Building a competitive service structure:

What accounting firms must know

White paper

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In its efforts to drive greater profitability, better serve clients and remain competitive, your firm has committed to rethinking its business model and service offerings. The question then becomes, how do you build and deliver the most successful service structure for your firm?

It is no secret that a growing number of firms are shifting away from compliance-based business models in favor of higher-margin advisory services. In fact, research by Thomson Reuters® Institute found that an overwhelming majority (95%) of tax professionals believe their clients want business advisory services.

And, as stated in a survey report by CPA.com, Bill.com, and Hinge Research Institute, "Improving profitability not only requires identifying and targeting the right clients but offering the specific services and capabilities they need. Today, strategic advisory services present one of the most important growth opportunities — survey results suggest that accounting firms may be able to increase monthly client revenues by up to 50% by offering these services."

But how can firms effectively build a service structure that is scalable, profitable, and delivers the services that clients need? To help practitioners along this path, this white paper explores the methodology and tools needed to succeed and provides actionable insights firms can use immediately.

The costly challenge accounting firms face

Is your firm giving too much away for free? For too many of today's firms, the answer is "yes."

Perhaps one of the most notable challenges facing the profession is the rise in client demands and expectations. Clients want an accounting professional who will provide them with proactive advice. But, for many of them, it seems that they don't understand the value of the service they are asking for and the additional cost that comes with it.

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In today's increasingly complex legislative and regulatory environment, it's no surprise that clients are placing a higher premium on better business planning and strategic advice. However, as firms look to better serve clients, some are finding it challenging to manage client expectations and mitigate scope creep. The key is setting proper expectations upfront.

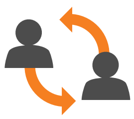
"Clients expect that they can get everything with the price of one service, which is the price of a tax return. They get access to your brain, everybody else's brain in the office, as well as your solutions, strategies, time – everything. And the reason why this happens is because scope is not set up front. We don't necessarily tell the client what's included and what's not included, which is very critical to let the client know, 'When should I ask for that quick answer?' versus 'That's outside of the scope of our agreement.' And that's why we have a lot of scope creep," said Mo Arbas, Senior Business Advisory Consultant, during a 2022 Thomson Reuters Advisory Symposium.

Clients must have a clear understanding upfront of what is included in the price of a tax return. And firms need to ensure that their knowledge, strategies, and planning have a separate price tag from compliance work. That's why establishing an effective service structure is so important for today's firms. This can also help those firms struggling with staffing constraints and lack of bandwidth.

How to build your accounting firm's service structure

Firms can better serve clients and ensure they are getting paid for the value they are providing by developing and implementing an advisory services approach that can be duplicated across the practice. The question then becomes, how? There are a series of steps that must be taken when building your firm's service structure, so let's take a closer look.

1. Get your house in order



The first step is to get your house in order. This means identifying the menu of services the firm offers and/or wants to offer. What are your services? Now, determine which of those services are advisory and which are maintenance or compliance.

"Why is this important? Why are we trying to separate this? What is compliance, and what is advisory? So, we can see what we're giving away and what is valuable, what is scarce knowledge that you don't just go anywhere and get. That's the cost of education and knowledge transfer that you're going to give away," Arbas said.

Under the maintenance column will be the usual suspects: tax prep, bookkeeping, financial payroll, financial statement preparation, etc. So why is it called maintenance rather than compliance? It's another way of thinking of compliance work. Maintenance, by definition, is the process of maintaining something.

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2. Better define scope

Once you've created your menu of services and identified which are maintenance and which are advisory, the next step is to clearly define scope. This enables firms to scale their services, reduce scope creep, and duplicate those services across the firm:

- Take, for example, tax preparation for a client. What does that include? Is that one return, two returns, or five returns?
- What about bookkeeping? How many transactions does that include? How many hours a month will you spend?
- And, what about succession planning? Is that all of the family business?

You get the idea. It is scoping each of your firm's service offerings before engaging a client and collecting any fees. As the expert, you already know in your mind what's included in each service. You just need to document it and inform the client of exactly what's included so you can better manage expectations.

"Think about what you're already doing, whom you're already serving, who you already have a broad knowledge base to serve, and then develop your firm's products or service offerings around those strengths so that you can build out that toolbox, and create process around it so that it can be replicated by other members of your firm. That's the approach here," said Brittany Lanphier, managing partner of Lanphier LLP in Denver, Colo., during the Advisory Symposium. "So, this isn't you have to go out and get special training, or attend all these continuing educations. This is the stuff you're already doing. We're just going to put process around it and define scope a little bit better."

3. Bundling your firm's accounting services

The next step is to evaluate the potential for a service bundling or packaging strategy. For example, a firm may offer three different service levels, depending on the client's needs: silver, gold, and platinum. Bundling services is important as it enables the firm to scale, mitigate scope creep, and drive profitability. It's a practice a growing number of firms are implementing.

Consider this: Research shows that more than half (54%) of surveyed business professionals who purchase accounting firm services said they now purchase accounting services in bundles or packages. As the research noted, "The rate of buyers' embrace of service bundles or packages is evidence of the growing diversity of services being offered by accounting firms — particularly those that focus on offering strategic guidance."

Said Arbas, "We want to get into the strategy of bundling services. We want to package services together. Why? Because a la carte is more expensive. A la carte requires a lot of time and effort and a lot of resources to be able to deliver. Bundling some services together that says, 'Hey, we have two levels of service, three levels of service.' Each service has a specific scope and price for it. It allows me to be able to scale those services and reduce the amount of scope creep."

For example, Arbas explained that, among the advisory offerings within his firm, is a base-level advisory package for all new businesses. This includes four advisory coaching sessions to educate small businesses and coach them on how to operate efficiently within their entity structure. Clients are educated and coached on income strategies, compensation, business operations, documentation, record keeping, cash flow, planning, budgeting, and estimated payments.

This is basic knowledge that every business, especially new businesses, needs to know. Why sprinkle them throughout the relationship via quick phone calls, emails, etc., and risk not getting paid for your guidance? Instead, deliver them upfront as an advisory services package. That's a $3,000 package, noted. Believe in your value and your clients will believe in the value.

"That's what advisory is. That's what soothsaying is. It's predicting the future, or it is trying to deliver advisory, which is predicting the future knowing ... every new business needs those items. They need to be educated on those. They need to know what it means. Why don't we deliver those as a package upfront called advisory services?" Arbas said.

Keep in mind that not every service offering needs to be included within a bundle. For example, succession planning may, instead, be a separate advisory project that is engaged depending on a client's needs.

Lanphier noted that her firm offers business clients packages that are classified as green, blue, or black engagements. These are structured as follows:

Green: These clients are often self-employed, a solo shop. Perhaps they are newly self-employed or maybe they've been doing some consulting. This engagement will help them understand what the bare minimum is that anyone with self-employed income needs to understand. Essentially, what are the basics of tax efficiency?

Blue: This is a more typical offering for the firm. It is the go-to engagement for either a new business that's growing or an established business that has been operating for a while. This engagement includes the same offerings as the green engagement but also includes such add-ons as a deeper dive into tax reform, recent legislation, Section 199A, Employee Retention Credit (ERC), and anything else the firm could address from that perspective. The firm also guides contractors and employees — the difference between the two, documenting them, protecting the business in these types of relationships — as well as self-employed retirement plans and fringe benefits.

Black: This will be a much more custom and complex engagement. Perhaps the client has multiple entities and funds, multi-owner structures, or perhaps they're looking to exit the business.

When working through a value-pricing strategy, value your knowledge at different price depths or tiers. Consider: What type of advisory services are you delivering? What type of value does it bring to the client?

4. Set pricing

Now comes pricing. As noted in a Thomson Reuters white paper, Strategically pricing accounting services: Should you use value-based pricing or fixed fees?, value-based pricing has become the pricing model of choice for many, especially those looking to deliver value-added advisory services.

When working through a value-pricing strategy, value your knowledge at different price depths or tiers. Consider: What type of advisory services are you delivering? What type of value does it bring to the client? As outlined in the white paper, those tiers may look as follows:

Tier 1: If the service being delivered brings a direct bottom-line benefit, you can charge the greatest percentage of value for your fee. For example, if it takes you 15 minutes to identify $200,000 in tax savings for a client, are you going to charge the client for those 15 minutes? No, you will price based on the value you delivered. That's a valuable direct benefit for the client.

Tier 2: Services that have an indirect movement to the bottom line will have a lesser percentage of price to value. For example, your firm helps a client to gain business efficiencies, which means they have more time to spend on generating sales. However, if that business client doesn't do their part and actually dedicate that extra time to make more sales, then your service has had less of an impact.

Tier 3: Services that deliver a protective benefit of sorts may have the smallest percentage of value to price. For example, your firm delivers a service to a client that makes them less susceptible to fraud or negative audit findings.

To provide an example of the pricing model Lanphier has in place, she pointed to the blue package. "Our blue engagement, typical pricing on that minimum is going to be $4,500 to $6,000. So, if they've got multiple owners or they've got multiple entities, the price is going to go up from there. So, even if it's a fairly basic structure. That would be the variables, but this is our bare minimum — a $4,500 bare minimum for this. That fee I just quoted is just the initial advisory, so a minimum of $4,500 upfront for initial advisory, plus what we're going to quote as part of the maintenance package."

Added Lanphier, "So again, we basically do an initial advisory engagement, kind of an upfront advisory with them. That is this onboarding process right here, that's a one-time thing they pay. Then, we'll let them pay it over one month, three months, and give them a couple of options on that. ... But then from there, they also have their maintenance, which is going to include their tax prep and any accounting support, and all the other things that we're going to do for them on an ongoing basis, that's going to be a monthly maintenance fee going forward."

It is important to conduct annual reviews with clients to reevaluate the services they need and the pricing to ensure you are being properly compensated for the value you are providing. Firms that find they likely undercharged clients for the year should consider increasing prices the following year.

5. Establish internal best practices

Firms must also consider what they need internally to successfully execute the services. This means having the right tools and roadmap in place for shifting your business model.

"If you think about it, firm best practices are just like client best practices. What can I do internally to facilitate the execution of set services? Do I have some checklists, and some workflow processes mapped out? Processes and other delivery items mapped out? A tax return workflow, payroll workflow, and audit workflow. Do we have all that laid out so that staff can execute accordingly?" Arbas said.

When evaluating the tools and resources that best meet your firm's needs in providing advisory services, consider an integrated solution that delivers the following:

- Industry-relevant content and tools (videos, templates, pricing tools, checklists, etc.).
- One-on-one individual coaching sessions with a dedicated consultant and access to online learning courses to assist with implementation.
- Ongoing coaching.
- Access to CPE-qualified, advisory-focused webinars.
- The ability to access all your advisory projects from one location, including easy access to your most recent projects.
- Generates output to help communicate scenarios to your clients.
- Surfaces opportunities for advisory services from your existing client base.
- The ability to customize client-facing handouts with your firm's branding.
- The ability to streamline and manage workflows on a single platform.

Firms that have a proven methodology, guidance, and robust content solutions in place can reap such benefits as:

- Confidence in communicating their value
- Significant financial growth from getting paid for their value
- More meaningful relationships with clients
- No more giving services away or undervaluing them
- Control over the direction of the firm
- More fulfilling work for the firm and its staff

6. Identify the right clients

Not every client will be the right fit. Therefore, it is important to screen clients to identify those who will be ideal for your firm's service model. This means not taking every client who walks in the door and, in some cases, maybe even firing a few.

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Said Arbas, "We don't do tax returns only and that's how I can start screening clients that don't fit my model. You have to screen clients who don't fit the model and it's okay to say, 'no.' If a client is not a good fit, it is okay, one less client you have to deal with. Now, there are referral sources and I know sometimes if it's not a good referral source, you're like, 'Thank goodness. I don't want that.' If it's a good referral source, ... there's nothing wrong even with a good referral source to say, 'no,' if it does not fit. If you don't think you reached an agreement or you don't feel like this is a profitable mutual relationship, it is okay to say, 'no.' And you can explain to the referral source that this is the deal."

Noted Lanphier, "If someone comes to me and all they want is that tax return they say, 'Ah, I don't really think I need all that.' Then I say, 'That's really fine. We're probably not the best fit for you in that case. We really focus on those relationships where clients feel like they have a real need for this type of strategic partnership and this level of support.'"

Think of it this way: The time and energy a firm spends dealing with less-than-ideal clients is time that can be spent bringing in new, more profitable clients. This will also mean less stress for the staff and, ultimately, more profitability for the firm.

Conclusion

In order to remain competitive, firms must effectively build a service structure that is scalable, profitable, and delivers the services that clients need.

This involves identifying your service offerings and determining what is advisory and what is maintenance, clearly defining scope, bundling services, determining pricing, establishing internal best practices, and identifying the right clients for your service model.

Keep in mind that you don't have to go it alone. Turning to a solutions provider, like Thomson Reuters, can help ensure your firm has a proven roadmap and the right resources in place to succeed.

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