



## **The Keys to Successful Client Retention**

A true barometer of any successful merger is client retention.

The majority of merger/acquisition deal structures are based on payments from the successor firm to the seller firm on the percentage of clients who remain on during a specified period of time after the transaction is closed.

By contrast, an exodus of clients, post-merger/sale, results on lower payments to the seller, which naturally serves to provide powerful incentives to draft and execute a strong transition plan that encourages client retention.

On average about 5 percent of clients and 15 percent of staff exit a firm on an annual basis. So the strategy in any merger is to prevent those averages from rising even higher. So any post-merger transition plan designed to limit client and staff exits should have a total of three key areas of focus – culture, communication and an efficient transition plan.

## **What our clients are telling us**

Many of our clients who have facilitated multiple mergers report that clients often have the following concerns upon learning that their firm is merging.

1. Will the person I have relied on and worked with over the years still be there?
2. Will the merger cause my fees to rise?
3. Will the newly combined firm still be convenient to meet in their offices or will it be further away?
4. Will the combined firm be able to provide the services I need in the manner to which I've become accustomed?

So if a successor firm immediately plans to hike fees dramatically or rotate key personnel who had overseen client interaction, there could be big trouble right out of the gate. Unless there is clear communication, clients will usually assume that dramatic changes will occur once the contract is signed.

## **A Good Fit**

The importance of finding a firm that's a good cultural fit cannot be overemphasized with regard to the success of a merger. The goal in any union should be to keep the appearance that the proverbial "ship is sailing in the same direction," with the added benefit of increased resources and capacity to service the client base. But if the selling firm's owners don't feel comfortable with the people and the culture of the successor firm, how could they possibly expect their clients and staff to be?



## Transitioning Relationships

It's only natural that partners and owners who are considering a merger for succession become concerned with their client relationship and the pending changes. They often feel that their relationships forged over many years would be difficult, if not impossible to be replicated. Yet, as counterintuitive as it may sound, the greater the loyalty between an owner and their client base, the *easier* it can be to transition the clients. The highest retention rates are often found in the most loyal of client bases— that is if the transition is handled properly and efficiently. The key is to give the eventual transfer loyalty enough time, keeping the trusted advisor personally involved while also supporting the transition. With the advent of cloud technology and other remote applications, CPAs tend to see their clients less in person today than in years past. Information is transmitted via client portals and encrypted emails and thus there is less actual face time. 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 that spans anywhere from three-to-five years has traditionally been found to be the most effective. As an example see the case study below for an example of a proper partner “hand off.”

### A Case Study of Effective Transition

We had a long-time owner client in the Northeast who was in his 70s and wanted to retire permanently to his winter home in Florida, so he eventually merged his practice with a larger firm in the area. Post-merger, he shortly thereafter received a panicky call from a client who had received a notice from the IRS regarding an issue stemming from a broker-dealer audit. He quickly calmed down the client and assured him that his new partner was an expert in this area and would confer with him to get the right guidance. So instead of the retired partner calling, he had the new colleague contact the client with instructions on how to proceed and cleared the matter up quickly. This simple but effective strategy not only solved the IRS dispute but got the client acclimated to working with the successor firm.