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Getting Your Firm Ready for a Merger in 2018

It's common wisdom that a home for sale seldom looks better than when it's ready to be shown to prospective buyers. All those repair and maintenance tasks that had been repeatedly put off are now complete in order to showcase the property in the most flattering and enticing light.

The same holds true for CPA firms contemplating a merger – the more attractive your firm to potential successors, the better the opportunity to facilitate a strong and lasting union while attracting the best possible deal terms.

So in late April when the dust settles after another frenzied filing season, many practices looking for the answer to their succession plan or perhaps simply for continued growth, will be looking toward the M&A arena as a solution to their individual strategies.

We're often asked what makes a firm attractive to a potential suitor. And our answer is that it's usually an equitable mixture of cosmetics and solid metrics.

When a seller firm intends to put itself up as a merger candidate, I usually ask the owner or owners to perform a bit of role reversal in order to take a holistic view of the practice with a critical eye.

First, I tell them to imagine they're walking into their reception area for the first time. Is it clean with updated décor, or is it a hangover from the early 1980s? Are the offices and/or cubicles tidy and are staff working off multiple computer screens or are the workstations a repository for scattered papers and rows of filing cabinets?

Do you have a long-term lease? If so, that will severely restrict the number of potential suitors – especially if they already have an office in the area as they either have to assume the obligation or sublet the space.

First Impressions

The first contact they'll have is with the receptionist. Sadly, too many businesses in all sectors overlook the importance of that position, as it's often viewed as a gateway to advancement.

I once visited a firm that was looking to merge upstream and was greeted by a gum-chewing receptionist who, without looking up continued to watch a YouTube video on her iPad. If you were a managing partner at a possible successor firm, what kind of impression do you think that would have made? You would have likely thanked them for the time and quickly looked elsewhere.

The Culture Test

All of you have interviewed for a job, and perhaps multiple times over the course of a career. You no doubt wondered what it's like to work there should you get hired. It's not all that different from a successor firm looking at a potential merger partner.

The questions that invariably surface are:

1. What's it like to work here?
2. What's it like to be a client here?
3. Does the staff look happy and busy?
4. Does the firm's service model dictate that only the partners deal personally with the clients or do staff and managers interact with them as well?

IT and Metrics

The importance of a quality IT program cannot be overemphasized as an attraction tool to potential successors. Below is a terrific example of a case study:

A client of ours was in serious talks with two firms – each was generating about $1 million in annual revenue. He said the other partners were expecting him to make a final decision in a few days.

Firm 'A' had great metrics, solid realization and billing rates and an impressive bottom line. However, the firm had not made the transition to a paperless culture or embraced the cloud.

Firm 'B' had average realization rates and firm metrics and quite frankly, was overstaffed for the size of the practice and as a result, the bottom line was noticeably below the average for practices that size. However the firm had made the move to the cloud several years ago. So which one do you think they chose?

If you answered Firm 'B,' you're correct. When asked the reason for his decision, the managing partner simply said that it took his own firm two years to transition to a paperless strategy in order to ensure everyone was on board. He said it was far easier and less time consuming to improve a firm's metrics than it was to instill a culture that many on staff may not have been ready to accept.

Don’t Forget the Clients

Sometimes in merger discussions, the clients are lost in the shuffle of technology and metrics, but are nonetheless are just as critical a recruiting tool for merger partners – especially what we refer to as well-trained clients.

What is the definition of a well-trained client? They are those clients who pay on time, deliver the information you need and most importantly, when you need it.

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Bill Carlino serves as managing director at Transition Advisors, a national full-service consulting firm specializing in ownership and succession issues including M&A.