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## How to sell a practice

If you built your firm from scratch but want to move on, what do you need to consider?

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**A well-run accounting practice will reward its owner's years of hard work with a valuable sell price when the time comes to move on.**

In a sense, all roads lead to that day because, although a sale or merger shouldn't be the only goal in sight, it remains a practical consideration. How far out should a business owner start preparing?

*'Firms who have taken the tech evolution a stage further are more attractive to buyers'*

### Take a health check

Tim Underwood, managing director, Singapore at Foulger Underwood, a specialist mergers and acquisitions (M&A) consultancy, recommends starting to think about it two years ahead.

'This is the time to undertake a status review – effectively a business health check on the practice – which can be done remotely,' he explains.

'We evaluate the practice in a number of areas, which include five or six key inputs into the review work, such as profit improvement potential, technology, operations and workflows, HR skillsets and client mix, and billing/collections. This status review then acts as a catalyst to building a strategy to sell with a roadmap of enhancing the practice in various areas in the lead up.'

### Technology is key

The purpose of such a review is maximisation of the business, Underwood explains. Potential buyers or acquirers are starting to ask a broader range of questions, particularly from an analytical viewpoint.

*'Your firm at sale has to be a match with what the acquirer is looking for'*

'For example, technology is key,' he says. 'Over the Covid period the adoption of certain types of technology has been looked at by buyers, when evaluating an acquisition target. Buyers have moved on from understanding whether or not the target has adopted Xero, but are looking for firms that have done something different integrating other off-the-shelf apps or developing their own propriety modules. These firms who have taken the tech evolution a stage further are more attractive to buyers.'

### Growth matters

Consistent and demonstrable growth of the practice is another factor buyers are looking at in terms of measuring the quality of a practice, Underwood continues. 'Recurring revenue is a good feature, but it needs to be coupled with growth, both in terms of revenue from existing clients but also from taking on new clients. If you can couple these, then the practice becomes more attractive to a buyer.'

However, weeding out unprofitable clients may also be advisable.

'A caveat here is the type of client,' Underwood qualifies. 'Some smaller firms are very happy with micro clients, whereas a mid-tier acquirer would rather acquire a book of larger SMEs and MNCs. Your firm at sale has to be a match with what the acquirer is looking for – so this might require a bit of time profiling your client list.'

Recurring fees are no longer the only measure of a firm's value, Underwood has observed a move towards EBITDA as a yardstick of valuation, given that the proportion of revenue derived from services such as audit is decreasing.

'Audit service delivery has a very predictable cost base to operate and cannot be easily automated through technology as other compliance services have been,' he explains. 'So compliance service-focused firms will likely have greater profitability and therefore valued on EBITDA rather than fee level.'

*'There's nothing worse than having a great first meeting and then having to wait six weeks for follow-up information'*

### Deal-breakers

High employee turnover is a red flag to buyers, Underwood says. Apart from being a poor reflection on the company's culture, clients prefer not to have to get to know new staff every year. 'They want longevity with the same people whom they know and have built a relationship with,' he says.

Make sure you have all sales data and information packaged up and ready to present well before the first discussions, Underwood adds: 'There's nothing worse than having a great first meeting and then the buyer having to wait six weeks for follow-up information. Not being prepared is deal suicide.'

### Keep it simple

Singapore-headquartered 3E Accounting Group, founded by Lawrence Chai FCCA, has set up its own platform to advise business owners and facilitate M&As of firms around the region.

'The main philosophy behind the development of our EasyBuySell platform was to provide a one-stop, safe portal for all offering an effective, convenient and accessible connection point for the trading of businesses,' explains director Abigail Yu. 'We thought: why should the process be more difficult than it needs to be, when with the right assistance and tools, it could be so simple?'

'Transactions on EasyBuySell are not limited to accounting firms, but extend to a wide range of businesses in different sectors,' Yu says. 'This creates demand for tax, accounting, company incorporation and M&A services, so it serves as a leveraging point to expand our existing client base and bring in new clients.'

The pandemic has slowed the trading of accounting-related businesses in the region, Yu has found. 'When growth is stagnant, owners will choose to keep the business as a stable source of income while buyers who are looking for businesses with great potential and growth may turn to other types for their needs,' she says.

However, the reopening of borders could see a new uptick in demand. Yu says accountancy firm owners eyeing a sale in due course should use this time to 'stay ahead, be competitive, and to bring up the business revenue figure for a better price'.

#### Make your practice stand out

Follow these tips to impress potential buyers:

- Be up to date with the specific practice areas a buyer would look at – the use of technology, for example.
- If the managing partner is going to leave, show a succession plan.
- Debtors are always a big issue; putting clients on monthly retainers looks good.
- Providing multiple services to clients shows you are proactive in anticipating their needs.
- Seek advice: an M&A specialist can keep the transaction momentum going and achieve the best outcome.

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