



No heir apparent – What does the small firm do?

I recently had the opportunity to speak to small CPA firm owners from several different states and was struck by a consistent theme voiced in the audience – “I sometimes wish I wasn’t the owner.”

In reality, I don’t think they really meant this. They were voicing their frustrations about being the sole person responsible for the practice, the clients and the employees. This is a common problem among CPA owners today – no one seems interested in taking over the practice. So, what can be done?

Unfortunately there is no silver bullet or magic solution to solve this problem. I do, however, have some solid suggestions that may help you work through the problem. And, if you start sooner than later, you will have a better chance of successfully passing the baton to someone else.

Nine Steps to Effective Succession Planning

1. How do I know it’s time to sell or merge? There is perhaps one key indicator that it’s time for you to move on or do something else. I call it the “Fun Factor.” Ask yourself these simple questions:

- Am I having more or less fun building the practice?
- Am I still excited about getting up in the morning and going to the office?
- Are you complaining more about clients, employees and the practice in general?
- Would you mortgage your house to grow the practice?

If you said no to two or more of the above questions, then it’s time to start thinking about your succession plan

2. Develop a plan. There are only so many things you can do with your practice. Sell it to someone internally, sell it to someone externally, merge with another firm or simply decide to shut the lights some day by letting the practice gradually dwindle down. Only you can determine which one is the best course for your practice.

3. Get your personal finances together. You will never be able to retire until you have a solid retirement plan. Make sure you are taking full advantage of tax deferred retirement programs and don't be afraid to look to client opportunities to invest in.
4. Form an advisory team. You don't want to be doing this yourself. You will need others to bounce ideas off of. Again, look to your client base, is there a business owner you admire and respect. Perhaps one of your clients has already gone through a succession event. You might want to include someone from your family, your spouse or other relative. A local attorney, financial advisor or M&A consultant can also help. Succession is as much an emotion event as it is a financial one.
5. Determine the value of your practice. Depending on the market and geographic location, your practice may be worth from 80% to over 100% of revenue as a rule of thumb. Few buyers will pay cash up front. Most transactions are structured as an earn-out paid over 3 to 5 years. The more the practice is dependent on you, the less it is worth.
6. Begin to implement the plan. If you have decided what to do with the practice (See #2 above) now you can start the implementation process. This could take as long as 3 years. If you think it will be an internal sale, then you need to speak with your successor and start developing the transition plan. The more you know what you want to do, the more options you will create for yourself.
7. Transfer skills and clients. Make a list of your skills, top clients and referral sources. Start the process of transferring this knowledge to your successor.
8. Don't wait until the practice or your health declines. It's best to sell your practice when it and you are at the top of your game. Too many sole practitioners wait until something drastic happens. I often say that a practice is like an ice cube on the sidewalk on a hot summer day. It not only melts, but it evaporates very quickly. There are multiple examples of practices that have lost 70% or more of their value in only a few months.

Final Thoughts

It's never too early to think about your exit plan. When you reach your mid 50's it's time to get more serious. When you reach 60, make sure you have a detailed plan laid out, even if you plan to work for many more years. No matter what your age start developing other interests and hobbies. Remember, the best succession plan is the one that provides the owner with the most options.

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