Small Firm Solutions

WINNING STRATEGIES FOR PROFITABLE FIRMS

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- **Productivity Boosters**: Most firms are very aware of the benefits of smart phones, but they often don't appreciate the associated risks until one is misplaced or stolen. Technology consultant Roman Kepczyk discusses the best practices for these common tools.
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HOT TOPICS FOR SMALL FIRMS

By James C. Metzler, CPA, AICPA Vice President, Small Firm Interests

Small Firm Solutions *is devoted to addressing the needs of the smallest firms. According to recent research by the AICPA Private Companies Practice Section, client retention and technical issues are the greatest problems facing those firms today. I'll talk about both concerns in this column.*

The 2009 PCPS CPA Firm Top Issues Survey. Client retention was the main challenge facing firms of all size, from sole practitioners to firms with 21 or more professionals. That was the finding of the 2009 PCPS CPA Firm Top Issues Survey, a comprehensive examination of the concerns facing practitioners. The findings were a departure from past surveys, where staffing had been the top issue for most firms over the last decade. However, they were not a complete surprise, since the troubled economy has had an impact of many client businesses.

What it means for small firms. Based on my meetings with practitioners, it seems that CPA firms are generally holding their own despite hard times in the economy, based on their location and the industries they serve. But the survey clearly indicates that practitioners are at least considering the possibility of business losses as clients struggle with the challenges of a recession. The PCPS CPA Firm Top Issues Survey is a valuable resource because it tells you what is keeping other practitioners up at night, confirms your own observations about developments affecting the profession and provides clues about future trends. PCPS has also created a free commentary on the survey that examines each issue that practitioners believe is important to them and provides an overview of what they mean for firms. The commentary also offers action steps that CPA firms can use to address each of the most frequently cited concerns. I hope you'll take advantage of these great resources.

Proposed changes to compilation and review standards. Our last edition of *Small Firm Solutions* was a special issue on the AICPA Accounting and Review Services Committee's exposure draft of proposed statements on standards for accounting and review services that would make significant changes to the standards on compilation and review services. The comment period for that ED has now ended, and I'm happy to say there was a robust response from small practitioners on this important proposal.

Why it's important for small firms. As I travel around the country to meet with small practitioners, many of them express concerns about the difficulties they face in providing nonattest services to compilation and review clients. This proposal recommended, among other things, that CPAs be allowed to perform reviews even if they are not independent from the client because of some consulting services they provide. CPAs would also be allowed to reveal the reason for their lack of independence. Practitioners would not be able to perform a review if they lacked independence because of a financial or family interest. However, many users of small company financial statements may believe that "lack of independence" always means there is a financial or family interest. The proposal would offer them more information and the chance to make their own judgments.

The next step. The Accounting and Review Services Committee is considering the feedback they have received on the proposal. Once its deliberations are complete, we will update you when any new guidance becomes effective and specifically what it means to small practitioners. Stay tuned for more details. ■

James C. Metzler

MARKETING CORNER

Practitioners' Top Marketing Tips

By James C. Metzler, CPA, AICPA Vice President, Small Firm Interests

What are some of the big buzz words among practitioners today? Client retention and marketing. That's what I'm seeing as I meet with practitioners nationwide. And it's backed up by Institute research. The 2009 PCPS CPA Firm Top Issues Survey found that client retention was the chief concern in firms of all size, and marketing was a prime issue for many firms. Neither issue appeared the last time the survey was performed, in 2007.

What's the best way to strengthen ties with clients and promote practice growth? Here's a round-up of successful ideas from practitioners across the country.

The Personal Touch

At Shost & Company in Dallas, the firm responded to signs of client caution by offering them more face-to-face time. Early in the year and after busy season, Mike Shost set up meetings with his 20 top clients to assess how they were doing and what they expected in the near term. He also shared insights from his own involvement in PCPS events and local networks. His key piece of advice to clients: Quit watching the media and watch your numbers instead. Largely health care and other service businesses, "80% of my clients are doing well now or better than they have done in the past," he says, but they remain spooked by the gloomy news about the economy. To prevent this from distracting them from their business, "I advise them to put their heads down and do what they do best."

The Lower-Cost Alternative

Phoenix sole practitioner Peggy Ullmann has found one surprising opportunity area in the recession: Clients that might have outgrown the firm but whose circumstances have changed due to the economy. "We had one client that left us to work with a much larger firm once they decided to go public," she says. Now that decision is on hold, "so we are talking to them about moving some of the work back to our firm." Ullmann had always positioned her practice as a higher end option. "Nordstrom, not Wal-Mart," she says. "But at the moment, people would rather shop at Wal-Mart. Well, for larger companies, we are the Wal-Mart because we can offer them full service at a lower cost than the bigger firms." Small firms can gain an advantage by positioning themselves as the lower-cost alternative.

Market to Your Base

Sometimes firms concentrate so hard on new clients that they forget about the many opportunities that are probably available in their own client bases. At Schleisman Onken & Associates P.C. in Omaha, when firm members talk with clients, they make a point of identifying needs that the firm can address and explaining what they have to offer. "We all try to be aware of opportunities to ask, 'Did you know we did this?,'" says partner Jane Onken. This is both a marketing and a client retention step, since displaying your interest in clients and your wide-ranging ability to serve them can help cement relationships.

Strengthen your Niches

While attracting and retaining tax season clients may not be an issue for many, Dave McIntee of McIntee Fusaro & Associates in Hillsborough, North Carolina, notes that off season hours may be tougher to fill due to the downturn. That's why he recommends building a specialty niche that features off-season work. "A specialty is now a tangible asset," he says. "You can demonstrate that you truly understand the client's business. They may get offers from people who can do the work more cheaply, but your specialty shows them that you can do it better."

Remember Prudent Client Acceptance Practices

While expanding your client base is certainly a valid goal, be careful not to sidestep your tried-and-true client vetting practices. "If you weren't that selective in accepting clients before, you really need to change now," cautions Bea Nahon, a sole practitioner in Bellevue, Washington. Even though the bad economy may be driving firms' revived marketing efforts, it should also be a consideration in client acceptance, she notes. "If you're not careful, you will face collection issues down the road."

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FOCUS ON TECHNOLOGY

Who's Got My Smart Phone?

By Roman H. Kepczyk, CPA.CITP

Smart phones are becoming commonplace in firms of all size today, with most owners and managers using them to access their contacts, calendar and email. The beauty of these devices is that they can be an extension of the owner's desktop, allowing them to work from anyplace and at anytime in a near real-time format. This promotes better client service and more timely responses to employee questions, as virtually everything in the owner's Outlook account can be made available. Most firms are very aware of the benefits of smart phones, but they often don't appreciate the risks until one is misplaced or stolen. Without proper preparation, the firm's confidential client list can easily be exposed, as well as the phone owner's email and any attachments that may be in the system. That's why it is imperative that firms ensure that their computer policies are updated to take into account the impact of these new devices on the firm's confidential information.

Before anyone can synchronize a smart phone to the firm's network, they should be required to have a password that is at least four characters long that must be entered to access the device. The password screensaver should also be set to revert to this password screen if it is not used within five or ten minutes. If for any reason the password is entered incorrectly five times in a row, the phone should be set to automatically wipe all of the data on the phone, which will minimize the firm's risk in the event the phone falls into the wrong hands. The firm should also mandate a platform that allows the IT staff to manually erase the smart phone if the owner notifies them that the device has been lost or possibly stolen. If the phone is "wiped" for any reason and then subsequently found, it can be easily re-synched with the network, so the information can be restored.

The policy should also outline procedures on notification and follow up procedures when a smart phone has been lost or misplaced. The firm IT expert should document and test procedures that allow them to remotely wipe and restore the data on the firm's smart phones. When someone leaves the firm, information should be erased from their smart phone, as well as all firm network access. These best practices should be included in the firm's computer usage polices and new employees should formally agree to adhere to them. Firms should also update staff annually on new threats to smart phone privacy as well as on the importance of adherence to existing policies.

Roman H. Kepczyk, CPA.CITP is President of InfoTech Partners North America, Inc. (www.itpna.com) and works exclusively with CPA firms to optimize their tax, audit, client service and administrative production processes as they transition to a "less paper" environment. ■

PRACTICE MANAGEMENT/M&A

Short-Sighted Mistakes Made In Due Diligence

When valuing a business, historical data is a key concern, but proper due diligence also requires a strong focus on the future. A merged or acquired firm is a different entity from what it once was, and the effects of this transformation must be considered in sizing up any potential deal. Here are some examples in which data about the current firm don't tell the entire story.

Profitability. Most firms will invest considerable time to ascertain the current profitability of a potential merger or acquisition partner. While this is important, it is only the first step in understanding profitability. Let's look at a specific situation: Five years ago, there was a sole practitioner working from home with a spouse as the only administrative staff. This person generated $300,000 in annual fees and his net was likely 85%. Then this practitioner decided to move into an office and hire an office manager. He also wanted to cut back his own hours, so he hired a per diem person. All of these changes reduced his net to 45%. At which time was the practice worth more to a buyer or merger partner?

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The answer is that the difference in net is irrelevant. This practitioner's net has nothing to do with the buyer unless it is taking over the operation and operating identically (same location, staff, time commitment, etc.). If the successor firm can absorb this practice into its own infrastructure with no or very few incremental increases in overhead, it is a very profitable acquisition. If it is necessary to take on additional space, staff or make any other changes that raise overhead, that will certainly mitigate profit. Instead of worrying about current net for the existing firm, begin with the seller or merger partner's current net and then determine how much of it will accrue to the buyer.

Billing rates. Buyers and merger partners can have a similar blind spot about billing rates. In one recent merger, the mergeree was a sole practitioner doing approximately $400,000 in annual revenue with one paraprofessional and a per diem during the busy season. This owner was getting $150 an hour. He was to merge into a three-partner firm that had a manager and some seniors and juniors, but this firm was getting $200 per hour for partner time, $125 for manager, $90 for senior and $75 for juniors.

At first the larger firm was quite concerned about the merger partner's lower billing rate. On closer examination, it was clear that 80% of the work the sole practitioner was doing could be passed down to managers, seniors and staff. The $150 an hour that he was earning for that work was in excess of the billing rates for the professionals in the successor firm who were to handle most of the work. Under the new arrangement, the mergeree was going to be freed up to handle the higher-level work of a partner who was soon to retire, earning the new firm's higher partner rate. By focusing on the future and not the past, the leaders of the larger firm realized the deal was a home run.

There are many cases in which efficiencies in a new firm will optimize what a seller has to offer. In another merger, the seller's software was found to be far less efficient than the successor firm's. The successor firm estimated it would take them 20% less time to do an even better job for the clients than the seller was doing. That raised the billing rate realized without raising the fee to the client!

Due diligence is a complicated, multifaceted process. In undertaking it, don't forget to assess not only a seller's current situation, but also how that firm's numbers may change in the new practice. You may be surprised to find how much more—or less—attractive the deal becomes. ■

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