POE GROUP ADVISORS

*A Succession Planning Guide*

# IS YOUR PRACTICE READY **FOR MARKET**

The easiest practices to sell—and the ones that achieve the best overall price and terms—are the most focused and profitable.

Lately, there's been a lot of focus on succession planning and preparation, and not enough on maintaining or improving the aspects of a practice that make it desirable to a purchaser.

If you're like most practice owners who are starting to think seriously about exiting, you likely have limited time and energy to take on projects beyond your workload. The best strategy is to commit to just those that make a real difference to the overall value of your firm.

The best succession plans focus primarily on practice improvement. In this white paper, we offer guidance on improving the areas of your practice that will make the greatest impact.

# *Step 1:* Consider your timetable.

## *Do you wish to exit in one year or less? Three years? Longer?*

What you choose to do will depend on how soon you want to exit your practice. Some practice improvement projects take longer to implement than others. Get clarity on your timetable in order to properly and effectively plan the activities leading up to your exit. Too many practice owners start to take steps toward succession before developing sufficient clarity on a timetable. This is a mistake. Buyers want to talk with sellers who are ready to act.

### Here are key questions that will help you determine your timetable:

- **What will I do after my exit?** Is there something I want to do that I can't do while working? If you're exiting to retire, this can be tougher to answer than it seems. I've found that if an owner doesn't have a compelling personal reason to sell, he or she is generally several years away from being ready to stop working.
- **Am I just burned out?** If this is the case, significant practice improvement can add years to your career and help improve your overall quality of life.
- **What does my spouse want?**
- **How long will it take to transition to a new owner?** This may be counter intuitive, but our experience has overwhelmingly been that client retention rates are actually better with faster transitions. It typically takes months, not years.
- **Financially, am I where I need to be in order to exit?**

Take time to reflect on these questions. Once you have the answers, getting ready to sell is much easier.

# *Step 2:* Decide what to do.

## *If you have a short timetable* *(sale is less than a year away)*

If you have a very short timetable to prepare your practice for market, focus on "curb appeal." These are relatively simple, quick things that create an immediate positive impression:

1. **Get a fresh look.** You've probably developed blinders as to what needs to be cleaned or replaced. Ask someone who doesn't see your office often to come by and offer suggestions for improvements. Be sure to choose someone who is willing to deliver the truth without "sugarcoating" it.

2. **Clean the clutter.** Most buyers will likely meet you in your private office. If you have papers spread around and only you know where things are, this will leave a negative impression. Most buyers prefer an organized business. They want systems they can easily follow, even if they intend to change them later.

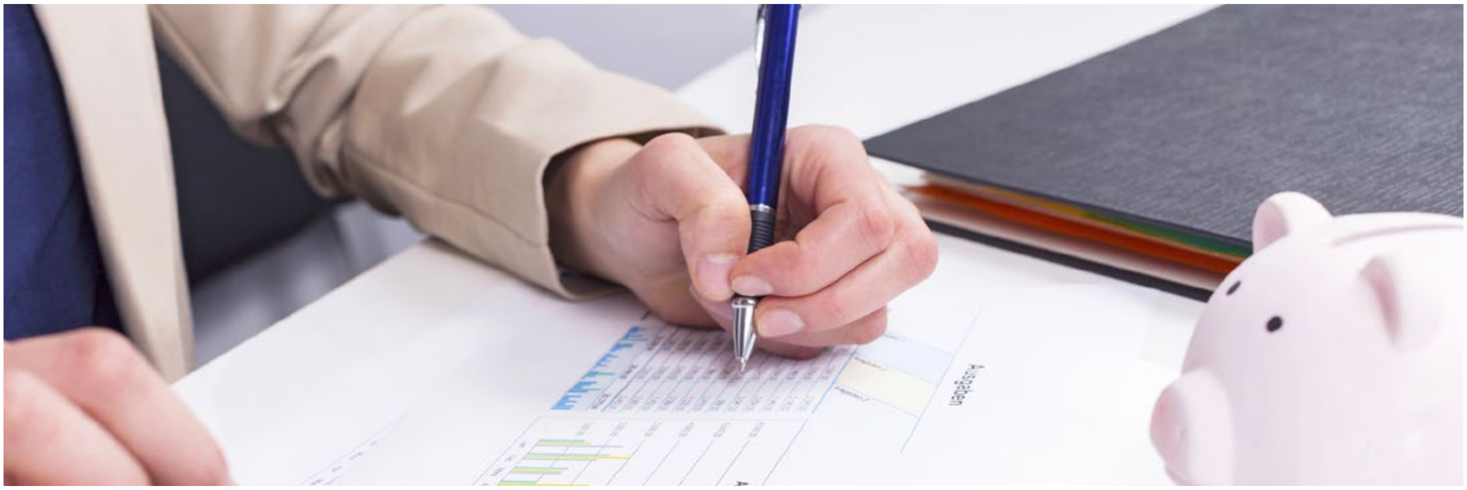
3. **Bring books up-to-date.** If you have accounts receivable, clean up your receivables list, too.

4. **Do a "gut-check" about your reasons for selling.** Buyers will ask why, so have your answers ready and know what you plan to do after the sale.

## *If you have a longer timetable* (sale is more than a year away)

### Three areas likely to have the greatest impact on a practice's value:

**1.** Price your services appropriately. | **2.** Correct staffing issues. | **3.** Focus on your "A" clients.



### 1. Price your services appropriately.

Good pricing is an art. Improving your pricing model will initiate huge ripples throughout your practice. A great place to start is *The Accountant's Flight Plan-Best Practices for Today's Firms*[1]. There are other good publications about pricing, too. Meaningful changes to your pricing model require careful planning and thoughtful implementation.

**Main Benefits:**

- If you're currently undervaluing your services, bringing them up-to-market is the single, most effective way to work less and make more. Even the best practices have clients who are not accurately priced.
- It forces you to focus on what clients value, rather than what you think they value.
- It puts you in a strategic position to terminate unprofitable relationships so you can focus on your top clients.
- It makes your practice more profitable. Most buyers prefer to buy a practice that has clients willing to pay fair prices.

[1] Accountant's Flight Plan-Best Practices for Today's Firms is available through the AICPA as an eBook at cpa2biz.com. Hardcopies can be purchased at poegroupadvisors.com.

**2.** Correct staffing issues. A great staff with a healthy office atmosphere is not only pleasant and profitable, it's a huge selling point! If you have staffing problems, correct them as soon as possible. Most practice owners believe client retention is the biggest challenge to a new owner. When a transition is executed with care, common sense and integrity, client retention is actually straightforward[1]. The biggest risk for a buyer is an employee who poses a legitimate competitive threat.

If you're a few years from selling, assess your staff carefully. If an employee shows promise in taking over, come to terms years before your desired exit. If you're unable to come to terms, protect your practice with an assignable non-compete or non-solicitation agreement ("assignable" meaning that it transfers to the new owner upon sale) or replace that person long before you intend to exit. This allows you to deal with any fallout prior to marketing your practice.

[1] For more information about client retention and transition, please visit poegroupadvisors.com/blog/. Type "retention" in the search bar.

## **2.** Correct staffing issues.

### A true client story to help illustrate this situation:

A few of years ago, we sold a practice that had a "toxic" manager on staff. Her involvement ended up costing the seller $100,000 or more in terms of the purchase price, and caused considerable stress during the sale and transition of the practice. I suspect she was a drain on profits in the years prior to the sale as well, which also impacted the selling price.

This manager was a long-term employee who had a close working relationship with the owner. Casually, off and on for many years, she and the owner had discussed the possibility of her buying the firm when he was ready to exit. Specifics were never discussed. For personal reasons, the seller abruptly decided to plan an exit. The two began earnest discussions to reach an agreement. The owner learned that her idea of an acceptable deal was completely unacceptable to him. She wanted to put very little money down and have him take all risk of ownership with none of the control and financial rewards. It also became clear that she lacked key leadership skills necessary to operate the practice. He put the practice on the market to open it up to other prospects.

There was no non-compete or non-solicitation agreement in place with this key person. She had an integral position with significant client contact and supervisory responsibilities. In short, it was not easy to replace her in the middle of attempting a sale.

Luckily, we found a great buyer with the necessary leadership skills to navigate this situation. He developed a plan to replace the manager if necessary. At considerable additional expense to the seller, we negotiated for an employee non-compete agreement. When transitioning the practice, the manager's displeasure affected the morale of the entire office and created a difficult situation. Staff threatened to leave and client service began to suffer. Soon after the closing, the new owner decided the manager had to go.

Fortunately, her employment ended without too much trouble. Once she exited, the other staff were relieved and stayed with the firm. The business thrived. Had the seller been unable to negotiate a non-compete agreement, the terms of the sale would have been far more favorable for the buyer.

### Here are the takeaways from this scenario:

- Non-compete agreements with key employees have significant value in a sale. They're much easier to secure before they're needed.
- Consider well in advance the consequences of offering staff a chance to purchase.
- Employees who end up being "bad actors" can be very expensive.

## **2.** Correct staffing issues.

## What if we have talented staff who can take over? What's the best way to explore our options?

### Internal vs. External Sale

The fewer partners and employees a firm has, the more difficult an internal succession is likely to be. Internal succession makes sense for larger firms for several reasons. Large firms have human resources and recruiting departments. They have systems in place to continually seek and nurture people who demonstrate partner potential. It would also be impossible to conduct an outside sale every time a partner wants to retire. Large firms tend to have a clear partnership path to replace retiring partners.

Small firm succession planning needs to factor in a few important differences. First of all, the fewer staff you have, the less likely there's a good candidate to take your place. Entrepreneurial accountants represent a small percentage of the profession. If you're lucky enough to have a willing and capable candidate, you're limiting yourself to one buyer. It's far easier to negotiate fair-market terms with a large universe of buyers. Moreover, internal candidates may not have the funds to purchase.

### Grooming Someone New to Take Over

Why not invest in hiring someone to groom? Many accountants have tried this approach, but for a variety of reasons it didn't work out. If you're considering this approach, get a non-compete agreement. Do your due diligence before hiring to determine the level of ambition and financial means. Remember, you're still limiting yourself to one buyer. How can you negotiate an arms-length transaction when your entire succession plan depends on one buyer who might change his or her mind prior to the sale?

## **3.** Focus on your "A" clients.

Focusing on your best clients is a powerful way to grow the revenue of your practice. Implement these simple strategies to multiply both your number of "A" clients and time spent interacting with them.

**Identify your "A" clients.** Go through your client list at least once a year and pick out your best clients. For more information on client ranking, download "The Client of Choice" at *poegroupadvisors.com (under the resources tab).*

**Nurture your "A"s.** This is where your team's creativity comes into play. Start with a brainstorming session with your entire team. There are a billion different ways to demonstrate appreciation. Think of some that are fun for you and exciting for your clients and staff. It usually boils down to spending time with them, giving exceptional service and going the extra mile. The goal is "service worthy of a referral."

**Ask for referrals!** Again, brainstorm with your team. Asking for referrals requires salesmanship and originality. Find ways that are comfortable for you. Maybe it's simply getting in the habit of saying something like, "You're one of our best clients; we'd love to have more clients like you. Anyone come to mind?" at the end of every client meeting. The key is doing this consistently.

# *Step 3:* Implement.

## *Being focused is incredibly powerful.*

Clarity will motivate you to take action. Once you have clarity on your timetable for a sale, and know what specific efforts will have the greatest impact on making your practice attractive to buyers, you are ready to start implementing your desired changes.

### A few tips:

- Work on one project at a time.
- For each project ask yourself, "What's the biggest difference completing this project will make?"
- Write down your goals for each project and steps for completing. Get additional tools if necessary.
- Create a timeline for implementation and mark it in your calendar.
- Is there someone who could help hold you accountable for your results? Accountability is very important.
- Now GET STARTED!

Want to build a better practice?

Learn more by visiting the resources tab and our blog at PoeGroupAdvisors.com.
Ready to sell now? Call us at 888.246.0974.