Don't make it; buy it!

There's more than one way to become an entrepreneur: instead of starting your own company, you can go out and buy one.

For some entrepreneurs, it's not a question of creating something from scratch, but rather tinkering with someone else's idea to make it better. There is entrepreneurial vision in both pursuits. "There are lots of people who consider themselves fixers, much more than creative, idea people," says INSEAD Adjunct Professor of Entrepreneurship Timothy Bovard, who teaches a class in entrepreneurial acquisitions. "If you have a good idea, run with it; but many entrepreneurs are very good at taking existing companies and making them much better than they have been in the past and giving them the same successful destiny that a start-up could have".

Finding the right company

For Bovard, finding the right company is in itself a creative act, and one that entails a lot of self-knowledge and support. "When talking about entrepreneurial acquisitions, we're talking about small and medium-sized companies, so the potential market is vast," he says. "But to find a suitable company, an entrepreneur is well-advised to set up search criteria, much as you would do when looking for a house. You say 'I want this kind of a company, in this sector, in this geography, with this kind of business problem.' And you start looking. But you need to do so methodically and professionally."

Part of finding the right fit is taking time for introspection and, above all, being honest with yourself. "And another important thing," adds Bovard, "is having people around you who can look you in the eye and say 'this is a great company, but it's not for you.'." In his case, Bovard turned to another INSEAD alumnus with years of experience in the watch industry, for help, guidance and that critical eye.
"If you can find the right company and you have a clear vision of exactly what needs to be done, to develop it or turn it around, or whatever the objective is…that is a match," Bovard claims. His vision for Cabestan includes growing it into a niche brand sought after by collectors. That meant expanding the micro-market for seriously expensive watches. A deal with luxury carmaker Ferrari for a limited edition timepiece and a new award-winning model were the initial steps. And though the world economic crisis has had the least impact on potential Cabestan buyers, even among their ultra-high net worth clients, demand took a dip. "It made us really think about the true value we offer our clients, making sure that beyond the design, the technical aspects and hand-made attention given to each timepiece were irreproachable," said Bovard.

Finding the funding

Bovard claims that if you and your company are a good match, financial sponsors will not be hard to find. There is a lot of cash available for good investments and, he adds, there are investors looking specifically for management buy-ins and buy-outs. But rather than creating a business plan (a spreadsheet filled with assumptions), Bovard says the entrepreneur getting ready to buy a company needs an action plan. Where are you going to take the company? What steps are you going to take in the first 100 days or the first year? "Once you have that," Bovard says, "you can translate it into the numbers that can then convince potential investors and banker to back the deal. And during this process, the entrepreneur can test the project's validity himself."

But whether you're starting a company or buying one, most of your time and energy will be spent managing it. And for a younger entrepreneur, buying a business with an existing management team, a track record, markets and cash flow can be less daunting than starting from scratch. "As long as the entrepreneur coming on board has true leadership talent, takes the time to learn the business, and shows the vision of where he wants to go, it can be very successful," adds Bovard.

But what if the company isn't successful and you think you're the one to turn things around? "For young managers, or people coming out of an MBA programme, I think the first criteria should be to find good companies. It is better to pay a little more and get a company that has a strong balance sheet, and that has good cash flows, so that if this is the first time you're going out and managing, you're not in a situation where if you make one little misstep, the company goes down," Bovard advises. "Turnarounds may sound sexy, but they are also dangerous."

Potential pitfalls

Other potential pitfalls include language or lifestyle considerations within the target company and its management. Being comfortable in the working environment is a precursor to success. But the biggest stumbling block of all is being in a hurry to get going. "People put a lot of pressure on themselves to go out and find a company," Bovard says. "You have to understand that it might take 18-24 months to find the right company, and so you have to be patient and not jump at an opportunity that looks good, but is not perfect for you, just because you think time is running out. If you wait for something better, something right for you, you will decrease your risk considerably."

Entrepreneurial acquisitions may not have the same cachet as start-up activities, but the rest of the equation is the same: a complex mixture of talents, hard work, vision, leadership. "And passion," says Bovard. "Entrepreneurship is all about passion. That's the name of the game."

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