REVENUE ROCKET

DOWNLOAD e-newsletter
in a PDF file format.
Click HERE

The Mach 2 e-newsletter

JUNE 2015

Page 1 | Page 2 | Page 3

A Revenue Rocket perspective by CEO Mike Harvath.

Given all the activity in M&A in the IT services market, and as a service to its partner community, Microsoft will be hosting a session on M&A at the Worldwide Partner Conference in Orlando, Florida July 12-16. This session will be part of the General Session on Partner Profitability and the Impact on Shareholder Value. It will take place on Wednesday, July 15 from 3:30-4:30 pm, and will be hosted by Brent Combest, Director, Partner Profitability & Compete, Microsoft Worldwide Partner Group.

I am privileged to serve on the panel along with Mark Seeley, President of Intellinet, Nicholas Vossburg, Director of Cloud Services at Comparex AG, and formerly CEO of Bearing Point, and John Havlick, Executive Vice President at Comparex AG. This looks to be a terrific opportunity for partner executives eager to get some hands-on insight and experience on how best to navigate their way through an M&A, which is on a tear of late.

As we write this newsletter we have just received a copy of The Global Consulting Mergers and Acquisitions Report 2105, from Equiteq, a global M&A advisory firm. This report validates the tremendous M&A activity in the broad consulting industry, as well as specifically in IT consulting. Among the findings contained in this report are:

- Consulting sector M&A deals increased 13% in 2014 vs. 2013, with deal volume in the IT consulting sector growing 15%.
- IT has historically represented the largest proportion of the overall consulting M&A market. This is due to the high level of innovation that occurs in the broader IT industry relative to other consulting sectors, which drives the continuous need for larger firms to acquire new capabilities, and drives the demand for new, innovative IT consulting firms to enter the market.
- The report indicates strong buyer demand continuing into 2015, although some uncertainty may have an effect on volumes and values in the latter half of the year.
- Across the global consulting industry, a large majority (70%) of M&A volumes are small value deals, of less than $40MM, with 35% of reported acquisitions under $5MM.
- In 2014, there was an upward trend in EBIDTA and revenue multiples, highlighting a seller's market where demand from buyers is exceeding supply of sellers in the market, ultimately keeping values high.
- On average, between 50%-60% of the deal price is paid up front with the remainder as earn-out over two to three years.
- Transactions in IT consulting are driven by consultancies with strong capabilities in business

THIS ISSUE:

What's up with all the M&A activity?

A conversation with Brent Combest, Director, Partner Profitability & Compete, Microsoft Worldwide Partner Group, and Mark Seeley, President of Intellinet

Going to WPC:

Click here to join us for a Revenue Rocket cocktail reception on Tuesday, July 14 from 4:30-6:00 pm intelligence, data analytics, cyber security, cloud-based delivery and smart mobile.

- In value terms the trend in revenue multiples of IT consulting firms continued to increase in 2014, while EBIDTA multiples fell in line with the two-year trend. This is most likely explained by the fact that firms in the IT industry typically drive revenue more aggressively than profits, as the ongoing demand for innovation drives the need for internal investments.

- Microsoft, SAP and Oracle are the largest vendors that IT consulting firms focus on, and as such advisors and system integrators of ERP systems continue to make up a large and constant proportion of deals. Microsoft expertise continues to be the largest vendor capability associated with IT consulting M&A deals.

Net, net, it’s a good time for Microsoft partners to be thinking M&A. Deal activity is high propelled by the continuous demand for innovative technologies, particularly those offered by Microsoft.

For those headed to WPC, please join us if you can at the M&A session and/or our reception.

Page 2 A conversation with Brent Combest

Page 3 A conversation with Mark Seeley

Comments and Feedback
We welcome your comments, suggestions and criticisms. Send them to Mike Harvath.
Phone: 952-835-2333

www.revenuerocket.com

A conversation with Brent Combest

Brent Combest

Brent is the Director, Partner Profitability & Compete, Microsoft Worldwide Partner Group.

What"s your background, and how did you get started in IT?

I started out of college working for a number of Dynamics partners in sales and marketing, selling CRM and ERP systems to companies of all sizes. I then took a hiatus from the channel, and went to AT&T Wireless, where I drove a large portion of their existing customer marketing, essentially their CRM program.

Following this, I was recruited to the U.S. Microsoft Dynamics team to work on existing customer marketing and the ERP business. I was fortunate to have a mentor with the Dynamics Product Group that recruited me to develop our partner profitability story for CRM Online I then joined our Worldwide SMB team, during which time I developed the Partner Channel Development Manager role, which was the 200-plus member community that would lead the SMB journey into the cloud, coaching distributors, resellers, and MSPs on how to build their business. After three years, and with an experience base in partner profitability, this new role came along, which consists of four elements of partner business;

Profitability, Competitive Recruitment, the Cloud Solution Provider Program, and the Azure Business Development Managers Community around the world that helps partners develop their Azure practices.

What do you see as the top three to five issues that Microsoft partners face going forward?

I think the biggest challenge is performing while you transform. We all have a revenue obligation to meet, the need to make payroll, pay our bills, generate profit, etc. At the same time we have to understand how the cloud is transforming businesses, and how partners can continue to meet customer needs and maintain their role as trusted advisor. For some partners, part of that transformation requires new investments in staffing, training, marketing, etc., so they need to generate enough operating income to invest in this new paradigm.

Another issue is how you go about protecting your relevance and your revenue from becoming commoditized by the tens of thousands of partners transacting in the cloud. How do you separate yourself from the herd? This is why having a verticalization strategy is important, and with it having proprietary IP. Lastly, in what is becoming a hyper-competitive market, it's important partners have a mindset that challenges the status quo, and that they're consistently thinking differently about things. Something that is a competitive advantage today, may not be six months or a year from now. A healthy level of paranoia will serve a CEO well.

How can IT service companies position their company for growth?

In the IT services business there are four lines of revenue. They are product or license revenue, project services, managed services, and packaged IP. I think what's important to maximize profitability and create a healthy, vibrant company is to understand that these revenue streams are not created equal.

If you look at the gross margin of a license or product sale, it's tied to the channel incentives of the vendor, which is the maximum margin you'll ever get out of this revenue line. With project services, most partners are realizing 35-45 points of gross margin. Where the real profit comes from is those last two lines. Managed service providers typically generate 45-55 points of margin.

"I think the biggest challenge is performing while you transform. We all have a revenue obligation to meet, the need to make payroll, pay our bills, generate

and it's not uncommon for those in packaged IP to see in excess of 65 points within that revenue source. Understanding the revenue mix with an emphasis on the latter two, and building an annuity stream that is their own, and not based just on a vendor's product, is going to be critical.
Additionally, one of the things I spend a great deal of time coaching partners on is relinquishing control.

When I sit down with a CEO, I often notice that they're the company's primary sales person, they're conducting the hiring and dealing with payroll issues, and they're engaged in virtually every customer project. The simple truth is that this level of involvement doesn't scale, and places an artificial ceiling on the business. So they've got to learn how to implement people and processes that will enable them to take their business beyond the plateau of where they've probably been for the last three to five and maybe even more years.

Where do you see M&A activity going over the next couple of years?

I think it's ramping up, and for a number of reasons. For one, partners that have been in the business for 20 or more years and who have built a great company are now contemplating whether they want to navigate the requisite change needed to adapt to an industry that seems to be evolving at an ever-accelerating pace, or if now is the right time to consider an exit.

We're also seeing a new wave of savvy entrepreneurs come into the space who realize that eventually supply and demand will take hold, and that it's the early adopters who stand to benefit the most—and for them, the race is on with transactions already in place.

Looking more at the merger route rather than acquisition, we've seen some successes with companies that came together to broaden the value of what they provide to the market. They did so because they believed the power of what they can provide as a combined entity far exceeds what they can do alone, and more importantly, what their peers can do.

From Microsoft's perspective, we certainly value having strong, thriving partners. Our channel is our competitive advantage, and we want to ensure that what we're creating across our products and programs enables partners to maximize profitability and shareholder value.

What advice would you offer a partner considering a buy-side M&A?

First, you need to understand how M&A fits into your long term strategy. Too many times executives buy for the sake of buying. Essentially they are buying revenue, as opposed to understanding the gap that exists in the company and how the acquisition fits the long-term strategic objectives. You need to figure out how the acquisition gives you competitive advantage over your peers and in your space, and then how this new offering creates differentiation in the market.

Second, if you haven't had a history of doing an M&A, you need a shepherd to help you through the process. M&A is a complex undertaking and there are lots of mechanics to consider, and lots of companies to review. You want to make sure you're very diligent throughout a long process that may start with well over 100 companies before you'll ever find a few you want to get an LOI in front of, and from that, it's an even smaller pipeline to close.
You can contact Brent at bcombest@microsoft.com and @BrentCombest.

Page 1 What's up with all the M&A activity?

Page 3 A conversation with Mark Seeley

our bills, generate profit, etc. At the same time we have to understand how the cloud is transforming businesses, and how partners can continue to meet customer needs and maintain their role as trusted advisor."

Comments and Feedback
We welcome your comments, suggestions and criticisms. Send them to Mike Harvath.
Phone: 952-835-2333

www.revenuerocket.com

A conversation with Mark Seeley

Mark is the CEO of Intellinet, an Atlanta-based management consulting and Microsoft-centric technology services firm providing end-to-end solutions that integrate cloud, data, mobile and social strategies with application development, business intelligence, collaboration, and infrastructure platforms.

Mark Seeley

What's your background, and how did you get started in IT?

I graduated from Georgia Tech with an industrial engineering degree, which is all about logistics and process optimization, so it was a natural fit to join Andersen Consulting as a business process consultant. I've always had an entrepreneurial bent, though, and so after five years at Andersen Consulting, my current partner and now our firm's Chairman, Frank Bell, asked me to join Intellinet in the early years to develop the firm's consulting practice using the principles of process excellence that I learned at one of the big four consulting firms.

What is the story behind Intellinet?

Intellinet started as one of the first Microsoft Solution Providers in 1993. As one of the Microsoft's early partners, we had the luxury of working with some prestigious companies including Coca Cola, Delta Airlines, Cox Enterprises, BellSouth and others, focusing on their global networking, messaging, data and internet needs. This worked well for us as we continued to grow, reaping a number of Partner of the Year Awards along the way. Fast forward to 2008 or thereabouts, the effects of the recession and the advent of cloud computing gave us pause to rethink our business model.

The IT business was always cyclical-driven, as all services firms waited for the next technology release or upgrade with which to migrate our customers. During the recession, corporate spending slowed dramatically as executives determined that they could hold off on the latest releases, and they stopped spending on second-tier projects that weren't critical to the business. It was at that time that my management consulting roots took hold.

Even though we were doing great work, we determined that if we were to be relevant five to ten years out, we needed to become more of a strategic business partner and innovative thought leader to our clients. Because we had terrific relationships with our customers, we endeavored to get a better handle on their broader business objectives and issues, and to deliver the same level of excellence we provided in the IT discipline across multiple business disciplines. It is then we developed our offerings around Business & IT strategy, PMOs, Innovation Management, Digital Marketing Strategy, and large-scale Program Execution, as well as a further technology emphasis on mobile applications, data, and cloud solutions.

What makes Intellinet unique, and successful?

We describe ourselves to clients and prospects as a services company with 'big four credentials and boutique firm attention.' With our focus on systematic business transformation, we can provide the greatest impact to our clients on their key initiatives through business-first, technology-enabled solutions.

We employ highly-seasoned management and technology consultants. It's this positioning of value creation from a highly-regarded boutique firm that has allowed us to repeatedly win against the larger national or global consultancies.

Our success is predicated on our people, processes and purpose. We are driven by the relentless pursuit of stewardship excellence of our client's

"With the industry in such a state of change and transformation, and with access to capital readily available to strong firms, I'd expect further consolidation business needs, a process-driven culture that leverages best practices for repeatable success, and customer-centric consultants and staff.

We are also unashamedly focused on metrics, profit and growth—not for making money alone, but for the impacts that come from a great sense of stewardship. When we operate well, we can invest in our people, take bets on innovations and new offerings, and show strong thought leadership to our clients.

What are the top issues facing the IT industry?

The first challenge we face is knowledge management. The industry is moving so fast with so many innovations and business disruptions around cloud, social and experiential mobility that legacy businesses need to be more active in their strategic business transformations to be relevant in the next decade. An IT operational status quo mindset will no longer work. Second is talent management, the ability to attract and grow high-character, high-quality talent in a low IT unemployment environment. Last is a drive for innovation. Whether it's agile development, new customer distribution or touch points, or innovation management, companies need to focus on leaner, faster and differentiated value.

How can IT services executives position their company for growth?

I'd encourage other IT services executives to stay laser-focused on their customers, even more so than their strategic partners. This focus will allow them to find avenues to extend their service offerings to be more of an end-to-end service provider with strategy, deployment and managed services. The reality is that changing marketplace dynamics, especially around the cloud, will mean that businesses that relied on integration and implementation to grow will simply need to look elsewhere. That means either moving upstream into strategy and process optimization or downstream into managed services.

What has been your experience with M&A as a growth strategy?

Ten years ago, we acquired a solution provider in the Carolinas that enabled us to gain a foothold in the region, but it was very small. We learned from that experience, and our current M&A strategy is focused on partners with a large enough footprint to be accretive to our leadership team and our value proposition, along with enough scale and momentum to make the M&A integration worthwhile for everyone involved.

After evaluating over 100 firms we chose an excellent firm with a 25-year pedigree with back-to-back Microsoft Partner of the Year Awards in the Northeast. The synergies, cultural fit, and complimentary skill sets made it a great fit for both firms. We had invested heavily in management consulting, and they had invested downstream in managed services. In the end, our clients win with our ability to deliver true end-to-end solutions.

Will M&A continue to play a role in your growth?

That's the plan. When we made the transition to a Microsoft-centered management consulting firm we termed this internally as “Intellinet 2.0.” It's one thing to say you're a management consulting firm, but doing that well, hiring the right people, having real marketplace credentials that can deliver value over other consulting firms, is both an art and a discipline.

We put a great deal of effort into doing just that to add substantial value to our clients, and it has transformed our business in the process. So the avenue we're exploring with our acquisition strategy is continuing to look at strong, regional technology services firms that realize that they need to make investments in this changing marketplace but see that it would be more accretive to leverage our team, credentials, and business success in management consulting for synergies that could greatly impact their people and our combined client base.

What do you see the M&A market looking like over the next few years?

With the industry in such a state of change and transformation, and with access to capital readily available to strong firms, I'd expect further consolidation, even among the best-of-the-best firms, to the eventual benefit of their shared customers.

What is your advice for executives considering an acquisition?

For us, developing great people through a proven process while maintaining a strong culture across the combined organization were our top two priorities. In our assessments of other firms, we looked just as carefully at their people, leadership team, and core values as we did their service offerings, client mix

further consolidation, even among the best-of-the-best firms to the eventual benefit of their shared customers."

leadership team, and core values as we did their service offerings, client mix and revenue stream. Service offerings will continue to change and clients may evolve over time, but the fabric of your target firm's culture and the leadership team you have driving growth in that region are paramount to your long-term success.

When you've chosen well, as we did with our integration, things can work out very well for both parties.

I'd also mention that clear and honest communications, clear change management, and a strong post-merger integration team are also critical. Be patient in due diligence, be clear on your metrics and common goals, and spend time with the other firm's executive team. Make sure you understand you prospective firm's culture, processes, and your role and value in the new structure. Be flexible, embrace change, be willing to let go of old ways that worked well to a point so that you can focus on being better together in a way that has a material impact on your clients, the careers of your people, and their growth potential.

You can visit Intellinet at www.intellinet.com, or contact Mark at MarkS@intellinet.com

Page 1 What's up with all the M&A activity?

Page 2 A conversation with Brent Combest

Comments and Feedback
We welcome your comments, suggestions and criticisms. Send them to Mike Harvath.
Phone: 952-835-2333

www.revenuerocket.com