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Information Technology Companies

SIC: 7373**NAICS:** 541512**Number of Businesses / Units:**
Unavailable

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- ▶ [Computer Programming Services--Custom](#)
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This U.S. industry comprises establishments primarily engaged in planning and designing computer systems that integrate computer hardware, software, and communication technologies. The hardware and software components of the system may be provided by this establishment or company as part of integrated services or may be provided by third parties or vendors. These establishments often install the system and train and support users of the system.

Rules of Thumb

1.5 percent of annual sales

5 to 8 times EBITDA

Expert Ratings

▶ Competition	2.8	(1=Lot of : 4= Not Much)
▶ Amount of Risk	3.2	(1=Very : 4= Not Much)
▶ Historical Profit Trend	2	(1=Down : 4= Up)
▶ Location & Facilities	2	(1=Poor : 4= Excellent)
▶ Marketability	3.2	(1=Low : 4= High)
▶ Industry Trend	2	(1=Declining : 4= Growing)
▶ Ease of Replication	1	(1=Easy : 4= Difficult)

Expert Comments

"If an IT services company has aligned with a leading technology provider, they frequently experience tremendous growth in business equity. I have seen the ownership of professional services companies sell their equity within just a few years and realize a return on investment multiple of 10 or higher."

Seller Financing

"3 years"

Questions

"Why are they selling, revenue and earnings track record, size of customer's geographic footprint, who are their technology

Pricing Tips

"An IT services company is defined as an organization with a business-to-business services model which may include competencies in custom application development, application implementation, application integration, systems integration application hosting and technology consulting."

"Is there an SLA (Software License Agreement) for each type/copy of software being used? Are the SLA's assignable? Has the vendor given written permission to assign them and under what conditions? Has the company been reported to the Software Consortium as a company using unlicensed software? Is the technology based on open standards and/or proprietary? Is there a complete inventory list of all software and hardware being used in the business? What 3rd parties are hosting applications and providing IT Services?"

"Off-balance sheet items such as: customer/client lists, developed technology, R&D yet to be commercialized, patents, proprietary products, future potential to grow the business."

"Ask questions about client relationships that will remain, about product & market development, about other competitive advantages."

Benchmarks

"Gross margin, utilization of consultants, percent reoccurring revenues"

Expenses as a Percentage of Sales

▶ Cost Of Goods	25%
▶ Payroll/Labor Costs	60%

partners, etc...?"

▶ Occupancy Costs	05%
▶ Profit (pretax)	10%

Industry Trend

"It will be up because companies are less inclined than ever before to develop technology capabilities. They want IT products and services to be served up like a utility and priced accordingly. IT products and services that clearly distinguish between commodity services and strategic services will be very helpful to many industries."

Advantages

- ▶ "An IT services business model is one of the lowest risk business models to start, and to quickly accumulate business equity. By design, an emerging services company usually embraces a 'partner program' of an established technology company. This enables them to leverage their technology provider's coattails of proprietary products, marketing services, training, employees—and occasionally customers—with minimal investment. If the product offering from the technology company is in strong demand, the professional services company can often experience tremendous growth in business equity within a very short period of time. Because of these valuable coattails, many IT services companies hold the promise of rapid equity growth with minimal initial investment."

Disadvantages

- ▶ "On the other hand, emerging IT services companies experience the lowest risk to equity at their formation because they ride their technology provider's coattails. However, this risk soon starts increasing because their entire business viability will rapidly become dependent upon the partner program of this technology company."

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