

# VALUE CREATION IN BUSINESS SERVICES

Presented By



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## MODERATOR

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TRADE-RELATED  
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## Value Creation in Business Services

On September 29<sup>th</sup>, Sapling Financial Consultants presented a webinar for ACG Toronto's new Value Creation series, for which Sapling is the lead sponsor. The webinar focused on Value Creation in Business Services. This was the third webinar of the series, following the previous sessions, Value Creation in Healthcare and Value Creation in Manufacturing & Industrials. For this webinar, the panel was split into two discussions, covering value creation in trade-related services and professional services separately. Trade-related services include labor-intensive work to develop and maintain infrastructure, whereas professional services offer business-to-business highly specialized skills. We are delighted to share some of their insights.

## Value Creation in Trade-Related Services

The trade-related services panel included members of private equity firms, advisors, and lawyers focused on trade-related services. The discussion explored the following themes: how value creation in the trade-related services industry requires driving sales growth, navigating strategic acquisitions, attracting & retaining good talent, and optimizing operations & supply chain management.

### Driving Sales Growth

The trade-related services industry is often more "traditional" and less dynamic in terms of sales & marketing, this provides an opportunity to drive sales growth and create value by taking advantage of these shortcomings and capturing these gaps ahead of the competition.

It is important to combine industry knowledge with a fresh perspective. By learning about the organization's current sales/marketing strategies, you can understand its strengths, weaknesses, and opportunities for improvement. Panelists mention re-training sales teams as a common and effective tactic to create value. It is important to create defined sales processes that are scalable and have the correct mission-critical people on your sales team to quote and sell appropriately. This means having team members who have a very strong knowledge of service offerings to offer applicable services to appropriate customers and convertible leads.

Another area to take advantage of that can drive sales growth are the long sales cycles in trade-related services. With these long sales cycles, customers tend not to switch providers as long as they are satisfied with the work. Therefore it is important to offer quality and convenient repairs and maintenance to maintain customer loyalty for future work. If possible, maintenance and repairs can also be leveraged as a secondary revenue stream.

Sales growth can also be developed by providing the right tools to sales & marketing teams, such as quality CRM software. Leveraging CRM software can guide these teams to target high-quality leads, analyze cost efficiency when deploying campaigns, ensure higher conversion rates, and ensure existing customers are nurtured to attract future work or maintenance.

## Navigating Strategic Acquisitions

In this industry, value can be created through expansion via tuck-in acquisitions or building out the organization from scratch. It is important to understand the general implications for both options in trade-related services when considering growth opportunities.

In trade-related services, experience and credibility are key, therefore acquisitions have this unique advantage that is less salient in some other industries. Trust, reputation, and reliability are critical for customers, so it is important to factor in these benefits during an acquisition evaluation. It is also important to consider the benefits of tuck-in acquisitions to avoid unexpected capital investments, avoid long startup times, and gain the companies experience to maintain efficiency and reach critical mass. When conducting an acquisition, it is important to look for companies that are scalable. Often technology is the key element missing to grow a business that can be provided.

In contrast, there are also some scenarios in the trade-related services industry where it is generally more valuable to grow the business organically, rather than pursue tuck-in acquisitions. Although it is difficult to dislodge incumbents, it is not as big of a factor when offering a differentiated service, a service at a lower competitive price point, or entering a relatively new market. In these situations, those factors take precedence in influencing customer choices more so than reputation and experience, therefore it may be best to avoid paying a premium for an already established company since it won't provide as much value.

## Attracting & Retaining Quality Talent

Attracting and retaining quality talent is key for driving value in the trade-related services industry. Considering the importance of reputation in the industry and the fact that the quality of service is almost solely dependent on a company's field workers, it is important to be a desirable employer for workers.

Creating a safe work environment is vital to developing a strong reputation as an employer to attract large pools of candidates and retain existing high-quality workers. A workplace can be made safe physically by putting in place standardized procedures and having the correct, well-maintained, resources. An additional benefit of having standardized procedures is that it also makes it easier to implement the same protocols with add-on acquisitions. A workplace can also be made safe by considering the emotional well-being of workers, especially in recent times where mental health has gone down significantly due to COVID causing isolation and economic distress. Not only does implementing safety measures attract and retain quality talent but it also boosts morale, leading workers to become more productive and improving the quality of service provided, and thus the reputation of the company.

In trade-related services, many organizations have unionized workforces. It is important to develop a good relationship with unions to avoid complexities and issues related to attracting and retaining talent, which directly contributes to the value and reputation of a company. In most cases, the acquired company will have a union and existing collective agreement in place. In these cases, you may be restricted to these terms or precedence from past terms. Despite this, it's still very important to develop a good relationship with the union and ensure you speak with previous owners about their

grievances and overall attitude towards the relationship. A union can be beneficial to attracting and retaining quality field employees as they have qualified pools of employees and promote a stable work environment. However, it is also important to be prepared to avoid the negative impacts unions can yield, due to their rigidity. To avoid these negative impacts it is important to be prepared for formalities by clearly defining job roles and responsibilities and ensuring they abide by the collective agreement so that the union isn't able to exploit resources or stall service.

In order to attract and retain quality talent that will yield quality service and boost reputation, incentives and opportunities for upward mobility should be leveraged. These initiatives or perks can be implemented in several ways (e.g. travel, accommodation, equipment, and food allowances, overtime premium, on-call pay, high-quality equipment and tools to make work easier and more comfortable, improved flexibility for work-life balance, training & education provided for promotions, etc.) It is important to note that with unions in place, the ability to offer these types of perks may be limited.

### Optimize Operations & Supply Chain Management

In trade-related services, value creation can derive from optimizing operations and supply chain management. Implementing practices to achieve this can significantly benefit a company's bottom line by cutting costs, increasing revenue, and improving efficiency.

Trade-related services rely significantly on in-field staff. The un-controlled environment they work in leaves greater exposure to unforeseen external factors that can complicate operations or make it difficult to have adaptable and efficient processes. Although operations can be more complex in this industry, adapting technology can aid cost savings and improved efficiency to create value. For example, there are software programs that offer route optimization to make sure operations are efficient and adaptable.

Supply chain management is another area that can be optimized to drive value creation. Vertical integration is an option if the service provided utilizes tools and equipment to be installed. In this case, moving from the job site to the shop presents an opportunity to increase margins in a familiar field, where the demand for the new product offerings is known and stable.

Supply chains can also be optimized by re-evaluating procurement processes (e.g. vendor consolidation). One practice that is particularly useful in trade-related services is fleet rationalization. This is the process of selecting a comprehensive manufacturing group that has in-house services as a fleet partner, rather than an independent fleet provider who needs to pay out for supply chain services. This strategy can reduce costs if needs can be met by this type of provider. When attempting to make changes to a procurement process it is important to note, that although changes on paper look beneficial, during execution there could be risks (e.g. varying delivery times). Therefore, it is important to be diligent when evaluating changes to optimize these processes.

## Value Creation in Professional Services

Panelists for the professional services panel included CFOs of professional services firms and members of Private Equity firms focused on professional services. Their discussion explored how value creation in the professional services industry can be driven by sustainable decision-making and utilizing technology.

### Sustainable Decision-Making

Considering sustainability when evaluating acquisitions, investments, or other decisions is key to creating value in this competitive and fast-paced industry.

Sustainable decision-making involves maintaining an investment thesis, shown during the due diligence phase, throughout the growth of a business. It is important to bring in human capital, deploy debt, and assist with M&A rollups with the mindset of owning a business forever, rather than looking for multiple expansions to lead to a quick flip. The six key areas where sustainable decision-making can lead to value creation are: revenue enhancement, margin enhancement, human resources, capital spending efficiencies, acquisitions, and capital structure.

When it comes to sales & marketing decisions, it is important to spend time understanding the business in order to make sustainable choices. Understanding current marketing initiatives and their position in the life cycle is key. It also takes time to fully grasp all salient performance metrics, such as average customer acquisition cost.

### Utilizing Technology

Implementing and utilizing applicable new technologies and software is critical in creating value in the professional services industry. Utilizing technology and software can not only directly grow a business but save time to focus on value-added decisions and tasks.

There are various software products for enhanced KPI reporting that not only provide information to aid expansion but enable organizations to spend less time extracting data and more time analyzing reports to inform value-creation initiatives. These programs provide efficiency by automating the data collection process and enabling quick analysis for consistent and ad-hoc reporting. These software solutions can directly drive value by providing valuable information, such as understanding niche markets to grow revenues.

Improving technology in the back office can also free time for value-added tasks by making tuck-in acquisitions more efficient. Providing the back-office with the right tools to integrate tuck-in acquisitions enables quicker turnaround to focus on growth and more accurate reporting to better inform decision-making.

## Summary

Like any industry, business services have their own unique challenges and opportunities when attempting to create value. Panelists, during this session, were able to break down some of the key factors to consider for both trade-related services and professional services. In the trade-related services industry, it is important to focus on driving sales growth, navigating strategic acquisitions, attracting & retaining good talent, and optimizing operations & supply chain management, to drive value creation. In the professional services industry, it is important to focus on sustainable decision-making and utilizing technology, to drive value creation.