insight

IN PLAY: Allan Koltin, CPA, CGMA

As one of the nation's top accounting consulting experts, longtime Illinois CPA Society member Allan Koltin, CPA, CGMA, shares his advice for firms exploring growth via private equity.

By Amy Sanchez | Winter 2023

We'd love for you to be a doctor. But if you're not smart enough to be a doctor, at least become a lawyer. But if you're not smart enough or ambitious enough to be a lawyer, at least become an accountant because you'll always have a job."

These were the marching orders Allan Koltin, CPA, CGMA, received from his parents back in high school—and luckily for the profession, he chose the latter.

Since 1998, Koltin has served as the CEO of Koltin Consulting Group, and his expertise and extensive experience are well known across the accounting industry. Notably, for the past 22 years, he's been on Accounting Today's "Top 100 Most Influential People in Accounting" list, among many other industry accolades.

In college, Koltin enjoyed the challenges of accounting, but he found his real passion was in marketing. Knowing this, he majored in both, and as luck would have it, a major piece of legislation would bring both industries together, creating the perfect career storm for Koltin.

"In 1980, legislation was passed that basically took accountants from 'bean counters' to businesspeople—they could think about growth, profitability, people, and building a business," he recalls, noting that two key mentors helped him see how to use both his love for accounting and marketing to capitalize on this change.

“These mentors took me under their wings and basically said, ‘We’re not going to use you for debits and credits, we’re going to use you to help us grow the business.’ So, at an early age I was thrust into this new area, developing the skills needed to consult accounting firms on how to grow their business, better manage it, make more money, recruit and retain people, and create new products and services—I was getting my MBA in how to build a successful accounting firm,” he says.

Little did Koltin know that he’d make this his career. For more than two decades, Koltin’s firm has consulted more than half of the top 100 firms in America on issues relating to strategic planning, firm governance, partner retreats, compensation, succession planning, and more.

Of course, another area that Koltin’s firm has been focused on is mergers and acquisitions (M&As), and even more recently, private equity (PE) deals. And with rising deal activity in recent years, Koltin has kept busy.

THE RISE OF M&A, PRIVATE EQUITY

“M&A really came about 10 years ago. Up until 2012, you could maybe count on one hand the number of firm mergers that went on in the year,” Koltin says.

However, Koltin adds that within the past decade, non-Big Four accounting firms started to realize that growth through M&A was a great strategy, allowing firms to expand into new geographies, bring in new services, and add additional talent into their organization.

Then, in 2020, PE came storming in. “Because of our M&A expertise, we started getting calls from PE firms all over the country. In 2020, we had zero PE clients. Today, we have 65 of them—and all of them want to come into the profession.”

The reason for the growing interest from PE firms? The three Ts: talent, technology, and transformation. Mergers used to happen because of succession problems, but Koltin says today they’re happening more now because of strategic opportunities surrounding these three components.

“What we’re seeing is, many best-in-class firms that don’t have a succession problem—and don’t really have any problems—see the headwinds of being a compliance provider. They’re investing more deeply in consulting services, advisory services, outsourcing, wealth management, and really transforming their firms into firms of the future,” Koltin says. “Private equity has found a way in because they’re the capital provider to do these things.”

Though Koltin adds that it’s not just about capital anymore: “It’s about looking into the future, thinking about what could be, and saying, ‘OK, let’s go build this.’”

A SOLUTION TO THE TALENT CRISIS?

Ultimately, PE serves as a lightning rod to accelerate growth. With access to more capital, firms are able to channel resources to their current and new talent.

"The way top talent advances in an accounting firm is through promotions from staff, to manager, to senior manager, to partner—but to achieve that, you have to have firm growth," Koltin says.

Of course, additional resources also allow firms to invest more deeply in technological needs, freeing up staff time from tedious, mundane work (i.e., work that might have once taken a staff person 200 hours can now be done by a bot).

"Younger generations want more challenging work. They don't want to do mindless work—and because of that, we lose people in this profession," Koltin suggests. "PE helps push these younger workers into the fire—more client contact, more consulting, and more advisory skill development."

PREDICTIONS AND ADVICE FOR FIRMS

If not for the economic uncertainty that's loomed in the wake of rapidly rising interest rates, Koltin believes even more PE deals would've taken place in 2023. "Because of the cost of debt being doubled with what it's recently been, a lot of PE deals have been put on hold—my bold prediction is that it's going to be game on again in 2024."

Yet, despite his predictions for an uptick in PE activity, Koltin stresses it's not for every firm: "Not all PE deals are going to be home runs. Some will be grand slams, singles, and doubles, and some will unfortunately fail."

Koltin says that it all needs to start with a firm's "why" (i.e., what the partners and stakeholders want to build).

"If you take a great CPA firm that has a vision for what they want to build, and partner it with a great PE firm that understands, embraces, and invests in that vision, those are the firms that'll produce tremendous results," Koltin says. "For firms that are maybe average and have some challenges, just partnering with a PE firm won't fix those foundational problems."

In Koltin's experience, there are three different types of firms:

1. Those that'll keep grinding and grinding with an older playbook.
2. Those that want to transform, but struggle to make decisions.
3. Those that'll invest deeply in transforming, creating a firm of the future.

"Ultimately, if you don't want to build and just stay like you are, you have to accept that you're not going to grow in this business, and finding, keeping, and growing talent is going to be difficult," Koltin stresses. "The talent today wants to be part of a fast-growing firm. They want rapid career advancement, exceptional training, a lot of money, and they want to have a life. Firms that listen to this call are more likely to stick around and grow."