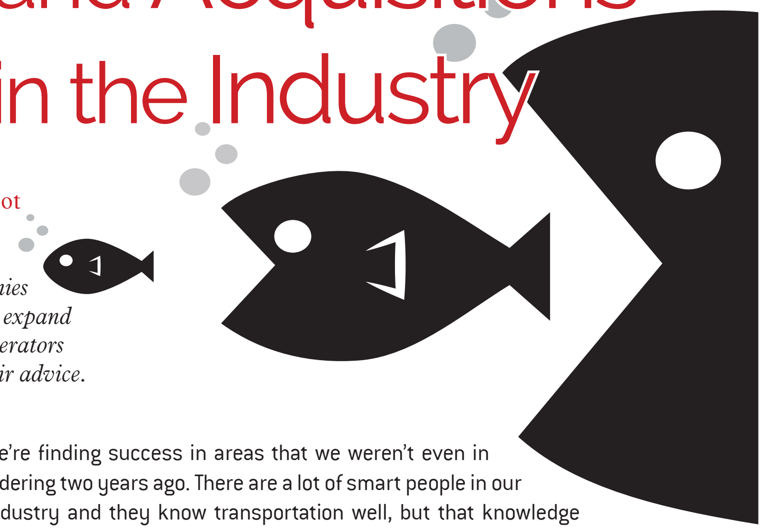
HOT TOPIC: Mergers and Acquisitions Heat Up in the Industry



There's no disputing that consolidation—mergers or acquisitions—is a hot topic in our industry right now, and there are plenty of reasons. From aging or just plain tired owners to TNCs to financing or insurance issues, we're seeing a major buying trend in chauffeured transportation. And it's not just little companies being acquired: Businesses of all shapes and sizes are on the hunt to find a deal, expand their market share, or finally join forces with that competitor. We spoke with operators who have recently acquired or merged with another company and asked for their advice.

BRETT BARENHOLTZ
Boston Car Service/Above All Transportation
Boston, Mass.

How long was the acquisition process and how did you identify the company to acquire?

The process took about a year. I knew the owner, as we had done business together for years.

Did you or the other company ever halt an acquisition before closing the deal and why?

There was a business opportunity that I was trying to do prior to the 2008 meltdown. One week we're talking to the bank and it was fine, and literally two weeks later, they are practically shutting their doors (the bank was acquired). Everything dried up over the course of two months, so I had to back out.

What have been the benefits of the merger/acquisition?

You do have certain savings when two companies are centralizing their operations. Plus, when you're a bigger company, you have a lot of advantages: you can buy things in bulk, whether it's vehicles or equipment, better deals on technology, etc. Also, there's a lot of talent out there, so it gives you an opportunity to find the best people and put them in those roles within your company.

Did you receive any pushback or feedback from clients and how did you handle it?

It was very rare. Most customers were happy that we were able to offer much more diversity. Our companies were similar in some ways but different in others, and in most cases, we've been able to offer more. With the Above All merger, my partner was used to running buses and I wasn't, so it's been great as we've expanded our shuttle work.

Did you keep the acquired company's brand, vehicles, and office location, or did you operate as one company?

We did keep their brands, websites, and phone numbers because they are known locally, but we based their price structure on ours. We also opened it up so that those clients would have access to all of our other vehicles.

What advice do you have about the process?

I think it's OK to take your time and to really get to know the company you are buying. I don't think there's any rush. The right fit for you can be very advantageous. Everybody has their own expectations.

Have you acquired (or are you considering) a company outside of the industry?

We're considering everything today. If you'd talked to me three or four years ago, I would have told you that I do sedans and SUVs. Now, it's a different game. We're evaluating more scenarios than we would have before, and we're finding success in areas that we weren't even considering two years ago. There are a lot of smart people in our industry and they know transportation well, but that knowledge can transfer to other industries.

What are some red flags?

I think it's helpful when you know the owner of the company. If you liked doing business with him and thought that he ran a good operation, I think that it's beneficial. Of course, solid financials are important. Many of the companies in this industry are family owned, so those owners tend to put a high valuation on it because they've built it from the ground up. I get that. It can be hard to hear the "real" numbers because you don't want to feel like you've insulted someone. But I've heard of people putting a too-low value on their company as well just so they could get out—everyone has their own plan.

What's the most common reason a deal doesn't come together?

With a merger, you have to evaluate who you're getting into business with. I had a very good rapport with my partner beforehand, and I liked his service levels, so I thought we could do more together. We're very different people, but it works because we have the same goals and objectives for our company.

KEVIN ILLINGWORTH
Classique Limousines
Orange, Calif.

How long was the acquisition process and how did you identify the company to acquire?

The seller approached me, but it took about a year and a half to complete. We went back and forth for a while—I was busy as president of the Greater California Livery Association (GCLA) when she was deciding to step away from the business to spend time with her family. At the end of the day, I loved the idea of owning a company in Riverside. For me, it felt like a fresh start because it was a new area for our high-end service.

Did you involve a broker or third party?

I worked with attorney Patrick O'Brien, who helped write the contract. I've had a few acquisitions in the past where someone brokered for me, but I felt like I didn't get the best deal. I made sure that I was at the forefront of it this time, in tune to the whole transition.

Did you or the other company ever halt an acquisition before closing the deal and why?

I've walked away from deals due to a personality clash and, more importantly, because the asking price wasn't realistic. For me, it's a deal-breaker if I don't trust the person regarding their customer base.

What have been the benefits of the merger/acquisition?

I have a large account out there (Riverside), so I was sending cars anyway. We were racking up a lot of miles and had to budget extra time because we were coming from Orange County (about 40 miles away), but with the acquisition I now have an office where we can keep some fleet. It cuts down on the expenses.

Did you receive any pushback or feedback from clients and how did you handle it?

So far, there's been nothing but positive feedback. In fact, because we were able to offer clients newer vehicles and a higher-end service, they were excited. I can't do everything myself because I just have too much going on, and you have to spend money to make money, so I'm working with DriveProfit to push out announcements to our client base. Pat Charla is really good at what she does and she understands me, so it's been positive overall.

Did you keep the acquired company's brand, vehicles, and office location, or did you operate as one company?

We're introducing our brand to their customers and will operate as Classique. We purchased the name, the client list, and took over the building, but we didn't include the fleet as part of the acquisition.

What about company management and staff, especially redundant positions?

The company we purchased was small and only had one office employee, who we did not take on. Our new operating system, which we implemented around the same time, is allowing us to run leaner and more efficiently. If anything, we hired more chauffeurs. Our system integrates with our chauffeurs so that they don't even have to come to the office if they have access to the vehicles. Everything is dispatched through our app.

Did the owner stay on board and how did that complicate/benefit?

The owner stayed on. She's introducing us to her client base, adapting to our way of doing things, and learning our pricing structure, and then she'll make the decision whether she wants to stay on or not.

How did you handle the blending of company cultures?

I think pricing was the hardest in terms of getting the staff up to speed with the rates. Each company had totally different structures, and a lot of their customers were cash based. We're getting everyone converted to a credit card now.

Do you have regrets about an acquisition and/or the process, and do you have any advice to offer?

I don't have any regrets, but with this last acquisition, we did a lot all at once. I was stepping down as GCLA president, switching over to a new operating system, acquiring the company, and my office manager of 20 years was on medical leave—I knew it was going to be difficult, but I didn't realize how difficult. I went from working 35 to 100 hours in a week. But there's so much potential, and I'm still extremely happy that I did it.

What makes a company attractive or less so?

It's going to be different every time, but it's mostly about the clients they already have or their sales team. If I'm looking for greater market share, or to break into an area where we don't have a strong presence, I only have a few options: Try to win over their clients with better service or buy the company.

What are some red flags?

My best advice is to truly know the person you are working with, do all the required research, don't be afraid to ask for their financials at any step in the process, and really dig deep to find out if there are any skeletons in the closet. Don't ever inherit someone else's problems.

What's the most common reason a deal doesn't come together?

It's usually financial: Either you can't get the money together for the deal or it's outside your comfort zone, or they are asking more than the company's worth. I understand that because, from an owner's perspective, you're thinking about how much you've put into it and the hours that you've worked. It's really based on the profit margins and their take-home—but it's a difficult conversation to have because they might feel insulted. Also, this most recent acquisition was fairly straightforward because there wasn't a lot of staff. If the company has an established staff, you have make sure that they can be wrangled and believe in your company culture.

Have you acquired (or are you considering) a company outside of the industry?

I'm definitely considering something with a company that directly links to our industry.

GEORGE JACOBS

Windy City Limousines
Chicago, Ill.

How long was the acquisition process and how did you identify the company to acquire?

The courtship lasted for two years, but got more serious about six months out. More and more questions were asked by each party, and the comfort level needed to be high in both directions. It is easy to not follow through with things promised by each party. Identifying the company was easy. They have been our main local farm-out company for years, just as we were theirs. In our case, it helped knowing one another for 20 years. In fact, we were instrumental in helping them start their company. Having similar rates, the same core values, and the same operating system were all helpful.

Did you involve a broker or third party?

We did the deal ourselves, and that is what I would recommend to others. Brokers can have an interest in making a deal so they get paid, but it might not always be the best deal for the person hiring them.

Did you ever halt an acquisition before closing the deal and why? What was the deal-breaker?

Yes, we have halted a few deals over time. Invariably, it involves something amiss with the other company like declining or unprovable sales, P&Ls that do not make sense, being upside-down in vehicles, or having long-term debt that may prove insurmountable. Often, just like my college-age daughter checking her bank account to see how much is in it without regard to outstanding checks, business owners do not really know if they are making or losing money. They may not have a set salary, simply taking what they can when there is cash available.

What have been the benefits of the merger/acquisition?

You always strive for synergies. Saving money by removing redundancies is the classic example because it is an opportunity to be more efficient. We now cover about three-quarters of the Chicago area. We have eliminated many "deadheads" and put more passengers per day in each vehicle. Also, getting talented people to work together is great. We learn new ideas every day and can attract more accounts because of our size and technological advantages.

Did you receive any pushback or feedback from clients and how did you handle it?

Be proactive with clients: Stress the positives they will receive from the merger (more insurance coverage, more technology, 24/7 availability, greater assortment of vehicles). Just as we all call clients if we are going to be late or have to adjust rates, we do the same here. Competitors will be calling your customers saying you bailed out on them. You need to get there first to reassure and stress the good stuff.

Did you keep the acquired company's brand, vehicles, and office location, or did you operate as one company?

No set rules here. Do what is best for both companies and for your clients. In our case, all the other companies are staying intact but are "Powered by Windy City."

What about company management and staff, especially redundant positions? Did the owner stay on board and how did that complicate/benefit?

Some owners want to stay and some wish to leave. If you can, establish in advance which way that will go. In our case, all their key personnel stayed and some are now officers in the new company. There is great talent everywhere—you are silly if you don't use it. None of us knows it all, so we can learn from everyone else.

How did you handle the blending of company cultures?

No matter how hard you try to accommodate, and how sensitive you are to others, there will be some broken eggs. Keep trying and bend over backwards to assist the other company's officers to effectuate the changes. Communicate often and promptly. Everyone expects the worst in a merger. Show compassion and empathy and anticipate this set of problems from their point of view. Your opinion and your feelings are not all that matters.

Do you have regrets about an acquisition and/or the process, and do you have any advice to offer?

When we were acquired by Carey, I regret that one piece of it was not spelled out up front, which required 10 hours of negotiation at closing and left us all drained. So think ahead and ask questions. There are no stupid questions when buying or selling a company. Ask about existing contracts, leases (can you get out of them), salaries, perks, and "side deals." You can't be in the dark.

Have you acquired (or are you considering) a company outside of the industry?

Yes, we did a deal with a software company, but it is tangential to our industry. Mostly, my advice is stay with what you know.

What makes a company attractive or less so?

Good communication with their employees and their clients is a huge plus. Ability to keep great records is important, as is location and size. Don't bite off more than you can chew. My most bittersweet memory concerns Midway Airlines: They were kicking butt in Chicago in the '90s and were so well run. We (American Limousine) were their partners. If you rode with us five times, you got a credit on their frequent flyer program. Two trips on Midway got you an upgrade to a private car or into a limousine. Life was good. Then they decided to open a second hub in Philadelphia. Along came the gas shortage, and they were gone in three months. They chose poorly.

What are some red flags?

The biggest red flag is when a company has no idea how their own financials work. Look for surprises or costs that seem out of line or for which there is no good explanation.

What's the most common reason a deal doesn't come together?

Often, someone is getting advised that they are worth X when the reality is Y. Or the acquiring company is led to believe something is so when it is not. I would say that far more deals fall apart than are consummated, but that is a good thing. You want both parties AND their employees and clients to be happy. That is rare and hard to achieve, but it should always be the goal.

BECKY LARAMEE

All Points Limousine
Worcester, Mass.

How long was the acquisition process and how did you identify the company to acquire?

Every company I've acquired has come to me so I've never approached anyone. If you have a good reputation and you're open to working with affiliates, they will think of you when they want to sell their company. This last acquisition was the longest for us—about six months—because we also purchased fleet and the building. Also, it's good to get the word out that you're in the market to buy.

Did you involve a broker or third party?

We used our own private attorneys.

What have been the benefits of the merger/acquisition?

It's easier to buy a client than it is to earn a client. It's instantaneous, although proper preparation—staff, vehicles, and infrastructure need to be in order—is imperative to keep the client base that you've purchased. You have to create relationships with your new clients.

Did you receive any pushback or feedback from clients and how did you handle it?

When purchasing, it's important that your pricing is somewhat in line with that company. I purchased a company whose prices were about 20 percent lower in the same exact area, and we lost about a third of the customers as a result. We slowly moved their prices up, but they were just used to paying practically nothing. At the same time, we had to immediately bring their chauffeurs' salaries up to the same level as ours.

Also, when a customer is used to talking to a certain person for many years who is suddenly gone, they can get nervous. We say "merged" instead of "acquired" just so that clients and the team aren't anxious. We've had pushback about our reservation system or email style just because it was different from what the customer was used to. But the things that they did like outweighed those changes. In the end, it's still based on relationships.

Did you keep the acquired company's brand, vehicles, and office location, or did you operate as one company?

I purchased their entire fleet and their building. We were trying to fold their brand into ours, but they had such a good reputation that we didn't want to lose that. We use a merged name in our emails and added it to all our communication with clients.

How did you handle the blending of company cultures?

They were very different cultures. The previous owner stayed on for six months to help with the transition, but he was very paper-driven and we are not. The character of the person whose company I bought was so high-caliber that he made it work. Staff felt important and needed. They were able to voice their confusion when we were working through the transition and they knew we were there to help. They knew how the change would affect the clients so they could better handle that end. We held multiple meetings and pulled everyone in for an open conversation about how processes and expectations would change. Communication is huge in bringing two offices together, but in the end, some personalities dictate whether an employee will leave or stay.

Have you acquired (or are you considering) a company outside of the industry?

I own a few other businesses, including a bar and accounting company. Their acquisitions, compared to this industry, were equally difficult. Even though you have industry knowledge when you purchase a transportation company, you don't know the clients. With the bar, it was slightly more difficult because

I was behind the eight ball in knowledge, but I just started talking to other bar owners and they were all pretty helpful in offering their advice. There is no glory in being a small business owner; it's very hard work and you have to be ready to put in the time.

What makes a company attractive or less so?

Definitely their client base (preferably a mix of work), reputation in the industry, and location makes them ideal.

What are some red flags?

Make sure you have a really good accountant and that they review the books. You really have to do your due diligence. Don't be afraid to ask around in the industry what it's like to work with these companies. Ask about their prices—I didn't know they were 20 percent lower than mine, I thought it was my affiliate rate. Will the company fit your structure: If they have Volvos and you have Fords, will those clients stick with you? You will not regret spending hours and hours of time poring over financial statements and Facebook feeds. Yes, Google them!

JOE MAGNANO

CLI Worldwide Transportation

Laguna Hills, Calif.

How long was the acquisition process and how did you identify the company to acquire?

Usually it's a four- to six-month process. We've done business with all of the companies we have acquired for years. I knew they had similar business models as us, which made the transitions easier. We focused on transportation companies that also have a corporate clientele, so we did not need to reinvent a lot of our processes. Once the acquisition took place, we just needed some focus on clients to make sure they were well taken care of right out of the gate.

Did you involve a broker or third party?

I have done it without a broker, but we've also used our CPA and corporate business attorney to structure the deals.

Did you or the other company ever halt an acquisition before closing the deal and why?

No, not in any of my acquisitions. All of the owners seemed to be tired of the day-to-day processes and just wanted to focus on one thing if they stayed on board.

What have been the benefits of the merger/acquisition?

Having great staff and chauffeurs is the very first benefit once a transaction is complete. We have had success with that. New clientele is, of course, also beneficial.

Did you receive any pushback or feedback from clients and how did you handle it?

Of course, there is always some pushback. Mostly, we have purchased smaller companies in which the owners, employees, and chauffeurs all had great relationships with their clients. Customers ask why this person they've always dealt with isn't answering the phone, or why that chauffeur isn't always picking them up like they used to. Our company has scheduled shifts and sometimes the client isn't traveling when that particular chauffeur is working. It's very hard to handle this process but we manage as best as we possibly can.

Did you keep the acquired company's brand, vehicles, and office location, or did you operate as one company?

I always keep their brand active and live for six months to a year. It helps with the transition of clients to slowly get them used to the new company name and branding, then eventually we will transition completely away from the old name.

What about company management and staff, especially redundant positions? Did the owner stay on board and how did that complicate/benefit?

With the expected growth, there was no reason to eliminate any positions from the get-go. Sometimes staff seem to transition their way out if the fit does not work for them.

Do you have regrets about an acquisition and/or the process, and do you have any advice to offer?

I never regret anything I decided to do. Some of the processes during the acquisition period, yes, but I regard them as learning experiences. There is no playbook on what to do every day in any business. Listen to your team and your clients, and learn from them!

Have you acquired (or are you considering) a company outside of the industry?

I started a meeting and event company in 2007 that never took off. It seemed the economy was going south quickly and corporations stopped spending enormous amounts of money on events. It was bad timing, so we terminated it in 2008.

What do you look for when vetting companies to potentially acquire?

Business model, clientele, and staff.

What makes a company attractive or less so?

Finance is the most attractive item to look at. A less attractive company is heavy in affiliate work.

What are some red flags?

Some red flags for me are employee or chauffeur lawsuits as well as the owners' and employees' compensation.

What's the most common reason a deal doesn't come together?

The true value of a business is the reason most deals go bad. Most owners do not know the real value of their company. Most are looking to get paid for all the hours of work they have done, but financials will dictate your value.

SAL MILAZZO

Signature Transportation Group

Chicago, Ill.

How long was the acquisition process and how did you identify the company to acquire?

We identified the market we thought our business model would be successful in. I met Gregg Moulton of Orlando Select at the various industry events and felt that his business experience and management style was a perfect fit for our culture. We did spend time getting to know other providers in the market and really felt that Orlando Select best emulated our company in Chicago. The process took approximately 18 months.

Did you or the other company ever halt an acquisition before closing the deal and why?

I believe that deal-breakers come in three forms. The first is based on integrity: If both parties are honest and upfront about their companies, flaws and all, then due diligence is a simple process. You can come across another deal-breaker in the form of unforeseen circumstances. This can happen when the two parties cannot compromise on business philosophies or the overlying business model. The third occurs when the discussion focuses on compensation. There are a few ways of structuring a deal, and although both parties have an idea of the structure beforehand, nothing is decided until this process is complete. Due diligence can make the deal change slightly, or significantly.

What have been the benefits of the merger/acquisition?

Both companies have mirror markets. Chicago is slower when Orlando is busy, and vice versa. This allows us to provide the busier market with support, ranging from vehicles to chauffeurs and staff. We have also shared best practices to make each company better.

Did you receive any pushback or feedback from clients and how did you handle it?

Our clients love that we can now provide the same levels of service in both areas, giving our clients a sense of comfort when traveling in Chicago and Orlando.

Did you keep the acquired company's brand, vehicles, and office location, or did you operate as one company?

Although each company operates independently—creating a budget and producing its own P&L statements—we decided to operate under the Signature Transportation Group umbrella.

What about company management and staff, especially redundant positions? Did the owner stay on board and how did that complicate/benefit?

The owners and investors of both companies continue in their same role, as owners and investors in the combined entity. We have bolstered both staffs and increased the fleet in both markets. Management and staff remain the same, just with more support and opportunities than in the past.

How did you handle the blending of company cultures?

We met periodically during the due diligence period to discuss culture because it is the hardest part of any merger or acquisition. Meeting to discuss philosophies and culture helped us identify gaps and develop plans to bridge them. We did this by creating communications that aligned both company's leaders through unified presentations to all employees and chauffeurs.

Do you have regrets about an acquisition and/or the process, and do you have any advice to offer?

Absolutely not. Both companies are growing by over 70 percent year over year and developing creative ways to be more efficient and successful. Employees truly care about the success of the other, and are eager to offer support when needed. The most important advice I could offer is that you spend as much time researching the people as you do the business.

Have you acquired (or are you considering) a company outside of the industry?

We have done some local acquisitions in Chicago and are considering more. Outside of our industry, we are investing in technology providers and suppliers to our industry. There is no difference in the process.

What do you look for when vetting companies to potentially acquire?

We look for people who fit well in our culture; for companies that can flourish with more support; and for industry leaders, people who are creative and aggressive business developers.

What makes a company attractive or less so?

Ability! Are they capable of being more than they are at the moment? Are there efficiencies gained by operating as one?

What are some red flags?

There are no red flags. Financials only determine value. In terms of processes, that's a whole different game. The main question is if management of the company is open to changing processes that make both companies better. Without this, there is no deal.

What's the most common reason a deal doesn't come together?

Lack of integrity, greed, and dishonesty are the three reasons a deal doesn't come together. You wouldn't be in discussions if there wasn't value in partnering so it really comes down to negotiating in good faith.

MIKE MUHSIN

KTLS Transportation

San Diego, Calif.

How long was the acquisition process and how did you identify the company to acquire?

I was in the market to purchase more vehicles for my fleet, and an affiliate of mine had suggested calling the owner of LJ Transportation, to see if any of his fleet was for sale. I entered conversations, based on the affiliate's referral, and learned that he wanted to sell his business. It took about 10 months of visiting the LJ office and meeting with the owner to establish a relationship to buy.

Did you involve a broker or third party?

Our attorney firm brokered the deal. We felt that it was important to involve a legal third party to protect my assets.

Did you or the other company ever halt an acquisition before closing the deal and why?

I was ready to purchase the minute I heard LJ was for sale, which was months before we actually acquired it. The owner was hesitant to jump at my offer—his first—so he entertained other opportunities before he reached out to me to purchase the company.

What have been the benefits of the merger/acquisition?

We gained a seasoned team of chauffeurs who are well known in the local industry, and accounts that have been established for years.

Did you receive any pushback or feedback from clients and how did you handle it?

Many clients, at first glance, were put off by not having the owner in the office or dispatch. However, once they saw the same vehicles and chauffeurs, they were confident that the level of service was not compromised. Many team members stayed on board through the acquisition.

Did you keep the acquired company's brand, vehicles, and office location, or did you operate as one company?

Yes, I kept the name and brand; it was important due to the reputation LJ Transportation has built in our local market for the past 20+ years.

What about company management and staff, especially redundant positions? Did the owner stay on board and how did that complicate/benefit?

Upon acquiring LJ, I had a strong team at KLTS to manage both companies. We retained 50 percent of the office staff, and 100 percent of the chauffeur team. The prior owner was very helpful during the first 60 days of the merger and was in the office to oversee the transition.

How did you handle the blending of company cultures?

Our LJ team did not use technology like KLTS chauffeurs—getting them up to speed with tablets and Bluetooth devices was a quick fix. Conversely, KLTS chauffeurs learned a level of service from LJ chauffeurs that is incomparable to others in the market. The office and chauffeur teams get along great, and everyone is pleased with what we have accomplished thus far.

What do you look for when vetting companies to potentially acquire?

I look for a company this is well-established, with a strong reputation and clientele in their market.

What makes a company attractive or less so?

Companies that retain consistent profitability and growth make them more attractive to purchase. A company that isn't well-established, has financial or tax issues, and problems with driver retention is a red flag.

What's the most common reason a deal doesn't come together?

Due to the fact that blood, sweat, and tears go into one's business, many owners have a distorted view of what their company is actually worth. Deals often don't come together because of numbers.

JEFF NYIKOS
Leros Point to Point
Valhalla, N.Y.

How long was the acquisition process and how did you identify the company to acquire?

The acquisition process is usually three to nine months, depending on the size of the company. We identify acquisitions based on size of company, location, reputation, and their accounts.

Did you involve a broker or third party?

I've done deals both ways.

Did you or the other company ever halt an acquisition before closing the deal and why?

We've had a few deals that didn't close right at the wire. Usually it was because we found out information during the due diligence stage that reduced the value of the company and the owner didn't agree. Funny story: My worst deal ever was with someone who gave a "dead fish" handshake when we shook hands. Walk away!

What have been the benefits of the merger/acquisition?

It's a great way to grow your business and introduce your service to a new client base.

Did you receive any pushback or feedback from clients and how did you handle?

Sure, you're always going to have customers who are upset with the change. We figure that during the acquisition phase we'll lose 10-15 percent of business just because of the change. You need to get that business back by offering new services that the other company might not have offered.

Did you keep the acquired company's brand, vehicles, and office location, or did you operate as one company?

Initially, we always try to keep the brand, key employees, and, of course, their chauffeurs. We eliminate their vehicles (unless newer) and office.

What about company management and staff, especially redundant positions? Did the owner stay on board and how did that complicate/benefit?

Usually the owner stays on for three months and then moves on, but we try to keep as many key people as we can and find roles for them in our organization. If they were a dispatcher at the old company, we might utilize them to do something different at our company (e.g., chauffeur training, fleet maintenance).

How did you handle the blending of company cultures?

Company culture is very important to us, so if they can't fit into our culture they usually don't last long with us.

Do you have regrets about an acquisition and/or the process, and do you have any advice to offer?

Make sure you add provisions in the contract that protect you in regards to the volume of business the other owner claims he's doing.

Have you acquired (or are you considering) a company outside of the industry?

Yes, I've bought small trucking and messenger services years ago and the process was the same.

What do you look for when vetting companies to potentially acquire?

One tip when vetting companies is to make sure that their financials are correct. A lot of times, the owner will boost their profitability because their fleet is old and paid off—but if you buy the company, you'll have to buy new vehicles in order to do the work.

What makes a company attractive or less so?

The more contracted work they have, the more attractive they are. A diverse client base is more attractive than two or three large accounts that make up the bulk of the business.

What are some red flags?

If the profitability is very high, it's a red flag. You know what it costs to do the job. Higher profitability is usually based on an older fleet. Another red flag is when the owner does everything and then counts that as profit, but you know when you take them over that you're going to have to pay someone else to take the reservation, dispatch it, and process it.

ERICH REINDL
Avanti Transportation
Houston, Texas

How long was the acquisition process and how did you identify the company to acquire?

It took about three months to complete the acquisition.

Did you or the other company ever halt an acquisition before closing the deal and why?

The criteria and objectives of both parties need to be established beforehand: Why is one selling and why is the other buying? If you don't have a clear objective in the beginning for what you want to do, you can talk with the company for a year and never get anywhere. The longer the negotiations take, the more issues that will come up. Also, how will the seller get paid? Will he be paid in cash? For me, if a buyer said he would pay me over five or seven years, that would be a no-go. Another deal-breaker would be if the company I'm buying has a contract with a client that allows them to break the contract if the company is bought, sold, or merged. There needs to be full disclosure.

What have been the benefits of the merger/acquisition?

There are numerous benefits: cost efficiency and gaining a new type of client. Also, larger companies can bid on jobs that a smaller company can only dream about because they have the fleet, back office, and infrastructure to handle it.

Did you receive any pushback or feedback from clients and how did you handle it?

Ambassador had more clients on the bus shuttle side than Avanti, so we didn't step on each others' toes.

Did you keep the acquired company's brand, vehicles, and office location, or did you operate as one company?

In my case, we moved to my office and adopted my software. We still operate both brands separately and will do so for the foreseeable future.

What about company management and staff, especially redundant positions? Did the owner stay on board and how did that complicate/benefit?

We had some employees leave—their choice—because they weren't happy about the change, but we kept everyone else. All the key managers are still here. In our merger, both owners stayed with the company. It's a very difficult thing for an owner to sell and then immediately no longer have a say in what happens with their former company, so I can't really see them staying on for a long period of time after the acquisition. In our last acquisition, the owner's objective was to just get out of business, so they did not stay on. I think any owner who wants to retire has to plan for his succession years ahead of time, even if the company will be passed on to family, but especially if there is no one to take over the business. This plan does not happen in one or two months.

How did you handle the blending of company cultures?

It's a long process, one that takes time. You sit down and pick the best policies and procedures of both companies.

Do you have regrets about an acquisition and/or the process, and do you have any advice to offer?

Know exactly what you want before you start negotiating; you cannot flip-flop. Midway through the process, you can't decide that you want to merge instead of sell, because then the process changes completely. And once you've sold the company and you've helped the transition for a few months, don't look back. Do not give in to buyer's remorse: You have to be at peace with your decision.

Have you acquired (or are you considering) a company outside of the industry?

We're working on a few things outside the industry now. Obviously, the industry has changed more in the past 5-7 years than it has in the past 30, so you cannot depend on operating as usual. I used to think that it was customer service and a live person answering the phone that made you successful, but now I think bigger is better. You can get better deals when you're a larger company. Also, the pool of companies bidding on a job will be two or three large companies rather than 40 or 50 smaller ones. You also have to be reasonable about what your company is worth. I don't think there's any other business out there that is more difficult to value than ours. We don't necessarily have tangible assets, unless there is real estate involved.

What are some red flags?

If a company derives 40 percent or more of its revenue from one customer, it immediately becomes lesser in value for me because if I lose that customer, I can almost close the doors. That's what I look for in small, mom-and-pop companies more than profits.

JASON SHARENOW

Broadway Elite Chauffeured Services Worldwide

East Hanover, N.J.

How long was the acquisition process and how did you identify the company to acquire?

It can happen as quickly as six weeks, but I've had some that take six months; it depends on how prepared the seller is with due-diligence information, which has been the sticking point in almost every deal. From my side, I'm always ready to proceed. It's a matter of the seller having his books for review, up-to-date taxes, and their accountant ready to be part of the process.

Going way back, I was actually approached by Elite, but in general, I look to acquire strategic partners—companies that are equals, businesses with market segments that we're looking to go into or improve upon, or competitors that are in our space.

Did you involve a broker or third party?

We did not use a broker in our particular deal, but I do advocate utilizing an industry professional to broker deals, such as Tenney Group or The LMC Group. The reason to avoid using a garden-variety business broker is that you want someone who has industry-specific knowledge to keep the deal moving. In my experience, I've seen brokers that have been grossly unprepared to handle the logistics that go into our industry. They typically screw more deals up than close deals. It's not as simple as looking at a balance sheet and throwing out a valuation.

Did you or the other company ever halt an acquisition before closing the deal and why?

We've had multiple deals go south mostly because the seller is unprepared or isn't truthful about the business conditions. Also, because the industry is full of entrepreneurs, many operators are running their businesses without fiscal responsibility. Mom-and-pop operations often put all their expenses through the business, and then they're left with no money in the checkbook, and the balance sheet doesn't show anything respectable that a bank would look at. Therefore, deals fail because their books and records don't support their claim of what the business is worth.

What have been the benefits of the merger/acquisition?

Growth at a faster pace than you could do organically. Expansion has allowed us to go after larger pieces of business that previously wouldn't look at us because we were seen as just a 15- to 20-car operation.

Did you receive any pushback or feedback from clients and how did you handle it?

This is a problem often faced by small operators. Companies have lost business from attrition due to their clients becoming used to doing business with, say, Bob and Carol each time. We've been successful in retaining clients because we run a professional operation with an infrastructure in place. We're able to provide a level of service that they often didn't have before.

Did you keep the acquired company's brand, vehicles, and office location, or did you operate as one company?

It depends. In most of our acquisitions, we've melded the operation into our existing business, except in the case of the motorcoach company we purchased more than two years ago. We've kept that as an entirely separate business. The name, books, and records are all separate. The only thing common is the ownership.

What about company management and staff, especially redundant positions? Did the owner stay on board and how did that complicate/benefit?

Part of a successful acquisition is retaining as much staff as possible. Obviously we'll avoid some redundancy, but if they have good dispatchers or chauffeurs, we'll do what we can to add them to the organization. Our experience is that the ownership is looking to get out of the business, and generally we don't have need for them since they'll still want to do things their way.

How did you handle the blending of company cultures?

When you're identifying a company to acquire, you want to consider whether their culture mirrors your own or has an especially positive culture. If you find a company's culture to be a train wreck, it's going to be a toxic situation to avoid.

Do you have regrets about an acquisition and/or the process, and do you have any advice to offer?

With the merger between my company with my partner's, there have been no regrets. It's been a positive experience for both companies, and has allowed us more personal family time as well as financial freedom. I've seen a number of acquisitions that have not worked out very well—people who have become partners with other people that have not had similar interests.

What do you look for when vetting companies to potentially acquire?

The due diligence process is an important step. Start by examining the books and records. Talk to the people who work there; meet the chauffeurs and the staff. Ultimately, you'll want meet their clients. However, confidentiality can get in the way of this during the early phase of the process.

What are some red flags?

No money in the bank is the first red flag. As we dig into their financials, we'll see how they're running their business. Gut feeling can also play a part early in the buying process. Also, I have to be able to deal with the seller. There can't be a relationship filled with consternation. Sometimes the seller can be resentful because entrepreneurs hold their business near and dear—they don't want to hear that their business isn't worth what they think.

What's the most common reason a deal doesn't come together?

The due diligence doesn't prove out. Some people want to play a game with smoke and mirrors, but we've been around the block enough to identify the problematic situations. If it doesn't look right, we're going to walk away from the deal.

SCOTT SOLOMBRINO

Dav El/BostonCoach
Boston, Mass.

What has been your experience with consolidation?

The industry is going to go through the largest consolidation in its history because the market conditions are forcing it. The proliferation of ridesharing pushing into our market is now having a draining effect on the sector, primarily for smaller companies, but also for rental car and taxi replacements. It's a trend and it's not stopping. Plus, autonomous vehicles are coming. Add to that, owners who are burned out, frustrated by squeezed margins and stagnant rate increases, or looking to retire or step into a lesser role—remember, many owners of the oldest companies are between 48 and 64 whose kids have gone on to do something else—and there's a lot of consolidation expected. As that shift happens, people are looking for exit strategies to get out of the business because they think it's an opportune time. Companies are having an issue reinvesting in the technology, which has suddenly dominated the industry. It's a complicated time, which is forcing some owners to make those decisions. I'm seeing it all the time, and I'm getting those phone calls. Normal conversations for me are usually about affiliate work, not about purchasing their company. And it's happening in all cities because customers now have the expectation of getting a car in five minutes in New York as much as in Des Moines. I think that there is going to be consolidation even amongst the biggest companies. As the market shrinks, everyone could potentially lose something, so when it does hit a pain point where they say it's time to do a transaction, they will.

What about company management and staff, especially redundant positions? Did the owner stay on board and how did that complicate/benefit?

This is a tough industry, not for the faint of heart. I've been in the business for 40 years this year, and it's harder today than it was then. In every acquisition we've done, the owner is still working for us today—which I consider a testament to doing deals with us, because if we weren't doing the right thing, I don't think they would have stayed. They are enjoying not having to work like a dog or worry about payroll or taxes or all the other issues that come up that they previously had to handle while still being productive in the industry they love. The owner whose company you bought will always know more about where the problems are, and now they have the ability, time, or resources to fix it.

Redundant staff can be a problem, but you might find that you have some people you're trying to get rid of anyway and now you have a better person who is coming aboard as part of the deal. It's always specific to your needs at the time. More often than not, you end up keeping those really good people in those deals. Finding quality "limo people"—those who have dedicated themselves to this industry over their career—is valuable to a buyer.

Have you acquire (or are you considering) a company outside of the industry?

I think for that market that we're in that diversification is critical. I would recommend if you have the opportunity to purchase a company in another business—bus, funeral homes, DMCs, all of those complementary verticals—to go for it so that you're mitigating your exposure at just being a chauffeured car company. You never know which one of those verticals is going to be the payoff later. We're in school buses, taxis, destination management, public transit, and we just bought two technology companies, so I highly recommend diversification as a strategy.

What makes a company attractive or less so?

I have a lot of owners approaching me, but we don't buy everything that we look at because sometimes they're in markets that we're just not interested in. We have to determine if the company in that market will be a revenue generator and especially if there's an upside with our client base why we should be there. You have to have certainty in knowing that you can grow top-line revenue and make money on the bottom line. We also like to build bigger market share in the markets we're already in.

What do you look for when vetting companies to potentially acquire?

Companies are attractive for different reasons: market, solid team, great numbers, or specific clients. The numbers do matter. Any affiliate business that the company does is taken out of the number because that affiliate business is likely going away if being purchased by another large company.

Second, if the company has precious customers who have been with them for a long time, that is where the value is. I always ask, what is your company famous for? If you can say that you drive for ABC Corporation and have managed their business for 20 years, then that's of interest to a buyer. The value of the fleet often doesn't matter because the buyer may not need it or vehicles may be overleveraged. We often tell them to sell it off to make some extra money for themselves.

The company also should have to have a good team—that adds a lot of value to the company for the buyer. If they have longtime employees who have been with the company for years and have great relationships with customers, that's important to buyers because it creates continuity and consistency. I look at chauffeurs as well, that they aren't jumping around from company to company. With a low employment rate, especially below 4 percent, it's hard to hire chauffeurs.

What advice do you have for operators in smaller markets?

I think that if you're running the best company in your market and you have 10 competitors, it should be your goal to buy five of them because there probably aren't a lot of new upstarts popping up. It gives you the opportunity to build your own market, and I think it's a very solid strategy for those operators. You don't want to be killing your competitors every day; at some point, something has to give. I don't think everyone is going out of business—autonomous cars and TNCs aren't going to bury the industry long-term—but it will accelerate consolidation. I'm still a believer than when the industry gets it together and offers the same on-demand service that the TNCs offer that it will be a game-changer for us because we understand delivering quality service, duty of care, and none of us is willing to sacrifice safety for profits because we all know what the liability is and costs on the other end. Ridesharing companies just need a body to drive the car. They don't have to have the same standards because they don't have the same worries.

You can do great acquisitions in the markets that you're in if you just pay attention and don't overpay, buy the right assets, understand their book of business, and are willing to keep people happy in those deals. There's a lot to be said about how you transact versus when you transact. People have to trust you to do a deal with you. **[CD]**