CPA
Practice Advisor

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Jon Baron • Dec. 17, 2015

If you're an equity owner of an accounting firm, you've worked a lifetime to build the business. You've invested in staff and nurtured your clients. While you've been spending your time advocating the importance of planning for the future to those around you, take a moment to consider whether you have done the same for your firm. If your firm is like most others, you probably haven't.

According to a recent whitepaper from Crowe Horwath, only 37% of accounting firms have a formal succession plan in place. The consequences of this are huge. If something happens to you or other senior partners, what happens to the firm, the staff that's become family, and the clients you've forged such strong relationships with? And this situation is much more dramatic if you are a sole practitioner. What happens when you want to retire? If you're an owner of a small- to medium-sized firm, the demographics say you are going to reach retirement age within the next 10

your door and take over once you choose to retire. The process of finding and developing young talent is long-term. If you have up-and-coming candidates within your firm, start now with a developmental plan that includes coaching them on all facets of your practice—from marketing and technology to client service and operations. Give them the opportunity to understand and contribute to the overall strategy of the firm early on. That way, when it comes time to transition, the handover will be seamless for both staff and clients. Remember: When it comes to choosing a candidate, tenure is not a reason to make someone a successor. Candidates should have the desire and capability to take on leadership responsibilities, a forward-thinking business outlook, and most of all, a good rapport with staff and clients. That's what will guarantee your firm continued success.

2. **Establishing a Practice Continuation Agreement (PCA)**

As we all know, busy season stops for no one. A Practice Continuation Agreement (PCA) is a contract between you and another firm to take over your practice in the event of disability or death. Should the unexpected occur, a PCA can provide assurance that your practice is being maintained, clients are being served, and your surviving family members continue to be taken care of. A PCA can come in the form of a one-on-one agreement with another sole proprietorship, partnership or professional corporation or a group agreement between several accountants who act as successors to one another's firms.

Group agreements typically concern only the transfer of clients, while the one-on-one agreements may also include staff. Because there is no payment to the other firm for setting up a PCA, you should agree to terms beforehand that would make it worthwhile for another firm to take the reins when needed. The negative side of a PCA is the lack of transition. When something happens unexpectedly, the successor firm will not have much time to prepare for the flood of clients. The last thing you want to happen in a time of personal crisis is a loss of major accounts. To avoid this, clients and staff should be informed about the agreement early on and a relationship

supplementary.

3. **Selling Your Practice**

Many firm owners believe that if all else fails, they can always sell their firm at top dollar. The reality is that, like property, firm owners usually have an over-inflated view of the value of their firm. Assuming you'll receive a very high multiple will more often than not leave you disappointed. Instead, start planning for the sale early by making a list of potential firms and conducting due diligence on their areas of practice, relationships with clients, and business philosophies. Make sure you also take into account their capacity to take on additional clients, use of technology, billing structure and, of course, where they are located. If you want to transition your staff as part of the sale, make sure the firm is also a fit from a cultural and benefit perspective. Because there are many variables to practice valuation, it's important to work with an expert to make sure you decide on at a fair price and deal structure for both sides. Once agreed upon, work together with the buyer to develop a specific transition plan for clients and staff to ensure continuity. If you don't think you'll be ready to ride off into the sunset entirely, you can also work with the buyer to maintain a consulting position.

The key to the best price is the quality of the client base. A tip for ensuring maximum value for your firm is to develop a specialty or niche. Specializing in serving clients in a particular area makes your firm more attractive to prospective buyers.

Once you've weighed the options and decided what succession planning option is best for your firm, consider these tips.

- **Put it in writing.** Often times, accounting business succession plans are only in the owner's mind. That's simply not enough. Take time to fully develop and formally write your succession plan. Include details on how clients should be transitioned, training for future leaders, developing staff, and projections for your

In the end, the goal of succession planning is to protect the well-being of your practice. By dedicating the time to succession planning now, you’ll secure the future of the business you’ve worked so hard to build and guarantee not only stability, but growth, for your clients and staff in the years ahead.

Share your succession planning insights

Now, it’s your turn. Do you have a succession plan in place at your firm? If so, let me know about it. Or maybe succession planning is at the top of your New Year’s resolution list. Either way, use the comments section below to share your insights.

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Jon Baron joined the Tax & Accounting business of Thomson Reuters in 1992. Prior to his current position as Managing Director of the Professional segment, Jon held the positions of President of Professional Software & Services, and Vice President of Development, where he was responsible for the design and development of all Professional products and services. Jon has three decades of technology development and management experience. Jon holds a BBA in Accounting from Siena College and an MBA from Boston University.

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