Help for Entrepreneurs Who Want to Buy a Business

By Timothy Bovard , INSEAD Adjunct Professor of Entrepreneurship

Search funds assist entrepreneurs with finding and acquiring companies rather than starting their own, but the model is fraught with high failure rates. Combining search funds with the methods of startup accelerators could be a way to increase their success rates.

Not all entrepreneurs start a business. **Some buy one** and make it better. There is entrepreneurial merit and vision in both pursuits. Finding a business to acquire, however, is the tricky part. Search funds have gained in popularity over the last few years as a way to make this process more viable.

Search funds are increasingly well-known in the halls of business schools. The entrepreneurs or “searchers” raise money from a group of investors to fund a two-year company search. Once a suitable business is identified, the investors then have the option to financially back the searcher’s acquisition while the searcher then takes an operating role in the target company, typically as its CEO.

A 16-year **study** by the Center for Entrepreneurial Studies at Stanford University’s Graduate School of Business, found the historic returns to search fund investors was a phenomenal 34.9% pre-tax internal rate of return and 10x return on capital. However, from the searcher's perspective, the failure rates are high. Based on the same Stanford survey, about 30% of searchers fail to acquire a business during their two-year search, and of those who do acquire a company, roughly 40% fail to return full investor equity.

Reinventing the wheel

In light of these findings, I started to look more deeply into this Darwinian state of affairs. After 250 hours of interviews with people in the search fund and accelerator space, including searchers, investors, interns and CEOs, I found two main issues: Most searchers reinvent the wheel, and are not receiving the mentoring and advice they need to succeed. Many entrepreneurs creating a search fund are starting from scratch when it comes to learning how to search, how to evaluate companies, how to buy them and how to run them, and are finding the access to quality time and advice from investors is much lower than anticipated or needed.

In the two years they are allotted under the search fund model, they typically spend 9-12 months figuring out how to search efficiently, while investors often operate under the incorrect assumption that a searcher's success in the search process is predictive of his or her success as a CEO. The majority of those who enter the search space have formerly worked in private equity, investment banking or consulting, and have never been entrepreneurs or managed a company.

A new deal for searchers

To improve this situation for searchers, I have developed a new concept borrowing techniques from startup accelerators such as Techstars and Y Combinator to speed up the search process and decrease failure rates. Startup accelerators typically take an equity stake in the companies they back in exchange for about three months of mentorship and training, after which the companies "graduate" and are on their own.

In an effort to bring together the best of the accelerator model and the longer-term mentorship model of a search fund, I recently launched **Search Fund Accelerator** (SFA) in Boston. We select, train and mentor searchers throughout the search, acquisition and management process. Our first cohort of searchers includes a recent INSEAD MBA, along with three others from Booth (Chicago), Kellogg (Northwestern) and Harvard Business School.

SFA guides searchers through all the techniques for successful searching: defining target industries, using databases to find company and seller information, creating searcher websites, successfully interacting with company sellers and with brokers who have companies for sale, writing letters of intent, performing due diligence and executing deals. We help searchers avoid losing massive amounts of time chasing fruitless deals, and we help them avoid buying the wrong company in a hurry near the end of the 24-month search.

We are available to answer the searchers questions, and keep them objective and even role playing to rehearse phone calls and meetings with company owners. With this support, one of our searchers has closed in on a deal in just five weeks, a rare achievement for most searchers. SFA has also raised an investment fund to back the acquisitions searchers make; having committed capital gives SFA searchers a significant advantage over traditional searchers.

Boosting success rates

At SFA, while there will still be failures, we expect a much higher rate of success, leading to higher returns for investors and searchers alike. We differ from the traditional search fund model in that we select our searchers specifically on the basis of their ability to be great CEOs of small and medium-sized companies; the techniques of the search can be learned. All the searchers in our cohort have either started a company or had significant entrepreneurial experience. They know what it is to lead an organisation, they are resourceful, analytical and clever, they are open to advice and mentoring, and they are strong salespeople. The strong relationships we build during their time at SFA will produce further results once the searchers become CEOs since the mentoring and advising continues.

Sellers, often entrepreneurs themselves, generally sell to one of three categories of acquirer; strategic buyers, private equity firms or searchers. Some of these entrepreneurs feel they’re selling their souls to financial or strategic buyers, but selling to a searcher is like selling to their younger selves. Searchers will continue to build on what the entrepreneur has already started respecting the company’s history and culture. They also have the same drive and spirit as the entrepreneurs who have started their companies making them kindred spirits.

With Search Fund Accelerator backing them, searchers should be better equipped to overcome the hurdles of the search and be more successful as CEOs who keep great businesses in entrepreneurs' hands.

Timothy Bovard *is an Adjunct Professor of Entrepreneurship at INSEAD.*

Follow INSEAD Knowledge on ***Twitter*** *and* ***Facebook***

Find article at
https://knowledge.insead.edu/entrepreneurship/help-entrepreneurs-who-want-buy-business

---

About the author(s)

Timothy Bovard Timothy Bovard is Adjunct Professor of Entrepreneurship at INSEAD since 2003.