5 FAILURES OF CPA FIRM GROWTH STRATEGIES & TACTICS

AND HELPFUL TIPS TO OVERCOME EACH ONE OF THEM

INTEGRATED GROWTH ADVISORS

OUTCOMES ARE DRIVEN BY INPUTS

We have consistently observed the same challenges causing CPA firms to become suspended in a flat or negative growth pattern.

Unfortunately, by the time Firms pause to objectively look at their businesses, it is often too late to redirect strategies and tactics onto a path to sustainable growth. The resulting cost of investing in the wrong path can be extensive. Much worse, tactically urging a firm towards a state of *low ROI on growth initiatives; we must merge; we must reduce staffing; we must react rather than attack,* bears a cultural cost as much as a financial cost to the Firm owners.

We believe outcomes are driven by inputs—what you put into the business is what you will receive in return and then some.

CPA Firm line partners have a tendency, over time, to acquire a false sense that they are involved in sound businesses that will grow organically—with limited intervention of business development strategies and tactics—and eventually yield a healthy retirement payout. The reality is that highly successful firms are acutely aware of the work required and the timing of when to expend resources on growth initiatives.

SUSTAINABLE GROWTH MATTERS

Growth of a professional services firm is impacted from many directions including sales growth, professional development of staff, enhanced internal efficiencies, and tight quality control to protect a firm's brand.

Sustainable growth of a Firm can be stimulated by culture, tone at the top, and firm leadership keeping their eye on the horizon to understand where the firm is headed and what might be needed to get there.

Sustainable growth is important because it provides for future partner retirements, the livelihoods of current and future employees, professional growth opportunities and a basis for determining the value of the Firm—to name a few reasons why growth matters.

By offering this whitepaper to you, we are sharing **five common barriers to growth that impact virtually every CPA Firm** at some point in their evolution. Not only are we going to point out these five obstacles, but more importantly, we are going to share ideas, strategies and tactics that can be deployed by your Firm to proactively address these issues. And, in some cases we can even use common misconceptions about the business of owning and operating a CPA firm to deliver an outright advantage to your Firm.

IGA lives and operates in this space on a daily basis and we're happy to share our own experiences with you in the hopes that it might advance the overall growth efforts of your business.

To Your Success,

Dan McMahon
Business Growth Advisor

FIVE BOUNDARIES TO GROWTH

1 PURGING LOW PROFITABILITY CLIENTS

2 TIME MANAGEMENT & LEVERAGING

3 DELAY UNTIL 'AFTER THE 15th'

4 GROWTH-MINDED CULTURE

5 SALES IS A PROCESS

Owning and operating a CPA firm is a challenging task that involves hard work, determination, and a commitment to viewing the Firm within the context of the big picture while working simultaneously *on the Firm*. CPAs are seemingly always in crisis mode. The pressure to perform as a competent technician, a trusted advisor to clients, an effective administrator and a business owner never lets up. Truly, succeeding as a partner in a CPA firm is a commendable accomplishment.

The **five resource draining failures** listed above are faced by most firms at some point in their life cycle. If you are a CPA firm partner, these will not come as a surprise to you. Perhaps it is likely that your Firm has effectively addressed them at one point or another or perhaps your Firm has fallen short on maintaining consistent follow through. Whatever your perspective, we hope you find the pages that follow useful in shaping your business growth efforts.

① PURGING LOW PROFITABILITY CLIENTS

Lets start by addressing a somewhat obvious tactical pitfall encountered while creating sustainable growth within a CPA firm. Every firm we have worked with in the past has recognized purging clients deemed unfit for the Firm as a routine fix to driving better profitability. However, time and again, many CPA firm partners find difficulty in following through on a commitment to purging low profitability clients.

Conceptually, purging is simple. Highly effective partners evaluate their books of business on a periodic basis and rank their clients as A, B, C or D based on risk and profitability. Those clients that pose a significant risk to the Firm are immediately purged. In fact, higher risk clients would have also been periodically subjected to purging through engagement acceptance and continuance policies. Those that fit the Firm's risk profile, but are not profitable, are further evaluated and a plan is typically adopted to increase fee levels or drive internal efficiencies.

ITS YOUR MONEY

Clients that will not pay at a level commensurate with your Firm's pricing model create challenges that include, but are not limited to, the following.

These clients:

- Drain your staff of energy and focus that should be reserved for clients who fit the Firm's profile;
- Put your staff at risk of seeking other job opportunities;
- Require more of your valuable time as a partner that is provided in a non-billable capacity;
- Place the Firm's reputation at risk due to low quality of finance and accounting records;
- Cost your Firm precious resources (time, money, culture) and thus they cost ***you*** money.
- Devalue the worth of your Firm's services in future engagements—yes, your clients do share fee information!

So, why are CPAs so reluctant to purge low profitability clients? In our experience, we have seen these challenges impacted by areas ranging from time management to firm culture.

Working smarter, and with the confidence of knowing the Firm is behind you serves as the basis for a solution.

A propensity to act, as a business minded CPA, in line with driving profitability solves the challenge of follow through.

'MUCH ADO ABOUT PURGING'

Many CPA firm partners and other team members fear the act of purging their client lists at any point in time, much less on a periodic basis. Because of this, there is a propensity to *lessen the importance* of purging. Partners and managers convince themselves that they will 'get to it later' or that maybe next year when fees renew there will be some sort of way to increase fees and the problem will take care of itself.

CONFIDENCE MATTERS

Of course, confidence 'matters' in all walks of life, particularly in business. However, partners often lack the confidence to take the first steps to purge their clients. It can be a difficult task to carry out as more CPAs, in general protect their clients

Now, lets consider 'confidence' in the confines of what we are addressing in this section—purging of low profitability clients or clients unfit for the Firm. Lets put ourselves into the shoes of a partner who has been directed by his Firm's managing partner to go through his client list, sort the list in order of profitability by assigning an A, B, C or D to each and then carry out tactics to either elevate his C and D clients to B's or purge the C and D clients from his client list. This is a difficult task for a partner to carry out as most CPAs, in general, protect their clients which serve as a source of their compensation and job security.

Lacking confidence can have many connotations, so we need to be clear—It can mean a lack of confidence in the existing environment, whether externally driven by the economy or internally impacted by a lack of trust in the Firm's commitment to replacing the revenue with newer, more profitable clients. But, it can also mean a CPA does, in fact, sense a lack of confidence to actually be the one to replace the new business. After all, we all can recognize how hard it is to find new clients.

Firm leadership offers partners and managers 'confidence' by routinely communicating that the Firm fully stands behind the business development process, the level of investment in marketing and business development and by supporting them while they embark on finding new business to replace the lost clients. Furthermore, communicating that the Firm is operating as a business and demonstrating as such through the tone at the top is critical. For example, the Firm has a budget of available time to deploy to serve existing clients. The Firm also has a budget of available dollars to be used to raise awareness of the Firm in the marketplace and find new business. The Firm would also have an approach to holding partners accountable that is well understood by all members of the Firm.

OVERCOME BEHAVIORAL ASPECTS OF PURGING

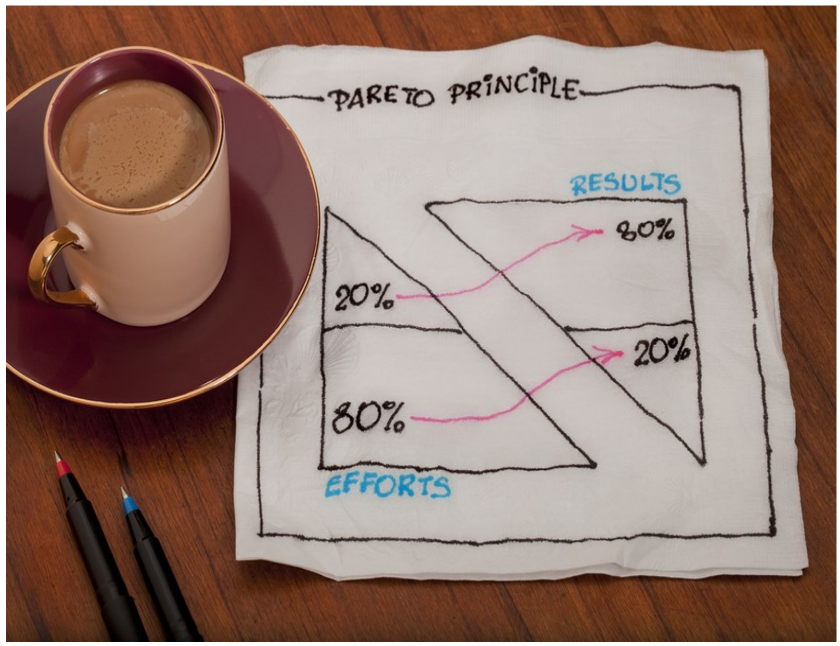
Building a foundation for growth will put the Firm in a position to drive more revenue by utilizing the excess capacity created by purging clients that do not fit the profile of the Firm.

Follow these tips to shift firmwide behavior with respect to purging.

- Communicate leadership's vision for growth, regularly and consistently
- Engage team in process of growing the Firm
- Require engagement budgets on all engagements over an hours or billings threshold specified by Firm leadership
- Align a metric on realization with the overall growth goals of the Firm
- Require team to have a mind set for strong business acumen—they must understand why and how unfit clients hurt Firm (and individual Partner) goals
- Every billing cycle is an opportunity to purge that one client that doesn't quite fit
- For those that can be saved, be proactive and assertive in communicating to the client your Plan
- Read the remainder of this white paper for interrelated tips!

2 TIME MANAGEMENT AND LEVERAGING

The adage that typically 80% of a firm's revenue comes from the top 20% of its clients is something that is well publicized. This principle, based on what is commonly known as the '*Pareto Principle*' or the *'80/20 Rule*', was first discovered back in the early 1900s by Vilfredo Pareto, an Italian economist who discovered a mathematical formula which ultimately proves that 20% is vital and 80% is trivial.



The *80/20 Rule* has since been widely applied to many areas of business including business growth and profitability.

This principle suggests that a **small** number of clients are bringing in a **significant** concentration of revenue.

The *80/20 Rule* also suggests that where a person spends his or her time should be aligned with the greatest return on that time. Thus, when 20% effort results in 80% results, a CPA firm partner is spending time 'working smarter' and providing value to the client at the appropriate billing rate.

Time management and leveraging relate to purging as a preventative measure. Well managed client engagements are retained rather than purged. Well managed clients are overseen by an effective manager who assures that engagement team time is leveraged to level specific areas and charged to a work-in-process time code at an appropriate billing rate.

EFFECTIVE LEVERAGING AND THE 80/20 RULE

The philosophies of the late Stephen R. Covey (1932—2012) suggest that 'putting first things first' is what successful people do as more fully explained in *The 7 Habits of Highly Effective People*. 'First things' are those things you, personally, find of most worth. If you put first things first, the book explains, you are organizing and managing time and events according to the strategic direction you are headed.

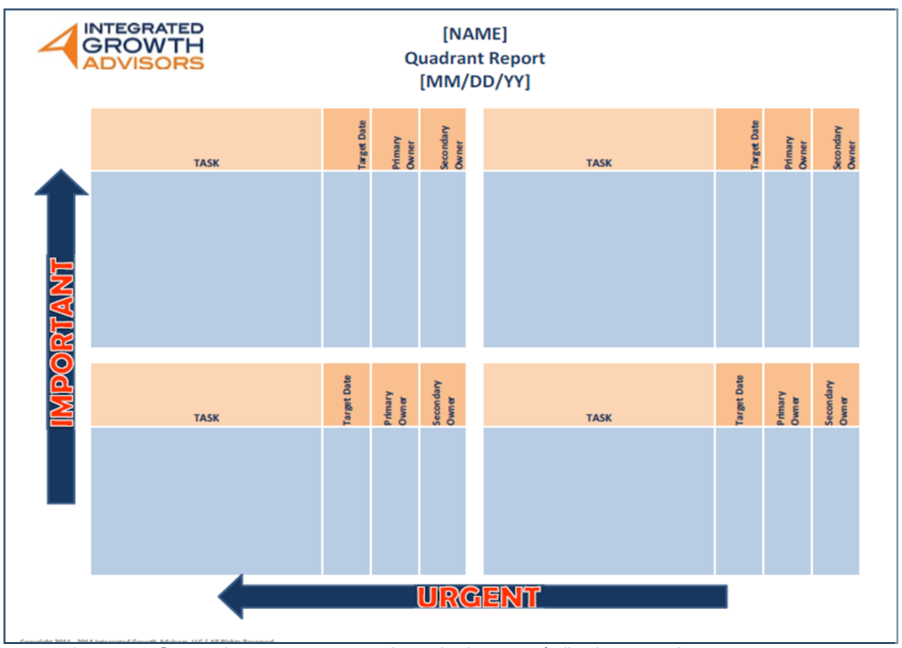
Continued —

Putting first things first can be applied to the business of purging low profitability clients. After all, low profitability is created from spending an amount of time on a client that is not commensurate with the level of billing at standard rates that the client either expects, has agreed to in advance, or has a desire to pay.

This is because, when following the *80/20 Rule*, **effective time management and prioritization of tasks enables the firm leaders to delegate more effectively. This gives a partner the ability to spend his or her time in areas that matter most** to the Firm, such as managing a book of business, billing, collecting, developing key members of the team, driving relationships and creating new revenue.

AN EFFECTIVE TIME MANAGEMENT SOLUTION

Effective time management provides a common solution to many of challenges encountered by businesses. IGA's time management process is heavily influenced both by the *80/20 Rule* as well as *Stephen R. Covey's* writings. Based upon these influences, we suggest our clients follow the template displayed below: the *Quadrant Report* [1], to manage time more effectively so that they are ultimately working "smarter, not harder" and focusing only on those issues and client matters that are both highly important and highly urgent. A quadrant report can be used both from a macro perspective (weekly time management) or from a micro perspective (engagement time management).



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Anything that is classified as urgent, but on the lower end of the importance spectrum (bottom left quadrant) should be delegated to a lower level staff person while all partner and manager time is focused on working on tasks that are in the upper left quadrant of important and urgent. Note also that assigning primary and secondary 'task owners' is a tactic we apply to enhance accountability among team members.

1 Adapted from FranklinCovey training program *FOCUS: Achieving Your Highest Priorities*

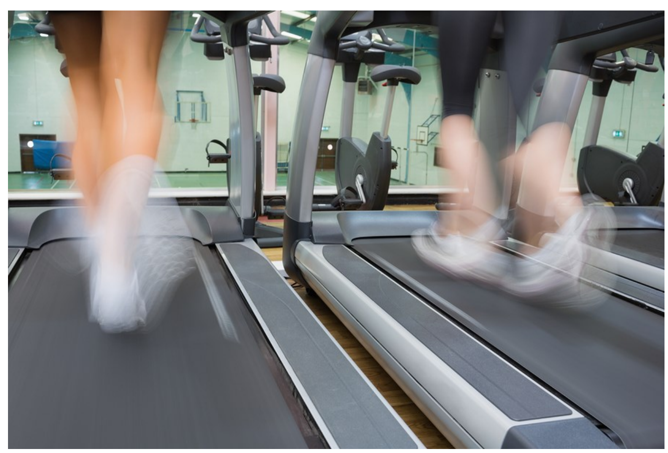
3 DELAY UNTIL 'AFTER THE 15th'

Accounting firm professionals are faced with significant deadlines throughout the year. And, because of the priority that must be placed upon the projects associated with these deadlines, CPAs can easily find themselves caught in a frenzy of cramming work between the busy months and then striving to unwind in the 'offseason.' Because of this, there is a risk of creating an environment where additional business is *never* conducted within those deadlines.

HEAD DOWN, PENCILS MOVING

We can reckon back to the days as auditors or entry level staff when we were told 'heads down, pencils moving.' This is a playful and perhaps humorous way of leading a team of accountants, it also implies that what is only important is what is immediately in front of you. That may be an appropriate message for staff level accountants, but partners and managers are called to a greater cause—serving the needs of a vast marketplace that is made up of clients, prospects and referral sources.

Failure by a partner or manager to acknowledge their larger picture obligations can create a lot of stress on themselves, their teams and their clients. Thus, a key leadership responsibility is to keep an eye on the horizon to understand what is ahead while delegating the more mundane tasks to the lowest level of capability.



THE TREADMILL IS ALWAYS RUNNING

Client and prospect needs do not disappear during the timeframe between January 15th to April 15th every year nor they take a break during any period throughout the year. We strongly believe the firm that can remain nimble and demonstrate responsiveness during all times of the year is the firm that will dominate its respective marketplace.

Accountants who are solely focused on their immediate deadlines are not keeping their minds open to exploring additional opportunities that might exist in the marketplace. Failing to recognize that the demands of the profession do not stop, places the firm at risk of not sustaining its revenue stream.

Continued —

What you do today from a sales perspective builds the pipeline for what you will close in the next 30 days and ultimately invoice in 90 days. The sales cycle doesn't end and the treadmill never stops. As the old saying goes, "when opportunity knocks, answer the door." Are you willing to metaphorically "answer the door", be proactive and demonstrate responsiveness to those around you when opportunities arise?

PROACTIVE, RESPONSIVE, HUNGRY FOR NEW BUSINESS

Avoid the temptation at all costs to let those around you believe you would prefer to hold off until after the 15th. A prior managing partner and mentor of mine once told me "you are as you present yourself."

That comment has stuck with me and resonated ever since he spoke it to me once—about 15 years ago. At stake is your personal brand and the Firm's marketplace branding. By simply putting something off until after the 15th that could reasonably be addressed today, you are sending a weak message to clients, staff, prospects and referral sources. Effective business developers are not flashy salesmen. In the public accounting world, these types of business developers present themselves as proactive, responsive, and hungry for new business.

That mentor of mine, by the way, was routinely a top revenue producer for his Firm and he now serves as Chief Operating Officer for one of the largest accounting and consulting firms in the world. Successful CPA firms meet or exceed their deadlines as well as attack the marketplace of opportunities with a responsive and proactive approach.

SO, WHAT CAN YOU DO?

- Chip away; manage your projects proactively and address client issues and complete tasks as early in the process as is possible.
- Manage time effectively; spend time working on tasks and projects that are aligned with your billing rate. Utilize a tool such as the Quadrant Report shared on page 6 to help view the bigger picture of what can be delegated and what cannot.
- Accelerate tasks to the earliest point possible; staying ahead of the game leaves room for the wanted and unexpected new business opportunity call.
- Recognize that the business world has not stopped and other opportunities are continually developing.
- Be prepared to share your value proposition immediately and without expending incremental time.
- Present yourself as proactive, responsive, and hungry to serve the marketplace.
- When opportunity knocks, "answer the door"...immediately, confidently and demonstrate a sense of urgency!

4 GROWTH-MINDED CULTURE

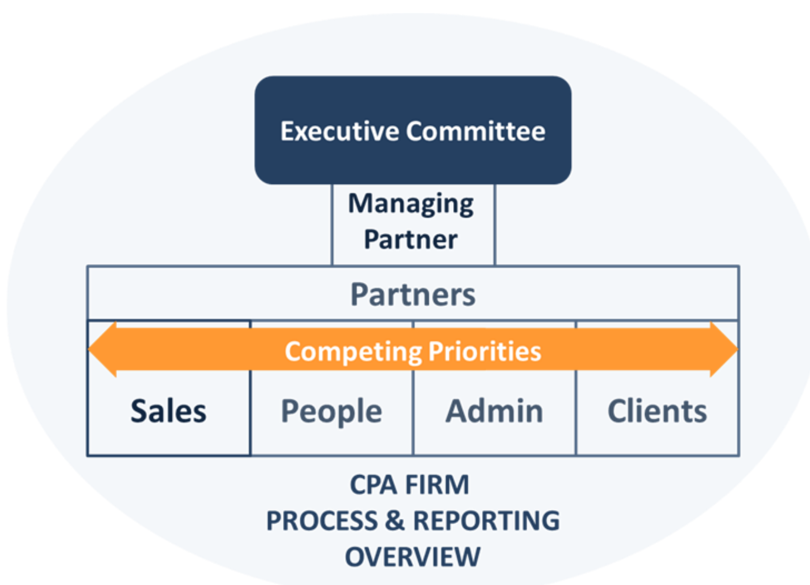
Culture matters a whole lot. Almost anyone you speak to would suggest the same. Yet, few can actually describe culture in a way that is expressive. At a recent panel discussion focused on M&A activities in the public accounting industry, a question was asked to the panel of four professionals, all of whom possessed a demonstrated level of expertise in completing accounting firm M&A deals:

Q: *"Anyone you speak to about seeking to complete a merger or acquisition of a professional services firm will tell you its 'all about the culture.' When firms complete M&A transactions they often include a statement in their press release about how these two organizations are 'culturally aligned.' With that stated and your respective comments you have shared about culture in an M&A deal, how do you* ***measure culture*** *prior to a transaction?"*

A: Well...nobody had an answer. One honest and courageous panelist attempted to answer the question this way: *"That's an excellent question. And, I don't have a specific answer except to say, 'you just get a feel for it...its something you just know.'* Each panelist nodded in agreement, then the respondent went on to tell a story about a firm that his firm acquired a few years back whereby his team thought the target was a culturally strong, team-oriented firm. Once the transaction closed, it wasn't long before they learned that two of the founding partners absolutely despised one another. That transaction, needless to say, incurred significant tangible and intangible costs early on relative to the transition and onboarding into the new firm. It took quite some time, he explained, before the culture evened out to where the acquirer felt they were on track.

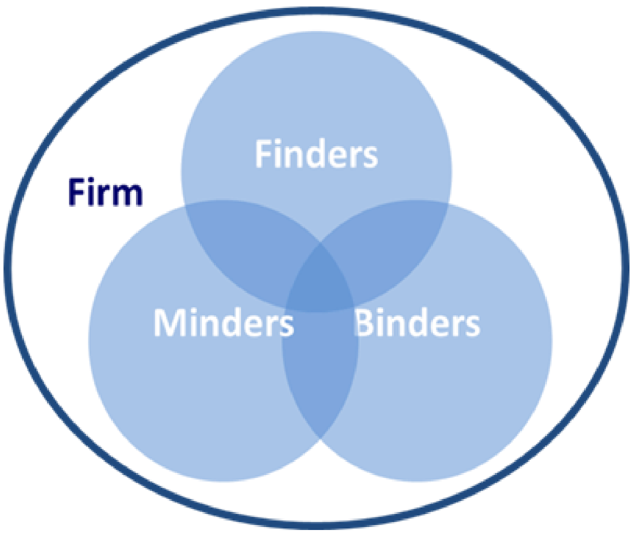
CULTURE MATTERS

As stated above, **culture matters a whole lot**. A toxic culture can cost firm owners a considerable amount of money both as they operate on a day to day basis and especially when its time to explore an upstream or downstream M&A. On the other hand, a synergistic, team-oriented culture can be a windfall for the owners. Whether you are looking to complete an M&A transaction or looking to operate and grow a profitable firm, keeping a finger on the pulse of the culture is critical.



Continued —

A growth-minded culture seeks to proactively offset the many challenges a firm might encounter along the path towards routinely adding new clients and expanding its offerings to its current client base. A growth-minded firm operates holistically, in a way of assuring that all levels understand the expectation to drive revenue to the business, develop their people, exceed expectations when serving existing clients, uphold the highest level of technical standards, and maintain accountability for hitting all metrics that are critical to the growth of the business. The diagram on the previous page illustrates such a holistic view of all facets that function together in well managed, growth-oriented firms.



Talent Configuration of a Sustainable CPA Firm

EVERYONE IS IN SALES

In addition to the holistic view that the staff and partners of a growth-oriented CPA firm are focused on the bigger picture of how their work in varying aspects impacts the overall organization, we also work with our CPA firm clients to evaluate roles and responsibilities of key members of their team.

Within our capacity of evaluating roles and responsibilities, we have developed the *Talent Configuration of a Sustainable CPA Firm* model as illustrated to the left to help clients visualize that just as everyone is in client service and technical related roles, **everyone is also in sales**.

This model illustrates the environment in which the Firm operates internally — its Culture, Shared Values, Processes, and Procedures—are represented by the sphere surrounding the Venn diagram, which consists of:

Finders: These are the Rainmakers of the Firm who are best utilized to work externally to develop new business opportunities.

Minders: These are the professionals who are most gifted from a technical perspective. The role of these folks is to protect the Firm from risk.

Binders: These professionals are client service Managers and Partners who play a critical role in delivering services to the marketplace.

This model illustrates the importance of everyone within the Firm. It also demonstrates the importance of working together and respecting one another's strengths on the basis of considering commonly shared capabilities.

CPA FIRM SUCCESS THROUGH SHARED VISION & COLLECTIVE EFFORT

A sustainable CPA Firm functions whereby those at the Partner and Manager levels understand the contributions each team member brings to the success of the Firm, but also respect each other's roles as crucial to the Firm's ability to bring exceptional service to, and meet the needs of, the marketplace while continuing to mitigate risks to the Firm.

The roles of each member of a CPA firm intersect as demonstrated by the Venn diagram on the previous page. After-all, to become a Manager, one must be technically competent and to become a Partner, an effective level of business development skills are a must.

Successful CPA Firms operate by the collective efforts of all, including those from client service Partners and Managers. Equally as important, the QC function must be led by technically superior professionals.

ATTRIBUTES OF A GROWTH-ORIENTED CULTURE

A Firm's culture is a highly intangible attribute that is also subjective rather than scientific and exact. With that in mind, the following series of attributes expected to be found in a strong growth culture:

- Educate all levels of the firm about how the firm makes money.
- Communicate staff roles for growing the Firm, both individually and in the aggregate.
- Everyone is in sales—in one capacity or another.
- Value is place on all skills possessed by each individual professional.
- Highly communicative—they meet often and share the leads they are pursuing.
- Value proposition of the Firm is consistently understood by all in the Firm at all times.
- Cross selling is at the center of plate when a team embarks on an audit, tax or consulting project.
- A high value is placed on teamwork.
- Golf and other activities are evaluated based on ROI—usually only beneficial for business in most strategic, relationship building situations.
- The Firm celebrates victories of all kinds.
- The Firm candidly communicates about why sales were won or lost.
- The Firm values collective responsibility of all team members.

5 SALES IS A PROCESS

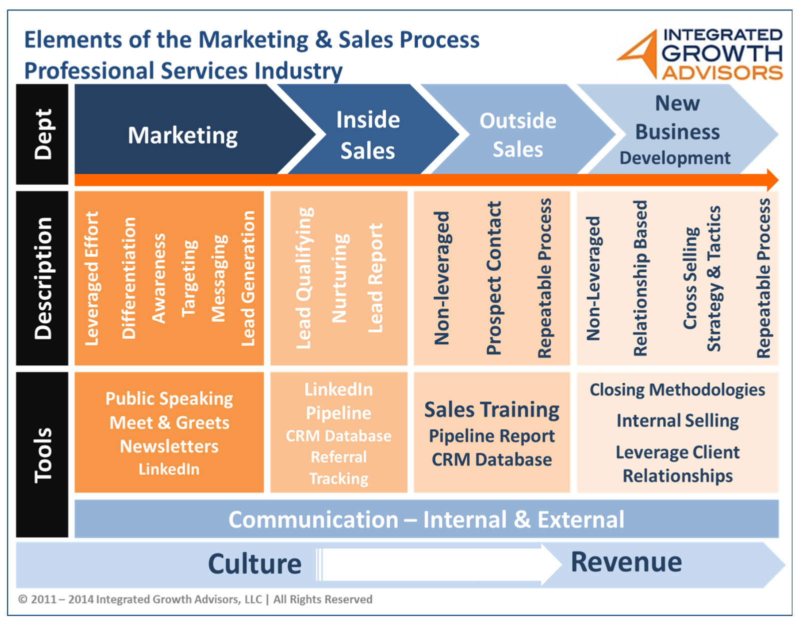
Sales is a business process within a firm just as finance and operations are too. Given the process-oriented background of an accountant, its often surprising that within their own firms, their internal processes are not optimized. This especially holds true for a sales process.

As professionals who advise clients on a range of topics that includes process and internal controls, it is worth acknowledging that when there is a process, there is an opportunity to work efficiently and effectively oftentimes empowering lower level staff through effective leveraging.

WOULD YOU LIKE TO PROCESS-IZE THAT?

Another major mistake CPA firms make is to treat sales as a one-time event. This can occur when communication is low and there is a lack of an organized business development process. Wining and dining prospects or clients is not sales, golf is not sales, lunch is not sales and generally responding to a request for proposal without proper internal vetting or qualification of a lead is not sales.

CPA firms struggling to grow often treat new opportunities in such a way; a sales lead arrives and a rainmaker jumps on the prospect without effectively evaluating every aspect of this sales lead, such as measuring investment time, staff availability or expertise needed. Once the initial (lack of) "qualification" is completed, there is no process in place afterward; there is no one in place to delegate the lead to. In other words, are these leads properly "qualified" or is it an "all-out-effort" until the lead becomes closed or a lost deal? A lead qualification process is part of the overall sales process. Otherwise time, energy and resources are being wasted.



RIGHT SIZE RIGHT SHAPE

Growth-oriented CPA firms have a fully-developed and consistent business process in place that is well understood by each member of the firm and aligned to the Firm's goals and objectives for growth. Investment in an organized sales and marketing process is an essential component to increase the sales and growth. The depth of the process is based upon the level of resources the Firm wishes to allocate, but its important to have a process. The process mapping above illustrates various elements of a sales and marketing within an accounting firm. The level of a process implemented would be impacted by firm size, budget and stage of growth and this process flow outlines expected elements.

WRAP-UP

Thank you for downloading this whitepaper.

We covered a lot of ground related to five examples of boundaries that stand in the path to building sustainable growth for your CPA firm.

Firm leadership must create and promote a culture of growth. A culture of growth invests in business development and marketing at all levels of the Firm. A growth-oriented culture also systemizes sales and marketing into a firm-wide process; just as a firm has an audit process, tax return routing process, or billings and collections process.

Selecting clients that best fit your Firm's client profile in terms of industry expertise, appetite for risk, profitability, etc. is a critical success strategy of high growth accounting firms. Successful purging of your C and D clients requires discipline and effective time management practices. An established process and firm policy related to purging will encourage and motivate the partners to turn their clients over and bring on new ones that can be profitably served in a synergistic, win-win-win manner.

A growth-oriented firm places a priority on sustaining a continual focus on business development. Efforts associated with driving new business to the Firm are approached by 'chipping away' at the marketplace as opposed to going 'all-in' every time an RFP is received.

Belief in the Firm's business development system, prioritization of tasks, deploying an effective leveraging model, effective time management, and the firm-wide culture as driven by a strong tone at the top all contribute to aligning firm-wide behavior as a solution to overcoming these five obstacles.

The famous 17th Century Spanish author Miguel de Cervantes was quoted as saying "*the journey is better than the inn*." Building a sustainable firm can be a lot of fun when all of the gears are working effectively, efficiently and interchangeably. The first step in moving forward is to develop a sound plan that will be supported by a repeatable process that is integrated into the daily operations of the Firm.

So, get going! Enjoy the journey!

Grow your Firm by working smarter, not harder and demonstrating support for a sound business development process that can be easily adopted by all levels of your staff.

ABOUT THE AUTHOR

Dan McMahon is a Partner & Business Growth Advisor with Integrated Growth Advisors.

Dan's career has spanned over 20 years in the public accounting and business advisory services space with focused experience in the professional services, manufacturing and real estate industries.

Dan served as an Audit Partner and the Partner-in-Charge of Sales and Marketing for CCR LLP, a $28 million revenue regional public accounting firm that was based in Westborough, Massachusetts prior to being acquired by an international accounting and advisory firm in 2011.

Dan's current work is notable in working to address the issues that confront the public accounting profession from the perspective of building partner equity value by creating a firm rooted in structure, process and a cultural commitment to achieving goals.

Dan is a registered certified public accountant in the State of Connecticut and is a member of the American Institute of Certified Public Accountants and the Connecticut Certified Public Accountants Society.

Dan has served as the workplace coordinator for the Greater Hartford Arts Council United Arts Campaign and as a member of the Marlborough, Connecticut Board of Finance. Dan currently serves as a member of the Board of Directors for the Exit Planning Exchange, Connecticut Chapter and as a Board member for the Community Investment Corporation.

Prior to relocating to Connecticut in 2006, Dan resided in Chicago where he served as a member of the Accounting Principles Committee for the Illinois CPA Society and as the Treasurer for the DePaul University Young Alumni Association.

Dan is a graduate of DePaul University's College of Commerce where he earned his Bachelor of Science degree in accounting.

Integrated Growth Advisors is a growth advisory firm focused on empowering our clients to systematically enhance their businesses in terms of revenues, profitability, sustainability, and value. We deliver customized solutions that allow complex businesses to thrive by delivering on a consultative approach focused on quantitative and qualitative metrics.

Our clients obtain a sharper focus and a cleaner path towards a bright business future. We engage on a variety of levels. We have deep experience with a number of leading tools driving the business advisory services space, and most importantly, as consultants we spend a great deal of time listening to our clients. In turn, we help our clients attain sustainable growth through cultural alignment, strategic planning, and tactical follow-through.

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