Key to a successful merger or acquisition is keeping the process moving. For firm leaders, there is rarely any item of greater importance than a merger they are pursuing. The adage “time kills all deals” is absolutely true with mergers, and this is why:

I Adversarial positions: Naturally, both parties to the deal are looking for the best possible terms. For example, the seller wants to receive the highest compensation possible, and the buyer wants to pay the least. Successful deals depend on the parties working together for a common positive outcome. However, the longer negotiations last, the more likely the talks will develop an adversarial tone.

I When a successor firm is slow to move the process along, many firms seeking an acquisition wonder two things:
• If this is not a priority for the successor, am I talking to the right firm?
• Does the successor firm have the capacity to take on this venture?

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 U.S. accounting 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 sixth in the series, looks at the seven steps to complete a merger or sale for succession.

(Neither of these perspectives, which are inevitable with delays, leads to a good outcome.)

I Every time someone reads a contract, it has new meaning, and, all of a sudden, issues that were previously resolved become new problems. That leads to more delays and more conflict.

I Some things can’t be kept under wraps forever. Many times word gets out that a firm is “in play.” This can lead to competitors and constituents acting on incomplete and false information.

THE SEVEN STEPS
Following are seven steps for deal management designed to keep the process moving. This is not to suggest that one should rush to get a deal done, throwing caution to the wind. Rather, the parties need to focus and commit to the process until they realize they have a viable deal or they don’t. This improves the probability of closing a deal that should be done and avoids wasting time and resources on one that wasn’t meant to be.

Step one. The firm seeking to merge up or sell should prepare a generic practice
Successful deals depend on parties working together for a common positive outcome. Longer negotiations are more likely to become adversarial.
lunch with someone regularly, don’t merge with that person. In other words, if the partners don’t personally like the people they are talking to, why would their staff and clients like them?

- **Capacity:** Understanding the goals for a deal leads to knowing the capacity issues required of the other firm. For example, if one partner is slowing down soon, the successor firm must have the capacity and skill set to replace that partner.

- **Continuity:** Most accounting firms have their client base because their clients are comfortable with their people and approach to service. Clients tend to focus on fees, how services are provided, the level of hand-holding, and specialties, to name a few. A successor firm must be able to avoid the clients’ viewing the merger as a loss of a prior firm and instead promote the gain of the combined firm.

- **Culture:** This term is used a lot but remains a vague concept for many. Culture can be thought of in three ways: (1) What’s it like to work here? (2) What’s it like to be a client here?; and (3) What’s it like to be a partner here? A selling firm needs to consider if a merger candidate or buyer can cut the mustard in all three areas.

**Step four.** Before any meetings occur, information and goals should be shared with, and preliminary information obtained from, the other firm. This qualifies both firms for each other. Now attention can be turned to the four Cs and the must-haves in initial meetings. The firms should share what they believe success looks like and find out what their strategic goals are for the merger. What do they intend to accomplish? What is their business plan for this merger?

**Step five.** The potential deal terms should be addressed as soon as possible. If several firms are courting the selling firm, the field should be narrowed to ones the selling firm likes and those that like the selling firm. The selling firm should obtain a nonbinding offer from the firm(s) it likes of how the firms would come together. It is not unusual for this to happen as early as after one initial meeting and certainly after no more than two.

Many firms think they need to perform due diligence before making an offer. However, it should be kept in mind that every step described above is part of due diligence. In step one, the selling firm has already told the other firm what it has and what it wants. Other critical issues can be addressed in the form of additional inquiries. It is appropriate to assume the information and responses are accurate. The nonbinding offer should describe

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**Survey reports**

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Visit the PCPS Firm Practice Center at aicpa.org/PCPS and the Succession Planning Resource Center at tinyurl.com/oak34e.
what a deal would look like philosophically and financially, subject to verification in due diligence.

Too many times the authors have seen firms go through extensive field due diligence that confirmed all the information shared originally was 100% accurate, only to make an offer that was not acceptable. This is an inglorious waste of time. Creating a foundation for an agreement with which both firms are comfortable justifies field due diligence. In the unlikely event a surprise emerges in due diligence, the offer can be adjusted or withdrawn since it was nonbinding to begin with.

The terms should be complete as to must-haves, deal structure, and terms.

Step six. Now is the time to perform field due diligence. Each firm should share what information and data it is seeking from the other, and appropriate nondisclosure agreements should be signed (if not done previously).

The authors suggest breaking due diligence into three parts to keep the process moving. First, information that is easily available should be shared. Frequently, this can be done through email. Second, the parties should exchange information that needs more effort but that is still only data. Third, the parties should conduct field due diligence in each other’s offices. This is not to imply all three steps can’t be done at once. What’s important is to not let the process stall, waiting for the last piece of information to become available.

In a subsequent installment of this series, the authors will share in great detail suggested items that should be covered in due diligence. PCPS members can also obtain guidance in Chapter 10 of the Succession Planning Resource Center available at tinyurl.com/cx2nauz (PCPS member login required). This material includes detailed guidance on due diligence and also on the entire M&A process.

Step seven. Now that it is time to close the deal, the parties can bring in lawyers. The selling firm’s partners probably have enough experience to negotiate financial terms and business plan issues on their own, or they might be using a consultant to assist. Often the best use of legal advice is to make sure the deal that is negotiated is properly memorialized in a contract and the legal i’s are dotted and t’s crossed.

It is best to avoid renegotiating deal terms on which agreements have already been reached, and contract drafts should not be used as a tool for further negotiations of financial terms and business plan issues. If something new, other than a legal issue, needs to be addressed, it should be brought up orally. Few things irritate the other side more than a new item suddenly popping up in a contract draft.