



The Seven Steps to Closing a Sale

Arguably one of the most critical aspects to closing on a merger is to ensure the process does not get bogged down and keeps moving forward. The time-proven axiom of “time kills all deals” is particularly true when it comes to the mergers of CPA firms. Nothing positive ever comes as a result of a stalled merger process. Doubts arise in the minds of both the seller and the buyer with regards to whether each has selected the right partner, while protracting the process often opens an opportunity for your competition to enter the negotiations. And there is often the risk of staff finding out that something is amiss which can frequently ignite a panic.

What Our Clients Are Telling Us

Recently we were called in to help facilitate a merger between two firms. The buyer firm, a \$5 million, four partner practice was set to absorb a \$1 million, two owner firm seeking a succession plan. However after an aggressive start to the merger process, the buyer firm inexplicably stopped regular communications and caused the seller firm to contact us and ask several uncomfortable, but legitimate questions.

1. We don't seem to be a priority to them – have we made a mistake in agreeing to merge with them?
2. If they are so busy they cannot get back to us, do they have the internal capacity to take us on?

We immediately sat down with the buyer firm and explained the negative perception of their inertia. They understood and quickly picked up the pace. Several months later, they culminated what has been a beneficial merger for both.

As such, we recommend seven steps to manage a deal and keep the merger process moving. These steps will heighten the probability of a closing a deal and avoids wasted time and resources pursuing a union that wasn't meant to be.

Step One

The firm seeking to merge up or sell should prepare a generic practice information sheet that outlines the financial schematics of a firm (i.e., volume, billing rates, profit margins, headcount) but not disclose confidential information such as client names. The sheet should also include strategic goals for the affiliation.

Step Two

Both parties should identify “must-haves” post affiliation and be prepared to discuss them beforehand. Examples of must-haves include leases, location requirements, status of merging partners, compensation and staff retention and of course, an agreed-upon firm name after the deal is closed.

Step Three

The seller firm should define what its merger partner/successor should look like. This involves using the four C’s of a successful merger: **Chemistry** (is there any chemistry between the two parties), **Capacity** (does the buyer firm have the capacity to absorb you), **Continuity** (Convincing the seller’s client base the gain of the successor firm not the loss of the seller firm) and **Culture** (What’s it like to work here?, to be a client here?; and to be a partner here?)

Step Four

Before any meetings occur, information and goals should be shared with via the generic practice summary sheet cited above, and preliminary information obtained from, the other firm. This serves to qualify both practices. Strategic goals should include near-term transition plans for partners, if applicable, and possibly growth, expansion, and other upside opportunities that can be accomplished via a merger.

Step Five

The potential terms of any deal should be addressed as soon as possible. For example if several firms are courting the selling practice, the field



should quickly be narrowed to ones the selling firm likes and likewise those that like the selling firm. The selling firm should obtain a nonbinding offer from the firm(s) it likes which outlines how the firms would come together both philosophically and financially. It is not unusual for this to happen as early as after one initial meeting and certainly after no more than two.

Step Six

If the offer is in the ballpark, the next step is “field due diligence.” It should be broken up into three parts as it’s imperative to keep the process moving. First, information that is readily available should be shared ASAP. Don’t wait until the more detailed information can be gathered. Second, both firms should work together toward compiling information that requires more time to complete. And lastly, both firms should conduct a due diligence in each other’s offices.

Step Seven

Once due diligence is completed and the terms are agreed to, it’s time to close the deal and bring in the lawyers to draft the agreement. However when using an attorney make sure that the terms of the deal are memorialized and not changed at the 11th hour. Otherwise the process will get bogged down renegotiating deal terms on agreements that have already been agreed to.