What Accounting Firms Need To Know About Business Succession Planning Alternatives

Accounting firms must give immediate attention to increasing staffing challenges, the emergence of new technology, and regulatory changes to remain competitive in the years ahead. At the same time, they must prioritize succession planning, as 75% of CPAs plan to retire in the next 15 years.

As retirements tick up, developing succession plans becomes even more critical. Avoiding the loss of institutional knowledge and technical expertise held by senior CPAs and preserving their longstanding relationships with clients requires careful transition management. Effective and transparent continuity plans are not only necessary for reducing operational disruptions and driving long-term growth, but can also demonstrate a firm's stability, and in turn, attract more talent in a market where recruitment is becoming increasingly difficult.

Firms have several potential paths for succession planning and should identify which works best for them: Growing through mergers and acquisitions (M&A) to scale quickly, selling to private equity (PE) or an Employee Stock Ownership Plan (ESOP) for liquidity, or staying the course under their current business model.

MARKET FORCES INFLUENCE SUCCESSION PLANNING

Key financial metrics are prompting accounting organizations to set their succession paths sooner rather than later, as valuations drive firms to take a closer look at their succession planning options. With more accounting firms making a move toward M&A or PE, others will likely ask themselves: Will the business be worth more if I buy or sell?

Evolving external factors are generating additional pressure on the industry. New technology disruption, for example, requires heavy capital investment that many firms don't have. Smaller organizations, specifically, are likely struggling to find budget for investments in artificial intelligence (AI), automation, and other emerging digital advancements. These types of financial limitations could push accounting firms to consider M&A opportunities, so they can gain access to the resources necessary for scaling.

Client expectations may also play a role in succession planning for accounting organizations. For example, many accounting firms serve established niches. Accounting leaders should regularly evaluate client demand to understand if their niche has the capacity to grow. Accounting leaders should also assess whether their pipeline contains enough prospects to help determine if their niche area is expanding or struggling. These assessments can help inform strategic plans surrounding succession.

Meanwhile, the industry's growing focus on audit quality and cybersecurity compliance has increased the need for professional services organizations to invest in additional infrastructure. Recent enforcement actions, including firm shutdowns and disbarments, demonstrate the high costs of noncompliance with regulations. Some audit committees are also increasingly asking about the specific technology used within audit processes, making these investments compliance necessities rather than just competitive advantages. If an accounting firm lacks the necessary talent or budget to give these areas the proper attention, they may consider buying or selling to another organization to consolidate resources and enhance their compliance program.

THREE VIABLE SUCCESSION PATHS

Among the various options accounting firms can consider for succession, three viable paths are at the forefront: pursue an M&A with another CPA firm, sell through PE or an ESOP, or stay the course with current operations.

GROW THROUGH M&A

Expansion through M&A can be one of the fastest scaling methods for accounting organizations, and there are ripe opportunities for dealmaking in the sector. By merging with or acquiring another practice, accounting companies have more flexibility to scale both their operations and service offerings across a larger client base.

Geographic expansion through M&A can unlock diversified revenue streams in addition to reducing market concentration risk. For example, if one accounting firm acquires another smaller practice in a different region, it can gain access to a new client base, local market expertise, and a broader footprint — helping the firm achieve steady growth across regions. Firms exploring M&A should take time now to strengthen their fundamentals so they are well-positioned when market conditions improve.

Strategic talent acquisition offers another potential path for growth. As demand for skills such as AI literacy and cybersecurity knowledge grows, firms will likely need to hire for different skillsets. Beyond niche specialties, accounting firms can also expand by bringing in talent with expertise that supports broader business growth. For example, an accounting firm focused on audit services might hire professionals with expertise in cybersecurity or financial technology to help clients manage emerging risks and leverage new tools. By diversifying their talent bench now, firms can better prepare themselves to maintain continuity and expertise as senior partners retire.

SELL THROUGH PE OR ESOP

Selling through PE or an ESOP can provide accounting firms with liquidity while also addressing succession challenges. Though a lack of adequate succession planning might drive a firm to sell, it cannot be the only point of consideration for practice leaders that pursue the PE path. PE firms are focused on growth and need to understand how an accounting firm can grow with their help —thinking beyond strictly succession.

Despite current market conditions, PE appetite for accounting firms is healthy, with sophisticated third-party investors now looking to buy accounting firms. PE firms are now offering multiples that present an attractive exit path for accounting firm owners. The option to leverage third-party capital allows PE companies to provide growth capital through shared ownership structures — typically taking minority stakes while existing owners retain majority control. This arrangement is particularly attractive for firms that want to access capital for growth while maintaining ownership.

A sale to PE is most favorable for organizations seeking expansion through seller financing. With added capital, accounting firms can reprioritize enhancements to operational areas that may have previously received less attention. PE also offers the added benefits of external operational expertise, freeing up accounting management's time from administrative burdens. When exploring a sale to PE, accounting firms should carefully assess client expectations, new ownership's alignment with current internal culture, and employee expectations.

Another route accounting firms can take if they choose to sell is **employee ownership or an ESOP**. By selling to its employees, an organization's current management retains operating control. Current practice leaders will continue to make day-to-day decisions, which can decrease the likelihood of layoffs or restructuring. Similarly, the firm's culture, client relationships, and services are less likely to change when employees transition to owners.

ESOPs also offer exciting benefits to current employees. For example, they grant employees ownership stake and profit-sharing benefits immediately, increasing buy-in and motivation across the team. ESOPs can also help firm leadership address hurdles surrounding the ongoing accountant shortage by offering competitive benefits that larger firms can't match.

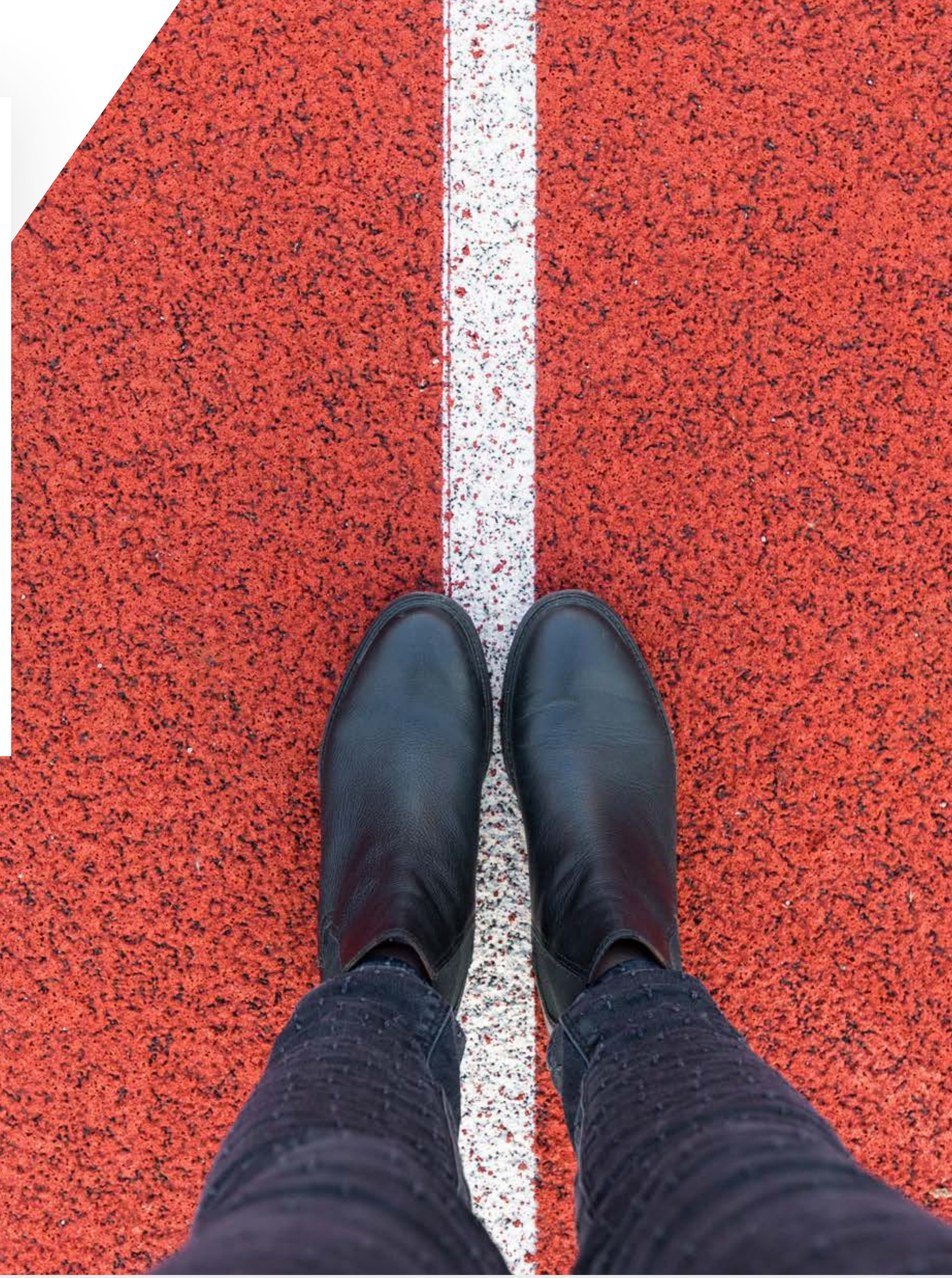
Both the ESOP and PE routes offer valuation premiums for practices with strong recurring revenue, a diversified client base, and developing leadership teams.

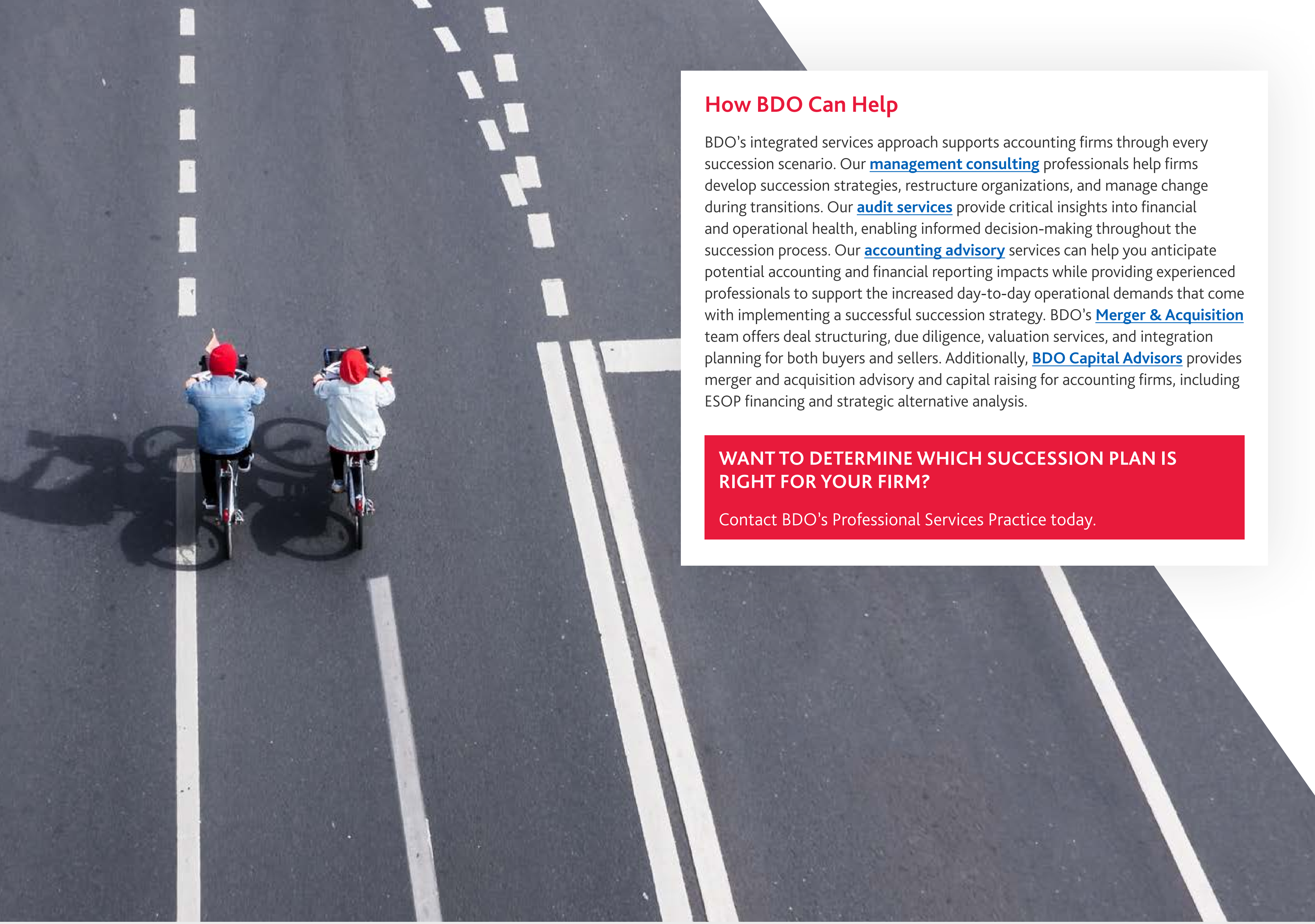
STAY THE COURSE, BUT DON'T FALL BEHIND

If an accounting firm isn't in a place to buy or sell, staying the course may be the best option. Though it might seem like the easiest route, it requires careful positioning and risk assessment. Key considerations include reviewing how competitive a firm's service offerings are and whether its client pipeline is strong enough to continue fueling business.

Organizations best positioned to stay the course will be those with an emerging talent base, diversified service offerings, or a particular niche they plan to focus on long term. Maintaining sufficient capital for technology investments will be a critical factor for organizations who stay the course. Investing in technology supports organic growth through operational efficiencies and data-driven insights, while keeping pace with billing best practices and other innovations in professional services. Without these investments, organizations risk falling significantly behind their competitors.

For accounting firms focused on a specific niche and considering their succession options, maintaining current operations might be a more strategic path to protect that specialization. It allows the organization to remain focused on its area of expertise as a crucial factor in determining leadership plans.





How BDO Can Help

BDO's integrated services approach supports accounting firms through every succession scenario. Our **management consulting** professionals help firms develop succession strategies, restructure organizations, and manage change during transitions. Our **audit services** provide critical insights into financial and operational health, enabling informed decision-making throughout the succession process. Our **accounting advisory** services can help you anticipate potential accounting and financial reporting impacts while providing experienced professionals to support the increased day-to-day operational demands that come with implementing a successful succession strategy. BDO's **Merger & Acquisition** team offers deal structuring, due diligence, valuation services, and integration planning for both buyers and sellers. Additionally, **BDO Capital Advisors** provides merger and acquisition advisory and capital raising for accounting firms, including ESOP financing and strategic alternative analysis.

WANT TO DETERMINE WHICH SUCCESSION PLAN IS RIGHT FOR YOUR FIRM?

Contact BDO's Professional Services Practice today.

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