

Identifying Merger/Acquisition Candidates: All Firms Are Not Created Equal

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In another article, we described the information binder firms should develop once they've determined that mergers/acquisitions are part of their growth strategy. We also explained why such a binder is an essential first step in pursuing mergers or acquisitions.

Recruiting is a Process

Once the binder is in place, you're ready to begin the recruiting process for merger/acquisition candidates. If you're serious about your strategy, recruiting can't be approached as an event. You must accept that recruiting other firms is an ongoing process and that you're not going to become great at it without incurring a few battle scars along the way. Firms that see recruiting as a process and become highly effective in that process will save

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The starting point for the recruiting process is to conduct clear and open conversations with your ownership group as to what you are looking for in merger candidates and where and why the firm is looking to expand in this way.

Depending on the governance structure of your firm, your executive committee or board has likely spent a great deal of time discussing the issues and intricacies of the merger process. Other owners/stakeholders in the firm need to understand the thinking and the conclusions of the smaller group. Transparency will help you work through the process much more quickly when it comes time to obtain partner approval of the final documents. You also might find that stakeholders in your firm might be a great

resource for identifying merger candidates, if they have a clear understanding of the objectives. Partners attend trainings and meetings and meet different people. Perhaps they know someone from a good firm that meets the merger candidate criteria.

Where Do You Recruit?

Once the stakeholders are on board identify where you want to recruit. This may sound ridiculously obvious, but many firms don't have a clear sense of where they want to have a presence and why. Multiple locations are a challenge. If you're currently a single office firm, you have a lot to do to figure out how you're going to operate effectively in multiple locations. If your plan is to remain a single office firm, you need to confine your recruiting efforts to the local market. In urban areas, you'll even need to identify the part(s) of the city that will work best for you. Partners, staff and clients currently living in the suburbs are there for a reason; convincing them to come to a downtown site is going to be very difficult.

Once you've addressed location issues, you may want to target firms with unique services that



either expand your bench strength in a particular industry or will help your firm establish a new service or industry within its portfolio of services. Acquiring specialty talent and building bench strength can be major objectives in your growth strategy.

If you want additional volume to fill holes in your schedule and/or the workloads of staff members, then you're looking at acquisition targets where you'll pay cash over a period of years to acquire a client base that produces income streams. In such an acquisition, the prime objective is to find a firm where the stakeholders want to get out, but are willing to remain long enough to smoothly transition clients.

If you don't already have a presence in the market you're recruiting in, you can often obtain information about firms by contacting the state CPA society. This is especially true if you just want to know the relative size of organizations. The Internet can also be a valuable tool for gathering data about firms. While most don't share staff resumes, almost all firms post pictures and short bios for their stakeholders. Websites can also indicate how progressive firms are and tell you if they have any specialty niches.

You might also consider sending a letter of interest to selected firms, asking them to respond with general information if the stakeholders are interested in the possibility of joining your team. We did this in one city where we didn't have a lot of knowledge about the players and received responses from more firms than we ever imagined. The heightened interest may have been due to the fact that we

weren't part of the current landscape and interested parties didn't feel quite as exposed. As we sorted through the responses, we were able to identify the sizes and specialties of the firms. In many ways, the process felt like staff recruitment.



Your objective should be to find the best firms available in your desired market. Often the very finest aren't interested initially because they're already doing well on their own. Recruiting these firms will require you to identify the value proposition that would make them want to join you. Beware: If the best firms don't show any interest when first contacted, don't lower your standards just to make a deal with another firm. Instead, get to know the leaders in your target firms. Consistent contact with the right target firms over a period of years will pay dividends as barriers come down and both firms explore the possibilities.

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