

Fire Protection Industry Consolidation and What It Means for Distributors

By Robert F. Coleman

What has changed in the fire protection industry over the last ten years and what should your company be doing about it? Read on to get the facts and gather tips on how to best position your business.

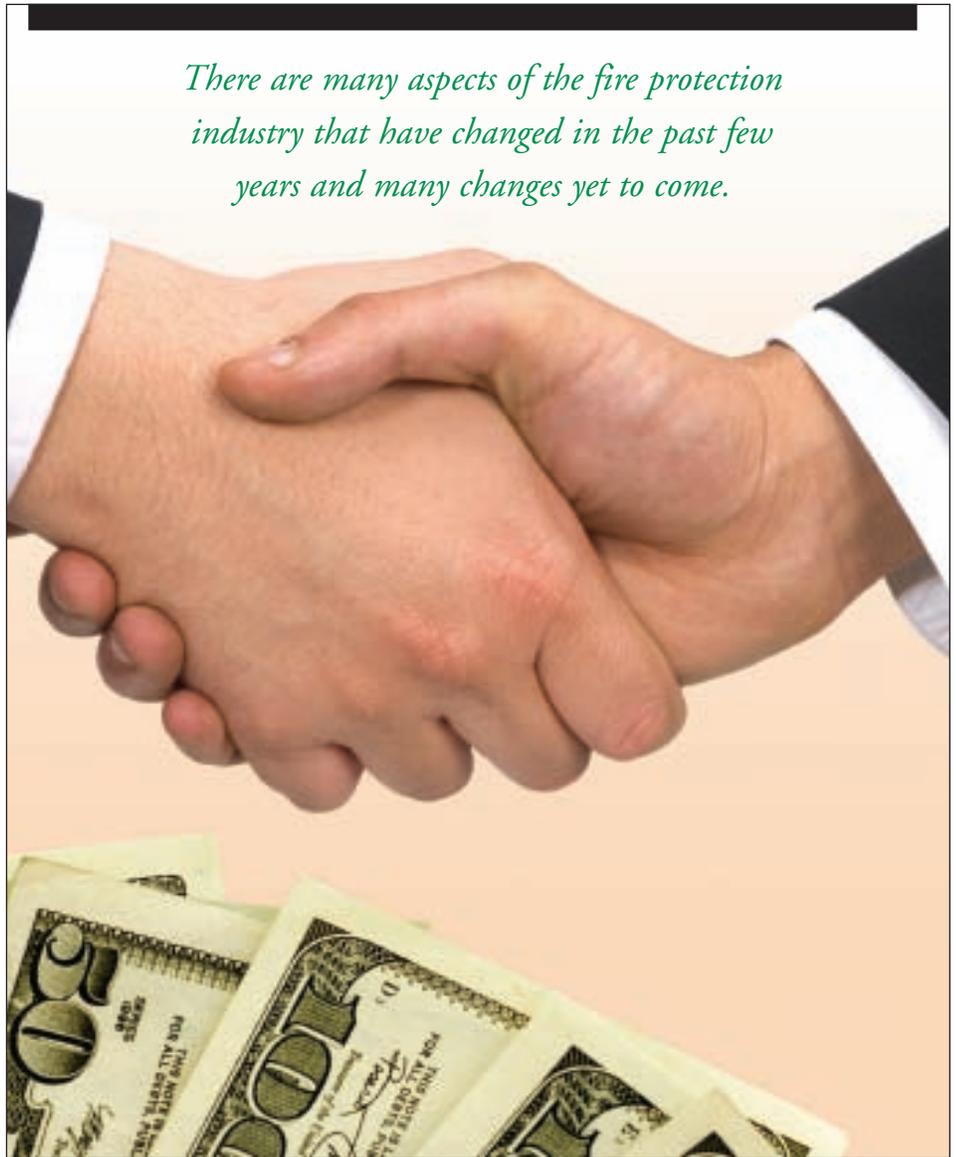
The fire protection industry is going through significant changes and is evolving into a new era. Over the past ten years, much has changed in the fire protection marketplace and the changes have gained some momentum recently.

Booming Acquisitions

Over the past ten years, the changes have been dramatic. In 2000 the major players in the industry were Tyco, Kidde, Honeywell, and a host of medium sized manufacturers. In 2000, distributors were largely independent of the manufacturers.

In 2001 Tyco acquired Simplex and eventually created Simplex Grinnell to compete in the distribution channel. In the years that followed, Tyco continued to acquire distributors at a rapid pace and, after some growing pains, became a national competitor in distribution. Kidde, as a reaction to the Tyco consolidation program, responded by acquiring a few smaller distributors but did not aggressively pursue acquisitions of distributors.

There are many aspects of the fire protection industry that have changed in the past few years and many changes yet to come.



In 2003, Cintas entered the fire protection service distribution segment and has grown from zero to an estimated \$200 million in revenue in recent years. On a parallel path, many of the midsize companies, recognizing the challenge from these mega companies, began acquiring smaller distributors.

In 2005, United Technologies acquired Kidde and UTC Fire and Security was created. Shortly after the UTC/Kidde acquisition, the new company embarked on a program to grow their ownership in the distribution channel. UTC Fire and Security now has distributors across the U.S. with combined revenue estimated in excess of \$200 million.

There have been many changes in the past few years and change continues as we enter 2010.

The manufacturing segment of the fire protection industry is not exempt from this consolidation. General Electric acquired the Edwards Systems business; Honeywell made acquisitions expanding their product portfolio; Kidde acquired Nighthawk, IFSA, and others. Companies such as Figgie and General Fire Extinguisher disappeared from the marketplace.

Bust Strategies

When the recession hit the U.S. in mid-2008 many of the larger companies put acquisition plans on hold while they re-evaluated their resources and cost structures. By mid-2009 many had significantly reduced their overhead cost structures and also redeveloped growth plans for the next few years. These growth plans took into consideration that the economy will likely recover but on a slow and steady path and not a quick rebound. Many executives at large companies were faced with the question: "How do you gain market share and grow the company to satisfy shareholder desire for value in a slow growing economy?" The obvious answer to the question is that if the overall market is in a slow growth cycle, then the way to grow faster than the overall market is to take market share from others. This can be done by aggressive competition, new product development, and an active acquisition program.

The large corporate players, and also the midsize distributors, are active in the acquisition program. UTC Fire and Security has acquired many distributors and continues to evaluate opportunities. Cintas con-

tinues its drive towards being a major distribution/service company across the United States. Simplex Grinnell continues expansion of its very significant U.S. profile. Mid-level companies like Orr Protection and Amerex/Janus, among many others, are trying to address the challenges presented by the large corporate players in the industry.

The Latest Shift

In November 2009, UTC Fire and Security announced the acquisition of the GE Security business for \$1.8 billion, which includes the Edwards Systems business. This is a major change in the industry. Certainly adding Kidde and the many Kidde brands such as Badger, Detectronics, Fenwal, etc. onto its already significant portfolio of products makes UTC Fire and Security a dominant supplier of products in the U.S. The distribution business owned by UTC Fire and Security along with the GE distributor outlets clearly gives the company an ability to influence the overall market for the combined product portfolio. The UTC/GE deal is still subject to a legal process which should be completed in 2010. Once the two companies are combined, it will prove interesting to see how UTC addresses the conflict between UTC-owned distributors and some of GE's independent distributors. How will pricing be affected? Who will get available products? If geographic coverage overlaps between owned distributors and independent distributors, which will be given the distribution rights? There are many unanswered questions which will be addressed over several months once the acquisition is completed.

A new twist in the U.S. fire protection industry was also announced in November

2009. Minimax GmbH, a German fire protection company which acquired Consolidated Fire Protection in 2007 to create an entry into the U.S. distribution/service market, announced that it was merging with the Viking Group, thus creating an even more significant presence in the U.S. fire protection market. Viking is a leading company in sprinkler and valve products. Minimax along with Consolidated Fire Protection and the Viking Group will have global revenue over \$1.1 billion and over 6,000 employees, providing another dynamic change to watch for as we enter 2010.

What This Might Mean for Your Company

With all these changes, what should an independent fire equipment distributor do? A few suggestions to consider:

- Evaluate your growth potential and that of your local market over the next few years. If all you see is small growth then your market share may be shrinking and the long term stability of your business may be at risk.
- Evaluate your competitive position and the activities of major and regional competitors. Are you being squeezed?
- Objectively review your strategic plans to grow your business and develop value-added propositions and cost projections to support the growth plan.
- Review your succession planning. Should you pass it on to others? When does management need to change? Should you exit your business?
- Is your business going to be worth more now or in the future? If a large corporate competitor enters your market, can you compete effectively?

Once a large corporate competitor enters a market and develops a position, their focus tends to shift from buying competitors to taking market share through aggressive competition. Much like food, a business also has a “sell by” date. Timing of a divestiture is critical and needs to be considered if that is the desired plan.

- What are the capital investments required by your business over the next several years? Do you need to update your equipment, service fleet, etc.? Can your business’ cash flow support the investment and create an adequate enough return on investment to allow you to effectively compete in the new marketplace?
- Is your fire protection business dependent on any one supplier? Whether you are a distributor representing a key manufacturer’s brand or a manufacturer closely tied to a particular material supplier, the contractual arrangements that are in place need to be reviewed.
- If you might sell your business sometime in the future, get assistance now in developing a divestment plan that identifies key actions that will, when implemented, enhance

the value of your business to potential buyers. The sale of a business should not be entered into without a well thought-out plan. For some businesses, implementation of a business improvement plan may be necessary prior to beginning the sale process.

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There are many aspects of the fire protection industry that have changed in the past few years and many changes yet to come. It is important that fire equipment distributors objectively evaluate growth potential, review the available options for the future of their business, take into consideration likely changes to the tax laws in 2011 and beyond, and most importantly make decisions based on solid strategic plans and not just emotional reaction to more immediate challenges.

Not long ago, I authored an article titled “The Top Ten Questions to Consider When Selling a Fire Protection Business” which was published in the June 2008 *Firewatch!*. In light of the ongoing changes in the fire protection industry, it might be timely to revisit this article. Copies of the article are available either through NAFED or by contacting Bob Coleman at rfc@paramaxcorp.com. ♦

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