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How Steven Gerard put CBIZ back on track with a conservative growth strategy

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Reality check

HOW STEVEN GERARD PUT CBIZ BACK ON TRACK WITH A CONSERVATIVE GROWTH STRATEGY

BY TODD SHRYOCK

When Steven Gerard took over the helm of CBIZ in October 2000, the company was a mess.

The previous management team had gone on an acquisition spree that brought 142 companies into the CBIZ family from late 1996 to the end of 1999. The idea was to combine the accounting and other business services of many small providers into one larger organization that could provide the smaller entities with the resources they needed to compete, while eliminating redundancies and increasing cross-selling opportunities.

In the beginning, everything went well. The company posted net income from continuing operations of $11 million in 1999, but by the end of 2000, it posted an annual net loss from continuing operations of $107 million. The stock price steadily dropped, from a high of $16.13 in 1999 to less than $1 in late 2000.

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Many of the acquisitions were paid for, at least in part, with CBIZ stock to the previous owners who were still on board with CBIZ. The rapidly falling stock price led to bad feelings from the entrepreneurs who felt cheated out of the fair value of their business, and morale dropped. And shareholders were angry, as evidenced by the seven class action suits they filed against the company starting in late 1999.

CBIZ, a $500 million company then known as Century Business Services, needed a new direction, and Gerard brought it to the company by starting with realistic expectations and a carefully crafted growth plan.

"The history of this company before the current team got here was they had more aggressive growth targets, and hindsight will tell you that they probably were not particularly realistic," says Gerard, chairman and CEO. "It was important that we set the right tone for the company and set achievable goals.

"It's important when you have a company that you are realistic about the markets you are in. You can try and take share from competitors, but I think it's a terrible mistake to think that over a long period of time, you are going to double or triple the markets you are in. That typically isn't realistic except for maybe a technology company."

Gerard stabilized CBIZ by focusing on integrating the various business units into a more cohesive team and dramatically reduced the number of acquisitions being made. He divested 20 companies that didn't fit the business model and worked on building a common company culture that took advantage of the synergies created by combining the resources and services of the acquired businesses.

Once the business was stabilized, he started looking at how to achieve revenue growth of about 10 percent per year. What he came up with was a three-pronged approach that focused more on maximizing what was already in hand rather than on buying more companies.

The balanced plan would focus on organic growth from existing offices, cross-selling clients [internally referred to as cross serving] by referring them from one type of service provider to another within CBIZ and through a more conservative acquisition program.

"Three years ago, we said that we are targeting growth at somewhere between 3 [percent] to 5 [percent] or 3 [percent] to 6 percent for each of those groups per year," says Gerard. "What that was designed to do is signal that we were not going to grow primarily by acquisitions. With the three drivers, we said that over time, they would contribute about the same to give us at least a 10 percent top-line revenue growth. From our view, it was important to signal that no one of the three was going to be dominant."

Acquiring minds

CBIZ had gotten into trouble by acquiring too many companies too fast in cities or regions that, in some cases, were isolated from other CBIZ companies. There were too many cities that had, say, an accounting practice, but nothing else. Because of the local nature of the businesses CBIZ is in, the isolated accounting firm had no one to refer business to, eliminating one of the drivers of CBIZ's growth.

"One of the other mistakes made by this company, and a lot of companies, I think, was not ensuring you acquire a number of businesses in the same location," says Gerard. "People were alone, in a sense."

It was also important to consider how well the products and services of an acquisition complemented each other.

"If the business is in a location that only does business with *Fortune* 200 clients but the other business is doing business with *Fortune* 1,500 to 2,000, then that doesn't make any sense, because then you essentially have two separate businesses with no ability to bring each other products and services."

Gerard changed the way the company looks at acquisitions.

"We have a very focused acquisition strategy," says Gerard. "Acquisitions will be in products and services we are already in and in locations where we already have a presence or base. The reason for that is we want to get the incremental revenue we get from cross serving."

Gerard also won't consider acquisition targets at which the leadership simply wants to take the money and run.

"Our acquisition strategy is not a cash-out for the seller," says Gerard. "If we have someone who wants to turn over the business and cash out, that's not the type of company we acquire. We acquire, for the most part, companies where the current management team wants to grow their business faster than they are able to do with their existing resources or have reached a point where, in order to get to the next level in their locale, they need to make a significant investment.

"We have a tight focus on the type of company we want, the location and kind of management team we want — someone who wants to be part of the CBIZ business model and be part of a bigger, growing company and wants to provide more products and services to their existing clients. The service businesses we are in, if you don't keep providing more to your clients, then you are going to let someone else in."

The sellers get the resources they need to take their business to the next level, and CBIZ gets a strong manager to continue running the practice.

Another challenge any acquisition creates is the integration of the management and staff into the acquiring company. CBIZ had made so many acquisitions in such a short time that there was a struggle for a corporate identity. Gerard has put into place an integration plan that brings each new acquisition into the fold as quickly as possible.

"When we acquire a company, you become part of CBIZ on the first day," he says. "You are in the company, in our benefits, in our computer system, our master reporting system. You utilize immediately all of our marketing and sales tools, and you are bound by all the operating procedures and ethics guidelines and everything else we have so that you become part of us in every possible way as soon as possible."

Part of the integration is also the welcoming of the new office. Gerard or another senior officer will go out to the new office and explain what CBIZ is, what the company's goals are and how the new office fits into the organization.

"We have an introductory letter that welcomes them to CBIZ. We give them a small gift and make a big deal about the acquisition centrally," says Gerard. "We post it on the intranet site, then encourage all the other businesses who are likely to interface with that unit to contact them as quickly as they can. The integration is not just into CBIZ but also with our products and services."

Cross-selling trust

To unite what used to be independent businesses into a coherent team that is comfortable referring important clients to each other, Gerard had to create an atmosphere of trust. Without it, one of the key growth drivers — cross-selling — won't happen.

"The other thing we do in every place that we can is co-locate [the acquired company with an existing CBIZ unit] as soon as we can so that they are immediately in the CBIZ environment," says Gerard. "It's not as critical for the integration of the business unit as it is for the creation of an environment where cross-serving can happen. Cross-serving has nothing to do with the way you deliver products or services. Cross-serving is a matter of trust. Do you trust your long-term, existing client relationships with somebody else who now will have primary responsibility with that client?

"One way you build that trust is we put them together. Every day, they are talking about their kids' soccer games and they are physically next to each other. That breeds the beginning of a relationship, and trust takes a long time to build, but they are far more comfortable if they are not in a different office. You have to quickly build an environment where they can talk to one another so when the client comes to visit and complains about eight different things, you can say, 'Well, my partner next door can help. Let's go talk to him.'"

Cross-serving is vital to CBIZ's overall success. Without it, there's less to be gained in assembling complementary businesses in the same market, and acquisitions never realize their full potential return. While CBIZ does have some national practices where having a local presence isn't important to the customer, the bulk of its services are provided on the local level.

It's only when all the units in the same market begin referring business back and forth to each other that each unit, and thus CBIZ as a whole, will reach its growth goals.

"There are a lot of ways to get people focused on cross-serving, both where there is local capability and nonlocal," says

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Gerard. "We have economic incentives for business units that do that. There are individual goals at the transaction level and economic consequences to those goals.

"We have a tracking system where every cross-serve is entered into it, tracked and tabulated when closing. I get an e-mail on every cross-serve that closes in this company. On the intranet site, there's a chart that goes up each day by dollar amount. We make the dollar goal public. We make cross-serving part of the company rhetoric. It is very important.

"I don't give any speech that doesn't mention cross-serving. The same goes for the president and the group heads."

Gerard also created the Model City program. Four senior officers adopted four cities where CBIZ had a concentration of products and services that had a high likelihood of benefiting from increased cross-serving.

Every four to six weeks, the people in those cities got together and talked to corporate about what their products and services were and who their clients were, and developed specific action plans to improve cross-serving.

"I will tell you that the four largest cross-serving cities were, in fact, the four adopted cities," says Gerard of the program's effect.

The program added another four cities with similar success. Gerard's goal is to ingrain the idea of cross-serving into the hearts and minds of all his employees because of its importance to the company's growth goals.

"Cross-serving is not natural behavior," says Gerard. "The good news is as those relationships develop based on client success, it gets its own traction."

Sales generated by cross-serving have increased five years in a row. In 2002, it was $6.5 million. By 2004, it was up to $10.4 million.

"When we see the aggregate dollar amounts going up every year and the percentage of revenue going up every year and, most important to me, the number of closed transactions going up every year, then we are beginning to generate some successes," says Gerard. "No company has ever made cross-selling purely successful. Look at the model of banks and financial services."

Many banks added insurance and brokerage services to their standard offering in the hopes of becoming a one-stop shop for everyone's financial needs, but for most, the results have been disappointing.

"Our definition of success isn't 15 percent incremental revenue," says Gerard, once again making sure the company has realistic goals. "Our definition is a much smaller percentage because we are going to run out of client opportunities with the client base that we have at some point. I think that we are very self-critical in this company. I think 3 percent of our revenue is still too small, and I think we can get above that."

Organic growth

Acquisitions will add complementary services for CBIZ employees to cross-sell into, but those acquisitions also have to continue to grow the business that they have for the company to meet its growth goals. The company also has to build on the services that it has by adding products to existing units to maximize revenue in any particular field.

"We continue to expand the product offerings within our product groups," says Gerard. "We're continuing to do that in accounting. We are building our audit business and tax business, as well. In insurance, we are very strong in our health and benefits, but not as strong in property and casualty as we would like. We have rolled out our human capital, which is our HR consulting business. It's a clear segment of the service economy that is growing."

But most of the organic growth is just a matter of the employees asking the right questions.

"When you take your client to lunch or dinner, you have to ask them, 'What are the three things that keep you up at night?'" says Gerard. "Inevitably, one of those three things is a product or service you are not involved in. It could be their health care plan or their benefits plan or them saying their computer doesn't work. That's where the opportunities come.

"What you have to do to grow more business with the client is to question and collect that information. Most of our folks are very good at that — of getting all the business they can in their limited specialty — and most of our clients are good at coming to us in a limited sense. But the effort to get more business has to be to expand those comfort levels. It doesn't even have to be out of their product area.

"If you are providing services, say accounting of some kind, and they say they are opening up a warehouse, all of a sudden there is a tax issue, a financing issue

and all sorts of things that you are not specifically involved in. You have to be prepared to question within your practice."

Gerard says the successful people running each of the company's units are already masters of getting business from their particular specialty because most built their business on their own before being acquired. They just need to make sure they are thinking about all the potential business others within the company might be able to help them with. By providing continuing education and reinforcement about all of the company's services, managers are given the tools they need to grow.

"If you are not talking about the things that keep the client up at night, someone else will," says Gerard. "It doesn't matter what the culture requires you to do. The business leaders want to morph from a single problem solver to a multi-problem solver or a solutions provider or a consultant. Our best people want to get calls from clients on different topics, and that's not going to happen overnight."

Employees aren't the only ones getting an education on CBIZ. To make sure customers in all its markets understand what CBIZ is and what it can do for them, the company has committed to a well-funded, long-term branding plan.

"In most cities where we have made an acquisition, the equity value of the old firm is greater than the name CBIZ," says Gerard. "Nobody knows who CBIZ is. We are a major factor in most of the industries we are in, but nobody knows who we are."

The company wants to self-generate more business to help with its organic growth. The branding program, which uses a campaign in print media, public radio and national conventions to reinforce the CBIZ name, is one way of doing that.

"I expect, as a company, we need that to get the larger clients," says Gerard. "Our branding also helps define our corporate culture. Every time you touch the company, you are going to hear something about us."

Part of the original challenge Gerard faced was uniting more than a hundred businesses, getting them to work together in a common culture within the growth strategy.

"You gotta have a world-class team," he says. "No one person can do it alone. You have to empower the team. And the other thing is, you can't run a business sitting behind a desk. The information you get is filtered and it takes time to get there. You gotta be out talking to employees and visiting the offices. You have to be working as far down as you can to get a sense of their satisfaction, frustrations or involvement of the staff, and they have to be comfortable communicating with you.

"One of the things I said when the team took over was that open communication is paramount. I get 20 e-mails a day from low-level people about things I'm doing wrong or someone else is doing wrong."

The culture, combined with the growth strategy, has produced results. In 2002, the company posted net earnings from continuing operations of $7.8 million. By 2004, that number climbed to $16.9 million. Same unit revenue increased from $467.6 million in 2001 to $495.2 million in 2004. The stock price had increased to around $6 by late last year. People were working together toward common goals and the company rebounded as a result.

"If I would offer advice to anyone, it would be to put a team in place, empower them then get out and spend time where the money is made," says Gerard. "Corporate functions are overhead. They don't generate revenues. Once you realize revenue is generated by the people in the field, you better be out there making sure they are getting the support and making sure you know what their issues are. You are not going to satisfy them all, but they'll respond better.

"There's a difference between running a long-standing culture and one that has been amassed or one where there is no corporate culture to come into. The day will come when we have a more established culture and perhaps do not have to do some of the things we do now, but while you are building that culture, you have got to get out there."

HOW TO REACH: CBIZ, (216) 447-9000 or www.cbiz.com