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How to Choose the Right Company to Acquire

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> Focus on actual metrics and operations -- not future potential -- and buy a cash flow that you can improve.

Second in a four-part series

Several years ago, a former student of mine bought a commercial HVAC business based in Northern Ohio. The company specialized in large installations for hospitals, universities, and office buildings and provided ongoing service to commercial properties across the Great Lakes region. It was not a startup. There was no new technology, no clever platform story, no venture pitch. It was a real operating business with real customers, real employees, and real consequences if things went wrong.

On paper, the business looked solid. Earnings were stable. Growth was modest but consistent. Nothing jumped out as broken. But a peek under the hood showed some stagnation within the company: few metrics, outdated pricing methods, uninspired marketing, and other issues.

Fortunately, the new owner implemented managerial changes to address these issues and improve the business, and within 18 months it was stronger. This is the essence of Entrepreneurship Through Acquisition (ETA): Taking a business that is solid but under-performing and making it better through skilled management.

ETA is a path to entrepreneurship in which an individual buys an existing business rather than starting one from scratch, with the explicit goal of improving operations, increasing cash flow, and creating value through better management. It is entrepreneurship in every meaningful sense, but it begins with an operating business rather than a blank page.

To evaluate performance in this context, it also helps to be precise about metrics. When acquisition entrepreneurs talk about EBITDA, they mean earnings before interest, taxes, depreciation, and amortization. It is a rough proxy for operating cash flow, stripped of financing decisions and accounting treatments, and it is the metric most commonly used to value small and mid-sized businesses. It is not perfect, but it is useful if you understand its limits.

How the Turnaround Happened

In the case of my student’s HVAC business, EBITDA was healthy, but the business was clearly under-managed.

It had no real operating metrics. Job costing was loose. Pricing on service contracts had not been revisited in years. Marketing was almost entirely word of mouth, supplemented by a dated website that existed largely because customers expected one to exist. Scheduling was handled manually, often on a whiteboard. The owner worked 60 hours a week, not because the business demanded it, but because the business had never been forced to function without him.

The brand still meant something, particularly with facilities managers at hospitals and universities who valued reliability and long-standing relationships. But it was starting to fray. A few large customers had quietly shifted new projects elsewhere. Not because competitors were better, but because response times slipped, communication became inconsistent, and small execution failures accumulated. The company name still opened doors, but it no longer guaranteed loyalty.

Eighteen months after the acquisition, EBITDA was up more than 40 percent. Revenue increased, but not dramatically. Most of the improvement came from margin expansion, better project discipline, and improved service retention. The changes were not innovative. They were managerial. Tighter scheduling. Clearer accountability. Modest price increases tied to actual cost structures. A basic CRM. Consistent follow-through that rebuilt trust in the brand.

That story captures the core logic of Entrepreneurship Through Acquisition. You buy a business for the cash flow it produces today. You improve how it operates. You sell it, economically or literally, for the cash flow it produces tomorrow. Everything else is secondary.

ETA Is About Buying Control, Not Potential

One of the most common mistakes I see aspiring acquisition entrepreneurs make is falling in love with “potential.” Large markets. Fast-growing industries. Expansion ideas that sound great in a memo.

None of those things create value on their own.

Value in Entrepreneurship Through Acquisition comes from control. Control over pricing. Control over operations. Control over how decisions are made and how consistently they are executed. Unlike venture capital, this approach does not reward bold vision untethered from execution. You are not betting that the market will change. You are betting that you can run the business better than it has been run.

That distinction matters because it should shape how you choose targets. The right acquisition is not the one with the most exciting future story. It is the one where you can point, concretely, to what will change once you are in charge and why those changes will increase cash flow.

Start With Businesses That Already Work

This sounds obvious, but it is where discipline most often breaks down.

Entrepreneurship Through Acquisition is not turnaround investing and it is not venture capital. You are not buying a broken company and hoping to save it. You are buying a business that already produces real, repeatable cash flow.

Strong targets show consistent owner-level earnings over time. Not just revenue, but actual cash. This matters because your downside protection comes from today’s EBITDA. If cash flow collapses the moment conditions soften or the owner steps back, you have underwritten unnecessary risk.

I have seen too many would-be buyers convince themselves that weak or volatile cash flow is acceptable because “once I fix it, it will be great.” That reverses the logic. Entrepreneurship Through Acquisition works best when improvement is additive, not required for survival.

Look for Businesses That Are Operationally Tired, Not Broken

The best acquisition targets are rarely disasters. They are tired.

They are businesses that grew to a certain point and then stopped evolving. Systems that worked at $5 million in revenue never got upgraded at $15 million. Pricing decisions got deferred because no one wanted to upset long-time customers. The owner became the bottleneck, not because they were incompetent, but because the business outgrew their operating model.

These firms often rely on informal processes, tribal knowledge, and heroic effort. From the outside, that can look messy. From an Entrepreneurship Through Acquisition perspective, it is exactly what you want. Those gaps represent latent value.

You are not buying to innovate, you are buying to improve management, and perhaps if you’re lucky once that is done you can innovate.

Brand Is an Asset, Even When It Is Fraying

One of the most underappreciated assets in Entrepreneurship Through Acquisition is brand. Not brand in the marketing-agency sense, but brand as it actually functions in small and mid-sized businesses: reputation, trust, and expectations.

When you acquire a business, you are buying its name and what customers associate with it. That brand can amplify your improvement efforts or quietly undermine them.

The first question is simple: does the brand still mean something? Are customers choosing the business deliberately, or is it just inertia?

The second question is more important: if the brand has eroded, why? Customer losses are often blamed on

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competition or price, but in my experience, execution is the more common culprit. Slow responses. Missed commitments. Inconsistent quality. These are operational failures that show up as brand damage.

The good news is that execution-driven brand erosion is often reversible. Fix the basics and trust comes back. In Entrepreneurship Through Acquisition, brand recovery is usually the result of operational improvement, not a separate initiative.

Separability From the Owner Is a Judgment Call

Many acquisition targets are owner-dependent. The founder is the rainmaker, the problem solver, and the cultural center of gravity. That is a real risk, but it is not always fatal.

The key question is why the owner is central. If customers are loyal to the owner personally and not the business, that is hard to replace. If the owner is central because systems never got built, that is fixable.

In diligence, ask what happens when the owner is unavailable. Who makes decisions? Who handles customer issues? Who closes deals? The more those roles can be documented and delegated, the more separable the business becomes.

Separability is not binary. It exists on a spectrum. Your job is to assess where the business sits and whether you can realistically improve it.

Boring Value Creation Compounds

Strong Entrepreneurship Through Acquisition deals rarely depend on dramatic growth. They depend on boring improvements, executed consistently. Pricing discipline. Operational efficiency. Basic marketing execution. Cost control.

These changes do not make for exciting pitch decks, but they show up quickly in cash flow. More importantly, they reinforce brand equity rather than putting it at risk. Consistent execution builds trust. Trust drives retention and new business. Retention and new business drives cash flow.

If your value creation plan depends on aggressive expansion or a major repositioning, you are adding risk unnecessarily. This approach works best when improvement comes from doing the basics well, every day.

Buy for Today’s Cash Flow. Exit on Tomorrow’s.

The mechanics of Entrepreneurship Through Acquisition are straightforward. You buy a business at a multiple of current EBITDA. You improve EBITDA. You exit, formally or informally, at a higher level of cash flow.

Multiple expansion is nice if it happens, but it is not a plan. Markets change. Interest rates change. Buyer sentiment changes. What you control is execution.

That is why you should never buy a business without a clear improvement plan in hand. Not a vague sense that “things could be better,” but a concrete understanding of what you will change and why those changes will increase cash flow.

A Final Reality Check

There is a reason Entrepreneurship Through Acquisition has a very different risk profile than starting from scratch. Roughly three-quarters of venture-backed startups fail to return capital, and more than half fail outright, according to long-standing industry analyses by sources such as CB Insights and the U.S. Bureau of Labor Statistics. Small business acquisitions are not risk-free, but survival rates are meaningfully higher because the business already works.

Entrepreneurship Through Acquisition is not easier than starting a company. It is different. It rewards judgment, discipline, and operational competence over ideation and bravado.

If you want to own a business, create value, and build wealth by improving something real, buying cash flow you can fix is a very good place to start.

Learn More

Why Buying a Business is Smarter Than Starting One
(https://eiexchange.com/content/why-buying-a-business-is-smarter-than-starting-one)

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