

# Inside<sup>+</sup>OUTSOURCING

The Newsletter for Forward-Thinking Professionals • 2018 // Issue 8 • [www.advancetrack.com](http://www.advancetrack.com)

## Merger mania

How to approach IT when practices consider joining forces



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# Bringing IT together

What happens with the IT infrastructure when two practices merge? What is the strategic approach? How long should it take to move one party onto the other's platform? Are there reasons to hold off and maintain disparate systems? Does the merger raise any peculiarities or issues particular to the sector? Read on...

The financial and analytical acumen that practitioners gain in their studies doesn't always translate into them making the best decisions when it comes to their own business.

And the merger of two practices – generally the acquisition and absorption of one into another – is certainly an area that relies on strong diligence, project management and planning, rather than the detail of FRS 102 or the latest Finance Act.

So, how much does 'technology' form the merger or acquisition process? Focus may be on complementary client bases and service lines plus the culture and working practices of staff and partners – does IT get a look-in as a key aspect of dealmaking and integration among practices?

For Keith Underwood, MD of practice advisers Foulger Underwood, undertaking IT due diligence should be a key part of any merger, and to an increasing degree.

"IT has become a key factor in helping generate additional profitability by putting the two practices together onto a single platform," he says.

"You'd want as much of that to take place on day one as possible to gain rationalisation and a benefit to the bottom line."

One anonymous practitioner told AdvanceTrack that during an acquisition of a smaller practice the approach was simply "you're coming onto our system". But they had failed to gauge the quality of the acquiree's

technology – or the lack of quality in their own system: "Looking back, at the point of merger there should have been a review of the overall systems from a big, small and joint perspective. The due diligence was focused on securing the financial deal, rather than the logistics."

Mark Taylor, a technical manager in the ICAEW's IT Faculty, concurs. It can be difficult to set out a stall for knowing how the tech integration will work, he says, but consideration must be made as part of the pre-deal diligence process.

"For some organisations it will come down to who has the 'newest and shiniest kit', particularly if one of the parties has been through a recent IT change," says Taylor.

"A lot of decisions will be made as you approach the merger: the fit seems right on a client and cultural level, and then the IT representatives from each side meet and find out things are similar. The tech will be as much a reason to merge, as cultural, client base or service approach."

The digitisation of practices is being driven by regulation (Making Tax Digital; complex, continuous tax updates; FRS102; and GDPR), along with the ability of new tech to automate processes that were once manually intensive. The increasing pace of change of technological advances means that many practices have moved quickly to new cloud-based platforms and services. Others are muddling through, making smaller changes or putting in more effort to stay still.

Without wishing to over-generalise, there will be a substantial number of firms whose owners are looking to get out before having to invest in change. For practices that have digitised their offering, the slow-movers can become attractive targets.

## Practice viewpoint: Kingston Burrowes

Bruce Burrowes is a CIMA-qualified member in practice, running a three-office firm in Surbiton, Kingston and Wimbledon.

His small but burgeoning practice has taken on a number of client lists, and also brought across staff from acquired practices.

For him, he "keeps an eye on the tech" but it's not a key influencer in the deal. "My starting point is that their clients will end up on my systems," says Burrowes. "The reason is that we like to think that what we're doing is pretty good."

He does, however, "take a peek" at the acquiree's tech choices and processes, "to learn". "You talk to the seller about their tech, what they use, why they like it and how they use it," Burrowes explains.

For his firm, part of the process of bringing acquired staff on board is to get them involved from day one on helping port across and manage their previous client list into the new system. "They're an expert on the client, but not your systems," he says. During that process they work with existing staff and is the first step in them becoming part of the team.

Crucially, he calls on an acquiree to produce a "control list"



"Because one firm is more technically mature than another, the acquirer will say 'rather than you have to invest, why don't you merge with us and we'll save you that pain?'," explains Taylor.

"It puts you in a position to take over a firm that's not digital savvy – digital often drives cost savings as well."

Conversely, Underwood has seen deals "killed" where the acquirer is paper-intensive in its processes, and can't find a way to embed a digital-only practice into the fold.

## Data protection

GDPR is worth mentioning. Data protection and privacy rules have broadened, and punishments increased greatly, under the new European legislation. So, the process of client data transfers in a merger or acquisition require a robust approach.

Consideration must be made that a merger project will likely see changes to systems and access controls during the process. "They'll need breaking down a bit to allow movement," suggests Taylor. "So you'll need a solid change management programme in place".

Underwood is seeing GDPR become a factor within the due diligence process of a deal. The great risk is that the acquiree practice has failed to purge itself of unnecessary or old client information.

"If a firm hasn't cleaned their files then work is involved... if you've got data on people who are no longer clients, that has to be identified and deleted," he says.

Another hurdle to clear is data formatting, says Taylor, a process he describes as "extract, transform and load". Common problems include client dates of birth being in American format, or something other than DD/MM/YY. "It can be different things in different organisations," he says. Again, time and cost need to be considered for such issues.

## Impact on clients

There are two other extremely important considerations. First, the question of client-facing IT must be considered. As Underwood posits, if an acquiree's client base uses QuickBooks and your practice's clients use Xero, will you port them across and what impact will that have on retention?

"There will be increasing questions over the retention of clients in relation to the use of different apps or data entry. It is a risk consideration in determining the suitability of a potential target or merger," says Underwood.

Finally, when considering your practice's IT requirements post merger/acquisition, it's vital to maintain flexibility where possible.

For Carl Reader, a co-owner of Swindon-based accountants d&t, a successful integration may set off the spark for further deals.

"If it works, then you'll probably have found a way to fund the acquisition or merger, and have the appetite for appropriate risk. Once you have that in place, why would you not consider doing it again? So you should think about systems with a growth perspective," says Reader.

"It's something I've seen other practices do: they get fit for purpose of where they are now, but not where they're going to be.

"Clients don't have a ten-year life any more. From that perspective you have to think about acquisition or organic growth, so you need systems that allow the practice to grow."



Kevin Reed is a freelance journalist and former editor of *Accountancy Age*. He is also a part-time social media and engagement consultant for Foulger Underwood.

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Crucially, he calls on an acquiree to produce a "control list"

database. This contains details about how clients are linked together. For example, the name of the client, how they're referred to in documentation, what businesses they own and what names they trade as. It will also contain information about what services they currently receive and what they've been billed.

For Burrowes this is a crucial reference document to help manage situations and double-check details when the previous practice owner has gone.

"Clients may be linked by family, it's important to know that information," he says.

Ultimately, Burrowes tries to manage IT risk by operating a single platform that provides a full suite of products. While expensive and no product is perfect, he knows the software covers "every eventuality" and simplifies the integration process.

"I remove risk by getting one product to do the lot," he concludes.

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## Vipul's view

AdvanceTrack MD Vipul Sheth takes the IT infrastructure issues out of the merger equation, and focuses on helping the key personnel work together

You might think that, with our main feature covering the topic of IT in practice mergers and acquisitions, I would also speak at length about the issues covered? Well, no – I think our commentators have done so extremely well, and you don't need more from me.

I find the non-IT issues around mergers are fascinating but also extremely important. For example, considering the culture of the two organisations in a merger. More narrowly, can the senior leaders of the

practices work together if both sets are staying on?

There is then lots of work to understand the skillsets of both firms' staff, along with setting a clear idea of what post-merger financial and responsibilities will look like.

As you'll see below, we can help take much of the IT integration weight off your back, particularly when you have so many other considerations to take into account.

# We're here to help you get moving

The fully managed service can help firms make the transition to the cloud – let AdvanceTrack do it for you

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The fully fledged, fully managed service is available now. "It's a service offering that's growing rapidly for us," says MD Vipul Sheth.

Once you've identified which clients need to move across, our trained teams help you set the format and move the data to its required destination.

"We've helped firms big and small make the transition," explains Sheth. "We can transfer all clients from one practice to another onto a new platform, or more discrete datasets. We've helped in instances like this regularly – the service is a big part of our offering."

Use your internal resources more effectively – we're the experts at moving data. Get in touch with your porting requirements and we can move quickly on your behalf.



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If you would like to view our other webinars, [please click here](#).



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