

How a B2B IT Services Business Went From \$126K to \$361K in Net Profit

And Sold for \$1.6 Million After Being Told It Was Worth Around \$250,000

The Situation

An IT services business came to us generating \$1,400,000 in annual revenue. Network support, hardware procurement, project-based IT upgrades, and ad hoc technical assistance for small and medium-sized businesses across a two-county region. A loyal client base built over twelve years. A team of seven that knew what they were doing. A reputation built on being the person clients called when something went wrong.

Ryan had started the business the way most IT services owners do. A technical background, a handful of early clients, and a phone that rang more often than he expected. Twelve years later the phone was still ringing and the team had grown. But the business had not changed in any fundamental way since year three.

He replied to one of our letters. He said it was because two lines in it described something he had been aware of for a long time but had not found a way to address. The business generated a reasonable income. It did not generate what twelve years of building something should have produced. And he had no clear picture of what it would sell for if he ever decided to walk away.

When we got into the numbers, the picture that emerged was more complicated than the surface suggested. Net profit was 9%, \$126,000 on \$1,400,000 in revenue. There was some recurring revenue. Several clients paid a monthly retainer for a block of support hours. A few others had informal agreements that had evolved over years of working together. In total, roughly \$280,000 was arriving with some regularity. But none of it was formally contracted. No defined scope. No notice periods. No documentation a buyer could rely on. From a valuation perspective, informal recurring revenue is not recurring revenue. It is optimistic cash flow.

Ryan was the critical path on everything that mattered. He held the relationships with the five largest clients personally. He scoped every project of any significance. When something went wrong at a client site after hours, his number was the one they called. The team was capable and experienced. None of them had the authority, the client relationships, or the structure to run the business without him.

The honest exit value at that point was around \$252,000. Two times SDE. A number that accurately reflected what a buyer would be acquiring: a collection of client relationships held together by one person, informal revenue arrangements that might or might not survive a change of ownership, and no documented systems for delivering or managing the work. That was not what twelve years of building something was worth. It was what twelve years of building something looked like when it had never been prepared for sale.

Ryan came to us for the same reason most owners do. More profit now, and if a sale was ever going to happen, a number that reflected what he had actually built. We installed six drivers over the following engagement. Here is what happened.

Driver 1: Profit Recovery

We start every engagement by looking for profit that is already inside the business but leaking out. In IT services, that leakage tends to sit in three places: unbilled time, inconsistent hardware and software markup, and scope creep that gets absorbed rather than invoiced.

Unbilled time was the most significant. Project scopes had been estimated and agreed, but the work routinely ran over. Additional configuration requirements emerged during implementation. Client requests for changes mid-project were accommodated without being documented or charged. The instinct was understandable. In a business built on relationships, raising an invoice for scope additions feels like an uncomfortable conversation. The cost of avoiding that conversation was being absorbed silently across dozens of projects every year.

A formal change order process was implemented. Every scope addition, every change request, every hour spent on work outside the agreed project scope was documented and presented to the client before proceeding. Clients accepted it. Several commented that it was more professional than what they had experienced with previous IT providers. The discomfort Ryan had anticipated did not materialize in the way he expected.

Hardware and software markup had never been reviewed. Procurement had evolved as a service rather than a profit center. Products were being sourced and passed through to clients at margins that had not been set deliberately. A markup structure was established based on product category, volume, and the value of the procurement service being delivered. Commodity items at modest margins, specialist hardware and software at margins that reflected the sourcing expertise involved.

Time tracking across the team was inconsistent. Billable hours were being lost in the gap between work performed and work invoiced. A standardized time capture process was implemented. The hours were already being worked. They simply were not all being billed.

Combined, the profit recovery work added \$63,000 in annualized profit before a single thing changed on the revenue side.

Driver 2: Market Dominance

IT services at this revenue level is a crowded and undifferentiated market. Most operators present themselves as full-service technology partners for businesses of all types and sizes. The positioning is generic by design, because most operators believe that narrowing their offer means leaving work on the table. The result is that clients treat them as a commodity and make decisions primarily on price and availability.

Ryan's strongest and most profitable client relationships were with professional services firms. Accountancy practices, legal firms, financial planning businesses, architecture studios. These clients had specific compliance and data security requirements. They were also less price-sensitive than general SMB clients because the cost of IT failure in a professional services context is significant and visible. A law firm that cannot access client files the morning of a hearing is not negotiating over hourly rates.

We repositioned the business around a specific promise to professional services firms: IT infrastructure and support built around the compliance, security, and confidentiality requirements of regulated industries. Not as a marketing claim but as an operational reality backed by the documented standards and security protocols we built in the business autonomy work.

The repositioning changed the dynamic in new business conversations immediately. Professional services firms that had been treating IT support as a commodity brief started asking different questions. Two firms that had been managing multiple IT providers across their offices began consolidation conversations. The perception of Ryan's business shifted from a reliable generalist to a specialist who understood their world.

Ryan did not walk away from his broader client base. That work continued. What changed was that the professional services positioning gave the business a defensible identity in a crowded market and a clear basis for premium pricing that a generalist positioning could never support.

Driver 3: Pricing Power

Pricing had not been reviewed since the business was roughly half its current size. Hourly rates and project day rates had crept upward occasionally but had never been rebuilt from a cost-and-value foundation. The instinct to hold rates in place to stay competitive was understandable. In a market where clients can call three other IT providers on the same day, raising rates feels like an invitation to be replaced.

We rebuilt the pricing model from scratch.

First we established the true cost of delivering each service type. Fully loaded technician rates including payroll taxes, benefits, training, tools, and vehicle allocation. Software licensing and tooling costs allocated per client. Management and oversight overhead. Insurance and compliance costs. When the numbers were laid out properly Ryan recognized immediately that several service types had been underpriced for years. Not dramatically. Consistently enough that the erosion had compounded across hundreds of engagements.

The professional services positioning created something that had not previously existed: a legitimate basis for premium pricing. An IT provider who understands the data security requirements of a regulated professional services firm, maintains compliance documentation, and has built their service delivery around those specific operational requirements is not interchangeable with a generalist competitor who charges the same

hourly rate. That specialization commands a premium, and the clients who need it expect to pay one.

A tiered pricing structure was built. Standard rates for general SMB support work, a professional services program rate for firms with compliance and security requirements, and a premium managed program rate for clients committing to a fully managed relationship with defined response times and strategic advisory included.

Two clients who had been buying on price moved on when the new rates were presented. Ryan held the line. Within six weeks both had been replaced by new professional services clients won through the repositioned outreach, at significantly better margin.

The repricing added \$74,000 to annualized net profit.

Driver 5: Recurring Revenue

This was the driver that changed the business most fundamentally and the one that moved the exit multiple most significantly.

When Ryan came to us the business had approximately \$280,000 in informal recurring arrangements. Monthly retainers for blocks of support hours, ad hoc agreements that had evolved over years of client relationships. None of it was formally contracted. From a buyer's perspective, uncontracted recurring revenue is not an asset. It is a relationship. Relationships leave when the owner leaves.

The opportunity was sitting in the existing client base. Every client using Ryan's business for reactive support had an ongoing technology need that was not going away. The question was not whether they needed IT support. The question was whether they were paying for it in a way that gave the business predictable, contracted, transferable revenue.

We built a managed services program and offered it formally to the existing client base. Monthly fixed-fee agreements covering remote monitoring, endpoint management, patch management, help desk support, and security tooling. Annual contracts with defined scope, renewal processes, and notice periods. The pricing was set at levels that were competitive with what clients were already spending on reactive support, in some cases lower once the cost of downtime and emergency call-outs was factored in.

The professional services clients were the natural starting point. A law firm that cannot afford unexpected IT downtime is an ideal managed services client. The compliance and security documentation built into the managed program solved a genuine operational problem for them. Eleven clients converted to managed services agreements within the engagement period. Several others converted from informal retainer arrangements to formal annual agreements.

Contracted recurring revenue moved from \$280,000 in informal arrangements to \$860,000 in formal managed services and support agreements. That represented 50% of total revenue. The impact on the exit conversation was direct and immediate. A buyer was no longer acquiring a collection of relationships that might or might not survive a

change of ownership. They were acquiring \$860,000 in contracted recurring revenue that would continue regardless of who ran the business, because the value was in the service and the systems, not in Ryan personally.

Driver 6: Strategic Partnerships

Ryan had supplier relationships and some informal referral connections. Work came in through reputation and word of mouth. Nothing was being actively built.

We identified three referral partner categories that served the same professional services client base.

Accountants and bookkeepers. These firms work with the same small and medium professional services businesses that Ryan was targeting. When a client's accounting practice recommends an IT provider, that recommendation carries significant weight. A structured referral program was built with named contacts at the top local accounting firms. Priority response on referrals, clear communication back to the referring party, and mutual referral agreements for accounting firms whose clients occasionally had needs adjacent to what they provided.

Commercial solicitors and legal practice consultants. This group advises law firms and professional practices on operational setup, compliance, and business development. When a practice consultant is helping a firm upgrade their operations, IT infrastructure is always part of the conversation. Several consultants began recommending Ryan's business by name to clients establishing or upgrading their technology setup.

Commercial insurance brokers. Professional indemnity and cyber insurance brokers work with the same professional services firms and are acutely aware of which clients have inadequate IT security. A co-education approach was developed that positioned Ryan's business as the operational partner for firms whose insurance requirements had outgrown their current IT setup. Two brokers began making introductions directly.

Referral volume from structured partnerships increased 32% compared to the prior period.

Driver 7: Business Autonomy

Every improvement above was real. But none of it was transferable to a buyer if Ryan remained the critical path on every client relationship and every significant decision.

This was the same issue that had produced the entry valuation that started the conversation. The business was worth \$252,000 because everything of value ran through one person. Fixing the recurring revenue, the pricing, the partnerships, and the market positioning did not address that fundamental structural problem on its own. The autonomy work was what made all of it permanent.

When we started, Ryan held the relationships with every significant client personally. He scoped every project. He reviewed every proposal. He was the person clients called when something went wrong outside business hours. The team was experienced and

capable. None of them had been given the structure, the authority, or the client-facing role to operate without him.

We documented every core process. Client onboarding, managed services delivery standards, project scoping methodology, change order management, help desk escalation, hardware procurement, billing, and the security and compliance documentation framework that underpinned the professional services positioning. Each process assigned to a role with clear accountability and a defined output. The managed services delivery in particular had lived in Ryan's head. Getting it into a documented system that any trained technician could execute was the work that made the professional services positioning transferable.

A senior technician who had been with the business for eight years was promoted into an operations manager role. He had been the informal go-to for the team on technical escalations for years without a title or a structure to match. We built the role, the accountability framework, the client communication protocols, and the handover plan. Ryan introduced him formally to every managed services client as the primary operational contact. The transition was managed carefully over several months. Not one client raised a concern.

A simple operating dashboard was built. Eight numbers: managed services clients by tier, contracted recurring revenue, monthly recurring revenue collected, help desk ticket resolution time, client retention rate, referral volume, outstanding receivables, and owner hours per week. Visible weekly without anyone having to compile it.

As the business autonomy work took hold Ryan was in the business fourteen hours a week instead of fifty-five. He used the recovered time to focus on the professional services firm relationships and the partnership network that were driving the highest-value new managed services clients.

The Result

At sale, annualized revenue had moved from \$1,400,000 to approximately \$1,720,000. Driven by the managed services conversion of the existing client base, the professional services niche attracting higher-value new clients, the repricing applied across all service delivery, and the 32% lift in referral volume from the partnership program.

Net profit moved from \$126,000 to \$361,000. Net margin moved from 9% to 21%. That improvement did not apply only to the new revenue. The change order process, the markup restructure, the time capture improvements, and the broader pricing discipline from the profit recovery work changed the margin profile across every engagement the business ran. The improvement compounded across both old and new volume simultaneously.

Worth stating plainly: every year that profit ran at \$361,000 instead of \$126,000, Ryan put an additional \$235,000 in his pocket. The work that built the exit value also paid him significantly more along the way. More profit now, more value at exit. The same work delivers both.

The exit multiple achieved was 4.5x SDE. The sale price was \$1,624,500.

When Ryan replied to our letter the honest estimate of what the business was worth was around \$252,000. The difference between that number and \$1,624,500 is not a different market or a different economy. It is deliberate work across six drivers.

The buyer was a regional managed services group expanding their professional services client base. The contracted recurring revenue, the compliance and security positioning, the operations manager in place, and the documented service delivery standards were exactly what they were acquiring. Ryan was not required to stay. He consulted for sixty days at his discretion and was done.

He replied to a letter on a Tuesday morning because two lines in it described something he already knew. The answer to what those lines were pointing at turned out to be worth \$1,372,500 more than the number he had been carrying around in his head.

The Numbers at a Glance

	Before	After
Annual Revenue	\$1,400,000	\$1,720,000
Net Profit	\$126,000	\$361,000
Net Margin	9%	21%
Recurring Revenue	~\$280,000 (informal)	\$860,000 (contracted)
Recurring Revenue as % of Total	20%	50%
Owner Hours in Business	55+ hrs/week	14 hrs/week
Ops Dependency on Owner	Near total	Operations manager handling day-to-day
Exit Multiple	2.0x SDE	4.5x SDE
Est. Value at Entry	~\$252,000	—
Sale Price Achieved	—	\$1,624,500

Is This Relevant to Your Business?

Ryan did not come to us because the business was in trouble. He came because twelve years of building something had produced a number that did not reflect what he had built, and he had the self-awareness to act on it before the moment of exit forced his hand.

An IT services business with informal recurring arrangements, full owner dependency, and no documented service delivery systems will be valued as exactly that, regardless of how capable the team is or how loyal the clients are. The multiple reflects what a buyer is actually acquiring. Relationships held by one person are not an asset. They are a risk priced into the deal.

The work required to close the gap between what a business is worth today and what it could be worth is the same work that makes it more profitable in the meantime. You are not choosing between profit today and exit value tomorrow. You are doing both simultaneously.

The systems installed here are not IT services specific. They are the same drivers we install in every owner-operated B2B business in the \$750K to \$5M revenue range where the fundamentals are sound but the business has not yet been built to run, grow, and sell without the owner at the center of everything.

If you read something recently that described your situation more accurately than you expected, that is usually worth paying attention to.

Leighton Williams
Ivy Tower Management