Expert Guide
FOR IT PROFESSIONALS

Money Matters: M&A the Right Way

Inside

Mergers and acquisitions among managed service providers have been on the rise, and whether you're looking for an ideal purchase to help your business grow or you're thinking about an exit strategy, you'll want the deal to be as lucrative as possible. You'll also want your decisions to align with your company culture and serve the best interests of both employees and customers.

This Expert Guide from *ChannelPro* offers planning tips for selling your business, a checklist that will help you find just the right M&A candidate if you're on the hunt, and advice on how to ensure a smooth onboarding process once you do buy another MSP. It also includes some perspective from an MSP business owner who has successfully gone through the M&A process.

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By Colleen Frye

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MSPs on the M&A path can overcome obstacles by managing expectations and keeping an open dialogue while bringing together employees, technology, customers, and vendors. **By Mike Fowler**

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M&A THE RIGHT WAY, PART 1: YOUR PRE-SALE CHECKLIST

FOLLOW THESE LONG-, MEDIUM-, AND SHORT-TERM STEPS TO INCREASE YOUR COMPANY'S VALUE AND MAXIMIZE THE SALE PRICE. | BY COLLEEN FRYE

GETTING READY TO EXIT YOUR BUSINESS? Experts say advance preparation is key to obtaining the best price possible. How far in advance? "Best practice for entrepreneurs is to have an idea of what you want to do with your business the day you started it," says Bob Dale, partner at Austin Dale Group, an M&A advisory firm for SMB tech businesses. "Almost nobody does that."

Indeed, research from UBS Wealth Management Americas, conducted in 2018, found that 48% of surveyed business owners have no formal exit strategy in place, and 75% of owners planning to sell believe they could do so in a year or less.

Dale says MSPs in particular are often "accidental entrepreneurs. The business kind of grew up around them, because they were really good at what they did." So when issues like retirement, divorce, illness, or just plain burnout arise, there is no exit plan in place, he says.

Given that reality, Dale and other M&A experts say a good rule of thumb is to start planning three to five years in advance of selling your MSP business, implementing some long-term, medium-term, and short-term steps that will increase the value of your company and boost your sale price.

PHOTO: MATDESIGN24 ISTOCK

THE LONG VIEW

(Three to Five Years Out)

If you've made the decision to sell three to five years out, now's the time to assess your business's value and see if it meets your financial goals, says Amy Babinchak, an MSP herself and co-owner of SellMyMSP, a listing service for buying and selling IT services companies. Three common valuation methods are earnings valuation, revenue valuation, and gross profit valuation.

Take a good, hard look at your valuation, Babinchak suggests, and then ask yourself how you feel about that number. Does it meet your needs and expectations? "If it doesn't, you've got time to change that and add more value to your business," she notes.

A key step is to examine profitability per customer and start to scrub the least profitable ones from your client list, according to Reed Warren, CEO of IT Valuations, an M&A facilitator and business valuation firm. "You should be consistently looking at your customer base and as a general rule, letting go your bottom 5% to 10% of your customer base every year," he says. "They're consuming the bulk of your resources. They're your most painful customers. And if you're not making money on a customer, the best thing you can do is bless your competition with a poor customer."

Reed, of course, does not suggest you "drop kick" customers to the curb. Instead, explain to them that you're no longer able to meet their needs and will transition them to another provider.

The house cleaning process is also a good time to determine what makes your MSP unique and how you can convey that to a buyer—do you have a vertical focus or market niche? Most often, Babinchak says, "somebody's going to add your business into their business. So, the things that they're going to value are the things that are the core defining part of your company … and does your client base match that description?"

Another way to increase the value of your business is to make it less dependent on *you*, says Dale, who recommends building a management team or at least a No. 2 person who can run the business in your absence if you don't already have one. Otherwise, when you're ready to sell, you could easily "get tied into another three years of being in the business to get your earnout," Warren says.

THE MEDIUM VIEW

(Two to Three Years Out)

Now is the time to get your financial house in order. If you are not already compliant with Generally Accepted Accounting Principles, at a minimum "you should be GAAP aligned," Warren says. "A lot of that's going to be getting your appropriate labor costs," he notes. That means making sure the cost of goods sold for both products and services includes all direct costs such as labor and support.

Some MSPs may balk at this exercise, Warren acknowledges, because it doesn't change the bottom line. However, he stresses, "The clearer your financials are, the less risky the transaction becomes from a buyer's perspective. So if they don't have really good clarity around your service offerings or your revenue streams and your gross margin per revenue stream … they don't really know how much you're making off of those different revenue streams." Buyers will also want to see consistent year-over-year measurement of those streams, he adds.

"The clearer your financials are, the less risky the transaction becomes from a buyer's perspective."

REED WARREN
CEO, IT Valuations

Getting an independent audit or review of your financials is a smart idea as well, Warren adds. "An independent review is hugely important from a transaction perspective or valuation perspective—somebody else other than your CPA or tax adviser saying these numbers are good."

Another good medium-term task is getting employee and customer contracts in shape—and that means making sure you actually *have* contracts, Dale says. Make sure the customer contracts are assignable if possible, too, he continues. Deals often get held up because the contracts were difficult to transfer to a new owner. The best time to build in assignability, if you don't already have it, is at contract renewal time, Dale adds.

All contracts, incorporation documents, policies, and other business documents should be clear and readable, Babinchak says, and assembled together in a binder, so when it's time to sell they're ready to hand to an interested buyer.

Warren suggests putting together a two-page summary of your business as well that includes an overview, your financial story, and your future trajectory. Keep it handy, moreover. "Almost everybody is looking for sellers today," he notes.

Continue building the management team too, Dale advises, and if your business isn't big enough to have a board of directors, enlist outside advisers such as a CPA, an attorney, and an M&A adviser.

THE SHORT VIEW

(One Year Out)

Once you're about ready to hang the "for sale" sign, set goals for the transaction. Dale suggests asking questions like: What do you think the company's likely to sell for? What deal terms will be acceptable? What kind of transition is realistic given how your company operates? Do you want to stay involved? Do you need to incent the management team to stay with the company post-acquisition?

Setting your price requires going through the valuation process again. Potential buyers, Dales says, will want to know: "What are your earnings? What's your net income? What's your adjusted earnings, or EBITDA [earnings before interest, taxes, depreciation, and amortization]?" Buyers will also want to know how much of your revenue is recurring, he adds. More qualitative issues like strength of management team and market location will factor into the price as well.

If your goal is to completely exit the business, determine how long you will stay during the transition. "The rule of thumb is, the longer the business owner stays, the more the buyer will pay for the business," Babinchak says, "because it's going to add to the stability of the company." This is especially pertinent to buyers with a nationwide footprint, she adds.

At this point you'll want to anonymously advertise your business. You can enlist a broker or utilize a listing service, or if you feel comfortable you can quietly talk it up with network connections you trust, Babinchak says. In general, adds Dale, "owners don't want the outside world to know that they're for sale."

When to inform employees is a tricky issue. The management team will need to be in the loop, of course, but Babinchak advises against telling the rest of the staff that the business is on the market. "Every person I've talked to who sold a business with employees, the employees were unhappy about it. Whether they find out at the end or well beforehand, they're going to go through that crisis of uncertainty anyway, and that could be really detrimental for the business if they decide to jump ship now and you haven't sold yet. It's a tough situation, but I think it's better to wait until the end."

Once you have a buyer, Dale says, expect a typical deal to take six to nine months to complete.

Finally, be aware that selling your firm can be emotional. Preparing for that is one of the most difficult issues owners face, Warren says. "Understand that the buyer is not going to appreciate the business as much as you do. It's not that they don't care about it; they're going to love it, but this was your baby." Warren says deals have fallen apart at the 11th hour because the owner has failed to become emotionally disengaged.

He encourages owners to enlist an exit planning coach to work through what your world will look like after the sale too. "As much as you may feel like golfing every day sounds like a really fun thing, it takes about six weeks and you're going to wonder what to do with your life."

READER ROI

SELLING YOUR MSP BUSINESS requires long-, medium-, and short-term advance planning steps to boost valuation and maximize sales price.

THREE TO FIVE YEARS OUT, find out if your business value meets your financial goal, define a niche, weed out unprofitable customers, and make the business less dependent upon *you*.

TWO TO THREE YEARS OUT, get your financials and other business documents in order, enlist outside advisers, and continue building the management team.

ONE YEAR OUT, valuate your business, set your price, anonymously advertise your MSP, and plan your transition.

AVOID THESE COMMON M&A MISTAKES

M&A EXPERTS SAY there are several common mistakes MSPs make when it comes to selling the business:

Failure to get your books in order

Your financials need to give potential buyers a clear picture of your business. "Your books might be too simple is generally the common thing that we see, where it's just money in, money out," says SellMyMSP's Amy Babinchak. "While that's very interesting, that doesn't really tell the potential buyer where you're making money. So you may need to break out some more categories in your chart of accounts so that the buyers can actually see where you make money."

Failure to clear up legal matters

Unresolved legal issues are, at a minimum, embarrassing, notes Bob Dale of Austin Dale Group. "It could hurt a deal, or even kill a deal if these surprises come up while you're in the deal process."

BOB DALE

Failure to engage a financial planner

Reed Warren of IT Valuations calls this "the biggest mistake most people make when they get ready to sell, especially when they're planning on exiting. They don't engage that wealth manager/financial planner early enough." Many MSPs, he says, wait until the transaction is done before planning how to manage the payout. "When you get the big check, it's too late to figure it out."

Failure to *try* to sell your business

Small MSPs often think they're *too small* to attract a buyer, or just never make a decision to sell, and instead gradually wind down until they shut the door, according to Babinchak. "It just seems like such a wasted opportunity to cash in on that asset that they spent 20 years creating." It's a misconception too, she adds. "From our experience those small ones are really easy to sell. They'll be snatched up by someone locally and the business owner can put a few hundred thousand dollars in their pocket."

M&A THE RIGHT WAY, PART 2: EVALUATING M&A CANDIDATES

CHANNEL PROS IN THE MARKET TO BUY OR MERGE NEED TO THOROUGHLY VET CANDIDATES FOR BUSINESS STRATEGY, FINANCIAL HEALTH, AND CULTURAL FIT.

BY MEGAN SANTOSUS

IN THE QUEST to grow your business, acquiring or merging with another channel pro is a common strategy. According to PitchBook Data, M&A activity in North America topped $2 trillion in 2019, and nearly 20% of it occurred in the IT sector—the second highest percentage ever.

Still, while a successful M&A can expand both your footprint and revenue, a failed one can be demoralizing and expensive, so identifying and evaluating the right M&A candidates to pursue is all-important.

Channel pros often give this process short shrift, however, according to Mike Harvath, CEO of Revenue Rocket, a Bloomington, Minn.-based consulting company that focuses exclusively on M&A in the IT services industry. Many firms, he says, take an "opportunistic" approach to M&A: They wait for a sell-side broker to call them, and then often force fit the candidates that are proffered into their strategy. "Usually that means a deal won't be as successful as it could have been, or it will just fail," Harvath says.

PHOTO: CHAINARONG PRASERTTHAI / ISTOCK

THREE PILLARS OF SUCCESS

In Harvath's view, there are three pillars to a successful M&A: strategy alignment, cultural alignment, and financial alignment. "Channel companies look to buy another company at the right price or focus on the financial angle of the deal, thinking that if the price is right, the deal will work," he says. "It doesn't work that way."

A better approach is to have an established, organic growth strategy that has proven successful, "and make certain that your acquisition is a hand-and-glove fit into that strategy," he says. The overriding principle of a solid M&A tack, Harvath adds, is to accelerate your existing plan.

Strategic Alignment. Determining the most appropriate attributes of M&A candidates depends on the underlying specifics of that plan. "When a company comes to us that wants to grow through acquisitions, we first do a strategic review to figure out how big the company is, what the company can afford, how the company will finance it, and what the company wants to achieve," says Bob Dale, partner at boutique investment firm Austin Dale Group, of Austin, Texas, which provides both buy- and sell-side advisory services to technology companies.

For instance, the goal may be to expand geographic reach or time-shift resources, or conversely, to co-locate or consolidate data center space locally. Channel pros that want to enter a new market or add a new product or service may decide to do it faster by acquiring or merging with another firm that has relevant experience. An M&A can also be an expedient way to add expertise to a company's ranks. "Based on the characteristics specific to their business," says Dale, "we come up with a list of what ideal targets look like."

Cultural Alignment. Discerning the culture of a prospective acquisition takes considerable time, but is an essential exercise. "A trustworthy seller is the first thing you want to look for," says Ramsey Sahyoun, head of M&A at Evergreen Services Group, a San Francisco holding company that has acquired 19 MSPs since January 2018. "It's more important than things you can see in a spreadsheet."

From Harvath's perspective, most IT business leaders are good judges of character and can decide after a short conversation whether another company is led by someone they can work with or not. Trust leads to productive conversations, which in turn lead to relationships where cultural fit is best determined. "You want to know what's most important to the owner or the management team," says Dale. How a company treats its customers and employees is critical, especially when a situation calls for a decision that is not black or white, he adds. If companies have divergent values in terms of customers and employees, moving forward with a deal is not prudent.

> "A trustworthy seller is the first thing you want to look for."

RAMSEY SAHYOUN
Head of M&A, Evergreen Services Group

Financial Alignment. Any potential M&A target should also be in good financial standing. In the channel, companies with solid and growing recurring revenue are the most attractive candidates. "You should be looking for a good, robust business that knows how to generate cash flow," says Rick Murphy, CEO and managing partner of Cogent Growth Partners. The M&A process is like dating, says Murphy, whose Atlanta-area firm advises buyers in IT and IT services. For a successful union, the two companies must be complementary and mesh well. That concept is doomed if one partner is financially dysfunctional.

One parameter to focus on from the start is the investment merits of an acquisition. "As a buyer, it's critical to understand your internal rate of return on a transaction," Harvath says. A deal where the return is less than 20% or longer than five years is not financially justifiable, he adds.

Buyers need to articulate their own specific parameters, and basic financial metrics that indicate the health of an M&A candidate are good screening baselines. For example, Evergreen Services Group typically draws the line at recurring revenue of at least 50% of overall revenue and a minimum of $500,000 in EBITA (earnings before interest, taxes, and amortization). When it comes to customers, Sahyoun likes to see an 85% retention rate and ideally no more than 40% of revenue coming from a single customer.

The specifics of qualifying metrics ultimately depend on the buyer's priorities. A channel pro looking to acquire a product line or a small cap company may have different minimums for recurring revenue or EBITA. "Determine the metrics that mean the most to you," says Sahyoun. Whatever those metrics are, he says, an initial conversation with a business owner at a target company is warranted because it's difficult to screen out companies during the research phase.

Harvath cautions against targets that have been "doing financial engineering to prepare to sell." In effect, these companies "prop up value via questionable add-backs to EBITDA [earnings before interest, taxes, depreciation, and amortization] or via positioning of the profit contribution of the business ahead of a potential transaction by underspending on the operations of the business in a nonsustainable way," he explains. A close examination of financial records going back a year or two prior to a company listing itself for sale may reveal these maneuvers.

While it may seem counterintuitive, he suggests the ideal company is one that's not for sale. A buyer should strive to uncover an unvarnished view of a business, one that reveals how the owner of the candidate company both thinks of and operates the business.

"You want one that is operating well," he says, which ties to both strategy and culture.

THE SEARCH PROCESS

Don't, however, search for an identical twin to acquire, says Murphy. "A company that does things and is exactly like a buyer is going to be almost impossible to find."

A better way to begin the M&A process, according to Sahyoun, is to put together an initial list of local competitors and then expand to competitors in different geographies or verticals. Focus on unearthing as much information as possible. "I don't see enough people doing that in the channel," he says. Business owners "come across one company that they happen to know, and they wonder if they should buy that company." This is not an effective approach, he adds, because "you're not giving yourself enough shots on goal to make a decision."

Evergreen compiles a database of companies based on "intentional internet research," Sahyoun says. Publicly available sources such as LinkedIn or competitor websites can provide details such as target market, executive team, products and services offered, and number of employees. To get a better sense of which companies are good prospects in terms of strategic, financial, and cultural fit, however, outreach is required—and plenty of it. Talk to peers, partners, and vendors.

Finally, the pool of candidates should be big enough to get a transaction done, says Harvath. A list of 100 initial companies is typically needed to come up with 20 firms that would fit the buyer's strategic criteria. "From that, you may get to a letter of intent or a deal in principle with three of them," he says. In order to do that, "you need a lot of conversations, and sometimes it takes 10 to 15 touches to have a conversation with a CEO in our industry."

Evergreen "talked to thousands of companies to acquire 19," Sahyoun says. Deals may be ruled out quickly for any number of reasons. "Sometimes a seller isn't interested and sometimes a buyer isn't interested, or it's not the right fit."

With that kind of commitment, it can be challenging for owners to both run their business and be on the hunt for an acquisition. Working with a buy-side broker that does much of the grunt work prior to a deal can be more expedient. According to Murphy, typical fees range from 1.5% to 3% of the purchase price. Some brokers also charge a retainer (less than $5,000 per month is reasonable) and a percentage fee contingent on closing a deal. A broker can also assist with the screening process. Once a list of companies is compiled, a broker can help cull those companies that are not suitable based on predetermined criteria and parameters. When a deal is in the works, a buy-side broker can help with due diligence, schedules, financial modeling, and transaction documentation, as well as facilitate work with legal and accounting resources as the deal nears completion.

The buyer should verify all the information provided by the target company once a letter of intent is signed. Evergreen, for instance, typically pores through QuickBooks backup files and historical bank statements. A buyer should create a due diligence plan that outlines verification details in different operational areas such as financial, legal, and HR.

At this stage, hiring professionals who are experienced in M&A due diligence is a must. Look to a CPA firm to conduct a quality of earnings report to detail revenue and expenses. A legal firm can review all contracts and pending litigation. An HR expert can examine benefits, payroll practices, and vacation policies. Among the last steps to verifying information is using a third party to survey customers and employees directly.

If you've done your homework, growth by M&A is a solid strategy. While recent economic disruptions may dampen M&A activity in the short term, Murphy opts to look on the bright side. "Companies can compare notes on how they dealt with the crisis," he says. "To have a bonding experience that they've survived is a great way to build relationships and build trust."

MEGAN SANTOSUS *is a Boston-based freelance writer.*

HOW IMPORTANT ARE MARGINS?

MARGINS ARE OFTEN VIEWED as barometers of success. When it comes to assessing an M&A candidate, however, experts advise against giving margins undue weight.

Margins are deceptive, says Murphy, because they don't always indicate the fundamental reasons why a specific company may or may not be a good acquisition candidate. For example, channel partners may have different ways of making money that impact margins. "Some sell hardware at no markup and others for 30% markup," he explains. More than margins, it's necessary to "understand those fundamentals and how they overlap with what you're doing."

Evergreen Services doesn't have strict parameters in terms of margins, and has "bought companies with vastly different margin profiles," says the firm's Ramsey Sahyoun. There is one caveat: "We are concerned with abnormally high EBITA margins, in excess of 25% to 30%." That's because such margins could indicate underinvestment. If the employees are underpaid or the company is understaffed, high margins could mean problems down the road.

READER ROI

GROWTH BY M&A is a solid strategy for channel pros, provided the target company is thoroughly vetted either by the business owner or a buy-side broker.

THERE ARE THREE PILLARS to a successful M&A: strategy alignment, financial alignment, and cultural alignment.

RATHER THAN SEARCHING FOR an "identical twin" to acquire, focus on finding a firm that complements and enhances your growth plan.

M&A THE RIGHT WAY, PART 3:

BY COLLEEN FRYE

PATRICK WILEY has experienced a variety of reactions when introducing himself to employees who've just learned that their company has been bought. "We had one guy stand up in a meeting and [tell the owner], 'I can't believe that you've done that to me.' He walked out and never came back," recalls the CEO of Aldridge, an IT solutions provider that has acquired 13 small MSP businesses over the past 15 years. Conversely, the Houston-based company has retained employees from some of its first acquisitions who are thriving.

Obviously, buyers hope for the latter rather than the former. To ensure the onboarding process goes as smoothly as possible and results in an acquisition that provides maximum ROI, Wiley says, it's important to remember the acquired company's employees and customers did not *choose* you, and so the change can be a shock.

Buyers therefore need to develop a project plan that addresses how personnel, tools, and customers will be organized; assign a team to oversee it; and develop a cadence of communication to employees and customers that is well timed and well thought out.

That's according to Michael France, managing partner and COO of coaching firm the Taylor Business Group, who adds that the plan should build on a collaborative effort that starts between the buyer's and seller's teams along with legal and accounting prior to the close. "It's not developed in a vacuum … because everyone's unique in what the underlying challenges are in either side of the business."

KEY CHALLENGES

Even with a plan, onboarding is a huge project with lots of hurdles, acknowledges Mike Fowler, CEO of Dallas-based Iconic IT, which formed with the merger of four MSP

ONBOARDING SUCCESS TIPS

ONCE YOU'VE FOUND THE PERFECT ACQUISITION TARGET, NEGOTIATED A DEAL, AND SIGNED A CONTRACT, CONSIDER THIS ADVICE FOR ENSURING THE ONBOARDING PROCESS GOES SMOOTHLY AND PROVIDES THE EXPECTED ROI.

PHOTO: ANDREYPOPOV / iSTOCK

firms in 2019 and has since made other acquisitions. "First and foremost, it's putting more work on people who are already overloaded and working hard," he says. "Make sure you've got the staff to handle the challenge."

Another challenge, Fowler says, is taking your high-level plan for the acquisition and following it up with a more granular one. For instance, he explains, "There are hundreds and hundreds of things to do to integrate someone into ConnectWise. And if your plan says, 'integrate into ConnectWise,' you have essentially failed to plan and it won't work."

Fowler's onboarding project plan template has more than 3,000 steps. "Not all of them are hard, but you can't skip anything."

A third hurdle is the fact that every MSP has their own processes and clients are used to doing things a certain way, "even if it's not the best way," Wiley says. "As humans, we hate to change. And so just even the slightest change in process … really puts a strain on the relationship of a client."

> "[Onboarding] is putting more work on people who are already overloaded and working hard. Make sure you've got the staff to handle the challenge."

MIKE FOWLER
CEO, Iconic IT

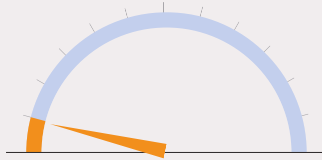
CREATING THE PROJECT PLAN

Karl Bickmore, CEO of Cumming, Ga.-based Snap Tech IT, tracks and manages an onboarding project in his PSA system. The project is broken into three major categories—operations/service delivery, sales and marketing, and administration/back office—with a team leader responsible for developing a timeline for each category with detailed steps and executables.

"You've got to remember to have the right scope," Bickmore says. "It's not just getting those employees onboard or getting them into your tools or moving their computers. It's also things like insurance [and] legal representation. How will the marketing change? Do you have access to the domain name? Do you have the social media accounts? If you don't spend a lot of time thinking about it, you'll miss pretty big things."

SETTING THE TIMELINE

While there is no uniform timeline for onboarding success, Bickmore and others offer some general guidelines:



THE FIRST 30 DAYS

THE NO. 1 CONSIDERATION is getting employees paid, says Fowler. "When you purchase a company's assets, you're rehiring the employees, so your HR team needs to be ready."

France notes that if the deal is an asset purchase transaction, which many are, the buyer acquires the seller's checking account and can continue to run payroll from that. "There's no immediate pressure to switch to a different payroll system on day one," he says.

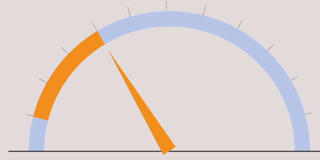
Other HR considerations include medical and retirement plans, noncompete contracts, and miscellaneous paperwork typically required for a new hire.

France says this period is focused on communicating internally about who's staying, who's going, and who's moving to a different position, as well as deciding how to handle external communication. "If you're not changing the help desk, maybe you don't need to tell the customers just yet."

Informing employees should happen early, says Bickmore, who does a company-wide notification in the first day or two, holding a town hall and meeting collectively with the entire team to share the transition plan and answer questions. "We take their input, and look for opportunities to improve."

If a seller wants to tell employees ahead of the completed acquisition, Wiley wants to be there for the conversation. More preferable, he says, is breaking the news after the deal has closed, when "the seller meets with the company by himself for a short period of time then brings us in." In the pre-COVID-19 world, he adds, his team would take new employees out to dinner or cocktails.

In terms of systems integration, Aldridge transitions the financial systems within the first 30 days.



30–90 DAYS

TECHNOLOGY PLATFORMS are typically tackled next. "We're not going to necessarily onboard customers immediately, unless there's a compelling reason to," Bickmore says. Instead, he's focused on mapping out how email, ticketing, RMM tools, and documentation will be integrated.

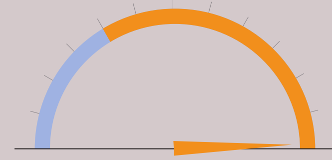
Wiley says that even if the acquired company is using the same PSA they will migrate them onto Aldridge's instance and run parallel systems for a short period. Aldridge follows that with the RMM migration, and then anti-virus and endpoint protection tools.

Fowler adds that it's important during this period to work out how the two companies will communicate and share data "so we know what could get broken in the process and what gaps we might have."

If you're changing processes be sure to provide training too, Fowler stresses. "There's two things we're trying to avoid. We don't want to cause emotional stress to employees who have been doing things for a long time the same way. We don't want to do that to customers either."

Other tasks include consolidating websites and making decisions about what the services portfolio will look like going forward.

France recommends that the buyer starts communicating with clients within the 60-day period. Actually consolidating customer-facing resources may not happen until 90 days, he adds, but you should be talking to clients and reassuring them that "we merged to deliver a better service to you. And that's a face to face, not an email."



90 DAYS–12 MOS

ALDRIDGE STARTS onboarding clients around the six-month mark, but Wiley notes the process can take anywhere from three to nine months. That includes a pause to evaluate customer satisfaction and integration issues, and make any necessary course corrections.

Snap Tech IT's priority during customer onboarding is not making waves. "Sometimes it's not the biggest, most complicated [clients] we go to first. We will take care of the easy ones first, see how it goes, and then learn and go to the next. Or sometimes the most critical customer is prioritized. That's a contextual decision."

France says the buyer should also be identifying the top-tier A and B clients, and then raise prices on the C clients or help them find another provider. "Obviously you want to invest more into your B and A clients."

Documentation is usually done later, Bickmore says. "We'll find ourselves doing several cleanup projects for many quarters after the merge."

Expect the whole process to take 12 months, concludes Fowler. "You want to condense it as much as you can, but generally, to get them selling the same thing you're selling and doing things the way you do them, that process takes a year."

SHOULD THEY STAY OR SHOULD THEY GO?

RETAINING EMPLOYEES—the ones you want, at least—is a key part of the onboarding process.

Taylor Business Group's Michael France recommends having the seller identify the "star players" prior to closing and nailing down employment contracts with them ahead of time.

For Iconic IT, which is focused on growth, "we need every person we can find," the firm's Mike Fowler says. "We've gone into every acquisition with the expectation that we're keeping people and that there's productive roles for everyone."

Snap Tech's Karl Bickmore says his firm spends a lot of due diligence focusing on cultural fit, so his intention is to keep every employee as well. "We may redirect some or change the responsibilities … but in the grand scheme of things, we want to keep employees." He makes an effort to spend time with the acquired employees to build trust. Often, he says, they're excited about working for a bigger company with more opportunity.

Sometimes there's not a role for everyone, Aldridge's Patrick Wiley acknowledges. "We've bought a couple of companies that had nearly double the amount of staff the numbers say they should have. Those are trickier situations." Wiley says Aldridge tries to address downsizing quickly, "provided that we're not impacting client relationships."

Finally, there are situations when an employee you initially want to retain doesn't work out, Bickmore says, and that needs to be addressed promptly but respectfully. "You're working with someone's livelihood. We've offered to give them letters of recommendation or refer them to other IT providers."

Employee issues are sensitive, but it's important to get the team right, France says, to fully benefit from "how great the combination" of these companies can be.

PHOTO: CYBRAIN / iSTOCK

READER ROI

SUCCESSFULLY ONBOARDING an acquired company requires a formal project plan that addresses how personnel, tools, and customers will be organized.

THE BUYER should assign a team to oversee the plan, decide how to communicates it to employees and customers, and track progress in a PSA or other tool.

DESIGN INTEGRATIONS AND CONSOLIDATIONS to minimize existing and new staff disruptions while maintaining customer satisfaction levels.

ONBOARDING MISTAKES TO AVOID

THERE'S NO ONE PLAYBOOK for onboarding an acquired company, but those who have done it point out some mistakes to avoid:

- **DON'T TELL PEOPLE THINGS WON'T CHANGE, BECAUSE THEY WILL.** "Even what we think is insignificant are big changes to the company that's being acquired, to their employees and to the customers," says Iconic IT's Mike Fowler. For instance, adjusting payment terms is a "huge change" for a customer.
- **MAKE SURE THE SELLER UNDERSTANDS TAX AND LEGAL RAMIFICATIONS.** "Most IT business owners in my experience do not fully understand how an accounting true-up works in an acquisition," Snap Tech IT's Karl Bickmore says. "Because of that, we've had some significant issues with … people having surprise tax bills that we tried to point out to them during the negotiation process."
- **DON'T RUSH CONSOLIDATIONS AND MIGRATIONS.** "When I first started doing this, we budgeted some really tight timelines in terms of staff reduction, or changes or [finding] synergies," says Aldridge's Patrick Wiley. "Our newest models really stretch that out." Instead of a three-year ROI, Aldridge now expects a five-year one, and while he acknowledges that is more costly, it helps with customer retention. Ditto for customer migration, he says.
- **PLAN TO LOSE 10% TO 15% OF YOUR ACQUIRED CUSTOMERS.** Despite your best efforts, some customers won't like the change, so make sure your financial and planning models take that into account, Fowler advises.

3 Tips for M&A Success

By Mike Fowler

MSPs on the M&A path can overcome obstacles by managing expectations and keeping an open dialogue while bringing together employees, technology, customers, and vendors.

The economic downturn and the COVID-19 pandemic have forced companies to rethink their business strategies and explore new revenue opportunities. For some, that has led to growth, while others have struggled to compete. Despite the economic uncertainty, the window for mergers and acquisitions (M&A) has remained open (even if only slightly), and will get larger as companies adjust to this next version of normal. During the 2008 recession, M&A deals were down 31% year-over-year, but there were small pockets of opportunity for those who did their homework prior to the downturn, which allowed them to take advantage of the current landscape. We expect the same will hold true in the latter part of 2020 and into the new year.

M&As are a long, arduous process for any organization. In fact, studies have shown that 70 to 90% of M&As fail, making a clear strategy and plan for execution critical. There are so many layers to consider; beyond merging revenue streams, companies need to blend cultures, make branding changes, differentiate product sets, establish new leadership, and shift job functions. Organizations need to dive deep into their M&A strategy in order to make effective decisions, as these decisions will shape the long-term success of the new company.

Managed service providers who have found their ideal partner company need to remind themselves throughout the process that there will be ebbs and flows. Here are three tips MSPs should consider during the M&A process:

Manage Leadership Changes

Leadership changes are one of the biggest challenges in any M&A situation, and likely the most sensitive area to address. While some role changes may be accepted with open arms, others who have worked in the organization for years may feel as though they have been displaced. As such, leaders should approach any role changes strategically, cautiously, and with empathy.

When it comes to making decisions at the executive level, a unanimous decision among the executive team is important to ensure that everyone's voice is heard. These bigger decisions can range from who to name as the new CEO, where official headquarters should be located, employee retention, financial decisions, and future acquisitions. It is important for the new executive team to understand respective roles and responsibilities and stay within their designated job functions. Change can be difficult (and sometimes uncomfortable), but trusting in colleagues to do the right thing is essential for the organization's overall success.

Manage Employee and Customer Relationships

Managing employee and customer communications pre-, during, and post-M&A is critical. Employees want transparency into what the change means for their job security, responsibilities, and future prospects. Customers want to know they will still receive the same level of customer service and won't experience any disruptions. To avoid mixed messages, there needs to be a primary point of contact for each. The leaders of the respective M&A companies need to share their decisions and, when possible, the reasons behind them. This will lead to trust of the new organization and cut down on speculation about business-level decisions.

When it comes to external communications, specifically managing customer and partner relationships, an open dialogue is best. Merged organizations should avoid leaving external parties feeling as though the company and employees they have worked with for years and have built a trusting relationship with have stepped aside or changed completely. It is vital that the new organization nurture those relationships and keep in regular communication.

A big part of managing both employee and customer relationships comes down to the rebranding of the overall company. Consider creating a new system for communication across the company that will allow everyone to feel a part of the new organization, and in the process generate an open dialogue for questions and concerns. Additionally, consider creating a new website for the merged organization, as that can make a big difference when it comes to inclusivity and ensuring everyone feels as though they are on the same journey.

Standardize Vendors, Technology, and Contracts

MSPs work with multiple vendors to run not only their own businesses, but clients' business as well. Therefore, standardizing technology across the new organization is essential, but can also be extremely difficult. Standardization involves selecting the vendors and technologies that will be used and offered moving forward. It also entails managing and consolidating the vendor relationships and contracts in place.

In selecting vendors, MSPs should work to align all vendor agreements, enabling a smoother consolidation and selection process. An important reminder for MSPs when choosing a vendor is to take as much time as needed to come to a sound decision. Consolidating technologies and vendors can be challenging from both a technical and relationship perspective. There are a lot of sound products out there, but it's the relationships and partnerships that make the biggest impact.

When reviewing vendors, MSPs should ask:

- **Can the vendor support the size and scale of the new organization's needs?**
- **Is the vendor's technology secure, and are we confident that it won't be compromised and, more importantly, won't compromise our clients' information?**
- **Is it the best solution out there for us? Can we use it and sell it seamlessly?**
- **What support options are available?**
- **Do engineers have the ability to test any new software being rolled out?**

While no two M&As are the same, all MSPs going down this path should remember the speed at which change happens. From creating a corporate department to establishing standard policies and procedures, it can take time for staff to trust the process. By working together, keeping an open dialogue, and managing expectations across internal and external departments, MSPs on the M&A path can overcome the obstacles that arise and successfully transition to the next chapter of their journey.

MIKE FOWLER *is CEO of Iconic IT, launched in 2019 with the merger of four MSP companies: Capstone IT, Choose Networks, Live Consulting, and Networking Results. Fowler was the co-CEO of Capstone IT.*