



Business Transfer Newsletter

**Recent Business Owner Survey Results:
Companies are 52% Dependent Upon Owners, Insights Behind the Numbers**

In a recent release of findings from an ongoing research effort being conducted by Pinnacle Equity Solutions, Inc., a national leader in the emerging field of business transition planning, it was revealed that business owners, on average, score 52% in terms of the level of dependency that a company has on their individual efforts. Generally speaking, the more dependent a business is on the efforts of the owner, the harder it will be for the company to transition to a new owner. This newsletter discusses the details behind this national average and provides insights for owners of privately-held businesses to begin to think through how dependent your business is on you, with an aim to helping you Create a Transferable Business™.

National ODI™ Scoring Average is 52%

It is broadly realized that the United States has millions of baby boomers who own businesses and will be looking to transition their companies in the next number of years. In November of 2015, Pinnacle Equity Solutions, a national leader in preparing owners for business transitions, launched its latest, innovative software survey tool called the Owner Dependence Index™ (“ODI™”). This seminal tool provides a system for owners and their professional advisors to assess how dependent a company is on the individual efforts of the owner(s) of that company.

Because the failure rate of business transitions is so high, Pinnacle sought to examine this key area, Owner Dependency, to better evaluate how to assist owners with protecting and transitioning their largest asset, their privately-held business.

Eight (8) Categories of ODI™ Scoring

The data presented in this newsletter are the initial results of five hundred and sixty (560) owners of operating companies who have completed this ODI™ assessment. With a national overall average score of 52%, that tells us that owners span a wide array of owner dependency. However, the individual scoring categories that make up the average score provide further analysis and interpretation into which areas of dependency owners succeed or fail in more frequently.

The eight (8) scoring categories are listed below, with the national average score for each category to its right:

Owner Involvement	62%
Internal Operations	45%
Strategy & Planning	43%
Governance & Ownership	76%
Financial Matters	54%
Performance Mgmt.	62%
Sales & Bus. Development	48%
Company Culture	38%

Owners who completed the survey scored highest in governance and ownership (76%)

and lowest in company culture (38%). This means that owners typically own their businesses without any other shareholders and do not share information with anyone else. Further, owners seem to be under the impression that they do not have a strong impact on their company's culture – a point that may be debatable.

The 2nd highest scoring categories are Owner Involvement (62%) and Performance management (62%). The short interpretation of these scoring categories can be translated in a general sentiment that owners feel that so long as they have most of their wealth tied to the business, being involved and overseeing performance are two of the items that they are least comfortable delegating to someone else.

What Happens When a Business Transfers to a New Owner?

When a business changes hands, all eight (8) of the survey areas are evaluated to determine the potential for succession in a transaction. For example, a new owner will want to know, 'what relationships need to transition to the new owner?' and 'how much effort will be needed by the current owner(s) in order for the business to continue without interruptions or a decrease in revenue or cash flow?' By understanding where owner dependence exists within these eight (8) categories, owners can reduce that over time to make a business more transferable.

A Little Planning Can Go a Long Way

Owners cannot manage that which they cannot measure. Therefore, the ODI™ assessment produces an initial score so that the exit path that an owner chooses to follow can be better evaluated in terms of how much longer the owner needs to stay involved with the company in order for the chosen transfer

to execute successfully. This, in term, helps owners to protect the wealth that is trapped in their illiquid asset.

Concluding Thoughts

We hope that this newsletter has accomplished the objective of having you understand what it means to be a Stay and Grow owner and, if you fit that description, how you can better understand your situation and make plans for a future, successful exit.

Private Wealth Advisor

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