Maximize the Performance of Your Firm

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The points and process outlined are a function of hard knocks, trial and error, rough partner's meetings, less than ideal seminars and a relentless pursuit to help accounting firms improve. We encourage you to read the paper with an open and critical mind. Ultimately, it's a step by step process to improve your firm.

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Table of Contents

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A WORD FROM THE AUTHORS

Simply put, we have written this paper because we know the process and points outlined below help accounting firms generate more profits, provide better services to their clients and create opportunity for their team members. We are both accountants by trade and have consulted to hundreds of accounting firms since the mid-90's. The points and process below are a function of hard knocks, trial and error, rough partner's meetings, less than ideal seminars and a relentless pursuit to help accounting firms improve. We encourage you to read the paper with an open and critical mind. Think with us and enjoy. Ultimately, it's a step by step process to improve your firm.

Here is step number one.

Track Six Key Profit Drivers

We are amazed (and surprised) at the lack of attention, priority and focus on how tracking your own key financial metrics takes in many firms. The old adage that the cobbler has the worst pair of shoes regularly applies to accounting firms. We often see low productivity, rotting WIP, underperforming clients and astonishing write-offs. Further, there is a material lack of attention despite the comprehensive Practice Management systems purchased by many Accounting Firms.

What's the reason?

It could be busyness, fear, low self-esteem or just plain, old apathy.

What's the solution? Our view is you need to have someone in your firm who commands the Six Key Profit Drivers: Productivity, WIP, Average Hourly Charge Rate, Write-Ups/Downs, Accounts Receivable (A/R) and People Leverage.

In most firms, even if you had to HIRE someone to do only TRACKING of your numbers the return would be there.

Most firms focus on Productivity (what some firms refer to as Utilization – we will refer to as Productivity from here forward). The Managing Partner or Partner Group says give us 80 per cent and we'll be happy. Unfortunately, in our experience, this singular focus has deleterious consequences of the following nature:

- Team Members pad their hours
- Write-Offs go through the roof
- Average Hourly Charge Rates go down
- Accountants migrate to easy jobs to get their time on the clock. These may not be the most profitable jobs
- There is no focus on job turnaround – no incentive to finish jobs. Accountants hop from one to another to get their time budgets. Result – long turnaround time, unhappy clients, client attrition and apologetic write-offs
- Team members are focused on time not effectiveness

The solution, as stated above, is to focus on the Six Key Profit Drivers (there is a Seventh Key Profit Driver that we refer to as the Hidden Profit Driver that will be discussed in a future paper). Please note we have had many arguments with many partners and you can't focus on just a few. Think of trying to drive your car with only two tires inflated.

The key to tracking the numbers is getting someone who HAS the time and understanding to track the numbers. We like it to be the Director of Operations or Business Manager. The process can be simple in a firm that is ready and willing to implement a culture of self-accountability. Our definition of self-accountability is where team members are given clear metrics/objectives and it is their responsibility to report back to their supervisor regarding their results.

It works like this: On the 5th of every month every team member generates their key reports from your Practice Management System (if they can't do it then we can accept a non-billable person creating for them) and sends an email to their direct supervisor with an analysis of their Productivity, WIP, Average Charge Rate, Write Offs and A/R. These are then collated so that an overall view and analysis of firm performance can be obtained and compared to the firm's plan.

Team members should also be encouraged to project the next month including what key non-billable initiatives they are going to focus on (and what they expect in return). Non-billable time in most firms produces nothing. Alternatively, we believe that measuring non-billable time can be as important and productive as billable time. We like to think billable time is today's income and non-billable time is tomorrow's – as long as the non-billable is client/marketing focused rather than admin-focused. In other words, the first step in improving the numbers is tracking them.

Of course, a key driver in improving your numbers is pricing. We love discussing pricing because there is no right answer and nothing can ignite a typically quiet room of accountants like discussing pricing.

Here are several key pricing strategies:

- Price upfront and drive time down. We suggest to the firms we work with that they employ a no financial surprises principle in their performance standards. A few key notables:
  - You must be an above average pricer to price upfront. If you are a poor pricer, pricing upfront is not something to try at this point.
  - Also, you have to exercise change orders (and they must be in your engagement letters). We know far too many firms that focus on "getting the work out the door", particularly during busy times and don't call the client to get approval to do the extra work. The result is increased write-offs and lower average rates. Could you imagine the auto-mechanic having write-offs like CPA firms? Frankly, we love the way auto-mechanics price upfront and get approval for all work before doing it. Remember, a service in demand is worth a lot more than a service delivered.
- Focus on minimizing open jobs and maximizing closed jobs. You need to have a guideline (rule) that you will not start a job until at least 70 per cent of the information is in. You should also have a weekly goal of projects completed. Every firm should be reviewing WIP reports weekly.
- Keep productivity up by ensuring there is sufficient volume in the system. Workload compression will always be an issue in the U.S. Yes, understaffed during busy season and overstaffed during the summer. Again, this goes back to tracking non-billable time.
- Engage clients with an upfront price and do not start until the price is agreed and an internal hourly budget is in the system. Another significant culprit we see driving write-offs is no budgets. As a very important aside, we all want to know whether we are doing a good job or not. How does your team know if they don't have a budget?
- Price and bill based on a target average hourly rate and keep raising the bar. One of the first things you need to be doing is looking at your average hourly charge rate by client. Why is it that you can be getting $70 an hour on some jobs and $300 an hour on others? We are not talking about the outliers either.

Case Study

	2008	2009	2010
Productivity	52%	63%	67%
Average Charge Rate	$127	$148	$154
Write Offs/Ups	12% of WIP	7% of WIP	9% of WIP

In summary, there are a few key questions you must ask yourself and your partners before you embark on improving your numbers:

- Do you want to improve the performance of your business?
- Are you willing to change?
- Are you willing to be accountable?

Set Goals 1, 2 and 3 Years

"Most people aim at nothing and hit it with amazing accuracy." Wally Hawryluk

Accountants are not good at setting goals. They typically take an incremental, rather than innovative approach to planning. We did $1 million last year so let's aim for $1.05M this year (or $1.1M if we're feeling particularly bullish.) Such modest growth is easily achieved in accounting firms; simply put your charge rates up and make sure your write offs do not increase and there you have it.

High performing firms take a very different approach. They understand that the path to true and sustainable growth lies in developing deep and enduring relationships with their clients (typically business clients); in truly understanding what clients need, rather than simply delivering what they say they want. They take a proactive and intentional role in improving their clients' financial condition and drive towards helping their clients achieve their objectives.

So when we talk about setting goals, we are talking about much more than last year plus a bit. We are focused on a different way of thinking and conducting business. We suggest you need to develop a thorough understanding of and clear answers to the following questions:

1. Who are the firm's ideal clients?
2. Where are those clients located?
3. What are the core services the firm offers to those clients?
4. What client needs do those services meet?
5. Specifically how does the client benefit?
6. On what basis are those services priced?
7. What is the ideal client service model for those clients?
8. How are we going to market and sell the services?
9. Is the service offering scalable?
10. Is the service dependent on a few key people?
11. What changes are on the horizon that might impact the firm's clients and how can the firm innovate to stay one step ahead of the game?

One question we ask partners in accounting firms, irrespective of their size, is 'how quickly would you like to double in revenue?' It is not a question that is often contemplated in traditional accounting firms. Yet it is reasonably easy to double the size of your firm's revenue in three years (in fact, all you need is an average of 26 per cent growth and you will double every three years.) A quick note on revenue: revenue does not equal profits. Clients drive costs and non-billable time (particularly low priced individual tax returns).

In our experience high performing accounting firms are led by a Leadership Team or Managing Partner with the following traits:

- Strong belief in setting goals
- Strong belief in improving the business every year
- Willing to take risks
- Focused on creating opportunity for all stakeholders
- Passion for the business
- High self esteem
- Understands that improvement is a continuous process

If you want to build a great accounting firm, a business that you and your team can be proud of, a business that is respected as a bastion of your community, you need to set stretching goals, articulate them with confidence and engage in calculated risks. All of that takes courage and hard work. Yet think about it; what would you rather be? A leader of a dynamic, growing organization offering real value to a range of exciting clients, or a partner in a staid, traditional firm growing at the rate of CPI with nothing to differentiate you from your mediocre competition?

If you want the former, it's time to set some challenging goals. Your goals should be specific, measurable, audacious yet realistic, and time bound. Write them down. Share them with your team. Link incentive programs to them. Create accountability around them. Live and breathe your goals on a daily basis.

CASE STUDY

The firm Colin worked with in the UK had inspiring goals that were regularly shared with the team. The partners were not content with average growth. They wanted to be one of the fastest growing firms in the country. As such, they needed to hire better people, offer a new and more valuable range of services, improve their positioning and price more strongly and in line with the value created for the client. An overlying goal was to double in size every three years, a feat the firm achieved three times back to back from the mid-1980s to mid-1990s (a deep recession ran right through the middle of that timeframe).

One aspect of the firm's goal setting was to act as if you had already achieved your goals. So when the firm moved into purpose built, state of the art offices in the center of town (at the time only being able to fill three of the four floors with team members) a transformation in positioning occurred overnight. The offices looked and felt like those of an extremely successful firm – and people love to deal with success. New opportunities arose every week with new clients and existing clients. The firm was able to offer truly valuable services that clients perceived they could not get elsewhere and as such, they were prepared to pay a premium. Ultimately, setting stretch goals enabled this firm to capture significant margin through their pricing, no small part of which was driven by the perception in the market that this was the firm to partner with. Structure drives behavior - and in this case, the partners' goals demanded a new infrastructure which delivered a significantly positive result.

Spend More Time on Your Own Numbers (Schedule out in the Calendar)

Colin tells a story of when he was young, remembering his father, a banker for 40 years, telling him that accountants were the world's worst at looking after their own finances. He found this difficult to comprehend but having worked with hundreds of accounting firms around the world in the past 23 years we both wholeheartedly support this affirmation.

In our experience, the reasons neglect of the firm's own numbers occurs are an unwillingness to let go and low self-esteem. Many partners get too involved in the minutiae of running an accounting firm (which includes trying to be all things to all people and focusing/spending too much time on unprofitable clients) or on the other end don't do a good enough job of taking care of themselves (making sure they are generating a fair profit from their hard work). They are heavily burdened by low value administrative activities. This leads to partners neglecting their clients, the most important of whom is their own firm! If you want to be perceived as a business advisor or a good business person, rather than just a tax accountant, you must live by the following mantra: the advisor/accountant should be running a better business than the advisee. Not necessarily a bigger or more profitable business, but a BETTER business. And that starts by getting your own financial house in order. There is a reason why the airlines tell you to put your own oxygen mask on first.

There is no reason whatsoever that an accounting firm should not have management accounts and financial statements for the prior month within five days of the month end. Just recently, Colin received an email from an administrative person at a firm he had just started working with apologizing for the late submission of the prior month's financials. The reason? "The partners are still billing." This, on the 18th of the month!

One of the reasons partners suggest they don't spend more time on their own numbers is they don't have it. We have proved over and over the shortage of time is enabled by the firm serving underperforming clients.

Such lack of focus on your own numbers can have a deleterious impact on your firm's performance. Most firms set budgets for the fiscal year but then rarely revisit them. Perhaps they are pulled out at a quarterly partners' meeting four of five months into the year. Trouble is, if you are way behind your annual target at that time, it is too late to catch up.

Regular monitoring of your performance gives you the best opportunity to over-achieve your goals. We recommend you set WEEKLY or even DAILY billing targets and focus squarely on jobs that can be finished and billed that week to ensure the target is achieved. You should be billing EVERY SINGLE DAY, not just at the end of the month or, as some firms still do, billing clients just once a year.

Another key here is to involve your team in your revenue targets. Once again, if you know what you are aiming at, you might just hit it. So, if you have a target of $1 million for the year, break it down. Assume the office is closed for two weeks for the holiday season or your average team member is on vacation two weeks a year. That leaves 50 weeks. So you need $20,000 a week. $4,000 a day. $4,000 a day has much more context to team members than $1 million a year. Depending on your average fee, it might be two or three, or even just one job that needs to get out the door each day. Create hustle in your firm about identifying those jobs and doing everything possible to get them finished and billed. Consider something symbolic to keep the momentum going. Some firms have installed ship's bells in their offices which are rung when a bill is raised or a new project confirmed with a client. There is often a dynamic feel about such firms – things get done and targets are met.

Will you always meet your daily, weekly or monthly targets? Of course not. But if you do fall behind occasionally, by virtue of being right across the numbers you can then shift your focus to what needs to be done to get back in front. And then, of course, as you start to over-achieve your targets regularly, it is time to raise the bar.

Pricing plays an important role in this process. In working with firms to determine their annual budget, we advise them to target an average hourly rate (AHR) and Gross Profit (GP) on all bills raised. There can be a differential between the AHR/GP for compliance work versus value added work; similarly, you might target a higher AHR/GP for new clients (who have no experience of your past prices) versus existing clients. Once you have your target AHRs/GP, you can monitor your progress towards achieving them by reviewing the rate achieved on every single draft invoice raised. For example, if your AHR target for compliance is $160 and you raise a draft bill for $2,850, divide the total number of hours taken on the job into the $2,850. As long as the hours were 17 or less, you are ahead of the game. If the hours taken were longer than 17, you either have an efficiency problem or a pricing problem (or both).

Incidentally, if you price all jobs up front and communicate that to the client BEFORE you start the work and then give your team a budget in HOURS you will find that jobs get done more quickly purely because of the focus on driving down the time. So in the above example, you would agree the fee with the client at $2,850. You would then go to your team and ask the following question: 'How can we do the job is 15 hours?' (NOTE not 17!).

We have seen countless examples of firms picking up efficiencies between 10 – 30 per cent simply because of that change in focus. Then, when you plug that into the bigger picture of over-achieving your firm's financial targets and inculcate a culture of daily, weekly and monthly focus on those targets, you will notice a dramatic impact on your firm's results – often very quickly.

Pareto Analysis

The first step is being able to set targets is to find out where you are today by performing a Pareto Analysis.

Let's start out with a few definitions:

Underperforming clients: Clients that are below your target average hourly charge rate or Gross Profit Percentage. Please note that high realization doesn't mean profitable. It means high realization. Put another way, if your charge rates are low relative to the cost of your labor you could still have high realization and generate very little profit. Many firms utilize much of their capacity servicing clients with high fees but low profitability (as measured by Average Hourly Charge Rate or Gross Profit).

Best clients: Clients where you are achieving your target average hourly charge rate/Gross Profit or higher. The clients provide you and your team with challenging work, value what you do, they are growing and refer more business (like them) to you.

Our suggestion is you perform a Pareto Analysis (smart guy – check him out on Wikipedia) to see where you are generating above average profit and where you are 'just busy'. Please don't confuse busy with profitable (many firms do).

Here's how you do it:

Export your client list with respective Revenue, Profit, Cost and Average Hourly Charge Rate and sort away.

The premise is simple, 20 per cent of your clients generate 80 per cent of your profits. Sometimes the numbers are astonishing. Two recent cases come to mind – two per cent of revenue coming from 49 per cent of clients. And, another way of looking at things in a separate firm, two per cent of revenue generated by 270 clients! The problem is, the true cost of servicing those lower priced clients is almost always higher than you think. In most firms we find it's around 30/70. Nonetheless, still a sizeable number that has all kinds of business model implications. Business model implications meaning clients drive costs. Yes, they can drive profits but they also drive costs. You need to know what you can scale and do well i.e. marketing, sell, service, bill and collect.

The next step is to start looking at ways to upgrade your clients. We personally aren't big advocates of firing clients straight away. We believe you should give them a chance to stay with the firm on your terms. As an aside, we find far too many firms let their clients dictate the terms of the relationship.

Further, partners should only be handling A- and B-class clients. In most cases if A-class clients are being properly serviced they will realize at least $25K in fees each year. So you should limit to around 20 A-class clients per partner.

Incidentally, when you are talking with potential A-class clients (who may be either existing B-class clients or brand new clients to the firm) partners have found it very helpful to position themselves well by indicating that 'I only work with a small number of clients in this intensive way at any point in time and I am very particular about who I take on'.

Pareto in Action

Here are the key numbers of a partner in a firm we work with:

500 # of Clients

118 # of Clients with a Gross Profit of greater than 70 per cent

The result of having a number of underperforming clients is you have made a choice to have increased overhead (team members to support the clients) and to work increased hours for less profit. The opportunity cost is less time to pursue better clients, spend time with A-class clients or spend time on leisure activities.

As explained, the Pareto is a very powerful exercise to perform and action with your team. The worst thing that can happen is you find out where you are making money? Isn't that what you should be doing as an accountant after all?

Profitability Analysis

Directly related to the Pareto Analysis is to perform a Profitability Analysis.

We find most firms don't know where they are making money or how to make their numbers better. Although we support benchmarking for sanity purposes we believe most firms are underperforming so we'd prefer to set targets related to high performing firms (discussed below).

Here are a few calculations (with respective targets) you must perform in your profitability analysis:

- Gross Profit by Client (75 per cent)
- Gross Profit by Team Member (75 per cent)
- Overhead per Client (we usually suggest straight lining – hence smaller clients cost relatively more to service than larger ones)
- Earnings before Interest and Taxes and Partners Salaries 50 per cent
- Earnings before Interest and Taxes and after Partners Salaries 25 per cent

You must not price based on the old model: a third goes to overhead, a third goes to labor and a third goes to profit. It's an obsolete model due to increased labor and burden costs, technology efficiencies and an opportunity to better leverage your team and clients. To illustrate this point, the accounting profession worldwide has invested billions of dollars over the past 20 years in technology that has created huge efficiency gains – yet profit margins have remained the same. Why is it that only your clients benefit from the investment you have made?

We are currently working with a firm where one of the partners has a book of business where 43 per cent of his clients represent 19 per cent of his revenue. The partner is going through the process of upgrading his clients. The question is would the firm be better off if all the 'lower end' clients were with another firm? In some firms, low end clients are kept for strategic reasons. The most valid reason is if the firm has a financial planning division. Yet most successful Financial Planners also prune clients often and have minimum fees. (An invalid reason is 'from acorns do oak trees grow' – seriously, how often does this happen?) But in the firm referred to, the answer to the question posed is Yes – and so action must be taken on that. Remember, from an activity based costing perspective those clients are driving far more costs, both technical and administrative in nature, that are draining the firm of profits, time and life.

Once you start to engage in this analysis it's imperative you share your numbers with your team. They will help drive the numbers in a positive direction. Further, we find your team members will be much more engaged! An indirect result will be using their newly learned skills on your upgraded client base.

Clear Job Descriptions and Expectations

Once you have performed your analysis and set targets you need to make sure every team member knows how they fit in. Too many accounting firms run their firms like five year olds play soccer (they all run to the ball and start to kick it and the ball often goes nowhere).

One common trait that we observe in high performing firms is that everyone is very clear on their role and what is expected of them. Equally, a common trait in many underperforming firms is that there are no clear job descriptions and everyone ends up doing everything. When everyone is responsible for everything, no-one is responsible for anything. And as a result, we see slow job turnaround, silos develop, poor client service, lack of focus on marketing and sales, little if any accountability and low profitability.

Running an accounting firm is relatively simple (but not easy). You have existing clients with reoccurring compliance needs. You have to get the work into your office in a state where the job can be done efficiently, price it properly, do the work, get it out, bill it and collect the cash. Whilst there is a high level of technical expertise underlying the 'doing' part, the processes are comparable to a manufacturing firm.

The more effective and efficient you become, the more capacity you will create and then you can grow your firm through marketing for new clients and offering new services to existing ones.

So let's focus on getting the right people doing the right things. We will start with the partners. There are only three things a partner in a high performing accounting firm should be doing:

1. High end client work – as little or as much as motivates you, but make sure it is high end work that creates substantial value for clients. Most partners in high performing firms limit their chargeable work to 500-600 hours a year (depending on firm size) and only work on A- or B-class clients
2. Client nurturing. This is a client service and a client development role. Staying in touch with the firm's most important clients through a series of uncharged meetings and phone calls to ensure they are fully serviced and that opportunities to assist the client further are identified
3. Leadership and implementation of strategy. Working 'on' the business, rather than 'in' it. Looking for opportunities to grow the business such as mergers and acquisitions, working with centers of influence, entering new markets, launching new service offerings, and mentoring team members

Everything else is done by other members of the team.

Here is our recommendation on who should do what:

- ❖ Accountants: accounting work. Nothing else. They should turn up, do accounting work and go home. Take the admin away from your accountants and you will find they become more productive and more motivated. You will also eliminate the 'pick up, put down' syndrome that decimates profitability on many jobs
- ❖ Business Manager or Director of Operations: takes care of Reporting, IT, HR, premises, legal, systems and internal finance
- ❖ Client Services Coordinator: does all of the administrative tasks that are often undertaken by accountants. Their role is to keep the accountants productive with accounting work. This is a specialist role that should be filled by a professional administrator – someone who is VERY GOOD at admin and enjoys it (think task master). Examples of tasks that can be taken on by a Client Services Coordinator are:
    - Client additions and deletions
    - Returning client records
    - Typing of letters
    - Filing of any sort
    - Making and changing appointments
    - Fee preparation (assuming jobs are priced upfront and communicated to the client before the work begins)
    - Preparing a checklist of information required
    - Reviewing and checking client documents
    - Contacting clients for any missing information
    - Logging of each job on the workflow register
    - Collation and preparation of work papers
    - Monitoring of WIP
    - Lodgments/tax return filings
    - Monitoring workflow
    - Printing and binding of finalized documents
- ❖ Marketing Coordinator (for firms focused on growth): conducts all marketing activities and puts things in place to make them happen. This is an administrative/implementation role, not a strategic role. The marketing strategy should be set by the partners

As firms progress, other roles focused around product development and selling start to become important. The key is to put proper job descriptions in place and reward your team members against key performance indicators linked to the clear expectations outlined in their job description.

So where does pricing sit here? Quite simply, pricing is a leadership function. It is our strong conviction that the partner or, in larger firms, the client manager controlling the client relationship has a discussion with the client before any project is started and a price agreed with the client before the work begins. That is the strategic part of pricing. The administrative part, raising/creating the bill, is very simple. Instead of partners spending hours and sometimes days each month justifying themselves after the events with flowery descriptions of the tasks they have performed to come up with a palatable fee, the Client Services Coordinator simply raises a one line invoice with the wording: 'Fee as agreed'.

Most firms would improve significantly by implementing a culture of simplification. Getting the right people doing the right things is a great place to start.

Reporting and Accountability

Once you have everyone focusing on the right things and headed in the same direction you need to report on performance.

Ultimately firms perform better and people are more productive and happy when there is consistent reporting accountability. As mentioned, the current Practice Management systems offered in the marketplace are well designed to set up functional and efficient reporting and accountability. In our experience, in today's independent and flexible technology-driven work relationships all high performing accounting firms are moving towards a culture of self-accountability.

A system of self-accountability works like this.

First, without the team member you perform the following calculations:

- Gross Profit Desired on the Team Member
- Bill Rates as a Function of their Average Hourly Cost. The bill rate must be at least four times cost.
- The number of hours you believe the team member can bill (and realize) on an annual basis.
- Apply the annual hours billed on a month by month basis then on a week by week basis.

Once you have the weekly hourly targets you then need to sit with each team member and obtain 'buy in'. The conversation must also include their professional development objectives such as certifications they'd like to obtain and skill sets they would like to develop.

At a minimum, on a monthly basis the team member will generate their monthly report that has their Six Key Profit Drivers and Gross Profit including a commentary about their performance strengths and places they need to improve. Ultimately, this self-reporting function must be monitored by your Director of Operations or Business Manager.

At least three times a year you need to sit with the team member and see how they are tracking to their non-billable objectives such as marketing and professional development. Again, the best performing team members have very specific billable and non-billable goals that they self-monitor and are held accountable to. As mentioned, we believe that billable hours generate profit today and non-billable hours generate profit in the future. High performing firms lead and manage non-billable hours with the same level of focus as billable hours.

A note on partner accountability: For the most part in underperforming firms partners hate the thought of accountability – although once involved in a process underpinned with a high level of accountability they soon come to realize its importance. In high performing firms partners embrace it. We all need accountability in one form or another. In high performing firms partners share their own revenue and firm growth goals and disclose their progress towards their goals with the team. Remember the Greek saying "the fish stinks from the head down"? As partners we must expose our weaknesses, be vulnerable and allow our teams to help us perform.

Finally, you must have WIP management systems in place (particularly in the U.S. outside of the key tax deadlines). In our experience, the summer months in the U.S. often end being a high write-off period due to the fact most team members (including the partners) are burned out. Similarly in Australia, July (first month of the financial year) and January (when many clients are on vacation) can be dead months unless workflow is proactively managed.

The key to a WIP management system is consistent reporting and accountability.

Here are the metrics you must manage:

- ❖ Average Job Turn Around (consider splitting this into two: job in to job started; and job started to job out)
- ❖ Weekly Job Completion Goals at both the individual and firm level
- ❖ Aged WIP. WIP must be scrubbed at least every two weeks and clients contacted (and followed up) for outstanding information. Or 'bad time' written off.

Further, you need to ask your team members what they are motivated by and put proper incentives in place. As an example, it could be cash bonuses, a party or more time off. Please don't assume everyone is motivated by the same incentives.

Educate your Team on the Business

As you work through the improvement process you will discover things that you didn't think your team knew and things you thought they know that they don't. Ultimately, we believe it is the responsibility of the partners to create opportunity for all stakeholders. Your team members, if they do leave the firm, must leave better than when they arrived.

Do you ever bemoan the fact that your team just doesn't understand what you are trying to do in your firm (or for your business clients)? That they don't like change or resist any attempt to get them to do things differently? We hear it all the time. But when we go into firms and talk with team members to find out what is really going on, we often hear a different story. From the perspective of the team members, the common challenge identified is that they have no idea about the vision or direction of the accounting business they work for. Nor do they receive general training on how businesses succeed or fail.

We are not convinced by the old belief that people are afraid of change. In the course of our work with accountants day in and day out, we see all shapes and sizes of firms change dramatically. And we see the people working in those firms embrace change with alacrity and become energized by it. In fact, the highest performing firms (and businesses) are changing all of the time.

Everyone? No. Some team members choose to leave because a new vision or way of doing things does not appeal to them or because they are simply recalcitrant. And that is fine – you can't please all of the people all of the time, nor should you try to. But in our experience, when the leaders of the firm consistently educate their team and share the vision, great things happen. In this section, we will provide seven suggestions on how you might do that.

1. Educate your team on the Six Key Profit Drivers. Share the numbers and targets. If you don't know what you are aiming at, it's hard to hit it (or exceed it.) The extent to which you share your firm's numbers with your team is at your discretion. Some firms share a selection of key performance indicator targets such as productivity, average hourly rate, write ons and WIP and Accounts Receivable days. Others put additional context around those KPIs by sharing revenue targets. Still others take it down to gross profit (revenue less payroll costs). And some firms share the entire profit and loss account right down to net profit, believing that if they are going to involve their team in the numbers, why hide anything? Interestingly, several of those firms have reported that they were worried about the team's reaction on seeing the net profit. In many cases, the team assumed the firm was making MORE profit than it actually was and they were thus motivated to help improve firm performance. Consider suggesting to your team that your motivation in driving change in the firm is so that you can make more profit, enabling everyone to be paid more.

2. What is your vision, mission and core values? What do you stand for? Why does your accounting firm exist? One top performing firm with whom we have worked articulated this brilliantly: "Our vision is to help our clients achieve more than they ever thought possible – and to have fun doing it." They involved their team in the development of this vision and then, through the creation of project teams at all levels in the firm, set about garnering ideas and suggestions as to how they could achieve such a lofty goal. Clearly you cannot achieve a vision like this by sitting behind the desk in your office churning out tax returns; the focus MUST be on value creation. So ask yourself:
    a. Do all of your team members understand your firm's vision?
    b. How involved have they been in developing the vision?
    c. How involved have they been in contributing ideas on how to best reach the vision?

d. Do they all understand the core values within which you operate?

Core values go to the heart of how you do business. They are a reflection of the character and attitude of you and your team. They are the boundaries within which you stay as you carry out your business. They might be related to professionalism, ethics or client care, or they might be based around innovation, value creation or contribution to your community. Your vision might change as the economy, legislation, your client base or your industry specialties change but your core values, if you have them right, should remain constant.

3. How do you define your ideal client? Will you work with anyone who walks through the door or do you have some criteria that determine whether a client is a good fit with your firm? Where do those clients do business? Are there enough of them in the geographical location you serve to support your growth plans or will you need a bigger net?

4. What are the core services you offer to your clients? When we look at accountants' websites, we often see a page entitled Our Services with a long list of 30, 40, 50, 60, 100 services, mostly in accounting jargon that clients simply do not understand. Much better to focus on four or five key areas where you know you can deliver superb value to clients (and charge for the services and value created accordingly).

5. What are the typical results your clients achieve when they engage you to help them? For each of your core services, develop case studies and testimonials to support the great work you have done with clients in these areas. Clients and prospects do not care how good you say you are or how long you have been in business; they are only interested in how they benefit from working with you.

6. What is the outline methodology you use with clients to deliver your core services? Is this documented or in one person's head? One firm with whom we worked encountered a situation where a small number of professionals in the firm were selling and delivering business improvement consulting services to clients. The lead partner in the division was constantly frustrated by the lack of leads coming from other partners in the firm. The 'light bulb moment' was when those key people realized that as far as the rest of the team was concerned, the delivery mechanism for these services bordered on the arcane. So with our assistance, they created a product, gave it a name, outlined in writing five steps that they went through with clients and substantiated the approach with case studies. Suddenly, accountants started talking with their clients about the service - bingo.

7. Bring in consultants, CEO's and outsiders to discuss the state of the economy and the matters that are most pressing to your business and individual clients. It could be in the area of leadership (such as accountability or delivering fantastic service), healthcare, taxes or any topics that you know are concerning your business clients.

So, the message is clear – share your vision, involve the team in your goals and celebrate your wins as a team. Please note the firms that don't do the above are the firms that tend of have difficulty recruiting and training team members and keeping them engaged!

Pricing Psychology

Of course, to make real and sustainable progress in your firm you must get pricing right.

Let's start with what we believe to be several pricing truths as they relate to the accounting industry:

- Most accountants are pricing apologists. That is, accountants apologize for having to charge clients for the valuable services provided. We believe this to be a pile of rubble. Most people can count the number of people who know how much income they earn on one hand or who they call when things are getting very difficult in their business. Of course, accountants are part of the count. Put another way, accountants and their clients have very intimate, valuable relationships.

- Price discrimination is a reality. By price discrimination we mean that not all clients are willing to pay the same price for the same product. As an example, one household may be willing to pay $100 a month for a gardening service and another may be willing to pay $200 for the same size yard. Why? Everyone has a different value system that is applied to how they spend money. And an individual may value something differently today from how they would value it next week if, say, the urgency of the situation suddenly escalates. This principle works for accounting services as well. We see far too many firms attempt to equalize pricing. This is a losing proposition and a waste of time and resources.

- Pricing is a function of self-esteem. Our definition of self-esteem is taking care of your own needs before taking care of others. Please do not misinterpret our definition. You absolutely need to provide fantastic service and take care of your clients but don't be fooled that they are going to take care of you. We see far too many firms thinking their clients will take care of them. It doesn't work out. You and only you are responsible for making sure your prices generate a healthy profit for your firm.

Pricing is by far the variable that can best drive the most profits and quality of life in an accounting firm. We can only become so efficient or cut costs so much. Unfortunately, many firms spend far more time on other areas of practice growth when they need to be spending more time working on how they can provide more value to their best clients and increase their fees accordingly.

To that end you need to be acutely aware of what you sell to each of your clients. In our experience in working with hundreds of firms around the world, here is what you don't sell: Tax Returns. You do sell protection from the tax authorities, peace of mind that your clients are making the right financial decisions for them and, ultimately, you sell outcomes. That is, you need to know exactly what your clients' deepest financial fears and desires are and do everything you can to help them achieve their objectives and avoid their fears.

We recall an interesting conversation with an accountant who provides general business and consulting advice to some of his business clients. We were discussing the topic of raising rates and he said, "It's amazing... the client is happy to pay my highest rates and all we are doing is talking. I can't believe they are willing to pay for the fluff." Of course, this was like a red rag to a bull. We went on to explain that any firm can provide a tax return yet the high value service is going beyond the tax return and helping the business owner/individual think through their issues and objectives. Please note the value is in the relationship, the advice and being the 'trusted advisor', not the tax return nor the financial statement.

Directly related to self-respect is the function in many accounting firms of working for free. We see it far too often. It ranges from not charging for phone calls to scope creep (could be in the form of a fixed price agreement or progress billing). Working for free is the second largest factor in low productivity in accounting firms. The first is taking on low level seasonal work and then carrying the overhead burden all year.

Why do accounting firms work for free? You don't expect your lawyer or doctor to work for free? Why do you think your clients expect you to work for free? The answer is they don't. It comes back to accountants being pricing apologists and lacking self-esteem. You need to be charging your full fees or rates or walk away. It serves no one to undercharge (please note your team members suffer the most as you are essentially de-valuing them when you work for free or don't charge full rates). You must absolutely learn to say no. You can't be all things to all people.

Here are critical things you can do to make sure you reduce the amount of time you work for free:

- Require all time go on a time sheet. Again, because many accountants lack self-esteem they will "eat time" to make sure they hit budget. No one benefits.
- Use scripts to discuss change orders, scope creep and how you charge for phone calls/meetings and "non busy season" work.
- Believe in yourself and the services you provide. You worked very hard to obtain your CPA Certificate and have lots of business experience.
- Let the client be the judge of whether he value is there to justify the fee or not. Neither the service provider nor the team member determines the value. The client does.

Finally, we understand there are family members and friends that we service for free. In our experience many CPA firms allow the working for friends and family to justify low fees. Put another way, the free or low cost returns become out of control. We recommend no more than five free returns per partner. This should cover immediate family and a non-profit.

Here's a script on how to deal with your friends/family that you can no longer do for free/"cost":

"John, we have been friends for a long time and I have appreciated being able to prepare your tax return. However, I have not been serving either you or our firm well with our current fee structure. Therefore, in order for me to prepare your return in the future, we have two ways forward. 1) I can charge you full retail pricing which is to achieve an average hourly charge rate of $150, or 2) I will do your return for free. Your choice."

In conclusion, you will never receive what you don't ask for.

List of Services

As your firm starts to create capacity by being focused on the Six Key Profit Drivers, setting clear expectations and creating a culture of self-accountability, you will need to generate more work.

Every day in every city around the world, accountants leave thousands of dollars on the table. In every Client Advisory Board we have facilitated one of the primary items that we share with the partners of the firm is: "your clients do not know all of the services that you offer." So while you are running around serving underperforming clients or trying to obtain new ones you have trusted clients in the door today that need you.

Accountants leave money on the table and don't provide their clients all the services they need for a number of reasons. For example:

1. You do not have a list of services that you share with your clients and team members. Further, you don't do enough diagnosing. You spend too much time prescribing.
2. A reactive rather than proactive approach.
3. Time not recorded – we often see productivity levels around 70 per cent yet accountants claim they are flat out. Where does the missing time go? (You really need to conduct a training session with your team on how to complete time sheets and what needs to go on the timesheet).
4. Scope creep – a fee is agreed with the client for a specific project but the scope of the project expands and the accountant does not have the fortitude to engage the client in a change order to increase the fee.
5. Going into solution mode – a client calls and asks a question and the accountant, who is no doubt busy and just wanting to get the client off the phone and get back to what he or she was doing, simply gives the answer (with one unit going on the timesheet if the accountant remembers!).
6. Lack of self-esteem – accountants bundle in everything but the kitchen sink in a bid to prop up value to justify their fees.

Our recommended first step to stop the seepage is to list out all of the services you provide. The result is two documents: an internal document listing everything you could conceivably offer to your clients with respective prices, and an external document with a list of services you offer.

Note well our recommendation that the INTERNAL pricing document remains INTERNAL. The reason for that is that the value of a service to Client A could be very different to the value of the same service to Client B. But the prices you assign to each offering should be your minimum price. Further, we recommend using not to exceed language as opposed to minimum fee language.

Your list of services will contain a range of entries under the following headings:

- Compliance (e.g. accounts/accounting, tax, lodgments/tax returns, dividend advice/tax planning, bookkeeping, corporate secretarial)
- Business advisory (e.g. business health check, cash flow advice, budgeting advice, refinancing)
- Business improvement (e.g. profit improvement program, KPI monitoring program, strategic planning sessions, advice on buying or selling businesses)
- Wealth creation/management (e.g. asset protection, insurance, financial planning)

If a client calls asking if you are able to help with a specific item, just by virtue of having a list of services you are more likely to capture some value by suggesting, "Of course, we can help with that. In order for me to provide you with some pricing options I suggest we get together to discuss further".

When a client calls just to 'run something by you' or 'ask you a quick question', as soon as you feel yourself moving into solution mode, stop! A simple script to use is, "I need to think about that. There are a couple of options I need to weigh up to ensure I give you the advice that is best for you. When I have done that I will write you a formal letter of advice. Our fee for that is $500 (or whatever fee is appropriate)". You see, not only are you leaving money on the table by not doing this but you might also be doing your client a disservice by blurting out a quick response. It may in fact serve the client better for you to do exactly what the script says and have a think about it.

When clients say 'no thanks' as some invariably will, don't worry about it. At least you know before you do the work. Again, the auto mechanics have it right!

Alan Weiss, a leading expert on value pricing, has some great advice in this area. He suggests that you should UNBUNDLE what you do, not bundle it up. That way, you can then put discrete services back together in value packages that make sense to the client. Just because the client engages you as their accountant does not mean that you need to tell them everything you know!

Performance Standards

As you work through the process it is critical you are providing phenomenal service and differentiating your firm.

If you are wondering how to differentiate your firm or find additional ways to improve service (again measuring turnaround time from above is a good start).

Here's one way: Performance Standards. Effectively performance standards are commitments that you make and live by internally and externally. Here's an example:

We are thinking people who care and we always act in the best interest of our clients. We achieve this because we work by the following performance standards:

1. We deliver exceptional, personalized service as measured by an increased client delight index assessed every six months at client advisory boards
2. Our turnaround standards are 14 days for the completion of work (or as committed to with the client for larger projects), 24 hours for returning emails and four hours for returning phone calls
3. We meet with all of our premium clients at their premises at least twice a year
4. We are proactive in determining our clients' needs; all of our clients are invited annually to complete a financial assessment
5. We provide all clients with the option to receive a fixed price before the work is started on all jobs, no matter how large or small
6. We have an innovative culture; at least 25 per cent of work revenue each year is derived from new services introduced to clients
7. We have a culture of continuous learning. We believe that the secret to success is the acquisition of new skills, the application of those new skills to assist our clients, which then motivates us to acquire even more new skills.

Positioning: Sell your Competency and Credentials

To be able to successfully accomplish all of the above you need to know how to position your firm.

Accountants consistently devalue how hard they worked to be Chartered Accountants or Certified Public Accountants or the hard earned experience they have. We see this not only in how you charge for you services but how you position yourself. Positioning is critical and can't be under-estimated. You must think about your dress, the words you use, the look of your office and all of the intangibles a prospect or client takes from an interaction with your firm. In fact, positioning is as important as your technical competence (whether we or you like it or not).

How do you respond when someone asks, "What do you do"? Most accountants of whom we have asked this question respond, not surprisingly, with, "I'm an accountant". How do you think this insipid reply might go with a stranger you met at a cocktail party? Sadly, you might see a potential new client disappearing into indifference offering vague apologies and promising to catch up later on! We know the stereotypical image of the accountant is unfair – after all, we work with accountants every day and enjoy doing so – but let's accept it and change our language accordingly.

To craft a better response, we suggest you sell your competency and your credentials, in that order. So instead of, "I'm an accountant", how about, "We help business owners grow their business, increase their profit, improve their cash flow, protect their assets and ultimately put in place a succession plan or sell their businesses"? (We acknowledge this may be a bit extreme yet we hope it pushes you in a positive direction). Such a response is much more likely to provoke a reply such as, "That sounds interesting – how do you do that?" And so, of course, you need to have a clearly articulated response to such a question. Never utter a statement or ask a question without first thinking through the various different ways in which the client might answer – and then having a response to each of them. A great way to do this, by the way, is to use case studies. Ask the prospect to tell you a little bit about their business so that you can make your answer more valuable to them. Then, once you have some information from them, talk about some work you have done with a client and the results accruing to that client in a way that you now know the prospect will relate to.

This approach is so unusual (in that almost everybody else WILL say 'I'm an accountant') that it will automatically differentiate you as someone bringing value that the prospect could use. At that time, wheel in/share your credentials, "By the way, we are accountants and tax advisors too so we take care of all of that for our clients as well". And suddenly, you have new positioning on being an accountant.

The language you use is incredibly important. Re-read the paragraphs above and think about it from the perspective of a prospective client who knows nothing about you. What sort of first impression does this approach create?

There are three stages to mastering this new type of language/positioning. They are:

1. Study – reading this paper and learning new techniques falls under this category
2. Practice – develop scripts that suit your style and practice them with partners, significant others and friendly clients (this may include investing in consultative sales training)
3. Internalization – there comes a time when you go beyond practice and become so confident and familiar with your newly developed techniques that you start to use it intuitively and in the moment with clients and prospects. At that stage, it has become a part of how you operate and it is internalized

Another way to focus others on your competencies and credentials is to develop a personal brand. We first started talking about the personal branding in the late 90's. It did not really take off but the significance of the idea should not be dismissed. Imagine if you were known in your community by some sort of brand name such as The Profit Driver or The Queen/King of Cash. Or if your firm were renowned for its Six Steps to Business Success. If you go down this line, associate your (or your firm's) name to the brand. So, for example, Albert and Bracken's Six Steps to Business Success is a more powerful brand than simply Six Steps to Business Success. Raise awareness of your brand by writing articles and white papers and making them available to all businesses in your area. Become known for something special, rather than simply being just another accountant.

Finally, as you move into new service offerings, it is important to understand that you always know more than the client. Avoid the trap of paralysis by analysis. Your new product offering will never be perfect and nor should you strive to make it so. This business is about success, not perfection, and it is in your clients' best interests for you to jump into new services and provide great value.

Conclusion

In conclusion, we passionately believe (as measured by the time we spend and the investment we make to help accounting firms improve their businesses) in the value you can provide to your clients and the opportunity you can create for your team. We hope you have found this discussion informative and provocative. We are happy to discuss these ideas with you and ultimately to help you maximize your firm's performance.

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About Shannon Vincent

Co-Founder of ReNew Group, Shannon is a CPA (inactive) and has spent his entire career working with accountants in various capacities. He started his career at KPMG in San Francisco then worked for two well-known regional accounting firms located in San Francisco, specializing in high net worth individuals and emerging growth business. Shannon then spent six years at RAN ONE, an international consulting company, including two years as the Chief Operating Officer of a 10MM business unit. Since 2001 Shannon has consulted with Top 100 firms to Sole Practitioners to help them grow their businesses. He has developed content, products and systems for accountants, including cofounding ReNew Group with Colin Dunn and co-developing the industry leading, lead generation solution for accountants, TRUST. Most recently, Shannon has acted as a coach to a range of accounting businesses in the United States including consulting on mergers and acquisitions, setting up new service lines and developing wealth management businesses.

Shannon is a member of the California Society of CPAs. He received a Bachelor's degree in Economics with an emphasis in accounting from University of California, Santa Barbara, and now resides in the San Francisco Bay Area. He is relentless in the pursuit of improving the performance of every firm he consults with and coaches.

About Colin Dunn

Colin Dunn is a Chartered Accountant with 20 years' experience in helping accountants develop and implement strategies to build better businesses. Colin spent 10 years in one of the fastest growing accounting businesses in the UK including functioning as a project lead in that business to set-up and launch a business consulting division, training directors and team members in that business to raise awareness of the new division and develop skills, leading consulting assignments with business clients and worked on business growth and marketing engagements. Colin has spent the last 10 years training, coaching and consulting to accounting firms, both in the UK and, since 2002, in Australia. He has delivered speeches, workshops and seminars in the accounting industries in Australia, New Zealand, UK, US and Ireland. He has developed content, products and systems for accountants, including cofounding ReNew Group with Shannon Vincent and co-developing the industry leading, lead generation solution for accountants, TRUST. Most recently, has acted as a coach to a range of accounting businesses throughout Australia and New Zealand.

Colin is passionate about helping turn accounting practices into accounting businesses and holds a Bachelor of Arts (Hons) and is a qualified ACA. He is relentless in the pursuit of improving the performance of every firm he coaches.