

Considerations for entrepreneurial acquisitions

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An entrepreneurial acquisition is a valid and often less daunting alternative to a business start-up as a way to begin a career.

Many entrepreneurs, often fresh off an MBA course, may choose to form a start-up. Many, however, are unaware that an entrepreneurial acquisition may be the optimum and most rewarding choice.

A study by IESE's Ian Nieboer, [Mathieu Carenzo](#) and Antonio Dávila highlights the considerations needed for a successful entrepreneurial acquisition.

The authors identify four main areas to take into account when embarking on an entrepreneurial acquisition: industry, geography, expectations and focus. They also propose a number of strategies for optimizing the search for an appropriate acquisition target.

Getting the industry right

Entrepreneurs seeking to make an acquisition should always focus on sectors that are growing and profitable, or are expected to be so in the future.

They also need to understand the sector's barriers to entry, including the broader competitive forces within the industry, the likely reaction to their own entry to the market and the potential trends that could change the industry.

It is also worth assessing whether their skills or experience will be beneficial or add value to the industry they wish to enter.

Suitable geography

By choosing a geography that fits their personal and professional needs, entrepreneurs can improve their chances of a successful acquisition.

Every region has its own demographics, economic trends, industry concentrations and business environment, all of which play a role in determining an acquisition's chances of success.

For example, an entrepreneur with strong professional ties to the United States, but strong personal ties to Israel, will be able to source technologies from Israel to transfer to the United States via their professional networks.

Realistic expectations

Motivations should always be clear. Those seeking a high-growth, high-potential opportunity will have a very different search focus from those looking for a steady income and the opportunity to be their own boss.

Entrepreneurs must also be aware of what funding is available for an acquisition and on what terms. In most circumstances, the availability and cost of acquisitions will limit the range of opportunities for the entrepreneur.

Finding a focus

Stanford's Center for Entrepreneurial Studies found that the average searcher typically reviews 300 opportunities before making an acquisition. Therefore, it is important that the entrepreneur finds the right focus, taking into account such factors as the opportunity criteria, the search domain and flexibility.

- *Opportunity Criteria.* A clear definition of required criteria will help streamline the search process, as well as help persuade financiers of the logic of any proposed acquisition.
- *Define a Search Domain.* The focus of this search is a delicate balance: make it too narrow and entrepreneurs may not find an acquisition opportunity within their designated time frame, while an overly broad search will overwhelm the searcher.
- *Flexible Focus.* A clear understanding of where the criteria can be flexible can yield exceptional opportunities that fall outside the scope of the initial search. For

example, the Ortus Capital Search Fund originally intended to acquire a business in India, but then saw a gap in the market to start a new venture.

Optimizing the search process

Most entrepreneurs incur a great deal of expense on the search and acquisition of a company. For this reason, they often choose to set up a legal entity through which to conduct their search.

Entrepreneurs should consider whether they require a funded or unfunded search, and whether the opportunity they seek is suitable for a funded search.

Regional, financial and cultural differences

The ease with which one can source opportunities in any given location can differ. Some search domains will have searchable electronic databases, while others can only be accessed through specific gatekeepers.

Often the widely varying attitudes of sellers require tailoring pitches to each of them. In North America, for example, the sale of a business can be seen as capturing the future value of the business, whereas in India owners are likely to view their business as a stream of income and are less inclined to sell.

Entrepreneurs will also need to consider the varying regulation and sophistication of the sector in which they are searching, along with the optimum exit strategy.

Composition of the team

Most search vehicles require funding and, while it may be tempting to grab any financing available, it is wise to consider the composition of the investment team. The following can add value to the team:

- *Investors who know the entrepreneur personally* are able to anticipate the type of opportunity the entrepreneur is seeking.
- *Experienced investors* know the entrepreneurial acquisition model well and can offer guidance on the process.
- *Local investors* know the regional investment structure and are able to introduce key intermediaries.
- *Industry experts* can help with sector-specific contacts.

- *Capital investors* help raise large amounts of capital.

Making the catch

The search for an entrepreneurial acquisition is like fishing. Entrepreneurs, as fishers, should have a clear idea of what they hope to catch.

Fishers may be highly skilled and have the best equipment, but they may not catch the exact fish they are looking for, or even catch any fish at all.

A successful search for an entrepreneurial acquisition requires a great deal of luck but also persistence. The activities that lead up to the acquisition are of great importance; there is no substitute for a good plan. However, no plan without action will succeed.

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