

On the Nature of Programmatic Acquisition Strategies: How to Source Deals

Entrepreneurs must build and maintain a strong pipeline of deal targets to effectively execute a programmatic acquisition strategy

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When aspiring entrepreneurs think about growing a business through acquisition activity, they tend to focus on the rush, tension, and excitement of hard-nosed contract negotiations between buyer and seller. To be sure, hammering out a deal's details is indeed a critical and exciting part of the acquisition journey. However, this step occurs only after a lot of other, much less dramatic work has already been done. If we use a funnel metaphor to represent the entire process, striking a deal for a particular target comes at the bottom of the funnel after a multi-step process that begins with a crucial activity: deal sourcing.

We believe that aspiring entrepreneurs who plan to use acquisitions to grow their companies must understand the steps that come before negotiating deal terms and closing a transaction. This is even more important for entrepreneurs who execute programmatic acquisition strategies (PAS) as they aim to consummate many deals throughout their careers.

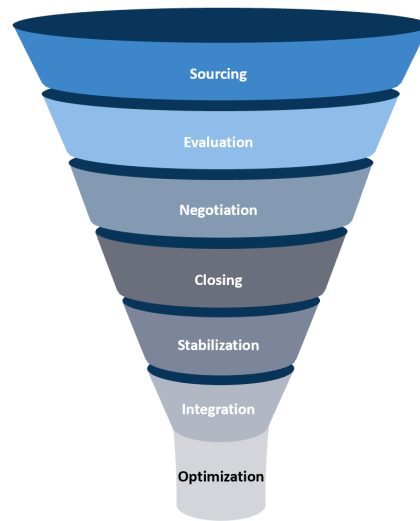
This note is one of a four-part series on PAS. For context and a complete examination of PAS, it might be helpful to read the following:

- [On the Nature of Programmatic Acquisition Strategies: Why Entrepreneurs Should Consider This Approach](#)
- On the Nature of Programmatic Acquisition Strategies: How Entrepreneurs Should Pursue This Approach (forthcoming)
- On the Nature of Programmatic Acquisition Strategies: How This Strategy Can Go Awry (forthcoming)

In this note, we analyze the activity that takes place at the top of the deal-making funnel: deal sourcing (see **Figure 1** for the whole PAS funnel). While each stage of the complete PAS funnel is important to successfully drive a PAS, nothing happens without a dynamic sourcing function.

Deal sourcing encompasses various strategies an acquisitive firm can employ to identify potential targets and position itself as a desirable and viable option to sellers. This work is essential for a programmatic acquirer because having more options generally leads to better decision making and more negotiating power with respect to any individual target. Furthermore, an entrepreneur who is adept at sourcing is likely to build a larger and more valuable enterprise than one who is not. Deal sourcing is an important capability for firms of all sizes, but we tailor our thoughts here to serve the needs of entrepreneurs pursuing a PAS at an emerging business, which we define as one with less than \$10 million in earnings before interest, taxes, depreciation, and amortization (EBITDA).

Figure 1: The complete PAS funnel



There is no single right way to source deals, and we stress that entrepreneurs must develop and refine their approach in the context of their respective firms, industries, and geographies. That being said, in our experience and research, we have observed that the most successful programmatic acquirers engage in similar deal-sourcing activities. This reality informed our decision to present some best practices for deal sourcing, rather than prescribe a one-size-fits-all model or playbook.

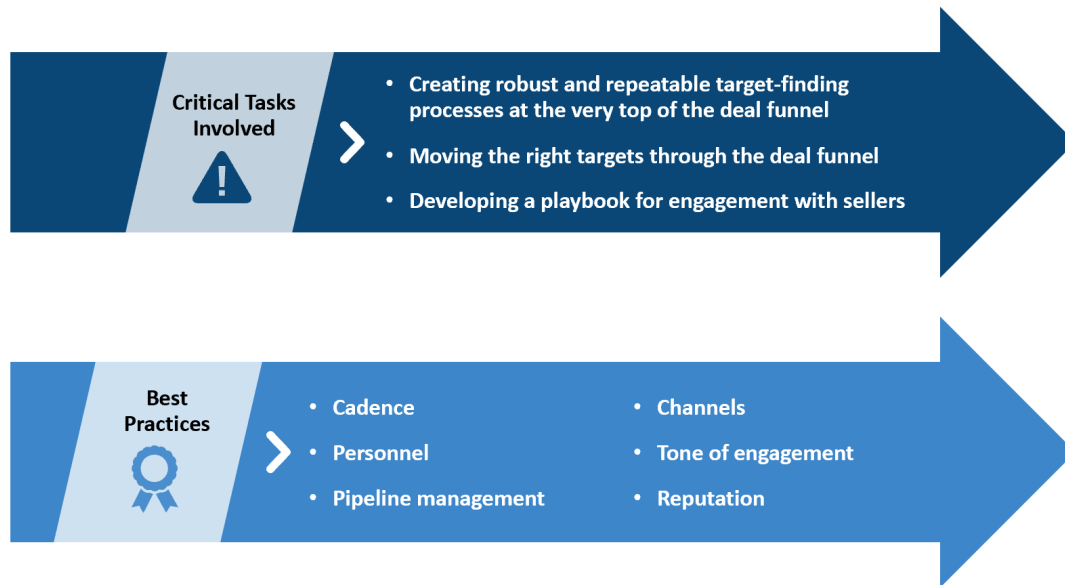
To make this note useful to practitioners and students alike, we have sought to balance breadth and depth in exploring a strategy that is part style and part process. In the following pages, we define deal sourcing and explore our PAS sourcing framework (see **Figure 2**), which encompasses the following critical tasks:

- creating robust and repeatable target-finding processes at the very top of the deal funnel;
- moving the right targets through the deal funnel; and
- developing a playbook for engagement with sellers.

Our PAS framework also offers best practices along six key dimensions:

- cadence;
- personnel;
- pipeline management;
- channels;
- tone of engagement; and
- reputation.

Figure 2: The PAS sourcing framework



What Is Deal Sourcing?

Deal sourcing is the building and sustaining of a full pipeline of acquisition targets and opportunities. To be precise, our focus is on deal sourcing within the context of a PAS. We stress this point because to execute a PAS, a firm will purchase not just one or a handful of companies on occasion but many assets on a serial basis. This volume and pace of transactions requires a firm to dedicate more time and resources to deal sourcing than a similarly sized episodic acquirer would need.

We also emphasize the role of time. While some firms engage in a flurry of deals over a short period, we think about programmatic acquisition and the deal sourcing that supports it from a longer-term perspective. Our approach to deal sourcing is tailored to the goal of building and sustaining a fulsome pipeline of acquisition targets for many years, not just two or three. For us, deal sourcing is more about planting many seeds for a succession of tomorrows than about picking fruit that is ready for harvest today.

Our framework for deal sourcing also assumes that a business is already in place to serve as the base for executing a PAS. This means that the tactics discussed here are geared toward finding and cultivating targets that can be added to the programmatic acquirer’s platform for growth. Sourcing a base business is beyond the scope of this note.

Although the term *sourcing* implies an intent to purchase, the activity itself is, or at least resembles, a sale, in some cases a highly complex, multi-period one. In fact, although the acquirer seeks to buy assets, it must sell the owners of a potential target two things: the idea of selling their business at all and money for actually doing so. As a result, we cannot emphasize enough that sourcing is a sales function and should be thought of accordingly.

Critical Tasks for Deal Sourcing

We identify three tasks critical for effective deal sourcing: creating internal processes, moving the right targets through the deal funnel, and developing a playbook for engagement with sellers. Successfully executing these tasks will allow an entrepreneur to establish a robust sourcing function that will drive an effective and profitable PAS.

Creating robust and repeatable target-finding processes at the very top of the deal funnel

The first critical task at the very top of the deal funnel is creating robust and repeatable target-finding processes at the very top of the deal funnel across multiple channels (brokered and proprietarily generated opportunities). A firm pursuing a PAS must invest time and resources to build an understanding of the full universe of relevant targets. This is easier said than done because the targets will often be small private companies with low profiles, about which little information will be publicly available. In addition, the number of companies to potentially discover will likely be large since programmatic acquisition almost always takes place in highly fragmented industries.

Typically, the initial search and canvassing to map out the full extent of the pool of targets will require considerable effort. Systematization will allow a programmatic acquirer to gather this market intelligence early on its journey and update it as the industry landscape changes. Any staff involved in this top-of-the-funnel work must know what an appropriate target looks like, how to determine quickly whether a given target fits the profile of a desirable opportunity, and, if applicable, when to bring the firm's senior leadership into the sourcing process for maximum impact. Moreover, the system must be flexible enough to handle leads found through proprietary sourcing or via intermediaries, such as brokers and bankers.

Moving the right targets through the deal funnel

The second task critical to deal sourcing is moving the right targets through the deal funnel. Casting a wide net makes sense at the top of the funnel, but the challenge then becomes determining which options are worth pursuing further. Rigorous screening is the solution. A programmatic acquirer must develop a framework for evaluating targets that goes beyond the cursory analysis of an initial evaluation.

Developing a scorecard or checklist can be useful, as it allows the firm to assess whether a given target is a good match in the context of its financial and strategic objectives. In addition, building analytical rigor into the sourcing process enables the firm to prioritize the right targets. After all, there may be many possible acquisition candidates, but the programmatic acquirer will have the resources and bandwidth to complete transactions for only a subset of them during a given period. Structured analysis of the targets will allow the acquirer to focus its efforts on the best opportunities and, as a result, to optimize the bottom of the deal funnel.

Developing a playbook for engagement with sellers

The third task critical to deal sourcing is developing a playbook for engagement with sellers, their representatives, and various industry participants. To some degree, a playbook is a matter of necessity. If a firm wants to sift through a large and ever-changing field of possible acquisition candidates over a multi-year period, it must build and sustain relationships with many external parties.

Relationship management at this scale is possible only with a thoughtful, systematized approach, and that is precisely what a playbook offers. Repeatability provides not only scalability but also consistency. A programmatic acquirer will engage with various external constituencies (i.e., brokers, investment bankers, industry participants, and thought leaders), and each will expect to receive a clear and tailored message.

As a result, a successful acquirer must make messaging a cornerstone of its sourcing strategy. All representatives of the firm who speak to external parties as part of the sourcing efforts should know the right *message* for each type of constituency, the right *time* to deliver it, and the right *way* to drive home the key points. Formal codification of communication practices in an engagement playbook will give a programmatic acquirer the best chance of achieving both scalability and consistency in its deal-sourcing efforts.



John O'Connell is the former CEO and co-founder of [Wind River Environmental](#), a Massachusetts-based company that services and maintains a broad array of non-hazardous liquid waste systems, including grease traps, septic tanks, and related waste systems. Wind River offers a full suite of services to residential, business, and municipal customers. Before ascending to the CEO role at Wind River, O'Connell held executive leadership positions at Wind River and Autozone, a multi-site auto parts retailer. While at Wind River, O'Connell led a programmatic acquisition strategy that culminated with 75 acquisitions.

Part of our secret sauce was our commitment to tracking our deal pipeline and working our prospects through the funnel. We were vigilant about sorting each prospect into one of four categories in terms of its projected closing timeline. This was crucial to generate the right number of closeable deals each year – not too many and not too few. Our pipeline was so accurate and predictable that the private equity buyer gave us a lot of credit and value for the actionable pipeline when we exited Wind River. So, managing our pipeline was part of our internal systems and processes in the acquisition function. It got us out of reaction mode and into proactive mode.

Our playbook for seller engagement included having the right people on our team prospecting for and nurturing deals. The head of our business development team was an industry veteran who spoke the language that sellers spoke. He was also a real connector; he just loved people and getting to know their stories and businesses. He was not a finance jock, but we did not need that. We did need someone who could get the potential sellers emotionally engaged and feeling comfortable about selling their baby to Wind River. He did not come off as a shark; he projected a very genuine and caring vibe that resonated with sellers and reflected our image and culture.

Some of our deal flow came from our annual industry trade show. We had a booth. We hosted a cocktail party. I connected with a lot of people. This allowed us to do tuck-in deals and flag-planting deals in new markets. It was a very productive channel for us. Over time, we built a premier reputation in the industry as an operator and a buyer. We became a buyer of choice – people wanted to sell their businesses to us. That is a lot of fun and a great place to be.

In 2018 O'Connell sold Wind River to a private equity firm for 13x EBITDA. During his 15-year leadership period, Wind River compounded revenue and EBITDA at 20% and 23%, respectively. O'Connell is looking to rerun his successful acquisition playbook, this time in the HVAC space, through his new company [Allegent Services](#).

Best Practices in Sourcing

There is no one-size-fits-all model for deal sourcing, so each firm will have to find what works best in its industry and given its budgetary and organizational constraints. Nevertheless, despite this heterogeneity, we believe that studying the experience of successful programmatic acquirers is still instructive. Not only have they systematized their deal sourcing, they have done so without losing sight of the fact that this process is not an end unto itself. They have recognized that deal sourcing is a key success factor in programmatic acquisition and, as a result, have refined their tactics for identifying the best targets to serve the overarching purpose of value creation. In our view, firms pursuing a PAS can learn a lot from analyzing, if not emulating, the best practices of deal sourcing. We present these best practices here and have organized them into six dimensions that, in our experience, should be kept top of mind by any entrepreneur trying to source deals as part of a PAS.

Cadence

The first item of importance in deal sourcing is *when* to engage in the activity. Entrepreneurs must use their discretion when making this decision. On one end of the spectrum is an episodic approach to sourcing deals, usually when the firm wants to consummate a transaction in relatively short order. At the opposite end of the spectrum is the strategy of sourcing deals all the time. Of course, plenty of options exist between these two poles.

Our experience and research suggest that the best approach is for a programmatic acquirer to be on the lookout for deal opportunities continually. We have arrived at this conclusion for four reasons.

First, programmatic acquisition, by definition, involves the purchase of many assets over time. The strategic imperative to complete a steady volume of good deals means that the acquiring firm needs a robust pipeline of targets for as long as it executes the strategy. Ideally, the pipeline of targets will be full at any given moment, because a larger set of options leads to better deal-making. The only way to ensure that the deal pipeline is always full is for the firm to be constantly sourcing.

Second, continuous sourcing generally allows the programmatic acquirer to unearth targets it might otherwise miss. After all, the more time the firm spends searching and qualifying targets, the better it will understand the full scope of relevant assets in its industry. It takes time for an acquirer to develop a thorough understanding of its market landscape, and the effort required to do so increases with industry fragmentation. Furthermore, since most programmatic acquisition deals involve privately held targets, some of the most interesting opportunities will likely fly under the radar. A firm will substantially increase its chances of discovering these hidden gems through relentless deal sourcing.

Third, constant sourcing allows a programmatic acquirer to get ahead of the competition. If an acquirer waits until a formal sale process begins, it likely will have to compete with other bidders to win the asset. In most cases, doing so will involve offering to pay a higher price, which is an undesirable outcome since, all else being equal, the ultimate buyer will realize a lower return on its investment. Continual sourcing gives a programmatic acquirer the best chance of avoiding this situation, for it can position itself as a buyer of choice in the minds of future sellers long before they decide to exit.

Fourth, we and other entrepreneurs have found that the owners of very compelling targets are often not looking to sell for quite a while. In these situations, the programmatic acquirer should take the time to cultivate a relationship with the assets' owners. It might take years for the owners to decide to sell, but when the moment finally comes, there is a good chance that all the effort put into building and nurturing a relationship with them will pay off. It is possible to engage in less consistent sourcing and still find these "down-the-road" opportunities, but a proactive programmatic acquirer will have a better chance of

discovering such targets, learning how potential sellers' exit plans are evolving over time, and striking deals when the owners are finally ready.

Personnel

Another major consideration for entrepreneurs when deal sourcing is deciding who among the firm's employees should engage in this activity. Some programmatic acquirers take a top-down approach driven by the CEO, while others opt for a more bottom-up model in which senior executives do not get involved until fairly late in a potential deal.

Based on our experience and research, we believe that deal sourcing should be a fundamental part of a CEO's role in executing a PAS. CEOs are not only the ultimate decision-makers on what constitutes an attractive acquisition candidate (and are therefore in the best position to determine how far any single target should move down the firm's deal funnel); they are also the public face of the company. Sellers know that if they decide to pursue a deal with a programmatic acquirer, they will eventually have to interact with its CEO. Usually, the sooner that relationship begins, the better the chance that the programmatic acquirer can establish credibility and gain trust, two essential ingredients for getting to "Yes" on a transaction. Sellers will also want to assess the programmatic acquirer in terms of its professionalism, competence, and values, and the CEO should embody all three. The dynamic between two organizations often leads the owners of a target to choose what might not be the highest bid.

A successful PAS can be a value-creating machine, so the CEO who invests time and effort in sourcing will help drive value in a highly leveraged format. If a firm can acquire a \$1-million-EBITDA target, it may become extremely accretive on an integrated-margin basis and on a multiple-arbitrage basis. In some ways, it is simpler to acquire a \$1-million-EBITDA target than to sell an incremental \$1-million-EBITDA organically. The number of people involved, and the effort expended to acquire a \$1-million-EBITDA target as part of a PAS, however, make the target an especially time-leveraged investment that should unequivocally include the CEO. This is a wonderful and lucrative use of their time.

Our focus on the importance of the CEO's role should not be construed as an endorsement of a solo-player approach to deal sourcing. It is perfectly appropriate for others in the organization to be involved in the process. For example, some successful programmatic acquirers invest heavily in both senior and junior business development staff to conduct market research and perform early outreach. It is also not uncommon for the CEO to work closely with one or two other senior executives to drive relationship-building activities and the firm's overall deal-sourcing effort. At some firms, the CEO loops in the business unit leaders who will ultimately be responsible for integrating and running the acquired assets. These individuals bring extra eyes and ears as well as operational expertise and a clear interest in thorough and successful sourcing activities.

It is also important for a programmatic acquirer to select the right personnel to interface with intermediaries, such as bankers and brokers. The CEO should have at least some interaction with these parties, but a strong case can be made that someone else, perhaps a business development professional, may be better suited to managing engagement with this channel. It may be best for CEOs to instead invest their time and energy in forging and nurturing direct relationships with their target companies.

Before closing our discussion of personnel as a major consideration in deal sourcing, we have three thoughts to add. First, to some degree, the size of the programmatic acquirer will influence its optimal staffing model. In a larger firm, the CEO is likely to delegate various deal-sourcing responsibilities to others. Best practice would dictate that the CEO remains in charge of the overall process and take on as great a personal role in these efforts as possible. As for small or mid-sized programmatic acquirers, there should be no doubt that driving deal sourcing is one of the CEO's chief responsibilities.

Second, when the opportunity arises to meet a target company's owners in person for the first time, the best approach is for the CEO to participate. The CEO should not shy away from traveling to industry conferences or to a target company's facilities to meet its executive team and owners. Face time is critical when building relationships and seeking out in-person interactions will help the CEO show potential sellers just how important it is to them to source deals in a highly personal and respectful way.

Third, people involved in sourcing in a PAS need not be finance whizzes. Sourcing is all about opening and nurturing relationships and opportunities. While valuation and financial analysis are an important part of PAS, they are not crucial in sourcing. The time for rigorous quantitative analysis comes later in the PAS pipeline (see **Figure 1**). When thinking about how to staff a sourcing team, lean toward listeners and genuinely curious people, those who can connect emotionally and socially with prospects, and avoid the people who smack of number-crunching deal sharks.

Pipeline Management

One of the trickiest but most important deal-sourcing activities is managing a constant, robust pipeline of targets. This is no simple task because the pipeline is dynamic. Each time the programmatic acquirer completes a deal, one target disappears from the set of potential options going forward. Meanwhile, other buyers, whether rival programmatic acquirers, strategic buyers, or financial sponsors, may also be actively purchasing assets. But deal activity is not the only factor to consider. In fact, it is entirely possible that the number of targets will increase, not decrease. As the acquirer builds an internal database to track potentially compelling acquisition candidates, new companies will enter the pipeline at the top of the funnel. Additions can also result from an evolution of the acquirer's strategy. For example, the firm may initially focus on acquiring assets in a specific region (e.g., New England) but at a certain point may expand the scope of its sourcing activities to include other geographies (e.g., the entire Atlantic seaboard). Finally, the composition of the pipeline simply changes over time. Some targets may seem like long-term opportunities now, but the owners could decide to sell much sooner than expected. On the flip side, the timeline for a target that appeared poised for a transaction in the coming year could be extended considerably if the owners suddenly conclude that they are not ready to exit.

A programmatic acquirer must design deal-sourcing systems and processes that are flexible and responsive enough to handle change over time. To achieve this goal, the firm must have a clear view of the desired number of deals to complete each year (we assume that all actionable deals are of a minimum quality standard). This variable will inform how the firm fills its pipeline with targets. Typically, acquirers will organize their pipeline into categories defined by the expected period in which a transaction could be consummated. For example, targets within the pipeline could be grouped into those the firm believes will sell in the next 12 months, 36 months, 60 months, and beyond. If a firm seeks to close two deals each year, it can gauge how many targets should be in its 12-month bucket to minimize the risk of missing its annual goal. There is some unpredictability inherent in deal-making, so building in a buffer (i.e., having more than enough targets in each category) is a good idea for three reasons. First, the programmatic acquirer may have misclassified a target (e.g., an asset expected to sell this year will not actually do so until next year). Second, the acquirer may not be able to purchase a given target even if it is properly categorized (e.g., a rival buyer may outbid the firm and win the asset). Third, the acquirer should keep its options as open as possible. More choices will help the firm avoid feeling compelled to select a suboptimal target from a small set of options just to meet its annual deal quota.

Best practices in pipeline management address these issues head-on. Successful programmatic acquirers work hard to build a robust pipeline with plenty of targets in each time-based category. They also track the pipeline constantly, ensuring that it reflects all currently available information. That way, if circumstances change and certain targets slip from, say, the 12-month group to the 60-month group, the firm can recalibrate its deal-making pace within the current year. Another benefit of regular monitoring

is that the programmatic acquirer can focus its resources on the right categories at the right time. For example, it may have many options to choose from over the next 24 months and five years from now, but the pipeline may be lacking in the 24- to 60-month segment. Armed with this information, the firm's CEO and business development team can dedicate extra time and energy to identifying new targets that may sell during that period. Alternatively, they can invest additional effort in nurturing relationships with longer-dated potential sellers to see whether they may transact sooner than expected.

Channels

Perhaps the most obvious deal-sourcing question entrepreneurs must answer is "How do you actually find acquisition targets?" The most successful programmatic acquirers search through multiple channels to build a robust pipeline that contains a healthy mix of both marketed assets (i.e., those that are represented and marketed by bankers or brokers) and proprietary deal flow. Diversified sourcing allows an acquirer to cast the widest net possible and maximizes its chances of unearthing hidden gems that a narrower approach might miss. As a result, it is essential for entrepreneurs to thoughtfully consider the best practices for both the marketed and proprietary channels.

We will first consider the marketed channel. It should come as no surprise that private companies are always coming up for sale and that a highly organized and dedicated group of investment bankers and business brokers stands ready to market them to potential buyers. We believe it is best practice for an acquirer to engage with this sourcing channel, even though its deal opportunities will almost certainly be presented to other prospective bidders. Arguably, the most important objective for a programmatic acquirer is to position itself in the minds of bankers and brokers who work in its industry as a credible buyer of the types of assets it seeks. That way, bankers and brokers will know which targets are most relevant to the firm, and they will be sure to include it in those processes.

It is also important to maintain relationships in this channel because bankers and brokers are constantly in contact with many people, and any single potential buyer can easily get lost in the shuffle. Consistent and proactive outreach to bankers and brokers will ensure that the programmatic acquirer remains in mind as assets come to market and are shopped around.

Finally, we note that although there will always be more competition for deals that come through the marketed channel, a programmatic acquirer should not minimize its significance as a sourcing vehicle. Just because a banker or broker represents a target does not mean it should be ruled out as an acquisition candidate. Some desirable assets will be professionally shopped around, and the only way to be in the running for them is to engage with their intermediaries.

The alternative to the marketed channel is proprietary sourcing. Typically, the most successful programmatic acquirers find that their ability to identify deal opportunities and generate leads independently has been critical to their long-term success. This is because proprietary sourcing generally involves less competition, which translates into more deals completed at lower valuations. A firm that can source its own deals is much more likely to find assets that fly under the radar. In addition, through proprietary efforts, it substantially increases its chances of engaging with potential sellers well before they decide to exit. Early outreach and sustained interaction are essential for nurturing relationships with potential sellers over time. Then, once the owner finally decides to exit, the programmatic acquirer will have a great advantage in striking a deal for the asset as it will (ideally) have established its credibility and gained the seller's trust.

There are two ways to build proprietary deal flow: through direct sourcing and through personal networking. Direct sourcing involves un-intermediated engagement with potential sellers. Sometimes the interaction can start with cold calling, but in other instances, the relationship will begin with an in-person

meeting, potentially at an industry conference. Many successful programmatic acquirers find that developing and distributing a content package about their firm is an excellent way to both initiate contact and keep potential sellers informed and engaged. Content also justifies a phone call or an e-mail from the CEO to see how things are going for the target. We have found that this type of direct outreach should generally occur a few times a year.

We also stress the importance of face time. Nothing will build credibility in the minds of targets quite like positive in-person interactions. For this reason, the CEO and other key personnel should not hesitate to incorporate travel into their direct-sourcing strategy. Furthermore, a programmatic acquirer should not wait until it seems like a deal could happen soon to seek this type of engagement. Even if the target is unlikely to sell for quite some time, an acquirer can use in-person interactions to cultivate a long-term relationship. As discussed elsewhere in this note, this has many potential benefits from a sourcing perspective.

Personal networking is another powerful method for generating proprietary deal flow. This approach involves making connections and maintaining relationships with many industry participants. There are three reasons investing heavily to build a network of contacts is likely to pay off. First, a strong network within the industry can supply valuable market intelligence. For example, the programmatic acquirer may learn through its contacts that the owner of a compelling target has suddenly decided to sell sooner than expected. Second, a web of personal connections extends the reach of an acquirer's proprietary deal-sourcing efforts. After all, if the programmatic acquirer clearly conveys to its network what type of target it is looking for, then its contacts can, and usually do, end up serving as extra sets of eyes looking out for interesting deal opportunities. Third, having a large industry network increases the likelihood of enjoying a "warm," personal introduction when directly reaching out to a compelling target.

There are many ways to build a strong network. Most of them are obvious, such as proactive outreach, treating all industry peers with professionalism and respect, and attending industry functions. However, there is one tactic that we have found to be less readily apparent yet perhaps more impactful than the other approaches: highly engaged participation in an industry association. Industry associations provide a structured forum for firms to interact with one another and to work together to solve common problems. Most of these organizations sponsor conferences at least once a year (often even more frequently), and these events offer great opportunities for the CEO (and potentially other key personnel) of a programmatic acquirer to meet senior executives from across the industry. Conferences serve as natural and convenient settings for initial interactions and the periodic touchpoints crucial for nurturing and sustaining relationships. Basic involvement with an industry association is a good start, but we believe, based on our own experience, that a programmatic acquirer can maximize its impact and gain considerable visibility by taking a more active role. By sitting on a committee or assuming a leadership position (e.g., president of the industry association), the CEO of a programmatic acquirer can build a valuable platform for their company at the industry level, with deal-sourcing benefits that are hard to match.

Tone of Engagement

Entrepreneurs must strike the right tone during their interactions with their targets. Each engagement provides a chance to differentiate one's firm from others in potential sellers' minds, and the most successful programmatic acquirers embrace such opportunities. In our experience and based on our research, best practice is for entrepreneurs to display a combination of professionalism, sincerity, and humility. We consider these traits here and explain how they work together to set the right tone when engaging with target companies' management teams and owners.

Professionalism is key to establishing credibility as a potential buyer. In most cases, current or future sellers have spent years growing their business, and they understandably take considerable pride in the asset they have created. When they contemplate selling, they usually do so with an eye toward more than just financial remuneration. Finding the right owner for their business is partly about continuing their legacy as entrepreneurs, and they will not entrust that responsibility to just anyone. In each interaction with a potential seller, a programmatic acquirer must prove that it will be a credible steward of the asset that the potential seller worked so hard to build.

This can be done in a few ways. First, the firm's representative, usually the CEO, must demonstrate a thorough understanding of the industry. Talking intelligently about the target business conveys to potential sellers that the CEO and their firm are highly competent and strategically minded. Second, the CEO should come across as an experienced operator of similar assets, not a smooth-talking Wall Streeter. The reason for this is simple: for the most part, potential sellers will be operators themselves, and they will respect operational expertise more than salesmanship and financial know-how. Third, although it may seem simple enough, the CEO should be mindful of all the little things that indicate professionalism, such as showing up to meetings on time, sending prompt thank-you notes afterward, and following up speedily on any outstanding action items.

Sincerity and humility help convince potential sellers that the programmatic acquirer can run their business well and do so with a set of values similar to their own. One of the best ways for business leaders to show sincerity is to ask thoughtful questions, which allows them to demonstrate a genuine interest in the potential sellers and the assets they have built. When engaging with a prospective seller, programmatic acquirers should keep in mind that the conversation's goal is not to prove that they are smarter, run a better business, or have built a superior company. The objective is to get the prospect to consider selling their business. These engagements should be all about the prospect, and programmatic acquirers should never boast or brag about their firm. The approach should be to sincerely compliment the potential sellers on their accomplishments. To be sure, if done in a ham-handed fashion, this tactic can backfire and give the impression that the programmatic acquirer's CEO is inauthentic and manipulative. However, few things are more meaningful to entrepreneurs than to be recognized for their business achievements.

As for humility, it is essential for programmatically acquiring CEOs who earned their MBAs from top schools and worked in private-equity firms to remember that not all businesspeople took that same path to success. A sterling resume alone will not earn the confidence of most potential sellers. Typically, they will evaluate whether the CEO treats them as an equal despite differences in academic pedigree and professional experience. In addition, if potential sellers are to entrust their legacy to someone, they want to do so knowing that person is open to other perspectives and does not believe that they have all the answers. After all, an entrepreneur who accepts their limitations and does not hesitate to ask for help is more likely to course correct, making them a better candidate to acquire the seller's business.

Reputation

Finally, there is the issue of reputation. Building and maintaining a strong reputation is critical for success in deal sourcing for three reasons.

First, sellers tend to prefer interacting and transacting with people they like. To be sure, congeniality and the compatibility of personalities play a role here, but they are not the main criteria in our experience. Rather, we have found that most sellers want to feel comfortable with the new owner of the asset they have worked so hard to build. They want the new owner to be someone they respect, who shares their values, and who will preserve and enhance their legacy as an entrepreneur. We have also noted that it is

not uncommon for sellers to choose a buyer who checks all these intangible boxes regarding reputation over the highest bidder.

Second, reputation opens doors to opportunities that might otherwise be missed. If a programmatic acquirer gains a reputation as a professional, competent, and honest buyer of a certain type of asset, not only will industry participants know that the firm is a highly credible enterprise, they often will also provide the firm with useful market intelligence on relevant companies that come up for sale. In this sense, a strong reputation begets information, extends the reach of the firm's research and outreach efforts, and paves the way for introductions to potential sellers outside the firm's existing network of contacts.

Third, in addition to many other benefits, a glowing reputation results in being perceived by potential sellers as a buyer of choice. A buyer of choice gets the first and last look in any competitive deal process. A buyer of choice also will receive inbound calls from some potential sellers. Becoming a buyer of choice should be every entrepreneur's goal in a PAS.

Now that we have established why reputation matters in the context of programmatic acquisition, we will explore some best practices for building and maintaining the right type of profile. Perhaps the most important barometer of a programmatic acquirer's reputation is the opinion of sellers who have previously transacted with it. A strong roster of previous sellers who can serve as references goes a long way toward earning credibility with and gaining future sellers' trust.

It is important for an entrepreneur to do right by its sellers, and we have seen some particularly useful tactics. First, entrepreneurs should treat sellers fairly during the transaction itself. Professionalism and courtesy are table stakes; thus, we focus on what buyers can do proactively to make sure that prospective sellers walk away with a positive impression. One approach is to concede deal points that may not move the needle on the overall transaction financially but are nevertheless important to the seller. However, it is also possible that money will play a role here. Generally speaking, sellers will have a higher opinion of a programmatic acquirer who they feel did not squeeze them for every last dollar in the deal. The implication for programmatic acquirers is not that they should substantially overpay sellers to make them happy and secure future references. Rather, if the two sides obtain similar valuations, it may behoove the buyer to give some ground on valuation while maintaining price discipline. Another option, especially when the seller is an owner-operator, is for the buyer to provide them with a salary in return for non-demanding advisory services during the integration.

Second, entrepreneurs should strive to maintain a relationship with every seller with whom they have previously transacted. Deals come and go, but the engagement should not end. Critical to maintaining at least some level of interaction is investing time and energy in creating and updating an accurate contact list of all previous sellers. Armed with this list, programmatic acquirers will have many options for relationship management. We have seen some entrepreneurs distribute content packages regularly, including materials like important press releases and annual reports. Another effective tactic is sending out invitations for company events, such as holiday parties or other celebrations, to all previous sellers. Even if they do not show up, they will feel included. Small gifts send a similar message, and some programmatic acquirers swear by this approach. All that said, it is important not to forget that simple, direct outreach by the CEO of the programmatically acquiring firm is highly meaningful. An incredibly impactful action is for the CEO to tell previous sellers that they will be in town and ask whether they could have lunch together. These activities drive reputation and the ability to use legacy sellers as references.

Ultimately, there are many ways to manage relationships, but we have found that formalizing the nature and cadence of engagement with previous sellers determines whether such activity will be sustained over time. It is certainly possible to keep up relationships without structured outreach initiatives, but we have noted that some of the most successful programmatic acquirers have created well-developed alumni

programs and dedicate ample resources to managing them. These efforts typically encompass many, if not all, of the engagement strategies outlined here, and the organizational structure around them ensures successful execution so that no previous seller gets left out.



Brandon Halcott (Harvard Business School 2010) is the co-founder and president of [Tru Family Dental](#), a Midwest-based dental support organization with offices throughout Michigan and Illinois. Halcott has grown his business through a programmatic acquisition strategy that has included 25 purchases with five more currently pending close. Prior to launching Tru Family Dental, Halcott gained experience in banking and private equity and by executing on a PAS in the beauty school space. When he launched Tru Family Dental, he knew that programmatic acquisitions would drive growth and that sourcing, in particular, would be a key underpinning of his strategy's success.

Sourcing deal opportunities is a key part of our strategy and success to date. Our largest focus area is working with brokers who represent dentists interested in selling their practices. We like brokered deals because there is a real seller, and the seller has been coached and is ready. While we are laser-focused on marketing to and cultivating the broker community, we also do proprietary and inbound deals. We have worked hard to cultivate a brand and reputation in our space to be a buyer of choice. We are extremely responsive to brokers and sellers – we are aware that this is likely a life-changing financial transaction for a seller. We do exactly what we say we are going to do – we are true to our word and do not retrade deals.

Part of what has propelled our sourcing success is the people involved. My partner, Namish Patel, drives the sourcing function. He is a true people person and is excellent at developing and nurturing prospect relationships. Namish is a listener and connects with a potential seller genuinely and emotionally. He is in continuous follow-up mode with our pipeline. It's a "stay close, but don't be a pest" mentality. We have supplemented his efforts with a junior business development professional who bird-dogs leads, brokers, and keeps our ever-growing list of current deal opportunities in our CRM, [Pipedrive](#).

I believe that we have the right people, infrastructure, and approach to sourcing in our PAS. This combination of hard and soft skills has allowed us to grow and facilitate our strategy. It's been fun, and I enjoy seeing our program's results as we continue to professionalize and get even better.

Conclusion

Deal sourcing is an essential part of a PAS. Firms that thoughtfully approach deal sourcing can build and sustain a robust pipeline of targets over many years, fueling their PAS engine and driving economic value for many stakeholders.

We believe successful PAS entrepreneurs focus on the critical tasks of creating robust and repeatable target-finding processes at the very top of the deal funnel, moving the right targets through the deal funnel, and developing a playbook for engagement with sellers. Additionally, they strike the right note in these key best practice areas: cadence, personnel, pipeline management, channels, tone of engagement, and reputation. When these critical tasks and best practices are embraced, entrepreneurs can develop a robust and successful deal sourcing function that will help drive an effective and profitable PAS.

We hope that aspiring entrepreneurs will keep in mind these principles and practices as they plan how best to source deals on their own programmatic acquisition journey.

Exhibit 1: Techniques and tactics for connecting with potential sellers in a PAS

- Send a book on customer service, operational excellence, or growth to a potential seller, and link the book to a conversation on the topic you have had with the potential seller. In this way, you (the programmatic acquirer) position yourself as an advocate of service, excellence, and growth.
- Host gatherings or events (e.g., dinners, cocktail parties) at industry conferences.
- Position yourself as an expert and thought leader by speaking at industry conferences, writing articles for industry publications, or becoming an officer in the industry association.
- Build deep and meaningful relationships with industry vendors who may be able to provide leads and color on acquisition candidates.
- Share operating techniques with any industry participant who inquires; that participant is a prospect.
- Notify potential sellers when you have completed a deal with a seller. Share laudatory quotes from the seller.
- Discover a prospect's hobbies and interests (e.g., skiing, golf, baking, grandkids) and always ask about these in your next phone call to or interaction with the prospect.
- Send articles or books to your prospects on their interests and hobbies.
- When you win an award or are featured in a publication, share it with your prospects.
- Generate white papers on industry topics and share these with your prospects.
- Host webinars on the selling process.
- Offer industry participants an opportunity to visit your business headquarters or facilities.

Exhibit 2: The CEO's perspective on PAS sourcing

The CEO's Perspective



Tony Ibarguen (HBS 1989)
Quench
quenchwater.com



Ryan Jones (Stanford 2010)
Dynamic Growth
dynamicgrowth.dental

<p>1 How does your company source deal opportunities in its programmatic acquisition strategy?</p>	<p>Our approach has evolved over time. In the early days, we attended industry and vendor events, scoured LinkedIn for contacts, and followed up with in-person visits to build relationships. That led to word-of-mouth references. Later, we acquired a distributor with independent dealers, all of whom are targets for us. Since then, we've developed exit strategies for many of them. More recently, we hired a research firm and have assembled a database of prospects that we target with outbound calling and e-campaigns.</p>	<p>To date, most of our add-on acquisitions have been sourced through the expansive broker network that exists in the dental industry. As time goes on, we are seeing more and more deals come to the table through word-of-mouth referrals from vendors, suppliers, and other industry partners and by attracting the friends and colleagues of doctors who have already sold their practices to Dynamic Growth.</p>
<p>2 Who is involved in the sourcing process and what exactly are their roles and backgrounds? What specific role do you play in the sourcing process?</p>	<p>We have three groups involved, each taking a different approach: senior executives (the CEO and COO, both with years in the industry, develop and maintain contacts and then hand off leads to the execution team); a distributor sales team (regional execs, trained to include exit strategy as part of their value proposition to equipment buyers/dealers, develop and maintain contacts and then hand them off to the execution team); and sourcing (corporate development) specialists (these handle outbound contacts and relationship development).</p>	<p>My business partner, Jeff Grove (President), and I (CEO) currently spearhead our deal-sourcing process. We anticipate having a business development (BD) team going forward. I usually have first contact with the brokered deals, and Jeff usually does a doctor-to-doctor introduction to deals that were referred to us directly. We both focus on building relationships with the seller early on. Once we have a signed LOI, I take over, facilitating the due diligence and contract negotiations.</p>
<p>3 When prospecting acquisition candidates, how do you open and nurture the relationship?</p>	<p>We are a large, well-respected competitor, a status which gives us credibility during prospecting but also creates wariness among some potential sellers. We've overcome such concerns by offering something of value (industry information, trends, metrics) prior to asking about their long-term strategy (and exit plan). We present a long-term view: "There's no risk in talking now, and if you decide not to do anything, we will be here for years to come." When you keep following up over a period of years, you build familiarity and confidence.</p>	<p>Our initial focus is to build the relationship with the seller and gain perspective on their needs and goals for a deal. We also try to paint a picture early in the relationship of what we are about: our vision for our organization and the impact we want to have on the industry. From there, we try to get as much context from the sellers as we can and identify where we need to educate them along the way to fill in any knowledge or information gaps they may have. We want to understand their goals and objectives for selling or partnering and what fears or concerns they have about the process.</p>
<p>4 How important is sourcing to your overall value creation strategy? How have you built a competitive advantage in sourcing?</p>	<p>M&A growth is fundamental to our strategy, both in terms of extracting operating leverage in current markets and extending our footprint into new markets. Having a steady stream of deals in progress enables us to staff for success and growth. In the early days, our sourcing was lumpier, so it was harder to establish the rhythm and pace of transactions that we have now. Over time, we became more consistent in our sourcing and, as a result, our deal making. In turn, that track record has given us credibility and confidence with potential sellers.</p>	<p>Sourcing deals is an important part of our value-creation strategy and a vital growth avenue for our organization. We anticipate that acquisitions will represent roughly 50% of our revenue growth going forward. I think the value creation we drive in the rest of the business, how we treat people, and the competitive advantages we create through patient experience in our offices are what will enable us to continue to refine and improve our sourcing strategy.</p>
<p>5 How do you position yourself to be a buyer of choice in the sourcing process?</p>	<p>Once we have enough of a relationship to talk to the company about a potential exit strategy, we explain that our experience with dozens of deals has enabled us to make the process straightforward and as short as possible. We also offer references from many other sellers, including many who have remained with us post-sale. We are always candid and don't sugarcoat the harder edges of the process. Selling a company is hard work, and it often includes some painful decisions and conversations. We establish credibility and gain trust right up front.</p>	<p>We focus on three main areas:</p> <ul style="list-style-type: none"> • creating a tailored transition plan rather than just following a rigid acquisition template and deal structure, as some of the larger groups do; • developing a transparent deal structure that is easily understood by less sophisticated sellers, with no confusing earn-outs or claw-backs; and • understanding the seller's post-close expectations and trying to lift the ceiling on what they thought was possible to help them end their career on a high note.

The CEO's Perspective



Jason Mangone (Yale Jackson 2013)
Newbury Franklin Home Services
nfhomeservices.com



John Woolley (Stanford 2010)
Hatfield Medical Group
hatfieldmedicalgroup.com

<p>1 How does your company source deal opportunities in its programmatic acquisition strategy?</p>	<p>We execute direct email campaigns targeting companies in our industry, many of which are listed on a national trade association website. We also have opportunities in our pipeline that were sourced from within our professional networks. The longer we're in the business and continue to build a good reputation, the more relevant our professional networks become.</p>	<p>Currently, most of our sourcing has come through word-of-mouth referrals from doctors already working with our group, many of whom have decades of experience in the field. But we know we can't rely on word of mouth forever, so we have compiled a database of practices, using publicly available information and lists that we purchase. We also have collected key metrics about the physicians that help us to identify high-quality targets, based on our criteria. To follow up on these leads, we send an introductory letter, make a cold call, or both.</p>
<p>2 Who is involved in the sourcing process and what exactly are their roles and backgrounds? What specific role do you play in the sourcing process?</p>	<p>My investor group is led by two longtime microcap acquisition professionals who have meaningful equity incentives to scale my company. One of them focuses a significant portion of his time on sourcing and executing acquisitions on our behalf. I get involved in the strategic evaluation of the opportunity, with an emphasis on human capital and considerations related to integration and operational bandwidth.</p>	<p>Currently, our plan is to have our director of growth do a lot of the cold outreach. His background is in direct-to-consumer (door-to-door) sales as well as enterprise sales for a for-profit university. Once a group expresses real interest, our chief medical officer (CMO), with either myself (CEO) or our COO, will meet with the candidates to understand their needs and explore <u>whether or not</u> it would be a good fit. Our CMO is also involved in constantly communicating (via texts and emails) with prospects. Currently, I am intimately involved in getting to know any candidate that responds to initial conversations, though at some point we anticipate hiring a business development professional.</p>
<p>3 When prospecting acquisition candidates, how do you open and nurture the relationship?</p>	<p>We present ourselves as active buyers. We're very direct about that, but we aren't pushy. We readily acknowledge when it isn't the right time for a business owner to consider a transition, and we seek to continue to nurture those relationships over the long term. Our message to them is that we just want to be helpful, which is the absolute truth in our high-touch service business, and that seems to resonate with folks in our industry.</p>	<p>We are upfront about what we want. But, more importantly, we seek to understand what the target owners want out of the deal. From there we like to do a light diligence that helps us determine an initial offer price. We then do a non-binding LOI and further diligence to a close. Our chief medical officer's ability to speak doctor-to-doctor with prospects plays a key role throughout the process. The integration planning is also critical. We like to sit with each prospect and review a detailed checklist of key decisions and timelines to set everyone's expectations and move the process forward.</p>
<p>4 How important is sourcing to your overall value creation strategy? How have you built a competitive advantage in sourcing?</p>	<p>We are early in our journey, but we expect inorganic growth to be a significant value creation lever. In our view, it will become a competitive advantage when we've earned a reputation as a buyer that yields inbound calls from prospective sellers. We aren't there yet, but we're on our way.</p>	<p>Right now the opportunities for acquisition in our market are plentiful and the multiples are low enough that excellent sourcing is important but not critical. As we move from just word of mouth to more cold contacting, we hope that the database we have constructed will be an advantage in our sourcing.</p>
<p>5 How do you position yourself to be a buyer of choice in the sourcing process?</p>	<p>We conduct ourselves with the highest integrity. Just this week, two of our acquisition candidates asked to speak with a previous seller of ours about their experience working with us. Those conversations are important and are only possible if we build a reputation as a firm that does right by its sellers.</p>	<p>Because we are not backed by PE and have been in the community for so long, we have a strong reputational advantage. Also, because we are further along in an industry-wide transition to a new business model (value-based care) than most physicians, we can position ourselves as experts and guides in the space. We emphasize physician well-being in our group and have been able to deliver on it. Because we are small, we have been able to be quite creative in how we've structured deals, which has helped physicians. Finally, we are sure to always be totally honest and clear about what we want so that we can build trust and weed out candidates that might not be a fit.</p>

Exhibit 2: CEO bios

CEO 1: Tony Ibarguen, CEO, [Quench](#)

Tony has served as Quench's CEO since he joined the company in 2010. Tony has more than 25 years of senior executive leadership experience at companies including Insight Enterprises (NASDAQ: NSIT), a Fortune 500 information technology business where he also serves on the board of directors; Alliance Consulting Group, a privately-held IT consulting firm; and Tech Data (NASDAQ: TECD), a Fortune 500 global technology distributor. Tony holds a degree in marketing from Boston College and an MBA from Harvard Business School.

CEO 2: Ryan Jones, CEO, [Dynamic Growth](#)

As CEO of Dynamic Growth Dental Support, Ryan is responsible for finance and accounting, growth strategy, non-clinical operations, and co-stewardship of the culture. Ryan has been leading people and managing teams since his early 20s and has a strong appreciation for the value created through caring and thoughtful leadership. As an experienced operations executive, Ryan has led improvement efforts in settings ranging from Fortune 500 companies to public utilities and privately held SMBs. Ryan obtained his MBA from the Stanford University Graduate School of Business and holds a Bachelor of Science in Mechanical Engineering from Kettering University where he graduated summa cum laude.

CEO 3: Jason Mangone, CEO, [Newbury Franklin Home Services](#)

Jason began his career as an infantry officer in the United States Marine Corps from 2006 to 2010, including deployments to Iraq and Haiti. He was then a research associate at the Council on Foreign Relations. After graduate school, Jason ran the Aspen Institute's Franklin Project, an initiative to make a year of national service a common expectation for every young American. He led the Franklin Project's merger with two other nonprofits, resulting in the creation of the Service Year Alliance, where Jason was chief operating officer. He then spent a year helping to build New York City's Department of Veterans' Services as a senior advisor to the agency's commissioner. In 2018, he co-authored the national best-selling book *Leaders: Myth and Reality*, which the Financial Times named a "Best Business Book of 2018." His writing has also been published in the Wall Street Journal, Huffington Post, Task & Purpose, and Philadelphia Inquirer. Jason is a 2006 graduate of Boston College and a 2013 graduate of Yale University's Jackson Institute for Global Affairs.

CEO 4: John Woolley, CEO, [Hatfield Medical Group](#)

John brings a career-long commitment to innovation to his role at Hatfield Medical Group. Hatfield Medical Group is a growing organization focused on value-based care in the greater Phoenix Area. Prior to Hatfield Medical Group, Woolley helped bring a small airline, Eastern Airline, out of Chapter 11. Before that he was Senior Vice President of Growth at Oak Street Health (NYSE: OSH), a fast-growing primary care organization based in Chicago. An early executive with Oak Street Health, Woolley built and led their patient acquisition, site selection and buildout, and payer contracting functions. Woolley was previously a healthcare consultant and Project Leader at the Boston Consulting Group, focusing on Medicare Advantage. Woolley holds a BA and an MBA from Stanford University. He is married and is the father to 3 children.

This case has been developed for pedagogical purposes. The case is not intended to furnish primary data, serve as an endorsement of the organization in question, or illustrate either effective or ineffective management techniques or strategies.

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