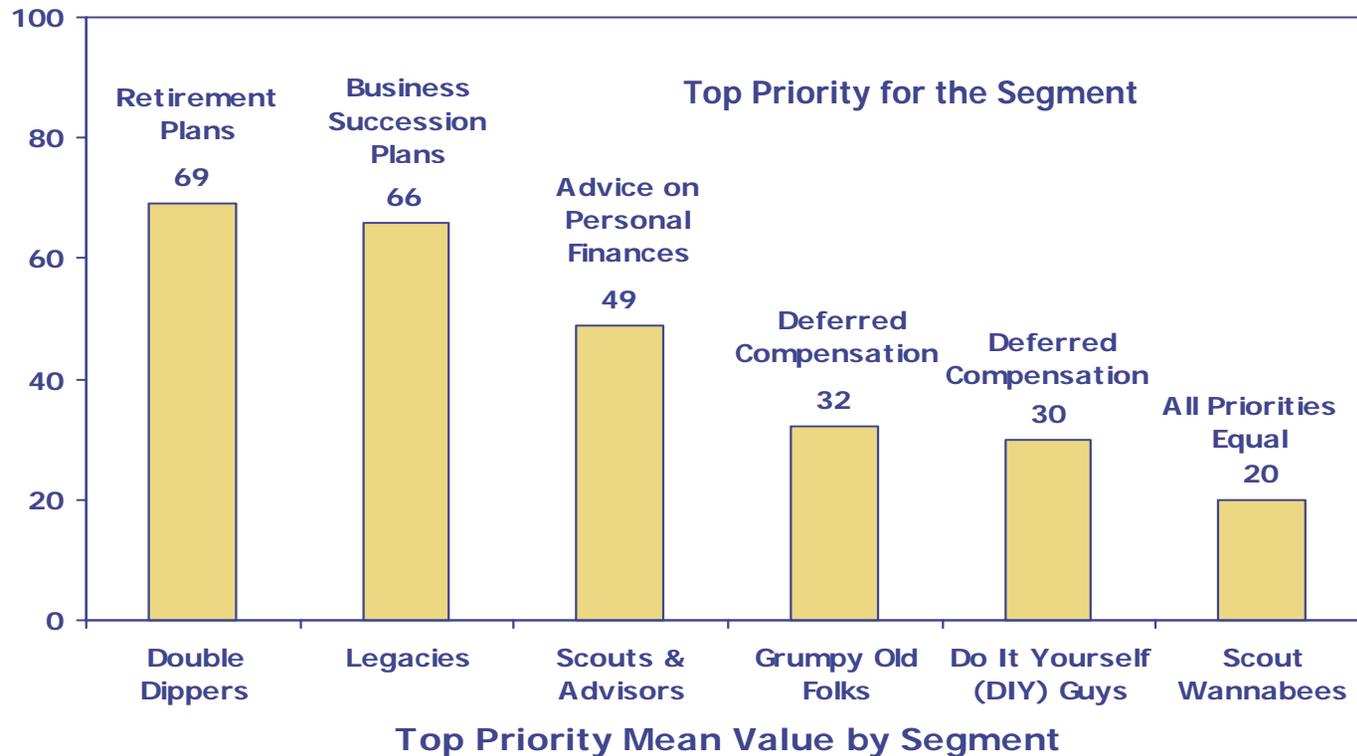
# The Single Issue segment splits into two very different sub-segments



**Double Dippers:** This is primarily sole proprietors with smaller businesses, that for many are their second business, e.g. a consulting business for a retired large company executive. They have much less equity in their business to protect or transition, so they are mainly focused on maximizing retirement income. They are part of the UNPREPARED group, even though they have less to protect.

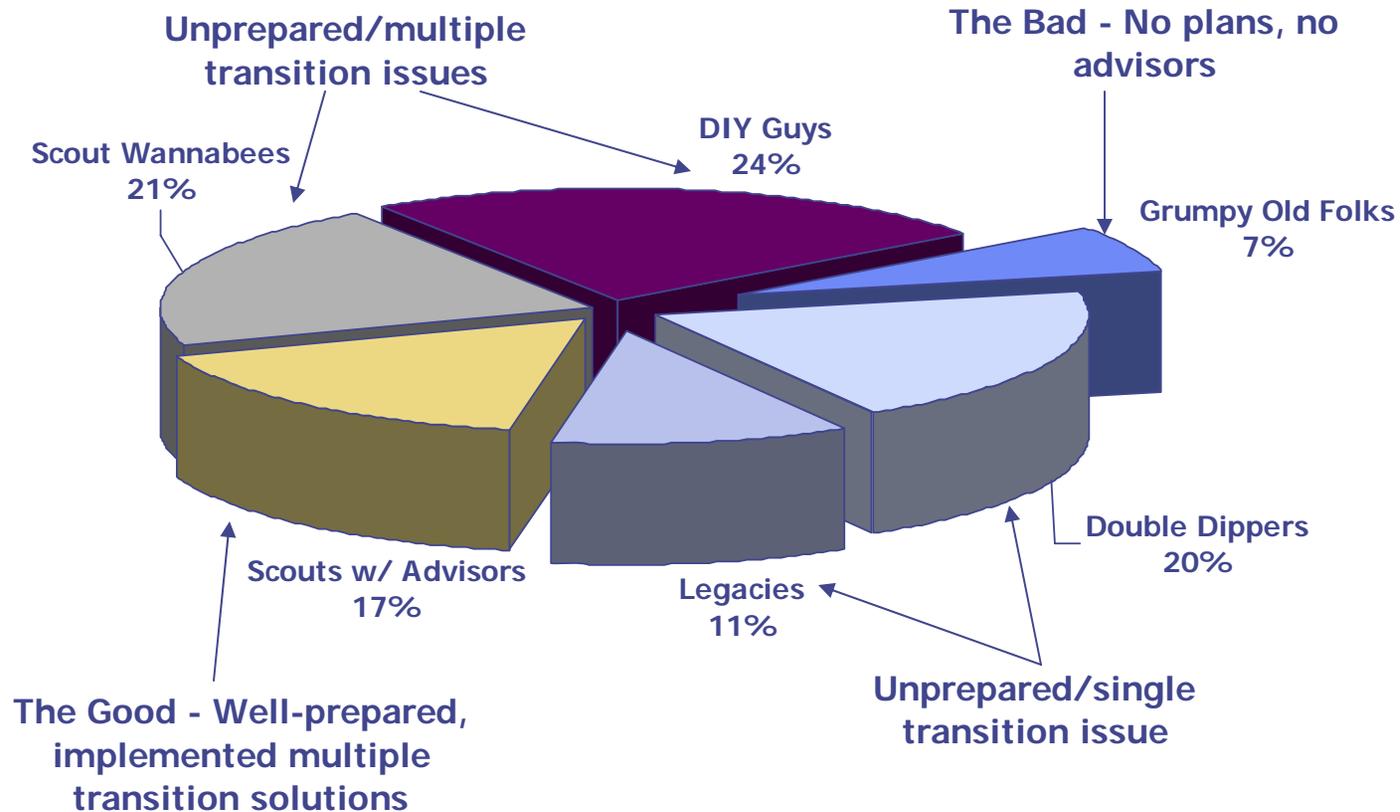
**The Legacies:** These are owners of larger private businesses, and they have much to protect and transition. Their primary concern is business succession, although at this point, they are UNPREPARED.

# The top priorities by segment illustrate the diversity across these well-off owner groups



Using a combination of the exit plan priorities allocation of 100 points among activities (retirement plans, disability plans, deferred compensation plans, business succession plans, and advice on personal financial planning) that are most important to achieve their business goals and the degree of reliance upon advisors, business owners are split into six more detailed segments.

# Their needs and attitudes provide guidance on the messages that can attract owners



Leaving out the Good (already prepared) and the Bad (not going to prepare), 76% of well-off business owners are prime targets for companies offering business transition solutions. Reaching the right person with the right message will greatly improve the chances of success.

Well-off Business Owners

Segmentation Profiles

# The Good: Scouts (Boy and Girl) & Advisors

Sizable established businesses – younger, wealthy owners 50% female – 3+ financial services purchases

## Business Characteristics

- ◆ Somewhat older, more established businesses.
- ◆ Higher concentration of 10-24 employees than market average.

## Financial Approach

- ◆ Less confident in managing financial affairs and find it hard to keep up with product choices.
- ◆ Very important to obtain advice on personal plans, often from multiple sources.
- ◆ Most product/service integration-oriented of all segments.



Segment  
Size: 17%

## Owner Demographics

- ◆ High penetration of women owners- approximately 50% of segment.
- ◆ Tend to be younger than average; 50+% are aged 30-49.
- ◆ More upscale in net worth than market; 24% >\$2 million NW

## Buying Behavior

- ◆ Of all segments, highest utilization rate of business-oriented products.
- ◆ Relatively high ownership of complex estate plans.

# The Bad: Grumpy Old Folks

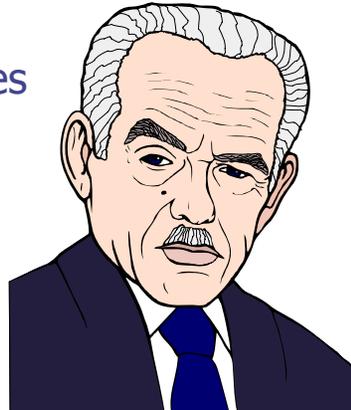
Sole proprietors – skeptical of advice – reluctant to buy financial services - most likely to close business

## Business Characteristics

- ◆ Least established businesses of all segments.
- ◆ Over three quarters have less than 10 employees.
- ◆ Nearly two thirds are sole proprietors.

## Financial Approach

- ◆ Very confident managing their financial affairs.
- ◆ Tend to rely on one main advisor, but do not necessarily trust them to make recommendations.
- ◆ About half will close their business at retirement; least succession-oriented segment.



Segment  
Size: 7%

## Owner Demographics

- ◆ Above average net worth
- ◆ Owners more likely older; business may be second career.
- ◆ Percentage male/female about average with market (nearly three quarters male).

## Buying Behavior

- ◆ Very light users of business-oriented products.
- ◆ Deferred compensation products tend to be most important.

# The Unprepared #1: Do-It-Yourself Guys

Smaller businesses with unrelated partners – higher income, lower net worth, tend to be older and male

## Business Characteristics

- ◆ Businesses somewhat less established than average.
- ◆ One third are business owners with people who are unrelated to them.
- ◆ Smaller-size businesses; over one quarter have <5 employees.

## Financial Approach

- ◆ Very self-confident in managing financial affairs.
- ◆ Want day-to-day involvement in investment management.
- ◆ Less likely to rely on one main advisor.
- ◆ Less interested in face-to-face relationship building.



Segment  
Size: 24%

## Owner Demographics

- ◆ High income, lower net worth.
- ◆ Half are aged 50-65
- ◆ Predominately male.

## Buying Behavior

- ◆ Heavy users of business-related products but tend not to have succession plans - attracted to deferred compensation products.
- ◆ Nearly half are do-it-yourselfers with no stated primary advisor; the rest use advisors for input only

# The Unprepared #2: Scout Wannabes

Smaller businesses with spouse/family – younger, less wealthy owners 50% female - gets advice before buying

## Business Characteristics

- ◆ Likely to be an owner with a spouse and family member and less likely to be a sole proprietor
- ◆ Business likely to be young, less established
- ◆ Nearly three quarters have under 10 employees

## Financial Approach

- ◆ High degree of trust placed on advisors and likely to use one main advisor to oversee portfolio
- ◆ Open to integration, having a single institution handle their financial needs
- ◆ Less confident in their financial affairs



Segment  
Size: 20%

## Owner Demographics

- ◆ High penetration of women owners-approximately 50% of the segment.
- ◆ High concentration under age 50
- ◆ More downscale net worth and income.

## Buying Behavior

- ◆ Business product buying needs tend to be unprioritized, more balanced
- ◆ Institutional relationships tend to parallel the total market

# The Unprepared #3: Double Dippers

“Second Career” Sole Proprietors – less established businesses – less affluent – focused on retirement funds

## Business Characteristics

- ◆ Over half are sole proprietors
- ◆ Younger, smaller businesses; nearly one third have <5 employees and almost half of businesses are under 10 year old

## Financial Approach

- ◆ More likely to distrust advisors to make financial recommendations in their best interests
- ◆ More likely than the market average to want to close their business or sell it to a partner or employees



Segment  
Size: 20%

## Owner Demographics

- ◆ Lower levels of affluence than overall market; 63% under \$1 million in net worth
- ◆ Age of owners about average: half are aged 30-49, half aged 50-65
- ◆ Predominately male owners

## Buying Behavior

- ◆ Focused on retirement-related products and estate planning
- ◆ However, relatively light users of other business-related financial products
- ◆ Three-quarters have a primary or sole advisor

# The Unprepared #4: The Legacies

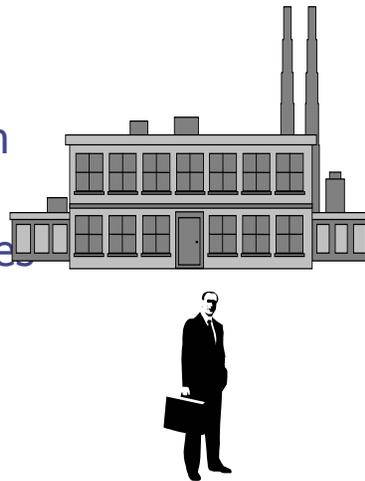
Sizable family businesses – older, wealthy male owners – split on trusting advisors – obsessed with succession

## Business Characteristics

- ◆ High concentration established businesses with half over 21 years old.
- ◆ Larger number of employees than market average.
- ◆ and more owners with spouse than market. Less sole proprietors

## Financial Approach

- ◆ Split view of advisors: half are DIY, half are expert dependent
- ◆ Leery of consolidating financial services in one institution
- ◆ Strong desire to preserve the business prior to retirement



Segment  
Size: 11%

## Owner Demographics

- ◆ High levels of affluence- 32% have >\$2 million net worth.
- ◆ Highest levels of income of all segments.
- ◆ Owners tend to be older than market average.
- ◆ Predominately male owners

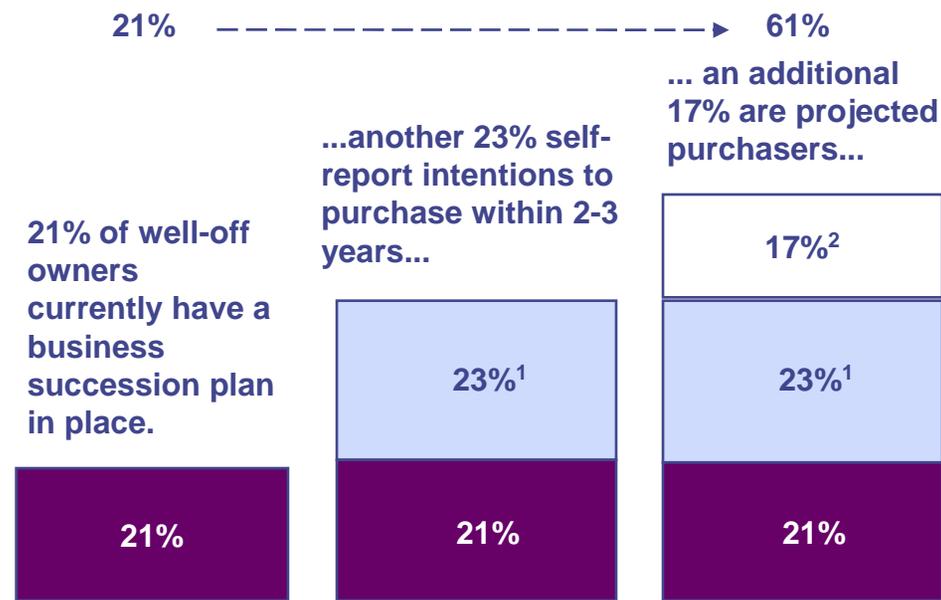
## Buying Behavior

- ◆ Very focused on succession products
- ◆ However, tend to be light users of other business-related financial products

# Well-off Business Owners

## Additional Observations

# Business succession planning is the greatest un-met need among well-off owners



Based on qualitative feedback, business succession planning is a serious challenge for owners. They know it should be done, if they plan for the business to continue beyond them.

In its broadest meaning, it requires a reasonably complex legal agreement, insurance to fund the agreement, and a determination of who would replace a deceased owner. Not very suitable for one-stop shopping, but what an opportunity!

<sup>1</sup>Percentage of business owners that do not own BSPs who stated they would likely adopt one in the next 2-3 years

<sup>2</sup>Projected based on a regression analysis of business owners

# Costly and slow, business valuations are a key impediment to transition planning

- ◆ Business valuation is a central element in almost all elements of transition planning
- ◆ Business valuations cost between \$5,000 and \$25,000 and take between 4 to 6 weeks
- ◆ Business valuations must be re-done as economic, financial, company, or industry conditions change
- ◆ Valuation is typically at or near the top of the list of high-cost, low-value transition activities that owners dread (based on focus groups of well-off owners)



- ◆ Axiom Valuation Solutions offers accurate, fast, and very cost-effective business valuation services – satisfaction guaranteed – using a revolutionary system, the Valuation GURU™. These services are provided to:
  - Business owners
  - Accountants and valuation consultants
  - Financial services organizations as a service offering for their customers under licensing or revenue-sharing arrangements
- ◆ The Valuation GURU™'s has 3 unique elements:
  - An online expert valuation system for a discounted free cash flow valuation, shown in independent testing to be the most accurate
  - A comprehensive valuation database for almost 1,000 U.S. industries including industry risk, owner compensation benchmarks by industry, asset size, and state, and company-specific control premiums
  - An expert report writer system that generates a customized, 50+ page valuation report with a full description of findings and assumptions, and sent to the user within one hour of starting the valuation process
- ◆ For more information on this study or our services, contact Roger Winsby at 781-486-0100 ext. 203 or email [roger@axiomvaluation.com](mailto:roger@axiomvaluation.com) or visit [www.axiomvaluation.com](http://www.axiomvaluation.com)