



Wendy Wade: taking risks and control of her own financial destiny.

## Investing in Yourself

Neither big employers nor blue-chip stocks instill much confidence these days. A lot of people are instead seeking to set up their own businesses for financial security. By Richard C. Morais

**W**ENDY WADE HAD BEEN with Best Buy's personnel department for nine years when the electronics retailer offered her \$300,000 in severance pay and a year's worth of medical benefits to voluntarily call it quits in February. Like several hundred other senior executives, Wade, 57, took the package and walked away.

Rather than hunkering down at her kitchen table in Bloomington, Minn. to

whip off résumés and work the phones, Wade plans to turn her job loss into a life-changing event. That will include moving to California, near family, and probably establishing a career around herself rather than around another big company. For Wade, a clinical psychologist, that means either opening a private practice or working as a freelance consultant in the field.

"Part of the attraction is taking control of my destiny, including my financial destiny," she says. "I'm not risk averse."

Recessions have always been incubators for innovation and personal initiative. It happened in the 2001-02 recession and early recovery. By 2003 an average of 300 out of every 100,000 Americans were setting up companies each month, according to the Kaufman Foundation's entrepreneurial-activity index. That rate was up 15% from two years earlier.

Similar data aren't available for this downturn, but anecdotal evidence indicates the urge to be one's own boss is surging.

THOMAS STRAND FOR FORBES

ing again. Traditionally about 30% of fired workers say they want to change industries and careers; in this recession the figure is fast approaching 60%, says Douglas Matthews, president of Right Management, a Manpower unit that provides corporate retraining and outplacement.

The urge for change has created a busy market for brokers of small businesses, like franchises. Scott Schaffer brokers, out of West Chester, Pa., firms worth up to \$5 million. Four-fifths of businesses offered to Schaffer Business Solutions are at bankruptcy's door. He turns down distressed sellers in favor of firms with rising earnings and cash flow from operations (essentially, net income plus depreciation plus cash-generating changes in things like receivables).

"They're harder and harder to find because of the economy," he admits.

Schaffer currently has seven firms on his list, ranging from a landscaper to a plastics fabricator. Done deals bring him 10% commissions from the sellers.

He is close to selling a child care center that's spinning off \$300,000 a year in "seller's discretionary earnings." That's a small-business benchmark: Ebitda, plus anything the owner is taking out personally in salary, bonus and expenses, such as cars and cell phones. At the low end of Schaffer's range, businesses typically sell for two to four times this adjusted Ebitda. The bigger deals tend to be valued at three to five times the smaller Ebitda that has the owner's compensation taken out.

Schaffer is having no problems drumming up prospective buyers. He has 250 registered with his firm and more signing up each month. Many want e-mailed leads as soon as new targets pop up. (For advice on getting started, see box below.)

## A HEAD FOR BUSINESS

GAIL GOLDEN, A CONSULTANT AT RHR INTERNATIONAL, A firm that specializes in psychologically focused leadership advice, is seeing so many corporate castoffs determined to become their own bosses these days that she's beginning to think her firm should launch a service to help them. In the meantime, she says, those considering the plunge should first ask themselves the following:

- Risk tolerance: Can you live comfortably with the uncertainty of struggling to make payroll or of missing a paycheck?
  - Time management: Can you motivate yourself to work? And equally important, can you motivate yourself to stop and pay attention to your family?
  - Salesmanship: Are you an introvert? If so, you may have a hard time selling your wares.
  - Loneliness: Are you happy on your own? Many consultants and sole proprietors end up working solo.
  - Flexibility: Are you willing to take on menial jobs? Small-business people must rely on themselves for tasks, such as bookkeeping, that corporations have staffs to carry out.
- R.C.M.

Schaffer interviews prospective buyers to ensure they're serious and have liquid assets to do deals or relevant industry experience to qualify for loans guaranteed by the Small Business Administration.

"The buyer pool is large because people have been downsized with severance packages," he says. "They're saying, 'Why should I trust my money to Wall Street when I could control my own destiny?'"

Schaffer says his hardest job is persuading owners of small, profitable companies to sell. That goes doubly for recession-resistant enterprises, such as food and liquor distributors, and companies making energy-efficient windows and other green products that will get a boost from government stimulus spending.

His pitch to sellers: Your timing is

good. With lots of corporate refugees looking to go into business, sales multiples for healthy firms have remained near the levels they were at in good times.

John Stanger, 59, is registered as a buyer with Schaffer and two other Philadelphia-area brokers. A seasoned software sales executive, he did two stints with Oracle, the latter ending with a 2007 axing that remains the subject of litigation.

Stanger is aiming to acquire a software or manufacturing firm for between \$1 million and \$5 million. He has pored over the financials of six companies during the past year and come close to making a buyout once. Stanger says he can finance

most of the acquisitions in his sights from savings and has backers willing to put in additional cash in exchange for equity.

"There are very few places to make money today," he says. "You might as well invest in a business where you have 100% focus."

No surprise, the paucity of bank loans has caused a lot of deals to fall through. Ronald Hoxter is president of Mill Creek Partners, a business broker in Conshohocken, Pa. that sells 30 firms a year for as much as \$20 million each. Several sales have failed in the past six months because buyer financing simply wasn't available. That included the \$15 million sale of six private schools in New York.

Most small-business buyouts are financed with bank loans guaranteed by the SBA. In March, however, the SBA reduced the maximum amount of goodwill it will finance, from no previous cap to 50% of the sale price, or \$250,000, whichever is smaller. For those who can't get outside financing there are of course the age-old standbys—retirement accounts and relatives. The former, if structured right, can come without a tax penalty. (For more on this technique, go to [Forbes.com/retirement](http://Forbes.com/retirement).) The latter stick around a lifetime. **F**

## HOW TO BECOME THE BOSS

OFTEN THE EASIEST WAY TO BECOME YOUR OWN BOSS IS TO BUY A GOING CONCERN. RONALD HOXTER, the president of small company broker Mill Creek Partners, recommends these steps to buyers.

- Surf Web sites such as Bizbuysell.com, Bizquest.com and Businessesforsale.com.
  - Line up a good accountant and lawyer familiar with small-business transactions.
  - Use a broker with a Certified Business Intermediary designation.
  - Look for a business with a clearly defined niche, sound management, a diverse customer base, recession resistance and clients (and middle managers) unlikely to walk out the door with the former owner.
- R.C.M.