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Retaining Clients During a Firm Transition

Imagine a partner announces their retirement and your firm buys out the equity stake. Five years later, the partner is still working with and controlling the same client relationships as always. Worse yet, the "retired" partner is getting more and more difficult to work with every day but has been fully paid. What do you do? Or imagine the partner actually does retire, but his or her clients leave the firm, too.

Terrence E. Putney, CEO of Transition Advisors LLC and co-author of the book, *CPA Firm Mergers & Acquisitions: How to Buy a Firm, How to Sell a Firm, and How to Make the Best Deal*, says this scenario has happened and will happen again without proper planning to manage the transition of partners and their client relationships.

Nothing can turn a good purchase of an accounting firm or the buyout of a partner into a bad deal faster than the loss of clients after the transaction closes, says Putney, who also is former Managing Director – Mergers and Acquisitions for RSM McGladrey. Client loss can wreck the value of the deal and hurt the firm's reputation as trusted advisors. During transitions—as it should be throughout the life of the accounting firm—it's all about the client.

"If you're a trusted advisor, then the client depends on you for unique insights, but if you're no longer going to be available, which is eventually going to happen to all of us, then helping the client transition that dependence they have on you as a trusted advisor to a different trusted advisor you have personally chosen as your successor can create value," Putney says.

Having a deal structure and a business plan in place that encourages a strong transition of clients to the successor firm can make all the difference between a smooth changeover and a nightmare. "You have to understand how to treat clients in a transition like this so they want to stay with the successor firm," Putney advises.

Every deal should be structured to motivate parties to execute the client retention plan, he says. And the business plan should recognize that client relationships are often very personal—for both the client and the accountant. Practically speaking, this means incorporating sufficient time for a transition. "As a rule of thumb, we recommend two years for a proper transition to be executed, but it depends on the kinds of clients and kinds of services and how often the client interacts with the firm," Putney says. A 90-day transition (which Putney sees quite often) is not at all sufficient to respect the client's needs, he adds.

Terrence E. Putney
CPA

Terrence E. Putney is CEO of Transition Advisors, LLC, a national consulting firm to the CPA profession providing services related to transition of CPA firm ownership. During his 38 years in the profession, Putney has been the managing partner of a mid-sized CPA firm and Managing Director–M&A for RSM McGladrey.

He is widely published in numerous trade publications, including the Journal of Accountancy, and is a frequent speaker for professional conferences on the subject of owner transition and succession. He is the immediate past-president of the CPA Consultants' Alliance and can be reached at tputney@transitionadvisors.com.

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The deal structure and business plan should take into account whether a client is “firm loyal” or “partner loyal.” The larger the firm or the client, the more likely that the client is not as attached to an individual as to the firm. In other cases, clients have developed close, personal relationships with the individual, so it can be like losing a friend when the partner leaves, Putney says.

“If you treat it like ‘It’s no big deal, we’re going to keep doing the same work and why should the client care?’ you’re potentially at risk for the client to say, ‘I don’t know you guys. I’ve worked with this guy for 20 years. Who are you?’”

Putney says business plans should ensure that the person who has had the relationship with the client is actively involved in the transition. “It’s difficult to go to someone you’ve worked for 20 years and say I’m no longer your accountant. If the seller’s not motivated to properly participate, it doesn’t work.”

Active involvement doesn’t mean holding on, he adds. “That means giving it up slowly, backing themselves up into the background.”

But it also requires the seller to continue to be present, for a time. “If [the seller] is not there that’s a real problem. Or if they’re totally checked out that’s a problem as well.”

Putney recommends a written plan so that all parties understand how the transition is going to work and can hold each other accountable.

Deals can be structured in a number of ways to ensure client retention, including the following:

- ✓ The agreement can include an adjustment that amends the deal price based on client retention.
- ✓ It could establish a fixed price after at least two years.
- ✓ In mergers, where selling partners become owners in the buying firm and where the price is based on how much business is being brought in, there might be look-back adjustments to ownership if a certain amount of drop-off in the client book occurs.

A retiring partner selling to other partners doesn’t generally pose as high of a risk for losing clients as in an external sale, but you still want to ensure a proper transition, Putney says. One common approach is requiring two years’ notice of retirement. When the transition of the client relationship must occur during that period, the client will have adjusted by the time the partner leaves, and the departure will be a non-event.

"One thing we have been adding into agreements is a requirement that [retiring partners] execute a written transition plan, and if they fail to execute…the deal is treated as if they've not given notice," Putney says. Typical consequences include either putting the deal on a contingent basis post-retirement (so any harm done is reflected in payments to retiring partners) or setting a discount (typically in the 20 to 30 percent range but sometimes as high as 50 percent) to compensate for the damage from failing to provide notice and execute the transition plan.

"When you've been doing this for 40 years or 45 years, it's just part of who you are, and these relationships are part of who you are," Putney says. "Walking away is really hard for some people to do. They can't bring themselves into have those conversations with the client."

"I've had guys in their 80s tell me 'My client doesn't want me to leave.' The reality is if you went to the client they'd say, 'I'm waiting for this guy to tell me when he's going to leave.'"

This is an important relationship to the client and their business, and they need to know who the successor's going to be, Putney says. "They don't want to find out by reading the obituaries one day that their accountant has passed and then it's, 'Who's my accountant now?'"

In M&A events, many firms tout the value of their partners to the practice, but the truth is that a tremendous amount of value is tied to a firm's ability to transition related clients. "One thing that sellers tell me often-times is, 'Nobody can replace me. I have these unique relationships with these clients. I go to their kids' weddings. They tell me things they wouldn't tell their spouse. It's taken me years to build that.' It's a very personal relationship with their clients," Putney says. "I respect that completely, but if you can't transition and put somebody else in place to take your place, your practice has no value."

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RESOURCES

- *CPA Firm Mergers & Acquisitions: How to Buy a Firm, How to Sell a Firm, and How to Make the Best Deal*, by Joel L. Sinkin and Terrence E. Putney, CPA. http://goo.gl/xVH8NU
- "CPA Firm Succession—Solidifying the Future," 12-part series by Joel Sinkin and Terrence E. Putney, CPA, July 2013–June 2014, Journal of Accountancy. http://goo.gl/YMT91x
- "Exit Strategies for Owners of CPA Firms," by Joel Sinkin and Terrence E. Putney, CPA, Pennsylvania CPA Journal, Summer 2015. http://goo.gl/se1z0B
- "3 Easy ways accountants can build on their clients' trust," Sageworks blog. http://goo.gl/KkiYDh