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From Cog to Captain

Why thousands of America's brightest business professionals are ditching corporate jobs to buy small business

By: Matthew Peery

The Road Less Traveled

I recently caught up with a friend who is graduating soon with his MBA. When I asked him about his career plans, I expected to hear that he was joining the masses in corporate finance, consulting, banking, or big tech. Instead, he said the last thing I ever would have guessed.

He looked from side to side, then leaned in smiling, as if sharing a million-dollar secret: "I'm going to be a general manager for a trash company. Then I'm going to buy a trash company of my own," he said.

One man's trash is another man's treasure, they say.

Yet this unorthodox path—buying a small business—is rapidly gaining traction among business professionals dissatisfied with the corporate world. All over the country, America's best and brightest MBA graduates (along with many others) are leaving traditional business roles to buy small businesses and in turn, become the overnight CEOs of these small operations. They place themselves in the captain's chair of America's "boring" businesses: plumbing services, HVAC companies, landscaping businesses, flower shops—even trash companies.

And even though the jump from big to small business sounds like a downgrade to some, many of these newly-made small business owners report higher satisfaction and bigger paychecks at work.

This article offers a look into the world of small business acquisition, covering the following topics:

1. *An overview of what small business acquisition is and why it's becoming so popular now.*
2. *The financial rewards of small business ownership.*
3. *The greatest personal benefits for those who pursue this career path.*

The Grand Retiring

It all starts with what the Pew Research Center calls, "The Grand Retiring." The "Baby Boomer" generation is getting old, with 75 million Baby Boomers expected to retire by 2030. What's more, this generation owns a whopping 40% of all U.S. small businesses and franchises.

Together, these stats form the basis for today's gold rush in small business acquisition: Over 12.5 million small businesses will be up for grabs in the next eight years. (Note: some of these businesses will be passed down to family members, but remember, not everyone dreams of inheriting their mom or dad's trash company.)

Eternally Profitable Businesses

Unlike funds and startups that swing big (and usually fail), these small businesses are steady ships. Two-thirds of them are profitable. Many have been in business for over a decade. While the business media swoon over the big exits and inflated valuations in big tech, small businesses quietly drive real value, delivering 43.5% of the U.S. economy's GDP. As boring as your local doggy day-care business may sound to the world, it's been around since before you were born. The same can't be said of your friend's dating app. Or any dating app. Or any app, for that matter.

In his industry-famous book *Buy Then Build*, Walker Deibel describes the virtue of these "eternally profitable businesses."

"An eternally profitable business... is a cash cow with very small growth opportunity, but also small threat of industry disruption. It's a stable and dependable business that you can count on."

It's only fitting that these businesses are in unattractive industries. Manufacturing, transportation & logistics, and service businesses are among those most sought after. These businesses are the roots of the U.S. economy, not the flowers. The flowers (think tech startups) draw the attention of onlookers, but they rarely last. The roots, on the other hand, are invisible, but also strong, steady, and resilient.

Search Funds

Before diving into the virtues of small business ownership as a career path, it's important to know that many of these prospective small business owners (known by each other as "searchers") are buying these businesses with their own savings. It's typical for searchers to raise a small fund (\$1-\$20 million) to finance their search, including the purchase of the business.

The Stanford Graduate School of Business is widely regarded as the leading national authority on small business acquisition. In Stanford's 2022 Search Fund Report, Professor Peter Kelly outlines the timeline for this process, now better known as the "Search Fund model."

FIGURE A | THE SEARCH FUND LIFECYCLE

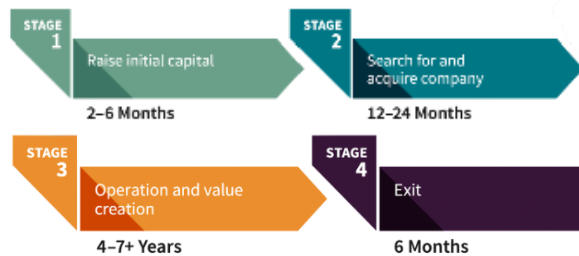


Figure A: Operating a search fund is a 6-10 year endeavor from commencement to exit, according to Stanford's 2022 Search Fund Report.

The timeline looks similar (simply remove step 1) for searchers who choose alternative funding routes. The most popular of these is the SBA loan: a government-backed loan created specifically for small businesses.

Big Payouts

Small businesses vary greatly in size and nature, which naturally leads to discrepancies in salaries. Searchers tend to gravitate towards businesses with a net income that produces a higher salary. In its 2022 Search Fund Report, Stanford found that the average small business acquired via a search fund in 2022 was generating \$1.7 million in profit. Not bad for an annual salary.

Annual profits are nice, but a small business owner's real driver of wealth is equity in the business. The majority of wealth in the U.S. is held as equity (for most Americans, as home equity). For small business owners, this is no different: equity in their businesses is often their greatest holding. Unlike home equity, however, there's seemingly limitless potential to increase the value of small business equity by growing the business.

Small businesses are valued at a multiple of their annual profits (multiples vary by industry). Consider, for example, a fictional doggy daycare called "Sit, Shake, Roll Over." A simplified annual income statement for Sit, Shake, Roll Over could look like this:

Revenue	\$800,000
Rent	-\$160,000
Training Staff	-\$360,000
Supplies	-\$80,000
EBITDA	\$200,000

The owner of Sit, Shake, Roll Over could take home \$200,000 per year (a fine salary in any industry), but that's not all: if she were to sell the business at a 4x multiple of her annual profits, she would make another \$800,000. An exit of at least this size is typical for searchers who maintain equity in their companies.

It would be naive to claim that this is the case for all small business owners. Most small businesses fail, and those that don't take years to get off the ground. This is yet another reason why buying (not starting) a small business is becoming increasingly popular: one can buy his or her way into a proven business with steady annual revenue. This comes with its own challenges—conducting thorough due diligence, negotiating the right price, and managing debt to name a few—but it greatly mitigates the greatest risk of starting a new business: finding product-market fit.

Satisfying Work

While there's potential for financial gain, there's a bigger reason why searchers are jumping ship from corporate America: they want more gratifying work. Every year, Guidant's Small Business Trends Report provides a detailed look into small business ownership based on surveys of over 2,000 actual small business owners.

Figure B depicts a section of Guidant's 2023 report measuring the happiness levels of U.S. small business owners. As the figure shows, 72% of small business owners reported feeling either "somewhat happy" or "very happy" in their jobs, compared to only 15% that reported feeling "somewhat unhappy" or "very unhappy."

Figure B: 72% of small business owners report feelings of satisfaction with their jobs.

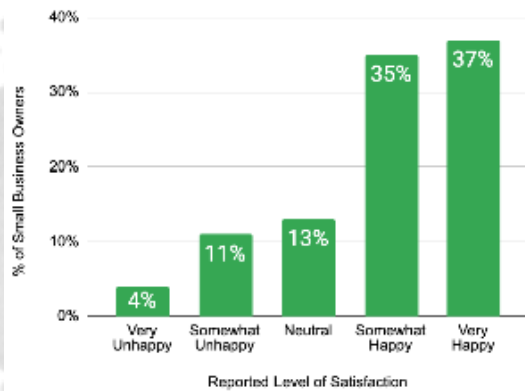


Figure B: information provided by guidantfinancial.com.

By contrast, a survey by Indeed recently found that burnout levels, especially among millennials and Gen Z workers, are at an all-time high. Furthermore, a recent survey from Future Forum, a consortium launched by Slack, found that those in business management positions are most commonly experiencing burnout (nearly 40%).

With these increasingly bleak-looking statistics on burnout as a backdrop—specifically among young professionals in business-related roles—small business ownership deserves a look as a route to a more fulfilling career in business.

Consider the following four reasons why small business ownership may be more fulfilling than typical business-related jobs:

1. Being your own boss.

Having complete control over one's professional life is one of the greatest draws of becoming a small business owner. A Gallup survey found that 50% of people quit a job just to get away from a bad boss at some point in their career. Small business owners set their own goals, make their own hours, and don't have a boss to report to.

2. Variety in day-to-day work.

Every day in the life of a small business owner is different from the last. In one day, an owner can interact with customers, make new hires, work in the trenches with employees, and strategize for the future. Such a dynamic role is exciting to those who can handle the ambiguity that comes with it.

3. Opportunities for learning.

Small business owners are forced to learn their businesses inside and out. Becoming an owner is a fast track

to learning all functions of a business, including product development, marketing, sales, hiring, leadership, customer service, and finance. Owners are stretched in many new ways and become well-rounded leaders in the process.

4. Leading your own team.

Owners create the vision for their business and inspire employees to join them in the journey. Such a high degree of responsibility, autonomy, and complete ownership over a venture's direction isn't just rare in the corporate world: it doesn't exist there. No board to report to. No C Corp regulations to slow you down. Just green fields ahead and a team at your back. Done properly, this can be the most fulfilling aspect of small business ownership.

Break the Mold

Business professionals are ditching corporate America in throngs to buy small businesses. Whether you're exploring career options out of university or already dissatisfied with the path you're on, consider the rewards of small business ownership. Done properly, it can be a path to satisfying work, financial gain, and tremendous personal growth.

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