

By Joel Sinkin and Terrence Putney, CPA

# Transition PLAN

## Transitioning Clients and Staff During a Merger or Acquisition

You've identified the firm you are going to buy, sell, or merge with; worked out the terms of the deal; and know how you will operate after the closing. How do you transition clients and staff to maximize retention? This article presents you with the key steps you need to take to create the most effective transition plan.

### The Basis For Every Transition Plan

What is the basis for the relationship any accounting firm has with their clients and staff? In most parts of the country, clients and staff have a lot of choices of firms from which to select. Most of the general public assumes if you are a CPA, you are competent. The reason people select a particular firm and remain with them is rarely based, at least during the initial decision process, on a perception of technical skills of the firm. The main reason people select a firm for accounting services or a career is personal comfort with the firm and its people.

The key elements prospects and clients are looking for include personal chemistry, location, method of providing services, fee structure, and the general culture of the practice. In some cases, clients also consider unique attributes such as ethnic or language considerations, niche services, specialized knowledge, and technology capabilities. As for staff, they consider compensation, professional growth opportunities, working hours, environment, and work conditions.

Once you understand the reasons clients and staff are affiliated with a firm, you can focus the transition plan on the attributes that people key to the firm value and will be looking for in the new firm. The main

objective of a transition plan should be to de-emphasize what will be changing, and emphasize what is of value in the predecessor firm that will remain and what will be gained from the new affiliation.

## Plan The Transition As Far In Advance As Possible

Most clients assume that even though significant changes have occurred in an organization, such as the name, location, and size, that if the people they have been dealing with in the past aren't changing, then there won't be any detrimental effects to the way they are being served. Therefore, the easiest way to introduce a transition from one firm to another is to do so when the key people, normally the partners, will be around during the transition.

So, how far in advance of a partner's or owner's transition should a new affiliation be sought in order to maximize the advantage of having that person involved during the period of change? A key factor that influences this decision is the frequency of contact between a client and a key person. Many times when a practice analyzes their client base, they find out how infrequently they have face-to-face interaction with many clients. Most firms have a substantial amount of annual business, including individual clients, that are seen only once per year.

As a result, to make the most effective use of a key person's ability to guide clients through a transition, the process should start years prior to the time when the key person will no longer be full-time active in the firm. Of course, clients seen more often through the course of a year need less time to effect a proper transition.

Another factor that should be considered is a recent or pending loss of a key staff person that has deep relationships with several clients. If an owner is also closing in on the time they were seeking to slow down, now may be the time to find a firm to affiliate with that can both replace the lost team member and be the long-term successor. If the firm anticipates the need to make a major investment in technology, or new office space, this can also be a catalyst to look for an affiliation now instead of later.

## Setting The Stage For A Transition

Most firms do not consult with clients prior to making a transition. The clients assume that a good business decision has been made by the owners and they go along with the change. In some cases, though, very significant clients will appreciate being told in advance of the actual closing that a new affiliation is pending.

The more significant a specific client is to the firm, the more in advance they should be made aware of the change. The primary reason to do this is that they know how important they are to the firm and they will go along with the change more readily if they are shown respect by you taking the time, and risk, of giving them advance warning. Be especially careful that the news is kept confidential and continue to keep them in the loop if the process becomes protracted.

The vast majority of clients can usually be retained even though they are made aware of the change just before or coinciding with the closing.

## Communicating The Change

Again, the objective of the message should be to de-emphasize loss and emphasize gains. Keep in mind what is important to clients and provide the basis for their decision to choose the firm to work with. Emphasize what in those attributes won't change, minimize the impact of what needs to change, and paint a picture of why they will benefit from what is new.

Don't make the mistake of assuming that the clients will know anything about what is and isn't changing. There are some basic important points that need to be properly delivered to clients. Those are:

- Who they will be working with in the future
- Fee structure
- Location
- Capabilities and services

Point out that the person they have been working with, and trust, is still involved. Say that the fee structure they are accustomed to is remaining the same which isn't necessarily the same as the amount of fees. If a client requires additional work, they should expect additional fees.

If the office hasn't moved, say it. If the office has moved, make sure you emphasize the positive aspects of the new space, including the fact that it remains conveniently located.

Emphasize that the new firm offers everything the old firm did and they will receive the same level of support or more. If you can highlight new service areas or areas of expertise, do so.

*Regarding Staff:* If staff are being retained they need to be assured that their compensation and role will remain unchanged if that is indeed the case. Tell them that they fill an important role in the successor firm's goals. Clear, quick and honest open communication is the best approach. Try to avoid unnecessary changes in the staff compensation and benefits. If a staff person has been making \$50,000 at the old firm, and the new firm's compensation system only justifies \$45,000 consider introducing gradually that change over time.

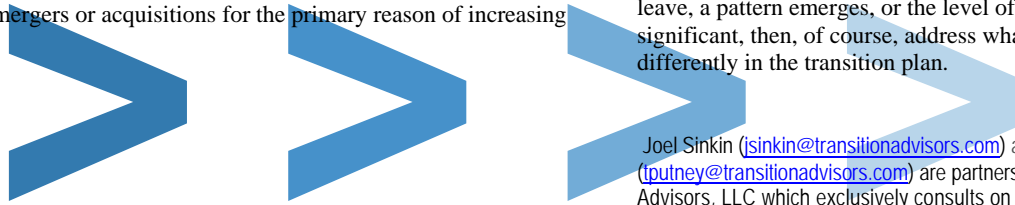
## The Importance Of Firm Name

In some situations, the name of the succeeding firm can be an important part of the message. However, most of the time, the succeeding firm name has little to do with client retention.

If the firm name of the successor is not changing to incorporate the predecessor's name after the affiliation, consider using special transition letterhead and other stationery for a while for the clients of the predecessor firm. For instance, a line under the successor firm name on the letterhead such as "Formerly Smith & Jones" will clarify the transition and make people more comfortable that the identity of the predecessor has not been lost.

## Keeping Staff From The Predecessor Firm

The goal of the affiliation is the basis for how important the staff from the predecessor firm may be. Some firms enter into mergers or acquisitions for the primary reason of increasing



their talent pool or adding a niche to the firm. There may be certain non-owner staff members that have significant client contact. As a result, sometimes the non-owner staff are more coveted and important to client retention than the predecessor

In most cases, client retention will be better if the staff that has significant client contact is kept for the initial transition period which is usually at least one year. Sometimes staff in the predecessor firm do not have employment agreements that restrict them from taking clients. In addition, the staff that present the greatest risk should be retained if at all possible until a good transition of clients has been accomplished. Hopefully, the new firm can obtain a restrictive covenant to minimize future risk.

new affiliation gives them a convenient rationale for making a change. Don't necessarily sweat the first few of these defections and assume something is wrong. If key clients or staff leave, a pattern emerges, or the level of attrition becomes significant, then, of course, address what you need to do differently in the transition plan.

Joel Sinkin ([jsinkin@transitionadvisors.com](mailto:jsinkin@transitionadvisors.com)) and Terrence Putney, CPA ([tputney@transitionadvisors.com](mailto:tputney@transitionadvisors.com)) are partners in Accounting Transition Advisors, LLC which exclusively consults on the merger & acquisition of accounting and tax practices nationally. They travel cross country to teach CPE for state and national accounting associations, have consulted on 750-plus accounting firm closings and succession plans, and published books and articles nationally. They can be reached at 866-279-8550 or at [www.transitionadvisors.com](http://www.transitionadvisors.com)

Reprinted with permission from the MO Society of Certified Public Accountants.

## Document Your Transition Plan

Create a written plan so all parties know the proper message and their role in delivering it. Create a script for staff and partners to use when talking to clients, each other, referral sources, and important associates in the community.

Make sure everyone knows whose responsibility it is to make introductions of new people to clients and whom to introduce. Be clear about what title each person will have. Creating a plan where everyone knows their role, the message and how to deliver it is the best tool to ensure a successful transition.

Most firms choose to announce the affiliation to clients via a letter. Not all clients however should first find out about the affiliation that way. Typically the larger and most influential clients should be made aware of the new combination through a phone call or visit. If a client is informed through a visit, and a new person will be working with that client in the near future, take that person along to the meeting and make sure they have a significant role in the conversation. Going alone also empowers a client to say, "Great news but I only want to deal with you in the future." However, by taking a new partner to the meeting, it is unlikely that a client would say, "Nice to meet you, but I never want to see you again."

Most firms do a reasonable job of planning for the big issues but the little ones can keep or lose clients too. Sending the announcement letter in the predecessor's envelope with the new stationery inside will ensure it will be read and not tossed out as junk mail. Be cognizant of how the phone is initially answered post closing. You don't want a client

scared of or thinking they have dialed incorrectly. Consider a dedicated line for calls forwarded from the predecessor phone number that is answered in a special way.

## Accept That You May Have Some Attrition

Every firm, no matter how well run, has clients and staff that are considering leaving. Their reasons may have nothing to do with the quality of their experience at the firm. However, a