

## Why Be a Small Business Owner?

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Each year, when I think about the national recognition of small business owners (this year, National Small Business Week is April 29 to May 5), I stop and think not only about our firm's hundreds of clients in all 50 states, but also about the huge economic engine made up of the 28 million closely held family businesses across the nation. These thoughts lead me to consider two important facts: Every time 10 people are hired in this country, six of them go to work for small businesses; and, together, those 28 million small businesses generate more than 50 percent of our nation's GDP.

Speaking at several national conventions each year allows me to meet thousands of these business owners, and I often like to take that opportunity to ask them three questions: Why should someone want to be a small business owner? Why should an owner's children or employees consider buying this business? And, do the financial benefits of small-business ownership offset the hard work and sacrifices?

Let's look at the last two questions first. At Castle Wealth Advisors, LLC, our Castle Valuation Group has prepared more than 400 business valuations in the last 18 years. Out of those valuations, we picked a cross section of 186 companies and averaged their results. We discovered some interesting facts:

1. The average business valuation is \$1,109,000.
2. The average gross margin is 40.5%.
3. The weighted average adjusted EBITDA is \$273,000.
4. The average stockholder's equity is \$917,000.
5. The adjusted EBITDA to appraised value is 24.14%.

Those numbers offer perspective on my questions. After all, being able to earn 24% per year on appraised value is an excellent reason to own your own company rather than work for a large corporation where they keep the profits. It's also a good incentive for the next generation in the owner's family—or perhaps one or two key employees—to purchase the business when the owner is ready to retire.

Sure, the next generation could go to work for a large company and hope for salary raises and job promotions that match the earning potential of small-business ownership. However, for someone with an entrepreneur spirit, acquiring an existing business and growing that business is an excellent challenge.

It's also a venture that pays benefits beyond the cash register. It has been proven many times that, when a customer



shops at a locally owned store rather than a national chain, approximately 30% of the cash being spent will remain in the local community.

So, is it a good idea for that next-gen entrepreneur to consider buying the business? Well, he or she will get the chance to take control of a business with an established customer base, excellent cash flow, well-trained employees and an important role in the local community, all with a chance to earn 24% a year on the business' value. Seems like a good idea to me.

It's also an idea that is becoming increasingly important for baby-boomer business owners between the ages of 60 and 70 who have children interested in buying the business. Of course, for such a transition to succeed, an owner needs to be a good coach and the next-gen entrepreneurs need to be good listeners, and the business needs a sound succession plan to address the many legal, financial and operational matters required for the transition. However, if the transition is designed well, the next generation will have a great chance of being successful.

That brings me back to the first question I like to ask those owners: Why should someone want to be a small business owner? Certainly, for the financial rewards, and simply for the pleasure of entrepreneurial endeavors. And, yes, for the gratification that comes from knowing you've contributed to your community and the lives of the people who work for you. But also for the knowledge that you have created something that will continue to contribute to the community and to people's lives for years to come. Who needs a better reason than that?

Our country needs these 28 million hard working small business owners, and I'm glad that the SBA Administration is putting a spotlight on them this week.

Those of us at Castle Wealth Advisors congratulate every small business owner who is running his or her own company for the contributions they make to our communities and nation every day. We also applaud those who are thinking hard about retiring and those who have successfully sold a company and are now enjoying some leisure time. They've earned it, in countless ways.

*Gary Pittsford, CFP<sup>®</sup>, is President and CEO of Castle Wealth Advisors, LLC. Castle specializes in helping families and closely-held business owners with valuations, succession planning, estate and income tax analysis and retirement income security. Castle's senior partners work with clients throughout the country in making logical decisions that help them fulfill their personal and business financial goals. For more information visit [www.Castle3.com](http://www.Castle3.com), call 1-888-849-9559 or e-mail Gary directly at [Gary@Castle3.com](mailto:Gary@Castle3.com).*