

Retiring minds

If you haven't thought about what will happen to your practice when you're ready to step down, it's time to ask some searching questions. Lesley Meall draws up a list



When are you planning to retire? Are multiple exit strategies on your list of possibilities? How many of your partners or principals are planning to retire in the next few years? How will you deal with this? Have you taken specialist advice? Do you have a succession plan in place? If not, why not?

Earlier this year, ICAEW members in public practice were asked questions such as these as part of the Global Accounting Alliance Succession Planning Survey

(see box). One of the standout findings was the mismatch between practitioners' plans for their future retirement and the steps they are taking to achieve these plans.

"Many accountants leave it worryingly late to put a succession plan in place, but everybody needs one," says John O'Donnell FCA, a practice consultant in ICAEW Practice Support Services - even those who want their practice to turn into a retirement hobby.

However, just 8% of sole practitioner respondents have a formal or written succession plan in place, despite 62% being aged 55 or older and a quarter of all sole practitioners planning to retire by or before the age of 65. "Lots of sole practitioners end up working later as they can't sell, or their practice has become too small to sell," says O'Donnell. Many do not consider their retirement options or explore alternative exit plans far enough in advance.

The advancing years matter for other reasons too. When O'Donnell advises on the potential purchase of an accountancy practice, he tells the buyer to look at the age of the practitioner that is selling. "It isn't always the case, but clients tend to be in the same age group as the person selling, as many of their clients will have grown up with the firm," he explains.

The later you leave it to sell your firm, the more likely it is that you will be selling an ageing client list, with limited longevity, falling fee income and shrinking appeal for prospective purchasers - unless you have planned ahead to prevent this.

THINK STRATEGICALLY

Commenting on the ICAEW research, O'Donnell says: "It worries me that over half of sole practitioners plan to retire when they are over 65 years of age. It confirms a lack of strategic planning among small high street accountancy firms." A lack of strategic planning seems to be an issue for some multi-owner firms too. Around 61% of the respondents in this category have between two and five partners and another 20% between six and 10, and although two thirds of these shared ownership firms expect at least one partner or principal to retire in the next three to five years, they may not be as well-prepared for this as they think they are.

Many are dealing with the matter at a managerial level: 77% have identified staff or other people who could take over; 55% have discussed ownership opportunities with staff; 48% have discussed succession with one or more clients; as many as 88% of practitioners plan to stay on in a consultancy role or sell their share to someone else in the firm.

But more than a few of them must be crossing their fingers and hoping for the best, as just 29% of these firms have either a written or formal succession plan in place - and only 23% seem to think that they need to develop one. "Practitioners should be dealing with the strategic issues surrounding succession planning now. It is part of running the business," asserts O'Donnell.

Relevance seems to be a barrier for firms when it comes to succession planning. Around a third just

do not perceive it as an issue (which may or may not be linked to the research finding that 71% of multiple owners are under 55 years of age); 28% are developing but have not yet finalised their succession plan; and around a fifth believe that succession issues are adequately addressed in their partnership agreement.

However, as three quarters of those in multi-owner firms have not taken specialist advice on succession planning, there is a risk that many practitioners will not be able to maximise the value of their investment in the firm in time for their retirement. It's a problem they share with sole practitioners.

TAKE ADVICE

"I advise all practitioners to take strategic advice on their retirement plans," says O'Donnell. Among the respondents that have taken external advice, approaches include (but are not restricted to): working with a strategic planning consultant or a business consultant; using head hunters to source potential new partners from outside the firm; talking to fellow accountants and solicitors; and relying on ICAEW. The Institute provides various online resources (see box) and regularly runs succession-planning workshops. These provide practical advice on how to assess the available options,

how to develop (and maintain) a plan that can meet your expected and emerging needs, and how to prepare your firm.

"It's a good idea for even the busiest sole or small practitioner to take time out, think about where they are going and strategise," says O'Donnell. But he adds: "It is not a good idea to think 'I've spent years advising my clients on how to sell their businesses so I am sure I can sell my own practice', because the way accountancy firms are sold is different." Although the price achieved will depend on demand, variables for consideration may include: standard market formulas, applying varying multiples to gross recurring fees; the health of the practice; reason for the sale; location; practice specialisation; and benchmarking against similar firms.

There is good news for practitioners who think ahead, seek specialist advice and then take action on succession: "Planning strategically can help you to optimise things and get a better multiple," says O'Donnell. As the gap between taking advice and your impending retirement date shrinks, the risk increases that you will limit your options and your negotiating power: doing a deal with just one party or leaving things until the last minute are rarely the most rewarding approaches. "If you take advice you can do well," says O'Donnell, based upon his own experience. "Accountants are often pleasantly surprised by what they can make." ■

PLANNING AHEAD

To get from where you are today to where you want to be tomorrow you need to be clear about where you are going: decide what sort of future you want for yourself and for your firm. Whether you are a sole practitioner with a handful of administrative staff, or a partner in a multi-ownership firm, to get the most from your retirement (and the time and effort you have put into your firm), you will need to plan your exit strategy well in advance of your hoped for retirement date.

Depending on your particular circumstances, you may need to:

- Identify a family or non-family successor within the firm
- Provide the coaching and training they will need to manage and lead the firm
- Consider all of the potential exit strategies
- Resolve the differing goals of multiple owners

These things will take time. Preparing a junior team member for a leadership role can take years. If you haven't done this far enough in advance you may have no option but to wind up your practice and sell your client list, or merge with another practice, when you would rather have sold it as a going concern or partially retire and stay on as a consultant. Multi-owner firms face particular challenges, as different partners are likely to have different goals and priorities. Reaching agreement on a succession plan that outlines policies and procedures for relinquishing ownership or involvement in key decision-making, transferring client responsibilities, retirement compensation and other sensitive issues may be challenging. But it is essential.

ILLUSTRATION: ARON VELLEKOOP LEON

ABOUT THE SURVEY

In May 2014 the Global Accounting Alliance and its 11 member bodies undertook a study* to gather, quantify and assess the attitudes and opinions of accountants in public practice towards succession planning. The ICAEW report is just one component in the global survey, which involved 10 GAA member bodies in more than 180 countries.

The survey respondent sample is split between sole practitioners (44%) and firms with multiple owners (41%). While the latter includes a broad range of firm sizes, 61% of the multi-owner firms in the survey have between two and five partners or principals.

*The UK online survey ran from 25 July-15 Aug 2014. UK base: 138 respondents Survey administered by Nielson

ICAEW SUPPORT

Practitioners will find a range of resources providing succession planning advice and support on the ICAEW website at icaew.com/en/library/subject-gateways/business-management/strategy-and-planning/succession-planning and in the Practice Structure section at icaew.com/en/members/practice-resources