Considering an Acquisition

Smaller firms have the urge to merge — and the reason may surprise you.

After the death of his partner in Hevia Beagles & Co., Dan Hevia continued the practice as sole owner. As time passed, the St. Petersburg, Fla., CPA found that running a six-person firm on his own was daunting. It wasn't just the burden of carrying all decision-making responsibility. Hevia had no one to share the cost of long-term investments in equipment, marketing and training — investments he needed to keep the firm healthy until his planned retirement, still nearly a decade away. Besides, how could he plan that retirement with no partners to succeed him?

Hevia found the solution in another St. Petersburg firm, Gregory, Sharer & Stuart (GSS). This January, GSS acquired Hevia Beagles, making Hevia the 13th shareholder in a 60-person practice. Later that month, Hevia and his staff moved into the GSS offices in downtown St. Petersburg.

The accounting industry is facing a groundswell of mergers and acquisitions among smaller firms — more, some say, than the profession has ever seen. The economy, of course, plays a role. As firms look to grow, they may consider a merger as an efficient way to establish or strengthen market share in a particular geographic region, or to expand into new lines of business. More often than not, though, the accounting industry's urge to merge is being driven by an even more powerful trend, and one unlikely to reverse soon: aging.

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JOINING FORCES

Accounting is a graying profession. The average American Institute of CPAs member is 55, but despite their increasing proximity to retirement, only 32 percent of members have written succession plans, says Jim Metzler, AICPA vice president for small firm interests. "Most people wait far too long to start their planning," he notes. "I probably get two calls a week from [partners]

somewhere in the U.S. who say they're ready to start thinking about it, and when I ask them how old they are, they say they're 70."

Joel Sinkin, president of Accounting Transition Advisors, hears similar stories. His New York-based consulting company helps accounting firms buy, sell and merge. Of the 40 to 70 deals Sinkin brokers each year, he says a significant number involve smaller firms with no capacity to pull off an internal succession.

"Say you have four partners. Two want to retire, the other two don't but can't afford to buy the first two out," Sinkin says. "They need to find a firm that will allow them to remain partners."

In addition, Metzler points out, firms that survived the recession by minimizing expenses now need to invest in growth. Aging partners don't necessarily want to sink more money into their firms instead of their retirement accounts.

Age issues aside, technology has made it easier than ever to operate multiple offices cost effectively, even across long distances.

MAKING A SOLID MATCH

If your firm is considering a merger, assess potential suitors by the three C's: chemistry, culture and consistency. A merger is much like a good marriage.

Chemistry is the trust factor. You must be comfortable with the other firm's reputation. You have to believe, and persuade your clients to see, that the merger is not the loss of your firm, but the gain of more resources.

Culture is, in part, about operational compatibility in areas such as due diligence, quality control, technology, client acceptance criteria and client retention practices. It also includes intangibles like values and personalities.

Consistency is the ability to maintain, even after the acquisition, the reasons your clients came to you in the first place. "If you're a small firm charging clients $150 an hour and billing quarterly, you aren't going to be acquired by — and your clients aren't going to be comfortable with — a large firm that charges three times as much, bills monthly and sends them to staff members instead of partners," Sinkin says. –*Fawn Fitter* ■