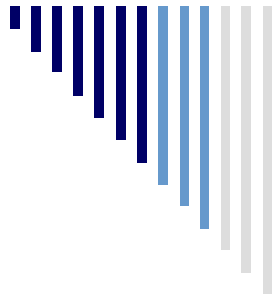


Need for Networking, Merger & De-merger in the Present Scenario

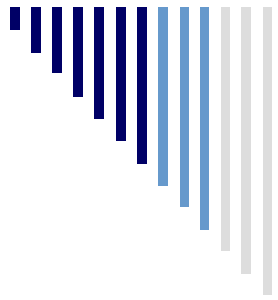
CA Nandita Parekh

WIRC – March 28, 2015



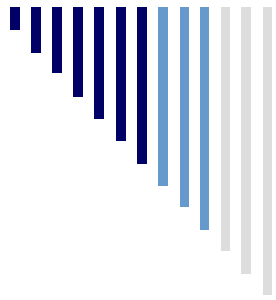
This Session

- The present scenario
- The Growth Proposition
- A case for Consolidation



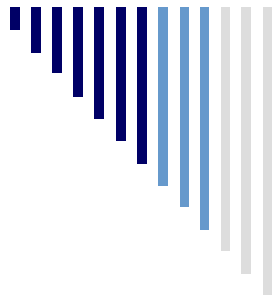
The Present Scenario

- The external economic scenario
- The global cues
- The profession in India



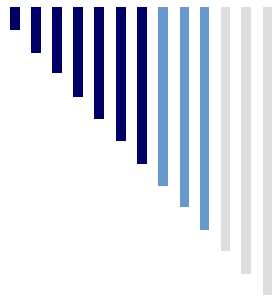
External Economic Scenario

- ❑ India continues to be an interesting story
- ❑ Large scale consolidation and restructuring across businesses
- ❑ Serious shortage of accounting professional in Industry
- ❑ Ever increasing compliances – SEBI, RBI, Companies Act, Corp Governance, IFRS, GST, Service tax....
- ❑and ever increasing scams



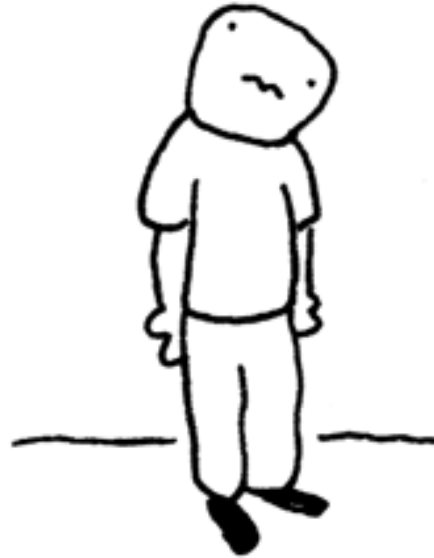
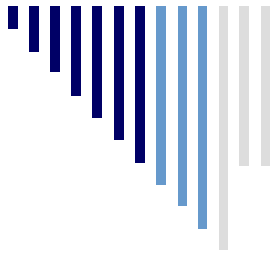
The Global Cues

- ❑ ICAI working towards enabling its members to practice in other countries
- ❑ Foreign entities setting up shop in India
- ❑ Indian businesses setting up establishments abroad
- ❑ Standardization of regulatory and disclosure framework internationally
- ❑ Access to international qualifications – CFA, CIA, CISA, CPA, CFE, etc.

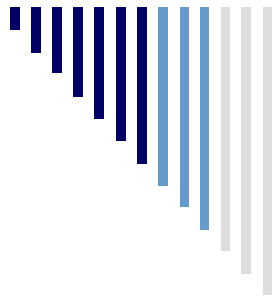


The Profession in India

- Huge gap between demand and supply – very few fresh entrants in the profession
- Closure of many “star firms” of yester years due to merger, takeover, retirement, extinction.
- Shortage of accounting and finance professionals in industry, particularly in the mid-sized segment.
- Audit Rotation promises to be a game changer for the profession and the existing firms
- Eagerness to outsource work that was hitherto done strictly in-house.
- Opening up of possibilities through favourable regulatory changes – LLP, cross-professional partnerships, networking norms, global alliances.

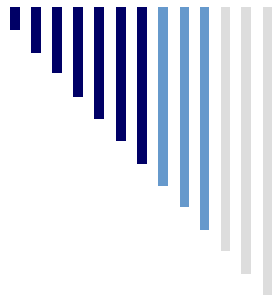


When asked "would you rather work for change, or just complain?" 81% of the respondents replied, "Do i have to pick? This is hard."



The Growth Proposition

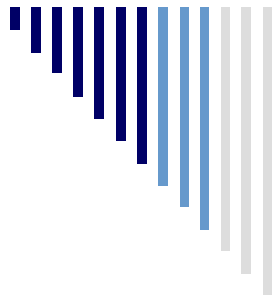
- Relevance
- Triggers and Options
- Strategy



Relevance

- Is growth relevant for all firms?
 - Yes, in most cases.

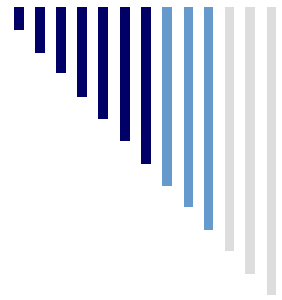
- Is growth through NW, mergers and de-mergers relevant for all firms?
 - Not really – depends on the firm's strategy, areas of specialization and medium to long term plan.



Relevance of Growth

- To leverage on the opportunities
- To cater to the need of existing clients
- To cater to the need of younger members who have joined your firm
- To earn economic benefits
- For survival, or for strategic positioning.

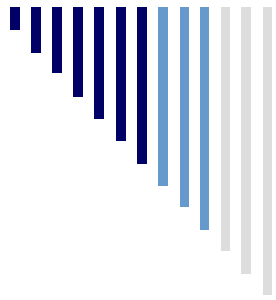
-essentially, to enable achievement of identified goals.



Growth Proposition – Individual v/s Firm

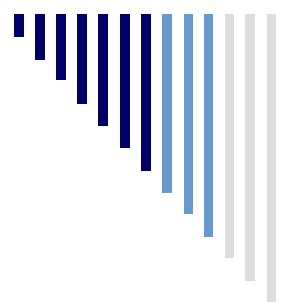
- For an individual professional – moving up the value chain, improvement in skills, knowledge, clients and nature of services.
- For a Firm – scale, revenues, type of services offered, geographic spread, specialization in niche areas.

Growth happens in two ways – increase in billing rates and/or increase in billable hours (qualitative and quantitative growth) – these are not mutually exclusive.



To consolidate or not?

- Growth may be
 - Organic
 - Inorganic
- Organic growth may be too slow to meet the demands of even the existing clientele.
- Inorganic growth is faster and also eliminates competition, while giving the advantages of synergy, specialization and geographic spread.



Relevance of Growth in present times

- The critical difference is that a decade back, growth was a possibility, an option... today, in many cases, it is essential for survival.



Some Growth Strategies

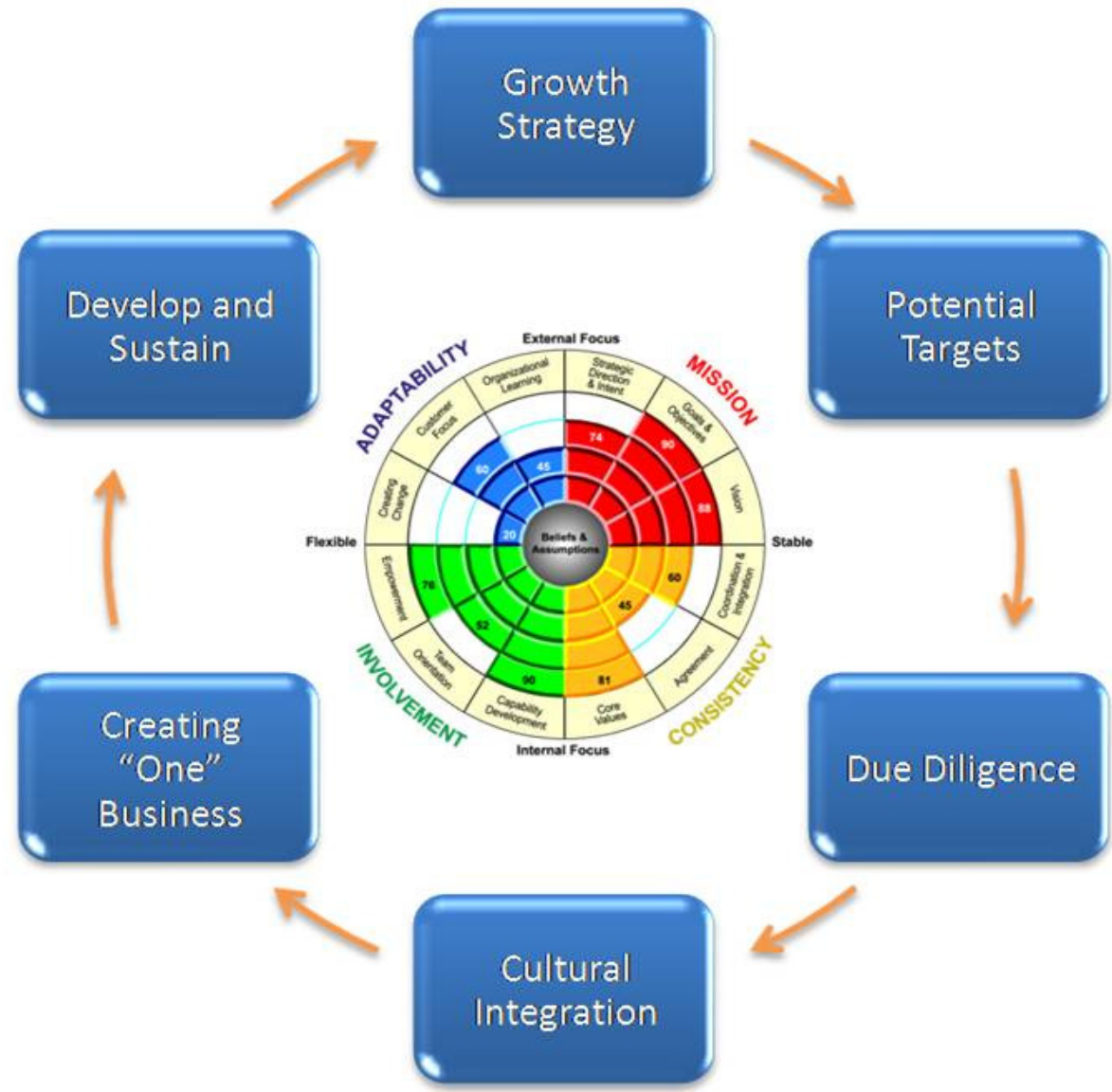
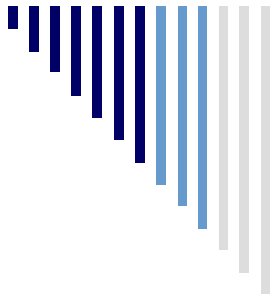
- To be a solo operator or a boutique firm undertaking only specialist assignments e.g. forensic investigations, Supreme court matters, health care management, etc.
- To establish strong presence, through organic growth in one region and through inorganic growth in other regions.
- To focus on one or two specialty areas, with a view to merge with a multi-specialty firm (functional or industry)

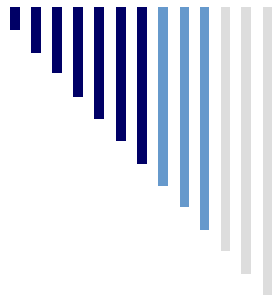
The manner of growth is dictated by the growth strategy.



A Word of Caution

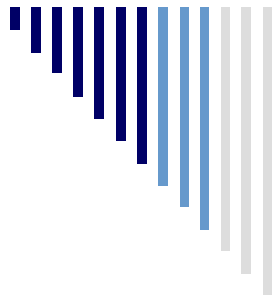
- Many firms have jumped into the networking bandwagon without clearly defining their growth strategy – unplanned consolidation may actually result in dilution of value.
- The ground work that is required to ensure that the network or the consolidation would be lasting and beneficial is often lacking.





The Starting Point

- Self assessment – where is the Firm now and where is it headed?
- Objective – where do we want to see the Firm? Will it reach there in normal course?
- Reflection – what is the best way to reach where we want to reach? Do we need to scale up, network, merge, sell off...or maintain status quo?



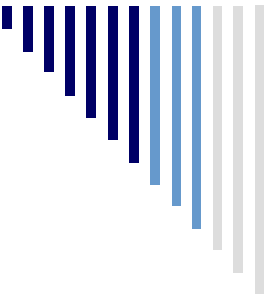
The Triggers

The need for a change, as a result of:

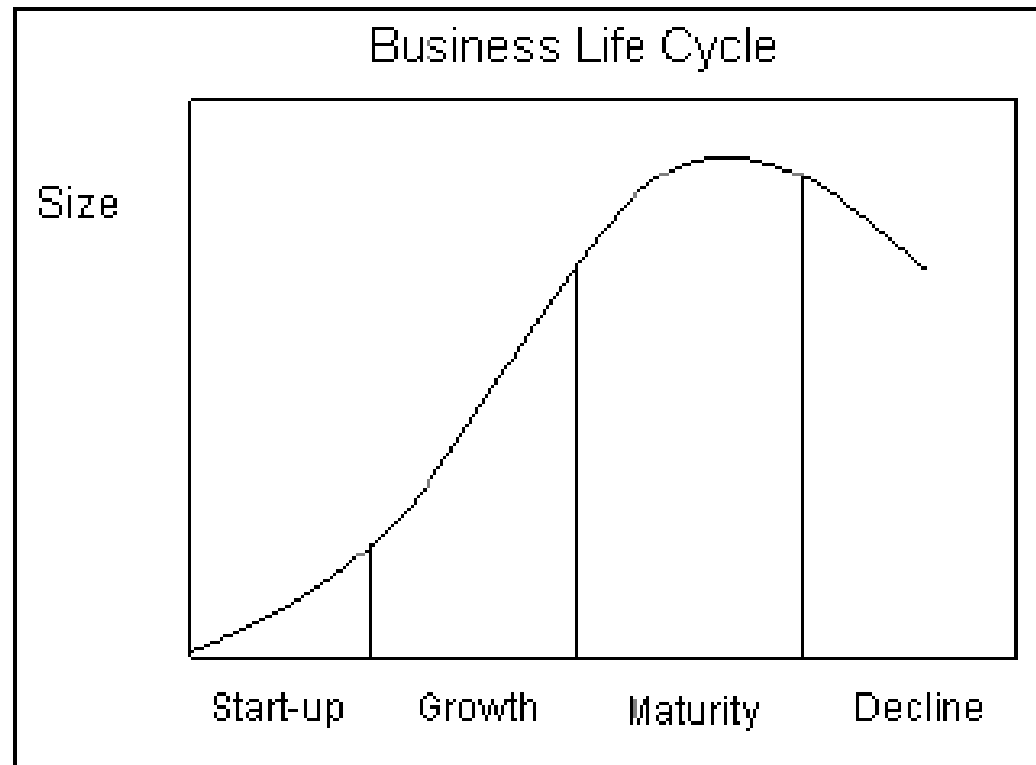
- External Triggers

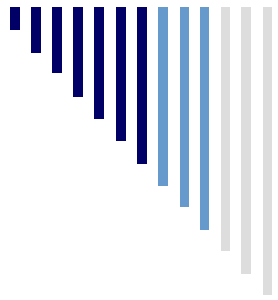
- Internal Triggers

Very often we refuse to acknowledge the tell-tale signs that point to the need for change.



Where do you place your firm on the life cycle graph?

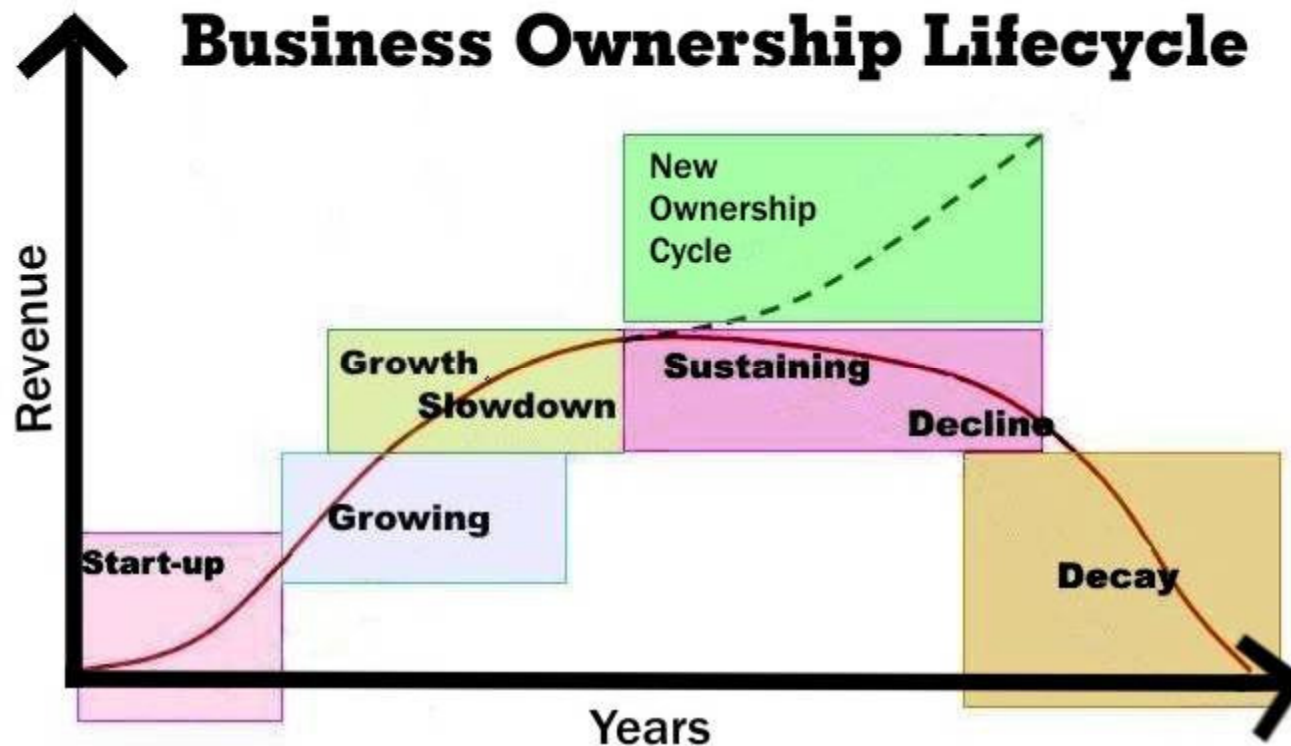




The Importance of Timing

- The smart decision is to merge when the firm is near its peak – that is perhaps the best valuation point
- The sad fact is that many firms consider merger well after they have peaked, in a scramble to survive
- A timely merger may in fact give the opportunity of reaching a new “high”

Is this your reality?



Very often, the choice is between extension of the rising curve v/s sliding down the decline.



The Need to Change

SOME PEOPLE CHANGE WHEN THEY
SEE THE LIGHT, OTHERS WHEN THEY
FEEL THE HEAT.

- CAROLINE SCHOEDER

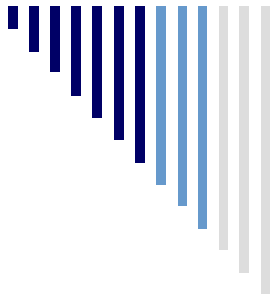


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To summarize

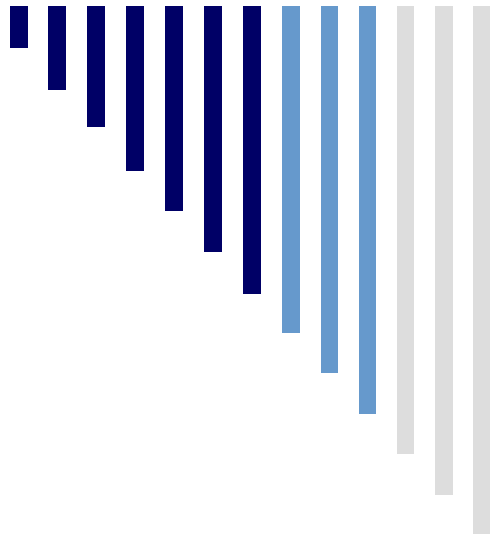
- Growth for the sake of growth is not meaningful – growth with a view to achieve desired milestones/destination is what is required.
- Action Plan – Strategize, define the destination, identify the milestones and then, embark on the journey!





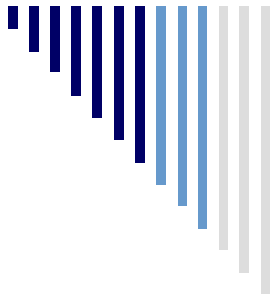
00001824 - Arnaldur Halldorsson - © www.nordicphotos.com

*Remember, the journey of a thousand miles
must begin with a single step.*



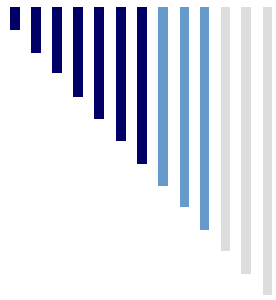
A Case for Consolidation

**Ten reasons why consolidation
may be considered**



1. Widen the Service Net

- Add new practice areas by consolidating with firms having different specialization.
- Develop new practice areas by identifying a dedicated team – this requires scale.



2. Geographic Spread

- ❑ Multi city/country presence opens up larger opportunities for servicing clients having multi-location presence.
- ❑ Expertise gained in metros can be replicated easily in Tier II cities, thereby reducing the learning curve in new locations.
- ❑ For audit and internal audit practice, geographic spread has become essential.



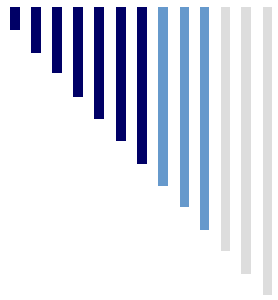
3. Filling the Leadership Gap

- Many firms are known by 2 or 3 star professionals of the firm.
- Consolidation creates a starting point for development of next leaders, succession planning and to some extent institutionalizing the professional services firm.
- Consolidation also shifts the leadership role from individuals to committees and hence, provides a good sounding board for major decisions.



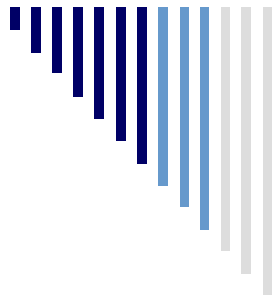
4. Talent Sourcing Retention

- A larger, multi-service firm/network provides greater ability to source and retain talent by providing variety of options across practice lines and locations.
- New entrants are wary of joining “Mom and Pop” shops, unless there is a clearly defined career progression plan for them.



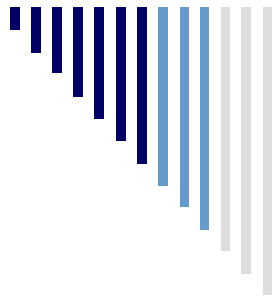
5. Technology

- The ability to harness technology for improving service delivery and internal management is perhaps the single largest advantage of scale.
- In present times, technology is clearly a differentiator...in times to come it will become a necessity for survival.



6. Knowledge Management

- Professional support for knowledge management can be obtained.
- Possibility of maintaining an updated website, newsletters for internal and client circulations, web-based training etc. becomes easier and cost effective
- Audio, Video and i-library can be set up once the scale is larger.



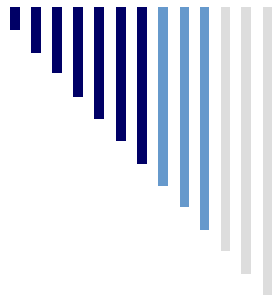
7. Scaling up Infrastructure

- Metros in general, and Mumbai in particular has a significant property cost. A larger set up enables access to larger office space and more efficient usage of premises.
- Feasibility of availing many services for efficient office management – IT support, in-house engineer, Admin department, better banking facilities, xerox and printer arrangements, off-site storage of records etc.



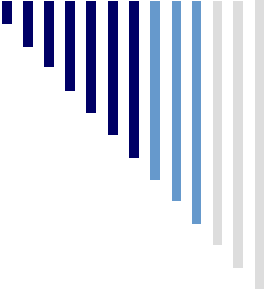
8. Human Resources

- Ability to develop talent in anticipation of need – the ability to hold a “bench” to take advantage of opportunities that come one’s way.
- Formal training. Study circles, guest faculty – all this becomes viable with ease.
- Formal selection, mentoring and evaluation processes for the team members.



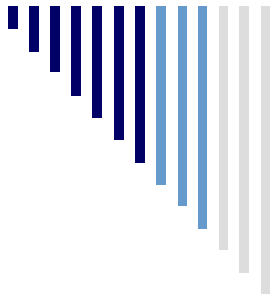
9. Size Essentials

- Becoming an attractive merger candidate – big 8 to big 4 story.
- Becoming a preferred service provider for large corporate groups.
- For qualifying for certain large assignments, in India and internationally.
- For being the first mover in many new practice areas – IFRS, XBRL, etc.



10. Giving Back to the Profession and the Society

- A consolidated presence makes it possible for the leaders of the entity to participate in professional forums, speak at professional seminars and conferences and accept leadership positions in professional bodies.
- Professionals are change agents – a larger consolidated entity may be in a better position to permit some of its members to work for social causes and for advocacy.



Thank you for allowing me to share my personal thoughts on a subject of immense professional importance.