



Seven Keys for Firms Considering a Transition through a Sale or Upward Merger

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Leading CPAs through Transition with Succession and M & A Strategies

When you are planning for a transition of the partners in your practice through a sale or upward merger, it will likely be the most important decision you make regarding your firm. While there are many vitally important items to review, below are seven key things to keep in mind.

1. Get to Know Your Successor

If you do not want to eat lunch with the person or people you are considering affiliating with, don't affiliate with them. This is the single most critical advice we give anyone.

Why do most of your clients stay with you? There are dozens, if not hundreds, of practitioners in your area your clients have to choose from. Most clients have no yardstick to determine the quality of the technical skills of their accountant. They stay with you mostly because they like and trust you. If you do not "like and trust" the person you are merging with, why would your clients and staff?

Many of us spend more time with our co-workers than our families. Your work environment must be conducive to success. If you are comfortable at work it helps your productivity and happiness. These good feelings are passed down to staff and clients. The opposite is true as well.

2. 5 Years is Only 5 Visits

Most firms have a substantial number of their clients, both business and personal; whose primary contact with the firm is an annual meeting with a principal. The cloud will make this even more the rule. When a practitioner says they are five years from either retiring or devoting less time to their practice, it sounds like an eternity. In reality, it may be only five visits with a substantial portion of the client base. Think about it. Two years really means only two more visits.

Whatever you are paid for your practice or interest in your firm, it will normally be based in large part on the acquiring firm's expectation of its ability to retain your clients. It takes time for your successor and clients to become acclimated to each other and to transition the trust and loyalty your clients have to you. This applies both to internal and external succession plans.

The longer and more actively you participate in the transfer of trust, the more likely the transition will be successful. This expectation of high retention should elevate the value of your firm and the actual successful transition of client relationships will be more satisfying for you.

One way to actively participate in the transition is to remain involved as needed after your ownership interest has been transferred. Another technique is what we refer to as a "Two Stage Deal." This technique will allow the seller to maintain their current level of income, independence and control over their practice and still start the process of acclimating their clients to a successor.

3. Why Now is Better Than Later

Your practice has its greatest value while it is running at top efficiency. By creating your transition succession plan in advance when the practice is peaking, you can structure the most lucrative deal. Which would you pay more for - a business that is stable or even growing or one that is in decline? Even if your firm's revenues have started to decline, now is a better time to address your succession than later will be. Also with the baby boomers aging, each year the amount of firms seeking succession will grow geometrically. There is no avoiding the rule of supply and demand therefore by making your deal now you will likely receive a greater value than you will in the future.



4. Avoid Costly Reinvestment in Long Term Assets

If you are about to make a major investment into technology, relocating your office, or replacing staff this may be a good time to review your transition plan. Perhaps there is a firm or individual you can affiliate with that will participate in this investment by becoming a partner in the firm. Or by affiliating with a new firm now, you can avoid the investment altogether. If you are planning on winding down, or modifying your involvement in the practice over the next five years or less, look for a successor that can help you avoid making long term investments in your firm. If you sign a long term lease, you are locking your successor into something they may not need or want and therefore reduce your audience of successors and or reduce the value of your practice by the costs of carrying the additional overhead.

5. Don't Drag The Negotiation Process Out

If all the parties are aware of the goal and purpose of the affiliation, it should not take more than 4 to 10 weeks to come to an agreement. The longer the negotiations drag on, the more likely bad things can happen:

- Staff and or clients may find out what is going on and feel nervous about their security and start making plans to leave the firm.
- The longer two firms negotiate, the more adversarial it can get. It is very hard to consummate a deal with an adversary. If it does become contentious and the deal still closes, it can have negative ramifications later.
- Sometimes the firm seeking succession or upstream merger starts to get concerned they are not a priority of the other firm if things drag or worse, the successor firm may lack the capacity to take on the work if they are so busy they needed to keep stopping the process.

6. Create a Strategy to Transition Clients and Staff

You and the successor firm will agree that you have sold your client list and that your employees will work for the new firm. However, in reality, clients and staff cannot be bought and sold. They have to decide to stay with the successor firm. Experience tells us they will stay if the proper transition plan is implemented. It starts with how the change is communicated. Clearly, the clients liked the way they have been serviced by you. They have come to expect certain procedures, fee schedules, staff and many other items they grew accustomed to. The staff likes where they are working, your policies and procedures, and your culture. The key to a proper transition plan is emphasizing what the clients and staff will gain with the new firm, not what they might perceive they will lose of the old. Take advantage of the trust your clients and staff has in you, don't fear it!

This is another advantage of the Two Stage Deal. Because you basically run your practice as a firm within a practice you will naturally, create a smooth transition. See this article from the Journal of Accountancy on transition planning.

7. Find Expert and Experienced Help

Lawyers will say, "An attorney who represents himself has a fool for a client." Accountants need to recognize the same thing. In creating a plan for transition there are many things that need to be worked out. Valuing the practice, structuring the deal, treatment of accounts receivable, WIP, liabilities, firm names, roles, transition strategies, partner buyout provisions, documentation of the deal and much more. This is not only a critical business decision it can get emotional. Having a professional, who has years of experience specific to accounting practice sales, can be the most important step in obtaining a win/win deal for everyone.

Should you have any questions or comments, please feel free to call us directly (866-279-8550 toll free) or e-mail us at one of the addresses below.



If you want to find out more about how succession planning can work for you, we will provide a free consultation and valuation of your practice. Contact us to find out more about what your practice might be worth, how to start the succession process in advance, or if a Two Stage Deal is for you.

Go to our Web site, www.transitionadvisors.com and click on articles for more free information on buying, selling, and merging accounting firms.

Since 1990, [Joel L. Sinkin](#) has exclusively provided merger, acquisition, and succession plan consulting to accountants nationwide. He has personally been involved in closing over 650 such transactions. He is the co-author of *Guide to Buying and Merging CPA Firms* published by Practitioners Publishing Company. He is a frequent speaker at national accounting conferences and has been an instructor in dozens of CPE courses. He has been published in *Sum News* (Massachusetts Society of CPAs), *The New York State CPA Journal*, *Insight* (Illinois CPA Society), and *TAXPRO Quarterly*, the AICPA's *The Practicing CPA*, and he is frequently quoted in local and national mediums. His article, [Price Equals Value Plus Terms](#), is featured in the December, 2004 issue of the *Journal of Accountancy*.

Joel believes that the needs of the parties in every merger and acquisition are unique and successful execution requires a thorough understanding of each party's objectives. The chemistry between the partners in the two firms is a key component to making the deal work. "A good deal is a fair deal. I also believe it's beneficial to both parties for retiring practitioners to transition at a pace that meets their clients' needs and is consistent with their personal plans. The best deals are win-win propositions."

[Terrence E. Putney CPA](#) has over 25 years' experience in the CPA profession. For six years, he was Managing Director-Mergers and Acquisitions for RSM McGladrey, the fifth largest accounting firm nationally, and held several executive positions with its corporate parent. He structured and negotiated

many transactions resulting in the acquisition of accounting and consulting firms ranging in size from \$200,000 to \$30 million. Prior to joining McGladrey, Terry was the Managing Partner of Donnelly Meiners Jordan Kline, a 60-person CPA firm in Kansas City.

Terry thinks it is imperative that practitioners have a clear understanding of their objectives when pursuing a sale of their practice or the merger with or acquisition of another practice. "I've seen deals not work or not materialize because one of the parties to the succession plan had not thought through what they really wanted to accomplish. Transition Advisors will make sure the approach to executing your plan will meet your objectives. Because we are consultants and not brokers, we can be much more flexible in helping a firm succeed with its transition plan."

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