TobinLeff
Building & Monetizing Business Value℠
WHITE PAPER

How Acquihires Help Break Barriers to Business Growth and Talent Acquisition

By Holt Vaughn

"We've got great vision and growth potential, but we need to expand our capabilities. Scaling up one employee at a time just isn't going to cut it. What else can we do?"

"This is the third salesperson we've invested in, in as many years. Once again, it didn't pan out. How are we going to grow if we can't get new business development people on board?"

These are the kinds of comments we often hear from agency owners.

Growing your business organically can be frustratingly difficult. Finding and successfully hiring the right new salesperson, account executive, or whatever we choose as a title, is problematic. Increasing your business, top and bottom line, by simply enhancing sales internally, can create a ceiling to growth that is hard to overcome.

To compound the challenge of recruiting talent, apps, social media, AI, and big data dominate the landscape with more appeal to many Millennials. And, forefront in our minds today, is the human loss and tragedy of the COVID-19 pandemic, which in turn makes for a highly uncertain economy. Combine all that and finding enough talent with up to date skills is a serious challenge to a company's dreams of growth.

Besides the sales conundrum, expanding your company at more than a snail's pace often requires a quick increase in existing capabilities. Adding scale one person at a time or building teams with new skillsets from the ground up, is exceedingly costly in terms of time, money and lost opportunity.

Increasing your business, top and bottom line, *by simply enhancing sales or capabilities internally*, can create a *ceiling to growth* that is hard to overcome.

Break The Cycle: Enter the Acquihire…

Acquihire

Many firms have found an alternative which may put self-defeating cycles to rest. Maybe you've heard the term "Acquihire" (or acqui-hire). It's a simple combination of the words "acquisition" and "hire." And It means pretty much just that. Instead of looking for a newly hired employee or two, you acquire a niche boutique practice, a sole practitioner who comes with an established book of business, or even another agency. The difference is vast.

The idea is to increase top-line revenue and profitability, by adding in (or "bolting on") *already proven* talent and capabilities, including a book of business, to propel your enterprise to the next level.

As opposed to finding a new employee you hope will prove to have what it takes (with no safeguards) or building a new team with new skills from scratch, an acquihire can be an excellent strategy for fast-tracking the growth of your firm. The principal or principals of the bolt-on firm is/are proven rainmakers because they have demonstrated they can sell.

A startup or an established firm? Book of business *and* talent?

The type of acquihire you seek depends on your needs. Here are just three of the many types of scenarios you might encounter.

1. **Great tech skills, not great business acumen:**
   Startups (and even established firms) are often founded by bright people with tremendous engineering, design or development skills. Some eventually discover that their understanding of technology is the easy part of their enterprise. Running the actual business of it is a whole other ball game. Org charts can be messy, and sales may be flat or worse. You may find them to be looking for guidance, for mentors. They may be relieved to fold their substantial skills and vision into the processes and systems that larger, more established firms can provide them. It makes for a great marriage, if you pick up an entrepreneurial team with readymade skills and relationships in an area you need, and they can enjoy the benefits of a bigger, more experienced company. It may be a discount deal waiting to be had. It beats your having to create new capabilities from scratch, provides stability for them, and offers a growth path for all. And it boosts everyone's spirits and résumé as entrepreneurs who are part of a successful acquisition, providing each party a real deal.

2. **Rainmaker, yes. Admin…not so much.**
   We all know firms started and run by a natural born salesperson. Proven rainmakers, these enthusiastic entrepreneurs are skilled in their field of endeavor (maybe PR, Event Marketing, backend web development or apps, for example), with a pitch and vision that's contagious. They have proven they can repeatedly identify and qualify prospects, turn them into clients, and see transactions through to a healthy sale. But they're not so strong in administration and logistics and perhaps have not built much of a structured organization as a foundation for growth. Maybe they're a startup who has great sales

but just can't seem to build an organization. Or a sole practitioner who has made a good living, with years of client relationships waiting to be expanded upon or simply added to your roster. They just need to plug into an organization that will let them do what they do best: repeatedly find more clients, sell to them, and hand off the details. Maybe they stay for a reasonable transition time or the long haul. Depending on what you and they need, that can be a win-win that is worth the hunt. And there are lots of creative, very cost effective, ways to make it happen.

3. **Nice business, looking to exit.**
   There are a lot of baby boomer business owners. Thus, there are a lot of firms thinking of and looking for exit strategies. Maybe it's a web design firm or PR agency with $1.3MM in revenue. A lot of the income is repeat business, a mix of projects, retainers and contracted services, with a handful of loyal clients, over a period of twenty years. They have a great reputation and are in a strong niche market. One you want to grow in. One of the partners is retirement age, ready for an exit strategy. The other partner is younger and wants to work another fifteen years, continuing her good career. There are also two talented employees who might be willing to sign on with a new owner, if it's a similar situation. They all earn fair market salaries. After all expenses, there's a bit of profit left each year, which upon analysis may increase quickly as there are synergistic savings to be realized almost immediately. You could put together a deal that allows for a successful exit of the older partner, and an exciting growth oriented profit-sharing future for the younger partner. And pick up one or both seasoned employees too if you desired. You gather a bunch of solid new clients and sales, some seasoned new talent, and increasing profits. All in one fell swoop. And all tied to performance with built in protections for all parties.

Where Do I Begin?

Think in terms of vision: Why do you want to do the deal? What is your vision of what you think you can accomplish together? Within a year? Within 5 years? Crystalize your vision. Articulate why the lives of the principals and key employees of the companies you acquire will improve when they join your business family. Where are you going? How will you get there? What capabilities and services can you sell to the target firm's clients, and vice versa? What will it mean for all stakeholders when you achieve your vision? *Don't try to acquire just for growth—make sure it's for strategic reasons that align with your vision and values.*

Value proposition. Clarify your value proposition for the principals of the companies you want to acquire. What can you offer them? Will they...

- Monetize their business interests?
- Get an equity stake in a larger, growing enterprise?
- Achieve greater financial stability and security?
- Work on larger and more prestigious accounts?
- Be relieved of management responsibilities?
- Have additional resources to grow their areas of expertise?

- Become part of a successor management team with the opportunity to buy you and/or your partners out down the road?

Create a Profile: What is it you are trying to accomplish? Begin by creating a profile of your target companies. Define their desired capabilities (branding, design, analytics, PR/content, SEM/SEO, web design, etc.). Then you need to go further and create a detailed profile of target prospects, as well as the qualities and characteristics of the principals and key employees you want to attract. For example, are you seeking...

- Senior managers with proven rainmaking skills?
- A strong reputation in a vertical niche?
- Specialized expertise in SEM, branding, PR, etc.?
- Entrepreneurs who can be your pathway to a future exit?
- How important is the book of business they bring versus unique skillsets/capabilities?

Develop and implement an Outreach Campaign: So, you're sold on the idea that an acquihire or small acquisition can help accomplish your growth strategy and you have defined your criteria, now how do you find opportunities? You can either develop the campaign in-house and/or select an M&A advisory firm that offers buy-side services for smaller acquisitions. At TobinLeff, we have a process that we developed over the years to help clients acquire smaller agencies and acquihires. Some of the elements of the process include:

- Crystalize the value proposition
- Develop the target profile and acquisition criteria (defined above)
- Compile a database of target firms and freelancers
- Implement an outreach campaign that includes emails, letters, and, if needed, calls to select prospects
- Qualify the needs, desires, goals, and concerns of interested prospects
- Organize calls and meetings between the buyers and potential sellers/hires
- Craft deal structures that are win-win

Due diligence. Once prospects are identified, go deep on your analysis of the opportunity. Study all aspects of the company, and spend real time verifying the accuracy of information you're provided. Analyze their business model, contracts with clients, agreements with employees and vendors, and any other factors that can help predict future performance.

Look for roadblocks or deal killers that you can uncover before you go too far into the process—such as excess debt, low staff utilization rates, high ratio of low or non-billable employees, over-servicing of clients, sloppy financial controls, or long leases (recognizing that some of these factors can be "fixed" with proper management). You need to be sure you truly understand the seller's motivation for selling.

Chemistry: Good chemistry between the seller's and buyer's management teams and employees can be even more important to the success of the transaction than financial potential.

Take your time to get to know the key players. Consider working on projects together before you finalize the deal. Interview their key employees. Explain to them your vision, policies, procedures, and expectations. Ask about their culture. Do you share the same general attitudes toward flex time? Employee productivity? Client service? Profit sharing and bonuses? Employee training? Community involvement?

As part of the due diligence process, consider holding "team building" exercises to see how well the respective management teams "click."

Typical deal structures: Small acquisitions and acquihires can usually be accomplished without a high percentage of cash up front in relation to the overall consideration. The elements of typical offers for acquihire candidates may include:

- The seller retains their assets and assumes their liabilities
- Limited amount of cash at closing (usually $50,000 to $150,000 depending upon the size of the block of business)
- Employment agreements
- Commissions on the legacy business that transfers
- Commissions for new business generated
- Possibly shares/units in a phantom stock plan or long-term incentive plan

Related to commissions on legacy business, we typically recommend between 8% and 10% of the Adjusted Gross Income (total revenue minus media and outside services purchased) for the life of the client. For new business generated post-closing, we typically recommend between 5% and 8% of Adjusted Gross Income for 12 to 18 months per client.

Acquiring a company can consume you. It's very hard to do properly while you're still trying to run your own business. Just as there's a reason your clients hire you for the expert services that you provide, you should consider seeking help from the expertise of a Mergers & Acquisitions professional or consultant for the best results.

Most people are surprised by how creative you can get to make a win-win deal happen, especially when you have some expert guidance.

Call or email now. We'll help you evaluate the pros and cons, and decide the strategy that's right for you.
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About TobinLeff, LLC

TobinLeff is an M&A advisory and exit planning consulting firm that helps owners of marketing, advertising, PR, digital, IT, and related companies build and monetize business value. On the build side, we:

- Craft Value Enhancement Plans
- Deliver strategic consulting and implementation services
- Provide M&A services to source, structure, negotiate, and help close acquisitions and acquihires

To help clients convert business value into personal wealth, we:

- Craft Exit Plans
- Design and implement Management Buy-Out Plans
- Provide M&A services to source, structure, negotiate, and help close sales of client companies to outside buyers, private equity groups, and internal partners or management teams

Now in our 10th year of service, we have assisted more than 125 owners with exit planning solutions and M&A transactions to buy and sell companies. All of our partners have owned marketing agencies. We are based in Pittsburgh, with partners in New York, Orange County, and North Carolina.

Please visit our site at www.tobinleff.com for additional information and case studies.

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