



Business Succession: A booming opportunity

Succession planning is wide open for boomer business

[By Jill Hartman](#)

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With approximately 75 million baby boomers facing retirement in the next 20 years, business succession opportunities for financial advisors are plentiful, to say the least. The boomer entrepreneurial spirit has led millions to develop small and mid-sized businesses with an eye on making money, living well and retiring comfortably. And whether they realize it or not, they'll need help transferring out.

According to the Small Business Association, fifty percent of all successful business owners are over the age of 50, and fall within the baby boomer demographic. There are over 12 million privately owned businesses, and of those businesses, over 4.4 million are successful. More significantly, 40 percent of all U.S. businesses are facing a transfer of ownership issue; 60 percent will exit their business in the next ten years, and 50 percent will exit their business in the next five years. These numbers add up to a significant opportunity for boomer advisors looking to address this market.

"Business exit planning is one the most underserved markets and, as a result, one of the industry's best marketing opportunities," says David Reyes, Jr. founder and CEO of San Diego-based Reyes Consulting. "It's critical that business owners have someone advising them on succession, but most CPA's, attorneys and financial advisors are not equipped to deal with the intricate issues of business succession planning. For the savvy advisor, this could be a key differentiator in today's crowded advisory field."

Business succession boomer style

According to the Hawaii Family Business Newsletter, business owners have the hardest time with the succession process because their work is often their life and identity. But statistics show that many may not be as concerned with passing the business to family and heirs as one would think. The Small Business Association reports that only 30 percent of family businesses succeed to a second generation and only 15 percent of family businesses succeed to a third generation.

While business succession plans solve for a number of ownership issues, many boomer business owners may be more concerned with making enough to live well in retirement than ensuring their business legacy lives on.

“From my observations, boomer business owners are not that concerned with who will purchase their businesses or how it will happen,” says Atlanta based financial advisor Peter Brooks. “They’re more focused on how much they will get. This is the boomer mentality.”

But even for boomers who show no signs of slowing down and relinquishing control, proper business succession planning is imperative, and financial advisors can add value in a multitude of ways. A business succession plan can protect clients from a potential liquidity shortfall, intervention by the IRS and high estate taxes. A good plan can also guard against diminishing the value of the business for successors, or from the possibility of losing the business entirely.

Buy-sell cross purchase agreements funded with life insurance are typically the most popular business succession method. By implementing a solid business continuation plan prior to death, the interested parties in buy-sell agreements retain control of what happens to the business after death. A buy-sell agreement can help ensure proper business valuation, heirs not involved with the business are provided for, and that the business ultimately will not be lost to outsiders.

Profitable partnering

Attorneys and accountants currently control a major part succession-planning arena. According to a 2004 LIMRA International report entitled “Executive Benefits (Employer Viewpoint)”, attorneys are involved in 91 percent of all succession planning transactions, and accountants are involved 65 percent of the time. Financial planners come in a distant third, involved only 23 percent of transactions. For advisors who recognize the value of partnering with other professionals in this market, there is room to grow.

The same LIMRA Report indicates that less than half of 350 small businesses surveyed have been approached by a financial advisor. Further, most businesses need significant education on the topic of business transfer planning, and as education levels rise, so too will sales. As an example, the report states that only 22 percent of insured firms carry both individual business life insurance and disability insurance. In addition, only 44 percent own business life insurance and only 30 percent own individual business disability insurance. The conclusion is two-fold: Most small to mid-sized businesses have not been approached by financial advisors. Those that have are now prime areas for other cross selling opportunities.

Untapped market

With so many boomer business owners approaching retirement, the need for business succession planning is on the rise. As with most aspects of the financial services industry, there is a need to educate first. From partnering with other professionals to having the patience to implement informational programs, the small-business marketplace is wide open for advisors who take the time to understand and advise their boomer business clients.

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