

The toughest deal is last

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Four years ago, long-time small-business owner Ron Tonts decided he wanted to retire before he hit the age of 55, just a few years down the road. But he didn't want to sell his company, Vancouver-based XSM Systems Inc., to just any buyer that came knocking. Tonts wanted the company to thrive after his eventual departure. "A nice profit is great," Tonts says. "But I didn't want to give it to someone who I didn't think would be successful with it."

Flash forward to the present. Tonts, now 54, is regional director of sales for Scalar Decisions Inc., a systems integrator in the growing field of cloud computing. Scalar also happens to be the firm that bought a majority stake in XSM — an IT infrastructure provider — in 2008, with Tonts staying on under a three-year contract to help with the transition.

It's a happy outcome to what can often be a messy and difficult process: selling a business. It was certainly no different for Tonts, even though he had a pre-existing business relationship with Scalar chief executive Paul Kerr.

The story of Scalar's acquisition of XSM begins long before either company existed. Both Tonts and Kerr ran their own independent sales organizations for Sun Microsystems Inc. in the years before they separately founded XSM and Scalar in 2004. They were acquaintances then and, in 2007, ran into each other at a conference in Chicago. Catching up over a dinner, the topic of acquisitions soon reared its head. But it stayed at the dinner table — at least until their paths crossed again six months later. This time, given Tonts's desire to retire, the talk turned serious. The fact that the men knew each other, and that Tonts knew and liked Scalar's management team, certainly helped, but the process was far from flawless, Tonts says. After all, he admits, selling your company is an emotional process.

What made the deal easier to consummate, however, was taking the emotion out of the negotiation, something Tonts did with the help of a personal coach. "He would always get myself and Paul's party to step back and take a big-picture look," Tonts says. "That kept things on track." A financial adviser — Sapient

Capital Partners — was also brought in to help. Eventually, a deal was hammered out, but the process didn't end there. Kerr and Tonts both agreed it would be best to combine operations and branding gradually and not rush anything.

It wasn't until about six months after the acquisition that XSM re-branded under the Scalar banner. Tonts says he also consulted with XSM's customers before the switch, and kept them aware of all the steps during the acquisition period. "In doing that, we kept momentum in the marketplace," Tonts says. "We kept our customers, and we gradually grew during the same period. "

Today, Toronto-based Scalar has about 60 employees and brings in around \$60 million in annual revenue, says Kerr. A good portion of the company's growth has taken place through acquisition — XSM was the company's first, but Scalar this year also acquired London, Ont.-based Southwest Technology Group, applying the lessons learned from the XSM acquisition. "We can grow organically, or we can acquire," Kerr says. "We actually think acquisitions are a better way to grow."

As for Tonts, he's happy to keep an eye on the company he helped create and ensure it continues to grow.

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