

# Search Funds – Effective Intermediary Outreach

*HBS EC Independent Project*

**Project goal:** To help current and future searchers more effectively establish and manage relationships with intermediaries

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# Project overview

## Background

This study was conducted in the fall of 2014 as part of an HBS EC Independent Project

## Objective

The goal of the study is *to help current and future searchers more effectively establish and manage relationships with intermediaries*

## Methodology

- 48 searchers were asked to complete a 14-question survey
- 37 responses were received
- The 37 responses represent 37 distinct searches. i.e. partnered searches only submitted a single response
- ~50% of respondents had completed a search, ~50% were presently searching
- Respondents were a mix of funded and unfunded/self-funded searchers

## Results

The study aims to present the quantitative survey results, summarize common themes gleaned from quantitative and free response questions, and highlight common experiences through anecdotes, advice, and quotations from survey respondents

Selected quotations included in the study were pulled anonymously from the survey responses

# Part 1: Sell-side brokers

**Question 1: How many unique sell-side brokers did you attempt to contact over the course of your search?**

Results:

Average: 1,437; Median: 500; Max: 8,000

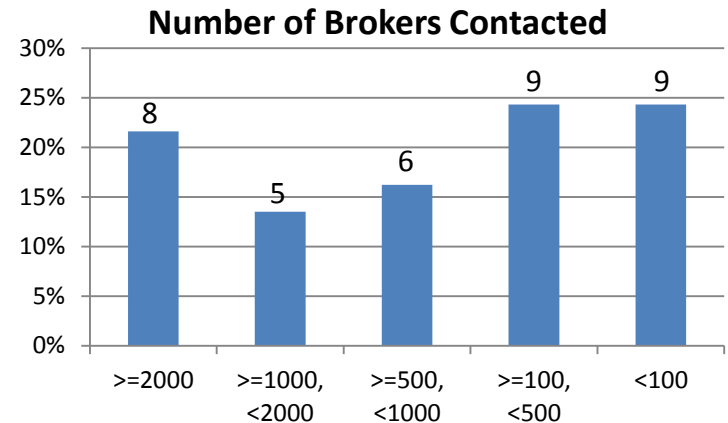
8 respondents (22%) contacted  $\geq 2000$  brokers

5 respondents (14%) contacted  $\geq 1000$  but  $< 2000$  brokers

6 respondents (16%) contacted  $\geq 500$  but  $< 1000$  brokers

9 respondents (24%) contacted  $\geq 100$  but  $< 500$  brokers

9 respondents (24%) contacted  $< 100$  brokers



*Note: These results include responses from both former and current searchers. It can be reasonably assumed that these averages would skew higher if current searchers were excluded*

## Takeaway:

- 1) There is a fairly wide dispersion when it comes to the volume of brokers that searchers choose to contact
- 2) Searchers focused on proprietary sourcing (contacting companies directly rather than through brokers) naturally contact fewer brokers
- 3) In a geographically agnostic search, volume of relationships may trump depth of relationships. Conversely, in a geographically focused search, depth may be more important than volume
  - "I have heard many times that this is a numbers game, the more people you reach the better chances you have to see more deals..., but since I wanted to live in a specific city in the USA, I took a different approach and decided to use my different networks (MBA, undergrad, friends, associations, chambers, etc) to reach fewer but higher quality leads"
  - "Hit where you want to live/work hard and early! I.e. if you want to live and work in Atlanta, then that is the first area you should canvas and outreach"

# Part 1: Sell-side brokers

***Question 2: What was the response rate to your INITIAL outreach attempt? (approximate percentage)***

Results:

Average: 34%, Median: 20%

***Question 3: For those sell-side brokers who did not respond to your initial outreach, did you try a second time? [Always, Very Often, Sometimes, Rarely, Never]***

Results:

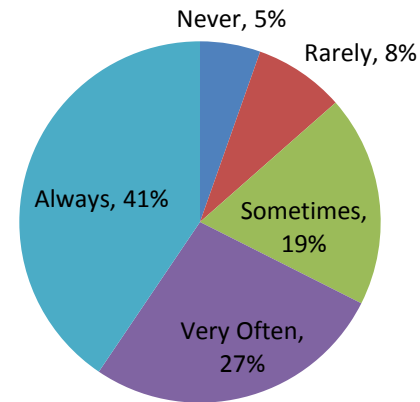
Always: 15 (41%)

Very Often: 10 (27%)

Sometimes: 7 (19%)

Rarely: 3 (8%)

Never: 2 (5%)



***Question 4: What was your CUMULATIVE response rate from sell-side brokers after your second outreach attempt? (approximate percentage)***

Results: Average: 50%, Median: 50%

**Takeaway:** The majority of searchers find it productive and worthwhile to follow-up with brokers who did not respond to their initial outreach attempt

- *“Don't be offended if you have to call on someone multiple times”*
- *“Try [multiple] emails – eventually response rate improves significantly”*

# Part 1: Sell-side brokers

***Question 5: Please describe the elements of an effective introductory email sent to a sell-side broker:***

Results:

- “Short”, “Simple”, and “Focused” were common terms used to describe effective introductory emails
- Be specific about your target criteria (e.g. targeted industries, geographies, and EBITDA)
- Mention your committed sources of capital / investor backing
- Personalization (address the broker by name and mention their firm by name)
- Calls to action, e.g. "do you have any deals that meet this criteria?", “would you be available for a quick phone call introduction?”

***Question 6: Did you attempt to set up introductory phone calls with sell-side brokers who responded to your email outreach? [Always, Very Often, Sometimes, Rarely, Never]***

Results:

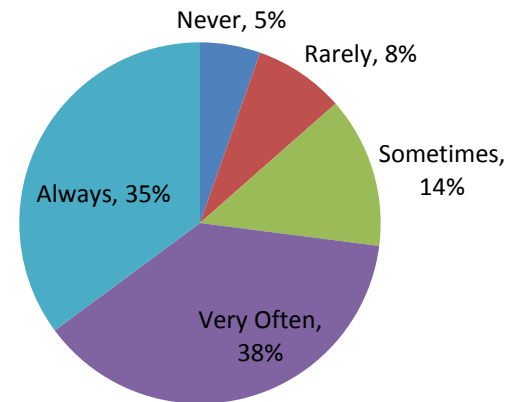
Always: 13 (35%)

Very Often: 14 (38%)

Sometimes: 5 (14%)

Rarely: 3 (8%)

Never: 2 (5%)



**Takeaway:** The majority of searchers find it productive and worthwhile to set up introductory phone calls with sell-side brokers

- *“Invest the time to call folks and get to know them. A 3 [minute] call will go a long way”*
- *“Try to get on the phone for an introduction as [often] as possible”*

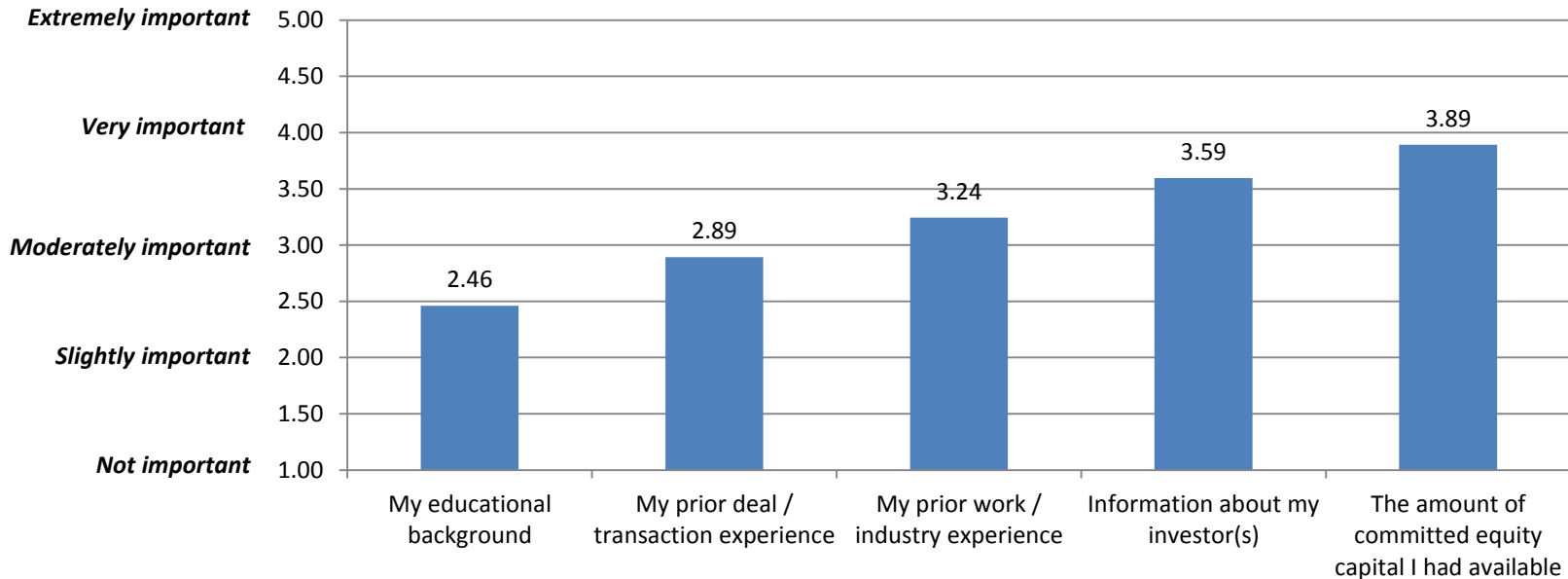
# Part 1: Sell-side brokers

***Question 7-11: When qualifying you as a potential buyer, how important did the sell-side brokers consider the following to be?***

- a) My educational background***
- b) My prior deal / transaction experience***
- c) My prior work / industry experience***
- d) Information about my investor(s)***
- e) The amount of committed equity capital I had available***

***[Extremely important = 5, Very important = 4, Moderately important = 3, Slightly important = 2, Not important = 1]***

Results:



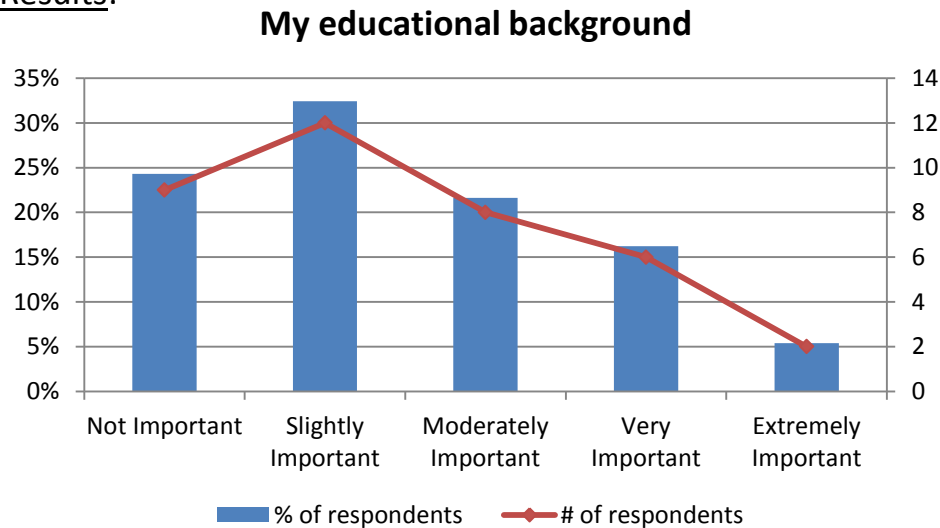
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**Question 7-11: When qualifying you as a potential buyer, how important did the sell-side brokers consider the following to be?**

- a) *My educational background*
- b) *My prior deal / transaction experience*
- c) *My prior work / industry experience*
- d) *Information about my investor(s)*
- e) *The amount of committed equity capital I had available*

**[Extremely important = 5, Very important = 4, Moderately important = 3, Slightly important = 2, Not important = 1]**

Results:



**Average Score = 2.46 (5<sup>th</sup> out of 5)**

**Takeaway:** Of the five criteria polled, searchers consistently rated 'My educational background' as the factor least important to sell-side brokers

- *"They don't care who you are. Don't even mention your education background (seriously?!)"*
- *"We learned not to say anything about 'searching' or HBS, or the like"*



# Part 1: Sell-side brokers

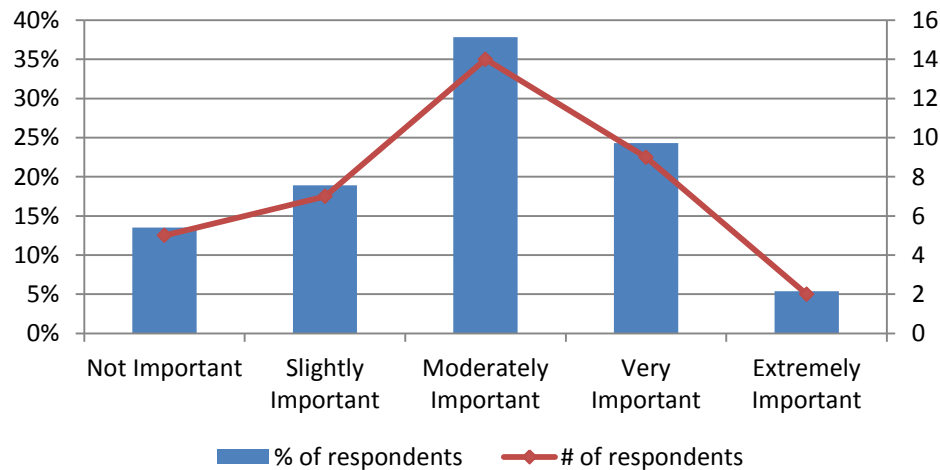
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[Extremely important = 5, Very important = 4, Moderately important = 3, Slightly important = 2, Not important = 1]

Results:

## My prior deal / transaction experience



**Average Score = 2.89 (4<sup>th</sup> out of 5)**

**Takeaway:** Respondents found “My prior deal / transaction experience” to be moderately important to brokers, but it was not one of their top concerns

# Part 1: Sell-side brokers

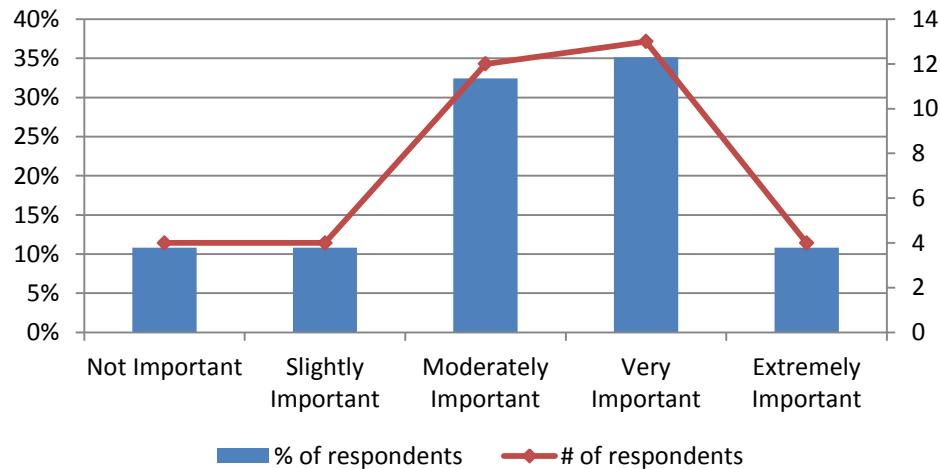
**Question 7-11: When qualifying you as a potential buyer, how important did the sell-side brokers consider the following to be?**

- a) *My educational background*
- b) *My prior deal / transaction experience*
- c) **My prior work / industry experience**
- d) *Information about my investor(s)*
- e) *The amount of committed equity capital I had available*

**[Extremely important = 5, Very important = 4, Moderately important = 3, Slightly important = 2, Not important = 1]**

Results:

## My prior work / industry experience



**Average Score = 3.24 (3<sup>rd</sup> out of 5)**

**Takeaway:** Respondents found “My prior work / industry experience” to be relatively important to brokers, but not as important as information about investors or committed equity capital

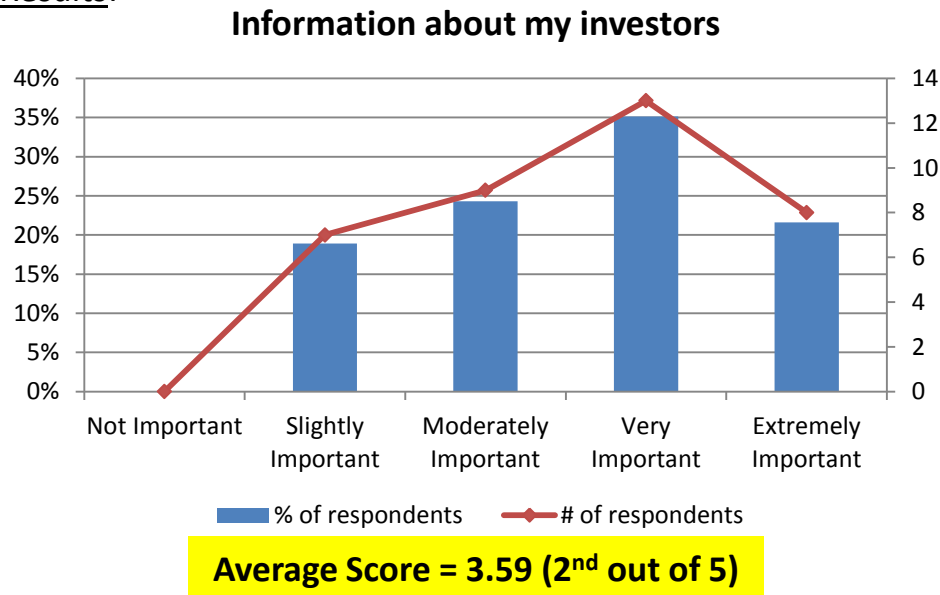
# Part 1: Sell-side brokers

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- a) *My educational background*
- b) *My prior deal / transaction experience*
- c) *My prior work / industry experience*
- d) *Information about my investor(s)***
- e) *The amount of committed equity capital I had available*

[Extremely important = 5, Very important = 4, Moderately important = 3, Slightly important = 2, Not important = 1]

Results:



**Takeaway:** Respondents indicated that brokers found “Information about my investors” to be a very important factor in qualifying the searcher as a potential buyer

- *“It's important to point out that you have a dedicated capital source”*
- *“We had a lot of luck mentioning that we were backed by a family office... if you do have family capital, the family office concept seems appealing to brokers”*
- *“Convince brokers you're serious... which to them means access to capital (investors)”*

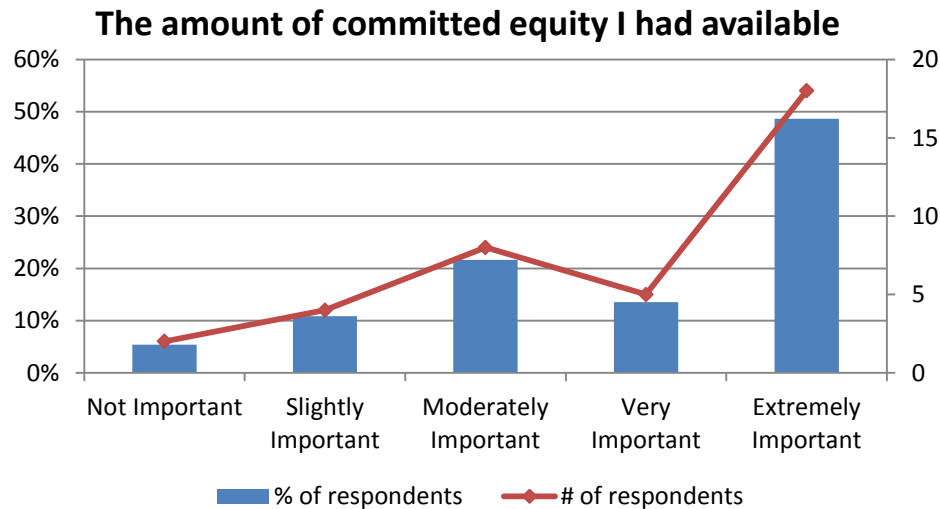
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- a) My educational background
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- c) My prior work / industry experience
- d) Information about my investor(s)
- e) **The amount of committed equity capital I had available**

[Extremely important = 5, Very important = 4, Moderately important = 3, Slightly important = 2, Not important = 1]

Results:



**Average Score = 3.89 (1<sup>st</sup> out of 5)**

**Takeaway:** Respondents found “The amount of committed equity capital I had available” to be an extremely important factor to brokers

- “My fund is... fully capitalized which was an important element that distinguishes [me] from others”
- “Let them know you have committed capital ‘ready to go’ when you find an acceptable deal”

## Part 2: Other intermediaries

**Question 12:** *Do you recommend working with any type of intermediary other than sell-side brokers (e.g. riverguides, CPAs, lenders, legal firms, buy-side brokers, etc.)?*

**Results:** While there was little unanimity regarding the usefulness of “other” types of intermediaries, below are a few themes that emerged:

**Riverguides** are generally viewed by respondents as very helpful. Searchers find riverguides to be most helpful for diving deeper in certain verticals and/or certain target geographies.

- *“Riverguides are a channel we have started developing as we go deeper in certain verticals”*
- *“River guides are very valuable--they know their industries and they can make warm intros, which are often very effective. If motivated by a finder's fee arrangement they can be very energetic advocates for a search fund and help generate deal flow”*
- *“River guides... are helpful for developing a strong network as opposed to finding deals. In my opinion, the relationships I developed via river guides will be more valuable as a [business] owner vs a searcher”*
- *“I found riverguides to be by far the most effective. I had no good experience with other intermediary types”*

**CPAs** are trusted advisors to small business owners. They are concerned with client confidentiality. They are interested in maintaining the business as a client after an ownership transition takes place.

- *“I would recommend reaching out to CPAs. We saw a few proprietary deals through them”*
- *“[CPAs] don't charge a fee but rather just want to ensure that they preserve their book of [business] after the transaction (i.e. if they help you with the deal you have to promise to keep using their service)”*
- *“We found our deal through a CPA. [Working with CPAs] can be effective but it requires a lot of hustle”*

# Part 2: Other intermediaries

## Question 12 (cont'd):

**Legal firms and lenders** are helpful to know, but more so for deal closing and post-acquisition operating than for deal sourcing.

- *“Legal firms were somewhat helpful. However, we have had much more success with proprietary search”*
- *“Legal firms, when carefully identified, can be helpful after a personal relationship is developed. Even then, the likelihood of actionable deal flow is very low”*

**Buy-side brokers:** If engaged by a searcher, it is generally only on a success fee, not a retainer, basis.

- *“Buy side brokers (on a success fee basis) may show interesting stuff. Everyone else [is a] waste of time”*
- *“Never found a role for buy-side brokers in my search... they seemed expensive and they weren't going to do anything I couldn't do on my own”*
- *“Buy-side brokers can be helpful when given specific directions. They do not seem to respond well to a ‘keep your eyes and ears open’ approach”*
- *“Buy side brokers are helpful and worth the fee if they bring you an exclusive deal (i.e. one that doesn't have competition and is not available in the mass market)”*

**Takeaway:** Each type of intermediary can be useful to some extent, whether it be in a deal sourcing, deal closing, or post-acquisition capacity. All types of intermediaries can be useful in the important task of network-building.

- *“Leverage your network, whatever strengths that may include. All of these intermediaries are used by different searchers with different levels of success”*
- *“I believe you need to contact anyone that might know of a business that is a good fit for a search fund”*
- *“I recommend working with CPAs, lenders, legal firms, etc... this is more about building a good network”*

# Part 3: CRM systems

***Question 13: Did you use a customer relationship management (CRM) system? If so, which one, and for what purposes?***

Results:

***Which CRM systems were used:***

- 22 of the 37 respondents used **Zoho**
  - Respondents found Zoho to be simple to use and inexpensive.
- 5 respondents used **Insightly**
  - *“Insightly isn't perfect, but it is good enough for what we use it for”*
  - *“It is free (for up to three users)”*
- 5 respondents used **Salesforce**
  - *“There are many more and cheaper options [than Salesforce] now than when we started [searching]”*
  - *“[Salesforce] was terrible. Use google docs instead”*

***The most common uses of CRM systems:***

- Tracking deal pipeline
- Storing and managing broker, other intermediary, and owner contacts
- Follow-up tasks and outreach
- Mass email campaigns

**Takeaway:** Most respondents utilized a CRM system, often in conjunction with Excel, to accomplish their various CRM tasks. The most popular CRM system was Zoho

# Part 4: Other advice

***Question 14: Do you have any other advice to share with future searchers on how to effectively establish and manage relationships with intermediaries?***

**Results:** Respondents offered many diverse pieces of advice. Below are a few common themes supported by selected quotes:

**Be memorable:** phone calls and in-person meetings with brokers can lead to more productive relationships.

- *“Personal meetings are key to establish credibility with [brokers] as a search fund is not a repeat customer”*
- *“It makes a big difference having met [brokers] face to face and they take you much more seriously. It is obviously impossible to meet all of them but I would recommend picking a few that you believe are intermediaries with good reputation and building a relationship with them”*

**Follow-up consistently** once a relationship has been established with a broker.

- *“Brokers will rarely think to send you an update when they get a new deal. Plan on reaching out routinely (maybe once a month)”*
- *“Build the biggest database of intermediaries and contact them once a month, over and over and over again”*
- *“Set-up the CRM to notify you when you need to contact or follow-up with high priority [brokers]”*

**Identify and concentrate** on working with brokers operating in your target geographies, industries, and size range.

- *“[Target] brokers operating in the tier of the market between main street brokers and lower middle-market investment banks. Investment banks were more difficult, but I quickly decided that they would not be a source of attractive deal flow due to their price expectations”*
- *“Avoid auctions where the broker is running a formal process (a set timeline of events). These almost always fall to the highest bidder, and you probably don't want to be in that position”*

**Be confident and respectful**

- *“Stand up for yourself, push back, and don't take brokers' [garbage]. Take time to develop relationships and follow up. Trust your process and investment criteria. Be confident”*
- *“Don't back down when they question you about your credibility. Stand up to them”*
- *“Be respectful and efficient; always follow up when you say you will and always provide feedback on WHY the deal doesn't make sense for you”*



# Conclusion

Each search is unique in how it effectively manages intermediary relationships, but common themes exist:

1. In a geographically agnostic search, volume of relationships may trump depth of relationships. Conversely, in a geographically focused search, depth may be more important than volume.
2. The majority of searchers find it productive to follow-up with brokers who did not respond to their initial outreach attempt.
3. The majority of searchers find it worthwhile to set up introductory phone calls with brokers.
4. Information about a searcher's capital and investors is very important to brokers. In order of importance, when qualifying a searcher as a potential buyer, sell-side brokers care about:
  1. Amount of committed equity capital available
  2. Information about investors
  3. Prior work / industry experience
  4. Prior deal / transaction experience
  5. The searcher's educational background
5. All types of intermediaries (brokers, riverguides, CPAs, lenders, legal firms, etc.) can be useful in the important task of network-building.
6. CRM systems are utilized by the majority of searchers for a variety of important tasks. Zoho is the most popular CRM tool.
7. Other advice – When working with intermediaries, searchers find it helpful to:
  - Be memorable
  - Follow-up consistently
  - Identify and concentrate on working with the *right type* of sell-side brokers, i.e. those operating in your target geographies, industries, and size range
  - Be confident and respectful

