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A founder’s guide to successful buy and build strategies

It’s hard to think of a more successful example of growth via strategic acquisition, or ‘buy-and-build’, than Berkshire Hathaway. Originally a textiles manufacturer, Warren Buffett spent eight decades turning the firm into a corporate behemoth with subsidiaries in everything from insurance to high-tech.

While the strategy was once only associated with large corporates, it’s now more commonplace for growth companies too. But while the biggest corporate giants can afford to take more risk, growth companies need to take a more considered approach. The costs of getting it wrong can be devastating. So, what’s the key to getting it right?

Understanding the why

Fundamentally it’s about long-term wealth creation. Acquisitions offer a faster way to access the opportunity for wealth creation than organic growth. Done right, acquisitions create wealth by providing access to new markets, products, services, and expertise amongst others.

A clear strategy should be defined to determine what opportunities are worth further consideration. The strategy is largely defined by your long-term objectives – such as access to expertise to enhance your underlying business. Benchmarking opportunities against a well-defined strategy will help to keep the decision-making objective.

In the real world, most acquisitions are opportunistic – you simply don't know if or when an opportunity will arise. Entrepreneurs can make the mistake of pursuing an acquisition on the basis that what appears to be a good business has become available (for instance, through becoming financially distressed), and feeling an urgency to act. Vanity or personal reasons can also affect decision-making – these influences should be set well aside.

Weigh up risk and reward

Done right, a buy-and-build strategy can be a strategic masterstroke: it can enable you to shave years from gaining access to a new market, creating a new product, or moving to economies of scale. Get it wrong and you're likely to set yourself back further than if you'd tried to build the capability yourself.

For this reason, a fundamental part of the acquisition process is ensuring thorough due diligence is performed.

> *Simply put, if you don't understand what you're buying, how can you expect it to be a success?*

Unfortunately, some companies just see due diligence as a rubber-stamping exercise to get a deal over the line. Accountancy firms will work to the level they are asked to, and in the haste of getting a deal completed, acquiring companies can be guilty of not covering all the bases.

Thorough due diligence goes way beyond a passing look at the numbers. It should cover a comprehensive review of the business – including not only the accounts and forecasts, but systems, IP, trademarks, people, corporate culture, governance, and oversight for example. It is a more time-consuming process – but can pay for itself many times over if the result is identifying business-critical issues like fraudulent work practices, hidden debt obligations, or a lack of proper corporate governance.

A well-considered due diligence report can not only provide an opportunity to walk away from a bad deal (or re-negotiate the purchase price) but can also provide valuable insights into previously unforeseen opportunities and should help to shape post-acquisition strategy. It is therefore a critical part of the acquisition process.

Understand the practicalities

The first – and perhaps most obvious – is your ability to finance the deal. But being able to stump up the cash to make the acquisition is just the first of many considerations – for example, will the acquired company operate independently or be integrated into the existing company structure?

The due diligence report will provoke multiple other practical considerations – how will IT systems, offices, assets etc be managed post-acquisition? Will the acquisition impact your ability to access future financing and credit? What cost savings or operating synergies are achievable post-acquisition?

Of course, people – and by extension, cultures, language and geography – are the most important of all the resources you'll need to integrate. Start having these conversations early, as people are ultimately the key to success. Having people "on board" throughout the process is critical.

Success

A benchmark company demonstrating the success of a well-considered acquisition strategy is Cambridge-based SDI Group plc. The company owns a family of subsidiaries specialising in the design and manufacture of scientific products used in life sciences, healthcare, astronomy, consumer manufacturing and art conservation markets.

It has acquired businesses as part of a very deliberate, long-term strategy – to develop and diversify existing technologies and to grow through strategic acquisitions – its basic principle is to bring a commercial mindset to brilliant, scientific minds who may not be natural businesspeople.

SDI has grown from an annual turnover of £8M in 2016 to £35M in 2021 with annually increasing operating margins and operating cash flow providing a solid foundation to fund future acquisition and growth. (Disclosure: the author has a personal holding).

We’re facing a difficult time for business – but this can mean opportunity

There are no two ways about it: businesses face an uncertain outlook with skyrocketing inflation, energy prices, recruitment challenges and continued supply chain disruption. However tough economic conditions mean distressed companies, many of which would be perfectly good businesses if not for bad timing.

There will be plenty of opportunities out there for would-be acquirers with the means to capitalise – but do your due diligence thoroughly and understand the opportunities and risks before you commit. Get it right and one day you may be another SDI or even a Warren Buffett. Good luck.

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