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SELLING YOUR FIRM

THERE'S STILL TIME!

Now may be the best time to sell — but it won't always be a seller's market

Analyzing the marketplace

Joel Sinkin and Terrence Putney, CPA, are co-founders and senior partners of Accounting Transition Advisors, in New York and Overland Park, Kan. Sinkin has been involved in succession planning for accounting firms for more than 16 years, while Putney has been involved in many acquisitions of accounting and consulting firms. Together they have handled in excess of 700 mergers and acquisitions of accounting firms.

They believe that when analyzing today's marketplace, it is necessary to break it down into categories:

1. For smaller firms under $1 million in large metropolitan areas, it remains a seller's marketplace.

2. For smaller firms in less populated areas of the country, it is a buyer's marketplace.

3. For midsized to large firms, especially in the $3-million-to-$8-million range, it is a buyer's marketplace regardless of location.

4. In larger metropolitan areas of the country, there are many firms seeking to grow that have excess capacity.

Sinkin said that when a practitioner indicates, "I have $500,000 in billings, I am ready to give up," there are many firms seeking to add those billings to their firm.

"Generally, there are many more buyers for $500,000 firms than sellers," he said. "Not only is there a plethora of small-firm buyers in larger metropolitan areas, but also in many cases the buyer firm can absorb the seller with little to no incremental increases in overhead,

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and can afford to pay the seller a premium for the practice and still generate a profit. Based on these and other market conditions, it has been, and will likely remain for some time, a seller's marketplace."

According to Putney, in areas where there are fewer buyers, the lack of competition for the seller firm among several buyer candidates causes the supply/demand curve to be very different. As a result of the limited audience that a seller has, the value of the practice suffers and it becomes a buyer's market.

"For larger firms, the overall shortage of talented, younger, experienced CPAs, combined with the aging of the industry, has caused many firms to have succession problems," he said. "There are a great number of firms who lack the second tier of partner-level professionals within their practice who professionally and financially can buy out the senior partners and maintain or grow the firm. The larger practices seek such firms not because they want to acquire practices owned by retirement-minded practitioners, but in order to add young talent to their firm. The clients of midsized firms tend to be more demanding of a larger array of services, as well. This leads to many midsized firms seeking upstream mergers. The lack of motivated buyers for retirement-minded partners of $3-million-to-$8-million firms makes this segment of the market a buyer's market."

"However," Putney continued, "for midsized firms that have partners and near partners looking for a long-term affiliation with a larger firm, especially if they have young partners and near partners, it is a seller's market."

Range of areas

Putney emphasized that buyers of smaller practices in the more densely populated parts of the country fall into a wide array of categories. "They include professionals who left public accounting and now wish to return in the role of an owner or in a manager-level professional position — those who want to be 'Master of Their Own Domain.' The majority of buyer firms continue to be the many one-to-four partner firms who make up the bulk of the public accounting industry. These firms see acquiring a practice as the best method of growing their firm, and more expedient than adding one client at a time."

Sinkin noted that the midsized to large firms remain attractive to other large local and regional firms due to their desire to meet several objectives. "The firms seeking to absorb practices primarily do so for all or some of the following reasons: to add billings, to add talent, to add new locations in existing or target marketplaces, to add a niche, and to increase the opportunity of cross-selling additional services that the larger firm offers to a new client base."

He adds that a midsized to large firm with insufficient professional talent to produce the work and retain the client relationships, especially if partners are retiring coinciding with the affiliation, is a practice that is frequently not as attractive to larger firms, since they often are already short of quality staff and have little excess capacity to replace retiring partners.

"For the 16 years that we have been helping firms merge, acquire and plan for their succession, we have heard about the demise of the small practice, especially the sole practitioner," he said. "It has never come to be and we don't see it happening in the future. The large firms are rarely geared up to handle the small, closely held businesses that continue to prefer dealing with small accounting firms. There are a tremendous number of smaller firms in existence, and new ones are cropping up each day. As long as the number of small firms seeking to grow exceeds the ones seeking succession, which has been the case for the last 16 years, we don't see the marketplace changing to the detriment of the smaller firm."

> 'The value of these firms may decrease and the buyers will become more selective about whom they are willing to acquire.'

Putney noted that the pressure on succession issues for midsized to large firms would likely continue. "It appears the labor crunch will persist as the Baby Boomers age. The value of these firms may decrease and the buyers will become more selective about whom they are willing to acquire. Industry statistics of accounting school graduates over the last 15 years indicates that it will be at least another decade before the pressure on the amount of available labor eases, especially at the level of staff that provides internal succession solutions."

Also, they said, the emphasis on cross-selling will continue, and fields such as information technology, elder care, financial services, and estate and trust work will become more prevalent. "In response to this, you will also see smaller firms elect to specialize as a means to compete with the one-stop-shop approach offered by larger firms. Both strategies are well served by mergers and acquisitions, and as a result, that activity will remain robust."

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