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Are You Ready to Sell Your Accounting Practice?

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If you have your own accounting practice there will come a time when you will sell your practice to another practitioner, sell your interest to your partners and/or employees, or abandon the practice entirely. Different reasons prompt you -- maybe a client has offered you a better job, maybe you are burned out from public accounting, maybe you want to relocate, or maybe you are just plain ready to retire. Whatever the reason, and however you plan to dispose of your accounting practice, it will be a difficult decision to make and may be more tense than you would like it to be.

If you are a partner in a firm and have already agreed on a buy/sell provision you have done well and are way ahead of many of your colleagues. As long as the remaining partners and staff are able to handle the additional work load from the loss of a key person, then all should go well. But the majority of firms are sole practitioners or very small partnerships without adequate professional staff to make up for the loss of the key person. This is where problems may develop. How can I sell my practice? Who will take over? Will I be able to get a fair price for my practice and the goodwill I have built with my clients all of these years?

Case Study

This is a true example of a CPA we will call Sam Seller who sold his practice to Bruce Buyer, a fellow CPA he knew from his local chapter. Sam was eager to move out of state. Bruce had been in practice for many years and had a loyal client base. Sam's practice was not far from Bruce's. Sam felt that Bruce provided quality services to his clients. So they worked out a purchase arrangement that would pay Sam 25% of the fees Bruce collected on Sam's clients for five years. Sam wished he had received some money up front, but he was happy he was able to work out a deal that would pay him 125% of his annual billings, and he saved broker and attorney fees.

What Sam did not know was that Bruce was really busy, especially during tax season. Bruce figured he could do most of Sam's work himself and the rest could be done by his secretary or the new junior accountant. During the middle of the first tax season they were unable to serve all of Sam's clients, and of course Bruce's loyalty was to his long-time clients. Sam's clients began to drift away and find other accountant's to do their work. Bruce did not like some clients, and asked them to find a new CPA. In short, the deal fell apart. Many of the clients left in the first year; others in the following year.

The agreement Sam and Bruce worked out was not much more than a letter agreement. A true story, Sam may end up getting a 30% to 50% of what he expected, unless his lawyer can win the lawsuit.

(OVER)

What makes a good practice sale?

Obviously, the most important factor in selling your practice is the prospective purchaser. Personalities are important -- will your clients and staff like him or her? Is the buyer technically competent? Is the prospective buyer interested in buying my practice? Does the prospective buyer have the financial ability to give me a good down payment? Do they have good credit? What is the prospective purchaser's plan to provide the acquired clients with quality services? The list is long and the seller should feel comfortable addressing all of these questions.

What could Sam have done to ensure his sale would work out? First he did not talk to any other prospective buyers. He did not fully understand how to structure the sale and neither did Bruce. Neither of them had ever bought or sold a practice. In fairness Bruce was not a strong candidate to buy a practice. He did not have any money for a down payment and he had not fully thought out his approach to combining two $150,000 CPA practices. He knew other CPA that had $300,000 and even $500,000 practices. He figured if they could do that much work, so could he. Sam on the other hand was happy to find a buyer quickly, and he jumped at the chance without speaking to anyone except Bruce. He just assumed Bruce would be able to carry the increased work load because he said he could.

First, Sam should have made sure his buyer had a plan to continue services to his clients. Next, he should have made sure they had a well-written agreement that spelled out everything: price and terms, the calculation of billing guarantees (typically only one year -- not five), the transition, etc. This document is frequently 20-25 pages long, and should be complete.

He also should have required a reasonable down payment. Not to put the buyer in a cash flow hardship, but to ensure the buyer has an investment at risk. If a buyer is willing to put down a reasonable down payment, they will do their best to ensure the success of the purchase. Some prospective buyers, including many who frequently advertise for practices to buy, either do not have money for a down payment or have no intention of giving you a fair down payment. They are looking for no-money-down purchases. And no-money-down purchases usually allows the buyer to walk away or to "cherry-pick" the sellers client base and abandon the rest.

How do I value my practice?

There are many methods that may be used to value a business - - some based on the Earning Power of the business such as the Capitalization-of-Earnings Method (Net Income/Cost of Capital = Fair Market Value), and the Discounted-Future-Earnings Method. Others include the Asset Worth. But the industry standard, and by far the most popular, is a multiple of gross billings.

Realistically, most firms start with one-times the annual gross revenue (100%) as the base value. The base value may then be adjusted upward or downward based on a number of factors. Some upward adjustment factors include if profitability is higher than normal, strong staffing or leveraging, personal reputation of the seller, and of course "Location, Location, Location". Some downward adjustments may be too many new clients, or a less desirable location.

Accounting practices are as different and individualized as their owners. These differences influence the sales prices dramatically. For instance, a highly profitable practice with a specialized client base may bring a lower sales price than a practice that is moderately profitable but considered being more bread and butter. The reason is there are many more prospective buyers who are looking for the bread and butter type practices, candidates that are attracted to highly specialized practices tend to be more sophisticated and may not place a great value on goodwill.

Ultimately, the market (primarily the buyers) set the price on accounting practices. This is hard for some sellers to accept especially if they are in an area where practices are not in great demand. Setting your price too high may scare away buyers and you may not be able to sell, setting your price too low means you leave money on the table.

Should I use an intermediary?

A competent intermediary will allow you to remain calm under what is sure to be a tense time. Sometimes personalities interfere with making good business decisions — you should have someone familiar with both parties with whom to discuss details. An intermediary can be an attorney, business broker or close business colleague.

A competent business broker who specializes in handling accounting firms will not only be able to ask the tough questions and represent your interest, he will have a pool of qualified prospective buyers that will give the seller enough candidates to choose the right buyer. Brokers are also able to stimulate competition and demand, which frequently increases the sales price. They also will save the seller a lot of wasted time because they screen potential buyers and do not introduce the seller to ones they feel are not very good candidates.