

Partner Succession – It's All About Client Transition and Retention

By Gary Adamson, CPA

CPA firms are wrestling their way through partner retirements and the accompanying succession issues in numbers that the profession has never seen before. It's the Baby Boomer Bubble, up close and personal. Our succession planning should focus on replacing that retiring partner's contribution on several fronts. Depending on the role of the retiring partner in the firm we will experience varying levels of pain surrounding things like replacing significant knowledge or technical expertise, backfilling a block of hours to get the work done and shoring up voids left in firm leadership. These are all significant issues and deserve a plan of their own. But the biggie and the focus of this article is the transition of client relationships.

The premise that underlays this discussion is that most of the firms that I work with and somewhere around two thirds of all multi – partner firms out there have an unfunded partner buy out or “retirement” plan. That means that retirement payments over an extended period of time will (hopefully) come from the continued operations and profits of the firm. The currency that the firm will use to pay out that retiring partner is really the annuity revenue stream from the clients that they used to serve. A successful handoff and the retention of those clients is the only way that the unfunded plan has a chance to survive.

If you buy into the critical importance of client transition and retention, then we should expect that most firms have developed both a pretty good transition process and some well defined requirements for the retiring partners. Unfortunately, more often than not, that is not the case. The 2012 Succession Survey conducted by PCPS and the Succession Institute reported that 78% of firms do not have client transition expectations with financial penalties for retiring partners, if they are not completed.

If you are one of those firms in the 78% bucket, the balance of this article will give you some ideas on how to do a better job with client transition. Please pull out your partner agreements, dust them off and see if they even deal with this critical issue at all.

First make sure that you have a mandatory retirement date for partners. I dig into that topic a lot deeper in another article, but the point here is that there is a target date (for instance age 65) that we all know is coming that is controlled by the firm. There is no way to create an effective transition plan without everyone knowing when it is.

I recommend that the client transition process begin at least two years before the partner's expected retirement date. The reason is that for the largest clients and/or the ones with the closest relationships to the partner, you really need at least two cycles for a successful handoff to the successor. In every partner's book there are some easy ones and some very difficult ones. The easy ones may include 1040's or small business clients or hopefully a number of accounts where another partner or senior manager is already very involved. The tougher ones are almost always where very close personal relationships and friendships have developed over the years. Here's the critical point – it is usually more about the retiring partner letting go and facilitating the handoff than it is about the client accepting it. Just because the client has a new person to handle their account doesn't mean that the friendship with the retiring partner ends.

The transition plan specific to the partner should be developed with the managing partner. Clients should be grouped into categories based on the expected ease of transition and specific steps determined for each group. For the easiest ones, it may be just a phone call from the partner talking about the upcoming retirement and who will now be handling them, others may be an introductory meeting, others will require a much more significant time commitment with shadowing in meetings and the year end process. You'll know that you have been successful when the client is calling the new partner and the retiring partner has less and less to do. I really like to see the workload of the retiring partner almost gone during the last six months of the transition period. During the two year transition period there should be quarterly update meetings with the managing partner to review the completion of the plan.

The previous discussion assumes that there is a qualified person at the right level with a fairly good personality match that can step into the relationship. Please make sure that a part of your plan is to free up the right people to be able to take the key relationships of the retiring partner. I see too often that the right partner in the firm to take that really large important relationship is already full. So, we try to give it to managers or the retiring partner hangs on to it or we come up with some other bad answer. It may not be intuitive that you need to create even more transition issues moving clients to make room, but to make sure that you have the best home for some key accounts that is in fact what the firm needs to do.

Now, to the most controversial question. The trend by more and more firms is to build the client transition expectations into their partner agreements: i.e. a two year notice and the completion of a written transition plan with the managing partner. If the retiring or departing partner fulfills the expectations then a successful transition of the clients is a lot more likely and there should be no penalty for any subsequent losses. However if the partner does not meet the firm's transition expectations and clients depart within a relatively short period of

time (say two years) then the partner suffers a reduction in retirement payments. This is not where the majority of firms are today but it is where they are going.

As the Baby Boomers march toward retirement the likelihood of multiple partner payouts within your firm increases. A well executed client transition plan is the best protection for the firm and the best insurance a retiring partner has that they will receive those unfunded retirement payments down the road.

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