Industry Trends

Strategies for Growth: The Triangle Offense

By Allan D. Koltin

Q: At a recent conference, you spoke about the "triangle offense" as a current growth strategy that many CPA firms are using. Can you provide some background on this term and share the key elements of it?

A: In the 1990s, the Chicago Bulls (with Michael Jordan and Phil Jackson) used the triangle offense to win six NBA championships. I've been using the term "triangle offense" (see Exhibit 1 on page 22) to define what I see the majority of Top 200 CPA firms doing when it comes to growth strategies. Simply stated, the three triangles include a strategy for organic growth, growth from mergers and acquisitions (M&A), and growth through free agency/lateral talent.

Q: Could you talk specifically about the first triangle, organic growth, and which components are a part of it?

A: Organic growth clearly has been flat since the start of the recession, and 2008 through 2010 has definitely been the flattest three-year growth period over the past decade for most firms. Having said that, we observed firms re-commit to growth in 2011 in a way that we have never seen in the past. Whether it is partners with big books of business who are passing them on to other client service partners so they can free themselves up for additional rainmaking, or a price war like we have never witnessed before, guerilla marketing strategies have taken over. I have also found that firms have been making strategic investments in talent, such as chief marketing officers and business development people, in a way that they have not done previously. Specifically, firms are much more focused today on winning new clients, new projects, and have a greater focus on cross-selling services to existing clients. Finally, we are also seeing more firms go "out of the box" a bit and get into many new products and services through which they can make money unrelated to time by pricing their results on a contingent-fee or commission-based approach. While this has been popular in the area of financial services, firms are now branching into additional areas, such as corporate finance, tax savings, and other related fields.

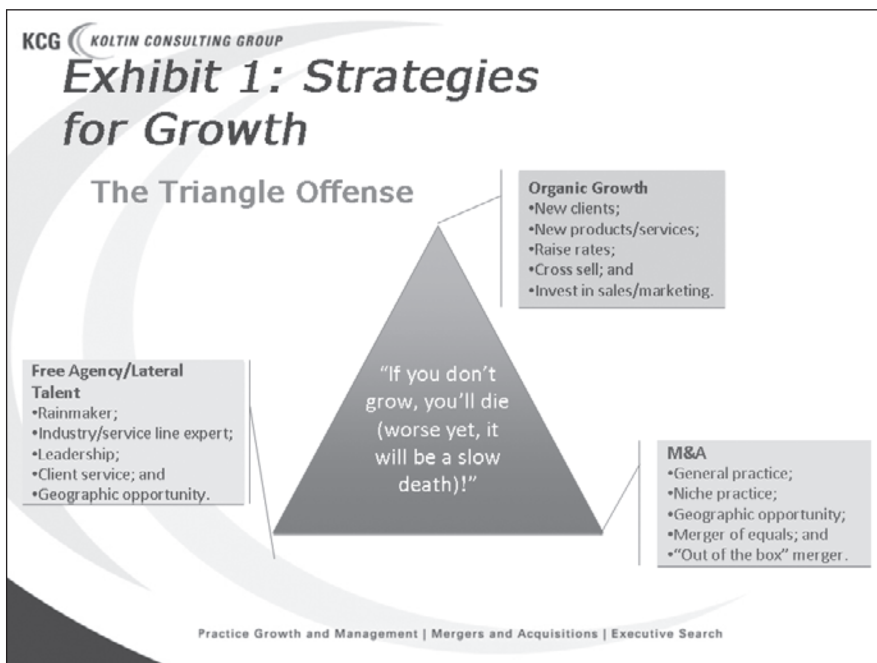
Q: The second triangle you mentioned was M&A. Is this any type of merger or is there a more precise strategy to it?

A: We've seen two major changes in the M&A area. One is that many mergers today are more strategic in nature, as opposed to succession-planning oriented, which quite candidly had been the main focus in many of the mergers that have taken place over the past decade. The second big trend clearly is what McDonald's has previously referred to as "supersizing." In the past couple of years, there have been more mega-mergers of firms $25 million and above than in the last 20 years combined (see Exhibit 2 on page 22). I believe that many of these firms have had great success with prior mergers and now are looking to take it to the next level. Locals are becoming regionals, regionals are becoming mega-regionals, mega-regionals are becoming nationals, and nationals are becoming global firms, literally overnight. I don't expect this trend to slow down in the near future.

Additionally, many of the mergers taking place today are now much more surgical in nature, in which they focus on the expansion of a specific industry, service line area, or sometimes broadening their geographic focus. A very popular merger today is one in which the acquiree wants to be the "foundation" firm for an out-of-town buyer that wants to expand its geographic area into a new region. While there have been a handful of what I'll refer to as "mergers of equals," this is still the exception to the rule, and while I think there will be some in the future, they probably will come from very large firms that have cleared many of the hurdles that often arise in mergers of equals between smaller firms.

Finally, as the economy returns, I think we'll start to see more "out of the box" mergers, whereby firms will

CCH® a Wolters Kluwer business



buy specialty boutique and consulting practices that, for the most part, are non-CPA firms.

Q: You have referred to the third part of the triangle as free agency and/or lateral talent. Can you shed some more light on this?

A: When Arthur Andersen went out of business in 2002 and the PCAOB created Sarbanes-Oxley, I believe it forever distanced the Big Four from the middle market (privately held companies with revenues between $25 million up to $1 billion). While the Big Four are back "dabbling" in the middle market today, it is clearly a short-term pricing strategy to keep their people busy, and I believe their involvement in the middle market will go away in the next one to two years. What this created within the Big Four firms for many of the middle-market partners was a feeling of "second-class status," where all of the excitement was around Fortune 1,000 companies with relatively little focus on the middle market. What this has created has been a mass exodus of very, very talented managers and partners who have left to pursue new career opportunities in the Top 200 CPA firms. These firms have found great rainmakers, client service partners, and industry or service-line leaders and have found that this strategy can produce growth without some of the hassles that sometime come with M&A. It is clearly more of a "surgical strike" to obtaining talent and, to paraphrase the old saying, "If you can obtain the talent, the clients will follow." I have also seen firms use this strategy to open up in a new geographic area, whereby they may recruit one to two partners (along with some staff) away from a firm, as they have found this strategy to be much more effective than transporting some of their own people into a new geographic area where they have limited contacts and knowledge.

CCH® a Wolters Kluwer business

KCG KOLTIN CONSULTING GROUP

Exhibit 2: 16 Mega-Mergers over the Past Couple of Years*

Baker Tilly Virchow Krause	and	Beers & Cutler
Burr Pilger Mayer	and	Windes
CBIZ	and	Mahoney Cohen
CBIZ	and	Tofias
Clifton Gunderson**	and	LarsonAllen**
Crowe Horwath	and	Grobstein
Crowe Horwath	and	Perry Smith
Dixon Hughes	and	Goodman
Eisner**	and	Amper**
LarsonAllen	and	LeMaster & Daniels
Marcum	and	Stonefield Josephson
Marcum	and	Rachlin
Marcum	and	UHY New England
Mazars***	and	Weiser***
Parente Randolph**	and	Beard Miller**
RSM McGladrey	and	Caturano

*Any merger of firms with annual revenues of $25M or more

**Merger of firms with approximately equal revenues

***Weiser became an independent member firm of Mazars

Practice Growth and Management | Mergers and Acquisitions | Executive Search

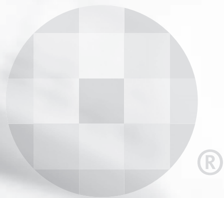
Q: You closed one of your recent presentations by saying, "If you don't grow, you'll die (worse yet, it will be a slow death)." Please share with our readers exactly what you mean by this.

A: When it comes to CPA firms, if you can't continue to grow the firm, top young talent won't stick around for a long time with each generation. CPA firms have to continue to grow great leadership, great rainmakers, and great client handlers. If they can't continue to excel in all three areas, typically the firm will begin to erode, not necessarily overnight, but over a peri-

od of years. I have seen many second-generation firms essentially come to a screeching halt because the second generation didn't have the type of leadership and rainmaking skills that the first generation had. They hoped that they could essentially "milk" the client base for another decade or two. Unfortunately, what they've learned is that with aging (or retiring) partners, oftentimes their client bases are of a similar age and those businesses typically sell, go out of business, or when the business is passed to the next generation, that generation uses the opportunity to find a new CPA firm.

I also find that some of the more unprofitable firms have limited or no growth strategies. When this sets in, they frequently hold onto the proverbial "C clients" longer than others, based on the theory that something is better than nothing. And, if they were to get rid of these clients, they have little to no confidence that they could replace them with new, more profitable business.

About the author: Allan D. Koltin, CPA is the CEO of Koltin Consulting Group, based in Chicago, Illinois. Allan specializes in the areas of partner compensation, firm governance, profitability, strategic planning, succession, and mergers and acquisitions. Allan can be reached at either *akoltin@koltin.com* or 312-805-0307. ✦



CCH
a Wolters Kluwer business

This article is reprinted with the publisher's permission from the CPA Practice Management Forum, a monthly journal published by CCH, a Wolters Kluwer business. Copying or distribution without the publisher's permission is prohibited. To subscribe to the CPA Practice Management Forum or other CCH Journals please call 800-449-8114 or visit www.tax.cchgroup.com. All views expressed in the articles and columns are those of the author and not necessarily those of CCH or any other person.