

NEW SCHOOL DEAL MAKING MANIFESTO

Traditional deal making is dead. Whether you're in M&A or a private company investor, the science (and art) of deal making is radically changing. The cause? Trillions of dollars coming into PE coffers looking for "above market" returns – which, in turn, has increased the competition for private company transactions. This in addition to increased M&A activity as corporate buyers try to stay on top of ever more competitive markets.

Deal makers can no longer rely on the traditional old-school approaches to sourcing and transacting. Companies are transacting at ever earlier stages and operators are increasingly savvy. If firms aren't identifying and building relationships with prospects early in their life cycle, they are getting cut-out of deals. For investors, relying on intermediated deals is increasingly a failing strategy. For M&A professionals, relying on networks to identify targets is no longer sufficient.

The availability of new data services that give visibility into historically opaque private markets is driving an entirely new school of sourcing strategies. Software systems that enable small teams to have an outsized impact are revolutionizing the business development process. Firms that aren't aggressively embracing these new school techniques are quickly being passed by their counterparts.

We at SourceScrub believe the time to reinvent your deal sourcing is now. The following is our set of guiding principles in the New School of private company deal sourcing.

1. Be an Expert – No business owner/operator wants a generic advisor or capital partner. The most successful deal teams are deep experts in their field. They provide value from meeting #1. This requires firms to not just create compelling market strategy, but to be able to execute that strategy flawlessly. New School firms have consistency in their strategy across every activity they do – from target identification, to business development, to deal execution, to firm marketing and branding. They build a defensible island on which to stand.

2. Operating Partner Mindset – Let's face it, money only goes so far in persuading operators and owners to transact. Deal dynamics are now relatively transparent and templated. The value that investors or advisors can provide to owners needs to extend well beyond the transaction. Owners/operators are looking for partners who can help them take their game to the next level, providing assistance at every turn in their operations. It requires investors and advisors to have knowledge and experience that unlocks value in the core products and services that owners deliver. New School is a mindset shift.

3. Data Driven Deal Making – Data is at the heart of New School techniques. The internet has unlocked a near infinite set of private company signals for investors and M&A professionals to leverage. Best-in-class firms are aggressively restructuring their teams and processes to acquire and organize data. The insights generated from this undertaking are providing firms with massive competitive advantage as they develop radical new understanding of markets. It's also giving firms the ability to react much more quickly to private market shifts.

4. Direct Origination & Outbound teams – If New School is nothing else, it's about being proactive in your deal pursuit. It's about transitioning from being opportunistic, to being selective and strategic. New School tactics enable direct deal sourcing – a strategy that was historically only available to the largest and most sophisticated firms. Most firms engaged in direct sourcing require outbound BD teams dedicated and compensated on prospecting. The availability of data and software empowers even small firms to be effective at direct sourcing – complimenting the intermediated deal flow. It allows teams to develop relationships with the right targets much earlier on in the company's life cycle giving them an advantage when the transaction window opens.

5. Aggressive technology adoption and transformation – Software is upending deal sourcing. Most firms are well underway with CRM adoption, but advanced firms are developing tech stack with tools, software and processes that help across all aspects of deal making. These stacks include software that helps with outbound sales, digital and email marketing, and project management. Many firms now have software development teams working on proprietary tools and systems usually working to integrate and leverage multiple data sources. In all situations the adoption of tech means reworking who's on staff and how the organization operates. And while this journey is rife with challenges, success equates to sustainable competitive advantage that can ensure consistent above market returns.

The New School Manifesto calls for radical transformation within the firm. And the challenges of transformation are non-trivial. Though the undertaking is difficult, we believe it is essential. Firms that adapt and embrace New School stand to emerge on the other side with a significant advantage over competitors. And one that is sustainable beyond well beyond a given deal or fund or transaction.

We at SourceScrub have made it our mission to help firms through this transition and honor those of you that engage in the New School journey.