

A Practical Path to Profitability for Private Market Contractor Roll-ups



In recent years, we have witnessed a bonanza of private equity investments in the specialty contractor market. Local contracting businesses in trades as varied as HVAC, plumbing, roofing, building automation and electrical come with loyal customers, sticky recurring maintenance revenues and lots of opportunity for cost optimization. When integrated into a national private equity roll-up, stand-alone contractors can benefit from shared services, enhanced purchasing power, stronger brand recognition, reduced capital costs, and consolidated functions like HR, marketing, and finance. These synergies lead to significant cost savings and accelerated EBITDA growth, effectively making 1+1 equal 3.

Fragmentation Leads to Friction

Despite these synergies, significant profits are being left on the table. This is due to the highly fragmented nature of technology within the construction industry. Contractors are notoriously laggard when it comes to embracing technology. Back-office processes remain manual, hindering productivity. In cases where investments have been made in line-of-business applications, such as ERP, CRM, project management or estimating tools, these individual systems are still siloed and disconnected. Without system unification, there is limited opportunity for back-office automation across the whole business process. Ultimately this slows down the order to cash cycle; valuable working capital is effectively used to fund inefficient processes.

A stand-alone contracting business already has enough technology silos and challenges. But once the business is tucked into a national roll-up, there is a snowball effect that generates an applications hairball. Even the most mature national contractor roll-ups remain fragmented in their data and processes. An executive of a large private equity-owned HVAC roll-up recently remarked, "lack of back-office automation remains our biggest challenge."

Private equity owners thrive on real-time data, but without a consolidated view of the business, reporting remains static, manual and excel-based. Teams of analysts are tasked with cobbling together excel-based reports. Aggregated purchasing power is limited without real-time, unified data insights to help

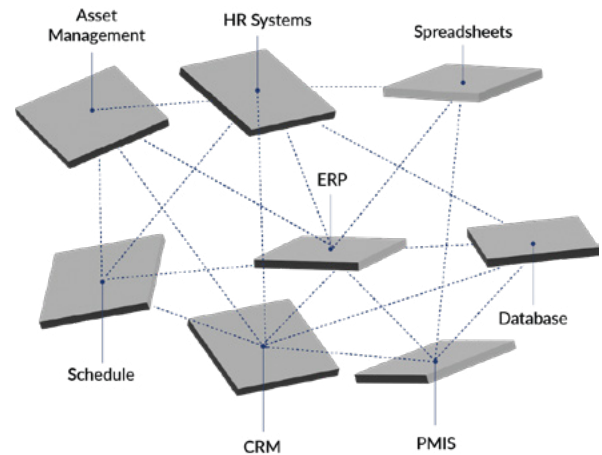


Figure 1: Siloed data and processes create inefficiencies and errors

drive economies of scale. When integrating a new acquisition, difficult technology decisions need to be made for point applications like ERP: costly replacement, painful integration, or "extend and pretend?" Tuck-ins often remain technologically marginalized from the greater whole and, as a result, full acquisition synergies often remain elusive. Scalability remains constrained. These challenges often can inhibit full valuation potential when the roll-up is ready for a sale.

Historically, no single technology application has been able to pull together siloed data and processes into a single coherent platform that would solve these challenges. Line-of-business applications are not designed to bring together data and processes at the enterprise level; they are designed to serve singular functions within their line of business. Contractor roll-ups need to be managed horizontally, but the technology systems supporting the business are vertical in nature.

Universal Platforms – The Key to Measurable Success

The good news is that technology has become available to solve these challenges using universal platforms. Runding's OpenBuild is such a platform designed to unify disparate processes and data silos for the contracting industry. Using open architecture tools from Microsoft, this approach enables enterprise level data unification that is organized, harmonized and structured for business impact, irrespective of the line of business or domain application. OpenBuild operates horizontally across the whole business, bringing together the data applications silos into a cohesive framework.

OpenBuild is plug-and-play, ideally suited for private equity roll-ups. When a tuck-in acquisition is being integrated, the new entity and its disparate systems are now able to seamlessly plug into the roll-up company. A rules-based data model is developed for the enterprise level. Technology and process synergies can be realized, driving more profitability and quicker order to cash cycles. Back-office tasks are automated, increasing staff productivity. Tough decisions for IT system replacements can often be avoided or deferred as OpenBuild can help extend functionality and useful life of legacy applications by incorporating them into business process workflows and analytics. Capex savings can be redirected to the core business or new acquisitions. When all horizontal performance metrics are unified into a single, cohesive view, the business becomes more valuable, reinforcing the adage: "what gets measured, gets managed; what gets managed, gets done."

How to get there - Roadmap to Optimization

It takes time and commitment to fully optimize a business from end to end. But it is important to generate momentum by moving quickly and delivering results early.

Start with an assessment that catalogs the current systems and outlines the high-level processes of the business. Drive standardization and governance of the business process flow for the whole platform. Then, using a value-based backlog approach, a business case is made for each optimization and a roadmap floats the highest priority optimizations to the top based on ROI and customer impact.

The OpenBuild team works with the customer to burn down the optimization backlog in sprints. In a single two-week sprint, process participants are interviewed, the solution is configured and then reviewed with stakeholders. The next sprint refines the configuration based on their feedback. These cycles repeat until the optimization is complete.

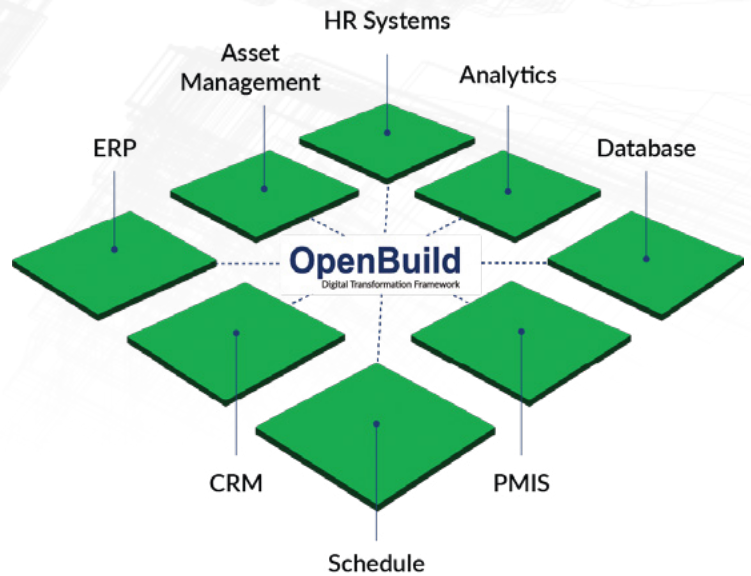


Figure 2: OpenBuild ecosystem unifies data management tasks

The OpenBuild framework allows customers to see and interact with the solution as it is being built. This is critical to finding gaps and to iron out the details. This approach allows for quick implementation with predictable results, straight to the bottom line.

Conclusion - Better Data leads to Better Exits

PE contractor-based roll-ups no longer need to suffer from technology and data fragmentation. Universal frameworks like OpenBuild solve these problems, but ultimately this more modern approach requires commitment from the top. Boards and PE owners must lead with a vision that goes beyond individual applications, committing to horizontal integration of processes and data. A universal framework philosophy should be incorporated into strategic plans as an imperative for scalability and full realization of EBITDA synergies and eventually, a healthier exit. Runding's roadmap for optimization is a great place to start.

OpenBuild
Digital Transformation Framework