

Mergers Large And Small *Originally published in Accounting Today, January 2007*

According to Joel Sinkin and Terrence Putney, principals in Accounting Transition Advisors LLC, of New York and Overland Park, Kan., there has recently been a significant increase in merger activity between firms with one to 10 partners. All indications are that the level of activity will continue to grow over the next three to five years.

Why?

- * The aging of accounting firm partners, combined with a shortage of talented successors, is creating fewer internal options for most firms.
- * More firms are interested in growing quickly through mergers because they have high-value services to offer new clients. One merger of even a midsized firm can result in more growth than many years of gaining clients one at a time through practice development.

Sinkin and Putney said that they have personally consulted on more than 800 successful mergers and acquisitions of accounting firms: "Most of the firms we work with seeking succession fall in the range of one-to-10-partner firms. As consultants, we're asked to value practices, structure deals, prepare documents and create transition plans. Because we are not brokers, we deal with a plethora of solution types for both firms seeking succession answers and firms seeking to grow through a merger or acquisition. Sometimes the best alternative for both parties is an outright sale. Often, our clients seek an approach with longer-term benefits. There are additional methods of structuring deals wherein the partners retain reasonable control, autonomy and income until such time as they reduce their time commitment."

For a one-to-five-partner firm seeking a transition of some or all of the partners in the next five years, Sinkin and Putney offered some suggestions as a starting point:

- * Start the process early. While many clients of large firms are loyal to the firm, clients of smaller firms are usually more loyal to the partners they work with. Therefore, it takes longer to transition the client relationships to a successor firm. Three to five years is the ideal timeframe.
- * Be flexible and open-minded. Most practitioners know that they should address succession sooner rather than later. They put it off because they fear some aspect of the solution that they have assumed will happen. There are many ways to create win-win solutions that can result in both current and long-term benefits.

* If you think you have an internal successor, make sure. Many smaller firms feel that they can handle the exit of their partners with existing talent. If this is your plan, ask yourself the following: Do your partners have enough capacity to take over the clients and other duties of a partner who leaves? What about the next partner who leaves after that? Do you have near-partners who you're sure can step up to the role, and seniors to take their place? Can the firm afford to replace the partners that leave and pay them out simultaneously?

Sinkin and Putney maintain that they have found that firms seeking to grow through mergers or acquisitions are generally looking for the following:

* Talent. Client lists aren't enough. Even if a practitioner is seeking to retire in five years, that practice is often more desirable than a practice with the owner leaving immediately. Any special talents that the partners or high-level staff have make a firm even more in demand.

* Marketplace diversity. More and more firms are ready to take on satellite offices as a result of a merger. Technology makes this easier to do. Proximity helps with practice development, recruiting and retaining staff.

* Cross-selling. Larger firms are particularly interested in firms that have niches themselves, or a client list that will be responsive to the specialized services that they offer.

So, the question then becomes, how should you position your firm for your transition?

* Plan ahead. Your transition is most at risk and the value of your practice is at its lowest if you start the process the day you decide you just worked your last tax season. Give your clients and your successor time to make this work right.

* Consider the changing market. If you are an aging Baby Boomer, you're not alone. More and more practitioners are facing the same dilemma and the supply and demand curve is shifting. Fortunately, the number of firms seeking growth through mergers is on the rise, as well. However, they are becoming more selective.

* Get help. If there are 50 things you need to know to have a successful merger, the smartest of us will think of 35. Help can be found through peers who have gone through multiple deals, experienced consultants, professional education and reviewing articles available on the subject.