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Article

Exploring the Unintended Consequences of Business Acquisitions

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Acquisitions and consolidation have always been part of the security industry food chain, but end users are more frequently becoming collateral damage.

Much has been said about the need for end users to select businesses that make a profit, and for integrators to price a job to make sure there are reasonable returns for their businesses.

There are plenty of predatory companies out there that will price jobs to win them, often breaking even and making their profits on change orders. Others will cut corners to improve margins, creating problems down the road, and these issues aren't unique to our industry.

If you ever want to put it to the test, price out a roof for your home and look at the range of bids, even using the identical shingles – there are plenty of ways to differentiate, everywhere you go.

As a consultant, we are careful to screen companies we haven't worked with before. We get referrals, check references, verify revenue, look at their time in business, see how many employees they have (and the technician to salesperson ratio) and so forth.

We want to make sure that each project has the potential to turn into a long-term relationship, and for that to happen we understand the need for a business to make a reasonable profit on the work they do to fund their longevity and ongoing support. But there's a flaw in our analysis, and I'm not quite sure how we can address it.

While we can steer projects to companies that have a sustainable business model, we have no say as to what they do with their profits or how they manage their money.

Case in point; we had a company that we recently found out had not been paying their subcontractors. They were channeling their cash flow into ramping up on new projects, and when they hit a snag and ran out of money, the house of cards came tumbling down.

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This company was the victim of their own success; they did great work and got more of it, but they did not recognize the need to manage their own growth.

So, this is easy to prevent, right? You look at management stability; how long the current management team has been in place, and how they have performed historically.

But in cases where a company may be looking to be acquired, kicking up growth is a sound management strategy, at least until the **acquisition** gets delayed or never materializes. The ensuing uncertainty often leads to the loss of key personnel, and quality slips as institutional knowledge walks out the door.

I have no statistics on this, but I often wonder how often businesses fail due to success. I personally know of several.

One answer for end users may be to build the cost of service plans into your budgeting. Rather than purchase a system with a three-year warranty, go for a one-year warranty and two one-year service plans, paid at the appropriate anniversaries.

This allows them to switch vendors if your incumbent provider falls down on the job and provides sufficient incentive for them to not fall down if at all possible.

The downside to that is that it might have implications on how you capitalize the project and likely increases costs. Many products include extended warranties from the respective manufacturers (network switches, cameras, servers, hard drives), and bidders discount the labor portion of these warranties when they are in the midst of a competitive bid process.

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Moving forward, I believe this is an issue that merits consideration. Acquisitions and consolidation have always been part of the security industry food chain, and end users are more frequently becoming collateral damage.

Everyone has a horror story to tell, and if you are one of those end users, consider what steps you can take to protect yourself. If you are an integrator, make sure your plans don't leave your customers hanging, and explain the steps you are taking to protect them as part of your pitch. As they say in the financial industry, past performance is no guarantee of future results.

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