
# Q&A “Selling” the Customers You Just Bought

One aspect of sales that may not be understood or appreciated is the necessary “reselling” process following an acquisition. In this interview with Jim Teske, RecordMax, the complex subject of reselling customers that have been acquired is explored in more detail. PRISM International thanks Jim Teske and Bob and Ted Lloyd for sharing their experiences.

**QUESTION:**
What is the history of the company, the ownership structure and significant milestones in the history of the company?

**ANSWER:**
RecordMax USA, LLC is a new company formed through a merger of assets between several long time industry veterans. There has been a RecordMax Inc. of Jackson, Mississippi for just over ten years and Jackson remains the official corporate office for the new entity. The plan is to expand both the services offered by RecordMax as well as to add to the number of markets where we serve customers.

**QUESTION:**
What are the names and titles of the principals within the company and what is their function within the organization?

**ANSWER:**
There are three principals within the RecordMax companies: Bob Lloyd and his brother Ted Lloyd, both of Jackson, Mississippi; and myself (I live in Birmingham, Alabama). Bob acts as CEO and provides strategic guidance, financial management/leadership and shares operational and sales management of our Jackson location with Ted; who is a Vice President and serves our customers in Mississippi in various capacities. I serve as President and lead our efforts in the other three of our four current locations (besides Jackson), handle the company’s marketing, negotiate acquisitions and manage the transition issues for any new locations.

**QUESTION:**
What strategic partnerships or strategic relationships have been established between the company and other entities?

**ANSWER:**
Our most strategic relationship these days is probably with the folks at Trustmark Bank; who have provided capital on top of internal contributions for our recent expansion. Our sister companies include RecordMax Imaging; StorageMax (a leader in self-storage throughout a growing number of cities in the Southeast U.S.) and Storage Park Properties (which owns and manages some of our real estate). We of course enjoy a number of other key relationships with people that help RecordMax with technology, space planning and shelving systems, equipment, personnel and staff development, RIM products and supplies as well as marketing/advertising.

**QUESTION:**
How many acquisitions has your company made so far?

**ANSWER:**
Four (4) so far this year…RecordMax USA or its affiliates have acquired the assets of Kenco Records Management in Chattanooga, Tennessee; Data Management Archives of New Orleans, Louisiana; SpaceSavers Document Storage in Mobile, Alabama and District Archives USA in Bimingham, Alabama. We’ve also just started a new venture, RecordMax Imaging, to deliver document conversion and digital archive solutions.

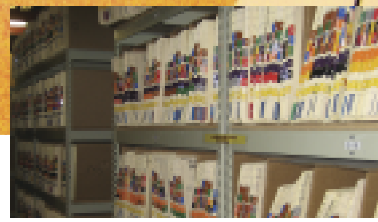
**QUESTION:**
How many clients are represented in these transactions?

**ANSWER:**
Approximately 500.

**QUESTION:**
Was the reselling process necessary for each client – if not, what makes the process necessary for some and not others?

**ANSWER:**
Acquired customers represent a completely different type of sale; but from our perspective a sales effort is absolutely required based on a defined process, a focused marketing effort and some strategic planning.

Since our focus at least in part includes the acquisition and integration of other businesses, the reality is that potentially, at least maybe in the customer’s eyes, these relationships are bought and not necessarily “earned” (as compared to a situation where the customer sought them out or via good old fashioned “Fuller Brush” sales or some formal bid process). We therefore notify and start selling all acquired customers via numerous direct mail campaigns, via proactive phone calls and via other marketing and advertising efforts immediately as of closing...(we want customers hearing about the transac-


tion directly from us rather than thru a rumor mill or from another source. And of course we feel confident that RecordMax will enhance the customer's records management experience and want to openly share what we can bring to the table.

Some customers call our local branch office looking for more information and/or they may not have directly read each letter or been a part of every communication (especially where there are multiple contacts within a customer's organization). The key is to be prepared to offer information that is beneficial from their perspective.

**QUESTION:**
What is the process for acquiring customers from another company?

**ANSWER:**
In what is probably the most common form of acquisition in this industry, the seller of a business enters into an Asset Purchase Agreement; under which the customer storage and/or service contracts are typically the most significant asset acquired by the buyer.

**QUESTION:**
Do these acquisitions always require the sale of the company itself?

**ANSWER:**
From what I've seen and from our own practice, the vast majority of buyers do not want to buy the stock or membership interests in the legal entity that owns the seller's business for a lot of reasons; most of which are fundamentally related to the buyer wanting to avoid the assumption of liabilities that didn't occur under the buyer's watch. The buyer typically acquires the assets, which as noted include both the customer contracts as well as all tangible and intangible assets including but not necessarily limited to vehicles, shelving, pickers, office equipment and furnishings, business systems including assignment of licenses, accounts receivable, intellectual property, etc. Real estate may or may not be a part of the deal.

**QUESTION:**
When making an acquisition are customers individually examined? How does that process work?

**ANSWER:**
An educated buyer is going to closely examine the proportional volumes of both recurring and non-recurring revenue streams, the contracts under which that revenue stream is protected, examine average rates, look at the fraction for revenue associated with a limited number of customers (i.e. risks associated with just one or several customers representing significant revenue as compared to a lot of small customers making up the vast majority of the total), the verticals of larger customers (where certain customer groups these days represent some potential risk for stagnant or decreasing volumes of physical storage going forward as these verticals transition to digital), etc.

As far as the process for examining customers, it's going to occur as a buyer and seller move from casual conversations to formal negotiations. The negotiation and sales process starts with parties executing a mutual non-disclosure. The buyer would then get enough information from the seller to determine an estimated valuation for the business (which for us typically involves financial statements and responses to maybe a set of twenty or so fairly general questions). A Letter of Intent from the buyer should then present the seller with a proposed purchase price for the assets as well as offer general terms, conditions and basic timing of the deal. The next step would be a formal Asset Purchase Agreement. During drafting of the APA and certainly prior to closing, meticulous due diligence by the buyer of all aspects of the business will occur. It is during this due diligence that a buyer should learn as much as possible about the customers to be acquired.

**QUESTION:**
Are contract structures one of the major challenges? If so, what are the major sticking points with contracts?

**ANSWER:**
There are some key components of customer agreements that a buyer looks for; including of course traditional limitations of liability consistent with our industry.

One challenge that seems quite common is that a number of the folks I've encountered, both with RecordMax and over my years doing acquisitions for another company, have language within their agreements that contains restrictions on assigning contracts. While I would typically agree to mutual assignment before I would restrict my own right to assign, ultimately I am uncomfortable making it a standard practice to give my customers control over my eventual retirement or exit strategy. If a contract requires written permission to assign, there can be delays in a seller closing on his/her deal to sell the business and/or the buyer may rightly ask for some additional protection or a reduction on the purchase price for contracts that cannot be assigned.

**QUESTION:**
How do customers usually react when they learn that their account has been acquired? Are there ways of easing the client into this realization?

**ANSWER:**
Reactions to having a new storage vendor certainly varies by customer, however I think that's why it's so important to communicate promptly, professionally, repeatedly and openly. Don't try to put too glossy of a shine on things because there may be bumps in a transition. I have given every customer my cell phone number and asked them to call me personally if they have any concerns. I've received three calls out of the almost 500 new customers we've added in the last 90 days. I should probably give credit to where credit is largely due…and that's to the managers and front line team members we've acquired through these transactions in doing a solid job providing quality service.

Again the most common questions we get include the customer asking the person they've worked with or are talking to on the phone when they call (someone that may be from the seller's company) whether that person will still be serving them; they might ask if their records are going to be moved; they might ask about the new owners (…who are they and are they good folks); are rates going to change; etc.

**QUESTION:**
What are the essential steps that must be followed when addressing client concerns about the acquisition?

**ANSWER:**
Communicate promptly, openly, honestly, passionately and frequently. If a customer calls, get back to them right away. Set clear guidelines for escalation as needed. I think it's also critical to ask a lot of good questions directly to key operations people within the seller's company prior to closing so you understand special services for key customers (because their may be some).

One typical issue that comes up is that the buyer and seller may use different operating systems. Learn how the seller has been using technology and understand how the business systems you eventually implement change the customer's life…for the better or worse (including the burden on the customer of change even if the change ultimately proves valuable). Can you invoice the customer the same way they are used to being invoiced? Will new barcode formats present challenges? How about activity or inventory reports? Does the customer use the seller's web product? How is it different from yours? How will you migrate that customer data? Remember that selling new customers can be most effective when you try to teach your people how the customer wants to do business rather than teaching the customer your way of doing business. That challenge can be enhanced when moving customers away from tools they are accustomed to using.
Also find out if there special delivery schedules or timeframes for services that differ from your traditional schedules.

For a buyer, I also recommend a very detailed audit of the seller's facilities including a fairly comprehensive audit of containers within locations. Remember that any challenges that result from service failures and "locationally challenged" boxes or other assets will be your problem after closing.

When it comes down to the relationship going forward, the buyer needs to work hard to earn every relationship even though they already paid good money for the contract. And the best way to keep the customer happy and confident going forward is to both take the right actions prior to and during the transition, to communicate effectively and frequently, to deliver on promises to the very best of one's ability and to correct any mistakes or bumps with new customers in a big way.

**QUESTION:**
How does the selling process differ from normal sales directed to new customers, to the "reselling" effort that must be made when clients are acquired?

**ANSWER:**
Well we certainly have a targeted and clearly defined audience in selling, reselling and upselling acquired customers. The reality is that customers can of course perceive moving to a new vendor as a hassle and the buyer should have a window of opportunity to solidify the relationship and either just work within the existing contract or even put a new contract in place if they act quickly. A lack of communication would in my mind create doubt if I was a customer. Human nature is such that when a person doesn't know someone and they make judgments without a lot of information, they can tend to reach conclusions that are less favorable.

**QUESTION:**
Are there situations when clients are simply unwilling to be acquired? How is this handled? How does this lower the value of the company being acquired and are there contingencies or ramifications from this activity?

**ANSWER:**
So far we've been fortunate that this hasn't occurred yet for us but I better knock on wood and/or continue saying my prayers. The most common circumstances under which I might see this occurring is where contracts cannot be assigned without permission, where inventory is to be moved to a lesser facility, where key employees bail out and/or bad mouth the buyer, where new proposed rates or contract terms are prohibitive or represent a significant negative impact on the customer.

As a buyer, there also may be circumstances under which there are contracts or customers that I'm not willing to acquire and that get written out of the deal. While that may be rare, it's also a reality and needs to be addressed in purchase agreements prior to closing.

**QUESTION:**
Can clients of a company being acquired be contacted prior to the actual sale of the business? What risks and rewards are involved with this process?

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**ANSWER:**
It would not be my preference nor practice to notify customers in advance. It would be most common when contracts require assignment. We have letters prepared to go out to every customer the day of closing. And there are creative ways to deal with assignment issues that can represent a win/win for everybody.

There are so many challenges associated with a purchase of a business: from actual price and terms; to hiring of employees; to real estate issues; health and business insurance; contract reviews; facility audits; vendor relationships; etc. The parties also both need to lead their lawyers and accountants to common ground…lawyers sometimes feel like they aren't doing their job unless they find problems. And a seller probably built the business with their own hands and entrepreneurial spirit making things a little emotional. During the process of negotiating and closing an acquisition, my focus involves taking care of the seller, taking care of the seller's employees and working hard to be prepared to take care of the acquired customers. Then we start selling every one of those customers pretty darn actively as soon as possible…as soon as the deal is officially done.

**QUESTION:**
What kinds of specialized training is necessary to prepare account reps to communicate effectively with clients being acquired?

**ANSWER:**
We sit down with our people and offer key points that should be communicated when asked. I don't want employees to be overly rehearsed and/or to sound overly coached (resulting in a lack of sincerity). But I do want employees to be prepared to offer open feedback about all the things going on, to let the customer know that we'll take care of them during and after the transition and to hopefully offer positive information that leaves the customer feeling as comfortable with the ownership change as possible. Don't make it too big a deal, don't throw out too much information but also make sure you listen and clearly understand a customer's concerns (and will relay to upper management as needed). We try to keep the message to a few fundamental points that the employee can offer and that the customer contact will remember if asked by their co-workers or superiors.

**QUESTION:**
Can you talk about any horror stories (without naming names) involved in contacting clients who were being acquired? How did these stories turn out?

**ANSWER:**
We've had some bumps with one new customer although I can't really call it a horror story. Of the several bumps with this customer, one was a situation where we probably fell short and the other two situations occurred based on service expectations that were not written down anywhere or that were unrealistic to begin with. And there are probably a few customers that are still checking us out…our most recent acquisition as of this writing is less than sixty days old.

The one customer we've struggled to satisfy on several occasions involves a service that was provided by the seller and is something we've never provided before (interim storage and fulfillment solutions for distribution of publications, forms and marketing materials). We had to buy new software to properly manage the inventory and keep the revenue stream. We had to enter all the inventory, pricing and customer information manually from a physical audit and outdated paper work into software that had to be personalized to some extent for the specific products being handled. And we had to both teach new employees to both learn the new software and set it all up while were learning and on the fly…all within a week or two. That kind of crunch will tend to cause a little uneasiness with pretty much every person involved.

We've certainly done our best, truly try to go beyond the call of duty, communicate frequently, ask openly for performance updates from the customer, fall on the sword and admit failures if they've occurred and have tried to learn from those events by putting practices in place that avoid making those same mistakes again. How will it work out? I remain pretty optimistic. The great news is that I love the service, want to roll it out to our other locations and feel like we've learned a lot in a short period about what is required and what challenges we'll face in implementation.

**QUESTION:**
If client agreements need to be revised during or after the acquisition process, what are the pitfalls of this process and how can they be avoided?

**ANSWER:**
Some agreements probably will need to be revised during or after the acquisition and that represents a risk to everyone: from the seller to the buyer to the customer. If a contract cannot be assigned, it cannot be bought (without doing an actual purchase of the seller's stock or purchasing the actual legal entity that is the seller…as noted this is not something we want to entertain through an acquisition). So a customer with a contract requiring permission to assign must either give that written permission or a new contract must be put in place.

If business owners have such language in their contracts and it's there because their lawyer put it in or because the records center they copied it from had it, and/or it is not something that the owner is passionate about keeping, they may want to consider the benefits of removing it in future contracts signed with new customers, or implement a transition process across the board and/or deal with the change as current contracts come up for renewal.

**QUESTION:**
Do you think the "reselling" process is similar to a process of creating a relationship following client turnover of the principal contact or the purchase of a client company by a company that is vended elsewhere? How are they similar and/or different?

**ANSWER:**
Yes, there are certainly some similarities. In both situations you are trying to build a new relationship and offer confidence in your ability to take great care of someone.

Using the example of a law firm buying out an existing client of ours, there may or may not be an office for the records company the buying firm uses in our market. If there is, the other contract and relationship may take precedence (a national contract or similar circumstance). Most independent records centers that have been around a while have some experience with that. In any case, we're certainly going to work hard and work quickly to do whatever we can to put our best foot forward.

In the event that a new records manager moves into the key contact role with an existing customer, again there needs to be a layered sales process and a lot of open communications. There is always the possibility that the new records manager has experience with another company. At the end of the day, relationships play an important role in attracting and keeping customers...if someone wants to do business with you, they'll find a way.

**QUESTION:**
What advice can you offer companies who may be faced with the need to "resell" clients who have been acquired?

**ANSWER:**
Treat your new customers like they should be sold. Pay these customers the compliment of showing them you want to earn the relationship. Have a process and make that process efficient and effective. Layer your communications and let customers know about the road you'd like to travel with them. Ask good questions of the seller so you'll be prepared to deliver on promises. Ask good questions of your new customers to measure their perception of how you measure up. Treat others as you would like to be treated.

**About the Interviewee:** Jim Teske is president of RecordMax USA, LLC, Jackson Mississippi, US. Contact jim at jim@recordmax.com