

Small but mighty: Growing opportunities for financial advisors and small business owners

Securian's 2011 study of small business owners

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Background information

In 2009, Securian conducted a *qualitative* study of small business owners (SBOs) to learn how they were using financial advisors. This study conducted lengthy telephone interviews with 24 SBOs of varied sizes, providing in-depth understanding of the issues business owners face.

Our *quantitative* 2011 study builds on our 2009 research and includes online surveys with a statistically valid sample of 453 SBOs.

Important terms

For the purposes of this study, a **financial advisor** is defined as: an investment professional who helps individuals set and achieve their long-term financial goals, through investments, tax planning, asset allocation, risk management, retirement planning and estate planning. The goal is to find ways to increase the clients' net worth and help them accomplish all of their business and/or personal financial objectives.

Small business owners (SBOs) surveyed met these requirements:

- Private company ownership, sole or shared
- At least 50 percent responsibility for their companies' financial decisions
- At least 50 percent responsibility for their households' financial decisions
- For-profit company, not in marketing/market research
- Not engaged in financial planning services as part of their business
- Company of three to 250 employees
- Minimum of one year as owner.

Quotas were implemented to ensure representation by company size and owner's gender. Data were weighted to reflect the actual proportion of business size and female-owned businesses in the United States per 2007 Census data (33% female-owned).

Introduction

Approximately one-half of Small Business Owners (SBOs) currently use a financial advisor for personal and/or business needs, implying there is significant potential for growth in this sector. With a greater understanding of SBOs' unique needs, advisors can better address and help alleviate their specific concerns.

Securian Financial Group, which helps consumers and businesses achieve financial security for the long run, commissioned research to better identify small business owners' unique needs.

The study set out to learn:

- Challenges and concerns SBOs face
- SBO interest in using financial advisors
- The difference between SBOs likely and less likely to use advisors for business needs

Executive Summary

Top SBO concerns relate to securing financial future.

While half of SBOs use a financial advisor, relatively few are seeking help specifically for their top concerns.

SBOs' top concerns cross all business sizes, and common themes include:

- Cost control
- Profitability
- Building wealth
- Securing financial futures for their families and
- Rising healthcare costs.

At least one-fifth indicate wanting advisors for such non-traditional consulting-related concerns as:

- Cost control (especially healthcare)
- Profitability
- Cash flow management
- Exit strategy and
- Securing business loans.

Consulting/strategy help is also one of the largest motivators for seeking advice.

Advisors must address perceived challenges of time and cost to gain SBOs' business.

The gap between wanting outside help and currently working with an advisor for each concern indicates SBOs may find "help" challenging to attain – whether it be difficulty finding an advisor, perceived time and effort required to do so, perception of cost and/or other challenges.

While most SBOs are comfortable with their leadership savvy, time constraints and day-to-day financial concerns are reasons they seek help. SBOs tend to engage advisors based on recommendations from family and friends. An advisor's demonstrated knowledge of a business owner's needs is also a deciding factor.

Likely vs. Less likely

Likely SBOs: small business owners more likely to use an advisor (27% of respondents)

Less Likely SBOs: small business owners less likely to use an advisor (64% of respondents)

SBOs "likely" (*likely*) to seek an advisor tend to be younger, sole decision-makers, owners of smaller businesses and are more likely to be female.

SBOs *likely* to use an advisor in the future include both current users and non-users. Their motivation to seek an advisor's help differs from SBOs who indicate they are "less likely" (*less likely*) to seek an advisor in the future. Future *likely* users tend to be:

- Younger
- Owners of smaller business and
- Sole decision-makers
- Female business owners.

The most common reasons SBOs use advisors are for:

- Personal retirement planning and
- Taking care of their families financially.

Traditional savings, investment and insurance are the most common vehicles used to address these goals.

Fewer *likely* SBOs have retirement planning and other savings and insurance products in place. They have owned their businesses for a shorter time and are less comfortable making financial decisions for their businesses.

They are very interested in consulting an advisor for:

- Cost control (especially healthcare)
- Profitability
- Cash flow management
- Exit strategy and
- Securing business loans.

SBOs are motivated to seek advisors for transition strategies.

SBOs *less likely* to seek an advisor are not opposed to using an advisor; they just have different motivations. Comparatively more already have many standard savings, investment and insurance products in place. Consulting/strategy help is just as much of a motivator to use an advisor, although their needs are less day-to-day than the *likely* group. They are more likely to seek advice for major business transitions, such as retirement or sale of their business.

Findings

The study found significant opportunity for advisors and small business owners.

Our findings answer these questions:

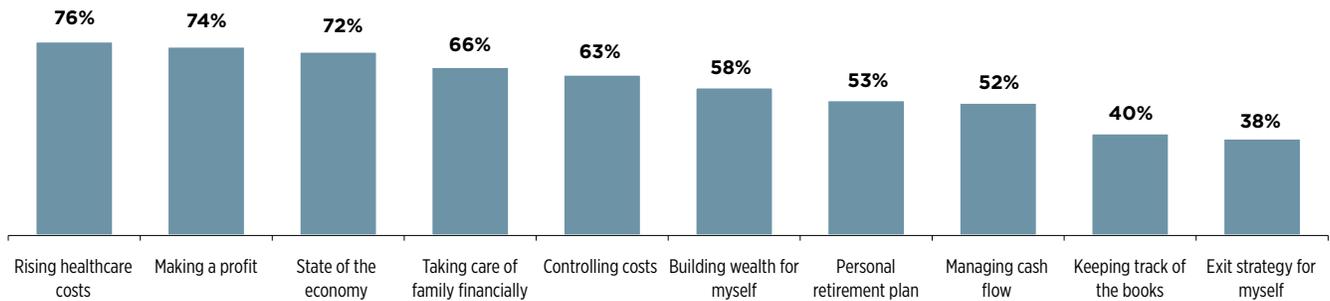
- 1. Where are the opportunities for advisors and small business owners?**
- 2. Which SBOs are currently using advisors and what are their motivations?**
- 3. Which SBOs are more likely to seek services?**

1. Where are the opportunities for advisors and small business owners?

There is substantial opportunity for financial advisors to alleviate SBOs' top concerns, as most are not addressing them with an advisor.

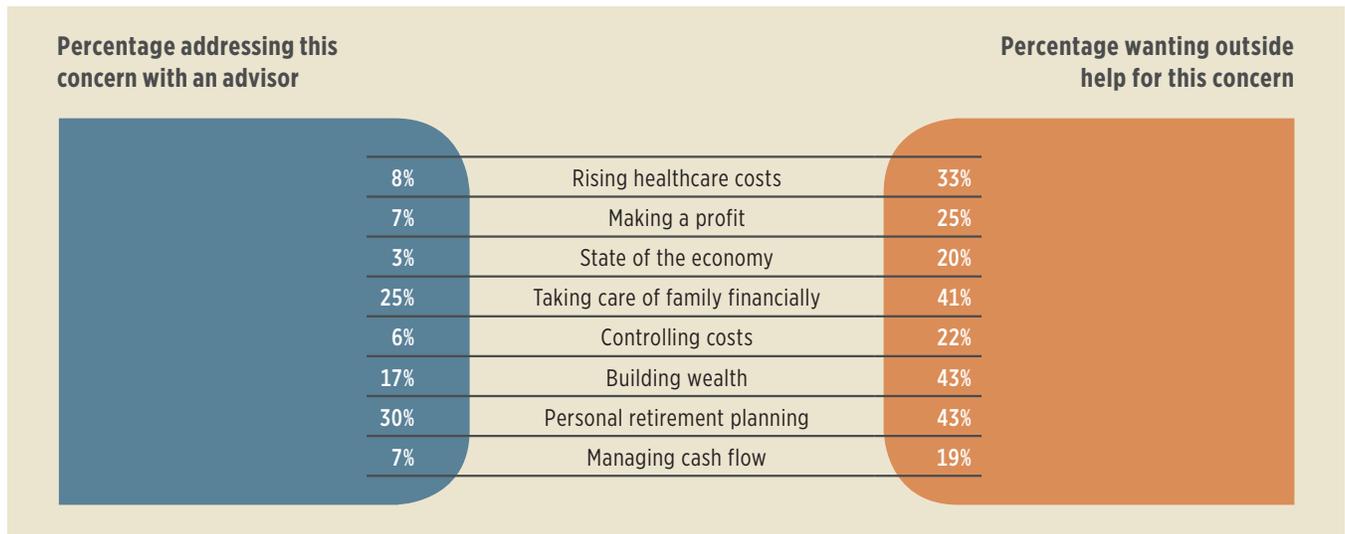
The state of the economy, cost control and profitability are common themes in SBOs' top concerns, although building wealth and securing their families' financial futures are also important. These concerns are common across SBOs, regardless of business size.

EXHIBIT A: Top SBO concerns



Relatively few SBOs use advisors specifically to address most concerns, although significantly more say they want outside help for their concerns.

EXHIBIT B: Bridging the gap: SBO top concerns and advisor use



Although SBOs are generally comfortable with their own leadership savvy, they appear to need advisors' help with business continuation, day-to-day finances and business strategy.

EXHIBIT C: SBO attitudes

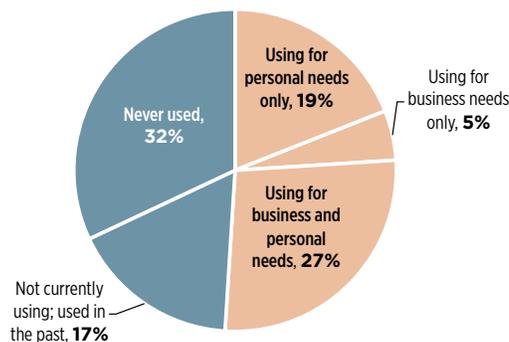
Percent strongly agree (8-10 on a 10-point scale)



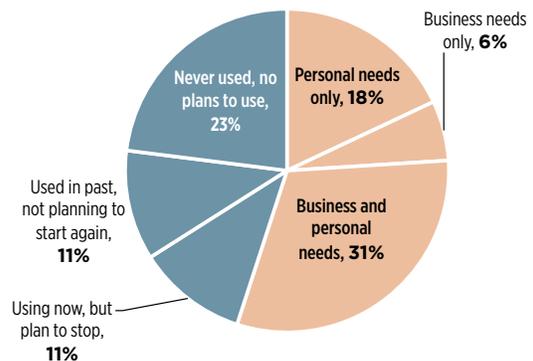
2. Which SBOs are currently using advisors and what are their motivations?

Half of SBOs use advisors, whether for personal and/or business needs. In the future, more SBOs expect to use advisors for business and personal needs.

EXHIBIT D: SBOs' current use of advisors



SBOs' future use of advisors

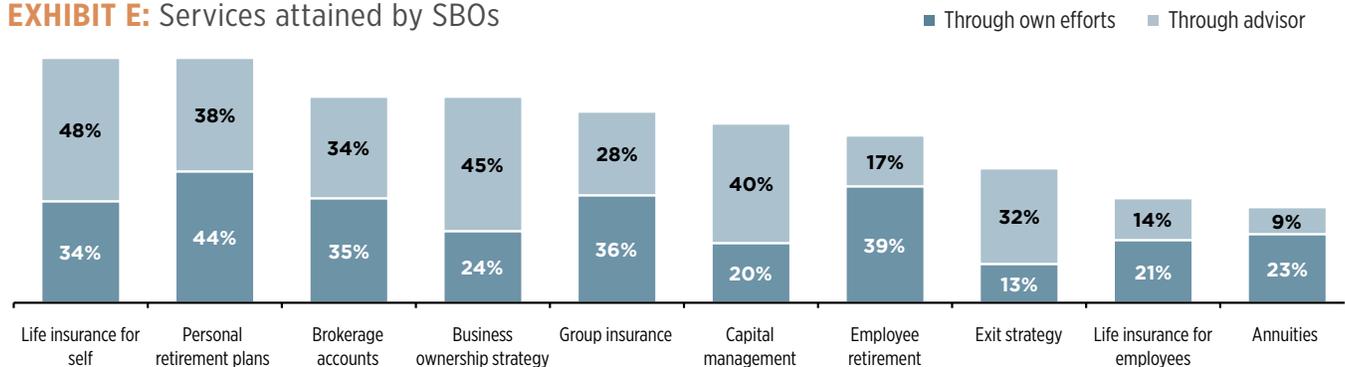


Percent likely to use (8-10 on a 10-point scale)

SBOs typically work with advisors for retirement and insurance.

SBOs mainly use advisors to address concerns related to personal retirement planning, taking care of family financially and building wealth. So it's no surprise that the first services most often sought from an advisor are retirement savings or insurance products that support their three key concerns or that provide benefits for employees. Although these are key advisor offerings, SBOs with these services are almost equally as likely to have attained them independently.

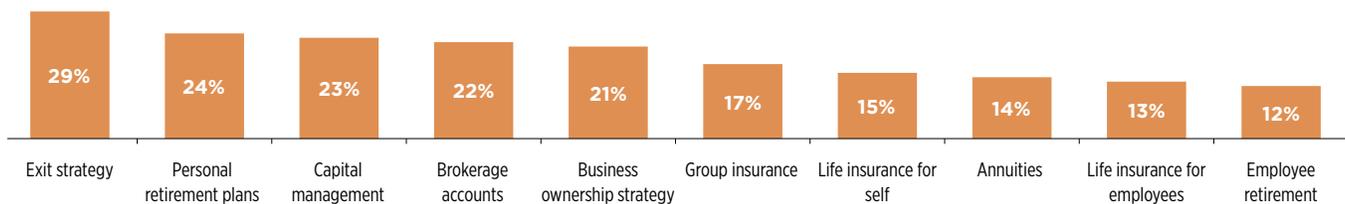
EXHIBIT E: Services attained by SBOs



SBOs would like help and are motivated to seek advisors.

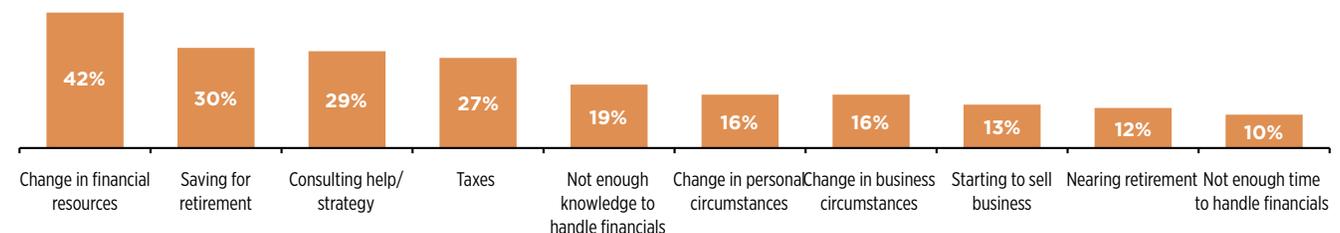
While many SBOs have some strategies in place through their own efforts, a significant number of SBOs would like outside help in exit strategy, capital management and business ownership strategy.

EXHIBIT F1: Advisor services SBOs would consider attaining



Many SBOs seem to recognize the consulting benefit of advisors to help with strategy, and not just for their ability to provide investment expertise and products.

EXHIBIT F2: Motivators for seeking advice

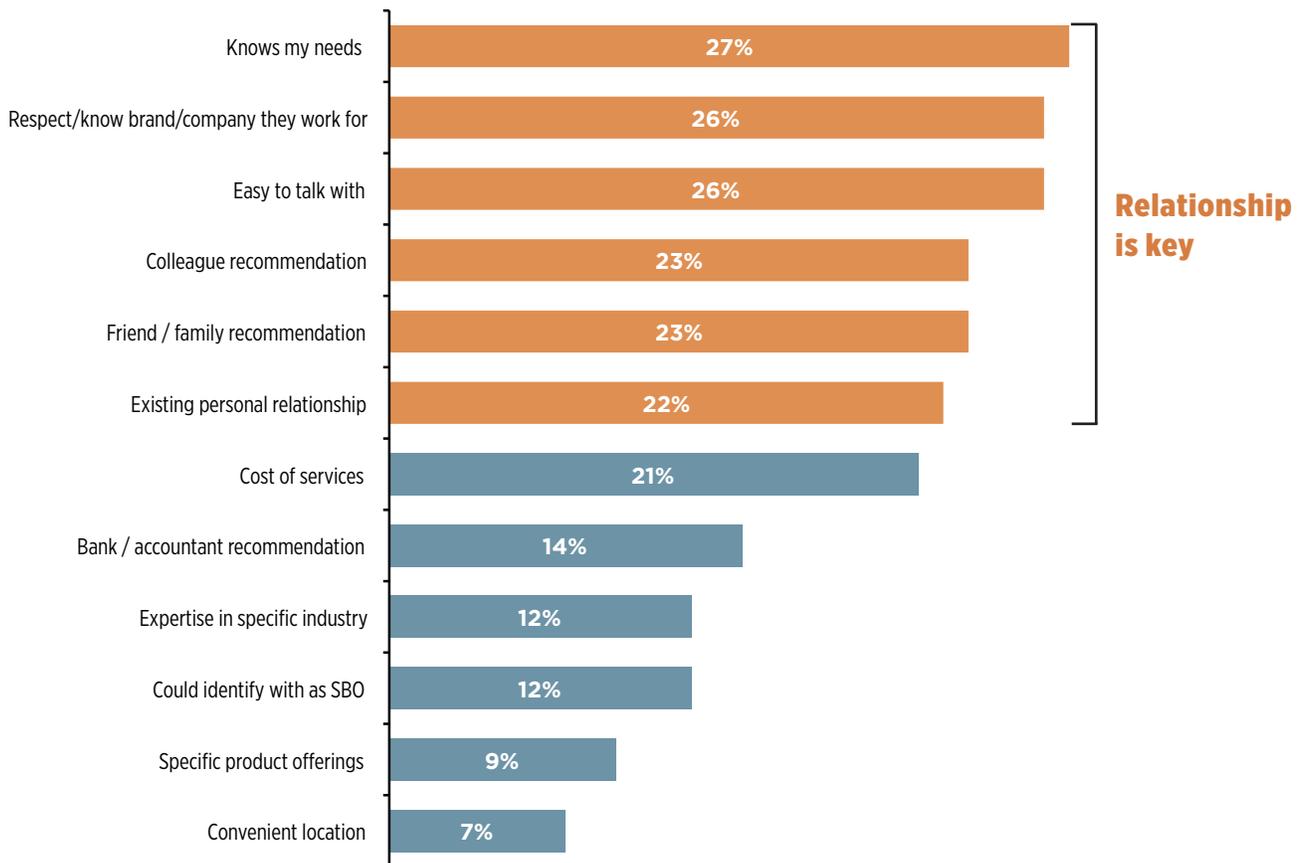


SBOs leverage their personal and professional network to identify a financial advisor they can trust – one already proven to those close to them.

When selecting an advisor, relationship is key. In total, 86 percent of those who currently or in the past used advisors first learned of their advisor through a recommendation from those closest to them or their bank/accountant. Respect for the financial advisor's brand/company and cost are of similar importance.

SBOs do not take the selection of an advisor lightly. They tend to look for one already proven to those close to them and one who understands their needs. SBOs also tend to use one trusted individual for their needs: two-thirds of those using advisors for business needs use only one, and a similar proportion of users for both business and personal needs use the same advisor for both. The majority using advisors for business needs are highly satisfied with their advisors and are likely to recommend them.

EXHIBIT G: Important factors in selecting a specific advisor



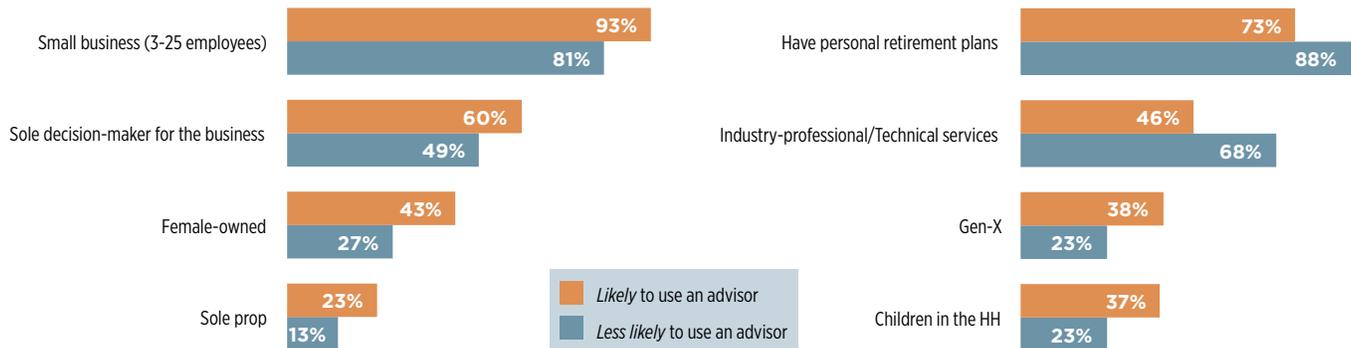
3. Which SBOs are likely to seek services?

Of our survey respondents, 27% of SBOs are likely to use an advisor and 64% are less likely to use an advisor.

SBOs *likely* to seek an advisor tend to be younger, sole decision-makers, female and owners of smaller businesses.

Whether they currently use or don't use an advisor, differences exist between those *likely* to use advisors for their future business needs and those *less likely* to do so.

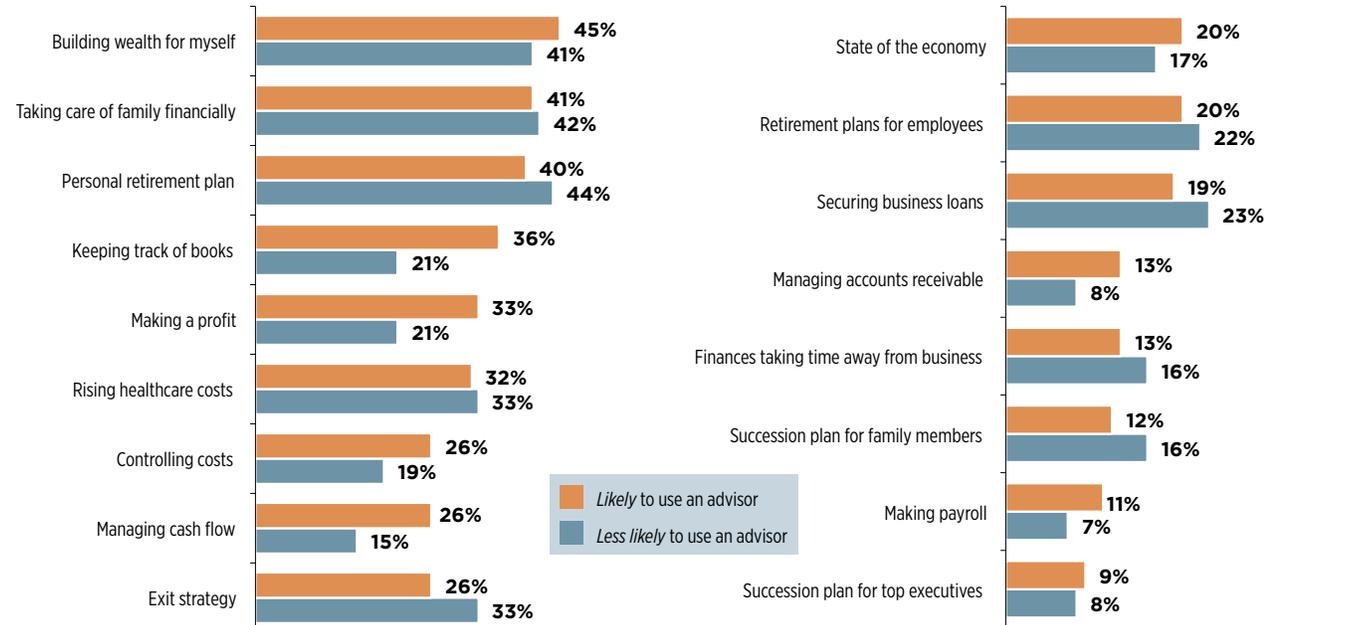
EXHIBIT H: Profile differences between SBOs *likely* and *less likely* to use an advisor



Likely SBOs also want help with business operation, planning to help build wealth and to take care of family financially.

While concerns and challenges are the same across both the *likely* and *less likely* SBO groups, *likely* SBOs indicate greater concern with taking care of family financially. This may be because more of them still have children at home.

EXHIBIT I: SBOs addressing concern or wanting to address concern with an advisor



Use of specific services vary between SBOs *likely* and *less likely* to work with financial advisors. The likelihood to seek advice is impacted by the need for retirement savings and insurance products as well as comfort level in making financial decisions.

Fewer *likely* SBOs have personal retirement plans compared with *less likely* SBOs. Being younger, *likely* SBOs have not yet done their retirement planning and are likely to seek an advisor for help.

In addition to opportunities with personal retirement planning, fewer *likely* SBOs have personal life insurance, brokerage accounts and employee retirement plans. The latter is conceivably a result of owning smaller businesses and having owned them for a shorter time.

***Less likely* SBOs already have many products and services in place, with many seeking an advisor for reasons related to business sale, transition or retirement.**

Less likely SBOs are comparatively more motivated to seek an advisor given a change in business circumstances, starting to sell the business or nearing retirement. They are older and have owned their businesses longer and indicate greater concern with having an exit strategy than do *likely* SBOs.

EXHIBIT J1: Use of specific services by *likely* SBOs

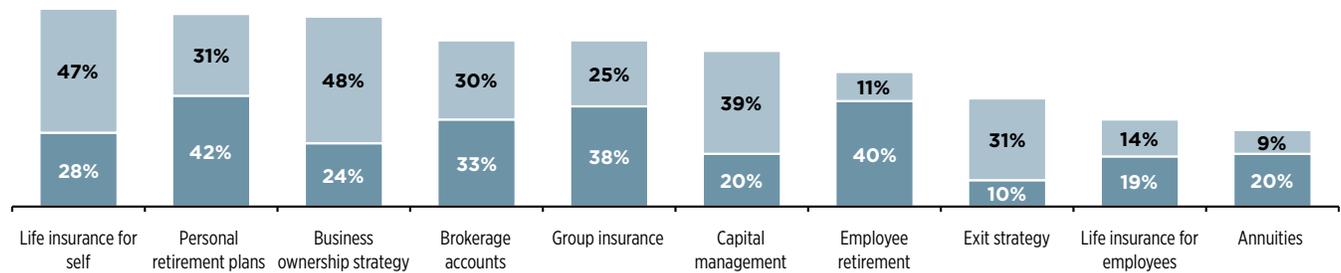
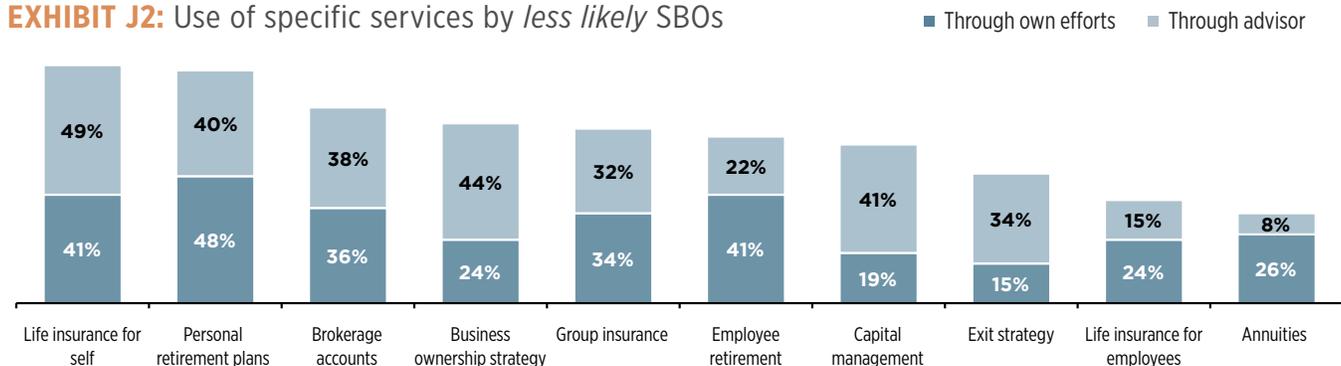


EXHIBIT J2: Use of specific services by *less likely* SBOs



SBOs likely to use an advisor tend to seek a smaller advisor firm which demonstrates knowing their needs.

Across all SBOs, *knowing my needs* ranks first in importance in selecting an advisor. *Likely* SBOs are more apt to use an advisor operating as a sole proprietor and place greater importance on the advisors knowing their needs. *Less likely* SBOs are more hesitant to share business financial information with an advisor and place greater importance on the reputation of the company/brand the advisor represents. Consequently, more use a larger national financial planning firm with local representation.

***Knowing my needs* also requires advisors to consider the uniqueness of female SBOs, prevalent among those likely to use advisors for their business needs.**

Female SBOs express greater concern for:

- Securing business loans
- Having a succession plan for top executives or family members
- Making payroll
- Keeping track of the books and
- Time spent on finances taking away from business operation/planning.

Female SBOs are more worried than male SBOs about the day-to-day finances of the business and with the debt load carried by their business. Although women are less likely to have business debt, more have business ownership strategy planning in place – and especially through their own efforts. Still, they want consulting help from an advisor at a greater rate than male owners. With a tendency to be younger, they are more likely to be first-time business owners, while more men have previously owned businesses.

They express greater hesitancy to share business or personal information with an advisor and are more likely to feel it is difficult to find effective advisors for their businesses. Thus, it is even more critical advisors develop a trusting relationship with this important SBO group and demonstrate true understanding of their unique needs.

Conclusion

A relationship-based consultative planning approach is critical to help SBOs with common concerns exacerbated by the current economy. Their ultimate goal is creating a more secure and comfortable future for their families.

While retirement planning and building wealth will continue to be the most important SBO concerns addressed by advisors, a significant number of SBOs desire support for cash flow management, cost control (especially healthcare), profitability and help with the books, as well as exit strategy or succession planning. A holistic approach for addressing all related SBO needs will yield a more successful result for financial advisors.

Needs required from advisors differ.

This is particularly true between SBOs who are older and more established business owners and younger business owners. More established owners seek advice when nearing a major change in business, such as retirement or sale. Younger business owners desire more day-to-day consultative help. Female business owners particularly indicate a desire for more holistic services, requiring advisors who understand their unique needs.

About Securian Financial Group, Inc.

Securian Financial Group (securian.com) helps provide financial security for individuals and businesses in the form of insurance, retirement plans and investments. Affiliates include Minnesota Life Insurance Company, Securian Life Insurance Company, Advantus Capital Management, Allied Solutions, LLC, Securian Financial Services, Inc., and Securian Trust Company. Securian has \$775 billion of life insurance in force, \$23 billion in assets under management, and a work force of 3,500 employees nationwide. Securian serves more than 9,000,000 individuals in all 50 states, the District of Columbia and Puerto Rico.

About CMI

CMI is a privately owned full-service market research company headquartered in Atlanta, Georgia, with offices in Minnesota, New York and North Carolina. CMI helps clients understand target customers in the context of their world – the choices they make and why – to prioritize resources and generate growth. Since 1989, CMI has used a wide variety of methods, combining quantitative survey research methods, advanced analytic capabilities and ethnography and other qualitative methods (including ideation and facilitation) as needed to develop the most effective approach for the issue at hand. The company is ranked on the Inside Research top 10 fastest growing marketing research firms in the U.S. CMI is a member of CASRO (Council of American Survey Research Organizations) and abides by CASRO's code of ethics.

Study Methodology

Securian worked with CMI, a full-service market research firm with expertise in the financial services industry, to implement the study. The study was fielded online from May 9 – June 1, 2011, with 453 owners of U.S. businesses with between three and 250 employees. The results from Securian's 2009 qualitative study were used in designing the 2011 study.

All participants were screened for private, for-profit company ownership, at least 50 percent responsibility for their companies' financial decisions, as well as those of their households, and a minimum of one year as owner. A minimum quota of 180 female SBOs was implemented in order to ensure adequate representation. Financial planning and marketing/market research companies were excluded from the study. Study data were weighted to reflect the actual proportion of business sizes (number of employees) and female-owned businesses in the U.S. population based on the 2007 Census Survey of Business Owners.

Due to intended differences in methodology, direct comparison between the 2009 and 2011 studies is not provided. The general findings are consistent; this report provides the quantified and more detailed results of the 2011 study.



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