Administrative Office
6901 Shawnee Mission Parkway
Suite 110
Overland Park, Kansas 66202

transitionadvisors LLC
Leading CPAs Through Transition
With Succession and M & A Strategies

National Headquarters
2 Galleine Drive
Commack, New York 11725

tel 866.279.8550 fax 913.262.8700
www.transitionadvisors.com

Common Roadblocks to Avoid During the M&A Process

Once firms have completed the often time consuming and exhaustive process of selecting their merger partner, most owners are confident they can execute a successful deal without too much difficulty, thereby keeping any collateral problems to a minimum.
But the road to a successful merger is not always so easy to navigate.
So, when they suddenly encounter one or more unforeseen roadblocks, that smooth path to transition they envisioned suddenly becomes riddled with potential pitfalls and often grinds to a screeching halt threatening to kill what was once a promising affiliation.
But it doesn't have to be that way.
If you know what to look for you'll be prepared to sidestep any threat to the successful closing of your deal.

What Our Clients Are Telling Us
Mergers occur for any number of reasons – succession, growth, new markets or to add new client niches. Have a clear and defined reason for your merger. Don't embark on one of the biggest business decisions you'll probably make in your lifetime simply because "everyone else is doing it." Many of our clients who are contemplating a merger lay the foundation toward a successful union by asking themselves "what does success look like?" And the successor practice should ask themselves the same question. If, as it turns out you have very different goals it's better to find out now than at the contract signing. Also, don't fall to the common temptation of merging with a larger firm simply because they're bigger.
Remember, bigger isn't always better. Better is better.

1. **Poor Due Diligence**

When considering any merger, remember the 4Cs – critical to any successful deal – chemistry, culture, capacity and continuity. If, at the first meeting, there doesn't seem to be any chemistry, then walk away. If you're not comfortable with them why would you think your clients and employees would be? Regarding culture, envision what it's like to be a partner, a client and an employee at the firm. What is the working environment? Does everyone appear happy and busy? If not, then we recommend you look elsewhere. Also ensure the merger partner has the capacity to replace you or your partners if any are seeking a shorter-term succession solution and slowing down from full time. If not, then you may be doubling any current succession issues you have. Continuity – for example find out how long their partners have been partners, how long have their clients been clients? Also have available a financial "schematic" of your firm containing all pertinent operating data and request your merger partner do the same. Our company has been called in after the fact to help unwind several mergers that collapsed because of incomplete due diligence.

2. **Emotions/Fear of Change**

One of the greatest obstacles is fear of change. To many, merging/selling represents the giving up or at least a sharing of control, an increased amount of accountability and the great unknown about regarding the if and when everything will fall into place. In fact, many aspects of M&A deals are not based on tangible financial or even professional criteria, but rather the emotional side.

Be patient and understand in many cases, emotions may prove to be the toughest roadblock of all.

3. **Inadequate Equity**

Sometimes, stakeholders in the seller firm who want to become equity partners in the successor practice don't have enough equity to become a partner day one. Let's take the example of a $2 million firm with four equity partners. Two partners own 80 percent of the firm while the remaining two manage books of business of $200K each. They decide to merge with a $10 million firm. Chances are those with the $200K book will not be admitted to partnership status day one. However, a strategy to circumvent this is to hold them out to the public as a partner but give them an eventual path to equity in the successor firm perhaps starting them out as income or profit partners.

4. **Time**

Time kills all deals. It's that simple.

Negotiations that crawl along at a glacial pace bring nothing beneficial to the process. The 14th time someone reads the agreement for example, the greater the chance of them spotting something that wasn't there before. Also, when the process becomes protracted the greater the chance that the staff or worse yet, the clients, learn of it and a panic subsequently ensues. You may soon have a mass exodus of both staff and clients due to fear of the unknown. You also run the risk of your competition finding out and they may begin to entice your clients to jump ship. To avoid this set a timeline beforehand to manage the process in an orderly and most importantly, efficient fashion. But the biggest risk with delays is the messages it can inadvertently send the seller. Taking too long to respond to a seller can make that seller think either they are not a top priority or make them question if the successor firm really has the capacity to take on a merger