Management Essentials
Five Merger Tips to Help You Seal the Deal

by Gary Adamson, CPA

Having completed five mergers while the managing partner of my firm, I learned many lessons along the way and have some of the scars to prove it. There is no question that I was smarter on number five than on the first one. Regardless of whether you are the buyer or the seller, here are few tips that will help you find and seal the right deal.

Average Billing Rate. As accountants we all love to dig into the numbers on a prospective deal as we well should. To save you some time, I have developed one litmus test that should be at the top of your list. It is average billing rate per hour which is simply the billed revenue of the practice divided by the total charge hours.
The average billing rate can tell you a lot of things about a practice including level of billing rates, types/size of clients, level of efficiency in performing the work, etc. If there is a significant gap between the two firms you need to quickly dig into why. My experience is that there usually aren't quick fixes and if the difference is too great you need to take the advice of Alan Boress: "next".

Sacred Cows. In any combination of firms there is one guarantee and that is change. Typically the seller is coming into a larger firm and should expect to adopt the buyers processes and software. It's not a democracy and that needs to be understood very soon in the dialogue. Don't try to take the best of both firms because then no one knows "how we do it".

I have two suggestions for you that will help both sides get through the change. First, ask for a list from the seller, in writing, of the ”sacred cows". In other words what things, processes and people can't be touched. It's a good step for the seller to do to really know whether they are ready for the change that is coming. It's also a pretty clear message to the buyer on whether there is going to be a problem or not. If it is a long list, run!

Second, as I indicated above, the seller needs to commit to learn the processes and systems of the buyer and the integration needs to happen very soon after the merger date. Good ideas and better processes should always be considered. Just do yourself a favor and consider those for the whole firm a year or so after the chaos of the merger has died down.

Create the Business Case Early. Maybe it should go without saying, but if you are entering into a merger there had better be strategic reasons behind it. How does it strengthen the two firms? What are the expectations? What do you want the combined firm to look like at the end of a year; in three years? What goals are we going to commit to together?

I'm not talking about a full blown business plan. But, I am talking about getting buy in **before** a letter of intent is signed. What are we trying to accomplish together? Where are we going together? The conversation surrounding this is critical.

Trust Your Gut. Not a very technical term but nevertheless an important one. Remember as you're looking at numbers, files, clients, systems and all of the other important aspects of the other firm, the most important piece is right across the table in front of you: the fit of the people.

You are in many ways getting married to new partners and your compatibility will mean long term success or failure.

You know what to do including getting as much interaction as you can between the partners of both firms. Do you enjoy being with them? If it doesn't feel right or if there is just something that you can't put your finger on, slow it down and spend more time to figure it out. Trust your gut.

Divorce Provisions. There are two strong opinions on whether to include divorce provisions in merger agreements. One line of thought is that you should make sure that you really want to get married before you do and that a divorce provision makes it "acceptable" and perhaps too easy to get out of it. The other opinion is that if a divorce is going to happen it's not because a divorce agreement exists and there needs to be an orderly way to pull the merger apart.

I have subscribed to the second line of thinking with some very good results (no divorces). If you utilize a divorce agreement, make sure that it includes a reasonable time period such as two years and that there are significant penalties included for the party that pulls the trigger. You'll know that you have a successful merger when both parties want to cancel the divorce agreement before the two years is up.

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