

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

marked not by the usual suspects of annual updates or technological advancements, but by a surge of interest from an unexpected source: private equity.

Garrett Wagner • Feb. 06, 2024



The landscape of public accounting experienced an unprecedented shakeup in 2023, marked not by the usual suspects of annual updates or technological advancements, but by a surge of interest from an unexpected source: private equity (PE).

With a series of high-profile investments in large accounting firms and a quieter but no less significant foray into the accounting software sector, PE firms have

unmistakably cast their eyes towards an industry traditionally characterized by its

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

underperforming sectors ripe for disruption. The public accounting industry, with its reliance on low-margin legacy products like tax returns and a burgeoning shift towards higher-profit consulting services, presents an attractive target. Similarly, accounting software companies with low market shares but high growth potential offer fertile ground for PE money aiming to catalyze rapid expansion and market penetration.

The Accounting Industry's Resistance to Change

Historically, the accounting industry has been slow to embrace change, rooted in a culture of risk aversion and a predilection for the status quo. This conservatism stems from the profession's regulatory environment, the sensitive nature of financial data, and a partnership model that often prioritizes consensus over quick decision-making. PE's modus operandi, characterized by aggressive growth targets, significant operational changes, and a relentless focus on ROI, stands in stark contrast to the traditional values of the accounting profession. The clash of these diametrically opposed cultures raises concerns about the sustainability of such partnerships and the potential for conflict.

A Warning On The Pace of Change

While PE often will have success when entering an industry, that success is often marred by several failures. Remember the goal for many in the PE space is to invest in ten companies so that one pays out big and covers the losses of the other nine. But what happens to those nine accounting firms who don't make it? These failures are not what our profession is used to with its slow pace of change. These failures are the result of companies who have received PE money not generating sufficient profit and growth, IE, the pace of change is not fast enough.

When PE no longer feels a company has enough “upside” or growth potential, they

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

As we stand at the crossroads, the ultimate impact of PE on the public accounting and accounting software industries remains to be seen. This is not a conventional merger and acquisition scenario where deliberations drag on over which tax software to retain. Instead, we are witnessing a high-stakes drama that pits the immovable object of the accounting profession against the unstoppable force of PE investment.

What happens when a sector known for its aversion to change confronts investors who demand rapid transformation and substantial returns? Will the accounting profession adapt, embracing innovation and growth, or will it resist, prompting PE to cut its losses and move on, indifferent to the upheaval left behind?

Who Will Blink First?

This unfolding scenario is not about finding immediate answers but about posing critical questions regarding the future of an industry at a pivotal moment in its history. The collision of PE's profit-driven motives with the accounting profession's conservative ethos presents both an opportunity and a challenge. On one hand, it could spur much-needed innovation and efficiency gains; on the other, it risks eroding the foundational principles of trust and reliability that define the profession.

The Battle of Cultures

The entry of PE into public accounting and accounting software is a test of resilience for traditional firms. Those acquired by PE face the daunting task of integrating new, often foreign, business practices without losing their core identity or compromising on the quality of service. Meanwhile, non-acquired firms must navigate the competitive pressures these newly empowered entities bring to the market.

Conclusion

As we navigate this uncharted territory, the questions we pose today will shape the

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

CPA Practice Advisor is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors.

© 2024 Firmworks, LLC. All rights reserved