



SMALL FIRM SOLUTIONS

WINNING STRATEGIES FOR PROFITABLE FIRMS

THE NEXT GENERATION

Succession Planning for the Sole Practitioner

By Joel Sinkin

For most practitioners, the objectives of succession planning are to effectively transition client relationships to the successor firm and to maximize the value of the firm as a result of the transfer. The two are inextricably related. Effectively transitioning your client relationships to a successor firm should also maximize the value of your practice.

The foundation of any succession plan rests on why clients select and stay with you in the first place. Most people assume all CPAs are competent. The primary reason your clients pick and stick with you is not normally because of technical skills. It is because of your personal style and their trust in you. Larger firms have clients that typically are loyal to the brand as well as to individual partners. However, in smaller firms, the loyalty is generally exclusive to the owner (or sometimes key staff). Your staff, location, fee level and services also are important. It's the intangibles in your practice that count with clients.

Recognizing these basic concepts is critical to succession planning. It will help you successfully choose the right successor and jointly develop a plan to transition those relationships to the successor. This in turn will lead to capturing the value of your practice.

How do you choose the right successor? Chemistry between you and the buyer is the single most important aspect in determining the right successor for a sole practitioner. In a small practice, client handholding skills are critical. Start with a basic test. Do you like your potential successor? If you don't, why would your clients like him or her and want to stay with them? Next, ask if the successor firm has a plan for integrating your clients into their practice that is complete and makes sense. The plan should cover which of their firm's partners and staff will be assigned to your clients. Ask about these peoples' current responsibilities and capacity for new work and try to determine how your clients will fit into their schedule. You should be comfortable that they can provide your clients the same level of service they have been accustomed to receiving from you.

If chemistry is foremost, surely next is continuity in the way your clients are served. Your clients like the way you are sailing your ship. Ideally, you will find a firm that will provide stability to your clients. Look for things like the firm's proximity to your current location, fee structure, service offerings, special expertise, if relevant, and client service philosophy. Assuming the basics match up well, the endorsement you provide the successor will also have an important impact on your clients' perception of the new firm.

You should expect, of course, that the successor firm will perform due diligence on your practice. You should also perform due diligence on them. In addition to the basic things like a financial and legal review, do some homework to determine their track record on key indicators. Has your potential successor done a deal like yours before? If so, how did it work? What is their retention rate for their existing clients? If they can't keep their clients why would they be good at keeping yours? What is their reputation and image in the community? Have they had any legal or professional ethics problems? These determinations will help you evaluate their suitability.

Should the deal for your succession be contingent on client retention? The extent to which deals are contingent on client retention varies considerably among transactions. When considering this element of a deal, look at it from the other side's point of view. You might be

willing to buy a practice with no adjustment for clients that leave soon after closing, but the risk that might happen would probably cause you to offer significantly less compensation for the practice. Normally, client retention can be maximized if you choose the right successor and the transition is handled properly. Many deals are done with little or no subsequent client attrition other than what occurs naturally, especially when the seller stays involved after closing. Rather than accept a lower value for your practice, you may be better off doing the deal with a firm that is committed and capable of maximizing your value.

What is an appropriate transition plan? Even if you have picked the perfect successor firm, client retention also depends on executing a transition plan. This starts with how you communicate the change to your clients. Present the transition in the most positive light by emphasizing what the clients are gaining from the new firm, not what they are losing of yours. Announcement letters should point out the things that are key to clients, such as the fact that you are staying on, even if it's in an of-counsel role; the fee structure is remaining intact; the practice remains conveniently located; and critical staff are part of the newly combined team. To ensure the letter is read, send the announcement letter in your envelope written on the new firm's stationery.

Consider in advance how the phone will be answered and whether clients will recognize the new firm's name. You and your successor should consider using a generic greeting during the transition period, such as "accounting office" if a more descriptive name is too cumbersome. Decide who will receive a letter announcing the affiliation and who will be told in person or by phone. Some firms send announcement letters to annual clients with tax organizers just before tax season, even if the deal was finalized in October, to avoid a long delay between the announcement and their next service event. You know your clients best and you should have a strong influence in structure and execution of the transition plan, especially if you bear the risk of client retention risk under the terms of the deal.

One unique method of transitioning clients is to affiliate with your successor prior to your retirement (see the *Journal of Accountancy* article "Two-Stage Deals;" March 2006, <http://aicpa.org/pubs/jofa/mar2006/sinkin.htm>). Under this technique, you work alongside and as a part of your successor firm for a specified period so that clients can become comfortable with the newly combined practice and the successor can take the necessary time to get to know the client base and their expectations while you are still around to help.

Critical steps. An effective succession plan, and maximizing value, depend on choosing the right successor, focusing on what will maximize client retention and executing a proper transition plan.

Joel Sinkin, an editorial advisor for Small Firm Solutions, 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.