How to keep clients after an accounting practice sale

Buyers and sellers both must play leading roles to ensure a smooth transition and maximize retention.

By Harry L. Olson, CPA

Risk is inherent to any business activity, including the sale of a CPA practice. From the seller's perspective, minimizing the major transitional risks after selling a CPA practice should be considered as important as maximizing the sales price and terms.

A failure by the buyer or seller to execute a successful transition after the closing of the sale can be detrimental to client retention. The following fictional narrative, based on actual events, sets the stage for discussion.

Imagine that you own a growing and successful multimillion-dollar business. Your family and your business have been the clients of a CPA in the local community for more than 15 years. You now rely on the CPA to provide significant tax, accounting, and business expertise. In fact, you are not quite sure what you would have done without this CPA's valuable advice for the last 15 years.

Your CPA calls you to set up an unanticipated meeting at your office. At the meeting, he introduces you to a CPA you have never met before. It becomes apparent that your valuable adviser has sold his CPA practice to the individual he just introduced you to. At the end of the meeting, the buyer of the accounting practice hands you an engagement letter related to services to be provided to you personally and for your business. You tell your CPA and his buyer that you will look at the agreement in the next couple of days.

As you consider whether you should sign the buyer's engagement letter, you begin to compile a list of the factors that would likely make or break your relationship with the person who may soon be your new CPA.

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Let us assume for a moment that the buyer in the example above is a great fit for the practice in every respect including professional qualifications, people skills, firm culture, and the capacity to perform the seller's work after closing. Even with a great buyer, what happens within the first few weeks or months of a transition can have a significant effect on client retention.

From the perspective of both the buyer and seller, many potential issues could lead to the loss of this hypothetical client. Some of the factors important to ensuring a successful transition and minimized client attrition are as follows.

CLIENT COMMUNICATION AND REASSURANCE

As indicated in my November 2015 *JofA* article "Maximize Proceeds in Accounting Firm Sales" (tinyurl.com/pj9j5zq), the most important aspect of any deal from a seller's perspective should be whether the buyer has the qualifications, ability, capacity, desire, and incentive to provide quality service to the seller's soon-to-be former clients. A prudent seller will go to great lengths to meet with multiple buyers in the interest of selecting the best buyer who meets all of these criteria.

It is crucial to effectively communicate to clients that the seller has invested extensive efforts to find the right buyer—as well as the reasons this particular CPA (the buyer) was the best qualified for the practice. When clients are uninformed, they may erroneously conclude that the only criterion used in selecting the seller's replacement was finding the highest bidder. Such incorrect assumptions can prove detrimental to establishing the preliminary footing necessary for good relationships to materialize for the buyer.

When first discussing the transition with clients, the seller should take steps to reassure them about the buyer. Inform them about the extensive search that was undertaken to find a highly qualified CPA who would be the best fit for the firm's clients. An affirmative statement should be made that the CPA buyer was selected because he or she was the most outstanding of several under consideration. The seller and buyer should also highlight any unique aspects of the buyer's experience that may be relevant to the clients' needs. Explain that the buyer will begin taking the reins of the firm while the seller begins to reduce his or her involvement.

The seller should explain to the clients why he or she needs to slow down or retire. The seller should also provide further reassurance that he or she will be assisting the new owner for some time during the transition to help in any way necessary. The seller should also indicate whether he or she intends to work part time for the buyer and for how long.

When the seller is retaining a small ownership interest in the firm being sold, it is often beneficial to announce that the firms of the seller and purchaser have merged or that the seller has admitted a partner.

In all communications with clients, be mindful that an accounting practice is as much a "people" business as it is a "numbers" business. Do not lose sight of the fact that clients are people. People often need communication and reassurance during a time of change.

TOO MUCH CHANGE TOO SOON

CPAs must remember that good client service does not include making things difficult for their clients.

IN BRIEF

- Among the essential elements for maximizing client retention in an accounting firm sale are reassuring clients with effective communication about the deal, minimizing changes in the first couple of years after the closing, and implementing a strong transition plan. The buyer and seller must have a clear understanding about essential policies, procedures, and people.
- Sellers should ensure that buyers have the capacity to effectively serve clients of both the buying and selling firms in the event of a sale.
- Buyers can maximize client retention through a number of activities, including responding promptly to client calls and emails, learning their clients' businesses, visiting key clients, proactively pursuing tax planning and other interactions with clients, and performing work with the same timeliness as the former owner.
- Sellers can help maximize client retention by helping the buyer with several items, including introducing the buyer to important clients, communicating to clients why the buyer is a good fit for them, reassuring clients that the seller will be available to help them during the transition period, and providing the buyer with pertinent information related to major client technical issues.

To comment on this article or to suggest an idea for another article, contact Jeff Drew, senior editor, at jdrew@aicpa.org or 919-402-4056.

Imagine again that you are the client of the CPA seller in the example above. You sign the buyer's engagement letter for your business and personal accounting and tax work. Within the first month you find that the buyer will only communicate via email while the seller previously conducted extensive phone consultations. The buyer is almost impossible to reach on the phone. In addition, when you want a meeting, you realize that the buyer has moved the office 30 miles from your former CPA's office. You further ascertain that the new CPA has changed almost every policy of the firm including when your work will be prepared, client interaction, organizers, billings, and collections.

Based on my experience with hundreds of successful CPA practice transitions over the years, it is clear that the fewer changes made to the practice, the easier the transition is on clients. Too many changes too soon in the relationship could drive many clients to start looking for another CPA. In light of this fact, I typically recommend the following:

During the first couple of years after closing, the buyer should make every effort to minimize change for the clients. If clients meet in the seller's office, the buyer should try to keep that location of the seller open at least through the first busy season. If the office is to be moved, the buyer and seller should agree on a reasonable distance for the new office location before closing. Employees and clients alike would not relish the idea that their five-minute drive to the former CPA's office has been replaced by an hourlong trek across town.

The buyer should attempt to keep most if not all of the client and employee policies and procedures the same as those of the former owner. A client who was allowed 30-day payment terms after completion may not appreciate having to pay a 50% retainer before the work is performed with the remainder due on delivery.

It is important for the buyer and seller to consider each potential policy change from a strategic perspective by asking the following question: What positive or negative effect would this change have on clients?

Most clients will give the buyer the benefit of the doubt early in the process, especially when a seller offers a glowing recommendation that explains why this particular buyer was chosen. The primary goal of minimizing change during the transition is to avoid giving clients an overwhelming reason to terminate their new relationships with the buyer in favor of another CPA.

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BUYER INCENTIVE, CAPACITY, AND PERFORMANCE

In my November 2015 article, I make the case that an earnout deal with a large contingency based on collections is tantamount to no real commitment from the buyer. Such a deal may actually produce an incentive not to perform if the buyer is understaffed or underestimates the amount of work to be performed.

A seller must determine whether an otherwise qualified buyer has the capacity to perform the work that the seller will no longer perform after the sale. The buyer must also have significant "skin in the game" in the form of a large down payment to ensure performance. If the buyer has made an earnout offer with a small down payment and large contingency, the seller should consider another deal with significantly more cash and more buyer incentive to perform.

If the buyer lacks excess capacity and the seller has accepted an earnout deal, the buyer may cherry-pick the best clients while not providing services to a significant portion of the client list. Alternatively, the buyer may rely on the seller to do all of the work after selling the accounting practice. No seller wishes for a large percentage of his or her client list to vaporize after a sale due to buyer nonperformance. In addition, most sellers who must perform all of the work for the buyer find that they will earn significantly less money working for the buyer than by continuing to work on their own. Most rational sellers would want to avoid both of these outcomes when selling an accounting practice.

Assuming that a qualified buyer has the capacity and a deal structure that provides incentive for buyer performance, the following is a list of things that buyers can do to retain clients after the purchase of a CPA practice:

- Actively pursue the clients. Do not be passive. Be responsive. Return all calls and emails

The transition plan should be in writing, outline specifics, and be communicated to all parties involved.

on the same day they are received—preferably within hours of receiving a call.

- Perform work with the same timeliness as the former owner. If the former owner did not have a history of filing tax extensions for certain clients, do not file extensions for those clients.
- Be proactive in your tax planning and in all interaction with your clients.
- Learn your clients' businesses to provide entrepreneurial and business advice as well as tax advice. Make personal visits to the offices of key clients to get to know their businesses better.
- Be cognizant of the people side of your CPA practice. Make clients feel important. Be personable. Maintain an upbeat demeanor in all communications.
- Provide each major client as much face time as needed to secure the relationship.
- Do your best to attend all events that you are invited to by clients.
- Invite key clients to lunch, dinner, a ballgame, or other event.

ADEQUATE SELLER TRANSITION

The seller of an accounting practice should be prepared to help a buyer for at least the first few weeks or months of the transition and to be available for occasional phone calls afterward. Highly complicated practices may require a longer transition for the seller. Transition time should be agreed upon in writing but should not include the free billable work of the seller.

To maximize client retention, a seller of a CPA practice should be ready to do the following:

- Introduce the buyer to key clients.
- Affirm to the clients the reasons this particular buyer was the best fit for your practice inclusive of the buyer's professional and other qualifications.
- Reassure clients that you will assist the buyer throughout the transition and will be available to help them when needed.
- Explain all of the firm's major policies and procedures to the buyer.
- Provide background information on relevant major client technical issues.
- Be available to take client phone calls related to transitional issues.
- Be prepared to smooth over client relationships in the rare instance of a client's becoming irritated with the buyer.

Overt seller unwillingness to assist in the transition will most often have a detrimental impact on client retention. This is one of the many reasons it is important to include seller transition time in the signed agreement for the purchase and sale of a CPA practice.

One exception to this general rule relates to a CPA firm owner who is having major health issues or who is recently deceased. Clients are usually much more amenable to working with the buyer when it is known that the former owner is deceased or otherwise physically unable to be involved in the transition—despite the fact that such transactions will involve little or no transition time. If such a sale contains even a small contingency, the buyer and the CPA's family should disclose to all clients verbally and/or in writing that the proceeds from the sale to be received by the family are contingent on client retention.

Full disclosure by a widow or widower (or his or her representative) of the contingent financial arrangement coupled with an appeal to the better aspects of the clients' nature will most often elicit sympathy for the CPA and his or her family—thus facilitating client retention. The appeal should indicate urgency while gently tugging at the clients' heartstrings. Any such appeal made to clients should be warmhearted, passionate, and sincere while maintaining a high level of professional decorum.

TRANSITION PLAN

The transition plan is not commonly part of the closing documents, but it is just as important.

The transition plan should be one part of an overall business plan developed by the buyer with the seller's input prior to closing. The seller and buyer should have extensive discussions regarding everything that should be contained in the transition plan. This should include, but not be limited to, major goals and milestones, firm name and identity, announcements to clients, computer systems and software, assimilation of client work, internet presence, advertising, time and billing procedures, key target dates for major aspects of the plan, and which parties will be responsible for certain aspects of the transition plan.

The plan should be in writing, outline specifics, and be communicated to all parties involved in the transition. The plan should be referred to often over the course of the transition. The plan also needs to be fluid, as unforeseen circumstances are likely to arise.

Leaving the transitional plan to chance or memory could be detrimental to client retention. The adage "if you fail to plan, you plan to fail" is just as relevant to the transition of a CPA practice as it is to any other aspect of business or life.

CONSULT AN ATTORNEY

It is important to seek legal counsel prior to announcing a sale or merger to clients—or employees, for that matter. Not all "mergers" are mergers, and not all "sales" are sales.

It is imperative to make certain that the nature of the announcement corresponds with the legal structure of the transaction.

The announcement should comply with all laws and the requirements of the state's board of public accountancy. In addition, a good attorney can be a sounding board for what a seller should and should not communicate to clients about the buyer and the transaction.

KEEP CLIENTS IN MIND

After the sale has closed, the buyer and seller should keep in mind that clients are, first and foremost, people—they should not be treated as pawns in a business transaction. The transition should focus as much attention on the human dynamic of the client relationships as it does on the technical aspects of client service.

A good transition should not involve clients jumping through hoops to benefit from the buyer's services. The more hoops they have to jump through, the more likely the firm will lose them. Even the best CPAs can lose a client due to inadequate communication or if the transition makes it too difficult to do business with the buyer.

Effective communication and proactive implementation of a well-written plan by both the buyer and seller can make the transition virtually effortless from the clients' perspective. Thus, key relationships of a CPA practice can be successfully transferred from seller to buyer. ■

About the author

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