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eBook

IT considerations for M&A in accounting firms





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Introduction: The state of M&A in accounting

Mergers and acquisitions (M&A) are no stranger to accounting firms. Through the years, we've seen M&A reshape the accounting landscape. The Big Eight became the Big Four (some of you may remember that), larger regional firms looked to expand their geographical footprint, and small firm owners were looking for ways to exit the profession.

The same motivations are driving up the M&A outlook again. Today's firm owners are looking for a competitive advantage as they strive to broaden their market reach, enhance their service offerings, achieve significant economies of scale and plan for succession.

And while the motivations behind mergers may look the same today as they did 20 years ago, the success of these transactions often hinges on one critical factor: an effective information technology (IT) integration process.

As the backbone of modern business operations, IT plays a pivotal role in the smooth transition and integration of accounting firms during M&A activities. Whether you're looking to acquire a firm or be acquired, you need to equip yourself with the knowledge and strategies necessary to successfully navigate the M&A process.

In the pages that follow, you'll discover practical M&A IT considerations and resources tailored specifically to the accounting profession.

We'll explore the nuances of IT integration, highlight common pitfalls and provide actionable recommendations to help you achieve a successful merger or acquisition.

Join us as we explore the vital role of IT in accounting firm M&A, and empower your firm to navigate these transitions with confidence and clarity.



Understanding the merger mania in accounting

Mergers and acquisitions have become a prevalent theme and a cornerstone of strategic growth in the accounting profession. Whether it's to increase market share, expand to new locations, acquire talent or partner with private equity, M&A activities are on the rise—and they're expected to continue growing. These transactions can take many forms, from larger firms acquiring smaller practices to two firms merging to create a more robust service offering. To navigate the complexity of it all, it's vital to grasp not just the definitions and types of M&As, but also the current trends and key motivations driving these decisions.



INSIGHTS

The accounting practice M&A market has experienced significant fluctuations in recent years. A year-over-year analysis shows a sharp increase in activity from 2021 to 2022, followed by a slight contraction in 2023. As of August 2024, the market is tracking below the levels observed in 2023, with a more pronounced slowdown in transaction volume. This decline could be indicative of broader economic conditions, including rising interest rates, market uncertainties or a strategic shift within firms as they digest previous acquisitions. However, it's important to note that the final quarter of the year often sees a spike in activity as firms rush to close deals before year-end. If this trend holds, 2024 could still close the gap with 2023, though it may not surpass it.

Source: RightExit State of the Industry Report: Accounting Practice M&A Transactions

Definition and types of M&A

In the accounting profession, M&As can be categorized into a few distinct types. Understanding these definitions is crucial as firms assess their strategic options.

Acquisitions

This involves a larger firm purchasing a smaller practice, often to expand its client base or geographical footprint. Ideally, this type of M&A allows the acquiring firm to integrate new clients and services quickly. One specific type is called "tucking in," where the smaller firm is fully integrated into the larger firm's operations and brand.

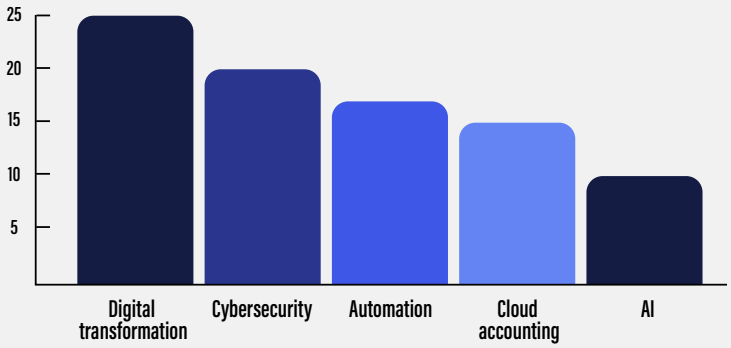
Mergers

Here, two firms combine to form a new entity, pooling resources and expertise to enhance their competitiveness. This approach allows the firms to leverage the combined strengths to improve service delivery and operational efficiency.

Joint ventures and alliances

These arrangements involve firms collaborating on specific projects or services while maintaining their individual identities. This flexibility allows firms to enter new markets or sectors without a full merger.

Technology-driven M&A transactions



Technology plays a significant role in accounting practice M&A. These are some key technologies driving transactions today.

Source: RightExit State of the Industry Report: Accounting Practice M&A Transactions

Current trends in the accounting profession

The trend toward consolidation in the accounting profession has gained momentum, influenced by several factors. Regulatory changes and evolving client expectations are pushing firms to rethink their business models. As the profession grapples with technological advancements, hiring challenges and increasing competition, M&A activity has surged.

Firms are not only focused on expanding their geographical presence but are also seeking specialized capabilities that can enhance their service offerings. The appetite for partnerships with private equity firms has also grown, as these collaborations provide the necessary capital to support strategic M&A initiatives.

Key motivations for M&A

Understanding the motivations behind M&A activities is essential for any accounting firm considering this path. The primary drivers include:

Market expansion—Acquiring local practices enables firms to quickly enter new markets, expand geographically, and enhance their overall reach and influence with an established and loyal client base.

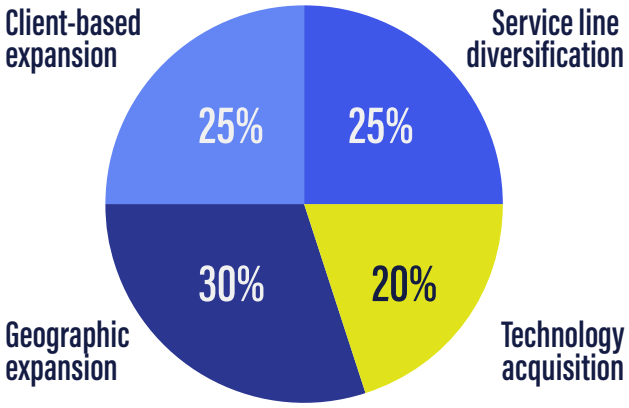
Talent and niche acquisition—Merging with or acquiring specialized consulting firms allows firms to tap into niche markets and bring in talent that can diversify their service offerings.

Technology acquisition—In order to stay competitive, acquiring firms with advanced technology is crucial for modernizing operations. Key technologies include cloud accounting, cybersecurity and artificial intelligence (AI).

Succession planning—For sole practitioners and small firms, finding a succession partner is often top of mind, and M&A can provide a pathway for these firms to transition their client relationships and ensure continuity.

Private equity influence—The influx of private equity into accounting firms is a significant force, providing the capital necessary for firms to engage in various M&A activities. This investment can lead to accelerated growth, influence and innovation.

Strategic rationales for M&A transactions



Source: RightExit State of the Industry Report: Accounting Practice M&A Transactions

IT considerations: More than an afterthought

Amid the current merger mania in the accounting profession, most leaders involved in the deals are often focused on high-level practice valuations, compatibility and synergies. The problem with that is that IT considerations often emerge as an afterthought in these discussions.

In an era where technology is transforming client interactions and operational efficiencies, overlooking IT can be a critical misstep for firms aiming to maximize the benefits of their M&A activities. As firms evaluate potential M&A opportunities, recognizing the importance of IT as a strategic asset becomes paramount.



> ***There are a lot of reasons why firms go through the M&A process, and IT needs to be more than an afterthought.***

Roman Kepczyk
CPA.CITP, CGMA, PAFM
Director of Firm Technology Strategy, Rightworks

The role of IT in M&A

The integration of IT systems plays a pivotal role in determining the success or failure of mergers and acquisitions. The way IT is managed and aligned with business objectives can greatly influence M&A outcomes.

The importance of a plan

A well-crafted IT integration strategy is vital for the success of any M&A. This strategy should outline the steps for merging IT systems, including identifying key stakeholders and establishing clear communication channels. Tools and technologies that facilitate integration should be evaluated, ensuring that they align with the overall business strategy.

How IT influences M&A outcomes

A well-structured IT strategy is more than just a support function; it is a critical enabler of business success during and after an M&A transaction. When firms align their IT initiatives with overarching business goals, they can achieve several benefits:

Operational efficiency: Streamlined IT systems reduce redundancies and improve workflows, allowing firms to function more effectively post-merger.

Client service enhancement: Unified IT platforms provide better access to client information, leading to improved service delivery and higher satisfaction rates among clients.

Risk mitigation: An integrated IT approach helps identify potential risks early on, allowing firms to address them proactively before they escalate into larger issues.

Aligning IT strategy with business objectives

To maximize the benefits of IT in M&A, firms need to ensure that their IT strategies are closely aligned with their business objectives. This requires a thorough analysis of both firms' existing IT frameworks and a collaborative approach to developing a unified strategy. Key steps include the following:

1. Assess existing systems. Conduct a comprehensive evaluation of the IT systems in place at both firms to identify strengths, weaknesses and compatibility issues.

2. Set clear objectives. Establish clear IT goals that support the broader business strategy, focusing on integration, efficiency and client service.

3. Engage stakeholders. Involve key stakeholders from both firms in the IT integration process to ensure buy-in and address concerns early.

4. Conduct continuous evaluations. Monitor and evaluate the IT integration process regularly to ensure it remains aligned with evolving business needs.

In the real world: The good, the bad and the ugly

Exploring real-world examples can provide valuable insights into the role of IT in M&A. Here are a few cases that highlight factors that lead to successful, challenging or failed integrations.

Successful mergers

· **Cloud transition.** In one successful merger, two firms of equal size—one operating in the cloud and the other relying on on-premises systems—decided to transition entirely to a cloud-based infrastructure. This transition not only facilitated seamless integration of their operations, but also enhanced their flexibility and scalability, allowing them to adapt quickly to market demands.

· **Midwest tucking.** A group of super regional firms undertook a strategy of acquiring multiple smaller practices, efficiently integrating them into a robust cloud-based infrastructure. This approach not only streamlined their operations but also ensured that all acquired firms operated under a unified system, enhancing overall productivity and client service.

Unsuccessful mergers

· **Incompatible IT systems.** On the flip side, several firms have faced significant challenges due to incompatible IT systems. In such cases, differences in technology platforms can lead to operational disruptions, eroding employee morale and client trust, and ultimately resulting in demergers.

· **Profitability misalignment.** Mergers can also fail when disparities in profitability metrics and a lack of standardized applications become apparent post-acquisition. Such inconsistencies can lead to conflicts and dissatisfaction among stakeholders, jeopardizing your sustainability.

The importance of a thorough IT assessment cannot be overstated.

Early identification of potential challenges can prevent costly missteps and ensure a smoother integration process. By approaching IT integration strategically, firms can avoid pitfalls and leverage technology as a powerful ally in achieving their M&A objectives.



Pre-merger IT assessment

A meticulous pre-merger IT assessment is essential for accounting firms considering a merger or acquisition. As the integration of two distinct entities unfolds, understanding and evaluating the existing IT infrastructure can safeguard against potential pitfalls and pave the way for a smoother transition period. Understanding the critical components of a pre-merger IT assessment ensures that both firms are well-prepared for the complexities that lie ahead. At a high level, this evaluation should include the following:

- ✓ **Evaluate existing IT infrastructure.** Conduct a comprehensive evaluation of the IT infrastructure of both firms involved. This assessment helps avoid unexpected costs and ensures that the merged entity has the technological capacity to support operations. It's also an opportunity to standardize equipment across the organization, which can lead to cost savings and improved efficiency.

- ✓ **Identify software and systems used.** Understanding the applications employed by each firm not only highlights potential redundancies but also assists in determining compatibility. This includes evaluating versions of each application to identify needed upgrades or replacements.

- ✓ **Consider data security and compliance.** It is imperative to rigorously examine data security protocols and ensure compliance with regulatory guidelines. This involves assessing existing cybersecurity measures, including firewalls, encryption and access controls, to ensure they meet industry standards.

A thorough pre-merger IT assessment isn't just a procedural step; it's a strategic necessity. By evaluating existing infrastructures, identifying software compatibility and addressing data security and compliance concerns, firms can mitigate risks and enhance the likelihood of a successful merger. With careful planning and execution, the integration of two firms' IT systems can ultimately become a catalyst for innovation and growth in the newly formed entity. So, let's take a look at the due diligence required for a pre-merger IT assessment.

To streamline the evaluation process, consider the following pre-merger IT assessment checklist:

☑ **Inventory of current hardware and software**—document all devices and software applications, including versions and licensing information.

☑ **Review of cybersecurity measures**—assess the effectiveness of current cybersecurity strategies, including threat detection, a Written Information Security Plan and incident response protocols.

☑ **Assessment of data storage and management practices**—evaluate data storage solutions, including cloud services, backup procedures and access controls to ensure data integrity and security.

☑ **Evaluation of compliance with industry regulations**—examine adherence to relevant regulations and standards, identifying any gaps that may require immediate attention.

☑ **Production focus**—identify whether the firm's primary production areas are tax, assurance or advisory, as this will inform the IT needs and priorities.

☑ **Application compatibility**—compile a comprehensive list of applications and their versions to identify necessary upgrades and compatibility issues.

☑ **Disaster recovery**—review existing disaster recovery solutions to ensure they are adequate and compatible with the merged entity's needs.

☑ **Network infrastructure**—evaluate the current network infrastructure, including servers, storage solutions and internet connectivity, to determine capacity and scalability.



PRO TIP

Best practices for IT integration in accounting firm M&A:

1. Start early: Incorporate IT discussions into the initial stages of M&A talks.

2. Be thorough: Use tools to create a comprehensive inventory of all applications and hardware (see our FPO Snapshot Inventory on page 14).

3. Set clear timelines: Aim to integrate the acquired practice within six months, with a maximum allowance of 12 months.

4. Plan for training: Ensure adequate resources are available for staff training on new systems.

5. Consider data conversion: If the merger is close to year-end, book data conversion services early to avoid delays.

The due diligence process

As with anything important, due diligence in your IT assessment is essential for mitigating risks. By implementing a thorough due diligence process into your accounting firm's M&A strategy, you can effectively assess compatibility and identify potential challenges.

Due diligence checklist

✓ **Assess current IT infrastructure and systems.** Inventory hardware, software and licenses to understand existing capabilities and limitations.

✓ **Evaluate data migration risks and strategies**. Identify potential data integrity issues and develop a clear migration strategy to minimize disruption.

✓ **Review cybersecurity policies and incident histories**. Conduct a thorough examination of cybersecurity measures and past incidents to gauge risk exposure.

✓ **Analyze contracts with third-party service providers.** Scrutinize vendor contracts for terms, conditions and any non-cancelable clauses that could impact the merger.



Specific IT considerations: Things you need to know

Workstation compatibility. Firms can be surprised when workstations meeting "minimum" requirements can't effectively run the software and applications mandated by the merger. IT should set realistic minimums for machines to last at least the first year and replace those that don't meet the recommendations. Predetermine specifications for viable processors, RAM, solid-state drives and multi-monitor configurations to avoid compatibility issues during integration.

Combined storage requirements. When combining networks in a traditional environment, the Storage Area Network (SAN) must be able to handle increased demands, often beyond the original design thresholds. Increased demands may necessitate upgrading to a more robust SAN, which can be a significant investment.

Remote access requirements. Evaluate the effectiveness of remote access solutions. Upgrading to modern infrastructures, such as Microsoft Remote Desktop Server or Citrix, may be necessary to maintain performance levels comparable to local network speeds.

Internet capacity. Ensure that the combined entities' internet infrastructure can support increased demands for speed and reliability. Verify bandwidth availability and quality before finalizing server locations and acquisitions.

Server room expansion. Consider the physical requirements for server consolidation into a central room. This may require expanding air conditioning and power capacity to prevent overheating and compromised security.

Data conversion availability. Even firms using the same applications may face challenges due to the way data is organized. You'll want to identify vendor availability for data conversions, especially at year-end, to avoid delays and additional costs.

Non-cancelable contracts. Be aware of existing long-term contracts that may be difficult to break. This could impede the transition process. Identifying these agreements and any associated penalties early can prevent complications during integration.

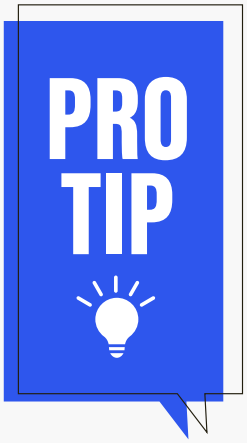
Application licensing. Conduct a thorough audit of application licenses to avoid surprises and ensure compatibility across workstations and servers. Firms often skip versions, which can become problematic during mergers.

A well-executed IT due diligence process not only helps uncover potential issues before they escalate but also provides insights that can inform strategic decisions post-merger. Using a process document to help you identify all the information you need to gather and record is key. Luckily, we have a firm process optimization snapshot inventory worksheet on page 14 to help. Read on to learn more.

TL;DR: Beware of technology "gotchas" in M&A

Merger discussions often overlook IT issues, leading to major post-deal headaches. Here are some potential IT surprises to watch out for:

- **Workstation compatibility**
  - Ensure workstations can handle the required software.
  - Set realistic minimum specs.
- **Combined storage requirements**
  - Verify Storage Area Network (SAN) capacity to avoid expensive upgrades.
- **Remote access requirements**
  - Centralize applications but ensure remote access remains efficient.
  - Invest in appropriate infrastructure (e.g., Microsoft Remote Desktop Server).
- **Internet capacity**
  - Check internet speed and quality for all locations to support centralized services.
- **Server room expansion**
  - Ensure server room power and cooling can handle additional servers.
- **Data conversion availability**
  - Confirm vendor availability for data conversion to avoid delays.
- **Non-cancellable contracts**
  - Identify long-term contracts and penalties to manage transition costs.
- **Application licensing**
  - Standardize on the same software versions.
  - Document licenses to avoid costly audits.



Consider this...

Tax practices: Understand the complexities of tax returns, median pricing, number of multi-state and consolidated returns.

Assurance practices: Examine processes, workflows, financial statement creation and engagement models (on-site vs. remote).

Practice management and collaborative tools: Focus on standardizing practice management systems and transitioning to collaborative cloud-based solutions like Microsoft 365 and Adobe Acrobat DC.

CAAS tech stack: Evaluate cloud-based applications to ensure integration and compatibility.

Document management: Plan for the migration of historical documents and compliance with retention policies.

Communication and collaboration: Ensure that communication tools, including phone, email systems and collaboration tools (Zoom, Slack, Microsoft Teams), are integrated and that workstations are equipped with the necessary hardware and accessories (video cameras, microphones, headsets, speakers) for collaboration with remote users.

Using a Firm Process Optimization Snapshot Inventory worksheet

The FPO (Firm Process Optimization) Snapshot Inventory is a starting point for collecting information about a firm for the consulting reviews we do," said Roman Kepczyk, Director of Firm Technology for Rightworks. "When doing an M&A review, I get the inventories from both firms and identify commonalities, followed by the volume of clients for the applications where they are different. We also discuss the cost and length of contracts to see where changes (and data conversions) will need to be made so both groups understand the consolidation requirements before they sign the deal."

This snapshot is an invaluable resource for firms during the M&A consulting process—it helps in gathering essential information about each firm involved in the merger or acquisition, setting the stage for informed decision-making.

Benefits of using the FPO Snapshot Inventory:

Informed decision-making—with a clear picture of operational capabilities in areas needing improvement, stakeholders can make data-driven decisions that align with strategic goals.

Identifying redundancies—the inventory helps pinpoint overlapping functions or processes that may lead to inefficiencies post-merger, allowing for a smoother integration.

Enhancing operational efficiency—by recognizing areas for enhancement, firms can streamline workflows, reduce costs and improve service delivery, ultimately leading to better client satisfaction.

Promoting standardization—the inventory encourages the development of standardized processes across merged entities, which is crucial for unified operations and brand consistency.

How to use the FPO Snapshot Inventory during the consulting process:

1. Initial assessment. Begin by conducting an initial assessment of each firm's operational processes. Gather relevant data through interviews, surveys and documentation reviews.

2. Inventory completion. Complete the snapshot inventory by documenting findings. Focus on key areas such as technology usage, workflow efficiency, staff competencies and client engagement processes.

3. Analysis and reporting. Analyze the collected data to identify trends, gaps and opportunities for improvement. Prepare a report that highlights key findings and actionable insights.

4. Strategic planning. Use the insights gained from the inventory to inform strategic planning sessions. Engage stakeholders to discuss the implications of the findings and outline a road map for integration.

5. Continuous improvement. Treat the snapshot inventory as a living document that should be revised regularly. Encourage ongoing feedback and updates to adapt to changing business needs.

This FPO Snapshot Inventory is an essential tool to ensure a smooth and successful M&A process. By leveraging this document, you have a template and guidelines to help you effectively gather and analyze the information you need to navigate the complexities of mergers and acquisitions with greater confidence and clarity. This sets the foundation for successful integration and enhanced operational synergy.



Click here to access the 2024 FPO Snapshot Inventory worksheet

Post-merger IT management

After a successful accounting firm merger, management of IT systems should continue to be a primary focus. Effective post-merger IT management not only ensures the stability and security of the newly integrated infrastructure but also sets the foundation for future growth and efficiency. So, let's explore some post-merger strategies:

How to monitor and manage IT systems post-merger

After a merger, it is essential for you to establish robust monitoring protocols to oversee the performance and security of IT systems. This involves:

Regular system audits. Conduct routine assessments of IT infrastructure to identify vulnerabilities and ensure compliance with industry standards and regulations.

Performance monitoring tools. Implement monitoring tools that track system performance, usage patterns and potential issues in real time, allowing for proactive management.

Security protocols. Strengthen cybersecurity measures to protect sensitive data during the integration phase. Regularly update security software and conduct penetration tests to identify weaknesses.



Consider this...

The success of M&A transactions often hinges on effective post-merger integration. Firms must prioritize cultural alignment, retention of key talent and seamless integration of technology systems to maximize the value of their acquisitions.

Source: RightExit State of the Industry Report: Accounting Practice M&A Transactions

Implement continuous improvement strategies for IT

To foster a culture of continuous improvement, your firm should consider the following strategies:

Feedback mechanisms. Establish channels for staff to provide feedback on IT systems and processes. This can include surveys or regular check-ins to identify pain points and areas for enhancement.

Agile methodologies. Adopt agile project management practices to facilitate quick adaptations and IT processes based on evolving business needs. This approach allows teams to respond rapidly to challenges and implement improvements efficiently.

Benchmarking. Compare IT performance against industry standards and best practices to identify gaps and opportunities for enhancement.

Provide training and support for staff during (and after) transitions

Effective training and support are vital to minimizing disruptions and enhancing productivity during and after the transition period. Key aspects include the following:

- **Comprehensive training programs.** Develop a structured training program aimed at onboarding new hires and integrating existing staff. This program should cover essential IT systems, software applications and security protocols.

- **Transition timeline.** Aim to complete the IT transition within six months to one year. This allows for thorough training and gradual integration of systems, reducing the likelihood of operational hiccups.

- **Learning organization.** Foster a culture of continuous learning by encouraging staff to engage in further training and professional development opportunities. This not only enhances individual competencies but also contributes to overall firm resilience.

Regularly revisiting and refining IT processes ensures that the firm remains competitive and responsive to changes in the market. By focusing on these areas, your firm can navigate the complexities of post-merger IT management with confidence, ensuring a strong foundation for future success.





PRO TIP

Best practices

To ensure a seamless transition and robust IT management, consider these best practices:

Redundant systems. Ensure the implementation of redundant internet and power systems to minimize downtime and enhance reliability.

Hardware upgrades. Assess and grade desktops and laptops as necessary to meet performance requirements and ensure compatibility with new systems.

Vendor agreements. Review and renegotiate long-term vendor agreements, including software licenses and equipment leases, to ensure they align with the merged entities' needs and objectives.

Training resources. Make your firm a learning organization where experts on applications and processes create training resources like videos and guides to capture knowledge that can help the acquired practice and new hires get up to speed quickly. Ensure these experts are also available in real time to provide support to their new teammates.

Ready to set your firm up for long-term success?

With mergers and acquisitions for accounting firms on the rise, putting your firm in a solid position when it comes to technology gives you a distinct advantage. Whether you're starting out on your own, looking to expand your geographical footprint or ready to exit the profession, getting the right systems in place makes your firm more attractive and puts you on the path to long-term success.

We know that navigating IT considerations comes with unique challenges. It's a complex but essential undertaking for accounting firms that are looking to acquire or be acquired by other firms. By proactively addressing IT and utilizing resources like the FPO Snapshot Inventory worksheet, firm owners can properly assess, plan and execute successful mergers and acquisitions.

At Rightworks, we want to ensure you have all the tools and resources you need to be a more effective accounting firm. With over 20 years of experience as a technology partner to the profession, we've helped countless accountants optimize their technology and keep it secure. And we can help you, too.

If you want to take steps to ensure your firm is on the right path to long-term success **with the technology that helps streamline mergers and acquisitions**, consider a few ways our team can support your technology needs:

A unified cloud platform—all your accounting and business apps in one location for secure access and enhanced collaboration with Rightworks OneSpace.

Written Information Security Plan (WISP) creation—a simplified solution to your regulatory requirements from a partner that can identify and help fill your security gaps.

Cybersecurity monitoring—enterprise-grade security and data protection to keep your data safe.

1:1 guidance and support—expert team of tech advisors providing 24/7, award-winning support to keep your firm secure and optimized for growth.

Want to ensure your firm is positioned for long-term success? We can help.

Contact our technology consultants today: **866.691.4837**

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