CPA FIRM GROWTH

Keys to Practice Development

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MONOGRAPHS BY MARC ROSENBERG

CPA Firm Partner Agreements
CPA Firm Staff: Managing Your #1 Asset
CPA Firm Partner Compensation: The Art and Science
CPA Firm Partner Retirement/Buyout Plans
CPA Firm Mergers: Your Complete Guide
How CPA Firms Work: The Business of Public Accounting
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CPA Firm Management & Governance
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Strategic Planning and Goal Setting For Results
How to Bring in New Partners
How to Operate a Compensation Committee
What Really *Makes CPA Firms Profitable?*
Effective Partner Relations and Communications

MEET OUR CO-AUTHORS

Jeff Pawlow is the Founder and Managing Shareholder of *The Growth Partnership*, which focuses exclusively on CPA firms in implementing robust marketing strategies, developing future leaders and practice management. He has repeatedly been named as one of the profession's Top 100 Most Influential People by *Accounting Today.* Jeff is a sought-after keynote speaker and workshop presenter. His presentations consistently receive outstanding reviews from audiences.

Charles Hylan, CPA, is a Shareholder of The Growth Partnership, focusing on the creation and implementation of high-impact marketing plans, providing outsourced marketing services and consulting to CPA firms on partner compensation systems, succession strategies, strategic planning, partner buy-in/out and leadership development. He is an inspiration to clients due to his unique ability to focus on implementation … the only true way to bring about change. Charles has been recognized as one of the Top 100 Most Influential People in the accounting profession by *Accounting Today*.

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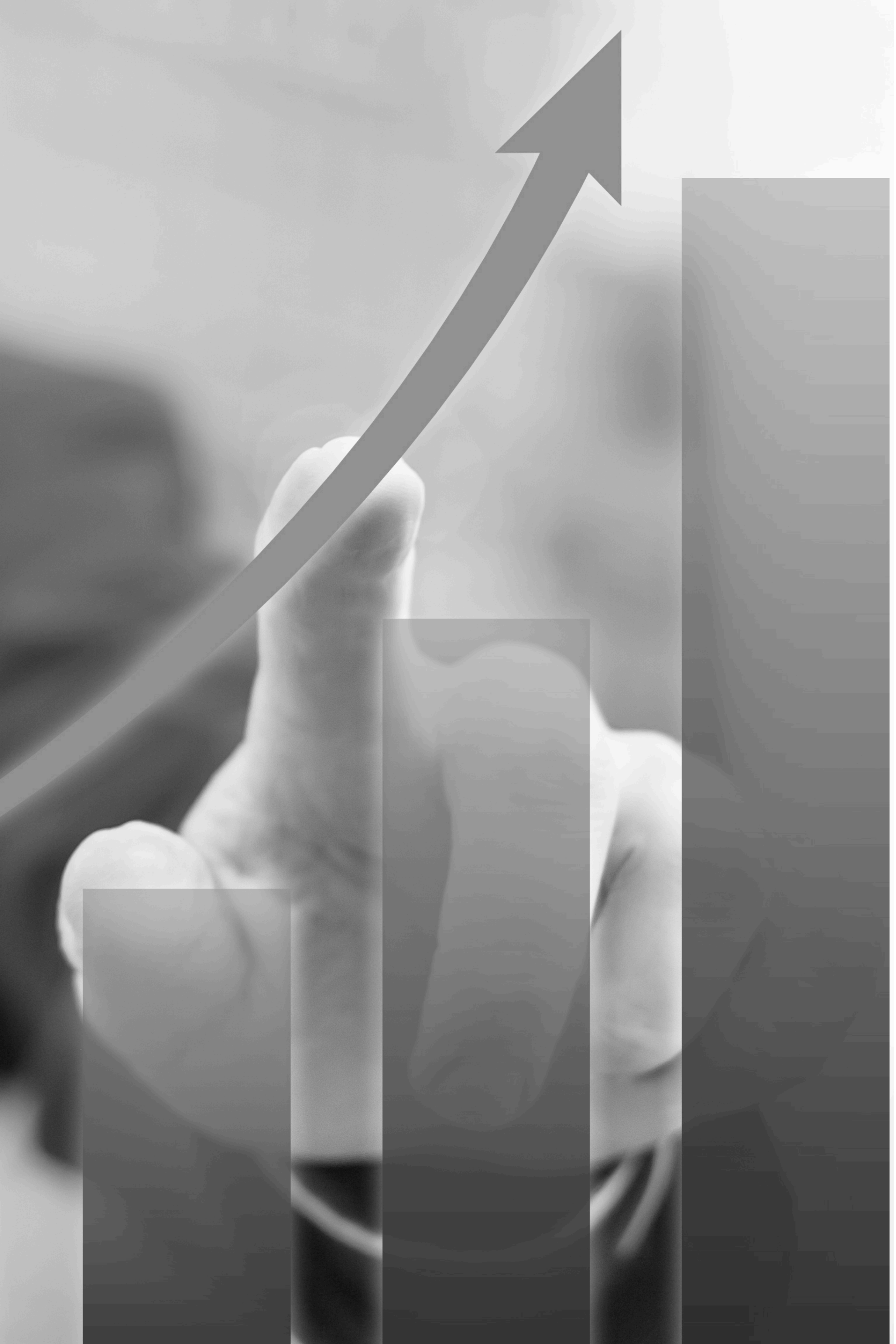

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The Upcoming Disruption

The Evolution and Future of the Accounting Profession

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 or the "right" business development initiative is, they can simply write a check to fund those programs and growth will happen in and of itself. Unfortunately, this does not work in the real world, including CPA firms.

We 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 the keen understanding that *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.

With that as a backdrop, let's examine how the public accounting profession has evolved over the past several decades. This is an important perspective for practitioners who want to successfully navigate the disruption that lies ahead.

Profession 1.0: The Family Farm

The historical accounting profession shared a lot with the agricultural economy. Like those early family farms, 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. Competition for clients and staff was virtually nonexistent and practitioners were an apprentice-based profession that rewarded technical excellence above all else. The collegial nature of the environment led to public accounting being known as a "gentlemen's profession," and it served as a gateway for many children of traditionally blue-collar families to make the jump to the white-collar world.

Up until the late 1970s, you could pluck a practitioner out of a firm based in St. Louis and drop him or her in a firm out 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 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.

The first disruption

In 1977 the public accounting space experienced a major disruption that changed the collegial nature of the profession forever. The case of *Bates v. State Bar of Arizona* served as a major turning point for all professional services firms (go figure, it was the lawyers who got us in trouble) and ultimately led to the culture of competition that exists today.

Attorney John Bates concluded that his practice could not survive unless he advertised (this would include soliciting business). At the time, the State Bar of Arizona had a strict prohibition on advertising of any kind, so it moved to suspend Bates and his partner. Courts in Arizona up to the Arizona Supreme Court agreed with the Arizona Bar, affirming 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 that they considered advertising to be unethical and worked aggressively to minimize such practices. This allowed CPAs to continue to practice in a "1.0 world" 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 open solicitation of clients came the new reality of marketplace competition, which diminished the historical collegiality of the profession. A new paradigm began to emerge that required firms to practice in new and different ways. If 1.0 was the agricultural economy, 2.0 became the notion of running a CPA firm like a real business.

Profession 2.0: Running a CPA firm like a real business

In response to the increasingly competitive landscape, CPAs began to see themselves in a different light. While technical excellence was still important, the new MAP (Management of an Accounting Practice) movement began to take hold in the early 1980s. MAP challenged CPAs to run their firms "like a business" with greater emphasis placed on management, marketing, human capital, and technology. This is when the notion of the accounting firm as a factory took root: CPAs gathered raw materials (their clients' data and information) and brought it onto the 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.

The advent of technology

Two rooms used to exist in every CPA firm: the file room and the library. The file room was where we kept client files, and the library housed the technical manuals, books, and tax research volumes. Today, both rooms have been largely replaced by technological alternatives.

As recently as the mid-1990s, "LOL" was not "laugh out loud." It was the "little old lady" most firms hired to keep watch over the library. Her two main jobs were to ensure that no materials got out and that voluminous new inserts were carefully placed into the firm's multiple tax research volumes. A common sight was accountants sitting in the library with books and huge pads of paper to make calculations, prepare financial statements and tax returns, and calculate depreciation tables.

New and rapidly evolving technologies quickly put an end to the need for a file room or a library. For several decades now, 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. Of course, this is exactly where technology is headed. More on this later.

The next disruption

Just as the profession evolved from the 1.0 "agricultural economy" to the 2.0 "industrial revolution," we now find ourselves at another inflection point and must prepare our firms accordingly.

We do quite a bit of speaking at CPA conferences. Since 2013 or so, there has been a marked increase in the number of sessions on the coming second disruption in the accounting profession due to the emergence of Blockchain, data analytics and artificial intelligence. Futurists have been sowing the seeds of knowledge for what lies ahead as we move to a new (and yet to be defined) 3.0 paradigm.

Conferences featuring the coming technology disruption are now mainstream. None of us can pick up a media source without seeing pieces on this disruption.

Will robots take my job?

Want proof that disruption is just around the corner? A popular website says there is a 94% chance that the job of auditor will get automated in the next three to five years. Tax preparer? Your odds are worse, with a 99% chance the robots will take over. In fact, we can already see the impact of these new technologies at play. For example, we have several 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 human workers. This paradigm is only going to accelerate as technology becomes mainstream and the inventory starts to count itself.

On the tax side, we're already at the point where tax returns almost prepare themselves. We scan all the client's information and the computer populates the tax form. We've been reduced to being more of a reviewer of the final product than somebody who actually prepares the return. Someday soon, even complex returns will "self-prepare" and even the review can be performed using artificial intelligence. Computer chess players have been defeating human players for quite some time now, so it's no stretch to believe that a computerized 1040 reviewer can perform a more effective review than a high-level tax pro.

Core services

According to this year's *Rosenberg Survey*, the profession's authoritative annual benchmark of accounting firm operations, more than 80% of baseline accounting firms' revenue is derived from the core services mentioned above. Imagine the stress that will be placed on firms when the majority of their practice comes under disruptive pressures. The resulting fee pressure may force a radical evolution at a very quick pace as firms struggle to adapt to these new realities.

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

The knowledge worker age

If Stage 1.0 was the agricultural economy and Stage 2.0 was the industrial revolution, we believe that Stage 3.0 will be the "knowledge worker age." At this stage, firms will face 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?**

Firms that can't credibly respond to that question are really going to struggle against the backdrop of disruption that's in store for them in the coming years.

Before you figure out how to sell services you are *now* providing, make sure you are selling the *right* services-–those that your clients really need.

How to command a premium fee

So why would a client choose you over a firm that is just as technically excellent and offering its services at a lower rate? A recent survey asked clients of CPA firms what their top concerns were and what they wanted from their accountant. Concerns over the future of income taxes and compliance requirements topped 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 his or her specific industry and technical experience and expertise to 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 backwards, as opposed to ahead) and to find the mistake (as opposed to recognize the opportunity). In the Knowledge Worker Age we are going to need to pivot if we want to successfully navigate the disruption ahead by bringing our unique ability and perspective to bear on our clients and their operations.

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

So how do we make this pivot successfully? How do you teach an old dog new tricks? 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.

Relationship business: Back to basics

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 client base. But 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 base. This must 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 business, 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 our very best relationships because we are too busy meeting the demands of other clients who may contribute only 20% of 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.

Synergy

The final thing we should acknowledge is that multipartner 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 who have banded together to share staff, overhead and administrative expenses. These "co-op" firms will struggle in the years ahead because it will be increasingly hard for a lone practitioner to serve the evolving needs of clients. Instead, firm leaders need to create systems that compel practitioners to work interdependently as they approach a client relationship. 1 + 1 needs to equal more than just 2.

In a synergistic firm, it can equal 3, 10, or even 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.

Position your firm to survive the upcoming disruption

As you consider how to best prepare for the disruption ahead, ask yourself the following questions:

- Why would a client choose to pay me (or my firm) a premium fee in the face of lower-priced competition?

- Do we have systems in place that focus us on driving value into the handful of relationships that matter the most?

- 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!