

SUGGESTIONS FOR STAFFING INDUSTRY BUYERS



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Some Suggestions from Sellers of Staffing Firms and their Advisors.

by Bob Cohen and Sam Sacco

With many mid-sized and regional staffing firms finding their organic sales growth insufficient in terms of achieving their annual growth targets, some are considering acquisitions as another avenue to augment their growth plans.

For some this is a new approach for growth. For those inexperienced or fairly new buyers we offer the following suggestions. Hopefully, veteran acquirers can glean something of value as well.

The discussion of the relative merits of a build vs. buy strategy continues however for those who want to improve their success through acquisitions we offer the following suggestions:

Create a Written Acquisition Plan

A. Define your Goals for Acquisitions

1. Entering new markets
2. Spreading infrastructure costs and gaining economies of scale
3. Increasing market share
4. Offering new services to existing clientele
5. Acquiring Management Talent

B. Define your Acquisition Criteria

1. Staffing Sector(s)
2. Size by annual sales volume range
3. Geographic preferences, new markets or bolster existing market share
4. Must Management stay?
5. Financial Performance Criteria:
 - a. Annual target growth rates
 - b. Gross Margin range
 - c. Average Bill Rates
 - d. EBITDA growth and range.
6. Do you want well-run profitable firms or distressed firms?

C. Develop your Acquisition Team

1. Internal Staff Members, CEO or COO, CFO +++
2. Legal and Financial Advisors-external or internal
3. Business Advisor-an industry M & A specialist

D. Determine Funding Options and Arrange in Advance

1. Review external and internal sources of capital
2. Plan post acquisition expenses, as you will need to invest to create those synergistic savings.

E. How will you identify Acquisition Candidates?

1. Industry M & A Advisors
2. Letter writing Campaign
3. Networking at Industry Meetings and Conferences
4. Purchase industry Mailing Lists

F. How will you Qualify Target firms

1. Use an Acquisition Criteria Form for each company
2. Determine who on your team will gather the information
3. Prioritize your objectives, and clarify needs vs. wants:
 - a. Strategic fit;
 - b. Cultural compatibility;
 - c. Operating focus in a sector (s) that you seek;
 - d. Management Talent;
 - e. High Gross and operating margins;
 - f. Sustainable growth;
 - g. New or existing markets.

E. Develop a Written Integration Plan

1. Will you brand immediately, not at all or when practical?
2. What functions will you take over immediately, if any?
3. What functions or activities will you assume over time?
4. What staff and operational changes will be made to the acquired firm?
5. What is your timetable to implement changes?
6. What is your plan to communicate the changes with the staff and customers?

Contacting Sellers and/or their Advisors

A. Always be respectful, first impressions do count.

B. Once you initiate the transaction processes remain prepared and responsive on a timely basis to help maintain a good level of energy in the process. Act like every market is a seller's market; it will build trust with the seller who will appreciate your sense of urgency.

- C. **When negotiating always take care not to destroy incentive by capping earn out deals at a certain amount, why rein in a thoroughbred, better performance makes for a more lucrative acquisition; reward them for success and share the wealth.**
- D. **Take the time to meet with the seller initially by telephone to establish trust with the seller; it will carry you a long way especially in a competitive situation.**
- E. **Never let the seller hear you rundown their business. Take care to express any concerns you have about the inherent risks in a deal with great sensitivity. This is just one of many situations where having an intermediary handling the negotiations can really help.**
- F. **Approach and view the seller's Advisor/intermediary as an ally, after all you both want to do a deal, particularly a win-win deal. If you view an acquisition as a zero sum game with a winner and a loser, you have already lost the war, before any of the battles are fought.**
- G. **Remain a reservoir of calmness during this chaotic time for the seller and keep your corporate egos in check during the process. Your strength and stability will win the day. Try not to insist on being right all the time, it is unnatural and lessens seller's confidence in you.**
- H. **Be sure you fully understand the impact of any planned changes in advance of implementing those changes. It is particularly important with any proposed staff changes, as you don't want to destroy what you have bought. Keep your focus on the larger picture; just because it may be different than how you do it doesn't mean it is not working well for this company in this market.**
- I. **Ensure your top operations staff review best practices; you may be surprised at how much you can learn from smaller firms and apply to your branches.**
- J. **When integrating, change the things you must change (such as staff redundancies, payroll and other legal compliance issues) as soon as you can and change everything else only as quickly as humans can and need to absorb these changes. A lot of changes in our daily environment can be unsettling for any of us, so low down as often the turtle will win this race.**

Use Experienced Advisors

When assembling your acquisition team it is a good idea to use financial, legal and business (M & A) Advisors who are familiar with Mergers and Acquisitions in the Staffing Industry. Good advice is critical to achieving your goals and talented, knowledgeable and creative Advisors should add far more value than the cost of their services.

Regardless of the experience you have with your internal team on acquisitions, an outside business Advisor can ensure you are up-to-date on all relevant issues and play an important buffering role in completing the deal. Particularly when the owner of the business will become the acquirer's employee post acquisition. It can be awkward and very difficult for the seller to negotiate the deal terms and their future employment with their soon to be new boss.

A good business Advisor will help ease the seller through the difficult areas of negotiations and keep the seller calm and assured that all will work out as it should. Many sellers get anxious during the process and a capable, experienced Advisor can smooth the waters until all question areas are buttoned down.

A good Advisor will pay for their services in many ways during the process of initial introduction through to closing the transaction. ■

Sam Sacco and Brian Kennedy operate R.A. Cohen Consulting, a trusted M&A Advisory service that caters exclusively to the staffing industry. Since 1991, we have advised on hundreds of successful transactions.

Call us at 910.769.4057 or 416.229.6462 respectively.

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