SMALL FIRM SOLUTIONS

WINNING STRATEGIES FOR PROFITABLE FIRMS

When Should A Small Practitioner Merge Into A Larger Firm?

Most sole practitioners and small firms are that size for a reason: They prefer to be. Additional accountability, shared control and many other facts of life in a larger multi-partner firm can be daunting prospects. But sometimes there are good reasons for small firms to consider an upstream merger. If you ever wonder what you're missing by staying small, here's a review of the reasons for merging and the best way to handle a transition.

Reasons to Consider an Upstream Merger

Here are some questions to ask when trying to decide if this step is right for you.

Do you have a succession plan? Most smaller firms do not have an internal succession solution and merging with a larger firm certainly provides one. (See "Succession Planning: Where Do You Stand?" in the Summer 2007 *Small Firm Solutions* for more details.) If you do not have a succession solution or solid plans for transitioning to retirement, a merger is an attractive option.

Can I offer my clients all the services they need? Many smaller firms have clients that may be interested in other services, but the CPAs lack the time, knowledge, capacity or licenses to deliver what they need. Merging with a firm that provides broader services may be a great way to secure clients, generate additional revenues and develop additional clients. Both sides benefit if the small firm has areas of expertise that the larger practice can make use of.

Who will take over my firm in an emergency? Many sole practitioners and small firm owners have no one to fill in if they face short- or long-term disability or if they die. In some cases, it can be difficult even to go on vacation with no one around to watch the fort. While many small practitioners highly value their autonomy, some believe that a merger with a larger firm can provide greater flexibility and security for them, their estate and clients.

Do I have the staff I need to get the work done? In almost 20 years in the profession, I have never seen the staffing shortages that exist today. Many firms have the opportunity to bring in new clients and expand services to current clients, but they cannot find develop the staff to accomplish their goals. A merger with a firm that has excess capacity can achieve these growth models overnight.

Deciding on a Merger Partner

It may be easy to answer the questions above, but finding the right merger partner is not quite as simple. Bigger is not always better, so there is a new set of questions to ask when considering a potential partner.

What is the firm's capacity? What kind of expertise does it have? If you are merging to cross sell, for succession or to address staffing problems, the new firm must have the appropriate excess capacity. And a larger staff alone does not necessarily fit the bill. For example, if you personally visit your clients and you are seeking a succession solution, the successor firm must have the partner level capacity to offer the clients the same level of attention or else they will lose those clients. If you need more accounting support, they must have that level of support available and be able to reassign some of your administrative duties.

Will I be happy working at this firm? Will my staff? My clients? As I have been known to say for years, if you don't want to eat lunch with someone, don't merge with them. You need to have a personal comfort level as well as a professional one. Do the firm leaders share your philosophy about billing, collections, customer service and all the other details involved in running the business? Is their fee schedule or billing rate comparable? Is their location convenient for your clients who are used to visiting your current offices? How do the fee schedule and service approach compare with what your clients are used to? Questions like these will help you determine whether everyone involved will be satisfied with the merger.

What is their approach to client service? Most smaller firms provide a significant amount of handholding to their clients, while many large firms only do a limited amount. Can the new firm offer clients the service they've become accustomed to? This question goes beyond capacity to the firm's client service philosophy.

Is this firm the right fit? A bigger firm may offer many opportunities and solutions for smaller practitioners, but a very big firm is not necessarily the right solution. A firm that are only slightly larger than your own will have a culture closer to your own than a large national or regional firm. That will make it easier to make the pairing work.

Starting Out Right

Even after you've found the perfect merger partner, it's still important to set some concrete ground rules to ensure you get off on the right foot.

What will my role be? You should make sure you understand your decision-making authority in the new firm, whether you will continue to manage your book of business and other critical questions. In our business, most of the deals we create enable you to remain the professional in charge of your book.

What will I earn? Most of the deals we have done did not require the small practitioner to take a step backwards in income to make a merger work, although there are exceptions based on the smaller practitioner's need for more staff, overhead and the like. It's important to know the buyout formulas, treatment of disability or death and all aspects of the "package" you will be receiving.

What If It Doesn't Work?

Many firms include a de-merger agreement in their negotiations going into a deal. Remember, though, that if you are merging to create a succession plan, a de-merger agreement may not be in your best interest because you may be leaving the door open for the successor to walk away from the deal. In that case, you run the risks of losing clients, delaying your succession goals and allowing the buyer to make one deal today and a better one tomorrow. Mergers for reasons other than succession typically do include a method of unwinding the deal if it does not work. For those who wish additional information on how these pre-nuptial agreements work, refer to "Untying the Knot: Planning for a De-Merger," in the October 2007 *Journal of Accountancy* (http://www.aicpa.org/pubs/jofa/oct2007/untying_knot.htm).

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