

Expansion Expertise

Three dealers share their acquisition stories

by: Brent Hoskins, Office Technology Magazine

Many dealers have experience with the acquisition of another company. Are you among them? Or are you only now thinking about making your first acquisition? If you are in the latter group, learning from those who have been through the experience is undoubtedly of interest.

Below are brief profiles of three dealerships focused on their acquisition stories. Perhaps the information, insight and advice they share will be helpful to you as you journey into the world of acquisitions.

DocuGraphics

The establishment of Thomas Fimian's dealership where he serves as CEO, DocuGraphics, based in Charleston, South Carolina, began with an acquisition. He had been a copier sales rep for about five years. "I always wanted to have my own business and had an opportunity to buy the local Xerox agent here in Charleston," he says. "It was a small outfit with a team of three people."

That was nearly 21 years ago. Today, DocuGraphics is a \$14-million dealership with 60 employees and nine locations — five in South Carolina, three in North Carolina and one in Georgia. "As a Xerox agent, we sold the full line of Xerox products and services, while Xerox handled servicing and billing," Fimian says. "About five years ago, we transitioned from an agent-centric to a dealer-centric dealership and have systematically built out our logistics and service infrastructure. Today, DocuGraphics offers Xerox, Kyocera and other leading brands in the workplace technology space."

Fimian has big plans for the future. "We plan to reach and exceed \$25 million by 2025," he says. "Last year, we had 35.5% growth. I would say 10% was organic growth and the rest was from acquisitions. Looking to the future, I see us as a \$100-million company in 10 years."

As noted, acquisitions have been key to the dealership's growth. At this point, going forward, Fimian is targeting one acquisition per year. "Our first acquisition was in



Wilmington, North Carolina in 2007, followed by a small Xerox dealership in Myrtle Beach, South Carolina, which we incorporated into our branch there in 2019," Fimian says. "In 2020, we purchased a Xerox agent/dealer in Hickory, North Carolina, expanding our coverage to the Piedmont and mountain regions of the state. Then, in 2021 we purchased another Xerox agent/dealer in Fayetteville, North Carolina, strengthening our coverage in the coastal plain of the state."

Today, DocuGraphics is "in the middle of finalizing and implementing" its fifth acquisition, "a managed IT company [in Columbia, South Carolina] with a strong customer base, robust infrastructure and a team of 20 IT professionals," Fimian says. He met the owner of the company on LinkedIn. "He had tried to recruit one of my sales reps. So, I thought, if he thinks that one of my reps is good, I might want to have a conversation with him, just to learn how he runs his business."

That conversation ultimately led to the owner of the IT company expressing an interest in being acquired. Once the acquisition is completed, "he'll be able to go back into the role of the senior solution engineer," Fimian says. "That's what he's good at and where his passion lies. We'll take care of the office side. This acquisition will enable us to move from having to outsource everything IT related to having our own network operations center, data center and help desk. They have about 90 customers. So, we're going from less than 1% IT business to more than 20% of our overall business being in the IT field."

What advice can Fimian offer his fellow dealers who are seeking to implement an acquisition strategy? "The most important piece of advice I can offer is: Look for a company that shares your values," he says, noting that the way to identify shared values is easy. "Just ask them, 'What are your values?' Not everyone has this formally written down, though most do, but you need to understand how they behave themselves. How are they treating employees? How are they

treating customers? What is their reputation? You will quickly learn whether someone shares your values or has a completely different mindset.”

Ensuring shared values is “the most critical factor in having a smooth implementation,” Fimian says. “When we are dealing with smaller companies, we talk about those values. We tell them, ‘Look, this is what drives us. This is what is important to us.’ If you get blank stares, that’s a red flag. It’s not a good fit.”

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— Thomas Fimian
DocuGraphics

Function4

Function4 was born from a merger. In 1982, Paul Skinner established Star Graphics. In 1998, Skinner, Bob Evans and Bill Patsouras established DigiTech Office Solutions. In 2014, the two companies merged to become Function4. Today, beyond its headquarters location in Sugar Land, Texas, outside of Houston, the dealership has locations in Angleton, Beaumont, Paris and Sherman, Texas, as well as in Lake Charles, Louisiana. Function4, currently at just under \$24 million in annual revenues, is authorized to sell HP, Konica Minolta, Kyocera, Sharp and Xerox products.

To date, the dealership has made three acquisitions. In each case, the reason was the same. “We were looking to acquire additional MFP customers to grow the business,” Evans says. “You can only do so much organically. We are always looking at other ways to grow our business.”

The trio of owners wasted no time in making their first acquisition, which took place the same year Function4 was formed. “It was a small, \$1-million Kyocera-authorized dealership with around six employees here in the Houston market,” Evans says. “The previous owner had passed away and his wife was looking to sell the business. It was a good fit for us, selling one of the product lines we were already authorized to sell.”

Later that same year, Function4 acquired a \$3-million Konica Minolta-authorized dealership outside of Dallas. “The owner was looking to retire,” Evans says. “The dealership did about \$2 million in copiers and another \$1 million in office supplies and furniture.”

The third acquisition didn’t take place until seven years later, in 2021. “That was also a Konica Minolta dealership, at about \$3 million in annual revenues, on the southeast side of Houston,” Evans says. “Their office was about 45 minutes from our office, so that one fit in well for what we were trying to do.”

Referencing the nature of the three acquired dealerships and the order in which they were acquired, Evans shares

advice with dealers looking to acquire for the first time. “Acquire a dealership that is close to your location,” he says. “For example, I wouldn’t buy a company that’s four hours away. I just wouldn’t do it; not on my very first acquisition. You are not going to be able to spend enough time with their people. When they are close, they can come and see you and you can go see them; you’ll be able to

spend enough time with them.”

Evans also advises against acquiring a dealership that carries brands not offered by the acquiring dealership. “If you are Sharp dealership, for example, don’t buy a Xerox dealership,” he says. “There are just too many moving pieces when you’re first learning how to put everything together.”

In addition, “I would recommend a dealership looking to make its first acquisition focus on companies that use the same ERP as the acquiring company,” Evans says, noting that, at the time, the first and second dealerships it acquired did not use the ERP Function4 uses, e-automate. “This made the deals more difficult to integrate into Function4.”

In all three cases, Evans and key Function4 employees worked together to determine the offer amount for the acquisition targets. “Initially, we requested three years of financials and their tax returns for the past three years,” he says. “We reviewed their lease portfolios, top 10 customers and sales paperwork. We also looked at their contracts. That gave us enough information to come up with a price to offer them. When each signed our letter of intent, we sent them a more in-depth list of information we were seeking in order to complete the rest of our due diligence.”

Function4 has not used outside consultants to assist with the acquisitions. “We have been in the business long enough to know what we’re looking at when we go through a dealership’s information,” Evans said. “However, we did rely on outside attorneys to do the paperwork when it came to the actual purchase agreement.”

Gordon Flesch Company

Ask nearly any office technology dealer to list the top dealerships in the United States and Gordon Flesch Company (GFC) will undoubtedly be on that list. “We have seven major branch locations, just over 650 employees and last year we came in at \$180 million in revenue,” says Patrick Flesch, president and CEO of the Madison, Wisconsin-based company, with seven additional locations in Wisconsin, six in

2022 Dealerships Acquisitions at a Glance

40 dealerships were acquired by other dealerships in 2022

19 of those acquisitions were made by megadealerships

21 of the dealerships that were acquired were in the \$1 million to \$5 million range

8 more dealerships were acquired by other dealerships last year compared to 2021



Source: Keypoint Intelligence Channel Strategy Research

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— Bob Evans
Function4

Illinois, four in Indiana, eight in Iowa, seven in Ohio and one in South Dakota. “We did \$168 million the year before; the growth has been substantial.”

As one would assume, since the founding of the dealership in 1956 by Gordon Flesch, the company’s growth through the years can be attributed, in part, to acquisitions. While there were “several acquisitions through the decades,” Patrick Flesch, who joined the company in 2006, was not involved in any acquisitions until 2015. After that, GFC paused making additional acquisitions for several years. “Venture capitalists and private equity groups were coming into the industry and gobbling up dealerships,” he says. “The multiples they were paying for those dealerships were nonsensical, but that was their game. It just wasn’t a fit for us. So, we were pretty quiet for a while — until 2019. Then, we got to work and had five acquisitions in 2019 and early 2020.”

In addition, during that time period, GFC partnered with Ricoh. “We weren’t going to do that unless we got a good base of customers to get started,” Flesch says. “So, we consider that an acquisition as well, because we obviously had to acquire those accounts.” He notes that GFC also sells Lexmark and is the nation’s largest Canon dealership. “We bleed Canon red.”

Of particular note among the most recent acquisitions was an IT company. “This acquisition was critical to us, a turning point for us in that business,” Flesch says. “We gained a ton of operational expertise and a lot of talent. It allowed us to rebrand our IT marketing strategy. In fact, that company — Elevity — is separate from GFC, with its own president, name and identity. We don’t have our print sales reps pursuing IT opportunities. Instead, we have our own dedicated IT sales force.”

Looking back at its most recent acquisition, in late 2022 — Oshkosh Office Systems (OOS) in Oshkosh, Wisconsin — Flesch shares some insight into GFC’s acquisition process. “It started with a lunch meeting two years ago,” he says. “Sometimes you get a letter from a broker that a dealer is looking for offers to acquire. Other times, it is more of a courtship.

This was the latter. My uncle [GFC's chief development officer, Bill Flesch] and [then OOS owner] Scott Grady had lunch in Madison and he came to visit our offices. We had a nice conversation and then started to build the relationship from there. He didn't have any children in the business and was looking to retire."

Flesch says the "courtship" process is preferred by GFC.

"That's usually where we have more success," he says. "We don't ignore the broker notifications, but when we get a chance to interact with the seller, we say, 'If you are looking for the highest bidder, it's probably not going to be us. However, if you want us to take care of your customers and employees, that's our main focus.' You have a better chance of making the transaction if that's the way you enter the opportunity."

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— Patrick Flesch
Gordon Flesch Company

Beyond his emphasis on taking care of any acquired company's employees, Flesch shares two other key pieces of advice. One: "Surround yourself with people who have experience with acquisitions, people who you trust. Don't be afraid to lean on outside counsel to make sure that this is a sound decision for your company." And two: "Have patience. For our most recent acquisition it was a

two-year process. Plus, have patience after the transaction. It takes six months to a year before you start to reap the benefits." ■

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