The Growth Partnership

PLAN ON SUCCESS

Positioning Your CPA Firm to Thrive During Market Disruptions

CONTENTS

INTRODUCTION

The accounting profession today is a far cry from the profession we knew just a few decades ago. Back then, as long as a CPA firm focused on credits and debits and compliance, clients were bound to be satisfied. That's not to say that CPAs weren't offering some level of advisory services—many were creating additional value for their clients, but they were not typically paid for this value add.

Along the way, the accounting profession encountered significant disruption, some brought about by regulatory changes and others through the explosion of digital tools, making it possible to offer clients an additional array of innovative services to help them achieve business growth. The other change came from the clients themselves. As their competitive landscape changed, their business needs grew and their need to seek financial and advisory services from a trusted advisor grew exponentially.

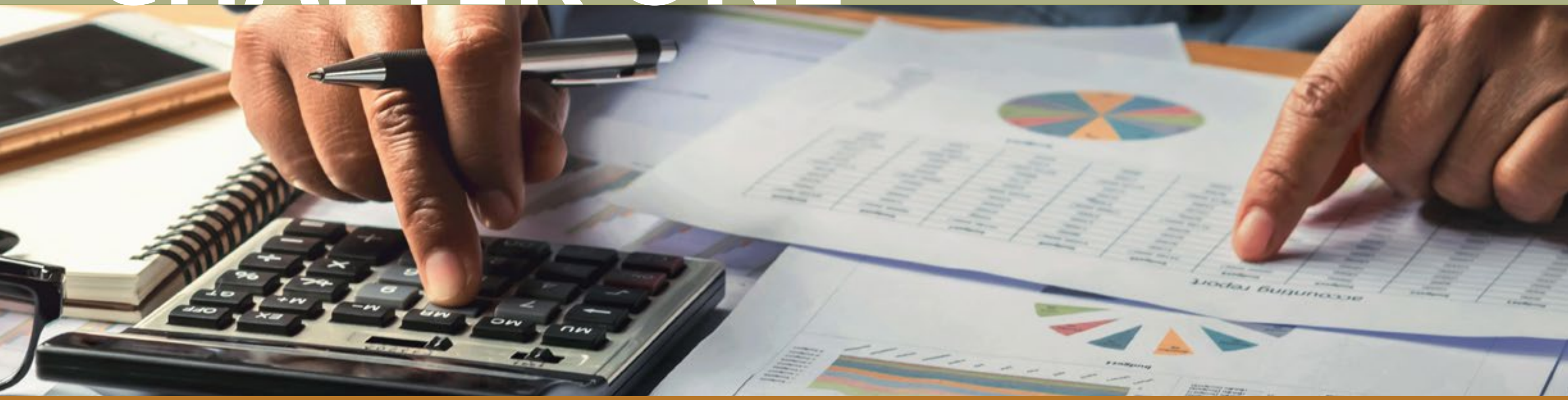
Is your firm taking advantage of all the tools at your disposal to drive meaningful growth, achieve a competitive advantage and become a collaborative partner among your clients' teams? Remember, disruptors are a positive force, as long as you know how to use them to target and strengthen key relationships! The purpose of this e-book is to understand how all of these factors have dramatically changed the accounting profession.

Topics include:

- The Evolution of the Accounting Profession
- Digitalization for Greater Client Efficiencies
- Pivoting Toward the Knowledge-Worker Age
- Understanding Your Best Opportunities for Growth

Founded in September 1999, The Growth Partnership (TGP) is a full-service, multidisciplinary consulting firm serving the accounting profession. You'll find our contact information at the end of this e-book.

CHAPTER ONE



The Evolution of the Accounting Profession

It's the old saying: it can be difficult to understand where you are if you don't understand where you've been. Early CPA firms were somewhat self-contained and almost totally self-reliant. All firms were somewhat homogeneous, with one local firm basically indistinguishable from the next. Up until about 30 years ago, you could pluck a practitioner out of a firm based in St. Louis and drop them in a firm based in San Diego, and while the décor and office ambience might be a bit different, the day-to-day reality would have been almost identical.

> ***The sole emphasis of a CPA in the historical model was placed on technical excellence: debits toward the window, credits toward the door, wear your green eyeshade and keep your pencil sharp. If you did those things well and built a solid reputation for yourself and your firm, everything would take care of itself.***

Competition for clients and staff was virtually nonexistent and practitioners were the product of an apprentice-based profession that rewarded technical excellence above all else.

Disruption #1 – Advertising Creates a New Playing Field

In 1977 the public accounting space experienced a major disruption that forever changed the collegial nature of the profession. The case of *Bates v. the State Bar of Arizona* served as a major turning point for all professional services firms and ultimately led to the culture of cutthroat competition that exists today.

Attorney John Bates concluded that his practice could not survive unless the availability of legal services at a lower cost was advertised. At the time, the State Bar of Arizona had a strict prohibition on advertising of any kind and moved to suspend Bates and his partner Van O'Steen for a period of six months. The case went all the way to the Arizona Supreme Court, which agreed with the Arizona Bar and affirmed the prohibition on advertising. The case then advanced to the U.S. Supreme Court, where the Arizona Court's ruling was overturned and the prohibition on advertising was removed.

While it was no longer illegal to advertise, both the American Bar Association and the AICPA immediately reaffirmed they considered advertising to be unethical and worked aggressively to minimize such practices. This allowed CPAs to continue to practice in a traditional mode for some time, but the seeds of disruption had been planted and it was only a matter of time before the genie was out of the bottle.

With the introduction of advertising and the open solicitation of clients and professionals came the new reality of marketplace competition that greatly diminished the historical collegiality of the profession. As such, a new paradigm began to emerge that required firms to practice in new and different ways, one that would include the new management of an accounting practice (MAP) and the advent of technology.

Accounting Is a Relationship Business

By Jeffrey Pawlow*, Managing Partner, The Growth Partnership*

After working almost exclusively with public accountants for the past 20 years, The Growth Partnership (TGP) has developed a keen understanding of what it takes for a CPA firm to grow. Before founding TGP in 1999, I served as the director of marketing for both a "Top 50" accounting firm in St. Louis and a large local firm in Madison, Wisconsin.

Prior to entering the accounting profession almost 25 years ago, I worked in the business banking world where I learned how to successfully market and develop business in the professional services sector. I was able to draw on that background to drive success with CPAs by simply transplanting proven business development techniques that were commonplace in the banking world, but almost unheard of in the accounting profession.

However, I believe many firms today seem to believe they can simply buy their way to growth. In other words, if they just figure out what the "right" marketing strategy is or what the right business development initiative might be, they can just simply write a check to fund those programs and growth will happen in and of itself. Unfortunately, nothing could be further from the truth.

I strongly believe that if firms want to develop a culture of sustainable, profitable growth they must return to the foundational principles of business development. This begins with a keen understanding that at the end of the day, this is a relationship business. The profession demands that its practitioners forge a great deal of professional intimacy with their clients, prospects and referral sources if they truly want to succeed.

CHAPTER TWO

Digitalization for Greater Client Efficiencies

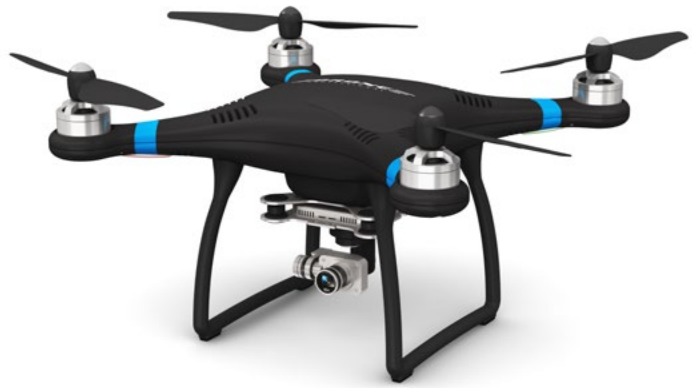
In response to the increasingly competitive landscape, CPAs began to see themselves in a different light. While technical excellence was still paramount, the new MAP movement was taking hold, which challenged CPAs to run their firms “like a business,” with greater emphasis on management, marketing, human capital and technology. This is when the notion of the accounting firm as a factory took root: CPAs gather raw materials (their clients’ data and information) and brought it onto their factory floor (their firm), where it was refined to produce finished goods (tax returns, financial statements, etc.). This “industrial” mindset was further fueled by the introduction of new technology—specifically, the microcomputer.

Disruption #2: Replacing Manual Tasks with Digitalization

For the past 25 to 30 years we’ve been diligently working to make our firms perform faster, better and cheaper. Microcomputers became desktops, which became laptops, which became iPads and smartphones. A small, single, monochromatic screen has given way to quad “retina” monitors and high-definition displays. Today, these technological efficiencies have automated some processes so well that it almost seems like the work is doing itself.

With buzzwords like automation, blockchain and artificial intelligence, futurists began to sow the seeds of knowledge for what has become the new paradigm. Want proof that disruption is just around the corner? Take a look at the website willrobotstakemyjob.com and type in what you currently do for a living. Auditor? There’s a 94% chance your job gets automated in the next three to five years. Tax preparer? Your odds are worse, with a 99% chance the robots will be taking over. In fact, we can already see the impact of these new technologies at play.

For example, TGP has a number of clients with agricultural niche practices who are exploring how to perform inventory counts by using drones. This method promises to be far more efficient than having staff drive from silo to silo, recording the amount of grain stored in each. As a result, the drones are poised to eliminate the need for a human worker. This paradigm has accelerated as radio frequency identification (RFID) technology has become mainstream.



For CPA firms, AI and robotic process automation (RPA) software now allows for user-led automation to perform rules-based, repeatable tasks. Rather than entering data manually, these tasks follow a set of rules for data gathering and analysis, including the completion of tax returns. We've become more of a reviewer of the final product than a professional who actually prepares the document. Someday soon, even complex returns will "self-prepare" as more and more systems integrate with one another.

In order to thrive, successful firms must develop a skill set that isn't easily found in their historical training and education. If they are to bridge this gap, it will be necessary to have a clear sense of where we're going.

Cloud computing, special apps and machine learning will continue to transform revenue streams. According to the AICPA, 75% of CPAs will reach retirement age by 2023, and the younger workers who replace them already embrace digital disruption. As firms seek to become strategic advisors to their clients, automation and AI will allow them to become more efficient and less reliant on time-consuming repetitive tasks.

CHAPTER THREE

Pivoting Toward the Knowledge-Worker Age

In the previous chapter, we discussed the industrial era of the accounting firm. At this stage, firms are facing one major overarching question: Why on earth would a current or prospective client pay us a premium fee when they can get the same core services from a firm that is probably just as *technically* excellent as we are at a significantly lower price? When it comes to fees, this "race to the bottom" has negatively impacted many firms that still rely on the core CPA services for the bulk of their revenue.

Firms that can't credibly answer that question are really going to struggle to thrive against the backdrop of disruption that's in store for them over the next three to five years in the Knowledge-Worker Age.

Disruption #3: Business Advisory Services

So why would a client choose your firm over one that is just as technically excellent and offering their services at a discounted rate? A recent survey asked clients of CPA firms what their top concerns were and what they wanted from their accountant. While tax minimization and compliance came in at the top of the list, the third biggest need was "better business management," a concern expressed by 68% of survey respondents.

Essentially, these business owners are saying they want their CPA to apply their specific industry and technical experience and expertise against their unique situation. They want an advisor, not just an accountant. They want consulting, not just compliance. Unfortunately, we are all products of a profession that has trained us to report on what has happened (looking backward as opposed to ahead) and to find the mistake (as opposed to recognize the opportunity).

> ***In the Knowledge-Worker Age, we need to pivot to successfully navigate disruptions ahead by bringing our unique ability and perspective to bear on our clients and their operations.***

This is why CPA firms continue to become more and more specialized along specific niche areas of practice. It is hard to be an "expert" in multiple niche areas but relatively easy to achieve that level of proficiency in one or possibly two. By doing small well, you can command a premium fee because you are bringing more to the table than just debits and credits. It is our unique knowledge, experience and perspective that allows us to function as trusted advisors.

So how do we make this pivot successfully? To begin this transformation, we must first get back to basics and recognize that, at the end of the day, this is a relationship business.

Examine Your Numbers

How many clients make up 50% of your overall book of business? How many more does it take to reach 80%? For the average partner or manager, this is often a surprisingly small number. In our experience, we've found that just 12 clients often account for 50% or more of a practitioner's book. Even so, these "key" clients aren't always recognized as such and are often served no better than the smaller clients who make up the rest of the client ledger. This has to stop.

Consider your top 12 accounts. Can you articulate with confidence their specific goals for this year? Have you read their strategic plan? Do you have a keen understanding about what makes them tick or what might be keeping them up at night? For the small number of clients that make up 50% to 80% of your book, you need to see yourself as a surrogate CFO—a person who can help them improve their financial position and shed some light on the twists and turns that lie ahead.

Unfortunately, we often hear that there isn't enough time to provide this level of engagement or proactive advice. In other words, there just isn't enough time to take impeccable care of my very best relationships because I'm too busy meeting the demands of the rest of my client portfolio, which may only contribute 20% to my overall revenue. This is like saying "I'm too busy driving to take the time to stop and get gas." It's not going to work out well for you in the end.

CHAPTER FOUR

Understanding Your Best Opportunities for Growth

To succeed in the Knowledge-Worker Age, start with the understanding that growth comes from one of four areas: 1) client management; 2) client expansion; 3) client acquisition; and 4) client retention. Let's briefly examine each one.

Client Management - If you raise your rates and you hold realization and utilization the same, you will collect more money and be more profitable. If you keep rates the same but improve realization, you're going to be more profitable because you've collected more of the money that you've actually billed. If you better leverage the work being done on an engagement you will again increase profitability. Rate, leverage, utilization and realization are the four levers of practice management. Successful firms manage these variables religiously.

Client Expansion - In this area, we more deeply engage our existing clients and sell additional services as a result of that deepening relationship. We consider what else we can do within these existing relationships to expand and bind them to us over time. We do that by offering additional services beyond the core compliance that they're used to receiving. This is all predicated on having a high level of professional intimacy with the client.

Client Acquisition - We do this in one of two ways: The first is by being the recipient of a referral from a banker, lawyer, insurance agent or financial planner who knows us and trusts us with one of their relationships. Referrals are valuable because they are pre-sold and provide us with immediate legitimacy in the eyes of the potential client.

The second way to acquire clients is through direct targeting. This entails going through a process of identifying prospects that look like our very best clients, creating a positive first impression with them, gaining permission to keep in touch and then professionally sowing seeds of discontent between them and their current provider. This is done by consistently demonstrating thought leadership in the prospect's space.

Client Retention - The fourth way of growing, which isn't as intuitive as the first three, is to limit your client attrition rates. On average, your firm is going to lose between 5% and 7% of its revenue every year just through the normal course of business, such as losing a client because they've gone to another competitor, were acquired, went out of business or whatever else the case might be. As a result, you essentially start each year down 5% to 7% and have to dig out just to remain even.

Of course, you cannot prevent clients from going out of business or from being acquired by different companies, but you can convince your current ones to stay with you. One way to do this is by surveying your clients to see if they're satisfied with your service and if they're loyal to your company. Starting the year down 2% instead of down 7% means you have a 5% head start on the year.

Finding Your Most Important Clients

We are all stretched for time, so it is important to prioritize your best growth opportunities. That means you need to find out who your most valuable clients are—those who collectively make up 80% of your firm's billings. We recommend doing the same exercise our firm does each year. First, our controller runs a report that lists all of our clients from the previous year organized by how much we billed them. We start at the top and begin adding the annual fees until we've identified 80% of our firm's revenue. Last year, we found that 23% of our total clients produced 80% of our total revenue. That means that less than a fourth of our total client base was responsible for the vast majority of our revenue.

This also applies at the individual practitioner level. Personally, just 11 clients make up 87% of my practice, and collectively they represent about 34% of our overall revenue as a firm. If I'm going to survive the disruption that's coming, I really need to double down into those specific relationships because those are the ones I have to defend, those are the ones I have to expand and those are the ones that I have to compel to pay me a premium price, knowing that my competitors are out there willing to do it for less.

So, how do I do that? I simply make sure that, for each of those 11 clients, I identify the specific people in their organization that I need to keep happy and establish a cadence of proactive interaction with each one of them.

Building Your Brand

In addition to proactively developing more professional intimacy with our most important clients, prospects and referral sources, we must also elevate our personal brands to thrive in the Knowledge-Worker Age. The easiest way to do this is to position ourselves as the person who somehow manages to deliver the right piece of content to the right contacts at exactly the right time. This "rifle" approach is significantly different than your current e-newsletter strategy that is tailored more to the masses.

> ***According to the 2020 Rosenberg Survey of CPA firms, it literally pays to have a formal marketing plan. Net income per partner is $22,000 higher!***

What we have found to be incredibly effective is to deploy a strategy of surgical content delivery over a sustained period of time. This is actually easier than it may sound, especially if you're limiting your focus to the 20% of clients who contribute 80% of your revenue. Use your e-newsletter to keep in touch with the other clients, but develop a cadence of robust content delivery for your key relationships. This "nurture" approach will yield deeper conversations and engagement because it is so narrowly focused on the needs and interests of a select population.

The email to the right is an example that was sent to clients who were in a position to benefit from two provisions in the Coronavirus Aid, Relief, and Economic Security (CARES) Act. TGP offered to put small business owners and other taxpayers in touch with local bankers and to offer our assistance overall.

Notice the way in which the email is crafted. It is written in a way where the recipient believes it was only sent to them, but as you look closer, you understand that this message could have been sent to all clients by only switching the recipient's name. Even though this campaign was "one-to-many" for each recipient, it felt like it was "one-to-one." Imagine the powerful brand that you can build over time if you maintain a cadence of this type of correspondence with your most important clients.

Move to...

James Fawcett
Inbox - [redacted] 2:38 PM
JF
Important Update RE: Legislation Impacting Your Business (Action Requested)
To: [redacted]
Reply-To: James Fawcett

Steven,

Late last night the Senate passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This legislation is expected to be passed by the House on Friday morning and then signed by President Trump later that day. It will directly impact your business in a significant way.

While there are many facets of this bill that seek to provide economic relief in response to the Covid-19 outbreak, there are two that I want to make sure you are familiar with in the short term:

BUSINESS RETENTION LOANS FOR SMALL BUSINESSES
Private loans guaranteed by the government will be issued for an amount equal to approximately 2.5 times your average monthly payroll and qualifying overhead. If conditions are met (retaining employees, etc...) the loan will convert to a grant and will be forgiven. Every FDIC insured financial institution will be eligible to make these loans and it is anticipated that funds will be disbursed within 36 hours of the application being filed. The Treasury will be issuing further guidance in the coming days and the program is expected to be operational in approximately 3 weeks.

PROVISIONS FOR INDIVIDUALS
For individuals the package provides direct payments of $1,200 per adult and $500 for each child to lower and middle-income Americans. Phaseouts begin at $75K for individuals and $150K for married couples. Checks are anticipated in mid-May. Additionally, unemployment insurance will be extended to four months and the benefits bolstered by $600 weekly with eligibility being expanded to cover more workers.

Again, these are just two of the major / immediate provisions addressed in the CARES Act. You can find an outline of all of the bill's major provisions here:

> **Senate Passes Updated Economic Relief Plan (CARES Act) for Individuals and Businesses**
>
> On Wednesday evening, March 25th the Senate passed an updated version of the Coronavirus Aid, Relief and Economic Security (CARES) Act. The bill builds upon earlier versions of the CARES Act and is intended to be a third round of federal government support in the wake of the coronavirus public health crisis and associated economic fallout. It is the product of negotiations between Democrats and Republicans for a bipartisan response to the crisis and expected to be passed by the House and signed by the President on Friday..
>
> https://taxfoundation.org/cares-act-senate-coronavirus-bill-economic-relief-plan/

As your CPA I wanted to reach out and make sure you were fully aware of this legislation and encourage you to take early action on it. We anticipate there will be significant demand for the forgivable loans, so it makes sense for us to reach out to your lenders now.

In the event that you would like a referral to a local bank that will be supporting this program, I recommend contacting any of the following individuals. Please use my name as you reach out, or I am happy to provide an introduction.

Mark Sauerwein	[redacted]	(314)[redacted]	msauerwein@[redacted]
Mark Foster	[redacted]	(636)[redacted]	mark.foster@[redacted]
Betsy Ringsdale	[redacted]	(314)[redacted]	betsy.ringsdale@[redacted]

During this extraordinary event, I want to make sure our firm is supporting you to the best of our ability. Please don't hesitate to reach out if I can provide any immediate assistance. You can also expect me to contact you during the weeks ahead to check in and provide you with more information on some of the other tax provisions of the acts that will have direct applicability to your business. We'll have lots to discuss!

I look forward to working closely with you as we strive to return to some sense of normalcy in the business world.

James

James Fawcett, CPA, MST
Partner
[redacted]

As you build your brand, your ability to command a premium fee goes up, even in the face of low-price competitors. This premium will be an important asset to you and your firm during the disruption that lies ahead.

Synergy for Improved Client Relationships

The final thing we should acknowledge is that multi-partner firms need to practice synergistically if they are going to drive the maximum value into a client relationship. Too often we see CPA firms that are simply a collection of sole practitioners that have banded together to share overhead and administrative expenses. These "co-op" firms will struggle in the years ahead because it will be increasingly difficult for a lone practitioner to serve the evolving needs of their clients.

Instead, firm leaders need to create systems that compel practitioners to work interdependently as they approach a client relationship. Think of it this way: 1+1 needs to equal more than just 2. In a synergistic firm, it can equal 3, or 10 or 1,000. Simply put, successful firms will need a system to ensure that the right hand knows what the left hand is doing and that information is being shared robustly among practitioners.

Tracking Relationships for Growth Opportunities

How do we hold each other accountable for doing the things we need to do to create dynamic practices? Earlier I mentioned that we actively manage the top 80% of our revenue at TGP. We have a system in place that allows us to see the health of all those relationships at a glance, and are very transparent about the health of those key relationships. Our system is called ABLE (www.growwithable.com), and it has provided an inexpensive platform to help us grow our practice. Specifically, ABLE allows us to:

- Provide dashboards that confirm in real time if our scheduled major interactions are taking place;
- Easily share compelling content in a targeted fashion to our clients, prospects and referral sources;
- View an active pipeline of new business opportunities, and track both inbound and outbound referrals; and
- Actively collaborate across multiple practitioners using robust CRM tools.

The dashboards available through ABLE will allow your CPA firm to better function as a trusted advisor while creating clear and compelling differentiation among your competitors.

CONCLUSION

As you consider how to thrive during disruptions, ask yourself the following questions:

- Why would a client choose to pay me (or my firm) a premium fee in the face of low-price competition?
- Do we have systems in place that focus us on driving value into the handful of relationships that really matter?
- Can I easily share meaningful content with tightly defined populations?
- Do we practice synergistically?
- Are we accountable to one another?

When you can answer "yes" to the questions above, I believe you are adequately prepared to successfully navigate the disruption ahead. Welcome to the Knowledge-Worker Age!

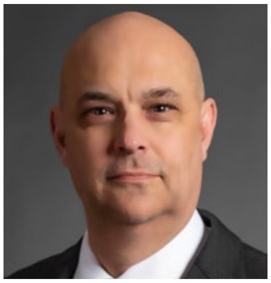
For more information about how to convert market disruption into opportunities to serve as a trusted business advisor to your clients, please contact Jeff Pawlow at (314) 447-2354.

About The Growth Partnership

For the past 20+ years The Growth Partnership has been helping CPA firms achieve sustainable, profitable growth. We developed the Trusted Advisory Academy to help CPAs shift into a more proactive advisory approach to serve their clients need and build sustainable, profitable growth. To learn more about our CPA training and development programs, please visit our website or call (314) 209-0922.

About the Author

Jeffrey S. Pawlow



As the Founder and Managing Shareholder of The Growth Partnership, Jeff leads a dynamic team of professionals who are dedicated to helping their clients succeed as business owners. Focused exclusively on public accounting firms, Jeff is best known for his work in two areas: helping firms design and successfully implement robust go-to-market positioning strategies, and developing the future leaders of the profession. He has repeatedly been named as one of the profession's "Top 100 Most Influential People" by Accounting Today.