



Mergers & Acquisitions: Don't Grow Your Business into the Ground





In the past few years, our industry has seen an active climate of mergers and acquisitions: For example, approximately 30 NSCA integrator members have been acquired in the last year alone.

Although many NSCA members have experienced great success in growing their companies organically by hiring the right people, completing successful acquisitions is another key to expansion in many cases.

Most of these acquisition deals could be deemed “successful” when all is said and done — but there are also a handful we could categorize as “not successful.” (Of the 30 member companies that completed acquisitions in the past year, NSCA would classify at least five as “not successful.”) Why? Because acquisitions aren’t always the right way to spur growth if they’re not the right “fit” for both parties.

A successful acquisition leads to:

- Increased market share
- Purchasing leverage
- Increased diversification in technologies and/or markets
- Better relationships with key accounts

Some integrators have important stories to tell about things that can go wrong in the acquisition process — because they’ve experienced these things firsthand. The information shared here will guide you through a successful growth process based on the successful — and not successful — experiences of NSCA members.

“Successful” vs. “Not Successful”

In the “not successful” instances we’ve seen in the past few years, lack of success has come down to people and culture (or the inability to “achieve synergy”).

Most of the important boxes were checked when it came to an integrator acquiring a company. So what happened? Due diligence didn’t provide anyone with insight on how well the organizations would blend from a cultural perspective.

In three of the five cases, a manufacturer acquired an integrator in an attempt at vertical expansion. The goal: To capture a greater piece of overall customer spend by making, selling, installing, and servicing the solution.

But the cash flow was a bit different than expected . . . and it turned out that dealing with end-users was even harder than dealing with integrators. These integration-companies-turned-strategic-business-units are now defunct. One actually tried to run the integration side of its business while still supplying to other (competitive) integrators, thinking that conflict could be avoided. They came very close to growing the entire company into the ground. This near failure was due to an inadequate evaluation of the end result. Our advice? Call NSCA before going down a road like this. We’ll talk you out of it (and save you time and money)!

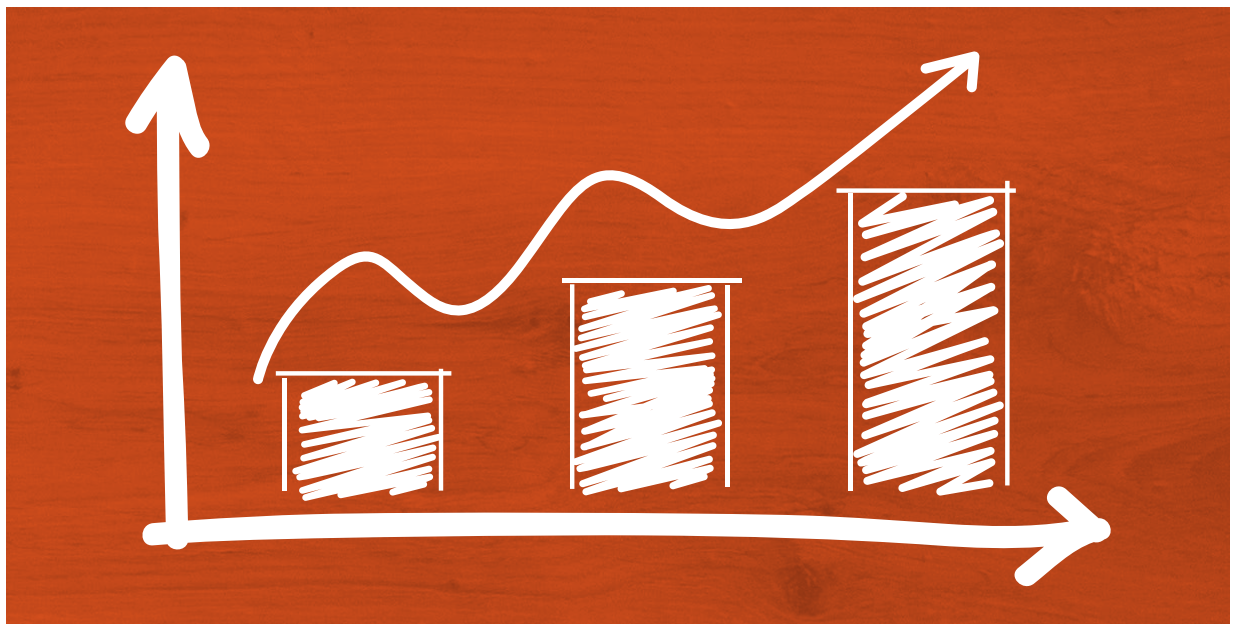
The other two situations illustrate a classic move to grow through the acquisition of “people” instead of having a real interest in the business those people bring with them — or the business that was purchased.

In these cases, larger firms became frustrated with stagnant organic growth and saw the opportunity for geographic expansion and synergy in adjacent market expansion. They ran the numbers, paid the right price, and made the deal.

But, in both cases, people worked for the businesses they did because they didn’t have to work very hard. They wanted no part of utilization reporting, process improvement, accountability, productivity control measures, or executable goals. In one instance, an integrator bought a company with 23 employees. Within a year, only two employees were remaining. (And that was the better of the two deals outlined here!)

The desire to grow quickly often leads to business owners falling in love with a deal that isn’t right — but they just can’t back away.

NSCA has been watching and observing, learning lessons, and speaking with buyers and sellers. We’ve uncovered many things as a result. And these are lessons that need to be shared.



Checklist: What to Look for First (Your To-Dos)

If you're pursuing an acquisition, we think it's wise to start by first going through this checklist. If you do these things thoroughly, you're well on your way to a successful deal.

- ✓ Make sure that everyone is *clear on the vision* for and expectations of the acquisition.
- ✓ Analyze opportunities with *complementary markets, product lines, and/or services*.
- ✓ Ensure that it will be a “friendly” deal. Find a *win-win-win* for employees, vendors, and clients.
- ✓ Have *more available investment capital* than you planned (and more patience). It will likely take twice as long as you think for full integration.
- ✓ Look for *product lines that don't transfer* or are undisclosed on the “at-will” nature of the vendor/integrator relationship.
- ✓ Conduct a *thorough ownership audit* of IP, claims, reps, and warranties from the installed base of systems (limitation of liability clauses).
- ✓ Ask about *outstanding litigation and billing/financing/collections reviews*, as well as pending litigation on employee complaints or claims. Are there unwritten agreements or verbal communications implying that the new owner will have to take responsibility?
- ✓ Gain an intimate understanding of *outstanding warranties and service contracts* — even if you're just purchasing the assets. You still need to carefully evaluate the transfer of customer expectations.
- ✓ Verify *existing relationships* with current and old clients.
- ✓ Determine *how reliant the business is* on any one service, product, and/or integration solution, as well as on certain customers. You don't want all your eggs in one basket.
- ✓ *Check (and double check) inventory*. Have it audited and go over it carefully. A balance sheet can be easily propped up by dead stock.
- ✓ Verify and evaluate the *most recent — and all large — contracts*. Some companies sell “bad” jobs to build up their backlog. Conduct a comprehensive WIP (work in process) review, job by job, to understand estimation processes, job costing, etc.
- ✓ Dig deep into the *financials*. If the revenue recognition cycle is really “lumpy,” keep digging. If the financials aren't audited, dig even deeper. Take a deep dive into current and previous P&L statements to understand one-time events that can skew valuation.
- ✓ Review *outstanding leases*. Investigate the existing IT infrastructure and systems, including ERP/CRM systems and business tools. Will these need to be updated? Look at contractual commitments to/with telephone companies, network/Internet companies, and subcontractors.
- ✓ Review all *key indicators*. Make sure you're not just doing due diligence on the elements you enjoy the most while overlooking the others. You'll want to pay even *more* attention to the tasks, processes, reports, and other details you don't enjoy as much.
- ✓ Are the “rainmakers” *staying*? Are the people responsible for revenue generation staying? Are current employment agreements transferable?
- ✓ Be as certain as possible that employees working for the acquired company can deal with change and are *flexible in terms of what their positions will entail*. Understand the impact of a new organizational chart on the key people in your organization *and* the people you expect to acquire and retain.
- ✓ Be certain that, when the merger is done, you have *rock-solid combined cash or lending position* (especially crucial if you're chasing larger projects post-acquisition).
- ✓ Develop a *comprehensive integration plan* with culture champions. This might include a “buddy system” so each acquired resource has a counterpart to leverage during the integration process.

Checklist: Indicators of a No-Go Deal

Once you've gone through the initial list of to-dos, it's time to look for other red flags. It may be time to walk away if the to-be-acquired company has:

- ✓ A major *gap between its culture and yours*, evidenced by people and processes (not buildings, fancy breakrooms, or juice bars).

- ✓ Employee benefits that are better than yours ... but *you intend to keep your benefits*.

- ✓ Little to *no accountability* and you expect to fix things immediately. Fixing this takes time, effort, and patience.

- ✓ *Lack of strong leadership* on the ground in the new location. Do not trust that it will be the exiting owner.

- ✓ *Questionable margins* or labor issues. Do you get an uneasy feeling about the work in progress and the potential margins or labor issues you might inherit?

- ✓ A revenue-recognition structure and *cash flow that's different than yours*. Do not buy a company with a business you don't thoroughly understand as the key financial driver — especially if you expect it to continue to provide the results it provided the founder/owner. In the long run, it may be strategically “right” — but you will face a steep learning curve.



Checklist: It's Not You, It's Me

Sometimes an acquisition problem has nothing to do with the company you plan to buy. Instead, it has to do with your internal processes or gut feelings.

After you've gone through your list of to-dos and looked for red flags, take one last look for these indicators. If they're present, it may not be the right deal for you.

- ✓ If something *doesn't feel right* during the due-diligence process, just back out. Don't pay less. (This directly conflicts with what brokers will tell you. Why? Because their fees often depend on deal completion.)

- ✓ FOMO (fear of missing out): Do not do a deal just *because you think it's en vogue* or something you “should” be doing because it feels like everyone else is. Just because other firms are growing (or appear to be) doesn't mean you have to join them.

- ✓ If no one from your executive team is committed to *spending lots of time at the new business* after closing the deal, this may not be the right time for you to acquire a company.

- ✓ *Expecting immediate growth* while teams are still learning your processes and systems. That's an unrealistic expectation.

- ✓ If you've *never run a branch operation* prior to this acquisition, be wary. Running an internal organization with your “tribe” can appear to represent processes and policies that work locally but cannot (and will not) survive branch or remote operations.

Moving Forward

When we really want something, we often see what we want to see. We find ourselves imagining things. Realizing after the deal is consummated that something isn't right — and trying to take action at that point — is not only difficult, but also sometimes prohibitively expensive. True horror stories exist in our industry where a buyer realizes (after the fact) that the deal was not a good one. As a result, they close the firm they had so many hopes for.

So don't view a deal that didn't happen as a failure. It's not. The best thing to do is keep a strong balance sheet and available investment capital on the sidelines, maintain good profits, and keep the team focused on what's in front of them.

During the acquisition process, don't lose track of the daily business and the details. It is job No. 1 to keep everyone involved on your team focused on their role during this process.

Resources Available to You

NSCA offers several resources to assist with the merger and acquisition process:

- Visit www.nasca.org/category/nsca-blog/ and search for articles about mergers and acquisitions.
- Visit our [Essentials Online Library](#) for a variety of documents and templates, from operations and design documentation to budgeting and finance tools.
- Connect with [Member Advisory Councilmember Capital Value Advisors](#), a firm that can represent you through mergers and acquisitions to ensure personal and financial success.

