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COVER ALL BASES

Before Opening a New Branch Office

By Lance Tullius

Almost every successful building service company will at some point reach that fork in the road where it must decide whether to open a branch office location. While many forces may lead to this predicament, the one that generally pushes us to make this move is that never-ending drive to capture opportunity. What aspects should be considered, and how should a BSC go about it?

Before we get into the why and how of opening a new branch location, we need to answer the most fundamental question: Should we open a new location in the first place? Common mistakes that BSCs make include expanding their business into multiple geographic markets while lacking any commanding or solid presence in any of their current markets. In other words, a new market is entered into while there remains substantial opportunity and room for improvement in an existing core market. For business owners looking to enhance the value of their business, and subsequently build wealth for themselves, such a move is almost always counterproductive.

The first questions any BSC should answer when contemplating a new branch office must center around their current core market: How saturated is my existing market? What share of the market do I presently have? How successfully am I operating in my existing market? Where can I best deploy my resources in my current or a new market?

Perhaps an existing customer wants you, as their contractor, to grow with them. Or, it's become increasingly difficult to incrementally grow without looking at other markets. It could also simply be that a market near to you appears to offer better growth prospects. In any event, opening a new location will be costly, both financially and opportunistically, and therefore the decision must be carefully analyzed.

First, do you have contracts already lined up that will support the new location? You must determine what type of facility you're going to operate out of and who and what type of management structure you're going to put in place. It's imperative that you

successfully transfer the key operating principles that differentiate your business from your competitors. Existing customers that are pulling you to service business in other geographic areas are hopefully doing so because they like your service. Therefore, you must deliver the same service levels in the new location. This is easier said than done.

The surest way to guarantee standardization of your service offering when opening a new branch is to put one or more of your existing management personnel in charge of heading up the new branch. They know your existing model and presumably have performed successfully within it. Whether you anticipate this move to be permanent or not, you'll have to select a manager who is willing to relocate or commute. Additionally, do you have the depth in personnel to withstand such a move without compromising your existing business?

Another absolute requirement is a thorough evaluation and understanding of the geographic market area that you're planning to enter. For those contractors with branch offices in multiple cities, you know all too well the nuances that often differentiate one market from another. Certain markets can be very provincial, and even the best model and most capable management operating in one market can struggle mightily while attempting to apply the same business practices in a different market. Study your target market exhaustively prior to committing to it. This exercise alone may render the prospects of relocating existing management unsound.

Regardless of how you plan to tactically enter a new market, finances must be taken into consideration. Determine what costs will be necessary to start up the branch. Review your existing income statement, expense by expense, and lay out a budgeted income statement for the new branch. Be conservative in forecasting revenues so that you avoid underestimating cash-flow requirements. Have a trusted advisor or confidant review your budget for objectivity and guidance. From this, you'll see not only

what the cash requirements are, but how long it will take to get the branch cash flow positive. Once you determine this, you'll have to figure out how you're going to finance the branch until it is self-sustaining.

It's now time to put the wheels in motion. In the simplest terms, you can enter a new market in one of two ways—start up or acquisition. Each can satisfy different objectives and/or minimize certain obstacles. One of the key balancing acts faced when opening a new location is that of maintaining a standardized service offering versus adapting to geographic market nuances. To maximize your success, you really must do both. If you enter a new market via start-up and place some of your existing management in the new location, you're more apt to be successful in transferring a standardized offering to this new market. On the other hand, acquiring a company with an existing presence in the new market will often prevent some of the bumps you'll run into in learning market differences. A start-up in a new market will usually take much longer to reach critical mass and can make for a slow, tortuous route in the meantime. An acquisition, though, brings with it substantial risk. If the acquisition isn't a good one, your business could be set back for years.

In the end, as with most any strategic initiative, opening a new branch office can look exceptionally good on paper. The key is to challenge and question (again and again) what's on that paper, and then have the people in place to execute the plan flawlessly. As many before you have already shown, the results can be highly rewarding.

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