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HYDE Valuations, Inc.

**We Value Both Real Estate and Businesses
Including Machinery & Equipment**

January 2011

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Why Do People Buy a Small Business?

Small businesses play a very important role in the U.S. economy. According to a recent report issued by the Small Business Administration, approximately one-half of the private sector jobs in the U.S. are attributed to small businesses and the other half to large businesses. The government often defines a small business as one that has fewer than 500 employees. About 90% of U.S. businesses have less than 20 employees.

Approximately 95% of business closures are very small businesses (those with less than 20 employees). Many very small businesses open and close within only a few years. Yet, quite a few of those very small businesses that survive for at least five years, operate successfully for many years and make up the pool of potential small businesses that are eventually sold.

There are some very large risk differences between starting a new business from ‘scratch’ and buying an existing successful business. I believe that a relatively small number of people in the country have the temperament, ability, and guts to start a new business -- particularly as a full-time employment endeavor. These entrepreneurs must have considerable self-confidence and drive in order to succeed especially since most of these very small businesses are started with insufficient capital. Development of a new business plan, whether formal or not, that leads to success in a very competitive market place requires some skill and probably a lot of luck. Generally people that purchase a small business do so because they want to avoid the pitfalls, risk of failure associated with starting a small business and they typically want to be able to start drawing an income large enough to meet their family needs from the business immediately.

Some people refer to those that purchase a small business as “buying a job.” This, I believe, denigrates the small business owner and the importance of small businesses in our economy. There are many small business owners that have chosen to purchase or start a small business rather than continue to work for big corporate America. Most people that I have seen purchase a business did so while working for a big business or did so after being laid off instead of pursuing another job with a large company.

There are many reasons why people purchase a small business. Based on my experience for many years as a business broker and discussions with other business brokers, the following appear to be the major reasons:

- “So I can be my own boss.” -- Many people simply want to control their own destiny and not be worried about what their boss or company management might do that could cause them to lose their job.
- “So I can control my lifestyle – I can live where I want to instead of where my employer tells me I must live.”
- “So that I can work the hours I want to work instead of when my employer dictates I will work.”
- “So I can’t be laid off or fired.”
- “So I can finally be paid what I’m worth.”
- “So I can benefit from my work directly instead of making my employer lots of money.”

- “So I can build up equity in a business (create an estate) instead of creating more value for my employer.”
- “So I can employ my family” – usually the children, some of whom may have a difficult time finding other work.
- “Because I’m too old to be hired; I don’t qualify for retirement or health plans, but I’m not ready to stop working.”
- “Because I’m tired of just working for wages. I want more from my efforts.”

Personally, I have worked for several large businesses, but have been self-employed for many years and love it. I hope to stay self-employed for the balance of my career. In fact, my goal is to sign my last appraisal report as the coffin lid is closed at the age of 115 or so.

Valuations play a part in all strategic transactions, tax, and many litigation matters. For additional information or advice on a current situation, please do not hesitate to call. **We value both real estate and businesses including machinery & equipment.**

Sincerely,



Paul R. Hyde, EA, MCBA, ASA, MAI
Enrolled Agent – Enrolled to Practice Before the IRS
Master Certified Business Appraiser
Accredited Senior Appraiser – Business Valuations
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