

How CPA Firm Consolidation Impacts Strategy

Developing and implementing the proper strategies to address both the opportunities and the threats that mergers and acquisitions (M&A) present will help guide firm leaders to ensure their legacies and position their firms for the future.



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Firm Consolidation Stages

Based upon CPA firm size and partner ages, consolidation is seemingly in its early stages. “New Jersey CPA firm consolidation is only in its infancy,” says Joel A. Cooperman, CPA, managing partner, Citrin Cooperman. “One of the driving forces accelerating consolidation will be the aging managing partner population.”

Many of the CPA firms I speak with throughout the New Jersey area and nationally wish to remain independent and avoid merging into larger firms.

One thing is for sure, most CPA firm partners feel that consolidation of the profession is definitely underway and will be a force to reckon with for at least the next decade or more.

“As smaller clients continue to grow and mature, an ever-increasing demand exists for a higher level of technical expertise, be it audit or tax, that can only be provided by sharing the related costs of technical resources over a larger partner base,” notes Kenneth S. Botwinick, CPA, partner, Botwinick & Co.

“Clients will have fewer choices, and firms will have to strategically focus on being the firm of choice as consolidation creates firms with many capabilities,” says Edward I. Guttenplan, CPA, managing partner, Wilkin & Guttenplan, P.C. “A lack of succession planning strategies will be a driving force for M&A throughout the state. Consolidation may be the



only exit strategy for some CPA firm owners. The number of mergers will grow as Baby Boomers face the realities of retirement or an inability to compete and retain clients as progressive firms grow in the marketplace with greater resources.”

Positioning and Strategy

A contemporary strategic positioning trend for CPA firms defines how to best compete now and in the future for clients and talent within the marketplace of consolidation. This type of strategic positioning is established by developing a business model that includes service offerings, fee structuring, forging and enhancing niches and specialties, establishing business location(s) to expand the firm’s geographic reach, developing leaders and professional talent, and maximizing operational effectiveness – all of which are synchronized and aligned with the

goal of developing a successful firm of the future.

“We have positioned our firm for growth and to sustain our competitive edge with firms of all sizes through our industry specializations and family office niche,” comments Tracey B. Early, CPA, managing partner, Untracht Early. “The need for M&A is not as much of a priority because we’ve experienced significant organic growth. However, we are considering opening strategic office locations to take advantage and leverage our brand and specialty services.”

Adds Guttenplan, “We’re committed to developing succession within our firm and executing strategies to accomplish this goal. Strategies include enhancing our platform’s technical and resource capabilities and maintaining a best-firm-to-work-for culture. We believe our platform, culture and staff development investment create a very competitive and autonomous future for us.”

While some firms start the process from within, others first look outward. “We’re always looking for quality professionals and merger candidates with niche specialty practice areas,” says Philip E. Goldstein, CPA, managing partner, Goldstein, Lieberman & Company.

The challenge of developing and sustaining strategic positioning primarily depends on strong leaders who are willing and capable to make tough business decisions within appropriate time frames and the synchronization of efforts of all partners and staff. Firm leaders must provide the direction to decide which changes are necessary to establish the best possible positioning or repositioning of the firm as the marketplace changes at a rapid pace through mergers and acquisitions.

Threats and Opportunities

One of the most significant threats to CPA firms in dealing with the future

effects of consolidation is denial. Denial has run rampant in the CPA profession, especially with small firms. The profession has changed significantly (e.g., consolidation, staffing challenges, increased competition, succession planning problems and the list goes on). Many firms are having difficulty keeping up with the changes. And new realities lead to denial. Denial is more endemic to firms with older partners because it often results from a stubborn adherence to a once-accurate perception of reality that – while comfortable – has become obsolete in a changing marketplace. It's hard to overcome denial because it means avoiding change.

“We’re also positioning our firm for succession planning and future growth by implementing a comprehensive career development and performance management system to develop our staff

into talented accounting professionals and firm leaders,” says Early.

In dealing with threats and taking advantage of opportunities, firms need to initiate change. “We find ourselves in a unique sweet spot,” adds Botwinick. “We seek and execute with internal, organic growth, combined with strategic, slow and deliberate absorption of sole practitioner accountants as partners.”

“A merger strategy is valuable, and doing an M&A would be great and perhaps accelerate our growth, but we will not rely on it for growth,” comments Guttenplan.

“We think we need mergers and strategic acquisitions; however, they are just one of our many tools to grow at a geometric rate. I don’t believe being larger gives us any competitive advantages or disadvantages. What gives CPA firms a strategic advantage

is superior intellectual property and superior customer service,” states Goldstein.

Many firms will be facing tough succession and strategic planning issues over the next five years. Established firms are more likely to be in denial because the old ways of doing things have worked. But they really need to take a page from Charles Darwin, “It is not the strongest of the species that survives, not the most intelligent, but the one most responsive to change.”

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