GRF is killing the profession

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Forward

Towards the end of 2010 I had the idea of putting together what I call an “open report” with contributions from leading thinkers, advisers and consultants to the accounting profession.

The reason for doing this was because I believe the profession is fast approaching a tipping point. Accountants need to fundamentally change their approach to running and developing a practice or face major pressure over the coming years.

Rather than bang the drum alone I thought it would be interesting to see what others had to say.

So, I called and emailed a few people I have come across over the years and asked them if they would contribute to a report called ***GRF is killing the profession***.
I am please to say that everyone agreed.

I chose the name for the report because practice owners seem to be focussed on top line rather than bottom line. Effort rather than value, time rather than knowledge.

Think about it. Accountancy firms are ranked on fees; Accountancy Age publishes the top 50 with fee size. Valuation of firms has been based on a multiple of GRF and firms that look to develop their firms are often attracted by the lure or a large fee.

GRF is looking in the wrong direction and in my opinion it is killing the profession in the long term and causing stress and hassle in the short term.

Enjoy the read.

Bob Harper

Sections

Ron Baker **VeraSage**

Great Moderates In History?

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Evolutionary biologists have proven that the more adapted (i.e., comfortable) you are in your existing environment, the less able you are to adapt to environmental changes.

Struggle is good for us. Rigidity is what organizations manifest when they are faced with either superior competition or outdated business models.

This is the history of business. New ideas, inventions, and business models from the tinkerer in the garage change the world, while rendering obsolete the existing modes of production, infrastructure, and business models.

The automobile replaced the horse and buggy, the calculator replaced the slide rule, and the personal computer replaced the typewriter, iTunes replaced CDs, and so on in a never-ending "perennial gale of creative destruction," as described by economist Joseph Schumpeter.

Harvard professor Clayton Christensen writes: "Generally, the leading practitioners of the old order become the victims of disruption, not the initiators of it".

Change and creativity always take us by surprise. If it didn't, we wouldn't need it, because we could simply plan on it and incorporate it into our existing strategies and processes. Nassim Nicholas Taleb makes this very point in his book, The Black Swan: "We do not know what we will know. Invention and creativity is always a surprise. If we could prophesy the invention of the wheel, we'd already know what a wheel looks like, and thus we could invent it"

The professions, however, have been slow to adapt to the realities of an intellectual capital economy. Never before has this mentality been such a hindrance to success in today's rapidly changing, globalized marketplace.

Business Model Innovation

In a meeting with professor Clayton Christensen, former Intel CEO Andy Grove made the point "that disruptive threats came inherently not from new technology but from new business models." Perhaps this is why Grove titled his own book, *Only the Paranoid Survive.*

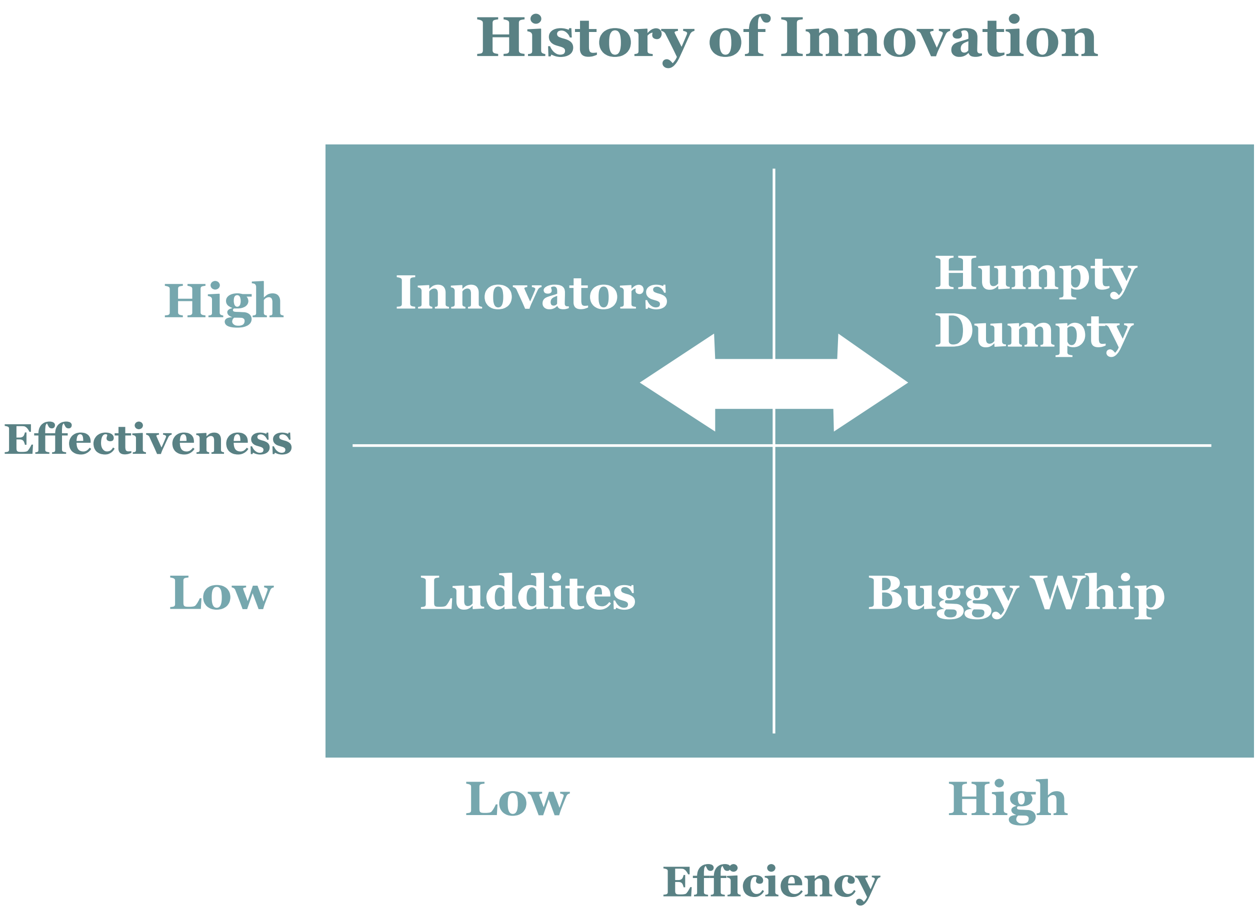
I am defining a business model as follows:

How your firm creates value for customers, and how you monetize that value. Clayton Christensen's partner in his consulting firm Innosight is Mark W. Johnson, author of the compelling book *Seizing the White Space*. He points out that most successful innovative business models are forged by start-ups.

Johnson studied approximately 350 business model innovations in the past ten years, with more than 30 percent being enabled by Internet technology. Fourteen companies founded since 1984 have entered the Fortune 500 between 1997 and 2007 through business model innovation, including:

- Amazon.com
- AutoNation
- eBay
- Google
- Qualcomm
- Starbucks
- Yahoo!

Thinking about the history of innovation, creative destruction, and business models in the context of professional knowledge firms, in combination with the radical business model proposed by VeraSage—from "We sell time" to "We sell intellectual capital"—the diagram provides an interesting look at where any firm can be at a given point in time. Since competitive advantages are built based on effectiveness, not efficiencies, I have chosen to highlight each as the axes of the diagram.



Luddites: Firms that resist technological advances and other innovations that are merely table stakes risk being Luddites. They have both low efficiency in doing things right, and low effectiveness at doing the right things—not a bright future.

Fortunately, not many firms are in this category. If you are here, you are dead already and the funeral is a mere detail.

Buggy Whips: Usually when an industry is at the apogee of its efficiency, it is at risk of being made obsolete by new technologies or business models. As Peter Drucker said, no amount of efficiency gains would have saved the buggy whip manufacturers from the automobile.

Innovators: As George Gilder wrote in Forbes, "Knowledge is about the past; entrepreneurship is about the future. If creativity was not unexpected, governments could plan it and socialism would work. But creativity is intrinsically surprising and the source of all real profit and growth."

Innovators are firms that are willing to invest some of today's profits into tomorrow, while at the same time sacrificing efficiency for effectiveness.

Innovation, creativity, and Total Quality Service are the antithesis of efficiency-ideas such as Google Time (where Google employees can spend 20% on innovation), experimenting with new ideas, investing in education, all reduce efficiency metrics.

But if firms do not make these essential investments they are simply coasting on their existing intellectual capital, and in today's economy, knowledge becomes obsolete more rapidly.

Humpty Dumpty: This is a precarious future. This represents firms that are highly efficient and effective.

I am arguing if you are here, you had better be sliding back to the Innovator's position and start sacrificing some of that efficiency for innovation and making the firm more valuable to its customers.

Humpty Dumpty eventually falls and ends up like the industries mentioned under Buggy whips. Efficiency is not the answer. Effectiveness is.

Firm of the Future or Firm of the Past?

Embracing a new business model requires leadership and vision. It requires knowing you are doing the right things, not just doing things right.

It requires focusing the firm on the external value it creates for the customer and simultaneously building the type of firm people are proud to be a part of and contribute to—the sort of organization you would want your son or daughter to work for.

It requires a sense of dignity and self-respect that you are worth every penny you charge, and you will only work with customers who have integrity, whom you enjoy, and respect.

It requires an attitude of experimentation, not simply doing things because that is the way it has always been done.

It requires less measurement, less fear, and more trust. It requires boldness and risk-taking—there has yet to be a book written titled Great Moderates in History.

As science fiction writer William Gibson quipped, “The future is here. It’s just not widely distributed yet.”

Skeptics will call for an incremental approach, which is how they maintain the status quo.

But how will these optically challenged skeptics make incremental changes to an existing business model that is already dying? By making it incrementally less dead?

The late economist John Kenneth Galbraith wrote, “All successful revolutions are the kicking in of a rotten door,” not—I would add—merely oiling the hinges to make it swing more efficiently.

There is no limit to what we can achieve, as long as we do not lose faith in ourselves. It is the difference between remaining a firm of the past, or, like a chrysalis, emerging as a firm of the future.

The choice is yours.

GRF…safety net or trap door

Well before I thought about working with accountants I can remember sitting in a seminar trying to improve my own practice.

I still have the words ringing in my ears “turnover for vanity, profit for sanity, cash is the reality”. The seminar presenter was Ian Fletcher of the 2020 Group and he was talking about a firm’s strategy.

Ian was recommending that practice owners should seriously consider reducing their fee base by sacking 20% of their clients that give them 80% of the hassle on the basis that not all clients are created equally.

Interestingly, my experience of working closely with well over 200 accountancy firms myself tells me that accountants are very unlikely to sack one client, let alone 20% of the fee base.

To busy to think.

However, I do not believe accountants are holding on to GRF for vanity, but for security. The security of that being busy brings because you don’t have time to think about change.

What busy firms may not fully appreciate is working with clients who cause you hassle can create an unhealthy culture which can damage the practice in the long-run. A love, hate relationship can emerge which can lead to contempt for clients.

I know contempt is fairly confrontational so I checked the definition in the dictionary. It is defined as having strong feelings of disapproval.

So, ask yourself honestly if you ever criticise clients for poor record keeping, not keeping to deadlines, expecting free advice, not paying you on time or using company funds privately. If you do then you could be on a slippery road.

In December 2010 I held a telephone conference call with internationally renowned business consultant Michael Breen.

After discussing the importance of attitudes on behaviours and results it was suggested that contempt for clients could be the anchor holding firms and the profession back.

So, my suggestion is that GRF is more of a trap door than a safety net. This is because practice leaders fail to make strategic decisions because they fear the loss of security more than they value of opportunity. Not kicking out the wrong clients is a really good example.

A doomed business model?

The accountancy business model is a great because there is regular work from which relationships can be built. There is solid demand and relatively high margins for what is fairly low risk work (most of the time). But, could the biggest strength of the model; recurring fees also be the Achilles' heel to trip up the profession?

The great thing about GRF is that it makes the firm busy and this is a great excuse to avoid asking the really important question, why are we in business? This is a question that accountants rarely ask themselves because it is a difficult to answer and they are also too busy!

If accountants think they are in business to make money trading time for money completing accounts and tax returns then I think there will soon be dramatically fewer accountants. Technology and outsourcing will see to that; everyone knows in their heart that compliance holds little value and the time it takes to complete the work is reducing.

Accountants with a business model of leveraging time are doomed. At best this provides an uncomfortable familiar. The future is more clients for less profit per client. Is that really the destiny of the accountancy profession?

A cows life

I saw a TV documentary of a mega milk farm in the USA. The cows are on a multi-story conveyor belt being fed and milked. They do not even go outside anymore because they feel safe and comfortable even though there are no walls on the shed and sunlit fields outside. Are accountants going to be milked for their time in the same way?

The answer is no or moo, you decide. If you are happy being cattle as part of a professional herd then carry on focusing on your GRF. If not, understand you are a knowledge worker on the hunt for value.

Gross Recurring Value

Your focus should not be time, costs and efficiency but knowledge and effectiveness. GRF should not be the aim, GRV (Gross Recurring Value) should be.

Instead of thinking how many HOURS do we need to work for this client start asking how much value do we add? If you look at practice development from this perspective then if want GRF fees of £1m you need to create £5m to £10m of GRV. The question then becomes how can we create value? What knowledge do we need? What experience do we need to create for our clients?

My assessment is that being focussed on GRF rather than GRV is costing the typical practice owner over £1m in lost profit over their lifetime.

For firms that want to cut free from the security blanket of GRF and avoid the dangers of the unconscious contentment trap there is a proven roadmap to follow. Start with a review of your positioning strategy.

*Email me **bob@portfoliomarketing.co.uk** to recieve our positioning workbook!*

Dennis Howlett AccmanPro.com

Gross recurring fees: the profession's cancer

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From the earliest AccMan days, I have said the profession is going through a period of profound change. The days when compliance fees contribute 70%+ to total revenue are done.

The emergence of new ways to maintain solid books and records, largely through the innovations of the very small vendor SaaS players, is showing the direction of the future. The ability for example of auto uploading bank statement data and then have that correctly allocated to the chart of accounts is removing the primary barrier to using electronic systems of end user data entry error.

It is not a complete slam dunk and professionals who use these systems report that errors still creep in. The difference is that the near real time nature of presenting data upon which the professional can act changes the relationship dynamic. Real time systems offer the benefit of managing issues as they arise, not 3, 6, 9 months later. That is a different dynamic compared with the client who is managing an isolated on-premise solution. But how does this fit to the GRF problem?

In the 'good old days' we used to negotiate a fee and then expect to see it incremented on at least an inflation basis. That was then...when things were largely stable.

Today, we live in an unstable world. Clients are questioning the value of what they receive from compliance work – as they should – and are wondering where the professional value figures into the fee equation. They demand that compliance fees are pared back to the minimum necessary with keeping them on the straight and narrow. Professionals can argue all day long about the burden of bureaucracy or the pain of implementing iXBRL but that cuts no ice with the client. They don't care. And professionals can bitch and moan all day long but in doing so they are missing the point and the opportunity.

If compliance is 'done' - ie needs to be offered as a commodity service then professionals need to re-evaluate what it means to create, build and maintain a sustainable client relationship.

In today's world that means providing services clients want, communicating with them in the ways that matter to them, speaking in their language and not accounting-speak. But above everything, it means a recognition that the entitlement economy implied by compliance is dead.

Recurring fees… the death of the profession

How many accountants go into practice with the intention of operating in the same way as lawyers do? Not many I think.

What do I mean? Well lawyers are very much transaction focused. Property lawyers advise and help facilitate property transactions. Family lawyers advise on divorce, child custody and other one-off situations. Commercial lawyers advise on business deals – and so on. When the deal is done, when the situation is resolved, the work ends. And the lawyer moves on to a new piece of work. In most cases, other than perhaps in the largest firms, each lawyer has to constantly devote time to finding new work.

Accountants are different. Due to the obligation imposed on clients to produce annual accounts and to file tax returns every year, accountants have lots of recurring work. Clients come back year after year. In fact the clients don't go away. They often pay annual fees by monthly instalments. Accountants can anticipate that the total annual fees they earn will remain pretty constant year on year. They may lose a few clients for whatever reason but equally they will probably pick up a few new clients and it will all balance out.

The question that is rarely asked is whether accountants or lawyers are more profitable? Another related question would be whether accountants or lawyers feel more fulfilled in terms of the work they do and the extent to which they apply their training, knowledge and expertise?

We are generalising here of course so the answers are pretty academic. Some lawyers will be more profitable than the average accountant and some will be less profitable. That much is obvious. It would also be tough to get hard evidence as to relative feelings of fulfilment and contentment.

The underlying and implied question here is whether the day to day recurring work performed by accountants is fulfilling? Maybe they don't care as long as it's profitable. Maybe.

Ever since I joined WJB Chiltern in 2001 I've been running tax support operations to help accountants deal with sticky tax problems. Since 2007 I have done this through the Tax Advice Network – an online portal providing access to a choice of vetted independent tax advisers. Over 3,000 accountants have registered on the website to receive complimentary copies of our weekly practical tax updates.

However, only a small proportion of these accountants go on to use our tax support services. It was the same when I was at WJB Chiltern.

Given my experience in the field I think I know why so many accountants are reluctant to seek help and support from experienced specialists. And in the main it is no reflection on my network or the advisers whose services we promote.

Accountants are naturally cautious about involving third party advisers. They don't want to be forced to bill their clients more than last year. They also don't want to bear the cost of seeking a second opinion. So they muddle along and avoid admitting to clients that they have limited experience in certain areas. They allow and even encourage clients to assume that their accountant can advise on all areas of finance, business and tax.

In taking this approach the accountant also takes risks by advising on specialist matters outside of their day-to-day experience. They also avoid advising on such issues even if they suspect that these could be to their clients' benefit. And, despite the risk of negligence claims and of being reported to their professional body, this approach appears to pay off.

Few clients are aware of the 'better' advice they could be receiving. Few clients will know that their accountant's advice is untested and based on out of date knowledge. And even fewer will be aware that their accountant actually has no first hand experience of dealing with similar problems or issues for other clients.

By way of analogy no one expects their local GP to be an expert in all areas of medicine and health. Indeed we would be pretty worried if a GP suggested we hop up on the bed so that they can open us up and have a look inside to see what's troubling us.

We expect to be referred to specialists and different specialists for different ailments. The best accountants operate on a similar basis. They ensure that their clients know the limits of their expertise. They have built up trust so that their clients are happy to talk to a specialist when necessary. And they have made clear to their clients that extra work and extra advice means additional fees.

Let me be clear. I am not referring to additional fees for additional time spent on the clients' affairs. Whether or not you use timesheets to record the time you spend, clients are rarely interested in this. What they pay for are 'results' such as the necessary outcomes of the recurring compliance work and the advice that you provide.

This is the key point. When all the focus is on the recurring work and the recurring fees there is a tendency to avoid opportunities to give ad-hoc special advice. And if it is provided there is a fear that if a high fee is charged this will scare the client off. And then the recurring fees will be lost.

A focus on recurring work and the associated recurring fees is also doomed to change in the near future. There are an increasing number of alternative, low cost and professional alternative service providers. Those clients who perceive that all their accountants do is produce accounts and tax returns will be at risk. At the moment there is just a trickle of a move to online, cloud solutions and DIY compliance. This trickle will increase starting at the lower end but across the board as everyone looks to get more value (for which read 'advice') from their accountant.

Here we can return to my opening comments about the differences between lawyers and accountants. Most lawyers only know a world in which they have to quote fees and charge for the provision of advice. They do not have the luxury of charging recurring fees to clients who come back year after year for the same recurring compliance service.

And lawyers also typically specialise in specific areas of law. If you've been to see a divorce lawyer you wouldn't be surprised if they recommend a colleague or third party to resolve a commercial dispute. No one would mind if a property lawyer suggested you see someone else to help you with your will. And so on.

Accountants have a choice. The best ones will, in my view, specialise and niche their practices. They will focus on a specific type of clients, industry or area of work. They will not attempt to be all things to all people. They will be happy to admit when clients have issues that require expertise that is outside of their comfort zone. They will charge higher fees when they give advice on matters that do not recur each year. And they will seek out opportunities to provide this higher value advice in their specialist niche areas.

Instead of focusing on their recurring client work each year they will operate more like lawyers and they will be more profitable, more fulfilled and more in demand.

Mark Lloydbottom Marklloydbottom.com

The wheels turn slowly – but feewheeling gathers pace.

Our compliance services have roots that go back centuries – over 500 years ago Luca Pacioli codified the double entry book keeping system, two hundred years ago the first taxes were imposed by William Pitt the Younger as he sought to fund the Napoleonic Wars while the audit has been with us for just over one hundred years and is today probably the profession's most controversial service.

As an executive summary my contribution to this report purports to advance the proposition that the approach accountants adopt toward compliance is strangling the profession but that resuscicatation is possible and necessary if terminality is to be avoided.

Imagine, if you were to take every single creditor schedule that has ever been compiled within the portals of an accounting firm it is likely that in almost every single case the last creditor paid is the accountant. In fact the payment for the accountancy service is in most cases not possible because the client has no invoice to enable payment to be made.

There are two opposing factors at play here:

1. Businesses are used to paying for the services in the accounting year (give or take 60 days).

2. Accountants are used to submitting an account after the work has been completed.

The times they are a changing

There have been many industries that have come and gone – history is littered with them. I once looked in a Kellys director and found such trades as artificial fly dressers, ball furnishers, china riveters, lime burners and so on. Kellys shows that in 1910 in Winchester there were seven accountants while today Yell lists 137. Industries come and go, but accountants like retailers and bakers will, we assume, be with us until the end of time. Or will we? That is, will qualified accountants be around forever? History informs us that change is possible and probably certain.

Our profession is one that eventually embraces change – reluctantly. For sure we keep ourselves up to date with technology so far as it relates to our compliance work, but generally accounting businesses tend not to invest much further in technology than compliance work and practice management.

A few examples of others who have embraced change:

Utility accounts used to be routinely paid quarterly in arrears; now almost 75 per cent of households pay for their energy supplies on a monthly direct debit. Maybe not today, but how did you feel when you received a rebate for an overpaid energy account?

Local authorities used to collect rates every six months, now most council taxpayers pay by monthly direct debit and "enjoy" two free months in February and March.

Many firms have lock up of 35% or more of their GRF – a factor which often inhibits the delivery of non compliance services. Collection practices have been changed in other sectors and need to change if lock up is not to act as a drag on client service.

Ours is still an unregulated service business

The fact remains that you do not need a professional qualification to provide tax and accounting services. Franchises like Tax Assist provide a service that after five week's training allows a painter or teacher to enter the High Street and offer tax and accounting compliance services that remain at the heart of the accounting firm's core fee generation.

We do business differently

Every year more and more business is transacted via the Internet. Amazon's UK managing director claims that his business is increasing by 40 per cent year on year as they enter new markets. High street traders such as bookshops and food stores can all visit Amazon's website and see the online retailers who are now competing with them and sharing their marketplace. What is there to stop a seismic change that would have a significant impact on our ability to sustain and grow our fee levels?

Maybe more cloud services that provide bookkeeping and accounting services? What is the possibility of Indian outsourcing companies going direct to the market and offering accounting and tax services at 50% or less of the current fee? Indian accountants are already providing services to UK accountants – what is stopping them going direct and cutting out the middle man?

GRF provides a measure of certainty combined with a leaning to business complacency

The certainty of a quantum of business provides accountants with a measure of comfort that is not shared by many other businesses. Clients will, unless they are truly dissatisfied or no longer require the services of the accountant, come back for this year's accounts, audit or tax. That provides security of income but can also dull the entrepreneurial senses. What other service(s) does the client need? In the current tough economic climate there are probably at least three other services that clients are not engaging with because they see the accountant's compliance services as the primary relationship driver.

What would the work profile look like if the compliance work was outsourced? Maybe the revenue would reduce, but the revenue from non compliance services would certainly be greater for most firms than currently enjoyed.

How many hours are spent face-to-face with clients? Empirical evidence indicates that this is often less than 90 minutes a year. Of that time maybe less than 15 minutes is spent looking at issues relating to current and future planning issues. What if there was to be a greater focus on meeting with clients and the time devoted to looking at current issues. This is, after all, where the client spends at least 95% of his or her time.

Build on your GRF and don't be constrained

Some firms enjoy income of 30% or more from non compliance work. Many do not. It is important to plan a service capability that enables a firm to build on GRF.

Will this service offering apply for all clients? No. Reality informs us that some clients are commodity clients seeking only the solutions derived from compliance.

Does it apply to many clients? Yes.

How many? Probably somewhere between 40-80% of clients.

What service income could be generated? Probably somewhere between 40-60% of the compliance income.

Compliance services, while satisfying the immediate needs of client and accountant nevertheless tend to constrict the development of the client-accountant relationship. A bold committed approach to going beyond compliance will resuscitate a relationship that is in many cases based on the past and in so doing make the accountant a more significant component in the client's future.

This bold approach almost certainly requires the accountant to agree a fixed fee for compliance work payable by direct debit so that the ability to offer and deliver non compliance service is not inhibited by lock up. Other industries have made the change. It is now the accouting profession's turn to embrace new approaches across the entire industry.

Michael McKerlie RANONE

Do you really think compliance alone is an option for a firm of the future?

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Currently tuning in to CNN or pulling up the BBC home page, I find myself inundated by the news of tragic disasters and the aftermath of Mother Nature's uncontrollable wrath. Forget the stock market; forget the daily grind of financial competition - the news right now really sets other aspects of our daily lives into perspective.

The lack of control and complete frailty we may visualize when it comes to our futures can and must be paired with the simultaneous realization that there are viable solutions to maintaining some semblance of control and organization in a world otherwise racked with utter chaos.

When it comes to business models that will be sustainable enough to carry firms into the future, the chaos of the outside world must be compartmentalized. The implication of compliance strategies alone is not the ideal solution- however can prove to be a very feasible option.

Compliance, while feasible, will come at a significant cost. A compliance firm of the future is a bucket shop- it is a commodity strategy and therefore is subject to the laws of the ''lowest cost producer''. It will be restricted by the necessity to manage a high number of clients, while taking a low margin and keeping costs down. This is the Law of the Lowest Cost Producer.

In order to maintain sustainable compliance there are a couple of key factors that may prove successful. The first is software. As it continues to rival the best of the big guys for complete world domination, technology has a huge role to play in the success of firms of the future- more specifically, the software that is being created.

Software will be critical in this enterprise and will provide for, most importantly, quick turnaround. The programs offer swift and efficient tools for maintenance with the least amount of manpower. With these seamless programs integrated into operations, compliance can become second nature, so to speak, allowing for companies to also adhere to the Law of the Lowest Cost Producer.

The second factor is offshore business- this will clearly become innate in the firms of the future and has already become more than just common practice. The availability and consistent improvement to the quality of off shore options has them at an ultimate high when it comes to maintaining the law- increase client numbers ten fold, keep costs at a minimum and improve your operations across the board all in one fell swoop.

I believe that in the near future, a corporate entity, hefting significant capital, will jump in and take the lead in this arena- simultaneously making it more tough for a single firm to do well in this space. Economies of scale, lightening quick systems and off shore work are all key driving points that are steering the wheel in this direction.

With purchasing, managerial, financial, marketing and technological aspects becoming a web of interconnectedness, creating a vast increase in value with substantially lower costs at the bottom line, it becomes unavoidable for firms to reject these new models and elements if they want to remain key players in the game.

"To run a successful compliance business in the future you will not even need to be a qualified accountant – you will need to be a savvy business person who can drive a production line using intelligent systems and low cost resources."

In my career, over a decade of working with accountants, I have learned a number of substantial things. First and foremost being that not many professionals are driven by the desire to have this proposed life; the life that relies on off shore work, economies of scale and software. This life that inevitably includes low client engagement and lacks the elements of challenge and initiative. They do not want to run the bucket shop and in fact do want to retain meaningful, intellectually stimulation and personally rewarding client relationships.

For many accounting professionals, running a compliance practice is a soul-destroying process that lacks imagination, energy and client engagement.

So lets try and focus less on the gloom and doom of things and more on what the firm of future is really about- if not solely based on compliance. How do we move forward successfully and keep our valued employees at peace? What methods should be relegated to the archives and which models should be reinvented and relished by future firms? Does compliance stand its ground?

The future is a Thriving Firm. Flourishing, prosperous, blossoming- any of these synonyms mean just what they say, and are made up of key elements that keep the firm pulsating with life, taking it beyond a value added practice, as it is now being commoditized.

From Traditional Practice Services, of audit, accounting and bookkeeping, to Value Added Practice Services, i.e. benchmarking, ratio analysis and industry comparison we move to the future of Thriving Practice Services. These include personal goals, business objectives, professional well being, mentoring and coaching, business building, income increase and operational improvement.

The thriving model is all encompassing and is fluid- it is a model for future success as it is a incarnation of old and new, both progressive and traditional.

The path to a Thriving Practice requires time and energy with your clients – collaboration is key. It is imperative to engage with them on more levels than just the basic tax & accounting levels. With the careful maintenance of this balanced relationship, compliance does have a part to play in the success of the firms of the future.

Recurring Fees.... The Death of the profession!

I started out in public practice over 25 years ago and recall how Gross Recurring Fees (GRF) was the measure of success for any practice. Partners were obsessed with GRF like people are today with property prices and the value of their own home.

When I left practice and sold my interest in an accountancy practice 3 years ago I realised that size actually didn't matter and GRF was no longer used as the main method of valuing a practice.

Over the next few pages I am going to give my personal thoughts on how GRF and recurring fees is fast becoming redundant on a number of levels- valuing a practice, measuring performance success or a benchmark in comparing growth rates and sizes of firms.

In principle, recurring fees can be defined where you look at a client's annual bills and assume that the client will keep spending this amount of money with you every year and that client will stay with you for the foreseeable future. In this changing economic climate these assumptions about clients and their annual spend as well as their customer loyalty to you should not be taken for granted. This further supports the case that recurring fees are a redundant measure and indeed could be the downfall of any practitioner who relies too much on that out of date concept.

Valuing your accountancy practice

At some point in your life you will want to and have to dispose of your interest in your practice; whether a planned retirement through merger or sale to a third party, internal 'management buy out' succession plan or ill health.

As well as looking at the client list and annual fees those clients generate, any buyer will want to look at what services you provide to those clients, whether they are happy and likely to be retained and what potential there is to grow the fee base. This information isn't always visible by just looking at recurring fees alone.

Buyers will pay a premium for a highly systematised practice that allows a partner to work shorter hours and take extended holidays. In today's markets the value of a practice will also be influenced by how many hours the owner works and what level of profits are drawn. Note I said 'drawn' and not 'made'. There is a difference! There is little financial advantage in having pretty Gross Recurring Fees figures when the owner has to work 70 hours a week, takes no holiday, draws an amount of money that neither equates to time input or profit made and profits are lower than expected with a horrible lock up position, bad debts and a screaming overdraft !!

I always tell clients to address these issues and groom their practices- not just for ultimate disposal and retirement but to help them get what they deserve during their working lives.

You will now have a taste of why I think focusing too much on recurring fees alone is not helpful when planning a business strategy.

Measuring Performance and Benchmarking for Growth

Traditionally, practitioners have looked to recurring fees as a measure of growth and performance success. I am now going to list a few questions and then ask you if you still think recurring fees provide the answers.

- How dependent is your business on your own time input and how is this 'cost 'of your own labour reflected in your results?
- What is your gross and net profit levels compared with industry averages?
- Does your cash flow allow you to draw all your profits?
- What is the value of your lock up (debtors and work in progress)?
- How do you measure and monitor client satisfaction?
- What is your marketing plan, do you have one?
- How are you going to fund future growth?
- Do you know what your key performance indicators are?
- When was the last time you did a SWAT analysis?
- Is your business plan up to date, do you actually have one written down?

The above 10 factors are key, in my opinion, when assessing the value and success of any accountancy practice. You will see that recurring fees doesn't even get mentioned once!

Conclusion

My opinions are based on my personal experience of 25 years in the accountancy profession, owning my own successful small practice and meeting with other practices ongoing.

Recurring Fees can be an interesting indicator to allow you to analyse what your client base is made up of, which 20% of clients contribute 80% of your profit, what is your client mix and grading compared with your ideal client profile etc.

In terms of a real measure of success, business planning and valuation however, there are many other factors to take into account and focus your attention on.

Recurring Fees can often provide a misleading picture and are therefore a risky measure to rely upon solely unless you want to give yourself a false sense of security!

Steve Pipe AVN

Why gross recurring fees make the profession morbidly complacent

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What I am about to say does not apply to everyone in the accounting profession: there are exceptions who do not fall into any of these traps and who are forging a clear path for others to follow. But sadly it applies to many accountants. Far too many, in fact.

If there is one word that sums up the state of the accounting profession, it is "complacent". And much of that complacency stems from the safety net that is GRF.

GRF makes accountants complacent over marketing, pricing, service, profitability, innovation and investment decisions. And this in turn has profoundly damaging consequences for practitioners and their clients.

Complacent sales and marketing

When clients keep buying year after year, there is little incentive to master the art of sales and marketing. So practices stumble along doing very little to improve their skills, actions or results in these areas. And as for fully embracing the latest forms of marketing, you can forget it.

For example, I recently carried out a survey of the LinkedIn activity of 25 practitioners. Three had a LinkedIn account but weren't connected to a single person, and didn't have a single "recommendation" (LinkedIn's label for a testimonial from a happy client or contact). Sixteen had an average of just over 20 contacts each, and a total of one recommendation between them. And the best 6 had between 50 and 250 connections, and an average of three recommendations each. Given that LinkedIn has been around since May 2003, has over 80 million users, and is the premier online marketing tool for professionals, there really is no excuse for this kind of neglect.

What message does a LinkedIn profile with very few contacts and even fewer recommendations convey to potential clients? Well, it is certainly not "these guys are great", is it? More likely a prospect may conclude "they can't be any good, since they hardly know anyone, and no-one recommends them". Not exactly effective marketing!

And that is only one example. According to www.grader.com, which benchmarks over 3 million websites, most accountant's sites are near the bottom of the league table for marketing effectiveness. While when I recently asked a practice development guru what impressive marketing he had come across recently by accountants, he said that he hadn't really seen any.

So with unhelpful LinkedIn profiles, ineffective websites and a lack of impressive marketing, is it any wonder that many firms find it hard to win enough of the right kind of new clients.

NB: Please visit my LinkedIn profile and link in with me -http://uk.linkedin.com/in/stevepipe. When you do you'll be able to download lots of useful resources to help you address many of the issues raised in this article.

Complacent service

Earlier this year CCH published a major research survey showing that 36% of clients were not happy with the service they receive from their accountant. But despite that fact, most clients keep coming back year after year because (a) they have got used to that sort of service mediocrity, and (b) they don't believe it will be any better anywhere else.

After all, every accountant they have ever met has said they are proactive (probably because they realise that research shows that being proactive is the thing clients want most from an accountant). But once you become a client the accountant doesn't have enough time to be genuinely proactive. So the promises of proactivity are never properly honoured. And, having learned this the hard way, clients have therefore given up expecting very much from any accountant.

So, as long as the price stays low enough they will keep coming back, and the accountant will not feel there is any reason to strive to improve their service to become genuinely proactive. Consequently service standards continue to fall well short of what a true professional would deliver.

Complacent pricing

With clients buying the same thing year after year, the dominant pricing approach has become "last year's fee plus inflation". And this is usually justified as being "the market price". Not only is this sort of thinking lazy, it is also demonstrably wrong, as the following October 2010 research shows:

Quartiles	Price charged for a simple self employed tax return	Price charged for a simple incorporation with no goodwill capitalisation
The bottom 25% of firms charged	£75 - £250	£100-£300
The below average 25% of firms charged	£250-£350	£300-£500
The above average 25% of firms charged	£350-450	£500-£1,000
The top 25% of firms charged	£450-£1,000	£1,000-£4,500

Source: "Your blueprint for a better tax practice" – Survey of 180 independent UK accountancy practices - October 2010 - www.FreeTaxResearch.co.uk/acc

The table focuses on two particular types of services, but the findings were the same for all the services studied by the researchers across 180 independent UK accountancy practices. And the conclusions are crystal clear:

1. There is no single market price for any service provided by accountants

2. Instead the prices charged are spread evenly over a very wide range

3. The top half of firms successfully charge around twice as much as the bottom half

Clearly, markets do not set prices, accountants do. And some accountants are very much better at it than others. As a result some accountants are able to charge higher prices that are much fairer to them and their clients.

How can higher prices be fairer to clients, I hear you ask? Well, the truth is that low prices are the primary cause of substandard client service. Let me explain.

I often show accountants a list of high-impact standard advice that they should be giving to their clients (such as IHT planning for their parents, the tax savings from incorporating and capitalising goodwill, and maximising tax credit claims). They always agree with the list. But terrifyingly less than 10% of them ever claim to have actually given that standard advice to all of their clients for whom it was relevant.

When I ask them why they haven't given that advice, they always say "because there isn't enough time in the budget". But of course, the amount of time in the budget is a direct consequence of the size of the fee. So charging too little inevitably leads to poor client service.

Practitioners must stop complacently believing that there is a single price set by the market. They must recognise that they are solely responsible for their prices. And they must start to rise to the challenge of pricing properly.

Proper prices that give practitioners the standard of living they deserve as senior professionals. Proper prices that ensure their clients get the service they deserve. Proper prices that prevent the profession becoming "cheap and nasty".

You can make a start at pricing properly by reading Mark Wickersham's excellent book "Practical pricing for accountants", which you can download in digital format for free from www.freepricingbook.co.uk/acc

Complacent innovation and investment

With clients buying the same things year after year, accountants have complacently assumed that there is little need to innovate. Why fix something that isn't broken, they conclude.

This thinking also spills over into their willingness to invest in training, talent and technology. The dominant investment "strategy" has become "Don't invest in anything until you've already generated the extra income necessary to cover the costs, and even then invest as little as you can get away with".

And very often this leads them to fall foul of the chicken and egg syndrome. For example, they won't invest in new tax planning skills until clients have started buying the related tax planning solutions. But without the skills they aren't able to get their clients interested in those tax planning. So nothing happens, and everybody loses: the clients don't get the best tax planning advice, and the practice doesn't earn the extra fees from providing that tax planning advice.

Every other business owner understands the need to invest first, and reap the rewards later. Indeed, that is the essence of entrepreneurialism. But GRF has helped to make that approach anathema to accountants. And, consequently, everybody loses.

Conclusion

Some might argue that none of the above really matters since the accounting profession is doing very nicely thank you very much. But that sort of thinking is the most complacent of all.

As my article "The good, the bad and the ugly" (Accountancy July 2008) showed, even before the recession the average UK partner appeared to be earning £78,000 a year in notional profits. But after an arm's length salary charge was deducted the true situation is that over half of all practices are actually making losses.

Of course, making losses is the market's way of telling you that you aren't doing things right. And, as this article has shown, there are so many things that this great profession of ours isn't doing right.

The complacency created by GRF means there is never enough money in the practice kitty to attract and retain the highest calibre people, to invest in the best technology and training, to give clients the truly professional service they deserve, or to give partners the sorts of income they really deserve. And that in turn means that firms limp along, and employees, clients, partners and their families all suffer.

So for everyone's sake, something has to change. We have to cast off our complacency. We have to rise above the plodding pursuit of the average. And we have to start using our skills to make much more of a difference to the bank accounts and lives of all the stakeholders in our practices.

Steve Pipe FCA is the founder and head of research at AVN, a 250 strong association of accountancy firms, and a leading researcher into the commercial issues and opportunities facing UK practices. He can be contacted on steve@avn.co.uk and via LinkedIn http://uk.linkedin.com/in/stevepipe

GRF…
The Tranquillizer Killing Your Firm…

If the GRF tranquillizer has already taken hold, and you're drifting towards blissful indifference then you're a lost cause…

I hope not, I hope you're *frustrated,* I hope you're ***ambitious*** too because ***both states are necessary*** for change.

And change you must, because standing still is a recipe for decline, atrophy and eventually the death of your firm!

A bit melodramatic?

The melodrama is deliberate. Why? Because I don't want to stimulate your thinking! I want to stimulate your emotions. Are you up for this?

The tranquillizer is called APATHY…

I recently invested an hour on the phone with the partner of a 4-partner firm. What struck me was the lack of ambition. The lack of desire to create a business to be proud of. An apathetic acceptance that things will improve as the economy improves and so… "they'll be alright"!

I was seriously frustrated when I put the phone down (understatement of the century!). The opportunity facing his firm was monstrously exciting but he was happy to "poddle along".

Why so happy?

"Because history proves how stable our GRF is and how safe our capital value is. So we are OK poddling along".

Where will "poddling along" get them?

Yes they'll have some business clients who are 'satisfied' with the accounts service they provide.

However, I would suggest most of these clients would appreciate a little more energy, enthusiasm and verve about their accountancy service. And when a firm comes along with such verve, his firm will lose clients hand over fist to a more emotionally energetic opponent.

Your emotions are a source of energy…

Anger, Courage, Frustration, Desire even Fear have an energy about them. Energy you can use to fuel the future success of your firm.

Yes some of these feelings have negative connotations but when compared with apathy they are bouncing energy beans bursting with zest and vigour.

Even a laid-back elephant looks like a different animal when it's angry or fearful. See emotions as batteries fuelling the change you want for your firm and hook them up to your ambition for a brighter future and you'll have the antidote to the GRF tranquilizer.

What's certain is your firm (with such zest and vigour) will win hands down in a battle with a firm dosed up on GRF complacency.

Do your emotions truly affect your results?

Try this on for size…

Disaster, mediocrity or excellence?

Be apathetic towards your best ten clients and what results will you get?

Yes they'll eventually join another firm who is more energetic, more interested, more emotionally charged.

Apathetic action is a recipe for disaster at worst. At best it's a recipe for mediocrity.

Apathy is to be avoided! Forget your GRF for a moment. Look to your weekly profits and losses.

And get frustrated, angry and fearful of what you see.

Can you see why I like frustration, anger and fear in a business owning partner? Such emotions are catalysts to action.

Your business rhythms are a source of emotion and energy…

GRF gives you an annualised view of your firm's revenues.

This annualised view can seduce you into over-confidence, partly because its fee based rather than profit based. And partly because the yearly rhythm is like a lumbering elephant taking the same old track to the waterhole they took last year.

Change your rhythm, change your focus, change your energy. And yes it will change your emotions and your results.

52 profoundly productive weeks will produce for you a remarkably successful year.

To me the 52 weeks rhythm feels like the inexorable pounding of wildebeest hooves across the savannah. No river, no mountain, no obstacle will prevent them achieving their goal.

More energy than the elephant?

You bet there is.

Focus on your weekly performance and don't be seduced by a monthly rhythm – you're already half tranquilized, half unconscious in a monthly rhythm. It's easy for you and your people to 'coast' for a few days here and a few days there in a monthly rhythm.

Go weekly! There's nowhere to hide.

Ask yourself how productive you are the week before you go on holiday? Weekly deadlines have more energy, more emotion, more power.
Get it?

A frustrated and ambitious managing partner of a growing firm recently agreed with me…

… whether we look at the problems (the frustrations) or the successes of the firm, both can provide the energy for optimism, the energy for growth and the energy for future success.

Please get yourself wound up for the coming weeks.

Encourage your frustration, anger, disappointment and nurture your ambition too. Tap into your emotional batteries as if they were unstoppable duracells!

They are the source of your future growth, future wealth and the legacy your firm can give your people and your clients.

Go on then. Get on with it.

portfolio
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