THE NEXT GENERATION

Succession Planning: Where Do You Stand? *By Joel Sinkin*

CPAs help clients to plan their retirements and exit strategies many years in advance, but many fail to take their own advice and wait too long to start the process of succession planning. By considering the answers to a couple of questions, practitioners can gain a better perspective on what steps they need to take to ensure a smooth transition.

When do you start to plan your exit strategy? If you expect to sell your practice one day, there are many interim steps that you can take to maximize the value of your firm. Many professionals want to gradually reduce their time commitment to the practice and ultimately sell, but may not wish to walk away completely. How will that transition work? The first thing a practitioner must do is try and envision how many more years — or tax seasons — they want to work full-time. Most smaller accounting practices have a significant number of personal and business clients they deal with only annually. Some other clients may have contact with the office or staff throughout the year, but see the owner only once a year.

If you are five years from seeking to reduce your role, that may seem like an eternity, but in reality it adds up to just five visits for many clients. That's important because, in most cases, if clients were able perform the work we do for them, they would not have hired us. Thus, they really aren't equipped to judge whether we are great, adequate or inept at what we do for them. So, why do they choose your firm?

The answer in most cases is because the client likes and trusts you! Of course, fees, location, service procedures and other elements all are critical as well. But if the client was not comfortable with you, in most cases they likely would choose another alternative.

With that in mind, it's important to remember that the key to any firm acquisition is client retention. That's why it's important to start the process by reviewing how much longer the owners will have client contact. In a perfect world, we should affiliate with our ultimate successors well enough in advance to give the clients an opportunity to gain a comfort level with them. There are methods of affiliating that enable the retirement-minded members of a firm to maintain control and income while gradually acclimating their clients and successor to each other. For more information on this process, see the *Journal of Accountancy* article, "Two-Stage Deals" (http://www.aicpa.org/pubs/jofa/mar2006/sinkin.htm).

What are your firm needs and commitments? Besides years until retirement, there are other variables that can affect succession. If you are about to relocate, make a major investment in technology, add staff or institute another significant change, this may be the time to review your succession plan. Before you act, consider whether there is another firm or practitioner with whom you can affiliate that will participate in the investment. Or, perhaps the affiliation itself may satisfy your need because of the other firm's resources. If you need additional staff capacity or technology to enhance your practice but you are thinking of reducing your role in the next five years or so, an affiliation now with another firm that has that technology or excess capacity can possibly achieve all your goals.

Lease terminations also can play a significant role in the timing of your succession plan. If you are fewer

than five years from reducing your time commitment to your firm, then now's not the time to enter into a long lease for your space. If you have a lease, you will limit your potential audience of successor firms to ones that can live with another location or do not currently have one. Firms that take on leases at this stage likely will reduce the size of the offers they receive by this additional cost factor. Enabling a successor firm to move your practice into their infrastructure makes a more profitable deal for the successor firm, which means they can afford to pay you more for your firm.

Taking Action Now

Your practice has its greatest value while it is running at top efficiency. By creating your succession plan in advance when the practice is peaking, you can structure the most lucrative deal. Remember, it takes time to transition the relationships that took years for you to establish and nurture. This action agenda will help you begin the process:

1. Decide how many years you have until retirement or a reduction of hours.
2. Review your exit strategy options. If you expect to sell your firm, assess the following:
    - Is our current staffing sufficient?
    - Will we need more staff in the near future?
    - Is our technology adequate as is? Will it need to be updated soon?
    - Will we need to relocate in the near future? If not, how long is our current lease? When does it expire?
3. Given the answers to question 2, what steps should be taken to make the firm more attractive to a prospective buyer? Would an affiliation with another firm satisfy our staffing/technology/space or other needs? Would any commitments or investments made now limit the offers from prospective buyers in the future? ■

***Joel Sinkin**, an editorial advisor for* Small Firm Solutions, *is a senior partner in Accounting Transition Advisors, LLC (www.transitionadvisors.com), which exclusively consults on the merger & acquisition of accounting practices nationwide. He travels cross-country to teach CPE for state and national accounting associations, has consulted on 850-plus accounting firm closings and succession plans, and published books and articles nationwide. He can be reached at 866-279-8550 or at jsinkin@transitionadvisors.com.*