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# What Is Your Why for Launching a Search Fund?

## Aspiring search fund entrepreneurs must be able to articulate why they are initiating an ETA project and understand its implications

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Kickstarting a search fund or entrepreneurship through acquisition (ETA) journey is a deeply personal choice and likely the biggest decision graduating MBA students have made in their lives (unless they are married, have a child, or have served in the military). We cannot underestimate the enormity of picking this pathway. In our note Eight Questions Aspiring Search Fund Entrepreneurs Should Consider Before Launching Their Project, we pose a handful of queries to help aspiring searchers test their conviction and resolution to pursue the ETA route. We penned that note because, too often, we connect with potential searchers who approach the go-no-go verdict with a willy-nilly posture. We went a step further in our note Ten Reasons to Absolutely not Pursue Entrepreneurship through Acquisition. In that note, we actively attempt to dissuade the curious from ETA, not to be naysayers, but to set a high bar of pessimism that only the most ardent would catapult over.

In this note, we will build on the theme of exploring whether a young, first-time, and inexperienced person should seek to be the CEO of a small and fragile operating company. Surprisingly, ETA is suddenly cool, garnering media attention, fawning investors competing to provide capital to graduating MBAers, and a steady stream of podcasts highlighting personal stories. Make no mistake, attempting to acquire, operate, lead, and grow a Lilliputian company is absolutely not for the faint of heart. This is gruelingly challenging and is unlikely to produce the pharaonic riches that every searcher fantasizes about (although it might). We cannot find the words to sufficiently communicate just how strenuous ETA is. We wish we could because then we would shout it as loud as we could one thousand times over in a lame attempt to adequately convey the battle ahead. There is a vast gulf between thinking about how arduous ETA is while sitting in a classroom and actually living the drama—every long day—for years on end—even when it is going well.

An essential question every potential searcher must be able to answer is simply *why*? Since this trek is so excruciatingly stormy, why would someone pursue this arc? There must be some deep-rooted bona fide reason or motivation to take this trajectory because it is too hard to just slip into or be a default or backup choice. Most talented and qualified potential search fund entrepreneurs can tackle traditional post-MBA careers like consulting or investment banking, and there must be some why that would make someone opt out of a well-trod trail with known upsides and risks.

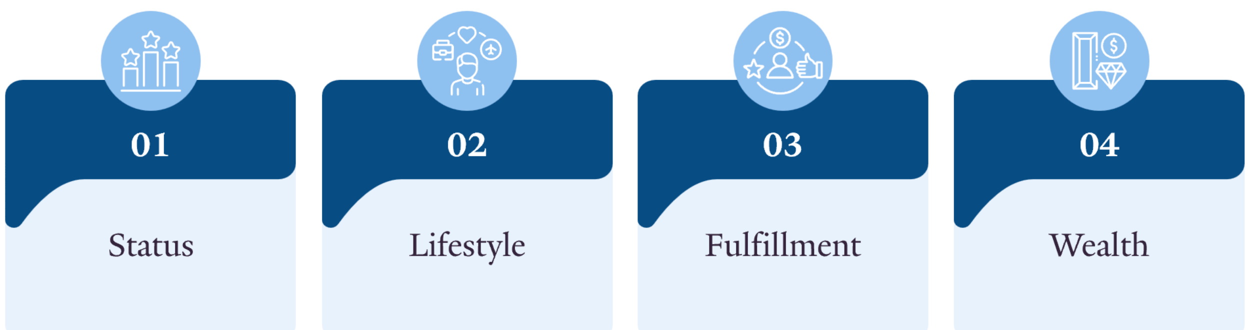
When we interact with potential searchers as educators or investors, we always tiptoe through the conversation, exploring with them what ETA is, how to approach it, and what might influence success or failure. There is obligatory chatter about the aspiring searcher's always-impressive background. But at some point in the dialog, we always ask why—why do you want to do this? Convince me that you truly know what your why is.

Some folks answer our why question gracefully, with conviction and obvious forethought. However, most pilgrims hem and haw and stumble through an answer that feels like it is being constructed on the spot. Many searchers hone their investment thesis, spend endless hours on a confidential information memorandum, and love to talk about cap table construction, but it is clear they have not delved into why—the burning motivation—they are actually doing this.

In the first generation or two of searchers (back in the mid-1980s and early 1990s), when there was just a single searcher each year and no business school courses paving the way, it seems like entrepreneurs had a common why: to lead and operate a business. We come to this conclusion not because we have done extensive interviews, although we do know all the actors, but because they have led and operated for years and years. Trailblazers and giants like Dodson, Kelly, Moriarty, Riedinger and Turner, Southern, Stevens, and Taweel and Ellis[*] all ran their respective businesses for years or decades or ran multiple businesses over decades. They were fundamentally operators. In our lexicon, their why was fulfillment.

The why matters quite a bit. First of all, it must be authentic. Furthermore, different whys will push different entrepreneurs in different directions and will often impact how the movie unfolds for both the entrepreneur and the investors. In this note, we will explore the four most common initial whys we see for search fund entrepreneurs (**Figure 1**); of course, there are many more. We will also discuss how each why might influence the project's trajectory. Additionally, we will consider how each variation might be best aligned with certain types of investors and holding periods and what the experience itself might feel like. Most of all, we hope this note helps the next cohort of searchers discover and better understand their own why. In reality, entrepreneurs will likely draw from multiple whys in some combination of weighting. Finally, the why might change over time as the CEO matures and settles into the operating role. What motivates at 30 might wane at 40 or 50 when new whys manifest.

**Figure 1: A quartet of the most common whys for search fund entrepreneurs**




In today's ETA environment, there are three primary ways to approach a search fund project: a traditional search fund where external investors finance the search and acquisition; a self-funded search fund where the search period, and possibly the acquisition, is financed by the search principal; and an accelerator where the searcher is part of a single sponsored organizational structure which provides turn-key financing and infrastructure. We explore these structures in our note Exploring Various Search Fund Structures.

[*] If readers do not know who these people are, they should do some research and learn about their place in ETA history because all searchers stand on their shoulders.

Additionally, there are three chief strategies to employ: acquiring a single company that serves as a platform for organic growth, pursuing a programmatic acquisition strategy where multiple companies in a single industry are gobbled up, and establishing a holding company where a potpourri of unrelated businesses are tied together through common ownership. **Figure 2** displays the matrix of the nine elemental ways to play the ETA game with suggested why sources.

While there is no single right or wrong way to structure an ETA foray, a searcher's core why might push the entrepreneur toward one structure over another and one strategy above the rest; accordingly, part of every searcher's pursuit must first include the ability to succinctly, crisply, and clearly articulate their why. Once the why is firmly established, other decisions fall into place more easily.

**Figure 2: There are multiple ways to play the ETA game**

| | Traditional search | Self-funded search | Accelerator search |
|---|---|---|---|
| 01 Purchase a single company | Fulfillment | Lifestyle Fulfillment | Fulfillment |
| 02 Programmatic acquisitions in a single industry | Status Wealth | Lifestyle Wealth | Status Wealth |
| 03 Holding company for many unrelated companies | Status Wealth | Lifestyle Wealth | Status Wealth |

One way to discover the why is to envision where the entrepreneur wants to be in a decade. Is it leading the best business in the industry, or is it lounging about on the beach? Does the future hold raising a $100 million fund to be an investor or having a slower-growth business that kicks out adequate cash to support a comfortable lifestyle? Is the day filled with customer and team member meetings or negotiations with acquisition targets and debt providers? Visualizing a clear picture of the ideal future might help potential entrepreneurs uncover their why.

## Status

A few decades ago, explaining a search fund was awkward and resulted in confused and blank stares. Wall Street and consulting were the status and prestige jobs elite MBA students craved from the 1980s to the early 2000s. Many people incorrectly perceived search fund aspirants as unable to land a real job at a name-brand firm in a buzzy city. Fast forward to today, and ETA is white hot on MBA campuses. Somehow, purchasing a sleepy elevator maintenance services business in Akron or a niche software business in El Paso is cool, sexy, and filled with status. While we are not sure these projects deserve the status they hold, the MBA crowd is currently attracted to this form of entrepreneurship in droves.

If we decompose what exactly status is here, we think it falls into a few buckets. First, MBA students desire what their peers seek. Once a professional field gets a bit of traction, throngs of MBA students gravitate to the "in" post-MBA job. ETA is in right now the same way investment banking, consulting, startups, and real estate were all in at one point. Obtaining what others covet creates status.

Second, when searchers raise a pile of money while still sitting in a classroom, they accrue status. This is especially true for the holding company set, which can raise tens of millions of dollars before graduation. They then strut around campus as the eight-figure gal or guy. Additionally, when MBA students raise funds, they are seen as being anointed, especially if they attract A-list investors. MBA students have spent their entire lives seeking approval and being selected for the next rung on the ladder. Raising money is just one more rung on life's ladder of cachet.

Third, status can be derived from proving people wrong. Our lives are filled with naysayers and doubters who cast aspersions on our dreams. Parents, coaches, teachers, and friends have all thrown shade at our aspirations. Pursuing a search is one way to prove they are all wrong, that the protagonist is capable and worthy and can accomplish something that is outrageously difficult. We know at least one entrepreneur who was chiefly motivated by proving to his father that he, too, could be a business success.

Finally, status is earned when an ETA CEO not only purchases a business but grows it rapidly, employs hundreds of people, joins YPO,[†] is featured in the media, and becomes an up-and-coming minor celebrity in their home city. We all have egos and long for recognition; arriving at a certain place feels good and is status-laden.

However, when status is the driving force behind a search, things might go sideways as the entrepreneur is focused on the trappings of winning and is keenly aware of how other people perceive the undertaking. Raising more money is a badge; bigger is always better. Whether search is a long-term fit or not, it tends to resonate with students in the second semester of the second year in the MBA program. Status-centric searchers might gravitate to holding companies requiring more capital and an endless parade of deals and transactions, all of which are markers of stature in the MBA gang. Additionally, status seekers might just be using ETA as a stepping stone to become an investor (the next rung on the ladder)—I raised my $50 million fund! This might result in a premature exit where the player can book the adequate win and move on to the next game. Running a squirrelly business is tiring and challenging work. It might be a shiny object from the outside, but on the inside, it is angry customers, no-show employees, and clunky, outdated software. Once the status seeker gets a whiff of reality, they might have difficulty reconciling the supposed glory and the truth—hello exit.

## Lifestyle

Some searchers find their why in the anticipated lifestyle. There is the expectation of being your own boss and having high calendar flexibility and autonomy. ETA might translate into superior work–life balance than the more common 100-plus hour per week post-MBA jobs. Additionally, search can feel like joining

[†] Young Presidents' Organization (YPO).

a club or a community stocked with kindred spirits, all of whom are smart, accomplished, and ambitious; it can be heady. There are academic conferences, investor confabs, and a general network of connections for those in the ecosystem. The ETA lifestyle can be attractive, especially compared to other post-MBA vectors.

We are unabashed fans of ETA, but we are cautious about the lifestyle myth. Raising outside capital is a huge responsibility and comes with tremendous pressure to hit return targets. We constantly remind entrepreneurs that investors call the shots and can always fire a CEO; however, entrepreneurs can never jettison investors. So, while there is autonomy and calendar flexibility, there is always accountability—if external capital is involved. Additionally, in a small business, the CEO is the ultimate backstop. When an employee in the commercial landscaping services company fails to show up, the CEO might be the one to operate the commercial lawn mower that day; the work still needs to be done.

ETA might be tough going in the incipient stages. Despite this, we believe that ETA does provide a better road to work–life balance than being an investment banker or consultant, especially once the business is stabilized and has traction after a few years of operations, but it is still hard and requires premeditation. We discuss these issues in our note On the Nature of Work–Life Integration as a Search Fund CEO. Leading a small business can be all-consuming, with endless fire drills and opportunities. Work–life balance can be elusive no matter how well-intentioned the CEO is.

If lifestyle is the driving why for a searcher, they might gravitate to a self-funded structure where they might own a higher majority percentage of the company and be in total control. If the self-funded searcher is smart and lucky enough, they might wind up owning 100% of the business with no pressure to grow quickly and no return targets to hit. Growth can be geographically limited, and a quick exit or no exit works equally well. Furthermore, lifestyle optimizers might prefer a single company with an organic growth strategy or a limited acquisition orientation in the same industry. This might keep things simpler than for holding company aficionados, who are constantly in a deal-frenzy mode and need to try to be experts in a grab bag of industries.

Regarding holding period, lifestylers might be inclined to stay in the game longer. If they get hold of a decent enough business that generates adequate current period cash flow (say $500,000 to $1 million-plus per year), and they can compound equity at mid-teens returns or higher, all while they coach their kids' soccer teams and limit work travel, why exit? It sounds like a pretty idyllic gig with moderation on multiple fronts and the ability to live the dream despite not likely hitting a grand slam home run.

## Fulfillment

The genesis of the search fund model was centered on operating, leading, and building a business. The first generation of searchers did not seek status; they were oddballs doing something out of the norm. It was not a lifestyle as it is today, and there was no clear path to wealth back then. The ETA trailblazers' why was fulfillment. The goal was to serve customers and team members, manage, create, and get in the muck. While those intrepid trendsetters at the vanguard of an entirely new post-MBA life deployed capital efficiently, they did not label themselves as capital allocators, as is common today. Instead, their self-definition was CEO and leader–operator.

The aim was to solve problems and exploit opportunities, to be in the arena and in the game, compared to watching the action from the sidelines like consultants, investment bankers, and investors. When fulfillment is the driving why, passion is present, not necessarily for the company's specific product or service, but for the process of architecting an enterprise and pursuing customer service and operational excellence at the highest level. We consider passion's role in entrepreneurship in our note On the Nature of Passion in an Entrepreneurial Journey. Finally, in the early days of ETA, the notion of using a search to morph into an investor role was not a concept. There were eight investors and one searcher yearly; the market was minuscule.

Advance to today, and many searchers are still motivated by the fulfillment of captaining a business; but many others have different whys. The landscape has changed. While we will reiterate that there are no right or wrong whys, we believe that fulfillment is the purest why at its core. ETA is fundamentally about commanding a business, an endeavor for operators first and foremost.

Paradoxically, the people who seek fulfillment often wind up the wealthiest, at least anecdotally. When someone wants to be an operator, they tend to stay in the game longer. They actually find satisfaction in the CEO role and do not want to give it up prematurely. They lead with a laser orientation around doing what is right for the business over the long term and shun the quick flip exit. From 2017 to 2020, the average holding period for exiting search fund companies was just 4.3 years, falling from 7.9 years in 2005 to 2008.[3] Holding periods for the first generation or two of searchers was often in decades, with some of the earliest searchers still leading businesses today that they acquired thirty years ago. When CEOs seek to operate for more extended periods of time, they continue to compound their equity and accumulate larger and larger paydays.

Unfortunately, this short-term trend is accelerating, possibly indicating that fewer ETA CEOs have a fulfillment why. One well-placed ETA investor shared that their average holding period for exited investments is 4.4 years. However, they already had two exits in their fourth fund, which is only three years old. Both operated for less than 2 years but generated a 2.5x multiple of invested capital. Moreover, in both cases, the CEOs did not shy away from the desire to realize their personal economics. We view these outcomes as OK but certainly not thrilling. It might have been a very short-term win, but a greater opportunity was missed. Furthermore, who wants to abandon the CEO throne after two years if they were genuinely chasing fulfillment as an operator?

Entrepreneurs targeting fulfillment can find traditional search funds, self-funded searches, and accelerator models all bridges to their sought-after destination. Moreover, purchasing a single company and plying their trade while building domain expertise can be appealing compared to more acquisition-centric approaches.

## Wealth

Probably every entrepreneur is motivated at least a little bit by wealth accumulation, and the allure of riches is part of most ETA stories today. In search fund land, there have been enough big wins, at least tens of millions of dollars, to entice successive cohorts into the jungle. We get it; we all pine for financial independence and no-need-to-work-again money.

Wealth is a common why in the ETA world. Many elite MBA students are mentally doing the calculus on career selection that gets them the most bucks the most quickly on a risk- and probability-adjusted basis. The key themes here are quantity and speed. This is not a get-rich-slowly group; they want the rewards now. Despite the electricity at ETA conferences, we think it is quite difficult to garner a small treasure through the ETA model; many things need to go right, and many are out of the CEO's control. We examine this math in our note Exploring Search Fund Entrepreneur Economics.

Additionally, elite MBA programs, and ETA in particular, are magnets for intensely driven Type A personalities who are overachievers and constantly check where they stand relative to their peer group; that is how they wound up at a fancy graduate school. There is no better and easier quantitative metric in the post-MBA arms race of who won than the money scorecard, and the goal is to be at the top of the proverbial rankings. Although we think it is an awful happiness index, people whisper at the tenth-year reunion that quant hedgie makes $10 million a year. The gal who never spoke in class just raised $50 million, giving her startup an $800 million valuation. The goofy searcher actually pulled it off and sold their business for $183 million, and the PE bro just stood up a $2 billion fund. Money talks in MBA land and, unfortunately, is a standard benchmark for measuring relative stature.

When wealth is the primary why, CEOs tend to take a financial engineering posture; they embrace their optionee status and are not shy about using debt and jamming on the gas for growth. The tone is push hard and push early to hit the return hurdles and generate the dough. This can lead to binary outcomes: big wins or big losses. The vibe is not company caretaker or steward; it is shareholders first and customers and employees a distant second.

When wealth is the paramount why, we observe CEOs racing toward the exit doors. As soon as they are in the money, hit their return requirements, and see a handful of millions of dollars (say $3 to $5 million), they want out. While a pocketful of millions can be life-changing for a young CEO in their 30s, we think this is shortsighted. It can extinguish student debt and provide a solid safety net, but is hardly a hit-the-beach scenario.

Additionally, those whose why stems from wealth might lean toward raising more money; having more dollars behind the CEO provides a bigger mass from which to leverage. Furthermore, pursuing a programmatic acquisition strategy in one industry or many (coincidentally, the flavor of the day now) allows CEOs to bank the baked-in multiple arbitrage in addition to organic growth, high leverage, and the ever-hoped-for synergistic margins. A single company growing organically is too slow and mundane for the hungriest wealth seekers.

In addition to being operator-focused, we were once determined to accumulate wealth. We discovered that wealth can be a powerful short-term motivator, but once some of it is accumulated in cash or hard equity in the business, that catalyst can atrophy. What we found much more motivating was embracing the fulfillment dimension and seeing people on our team thrive and develop. Additionally, operating at a peak level in our industry was tremendously satisfying. We review these themes in our note Exploring Search Fund Entrepreneurship Using Maslow's Hierarchy of Needs as a Framework.

## Conclusion

Initiating a search fund will likely be the single most challenging professional commitment for a post-MBA graduate. It is a project that should not be taken lightly. There must be a burning motivation for every aspiring ETA CEO to make the excursion. This *why* is informative on two key dimensions. First, the better the entrepreneur understands why they are pursuing an entrepreneurial path, the more likely they are to define a structure (traditional search, self-funded search, or an accelerator) that optimizes for those variables. Second, the better aspirants understand their why, the more likely it is that they can select the right strategy for their goals (purchase a single company for organic-centric growth, pursue programmatic acquisitions in one industry, establish a holding company to gobble up disparate companies).

Many search fund entrepreneurs find their why in status, lifestyle, fulfillment, and wealth. An individual's why can only be found through personal reflection and introspection. Additionally, it is hard to fake a why; it must be true and genuine. Different whys will shape and influence the odyssey with somewhat predictable implications. Entrepreneurs should understand their why so that they jump in with their eyes wide open.

We will close by asking again: What is your why for launching a search fund? Regardless of your answer, we wish you a terrific expedition and hope that ETA fulfills all your dreams while building an arc to a meaningful life. Good luck, and we are rooting for you every step of the way!

## Endnotes

[1] Jeff Stevens is the founder and Managing Director of Anacapa Partners, a San Mateo, California–based institutional search fund investment firm. Stevens was also a search fund entrepreneur multiple times before becoming an investor.

[2] A. J. Wasserstein is the Eugene F. Williams, Jr., Senior Lecturer in the Practice of Management at the Yale School of Management.

[3] Kelly, Peter, and Heston, Sara. *2024 Search Fund Study Selected Observations.* Stanford University Graduate School of Business. Case E-870..