



Credit markets are frozen. Venture capital is in hibernation. The overall M&A market is falling off a cliff. Yet, in the worst economic quarter in decades, two midsize Microsoft partner firms in the Twin Cities area consummated a deal. How did it happen?

**By Scott Bekker**



# In

December 2008, Tech-Pro Inc., a Roseville, Minn.-based Gold Certified Partner with about 200 employees, bought Quantum Consulting & Placement, an 80-person Registered Member based in nearby Eden Prairie, Minn. Terms of the deal weren't disclosed.

*Redmond Channel Partner* magazine Editor in Chief Scott Bekker spoke with the principals about how the deal came together, how it's working out and how the deal relates to the overall merger and acquisition (M&A) environment. Participating in the February conversation were Jim Erickson, president of Tech-Pro; Bill Lloyd, president and CEO of Quantum; Mike Harvath, who coordinated the deal as CEO of Bloomington, Minn.-based Revenue Rocket Consulting Group; and Jerry Sevier, Tech-Pro's Microsoft practice director.

**Scott Bekker: Jim, how long has Tech-Pro been around, and what does the company do?**

**Jim Erickson:** Tech-Pro has been in existence since 1989, so we're coming up on our 20th anniversary. The founder of Tech-Pro is Dave Vadis, and he's currently the chairman. We really founded the organization on just-in-time recruiting projects revolving around the system-development lifecycle, with a focus on Microsoft technologies in the later years.

**SB: When did you start to get into Microsoft technologies?**

**JE:** We really started getting into it six to seven years ago. With the bringing on board of Jerry [Sevier], we really started ramping it up. We have about 200 consultants. We're headquartered in Minneapolis with virtual offices in San Francisco and Chicago.

**SB: Is your business nationwide?**

**JE:** It is. Several of our clients look for us to help them out in staffing and projects in a lot of their areas. We have feet on the street in a lot of different areas—primarily Minneapolis, but a lot of different areas.

**SB: Bill, what's the history of Quantum Consulting & Placement?**

**Bill Lloyd:** We started in '92. There were four owners back then. We started out initially [offering good deals for consultants]. We transformed over the years to being more of a full-service, staff-augmentation kind of company. Doing mostly consulting, we were able to get in and provide services for some very large, national organizations, and we were able to service their needs in a variety of ways. We actually expanded from being just a local contributor to having a nationwide presence while still just having a local office.

**SB: How did this deal come together?**

**BL:** About the middle of last year, I looked at where the company was, where the market was and myself personally, and said, 'You really need to be a big player in this business. You need to have practice directors, you need to be able to build these silos within practice areas.' I looked at the five-year time span and [saw that] we do have a need to gain capital to make that happen. I just didn't have the time left in my work career, so I said, 'There's other ways to make that happen.' The way, I thought, was to find another company that had the ability to take the things that we had and really do something with them. I started the process in June, and it went from there.

**SB: What was the process when you started looking around in June?**

**BL:** There were a couple companies that had expressed an interest, so I talked with them. But nothing serious really happened until I talked with Mike Harvath at Revenue Rocket. I've known Mike for four or five years now, and always had good luck with him and good results with him and always got help when I needed help. So I called Mike in August and said, 'I'm looking to find a way to make this happen for the company, what can you do to help,' and basically went from there. He had a lot of good ideas.

**JE:** Shortly after that, a mutual friend of both Mike's and mine got us together over a bottle of wine. We started talking about this company. Mike actually didn't know me personally, but definitely knew Tech-Pro. He thought this opportunity would be a unique one for Tech-Pro and he brought it to us. I'll tell you something that Mike's not going to tell you. The key here was that he knew, deeply, the culture of Quantum Consulting & Placement and Tech-Pro. He could see that there was a real unique match there and brought two companies together that had an awful lot

in common and a lot of the same types of culture, ethics and—in some cases—clients as well. Once the non-disclosures were signed, we started getting into the nuts and bolts, and it became very clear that this was a good match for both sides.

**SB: Jim, tell me a little bit about your mindset. Were you looking to expand by acquisition?**

**JE:** Tech-Pro has in the past. About six to seven years ago, they acquired a small Microsoft project company named Odyssey Business Solutions and rolled that group into the fold. I specifically was looking at acquiring a company out in the San Francisco area to help bolster our virtual office out there. What came of that was a unique opportunity. My first glimpse wasn't going to be into the Minneapolis market, where we're very strong. This

outweighed the current economic crisis. It allowed us to get deeper and broader in a couple of clients that we shared. And it opened us to other clients in a tier-one vendor relationship. The word we used around here was, this was a no-brainer.

**SB: Mike, I was wondering if you could fit the experience here of Tech-Pro and Quantum into the broader trends that you're seeing in terms of M&A.**

**Mike Harvath:** We're seeing a dramatic increase in M&A activity right now. Clearly there's a strong business case for consolidation in a market downturn. It's been shown that companies that do that proactively on the buy side benefit dramatically when the market turns around. So we're seeing that type of activity go on right now. If you look at the macro market, I'd say that this deal is consistent

**"We've been here for almost 20 years, and [the acquisition] shows our clients that we're going to continue to be here and that we're operating strong and healthy."**

*Jerry Sevier, Microsoft Practice Director, Tech-Pro Inc.*

opportunity was so unique and so strategic for us that we jumped on it pretty quickly. From the very first conversation over that bottle of wine in August, we concluded the transaction by the end of November.

**SB: Did you guys get jittery at all because the markets were tanking at the same time you were making the deal?**

**JE:** The market obviously affects everybody. We're no different from anybody else. I think one of the things that separated us from everybody else was our cash position. Being a privately held firm, a tightly held firm, we were in an excellent cash position. We don't have debt and we haven't ever had debt. We're a cash-flow organization and we run a pretty tight ship. We were able to perform this with cash on hand without having to go into the credit market. So that took a big question mark out of it. Again, the strategic side greatly

with many of the deals that we're seeing. Firms need to get larger to compete; they realize that they need a bigger footprint. As a result, it's driving consolidation. We believe that the rank-order priorities that firms should look at in acquisitions are: strategic fit, then cultural fit and, third, financial fit. Clearly, in this case there was a pretty [great] strategic fit, as well as a great cultural fit. Once you find those two things, then making a financial fit and making the transaction happen is easier.

**SB: How important was the Tech-Pro cash position for this deal, and how does that compare to other deals that rely more on debt?**

**MH:** I think it sure helps. In a tight market, it's an easier decision to make if you have cash flowing. What we see is, as much as there's been freezing in the credit markets, we do still see availability of credit

for transactions that have merit. The banks are looking for new ways and new opportunities to lend money. As long as there's a good business case around the combined financials and a reasonable internal rate of return that's projected by the combination, then there's money available. Although it's not as easy as it was a year ago or two years ago to get money, from a debt-financing perspective, it's still available.

**SB: As far as M&A activity goes, how did 2008 go compared to 2007, and what do you expect for 2009?**

**MH:** There seems to be a dramatic uptick, at least in the firms we work with. We typically work with firms that are under-\$50 million services firms. We've seen a dramatic uptick in M&A activity in 2008 and we expect to see even stronger uptick in 2009. Now, the rest of the market seems to have just the opposite occurring. I think it's somewhat sector-specific. If you look at overall M&A activity, almost all major indicators show that M&A activity

**Jerry Sevier:** As part of this merger, one of the benefits is that in this economy, what our clients are mostly concerned about is the long-term stability of the company. To be quite honest, one of the best sales pitches we have at this point is to demonstrate that we're acquiring a company in this type of an economy. We've been here for almost 20 years, and it shows our clients that we're going to continue to be here and that we're operating strong and healthy.

On the Microsoft side, this definitely has increased our capabilities. Since escalating to Gold Certified Partner status, around the same time of this acquisition, the extra consultants helped that out. We have a lot further reach and a lot more credibility, and those are things that are really resulting in better sales.

**JE:** Now, with our added depth and breadth and our new Gold partner status, we have some of our long-term clients that, instead of sending out opportunities for multiple firms to bid on, are just calling us directly and asking us to take care of the

fastest-growth partners really have about a 50 percent mix of staffing to projects. Companies are on either side of that mix and are striving to become a 50-50 firm. I think the ones we see that are the healthiest and consistently perform are ones that are at about that mix. Everyone's on a little different journey. They come into it, many of them from the project side of the business, and then they want to mitigate some of the bench risk by having more leave-behinds of folks after projects, and move more of their work to staffing. Others come more from the staffing side. At the end of the day, the ones that really win the race are the ones that mix up their business about 50-50.

**SB: Where was Quantum in terms of that project-to-staffing mix?**

**BL:** We were virtually 100 percent staffing. Like Jerry said, there were times when we would have a project manager and we would have a very, very close relationship with a manager. The key to our business was having close, personal relationships with the hiring manager. We could meet with them and find out their needs, and, if it was project-based, we would almost staff an entire project. So it was kind of a hybrid.

**JS:** Right now, with a lot of companies letting people go, they're looking to bring somebody in who can do more work than the standard person, wanting a team to come in to do the work of 10 or 15 people. They're turning a lot more to the subject-matter experts who come in and make the plans and are helping them figure out how to become more efficient. Efficiency, regardless of the technology, is really the key term right now with our clients.

**SB: How has the merger worked out?**

**JE:** We are 100 percent integrated. Contracts come and go a little bit, but other than that, we've lost nobody. The culture has been so ideal. People are signing our contracts right away, including non-competes that we believed would be a pretty big hurdle that turned out not to be a hurdle at all.

**"Being a privately held firm, a tightly held firm, we were in an excellent cash position. We were able to perform this with cash on hand without having to go into the credit market."** *Jim Erickson, President, Tech-Pro Inc.*

has fallen off dramatically and completely stalled. Access to venture funds and other merger-related activity seems to not be occurring; even in other product-type technology sectors, there's not a lot of activity right now. If you look at services, however—particularly small services firms—my guess is this is indicative of the general economic downturn and the consolidation moves that happen during that downturn. Could I articulate a specific percentage increase? Not off the top of my head, but I will tell you that it feels like the demand for these types of transactions in 2009 will be 20 to 30 percent over what it was in 2008, and in 2008 it was pretty good.

**SB: What have been some of the benefits to the business of the merger?**

project or take care of the staffing need on a 1-1 basis. In any market, especially this one, it doesn't get much better than that.

**SB: What's the breakdown between your project business and your staffing business?**

**JE:** It's evolving. In the past, I'd say Tech-Pro was 99 percent staffing and 1 percent projects. Today, we're probably 15 to 20 percent projects and the rest of it staffing. Without a doubt, staffing is the partner that brought us to the dance and we're not going to walk away from that. I don't think that this business landscape desires anything different. There's such a strong need for just-in-time recruiting, which lends itself to staffing.

**MH:** Having worked with about 150 Microsoft partners in North America, the

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FEATURE | M & A

Quantum Consulting had a culture where they didn't have non-competes. Tech-Pro has a culture where we do sign non-competes, to protect the company and to protect our clients. We were concerned that rolling this over and having to sign long-term consultants and having to come in and do non-competes with a new company, that that would be a major issue. After a very short period of time—getting people to know who Tech-Pro is, what they do, what their ethics are—we had everybody sign up with non-competes and keep working at their current assignment. It's been very, very smooth.

**SB: Bill, what are some of the things you're going to do now?**

**BL:** (Laughs.) That's a good question. There are several things. First, I do a lot of photography. I've been doing it for 35 years. I'm going to expand on that. My wife and I do bodywork—on people, not cars. We're going to continue with that; we're going to continue to take classes. It's very therapeutic and helps people and that's a good feeling. I'm definitely going to keep my fingers in [the IT] business. I love this business. I've been doing it since 1980. I cut my teeth in the mainframe world. In my own humble opinion, I was one of the top system designers in the Twin Cities for several years. I love doing that kind of work, and if there's a chance for something like that to happen, I don't mind getting into that. Consulting is perfect because you can do it for a period of time and do something else if you wish without becoming a full-time employee somewhere.

**SB: Based on this experience, do you have any advice for other partners who are thinking along these lines?**

**BL:** One is to start early. Make a decision based on where you want to go with it. It's going to take time and it's going to take longer than you think. It's the old rule of doing household chores. It takes five times as long, and it's five times as hard and five times as expensive as you ever imagined. It's kind of the same with this. Start early.

The other thing I learned out of this is get a neutral, competent third party involved to facilitate the communication, come up with ideas and put structure around the transaction. I can't speak highly enough of what Mike has done for me in the past. But certainly with this transaction, he was invaluable. Looking at trying to do this on my own was a bit foolhardy. He really helped. He knows the business, and allowed us to do this—in, what I hear, is record time—with another company that I found I could talk to and trust and work with. In the end, any deal has to be fair to both parties involved.

**JE:** I mirror everything that Bill just said about the quality of the third party putting the deal together. Maybe lessons learned going forward would be, if possible, to get it done before the year-end. I'm speaking for my comptroller now. He's playing a little catch-up with year-end books right now. Bill's absolutely right. If it doesn't fit, it doesn't go together. If the fit is right, the transition will be smooth.

**SB: Is Tech-Pro looking for future M&A activity?**

**JE:** Yes, we are. We're looking strategically in the San Francisco area as well as the Baltimore area. This economy, again, provides really unique opportunities if you're positioned well, whether that's by design or by luck. We're going to try to take advantage of that and grow our market share. ●

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