

Focus on finance: the changing face of resellers

© Comms Dealer 2006

Resellers are getting serious with financial and strategic advice for their businesses. More resellers than ever before are turning to the counsel of management consultants, the services of non-executive directors, and for those with bigger pockets, full time board members.

One high flying non-executive directorship appointment to hit the headlines recently is that of Mark Palios, who joined Adept Telecom. Palios is infamous for being the chief executive officer to save The Football Association from bankruptcy by restructuring the business and raising £800m funding to build Wembley. He is less well known as a former partner at PriceWaterhouse Coppers, where he accumulated his wealth of M&A knowledge.

Ian Fishwick, managing director at Adept, comments: "In everything we do we want to be seen as having the most professional manner in the industry. Mark has spent his life going into businesses and improving the profitability of them. You would expect him to be in a very large company, so it's something of a coup having him in a business the size of Adept. Mark offers us more M&A experience than anyone else in this industry and a lot of banking contacts."

Adept was formed with a top drawer approach to business in mind. In July 2003 the business was created and gained critical mass through the acquisition of 10 companies in short succession, plus more when it floated last February. These acquisitions pushed the 14 M&As carried out by founder and MD, Fishwick, to 26.

Fishwick adds: "I hired directors with the integration skills to put this company together when I started out. My finance director and operations directors were with me when I was merging cable companies at Telewest. My sales director was with me when I was merging telcos as managing director of World Access, a US company. Before the float I bought on a finance director. We integrate every business in a maximum of six weeks; it has never ever taken longer."

The trend for hiring pros was initially triggered by the dot.com crash, and has been accelerated by the changing business models required for converged technology sales; both events have created a consolidating industry. Richard Chapman, CEO at NEG, states: "In the late 90s the telco industry grew, and grew massively. That drove margins down because of competition in the sector, which meant consolidation, which means there is an increase in the trend of

businesses today being driven by acquisition, as opposed to telco companies being grown."

Simultaneously, technological advances in convergence also forced resellers to grow in size to maintain profit. Fishwick states: "Employing professionals is the start of a trend in the channel. Companies in this industry are on the cusp of getting themselves into trouble if they don't change quickly because of VoIP and the downward pressure on margins generally over the last few years."

Not everyone thinks it is good to take advice across the board, however. NEG is run by a team that came into power through a management buyout. Altogether, the people at the top have 60 years telecoms experience between them. The strong ideas and business sense of its directors mean that NEG will not consider taking on a full time director to add financial or strategic input, Chapman states. He explains: "We think it would be very difficult to get someone in who could live and breath the NEG way. There are lots of egos and ideas on the board, which knows where it wants to go. So we'll take advice on financial positioning as opposed to telecoms positioning."

Yet Geoff Elliott, managing director at du Pre, says: "Personally I think it's very dangerous not to take advice on the telecoms market. You do need help in looking at the landscape of your marketplace and how it's changing. It's a very personal thing, admitting you don't have all the answers, and I know I don't and am happy to accept advice. Your typical entrepreneur doesn't have all the answers, although he may think he does."

Chapman adds: "We considered paying £100,000 a year for a top end financial director but decided against it; we would prefer to spend a lot less for expertise, so we use PWC and other management consultancy firms if we need tax advice, or positioning consideration on an exit strategy. We also retain a non-executive chair who has some City expertise."

Daisy began as a lifestyle business, with managing director Matt Riley building the company around a strong sales team. However, now things are changing, Rob Simms, sales and marketing director at Daisy, says. Daisy's financial director has a mergers and acquisition background and formerly ran the M&A team at Ernst & Young. The business has a mergers team and a financial team looking solely after the company's acquisition purchases and integrations.

du Pre also began in 1979 as a lifestyle business, with ex airline pilot Piers du Pre working from home selling telephone accessories. When BTs monopoly broke down in the 1980s the business grew. Today, du Pre

takes on non executive directors and uses management consultants for both financial and strategic advice, although it does has a fully qualified financial director.

Elliott says: "We used a non executive director for four years some time ago. He went on to become an executive director with a wholly owned subsidiary of du Pre, Hebron. We've tended to use management consultants since then. We dip in and out of them, so if the business isn't going so well, we'll ask consultants in to help us find out why."

Consultancy advice is highly recommended by Elliott, who states: "As someone that runs a business, I can say it's a very isolated position. You're always looking at the business and yes, you have good ideas but you have no one to test them out on, o you can get quite dictatorial if you're not careful, implementing your ideas. So it's refreshing to talk to someone else."

For resellers without the funds for consultants, Elliott says try networking events. "By talking to the people around you, you will find others who have done similar things. You can talk to people with fresh ideas and who are knowledgeable about what you are trying to achieve."

The reselling market structure is set to change dramatically as this trend for professionals' increases, Simms states: "Business models like the lifestyle business that were sustainable in the past are going to have to change because of market pressures. Consolidation means there are going to be significantly fewer smaller companies and less large companies too in the next 12 to 18 months. If you're going down the sales route, you need an exit plan. You need to know how to put yourself in the shoes of your buyer and to understand what a buyer is looking for in your business."