HOW TO SUCCESSFULLY MERGE IN A SMALL FIRM

Mergers are all the rage. Retirement-minded Baby Boomer partners are looking for an exit strategy. Fueling the fire are buyers (any firm larger than a seller), hungry to achieve double digit revenue growth.

Many of today's buyers are inexperienced with mergers. As a way to help these "newbies," here are 16 pointers for making your next downward merger a successful one:

1. The top 3 keys are **culture and personality fit**…times three! This is obviously less important if the seller will not be working for the buyer.

2. **Don't expect a cakewalk.** Sellers will be high maintenance and will be experiencing huge changes to their lives. Buyer needs to understand that "this will take a lot of work." Be **patient** with transition; mergers take 3-5 years on average, to be fully assimilated.

3. **Due diligence** review of reports, returns and workpaper files to determine if (a) the work is up to standard and (b) if work is not up to standard, can you make money with the additional work that you will have to do, given the fees the seller charges his clients?

4. Thorough **review of the seller's financial statements, production statistics and operations.** I have experienced many cases where initial conversations with a seller were quite positive, only to be stunned by glaring inconsistencies between how the seller *described* his practice and what his numbers indicated.

5. **Compatibility of billing rates**. On the one hand, if a seller's rates and fees are low, it's a great opportunity for the buyer to improve profits by gradually getting the rates up. But if the gap is too big between the firms, it may not be feasible to bridge this gap.

6. **Find out what the seller expects from the merger**. Conversely, understand what you, the buyer, expect from the seller. Define the seller's role with crystal clarity, including expectations for practice development, billable and total work hours.

7. **Seller's time records** must be reviewed carefully. They usually make little, if any effort to record both their billable and non-billable time. Most likely, the seller has not recorded all billable time because (a) the driving force to their practice has been to bring revenue in the door, regardless of how much time it takes to do the work and (b) since they knew they couldn't bill all their time anyway, they adopted timekeeping practices that were haphazard at best.

8. **Review the type of services** provided by the seller to determine if this is the mix wanted by the buyer. Also, using the 80-20 rule, assess the likelihood of the seller's clients staying with the buyer for a decent number of years after the merger. Find out if any sizeable clients will be leaving soon due to retirement, liquidation, merger, etc.

9. If the seller will be working for the buyer for a number of years, assess the extent that the seller is able to successfully go through an **“ego-ectomy.”**

10. Be very clear what will be expected of the seller for **client transition**, including the timing of these efforts.

11. **Use the same high standards** for bringing in a seller as a partner as you would promoting a staff person to partner. Often times, it makes better sense to give the seller the title of non-equity partner rather than bringing him/her in as an equity partner.

12. It’s critical to get the seller to **bill out all his WIP** before the merger. It’s likely that the seller is inefficient in doing client work and you don’t want to get into “sharing” of write-offs incurred after the merger.

13. Status of seller’s **office lease**. Most buyers can’t afford to absorb the seller’s unexpired rent, so it’s important to understand the seller’s office lease situation.

14. Make sure the seller signs a **non-solicitation** agreement.

15. If the seller has **key staff**, make sure they come with the merger and assess their quality. Also, make sure these people sign a **non-solicitation agreement** before they are made a job offer.

16. Small firms run a lot of **personal items through their income statement**. Find out what these are and make it clear what you will and won’t pay for.