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Franklin Alliance offers PE alternative to small firms

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Franklin Alliance has launched a new opportunity for small and midsized firms to scale without turning to private equity dollars.

The company partners with accounting firms with less than $10 million in revenue, providing resources to address issues like succession planning, recruiting and technology adoption. It announced Tuesday the acquisition of Bement & Co., a family-owned CPA firm based in the Salt Lake City area, and said it has several other firms under contract.

Firms of all sizes are wrestling with the ongoing talent shortage, rapidly developing technology and a generation of retirement-ready partners in need of succession planning. As private equity comes into play as a solution to these issues, smaller firms are often overlooked.

"Small to midsized business owners, investors and individuals are often underserved, caught between tax preparation shops that provide little strategic value and large corporate CPA firms that lack personal attention," Brent Bement, owner of Bement & Company and cofounder of Franklin Alliance, said in a statement. "While exploring potential CPA platform partnerships, I found many did not share my vision: to add real value to clients and employees while having sustainable growth without sacrificing the personal touch. That vision is what drew me to Franklin Alliance and why I'm proud to be a co-founder, strategic advisory board member and investor alongside exceptional partners."

But Franklin Alliance is not private equity. Its co-founder Steve Shein explained that, as an operating company, the typical pressures of a private equity relationship are removed. There is more flexibility, longer timelines and more opportunities for liquidity by way of being funded by venture capital.

"Venture capital and private equity are similar, but they have a lot of differences," Shein told *Accounting Today*. "I think one of those is more focused on growth. The other one is more focused on cost optimization. But we are focused on growth."

Even as a VC-backed company, Franklin Alliance doesn't necessarily need more funding unlike many other startups. Shein explained: "We are in a different situation because these businesses that we partner with are all profitable. We don't burn cash. We raise capital from investors to partner and acquire pieces of all these firms. So we're creating an engine that is cash flow positive, and we can reinvest that capital in more firms."

Brent Bement, Tuyee Yeboah, Ben Holloway and Steve Shein, co-founders of Franklin Alliance

Franklin Alliance maintains a "small business ethos," helping scale and offering operational support while preserving the local firm's identity and culture.

"The Franklin Alliance model is uniquely positioned to add value to firms in this segment," Allan Koltin, CEO of Koltin Consulting Group, said in a statement. "Franklin's structure as a VC-backed operating company allows it to avoid the constructs and potential constraints of traditional private equity funds. I view Franklin's model as especially beneficial for accounting firms in the smaller segment of the market, where firm cultures are normally less institutionalized."

How it works

The Franklin Alliance acquires a controlling stake in the firm. (Shein believes it's important for partners to maintain equity to keep skin in the game.) The company then deploys its resources, such as an advisory board of accounting experts, to help the firm achieve its unique operational goals, whether it be recruiting new talent, adding capital or adopting technology.

"I find this unique platform approach, specifically targeting smaller firms often overlooked by larger firms and private equity in their roll-up strategies, to be particularly intriguing," Rick Dreher, former head of Wipfli and a strategic advisor to Franklin Alliance, said in a statement.

Franklin Alliance has a broad geographic focus encompassing the Midwest, Mountain Region and South, but Shein said they it's not limited to these regions. He also said Franklin Alliance does not aim to consolidate firms: "We are intentional about not viewing these firms as add-ons that should be combined into one, larger firm."

"As someone who was building a thesis on the technology side, I did start to really build conviction that these technologies will make accountants' lives easier," Shein said. "And what's the ultimate way to invest behind that trend? Well, you can invest in the technology providers themselves, which is what a venture capitalist would do, or you can build a platform to buy into these small firms that will ultimately be the beneficiaries of this technology and the way it evolves."