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Last week: DJIA 42654.74 ▲ 1405.36 3.41% NASDAQ 19211.10 ▲ 7.2% STOXX 600 549.26 ▲ 2.15 10-YR. TREASURY ▼ 16/32, yield 4.43% OIL $64.49 ▲ $1.47 EURO $1.1165 YEN 145.64

'Stealthy Wealthy' Are Making Money With Boring Businesses

By Juliet Chung

Derek Olson grew up dreaming about the thrill of running his own business. Decades later, that dream came true and made him wealthy—just not exactly in the way he expected. Olson has made a fortune making machines that rip up flooring, like carpeting in elementary schools.

"This is how sexy it is: The average elementary school in the United States has 7 miles of carpet—and children are disgusting," said Olson, chief executive of National Flooring Equipment and the father of two, chuckling. "So elementary schools basically need their floors redone almost every summer. It's this niche industry that no one knows about and everybody needs."

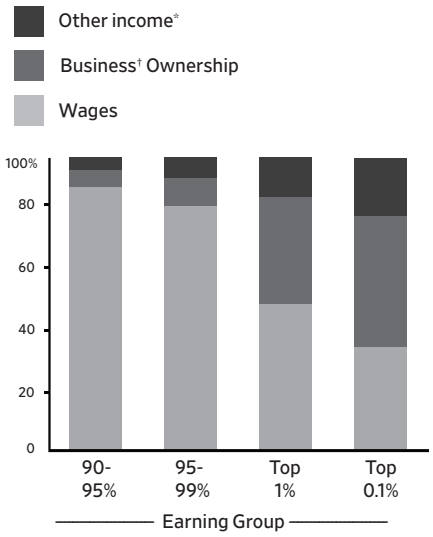
Finance and Silicon Valley offer glamorous, high-profile paths that can lead to significant wealth. But a vast universe of traditional routes focused on providing goods and services has become increasingly central to the accumulation of significant, if less obvious, wealth in the U.S.

"We call it the stealthy wealthy," said Owen Zidar, a Princeton University economist who has studied the group with University of Chicago economist Eric Zwick.

Olson's annual income running his flooring-equipment company puts him in the top 1% of earners in the U.S., or people who as of 2022 made at least $550,000, excluding capital gains. He expects Minnesota-based National to bring in roughly $50 million in revenue this year, after recently buying an Australian manufacturer. His family's luxuries include two Land Rovers, private school for the kids and a month-long European summer vacation.

Behind a paycheck, the largest source of income for the 1% highest earners in the U.S. isn't being a partner at an investment bank or launching a one-in-a-million tech startup. It is owning a medium-size regional business. Many of them are distinctly boring and extremely lucrative, like auto dealerships, beverage distributors, grocery stores, dental practices and law firms, according to Zidar and Zwick.

Top income sources, by earning group



Note: Data as of 2022.

*Includes dividends and interest.

†Entities where profit and losses flow through to owners and partners, and the business itself doesn't pay taxes.

Sources: Zidar, Zwick and data from Emmanuel Saez based on IRS Statistics of Income Data

Their analysis of anonymized tax data from 2000 through 2022 suggests the importance of such business ownership to the U.S. economy has grown. The share of income that ownership generates has increased to 34.9% in 2022 from 30.3% in 2014 for the top 1% earners.

It has increased even more at the topmost levels. The top 0.1%

'Stealthy Wealthy' Prosper

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highest-earners saw 43.1% of their income come from such business ownership in 2022, compared with 37.3% in 2014. (The minimum income threshold in 2022 to qualify for the top 0.1% of earners was $2.3 million, according to Zidar.)

"I still am sometimes surprised by the business that somebody's built that turns into wealth creation for the family and becomes a part of the American economy," said Greg Fleming, chief executive of Rockefeller Capital Management, which manages or has under administration or brokerage more than $150 billion for wealthy clients.

In his 37-year career, Fleming has seen significant wealth created by carwashes, residential-lighting companies and companies that distribute parts for industrial appliances in need of repair.

The New York-based Rockefeller has expanded its reach to "emerging wealth centers," such as Grand Rapids, Mich., and Winter Park, Fla.

Zidar and Zwick attribute the growth of this group to tax cuts in recent decades for such business owners and low interest rates that have boosted company valuations. The number of such business owners worth $10 million or more, adjusted for inflation, has more than doubled since 2001, to 1.6 million as of 2022.

Zidar and Zwick studied what the Internal Revenue Service calls S-corporations and partnerships, where the profits and losses of the business flow through to the owners or partners, and the business itself doesn't pay taxes. The typical medium-size business they studied has annual sales of $20 million and 100 employees.

David MacNeil, 66, founder of car-accessories maker WeatherTech, made his fortune on car floor mats.

He worked as a tool-and-die maker, dropped out of college and sold luxury cars. He rented a car on a trip to Scotland in 1989 and immediately noticed its floor mats. Thick, and with a border preventing water and mud from running off, the rubber mats were superior to anything he had seen in the U.S.

Many midsize regional businesses are distinctly boring, very lucrative.

MacNeil called the English manufacturer when he was back home in Chicago and eventually worked out a deal to buy a 20-foot shipping container of the black mats to sell in the U.S., taking out a second mortgage on his home to do so.

"By the end of '91 I made $40,000. By the end of '92 I made $160,000. By the end of '93 I made $400,000," recalled MacNeil, who by that time was married and a father. "While all this was going on, if you called my 800 number at three in the morning, you know who would answer it? I would."

The business MacNeil started from his garage 35 years ago now employs about 1,800 people in Bolingbrook, Ill. and makes nearly its entire range of car accessories and other products in the U.S. MacNeil expects his company to bring in about $800 million in revenue this year.

WeatherTech's sole owner, MacNeil lives in Florida, owns multiple multimillion-dollar properties and indulges in passions like collecting antique cars and flying his Gulfstream jet.

Larry Fleming, 80, a Wendy's franchisee, made his money in burgers and then beer. The tipping point for focusing on beverages came when the Muskogee, Okla., beer distributor he had bought in 1977 started outearning the fast-food restaurants he had bought a little earlier.

Fleming sold his fast-food business in 2017—it numbered 43 restaurants by then—for more than $50 million, including the real estate.

Fleming's beverage distribution company, LDF Sales and Distributing, sells Coors, Miller and other products to roughly the eastern halves of Oklahoma and Kansas. He has grown LDF partly by buying distribution rights and other distributors.

The company has about 64% market share in Oklahoma and annual sales approaching $250 million.

"Any time two out of three beers going out of a restaurant or grocery store are yours, that's a good thing," Fleming said.