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

<u>A Successful Merger Often Hinges on Your Post Merger Imntegration (PMI) Plan</u>

Traditionally, during the negotiations phase of most mergers, both the buyer and seller firms tend to concentrate the majority of their attention on the deal terms. But the truth is that only a minute portion of merger deals derail after the closing due to terms that had been previously agreed to. The reality is that most of the deals that either find themselves on shaky ground or fall apart are frequently due to a poor post-merger integration plan.

During merger negotiations a comprehensive post-merger integration plan should be developed once the terms have been greed upon which include key operational and financial goals for the combined firm and more importantly, identify the key personnel responsible for executing them.

Typically those overseeing it are the partners and leaders at both the buyer and seller firms. Any PMI plan needs to be in as much detail as possible and should include an expected but realistic timeline for completion.

<u>What Our Clients Are Telling Us</u>

Most of the resources needed to execute an effective PMI plan are (1) people in your firm; (2) consultants, and (3) outside vendors. Experienced buyer firms strongly advise the need to be practical in regard to such vital issues as due dates, budgets, and especially the amount of time and capacity that will be required of your staff. Among the key resources which frequently receive inadequate budgeting in any PMI is technology. As an example, it isn't unusual for the cost to bring a new firm on to a new IT platform to be as much as $10,000 per full time equivalent.

<u>Identify and Deploy</u>

One of the reasons PMI resources fall short is because successor firms are often unwilling to be realistic about the amount of necessary capital needed for a proper execution. There will *always* be capital required to get a deal closed. Emphasis on *always*. Those requirements can come in many forms including legal and consulting fees and investments in working capital, potentially replacing the working capital, office expansion and of course, technology.

<u>Either All In or All Out</u>

A firm's leadership team needs to be fully committed to making the post-merger integration a priority. That means either gaining a unanimous buy-in or your affiliation may be in danger. During the PMI, some individuals will resist making the required changes as there is understandably a greater comfort level in doing the things the way they've been done in the past. That antiquated thinking can sometimes influence key people in the firm delaying or even bypassing needed changes.

The PMI Client Equation

As with any merger, a now-combined firm must come to grips with the reality that they will ultimately lose some clients following the close of the deal over a period of time but it should be a small amount if the plans are done well and excuted smoothly. Some client attrition is standard, and may be due to the fact some clients were already contemplating a change in CPA firms prior to the affiliation and the merger gave them an easy "out." You need to ensure your PMI recognizes and allows for some level of post-merger client attrition.

Obviously a merger would not be viewed as successful if there is a high level of client exodus. A key to client retention is to communicate often and clearly with clients and emphasize what synergies the clients will gain from the merger. Your message should focus on their benefits for example more resources and larger platform of services etc. If you have to introduce changes to the client experience, try to delay as long as possible the changes that will have the most potential negative impact. Many clients of an acquired firm will be wary of how the merger would affect them. Buy some time to demonstrate the future will only be better by implementing certain changes gradually.

Don't Forget the Staff!

Mergers can be a frightening experience for staff. They probably had no say in what happened and are often caught by surprise upon the announcement. But there are a number of avenues to help soften the pending uncertainty. Much like how a good PMI needs to promote client retention, emphasize to the staff the synergies created by the affiliation, not the loss of their firm. Reinforce the idea that the merger creates more opportunities for the staff as well. Communicate with the staff as early and often as possible and include all details about how this will affect them, no matter how trivial it may seem. Unless people are given the answers to their questions about how they will be affected by the coming changes, they tend to assume the worst-case scenario and you can expect many of them to embark on a new job search. Many firms assign a "mentor" for each staff person.

Create One Culture

Culture can be often be hard to define, so ask yourself three key questions:

- What is it like to be client in this firm?
- What is it like to be a staff person in this firm?
- What is it like to be a partner in this firm?

Those questions lead you to operational characteristics as well as intangibles. How are the clients served and by whom? How are they charged for services? What are the expectations of staff and how is feedback provided? How are partners managed and what roles do they play? How do people in the firm communicate with each other? What is value system of the firm? Your PMI plan should identify where there are difference in the cultures of both firms and work toward overcoming them to create one cohesive culture everyone can be comfortable with and most importantly, one that will last. The goal is to make every merger or acquisition about the positive gains of the new firm being in the equation, not the loss of the seller or "mergee."