

Tuck In Acquisitions – A Way For Growth
ServiceRoundtable – 2003



All business owners are interested in increasing or maintaining the volume of revenue to ensure profitability, correct? One way to add service calls and additional volume to your existing revenue base can be achieved by the acquiring one or more “tuck in” acquisitions. Growing your company’s revenues and customer base by way of tuck-in acquisitions does not have to be overly complex, time consuming or capital intensive.

The time to consider a tuck-in acquisition is right now! Like all industries, many service providers have felt the effects of a softer economy. Those businesses that were able to get by in the later part of the 1990s have found it difficult to maintain profitability post 9/11. Many struggling business owners are prepared to pass the challenge onto someone else and move into less stressful careers, retire or take a lesser responsible in the business. These types of scenarios present tremendous opportunities for business owners, such as you, who are positioned to add to your existing customer base.

A tuck-in acquisition will not offer any secret plans or formulas on how to solve your profitability or employee challenges. The facts are the acquired business may be barely profitable or even unprofitable. Employees may be less than your standards and there may even be situations where there are gaps in the workforce. Don’t look at a tuck in acquisition as a cure all. So why would you acquire a marginally profitable or unprofitable business with a less than a stellar workforce anyway? The answer is revenue and customer base.

A tuck-in acquisition will most likely be a business utilizing from one to four technicians. Your business should be organized and stable enough to integrate the new level of service calls and handle the disruptions that will challenge your company’s focus for a short period of time. Do not assume that the management of the acquired business, if they are even interested in being part of your team, will be able to assist in the transition. Instead, rely on your own team to go the extra distance for the duration of the integration.

Tuck-in acquisitions, due to their size, investment and locality (in a market place you are familiar with) are less risky than say acquiring a stand alone business in a new city. However, do not be fooled into believing they are riskless. Improperly handled, a customer base of a tuck-in acquisition can turn into a cloud of dust. Several of the consolidators learned this the expensive way when hasty integrations efforts were applied to tuck-in acquisitions. Regardless of the investment that you make, you have failed if in completing a tuck-in acquisition without properly managing the acquired business’s customers and service calls.

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Properly integrating is one thing, understanding what you are buying is another. Ken Goodrich, owner of *24/7 Service Corporation*, which successfully operates residential HVAC and plumbing operations in both Las Vegas and Phoenix, has mastered the art of tuck-in acquisitions in order to grow a combined revenue base of approximately \$6 million. Ken and I discussed some key points on successfully analyzing a tuck-in acquisition. The following are those points:

- Gain a 100% understanding of the target's work mix. Many small businesses have more than one focus. As an example, an HVAC company that does residential service and new construction. After the transaction closes is no time to discover your newly purchased residential service business earns half of its revenue from new construction!
- Determine if the targeted customer base is relationship driven. Be careful in conducting this research and do not fool yourself. This is especially crucial in the consideration of the acquisition of a commercial business.
- Plan for some customer fallout. This is not to say you should plan to fail. Rather, it is suggested that you should base your purchase decisions on attainable goals.
- Be skeptical of promises of customer lists that soar into the thousands. A Recent acquisition that I recall boasted of 30,000 customers! Upon further due diligence, it was discovered that this consisted of all customers from 1950 until current. The target's "current customer" list was over 6,000. Customers that have been serviced within the last four years were considered current. If you have not serviced a homeowner in four years can you really consider that a customer? I think not.
- Focus on the number of calls and the revenue per call. Also, you must have a solid understanding of your revenue per call. Is the acquisition candidate's average call less than yours? Then you may be able to capitalize on better pricing. If the average of your target is significantly less, spend more time understanding their service and customers. You may conclude that these customers of your targeted acquisition are best served by your competitor.
- Obtain an understanding of the acquisition target's service agreements/contracts. These are the company's real customers. Are there 100 or 1,000? Are these agreements properly managed and therefore, easily transferred to you? Speaking of transferring, these agreements are a liability purchased by you and you are expected to service these contracts. Of course, you will also reap the benefits of any upselling efforts during these visits.
- What are the historical replacement revenues and margins? The best possible situation is that your candidate serviced and repaired equipment well beyond its useful life. If this is the case, you can benefit from selling replacement equipment to the acquired customers. If you find that the target sold a great deal of replacement equipment, but at a low margin, your newly acquired customer base may be of little value with exception to routine service calls. Do not overlook this point.

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- Investigate for recent changes in advertising or telephone numbers that will negatively affect the revenues in the near future. Blunders happen, yellow page placements are lost, ads are not renewed or renewed with incorrect information. All these mean lost volume. Do not acquire a competitor only to find out that in the next published yellow page directory there is no add.

In conclusion, today is an excellent time for you to consider a tuck-in acquisition. Due to the lack of complexity, minimal investment, size and locality these acquisitions can be completed with less risk than a larger stand alone purchase. Accepting the facts that a tuck-in acquisition can help to grow your revenue base, and not be a cure all to your operational and employee problems, will help you focus on the properly conducting your due diligence to confirm the risk of the tractions is worth the rewards.

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