MSPeasy Series

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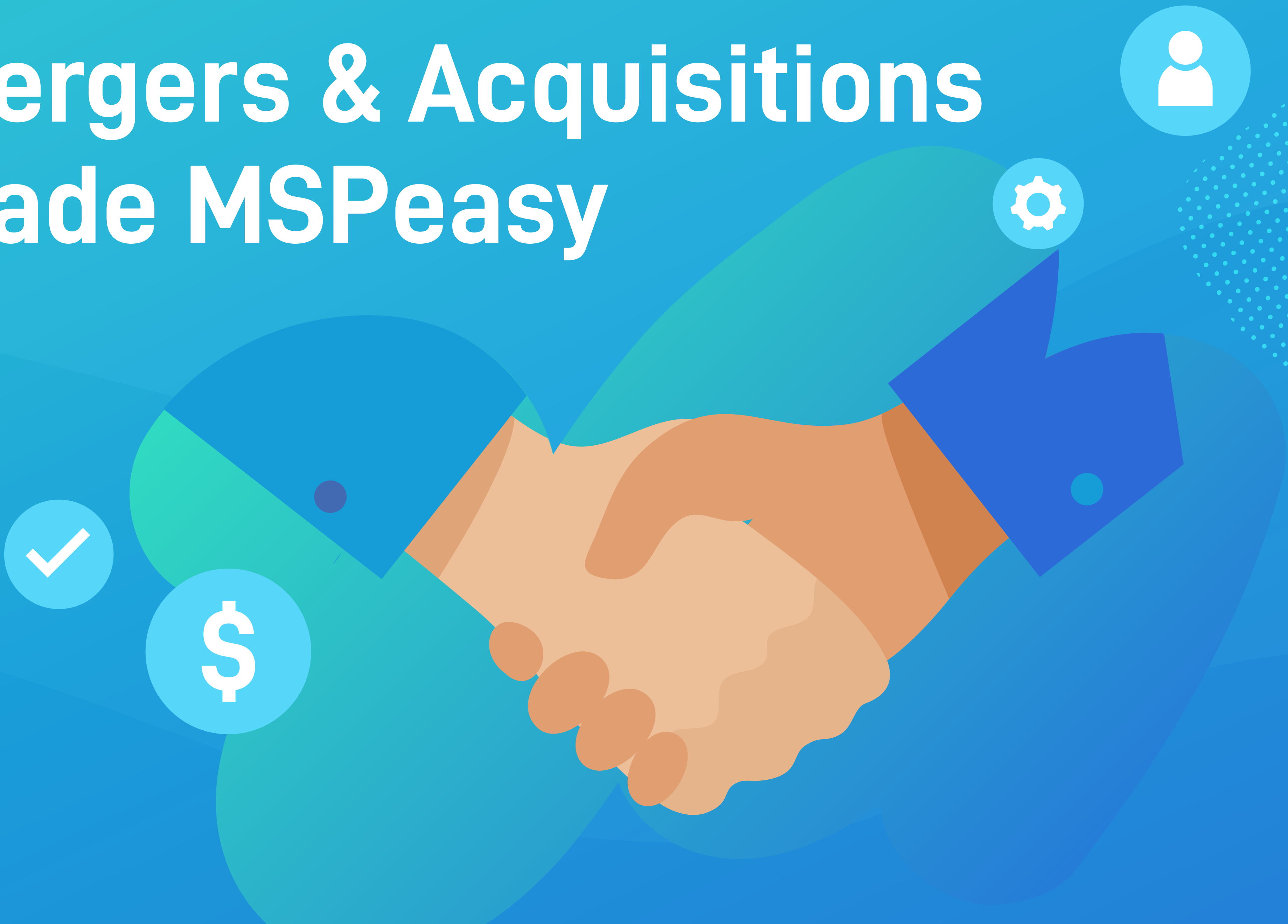
Mergers & Acquisitions Made MSPeasy



Introduction

Mergers and acquisitions (M&A) have become a top growth strategy in the IT Channel. Managed service providers, or MSPs, who aren't actively considering these options for growth and/or an exit strategy are few and far between these days. So, why the sudden uptick in M&A activity?

More and more of today's MSPs want to expand their service offerings, but it can be easier said than done. Merging with or acquiring other MSPs who offer additional solutions can help them expand their product suite sooner, rather than later. Some MSPs also look to M&A to increase their geographic footprint. In this eBook, you'll hear from MSPs who have gone through successful mergers and/or acquisitions.

Identify Goals

The first step in deciding to make moves toward M&A is largely based around a few specific goals. Goals can circle around a number of things, such as:

- Expand service offerings
- Exit the MSP space
- Expand geographic reach
- Increase monthly recurring revenue (MRR)

Regardless of what the specific goal or goals may be, the underlying motivation is almost always financial.

When it comes to mergers and acquisitions, financial readiness has to come from both parties involved. For an MSP looking to exit the market, seeking a buyer can be the best option as long as the books are in order. Virginia-based MSP, Ntiva, has performed two acquisitions; the first driven by another MSP's desire to exit. The MSP was smaller than Ntiva and offered complimentary services to clients.

"That acquisition was circumstantial," said Steven Freidkin, CEO of Ntiva. "The owner of the MSP we acquired was very much ready to leave. Culture-wise, it felt like the perfect fit for us, so we jumped at the opportunity."

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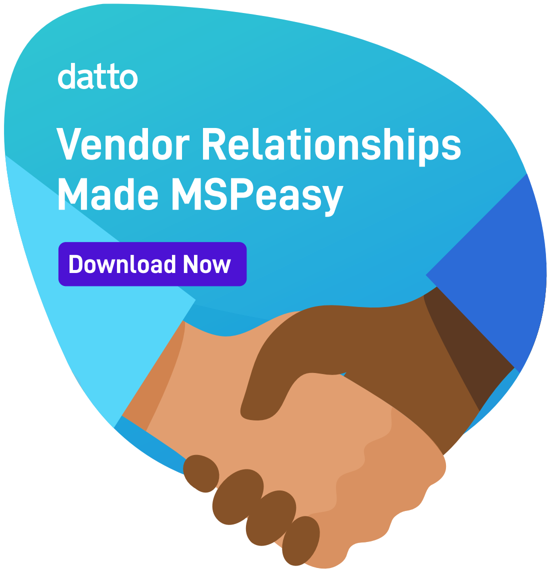

The second acquisition for Ntiva was driven by client demand for telephony services."We regularly survey our client base. We found that they wanted a voice product in addition to the services we already offer," said Freidkin. "After careful thought, we wanted to do more than be a reseller. We wanted to acquire an expert in the field. There was a provider who we had been sending business to for about a decade in our region. We knew their employees, knew their clients were happy, and decided it made perfect sense."

Washington D.C.-based Hilltop Consultants set a clear goal to increase monthly recurring revenue (MRR) 60%-70% by the end of the year following a merger and/or acquisition. To do so, they decided to expand into Atlanta, Georgia. Additionally, Hilltop Consultants focuses on serving businesses within the Legal vertical, so they wanted to acquire a company with similar clients.

"Strategic Integration Partners had a strong presence in the MSP Atlanta market and focused their services towards legal clients," said Jim Turner, President at Hilltop Consultants. "When we sought them out, we also learned that they used the same channel vendors as us."

"MSPs [considering mergers and acquisitions] should look at specific verticals," said Douglas Furst, COO at Hilltop. "It's helpful if they're using the same applications, support the same software, use the same PSA and BCDR vendors, as well. Having aligned systems makes a merger or acquisition much easier."

Financial Alignment & Integrations

For a seamless M&A process, financial alignment is key between both companies.

"When you're approaching a merger or acquisition, try get the most accurate view of the company's books you're assessing. There can be challenges around gaining access to numbers and you can spend a great deal of time trying to figure out what the other company is worth," said Furst. "Once you have a clear view of what you're investing in, you should be able to determine the maturity level of the company."

For Hilltop Consultants, when it comes to assessing a company for M&A, the maturity level is the most important piece of the puzzle, as it encompasses both financials and the standard of services in which they're offering. Specifically, they look for a company with seamless integrations and processes.

"If you foresee a lot of hurdles to get past post-deal, you may spend more time trying fix issues you didn't have prior to the deal," said Furst.

"The ease of integration between everything from support to sales in crucial," said Robert Hogg, Managing Partner at Ancero. Look at how, and why, the MSP you're assessing does business the way they do. At the end of the day, your clients' experience should never be impacted."

At the end of the day, culture is #1. It sets the stage for success and will help your newly structured team thrive.

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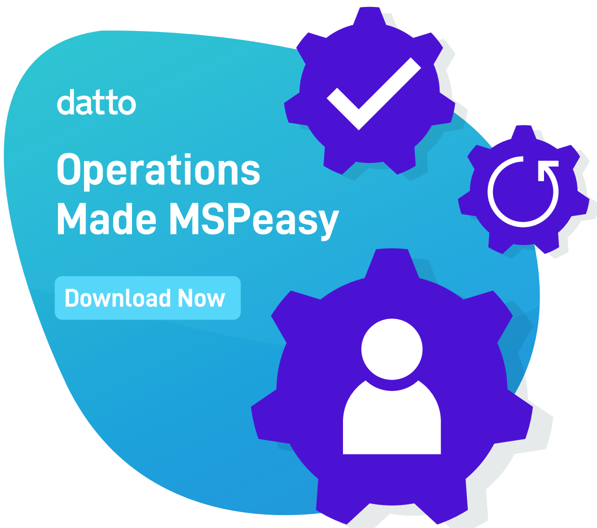


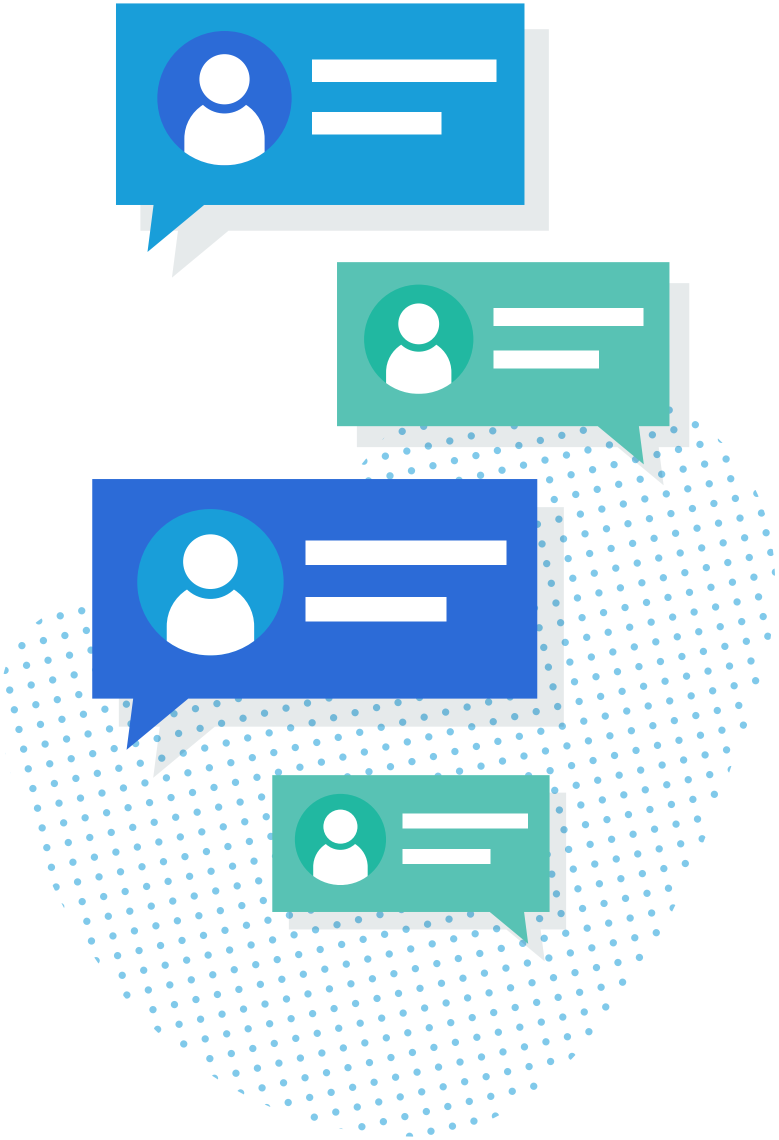
Communication & Culture

Once you've defined clear merger and/or acquisition goals, assessing the culture fit of the company you're seeking out is a key ingredient for success.

"If the culture doesn't work, the deal isn't for us," said Freidkin. "What good would it be if people become miserable in the process?"

Much of Freidkin's perspective on the importance of the cultural alignment was echoed by Hogg. "Culture drives everything in a service-based business. When you're going through M&A, alignment of service offerings can be helpful, but you won't always find that," he said. "Sometimes there's a lot of integration work that needs to be done, whether it be between tools, pricing, or anything else. At the end of the day, culture is #1. It sets the stage for success and will help your newly structured team thrive."

When assessing another company for M&A, cultural alignment can run in tandem with financial readiness. Take all of the time you need to get to know the MSP you are considering joining forces with while you're crunching the numbers. That time is crucial in deciding whether it's a worthwhile deal.



"M&A is more of an art than a science," said Hogg. "In the managed services space, it comes down the the human factor. Our business is all about people. This is why culture rises to the top."

Once you've done your homework and the deal is moving forward, constant communication is key. Both parties in an M&A should be in agreement about when to communicate the deal to the employees. You should be on the same page in terms of messaging and be prepared to field employees' questions and concerns for the moment the news is shared.

Kick things off with internal communications to both teams and make time to travel and meet with employees on both sides. Meeting with your new colleagues is crucial in building a bridge of trust between the organizations and sharing a vision for the future.

Conclusion

If there was one common theme that came out of the research we conducted for this eBook, it's that no two companies will take the same approach. M&A can happen for a variety of reasons. Whether it be a purposeful exit or desire to expand your geographic reach, it can be a daunting task, but one that pays dividends in the end. It's important to remember that, even though deals can take anywhere from three to six months, the impact of an M&A will follow the lifetime of your business.

Of the key things to think about when you feel that you're ready to take the plunge, remember: **develop a clear goal; carefully assess financial alignment; weigh ease of integration; cultural fit is not to be taken lightly; and a clear communication process is a must.**