

Post-COVID-19, is the Future of Businesses Online?

PAYCHEX
Business
Series

Coronavirus



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Mark Daoust

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Full transcript

Gene Marks:

Hey everybody and welcome to the Paychex Business Series podcast. I'm your host Gene Marks. I'm a certified public accountant and regular business columnist for a bunch of publications, including *Forbes*, *Entrepreneur*, *The Hill*, *The Washington Times*, *The Guardian*, *The Philadelphia Enquirer* — a bunch of publications. But more importantly, I'm a small business owner of a financial and technology management services company. I've teamed up with Paychex, the leading provider of human resources, payroll, benefits, and insurance services to bring you real-life advice from real-life business owners and industry experts. And in this podcast, we'll talk about the complexities of running a business and how they're handling the challenges they face.

My guest is Mark Daoust. Mark is the founder and CEO of Quiet Light Brokerage, where you can find him at quietlightbrokerage.com. And Mark, your company is really a broker for anybody looking to buy or sell or start their own internet-based business. Am I describing you correctly?

Mark Daoust:

Absolutely. More the buy and sell. We don't do too much on the start side. Of course, I love to talk to people that are starting just because I'm kind of a geek when it comes to this stuff and find it all super enjoyable. But yeah, we are an advisory firm for those looking to exit their online businesses. And we certainly work on the buy side as well to help those who are looking for them.

Gene Marks:

When I did some research, your website talks about selling your website. I mean, what does selling your website mean?

Mark Daoust:

Actually, so when we started, that was more the language that we used, and we've been moving away from it just because the online world has obviously changed. But back when I started in 2006–2007, everything was just a website. And what I really focused on back then were the people who had profitable websites, websites making money, either through affiliate income or some other way, and were looking to exit that. Maybe they had a full-time job, and it just became too much for them to manage or any other reason at all. But as we've grown and as this industry has matured, it's turned more into just online business.

Gene Marks:

So who were your clients? Tell me, give me some examples, some of the businesses—are these e-commerce sites? Are these, like you said, affiliate marketers? What's your bread and butter?

Mark Daoust:

Yeah. All of the above. So we do have a tilt toward e-commerce, and these days, if you're in e-commerce, you're typically in Amazon. So we do a lot of work with Amazon FBA sellers, those utilizing that marketplace, but also e-commerce businesses that may not be on Amazon. Maybe they have a Shopify store or a Magento store. We also work with SAS companies and content sites. We actually have a couple of very exciting content sites. So think blogs or courses, but a little bit above the "Dear Internet, here's what I did today..." sort of blog. These are thematic and giving some very specific advice and really good information. So our rule is, if it's online, we work with it.

Gene Marks:

So would you say the companies that you work with, they're buying or selling their sites, it's pretty much their core business? Or do you have some clients that are: my core business is selling retail, I do have a website, I want to spin off my website and stay focused on my retail channel. What's more common?

Mark Daoust:

More of the former. I mean, we do get the latter where you might have somebody who has a physical store and is looking to sell just the web portion. But typically it actually works the other way when somebody has a physical store and they start online, they realize: I think I actually want to do the online thing instead. They typically keep that portion. The vast majority of what we do is people who their core business, it's online. They started online, they've grown online. They understand how to build an online business.

Gene Marks:

You and I don't know each other that well, so I don't know how much you know, but there's been this pandemic going on, this coronavirus thing, you aware of that?

Mark Daoust:

Really? Oh yeah.

Gene Marks:

Yeah. Just to bring you up to speed. It's a global thing, it's been affecting a lot of people. Anyway, what does that do for your market? I mean, has there been an uptick in people selling their sites or a drop off? What has that been like for your business in the past couple of months?

Mark Daoust:

Yeah, I've been getting that question a lot. Understandably so. I would describe it more as a pause. Right around the time where the pandemic news just sunk in, and we saw the markets tank, there was just a kind of a pause. And the pause happened somewhat on the buy side, although most buyers were pushing ahead; we actually were closing deals during that time. The pause more came on the sell side. And the reason for this is that there were just these temporary disruptions that happened in a lot of our clients' businesses that needed to be addressed. And these disruptions may have been with their inventory supply. A lot of clients, a lot of e-commerce businesses, order inventory from China, and China had just come out of their lockdowns. So that caused a pause maybe with inventory outages, or Amazon was giving preference to essential products and that may have caused some problems.

But on the flip side, a lot of our clients saw massive spikes in business where they were just trying to hang on. And the idea of selling at that time just didn't make sense because who knows what was going to happen in the future with their business. Now, today, we're several months past that, we are seeing a return of a business as normal as far as deal flow is concerned and businesses coming to market.

I'm fascinated to see what's going to happen in the next few months. But the big question in my space is: has this restructured the way people shop permanently? In other words, our clients who have seen this big spike in income, is that going to settle back down to pre-COVID levels, or are we going to see the new floor be higher?

Gene Marks:

So let me jump in on that. It's a fascinating question that you're asking because when I talk to a lot of business owners around the country, many of them were able to navigate through this downturn by opening other channels. And one of those channels, of course, was selling online. And I've had a lot of people tell me like, "Wow, man, we've expanded our online presence. Thank God for that. It's generated a lot of sales for us." You know what I mean? So do you think that that seems like an opportunity for me to invest in an online business, buy an online business, if we think there could be a fundamental change in buying habits going forward, or at least just to have another channel. Do you think that's where we're going to go?

Mark Daoust:

I think so. And this has been the other interesting thing that's happened. Within about two weeks or three weeks of the market crashing, I heard from a lot of buyers and a lot of people in my network saying, "I'm ready, I'm ready for the deals." Right? And they were casting back to the Great Recession when we had that, because there were a lot of deals with the Great Recession. Online businesses got hurt during that time. We saw a lot of businesses with a decline in revenues. The opposite seems to be happening this time around.

The pandemic, if we could ever say a pandemic is good, which I don't think we can, but it has been good for online businesses, generally speaking. And I think the opportunity to invest is that online businesses in the space are valued based off their recent historical performance. But I think the future looks really good for a lot of these businesses, especially if we do see a restructuring of how people shop. So I think the deals are there, but not in the way many buyers were expecting. I think the deals are that if we wait a year or two years, a lot of these businesses have the potential to be significantly more expensive and valuable.

Gene Marks:

Yeah. And it seems like an opportunity both for buyers and sellers. If I'm looking to sell a site, I could pitch that to a buyer and say, "Hey, this is my price. But you can see where the trend is going. You might be getting in on the ground floor." If you're looking to buy a site, same reason—it's an investment if you think that's where things are going to go. I think I know the answer to this question, but I want to hear your thoughts on it. You mentioned that in 2009 online businesses got hurt, but in this economic downturn, the opposite is the case: online businesses and e-commerce have been growing. What's the difference between now and 2009?

Mark Daoust:

Well, and just to be clear, there have been some online businesses that have been hurt, if you're in the wrong industry, right?

Gene Marks:

Yeah, true.

Mark Daoust:

But I mean, the answer should be fairly obvious. It's the fact that people have been forced to stay home and do their shopping from home. I'll take the pet category, for example. We've had the opportunity to look at a few businesses offering pet products. People traditionally like to go into stores to shop for pets. They'd like to see what they're buying for their dog or their cat or their bird. Being that these stores were largely shut down across the country, it forced people online, and so we're seeing those businesses have a huge spike in revenues. I mean, just mind-boggling what the growth is. And so the question we have to ask then is: will people, once they have the opportunity to go back in stores, will they do that for the regular items that they're going to get? Or now are they more inclined to repeat the behavior that they were forced to take with the shutdowns?

Some industries, not so much. Kids and crafts and games, those went through the roof—I mean, just Christmas on steroids for a lot of these companies. And I would expect that to pull back somewhat because eventually kids are going to be going back to school and parents aren't going to be trying to figure out how in the world do I entertain my kids and work at the same time, which drove that. The general assessment, in my opinion, is that online businesses have had a huge boon. Once we start slicing this up, we do see some that were hurt. We do see some that will have a permanent structural shift, I think, in the way people think about their businesses and others that may see a retraction to pre-COVID levels. But to what level? I mean, this is all looking into a crystal ball. That's more deep in the ball than I can really look.

Gene Marks:

Yeah. As I found talking to epidemiologists and economists, no one really knows.

Mark Daoust:

Just be prepared to be wrong, right?

Gene Marks:

Right, be prepared. And you do this for a living and you see it and in the end, like you just said, you're not a hundred percent certain where it's going to go, but you do have some inklings. If I wanted to buy, like you talked about, acquire a site or an e-commerce company, do you find that buyers buy their targets because they want to add an e-commerce platform to their existing business? Or do you find that they buy a target because they want to just buy that business and operate it?

Mark Daoust:

Yeah. More of the latter. What we do see quite a bit are people coming from the non-online world and moving into the online world. The online world offers distinct advantages over the physical world. And obviously there are some drawbacks as well, but the distinct advantage is really a freedom of lifestyle. I'll point to a business that I sold last year that was pulling in around \$15 million in revenue per year, had a total of three employees that were all remote, and the owner was working about 20 hours a week on that business. The ability to scale without adding a significant amount of infrastructure in people or physical buildings, or even physical products, is much more—you're much more capable of doing that in the online world.

And so we do see a lot of people who come from the offline world, the brick-and-mortar space, and are looking for a little bit more flexibility in their work-life balance, and the online world provides that. Now it comes with risks, that's the offset, right? Every benefit comes with some risks on the offset, and that is you lack physical infrastructure, and so your value is really built up in the business itself. But when we're looking at buyers, most buyers are adding to existing online portfolios or making that jump from the offline world into the online world.

Gene Marks:

With COVID, I've seen a lot of my clients and a lot of people I speak to, older business owners have been talking about selling their businesses, and a big reason why is because they're older. The average age of the U.S. small business owner is over the age of 50. And with COVID, for many of them it was like: this is the last straw. I've got to get out. Online businesses, do you find that the average age of the business owners is ... I would think they would trend younger, which would mean that they would have a different mindset toward selling their online business? Do you find that?

Mark Daoust:

Yes. That's certainly fair. It does trend younger. Although as we all age, I think that number is going up, right? When I got into the online role that I've been in, I graduated college in 2000 and jumped into the online world right away. And I was part of what I would consider maybe this first wave of large numbers of entrepreneurs getting into this space, maybe at the beginning part of that wave. And as we've gone forward, people that I've known for a long time, obviously we're all aging at the same time. And so I would imagine that time will cure that and make more of a balanced age group. We do see people in their sixties with online businesses that are coming to sell, but most people who are selling their online businesses are doing so because they're moving to a new opportunity and tend to be more interested in that startup process. And once they get established with an online business, many of them are just looking to do something different because it's fun to start and not as fun to run over a long period of time.

Gene Marks:

Coming out of the pandemic, are you making any different types of recommendations or giving any different advice to people looking to either buy or sell an online business?

Mark Daoust:

That's a really good question. On the buy side, it's really understanding the bump that you're going to see in somebody's financials during the COVID period. And this is the biggest question, obviously, on the buy side is: am I going to get a good return on my investment or am I going to lose my money in this space? Because if the business disappears, you lose your money, you don't have the benefit of the physical assets to sell to reclaim some of your money. When you're looking at the profit-and-loss statements of the historical financials of any online business, you will see something happened during

March and April and May, and understanding is this COVID-related or is this something else is really important. And that's going to be a difficult challenge.

On the sell side, really it's just to keep a steady hand. I think for a lot of sellers, this whole experience has been really difficult, even those that have seen a huge jump. I spoke to one individual whose sales jumped to over a hundred thousand dollars per day, and he was telling me, "I've raised rates to try and hold on to inventory." Because he wasn't used to selling at that pace. And so the instinct on some of these people's part is to get out, it's too volatile, I can't do this. Well, this is such a unique event, I think taking a longer-term outlook and allowing for some of the dust to settle is probably a very good thing. So keeping a steady hand through this, seeing it through the entire process, and seeing where you end up at the end of the day. I think we would all benefit from a longer-term outlook.

Gene Marks:

Mark Daoust is the founder and CEO of Quiet Light Brokerage, which is a broker that specializes in buying and selling internet businesses, online websites, e-commerce sites. Mark, by the way, before I let you go, you're based in North Carolina?

Mark Daoust:

We're headquartered in North Carolina. I'm actually in Minneapolis-St. Paul. We're all over.

Gene Marks:

I saw that on your LinkedIn profile. So you're running it virtually.

Mark Daoust:

That's right. Absolutely. Everyone that works for Quiet Light Brokerage, we all work from individual places, including Georgia, the country, and the UK.

Gene Marks:

That's fantastic. That's a whole other conversation we can have some other time, but that's great. So again, quietlightbrokerage.com is Mark's site. If you're looking to buy an online business or sell your own online business, Mark's services, his brokers might be very beneficial. For more information about what we discussed today and other coronavirus questions and topics, please visit the Paychex COVID-19 Help Center. The address is paychex.com/coronavirus-resources. Mark, thank you. Great advice and great information. I might look into some of the things that you're offering as an aside, but thank you for spending some time with me today. And everyone, thanks for listening and we will see you all next time.