

5 Pitfalls of Acquiring a Accounting or CPA Practice

**How to Avoid Them & What
Happens if You Ignore Them**

By Troy C. Patton, CPA/ABV

FREE SPECIAL REPORT

By Troy C. Patton, CPA

5 Pitfalls to Avoid *When Acquiring Your First or Next CPA or Accounting Firm Plus What is a Firm Really Worth?*



Troy C. Patton, CPA - President
Patton and Associates, LLC.

Disclaimer:

My name is Troy Patton. I am a CPA in Indianapolis, Indiana. I started my own practice in 1996 after working for Ernst & Young as well as one of Ernst & Young's clients. I grew my practice to over \$6 million in combined revenues with 10 offices throughout Indiana and the contiguous states.

I was named as the youngest CPA in Indiana to be voted as the Most Outstanding CPA in Indiana in Public Practice. I have consulted with over 200+ Accountants regarding the acquisition and sale of their practice. **I am NOT a Broker and I do not work on any commissions!** Whether you aspire to acquire one firm or acquire multiple firms or just start from scratch, this report and subsequent discussion will certainly benefit you.

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Any CPA or Accountant can buy a Firm if you have the financial resources.

The question is: Is it the right Firm? Is it right for me? Once I buy it, how do I run it? What should I pay special attention to? How do I run my Practice in an efficient manner? What steps will make it more profitable?

All of these questions plus dozens more are important and not one is more important than the other. Each question can be equally important depending on the practice you are buying.

Did you know, nearly $\frac{1}{4}$ of all Practice Sales fail? **This is serious.** Many of them end up in court and spend most of their money on legal fees and ends up being a lose/lose situation for the seller and the buyer.

In this report I discuss five of the many pitfalls you can run into when acquiring and running a practice and what happens if you choose to ignore them. They are:

Pitfall #1 - Ignoring Utilization vs. Realization

Many of you know what the Firm specific “utilization” and “realization” definitions are, but do you understand the implementation of them within the confines of a new practice or even an existing practice? I have worked with many acquirers who chose to ignore or did not understand how “utilization” and “realization” affects the acquisition and subsequent operation of a practice.

One such individual who purchased a firm who did not listen to what I explained to them, went ahead with the purchase of the practice. I resigned from assisting them and the practice went on to lose over $\frac{3}{4}$ (75% !) of the Firm value. After both sides hired attorneys, neither was left with much except a defunct firm and plenty of legal bills (an attorney's dream).

When you're running and trying to grow your practice, if you're like most accountants you are trying to increase your utilization and realization.

And I've seen accountants do this, fail to recognize “utilization and realization” and literally choke on what they thought was a good deal as I mentioned above. They barely make it out alive in terms of being able to handle their client base, the time demands of getting to know each clients particular business quirks and the daily challenges of managing a new practice and staff.

How much is too low or too high? Which percentage is more important to focus on when looking at a practice to buy? It's not a simple answer. It depends upon several factors and requires an **hour plus long discussion**, which is more than I have in time and space here to go into. If you're interested in learning more on this [click here](#) if you're reading the PDF online or go to www.CoachPatton.com and click on my **Live Seminar** link on how to ACQUIRE a practice.

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Pitfall #2 - A Biased Purchase Contract

In my years of working with over 200+ practices and the over 12 practices I have personally purchased in my career, one of the most difficult aspects of any deal is the **purchase contract**.

Most sellers are represented by a Broker and have a purchase contract already in mind. However, it is usually tilted towards the seller.

A good contract is not biased in any respect to the buyer or seller. The successful contract will have a solid meeting of the minds for both parties.

A biased contract will most certainly come back to haunt one of the parties and will usually create a stressful transition and will hinder the ability to operate the practice in an efficient manner.

IMPORTANT! There is one aspect that is in nearly 98% of all the contracts I have seen that is a huge MISTAKE if you sign one that includes it. This one mistake will cost you over \$15,000 if you make it (I know because I did it once myself).

I'll be covering this and other contract mistakes in my live seminar on acquiring an accounting practice. To learn more about this [click here](#) if you're reading the PDF online or go to www.CoachPatton.com and click on my **Live Seminar** link on how to ACQUIRE a practice.

Pitfall #3 - Non Revenue Generation Plan

I always find it interesting when speaking with a new acquirer who has no plans of revenue generation. I have always heard, "once I get my arms around this practice, then I'll focus on revenue generation and new profit centers within the practice."

This is a huge mistake. There are ways to create additional revenues from the start of the acquisition and throughout the first several years to replace the clients which will not transition. Yes, some clients WILL NOT transition.

This always happens! I do not care what one party tells you about a transition. You will lose clients no matter what and revenues will be hindered under most conditions. When I bought my 12 practices as I grew my own firm I found there are a couple effective strategies that seem to work better than most at both transitioning and retaining clients, as well as generating revenue.

Adding financial related services and offering these to your clients was always very successful for our firm in maintaining and even growing overall revenues, even when some clients didn't transition.

And there's a certain way to do it also that leverages your time and doesn't require you to become a certified financial planner and all the time involved in that process. If you're interested, email me at tpatton@coachpatton.com for more information.

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Pitfall #4 - Maintaining a Status Quo

There are always pros and cons of maintaining a status quo within an operation. There are times when the status quo must be adhered to and times when it should not. Knowing the difference is crucial in the success of your practice.

A quick example when to maintain the status quo is dependent upon how the purchase contract is written. There may be situations when the selling party is going to stick around for a year or two because the contract has an earn out provision. This may be a good time to make a change.

Conversely if the selling party is leaving the day you take over, maintaining the status quo may be the most pertinent thing you can do in the first year. These scenarios can be easily changed. Again, it all depends on the individual practice being sold.

If you make a fatal “status quo” mistake and head in the wrong direction you are destined to experience a painful transition process which will ultimately weigh heavily on your profits of the practice and the success of your practice's longevity. Obviously when you acquire a practice, the idea is to get the value out of what you acquired.

In my **one and a half day seminar** on acquiring a practice, I cover a list of situations when you should maintain the status quo along when you should NOT maintain the status quo and why.

If you're in the market for buying a practice, just knowing what situations are on the “should” and “should not” lists will help you avoid the potential pitfalls that kill ¼ of the other acquisition deals that happen every year.

Pitfall #5 - Not Maximizing Your Working Capital

Acquiring a Practice is an exciting time for the Buyer and a nervous time for the seller. Repeatedly, I see the buyers' emotions take a front seat to the negotiation and construction of an acquisition. Maximizing the amount of working capital you will need after the sale is often neglected.

When acquiring a practice there are many steps that you as a buyer need to strategically take to ensure proper working capital is available for the operation of your practice. Some of these ideas do not even cost you any money.

One is the actual timing of the closing of the sale. I've seen buyers many times rush to close the sale, caught up in the emotion of the “deal”, and months later find themselves cash flow negative, struggling to make their acquisition payment to the seller.

When I privately consult with buyers on a practice acquisition I teach them how to specifically “schedule” the closing of the practice sale so that the seller is happy and they, the buyer, maximizes their cash flow and isn't strapped financially.

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And there are other negotiation strategies to structure the maximum amount of working capital you'll need to ensure your new practice is profitable. By using these strategies you create a viable future for the firm, for you and your family and you minimize the probability of a post sale implosion.

The 5 Pitfalls Summary

The above 5 pitfalls are just the tip of the iceberg when looking at potential mistakes when acquiring a practice. If addressed up front even the most fatal pitfalls and potential mistakes can be avoided and turned into positive experiences for you the seller.

Creating a "pitfall avoidance plan" will create a better acquisition experience and assist you in having a higher probability of a successful acquisition. The acquisition process can be a daunting task. Not using someone who specializes in assisting acquirers and who looks after your best interests is fatal.

A word of warning. A Broker who works on commission or is the listing agent for the seller is not the place to turn. Follow the money. If someone is giving you advice and there is a commission involved, be skeptical, gain knowledge, and proceed with caution.

Your Practice Acquisition Is Just The Beginning...

The acquisition is just one step. The operational aspects of a Practice are just as important. Many get caught up emotionally about the acquisition and fail to look forward three months, six months, or two years after the acquisition.

This may be the most important financial decision of your life. I am sure you would agree it makes good business sense to understand ALL the pitfalls you may face as well as how to address them.

Join me on my Next Live Tele-Seminar titled:
How To Acquire Your First or Next Accounting or CPA Practice

Every other month I host a live tele-seminar where I will teach you what pitfalls to avoid, where to look for them, learn how to do due diligence, all this from my experience buying 12 firms.

On the call I share real **Case Studies** of practices that failed, or failed in one aspect and how it impacted the results of the acquisitions. I also share success stories and failed stories. I will also Talk about the aspects of a Practice that is run efficiently and how to manage a practice in an **efficient and profitable** manner after the acquisition.

You will be able to dial into the live tele-seminar from any phone in the US and the sessions **will be recorded** for attendee playback if you are late to or miss a session. If you are interested in attending go to the next page, complete the enrollment form and fax it back to our offices at **317-581-1812**.

If you have questions you can also email me at: tpatton@coachpatton.com or call me direct at **317-581-1776 or 800-800-1776**.

2011-12 Coach Patton Practice Improvement Programs Enrollment Form



Enter Your Information Here:

First Name: _____ Last Name: _____
 Contact Person (if other than yourself): _____ Practice Name: _____
 Address: _____
 City: _____ State: _____ Zip: _____
 Phone: _____ Fax: _____ Email: _____

Payment Information:

For your convenience we accept:

VISA, MasterCard, American Express or Discover: ☐  ☐  ☐  ☐ 

Credit Card #: _____ Exp Date: _____

Cardholder's Signature: _____

☐ I prefer to pay with a check. Please send me an email when you receive it.

Contact Us:

EMAIL:
 tpatton@coachpatton.com
 www.CoachPatton.com

CALL: 317-581-1776 FAX: 317-581-1812

Patton and Associates, LLC.
 9000 Keystone Crossing
 Suite 630
 Indianapolis, IN 46240

2011-2012 Coach Patton Seminar Schedule (check one)

How To Acquire Your First or Next Accounting or CPA Practice (Webinar)

- ☐ Thr., Nov 17, 2011
- ☐ Wed., Dec 7, 2011
- ☐ Thr., Apr 26, 2012
- ☐ Wed., May 23, 2012
- ☐ Wed., Jun 27, 2012
- ☐ Wed., Aug 1, 2012
- ☐ Thr., Sep 6, 2012
- ☐ Wed., Oct 24, 2012
- ☐ Wed., Nov 14, 2012

Business Development Workshop Hands-On 1-DAY 9a-4p Local Time led by Troy C. Patton CPA/ABV "The \$6 Million Dollar Man"

- ☐ Tue. May 8, 2012 - Orlando, FL
- ☐ Tue. June 5, 2012 - Houston, TX
- ☐ Tue. July 24, 2012 - Chicago, IL
- ☐ Wed. Aug. 8, 2012 - Philadelphia, PA
- ☐ Tue Sep. 25, 2012 - Las Vegas, NV
- ☐ Wed. Oct. 26, 2012 - Atlanta, GA
- ☐ Thr-Fri, Nov 8-9, 2012 - Indianapolis, IN

☐ Intro to Finding New Clients Free Conference Call
 (prerequisite to Private Monthly Coaching Program - Application Only)

☐ Finding New Clients, Inner Circle Coaching Program - \$25,000 Minimum Guaranteed or Your Money Back - \$400.00 x 12 months

Each month I teach you how to find new clients to grow your practice, how to add additional services to your current offerings, how to market your self to affluent niche clients that will pay your fees, insider strategies PLUS how to acquire another practice. * **INNER CIRCLE ANNUAL PROGRAM in Indianapolis in 2012:** Thr. Nov, 8 (1p-5p) & Fri. Nov 9 (8a-12noon)

☐ How To Acquire Your First or Next CPA / Accounting Practice Tele-Seminar • \$495⁰⁰

A 3-hour intensive tele-seminar on learning of how to acquire a practice. Especially useful if you're working for a big firm & looking to make your 1st purchase OR you have your own practice & want to add to it by acquisition.

☐ 1-on-1 Acquisition Coaching - \$5,200⁰⁰

One-on-one coaching of the practice you're looking to acquire where I work with you via phone on all questions you have, assist you with the contracts, negotiations, budgets, etc. Credit for above/past seminars.

☐ Private On-Site Consulting - \$18,000⁰⁰

One-on-one private consulting for two days where I am on-site at your location to assist with due diligence and contracts of a practice including live Seminar above and Acquisition Coaching.

☐ 1-Day Business Development Workshop for Accountants & CPAs • \$715⁰⁰

How to acquire another or your first practice PLUS how to run your practice effectively, strategies & systems for growing your practice such as marketing, adding business valuations, dental practice targeting, marketing your investment management business to existing and new clients and more. (See above for schedule or go online)

☐ Asset Management 12-Hour Class For Selling Financial Services for CPAs • \$350⁰⁰

In this 12-HOUR intensive 2-Day Online Training Class we cover the information you'll need to take the Series 65 Registered Investment Advisor exam. We provide training materials and pay for FINRA, SEC registration & license. When you register you'll be sent your U4 to complete and return PRIOR to taking this Training Class.

Call 317-581-1776 for dates & times of next class

Accepted by: _____

Please Print

Today's Date: _____

Signature: _____