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June 13, 2008

http://www.webcpa.com/article.cfm?articleId=28052&page=2

Survival techniques for small firms

(June 16, 2008)
By August J. Aquila

Let's face it: The next 15 years are going to be hard for small firms to compete and survive. The external environment and demographic facts speak clearly:

* 8,000 Baby Boomers are retiring each day.

* The average age of CPAs in public accounting is getting older.

* There is a real shortage of qualified people to fill open positions.

* Small firms are reaching a saturation point. They can't bring on more work because they don't have enough people.

* Many small firms are working under an outdated business model.

* Technology and regulatory overload are taking their toll on the small firm.

And the list goes on and on. The question then becomes, "What should you do?"

Don't procrastinate! Determine your action plan now. If you are currently 60, think in terms of a three-to-five-year plan. I have talked with too many owners who turn 65 and then decide to sell their firms. They soon realize that they have few options, and the sale price is not what they were hoping for.

Get innovative! The important thing is to think differently. How can your firm overcome the environmental and demographic risks identified above? Can you create a new business model that will address these changes? Can you find other firms that have already addressed these issues?

WHAT CAN YOU DO TODAY?

Many firms are not waiting to become victims of these environmental and demographic changes. They're trying traditional and non-traditional approaches. Let me share some that you might want to consider.

1. Join a local association sponsored by a larger firm in your area. In many markets, larger firms are creating associations for smaller firms with the purpose of providing training, management expertise, staffing assistance, etc. This often leads to some of the smaller firms being acquired by the larger firm.

2. Create a new business model. Clients today want to have a collaborative relationship with their CPAs. This requires you to become a true partner with your clients in developing solutions to their problems. This business model works well if you are able to provide consulting services to your clients.

3. Sell your practice to a growth-oriented firm. Identify the firms in your market that are rapidly growing and see if there are synergies between your firm and theirs.

4. Don't be afraid of joining the legion of firms that are using outsourcing services to help with the overload. While this solution will not help with your succession issues, it will make life easier for you.

ONE FIRM'S STORY

Kellogg & Andelson is a full-service accounting firm in California. Founded in 1939, the firm provides audit, tax preparation and bookkeeping services principally to small and midsized owner-operated businesses and individuals. But this is where the similarity ends with most other firms.

Let's look at what K&A has done to reinvent itself.

Over the last five years, the firm has moved to a completely paperless environment and has developed its own offshore resources in India. The firm owns and operates several offices in India, where shortages of accountants are almost non-existent. These resources now complete approximately 60 percent of the firm's work.

Since implementing its new strategy, the firm has grown about 40 percent year over year without facing the labor shortages impacting most other firms today. As a result of its concentration of high-quality, offshore resources and robust technology, it's able to provide a healthy work/life balance to its domestic employees. This year all employees and their families are going to Hawaii after busy season on an all-expense-paid trip. When you put all this together, it adds up to a healthy stream of candidates for positions that open up as the firm continues to grow.

While the majority of its employees are now overseas, it still needed to maintain a high degree of quality. The firm had to experiment with different ways to produce and deliver a superior product. It ultimately developed a proprietary service model tied to its standardized preparation, quality control and workflow management systems. It has taken an unusual approach of having principal client communication served by non-CPAs. CPAs are notoriously poor communicators, so the firm took the bulk of the client communications away from them and placed it in the hands of client service specialists who implement a systematized best-practices-based approach to client communication. Ultimately, this has helped maximize client retention.

A key to its profitability is the leverage of the senior people, whom it calls "PICs" or "persons in charge." A PIC has responsibility for servicing a book of clients profitably. They have ultimate responsibility for the timely delivery of client deliverables, technical accuracy and client retention. The firm's offshore resources and technology platform allows PICs to spend their time servicing clients instead of administration.

Finally, it has built a model that can be replicated. The process is not dependent on specific people but on robust process management, document management, and detailed and standardized quality control techniques. This scalability has led it to acquire four accounting firms in the last year alone.

According to the American Institute of CPAs, approximately 75 percent of small-firm practitioners have one or more partners retiring in the next five years. Add to that the fact that over 74 percent of AICPA members are over the age of 45, and it's clear that there are simply not enough people or firms available to buy out all the retiring partners in this industry.

Firms like Kellogg & Andelson have developed a solution for accounting practices that are looking for succession plans. Those plans are made possible only by building new business models and maximizing the use of technology and the global supply of talent.

August Aquila is a consultant to the accounting profession specializing in succession planning, mergers and acquisitions, and compensation plans, and the co-author of Compensation as a Strategic Asset. Reach him at aaquila@aquilaadvisors.com.