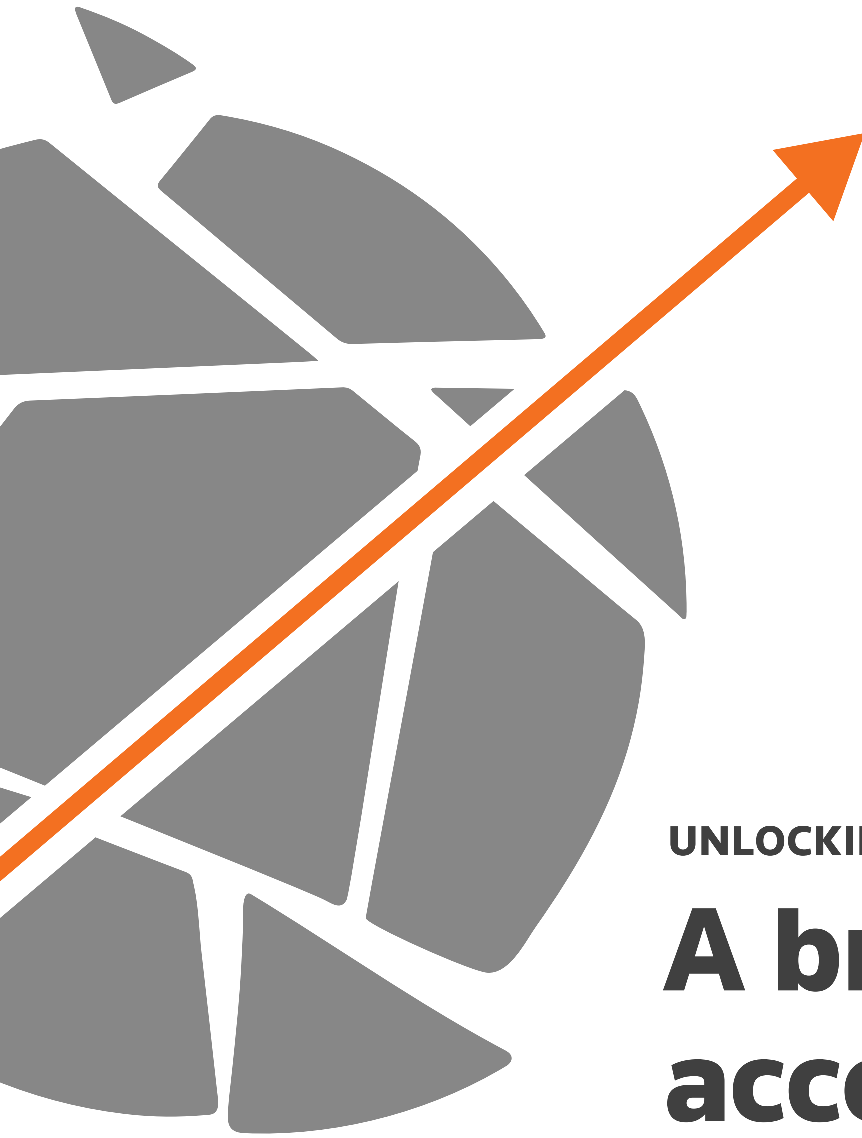
ARCHITECT OF A BREAKTHROUGH FIRM



UNLOCKING THE SECRETS OF

A breakthrough accounting firm.

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Intro.

Is your firm struggling to keep up with change and client demand? Is a lack of bandwidth or capacity hampering growth and profitability? Has the focus on tasks made you lose focus of your reason for becoming an accountant? If so, it may be time to take a step back and reimagine your firm's business model.

Within the last few decades alone, the tax and accounting profession has weathered significant transformation — from constant regulatory changes, to rapid advancements in technology, to shifts in client expectations. So, it's no surprise that some firms may find it hard to keep pace and find they are simply surviving rather than thriving.

If your firm is among them, it's time to break free of the rut and become a thriving breakthrough firm. This requires having the right mindset, tools, firm processes, and resources in place.

To help firms embrace a new way of thinking and reimagine how they do business, this white paper will explore the underpinnings of a breakthrough firm and provide actionable insights that practitioners can set into motion today.

State of the accounting industry.

Before diving into the architect of a breakthrough firm, let's first take a closer look at the changes that have impacted — and continue to impact — the accounting profession.

First off is the revolving door of regulatory changes. The feverish pace seemed to kick off with The Affordable Care Act (ACA), formally known as the Patient Protection and Affordable Care Act, which was signed into law by President Barack Obama in March 2010. The comprehensive health care reform included tax provisions that affect individuals, families, businesses, insurers, tax-exempt organizations, and government entities.

That same year came The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, also known as the 2010 Tax Relief Act, which President Obama signed into law in December 2010.

In subsequent years, additional regulatory changes included, but are not limited to:

- The American Taxpayer Relief Act of 2012 (ATRA), which Congress passed on January 1, 2013. As noted by the Tax Policy Center, this made permanent most of the income tax cuts enacted between 2001 and 2010, and extended other temporary tax provisions for between one and five years.
- The Protecting Americans from Tax Hikes (PATH) Act of 2015, which President Obama signed into law in December 2015. The PATH Act expanded or renewed a series of tax credits for individuals, families, and businesses, while also implementing measures to prevent fraudulent claims for those credits.
- Then there's the Tax Cuts and Jobs Act (TCJA), which was signed into law in December 2017 and marked the most significant tax code overhaul in more than three decades.
- More recently is The Coronavirus Aid, Relief, and Economic Security (CARES) Act (2020), which was signed into law in March 2020, and the Coronavirus Response and Consolidated Appropriations Act (2021), which was signed into law in December 2020. As outlined by the U.S. Department of Treasury, the CARES Act implemented a variety of programs to address issues related to the onset of the COVID-19 pandemic. The Consolidated Appropriations Act continued many of these programs by adding new phases, new allocations, and new guidance to address issues related to the continuation of the COVID-19 pandemic.

These are, of course, just a few of the highlights from recent years. Going forward, there's no doubt that regulatory changes will only continue. For firms, the challenge will be staying abreast of the changes, navigating the complexities, and helping clients better understand what it means for them.

On top of that, practitioners are facing a rise in client demands and expectations, while also dealing with staffing constraints and lack of bandwidth. Attracting and retaining top talent is obviously not a new concern for the profession. However, the pandemic further fueled the issue and changed the way employees can — and want — to work.

Is your head spinning yet? The good news is you're not powerless. Yes, change is inevitable. However, taking a step back and reimagining how you do business and deliver client services can help your firm break through and rise to new heights.

Find your 'why'.

One of the first steps in becoming a breakthrough firm is to find your "why." But, what does that mean?

It means taking a pause to remember and reflect upon what drives and motivates you. Why do you do what you do? Why are you in the industry? What makes your firm different and special? Perhaps your answer is to help guide business owners to greater success, to serve as a resource for the community, or to help people problem solve. What is your "why"?

As you think through your "why" keep in mind this is not about "what you do," because every firm provides many of the same services — tax, accounting, payroll, bookkeeping, assurance work, audit compilations, etc. This is about what drives you and makes your firm unique.

During the 2022 Thomson Reuters Advisory Symposium, Mo Arbas, Senior Consultant — Advisory Squad Lead at Thomson Reuters, posed the following question to attendees:

"Why are you different than another firm down the road? Why would I go work with you instead of the other firm? What's different about you? What do you offer that I've never experienced before? I've seen a lot of firms have a challenge answering that question because we're focused on the 'what we do,' but we need to reverse that."

"We can't let the client run the business … When we start focusing on 'why' we do things in our industry — Why are you in there, in our industry? Why do you do what you do? How can we communicate that and take back control? Only then we'll relieve some of those pain points. It will not happen overnight. It's a gradual change as you go move forward and apply those positive changes," Arbas said.

In addition, ask your staff about their "why." Why are they working for your firm? Why are they working in tax and accounting?

Once you and your staff find your collective "why," make sure it is at the forefront of everything you do. Put it on your firm's website, share it in every client interaction.

"We need to make sure we tell clients, we tell prospects that we care. We love helping people. We want to build relationships. We want to guide them. We want to share that advisory and keep going. That's how we maintain that mutually beneficial relationship," said Arbas.

"So don't start with what we do, because everybody does it. Why you do it is different."

This is an important exercise for practitioners as it can help them take back control of their practice, take back control of their client relationships, and take back control of their work-life balance.

Engage on value.

As mentioned earlier, the industry is experiencing a shift in client expectations. Today's clients want more. They expect more. Breakthrough firms are heeding the call and are engaging on value, not by task or singular project. It's more than just minimizing taxes. It's about being proactive versus reactive and helping clients improve business outcomes.

Underscoring this point, research by Thomson Reuters Institute found that 95% of tax professionals believe their clients want business advisory services, and 69% expressed a "strong" desire for such help.

Yes, compliance is still important, but, contextually, compliance work has changed — and continues to change. In many ways, compliance is becoming more of a communication tool or a "reality check" for businesses. The true value, and your differentiating factor, is in helping clients achieve their goals through advisory services.

Said Brittany Lanphier, Managing Partner of Lanphier LLP in Denver, Colorado, during the Advisory Symposium, "We've got to come at it from a place of being a strategic partner for our client. An accountant prepares tax returns. We tell our clients that a tax return is just the end product of a year well planned. An accountant is reactive and they're always looking at last year. An advisor is proactive and thinking ahead about things they can do for their clients.

An accountant is an expense. An advisor is an investment or, maybe in our terminology, an asset — something that adds value rather than taking it away from the bottom line."

Lanphier and her husband, Dennis, started the firm about 13 years ago. It wasn't long before the firm began establishing itself in the market and, during the first four or five years in practice, it was experiencing roughly 40% top line growth per year. In 2013, the firm hired its first employee, and by 2015 the firm was generating about $500,000 in revenue.

"It was like drinking from a fire hose. It just was constant and there was so much work coming in that we were just trying to figure out how to keep up with it," Lanphier said.

Engage on value (continued)

Lanphier and her team were no doubt struggling to keep pace and the constant cycle was taking its toll. Business was pouring in, but client relationships were purely compliance-centric, and any form of consulting or advisory was very ad hoc. There was no continuity. No real structure.

"There was no bandwidth left over to do any of that more value-adding planning, strategic type work that we knew clients wanted and that we were capable of doing. But there was just frankly no bandwidth for it. So, it was frustrating because we felt like, again, we were constantly chasing this never-ending cycle of just trying to get through what was on our desk that day," Lanphier said.

In 2016, following a Thomson Reuters Partner Summit event, Lanphier knew it was time to make a change. Armed with knowledge from the event, the firm began implementing a roadmap for structured advisory services and transitioning clients to maintenance agreements.

"There's much less strain on our resources and this has made us leaner, more efficient, and more profitable as a firm. So, here we are today, again, we continue to be a work in progress, but we lead with advisory services. And we've been able to capitalize on this changing environment to help propel us forward and help us grow the firm and create that extra bandwidth to bring on those additional resources," Lanphier said.

Relating all too well to the stresses felt by Lanphier and her team prior to the transitioning to an advisory-centric business model, Mark Martukovich, managing partner at Clearwater, Florida-based FMA, C.P.A., said his firm began shifting away from a compliance-based model in favor of more strategic advisory services in 2014, following his "aha moment."

As he explained during the 2022 Advisory Symposium, "I was on the phone with a client, schedule C making about a $100,000. And what's the story there, right? You go through the drills, S corporation, do payroll, so on and so forth. I went through and I proved that I should be his accountant. I gave him the answer. What else did I give him? I gave him free advice and saved him about $5,000 to $10,000 a year. And what did I get paid for it? Zero. I got to keep the relationship. I did not get paid for that advice."

Martukovich continued, "And so that was a big 'aha moment' for me was just saying, listen, I've got to do something different. I just gave away a lot of value and I did not get paid for it."

Martukovich said implementing a scalable advisory services approach "advanced my firm, probably 18 months to two years, and gave me a more robust offering in a more robust direction within the firm of what I could do as a business advisor, not just as a compliance-based firm."

While the menu of services may vary by firm depending on client needs, a survey by CPA.com, Hinge Research Institute, and Bill.com found that business professionals identified the following areas as most desirable when it comes to strategic advisory:

- Revenue growth and business modeling (65%)
- Budgeting (46%)
- Tax planning (38%)
- Risk management (38%)
- Advanced KPI reporting (35%)

The survey also found that firms may be able to increase monthly client revenues by up to 50% by offering strategic advisory services — presenting one of the most important growth opportunities for firms.

Identify the ideal client.

Serving those clients who are the right fit for your practice will go a long way in helping your firm drive greater growth and profitability. This means not taking every client who walks in the door and perhaps even firing those clients who are not the best fit.

Unfortunately, firms often don't have a clear vision of their ideal client. If that's the case, it is important to spend some time creating some solid guidelines.

To help firms with this exercise, Rob Nixon, the creator of the coaching program Profitable Partners, outlined criteria for an "A-grade" accounting client. According to a blog post written by Nixon, these include:

- They are ambitious business owners who are hungry for success.
- Chances are high for a stable, long-term relationship. Consider prioritizing stable, existing businesses over start-ups.
- Aim for an 80% gross profit minimum in your services. Consider losing clients who fall below that minimum.
- You enjoy working with that client.
- The client adheres to your firm's workflow, they pay you on time, and do other things that ensure your business runs smoothly.

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.

"We fire clients regularly because they've got to be the right fit. So, we've got a beautiful model in place because we've taken the time to sit down and say, 'Okay, who is that ideal client? Who do we want to bring in? What does that look like?' And that's the only clients that we really bring in are those types of people," Martukovich said.

Grow through controlled growth.

Change can be scary and the notion of transitioning away from the long-standing compliance-based business model can spark mixed emotions. However, as breakthrough firms are discovering, growth can occur not through increasing tax return volume but through delivering higher-value, higher-margin advisory services to the right clients — and getting paid accordingly.

Therefore, it is important to fully understand the value of the services being provided. Then identify and package your firm's services and do away with hourly billing.

"All of our clients are now paying something for value-added advisory services. And all of these numbers have had, just frankly, a profound impact on what type of stress we feel as we continue to grow our firm and what it feels like to operate our firm on a day-to-day basis," Lanphier said.

Implementing a scalable advisory services model and embracing a value-based or fixed-fee approach enables firms to iron out the peaks and valleys of tax season. Rather than meeting with clients once or twice a year, usually around tax season, you're regularly communicating with clients and charging a monthly fee for your services. This results in a consistent revenue stream for the firm, more meaningful client relationships, and less stress for the staff.

Consider this: firms that have implemented an advisory-focused solution have experienced, on average, a 150% increase in existing client monthly billings, and a 200% increase in new client billings. This means the solution pays for itself just two to three months after starting implementation.

Lanphier, for instance, said 75% of her firm's revenue is from recurring monthly maintenance, which is auto billed and appears in the bank account twice a month. Furthermore, nearly all the firm's revenue — 98% — is billed in advance.

"If you find yourself scared about what this means and what this looks like for that practice that you've spent, maybe decades, building, we have very successfully retained a lot of our clients and our billings to those clients are up 40% from where they were before we started this transition," said Lanphier, who noted that her firm can realize the same revenue from 10 advisory clients that it previously would've needed 100 compliance clients to generate.

Martukovich said his firm has been purposeful about "controlled growth" and currently has 136 clients under advisory engagements, which includes coaching on best practices and compliance work. This generates about $1 million in recurring revenue each year for the firm.

"They're on maintenance agreements and I know that revenue's coming in every year because I've got them committed," Martukovich said.

Growth also comes from leveraging the right resources both within and outside of the firm to maximize productivity. This means perhaps taking advantage of tax prep outsourcing to help increase firm bandwidth, and elevating and repurposing some staff members to better utilize their skill sets. For example, maybe your firm has some well-seasoned tax preparers who can be elevated to tax reviewers.

Implementing the right technologies, such as an automation solution for firm management, predictive planning, and billing, is also critical to improving firm efficiencies and helping to ensure staff has more free time to focus on more strategic, higher-margin services.

Conclusion.

Clearly, within the last few decades alone, the tax and accounting profession has experienced significant regulatory changes, rapid advancements in technology, and considerable shifts in client expectations. For some firms, the struggle to keep pace is mounting. If your firm is among them, it's time to make a change.

With the right mindset, business model, and resources in place, firms can rise up to become a breakthrough firm that stands apart in today's challenging market. Turning to a solutions provider like Thomson Reuters can help ensure you're on the right track as you embark on your journey. The time to act and reimagine your business model is now.

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