

# THE FUTURE OF THE PROFESSION

What's on the horizon for your office?

## THE FUTURE OF M&A IN PUBLIC ACCOUNTING

Never before in the history of the public accounting profession have so many factors contributed to mergers and acquisitions of accounting firms: baby boomer owners retiring at a rapid pace without succession plans, a low supply of quality staff, fierce competition for clients leading to slow growth, and a lack of strong leadership in many firms. For these reasons and many others, consolidation of the public accounting industry is in its infancy and will continue in the next 10 years.

Ninety-eight percent of the approximately 14,000 multipartner firms in the country are below \$8 million in revenue. A recent *Inside Public Accounting* survey indicated the revenue of the 300th largest firm in the country was \$7,688,100 in 2014, which tells us the industry is made up of many small, similar-sized firms that are lacking resources to compete with the largest firms. Because so many small firms are facing the critical aforementioned perfect storm of issues, there is a strong likelihood that 50 percent or more of them will merge for strategic or succession reasons.

Another driving force behind increased M&A is a harsh reality: Accounting firms have been slow to change internally and have not adapted to the dynamic trends in the public accounting marketplace. In other words, the rate of change in the marketplace for engaging new clients, developing new and innovative services and recruiting quality staff far exceeds the rate of change inside these firms in adapting to the marketplace. Transitioning from running a public accounting organization as a practice to a business has been very challenging for traditional and commodity services-driven firms.

Besides forced M&A due to the lack of a succession plan, there will be more strategic mergers of regional and mega-regional firms, such as the merger of J.H. Cohn and Reznick Group. In addition, firms will continue to use strategic M&A to combine with consulting and advisory companies that complement their traditional services. This will enable firms to provide more integrated solutions and specialty services to their clients.

Accounting firms will face tough succession and strategic planning issues for a long time to come while trying to adapt to the changing marketplace and the threats of consolidation. Established firms with baby boomer owners may be resistant to change because the old ways of doing things had worked in the past. To those firms, I offer a page from Charles Darwin: "It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change."



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