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Go on a Revenue Hunt Before you Sell your Information Technology Company

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This article discusses some actions the owners should take in anticipation of selling their software or IT Services business. Many of these actions would be implemented by the acquirer post acquisition. If, you implement them prior to the sale, the buyers will reflect that in an enhanced purchase price. If the buyer implements them post acquisition, they certainly will not pay you for the improvements.

Review all long-term maintenance contracts and implement price increases that are covered by your annual increase limits. Send your sales team out to all accounts that are not on your latest version. Bring those accounts current with the appropriate license and maintenance level increase.

Identify all accounts that use your software, but are not currently covered by an annual maintenance contract, but by a T&M contract. Offer them a one-time fee to get the latest software version if they agree to execute an annual maintenance agreement.

Do you have any Add-on modules that your customers base has been slow to adopt. Offer a 2 year price freeze on their currently installed software if they buy the add-on module and sign a maintenance agreement. The principal theme of these actions is to increase your company's level of contractually recurring revenue. That is your most important financial driver of the value of your company.

Tie these actions directly to your sales team's commission plan. The commission plan should tell your sales reps exactly what you value. A higher commission rate should be applied to recurring revenue contracts. If you have poor performers, immediately put them on notice. You may tie their future employment to meeting some short term goals in these strategic areas. If they continue to under perform, let them go. A buyer that is looking at your business will rightfully question your management capability when the find in due diligence that you have allowed a poor performer to drain profits from your company.

If you are concerned that firing the sales rep would be disruptive to your customer base, offer to allow him to stay on a commission only plan. Remove his fixed salary portion and replace that with a higher commission rate that would equal his previous expected compensation level at 100% of quota. Let's think of it this way. If a salesman's lack of performance is costing you \$50,000 in EBITDA and your company will sell at a 7 X multiple, this laggard will cost you \$350,000 in transaction value.



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Your key short-term strategy in maximizing your company's value in the marketplace is to increase the level of contractually recurring revenue. As an acquiring company looks at you as a potential acquisition target they place a value of, for example, 1 X on projected new sales supported by historical performance. They will place a value of 2 X on the revenue that is covered by contracts they acquire with the purchase of your information technology company.

David Kauppi is a Merger and Acquisition Advisor with Mid Market Capital, Inc. MMC is a private investment banking business brokerage firm specializing in providing corporate finance and intermediary services to entrepreneurs and middle market corporate clients in high tech and a variety of industries. Dave began his high tech Merger and Acquisition practice after a twenty-year career within the information technology industry. His varied background includes positions in hardware (Storage Technology Corporation), IT Services (IBM's Service Bureau Corp. and Comdisco Disaster Recovery), Software (Metaphor Computer Systems), computer leasing (Bell Atlantic Systems Leasing), datacom (Paradyne Corp.), and Internet (DigitalCars.com). The firm counsels clients in the areas of merger and acquisition and divestitures, succession planning, valuations, corporate growth and turnarounds. Dave is a Certified Business Intermediary (CBI), a licensed business broker, and a member of IBBA (International Business Brokers Association) and the MBBI (Midwest Business Brokers and Intermediaries). For more information or a free consultation please contact Dave Kauppi at (630) 325-0123, email davekauppi@midmarkcap.com or visit our Web page www.midmarkcap.com