Creative M&A Strategies

Abstract

One of the fastest ways for independent businesses to grow is to acquire another business, adding a lump of clients and their assets to a portfolio all at once. The reality is, however, that setting out to buy a business isn't that simple. An external source that guides this journey is often not a luxury but rather a necessity.

First, your business must be able to handle a sudden influx of new clients. Your infrastructure must be strong, you must have the people and resources available to provide quality service to clients immediately following the transition, and you must have the financial means to purchase. Second, the current marketplace right now is favoring sellers more than ever. Not only are we experiencing a 50:1 buyer to seller ratio on the open market, but values are at a high and the competition is stiff. We're seeing a greater number of experienced buyers vying for a seat at the table, and we're seeing more savvy sellers making strategic decisions. Finally, being able to meet the asking price alone doesn't necessarily constitute a good fit. Even if you have everything in place to acquire, you must meet a seller's specific criteria in other areas to be considered.

The good news is that our industry has several other ways to achieve the same exponential growth as buying a business without a "traditional" acquisition. Strategies like mergers, continuity partnerships, succession planning, strategic partnerships, and sell & stay tracks offer alternatives for advisors who may not have the enterprise strength to execute a traditional acquisition strategy. The following avenues take planning and patience, but they can yield incredible growth and value in the long run when it's done right.

Mergers the M in M&A are similar to traditional acquisitions in that they pool two or more business's into one enterprise, but they differ in that they are a combining of businesses, usually into one new entity, and retain most, if not all, owners rather than an owner simply selling and walking away. Every merger is unique to the situations and goals of the parties involved and provides benefits and growth that go beyond a simple doubling of resources and clients.
A merger is an excellent growth strategy for smaller businesses. This can achieve the desired spike in growth while also incorporating the additional resources and personnel to support it. Here smaller owners gain ownership of a much more valuable company while larger businesses often gain access to a niche market.

Continuity Partnership – A formalized continuity plan is essential to protect the clients, business, and family against the unexpected exit of an owner. It is important to find the right continuity partner who is ready to step in should something happen to you. But what are the benefits of being someone else's "safety net?" As a continuity partner, you may find yourself in the right place to acquire the business in the event of the owner's exit–either planned or unplanned.

It's not about waiting for tragedy to strike; it's about building trust. While continuity partnership as an acquisition strategy does not yield immediate growth, you are building strong, trusting relationships with the owner–and the clients. If, or when, your partner finds themselves in a position to sell or slow down, as a trusted partner, you'll be poised at the top of the potential buyer list.

Sell and continue - This strategy involves the owner of a firm selling their ownership in a business while remaining on as an employee who still earns a wage and benefits. This is an enticing option for owners who would still like to earn an income but are interested in winding down their management obligations. Often sellers who opt for this strategy are interested in a gradual transition into retirement but have no replacement in the picture or are simply no longer interested in the management side of business and would like to concentrate on other aspects or parts of in the business (development, ambassadorship, etc.).

As a buyer, it's important to be aware of this path, especially when encountering an interested, yet reluctant, seller. They may not be aware of the Sell and Continue option and the benefits it offers. Being amenable to this type of transaction opens more opportunities for acquisition.

Partial Acquisition - This isn't a drastically different strategy than a traditional acquisition, but it is an option that not many sellers are aware of. Like the Sell and continue strategy, this is an avenue owners can take when they're ready to slow down, but not ready to stop working altogether and give up their income. Alternatively, selling a business partial is a strategy some owners employ when refocusing their business in terms of products and service diversification or demographics. As a potential buyer, be on the lookout for these partial opportunities in your network and on the open market as they often carry

Joint Venture / Strategic Alliance - This strategy falls somewhere between networking and continuity partnership. Make connections and build relationships with other businesses in your network. Form partnerships that benefit both businesses, such as providing referrals for certain investment paths or professional services and products, in-country knowhow, etc. Host joint networking events in the country / region where you can facilitate connections between your respective client bases.

These sorts of alliances don't have to be between two businesses. Referral programs and partnerships between businesses with similar client bases can be a smart client prospecting strategy. For instance, your business could link with a local business to collectively open up a pool of prospective clients.

As an alternative growth strategy, strategic alliances are not a guaranteed acquisition down the road, but they build trust and put you in a good position if a partner decides it's time to reduce their business. Regardless, forming these partnerships increases value and boosts client growth.

Fit is Paramount - No matter which acquisition strategy you employ–traditional, merger, partnership, or some other path–the fit is the most important thing. None of these are a quick handoff as the seller walks out the door. Each will require all parties to work together for a certain amount of time to build foundations and allow for a smooth transition of business resources and clients.

When choosing who might one day be caring for their clients, owners are looking for buyers or partners that operate with certain philosophies, standards, and practices that align with their own.

What's more, fair dealing and goodwill goes a long way from the outset of a deal or partnership. As a prospective buyer/partner, you'll likely have more experience in acquiring than a seller has in selling. Don't be a predatory buyer; offer fair terms, share your expertise about the process, and be patient. It's all about building trust with the seller and putting them at ease.

Set your path - There's no denying that acquiring a business is the fastest way to grow your business. Luckily, there are many strategies for achieving this goal, and there is likely one that will work for you, whatever your current situation is, if you know what opportunities to look for.

Taking a creative approach to acquisition is about being open to other growth paths beyond the traditional transition of clients from one advisor to another. By thinking broadly, and more strategically, you open up your options and increase your chances for success.

References

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