2018 Business Owner Perspectives Study
Insights from Women Business Owners
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Business owners are the engine that drives the U.S. economy. The small business community in the U.S. is the fifth largest economy in the world¹, represents a total buying power of $2 trillion², and employs nearly 50% of the country’s entire working population³. They are also your peers.

Women’s importance to the U.S. business community is significant. They make up over half of the U.S. total population and they have grown to be 47% of the workforce.⁴ Women-owned businesses represent 36% of the total businesses in this country, almost 10 million businesses and they account for 15% of all employment. In fact, women-owned businesses employ 1 out of every 4 company workers. An additional 2.5 million businesses are owned equally by women and men. Also noteworthy is that minority communities have higher shares of women-owned businesses. 59 percent of Black/African-American businesses and 44 percent of Hispanic businesses are owned by women.

The 2018 MassMutual Business Owner Perspectives Study — Insights from Women Business Owners takes the pulse of today’s women business owners. Conducted by HawkPartners for Massachusetts Mutual Life Insurance Company (MassMutual), the results reveal that today’s women 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 is not always top of mind, even though many feel protecting the business is important. In addition, most women business owners prefer to keep their business and personal finances separate, but often find the two inextricably linked.

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 stability.

At the same time, consider the impact 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 CIA World Fact Book, 2017
² SMB Insights, The Business Journals, 2014
³ Small Business Administration, Small Business Profile, 2016
The decision to become a business owner is both a brave and noble one. Women business owners are likely to have started their business for a lifestyle of independence and to be their own boss. When asked about the ideals and values, words like excellence, integrity, respect, consumer-centric and being true to oneself all rise to the top. Women business owners also place a high value on serving the community, diversity and environmentalism. And, while they have undoubtedly spent a great deal of time building a successful business that reflects these ideals, there may be a lack of emphasis on some other just as important key words, such as employees, value, exit, and legacy.
A majority of women business owners say they prefer to keep their business and personal financial well-being separate and prioritize their personal 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 the next generation, shouldn’t the two be viewed with equal importance?

In an effort to understand how women business owners think and feel about protecting their businesses, this study examines seven core planning pillars and how important, top of mind and capable of addressing each one is:

- 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 leaves, becomes disabled, or dies
- Transitioning ownership and/or finding a buyer upon retirement
- Being fair and equitable regarding distribution of the business and assets from the owner’s estate

The results show that women business owners are not ready, don’t feel capable, do not know where to turn for help, or are too busy to address all of the core pillars. This emphasizes the need for education and awareness around the planning areas that could leave a business exposed, and reinforces that taking action involves protecting whom and what matters most.

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 too busy with the day-to-day management of the business.
3. Nobody ever approached me to talk about these issues.
4. I wasn’t aware these were important issues for my business.
5. I don’t have extra money to put towards paying for help.
6. It’s an uncomfortable conversation for my family and me.

TOP REASONS FOR having agreements/plans 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. I wanted to protect my employees.
5. A trusted source brought it up to me.
6. I witnessed a difficult life event.
The core pillars at-a-glance

The following chart provides an overview of how women business owners rank each core pillar. The study indicates that women business owners are far more concerned than in the past and generally more concerned than the general population about the issues they have or may face in the future. Keeping key employees loyal is viewed as the most important, most top of mind, and most solvable. 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.

<table>
<thead>
<tr>
<th>PILLAR</th>
<th>IMPORTANCE</th>
<th>TOP OF MIND</th>
<th>CAPABLE TO SOLVE</th>
<th>2015 RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keeping key employees loyal</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Knowing what the business is worth</td>
<td></td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Being fair and equitable regarding distribution of the business and assets from the owner’s estate</td>
<td></td>
<td></td>
<td></td>
<td>7*</td>
</tr>
<tr>
<td>How the business would be affected by the death of an owner of key employee</td>
<td></td>
<td></td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Who will take over the business if an owner leaves, dies or becomes disabled</td>
<td></td>
<td></td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>How the business would be affected by the disability of an owner of key employee</td>
<td></td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Transition ownership/finding a buyer when the owner retires</td>
<td></td>
<td></td>
<td></td>
<td>5</td>
</tr>
</tbody>
</table>

* Estate planning results in 2015 MassMutual Business Owner Perspectives Study focused on estate taxes versus distribution of assets.
Despite the relative importance and concern about the core pillars, the findings indicate that women business owners feel that they are not capable of addressing these important issues on their own and they turn to many different resources for support. Most often, they turn to their spouse, business partner or their family members. This shows that women business owners may not be turning to the most informed resource for help. When women business owners do look to experienced professional for guidance, they say it’s an accountant, attorney, or banker they turn to most.

“I feel like our business and our personal [finances] are very interconnected because everything we do comes in through the business. I mean that’s how we survive, that’s what we live, so I don’t know that I could separate the two because one doesn’t operate without the other.”

— FEMALE, PROFESSIONAL SERVICES

Latina business owners are more likely to consider a holistic advisor a trusted resource for support.
A closer look at the core pillars

Keeping key employees loyal to the business

Keeping key employees loyal to the business tops the list in terms of importance and 82% of women business owner 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 no difference in what is offered to all employees and what is offered to those who are most critical to the success of the business. In fact, nearly one-third report not offering any additional benefits to their key employees.

There may be individuals who are valuable assets to the company because of what they bring to the table everyday — creative genius, sales acumen, or relationship building to name a few. Women business owners should ask themselves this question: If you were to leave your current business to start a new business, who would you take with you? Those are your key employees and should be taken care of.

The good news is over 90% report offering some kind of benefits to their employees with health insurance, generous salaries, and flexible work arrangements as the most common benefits offered. But, are these the right benefits?

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. Retirement savings plans, preventative health and wellness incentives, and financial education programs are popular elements 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. Women 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.

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Women business owners should ask themselves:
If you were to leave your current business to start a new business, who would you take with you?
Women business owners are more inclined to offer benefits that support the family such as flexible work schedule, family leave and adoption assistance.

**BENEFITS OFFERED TO KEY EMPLOYEES**

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generous salary with incentive compensation</td>
<td>42%</td>
</tr>
<tr>
<td>Executive life insurance</td>
<td>25%</td>
</tr>
<tr>
<td>Financial planning assistance</td>
<td>25%</td>
</tr>
<tr>
<td>Executive disability insurance</td>
<td>20%</td>
</tr>
<tr>
<td>Retirement plans (golden handcuffs)</td>
<td>13%</td>
</tr>
<tr>
<td>None of the above</td>
<td>30%</td>
</tr>
</tbody>
</table>

**BENEFITS OFFERED TO ALL EMPLOYEES**

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health insurance</td>
<td>52%</td>
</tr>
<tr>
<td>Flexible work schedule</td>
<td>50%</td>
</tr>
<tr>
<td>Generous salary</td>
<td>42%</td>
</tr>
<tr>
<td>Retirement savings</td>
<td>32%</td>
</tr>
<tr>
<td>Family leave</td>
<td>32%</td>
</tr>
<tr>
<td>Life insurance</td>
<td>31%</td>
</tr>
<tr>
<td>Disability income insurance</td>
<td>26%</td>
</tr>
<tr>
<td>Preventative health and wellness</td>
<td>23%</td>
</tr>
<tr>
<td>Financial education programs</td>
<td>12%</td>
</tr>
<tr>
<td>Adoption assistance</td>
<td>7%</td>
</tr>
</tbody>
</table>
Knowing what the business is worth

Knowing what the business is worth is of increasing importance as evidenced by its jump up to number two in this year’s study (it was ranked 4th in 2015). In addition, it is very much top of mind with 76% saying they frequently or often think about their business value.

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

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 14% of respondents considered a valuation to know if the value of the business will be a sufficient component of their retirement income plans.
- 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.
- And 11% 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 business owners may not know what their true business value actually is. Nearly two-thirds claim to have done a formal valuation in the last three years and many site their CPAs as the go-to resource. But, one out of four say they did it themselves, and when business owners value their businesses themselves, they can over or under value it by a significant amount.

Latina business owners are more likely to have had multiple valuations done on their businesses.
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 Valuation Analysis (AVA), Accredited Senior Appraiser (ASA), or Accredited in Business Valuation (ABV). You don’t want your succession, retirement, or estate plan derailed due to an unsubstantiated business valuation.

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**REASONS FOR HAVING THE BUSINESS VALUED:**

- Know the value for sale: 25%
- Measure the health of the business: 22%
- Know if the value is sufficient to fund retirement: 14%
- Create an equitable division of the estate: 12%
- Fund a buy-sell agreement: 11%
- Obtain funding/line of credit: 9%
- Estimate estate tax obligations: 8%

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**WHO DO BUSINESS OWNERS TURN TO FOR BUSINESS VALUATIONS?**

- CPA/Accounting firm: 42%
- Business valuation firm: 31%
- I/my business partner would do it: 26%
Protecting the business from the disability and death of an owner or key employee

The next pillars are protecting the business from the death and disability of an owner or key employee. These two concerns are on par with each other in terms of how important and top of mind. However, relative to the previous two pillars, they lag behind. On the positive side, women business owners have doubled the amount of buy-sell agreements they have in place over the last three years.

Business owners should ask themselves this important question: If you died 90 days ago, what would your business be worth today? For some, it could be pennies on the dollar. 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 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.

A buy-sell agreement must also be properly funded in accordance with the current value of the business. Funding buy-sell agreements with insurance products, specifically life insurance and disability buy-out insurance, is often the most effective method. Otherwise, remaining owners may be forced to liquidate.

Women business owners should ask themselves: If you died 90 days ago, what would your business be worth today?
business assets or take operating cash out of the business to purchase the ownership interest of the departing owner or his/her family.

According to the study, of those with a buy-sell agreement in place, only 37% say its funded with life insurance, and only 23% say its funded with disability buy-out insurance. The rest are funded with cash flow from the business or not funded at all. In addition, women business owners are doing a better job funding their buy-sell agreements than in the past, yet many women owners are using cash flow from the business to fund them.

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 one out of every three buy-sell agreements may be stale.

Women business owners are significantly more likely than the national sample to fund buy-sell agreements with disability buyout insurance.

### How is your buy-sell funded?

<table>
<thead>
<tr>
<th>Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow from the business</td>
<td>43%</td>
</tr>
<tr>
<td>Life insurance</td>
<td>37%</td>
</tr>
<tr>
<td>Disability buy-out insurance</td>
<td>23%</td>
</tr>
<tr>
<td>It is not funded</td>
<td>11%</td>
</tr>
</tbody>
</table>

### How long ago was your buy-sell reviewed?

<table>
<thead>
<tr>
<th>Time Frame</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>28%</td>
</tr>
<tr>
<td>1–3 years ago</td>
<td>38%</td>
</tr>
<tr>
<td>4+ years</td>
<td>31%</td>
</tr>
</tbody>
</table>
Choosing who will take over the business if an owner dies, becomes disabled or leaves

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 (or trained) the right person to take over the business when the times comes, your succession plan may not work out as intended.

Most women business owners say they have chosen a successor, but only 60% claim to have a written succession plan in place. Despite this being an increase of 24% versus 2015, this might explain why one out of four say their successor is not aware they are the chosen successor.

Choosing the right successor, and then properly communicating that decision, is critical to the long-term success of the business. The one stat that doesn’t need research to prove: 100% of all 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.”
- Help the successor find and utilize a mentor outside the business.
- Recommended the successor spend time working outside the business, perhaps even in other industries, so they gain valuable experience and prove they want to come back.
- Communicate the timeline for exit and successor development plan with family members and key managers so they can participate as appropriate.

WHAT IS YOUR IDEAL EXIT STRATEGY?

<table>
<thead>
<tr>
<th>Exit Strategy</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leave the business to a family member:</td>
<td>34%</td>
</tr>
<tr>
<td>Sell the business to a key employee:</td>
<td>17%</td>
</tr>
<tr>
<td>Sell the business to an outside buyer:</td>
<td>17%</td>
</tr>
<tr>
<td>I have no idea:</td>
<td>13%</td>
</tr>
<tr>
<td>Liquidate the business:</td>
<td>11%</td>
</tr>
<tr>
<td>I don’t ever plan to exit:</td>
<td>9%</td>
</tr>
</tbody>
</table>
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, 60% of women business owners frequently or often think about how the assets in their estates will be divided up as opposed to only 28% concerned with handling estate taxes.* Moreover, 70% say the business is their largest asset. So, 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 60% 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 in the decision making, and the profits, of the business with siblings who have no involvement. That may be equal, but it certainly is not fair.

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 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?
- 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 theirs?

Finally, paying estate taxes and fees is still an issue that may need to be addressed. Only 55% of women 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.

Women business owners should remember:
When it comes to dividing up ownership in the family business, fair does not always mean equal.

* Data point on how often business owners think about estate taxes is from the 2015 MassMutual Business Owner Perspectives study conducted by HawkPartners.
“I would say whatever I’ve built up over the years would have to be split equally between my kids, and the one kid who wanted to be part of the business, he will have to work his way into it properly. Whatever I have, I would have to divide up four ways.”

- OWNER, PROFESSIONAL SERVICES

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

- Equally among children, regardless of business involvement: 53%
- Children working in the business get the business, others get other assets: 19%
- Children will divide among themselves: 17%
- No preference: 11%

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

- I have life insurance: 55%
- Business assets would be liquidated: 29%
- Personal assets would be liquidated: 26%
- Heirs would have to borrow funds: 8%
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 that nearly half of the women business owners surveyed don’t think about retirement or can’t imagine ever retiring. In fact, women business owners are less likely to say that they will retire in the near future.

However, more important than when business owners will retire is how business owners will fund that retirement when the time comes. More than half (53%) of women 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.

**WHERE WILL YOUR RETIREMENT INCOME COME FROM?**

- Personal savings and investments
- Retirement accounts
- Social Security
- Income from the business
- Sale of the business
- Real estate
- Pension plan
- Work outside the business
- Non-qualified deferred compensation
However, reality paints a different picture. Eighty-two percent of women business owners have less than $500,000 saved in their retirement accounts. That means women 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/her exit from the business, consider the following “Business Owner Hierarchy of Involvement” and the percentage of business owners who expect to fall into each category:

- **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.

- **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 3 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.

- **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.

- **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 around to take over leadership of the business when it is forced to change hands.

“I don’t want to retire. I always want to have a hand in it because I love it. I really enjoy what I do. I just want to take more time and travel and do what I like to do.”

- Owner, Construction
Your business is your 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 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 357 women business owners from December 17, 2017 – January 4, 2018. HawkPartners selected U.S. 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 +/– 2.7% 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.