CONSOLIDATION *Everywhere!*

Almost everywhere you turn — including in the pest management industry — signs of consolidation are evident. Here's what you need to know as the marketplace continues to change.

By Lance R. Tullius

Consolidation has long been a phenomenon that has touched many industries across many markets throughout the globe (there's nothing new in that respect!). Here's how consolidation usually happens: new industries are born, they start out very fragmented with lots of small players, they grow and get noticed, larger corporations begin to enter (mostly by acquisition), and in the end you have an entirely different landscape largely dominated by big business. There's usually always room left for smaller and mid-sized companies, but that space gets narrowed considerably. Bottom line: the industry (any industry, including the pest management industry) looks very different than what it did pre-consolidation.

The consolidation we've seen recently in many (if not most) industries, however, feels different. It's being fueled by so many different drivers that as a result, it's happening faster and across seemingly more industries simultaneously. There is a combination of opportunism, calculated strategy, fear and necessity littering the actions of small, medium and large companies. What this has led to is a roller coaster ride of activity that, while fun to watch, is not for the faint of heart. The good or bad news, depending on your perspective, is that there's no immediate end in sight.

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Industry consolidation movements are synonymous with significant merger and acquisition activity. After all, one definition of consolidation is a process of combining a number of things into a single, more effective whole. Why does consolidation happen within an industry? Fundamentally it's driven by ambition and competition. The ambition is because there's always someone out there who is determined to be bigger, better and more valuable. And competitively speaking, that ambition provides customers the opportunity to exercise more discretion in selecting providers or products, thus putting the onus on vendors to compete more voraciously. Ambition is also what ultimately drives companies to pursue acquisitions of other companies.

It's hard to get significantly larger and really stretch the value of your business by solely relying on organic growth. You have to acquire. And to realize the lofty goals that those ambitious companies have created for themselves, they have to acquire on a grand scale. You get several companies doing this simultaneously and eventually consolidation will occur.

BIG CHANGES. What's going on now feels different and I think it is different. A major reason is that arguably we have never seen a movement where the motivation on the buying side (as explained previously) is being equally matched with the motivation on the selling side. We are seeing an increase in owners of privately held businesses who want to sell. And as we're seeing more business owners in their 60s and 70s than ever before, the number of sellers is only going to increase.

While family succession remains a viable transition alternative for some business owners, many owners don't have that alternative available. Either the next generation is not in the business, doesn't have an interest in owning the business or lacks the capability to do so. And even when this is an option, given the valuations that are often being offered by big consolidators, succession within the family is (at least financially) not a competitively appealing alternative.

Family succession also doesn't ward off potential competitive threats that industry consolidation, particularly in its advanced stages, poses to small and mid-size businesses. The hypothesis is that a smaller pool of businesses will actually transfer to the next generation in the future. All said, these forces, among others, are expected to collide into a storm of activity the likes of which historically has not been rivaled.

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IT'S TIME. In the early to middle stages of an industry's consolidation, there are lots of winners. Buyers are hungry to grow and expand, fill out their geographic landscape and add market share. Adding to that, in an environment like we see today, with cash rich balance sheets, easy access to cash and strong competition, valuations are high, which serves to benefit sellers. Lots of wealth is created in this period of consolidation.

As a consolidation movement matures, however, we generally see a significant tilt in power and influence. Larger companies do grow and expand, they do fill out their geographic landscape and their market share does dramatically increase. The necessity, and essentially the value gain that comes with acquisitions, lessens. Companies still acquire, but those that have led the consolidation movement become more selective and utilize greater discretion in what they buy and how much they pay. Valuations come down.

Additionally, competitive dynamics change. It becomes more challenging for smaller businesses to compete and grow. Forces such as nationalization, technology development and advancement, and the sophistication of human resources pose stiff barriers to competitive victories for small business. Small and independent businesses of all sizes will still account for a meaningful segment of an industry, they just face more and greater challenges.

There are no new revelations here; these observations have been forecast by many for a long time. (We've known for a long time when Baby Boomers would hit their 60s and 70s!) So really, nobody should be all that surprised by what is likely to happen. And as such, business owners should take action. Most of all, be aware and don't be afraid to at least consider participating in what's going on. If you don't actually do something, you don't know the potential consequences (good or bad).

Be aware and don't be afraid to participate. Despite uncertainty and fear that can come with consolidation, there's always a winning hand to be played. But you can't be afraid to play! **PCT**

Lance R. Tullius has more than 20 years of financial advisory and merger and acquisition experience. He is the founder and president of LR Tullius, a firm that specializes in providing merger and acquisition and financial/strategic advisory services to companies operating in select industries, including the pest control industry. Learn more at www.lrtullius.com.