How to Position
Your Firm to Be Acquired

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Firms of all sizes are embracing mergers and acquisitions to expand their expertise, broaden their services, compete more effectively and attract a shrinking pool of talented professionals. Many large firms are relying on acquisitions as a key component of their growth strategy. Some smaller and mid-size firms are exploring joining larger firms as they find it harder to compete for attractive commissions. Still other firms are questioning how to implement a succession strategy when too few qualified younger leaders are interested in or able to invest in an internal transition.

To better position your firm to be acquired, consider the following:

- **Look at Your Firm from a Buyer's Perspective**. When I approach the CEO or Managing Principal of a buyer on behalf of a specific firm, I am usually asked five questions:

  1. What makes this firm distinctive?
  2. How would I describe the personalities of the current owners?
  3. How long are the current owners interested in working?
  4. Is the next generation of leaders in place?
  5. Why are they not doing an internal transition?

  Let's analyze each of these questions. First, prospective buyers want to understand a firm's distinct value proposition and how that will help the buyer achieve its strategic goals. These goals often fall into one or more of the following categories: expanding geographically; entering new market sectors; providing new services; diversifying its client type (public, corporate, private, developers, etc.); or expanding its talent pool and leadership team.

  Second, buyers want to understand the culture of a firm they might want to acquire. Does the firm value collaboration? Is the leadership and governance closely controlled or widespread? Are staff empowered to assume responsibility? Often, these questions can be traced to the personalities of the owners of smaller or mid-sized firms looking to sell their firms. If one of the selling firm's key owners has a large ego, values control or is reluctant to share governance responsibilities, most buyers will assume that the cultures of the firms are not compatible.

Similarly, if the buyer's business model is that all owners excel at rainmaking, they will screen whether the selling firm's owners are natural rainmakers or whether their personalities might inhibit them from developing into strong rainmakers.

Third, buyers want to know the anticipated time horizons of the current owners of a selling firm. Are they looking for an immediate exit strategy, a slow transition to retirement, or a longer-term opportunity to leverage what they have created as they become part of a larger firm?

Next, buyers want to know whether a selling firm is dependent on a few people or whether they have a deeper bench of younger leaders in place. Generally, the greater the leadership depth, the more attractive a firm is to be acquired. Conversely, if a firm is highly dependent on one or two people, a buyer might view an acquisition as too risky or might only be interested if specific safeguards are put into place.

"Why is the next generation of leaders not knocking on the door to become owners and eventually buy the firm?"

Finally, even for the most attractive sellers, a buyer will want to know why the current owners are not pursuing an internal transition and why the next generation of leaders is not knocking on the door to become owners and eventually buy the firm. Are expectations realistic? Is the market outlook strong enough to sustain the firm? Are any cultural or personality issues preventing the firm from implementing an internal transition?

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- **Be Clear About Your Value Proposition**. If you cannot state what makes your firm valuable to a prospective buyer, you need go no further. Among the areas that strategic buyers might find attractive:
  - Strong design and/or engineering portfolio
  - Multi-disciplinary approach
  - Expertise in specific market sectors
  - Specialized services
  - Proprietary intellectual capital
  - Strong presence in desirable locations
  - High profile clients
  - Desirable network and contacts
  - Marketing abilities
  - Leadership skills
  - Staff depth
  - Exceptional profitability
  - Lower cost production abilities
  - Ability to attract talent
  - Strong retention rate

- **Make Sure All Your Partners Are On Board**. Before you embark on the time-consuming process of retaining advisors, understanding the potential value of your firm, identifying and attracting strategic buyers and gathering essential information, make sure that all your decision makers support the undertaking. If you have numerous partners or shareholders, determine whose support will be essential as you move through the process.

  Oftentimes, this will require some soul-searching by one or more of the decision makers. What will it be like to be one of many leaders in a larger firm? Can I successfully collaborate with other firm leaders? Am I prepared to relinquish control and report to other people? Will this enable me to focus on areas of the practice where my passions lie? Keep in mind that if a buyer senses any reluctance, chances are they will move on.

- **Clarify Your Goals and Motivations**. What do you and each of the other owners and key leaders want to accomplish by selling your firm? Create a clear vision, including the roles within a larger firm that will keep each of you motivated. While motivations might differ—for example, some owners might be looking for an exit strategy while others might want access to larger, more complex projects—spend time identifying the profile of a strategic buyer that will enable each of you to achieve your personal and professional goals.

- **Consider the Time Horizons of Key People**. Most buyers want the key leaders of a selling firm to commit to at least a three-year horizon, and preferably much longer. If any of your key people has a shorter time horizon, under what circumstances would they be willing to commit to a longer timeframe? If any of your key leaders is committed to exiting sooner, craft a credible narrative about why your firm's ongoing success does not depend on that person.

- **Identify the Strengths of Key Players**. Are they collaborative? Passionate? Do they have strong leadership skills? How do clients, staff and consultants view them? If any of your key people has an excessively strong personality or might not make a good first impression, think about how best to describe that people and how his or her traits will translate to positive outcomes that buyers will value.

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- **Expand Your Leadership Team**. The broader your leadership team, the more desirable and valuable your firm will be to most buyers, especially if any of the key leaders has a short time horizon. If you have been planning on elevating people to ownership or firm-wide leadership positions, consider expediting this.

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- **Determine When to Confide in Your Leadership Team**. At some point during the courting process, buyers will want to meet your key leaders, so you will need to decide when to entrust them with your plans to sell your firm. Confiding in them too early might create unnecessary anxieties or, even worse, lead clients and other staff to know prematurely. Sharing your plans too late might mean lost opportunities to get these people in front of prospective buyers or to a sense of betrayal when you do let them know.

- **Increase Your Visibility**. The best scenario for a seller is when a prospective buyer approaches them. This means positioning your firm to be on a buyer's (or their advisors') radar screen. To enhance your firm's visibility:
  - Publicize your successes including new commissions, awards and other recognition within your industry, and completed projects
  - Participate in industry events. Better yet, organize events such as symposia, panel discussions, building tours and presentations at local trade associations
  - Speak at industry events, either as a presenter, moderator or panelist
  - Publish articles about ongoing research, innovative solutions or client success stories

  Even when proactively approaching a prospective buyer, the added exposure from each of these initiatives will add credibility and make you a more desirable prospect.

- **Partner with Targeted Firms**. Look for opportunities to collaborate with other firms, particularly those with whom you might want to explore an acquisition. This will enable you to 1) demonstrate your project-related strengths and client leadership skills, 2) enhance your perceived value by bringing marketing leads, and 3) get to know each other and your respective cultures. However, be judicious. If too much of your revenue stems from partnering with firms that compete with a buyer, that buyer will likely realize that most of those revenues will disappear after they acquire your firm.

- **Diversify Your Client Base**. If you are reliant on a handful of clients for most of your revenue, buyers might consider an acquisition too risky. The same holds true if most of your revenue stems from a single building type or market sector. However, if you do specialize in a highly desirable and growing sector, don't fret. Instead, target buyers that want to enter into or expand their expertise in this sector.

- **Clean Up and Analyze Your Financials**. Spend time cleaning up your financials, especially if you are a sole owner or have been lax in your accounting procedures. Write off bad debts. Make sure your balance sheet includes entries for accrued paid time off and consultants payable. If your firm is small and closely held by only a few owners, separate those investments and expenditures that are not a normal part of operating a business. These might include real estate, personal taxes paid from the business, and "perks" that larger firms probably don't provide. If your salary is substantially above or below market-rate compensation, or if it includes profit sharing and/or distributions, consider restating your financials based on more normalized owner compensation.

  After you scrub your financials, spend time understanding your key performance financial indicators (KPFIs), such as your net effective multiplier, utilization rates, overhead factors, net revenue per billable staff, and average days outstanding on receivables.

  "If one or more of your indicators is below par, or your revenue and profitability is inconsistent, be prepared to explain why."

  Most buyers will analyze your financials and compare your KPFIs against industry standards. If one or more of your indicators is below par, or if your revenue and profitability is inconsistent, be prepared to explain why.

  Also, update your backlog of fees under contract but not yet earned. If your backlog compares favorably to previous backlog amounts, you will want to highlight this. If your backlog is declining, make sure you can explain why and, more important, how becoming part of a larger firm will better position you to obtain new revenue.

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- **Research the Market Outlook**. Strategic buyers are most motivated by growing their revenue base and profitability, usually by broadening their services and expanding their expertise within specific market sectors or geographic regions. While some buyers conduct their own research and target specific market sectors or regions, they might not be fully aware of upcoming opportunities. Is the demand for your services projected to increase and, if so, why? Is new funding becoming available? Are new policies or tax credits planned? Are your clients embarking on larger projects that require the services of a larger entity?

  When providing an outlook, make sure your projections are credible and realistic. Pointing to objective sources, such as third-party reports or funding allocations, adds credibility. The more specific you get, the more credible your forecast is likely to be.

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limits your options and lessens your appeal."**

- **Start Early**. You want to sell your firm from a position of strength, specifically when you have a recent history of earnings, an impressive backlog, long time horizons, strong staff depth and plenty of repeat clients. In other words, the best time to sell is when you don't need to. Waiting until key leaders have limited time horizons, or until your backlog has dwindled, limits your options and lessens your appeal.

Following the above steps will better position your firm to be acquired, whether your plan is to actively approach prospective buyers, to partner with larger firms with the goal of them approaching you, or to heighten your visibility so that strategic buyers are attracted to you. And each of these steps will also position your firm to better thrive on its own as you explore selling your firm.

Please share your thoughts on making ownership more attractive and affordable by emailing Michael@StrogoffConsulting.com or calling us at 415.383.7011.

About the Author:

Michael Strogoff, FAIA, has led dozens of firms through successful ownership transitions, attracted outside buyers, developed valuations, facilitated buyer-seller discussions, and collaborated with attorneys, accountants and other advisors. Michael is the former managing principal of an architecture firm, a frequent speaker and author on mergers and acquisitions and ownership transitions, a five-year Advisory Group member to AIA's Practice Management Knowledge Community and an advisor to design professionals nationwide. He brings an in-depth understanding of the architecture, landscape architecture, engineering and related design industries and of the ownership transition and mergers/acquisition process.

Michael recently authored the chapter on Ownership Transitions for the *15th edition of AIA's The Architect's Handbook of Professional Practice*. He has been awarded Presidential Citations and Commendations from the AIA California Council and AIA San Francisco for his contributions to the design professions and, in 2009, was elevated to the American Institute of Architects' College of Fellows for his contributions to the practice of architecture.

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