

increase in 2012. BKD acquired Pennsylvania-based **Malin Bergquist** (eight partners, 75 total staff) on Oct. 1. It also opened offices in Des Moines, Iowa, and Nashville, Tenn., to target strategic needs. However, without a more aggressive revenue growth strategy, it is difficult to envision BKD returning to the Top 10 soon.

Mergers and acquisitions drove the growth of the remaining three firms in the Top 15, and each would need more M&A activity to crack the Top 10.

Plante Moran/Southfield, Mich. (\$410.6 million net revenue for the FYE June 2013, up 24.3% over FY12) merged with a Top 100 firm, **Blackman Kallick**/Chicago, on July 1, 2012. Blackman Kallick brought revenue of approximately \$50 million and 220 staff members. Add that \$50 million to the \$330.2 million that Plante Moran posted in FY12, and the firm's FY13 starting point was approximately \$380 million. This makes its organic FY13 revenue growth approximately 8%. To repeat that growth in FY14 would bring the firm to approximately \$443 million in revenue, well outside the Top 10 without an additional merger, fantastic organic growth or both.

Moss Adams/Seattle, ranked No. 14 in U.S. revenue, posted a 17.2% increase in FY13, climbing to \$403 million. MA merged with **Mohler, Nixon & Williams**/Camp-

bell, Calif., a Top 100 firm, on Jan. 1, 2013. The Mohler firm bought more than 25 partners, more than 170 total staff equivalents and contributed \$35 million to the firm's revenue growth in FY13, Moss Adams Chairman and CEO Chris Schmidt told *PAR*. Without that revenue, MA's revenue growth would have been closer to 7% in FY13. That rate, projected on to the coming year, would move MA to approximately \$431 million.

Marcum/New York, ranked No. 15 in U.S. revenue, posted revenue for FYE December 2013 of \$350.1 million, up 27.1% from FY12's \$275.5 million. The firm completed several mergers in 2013, including **Parent, McLaughlin & Nagle**/Boston in January (six partners, 30 total staff); **Cornerstone Accounting Group**/New York in April (five partners, 75 total staff); and **WilsonMorgan**/Irvine, Calif., in July (five partners, 30 total staff). Marcum also merged with three divisions of **Braver PC**/Needham, Mass. (14 partners, more than 100 total staff) in January. The revenue figures for FY13 do include the Braver deal, according to a firm source. Marcum would need to repeat its \$75 million annual growth for at least three consecutive years—or complete a substantial merger or mergers—to approach a Top 10 position.

Stay tuned! ■

GUEST COLUMN

Where Is the Puck Going?

Skate to the biscuit in pursuit of organic growth.

By Gary Shamis

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When ice hockey legend Wayne Gretzky was asked why he was such a phenomenal superstar at his sport, his answer was simple: "I skate to where the puck is going, not to where it has been."

So, in the public accounting profession, where is the puck going?

It is fairly easy to come to the conclusion that "bigger is better" if you focus mainly on the activity of the largest firms, including the Big Four.

The Big Four have such an exclusive and dominant brand and pretty close to a (strange) monopoly that they play in a different sandbox. They no longer look like a traditional accounting firm; they more resemble the high-tech corporations and Fortune 500 companies of the world. However, there are some signs that they, once again, are considering leaving their sandbox and "playing in others."

The Big Four can only dominate serving the world's largest once. Their basic strategy becomes trading

clients and offering expanded services. The only market with high-growth potential is larger middle-market corporations. The Big Four do have a little explaining to do to these businesses as to why they dumped many of them in the SOX era. There have been rumors floating for months of the Big Four's re-entry into the middle market by acquisition and organic growth—organic growth led by some serious fee concessions and acquisition by focus on large firms that can ignite resurgence into the market.

The Top 100 firms (exclusive of the Big Four) are making growth their No. 1 priority. These firms continue to try and grow to position themselves to attract larger clients. The larger clients represent, for the most part, the higher end of the middle market and the smaller end of the public market. The theory is that these larger clients have greater, more complicated and complex needs. Also, these clients generate revenues at a higher hourly rate, as the competition for these clients is often the Big Four. Additionally, these larger companies tend to be more active in the transaction space, creating additional work at a very high value proposition for public accounting firms.

The challenge in realizing this growth remains a very stagnant U.S. and global economy. Organic growth is very difficult, very expensive, and often unprofitable in the early years of a relationship. The negative economics of organic growth is exacerbated by the very competitive pricing required to obtain new clients.

The strategy of luring laterals to drive growth is also fraught with challenge. Hiring Big Four laterals to spawn growth is always an iffy proposition. Bringing on Big Four laterals to fill a technical need often works quite well. But as a growth strategy? Not so much.

Our firm has hired lateral Big Four partners numerous times with very disappointing results. The bottom line is the Big Four brand makes it much easier to obtain new business. The Big Four lateral often lacks the skills set and contacts to effectively bring in business, at least in the short term.

A very solid strategy continues to be a "niche-vertical" strategy, one where the accounting firm has created a strategic competitive advantage in a go-to-market strategy.

At SS&G, we have used this approach successfully in our restaurant specialty, just as other firms have benefitted by using it in some of their specialty areas. For example, New York-based **CohnReznick** has used it in real estate; Chicago-based **Crowe Horwath** has used the same approach in banking, and many others have used the same model.

In today's world, I believe this approach is the only solid strategy for organic growth. Pricing will be more favorable and rates much higher.

With organic growth difficult and laterals iffy, we see a clear result: escalation of mergers. I can safely say that every Top 100 firm I know of has either closed on or is working on a merger.

In order to grow and to obtain desirable larger clients, firms believe they need to be bigger, and the M&A route is the current strategy of choice. That approach translates into a tremendous amount of firms talking to one another.

Assuming that most Top 100 firms would consider only firms with revenues of approximately \$5 million or more, and if every firm is talking to or has talked to five or six firms, then 600 to 700 firms are involved, which is a significant percentage of the Top 2,000 firms in the United States.

I really believe all firms today have to ask themselves some questions: Do I want to merge? If so, with whom? If not, what is our strategy to stay independent?

So, the puck is heading to growth—to larger firms and to a niche-vertical and/or merger and acquisition strategy.

In either case, this approach is very hard work that requires a sound and realistic strategy and the discipline and skills to execute. The firms that can execute this tactic well will grow and thrive. Those that can't are in for a rough ride.

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