

# Succession Planning Spells SUCCESS

*By August Aquila*

Just a few short years ago, when soon-to-retain CPA firm owners were asked about their succession plan, they replied “a merger.” It’s no surprise to anyone thinking about retiring or selling a practice today that this is not always a realistic option, especially in today’s economy. There is a definite shortage of buyers, and those who are buying are becoming more and more selective. It is a buyers’ market, and the firms that remain attractive to the remaining pool of acquiring firms are (1) profitable firms in major markets and (2) firms with a strong niche presence. The result is that the number-one issue the average firm faces is finding someone to take over the practice. This means firms need to go back to the basics, beginning with an assessment of why a succession plan is necessary.

## **What’s the primary purpose of a succession plan?**

The primary purpose of every good succession plan is to provide the seller or retiring owner with options and opportunities. The best succession plan is the one that offers you the most personal and business choices. If you have few or no choices, you won’t be able to get top dollar for the firm or fulfill the dream of what you want to do with the second half of your life.

## **Creating options and opportunities**

A personal game plan is at the core of all good succession plans, and the corollary is that the sooner the planning process starts, the better. Practitioners who started their succession plan early in their careers—perhaps as soon as their late 40s—have the most opportunity to lay the necessary groundwork. Whether your personal plan calls for finding, training and transitioning to a successor or finding an attractive deal for a merger, it is optimal if time is on your side.

You might think, “Well, I don’t have time to think about it. I’ll do it later.” It certainly is easy to get so caught up in the day-to-day activities of the firm that the future seems like an eternity away. But the truth is that the longer you postpone, the less time you have to prepare. If you wait until you are 60 or 65, you limit your window of opportunity to five or fewer years.

Client transition and business development training won’t happen if you want to have complete control over the practice. You will need to feel confident in yourself and your skills. If you don’t

trust your younger partner or up-and-coming staff member, you will continue to protect what you have. In so doing, you will lessen your chances for a successful succession.

As you embark on the planning process, keep in mind this immutable rule: Be sure all nonowners involved with your clients have signed nonsolicitation agreements. All new owners should be required to sign both noncompete and nonsolicitation agreements.

### **The firm's value centers on client retention**

The current and future value of any firm depends mainly on one thing—retaining long-time clients who continue using the firm after you have retired. The last thing you want to say, as one practitioner proudly said to me, “This firm would be nothing without me.” It would have been much better if he had said, “This firm is everything without me.” One of the hardest things for a practitioner to do is to give up control—control of their clients and the practice they have spent their entire lives building. But unless you are able to transition your clients, you won't be able to have a successful succession. And the sooner you can start giving up control, the sooner you can say “This firm is everything without me.” Holding on too long is the most serious sin you can commit.

### **Identify the next generation of leaders**

Introducing new and old clients to a younger partner or staff member is a good way to start the transitioning process. Watching how they interact—

their demeanor and listening skills, as well as the appropriateness and perceptiveness of the questions they ask—will provide clues as to who in your organization are candidates to move up into leadership positions. Gradually, you will want to turn over some client responsibility to the person or (if you are really lucky) people you have identified as potential leaders. Don't allow yourself to be drawn into the trap of rationalizing to yourself that “Ellen isn't ready for client relationships yet.” Rather, think of how you can commit to developing her over the course of several years. Depending on your firm and its resources, the training and development process may require a line in your budget for training and/or coaching, a decrease in billable hours for the year and the like.

### **Next-generation rainmakers need to be nurtured too**

If you are the rainmaker in the firm, it will be necessary to groom someone to take over that role too. You need to take the role of a teacher by showing, telling and doing what it takes to bring in new clients. The best way to do this is to take the person by the hand. Start by showing them how you work with clients and prospects to develop new business, tell them what they need to do and what organizations they should join and bring them along with you so they can do it.

### **Counting on your other partners?**

Let's look at a typical three-partner firm:

Tom is the managing partner and is 52 years old, Marc is 49 and Linda is 45. In Tom's mind, when he is ready to retire, he will sell his ownership to the younger partners.

Now let's jump forward 10 years. Tom is 62, Marc is 59 and Linda 55. Tom announces he plans to retire in three years. Marc is thinking, “Darn he beat me to the punch.” He quickly makes it known that he has no interest in buying any of Tom's practice. Linda quickly realizes that although she fully intends to work until age 65, there is no way she can buy out both Tom and Marc.

This firm is in a succession-planning pickle. There are three available choices: promote younger staff into the partnership, look for a white knight to buy the practice or simply work as long as possible and, then, close the practice when Linda nears retirement age.

This firm should have started thinking about the succession-planning issue when Tom was 52. Sure, it might not have solved all the issues, but time would have been on their side. Now time has become the enemy, and the partners don't have the luxury of creating options. Here's what the firm could have considered during those 10 years:

1. Identify potential future partners and groom them.
2. Look for younger sole practitioners to merge into their practice.
3. Have Marc and Linda purchase some of Tom's in-

terest each year (assuming that Tom was the majority owner).

4. Consider the benefits of an ideal merger. Should they be the acquirer or acquiree?
5. Start funding for their retirement.

There are many three- to five-partner firms out there today that are in this very situation. You can wait 10 years to do something, or you can start the discussion and planning today.

### Determine a realistic value for the practice

If your firm is one of the many that are likely to find themselves in the same position as the firm described in our example, the all important next step is pricing the firm realistically:

- When selling to an outsider, firms valued at under \$300,000 may be able to get one times plus. Larger firms (\$1m plus) are less likely to get a premium price, unless they are extremely profitable.
- If you are looking to sell your equity interest internally, you need to place a the value on

the business-development services your younger partner or partners have provided over the years. What is that worth? On average, most internal buyouts range from 75 to 85 percent of revenue.

The real question you need to answer is this, "At what price is a sale unlikely to happen?" If your formula is too rich, the younger partner or partners will just walk away. Make sure the number in your mind works for all the parties involved.

### Have a buy/sell agreement

I can't tell you how many firms don't have a basic buy/sell agreement. Get down on paper what you want to happen in case of disability, death and retirement. If you have no written agreements, you are setting yourself up for some serious future problems.

### So what are you going to do now?

Having a good succession plan in place will broaden your choices once you've left the firm. If you have planned it right, you

have choices and opportunities. Once you have successfully transitioned your practice to a new owner you are confident will run the firm profitably well into the future, you can do many of the things you have been dreaming of. You can start a new business, become more involved in civic, social or charitable organization. You can get involved with your college alumni association, spend more time on your hobbies or travel the world. You can even continue working part time.

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