LOOKING TO SELL YOUR VAR BUSINESS? IT MAY NOT BE WORTH AS MUCH AS YOU THINK!

by MORGAN SMYTH

Have you ever considered selling your business? The longer you own it and the older you get, the more likely you are asking yourself this question, and of course, your next thought is, "I wonder what it's worth?"

Recent IT in Canada research has uncovered interesting statistics on how VAR business are valued and, more importantly, for how much they were sold. Here is the formula:

Value of VAR = Book Value of Assets + (Last 12 Months Profit x *multiplier*)

Assets include computers, telephone systems, and any other items the company has on its books and still show some value.

The *multiplier* varied for each company, depending on other value drivers each VAR possessed. The following chart shows five multiplier groupings and where the sales clustered:

	Multiplier	Percentage of VARs
Less than	0.3	15%
	0.3-0.5	45%
	0.8-1.0	24%
	1.3-1.8	11%
	2.0 or more	5%
Average	0.72	

As an example, if the VAR business has a net profit over the past 12 months of $1 million and assets on its books totalling $300,000, this VAR would be deemed to be worth, on average, $1,020,000 (300,000 + (1,000,000 x 0.72) = $1,020,000).

That's not much, considering all the years its owners have put into it. And, as can be seen, most VARs have to settle for a lot less. Remember too, a vast majority of VARs (approximately 75%) simply just go out of business because they cannot even find willing buyers. So, the average of 72% includes only those VARs that are sold. When the other 75% of them are factored in, the average is significantly less.

Knowing this, what is a VAR to do? Clearly, because there is such a spread in the *multiplier*, a VAR owner should be focusing on all of the aspects of his/her business that can drive up its value, not just its profit.

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We have already seen this happening throughout the VAR community over the past couple of years. Companies have worked quickly to expand their service offerings—hosting services, managed services, DR, HA, clouds, etc. are all the rage as VARs switch to these annuity-type offerings. Some VARs are even trying to develop package-able software solutions – anything that will provide recurring revenues – because none of them can make a living by only reselling someone else's products anymore.

But in order to accomplish this, they have to change their entire business model. They now need salespeople to sell these solutions, and they need technical people with a much deeper and more varied set of skills, including project managers and business analysts. About the only thing that can remain the same is the name of the company.

This reinvention can be expensive, tricky and complex. Lots can go wrong. It's "you bet your company" time!

So what can a VAR do to manage the risks of this new business model and maximize its resale value?

For starters, it has to determine what aspects of its business truly drive value. In most companies, there are about 40 internal drivers and nine external drivers. Some internal drivers are:

1. Level of staff turnover
2. Percentage of repeat business
3. Ratio of prospects contacted to sales achieved
4. Amount of profit (revenue less expenses, wages and contractors' fees)

External drivers consist of factors such as:

1. Barriers to market entry
2. Number of competitors and the VAR's ranking amongst this list
3. Size of market and its growth rate
4. Government incentives

Next, these drivers need to be measured, monitored and aligned. The way to achieve this is by attaching Key Performance Indicators (KPIs) to each one.

Once this is done, companies then create their objectives as to where they want these drivers to be in one, two, three or even five years from now. Most VARs focus on one-year objectives, simply because the market is so dynamic and most VARs are too small to plan out any further (the classic "cork in the ocean").

Tip:

Employing a planning method such as Balanced Scorecard can ensure that all of the business activities are aligned in a way that will maximize the company's value while minimizing any conflict amongst the drivers.

The final component that demands attention is quality. Often companies have great intentions to bake quality into everything they do, but in reality, very few of them actually succeed.

Tip:

By continually monitoring quality by using a process like Canada's National Quality Institute (NQI) and the U.S. Malcolm Baldrige criteria, companies can effectively stir this factor into their mix. Possible measurements include:

1. Customer satisfaction rating
2. Employee satisfaction rating
3. Supplier satisfaction rating

All three of these activities— determining the VAR's value drivers and their associated KPIs, defining the objectives that will achieve them, and improving the company's quality of execution—require considerable focus, effort and monitoring in order to get them right and keep them right.

Of course senior management's buy-in is absolutely critical for carrying out these steps and increasing the resale value of the company. For most VARs, this should be easy to get, seeing as how the owner's retirement lifestyle depends on it. As an extra incentive, by doing a little math, owners can quickly see the direct effect of these multipliers on the size of their nest egg.

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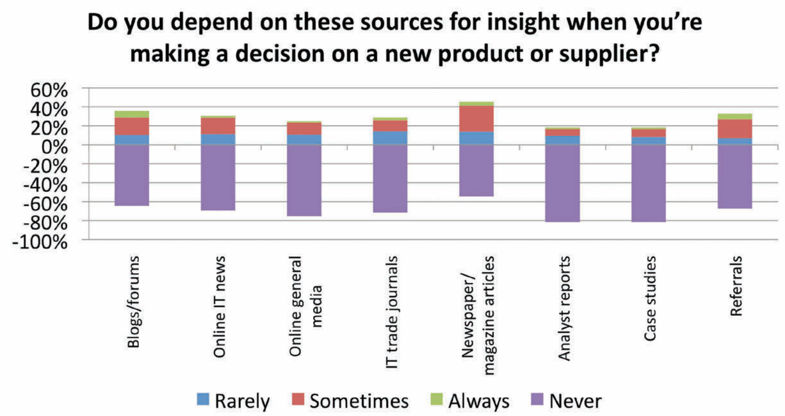
The ITMD research deliverable states that, "the most fascinating part of this slide is the extent to which buyer priorities are at odds with VAR marketing activities. Buyers rely on articles and blogs/forums to form opinions, but channel executives indicate that PR/press coverage and online presence-building tactics are at the bottom of their priority lists. It has been observed in other studies that VARs (and vendors, for that matter) are most likely to fund marketing resources based on previous years' allocations, rather than resetting budgets to deal with changing market realities. However, the reality is that the market has changed over time, and increased access to information has made buyers better able to find and assimilate multiple sources. VARs will need to align their marketing activities with buyer preferences to obtain best value for their marketing investments."

Figure 2. Buyer information source preferences



Source: IT Market Dynamics *Market Tracking Initiative*, 4Q2010; N=597
Data weighted by company size

The bottom line here? "Growability" is likely to be back in vogue in 2011 as an improving market moves "just trying to survive" off the top of VAR management to-do lists. The VARs that succeed in achieving growth – and especially, those that join the elite "self-growable" group – will likely be those that are able to tailor their marketing efforts, moving past the "business as usual" approach illustrated in Figure 1 to meet the evolving buyer requirements shown in Figure 2.