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The Challenges Faced By Consolidators Are Going to Be Huge

Ric Payne
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About 6 months ago a client asked my opinion on whether his firm should sell out to a consolidator. He mentioned that he'd just become a partner, was 29 years of age and did not really relish the idea of spending the rest of his life working for a faceless boss in another city.

The question he was asking is "what's in it for me?" He should also be asking "what's in it for my clients?"

I suggested to him that, in my opinion, there was little in it for him or his firm and little, if anything, in it for the firms' clients.

In the face of de-regulation of the industry there has been a rush by organizations to consolidate the accounting profession. Hardly a day goes by without another new player announcing that it intends to roll-up a group of firms, IPO and then pursue an aggressive acquisition strategy.

If this made long term economic sense—as opposed to the opportunity for short term entrepreneurial profit for the promoters—my own company would have done it two years ago when it started in the US with Century Business Services (CBIZ) and American Express Tax and Business Services. We looked very seriously at doing a roll-up of the 3,000 firms in our global network and came to the conclusion that the concept of consolidation flies in the face of the fundamental economics of the industry and it will not work.

The scoreboard in the US seems to bear out this conclusion. For example last year American Express managed to lose $US100 million on its consolidation business. CBIZ's share price is languishing at around $US1 (from a high in mid 1998 of $US20) and by all accounts is in serious trouble with a daily exodus of executives and the sale of several subsidiaries as it attempts to rationalize its operations. Centerprise, another consolidator that planned an IPO, has not yet made it to the line. The only 'success' to date, and the jury is still out on it, is the H&R Block acquisition of McGladrey & Pullen.

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The Economic Forces That Determine the Structure of the Accounting Profession

Business clients tend to gravitate to professional advisors who 'look and feel' like themselves and to the extent that there are a very large number of small businesses with revenues in the $500k to $20 million range there will be a natural demand for smaller accounting firms. This has been one of the main reasons why the profession has always been fragmented and it is arguable that it will remain fragmented.

To establish an accounting practice does not require a large amount of capital. The technology needed to provide core accounting services is readily available and relatively inexpensive. Most of the value created by a small accounting firm comes from the "head" of the principals. When barriers to entry are low attempts to gain advantage through consolidation are thwarted by a continual stream on new entrants to replace those who are acquired or disappear for other reasons. This tends to keep prices low and unless there are economies of scale that a larger group can exploit, margins will also remain low.

Typically there are few scale economies in fragmented industries. Production processes are standardized and tend to utilize more or less the same technology available at relatively low cost to any organization that wishes to enter the industry. Furthermore, because the principal industry processes are not complex there is little experience curve effect that might otherwise give incumbents a cost advantage over new entrants. For these reasons the cost structure of firms in these industries is more or less the same.

If the product or service offered by an industry is generic and clearly defined, as it is in the accounting industry, and there is little if any need for investing in continual R&D to remain competitive, small firms will tend to dominate the landscape. This is reflected in the absence of scale economies and is one of the reasons for low barriers to entry. Because professional service firms generally can't claim access to exclusive valuable proprietary technology or uniquely branded products, their value proposition is built on 'personal' service and a relationship with clients and that is difficult for large firms to match.

I have seen some reference in the business plans of consolidators that they intend to create group synergies (another word for scale economies) in the areas of back office support including technical research, systems integration and marketing as well as offering their firms access to an extensive array of financial products. It makes for great reading and seems to make sense. But very large firms have been doing this for years and yet their cost structure is almost identical to smaller firms. In fact I would go a step further and say that the most profitable firms in the industry are categorically not the big ones.

The key to practice profitability comes down to two things: the prices charged for services and the degree of people leverage. The highest profit performers are to be found amongst firms that have an employee to partner ratio of greater than 6:1 and who charge prices that are in the top 2-5% for firms of their type and size. Because of the nature of the work that accounting firms typically do and the fact that they all utilize the same technology and people with similar skill sets, there is limited scope to improve productivity and I will be staggered if the consolidators will be able to do anything about this.

Small firms are more adept at absorbing seasonal fluctuations than large scale operations. One reason for that is that small firms tend to have lower relative fixed costs in their total cost structure than large scale operations, which means they have lower break-even points. The accounting services sector is characterized by seasonal demand fluctuations. Many firms hire part time people during their busy periods or the team are willing to put in extra effort. During quieter times they can scale back their operations – this type of capacity management is very difficult for large scale businesses to manage.

Is there competitive advantage to large firms in dealing with customers or suppliers?

The mergers amongst the Big 6 in recent years were driven in the main by the need to be able to effectively service their huge global corporations that comprise their client base. It could be argued that capital pooling was also an issue here.

However, the present cohort of consolidators are minnows compared to the Big 5 and none could seriously lay claim to being a contender for the market space they occupy. The question therefore is: will a large consolidated firm have any competitive advantage over smaller independent firms in relation to its client interface and/or will it enjoy any supply chain advantage?

As to the first part of this question, I can't see any advantage at all. In fact I suspect the consolidator will be at a decided disadvantage in that on a size basis it will be up against the entrenched second tier firms at the top end of town on the one hand and on the other hand it will be up against the smaller independents in its constituents' traditional franchise. Unless the consolidator can offer clients something that its competitors can't match it will have nothing other than size as a differentiator.

In relation to the issue of supply chain buying power I find it hard to get excited about the opportunities here. Unlike the video hiring industry where small independent rental shops had no clout against the film industry accountancy practices simply do not deal with powerful suppliers and apart from their labor expense there is very limited scope to improve margin through buying leverage. There will be some benefit to be sure but in the big scheme of things it will not have much impact on the bottom line.

The most important productive resource in accounting firms is skilled labor. It is also the major cost center. One sure way to destroy an accounting business is to 'steal' its key people especially at the present time when there is a shortage of trained and experienced personnel. To the extent that large firms can offer more attractive conditions and benefits to employees they represent a very real threat to small firms in the industry and this alone could be where the battle for market dominance takes place.

Attracting and retaining talent is the big issue in the profession at the moment and all indications are that it is going to remain an issue for some time to come. There is no doubt that labor costs are going to rise because of supply shortages and this will add to the pressure on margins that technology is already exerting. Of all the possible advantages that a consolidator may be able to offer, this is potentially the most viable but it will come at a price—namely employee share options and other benefits including training, opportunities for travel and so on.

Size brings with it diseconomies.

Large firms are usually less nimble than small ones. This is particularly true where there is a need for overhead to remain low, where there is a diverse product line that requires a high level of customization and/or interface between the customer and the service firm, where there is a high level of creative content, where there is a need for close local control or where local image and contacts are critical. All of these things tend to favor small business units and in the accounting industry will favor small firms.

Where products or services are capable of being highly differentiated it is difficult for a large scale firm to assume a dominant position in the market. This is why differentiation is such an important strategy for small firms to adopt to compete effectively with larger firms. But it is not something that is an issue just for small firms. Consolidators will be offering essentially the same products and services as their independent competitors and mere size is not a differentiator that, in and of itself, creates value for clients—if anything, in the personal service business, size is probably a disadvantage.

Will the consolidators be able to retain their acquired personnel?

Once the honeymoon is over it will be interesting to see how many people who sell out to a consolidator happily remain on as an employee. Working with professionals has been likened to "herding cats" and if mergers and acquisitions of the past are any indication it is highly likely that many people who sold out will get out as soon as they can. Clearly this will not apply to everyone but the cultural shock from being your own boss to working in a command-and-control corporate environment is going to have to be reckoned with by the consolidators.

Given the low costs of entry that I have previously mentioned and the fact that clients attach much more closely to their advisors than to their advisor's employer I suspect that we will see some defections from the consolidation ranks over time and with it, the emergence of new firms.

This will not just apply to partners who sell out but also their employees. The economics of this industry favor small firms and my gut tells me that talented people will see opportunities to start their own practices to offer their clients "personalized service" – does that sound familiar. But this time around, if the employer is a heartless corporation rather that the family firm that the client has been dealing with for years I believe that the client will have no sense of loyalty so it is likely that it will be much easier than it has ever been.

What are the choices?

The future for the accounting profession is very interesting indeed. Personally I think the opportunities are fabulous but the pitfalls are many.

First up, I do not believe the consolidators will prevail at the end of the day. I feel quite confident in predicting that the stock market will not value these businesses at the sorts of multiples that are now being touted (and in fact achieved for the present) once their fundamental business model is shown to be flawed.

There are two flaws in the consolidation business model. First, I do not believe large firms will be able to secure and retain the market share they would need to effectively control the economics of the industry. The barriers to entry are such that they will always have smaller and very capable competitors. Secondly, I do not believe that large firms can offer products or services (including the quality of service) that smaller firms are unable to match through strategic alliances and as members of robust global networks. In the US at this time, strategic alliances and strong networks offering the essence of a multi-disciplinary practice are receiving far more acceptance than consolidation.

There is no doubt that the competitive landscape is changing but to think that the only way to cope with change is to get bigger is absurd. On the other hand, any firm that thinks that it will be doing in 5 years what it is doing today is in for a big shock. Some firms will disappear but not because of consolidation. They'll go because they lost their way.

If I were a partner today and thinking of retiring I would be happy enough to sell out to a consolidator. In fact I'd be happy to sell to anyone as long as the interests of my clients and my employees was not an issue. If I did sell I'd want 100% in cash – they can keep the script for someone who sees some long term merit in their business model.

If I were planning to spend a lot more time in the profession I would most definitely not sell out to a consolidator. I'd get my firm into shape for the exciting times that lay ahead. Specifically I'd be looking forward to the day when I could go head to head with the consolidators. I would join a global network, I would make sure that at the product level I can match everything the large corporates are offering clients, I'd have the internal operations of my practice fine tuned, I'd be operating my firm as a business along corporate lines, I'd have my key people on profit sharing and an equity option plan, I'd be keeping very close to my clients and I'd be developing highly customized services that they need and want.

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It is significant that RSM-McGladrey (the consolidation arm of H&R Block) was already a $US400 million firm and ran a network of other independent firms controlling a further $US400 million in revenues before it started to acquire other firms. It has an awesome reputation as an accounting practice in its own right, top quality leadership experienced in managing a large scale professional services firm, a well entrenched culture, a thorough understanding of clients and their needs and a huge cash reserve. It has also been very selective in those it has acquired. It would be absurd to compare this organization with any of the other new players on the block. It is a quality firm through and through.

The Economic Forces That Determine Industry Structure

At the end of the day, an industry's structure is driven by the economics of the industry not the other way round.

Business clients tend to gravitate to professional advisors who 'look and feel' like themselves and to the extent that there are a very large number of small businesses with revenues in the $250k to $20 million range there will be a natural demand for smaller accounting firms. This has been one of the main reasons why the profession has always been fragmented and that it will remain fragmented.

Also related to this point is the fact that relatively unsophisticated businesses owners and managers require relatively unsophisticated (but nonetheless competent) advice. The traditional genre of large firms find it extremely difficult to see the world through the eyes of a small business operator and as a result they typically over-kill when servicing small clients. The other huge problem they have is creating a situation in which there is continuity between the client and service professional. This results in the need for the professional to re-learn the client's situation with consequential cost increases (or write-offs). In working with small clients, small firms have a decided advantage over large firms in both the level of service required and in the quality of the relationship with the client.

To establish an accounting practice does not require a large amount of capital. The technology needed to provide core accounting services is readily available and relatively inexpensive. Most of the value created by a small accounting firm comes from the "head" of the principals. When barriers to entry are low, attempts to gain advantage through consolidation are thwarted by a continual stream on new entrants to replace those who are acquired or disappear for other reasons. This tends to keep prices low and unless there are economies of scale that a larger group can exploit, margins will also remain low.

Typically there are few scale economies in fragmented industries. Production processes are standardized and tend to utilize more or less the same technology available at relatively low cost to any organization that wishes to enter the industry. Furthermore, because the principal industry processes are not complex there is little experience curve effect that might otherwise give incumbents a cost advantage over new entrants. For these reasons the cost structure of firms in these industries is more or less the same.

If the product or service offered by an industry is generic and clearly defined, as it is in the accounting industry, and there is little if any need for investing in continual R&D to remain competitive, small firms will tend to dominate the landscape. This is reflected in the absence of scale economies and is one of the reasons for low barriers to entry. Because professional service firms generally can't claim access to exclusive valuable proprietary technology or uniquely branded products, their value proposition is built on 'personal' service and a relationship with clients and that is difficult for large firms to match.

I have seen some reference in the business plans of consolidators that they intend to create group synergies (another word for scale economies) in the areas of back office support including technical research, systems integration and marketing as well as offering their firms access to an extensive array of financial products. It makes for great reading and seems to make sense. But very large firms have been doing this for years and yet their cost structure is almost identical to smaller firms. In fact I would go a step further and say that the most profitable firms in the industry are categorically not the big ones.

The key to practice profitability comes down to two things: the prices charged for services and the degree of people leverage. The highest profit performers are to be found amongst firms that have an employee to partner ratio of greater than 6:1 and who charge prices that are in the top 2-5% for firms of their type and size. Furthermore, prices are a function of the type of clients the firm works with and the type of services that are offered to those clients. In other words it comes down to the value created and prices charged. Both of these profit drivers can be addressed by firms of any size.

Because of the nature of the work that accounting firms typically do and the fact that they all utilize the same technology and people with similar skill sets, there is limited scope to improve productivity and I will be staggered if the consolidators will be able to do anything about this.

Small firms are more adept at absorbing seasonal fluctuations than large scale operations. One reason for that is that small firms tend to have lower relative fixed costs in their total cost structure than large scale operations which means they have lower break-even points. The accounting services sector is characterized by seasonal demand fluctuations. Many firms hire part time people during their busy periods or the team are willing to put in extra effort. During quieter times they can scale back their operations – this type of capacity management is very difficult for large scale businesses to manage.

Large firms are usually less nimble than small ones. This is particularly true where there is a need for overhead to remain low, where there is a diverse product line that requires a high level of customization and/or interface between the customer and the service firm, where there is a high level of creative content, where there is a need for close local control or where local image and contacts are critical. All of these things tend to favor small business units and in the accounting industry will favor small firms.

Where products or services are capable of being highly differentiated it is difficult for a large scale firm to assume a dominant position in the market. This is why differentiation is such an important strategy for small firms to adopt to compete effectively with larger firms. But it is not something that is an issue just for small firms. Large firms will be offering essentially the same products and services as their independent competitors and mere size is not a differentiator that, in and of itself, creates value for clients—if anything, in the personal service business, size is probably a disadvantage.

The one area where size may be an advantage.

The most important productive resource in accounting firms is skilled labor. It is also the major cost center. One sure way to destroy an accounting business is to ‘steal’ its key people especially at the present time when there is a shortage of trained and experienced personnel. To the extent that large firms can offer more attractive conditions and benefits to employees they represent a very real threat to small firms in the industry and this alone could be where the battle for market dominance takes place.

Attracting and retaining talent is the big issue in the profession at the moment and all indications are that it is going to remain an issue for some time to come. There is no doubt that labor costs are going to rise because of supply shortages and this will add to the pressure on margins that technology is already exerting. Of all the possible advantages that a large firm may have, this is potentially its most powerful weapon but it will come at a price—namely employee share options (ESOPS) and other benefits including training, opportunities for travel and so on. However, that ‘price’ will, at the same time, add further pressure to the cost structure of the rest of the industry.

While there has been a lot of rhetoric about the value of ESOPS to employees it is important to realize that unless the employees are ‘in the money’ their ESOP is not worth the paper it’s written on. Take for example the Cbiz situation. Employees who may have received options to take up shares at the time the stock price was $20 at, let’s say a discount of 10%, are looking at a piece of paper today that has a face value of $1 against a strike price of $18. Time will tell, but just now there does not appear to be a lot of comfort in that. Employee equity participation is certainly something that we will see more of but it is not a panacea for the solving the labour shortage that the profession faces at this time and it would be naive in the extreme to believe that it alone will solve the problem of employee defection. The heady days of employees becoming millionaires in the dotcom economy are well and truly over.

Where will the revenue come from?

For people considering selling out to a consolidator it might be useful to contemplate the following questions.

How will my existing clients benefit when I open my doors as ABC Consolidated? For example, what new services will I be able to deliver to them that I could not offer today either by re-training my people, hiring new people or striking a service alliance with another firm? And if I could offer those services, why haven’t I? They tell me that we will be rolling out new services and financial products, who is going to sell them? I’ve found that I’m not much of a sales person and nor are my team so what is going to change?

I know that most firms are more or less in the same position as me in relation to profitability, growth and structural issues so when we all get together in ABC Consolidated where will the synergy come from? What will the new corporation do for me that I can’t do for myself? My problem at the moment is not a lack of work it is a lack of personnel. How will ABC Consolidated help me get more talent? Will they give me the working capital I need to build this business unit? If everyone in the new corporation needs capital for growth where will it come from? What operating targets will I be expected to achieve? What will happen if I can’t do any better than I have done in the past several years? How will I feel if my hard earned profits are going into the pool to subsidize the other business units that I know are not performing at the level I'm at? Do I really want to spend the rest of my professional career as an employee of ABC Consolidated? The people running ABC now are good people but what will it be like if some hard-arse gets appointed to the CEO role some time in the future?

When I open my doors as ABC Consolidated, why would new clients all of a sudden consider me to be their firm of choice? Do people looking for professional services naturally look for corporations or do they look for competent people? I know that most of my quality work comes from referrals from delighted clients, why would they all of a sudden become more delighted simply because I am now a part of a corporation? I have spent many years building my own brand in my community, would I want to throw that away and assume a new corporate brand? What will happen to my reputation in my community if some idiot in the group stuffs up big time and gets national press coverage or if management at head office turns out to be weak and unable to run a business of this size? If you are contemplating selling out to a consolidator you'd be advised to take a very close look at the depth of top management and in particular its experience in managing a large scale professional services firm. If people aren't beating a path to my door now why should I expect them to do so after I change the name of my firm.

Before jumping onto the consolidation bandwagon you might want to take the following test. Imagine you are sitting in front of your clients immediately after selling out. Complete the following sentence: "I have decided to sell my firm to ABC Consolidated, what that means for you is …." If your answer is that your client will be able to buy some more financial products from you, you might want to think again. How many accounting firms built successful financial planning businesses in the past 20 years?

Will the consolidators be able to retain their acquired personnel?

Once the honeymoon is over it will be interesting to see how many people who sell out to a consolidator happily remain on as an employee. Working with professionals has been likened to "herding cats" and if mergers and acquisitions of the past are any indication it is highly likely that many people who sold out will get out as soon as they can—more often than not to start another firm. Clearly this will not apply to everyone but the cultural shock from being your own boss to working in a command-and-control corporate environment is going to have to be reckoned with and carefully managed by the consolidators.

It is significant to note that many people running smaller firms today came out of a Big 5 or second tier firm and they elected to leave that environment because they could not put up with the disadvantages of working in a large corporate style environment. The bureaucracy, politics and inherent inefficiencies that characterize those organizations are the very reason they left in the first place and to think that this will not be characteristic of the new wave of consolidators is fanciful thinking.

Related to that is the fact that many of the people who sell out to a consolidator will be doing so as their exit strategy. For people who plan to stay in the profession for some time and build the value of their equity it does not make much sense to take rank with those who plan to 'get off the bus' as soon as possible.

Given the low cost of entry that I have previously mentioned and the fact that clients attach much more closely to their advisors than to their advisor's employer I suspect that we will see some defections from the consolidation ranks over time and with it, the emergence of new firms.

This will not just apply to partners who sell out but also their employees. The economics of this industry favour small firms and my gut tells me that talented people will see opportunities to start their own practices to offer their clients "personalised service" – does that sound familiar. But this time around, if the employer is a heartless corporation rather than the local firm that the client has been dealing with for years I believe that the client will have no sense of loyalty so it is likely that it will be much easier than it has ever been to branch out and start a new firm.

Is there competitive advantage to large firms in dealing with customers or suppliers.

The mergers amongst the Big 6 in recent years were driven in the main by the need to be able to effectively service the huge global corporations that comprise their client base. Again we see evidence of industry structure being driven by the need to match client size – large global corporations want to deal with large global, multi-disciplinary accounting firms. The accounting firms, it should be said, also did not want the competitive space to have too many players competing against each other in bidding for work from powerful clients.

The question is: will a large consolidated firm have any competitive advantage over smaller independent firms in relation to its client interface and/or will it enjoy any significant and sustainable cost advantage?

As to the first part of this question, I can't see any advantage at all. In fact I suspect the consolidator will be at a decided disadvantage. For starters, although on a size basis it may look like a very big firm, in reality it is a coalition of small firms with a combined set of skills that do not match the really big firms that are entrenched at the top end of town. Clearly, the consolidators will not be picking up any work there. To suggest otherwise would be like suggesting that the 7-Eleven chain is a serious contender for the space occupied by major supermarkets.

At the other end of town, the consolidator will be up against the smaller independents in its constituents' traditional franchise. Unless the consolidator can offer clients something that its competitors can't match it will have nothing other than size as a differentiator and that simply will not cut. We are bigger than the guy across the road …. so what, says the client. Are you better? In what respect. If bigger was better the Big 5 would already own the market and they don't because the economics of the industry will not permit it.

In relation to the issue of cost advantage I find it hard to get excited about the opportunities here. Unlike the video hiring industry (a successful industry consolidation) where small independent rental shops had no clout against the film industry, accounting practices simply do not deal with powerful suppliers of critical inputs and there is very limited scope to improve margin through buying leverage—

apart from labour no expense item on an accounting firm P&L exceeds 10% of revenue so where possibly can significant savings come from. There will be some benefit to be sure but in the big scheme of things it will not have much impact on the bottom line.

Pooling of capital for R&D especially in technology and product development is definitely an advantage that attaches to size but this can be achieved through membership of a strong network without selling the farm.

On Balance …

For an industry to be successfully consolidated, the following conditions need to be in place:

- Clear and significant economies of scale—there is little evidence of this in the accounting services sector.
- Customers who are few in number and very strong and therefore have a decided negotiating advantage when dealing with small firms—this is categorically not the case in the accounting services sector.
- A product or service that does not require significant customization and the involvement of intellectual input from the service provider—this would apply to some services offered by accountants e.g. low level tax returns but it does not apply to most higher level, true value added work.
- A product or service that can be strongly branded or built with proprietary technology that is not generally available—this is not the case in the accounting services sector.
- High barriers to entry to the industry, especially in relation to the capital and technology required, so that it is difficult for new entrants to compete effectively for market share—this is not the case in the accounting services sector.

Unless the industry reflects these circumstances (and it must reflect all of them, not just one or two in varying degrees) there will always be an opportunity for small independent firms to compete very effectively against a large firm. This will keep margins low and to the extent that smaller firms are more nimble and entrepreneurial they will have a competitive advantage over their larger competitors.

In my opinion the fundamental economics of the industry favor fragmentation and with that comes an opportunity for small firms to not only survive but to do extremely well. The opportunities for those willing to step up to the plate are staggering. The consequences for those who aren't are frightening. I believe we will increasingly see a polarization of profitability amongst firms that will not be correlated with size. The highly profitable firms will be those who are willing and able to integrate ubiquitous technologies and client service to create real value in ways that have hitherto been impossible.

What are the choices?

The future for the accounting profession is very interesting indeed. Personally I think the opportunities are fabulous but the pitfalls are many.

First up, I do not believe the consolidators will prevail at the end of the day. I feel quite confident in predicting that the stock market will not value these businesses at the sorts of multiples that are now being touted (and being achieved by some of them) once their fundamental business model is shown to be flawed.

There are two flaws in the consolidation business model.

First, I do not believe large firms will be able to secure and retain the market share they would need to effectively control the economics of the industry. The barriers to entry are such that they will always have smaller and very capable competitors. Clients of accounting firms, especially long standing ones, perceive (and probably have) high switching costs. They will not run across the road just because some nationally branded firm appears on the block. Some people may remember the failed attempts by the Big 6 (at the time) to establish offices in regional towns a decade ago. They had enormous brand equity but could not go head-to-head with the entrenched local firms. The bottom line is that this industry is simply not suited to consolidation.

Secondly, I do not believe that large firms can offer products or services (including the quality of service) that smaller firms are unable to match through strategic alliances and as members of robust global networks. In the US at this time, strategic alliances and strong networks offering the essence of a multi-disciplinary practice are receiving far more acceptance than consolidation. People in Australia and New Zealand need to realize that they are running 2 years behind the US on this issue and the results in the US are not pretty. To ignore that is to fly in the face of reality.

There is no doubt that the competitive landscape is changing but to think that the only way to cope with change is to get bigger is absurd. On the other hand, any firm that thinks that it will be doing in 5 years what it is doing today is in for a big shock. Some firms will disappear but not because of consolidation. They'll go because they lost their way.

If I were a partner today and thinking of retiring I would be happy enough to sell out to a consolidator. In fact I'd be happy to sell to anyone as long as the interests of my co-partners, clients and employees were not an issue. If I did sell I'd want 100% in cash – they can keep the script for someone who sees some long term merit in their business model. I would invest the cash in stock that had greater chance of long term growth.

If I were planning to spend a lot more time in the profession I would most definitely not sell out to a consolidator. I'd get my firm into shape for the exciting times that lay ahead. Specifically I'd be looking forward to the day when I could go head to head with the consolidators. I would join a global network, I would make sure that at the product level I can match everything the consolidators are offering clients, I'd have the internal operations of my practice fine tuned, I'd be operating my firm as a business along corporate lines, I'd have my key people on profit sharing and an equity option plan (or a phantom equity plan with appropriate vesting provisions built in), I'd be keeping very close to my clients and I'd be developing highly customised services that they need and want.