AXIAL FORUM

Do's and Don'ts for Organic and Inorganic Growth

By Dan Hammaker | December 3, 2015

Here's a joke for all the acquirers out there.

Q: "How do you buy a nice little company?"

A: "You buy a big one and wait."

That punchline comes courtesy of Dexter Braff, president and CEO of the Braff Group, and a panelist at a session on growing companies through organic and inorganic means at Axial Concord.

Braff's point, which the rest of the panel went on to reiterate, was that acquiring another business does not guarantee growth. Moreover, if you don't properly integrate an acquisition, or worse yet, try to fix what isn't broken, the revenues you bought could quickly erode. Sure, a bump in top-line revenue is to be expected from an acquisition, but oftentimes investing in internal capabilities will actually generate the greatest ROI.

Work Backwards from Your Exit Plan

Panelist Bob DeLisa, CEO at Cooperative Systems, had been growing his company organically at a steady rate. He began considering acquisitions only as a means to accelerate his company's trajectory. According to DeLisa, Cooperative Systems is only "trying to find acquisitions that make a real difference."

DeLisa isn't looking for growth for growth's sake. His plan for buying businesses is tied directly to his own exit goals. "My advice is to look at your exit strategy on a 10, 15, or even 20 year time horizon," DeLisa told the audience.

Fellow panelist Mike Votto, CEO at wine distributor Votto Vines, agreed. When it comes to exit planning, Votto recommended identifying ideal buyers, then working backwards from there. "Let's say you know you need to get to XYZ revenue to be of interest to the buyer you think could be a fit. How do you make that leap?"

For Votto Vines, the leap was 10x revenue growth. After he and his team established that goal, they discussed their options and concluded that acquisitions may be a great way to supplement their organic growth objectives. Having a concrete goal motivated his team to take the process seriously.

"Ask yourself: How urgent is it to get a transaction done?" Votto said. It's also important to understand how possible synergies with the target company will facilitate your company's goals for growth. Potential benefits of M&A include lowering costs by merging staff, expanding sales into new regions, increasing product offerings, or boosting buying power. Being clear on exactly what you're trying to get out of the transaction will help you evaluate the potential acquisition more effectively in the early stages of the deal.

Don't Go It Alone

If a CEO resolves to grow inorganically, the panel agreed that finding the right help will prove key. "If you're serious about making acquisitions, you need an advisor," said DeLisa. Acquiring a new company is a complex job on its own, let alone combined with running your current business. An advisor can help with finding promising targets, as well as due diligence, valuation, and negotiation.

Advisors can also help you determine whether or not the acquisition targets you're considering really make sense for your business, and even if acquiring is the best growth strategy for you to pursue. Often, CEOs pursue acquisitions because they like the idea of acquiring, but not because that is the strategy with the best eventual payout.

Braff summed up the panel's thoughts well. "Just adding income doesn't add value," he said. "If you don't add what buyers want, be it organically or inorganically, you don't have an exit."