

Important Phrases to Listen for during Preliminary M&A Conversations

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When two interested CPA firms delve into serious conversations about merging or combining, they often spend a lot of time negotiating the economics of a transaction, the compatibility of financial policies, and the parameters of control and authority. While those topics are very important, the equally important integration, transition, and service platform unfortunately are poorly addressed ahead of closing. Short-changing the daily factors that will drive the success of a combination will negatively impact the merger or acquisition, and will ultimately affect the economics of the transaction.

Early in the negotiation process, both parties must achieve productive dialogue about the post-transaction realities. When talking, be sure to listen for the following words and phrases that could either positively or negatively reflect the appeal of a potential transaction between the parties, and thus the success of the deal.

“We have the following staff capacity and skills.” – This is something you want to hear in a discussion. You don’t want to hear, “We’ll figure out capacity later.” You want to know that the other firm understands their people and how much work they can do or take on, and how both staffs may best integrate. You want to know specifics, such as staff experience and skills (including leadership), and what hours they will be available. On the other hand, if they say they have staff time available in the summer, and you need more tax help in the winter, it may not be what you want to hear. Be on the lookout for firms with complementary capacities.

“We will hire the people we need.” – This is the flip side to the first phrase. It’s a warning sign that the other firm is not staffed and ready to go. Hiring people later typically means lower level staff members who need to be oriented to firm culture, services, processes, clients, and more. If you’re a firm looking to acquire another because you already have staffing needs, and your potential partner has similar deficiencies, you may want to listen to a different offer from another firm. There are positions that you may need to hire together – such as a firm administrator – and that’s OK. You just don’t want to hear your newly combined practice isn’t staffed to meet client needs right out of the gate.

“We have used the following integration practices.” – This is a good sign that one of the parties has had experience transitioning a practice. There may be a roadmap that can be adapted quickly and put in place that includes things learned in the past. Whenever possible, you both want to avoid on-the-job training when it comes to a transition. There’s too much risk involved.

“We need a plan to grow the business.” – Before you make a decision about a business transition, you want to set goals and objectives collaboratively so there will be a plan, accountability, and a formalized process to achieve goals and move the business forward. This is a positive sign that your new partner is thinking strategy ahead of time. Avoid those offering statements such as “We’ll take care of that down the road.”

“What would our future success look like?” – This is a great question for both parties. How are you both going to define success and set yourselves up to achieve it? If you’re a smaller firm merging into a big firm, you should expect that the larger firm will have some of these things set up, and you may have to compromise on the smaller things. But when it comes to big-picture issues, there must be two-way, mutual collaboration for success to be achieved.

There can be many compelling reasons for parties to join forces and merge or transfer ownership. The success of a practice transfer or transition is tied to many factors, with the most significant tied to availability of resources, practicality, communications, and discipline. People drive the success of CPA firms, whether they are clients or personnel.

When parties to a potential transaction want to get serious, they must seriously address issues that go beyond finances. Discussions and consensus should be documented and confirmed. Being a strong listener is essential to a successful negotiation. Keep your ears on alert and your mind ready to probe and confirm. Covering the full agenda ahead of closing, and listening for the key signs that negotiations are going well along the way, will aid the discussions and help get both parties on the right foot for a successful future together.

Ira S. Rosenbloom, CPA, is chief operating executive at Optimum Strategies LLC in Spring House. He can be reached at ira@optimumstrategies.com.

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