SCALING ENTREPRENEURSHIP THROUGH ACQUISITION

How Public and Private Investment Can Build Wealth for a New Generation and Drive Economic Growth

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WHAT IS ENTREPRENEURSHIP THROUGH ACQUISITION?

Entrepreneurship Through Acquisition, or "ETA," is a time-tested strategy that can help business owners who are at or near retirement age. These owners can step away from managing the day-to-day operations of their businesses and transfer ownership to another motivated owner-entrepreneur—or in some cases, the company's current employees.

ETA is a powerful alternative to the more well-known entrepreneurial path: starting up a business, with all the risks faced by start-ups (nearly 40% fail within the first three years). ETA, which is not widely known or understood, delivers the proven advantages to entrepreneurs and their stakeholders, creating a broad-based and inclusive "ownership economy" in America.

For a number of reasons, now is the time to demystify Entrepreneurship Through Acquisition, understand its benefits to society—and not just those involved in the business transaction itself—and scale it up significantly, across industry sectors and across the country.

WHY THE TIME IS RIGHT TO SHEPHERD A NEW WAVE OF ENTREPRENEURS THROUGH ACQUISITION

Unlike businesses staffed by a single owner-operator, such as a consultant or service provider working solo, employer-businesses are companies that hire and pay one or more employees. These businesses, many of which are small to midsized, are crucial for economic stability and vitality. They provide jobs, income, and wealth-building opportunities for individuals and local communities.

Nearly 3 million US firms are owned by someone at or near retirement age

Over 50% of employer-businesses, nearly 3 million US firms, are owned by someone at or near retirement age, i.e. age 55 or older. According to Workforce Solutions, many business owners are not prepared for retirement, with 2 out of 3 lacking a succession plan. The wave of retirements—part of what is often called the "Silver Tsunami"—coupled with the lack of succession planning, will cause some businesses to shut down. It will leave others in an abyss of uncertainty that threatens the ability of a generation of owners, at or near retirement age, to generate wealth for themselves and their families, or transfer it to others. When a business owner is unwilling or unable to (1) dictate strategy, (2) appoint or elect new leadership, or (3) transfer ownership, the effects on the business's products, services, customers, employees, and shareholders are significant.

While the Silver Tsunami and the lack of succession planning poses risks, it also presents a powerful opportunity, for two main groups. The first group – individuals, first-time entrepreneurs who are typically younger than their retiree owner counterparts, will benefit from wealth-building opportunities and a less arduous path to business ownership. According to analysis by the Federal Reserve, business-owning families that own a company with five or more employees have an average net worth, or wealth, of $3.5 million, compared to an average net worth of $400,000 for families without a business. These businesses also have an average income close to $500,000.

The second group—institutions, including government agencies, capital providers, and philanthropic organizations—can seize the opportunity by spurring the growth of good jobs through entrepreneurship, generating returns by distributing capital more broadly, or igniting local economies to expand ownership and pathways to building wealth. ETA-operated businesses are generally employer-owned small businesses (defined as having fewer than 500 employees), and small businesses, according to federal data, have created 61% of net new jobs in America over the past thirty years. Institutions that contribute to expanding ETA will help drive economic growth and job creation.

WHEN ENTREPRENEURSHIP THROUGH ACQUISITION IS THE RIGHT FIT, AND HOW IT GETS DONE

Young, first-time entrepreneurs are ideal candidates to acquire and operate businesses currently owned by owners at or near retirement. ETA may sound like a new, niche strategy, but it has a long history. While business acquisitions in the U.S. date back more than a century, the idea of enabling individuals, not just corporations, to acquire and run existing businesses took root in 1983, when Harvard Business School professor Irving Grousbeck helped aspiring entrepreneurs acquire small businesses, creating a then-novel pathway to ownership that bypassed the risks of a startup.

As that early experience underscored, the promising targets for ETA are often not the “mom-and-pop," or Main Street, businesses that have just a few employees and that the public often associates with the term “small business.” One of the early acquisitions facilitated by Grousbeck, for example, was a well-established printer with over 750 employees and $40 million in annual revenues. Based on 2024 data collected by the Stanford Graduate School of Business, companies acquired by first-time entrepreneurs have a median EBITDA (a widely used measure of profitability) of approximately $2 million per year and 34 employees. ETA businesses, then, are within the definition of small businesses but have a scale and growth potential much greater than the typical “mom-and-pop.”

For first-time entrepreneurs, investing in a business through ETA is a compelling investment opportunity that offers many advantages, including (1) reduced execution risk, (2) shortened or immediate time horizon to profitability, and (3) established operations, including customers, brand equity, employees, and infrastructure. When compared to operating a startup business, ETA offers a strong alternative with lower risk.

First-time entrepreneurs who utilized a search fund to acquire a company generated a 35.1% internal rate of return and a return on investment of 4.5x for their investors

The entrepreneurs, however, often need outside capital from investors to purchase companies. These acquisition transactions are attractive for investors because the investment return expectations for acquiring existing businesses is equally compelling. According to Stanford’s 2024 Search Fund Study, which details outcomes on 681 search funds, since 1984, first-time entrepreneurs who utilized a search fund to acquire a company generated a 35.1% internal rate of return (IRR) and a return on investment (ROI) of 4.5x for their investors.

If institutions take a systemic approach to ETA, entrepreneurs will be prepared to pursue acquisitions that will, in turn, (1) preserve thriving businesses for a stronger economy, (2) promote job creation, and (3) accelerate wealth creation. These outcomes are especially important given the onset of the Silver Tsunami.

Consider the wealth-building and economic development effects alone. According to the American Independent Business Alliance, 68% of small business revenue stays in local communities through wages and tax payments. It matters when a successful business stays in business in a given community. When a business is acquired in a particular community, that business – more often than not – will continue to contribute to local economic growth.

Additionally, analysis by the Federal Reserve Bank of Cleveland demonstrates that significant increases in wealth, in as short a time frame as one year, are associated with families owning businesses. Entrepreneurs that pursue business ownership through acquisition not only help sustain the local economy, then, but can also build wealth for themselves relatively quickly.

With the backdrop of societal benefit and high return expectations, governments, capital providers, and philanthropy all have an incentive to support ETA. These institutions can play a role in establishing programs and sharing knowledge that encourage ETA activity, deploying capital to execute on ETA transactions, and advocating for—or supporting organizations that spur—ETA in local communities.

FACILITATING ENTREPRENEURSHIP THROUGH ACQUISITION

Though the pathway to ETA remains strikingly subscale in our economy, leaving far too much entrepreneurial talent sidelined and growth untapped for now, there are effective models and resources to build on.

First, those who seek ETA opportunities, like other entrepreneurs, benefit from advice, mentorship, and networking opportunities. Accelerator programs like New Majority Capital Foundation's bETA Accelerator, Promise Partners' ETA Accelerator Program, and the Cincinnati Minority Business Accelerator offer resources, ranging from due diligence training, investor introductions, and introductions to owners selling their businesses, thus bridging critical knowledge and network gaps. New Majority, for example, has enabled $90 million of new wealth potential for their program alumni. Their bETA Accelerator is a 10-week program specifically designed to expand wealth opportunities for underrepresented business owners by educating and preparing them to run an existing business.

Additionally, public-private partnerships such as the Economic Opportunity Coalition—a program initially launched in 2022 by Next Street, The Rockefeller Foundation, major corporate institutions, and the federal government—were established to catalyze investments in underserved communities and create wealth. The Economic Opportunity Coalition prioritizes small business growth through procurement commitments and access to capital, which helps create ripe conditions for ETA.

In addition, forums, industry conferences, and online platforms facilitate networking among aspiring entrepreneurs, retiring business owners, industry experts, and investors—the players that need to meet up in a functional and scalable ETA marketplace.

A few major academic conferences, including the Booth-Kellogg ETA Conference and the Harvard ETA Conference deliver thoughtful industry content each year catering specifically to first-time entrepreneurs and ETA investors. Industry events like the Small Business Investor Alliance's Independent Sponsor Forum offer opportunities for aspiring ETA entrepreneurs to identify acquisition opportunities, seek advice, attract investors, and forge valuable partnerships within the ETA network.

While the current accelerators and industry forums lay a solid foundation for ETA, if the demand – by way of a new wave of high-potential entrepreneurs – is poised to meet a time-sensitive supply of nearly 3 million retiring business owners, we need to enhance the entire ETA ecosystem, with focused and committed players who can help scale the ETA market.

SCALING THE ETA MARKET

To meet the demand driven by a looming wave of owner retirement, the ETA market must scale, and that requires unlocking more acquisition capital. Most of the available small business finance options were not created for entrepreneurs to acquire businesses through an ETA strategy. Therefore, we must unlock capital by increasing both supply and access to financing options specifically designed for ETA, including equity products, loans, and seller financing.

The ETA market must scale, and that requires unlocking more acquisition capital

The private capital market is daunting for many first-time entrepreneurs. Walker Deibel, author of the seminal reference, "Buy Then Build: How Acquisition Entrepreneurs Outsmart the Startup Game" (2022), emphasizes that one of the main reasons that 90% of acquisition entrepreneurs do not complete an acquisition transaction is that "the private capital market is opaque."

Traditionally, ETA acquisitions have been financed mostly through the Search Fund model, financing designed to enable entrepreneurs to search for, acquire, and operate a business with the mentorship and financial backing of private investors. Search Fund investors pay the Searcher (entrepreneur) a salary to identify, purchase, and operate a small business. Once a business is acquired, the Search Funder investors retain a share of ownership as equity investors in the company. In many cases, potential buyers benefit from these funds

because they cover the early search time for an acquisition, which can take up to 12 to 18 months. However, Search Funds often rely on relatively closed networks, dominated by MBA graduates. This limits access for non-MBAs and thus the pool of potential ETA entrepreneurs.

To change these patterns and expand the market for entrepreneurs and communities beyond the Search Fund approach, we need to unlock equity and debt capital in new ways, on a much greater and more flexible scale, starting with a pragmatic understanding of the investor landscape and range of viable investment models.

BEYOND SEARCH FUNDS: THE FINANCING OPTIONS IN THE ETA MARKET

Alternatives to Search Funds include Self-Funding, Friends & Family, Mission / Impact, and Institutional Alternative Investors. Each represents a strategy, with distinct considerations and nuances:

In a ***Self Funded*** equity raise, the entrepreneur provides all of the equity capital necessary to acquire a business, including search, due diligence, and legal costs.

In a ***Friends & Family*** equity raise, the entrepreneur solicits equity investments from their closest relationships, including–but not necessarily limited to–actual friends and family.

A ***Mission/Impact*** equity raise is an institutional fundraising process that targets organizations that deploy equity capital to achieve both a financial return and social (aka “impact”) return on their investments.

Alternative Investor fundraising also seeks to align the entrepreneur's investment strategy, capital needs, and the investor’s mandated return expectations.

Here is a simple breakdown of the spectrum of equity investors:

Type	Self Funding	Friends & Family	Mission & Impact	Alternative Investors
Ownership % Retained	100%	<100%	<100%	<100%
Ownership Control	Majority	Majority	Majority or Minority	Majority or Minority
Process	Informa	Informal & Formal	Formal	Formal
Representative Organizations	ETA entrepreneur	Various	Impact Alpha, Calvert Impact	Fifth Century Partners, Avante Capital Partners

Source: The Copia Group, LLC

TAPPING DEBT FINANCING TO SCALE ETA

Accessing debt capital is also valuable, and in many cases, critical for entrepreneurs acquiring small businesses. The practical function of debt capital is to complement and leverage equity capital, thus expanding the total capital available and raising returns on equity. Given the benefits of debt financing, it is no surprise that securing debt is a time-tested strategy of many types of equity investment strategies, including venture capital. There are three main forms of debt capital that can help ETA entrepreneurs, including (1) government-guaranteed SBA 7a Loans, (2) Bank Debt, and (3) Private Credit. Key nuances of these markets are as follows:

- ***SBA 7(a)*** Loans are an attractive option for financing business acquisitions due to their competitive interest rates and long repayment terms. 7(a) Loans can be used to finance acquisitions, buy out a partner, or expand into new markets. The SBA guarantees a portion of the loan, reducing the risk for lenders and making it easier for small business owners to secure financing to acquir a business, so long as that owner accepts the 7a personal guarantee requirement.

- ***Bank Debt*** financing can be an attractive option for entrepreneurs seeking acquisition finance as well as auxiliary services, including checking, savings, and cash management services. Bank financing is competitive from the availability and loan pricing perspectives.

- ***Private Credit*** offers a variety of loan structures, including senior and subordinated term loans to support acquisitions. Private Credit underwriting processes are known for speed, efficiency, and customization.

Loan Type	Amount	Pricing	Term	Personal Guarantees	Covenants	Representative Firms
SBA 7a Loans	Up to $5.0M	SOFR*+5%+	7-10 years	Required	Yes	Live Oak Bank, Huntington National Bank
Bank Term	2-3X EBITDA	SOFR+3.5%+	3-5 years	Negotiable, but not required	Yes	Byline Bank, Cadence Bank
Private Credit	2-5X EBITDA	SOFR+7%+	4-7 years	Negotiable, but not required	Yes	The Copia Group, Brightwood Capital Advisors

*Source: The Copia Group, LLC; *Secured Overnight Financing Rate*

GETTING CREATIVE THROUGH SELLER FINANCING OPTIONS

Finally, beyond equity and debt financing, ETA transactions are sometimes funded by the incumbent business owner selling the business, known as “seller financing.” ETA transactions using seller financing, including equity rolls and seller notes, can add creativity and flexibility to deals, often accounting for 5% to 30% of the transaction.

RECOMMENDATIONS TO SCALE THE ETA MARKET

The spectrum of financing options, including equity, debt, and seller financing, creates a solid baseline in the ETA market. However, in order for more capital to flow into the ETA market at scale, we need innovation in addition to expansion of proven programs.

First, government institutions, financial institutions, nonprofit lenders, and private investors can collaborate to develop more innovative financing solutions that address the unique needs of aspiring ETA entrepreneurs, thereby facilitating business acquisitions and driving economic growth. For example, the down payment assistance pilot program, created and funded by JPMorganChase and executed through Impact Charitable, will provide equity assistance to entrepreneurs with deal-ready acquisitions and an approved SBA 7(a) loan, enabling them to meet the SBA's 10% equity injection requirement. The Fund will offer up to 50% of the required equity amount—up to $100,000—to alumni referred by ETA accelerator partners.

The 7(a) market has grown significantly over the last fifteen years: from $10 billion in loans closed in 2009 to $30 billion in 2024

Second, we should encourage more participation in the SBA 7(a) program, especially for self-funding ETA entrepreneurs. According to agency data, the 7(a) market has grown significantly over the last fifteen years: from $10 billion in loans closed in 2009 to $30 billion in 2024—a doubling of annual loan volume, once adjusted for inflation. The increase in 7(a) transactions also helps support a secondary market for purchasing and trading pools of these federally guaranteed loans. That is, creditors, or the bank intermediaries that implement the 7(a) loan, can sell the guaranteed portion of the loan to provide liquidity, apply an accounting treatment to accelerate the recognition of earnings on those loans, and reduce exposure to prepayment risk. From the secondary market investor's perspective, holding the guaranteed portion of a 7(a) loan offers a low-risk investment backed by the U.S. government with a higher yield than similarly low-risk bonds. According to a 2025 study by Yale University, "the secondary market creates strong financial and risk-management incentives for lenders to offer 7(a) loans, helping to maintain liquidity and competition in the 7(a) loan market." With a thriving secondary market, more capital will flow across the entire system at scale, thereby enabling more money to flow to ETA entrepreneurs.

Furthermore, we should strongly encourage capital providers to participate in the Small Business Investment Company (SBIC) program, which, like 7(a), is operated by the U.S. Small Business Administration. We should also encourage policymakers to sustain the program and continue to make it more accessible.

As the agency defines it, an SBIC is a "privately owned company that's licensed and regulated by the SBA. SBICs invest in small businesses in the form of debt and equity. The SBA doesn't invest directly into small businesses, but it does provide funding to qualified SBICs with expertise in certain sectors or industries. Those SBICs then use their private funds, along with SBA-guaranteed funding, to invest in small businesses." Once an SBIC raises private funds, the SBA will match those funds with $2 for every $1 raised privately, up to $175 million. SBICs can be used for private investment funds utilized for ETA transactions. According to SBA data, since the program's inception in 1958, SBICs have deployed over $130 billion in capital, made more than 194,000 investments in U.S. small businesses, and licensed nearly 2,400 funds through the end of 2024.

Yet industry news makes clear that the SBIC program has challenges. Processing for new license applications is backlogged, thanks in large part to program changes that expanded the range of license types. The number of new applications for licensure surged by 285%, from 2023 to 2024, but the number of issued licenses issued grew by only 27%. Nonetheless, more fund managers should apply, to increase the availability of ETA capital in the market, and the federal government should commit resources and attention to improve processing and more quickly enable SBIC licensure for eligible funds. It's critical to meeting this moment of opportunity.

Beyond government-backed debt and equity, philanthropic "catalytic capital"—flexible investment that aims to unlock much more capital from private and public sources—can help expand the number of ETA funds and capitalization of existing ETA funds. Capital allocators such as foundations, other endowments, donor-advised funds, and impact investors of any type can play a catalytic role by deploying patient, risk-tolerant, flexible and concessionary capital into ETA-focused funds. Such investments can take the form of first-loss or blended finance vehicles, which de-risk transactions and attract private co-investment. The fit is strong, because the broader goals of catalytic capital are ambitious and smart. For example, the Catalytic Capital Consortium, organized by the MacArthur Foundation and other leading impact investors, aims "to demonstrate the power of this form of investment to expand the reach of the impact investing field, helping to address the $2.5 to 4 trillion needed annually to reach the United Nations Sustainable Development Goals."

In spite of the range of potential players with a stake in scaling ETA, unlocking more capital is no silver bullet. Capital, especially in larger doses, must be paired with a requisite amount of advice, knowledge, and networks to ensure that ETA entrepreneurs are successful. Large institutions, from local and federal government to philanthropy, should support expanded education about the ETA market so that more entrepreneurs can learn about and take advantage of the enormous opportunity the market now offers.

THE PROSPECT OF A NEW WAVE OF ETA ENTREPRENEURS NATIONWIDE

The Silver Tsunami has been on the horizon for a decade or more, and now the wave is beginning to break. With over 3 million business owners at or near retirement age, the market opportunity is more immediate than ever, and moving to seize it is more urgent.

ETA offers a significant but underutilized path to economic opportunity, wealth building, innovation, and resilience for a new wave of entrepreneurs

ETA is not some exotic succession planning tool. Rather, it offers a significant but underutilized path to economic opportunity, wealth building, innovation, and resilience for a new wave of entrepreneurs. ETA offers retiring owners a way to preserve their legacies because these businesses will have a new generation of owners. This new generation of owners can be more diverse, by gender, race, ethnicity, class background, place of origin, and in other ways, due to the changing makeup of America. Additionally, we can diversify the ETA ecosystem by focusing our collective efforts to include businesses operating in untapped and niche markets, such as industry-specific supply chains. Furthermore, we have the opportunity to create a new universe of employee owners who can benefit from expanded ETA, as shown in analyses by The Aspen Institute and Rutgers University.

Contrary to popular belief, starting a business is not the only path or necessarily the best one for every entrepreneur and community. For the many reasons we have explored, expanding Entrepreneurship Through Acquisition is a smart move and smart investment for America. It will take outsized efforts from institutional players - from commercial capital providers to government and philanthropy - to scale ETA significantly. For that to work, many aspiring entrepreneurs must take notice too. But with coordinated focus and intention, we can unlock their talents and build wealth on a broader basis—expanding the ownership economy—across the nation. We should meet this moment with a sense of opportunity as well as urgency.

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