



## The Emotional Side of CPA Firm Mergers

One of the most critical, but often overlooked stages of the M&A process surrounds the emotional side of any affiliation.

This particularly holds true for the firm that is selling or merging up.

Change is always challenging and often fear prompting. For many smaller firms entering an upstream merger, having additional accountability and the loss of control can be a daunting reality to accept.

Emotions come in all shapes and sizes during M&A. Even something that seems secondary among traditional merger concerns such as agreeing on the name of the combined firm. However, spreading a message that a merger does not mean the loss of the seller firm, but rather the gain of the successor practice will go a long way toward toning down any accompanying emotions surrounding a deal.

In general, smaller firms have more emotions in play – particularly sole practitioners who literally built their businesses from the ground up, whereas for most large firms a merger is perceived as more of a traditional “business deal.”

## What Our Clients Are Telling Us

Many times, firm owners who are contemplating merging upstream confide to us that their biggest fear is becoming the proverbial “small fish in a big sea,” as opposed to staying the course where they are in total control and responsible for their own destiny.

True, some of these concerns are somewhat overblown, but, conversely, when you merge up to a larger practice, there are more partners in the mix, and thus, more accountability. But getting comfortable with the benefits of having a deeper team with greater resources will far outweigh remaining with the status quo.

## Client Fears

If you understand and help overcome the four main fears and emotions many clients have when they hear of a merger, this will help you maximize retention. Those four main fears are:

- Is the partner I am used to dealing with still going to manage my account?
- Is this going to cost me more money for the same services?
- Will I have to drive somewhere very inconvenient to see my accountant?
- Is the staff I’m accustomed to working with still going to be there and work with me?
- If you’re able to reassure the clients on the above concerns, again that will go a long way to assuaging both their fears and toning down any emotional aspect.

## **Valuations Carry an Emotional Price Tag**

We cannot tell you how often we have heard owners of small firms say, “No one can retain my clients if I’m not there.” Well, if that is true, then the harsh reality is that your firm has no value without clients.

Many small firms are also emotional when they equate retirement with death and that their clients couldn’t survive without them.

Even the valuation assigned to a seller firm can spark an emotional response. It can be viewed by many as a financial “scorecard” of their firm’s success. We have also mergees argue that they spent a multiple of 1.5X when they acquired the firm many years ago and can’t sell it for less – despite the fact they have received years of value from the merger and that valuations have been steadily dropping for years.

## **Post-merger compensation – often an unexpected emotion**

Another area where emotions can be an undue influence is when the principals of the seller firm place exorbitant and often unrealistic expectations on their compensation for remaining on post-closing in a part-time role. As an example, a recently-merged CPA insisted that he would never work for less than \$150 an hour. He was getting 20 percent of gross collections as his purchase price and demanded \$150 an hour, although he was only billed out at \$200 an hour. We attempted to explain to him that between his requested compensation rate, which was 75 percent of what he was being billed out for, and add to that the 20 percent he was getting in collections for the purchase price on work he performed, the firm would have to pay him 95 percent of the collections received, even though the firm netted only 35 percent. That obviously was a formula that would not work.

## **In Summary**

Our recommendation to the successor firm is that they account for the fact that emotions will ultimately play a large role in the negotiation process.

In many cases, the firm merging up or selling has been operating in a similar way for decades. They have seen clients grow and now are serving a second and even third generation of their original client base. They believe their clients are comfortable with how their accounting firm is managing them, and that sparks a fear of change.

Helping the merged-in firm understand how you are focused on many of the same issues is critical to post-merger success. Share with them that most changes will be done gradually. Show them your respect for what the seller or merger candidate has developed that makes their clients want to remain and explain in detail your plan to make everyone comfortable. That will go a long way toward making your merger a successful one.