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Voices 5 ways to beautify your firm for M&A

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It was not that long ago that it was a seller's marketplace in CPA firm mergers and acquisitions, but for most marketplaces in this country and especially for larger firms, it has become a buyer's marketplace. This is due to a combination of many things including, but not limited to, the increase in the supply of firms looking for succession assistance; more firms looking to merge up to have access to a larger platform of services and technology; organic growth; and staffing issues. As a result, it has never been more important to make your firm more attractive to a successor firm.

Here are five things you can do to "beautify" your firm:

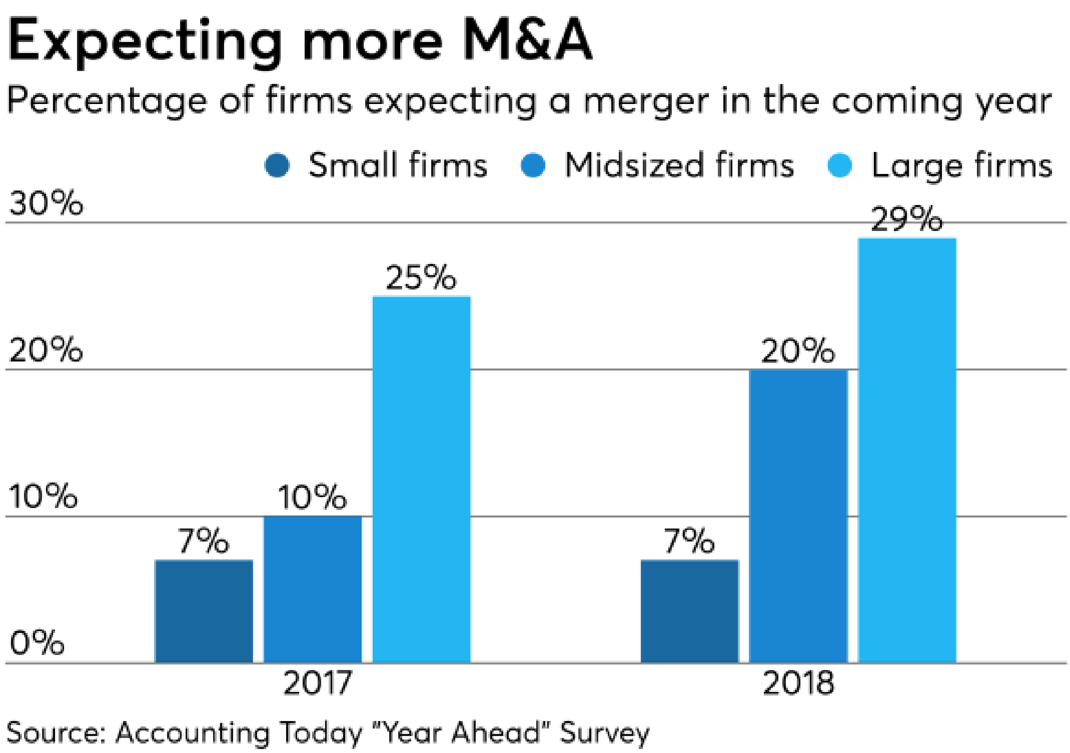
1. Embracing technology. If your firm is not paperless, on the cloud, working with client portals, etc., your IT culture is outdated and many firms will look elsewhere. There are many reasons why, and they include the fact buyer firms have more practices to choose from than in the past and they may seek to avoid the costs associated with bringing a firm up to date in technology, which can run as high as $10,000 per staff person just in software and training costs.

But a large reason is culture. Recently, a firm we were consulting with was looking at two firms. Firm A had excellent metrics but had not embraced technology. Firm B had average metrics but had totally embraced technology. This partner chose to go forward with the firm that had embraced technology. The reason? She explained that it took years to get her team comfortable with being paperless, working on the cloud, and offering remote access. She said that she could make a firm more efficient, but couldn't always convince them throw out the paper and get their arms around not only where technology is but where it is going.

2. "Brand" versus "partner" loyal. If your clients will only speak with one person in your firm, and most, if not all your relationships are "partner" loyal, that means transitioning clients will be more challenging. Trying to get your clients more "brand" loyal, where clients are comfortable speaking to two or more team members, can be a very attractive culture to a successor firm.

3. Good clients and staff. Every firm has a basement and a ceiling of good and bad clients. Too many times we have seen a successor firm view a seller's basement as "too deep" and not be willing to take them on and thus kill what could have been a good deal for both firms. Recently, a firm we consulted on recognized that only 10 percent of their revenues came from C or D clients and before they went to the marketplace to merge up, they fired those clients. They didn't want to be defined by the few $300 1040s they were preparing. Meanwhile, clients that a successor firm is confident they can retain are obviously an enticement.

Good staff who have strong technical and people skills, youth, and signed employment agreements that contain a non-compete, can be a separator between firms. Good staff can be a very strong attribute that a successor firm may covet.



4. Niches. As many of the traditional accounting services will eventually be replaced by technology, having strong niches add to your firm's appeal. Wealth management, human resources consulting, IT consulting and outsourcing are just a few of the in-demand service niches that could make your firm stand out from the competition. If you don't have a niche as an alternative selling point, you may be able to determine if your clients would be receptive to certain specialties. Identifying a firm that offers service niches you're confident your clients would welcome is a smart strategy to apply.

5. Realistic terms. It's critical to have a realistic view of your firm's value. Last year we were confronted by someone seeking to sell their firm and taking the position that they paid 1.5X to acquire the firm 15 years ago and weren't going to accept less. Of course, a year later we heard they were still seeking a deal.

For partners seeking succession, while you should not be Santa Claus, remember, no one will acquire your firm to lose money, let alone break even. For firms seeking to merge, no one will be doubling your pay if you merge with them. While a firm merging up has the right to assume that if they bring in similar revenues and invest the same time, with a few exceptions (such as the case of a seller's quality control process needing more labor to rise to the standards of the successor firm), setting realistic goals so everyone wins makes your firm more attractive.

While there are many other things you can do to make your firm attractive -- such as having a good ownership agreement, a one-firm type of culture and strong leadership – these five should provide you a jump start to be more attractive to potential suitors.

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