3 Myths of Succession Planning for Accounting Firms

A more human resource.[SM]

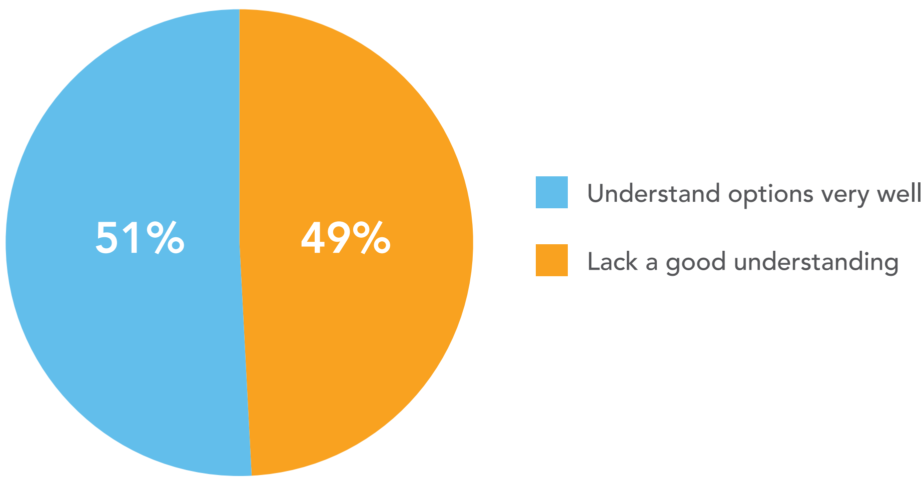
3 Myths of Succession Planning for Accounting Firms

75 percent of today's CPAs will be retiring in the next 15 years.[1] This staggering number of retirees creates tremendous competition for proactive owners looking to sell their businesses or find a CPA to succeed them.

As a CPA, you stress the importance of retirement planning to your clients on a regular basis. Now it's time to start taking care of your own future. Surprisingly, CPAs are not nearly as prepared with their own retirement plans as might be expected. A recent SourceMedia Research study on succession planning found that half of all CPAs surveyed lacked a good understanding of the succession planning options available to them. To protect your business investment, a carefully thought-out succession plan is essential. Clearly, too many CPAs are not acting on their own sound advice due to the three big myths of CPA succession planning:

- There's plenty of time to plan
- My successor will be ready when I am
- Succession planning is only an issue for large companies

CPAs' Understanding of Succession Planning Options



The following truths about these damaging myths will help you eliminate the roadblocks that impede your succession success.

Myth #1: There's plenty of time to plan.

According to the National Society of Accounting, only 28 percent of accounting firms have succession plans in place.[2] It is commonly believed, especially by those several years from retirement, that there's plenty of time to plan. Buying into this idea can get you into a lot of trouble.

"It seems the trusted professionals that so many Americans turn to when planning their financial future are hesitant to plan their own," explains Joanne Barry, Executive Director and CEO of the New York State Society of Public Accountants (NYSSCPA).[3]

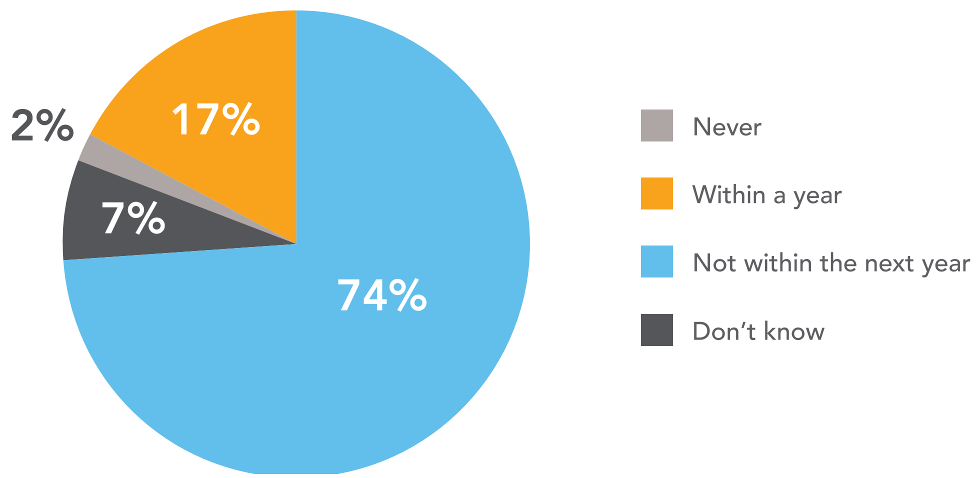
But lack of a succession plan has damaging consequences. With baby boomers retiring en masse and only 49 million Generation X accounting professionals taking their place, competition among retiring CPAs has never been more intense.[4] If you fail to get your firm primed and ready early, you may not have the flexibility to take advantage of opportunities as they arise. To get the greatest value when selling your firm, you need to plan – and you need to start early.

So how early do you really need to start? The short answer is – regardless of where you are in your career – you should always be thinking of your retirement. Dave Grossman, Founding Shareholder and COO at GBH CPAs, says: "Hopefully firms never feel an urgency to begin succession planning. The goal is to plan so early that no urgency is ever felt." That doesn't mean you need to have the finer details planned out by age 40, but you should begin thinking about your target retirement date and what you want from your investment.

Still, many accountants aren't thinking of retirement at all and have failed to lay the groundwork necessary to secure their future. A SourceMedia Research study revealed that three-quarters of CPAs without a succession plan in place do not plan to start thinking of a retirement strategy in the next year. This number comes despite the fact that in the same survey 40 percent of CPAs claim that they anticipate retiring within the next 10 years.

> "Hopefully firms never feel an urgency to begin succession planning. The goal is to plan so early that no urgency is ever felt."

When CPAs Will Develop Succession Plan



An essential element of succession planning is always having a rough outline in place. The plan does not have to be detailed or exact, but it is important to have a framework from which to work and make adjustments as necessary. As you get closer to your target retirement date, you can progressively dig deeper into the details.

With this in mind, three succession planning best practices are:

- Always keep retirement in mind
- Have a solid succession plan in place 10 years before your ideal retirement date
- Begin implementing a transition plan that turns your clients over about 3-5 years before your retirement date

These practices give you the flexibility to seize opportunity when a good market occurs, and allow enough time for both you and your clients to make a comfortable transition.

Myth #2: My successor will be ready when I am.

Many retiring CPAs expect to find a successor ready to take over their firm whenever they are ready to turn it over. Wouldn't it be nice if the world actually worked that way? Unfortunately, the candidate you need isn't likely to suddenly appear at the exact moment you need him or her. You have to be prepared with other options.

Grossman says: "If you want to move up in your career you're going to need to find someone to replace you at your current level. That's how GBH gets everyone focused on succession planning at all levels. It's not only planning, but staff development too."

One excellent way to do this is to train your own successor. The low number of Generation X CPAs working in accounting can make it difficult to find candidates, but if you already have one in mind this option gives you much greater control of your retirement.

Training your successor can be a complex balancing act, taking years of commitment from both you and your employee. The balance involves pacing progress in such a way that you each meet your goals at the same time.

Pacing is important: you don't want your trainee to be ready too soon before you retire – or not ready when your timing is right. A highly qualified candidate who is ready too soon will become a prime target for eager headhunters. GBH has faced a similar challenge with the oil and gas companies surrounding it's office in Huston, Texas. "Trying to retain some of the employees you're training can be difficult when the money is really flowing elsewhere," says Grossman.

> "We put processes in place so that if we need to replace someone we have at least part of the skillset already in place."

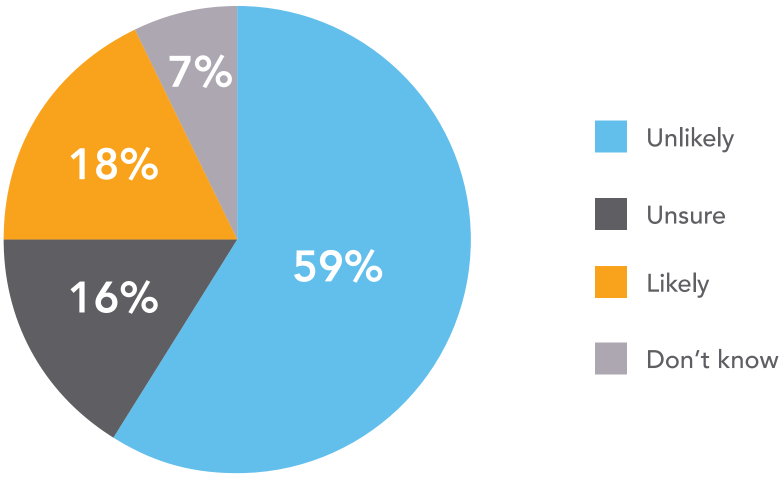
However, it's also easy to misjudge how long a candidate needs to train. If you start his or her training too late, your candidate's lack of experience may be an issue when you're ready to retire. This successor-training Catch-22 makes a carefully laid succession plan all the more important.

Grossman says: "We put processes in place so that if we need to replace someone we have at least part of the skillset already in place." For GBH this means partner roles such as marketing, recruiting, staff development and quality control are switched up every few years. That way if one partner leaves the firm, there's at least one other partner already capable of filling the void.

If you can't find the right candidate to succeed you, another alternative is to compartmentalize the sale of your firm. Many CPAs think of their business as a monolithic entity, but this isn't advantageous in today's market. For example, according to Daniel Hood, editor-in-chief of *Accounting Today*, "Many businesses looking to acquire a firm do not want to take on payroll, so try thinking about your business in two parts: payroll and clients."

Interestingly enough, many CPAs are reluctant to think of their business in this manner. A SourceMedia Research study found that only 17 percent of CPAs are likely to sell their payroll services separately from their other succession plans. A commonly cited concern was that separating one element of the business from the other would reduce the business' total revenue and, consequently, the total value. However, separating the two entities can often generate interest from new buyers, which can easily offset any potential decrease in total value that comes from splitting the business into multiple parts. It is often this type of forethought and out of the box thinking that can enable the strongest – and most profitable – succession plans.

How Likely Are You To Sell Your Payroll Services Separately From The Rest Of Your Business?



Flexibility and a full consideration of all the elements that potential buyers might be concerned with makes your firm much more attractive to businesses looking to acquire new clients without adding a payroll practice.

Myth #3: Succession planning is only an issue for large companies.

Large or small, succession is one of the top two issues you'll face in your career as a CPA (aside from generating revenue). Experts say because larger firms have so many more moving parts, it seems like succession planning is a much bigger issue than for smaller firms. But as *Accounting Today's* Hood explains, it's even more critical for smaller firms.

Says Hood: "In a large company, you only need to worry about how you fit into their succession plan. But the smaller you get, your business is all you have. If you fail to plan you won't get the money you need to retire."

"The succession issues created by aging Baby Boomers are affecting almost every firm in the country," confirms Gary Adamson, President of Adamson Advisory says.[5]

The key to succession planning for a smaller organization is to think big. Grossman says: "Starting out just seven years we thought, what do we need to do as if we're a bigger organization. That's one of the factors that helped us get to where we are today. You want to have the right processes in place, so as you grow there aren't many changes."

> "The succession issues created by aging Baby Boomers are affecting almost every firm in the country."

Conclusion: 5 Steps for Succession Success

Preparing your business to be buyer- or successor-ready is an important factor in staying flexible enough to act on a buyer market and negotiate a competitive price for your firm and, therefore, the quality of your retirement. Fortunately, there are many proactive measures you can take now to secure your firm's future, starting with a succession plan.

The earlier you're ready, the more flexibility you'll have to take advantage of a good market. If you're unprepared, you may have to deal with whatever market you wind up in at the time of your retirement – and not necessarily get the full value for your investment.

With the top three myths of succession planning now debunked, here are five steps you can take to secure your succession success.

Five Steps You Can Take To Secure Your Succession Success	
Be proactive, plan early	The firms that prepare the earliest have the greatest flexibility to act when the market is in their favor.
Integrate planning with hiring and training	Understand your bench strength to fill gaps with new hires or training-and-development of current employees' skillsets.
Identify future talent requirements	Research what talents and skills will be necessary in the industry today and in the next decade in order to thoroughly prepare your successor.
Utilize technology to track talent	Implement technologies that will help you track succession planning and give you deeper understanding of talent requirements needed to meet your goals.
Don't burn bridges	Don't forget to inform clients when retirement is on the horizon. Indicate what will happen and who will be taking over your firm.

About ADP

Powerful technology plus a human touch. Organizations of all types and sizes around the world rely on ADP's cloud software and expert insights to help unlock the potential of their people. HR. Talent. Benefits. Payroll. Compliance. Working together to build a better workforce. For more information, visit **ADP.com**..

Methodology

In October 2014, SourceMedia Research conducted an online study to learn more about the small business clients at accounting firms. In total, 299 accountants participated in the study. Respondents were drawn from *Accounting Today* subscribers.

Sources

[1] Murphy, Leslie. "A Note From Former AICPA Chair Leslie Murphy." Letter. N.d. AICPA. N.p., 28 Jan. 2011. Web. 8 Oct. 2014.

[2] Eyden, Terry. "NSA Offers Tips for Successful Succession Planning." *AccountingWEB*. N.p., 23 Sept. 2013. Web. 9 Oct. 2014.

[3] "Top 100 Extra: The Biggest Issues Facing the Profession." *Accounting Today*. September 1, 2014.

[4] "Baby Boomers: Take the time to know the Gen Xers." Bob O'Hara. CPA Practice Advisor. November 26, 2012.

[5] "Baby Boomers: Take the time to know the Gen Xers." Bob O'Hara. CPA Practice Advisor. November 26, 2012.

A more human resource.[SM]

ADP, LLC
Small Business Services
71 Hanover Rd. Florham Park, NJ 07932
855-408-3751
adp.com/accountant