The Baby Boomer Effect

A Look Into the Connecticut Business Landscape and the Effects of an Aging Generation on our State.
BlumShapiro and the University of Connecticut are partnering to produce a series of reports aimed at evaluating the short- and long-term effects of Connecticut’s aging population on the state’s workforce, business and economy.

We have all heard of the many challenges our state will face due to its aging population. Baby Boomers, those born between 1946 and 1964, represent a significant part of today’s workforce. Many of them have or are planning to retire by 2029. Baby Boomers also own a large portion of businesses in our state, many of those small and privately owned. Small businesses, those businesses with 500 or less employees, represent 87 percent of all businesses in Connecticut. With these owners now reaching retirement age, and considering selling or transferring ownership, we can expect a significant transfer of wealth and control. However, the question remains, what effect will this have on our state and its workforce?

Through this series, we hope to uncover the direct and indirect effects of these transfers with the intent of beginning a conversation on how our state and its business owners can best plan for the challenges and opportunities this historical transition will ignite.

This first study quantifies Baby Boomer business ownership in our state and begins to outline the effect retirement will have on business transfers and ownership. It also shares what owners need to consider to best position their businesses for sale in what we expect to be a very competitive market.
Overview of Baby Boomer Population in Connecticut

Connecticut’s total population is projected to grow slowly between 2010 and 2025, at an annualized rate of just 0.3%. Hidden by the slow overall growth rate is a major shift in the state’s demographic makeup. Exhibit 1 compares the census figures from 2010 to projections by the Connecticut State Data Center at the University of Connecticut. As a result of the aging Baby Boomers, the state’s population above age 60 will increase by approximately 50% (an additional 350,000 people at or approaching retirement age). On the other hand, the number of residents under age 15 is expected to decline by 80,000 (a 12% decrease from the 2010 census), while the state will have 90,000 fewer residents between the ages of 45 and 59 in 2025 than in 2010.

Exhibit 1.
Connecticut Population Projections by Age Range, 2010-2025
Business Ownership of Baby Boomers

Nationwide data from the Survey of Business Owners show that business ownership is not distributed evenly across the adult population. Business ownership rates begin to rise sharply for people in their late 30s and 40s as individuals have amassed the expertise and capital necessary to own a business, and decline significantly as people approach traditional retirement ages (see Exhibit 2). This life-cycle explanation for the data suggests that age-based ownership rates should be relatively stable over time and can assist with estimating the population of potential future business owners based on age demographics. Baby Boomers, who range in age from 50 to 70, have just started to transition out of the peak ages for business ownership.

Exhibit 2.
U.S. Rates of Business Ownership by Age
Percentage of Population Owning Businesses with Employees, by Age Range

Using the business ownership rates from Exhibit 2, we estimate the current ownership profile of Connecticut businesses taking into account how Connecticut’s population skews slightly older than the overall U.S. population. Exhibit 3 shows that this method estimates nearly 83,000 business owners in Connecticut—within 10% of the actual number of businesses reported by the Small Business Administration (SBA). Most of these businesses are relatively small: the SBA reports that 77% of these companies have between 1 and 20 employees, 10% have between 20 and 499 employees, and 13% have 500 or more employees. Because smaller businesses are owned by individuals, families or small investment groups, all of whom will eventually retire, we anticipate substantial ownership turnover in the next decade among the 42% of Connecticut businesses with owners aged 55 or over.
Business Transitions as Baby Boomers Retire

It is well known that the Baby Boomer generation is reaching retirement age, but what impact might this have on business ownership?

We first perform the same analysis at different time points to quantify businesses owned by Baby Boomers in the state. First, we rewind the clock to the age demographics for Connecticut reported in the 2000 census, before the Baby Boomers started to retire. Exhibit 4 shows that the percentage of business owners over age 55 has jumped nearly one-third—from 32% to 42%—since the turn of the century. With business owners aging, the pace of sales and transfer of ownership will likely increase.

### Exhibit 3. Estimated Business Ownership by Age in Connecticut, 2015

<table>
<thead>
<tr>
<th>Age Range</th>
<th>2015 Projected No. of Connecticut Residents</th>
<th>Rate of Business Ownership</th>
<th>Estimated No. of Business Owners</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 to 34</td>
<td>419,417</td>
<td>1.3%</td>
<td>5,452</td>
<td>7%</td>
</tr>
<tr>
<td>35 to 44</td>
<td>450,637</td>
<td>3.6%</td>
<td>16,223</td>
<td>20%</td>
</tr>
<tr>
<td>45 to 54</td>
<td>554,761</td>
<td>4.8%</td>
<td>26,629</td>
<td>32%</td>
</tr>
<tr>
<td>55 to 64</td>
<td>508,182</td>
<td>4.4%</td>
<td>22,360</td>
<td>27%</td>
</tr>
<tr>
<td>65 to 74</td>
<td>322,514</td>
<td>2.7%</td>
<td>8,708</td>
<td>11%</td>
</tr>
<tr>
<td>75 +</td>
<td>259,731</td>
<td>1.3%</td>
<td>3,377</td>
<td>4%</td>
</tr>
</tbody>
</table>

*Figures may not sum to 100% because of rounding

(assumed) $82,748$ 100%

### Exhibit 4. Estimated Business Ownership by Age in Connecticut, 2000

<table>
<thead>
<tr>
<th>Age Range</th>
<th>2000 No. of Connecticut Residents</th>
<th>Rate of Business Ownership</th>
<th>Estimated No. of Business Owners</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 to 34</td>
<td>451,640</td>
<td>1.3%</td>
<td>5,871</td>
<td>8%</td>
</tr>
<tr>
<td>35 to 44</td>
<td>581,049</td>
<td>3.6%</td>
<td>20,918</td>
<td>29%</td>
</tr>
<tr>
<td>45 to 54</td>
<td>480,807</td>
<td>4.8%</td>
<td>23,079</td>
<td>32%</td>
</tr>
<tr>
<td>55 to 64</td>
<td>308,613</td>
<td>4.4%</td>
<td>13,579</td>
<td>19%</td>
</tr>
<tr>
<td>65 to 74</td>
<td>231,565</td>
<td>2.7%</td>
<td>6,252</td>
<td>9%</td>
</tr>
<tr>
<td>75 +</td>
<td>238,618</td>
<td>1.3%</td>
<td>3,102</td>
<td>4%</td>
</tr>
</tbody>
</table>

*Figures may not sum to 100% because of rounding

(assumed) $72,801$ 100%
Next, Exhibit 5 pushes the clock forward to 2025, using the population projections from the Connecticut State Data Center. The aging of business owners continues, with 47% expected to be aged 55 or older in 2025.

**Exhibit 5.**
Estimated Business Ownership by Age in Connecticut based on Population Projections for 2025

<table>
<thead>
<tr>
<th>Age Range</th>
<th>2025 Est. No. of Connecticut Residents</th>
<th>Rate of Business Ownership</th>
<th>Estimated No. of Business Owners</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 to 34</td>
<td>435,338</td>
<td>1.3%</td>
<td>5,659</td>
<td>7%</td>
</tr>
<tr>
<td>35 to 44</td>
<td>464,928</td>
<td>3.6%</td>
<td>16,737</td>
<td>20%</td>
</tr>
<tr>
<td>45 to 54</td>
<td>466,606</td>
<td>4.8%</td>
<td>22,397</td>
<td>27%</td>
</tr>
<tr>
<td>55 to 64</td>
<td>529,927</td>
<td>4.4%</td>
<td>23,317</td>
<td>28%</td>
</tr>
<tr>
<td>65 to 74</td>
<td>441,726</td>
<td>2.7%</td>
<td>11,927</td>
<td>14%</td>
</tr>
<tr>
<td>75+</td>
<td>341,122</td>
<td>1.3%</td>
<td>4,435</td>
<td>5%</td>
</tr>
</tbody>
</table>

*(assumed)*

| Estimated Number of Business Owners | 84,472 | 100% |

*Figures may not sum to 100% because of rounding*

Based on this raw population data, we can estimate the number of business owners looking to retire and compare it to the number of younger people looking to become business owners. From 2000 to 2015, we estimate that about 14,000 business owners in Connecticut will have retired. In contrast, nearly 22,000 Connecticut residents were ready to become business owners. Looking ahead between 2015 and 2025, we estimate that over 19,000 business owners will want to retire, with fewer than 23,000 new owners to take their places. Put differently, the ratio of willing buyers to willing sellers will fall from 1.6 in recent years to 1.2 in the years to come.

This will likely have one of two effects: it will encourage the prospective sellers to work longer, or it will force those sellers to accept lower sale prices for their companies. At times, it will have both effects. Prospective sellers may work longer than they want hoping for a better price that never comes and ultimately sell at a discount anyway.

Nationally, we are on the verge of an even more pronounced change in the ratio of older business owners looking to sell vs. younger adults that might consider buying businesses. As shown in Exhibit 6, this ratio ranged from 1.34 to 2.05 from 1950 through 2000. This means that, in the second half of the 20th century, there were substantially more prospective “buyers” than “sellers.” It is a different story in the 21st century, as this ratio is projected to be just slightly over 1:1 from 2015 onward.
A big take-away of our analysis is that history provides little guidance. Business sales through 2000 took place under very different demographic conditions. Through 2040, the ratio of buyers to sellers will be less desirable than even in 2010. Exhibit 7 shows that Baby Boomer retirements are just at the tip of the iceberg. Compared to recent history, 2015 is the fourth year of elevated retirements, but remains half a million people per year lower than it will be in another decade. With the number of retiring business owners increasing faster than the pool of prospective new owners, it will take considerable planning and preparation for current business owners to make sure their objectives can be met. Think of it like a game of musical chairs—a valuable asset (prospective buyers) has become scarce, and somebody is going to be left without their desired outcome.
Given these realities, business owners can significantly increase their odds of a timely sale and financial security by preparing and positioning themselves for transition. This requires basic value drivers to be in place. Value drivers are key elements that either build or protect the value of your business. They also serve to help buyers determine the current value of your business and its viability in the future.

Examples of key value drivers include:

**A growth strategy backed with supportive data and analytics**

Buyers want to see a formal and well thought-out plan for the business. Components of your strategy need to address the fundamentals of the business. Products and services, customer segments, strategic partnerships, operations, people, supportive technologies and risks should all be addressed in your plan and supported by accurate data.

**A proven and strong management team in place**

Most businesses are highly dependent on their people. Having a strong and stable management and operations team will drive additional value. It is also valuable to show that the business is not dependent on you or any one individual in the company.

**Positive cash flow that shows sustainability**

This is fundamental for the valuation of any business. Providing historical, current and projected financials that support your asking price are obviously the cornerstone of any deal. Spend the extra time and money to ensure that this information is accurate and stated in the most positive manner.
A solid customer base
Buyers will be very focused on the makeup of your existing customer base along with your customer acquisition strategy. The rule of thumb for many businesses is that no one buyer should represent more than ten percent of total sales. The makeup of an ideal customer base will be diverse, thus limiting the risk from any single loss. Many buyers will structure the deal with contingencies to protect against the loss of key customers.

Appropriate financial controls
Dependable financial controls are not only essential to support the claims of the business’ financial condition, but are fundamental to managing any business.

Infrastructure to support the ongoing business
Showing that the business has the appropriate means to support current and future market demand and respond quickly to opportunities will be an important factor in any sale. Making strategic investments prior to the sale of your business will pay dividends in the valuation of your business.

Owners should also consider conducting a pre-due diligence assessment, which will help to identify any concerns that a buyer or financer might have in these areas. It will also ensure a clean and quick due diligence process, increasing your odds of a successful transaction.

Part II: The Baby Boomer Effect
In our next report we will go deeper into the issues surrounding these pending transfers and the state of owner’s readiness. We will also explore the dynamics surrounding intergenerational transfers and the unique challenges associated with passing control within the family.

Footnotes
To minimize the potential for a single time period to cause distortions, these data represent a blend of the 2002 and 2007 surveys. Relevant data from the 2012 Survey of Business Owners is scheduled for release in December 2015. We compute the ratio using a numerator equal to the number of business owners reported in each age category and a denominator equal to the number of U.S. births in the corresponding age range (e.g., U.S. births from 1963-1972 comprise the denominator for the 35 to 44 age group in the 2007 data). Immigration and deaths should have minimal impact on the analysis and are ignored for simplicity.
David Souder teaches strategic management, statistics, and entrepreneurship for the University of Connecticut School of Business, and serves as the Academic Director for the school’s Executive Programs. He earned his PhD from the University of Minnesota and his BS from the Wharton School of the University of Pennsylvania. Dr. Souder’s research on companies’ long-term investment policies appears in leading academic journals including Strategic Management Journal, Academy of Management Review, and Journal of Management.

Thomas A. DeVitto is the Chief Marketing Officer of BlumShapiro and is responsible for the development and execution of BlumShapiro’s marketing and practice development strategy. Tom has over 20 years of business management and development experience serving privately held and public organizations in the areas of strategy, marketing, business development and business transformation. Tom frequently participates in developing studies regarding the state’s business climate and speaks regularly on Connecticut’s businesses affairs.
BlumShapiro is the largest regional business advisory firm based in New England with offices in Connecticut, Massachusetts and Rhode Island. We have over 400 professional and administrative staff, making us the 53rd largest public accounting firm in the U.S. Our size has allowed us to develop specialized industry knowledge and dedicated staff who focus on a broad range of businesses in Manufacturing, Distribution, Retail, Healthcare, Education, Government, Non-Profit, Construction, Automotive, Professional Services, Hospitality and Real Estate.

We act as personal advisors to our clients, and, as such, we are personally committed to the success of each and every client we serve. Our philosophy of establishing local offices within the markets we serve, with our people living, working and actively giving back to their communities, has been welcomed by our clients and recognized as important values we share.

Because of BlumShapiro’s size, focus and client service philosophy, we have successfully attracted and retained some of the best talent in the country. Our team has the national experience and industry expertise to assist our clients in meeting their most challenging business issues.

The BlumShapiro team provides clients additional value through the continual development of turnkey solutions that address the changing needs of their businesses.

We compile best practice information through the collective knowledge of our professionals and secondary resources to build state-of-the-art solutions to serve the operational and financial needs of our clients.

By providing these solutions, we help our clients quickly and economically address many of the business issues and opportunities they face.

Founded in 1941, the University of Connecticut School of Business is an internationally recognized leader in management education and research. One of 14 schools and colleges at the state’s flagship university, the UConn business school spans four Connecticut locations – Storrs, Hartford, Stamford and Waterbury, and offers academic programs at the bachelors, masters (MBA/EMBA, MSA, MSBAPM, MSFRM, MSHRM), doctorate and advanced certificate levels, as well as customized education and outreach services to the corporate community.

Our faculty scholars are leaders in their fields, as well as true teaching professionals, embracing a dynamic and experience-based approach to learning. In addition to their interaction with students and corporate consulting, faculty members regularly contribute to industry publications and mainstream media, providing insight on current issues locally, nationally and globally.

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Ultimately, the UConn School of Business does more than simply educate students. We create knowledge and innovation that fundamentally improves learning and the way people live, and we provide a broad range of opportunities and resources to potentially solve some of the most pressing business issues for the state of Connecticut and beyond.