

MassMutual 2018 Business Owner Perspectives Study

Insights from Latino Business Owners



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Methodology

The research was conducted by HawkPartners for Massachusetts Mutual Life Insurance Company (MassMutual) via a 20-minute online survey of 284 Latino business owners from December 17, 2017, to January 4, 2018. HawkPartners selected U.S. Latino business owners with the following screening criteria:

- Business owner/partner, excluding sole proprietorships where owner is sole employee
- Fewer than 500 employees
- 1+ years in business with no more than 25% in business from 1–3 years
- 2016 sales revenue of \$250K+

The sampling margin of error for this study is +/- 4.9% percentage points when looking at the results for the total small business population, based on a U.S. Small Business Employer population of 5.8 million. These are at the 90% confidence level.

“Whenever you see
a successful business,
someone once made
a courageous decision.”

– PETER F. DRUCKER

Introduction

Latinos help drive the U.S. economy, opening businesses at twice the rate of the overall population, and now number 4.4 million.¹ The growth in new Latino entrepreneurs can be attributed to a combination of the large number of working-age Latinos striving for the ideal of pursuing the American dream: to provide a better life for the family while building something tangible to pass along to the next generation while giving back to the community.

MassMutual’s 2018 Latino Business Owner Perspectives Study takes the pulse of today’s business owners. Conducted by HawkPartners for Massachusetts Mutual Life Insurance Company (MassMutual), the results reveal that today’s Latino business owners are spending the majority of their time working **in** their businesses instead of **on** their businesses. This study also looks back at the 2015 MassMutual Latino Business Owner Perspective Study to compare attitudes and concerns over time.

The reality for today’s Latino business owners is that long-term planning is not always top of mind, even though many feel protecting the

business is important. In addition, most Latino business owners prefer to keep their business and family finances separate, but often find the two inextricably linked.

How to use this study

We recommend that you review the study with your family members, business partners, key employees, and centers of influence. Then use the findings to begin a meaningful dialogue about how you can best position your business for long-term success and financial well-being.

At the same time, consider the impact that not planning could have on your business and on those who depend on it most. 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?

¹ 2017 American Marketscape DataStream™, Geoscape.

Business ownership: It's more personal for Latinos

The decision to become a business owner is both a brave and noble one: Latinos typically start a business to support their family and their community and to provide financial well-being for the next generation.

This wide circle of support is integral to Latino culture, which means it's critical for business owners to position their businesses for success. Doing so is crucial to business owners' ability to achieve their dreams for both their business and family lives.

When asked about the ideals and values upon which business owners started their businesses, words like excellence, integrity, respect, and being true to self all rise to the top. And, while Latino business owners have undoubtedly spent a great deal of time building a successful business that reflects these ideals, there may be a lack of emphasis

on other equally important key phrases such as employees, value of the business, an exit strategy, and a legacy for the next generation.

A majority of Latino business owners say they prefer to keep their business and family financial well-being separate and prioritize their family's financial planning over their business planning. But if your business is your largest asset, the provider of income for you and your family, and the source of wealth you wish to pass on to your children and grandchildren — shouldn't the two be viewed with equal importance?

Ownership of a Latino business is more likely to include a former colleague and a friend compared to the average of national business owners: 62% vs. 53%.

The core business planning pillars

In an effort to understand how Latino business owners think and feel about protecting their businesses, this study examines seven core business planning pillars:

- Keeping key employees loyal to the business
- Knowing what the business is worth
- Protecting the business from the death of an owner or a key employee
- Protecting the business from the disability of an owner or a key employee
- Choosing who will take over the business if an owner dies, becomes disabled, or leaves
- Being fair and equitable regarding distribution of the business and assets from the owner's estate

- Transitioning ownership and/or finding a buyer upon retirement

The results show that Latino business owners have made progress, but are not ready or are too busy to address all of the core pillars. This emphasizes the need for education and awareness around planning areas that could leave a business exposed, and reinforce that taking action involves protecting whom and what matters most. There are a number of reasons why Latino business owners say they haven't put these plans in place; consistent with the general population, the lack of time, money, and perceived need are most often mentioned as the reasons for not having plans in place.



Why Latino business owners **do not** have agreements in place:

1. No one ever approached me to talk about these issues.
2. I don't feel like I need to think about these issues yet.
3. I am too busy with the day-to-day management of the business.
4. It's an uncomfortable conversation for my family and me.
5. I wasn't aware these were important issues for my business.



Why Latino business owners **do** have agreements in place:

1. I wanted to protect my family.
2. I wanted to protect my business.
3. I was doing personal planning and it prompted me to think about business planning.
4. A trusted source brought it up to me.
5. I wanted to protect my employees.

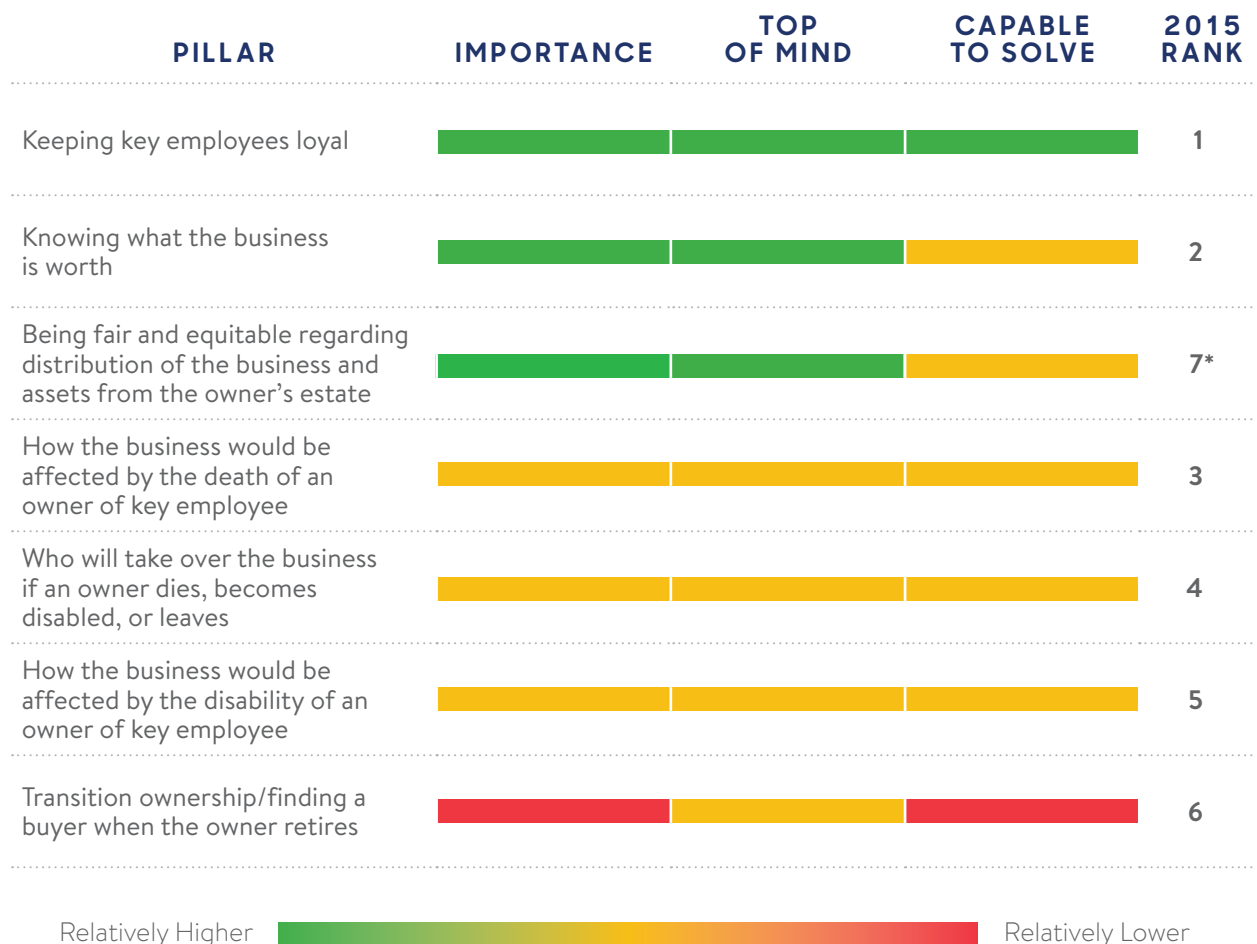
Latino business owners rank the core pillars

Keeping key employees loyal is viewed as the most important, most top of mind and most solvable for Latino business owners. Knowing what the business is worth is also very much top of mind and continues to rise in terms of its importance. Finally, what happens to the business, and the business assets, upon the death of an owner is another critical area of concern.

The findings also indicate that Latino business owners leverage many different resources for

support in addressing the core pillars. Most often, the resource is either themselves, their business partner, or their family members. In fact, the reliance on extended family – along with friends and the community – is not surprising in a culture where trust plays such an important role.

This also shows that business owners may not always be turning to the most informed resources for help. In the instances when business owners do look to experienced professionals for guidance, they say it's a financial professional, attorney, or accountant they turn to most.



* The MassMutual 2015 Latino Business Owner Perspectives Study focused on estate taxes versus distribution of assets.

A closer look at the core pillars

Keeping key employees loyal to the business

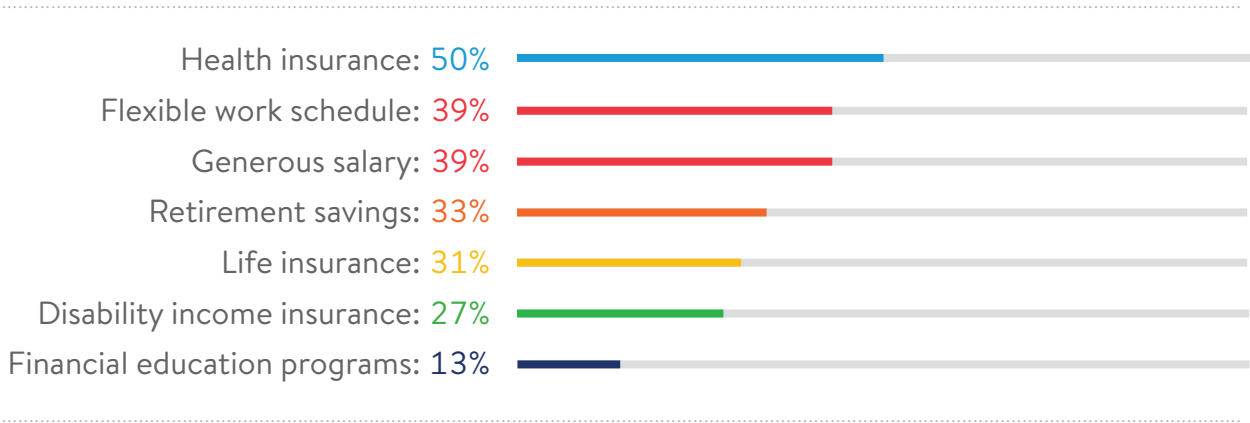
Keeping key employees loyal to their business tops the list in terms of importance, and 87% of respondents say they either frequently or often think about the issue. However, the gap lies in what the respondents are offering in terms of benefits and to whom. There appears to be little difference in what is offered to all employees and what is offered to those who are most critical to the success of the business, as most Latinos consider all of their employees part of their extended family.

There may be individuals who are valuable assets to the company because of what they

bring to the table every day — creative genius, sales acumen, or relationship building, to name a few. Latino business owners should ask themselves this question: If I were to leave my current business to start a new business, whom would I take with me?

The good news is that over 90% report offering some kind of benefits to their employees, the most common being health insurance, generous salaries, and flexible work arrangements. But are these the right benefits for those loyal employees who were there from the beginning?

BENEFITS OFFERED TO ALL EMPLOYEES



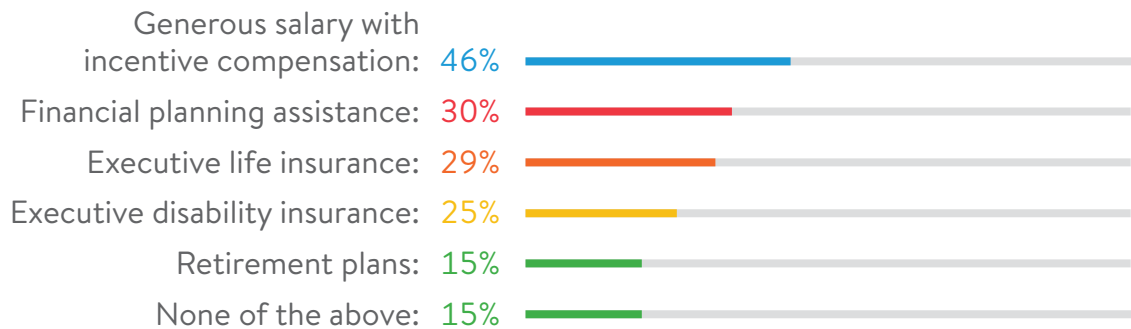
Latino business owners should ask themselves, if I were to leave my current business to start a new business, whom would I take with me?

Latina business owners are more likely to offer benefits to key employees than other women business owners.

Not all employee benefits are created equal, and certain benefits 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. Retirement savings plans, preventative health and wellness incentives, and financial education programs are popular elements of today's compensation packages.

Latino 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.

BENEFITS OFFERED TO KEY EMPLOYEES



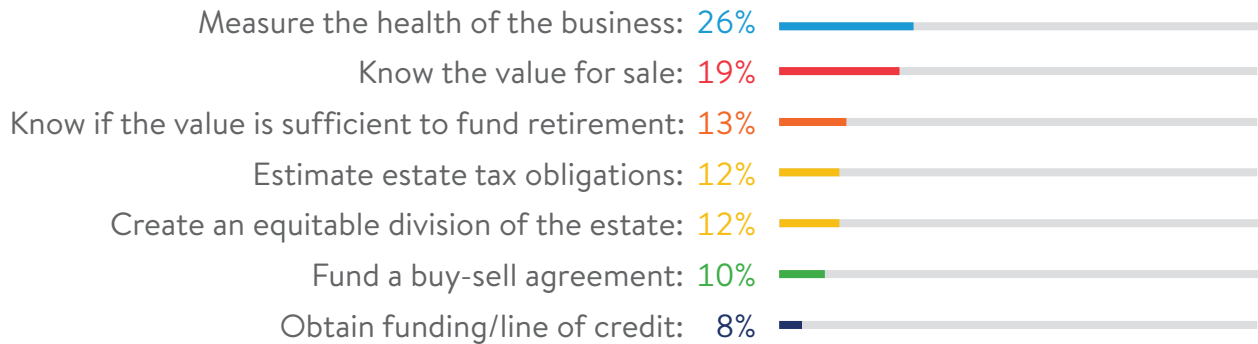
Knowing what the business is worth

Knowing what their business is worth continues to be of importance as it ranked number two in this year's study (similarly ranked in the 2015 MassMutual Latino Business Owner Perspective Study). In addition, it is very much top of mind with 79% saying they frequently or often think about their business value.

The main reasons given for wanting to know the value tend to focus more on business reasons rather than on strategies to protect the business and the wealth it generates. Some Latino business owners also stated they would only need to know its value when they are ready to sell.

Latina business owners have multiple business valuations compared to other women business owners.

REASONS FOR HAVING THE BUSINESS VALUED



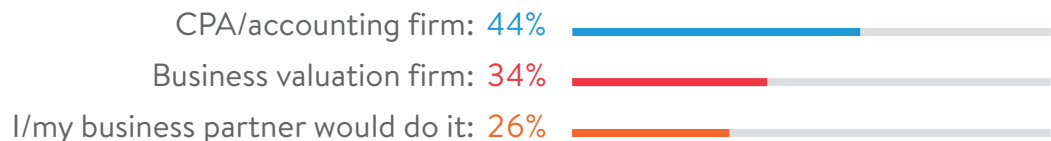
There are critical milestones in the life cycle of a business when an owner needs to have an accurate valuation and these appear to be under-represented. For example:

- Only 12% considered a valuation for the purposes of creating an equitable distribution of the owner’s business and assets as part of an estate plan.
- Only 10% considered a valuation to set the value of the business for the purposes of establishing a buy-sell agreement between partners.

In addition, the study indicates that Latino business owners may not know the true value of their business, and one out of four say they valued it themselves. However, when business owners value their businesses independently, they can overvalue or undervalue by a significant amount.

Family comes first for Latino business owners and a proper and equitable distribution is important. Without a proper business valuation, it can be difficult to split the business between family employees running the business and family members who aren’t involved in the business.

WHOM DO BUSINESS OWNERS TURN TO FOR BUSINESS VALUATIONS?



A proper business valuation is not a “rule of thumb” or a figure agreed upon with a handshake; instead, it is a thoughtfully researched document crafted by a credentialed appraiser. Be sure that any firm or individual you hire to value your business has the proper credentials, such as Certified Valuation

Analyst (CVA), Accredited Valuation Analysis (AVA), Accredited Senior Appraiser (ASA), or Accredited in Business Valuation (ABV). You don’t want to discover that all of the hard work and sacrifice to grow your business is worth less than you anticipated due to an unsubstantiated business valuation.

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

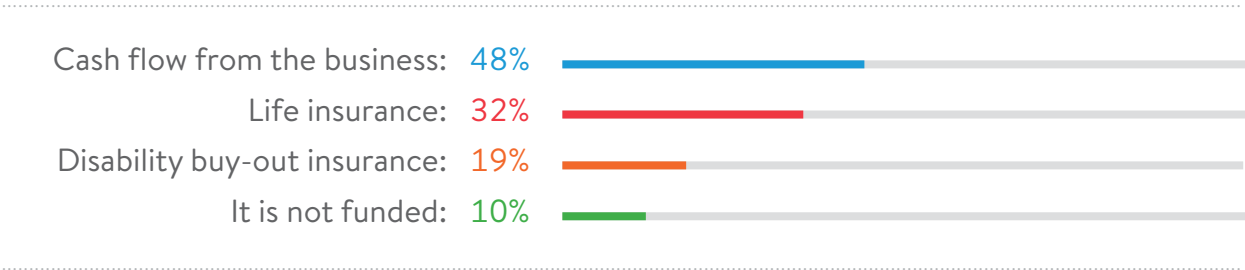
With Latino business owners having more family members working in the business, they should ask themselves this important question: What would happen to my business if I became disabled? Without a current, funded, and signed buy-sell agreement in place, a forced liquidation of the business could be the reality should an unfortunate event occur.

A buy-sell agreement should be drafted to protect the business from events such as death, disability, or the divorce of a business partner or family member. 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.

Latino business owners should ask themselves, what would happen to my business if I became disabled?

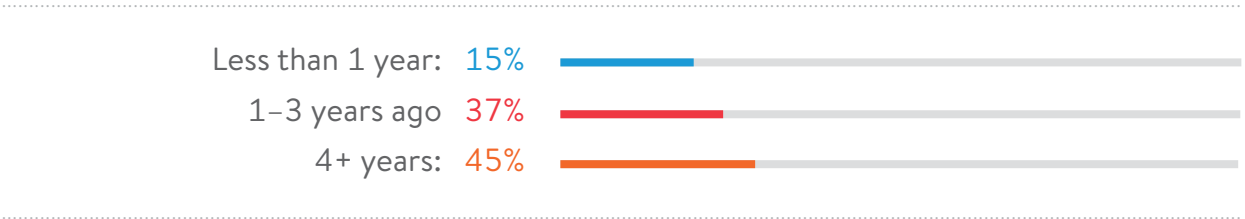
HOW IS YOUR BUY-SELL AGREEMENT FUNDED?



According to the study, of those with a buy-sell agreement in place, only 32% say it is funded with life insurance, and only 19% say it is funded with disability buy-out insurance. The rest are funded with cash flow from the business or not funded at all. In addition, the number of buy-sell agreements funded with cash increased 17% since 2015.

It is also recommended that a buy-sell agreement be reviewed at least every three years to reflect any changes, such as business value, family relationships, and ownership interest. The study shows that almost half of buy-sell agreements may be out of date.

HOW LONG AGO WAS YOUR BUY-SELL AGREEMENT REVIEWED?



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

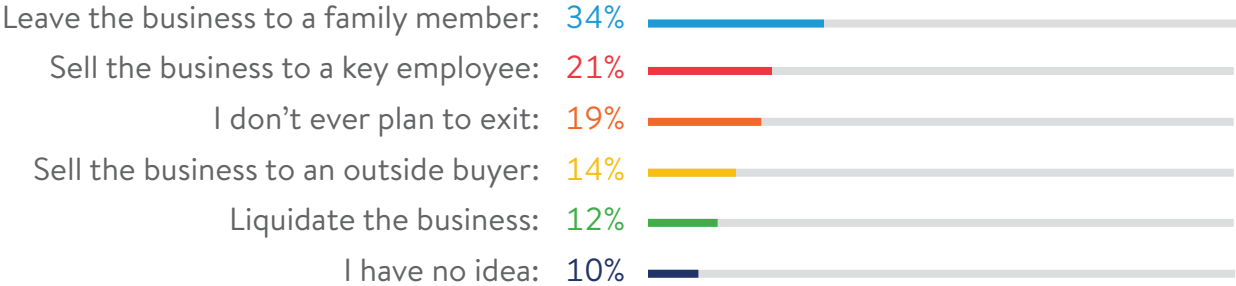
Most Latino business owners say they have chosen a successor, but only about two-thirds claim to have a written succession plan in place. This might explain why one out of four say their successor is not aware they are the chosen successor.

With Latino business owners more likely than the national average to have children and extended family dependent on their success, choosing the right successor – and then properly communicating that decision – is critical to the long-term success of the business. The one statistic that doesn't need research to prove is that one-hundred percent of business owners will exit their business someday, either by design or by default. That's why business owners must begin their succession planning, and successor development, as early as possible.

Here are a few tips for properly preparing an individual for assuming leadership responsibilities in the business:

- Establish an employment policy that includes guidelines for family member involvement in the business and how the next leader of the business will be selected.
- Develop a written career path for the successor that includes time spent working in all facets of the business – from the “shop floor” to the “corner office.”
- Communicate the timeline for the exit and successor development plans with family members and key managers so they can participate as appropriate.

WHAT IS YOUR IDEAL EXIT STRATEGY?



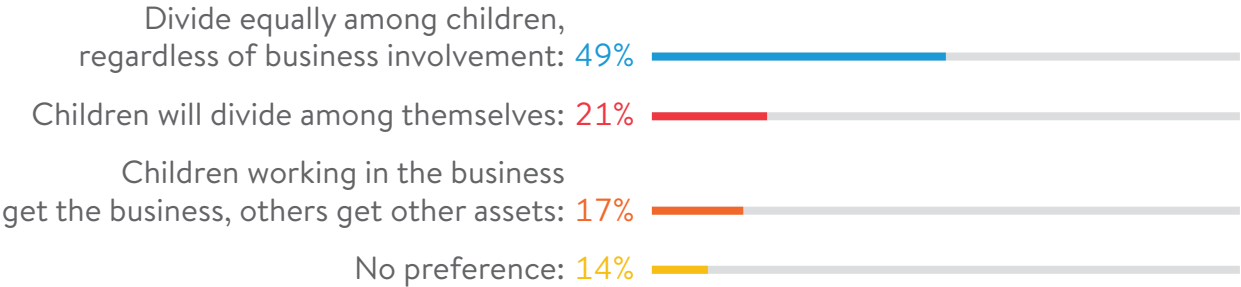
Latino business owners are less likely to divide assets equally among children compared to the national average.

Being fair and equitable regarding distribution of the business and assets from the owner's estate

Estate planning is of much higher importance when it is positioned in terms of a fair and equitable distribution of assets as opposed to the handling of estate taxes. In fact, 70% of Latino business owners frequently or often think about how the assets in their estates will be divided up, as opposed to 53% concerned with handling estate taxes.* Moreover, 72% say the business is their largest asset. When the question of dividing up assets in an estate is mentioned, it is often the business that will be at the forefront of that discussion.

Remember, when it comes to dividing up ownership in the family business, fair does not always mean equal. Nearly 50% of business owners say they plan to divide the ownership in the business equally among all children regardless of their individual roles in the business. That means children who are working in the business day in and day out will have to share the decision making and profits with siblings who have no involvement in the business. That may be equal, but it certainly is not fair.

HOW WILL YOU DIVIDE THE BUSINESS ASSETS AS PART OF YOUR ESTATE?



Estate equalization is a strategy to help resolve this issue. It involves equalizing the estates of those working in the business with those not working in the business by using other assets such as real estate property, cash, or a life insurance death benefit. To begin putting together an estate equalization plan that is both equal and fair, an owner must ask a few very important questions:

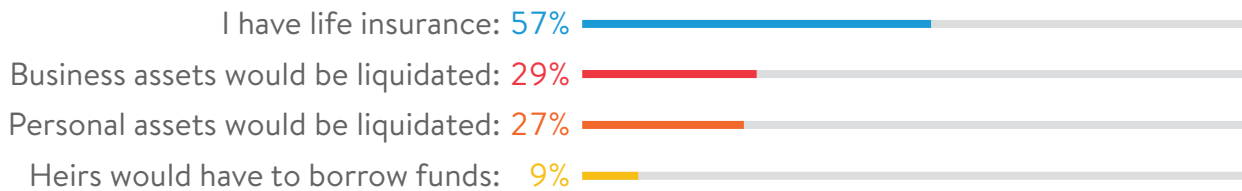
- Should the business be divided equally between children working in the business and those not involved in the business?
- If the children not involved in the business do not receive ownership, what other assets can they receive that are of equal value?
- Are you comfortable with children outside the business potentially receiving liquid assets versus those working in the business receiving an illiquid asset?

* MassMutual 2015 Latino Business Owner Perspectives Study conducted by HawkPartners.

- Are you comfortable with those working in the business receiving their inheritances today in the form of ownership, whereas those not involved must wait until your death to receive their inheritance?

Finally, paying estate taxes and fees is still an issue that may need to be addressed. Only 51% of business owners have life insurance in place for estate tax purposes, meaning many families may end up liquidating business and/or personal assets to cover these potential obligations.

HOW WILL ESTATE TAXES AND FEES BE RESOLVED AT YOUR DEATH?



Transitioning ownership and/or finding a buyer upon retirement

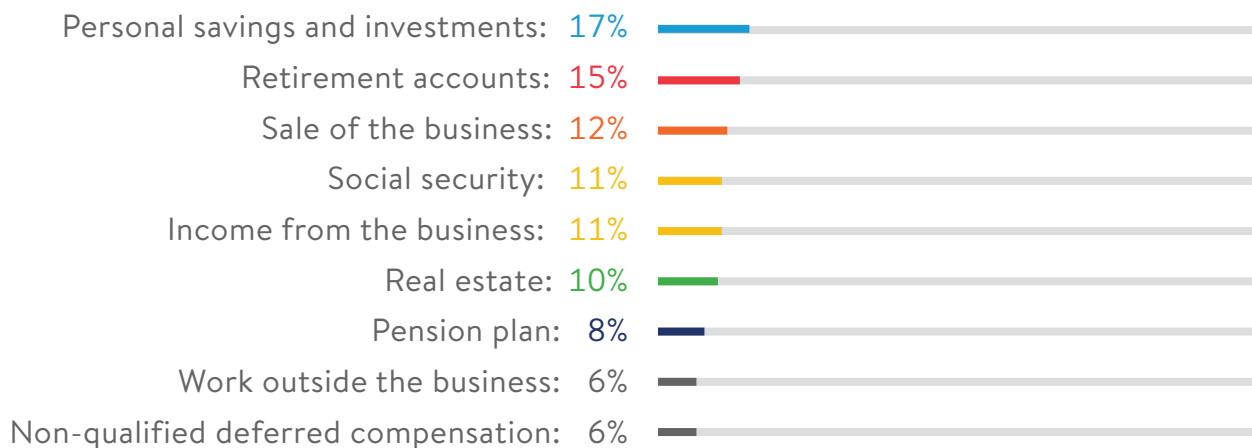
Transitioning ownership when the business owner is ready to retire is ranked last in terms of importance and priority. This is not surprising when you consider Latino business owners tend to be younger with newer businesses, so the thought of retirement is usually not top of mind.

However, more important than **when** business owners will retire is **how** business owners will fund that retirement when the time comes.

Over 63% of Latino business owners are extremely or very confident regarding their estimates on sources of retirement income, and they claim to have a diverse picture of where that income will come from.

Latino business owners are less likely to fund retirement through personal savings, retirement accounts, or social security compared to the average of national business owners.

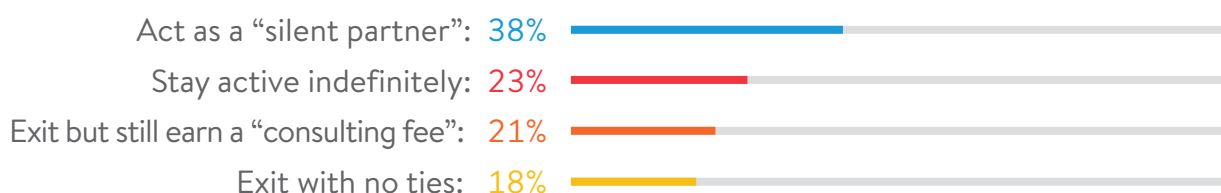
WHERE WILL YOUR RETIREMENT INCOME COME FROM?



However, reality paints a different picture. More than three out of four Latino business owners have less than \$500,000 saved in their retirement accounts. That means business owners are underestimating their financial reliance on the business post-retirement. Many may be forced to rely on the proceeds from the sale of the business or continue to receive income from the business to fund their retirements.

This lack of financial independence may also lead to a business owner never truly exiting the business. To put in context how a business owner's lack of adequate retirement income planning can impact his or her exit from the business, consider the percentage of business owners' involvement in each category:

HOW INVOLVED WILL YOU BE AFTER EXITING THE BUSINESS?



Act as a "silent partner"

This strategy can be effective in many situations

because it allows the outgoing ownership to gradually phase out of the business by staying involved for a predetermined period of time (no more than three years) serving as a mentor to the new ownership team. In return, they are compensated reasonably for the continued value they bring and the seamless transition they are helping to facilitate.

Stay active indefinitely

This is not an ideal strategy for the owners or the business.

There is no plan in place for ownership to change hands, meaning the business may never realize an infusion of fresh ideas and leadership. It also implies that the current owners are financially tied to the business until they die. Often in this scenario there is no one left to take over leadership of the business when it is forced to change hands.

Exit but still earn a "consulting fee"

This strategy is generally better for the

outgoing owners because they hand the reins of the business to the new ownership team, but due to a continued financial reliance on the business, never truly let go. They continue to receive income from the business in perpetuity, and the compensation is tied more to their financial needs in retirement rather than to the value they bring to the business.

Exit with no ties

This strategy is generally best

because the owner exits all day-to-day ownership and management of the business and allows the next generation of leadership to take over with full autonomy. It implies that the outgoing owner is financially solvent and not reliant on the business for income whatsoever.

Latino owners are more likely to say they will retire; however, they have not taken steps to prepare for retirement compared to the average of national business owners: 31% vs. 25%.



Your business is your family's livelihood and your legacy

A successful business begins with building a solid financial foundation and then planning for all outcomes. Business planning is not something that's done overnight. Our hope is that this research will provide you with the steps you can begin to take today to set your business on the path to a more financially secure future for you, your family, and your employees.

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 blueprint 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.



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