



BizBuySell™

The Demographics of U.S. Small Business Buyers & Sellers

May 2016



Introduction

The small business-for-sale market is a hotbed of activity. In 2014, U.S. business brokers reported a record-setting 7,500 sold businesses to BizBuySell.com, followed by more than 7,200 transactions in 2015. Despite the slight dip in year over year transactions, the market shows few signs of slowing down. According to a 2015 BizBuySell survey of small business brokers, 73 percent expect small business transactions to improve further this year.¹

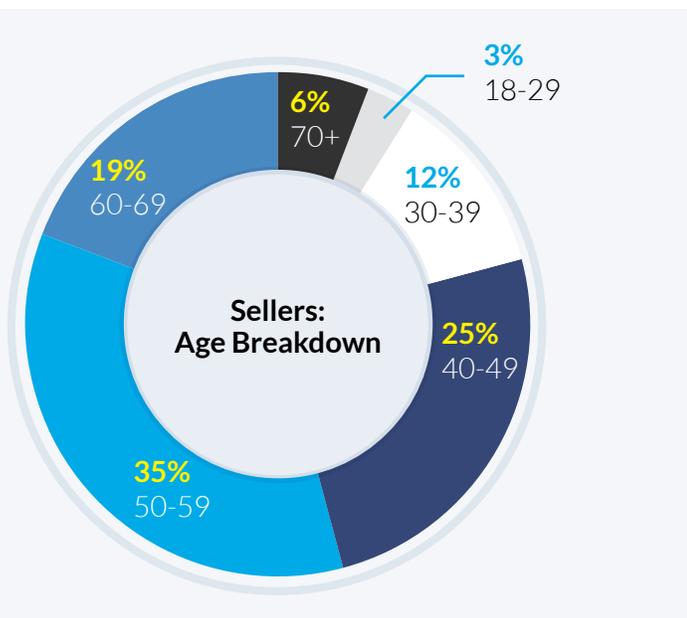
As small businesses change hands more than ever, it's important to understand who's driving all the action. During the first quarter of 2016, BizBuySell, the Internet's largest business-for-sale marketplace, conducted a survey of 1,700 current U.S. small business owners who have expressed interest in selling, and more than 1,300 prospective small business buyers, to gauge their demographic characteristics, plans to sell or buy, and their motivations for entering and exiting the small business arena.

Key findings from the research include:

- » Business ownership runs in families: 55 percent of sellers have a parent or grandparent that owned a small business.
- » 49 percent of sellers plan to exit their small businesses in the next five years, but only 29 percent are currently prepared for the sale process.
- » Younger buyers are more ethnically diverse than their elders: 49 percent of 18 to 29 year-old buyers identify as a minority, compared to 19 percent of buyers in their 50s or older.
- » The number one motivation for purchasing a small business is the chance to be your own boss, cited by 63 percent of all buyers.
- » 12 percent of sellers and almost 10 percent of buyers are veterans.

A Profile of Small Business Sellers

Today, the small business seller community is largely comprised of white, college educated, married men over 50 years old. Seventy-eight percent of sellers are male compared to 22 percent female, a ratio that strays dramatically from the overall U.S. population (which is more evenly split).²



More than one-third (35%) of small business sellers are college graduates and almost one-quarter (24%) hold post-graduate degrees. That said, formal education is not a prerequisite for running a successful company – 29 percent of sellers don't have a college or trade/vocational degree.

From an ethnicity perspective, the small business seller community still lacks diversity. Seventy-five percent of sellers identify as Caucasian, followed by 10 percent Asian/Pacific Islander, five percent Hispanic/Latino, five percent African American and one percent Native American.

Most sellers don't have military experience (86%), with 12 percent reporting veteran status – slightly more than the 7.9 percent of veterans in the overall U.S. population.³

Household demographics of small business sellers

Given the concentration of older sellers, it's understandable that few are single or still have children living at home. Eighty percent of sellers are married, and 10 percent are divorced. Interestingly, female sellers are almost twice as likely to be divorced (17%) than male sellers (9%). More than half of sellers (58%) have no one under the age of 18 living under their roofs.



The majority of sellers report annual household incomes of more than \$100,000. It's worth noting that income varies depending on whether the seller runs an "employer" business (with at least one other



person on the payroll) or a “non-employer” entity. Non-employer sellers are more than twice as likely to report household incomes under \$50,000 per year (18% v. 8% employer sellers).

Trends in serial entrepreneurship

Small business ownership tends to run in the family. More than one-third (39%) of sellers have a parent or grandparent who owned a small business; 16 percent have both a parent and grandparent business owner in their family tree.

Once you get into small business ownership, it tends to be something you stick with. Fifty-eight percent of sellers have owned a business before. This subset of “serial entrepreneurs” displays a few distinct differences from first-time sellers.

For starters, serial entrepreneurs are more likely to value their current business at more than \$1 million compared to first-time sellers (20% v. 13%). Almost 60 percent of this group has had a parent or grandparent

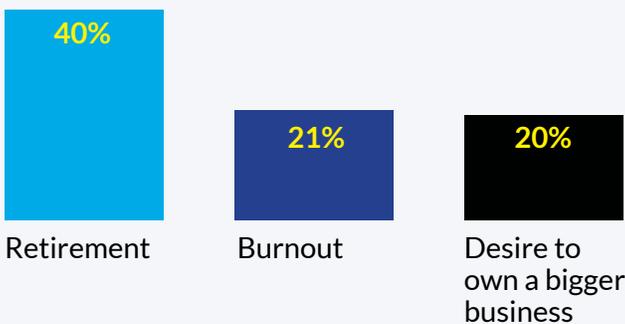
who owned a small business, compared to half of first-time sellers. Even after selling their current operation, most serial entrepreneurs won’t stray far from the business owner lifestyle – they’re three times less likely to return to full-time employment than first-time sellers.

What Motivates Small Business Sellers, and What the Next Chapter Looks Like

According to the survey respondents, nearly half of business owners (49%) plan to sell their small businesses in the next five years.

What’s driving all of this desire to sell? Based on the large concentration of sellers in their 50s and 60s, it’s no surprise that retirement is the most common reason for planning an exit.

Top Motivations for Selling



“Retirement” has its nuances though, and can mean different things to different people. Among the 40 percent of sellers who cite retirement as their main motivation for exiting their businesses, their post-sale plans vary. Almost half (48%) plan to truly retire from working, but 25 percent intend to focus on another venture, and 11 percent hope to pursue volunteer work.

Digging deeper into the survey data, it’s clear that sale motivations and next steps differ depending on specific demographics, including gender, ethnicity and age.

Gender

Female sellers feel significantly more equipped than male sellers to exit their businesses right now. Forty-two percent of female respondents could sell immediately, compared to 26 percent of male respondents.

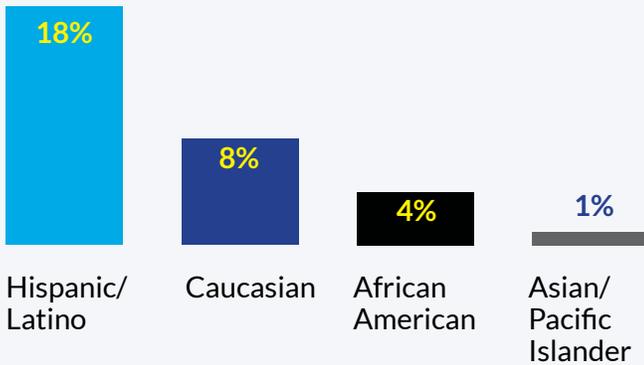
In terms of sale motivation, male sellers are much more driven by the desire to own a larger business (23%) than female sellers (11%). Female sellers, on the other hand, are more likely to cite physical reasons like burnout (25%) and health issues (14%) than their male counterparts (19% and 6%, respectively). This may explain why, after exiting, male sellers are almost three times more likely to buy another business (32% v. 13% for female sellers).

Ethnicity

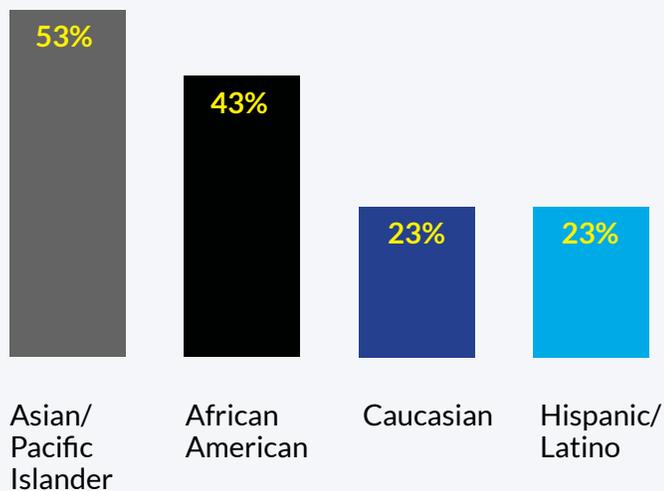
Ethnicity largely plays a role in sale motivations as well. Caucasian sellers are overwhelmingly more likely to sell for retirement (46%), compared to only 22 percent of African American sellers and 20% of Hispanic/Latino and Asian/Pacific Islander sellers. Consequently, 26 percent of Caucasian sellers plan to truly retire afterward, versus a mere 15 percent of Asian/Pacific Islanders, nine percent of African Americans and five percent of Hispanic/Latinos.

Minority sellers are more inclined to continue their business ownership streak, or return to the workforce, after exiting their current operations:

Will Return to Full-Time Employment Post-Sale



Will Likely Buy Another Business Post-Sale

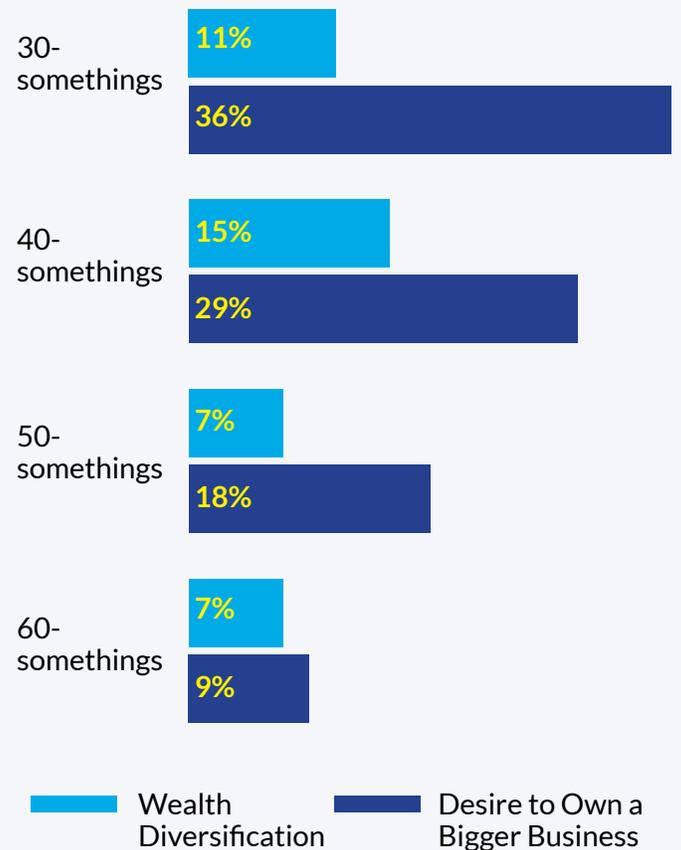


Age

Whether it's due to naiveté or a different style of work ethic, younger sellers are more likely to cite burnout than their older peers. Thirty percent of sellers in their 30s and 26 percent of sellers in their 40s attributed their sale intentions to burnout, compared to 21 percent of those in their 50s and 11 percent in their 60s.

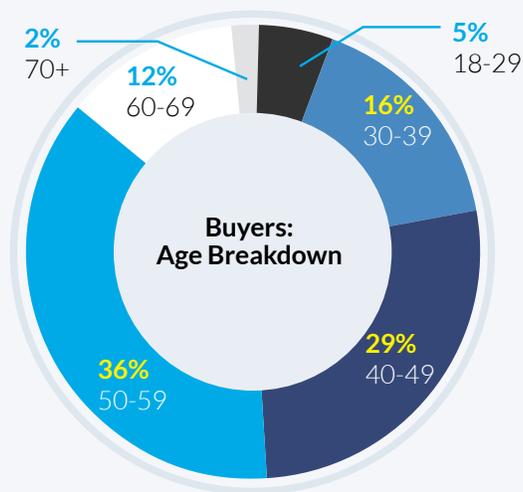
With plenty of working years still ahead of them, younger sellers are also more likely to report wealth diversification and a desire to own larger businesses as their main sale drivers:

Reason for Selling by Age



A Profile of Small Business Buyers

Similar to sellers, small business buyers are largely Caucasian, college-educated married men in their 40s and 50s. Mirroring the seller community, men account for 78 percent of today's buyers. That said, the prospective buyer audience is slightly more diverse in age.



Thirty-six percent of buyers today are college graduates and 22 percent hold post-graduate degrees; just 28 percent have no college degree or trade/vocational background.

The buyer population is slightly more ethnically diverse than sellers. Seventy percent of prospective buyers identify as Caucasian, 12 percent as Asian/Pacific Islander, seven percent as Hispanic/Latino, and seven percent as African American. The buyer pool is also more diverse than the overall U.S. population: according to 2014 census estimates, 77 percent of Americans classify themselves as Caucasian, 13 percent as African American and less than six percent as Asian/Pacific Islander.⁴

America has always been a melting pot, perceived by many around the world as a land of opportunity.

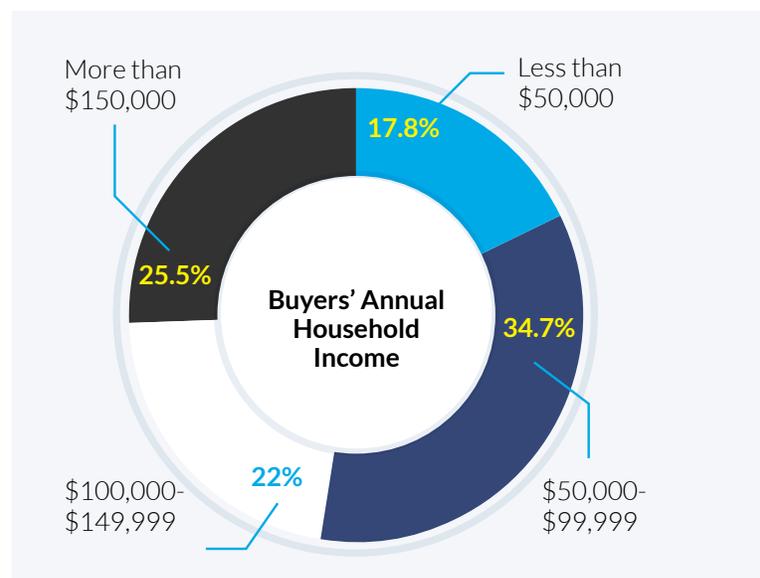
Confirming this notion, more than a quarter of buyers are not natural born U.S. citizens. Fifteen percent of buyers are naturalized citizens, eight percent identify as permanent residents and two percent as visa holders.

Like sellers, most buyers have no military background, with only nine percent reporting veteran status – the majority of which are over 50 years old.

Household demographics of small business buyers

Since many buyers are into their middle age, it's not surprising that the majority (72%) are married and have no minors living at home (54%). A mere 14 percent of buyers are single and even fewer (11%) are divorced. Following trends on the seller side, female buyers are twice as likely to be divorced than male buyers (18% v. 9%).

Likely driven by age differences, buyers tend to have slightly less money than sellers. Just over 47 percent of buyers make more than \$100,000 compared to 57 percent of sellers.





Most prospective buyers are currently employed full-time (64%), with small slices of the community retired (8%), out of work and actively seeking work (8%), self-employed (6%), employed part-time (5%), and out of work and not seeking a job (3%). Of those that do work full time, 47 percent work for larger organizations with at least 100 employees.

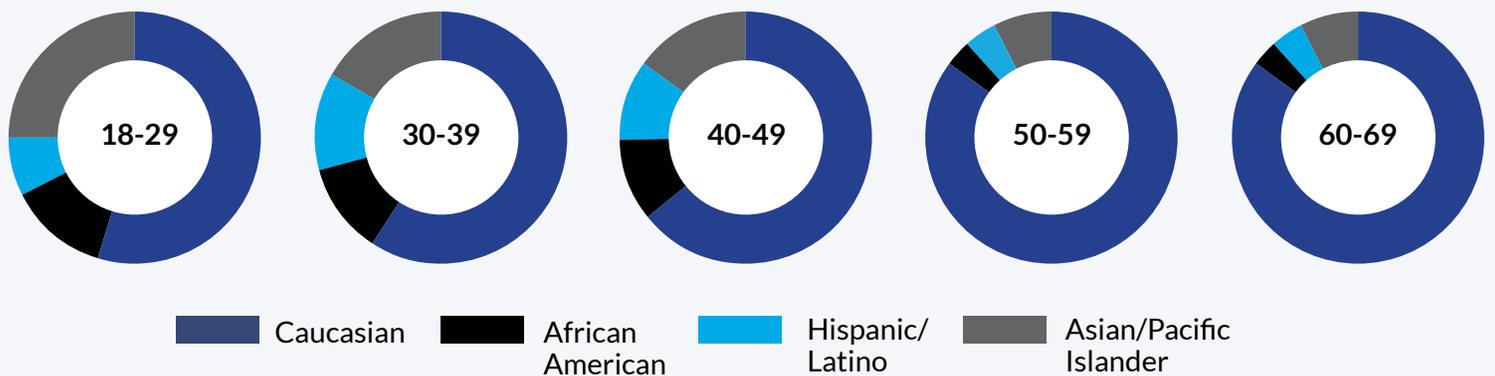
Another common thread across many of today's prospective buyers: they aren't strangers to the small business life – almost half (46%) have owned a business before.

Younger, Female Buyers More Diverse than Older, Male Counterparts

Though the overall small business buyer community skews Caucasian, a comparison across gender and age tells a different story. Fifty-nine percent of female buyers identify as Caucasian, versus 72 percent of male buyers. Female buyers are also more than twice as likely to identify as African American (11%) than male buyers (5%).

Ethnic diversity also correlates negatively with buyer age: younger buyers, between 18 and 39 years old, are notably more mixed than those over 40.

Business Buyer Ethnicity by Age



What Buyers Want (and How They'll Pay for It)

Today's prospective buyers are looking to make a move quickly, with 45 percent planning to purchase a small business in less than a year.

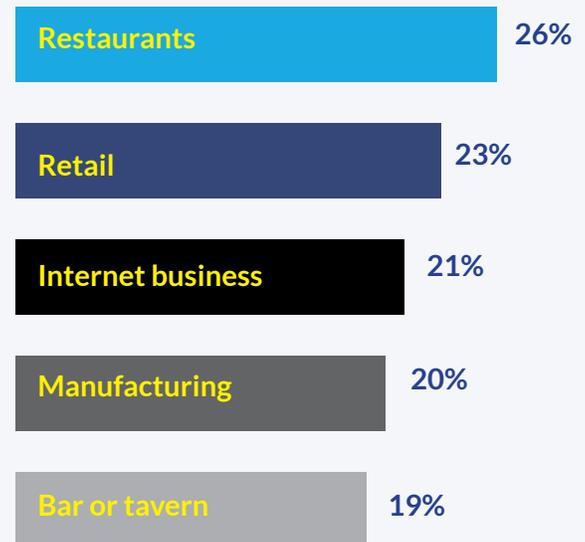
Across the board, buyers express an interest in owning established or independently owned businesses, more so than new or existing franchises.

Types of Businesses Buyers Want

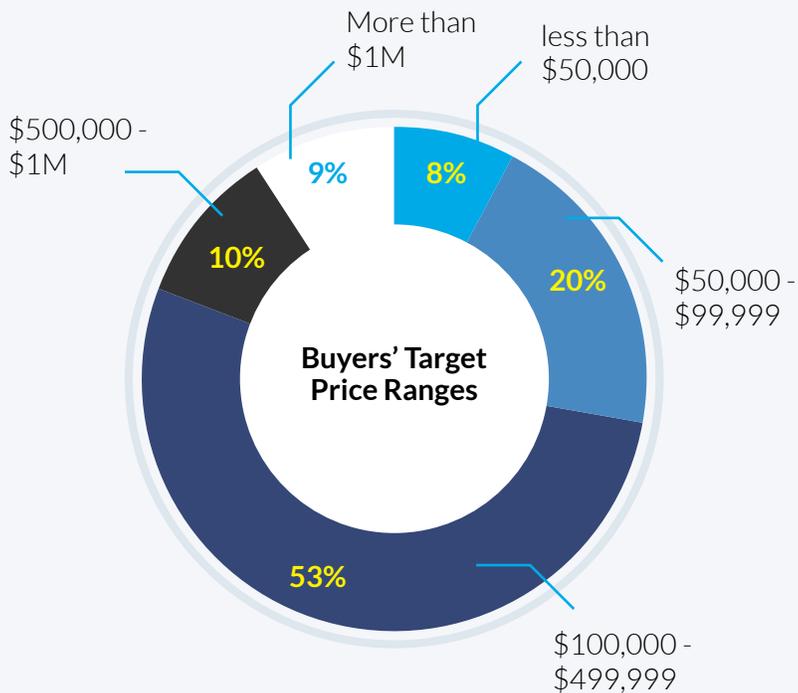


When asked about which financing sources buyers would include, 58 percent of buyers plan to lay out cash for their purchase; 51 percent intend to use bank financing and 45 percent will look for opportunities that offer seller financing. Less than half of all buyers (41%) plan to apply for loans through the U.S. Small Business Administration to fuel their purchase, and just over one-quarter (28%) will depend on funds from a 401k or other personal investments.

Top Buyer Sectors



Male and female buyers have markedly different plans for how they'll finance their business purchases. Forty-eight percent of male buyers hope to use seller financing, compared to 35 percent of female buyers, suggesting that women may not be aware that this option could be available. Male buyers are also more likely to pursue SBA loans (43%) than their female counterparts (34%). Among all buyers, 68 percent expect to pay less than one-third of the business asking price upfront as a down payment.



In regards to how much buyers are willing to spend on a small business, their preferences align closely with the business values reported by sellers. Twenty-eight percent of buyers will target businesses below \$100,000, almost identical to the 29 percent of sellers who value their businesses in that range. More than half (53%) of buyers will target the \$100,000 - \$499,999 range, in which 40 percent of sellers valued their operations. Nineteen percent of buyers are looking to spend more than \$500,000 on a business.

Female buyers are much more likely to target businesses under \$200,000 than male buyers (75% v. 51%), and almost four times more likely to buy operations under \$50,000 as well (18% v. 5%) – a logical divide given how likely female owners are to run non-employer businesses. In fact, 29 percent of female-owned small businesses have no employees, compared to just 18 percent of male-owned businesses.

What Motivates (and Concerns) Small Business Buyers

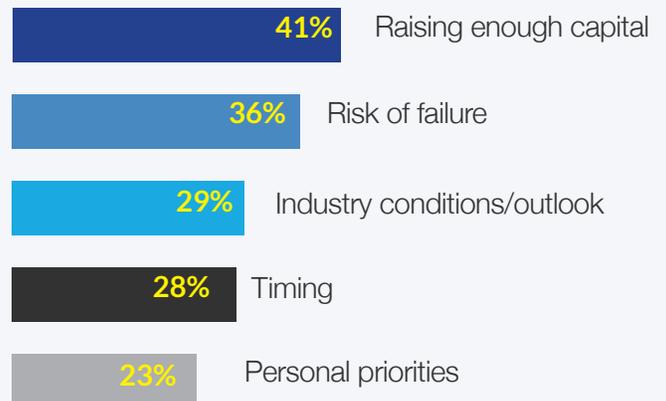
Compared to years past, prospective buyers are more likely to view small business ownership as a chance to be their own boss, and tap into income opportunities that traditional employment may not offer.

Sixty-three percent of buyers cite “being my own boss” as their top motivation for purchasing a small business, up from 50 percent in 2014, when we last reported on small business buyer and seller demographics. Buyers are also more likely to pursue small business ownership as a side project or source of supplemental income than two years ago (32 percent, up from 22 percent).

Top Motivations for Buying a Small Business



Top Challenges that Stand in the Way of Buying a Small Business

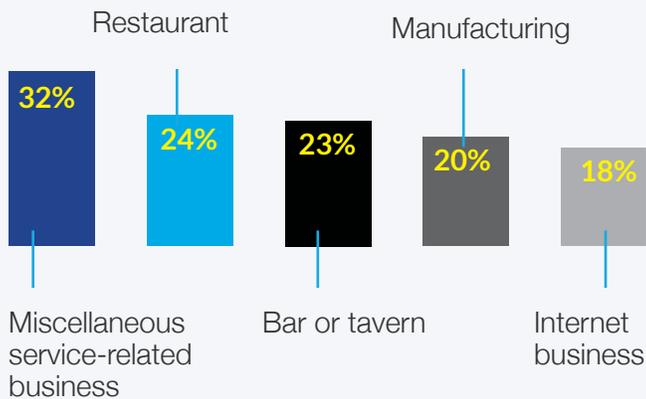


Becoming a small business owner, however, can be as daunting as it is exciting. While financial concerns are some of the primary challenges buyers wrestle with, the fear of not succeeding also weighs heavily on the decision.

Getting to Know Veteran Buyers

Almost one in 10 small business buyers today is a veteran. Though the overall buyer population skews younger than sellers, most veteran buyers are over the age of 50, and are more than twice as likely as non-veterans to be retired (17% v. 8%).

Types of Businesses Veterans Want to Buy



Like most buyers, veterans (96%) are looking to purchase an established, independently owned operation, and 60 percent plan to buy in the \$100,000 to \$500,000 range. And while veterans are also most drawn to the idea of being their own boss, they're slightly more likely than the average buyer to view small business ownership as a source of side income.

Veterans' Top Motivations for Buying a Small Business



More than one-third (39%) of veteran buyers intend to use military loans to make their small business dreams a reality. Given their eligibility to apply for veteran-specific loans, veterans are less likely to include cash as part of their overall small business financing strategy than non-military buyers (48% v. 59%), or bank financing (39% v. 51%). Thirty percent of veterans plan to pay less than 10 percent upfront for their businesses, almost double the 18 percent of non-military buyers.

Another distinct trait of veteran buyers is confidence. Compared to 37 percent for non-military buyers, only 26 percent of veterans are concerned about the risk of failure when running a small business, much less than the 37 percent of non-military buyers that said the same.

Millennial Buyers' Small Business Preferences

The 18 to 29-year-old crowd represents the future of the small business market. This young generation is largely male (74%), well-educated (54 percent hold a college degree, post-graduate degree, or have completed some post-graduate work), and ethnically diverse.

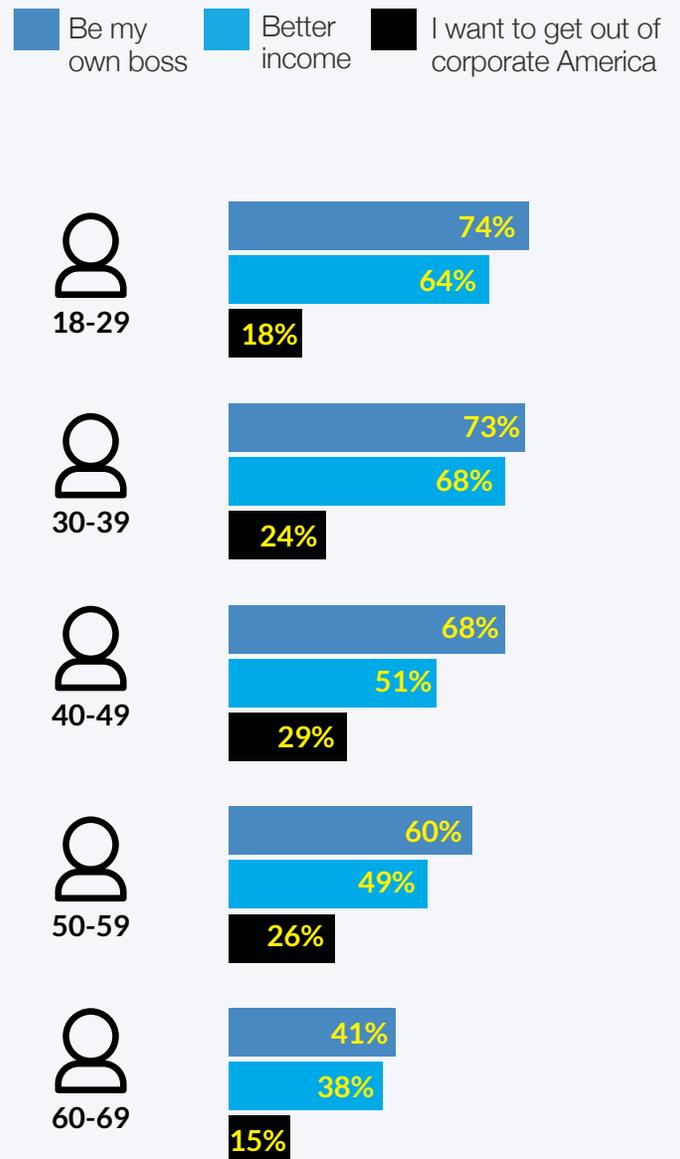
Unlike sellers or the overall buyer population, most Millennials are single (69%) home renters (58%), and two-thirds (66%) report annual household incomes under \$75,000. The majority of young buyers are employed full-time (68%), and 11 percent are currently students.

Unsurprisingly, 80 percent of Millennials will be first-time buyers; almost three-quarters (74%) plan to purchase a business within the next three years, and half will target operations between \$50,000 and \$150,000.

What motivates Millennials

The chance to be your own boss and potentially earn a higher income holds universal appeal for most business buyers. These motivations are even more pronounced among Millennials, whereas older buyers are more likely to be driven by the opportunity to leave corporate America behind.

Buyer Motivations by Age



Purchasing Trends and Motivations Across Ethnicities

Echoing what we saw in 2014, Caucasian buyers are most likely to be natural born citizens (90%), compared to 65 percent of African American buyers, 51 percent of Hispanic/Latino buyers and only eight percent of Asian/Pacific Islander buyers. Conversely, most Asian/Pacific Islander buyers (56%) identify as naturalized citizens, versus 30 percent of Hispanic/Latino, 20 percent of African American and four percent of Caucasian buyers.

Regarding business type, Caucasian buyers are most likely to opt for established companies (95%) over franchises. Compared to the average, African American and Asian/Pacific Islander buyers are more open to pursuing new franchises (34% and 30%, respectively) and existing franchises (44% and 45%, respectively).

Each ethnicity also has distinct preferences around the sectors they'd like to buy in:

Caucasian

1. Restaurant
2. Manufacturing, Retail
3. Internet business

African American

1. Liquor store
2. Convenience store, Dry cleaning/ laundry
3. Internet business, restaurant

Hispanic/Latino

1. Restaurant
2. Bar or tavern
3. Auto repair services, Liquor store

Asian/Pacific Islander

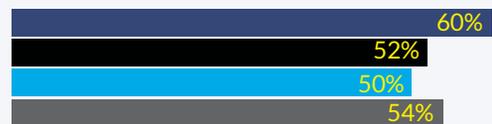
1. Convenience store
2. Restaurant
3. Gas service station

Purchasing motivations also vary depending on a buyer's ethnicity. African American buyers, for example, are most likely to be motivated by the prospect of being their own boss and creating a better lifestyle. Conversely, the prospect of additional income and the chance to leave corporate America are most likely to drive Caucasian buyers to the small business world.

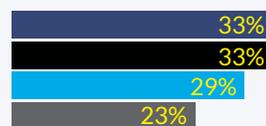
Be My Own Boss



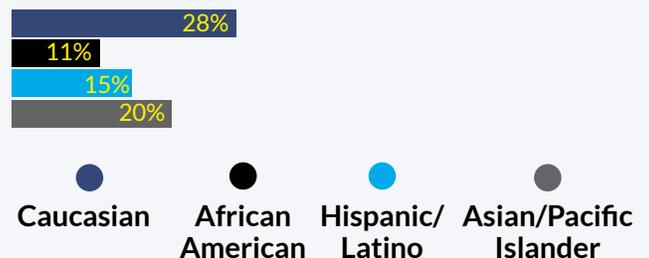
Better Lifestyle



Side Business / Additional Income Source



I Want to Leave Corporate America

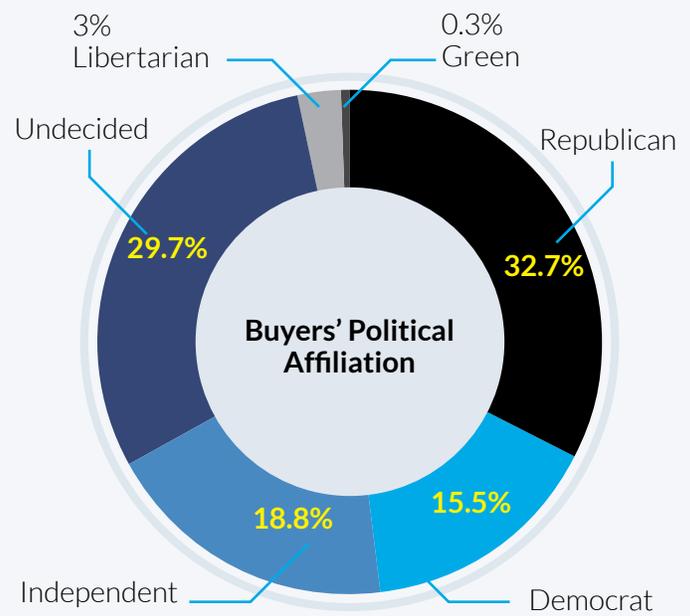
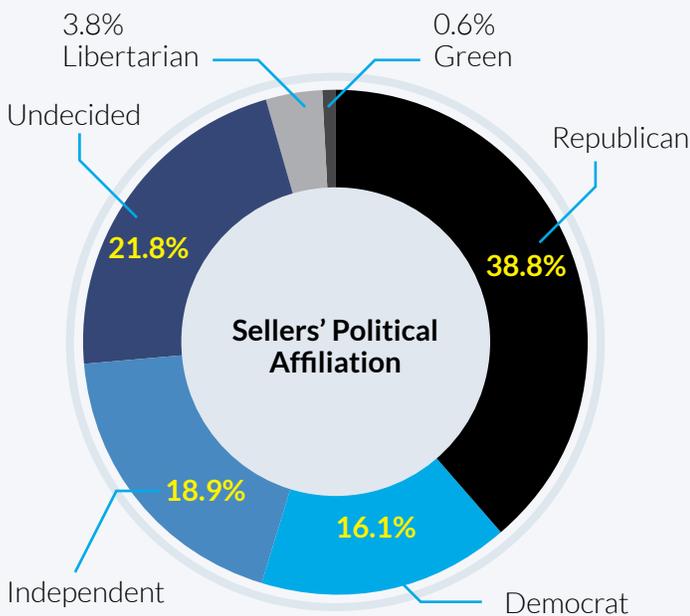


Also worth noting: almost all buyers, across ethnicities, rank the ability to raise capital as their top small business buyer concern, with the exception of Asian/Pacific Islander buyers, who cite risk of failure as the main obstacle.

Buyers' and Sellers' Political Divides

The November 2016 presidential election will be a landmark event with a variety of hot-button issues driving it. A number of these issues, from healthcare and labor regulations to taxes and broader economic policy, will factor in to small business buyers' and sellers' votes. Not surprisingly, the majority of each group plans to cast a ballot come November (82 percent of sellers and 77 percent of buyers).

Overall, both buyers and sellers skew conservative. Party affiliation aside, there are plenty of undecided voters in both audiences: of those who plan to vote, 43 percent of sellers don't yet know who they'll vote for this fall, along with 50 percent of buyers.



Conclusion

By discovering more about the characteristics of today's small business buyers and sellers, we can better understand where the market is heading. For 2016 and beyond, this demographic research indicates a handful of trends to consider, including:

- » The small business market still has room to improve in terms of diversity. Despite small gains in the percentage of prospective female and minority buyers, the seller and buyer audiences remain dominated by older, Caucasian men. As younger buyers continue to enter the market, however, it's likely that the small business community will become less homogenous.
- » Serial entrepreneurship makes the small business world even smaller. A significant amount of small businesses that go up for sale in the near future will be handed over to buyers with previous ownership experience. Once buyers try their hand at small business ownership, it's hard to go back to working for others. At the same time, this may also point to either an awareness gap, or a need for more widespread educational efforts that lure first-time buyers into the market.
- » Small business ownership is as much about the freedom as it is about the money. Comparing average household incomes, 57 percent of sellers bring in more than \$100,000 a year, versus 48

percent of buyers. The financial gains of owning a small business aside, the independence and ability to be your own boss are invaluable. Running a business is a chance to build equity in something that can grow and, ultimately, provide returns down the line – an opportunity you can't capitalize on if you're working for someone else's company.

- » Buyers and sellers are operating on two different speeds. Although almost half of buyers today want to take over a small business within the year, very few sellers are prepared to start the sale process in the near term. If sellers hope to capitalize on buyers' growing demand, they'll need to equip themselves with the right resources – from researching current trends in small business transactions, to enlisting trustworthy business brokers and attorneys to facilitate the sale.

As small business transaction activity accelerates, it will also become more complex. With ownership shifting, albeit incrementally, from Baby Boomers to Gen X and Millennials, new challenges are bound to arise. Sellers must prepare themselves to collaborate and negotiate effectively regardless of their prospective buyers' age, ethnicity or purchasing motivations, and vice versa. Armed with a clearer understanding of who makes up the buyer and seller community, each of its participants has a better chance of achieving their small business goals.

For more information about small businesses currently for sale in the U.S., or trends in small business transaction activity, visit http://www.bizbuysell.com/news/media_releases.html.



BizBuySell is the Internet's largest business for sale marketplace. Since 1996, BizBuySell has offered tools that make it easy for business owners and brokers to sell a business, and potential buyers to find the business of their dreams. BizBuySell currently has an inventory of approximately 45,000 businesses - spanning 80 countries - for sale at any one time and receives more than 1.4 million monthly visits. The site also features an extensive franchise directory as well as an easy-to-use business valuation tool.

Please visit www.bizbuysell.com for more information.

Sources:

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