



WHITE PAPER

Nine Proven Strategies to Ensure a Successful CPA Firm Merger or Sale

Small and Midsize CPA Firms Increase Earnings through Mergers and Acquisitions. But Are You Prepared for the Critical Issues?

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The combination of Sarbanes-Oxley, the legal environment, demand for more services, a shrinking pool of talented CPAs, and activity among the largest firms has resulted in an avalanche of merger and acquisition activity by small and midsize CPA firms over the past few years.

A significant and understandable fear of many CPAs is merging with a firm and finding that the new entity is not the right match for them. In this case, the long-term financial and emotional impact on the firm's partners, staff and clients can be substantial in quantifiable terms. Subjectively, almost unlimited issues can arise. Future turnover, reluctance of future merger candidates, lost profitability and recruitment issues can all be recognized over time.

The following are key factors to focus on during your discussions with firms to help avoid potential "minefields" and long-term problems.

1 Prepare yourself and your partners for the discussions. Before you move forward with a merger or acquisition, be certain that all or most of the firm's partners are emotionally ready. Are the potential financial rewards worth the increased responsibility and governance issues?

2 Engage your professional legal advisor at the start of the process. Have you been advised of the likely scenario and timetable associated with a merger or acquisition from a trusted specialist and have you been made aware of the legal ramifications?

3 Determine what is important to you in order of priority. Make a list of all the factors including personal chemistry, business philosophies, financial stability, prior merger history, etc. Key items for consideration would include:

- Are the mutual goals of the merging entities on the same page?
- Can cultural, operational and financial issue differences be satisfactorily resolved?
- How will the new firm be managed? Who will lead?
- Can operational systems and infrastructure disparities be reconciled?
- Are compensation levels comparable?
- Are quality control and technical competencies compatible?
- What are the client industry specialties?
- How strong is the client profitability?

4 Develop a very specific plan on how you will identify target firms. Use sources such as professional relationships with other CPAs, attorneys, bankers, or merger and acquisition specialists. Discretion is critical; you want to be the one controlling when you advise your staff and clients about a merger that could come to fruition.

5 Understand how the process works. This includes valuation, negotiations, transaction structures, letters of intent, due diligence, closing and transition issues.

6 Prepare questions specifically to probe deeply into your most important objectives. Ask several follow-up questions as opposed to simply accepting a given explanation.

For example: if you want to determine the prospect's willingness to terminate a client relationship, you should ask:

- What is your philosophy about terminating a client relationship?

Based on the answer, follow up with such additional questions as:

- What is the process or procedure in your firm?
- What was the most difficult one, and why?
- What was the largest one, and why did it happen?
- Is there a termination you regretted, and why?
- In the past 12 to 24 months, how many times did this occur and how much fee revenue was lost?

7 Ask the most important questions to each partner and key employee involved in the process to be sure of consistency.

8 Conduct non-financial due diligence. Speak with partners from prior merged firms, clients and outside professionals to confirm work quality, character and other key factors.

9 Go with your gut. If "something doesn't feel right" and you just cannot put your finger on it, do not close the deal until you figure out what is troubling you. Rest assured that there is truly an issue, and no matter how wonderful the client base and economics may mesh, do not go into a merger or acquisition with any second thoughts.

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