The Deal Room Podcast

Episode 196 – The top 5 mistakes businesses make selling an accounting practice

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Transcript

Joanna:
Hi, it's Joanna Oakey here. And welcome back to The Deal Room podcast, a podcast proudly brought to you by our commercial legal practice, aspect legal. Now today we have a fabulous episode for you, particularly if you have an accounting practice, or you're interested in buying into a selling out of an accounting practice where we'll be talking all about the top five mistakes businesses make when selling an accounting practice. And to have this discussion I have on the show, one of the expert brokers in this space, Steven Fine, the managing director of Growth Focus, a specialist broking business in the accounting and financial planning space. Now Steven comes to us with a wealth of experience more than 15 years dealing with the sale and accounting practices. He is also an MBA graduate has completed studies not just to universities in Australia, but also in New York. So in this episode, we really dig deep into the mistakes that accounting practices make at exit. So buckle in here we go with our discussion with Steven Fine.

Steve fine. Welcome back to the deal room podcast. It's so good to have you here.

Steve:
Good to be here. Thanks for inviting me,

Joanna:
my absolute pleasure. Now today we're talking specifically about selling an accounting practice. In particular, we talking about the top five mistakes businesses make selling an accounting practice. Now, I am really looking forward to talking about this topic, because we deal with lots of accountants to point of sale of their accounting practice. And we also deal with lots of accountants perhaps even more on the buy side as well. So you know, it's a it's something that we have a lot of involvement in, I have a lot of interest in. And we have a lot of accountants who listening. So I think today is going to be a humdinger. Let's get into it. Why don't we start by giving a bit of a background? So maybe quick background of you, and what led you into selling accounting practices? That's an interesting niche.

Steve:
Yes, I run a business called growth focus. It's primarily involved in facilitating the transaction of accounting practices. So we work across Australia, and Germany, your question was, how did I get into it?

Joanna:
Yeah,

Steve:
Tthat's, well, many years ago, 15 years ago, I actually came from a recruiting background, and recruiting of accountants. So at the practice level, it was, you know, talking to practice principles day in and day out. So we both have a pretty significant network. And recruiting, it wasn't the most stimulating thing for me, I kind of went and did some studies overseas and went to the US, finished a master's came back, and I wanted to do something a little bit different. And really, that's where the business was born. So now got into the m&a side and the business broking.

Joanna:
And I've spoken to a few brokers who have come from recruitment. It makes sense. I think when you nation nation, a particular industry, of course, recruitment gives me such a good insight into an industry and I can really see how that can transfer across. Fascinating.

Steve:
I think it was a very good background to have, because recruiting is really tough. And you've got to have a really powerful network, and you've got to be talking to people all the time. So coming with that mindset into, you know, m&a, Business broking is a huge advantage because, you know, all about connections and, and talking to people.

Joanna:
Absolutely. Okay. All right. So, so let's get into it, then. What in before we get into the top five mistakes businesses make selling an accounting practice? What do you think are the sort of key differences between selling an accounting practice and maybe other businesses on the market?

Steve:
Okay. So when you are selling an accounting practice? What actually are you selling? When the reality is, you are selling the revenue rights and the servicing rights to a client base? If you're selling people in a way, where you're selling relationships,

Joanna:
Relationships, that's it isn't it?.

Steve:
But yeah, you know, it's pretty different to a retail store, for example, or a more physical business.

Joanna:
And I guess that's where in the sale of an accounting practice, you know, there is always this concern of the buyer about how much of the client base we'll actually transfer. Because I guess one of the beautiful things about an accounting practice is you have this compliance requirement, that means that clients will come back year after year after year, and they're quite sticky. You know, clients have an accounting practice are generally quite sticky to the accountants that they have dealt with. And but that also makes it a little bit challenging when we're dealing with a sale to make sure that value transfers, right. And, you know, I certainly see from the buy side that that's certainly something that's in the mind of buyers. And usually, you know, it's then dealt with by this concept of the retention that we have post sale and then of course, our sellers become very invested in wanting to make sure that the retention is triggered and they get the full the full whack. But I've also seen some negatives come from that over time, from sellers keeping to keen and interest in how the buyer conducts the business once they've taken over. Is that something you've ever seen?

Steve:
I've seen a bit of that a lot comes down to the dynamic The chemistry between buyers and sellers, you know, some of the sellers wants to exit sooner and the buyer perfect. Yeah, the buyer just wants to get in there. And it doesn't require as much of a transition as another buyer who might say, Look, we want you to hang around for six months, 12 months and, you know, really be there and be on hand. So this, I mean, we've done so many different transactions, and there's so many different examples. So there's not a real updated answer to that.

Joanna:
Got it. Okay, well, let's dig into what are the top five mistakes businesses like make when selling an accounting practice, then Steve?

Steve:
Well, I think the number one mistake is not looking at as as a process or not looking at it as a formal process. We talked to a lot of people and their approach may be okay, look, let's go and I'll have a coffee with that person. And we'll see how it develops. And, you know, we constantly work with our clients on the sell side. And so before you have that coffee, there's so much more that needs to be done. The number one thing is is determining exactly what your ideal outcome is, you know, what's your aspiration outcome, and a lot of sellers who go in there who don't know what it is, will go with the flow and will end up becoming what the buyer is looking for, not what sellers looking for. So defining that is really critical.

Joanna:
When you say that defining the outcome? Do you mean in terms of price? Or do you mean...

Steve:
Well that is one of the things. Price is one of the things so, you know, in our system, we've actually built it into our software is the number one thing we want to understand is, and we've got a little logo it's the rainbow. And it stands out really, really clear early on any mandate that we do. And that is what is motivating that seller and what are they looking for, in an ideal world be a little bit crazy, but not ridiculously crazy, paint a picture of what the ideal outcome looks like. And it's part is one thing, but generally five other keys and it's not really in any particular order some sellers or vendors, the clients are the number one important factor for them. There is staff, ther is price, the transition, exactly how that's gonna work. There's the terms of the deal. So how much is paid up front and how much is paid at a particular point in time? And how that's figured. So those are the other factors that that come into it.

Joanna:
Yeah, excellent. Okay. And so that's mistake. Number one. What about mistake number two?

Steve:
Mistake number two is not casting a wide net, we talk to vendors and buyers day in and day out. And often we end up talking to a seller and then they say to us, Look, I've been in discussions with this particular party. And you know, we've gone down down the process, and it's getting wobbly now. We thought we the understanding was this dragging the chain, the price is changing, it's getting really, really frustrating. The key to getting the best outcome is I mean, if you look at, you know, using the analogy of property sells, if you want to get the best deal, selling your house, invite more people to the auction. So you want choice, if the buyer knows that they're the only ones that you're talking to that greatly reduces your leverage, we see it time and time again, you know, deals just get derailed and far longer than they need to take. The challenge is how do you cast a wide net and keep your anonymity because you don't necessarily want the whole world to know that you selling your business, you don't want your your staff to know they might be sensitivities around that your clients to know and it can be very, very disruptive. So I guess we have the luxury of being able to reach the entire market, but protect sellers, anonymity. So, you know, besides a standard non disclosure documents, you don't need to give everything away all the information away. There's certain levels in the process that you that we take people through, and then give them additional information and additional information. If it's obvious that this person is this buyer is not a match for whatever reason it doesn't match, you know, their aspiration is way off from the sellers, aspirational outcome. It's not going to happen. So there's no point in continuing it. Yeah, so we do a lot of qualifying and as importantly disqualifying, you know, to filter it down to you know, shortlist of qualified buyer.

Joanna:
You know, the interesting thing about accounting practices, because we know lots and lots of buyers of accounting practice. There's a lot of buyers out there who are interested in accounting practices but it Notwithstanding that, and I know it can be quite tough for accounting practices that are looking to purchase other accounting practices, because of course, the acquisition of accounting practices is such a great way to grow an accounting practice. This is truly one of those markets where acquisition is an absolutely standout growth mechanism in your business, and of course, adding other other complementary service divisions, like, for example, financial planning practices, but perhaps we'll talk about that in another podcast. But it intrigues me and I guess, you know, it connects back to the accountant space, it intrigues me that there are so many buyers out there for accounting practices, and yet, that doesn't seem to move the needle, in terms of the price that accounting practices are willing to pay, they'll just sit there and wait for accounting practices that come up, you know, at their rate. And, you know, often they'll say, to me things like, you know, I'm willing to buy any accounting practice that you say that, you know, I'm out there buying, I'm ready to go whenever one comes up. And yet they ultimately, you know, it is still a function of price, and they won't pay any price. There's a there's a fairly defined valuation for accounting practices, right, maybe even more so than any other industry I've seen, which I think is quite fascinating, quite fascinating that that demand doesn't really move the needle in terms of price. Do you know what I mean? Is that something you see as well, I find it a funny, a funny thing about accounting industry. And perhaps it's also because I see so many diverse industries that we deal with. And so when I compare accounting, practice sales to many of those other industries, it's just, it's one of those anomalies that that I see. And it's just, I don't know, it amuses me. I think it's quite a funny thing that happens in an accounting practice sale environment. But anyway, let's get on. So we've talked about mistake one or two. What about the third mistake? What is that?

Steve:
The third mistake is not having good data to start off with? Yeah, not taking the time to actually

do that properly.

Joanna:
Which is fascinating. Because there are accountants, they deal with dollars. Yes. All the time. I love that irony. It tell us about that. Why is that? Is that the the story of the plumber never fixing his own tap?

Steve:
That's a big one, there's so much that can be said about it. You know, the good data, it gives the buyer so much more comfort, that it's such a significant thing that adds value to the business. So it's worth taking the time to do it properly. You built into it, sell as you've spent, you know, 50 years building this fantastic business 50 years. But it doesn't justify the time to put the effort in to get the data, right, it does make a significant difference. We have a whole lot of templates, Excel templates, we've got a whole lot of models where you know, if we've got the data in a certain format, we can do all sorts of things, interactive dashboards, and our charts and graphs and bars and histograms, etc. But we really need the data to start off with,

Joanna:
I love that one that just fascinates me. I love it. I love it. I love it hilarious. Okay, so not badly prepared data, not having the data there, you know, as quickly as needed. And you know, the problem is that slows down the process. And if you're already and you're talking about the delivery of data, for due diligence, once you've already found a potential buyer? Or are you talking about the delivery of data in order for you to even get it to market?

Steve:
I'm talking about the delivery of data to get it to market.

Joanna:
To get it to market, right. Yeah. Because that's the other thing that I see as an issue. Not necessarily we think counting practices, per se, but just in businesses that are selling, where, you know, the buyer has been found commercial terms have been agreed. They get into DD and then they're slow to deliver information that's required throughout the DD process. And the problem is by is just I mean, there's two issues I think it kills deal momentum. And I think deal momentum is a really important thing. In getting through deals.

Steve:
We call it deal fatigue. Do

Joanna:
100%

Steve:
It's the point where people are "Oh this is so hard".

Joanna:
Yeah, I know right? And then and then people like that I get grumpy and obstinate. or B, you know, just start to say yes to anything and you know, that's fine, if that's on the other side, but neutrally, you know, you can't guarantee that's gonna end up on. And it's just, it's just not a good outcome for anyone. So, so I think a quick deals a good deal, I think, keep momentum going. And in order to do that, you need to be properly prepared. And obviously, you're talking about getting them properly prepared to get on the market, which is just perfect. But if they're on the market, and they're still not prepared to provide answers, you know, reasonable request for information from a prospective buyer who wants to do reasonable DD, then it's a bad look, it raises questions about, you know, the business itself, either a whether things are being hidden, or be whether it's just a, you know, not a well run business, not a clean business. And

see, we get these horrible deal fatigue, and, you know, the advisors get fatigued as well. And it also runs up costs. You know, that's the problem. If you keep these things rolling on, they, they can be harder and harder to close out. So anyway, I'm completely with you on that mistake. Moving on to I think we're up to for our second last mistake you

Steve:
So that is making assumptions on the ability to finance

Joanna:
right. Fascinating. Talk us through that. What does that look like? Assuming your buyers are going to be able to get financed that they're not not able to get? Is that what you mean by

Steve:
Unfortunately, yeah, we do a lot of qualifying and we hear from a buyer is financing going to be an issue, not a problem. Everything's fine. Now, that's not an issue. And then the buyer and seller chemistry is unbelievable. Deal. looks fantastic. Everybody loves everybody. They've had three dinners, I've introduced a partner's and everybody is so excited. And then and then they don't have the you know, that little little a little Britain? Oh, yes. A little bit exists now. Yeah, the computer says no, yeah. The amount of time that you have, that everybody's wasted, and the deal just can't happen. Now, that's outrageous, soul destroying. So we do a lot of qualifying about it. And the thing is, it's not always the buyers fault, because many times they actually believe that financing is not going to be a problem. Now, it's not like they're misleading anybody, they just think it's gonna be fine. But it's not always fine. And

Joanna:
let's talk about some of those reasons for financing issues. What what are what are some of the key issues you've seen come up? So you said it's not even necessarily that the buyer is providing misleading information about their finance, financing ability, it's that something else has gone on? What sort of things have you seen as being that something else? Well, the days

Steve:
of the cashflow lender against the business are over and these financial service practices like this, there's got to be something else that they're offering up to the lender. One of the frustrations that I've gotten I'm sure you've seen this is, you know, some of the banks won't actually give the green light fully until I've seen the contract. Hmm. Now, at the contract stage, you are pretty married, you're married,

Joanna:
I mean, you have gone through so much together.

Steve:
Yeah, you're still waiting for this shadow behind the desk in the credit department. Yeah, that's not even the person that you're dealing with, to yay or nay the whole thing so

Joanna:
well, but then it opens up, doesn't it that opportunity for creative deal structuring and creative deal making, you know, and we were seeing a lot more creativity and participating in a lot more creativity at the moment than we ever have before. I think COVID has thrown up a greater degree of consideration of our alternatives we need to all be considering and you know, this is where we've started to use some options, you know, for sale, you know, so say, for example, and this is where accounting practices can be a little bit different because they less often likely to be the sale of shares. It's more often likely to be the sale of the business entity that they're holding. But you know, when we looking at entities where we can construct a sale by the way of share sale, you know, where there's financing issues quite often we'll get around it by doing part sales with shares and then build option for the, the rest of the sale in the future, as we

then use some of the funding from the business itself in the profits to allow in a year's time, or six months time, or whatever it is greater access to finance to purchase the rest, and lots of other approaches like that, that we starting to look at. More often. In fact, I would say, I mean, I should go and prepare some statistics on it. But I would say at the moment, almost 70% of the deals that we do at the moment, and not the straight deals we used to do, and of course, in accounting practices, the, the more common sort of deal is this, say 80% at completion and they're now component, post completion relating to the client base moving across. So there's already a component of deal structuring that that can often be involved in the sale of an accounting practice. But I'm just saying, over time, we've seen an increase in the difference in the requirement to look outside of these perhaps usual

Steve:
structures that we'll use for just driven by finance

Joanna:
100 are driven by finance, yeah, and driven by finance, but it not just finance, access to finance, but also speed of finance. So that's, that's another issue at the moment, because we've seen the speed slow down over the last sort of year and a half. And, and not just that, you know, with COVID, there's been a whole suite of other, you know, issues that have been thrown up that have meant that we need to get a bit more creative. And I guess that's, that's the benefit of being so immersed into a particular area, because you do start to get a bit of a feel or get to be a bit more creative, because you get to suddenly start to see, you know, trends and ways that you can deal with those trends over time. So I think it's an interesting point about the buyers, the issue with finance, but it is perhaps, then an opportunity for us to all stand back and say, Okay, well, given we seeing some of these issues arise, how can we create a bit more of, you know, what sort of creative approach can we think of to bring in in these sort of issues. And I think you and I have talked in the past about the, the, the brilliance of being able to constantly review processes, and you know, how we approach things. And I think this is the great opportunity for professionals coming together and talking about these sorts of things as we start to come up with new ways that we can use to deal with problems that are arising in particular industries. And I certainly think these areas is one of those that could could deal with, you know, lots of people thinking about solutions to to keep these deals moving. Because no one likes them to stall, do they? I mean, that's just bad for everyone, isn't it? So I think we're up to our fifth mistake here, Steve, take us take us home.

Steve:
So we wrote an ebook. It's entitled, you know, the five mistakes that vendors make but there is actually more than five mistakes hahaha. I'm going to pick one more, there's that.

Joanna:
Hahah Yeah. Okay, go for it.

Steve:
Okay. It's not asking the hard questions early on. And yeah, just get it out of the way early. You know, we facilitate a lot of discussions between buyers and sellers. And you know, sitting there on the on the outside. And, you know, we listening to the discussion, and a number of times I find myself going gasket actually going to finish the discussion without talking about this thing. Wow, whatever this thing might be. Look, it might be. I'm not saying that things are hidden. Everything is out there. It's transparent, but it's almost like, Oh, it's a bit too touchy. I don't know if I want to go into it.

Joanna:
Yeah, this avoidance of something that might be you know,

Steve:

yes. I mean, a couple of examples. Let's say a vendor is selling a business. And there's some compliance issue, there's some institution claim or whatever it is, you know, we're of the opinion, lead with it, bring it out there very early on, and cover it covered off. Because if you wait and you wait, and you wait, and then it comes, you know, things come out later or

Joanna:
Ah, that's the very worst thing to do. Yes.

Steve:
Why don't we talk about this early? Yes. So you know, our view is and it all comes down to understanding the buyer understanding that the seller, what are the important things to them? And if there's if there's a blind side, just talk about it straightaway.

Joanna:
I love it. I once read a book called Eat That Frog by Brian Tracy. And his concept was, you know, the path forward to great business is to start each day with the most difficult thing on your list. And I think, you know, that can be the story of negotiation as well, you know, just get up behind you and, and get it done and dusted. And whatever you do, do not leave it unspoken about for a buyer to find out about in DD, that's horrendous.

Steve:
Yeah, one of the other mistakes is, is disclosure. If something comes out later, yeah, a buyer's thinking, "oh, what else don't I know?"

Joanna:
Exactly. 100%. It breeds distrust. It's a deal killer, you know, that some? And, you know, full frank disclosure, you know, then allows us to provide protection in the sale agreements, you know, they're gonna find out. And if, if they're the ones who pull it out rather than you, then I think in many instances, you just kill deals, because deals are all about trust. Ultimately, at the end of the day, you know, when and that's when trust is broken. It's very hard to get that back. Haven't we gotten deep today? Steve, we certainly have. Oh look, it's been an absolute joy talking to you, Steve, and you have a fabulous ebook that our listeners can get ahold of. Tell us about a book and how do they get this?

Steve:
Yeah, so there's an ebook. You can download it have a website, growthfocus.com.au. There's a heap of resources, we've got videos, support videos on just about every subject that comes up in the sale of an accounting practice, feel free to check it out. It's sent to you. There's a couple of other ebooks there is one on legal there's one on you know, longer term horizon thinking on succession and exit, if it might be in four or five years time. What do you want to be doing now to be ready when you're ready, so yeah, there's a number of resources that are available. And yeah, feel free to grab them.

Joanna:
Well, look, we'll link through to that in our show notes. So have no fear if you're running along the beach right now, because you probably had have locked down if you here in Sydney, not restricted to your own LGA. And who knows, by the time they says maybe even Melbourne will be out of lockdown. Who knows Stranger things have happened?

Steve:
I've talked to people in Melbourne had it pretty tough.

Joanna:
Yeah. We've got a team in Melbourne, and I just, you know, I feel for them. They've coped it really, you know, really hard. We've got a team in Queensland as well. They've just gotten off

scot free. So I don't know, you know, I guess you're in Sydney, we're sort of sitting somewhere in the middle. but any rate, if you happen to be not in a place where you can write down the details that Steve just gave you you'll find it all in our show notes. Steve, I just want to say a huge thank you to you. We'll link through to you in the show notes as well. So any of our listeners, and we have lots of accountants who are listeners, so if you're an accountant, you're thinking of potentially selling into the future. Shoot Steve a note you'll be able to find his details in the show notes and make sure you get yourself a copy of some of these ebooks so you can work out what you need to do to get prepared in the future for sale. Steve, I just want to say a huge thank you for joining us on The Deal Room podcast.

Steve:
Thanks, Joanna. Thanks for inviting me.

Joanna:
My pleasure.

Well, that's it for this episode of The Deal Room podcast. Just as a quick recap, in this episode, of course, we were talking about the top five mistakes that businesses make when selling an accounting practice. Now if you'd like more information about this topic, or you would like to grab a copy of that ebook that Steven has produced, then head over to our website at thedealroomodcast.com, where you'll be able to get the details of how to contact Steven, and also how to access that free eBook. There you will also find details of how to contact our Legal Eagles at Aspect Legal if you are considering selling and would like some legal advice in relation to how to prepare for exit of your accounting practice. We deal with lots and lots of acquisitions and sales of accounting practices. And of course, we'd love to assist you prepare for your sale or acquisition if that's relevant to you, and to conduct the transaction itself when you're ready to go ahead with the purchase or the sale. And finally, if you enjoyed what you heard today, then don't forget to pop over to your favorite podcast player and hit the subscribe button. Well that's it thank you so much for listening in. You've been listening to Joanna Oakey and The Deal Room podcast, a podcast proudly brought to you by a commercial legal practice aspect legal. See you next time.