

Growth via Acquisition

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Most accounting firms reach a point in their life cycles where their ability to generate growth internally falls short of their profitability goals and objectives. Mergers and acquisitions (M&A) have proven to be far more productive and much more successful than building growth organically, which can be a painfully slow process (especially for small firms) and requires significant investments in marketing and practice development efforts and strategies. In addition, as market demand for specialty services is continuing to increase, firms are seeking to use M&A to obtain industry and niche specializations and to support succession planning voids.

The most successful firms that use M&A as a growth strategy start with small deals and target larger M&A prospects in the future based upon strategic growth models focused on industry specialization, types of value added services, niche development and geographic expansion.

A FASTER WAY TO GROW

Growth through M&A is a quicker and less expensive path to growth than marketing one new client at a time in a highly competitive environment. With many clients selling their businesses and the challenges of continuously increasing clients' fees, it can easily take a new "gross" business rate of 10 percent to achieve a 5-percent net growth rate after taking into account client losses. Growth through M&A, too often considered a strategy only for the top 150 firms, is actually a more viable option for small firms facing significant growth challenges. Additionally, M&A provides opportunities to realize synergies between the combined firms that will allow them to cross-sell to existing clients more effectively.

The first question in a growth-oriented deal is whether the growth opportunity is realistically attainable and the combined firms can capture that growth within a reasonable amount of time after closing the deal. In assessing M&A growth-related opportunities, it is important to involve the

partners early on in the deal negotiations who will ultimately be accountable for obtaining growth results. Some of the desired results to consider are:

- ✓ The ability to generate new leads by adding complementary service lines, niches and industry specialization.
- ✓ Increasing the number of practice development-oriented partners and staff.
- ✓ Becoming more competitive in the local marketplace by eliminating some of the competition and creating a stronger brand with prospective clients and referral sources.
- ✓ Creating a more attractive option for other local firms to merge in their practices and create additional growth.
- ✓ Expand geographically into potentially higher economic growth areas.
- ✓ Provide the combined firm's clients with additional value-added services.


INCREASING CAPACITY FOR GROWTH

The number-one challenge for most firms is the ability to attract and retain talent to service current and future clients. While much has been written about the objectives and success rates of M&A, historically there has been a general complacency over the talent acquisition elements of the transaction. Many firm partners are now at full capacity which is a major obstacle to engaging new clients. Bringing in new skills and competencies via M&A, also known as acqui-hires, is progressively becoming a driver of M&A transactions. M&A presents the potential opportunity to team up with talented accounting professionals and provide the ability to leverage those talents to increase future revenue streams by freeing up partners to concentrate on practice development and higher levels of client services.

Talent-centric firms are focusing more closely on combining with other firms to gain access to the best and brightest partners and staff to support future growth opportunities. In this highly competitive environment for talent, and the aging of



the profession, acquiring talent in an M&A transaction is key to the deal's success.

Knowing the growth drivers of any deal and evaluating the combined firm's potential to identify and realistically achieve higher sustained levels of growth is essential in the transaction's due diligence process. The public accounting marketplace is changing quickly, and M&A is a significant factor to consider in your firm's future. The growth strategies that made a firm successful in the past may not make it successful in the future. Yogi Berra once said, "The future isn't what it used to be." 

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