



## CPA FIRM SUCCESSION: SOLIDIFYING THE FUTURE

# How to Maximize Client Retention After a Merger

Tenth in a series: Culture, communication, the business plan, and personal involvement are key.

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The retention of clients is essential to a successful merger of accounting firms. Most deals are structured so that the payments from the acquiring firm to the selling firm are based, at least in part, on the percentage of clients that stay with the post-merger firm during a specified retention period. In other words, the departure of clients from the acquiring firm results in lower payments to the selling firm, providing a healthy incentive for selling firms to facilitate a transition that encourages clients to stick with the acquiring firm post-merger.

Acquiring firms, meanwhile, also have a substantial interest in retaining clients—and staff—post-merger. After all, the selling firm's book of business and stable of talent always are a huge reason the acquiring firm invested in the selling firm. The acquiring firm does not want to see those assets depart, even if the deal structure provides

some protection in the form of lower purchase payments.

So it is that both parties in an accounting firm merger or sale are highly motivated to minimize client turnover. This article addresses how a proper transition plan can maximize client retention.

The first thing for merging firms to un-

### About the Series

Powerful forces are transforming the accounting profession in the United States. The Baby Boomers are heading into their retirement years. Baby Boomer CPAs are in charge of most U.S. accounting firms, and most of those firms don't have a signed succession plan or practice-continuation agreement in place.

The *JofA* is presenting a succession series designed to help accountants navigate the new landscape of succession and mergers. This month's installment, the 10th in the series, examines how to minimize client turnover after a merger.

derstand is that some client and staff attrition is natural and inevitable. On average, about 15% of staff and 5% of clients leave a firm each year. The goal in a merger is to keep those percentages from rising beyond the norm, especially in the period right after the merger closes, when a spike in client or staff departures could inspire other clients and staff members to leave the firm as well.

A good transition plan establishes a merger process that limits attrition. Transition plans have four key areas of focus:

- Culture;
- Communication;
- Business plan; and
- Personal involvement.

#### 1. Find a Good Culture Fit

It is crucial for a selling firm to choose an acquiring firm that has a similar culture. The goal should be to keep the ship sailing in the same direction with the benefit of added resources to provide even better service to clients. Clients and staff chose the selling firm in the first place at least partially because of their personal comfort with its people and culture. If the selling firm's partners don't feel comfortable with the acquiring firm, why would their clients and staff?

Clients usually can choose among many

accounting firms. In some cases, clients are attracted to a firm because of its reputation or special expertise. However, many clients of small firms make a choice due to the style and personality of the firm's owners. How the firm serves clients is key. Clients accustomed to hands-on and personal communication may not be receptive to service delivery based solely on a technology interface such as email or a portal. Staff members accustomed to having a lot of autonomy and being treated as key members of the service team may not assimilate well into a culture with significant oversight, where they feel like a minor cog.

## 2. Communicate Clearly

Most clients have the following fears when hearing their firm is merging:

- Will the person I have relied on still be there?
- Is this merger going to cause my fees to increase?
- Will the new firm remain convenient for me to do business with? (This happens especially if the client is used to meeting in the office.)
- Will the combined firm be able to provide the service I need in the manner I am accustomed to?

Obviously, if the acquiring firm plans to raise fees dramatically or intends to arbitrarily change key people responsible for communicating with clients, the merger is in trouble. Even if the combined firm intends to keep things the same as much as possible for the acquired staff and clients, problems can arise if the firm doesn't clear-

## Succession Transition Case Study

Here is an example of how to keep the trusted adviser seller personally involved while still supporting the transition to a successor:

John is in the process of transitioning his practice to Jane. John and Jane announce to both client bases they have merged. Almost immediately, John gets a call from a client who is panicking because he received an IRS notice regarding a tax return John prepared. Instead of John just handling the matter as he normally would, he responds, "You know, my new partner, Jane, has tremendous expertise with this kind of problem. Two heads are better than one, so I will speak to her and we'll get back to you right away." Instead of John calling, Jane calls and takes over the matter while reassuring the client that John remains available to assist as necessary. If John had handled the matter as usual, the transition would not have progressed. By encouraging the client to work with Jane, he elevated Jane's presence with the client and moved down the path of transition. Plus, there is no reason for the client to conclude John has abandoned him.

ly communicate its intentions. People affected by a merger often assume things will change dramatically, and for the worse, unless they are specifically told otherwise.

As soon as possible following the merger, the combined firm should make sure clients, staff, and other constituents receive a clear message through meetings, phone calls, and letters describing what this merger means for them. The more important the people are to the firm (for instance, the largest clients in terms of fees), the more they need to have the most personal type of communication, such as a meeting.

It is a good idea for everyone in the firm to have a script of what needs to be communicated to every client. Even if certain clients receive a letter, they will likely also ask questions of staff. An announcement letter or script might state that you merged

with Able, Bravo and Co. because the firm has tremendous expertise and resources. In addition, the script could emphasize that the people the client has relied on will remain on board, the fee structure will remain the same, the firm will remain geographically convenient, and no changes are expected in how the client receives services. Keep in mind when sending an announcement letter to send it out on the acquiring firm's stationery but in the acquired firm's envelope. If you send it in the acquiring firm's envelope, some clients may not open it because they believe it is a solicitation.

## 3. Consider a Business Plan That Minimizes Upfront Changes

You can't avoid making some changes to how an acquired firm operates. However, when building a business plan for the

## EXECUTIVE SUMMARY

- **Client retention often is key** to determining the short- and long-term value of an accounting firm merger—for acquiring and selling parties. Staff retention is crucial to client retention.
- **Transition plans have four key areas of focus:** culture, communication, business plan, and personal involvement.
- **Sellers need to be comfort-**

**able** with the culture of an acquiring firm.

- **Both firms in a merger need to communicate the right messages** to the right people in the right format before and after the merger.

- **Merging firms should strive to develop a business plan** that minimizes upfront changes for clients.

- **Firms should respect the relationships between clients and the partners or staff they work with.** A transition from a current adviser to a successor takes years and should be gradual, with the successor becoming involved with clients before the departing partner retires.

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combined operations, group the changes into two categories: “changes behind the door” and “changes in front of the door.” An example of a change behind the door is tax preparation software the firms use. Rarely will a client care or even notice a change from Software A to Software B. The main concern with that change might be making sure staff can continue to efficiently prepare tax returns.

An example of a change in front of the door is a client accustomed to being managed by an owner who is suddenly working with a staff person. That change could dramatically alter the client experience. Increasing fees substantially for the same services is another change in front of the door that can have disastrous consequences.

Changes behind the door can frequently be implemented without much concern for client retention (although these changes can be a huge item for staff retention). Changes in front of the door can have a major impact on clients’ comfort level. If substantial changes in front of the door are required, the impact on client retention can sometimes be mitigated by instituting them gradually.

#### 4. Respect Personal Relationships

Firm owners contemplating a sale are frequently concerned that their relationship with clients is so personal and unique that it can’t be replicated. They cannot see anyone being able to take over for them. Yet, as counterintuitive as this may sound, the greater the loyalty between an owner and his or her client base, the easier it can be to transition the clients. The highest retention rates are often in the most loyal client bases—if the transition is handled properly. If a seller’s clients are not experiencing a lot of change in front of the door, the clients’ trusted adviser remains involved, and the successor firm has a larger platform of services to offer (as is frequently the case), why would clients leave for a complete stranger and start all over?

The key is to give the eventual transfer of loyalty enough time, keeping the trusted adviser personally involved while also supporting the transition. In today’s high-tech world, practitioners tend to see clients

in person less often than before. Instead, data and reports are exchanged through the cloud, via portals, by email, over the phone, and through staff picking up and delivering the work. The less face time you have with clients, the longer you should expect the transition to take. The minimum time a typical transition should take is two years. A transition over three to five years usually is more effective. This is one of the key reasons a two-stage deal is such a powerful way to structure the transition of a prac-

tice (see “A Two-Stage Solution to Succession Procrastination,” *JofA*, Oct. 2013, page 40.)

The retiring partner can play a lead role in introducing the successor to the client. (See the sidebar, “Succession Transition Case Study,” for an example of one approach to doing this.) In the end, a transition plan that addresses culture, communication, upfront changes, and client-partner personal relationships has the best chance of minimizing client turnover and maximizing the value of an accounting firm merger. ♦

### AICPA RESOURCES

#### JofA articles

##### CPA Firm Succession series

- Part 9: “Managing Owner Transition Through an Owners’ Agreement,” March 2014, page 42
- Part 8: “How to Manage Internal Succession,” Feb. 2014, page 38
- Part 7: “Alternative Deal Structures for Succession,” Jan. 2014, page 42
- Part 6: “Seven Steps to Closing a Succession Sale,” Dec. 2013, page 48
- Part 5: “How to Value a CPA Firm for Sale,” Nov. 2013, page 30
- Part 4: “A Two-Stage Solution to Succession Procrastination,” Oct. 2013, page 40
- Part 3: “How to Select a Successor,” Sept. 2013, page 40
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- Part 1: “Mergers Emerge as Dominant Trend,” July 2013, page 52

##### Other JofA articles

- “Succession Planning: The Challenge of What’s Next,” Jan. 2013, page 44
- “Planning and Paying for Partner Retirements,” April 2012, page 28
- “Traps for the Unwary in CPA Firm Mergers and Acquisitions,” Aug. 2011, page 36

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- Practitioners Symposium and Tech+ Conference, June 9–11, Las Vegas

### Webcasts

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- “Keys to Transition Planning From a Client and Staff Retention Perspective and Integration,” May 15, 2–4 p.m. ET (#WBC13316I)
- “Keys to Have in Your Partnership Agreement,” July 29, 2–4 p.m. ET (#WBC13314I)
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- 2012 PCPS Succession Survey (sole proprietors), [tinyurl.com/ptyegnk](http://tinyurl.com/ptyegnk); and 2012 PCPS Succession Survey (multiowner firms), [tinyurl.com/qzhabug](http://tinyurl.com/qzhabug)

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