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FOCUS: Agency building

Making a business of the business market

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The page one story in the Wall Street Journal (6/1/04) was a blockbuster. Hard-driving Nokia, the long-obscure Finnish cell phone manufacturer that had outdistanced major competitors like Motorola, had dialed a wrong number.

Its top executives had bet on "smart phones" that could handle email, the Internet and just about everything else instead of lower priced, glitzy phones with bright screens and cameras.

The strategy failed. Consumers went for the glitz. The WSJ writer said it clearly: Nokia "focused on the wrong battle."

Nokia isn't alone when it comes to focusing on the wrong battle. Financial advisors and insurance producers can make the same mistake.

A good example is corporate life insurance sales. Almost every edition of publications for advisors and producers has at least one article about getting into this field. There are countless seminars that help prepare producers for selling programs to business executives.

In spite of the opportunity, producers continue to focus on individual life sales. Why do so many advisors bypass corporate business? One reason may be a lack of experience and concern about breaking into a new market. It may also be the time and effort it takes to manage a program that involves a number of cases. Or, it could be the expertise that's needed to be successful.

Nevertheless, there are excellent opportunities for resourceful producers and financial advisors who want to expand their business horizons by working in the corporate market. Experience suggests that some of those who have made attempts have also made mistakes. Here are three guidelines for building a corporate business practice.

Fill a need—simply

A major strength of the corporate market is the number of prospects. Within a few-mile radius of almost any producer are either hundreds of privately held businesses.

It may be that the owner of a privately held company wants to retain and reward key personnel but cannot offer them stock options. Life insurance is one of the best solutions as every insurance broker knows.

So why the resistance to getting into this market? For one thing, getting the attention of the decision-maker long enough to explore the options and to lay out the possibilities is challenging, of course.

Successful business owners are always fair game for salespeople. Unfortunately, owners and managers have learned that the average salesperson is inept at making simple, succinct and workable recommendations.

A serious problem facing every business executive today is having too many choices. That's right, too many. Rather than being an advantage, a plethora of choices often paralyzes decision-making.

In one study, students who were given six topics to write about for extra credit were more likely to actually write a paper than were those who could choose from 30. The popularity of eharmony.com for finding a mate is revealing. The company makes a point of matching 29 traits. In effect, it narrows the field so making a choice is easier!

When business owners are bombarded with presentations and options, what happens? Nothing. They shut down and don't make a decision.

When you encounter an executive who expressed interest and then delayed making a decision, there's a good chance that the proposal was too complicated or there were too many choices or both.

The life insurance producer who understands that a couple of clearly stated options will get more attention than complicated (and confusing) presentations will write corporate business.

Focus on solutions

Developing an appropriate business-based life insurance program differs from working with individuals. Talking to one customer, we can discuss family obligations, financial resources, educational commitments and retirement objectives.

While all of these apply to business owners and executives, the actual customer is the business itself. Although buying decisions are made by one or more persons, the program must work not just for those who benefit directly from your proposal, but it must work for the business as well. Your recommendations must make good business sense.

- How will your proposal strengthen the business?
- How will it fit into the company's financial picture?
- What are the tax benefits of your proposal for the executives and the business?

Having said this, astute financial advisors may be thinking about split-dollar plans and what has happened to them with the latest Treasury Department regulations. Is this long valuable product gone? Perhaps the answer is yes and no.

"…The traditional equity split-dollar design [is] obsolete," according to Thomas L. Ledbetter, George B. Kozol and Joseph E. Godfrey III in an article on split-dollar in The CPA Journal (9/03). However, they say, "split-dollar is not only alive and well, but also is primed to play an even more important role as the foundation of executive benefits for key executives."

They go on to say, "A number of viable options are available in structuring the program to offer both the corporation and the executive the flexibility previously afforded by equity split-dollar. Split-dollar plans can easily be adopted by private companies and tax-exempt corporations, because they do not fall under the Sarbanes-Oxley Act, which prohibits loans by public companies to executives."

It's always best to begin by zeroing in on what you can offer the business executive. You can solve a problem. It may be that there's a need to fund a buy-sell agreement, for example.

Two brothers, one about 10 years younger than the other, owned a highly successful regional drycleaning company with a number of stores. The older brother was good at finding new opportunities and growing the business, while the younger one was a top operations person who made sure the company produced quality work. They were a great team—until the younger brother died suddenly and unexpectedly.

While the company felt the loss, it was able to recover, move forward, continue to grow and, most importantly buy out the deceased brother's half of the business. His young family was taken care of as planned.

It was a classic example of a buy-sell agreement funded with life insurance.

Fulfill the dream

Although individuals are always aware of their own dreams, it's easy to forget that those we work with, including business executives, are pursuing their dreams, too.

At the top of just about every business owner's and executive's dream list is a financially secure retirement.

Yet, "the majority of Americans are ill prepared for retirement," concludes the 2003 Merrill Lynch Retirement Preparedness Survey. It points out that this is particularly true of the Baby Boomer generation that is facing retirement. There is research that further suggests this group is less adept at financial matters than its parents.

The opportunity exists to help business people find ways to fulfill their dream of financial security in retirement.

Taking a solution approach, you might suggest using Corporate-Owned Life Insurance to fund a Nonqualified Deferred Compensation plan. At first glance, a Guaranteed Issue approach might seem the best way to go since there are no underwriting requirements and there's less initial paperwork. It might well be an easier "selling job." But ask yourself if this really meets the needs of the company and its management team and key executives in particular. And is it really cost-effective?

At that point you may want to present an aggregate financing program with its lower insurance and policy charges, the ability to handle higher deferred amounts without requiring new policies, greater flexibility when deferrals decline, when individual participants stop deferring and when deferrals are distributed. And most importantly, the ability to meet the compensation needs of key employees.

In this case, the owner's dream of maintaining a key executive force that will give the company long-term strength and the dream of those executives to have a secure retirement are all met. ▲