DTP VIEWS

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The road to acquisition

– David Tolson – Managing Director, DTP

As the housing sector continues to diverge, a group of registered providers have come onto our radar who seem to be forging a new role for themselves in this changing landscape. These housing associations are redefining themselves as broader social businesses.

I touched on this in my previous blog – but here's a quick recap. DTP has worked with a number of RPs who are thinking beyond their traditional housing role and are actively bringing into their organisation local partner organisations which are involved in the business of improving 'quality of life'. The charities and commercial businesses being acquired are varied – from drug and alcohol treatment specialists to domestic violence refuges; from training and employment providers to environmental charities. What they have in common is their commitment to improving the lot of communities where registered providers operate.

Acquiring a partner organisation is neither simple or easy. But it can be done and the potential benefits are wide reaching. We've assisted for several organisations now, and have seen first hand the positive impact it can have. Where it tends to work best is with RPs with a tight geographical focus – which presents opportunities to bring in partners which are local to you. Stock transfer organisations seem especially well suited to the idea.

These RPs are unlikely to be big players in the development world and instead are shifting their focus to consider the broader needs of their communities – so beyond just putting a roof over people's heads.

So what's involved? What's the process which both parties have to go through? What do you need to consider and how can you make it work for mutual benefit?

The benefits for both organisations are obvious. First there are the efficiency benefits which can be gained from working together on a formal basis – such as sharing back office costs. On a simple level, one acquisition we advised on allowed both parties to avoid paying VAT on environmental improvement works. Coming together also puts both organisations in a better position to bid for the types of contracts which are now available in the kind of areas just mentioned and to do so as lead providers.

For the organisation being acquired it can also help them realise their ambitions for growth – with the RP offering the kind of protection against financial risk which may have been holding them back previously. For each party involved, coming together is about realising the value for both parties.

There's a lot to think about – branding, legal status, board structure – and no one size fits all solution. In some respects many of the considerations are not dissimilar to those involved in a merger proposal. There's certainly an argument to be made for presenting to the outside world – and your potential customers in particular – as an integrated offer. The simpler you can keep things for commissioners the better.

One of the key challenges in formally bringing partner organisations into your structure is of course governance. Bringing in new partners means bringing in their existing board structures and we take time to work with both organisations to determine what the best governance structure will be post acquisition.

Here's a few pointers which I'd suggest organisations consider …

1. Start off by asking what services are you trying to deliver locally in the communities where you operate. How well are those communities being served currently by local organisations – especially those you are already working with as partners? Could coming together be of mutual benefit and allow you to deliver a better service to communities?
2. Make sure the partner organisations understand what is involved in working with a housing organisation – how they operate and what they can and cannot do.
3. Appoint somebody independent to advise on this and also to explain how the process of acquisition works. DTP, for example, can help you establish early on if an acquisition will work or not, before you have invested too much time and resources.
4. Make sure your own board has the capacity and skills to deliver on your ambitions – for a programme of acquisitions to work the board needs to be focused on working with the executive to grow the group. The Chair in particular has to buy into it.
5. Take time to set out what benefits you both want to gain from the arrangement – and what issues you have concerns about and how you will address them.
6. Often partners can be worried about giving up their independence so it pays to work out ways you can provide reassurance on this.
7. Put together a statement of intent once you're sure the acquisition is worth pursuing – then develop a detailed business case before carrying out all appropriate due diligence.
8. Governance / structural issues have to be made a top priority – the future success of your new organisation depends on these.
9. Ensure absolute clarity over financial arrangements – there can be no room for doubt or uncertainty on this aspect.
10. Legally, once you become a subsidiary you are a subsidiary – there's no way back. That of course underlines the importance of getting things right before a partner signs on the dotted line.

Ultimately, every part of the organisation has to refocus its efforts to squeeze every penny out of what they have available to make this happen. In some respects it involves taking a risk and heading out into genuinely new terrain. It's about asking yourself, 'how can we work this organisation as hard as we can, to get the most out of it for the benefit of the people we serve'. That's what being a broader social business really means.