

Long Island Business NEWS

Accounting Firms Embrace Mergers

by Bernadette Starzee
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Like many accounting firms, Marcum decided the most efficient entrée into new markets was not to build from the ground up but to acquire an established brand.

Earlier this month the Melville-based accounting firm announced a merger with Stonefield Josephson, a 150-person Los Angeles accounting firm. "We need a national presence," said managing partner Jeffrey M. Weiner. "We couldn't accomplish our goal from two offices in New York." He added that the firm's new move means Marcum has a footprint in six of the 10 top business centers in the nation.

But it's not just to strike out for new territories that has accounting firms looking to fuse assets and brands. The ages of executives, the down economy and Uncle Sam have also boosted industry mergers, with the graying of the industry near the top of the list locally.

"In many Long Island practices, the partners have reached a mature age," said Max Krotman, managing partner of Melville's Globalforce International, a brokerage for mergers and acquisitions in the accounting industry. The client lists of these practices are built on personal relationships and firms must move these clients on to new partners when older ones are halfway out the door. Additional personnel are often brought in to make the transition to a new relationship smoother.

Many deals are done through brokers, who match firms based on their goals, methods of doing business and personalities. "Firms who merge should have similar billing rates and billing styles," Krotman said. "If you charge \$500 for a tax return and you merge with a firm that charges \$1,000, it's not going to work."

Adding to the need to join forces is that executives who had been groomed to take over have bailed to form their own firms, Krotman said.

Tough economic times also lead to a rise in mergers, allowing firms to share expenses and pick up clients. "If two firms lost business this year, they can merge and perhaps make up for what was lost," Krotman said, noting that a larger staff allows for more division of labor and more productive use of partners' and other professionals' time.

Increased government regulations and advancements in technology are making it more difficult for the little guys to compete, which explains why some firms have gone merger-happy, said Glenn L. Friedman, managing partner of the Metis Group, a New York City-based accounting firm with an office in Plainview that has grown through several mergers over the past few years.

In addition to reinvesting cost savings from mergers in the business, Friedman said Metis benefited by gaining additional areas of expertise. "In 2003, we merged with a New Jersey firm and got their business valuation and divorce mediation practice," he said. "Two years ago, we gained a litigation support practice by merging with a firm in Plainview."

Salvatore Albanese & Co., an accounting firm with offices in Hicksville and Manhattan, is currently in talks to acquire two new accounting practices, one in Suffolk County and the other in Manhattan. Sal Albanese wants to grow by acquiring other firms and offering the existing partner an employment contract for, say, three years over the course of the transition. It worked 10 years ago when Albanese acquired two practices to strategically expand his client base.

"We are a full-service CPA firm, and we look for clients that meet the goals of our firm - for instance, we're not interested in H&R Block-type clients," he said, adding that his firm also seeks to gain growth-oriented clients.

Another factor is how firms service their clients. If, for example, clients in one firm are used to meeting with a partner, but clients in the other firm meet with the junior accountant, it can come close to a deal breaker, Krotman said.

Personalities have to blend. "I have met enough accountants to know who will mix and who won't," Krotman said. "It's not something you can tell by filling out questionnaires."

Location plays a part in the marriage of firms. Metis has merged with firms in Boston and Florida, in addition to several in the New York area and found if the firms are nearby, it's easier for the cultures to come together, since there's more interaction, Friedman said. He added that firms have to work harder at integrating the outside office through face-to-face meetings. "The further you go, there is less centralization, and you have to have strong systems," Friedman said. He gave an example of how a simple process such as collating a tax return can gum up the works. "We want it to be done the Metis way, not the way they do it in the Westchester office," he said.

Marcum is learning to deal with these issues by expanding to the West Coast, and it's not just adjusting to multiple time zones, Weiner said. "You can go to Boston for the day, but you can't go to L.A. for the day," he added.

When clients express concern that their accounting firm is getting too large, what they're really worried about is whether their fee will increase, Friedman said. "But if you do it right, there is no reason you can't service them for the same rate," he said.

There's a strong upside for clients when their accountants merge, Friedman added, with benefits including a greater depth of experience, breadth of services and more convenience.