

The competitive advantage for accounting firm leaders since 1987

Current Trends Surrounding Mergers And Acquisitions And The Importance Of Succession Planning

Mergers are still the rage today just as they were 10 years ago. But now, instead of larger firms looking to buy smaller ones, it's far more common to see smaller firms taking the imitative and seeking to merge "upstream."

"It's ridiculous the amount of deals going on," **Joel Sinkin** tells IPA, whose New York City practice, **Accounting Transition Advisors**, has focused solely on accounting firm mergers and acquisitions since 1990. The reasons for the explosion in mergers? Sinkin cites the looming retirements of baby boomer partners, the lack of younger professionals to step in, and the desire to find top talent and create new niches.

"One of the most important things today that wasn't as critical in the past, is the talent pool that's coming along with the deal," Sinkin says. "It was on the radar before, but it was much further down than [billing] rates and clients." Sinkin says the first thing potential buyers ask is, "What kind of talent can I get?" It used to be, "What kind of client base can I get?"

Here's an example: A \$5 million firm in Dallas is interested in merging. Two of its partners want to retire. Five or 10 years ago, that firm would have been bought right away. Now, buyers are saying, "If we're losing both partners, I'm not sure we can handle it."

Sinkin sees the current merger market in three distinct groups. First, there are the \$300,000 firms of one to three people in metropolitan areas. For them, it's a seller's market. "A bunch of people want to buy that kind of firm, but if I'm in Boise, Idaho, I've got a problem."

Then there are the \$1 million to \$5 million firms. For them, it's a buyer's market. Outside of the Big Four, there's a much more limited pool of firms

Acquisition Of Talent Now Trumps Clients And Billings



Joel Sinkin
Accounting Transition
Advisors

willing to buy a firm of this size, which usually has aging partners looking at retirement within 10 years. “There’s no desire for retirement-minded practitioners,” Sinkin says.

And then there are the biggest firms, which are being approached by the small and mid-sized firms to solve their problems with talent shortages and poor succession planning. And the biggest firms may see the smaller ones as a source of experts – say in business valuation or estate and trust work – so they can offer new niche services if they combine forces.

**Staffing Problems
Reflect Poor
Long-Term Planning**

The accounting industry has a horrible staffing problem, Sinkin says. “You hear about succession issues and staffing all the time, but these firms fail to recognize how directly related the two are.” Too few firms plan ahead far enough in advance to be prepared for partner retirements. According to a study of 500 smaller* CPA firms by the AICPA’s Private Companies Practice Section, 81% of firms said they had no written succession plan even though retirements are coming fast. [*72% of surveyed firms are smaller than 20 employees.]

A total of 60% of the firms surveyed had owners between 55 and 62, while 77% had owners between 45 and 54. More than half the firms said one person would be retiring in the next five years and 18% indicated that more than one owner would be leaving. The firms were asked to respond to an open-ended question about how leaders were being developed. The study said: “One firm’s response – *‘keeping our fingers crossed and praying’*– reflected the reality described by many [of the] respondents.”

Some firms are so daunted by their staffing problems that upstream mergers are seen as the only opportunity for growth, Sinkin tells IPA. “In the past, you couldn’t pry them out of their independency.” While these are not the majority of mergers, they are far more common now than they were 10 years ago.

**Create Brand Loyalty
With Clients And
Keep Staff Engaged**

And looking out over the next 10 years, Sinkin sees this trend accelerating as more partners retire. In order to remain marketable in the future, these firms need clients who are loyal to the firm’s brand, and firms must do a better job of giving younger professionals the management and client experience to step into leadership roles.

According to IPA’s 2007 National Benchmarking Survey, (which is heavily weighted toward firms greater than 20 employees) 55% of firms indicated that they *have* a written succession plan. The average age of CEOs of all non-national firms is 53.1 years, while the average age of all partners is 49.5 years.

Firms are also falling down when it comes to their retirement plans – the AICPA survey says more than 70% of firms had not funded their retirement programs fully, and 61% had no retirement funding at all. Some are counting on buyouts to cover their retirement needs.

It's difficult to overstate the importance of succession planning. "The sad part of it is, I cannot tell you how many firms think they can do a succession plan, and yet they can't once we analyze it." At a firm in Montgomery County, Md., Sinkin put together a questionnaire, asking the 12 partners how long they planned to maintain their current time commitment to the firm. Four of them planned to reduce their hours gradually over the next several years. Internally, there was no way all four of those people could be replaced. Firm leaders realized they would have to look outside the firm to continue growing.

**More Time Is Needed
For Transition Than
Most Firms Allow**

The firms that will be in the most trouble are the middle-sized ones with four to eight partners with no internal solution to an upcoming void in leadership. A firm of this size needs to plan much farther in advance than in the past – five years prior to a partner's retirement, Sinkin says.

The AICPA study called five years the *minimum* amount of time needed to mentor a potential leader, and that too few transfer clients from retiring partners early enough. "This step is avoided at many firms because partners want to maintain client relationships without intrusions from outsiders. While this might seem prudent in the short run, it is a bad long-term policy for the firm," the study said. "The practice will stagnate if younger CPAs aren't introduced to existing clients and taught how to bring in new ones."

84% of the non-national firms report that they have a retirement plan for partners, but the numbers of unfunded retirement programs – now over 50% – remains a growing problem for the profession, according to this year's IPA National Benchmarking Report.

The driving forces behind mergers and acquisitions – beyond talent shortages and succession issues – include cross-selling and to a lesser extent, technology. A firm that feels it has exhausted the St. Louis marketplace, for example, can easily set up a satellite office in Wichita or Kansas City. A good merger can't only be about dollars, succession, cross-selling or even a new office location. Successful mergers are about true synergy, meaning a better value for both staff and clients alike. Start succession planning now, Sinkin advises.

As for obstacles to mergers, Sinkin says: "If you don't want to eat lunch with these people, don't do it." Chemistry should dictate whether the firms keep talking. "If the owners aren't comfortable with it, why would staff and clients feel comfortable?" Another roadblock is the prospect of major changes. "Those are my two big keys – chemistry and continuity – financials come after that." He says everyone should go into these deals with 20-20 vision, and everyone **MUST** win financially or the deal won't work.

"The point is these people really need to think about this way in advance. The longer in advance you consider it, the better your options are. The longer you wait, your sense of urgency increases. And four years from now it's going to be a whole lot worse." ■

Joel Sinkin, is a senior partner in Accounting Transition Advisors, LLC (www.transitionadvisors.com), which exclusively consults on the merger & acquisition of accounting practices nationwide. He travels cross-country to teach CPE for state and national accounting associations and has consulted on more than 850 accounting firm closings and succession plans, and published books and articles nationwide. He can be reached at 866-279-8550 or at jsinkin@transitionadvisors.com.

INSIDE PUBLIC ACCOUNTING - (ISSN 0897-3482) The Competitive Advantage For Accounting Firm Leaders. IPA is the profession's authoritative independent newsletter for reporting and analyzing news, trends, strategies and politics. © 2007, The Platt Consulting Group, LLC. All Rights Reserved. It is a violation of federal copyright law to reproduce all or part of this publication or its contents by any means. INSIDE PUBLIC ACCOUNTING is published monthly by The Platt Consulting Group. Principals: Michael Platt and Kelly Platt. Send address changes to INSIDE PUBLIC ACCOUNTING, 4000 West 106th St., Suite 160-197, Carmel, IN 46032-7730. Subscriptions: U.S. \$379; Canadian and overseas air mail US\$459 (U.S. bank or international money order). Call about corporate discounts. Back issues: Subscribers \$25; non-subscribers \$50. For reprint information and pricing: (317) 733-1920; info@plattgroupllc.com

Phone: (317) 733-1920 Fax: (317) 663-1030 Web: www.plattgroupllc.com