CPA Now

Never Take a Practice Merger Off the Table

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About 20% of all CPAs who have the ability to decide when and if they will retire will simply choose “turn out the lights” as their exit strategy. That means, essentially, one day they will walk away from their practice or possibly sell what may be left when the practice is a shell of its former self.

Assuming you have that choice – either because you are a sole proprietor, or your firm doesn’t have an owner agreement that defines how and when its owners must retire – why not consider a merger for your firm as a succession strategy? If succession is not an impending concern for you, consider merging as a growth or competitive strategy over remaining independent.

The Financial Upside

It is an inescapable fact that you will always make more money continuing to work than if you sell or retire. Here is the rule of thumb: a sale or retirement benefit will normally not exceed 2 ½ to 3 years of your annual compensation. If you are looking for a financial offer to sell that you can’t refuse, don’t hold your breath. Keep in mind that when you sell or retire, you are being paid to not work!

Control Issues

It is rare for a retiring CPA to walk away from a practice without some significant involvement with the successor firm. This can smooth the transition of client relationships and most buyers are not interested in replacing partner-level talent immediately. However, CPAs – especially sole proprietors – can be control freaks. So, handing over accountability to another team via a straight-up sale will turn off many practice owners. But with a merger, particularly for those CPAs who merge into a larger firm, they usually find they can focus on what they really like to do (such as client service) and spend less time on tasks they don’t enjoy, such as dealing with practice administration.

Problems a Merger Can Solve

Below are some of the issues that are driving other practitioners and firms to merge.

- Not a deep enough bench of talent to take over for the partners when they retire.
- Concerns about the impact technology will have on the profession, such as the reduced value of compliance services, even to the point of service eliminations in some cases.
- Competition with other firms in your area as they expand their services to include noncompliance advisory and consulting offerings.
- Attracting and retaining professional staff.
- The threat of clients and staff abandoning ship as they lose patience waiting for details on how the relationship with them ends.

- Gone are the days of 1.5 valuation multiples.
- Health issue and lack of back up and support.

The most common reason CPAs put off considering whether they need to hook their wagon to a stronger team of horses through a merger is the uncertainty of what the move will mean to them. There can be powerful professional and financial benefits to a merger, but it doesn't always satisfy the emotional aspect of the decision-making process. Not every opportunity that you come across will be the right one, but you can't find the right one unless you kick some tires.

A consistent issue in the firm mergers market these days is timing. If the main reason you would consider a merger is to address succession for yourself or your partners, you should ideally be at least three to five years out from expected retirement dates. There are deal structures for CPAs who are three to five years from slowing down that enable them to maintain income, reasonable autonomy, and control, making it much more comfortable to execute such a strategy. Many buyer firms will not consider firms that have to replace partners with less time left. No firm, regardless of size, is bursting at the seams with excess talent waiting for something to do.

If the reason you might be considering a merger is growth and improved competitiveness, the longer you wait the longer you'll put off the benefits of merging. Further, your practice's technology and services become more obsolete every day, and, therefore, you may become less attractive as a merger candidate.

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