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Why Most Firms Don't Make It to the Second Generation

By Marc Rosenberg, CPA

The short answer is that CPA firms stink at succession planning. Firms' entire operations are geared to maximizing short-term profits, focusing on today at the expense of tomorrow. Evidence of this is the following: A 60 year-old sole practitioner wants to sell her firm and work eight more years. She has revenue of \$1M and takes home \$600,000. She meets with several buyers, all of whom are interested in her practice. But none are willing to continue her compensation at \$600,000 because the profitability of her practice can't be sustained in the buyers' operating model. Why?

Because the solo doesn't invest in the future of her firm the way buyers do. She hires low level people. Little training. Below-grade offices. Technology that is behind the times. No marketing. Short-cuts on quality control. All of these cut corners enable the solo to pocket a hefty salary.

[\[This article first appeared on the Rosenberg blog.\]](#)

Tim Christen, former MP of Baker Tilly and former Chairman of the AICPA, says it well: "The most important thing you can do for your own success is make the people below you successful."

Here are the practices that prevent firms from being around tomorrow.

Affluence. A good place to start because money explains a lot of things in life.

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Developing mindsets on succession planning.

Buyer's merger market. We all know about the frenetic pace of CPA firm mergers in the past 5-10 years. Until the past couple of years, countless numbers of firms rested easy when it came to an exit strategy. They reasoned that if they failed at succession planning, they could always execute a reliable fallback plan: sell to a larger firm. Well, things have changed dramatically in the past two years. A huge volume of sellers has flooded buyers with options, enabling them to cherry-pick the best and the brightest. More firms than ever before are being turned away by buyers. Exuberant confidence in being able to sell your firm as an exit strategy is today, often misguided.

Continue reading at www.cpapracticeadvisor.com/12435952.

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Marc Rosenberg, CPA, is a nationally known consultant, author and speaker on CPA firm management, strategy and partner issues.

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Top Firm Management Social Media:

3 Ways Innovative Firms Can Prepare for the Future. Wolters Kluwer blog.
<https://bit.ly/2TcJ22o>

5 Items You Need in Your Firm's Owners' Agreement. AICPA Insights.
<https://bit.ly/2zaDpt8>

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Top Firm Management News:

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