

Younger Generations Looking to Sell: What Millennial and Gen X Business Owners Need to Know

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I recently wrote about the “Gray Tsunami” and the mass numbers of Baby Boomers that will be retiring over the next few years. For Boomers, there are specific considerations that must be addressed if sale is their exit option. Similarly, there are age-oriented issues facing younger generations looking to sell their businesses.

There are approximately 138 million Americans across the Millennial and Gen X generations as of the latest data. Millennials, born between 1981 and 1996, make up about 72.7 million Americans, and Gen X, born between 1965 and 1980, is not far behind at about 65.35 million. Data also shows that Millennials own 13% of small businesses, with Gen X owning 47%. As such, these two massive generations combined account for the majority of small business owners in the US.

When looking at a transition at a much younger age, there are different issues to consider as opposed to those who sell later in life.

Timing and Valuation

A business owned by someone in their 30's, 40's, or 50's will typically have a shorter life span than one owned by a Boomer. This means there might not be decades of financial performance to demonstrate stability to a buyer, and the business could be at a stage of high growth potential, but not maturity. While this is not always the case, buyers tend to prefer a strong history of stable cash flow and profitability.

This is why timing is a critical factor. Younger generations should strategically plan their exit so that the timing works in their favor to maximize their valuation. Shifting market conditions and economic trends can impact valuations as well, so it is important to consider a variety of factors when determining the right timing that results in the greatest valuation.

The retiring Boomer generation is also a major consideration in terms of timing. If a flood of Boomers are looking for buyers simultaneously, younger generations might look to delay their sales to reduce the competition for buyers. Conversely, this also presents a significant and unique opportunity to younger generations looking to buy.

Planning for the Future

Individuals in the Millennial or Gen X generations will likely have a great deal of life in front of them, so planning for the future is essential if they are going to sell their business. Consider the short and long-term goals of the sale. Do you want to be acquired to start a new business? Is your goal to retire early? Are you looking at other employment opportunities? Do you want to only sell a portion of the business to a strategic partner such as a PE firm, as opposed to a full exit?

These are all important points to consider as they will help you to determine what kind of valuation will be required to meet

your specific needs and how you need to structure the sale. These are different for everyone based on life goals, thus, looking at your future and what you need to make it happen is key. It is also important to work closely with your legal advisor to ensure the transaction is structured in a way to allow for the necessary financial and legal protections

Selling to Start Again

If your goal is to sell the company and start a new venture, then there are some very specific points that will need to be negotiated with the seller. For example, what kind of agreements does the buyer require? A non-compete agreement could prevent you from starting a similar business within a specific region or time frame, and a non-solicitation clause could restrict the hiring of former employees or soliciting clients. These are points that need to be front of mind if you are considering starting a similar business down the road, as they could seriously impact its success.

Company Culture vs. Financial Gain

Younger generations also tend to place a greater sense of value on company culture, employee retention, and customer loyalty. So, finding the buyer that will carry on the established company values and culture can play a larger role. Younger sellers must work to find the balance between carrying on the long-term vision for the company and maximizing the financial return from the sale.

Selling your business at any age requires careful planning and preparation. But when selling earlier in life, there are complexities that exist due to the longer road that lies ahead. Having a clear long-term vision and understanding how the acquisition fits into your plan will help you to maximize the benefits and carry out your goals.