The Deal Room Podcast

Episode 143 – Why business acquisition is a killer growth strategy part 2

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Transcript

Joanna: If you haven't listened to part one of this two-part series, I highly recommend that you go back and listen to part one where we talked about why business acquisition is a killer growth strategy. We looked at alternative approaches to achieving growth. And we talked about the reasons why acquisitions create such an incredible opportunity. We also reflected on many factors that need to be considered in assessing the suitability of acquisition as a growth strategy for your organization. And we looked at funding considerations and also a whole heap of examples of where this has been really successfully applied. But today as our second and last part, of course of our two part series, we start off by drilling into the importance of understanding a broader scope of the market.

Other industries that are ripe at the moment for acquisitions

When dealing with acquisitions, we talked about how buyers can clearly understand what funding requirements they're going to need to make not just for the acquisition, but also for working capital in the business moving forward. And finally, In this episode, we share with you the best actionable tips and takeaways to perfect the strategy of acquisition. So buckle in here we go again with our discussion with Simon Bedard of Exit Advisory and Nick wormald of Grow Capital.

Well, and we've talked a bit about, you know, the medical and allied health space, but what other industries do you think are ripe at the moment for this and I've just got to throw in there. One thing that I've seen recently, work amazingly well is gym businesses. I've seen a lot of small businesses now. branching out and purchasing multiple gym businesses and taking advantage of the economies of scale, taking advantage of being able to get a more experienced and expensive management team because they're across a number of businesses now,not just one business taking advantage of shared marketing costs and insights. I mean, there's just so many elements and you know, some of the guys we've been working with, this has just been a license to print money, you know, like, it's really clever if you can work out how to make acquisitions work in this way. So What are the industries you guys are seeing?

Importance of understanding a broader scope of the market

Simon: I'm seeing quite a lot actually. I've seen anything from you know, furniture, I've seen engineering companies. I guess what I'm kind of curious about is what I think is the smartest sort of approach to acquisitions, right? We talked about a couple of different categories out there, but if I'm a business owner, and I am but if I'm looking to go out there and acquire to grow, I guess what I'm trying to understand is what my market looks like? What's my vertical industry chain look like upstream downstream? What do my competitors look like? What do those complementary businesses look like? And I kind of want to understand a broader scope of the market because at the end of the day, whichever way you go, there is an opportunity cost, right? So if I buy Company A, it's highly unlikely I'm going to be in a position to buy Company B for anytime in the near future, right. A, you're probably being tapped out on your finance or B, you're going through an integration process. So you'll be doing a whole kind of reality check, I guess on this new business or hindsight and that just takes time. So, for me, I think it's more about saying, looking at that market and going well, which of these opportunities actually represents the best opportunity for growth, and that might be in top line revenue, but it might actually be in margin, it might give you growth in different areas, it might give you a different product suite that enables you to leverage into a different space. You know, and I think a lot of this needs to come from the business owners because they know their sector best, right? But I definitely think it's about understanding that in your market, and then trying to pick your targets.

Joanna: Yeah. So I guess the first thing we say is acquisition is a killer growth strategy that maybe businesses haven't considered before. But now you've got it in your mind that you understand there's some opportunity, don't just rush headlong into it, because we're not saying acquiring anything is a good idea. saying, you know, and there's a lot of statistics around that right that say that I've seen many figures band and about But somewhere between 75 to 90%, in any, you know, sort of report, I might read talks about the failure rate of acquisitions.

And of course, in talking about that statistic, it assumes that you understand the difference between a successful acquisition and a failed acquisition as well. And so I think it is point number two, like so get that acquisition can be a killer growth strategy. But it in and of itself isn't, you know, that you've got to then make sure your strategy is clear and make sure your approach is clear to ensure that you're actually doing something that benefits your business because, boy, acquisitions can take a lot of mental time and space as well. Right?

Simon: Yeah, yeah. The last thing you want is acquisition for Acquisition sake. So I think like anything in any project you might undertake in your business, any kind of strategy you might implement is what is the purpose. What are we trying to achieve? And so in an acquisition, it is what we actually want to acquire here and So that that probably feeds back into a lot of discussions you have around, well, are you selling the company? Or are you selling the asset? Yeah, bald, and what do you expect from the previous owners? What are you buying? And why are you buying that? Because fundamentally point to something really solid that underpins your core business, you should probably think about a different deal.

Understanding the real asset in acquisitions

Joanna: And you're absolutely right, because that's one of the things that we talk about with our clients is the importance of understanding what is the real asset in terms of what you're purchasing? Because it's not just good enough to go and say, you know, I'm buying a business on buying a share, you have to understand what the value is that you want to get out of that to ensure that that value transfers to the buyer it because there's so many instances of deals that we've seen from afar where people just haven't asked this question, and they haven't been able to make the most of the benefit, the value that they thought was in the business because they've never articulated it, and they've never worked out how that will actually come across.

Simon: Absolutely and a very good question. I'm interested in Nick's perspective on this one. But one of the things I always say is, especially for people who haven't acquired businesses before, they can underestimate the amount of working capital and things like that, that you need in the business. Now they're looking at the purchase price. Let's put aside for a moment if there's actual stock in the business, even, you know, because that adds additional complexity and working capital requirements.

But let's say you're buying just a consulting business, people can underestimate how much working capital they need going forward to be able to continue funding that additional growth. And some of that might come from cutting a little bit of cost, but how do you continue to fund this trajectory? And Nick, I guess I'd be interested to know I mean, do you get clients going through this process? And do they generally miss this point? Do they end up coming back to you anymore? or?

Nick: Yeah, look, it's a good point. Going back to my example of the manufacturers, he wasn't purchasing EBITor net profit here. Was purchasing staff equipment in contracts? It was a way for him, he can now produce these frames for others from manufacturers. He's got a staff that he can spread around his factory and improve the efficiency of the way his businesses run. But going back to your point, there's a lot of business owners that we see looking to purchase and doing so just to basically to put the net profit on their bottom line. So they want to just want to take that, that what they see is the profit and loss statement and increase the amount of profit that they've put in their business. And it's a Yeah, it's almost like a blanket approach. They get a gun to their head first, and then nine times out of 10. They pull out and then don't go ahead because they haven't looked at the I guess the opposite of the synergies, the things that aren't synergistic.

Clearly understand what funding requirements you're going to need to make

Simon: Yeah. And I think at the end of the day, it's about the total cost of ownership right? And not just buying an asset, you're buying the costs that come with that asset, you need to know how to grow that and manage it.

Joanna: And how to clearly understand what funding requirements you're going to need to make the most out of this baby. because quite often what happens is buyers come in with a whole heap of energy for what they want to do with this new entity, but that needs funding. And the worst possible point, Nick, I'm guessing, you know, going to organize this funding is when you need it. That's what we all say, isn't it?

Nick: Here's another example with the cash flow with exactly that, so a company that buys another company that's a lot bigger than they are and their click costs go from 300,000 a month to 3 million a month, right? So they've all of a sudden, they could stop the cash flow gap 300,000 a month with their own personal funds. Once it's 3 million a month, it's a lot more money moving through the business. If they've got any delays in their clients paying invoices or any sort of deterioration of this supplier turns, net cash flow gets bigger and bigger. And that's a big chunk of money. So generally we put cash flow facilities in place for our clients just to buffer that if that cash flow gap increases you typically over the result.

Joanna: I'm glad you mentioned that, because I think that's another really important point as well, when you're adding on another organization, you've got this whole integration, you know, issue to deal with. But one of the things that can be created is this magnifier of the issues that are already in your business. And if you haven't fixed them up, certainly we see that from a legal perspective and the importance of really fortifying your business before you're going in to try and add something else into it. And you know, absolutely, I think you're spot on from the funding perspective as well. Simon, are there any, you know, any sort of areas that you've seen this creep up and how do you deal with your clients in terms of making sure that they're sort of thinking this through from an integration perspective.

Simon: Yeah. Well, I think certainly from our perspective, because naturally we do represent a lot of clients in these kinds of processes. But for us, it's really about understanding their why upfront. Yeah. You said and I actually, you know, you've got your business but I sort of want to go even further back and say, what's your personal reason for all this? Right? You know, and I think all of us, anybody who's been in business for themselves, I think all of us have suffered from this. We're passionate and we love what we do. We want to grow, we run around, we're moving fast, keep up with people, you know, and it's just sheer excitement right? and I think we have all... well, I certainly, you know, experienced it myself and...

Joanna: Been a fly on the wall in my office. Haha

Simon: Hahaha. Doesn't necessarily lead to the most logical thought processes, right, it's an excitement, right? But, you know, I think for me, I just, I'm always asking the question of, okay, you want to grow I get that, but why do you want to grow? What what's important to you? Where are you going with this?

You know, when things grow without a purpose. That's actually called cancer as well, right, it's a really bad thing. And I've seen examples where people have gone from lovely businesses turning over 4-5 million. They've grown it up to 10-12 you know, and more, only to realize that they were making roughly the same money but now they've got all these staff that would no longer work they enjoyed and literally scaled it back down again to have a lifestyle business that they love.

And it took all of that journey and all that heartache and pain and effort and risk frankly, for them to realize what they wanted in the first place. So I think you can sort of shortcut that a little clip here. So there still be a little bit soul searching, talk to your family, talk to people who love you and care about you and don't mind telling you you know that you're off the wall and you know, because it's much cheaper to take that on the chin and hear it up front and then make decisions than it is to go through all that.

Joanna: I know but that wouldn't that doesn't make for an entrepreneur though does it Simon really?

Simon: Podcast material too.

Join us on our webinar

Joanna: I love it. I love it. Okay, guys, this has been fabulous. You know, I think we should do a, you know, run around now there any passing thoughts leaving tips to leave our audience with and I think you we should talk about the fact that we think this is so important for business that we've put together a webinar that we'll be opening up to all of you, our listeners. And if you are listening to this in the future, and you've missed the webinar, don't worry, we'll find a way to deliver it to you as well. If you're interested to find out about how to nail the strategy of acquisition, then check out our podcast notes, the show notes here and also over on our website at www.thedealroompodcast.com, where we'll have a link straight through to where you can register for these webinars. So Alright guys, what's your leaving thoughts and tips? For our listeners out there, Simon?

Tips and takeaways

Simon: I've got two little things for you one, acquisitions. It's not just for the big boys, you know, it's..

Joanna: Yeah, you stole my thunder. Stop it. Haha. Don't worry I'll let you continue, off you go Simon.

Simon: Haha. So, positions for small companies can be an enormously powerful way to grow your business enormously powerful. And yet and the second point I'd make to it is just understand the process of it because it can feel like a full time job. So if you're going to try to do it all yourself, and that's fine if you feel you have the competence and confidence and time and all those things, but it takes a lot of time and a lot of effort and frankly, when you're in the middle of a deal, it's your money on the line and things like that. It can get a bit emotional for you. And so if you're not confident you can navigate that on your own, get some help.

Joanna: Yeah, absolutely. I love it. I love it Simon, yeah, I think you're listening to my thought process there. Say you stole my exact ideas. Hahaha. So, Nick, what about you? What's your parting thoughts for our audience?

Nick: Yeah Simon's got it, that's it.

Joanna: Hahah done.

Nick: Haha, So there's one thing that I see that breaks, deals, people buying businesses, there's one single thing that I see in is that that's when they're organizing the finance after they found the business. It's the same as buying a house, you don't go and find the house, and then go look for the money. You find the money first, and then you go and buy the business.

Joanna: Do you know that's such a good point? Because I've seen, in fact, we just had a deal last week that fell over because for that exact reason, there are a couple of others as well, but that was one of the primary reasons, which can be heartbreaking for buyers because it gets really emotional. And you know, as Simon said, absolutely, and, you know, people listening to this might scoff at that idea, but it can be a big thought process involve a lot of time and energy but I see prospective buyers out there getting really attached to the deal before A they've got their ducks in a line from funding B they've got their ducks in a line from proper due diligence and understanding what the risks are in a business that they're about to acquire that if not properly understood, can tear their whole business down.

So it's about making sure your ducks are in a line and as Simon so expertly said, like understanding why the hell you're doing it in the first place, right, you know, understand your strategy, understand what success even looks like. So I think, you know, it's all of those things combined, that mean that it's preparation, looking into a deal, that is you know, is the fundamental element of working out whether or not you get to success at the end and you get to these killer growth strategy or whether you're just creating a killer pain in the neck for yourself. Right.

Oh guys, this has been fabulous. I'll tell you what, I'm looking forward to a webinar with both of you. This is some, this is going to be exciting stuff. And on the webinar, you know, we'll be providing a lot of information about if you're looking at acquisition as a growth strategy, how you can turn that into a success, but also how you can understand strategy and make it work for you rather than against you. So I'm looking forward to it, guys.

Nick: Thanks, Jo.

Simon: Absolutely. Thanks, Jo.

Joanna: Brilliant. Well, see you there. And you the listener, hopefully, we'll see you there too. And as I said, Have no fear. If you miss out on the live performance. You may not get to pick our brains and ask questions, but you'll certainly get to hear what we talked about and what everyone else asked on the webinar. Fabulous. Okay, wonderful guys. I absolutely loved it. I'm sure we'll be back with both of you again soon.

Simon: Thanks, Jo.

Nick: Thanks, Jo.

Joanna: Well that's it for our last part of our two-part series all about why business acquisition is a killer growth strategy. I hope you found the content useful and informative. And if you'd like more information about this topic, or if you'd like to find out how you can get involved in the webinar that we will be hosting in just a few weeks time, then head to your show notes or head over to our website at thedealroompodcast.com.

Now at that website, you'll also be able to download a transcript of this podcast episode if you'd like to read it in more detail and you'll also of course, be able to find out how to make direct contact with Simon Bedard of Exit Advisory or Nick Wormald of Grow Capital. At that website, you'll also be able to find details of how to contact our lawyers at Aspect Legal If you or your clients would like to discuss any legal aspects of sales or acquisitions. Of course we've got a number of great services that help businesses prepare for an acquisition or for an exit depending on what phase of the business lifecycle there is. We work with clients both big and small and have different types of services depending on size and complexity. So don't hesitate to book an appointment with our legal eagles at Aspect Legal if you'd like to find out how we might be able to assist.

Well, that's it for today. Just wanted to say a very big thank you once again for listening in. You've been listening to Joanna Oakey and The Deal Room podcast, a podcast proudly brought to you by our commercial legal practice, Aspect Legal, See you next time.