Mergers & Acquisitions in the Accounting Profession

by Mark Butler

New technologies and the commoditisation of compliance services present opportunities for Irish accounting firms who are open to growing their business through mergers and acquisitions ("M&A"), says Mark Butler, Managing Partner HLB Sheehan Quinn.

Irish accounting firms are predominantly independent small general practices with a local client base. Many have succession issues, but the pace of consolidation has been slow up to now, well behind that of comparable firms in the UK, or indeed the US, where smaller practices have achieved substantial growth in the last 10 years through merger transactions.

There are several reasons why consolidation in the accountancy sector has been slower in Ireland than elsewhere: market size is a factor as is the fact that most small independent practice firms only offer the services that clients rely on for compliance and reliable financial information for their business. However, practitioners are all too well aware that recent years have brought unprecedented change in our profession and the pace of change will continue to accelerate as new technologies drive commoditisation of compliance services and Artificial Intelligence starts to impact the audit process.

At the same time, practices find themselves operating in an environment where client and employee expectations are shifting. Clients now expect real time financial information to be available from advisors who have a deep understanding of their sector. They want a 'one stop shop' for advice on a broad range of business issues including technology and cyber security, HR, international business, strategic business planning and wealth management. The demand for services like this is only going to intensify and it will become increasingly difficult for small accounting firms to meet complex client needs. Without scale, it is just not possible for an accounting firm to specialise across multiple service lines and sectors.

The Covid-19 pandemic has intensified the need for change. Staff expectations are shifting as employees seek more flexibility about where and when they work. Firms that lack the structures to facilitate a flexible working environment will struggle to hire talent in the future.

Impetus to merge

This challenging environment provides an impetus for practices to consider merging. Firms need to be moving to an advisory rather than compliance model, investing in technology on an ongoing basis, building international connections and positioning themselves to provide M&A, corporate finance, cyber security and technology, sectoral specialisms and wealth management services. Flexibility, the ability to meet changing client needs and adapt to new ways of working will be necessary if firms are to survive and prosper. It is much easier to achieve this by joining forces than by trying to go it alone.

Advantages of merging

In my view, the clear advantages of merging are:

- It provides the scale to specialise. None of us can be an expert in everything. A larger pool of partners facilitates specialism in services and sectors.
- Safety in numbers. The business is not reliant on a couple of key people or a small number of clients.
- Fixed cost allocation across a larger business leaves more capital for investment in areas such as people, technology and digital marketing.
- Staff retention is higher as scale makes it easier to meet the expectations of staff for career development, specialisms and working arrangements.
- It is much easier to win and retain growing clients because a larger practice has the scale to provide them with the services they require.
- As regulation changes there will be greater opportunity to win business which previously went to Big 4 firms. While the Big 4 will remain dominant, changes in regulation and the business environment make it likely that they will be precluded from providing all the services a client may require. This will create opportunities for the next tier of firms.
- Client retention is better in larger practices as growing businesses like to be associated with accounting firms which can embrace and perhaps even lead change.
- Succession planning is easier to manage. Plans can be put in place for retiring partners without impacting client service or the continuity of the practice.
- Scale enables the development of deep knowledge across a firm's chosen sectors enabling individuals

to become thought leaders and offer leading advisory services to clients.

- International connectivity is becoming even more important and clients increasingly operate on a global scale. A larger practice can have global connections.

M&A preparation

Based on experience, when you are embarking on a transaction to buy, sell or merge your practice, my advice is:

Take advice

Whether you are an experienced M&A practitioner or not, and regardless of whether you are on the buy or sell side, you should not attempt to carry out the transaction yourself. As you are emotionally involved in the transaction, you will want it to happen and this can lead you to take decisions that you would not ordinarily take and/or would not advise a client to take. Throughout the transaction negotiations there will be issues to discuss.

It is very beneficial to have an advisor discuss these matters on your behalf just as you would support your own clients when they are involved in M&A transactions. While there is a cost, it is money well invested.

Due diligence

Don't devote too much time to the review of historic audit files or processes. It is much more important to focus resources on determining the compatibility of the client bases from the perspective of fee expectations, sectors, future trends in the client's sector and risk. Team compatibility also needs to be considered. What will be the cross over? Are structures similar?

What about salary scales and charge out rates? Ordinarily, there is some level of pay-out for outgoing partners over a period of time. Debtors may be collected by the firm which is being merged in and there will be work in progress to deal with. This invariably leads to a pinch point in cashflow as it can be some months before cash is contributed from the merged in practice even though costs such as salaries will have to be paid from month 1. Therefore, the cashflow requirements of the combined practice need to be closely considered.

Brand

We all believe that clients are attached to a name and if 'incorporating xyz &co' is not included following a merger that it will be more difficult to retain them. I believe clients are interested in receiving at a minimum the same level of service, for a similar fee and access to people as they require. Once this is managed correctly the goodwill attached to a practice name is not so important. While there is an element of goodwill in all of our brands, in a merged practice it is important to move forward with one name and one brand.

The message to clients should be "Don't worry, same people only now access to wider expertise inhouse".

Communication

Before the transaction, make sure that there is individual communication with all incoming firm's clients by the merging in practice principal to explain the advantages the merger will bring. Ideally, this communication should be done in person but failing that, clients should at least receive a phone call. Where relevant, clients should also be introduced to a new member of the enlarged firm soon after the transaction takes place. Managing this communication is really important as it helps alleviate any fears clients may have about the risk to their service offering. Watch your timing when communicating, clients need to hear it from you and hear a positive message from all your team. Ensure you manage the internal communications first with your team to ensure clients are receiving a common message.

Timing

Don't leave it too late. Many practitioners start thinking about a merger towards the end of their careers. At this stage, the value of their practice may have reduced, or they may not have sufficient time to find a suitable practice to merge with. To maximise the value of what you have built, and indeed to share in the potentially greater profits of a larger business, it is essential to start the process well in advance of when you want to retire.

Conclusion

This article highlights just some of the issues to consider when contemplating accounting firm mergers and acquisitions. There are many more, and as we know from our professional lives, no two transactions are ever the same. With the many changes that are taking place in our profession, I believe the future is bright. I am excited by the evolving environment and being involved in an advisory capacity as clients grow their business. In my view practice is an interesting journey with like-minded professionals who have similar goals.

If you would like to discuss in more detail the experience of merging, or indeed if you are interested in having a confidential conversation regarding merging your practice with us, please do not hesitate to contact me.

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A member of CPA Ireland, Mark is Managing Partner of HLB Sheehan Quinn focusing on the implementation of the firm's growth objective and leads, its advisory services.

Mark is also the founder and chairman of HLB Ireland, a federation of the Irish member firms of HLB Global.