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MAP 22

A MANAGEMENT OF AN ACCOUNTING PRACTICE BULLETIN

PURCHASE, SALE AND MERGER OF SMALL ACCOUNTING FIRMS

Staff Bulletin Published by the
American Institute of Certified Public Accountants, Inc.

NOTICE TO READERS

This bulletin is a publication of the staff of the American Institute of Certified Public Accountants and is not to be regarded as an official pronouncement of the Institute. It was prepared by Richard C. Rea, CPA, and Richard A. Nest, consultant, CPA, director of technical services. The members of the committee on management of an accounting practice assisted in an advisory capacity.

MAP 22

PURCHASE, SALE AND MERGER OF SMALL ACCOUNTING FIRMS

AMERICAN
INSTITUTE
OF CPAs

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PREFACE

SOME YEARS AGO when our firm was contemplating a merger, I searched the library of the American Institute of Certified Public Accountants for information to guide me in the negotiations. However, there was very little in the professional literature that was of any help.

The contemplated merger was a failure because we did not carry out many of the fifteen steps which are described in this bulletin.

Later we undertook the purchase of a practice, and once again I attempted to find information which would be of some use. But the result was the same as before. However, good luck was with us and the purchase turned out well in spite of the many mistakes we made.

Refusing to be discouraged by these experiences, and knowing that others had successfully engaged in purchases and mergers, I determined to find out what they knew that we didn't.

Like Ulysses, I knew where I wanted to go but I lacked the skills and charts which would have made my journey a lot easier. I had to set my course by dead reckoning. I was blown off course

many times and was frequently distracted by the temptation to explore interesting and challenging areas, which would do little to help me toward my destination.

About midway in my quest, I realized that the knowledge I was seeking for my own use was of interest to many other CPAs. I then asked to be appointed as a special consultant to the committee on management of an accounting practice to research this problem area.

This recognition facilitated my efforts but also imposed the responsibility to prepare my findings for publication. The material compiling this booklet is, then, the culmination of over eight years of work—studying and analyzing information gathered through correspondence, personal interviews, visits and conversations with several hundred CPAs from all parts of the country who have had experiences in purchases, sales and mergers of small practices.

Practitioners who want their practices to grow may find this report interesting and perhaps useful. Any practitioner who hopes to realize the value of his practice for his retirement, or for his estate, must provide for its continuation beyond his active participation, hence if he does not have partners, he will some day be compelled to consider a merger or sale. A practice, or an interest in a practice, is of greatest value to surviving partners. The more partners there are to survive a CPA, or to continue the practice after his retirement, the greater his assurance that its maximum value will be realized.

It is important that the sale of a practice be made, if possible, while the practitioner is still able to assist in an orderly transfer of clients.

Few practitioners are able to negotiate a sale of their practice at the optimum moment. Too many will wait until they are unable to take an active part in the transfer of their clients, or can take only a limited part at the best. The sale of a practice under these circumstances will realize substantially less than a sale which is made while the practitioner is still active.

If a practitioner does not acquire partners or does not sell his practice, but leaves its disposition to his executor, his estate may well realize a distressingly small portion of its value. Tragic evidence of the consequences of this neglect are in my files. I

therefore suggest that all sole practitioners, including those who are in good health today, should study this bulletin now and not wait until the need is upon them, which could be tomorrow.

There may be those who will have the opinion that I have ventured too hastily to commit to publication a work which is in some areas incomplete. I recognize these inadequacies and offer my apologies to those readers who seek for answers herein and do not find them. If the material is incomplete, it is because I did not have the necessary data, and I endeavored, with some success, to suppress the author's penchant to express his own opinions, confining my report to what I know was actually being done.

The scarcity of material on these subjects encourages me to believe that this report, however incomplete, may be of some help to those who are in immediate need of information.

A fuller development of these subjects will necessarily require additional time and effort, and I am hopeful that others who are better qualified than I will carry on this work to completion.

Richard C. Rea, CPA

July 15, 1966

GROWTH OF ACCOUNTING PROFESSION

THE GROWTH of the accounting profession since the end of World War II shows evidence of continuing in the future.

This growth, stimulated by a wider public acceptance of the attest function, and a growing awareness by businessmen of the CPA's contributions to management, has been accompanied by a rapid expansion of the larger accounting firms mainly through mergers with smaller accounting firms. Those forces which motivated many of the larger local firms to merge with national firms are also at work on smaller practitioners, but the pressures have not yet built up to the point where most smaller firms are ready to consider such a move. However, many are aware that these pressures are increasing.

REASONS FOR GROWTH

THE PARTNERS OF ONE small local firm, alert to present trends which are making it increasingly difficult for the small practitioner to remain small, stated the following eight reasons for encouraging the growth of their firm:

1. *To be large enough to serve the increasing needs of our clients.* The growing complexities of business make it increasingly difficult for the small businessman to be self-reliant. The gap increases between what the small businessman has, and what he needs, to control his business. If we are to further our objective to help him fill this gap, our firm must grow to meet this additional responsibility.

2. *To permit the employment of staff specialists in auditing, taxes, and management services, as well as those specialists who may be required by future developments.* The same complexities which make it difficult for the businessman to be self-reliant are making it increasingly difficult for a certified public accountant to rely solely upon himself. More and more small practitioners realize the necessity of turning to others within the profession for specialized knowledge which they have not had the time to acquire. While the willingness of our colleagues to help each other is commendable, and we join them in this activity, nevertheless we feel that we must strive to provide for as many of these specialty fields as possible on our own staff.

3. *To be large enough to survive the unexpected loss of a key member of our organization.*

4. *To be capable of providing for the retirement or death of a partner without placing an undue burden on the surviving or remaining partners.*

5. *To grow as our clients grow.* If we fail to do this, we will surely lose clients if their work should some day require a larger staff or greater range of services than we can supply.

6. *To be large enough, in proportion to the size of our clients, that we can be truly independent in our relationship with them.*

7. *To be capable of offering professional development opportunities to all members of our staff and to afford the direct dollar as well as the time cost of staff training programs.*

8. *To attract the better qualified applicants for positions with us.* Larger firms present an image of greater employment stability and opportunity which attracts the more desirable applicants.

WEAKNESSES INHIBITING GROWTH

THE PRINCIPAL WEAKNESSES which plague most small practitioners and prevent or inhibit their growth are:

1. *First and most important of all—low fees.* Too many CPAs have a fee structure which at present provides them with a satisfactory income only because they make no allowances for such things as staff training, staff pensions, fringe benefits or professional development. As a result, their failure to maintain a satisfactory fee structure contributes to many other weaknesses.

2. *Poor professional development.* Many small organizations neglect the professional development of partners and staff. This is evidenced by the comparatively small number who attend state and national conventions, seminars, and the professional development programs which have been prepared by the American Institute of CPAs. A review of the registrations at state or national conventions discloses that essentially the same group of CPAs participates every year. This same active group is, in general, the principal support of the AICPA programs. But compared to all CPAs in public practice, the number of sole practitioners and partners from small firms who cooperate in these programs is very small.

3. *Inadequate audit and reporting standards.* Too many practitioners are using inadequate audit procedures to support their opinions. Inadequate procedures are the result of:

   (a) Lack of participation in professional development programs

   (b) Inadequate fees

   (c) Lack of staff.

These CPAs often are aware of their inadequacies. Fear of exposure is one reason why so many avoid professional activities.

4. *No depth of service.* Too many practitioners do not serve their clients "in depth." Since they accept more engagements than they can handle competently and thoroughly, they tend to perform only those services necessary to satisfy the immediate needs of the client. Too many do not actually know how to serve their clients in depth and they do not see the necessity for doing any more than the immediate job at hand. These are the CPAs who will say that they do not understand what is meant by "management services." Practitioners who are unable to develop a staff must confine themselves to a fairly narrow field of practice. As a result, because they are afraid of losing their clients, they sometimes do not advise clients of their need for services which they cannot supply. Often, they will try to convince their clients that they do not need such services, even if they learn of the need.

5. *Poor public relations.* Many practitioners have little appreciation of the importance of public relations in the development of their practice. They tend to be indifferent and to take no part in community activities. As a result, they fail to create the public image they need in order to attract the type of clients they need for favorable growth.

6. *Poor communication.* Many practitioners fail to achieve good communication with their staff and clients. At an AICPA Public Relations Clinic, most of those in attendance admitted that their clients did not know the range of services offered. In general, if a practitioner has poor communication with clients, he also has poor communication with his staff.

7. *Failure to delegate responsibility.* Too many practitioners fail to delegate responsibility, thus slowing down the development of the firm and discouraging staff members who are ready and eager to assume responsibility. Because of this failure, the best men usually leave the organization, but they rarely give the real reason for leaving.

8. *Failure to be progressive.* Too many firms ignore the latest developments in equipment, methods and ideas in the field of accounting. They excuse themselves for this because they can find enough work to do at present, without keeping up to date. Too many are actually afraid of anything new and challenging. They try to convince themselves that new developments (such as electronic data processing or management services) are merely passing fads, to be acknowledged but generally ignored.

9. *No personnel policy.* Most practitioners think that they should be able to hire their staff fully trained. They do not establish any on-the-job training programs, periodical reviews of staff performance, or similar measures. Since they will not take the time to train new staff members themselves, they have a high turnover. Many will eventually give up attempting to build a staff saying that it is quicker and easier to do the work themselves than to train juniors.

Most of the above weaknesses arise from a lack of management skills. Few small firms have organized their administration to the extent that they are able to grow; those which are so organized are the exception rather than the rule.

All CPAs who start their own practice prepare themselves to accept failure, even though they have high hopes that their organization will grow and prosper. But many do not prepare themselves for what usually happens. Lacking in management skills, they find that the practice is neither the success they dreamed, nor the failure they feared. It is not enough of a success to be satisfied with it, nor enough of a disappointment to give it up.

Because they do not understand the reasons why their venture did not grow, and are unable to solve their problems even if they did recognize them, they waste their talents and careers in a mediocre practice.

Most CPAs have given careful attention to their technical education, but the universities only train accounting students to work for others. Rarely does their work experience prepare them

to manage a practice. These CPAs are urged to attend the seminars on practice management prepared by the AICPA to alleviate this weakness in small practitioners.

GROWTH CHARACTERISTICS

SOME OF THE PRINCIPAL characteristics of firms which have enjoyed a satisfactory growth are listed below:

1. They have either overcome the weaknesses mentioned above or are aware of them and are seriously attacking them.
2. They are organized as partnerships, with more than two partners, all of whom have leadership qualities and are dedicated to the profession and to the firm. It is difficult to imagine a sole practitioner who is truly organized for sound growth; two-man partnerships are also often caught in this bind.
3. They have good communication and organization. The lines of authority are clearly defined and understood by their staff. Their policies are definite, concise and in writing.
4. Their clientele resembles a pyramid. They have built their practice on a wide selection of diversified clients extending from a large number of smaller businesses at the base to fewer but more select clients at the top. They are not top-heavy with clients so large in proportion to their overall clientele that the loss of one would be serious.
5. Their internal organization also resembles a pyramid. The broad base is a carefully selected, well-trained professional staff, with the partners at the apex. Firms that do not have such an organization eventually wind up with partners doing junior work. In time, they find that the policy of "all chiefs and no Indians" brings them to the point of diminishing returns. Those firms which fail to observe the pyramid concept will, like pillars, not have the broad bases necessary to prevent them from toppling when they are subjected to sudden and unexpected pressures of competition or ill fortune.

GROWTH BY PURCHASE OR MERGER

A PRACTITIONER, even though he has the ability to develop a sound practice by growth—is competent to overcome the weaknesses previously mentioned; is capable of recruiting, training and holding a staff and developing sound management policies—often may find that the increasing needs of his clients do not afford him the time to handle all these activities effectively.

Some of the reasons a practitioner may want to be a part of a larger organization sooner than is possible through normal growth are listed below:

1. Competent and ambitious staff will often expect compensation and opportunities that only a larger practice can provide.
2. A larger practice will attract and hold clients who would think a smaller organization is not big enough to supply their requirements.
3. The more partners he has, the more secure a practitioner will feel, so that in the case of his retirement or death, he or his estate will realize the true value of his interest in the firm. (See Case No. 25, page 43.)

There are five principal ways small firms can acquire the benefits of a larger practice other than by internal growth.

1. Purchase the practice of a deceased practitioner.
2. Merge with a practitioner who is approaching retirement.
3. Purchase the practice of a retiring practitioner.
4. Merge with one or more small firms, which are also interested in the problems of future growth and security, to create a new firm.
5. Merge with a larger firm which already has all the management capabilities, retirement plans, staff of specialists and training programs which they need.

DECEASED PRACTITIONER

An opportunity to purchase the practice of a deceased practitioner will occur from time to time. However, there are some disadvantages in this opportunity. First of all, the purchaser has to deal with an executor, a widow, or both. In one case, a widow had a mistaken idea of the value of her husband's practice, and held out too long in an attempt to get her price. The amount she finally realized was a fraction of what she could have had at the beginning, and, as would be expected, the best clients were lost.

Another disadvantage is that the deceased CPA is not present to help transfer the practice. If he was a sole practitioner, he probably did not keep adequate records and depended too much upon his personal knowledge of clients' affairs.

A third disadvantage is the need to act quickly. One CPA, who took over the practice of a deceased practitioner, reported that the need for haste precluded his making a proper investigation, and, because he had no prior experience, he agreed to terms which later proved to be unfavorable.

RETIREMENT

It is possible to merge with a practitioner who contemplates retiring soon after the merger. This arrangement offers the decided advantage of permitting a smooth and considered transfer

of clients. The retiring practitioner has time to make sure that his new partners are familiar with the background and history of each client. (See Case No. 4, page 17.)

One CPA cautioned that if a merger of this type is anticipated, be sure to stipulate in the agreement a definite plan for the ultimate retirement, with the terms and conditions spelled out in detail. He had overlooked these important points and the practitioner who had considered retirement decided that he did not want to retire after all.

Case No. 1

A & B, a partnership, were contemplating a merger with C, who was 65 years old and in good health, but he wanted to make arrangements which would permit him gradually to retire and to realize the value of his practice. A & B were apprehensive about merging with an older practitioner, fearing that as the years passed he might become a problem to them because of increasing incompetence which he would neither recognize nor admit. C, for his part, feared that his plans to retire might be hampered by his new partners demanding more of his time than he cared to give.

A satisfactory arrangement was worked out by stipulating in the partnership agreement a reduction in working hours of 20 per cent per year, until at age 71 he would be fully retired. The agreement further stipulated that C could not be required to work more than the specified number of hours, nor would he be permitted to do so, unless requested by A & B.

Under some circumstances, it might be advisable to purchase a practice rather than merge; for example, if the selling practitioner is not a CPA. Also, a CPA who has been a "lone wolf" too long is often unable to make an adjustment to the disciplines of a partnership.

Case No. 2

X & Y, a partnership, merged with Z, who had been a sole practitioner for 25 years. He was so accustomed to acting on

his own judgment that he continually irritated his new partners by taking matters into his own hands, making decisions, absenting himself from the office, and giving orders to the staff without consulting his partners. The tensions grew and after several years he withdrew from the partnership and resumed practice as a sole practitioner.

MERGERS AND PURCHASES

MOST LARGE FIRMS, even though not national in scope, have had experience in purchasing and merging. Consequently, if a small practitioner contemplates a merger with one of these large organizations, he generally must accept and adjust himself to their proposal.

However, when two smaller practitioners wish to merge, and neither has had any experience, they are usually at a loss as to how to proceed.

It is sometimes difficult to classify an acquisition or an arrangement as either a purchase or a merger. Some have aspects of both.

Case No. 3

X, a sole practitioner, was looking for a partner and made a proposal to Y, who had just started his practice and had annual gross fees amounting to about one-third of X's. The agreement stipulated that Y was to forego a portion of his share of the profits for a period of years and that these profits were to be turned over to X until a certain sum had been reached. From that point on, they would draw profits equally.

Case No. 4

A was contemplating retirement and offered to sell his practice to B and C who were partners. B and C, however, proposed that they form a new firm to be called A, B & C. At the end of three years, A was to retire, and B and C would pay him according to the same terms he now asked.

MERGER PROCEDURES

LET US NOW CONSIDER the steps to be taken in a merger. It will be seen that any other arrangement will follow much the same pattern.

There are fifteen principal steps in negotiating a merger. These steps can be grouped as follows:

- Investigation
- Negotiation
- Consummation
- Notification

These steps are listed in the order in which they should normally be taken. It is recognized that under some circumstances it might be necessary to change this order, but it would not be

advisable to undertake a step outside of its group. That is, Step 5, which is in the group entitled "Investigation," might be carried out before one of the other steps in that same group, but it should be completed before going on to the next group called "Negotiation."

INVESTIGATION

Step 1—Define the objectives of the merging firms. This is, of course, the first and most important point to be considered by both firms.

One CPA made the observation that from the day he starts his own practice, every practitioner should conduct himself as if he were going to merge with another practitioner. Undoubtedly this CPA recognized that sound growth can be accomplished only through partnerships, and if a CPA recognizes this from the beginning, he will become alert to opportunities to merge, and will be reconciled to the necessity of making compromises and adjustments.

Above all, every practitioner and small firm should have thought out, and put on paper, their objectives. It is not enough just to think about them, nor is it enough to discuss them with partners and colleagues. They should be in writing because only then do they become concrete and tangible.

Too many small practitioners think they know their objectives until they are actually involved in negotiations, and by that time they may find themselves at a considerable disadvantage for not having had these objectives thought out well in advance.

The eight reasons one small firm gave for encouraging growth, quoted on pages 9-10, are good examples of written objectives, and, lacking anything better, could be adopted by other small firms.

Merger negotiations which proceeded smoothly had their *primary* objectives clearly in mind, and several mergers which encountered difficulties either gave inadequate consideration to their objectives, or discovered, after the merger, there were misunderstandings as to what the objectives were.

Objectives can be divided into short-range and long-range classifications.

Under short-range objectives are such items as an increased staff to handle larger and more important engagements, specialization, or, as in several cases, elimination of travel expense.

Under long-range objectives are such items as increased opportunities for growth available to the younger members of the firm; and, for the older members, retirement plans and protection of estates in case of death.

Consideration only of short-range objectives, overlooking the long-range ones, can result in serious problems in later years.

Case No. 5

> Two small firms A, B & C and X, Y & Z were discussing the possibility of a merger. After the immediate advantages and short-range objectives were agreed upon, attention was given to long-range objectives. As the discussion progressed it became increasingly apparent that the long-range goals of each firm were so different that the merger could not succeed. A, B & C were entirely profit-centered and looked with disfavor on the broader philosophy of X, Y & Z, who proposed devoting substantial time to public service, professional development, and active participation in the state and national societies.

Step 2—Exchange financial statements. If all parties to the merger are in agreement on the objectives, an exchange of balance sheets and income statements for at least the preceding five years should be made. This is not the time for either reticence or modesty. All parties should be willing to answer any questions, and, more importantly, not be afraid to ask questions. (See Case No. 23, page 42.)

One CPA acknowledged that a big mistake was his failure to make certain inquiries. He excused himself by saying he was afraid that if he asked the questions to which he really wanted answers, he would embarrass the other parties and probably "queer" the deal.

Case No. 6

A CPA was contemplating a merger with a two-man firm when he was told that one of the two partners lived beyond his means and that the partners had several bitter disputes over this. His informant had said, "Don't quote me." Embarrassed to introduce the subject, and fearful of disclosing the name of his informant if he did, he said nothing. The rumor proved to be true, and he found himself involved in a very unpleasant situation.

While most small practitioners keep their books on a cash basis, it is difficult to draw any satisfactory conclusions from historical statistics unless they are on the accrual basis. It would therefore be advisable for all small practitioners to prepare annual statements on the accrual basis in anticipation of the time this data will be needed.

Step 3—Compare fee structures and billing procedures. A full discussion of the income statements will certainly lead to a discussion of fee structures and time-keeping and billing procedures. There are wide variances in practice and unfortunately many small practitioners do not keep adequate time records and are inclined to exaggerate their billing rates.

Frequently small practitioners are lax in both billing and collecting fees.

Case No. 7

A and B contemplated a merger with C and D. A and B had many fixed-fee accounts, the clients making regular monthly payments whether the work was done or not. C and D, on the other hand, had no fixed fees. Upon investigation it was discovered that A and B had accepted fees from their clients for work which had not yet been done, and which the new partnership would be obliged to complete. C and D had been lax in collecting *their* fees. Because of the inability to reconcile the wide variance in fee policies, they agreed that a merger would not be advisable.

Step 4—Review audit standards and procedures and staff competence. Both firms should discuss in detail with one another their working paper procedures and reporting standards. The working papers may prove to be sketchy and inadequate because they have become accustomed to retaining too many details in memory rather than properly recording them in the working papers.

One CPA, who has had experience in mergers, said that he always studies the other party's continuing educational program and his activities in professional societies. He claims that if the other party is not active in either one of these fields, it is probable that his accounts will require a lot of "cleaning up."

Even though both firms are carrying out their examinations in accordance with generally accepted auditing standards, it is important to know each other's working paper practices and techniques, as these might require some compromises.

One firm reported excellent results in the step of investigation of audit standards and procedures by the simple process of exchanging staff on key engagements. It is surprising that this method has not been used more frequently.

Inquiry should also be made as to liability and other legal claims against the firms and the dollar amount of legal liability insurance carried.

If a merger is contemplated between firms which are located some distance apart, the review and maintenance of firm-wide standards is a continuing problem. While the initial investigation and evaluation of standards can be relatively easily accomplished, the real difficulty is to maintain high standards and uniform procedures on a firm-wide basis. There are various procedures which may be followed to meet this problem, such as interoffice reviews, staff manuals, etc. One firm with several offices controlled this situation by requiring the working papers for all opinion reports to be sent to the home office for final review. In addition, the senior technical partner visits each office at least once a year to review reporting and auditing procedures.

Step 5—Compare salary scales. The next logical step would certainly be the investigation of salaries. Attention should be given

to policies for salary increases and performance review. This step would naturally follow Step 4 (audit standards and procedures) since it is not likely that both low salaries and a high level of staff competence will be found in the same firm.

Step 6—Examine personnel policies. An evaluation of the staff is important, but the quality of the personnel is often a reflection of the personnel policies. Poor policies do not attract good "talent."

Such matters as bonuses, vacation policies, overtime, group insurance and other fringe benefits must be compared and coordinated. Even though the same position in two firms is paid the same base salary, substantial differences in policies can create situations which must be adjusted.

Case No. 8

A & B paid no overtime, but kept a record of the hours worked and permitted their staff to take time off during the summer months to equalize the overtime work. C & D paid their staff time-and-a-half for overtime. The staff for each firm liked its own arrangement and neither wanted to change. Since the two firms were located in cities approximately thirty miles apart, the difference in policy did not create a problem. However, had it been planned to merge the two staffs into one office, it is likely that working out a satisfactory solution would have been difficult.

NEGOTIATION

Step 7—Select a firm name. The selection of a firm name is the point at which many merger negotiations of small firms terminate. The smaller the firm, the more importance the partners place on seeing their names appear in the name of the merged firm. The larger the firm, the less important this becomes.

Many small practitioners believe that if their name does not appear in the firm name, they will lose what they call their "personal identity." If they will reflect for a moment, they will realize that personal identity cannot be lost. A CPA who is

successful will acquire the goodwill, loyalty and the endorsement of his clients whether he is practicing as a sole practitioner or as a member of a larger organization.

One CPA made the following statement: "Our partners were concerned as to the effect on client relations of merging with a larger firm, giving up our name of years' standing, and taking its name. We discovered that by properly and personally notifying the clients and explaining the *benefits* to them, and assuring them that the type of service rendered in the past would not be disrupted, the merger actually *enhanced* client relations."

It is indeed unfortunate that so many practitioners and small firms will deny themselves the benefits which they could enjoy through mergers simply because they cling to the idea that if they join a larger organization they will give up their "personal identity." If this were true, public accounting would be conducted by sole practitioners and small partnerships only.

The selection of a firm name is included at this point, since if a name cannot be agreed upon, there will be no further negotiations. If this step is considered too soon the conversations might be terminated, but if this decision is delayed until the first six steps have been completed, enough enthusiasm for the merger might be generated to overcome the name problem.

One group of three merging firms solved the problem by abandoning all the old names and selecting an entirely new name.

Case No. 9

Three firms, A, B & C; D, E & Company; and F & G contemplated a merger. Obviously it was impossible to create a new firm name which would include the names of all the principal partners. After some discussion it was agreed that the new name must meet four requirements. The name must:

(1) Contain no more than two names
(2) Be easy to spell
(3) Be easy to pronounce and easily understood over the telephone
(4) Have significance to other CPAs, as the group planned to expand their practice by merging with other firms in various parts of the country.

John Doe, a partner in one of the firms, was highly respected and well known in the profession, having served with distinction in both his state society and in the American Institute of CPAs. His name was selected and the new firm adopted the name John Doe & Co.

One correspondent reported that where the change of name posed a problem, the agreement allowed the local firm one year to adopt the new firm name. This gave them time to adjust themselves to the idea, and to visit and confer with all their clients. As a result they accepted the name change in just four months.

Another CPA told that he wasted valuable time over this fear of loss of personal identity. After he merged, he discovered, to use his own words, "It wasn't important after all."

The names of many *small firms* as well as large firms do not include the names of any currently practicing partners.

Step 8—Select a managing partner. A managing partner *must* be selected, and, of course, this should be a man the other partners will follow.

Case No. 10

Three local firms merged to form a new firm but failed to agree on a managing partner. During negotiations they bypassed the problem and went ahead with the merger. All agreed that the advantages which a larger organization would offer were so important that they should not allow the failure to agree on a managing partner to stand in the way of completing negotiations. As a result, lacking competent and aggressive leadership, the organization failed to achieve its anticipated growth. The lack of leadership was serious enough to inhibit growth but not serious enough to cause the partners to face up to the need for a change.

If a managing partner cannot be agreed upon at this stage, it would be useless to continue the merger negotiations.

Step 9—Prepare organization charts. Very few small firms prepare organization charts for themselves, and yet they will advise their

clients to do it. Even though none of the firms involved in the merger have ever prepared one, it is now time to do this. It is much easier for each firm to understand how the other firm operates if charts are prepared.

An organization chart of the proposed new firm should then be prepared.

Step 10—Define partners' duties and determine partners' share of profits. In most small firms, partners tend to select for themselves the type of work they prefer to do. In a newly-merged firm it could be impossible for one or more partners to continue doing the same kind of work. To eliminate any misunderstanding in this important area, the duties of each partner in the merging firms should be studied and put into writing. Profit distribution can present quite a problem if there has been a substantial difference in the net income of the partners. One method of allocating post-merger profits to partners is based on the relationship of the pre-merger net income of the merging firms to the net income of the new firm.

One correspondent reported that the distribution of partners' income presents more difficulties than the salary scale of general staff. Several firms discontinued merger negotiations because they could not reconcile the differences in partners' incomes.

The problem is not insurmountable as was reported by one correspondent.

Case No. 11

Two firms, A and B, merged in spite of B's obvious shortcomings. B employed 25 per cent more people than A, but had 25 per cent less gross and net income. As would be expected, B had a lower level of staff competency, inadequate workpapers and no staff training or professional development program. The partners had never learned to delegate work and they put in excessive hours to complete the jobs themselves. It was agreed that staff members would be exchanged and an intensive training program instituted. A profit-sharing arrangement would be adopted by dividing income into three levels of earnings as follows:

	Shares	
	Firm A	*Firm B*
First level of earnings	80%	20%
Second level of earnings	50	50
Third level of earnings	20	80

If B's partners could succeed in improving the profitability of their clients, and consequently increase the profits of the combined firms, their percentage participation was designed to equalize profits above the third level of earnings.

CONSUMMATION

Step 11—Prepare a forecast. While the objectives which the merging firms hope to accomplish were defined in Step 1, it is now necessary to translate these objectives into dollars. The proposed operation of the new firm should be studied and a projection for at least five years prepared. The relationship between the proposed expenses and the anticipated fee structure must be determined. It is entirely possible that the proposed objectives cannot be reached because they are too ambitious; they must be modified.

One firm failed to take this step into consideration and after several years the results of the merger were disappointing. This could have been anticipated, they admitted, by a projection.

Step 12—Determine the capital investment. The amount of capital investment needed to run a practice increases each year. The day is gone when a practice can be carried on with nothing more than worksheets and pencils. Many CPAs fail to realize that while the merger is expected to produce more income, it is also necessary to have a greater capital investment. If a forecast is made (as recommended in Step 11) it should not be difficult to determine the amount of capital which would be needed to make such a projection possible. It must then be determined how much capital will be provided by each partner.

As already mentioned, there are times when it is extremely difficult to classify a negotiation as either a purchase or a merger. Sometimes an arrangement will have a number of aspects of both.

A correspondent warns that there is a tendency, under these circumstances, to have the "parent" firm investing capital in, or "purchasing" an interest in, the local firm. In this situation great care should be taken that the "parent" firm is not "locking in" larger amounts of capital than a genuine merger would require. Most firms who are interested in expansion prefer mergers rather than purchases because of this involvement with "locked-in" capital.

On the other hand, there are firms who prefer a purchase, or a merger-purchase, particularly if they have competent and well-trained staff who are impatient for an opportunity to take on added responsibilities, or to take over a branch office on a profit-sharing basis.

Step 13—The partnership agreement. This step of drawing up the final partnership agreement takes more time than any of the other steps. It would appear that time is consumed not so much because there are differences of opinion, but rather because great pains are taken to be sure that all points are covered and that an agreement is being prepared which will be workable. However, it should be made clear that articles of copartnership can be changed at any time it appears desirable to do so.

Naturally, all aspects of income taxation should be carefully considered. In addition, consideration should be given to the problem of who will accept liability for claims arising from pre-merger activities. Legal counsel should be engaged for the preparation of the agreement.

Step 14—Determine a retirement plan. The fact that this is listed as a separate step may come as a surprise to many readers. It is presented as a separate step because it has been overlooked so often in the partnership agreement. It would seem that this occurs because most partnership agreements are being drawn up by practitioners who are not considering retirement, and who feel that the business of getting on with the merger is more important. They believe that a retirement program can be developed later. Furthermore, many practitioners feel it is inadvisable to delay consummation of the merger by trying to develop a retire-

ment program which would not take effect for a number of years. How is it possible, they ask, to have such a plan developed now, which will be workable at some time in the indefinite future?

Those with experience advise that you should include, in the initial agreement, a program for eventual retirement of partners and for evaluating a partner's interest, even though the plan which is now agreed upon might have to be changed later.

The point they emphasize is that it is easier to change or modify an agreement that you do have, than to try to introduce something new at a later date.

NOTIFICATION

Step 15—Notify clients. Partners from both firms should call on at least the principal clients of each firm and discuss the proposed merger. It is conceivable that client objection might make it inadvisable to consummate the merger, but no circumstance of this type was reported. In several reported instances, however, important clients were resentful because they had not been informed of the merger before it was announced publicly.

Discussing a proposed merger with clients is a mistake if it is not certain that the merger will be consummated. Clients are inclined to be apprehensive about mergers although they usually agree to go along with the new organization. However, if they are informed that a merger is being considered, and then no merger takes place, it may shake their confidence in the firm with whom they are dealing.

PURCHASE OR SALE PROCEDURES

IN NEGOTIATING THE PURCHASE or sale of a practice, generally the same procedures considered in planning a merger should be followed.

Step 1—Objectives of firms. Objectives are just as important in a purchase as in a merger. It is important to the buyer to know why the seller is selling. Also, the seller is anxious to know the buyer's objectives. Practitioners are very loyal to their clients and are concerned about how they will be treated. One correspondent did not accept the best financial offer, but took a lower price. He said, "I considered it my responsibility, without any regard to the financial aspects, . . . to avail my clients of the services comparable to those which they had become accustomed to in the past."

Step 2—Exchange financial statements. A buyer is extremely interested in the seller's historical income statements since he wants

to know what he is buying, and the profits *will* have a bearing on the price he will pay, as will be discussed later. Also, the seller is interested in knowing the buyer's financial background. Since most sales are made on a pay-out stretching over a period of time, the seller is anxious to determine whether or not the buyer has the financial resources and *management capabilities* to carry out the terms of the agreement.

Step 3—Compare fee structures and billing procedures. The investigation of fee structures and billing procedures is just as important in a purchase as in a merger and for the same reasons. If the seller's clients are accustomed to fee arrangements substantially different from those of the buyer, it may be difficult to make an immediate change to the buyer's methods. Frequently buyers have found it necessary to follow the seller's practices for some time until they have gained the confidence of the new clients and their acceptance of the new fee arrangements.

Step 4—Review audit standards and procedures and staff competence. In a purchase this step might require more time than in a merger. If the audit standards and procedures are inadequate, the problems which might arise after the transfer would have to be faced by the purchaser alone. Even though the purchase agreement specifies that the seller is to hold himself available for consultation and advice, the buyer may find it inconvenient and time-consuming to rely upon him. The seller could very well be away on a trip at the time his counsel is needed, or, if he is not in good health, he may be able to give only limited assistance, if any.

Because of these hazards a *very* thorough study of audit standards and procedures should be made, and their adequacy or inadequacy carefully evaluated before an agreement is reached. But if competent staff is acquired with the purchase, this would tend to relieve the seriousness of this situation.

Step 5—Compare salary scales. A comparison between the buyer's and the seller's salary policies should be made. A conference should be held with *key* employees, and the salary situation and

arrangement agreed upon. Failure to do this can lead to some embarrassing situations.

Case No. 12

K purchased the practice of M, a sole practitioner who wanted to retire. K failed to have an understanding with M's employees, and, shortly after the purchase agreement was signed, one of the key employees demanded a salary increase which K felt was out of all reason.

Step 6—Examine personnel policies. The same problems in conflicting fringe benefits can arise in a purchase and sale as in a merger. Again, as in the case of salaries as noted above, fringe benefits should be discussed with the employees of the sellers and full understanding reached before the agreement is signed.

Step 7—Select a firm name. In most purchases and sales the firm name does not present a problem, but occasions have been reported where a name change was considered desirable. As a result, this decision can change purchase negotiations to merger negotiations where the seller has been well known and respected in the profession and in the business world, and where the buyers feel that including his name in their firm will enhance their prestige. (See Case No. 4, page 17.)

Step 8—Select a managing partner. Many small firms have not yet found it necessary to designate a managing partner, but a management arrangement which works well when a practice is small could be inadequate when the staff is suddenly enlarged. (See Case No. 10, page 25.)

Case No. 13

F, G and Co. purchased the practice of K, a sole practitioner, whose staff was almost as large as the purchasing firm's. The purchasers discovered, after they acquired the practice, that they finally had to elect a managing partner. "We should have foreseen this," one of the partners reported,

"but we overlooked this in the confusion and distraction of negotiations."

Step 9—Prepare organization charts. Organization charts cannot be overlooked. Even though the seller will no longer be involved in the practice, it is important to the buyer to know and understand how the seller's organization was operated, and, of course, the buyer should prepare an organization chart of his own for the expanded practice.

Step 10—Define partners' duties and determine partners' share of profits. It is important to re-examine partners' duties in anticipating a purchase. A suddenly expanded practice will undoubtedly require a realignment of duties and responsibilities and a redetermination of partners' income distribution.

Step 11—Prepare a forecast. A buyer should make a forecast of the combined practices; this should be done for the same reasons as in a merger.

Step 12—Determine the capital investment. It is more important in a purchase than in a merger to consider what capital will be required. Firms have reported that capital requirements ranged from 30 per cent to 50 per cent of the annual gross fees on a full accrual basis. This would mean that if a small firm buys a practice grossing $20,000 a year, they can anticipate that before much time has passed an additional $6,000 to $10,000 in capital will be required.

Step 13—The purchase agreement. Instead of a partnership agreement, a purchase agreement must be prepared. Naturally, all aspects of income taxation should be carefully considered.

If the purchaser is to be bound by a non-competition agreement, the terms should be very clearly and concisely stated, including the method of determining liquidated damages, and a provision for injunctive relief, in case the terms are violated.

Consideration should be given to the problem of who will accept liability for claims arising from pre-purchase activities and

legal counsel should be retained to prepare the final agreement.

If the seller is to hold himself available for consultation and advice, the terms and conditions must be clearly set forth together with the compensation the seller is to receive.

Step 14—Determine the value of the practice. In merging, Step 14 was the determination of a retirement plan. To the seller, the sale of his practice *is* the consummation of *his* retirement plan. The value of the practice is fundamental to any plan or program, whether effective immediately or in the future. But because valuation is the key issue in the purchase or sale of a practice, it will be discussed extensively as a separate subject in the next chapter.

Step 15—Notify clients. The clients of the selling practitioner must be notified. Both the buyer and seller must visit the key clients and this should be done for the same reason as in a merger.

Undoubtedly many readers will say that the fifteen steps do not cover anything which common sense would not dictate should be done. This is true. But many mergers and purchases have gone through some very trying periods because one or more of these steps were omitted.

No one case was reported where all fifteen steps were carried out, but all fifteen were present in one negotiation or another, and those that omitted any of these steps were either lucky or admitted the omission was a mistake.

It is conceivable that some of these steps might not be necessary in some circumstances. For example, one correspondent mentioned that the firm with whom they merged had one of their former employees on the staff. They felt that the testimony of this former employee was sufficient to eliminate the need for any further investigation as to audit standards and procedures and staff competence.

But, if any step is not carried out, it should be because it was not considered necessary, and not because it was overlooked.

VALUATION OF A PRACTICE

IN A MERGER, the valuation of a practice (or a partner's interest) is not usually of primary importance unless a merging partner's retirement is imminent. But, in a purchase or sale, the valuation problem is of immediate importance and therefore is discussed in detail in this chapter.

Most sellers want to negotiate the price first, but an experienced buyer will not discuss it until last. Naturally, consideration will be given to all aspects of the effect of income taxes.

Most small practitioners will over-price their practices. They generally believe that one year's gross fees is the fair value. What they have in mind is their gross fees for the preceding year. Many practitioners seem to think that they should be guaranteed this amount. Such a guarantee is the exception rather than the rule.

Since most CPAs sell but one practice in a lifetime, they have no way of knowing that value is generally determined by the factors which are discussed in the following sections.

The valuation, and ultimate realization to the seller, depends on the following eight factors:

1. Size of the practice
2. Gross fees
3. Net profit
4. Type of practice
5. Seller's ability to assist in the transfer
6. Buyer's competency in practice management
7. Depth of the buyer's interest in acquiring the practice
8. Pay-out period.

Factor 1—Size of the practice. A one-man practice is generally more attractive to a prospective buyer. If the practice is larger, there is a possibility that a disgruntled member of the staff may leave and take some of the clients with him. (See Case No. 25, page 43.)

Practices grossing between $20,000 and $50,000 are in greatest demand at the present time. If the gross is below $20,000, interest is generally limited to younger men who are starting out on their own and who have neither the capital nor the management experience to undertake the purchase of a larger practice. Purchasers of practices grossing over $50,000 are difficult to find.

One practitioner, whose practice was grossing substantially more than $50,000, overcame this problem by selling the practice piecemeal.

Case No. 14

G's practice was grossing $100,000 and he was unable to find a purchaser because of its size. Since he was contemplating retirement, he sold his practice in four separate transactions over a period of years, the first one at 17½ per cent of the gross fees per year for five years and the last at a price of 27½ per cent per year for five years.

Factor 2—Gross fees. The gross fees which are frequently referred to in purchase negotiations are almost always analyzed and may be adjusted for fees from certain types of engagements. These may be engagements which are not likely to occur again, as well

as engagements in which the buyer might feel he is not qualified, or does not care to handle.

Case No. 15

Q's practice was for sale and R expressed an interest in acquiring it. R discovered, however, that Q handled a large volume of individual tax returns which he did by hand, often working until late in the night, and charging low fees. R was not interested in this part of the practice and based his offer on the gross fees reduced by all tax return fees under $35.

Case No. 16

S had a profitable practice but included in the gross fees were fees for services of a special nature, which T, a prospective purchaser, was not competent to perform. T suggested to S that he retain these special clients, which he could easily handle in retirement, and T then agreed to take over the remaining practice.

Case No. 17

V practiced in a small community and was negotiating to sell his practice to W who also practiced in the same community. V had a number of clients in a nearby city whom he served without charging for any travel expense. W was not interested in handling these clients and would not agree to take them over. Since V had no other prospect for a sale, he had to accept W's terms.

Factor 3—Net profit. It is frequently asked: "Why is it that practices are valued on the basis of gross fees instead of on the basis of net profits?"

The profitability of a practice *does* have a direct bearing on the price.

A practice grossing $40,000 which nets the practitioner only $10,000 would not be as attractive to a prospective purchaser as one which grosses $40,000 but nets $20,000.

Factor 4—Type of practice. A practice consisting mostly of write-ups will not usually have the same appeal as one with a wider scope of work.

Most experienced buyers are not discouraged by the prospects of purchasing a poorly-managed, lower grade practice. They just will not pay as much for it. Those who have acquired such practices claimed that they eventually upgraded the quality of work and increased the fee.

As one correspondent stated, "After the first year, my new clients admitted that our work was worth more and they were willing to pay a larger fee."

Factor 5—Seller's ability to assist in the transfer. If the practitioner is moving away from the community, experienced purchasers will negotiate for a lower price or make some other arrangement to compensate for this disadvantage of not having the seller present to consult and to assist in handling situations which might arise after the practice has been transferred.

If the seller is in poor or declining health, he may not be able to help in the transfer.

Case No. 18

Planning to relocate in another part of the country, H offered his practice for sale. J, a prospective purchaser, insisted that a list of clients be prepared, including the gross fees received from each client in the preceding twelve months. J then agreed to pay H 20 per cent per year, for five years, of the fees collected per client, or until the amount paid equalled the fees received by H from that client in the preceding twelve months.

Since H would not be readily available for consultation and advice, to help in the smooth transfer of the accounts, and to assist in problems that might arise after the transfer, J felt that H was not entitled to any percentage on the increase in fees which would be generated by J's efforts.

Factor 6—Buyer's competency in practice management. One correspondent sold his practice for 10 per cent of the gross fees

per year for five years. The purchasing firm had a larger staff, and because they could offer the seller's clients a wider range of services, and could command higher fees, the seller realized 80 per cent of his gross fees instead of only 50 per cent.

Factor 7—Depth of the buyer's interest in practice (in other words, how badly he wants it). If the practice has great appeal to the buyer, he may be inclined to make a better offer than another buyer.

This appeal might be because of:

A. Location

B. The type of practice

C. The size, or

D. The quality of the personnel.

A. Location. In general, there are more purchasers seeking practices than there are practices for sale. While this is particularly true in the large cities it may not be true at all in small communities.

It is possible, however, that a practice in a smaller community might have appeal to a firm in a larger city if the practice had desirable clients, or if the community had prospects for increased business which the local practitioner was unable to develop. On the other hand, practices in small communities may have no prospective buyers at all, or none which the seller feels he could depend upon to give his clients the type of service that they need.

Case No. 19

K, a practitioner in a town of 20,000 was grossing about $25,000 per year. He desired to sell in order to retire, but he did not consider the two other CPAs in the community to be competent, so he attempted to find a prospective purchaser in several nearby cities. His efforts were fruitless, however, as none of those whom he approached were interested in acquiring a practice of this type in a small community. As a result, he had to accept the offer of one of the

local practitioners even though his offer was substantially below what he believed his practice to be worth, and even though he had misgivings as to the buyer's ability to hold the clients.

B. The type of practice. A practitioner with a heavy tax practice might not be interested in negotiating for the purchase of a practice which is heavy on audits. One practitioner might not be interested in a practice which is heavy on write-ups, but another one might. In general, the smaller the community the more likely it is that the practices will have less audit work.

C. The size of the practice. A small practice which a firm could absorb into its own organization without any increase in overhead might have great appeal, and the firm could well be justified in offering as high as 150 per cent of the annual gross fees. A large practice might have such limited appeal that a prospective purchaser would offer substantially less than this amount.

D. The quality of the personnel. High quality personnel, who can be induced to stay with the purchaser will greatly enhance the appeal of a practice and could well result in a better price than might otherwise be paid. On the other hand, a practice which is staffed by low quality personnel would detract substantially from its appeal and might discourage prospective purchasers from making an offer which the seller would consider acceptable.

Factor 8—Pay-out period. The level of gross fees, which is a good index of the size of a practice, serves as a convenient basis for establishing the terms of the pay-out.

Prices have ranged from as low as 50 per cent of one year's *adjusted* gross fees to a high of 150 per cent. The length of time for the pay-out has ranged from as short as three years to as long as ten years. Anything outside these ranges is exceptional.

Even when the pay-out terms are 20 per cent per year for five years, the ultimate realization often does not reach 100 per cent.

Over a period of five years clients may change to another accountant, sell or quit their businesses, or may die.

In a few cases the pay-out was a fixed amount per year. Payment of interest on the unpaid balance is unusual, and seems to occur where the price *is* for a fixed amount.

Lump sum payments are made only in special circumstances, generally where the practice is very small, the price is low, and the seller is extremely anxious to dispose of the practice.

Downpayments are usually nominal. In those cases where downpayments were substantial, the purchasers stated that this was a mistake and they would not do it again. The large downpayment, plus the periodic payments for the first year, and the additional capital required to finance work in process and receivables, became almost an intolerable burden.

It is indeed unfortunate that these factors are not more widely understood. Many practitioners have suffered financial losses because they did not know these factors.

Case No. 20

A CPA was advised by his doctor to dispose of his practice, which was grossing $60,000. He was offered 15 per cent per year for five years by a prospective buyer *after* a careful investigation. The offer was contemptuously rejected. "Everyone knows," the prospect was told, "that a practice is worth one year's gross fees." The seller continued trying to find a buyer who would meet his terms. Meanwhile, his health continued to deteriorate, a staff man quit, taking some of the clients with him, other clients went elsewhere by their own choice, and he finally accepted an offer in which he realized only about $10,000. This man could have had four times as much if he had been properly advised.

Case No. 21

K's practice in a large city grossed $75,000 and his net was $35,000. In anticipation of retirement he offered it for sale at $150,000; terms, one-third down and the balance over

five years at 6 per cent interest. Several years passed with no takers. He gradually reduced the price to $75,000 but still insisted on the same terms. He finally agreed to a merger-purchase with his pay-out to begin after five years, to be spread out over five years, with no interest and no large initial payment.

Case No. 22

M's practice had at one time grossed $40,000, but after his health began to decline he lost his staff man and some of his better clients. He offered his practice for sale when the gross had dropped to $25,000. He proposed retaining certain of the better clients involving fees of approximately $5,000. The $20,000 balance was to be paid, $10,000 down and the remainder in two payments of $5,000 a year. He and his wife working together had a net of only $9,000. He refused all offers for less than he asked and died two years later. His estate realized nothing.

Case No. 23

J's practice grossed $100,000, but he was netting only $18,000 as he was semi-retired. He had a CPA on his staff whom he had promised an opportunity to purchase the practice, but he had lost confidence in this man's ability to continue the practice and meet the terms of the pay-out.

So he offered the practice for sale at $100,000 for one-third down with the balance on 6 per cent notes secured by collateral. He refused to permit prospective purchasers to visit the office, talk to the staff, make any investigation, or examine his books until the price had been agreed upon. Needless to say, he did not find a purchaser.

Case No. 24

D's practice grossed $20,000, and netted him $9,000 in a community with four other CPAs. He charged only $7.50 per hour for his time. His practice consisted of write-up work and tax practice.

Wishing to retire, he offered his practice for sale for $20,000, but would not consider the local CPAs because, in his opinion, they would "overcharge" his clients. His advertisements produced inquiries, but out-of-town CPAs were not interested at any price when they learned the facts.

Case No. 25

T, a sole practitioner, grossed $190,000 in a city of 50,000, with a staff of twelve, including three CPAs. He had an agreement with other CPAs which provided that if one of the group died or became unable to work the others were to take charge and make whatever arrangements were necessary to assure the continuation of the practice.

T died unexpectedly and his colleagues did their best to find a buyer, but received no offers. Finally an arrangement was made with several of the staff to take over, and pay the estate 6 per cent of the gross per year for six years.

CONCLUSION

IT WOULD BE WELL to heed some of the "do's" and "don't's" from those who have learned from experience.

- Approach all problems with an open mind.
- Make the transaction complete as soon as possible. Do not enter into a "trial arrangement" which might be difficult to terminate.
- Be ready to admit there may be methods better than yours. Resist the tendency to say, "This is the way we always did it."
- Practice positive thinking. Be determined that it will work and do not look for reasons why it won't work.
- Be ready and willing to accept compromises.
- Do not withhold information of any kind from each other.

- Do not pay too much for potential.
- Keep in mind that while a merger or purchase may develop small problems, it will solve larger ones. Do not let the small problems become obstacles.
- Merger or purchase negotiations can fail because the principals will draw back from exploring those areas which might be difficult or embarrassing to discuss.
- Be sure to spell out in detail how every item of the contract or agreement is to be applied. Use examples wherever possible so as to eliminate future misunderstanding.
- Under no circumstances take over a practice or make any moves in that direction until the agreement is in writing and signed.
- Take minutes or keep notes of all meetings and conversations.
- Beware of employing wives or other family members of merged or purchased practices.
- Do not accept opinions as to rates and time. If records are not available, then either terminate negotiations, or take the time necessary to develop these records.
- Assign one partner the specific responsibility of integrating the purchase or merger.

It is interesting to note that there was less valuable information on those purchases or mergers which went smoothly than those which did not. Those who participated in negotiations which transpired smoothly rarely took the time to consider the reasons. They even expressed surprise when they discovered that others had difficulties. But those whose negotiations did *not* proceed so smoothly usually took the time to analyze what was wrong, and it is indeed a tribute to those colleagues who learned the hard way that they will disclose their mistakes to help others.

Most of those who did make mistakes were able to overcome them. Very few mergers or purchases brought the participants a financial loss.

More than one correspondent made a statement like this: "It developed later that this move or step was a mistake but, fortunately, we were dealing with gentlemen and we were able to negotiate a solution to the problem." The statement, "We were dealing with gentlemen" is an important factor in any negotiation. After all, this certainly should not be surprising. It is preferable to avoid mistakes by careful planning and investigation. Nevertheless we should not hold back and delay entering into an arrangement, if it has obvious advantages and benefits, because of a fear of making mistakes.

Remember that every practice is precious in the eyes of its owner! During the negotiations he will more than once waver in uncertainty. In these periods of indecision the slightest dissatisfaction may cause him to change his mind.

A successful conclusion of a purchase or a merger will test the limits of your patience and understanding and challenge your utmost skill in tact and diplomacy.