TAX TALKS

Australia's Tax News Podcast - The Podcast for Australian Tax Professionals

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175 | Consolidation in the Accounting Industry

Consolidation in the accounting industry is here. The question is how to survive and still grow in this battle of giants.

Consolidation in the Accounting Industry

The current consolidation in the accounting industry is nothing new. It has been happening for decades.

In this episode we ask Ed Chan, co-founder of WIZE Mentoring and founder and non-executive chairman of Chan & Naylor for some insights. Here is what we learned but please listen in as Ed explains all this much better and in more detail than we ever could.

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Assets

The two biggest assets of an accounting practice (or tax or advice practice) are clients, but also – and this is often overlooked – staff. When you buy a practice, you absolutely have to consider bringing the staff across. The staff have the relationship with the clients. If you want to increase your chances of maintaining that relationship, you need the staff on your side.

Communication

How you communicate the imminent sale to clients is crucial for keeping these clients. Clients don't like change. So you need to tread lightly and proceed slowly. If you change things too quickly and extensively, clients leave. So you have to try and do it very, very softly and slowly and over time.

Transition

Ideally the transition goes over one or two years. So you let clients know that the principal is looking to retire and then slowly progress from there. The principal drops work from 5 days a week to 4 and then to 3 and the relationship slowly transitions to the new principal.

Early to Late Adopters

Some clients are early adaptors, they get used to the new person in the first meeting. Then you got the middle runners. They take 3 to 5 introductions. And then you get the late adaptors who might need 20 or 30 introductions. They keep asking for the old owner even after 20 meetings. You need to accommodate all of that.

80% of clients are generally early adaptors. You get a "Yep No Problem" from them. 20% of them are middle to late adaptors so you need to put a lot more effort into winning them over. Within these 20% there is always a handful that are not happy about the change and leave. That is just nature.

Client Attrition

There is no acquisition without some client attrition. Some clients will leave, no matter what you do. Their relationship with the old principal is so crucial to them that once you change that relationship and try to move it to a new principal, there is no reason to stay. They resent the change and since it is force upon them, they want to define the terms of the change. They want to call the shots. And so they choose a different accountant. There is nothing you can do about it. 90% of losses are just due to this very simple fact.

The second wave of client attrition comes after you have taken over. Some clients won't like the way you do things. But this only makes up about 10% of client attrition.

And the third tranche – about 10% – is due to other factors.

Factors

There are easy mistakes to make in an acquisition. Some more fatal than others. The biggest factor leading to client attrition is the vendor leaving straight away. If the old principal stays on, it will minimise attrition.

The second important factor is retaining staff. That is really important. Staff are often the first point of contact for clients. If the staff stays, clients often barely notice the change.

Thirdly, there is the software. Don't force new software on staff in the middle of the transition. The sale is already traumatic enough to staff. If you then also force staff to change from MYOB to Xero for example at the drop of a hat, you easily reach people's breaking point. And if staff leave, clients will leave as well.

The fourth one – less significant though – is the name. Chan & Naylor often co-brand for a year. So for 12 months both the vendor's name and the purchaser's name are listed. And then slowly phased to just Chan & Naylor.

Retention

Retention depends on the age of the data base. Older clients have less long-term value than young clients.

A transition managed really well should keep attrition below 10%. Most contracts see an earn-out arrangement (retention) of between 20% and 40%. If the retention is 20%, you only pay 80% upfront and then 20% later down the track when the attrition stays below a certain level.

To hear more of Ed's business growth strategies for accounting firm owners, please visit www.wizementoring.com/taxtalks where you can download a copy of WIZE Mentoring's free eBook – The Accountants 20 Hour Workweek.

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