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Leading CPAs Through Transition With Succession and M & A Strategies

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**2015 Accounting Update:
Back to the Future: What
Happened This Year and What to
Expect in 2016!**

December 15, 2015



Bill Carlino

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Transition Advisors, LLC

National consulting firm working exclusively with accounting firms on issues related to ownership transition



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Today's Agenda

- **The Profession by the Numbers**
- **What's In and What's Out?**
- **Technology and social media**
- **Succession and Merger-mania**
- **Firm of the Future**
- **Future Challenges**



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Accounting Profession At-A-Glance

- Revenue ... \$94 B
- No. Firms ... 109,200 (est.)
- Employment 518,000 (public accounting)
- CPA firms hired 40,000 accounting grads last year.

▪ *IBIS World*

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Top 100 Firms

- **2014 U.S. Net Revenue ... \$58.2B (+8.43%)**
- **Big Six ... \$46.25B (+7.96%)**
- **Firms over \$100M ... \$8.4B (+10.9%)**
- **Firms under \$100M ... \$3.6B (+8.8%)**



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Top Niche Services

- International Tax
- Business Valuations
- State and Local Taxes (SALT)
- Attest Services
- Litigation Support
- Estate and Trust Planning
- M&A
- Forensics, Fraud
- Non-Profits
- Employee Benefits



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Top Client Categories

- Manufacturing
- Midsized Businesses
- Real Estate
- Technology
- Individuals
- Construction
- Healthcare
- Non-profits
- Wholesale Distributors
- Large Businesses



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What's In?

- **Mobile Technologies**
- **M&A**
- **Cloud Applications**
- **Emergence of online (virtual) firms**
- **The Internet of Things, Wearables**



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Top Profession Issues

- Succession - or lack thereof
- M&A
- Talent Wars - how to get them and how to retain them
- Pathways to Growth
- Client retention



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This is not your father's CPA firm!

- You can't run a CPA firm in 2015 like you did in 1980!
- Gradual move toward value pricing and value billing – about 10-15 percent now use some form of VP and VB system.
- Firms moving to “one-partner/one-firm” concept rather than individual books of business. Especially among “partner-loyal” firms vs. “brand-loyal” practices.
 - More remote workers – 1995 there were 9.5 million remote workers – 13.5 million in 2012 and now some 30 million people work remotely at once a week. Projected to reach 63 million by end of 2016.
 - Greater use of mobile devices: more than 90-plus percent of CPAs use smartphones or tablets. Given rise to the birth of virtual firms. Today, about 10-15 percent of all start-up firms are virtual.

Future Trends and Challenges

- Continuing economic uncertainty
- Ongoing adoption of new technologies
- Career Development (Millennials) – not going to work 2,000-plus hours to make partner
- Developing future firm leaders
- Succession or lack thereof.



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Three Ways To Grow

- **One Client at a Time: Organic Growth - but economy and competition has made that harder.**
 - **Develop Marketable Niches**
 - **Merge or Acquire Another Firm**



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Polling Question #1

What are your plans for growth in 2016?

- Strictly organic growth
- Planning to develop a marketable niche
- Looking to acquire a CPA firm
- Seeking to execute an upstream merger



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Merger-Mania

- 500+ deals since YE 2011-
- In 2011 55 of Top 100 Reported at least one Merger, 35 in 2012
- 30 in 2013.
- Merger trend expected to continue through 2017



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Reasons for M&A

- **Geography / New Markets**
- **New niches/biz val/lit support**
- **Competition**
- **Lack of Formal Succession Plan**
- **75% of AICPA 340,000 membership eligible to retire by 2020**
- **One person turns 65 every 8 seconds.**
- **450 more birthdays during this webinar!**

Succession Planning

- 80 percent of multi-owner firms expect succession planning to be the most important issues over the next 10 years!
- 61 percent of firm partners are over 50.
- 46 percent of multi-owner firms have a have a formal succession plan in place!
- Firms with less than 15 employees, 70 percent DO NOT have a succession plan in place!
- Less than 6 percent of sole pracs have a PCA.

Polling Question #2

Does your firm have a formal succession plan in place?

- Yes
- Yes, but it is an informal one
- No, but we need one
- No, and we have no plans to create one



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When Do You Begin The Process?

- How many more tax seasons do you want to work full time?
- Do you have the talent on your bench?
 - Or do you have to go outside?
 - Holy Grail: a young CPA with a good book of business!
 - Ideally, should begin 5-7 years out.



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What happens if you wait?

Nothing good.

- Firms that wait too long to begin planning for succession usually wind up with two options -
- A hastily arranged merger with unfavorable terms...or...
- Turning out the lights and locking the doors
- Firms that are not proactive will surely create client and real estate opportunities for those practices that are!

CPA Mobility

- Allows CPAs to practice across state lines without notification
- Movement endorsed by AICPA and NASBA
- Currently 49 states + District of Columbia have passed mobility laws and are in the implementation and navigation phases
- In progress: Hawaii, Guam, Puerto Rico, Mariana Islands



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Hot Niches: Wealth Management

- Currently, more than 100K CPAs perform some type of financial planning for clients
- Natural cross-sell
 - Plante Moran
 - myCIO Wealth Partners
 - Joel Isaacson & Co.
 - Gilman Ciocia
 - CliftonLarsonAllen



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Payroll Makes a Comeback

- Pain or Profit Center?
- Usually referred to a bureau - but technology is changing that. Some firms growing payroll at 20-30 percent.
 - Increase in client demand
 - A convergence of benefits and payroll
 - Competition
 - Rise in cloud computing apps
 - Shift in regulatory arena re: ObamaCare



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Accounting Employment

CPA firms employed 518,000 - 2014

- Accounting salaries projected to grow 3.5 percent in 2015. (Robert Half).
- Accountants versed in technology – 5.7 percent.
- **Hottest commodity:** Young talent with a book of business. “The Holy Grail”

Enrollments in undergraduate and graduate accounting programs increased in the 2013-14 academic year, crossing the 250,000 mark for the first time.

On the recruiting side, the record number of accounting graduates hired by accounting firms in 2014 represented a 7 percent increase.

By 2016, 80 percent of PwC’s 42,000 – member U.S. workforce will be Millennials.

Accounting Employment

- How will firms attract talent - and more important retain talent?
 - Sustainability- a big attraction to the Millennial.
 - Paperless office.
 - Enviro-friendly atmosphere - low-flow plumbing, no bottled water during meetings
 - Bike-to-work incentives
 - Community Projects



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What's Important to Retaining Talent?

- Salary
- Growth opportunities
- Paid personal/vacation time
- Open-door management
- Challenging projects and work
- Strong IT culture
- Comfortable office atmosphere
- Firm's reputation/prestige
- Flexible work schedule
- Retirement savings plans/benefits
- Frequent client contact



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Job Satisfaction

- Recent survey by CPACA (800 respondents, most were partners-shareholders in small-to-midsized firms)
- Majority indicated they would continue in public accounting. However 22 percent were thinking of leaving before the end of the year. Why?
- Reasons? Too much job pressure, not enough life outside the office.
- Salary and benefits not commensurate with experience.

Top Non-Accounting Skills

- 2,100 CFOs and accounting firm partners surveyed on top non-accounting skills.
- General Business Knowledge
- IT Expertise
- Communications skills
- Leadership abilities
- Customer service



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Current Tax Code

- Think we need reform?
- **SEVEN** times longer than The Bible
 - 5.6 million words
- More than twice the length of “War & Peace.”
 - Nearly 74,000, 8X11 ½ sheets of paper to explain code.
 - Don’t expect reform in 2015 or 1016 - but expect a resolution on the tax extenders.
 - Hot debate topic for 2016 election.

ObamaCare

- Could spend an entire hour on this alone
- Vendors, CPA firms offering client seminars and even establishing new business units offering expertise on how to handle the intricacies of the Affordable Care Act.
- When introduced ACA was expected to cost \$1 trillion - now is projected to cost \$2 trillion by the CBO and climbing.



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Polling Question #3

What is the size of your firm?

- 1-2 partners
- 3-8 partners
- 9-20 partners
- More than 20 partners



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Social Media and Accounting Blogs

- 400-plus Accounting Blogs
- More Firms Increase Use of Social Media, Facebook, Twitter, LinkedIn
- Nearly 70% of Top 200 Firms have Facebook and LinkedIn presence.
- Facebook now with 1.44 billion users - 874 million are mobile.
- Average user visit on FB is 18 minutes.



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Social Media cont'd

- If Facebook were a country, it would be
 - 3rd largest ... after China and India
 - 3x the size of United States (roughly)
- LinkedIn user base
 - 380 million
 - Adds two new users per second!

Top CPA Technology Initiatives

- **Managing and Retaining Data**
- **Securing the IT Environment**
- **Managing IT Risks and Compliance**
- **Ensuring Privacy**
- **Systems Implementations**
- **IT Fraud Prevention**
- **Analytics**

AICPA 2015



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Mobile Devices in the Workplace

- **Typical U.S. teenager**
 - Sends/receives nearly 4,000 texts/month
 - Makes/receives over 700 calls/month (A.C. Nielsen)
- **CPAs**
 - 90%-plus use a smartphone for business (intuit)
 - 60-70 percent own a tablet
 - 40% spend 5+ hr./wk. out-of-office

More Tech Trends

- Remember BYOB? Now it's BYOD - Bring Your Own Device. More companies allowing personal smartphones and tablets to be connected to corporate resources.
 - Managing “Big Data” being able to analyze and interpret operational and financial data for clients.
 - Cyber-risk and storage demands - creates a market for SOC - service organization control on 3rd party risk assessment.

Tech Affiliations

- Avalara - Kansas Society of CPAs and MACPA
- Agreement allows KSCPA and MD members access to SUT portal with educational aids and resources
 - CCH Small Firm Services and eFileCabinet teaming to offer PortalSafe - online portal allowing for document storage and transmission
 - Microsoft entering the ERP fray to establish a BPO program for CPA firms to promote Dynamics and NAV offerings.
 - Challenging Intacct and NetSuite

Top CPA VARS

- **Columbus IT Partners:** Dynamics, AX. NAV- \$161M
- **McGladrey:** Dynamics GP, NetSuite- \$131M
- **Tribridge:** Dynamics, AX, NAV - \$70M
- **Crowe Horwath:** Dynamics, CRM- \$23M
- **Armanino:** Dynamics, Intacct - \$56M
- **UXC Eclipse:** Dynamics GP - \$22M



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Firm of the Future

- Value Pricing “we sell time” is becoming obsolete. About 10-15 percent of CPA firms now use VP/VB models.
- Specialization/new niches/boutique firms
- Emphasis On Marketing and Biz Development
- More IT Spending per FTE - Greater Mobile Technologies. \$10K-\$15K per FTE to integrate systems post-merger.



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Firm of the Future cont'd

- Virtual Firms (Deep Sky, BMRG, aBizinaBox, Azran Financial)
- Real-time management accounting (dashboards)
- More remote workers - 1995 there were 9.5 million remote workers - 13.5 million in 2012 and now some 35 million people work remotely at once a week.
- Expected to reach 63 million by end of 2016.
- Alternate partner trax - part-time, income, profit
- “One firm one client” philosophy
- More niche specialists

Firm of the Future cont'd

- **Outsourced CFO**
 - **Serving as weekly or daily advisor to clients**
 - **Outsourcing financial and accounting functions to hit \$25B this year.**
- **Greater use of continuous auditing**
- **Virtualization of servers and desktops**
- **Greater systems integration**
- **Enabling info to mobile devices will be easier.**



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More Pressure on Growth and Client Retention

- Firms facing fee pressure from existing clients
- Need to expand beyond traditional services to stay competitive (boutique offerings and other “distinguishing” services)
- Clients demanding more interaction and personal service from their CPA. Especially partner-loyal clients.
- One-third of business clients state they are considering switching firms.
- #1 reason is they feel their CPA does not provide enough attention.

Trends of the Future

- Increasingly complex rules and standards
- Continuing economic uncertainty
- Ongoing adoption of new technologies
- Increased competition (global)
- Specialization - “sustainability” and international tax for mid-market.



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Trends of the Future (cont'd)

- More firms developing stronger “bench” as war for talent heats up.
- More firms move away from traditional “top-down structures - flatter organizations.
- Compensation systems tailored toward “reward” and entrepreneurship.
- Tax and audit (type 1 work) handled more by para-professionals.

Trends of the Future (cont'd)

- Firms moving to “one-partner/one-firm” concept rather than individual books of business.
- Especially among “partner-loyal” firms vs. “brand-loyal” practices
- Helps the transition process - especially with retiring partners.
- Eliminates the “Lone Ranger” mentality and frees partners for higher-level duties such as management and leadership.

Current Profession Demographics

- Over half of all CPA graduates are women
- 25 percent of all CPA graduates are non-white
- 13 percent of “high potentials” are non-white
- 5 percent of partners are non-white



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Demographics of the Future (2030)

- Over one-third of partners will be women
- 50 percent of CPA staffs will be non-white
- 45 percent of “high-potentials” will be non-white
- 35 percent of partners will be non-white



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CPA Firm Challenges of the Future

- **Succession Planning**
- **Career Development (Millennial)**
- **Alternate partner tracks - income, contract, part time. More non-partners encouraged to remain on in other areas - marketing, biz development.**
- **Client communication**



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QUESTIONS?

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