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J. Terry Dodds

American Institute of Certified Public Accountants. PCPS Management of an Accounting
Practice Committee

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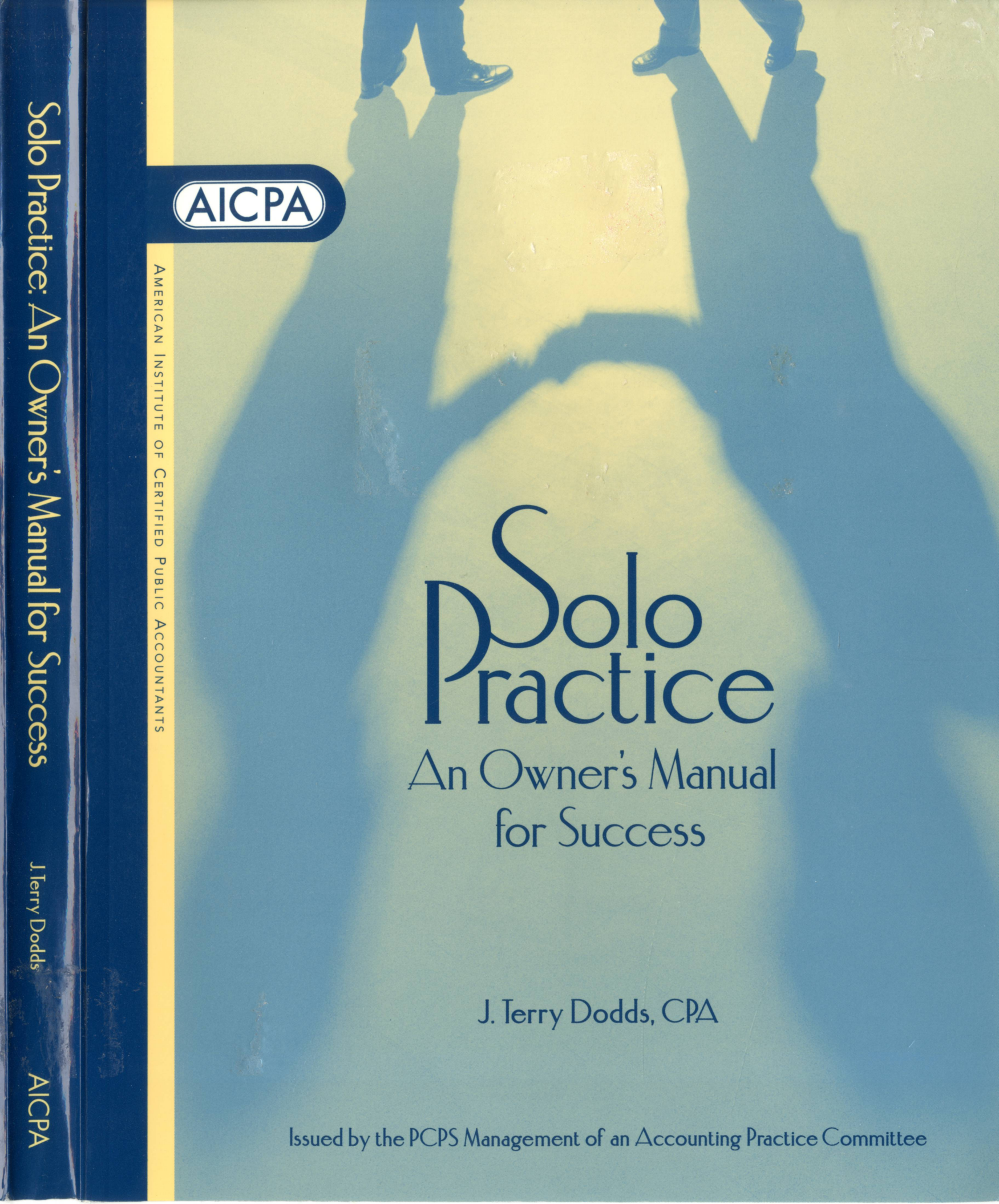


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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS



Solo Practice

An Owner's Manual
for Success

J. Terry Dodds, CPA

Issued by the PCPS Management of an Accounting Practice Committee

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J. Terry Dodds

AICPA

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J. Terry Dodds, CPA

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To the memory of my son, Steven

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INTRODUCTION

Twice in my professional career, I was told I would never make it in public accounting. After a quarter of a century of struggle and effort, plenty of failure, and just enough success to keep me going, I can safely say that I have *not* made it. I don't think anyone ever does. I believe that being a successful sole practitioner is not a destination; it's a trip. Success is always a work in progress. A successful solo practice doesn't result from a succession of fortuitous happenstances. It is created one good decision after another, each thoughtfully and carefully acted out. You and I will only be as successful tomorrow as today's decisions and actions allow us to be.

As I look back over my career as a sole practitioner, I honestly believe there has never been a better time to practice solo. I can't remember when there has been more opportunity for us lone eagles than there is right now. As you read the following examples, you'll see why.

Look at the results of the current downsizing of corporate America. We have an abundance of fledgling entrepreneurs—many of whom will unquestionably turn to solos because of the personalized service we provide.

In addition, today's technology enables us to access a virtually limitless supply of information and to tap into a vast pool of human resources from anywhere in the world. Scott Cook, the founder of Intuit, remarked

The power of the Internet will change businesses of all kinds. It will affect some businesses more than others but it will have more effect than people now give it credit for. The Internet of tomorrow is not the Internet of today. The Internet we see today is just the first baby steps¹.

The ability of emerging technology to eliminate the barriers of distance and access to information may very well be the single most important development in the history of our profession—especially for the sole practitioner. In the years before the construction of our interstate highway system, relatively few national distributors existed. Most notable among these were the catalog businesses such as Sears and Montgomery Ward. Vacuum cleaners were sold nationally by door-to-door salespeople. The bulk of the products and services available to the general public were localized. Just as the freeways changed the way America shops, the information superhighway is poised to globalize the sole practitioner's market.

Think about how new technology is affecting your practice. A solo in Rocky Ford, Colorado, could market his services to a Birmingham, England, prospect on the same footing as a much larger firm in New York City. Office location ceases to be an issue. Firm size is irrelevant. All that matters is what the solo can deliver. Thus, the sole practitioner's

¹Ross MacDonald, "Intuition Pays Off," *The Price/Costco Connection*, September 1996.

market area becomes the world. He or she needs only a Web site, a professional looking home page, an index entry in a browser, and something that people want to buy. If you aren't taking advantage of this technology now, it's time to get your act together.

If people can sell services over the Internet, then why not associate with peers electronically as well? People who have never met each other—in person, that is—are forming strategic alliances over the Net. They are undertaking joint-venture projects that fall beyond the capabilities of any member of the group, singly. Think futuristically for a moment about a strategic alliance of sole practitioners located all across the country, each providing specialized expertise for use by the other members of the group. Adding non-CPA professionals from various disciplines (such as attorneys, engineers, insurance professionals, appraisers, and psychologists) would further broaden the group's capabilities and marketing strength. This synergistic use of individual talents provides access to numerous engagements currently beyond the resources of any one sole practitioner.

With the median age of the baby-boomer generation nearing fifty, many solos are beginning to cash in on specialized services targeted to the needs of this major segment of our population. As a group, Baby Boomers are more aggressive and competitive, more likely to take risks than their parents, and more impatient. Being used to competition, they expect their advisers to help them stay ahead of their competitors. They expect flawless service delivered immediately. Their loyalty to the individual, rather than the organization, signifies a positive change for the service-driven solo who knows how to nurture relationships and not only to meet but exceed client expectations.

Our market is expanding rapidly. A case in point: I remember a PC salesman at the beginning of the computer revolution telling one of my clients that he could divide my monthly writeup charges into the price of the computer and determine how many months it would take for the computer to pay for itself. If you were practicing back then, you know that what really happened was simply a shift in our services to those clients from traditional writeup work to computer consulting with an attendant increase in fees. And computer consulting is only one growth area. Here are a few others just to make the point:

- Elder care services
- CPA Web Trust compliance testing
- Business valuation services
- Alternative dispute resolution
- Forensic accounting
- Regulatory compliance testing
- Merger and acquisition services
- Profit improvement consulting
- ISO 9000 auditing

Our profession has been portrayed as drab, dull, accurate, and totally devoid of personality long enough. This vacuous image is a thing of the past. In recent conversations

with accounting students I have happily learned that academia now places much more emphasis on communication skills. Our profession's past performance was largely dominated by number-generating and problem-identifying. But because we can now easily accomplish most of these tasks with a computer, we are free to focus on positive change—which is what the client has really wanted all along. We are fighting out of a stereotypical box of our own creation. Soon we will no longer be considered “one-hundred percent accurate and zero percent useful.”

Without question, there are and will continue to be unique challenges to operating as a sole practitioner in this brave new world. But with change comes opportunity. One simply needs to identify it, analyze it, and act upon it. Will you be able to find success as a sole practitioner in the twenty-first century? The answer to that question is a resounding *yes*. The key lies in successfully molding your practice to the dynamics of a rapidly changing global marketplace.

In the following pages, you'll learn what other sole practitioners are doing to build successful practices. Since the inaugural AICPA Small Firm Conference in 1981 and in numerous national and state meetings since then, I have had the opportunity to meet with and learn from successful practitioners and practice management experts from every state in the union and several foreign countries. I would agree with Ron Stewart, a sole practitioner who likes to say, “I have never had an original idea, and I don't feel one coming on right now.” This book is a synthesis of the experiences and ideas of what has worked for me and for the other solos I have had the privilege of getting to know over the course of a working lifetime as a sole practitioner. Let me introduce you to some you will read about in the chapters ahead.

Ron Stewart is a sole practitioner in Monroe, Louisiana. I first met Ron at a Small Firm Conference when he was serving a three-year hitch on the AICPA Management of an Accounting Practice (MAP) Committee. Since then he has served on the Private Companies Practice Section (PCPS) Executive Committee and as a charter member of the Small Firm Advisory Committee. Ron has spoken on successfully managing a sole practice more times than he can remember. More importantly, he runs a successful sole practice of his own.

Janet Caswell and I first met at the inaugural Small Firm Advisory Committee meeting. I knew from the first that with Janet you had better get moving or get out of the way. Since that time, she has pioneered the virtual office concept in our profession. You may have read about Janet in the *Journal of Accountancy* or in *Accounting Today*. She also tells one of the best value-billing stories I have ever heard. Janet practices in the Detroit area.

Bea Nahon lives in Bellevue, Washington. We became acquainted when she was serving on the MAP Committee. In 1995 she chaired the AICPA Small Firms Conference. Bea has shared her experiences with solos across the country in practice management conferences and in articles she has written for *The Practicing CPA*. Practicewise, Bea has developed a successful specialty in divorce litigation work.

Greg Lurie practices in Albany, New York. Greg was a charter member of the Small Firm Advocacy Committee having served previously on the AICPA MAP

Committee. Greg is particularly good at building close personal relationships with his clients and at maintaining balance between his professional and personal life. To a large extent, Greg is successful because of his people skills.

John Kenneally is one of the best solo marketers I have ever met. He and I shared the podium at the Missouri MAP conference in 1995 and the Illinois Society's Small Firms Conference in 1996. John seems to have a gift for doing the right things to attract new business and to cultivate more business from his present clients. He practices in Towson, Maryland.

Charlie Larson's name is synonymous with practice management. He and a few close friends started the Missouri MAP Conference. He has served on the AICPA MAP Committee and has written countless articles on practice management and spoken to thousands of practitioners on practice management issues. Starting as a sole practitioner, he built a large and very successful partnership in St. Joseph, Missouri, from which he withdrew several years ago. He is now practicing solo again. As Charlie and I discussed his experiences as a sole practitioner he told me

When we first started, people were saying, "Ain't it too bad about Charlie. He had a good job, things were going well for him, and now he's done this and he's going to lose whatever he's got." I'm sure that as we prospered they forgot they had ever thought that way.

I can personally relate to that!

Ron Frandsen lives in Brigham City, Utah. He and I met while speaking at a Small Firm Conference at Disney World several years ago. Ron's keynote speech on marketing was the highlight of the conference. Shortly after returning home, I asked Ron to consult with me. He helped me identify what was holding me back and to make some important changes.

Larry Lucas, besides being a fellow sole practitioner, is also a fellow Idahoan. He lives in Moscow, a small community in the northern part of the state. Larry and I met at a meeting of the AICPA's MAS (Management Advisory Services) Education and Information Subcommittee. Since then he spent three years on the Institute's MAP Committee. During that time he moderated panel discussions for several of the Small Firm Conferences, and he chaired the conference in 1994. Larry's success is due in large part to his networking abilities and people skills.

Al Williams from the Denver area is probably best known in the profession for his book, *On Your Own: How to Start Your Own CPA Firm*. A former member of the AICPA MAP Committee, Al is a frequent speaker on practice management topics and spends much of his time teaching and consulting other practitioners. A significant portion of his practice now deals with the merger and sale of CPA practices.

Craig Willett quickly built his solo practice in Provo, Utah. He is an excellent example of identifying and filling a niche (real estate transactions in his case). One of the more unique characteristics of Craig's practice is that Craig does not bill time. Instead, his clients are on a monthly retainer. We'll have an opportunity to review his rationale in chapter 11. Craig has also taught courses for the Gear-Up tax education program.

Mitch Potterf has practiced solo for many years in Westerville, Ohio, a suburb of Columbus, after working for several years for a national accounting firm. We met at a small firm conference many years ago and have kept in touch with each other ever since. Mitch has had a wealth of day-to-day experience as a sole practitioner. He was particularly helpful to me in preparing the planning sections of this book.

Randy Gross practices in Barrington, Illinois. I met Randy while attending a small firm conference several years ago. He has been able to build his practice through some excellent referral sources. Randy is excellent at networking.

Besides using (abusing) several of my friends, I am also indebted to the wealth of printed material available on the subject areas covered here. Chief among these are *The Practicing CPA* and the AICPA *Management of an Accounting Practice Handbook*. I bought the *MAP Handbook* early in my career and actually read it from cover to cover. The forms and checklists are particularly helpful. In addition to its annual updates, the MAP Committee and AICPA staff compile *MAP Selected Readings*, reprints of articles relating to practice management and organized by subject matter. The best thing about *MAP Selected Readings* is that it brings together in one place the best practice management articles written each year. It is one of the most valuable practice management resources I have and I use it often.

But far and away my most important resource is the many, many sole practitioners I meet at roundtable sessions and networking groups across the nation who tell it like it is in the trenches. It is here that I learn what works in practice and what is just good-sounding theory. Every practice management idea you'll find in this book actually works for some sole practitioner somewhere. So don't make the mistake of thinking it can't work for you!

For purposes of organization I have divided the book into two major sections. Section I covers how to plan and develop a successful solo practice while section II covers various operational issues which face each of us as we work to improve our practices.

Since building a successful practice begins with a plan for success, in chapter 1, "Planning to Succeed," we cover the initial steps needed to identify what you want from your practice and to then make your dream a reality. We start by analyzing why some people are successful while others are not. Next we help you create your own mission statement and strategic plan by discussing how to involve your employees and others in the process.

One of the more important decisions any sole practitioner faces is specialization, that is, how narrow to focus his or her services. In chapter 2, "Positioning Strategies—Niche Versus Full Service," we discuss the advantages of niching vis-à-vis offering full service. Then we provide some direction to help you select and pursue a niche successfully.

Once you determine where you want to go and begin shaping your practice, read chapter 3, "Marketing Your Practice," to help you develop a marketing plan and explore the various strategies your peers are using to garner new business.

Some say that everything we get in this life comes from other people. In chapter 4, "Building Interpersonal Relationships," we cover that vital link between you and your

clients. Of course, getting clients is important, but keeping them by keeping them happy is more important. Read how to form close personal relationships. Learn how to tap the largest supply of new services available to you and how to get your clients to refer others to your firm. Then find out how to build a profitable referral source network.

Far too many solos would rather post a set of books by hand than get out of the office and *sell*. In chapter 5, "Selling More Engagements," we explain selling and how to do it effectively and painlessly. We consider the changed nature of the salesperson-customer relationship and provide you with some tools to help you improve your batting average when presented with a sales opportunity.

Without a doubt, the paramount constraint in a solo practice is not money; it's *time*. In chapter 6, "Improving Client Service," we explain how to apply the principles of Total Quality Management (TQM) to a sole practice to transform it into a five-star firm. We examine how other successful solos improve their productivity through efficient staff scheduling. Adapt for your own practice the series of checklists provided to streamline your work and improve product delivery. Then, compare your present use of technology with what is currently available and what is on the horizon to determine how to maximize your technology investment. Finally, read about expanding your firm's resources to increase your capabilities and improve your product.

Section II begins with chapter 7, "Managing the Legalities of Solo Practice," where we'll discuss the legal issues that sole practitioners face. Learn how to reduce your chances of being sued through careful client selection and retention decisions, by the consistent use of carefully drawn engagement letters, and through the implementation of effective review procedures. Next, peruse the enclosed malpractice insurance primer to help you select the right policy and avoid gaps in coverage. Then, find out how to select the right attorney for the job. Finally, we touch briefly on choosing the legal entity type that is right for you.

In chapter 8, "Finding the Right Place to Hang Your Shingle," we compare the various office options available to a sole practitioner—owning, renting, sharing, and virtual officing. See how your physical surroundings affect clients, prospects, referral sources, and your staff, and how to make this impression positive.

Who is your number one client? If you don't believe it's your own firm, reading chapter 9, "Taking Care of Your Most Important Client," should change your mind. In the first portion learn how to monitor the fiscal health of your practice, and to use the proper tools to check its vital signs. Use the second portion of this chapter to assist you in providing your firm with its life blood—a constant flow of cash. Then consider the question of funding your own retirement.

In chapter 10, "Maximizing Your Firm's Human Resources," we'll look at your staff—where to find new ones, how to hire them, and how to mold them into a winning team. We also look at the answer to the most pervasive problem facing each sole practitioner—empowering delegation. Read how to increase your firm's competencies through continuing professional education and how to do it more economically. Then consider some ideas on how to deal effectively with personnel problems.

Once the work is done, it's time to bill. In chapter 11, "Billing Your Services," I've given you the basics of how to bill for value, time, and technology. Learn the difference between bidding and quoting. See how to prepare a bill that your client won't dispute.

In chapter 12, "Collecting the Fee," find out how to collect more of what you bill. The "Ten Commandments of Collecting" answers questions such as:

- Should I ever sue for a fee?
- When is the best time to collect?
- Should I charge a finance charge?
- Who should make the collection calls?
- Should I turn a client over to a collection agency or an attorney?

Chapters 13, "Weathering a Disaster," and 14, "Preparing for an Uncertain Future," consider the risks and uncertainties of life. In chapter 13, you'll identify specific actions you can take to reduce your exposure to the devastation of a natural disaster, theft, vandalism, a computer crash, and so on. In chapter 14, we list the steps needed to reduce the negative effects on the firm should something happen to *you*.

Finally, in chapter 15, "Practicing Successfully in the New Millennium," we review some of the more important points covered in the previous chapters and check out a few more suggestions as you move confidently toward the practice of accounting as a sole practitioner in the twenty-first century.

If you're reading this book primarily for its entertainment value, may I suggest that what you really need is an extended vacation on a quiet beach where you can *get a life*. On the other hand, if you want to learn how to build a more successful solo practice, you've come to the right place. Helping you achieve this goal is what this book is all about.

As you read, analyze each topic in terms of what you are doing now and prepare a written list of the changes you want to make. Make this vision live by infusing it with emotion and a burning desire. Determine which steps you need to take to create the firm you envision. Then begin *immediately* to take the actions necessary to cause successful things to happen. Your objective is to make daily incremental progress toward the realization of the vision. Now let's get started.

SECTION I

**PLANNING AND PRACTICE
DEVELOPMENT**

CHAPTER 1

PLANNING TO SUCCEED

What man actually needs is not a tensionless state but rather the striving and struggling for some goal worthy of him. What he needs is not the discharge of tension at any cost, but the call of a potential meaning waiting to be fulfilled by him.

—Dr. Viktor Frankl¹

Stories abound of human beings overcoming seemingly insurmountable obstacles to achieve extraordinary success. Then there are the reports of those who showed great promise but never measured up to their early press releases. What makes the difference? Obviously, it isn't just physical ability or genetics. Even though gifts of nature certainly may enhance one's chances, there are far too many instances where those who seem to be on the fast track to success get derailed somewhere along the line.

If it is simply a matter of physical or mental ability alone, how do you explain how Wilma Rudolph who wore a leg brace until she was twelve became the world's fastest female at twenty?

Perhaps it's money. There is no question that money is a necessary resource, but what of the people who, starting with virtually nothing, have built empires: Andrew Carnegie, Henry Ford, Willard Marriott, Bill Gates?

Could it be luck, "the breaks"? Not likely. There are too many examples of those who have endured failure after failure before finally seizing accomplishment and success. Lincoln was repeatedly defeated for public office. Anwar Sadat spent years in prison, as did Ghandi. Edison tried and failed thousands of times before he found the way to make incandescent light.

ACHIEVING SUCCESS

The reason some people don't accomplish much is that they have never bothered to aim at anything. They move aimlessly through life allowing others to pull their strings and complaining about it. They absolve themselves of the responsibility for their lives by blaming others, their circumstances, or fate when it is actually their lack of direction that dooms them.

¹ Victor E. Frankl, *Man's Search for Meaning* (New York: Washington Square Press, 1984), p. 98.

Dr. Maxwell Maltz, the author of *Psycho Cybernetics*, compares the mind to the homing system of a torpedo. After determining the target, the torpedo's internal guidance system takes over. As the target moves, the torpedo changes direction, gradually closing the gap between itself and its ultimate objective. If the target is too far out of range or the guidance system is fed nonspecific or incomplete information, the torpedo will wander erratically until its propulsion system fails. So too our lives will drift in the direction of the prevailing breeze unless we are directed by a clear, undeviating goal.

Inspired and encouraged by a meeting with Andrew Carnegie in 1908, Napoleon Hill² developed his philosophy of individual achievement. In his classic book on the subject, *Think and Grow Rich*, he reveals the secret to the Carnegie fortune and the success of other prominent individuals he interviewed over nearly three decades. "Back of all this demand for new and better things, there is one quality which one must possess to win, and this is *definiteness of purpose*, the knowledge of what one wants, and a *burning desire* to possess it."

Empower Your Purpose

As important as a definite purpose is, it remains simply a *wish* until you empower it with a burning desire to reach your goal. If a definite purpose is the target, then a burning desire is the propulsion system. You have to want the thing so much that it becomes an irresistible driving force in your life.

Several years ago I enrolled in a personal leadership course to learn how to take control of my life and reach my goals. I went through the course materials and did the exercises but really didn't *throw* myself into the project. The results were predictably equivalent to the amount of effort expended. However, I had an experience that taught me the power of the process.

At one of the sessions the instructor asked the class to list three goals, describe how life would be different after achieving these goals, and determine the actions needed to make our goals a reality. One of my goals was to own a Buick Riviera with a white vinyl top, which at the time seemed to me to be a ridiculous dream. But I went ahead and completed the exercise, anyway. I visualized myself in that car. I saw it in my driveway. I even made the mistake of telling a friend of mine in the used car business about my dream. Two weeks later I owned a Buick Riviera with a white vinyl top. To quote Ross Perot, "It's just that simple."

Eliminate Failure as an Option

Those who contemplate the possibilities of failure seldom accomplish anything significant in life. Think back to when you were just starting your practice. You probably began with more faith than finances. A new practitioner has nothing to lose. There is only one accept-

² Napoleon Hill, *Think and Grow Rich* (New York: Fawcett Crest, 1960), p. 38.

able alternative—success. Unfortunately, as we get better established, we become more conservative. We tend to look at the chips stacked in front of us and begin thinking about what we have to lose. At these times we must exercise the power of faith. This very power, as much as anything else, got you where you now are. And this power will take you wherever you truly desire to go.

Thomas Edison once said

I had learned from years of experience with men, that when a man really desires a thing so deeply that he is willing to stake his entire future on a single turn of the wheel in order to get it, he is sure to win.³

How many new business owners have you worked with over the years who failed because they decided to stick their toe in just a little to see if the water was warm. Far better to dive right in and start swimming for all you're worth.

Persist

If failure is not an option, the only other way is success. Leave yourself only the task in front of you. Eventually, solid rock yields to erosion just as the obstacles to successful achievement of your definite purpose will yield to persistent effort. Successful people have formed the habit of doing over and over again those things that unsuccessful people will not do.

When adversity strikes, learn to focus only on what you have control over. Let the other things go. What you can't control, forget. Work only on the controllables in order of their priority and set those priorities based upon the benefits to be derived. Most of what we get out of life comes the old-fashioned way—we earn it. If you allow it to, adversity can cause you to lose your focus and divert your attention from the pursuit of your objective. Or it can be a catalyst for change moving you positively forward to meet still more challenges.

Accept Responsibility

Viktor Frankl wrote⁴

Everyone has his own specific vocation or mission in life.... Therein he cannot be replaced, nor can his life be repeated. Thus, everyone's task is as unique as is his specific opportunity to implement it. You are unique and what you have to offer is likewise unique. You determine your own direction by coming to an enlightened state of understanding what it is you are *responsible* [italics added] to life to give and what you want from life in exchange.

Undoubtedly, you had some compelling reasons for launching yourself into solo practice in the first place and for staying on board since then. But as the day-to-day

³ Ibid. p. 20.

⁴ Victor E. Frankl, *Man's Search for Meaning* (New York: Washington Square Press, 1984), p.131.

demands mount up, it is easy to lose focus and become distracted. One can define a successful practice in so many different ways—total chargeable time, fee volume, net disposable income, one's standing in the community, professional attainments, quality of life (personal and professional), building a successful business (the entrepreneurial urge), and so on. But one thing is certain. Whatever you determine it to be, it will become. Your internal guidance system will see to that.

Earl Nightingale⁵ said of successful people

They know exactly what they want. They think about it every day of their lives. It gets them up in the morning and it keeps them giving their very best all day long. It's the last thing they think about before dropping off to sleep at night. They have a vision of exactly what they want to do, and that vision carries them over every obstacle. It's been said that Americans can have anything they want. The trouble is they don't know what they want. The system never fails for them, but they don't seem to understand that it is a system.... Whatever our goal happens to be, if we stay with it, if we're fully committed to it, we'll reach it. That's the way it works.

SHARING THE VISION

Undoubtedly, definiteness of purpose is a prerequisite for achieving success. However, you had better give some serious thought to what it is you want or you may find yourself on the top rung of the ladder to success only to find your ladder leaning against the wrong wall—and climbing faster only moves you more quickly in the wrong direction.

Step One—Know What You Want

It is safe to say that your definition of a successful practice may differ from another solo's definition in many respects. It is equally safe to say that unless you recently established your practice, your own view of the ideal firm has probably evolved over time. Thus, revamping your practice by simply adopting a list of good ideas may actually turn out to be destructive. Such ideas must truly fit within the framework of your ultimate goals or they will prove to be misguided attempts which ultimately fail from their very incongruity.

For example, some practitioners are so focused on growth in fee volume that they become myopic. They cannot see that billing more doesn't automatically mean they are going to be any happier or more successful. Fee volume growth alone is not likely to lead one to some sort of sole practitioner's nirvana. Make sure that each board you nail into place matches your blueprint for success.

There is nothing wrong with limiting the size of your practice. Nor is there a problem with controlled growth. There *is* a problem with allowing that growth to happen indiscriminately by abrogating your personal responsibility for making a conscious choice.

⁵ Earl Nightingale (Tape #4), *The New Lead the Field*, Nightingale and Conant.

I'm not suggesting that big is bad. But realize that building a million-dollar practice isn't the only way to measure one's success. There are many others—more time with family and friends, more engagements of a certain type, fewer but better clients, practicing without staff—each carrying its own tradeoffs. For example, generally speaking, the larger your staff, the more time you'll spend with administration. On the other hand, limiting growth may reduce your bottom line. By carefully considering all the consequences of growth, you will increase the chances of making the choice that's right for you.

Before writing down a single "to do," get a clear vision of the firm that is "to be." In an attempt to find direction, many practitioners dedicate significant effort to long-range planning. But with no undergirding *vision* to provide a frame of reference and constraints, the process is doomed from the outset.

A personal vision of your purpose and direction acts like the needle of a compass. Although the terrain may change—new roads replacing old ones—the needle will unflinchingly point true. But if the vision you have for your *firm* is out of synch with who *you* are, your way will be rough and uneven.

In a partnership, the firm is preeminent. The personal goals of the individual partners must eventually become congruent with each other or someone will have to leave. Sole practices and partnerships differ greatly in the goal setting process. Before involving anyone else, the solo has to consider what he or she really wants from life, both professionally and personally. This vision defines the parameters for the rest of the process.

Ultimately, your personal vision, stated or unstated, will prevail since, given the absence of an outside force, no one ever does for long anything he or she really does not want to do. So, before making any significant changes in your firm, you first must come to an understanding within yourself of what you really want.

That being said, no matter how economically enticing a particular path may appear, it's a waste of time if your heart really isn't in it. For example, take litigation support which is currently a growth service for CPA firms. Yet it certainly is not for everyone. Careful selection involves analyzing these six factors:

1. Market area demographics
2. Competitors
3. Current clients
4. Current services you provide
5. Opportunities to provide new services to current clients
6. Opportunities to provide current services to new clients

Analyzing these factors will help in crafting a marketing plan within the larger purview of your strategic plan, but to avoid selling refrigerators to Eskimos remember that it is only one part of the visioning process. There are considerations beyond marketing to think about as you decide what you want your firm to be.

Market Area Demographics

Look at the current economic conditions and how those conditions might change in the future. List your area's primary industries, which companies are the major players, and the clients you currently represent within those industries. Try to determine the outlook for each industry as a whole and, to the extent possible, for the individual companies within your marketplace that make up that industry. Make the Yellow Pages your first resource. Then try the local chamber of commerce. Contact industry organizations and unions, and check out industry vendors, too.

Consider the demographics of your area. Is your population aging? Is your area gaining or losing in population? A practitioner can still develop a successful practice in a community that seems to be on the decline though it requires more careful planning. I remember several years ago hearing a CPA from a local firm in Houston say that during the seventies it wasn't possible for a Houston firm to fail. But as the oil industry began to have trouble, so did many accounting firms. Those who weathered the storm did so because they successfully identified the changes and modified their product mix and delivery to speak to the needs of the changing marketplace.

Closely examine the services you currently provide. Ask yourself which have the best potential for growth. Determine if any are only a distraction, a waste of your precious time.

As you consider your marketplace, keep in mind that people once defined a community by location. Since the advent of the Internet the definition of *community* is changing. No longer limited to a position on the globe, communities now extend into cyberspace where they are bound by common interests, not common geography. In recent months, I have visited with a number of practitioners who are staking out their territory in cyberspace. The message here? Don't limit your firm's service area to geography by choosing to do nothing about the technological future.

Competition

Next, pull together all available information about your competitive environment. Get to know your competitors. If you plan to provide Medicare auditing services to nursing homes, make sure you know who performs those audits now. Your objective is to identify market opportunities.

If you are just beginning, you may find it difficult to gather information about your competitors. Most of us who have practiced in an area for a while are reasonably aware of who our competitors are. We have probably just never bothered to embark on an organized mission of discovery. In either event, start by doing some survey work. A telephone survey can elicit information from the market. Talk to other CPAs. Try to get copies of your competitors' brochures, newsletters, and so on. Ask bankers, lawyers, stock brokers, and insurance agents for their impressions.

Once you have identified the competition, assess their strengths and weaknesses. Then compare your firm's strengths and weaknesses against theirs. Determine whether the

competition has any unique qualifications that they could use as a marketing tool. For example, a firm with an ex-IRS revenue officer on staff may be able to use this fact to sell negotiated settlements work.

Note that we are not talking here about relative strengths between firms but about uniquenesses within the competing firms. Unless you can counter a firm's unique selling points in a particular market with some differentiating characteristic of your own, you would be well advised to deemphasize this area in favor of more fertile fields. These unique characteristics differentiate one firm from another. Without differentiation, the market's buying decision will devolve solely to a matter of price, and unless you possess efficiencies not shared by your competition, "buying" work is the worst way to enter a market.

Having reviewed the strengths, weaknesses, and unique characteristics of your firm and its competitors, you can now identify the opportunities. Sort these opportunities into three areas: those that the competition has overlooked; those that can be competed for profitably, strength against strength; and those that might be best addressed through strategic alliances with other firms (see chapter 2).

You will never be able to obtain as much information as you would like to have about your competition, but making the effort will pay dividends when your marketing efforts place you in front of a prospective client. It also helps ensure that you don't lose clients or engagements to competitors who, of course, are engaged in the same process themselves.

Client Demographics

Next, you'll need to survey your own clients. Develop a comprehensive client checklist such as the one in exhibit 1-1, and send it to your client base. Take pains to preserve anonymity to improve your chances of candid responses (see exhibit 1-1).

Your client survey should be designed to answer these questions.

1. Why did your clients choose your firm?
2. What do they like about your services?
3. What should you be doing better?
4. What additional services would they buy if offered?
5. Do your clients believe your firm is different from your competitors?

As I talk with fellow sole and small practitioners, I am continually amazed at their surprise with their client's responses, especially as to what they consider most important in the client-CPA relationship. I'm not going to tell you what they found out. You'll have to do your own survey.

Analyze your client base and attempt to create a profile of your average client. From this data, extrapolate the ideal profile of a future client. There are two reasons for doing this. First, it will help you set a minimum acceptable standard for client retention purposes (more on this later), and second, it will help you to segment the market.

EXHIBIT 1-1. Client Survey

Please give your opinion about each item below. In the first column indicate how important the item is to you, 5 being very important and 1 being unimportant. In the second column indicate how well we are doing on the same scale. Then answer the questions at the bottom of the form. Thank you!

<i>Evaluation Items</i>	<i>Importance to you</i>					<i>How we are doing</i>				
Timeliness of service	5	4	3	2	1	5	4	3	2	1
Accuracy of work	5	4	3	2	1	5	4	3	2	1
Competency of employees	5	4	3	2	1	5	4	3	2	1
Ability to identify and solve problems	5	4	3	2	1	5	4	3	2	1
Caring, understanding attitude	5	4	3	2	1	5	4	3	2	1
Periodic visits during the year	5	4	3	2	1	5	4	3	2	1
Doing more than what is required	5	4	3	2	1	5	4	3	2	1
Personal relationship	5	4	3	2	1	5	4	3	2	1
Knowledge of tax laws	5	4	3	2	1	5	4	3	2	1
Computer expertise	5	4	3	2	1	5	4	3	2	1
Experience in business matters	5	4	3	2	1	5	4	3	2	1
Perception of the firm by the community	5	4	3	2	1	5	4	3	2	1
Cost of services	5	4	3	2	1	5	4	3	2	1

Why did you choose our firm initially? _____

What do you like best about our firm? _____

If you could change one thing what would it be? _____

What other services do you wish we could offer? _____

What sets our firm apart from our competitors? _____

If you have not referred us to others, why not? _____

How can we improve our service to you? _____

Segmenting is the process of classifying potential new business into numerous smaller groups. Each of these groups has a common element such as industry, gross sales, composition of ownership (family, private, public), entity type, and so on. Market segmentation enables you to target marketing efforts toward a smaller group who shares common problems, which you can address using a needs-specific message. The challenge then becomes one of defining which segments to choose and which priority to give to each.

Services

Once you have a good feel for the market area, competition, and prospective buyers, evaluate the product mix. In this phase of the process, you will establish a menu of the services you want to offer. Include in this list those services you currently provide as well as additional services you identified when working through the previous steps.

Differentiate yourself from your competitors by determining your firm's unique abilities and skills. Many firms develop an advantageous reputation for expertise in a particular service area. Also consider those services in which you feel vulnerable, those in which you may be weak relative to the competition.

When listing the services you currently provide or could provide, try ranking them in the order of profit potential focusing on the strength of market demand and the current quantity and quality of service providers. Concentrate on those services with the most profit potential instead of those promising the largest percentage of gross fees.

Determine which services on your list have growth potential, and eliminate those that do not from your menu. You may find yourself axing some current services. If so, consider outsourcing these services or networking with a peer, or consider selling this portion of your practice. Remember to evaluate the services you are considering from the client's perspective since the client ultimately decides whether to buy the service or not. Thus, it is his or her point of view, not yours, that will determine the success or failure of your marketing plan.

Opportunities

Assuming you have put your best efforts into the process to this point, you should be able to identify several opportunities to pursue. These may include new services, a new approach to or increased emphasis on a current service, or services directed toward a particular industry. Use exhibit 1-2 to help evaluate the relative strengths of each opportunity you identify. The higher the rating, the greater the opportunity. Set the direction of your marketing efforts by capitalizing on your strengths and taking advantage of the competition's weaknesses.

Obviously, offering current services to present clients is the easiest marketing task. Marketing new services to current clients or current services to new clients is somewhat more difficult. Attempting to introduce new services to new clients is the most difficult.

EXHIBIT 1-2. Opportunity Evaluation Checklist

<i>Description of service-industry</i> _____	

<i>Below please rank each aspect of the opportunity on a scale of 1 to 10 (1 is the weakest, 10 is the strongest). To determine the opportunity's overall rating, add your numbers and divide by six.</i>	
Present profit potential	_____
Future profit potential	_____
Compatibility with services we currently provide	_____
Expertise already available within the firm	_____
Cost of pursuing the opportunity	_____
Need for additional staff	_____
Overall Rating	<input type="checkbox"/>
Answer the questions below.	
Who in the firm will be the primary service provider?	_____

Who is the primary target market?	_____

How will we market the service?	_____

How will we differentiate ourselves from competitors?	_____

What additional expertise will be required?	_____

Consider the impact your marketing direction will have on the firm, your clients, and your personal life. There will always be trade-offs. Is what you may gain worth what you will have to give up?

What will it take to move your firm into the mainstream of the services you are considering? To answer this question, analyze the level of ability and the quality of work offered by the current players in the market. Determine the resources necessary to bring your firm to the current level of your competition.

Apply this litmus test to each of your targets: Is this market measurable, accessible, substantial, defensible, durable, profitable, and competitive? If you answer a half

hearted “maybe,” find somewhere else to play. Target those opportunities that pass this test and table the rest.

Step Two—The Mission Statement

Armed with a clear vision of what you want supported by an analysis of the merits of moving in your chosen direction, put your vision in writing by preparing a mission statement. A mission statement is not something done between tax appointments. It is a thoughtful process that takes time: The more thorough the effort, the more rewarding the results. If your firm is precisely where you want it to be, don't change a thing. For the rest of us (the realistic ones), we have work to do.

If you already have a mission statement, ask yourself, “How do we measure up? Does our mission statement clearly enunciate what we are about?” Since any practice is subject to change, even a well-crafted mission statement needs amending and updating from time to time. Don't be afraid to make changes when they are needed.

Strategic planning is an introspective process, but it must also be inclusive. If you have staff, excluding them from the process is like pouring good oil into a car that has a faulty oil pump. Your staff may give lip service to the mission statement, but unless they believe that their input is relevant to the process, you are unlikely to get the results you want. They may be hitched together but they won't pull together.

The challenge is to carefully weave into the fabric of the firm the uniquely personal, preestablished values, goals, and aspirations of each staff member. Whenever the behavior required of an individual within an organization runs counter to his or her personal values, the organization will eventually lose unless the two can find some common ground. Really listening to the personal visions of your individual employees will immeasurably improve your odds of success in obtaining a collective commitment. Dan Bellus⁶ of The Professional Development Institute put it this way,

The idea should be to provide an invigorating environment in which management's expectations are so clear that staff have an open opportunity to excel. Knowledge of staff expectations is also an important ingredient in motivating employees. This does not mean that management has to do everything staff wants, but it does mean listening carefully to what is being said.

The Management of an Accounting Practice Handbook (104.02) contains a “Planning Questionnaire,” which I have modified for use in a sole practice (see exhibit 1-3). Have each member of your staff fill one out as a part of the strategic planning process. It helps focus their attention on the major points you need to cover. Remember that each point expressed is important to that individual or he or she would not have mentioned it. Don't make the mistake of not addressing each issue. Taking the time to visit about each suggestion validates that person as a valuable member of the team even if the idea is not adopted as a part of the overall plan.

⁶ Dan Bellus, “What Motivates Staff?” *The Practicing CPA* (October, 1985), p. 6.

EXHIBIT 1-3. Planning Questionnaire

Name: _____ Date: _____

Please answer the questions below. Use additional paper if needed.

1. In your opinion what is our basic purpose for being in business? (Optionally, if the firm has a mission statement, state it and ask, "Does this statement adequately describe what our firm's basic purpose is? If not, how would you change it?")

2. What do you consider our current strengths and weaknesses to be?

*Strengths**Weaknesses*

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3. Please suggest what we could do to capitalize on our strengths.

4. Please suggest what we could do to correct our weaknesses

Note: This exhibit was adapted by permission of the AICPA. Exhibit 104-2 from the *Management of an Accounting Practice Handbook*. Copyright © 1994 by the American Institute of Certified Public Accountants; all rights reserved.

EXHIBIT 1-3. *Planning Questionnaire* (continued)

5. What are your personal and professional goals, and how do you see these meshing with the goals of the firm over the next three years?

6. What new services or specialties should the firm expand into during the next three years and why?

7. What current services, if any, should we drop or phase out?

8. What staffing changes should we make, if any?

9. What modifications to office space or equipment should we make, if any?

10. What can we do to improve client service?

11. Please list any concerns, plans, or other items that you feel we should discuss.

Having been involved in several strategic planning sessions including two for my own firm, I personally recommend using an outside facilitator. The main advantage is that in this way the solo becomes just another member of the group. This is very enabling to the process of reaching consensus and harmony with the entire staff as you move through the strategic planning session and on into implementation of the plan.

Even if you currently practice alone, don't allow yourself to prepare your mission statement, vision, goals, and strategies in a vacuum. The synergistic combination of more than one mind will produce a result superior to anything you could develop on your own. Find someone—a spouse, friend, mentor—willing to help.

Too many mission statements add up to little more than a weak attempt at public relations. They are written to impress potential clients. A good mission statement clearly defines the framework within which every member of the firm operates. Ultimately, the mission statement's guiding principles serve as a compass when handling any question of firm policy.

The effective mission statement must answer the questions, "Who are we?" and "What are we about?" The first question addresses the motivations of the individuals within the firm, especially (but not exclusively) the solo. This question should elicit individual answers to the question, "What's in it for each of us?"

To do this, the facilitator might ask the group to talk about what they believe are some of the more important issues affecting the firm and how they believe the firm handles them. They will address relations with clients, with nonclients within the firm's market area, and with the members of the staff. This discussion should help both the facilitator and the participants begin to see a broader picture as they share their unique views of the firm's reality.

Once you have a good grip on who the firm is, focus on what the firm *does*. Here, the facilitator asks questions leading to responses that identify the services the firm does or could offer, the core competencies of the members of the firm, and its competitive advantages—how this group of people banded together by a common purpose serves others. This part of the process answers the question, "What's in it for our clients?"

Once you have answered these two questions, you are ready to craft a mission statement. The finished product will describe what is unique about your firm and its purpose for being.

When you believe you see the direction clearly, write the mission statement as succinctly as possible. Include each of the relevant points in clear language. Avoid making it sound pompous or high-minded. The simpler it is, the better.

Exhibit 1-4 contains two sample mission statements. Please don't think you can shortcut this process by choosing one that sounds pretty good! The major benefit of a mission statement is actually found in the *process* of constructing it. Once your entire staff has invested into it, you will be much more likely to get loyalty to it from current employees and from new hires as well since it will actually pervade the firm's culture.

EXHIBIT 1-4. *Sample Mission Statement*

Mission Statement
At Dodds & Associates
We keep our promises
We make a difference
We lead

The firm's* objectives are to—

- Provide high-quality accounting, auditing, tax, and management advisory services to closely-held companies in our geographic area.
- Serve clients by helping each company reach its maximum potential through sound and efficient accounting, tax, financial and management advice.
- Be actively involved in professional, business, community, and civic affairs.
- Offer close, personalized service on a timely basis.
- Provide a fair profit to the proprietor by charging fees which are appropriate for services.
- To grow, but never to lose the local identity and personal relationship with clients that are the foundations of our practice.

In order to achieve these goals and objectives, the firm seeks controlled growth through a combination of expanded service to present clients and the addition of new clients on a regular basis.

*Reprinted with permission from Lurie & Co., P.C.

Step Three—Goals and Strategies

After clearly defining your guiding purpose, you and your staff are ready to identify your goals and the means of achieving them. To begin this process, the facilitator should ask the question, “Where are we today?” The answer to this question entails looking at both external and internal factors. You’ll create a list of the external factors first and then a list of internal factors.

The facilitator should begin by asking each participant to identify several factors he or she sees and to explain to the group how he or she feels these factors affect the firm. Examples of external factors might include the current economic climate in the firm’s market area or the increased use of technology.

Once the participants have thoroughly discussed the implications of external forces on the firm, the facilitator will ask them to consider the firm, itself, by asking for the firm’s strengths and weaknesses relative to competition, or the marketplace. Examples of internal factors include current abilities of staff members, client demographics, and functional or industry specialties.

Equipped with a consensus of how the participants see the firm in the present, the facilitator will ask the participants to project how they see the firm in the future. In her book, *Strategic Planning, A Step-by-Step Guide to Building a Successful CPA Firm*, Sheryl Barbich⁷ suggests playing a game wherein the participants pretend that the firm has just won a national award for being the most successful firm of its size. The participants’ task is to write a press release explaining exactly what the firm was recognized for and how they accomplished it. Sheryl writes

This exercise is a cornerstone in the development of a strategic plan, because it is vision that gives an organization not only direction, but also passion, by allowing it to imagine what it could be.

I cannot overemphasize the importance of the visioning process as a part of a strategic plan for a sole practitioner. This process enables you to identify whether your staff members are moving in the same direction or have agendas of their own. During my most recent experience with strategic planning, I discovered that one of my staff members was eventually going to leave. Less than two years later, she left. We were not moving in the same direction. Knowing that up front saved considerable pain later on.

The next step in the strategic planning session is to use the vision to help set firm goals and the means of accomplishing them. A goal is a clearly defined objective which is specific, reasonably attainable, measurable, and agreed to by all participants. Consider the following:

- Within five years we will be bigger.
- Within five years we will be the largest firm in the nation.

⁷ Sheryl L. Barbich, *Strategic Planning: A Step-by-Step Guide to Building a Successful CPA Firm* (New York, American Institute of Certified Public Accountants, 1993), p. 420.

- Within five years we will be the largest firm in the nation in terms of gross fees.
- Within five years we will all be making \$100,000+ and working 2,500 hours per year.

The first statement is not specific—bigger in what way? The second is not measurable—the largest in terms of what? Gross fees? Employees? The third can be measured but is certainly not realistic. And although everyone may be interested in making \$100,000 or more, there may very well be those who are not interested in making the necessary investment of time.

Here are some better goals

- To add one CPA and one paraprofessional to our staff by this time next year
- To expand services to the health care industry to 20 percent of our gross by the beginning of the year 2000
- To have our own home page on the Internet by April 30
- To exceed \$500,000 in annual gross fees for the year 2003

After carefully selecting your goals (remember that ladder leaning against the wrong wall?), you'll create strategies to accomplish them. Most goals require a combination of strategies. The following strategies belong to a firm whose goal is to increase professional and paraprofessional staff by one each within the coming year.

- Sam will make a recruiting visit to BSU in October.
- Marsha will place an add in November's Society newsletter.
- By April 15, Marsha will contact Dr. Johnson at Mesa Community College about his May bookkeeping graduates.
- By Friday of next week, Janet will talk with Sally at Blank & Co. who is looking to change jobs.

Obviously, long-term goals require long-term strategies. Remember to consider the trade-offs. You can't pick up one end of the stick without picking up the other. The actions you take have consequences. Identify the sacrifices to each individual in the firm and mutually commit to make them for the long-term benefit of everyone.

Note that each example above names a person responsible for the desired action, a time limit, and the specific result he or she should achieve. Any strategy that doesn't require accountability is a waste of time—it won't get done.

Determine what resources you will need—personnel, equipment, cash, and so on. For example, consider the measurable and proximate goal to become technologically up-to-date by upgrading all computer hardware once every eighteen months and software each time an upgrade is released. Note that this goal will require some cash for equipment and software and an allocation of staff time for training and making system changes. Unless you are willing to allocate the necessary resources, you had better modify your goal.

After allocating the proper resources, decide who will bear responsibility for accomplishing the objective. Several people may participate in various steps of the process, but unless the full weight of responsibility rests on one individual, you cannot establish accountability.

Further, whenever you delegate responsibility for a task you must also confer the authority to take action within the bounds of that delegation. (More on this in chapter 10) For example, you cannot expect the firm's computer expert to move you into the twenty-first century, and at the same time withhold his or her authority to select and acquire the necessary hardware and software without your approval at every turn.

At the meeting's end, the facilitator will conclude by reviewing the major decisions made during the planning session. He or she will go over the mission statement, the firm's vision of the future, and its own place within that future, and its goals and the strategies identified to accomplish those goals. The facilitator will also remind each participant of his or her commitments and reaffirm them. At this point the planning is complete and implementation is ready to begin.

Sheryl Barbich observes

...it is the *process* [emphasis added] of developing the plan that provides the most value in successful strategic planning. Ninety percent of the benefit will be derived from the exchange of ideas and concepts, and the building of consensus. The process will produce action plans and a documented strategic plan; the document itself, however, will not create the synergy, focus, and commitment that interaction will.⁸

We know that both preparing a mission statement and strategic plan is really only the beginning of a continual process of monitoring and redefining your purpose as a firm. Take time in staff meetings to discuss the mission of the firm. Look for signals indicating a divergence in direction among the group. One day someone may show up ready to play basketball when everyone else in the group is playing ice hockey. Unless that person decides ice hockey is all right, you will not get unswerving devotion and effort toward accomplishing the firm's mission.

Step Four—Walk the Talk

Unfortunately, many practitioners take the time and effort to chart their course and then fail to climb aboard and start paddling. Somehow the completion of the mission statement becomes an end in and of itself. They fail to recognize that nothing will change until someone expends some energy. When all is said and done, there is a lot more said than done.

Never confuse the process of goal setting with daydreaming or wishing. These are escapes from reality. Goal setting is the antithesis of daydreaming. Goals are a prelude to action. Daydreaming is an excuse for inaction. Failure is more often caused by a failure to act than it is by a wrong act. Goals are the means by which achievement-oriented people script their efforts toward accomplishing something worthy of their best efforts.

⁸ Ibid., p.1.

These written plans, when strengthened by deadlines, minimize procrastination. They create an inspirational discontent with the status quo. Writing helps to crystallize thought, encourage commitment, and motivate action.

Delegate all you can. Proper delegation leads to increased productivity and encourages personal development and growth in your staff. Make your coworkers stretch themselves. Move over and let them take your place so that you can move beyond where you are now. If you are concerned about things being done properly, work on communicating the firm's vision over and over again until it so permeates the atmosphere that the efforts of everyone in the firm are guided by it.

A written, measurable goal, the complete delegation of both responsibility and authority, and allocating the necessary resources place your firm and the people in it in a position to succeed. You need feedback to monitor progress. Set up a system of mileposts—that is, performance levels targeted for a series of specific dates.

Take a look at exhibit 1-5. This is an illustrative strategic plan adapted from the *MAP Handbook*. Although somewhat abbreviated for illustrative purposes, this plan documents the steps of the strategic planning process from mission statement to goals to implementation steps including accountability and due date. Committing your plans to writing further enhances your chances of success. Until a goal is reduced to writing, it is merely a *wish*.

In his book, *Visionary Leadership*, Burt Nanus⁹ writes

Effective leaders have agendas; they are totally results-oriented. They adopt challenging new visions of what is both possible and desirable, communicate their visions, and persuade others to become so committed to these new directions that they are eager to lend their resources and energies to make them happen. In this way, they build lasting institutions that change the world.

This defines strategic planning in a nutshell.

CONDUCTING AN UN-PARTNER RETREAT

One of the most difficult things for us solos is not having someone to talk to—a sounding board. Once you have completed your strategic plan, you need to regularly review your achievements. For those who have envied their partner-colleagues their after-tax-season retreats in those exotic settings, why not conduct an *un*-partner retreat—a partner retreat without the partners. Here, you can evaluate your progress and plan for those invariably necessary course corrections.

Putting together a worthwhile experience takes some effort. As in most things, the more you put into it, the more you are likely to get out of it. Advanced planning is important. Don't stuff your financial statements and time reports into your attaché case and head for a motel. Determine which of the following items you want to look at:

⁹ Burt Nanus, *Visionary Leadership* (San Francisco: Jossey-Bass Publishers, 1992), p. 4.

- Financial statements (comparative)
- Standard rate and realization by employee
- Standard rate and realization by function
- Staff-chargeable time compared to last year
- Gross fees by function (amount and percent)
- Gross fees per client and realization percent
- Client evaluations (see chapter 6)
- Chargeable time budgets for the future
- Cash flow budget
- Graphs depicting gross fees, operating results, and so on, for the last five years

Pick a site far enough away from the distractions of office and home where you can focus your full attention on the task at hand. Almost all client matters can be set aside for a few days. Consider combining your retreat with a MAP conference as the conference sessions may provide some insight. But don't shortchange the retreat. If necessary, take an extra day or two following the conference to work on your own agenda.

If at all possible, try to involve someone else in your retreat. In some cases, you may wish to have your entire staff join you if you are anxious to enlist their support for major changes. Alternatively, you may wish to spend your time with a close associate or your spouse. This works especially well in a MAP conference setting. You will be amazed at the ideas and solutions you develop as you collectively bring your creative energy to bear on the opportunities and challenges facing your practice.

The best place to find someone to share with is at a MAP conference or state society-sponsored roundtable discussion group. The roundtable discussions are perfect for getting to know other practitioners with similar sized practices and to listen as they share their successes and problems. In some cases, you may wish to choose someone with more experience as a mentor. In others you may prefer to pick a peer where you can help each other. In chapter 2, we'll talk more about teaming with other practitioners in strategic alliances. These kinds of associations can also provide the opportunity for an individual relationship in which peers become close enough to discuss firm affairs. These conferences provide ample opportunity to find someone with the experience to really help and whom you can trust.

Chapter 14 covers the process of identifying a successor in the event of death or disability. The firm you identify as your successor might also be willing to serve as the resource you need to keep yourself focused and on track.

The board of directors concept offers a variation on this theme. At one time, I considered forming a board of directors for my practice. I finally abandoned the idea for several reasons: (1) it was difficult finding people who I felt would be qualified to serve; (2) it was logistically difficult trying to get everyone together; (3) it was expensive; and (4) I didn't want to turn my freedom over to someone else (a personal thing, I admit). I am not

EXHIBIT 1-5. Strategic Plan

Date: December 12, 20X0

PREAMBLE

This strategic plan was designed as a guide for our firm to help ensure that we: (1) continue to be financially sound, (2) offer challenging career opportunities, (3) continue to attract quality clients, and (4) maintain a proper blend of personal, family, and career goals. While no one can predict the future, we can plan for the future and exercise a great deal of control over our destiny. Accordingly, we have attempted in this plan to establish achievable, yet flexible, future goals and objectives for our firm.

PURPOSE OF OUR FIRM

As a firm we have defined the purpose for our existence in the following mission statement:

The purpose of Solo & Company is to help each of our clients to achieve financial success. We will accomplish this by providing our services to the highest standards of our profession, with personal integrity and with ingenuity.

With this purpose in mind, we have identified the following objectives and the tactics we will use to accomplish them.

IMPROVED CUSTOMER SERVICE

The backbone of our success now and in the future lies in our ability to provide top quality client service. Accomplishing this goal will produce delighted clients who will be anxious to refer new business. We will do the following:

1. Certain aspects of our tax return processing must be streamlined. Beginning with the 20X1 tax season we will begin using the interactive input method on all individual tax returns during the client interview process. This will reduce the necessity of follow-up phone calls that slow the process and upset the client.
2. The firm is not up-to-date with the current state of technology. To remedy this over the next six months we will upgrade all computers to Pentium processors and provide Internet access and e-mail addresses for all staff. Annually we will evaluate all firm software to determine if it is providing the most efficient means of getting the job done. We will keep current on updates and will replace those programs we determine to be substandard. The objective is to provide all members of the firm with the best tools available to do their jobs.

INDUSTRY SPECIALIZATION

More and more retired individuals are moving to our city, and we project that there will be an expanded need for health-care related companies. Currently, we perform accounting services for several clinics, nursing homes, and physicians, and we see an opportunity for

Note: This exhibit was adapted by permission of the AICPA. Exhibit 104-4 from the *Management of an Accounting Practice Handbook*. Copyright © 1994 by the American Institute of Certified Public Accountants; all rights reserved.

EXHIBIT 1-5. Strategic Plan (continued)

our firm to become a leader in this industry. Accordingly, we plan by 20X1 to have a separate health care specialty in our firm. Larry will formulate a health-care specialty plan.

MARKETING PLAN

In 20X1, the firm plans to adopt a formal marketing plan. At this date, we are also targeting the introduction of our first firm brochure. In the interim, all staff members are encouraged to maintain year-round contact with their clients, seek frequent communication with referral sources, and continue their current community involvement activities.

FINANCIAL AND STAFFING FORECASTS

Attached to this plan (*not illustrated*) is a three-year forecast of revenue, expenses, total hours, and chargeable hours for each member of the staff. In addition, attached (*not illustrated*) is a more detailed 20X1 budget that presents individual staff total hour and chargeable hour targets. The purpose of the staff hour targets is not to place undue pressure on any employee, but instead to communicate average workload expectations and goals.

During the next three years, we plan to add one entry-level accountant and one paraprofessional to the existing staff. In 20X2, we plan to conduct on-campus interviews at the three state colleges. We will also review all administrative tasks currently being performed by Larry and to delegate these tasks to others as appropriate to free him for marketing activities including more frequent client contact.

TRAINING AND PROFESSIONAL DEVELOPMENT

Jack has accepted responsibility for the continuing professional education (CPE) curriculum for all staff members. Our goal is to provide **meaningful** CPE courses, not just the requisite hours. Special attention will be given to CPE related to the health care industry.

OFFICE SPACE AND EQUIPMENT

Our growth projections indicate that our telephone system, photocopying system, and office space will be inadequate by 20X3. By September of 20X2 we will have identified a new office space and will have begun negotiations to vacate our present offices and to lease the new space. By the end of 20X2 we will have acquired a new telephone system which will incorporate voice-mail capability and will link to our computer system. Janet will contact our copier maintenance service to discuss our copying needs and will have a recommended course of action developed by June of 20X2.

CONCLUDING REMARKS

This strategic plan will only be worth the effort if each of us accepts accountability and performs accordingly. No doubt there will be changes in the short term which we will be required to deal with, but by keeping our sights set clearly on our goal and upheld by our mission statement, we will be able to reach our goals.

aware of anyone who has actually put a board together. However, if one could, it might prove to be an intriguing way of finding someone to talk to.

Regardless of whom you select or what method you employ, the desired outcome is the same—to make yourself accountable for accomplishing set goals. Remain open to constructive criticism and positive suggestions, or the entire effort will be ineffectual.

Several years ago, Mitch Potterf held an *un*-partner retreat in conjunction with the Ohio Accounting Show. Mitch sensed that he needed a better handle on what his firm was about. He felt the firm should try to emphasize controllership services for his small business clients. With this in mind, he and his staff began by discussing how to move toward this objective gradually over time.

The second area of discussion was an analysis of year-to-date operating results. “I analyzed three areas—production by month, cash receipts, and write-downs and realization rate,” Mitch said. He prepared this information in both report and graphic formats.

Next they discussed plans to involve specific clients and staff members in furthering the objectives decided upon.

I explained that consulting is helping clients understand their business better. A controller has two roles—compliance and consulting. We have to do the compliance, but I want to get it done so that we can then do the consulting. We want to blend these two activities from the vantage point of the client company.

With the firm’s direction clearly defined, Mitch spent about two hours discussing how to utilize each staff member’s unique abilities. “We recognized that we don’t have to do everything by tomorrow,” Mitch observed. “Another thing that came out of our discussion was that I needed to teach staff how to do more.”

Finally, the group established plans and implementation steps. Mitch shared his ideas on setting milestones.

To not follow up is a mistake. We set up benchmarks for ourselves. We are going to measure quality by keeping track of our mistakes. Our mission is to improve quality, but it all doesn’t have to be done immediately. We can think it through. We implement, one client at a time.

Mitch emphasized preparation and limiting the discussion to two or three items, covering them in depth. He did not go overboard by talking about everything and not really getting to the bottom of anything.

THE BOTTOM LINE

Someone once said that, “luck is good planning carefully executed.” Setting goals is just not enough. No written strategic plan can accomplish itself. What you know and what you intend don’t really matter. The only thing that counts is what you *do*. Thoughtful, thorough implementation is essential. Without it little is accomplished. With it virtually anything is possible.

CHAPTER 2

POSITIONING STRATEGIES—NICHE VERSUS FULL SERVICE

A firm does not have to be large for specialization to be feasible or for a program of practice development to be drawn up. And developing an image of expertise in a particular industry is not as difficult, nor as slow as might be believed. All it needs is one determined person and a well thought-out plan. For the local practitioner it could prove to be an excellent opportunity for growth.

—Mahlon Rubin¹

Millions have been made in the retail industry by the Walmarts, Shopkos, Kmarts, Sears, and Penneys stores. There is no question that mass merchandising brings with it economies of scale. In some instances, these giants have run smaller local stores out of business. However, some have not only survived but thrived in the face of this major competition. These successful entrepreneurs cater to a more selective clientele and charge higher prices for their goods. Their customers continue their patronage because of superior quality; better, more personalized service; and the offering of goods which are not available through the chains.

Sole practitioners are likewise beginning to turn to this marketing strategy as the burden of doing it all becomes increasingly weighty and as competition erodes the profitability of traditional services. Doing what one is really good at increases value, decreases risk, and increases the potential for referrals for similar work.

I once heard a consultant to the profession predict that only those sole practitioners who develop a narrow specialty will be able to survive in the twenty-first century. While I disagree with his assessment of our future, I do believe that adding to one's knowledge base always makes sense. And if this education, either formal or practical, leads to expertise in a particular area of practice, so much the better.

Niching is like using a magnifying glass to focus one's scarce time and money resources. It also elevates the firm's stature in the niche area, giving it the ability to charge top dollar for these services. The further up the ladder one goes, the fewer the people sharing each rung.

¹ Mahlon Rubin, "Planned Specialization: An Opportunity for Growth," *The CPA Practitioner* (December 1977), p. 7.

DECIDING TO SPECIALIZE OR NOT TO SPECIALIZE

In chapter 1, we discussed establishing a clear direction for your practice. Before doing anything, you must decide what you're going to sell. In the beginning, public accountants were auditors. Over the years, our services have expanded greatly. Just in the short time I have practiced, our firm has added financial planning, computer systems consulting, business valuation, and litigation support services, to name a few.

Accept the fact that you are going to limit your practice (just another way of saying specialize). No solo alive can do everything. Since I have elected not to perform audits or to accept ERISA (Employment Retirement Income Security Act of 1974) work, I can skim over this body of knowledge and concentrate my time in those areas I use more frequently.

Consider the pros and cons of specialization illustrated below. It stands to reason that the more narrow your focus, the more time you'll have to concentrate in the area(s) you choose. And the more expertise you develop by studying and working in those areas, the more valuable you will become.

Specialization

Pros	Cons
Increased knowledge in the niche field	More vulnerable to changing conditions
Higher hourly rate	One-time engagements
Leveraging on prior experience	Harder to staff the firm
Opportunity for referrals from other CPAs	Dependence on referrals

DISCOVERING A SPECIALTY

Although some firms may make a conscious decision to pursue a particular niche, many if not most simply discover them. Having installed a cost accounting system for one small manufacturer, a solo may wind up installing several more through referrals from satisfied clients. Niching allows the firm to leverage its initial investment in the first job to the others and enables the solo to become an expert in the field.

Firms develop specialties along either functional or industry lines. A functional specialty could be litigation support or microcomputer consulting, while an example of an industry specialty could be services to the medical profession. Someone who combines both types further narrows the specialty, such as a practitioner who provides microcomputer consulting to doctors' offices.

John Kenneally started his industry niches this way.

We do small law firms, dentists, internists, and pediatricians. The small law firms I stumbled into by accident. One referred another. The same thing happened with the dentists and doctors. We now produce a newsletter for health-care providers. We've

done seminars for dental practice management, law firm management, and medical practice management.

It takes a lot of research and development time [to establish a niche]. You might know the debits and credits, but you need to know what those people are charging for a filling. You need to know that 22 percent of gross fee volume normally goes to hygienists and support staff.

Another niche that we have is small roofing contractors. Once we had a few of them we discovered that we knew something about their industry, so we took the time to learn more.

Explore Your Practice

As explained in chapter 1, discovering a specialty involves determining one's own abilities and assessing the marketplace. Most of us have abilities on which we could base a marketable specialty if given the time to cultivate them. Take an inventory of your present services to determine whether any are outstanding as compared with your peers. You may be surprised to find that you have already developed a certain level of expertise in several areas as a result of both formal and on-the-job training.

Sometimes a niche needs time to incubate. Shortly after I went out on my own, I happened to be talking to a partner in a local firm in my community. I mentioned that I wanted to become an estate planner. I asked him what he thought and he wisely counseled, "Your clients will direct you into what you need to be." This has proven to be the case. Over the years, as my clientele has aged, I have found myself doing more and more estate work.

Check your client list for hidden industry niches. If there is a preponderance of any one industry or profession, with a little bit of directed effort, you should be able to grow it into an industry specialty. As you review your client list and assess your abilities, you will probably identify several possibilities.

Jerry Stone practices in a rural area on the Oregon-Idaho border. "After I started up," he said, "it didn't look like a traditional accounting practice was going to provide enough work for a full-time job." Fortunately for Jerry, his office is located in the geographical center of the onion industry. Once he obtained the work for the onion producers association, other referrals naturally followed.

"As a result of picking up that first one, this eventually led to our getting the produce shippers trade association and a marketing association, as well. We fit into a very important niche for our community," he added. Today Jerry specializes in doing work for not-for-profit organizations.

In summary, look for industry concentrations and for services your firm is uniquely qualified to render. Review any previous out-of-the-ordinary engagements you have performed that may have taught you something. Examine the backgrounds of the people within your firm. Is there a leveraging opportunity waiting to be discovered? As you think about your referral sources, is there any service they seem to be anxious to refer to you as opposed to others?

Add Value to Present Services

Some solos like Mitch Potterf are offering CFO-by-the-hour services as a specialty. As information becomes more accessible to small businesses, office staff tends to run reams of paper through the printer. Mitch observed this and determined to help those business owners boil things down to something they could use to improve their results. I once heard a client say, "Anyone who thinks they'll save paper with a computer is in for a shock!" Many of our clients who computerize are probably drowning in a sea of paper right now. This is an invitation for us to provide vision, direction, and guidance. Regardless of who performs the basic accounting function—the client's in-house personnel, a bookkeeper, or your staff—you can add value to the process.

Even some kinds of compliance services can become a specialty. Ron Stewart comments

I think there is still an opportunity for some firms to do nothing but compliance work by becoming so efficient at it that with enough volume they can make it profitable. But it's going to require people that are just good at doing compliance work and having systems and procedures to streamline the operation.

I once heard of a solo living in Wyoming who specialized in ranches but not in the usual way. Since his clients lived a long way from town, he brought his office to them in a fully equipped van. He made the rounds every couple of months to check the books, make entries, and give advice. From what I understand, he had all the work he could handle.

Determine the size of your target group and the relative ease of marketing to it. If, for instance, you have identified grain elevator operators as an industry specialty but there is only one grain elevator in your area, you may want to select another specialty unless you are willing to travel or can provide these services electronically (through the Internet, for example).

The decision to specialize does not mandate the immediate termination of all engagements outside the firm's designated specialty. Rather, one does it incrementally over time as one's reputation grows. But specializing does take a determination to pursue a particular course of action and the dedication of the necessary resources to move it forward.

DEVELOPING SPECIALIZED SKILLS

Providing an excellent service requires specially trained personnel. You may have to search beyond traditional sources to find them. Attend courses offered by the local bar association or the American Bar Association (ABA) if your specialty involves the legal profession or the American Medical Association (AMA) or American Dental Association (ADA) for medical or dental specialties. Letting people know you attended a course on effective medical practice management sponsored by the Kansas City Chapter of the AMA sends a message to the medical community—your target market—that medicine means business to you.

Some functional specialties are now credentialed. Obtaining these credentials brings with it immediate credibility as an expert in that field and differentiation from your noncredentialed competitors. Currently, the AICPA offers two accredited specialties: the Personal Financial Specialist (PFS) and the Accredited in Business Valuation (ABV). Others include the Certified Financial Planner® designation, the Certified Valuation Analyst designation, and the Certified Management Accountant, to name but a few.

Besides sponsoring training and competitive differentiation, the groups behind these designations provide a significant resource. Most have newsletters relating to the specialty. The organization's staff can often help the practitioner find information on specific problems. Their meetings provide the specialist with an excellent opportunity to network with those with similar interests and expertise.

Be careful to select only one or two specialties. To really specialize takes a significant allocation of your time, which for a sole practitioner is a very limited commodity. Then decide who in the firm will be the specialist.

Determining to champion the specialty yourself means that your personal productivity will be at stake during the development stage of the enterprise. On the other hand, selecting anyone else opens the door to the possibility that at any moment the firm's niche could walk out the door. Neither of these scenarios does much to encourage one to commit scarce resources to the specialty.

I decided that if the firm was going to specialize, I would be the specialist. I opted for the limitation of my personal time. If you decide to allow a staff person to be the focal point of the specialty, one safeguard you could employ is to become acquainted enough with the specialty's body of knowledge, referral sources, and clients so that you could move into the driver's seat yourself in the event that your niche leader finds greener pastures.

The alternative is to abandon the specialty within the firm and contract the work to the departing staffer. For a year or two, Ron Stewart had a partner who left to specialize in computer consulting. The parting was amicable and Ron now uses his "ex" for this type of work.

No matter who spearheads the effort, he or she must be passionate about the firm's ability to provide real value to the purchasers of these services and be able to convey this passion to subordinates and prospects. Marketing a niche requires face-to-face salesmanship in the form of proposals, trade association speeches, seminars, media interaction, and socializing. It also requires written communication skills. Your success in attracting targeted prospects almost exclusively depends on the abilities of the torchbearer. Of course, your success in retaining and expanding the niche depends on your ability to provide superior service.

TURNING COMPETITORS INTO COLLABORATORS

Due in part to the increased competitiveness that has been with us since the ban on advertising was lifted, our profession has drifted apart. We've drawn territorial lines as we've competed directly with each other for clients. This division has resulted in hurt feelings, distrust, and a distancing in our professional relationships.

But times are changing. Fueled by client demand for more specialized knowledge in an ever-broadening arena, firms now look to one another for help. The larger firms have been doing this for some time now through various accounting associations such as ARAF, IGAF, and the other members of the alphabet soup.

Nationally, and especially in the more urban areas, solos and smaller firms are forming strategic alliances that run the gamut from collaborating on various projects to sharing staff to reviewing working papers to performing tax research. The form of the alliance is dictated solely by the needs of the consumer and the creativity of the joint venturers. The advantage of these alliances to the sole practitioner is obvious—the ability to continue to offer services to a client who, at least in some areas, has grown beyond the solo's own resources. Rather than lose the client entirely, the solo can create a strategic alliance with another firm and so continue the personal and professional relationship with the client while avoiding the temptation to stretch the firm beyond its competency or staffing limitations.

Cooperating Instead of Competing

Ron Stewart is particularly enthusiastic about this idea. He calls it “co-opetition.” “I got that word from Bill Gates of Microsoft,” Ron said.

It means cooperation among competitors, and I think it opens up a whole new world for small CPA firms. Let's say we have a sole practice that is primarily compliance-based but does some consulting. That little CPA firm is feeling price sensitivity and service appreciation sensitivity. The clients don't see the value they used to see because of technology, and so on. I hear the client saying, “You know, if I had wanted to be an accountant, I would have gone to accounting school. What I really am is a pizza shop or a dress shop.”

The solution is something called outsourcing. Businesses are outsourcing everything so they can focus their efforts on what they do best. With such a concentration on getting the compliance work out the door, the small firm does little more than lip service to consulting. So it is drawn back into the competition trap.

Ron believes small firms can solve this dilemma by forming strategic alliances between firms, each doing what they do best, thereby allowing the group to benefit from the special abilities of each member firm. For several years now, state MAP committees have encouraged the formation of round table discussion groups as a way of fostering cooperation among their membership. I know of several groups composed primarily of

sole practitioners who meet together regularly to discuss subjects of mutual interest. These groups are the beginnings of a movement that may eventually lead to the accountants' equivalent of a health maintenance organization (HMO). We're a long way from this at present, but it appears to be the wave of the future. In any event, co-opetition among solos is a positive first step and will only serve to benefit anyone who chooses to become actively involved. To my mind, it is the only way a sole practitioner can provide full service without sacrificing quality.

Linking Up in Cyber Space

Our profession is now in the embryonic stage of another form of association. Accountants are beginning to link up over the Internet. Small firms have always faced the limitations of distance and size. Think about it. The Big Five have little difficulty staffing inventory observation anywhere in the world. But with technology, we can form alliances with other sole practitioners and small firms all over the world. It's a matter of who you know, and who you know is no longer a function of physical contact. It's happening right now while you're reading this book. The mandate is to get yourself connected with the right people.

Accessing Large Firm Resources

An increasing number of larger firms are becoming interested in working with solos and small firms as a way of expanding services within their specialties. Trust makes these relationships work—trust and a good consulting agreement. See exhibit 2-1 for a sample consulting agreement, which can serve as a basis for developing your own.

Ron Stewart has entered into such an arrangement with a larger firm in Shreveport, Louisiana. He says,

I look at [the larger firm] for everything I need that I don't have. My clients win because they get things done and because they don't have to go somewhere else to get them. I can be a full-service firm without the time and investment.

I believe Randy Gross sums it up when he says, "I never look at another CPA as competition. We network together. I have received work from them, and they receive work from me. We go to seminars together. We exchange a lot of ideas."

DOING WHATEVER IT TAKES

Charlie Larson's experience with niche marketing is a case study in how to develop a niche for your own firm.

I think it's nice to be able to say, "I'm a specialist and this is what I do." But creating the right image is more crucial. In our firm, we did something very, very early. Back when I had six or eight people I created a little brochure and gave everybody a title—

EXHIBIT 2-1. *Sample Consulting Agreement*

Date

[*Name of Consulting Firm*]

[*Address*]

Dear _____ :

I am writing to confirm the arrangements for [*Consulting Firm*] to provide consulting services to [*Our Firm*] for [*description of the project or services/or both*].

Your signature at the conclusion of this document will constitute an Agreement for the consulting services described in the foregoing paragraph. All changes to the above must be agreed to by [*Our Firm*] in writing.

[*Consulting Firm*] agrees that for valuable consideration, the firm is being specifically commissioned as an independent contractor by [*Our Firm*] as a consultant. Any materials which are developed as a result of this arrangement shall be considered a "work made for hire" under Section 101 of the Copyright Act of 1976 and shall become the sole and separate property of [*Our Firm*] and that [*Our Firm*] shall have sole and exclusive right of publication, distribution, and sale of such materials to any person. Upon submission of text or materials to [*Our Firm*], [*Our Firm*] may alter, amend or revise such text or materials.

[*Our Firm*] agrees to indemnify and hold harmless [*Consulting Firm*] from any costs or liability arising from or related to the publication of the products of this Agreement. This provision shall survive any cancellation or expiration of this Agreement. [*Our Firm*] further agrees to defend, indemnify, and hold harmless [*Consulting Firm*] from and against any and all liability, damages, claims, demands, suits, judgements, and costs, including reasonable attorney fees and expenses, which may in any manner be imposed on or incurred by [*Consulting Firm*] either directly or indirectly, as a consequence of or arising out of any act, default, or omission, in the performance of this Agreement, except that [*Our Firm*] will NOT defend, indemnify, or hold the firm harmless from liability in cases arising out of [*Consulting Firm's*] own sole and exclusive negligence.

[*Our Firm*] agrees to pay [*Consulting Firm*] [*describe fee, billing, and payment arrangements*]. In no event shall the fee and out-of-pocket expenses exceed [*state an amount*] without prior written approval of [*Our Firm*].

Any question concerning the validity, construction, or performance of this Agreement shall be governed by the laws of [*indicate state*] irrespective of the place of execution, the order in which the signatures of the parties are affixed, or the place or places of performance.

If the above terms are satisfactory, please sign and date the original of this Agreement and return it to me by [*indicate date*]. A copy of the fully executed Agreement will be sent to you by return mail.

Sincerely,

[*Name of Firm*]

Signature

Note: This form is *not* intended to be used without the assistance of competent legal counsel.

Director of Construction, Director of Accounting, and so on. The truth is we didn't have enough people to have one specialty let alone six or seven. But what that did for us was to set the stage for us to become experts. I made a point to get the brochures around. They conveyed an image of our being larger than we really were and that we had some competence that we probably didn't have right then but later developed. We kind of grew into the firm in the brochure. Actually, we probably should have been strung up. The competition was probably thinking, "He's got to be kidding!" But we could have gotten the expertise if we had needed it. Every time I got into a bind, I'd call a buddy at Arthur Andersen or some other larger firm and ask what to do, and we would also use people from other firms for all kinds of things.

By giving each staffer a title, Charlie recognized that individual people build a niche, one specialty for each person. He identified who he wanted to go after and created a brochure to get the word out. The brochure and titles boosted the firm's credibility. He recognized that they didn't know everything they needed to know but they identified their resources.

Then he did what in my opinion is the most important thing. Charlie did *something!* By doing whatever it takes, he produced a positive chain of events that eventually led to firm growth and the opportunity to expand the abilities of staff members as new engagements came through the door. Charlie told it like he *wanted* it to be, and time took care of the rest.

THE BOTTOM LINE

Is there really such a thing as a full-service solo practice? I doubt it. We all have to draw the line somewhere. A better question is, Where are you going to draw that line for you? If you intend to actively promote a specialty, devote the time necessary to really *be* a specialist. Take extra CPE in your chosen area(s). Write articles for publication to obtain exposure as a specialist and to increase your competence. Do some public speaking. Never stop learning new things and updating your skills. Invest both time and money into your own professional development and that of your staff. Look for opportunities to obtain accreditation where available. Since no one can do it all, make up your mind to do what you do better than everyone else.

CHAPTER 3

MARKETING YOUR PRACTICE

Marketing needs to start from the inside. Decide what your firm is going to be, then take the message out to the public to let them know who you are. Your firm image becomes an extension of your own personality which your marketing plan multiplies many times over.

—Ron Frandsen

A few short years ago, all one had to do to develop an accounting practice was to hang out a shingle, contact a few bankers and an attorney or two, and wait for the work to come walking in. For the most part, tax preparation was our exclusive domain; small business clients were a steady source of monthly accounting work; and, what little financial planning was being done, we did.

Beginning with the easing of restrictions on advertising, firms of all sizes have become increasingly aware of and involved in activities that expand the firm's client base. Since that time the profession has for the most part struggled to determine how to play by the new rules. To no one's surprise, our efforts to this point have not been particularly noteworthy. Most of us have tried something—newsletters, newspaper ads, radio or television spots—and have met with limited success. When these attempts failed to net the kind of results anticipated, we quickly abandoned them with no attempt to analyze why they failed or what could have been done to make them successful.

This chapter serves to (1) provide you with a better understanding of the factors involved in successfully marketing your solo practice, and (2) share some ideas that your peers have successfully employed. These practitioners have come to understand and effectively practice some commonsense rules that they consistently follow resulting in a continual flow of new business.

UNDERSTANDING WHAT MARKETING IS

Until you understand the purpose of marketing, you won't get the results you want. Defining marketing merely as "getting new clients" is akin to defining soccer as nothing more than "kicking a round ball." This view is primarily responsible for the *ir*responsible way in which most of us conduct our marketing efforts. Marketing is more than Yellow Page ads or seminar invitations or Christmas cards. And our success is not necessarily best gauged by counting the number of new clients added to the client list in the past year.

Far too often, when it comes to marketing our services, we tend to shoot first and call whatever we hit the target. That's not strategic marketing. That's wishing. Marketing is the thoughtfully planned, carefully orchestrated, and persistently implemented means by which the firm's services are offered for sale to present and prospective clients. This is a much broader view of marketing than merely increasing the firm's clientele.

In fact, a well-thought-out and well-executed marketing plan may actually result in a reduction in total client count as the firm moves away from certain types of clients, services, or both, in favor of a more narrow focus. As Larry Lucas and I visited about marketing he commented, "The target market in Moscow, Idaho, is probably every single human being that is still breathing. Seriously, I have several ideas about my target market which are closely related to where I want the practice to go. I need to spend more time with the three P's: pondering, pruning, and prioritizing. I need to ponder where I want to go. I need to prune those activities that are not taking me there, and I need to prioritize what is left."

According to Dr. David Maister,¹ a leading authority on the management of professional service firms, what you are ultimately trying to accomplish is the development of "a set of actions that will make the firm's services more valuable to clients than the services of competitors."

We talked about developing a marketing plan as a part of the strategic planning process in chapter 1. Now let's discuss how to make it work.

All too frequently, people think they've crossed the finish line once they have a plan in hand. Don't let this happen to you. Your goal is to generate opportunities to move your firm in your selected direction, and planning alone will not do this. Whoever said, "Nothing will work unless you do" was right. It takes a *consistent, focused effort* to really make things happen. The better you are at transmuting words into actions, the more successful your plan will be.

Define

Take a look at the targets you identified when you filled out the Opportunity Evaluation Checklist in exhibit 1-2. In marketing parlance, these targets are called market segments. They are narrowed-down groups of individuals and companies defined by client demographics and service need.

Marketing to a market segment is not much different than marketing the firm in general. The principles that apply to one apply to the other except that with a segment, the effort is more focused because the target is more narrowly defined. These services are also more dependent on referral sources than are regular accounting services, so take this into account when selecting specific marketing activities.

¹ David H. Maister, "How to Create a Strategy," *The American Lawyer* (April 1990), p. 32.

Identify

Within each market segment, you must be able to identify specific prospects (both clients and nonclients) and the services you hope to sell. Form this into a prioritized “hit” list, then commit the necessary time and money to pursue each in order of their priority until you exhaust those resources. Let the remaining targets wait until circumstances change. If you try to run faster than you are able, you risk becoming overwhelmed by the opportunities. Then, because there is so much you *could* do, you may become bewildered and depressed and fail to do anything.

Delegate

Successful marketing also necessitates delegating responsibility and requiring an accounting. For further discussion, see chapter 4. For now, suffice it to say that everyone participating in the implementation of the plan must have a very clear understanding of exactly what they are expected to do, how the results are to be measured, and the time frame for accomplishing each task.

What marketing activities can you safely delegate to your staff? Certainly they should each be expected to develop professional relationships that will eventually lead to referral sources in the future. This is particularly important to the continued viability of a sole practice. Let me explain.

Recently, I noticed that we weren't attracting as many young entrepreneurs as we had several years ago. I concluded that this directly related to my age and that if I expected to see young businessowners walk through my door they would have to come at least in part because of the efforts and personal contacts of younger staff members.

Also remember your own accountability. Unless you are accountable to someone, you will doom the effort from the outset. It is just too easy to flow along with the current, especially when that current is as swift as what most of us are swimming in everyday. Select someone—your spouse, a mentor, your staff—who won't cut you any slack, and answer to them.

Evaluate

Set up milestones along the way to check your progress. As we discussed in chapter 1, you must be able to measure your goals to know when you have arrived, and you need regular checkpoints to see whether you are on course and on time. As a benchmark, consider using a specific number of new clients in a target group or a certain percentage of gross fees in a particular service area. Or perhaps set an objective of writing an article for a trade association periodical or producing a quarterly newsletter on estate planning.

As you reach each milestone, reevaluate the viability of the target. Is this working? Am I happy to be heading in this direction? Don't waste your precious time and other

valuable resources by heading in the wrong direction. If it doesn't feel right, make a course correction.

Exhibit 3-1 through exhibit 3-3 feature several forms from the *MAP Handbook* to help you develop a well-thought-out marketing plan. Use these exhibits to guide you through the evaluation process.

Finally, develop a marketing attitude in your firm. Provide rewards and recognition while working along your chosen path. Lead the charge with enthusiasm and active participation in the process, and your staff will follow.

SELECTING THE RIGHT MARKETING ACTIVITIES

Too many sole practitioners become mired in the rut of sameness, doing little or nothing that differentiates them from their competition, small or large. They complain about the cutthroat tactics of their competitors, low-ball audit fees, and direct solicitation of their clients by others. If this view of the competitive marketplace is accurate, then why are so many CPAs still able to enter the sole-practitioner ranks and succeed? These complainers have chosen to play defense, and it's hard to score when your team doesn't have the ball.

The rest of this chapter will help you know what to do with the ball when you get it. We'll cover those specific marketing activities that provide a constant flow of proposal opportunities for your firm.

Image Enhancement

Achieving maximum results from your marketing efforts requires the successful amalgamation of a number of marketing activities. Each activity must be coordinated with every other. Each is an interdependent part of a larger whole.

On April 18, 1994, fourteen people sat around a conference table in New York City for nearly eight hours trying to determine how the profession should explain what a CPA is to the general public. The group included the current and incoming chairmen of the AICPA's Board of Directors, the then-president of the AICPA and three of his vice presidents, two state society executive directors, the public member of the Board, and five practitioners.

This fascinating exercise underscored the difficulty of changing the public's perception of the profession as a whole. If our group took nearly eight hours to define a CPA's role, one can easily see why it's nearly impossible to explain it in a thirty-second TV spot! Unfortunately, when most of us mention in casual conversation that we are CPAs, we're likely to hear the rejoinder, "Oh, you do taxes." We have a long way to go as a profession in educating the consuming public that tax return preparation is only a small part of what we do.

Unless the profession can successfully differentiate our services from the same or similar services performed by others (bookkeepers, noncertified tax preparers, financial planners, attorneys), the market will continue to look to those other sources as an alternative.

EXHIBIT 3-1. *Current Marketing Situation*

1. What is your firm's image or reputation in the following areas?
 - a. Scope of Service: _____
 - b. Timeliness: _____
 - c. Fees: _____
 - d. Helpfulness: _____
 - e. Other: _____
2. For what does your firm want to be known? _____

3. What is your market area geographically? _____

4. What groupings and/or specialities are there in your client base? _____

5. What opportunities exist in your client base and market?

6. How would you describe the ideal next client? _____

7. What is your firm's desired real growth rate? _____

8. At what areas of practice does your firm excel? _____

9. Where is the firm weak? _____

10. Who are the firm's primary competitors, and what advantages do they have?

11. How many professional hours are currently devoted to practice development (including civic activities)? _____

Note: This exhibit was adapted by permission of the AICPA. Exhibit 105-1 from the *Management of an Accounting Practice Handbook*. Copyright © 1997 by the American Institute of Certified Public Accountants; all rights reserved.

EXHIBIT 3-2. Summary of Current Situation

1. What obstacles to marketing must be overcome? (Check applicable reasons.)

- Insufficient time devoted to marketing
- Gaps in professional capability
- A pattern in professional capability
- Negative attitude toward marketing
- Understaffed-overworked
- Other (explain)

2. What marketing strategies have previously been most successful?

3. What are the firm's most promising growth areas (client types, geographical areas, services, cross-selling opportunities, referral sources, gaps in competition, and so on)?

4. What is the firm's desired annual growth rate in chargeable hours? _____ hours.

5. What changes in the firm's coverage of civic, social, industrial, and professional organizations are needed?

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EXHIBIT 3-3. Detailed Marketing Plan—Part I

Complete this form for each marketing strategy.

Objective of strategy: _____

Resources available: Solo's time _____
 Staff time _____
 Money _____

	<i>Ways to Achieve the Objective</i>	<i>Pros and Cons</i>
1.	_____	_____
	_____	_____
	_____	_____
	_____	_____
2.	_____	_____
	_____	_____
	_____	_____
	_____	_____
3.	_____	_____
	_____	_____
	_____	_____
	_____	_____
4.	_____	_____
	_____	_____
	_____	_____
	_____	_____
5.	_____	_____
	_____	_____
	_____	_____
	_____	_____

Note: This exhibit was adapted by permission of the AICPA. Exhibit 105-10 from the *Management of an Accounting Practice Handbook*. Copyright © 1997 by the American Institute of Certified Public Accountants; all rights reserved.

Ultimately, our group determined that a CPA *is* as a CPA *does*. People define us by what we do. If this is true, then you and I should make certain that our clients and prospects alike are very clear about what it is we do. Numerous studies show that the public is impressed with our initials. They may not know exactly what those initials allow us to do, but there is no doubt they believe that whatever it is, we do it extremely well. This gives us a leg up on the non-CPA competition. But without sending a clear, understandable message to those people who need our services, we'll lose that advantage. To illustrate, let me relate something Ron Stewart experienced.

Several years ago we hired [a public relations firm] to help us with image enhancement. They called people and asked them for the name of a CPA firm. Out of however many people they called, our name didn't get mentioned once. That really bothered us, so I thought we needed to be more visible. We went out and did this image campaign and what happened was that we became more visible! It didn't result in any more business. More people just knew who we were.

Your firm's image is a composite of the perceptions your clients and prospects have of it. These perceptions are formed by what they hear, see, and feel. Although no one has complete control over these inputs, we can make the best of what we do control.

Therefore, the firm's image portion of your marketing strategy must (1) identify the firm's services as the solution to a problem common to the group whose market you are targeting, and (2) elevate the firm's capabilities above those of its competitors.

Your Printed Image

Actually, this is surprisingly easy to do. A media sales rep once told me, "Advertising creates credibility." The perception is that if you're promoting something, you must be an expert at it.







Logos

A superior printed image must include an appealing firm logo. Logos are nearly universally accepted within the profession, now, and they run the gamut from the good, to the bad, and the ugly. Avoid trying to be too cute. When in doubt, it's better to err on the side of the conservative. The best way to pick a good look is to find some good business cards and work from those. See exhibit 3-4 for some examples. Printers can often help design a logo, but to get a really unique look use a graphic artist.

Newsletters

Without a doubt, the client newsletter is the sole practitioner's most frequently used printed marketing tool. John Kenneally sends one regularly. He says he averages two clients a year from it. Interestingly, he doesn't view it as a means to convey important information to clients and referral sources. Instead he looks at it more as a business card. Since most

EXHIBIT 3-4. *Sample Business Cards*

<p>Dodds & Associates CERTIFIED PUBLIC ACCOUNTANTS • CONSULTANTS</p> <p>J. Terry Dodds, cpa, cva, cfp 397 BLUE LAKES BLVD. N. • TWIN FALLS, ID 83301 (208) 733-7575 • FAX (208) 733-7577 jtd@doddscpa.com</p>				
<p>Lawrence R. Lucas</p> <p>Lucas Company Certified Public Accounting</p> <p>Fifth & Jefferson Streets Post Office Box 9245 Moscow, Idaho 83843</p> <p>208/882-9504 FAX: 208/882-9503</p>				
<table border="1"> <tr> <td data-bbox="500 1164 711 1315">  </td> <td data-bbox="711 1164 1149 1336"> <p>CRAIG WILLETT, CPA, PC Certified Public Accountant</p> </td> </tr> <tr> <td data-bbox="500 1336 711 1527"> </td> <td data-bbox="711 1336 1149 1527"> <p>Craig Willett</p> <p>801 374-6980 • FAX 801 377-5191 1987 North Riverside Ave. • Provo, Utah 84604</p> </td> </tr> </table>		<p>CRAIG WILLETT, CPA, PC Certified Public Accountant</p>		<p>Craig Willett</p> <p>801 374-6980 • FAX 801 377-5191 1987 North Riverside Ave. • Provo, Utah 84604</p>
	<p>CRAIG WILLETT, CPA, PC Certified Public Accountant</p>			
	<p>Craig Willett</p> <p>801 374-6980 • FAX 801 377-5191 1987 North Riverside Ave. • Provo, Utah 84604</p>			
<table border="1"> <tr> <td data-bbox="500 1559 662 1751">  </td> <td data-bbox="662 1559 1149 1751"> <p>McIntee & ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS</p> </td> </tr> <tr> <td colspan="2" data-bbox="500 1751 1149 1949"> <p>David G. McIntee, CPA</p> <p>11 Kiel Avenue • Kinnelon, N.J. 07405-2536 Phone: 973-492-5000 • Fax: 973-492-9250 e-mail: cpa@mcintee.com • Internet: www.mcintee.com</p> </td> </tr> </table>		<p>McIntee & ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS</p>	<p>David G. McIntee, CPA</p> <p>11 Kiel Avenue • Kinnelon, N.J. 07405-2536 Phone: 973-492-5000 • Fax: 973-492-9250 e-mail: cpa@mcintee.com • Internet: www.mcintee.com</p>	
	<p>McIntee & ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS</p>			
<p>David G. McIntee, CPA</p> <p>11 Kiel Avenue • Kinnelon, N.J. 07405-2536 Phone: 973-492-5000 • Fax: 973-492-9250 e-mail: cpa@mcintee.com • Internet: www.mcintee.com</p>				

people are too busy to read everything that comes across the desk, it goes into the stack of unread mail in the corner. But John says that whenever the opportunity arises for a referral, his sources reach over to the pile and pull out his newsletter.

Most practitioners agree that if you want a newsletter that is going to be read, it had better not look generic. Craig Willett says

I started out writing my own client newsletter when I began my own practice. Then as I became busier, I purchased a couple of newsletters. But I just didn't feel they were right for a small firm like mine. My clients come to me because they trust me and want to feel like I am personally involved. To be consistent with my desire to portray a personal relationship with my clients and to gear the articles more to what I believe are their needs and interests, I began producing my own.

We took a survey recently and 78 percent of those surveyed read our newsletter. I went on my own because I wanted to do things differently. The newsletter helps me do this. It conveys the idea that we are on the cutting edge.

Jim Roy from Peachtree City, Georgia, also produces his own. He had heard about sending newsletters at a MAP conference. "So we tried a couple of preprinted ones," he says.

We found out that nobody read them, and sometimes they even threw them away without opening the envelope.

So we are publishing a one-page tax calendar with important dates for the month on it. We include all income, payroll, and sales tax dates—both federal and state. On the bottom we give a tax tip. The main emphasis is on planning. We know this is getting read because we see it posted on the bulletin board at our clients' offices.

If you do decide to produce an in-house piece, here are some suggestions. First, get straight about the purpose. You are trying to generate business. Let the nightly news *inform*. Your newsletter is an *advertisement* for your firm. Write it with this in mind. Now, with that said, be sure you include something useful for those who actually spend the time to read it.

Design each article to trigger one or both of the following responses: (1) the reader discovers a need and calls the firm, or (2) the reader has a need, discovers that the firm can satisfy that need, and calls for an appointment.

Choosing the voice of your newsletter is important. Use the second-person *you* as much as possible. Write articles to read like a conversation between the reader and someone knowledgeable about the solution to a reader's problem.

Hit the beachhead running. Use attention-grabbing headlines and plenty of subheads throughout. Your first paragraph must answer the reader's unspoken question, "What's in it for me?" Your article's conclusion must refocus the reader's attention on the problem discussed and your firm's ability to solve it. Encourage your readers to take immediate action. Throughout the newsletter, prominently display your name, phone number, fax number, email address, street address, and any other means of contacting you.

If you want to send a newsletter but aren't particularly gifted as a writer or lack the time to prepare it, consider purchasing a canned one that you can customize in some way.

John Kenneally adds an insert into each issue of his externally produced newsletter. He prints it on the same kind of paper and in the same font so that his readers can't differentiate the insert from the newsletter. "They think I wrote the whole thing," he says.

Another practitioner once told me he had sent out a newsletter but his clients did not read it. Instead, he now watches for information that may be of interest to his clients and sends them a copy with a handwritten note attached. "This is much more personal and is well-received by my clients. I get calls almost immediately, and I have had clients mention that they appreciated receiving it."

As a variation on this theme, I began something I call "fax on demand" in my firm. When I come across something that relates to a portion of my client base, I fax them a copy with a note attached. Business magazines such as *Inc.* and *Money* are good places to find articles for our type of clients.

Brochures

Firm brochures are another means of reaching prospective clients. As with the newsletter, unless you plan to produce a quality product, don't bother. You don't have to spend thousands on four-part color separations and glossy color covers to get a professional-looking brochure. But you do need to pay attention to details.

As with any writing project, when first creating a brochure, answer the questions, "Who am I trying to reach?" and "What do I want these people to remember about my firm?" These two answers provide a blueprint for developing the content of your brochure.

Many firm brochures suffer from excessive verbiage. If you want to tell your life story, write a book. But in a brochure, keep the content brief and fill up the space with pictures of real people your prospects can relate to. Get your layout ideas by looking at some professionally done brochures from local banks, sales professionals, and the chamber of commerce. Other good resources include trade associations and current clients. Find someone who understands graphic art to help you choose interest-generating images. Some printers also have staff to assist you.

Focus on the needs of your market. Let the brochure convey your expertise in solving relevant problems. In this regard you may wish to produce a series of smaller brochures, each targeted at a different audience such as family-owned businesses considering succession issues, business valuations in a legal environment, estate planning, or retirement planning.

Once you have your brochures in hand, aggressively pass them out. Merely producing the brochures counts for nothing. Get them out of the box and into the hands of your prospects and referral sources. Get your staff involved. Set a goal for distributing a specific number of firm brochures each week, and follow up. Remember that each brochure placed in the hands of a prospect also represents a personal contact by you or a member of your staff.

The Yellow Pages

For some practitioners, the Yellow Pages make an excellent business generator. I have had a fair amount of success from my Yellow Page ad (see exhibit 3-5), and so when I travel I usually open the Yellow Pages to check out the competition. Interestingly, in most areas the answer is “precious little.” A number of solos believe advertising in the Yellow Pages is a waste of money. Given the quality of what appears in the “Accountants—Certified Public” section, this is a self-fulfilling prophecy.

Surveys tell us that only five percent of the consumers of accounting services are in the market for a change at any one time. This means most advertising falls on deaf ears. However, with a Yellow Pages ad, one-hundred percent of those who turn to the accountants section are actively seeking one.

The first step in the process of developing a quality Yellow Pages ad is to check out the competition. Here, as in every other aspect of your marketing plan, you want to stand out from the crowd. This does not mean selecting the largest ad size on the page. Chris Frederiksen counsels, “It’s not the size, but the quality that’s the decisive factor.” He uses a double-quarter column (2 columns by 2 1/2 inches deep) ad. “Of our media mix—which includes direct mail, print advertising, and seminars—the Yellow Pages actually do the best for us,” Chris observes.

Here are some tips in designing an ad that encourages the “walking fingers” to dial your firm. Since space is money, you need to be concise and to direct your ad to the people you want to attract. You also need to attempt to profile the kind of person looking for an accountant in the Yellow Pages. For example, advertising audit services for public companies would not be a good use of space since public companies rarely select their auditors from the Yellow Pages. Advertising tax services would. So would targeting new business start-ups. And don’t make the mistake of cramming the ad so full of information that it looks virtually black. Any ad needs plenty of white space. This is particularly true in the Yellow Pages where a lack of words actually draws attention as a contrast to the competing ads on the page.

Offering a free initial consultation is a good idea. It helps to reduce any reticence the person may feel toward coming in. Most of these visits will last only a half hour or so, whereas a more substantial client could take all day, and as far as I am concerned, I’d be thrilled if they did.

Our Yellow Pages ad wasn’t just slapped together. We carefully crafted it in an attempt to reach the people who are most likely searching through the phone book for an accounting firm. Notice that our ad doesn’t say anything about litigation support, for example. We do provide this service, but our attorney network refers nearly all these engagements.

Instead, we listed several services such as new business start-ups, farm and dairy accounting, and computer consulting—those services we felt might be a need for which someone would turn to the Yellow Pages. Notice, too, that we added “Tax Experts” in bold italics. We ask most new clients why they chose our firm, and the majority of those who found us in the Yellow Pages believed we were experts in solving tax problems.

Be sure to coach your receptionist on what to say to a prospective client responding to your ad. This is critical! Several years ago a woman called our office. Her husband's company was having difficulty arranging financing with the bank. She had seen our small listing in the financial management section of the phone book. When she determined that she had reached an accounting firm she told my receptionist, "Oh, we already have an accountant," to which my receptionist asked, "What is it that you needed to have done?" The woman briefly explained the problem and Carol replied, "Oh, we do that!" That short exchange led to our engagement and has been worth fees well into the six figures over the space of ten years.

Direct Mail

Junk mail is reaching epidemic proportions as it infects the mailboxes of every American. All I need is one more "free" offer. But if people feel this way, why do companies insist on sending the stuff out? The answer is simple—it works!


Many solos believe direct mail will make their firms appear unprofessional or cheap. My personal experience and that of many others is that, if done properly, the firm's image need not suffer. After all, the act of using the mail to send a letter to prospective clients is not the problem. The problem is the quality of the direct mail piece. No one objects to receiving something that creates personal value. The trick is to prepare your materials in such a way that even if the offer is not accepted the reader is left with a good impression of the firm.

For several years we have mailed the letter in exhibit 3-6 to new move-ins whose addresses we received via a mailing list. Each year, our fees have exceeded the cost of postage, materials, and address list rental. We measure the success of the program by the repeat business it generates, which runs close to 50 percent.

EXHIBIT 3-5. *Sample Yellow Pages Ads*

Dodds & Associates

CERTIFIED PUBLIC ACCOUNTANTS • CONSULTANTS



Located in the historic Fortner house
397 Blue Lakes Blvd. North

- New Business Start-ups
- Farm & Dairy
- IRS Problem Resolution
- Business Valuation
- Estate Services
- Computer Consulting

Tax Experts

733-7575

Fax 733-7577
www.doddscca.com

EXHIBIT 3-6. Sample Letter for New Move-ins

Date

[Name of Prospect]

[Address]

Dear _____,

Are you new to Twin Falls? If so, we may be able to help. We're Dodds & Associates, a firm of Certified Public Accountants who specialize in income taxation. If you're looking for someone to help you minimize your income tax burden, please consider us.

If you've moved to our area from out of state, you'll be glad to know that we prepare tax returns for all fifty states. Our staff of professional tax preparers is especially good at handling interstate tax matters.

As important as taxes are, that's only part of the story at Dodds & Associates. Our primary focus is to assist each of our clients to accumulate and retain wealth. We provide a full range of business and personal financial consulting services. Everyday we help people prepare for retirement, plan their estates, improve business performance or find financing.

At Dodds & Associates you won't get the "conveyor belt" treatment. We understand that financial matters are deeply personal. We know how important the client/CPA relationship is. That's why we treat each client as the important individual he or she is. We'll take the time to understand your personal situation and suggest ways to reduce your taxes now and help you plan for the future. If you like the personal touch, we're your firm. At Dodds & Associates, CPA stands for Close Personal Attention.

Give Letty a call at **733-7575**. We're looking forward to meeting you.

Sincerely,

J. Terry Dodds, CPA

A California solo sent 300 letters to a tract of new homes near his office offering to do their 1040s for free. Twenty-five responded and he added four corporations and an estate at standard rates.

Professional direct marketers expect a response rate of between one and three percent. A mailing of 3,000 pieces should generate between thirty and ninety calls. Thus, one can reduce the expense of a direct mailing to a mathematical equation.

Of the various advantages to direct mail, probably the most important is its ability to pinpoint that group most inclined to respond favorably to the offer. Without a doubt, a good mailing list is the key to any direct mailing effort's success. Many utility companies sell lists of new hookups. City and county agencies can provide commercial building permit lists. Various publications may sell subscription lists. When contracting for a list,

determine how the information was obtained and what representations the company claims as to its reliability. Resist the temptation to mail to everyone within a thousand-mile radius. Target your mailing and thereby cut costs while increasing your probable response rate.

Carefully review your list before preparing the mailing. Several years ago, I received a scathing letter from a competitor who received one of my direct mailers at his office. Now I take more time reviewing the list to reduce waste and avoid problems.

After determining who will get your mail, work on the envelope. Unless you can get people to open it, there is no way they are going to accept the offer. To increase the likelihood that people will open it, use a good quality stationery envelope, and laser print the address. Gummed mailing labels make an envelope look like junk. And use a real postage stamp. In fact, the professionals say that commemorative stamps outperform a regular stamp. They also say an odd-sized envelope increases response rates as do specially designed stickers placed on the envelope.

People don't read a direct mailing the same way they read a personal letter. First, they check to see who the letter is from. Next, they read the inside address and salutation to see who the letter is to. Personalizing the salutation increases your chances of having them read further. Knowing where the eyes move has prompted some direct mail advertisers to insert a box directly above the salutation briefly explaining the offer. Next, they look at the signature line and any postscript. This is why many professionally produced pieces include a postscript emphasizing the advantages of the offer. Finally, if you have been able to hold their attention to this point, they will read at least a portion of the actual letter. But even here they will skim for important points.

Keep your paragraphs short. Make your point in the first sentence followed with brief supporting comments in the second and third. Call attention to critical information by placing it in italics, bold, or a different or larger typeface. But be discreet.

Take time preparing your ad copy. Be brief and come quickly to the point. Avoid making it sound too much like a used car commercial. Remember that you are speaking to one individual, not to the masses. Tell your potential clients how they will benefit by associating with you. The more you focus on the benefits to others, the more likely that your firm will benefit.

Be sure to request action—a phone call to set an appointment for a free consultation, for example, or mailing back a self-addressed and stamped response card. Make their positive response as easy as possible. Direct mail leads have a very short shelf life. Respond immediately with a telephone call or schedule an appointment within a day or two of the response.

Despite your personal feelings about direct mail solicitations, many solos are currently using them as an effective device. There is no question that a carefully, thoughtfully, professionally prepared direct mail program will attract new clients. After all, it's strictly a matter of mathematics.

The Media

For the sole practitioner practicing in a major metropolitan area, media advertising may be cost prohibitive. However, even in these areas, it can be used effectively if one is intelligently selective.

Several years ago, our firm did work for a country–western radio station. The station manager, who was himself a client, talked me into doing a series of ads during tax season. The ads were a disaster! We got calls all right, but the vast majority were price shopping us against H&R Block, who offered “Rapid Refund.” The content and presentation of the ads were both totally off the mark.

Sad to say, our experience seems to be the rule rather than the exception. It doesn’t have to be that way. Many firms have registered major gains due in part to effective media advertising campaigns. These firms have learned how to do it right.

Janet Neel, a sole practitioner in my community, has a great campaign. Since the day she hung up her shingle, she has advertised in the paper. She understands that the purpose of the ad is not to have someone clip the ad out and bring it in (although that did happen once). Rather, it is to increase her times at bat. She wants a better-than-even chance that when someone needs an accountant, she’ll be considered.

Janet’s ads are circular in shape, have a large picture of her and a short message. The picture and the shape are important because they produce “hits.” The message is not as important. “I was checking out of K-Mart the other day when the gal said, ‘You’re the accountant in the newspaper.’ She didn’t bring her tax return in, but she knew who I was,” Janet says.

Janet believes her ads also improve her retention level among current clients. Because they are connected, they like seeing her ads. “If it helps someone stay with me, that’s a good reason all by itself,” she notes.

Janet also wisely tied her newspaper ad to her Yellow Pages ad by using the same picture and logo. When Yellow Page shoppers see the ad, they are already acquainted with her print media image. This gives her an advantage over the other accountants on the page.

Regardless of which media component you use, your objective is product differentiation—that is, distinguish your firm and its services from the competition. Fundamentally, there are two kinds of messages: institutional and service oriented. Institutional messages attempt to increase the image of the firm while service-oriented messages are targeted at increasing the firm’s recognition in a particular service area. An example of an institutional message would be a “tombstone ad” that highlights the involvement of firm personnel in the community or in a particular event. An example of a service-oriented message would be an ad that highlights the firm’s expertise in out-of-state individual tax returns.

The first step in media advertising involves determining what you want your ad to accomplish, who you want to reach, and what action you hope they’ll take.

Next, decide which media—newspaper, trade or business publications, radio, or television—offers the best cost-benefit ratio.

Print Media

By far the most important part of a print media ad is the headline. It is five times more important than the ad copy because five times more people will read it. The ad copy amplifies the headline adding credence to support the claims made. Ad copy actually is the least important portion of the ad even though it makes up the largest portion of the ad. The request for action equals an attention-grabbing headline in importance. Request that the reader call for an initial consultation or send in a coupon for a free initial consultation. Give the prospect a reason to take action. Create a need with the headline, amplify it in the copy, and provide the promise of a solution in exchange for the reader's action.

In newspaper advertising, consider the position of the ad. Unless you are attempting to target sports enthusiasts, the business section would be better than the sports page. Determine the best days for the ad to run. Most solos favor the Sunday paper.

Business and trade publications are more narrow and the ads prepared for them must be targeted specifically to this more narrowly defined group. Usually, the ads will tend to be more service-oriented and should emphasize how that particular service can be used by the subscribers.

Radio and Television

Radio and television ads reach the largest and most diffuse audiences. While nearly everyone drives a car, fewer people need an auditor. Select the station in which to advertise by its viewer or listenership both in terms of numbers and makeup, and on how well this group fits with your target audience. When selecting the time slot, consider the following. For radio, commuting times often provide the best spot while for TV, the local news provides better viewership.

The most important components in radio and television advertising are the attention-getter and the tag line. The attention-getter comes first providing a short statement that tells the listener or viewer why he or she should pay attention. Similar to a print media ad, the body of this kind of ad adds substance to the opening statement and explains what's in the message for the viewer. It attempts to create an emotional response, connect the viewer or listener with the firm, and elicit a particular action. The tag line comes at the end of the ad. This is what people will remember about your ad after hearing or viewing it. For example, one small practice uses as their tag line "Large enough to help. Small enough to care."

When considering the use of media as a part of your marketing program, enlist the aid of a media consultant. Generally speaking, the cost of such a program dictates that it work. If you hire the right people, their fee is essentially like purchasing results insurance.

A couple of observations: Any attempt to influence public opinion through use of the media is a long-term process. Consistency is the key.

Seminars that Sell

Speaking opportunities provide another effective way to create a positive image and increase your prospect base. (Chapter 5 explains how to prepare a first-class presentation.) Following the lead of other financial service providers—such as insurance agents, financial planners, and attorneys—solos are finding that a well-prepared seminar can lead to expansion of services to present and prospective clients alike.

A two-person firm in Bountiful, Utah, has turned seminar presentation into an actual profit center by charging the attendees. A paradigm shift occurred in this firm when they began to see themselves as being in the education business. Whether you choose to charge or not, seminars can be good business-getters.

According to Bea Nahon, “Whenever we do a client seminar, they bring friends and some of those turn into clients. I think seminars also help bolster your credibility with your current clients.”

Larry Lucas told me of an experience he once had speaking at an educational series on personal financial planning sponsored by the University of Idaho. A few weeks later, one of the participants, a surgeon in the community, made an appointment to talk with him. Ultimately, the surgeon left another firm with which he had no particular complaints because he liked Larry’s approach.

Far too many solos avoid speaking opportunities out of a fear that no one will come. One practitioner told me he promotes a seminar then *hopes* no one will come! He believes that the seminar’s purpose is to heighten the firm’s exposure and credibility to the broadest audience possible. For him the mere process of *promoting* the seminar accomplishes this goal. Another practitioner commented, “In my opinion, half the benefit of doing a seminar is sending out the invitations.”

Seminars are actually quite simple to put on. Find a topic that people are interested in, determine who is going to speak, find someone to cohost the program to add credibility, and pick a spot. Then advertise the show. Remember, you aren’t trying to fill Madison Square Garden. Getting your name associated with the subject matter is an end in and of itself.

The Presenter

Because a seminar showcases your firm’s talents, it goes without saying that you want a superb performance by the presenter(s). If you personally don’t do well in front of a group, let others do the presenting. It isn’t as important for you to be center stage as it is for you to spend some of your personal attention on each attendee.

Several years ago, I sponsored a seminar on wealth accumulation and asset preservation (basically an estate planning session) for clients and invited the public. Ron Frandsen came up and did the presentation. This method was very effective. Having someone else tell people how good you are is about one hundred times more effective than when you do it yourself. It also gave me a chance to be close to the attendees and to add

a few comments during the presentation which reinforced my knowledge of the subject in their minds.

Recently, our firm cohosted a seminar on retirement planning with a local stock brokerage house. They arranged for the speaker—a polished presenter—from a mutual fund company and I handled the “welcome” remarks. During the course of the evening, I made sure to personally greet and visit with each participant. As far as our clients and the other participants are concerned, we were positively linked with the event. They also now consider us to be experts in retirement planning merely by association.

Presentation Basics

Professional presenters say that in order to give a winning performance, you have to rehearse, preferably in front of someone who will help you refine and polish both your content and your presentation skills. Remember that a seminar is not only an auditory medium, it is also visual. If possible, use color slides and overheads. Many people like to take notes. Be sure you provide them with a printed outline that has plenty of white space for this purpose.

Al Williams, who uses seminars extensively in promoting his practice, suggests

I think seminars are great for attracting new business especially when it is dovetailed with other marketing activities. The key to any seminar is to talk English and not “accountantese.” Too many CPAs who present seminars to “lay people” try to impress them with quotations of Code Sections. They fail to recognize that everyone already assumes that since they are a CPA they have committed the Code to memory.

Watch your time. Observe the dictum, “The mind can absorb only what the seat can endure.” If your presentation lasts over an hour and a half, you should provide a break. Also, consider interspersing group discussions, question and answer periods, or panel responses to help keep your audience alert and attentive.

Although you may want to spread your message to the entire community, it is best not to pack the whole town into one seminar. Thirty people is tops. Twenty is better. You want your participants to feel free to ask questions. With a large group, some may feel intimidated or awkward and you will find it more difficult to have personal chats.

Location is also important. Unless your group can fit comfortably into your conference room, it would be best to use a commercial facility. You also might try working a cosponsorship with a local college. They are usually well equipped with first rate audio-visual equipment like overhead projectors, VCRs, and computer screen projectors. And there is the added benefit of increasing your credibility.

Carefully choose your starting and ending times. Try to determine when your attendees will think it is time to leave. Consider traffic patterns. End the session early to avoid rush hour, for instance. An evening session is better if you want spouses to attend. These also lend themselves to a social setting following the presentation.

I cannot overemphasize this point: Don't let anyone leave the seminar without having had some personal interaction with you!

Finally, follow up. Contact each attendee, thanking him or her for coming and asking if there is anything you can help with. Al Williams suggests offering a giveaway such as a will review or a mileage log.

A solid presentation provides impetus to a client's or prospective client's decision-making process. Personal experience has proven to me that seminars work. In fact, I have never given a presentation that has not resulted in new business.

Telemarketing

Some solos have ventured into telemarketing as a part of their marketing mix. Like direct mail, this marketing vehicle has long been held in disfavor by practitioners as being highly unprofessional. However, it has proven successful in attracting new business. Most of what was said about a direct mail campaign could be applied to telemarketing. It, too, has the advantage of numbers; it can also be narrowly targeted; and its effect on firm image is directly proportional to the quality of the message.

Probably the least obtrusive telemarketing campaign I have heard of was a survey conducted by a firm. The telemarketer introduced him- or herself and asked the contact if he or she was currently using a CPA firm. If the response was affirmative, the telemarketer thanked the caller for his or her time and hung up. I personally feel that firm could have asked the caller which firm he or she was using and what services were being provided. Even if the call did not result in a lead for the firm, the information could be used advantageously.

Before beginning a telemarketing campaign, carefully select your target market. Then develop your script. Keep it short, remembering that what may seem brief to you can seem like an eternity to the person on the other end of the line. Tell your contact how much time you intend to take at the outset and request their permission to proceed. Avoid personal questions that may cause discomfort.

Develop your script to accomplish two purposes: to gain valuable marketing information and to invite the contact to consider using your firm. If the prospect expresses unfulfilled needs, the telemarketer should schedule an appointment or tell the prospect that someone will call. The person following up should call within twenty-four hours and schedule the free initial consultation within two weeks.

No one comes away with a good impression of an organization with intrusive or obnoxious representatives. Above all, be polite. Then even those who chose not to share their time will terminate the call with a favorable impression.

Marketing on the Information Super Highway

Some accounting practice experts predict the demise of the sole practitioner, presuming that it would eventually become impossible for one person to keep current. We are at the threshold of a whole new way of doing business that will significantly reduce or even

eliminate this constraint. As I said in the introduction, I believe the sole practitioner stands to gain the most from the rise of electronic commerce.

CPAs sell information and the ability to transform it in its raw state into something meaningful, which can then be effectively employed to solve people's problems. That is precisely what net surfers are looking for. Consider that no one on the Internet knows or even cares what kind of office you have, what city you work in, how big your firm is, or even what credentials you have hanging on your wall. The only criterion is *what you know*.

Ron Frandsen comments on this.

I see in the Internet a chance for a solo with a specialty to be able to put up his own home page. Once you're there and providing service, clients really don't care whether you're in Twin Falls, Idaho, or Australia. I think things are going to evolve to the point where you're going to have access to a lot of potential customers. The Internet is going to change the way you practice.

Imagine forming Internet-based joint ventures across professional lines—your expertise joined with that of other CPAs, engineers, economists, lawyers, psychologists, and others. How this will all develop is left to the future, but it would be terribly short-sighted to stand on the sidelines and just watch it happen. Here are some steps you should consider to help you make the best use of this increasingly important marketing tool.

Stake Your Claim

Your Internet access provider can help you register a domain name on the World Wide Web. Your domain name is your address on the Internet. This is different from your email address, which is tied to your Internet access provider. Having your own domain name identifies you as a player and makes it easier for prospects to find you. Before obtaining my own domain name, my address was `jtd@micron.com`. Our service provider at the time was Micron and my mail box was "jtd." With the domain name, my email address is now "`jtd@dodds CPA.com`."

Target Your Market

A short time ago, we had a nonclient come into the office. His daughter had recently married and moved to England. He specifically asked if we could communicate with her by email and was favorably impressed when we were able to provide our domain name. We got the business.

We previously discussed the importance of targeting your market. This is particularly critical on the Net. The main difficulty people encounter while surfing is not the inability to find anything on their subject of interest but the exact opposite. There is too much. It's like walking into the Library of Congress and asking to see a book on, say, gardening and having the librarian hand you a ream of paper with 42,000 titles. Obviously, the solution to this problem is to narrow the search. The more carefully you identify your target, the more likely you are to develop traffic.

Here's an example of what I mean. Karen Stevenson Brown, a solo practicing in Normal, Illinois, has niched elder care. Her home page address is www.elderweb.com. Entering "eldercare cpa" into a search engine finds her quite easily. Her home page provides useful information and links to a number of sites of interest to the elderly and those providing care.

Make It Interesting

It is not difficult to track the number of home page hits, but from a marketing standpoint hits are not important. What you really want is repeat visits. People will revisit your page if they find it useful and up to date. This means you must revise your contents regularly. If you intend to provide tax tips for home building contractors on your home page, you'll need to change these tips frequently. Who wants to read last week's newspaper? When talking about newsletters, Ron Frandsen once told me, "The problem is that the cow doesn't stay milked." The same can be said of a Web site.

As time goes on and hardware speeds increase, audio and video will become more important. Eventually, you will need to include these on your home page in order to keep your audience. But for now concentrate on good quality graphics, but keep it simple since many users are still accessing the net with older modems—and waiting for complicated graphics to appear is like watching grass grow.

Be sure to provide a way for visitors to leave messages by including an email link. Ask for feedback on your site and what kinds of information your visitors want to see added.

Build an Attractive Home Page

A growing number of individuals and firms provide home-page creation and maintenance services. The number of service providers is likely to increase as interest in the Web as a place to do business increases. Begin your search for the right person or firm by looking for impressive home pages while you are surfing. Simply leave an email message at those sites you like and ask who designed them. In some cases, the home page itself may include a credit for the producer as a footnote at the bottom of the page. Ask your Internet access provider to give you several names. Before you engage anyone, visit some of the home pages they have already designed.

The Net obviously gives a sole practitioner access to the world, but it may also be used to increase one's exposure closer to home. Consider developing a home page that provides information about your community. You might include a calendar of events; links to other home pages such as local schools, city and county governments, the chamber of commerce; a road map; a list of local restaurants, attractions, and entertainment; and the weather forecast. Your goal is to encourage local residents to set your page as their home page so that each time they access the net, your page will come up.

Regardless of your current use of the Internet and its World Wide Web, this is the *tidal* wave of the future. Don't delay. This change is coming too fast to hesitate.

Sharing More Good Ideas

Janet Caswell is using her voice mail to subtly advertise. She tells me,

Because I have voice mail, I have started doing a mini advertising message. For example, I'll say, "I'm out working with a client on a strategic plan. Please leave a message." I'll have a client ask me, "Hey, when is it my turn to have a meeting with you?"

Several years ago my staff developed a start-up manual for companies in our market area. In a three-ring binder, we included information on payroll taxes, worker's compensation insurance, sources of financing and making a loan presentation, financial statements and ratios, business form, and so on. We provide these to our local small business development center free of charge. We ask that they charge ten dollars for each manual which they keep as a donation to the center. This helps us know the books only go to those who plan to use them.

As Charlie Larson and I were discussing marketing, he related an experience that taught him a good lesson.

There is a banker I've known forever. One day when I was in the bank he happened to walk by and said to me, "Charlie, you're doing great! Your firm has really prospered. You must be the second biggest firm in town by now." I said, "Bobby, you klutz, we've been the biggest firm for at least two years. Where have you been?"

As I went home reflecting on that I realized that there's an image delay. Whatever you're doing, the rest of the world doesn't see it for at least three to five years. Then I started thinking, if this is normal, what can I do to accelerate the process. So I designed a program that told people where I thought we would be in five years and subtly told people about it, so that when they finally realized who and where we were, we would already be there. And another thing, it was also a chart for the firm in terms of where we were going, a beacon or a shining star.

When we talk about image enhancement, the ultimate objective is to change people's ideas, perceptions, or preconceived notions about the firm. Objective reality exists, but no one lives there. Each of us interprets all the sensual input we receive through the filter of past experience. This, then defines our world, our *subjective* reality.

THE BOTTOM LINE

No matter how good your service is, it isn't worth a nickel if you don't have clients. Since people buy on emotion and justify with the facts, whether someone chooses you out of all the available alternatives entirely depends on his or her *perception* of who can best meet his or her needs. A good marketing plan communicates to potential buyers your ability to satisfy their needs. When done well, your marketing efforts will put your firm's best foot forward and mold public opinion.

By the way, in case you missed the point, marketing can actually make you an expert before you are one. Creating the perception of expertise and obtaining it are two separate and distinct processes, which can come in either order or simultaneously. They are obviously linked at the hip for neither can survive without the other.

Properly positioning your firm is so critical that you can't leave it to chance. When it comes to marketing, as a profession we're still not very good at it. But that doesn't mean you can't be. Mold yourself into a first class firm. Don't allow anything to be associated with your name that doesn't look first class: printed, broadcast, telecast—whatever. Reach for an image above yourself, then work to catch up.

CHAPTER 4

BUILDING INTERPERSONAL RELATIONSHIPS

When you and I face a potential friend, business prospect, or one of our own family members, our attitude is service-oriented, not self-oriented. Our concern is for the other person, not ourselves. When we have others' interests at heart, not just our own, they can sense it. They may not be able to put into words why they feel that way, but they do.

—Denis Waitley¹

In the final analysis, the goal of any marketing program is no more than to get two people to decide to do business with each other. If you don't know anyone and don't particularly care to, you had better plan on a very small practice. People do business with those they know, like, and trust and with those who make them feel important and cared about. Your success at both retaining current clients and attracting new ones will be directly related to your ability to develop many close interpersonal relationships.

Allan Boress, a CPA and marketing consultant to CPA firms, writes

The marketing method that produces the most consistent results is personal marketing. By personal marketing, I mean any activity that puts you in front of someone with whom you would like to do business. Many CPAs would like to know of a method that produces business for the firm without their personal involvement. Unfortunately, none exists. The essential ingredient to successful marketing is personal contact. The more frequently you have contact with clients and referral sources, the more likely you are to increase your business.

Ron Stewart agrees.

My conclusion is that marketing is one-on-one contact. If I want to influence Terry Dodds, I've got to sit down across the table, eyeball to eyeball, if I ever expect to have a chance of getting the business, unless Terry is hurting so bad that he has to find a CPA and I just happen to turn up.

Actually, it is precisely because personal relationships are at the core of any practice development effort that solos are truly on an equal footing with any competitor despite firm reputation or size. The key to getting work either from current clients or from someone new lies in developing a strong relationship with an individual who has identified needs that you can fill.

¹Denis Waitley, *Seeds of Greatness: The Ten Best-Kept Secrets of Total Success* (Old Tappan, NJ: Fleming H. Revell Company, 1983), p. 139.

This fact holds true regardless of the size of your community. Al Williams has seen this in his own practice.

In a large community such as Denver the sphere of influence you have normally is within a smaller community that is part of the larger metropolitan area. I only go downtown in dire emergencies, so I don't look at Denver proper as relating to any element of my business. The larger firms will overlap, but in a small firm if you're active in your civic sphere of influence, there really is no difference in marketing within a large community or a smaller one since the most effective marketing is done one on one.

In this chapter, we'll talk about how to strengthen your present business relationships and how to use those relationships in your practice development efforts. We'll also talk about how to increase referrals from your client base and how to develop productive nonclient referral sources.

STRENGTHENING THE TIE THAT BINDS

Just before the end of tax season one year, I was visiting with my brother, a tax attorney, and mentioned that I wondered what I would do once I got past the fifteenth of April. He replied, "You've got to have faith in your client base." He is absolutely right. For a quarter of a century, I have had work to do after tax season, and the majority of it spawns from the needs of current clients. Besides being a great source for additional services, clients are usually a solo's best referral source.

Think for a moment about what your best client is worth to your firm. Considering the difficulty in attracting new clients, it's just plain common sense to treat the ones you already have with tender loving care. Let's review what it takes to develop and nurture strong personal relationships with one of your firm's most valuable assets—your clients.

John Kenneally says

A long time ago, I did an informal marketing survey to try to quantify the level of satisfaction clients had with their CPA. What I determined was that about 20 percent of them were super-satisfied, bullet proof. Another 50 percent were passively satisfied. And then there were 30 percent who were somewhat to very dissatisfied. Of those, there were probably 5 percent that were actively seeking a replacement. So if you put on a seminar and ten dentists show up, eight of them are prospects. That's a scary number if you're on the wrong end. We spend so much time talking about marketing and not nearly enough time talking about retention. We get that client and then we take him for granted.

DETERMINING WHY CLIENTS LEAVE

Do you know why clients leave? There are lots of reasons, right? Sometimes they move away. A few become involved with a different social group. Some become dissatisfied with what they describe as your technical competence which usually means they think they are paying too much tax. Would it surprise you to know that less than one-fourth leave for these reasons?

More than 75 percent switch to your competitors because you just quit caring. According to Dr. Michael LeBoeuf's² book, *How to Win Customers and Keep Them for Life*, even when they tell you they are leaving because you are too expensive, they tell others that their business didn't seem to matter to you anymore.

Being treated with indifference causes people to vote with their feet. Nothing will precipitate a premature departure from your firm faster than communicating through your attitude that you don't really care. The reverse is also true. A client who feels liked and cared about will stay through almost anything. My own practice has proven this to me as, through the years, I have survived my own share of public relations blunders.

Someone once wrote that CPA should stand for *Close Personal Attention*. I believe that. If you want to retain clients, find a way to let them know you value your relationship with them. Personally, I look for opportunities to tell my clients how much I enjoy working with them and how excited I am to be involved in their success.

Not long ago I visited with a long-time client who owns a couple of office supply stores. He told me several of my competitors solicit him on a regular basis. He said, "I just tell them I would never leave Terry because when I was just starting out, it was his positive attitude and encouragement that kept me going." Until businesses are run entirely by machines, business people will build professional relationships founded upon personal synergy.

Any human relations professional will tell you that communication is the key to a strong interpersonal relationship. The common thread that binds successful solos is that they take time to nurture client relationships. Bea Nahon expresses it this way, "When we did our strategic plan, we set out as one of our objectives to treat each client as if he were our most important client." Mitch Potterf adds,

It's all personal. Oftentimes people think that marketing [meaning, media advertising] is the shortcut to success. I call those clients "street meat." The bottom line is that the most successful practitioners have the deepest relationships with their clients.

Become a *RARE* Accountant

Sue Hershkowitz, a professional sales trainer, recommends becoming a *RARE* accountant by focusing on four "service basics: Reliability, Assurance, Responsiveness and Empathy."

Reliability

Can a client count on your service? Is your quality consistently high? Can he or she depend on you always to provide solid advice? Do you deliver what you promise when you promise it and at a reasonable price?

²Michael LeBoeuf, Ph.D., *How to Win Customers and Keep Them for Life* (New York: Berkley Publishing Group, 1989).

No matter how well you prepare your working papers, a typo on the report will discount the entire job in the client's eyes. The same goes for the appearance of the finished product. Use high quality paper for your financial statements and other products. Copy paper may be good enough for some things, but not for a major engagement. In the final analysis the client can only judge your quality by what she holds in her hands.

Be careful about setting deadlines and fee ranges that you cannot meet. It's always better to complete the project ahead of schedule and below budget. If something goes amiss during the course of an engagement, communicate. Tell your client what you are doing to solve the problem and then get him involved in working toward a mutually agreeable revision of expectations.

Assurance

Your client wants you to be right 100 percent of the time. He or she wants you to be the best accountant in the United States, maybe the world. You will never hear a client say, "I went to John Smith because he's the second best accountant in town, but he tries harder."

Clients pay for solutions. Deliver the goods. Doing the job right adds credibility and trust to the relationship. Don't get trapped into cutting corners. If you don't feel comfortable with the engagement, get out of it.

Always try to focus on the positives. Each of us has weaknesses and strengths. Successful people simply spend less of their time trying to overcome weaknesses and more time capitalizing on their strengths. When the client needs a dose of strong medicine, serve it up, but be sure it's a part of your overall plan for a complete recovery.

Responsiveness

None of us is perfect. Occasionally things go wrong. When this happens, do what top-flight restaurants do—*recover*. Everyone from the chef to the busboy is dedicated to just one purpose—a memorable dining experience. When things don't go as planned, each will do whatever is necessary to remedy the situation. The whole team performs these remedies with no questions and often at no charge. Are you willing to work for nothing, if necessary, to assure complete satisfaction?

When faced with a difference of opinion between yourself and your client, avoid confrontation. Defensive statements serve no purpose in attempting to defuse the situation. In most instances, it is the trust relationship which is damaged. The client feels upset and needs the opportunity to tell someone why. That person had best be you. Let your client talk it out. When the time is right for an explanation, you will stand a much better chance of being listened to.

Make it a point to return all morning calls by early afternoon and all afternoon calls by early the next morning. Never allow a call to go unanswered for more than twenty-four hours. Encourage your receptionist to learn your clients' voices and faces. Being recognized by name is a real ego booster. Ask your secretary to make a special effort to treat everyone who calls or walks through your door with the utmost respect and courtesy.

Empathy

Think about what you have just read. Don't you like people to treat you that way? Empathy is the ability to put yourself in your client's place and view the relationship as he or she does.

Do you allow interruptions (especially telephone calls) during client meetings? How might the client react? Remember, you send a message that you value the person at the other end of the line more than the client who is sitting in your office. Next he'll be wondering whose meter is running. If you take the call in your client's presence, the next time she calls she may wonder if you are discussing her confidential affairs in front of someone else. If you absolutely must interrupt an appointment, inform the client of this fact in advance, and when the interruption occurs, excuse yourself to handle it in another room.

Invest Your Time

Nothing promotes a relationship better than investing time in it. Visiting your clients with the meter off most assuredly lets them know you are interested in them. When I first went out on my own, my father gave me some advice. He recommended that I set aside one afternoon a week to get out and drop in on people—clients, other professionals, people in the business community. I haven't done this nearly enough, but *every time* I do, I generate work.

John Kenneally describes his technique for building his practice.

We get 90 percent of our business from referrals and only 10 percent from "hard core" marketing. What I try to do is to get out and see people. One day a month I get into my car and go to a geographic area where there is a concentration of my clients and referral sources. The purpose is to take initiative, to be proactive. Wherever I go I always come back with something I need to do for a client that I picked up just because I stopped by.

Larry Lucas has had similar experiences.

One thing that has always been successful for me has been to go see the client at his place of business and to spend some time just talking about his business with the meter off. I am almost always able to uncover something they need help with. They just need an opportunity to think about it. When I take them to lunch I just ask them questions about their business. The trick is to bring up subjects that start them thinking, "Hey, maybe Lucas does more than just tax work." That actually creates value for me and my services in a client's mind.

Find a way to add value to routine compliance services. Throw in a graph or two. Hand write a brief memo to accompany a financial statement. Use your creativity to identify ways to go the extra mile. These practices will distinguish you from your competitors and bind the client to you.

What gets thrown overboard in a storm at sea are the nonessentials. The trick to retaining a client is to determine how to become essential to him or her and then to act upon that knowledge.

EXPANDING YOUR SERVICES TO PRESENT CLIENTS

Without a doubt, the easiest way to increase gross fees is by selling more of your current services to more of your current clients.

Nothing is more disheartening than to hear from a client's own lips that he has hired a consultant to do something you could do and should have done. Until your clients know what you are capable of doing for them, you expose yourself to this risk.

Give Them What They Want

Survey after survey confirms that our clients want more from us than the historical financial statements and tax returns we typically provide. Most of our clients still view us as their number one financial adviser.

Because our clients are in business, all too frequently we mistake them for business people. Recent studies indicate just the opposite. More often, entrepreneurs are people with an idea or a skill in a particular area that is not necessarily business related.

True entrepreneurs are in the marketplace because they like to play the money game. Instead of runs, strokes, or points, they keep score with dollars. To be sure, it's your job to help them keep score. But your best clients want more, and they believe you can give it to them. They believe you can actually help them score.

Helping them score requires a level of service beyond what most of us are currently offering. Once we have printed the quarterly financials and dropped them in the mail, we think the job is done. If this sounds familiar, you're not only shortchanging the client but also passing up the easiest sell in our business.

Don't mail the statements. Deliver them personally. Tell your client, "Jane, I've just finished the second-quarter financials and I wonder if we could spend a half hour going over a few items I noticed as I was reviewing them."

Think about it. Aside from reporting to third parties, historical information's only benefit is its ability to help our clients improve their futures. Clients need answers to these two questions: (1) How are we doing? and (2) How can we improve?

When Ron Stewart and I discussed the reasons for his success, he told me

I think that what was most instrumental in what I have done, goes back to the fact that I was never a very good accountant. I didn't like accounting. I just didn't like the process. I found that I was more interested in getting to the destination than in figuring out how it was done. Good accountants enjoy the process of making those journal entries. The trip is more enjoyable for them than getting there. When they get that

adjusted trial balance, most CPAs feel like the job is done. I was more interested in trying to figure out what the information was saying. What does this information tell me we ought to do next month to make some more money?

Several years ago I became so convinced that my clients needed this input that I refused to let them have their financials without it. At that moment, I ceased being a necessary evil and became a valuable member of the team. At the same time I determined that if I thought this higher level of service was so important, it must be valuable enough to charge for.

Now, in addition to the balance sheet and income statement, we prepare a cash-flow statement, comparative financials (last period and year-to-date), and a sheet of financial ratios compared to the previous year's ratios and to industry ratios.

You may wish to incorporate into your practice the questionnaire in exhibit 4-1. Scaled down from a more detailed one developed by Walter Haig, this questionnaire covers the various areas of business health to help clients identify areas requiring improvement.

Such strategies take time and cost the client money, but the majority of my clients seem most willing to pay for precisely this kind of service. This service will bind your clients to you like nothing else. It will change their perception of you from the bearer of bad news to the provider of solutions, vision, and direction.

Sell a Tie

Sole practitioners would do well to take a lesson in marketing from the haberdasher. Consider what happens when shopping for a new business suit. Once the suit decision is made, out come the accessories—a new shirt or blouse, ties or scarves, belts or shoes.

If there is one time during the year when your clients are eager to listen to your advice, it's during their tax appointments. Once each year they put their financial lives into your hands. Why not take advantage of this opportunity to pull out the "display rack" to see whether you can interest them in something else.

Bea Nahon uses this opportunity. She says

We made a real push toward making tax return preparation a springboard for our planning services. We actually discourage clients from coming in with their data to go over it with me. What I would rather spend my time talking with the client about are those critical issues that affect not only the short-term but the long-term, like saving for retirement, home financing, starting a new business, caring for elderly parents, providing for a child's education, or estate planning.

We prepare a rough draft of the return, then when the client comes in to go over it, most of the time isn't spent on how much interest XYZ Bank paid him last year. It's spent on identifying issues we'll take care of during the summer months.

We have got to get away from the "conveyer belt" approach. Let's look at that return and be thinking, "What are the trends? What planning opportunities can we present to this client?"

EXHIBIT 4-1. *The Fifty Question Test**

As we are sure you are aware, the world is changing rapidly. And ways of doing business are also changing. Years ago, the neighborhood grocery store could count on a steady trade. The hardware store was most likely the only one in town. Nowadays, there is competition from other small business owners like yourself, from national or regional chains, and from mail order suppliers. Because your customers have choices like never before, you have to stay on top of all aspects of your business.

We have said for many years now that to be successful you must be both good at what you do and good at business. With this end in mind, we have developed The 50 Question Test, a checkup for your business. Just as it is important to have a regular checkup on your own health, it is likewise important to periodically assess the health of your business. These questions will help you to do this. Some questions may not apply to your business and should be left blank. After you have completed the questionnaire, compute the percentage of yes answers.

Use the following scoring guide to rate your business:

<u>Percentage of Yes Answers</u>	<u>Condition</u>
85–100	Excellent
70–84	Good
55–69	Fair
Less than 55	Marginal

Not only is the percentage of yes answers important, but also the individual answers should give you an idea of the areas of your business that demand attention. Make yourself a checklist of those areas and what you intend to do to improve. Then set a time limit for yourself to accomplish the course of action you have decided upon.

Let us know how we can help. *We expect you to succeed!*

*Reprinted with permission from Walter Haig.

Financial Analysis **Your Health History**

	<u>Yes</u>	<u>No</u>
1. Is the information in your financial statements accurate so that these statements are meaningful for managerial purposes?	_____	_____
2. Do you have an annual budget showing expected sales and expenses for each month to help you guide and control operations?	_____	_____
3. Do you prepare monthly P&Ls to compare actual performance against expectations?	_____	_____

EXHIBIT 4-1. *The Fifty Question Test (continued)*

	<u>Yes</u>	<u>No</u>
4. Do you share financial statement information with key employees so that they can more effectively contribute to the business's success?	_____	_____
5. Do your financial statements reflect expenses as a percent of sales to help you control costs and predict trends?	_____	_____
6. In your financial statements can you compare actual current performance with current period and year-to-date amounts for the prior year?	_____	_____
7. Do your financial statements include an analysis of sources and uses of cash?	_____	_____
8. On your statements can you clearly identify those items that are fixed and those that vary directly with volume?	_____	_____
9. In your financial reports can you tell how profitable your various products, departments, or types of customers are?	_____	_____
10. Are you using ratio analyses to identify potential problem areas?	_____	_____
<i>Market Analysis:</i>		
Your Vital Signs		
11. Have you clearly defined <i>who</i> your market is and <i>how big</i> the market potential is?	_____	_____
12. Have you clearly identified your key competitors?	_____	_____
13. Do you know how your market share compares with that of your key competitors?	_____	_____
14. Are you gaining market share faster than your key competitors?	_____	_____
15. Are the new customers you are gaining more attractive long-term than those you are losing?	_____	_____
16. Have you attempted to identify and prioritize what it is that your potential customers most want from you and your competitors?	_____	_____

EXHIBIT 4-1. The Fifty Question Test (continued)

	<u>Yes</u>	<u>No</u>
17. Have you clearly defined your competitive advantages and disadvantages compared with that of key competitors?	_____	_____
18. Are you attempting to measure and track over time how your quality is changing?	_____	_____
19. Do you sincerely believe you are serving the customer well?	_____	_____
20. Do you ask for and get regular sales call reports from your salespeople?	_____	_____
21. Do you set sales targets including business gained from new accounts?	_____	_____
22. Do you monitor the source of new sales (for example, sales calls, direct mail, media advertising, referrals)?	_____	_____
23. Do you provide incentives for nonsales employees for their successful marketing efforts?	_____	_____
24. Are you clear as to whether your primary strategic purpose is to be a lower cost, lower priced competitor, or a differentiated higher quality, higher priced competitor, or one who "focuses" on fulfilling the unique needs of a specific, well-defined market segment?	_____	_____
25. Do you have a sense for where your growth will come from in the future and what you are going to do to take advantage of it?	_____	_____
<i>Organizational Analysis</i>		
Your Vitality		
26. Do you have regular, efficient, well-run management meetings?	_____	_____
27. Do you have occasional meetings for all employees to communicate progress and plans?	_____	_____
28. Are you able to attract and keep the very best people?	_____	_____
29. Are you willing to replace and remove people?	_____	_____
30. Do you have a formal developmental plan for your key people?	_____	_____

EXHIBIT 4-1. *The Fifty Question Test* (continued)

	Yes	No
31. a. Are your people actively seeking to improve themselves educationally?	_____	_____
b. Do you actively encourage this?	_____	_____
<i>Cultural Analysis:</i>		
Your Purposefulness		
32. Does your business have a sense of purpose—a meaningful, motivating reason for being?	_____	_____
33. Are your people genuinely willing to try things, make mistakes, and even disagree with you?	_____	_____
34. Does your organization have a work hard, play hard ethic—do people voluntarily work extra hours or are they clock watchers?	_____	_____
35. Do your facilities look more like a busy, mature place of work than like an art gallery, a sterile laboratory, or a sweat shop?	_____	_____
36. Do you lead by example and actively promote ethics and honesty among all employees?	_____	_____
37. Do you recognize birthdays or special events for employees?	_____	_____
38. Do you provide awards and recognition to top performers?	_____	_____
39. Do you occasionally have a company celebration of a major success or tough task accomplished?	_____	_____
<i>Self Managerial Analysis:</i>		
Your Mental Attitude		
40. Do you have an even, consistent disposition at work rather than a moody or depressed one?	_____	_____
41. Do you help your employees to set meaningful, <i>attainable</i> goals?	_____	_____
42. Do you evaluate people by their specific, measurable results more than by their style?	_____	_____
43. Do you trust people—can others open your mail, sign checks, or see the books?	_____	_____

EXHIBIT 4-1. *The Fifty Question Test (continued)*

	<u>Yes</u>	<u>No</u>
44. Do you encourage people to try new things and to accept additional responsibilities?	_____	_____
45. Do your employees feel that you really listen to them and consider openly and thoroughly the ideas they bring to you?	_____	_____
46. Do you set personal goals for yourself and share these goals with your employees?	_____	_____
47. Do you work at least as hard at the business as you expect your employees to work?	_____	_____
48. Do you subject yourself to personal accountability through a Board of Directors or in some other way?	_____	_____
49. Do you seek excellent advisers (accountants, lawyers, bankers) who are superior to you in their areas of expertise?	_____	_____
50. Do you seek personal, outside growth and stimulation via civic and trade association involvement or professional activities with other business owners?	_____	_____

While reviewing their exemptions, check the ages of the dependents. This might lead you into a discussion of educational costs and funding. Asking about IRA or profit-sharing contributions can lead naturally into a discussion about retirement planning. Medical expenses are nearly always lost because of the 7.5 percent AGI floor. In some situations, you may be able to talk about a Section 125 plan.

Remember that nothing will happen unless you open your mouth and ask. Use the exercise in exhibit 4-2 to remind you and your staff of potential planning issues. Or use the checklist in exhibit 4-3. Have clients fill this out while they are waiting for their tax appointments. These checklists or your own variation will generate additional business from those once-a-year tax clients.

INCREASING REFERRALS FROM CLIENTS

Have you ever heard or perhaps even voiced this complaint? "George and I get along really well. I know he likes my work. He's even told me so. I just don't understand why he won't refer any business." Let's visit about what you can do to help George become a better referrer.

EXHIBIT 4-2. Financial Planning Stimulator

Check the appropriate column.	Yes	No
<i>If client has moved interstate, should you recommend</i>		
revising wills?	_____	_____
contacting a local attorney?	_____	_____
amending existing trusts?	_____	_____
<i>If marital status has changed, should you recommend</i>		
revising wills?	_____	_____
amending existing trusts?	_____	_____
reviewing life insurance?	_____	_____
<i>If dependents are claimed, should you recommend</i>		
reviewing educational funding?	_____	_____
<i>If dependents have changed, should you recommend</i>		
revising wills?	_____	_____
amending existing trusts?	_____	_____
<i>If the client is covered by a qualified or self-funded retirement plan, should you recommend</i>		
determining the retirement benefit?	_____	_____
<i>If the client has investment income, should you recommend</i>		
reviewing the investment plan?	_____	_____
<i>If the client owns a business interest, should you recommend</i>		
reviewing the succession plan?	_____	_____
analyzing disability insurance coverage?	_____	_____
considering estate liquidity?	_____	_____
obtaining key person insurance coverage?	_____	_____
<i>If the client owns rental property, should you recommend</i>		
evaluating cash flow for retirement planning purposes?	_____	_____
considering estate liquidity needs?	_____	_____
<i>If the client is covered under a group health policy, should you recommend</i>		
considering postemployment health coverage?	_____	_____
<i>If the client owns his or her own home, should you recommend</i>		
considering selling the home to provide retirement funds?	_____	_____
considering a reverse mortgage?	_____	_____
refinancing the mortgage?	_____	_____
reviewing the fire and liability insurance?	_____	_____
<i>If the client makes charitable contributions, should you recommend</i>		
considering a gift in trust?	_____	_____
<i>If the client is in a high tax bracket, should you recommend</i>		
projecting estate taxes	_____	_____
making current gifts	_____	_____
<i>If the client owns property in other states, should you recommend</i>		
establishing a trust to avoid ancillary probate?	_____	_____
contacting attorneys to handle out of state issues?	_____	_____

EXHIBIT 4-3. Personal Financial Planning Checklist

Name _____	Date _____		
<p>In our role as financial advisers, we often see problems that could have been avoided or minimized with prior planning. As we visit with you about your income taxes this year, please spend a few minutes to fill in this questionnaire, which has been designed to identify areas that may require consideration in planning the financial side of your life.</p>			
	<table border="0"> <tr> <td style="text-align: center;"><u>Yes</u></td> <td style="text-align: center;"><u>No</u></td> </tr> </table>	<u>Yes</u>	<u>No</u>
<u>Yes</u>	<u>No</u>		
Have you determined who will receive your assets after you and your spouse have died?	_____		
Do you have an attorney-prepared will that was prepared within the last five years?	_____		
Has anything changed in your life (death of spouse, divorce, marriage, birth) that might require a change in your will?	_____		
Do you know who will manage your financial and business affairs after your death?	_____		
Do you know who will handle your financial and business affairs if you become incapable of doing so yourself?	_____		
If you have children who are minors, have you designated a legal guardian in the event of the death of both you and your spouse?	_____		
Have you legally provided for the measures to be taken regarding life-sustaining medical treatment?	_____		
If you own a business, do you have a buy-sell agreement or other succession plan in place?	_____		
Have you taken steps to minimize the potential cost of hospitalization or nursing home expenses?	_____		
Are you satisfied with the amount you are currently investing and with the investment vehicles you have chosen?	_____		
Do you fully understand your benefits under any qualified retirement plans you may be participating in?	_____		
Do you feel that your current retirement planning will adequately prepare you to be financially independent when you retire?	_____		
Is your current insurance coverage (life, health and accident, disability) adequate?	_____		
Do you have future educational costs for children that you are not presently funding in sufficient amounts?	_____		
Are you interested in making gifts (either now or in the future) to charitable organizations or to relatives?	_____		
<p>Please use the space below to list other financial concerns:</p> <p>_____</p> <p>_____</p>			

Ask

The first thing is to ask. This may sound ridiculously obvious, but a recent *Accounting Office Management & Administration Report* survey (Sept. 1996 issue) revealed that 93 percent of the respondents said they would recommend their CPA if he or she asked them to. The survey found that only 18 percent indicated they had ever been asked to refer business, and even more significant for sole practitioners, “(n)ot one single company in the less-than-\$5-million range said it had been asked for a referral.” The message is clear—*ask*.

According to Ron Frandsen, the best time to ask for a referral is at the end of a successful engagement when your client is thrilled to death with what you have done. This presupposes that you produce quality solutions for your clients. No one is going to refer others to someone they are dissatisfied with. If they are receiving poor or untimely service themselves, the last thing they would want to do would be to increase the workload, thus increasing the probability of further delays and snafus in their own work.

Train

Many clients don't know how to refer your services, so it's up to you to train them. Chris Fredriksen writes

If you were talking to a client, for example, you might say, “As you know, we do a lot of work with ... companies like yours—showing them how to make more money and helping them minimize their taxes. If you come across anyone you think we can help, would you be willing to recommend us?” Almost every client will say yes. Not all of them will follow through, of course—only time will tell.

Getting clients and others to agree to make referrals is only the first step. You must also ensure that your referral sources have the materials and resources needed to facilitate referrals. They need to know almost as much about your firm as you do. At a minimum, provide them copies of firm brochures, newsletters, and specialty booklets. And when you send these materials, include a note thanking them for their help. Then follow up with periodic letters and new firm materials.

Another major impediment to encouraging more referrals from clients is the busy signal we send, especially during tax season. It goes something like this. Client: “I'll bet you're really burning the midnight oil this time of year.” Solo: “You can say that again! I hope we'll be able to get it all done before midnight on the fifteenth!”

If you want that client to refer business, let her know you'll take good clients no matter when they are referred.

A referral is the ultimate form of flattery. It is that client's endorsement of your services. In some ways, he is risking his own relationship with the person he is referring by recommending your services directly or allowing you to use his name as an entrée. Perhaps this is why one of the best times to ask for a referral is at the end of a successful engagement.

Communicate

Never make the mistake of not keeping in touch after receiving a referral. Express your appreciation and let your client know you will do everything you can to warrant her trust in you and your people. Honor any of her special requests to the letter. And regardless of the outcome, let her know how things turned out and thank her again for her confidence in you.

John Kenneally says

Referral sources are really important to us, and we give them VIP treatment. I just talked to a CPA firm that is spending \$120,000 per year on PR promotions. They told me that 80 percent of their clients come from referrals. I told them to use that money to take their clients out to lunch or to a ball game.

John encourages referrals by letting people know how important new clients are to his business. "When people ask how we're doing," John comments, "that's when I start marketing."

Here is what Greg Lurie does.

I try to let clients know that we're trying to develop our practice and that what we have just done for them we would like to do for others. For example, just in the last few years we decided we wanted to get into valuation work, particularly related to divorce support litigation. I told a few people who told other people and I now have attorneys who are using me extensively.

I think it's partially a function of good work and partially a function of people knowing what I can do. I've had people tell me they heard my name at a party and all of a sudden, I have a client sitting in front of me who isn't out shopping. The best source of business is a direct referral where your expertise has been built up before they ever see you. They are already sold. They're hoping you will take them on as a client.

Grant Kirkup of Souris, Manitoba, describes how he cultivates referrals from current clients.

This is something we really work on. We don't get many referrals from bankers and attorneys. They seem to refer mostly to the larger firms in our area. We think our time is used better working with our clients.

We continuously ask our clients if there is anyone we should get to know; are any of their friends disgruntled. Then we ask if we can make a contact using their name. When the clients are out there being the salesmen for us, they really try to get us the job.

We always try to let the client know what happened. I write a personal thank-you note telling them that I appreciate the confidence they have shown in our firm. If they know they are appreciated, they are much more likely to refer someone else.

Grant also remarked on the importance of having the kind of firm your clients are proud of. "A client will not refer a friend or acquaintance to the firm unless he is pleased with the service he is receiving." He pointed out that pride in the firm starts with the sole proprietor, then moves outward to the staff, the clientele, and finally to the community as a whole.

Determine Why Clients Don't Refer

To summarize, your clients won't refer your firm if—

- You don't return their telephone calls.
- You are late with their work.
- You don't spend quality time with them.
- You tell them how busy you are.

The inverse is also true. They *will* refer, and refer in quantity, if they know you care about them and you show it by building your relationship with them.

BUILDING A REFERRAL SOURCE NETWORK

Understanding the process of networking will enable you to surround yourself with people who are anxious to send you business. That may sound like a tall order, but once you truly understand the nature of networking you'll see that the process is really intuitive.

Networking

Jumping to the bottom line, networking means helping others. In most cases, you'll have to *give* long before you ever *receive*. Think about it. Why would anyone go out of his or her way to help you when he or she is doing very well without you? We're not talking philanthropics here. We're talking *business* relationships.

Take a blank sheet of paper and write down the names of five people you would really like to connect with. As you look at those names, ask yourself which of them are already networked with another firm. Unless they are new to your community, chances are they have already established business alliances with one or more of your competitors. Now ask yourself how you are going to not only get noticed but replace that preestablished link.

The answer lies in positioning yourself as a valuable contact to each of those people on your list. There are two things each of those business people needs that you can supply: people to sell to and information. Whoever supplies those two items in abundance creates the opportunity to receive reciprocal treatment.

There is a skill involved here. You have to learn how to recognize a referral opportunity. You need to know something about your contact's business. You can best accomplish this by visiting with him or her about what he or she does and what would constitute a good referral.

Janet Caswell shared this experience with me.

Last fall, we interviewed several law firms to find out what they were about. We told them we were looking for a new law firm to refer to and needed to know more about

their firm, about the people in their firm and about the kind of work they do. We found two firms we are now working with and one of them has already referred a client to us.

You also have to be alert, attuned to dissatisfaction noises coming from others you come into contact with. For example, not long ago during the course of a conversation with a client, the subject of attorneys came up. He expressed his frustration with a matter his present attorney was working on which was totally unrelated to the matter we were discussing. I took the opportunity to recommend someone I felt could do the job. I turned to the phone and placed a call, explained the client's situation to my contact and then helped the client set an appointment.

None of this netted me a dime in fees, but I won twice—once with my client who got his problem solved and once with my contact who, because of me, was able to sell his services. Actually, you'll probably find it easier to sell your contact's services than it is to sell your own because of your increased credibility from perceived lack of self-interest.

Mike Katzenbach of Addison, Illinois, credits his relationship with a life insurance agent for a significant contribution to his business. Mike says, "He works with me in estate planning. When I have a need for product, I recommend him. *It's a mutually beneficial situation* [emphasis added]."

Greg Lurie makes it a point never to compete with his network. He says

My primary referral sources are attorneys and existing clients. I always make sure I involve the attorney in anything that has the least bit of legal aspect to it. Attorneys sometimes get cut out of the loop just as accountants do. Because of the way I try to approach my clients, they do tend to ask me a lot of questions that an attorney really should answer. Attorneys like working with accountants who make sure that the legal work *stays* legal work.

Don't go into network building with a quid-pro-quo attitude. Sometimes it will take a 110 percent effort on your part over an extended period of time before you'll experience any substantial results. In a few cases your efforts may never be reciprocated. Some people will never learn how to network properly. Others may need some careful coaching. For those who just don't catch on, you'll have to stop wasting your resources on them. This doesn't mean necessarily discontinuing a friendship if the relationship extends into your personal life, but it does mean finding more fertile fields in which to work.

There are around one hundred attorneys in Chelmsford, Massachusetts, where Leo Proulx practices. But Leo says he only works consistently with four.

They call me when they have a tax question. I always respond within twenty-four hours, and I don't charge for my time when the information relates to their personal situation or is not too complicated. For the more difficult questions, I give the attorney the highlights and recommend that he send the client to his CPA or to me for a more thorough analysis. I have received some excellent referrals from this, and the attorneys really appreciate it.

Leo makes two important points. First, he is a valuable information resource. These attorneys call him first. Secondly, Leo isn't trying to corner the market. He has lim-

ited his contacts to four. As we said before, developing a good network takes personal involvement and time. Go for quality, not quantity.

Janet Caswell “plant[s] a seed” every week. Out of two or three phone calls a week she averages one new client a month. Schedule time each week to keep in touch. Make some calls. Attend functions your contacts are likely to attend. Keeping in touch indicates your commitment to the network, and it nurtures the relationship by keeping you focused on how you can serve each other.

As with referrals from clients, be sure to show appreciation and consideration by communicating the results of any contact resulting from a referral. Send a small gift occasionally. Networking is done between friends, and friends say thank you.

Building Your Network Through Community Involvement

Why is it that some CPAs generate referrals through membership in the Rotary Club or the chamber of commerce and others do not? Contrary to what you might think, generating referrals has less to do with one’s personality and more to do with one’s passions. If you want to generate business from service organizations and the like, follow these basic rules.

Pick Something You Like

How could anyone expect to receive business from an organization on the basis of membership alone? It will never happen because organizations don’t refer business—people do. People enjoy being around others with whom they share common interests. They also are more likely to refer business to someone they know and like.

John Kenneally coaches a kids’ soccer team and plays volleyball. Both have resulted in referrals. Ron Stewart “got kicked out of Rotary for poor attendance,” but he’s gotten “a ton of business” from the gym where he works out every day and from his church. Randy Gross is active in Indian Guides and Lions, both sources of referrals for him. Randy told me, “I would be doing these things anyway. These people are in my social group. These are the people I enjoy being with.” And they no doubt enjoy being with him, which is why these relationships result in new business for his firm.

Rule number one: Invest your time in the things you like to do. The corollary is, don’t waste your time doing things you think you should do just because they are supposed to bring you business. If you hate Chamber of Commerce functions, don’t go! Find something to do as an alternative that will put you in touch with people who have similar interests.

Get Involved

Service on boards and committees allows others in the group to observe your performance and get to know you as a valuable human being. Janet Caswell volunteered for the new members committee of the Women’s Economic Club in Detroit. This gave her a chance to meet new people at the same time she was serving her club. Per Janet, “To me, it makes

no sense to become involved in an organization if you're not going to serve on a committee." If you join the Arts Council, volunteer for the program committee or hand out programs. If you join a country club, play golf.

Don't volunteer unless you plan to do your part. Being a working member of a board or committee speaks volumes to the other members. So does volunteering and then not showing up.

Rule number two: Get involved. Do the things good members do. As Ron Stewart puts it, "I have always found that where I spend my time, I generate business."

Avoid the Treasurer

Almost any organization is pleased to land an accountant since no one else seems to want to keep the books. Avoid this pigeon hole like the plague. It will label you and will generally doom you from ever showing the members that you are anything more than a bookkeeper (which is what they thought you were when you joined). You can politely refuse by saying something about having employees at your office who do that kind of thing and that you would be glad to have one of them help the treasurer as needed.

Instead, shoot for the presidency or chairman of the board. Several years ago I became involved with a new foundation. An attorney asked me to help him get a 501(c)(3) election put together for it. After that was done he asked if I would serve on the board. One thing led to another and I became its president. This has given me the opportunity on several occasions to speak about the goals of the organization in front of large groups of people I would never have been able to get close to in the normal course of my life, business or personal.

Rule number three: Forget the bronze. Go for the gold. If you joined the organization only to pick up a nonpaying bookkeeping engagement, then go ahead. Otherwise, show them how valuable a CPA can be in accomplishing the goals of the group.

Ron Frandsen sums up community service in this way, "The point is this: Don't join anything that you really don't care about."

THE BOTTOM LINE

Marketing encompasses everything you do to position yourself and others in your firm so that selling opportunities happen. Media advertising, telemarketing, direct mail, the Internet, developing referral sources, and getting involved in community service all will help. But no matter how good your ads are, no matter how productive your referral sources are, nothing will happen until you *personally* pick up the ball and start running.

Ron Frandsen says

What it really boils down to is that the practice of public accounting is the application of technical principles to a very personal part of someone's life. And so it requires a personal relationship, that "doctor—patient" relationship. No matter what happens, no

matter how sophisticated our communication devices become, no matter how powerful the Internet becomes, when it gets right down to it, public accounting will continue to be based on personal relationships.

You're a sole practitioner. You *are* the firm. Your staff may bring in an occasional client, but that is gravy. *You* sell your firm, and the way to do it best is face-to-face, one-on-one, becoming personally involved with clients, prospects, referral sources, and members of your community. And you do it over and over and over again, day after day, week after week. *Without* your consistent, personal involvement, no marketing plan will succeed. With it, no marketing plan can fail.

CHAPTER 5

SELLING MORE ENGAGEMENTS

Perhaps the greatest difference between marketing and sales is that while marketing is institutional, selling is a very focused one-on-one activity. It cannot be carried out by the firm. Instead, it is grounded in direct and personal communications between individual firm members and specific individual clients and prospects. And, whereas marketing success depends on the firm's ability to implement a series of coordinated promotional activities, successful selling depends on the skills of individuals.

—John T. Retterer¹

Thirty years ago, a practitioner caught selling professional services could have lost his or her license. Today, a practitioner who does not sell professional services could lose his or her practice. Knowing what to do when that prospect is sitting across the desk from you significantly increases your chances of bringing him or her on board.

THE NEW AGE OF CONSULTATIVE SELLING

Among the entrepreneur's most precious commodities are time and information. Today's business owner is looking for solutions that provide a competitive advantage. The hard-driving closer who made sales through intimidation is becoming a thing of the past. Today's sales professional first gathers information about the company and its needs, then identifies possible solutions without concern about an immediate sale. The goal of the consultative sales professional is to be perceived as an asset to the company.

Before Ben Feldman died in November of 1993, he had sold more life insurance than anyone—much more—and he did it working from an office in East Liverpool, Ohio—hardly the life insurance mecca of the world. During his career he placed insurance with a face value of \$1.5 billion. Not the fast-talking, back-slapping, won't-take-no-for-an-answer type, Feldman was something of an enigma. To his admirers, he was simply, "The Man." If you are interested in selling engagements, here's what Ben Feldman would tell you if he were here.

¹John T. Retterer, "Sales Management," *The Marketing Advantage—How to Get and Keep the Clients You Want*, ed. by Colette Nassutti (New York: American Institute of Certified Public Accountants, 1994), p. 300.

Be Believing

First and foremost, Feldman believed in his product. He believed that everyone needed insurance, and this conviction produced sincerity that came across as caring and concern for his prospects and their families. If you aren't *convinced* you can really help your prospective client, you won't be *convincing*. Being sure of oneself produces sincerity and strength of purpose—rock-solid resolve. Feldman used to say, “Most people buy, not because they believe but because the salesman believes.”

While his colleagues sold until they reached their comfort levels, Ben worked twelve-hour days, six and seven days a week. He saw more people in a week than most agents see in a month. But it wasn't contact volume alone that produced such tremendous success. No, Feldman was prepared.

Be Prepared

When Ben met with a prospect (usually business people), he carried with him a dossier on that person's business. He checked out the plant, obtained financial data, studied the industry, and talked with other clients about his target. This gave him an edge in those crucial first moments of the initial meeting.

It is unfortunate that most salespeople are much better at explaining what's in it for them than they are at communicating what's in it for the prospect. Ben Feldman did his homework. Do yours.

Before you call on a new prospect or even on a current client you hope to sell increased services to, determine how your services will benefit him or her. What problem will it solve? Being prepared conveys genuine interest in the needs and desires of your client. If it is true that people buy on emotion and that they justify that decision based on logic and reason, then being prepared helps to establish that critical emotional bond.

Be Willing

Feldman was willing to do whatever was needed. At one point in his career he attempted to meet a prominent real-estate developer for weeks. Any other salesman would have gotten the message. But Ben Feldman believed he could help this man, and he wasn't about to be put off. He finally got his foot in the door by pulling from his pocket five \$100 bills, which he asked the secretary to give to her boss. She was instructed to tell him that if Ben didn't have an idea worth more than \$500, he could keep the money. Ben got in and placed \$14 million of insurance.

A few years later, he decided this same man needed another \$20 million. His client agreed, but this time the difficulty was in getting the busier-than-ever-developer to schedule the physical. So Ben rented a fully equipped medical van, hired a doctor, and waited for him.

He was always willing to do whatever was necessary to make the sale. No obstacle was insurmountable. He had the *will*—he found a way.

If two people really want to do business, they find a way to make it happen. Get your prospect to *want* to do business. The “hows” will work themselves out if you refuse to let the details get in the way.

THE POWER OF LISTENING

Ben Feldman was successful because he did what successful people do. They gather information for the purpose of assessing the customer’s needs. They discern needs and provide solutions. They listen.

Empathetically listening to a person is extremely powerful. It communicates worth; it elicits trust; it evokes strong emotional ties. It is strongly affirming. Next to survival itself, the greatest human need is to feel understood. Investing the time to adjust your behavior to match your style with that of your client or prospect will ultimately lead to above-average success in obtaining and retaining many profitable professional service relationships. Those who understand this and cultivate it have learned how to positively influence those around them.

Dr. Tony Alessandra recommends observing what he calls the platinum rule. It goes like this: “Sell to the client the way the *client* wants to buy—according to his or her own buying and decision-making style.” Practicing the platinum rule requires that one first identify the dominant behavioral style of the prospective client and then modify the presentation to fit that audience.

Psychologists generally agree that there are four basic personality types and that each of us has a personality style composed of both a dominant personality type and a subordinate one. This becomes important in the sales process because what one person may perceive as a powerfully persuasive presentation may leave another person completely cold. The reason? Different personality types are influenced differently. Let’s review the basic types, describe how to tell which you’re dealing with, and consider how to modify your presentation to appeal to each.

The Director

Many of your clients are probably Directors. Directors have entrepreneurial urges. They like to be in charge. The director is usually decisive, goal oriented, time sensitive, dominating, proactive, strong willed, practical, and efficient, and gives the appearance of being in control. Their desks will likely be large and clean or at least well organized. They’ll have a clock on the wall along with certificates and awards, and will dress conservatively.

Directors want to get to the point quickly. They are results and bottom-line oriented. They want to know what’s in it for them and expect the details to take care of themselves.

With a director you've got to make an impact in a hurry because you won't have time to recover from a slow start.

Be prepared and organized. Listen for clues that will help you determine what is pivotal, then key your presentation to those points. Directors like to make choices. Provide them with information that will let them choose between several alternatives. Make your presentation clear, concise, and to the point.

The Thinker

Thinkers are analytical. Their training is usually technical. You'll likely see diplomas, advanced credentials, and other symbols of educational achievement prominently displayed about their office walls. They are serious, thoughtful, orderly, more impersonal, and quiet. They are risk averse. Thinkers hate criticism and don't deal well with praise, and they need to be right.

As opposed to Directors, Thinkers are much more methodical in their decision making. They want the facts. They enjoy analyzing the problem from every angle. They don't like being rushed. They are less inclined to share information than to receive it.

With a Thinker, slow down your presentation. Be reserved but not cold. Move logically from one point to the next using facts, detailed examples, and practical solutions. Where possible provide evidence of successful implementation. Never make extravagant claims or promise unrealistic results. Don't use emotional appeals or testimonials. You want to persuade the Thinker that your solution is the right one.

The Socializer

Socializers are the world's sales force. They tend to appear and dress flamboyantly and are more vocal and animated. They speak more loudly and more often than any of the other styles. They are more impulsive and emotional in their decision making. They love the limelight. Their offices tend to be more disorganized and cluttered. You'll see trophies and pictures of themselves with others, particularly celebrities, on the bookcases and walls. They thrive on close personal contact.

Socializers more than any of the other three personality types make their decisions based on personal relationships. For them it has to *feel* right to *be* right. They want a creative approach to problem solving. As with the Director, a Socializer isn't interested in the details, but for a different reason. These people just don't care about the details. Their approach is to choose the path and get started.

To positively influence a Socializer you must be the audience and applaud the performance, listen to the dream, and provide stimulus and creative ideas. De-emphasize the details. Act as warm and open as your own personality will let you. Share personal experiences about how others have benefited, then expand on what they have done to what he or she could do with the idea. Be exciting and excited, friendly, open, and sincere.

The Relater

Relaters are *people* people. They care about their relationships with others. They are friendly but much quieter than the Socializer. They are agreeable, helpful, trusting, warm, and sensitive. They want everyone to be nice to each other and to be happy. Look on their walls for pictures of family and close personal friends and on their desks and bookshelves for momentos that remind them of someone. Their offices tend to be much warmer than either the Thinker or the Director.

To reach a relater you have to develop a personal relationship, which is not all that difficult to do since Relaters do this instinctively. Spend some time talking about areas of common interest. Visit about family and perhaps some of the items you see in their offices. Don't rush headlong into your sales pitch, and above all, don't be pushy. The Relater isn't interested in facts. He or she is interested in how your services will help others and bring the team together. Explain how you will be there to help and support. Relaters seldom make a decision on their own. Be sure to find out who else will be involved in the decision and try to meet with these people, as well.

The Importance of Creating Rapport

The next time you have a prospective client in front of you, try to listen for understanding. Listen not only to the words but to the tone of voice and to the body language

Experts estimate that our words communicate only ten percent of the real message. Another thirty percent is communicated in our tone or inflection, and the majority is communicated by our bodies. So, the ears can only pick up a maximum of forty percent of the communication. Use your eyes!

"If I want to connect with someone," advises John Kenneally

I have to find some common ground. People like people who are like themselves. There are some barriers that you have to overcome, so I use mirroring. If the person is casual, I take off my coat or loosen my tie. I create interest by listening, not speaking. You need to ask a lot of questions. Talk about similar clients who you have worked for and the results you have achieved. Give them the opportunity to see that you are enthusiastic, sincere, someone who can make things happen, someone who they would like to work with.

John has touched on another powerful principle. Rapport can be established with a big smile, firm handshake, and small talk, but mirroring body language does it better and faster. Here's how it works.

Whatever position your prospect takes, easily and naturally mirror it. If your client moves back in his chair and puts his hands behind his head, do this. If he smiles, smile back. If he leans forward and puts his arms on the desk, do it, too.

Once you think you've established a high level of rapport, try leading your prospect's body language by changing your own position first. If he mirrors you, you have indeed established rapport.

Not only is body position important, so is what you do with your voice. Picture a conversation between a New York City salesperson and an Alabama customer. If the salesperson is going to make the sale she had better slow down her rate of delivery and lower the pitch of her voice. This principle applies even where the salesperson and the client don't have culture in the way. A good salesperson takes her cue from the customer's first "Hello."

If you are one of those CPAs who believes that clients hire you for your superior technical ability, here is a news flash. Clients have no way of evaluating technical competence. That is why advertising a specialty or cohosting a seminar on a particular topic makes you an instant expert. If they are sitting in your office, be assured they believe you are competent. Do you see that the initial interview has next to nothing to do with competence and everything to do with rapport? The practitioner who wins this battle wins the war.

THE POWER OF PRAISE

People are much more apt to buy from people they like and feel a kinship to. Does this mean that if more people like you, you'll generate more business? Yes, it does. This leads to the question, "How can I get people to like me?" Simple. Why not just tell them you like *them*?

A car salesman named Joe Girard sends out over 150,000 "I like you" cards each year to customers and prospects, and the cards aren't even hand written. Sounds manipulative and self-serving doesn't it? But it works. Joe is highly successful.

I have used this technique in my practice for about ten years, now. Scanning the paper each day, I find articles about people I know who have had something positive written about them. I also pick up good news from listening to what is happening in the community. Then I spend 60 seconds jotting a note on a logo embossed card complimenting them on their accomplishment. My most recent card went to a couple on the celebration of their fiftieth wedding anniversary. I have sent cards to all the valedictorians in our area and even to an acquaintance who shot a hole in one. Try to find a reason to send one note card every business day. That amounts to around 250 "I like you" cards a year. Not only will this increase your business, it's great for making you feel better about the world you live in.

THE POWER OF RECIPROCATION

Have you ever received a Christmas card from someone you thought you hardly knew? After wondering why they would send one to you, what is the next thing you do? That's right. You send one back. Most people do. This psychological phenomenon is known as reciprocation. People don't like to be beholden to each other, so they try to get even.

Survey takers also use this technique to advantage placing a brand new one-dollar bill with the survey. Now, of course, you could put the dollar in your pocket and forget the survey, but what do most people do? You guessed it. These outfits don't send out dollar bills just to be nice. They understand the power of reciprocation.

I have used the same technique, myself. Several years ago I purchased 400 copies of *The Richest Man in Babylon* by George S. Clayton. I keep several in my credenza so that I can give them to clients who come to discuss personal financial planning. I have also given out several copies of *The Seven Habits of Highly Effective People* by Dr. Stephen Covey.

Does picking up the check for a client lunch make a difference? It certainly does. Just recently I had breakfast with a client. As we were standing up, I beat him to the check to which he responded, "Let me get that. You paid last time." He was keeping score and I was ahead. A side note—research has shown that people are more susceptible to an idea that is broached during a good meal.

One thing I do not do is to make any reference to a quid-pro-quo. I hate phone calls or junk mail that tells me I have won something and all I have to do is call or drop by. I know what's going to happen. I'm going to get the hard sell. If the client believes there is anything other than goodwill intended, the effectiveness of the gesture is destroyed and may actually work against you.

THE POWER OF PRESENTATIONS

In his article entitled "Executive Selling Skills," David Peoples² recommended formal presentations as an effective means of influencing others. He cites a University of Minnesota study, which showed that an audience would be willing to pay twenty-six percent more for the same service if the presenter stands up and uses visual aids to make his point as opposed to merely talking across the desk.

He explains that the act of standing conveys to the prospect that you consider the relationship and the subject matter to be important. Consequently, the prospect is more likely to treat it that way, too. The more closely he or she pays attention, the more your credibility increases and the more sales you'll make.

The Eyes Have It

Visual aids are not only attention-getters. When used properly, they also can help to make the complex more understandable. For a small investment, you can acquire a whiteboard, an easel, and a half-dozen colored markers. As you discuss important points, move from your desk or chair to the whiteboard and illustrate your points visually from a standing position. If you have never tried this, you'll be surprised what a difference it can make. You will probably find that you exude more confidence when you stand up.

²David Peoples, "Executive Selling Skills," *The Practicing CPA* (June 1992), pp. 1-2.

Unlike other visual aids, the whiteboard focuses your audience's attention on your current point. You don't have to worry about someone peeking ahead. The whiteboard facilitates an orderly, logical presentation of the points you are trying to make. When your board begins to look cluttered, just erase part of it and start over again. An entire wall of our conference room is covered with a whiteboard and I have a portable one on an easel in my office.

Presentations That Sell

Just a few years ago, we solos were at a definite disadvantage when it came to impressive presentations. Whether as a proposal to a new client or as a means of communicating information to a current client, larger firms had a distinct advantage. Our larger competitors regularly produced colorful charts, graphs, slide shows, and the like.

Now, with a PC and some user-friendly presentation software, anyone can tell a great story in color, with audio and video clips besides. I'll not presume to discuss here the relative merits of the various software packages on the market. Suffice it to say that the features will continue to expand and improve in the years ahead. Note that the technology already exists to allow us to do much more than most of us are currently doing. The following pointers on presentation principles will help you employ this powerful technology to its greatest advantage.

Less is More

Realize that with so much power at your fingertips, it's easy to get carried away. With any presentation, one must observe certain basic rules. Chief among these is the paradox, "Less is more." Just because you have fifty fonts available doesn't mean you have to use all of them in your presentation. We call this the ransom-note approach. Using too many fonts makes your slides hard to read. So does text written entirely in capital letters. Most presentations are more interesting when two fonts are used, but be sure these fonts look good together.

Using too many colors in a presentation produces the kaleidoscope effect. Keep the background constant throughout. Use the same primary color for your text and highlights. For data presented in graphs, match the colors used to display similar information on each of the graphs. For example, if 1997 data is blue on one graph, keep it blue on all graphs. Use red or some other eye-catching color for the most important information.

Have you ever tried to read the newspaper from ten feet away? Too much text on a chart causes the morning-press syndrome. Each slide should only contain essential information. If necessary, use handouts when you need to provide more detail.

Nothing you put on the overhead or the computer screen is nearly as important as the content of your presentation. Your graphics will never overcome an ill-conceived, disorganized chain of thoughts. Each slide needs to flow logically to the next. Consider care-

fully how to most effectively present each idea—text, bar graph, line graph, picture, cartoon, and so on.

Mark Twain once observed, “To a man with a hammer, everything looks like a nail.” Don’t make the mistake of abusing this technology. Make a conscious effort to reduce the number of slides. Otherwise, what you developed for the sole purpose of helping you to focus your prospect’s attention on your message will instead become a distraction. You can handle this problem by asking yourself, “What is the most important point of this presentation?” Then construct your presentation around that answer.

Practice

Having built a thoughtful, well-organized presentation, you are now ready to take it out for a test drive. Most professional speakers agree that the difference between a good presenter and a poor one is *practice*. Pick someone who will give you honest feedback. If this person can easily understand each point, you probably have an effective presentation.

Watch the Basics

Even in an informal conference, follow the basic rules of a good presentation. Be clear about the objective of the meeting. Take time to listen for understanding. Remember that everyone expects you to answer the implicit question, “What’s in this for me?” The sooner you answer this one for each participant, the better.

Develop a means of moving toward your desired outcome. Don’t leave a point until your audience understands. Build each point logically on the previous one. Be open and flexible. Field your prospects’ questions as they arise. Handle tangible issues quickly or state that you will address those questions later on in your presentation, and be sure you do.

A solid presentation moves the prospect toward a positive buying decision. The next step is to take something with you. For example, if the prospect has just agreed to needing a strategic plan, ask for a copy of this year’s budget or last year’s financial statements or for a copy of the firm’s organizational chart. This becomes the physical evidence of the prospect’s decision to purchase your services.

THE POWER OF INFORMATION

In his best seller, *Swim with the Sharks*, Harvey Mackay extols the benefits of the “Mackay 66,” 66 questions he uses to connect with customers and other business contacts. He includes buyers, CEOs, secretaries—anyone who can make a difference between winning or losing an order.

On the importance of information to the professional salesperson, Mr. Mackay³ says

Collecting this information is easier than you think. Customers are remarkably willing to share management's goals and issues with you. But, salespeople being salespeople, you often just ignore it. The standard attitude is that any piece of paper that isn't a signed order isn't worth reading. I've seen that indifference in the glazed stare of a thousand salespeople, but awareness of the information in the 66—and knowing how to use it—are what distinguish the pros from the Willy Lomans.

Mackay⁴ correctly observes that, "If selling were just a matter of determining who's got the low bid, then the world wouldn't need salespeople. It could all be done on computers." Since the buying and selling process is a process of interaction between at least two people, it stands to reason that the more you know about your buyers, the more likely you will be to get their business. This leads us to two questions: What information do I need? How do I keep track of it?

In exhibit 5-1, I have provided you with my own contact database form. This is the information you should have in your client, prospect, referral-source database. Some of the items are obvious. Others are geared to help you come to know the contact on a more personal basis.

That's a lot of information to commit to memory even for one client, let alone several hundred. You'll be glad to know there is an easier way. By using a software program called a Personal Information Manager (PIM), you'll be able to obtain nearly instantaneous access to all of this information.

Actually, a PIM is more than just a customer database. It eliminates appointment books. It helps you manage your time. It speed-dials telephone numbers. It produces mailing labels sorted in a variety of ways. Most also provide scheduling tools to coordinate the use of physical facilities such as the conference room or a laptop computer, or to clear a date with another member of the firm. They also contain a clipboard area for logging notes from phone calls or meetings.

Regardless of which program you use or even if you decide to put it all down in a little black book, get to know your clients. As Harvey Mackay⁵ puts it

Knowing your customer means knowing what your customer really wants. Maybe it is your product, but maybe there's something else, too: recognition, respect, reliability, concern, service, a feeling of self-importance, friendship, help—things all of us care more about as human beings than we care about [what's for sale].

³Harvey Mackay, *Swim with the Sharks without Being Eaten Alive* (New York: William Morrow and Company, Inc., 1988), p. 44.

⁴Ibid.

⁵Ibid., p. 42.

EXHIBIT 5-1. Contact Database

Name	_____	Employer	_____
Nickname	_____	Position-Title	_____
Birth date	_____	Business address	_____
Birth place	_____	Business phone	_____
Home address	_____	Business goals	_____
Home phone	_____	Services we provide	_____
Hometown	_____	Business needs	_____
College	_____	Ways we could help	_____
Graduate school	_____		_____
Military service	_____		_____
Rank	_____	Spouse	_____
Professional assoc.	_____	Nickname	_____
Clubs	_____	Birth date	_____
Community service	_____	Birth place	_____
Hobbies-recreation	_____	Wedding anniversary	_____
Sports	_____	Children:	_____
Kind of car	_____		_____
Descriptive adjectives	_____		_____
Personal goals	_____		_____

THE POWER OF SELLING BENEFITS

Dr. Alessandra describes the sales process as matching peoples' needs with the firm's features (services) to provide client benefits. Too often we try to sell what the firm is good at—the features. Then, we hope that somehow these services will meet our clients' needs. You must identify your prospects needs during your active listening sessions. Then determine whether what you can provide will solve a problem. If it won't, say so and move on, or better yet, find a solution, even if it's outside your firm. If your goal is truly to build the relationship, either outcome accomplishes this objective.

Think about this for a moment. Does your client *really* want an audit? Not a chance. This is a feature. What he or she really wants is the security of knowing no one is stealing from the business, that the bank will provide a needed loan, or that the company will be able to register for public trading. These are the *benefits* of an audit.

How many of your present clients would still want an income tax return if Congress repealed the tax code? You sell tax returns. Your clients buy peace of mind—the knowledge that you stand between them and the IRS. They don't want to buy a tax return any more than they want to buy a root canal from their dentist. Quit pitching features and start selling *benefits*.

THE BOTTOM LINE

“Sell” once may have been a four-letter word in our profession. Not anymore. As Ron Frandsen puts it

Don't be concerned about “selling” being thought of as unprofessional. Your business clients sell all the time, and I, for one, have never heard a client question the professionalism of accountants selling their services. Only other CPAs do that.

The techniques described in this chapter are powerful human influencers. You can use them manipulatively, but this will only result in a short-term relationship. People strive for the right to make their own decisions even if they are poor ones, and they resent being manipulated or controlled even when it is for their own good.

One must cultivate a sincere concern for the individual and his or her problems and develop a sincere desire to help. Don't impose your solutions on your clients or prospects. If you do, they'll resent it. Instead, let the client solve the problem—with your help.

It has been said that people who are smart, industrious, kind, honest, and likable just seem to have all the luck. They're also the ones who create a constant stream of new and interesting engagements flowing into their practices. Randi Freidig summed this up when she observed, “Long after people have forgotten what you've said, they will still remember how you made them feel.”

CHAPTER 6

Improving Client Service

One of the major challenges facing CPA firms in the next decade is to get partners and staff to put themselves in the client's shoes and to think as a client would about the quality of service received.

—Allan D. Koltin¹

Any solo who is not consistently seeking to improve the quality of his or her work product will eventually succeed in developing no more than a mediocre practice. This chapter provides guidance on how to apply principles of Total Quality Management (TQM) to the processes within a solo practice. When properly implemented, these principles will help you create a five-star firm. The balance of the chapter contains suggestions for improving productivity: how to effectively schedule your work load; how to standardize repetitive tasks; how to maximize the power of current technology; and, how to expand your available resources.

MANAGING FOR TOTAL QUALITY

When was the last time you received uncompromising, first-class, top-shelf service? If you've *ever* had one of these experiences you probably still remember it. Why? Because it happens so infrequently! Why is it that when businesses owe their very existence to the customers they serve, most of them do such a poor job of serving the customer?

Years ago, John Carey, one of our profession's founding fathers, espoused the view that the distinguishing characteristic of a profession is the subrogation of personal reward to service to patient or client. Mr. Carey encouraged our professional progenitors to adopt ethics in practice and a philosophy of service that considered the needs of the client first.

There is profit in principles. The TQM approach to corporate management as taught by Dr. E. Edwards Demming to the Japanese after World War II is based on the expectation of producing *delighted* customers. Delighted customers are repeat buyers, they advertise your services for you, and they check with you first to see if you provide other services they may want. Thus, by embracing the principles of TQM, we find ourselves placing the needs of the customer—client as preeminent, not only because that is the professional thing to do, but because it is the best means of achieving our own goals.

So, what makes a delighted customer? A delighted customer is one who is both sat-

¹Allan D. Koltin, CPA, "Survival & Success Strategies (Part 1)," *The Practicing CPA* (November 1988), p. 2.

isfied with the *benefits* of the product or service and is at the same time not *dissatisfied* with the *deficiencies* in it. Too often, companies manufacture features designed to provide consumer benefits as the *company* defines them. Customers will buy only what they are convinced will produce a positive *personal* benefit. Features actually extend beyond the physical attributes of the product or the description of the service to include how the customer is treated. Did the customer feel understood? Did the firm's employees provide a total solution for the customer's individual needs?

Dissatisfaction occurs when service deficiencies occur. But removing dissatisfiers only reduces dissatisfaction—it does not produce delighted customers. Dissatisfiers include misunderstandings over the goal of a particular engagement, a fee in excess of what the client expected, a failure to report on progress during the course of an engagement, delays in returning phone calls, or any number of other irritations. A delighted customer is one who is satisfied with the features of the service, one whose expectations are met or exceeded, and one who is not dissatisfied by service deficiencies. You might say that features equate to doing the right things while elimination of service deficiencies equates to doing things right.

Morrey Shifman² in the August 1991 issue of *The Practicing CPA* wrote

While the hourly rate is most crucial to accountants, the completed task and its value is uppermost in the eyes of the client. The accountant's job is to talk results and value, not hours and rates. Clients do not accept the old theory that the passage of time is the rendering of service.

It doesn't take much to turn a satisfied client into a delighted one. Take tax planning for example. Once you've run through the calculations, why not produce a short written report enumerating the ideas you discussed and the savings involved, and include a summarized printout from the tax planning software package with the most important numbers highlighted. Our software also produces color graphs that we give to the client (see exhibit 6-1). Such details make the service more tangible and link the fee with a product.

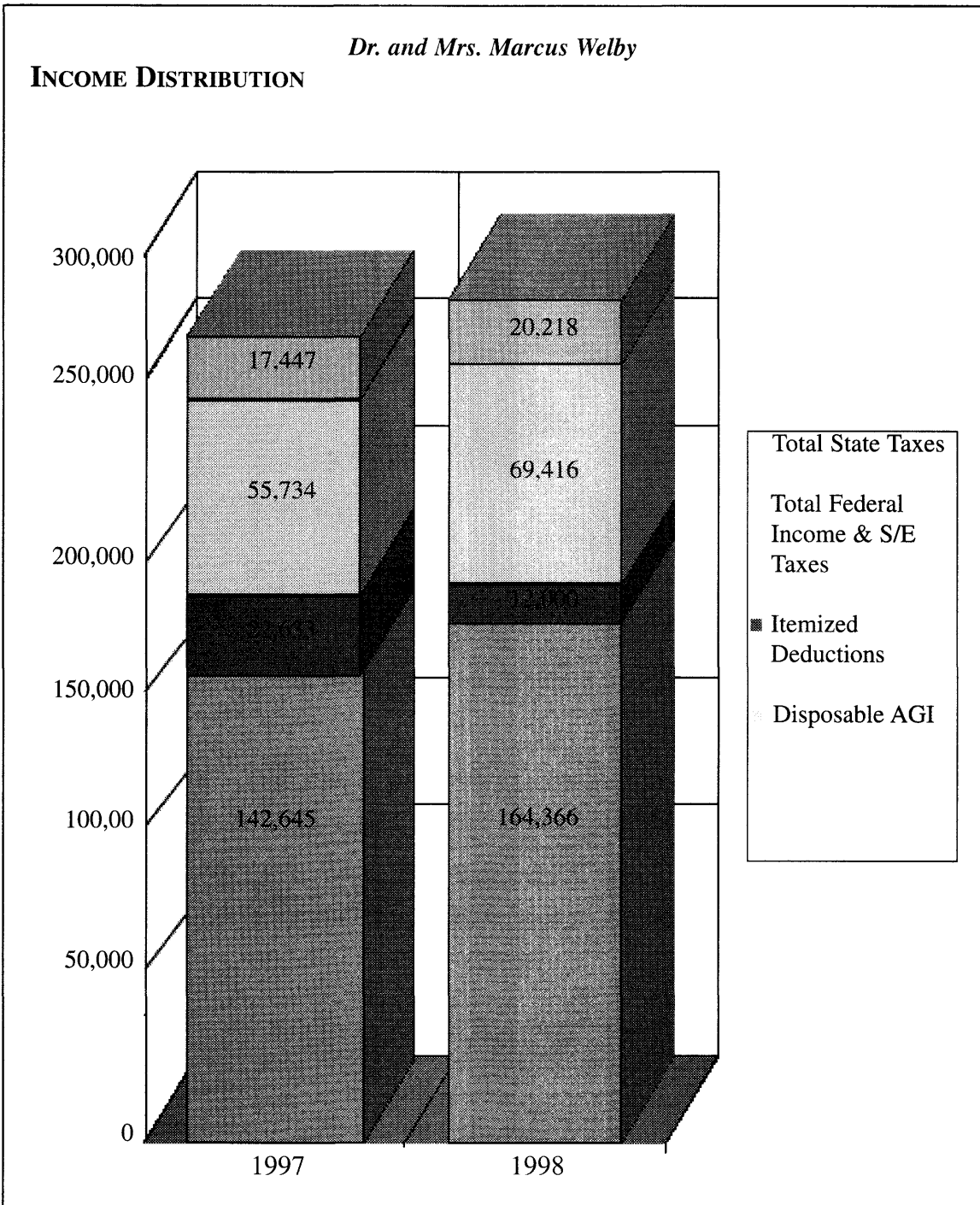
Financial statements work the same way. Don't just prepare an adjusted trial balance and walk away. Your clients want to know if they are on track. Run the financial statements including the cash flow and benchmark their results against industry averages, their own past history, and their projections. Highlight the positives and the negatives and offer suggestions and encouragement.

²Morrey Shifman, CPA, "Billing and Collecting is an Art, Not a Science," *The Practicing CPA* (August 1991), p. 7.

EXHIBIT 6.1. Summary Report

	<u>1997</u>	<u>1998</u>
Page: 1		
Date: 07-17-98		
Time: 1:59 P.M.		
<i>Dr. and Mrs. Marcus Welby</i>		
Income:		
Wages	223,284	250,000
Interest & Dividends	13,048	12,000
Passive Activity Inc/Loss	947	2,000
Capital Gains & Losses	507	0
Other Income	288	2,000
Total Income	<u>238,074</u>	<u>266,000</u>
Total Adjustments	<u>0</u>	<u>0</u>
Adjusted Gross Income	<u>238,074</u>	<u>266,000</u>
Personal Exemptions	2,862	1,944
Itemized Deductions:		
Charitable Contributions	5,520	5,000
Taxes	25,729	22,500
Interest Expense	4,563	2,500
Misc & Employee Bus Exp	3,586	0
3% AGI Floor	<u>-3,506</u>	<u>-4,245</u>
Total Itemized	<u>35,892</u>	<u>25,755</u>
Standard Deduction	<u>6,900</u>	<u>7,100</u>
Total Deductions from AGI	<u>38,754</u>	<u>27,699</u>
Taxable Income	<u>199,320</u>	<u>238,301</u>
Regular Tax:		
Schedule or Table Tax	55,824	69,416
Alternative Cap Gain Tax	<u>55,742</u>	<u>0</u>
Appropriate Regular Tax	<u>55,742</u>	<u>69,416</u>
Nonrefundable Credits	<u>-8</u>	<u>0</u>
Total Federal Taxes	<u>55,734</u>	<u>69,416</u>
Withholding & Est Tax Pmts	<u>-62,618</u>	<u>-60,000</u>
Total Payments	<u>-62,618</u>	<u>-60,000</u>
Net Federal Tax Due	<u>-6,884</u>	<u>9,416</u>
State Tax	17,447	20,218
State Estimated & W/H	<u>-18,482</u>	<u>-18,000</u>
Net State Tax Due	<u>-1,035</u>	<u>2,218</u>
Total Net Tax Due	<u>-7,919</u>	<u>11,634</u>

EXHIBIT 6-1. Summary Report (continued)



In exhibit 6-2 you'll see another method we use to add value to what we do. We complete and deliver this simple form to the client as a follow-up to an office visit or phone call. I like it for a number of reasons. First, it acts as a tangible reminder to the client that we provided a valuable service. Second, it reminds him or her of the decisions and plans we've made. Third, it fixes responsibility for implementation. Fourth, it may provide some malpractice protection. I originally developed it because I was tired of listening to complaints about charging for extended phone conversations. This simple form virtually eliminates that problem.

Think about each service you provide. Are there things you could do that would add value? A client's perception of the world *is* his world. If you consider this every time you ask him to spend his money, he'll be happier to pay and provide you with more opportunities in the future.

Dr. Kevin Stocks,³ a professor of accountancy at Brigham Young University writes

TQM proposes a focus on organizational systems and processes with the idea of continuous improvement in quality. This quality revolution implies a major change in the roles of management and workers. It also implies an increased awareness of client needs and demands. And it's not just a passing fad. Anyone involved in today's competitive market recognizes that where others have accepted the TQM challenge, competition forces all to accept and move toward quality processes and products. There really is no other option for an organization desiring to survive and excel.

Good leaders display interest in individuals, an excitement for the activity, a thirst for knowledge and advancement, and a willingness to try new approaches and techniques. Good leaders raise the performance level of all those with whom they associate.

PROVIDING FIVE-STAR SERVICE

Tim Beauchemin,⁴ who was a Houston, Texas, practice management consultant, likened the system of producing superior products and services in a CPA firm to the dining experience in a five-star restaurant. His principles of Five-Star Service included:

- A process for taking orders exactly
- Contact with the customer during preparation
- An ascertainment of satisfaction during the meal
- A method for recovering from mistakes
- An offering of dessert
- A system for collecting payment in a timely manner

³Kevin Stocks, Ph.D., "Total Quality Management," *Exchange Journal* (Spring 1998), pp. 3-7.

⁴Timothy J. Beauchemin, CPA, "The New Game—Client Service," *The Practicing CPA* (January 1990), p. 5.

EXHIBIT 6-3. Five-Star Checklist

Client _____		
Engagement _____		
Responsible staff _____		
Budgeted hours _____		
Budgeted dollars _____		
	<u>Initials</u>	<u>Date</u>
Called client during engagement	_____	_____
Called client to assure satisfaction	_____	_____
Offered dessert	_____	_____
Sent invoice	_____	_____

As we go through the process of how to improve your firm’s service, refer to the checklist in exhibit 6-3. Use it to coordinate your firm’s efforts toward achieving a five-star customer service rating.

Don’t Assume Anything

Regarding order taking, Tim said

This means not assuming anything, but finding out what the client is really interested in, be it information, service, price, or anything else. If you don’t find this out at the beginning, there is no way you can meet the client’s needs.

Filling out the top portion the five-star checklist (exhibit 6-3) will help ensure that you and the client both understand the engagement. A well-drafted engagement letter (see exhibit 7-3) will also help.

The budget is useful in providing the client with a fee estimate and also gives your assigned staff an idea of the hours you believe the job should require.

Stay in Touch

If you aren’t in the habit of contacting your clients as an engagement progresses, whether you know it or not, you’ve got some uneasy clients. People like to know how things are going. Even if you’re proceeding normally and expect to be done on schedule, take time

to let the client know this. It's a great stress reliever and relationship builder. A staff member initials and dates the checklist to document a call to the client when the engagement runs longer than anticipated, or in those cases where we feel the client needs reassuring.

Nip Problems in the Bud

Service dissatisfaction is like cancer. Early detection and intervention holds the best chance for successful treatment. Periodic client surveys are helpful but lack proximity to a dissatisfying event. That is why we have included a step on the Five-Star Checklist for calling the client to assure satisfaction. It takes a little time and a little courage, but it will go a long way toward heading off any dissatisfiers that may be lurking about. Set aside some time every day to make these calls or assign an administrative staffer to do it. If you opt for the latter approach, you'll need to personally make follow-up calls to those who are not delighted.

Recover

Over the past quarter of a century, I have made plenty of mistakes, and one thing common to all of them is that when I have "owned" them, the clients have understood and worked with me in a reasonable way to make the best of it. I can honestly say I have never lost a client when I have admitted the mistake and willingly accepted the responsibility to fix it. In fact, in most cases, it strengthened the relationship.

Offer Dessert

While you're doing follow-up, take the opportunity to offer additional services. "Dessert and after-dinner drinks are where the restaurant makes its most money," observed Beauchemin.

The same is true in providing professional services. The key is to pre-sell dessert during the engagement. Attempting to sell additional services during off-peak times of the year is often ineffective because clients become defensive. They feel that they are being "sold." Instead, start offering dessert when taking the order, continue during processing, and make the actual sale when the product is delivered.

Tax season is often the best time to offer estate planning services. I let them know I'll call when things slow down to discuss it with them in detail. During this call I can usually set an appointment.

GETTING YOUR CLIENTS INVOLVED

Making changes is often difficult. Knowing what changes need to be made can be as simple as asking the right questions to the right people. In addition to the engagement satisfaction calls referred to above, most successful solos periodically survey their clients to

ask them how the firm could change to provide better service. I must have seen a couple dozen client surveys in my professional lifetime. Most of these were self-serving questionnaires that did little to provide the information necessary to guide the practitioners into significant quality enhancing changes.

I use the Client Survey in exhibit 1-1. This is my personal version of a survey originally designed by Ron Frandsen for Ron Stewart's practice. This survey not only asks the right questions, it allows clients to rate survey items both in terms of importance to the client and in terms of the firm's performance.

Ron Frandsen and I both agree that surveys that lack questions that ask how important a client deems a particular item can lead to incorrect conclusions. We evaluate the responses to the survey by scoring the difference between expectation and performance. If a particular item is a 5 on the importance scale and the client ranked us at a 3 as a measure of our performance, this results in a -2 for that item. This indicates that the firm is not meeting the client's expectations in this area.

A positive differential (for example, the importance of 2 and performance of 4), on the other hand, means that the firm is exceeding the client's expectations. Be careful of this one, though. On an individual basis, the client may be saying that the firm is spending time in an area of unimportance. By compiling the results from all surveys, we get a pretty fair picture of the areas that call for remedial action.

The answers to the questions at the bottom of the survey help us get a better picture about how our clients perceive the firm. Note that the survey is anonymous. I don't want sugar-coated responses. I want to know how people feel. Experience has taught me that people are more likely to be candid (brutally honest) when they can hide behind the veil of anonymity.

Let me leave this subject with an insight. Many of your clients will take this opportunity to complain about your fees. Don't let this overly concern you. They tell the plumber the same thing.

GETTING YOUR STAFF INVOLVED

One of the foundational tenets of TQM is that people at the lowest levels of production are in the best position to critique the system. Dr. J. M. Duran, an early pioneer in the total quality movement, suggests that 85 percent of business's problems are systemic in nature and only 15 percent are caused by the workers. He suggests that it is management's responsibility to establish systems that allow workers to be continually more productive and to incrementally improve products and services each day, thus ultimately and inexorably driving inferior products and services from the marketplace.

Putting all your processes and systems on the table for everyone in your firm to scrutinize and critique may take some courage, but it is the best way to begin to improve. Empowering your employees to make changes in the systems they work within will directly improve the results of those systems. For instance, to streamline the tax return prepara-

tion process, encourage input from each individual involved in any part of that process. This approach carries with it the dictum that your opinions carry no more weight than those of your most junior staffer or your receptionist. If you are successful, you will not only improve your systems, you will also ensure that these same people will support those systems.

Increasing Your Expectations

Another goal of TQM is to reduce product defects. Most of us rely on a process of reviews that parallels what happens in the garment industry. Remember the small slips of paper in the pocket of your new pants indicating that Inspector #22 checked them out before they left the factory. Unfortunately, using the inspection-review process as the fundamental guarantee of quality is actually at odds with the very thing it is trying to improve. Dr. Stocks points out two difficulties with the inspection method: (1) its failure to capture all errors, and (2) the fact that inspection *follows* production.

Unfortunately, inspection also tends to define quality. Workers will produce to the lowest acceptable standard—whatever will get the job past the inspector. By contrast, the TQM model attempts to elevate the worker's efforts toward producing a perfect product within the system's predefined standards. Then each worker determines that the job meets these standards, and when there's a problem he or she has the power to take immediate corrective action.

In the final analysis, your clients will judge your firm. By asking for input from your two most important sources and listening when they give it to you, you'll know what you need to do to improve your services. Now let's look at some of your systems that could be upgraded or repaired.

IMPROVING PRODUCTIVITY THROUGH SCHEDULING

Timeliness has always been a touchstone of quality service. No matter how good the product may be, the passage of time will gradually erode its relevance and usefulness to the client. The challenges of staff scheduling in the sole practice are dramatically different from those of the larger firm. Our staffs are smaller, making it easier for us to assign tasks and monitor progress. In addition, many tasks are more repetitive in nature allowing us to plan our work load more easily. The better we are at controlling our inventory of time, the more of it we'll have left over to sell to someone else—and less of it will perish.

The crux of the problem is the failure to effectively match available work with available staff. In order to improve the correlation between these two and thus reduce non-chargeable time, you need to know two things: what work do we have to do? and who has the time to do it? Using the form in exhibit 6-4 should help provide this information.

EXHIBIT 6-4. Staff Scheduling Worksheet

For the Month of: _____

<u>Client</u>	<u>Engagement</u>	<u>WIP*</u>	<i>Employees' Initials</i>			
			<u>td</u>	<u>dt</u>	<u>jw</u>	<u>lp</u>

Total Time

Available Time

*Work in progress.

First, list all engagements you are currently working on. Gather this information from your time and billings reports. In the WIP column list the hours you already have spent on the engagement.

Next, list the clients and work that you plan to begin this month. List those you are sure of first. Then list those engagements you may be able to bring in with a little prodding and salesmanship.

In the columns to the right, estimate the number of hours you anticipate each staff person will spend on each engagement. Total these hours at the bottom and compare them to the available chargeable time for each staffer.

Most scheduling systems are much more detailed than this one. The problem I have with those is that I could spend half my life planning. This form works for me because it doesn't take much time, yet it alerts me that I may have someone sitting around with nothing to do if I don't get some more work in the door. One more thing. I usually go a little light on my own available time because there are so many things that just come up during the course of a month that I must deal with personally. I also know that it is much easier for me to create work for myself than for my staff.

My secretary fills in the work-in-process information and the available hours that come from our budget. Then each of us enters the work we have scheduled for the month. Once everyone has input his or her data, I total the form to see where we are. If you aren't doing at least this much planning, try using this worksheet for a month or two and see if it doesn't improve control over your inventory of time.

IMPROVING PRODUCTIVITY THROUGH STANDARDIZATION

Henry Ford made a fortune on his Model T automobile, but most people agree that his use of a production line primarily was responsible for his success. The production line brought efficiency to the process of building cars and allowed Ford to produce them at an affordable price. A sole practice can incorporate some of the efficiencies of the production line by systematizing as many repetitive tasks as possible.

Checklists

First, let's review some of the basic checklists you should use in your practice. Using a well-designed financial statement checklist for compilations and reviews can significantly save time since staff do not have to guess at which steps to perform for each of these kinds of engagements. And as we will see later, this checklist can also play a major role in reducing your liability exposure. It also reduces review time as the reviewer is not required to evaluate the adequacy of the staff member's work program.

Look at the Financial Statement Checklist in exhibit 6-5. Note toward the end of the checklist that a check in an *N* box requires further investigation and perhaps a report

modification. If one of the steps is not applicable, the preparer checks the *NA* box. In our firm, we require a brief explanation for all *NA* responses to explain why the step is not applicable. Coordinating the checklist with the order of the trial balance and of the work papers further improves the process.

See also the Technical Review Checklist (exhibit 6-6) and Engagement Review Checklist (exhibit 6-7). Someone other than the person who performed the work prepares the tech review for all review engagements and for all compilation engagements where the financial statements are intended for dissemination to a third party. I prepare the Engagement Review Checklist on every engagement myself. If it is a job I have done, I will let it age at least overnight before doing the engagement review.

We tie all of the steps together with the Engagement Control Form in exhibit 6-8. It calls for each person who worked on the job to declare his or her independence with respect to the client and then to check through the various items that should have been completed and in the file. We also complete PPC's Compilation Reporting Checklist and Summarized Disclosure Checklist (Short-Form) on all engagements intended for third parties. Once all the boxes are initialed and dated, I indicate my acceptance by initialing at the bottom of the form.

Each of these forms is an adaptation and amalgamation of similar forms from various sources including PPC's *Guide to Compilation and Review Engagements*.

You should also use a tax return checklist. Unfortunately, many checklists are an overkill for the majority of the returns we solos prepare. In exhibits 6-9 and 6-10 you'll see a couple of examples of the less-detailed kind, which should accomplish the task for the majority of your returns. With more complicated returns, select a more-detailed checklist from the ones prepared by the AICPA Tax Division and provided at no charge to division members.

Just a reminder: no checklist can substitute for professional judgment. Checklists are just tools to help you exercise that judgment.

Spreadsheets

If you are doing repetitive tasks by hand, *quit!* Take half an hour and set up an Excel or Lotus spreadsheet. Question every hand-prepared schedule. How many times have you said "Oh, it will only take a minute to prepare this by hand?" In some cases this may be true. If it is, then by all means use your pencil. My guess is that we're all repeating some tasks over and over again because we just don't take the few extra minutes to set up an electronic working paper.

Having just said that, spreadsheets can become a time waster. To some, they become an end in and of themselves. You want to match the sophistication of the spreadsheet to the requirements of the job.

EXHIBIT 6-5. Financial Statement Checklist (continued)

INCOME STATEMENT:

	Y	N	NA	Ref	Y	N	NA	Ref	Y	N	NA	Ref	Y	N	NA	Ref	
Analyzed sales for reasonableness																	
Compared gross profit % with prior periods																	
Compared expenses to prior periods																	
Analyzed significant differences																	
Computed income tax expense (corps only)																	

STATEMENT OF CASH FLOWS:

Prepared a cash flow statement (GAAP only)																	
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

DISCLOSURES:

Prepared all required disclosures																	
-----------------------------------	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

OTHER:

Provided client with all adjusting entries																	
Communicated unusual items noted																	

Evaluate all N responses to determine if a modification of our report is required.

NOTES AND EXPLANATIONS:

The following are management's assertions with respect to these financial statements:

Existence Completeness Valuation Rights & Obligations Disclosure

Prepared by:

--	--	--	--

Reviewed by:

--	--	--	--

EXHIBIT 6-6. *Technical Review Checklist**

Client: _____	Balance sheet date: ____/____/____
Technical reviewer: _____	Review date: ____/____/____
	<u>Initials</u>
Review our report for appropriateness and consistency with firm guidelines.	_____
Review the financial statement captions and descriptions.	_____
Review the statements for references to the accountant's report and notes.	_____
Review notes for content and wording.	_____
Review disclosures for inaccuracies and omissions.	_____
Review the Summarized Disclosure Checklist for adequate disclosures.	_____
Review the financial statements for obvious departures from GAAP or Tax basis.	_____
Review all checklists prepared as a part of this engagement.	_____
Review the financial statements for appearance.	_____
Clear all review notes.	_____
Math-check the financial statements and notes.	_____
Acceptance: _____	Date: ____/____/____
<p>_____</p> <p><small>*Adapted and reprinted from <i>Guide to Compilation and Review Engagements</i>, copyright 1998 © by Practitioners Publishing Company, Forth Worth, Texas. To order, call 800-323-8724.</small></p>	

Monitor the spreadsheets you create. For example, why would anyone need ten (or even two) different independently created current portion calculation spreadsheets. You've got to manage your data files. This is much easier to do in a small practice than it is in a larger one. Even so, I am still plagued by it in my firm from time to time.

Whenever anyone in the firm builds a spreadsheet and believes it may have uses beyond the current engagement, have him or her write a brief description including suggested uses and circulate this information to everyone in the office. I make it a habit to periodically review what is on our system to throw out the trash. But while I'm looking for garbage, I also check for overlooked gems.

EXHIBIT 6-7. Engagement Review Checklist

Client:							
Period Ended: Month Quarter Year				/ /	/ /	/ /	/ /
	Y	N	NA	Y	N	NA	Y
Is the firm independent with respect to this client?							
Do staff members have a knowledge of the client and the industry?							
Did you review the Financial Compilation Checklist?							
Did you review, then remove, all references to cleared review items?							
Per your reading of the financial statements:							
Do they appear to be appropriate in form?							
Are they free of obvious errors in accounting principles?							
With respect to our report:							
Is our report in accordance with SSARS wording?							
Are all statements and supplementary schedules described?							
Is the type of entity apparent or described parenthetically?							
Is the basis of accounting described?							
Are departures from the basis of accounting adequately described?							
If a major uncertainty exists, have we disclosed it?							
If we are not independent, does our compilation report so indicate?							
If disclosures are omitted, does our compilation report so indicate?							
Is the report dated as of the completion of our procedures?							
For statements intended for third parties:							
Have you reviewed the Compilation Reporting Checklist?							
Have you reviewed the Summarized Disclosure Checklist (Short Form)?							
Have you reviewed the Technical Review Checklist?							
Have you reviewed the Client Representation letter?							
Do you feel our report is appropriate in the circumstances?							
I am authorized to sign the related financial statements:							
Initials				/ /	/ /	/ /	/ /
Date							

EXHIBIT 6-10. Individual Tax Return Quick-List

Client: _____ Date: _____ Staff: _____

1. Check name, address, filing status, and dependents.
2. Check for carryovers.
3. Compare all sources of income with preceding year. Discuss with client items not included on this year's return.
4. Check for consistency in accounting methods.
5. Total attached W-2s and agree to return. Check for correct SS#.
6. Track all 1099s to the return. Make copies for file.
7. Track all K-1 items to the return. Make copies for file.
8. Compute penalty for early withdrawal from retirement plans.
9. Consider special forward averaging for lump-sum distributions.
10. Consider installment sale provisions. Watch for ordinary gain recapture.
11. Check for passive activity loss limitations.
12. Check for prior-year home-sale replaced during the current year.
13. Check for self-employed health insurance payments.
14. Check for home office deduction. Prorate amounts.
15. Check deductibility of IRA contribution.
16. Compute maximum SEP or Keogh contribution.
17. Determine proper classification for all interest expense amounts.
18. Check documentation for travel and entertainment expenses.
19. Determine level of documentation for automobile expenses. Include in file.
Ask about charitable and medical mileage.
20. Ask client about noncash charitable contributions.
21. Consider §179 election.
22. Determine that all depreciable asset purchases have been added to the depreciation schedule and that all disposals have been removed.
23. Determine that listed assets have been identified and properly recorded.
24. Check for unreimbursed business expenses.
25. Determine if client wishes to include unearned income of children on this return.
26. Compute Alternative Minimum Tax unless *clearly* not applicable.
27. Compute self-employment tax as necessary.
28. Check for excess FICA where more than one W-2 per taxpayer.
29. Check for Earned Income Credit applicability.
30. Check for child-care credit.
31. Compute estimated tax and late penalties.
32. Compute estimated tax payments for next year.
33. Consider electing carryback period for net operating loss.
34. Prepare current year carryover schedule.

A checked box means you performed the procedure or that it was not applicable.

Word Processors

In addition to the efficient use of spreadsheets, you should also use a word processing program to standardize as much of your correspondence as possible. Set up templates for client rep letters, confirmations, attorney letters, engagement letters, estimated tax payment reminders, and financial statements including the notes. Most top-of-the-line accounting packages are now able to link to a spreadsheet program, which in turn can be linked to the word processing program. Any change in the general ledger account balances are automatically updated in the spreadsheet and in the full financial statements. What a tremendous time saver.

Group your word processing documents in subdirectories by client, by function (for example, report letters, IRS correspondence, forms, presentations), or by any other categorization that would help staff quickly find what they are looking for. Remember: The goal is to eliminate wheel inventing. Regardless of the means you employ in pursuing this goal, enlist the help of everyone in the firm to build a useful, easily accessed database of reusable spreadsheets and documents.

IMPROVING PRODUCTIVITY THROUGH TECHNOLOGY

Probably the most exciting thing about the exponential growth of technology is that it narrows the gap between the sole practitioner and his or her larger competitors. Now, a sole practitioner can produce colorful graphs and charts, computerized slide shows with audio and video clips, and near type-set quality financial statements. The sophistication of today's tax preparation programs demonstrates how technology is leveling the playing field. And in tax research finding the answers simply becomes a matter of asking the right questions. In the near future, I expect to see this process become interactive through the use of artificial intelligence. Then the computer will be asking the questions. Let's look at an example.

A client walks into your office. He has been approached by a real estate agent who has a buyer for his business. His question to you is predictable, "How much tax am I going to have to pay?" Not too long ago you would have asked a few questions and then explained that you would need some time—meaning days—to compute the amount.

Instead, you turn to your computer, bring up your tax planning program, and with a few keystrokes you download the previous year's income tax data. Next, you toggle out to your amortization program to calculate the current year's interest and principle on the proposed installment sale. Then you cut and paste these numbers into the tax planner. Using the same method, you enter the cost and accumulated depreciation on property and equipment to be sold.

Your client then asks about the tax treatment of certain items of inventory to be

sold with the business. Since your tax program interfaces with your tax service on CD-ROM, you simply press a key to pull up the Code Section and related editorial comment dealing with that area of the law and you add this to the tax plan.

After projecting the tax, your client asks what difference it would make if he deferred a portion of the down payment into the subsequent year. With a few keystrokes you modify the original computation to add this second scenario as a comparison.

You remind the client that this is a preliminary analysis of the situation and that you have a few items to research in more detail and that you will be sending him a letter via email that will outline the various options and their consequences for him. After he is gone, you toggle to your word processing program, type your recommendations, and by simply clicking a mouse button a couple of times, you move the applicable Code sections and editorial comment into your letter together with a copy of the tax projection printout and perhaps a graph of the differences between the options.

Not long ago, this example would have been labeled a fantasy, but this isn't even the future anymore—it's the present state of technology in our profession, and unless you are able to perform at this level in your practice, it's time to upgrade.

In an article in *The Practicing CPA* in June of 1989, Ron Stewart explained how his firm utilizes computers

We believe microcomputers are tools, and that everyone should have one. We never asked people to share pencils and adding machines. Accordingly, every person in our firm has a microcomputer and printer.

Having the hardware and software at your fingertips is one thing. Knowing how to use them efficiently is another. We made a critical mistake here.

Our mistake was to view computers *only* as tools, not to be understood but to be used to practice accounting. My philosophy about computers was similar to my philosophy about automobiles—I don't care how and why they work, I just want them to run when I turn the ignition. This has kept me from being able to solve the simplest of auto problems, denied me transportation, and cost me a lot of money. A similar philosophy about computers has made us dependent on others, denied us the use of our tools, and cost us a lot of money.

Learning to do more than just turn the computer on can do more than help you use it better. It can create some profitable side benefits besides. Because I had a personal interest in computers, our firm has not only been able to take care of many of our own problems but has also been able to sell these services to our clients. Computer consulting has become an important profit center for us.

⁵Ron W. Stewart, CPA, "Success Through A Limited-Service Philosophy," *The Practicing CPA* (June 1989), p. 7.

Consider Hardware and Software

Any attempt to advise you on the pros and cons of various hardware and software would doubtless be nothing more than an exercise in history writing by the time anyone read it. So I offer only these platitudes.

1. There is no such thing as too much RAM, a hard disk that is too large, or a processor that is too fast.
2. Keep up with hardware upgrades and software updates.
3. You can tell the pioneer. He's the one with the arrows in his back. Be early but not first.

Here is a list of the types of programs a solo ought to have on a system:

- Tax preparation
- Tax planning
- Tax research on CD-ROM or via the Internet
- Electronic forms on CD-ROM or via the Internet
- Word processing
- Spreadsheet
- General ledger-accounting software
- Depreciation
- Time and billing
- Amortization
- Presentation (for example, Harvard Graphics and Power Point)
- Personal information manager

A suggestion about low end accounting packages: There are several of these packages on the market today that have gained wide acceptance. Whatever your clients are using, buy a copy. Obviously, you can't afford to do this with the high-end packages, but the investment is minimal for the others. By having the client's software on your system, you'll be able to sell consulting engagements to existing clients and to others if you spend a little extra time to become an expert. Let's face it. A debit is a debit and a credit is always a credit. Each of these programs does essentially the same thing in fundamentally the same way. Once you know one of them, it doesn't take much time and experience to support several of them.

Computerize Tax Season

If there is a time in a sole practice when it pays to make the most of your computer, it has to be during tax season. This is when the limits of time make efficiency mandatory. If you are not currently using a top-of-the-line tax preparation package, find one you like and buy it.

The complexity of the tax law *requires* computerization. There is no other practical way to efficiently prepare a tax return. Deduction phaseouts surround us. Programming each of these is relatively easy for a software designer, but remembering each of them and calculating the effects of each on every other line on the form is a nightmare for a mere mortal.

Many practitioners use client-prepared tax organizers that include amounts appearing on the previous year's return. With a properly completed organizer and the 1099s and W-2s, a staffer should be able to complete all but the most complex returns with a minimum of effort.

Other practitioners use the tax appointment to prepare the return. Using the client's information during the tax interview, the preparer inputs the data interactively. This method has the advantage of completing the majority of the returns while the client is in the office. At the completion of the input, the preparer calculates the return and reviews it with the client. If she finds errors or omissions, she can make corrections on the spot or ask the client for additional information.

This method also gives the preparer more time to visit with the client about tax-planning ideas and to sell additional services. Obviously, the larger, more complex returns may necessitate additional work beyond the interview, but for many of the returns running through a solo practice, this may prove to be the most efficient means of production.

Computerize Your Telephone

Telephony is the marriage of your telephone's key system with your computer. These two industries are poised on the brink of joining their technologies and providing a total communications package at an affordable price. Through emerging technology, your computer will handle the dialing and conferencing functions of your present telephone system. Bringing people together over the phone will require no more than a couple of mouse clicks. Your system will receive and save digitized voicemail messages as well as email and faxed communications onto your computer's hard disk. In fact, in the near future you will be able to see the person or group you are speaking with. Look for developments in this area. The melding of these technologies into one complete communications system will positively impact the efficiency of your operation in a major way.

Learn to Surf

Finally, get on the net and learn how to use it. We are in a new world now, and it's made up of little 1's and 0's racing around fiber-optic cables all over the world. As a CPA your business is information. Gradually but inexorably, the sum total of all human knowledge and information is finding its way onto file-servers all over the world which are accessible through an inexpensive modem linked to the World Wide Web, and you have the same ability to tap into it as the managing partner of Arthur Andersen does.

To get started, bookmark the AICPA home page and the home page of your state society. These will have links to sites of interest to the profession. If you have a concentration in a certain industry, look for the home page of the industry association and use their links for more information.

You'll also want to look for news groups that can be custom-tailored to your specific interests. They do the filtering so that you don't have to read the entire "paper" to find the articles you are interested in. This becomes extremely important given the fact that everything going on in the world is available to you.

It costs both time and money to keep up with changes that seemingly come at an ever accelerating pace, but it's an investment you need to make. Acquire excellent software and hardware and learn how to use them—not just perfunctorily, but thoroughly. As you do, you'll increase your ability to provide top-of-the-line service and effectively compete with anyone.

IMPROVING PRODUCTIVITY THROUGH THE USE OF RESOURCES

I have always believed that it isn't nearly as important to know all the answers in this business as it is to know the questions. Someone who doesn't know the questions is dangerous. With the proper resources, you can find the answers.

During my last semester of school I visited several offices of the then Big Eight on job interviews. I vividly remember being impressed with the shelves of books each of them sported in the firms' libraries, which in most cases were showcased behind glass walls. The unspoken message was clear—we sell knowledge.

Today's Library

Things are changing. Gone are the bookcases full of tax services. That entire section of the library is now contained on one CD. Gone also are the state tax forms. It's just so much easier to access reference information electronically. Perhaps a CD isn't as impressive as gilt-edged volumes, but it is much more efficient. It's hard to tell how far the future will take us, but there is no doubt about its direction as more and more printed matter is translated onto magnetic media.

The body of available information relevant to our profession is immense. If you are looking for a way to narrow down what you should include in your own library, try using the listing in Volume 2 of the *MAP Handbook* for starters. Obviously, some resources you can't afford to be without. These include the professional standards and a good tax research tool. Others become essential as dictated by the types of engagements you accept. It just makes sense that the more heavily specialized your practice is, the more specialized your library needs to be.

In a recent meeting of a networking group of solos to which I belong, we discussed the expense of redundant resource materials among the group. Each of us has the same books and the same CDs. We are considering ways to share resources and reduce our costs.

The Internet can also provide resource materials, most of which are free and can be downloaded and printed. In the case of copyrighted materials, a technologically astute networking group would be able to attach electronic research to email messages sent via the Net. Using these resources as a means of keeping up to date requires a commitment from someone in your firm to regularly review the sites you have selected so as to identify important changes when they occur.

Hotlines

Because of our size, we sole practitioners don't have the luxury of purchasing and maintaining a vast technical library. But we do have access to one. The AICPA maintains the world's best accounting library, which members are allowed to utilize over a toll-free line. Full-time librarians use various indices to gather information that for you would be like finding the proverbial needle. I have personally used the library and was amazed at what they can do.

The AICPA also maintains a technical hotline for members with accounting and auditing questions. This hotline is free of charge to members and boasts a staff of trained professionals who will answer questions and research problems related to financial transactions and reporting.

For years small firms had been requesting a technical hotline for tax matters. The Tax Information Phone Service (TIPS) began operations in 1994. These phone lines are manned by CPAs with extensive backgrounds in taxation. They have access to complete research libraries, the knowledge and experience of supervisory personnel, and other members of the TIPS staff whenever needed.

When a problem is unusually complex or the caller requires implementation assistance, he or she is referred to a database of firms who have expressed a willingness to enter into consulting relationships with other practitioners.

As opposed to the AICPA's library and its accounting and auditing hotline, TIPS costs money. However, my personal experience is that I can normally get a good answer in 15 minutes or less because as a rule all I want is either a confirmation that what I am doing is correct or a nudge in the right direction. Besides, I have no problem passing the charge onto the client.

Peer-to-Peer

Over the past several years I have heard more and more sole practitioners and partners in small firms mention that they participate in a group of similar-sized firms in their areas. This peer-to-peer networking has become another significant contributor to the success of

the individual practice units. Sharing specialized knowledge, libraries, staff, and other resources, these associations are fast becoming an essential part of practicing solo.

It goes without saying that the key to the process is in finding the right mix of partners. It helps to keep the group small—around ten members in similar-sized firms (which could include small partnerships). Look for three things in group members:

1. A similarity of interests
2. A diversity of knowledge
3. A strong desire to work together for the common good—to give as much as they take

If you don't currently belong to a group, check your state society for information on those in your area. If you come up empty handed, consider starting one of your own. If you opt for the latter, the *AICPA MAP Handbook* contains guidelines and ideas for getting started. If you do decide to form your own group, remember these two points to keep your group going: (1) always provide meaningful information, and (2) hold meetings regularly.

When I asked Bill Baxter from my group what he liked about being a member, he responded

I like the autonomy of being a sole practitioner. The difficulty comes in not having someone to bounce ideas off of. I want someone who'll say, "Tell me what you're looking at and I'll tell you what I think." I don't expect to target my practice at a particular specialty. So if I get into an area I don't feel comfortable with, it's nice to know I can call someone about it. I don't want my clients to be limited by my inability to offer technical information quickly.

THE BOTTOM LINE

There is no question that those firms that provide the best service in the most efficient manner will be the most profitable. They *use* time. They don't waste it. They hold each staff member accountable for his or her inventory of time and monitor productivity every day. They are equipped with state-of-the-art tools at their fingertips to increase throughput. They have well-devised systems and standardized procedures that limit duplication of effort and reduce costly rework. They surround themselves with all the resources necessary to provide each client with a full range of top-quality services. They never stop looking for ways to improve their performance. Just because something has always been done a certain way doesn't mean it is the only way or even the best way. Improving their productivity on each engagement is their firm-wide goal. Their office is filled with delighted clients who are anxious to refer others to the firm. Why? Because these firms give five-star service.

SECTION II

OPERATIONAL ISSUES

CHAPTER 7

MANAGING THE LEGALITIES OF A SOLO PRACTICE

...(E)ven when a firm has an outstanding quality control system—including a quality control document, annual inspections, an unqualified report on peer review—and even if work is performed with due professional care and exceeds the recommended professional standards, it's still possible to be sued, even on a compilation engagement.

—Edward S. Kisscorni¹

Several years ago at an evening session during a Small Firm Conference, a fellow panelist divided the profession into two groups—those who had been sued and those who were going to be sued. When it comes to the legal climate we CPAs currently find ourselves practicing in, it is certain that “we’re not in Kansas anymore.” There is no question that the largest accounting firms get the most press out of this issue. But it is equally true that the majority of the cases involve firms like ours doing work like ours for clients like ours. In this chapter, we’ll cover what you as a sole practitioner can do to limit your exposure to an increasingly hostile legal environment. We’ll also review the basics of malpractice insurance. Then we’ll discuss the process of choosing the right attorney, and we’ll consider the ramifications involved in choosing an entity type for your practice.

STAYING OUT OF COURT

The majority of the *dollars* paid out in malpractice settlements and awards these days is still attributable to audit failures. However, nearly three-fourths of the *claims* arise from tax and accounting matters. In the audit arena our professional standards² specifically limit our responsibility to the opinion we express on an entity’s financial statements, to wit:

The financial statements are management’s responsibility....The entity’s transactions and the related assets, liabilities, and equity are within the direct knowledge and control of management. The auditor’s knowledge of these matters and internal control is limited to that acquired through the audit [and] ... the auditor’s responsibility for the financial statements...is confined to the expression of his or her opinion on them.

¹Edward S. Kisscorni, “A Big Mistake While Doing Everything Right,” *The Journal of Accountancy* (January 1996), p. 71.

²AICPA, “Responsibilities and Functions of the Independent Auditor,” *AICPA Professional Standards*, Volume 1 (New York: American Institute of Certified Public Accountants, as of June 1, 1998), AU§110.03.

Unfortunately, the courts do not take the same view as illustrated by this excerpt from the U.S. Supreme Court decision in *US v. Arthur Young & Co.* (1984).

By certifying the public reports that collectively depict a corporation's financial status, the independent auditor assumes a public responsibility transcending any employment relationship with the client....This public watchdog function...requires complete fidelity to the public trust.

This expanded view of our responsibility to clients and to the general public is not limited to audits of publicly traded companies. The sharp increase in cost of professional liability coverage is an indication of the desire within our society to find someone to blame.

Choose Your Clients Carefully

Certainly the number one way never to lose a court fight is never to go to court, and the number one way to accomplish this is to exercise caution in the client selection and retention process. Most new audit clients are subjected to extensive scrutiny. Often, the same standard of care is not extended to continuing audit engagements or to those basic accounting and tax services that make up the bulk of a sole practitioner's fees.

Do you know what a risky client looks like? Knowing what to look for may save you time, money, and grief later on. Spend a minute reviewing the following list of traits.

1. Clients whose businesses are in trouble
2. Clients who refuse to sign engagement or representation letters
3. Clients who have poor accounting systems and documentation
4. Clients who have no concept of or little regard for internal accounting controls
5. Clients who refuse to make needed changes and who consistently ignore your advice
6. Clients you don't respect or trust

Around our place, we prepare an Annual Client Retention Form (as adapted from PPC's *Guide for Compilation and Review Engagements*) for each client for whom we prepare a compilation report (whether the financials will be provided to third parties or not). You will find a copy of this form in exhibit 7-1. We take this process seriously. Good, healthy, honest clients are much less likely to resort to the courts to settle their problems.

The one question that serves as the acid test for each client but isn't included on this form is, "How do I feel about my relationship with _____." If I don't *feel* good about a particular client and don't believe I can improve the situation, I will opt out of the relationship.

Ron Stewart only accepts a new client after he has made an on-site visit and looked at the books. This gives him a chance to evaluate the client. He shared this recent experience to illustrate the point.

EXHIBIT 7-1. Annual Client Retention Form*

Client: _____		
	Yes	No
Is there any reason to doubt the integrity of this client, company personnel, or both?	_____	_____
Is the client experiencing serious financial difficulties that could threaten the company's continued existence?	_____	_____
Is there any reason to question the reliability of the financial records?	_____	_____
Is the client's system of internal control seriously deficient?	_____	_____
Are we aware of any independence problems or conflicts of interest arising from relationships with other clients, firm members, or their families?	_____	_____
Do we have a problem collecting our fees?	_____	_____
Does the fee arrangement violate the Code of Professional Conduct as it relates to independence?	_____	_____
Is the expertise necessary to perform the engagement beyond our capabilities?	_____	_____
Is the staffing commitment required by the job beyond our capabilities?	_____	_____
Do any unresolved disagreements exist regarding the application of accounting principles either with our firm or with a predecessor firm?	_____	_____
Is there anything about the engagement that subjects the firm to undue exposure to third parties or causes us to be uncomfortable about being associated with this client and/or the associated engagement(s)?	_____	_____
Attach a memo explaining all yes answers.		
I authorize the firm to accept or retain this client: Initials: _____ Date: _____		
<small>*Adapted and reprinted from <i>Guide to Compilation and Review Engagements</i>, copyright © 1998 by Practitioners Publishing Company, Fort Worth, Texas. To order call 800-323-8724.</small>		

“I had a chance to take on a new business that was referred to me by a banker,” Ron says.

This business was overdrawn, hadn't filed payroll taxes in four months, and hadn't filed sales tax returns at all this year. Years ago I would have jumped at the chance to turn them around, but I started probing and discovered some characteristics within the company that I knew I was not going to be able to change. I could have compromised with

them and we could have caught them up, but I knew they would eventually return to where they are now because that's how they do business.

Do a little up-front investigating. Call the prospect's banker. Although you will probably not receive a direct response to your inquiries, sometimes what the banker doesn't say will speak volumes. Find out who the prospect uses for legal counsel, how often, and in what contexts. Avoid those who seem to have a predilection for solving their disagreements in court. If possible, have a frank, open discussion with the prior accountant. There are two sides to every story. At a minimum, you should be able to avoid what led to the demise of the previous professional relationship.

As sole practitioners many of our new clients are start-ups. This is as it should be since we understand the special needs of the fledgling business and its entrepreneur owner. Every start-up is inherently risky. They are usually undercapitalized. The owner is more likely to be a good technician (for example, plumber, auto mechanic, computer programmer) than a good business manager. Before you accept a start-up, it's a good idea to determine whether your new client has business sense and is willing to listen and learn.

Businesses that fail create unhappy clients, and unhappy clients are more likely to sue. Every business needs cash. Some of this can be overcome by hard work and a fair amount of courage. But eventually, poor cash flow will kill even the biggest and best. Find out where the cash is coming from, how much is available, and project how much is needed. The more strain placed on this all-important business resource, the more likely you are to be looking at a problem down the road.

Know When to Call it Quits

The only thing worse than taking on the wrong client is tenaciously hanging onto the wrong client. Pareto's Principle holds that 80 percent of the results flow out of 20 percent of the activities. When speaking of clients, it is also true the 80 percent of the *problems* come from 20 percent of the clients.

There is a common misconception that anyone who can pay has the right to be served. The customer is only right so long as he is a customer. You have no obligation to continue looking after someone who brings you more grief than profit.

Bea Nahon has the right idea.

Too many practitioners are so focused on growth that they forget why it is they want to grow. All they know is they want to grow. They're taking jobs right and left and they're going out and marketing their brains out. Growth is a wonderful thing, but no one loves an unpruned tree. So don't be afraid to prune back the branches when they grow in the wrong direction. Ultimately you'll have a healthier tree.

Never do work for anyone you can't trust! Al Williams shared an experience that resulted in a termination for this cause. "One reason I've terminated clients was because they suggested that I do something that I perceived to be outside the parameters of propriety," Al said.

That goes all the way from being against the law to just inappropriate positions.

On one occasion, I was interviewing a client and happened to find a little cocktail napkin between the ledger sheets in a set of books that were under some old Wilson-Jones binders. It said, "Whatever you do, don't show Al the red books!" The books I was working on were blue.

Janet Caswell brought up another reason for disassociation.

I have a client that has grown too big for me. We can't grow with them, so I've been talking to some larger firms about this client. I love this client. The controller used to be my junior at my old firm. I've known him since he was eighteen, and I know the family of the company's president. But I just can't keep up with them anymore.

There is no defense for incompetence. If you don't have the time or you can't do the work, walk away!

One of the best means of identifying those 20 percent of the clients causing 80 percent of the problems is through the use of a client evaluation form. I have included one from *The Practicing CPA* in exhibit 7-2. I like to go through this process right after tax season when I am most inclined to get rid of troublesome clients. Remember that this evaluation will also identify your best clients. Put these clients on a list, and make a commitment to provide them with uncompromising service.

As you look at the point system in exhibit 7-2, note that liability exposure carries the greatest negative. You may want to modify the points to suit your own feelings about the importance of these areas relative to each other. But, I personally believe that you will be making a mistake if you agree to work for a client who may very well introduce you to the legal system.

While doing some research for this book, I read an article that suggested charging a premium fee for riskier engagements. Personally, I am uncomfortable with that suggestion. In my opinion, there is plenty of good work out there. If I don't feel secure in the work I'm doing and for whom I am doing it, I'll let someone else take the risk.

Whenever you cut a client loose, be sure to make a good transition as there may be some grounds for legal action if the timing coincides with a loan rejection or an IRS audit, for example. Invite a member of your staff to be present during the exit conference and to follow the meeting up with a letter documenting what was discussed, detailing the reasons for your firm's withdrawal, and stating what you will be doing to assist with the transition to the new firm.

Bob Whipple has been quoted many times as saying

The most important thing you can do is to make a list of your top ten clients and then take good care of them. But you also need a list of your ten worst clients and then do something about them. I've got my ten worst list down to about fifty, now.

Is there a lawsuit hiding somewhere in that group?

EXHIBIT 7-2. Client Evaluation*

Name of Client _____		Partner/Evaluator _____	
		Date _____	
(Circle Only One Number)			
<i>Client's Information</i>	<i>Points</i>	<i>Client Beats Drum for Us</i>	<i>Points</i>
Hopeless or always late	-2	Never	-2
Scattered but workable	2	Would if could	1
Needs training	4	Not recently	2
Good	6	At times	5
Excellent	8	Every opportunity	10
<i>Client's Potential</i>		<i>Client Wants This</i>	
Terminating	-5	Minimum service (low fee)	1
Decreasing	-2	Security from IRS	2
Level	2	Counseling	3
Growing	8	Timely service	4
Unlimited potential	15	Direction and tax planning	5
<i>Client's Attitude Toward IRS</i>		<i>Client's Self-Indulgence</i>	
Neurotic	1	Spendthrift (self and family)	1
Hostile	2	Cheap	2
Apathetic	5	Frugal and economical	3
Wants things right	8	Liberal	4
		Controlled first class	5
<i>Client Needs This</i>		<i>Client's Attitude Toward Our Staff</i>	
Bookkeeping	2	Hostile	1
Compilation reports	5	Lukewarm	2
Audit and review reports	10	Wants a friend	3
Special services (estate, systems)	12	Polite and businesslike	4
Big league (unlimited future)	15		
<i>Collection of Fees</i>		<i>Liability Exposure</i>	
May never receive	-5	Good chance of loss	-20
Always 90 days late	-2	Possible	-5
Pays within 45 days	5	Not likely	2
Pays when receives bill	10	Almost impossible	5
<i>Fee Structure</i>		<i>Financial Stability (Line of Credit)</i>	
Always complains (too high)	-5	Terrible	-10
Requires time and bill itemized	-2	Poor	-5
Usually accepts amount of bill	5	Good	5
Wants service and will pay for it	10	Excellent	10
Thinks we're the greatest	15		
		<i>Scoring</i>	<i>Points</i>
		Maximum	110
		Minimum	-43
Total Points _____		25 points or less	Highly suspect
(Write Additional Comments on Back)		26 to 50 points	Need to work with
		51 points or more	Satisfactory

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Reduce Your Agreement to Writing

Since the decision regarding the liability issue will ultimately rest with the judge and jury, you should know how innocence and guilt are determined. The court should resolve the question of liability in accordance with what you and the client contracted for. The plaintiff's claim will be that he or she engaged you to do something you did not do. Your defense will be that either you did what the client claims you did not do, or that you were not engaged to do what the plaintiff claims caused the damage. The jury's job will be to review the evidence, both oral and written, to decide what you agreed to do and to determine whether your performance or lack thereof caused damage.

In this context, there is nothing that can help you more than a carefully crafted agreement. In our profession that agreement is called an engagement letter. Without one, a judge and jury will have to decide between two radically divergent views. The engagement letter establishes the parameters of the firm's employment with the client. It is your contract with the client. It can either hang you or save you. The following are steps to help you structure a good engagement letter.

- State the date of the agreement between the firm and the client.
- Identify the recipient specifically (the owner, president, or CEO—not the bookkeeper).
- State clearly the entity covered by the engagement.
- Detail the services to be provided and the anticipated results (for example, compilation report, computerized accounting system, or business valuation).
- Indicate the limitations of those services.
- List the client's responsibilities during the engagement.
- Include deadlines, time frames, or due dates, if any.
- Specify who the report is provided to and restrictions on further dissemination (which can aid in a privity defense, thus reducing or eliminating third-party liability).
- Discuss billing procedures and payment requirements.
- Include a clause regarding how to resolve disputes.
- Provide a place for signatures (and be sure to get them).

Take a look at the example in exhibit 7-3. This is what we use for the majority of our regular compilation engagements. Each time we do a third-party engagement, we obtain a separate engagement letter that adds the third party to the intended-parties portion of the letter.

Be careful with your language. If you can make it more plain, do so. If twelve high school graduates can't understand it, you'd better try again. Remember, the legal system already believes you should be held to a higher standard than our professional principles require. You've got to be able to clearly prove that the client agreed to a less stringent degree of responsibility from you.

EXHIBIT 7-3. Sample Engagement Letter

Date

[Name of Client]

[Address]

Dear _____:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following services:

We will compile, from information you provide, the balance sheet as of December 30, 20X0 and the related statements of income and cash flows of [Name of Client] (a limited liability company) for the year then ended. We will not audit or review such financial statements. Our reports on the financial statements of [Name of Client] (a limited liability company) are presently expected to read as follows:

We have compiled the accompanying balance sheet of [Name of Client] (a limited liability corporation) as of December 31, 20X0, and the related statements of income and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them. However, we did become aware of a departure from generally accepted accounting principles that is described in the following paragraph.

Management has elected to compute depreciation, based on the method used for federal income tax purposes, which is not in accordance with generally accepted accounting principles. The effect of this departure from generally accepted accounting principles has not been determined.

If, for any reason, we are unable to complete the compilation of your financial statements, we will not issue a report on such statements as a result of this engagement.

Our engagement cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations, that may exist.

We will assist your bookkeeper in adjusting the books of account so that he or she will be able to prepare a working trial balance from which financial statements can be compiled. Your bookkeeper will provide us with a detailed trial balance and any supporting schedules we require.

Our fees will be billed as work progresses and are based on the amount of time required plus out-of-pocket expenses, if any. Invoices are payable by the 20th of each month.

EXHIBIT 7-3. *Sample Engagement Letter (continued)*

Any disputes arising as a result of this engagement shall first be submitted to mediation and may be submitted to binding arbitration under the rules of the American Arbitration Association. In the event that a dispute results in the matter being tried in a court of law, the prevailing party shall be entitled to receive reimbursement for all costs and expenses incurred on such action including court costs and reasonable attorney's fee.

We shall be pleased to discuss this letter with you at any time.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

Sincerely,

Dodds & Associates

Acknowledged:
[Name of Client]

_____, Managing Member

Date

Also try to remove all self-serving language. You don't want to give the impression that the engagement letter was intended as a one-sided attempt to avoid liability on your part. Rather it should read as a reasonable attempt to express the commonality of understanding between the parties before hostilities arose.

Our tax clients also sign the engagement letter shown in exhibit 7-4 when they pick up their returns. We prepare all other engagement letters on an individual basis. I usually refer to the *MAP Handbook* or resource materials related to the specific engagement for assistance in drafting those agreements.

Besides the engagement letter, on each third party compilation we prepare a client representation letter (see exhibit 7-5) that we read with the client and have him or her sign at the time we deliver the statements. This is not a requirement for compilation engagements, but I like having something in the file with the client's signature on it indicating his or her acceptance of responsibility for the numbers and disclosures.

EXHIBIT 7-4. Sample Tax Engagement Letter

CLIENT: _____

TAX RETURN: Individual Corporate Partnership FiduciaryTAX YEAR ENDED: _____ Amended

The accompanying tax returns have been prepared in light of current tax law from data provided by you and not audited by us. Where there is substantial authority for a position taken on the returns, doubts as to interpretation of the law have been resolved in your favor.

The Internal Revenue Code imposes a 20 percent "accuracy related penalty" for substantial understatement of tax liability where substantial authority for a claimed deduction or excluded item of income does not exist. In those cases where substantial authority may not exist for a position taken on your return, we have either attached Form 8275 as required by the Internal Revenue Code or have discussed with you the risk of imposition of the penalty.

Subsequent retroactive changes that may be made in tax law or interpretive regulations and rulings could affect items included in or excluded from these tax returns. Also, if there are examinations of these returns by taxing authorities, the supporting records will be reviewed and certain changes may be proposed. In this regard travel expenses, meals, lodging and entertainment expenses, and charitable contributions in excess of \$250 are deductible only for those items for which you have supporting documentation. Your signature below acknowledges that you have the required documentation for all such deductions. Preserve the records on which these returns are based for a minimum of three years from the filing date.

If you are notified that this return is to be audited or if you receive notice of a proposed additional assessment—Please notify this office immediately!

Fees for the preparation of the income tax returns referred to above are due and payable in full when you receive the returns. We do not charge for the revision of a tax return due to incorrect computations by this office. However, if additional services are required due to incorrect information furnished by you, subsequent changes in the tax law or its interpretation, or attempted change of items previously resolved in your favor by a revenue agent either by audit or otherwise, the additional services will be charged for at our customary rates for such services. Any disputes arising as a result of this engagement will be submitted to mediation then, if necessary, to binding arbitration under the rules of the American Arbitration Association.

By your signature below, you acknowledge receipt of your original source documents, both federal and state income tax returns for the year listed above, and copies of all returns for your records. You further represent that the information provided to us during the course of this engagement is true and complete to the best of your knowledge and that you accept the terms and conditions as set out above.

Signature _____ Date _____

EXHIBIT 7-5. *Sample Client Representation Letter*

[Name of Client]

January 19, 1998

Dodds & Associates
397 Blue Lakes Blvd. N.
Twin Falls, ID 83301

Dear Mr. Dodds:

In connection with your compilation of the balance sheet of [Name of Client] as of December 31, 20X0, and the related statements of income and cash flows for the year then ended, we confirm, to the best of our knowledge and belief, the following representations made to you:

1. The financial statements referred to above present the financial position and results of operations of [Name of Client]. In that connection, we specifically confirm that:
 - a. The company's accounting principles, and the practices and methods followed in applying them, are as disclosed in the financial statements.
 - b. There have been no changes during 20X0 in the company's accounting principles and practices that have not been disclosed in the financial statements.
 - c. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
 - d. There are no material transactions that have not been properly reflected in the financial statements.
 - e. There are no material losses (such as from obsolete inventory or purchase or sales commitments) that have not been properly accrued or disclosed in the financial statements.
 - f. There are no violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, and there are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed.
 - g. The company has satisfactory title to all owned assets, there are no liens or encumbrances on such assets, nor has any asset been pledged that has not been disclosed in the financial statements.
 - h. There are no related-party transactions or related amounts receivable or payable that have not been properly disclosed in the financial statements.
 - i. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
 - j. No events have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.
2. We have responded fully to all inquiries made to us by you during your compilation.

[Name of Client]

_____, President

Follow Proper Supervision and Review Procedures

Common sense dictates that you not assign tasks to staff members who do not have the requisite skills to perform them. This is a particularly delicate issue for a sole practitioner since most of us have a very limited supply in the talent pool. In chapter 2, "Positioning Strategies—Niche Versus Full Service," we talked about joint ventures and consulting agreements, but for now it suffices to say that you've got to take *personal responsibility* for the quality of every piece of work that leaves your shop.

The best way to improve your chances of prevailing in any suit alleging substandard work is through a good set of checklists such as the ones you were introduced to in chapter 6, "Improving Client Service." I use these for both compilation and review engagements. A well-designed checklist reduces the potential for mistakes (especially overlooked items) by requiring the staff member to sign off on individual tasks when each is completed. They also provide a system of review that helps us catch errors or oversights before the financials leave our office.

One thing you shouldn't have in your working papers is your review notes. Remove them and any other papers that are preliminary in nature or that could lead to incorrect conclusions. All too frequently, practitioners have given the plaintiff's attorney all the ammunition he or she needs on some forgotten scrap of paper tucked neatly away in the working papers. One of the questions on my Engagement Review Checklist (exhibit 6-6) asks whether the review notes have been removed.

You should also be using a tax return checklist (see exhibits 6-9 and 6-10). We opted for the one on exhibit 6-9 because it is brief and to the point. So many of the tax return checklists I have tried to work with in the past were an overkill for the majority of our engagements. It took more time to go through the checklist than it did to do the return. Occasionally, we get a complex return. In those instances, we use the more-detailed AICPA Tax Division questionnaires to help us make sure we haven't overlooked anything. But for the most part, the abbreviated versions work well.

Much of the review process we go through in my firm is accomplished by my professional staff. If you are practicing without staff or if none of your staffers has the requisite training or experience, try implementing a cooling off period. That is, whatever you finish today wait to review until tomorrow. Distancing yourself from the engagement through the passage of time will help you be more objective.

In some instances you may wish to contract with another firm to review your work. I realize that this may be especially difficult in smaller communities because of competition issues, but it has to be preferable to missing something that a client's attorney can feed upon. Try this in conjunction with the firm association concept discussed in chapter 14.

In addition to improving overall product quality, checklists actually reduce liability exposure. Being able to *show* a judge and jury the organized process we follow in preparing our working papers and financial statements is much easier than trying to explain what was done by merely referring to the working papers alone. Design your

checklists to separate your responsibilities from those of the client. This is a crucial key to any malpractice defense.

Avoid Suing for Fees

In my experience, there are usually only two reasons a client doesn't pay the fee. Either he doesn't have the money or he is unhappy with the work. In the case of the former, you'll probably net very little. In the latter case, you'll probably find yourself on the wrong end of a malpractice suit.

More and more conflicts are being settled out of court through alternative dispute resolution (ADR). There are a number of different ADR processes: binding arbitration, mediation, prelitigation panels, rent-a-judge, summary jury trials, or minitrials. Each of these, while somewhat different in method, are united in purpose—to keep the combatants out of court.

Take a minute to review the dispute resolution paragraph in the sample engagement letter in exhibit 7-3. Note that any dispute requires mediation but only *allows* for arbitration. The reason is that your professional liability insurer may be able to void coverage if the insurer is unable to pursue the case in court. Review any language you decide to include in your engagement letters with your liability insurance carrier before adding it.

Mediation and binding arbitration differ in that mediation is an attempt to settle a dispute by getting the parties to compromise. Binding arbitration, on the other hand, is a more formal process that involves providing testimony and submitting documents to an arbiter or panel of arbiters who then make a decision, which is binding on the parties and cannot be appealed. Mediation is becoming much more popular and is actually mandated in some jurisdictions before one can sue. Since it is nonbinding, there is nothing to lose and considerable cost to be saved. Even in cases in which a settlement is not reached, the documents and information obtained during the process will help the attorneys test the relative strengths of their positions and may improve the chances for an out-of-court settlement later on.

Arbitration is much more akin to a trial. Witnesses are called and exhibits are entered into evidence. Some of the rules required in court may be modified or waived for arbitration purposes by agreement of the parties. The binding nature of the process is its greatest advantage and its greatest detriment. The decision of the arbiter(s) is binding without possibility of appeal. Only when a party to the arbitration can show fraud, corruption, bias, or a manifest disregard for the law will the court consider vacating an arbitrated award.

UNDERSTANDING MALPRACTICE INSURANCE

Regardless of how hard you try to avoid them, mistakes will happen. When one does, your malpractice insurance premiums will be the best money you ever spent. I have met a few practitioners who have chosen to go “bare,” claiming that most attorneys won't bother with litigation if there is no insurance company involved. This begs the issue. Even if there is no major amount to be obtained from an insurer through legal means, you may still be required to retain an attorney to mount a defense. These costs alone can amount to a sizable sum. This is a major reason why I carry malpractice coverage.

The Basics of Professional Liability Insurance

That said, there are some basics you need to understand about how professional liability insurance works. Probably the most important is the question of which acts are covered. The answer to this question comes in two parts.

First, the majority of policies issued to sole practitioners are of the claims-made variety. This means that only those claims reported to the insurer during the period the policy is in force will be covered. The alternative is prior-acts coverage, which also insures covered acts prior to the policy date. To avoid a gap in coverage when changing to a claims-made policy, you may be able to purchase tailgate insurance from the insurer you are leaving. Be very careful about changing insurance companies too often and be sure to plug the gap when you do.

Second, consider the nature of the service being rendered. Some services are specifically excluded from coverage. These exclusions normally include—

- Personal dishonesty, fraud or criminal activity, slander, libel, and Employee Retirement Income Security Act of 1974 (ERISA) or Racketeer Influenced and Corrupt Organization Act (RICO) violations.
- Bodily injury, sickness, death, or property damage (occurrences that should be covered by general liability, auto, or fire insurance policies).
- The practitioner's activities outside the normal scope of services (for example, officer, director, or employee of another entity).
- Activities as a broker or dealer in securities.
- Administration of an employee benefits plan covered by ERISA.
- Securities and Exchange Commission (SEC) or securities registration work.

Liability for noncovered services is a particularly easy trap for a sole practitioner to stumble over since we work so closely with our clients. *Before you accept an engagement outside the normal operations of your practice, contact your insurer.*

Along with a clear understanding of what your insurance covers, you will also have to select policy limits and deductibles. Policy limits often contain two limits: per

claim and aggregate. The per claim limit is just what the name implies—the dollar limit the insurer will pay for each claim. The aggregate limit on the other hand is the total dollar amount the insurer will pay for all claims made within a policy year. A policy whose limits are \$100,000/\$200,000 provides coverage up to \$100,000 per claim with an annual aggregate limit of \$200,000 to all claimants. These dollar limits usually include the cost of defense.

The deductible is that amount which the sole practitioner pays before the insurance company picks up the tab.

Policy Choices

Determining the right limits and deductible is an individual matter. Consider the services you offer, the clients you serve, the climate for litigation in your practice area, what you own that someone else could get, and what you could afford to lose. How much is enough? Most practitioners opt for the most they can afford with a deductible as high as they could pay without seriously impairing their ability to remain in practice.

As you evaluate policies, look for one that—

- Is active in insuring the accounting profession.
- Has a superior rating.
- Will allow you to participate in the selection of defense counsel.
- Will not settle out of court without your consent.
- Is easily modified for the changes within the firm.

Methods for Handling a Claim

Most companies require timely notice of all claims and potential claims. The determining factor is not whether the solo believes there is merit to the claim but whether a client or third party believes he or she suffered damage by the negligent acts of the practitioner. When it appears that something has occurred that may precipitate a malpractice claim, take the following steps.

- Notify your malpractice carrier *immediately*.
- Make no admissions or attempts at settlement without the insurer's authorization.
- Contact your own attorney.
- Avoid discussing the claim with anyone including staff.
- Be completely candid with insurance company personnel and their attorneys.

When you total up the costs—attorney fees, the damage award, and the lost time, a malpractice claim can be lethal to a sole practice. In a partnership, the partners share the burden. No one stands with an uninsured solo.

SELECTING AN ATTORNEY

The legal profession is much like the accounting profession in that there is a core of knowledge every attorney must have in order to be admitted to the bar. However, in the area of specialization the legal profession more closely parallels the medical profession. As previously discussed, networking with attorneys should be an ongoing function of your marketing plan. As you become better acquainted with a number of attorneys through your conversations and interactions during client engagements, identify their relative strengths. It was because I recognized these differences that one attorney prepared my will, another handles my firm's collection matters, and yet another would be my choice to handle a malpractice case. It may be possible to identify a firm to handle everything, but to my way of thinking this seems like the HMO approach. If I'm going in for brain surgery, I'll pick my own doctor, thank you.

Here are some suggestions to help you hand pick your attorney.

- What are the attorney's areas of specialty?
- Has this attorney had prior experience successfully representing clients in similar circumstances?
- What other resources are available to this attorney both within the firm and through association?
- How is this person perceived by his or her peers in the legal community?
- Is this a person I can trust?

Selecting the right attorney for the job is a jugular issue. I recently testified in court on behalf of a client whose attorney had been retained years earlier for his expertise in patent and trademark law. The issue from our side was trademark infringement. However, the other side's position was restraint of trade and interference with a contractual relationship. Early on, rightly or wrongly, the judge ruled that he saw no trademark infringement and that the case would be tried on the contract interference issue, thus placing our side on the defensive.

Through the entire trial, our attorney continued to argue the trademark issue. He may have been an excellent patent attorney, but he did an extremely poor job in the courtroom—so poor in fact that my client lost the case and the attorney's firm found itself as the defendant in a \$3 million dollar malpractice suit.

Choosing the right attorney is a lot like selecting the right golf club. You want the club that will get you closest to the hole. If you need someone to collect a fee, find an attorney who does that job well. If you plan to go to court, hire a litigator.

SELECTING AN ENTITY TYPE

Although the majority of solo practices are organized as sole proprietorships, the CPA has a number of other options to choose from. In addition to incorporating, in many states the practitioner may also opt for a professional limited liability company (PLLC). When selecting one entity type over another, the solo should determine which provides the best opportunity for decreased liability exposure and decreased taxes.

Speaking strictly from the standpoint of reducing malpractice liability, most jurisdictions do not allow a professional to avoid liability for personal acts by surrounding him- or herself with a separate legal entity. Since we don't practice with partners, from the standpoint of limiting liability alone, it makes little sense to incorporate or organize a PLLC. However, there may be an exception for a solo who shares office space with another practitioner. In this case, forming a PLLC or incorporating may provide a legal separation that would shield the solo from the acts of a partner-through-association.

There are a number of tax issues that the practitioner should address as he or she considers opting out of sole proprietorship status. Some practitioners may be tempted to incorporate under Subchapter S to avoid a portion of the self-employment tax. However, the reasonable compensation regulations will eliminate most of that advantage.

A Subchapter C corporation has the advantage of more favorable employee benefit packages. The problem is that a CPA firm is considered to be a qualified professional corporation under Internal Revenue Code (IRC) §11. This means that any taxable income remaining in the corporation is subjected to a flat 35 percent tax rate. In addition, its earnings distributed as dividends are subject to taxation at the individual level.

Suffice it to say that there are no readily apparent liability or tax reasons for selecting one particular legal entity over another or, for that matter, over a sole proprietorship. It is strictly a matter of individual circumstances. And remember to consult your attorney before electing to move from a sole proprietorship to any other entity form.

THE BOTTOM LINE

As much as we might wish we could practice without having to worry about the vagaries of the legal system, that is simply not possible. We are surrounded by it, and the storm doesn't look like it will be abating any time soon. But for those who take pains now to reduce their exposure to litigation—by improving their quality, carefully selecting the clients they serve, documenting what they have agreed to do—and who deflect the majority of the risk through a good malpractice policy, the legal issue can be reduced to just one more managed problem.

CHAPTER 8

FINDING THE RIGHT PLACE TO HANG YOUR SHINGLE

Because accounting services are basically intangible, clients may perceive their value and quality through the physical environment in which they are performed. The care and attention you demonstrate in your office environment suggest the level of care and attention you will devote to professional matters as well. In addition, an intelligently planned and attractive office improves employee morale, efficiency, and productivity. Ultimately, careful office planning will have a favorable effect on your firm's bottom line.

—MAP Handbook (210.01)

Does where you practice make a difference? If so, how important is it? What about sharing space with another practitioner? Can I eliminate all that expense by setting up a “virtual” office? These questions and others involving where and how you choose to locate your practice do have a significant effect on your firm.

PROFITING FROM YOUR OWN SPACE

I started my practice in the unfinished basement of our home with some office furniture I borrowed from my father. The only thing I can say about it was that it closely paralleled the status of my finances at the time. As I look back, finishing the basement did little to improve my image. I was still practicing out of a basement. After the first tax season I moved into a modest office. It had two major advantages: it was new, and it had a good address. The real estate agent who leased it to me told me that in three months my business would grow enough to pay the rent. He was right. Three more moves followed. Each of them improved my image and my profitability.

As I see it, an office affects a firm's image in two ways—by its location and by its *personality*. As to location, a solo who is aiming for a heavy health-care concentration would obviously be better off locating close to a hospital, while a practitioner who is manufacturing-oriented might wish to locate closer to an industrial park. All too frequently, the sole practitioner doesn't consider his or her clientele and target market when selecting a new office site. This is a mistake.

Sometimes, it makes sense to move close to one's principal referral sources. This is one advantage to working in the city's financial district where you can meet and greet bankers, attorneys, and other professionals in the vicinity. Working near restaurants and

support services such as office supply stores may also be helpful. A good office location can put you in the right place at the right time. This is what happened to Bea Nahon.

One of my largest clients was a company that at one time was very small, a brand new start-up company, who had office space just down the hall from me. I was referred by the landlord. Now they are the largest company of their type in the state of Washington. Some things are just a matter of luck...

Someone once defined luck as the point at which preparation and opportunity meet. Using this definition, I would agree that Bea was lucky. Bea selected an office which gave her the opportunity to meet that client.

Location, location, location. It's as true in the CPA business as it is in the real-estate business, and it is especially true for a traditional sole practice. As we discussed in chapter 4, new clients and new referral sources are the result of personal contacts made persistently over a period of time. Where you are *physically* significantly influences the personal relationships you develop.

Be alert to the signs of a dying neighborhood. If the area around you is beginning to deteriorate, it may be time to move on. Just as growth is progressive and vital to your firm, so can the reverse slowly kill your practice. You will be found guilty by association if the neighborhood declines. Never choose your location because the rent is cheap!

Because our society is so mobile, you need to be easily accessible to clients unless you intend to go to them. Ample parking is a must in suburban or rural areas alike. In the city, you need to be sure you are close to safe public transportation and that parking areas are well lighted and secure.

CREATING AN OFFICE PERSONALITY

Your office's location is no more important than the impression it makes on those who come to call. It tells a tale about how you operate. Some offices are luxurious, others are spartan. Some are neat and tidy while others are cluttered. Each says something unique to the market. Each will appeal to a different group. Not long ago I heard someone seriously recommend getting a bottle of leather scent and having the receptionist spray it throughout the waiting room several times a day. Evidently the smell of leather is somehow neurologically linked to the impression of success.

Physical amenities do influence your current clients and prospects. For example, a move to the high-rent district may elicit a, "I'm not paying for this!" attitude from some of your existing clients, while others visiting a more modest office might feel the practitioner is not sufficiently established or skilled to handle their affairs.

Take a good look at your office. Ask yourself this question, "If I were to walk in the front door for the first time, what would I think about the firm that occupies this space?" If you are not satisfied with the answer, change things until you are.

SHARING SPACE

Some practitioners may wish to enter into an office-sharing arrangement. These can be especially helpful to a new practice as the cost is usually lower particularly when sharing a receptionist, copier, fax machine, and so on. Again give special attention to location and ambiance, and consider the following two additional comments as well.

First, avoid any situation where your firm may be treated as the poor relation. Imagine the effect on a prospective client if a receptionist were to say, “Oh, I don’t know where Janice is. She just rents a little office from us.”

Second, select your co-tenant carefully. Not long ago I picked up a new client, an architect. He was sharing space with another architect in a respectable office space. The problem was that he didn’t feel his firm was going anywhere and my initial review of his numbers bore this feeling out. During the course of our discussions, we talked about his partner.

Even though they had no legal or financial ties other than the office rent and the wages of one shared draftsman, my client recognized that he and this *roommate* were viewed as partners. As long as he continued to share space, he felt incapable of raising fees, marketing aggressively, or running his own show. So he decided to move. During his first four months in the new office his gross fees exceeded his gross for the entire previous year.

On the other hand, I know of a firm that shares space with another firm in a town near where I practice that has been successfully operating since long before I began my practice. They share everything. The public considers them a partnership, but they are actually individual sole practices linked together by a common space and some shared employees and equipment. The point to this discussion is this—you are judged by the company you keep. Choose wisely.

GOING VIRTUAL

There are an increasing number of solos who are going virtual these days. That is, they practice in front of the monitor at home, with their laptops in the car, and at their clients’ offices. Believe it or not, much of what you just read applies to these practitioners, too. Those who elect to practice in this way are also judged, rightly or wrongly, by their appearances—their cars, rented conferences rooms, and so on.

Most practitioners, especially those who adopt the virtual office concept, will on occasion need to rent a meeting room space. Use care in selecting the facility. Rightly or wrongly, you will be held responsible for the physical setting even though you have little control over it. Take a lesson from my history. When I was much younger and less experienced, I set up a tax seminar for clients and prospects. It was to be held in a sectioned-off portion of a larger room in the local Holiday Inn. About a week before the seminar, a client called me. The conversation went something like this, “Terry, this is George. That seminar you’re putting on, isn’t it on the 22nd at the Holiday Inn?”

“Yes, that’s right, George. Will you be able to come?”

“Oh, I was planning on it, but did you know there is an Elvis impersonator scheduled there the same night?”

Needless to say, I made a hasty call to the conference liaison. Unfortunately for me, the hotel had decided that Elvis would probably draw better than my tax seminar. They gave me a choice, though. I could go ahead with my seminar even though no one would be able to hear, or they would let me out of my contract. The moral to this story: pay attention to the details. I was lucky. I could have shown up that evening and had to go head-to-head with the King!

The virtual office is possible because of recent technological advances, particularly in communications. Anyone who plans to go virtual must be on the leading edge of technology and make every effort to stay there. Mandatory equipment includes a modem hookup to a central file server, a cell phone, voice mail, email, and a pager.

Solos looking to go virtual have to decide how to treat current staff. When Janet Caswell went virtual, she fired all her employees and then contracted with them on a per-diem basis to work out of their homes. However, there were two or three who did not want to practice in this way and she lost them. As telecommuting becomes more common, we are finding that not everyone is suited to working this way. To be successful, you'll have to find out who can and who can't do this effectively. Another disadvantage is that you lose the synergy that results from the close physical proximity of your workers.

Of course there are other advantages beside the obvious decrease in occupancy expense. I personally like being in the client's office. Over the years I have found that I am more billable and that I have an easier time collecting the fee when my clients can see me working.

Taking the virtual office to the extreme, some sole practitioners have been able to develop a successful niche market over the Internet, which allows them to work anywhere they can plug into a telephone jack. This completely eliminates the need for attractive, functional office space by substituting a dynamite home page and site links that encourage visitors to return.

MAXIMIZING YOUR INVESTMENT

Let's assume you have opted for the traditional office approach and have obtained an office space. The next step is to use your space to its maximum potential. Here are some of the ways you can squeeze every square inch from each square foot.

- Purge files regularly and use lower cost off-site storage for older files that must be retained. In some cases, optical disc storage could become a cost effective solution.
- Look for space wasters such as computers that take up floor or desk space. Tower-cased computers can easily be moved underneath desks or tables. The file server may even be placed in a closet.
- For offices with large open areas, consider modular workstations. Most of these are designed with economy of space in mind.

- Elect to use electronic media for as much as possible. Books may look impressive but they take up a lot of space.
- Have staff share office space.
- Contract some work out to individuals who do not require your office space.
- If adjacent space becomes available, be sure you won't need it before allowing someone else to take it.

I wish I had a quarter for every time I have tried to explain to a client why her bookkeeper needs peace and quiet to get her job done. Our business requires a high degree of mental concentration. Any distraction reduces efficiency. Technology has both caused and resolved this problem. Dot-matrix printers are being replaced by much quieter laser or ink-jet printers. If you still must use a noisy printer consider networking it, thus allowing you to move it to a less-populated location in the office. You might also purchase an acoustical cover to help keep it quiet.

Most telephone systems are now programmable. When setting them up, think carefully about where they will ring. To accomplish the least disruption, have the phone ring only at the receptionist's desk with the option to switch to another person in the firm if he or she is unavailable. In the event that neither can answer, the system should then roll to an answering machine or to a voice mail system.

Lighting is also important. Because much of our work is done with computers now, situate each monitor so as to reduce eye strain. This is particularly important in windowed rooms where natural light varies by time of day and season. Antiglare screen coatings or filters offer protection. Polarized screens are generally better. Avoid white walls in favor of more muted tones that reflect less light and reduce glare. Try to arrange the room so that windows are to the sides of the computer screen rather than behind or in front of it.

It is also important to provide enough light. Sitting in a dark room staring at a computer screen is physically draining and reduces productivity. Control artificial lighting so that it is bright enough to allow workers to see without straining. Overhead florescent lighting and indirect systems are the best.

THE BOTTOM LINE

Regardless of whether you practice in an office, in your car, or at home in front of your computer, your surroundings send a powerful message. They also significantly impact the people with whom you work. I suspect that if you came to work with socks that didn't match or a run in your stocking, you would do whatever you could to correct the problem as quickly as possible. Isn't the impression your office (car, meeting room, and so on) gives just as important?

The next time you walk through the front door, try to imagine that you are there for the first time. The next time you get into your car, ask yourself what message you are sending to a prospective client. If you're not impressed, do something about it.

CHAPTER 9

TAKING CARE OF YOUR MOST IMPORTANT CLIENT

...[I]t is my contention that because of the time needed ... to be aware of new developments, as well as the time spent serving clients, practitioners in small practice units are neglecting their practices. After all, if one has only a certain amount of time to devote to one's work, the general belief is that it be spent improving client service rather than finding ways to run the practice more efficiently.

Sheldon Ames¹

So many times over the past two decades I have heard top practitioners say, “Make your own firm the firm’s number one client.” Take control of your practice by using the tools discussed in this chapter to identify the stumbling blocks between you and a highly successful firm. Learn how to develop and use a daily flash list, a monthly key number analysis, a cash budget, and your firm’s basic financial statements. See how using the Maister formula will help you compare your firm to other successful firms. Finally, learn how to find and work with a banker, determine the right loan terms, and improve your chances of success when you approach the bank with a loan request.

TRACKING YOUR PROGRESS

It goes without saying that trying to run a practice without information is like putting a blind person behind the wheel of a car. Arriving at the desired destination would be strictly a matter of random chance—blind luck, if you will. Worse yet, you are most certainly setting yourself up for some major problems along the way. You are in the business of business, so take a healthy dose of your own prescription. Produce and use information to guide your operation into making those changes that will result in improved performance.

What information will you need? Obviously, you’ll want a monthly set of financial statements that provide a comparison to the prior year and to budgeted amounts with these ratios:

- Current ratio
- Net fees to working capital

¹Sheldon Ames, CPA, “The Shoemaker’s Children,” *The Practicing CPA* (November 1979), p.2.

- Debt to equity
- Net income after draws to equity
- Debt service coverage
- Net fees to equity (trading ratio)
- Days in receivables
- Days in payables

See exhibit 9-1 for a chart of accounts adapted from the one in the *MAP Handbook*. This is a good starting point since much of the comparative data available will fit with this account numbering scheme. I also like to group account numbers into logical divisions, which further aids analysis of the various functional areas of a sole practice.

Benchmark Your Firm

Any analysis is only useful if it can answer the question, "Is this number good or bad?" This question prompts a second, "Compared to what?" To really benefit from this exercise you'll want to compare your numbers and ratios against your own past history, your budget, and against the industry as a whole. Probably the best source for benchmarks for our profession is the *Management of an Accounting Practice Survey*, which is produced annually by the Texas Society of CPAs. Many state societies participate in the survey and share the results with those member firms who have provided the source data for the survey. Those practitioners who do not participate may purchase the results from the Texas Society. Much of the data developed from the survey is included in the *MAP Handbook*, which also reprints the results of the AOMAR (*Accounting Office Management's Administrative Report*)/AICPA survey taken as a part of the annual Practitioners Symposium.

Budget Cash Flows

There is truth in the axiom, "Profits are an opinion, but cash is a fact." How often have you pointed out to your small business clients that they have a cash flow problem that will force them out of business unless corrected? Why is it, then, that we don't drink at the fount of our own wisdom?

The best method of containing costs is to create a monthly cash budget. This budget is not an exercise in goal-setting but rather a reasonable approximation of anticipated results based on such factors as staff size, their chargeable hours projected on a month-by-month basis (including consideration for overtime hours during tax season and vacation days), billing rates, realization rates, writedowns and writeoffs, and projected cash outflows for regular expenses and the purchase of capital assets. See the sample in exhibit 9-2 to get started.

EXHIBIT 9-1. Sample Chart of Accounts

<u>Major Grouping</u>	<u>Section</u>	<u>Subsection</u>	<u>Acct No.</u>	<u>Description</u>		
ASSETS	Cash		1010	Cash on hand		
			1020	Cash in bank		
			1030	Cash in savings		
	Other current assets	Accounts receivable		1110	Accounts receivable	
				1119	Allowance for doubtful accounts	
				1120	Current portion of long-term receivable	
				1130	Work in process	
				1140	Employee advances	
				1190	Prepaid expenses	
			Property		1210	Land
					1220	Building and improvements
					1230	Office furniture and equipment
					1240	Computer equipment
		1290		Accumulated depreciation		
	Other Assets		1310	Note receivable, net of current portion		
			1320	Goodwill		
			1390	Other intangible assets		
	LIABILITIES	Payables		2010	Accounts payable	
				2020	Retainers	
			2030	Line of credit—1st Bank		
			2040	Operating line—2nd Bank		
			2050	Note payable—1st Bank		
			2080	Accrued interest payable		
			2090	Current portion of long-term debt		
Payroll liabilities			Payroll taxes		2110	Salaries payable
					2121	Federal withholding payable
				2122	State withholding payable	
Long-term liabilities			2123	State unemployment payable		
			2124	Federal unemployment payable		
			2210	Mortgage payable—3rd Bank		
			2220	Note payable—1st Bank		
		2290	Current portion of long-term debt			
EQUITY	Proprietary equity		3010	Proprietary equity		
			3020	Contributed capital		
			3030	Prior period adjustments		
			3090	Personal withdrawals		

EXHIBIT 9-1. Sample Chart of Accounts (continued)

<u>Major Grouping</u>	<u>Section</u>	<u>Subsection</u>	<u>Acct No.</u>	<u>Description</u>
INCOME	Professional fees		5010	Professional fees and charges
	Costs		5080	Unreimbursed client costs
	Adjustments		5090	Adjustments and allowances
OPERATING EXPENSES	Salaries and wages		7010	Salaries—Professional staff
			7020	Wages—Paraprofessional staff
			7030	Wages—Clerical staff
			7040	Wages—Maintenance
	Outside services		7110	Outside services
	Personnel		7210	Payroll taxes
			7220	Employee fringe benefits
			7230	Workmen's compensation insurance
			7240	Professional dues and expenses
			7250	Staff recruitment
			7261	Conferences
			7262	Seminars
			7263	Self-study
			7269	Other professional education
			7290	Other personnel expense
	Office facilities		7310	Rent
			7320	Repairs
			7330	Utilities
			7390	Building depreciation
		Equipment		7410
			7420	Equipment lease
			7430	Maintenance agreements
			7440	Computer parts
	7450		Small equipment	
	7490		Equipment depreciation	
Computer		7510	New software	
		7520	Software updates	
		7530	Maintenance and support fees	
		7540	Tax software charges	
		7550	Internet charges	
Practice development		7610	Civic activities	

EXHIBIT 9-1. Sample Chart of Accounts (continued)

<u>Major Grouping</u>	<u>Section</u>	<u>Subsection</u>	<u>Acct No.</u>	<u>Description</u>
		Prospecting		
			7621	Yellow pages
			7622	Direct mail
			7623	Telemarketing
			7624	Media advertising
			7629	Other prospecting activity expense
		Client marketing		
			7631	Brochures
			7632	Calendars
			7633	Newsletter
			7634	Thanksgiving letter
			7635	Client seminars
			7636	Client gifts
			7637	Client meals and entertainment
			7639	Other client activity expense
			7640	Charitable advertising
	Other operating expenses			
		Insurance		
			7711	Professional liability insurance
			7719	Other insurance
		Publications		
			7721	New publications
			7722	Publication updates
		Supplies		
			7731	Paper
			7732	Printed materials
			7739	Other office supplies
			7740	Postage and express
			7750	Bank charges
			7760	Telephone
		Travel		
			7771	Staff auto reimbursement
			7772	Commercial transportation
			7773	Meals
			7774	Lodging
			7779	Other travel expense
		Other		
			7791	Legal and professional fees
			7792	Other taxes
			7793	Bad debt expense
			7799	Other operating expense
NONOPERATING ITEMS				
			8010	Interest income
			8020	Finance charges
			8030	Interest expense
			8040	Gain or loss on asset sale
			8090	Other income and expense

EXHIBIT 9-2. Sample Cash Flow Budget 20X0

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Total
<i>Chargeable Time Goals:</i>													
John	139	189	196	123	119	106	108	94	147	126	111	130	1,588
Joan	126	128	138	103	85	107	110	94	73	106	114	109	1,293
June	104	130	106	103	98	107	100	135	78	111	77	101	1,250
Projected fees	29,000	48,000	55,000	46,000	23,000	25,000	26,000	25,000	27,000	28,000	22,000	26,000	380,000
Collections	26,000	33,000	47,000	55,000	29,000	25,000	22,000	25,000	24,000	25,000	25,000	25,000	361,000
LOC draws	5,000									2,000	4,000	3,000	14,000
Net Cash Receipts	31,000	33,000	47,000	55,000	29,000	25,000	22,000	25,000	24,000	27,000	29,000	28,000	375,000
Wages—professional staff	5,000	5,000	5,000	5,000	5,000	5,000	5,500	5,500	5,500	5,500	5,500	5,500	63,000
Wages—paraprofessionals	1,800	1,800	1,800	1,800	1,800	1,800	2,000	2,000	2,000	2,000	2,000	2,000	22,800
Wages—clerical staff	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	20,400
Payroll taxes	750	750	750	750	750	750	750	750	750	750	750	750	9,000
Employee fringe benefits	950	950	950	950	950	950	950	950	950	950	1,125	1,125	11,750
Workmen's compensation		2,200											2,200
Professional expenses				300			500						800
CPE expense						750			225		125	900	2,000
Office rent	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Utilities	175	175	175	175	175	175	175	175	175	175	175	175	2,100
Equipment lease	150	150	150	150	150	150	150	150	150	150	150	150	1,800
Maintenance agreements	50	100	200	250	50	50	50	50	50	50	50	50	1,000
Computer parts	800									400		500	1,700
Software updates							200		1,200	150			450
Maintenance and support	100	250	100	100	100	100	100	100	100	500	100	100	1,750
Tax software changes	100	500	850	2,500	50	150	550	50	300	200	100		5,350
Internet changes	25	25	25	25	25	25	25	25	25	25	25	25	300
Civic activities	600	350	150		100		475	75			250		2,000
Yellow pages	250	250	250	250	250	250	250	250	250	300	300	300	3,150
Direct mail											2,250		2,250
Calendars												750	750
Newsletter	225			225			225			225			900
Client seminars									900		1,200		2,100
Meals and entertainment	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Liability insurance							1,800						1,800
Other insurance				850									850
Publication updates	575			575		150	575		200	575	250		2,900
Paper	400	400	600	800		200		200	200		200		3,000
Other office supplies	150	150	150	150	150	150	150	150	150	150	500	150	2,150
Telephone	250	250	250	250	250	250	250	250	250	250	250	250	3,000
Staff auto reimbursement						150			50				200
Meals						50			25				75
Lodging						100			50				150
Other taxes									200			200	400
Other operating expense	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Line of Credit repayment		5,000	15,000										20,000
Installment note payments	250	250	250	250	250	250	250	250	250	250	250	250	3,000
Personal withdrawals	9,000	9,000	9,000	9,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	116,000
Income taxes	5,000			15,000		5,000			5,000				30,000
Total Cash Disbursed	31,000	31,950	40,050	43,750	24,450	31,050	29,325	25,325	33,150	27,000	29,950	28,025	375,025
Net Cash Flow	0	1,050	6,950	11,250	4,550	-6,050	-7,325	-325	-9,150	0	-950	-25	-25
Cash Balance	1,000	2,050	9,000	20,250	24,800	18,750	11,425	11,100	1,950	1,950	1,000	975	975
Previous cash balance	1,000	1,000	2,050	9,000	20,250	24,800	18,750	11,425	11,100	1,950	1,950	1,000	1,000

Other solos discussing their experience with cash budgeting cite two problems. First, they don't give enough thought to the process. This dulls the budget's ability to become a serviceable tool, thus dooming the project from the outset. Second, the budget is never used. Does this sound like what you go through with some of your clients? Don't let it happen to you!

You know how to prepare a cash flow budget, and you know how to use it. You do it for your clients all the time. Doesn't your firm deserve the same level of service you give to your clients? Prepare a well-conceived, detailed cash budget, compare your actual results to it, and change what needs to be changed in response to variances from it.

Prepare a Daily Flash List

For several years now I have recommended to my clients that they produce a daily *flash list* of the most important numbers in their business—those numbers which become a virtual window into the operations of the company. The idea is to put at the executive's fingertips the information necessary to proactively impact the business's operations daily. If this is a good idea for clients, why not for your number one client? Following are my suggestions for a solo flash list (see exhibit 9-3):

- Cash balance
- Accounts receivable balance
- Collections, month-to-date
- Chargeable time, yesterday and month-to-date
- Work in process
- Accounts payable due through month end

EXHIBIT 9-3. *Flash List*

<i>Date</i>	_____
Cash balance	_____
Accounts receivable	_____
Chargeable time (MTD)	_____
Collections (MTD)	_____
Billings (MTD)	_____
Work in process	_____
Accounts payable (to month end)	_____

Use these reports to produce a monthly key number analysis for each of the following areas, and track them against comparative data for the five prior years and your current year's budget:

- Time and charges, current month and year-to-date
- Billings, current month and year-to-date
- Work in process balance at month-end
- Writedowns from standard, current month and year-to-date
- Accounts receivable balance at month-end
- Collections, current month and year-to-date
- Cash balance at month-end
- Fees per chargeable hour, current month and year-to-date
- Realization percent, current month and year-to-date

Use Time and Billing Reports

You should also produce and review several month-end reports generated by your time and billing system: an aging analysis, a detailed report of transactions (charges, receipts, and adjustments) by engagement, and a detailed billing summary that shows individual time-charges to each engagement, the amount billed, and the amount remaining in work in process.

I also run a monthly fee analysis by service code and by client. This gives me an idea of where the fees are coming from. Among other things, these two reports track our success in directing the practice into the areas targeted in our marketing strategy.

At year-end, run and retain a hard copy of the accounts-receivable ledger for each client and print an annual fee analysis by service, client, and employee compared with the previous year. These reports will form the foundation for your revenue budgeting and marketing for the new year.

Measure Results

In an AICPA publication published in 1993, *Managing by the Numbers—Monitoring Your Firm's Profitability*, the author, David Cottle, amplifies on the work of Dr. David Maister. Maister modified the DuPont formula of financial analysis and applied it to law firm profitability. The DuPont System is a financial analysis tool widely used in industry to identify profitability problems.

The basic premise of the DuPont System is that return on equity is a composite of individual ratios, each of which may be analyzed and compared with prior historical results and industry benchmarks. The Maister formula as modified by Cottle operates in

much the same manner. Here, the measure of business success is net income per partner. This is broken down into five key components—leverage, utilization, billing rate, realization percent, and profit margin. Let's review each of these.

Leverage is computed by dividing the number of full-time employees including partners by the number of partners. Thus in the solo practice leverage is simply the total number of personnel in the office as adjusted for part-time and seasonal help. The more people managed by the sole practitioner, the greater the contribution to profitability through leverage.

Utilization results from dividing the firm's total chargeable hours by total full-time personnel. A high ratio indicates that the firm's human resources are efficiently managed.

The average *billing rate* is computed by dividing standard fees (before write-downs) to total chargeable hours. This ratio is one measure of the firm's product pricing.

The *realization rate* is calculated by dividing fees net of writedowns by standard fees.

Finally, we compute the firm's *profit margin*, net income before partner compensation divided by net fees. This ratio is an indicator of the practitioner's ability to manage costs and overhead.

<i>Formulas</i>		
Leverage	=	Full-time employees ÷ Owners
Utilization	=	Chargeable hours ÷ full-time employees
Billing rate	=	Standard fees ÷ Chargeable hours
Realization	=	Net fees ÷ Standard fees
Profit margin	=	Net income before draws ÷ Net fees

Quoting Cottle²

While all five factors must be managed carefully, practically speaking, some factors are easier to control than others, and some can be improved quickly while others require longer to change. The most easily controlled factor is billing rates followed by realization and utilization. Leverage and expenses are harder to control.

These components are interdependent. Let's look at a few examples. Think about the last time you added a staff person. Leverage increased instantly, but what impact did you see in the other factors? Utilization may have also increased since a staff person is usually more chargeable than the owner. What about your average billing rate? It probably went down. You might have experienced a drop in your realization rate while the new staffer learned your system. Finally, your profit margin might have decreased for a time during this assimilation phase.

² David W. Cottle, CPA, CMC, *Managing by the Numbers—Monitoring Your Firm's Profitability* (New York: American Institute of Certified Public Accountants, 1993), p.16.

Now let's see how an increase in the billing rates might affect each of these factors. Initially the firm may experience a decrease in realization percentage. Utilization could go down if staff subconsciously believe that the firm overcharges clients and they try to compensate by underrecording time to the job.

Two factors in the profitability equation do *not* produce a reaction in one of the others. An increase in either or both of these will cause an identical increase in net income. When the utilization rate increases, there is little or no cost to the firm from this added efficiency. By the same token, decreasing the percentage writedowns from standard directly affects the profit margin. Many firms expect a certain level of writedowns believing that higher billing rates will push gross fees upward as the firm attempts to bill standard. As the firm works toward this end, the realization rate increases until it has reached an acceptable level. Then it is time for the firm to consider a billing-rate increase.

Every firm is different. When comparing your firm to industry averages or to statistics for any other firm, recognize that differences do exist and that *your* road can also "lead to Rome." One firm may have a lower utilization ratio than another but compensate for it with a higher average billing rate. The essential thing here is to view differences within their context.

Look at exhibit 9-4. This is the printout from a spreadsheet that uses the 1997 Texas Survey data for sole practitioners for both the average and the top 25 percent most profitable responding firms to produce the Maister-Cottle analysis on the upper portion of the form. Enter your numbers in the far-right column and compare your results with the averages from the survey.

Cottle says

Properly used, [this analysis] will acquaint you with a few of the tools that highly profitable firms use to obtain their superior financial results. You can get these results, too. You just need to know what to do differently in the future from what you did in the past. This involves two key traits that only you can provide: the willingness to take action, and the willingness to change.

FINANCING YOUR FIRM

Cash is to your firm as air is to your physical body. Without it, your practice will cease to exist. Cash comes from a combination of external and internal sources. External sources include personal funds (capital) and borrowed funds (debt). Cash is generated internally by collecting for the services the firm provides to its clients. Earlier in this chapter we discussed what you need to do to increase cashflow by earning more of it, and in chapter 12 we will discuss what you can do to improve both your timeliness of collection and the percentage of bills you collect. In this section, we'll consider external sources of cash and how to improve your use of them.

EXHIBIT 9-4. Practicing by the Numbers

	<u>Solo Average</u>	<u>Top 25%</u>	<u>Your Numbers</u>
Firms with less than \$100,000 in net fees			
Leverage	1.2	1.0	_____
Utilization	1,372.5	1,455.0	_____
Billing rate	42.3	59.1	_____
Realization percentage	95.5	97.7	_____
Profit Margin	56.2	72.4	_____
<i>Texas Survey Data*</i>			
Active owners	1.0	1.0	_____
Number of personnel	1.2	1.0	_____
Total charged hours	1,647.0	1,455.0	_____
Percentage of standard realized	95.5	97.7	_____
Net fees	66.6	84.0	_____
Net income per owner	37.4	60.8	_____
Firms with more than \$100,000 but less than \$200,000 in net fees			
Leverage	2.1	1.6	_____
Utilization	1,332.9	1,365.6	_____
Billing rate	55.0	77.5	_____
Realization percentage	95.5	98.6	_____
Profit Margin	50.0	68.7	_____
<i>Texas Survey Data*</i>			
Active owners	1.0	1.0	_____
Number of personnel	2.1	1.6	_____
Total charged hours	2,799.0	2,185.0	_____
Percentage of standard realized	95.5	98.6	_____
Net fees	147.0	166.9	_____
Net income per owner	73.5	114.6	_____
Firms with more than \$200,000 in net fees			
Leverage	4.3	5.5	_____
Utilization	1,324.2	1,315.1	_____
Billing rate	69.7	81.9	_____
Realization percentage	95.6	97.0	_____
Profit Margin	39.2	43.6	_____
<i>Texas Survey Data*</i>			
Active owners	1.0	1.0	_____
Number of personnel	4.3	5.5	_____
Total charged hours	5,694.0	7,233.0	_____
Percentage of standard realized	95.6	97.0	_____
Net fees	379.2	574.3	_____
Net income per owner	148.8	250.4	_____

*Source: 1998 Management of an Accounting Practice Survey, copyright 1998, Texas Society of CPAs.

Using External Sources of Cash

Obviously, if the firm needs cash, the sole proprietor's personal funds are the first to be tapped. Little needs to be said here except with respect to budgeting personal withdrawals. Because of the cyclical nature of our profession, it is easy to spend like a sailor for the first three or four months of the year and then be as frugal as a miser the remainder of the year. While this may work, it usually causes the solo a high degree of stress for most of the year. Instead, may I suggest the use of a cash budget as discussed above, and that you set your drawings at a level that will provide a monthly salary sufficient to handle your personal needs. In this way, you will avoid the boom-and-bust mentality occasioned by tax season.

An increasing number of practitioners are turning to the annual retainer or fixed fee. We will discuss this internal source of cash in more depth in chapter 11, but for now this billing concept provides a steady stream of income to the practitioner all year long and helps with cash budgeting.

Assuming the practice's need for cash exceeds the cash available within the practice itself and the personal funds of the practitioner, he or she will want to approach a banker.

Selecting a Bank and a Banker

Choosing the right bank is an important decision. The more you understand the lending process at each institution, the better your selection will be. This knowledge will also help you as you work with your banker.

When selecting a bank, you'll also choose a banker. Not all bankers are created equal. They may have different loan limits (the amount they can lend on their own authority), different areas of expertise (for example, small business, agriculture, or fixed asset), and most importantly, different sentiments about your business and you. How your loan officer packages your information and pitches your loan request can make the difference between obtaining the money you need and being turned down. Most bankers are anxious to become acquainted with CPAs. They look upon us as one of their best sources of new business. In fact, the best way to develop a relationship with a banker is to refer business. Watching how various bankers handle your clients' cash needs is an excellent means of determining how well he or she might work with you.

Most banks are anxious to have all your business. I have assiduously avoided this situation in the past even though it has occasionally caused me a problem (usually with collateral issues). I maintain my personal account at one bank, my business account at another, and the account I use for my office building at yet another. I can't say this has made a large difference in my relationship with any one of the financial institutions, but I feel better knowing that if one of the relationships sours I already have two other institutions to fall back on without explaining anything.

Getting What You Want

The banking industry has become much more centralized in recent years. When I began practice in the mid-seventies much of the banking, in our community at any rate, was still done with a handshake. Nowadays, most credit decisions are subject to an analysis of the firm's financial information by the bank's credit analysis department. This financial information generally includes the following:

- Basic financial statements
- Tax returns
- Personal financial statement
- Credit history with the bank
- Credit report

There are two basic lending philosophies. The first focuses on the balance sheet and the second on the income statement. Balance-sheet lending has largely been replaced by income-statement lending as banks have recognized that they don't want the collateral, they want their money back. The credit analysis department's job is to determine if the firm's ability to repay the debt falls within general bank guidelines. To accomplish this, the analyst will focus on cash flows from business operations.

Collateral is part of the broader category of *secondary sources of repayment*, which includes cosigners or guarantors such as the Small Business Administration (SBA). The bank is interested in the strength of these secondary sources of repayment as a hedge against things not going as planned.

Once the analysis is complete, the bank's loan committee determines whether to accept the loan. Your job is to provide your loan officer with as much information as possible to help him or her sell your loan to this group.

If there is something unusual in your financial statements, talk about it with your banker. Include it in the notes or attach an explanation. If your tax returns are prepared on a cash basis but the financial statements are accrual basis and there are significant differences, be sure to point this out.

Obtain a copy of your credit report. Often, you will find incorrect information on these reports. Recently, I had occasion to review mine and found a listing for a note I was supposed to have cosigned. The entry listed me as deceased. I had never had an account much less a loan with the bank in question. Your banker will be able to provide you with a toll-free number to call to obtain a copy of this report. I called the number listed on the credit report entry and was ultimately connected with a person who was able to delete the entry.

On your personal financial statements list your practice at its fair market value. You could probably use a rule-of-thumb value such as 75 percent to 100 percent of last year's gross fees.

Fitting Their Terms to Your Needs

A couple of years ago I found myself between a farm client and his bank over my client's failure to pay off his operating loan. I discovered the source of the problem to be my client's use of several hundred thousand dollars to upgrade equipment. Around here, a farm line has to be paid off shortly after the end of the year. Then it is renewed for the next growing season. There was no way my client could have paid cash for the equipment he purchased. This was a classic case of the wrong terms for the job. We addressed this problem by finding another lender willing to provide funds through a financing lease which spread the payments over five years—a workable deal.

Apply for a line of credit if you believe you will be able to repay the amount borrowed during the current year, say from tax season collections. If you are purchasing long-lived equipment, use an installment loan. One word of caution here. I have seen some practitioners and clients alike get themselves into trouble by terming out their computer equipment over too long a period. The useful life of a computer is somewhere between twelve and twenty-four months. Don't finance technology for longer than its period of obsolescence.

At times, especially at start-up or when purchasing another practice, the need for cash may outstrip the firm's secondary sources of repayment to such an extent that the bank is unwilling to accept the level of risk associated with the loan request. In these instances, the solo should consider an SBA-guaranteed loan. These loans are also made in situations where the desired term of repayment is in excess of the bank's usual terms. The vast majority of loans submitted by the bank to the SBA are accepted. If the bank will accept it, the SBA will accept it. So the same process described above applies to working up an SBA-guaranteed loan request.

Let me complete this discussion with a few words of advice. Never go with your hat in your hand! CPAs are good credit risks. Besides that, we usually know what caused the need for cash and how the bank will get its money back, so be prepared with the answers to these questions before your banker has a chance to ask them. Remember, too, that your loan officer is going to bat with what you say so that he or she can use those same arguments with the loan committee when the time comes. The more you help him or her prepare, the better your chances will be that the loan committee will grant your request.

There are certain problems that only money will solve. Before one of them arises, you'll want to have developed a healthy relationship with a first-rate banker and a good understanding of the credit approval process. Then when you need it, the cash will be there.

PLANNING FOR RETIREMENT

Okay, let's get serious. By show of hands, how many of you honestly expect the sale of your practice to fund your retirement? You might be interested to know that this question has been posed to rooms full of solos at several conferences I have participated in, and the majority are not optimistic. So how are *you* planning to handle retirement?

To fill the next four or five pages with an explanation of funding vehicles and tax-saving options would be like preaching to the choir. You already know this stuff. It's getting something done about it that's tough. This idea might help.

Life insurance companies learned long ago that the best way to retain policy holders is to limit the purchase decision to the point at which the individual agrees to sign the application and pay the first month's premium. They do this by automatically drafting the policy holder's checking account each month thereafter. This way the policy holder must take action *not* to purchase. The life insurance agent will tell you his or her company does this as a convenience to its policy holders, but you and I know the real reason. Companies collect a lot more money that way. It reduces the buying decision to a one-time event.

The good news is that if this procedure works for them, it can also work for you. Most banks, savings and loan associations, credit unions, mutual funds, stock brokerages, and, yes, life insurance companies will set up a regular draft on your checking account. Thus, your initial decision to save for retirement will continue until you take some positive action to rescind it.

Where you invest really isn't as important as conditioning yourself to invest regularly. However, you may be interested to know that the AICPA has a number of tax-favored plans developed in conjunction with T. Rowe Price. The Private Companies Practice Section (PCPS) also offers a nonqualified deferred compensation plan to its members through The Hartford.

THE BOTTOM LINE

In this chapter I have tried to help you take a serious look at what's in it for you. Unless you have all the money you need and you are practicing accounting purely for altruistic motives, you've got to be in it for the money. Treat your practice as you would an important client. Take time to produce and utilize essential information. Take care of cash flow by using credit judiciously. And begin now to invest a certain portion of your available financial resources outside your practice to provide for the time when you won't want to trade time for dollars. If you take good care of your practice, it will take good care of you.

CHAPTER 10

MAXIMIZING YOUR FIRM'S HUMAN RESOURCES

Synergy is exciting. Creativity is exciting. It's phenomenal what openness and communication can produce. The possibilities of truly significant gain, of significant improvement are so real that it's worth the risk such openness entails.

—Stephen R. Covey¹

Over the years I have been in practice I have seen clients come and go, and I have seen staff come and go. Three times I have lost my largest client. Once I lost my entire staff within a period of three months. Losing the staff was much harder to deal with.

Through all of this I have concluded that there are always more good clients out there, but without excellent people to provide excellent service you won't keep them. As Mitch Potter points out, "In the final analysis, my staff is my most valuable *resource* and they are responsible for taking care of my most valuable *asset*—my clients."

The purpose of this chapter is to help you to compete successfully for and effectively utilize others in your firm. How do you know when it is time to hire someone? You'll get the answer to this question below. You may be surprised. You'll also learn how to use the unique advantages of a solo practice to entice prospective employees as you compete for the talent with other firms. Next we'll explore the various places to look for people with the right stuff. Then you'll learn how to develop a winning team from the raw material.

In the last three sections we'll take an in-depth look at the principles of successful delegation—the solo's key to growth. I'll show you how to stretch your CPE dollar and still get quality training. We'll end with a look at personal problems which can negatively affect the entire firm and how to deal with the people who have them.

PUTTING FIRST THINGS FIRST

Several years ago when I was participating in a panel discussion at an AICPA Small Firm Conference, a participant asked, "Which do you do first, get the work and then hire the people, or hire the people and hope the work comes in?" A fellow panelist answered, "Hire good people and the work will follow." I agree. I have seen this happen time and time again.

¹Stephen R. Covey, *The Seven Habits of Highly Effective People* (Simon & Schuster: New York, 1990), p. 269.

In the early days of the firm I would hire seniors through our high school office occupations program. This program blessed me with some very capable employees through the years. One day I received a phone call from the mother of the cream of the crop. She said, "Shannon is graduating from college next week with a degree in finance, and I was wondering if you had any openings." I replied, "No I don't, but you send her in and we'll find something for her to do." You see, by then I had learned a secret: Good people *make* a place for themselves. Shannon became the best paraprofessional I ever had. She paid for herself her first week on the job.

Here's what Charlie Larson said when I asked him about staff.

I think it was three to four months after I opened the doors that I hired a secretary and kind of acted like it was for real. I continued to hire people throughout the life of the firm, probably before I needed them. I think that's something most CPAs may not do. For instance, I once had a client who started a liquor store, and as I recall he only had enough money to buy six or eight bottles of liquor. He bummed every conceivable piece of advertising to fill up the empty shelves. Every time he sold a bottle he would race to the wholesaler and get another one to put in its place. Pretty soon, when he sold one bottle, he was able to buy two more. Then when he sold two he could afford to buy four.

I think the same principle applies to an accounting firm. You have to have something on the shelf in order to sell it. Later when I had partners, we would agree to hire one more person, but on several occasions, I found two that I thought were really good, so I hired them both. That was really upsetting to the other partners because they didn't think we could afford it. It was my attitude that my job was to bring in the business to give these people something to do. So very, very early in my practice I began hiring ahead of our projected workload. We hired good people and the work always followed.

Please don't miss the significance of that last sentence. The work *follows* the hiring. Good people can't stand to be idle. They'll find a way to keep themselves busy. They'll look for things to do. They'll pressure you to get out of the office to market and sell. They'll expand their present assignments by doing things you would like to have done but never had time to do. In short, *good people make you money*.

I have been known to say that because of our size and personality, we don't hire people, we adopt them. We don't need to hand out name tags at the company picnic—our staff is like family. That's why adding anyone new is such an important decision. To focus on the traits we want in each of the people who represent the family, I prepared a policy statement (see exhibit 10-1). When we adhere to these fundamental quality traits in selecting a new member of the firm, we have a good chance that the decision will turn out to be a good one.

COMPETING WITH THE BIGGEST FOR THE BEST

I know what you're thinking. "That's all fine and good, but where are they and how can I compete with larger firms for these outstanding people? What have I got to offer as a sole practitioner?"

EXHIBIT 10-1. *Statement of Policy***QUALITIES DESIRED IN A PROSPECTIVE EMPLOYEE**

When hiring new staff, look for these traits:

- Integrity, honesty, ethical behavior, good moral character
- Common sense
- Cheerful disposition
- Excellent interpersonal relationship skills
- Ability to communicate
- Desire for personal and career improvement
- Job-related skills

Please note that job-related skills are listed last. This has been done by design. Any employee who does not possess the qualities preceding it is not the type of individual we would want to represent our organization. On the other hand, we have proven time and again that we can teach necessary job skills to the right person.

Competing with a larger firm—or the corporate world—for a top recruit can be a discouraging experience. Typically, the larger firm has resources that are simply not available to a solo. On their side of the line are the four-color, glossy-covered brochures, and the allure of a well-established training program. In many instances, university professors extol the virtues of the larger firms and corporations with which they have become acquainted and that may contribute considerable sums to the accounting school's endowment.

On the other hand, you know that not everyone wants to be a little fish in a big pond. Just take a look in the mirror tomorrow morning and you'll see one of them. Why did you choose to practice in a small firm? The desire for closer client contact? Wanting more flexibility in your work life? Was location a factor? Did you want a more varied work experience? The same holds true for many young people just entering the work force and for a host of others who have become disenchanted with bigness.

Quality of Life

In a recent survey conducted for the AICPA MAP Committee, professional staff with a median age of 34 were asked to respond to a list of various job attributes and to rate each in order of importance. The responses revealed that while only one in four respondents considered time for personal life to be very important when they entered public accounting, the proportion jumps to two-thirds currently. Employee benefits, same location as spouse, time for parenting, and flexible work hours are also considered much more important by respondents now compared to when they entered public accounting.

These quality of life issues appear to have a larger impact on staff retention than on recruiting. This bodes well for the solo as more and more qualified individuals are opting for an environment that more closely aligns life-style issues with the demands of the workplace.

Any one of these factors can play a major role in attracting the best and brightest to your firm. Bea Nahon remarks

Some of the new people we hired came from much larger companies. They admitted that they were concerned that a smaller firm wouldn't be as stable and that they might be laid off. But once we get them here they think it's wonderful. So it's just a matter of someone selling them on what the firm is about.

Flexibility

What do we have to sell? Now more than ever before our primary advantage is our flexibility. Size dictates structure and rigidity. It takes a lot less time and effort to change the course of a speed boat than it does a battleship. When it comes to adjusting for individual preferences solos have a decided edge.

Janet Caswell has this to say about flexibility.

I staff with people who want an alternative work schedule, who don't want to work full-time, or who want to work an odd schedule because they have family at home. I'm very flexible. It works for them, and that's how I get great people.

I hire mostly women, and the flexible schedule makes a big difference to them. But I also had two men who wanted a flexible schedule. One had a dual career and one had a practice on the side. He was a highly qualified tax person, and I still use him once in a while. The other had a wife who was a schoolteacher. He wanted his summers off. This worked well for me. I hire self-starters who like to have control of their own work schedule and who appreciate being respected enough to set their own schedules.

Client Contact

Because of its smaller size, the sole practice out of necessity provides its staff the opportunity for close client contact at an earlier career point than would a larger firm. In a small firm the new staffer is able to see a direct correlation between his or her work and actual client benefits. This lack is frustrating to many young professionals who choose a larger firm.

Mentorship

Working closely with the *boss* is also an advantage. Staff receive immediate feedback—both positive and negative—on job performance as opposed to waiting for the semiannual partner conference. To many new recruits, the idea of mentorship is enticing. The opportunity of working daily with an experienced practitioner may appeal to them.

Variety

A smaller firm can more quickly give the new professional a wider breadth of experience. Rather than spending years on the audit staff, the solo firm's staff work on a variety of assignments in a number of functional areas including accounting and auditing, taxation, and management and computer consulting, just to name a few of the more obvious ones.

I began my professional career in the Phoenix office of Haskins & Sells. Although I appreciated my Big Eight experience, it was quite narrow as I spent the majority of my time footing, ticking, and pulling statistical samples of invoices or loan files.

In contrast, my new hires can expect to be the accountant-in-charge with several clients within a very short time. In some cases they may work directly with the owner of the company. Assignments range from writeup work to financial analysis to preparing tax returns. As sole practitioners we desperately need people who can think, and we can't afford to underutilize the human resources, so we stretch them, and they grow.

Other Factors

The opportunity to travel may appeal to some who work at a large firm. Still others may be happier working for a small firm where out-of-town travel is infrequent.

Location can also be a significant consideration. The life-style afforded by the community in which you practice may be an advantage in negotiating for staff to whom the environment is important. If your practice is located in a smaller community, you may be able to attract excellent people who wish to become involved in community activities, who are anxious about the perceived problems of a more urban area, or who wish to avoid a daily commute.

All too frequently, we solos are willing to discount our abilities. Many job seekers may not understand that *size* does not determine quality—*commitment to quality* does! Let them know about the quality of your work product. Let them know they will be working for a firm whose work is respected by the people of your community.

LOOKING IN ALL THE RIGHT PLACES

It's one thing to want to hire a new staffer. It's quite another thing to find one. Unfortunately, finding the right person isn't always easy. Many sole practitioners are loathe to take on the responsibility of a rookie. Greg Lurie was one of them.

I never thought we would hire anybody out of college, but we have hired two people who graduated from the same class. We hired them about four or five weeks apart when we couldn't find trained staff. They are young, hardworking, enthusiastic people who have now been here for three years and are still enthusiastic and productive. We give them a lot more responsibility each year. Watching them grow and develop has been a real personal satisfaction.

When I asked Greg how he found these people he told me,

There are a number of local colleges in this area (Albany, NY) producing accounting graduates. Many students who come here to go to college want to stay in the area. The result is that there is a good supply of beginning staff accountants. I look for people who have had to work through college, have had any kind of practical tax or book-keeping experience, and who are willing to work.

Traditional recruiting efforts at major universities are often disappointing for solos. Almost always the larger firms are the favorites in any head-to-head battle for the top students. However, here are several variations on the campus recruiting theme that could give you a leg up.

A United Front

The December 1990 issue of the *PCPS Advocate* contains the experience of a group of small practitioners who were frustrated by their attempts to recruit at Arizona State University (ASU). Basically, the Big Six were eating the small firms' lunch. As a result, several of them banded together to start a program called Quality Career Alternatives. The main thrust of the program is to sell students on the benefits of working for a smaller firm. The group includes firms ranging in size from sole practitioners to one-hundred-person firms.

Fortunately, one of the group's founders was a member of the ASU faculty who was interested in providing students with a choice. To accomplish this, they began to look for ways to connect with the students.

During the first four months, the group sponsored a reception for members of the local chapter of Beta Alpha Psi, the national accounting fraternity, and was instrumental in doubling the number of local firms attending the department's two Meet-the-Firms nights. Later, the group sponsored a reception for ASU accounting faculty to get better acquainted and to inform them of the position of the smaller firm in the job market. They also worked on fund-raising projects with the fraternity and correlated efforts with the American Society of Women Accountants to increase awareness of job opportunities for women accountants within smaller firms.

All in all, the program has had a very favorable effect on students, faculty, and the firms. Even the Big Five partners are supportive of the effort as they hire only a fraction of the university's accounting grads. If you reside in a college town, you might consider forming a coalition of your own.

Hidden Diamonds

One final suggestion regarding college recruiting. Many excellent job candidates choose to attend smaller schools, which are not as heavily recruited. Getting yourself well-known to a few of the accounting faculty may put you in line for some of the program's best graduates. And don't overlook junior colleges. Some of the best paraprofessionals come from the bookkeeping programs offered as a part of the junior colleges' vocational training.

Interns

Consider providing internships. Craig Willett has successfully added several staff members with this approach. "This [the internship] gives us a chance to test three or four students. We usually find that we can weed out two or three that we would not hire and find the one we feel would fit our firm the best." Besides giving the firm the opportunity to kick some tires, it allows the student to do the same.

I mentioned earlier that at one point my staff was reduced to only my secretary. Within a month of the last staffer's departure, I had a college junior sitting in my office asking to intern with me for the summer. I had previously had no experience with interns, but since I had more work than bodies at the time I had little to lose. The result was a very successful summer that later resulted in a full-time employee after graduation. For the right person, I would not hesitate to do it again.

Nontraditional Staff

An emerging trend in our society is the second-career person. These individuals are returning to school to pick up an accounting degree intent on changing their career path. Because many have unique requirements, some may not fit into the larger firm mold. These nontraditional recruits add a dimension to the firm because of their prior experiences. Usually, they are able to handle client responsibilities more quickly as a result of their age and maturity.

Obviously, not all your recruits are going to come from college recruiting. As we previously mentioned, many practitioners won't hire a rookie. Let's change directions and look at some other sources for top-quality staff.

Part-time and Flextime Staff

A survey conducted by the American Women's Society of CPAs encourages firms to accept women interested in part-time or flextime positions. Sixty percent of the respondents indicated that the availability of alternative schedules would be a factor in selecting a new position. Of course, satisfying the needs of the firm's clients is paramount, but the firm that can adapt to alternate work schedules can begin to look for well-qualified people in an expanding pool of applicants.

Large Firm Alumni

Some practitioners who have developed a relationship with a larger firm may find good candidates for employment from those leaving the firm. In some cases an individual who didn't fit in with the larger firm may blossom in yours, and you'll end up with a trained staffer who can make an immediate contribution.

Returnees

Another source is people, particularly women, coming back into the profession after raising a family. In some instances, the solo may be able to identify a good prospect and begin the process leading toward full-time employment by offering a part-time position during the busy season or by contracting out specific tasks on a piece-rate basis.

Al Williams suggested looking for individuals who are victims of corporate downsizing who may have been making a six figure income but would be happy to have something to do while looking for something permanent.

Regardless of the source, good people are out there. As a sole practitioner you have an advantage in being able to stretch and bend the requirements of the job to fit the needs of the individual. No matter where they come from and how you find them, all else being equal, you'll have a decent shot at the best and brightest if you focus on the positives.

BUILDING A WINNING TEAM

A common thread runs through discussions between solos in their forties and fifties when they talk about today's employees. "They just aren't like we used to be. They aren't as dedicated as I was when I came through the ranks. They keep talking about quality of life. What's that?" Comparing their dedication to that of the previous generation is moot, but what is abundantly clear is that they are *different*. Today's generation is bright, innovative, and much more able to put technology to work solving problems than were their predecessors.

The traditional model says that employees are supposed to sell their souls to the firm. The paycheck purchases their best efforts and their loyalty. They are expected to work hard for years until we decide their indenture has been paid and we welcome them with open arms into the partnership. If you think this carrot-and-stick approach still works, well then, you probably haven't hired anyone younger than forty in a while.

The current employee has a life outside the office. Most expect their work experience to complement that life and certainly not to compete with it. Today's employee also expects his or her work to be personally rewarding. It is simply not good enough anymore to pay dollars for hours. Our staff expect to be challenged and to be involved in the decision-making process. The good news is that we can capitalize on this to our own benefit if we make a leap of faith from the safety of the more rigid, structured environment of the past.

A recent survey by the American Productivity & Quality Center asked workers to identify the single most important motivating factor. The responses went something like this: "challenging work," "my opinion matters when decisions are made," "recognition when I've done a job well," and "pay clearly tied to my performance." Few were motivated by incentive programs, trips, or merchandise.

Motivating Versus Team Building

There is a plethora of ideas about how to motivate workers to achieve maximum productivity. In reality, no one motivates anyone else. *Motivation is an inside job*. The best one can hope for is to *inspire*. Take a sales force, for example. Using contests and prizes to keep sales up only gives birth to more contests and prizes.

Much of the current thinking in increasing productivity centers around a concept called *team building*. Team building is the process of imbuing staff with the authority to go with their own flow even when it may create waves for management.

Not too long ago, employers told employees what to do and expected them to do it. There are two terminal defects with this philosophy—it doesn't foster a long-term relationship between employer and employee, and the company loses the benefit of a unique human mind.

American industry has now recognized that training is expensive. A stable, trained work force is worth something. And we are just now starting to realize what the Japanese have known for a couple of decades—the impetus for change should start with the people actually doing the job. This is a foundational principle of the Total Quality Management movement.

Meshing Personal Goals With Firm Goals

People don't work well when they don't understand how their efforts fit into the overall program. This, of course, presupposes that you *have* an overall program. "I can tell you what causes a lack of real motivation, and that is poor leadership," says Bill Scherer, a Mission Viejo, CA, management consultant. "I see companies with goal programs but the employees have no idea how their work contributes to the achievement of those goals."

Says Dan Bellus² of Practice Development Institute (PDI)

The idea should be to provide an invigorating environment in which management's expectations are so clear that staff have an open opportunity to excel. Knowledge of staff expectations is also an important ingredient in motivating employees.

Since each staffer comes to you with his or her preestablished expectations, your job is to successfully knit those preconceptions into the overall fabric of the firm's mission. Whenever the behavior required of an individual within an organization runs counter to his or her personal values and goals, guess who is going to lose. We discussed this in chapter 1. Identifying personnel goals and ambitions is an essential part of the strategic planning process. Use the Planning Questionnaire in exhibit 1-3 to elicit that information.

In his article "Effective Management in a Small Firm" Bob Whipple³ observed

If you are to build the type of practice you want, you must be able to attract, train, and retain competent personnel who have or can develop the necessary expertise. You must

²Dan Bellus, "What Motivates Staff?" *The Practicing CPA* (October 1985), p. 6.

³Robert K. Whipple, CPA, "Effective Management in a Small Firm," *The Practicing CPA* (January 1983), p. 1.

be able to harmonize their needs, goals and desires with the firm's objectives. As always, it is essential to keep people informed of your plans and to let them know what is expected of them.

We need to clearly define firm goals and explain exactly how we expect each employee to contribute to the accomplishment of those goals. We need to encourage individual initiative and show appreciation for excellent effort. The better you define and explain firm goals, the more you can expect from your staff in return.

Involving Staff to Produce Commitment

Now that we have identified the factors that provide the foundation for improving staff productivity, let's look at the specific actions needed in your practice to get things moving.

History is replete with examples of individuals risking life itself for a cause they believe in. By contrast, you will realize little more than token effort from people who are just putting in their time. It is human nature to resist change. Never precipitate any significant change in direction without taking the time to involve your employees in the process. Listening to their input and modifying your direction when appropriate is a giant step toward obtaining unanimity of purpose and total commitment to reaching the desired objective.

Besides being vitally important in the strategic planning process, you must also involve staff in the daily decisions that affect them, items such as changes in work assignments, engagement billing, and client acceptance and termination. In short, the more involved they are the better. Work toward achieving a benevolent dictatorship, a firm where everyone is listened to but where decisions don't have to make their way through a committee—even if it's only a committee of two.

Look for signals that may indicate a significant divergence in direction. At times people show up ready for a basketball game when you had ice hockey in mind. You'll accomplish little unless everyone on your staff is playing what you are coaching.

The sign of great management is when the group continues to function productively and as a cohesive unit when the leader is absent. Since *management* is nothing more than the process of directing other people's efforts toward achieving a common goal, it follows that spending time communicating with your staff about firm goals will improve your chances of accomplishing them. You can do this during regularly scheduled (at least monthly) staff meetings.

Use these meetings to update your employees on the firm's progress since the last staff meeting. Review your goals and request suggestions for improvement and change. Allowing the group to identify and solve the firm's problems requires courage and restraint on your part. When the occasional mistake is made, shoulder the consequences and learn from it, never dwell on it, or worse yet, use it as ammunition. This process produces internal motivation and focuses the creative abilities of the entire staff on achieving the firm's objectives.

Providing Variety

The interesting thing about working with people is their dynamism. Each new employee brings with him or her a unique blend of talent and experience that will surface as those skills are required on the job. Small wonder the same staff accountant may fail with one firm and become highly successful with another. By the same token, people continue to be shaped by their environment. They will change and grow in response to new experiences and knowledge.

The wise solo provides a variety of opportunities for each employee. Most people appreciate variety. This should certainly be the case with professional staff since our profession is constantly in a state of transition. The CPA business is the wrong job for those who can't handle change. Watch for signs of special aptitudes in your workers. Give them more opportunities in those areas in which you believe they may excel. This is another double win. Not only will you increase the firm's available resources, you will also be providing additional incentive to the staffer who wants to use his or her special gifts to help the firm succeed.

Providing Feedback

Conduct both formal and informal evaluation sessions (see exhibit 10-2). Discuss ideas for improving what each person is doing. Don't miss the opportunity to get feedback on the firm in general, but with one caveat. Anyone identifying a problem within the firm must also be required to provide at least one solution. Don't allow anyone to say, "*I* see a problem, and *you* need to fix it." Try using the following two questions, "What do you see as the problem?" and, "How do you see this working out?"

Listen carefully for both verbal and nonverbal clues which will tell you how the person truly feels about his or her job satisfaction. Ask open-ended questions. Discuss career objectives and personal goals. Every day take a few minutes to drop in on each of your employees to see how things are going. Offer help when needed. Always express appreciation and encouragement. In all of your interactions remember, no one learns anything when talking. That goes for you, too.

Providing a Positive Environment

John Kenneally says

Probably the most powerful thing I do to help manage the culture in our office is to have everybody do a self-evaluation once a year [see exhibit 10-3]. The last question on the evaluation asks them to list what they think we would need to change for them to absolutely love their jobs. What we're really trying to achieve here is to create the environment where a group of people can all love their jobs. Some of the requests surprised me. One employee wanted a faster computer. Another wanted a new chair. I bought a different printer for a third. I was dumbfounded! I thought, "If this is all it's going to take for them to love their jobs, let's give it to them."

EXHIBIT 10-2. Employee Evaluation Form

Date: _____

Name: _____

	<i>Exceeds</i>	<i>Meets</i>	<i>Improve</i>	<i>Recommendations for Improvement</i>
Technical ability				
Analytical ability				
Common sense				
Productivity				
Client relations				
Supervision abilities				
Attitude				
Personal traits and habits				
Marketing abilities				
Leadership abilities				
Organizational abilities				
Creativity				
Efficiency				
Timeliness				

Comments:

EXHIBIT 10-3. Self Evaluation

Name: _____

1. What are your greatest performance assets? Indicate those areas in which you excel and where you feel ready for increased responsibility?

2. What aspects of your performance, if not corrected, might hinder future development or cause difficulty in your present position?

3. What have been your major accomplishments since the last review, if any? Note observations or comments in the area of general effort for improvement.

4. How would you improve your current position so that you could work more effectively? Please be specific.

5. What other specific jobs, general fields, and career preferences interest you?

6. What would need to be done so that you would love your job? Please indicate specific changes and comments.

Employee's Signature

Date

Partner's Signature

Date

*Adapted and reprinted with permission from J.L. Kenneally & Company, P.A.

One person told me I always pointed out the things that were wrong but didn't give enough pats on the back. I took that one to heart and have tried to give more praise for the things that go right.

Because our offices are typically small, whatever attitude the boss brings to the office each day infects the entire staff. If you don't believe this, just slow down long enough to notice the difference in how your staff operates the next time you have a bad day.

If you stroll into the office relaxed and energized, ready for the day's tasks, and excited to meet the day's challenges, the staff will reflect this positive atmosphere in *their* attitudes. Although you are not personally responsible for their feelings, you must recognize the problems that result whenever you inject negative vibes into the community.

No one is going to be "up" all the time. Call it biorhythms or whatever, we each need an occasional emotional release. When this happens to you, own it. Tell your staff that you are having a "bad hair day," then reassure them that things will be better soon. If there is something they can do to help, enlist their support. Otherwise just ask for their understanding and patience.

This approach has the effect of defusing the situation. If handled properly, your staff will not personalize *your* problem as *their* problem. Rather, they will most likely pick up the slack realizing you are temporarily out of order.

GAINING CONTROL BY DELEGATING

The single greatest inhibitor to the growth of a sole practice is the solo's time. You will never be able to grow beyond your ability to serve your current clients' needs unless you are willing to let go. Some sole practitioners use their employees like they use their computers. Push the button and they do what they are told. Unfortunately, it takes a great deal of time to push all the buttons. Here is a practice management principle for you: *If you want to grow, learn to delegate.*

But there is an even more vital reason for delegating than time constraints. Delegation empowers people. A few summers ago I had an experience I do not wish to have soon repeated. I saw a group of nine- and ten-year old boys intimidated into low performance and lower self-confidence over the course of a Little League season. It was done in the name of molding a successful team and doubtless has numerous corollaries all across this country whenever "well-meaning" adults attempt to control performance through force of will. The result is a paradox that parallels what happens in similar circumstances in the workplace. The more control the coaches attempted to exercise over the boys, the less control they had over the youngsters' performance.

Identify Shared Values

This paradox is at the center of a management principle called the Chaos Theory. This theory describes a world characterized by randomness and the seeming absence of rules, where results are unpredictable and events are uncontrollable. However, it further recognizes that at the very core of all, at the subatomic level, is beauty and harmony—perfect order. This order is called the Strange Attractor. It is this commonness that binds any system together. It is the shared vision, purpose, mission, strategy, or set of principles that each part of the whole recognizes and accepts as “truth.”

Shared values were at the heart of the Declaration of Independence. Jefferson wrote that all mankind shares certain inalienable rights. These values were so fundamental that they should have been accepted as givens by the king and parliament. It is the universal acceptance of these basic values that produces order out of chaos in the dealings between man and his fellow beings.

It is this underlying commonness that ultimately controls the system regardless of the outside forces which may be brought to bear against it. The collapse of the Soviet Union is a case in point. Any effort to produce results from people through control produces only the most superficial manifestations of conformity from the objects of that control.

Think about your team. As a sole practitioner—even if you have only one employee—you have a duty to both of you to gainfully employ the talents and potential of that individual and to provide direction toward the realization of whatever your commonly held objective might be. The exciting thing is that as your staff members wrap their heads and their hearts around this collective vision, you will have achieved control at the deepest level—they will control *themselves*.

Much like an orchestra conductor, your charge is to create a blend of the individual talents under your baton, allowing each to play his or her own part on his or her own instrument. As you do so, the resulting symphony—that combination of many individual sounds—becomes greater than the sum of the individual parts. This is called *harmony* in a symphony. It is called *synergy* in the workplace.

Far too frequently, we solos take the position that there are two ways to do anything, “my way or the highway.” If you subscribe to this view, you have probably found it hard to retain your best people. These people want to grow. They need their own place in the sun. Go-fers seldom see the light of day. If you are concerned that your staffers don't exhibit much initiative, perhaps you need to loosen up on the reins.

Talking about the role of delegation in the sole practice, Ron Frandsen noted

For a solo practice there is a ceiling. I believe the size of the practice is directly proportional to the sole practitioner's willingness to delegate. If you don't have the people surrounding you that have the skills to make you comfortable about the delegation, it will be difficult to grow beyond a certain size. Some practitioners use that as an excuse. They see themselves as being the only ones who are totally competent. But the ones who succeed at it are the ones who acquire the skills themselves and then develop those skills in the people around them.

Move Up the Delegation Ladder

There are six levels of delegation. The more completely you delegate, the more time you gain. Naturally, the trade-off is decreasing control over the *process* by which results are obtained.

1. Do nothing until you are told (go-fer delegation).
2. Ask before you do anything.
3. Recommend a course of action but obtain approval before acting.
4. Act but report immediately.
5. Act and report routinely.
6. Do the job (full delegation).

As you analyze your management style you will probably realize that you use a number of these levels depending upon the circumstances. This is as it should be. The idea is to move progressively from a lower level of delegation to a higher. Before using any of your time, ask yourself this question. "Can anyone else do what I am about to use my precious, limited time doing?" Don't rationalize that it might take longer to show your associate how to do it than it would to do it yourself. This excuse works only the first time you perform the task. Neither should you underestimate their abilities. If you can do it, so can they with proper coaching. Always work toward full delegation and remember to delegate the *authority* to complete the assignment along with the *responsibility*.

Let me tell you about a Sacramento, California, practitioner named Stanley Carrothers. Stanley has been practicing for many years and has developed an excellent practice much of which is writeup work performed by a couple of paras. He told me

Most of our clients have been with us for years and years. I credit my staff with this. We do a lot of writeup work for our clients and it is very profitable for us. Through the years we have been able to develop a strong trust relationship with our clients by making sure we provide a quality service. I don't have to get personally involved in the writeup work because of our success in *training both the staff and the clients* [emphasis added]. They know what we need and what is expected of them, and they know what to expect from us.

Because Stanley doesn't have to get involved in the writeup work, he is able to spend more time hand-holding and nurturing. He is able to focus on nonrepetitive tasks and to build the planning portion of the practice because the firm has been so successful in creating an atmosphere of absolute faith between his staff and the firm's clients. "But I still manage to interject into my clients' affairs frequently," Stanley notes. This is effective delegation.

Communicate Expectations Clearly

Most of us work better when we understand what is expected of us and when we are given frequent feedback. The better you communicate your expectations to your staff, the more productive they'll be.

At the start of each engagement, clearly define both its objectives and its time constraints. Large firms expend considerable effort developing time budgets especially on large assignments. In a sole practice, engagements are normally smaller and staffing requirements can be handled less formally. But to hand out engagements to staffers without letting them know what you expect is tantamount to signing a blank check.

Along with your time–budget expectations you also need to let the staff member know when the project must be completed and which position on his or her list of priorities this project should occupy.

In *The Seven Habits of Highly Effective People*, Dr. Stephen Covey⁴ explains that “the essence...of time management can be captured in a single phrase: *Organize and execute around priorities.*” Unless you are able to build some sense of the urgency into the project, you are setting your staffer up for failure. He'll either not complete the project when promised or he'll take down one or more other projects in favor of the one you just delegated, thus delaying the completion of these other assignments. If you want the job done now, say so. But be prepared for delays elsewhere as a consequence.

Match Abilities to Requirements

Here is another important key to maximizing productivity—always match the qualifications of your staff with the assignment that must be done. Unless you are practicing without staff, you should not be doing bank reconciliations and payroll reports. We have a program on our system that performs payroll and 1099 reporting. I don't know how it works. I don't want to know. If I did know, I might be tempted to abuse my time.

On the other hand, it is easy in a small firm to extend staff well beyond their current capabilities. There is no question that you want to continually challenge your people to stretch and grow, but if you're going to throw them into the deep end, either give them something to hold on to or jump in with them until they are able to swim on their own.

Monitor Progress

Besides developing time budgets for each engagement, good practice managers also target monthly chargeable hours by staff member. They share weekly time reports with each staffer showing month-to-date chargeable time. Hold your staff accountable by providing a running balance of chargeable time to which they can compare their monthly goal, and

⁴Stephen R. Covey, *The Seven Habits of Highly Effective People* (Simon & Schuster: New York 1990), p. 149.

you'll be assured that if they're getting short on work, you'll hear about it. This will give you some time to schedule work or shuffle current engagements among your staff.

Several years ago when I asked Ron Stewart about the information he shares with his staff, he told me

I share weekly, month-to-date, and year-to-date time and productivity reports. They have access to the rest of the information, but since it isn't something they can do anything about, they really aren't that interested. The time and productivity reports are another matter. They are very interested in those reports because they allow them to compare their standard time charges to budgets. This provides each staff person a way of tracking progress toward personal goals.

If you aren't using a time and billing software package with excellent reporting capabilities, find one. Each week all professional staff should receive two reports: the summary of their month-to-date chargeable and nonchargeable time and a detailed listing of their work-in-process by engagement. Examples of these reports as generated by my time and billing software are shown in exhibits 10-4 and 10-5.

EXHIBIT 10-4. Firm Time Analysis by Employee

April 30, 20X0									
Periods: Mtd									
Employee Name	Work-in-Process		Billed			Total	Per-	Total	Per-
	Hours	Std Amt	Hours	Std Amt	Billed Amt	Hours	cent	Std Amt	cent
- * -									
Joan	14.50	1030.00	86.50	6720.00	6307.69	101.00	31.05	7750.00	26.33
June	24.75	1458.75	77.00	4992.50	4711.02	101.75	31.28	6451.25	21.91
John	23.00	3105.00	97.50	12052.50	11465.41	120.50	37.05	15157.50	51.49
Jane	0.00	0.00	2.00	80.00	80.32	2.00	0.61	80.00	0.27
Total Chargeable Time	62.25	5593.75	263.00	23845.00	22564.44	325.25	100.00	29438.75	100.00
Joan	82.50	0.00	0.00	0.00	0.00	82.50	18.10	0.00	0.00
June	69.25	0.00	0.00	0.00	0.00	69.25	15.12	0.00	0.00
John	124.25	0.00	0.00	0.00	0.00	124.25	27.13	0.00	0.00
Jane	182.00	0.00	0.00	0.00	0.00	182.00	39.74	0.00	0.00
Total Nonchargeable Time	458.00	0.00	0.00	0.00	0.00	458.00	100.00	0.00	0.00
Report Totals	520.25	5593.75	263.00	23845.00	22564.44	783.25	100.00	29438.75	100.00

EXHIBIT 10-5. Employee Work-in-Process Engagement

April 30, 20X0							
Employee: Joan							
Type: Hours Amounts							
Client Name	0-30 Days	31-60 Days	61-90 Days	90-120 Days	>120 Days	Total WIP	Percent
- ★ - ★ - ★ - ★ - ★ - ★ - ★ - ★ - ★ - ★ - ★ - ★ - ★ - ★ - ★ - ★ - ★ - ★ - ★ -							
Mr. and Mrs. Smith							
Tax Return Preparation	3.00	0.00	0.00	0.00	0.00	3.00	12.77
	300.00	0.00	0.00	0.00	0.00	300.00	16.95
Company A							
Tax Return Preparation	0.00	0.25	0.00	0.00	0.00	0.25	1.06
	0.00	25.00	0.00	0.00	0.00	25.00	1.41
Mr. Jones							
	1.00	0.00	0.00	0.00	0.00	1.00	4.26
	100.00	0.00	0.00	0.00	0.00	100.00	5.65
Company B							
	0.00	0.00	0.00	0.00	8.00	8.00	34.04
	0.00	0.00	0.00	0.00	640.00	640.00	36.16
Ms. Johnson							
Tax Return Preparation	10.50	0.25	0.00	0.00	0.00	10.75	45.74
	630.00	25.00	0.00	0.00	0.00	655.00	37.01
Company C							
Tax Return Preparation	0.00	0.25	0.00	0.00	0.00	0.25	1.06
	0.00	25.00	0.00	0.00	0.00	25.00	1.41
Company D							
Tax Return Preparation	0.00	0.25	0.00	0.00	0.00	0.25	1.06
	0.00	25.00	0.00	0.00	0.00	25.00	1.41
<hr/>							
Report Totals	14.50	1.00	0.00	0.00	8.00	23.50	100.00
	1030.00	100.00	0.00	0.00	640.00	1770.00	100.00
<hr/> <hr/>							

In addition to these two reports, each month we produce several other management reports, three of which I share with staff. The first shows the employee's billed fees for the month by engagement. It also calculates the standard hourly rate, actual rate, and realization percentage on each engagement. The second summarizes fees for the firm as a whole detailed by employee. With these they can see how their production is contributing to the realization of the goals of the entire firm. The third report shows monthly productivity for the firm in both hours and standard amount detailed by employee and compared to the prior year.

No doubt there are other reports that could also prove beneficial, but these five have enabled me to fix accountability for chargeable time to each individual staff member. They act as a scoreboard helping to keep each of us on target.

Ron Stewart shares the same information with his staff. "In my firm the chargeable hours ratio and realization rates for the whole firm get grouped and go up on the wall for the whole office to see," said Ron. This gets the entire staff motivated to see how well they can do together to increase these numbers.

Merely communicating expectations and providing periodic reports will never result in perfect performance. Things never go exactly as planned. Jerry Atkinson, a former sole practitioner, uses a technique he calls MBWA—management by walking around. During the course of the day, he walks the halls of his office and sticks his head in the doors just to check on how things are going and to offer assistance if needed.

Your good people pride themselves on being self-reliant and capable. But we all know that sometimes a fresh perspective can help solve a problem. Make it a habitual part of your day to get out of your chair and check in with your people. Remember, this is *walking* not *stalking*. You would be better served not to do this at all than to convey the impression that the time you are spending with them is an intrusion on your busy schedule or that you are spying.

Give Positive Strokes

Nothing is better than when the client thanks you for a job you put your heart and soul into. The same holds true for your staff. If you aren't particularly verbose with your praise, make a conscious effort to show it in other ways. *We all need positive strokes!* The right word or action from you at the right time is worth more than gold.

You'll know you have arrived when you sense that the group has taken on a life of its own. The staff will begin to identify and solve problems without relying on you to do it for them. It takes real courage to relinquish this much control especially in the early going when mistakes are made, but these can be shouldered and learned from.

The benefits far outweigh the costs as individuals build on the collective mind of the group in an atmosphere of acceptance, trust, and approval. They will learn how to risk for the rewards of success because these are greater than the cost of failure. They learn this when you *praise the attempt* even when they fail. In this way they'll be willing to risk again.

In concert with your staff, chart your course. Give each one an oar and the freedom to use it. Encourage and praise them. When they get out of sync with the rest of the crew, let them know it by communicating with them. Make midcourse corrections as needed. You can be assured that you will reach your objective as you pull together.

I ran across a quote from the legendary Alabama football coach, Bear Bryant, that succinctly summarizes his philosophy of molding a group of individuals into a team. He said

I'm just a plow hand from Arkansas, but I have learned how to hold a team together, how to lift some men up, how to calm down others, until finally they've got one heartbeat together, a team. There's just three things I'd ever say: If anything goes bad, I did it. If anything goes semigood, then we did it. If anything goes real good, then you did it.

Delegate Administrative Tasks

Because our practices are small, most of us don't have the luxury of a full-time firm administrator. Thus, many of these duties fall squarely on our overburdened shoulders. The solution is to transfer as much of this burden as possible to your secretary-receptionist-office manager.

Let's start with the bookkeeping functions. For internal control reasons you may want to perform some tasks yourself. Beyond those few responsibilities delegate the rest. Turn over the collection duties as well. Many practitioners I have talked to admit that their secretaries do a much better job of collecting than they do. More on this in chapter 12.

My secretary is responsible for screening all office communications, making sure mail gets to the right people and that as little as possible hits my desk. She also schedules appointments for everyone in the office and maintains our individual calendars which, by the way, are computerized, allowing her to easily coordinate our schedules. Consider this. Any of these tasks you choose to perform yourself are costing you money.

MAKING CPE PAY

Obviously, your ability to provide superior professional services to your clients is directly proportional to the knowledge and abilities of the individuals in your firm. Because the profession is dynamic, you have no choice but to involve yourself and your staff in a continual educational effort just to maintain, let alone improve, your level of service. Professional standards dictate a minimum number of hours of continuing professional education, but most of us have found that it takes much more than this to get the job done. Given the loss of chargeable time, the cost of the programs themselves, and the cost of travel, providing CPE can be an expensive proposition. Let's look at some alternatives to consider as you attempt to provide quality CPE at an affordable price.

EXHIBIT 10-6. In-Firm Educational Programs

DATE: _____			
COURSE TITLE: _____			
CPE CREDIT HOURS: _____			
INSTRUCTOR: _____			
	<u>EVALUATION</u>		
	<i>Good</i>	<i>Fair</i>	<i>Poor</i>
ATTENDANCE: _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
REVIEWER: _____			

Establish an In-House Training Program

Since most states will accept formal in-house programs for CPE credit, why not organize some within your firm? Be sure to check with your state for specific requirements. In Idaho everything we need to do to qualify an in-house seminar for credit is included in exhibit 10-6.

Consider this scenario. You send a staff accountant to an off-site course. She returns with course materials and notes that she then distills into a presentation for your staff with specific reference to day-to-day experiences in your firm. You get CPE credit for additional staff members and for yourself without the cost of additional travel and course fees, and here's an added bonus. There is a well-established principle that teaching something to someone else reinforces the subject matter in the teacher's own mind.

Maximize Self-Study Course Benefits

Plug a self-study course into this same mold and maximize your benefits. Most vendors of CPE materials give a price break for additional manuals. The result is a decrease in the average cost per participant plus the opportunity for participant interaction, which further adds to the educational experience.

Another variation on this theme is to invite other solos in your area to share the course with you. One of the things that concerns me about being a sole practitioner is “professional incest,” never receiving any cross-pollinating ideas and knowledge from others outside my little firm. Spending time with other solos helps me to avoid this problem.

Turn Professional Reading Into CPE Credit

Most of us spend a considerable amount of time reading professional material. For the solo this probably includes a breadth of articles ranging from taxation to computers to accounting and auditing pronouncements to financial planning to litigation support to..., ad nauseam. Here is a way to reduce that load and pick up some CPE credits in the process.

Assign a subject area to a staff member. He or she would then be responsible for preparing and presenting an in-house training session on a topic chosen by you after consultation with your staff. Just so you don't miss something, check the topic headings to be sure the staffer is covering all the important items. Check with your state board to ensure that your program conforms with their accreditation standards.

Maximize Your CPE Investment

Considering the sizable investment of time and money in maintaining and enhancing the skill level of yourself and staff, it just makes sense to get the most out of every minute of CPE. The cardinal rule in this entire process is: *Never take a CPE course just for the credit.* Beyond that dictum, the following are some good ideas I have come across over the years that can increase the rate of return on your CPE investment.

Some practitioners sit passively (usually in the back of the room) for hours in seminars. If they learn anything at all it would have to result from osmosis. The rule is that the more actively involved you become in the learning process, the more you'll learn. Sit up front. Studies have shown that students who sit in the front of the classroom learn more than those who sit in the back. Sitting in the front increases attention, helping the student to stay on task. Talk to other attendees to broaden your understanding.

Obviously, taking notes in the margin of your course book is important. It puts your personal touch on what you are learning. Place a blank sheet of paper where you can get to it quickly for ideas that come to you while you are participating.

Send a Postcard

During the 1993 PCPS conference, Sommers White, a management consultant from Phoenix explained to the participants how to use postcards to pay for their conference registration. He suggested buying several postcards and as ideas come that might benefit a client, write a postcard to him or her. The card wouldn't detail the idea. Rather, it might sound something like this, “As you can see, I am in San Diego. I have been attending a

conference here and in one of the sessions the speaker brought up a *great idea* I want to talk to you about as soon as I get back.”

Sommers observed, “The answer to the accounting equation is *people*.” By letting your clients know you are thinking about them when you don't have to, you make enormous deposits into their emotional bank accounts, besides piquing their curiosity.

Within a couple of days after your return write your ideas down beside each clients' name and contact them. Frankly, I think the postcards work better than a long distance phone call. On the phone you might have to explain the idea. This would eliminate anticipation. There is value in letting the client ponder what is so important that you would send him or her a card.

Take Them Along

Some courses may be less technical in nature and could provide an opportunity for you to invite a client to participate with you. This places you in direct contact for the entire time you are involved in the course. The benefits are obvious. Assuming you choose the course carefully, your client will be impressed with the fact that you spent some of your time with the meter off, learning how to make his or her business more profitable. This helps cement the relationship as you develop ideas to improve current business practices and suggest ways in which you and your staff can help to implement those ideas.

Remember that regardless of your ulterior motivation, the primary purpose for CPE is to *learn something*. Carefully select your courses and actively participate in them. That's the best way to maximize your CPE investment.

DETECTING AND DEALING WITH PERSONNEL PROBLEMS

Earlier in this chapter, we considered the effects your poor attitude can have on your staff. Now let's consider the effects a staff member's problems can cause in your firm. We are not dealing with automatons, here. People have personal problems. Some of those problems may relate to the firm and some may not. Be that as it may, you cannot expect them to click off their personal trials at your front door and work as if nothing were wrong. People don't function that way. So what do you do?

Communication

The basis for any solution to these problems can be summed up in one word—communication. Clearly, you must be sensitive to what is going on in the office to detect a problem, and when you do, immediately open a communication link. Sometimes it may be difficult to identify a problem quickly either because the staff member may not see that his or her actions are affecting the work environment or because he or she may be unwilling

to discuss the problem openly. Ultimately, however, you must handle the situation since, left alone, it will fester until the entire firm is adversely affected.

Assuming the problem is firm related, the cause may be any number of things: lack of challenge, changing goals, a feeling of being in a rut or of being unappreciated. Whatever its cause, unless this attitude can be changed within a reasonable time frame, you'll need to terminate the disgruntled employee to avoid the rotten-apple scenario.

Burnout

A common cause of employee dissatisfaction is the problem of burnout. A person experiencing burnout feels powerless to change his or her own situation. You will notice these people using *projection* words such as "you," "they" or "it." Their talk becomes centered around weekends, holidays, breaks, or after-work activities. You will notice a decline in productivity and in the quality of their work. They are easily frustrated and cease to use their own initiative and creativity. They will often come to you with problems they expect you to solve for them. You may begin to feel that the staff member just doesn't care anymore.

Burnout occurs when the goals of the firm no longer mesh with the individual's personal goals. Put another way, each person comes to the firm with his or her own preconceived notions of what work will be like and, at least vaguely, of how to fit in. In the weeks and months that follow, an adaptation process takes place between the reality of firm needs and the goals, the dreams, and the aspirations of the individual. In those cases where the individual is not able to adapt, he or she may feel disillusioned. This is the beginning of burnout.

The process continues as the individual fails to see the goals of the firm as being compatible with and complementary to his own goals. He will cease to be willing to commit eight hours a day, five days a week (or more) to something he does not feel is getting him anywhere. He may not march into your office and quit. Rather you might discover a gradual failure to meet your expectations, and his loyalty will go only as far as the paycheck.

Understanding the causes of burnout will help you to reduce the likelihood of its occurrence or to deal with it if you start to see its symptoms in the attitudes of one or more of your employees. Your first inclination might be to react to the symptoms by criticizing or by getting on the offending employee's case. The problem with this approach is that good staff is hard to come by and expensive to train. You owe it to yourself and to your employees to work together to arrive at a mutually beneficial solution.

Another typical response is to begin blaming yourself. There is a common misconception that the boss is responsible for the attitudes of the staff. Remember that burnout is a personal problem. Because the person feels powerless, he or she will mentally transfer the responsibility for his or her circumstances to others and will often begin to blame. Much of the time the blame may be focused at you. Be cautious not to accept it.

You can help the employee to work out his or her own solutions to life's challenges, but you must not accept the responsibility for fixing them yourself. For some, shy-

ing away from responsibility becomes a way of life. To use a euphemism, once in a while you may have to shoot the horse to put it out of its misery. Others can be saved.

Unfortunately, working with a burnout victim is particularly hard for most solos to do. By the very nature of our business we tend to be bilateral in our approach to problems. That is, black is always black and white is always white. For every debit there is an equal and offsetting credit. Conversely, working with burnout requires an open mind and a desire to help another find his or her way, which may not exactly coincide with the map you had in mind.

Understanding that burnout has its roots in the employee's *perception* of the surrounding environment, empathic listening may help the person discover his or her reason for being as it relates to life within the environs of the firm.

Help the employee see that he has the ability to answer the fundamental question, "How does my life's mission fit with my work here in the firm?" The answer may be that it doesn't, in which case you should mutually agree to part company amicably. In other cases, you may learn something that will improve and extend the relationship for your mutual benefit.

By keeping the lines of communication open, by listening to understand rather than to judge or find fault or defend, you'll stand the best chance of obtaining a positive result.

Other Problems

Some problems are not firm related and may require more than open communication. They may require professional counseling and treatment. If you become aware of one of these, carefully document the behavior you are observing. This will help to establish that a problem does exist and will provide useful information for others who may be contacted for assistance. It may also serve as a protection against potential legal action if the employee is dismissed.

Be specific. Include dates, actions, and effects on job performance. Then, once you have obtained sufficient evidence, initiate a dialogue with the individual about the aberrant behavior in a supportive atmosphere. Discuss the problem openly and let the individual talk about it. Initially, you may get denials. Keep at it. In the final analysis you must solve the problem or you'll have to terminate the person.

In those instances where, after consulting with trained professionals, you determine that the employee needs professional assistance, mandate that the employee follow through with whatever program is prescribed. Less than full cooperation is unacceptable. The goal is to return the employee to a satisfactory level of performance, and the best means of accomplishing this is through a combination of professional guidance and a supportive environment at home and within the firm.

THE BOTTOM LINE

Your staff is your most valuable resource. With the exception of what you yourself do, they are responsible for every good thing that happens with your clients. Taking these critical relationships for granted all but guarantees a revolving door out of which these valuable resources will routinely and predictably walk. Keep them challenged, keep them involved, keep them moving toward mutually shared dreams, keep the lines of communication open and you'll keep them where you want them—happily at work in your office.

CHAPTER 11

BILLING YOUR SERVICES

Our service is expensive. If you want cheap brains, go to a butcher shop.

—Sign on the wall of an attorney's office

In the twenty plus years I have been attending MAP gatherings, the subject of billing always comes up. What we charge and how we arrive at that amount is something of an enigma not only to ourselves but also to our clients. There are so many different ways to skin this cat that it's small wonder we are continually searching for the *right* way.

Fifty years ago, the profession embraced the time-based billing system. This made sense back then because the profession was largely dependent on auditing, which was usually done by the larger firms, and on bookkeeping, which was usually done by the smaller ones. This cost-plus approach served us well in those days. But the last three decades have seen the expansion of our services into many new and specialized areas. Yet we have been loathe to move away from our "time equals value" comfort zone.

Now hear this! *Your clients aren't paying you for your time!* Here's a fill-in-the-blank question for you. My clients pay me for _____. If you answered with *results* or *solutions to their problems* or something similar, you are right. And how much are they willing to pay? Simple. As much as the solution is worth to them and no more, at least not in the long run.

This chapter will teach you the psychology of value billing and how to set standard rates for competitively priced services. We'll cover how to charge your clients for the firm's technology investment. You'll come to understand the difference between bidding and quoting and how to avoid the substandard fee trap that results when you do it wrong. We'll finish up by helping you to prepare a bill that will reduce client complaints and to handle those which do arise.

CHARGING WHAT THE MARKET WILL BEAR

Ron Stewart told me one of the best lessons he ever learned was as a result of a mistake. He left a bill for \$250 for his secretary to type while he was out of town. When he returned he found she had typed \$520 instead. "A few days later," he recalled

I received a check for \$520. That is when I realized that the value of the service is what the *client* perceives it to be. Periodically I'll receive a call about how a bill was computed. When I do, I focus on the real concern—the value of the service provided.

So why bother keeping time records? Because your firm's time records are your cost ledgers. Would you recommend that a manufacturer abandon his cost accounting system because he bases his products' prices upon market conditions and the economic factors of supply and demand? Every business must consider its costs.

Your competitors both within and outside this profession are willing to provide services that produce an adequate profit margin, and to the extent they can reduce their production costs, they will be able to reduce their prices. But beyond that, cost is not relevant. In fact, cost plus a reasonable rate of return sets the *minimum* price for a product or service, not the market price.

"I believe value billing is going to overtake the profession in spite of itself," says Charlie Larson.

I see the profession as being kind of like a grocery store where customers walk around and buy some things by the can and some things by the pound. The same thing has got to happen as our services expand. We're going to have to come up with different measures that are more appropriate. In some areas time will continue to be a good measure. An audit may be a good example. Time is particularly appropriate at the lower staff and paraprofessional levels.

Today we are providing services where hours are not a particularly good measure. The time-keeping process needs to become an administrative function rather than being the driving force behind the fee. We're basically cost-plus in our industry right now instead of determining what the value ought to be and then watching our time as a costing function.

Cost-plus pricing is only a reasonable method of determining value when it produces a fee that closely approximates the client's perceived value for a particular result. Too often, this is mere coincidence. But most of the time we get away with it because we have convinced this current generation of clients that professional services are packaged by the quarter hour. The new generation may not be so easy to convince, especially considering the new breed of competitors beginning to emerge.

We are not alone anymore. Banks, management consultants, personal financial planners, computer systems analysts, and others, are market driven. Although they recognize that the value of what they provide is a function of what the market will pay and that cost is something to be controlled, we are still pricing jobs like a defense contractor—the higher the cost, the higher the price. This is the antithesis of good management.

So how do you set a value-based fee? Here's what Ron Stewart does.

The first thing the practitioner must do to increase fees through value billing is to get himself out of compliance work. My starting place is my staff's stopping place. I believe in getting involved with my clients in nontraditional areas. I try to make people think I know more about business than I do about accounting work. I see compliance work as a feeder for these other services.

I look for opportunities to ask my clients something like this, “What keeps you awake at night?” I get them to describe all the problems this situation is causing. I am looking for the degree of pain they are in. This helps me to estimate the value of my services. Then I ask them, “Is a solution to this problem worth \$8,000?” Then I describe briefly what we can do.

Billing is not a mathematical exercise; it is a psychological exercise that you accomplish not with a calculator or a computer but by analyzing the value of your services to those who receive them. Actually, you are probably doing a form of value billing right now. You do it every time you write a bill down from standard. What you are saying in effect is that the service or product was not worth what your normal cost-plus calculation would dictate. If this thought process works one way, why doesn't it work in the reverse just as well? The answer is, *it does!*

Let me illustrate this point with the best value-billing story I ever heard. Janet Caswell relates

One of my clients recently needed an attorney in Mexico. He and I had had several conversations about value billing as he is also in a service industry. I had suggested that he was undervaluing certain work and that he should start charging for the value of those services to the client.

I asked him what he thought it would be worth to him to get the name of the Mexican attorney he needed. He smiled because he knew I was talking about value billing. Then he said he didn't know. So I helped him. I asked him how long it would take him to get this information on his own. He said it would take him a lot of time. Then I asked him what his time was worth. He said, “Okay, I get it. It's probably worth \$3,000 to \$4,000 if I had to do it.” So, I said, “Which is it—three or four?” He replied that it would probably be closer to \$4,000.

I pulled out my personal digital assistant and gave him the number of an attorney in Mexico and said, “Here. Call him.” He said, “How do you know this guy?” I told him I had been to lunch with him a couple of times but had never used him personally. He was referred to me by a client who had done business with him

He pulled out his checkbook and wrote me a check for \$4,000. He told me the information was worth it to him and that he now truly understood the concept of value billing. I asked him how he felt, if he thought I had cheated him or if it was unethical in any way. He thought about it for a second then said, “No, not really. It feels kind of weird writing a check for a referral, but the information was worth it.”

Then I explained that it took me a long time to develop this and many other similar relationships over the years, most of which I never get a dime for. But the one time you needed something and needed it fast, it was there for you.

What was the information worth? Apparently it was worth \$4,000.

The next time you bill a piece of work, stop and ask yourself what the value of the service was from the client's point of view. For most compliance type engagements, the answer lies somewhere near your standard rate—assuming your hourly rates for such

work are competitive in your market area. Any jobs that fall outside competition-driven pricing are fair game for a value bill.

How much should you bill? Only you can answer that question but you might want to ask yourself these questions as a part of the process:

- What is the client's perception of value?
- How much would any other firm in my area have charged for similar work?
- How high are the stakes in the engagement I am billing?
- Did I provide a creative or unique solution?

I wish I could remember who told me this story because I don't recall the exact amounts involved, but here is the general idea. A solo's client was selling a cola distributorship somewhere in the South. The accountant worked long and hard in the negotiations, which concluded in an agreement between the parties. Toward the end, he called the attorney and explained what needed to go into the contract of sale and the attorney obliged.

The deal was signed and the client got his money, well into seven figures. Then it was time for the accountant to prepare his bill. He had somewhere in the neighborhood of \$25,000 of time into the job, but he felt it was worth more than that. But how much more? He agonized over it.

Finally he decided to double it and hope his client didn't scream. So he sent the bill for around \$50,000. A few days later he received a check for \$50,000 and a note. The note said, "Thanks for all your help."

But here's the rest of the story. The attorney who was spoon-fed by our colleague also sent a bill. His was for \$100,000 and he also received a note. The note said, "Thanks for all your help." The moral of this story is—well, you can figure it out.

DEVELOPING STANDARD RATES

Now that we have questioned the relevance of time-based fees, let's see how to work within this structure to develop cost-based billing rates. As mentioned previously, some services lend themselves favorably to the rate-times-time approach, and even in fixed fee engagements, it makes sense to track the standard fee as a measure of productivity.

Many rules of thumb exist for determining a standard billing rate: three times gross pay divided by 2,080 hours; two percent of monthly compensation; and other variations on the same theme. Generally speaking, these formulas derive from the process of adding the employee's proportionate share of overhead and a reasonable profit margin to payroll cost. A better way to accomplish this task is the bottom-up method as described by Larry Lucas.

I determine rates by weighing what it costs me to run the practice, how much billable time I can reasonably expect each of us to generate, and what I want to have left over as a profit for me. Then I take these rates and try to get up enough nerve to actually charge them!

A California practitioner revealed his method for setting his hourly rate in a seminar I attended. He said, "I stand in front of my bathroom mirror, look myself straight in the eye and say, 'I'm worth \$125 an hour.' Then I say, 'I'm worth \$110 an hour.' I continue this process until I can keep a straight face."

A number of years ago, I met a sole practitioner from Augusta, Georgia, who decided he wanted to slow down, but he still needed the same amount of money he was earning from his practice. His solution? He wrote letters to all of his clients saying that he was downsizing and that in the next few weeks he would be contacting each of them to let them know if he planned to discontinue their relationship. In this same letter, he told them he would be raising his fees by about fifty percent to those he determined to keep. He expected phone calls—and he got phone calls; but they weren't what he had anticipated. To his surprise, nearly every call was a plea to not be on the termination list.

On the opposite side of the coin, I offer this illustration. A new solo was referred to a seasoned practitioner as an expert in like-kind exchanges. All was going well until he asked her what rate she charged for the contemplated services. She responded, "I charge \$40 per hour." He didn't call back. When asked why, he replied, "I didn't want a \$40 answer."

Sid Jarrow¹ once wrote, "Billing is an attitude, not a process!" You're a sole practitioner. No one tells you what you are worth but you. That's the real problem. You've got to believe in your own value before you can convince anyone else.

I have heard several successful solos tell me they set their rates higher than what they think they are worth and then push themselves to that value level. Market conditions notwithstanding, if you truly believe you are worth \$200 an hour or \$2,000 a day, your conviction will lead your clients to believe it, too. And some jobs are worth a lot more than that.

Using Multiple Rates

One of the major drawbacks to a standard rate in a sole practice is that it assumes that each hour of each day is worth the same regardless of what it is used for and regardless of when that hour occurs. A solo may find him or herself planning a corporate merger one hour and preparing a payroll tax report the next. A standard hourly rate gives no weight to the cost of acquiring the expertise to do the merger nor to the increased risk attendant with it. Nor does it take into account the seasonality issue. Is an hour during July worth the same as an hour on April 15?

To overcome this problem, many solos use different hourly rates for the various services they provide. Their rate for general accounting, for example, would probably be less than their rate for facilitating a corporate merger. Preparing journal entries for a write-up client cannot compare technically with planning for a \$50 million estate. It also makes sense to charge more for tax return preparation, for example, since this happens during the busy season when time is scarce.

¹Sidney F. Jarrow, "Value Billing," *The Practicing CPA* (November 1987), p. 1.

As to staff rates, while the formula approach used to provide a reasonable means of determining rates twenty years ago, it doesn't fit our changed circumstances very well nowadays. With the increasing cost of CPE, fringe benefits, and other payroll expenses, the formula approach should only be used as a starting point.

Establishing staff rates relative to your own is a better approach. If you can prepare a particular tax return in one hour and the same return would require two hours of staff time, that staffer's tax preparation hourly rate should be about half of your rate. This method also has the advantage of comparability. It shouldn't matter who does the work, the bill should be the same.

Charging Fixed Fees

Many solos are moving to a fixed fee-retainer or fee schedule especially for various kinds of compliance services. Craig Willett remarks

We menu bill for nearly all of our products. The menu bill accompanies the completed product. In some cases, we do something I call global billing, which is to set an annual fee or retainer to provide tax, accounting, and consulting services. We have found this to be a very effective billing alternative. In those cases where we have done it, we find even higher than normal margins.

A caution here. You may experience a tendency to underquote fixed fee engagements. Don't allow yourself to step into this bear trap. What often results is less than top quality service and dissatisfaction on both sides.

Ray Petkovsek from Madison, Wisconsin uses a fee schedule to bill tax returns.

Using the fee schedule saves me a lot of time because I don't have to look up time reports. Rather than sending a billing statement at the end of the month, I compute the fee based on my fee schedule and include a copy with the return. I mail out around ninety percent of my returns and receive payment within ten to thirty days. Another thing I like [about using the fee schedule] is that I never have a client complain about the fee.

Ray feels he is actually realizing a higher hourly rate now than he was when he computed his charges by the clock. The only downside to the fee-schedule approach is getting caught in a fixed fee trap where there are problems with the underlying records. In these cases Ray adds an extra charge for makeready. He also charges for technology and processing.

BILLING FOR TECHNOLOGY

Because of technology, many tasks can be completed in a fraction of the time it used to take to do them by hand. Computing the bill by the rate-times-time method passes this and any other efficiencies on to the client. This is the defense contractor philosophy working in reverse. The more efficient you are, the less you make. Does that make sense?

Several years ago, Ron Stewart told me his solution to this dilemma.

From my perspective what I see too many firms doing is giving away their efficiency. If I can prepare a tax return for \$200 this year and last year it was \$300 for the same job, I will bill \$300 again this year. If the price was a good value last year, why should the price drop this year? By focusing on becoming more efficient, we get more work out the door. Then by charging value rather than time, we make more money.

Now that makes sense!

Technology and additional experience are both valuable commodities, and you have paid for both. All things being equal, if you are able to prepare a client's return in less time this year than last because of experience or better equipment, why should the fee go down? Compare what you did this year to last year's version of the same job, with what you are billing other clients for similar work, and to market rates in your area. Then bill accordingly.

Some practitioners, like John Kenneally, actually charge for computer time. They record it, assign a rate to it, and bill for it. Other solos charge each client an annual technology fee. In essence, this is what I do. Noting that we spend somewhere between \$12,000 and \$16,000 per year for computer hardware and software, I add a per form charge onto each tax return. This charge brings in around \$35,000 annually and pays for both technology and return processing expenses.

This method is practical. The more complicated and involved the return, the greater the technology charge. The rationale is that the more complicated returns benefit the most from the technology. The same thing can be accomplished by the kind of straight menu pricing Ray Petkovsek and Craig Willett use.

I also recall meeting a practitioner whose firm charged each client an annual "membership" fee that was used to cover these expenses. The method you choose is not important. Recovering your investment in the efficient use of technology is.

BIDDING VERSUS QUOTING

Now let's talk about avoiding shooting yourself in the foot like Greg Lurie once did.

Not long ago, we decided to submit a proposal on a daycare center. The timing of the work was excellent and the workpapers from the client were going to be superb. So we decided to really cut our fee to just fill in for summer work. Today, I visited another daycare center who called us as a result of talking with the daycare center we took on at reduced rates. They told [the prospect] we did good work and that we were cheap. Proposals that are fee dependent are not worth going after.

Mitch Potterf has had similar experiences and draws this conclusion. "I don't do competitive bidding. I don't want clients who go around getting quotes. I'm not a construction company. I just don't need the aggravation. Once you succumb to the proposal-writing process, you're a slave to it."

Several years ago, I did work for a heating, ventilation, and air conditioning contractor. I was constantly counseling him not to try to win every bid. The reasoning was that by reducing his margins that low, he would be so busy that when a really good job came along he wouldn't be able to take it.

Here's what Bea Nahon has to say on the subject.

You don't really know what you're getting. I have had people comment to me, "So and so did my will. He did a good job and he was really cheap." How do they know how good the will is? They haven't died yet! Are their heirs going to be happy that their parents got a cheap will?

We're certainly not the cheapest firm out there, nor are we the most expensive. Some people are scared away by the rate. That used to bother me, but it doesn't anymore because I'm busy. If I were sitting here, waiting for the phone to ring, and had scared off clients over fees, then I would think something was wrong. I have plenty of people paying the fee. They are fun to work with and I love them. The work is exciting, challenging, and interesting. I am not interested in working for people who are shopping on price. I'm not a head of lettuce.

In their book *Up Your Profits*, Arvid Mostad and Shirlee Christensen² write

We don't know of any firms that have been pleased in the long run to be the least expensive accountants in town. On the other hand, there may be some benefits to having the highest fees in town. After all, the clients who have money to spend seldom shop in the cheapest stores in town.

It has been my experience that most clients hope their CPA is the best in town. In some instances, they equate quality with cost. All you accomplish by undercharging is to devalue the service in your client's eyes and cause him or her to mistrust his or her feelings about your abilities. I very recently had an experience that taught me this lesson (again).

A prospective client came in to visit. He explained what he wanted us to do and asked how much it would cost. I explained that there were numerous unanswered questions and that I could not give a firm price quote at this stage. Then I said, "But I can tell you that we are not the most expensive firm in town." Then he asked, "Why not?"

There is a significant difference between competitively bidding for work and quoting a fee. During my conversation about bidding work with Larry Lucas he noted

I think there is another way to approach it. Going to somebody to have them do work that may cost hundreds or thousands of dollars without having any idea of what it is ultimately going to cost requires a tremendous amount of trust. When I go to the dentist, I at least have an idea of what it's going to cost to have that crown put on because they tell me before I have the work done. I don't shop around, but I still want to know.

Here's what Janet Caswell is doing.

²Arvid Mostad and Shirlee Christensen, *Up Your Profits* (Oak Harbor, WA: Mostad & Christensen), p. 5-5.

Lately we've been trying to give the client an opportunity to tell us what he thinks the service is worth to him. If they can't decide, we help them by explaining how much time it might take them and their staff to do the same job. For those projects where we can't make a reliable estimate of the ultimate fee, we'll say something like, "We don't really know what may happen from beginning to end, so we'll spend half of a day on this project, and then we'll analyze where we are. Then we'll be in a better position to tell you what it will cost to finish the project. We're going to charge \$400 for that half day."

We think this at least gives the client something to work with and we're not promising results. We're just promising an assessment of the project. Then we try to develop the full engagement from there.

One final bit of counsel in this area. Quote high! And if you need to give a range, be sure the bottom number is in the ball park because it's the only one the client is likely to remember.

BILLING THE FEE

When should I bill? Here is what the *MAP Handbook* [203.3] has to say.

A common practice is to bill monthly whether the job is completed or not. In certain situations, such as large jobs or specialty work, a shorter time frame, meaning, 15 days, may be appropriate. Defer billing only in those instances in which the client insists that the bill should be submitted on completion of the job.

Progress billing can reduce work-in-process and results in higher realization because the bill quickly follows the services performed. The service is fresher in the client's mind, thereby reducing billing disagreements.

Invoice Immediately

Follow this simple rule: *Invoice everything as quickly as possible*. Remember this axiom: A client's appreciation for services rendered decreases rapidly with the passage of time.

Certainly a client should be expected to pay for tax work when picking up the completed return. Hence another advantage of gearing your firm to a product rather than a statement billing orientation: It makes immediate billing easier. Your days in receivables will decrease and so will client complaints when you institute this pay-and-pack policy. Solos who use fee quotes as described in the previous section should find it easy to collect at the conclusion of the engagement. Invoicing immediately has the advantage of clearly relating the event with the charge.

Enlist the support of your secretary who should, during tax season, phone clients when their returns are completed and ready to pick up. The secretary should tell them what the fee is and request that they have a check ready when they come in. Have your secretary do the same thing for special projects, tax planning appointments, and financial statement preparation. We'll talk more about how this helps the collection effort in the next chapter.

“We put a bill in each tax return,” explains Bea Nahon.

We run WIP once a week and I bill the jobs that have been completed during the week. There's not much of a gap between finishing the work and billing for it. The sooner you get the bill out, the better. Otherwise they say, “This is old news.” On larger engagements, we progress bill.

Repeating something said earlier, your time-based fee should be the *minimum* fee for the job. Unfortunately, most of us seem to be much more inclined to reduce the bill from this point than we are to consider an increase. If this describes you, there is a simple solution. Set your rates high enough so that writedowns do not result in a fee that is lower than it should be. This process results in higher fees as you bill many engagements at standard while you work to reduce your writedowns. As soon as your realization increases to a point you feel comfortable with, it will more than likely be time to raise your rates again.

Enlist the Aid of Your Staff

Most solos I've talked with agree that it is a good idea to get staff input when billing the jobs they have worked on. Charles Theriot, a solo in Houma, Louisiana, observes that the staff member is less inhibited, knows less about the client's billing history, and knows more about the job.

He knows what went on that made the job tough. The boss might not know that the bank account hadn't been reconciled in six months or that accounts payable didn't agree. The idea is that the realization rate would be higher overall than it would be if the sole practitioner billed all the work-in-process himself.

I'm not doing this on every engagement, but I have used it when the hours were higher than I expected. I ask the staff to go over the WIP and bill the engagement. But they have to justify the fee or the writedown. I like the idea because when I see an overrun, I sometimes ascribe it to inexperience and write the bill down, but the staff person knows why the overrun happened. They know what they had to do that was extra.

Sometimes a writedown is justified as, for example, when you have a new person on the job. But beware of writing down a first-time engagement. This sets the standard in the client's mind for all subsequent work. I can't count the times I have reduced the fee on a first year tax return only to have a billing complaint when we tried to bill the full fee the next year.

Communicate About Fees

Most clients will only complain about a bill when (1) they feel they are being charged more than someone else for the same service, or (2) their perception of the value of the service does not correspond with the fee. Neither of these concerns has much to do with rate times hours. Both have a lot to do with *communication*. The first complaint requires that we let our clients know that similar services are charged a similar fee regardless of the client. That is one reason menu billers have less complaints about their bills. The sec-

and requires communication with the client before, during, and after the engagement to ensure that he or she understands the nature, extent, and sophistication of the engagement and the level of expertise required to perform it. Remember: If you are getting no complaints about your fees, it's probably time to raise them!

Consider the Bill's Look and Content

What should the bill look like? I'm sure you've seen a statement from an attorney detailing every phone call, stamp, and copy made besides the attorney's time in tenth-of-an-hour increments with the rate and charge for each prominently disclosed, line by line. The only thing those bills seem to accomplish is to upset the clients. "He charged me for every comma in my will!"

I don't believe in giving the client a line-by-line charge. But, by the same token, most clients don't like buying a pig in a poke, either. The day of the one line description "Accounting Services" is long past.

Several years ago we had two clients tell us they didn't like our billing statements. One said he couldn't tell what we had done. The other said all he wanted to know was how much he owed.

We had two choices—either set up two separate billing formats or find a way to provide more detail and a better summary. We opted for the latter. Now we produce a summarized statement listing only broad service categories (such as, tax services, accounting services, computer consulting) with the applicable fees and attach a separate detailed listing straight from the daily time input. We do not show line item charges or even time on this listing; we only include the total amount charged by the service area that ties to the front page summary (see exhibit 11-1). It works for us.

EXHIBIT 11-1. Billing Statement

		December 31, 20X0
		Client #: JAC04
Beginning Balance		204.75
Invoice #: 3090		
ACCOUNTING SERVICES	1,540.00	
INCOME TAX SERVICES	525.00	
Total Amount for Invoice # 3090		2,065.00
Total Current Charges		2,065.00
No Payments This Period		0.00
<p>Balance due is payable upon receipt of this statement. If your account is not paid in full and additional billing statements are sent, a FINANCE CHARGE of 1.5% (18% annualized rate) computed on the past due balance will be assessed for each such statement.</p>		

(continued)

EXHIBIT 11-1. Billing Statement (continued)

Amount Now Due		\$2,269.75
		Client #: JAC04
Invoice # 3090		December 31, 20X0
Services Performed:		
11/24/X0	DMT	Prepared worksheet to determine balances as of September 30, 20X0.
12/18/ X0	DMT	Met with Melba to go over trial balances.
12/22/ X0	DMT	Went over trial balances with Melba.
12/23/ X0	DMT	Adjusted trial balances.
12/24/ X0	JTD	Reviewed 360 account questions with Dennis.
12/24/ X0	DMT	Visited with Melba about reconciling current accounts payable to 360 account.
12/26/ X0	DMT	Prepared asset and liability transfer schedule for assets transferred to corporation.
12/30/ X0	JTD	Discussed trial balance and 360 account with Dennis and Melba.
12/30/ X0	DMT	Estimated net income.
12/31/ X0	DMT	Prepared cashflow statement. Conference with Terry.
12/31/ X0	JTD	Worked with Dennis on tax plan. Reviewed the cash flows for the corporation since June and for the year to November. Telephone call with Melba and Scott to determine tax planning moves.
12/31/ X0	DMT	Telephone conference with Melba, Scott, and Terry about tax planning options.
Total Fees		<u>2,065.00</u>
Total Due		<u><u>\$2,065.00</u></u>

THE BOTTOM LINE

Let's conclude with a reminder of what we went over at the beginning. Charlie Larson's³ article, "Changes Due in Billing and Collection Habits," summed it up.

In the decade ahead, CPAs who choose to be successful will find new ways of billing clients. Today, value billing, while often talked about, is seldom practiced. Even when it is, the results are more often a windfall than a planned, structured activity. The use of menu billing will grow, and other techniques will be developed to effectively gauge the value of the service to the client, the cost to the CPA firm, and the acceptable price in the marketplace.

At some point, CPAs will accept that billing is no longer a cost-accounting exercise conducted as an administrative task. It will be accepted as, perhaps, the firm's most important marketing decision.

What is an hour of your time worth? Doesn't it really depend on how you spend that hour and who you spend it for? If you want to trade your time for so much an hour, go get a job. If you want to develop a successful, profitable solo practice, look for ways to increase the value of every hour of your time and bill that value.

³Charles B. Larson, CPA, "Changes Due in Billing and Collections Habits," *The Practicing CPA* (July 1990), p. 8.

CHAPTER 12

COLLECTING THE FEE

Anyone who is not insistent about being paid for services rendered is likely to find that people take advantage of the situation. It is the squeaking wheel that gets the grease. Tardiness in paying usually has little to do with clients' perceptions of whether value has been received or whether they are satisfied with the product or service. It is simply that people don't like parting with their money.

—Joe D. Jones, CPA¹

The only thing worse than losing a client is writing off a large receivable balance to boot. To have high gross billings is nice, but you don't spend gross. The job isn't done until the cash is in the bank. Learn how to improve your chances of collecting what you bill by obeying the Ten Commandments of Collecting.

THE FIRST COMMANDMENT—ASK FOR THE MONEY UP FRONT

The best way to prevent a collection problem is to get the money before you lift a pencil or click a mouse. Do you request retainers? Many solos do and they get them. Ron Stewart says he was hesitant about it “until I realized that the only ones not doing this were the accountants. I have not had any problem getting clients to accept this. They are used to it from their dealings with other professionals.”

Randy Gross asks for retainers when working with nonfilers, in divorce work, and for business valuations. Bea Nahon uses them when she is involved with litigation support, in IRS cases, and with new clients. The following experience is what convinced Bea.

I still remember my first referral. It was a couple who hadn't filed their 1040s in four or five years. The IRS was after them and they asked if I could do those returns. It was a big job. I finally finished the job at which point they thanked me and promised to call the next week, take me out to lunch, and bring me a check. I never got the check—and I never got the lunch! They were gone.

I did everything I could to track them down. They went through a string of phone numbers and residences. Eventually I gave up. Since that time, I take on no delinquent

¹Joe D. Jones, CPA, “A Philosophy of Accounts Receivable Management,” *The Practical CPA* (June 1984), p. 2.

returns without a retainer kept current as we move through the engagement with any balance C.O.D. when they pick up the finished product. I won't do it any other way.

People who are not concerned about the Internal Revenue Service are not likely to be intimidated by an accountant.

Retainers make sense especially for new clients and for nonrecurring engagements. There is a by-product from requiring retainers. Clients who pay for services in advance are much less likely to dispute fees. You solve the problem before beginning the job.

Collection problems are far more likely when the job is a particularly messy one. People who don't keep good records often seem to have little regard for the value of professional services. Wisdom dictates that if the job is a mess you have two options: (1) get a retainer and keep it current throughout the engagement, or (2) turn the job down. Anyone who balks at giving a retainer is immediately suspect.

I was once engaged as a receiver for some dry beans owned by one company but stored in the warehouses of another. A dispute had arisen as to the number of sacks on hand. The beans' owner initially approached us and I requested a \$1,000 retainer, which they quickly paid. Shortly after being appointed by the court, the warehouse firm's legal counsel proposed that I work independently of both parties to produce an accounting and that the bill for my services be split equally between the two. I agreed and immediately requested a retainer from the second company. We received many promises and assurances from the attorney, but no money.

As our bill mounted, I became more vigorous in my attempts to secure payment. The story does have a happy ending. The bean owners paid their half as per our agreement. Although the warehouse never paid a dime, I was able to collect their half of the fee from money the court required to be deposited as a part of the litigation. I was lucky. The moral to this story is, blind luck is *not* the way to collect your fees. If I had to do it over again? You're right. I would have refused to begin without the retainer.

Fixed fee engagements are a variation on the retainer theme. From a collection standpoint, these arrangements work exceptionally well. If a client is late with a payment, you will know about the problem before it has a chance to get out of hand. Then you'll be able to take immediate action to determine its cause and to work with the client to find a solution.

Some practitioners encourage their clients to pay by offering a discount. Most of the solos I have talked with have a problem with this. It seems to reward the client for doing something he or she should be expected to do anyway. It also sends a message to a firm's clients that prompt payment is an option. As a general rule, cash discounts are not the way to go. However, here are a couple of exceptions to that rule.

Jim Patterson of Framingham, Massachusetts, sends out a letter toward the end of the year in which he offers his tax clients the option of paying before the first of the year to receive a 10 percent discount. Since most returns don't vary much from year to year, it isn't hard to make the projection.

Jim says he receives around \$25,000 in December from this offer, which gives him a nice jump-start going into the new year. He also says it has nearly eliminated fee disagreements.

Mitch Potterf offers to do his client's returns for the same price as the previous year if they will pay before year end. He generates about \$35,000 in December cash flow from about 40 percent of his clients who take advantage of the offer. Mitch feels he can still earn a reasonable fee since, again, most returns don't change much from one year to the next. Of course, none of these clients complains about the fee.

THE SECOND COMMANDMENT—COLLECT ON DELIVERY

If collecting in advance is the best time to collect, then collecting on delivery is the second best. Years ago, I worked for a sole practitioner who prepared returns in April that he billed in May and slowly collected for over the balance of the year. He used to complain bitterly about this low payment but just couldn't seem to think of a way to change the situation. I could never understand why he didn't just attach a bill to the return and ask the clients to pay when they picked them up.

The same suggestion also applies to financial statements, estate and tax plans, business valuations, and strategic plans. In short, attach a bill to anything you do that has something tangible as evidence of your work.

Don Clanton, a Houston area practitioner, writes

The collectibility of your fees peaks at the instant the client receives your services. It's at this point that the client places the most value on your services, so that is the best time to bill [and collect] for them.

This even applies to those clients for which you normally bill recurring work at month end. You can do this by using an invoice and statement billing system. Invoice the product-oriented services separately from the recurring work that you bill monthly. The statement shows both the previously invoiced project and the invoice for the regular monthly work.

COD

Some clients just need to be COD. These are probably the same ones from which you should have required a retainer. Failing that, don't let them out of the office with your work product without paying for it. Here's how Greg Lurie learned this lesson.

I had a client who paid us the following year for the previous year's work. So I told them I wanted cash on delivery. They agreed, and we did the work. I called the general partner to pick up the K-1s, and he came in without a check. He swore to us that it would be in the mail that night. This was two years ago. Last year they switched accounting firms.

Sometimes you lose even when you try to do it right. Several years ago, I did a tax return for a friend who was struggling in business. Knowing I had a probable collection problem and to make it possible for him to pay, I suggested that we have the state income tax refund sent to our office. He agreed and a few weeks later we called him to let him know the check had arrived. He was supposed to endorse the check over to us, but when he came in he told our secretary he would cash it at the bank and bring us the cash. Needless to say, we never saw him again. As Ron Stewart is fond of saying, "Credit cash. Debit experience."

Some of your peers accept credit cards. They consider the bank's fee to be reasonable in exchange for cash now. If the client won't use his credit to pay, preferring instead to use you as the bank, then operate like one. Lawyers agree that it is much easier to collect on a note than it is to attempt to collect an open account, and most also agree that it reduces exposure to a malpractice suit besides. In fact, some professional liability carriers draw a distinction between suing on a note and suing for collection of an open account when evaluating an application for liability coverage.

Getting your client to sign a note may not be as hard as you may think. You might begin by explaining that this is simply your firm's policy and that once the note is signed and they comply with its terms their account will be current and they will be treated as such. You could further encourage the client to accept the note by agreeing to charge an interest rate similar to what the client could obtain from a commercial lender.

Postdated Checks

A second method is to request a series of postdated checks. John Kenneally uses this practice successfully. In one instance, he was providing tax preparation services for a physician who owed the IRS over \$100,000. According to John, "He spent about 120 percent of what he made." Since he hadn't filed in a couple of years, John asked for a \$1,000 retainer and twelve postdated checks for \$500 each. He collected \$7,000.

In my experience, clients who aren't planning to pay at all will refuse, while those who just need a little extra time are anxious to agree. I have *never* had a postdated check fail to clear—eventually. I have had numerous promises to pay go unhonored.

Trade

In some instances where money is hard to come by, you might consider exchanging for something of value. The first time I had this opportunity I blew it. An attorney advised against it on the grounds that if the client went bankrupt I might have to return the property or pay for it. Ultimately, the client did not declare bankruptcy and never paid the bill. Since that time I have held to the bird-in-the-hand philosophy. Mitch Potterf told me he built an outdoor deck to his house this way.

THE THIRD COMMANDMENT—PROGRESS BILL

It's simply human nature to handle the smaller bills first. We all do it just to get them out of the way. The larger ones seem to keep hanging on. We can't decide whether to wait to pay the bill in full or pay a portion of it each month until it is paid off, so, often we do neither. You can overcome this tendency in your clients by billing and *collecting* your fee as the work progresses.

This commandment also has a by-product. Being human yourself, you may find that your realization rate increases as most of us are less inclined to write down a small bill than we are a large one. The only engagements I would not progress bill are those which are nearly complete and where I intend to bill at time of delivery. Communicate your system of progress billing to each new client. Increased fees and a shorter collection period—these are two good reasons to progress bill.

THE FOURTH COMMANDMENT—ESTABLISH A COLLECTION SYSTEM

“Whenever I've been beaten out of a fee, more often than not it has been because I let it go too long,” says Mitch Potterf. John Kenneally adds

You have to make it clear up-front that you expect to be paid. You also need to stay on top of your collections. *You need to know what people's credit limit is* [emphasis added]. We won't do the current year's work if a client owes us for the last year's work.

Alan Westheimer² lists three key points for an effective collection system.

1. Establish a past-due point, usually 30 days.
2. Establish a stop-work point, generally from 90 to 120 days.
3. Establish an outside-help point, at some point beyond the stop-work point, but not too far beyond.

Stick to Your Guns

Any solo who does not have a systematic method of collecting bills or who does not religiously follow that system is going to have collection problems. You can significantly reduce your headaches and client dissatisfaction at the same time by explaining your collection policies and procedures to all new clients as soon as they come on board. They need to know that every one of the firm's clients is handled in exactly the same manner—no favorites—and that you don't make exceptions to your rules. The first capitulation to this standard will spell the demise of at least that part of your system.

²Alan D. Westheimer, CPA, “A Businesslike Approach to Collections,” *The Practicing CPA* (December 1989), p. 1

Your engagement letter is a good place to start getting each client used to your expectation of prompt payment. Spell out your terms, and insist that the client read the letter and confirm to you that he or she understands it.

Explain what you are going to do, then follow through. If you impose finance charges on past-due accounts, do it and don't write them off. When you reach the stop-work point—stop working.

Bill Finance Charges

In an open round table discussion at an AICPA Small Firm Conference, someone asked about assessing finance charges. One of the panelists answered that some firms did and others didn't, and that the only difference he had been able to see between the two was that the firm who did collected more money than the firm who did not.

Rather than a finance charge, some solos prefer to add a "rebilling fee." We tried this for a time in our office. We set it at \$15 which in retrospect was probably too high because our clients simply ignored it—and we let them. So we compromised. We now have a minimum finance charge of \$5 on any past due balances. This has worked much better for us. Regardless of how you choose to implement it, the consensus of your peers is that the best way to get *out* of the banking business is to charge interest for being *in* the banking business.

Set a Stop-work Point

Let's visit for a moment about the stop-work point. Too many solos see this as an ultimatum—pay up or else. Actually, a stop-work point is an opportunity to communicate with your client, something most of us tend to put off because we go into these meetings expecting them to be negative and confrontational. They don't have to be. The next time you reach your limit with a client, determine to approach him or her with a positive attitude.

Think about it. Aren't there only three reasons someone hasn't paid? (1) He doesn't have the money. (2) He's upset about something. (3) Your bill has been overlooked. If he doesn't have the money, he may need help. The last time I checked, helping people manage cash flow was something a CPA does. If he's upset about something, communicating is the best way to defuse the situation and retain the client. If he's misplaced your bill, I'm sure you would be more than happy to provide him a copy. Each of these outcomes is positive and will improve the client-accountant relationship.

Whatever your system, be sure your clients understand it and accept it and that you stick to it—no exceptions.

THE FIFTH COMMANDMENT—AVOID POSTBILLING WRITEDOWNS

Once you have sent the bill, you should reduce it only for an awfully good reason. In very rare circumstances have I had any success at improving a client relationship by negotiating a fee after the fact. Generally, this is the preamble to an exit conference.

According to the *MAP Handbook* [section 203.05], you may cause one or more of the following problems when writing a bill down after it has been presented to the client:

- You will be admitting to an overbilling or at least to carelessness.
- The client will wonder if he or she has been overbilled before, for how long, and for how much.
- You will send a clear message to the client that you consider your statements as the front end of a negotiating process.
- Most importantly, you will be eroding the client's trust in you and your firm which is the foundation of your relationship.

Only when there is an honest difference of opinion due to a communication breakdown on your part should you agree to reduce a billed fee. Bill fairly and firmly. Be convinced of the value, bill it, and collect it.

THE SIXTH COMMANDMENT—WORK ONLY FOR THE RIGHT PEOPLE

Since time is the ultimate delimiter in a sole practice, clients who don't pay are doubly disastrous. If you don't prequalify clients, sooner or later you're going to lose the time you expended, the cash you should have collected, and the time you will spend fruitlessly trying to collect from a client who doesn't deserve you. If there is one lesson I seem to have to learn over and over again, it's this one. Some people just don't deserve to be served.

The trouble is that when you are trying to grow, any new piece of business may look like good business. Eventually, time will make that determination. Review the annual client retention form in exhibit 7-1 to help ensure that you only work for the right kind of people.

THE SEVENTH COMMANDMENT—BE A SQUEAKY WHEEL

Slow paying accounts need the cooperation of the creditor to remain slow paying. Refuse to cooperate. Getting the check writer to move your invoice to the top of the stack is an exercise in persistence and perseverance.

Some solos are concerned that they may offend the client with constant pestering. What they don't realize is that nothing seems to sour a good relationship faster than a past-due bill. No one likes to be indebted to anyone. By being understanding, you are actually undermining your relationship. The longer the bill goes unpaid, the more reasons the client will think of for not paying it.

THE EIGHTH COMMANDMENT—LET SOMEONE ELSE BE THE BAD GUY

There are several good reasons why you should not be the focal point of the collection effort for your firm. Not the least of these is the time it takes away from productive efforts. Delegating the responsibility to a staff member for the early contacts increases the impact of a later call from you.

Doing It Yourself

Here's what Al Williams does to deal with a collection problem.

I have my secretary make the initial contact saying something like this, "In light of our past experience with you, we let the first month go, but now we're due on the second month, as well. The account balance is \$2,000. Al's going to be in the area this afternoon. Can he stop by and pick up a check?"

This collection technique has two distinct advantages. First, it keeps me out of it. My secretary can be very specific without damaging a fragile relationship. Second, we are asking for the money and putting a time limit on our patience. What can they say? The client already committed to pay the bill. You didn't push it for a month. So *you're* being the good guy. Since you're going to be out in the area anyway (if for no other reason than to pick up the check), the client has only three options: to say he doesn't have the money right now, to pay the bill, or to refuse to pay it.

If they don't have the money now, my secretary is instructed to ask, "When do you think you'll have it?" Then she'll suggest a postdated check. She won't accept their promise to send the check in. They're already late. This is not a [confrontational] thing. We just ask them to put the check in an envelope with my name on it and leave it at the front desk.

If the client refuses to pay, we know there is a problem. The client is telling [my secretary] he's not sure he's going to pay. So she continues to probe a little further. Depending on the outcome of this conversation, I need to get involved, but not during the same conversation. At this point she terminates the call saying, "I'll have Al give you a call."

I'm a lover, not a fighter, so I'll give the client plenty of slack. I try not to get personally involved in the collection stuff too much. I let [my secretary] do most of it for me. She is able to collect fees I would have given up on years ago. She's firm, not forceful, but very persistent. The key is to always get them to commit to something.

Let me emphasize one crucial point about negotiations that I learned long ago. Whenever you can, maneuver into the position where a nondecision maker on your side (your secretary) is dealing directly with a decision maker (in this case, someone who has the authority to issue a check) on theirs. Your secretary doesn't have the power to write the bill down or the authority either to grant more time or to accept payments. Your secretary can ask only for immediate payment and for the client to communicate with you. If the client offers to pay a certain sum now and the balance over a period of time, the secretary can take note. Such practices give you time to send a counter proposal of your own (you guessed it) via your secretary.

Don't discount the power of this technique. If your secretary isn't particularly adept at the process or hasn't had experience at collecting money, there are countless courses he or she could attend to learn how. It's an investment that will pay for itself again and again.

Using a Collection Agency

Alan Westheimer³ in his article, "A Businesslike Approach to Collections (Part 2)," wrote

Going beyond internal collection efforts means playing hardball. It almost certainly portends a decision on the part of the firm to abandon the client relationship. With competition for clients so fierce, that's a difficult decision for some. But let's stop kidding ourselves—*do you really want to do business with someone who isn't going to pay*, [emphasis added] or who, at the least, is going to give you a hard time about it? Instead of hassling with these people, wouldn't the time be better spent trying to obtain new clients or in efforts to extend services to present clients who *can* pay? Part of adopting a businesslike approach to collection means facing this tough decision squarely and letting those who cannot or will not pay, for whatever reasons, find someone else to service their needs.

Alan goes on to differentiate between two types of collection agencies: the letter-writing variety and the full-service variety. Letter-writing collection agencies provide a series of increasingly aggressive demand letters. The full-service firm uses letter writing, telephone calls, and even personal visits to collect. They may also enlist the services of a collection attorney. Remember that once you determine to turn the responsibility for collecting an account over to an outsider, you have probably severed the client-accountant relationship, as well.

Using an Attorney

Most solos I have talked with say they would never sue over a collection issue. Here are a few suggestions if you have decided to consider legal action. First, last, and in between,

³Alan D. Westheimer, CPA, "A Businesslike Approach to Collections," *The Practicing CPA* (January 1990), p. 1.

review your work product to be sure there are no grounds for a malpractice counterclaim. Then try to get the aggrieving party to sign a note, instead.

Next, be sure a judgment is going to do you some good. It makes no sense to spend your money on an attorney and your time preparing for and going to court only to win a judgment that can never be turned into cash.

Before going to court, the *MAP Handbook* [203.6] suggests that you consider the following:

- The possibility that the client may file a counterclaim for malpractice
- The detrimental effect of litigation on insurance premiums
- The diversion of time away from your practice, which is of particular importance to a solo
- The effect of the negative publicity on clients and prospects
- The possibility that it may take years to recover anything

Try small claims court as an alternative to full-blown litigation whenever possible. While limited in the amount that can be awarded—usually \$2,000-\$3,000—the cost is much more reasonable and the process less demanding.

THE NINTH COMMANDMENT—NEVER MAIL A SURPRISE PACKAGE

We've already established the necessity of discussing your fees and collection policies before you start the engagement or accept the client, and then sticking to them when problems surface. Even when we have done a good job of the up-front communications, there are times when we know the client is in for some sticker-shock. When you have this feeling, face up to the challenge and hand-deliver the bill. I know this violates the negotiating tactic we just went over, but sometimes it can't be helped.

This problem only arises when you haven't sold your client on the cost-benefit relationship of your services on the front end or have failed to document any change-orders during the course of your engagement. Now you're faced with trying to sell him or her on their value at the back end. But by meeting the challenge head-on, you may be able to defuse a potentially explosive situation before it reaches critical mass.

THE TENTH COMMANDMENT—RESOLVE FEE DISPUTES IMMEDIATELY

Nobody likes doing the dirty work. We can find a hundred reasons why we just can't handle a difficult task today. But problems grow like weeds becoming larger and more unmanageable the longer you let them go.

It's not easy to interpret a phone call from an upset client as a client development moment. For most of us, our initial response is to become defensive. This, of course, is the exact opposite of what one should do. Who wants to fight? Resist the urge to put-up-your-dukes and try *listening* instead. Stephen Covey calls this giving the client "psychological air."

Lay the problem out on the desktop, then work your way around to the client's side of the desk where you can work on it together. Until you have accomplished this, the relationship will be at issue and you won't be able to work on the problem.

Listen to truly understand your client's feelings, not merely to respond to the words. Let him or her release the frustration and anger before responding. Remember that you learn nothing when your mouth is open. When you do say something, be sure it is *constructive* to the resolution of the problem and to the relationship as opposed to being *destructive* to either or both.

Make sure you really do understand and that your client feels understood. Reflect aloud what you think he or she said. Continue this process until the client agrees that you have expressed his or her complaint correctly. Don't make the mistake of trying to short-circuit this process. You are not only searching for meaning; you are giving your client time to expend his or her pent up emotional energy.

Now, I want you to take the role of the upset client for a moment. You have just spewed forth your venom and are now awaiting the counter punch when you hear

I'm terribly sorry this happened. I take full responsibility for it. I will do everything in my power to see that this never happens again to you or to any of our other clients. This just isn't the way things normally happen around here. You are vital to our success as a business. Now let's work this out together. What do you suggest?

Haven't you just been disarmed? There are people in this world who truly love a good fight, and when they're ready, they don't want to be deprived of the opportunity. But the vast majority of us don't find confrontation particularly appealing. The mere fact that your client has given you the courtesy of a call usually indicates a desire on his or her part to resolve the situation amicably. Otherwise, all you are likely to hear is footsteps down the hall and out your office door.

Here are some short, to-the-point ideas that can help you turn client complaints into golden relationship-building opportunities.

- Don't try to explain how it happened.
- Be specific about what you intend to do.
- Be sure whatever you decide to do is agreeable to your client.
- Follow up to be sure the client is satisfied.
- Make systemic changes where necessary.
- Learn from the experience.
- *Keep your promises.*

THE BOTTOM LINE

Nothing is more depressing than spending what would otherwise be productive time fighting for a fee. Each of the Ten Commandments of Collecting will help reduce this time waster. Experience has taught me that *I* cause the majority of my own collection problems. In some cases, I didn't do a good enough job communicating with my client before, during, and after the engagement. Maybe I failed to obtain a retainer or that I let the product walk out the door without a check. Perhaps I didn't follow my own collection policies or wasn't persistent in my collection efforts. Whatever the reason, *I* am to blame.

The good news is that because I am in total control of *me*, I can change the outcome. I can eliminate the majority of my own collection problems merely by doing what I know I should do. Remember, all the gross in the world won't do you any good until the money is safely in the bank. Or as a wise old businessman once observed, "It don't count 'til it's in the till."

CHAPTER 13

WEATHERING A DISASTER

Russ Ramon was in a meeting on the 100th floor of No. 1 World Trade Center in Manhattan when he thought he heard some thunder. Glancing out the window, he saw only a few clouds. "Then I thought maybe we had been hit by a small plane," said Ramon, director of marketing [for] Deloitte & Touche.

The noise wasn't thunder nor was it a small plane hitting the building. Terrorists had detonated a huge bomb in an underground parking garage, killing six people and injuring 1,000 more. It was time for Deloitte & Touche to invoke its disaster recovery plan.

—Paul Clolery¹

We live in a dangerous, sometimes even hostile environment. None of us can count on calm seas forever, which is why smart CPAs plan ahead. In this chapter, we'll review the various problems that can arise to threaten your practice and what you can do to minimize the damage. When you finish this chapter, you should have the framework for a disaster recovery plan.

A good recovery plan must address various kinds of disasters: natural disasters such as floods, hurricanes, earthquakes, tornadoes, and fires; man-made disasters such as theft, vandalism, riots, and computer viruses; the loss of key people to death, disability, or other factors (for example, the activation of a National Guard unit); and equipment failure. In fact, a minor disaster can be caused by something as simple as static electricity or accidentally kicking the file server (trust me on this one).

A disaster plan isn't limited to steps to be taken if the sky begins to fall. The plan must also include those actions which are taken *beforehand* to diminish the damage inflicted on the firm in the event of a disaster. In order to do any good, the plan-ahead steps require an ongoing commitment by the solo to keeping up-to-date. Determining to keep a full backup off-site is an example of this type of procedure. However, if the backup is six months old, how helpful will it be?

Communication is also essential for the success of your plan. Unless your people know what to do in a crisis, there is little likelihood that things will resolve themselves in your best interest. Establish these procedures in advance and review them frequently in staff meetings.

¹Paul Clolery, "When Disaster Strikes: Keep Your Practice Running," *The Practical Accountant* (May 1993), p. 24.

STEP ONE—PROTECT HUMAN LIFE

The first step in any disaster plan is to ensure the safety of your people. This begins long before a disaster occurs. Preventative action begins when you choose an office that is safe. Some buildings are earthquake resistant. If you are in a tornado alley, your building should have a basement or nearby cellar for protection. All buildings should comply with local fire codes with exits well marked and with functioning smoke detectors. Choosing an office in a flood plane is just asking for it. So is being adjacent to a restaurant (increased risk of fire) or a bar. When you decide where to locate, take a minute to look around to see if the place is safe.

Identify exits and safe shelter. Make sure your people know where they are and that their number-one duty is to get themselves and others to safety as quickly as possible. It's also a good idea to have someone on staff who is trained in first-aid procedures and CPR.

Give some forethought to how you will communicate in the event that normal channels are unavailable. A cellular phone comes in handy in an emergency. Your plan should include the following:

- Orders to stay home until officials give the all clear signal
- The location of your temporary office
- Instructions as to how you and your staff will be able to communicate with each other

STEP TWO—PROTECT DATA

Client and firm data will be in two forms: electronic and paper. With a well-thought-out and consistently implemented recovery program, data stored electronically can be restored without much trouble. Without such a plan, data may be lost forever.

Back It Up

At the heart of a data recovery program are the firm's backup procedures. To get you started, go through the Data Loss Prevention Evaluation form in exhibit 13-1. How did you do? Are there any areas that are cause for concern? Let's go over some of the important points about backups.

First, backups have a very short shelf life. The older they are the less they are worth. I back up my entire system (file server and all workstation drives) once a week. I also alternate these full backup tapes and store them off site. I perform a full backup of the file server each evening. This procedure is automated and happens around 12:00 A.M.

EXHIBIT 13-1. Data Loss Prevention Evaluation

Check all that apply.		
I backup my file server:		
Daily	<input type="checkbox"/>	<input type="checkbox"/>
Weekly	<input type="checkbox"/>	<input type="checkbox"/>
Whenever it occurs to me	<input type="checkbox"/>	<input type="checkbox"/>
I don't backup my file server	<input type="checkbox"/>	<input type="checkbox"/>
My file server backup method is:		
Full backup of all files every day	<input type="checkbox"/>	<input type="checkbox"/>
Incremental daily backups after full backup	<input type="checkbox"/>	<input type="checkbox"/>
Differential backups after full backup	<input type="checkbox"/>	<input type="checkbox"/>
I don't know	<input type="checkbox"/>	<input type="checkbox"/>
I backup my workstations:		
Daily	<input type="checkbox"/>	<input type="checkbox"/>
Weekly	<input type="checkbox"/>	<input type="checkbox"/>
Whenever it occurs to me	<input type="checkbox"/>	<input type="checkbox"/>
I don't backup my workstations	<input type="checkbox"/>	<input type="checkbox"/>
My workstation backup method is:		
Full backup of all files every day	<input type="checkbox"/>	<input type="checkbox"/>
Incremental daily backups after full backup	<input type="checkbox"/>	<input type="checkbox"/>
Differential backups after full backup	<input type="checkbox"/>	<input type="checkbox"/>
I don't know	<input type="checkbox"/>	<input type="checkbox"/>
My backups include system and hidden files:		
True	<input type="checkbox"/>	<input type="checkbox"/>
False	<input type="checkbox"/>	<input type="checkbox"/>
My backups are regularly verified and I am:		
Certain they will restore	<input type="checkbox"/>	<input type="checkbox"/>
Believe they will restore	<input type="checkbox"/>	<input type="checkbox"/>
I don't know	<input type="checkbox"/>	<input type="checkbox"/>
My backup media is stored:		
In the backup unit inside my computer	<input type="checkbox"/>	<input type="checkbox"/>
In the office	<input type="checkbox"/>	<input type="checkbox"/>
Off site	<input type="checkbox"/>	<input type="checkbox"/>
I don't know	<input type="checkbox"/>	<input type="checkbox"/>
My original program disks or CDs are located:		
In the office	<input type="checkbox"/>	<input type="checkbox"/>
Off site	<input type="checkbox"/>	<input type="checkbox"/>
I don't know	<input type="checkbox"/>	<input type="checkbox"/>
My operating system disks or CDs are located:		
In the office	<input type="checkbox"/>	<input type="checkbox"/>
Off site	<input type="checkbox"/>	<input type="checkbox"/>
I don't know	<input type="checkbox"/>	<input type="checkbox"/>
Compatible hardware is available to me within:		
Four hours	<input type="checkbox"/>	<input type="checkbox"/>
Twenty-four hours	<input type="checkbox"/>	<input type="checkbox"/>
One week	<input type="checkbox"/>	<input type="checkbox"/>
I don't know if compatible hardware exists	<input type="checkbox"/>	<input type="checkbox"/>
A replacement backup drive is available within:		
Four hours	<input type="checkbox"/>	<input type="checkbox"/>
Twenty-four hours	<input type="checkbox"/>	<input type="checkbox"/>
One week	<input type="checkbox"/>	<input type="checkbox"/>
I don't know if a compatible drive exists	<input type="checkbox"/>	<input type="checkbox"/>
In the event of a disaster I would be running within:		
Four hours	<input type="checkbox"/>	<input type="checkbox"/>
Twenty-four hours	<input type="checkbox"/>	<input type="checkbox"/>
One week	<input type="checkbox"/>	<input type="checkbox"/>
I have no clue	<input type="checkbox"/>	<input type="checkbox"/>
My computer disaster recovery plan is:		
Formulated, written, current, and executable	<input type="checkbox"/>	<input type="checkbox"/>
Vague and hopeful	<input type="checkbox"/>	<input type="checkbox"/>
I don't have a plan	<input type="checkbox"/>	<input type="checkbox"/>

A differential backup backs up any file that has changed since the last *full* backup. This differs from an incremental backup, which backs up only the data files that have changed since the last backup, full or otherwise. Thus, to restore all files to a crashed file server using a differential backup requires that one first restore the full backup and then restore the most recent differential backup.

To achieve the same result using incremental backups requires the restoration of the full backup followed by the restoration of each of the incremental backups made since the last full backup in succession, oldest to newest. The only advantage to an incremental backup is that since less files are backed up, the backup process takes a little less time. Personally, I would spend the extra time to run a daily differential backup even if it meant that I had to purchase a faster backup unit.

Below I have provided you with several alternative backup procedures listed in the order of greatest protection. The trade-off is time.

- Run a full backup every night rotating five or six tapes. On a separate tape, run a full backup just after billing and overwrite it each month.
- Run a full backup once a week and a differential backup each night. Use a separate tape for each day and alternate the full backup tapes each week. On a separate tape run a full backup just after billing and overwrite it each month.
- Run a full backup once a week and a differential backup each night. Append the differential backups to the daily backup tape overwriting the tape for the first differential backup after the full backup is run. On a separate tape, run a full backup just after billing and overwrite it each month.

Keep the backup tapes off site bringing them to the office only when it's their turn to be used for the evening's backup. Remove the previous night's tape and immediately put it in your car. This reduces the chance of losing your most recent backup to a sudden event.

For those practitioners who must leave a computer on at the office as a conduit for modem communications, you'll need to provide for a system lockout while the backup procedure is executing. Otherwise, those files that are open when the backup program attempts to read them will not be backed up. Some backup programs have the ability to warn off-site users that their links will be terminated and give them time to save their files and sign off. Any connections not closed would then be terminated after this time-out period. This feature is especially important in the virtual office environment.

If all of your computers are destroyed, how are you going to restore your data? Think about it. Of course you can buy a new computer, but you had better be able to replace the tape or zip drive you used to create the backup. Otherwise, you may not be able to retrieve your files. Some practitioners, myself included, actually purchase two backup devices and store one off site together with the original software disks thereby assuring that they will have compatible software and hardware to restore their data.

Not long ago I saw a really low price on a tape backup unit that ran the same backup software I am using. We checked into it further only to find that the device man-

ufacturer was out of business and the tapes the unit used were specific to that particular tape drive. Stick to a name brand that uses standard software and tapes you can purchase anywhere.

Here is another backup option that might interest you. There are a number of companies who provide external backup services or so-called electronic vaulting. Using high speed modems and backup systems, these companies link to their clients' computers each evening and encrypt, compress, and download the files to a central computer. The service I contacted guarantees restoration of a particular file within an hour and restoration of the entire system within twenty-four.

By the way, no matter what backup method you employ, check it out periodically to see whether you can restore files. Pick a file or two. Rename them either with the DOS Rename command or through Windows Explorer. Then restore them from tape. Do this for both backup types, full and incremental.

Keep it Off Site

As important as it is to keep your backups off site, it is equally important to keep your original system and application program disks and CDs off site. This will allow you to reinstall your programs and may help if you must call the software supplier for new access codes.

It may be handy to have your off-site backup relatively close at hand (for example, in a safe-deposit box at the bank next door), but experience teaches that distance increases safety. In the case of the Oklahoma City bombing, one company's backup tapes were located in a building across the street. The federal building was, of course, destroyed, but many of the neighboring buildings also sustained damage from the blast. Unfortunately for this company, one of those buildings was the one across the street. Their backup tapes were gone.

You should also keep an up-to-date list of computer components off site. I have provided you with a form to use for this purpose in exhibit 13-2. It includes information that should help you get up and running again if you lose your system. Be sure your plan includes the name of your computer vendor(s) and others you can call on for assistance in reestablishing your system. Include technical support telephone numbers for each of your applications wherever possible. Use the form in exhibit 13-3 for this purpose.

The more generic your system the better. If you have specialized peripherals, you have two options: Find a suitable replacement or purchase a second unit as a standby.

If you don't own a laptop computer, you might want to consider this investment as a part of your disaster plan. Since it runs on a battery you could use your laptop as the repository of your client list, supplier list, and so on.

Protect Against Power Problems

As great as computers are they don't work very well without a constant, steady supply of power. Brownouts that don't even cause the lights to flicker can crash a computer system. These are generally followed by a power surge that can fry a motherboard as power returns to normal. Fifteen years ago we remodeled a residence and moved our offices into it. Over the next several months we had a series of exasperating computer shutdowns. Finally, Idaho Power replaced the transformer on a pole in our backyard and the problem ceased. In those days we owned two little PCs and an IBM system 32. Losing power to that system is nothing compared to losing power to the network we're running now!

The solution to power problems is an emergency power supply. These currently come in three varieties:

1. Standby power supplies (SPS)
2. Ferroresonant standby technology
3. On-line uninterruptable power supplies (UPS)

The SPS is the least expensive. As long as the unit receives a steady stream of power, it remains in standby mode. If power falls below the unit's threshold, it switches to its internal generator and draws power from its battery. The problem with the SPS is that it will only work if the lag time between power loss and battery kick-in is short enough that the computer doesn't notice it (usually one millisecond or less).

The ferroresonant solution works similar to an SPS unit in that it stays off-line until it detects insufficient power. Then it uses an electrical flywheel effect to provide power during transfer to its battery. Their chief advantage over the SPS technology is that they provide more power conditioning.

The best protection and also the most expensive is the UPS. These units provide power to the computer by accepting utility power, converting it from AC into DC, which charges the UPS's battery and supplies power to the inverter, which then generates a steady, constant stream of AC power for operation of the computer.

Most backup power supplies provide only a minimal amount of surge protection, which may not be enough to protect your computer from power spikes. Before you rely on these systems to control power surges, discuss this issue with someone who knows about surge protection and who will analyze the needs of each device in your system. The safe way to go is to plug a top quality surge protector into the wall outlet and then plug your emergency power supply into the surge protector.

These systems produce an audible beep when the battery is in use to let you know you are operating on borrowed time. But what if the power failure happens when no one is there to hear the beeps? The most difficult power outage problems occur when program and data files are open. You can avoid some of these problems by insisting that everyone in the office log off and shut down before going home at night (with the exception of the computer used to back up the system).

If you must leave a computer on to provide access via modem, software is available that will automatically log everyone off the system, sequentially close all files, and power down the system. Using this software in tandem with a UPS device and surge protectors will give you as much control as possible over inconsistent power.

Protect Your System from Viruses

Unfortunately, some people have nothing better to do than to find ways to make life difficult for the rest of us. At the time of this writing there are over 12,000 known computer viruses (computer code written to cause your computer to fail) with around 100 new ones being discovered each month. There are currently two primary forms of computer viruses: those that reside on a computer's boot sector and those that imbed themselves within another program (such as Microsoft Word) causing bad things to happen when a certain series of keystrokes triggers them. The former are called boot-sector viruses and the latter macro viruses. These two have many subtypes, some of which can move away from their initial positions and infect other data areas on your computer unless they are quickly detected and eradicated.

The old adage, "An ounce of prevention is worth a pound of cure," applies to computers as much as it does to human beings. The best way to protect your system from attack is to prevent a virus from getting into your computer in the first place. Here are some suggestions.

- Load all programs from original manufacturer source disks or CDs only.
- Download files from the Internet only from secure sites.
- Don't open any email if its sender's address is unfamiliar. If you can't delete it, contact someone who can.
- Scan with an anti-virus software program all floppy disks used for the first time. Be especially careful of floppies whose "pedigree" may be questionable.

Even when you are careful, there is a good chance that somewhere along the line you'll pick up one of these unwanted programs. The problem with a virus is that often it doesn't manifest itself immediately. So you may find you have backed-up the virus right along with the rest of the files on your disk. Thus, the virus will have successfully corrupted your backups as well as your live data. To help minimize the danger, I recommend that you install and run an antivirus program. The two most popular are Norton AntiVirus and MacAfee VirusScan.

These programs read the files on your computer and match them against a list of known viruses. When they find a match, they alert you and request permission to kill the virus. Since new viruses are being concocted every day, whichever program you purchase will be outdated before you open the box. To overcome this problem, both companies provide a free service on the Net that updates your software for protection against the latest virus-

es. Don't buy a virus program that doesn't have this feature. Then be sure to set up a regular schedule to retrieve your updates. I perform this download monthly for each workstation.

The program can be installed so that it runs constantly while your computer is on. At first glance this may sound like a good idea. The trade-off is slower boot speed and perhaps slower program execution. It is possible that some new program installations may conflict with the antivirus program causing the installation to abort. If you can remember to do it regularly, running the scan on demand works as well and avoids the problems associated with running the program resident. If you opt for on-demand scanning be sure you run it each time you insert an unknown floppy disk in your computer and right after an Internet or email download.

Handle Paper Efficiently

Remember the last time you couldn't find a file you were looking for? Now imagine that *all* your files are gone. It's not a pleasant thought, is it? My basement is filled with paper we've generated over the past twenty years. I don't purge anything that we have done for an active client. Those who have left us are purged after five years. All that paper is vulnerable to fire, flood and other disasters. Here are some ideas to help you deal with it.

Place permanent files and files that are currently being worked on in a fireproof filing cabinet and lock it. Position it over structural support and toward the center of the building away from exterior walls and windows.

File nonessential information and information that could be obtained from third parties (such as the IRS, the attorney, the client) in regular file cabinets each day. Those who keep a tidy house are more likely to find things intact after a disaster than those who leave files on desks or on top of a file cabinet.

Copy essential files and documents and place the copies in off-site storage. Since the last thing you want is for your off-site facility to suffer the same fate as your office, reduce this risk by selecting a storage facility well removed from the location of your office.

Granted copying all these documents is expensive and time-consuming. You might want to compare this with the cost of a scanner (equipped with a document feeder) and a CD-ROM writer. Both Windows 95 and Windows 98 have imaging software built in to them and there is more robust imaging software available on the market. Of course this method also eliminates the space that paper files take up and, if indexed well, it can reduce access time.

If paper is damaged by fire or water, *The MAP Handbook* [215.02] recommends the following procedures:

1. Protect client records and other office records from further damage by gathering them as quickly as possible and storing them in a secure place. This is important for preservation and for protection of confidentiality.
2. Determine which documents to salvage or reconstruct during the first 72 hours—this can prevent mold and bacteria from developing.

3. Stabilize water-damaged papers by freezing them immediately. Use an icehouse if necessary. Make arrangements to have them freeze-dried by a local records restoration service or by a taxidermist.
4. Allow only professionals trained in document preservation to handle fire-damaged papers.
5. Photocopy partially damaged files.
6. Establish procedures for restoring files including information which could be obtained from clients, off-site storage, the IRS, clients' attorneys, or other sources.
7. Do not discard anything until you are sure there is no reasonable way to save it. If the damaged record may be used in litigation, do not destroy it. You should consult your attorney before destroying any files.
8. Monitor the progress of your reconstruction efforts closely.

I also recommend safeguarding any document that you might need in order to establish an insurance claim.

STEP THREE—PROTECT PROPERTY

Okay. You survived, but your office building and most of your equipment is gone. You have some calls to make. One will be to your insurance agent, but the most important calls will be to those firms whose job it is to help you to return to a semblance of normal operations in the shortest possible time. Studies have shown that you have no more than six weeks to get back into shape before clients start leaving.

Somewhere to Go

A well-designed disaster plan will provide for an alternate office space and the sources from which to acquire enough desks, chairs, computers, calculators and supplies to get you operational. It will also include instructions on how to notify the post office (UPS, Federal Express, etc.) of your new address and the way to obtain telephone lines and to reroute business telephone numbers once service is restored. Knowing exactly how to handle these problems before they are necessary will greatly enhance your ability to get priority service. Put these numbers at the top of your disaster plan list.

A few large companies actually rent space to be used in the event of an emergency. In some cases the space is equipped and awaits only personnel and backup tapes or disks. In other cases an alternative site is rented but not equipped. It is doubtful that either of these options would be economically viable for a sole practitioner. However, a solo might be able to use his or her home on a temporary basis or he or she could make arrangements with another practitioner to share space for a period of time. The most important thing to consider in choosing a secondary site is that it should be sufficiently distant from your current office so that it will not be similarly affected by property damage, power outages, or closed roadways.

Something to Use

The more devastating the disaster the more difficult it will be to reequip your office. One suggestion is to store some of your old equipment away from your office leaving older versions of your software on the computers that have been replaced, especially those programs that could be run as stand-alone applications. Make a point to talk with your main computer supplier about how quickly you could be up and running with replacement equipment. This will give you some idea of the time needed to get your firm back into a more normal operating mode even if you're all working around your kitchen table.

Some Way to Pay

No practitioner should allow his or her practice to be uninsured or underinsured. The problem isn't really underestimating the cost of replacement equipment and furniture as much as it is identifying the areas of risk to be insured against. Below is a list of the risks to consider when discussing your needs with your property and casualty insurance agent:

1. Furniture and equipment at replacement cost
2. Data recovery (collecting and recovering data including electronic data and paper documents)
3. Business interruption (the amount of lost income resulting from the inability to operate normally)
4. Extra expense coverage (costs incurred in excess of what you used to pay, such as, higher office rent or temporary rental of equipment)
5. Liability insurance for injury sustained by others as a result of damage to your office (tenants or subtenants)

You might also want to consider carrying policies of life and disability insurance on key employees since a disaster may deprive you of their continued presence, which may cause a serious problem. Since most of us practice with a limited staff, even one person makes a large percentage difference in the cumulative output capabilities of the firm. Please take this part of the planning process seriously. Insurance agents and practitioners who have experienced a loss testify to the fact that most of us are not adequately insured. We're not talking about the *dollar* amount of coverage as much as the kind of insurance. A standard multi-peril policy is just not enough.

Finally, keep your policies off site. This doesn't mean to put them in a safe deposit box in the bank downstairs or across the street. They won't be any good to you if the bank is flooded, too. You might keep them at home or in a safe deposit box in a bank across town. Or if you live in an area that has the potential for a major natural disaster, you might want to send at least a copy of any vital documents to a friend or colleague out of town.

THE BOTTOM LINE

No one wants to think about the answers to these what-if questions, but burying your head in the sand will not make you less vulnerable to theft, fire, wind, and the like. Taking steps now to prevent these losses and to minimize any that do occur will let you sleep better at night. As you consider the information in this chapter, formulate your own disaster plan. Use this outline as a guide:

1. Forecast the most likely disasters for your area.
2. Identify critical operations that would be affected by a disaster.
3. Determine which resources would be required to get you operational in the least amount of time possible.
4. Prepare a written document.
5. Communicate the plan to staff, vendors, tenants, and others.
6. Test the plan.
7. Revisit the plan on a regular basis and update it as necessary.

If it hasn't occurred to you already, may I point out that disasters don't just happen to accountants. So once you've prepared your own plan, why not sell the concept to your clients. You could begin by asking them the question, "If someone broke into your business tonight and stole your computer, what would you be most concerned about, the computer or the data?" Then help them fill out the Data Loss Prevention form in exhibit 13-1. Once they're convinced, you can start with a data protection plan and move into the other areas discussed in this chapter through a series of engagements.

A disaster is serious business. It can either be career ending or just a pothole in the road to success. Advance planning and quick execution of your plan will determine which it is for you.

CHAPTER 14

PREPARING FOR AN UNCERTAIN FUTURE

In 1988 a very close friend of mine, a CPA, had a heart attack the week before Christmas. Fortunately, I was able to help him out a little bit and things turned out all right. But that experience scared me to death. He had not given any consideration to a practice continuation agreement nor did he have his office organized to operate without him. Luckily for him, he had a speedy recovery. He has since brought on a partner and is now taking care of the things every practitioner needs to take care of. I seriously recommend to every practitioner that they implement a practice continuation agreement.

—Mitch Potterf

No one is indispensable, but to his or her clients, a sole practitioner comes very close. Consider what would happen to your practice if you were to go down for a period of time or were to check out permanently. Would your practice continue to operate near normal during your absence, or would there be total chaos?

Edwin Sitron¹ of Sitron and Funke writes

In a small practice, and particularly in a sole proprietorship, it is all too easy to neglect our own affairs because we are busy taking care of clients and trying to generate practice revenue. It is in our clients' and families' best interest, however, that we try to negotiate some type of buy/sell agreement that will allow our practices to continue in the event of our sudden disability or death.... This is not an easy task for many sole practitioners who often have no one to turn to.

Not easy, indeed! Perhaps this is why so many otherwise well-managed sole practices have not done anything about it. Even among the truly exceptional solos I have been fortunate enough to know since going out on my own, few have entered into a formal arrangement. What is odd about this state of affairs is that many of us sell succession planning and retirement planning services to our clients. Why don't we do it for ourselves? After all, who better than you to decide who would take care of those close personal relationships you have built and nurtured through years and years of service.

Every solo needs an agreement that will provide for the orderly transfer of the client base in the event of total permanent disability or death and for temporary professional assistance during a period of illness. In fact, such an agreement could also be used to provide a buyer when the solo decides to voluntarily take down the shingle.

¹Edwin D. Sitron, CPA, "Why You Need a Practice Continuation Agreement," *The Practicing CPA* (October 1989), p. 4.

Ron Stewart described the experience that made a believer out of him and propelled him to action.

Like others I thought about those things [death and disability] occasionally but never really thought they would happen to me. My wake-up call came when three of my staff members' families were directly impacted by the Gulf War. One of my staff members was activated and was physically gone. Another had her son go and the third had her husband go. And right there it hit me. What would happen to my staff and my family if something happened to me and I could no longer open my doors? I realized that one day the key might not open the door and that was not what I wanted to have happen.

A few years ago I was asked to review a draft of John Eads' book about practice continuation [*Practice Continuation Agreements—A Practice Survival Kit*, published by the AICPA in 1992] and I started looking into it. I called some firms that were larger than mine and picked one that I thought would do the best job. We have since entered into an agreement that if anything happens to me, they'll provide personnel to keep the practice going. The day I signed that agreement, I cannot tell you how relieved I felt. I felt as if a weight had been taken off my shoulders.

CONTEMPLATING THE FUTURE

There are a number of reasons why practice continuation agreements are particularly important for sole practitioners. In the first place, you have a responsibility to your clients. If your practice is anything like mine, you've no doubt spent quantities of time and energy trying to encourage your clients to plan for the future—not to leave things to chance. Take some of your own advice. You need to be sure that if you are temporarily or permanently out of the picture, your clients needs will still be satisfied. You owe it to them to ensure that quality service continues uninterrupted.

Joan Jagels, a Twin Falls, Idaho, solo expressed it this way

Since going on my own I've had a feeling of isolation. I haven't had a close professional relationship with anyone. If I have a problem, I need somewhere to go for answers. Besides, I'm also concerned about what would happen to my 200 clients if I were to die suddenly. I want to know there is someone there to help my family deal with the practice.

Your employees deserve better. Think for a moment from their perspective. How would you feel if you came to work one morning and found out your employer had had a stroke? What might you be likely to do?

Your family deserves better, too. Don't leave the operation of a professional practice to a spouse who in all but a very few instances would have absolutely no idea how to run a CPA practice not to mention the fact that he or she by law would not be allowed to continue doing so for long.

Finally, from a completely mercenary viewpoint, ask yourself how long your hard-won clients would hang around unless something was done to assure them of uninter-

rupted service. You might be interested in Al Williams' research on this subject from his experience in helping personal representatives find buyers. Al estimates that during the week following the death of the sole practitioner, 10 percent of the clients will leave. By the end of the second week another 21 percent will leave. At the end of one month unless something is done to stop it, all but 21 percent of the firm's clients will have formed relationships with other professionals.

Practicing as a sole proprietor without an agreement is like playing Russian roulette. Sooner or later everyone is going to die. Most of us will live long enough to retire, but even here we need someone to take the handoff. There is also a significant chance of illness or accident requiring at least a temporary absence from the active conduct of business.

With a formal plan covering these contingencies, your family will be assured of receiving top dollar for this valuable asset; your clients will continue to receive timely, quality service from someone you have personally selected; your staff members will be given the opportunity to continue with the new firm; and the successor firm has a much better chance of retaining the clients since the transition will not have to wait for either a search or for protracted negotiations. Everyone wins except the competitors who were waiting with open arms for your clients to walk through their doors.

GETTING READY

Much of what you should do and how you should do it are contained in John Eads book *Practice Continuation Agreements—A Practice Survival Kit*. This book contains excellent checklists, sample agreements, and recommendations. As far as I'm concerned, the first step is to get this book and read it.

Suffice it to say that either you or your personal representative will receive the best price for your practice only if it is in a position to be quickly and profitably assimilated by your successor within days of the actuating event. Let's review some of the things you can do to make your practice attractive to a successor.

Step One

It goes without saying that your practice's value depends on the quality of its clientele and on how well it is managed. In his book Eads² suggests a practice analysis to see how you measure up in these areas:

- *Reputation*—How good is your practice's reputation for service and technical expertise? How visible is it in the community? How is your practice distinguished from the

²John A. Eads, CPA, *Practice Continuation Agreements—A Practice Survival Kit* (New York: American Institute of Certified Public Accountants, 1992), pp.13–14.

competition? Are you known to offer innovative solutions to clients' problems? What has been the major cause of any client dissatisfaction or client losses?

- *Specialties*—What are your specialties? Have you been expanding your range of services? Do you specialize in growing fields? Will your successor need to have the same specialties to survive?
- *Rates*—How do your billing practices compare with those of your successor? Do you value bill? Do you use menu pricing or fixed fees? What are your hourly or per diem rates? How do they compare with the rates of your competitors and of your successor? Are you honest and realistic with your rates and writedowns?
- *Efficiency*—How do your chargeable and nonchargeable hours compare with those of other firms? What are the reasons for any major differences? How well do you control your engagements?
- *Profitability*—What have your gross fees, net income, and salary been on an accrual basis over the past five years? How do your writeups and writedowns compare with those of your competition? What has your cash collection experience been over the past five years?
- *Location*—Where is your practice located? Is the local economy sound? Is your practice area highly competitive? What are the lease terms of your office space? Is your rent above or below the market rate?
- *Staff*—How high is the morale of your staff? How well does your staff relate to clients? How many employees are certified? Is the staff likely to remain at the practice or to leave? Have staff members signed noncompetition agreements? Are salary and benefits competitive?

Step Two

Obviously, the higher you score on this scale, the more interesting your practice will be to potential successors. Before you enter into discussions with anyone, prepare a brief outline touching on each of these items and describing the advantages of each.

Step Three

Earlier in chapter 4 we suggested using a personal information manager to help keep track of clients and suggested certain data to track. Besides being an excellent means of improving client relations and service, this information is also invaluable to a successor firm since it gathers together in one place all of the salient information about each client.

This is especially important in a sole practice. Think of what would be lost if you were gone. Prepare the Client Evaluation form in exhibit 7-2 for each client and keep your contact database current. Tell your potential successor about your client database and how they will be able to use it to get up to speed quickly.

Step Four

Set up and maintain a current-engagement-letters file. File leases, insurance policies (especially your professional liability policy) and peer review information where they can be easily retrieved.

Step Five

Keep personnel files up-to-date and include a profile of each employee with areas of expertise, professional goals, personal interests, and special needs or work arrangements. Prepare a listing of CPE courses taken to fill licensing or other requirements, the employee's current salary level and benefits, and a signed original of the employment contract.

Step Six

Use your time and billing program as a diary of your work for each client. Include a short explanation of what you did, problems encountered, and your solutions. In some cases you may want to record your rationale for any decisions made. In this way your time and billing system emulates a doctor's notes in the patient file.

Several solos I have talked with have notified their clients that they have entered into a practice continuation agreement. They believe this gives the client some peace of mind. It also serves to ease the transition if and when it becomes necessary.

In exhibits 14-1 and 14-2 you'll see sample letters that you could modify to use in the event of disability or death. Have these letters prepared in advance and instruct your secretary to send them as quickly as possible should either event occur. If possible, I would have the practitioner's spouse sign the letters in the event of death.

SETTING A PRICE

Your practice is a valuable asset, which you have doubtless spent most of your professional life working to build into a successful venture. Any succession plan will eventually get around to the price you or your heirs will receive and the payment terms.

Currently most practices are being sold at somewhere between 75 percent and 100 percent of gross fees for the preceding year. In some cases gross fees may be adjusted downward for one-time engagements that artificially inflated fees for the year. Some are sold on a *collected-fee* basis, meaning that the buyer will pay only when fees are collected. This arrangement places retention risk entirely on the seller. Per the *MAP Handbook* [107.05], "It is becoming more common to base the purchase price on future retained fees. With this method, the value of the accounts is based on future billings from existing accounts."

Payouts are running between three and seven years with five years being the norm. Down payments range from nothing to 25 percent. Most agreements are interest free.

EXHIBIT 14-1. Letter to Clients Upon Temporary Disability

Date

[Name of Client]

[Address]

Dear _____,

As you may be aware, I have had to take some time away from the practice while I am recovering from my recent illness. I regret that this has become necessary, but during my absence you will still be able to reach the staff who will be in touch with me.

In anticipation of this possibility, some time ago I entered into an agreement with _____ who will be providing professional assistance to my staff during my convalescence. I selected this firm because if I needed an accountant, I would personally choose them myself.

Please know how much I appreciate your trust and loyalty over the period we have worked together and how anxious I am to once again resume a more normal working relationship.

Sincerely,

Signature

EXHIBIT 14-2. Letter to Clients Upon Death or Permanent Disability

Date

[Name of Client]

[Address]

Dear _____,

As you are probably aware, _____ (died on____) (became ill and will not be able to resume active conduct of his accounting practice). Fortunately, several years ago, _____ prepared for this possibility by entering into an agreement with _____, an accounting firm with which he was closely associated for a number of years. He expressed to me that if he were to need an accountant, he would have selected this firm.

I am aware that you may have concerns about the safety of confidential documents. Please be assured that all records are still in the office and the staff is continuing to function with the assistance of _____, a partner in _____.

Of course you have no obligation to continue your association with our firm, and all records will be made available to you if you should choose to engage another accountant. We would, however, appreciate the opportunity of having _____ visit with you about continuing your current association with the firm.

I know _____ would want me to express his thanks for the opportunity of working with you and his wishes for a happy life.

Sincerely,

Office furniture and equipment is often sold at book value or is not included in the agreement at all. Generally, the firm's accounts receivable are not a part of the continuation agreement. Some successor firms will agree to collect these receivables, in which case they may charge an administrative fee that will usually be somewhere around 5 percent. Work in process is normally handled by prorating the fee between buyer and seller.

Remember that value is always the result of the interaction between two parties—a buyer and a seller. Without a doubt, the practitioner who negotiates his or her price in advance will receive much more than one who is forced to sell at fire-sale prices.

FINDING A SUCCESSOR

Now comes the really tough part—finding someone who is willing and able to pick up the baton and run with it. Do I sell to a large firm? Another solo? American Express? My staff? How will my clients react to a large firm? Will a solo have the time to take care of my clients and his or hers, too? Are my employees ready to carry things on by themselves? These are weighty questions that demand thoughtful answers.

A Larger Firm

Let's begin by considering the pros and cons of selling to a larger firm. One clear advantage is that a larger firm should be able to assimilate your practice with minimal ripples. Also, some firms are anxious to enter into these agreements as a way of expanding their practices or moving into new areas, so they may be actively seeking an association themselves. Because of its greater financial resources the larger firm should have less trouble making the payments.

On the downside a larger firm may not fit your clientele. Joan Fischer of Midland Park, New Jersey, chose a small firm to back her up.

I don't think a larger firm would relate well to my clients. They wouldn't get the help they need. I function as a controller or a bookkeeper for many of my small clients. I don't see a larger firm doing that. Several of my clients came to me from a larger firm. They said they never got to speak to a partner and never saw the same person twice.

Assuming you can overcome this objection, there is a side benefit to working with a larger firm. As we discussed in chapter 2, most of these firms encourage interaction between the solo and the firm's partners and staff. In some cases, the solo may even be invited to attend firm retreats, staff meetings, and in-house CPE offerings. They perform peer reviews and give the practitioner a sounding board for technical and management questions.

A Peer

Many solos feel like Joan does. Of course, the major advantage is similarity of clients and practice philosophy. This smoothes the transition process especially if the acquiring solo retains your staff. The major concern has to be over the successor's ability to handle the increased client load.

Most practice management consultants agree that a firm can't stand more than a twenty-five percent workload increase each year. Signing a cross-purchase agreement with another solo could increase the firm's client load by significantly more than this causing the loss of clients and a probable reduction in proceeds to the heirs.

Given that there is no way another solo could successfully incorporate your entire practice into his or hers, you might be able to use life insurance to offset the damage. Here's how it works. Each practitioner takes out a policy on the other for a certain percentage of the total purchase price. To eliminate the possibility that when you're gone the surviving solo might like the looks of the insurance company's check more than he likes the looks of your practice, have your attorney draft a trustee plan. The trustee would then receive the life insurance proceeds and in turn pay the heirs.

This also works nicely in the case of retirement. The trustee borrows against the contract's cash value or surrenders the policy and pays the retiring sole practitioner.

A Group of Peers

One solo may not be able to assimilate your practice, but ten solos certainly could. In chapter 2 I encouraged you to join with other solos in a loose affiliation to provide new dimensions of client service. Practice continuation is another excellent example in which solos with common needs may be able to help each other. Think about it. There is a good chance many of your clients would appreciate the opportunity to select from a group of seasoned practitioners who are similar in size and approach. Besides, it's likely that if left alone, many of your clients would probably find their way to one or more of these offices anyway.

As with a one-to-one agreement, you have to reach a level of comfort with the members of your group. It takes time to build trust, confidence, and respect among group members.

Your Staff

Your staff is a fourth source of potential buyers. This approach has to be the easiest on the client since they are already acquainted with the new owners, the offices, and procedures. If you have done your homework, your staff should have bought into the firm's mission and culture making them an ideal choice for your successor. You also have the advantage of being able to nurture them before they sit down in the driver's seat.

However, in most cases your employees won't have the kind of financial resources that a large firm or even an established sole practitioner would have. In attempting to over-

come this obstacle, some firms have incorporated the practice and established Employee Stock Option Plans (ESOPs). This is a novel way to pass ownership down to the next generation without giving up control.

Emergency Assistance Plans

Many state societies offer an emergency assistance plan. This is what your heirs are left with if you fail to plan. It is much like dying intestate. Please don't misunderstand. I am grateful that we as a profession are making an attempt to help our own, but this isn't a solution; it's a last resort.

In your search for a successor you might contact your state society to request a list of practitioners who have signed on to the emergency assistance plan. By so doing, they may be indicating a willingness to consider a practice continuation affiliation.

SELECTING THE RIGHT FIRM

Unless you plan to sell for cash, you are going to be trusting the acquiring firm with a valuable and very perishable asset. No matter what kind of deal you structure, it won't work unless it's a good fit. Identifying what you expect in a successor will help you to find just the right firm before the need arises. Here are some things to think about:

- *Personnel*—The acquiring firm should have people who will relate well with your clients. Factors you should consider are age, experience, special expertise, and the personalities of the service providers. Discuss how and with whom the firm anticipates staffing your more important engagements. Do some background work on these people. Would they work well with your clients? Are they technically proficient? And most importantly, are they men and women of integrity? Joint engagements between your office and theirs can go a long way toward answering some of these questions.
- *Fee structure*—Given that retention is a delicate matter in the best of circumstances, a significant change in fees may spell disaster to the best laid plan. Be sure you not only compare fee schedules, discuss the full range of billing and collection issues, too.
- *Location*—Several years ago I learned of a continuation agreement between a solo in the suburbs and a firm in the city. The result was a mass exodus of clients. Ask yourself how important your location is to your clients and pick a firm that is either willing to retain your office space for a period of time or is close enough that the change will cause minimal disruption and anxiety.
- *Reputation*—Just as your reputation is important to the acquiring firm, so its reputation is important to you. Not only should you consider the firm's reputation within the profession, you should also determine how the professionals are viewed by the community.

- *Stability*—No doubt you are interested in a firm which will be there when you aren't. This applies not only to its financial stability but also to the stability of the firm's owners and staff. Review the firm's financial statements.
- *Goals and mission*—Ask to see a copy of the firm's mission statement and most recent strategic plan. More than anything else, these documents will tell you how firm partners and staff view their firm and where they think they're going.
- *Quality of work product*—Ask to see copies of recently issued financial statements. Read the report and letter of comments for the firm's most recent peer review. Check out the qualifications of firm personnel, particularly the owner(s). If you are significantly involved in a specialty, be sure they have the intellectual muscle to carry on in your stead.
- *Quality of practice*—Is the practice well managed? Unless it is, many of your clients may not receive the attention they have come to expect while working with you and will leave. Also take a look at a client list. Be on the alert for any that might indicate more than a reasonable degree of risk. Then find out how your potential successor's current clients feel about the firm.
- *Ambiance*—Each firm has a personality that clients can sense. This is manifest in the office decor, in the way the receptionist greets you, in the look of a tax return or financial statement, and in the way the firm deals with clients and staff. If you don't feel comfortable, there is a good chance your clients won't either.
- *Previous acquisitions*—Ask about any previous deals and request permission to talk to the other side. Relate any negative comments back to the firm and ask them to explain their side of the story.
- *Postmerger climate*—Ask what the firm's plans are with regard to your practice. Unless you feel comfortable with their answer, you can be sure your clients and staff won't.

Once you've done all of this, understanding that no firm is going to be the perfect match, take a step back to ask this question, "Does this feel right?" Until you can answer this question in the affirmative, you've got to keep searching.

CRAFTING AN AGREEMENT

Any practice continuation agreement *must* be in writing and should include these basic elements:

- Triggering events—death; temporary, partial or permanent disability; return to work; retirement
- Definitions of the triggering events
- Method for determining the price
- Payment terms

- A noncompete clause in the event of temporary or partial disability
- Status of your employees
- Identity of person responsible for collecting outstanding account balances
- Method for compensating for current work-in-process
- Method for charging your firm for the services of borrowed staff in the case of temporary or partial disability

See exhibit 14-3 for an adaptation of Ron Stewart's practice continuation agreement. It includes the items listed above and can be used as the basis for crafting one that fits your personal needs.

PREPARING BEFOREHAND

Match the definitions of disability in your agreement to those same definitions in your disability policy, and while you are at it, review that policy to be sure you are adequately covered. Assuming someone can substitute for you at least in the short term, your business overhead policy really only needs to cover the shared-staff cost, which is charged at either the assisting firm's standard rates or at salary plus an overhead allocation.

Next, at a minimum make sure you identify the staff level that will replace you during a temporary leave. The agreement should provide for a senior professional staff level person with partner level oversight. Your firm should continue to bill the clients directly for all work performed.

Working together beforehand makes good sense. It gives your clients and staff some time to get used to your heir-apparent and initiates a courtship period during which you can evaluate each other. This will work just as well with the group concept alluded to earlier in the chapter.

Finally, be sure your agreement adequately covers the relationship between the parties during a transition back to you after a temporary absence. This is extremely important. Otherwise, you might find yourself on the outside looking in.

Once you have it, don't keep your agreement a secret. Talk to your clients and staff about what you have done. No doubt they'll endorse the idea. You are your clients' most trusted advisor. Who better to pick their next CPA?

EXHIBIT 14-3. *Sample Practice Continuation Agreement*****Sample & Associates******Practice Continuation Agreement***

This agreement is entered into by Arthur B. Sample (hereinafter "Sample"), a Certified Public Accountant, doing business as Sample & Associates, and Friendly, Successor & Co., LLP, (hereinafter "Successor").

Sample is a Certified Public Accountant with his office located in Ruralburg, LA. Successor is a registered limited liability partnership engaged in the practice of public accounting with its principal office located in Blankville, LA.

The parties are entering this Agreement so that in the event of the temporary disability of Sample, Successor shall make available one or more staff persons, and such other persons of broader or specialized experience as may be necessary, to work with the staff of Sample so as to continue the accounting practice of Sample with as little interruption as possible. The parties are also agreeing that in the event of the death or permanent disability of Sample, Successor shall acquire the client list of Sample on the terms and conditions set forth.

Therefore, for and in consideration of the mutual covenants and undertakings contained in this Agreement, the parties agree as follows:

SECTION 1: *Definitions*

The terms defined in this Section 1 (unless the context requires otherwise) shall have the meanings specified in this Section 1.

1.01 "*Temporary Disability*" means that due to injuries or sickness: (a) Sample is not able to perform the substantial and material duties of his occupation as a Certified Public Accountant; and (b) Sample is receiving care, by a physician, which is appropriate for the condition causing the disability.

1.02 "*Permanent Disability*" means a period of Temporary Disability that has continued for more than twenty-four months from the outset, or, if sooner, when Sample's physician certifies that in medical probability a period of Temporary Disability will continue for more than twenty-four months from the outset.

1.03 "*Effective Date*" shall mean: (a) the date of Temporary Disability; (b) the date of Permanent Disability; or (c) the date of Sample's death, as the context requires.

1.04 "*Return Date*" shall mean the date when Sample is no longer temporarily disabled.

SECTION 2: *Transfer of Accounting Practice*

2.01 *Accounting Services to Be Provided.* Successor will commence immediately after receipt of notice of the Effective Date to direct and be responsible for providing public accounting services of any nature whatsoever requested by Sample or the clients which Sample served on the Effective Date. In accomplishing this, Successor will utilize the employees and staff of Sample to the extent possible consistent with the obligation of Successor to render timely and professional services. Nothing in this Section 2.01 or this Agreement, however, shall obligate

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EXHIBIT 14-3. *Sample Practice Continuation Agreement (continued)*

Successor to undertake any request or to serve any client if such action would violate the professional code of ethics of the State Board of Certified Public Accountants of Louisiana, the Louisiana Society of Certified Public Accountants, the American Institute of Certified Public Accountants, or would in the judgment of Successor adversely affect the professional reputation of Successor. In the event any client of Sample should refuse to accept the services of Successor, Successor shall reasonably attempt to see that such client is served by other public accountants.

2.02 *Records and Files.* In the event of the Temporary Disability of Sample, Sample shall grant access and make available to Successor all of the files and other records pertaining to clients that accept the services of Successor.

2.04 *Purchase of Client List.* In the event of Sample's death or Permanent Disability, Successor shall purchase as of the Effective Date, Sample's client list. As payment for this client list, Successor shall pay 20 percent of all fees collected by Successor (excluding amounts reimbursed by clients for expenses paid on their behalf by Successor) from those clients which were served by Sample on or prior to the Effective Date or from successors to or derivatives of such clients served on or prior to the Effective Date. Such payments shall be due within fifteen days from the end of the month during which the fees are received by Successor and will continue monthly for a period of sixty months. Such payments shall be made to Sample & Associates or to Mrs. Helen Sample in the event that Sample & Associates is liquidated during the period in which payments are being made. The person entitled to receive such payments or his representative shall have the right to inspect the accounting records of Successor during normal business hours at the principal office of Successor. In addition, Successor shall provide annually to the person entitled to receive such payments a list of Sample's clients from whom fees were collected during the preceding twelve month period and the amount collected from each.

2.05 *Work in Progress.* In the event Successor completes any project which was in process at the Effective Date and the work done prior to the Effective Date is billed to the client by Successor, Successor shall pay to Sample its proportionate share of the fee collected from the client for such work as determined by the ratio of the work done on the project at the Effective Date to the total work performed.

2.06 *Cash and Accounts Receivable.* Sample shall retain its cash owned by Sample on the Effective Date and all accounts receivable of Sample which are outstanding on the Effective Date. Successor shall, upon request from Sample, assist in the collection of such receivables.

2.07 *Departing Clients.* In the event that a client discontinues business for any reason, that client shall then be excluded from any further payments, but if any of the principal owners of the client shall use the services of Successor either personally or in a new business venture, that client shall then be included for the remainder of the Agreement.

2.08 *Work in Progress.* In the event Sample completes any project which was in progress at the Return Date and the work done prior to the Return Date is billed to the client by Sample, Sample shall pay to Successor its proportionate share of the fee collected from the client for such work as determined by the ratio of the work done on the project at the Return Date to the total work involved.

SECTION 3: *Assumption of Lease Obligations*

3.01 *Assumption of Leases.* Within thirty days after the Effective Date (except in the event of Sample's Temporary Disability), Successor shall assume the rental obligations of Sample

EXHIBIT 14-3. *Sample Practice Continuation Agreement (continued)*

under any and all leases in existence on the Effective Date of equipment and office space used in the accounting practice; provided however, that:

a. Successor shall not be obligated to assume any lease that has a remaining term of more than thirty-six months from the Effective Date; and

b. Successor does not hereby agree to assume or become obligated for any liability that Sample may have incurred under any lease except for the periodic rental charges after the Effective Date.

SECTION 4: *Noncompetition by Sample*

4.01 In the event Sample should be able to return to work from Permanent Disability, Sample agrees that he will not, at any time during the period beginning with the Effective Date of Permanent Disability and ending on the date three years after that Effective Date, provide public accounting service of any nature as employer, employee, principal, agent, shareholder, or otherwise, directly or indirectly, for any clients for which Sample has received payments under the provisions of paragraph 2.04 of this Agreement. If Sample does provide public accounting services in violation hereof, Successor shall be entitled to recover both damages and to obtain an injunction enjoining and restraining Sample and each and every other person concerned thereby from continuing to provide public accounting services to such clients or performing any other act in aid of a rival concern providing public accounting services to such clients.

SECTION 5: *Noncompetition by Successor*

5.01 Successor agrees that for a period of three years following Successor's furnishing of services to clients of Sample hereunder, it will not without the written consent of Sample accept employment or perform public accounting services for any client of Sample who accepts Successor's services during Sample's period of Temporary Disability unless Successor purchases the client list of Sample under the provisions of section 2 of this Agreement.

SECTION 6: *Indemnifications*

6.01 Sample agrees that at all times hereafter he will indemnify and hold harmless Successor against all liabilities, losses, damages, costs, or expenses of whatever kind of nature, including attorney's fees, which Successor may sustain or incur by reason of services rendered by Sample or by reason of any act or omission, regardless of whether such act or omission arises out of negligence or malfeasance of Sample.

6.02 Successor covenants and agrees that at all times hereafter it will indemnify and hold harmless Sample against any and all liabilities, losses, damages, costs or expenses of whatever kind or nature, including attorney's fees, which Sample may sustain or incur by reason of services rendered by Successor or by reason of any act or omission, regardless of whether such act or omission arises out of negligence or malfeasance by Successor.

SECTION 7: *Disclaimer*

7.01 It is agreed that this Agreement will not cause Sample to become an agent, employee, or legal representative of Successor for any purpose whatsoever. Sample is not granted any right or authority to assume or to create any obligation or responsibility, express or implied, on behalf of or in the name of Successor. Nothing in this Agreement is intended to give Sample any rights

EXHIBIT 14-3. *Sample Practice Continuation Agreement (continued)*

as a partner in the business of Successor or to entitle him to control in any manner the conduct of such business.

SECTION 8: *Arbitration*

8.01 The parties agree that any dispute or claim concerning this Agreement, including whether such dispute or claim is arbitratable, will be settled by arbitration. The arbitration proceeding shall be conducted by two Certified Public Accountants, one of whom shall be selected by each party, under the provisions of the Louisiana Civil Code and the Louisiana Arbitration Law in effect at the time a demand for arbitration is made. In case of the inability of the arbitrators to reach a decision, a third Certified Public Accountant shall be selected by the arbitrators to serve as a third arbitrator. The decision of the arbitrators, including determination of the amount of any damages suffered, shall be conclusive, final, and binding on all parties, their heirs, executors, administrators, successors, and assigns. Each party shall bear his own expenses in the arbitration for attorney's fees, for witnesses and other expenses of presenting his case. Other arbitration costs, including arbitrators' fees and administrative fees, and fees for records or transcripts, shall be borne equally by the parties.

SECTION 9: *Appearance by Helen Sample*

9.01 Helen Sample, wife of Sample, joins in this Agreement and agrees to be bound by it to the extent she has any community property or other interest in the public accounting practice which is the subject of this Agreement. She further agrees to be bound by this Agreement in her capacity as spouse, surviving spouse, executrix, curator, administratrix, heir, or legatee, as the case may be.

SECTION 10: *Miscellaneous*

10.01 *Governing Law.* This Agreement shall be construed and enforced in accordance with the laws of the State of Louisiana.

10.02 *Benefit.* This Agreement shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, legal representatives, and successors. This Agreement shall not be assignable by any party without the written consent of each party.

10.03 *Termination.* This Agreement shall remain in effect for a one year period. It shall automatically renew for successive one year periods, provided, however, that any party to this Agreement may terminate this Agreement at the end of any one year period by written notice delivered to the other parties at least thirty days prior to the end of the one year period. All rights and obligations of the parties which have accrued prior to such termination shall survive the termination of this Agreement.

10.04 *Captions.* The captions contained in this Agreement are for convenience or reference only and do not form a part of the Agreement.

To witness their respective understanding and consent to this Agreement, the parties have signed this Agreement on the date or dates indicated below.

Signature

Signature

Date

Date

THE BOTTOM LINE

Of all the bases a sole practitioner has to cover, the practice continuation issue always seems to be left until last. Is it because we are afraid to face unpleasant possibilities? Is it because it is so difficult to identify a successor? Whatever the reason, we need to take steps now to provide for the uncertain future.

Think about what you have to lose by doing nothing. Do you really want to leave the effort of a lifetime to chance? Prepare a list of possible suitors and make some calls. Begin courting. Find out what each is like; if you are made for each other. Prepare an agreement that covers the possibilities and sign it. You owe it to your clients. You owe it to your staff. You owe it to your loved ones.

CHAPTER 15

PRACTICING SUCCESSFULLY IN A NEW MILLENNIUM

Late one dark and moonless night a man was taking a shortcut home through the cemetery when he fell into a freshly dug grave. Try as he might, he could not extricate himself, so he decided to sit down and wait for morning.

As fate would have it, another late night traveler using the graveyard route stumbled into the same grave. The first man watched the second's vain attempts to climb out of the grave. Finally he said, "You'll never get out of here." But he did!

The moral to this story is: One can accomplish the seemingly impossible if he is strongly motivated.

—Anonymous

I do not subscribe to the view that the sole practitioner is dead. Neither do I believe that we're going to have to limit our practices to a very narrow specialty in order to survive. But I do believe we are going to have to change. A new millennium is upon us. As at no other time in the history of our profession, our success will depend on our ability to accommodate ourselves to rapid change and to find ways to profit from it. Just for emphasis, I have listed below a few of the major ideas you should have picked up as you worked your way through the preceding chapters. The successful implementation of these and the other practice management principles you have learned will become the foundation for your success as a twenty-first century sole practitioner.

- Don't leave the future to chance. Carefully plan it and persistently execute your plan.
- Develop a functional or industry specialty even though you may choose to continue to offer traditional services as well. Invest the time necessary to become technically competent, then let people know about it.
- Reach for more than you are. Tell the world you already are what you expect to become. Then do whatever is necessary to rise to that level.
- Work on interpersonal communication skills. Remember, everything you get in this life comes from someone else. Learn how to treat others well. Build strong personal relationships with staff, clients, and referral sources. Cultivate a sincere concern for others and a desire to help them solve their problems.

- Develop a network of specialists (both peers and non-CPAs) who produce excellent work in complementary areas.
- Invest in the human asset. Improve your firm's technical competence. Carefully select CPE courses to enhance competence in specific areas. Don't waste your time and money on easy credit hours. Your staff is your firm's most valuable resource. Build those relationships.
- Delegate more broadly to staff and network associates. This will flatten the pyramid allowing you to operate more efficiently. Spend your time doing what you are best at and let others do the rest.
- See that your physical surroundings, which impact everyone with whom you interact, send the message you want to send.
- Keep up to date technologically. Invest in state-of-the-art equipment and use it to its fullest potential.
- Do the job right the first time. Promise and deliver. Exceed your client's expectations. Never stop looking for ways to improve your service. Be more efficient and more responsive to client needs. Look for ways to be of service. Become a five-star firm.
- Bill your services based on value to the customer. Treat hourly rates as the definition of standard cost that they are.
- Prevent collection problems at the outset. Move swiftly to handle those that arise. Remember, the solution to all your collection problems stares back at you each morning in the bathroom mirror.
- Don't bet your firm's future on a roll of the dice. We live in a litigious society. Anticipate problems before they occur, and prepare for them in advance.
- Nurture your own practice by giving it the same level of attention you give to your best client.
- Never take the future for granted. You can't control mother nature, but you can control your vulnerability to her whims with a disaster recovery plan. Nor are you *entitled* to a long and healthy life, but you can reduce the problems that accompany life's uncertainties with a practice continuation agreement. Be prepared.

There is no doubt we face significant challenges in our profession that will demand courage and vision of each of us. As L.W. Lynett said, "The most effective way to cope with change is to help create it."

The constant amid all this change is this: People will always have problems, and they will always need someone they can trust to help them solve those problems. If you want to prosper in the twenty-first century, improve your ability to solve people's problems.

As you have read the experiences of other solos, I hope you sensed their enthusiasm and optimism about the practice of public accounting in a solo practice. These prac-

tioners and hundreds of others I have been privileged to meet and talk with are busy creating a bright future for themselves and for those who work with them.

I hope you use this book as a do-it-yourself manual. It contains the tools successful solos all over the country are using to successfully manage their practices. As with any do-it-yourself project, acquiring the tools is the easy part. The hard part is putting those tools to work. As I said earlier, successful people do what unsuccessful people refuse to do. Being successful is not necessarily the easiest way to go. In fact, it usually works in the reverse. The law of the harvest operates here, too. You only reap what you first sow.

THE BOTTOM LINE

So what does it take to become a successful solo? First, know where you are going and use a map to guide you. There are plenty of sole practitioners who merely make a living from their practices. But this book is not about *surviving*; it's about *thriving*; and to rise above the rest, you need a target and a plan.

Next, eliminate failure as an option. My own experience has proven to me that an unyielding determination and a burning desire can overcome the most difficult problems.

Then, with your focus squarely on your goal and with plan in hand you must consistently **do** those things that will move you inexorably toward the realization of your purpose. Persist. Make incremental progress, however small, every single day.

Finally, celebrate your successes and learn from your failures. Look for the opportunities within the difficulties. Turn every negative experience into an opportunity to learn and improve. When used in this way, problems become your best form of feedback.

Hold yourself accountable. Learn to love what you do.

No one can make you a successful sole practitioner but you. That is exactly what makes it interesting and exciting for successful solos—knowing they are in charge. They know that they have the power to alter their futures by the choices they make and the effort they expend.

How bright is the future for the sole practitioner? That will depend entirely on you!

ABOUT THE AUTHOR

J. Terry Dodds, CPA, graduated with honors from Brigham Young University in 1971 and accepted a position with the national accounting firm of Haskins & Sells in their Phoenix office. He moved back home to Idaho in 1972 and worked with several local firms until he opened his own practice on April 16, 1976. Currently, the firm of Dodds & Associates has a staff of three professionals and an office manager.

Terry has been active in professional organizations throughout his professional career. He served as chairman of both the Continuing Professional Education and the Management of an Accounting Practice Committees for the Idaho Society of CPAs. On the national level, he served as a member of the AICPA's Management of an Accounting Practice Committee from 1980 to 1983, and as chair of the 1983 AICPA Small Firms Conference. In 1992, he was named to the Private Companies Practice Executive Committee where he served for three years. During this time, he and his colleagues were instrumental in obtaining AICPA Board approval for the establishment of the Tax Information Phone Service and the Small Firms Advisory Committee.

Terry is a frequent speaker before state and national audiences on a variety of practice management topics. In addition to his speaking engagements, Terry has authored several articles which have appeared in AICPA publications and in society newsletters. He is a past member of the Editorial Advisory Board of *The Practicing CPA* and for five years published *Solo*[®], a bimonthly newsletter written to improve the quality of sole practice management.

Terry and his wife Cathy are the parents of twelve children. It is his absolute faith in the ability of sole practitioners everywhere to achieve success that provided the motivation for this book.

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ABOUT THE AUTHOR

J. Terry Dodds, CPA, graduated with honors from Brigham Young University in 1971 and accepted a position with the national accounting firm of Haskins & Sells in their Phoenix office. He moved back home to Idaho in 1972 and worked with several local firms until he opened his own practice on April 16, 1976. Currently, the firm of Dodds & Associates has a staff of three professionals and an office manager.

Terry has been active in professional organizations throughout his professional career. He served as chairman of both the Continuing Professional Education and the Management of an Accounting Practice Committees for the Idaho Society of CPAs. On the national level, he served as a member of the AICPA's Management of an Accounting Practice Committee from 1980 to 1983, and as chair of the 1983 AICPA Small Firms Conference. In 1992, he was named to the Private Companies Practice Executive Committee where he served for three years. During this time, he and his colleagues were instrumental in obtaining AICPA Board approval for the establishment of the Tax Information Phone Service and the Small Firms Advisory Committee.

Terry is a frequent speaker before state and national audiences on a variety of practice management topics. In addition to his speaking engagements, Terry has authored several articles which have appeared in AICPA publications and in society newsletters. He is a past member of the Editorial Advisory Board of *The Practicing CPA* and for five years published *Solo*[®], a bimonthly newsletter written to improve the quality of sole practice management.

Terry and his wife Cathy are the parents of twelve children. It is his absolute faith in the ability of sole practitioners everywhere to achieve success that provided the motivation for this book.

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