



SMALL FIRM SOLUTIONS

WINNING STRATEGIES FOR PROFITABLE FIRMS

PRACTICE MANAGEMENT/M&A

THE VALUE OF A SMOOTH TRANSITION IN TOUGH TIMES

By Joel Sinkin

During a time of economic uncertainty, both buyers and sellers will be giving extra scrutiny to all aspects of a merger or acquisition. A key measure of a deal's success is the percentage of clients retained after-wards. To plan for the highest level of retention possible, start by considering why you have your clients. Most are unaware of your competency level. They trust that you are knowledgeable and capable, but the key word is trust. You are their most trusted business adviser and this trust can be taken advantage of, in a professional and ethical way, and should not be feared.

Most of that trust can be attributed to the client's personal and professional comfort level with you. You can use that trust to transition your clients to your successor, a partner or a staff member.

The Importance of Continuity

The two major keys to a successful transition plan are maximizing continuity and focusing on what clients' gain, not what they lose. Let's start with continuity. Change is a daunting and scary concept to most people, particularly with so much else changing around us in the midst of a recession. Your clients are comfortable with your approach to service, billing and other concerns. If your successor firm dramatically alters that approach—through radical changes in service or fees—you likely chose the wrong successor and there will probably be lower retention of your client base.

That doesn't mean the new firm has to mirror your policies forever. The old approach can be altered over time, but gently. Most initial changes by a successor firm should be internal and invisible to the client. However, if the new firm leaders tell a client who traditionally gets a personal visit that they now must mail in their work, they clearly risk losing that client. The same is true when a client who is accustomed to dealing with a partner now must deal with a junior or if clients' billing procedures are substantially changed.

What's In It For Me?

Clients will accept the idea of the merger or acquisition if they believe it is in their own interest. Be sure to explain the benefits to them, including the opportunity for even better service. The major concerns of most clients when notified of a merger are:

- Are the principals I trust still there?
- Will this cost me more money?
- Is the practice's location still convenient to me? Will staff still be able to come to my office?

In age of specialization, it's important to target your message. We typically divide the client base into industry categories, such as tax return only, retail, manufacturing, doctors, etc. We then create a message from the seller to the clients. The message to clients in the wholesale business, for example, may say:

I am pleased to announce I have affiliated my practice with John and Jane Doe. They have expertise in the wholesale industry and I wanted to take advantage of their knowledge and obtain additional back up and support. I will be remaining the principal in charge of your account and we will be operating under the same fee structure as in the past. Our staff is becoming part of this newly combined team of professionals and we are remaining located in the same community.

In one paragraph we have taken away most of the initial fears. The largest clients would get this message in a personal meeting, while clients in the middle would get a phone call and the lowest level clients a letter. The next step is a transition period during which the seller gradually reduces his or her role in the firm while the successor takes over.

How long should the transition take? That depends in part on the message---direct and indirect---that clients receive from the outgoing owners. We have seen firms work three years and more together with their successor but fail to transition properly. They hold on to their role as the clients' go-to person and stand in the way of the client's relationship with the new owners. We have also seen clients transitioned with the seller staying on in a very part time role for six months with excellent results. It is more the message than the time dedicated to the transition.

One of the best steps the seller can take is to convey the message that there is a value added in working with the new owners. Most of your clients trust you and if you lead them down that path, they will follow.

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