

Description

Before acquiring a business, professionals must first do some background study on the business entity. Risk assessment is one way to learn about a business, to see what potential risks exist and how susceptible the business is to them. The term "Key Person risk" tops the list of risk assessments. This key individual is someone whose presence is absolutely necessary to the business.

Cindy Fields, the CEO, and founder of Loyalty Alliance is our guest on this episode. She talks about how a company's "Key Person" influences the entire business entity. She also mentioned the people who are referred to as the company's key personnel and how businesses have been purchasing Key Person Insurance to reduce the chance of failure during acquisitions. Finally, She offers our listeners some key points and recommendations.

Key Takeaways

What is the Loyalty Alliance and what do they do?
The importance of Key Person Insurance to M&A
Who usually is the Key Person in a business?
Takeaways and advice from Cindy

Quotes

Key person insurance is defined as insurance for an individual at the company. It's an individual whose job is so pivotal to the company that if something happens to them, the company will be greatly affected. - Cindy

I love key person insurance because I love protecting the companies, helping companies grow, talking to the CEOs about their companies and knowing them, and making sure they have the right protective mechanisms in place to achieve what's important to them. - Cindy

Featured in this Episode

Christopher Lisle

Growth strategy advisor for the ecosystem of investors, banks, and the companies they work with (middle market).

Linkedin: <https://www.linkedin.com/in/kit-lisle>

Websites: Acclaropartners.com / strategicgrowthcouncil.com

Contact: kit@strategicgrowthcouncil.com / 703-867-7269

Cindy Fields

President & Founder of Loyalty Alliance, Inc

Linkedin: <https://www.linkedin.com/in/cindyafields>

Twitter: <https://twitter.com/theLAIWay>

Website: <https://loyaltyalliance.com>

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Transcript

Kit: Welcome to Strategic Growth Council. I'm Kit Lisle. Strategic Growth Council is a podcast about strategic growth and mergers and acquisitions for the middle market, but it's also a peer advisory roundtable for senior executives. We get together monthly virtually to solve growth strategies or M&A cases. These are dilemmas that are up and up at night, concerns or opportunities that just might not rise to the level of being included in a board meeting conversation. It's lonely at the top. And, you know, sometimes there are things that would you would want some input on. So think about what question would you ask a roomful of smart fellow CEOs about your own business. That's what we do. And as I said, Strategic Growth Counsel is also the name of our podcast. So if you're interested in learning more about organic growth, growth by acquisition, or potentially the sale of your business, this show will be interesting and useful for you. Thank you to our sponsor. We'll get that out of the way. Acclaro growth partners check them out at Acclaropartners.com. And every episode I interview a mover or shaker in the world of strategy, growth, or M&A today. Our guest is Cindy Fields, president of Loyalty Alliance. Welcome, Cindy.

Cindy: Thank you very much. Pleasure to be here.

Kit: We always start off with 30, maybe 60 seconds worth of background on yourself, so feel free. I'd rather than doing the intro of you. I thought it might make more sense for you to provide the introduction yourself.

Cindy: So it's very kind of you. Thank you. My name is Cindy Fields. I'm the president and founder of Loyalty Alliance. My background goes back all the way to Wall Street and the good old days. I started off in venture capital, private equity turnaround situations, and did some financing deals, but also Lufkin and Jenrette got involved in merger arbitrage in the heyday period. So that was very exciting and then I got involved in middle market investment banking. Over time, even though I have the fancy credentials, my orientation, you know, I can do the deals and the focus is on the money. I realize that my skill set and my interest is really on the people. So while we were looking at the transactions, I was talking to the CEOs, I was talking to the rank and file because when it comes right down to it, deals or deals of entities, but entities are composed of people. So my orientation is always people. Even though I went on the other side and I wound up being an advisor to people who have been my clients, so I help them with the insurance. I helped them with the investment side, I helped them with the advisory side, and coaching them so that they could get their deals done. And it was always about what's important to you, what's important to you as an individual. When I'm talking to the companies that are being acquired or thinking about being acquired, and even when I'm dealing with the M&A firms, what is important? Why are you looking at this company? Who are you dealing with? Because it may be the best deal down on paper, but when it comes right down to it. A rectangular office. There's four quarter offices, but there's only one parking space usually that's closest to the building, and deals have broken down for lesser reasons. Then who gets the closest parking space? So now my focus is more on the insurance side, on the entrepreneurial side, and helping to make sure that deals get done, deal deals get done properly, and on the insurance side to make sure that that is not ignored because many times people are so focused on the building and the merging that they don't think about the protection of where their money is actually are going.

Kit: So, yeah, I'm just going to jump in there. It seems like we have a similar background in that I'd spent a lot of time myself with mergers and acquisitions and strategy consulting for, you know, acquirers primarily doing projects. But at the end of the day, it's the people that's really the most exciting or interesting component. So now I'm spending more, more time interacting with groups of C-level executives and probably for similar reasons to you, it's really a lot more interesting. But broadly, what maybe describes the Loyalty Alliance at a high level? What is Loyalty Alliance?

Cindy: Now I tell people that we are our name. We have a sense of loyalty to our clients, our employees, the community, our advisors, and anyone whose world we touch. And we're at the alliance. We pull together while our focus is more on insurance. And then we have an entrepreneurial side when we can talk about it. Like, you know, we have specific skill sets, the insurances, nonbank lending, and coaching. We pulled together. We're like a lightning rod. We pulled together the resources that people need. I've always been the type of person even calling for people to come to me, I need this. You know, someone who does that so professionally. It just came naturally to me. So rather than I tell people, rather than follow your brother, walk or even go your way, your golf buddy, your CPA, if you need something. They may know, especially the people who you're working with professionals, they may know how to help you

with what you are doing right now. But if you're thinking about selling your company or if you're even going into acquiring a company in an area that is not within your bailiwick, you need outside advisers who are specialists in that. So go with you. You're a real estate person. You're a real estate attorney to do an M&A deal to make sure you have no. So we help people with that.

Kit: So you've put together a sort of an aggregation of experts or service providers that are preeminent in their particular discipline or field, so that an acquirer or primarily a seller doesn't have to rely on the advice from their brother-in-law or a board member who may just be an attorney, for example. Right. Is that a fair statement or would you know?

Cindy: That's a very fair statement. Now, I must say, you know, our area of expertise is on the insurance side, on the non-bank lending side, and on a certain amount of coaching. But we're dealing with people, and I've dealt with some very, very high-level people. Who has opened up to me because people talk to CEOs as the title? The CEOs have tremendous pressure. You said it's the loneliest position in the world. And when you are being acquired, when your board is pushing you to do something, when your employees are pushing you to do something, where your family is pushing you to do something, what do you do? You know, so. People bring us in professionally for what we do. But I say talk to us. You know, for us, everything, we always start with what is important to the person. What's important to you is until you know what truly is important to you, you can't move forward. Or you should not move forward because you're going to get pushed into something that's important to someone else. And it could ruin not just your company, but your life.

Kit: Absolutely. Yeah. This is interesting because we've had several conversations with acquirers who are private equity individuals, experts, and professionals who have talked about some of the key risks that they face when they're acquiring a privately held business. And at the top of the list is key man risk he person risk, rather. And the risk of the relationships that they may or may not have with key customers. But so I was looking forward to focusing here on key person risk insurance because it's an area that most of us have heard of but may not know enough about to have formed an educated opinion. So, you know, maybe, maybe a good place to start is who would be a typical client of yours or who has been a typical client of yours?

Cindy: Well, it comes from both sides of the transaction, the private equity side. We work with a number of private equity firms because as they acquire companies, as he mentioned, the greatest risk is the key person, because you may be buying a company, the bricks, and the mortars or the intellectual side, but somebody who's got to run the company and generally there is that one or two people who are essentially are identified with the company. If something happens to them, what do you have? So small private equity people who are interested in not just having the acquisition but having an ongoing concern try to protect that risk, protect, leverage their acquisition and the investment. Key person insurance. Key person insurance is defined as insurance on an individual at the company, not always the CEO. Many times it is, most times it is. But it's an individual whose physician job is so pivotal to the company that if

something happened to them, what would be left? So if you cannot replace the person, but you can leverage the loss with this. And that's what key person insurance does.

Kit: Yeah, that's a great explanation. And let's talk about that. Worst case scenario, I'll throw out a few scenarios for our audience. It has humor and benefits. Key person X has a divorce and goes a little cuckoo mentally and emotionally. Key person Y gets hit by the proverbial bus. Key person Z just doesn't get along personally, or emotionally with the new acquirer, and they're just sort of at loggerheads. So how does key person insurance come into play or does it in the scenarios that I just described?

Cindy: Well, in some situations it's more the buy-sell and funding the buy-sell agreements because for the key person, the person goes on, the CEO goes on a skiing trip. And there's so many stories like this in the news that it loses control. Skis and torturing the end of the person. You know, it could be someone who is in their thirties. It could be someone who's in their seventies. What happens to the company? They're the key person insurance would provide, would kick in, would provide the cash. To help find replacements too. Fund the acquisitions if you'll keep the business going in one way, shape or form. You buy the shares that could be out there that the company who owns the key person insurance is the company. How can they keep the company running so that there isn't this panic in the street when it gets out that this key person is no longer there. Now, when you're talking about someone going cuckoo or divorce or things like that, many times the insurance is in a buy-sell agreement. And that I tell people you really want you may be going to a partnership, you may be the best buddy now because so many companies start in a garage and best buddies went to elementary school together. They're going to go out in a wonderful way and they build their company and everything's perfect or they have kids. Something happens to the other partner. You may love your partner, but you really want to be in business with his crazy wife and kids. You know you want to make sure if something happens to your partner that you can buy up the shares. That's generally done in a number of different ways. The way where you can leverage your dollars most effectively is really life insurance. So there's the other situation. What happens then if the person who's skiing goes into the street and he doesn't die? But he becomes totally immobilized. He cannot function any longer. Same thing with the partner. Doesn't die, but he can no longer perform the duties that he had before. What do you do? Well, that's goalkeeper's insurance, but it's a personal disability policy. Too many people focus on it. They think of key people. They think about a person's life insurance. That is most effective, right? Yeah. If somebody dies. But the reality of life is that it doesn't always end up in death. And you have to be prepared for that possibility. And in today's world, with modern science, that eventuality and you need to protect yourself as a partner and protect yourself as an investor in the company.

Kit: And Cindy, naive question for you, is key person insurance typically purchased by the company for whom the key person works or by an acquirer? Or board? Who is your response? Who typically is your client?

Cindy: It generally is on two sides. The private equity entity you're acquiring, the company they'll bring me in and it's the company that owns the key person insurance. Now, that said,

sometimes there's a loan that's associated with the acquisition because many of these acquisitions are leveraged acquisitions. That entity that is loading the money wants to protect their investments. So even though the company owns the policy, there's a carve-out for that fortune, you whatever, millions of dollars. So let's say it's a \$10 million policy. There's \$5 billion in debt. That \$5 billion is protective. And if that eventuality, it would go to that fund or on the other side. Many companies come to us, especially in the middle market and lower middle market, and they realize they're growing now and they're smart and they're looking at do they have the right structure in place to grow effectively and do they have the right resources in place to ensure their growth? Those people definitely are the types of people who need insurance. They need the key person's insurance because now they're protecting themselves. So they're protecting themselves in a number of different ways if they choose to go into the market. One of the questions that an employer would have is if they're personal insurance in place because that shows a certain understanding by the company that they're doing the right thing and that this is a company that has a certain structure they thought about. Yeah. Really?

Kit: Go ahead. Sorry.

Cindy: You know, the company side, they're growing, and it just makes sense for them to have a key person or the board may want them to have it. What they realize, though, is that they want to protect the company. They want to protect the best that they have in their company for their families because they may have most of the wealth in the company and they're getting of age and they want to make sure that their legacies are in place. And that's not for the six-year-old, just it's there for anyone who's building out their company that wants to protect what it is that they've grown out of.

Kit: So if again, this is not my world. So I'm asking some naive questions here, but it sounds like some of the motivators of purchasing keepers, an insurance might be a lender that assumes that with that key person unable to perform their duties for whatever reason, the business goes bankrupt and they want their money back. That's scenario one. Another scenario is we need a replacement in order to continue to grow. And another scenario might be, you know, the family of the key person needs the protection of some sort. But there's other motivators, too. Or would you add anything to what I just said?

Cindy: That the board of directors, they're many times the motivators they want to protect because their board of directors, they have a future responsibility to the company. They want to make sure there's key person insurance in place, make sure that the company keeps going and it's not necessary for bankruptcy. It's just to get the money back that the lending institution has provided in the acquisition. So. It's to me I love key person insurance because for me it's I love protecting companies. I love helping companies grow. And I love talking to the CEOs about their companies and getting to know them and making sure that they have the right protective mechanisms in place through to what's important to them. Also regarding M&A. It's a dance because many times the private equity side of the company was just a quiet private equity firm, once \$10 million of a person was insured. The key executive is still there. They're not worth they don't mind. They're not worth \$4 million. Now they're there. They are. Over time, they'll be worth

\$10 million. Now, you have this portrayal of Wall Street, but Wall Street can be defined anywhere. Private equity. Was putting a price on their head. They are now worth \$10 million dead to somebody that, you know, they just went through an acquisition. Their lives are changing. Yes. Some of them made some money in the acquisition. Usually, the prize is in growing the company, and now this. Wall Street firm comes in saying this is what I want. Argue your world X millions of dollars dead to me. That's sobering to some people. You know, so for me, it's fun for me to be in the middle because I get to explain. I got on the private equity side. I was on the acquisition side. It's about. Creating that cohesion between the entities that are still growing.

Kit: And back to the people skills that you obviously have. And so a couple of questions rolled into. One, how do you find your clients? And in other words, how do you gain introductions to these companies or the private equity groups? And then secondly, is key person insurance, just like any other type of insurance in that there is a carrier and there's a, you know, a broker or a representative. Are you sort of the representative and you choose from a variety of different carriers or how does that work?

Cindy: So we represent the clients that we represent, and I always look at the clients as persons being insured, even though the client may be the person who wants the insurance. We find out where the need is. You get a sense of how much they need. We get a sense of the person who's being insured. Because when you're buying insurance, it's on that person. And the risks associated with insuring that person's life. And, you know, it's not just about if you have cancer, do you smoke? You know, anything having to do with your health issues? It has to do with hobbies, you know? Do you skydive? Do you? Through underwater sports. If so, where you have to realize there's someone there who's insuring your life. You're sharing your life and they want you alive and they want to associate the risks associated with all the different things that you're doing. We find out about the person who's being assured and then, yes, we go into the market. I do not work for an insurance company. I'm totally independent, which means based upon my knowledge now of the clients and how much the person is being sought, how much is being requested. I have a team of people who goes out into the market, go out, and talk to the different insurance companies. We do a preliminary assessment to see what we can get because we don't want to mention names of people until it's time to actually get the insurance. And then we find the best carrier to address the risks that are associated with that person. So it's not where we work with a myriad number of characters, carriers all over the country, largely all over the world because, in some situations, we have to go overseas.

Kit: Right. Right. And is this a primarily North American phenomenon that the incidence of key person insurance or is it global? Is there global demand?

Cindy: It's global. Our focus is primarily on the United States. But we have to realize a company here. I've got to conferences and things that are going on overseas. The baby boomers started companies and now things are happening with those companies. People are starting companies all over the world. It's businesses or businesses. People or people. The market is the market. It's the same wherever with different nuances, anywhere you go. And it's about protecting risk.

Kit: So, Cinda, you're providing a valuable service to the merger and acquisition ecosystem. You're sort of lubricating the cogs in the wheels of M&A to make sure that the risk is minimized or is taken off the table or that particular type of risk. What are the opportunities that you see for growing your business? What are the challenges that you face in growing your business?

Cindy: The opportunities are really endless. Because what we do is so needed. Then it's just a question of people finding us instead of being able to help them. We find people to answer a question that you had asked a bit ago. It's word of mouth. I've been in the business a long time. I have my own way of doing business. Loyalty Alliance is different than just any other firm out there. I like to say that any firm out there is because our orientation is where we get the job done and we are very proficient at getting the job done. My background is different from just about anybody else in this industry.

Kit: I suspect that's a good differentiator.

Cindy: And we're more than just what we're called in to do. We do what we do. Sometimes it has to be done real fast, real direct. We put blinders on. All we do has to be done. But we bring ourselves to the table. So, you know, it's the challenges or like anybody else's challenges. Staying out there, making sure people know that we exist. And just finding the right people when it comes right down to it now, finding the right people for us and our team. But we want to make sure we represent the good guys. Now, the good guys are not always you know, it's not defined what side of the table you are. But there are a lot of characters out there who are trying to sell their companies and do things that they shouldn't do. And there are a lot of firms and venture capital firms that are trying to go in there and make a quick buck or don't want to work with the bad guys. We want to work with quality people who are in the business for the right reasons, who want to grow organizations who want to help. People who believe in capitalism. And who are doing their jobs the right way? So.

Kit: Yeah, I was going to ask, is there one thing that you would want to make sure that our listeners, our our our audience takes away from this conversation that maybe hasn't come out thus far? Any particular lesson or takeaway that you wanted to make sure was shared may have already come out. I don't know.

Cindy: I think the greatest focus, especially when you're in a position to acquire the works of both sides. A long conversation with yourself. It gets really exciting when you have acquirers come back. They start throwing money at you. And, you know, especially for people who grow their business from the ground up, who may have started with nothing. And now all of a sudden, they are the pretty girls at the party and everybody was a dance with them. But what do you really want? Is it the money? Is it staying on as the customer? Is it leaving a legacy? Is it, you know, just sit down with yourself and figure out what is truly important to you? Write it down. You don't write it down. It won't happen because you're going to get caught up in the game again because it gets to your game to make sure you are represented. What you want is represented at the table. Now, that has nothing to do with key person insurance. It has to do with making

sure what you want happens on the M&A side as well. Make sure, you know, this may be the most attractive company that's come across your table, but does it fit your portfolio? Does it fit in with what you want to do because you may be able to buy it, but then what are you going to do with it? You got to be afraid of what you're doing. And then.

Kit: I used to say, don't let.

Cindy: They come to us and we give that person a chance

Kit: Yeah. I used to say don't let the for sale deal of the moment that just happens to land in your lap dictate your strategy, have a strategy in place so that you know you know it when you see it, you know, the pretty girl when you find her. Right. Just to use that analogy. Yeah. But then, the point is, to develop a set of criteria either as a buyer or also as a seller in terms of what you're looking for, what you want so you know, a fit when you see it. Last question.

Cindy: How and before you go, we can help people with that as well, because I do have some coaching, and part of the coaching is to sit down and go through the conversation with people and then help them figure that out.

Kit: Yeah. So how can our audience find you, Cindy? Loyalty Alliance. You're the president of Loyalty Alliance. What's the best way for them to find you?

Cindy: They can come to our website. loyaltyalliance.com
They can send me the email. cfields@loyaltyalliance.com and I'm assuming you're going to provide this information or just call me. I can give you the number 2125701212 and it starts with a telephone call. Never be shy about picking up the phone. Nowadays, people aren't so much into text or so much into emails. I'm into one on one conversations because when you're buying your companies, which comes down to that basic fact that we started, it's people you need to have a conversation with. Someone doesn't just look at the numbers. Don't just look at the emails. Everything is interpretive when you're looking at words on a piece of paper. You need to have a conversation and if you want to have a conversation with me. I love talking to people. I love helping people. I love directing people. When I can't help them, I'll help them find the resources. So call me.

Kit: That's an excellent point to end on, as is right where we started with helping people and working directly with people. And you certainly have the background and the skill set to be able to do just that. So thank you very much, Cindy. I appreciate you joining our podcast.

Cindy: So thank you! And I thank your audience!

Kit: And I also wanted to say thank you to our audience as well. And for more podcasts, go to strategic growth counsel dot com or anywhere that you listen to your podcast. Give us a listen, give us a like, subscribe and thanks for listening.

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