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'Frenzied Pace' of M&A Shaking Up Landscape

The recession, and the slow pace of recovery, is leading more small to midsize CPA firms to consider M&A to grow and expand their reach.

"Mergers and acquisitions are occurring at a frenzied pace in the accounting profession right now," says Allan Koltin, CPA, president and CEO of PDI Global Inc. in Chicago. "The vast majority of the top 500 CPA firms with revenues of \$5 million or more are looking for mergers and acquisitions more aggressively today than anytime I can remember."

For many CPA firms, M&A offer a way to establish or broaden their footprint in a faster-growing market. The recession has made it harder for firms to generate business, but a merger or acquisition can help a firm gain market share and to expand its client base and geographic reach. For example, CBIZ recently acquired one firm in New England because it did not have presence in that marketplace and another firm in South Florida to bolster its existing offices. "Our offices in Boca Raton and Miami were undersized for the market so we sought an acquisition candidate that could help us achieve a more dominant position in a relatively rapid period of time," says Saul Reibstein, the firm's executive managing director.

In some cases, firms focus on a target as a way to gain access to the talent and contacts necessary to compete in a specific niche, such as litigation services, wealth management, or certain types of consulting like a bankruptcy

specialty. When Ft. Worth, Tex.-based Weaver merged with Elms, Faris & Company in May, Weaver immediately expanded its expertise and client base in the oil and gas industry. "A lot of money was being raised in Houston, Dallas and Fort Worth, but it was being deployed in Midland, so this merger gave us a clear strategy to capture that market and serve our clients," says Tommy Lawler, the firm's managing partner and CEO.

Firms also turn to M&A as a solution to succession planning dilemmas. If a firm's partners are approaching retirement age and looking for a way to cash out but the firm lacks the depth of talent necessary to ensure the development of potential future partners or rainmakers, being acquired can solve those problems. "Most firms don't have that much depth of talent and retiring partners want to get retirement income and an exit strategy," says Koltin.

Finally, M&A also allow firms to leverage the economies of scale of a larger firm with an established infrastructure. Larger firms have a better chance to land larger clients and projects and to attract strong talent. The ideal merger or acquisition is one that creates a firm that is better and stronger than the sum of its parts. For example, larger firms tend to have the resources necessary to compete in today's environment. "Our clients are expanding either domestically or internationally and simply have more complicated issues that require more ex-

pertise," says Lawler. "If you want to be able to serve your clients, you have to keep up with them."

"M&A is a proven and successful way for CPA firms to grow," notes Koltin. However, firms pursuing a strategy based on mergers and acquisitions need to proceed carefully and develop processes for identifying potential targets or partners, conducting due diligence and managing the post-deal integration. When approached intelligently, firms can structure their M&A approach in order to manage the risks associated with these transactions. "Merging for the sake of merging can lead to unhappy partners if the fit isn't right," says Reynold Cicalese, CPA/PFS, managing partner of Alloy, Silverstein, Shapiro, Adams, Mulford, Cicalese, Wilson & Company in Cherry Hill, N.J.

The right fit. When identifying potential merger partners and acquisition targets, firms look for the right fit by considering both tangible and intangible factors. CBIZ has completed three significant acquisitions over the past 18 months and has more in the pipeline. However, the firm had to meet with 30 potential target firms before pursuing those three acquisitions. The other firms did not meet CBIZ's expectations for a number of reasons. For example, "we met recently with an eight-partner firm but it did not have enough exciting middle-aged partners to give us confidence in its future growth potential," says Reibstein.

Reibstein evaluates target firms based on the quality of their partners. "We are looking for a firm with a cross-section of young, middle-aged and retirement-minded people who have a track record of success and the potential for even greater success in the future," he says.

More tangible elements include how each firm operates. For example, firm governance models are a critical element of cultural fit. Partners in a small firm generally have a great deal of autonomy that could be lost if that firm merges with, or is acquired by, a larger firm.

"Partner X might be used to calling staff directly to work on a job only to find out that the new firm requires partners to go through central scheduling, which might not give him the people he requests," says Koltin. If firms don't manage these types of issues and expectations, the transaction may not be as successful as it could be.

Sometimes it all comes down to chemistry. Does the deal feel right? Do the leaders of the two firms get along and look forward to working together. "If the chemistry is not good in the first couple of meetings, there is no point in continuing" to pursue the merger or acquisition, says Robert Fligel, a consultant with RF Resources in New York. "It is important that firm leaders don't fall in love with the numbers or the idea of becoming a much bigger firm with new services and having an office in a particular area."

Different firms may have different ethical guidelines and boundaries that could be a source of conflict. In addition, some firms adhere to a one-firm philosophy while others take a more entrepreneurial approach in which partners go their own way. If the two firms are far apart in those areas, the differences could get in the way of successful integration. Firms need to be honest with themselves about their intentions and with the other party so there are no surprises for anyone once the deal has closed.

"If there are warts, they should be things that you can tolerate and fix," says Fligel. "You can't expect perfection to merge with or acquire a firm that has everything, but you have to see the potential and be willing to invest in it."

Weaver has completed four mergers in the past four years and each time the firm focused on firms with similar cultures and values. "If the cultures are not the same within the firms, the probability of a successful merger goes down dramatically," says Lawler. "It is important to work with people who you like and trust and with whom you share a common set values. In each of the four mergers, one of Weaver's part-

ners knew someone in the target firms. We did not go into them cold turkey," he says. "These were people that we could trust and that we wanted to be partners with."

Integration: From 'them' to 'us'

The Monday morning test following a merger that closes on Friday is crucial because that is when everyone sees what has changed and what is the same. "About 80% of integration involves flipping the switch and following our integration plan for finance, HR, marketing, IT and so on," says Lawler. "The other 20% are things that you don't anticipate, such as the psychological impact and anxiety following a merger for a firm that has historically operated independently. In those cases, you have to explain the benefits that will come from the combined firm."

Although the initial transition following a merger or acquisition can last six to 12 months, the overall integration can continue for years. In fact, the real test of whether a transaction is successful will be how quickly individuals

become comfortable with the new firm. "You can easily change up processes and systems, but the merger is not complete until 'me and you' becomes 'we' and that takes time," says Lawler.

Client retention is a key goal during integration. A client visit by the new firm's partners can help ease the client's transition to the new firm. In addition, some firms maintain their billing rates for clients of the acquired firm for the first year or two to ease client concerns that working with a larger firm will lead to higher fees. Keeping older partners approaching retirement age on staff can also help retain clients by providing a sense of continuity with these clients.

CBIZ uses a fully vetted integration plan and process but the firm always tailors integration to the specific needs, strengths, and weaknesses of the acquired firm. "Don't get worn out by the transaction because the real important work takes place after the ink is dry," says Reibstein. "That is where the success or failure of a merger or acquisition is most often determined." □