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Tax Practice Development

The tax, audit & accounting firm mergers that work are the ones that start years in advance

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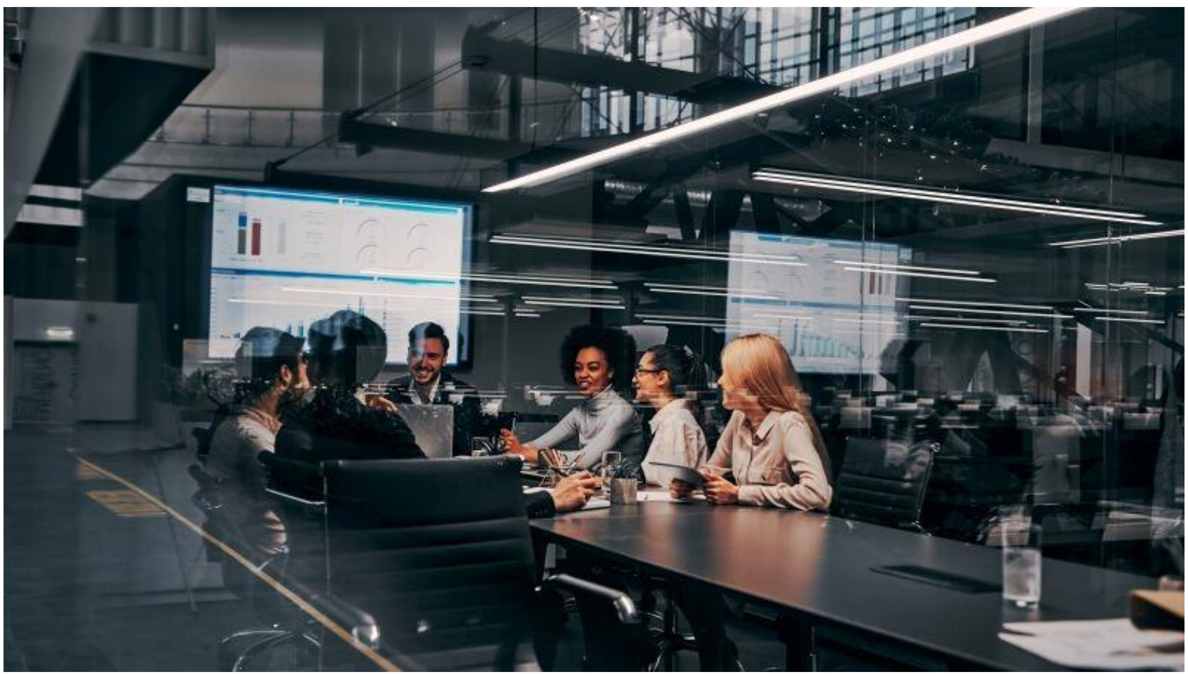

The best deals in the tax, audit & accounting industry happen when firms focus on culture, leadership and long-term strategy — not quick fixes

Key points:

- **Preparation is key for mergers** — Successful tax, audit & accounting firm mergers require years of preparation, focusing on improving the firm's culture, leadership, and long-term strategy.

- **Importance of culture** — The alignment of goals, values, and culture between merging firms is crucial, because cultural clashes are often the main reason why mergers fail.
- **Desirable characteristics in merger targets** — Firms that are attractive merger targets typically have strong leadership, organic growth, profitability, partner alignment, and a scalable practice.

Selling your tax, audit & accounting firm isn't unlike preparing your house for sale, says industry consultant Matt Rampe, partner at Rosenberg Associates. You want the firm looking its best, just in this case — and that often means raising rates, pruning unprofitable clients, improving margins, and lining up future partners.

These steps can take years, not months. "Always be ready for a sale, even if you're not planning to sell," Rampe says. "It takes time, and it takes planning."

While firms shouldn't jump at the first buyer, the best offers go to those that are best prepared to receive them.

Mergers keep gaining steam

Often, by the time a tax, audit & accounting firm gets to the level of $20 million to $30 million in annual revenue, organic growth usually isn't enough for firms to rapidly expand. To scale, many may look to merge with smaller firms.

Allan Koltin, CEO of Koltin Consulting Group and a top advisor on M&A in the tax profession, says that deal-making has not slowed down — he was busier in the first quarter of this year than ever before. Indeed, history has shown the larger tax, audit & accounting firms are continuing to get bigger, he adds.

In 2000, the 100th largest firm reported $6.5 million in revenue. By 2024, that number had jumped to $53.2 million, according to *Accounting Today*. In fact, half the Top 300 tax, audit & accounting firms have merged with others over the last decade.

The marriage checklist: What buyers want

With mergers continuing unabated, Koltin has developed what he calls a *marriage checklist* of desirable characteristics in a merger target, including great leadership, strong organic growth, profitability, partner alignment, great culture, and a scalable practice.

Further, it's important for the target firm to be in need of capital for expansion, making its leadership more open to a potential deal. Target firms should also have successful track record making M&A deals, significant next-generation talent, and — of course — be respected and admired within the profession.

Rosenberg Associates' Rampe further emphasizes the importance of geography, explaining that buyers often look for complementary regions or cities. He also notes that firms with strong, profitable niches are more attractive. "As private equity continues to come into the market, it becomes more and more important to find the thing that you are number one at," Rampe says. "And I think specialization can help you get there quickly."

Yet, while private equity buyers continue to scan the tax, audit & accounting field for potential targets, some firms are standing pat while others are patiently searching for the best deal possible.

Finding "the right fit"

Less than three years ago, Woodmere, Ohio-based HW&Co., a $24-million accounting and advisory firm with 14 partners and more than 140 employees, didn't change itself to attract a buyer. Instead, it followed a 10-year strategic plan launched in 2019 that pushed it to expand beyond Ohio, grow its healthcare niche nationally, and build career pathways for its younger professionals.

Yet, it was that clarity of purpose that made it an appealing merger partner for Citrin Cooperman, a private equity-funded, top 20 professional services powerhouse. It is Citrin Cooperman's first merger since private equity giant Blackstone acquired a majority stake in the firm in January, buying its stake from New Mountain Capital, which invested in Citrin Cooperman in 2022. The deal between Citrin Coopermand and HW&Co. closed in mid-February.

"If we had to flip a switch to be different than who we are today, then that wasn't going to be a success," says former HW&Co. president and CEO Brandon Miller, now managing partner of Citrin Cooperman's Ohio offices.

Scott MacChesney, Citrin Cooperman's vice president of integration and administration, says his firm looks for others that have "great cultures" and "great growth stories." HW&Co., which merged with three firms over the last four years, had a strong presence in Ohio, a region in which Citrin Cooperman wanted to grow its presence. A similar, middle-market client base was another attraction. "There are a lot of different factors obviously, but I think that consistently the most important one is that it's a right fit," MacChesney explains.

Miller agrees. "All the people in the entity really care about each other," he says. "They care about developing people, they care about teamwork, they care about collaboration, they care about growth, and you just don't see that in other firms that are out there — and I've met with a lot of them."

The top consideration

When deals fail, however, it's usually clashing cultures that are to blame. A McKinsey survey of almost 1,100 M&A leaders showed that 44% cited a *lack of cultural fit* and *friction between the acquiring and target companies* as the top reasons that integrations fail. "Many M&A executives have admitted to us that they gave culture too little attention, too late," the survey stated.

Rampe concurs. "One of the most important factors that predicts success is probably alignment — alignment of goals, values, personalities, technology, client mix," he notes. "If I take two successful companies and then mash them together, but they're really running on very different strategies or cultures, it's not going to work."

Koltin sums it up: "At the end of the day, culture defines it. Culture is how hard do we want to work, culture is how we treat our people, culture is how we treat our clients. Are we basic compliance providers, or are we the clients' most valuable advisor? All those things are in play."