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CompuCom: A Blueprint For VARs In Transition
By Marty Wolf, Global M&A Advisor

For public companies in mature, slow-growing markets that have fallen out of favor with investors, sometimes going private is the only way they can make the types of transitions that are necessary to survive. Monday's announcement that Thomas H. Lee Partners (THL) has acquired CompuCom confirms the wisdom of this strategy, certainly for this company and its investors.

But, CompuCom may also serve as a blueprint for other value-added resellers who need a second act.

In late 1999, publicly held CompuCom hired a new CEO and embarked on a strategy to change from a traditional VAR to a technology integration services company. In light of what would happen to the stock market in April 2000, CompuCom's timing was not great.

Over the next four years, from late 1999 through the end of 2003, CompuCom shrunk from a $2.7 billion company to a $1.5 billion company. Meanwhile, the company's services revenue grew to $296 million from $272 million in 2000, representing 25 percent of the company's total revenue and 65 percent of its gross margin.

For the CompuCom board and the company's shareholders, this was apparently too little progress, too late. In June 2004, Platinum Equity bought CompuCom for about $254 million in an all-cash, public-to-private deal and named Jim Dixon CEO.

Previously CEO and chairman of CompuCom from 1987 to 1996, Dixon had led the company through an earlier transition from a PC hardware reseller to a reseller of hardware and IT services. So, he already knew the company and quite a bit about the challenges he would face.

One month after acquiring CompuCom, Platinum acquired GE IT Solutions, a leader in IT infrastructure solutions for enterprise customers, and merged it into CompuCom. Terms were not disclosed, but it was reported that the price was around $250 million -- bringing the total price for the two acquisitions to just north of $500 million.

With Platinum as a financial partner, additional offerings and expertise from GE IT Solutions and Dixon in charge, CompuCom stepped up investment in its transition. Out from under the glare of Wall Street, a key element of the company's strategy was to buck the industry trend at the time of PC manufacturers going direct to large corporate accounts while relegating their channel partners like CompuCom to small and medium-sized businesses.

Instead, CompuCom deepened its relationships with its existing large enterprise customers, particularly its Fortune 500 accounts.

This meant that rather than having to chase down new customers -- a time consuming and costly endeavor -- CompuCom could focus on cross selling and upselling its hardware customers to software and its software customers to services.
By 2007, even though its revenue was unchanged at $1.5 billion, CompuCom had dramatically changed the mix. A little more than half of its revenue was coming from software and services -- up from just a quarter in 2004. At the same time, gross margins in its newer, higher-value businesses were improving.

As a sign of CompuCom's growing enterprise value, in July 2007 the company was purchased from Platinum by another private equity firm, Court Square Capital Partners, for $628 million. Platinum reportedly made a return of seven times its investment in the company.

Under Court, Dixon continued to guide the company's transition to services through both organic shifts and acquisitions. For example in 2008, CompuCom bought the North American operations of Getronics, an IT services company. Terms of the deal were not disclosed.

Fast forward to this week's THL acquisition news. Though financial details were not disclosed, THL reportedly paid $1.1 billion for CompuCom, which now focuses on cloud and mobility integration for large enterprise customers. With revenue in 2012 of $2.3 billion, more than 75 percent of CompuCom's revenue and gross margins came from its outsourcing services business.

While this is a remarkable comeback for CompuCom -- with hats off to the wise leadership of Dixon, the rest of his management team, Platinum and Court -- for other traditional VARs, CompuCom is both a model and cautionary tale.

Going private typically starts with an infusion of much-needed capital from a private equity firm and paves the way for an acceleration of transformational business strategies that are hard to execute under the watchful eye of Wall Street. For example, a VAR transitioning from low-margin, commodity businesses to higher-value services and solutions must focus less on growth and more on gross margins, which makes it difficult for shareholders to gauge progress. In addition, as a company's core business changes, so does its investment thesis. Inevitably, some shareholders will divest and will be replaced by new ones.

But, massive shifts in strategy take time and are typically marked by bumps in the road. You could even argue that after 12 years, CompuCom still has a ways to go. The company's top-line revenue is still short of its all-time high of $2.7 billion.

Still, CompuCom has been remarkably successful at making a very difficult transition -- dramatically changing the makeup of its business, increasing gross margins and growing its enterprise value. The key to this transition was going deeper into its relationships with loyal customers that had previously bought only hardware from CompuCom and persuading them to buy software and services.

That's a strategy that most VARs can take to the bank. And if Jim Dixon becomes a free agent, every VAR should consider getting him on their board. He doesn't get lost on the way to the bank.

Marty Wolf is founder and president of martinwolf | M&A Advisors. Marty has been directly involved in the divestiture of six Fortune 500 divisions and has completed more than 115 transactions in the IT services sector. A frequent commentator and guest blogger for leading business and IT media outlets, Marty also acts as a counselor and trusted adviser to CEOs of select IT firms.