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Your Blueprint For A Better Accountancy Practice

The key research-proven things that every practice that really cares about its clients, reputation and future must do

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Earlier this year I was one of the authors of the White Paper: *The biggest challenges facing the UK accountancy profession over the next five years*. Based on responses from 108 accountants, it asked them to identify their biggest concerns. The results provide interesting reading.

The five greatest perceived challenges were:

1. Not enough of the right sort of clients
2. The difficulty of charging prices that reflect the quality of the work you do
3. External threats
4. Getting new clients
5. Finding, keeping and motivating the right team

Whether or not these are your own top five challenges, I think you'll agree that these are big issues for all accountants in practice and that the way you approach them will have a significant impact on your results (and also on how much you and your team enjoy going to work in the morning).

The Blueprint For A Better Accountancy Practice picks up where the White Paper left off and looks at how you can start addressing each of these challenges by giving better service, implementing better systems, making better pricing decisions and creating better team engagement.

It also shows you what some of the most successful accountancy firms are doing in these areas to get outstanding results, and sets out an action plan so that you can replicate their success.

Some of its findings are exciting, others are shocking. But all of them are extremely useful.

As chairman of the Accountants Club I am dedicated to helping accountants serve their clients better while developing profitable, rewarding and enjoyable practices for themselves and their team. This report is a huge help in getting that process started.

Mark Lloydbottom FCA
Chairman
The Accountants Club

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Acknowledgements

We would like to thank all the firms that participated in the survey – all 156 of you. Without you this Research Report would not be possible.

We would also like to thank the case study firms that contributed so openly so that we can all learn from their success.

And thanks also to Steven Baldwin for all his help in compiling the graphs and statistics.

Executive summary

In the summer of 2011, independent accountancy firms who had attended the National Accountants Conference in Birmingham completed a detailed survey.

The 156 firm sample was representative of the vast majority of the profession, being made up of:

- 72 sole practitioners
- 43 two partner/director firms
- 28 firms with 3-5 partners/directors, and
- 13 with six or more partners/directors

The aim of the survey was two-fold: to identify best practice, and to see which aspects of best practice make the biggest contribution to the success of accountancy firms across the world. Whilst the survey was carried out with UK practitioners, we have no reason to believe that the essence of its findings will not apply equally in every other country too.

By any standards, the results were both striking and profoundly important.

For the first time research reveals that we have a two track profession, consisting of “Stars” and “Laggards”.

Star firms:

- Consistently grow at 20% or more a year
- Have better client bases and ‘lock up’
- Deliver better client service
- Feel less threatened by cheap accountants
- Are generally happier with their success and results

For the Laggard firms and their clients, on the other hand, the picture is very different.

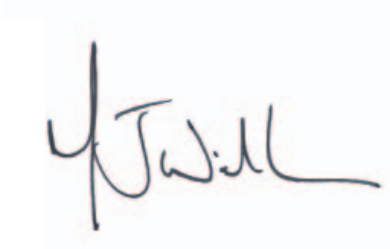
Further evidence, if needed, comes from an analysis of key practice data supplied by the Accountants Club’s BenchMark software. When firms are compared across key metrics, it is clear that there is a huge gulf between the performance of the upper and lower quartiles (see Appendix 2).

This report presents the evidence for what every practice needs to do to become and remain a Star. The key findings can be classified into the following categories that make up the main sections of this report:

- Better service
- Better systems
- Better pricing
- Better team engagement

We hope it helps you to make your practice better than ever before.

And we also hope that it helps to raise the standards and reputation of the profession for the good of clients, team members, practitioners, their loved ones, the economy and society as a whole.

Susan Clegg | Steve Pipe FCA | Mark Wickersham FCA

An important note about terminology

We have used the terms “Stars” and “Laggards” as shorthand, and they are not intended to be judgemental or pejorative.

There will undoubtedly be many excellent firms amongst the “Laggards”, and perhaps also some amongst the “Stars” where true excellence is still a work in progress.

The terms simply relate to the results the two types of firms are experiencing: while the Stars are enjoying outstanding results, the Laggards’ results are lagging behind. And often a long way behind.

We believe, however, that this report will help to close the gap and ensure a better future for the entire profession.

What "Star" firms achieve

Of the 156 firms that participated in the survey, 43 were Stars (Note 1).

In terms of size, the Stars are probably very representative of the profession as a whole, being made up of:

- 27 sole practitioners
- 12 with two partners/directors
- 1 with 3-5 partners/directors, and
- 3 with six or more partners

The key achievements of these Stars are that they:

- **Are all growing at 20% or more a year** – in contrast, none of the Laggards were growing that quickly
- **Have better client bases** and **feel much less threatened by cheap accountants** – only 7% of Stars are worried by the threat from unqualified and cheap accountants, compared to 25% of Laggards
- **Deliver much better client service** – 33% of Stars believe that they are as proactive as they should be, compared to only 12% of Laggards
- **Have better 'lock up'** – 74% of Stars wanted to reduce their 'lock up' (i.e. work in progress + debtors), compared to 84% of Laggards
- **Are generally much happier with their success and results** – 30% of the Stars are as successful as they want to be, compared to only 8% of the Laggards

The rest of this report explains how the Stars achieve those results.

Note 1 Whilst 27% of the firms in our survey were Stars, we suspect that the equivalent % for the profession as a whole would be somewhat lower. This is because every firm in the survey had attended the National Accountants Conference, and it has been suggested that as such they are likely to be somewhat "above average" in that they represent that part of the profession that is most hungry for new knowledge, new ideas and new ways of doing things.

Better service

91% of all accountants acknowledge the need to improve service levels. Interestingly this percentage was identical for both Stars and Laggards.

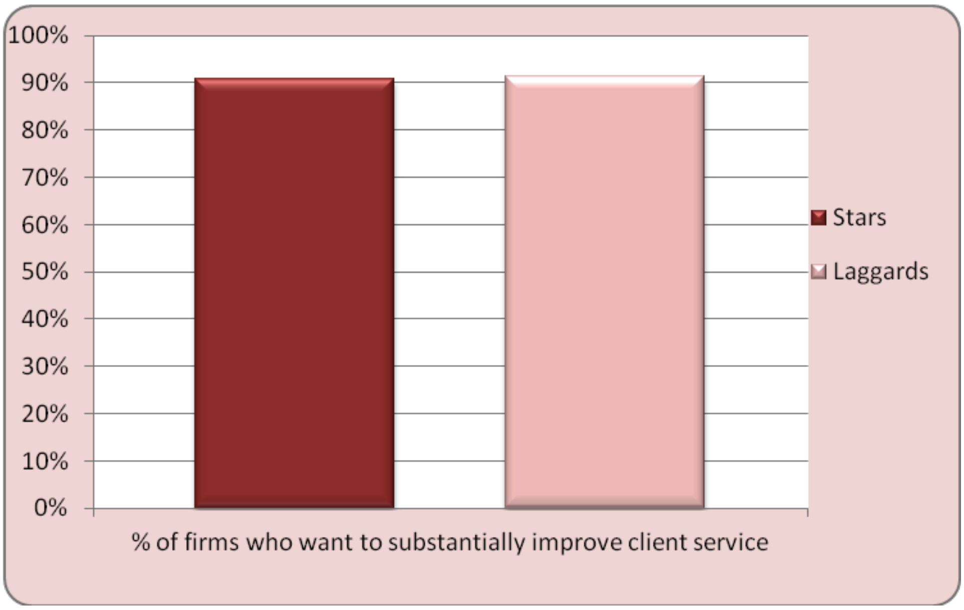


Figure 1

However, drilling down to the supporting data suggests that, while service levels across the profession as a whole are not high enough, Stars do seem to take service more seriously than Laggards, and do seem to be judging themselves against a higher set of standards.

Star firms systematically ask clients what service excellence looks like

35% of Stars have systematically asked at least the top half of their clients (either on a one-to-one basis or via a firm-wide survey) what they regard as excellent service. In contrast only 26% of Laggards had done this.

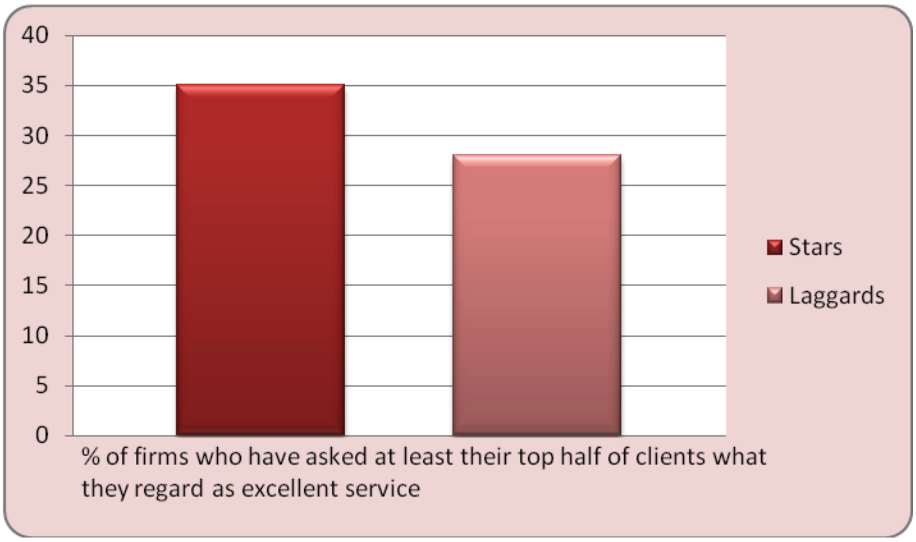


Figure 2

It is the client's definition of service excellence that counts, not the practitioners. So, if you don't ask clients there is a bigger risk that you get it wrong and focus your energies in the wrong direction.

Case study: Russell Payne & Co – asking clients to rate their services

Russell Payne is a Lincolnshire-based sole practitioner. Every month the firm sends every client a simple 'traffic light' style email that asks them to click on one of three traffic light colours:

- **Red** means "I have a problem and there is something I would like to talk to you about straight away"
- **Amber** means "I have a minor issue with your service and would appreciate a call"
- **Green** means "I am happy and no current issues, but thanks for asking anyway"

Not only have they invested in developing the technology to automate the process of sending out the emails and instantly processing the replies (www.trafficlightfeedback.co.uk); but they have also invested time and money in creating a watertight system for ensuring that every single amber and red reply is followed up in a timely fashion. They then report all of the key findings to the entire team every month, so that everyone understands the reality of their current service performance and is continuously focussed on making it better and better.

As Russell explains: "There are so many advantages to measuring service performance in this way. Firstly, since it only takes a few seconds for anyone to respond, a very high proportion of clients do actually respond, which was rarely the case with the other feedback systems we've tried."

"Secondly, where a client is unhappy it gives us the chance to nip things in the bud before they get out of hand. Thirdly, quite often the process gets clients talking to us about additional services that they go on to buy from us. So it not only helps us to keep clients, but it also helps us to earn bigger fees from them."

"And finally, it gives us an objective yardstick to measure ourselves against, which in turn means we are able to continually challenge ourselves to provide even better service."

Key thought:	What systems do you use to ensure that you understand what your clients regard as service excellence, and are actually delivering it to them?

Which 3 actions will you take to make sure you understand what kind of service your clients want from you?
1.
2.
3.

Star firms are more proactive

33% of Star firms believe that they are as proactive as they should be, compared to only 12% of Laggards as Figure 3 shows.

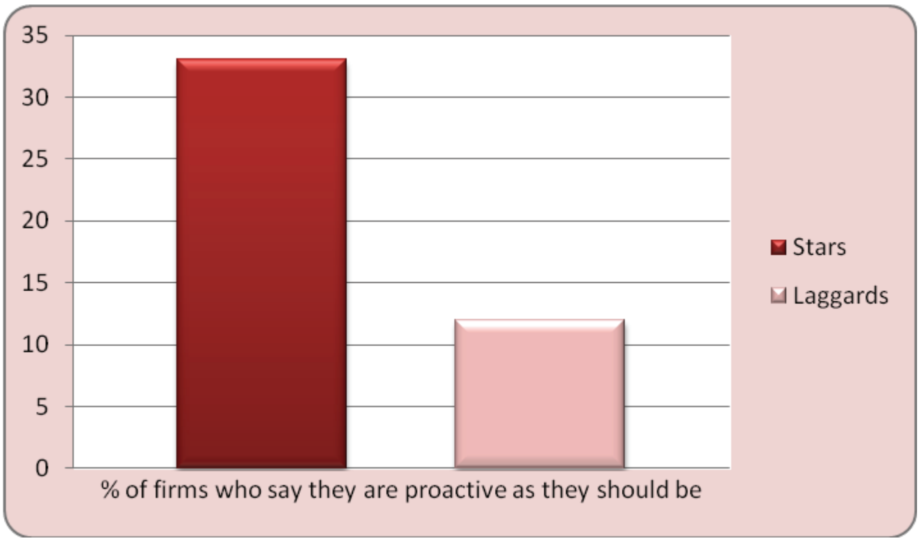


Figure 3

Given that other research suggests that clients regard "being proactive" as the single most important aspect of service excellence, both these figures are extremely disappointing. And clearly there is a great deal more the entire profession needs to do in this respect.

But it is also clear that Star firms have been better at rising to the challenge of being proactive – and, given the paramount importance that clients place on proactivity, it seems likely that this is one of the main reasons why the Star firms get such good results.

Case study: Sobell Rhodes – Being more proactive

Sobell Rhodes is a long established and still rapidly growing 6-partner firm based in Pinner and the West End of London that was recently named as the Accountancy Age Medium Size Firm of The Year and as 2020's Most Innovative Large Accountancy Firm.

The firm is acutely aware of two major research findings. Firstly that clients want their accountants to be more proactive. And secondly that clients hate surprise bills. So Sobell Rhodes now systematically looks for ways to make preliminary recommendations to clients (ie. recommendations that can help the client save tax, improve cashflow or in some other way solve a problem or make the most of an opportunity) without charging for those preliminary recommendations.

What they have found is that, if their preliminary recommendations are good, clients will do one of two things: either say thank you, or say "that's interesting, can you help me implement that idea?" The former is a good result. But the latter is even better, since the client is actually asking to buy some further help, and all the practice has to do is agree the price and terms for doing that extra work.

One of the specific ways they make these preliminary recommendations is by automatically producing a Benchmarking report and a Key Improvement Possibilities report for each client, and discussing these at the annual accounts finalisation meeting. The latter report usually covers a range of ideas and related preliminary recommendations to:

- improve profits and cash flow based on the benchmarking findings
- save tax
- protect family assets and wealth.
- improve personal wealth
- structure borrowings more efficiently, and
- plan for eventual exit, and perhaps also retirement

Key thoughts:	In what ways is your firm proactive? What systems do you have in place to ensure that you really are proactive with every single client, every single year?

Which 3 actions will you take to make your firm more proactive?
1.
2.
3.

Star firms don't assume

To delve a little deeper into the reality of "being proactive" in the profession the survey also asked this very telling question:

"Is it acceptable for an accountant to know about a tax planning idea that could save a client a great deal of money, but not tell the client about it because (a) They assume the client won't be interested, (b) They don't have the time to tell the client, or (c) They have the time, but can't be bothered to tell the client?"

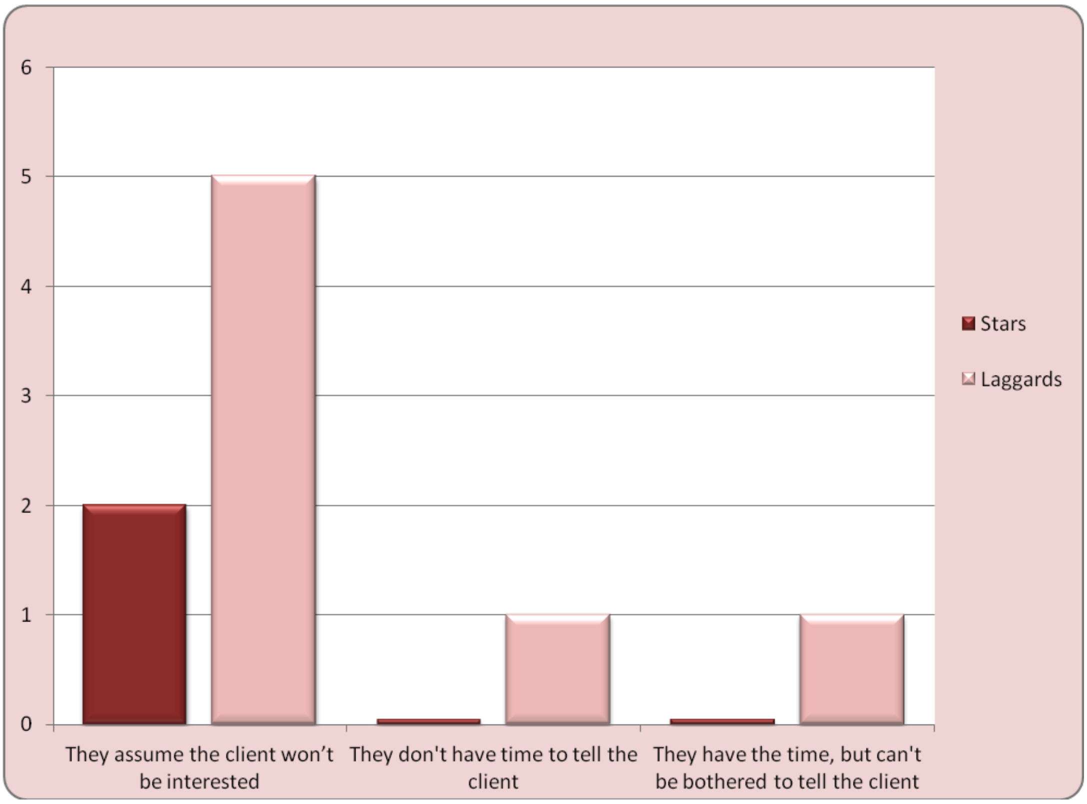


Figure 4: % who think it is acceptable for an accountant to know about a tax planning idea that could save a client a great deal of money but not tell the client for the reasons above

Encouragingly there was almost universal acceptance that it is never acceptable to let a client down in this way because the practitioner does not have the time or cannot be bothered. And it is reassuring to see that the entire profession recognises that not having the time or the inclination are never acceptable reasons for a lack of proactivity.

Alarmingly, however, 5% of the Laggard firms felt that it was acceptable for the practitioner to assume that clients would not be interested in tax planning ideas that could save them a great deal of money, and therefore not to bother to let the client make up their own mind on the matter.

Clearly this kind of arrogant "I know best" attitude is anathema to the vast majority of decent professionals. And whilst it is obviously worrying that it is present anywhere, at least the research suggests that the market is punishing the firms in question with Laggard results.

Star firms guarantee their work

There is broad parity between the willingness of both sections of the profession to give turnaround guarantees (e.g. "We guarantee to turn your accounts around in 30 days or you don't pay"). As Figure 5 shows 20% of the total fees earned by Star firms are covered by this kind of guarantee, compared to 17% of the total fees earned by Laggards.

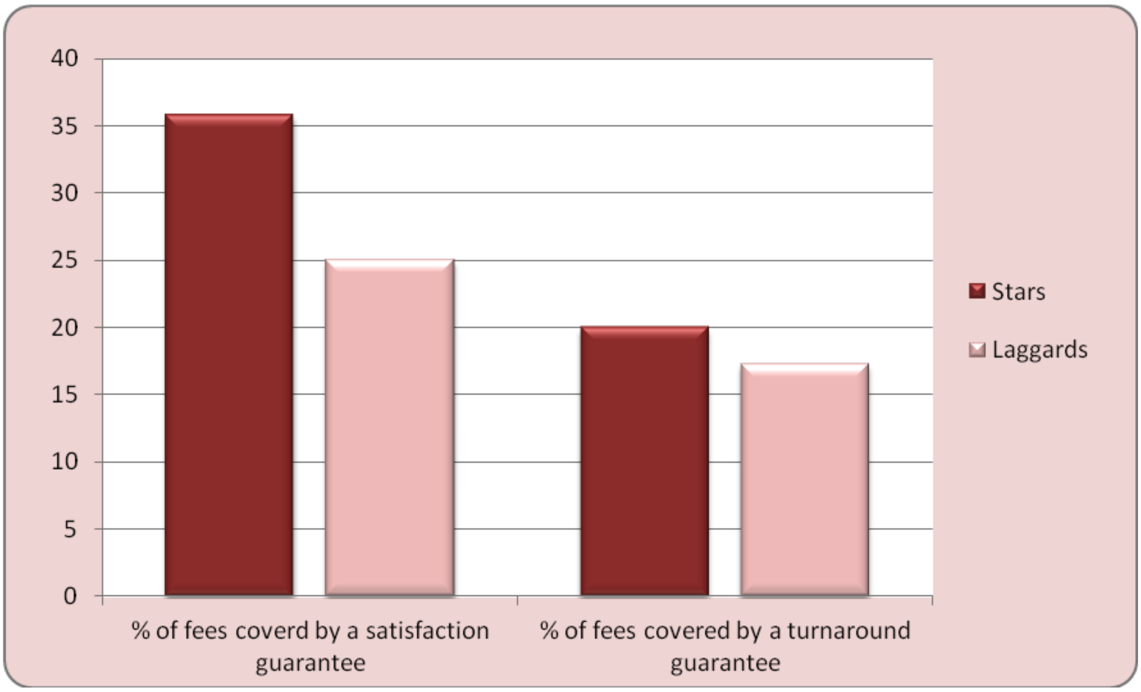


Figure 5

But when it comes to offering satisfaction guarantees (e.g. if the client isn't happy, they don't have to pay, or can pay what they think it is worth), there is a big difference. The Star firms are confident enough in their service delivery to guarantee 36% of the total fees they earn in this way, whereas for Laggards the figure is only 25%.

For some firms the combination of turnaround and satisfaction guarantees is one of the keys to their success. For example, Devon-based businessVision, which increased its profits by 64.9% in the year to June 2010, attributes much of its success to the fact that "Turnaround times are guaranteed, such as 20 working days for accounts and seven days for tax returns, assuming no delays at the client's end. Added to this is an overall guarantee that clients will get quality and value that matches the fee they pay. If they don't think this is the case, they're entitled to pay any fee they think is appropriate, including nothing."

Key thought:	What type of guarantees could you offer?

Which 3 actions will you take to make your guarantees compelling to clients and prospects?
1.
2.
3.

Star firms respond more rapidly

54% of the annual accounts produced by Star firms are delivered to clients in less than 30 days of receiving the necessary information. At Laggard firms only 47% of accounts are turned around that quickly.

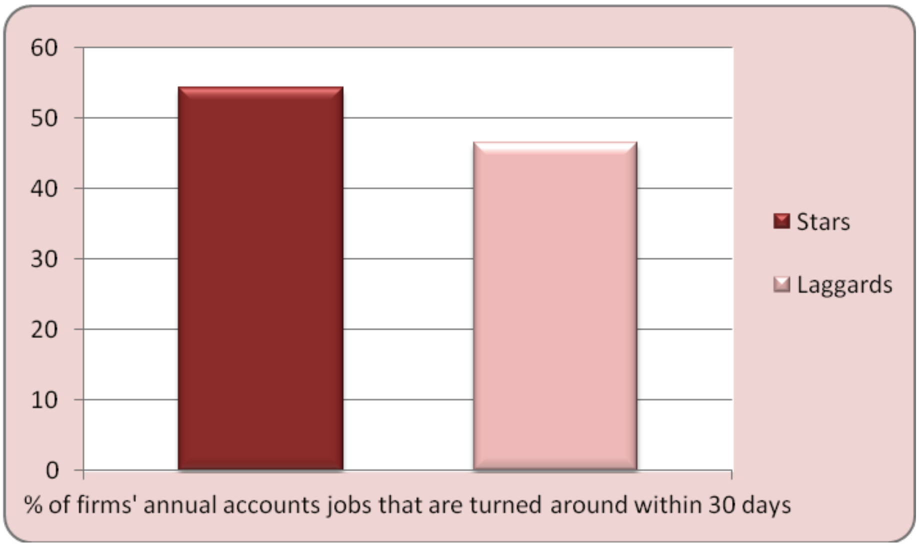


Figure 6

Whilst not every client will be impressed by speed, many will. For many it is one of the few aspects of service they are equipped to judge – and so they will mentally extrapolate from what they see as excellence in this area to assume excellence in the other areas that are harder for them to judge, such as the quality of the technical work done.

Key thought:	Do you measure your speed of response? By measuring your turnaround times you can set targets and focus on improving this key performance indicator.

Which 3 actions will you take to improve your response times?
1.
2.
3.

Star firms spot more mistakes

Perhaps the most distressing findings in the entire survey are the staggering number of mistakes the profession seems to be making.

Firms were asked, “In what % of new clients do you find an error or omission made by the previous accountants?”

	Found by Stars	Found by Laggards	Found overall
Major error	19%	15%	**16%**
Minor error	31%	29%	**29%**
Total	**50%**	**44%**	**45%**

Table 1

	Found by Stars	Found by Laggards	Found in total
Major omission	19%	14%	**15%**
Minor omission	30%	26%	**27%**
Total omissions	**49%**	**40%**	**42%**

Table 2

Not to put too fine a point on it: these results are shocking!

According to their peers, who are after all best placed to judge, accountants seem to be making mistakes in handling the affairs of almost half of their clients. And many of those mistakes appear to be serious.

For example, respondents cited not preparing P11Ds, not claiming all allowable expenses, illegal dividends, capital allowances not claimed properly or at all, not considering incorporation, not extracting profits tax efficiently, not dealing with associated company issues properly, not dealing properly with overdrawn directors loan accounts, not reviewing tax credit eligibility, lack of IHT planning, and not claiming R&D tax credits.

Of course, it could be that these errors and omissions are the reason why the clients in question switched from their former accountants to the firms in the survey. But it does not seem realistic to seek to explain these results away so easily. The reality is that most of these errors and omissions are very technical and are therefore unlikely to have been spotted by the clients, and are therefore also unlikely to be the reason why they switched accountants.

In all likelihood, the clients switched because of other aspects of the service and value they received, and these technical mistakes lay unnoticed until after the switch. And that of course begs the deeply disturbing question, are there mistakes lying unnoticed in the affairs of half of the rest of the millions of clients served by the accountancy profession?

The one ray of hope, however, is that Star firms seem to be better at spotting mistakes. And that in turn has two potential implications for the service levels their clients receive:

- As well as spotting more mistakes they presumably also correct more mistakes for new clients – thereby generating better results for those new clients.
- Presumably their systems for eliminating mistakes are better than those at the Laggard firms. And presumably those same systems are also used to eliminate mistakes with all their clients before it is too late. As a result, it seems likely that they handle their clients' affairs with fewer errors and omissions than the rest of the profession.

For the good of the profession as a whole, we hope that these findings will galvanise practitioners everywhere to raise their standards and serve their clients in the way they deserve.

Key thought:	What systems do you have to prevent errors and omissions in the advice and support you give to clients?

Which 3 actions will you take to completely eliminate errors and omissions?
1.
2.
3.

The £1.8 billion cost of failure

Alarmingly, the findings in the previous section suggest that in addition to there being two types of accountants, there are also two types of clients:

1. **Overlooked clients** – The sizeable minority (perhaps as many as 40%) whose affairs are not given enough care, attention to detail and proactive support, and as a result are suffering the consequences of the mistakes and omissions being made by their accountants; and

2. **Valued clients** – The more fortunate majority who do receive the service they deserve.

It is too simplistic to assume that all the overlooked clients are served by Laggards, or that all the valued clients are served by Stars. Anecdotal evidence suggests that the reality is far more complex than that.

For example, we have seen many instances where partners lavish outstanding service on a handful of favoured clients, while at the same time cutting budgets so drastically on the affairs of other clients that service is inevitably compromised. As a result, even within firms it is often the case that some clients are valued while others are overlooked.

Regardless of the factors causing it, however, what is truly sobering is how much the failings of the profession could be costing overlooked clients. Let us look at the maths…

… according to the latest Department for Business Innovation and Skills data there are c. 4.5 million private sector businesses in the UK. As we have seen above, this study suggests that accountants are making mistakes in handling c. 40% of their clients' affairs; therefore c. 1.8 million clients are probably affected. In many cases these mistakes will cost those clients many thousands of pounds each, so factoring in an average cost of £1,000 is unlikely to be excessive.

Therefore, using conservative estimates, the total cost to clients of the mistakes made by their accountants would appear to be a staggering c. £1.8 billion.

Clearly this is not a figure the profession can ignore.

And, as we said earlier, we hope that these findings will galvanise practitioners everywhere to raise their standards and serve their clients in the way they deserve.

Better systems

Better client meeting systems

In total, firms say that they leave 29% of meetings with clients with extra work that they didn't have at the start of the meeting (see Appendix 7, figure 14).

However, the Star firms manage to turn an impressive 34% of meetings into extra work – whereas at the Laggard firms it is only 27%.

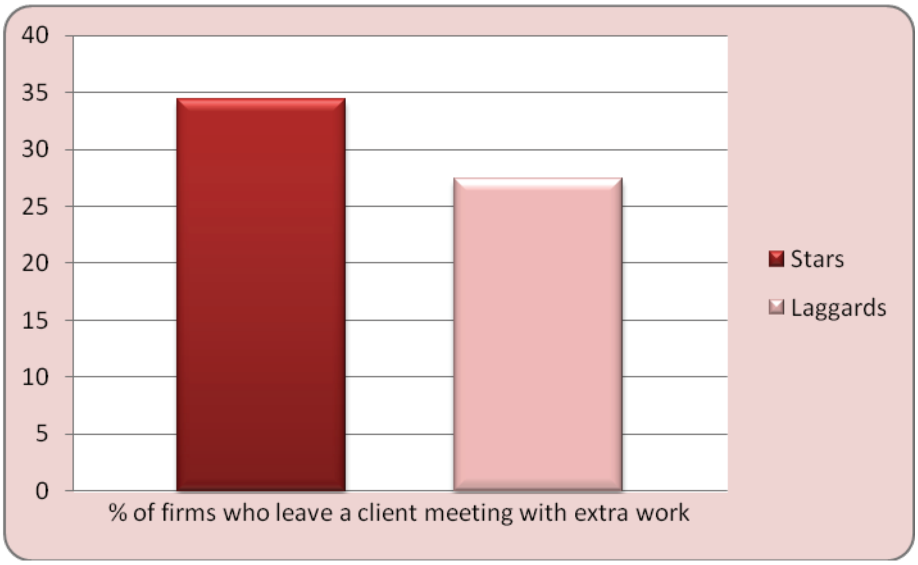


Figure 7

We suspect this difference occurs because, as the rest of this report shows, at those meetings the Star firms are:

- More proactive
- More likely to share ideas that can generate significant additional amounts of cash for the clients
- More likely to link the fee to the value so that the client can't possibly lose, and
- Make it easier for the client to say "yes" by offering client satisfaction guarantees

Whilst firms will probably get better results when they do more of those kinds of things, the key message from these findings is even simpler: the more meetings you have with clients, the higher your fees and profits.

In fact "have more meetings" may well be the simplest and most powerful action point for any firm that wants to grow.

Case study: Thoburn & Chapman – Better results from client meetings

Thoburn & Chapman is a long established 13 person practice in South Shields run by Ralph Thoburn Junior. In order to ensure consistently high levels of service, and that nothing important is ever missed or glossed over, they use standard agendas for all meetings. These agendas cover four main areas:

- Accounting and audit issues
- Advanced tax planning – to improve the client's tax bills
- Wealth creation – to add to the client's wealth by, for example, making their businesses more successful and profitable
- Wealth management – to make the most of their wealth once they have created it

Their agendas always also include three key questions:

- **What else do you want us to talk about today?** - This is asked at the start of the meeting, not at the end, since if the client has a burning issue it is vital that is dealt with before anything else on the agenda.
- **How are we doing?** – Proactively checking that the customer is happy with the service they are receiving means that any problems can be corrected quickly and prevented from festering into something far worse.
- **Do you know anyone you can introduce to us?** – By asking for referrals whenever the customer has just said that they are happy, Ralph and his team end up receiving more referrals.

"Importantly we also make sure clients know there is no charge for phoning us between meetings," explains Ralph, "and we repeat the message whenever we see them. Since the more times they phone us with problems, the more times we can help them with solutions. Solutions that we use Extra Work Orders to charge extra fees for."

See Appendix 3 for the complete meeting agenda used by Thoburn & Chapman.

Key thoughts:	What systems do you have in place to generate Extra Work Orders from client meetings? How often do you ask for referrals at client meetings?

Which 3 actions will you take to increase the number and effectiveness of client meetings?
1.
2.
3.

Better engagement letter systems

Engagement letters are fundamental to the entire accountant-client relationship. So it is instructional to see what they do and do not specifically refer to.

The data shows that:

- 31% of Star firms specifically refer to Tax Credits in their engagement letters, compared to only 15% of Laggards
- 17% of Stars specifically refer to tax avoidance, compared to only 10% of Laggards
- 12% of Stars specifically refer to R&D tax credits, compared to only 5% of Laggards
- 10% of Stars specifically refer to care fee planning, compared to only 2% of Laggards
- Interestingly, however, the trend is reversed for IHT planning – with 16% of Laggards referring to it, but only 10% of Stars doing so

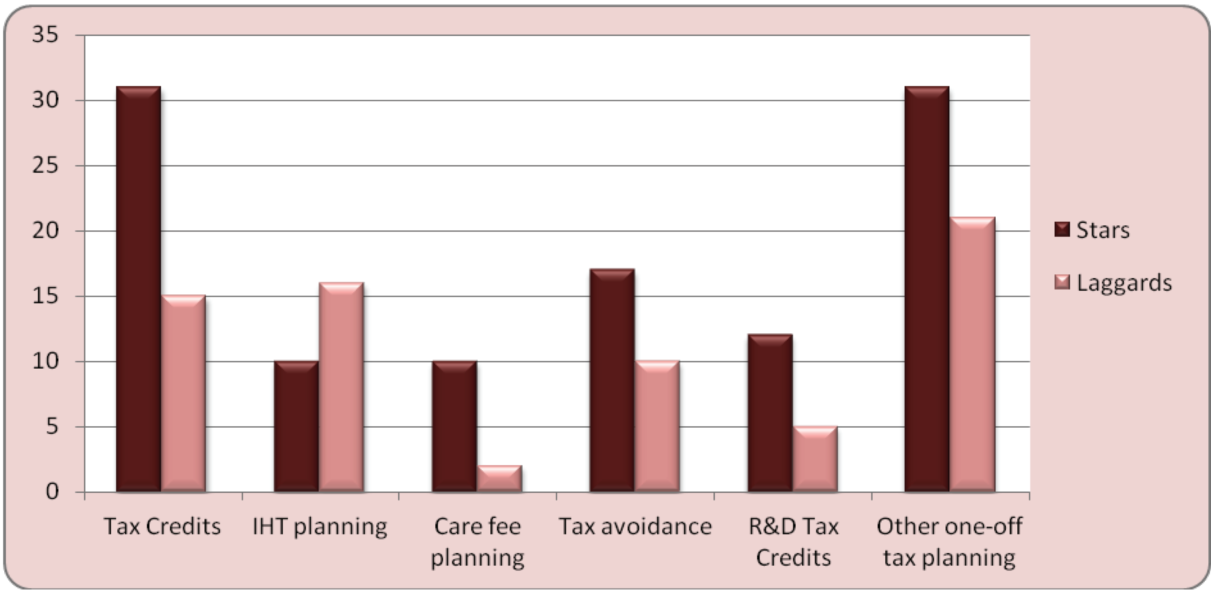


Figure 8: % of firms who specifically include the above in their engagement letters

Of course, these differences could be driven by clients. In other words, they may simply and legitimately reflect the differing needs of the client bases of the two types of firms: i.e. more of the clients of the Star firms actually want help in these more advanced areas. And if that is the case, it reinforces the view that the Star firms are able to attract what many would regard as "better" clients – i.e. clients who are more receptive to the things a good accountant can do for them.

On the other hand, these differences could be the result of something much less benign: they may be driven by the incompetencies and inertia of the accountants. In other words, because some accountants don't know how to help their clients in these areas, don't want to, or haven't ever given it any proper thought.

Either way, there are key lessons here for the profession.

Engagement letters set the tone for the accountant-client relationship. They should not stay silent on any of the issues that are important to clients, since that leads to uncertainty, misunderstandings and expectation gaps.

Where the accountants have the in-house skills to deal with an important set of issues, they should do so, and should do so proactively. And where the accountants do not have the necessary in-house skills they should do one of two things.

- Either they should specifically exclude those issues in their engagement letters. In which case not only will they miss out on the fee potential from this type of work, but they also run the risk that they lose the client to another accountant who is able to meet their needs more fully.
- Or they should specifically include them in their engagement letters, and then deliver the promise by forging a strategic alliance with a third party expert who can deal with those issues on their behalf. For many firms this will be the preferred option. Not only does it give clients what they need. But it also allows the firm to generate substantial extra profits, often with little or no extra work, by virtue of them receiving a share of the fees charged to clients for the work done by the third party expert.

Example - The way many Star firms work with third party experts

In its seminal 2003 report "The profitable and sustainable practice", the ICAEW said that, as legislation and the business landscape become increasingly complex, there is no way that most practices can afford to develop all the in-house skills they need to meet their clients' full range of needs. As a result the ICAEW recommended that:

"...there is an increasing need to make strategic alliances… with other organisations who can supply expertise they don't have in-house, easily and efficiently." (page 14)

In response to this recommendation, many practices have set up strategic alliances in the three key areas of advanced tax planning, financial services and business consulting. And as a consequence they report the following benefits:

- Substantially improved client service
- Substantially increased revenues
- Substantially reduced partner working hours, and
- Substantially reduced time costs

In many cases the cost reductions are very substantial indeed – with the time cost element of fees usually being reduced to 10% or less of the relevant fees. And some practices say that their time costs are indeed much closer to 0% than to 10% of fees.

How some firms work with third party tax experts

Following the ICAEW's advice, many successful practices now work with a number of carefully due diligenced tax planning specialists who can bring advanced tax planning solutions to the table for the benefit of their clients. Typically their arrangements work like this:

- The practice makes their clients and prospects aware of their strategic alliances with third party tax specialists – e.g. through seminars and one-to-one discussions etc.
- When a client is interested the practice will introduce them to the tax specialist.
- The tax specialist does all the explaining – i.e. they describe the tax planning options that suit the client's needs, explain all the pros and cons, including the risk-reward trade off, and answer all the client's questions.
- The tax specialist will also do all the "selling" – although this tends to be very soft sell, since the potential tax savings are usually large enough to make it a no-brainer for many clients.
- Where the client wants to go ahead with a piece of advanced tax planning the tax specialist agrees a value-based fee with the client – typically 25% of the tax that will be saved.
- The tax specialist enters into a separate engagement with the client, does all the technical work and bears all the engagement risk (so the time cost for the practice is generally negligible).
- The tax specialist will already have signed a "no poach" agreement.
- As a result, client service is improved, and clients end up with very much lower tax bills than they would have done if the practice had not set up these strategic alliances.

The tax specialist never charges the practice a single penny for this type of arrangement. Instead they actually reward the practice by paying them a "payaway":

- These payaways are fully disclosed to the client and retained under the terms of their engagement letter – so they fully comply with all relevant professional and legal requirements.
- Payaways will typically be 10% to 40% of the fee paid by the client to the tax specialist. And given that the tax specialist will generally charge the client 25% of the tax saved, the accountant will typically earn payaways equal to 2.5% to 10% of the tax saved.
- As a result payaways are rarely less than £2,000 per participating client. And they are usually in the range of £2,000 – £20,000 per client. So across a client base the total fee potential can be very substantial indeed. For example, we are aware of many practices earning well in excess of £100,000 in payaways a year. And we are even aware of firms that have earned over £100,000 in payaway fees from a single client. These fees are invariably very much higher than the firm would have earned under the traditional "do all the work and take all the risk" business model.

As a result clients get the very best tax planning advice and support, their tax bills are very much lower, and the practice earns substantially higher fees. In addition, the time costs involved in generating these fees are very small.

Important note

We have focussed on advanced tax planning since that is the area where we see the most firms forging successful strategic alliances. However, the principles apply equally to any area where clients have a major need, but your practice doesn't have the in-house skill/capacity to meet that need brilliantly well.

Key thoughts:	What else should be specifically included and excluded from your engagement letters? What other profitable strategic alliances should your firm forge in order to ensure that clients get access to the best possible solutions?

Which 3 actions will you take to give clarity to your engagement letters and to forge profitable strategic alliances?
1.
2.
3.

Better tax planning systems

Interestingly, the survey reveals that there is near unanimity in every part of the profession that "most clients want to pay the legal minimum amount of tax".

To be precise, 98% of Stars said that most of their clients want to pay the legal minimum amount of tax, and 97% of Laggards said the same.

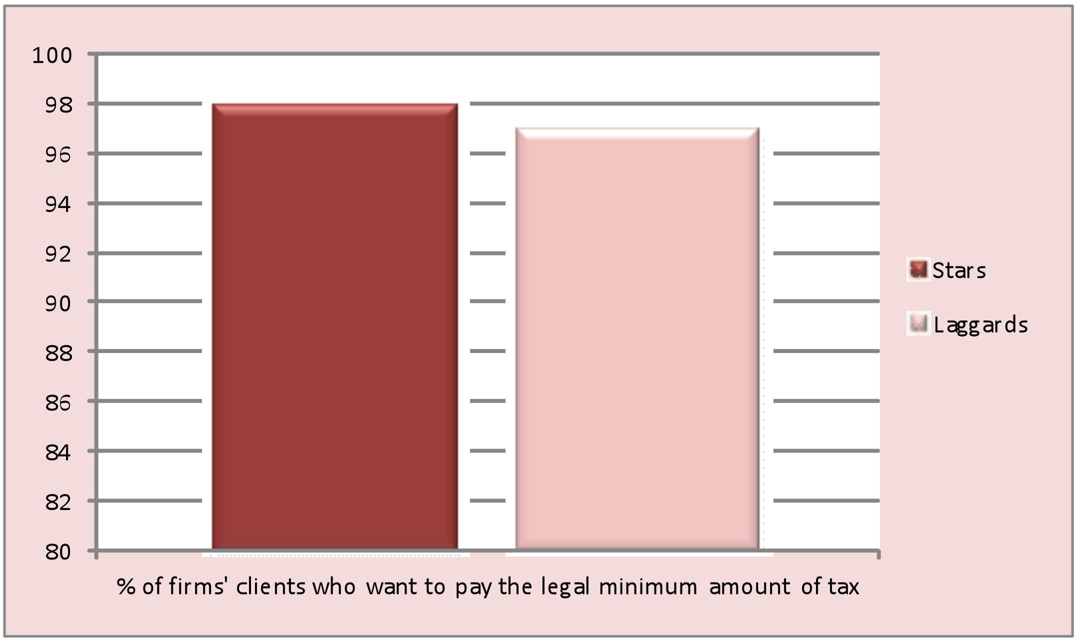


Figure 9

So it is crystal clear that accountants have a duty to help their clients to do exactly that. And that, of course, means leaving no stone unturned in their quest to provide better tax outcomes.

It is therefore both alarming and wholly unacceptable that:

- Accountants are making mistakes on around half of all their clients' affairs - and that a great many of these errors and omissions are tax related (see section on spotting more mistakes above)
- Some accountants are not forging strategic alliances with third party tax experts – preferring either to meddle in tax issues beyond their competency or to leave their clients high and dry without any advice in certain key areas (see example of how Star firms work with third party experts above)
- A high proportion of Laggards are creating confusion and misunderstanding by staying silent on key tax issues in their engagement letters (see section on better engagement letters above)

Other research suggests that, in addition to rectifying the shortcomings described above, best tax practice includes having robust systems to:

- Identify <u>all</u> the key tax issues and opportunities facing clients
- Quickly quantify the approximate magnitude of their impact – e.g. using software to estimate the tax savings from incorporating, capitalising goodwill, and extracting profits in the most tax efficient ways
- Communicate all of this clearly, effectively and concisely to clients so that they "get it" and are able to make informed decisions about their tax options
- And to do all of this proactively for every single client, every single year – not just for some clients some of the time

Key thought:	How can you become better at identifying all the key tax opportunities, quantifying the impact and helping clients to make fully informed decisions?

Which 3 actions will you take to improve your tax planning systems so that they benefit your clients and your practice?
1.
2.
3.

Better marketing systems

The survey did not attempt to evaluate every aspect of the marketing carried out by accountancy firms. Instead it concentrated on what is probably the most rapidly growing form of marketing – social media.

The results contain a few surprises. When asked whether they saw the various kinds of social media as big marketing opportunities, the answers were as follows:

	Seen as a "Big opportunity" by this % of Stars	Seen as a "Big opportunity" by this % of Laggards
LinkedIn	88%	93%
Twitter	63%	52%
Facebook	55%	53%
YouTube	52%	37%

Table 3

What is not surprising is that:

- LinkedIn is seen as presenting the biggest opportunity by everyone
- All four main types of social media are seen as big opportunities by most of the profession

The first surprise is that LinkedIn is seen as more of an opportunity by Laggards than it is by Stars. However, this is probably merely reflecting the findings in the book "The UK's best accountancy practices", which revealed that the best firms have already made a lot more connections on LinkedIn and also received a lot more recommendations there. And if the best practices have already extracted a great deal of marketing value from LinkedIn, it is perhaps understandable that they are slightly less excited about its scope to do even more for them. In contrast, the firms that have yet to get properly started with LinkedIn are perhaps anticipating more quick wins and low lying fruit.

The second intriguing result is that the two groups differ most over their assessment of the usefulness of YouTube: with 52% of Stars seeing it as a big opportunity, compared to only 37% of Laggards.

We suspect this reflects the fact that using video well takes more time, effort and skill than typing a few words into a tweet, LinkedIn forum or Facebook page, and requires more investment too. And also that creating a successful YouTube channel, for example, will probably take more of a long term commitment. Whilst the Stars seem to be up for the challenge, and willing to make the necessary investment, the Laggards do not.

However you interpret these results, two things are clear: social media is not something than can be ignored, and those firms that create the best systems to make the most of it will have a major marketing advantage.

Case Study: Stuart Ramsay – Making social media work

Stuart is a sole practitioner who employs 3 people at Accountancy Extra in Halifax, West Yorkshire (established July 2007).

This is a great example of how a sole practitioner can integrate social media into his practice's planning strategy. Stuart has had a large amount of success with social media, and particularly LinkedIn and Twitter, which has led to a number of new clients, a much improved relationship with his current clients and has also provided him with a platform to share best practice with other accountants across the UK. Here are a selection of Stuart's thoughts on how accountants can utilise social media (this is taken from the video 'Social media: an accountant's perspective' which can be found on the AVN YouTube channel at www.youtube.com/avnteam):

"I think social media is a very successful route for marketing for accountants, but: you have to use it properly, you have to use it in the right way, you have to be committed, in the same way as you would be at an offline networking event."

"There's no point joining up, creating a LinkedIn profile and then connecting with people and doing nothing with those connections. It's a little bit like walking into a networking event and me shoving a business card into someone's hand and then walking away. We'd have nothing of a relationship from it so you're not going to gain any business that way. Similarly, if I shoved a card in your hand and then started spamming you with sales messages, you're going to very quickly walk away from me at a networking event. The same rules apply with online networking (social media) as they do with offline networking, face-to-face events."

"With LinkedIn, the power for me is not just with the connections you've got, but it's in collecting the testimonials on your own profile and in using the groups. I've got a lot of benefit out of joining in local groups, specialist groups, groups where my potential clients will be hanging out and just getting involved, entering discussions even if they're not to do with accountancy."

“As well as finding new potential clients, both LinkedIn and Twitter have been a great way for networking with other like-minded accountants; gaining new ideas, thoughts, insights into what works for them and what works for me. Just sharing really and that way we can all improve.”

“My presence on all social media is me as an individual and I do that because I believe if I went to a networking event it would be me that would be talking to people. So my view is that online I take that same persona and it’s me that people are buying into and interacting with, rather than a corporate identity.“

“Twitter has proved quite interesting really, because I have found that people will post on there looking for an accountant and an existing client will go on and say “talk to Stuart, we use him and we find him really good” and then all of a sudden they can ‘tyre kick’ you before having to really interact with you in the real world. So that’s proved quite a gentle introduction to prospective clients before they ever have to pick up the phone and talk to us.”

“On average each week I probably spend somewhere around 5 hours on social media. I probably split 50-50 between LinkedIn and Twitter (about half an hour a day on each). LinkedIn tends to be all in one go – I’ll have a look at what’s going on in the groups that I’m a member of and post anything on there that’s relevant. Twitter tends to be three or four 10-15 minute chunks throughout the day.”

“A lot of my clients are on LinkedIn and Twitter – I find it very useful that I can send out the odd tweet and a client will respond and we can just have a very brief ‘conversation’, whereas before there would have probably been an exchange of emails or a phone call. So a lot of my clients like it because it’s live, it’s there and they know they can just move on and do the next thing.”

“With regard to clients being on LinkedIn, I think the testimonials are really quite a powerful part of that, and I do make it a rule to ask clients for testimonials on a regular basis, and we’ve won a lot of new business through having the testimonials on my LinkedIn profile.”

“If I was talking to someone who was sceptical about it, I’d say have a go and see how it works for you, but be committed and do it properly. You can’t just join up and expect a flood of new business to come your way because you’ve got a profile on LinkedIn or you’ve sent a few tweets out about the latest Budget update; you’ve got to get on there and you’ve got to interact with people, just in exactly the same way you would if you were a member of a breakfast networking club or a lunchtime networking club – treat it exactly the same way and you’ll get benefits from it.”

Key thoughts:	How well is your firm currently using social media? Are all your key people at least using LinkedIn to obtain testimonials, make new connections and nurture existing contacts? And what new social media initiatives can you test?

Which 3 actions will you take to improve the effectiveness of your social media use?
1.
2.
3.

Better accounts systems

NB: The research in this section was not part of the main survey, but was carried out alongside it with a separate group of practitioners.

A few years ago Steve Pipe surveyed 250 accountancy firms and found that 73% of their partners (i.e. the people who make their living producing annual accounts) acknowledged that there are at least five fundamental flaws in annual accounts.

This year he repeated the survey with over 100 additional partners and found that nothing had changed.

Of course, 73% of accountants are not saying that accounts are wrong, don't add up or don't fully comply with all the relevant laws and reporting standards. What they are saying is that annual accounts are of little or no use to the businesses that are forced to pay for them since they don't give business owners the information they really need to drive their businesses forward.

More specifically, in the survey accountants said that annual accounts are fundamentally flawed because they:

- Don't make easy reading
- Don't show how well a business is doing compared to others in the industry
- Don't identify strengths and weaknesses
- Don't identify the scope for improvement
- Don't support decision making
- Don't show all the numbers that matter
- Too many of the numbers they do include are based on judgement
- Most of the numbers are seriously out of date by the time anyone sees them

Some accountants believe that this is not their problem. After all, they argue, they are producing fully compliant accounts, so why should they do more? The answer is simple… to stop there is to let clients down. Businesses deserve and need more from their accountants.

Many accountants are already rising to this challenge by adding a "Financial Performance Review" to their accounts – i.e. a plain English supplementary report containing graphs, ratios, sensitivity analysis and commentary.

And others are also adding benchmarking information to their accounts – most usually in the form of a supplementary plain English report that explains how the business compares with others in its industry, its key financial strengths and weaknesses, how much additional profit the evidence shows they are missing out on, and how they can reclaim those missing profits.

These sorts of reports can be produced in minutes using the new breed of practice support software now readily available. And not only do they deliver new insights and real value to clients, but these new reports also differentiate the accountants producing them. As a result they make it much easier for firms to win new clients, keep existing clients and charge premium prices.

Worthwhile as these two supplementary reports are, in our opinion they do not go far enough.

We believe the profession needs a completely new type of Performance Measurement and Improvement System ('PMI System') that follows on from where traditional accounts leave off.

This new PMI System approach builds on what accountants have always done – but starts where traditional accounts finish. And essentially it is an eight step codification of best practice.

PMI – The 8 steps to best practice for business owners

Step 1 Decide what you want to achieve in the year – i.e. take your goals and plans and turn them into forecasts and budgets.

Step 2 Measure how well you actually perform each month – using a combination of traditional management accounting information and other key performance indicators, so that you have your finger on the pulse of everything that matters. And then use that information to fine-tune your action plans.

Step 3 Measure your full year's performance – by producing full financial accounts at the end of the year, as required by law.

Step 4 Evaluate your performance by comparing to previous years – so that the underlying trends are crystal clear.

Step 5 Evaluate your performance by comparing it to the rest of your industry – using benchmarking to identify your strengths and weaknesses.

Step 6 Estimate how much your business is worth – so that you can assess how well you are creating value.

Step 7 Calculate how much more profitable and valuable your business could be – use everything you have learned about your own performance and the performance of others to estimate how much more successful your business could be.

Step 8 Develop a performance improvement plan – i.e. an action plan setting out precisely what you are going to do to improve your performance.

Of course, some accountants will argue that they help their clients in these eight ways already – and that may be true. But our view is that it is not good enough to be doing it some of the time for some clients. We have to start doing it all of the time for every single client, because every single client deserves this sort of input, guidance and support (suitably tailored to their level of financial sophistication, of course).

All really successful businesses recognise that the traditional profit and loss account and balance sheet does not give them enough information to really drive their businesses forward. Therefore, all really successful businesses also measure other Key Success Drivers (also known as Key Performance Indicators or 'KPIs'), so that they can really understand what is happening while there is still time to do something about it.

Example

The only information traditional management accounts give about sales is the value of invoices raised. But for many businesses that kind of backwards looking "lag indicator" is not very useful for understanding what is already happening, or predicting what will happen next.

Much more helpful for managing sales are Key Success Drivers such as the number of sales leads, the conversion rate from lead to sale and the size of order books.

So most successful businesses now systematically map out and measure those kinds of Key Success Drivers too.

When you think about it, just about everything that really matters in a business can be measured by a number.

Some of those key numbers may be obvious, such as the number of customers, sales, profits and your tax bills.

Some of the key numbers are a little less obvious, such as how many hours you have to work a week, and how many weeks holiday you can take a year.

And some of the key numbers can only be measured on a more subjective 1-100 scale, perhaps including customer satisfaction levels, team morale and your personal happiness.

But everything that matters can be measured by a number. And, here's the really important part, we have never met a business that doesn't want to change some of those numbers – whether it's the number of hours they work, the number of customers they have or the number of pound notes they have in the bank. Every business wants to change the numbers.

So in our opinion that is what accountants should be doing… using their skills with numbers to help clients measure and change (i.e. improve) the numbers that matter. In fact, to us it is what accountancy actually means – changing the numbers. Not through creative accounting, of course. But by using our understanding of what lies behind the numbers to help bring about real change.

And that is why the 8 step PMI System approach is so valuable to clients – because it helps businesses understand and change the numbers that really matter to them.

It is also why it is so valuable to the accounting profession – since it builds on our measurement skills, and applies them to the areas where clients really need help. The areas where clients can't do it themselves by pressing a button in Sage or outsourcing to India.

So it creates an exciting and profitable new role for the profession. A role that really makes a difference. A role to be proud of.

Better pricing

Star firms' clients are less price sensitive

As the figure below illustrates, the Stars believe that 20% of their fees come from price sensitive clients compared with 24% for the Laggards.

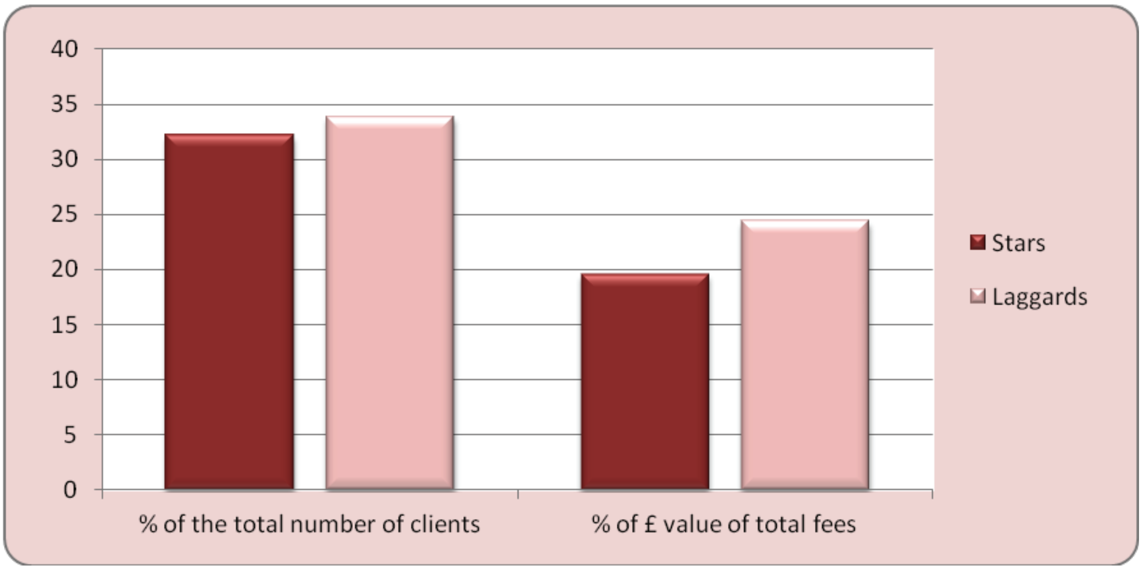


Figure 10: % of clients who are highly price sensitive

One of the possible reasons for this is that Star firms have better client selection criteria. Another is that they are better at explaining the value. Alternatively, of course, since the difference between 20% and 24% is small, it may merely be a quirk of the data.

What is particularly interesting from the survey is what the contributing firms listed as the characteristics of price sensitive firms. A handful of respondents said that their price sensitive clients tended to be successful, low maintenance and quick payers. However, the vast majority painted a very different picture, describing price sensitive clients as:

- difficult and demanding complainers,
- with small and unprofitable businesses and little loyalty to the practice,
- who lacked vision,
- had no desire to grow,
- were only interested in compliance services, and
- who were not a good source of referrals.

The figure below shows these findings graphically:

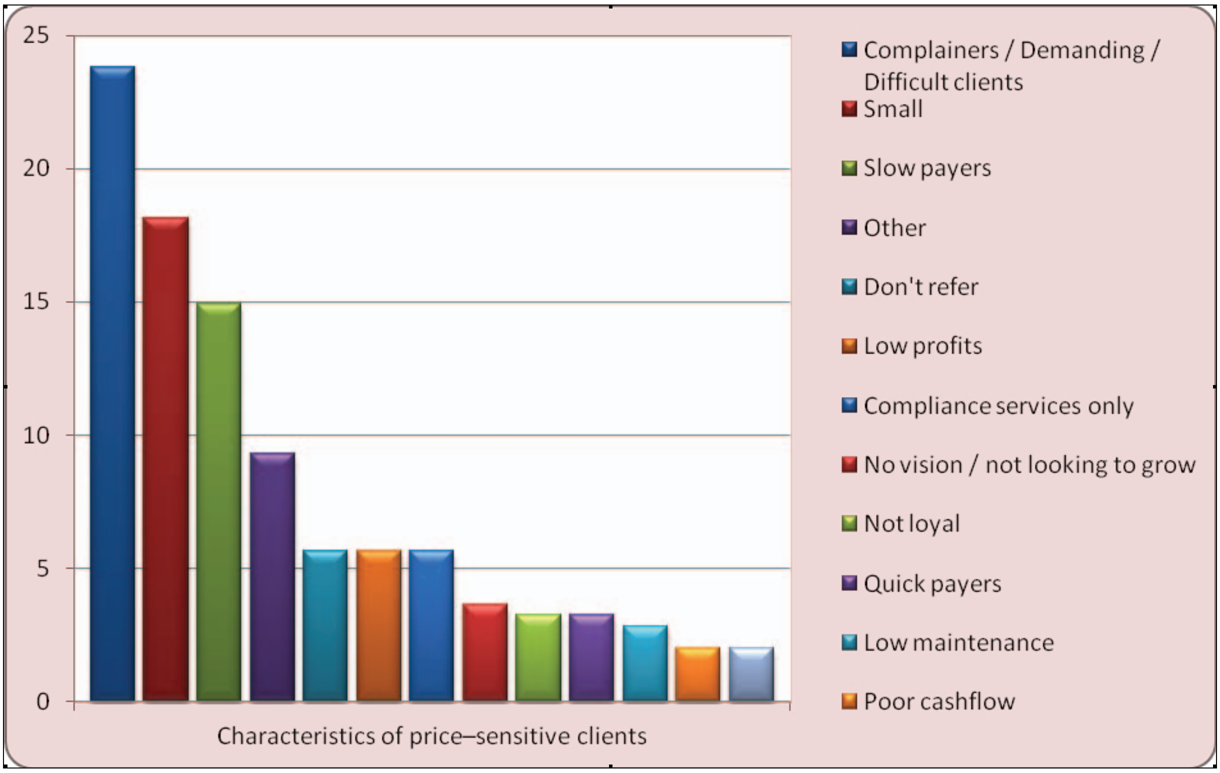


Figure 11: Characteristics of highly price sensitive clients

This provides us with a clearer picture than ever before of what a price sensitive client normally looks like.

Most people buy based upon value and not price

It is widely accepted that one of the keys to building a more profitable accounting practice is to only act for clients who appreciate the value you bring and who buy based on that value and not price.

Therefore we would suggest that clients who exhibit the characteristics in the above analysis are not ideal clients. If you have clients with these characteristics you should either have a conversation with them about the value you can bring to them (since they might not be price shoppers, they might instead just not yet have appreciated the value they get from you), or – if they are genuine price sensitive clients, rather than value sensitive – find ways to manage them out of your practice.

Key thoughts:	How profitable are your price sensitive clients when you take into account the time and resources they consume? How many of your existing clients fit your ideal client profile?

Which 3 actions will you take to either upgrade or manage out your genuinely price sensitive clients?
1.
2.
3.

Star firms have found better ways to price their services

There are a number of different ways to price. The traditional way of pricing in the accounting profession has been time-based pricing. Fixed pricing (e.g. unit pricing) and value pricing (e.g. results pricing and contingent pricing) are the other primary methods. There are also many variations of these such as blended hourly rates, fixed price plus hourly rates, retrospective pricing and so on.

Figure 12: How fees are calculated

The survey results show that:

- 23% of the fees earned by Stars are based on time costs, compared to 41% of Laggards.
- 71% of the fees of Stars are agreed in advance and fixed, compared to only 50% of Laggards.
- 12% of the fees of Stars are value based, compared to only 8% of Laggards.

(Some methods of calculating prices are not mutually exclusive hence the apparent discrepancy in total fees for Stars)

In other words, the Stars are more inclined to give fixed prices in advance and are more likely to use value pricing rather than time-based pricing.

Based upon our own research over the last 10 years and the teachings of people like Ron Baker, it is our view that there is no place in the accounting profession for time-based billing. Time and time again we have seen that value pricing – when done correctly – is a far superior way of truly capturing value and properly rewarding the accountant.

Key thought:	What kind of pricing would your clients prefer?

Which 3 actions will you take to improve the effectiveness of your pricing strategy?
1.
2.
3.

Star firms are better at getting paid

74% of Stars wanted to reduce their 'lock up' (i.e. work in progress and debtors), compared to 84% of Laggards.

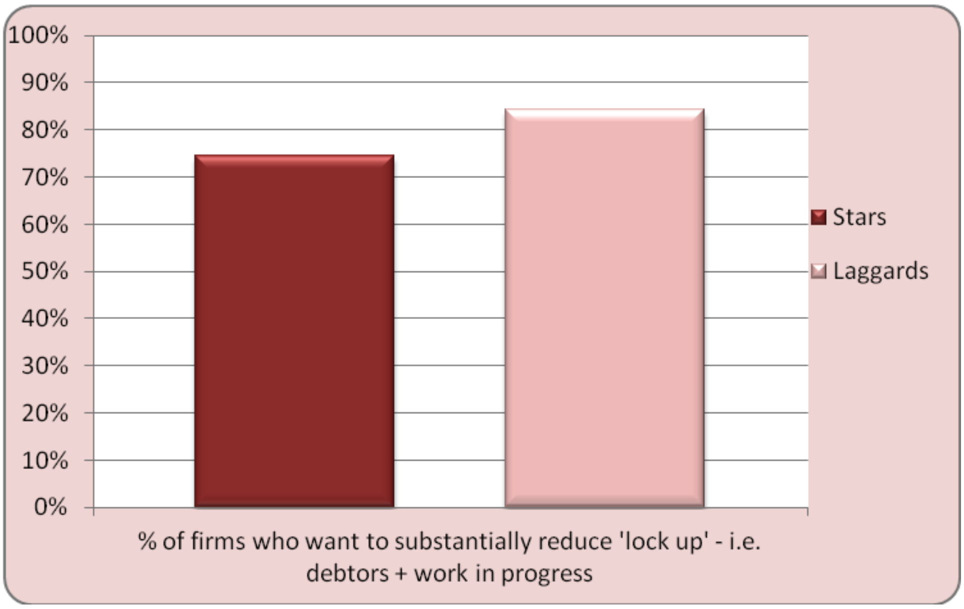


Figure 13

This suggests that Star firms are better at managing their working capital. In fact, we know from benchmarking that the average debtor days figure for UK accounting firms is 70.8 days and yet the top quartile of firms get this down to less than 46 days (see Appendix 2). Even worse, the bottom quartile have debtor days of at least 93 days, and at some firms the figure is over 200 days! So clearly there are very real differences between the performance of firms in this area.

One of the keys to this is indicated by another telling finding from the survey; 30% of Stars' fees are collected by standing order, compared to only 21% for Laggards and 23% of Stars' fees are collected by Direct Debit, compared to only 8% for Laggards.

Figure 14

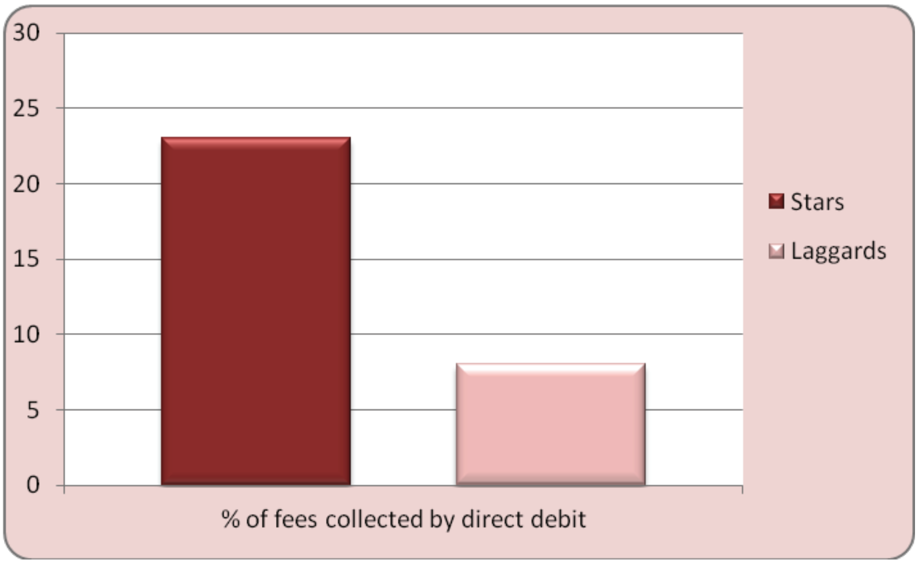


Figure 15

In other words, the Star firms have found better ways of getting paid. Getting paid by Direct Debit is arguably the best way of getting paid, because the whole process is automated. And unlike standing orders, the amounts can be varied.

What is more, the fact that a great many firms are already using Direct Debits means that the rest of the profession can no longer hide behind excuses such as "accountants can't use direct debits" or "businesses aren't willing to pay that way."

Key thoughts:	What is the debtor days figure for your practice? What payment methods could you use that you aren't already offering your clients?

Which 3 actions will you take to reduce debtor days and get paid more quickly?
1.
2.
3.

Stars and Laggards both want to earn higher average fees

Almost every firm of accountants we speak with wants better clients. And by 'better clients' they usually cite one or more of the following characteristics:

- Clients who are either corporate clients or high net worth individuals
- Clients whose businesses are growing
- Clients who are open to added value services such as tax planning and profit improvement advice
- Clients with higher fees

To attract these sorts of clients – sometimes referred to as 'jewel-box' clients – we have to become better at giving these clients what they want. These sorts of clients typically want more meetings, more help, more advice, and access to advanced tax planning and profit improvement help.

What they <u>don't</u> want is a cheap accountant!

They appreciate value and they will pay for value.

And since 93% of Stars and 91% of Laggards said that they wanted to increase the average fees they earn per client, it is clear that both groups need to focus even more determinedly on doing the things that clients see as sufficiently valuable to justify paying higher fees.

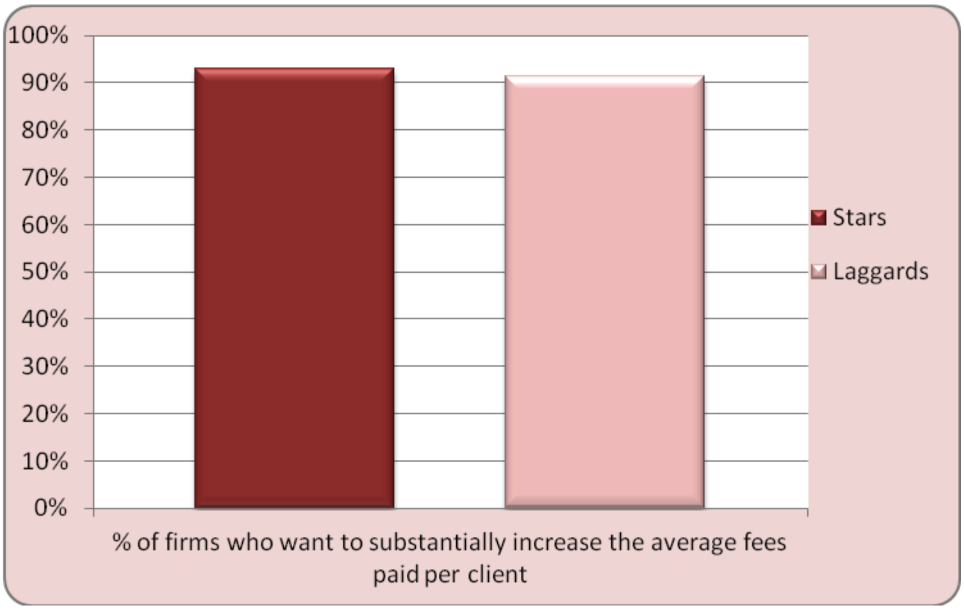


Figure 16

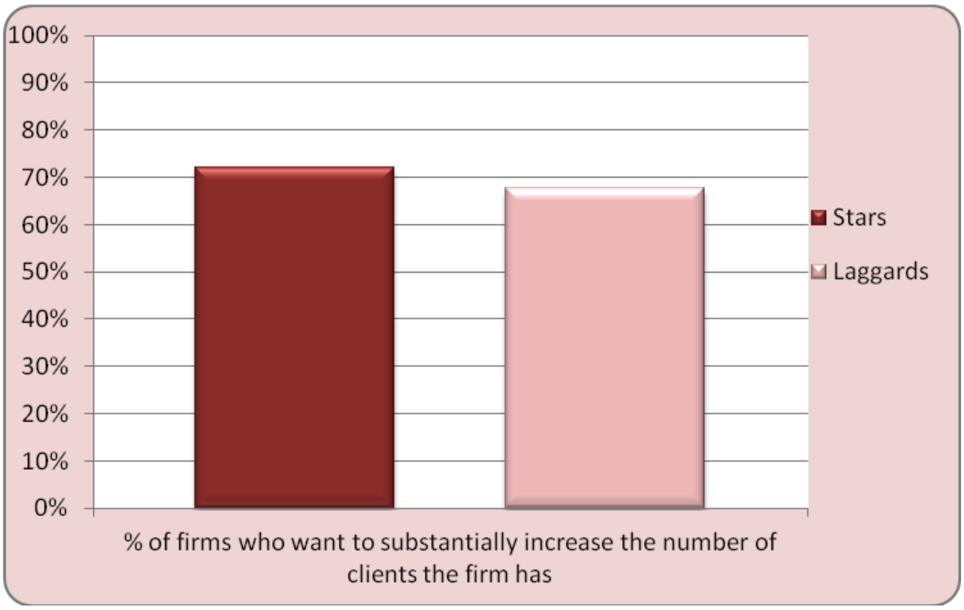


Figure 17

Much the same point applies to the related finding that 72% of Stars and 68% of Laggards want to attract more clients. In order to attract more clients at higher fees both groups need to make themselves more attractive by (a) doing more of the things good clients really want, and (b) communicating the fact more effectively through their sales and marketing systems.

Key thoughts:	How many of your existing clients fall into these categories? What could you do to increase the value of your offering to them and thus increase the fees they pay?

Which 3 actions will you take to justify higher fees and attract more 'jewel-box' clients?
1.
2.
3.

Star firms don't compete on price

As the figure below illustrates, only 7% of Stars are worried by the threat from unqualified and cheap accountants, compared to 25% of Laggards.

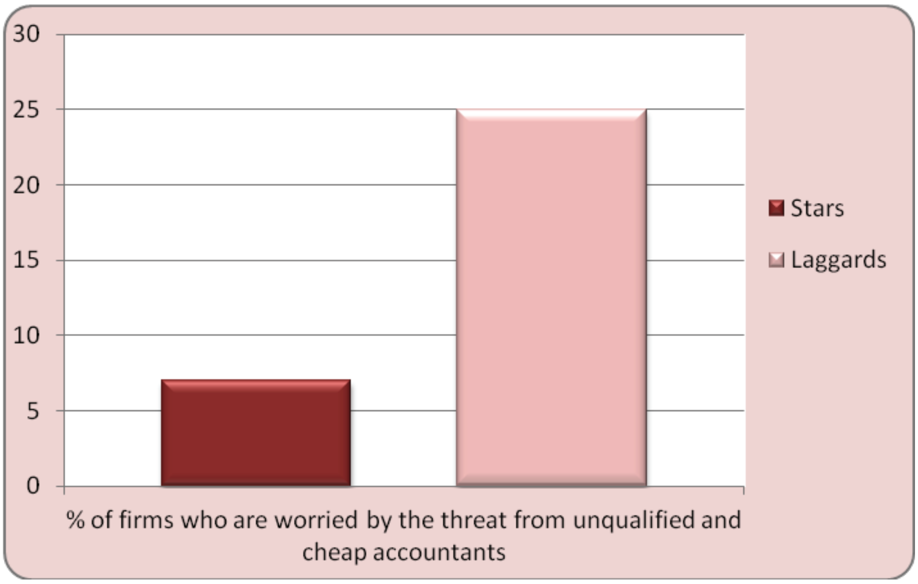


Figure 18

There are many unqualified and cheap accountants out there. They're cheap because they know the value of what they do.

It's great news that they are out there! They will happily take your price sensitive clients off you... those clients that do not fit your ideal client profile.

Don't worry about those unqualified and cheap accountants. And don't compete on price. It's a dangerous game.

Instead focus on your ideal clients. Focus on adding more value to the right clients. Focus on better explaining the value to those clients so that they fully understand the benefit to them of what you do. And focus on linking your price to the value so that you are able to charge premium fees.

It's a proven formula for building a more profitable accounting practice.

Key thought:	How do you communicate the value of your services to clients and prospects?

Which 3 actions will you take to add more value to your ideal clients?
1.
2.
3.

How bad pricing leads to harmful compromises

Not charging enough leads to three types of harmful compromise…

Compromised financially – Either the practitioner settles for earning less, which means that they and their family's financial security and prospects are compromised and harmed. Or,

Compromised personally – The practitioner attempts to rectify matters by working longer hours and doing more of the work himself, rather than paying others to do it – which compromises and harms his life-work balance, the time he is able to spend with his family, and perhaps even his health. Or,

Compromised client service – The practitioner cuts corners on service in order to keep things "within budget" – compromising and harming the interests of his clients.

Sadly, the evidence suggests that practitioners are being forced to make all three of these compromises, and as a result they, their families and their clients are all losing out. For example:

1. **Financial compromises evidence** – Evidence elsewhere suggests that over half of all accountants are making what economists would regard as losses. Which is presumably why 92% of Laggards in this survey are not happy with their results.

2. **Personal compromises evidence** – 2010 research by the Chartered Accountants' Benevolent Association found that 82% of accountants suffer from stress, 77% think they work too many hours, and 71% say that their life-work balance is a problem. In addition, in our survey 70% of Stars and 62% of Laggards said they wanted to improve their life-work balance. Therefore it is clear that the majority of practitioners are working too hard, and that for the sake of their health and happiness they need to find better ways of running their businesses. It would also appear that some Stars are achieving their success by working harder rather than working smarter.

3. **Service compromises evidence** – March 2010 research by CCH found that 36% of clients are not highly satisfied with the tax service they get from their accountants. In addition, of course, we saw earlier in this survey that 65% of Laggards recognise the need to improve client service, and that service failures appear to be costing clients a staggering £1.8 billion.

Why the profession must stop being cheap

The biggest cause of not earning enough is not charging enough. It really is that simple. After all, on a job by job and client by client basis, profit is the difference between what you charge and what it costs.

Similarly, the biggest cause of not delivering excellent service is not charging enough – since if there isn't a big enough fee, there won't be a big enough budget to serve the client properly.

Generally most accountants have got a pretty good handle on their costs, but it's the pricing side that really messes things up for them.

And when they charge higher prices, things get better.

"But surely", you'll say, "we can't charge more than the market price, can we?" The answer to which is a resounding "yes you can", because of the following incredibly liberating fact...

There is no such thing as "the market price" for accountancy services

There is no such thing as the market price in theory. And the evidence shows that there is also no such thing in reality either. Let me explain.

Economists tell us that in a perfect market (i.e. where there are a large number of suppliers selling identical products, with no switching costs, to consumers who have perfect information and make perfectly rational choices) there will be a single market price. But it is crystal clear that accountancy is nothing like that type of textbook perfect market.

In the market for accountancy services: most firms have their own ways of doing things; service is all about people, and clients can only get your people from your firm; clients rarely have the skills or information to properly compare and contrast different firms; and there is little transparency over pricing. Consequently decisions to appoint and sack accountants are often inevitably made on emotional rather than perfectly rational grounds.

And in that type of market, according to economists, there will be no such thing as the market price. Instead what we should see is that prices are set by accountants not by the market, and that as a result there will be very big differences between what different firms charge.

Tellingly, that is exactly what the October 2010 study of the prices actually charged by 180 UK small independent accounting practices found: very big differences between what different firms charge.

For example, when looking at the price charged for two common services offered by almost every accountant, the study found that the top half of firms successfully charge around twice as much as the bottom half, as the following table shows:

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

Table 4

Source: *"Your blueprint for a better tax practice" – Steve Pipe FCA and Mark Wickersham FCA – Survey of 180 independent UK accountancy practices – October 2010*

The table focuses on two particular types of services, but the findings were the same for all the services studied by the research team. And the conclusions are crystal clear:

1. There is no single market price for any service provided by accountants
2. Instead the prices charged are spread evenly over a VERY wide range
3. The top half of firms successfully charge around twice as much as the bottom half

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

We must stop complacently and mistakenly believing that there is a single price set by the market.

We must recognise that we are solely responsible for our prices. We must start to rise to the challenge of charging more by pricing properly. And we must stop taking the easy option of "last year's fee plus inflation", since that just means we keep repeating the same mistakes year after year.

But surely, we frequently hear firms respond, not every client is willing to pay big fees.

That statement, however, is both factually correct and irrelevant.

It doesn't really matter whether every client is up for it. The only thing that matters is whether ENOUGH clients are up for it. And that is a question of simple mathematics.

Obviously we have no idea what your P&L account currently looks like, so we can only do the maths for the average partner, and leave it to you to replace these averages with your own numbers.

The average partner's P&L account

	Before price increase	After increasing prices by 20% and losing 10% of clients	*Note 1*
Fees	£247,000	£266,760	*Note 2*
Costs	£169,000	£155,480	*Note 3*
Profit	£78,000	£111,280	

Table 5

Note 1: *There is nothing magical about the 20% and 10%. They are merely mathematical examples and are not recommendations or benchmarks.*

Note 2: *Most firms find that they lose much less than 10% of their clients when they increase their prices by 20%, but we have assumed a 10% loss for prudence.*

Note 3: *In the medium to long run most practice costs are variable (i.e. you can move to bigger or smaller premises, and employ more or fewer people as the size of the practice changes). So as the practice loses 10% of its clients and workload it will, in due course, be able to shave 10% off many of its costs. But to be prudent we have assumed they are only able to reduce costs by 8%.*

As the maths above show, if the average partner were to increase prices by 20%, and as a consequence lose 10% of clients, then they would end up being £33,280 a year better off. Which over a 25 year career adds up to an extra £832,000 in profits for the partner and his family.

And provided he doesn't lose more than c. 30% of his clients, then he will still be financially better off after the price increase.

Better still, not only would the average partner be £832,000 better off, but they would also have a better life-work balance – since with fewer clients they won't have to work so hard or so long, and will get more time off to enjoy all their extra money.

But isn't charging more "ripping clients off"?

No. No. No.

BMW aren't ripping your client off when they choose to buy one of their cars for two times the price of a broadly similar Ford. Starbucks aren't ripping your clients off when they choose to buy a cup of coffee at twice what they could pay elsewhere, and 10 times the cost of making it at home. And the local private school isn't ripping your clients off when they choose to send their children there rather than to the local comprehensive.

The point is this: your clients are always choosing to pay more than the bare minimum for things – provided that they believe they are worth paying more for.

If they choose to accept your higher prices that is because they feel your services are worth paying more for – just as all those clients of the firms in the top half of ***Table 4*** feel that their accountant's services are worth paying more for than those in the bottom half.

On the other hand, if they choose not to accept your higher prices that is giving you hugely useful feedback – i.e. that your clients do not believe you are worth the extra money. And once you know that you can, of course, start working out what you are going to do about it.

But, either way, how can you possibly be "ripping them off"? In fact, to suggest that it is ripping clients off is tantamount to treating them as morons.

Clients aren't stupid. They know what's what. They know what they want. And they know they are in the driving seat.

You can't hoodwink them. And they don't suffer fools gladly.

So, if we believe that when they agree to pay a bigger fee to firm X than they could have paid to firm Y, firm X is ripping them off, we are insulting them. We are, in effect, calling them stupid for paying more, and saying that they don't make good business decisions.

We would never dream of criticising them in this way for choosing to buy a more expensive car, house or education for their children. So how dare we criticise them when they choose to pay more for accountancy services that they really value?

The bottom line is clear… if you want to serve clients better, and earn more for yourself in the process, you need to work out how to charge more.

Key thought:	What could you do to increase perceived value in the eyes of your clients?

Which 3 actions will you take in order to be able to charge higher prices?
1.
2.
3.

Better team engagement

Getting the right people on the bus

Research from many quarters over many years consistently shows that the people who make up an organisation are one of the most significant factors in that organisation's success or failure. Everywhere from the biggest global corporation to the smallest accountancy firm, the attitude, engagement and happiness of the team are as crucial as the products and services provided and the prices charged.

In his 2001 book *Practice What You Preach*, David Maister showed that the correlation between a firm's performance and the attitudes of the team is unmistakeable. The most financially successful businesses do better than the rest on virtually every aspect of employee attitudes, and those that do best on employee attitudes are measurably more profitable.

Even more significantly, Maister's research shows that it is attitudes that drive financial results, not the other way round. So much so, in fact, that a 10 to 15% increase in the scores given by employees to the elements of employee satisfaction result in a 42.06% increase in financial performance.

What our survey shows is that when it comes to creating the right team, from the recruitment process onwards, the Stars don't leave it to chance. 36% of Stars use personal profiling (such as the DISC system or Myers Briggs) when recruiting new team members, compared to only 14% of Laggards.

Figure 19

There are many misconceptions about personal profiling, but in essence it helps you to understand the different types of behaviour you will see amongst team members, and discover how to communicate better with them as a result. There is no ‘good’ or ‘bad’ profile and the most effective teams will include a well balanced mix of different types. Traditionally, recruitment is often done by instinct (not to mention first impressions) and it can be tempting to recruit on a PLU basis – i.e. recruiting ‘people like us’ – resulting in a team with similar strengths and weaknesses and therefore a more limited ability to adapt to changing circumstances and new opportunities.

As pretty much anyone in business will testify, the costs of recruiting the wrong people are high. As well as financial considerations (particularly if you use a recruitment consultancy) team morale suffers and you can spend a great deal of time trying to make the situation better and then even more time recruiting someone else if it doesn’t work out. Personal profiling reduces the risk, and expense, of getting it wrong.

In *Good to Great*, a study of 11 companies that outperformed the US stock market (by at least 3 times) over a period of 15 years, Jim Collins analysed the factors that were common to the success of all of them.

One of the key factors was that the executives ‘first got the right people on the bus (and the wrong people off the bus) and then figured out where to drive it.’

Good to Great, Jim Collins, 2001

Putting proper recruitment systems in place also helps to reduce the risk of mistakes. An effective recruitment system will include not only the technical skills required for the job but also the type of person who will fit into the team as whole. As Jim Collins says ‘Whether someone is the ‘right person’ has more to do with character traits and innate capabilities than with specific knowledge, background or skills.’

Key thought:	How can you make the best use of personal profiling in your firm?

Which 3 actions will you take to ‘get the right people on the bus’ and build a well balanced team?
1.
2.
3.

Stars communicate their vision

The survey reveals more differences between Stars and Laggards when we look at how they engage with existing team members.

Tellingly, 74% of Stars have ensured that their entire team fully understands the owner's vision for the practice, compared to only 50% of Laggards. Without this understanding, it's impossible for team members to give 100% commitment; after all, they don't know where the practice is going and why, how they fit into the scheme of things or what contribution they can make.

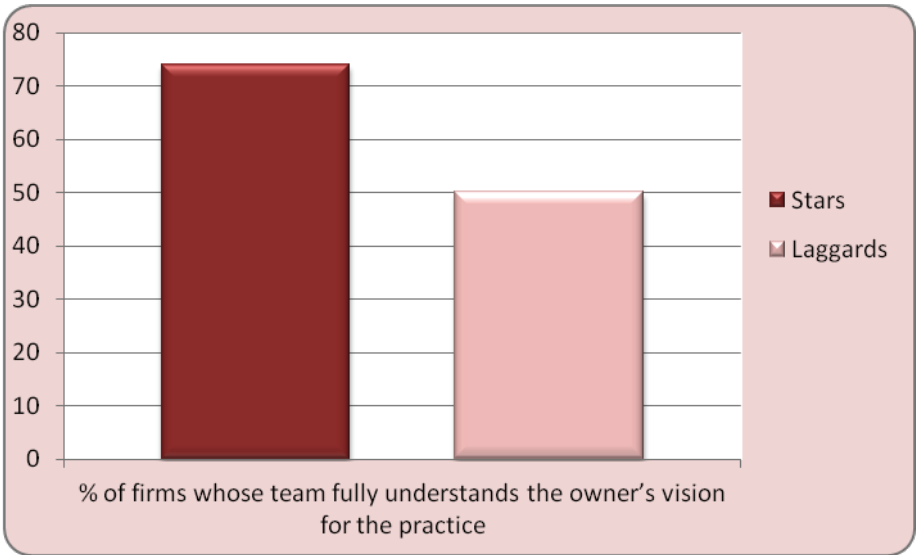


Figure 20

Again, Stars don't leave this to chance; they don't make the assumption that everyone knows what the vision is, they go out of their way to communicate it to the team. Team engagement levels are proven to play an important part in overall results and sharing your vision is key to bringing your team with you. The results that come from a strong team pulling together are always going to be better than one person trying to forge ahead by themselves, so this is something that cannot be overlooked.

In 2006 a Gallup poll of 23,910 businesses compared financial performance with employee engagement scores (where high scores mean that employees are committed to their organisation's goals and values, motivated to contribute to organisational success, and are able at the same time to enhance their own sense of well-being). They found that:

- Those with employee engagement scores in the bottom quartile averaged 31 – 51% more employee turnover, 51% more inventory shrinkage and 62% more accidents.
- Those with employee engagement scores in the top quartile averaged 12% higher customer advocacy, 18% higher productivity and 12% higher profitability.

A second Gallup study of the same year of earnings per share (EPS) growth of 89 organisations found that the EPS growth rate of organisations with engagement scores in the top quartile was 2.6 times that of organisations with below-average engagement scores.

Harter , J.K. et al (2006), *Gallup Q12 Meta-Analysis.* Gallup Organisation (2006). 'Engagement predicts earnings per share'.
Quoted in *Engaging for success: Enhancing performance through employee engagement* – David Macleod and Nita Clarke – Report to Government 2009. http://www.bis.gov.uk/files/file52215.pdf

Key thoughts:	Are you completely clear about the purpose and vision of your firm? How effective are you at communicating it to others?

Which 3 actions will you take to ensure that your entire team fully understand and buy into your vision?
1.
2.
3.

Stars share their KPIs with their entire team

Perhaps even more significantly, 76% of Stars share most of their Key Performance Indicators (KPIs) with the entire team, compared to 47% of Laggards.

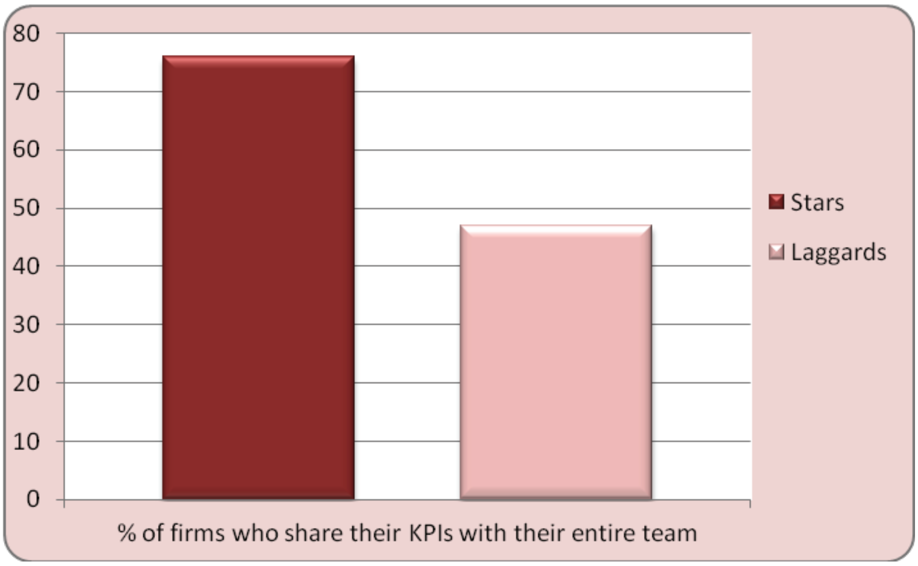


Figure 21

In firms where the team don't have access to this kind of information, they are quite simply working in the dark. If they don't know which processes and systems are successful and which ones are failing, how will they know where to focus their energies? Any improvements will be accidental rather than systematic. What's more, a culture of secrecy that leaves some team members feeling excluded is a breeding ground for rumour and bad feeling – a sure-fire way to reduce motivation and productivity.

Key thought:	Would your team make better decisions and take better actions if they understood more about your KPIs?

Which 3 actions will you take to make your entire team aware of the KPIs that matter to them?
1.
2.
3.

Stars measure non-financial KPIs

There is less of a gap in terms of measuring KPIs that don't come from a traditional set of accounts. 63% of Stars regularly measure such KPIs, against 57% of Laggards, indicating that there is a fairly widespread acknowledgement amongst accountancy practices that more than just the financial figures are important. For example, KPIs of team happiness (see next section below), team learning, number of prospect meetings and conversion rates are all likely to have a major influence on your results.

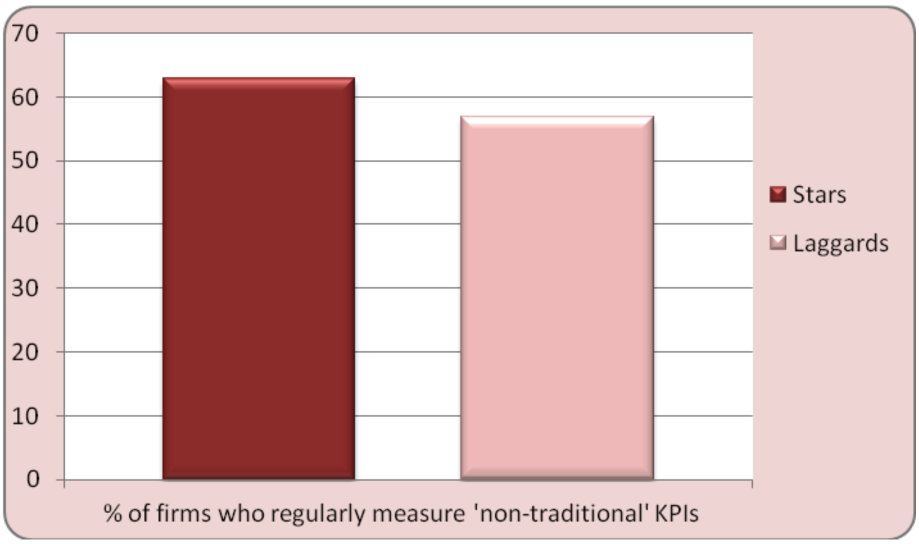


Figure 22

Where the Laggards fail however, is on following through and communicating this to their team (see Figure 21 above). If KPIs are worth measuring, they're worth sharing too. After all, they will have an impact on the entire team. To repeat David Maister's findings again, team attitudes affect financial performance, not the other way round

Key thought:	What additional KPIs could help your firm be more effective?

Which 3 actions will you take to identify and measure non-financial KPIs?
1.
2.
3.

Stars measure team happiness

In 2011, accountants responding to the survey for the White Paper: *The biggest challenges facing the accountancy profession over the next five years* (see Appendix 1) cited that getting, keeping and motivating the right team was one of their key issues.

It is a long standing complaint – whatever the economic climate – that finding the right people and then hanging on to them is very difficult to do.

Once again, in the Blueprint survey the Stars demonstrated that they take action on team welfare, with 57% measuring the happiness of their team daily, weekly or monthly, compared to only 31% of Laggards.

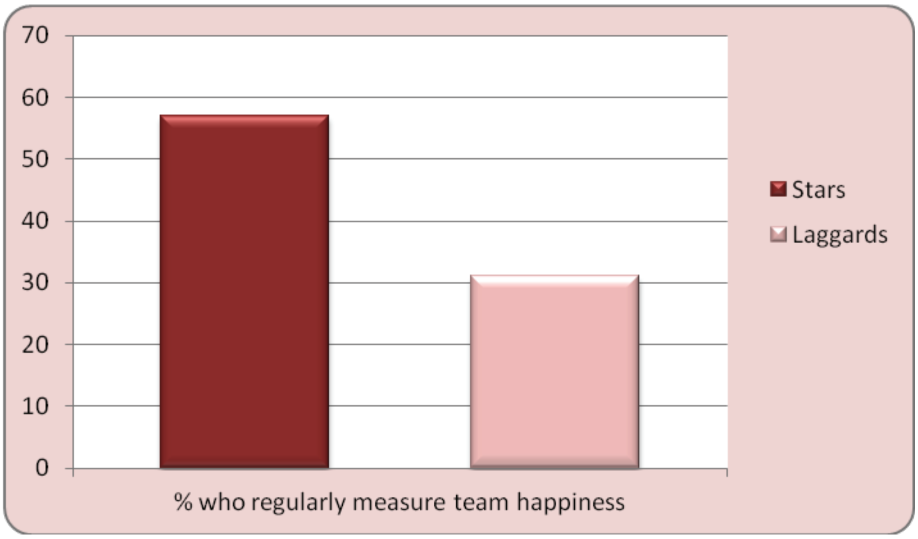


Figure 23

Team happiness may sound too 'touchy feely' to be something that can be easily quantified but there are several software packages available that enable you to do exactly that. Even a paper-based system would work; a simple score chart and space to make any comments is all that's needed.

It's all too easy to think that you know how the people in your team are feeling, but unless you ask them, you're really just guessing. And giving them the space to say what's making them happy or unhappy is equally important so you can do more of the former and less of the latter! Of course, measuring is only the first step; low scores require further action as a matter of urgency or it will be obvious to all team members that it's just a cosmetic exercise.

Key thought:	Which factors influence the happiness of your team?

Which 3 actions will you take to start measuring and/or increasing team happiness?
1.
2.
3.

Stars have more team meetings

Giving your team the opportunity to make their voices heard makes a huge difference to levels of team engagement and Stars out-perform Laggards here too:

- The entire **ownership team** at Star firms have formal meetings an average of 14.1 times a year, compared to only 10.4 for Laggards
- The entire **leadership team** at Star firms have formal meetings an average of 14.5 times a year, compared to only 9.9 for Laggards
- The **entire team** at Star firms have formal meetings an average of 14.0 times a year, compared to only 8.4 for Laggards

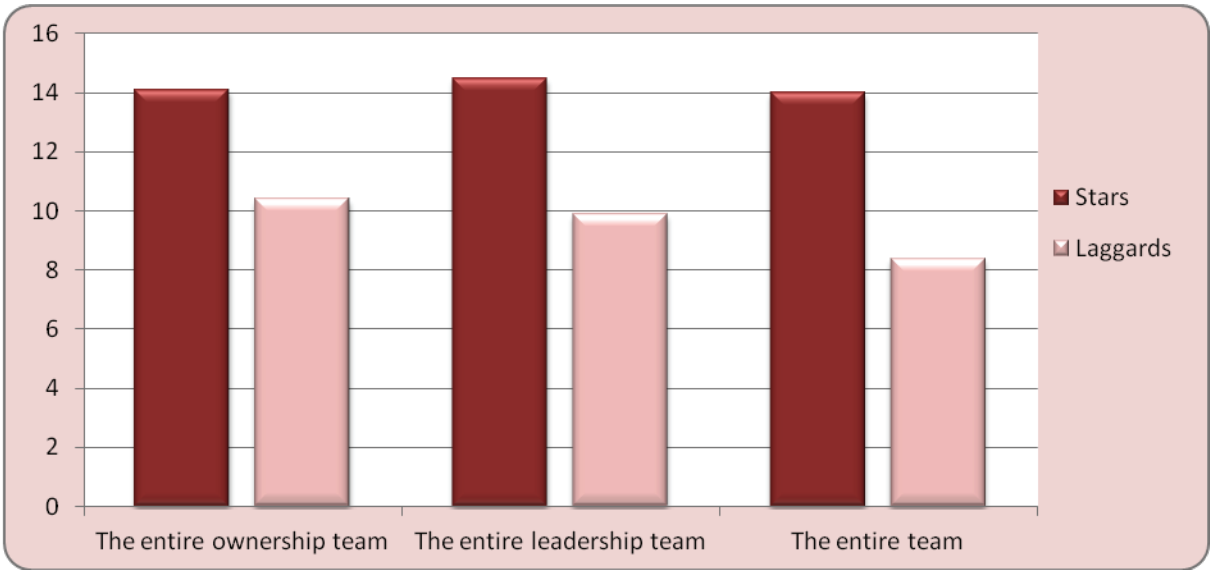


Figure 24: Average meetings per annum

Again, Stars are ensuring that regularly and consistently – at least once a month – the whole team meets together. When everyone is involved in this way, it makes it easy for information to be communicated and issues raised. They also foster a great team spirit and offer the opportunity to recognise and reward team members' achievements. Innovation and motivation thrive in an environment where ideas flow freely and everyone feels they can make a contribution; regular meetings help to provide that environment.

Key thought:	What opportunities do your team have to voice ideas, successes, complaints or anything else they want to say?

Which 3 actions will you take to improve the number and effectiveness of the key internal meetings within your firm?
1.
2.
3.

Case study: McKellens – Building a great team

Established in Stockport for over 100 years, in 2010 this 2-director practice made fundamental changes that helped it to win 4 times more new clients than in the previous year.

Engaging the team

Given the firm's long history and a tendency in the past not to follow through with new initiatives, there was a natural scepticism among team members when changes were proposed. The doubts were reinforced by McKellens having previously been reluctant to reveal financial figures to the team.

The decision was taken to sweep away the secrecy and involve the team more by:

- Holding monthly whole team meetings where fee targets and progress against those targets are shared.
- Introducing a quarterly bonus scheme for team members with payments openly and visibly based on hitting fee targets.
- Getting the team to help in making suggestions to improve client service and identifying and implementing ways to 'wow' clients.
- Holding a weekly team 'huddle' on a Monday afternoon so that everyone shares what they are doing that week and where they can ask for help from other team members. This has significantly improved communication and helps each team member to understand the pressure felt by others.

Added to this, the directors have:

- Clarified the firm's goals so everyone knows what it is trying to achieve and the direction in which it needs to travel.
- Clearly defined the roles and responsibilities of every single person in the practice, which has brought further clarity and focus.
- Increased the frequency and variety of teambuilding events. Chris Booth comments: "One of the more memorable ones was an afternoon fencing (of the epee variety); a great way to get even with the boss!"

The result of these efforts has been that team morale and engagement have increased substantially.

Clarifying the culture

Since McKellens has been around for many years and has several long-standing team members, there was a general assumption that the firm's culture and way of working were known and understood. However, nothing was defined and so a nine-point 'This is what McKellens is all about' document was produced to set out what the firm stands for, how things are done and how it treats clients and team members.

The document was produced after discussion with all team members to determine their views on the firm's current position and where it should aim to be. Because team members were involved in discussions and debate, the resulting document was a collective effort to which everyone signed up.

Director Chris Booth says: "This summary of our culture is now framed and hanging up in the office for all to see, including visitors. And it has a profound impact, since by clarifying the standards we work by it has actually helped to improve those standards, and ensure that we all operate to them."

Case study: Stark Main – Building a great team

Set up in 2006, Stark Main is a two-director practice which now employs a team of 15 full timers and 4 part timers and has already grown fees to more £800,000 per year. They are joint winners of the AVN Firm of the Year Award 2011/2012 and Employer of the Year 2011 in the Scottish Borders Business Excellence Awards. Director Ian Main explains: "In 2008 our entire team worked together to develop our mission statement, which is:

"We aim to be the leading firm of chartered tax advisors and accountants in the Scottish Borders and beyond with a happy and skilled team"

Everything we do is aligned clearly to this mission, and the "happy" and "skilled" team elements are focussed upon on an ongoing basis. For example:

- We have banned the word "staff", with its connotations of "them and us", and instead refer to ourselves as the team, since we are all in it together.
- We operate an open culture; we meet as a full team every month for a development meeting, each team member takes a turn at chairing and directing these meetings and all have a chance to contribute to strategy at these meetings.
- We share openly our key performance indicators (KPIs) and finances on a One Page Plan at these meetings in a spirit of openness.
- We have created career development paths and have no 'glass ceilings', having created 19 jobs in 4 years since commencement, including 5 management positions.
- Our structure, with the partners not involved in much of the day to day technical work, automatically gives team members more exposure to interesting work and responsibility than is the case at many other firms.
- We take our team's health seriously and achieved Bronze award status under the Healthy Working Lives programme in 2010. As part of this we operate a cycle to work scheme.
- We also take team happiness seriously. We use an electronic monitoring system (TeamMatters) whereby all team members are required to complete a short questionnaire on a weekly basis and a more detailed one monthly. These reports are then automated and collated to allow a monthly analysis of each team member's happiness, and to identify any issues arising and provide support where required. We have targeted a minimum level of happiness of 4 out of 6 (i.e. a rating of 'excellent' happiness) and currently have a whole team average of 4.6 out of 6. When any individual's score is responded at a level of 3 or less the directors receive an instant email and text message to make them aware and are afforded the opportunity to meet and discuss the potential issue with the individual team member. If no issues arise of this nature the monthly reports are analysed and shared with the whole team at the development meeting.

Growing our people

Some of the things we do in order to ensure that our team members develop and grow as people and professionals include:

- We hold twice yearly individual appraisals and agree personal improvement plans.

- We hold 'on the job' project delivery appraisals and feedback after each engagement.
- We use in house 'role playing' sessions to build confidence and skills.
- We also create mentoring and shadowing opportunities daily to allow team members to experience aspects of what the firm does that are new to them and build competence in those areas.
- We work hard to systemise the business using our System Builder software, and in the last 12 months a further 82 systems have been written and 62 systems implemented by the team. As well as leading to significant efficiency savings, these systems also allow team members to learn new skills and consistently deliver the very best service to clients.
- We have recently invested £6,000 in a management training needs analysis project in conjunction with a leading training provider. All directors and managers have been allowed to assess their skills and approach by way of psychometric and 360 degree appraisals and personal development plans have been agreed based on the results.
- We invest heavily in internal training and external courses. All team members are offered 100% funding of training requirements and given additional holidays for exam and study purposes.
- 84% of our team are following professional studies at present.
- We have commenced a ‘MBA Lite’ training programme for the directors and managers in order to strengthen our strategic direction.
- We have set a monthly target of training hours and report both that and our actual performance on our monthly One Page Plan.
- We agree as a whole team what training will be held in the next month and structure delivery of this, and agree actions and methods appropriately.
- Our electronic happiness monitoring system also provides a mechanism for team members to communicate their ideas for improving the business.

Supporting and rewarding our people

Some of the ways we support and reward our team include:

- Market leading remuneration levels.
- Flexi time for all team members.
- A flexible benefits package.
- Holiday time bank.
- Regular medical health checks and private healthcare scheme.
- Remote working is an option for those who want it.
- PDA/i-phone access to diary, email and remote access to server.
- 100% of our management team are young mothers, and are afforded part time and additional flexible working practices to allow career progression alongside parental responsibilities.
- An 'open door' policy for team access to the directorship team.

- 100% of our management team are young mothers, and are afforded part time and additional flexible working practices to allow career progression alongside parental responsibilities.
- An 'open door' policy for team access to the directorship team.

The benefits from our team approach

As a consequence of our commitment to building a great team, and working together as a team, we have experienced the following benefits:

- Earned an excellent reputation as a firm.
- Had a lot of fun, and created a wonderful team spirit with genuinely happy team members who 'love' their job.
- Were named as the Employer of the Year in the 2011 Scottish Borders Business Excellence Awards.
- We have a 'waiting list' of suitable candidates looking to join our team as opportunity arises.

In addition, the spectacular growth of the business is a direct consequence of the way we treat our people. We have provided a modern, dynamic and caring environment for our team. And they, in turn, have delivered a modern, dynamic and caring service to our clients."

It is easier for sole practitioners

The final research finding is one of the most interesting:

- 62% of Stars are sole practitioners, compared to only 39% of Laggards
- Only 9% of Stars have three or more partners, compared to 33% of Laggards

On the face of it this seems to suggest that it is easier to be successful if you are a sole practitioner than if you are a multi partner firm.

It could, of course, be that 20% growth is easier to achieve when your fee base is a couple of hundred thousand pounds rather than a couple of million pounds. But in our opinion there is likely to be more to it than simply that.

Based on our experience of studying and working with hundreds of accountancy practices, we suspect that much of the difference is due to the following factors:

- **Sole practitioners tend to have greater clarity over their vision** – whereas in multi partner firms the need to balance the (sometimes conflicting) hopes and aspirations of all the partners can lead to confusion.
- **Sole practitioners tend to be more decisive** – whereas in multi partner firms decisions are delayed and deferred because partner meetings are infrequent and the partners can't always agree.
- **Sole practitioners also tend make better decisions** – since they don't have to water ideas down to the lowest common denominator in order to gain acquiescence from their partners.
- **Sole practitioners tend to be better at implementing their decisions** – whereas in partnerships it is not uncommon for one or more partners to either not put their weight behind a decision they didn't fully agree with, or even to actively undermine it.

Ultimately, of course, all of this comes down to one word: **"leadership"**.

In a sole practitioner firm there is a single undisputed leader. In contrast, multi partner firms are often run by what is in effect a committee. And committees are rarely if ever as effective as a clear, strong, decisive leader – which is why we are told there is not a single statue anywhere in the world dedicated to a committee!

An impassioned plea to the profession…

Whilst there are many extremely positive and useful findings in this report, there are also some truly shocking findings.

Those shocking findings must act as a wake up call.

Accountancy is a great and noble profession. But some aspects of what it does MUST change dramatically.

- **It is simply not acceptable to be incompetent** – Currently accountants seem to be making mistakes with almost half of all their clients, and for 15-20% of all their clients those mistakes are what accountants themselves regard as "major". Even using conservative estimates, it seems likely that these failings are costing their overlooked clients £1.8 billion. For the good of clients and the profession, this has to change.
- **It is simply not acceptable to lie** – On their websites and in their brochures the vast majority of accountants claim to be "proactive". But by their own admission, 82% of all accountants are not as proactive as they should be. For the good of clients and the profession, this has to change.
- **It is simply not acceptable to be arrogant** – Whilst the arrogant "I know best" type of attitude is anathema to the vast majority of decent professionals, for others it is not. Alarmingly 5% of all accountants say that they believe it is acceptable for them to arbitrarily assume that clients will not be interested in certain tax planning ideas that could save them a great deal of money, and so do not see the need to let their clients make up their own minds on their own tax affairs. For the good of clients and the profession, this has to change.
- **It is simply not acceptable to create confusion** – 56-91% of engagement letters create confusion and misunderstanding by being silent on whether key issues such as tax credits, IHT planning and one off tax planning opportunities will be considered by the accountant. For the sake of clarity, and for the good of clients and the profession, this has to change.
- **It is simply not acceptable to settle for second rate results** – 64% of all accountants are not happy with the amount of overtime they have to work. 69% are not happy with the number of clients they have. 82% are not happy with their 'lock up'. 91% are not happy with the service their firm gives. And 92% are not happy with the average fees they are able to charge. Yet rather than tackle these issues in ways that have already been proven to work by other firms, many firms seem to prefer to sit back, play "victim" and blame others (e.g. the economy, the Institute, their clients etc). For the good of their clients, colleagues, themselves and their loved ones, this has to change.

This report, and other research projects like it, have provided clear and unequivocal evidence on exactly how each of these challenges can be overcome.

So the question is not whether accountants <u>can</u> get better in all these ways.

The question is whether they <u>will</u>.

And that is the profoundly important question that every reader of this report must answer for themselves.

Appendices

Appendix 1: The full text from the June 2011 White Paper

About the authors

Mark Wickersham, FCA

Mark is passionate about the accounting profession. Since selling the practice he founded, his focus has been exclusively on helping accountants to become much more profitable. He led the team that developed over a thousand tools and systems as part of the System Builder software suite for accountants, including many which help practitioners grow their fees, profits and capital value. He is the driving force behind both The Accountants Club and The Tax Club and is also a widely published author on practice issues, with his most recent publication 'Effective Pricing for Accountants' becoming an Amazon number 1 bestseller in May 2011.

Mark Lloydbottom, FCA, CPC

Mark started his own practice in Bristol in 1978 and was a practitioner for 20 years. He is the founder of the Association of British Independent Accounting Firms, Practice Track and PracticeWEB and he has also served on various committees with the Institute of Chartered Accountants including the 2005 Working Party.

He is devoted to researching and identifying strategies to enable accounting firms to build the top and bottom line. He achieves this by delivering high quality consulting and lecturing and is PracticeWEB's principal author maintaining the site content for more than 750 accounting firms.

Susan Clegg

Since 2004 Susan has researched and written on a wide variety of subjects for accountants in practice. She produces newsletters, marketing material and web content, always with the aim of helping accountants to take action to do things differently. In 2005 she co-authored 'Everlasting Phone Impressions' with Paul Shrimpling.

Challenging times

The last few years have seen challenging times for accountants and we've been keen to find out what the next five years has in store.

What's really interesting at the moment are the mixed messages we're hearing from conversations with accountants in practice. There are clearly many, many firms of accountants still finding life tough and the future bleak. And yet there are many others who are getting great results and who see big opportunities over the next few years.

This White Paper looks at what are likely to be the biggest challenges over the next few years and the possible solutions for overcoming those challenges. It is based on a survey of 108 accountants in practice carried out in May 2011 and on what other accountants are telling us.

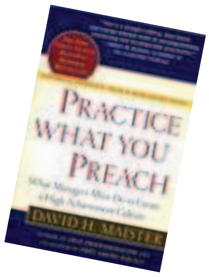
This White Paper sets out the "what". It is the first part of a bigger survey which identifies best practice and "how" firms are overcoming these challenges. This White Paper is the preface for the full "Your blueprint to a better accountancy practice" which will be published in September 2011.

Let's start with the top five challenges based upon the findings from the survey, since they are the most pressing issues for many practices.

Challenge number 5 – Finding, keeping and motivating the right people

Here are some of the comments made by participants in the survey:

- Getting relevant qualified persons in the business.
- Delegating work to others and trust that they won't screw it up.
- Finding suitably committed staff - that is 'who get it'.
- My team not being as clever as me!
- It is becoming increasingly difficult to recruit team members with the right attitudes and skills.
- Staff are not commercial.
- Finding the right level of staff with the advanced skill sets to cope with client demands.
- The ability to identify and attract excellent team members.



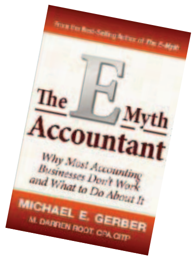
And it's not a new problem. Finding, keeping and motivating the right people are challenges that few accountants overcome. And yet the consequences that stem from these challenges are far-reaching. As David Maister found in his extensive research behind the book, "Practice what you preach", there is a very strong positive correlation between team happiness and profitability; even more so than the positive correlation between client happiness and profitability.

Aside from the ultimate impact on profitability, failing to overcome these challenges results in higher recruitment costs from high levels of staff turnover, sub-standard work impacting on quality and service levels, partners not feeling they can delegate and so they end up doing the wrong types of work, succession problems by not having the right people to take over the practice in the future, and many more.

We see a number of common factors amongst firms of accountants that have largely overcome these issues.

Probably the most important issue to consider is the state of your systems. For example, what systems do you have for recruiting people? Do those systems embody best practice? For example, do you use personality profiling as part of your recruitment process. This is becoming increasingly popular and it can be extremely helpful in building a well-balanced team of people. If you suffer from – as someone said in the survey – "staff are not commercial", or as we often hear, "my client managers are useless at bringing in new work" then it could be that you're trying to fit 'square pegs into round holes'.

So that's recruitment systems. What about your systems for doing the technical work? One of the survey comments was, "Delegating work to others and trust that they won't screw it up" and another was, "My team not being as clever as me!" These are classic symptoms of not having the right systems in place.



If you've not already read it, then Michael Gerber's "The E-Myth Revisited" is essential reading for all business owners. And in the last few months Michael has published "The E-Myth Accountant" which applies his systems message to an accountancy practice. This book is available on Amazon and is a must-read.

The other key factor is culture. For example, in your practice do you see the structure as partners and "staff", or are you one team? This might sound like a small thing, but breaking away from thinking of your team as your "staff" makes a big difference... the us and them mentality creates barriers. Successful firms with a team culture have regular meetings, share key numbers with the team, have an openness, share the vision and strategy with the team, build trust, recognise and reward people.

Challenge number 4 – getting new clients

Growth is clearly a big challenge. In fact these are some of the specific comments we found from the survey:

- Winning more clients.
- We are a new small business, how do we get our name out there? And also how do we compete with the big firms?
- As a small practice, my biggest challenge is attracting new clients through marketing and selling, whilst at the same time, ensuring average fees remain high.
- Identifying targets and converting "cold" cases.
- The practice is not growing fast enough due to it being difficult to attract enough new clients.
- Effective marketing.

The big problem here is marketing and selling. Accountants in general don't understand marketing and in general don't like selling.

And it's not surprising. Going back to the subject of personality profiling, accountants usually do not have the profile to be great at selling. So why is it that in an accountancy practice the people that do the selling are accountants? In most other businesses the owners recruit sales people. It's an interesting question. And yet there are firms of accountants who have recognised this and - often using personality profiling - look for team members who have both a financial awareness and the profile suited to a sales person to be involved in the selling process. Very often these are ex-bank managers or IFAs.

It's also not surprising because most accountants have not acquired any formal sales and marketing skills through training. This could be due to a lack of interest, a lack of time or a lack of budget.

If it is a lack of interest, then recognise this fact and instead either recruit someone to do the marketing or outsource the marketing. Doing nothing is not an option if you want to grow the practice. If the reason is lack of time, then again either recruit or outsource. Or free up time – which is something covered later on in this White Paper. And if it is lack of budget then it should be recognised that marketing is an investment... if done effectively it should produce a return. Not only that, some of the most effective marketing for accountants does not have to cost a single penny.

If budget is an issue then forget expensive advertising. Forget expensive telemarketing campaigns. Forget building a flash website. Forget direct mail. We're not saying those things don't work... they can do, but if budget is an issue consider email marketing, consider social media, consider other online marketing, consider referral systems, develop systems for collecting testimonials and success stories, improve your pricing (pricing is part of marketing).

At this point we know some of you will have read that last sentence and thought, "social media – that will never work for accountants."

Twelve months ago we thought exactly the same. But over the last year we have seen so many instances of it working that the proof is irrefutable. If other accountants tell you that social media does not work, what they are really saying to you is, "I haven't yet worked out how to make social media work." And that's nothing to be ashamed of... social media is very, very new. Even most of the so-called social media experts and consultants out there are still trying to figure out how to get the best results from it.

Think about this. Everyone knows that the best way to grow an accountancy practice is word-of-mouth and referrals. It's why so many accountants spend time networking at breakfast clubs like BNI and similar events. And no one is disputing that. We are in a relationship business and it's all about building trust and credibility. Well, that's exactly what social media is all about. Forget about the scary technology and new terminology for now... what it's all about is building up networks and relationship, about building trust and credibility.

One of our key predictions is that by the year 2015 social media will be the PRIMARY way that firms of accountants attract new business. It's inevitable because social media is simply an online way of doing what we already do. You cannot afford to ignore it... you just have to figure out how best to use it before everybody else. And some firms of accountants have already figured it out.

If you want to grow your practice, standing still is not an option in these ever-changing times – and marketing is not an option. You must either invest time and money in training, or you must recruit the right people or you must outsource the marketing function.

Challenge number 3 – external threats

The survey shows that many accountants see the big challenge coming from external threats. This includes cut-throat competition for compliance work as technology and outsourcing make it cheap, fast and easy to access. Due to low barriers to entry it is easy for unqualified accountants to enter the market, there is an increasing risk from outsourcing of accountants in places like India working directly with clients, and technology makes it cheaper and easier to carry out compliance work.

Here are some of the specific comments from the survey:

- Trash like iXBRL imposing new costs.
- Competitive market place and difficult economic situation.
- The pace of change in the industry.
- Cut throat competition from accountants working from home.
- Dealing with the increasing poor service level of HMRC.
- No regulation of unqualified people setting up as accountants. Anyone can call themselves an accountant - book-keepers etc, without the regulation that qualified accountants have to comply with.

Here's the thing... there will always be external threats. And guess what? There is nothing you can do about them. We will always be battling HMRC, we'll always have to adapt to new legislation, increasing rates of change in technology is here to stay and there will always be seemingly unfair competition.

However, those external threats affect all firms of accountants. And yet some are performing better than others. Very often it's in the mindset. It's interesting that one firm in the survey said they did not see any challenges, only opportunities. It's the "glass half full versus glass half empty" issue. Firms that complain about external threats will probably become victims, whilst others say, "Bring it on!" For example, the glass is half full accountant will say things like:

- "iXBRL imposes new costs – fantastic, that's an opportunity to review our pricing levels"
- "Competitive market place and difficult economic situation – great news, our competitors will be struggling so let's find out what services business owners faced with recession want from an accountant and let's adapt our service offering to give them what they want"
- "The pace of change in the industry – wonderful, that will make it harder for our competitors. We don't have to keep pace with change, we just have to adapt faster than the competition"
- "Dealing with the increasing poor service level of HMRC – that's brilliant, taxpayers will increasingly realise that they need an accountant"

Practices need to focus on differentiating their compliance services to avoid them becoming a commodity or they need to develop niche service offerings such as advanced tax planning and business consultancy. So let's not over-worry about the external threats. Instead, focus on the wonderful opportunities facing accountants. For example,

- Increasing use of outsourcing provides an opportunity to build a practice based on adding value to the client – this is the more enjoyable and profitable work – and we can transform fixed costs associated with processing compliance work to variable costs by outsourcing it

- Increasing complexities in tax provide an opportunity to form joint ventures with boutique tax firms enabling us to outsource specialist work and earn fees from making referrals rather than having to do the work ourselves
- The rise in social media and other online marketing opens up a cheaper and more effective way to grow the practice

Challenge number 2 – It is becoming increasing difficult to charge prices that reflect the quality of the work we do

Pricing is a big challenge. Just like all other aspects of marketing it is an area where accountants do not get any formal training. Furthermore, there is a lack of information about pricing that is relevant to accountants. Here are some of the comments from the survey:

- Winning quality business at acceptable margins.
- Overcoming fee resistance in a relatively poor area - average fee per client in Devon is low.
- Getting a high price for the work I do.
- Clients do not value compliance work (it is a straightforward cost to them, a necessary evil) and are unappreciative of benefits from business advice and or tax savings.

However, where there is challenge there is also opportunity, and pricing is one of the biggest opportunities facing accountants.

Why do we say this?

Over the last 10 years Mark Wickersham has been working with hundreds of accountants in practice and has studied how the most successful firms price. One thing is clear; the easiest way to make more money is simple... get the price right. Of all areas of marketing it is changes in pricing that have the fastest and biggest impact on bottom line profit.

At the risk of over-simplification there are essentially three key areas that firms should think about in order to overcome this challenge.

1) **Pricing strategy** – The really successful firms have a clearly defined pricing strategy. This is a critical starting point.

2) **How you price** - Historically professional service firms have priced based upon time. However, over the last 10 years we've seen a significant shift towards other methods of pricing, such as offering fixed fees and value pricing. Mark's research shows that the more successful firms have found better ways to price which get much, much better results.

3) **The tactics of pricing** - There are a number of powerful tactics available to help you get better results from pricing. To improve your results it is critical to understand things like how to manage client perceptions, the right way to have price discussions, the power of menu pricing, how to deal effectively with price objections and much more.

To find out more we recommend you get a copy of Mark's book, which in May 2011 was an Amazon number one bestseller. It's called "Effective Pricing for Accountants" and is available from Amazon. Alternatively you can get a completely free copy of a book he published in 2010 called "Practical Pricing for Accountants" by visiting www.FreePricingBook.co.uk/acc.

And next we have what the survey suggested is the biggest challenge facing accountancy practices over the next five years ...

The biggest challenge – not enough of the right sort of clients

This was really interesting.

It was also quite encouraging. In other words, it seems that many accountants are now focussed much more on wanting the right clients than on simply wanting more clients. We have often believed that many of the big problems in accountancy practices stem from a really weird method in valuing firms. In other words, accountancy practices are valued based upon a multiple of gross recurring fees (GRF). This is quite bizarre!

It doesn't make any logical sense that an accountancy practice is valued based on GRF rather than sustainable profit levels. A natural consequence of this is that many practitioners with a focus on exit strategy obsess over increasing their GRF rather than thinking about profitability. And so there seems an obsession in the profession over getting more clients (because this increases GRF and therefore the value of the practice). The trouble with this strategy of attracting any old client is that the wrong client drains resources, time and energy from the practice

So it's quite encouraging that – at least based on this survey – firms are now thinking about the right sorts of clients, rather than growth for the sake of growth. Here are some of the comments from the survey:

- Changing our client base to encompass more clients who would appreciate business/management advice and be prepared to pay for it.
- Determining which clients to keep and which to jettison.
- Being selective of which new clients to take on.
- Identifying and getting the message to the right sort of clients is an ongoing challenge.

The key here is to be clear on your strategy and vision. What sort of practice are you trying to build? What do you want it to look like when you come to retire? What sort of clients do you want to have? What sort of services do you want to offer? What is your pricing strategy?

We said earlier that the main source of growth in an accountancy practice comes from referrals. The quality of those referrals will largely reflect the quality of your current client base. In other words, if you're looking for corporate clients with a turnover of £1m and upwards, and yet your current practice is made up predominantly of smaller clients such as corner shops, taxi drivers, sub contract labour and tradesmen then you have a problem. You see, those sorts of clients will know lots of other people just like them. And that's the sort of people they will refer to you. This means you'll end up with even more corner shops, taxi drivers, sub contract labour and tradesmen.

To attract more of the right sort of clients you have to be more attractive to those sorts of clients. For example, if you want more clients who are high net worth individuals and very profitable companies then you have to offer what they want. This may be for example, advanced tax planning. When you give these clients what they want – and deliver it to a high standard and with outstanding service – they will tell other people just like them.

You need to have a clear picture of the type of client you want; your "ideal client". It is then worth grading your current clients into categories, such as A, B, C and D with the A clients being your ideal clients.

The trouble is, if you currently have a practice made up of mainly C and D clients, where do you start? Well, let us share with you a very real and very recent success story...

Jason Blackman is a sole practitioner working in Lewes, East Sussex, with two other team members. Until recently he had about 100 clients, mostly sole trade accounts and tax returns, and worked long hours processing the myriad pieces of paper and receipts they sent him - 'shoe box' information he called it. The work was hard, tiring and unrewarding, particularly when January came round.

Although he wanted and needed to make changes, he hesitated. After all, change can be frightening and although most of his clients were far from ideal, they generated the majority of his turnover. But in February 2011 he made a decision: "I talked to a lot of people and slowly gained inspiration until, one day, the change happened. I decided to 'scale down' my practice with the ultimate aim of having a lot less clients, but giving the ones I had left a far better service, and ultimately to earn more money. Sounds impossible, but it's been done. I've managed to sell off around 85 clients to a good friend of mine (so she's happy) and just kept the clients that I have graded 'A' with the grading tool in System Builder (*System Builder is a tool used by AVN members*). An invaluable exercise that really opened my eyes to who I'd been neglecting all this time."

The reaction he had from his clients was overwhelmingly positive, even those he sold on! "It was a slightly difficult situation with my 'A' clients as I wanted to increase the fees in line with Time's Up (*fixed pricing software available to AVN members*). In some cases it was a fairly big jump and it was quite a scary exercise, but I've had such a favourable response from all my 'A' clients; in fact, a lot of them are just as excited about my plans as I am! I guess it's also taught me that if clients are getting a good service, they're willing to pay for it."

"The reaction from the 85 clients I have sold on has been amazing. Instead of being angry at me passing them on to someone else, they have been hugely complimentary in terms of the service I have given them in the past and have even wished me luck for the future. In fact, some have been so nice to me it's been a little emotional at times!"

Despite losing 85 clients, Jason has actually increased his turnover. He can now offer his remaining clients additional services which he, and they, find much more rewarding: "Now I can really give them a totally personal, complete and, above all, proactive service – much more so than I ever could before."

Other challenges

The above five challenges are what the 108 accountants in our survey told us were the biggest issues facing them. However, there were a number of others that we will cover briefly here.

Time and workload management

Lack of time is clearly a big issue for accountants. There were many comments from the survey along the lines of, "My time management skills", "Time to implement changes", "Finding the time to develop the practice while acting for my existing clients", "Making time to promote my business" and "Too much time being spent on practice management and administration matters." Very often we find that partners are doing the wrong sort of work and the main cause of this is a lack of systems. Yes, we keep on mentioning systems, but really that is at the heart of most challenges, i.e. a lack of an appropriate system that works. With great systems it becomes much, much easier to delegate work.

Too many of the wrong sort of clients will also add to the challenge of lack of time. It is perhaps worth re-reading Jason Blackman's story above. If you have too many clients and too low fees then you'll always be fire-fighting and won't have the time to do the things you should be doing with your A clients.

And of course, the other issue here is that as accountants we don't get any formal training on time management. So if this is a challenge for you, it's worth investigating some of the time management strategies available.

Strategy

Making changes to your practice as Jason did is one thing; knowing what to change in the first place is quite another. It may be quite simple – better quality clients, more profitable prices, being able to offer additional or added value services.

The key is to decide what you and your partners really want (and crucially, to make sure that you want the same thing) then set goals and milestones accordingly. If you decide that what you really want is a better work-life balance, there's no point developing a strategy that focuses only on increasing GRF. Examining these fundamental issues can provoke some uncomfortable questions but it's worth doing – after all, you'll only know if you're on the right path once you've decided where you want to go.

Slow paying clients, high debtor days and bad debts are a continual challenge

Increasingly, the internet changes and advances the way in which we access services and the way in which we pay. Can you think of a website that will take and supply an order without first taking payment? As of 30 June 2011 cheques are no longer capable of being guaranteed. Changing practices, all the time; it's an everyday occurrence.

For one moment, take every year end creditor schedule you have ever seen. Who was the last creditor on that schedule who was paid? Probably more than 95 per cent of the time it was the accountant. Why? Because we normally bill after the work has been done. But why is this when business owners are accustomed and expect to pay for their goods and services [give or take 30-60 days] in the accounting year? Combined with our belief that the profession will have to change to fixed pricing for work is the fact that it makes no sense whatsoever to have that fee paid after the end of the year. Our belief as to what is fair [to the client and the accountant] is that fees should be paid 75-90 per cent *during* the accounting period. Furthermore, timeliness of work will need to be measured from the 5 April [tax returns] and the financial year end – not from the date the records are received.

I do not have a clear exit strategy and so I am worried about being able to fund retirement
Too many baby boomers will be looking to retire over the next few years and there are not enough younger partners willing and able to buy them out. Younger partners will be looking at return on investment and very often it is much, much cheaper to start a practice from scratch than to buy into an existing practice.

Some inter firm surveys indicate that probably more than 75 per cent of firms have lock up [WIP at retail and debtors excluding VAT] in excess of 35 per cent of gross income. This is a titanic model which will eventually restrict the ability of baby boomers to extract their capital and goodwill at full value. Research by Mark Lloydbottom and others shows that the average partner now has a cash expectation in the region of £400-£500k. How will this be returned to the baby boomer firm owner? Why and how should younger partners have the burden of payout – logical as it may seem to all?

As we've said above, the "multiple of GRF" model is not sustainable. Firms should focus on increasing profit and cash flow as a priority over getting more clients so that their practices are more attractive to potential purchasers. Baby boomers may increasingly have to leave 'without trail', or at the most a 12 month payment trail. Younger accountants looking to get into partnership should learn business skills so that they are better equipped to build their own practice.

There are not enough chargeable hours being recorded and billed by fee earners
There is a failure to balance chargeable time and investment time. Many fee earners are recording too few chargeable hours which is affecting margins. There is a big gap (or black hole) between what firms could bill based upon their resources and what they actually bill. To fill this gap firms need to be better at marketing (so that they get more work), better at pricing (so that they get properly rewarded) and better at managing their non-chargeable time (by delegating through systems work they don't need to be doing)

There is not enough cash in the practice and so there is a constant worry about paying the bills and wages each month
As discussed above, many firms have inadequate capital management and insufficient cash. Firms with too much lock up need to be better at managing WIP and debtors, better at billing and better at collecting cash. Fixed pricing and collecting fees during the accounting year would have a significant impact here.

Lack of sufficient business skills amongst partners in key areas such as leadership, people management, selling skills and marketing
Many firms suffer from complacency; assuming that the same level of profits and rewards can be sustained without making any changes. Partners do not have adequate commercial skills and soft skills which impact on their ability to run their practice like a business; lack of sales and marketing skills make it difficult to grow the practice; and lack of people skills make managing people difficult.

There is a need to recognise that a proportion of non-chargeable time should be spent on building skills in non-technical areas through training

Concluding comments

And finally, although a lack of profitability was cited as quite a major challenge, we've not specifically dealt with that here simply because it is really a symptom of everything else above. Profit is just the end result. It is a consequence of getting the right clients, charging the right price, managing the workload effectively, having a great team of people and so on.

Those who are in the business of providing accountancy services rightly see the immediate challenges as being of great importance while those of us who now view the life of a practitioner from outside or alongside see a different perspective. Some of these challenges may not be at the forefront of your mind, but they are external challenges [and opportunities] that the accountancy profession will need to confront and address.

The issues raised in this White Paper will be examined in greater depth in a more extensive report, 'Your blueprint for a better accountancy practice', which will be published in September 2011. For more details and to obtain a copy of this report go to www.AccountantsResearch.co.uk.

Appendix 2: How UK accountants are really performing

The tables below are samples of the data produced by The Accountants Club's BenchMark software and show how accountants across the country are performing in some of the areas covered by this Blueprint report.

The full BenchMark accountants report offers detailed analysis of your own financial performance compared to other UK accountants. It is available to members of The Accountants Club as one of the benefits of membership – please see the Resources section for more details.

The data here reflects almost 300 independent UK practices, and was extracted from the software in September 2011.

Better systems

Industry averages						
Measure	Sample	Worst	Lower quartile	Median	Upper quartile	Best
Jobs completed on time	185	0.0%	50.0%	80.0%	90.0%	100.0%
Average turnaround time (days)	188	120.0	60.0	37.0	21.0	10.0
WIP days	278	144.7	48.9	24.5	7.2	0.0
Debtor days	288	216.1	93.0	70.8	45.1	-12.8

Better pricing

Industry averages						
Measure	Sample	Worst	Lower quartile	Median	Upper quartile	Best
Profit per partner	294	£-13,319	£35,000	£68,706	£103,465	£224,372
Profit per fee earner	283	£-5,038	£11,846	£18,712	£26,929	£97,166
Net profit margin	295	-4.18%	21.60%	31.26%	37.86%	70.00%

Appendix 3 – Example of a standard meeting agenda

This is the full version of the meeting agenda used by Thoburn & Chapman as described in the chapter “Better systems” on page 19.

<table>
<tr><th colspan="4">Client Meeting Agenda</th></tr>
<tr><td colspan="2">Client name:</td><td colspan="2">Circulation:</td></tr>
<tr><td colspan="2">With:</td><td colspan="2">Team member:</td></tr>
<tr><td colspan="2">Venue:</td><td colspan="2">Date and time:</td></tr>
<tr><th colspan="4">Principal items to be considered</th></tr>
<tr><th>Item</th><th>Area to discuss</th><th>Action</th><th>Action by:</th></tr>
<tr><td>1</td><td>Agree the final matters outstanding relating to your accounts</td><td></td><td></td></tr>
<tr><td>2</td><td>Advise client of VAT reclaim missed</td><td></td><td></td></tr>
<tr><td>3</td><td>Directors' loan accounts currently overdrawn (see attached). How are these to be repaid? Capital introduced or put a dividend through before (date)?</td><td></td><td></td></tr>
<tr><td>4</td><td>Should any of the mileage costs be charged to the directors' loan accounts?</td><td></td><td></td></tr>
<tr><td>5</td><td>Consider the draft accounts - can these now be agreed?</td><td></td><td></td></tr>
<tr><td>6</td><td>What is the value of your business given these figures and has it grown from last year?</td><td></td><td></td></tr>
<tr><td>7</td><td>Agree draft letter of comment and procedures for responses from client.</td><td></td><td></td></tr>
<tr><td>8</td><td>Obtain Direct Debit mandate from client. Check payment of fees in-line with firm policy.</td><td></td><td></td></tr>
<tr><th colspan="4">Taxation</th></tr>
<tr><td>9</td><td>Review the draft tax computations and estimate of future tax liabilities and due payment dates.</td><td></td><td></td></tr>
<tr><td>10</td><td>Discuss minimisation strategies.</td><td></td><td></td></tr>
<tr><td>11</td><td>What do you expect the taxable profits to be?
0 100%
↓ ↓ ↓ ↓
Advanced Bespoke Standard None</td><td></td><td></td></tr>
</table>

		Challenges			
12	What challenges are you currently working through?				
13	What stops you sleeping at night?				
		Aspirations			
	Key measure	**What you have**	**What you want**		
	Sales				
	Profits				
	Tax				
	Take home				
	Personal wealth				
	What else?				
	Hours worked				
		Profitability			
14	How is the business doing at present? What are the emerging trends?				
15	Discuss areas in which the business could improve current profitability.				
		Personal financial planning			
16	Does the client wish to consider the potential write off of o/s loans, credit cards or redeemed loans/mortgages?				
17	Have you received your mortgage recently?				
18	Have you considered how your family would replace your income should you die or become critically ill long term?				
19	How do you intend to fund your income in retirement? When was it last reviewed?				
20	Is the government or your children currently the main beneficiary of your estate?				
21	Do you have a Will?				
22	Do you enjoy paying tax on your savings?				
23	Would you like to increase either the growth or income from your investments?				
24	Have you considered the implications of your death on your partners or co-directors?				

25	Do you have a 'Business Will'?		
26	Have you considered the benefits of a staff pension scheme? Do you have one in place?		
27	When was the last time you had a complete review?		
Corporate planning			
28	Is there a long term strategy in place?		
29	Where do you want to be in 5 years time?		
30	Are you on course to get there?		
31	Is there adequate protection against circumstances which could affect income or the long term security of the business?		
32	Have you been introduced to Thoburn & Chapman's Performance Measurement System 'The Numbers'		
Do you know how the following can help you?			
33	Financial Performance Review Benchmark Reports Business Builder Goal Getter One Page Plans Business Edge System Builder Making it Happen		
34	Would you be interested in joining a Business Builder Forum?		
Other areas you wish to discuss?			
35	Do you know of a friend or business acquaintance who you think would benefit from a meeting with Thoburn & Chapman? This is meeting is FREE. PLEASE GIVE DETAILS---> (As a thank you we will give your friend/ acquaintance a Business Builder session worth £500 free of charge as a gift from you.)		
36	AND FINALLY ……………… Are you happy with everything we have done for you so far? Please complete and return feedback form to us at this meeting in a sealed envelope.		

Appendix 4 – References and further reading

Publications

The profitable and sustainable practice, ICAEW, 2003

Practice What You Preach, David Maister, 2001

Good to Great, Jim Collins, 2001

Engaging for success: Enhancing performance through employee engagement – David Macleod and Nita Clarke – Report to Government 2009 (http://www.bis.gov.uk/files/file52215.pdf)

The UK's best accountancy practices, Steve Pipe, 2011

Your blueprint for a better tax practice, Mark Wickersham and Steve Pipe, 2010

Effective pricing for accountants, Mark Wickersham, 2011

YouTube Channels

The following YouTube channels contain a wealth of insights and advice for accountants around the issues raised in this report:

UKaccountants	This is the official channel of The Accountants Club
MyTaxClub	This is the official channel of The Tax Club
Pricing4Accountants	This is Mark Wickersham's channel for helping accountants to price better
AccountantsMarketing	This channel contains a wealth of ideas for helping accountants with their marketing
ProactiveAccountant	This channel will be launched in December 2011

To find these channels go to www.YouTube.com and type the channel name into the search engine. It is recommended that – if you like the channel – you subscribe to the channel (which is free). That way you will be notified by YouTube whenever new videos are uploaded onto the channel.

Appendix 5 – Suggested action plan

The best practices revealed by this research suggest the following as a starting point for an action plan for substantially improving the performance and profitability of your accountancy practice.

NB: For the benefit of AVN members we have also indicated the relevant AVN tools, resources and software that will help you to implement the action points more effectively.

Action	Related AVN tool	Who	When by
Better service			
Decide what type of clients you really want. And identify what that type of client really wants from a really good accountant.	'Ideal client profile' system		
Create a clear, compelling and concise way of communicating what makes your firm perfectly placed to meet the needs of your ideal clients – and ensure that it is used by all your team with all your prospects and clients.	High impact 7 minute streaming video you can show/email to all clients and prospects		
Proactively offer to produce a diagnostic report for every client setting out their key options for improving their profits, cashflow, business valuation, tax bills and personal wealth.	Improvement Possibilities report from OnTrack software. Other resources listed on the "Key AVN resources for helping clients" document		
Consider what guarantees you should offer. Common ones among best practice firms include: 30 days accounts turnaround guarantee and "Money back if not delighted"			
Identify what else you can do to dramatically improve the client service experience so that they proactively tell other people about how incredible you are.	The "Wow! How?" process contains c. 100 ideas for improving the service experience		

Systematically ask clients to rate and comment on the service and support they receive from your firm.	Various customer feedback systems in System Builder		
Add your further actions here, including those inspired by the "Key thoughts" and "3 actions" boxes throughout this report.			

Action	**Related AVN tool**	**Who**	**When by**
Better systems			
Meet with clients more often – and use formal written agendas for every meeting.	There are dozens of standard agendas in System Builder		
Improve speed of response and turnaround times by using systems and technology that improve efficiency, alleviate bottlenecks and reduce errors.	System Builder software		
Proactively give every client and prospect a Performance Measurement and Improvement system – explain how it works, and use it to win new clients and cross-sell more to existing clients.	AVN PMI system		

Every year show every unincorporated client the pros and cons of incorporation and the amount of tax they could save over the next 10 years .	Incorporation Tax Planner software to show them the savings, create a report in seconds and to calculate a value based fee proposal for (a) the core work and (b) the extra tax savings from capitalising goodwill		
Every year show every incorporated client the various ways of extracting profits – and the related tax savings.	Remuneration Planner software to show them the savings and create a report in seconds Tax strategies from AVN Tax		
Identify suitable third party experts to forge strategic alliances within the field of advanced tax planning, business advisory, wealth management, corporate finance and employment law. Ensure that you incur no costs or risks but simply share in the revenue generated as a result of your alliance partners paying you market leading payaways.	AVN has identified suitable alliance partners for you who can deliver all of that and more.		
Revisit your engagement letters in the light of the findings in this report.			
Work out how to make the best use of social media.	AVN members get substantial discounts on 4P Marketing courses – please talk to your clients manager for details.		
Add your further actions here, including those inspired by the "Key thoughts" and "3 actions" boxes throughout this report.			

Action	Related AVN tool	Who	When by
Better pricing			
Make a strategic decision about how you will use pricing as part of your positioning – i.e. do you want to be “cheap and cheerful” or “premium priced for a premium service”?			
Revisit the way you price everything. You can almost certainly charge more if you move away from time based billing to value pricing and/or fixed prices.	Tax Compliance software for pricing tax returns Time’s Up! software for pricing most other things where value pricing isn’t possible		
Carry out ‘what-if’ analysis to understand the possible impacts on your practice of changing your prices.	Simple Stuff That Works Module 1 Business Potential software		
Create a plan for progressively upgrading or exiting clients who do not fit your ideal client profile – including those who are not willing to pay your new prices.			

Offer every client the chance to collect their debts by Direct Debit – and then, out of fairness, ask for permission to use Direct Debit on your fees to them.	Direct Debit facility available through AVN – which will give you preferential terms and a payaway if you want one		
Add your further actions here, including those inspired by the "Key thoughts" and "3 actions" boxes throughout this report.			

Action	**Related AVN tool**	**Who**	**When by**
Better team engagement			
Decide what you want from your practice – including the financial rewards you want it to give you, and the life-work balance you want from it. And then make every subsequent decision so as to help you achieve those things.			
Share your vision with your entire team – and ensure that everybody genuinely buys into it.			
Benchmark your own practice to get a fact-based understanding of your own strengths and weaknesses as a starting point for developing and fine tuning your own improvement action plan.	AVN BenchMark software will automatically create a very detailed confidential report for you		

Monitor team member happiness.	Team Matters software		
Improve your meetings with the team. Consider improving their frequency and structure, making them more inclusive, and involving the team more in the key issues and decisions.	Team meeting systems in System Builder		
Use a Performance Measurement and Improvement system in your own business to: • Identify all the numbers that really matter • Measure them regularly and systematically • Focus the entire business on improving those numbers	One Page Plan and AVN PMI system		
Share the firm's key performance measures with your team – and enlist their help in creating and implementing an improvement action plan for those KPIs.	One Page Plan and AVN PMI system		
Use personality profiling when recruiting team members.	Ask your client manager for help with this		
Add your further actions here, including those inspired by the "Key thoughts" and "3 actions" boxes throughout this report.			

Action	Related AVN tool	Who	When by
Other			
We recommend that you attend the seminar "Proactivity". It is presented by the authors of this report, and at it you will learn exactly how to implement this recommended action plan. Whilst places are normally £200, as a reader of this report you can attend for free. Please see the "Free Resources" appendix on the next page for full details.	AVN members can send an unlimited number of team members to the Proactivity seminar free of charge.		
We also recommend that you use the other resources listed in the "Free Resources" section since they will help you implement these actions within your practice.			
Add your further actions here.			

Appendix 6 – Free resources that can help

This section lists some of the key resources available to help you implement many of the ideas within the Blueprint Report and emulate the results of the firms that feature in the case studies.

Free resources

- **Free training** – You are strongly recommended to attend the seminar "Proactivity". It is presented by the authors of this report, and at it they will reveal the precise "how to's" for getting the very best from many of the actions recommended in this report. Places are usually £200 each, but as a report reader you can attend as our VIP guest. To claim your free VIP guest place go to www.AccountantsSeminars.co.uk/2011Blueprint and select your chosen event.

- **Free software** – Market-leading benchmarking software enabling you to both benchmark your own accountancy practice and to show your clients how their profits and performance compare with their competitors is currently available free of charge to members of The Accountants Club (normally this software sells for £300). Please visit www.myaccountantsclub.co.uk for further information.

- **Free online learning** – The following YouTube channels, created by the authors, are an excellent source of additional insights and tips on how to address the issues raised in this report:
  - ✓ UKaccountants
  - ✓ MyTaxClub
  - ✓ Pricing4Accountants
  - ✓ AccountantsMarketing
  - ✓ ProactiveAccountant

We recommend you **subscribe** to these channels (which is free to do); that way (provided you tick the box circled below), you will get an email whenever a new video is uploaded.

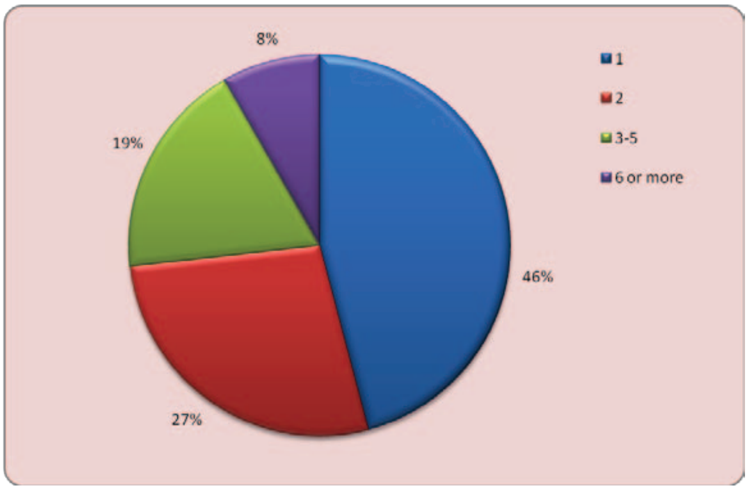
- **Free book** – Mark Wickersham's book, *Practical pricing for accountants*, contains over 30 pages of ideas and advice to help you set your prices for maximum profit, including detailed case studies showing how accountancy firms just like yours have substantially improved their profits by changing their attitude to pricing. You can get a free copy by visiting www.FreePricingBook.co.uk/BP.

Low cost resources

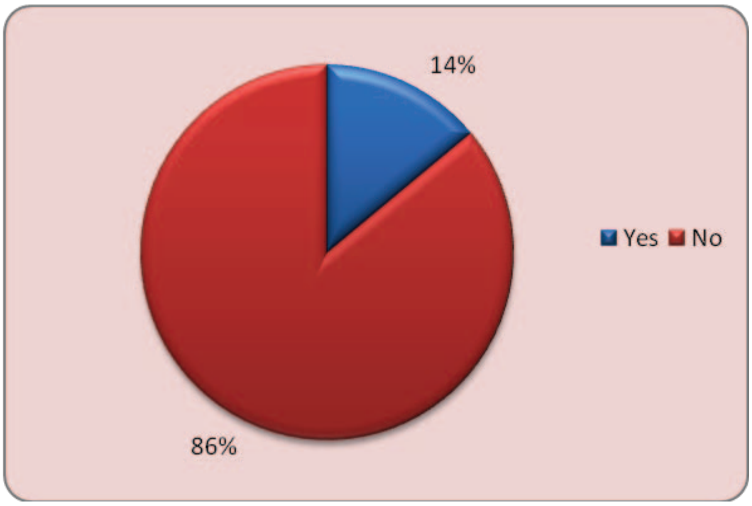
- **Support, training, software and advice** – Membership of both The Tax Club and The Accountants Club are just £120 + VAT each per annum and provide you with the opportunity to learn and share best practice and help you to build on the ideas contained within this research report. Please visit www.MyTaxClub.co.uk and www.MyAccountantsClub.co.uk for details.

Appendix 7 – Complete survey results

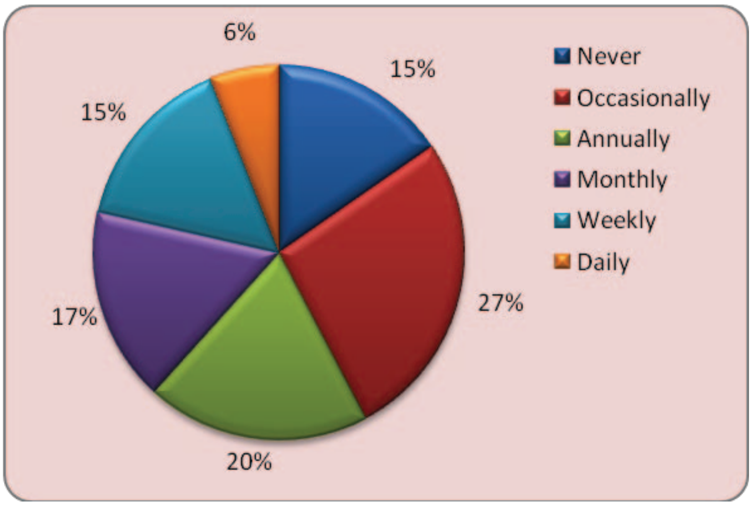
The statistics we have quoted in the main body of this report largely relate to the differences between Star and Laggard practices. This Appendix contains overall results from all 156 respondents.



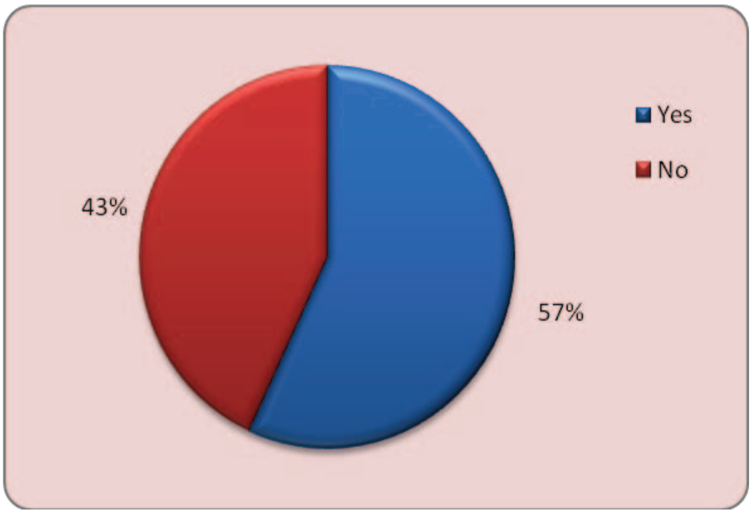
Complete results: 1 - Number of partners



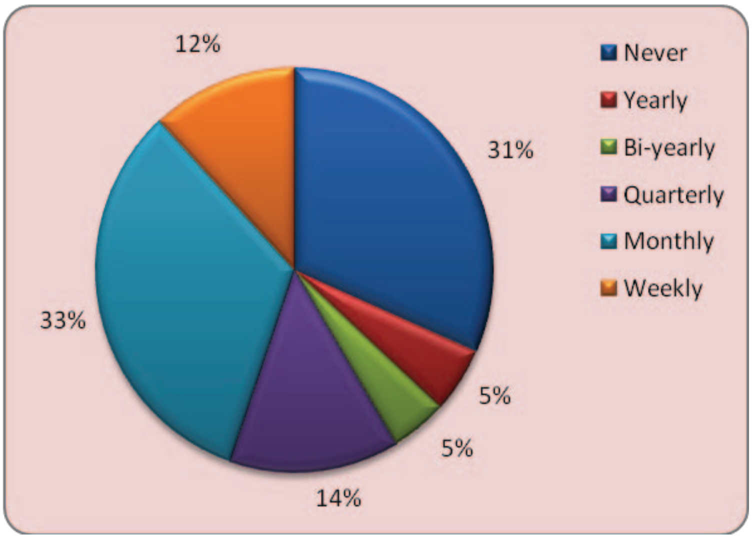
Complete results: 2 - Is the firm as successful as you would like it to be?



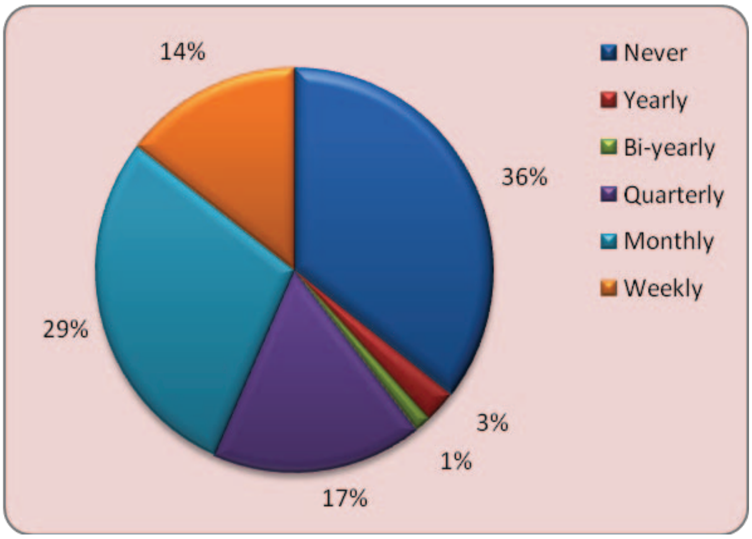
Complete results: 3 - Do you systematically measure how happy your team are?



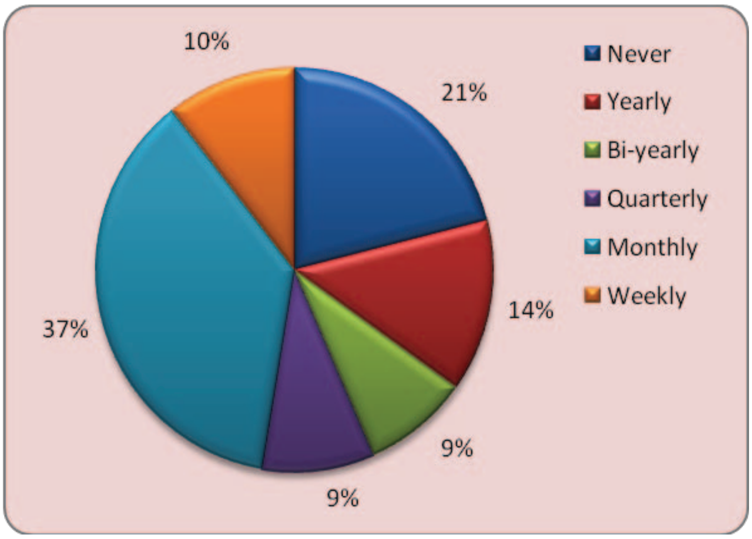
Complete results: 4 - Does the entire team fully understand the owner's vision for the firm?



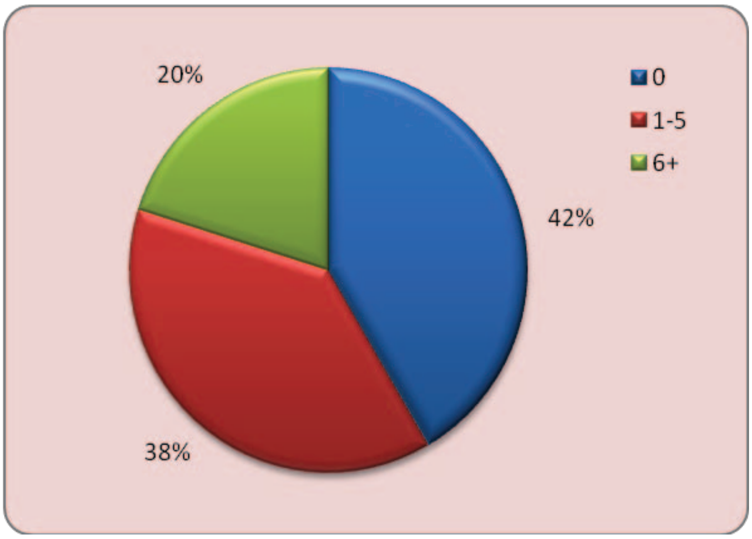
Complete results: 5 - How many formal meetings does your firm have a year with the whole ownership team (ie. partners and directors)?



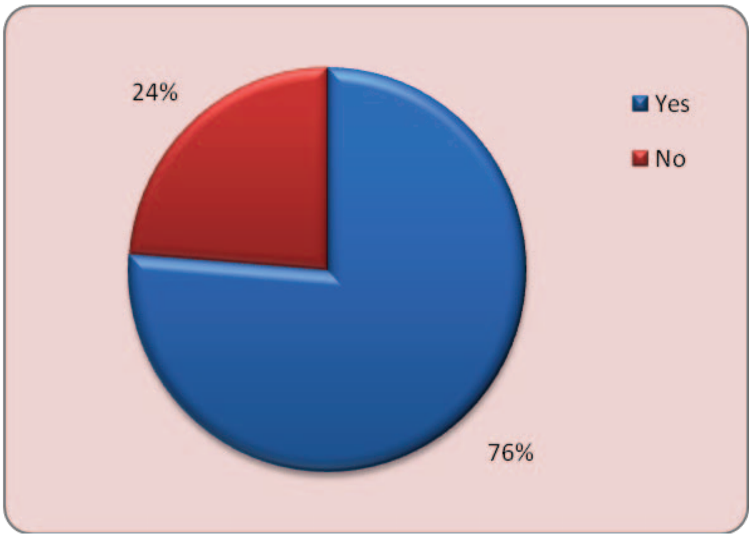
Complete results: 6 - How many formal meetings does your firm have a year with the whole leadership team (ie. partners, directors and managers)?



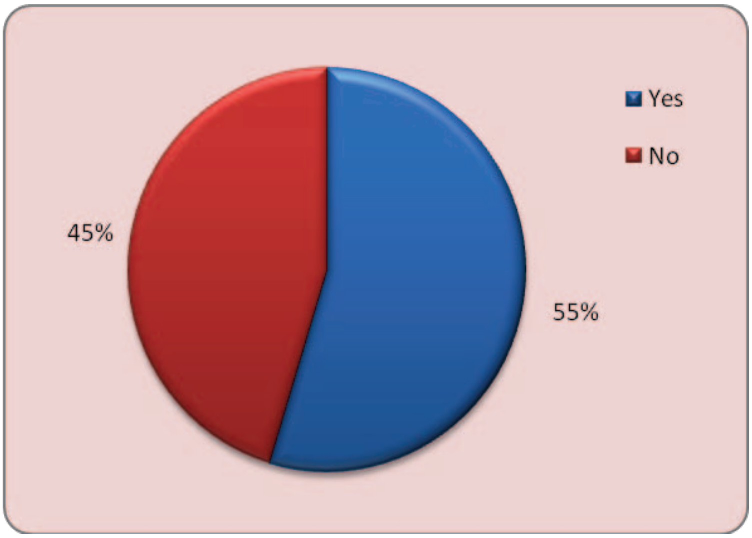
Complete results: 7 - How many formal meetings does your firm have a year with the entire team?



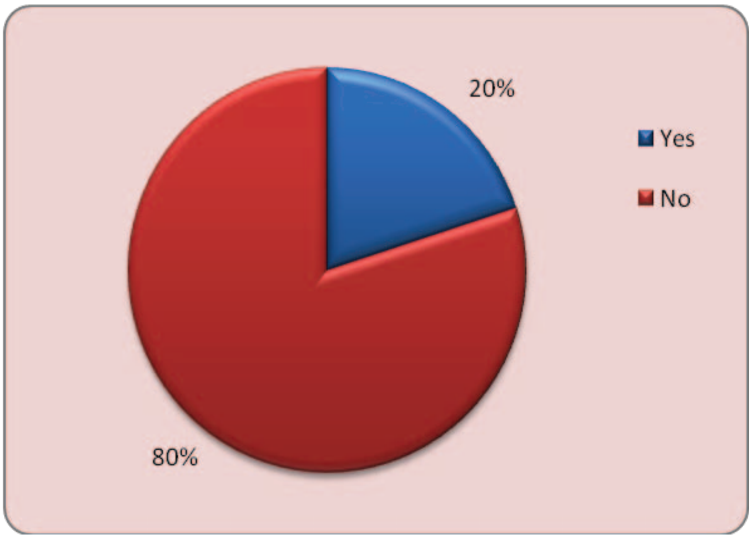
Complete results: 8 - How many KPIs does your firm regularly measure that don't come from a traditional set of accounts (e.g. team happiness, sales conversion rate)?



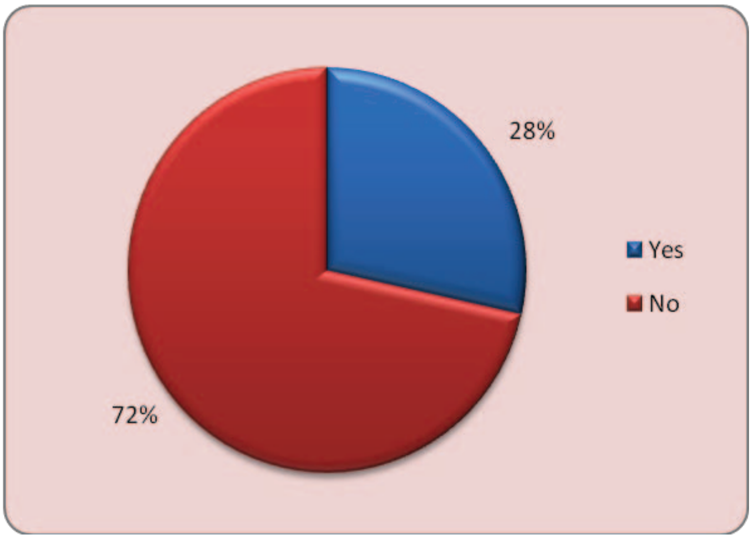
Complete results: 9 - Are most of your firm's KPIs shared with the entire leadership team (ie. partners, directors and managers)?



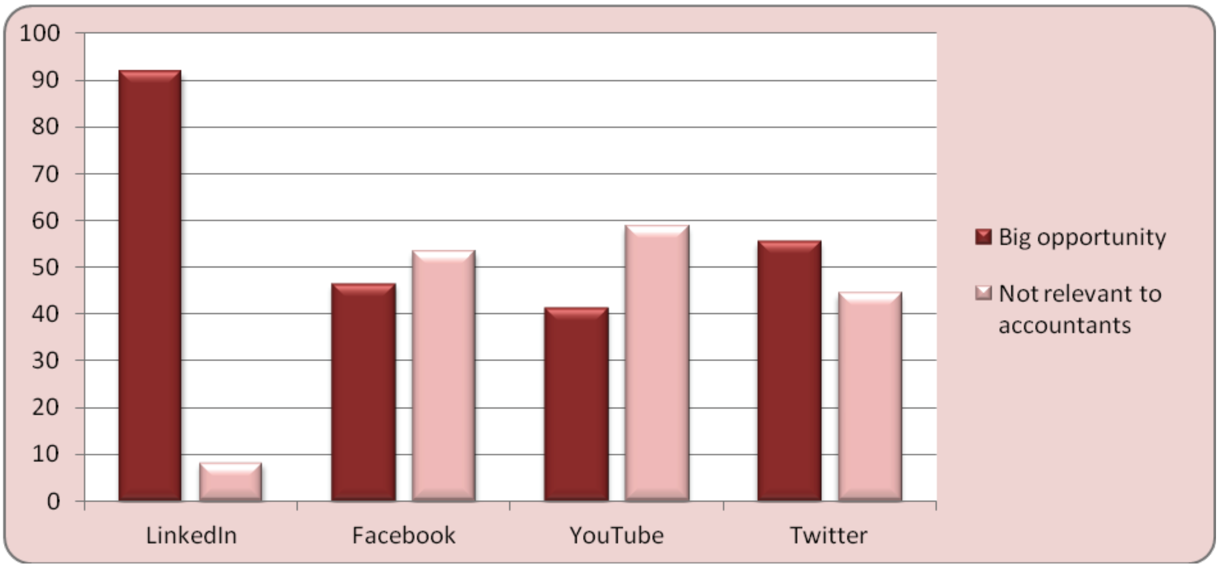
Complete results: 10 - Are most of your firm's KPIs shared with the entire team?



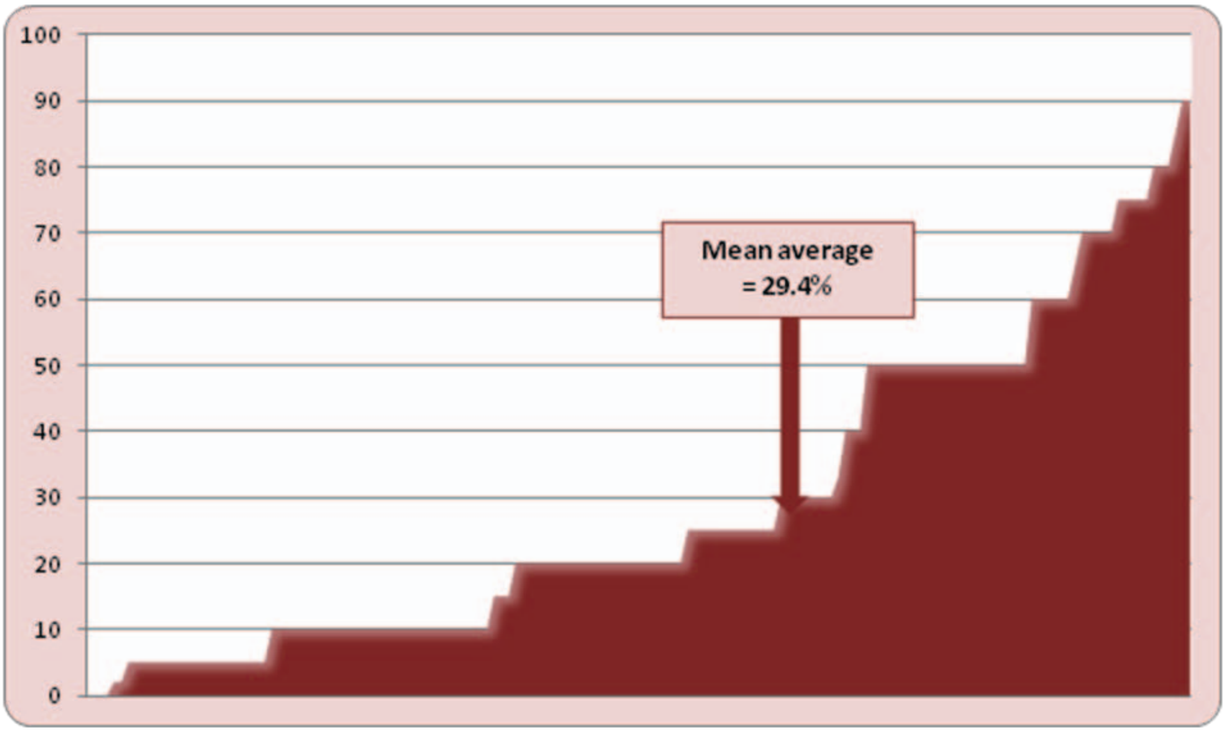
Complete results: 11 - Do you use personal profiling as part of your recruitment process?



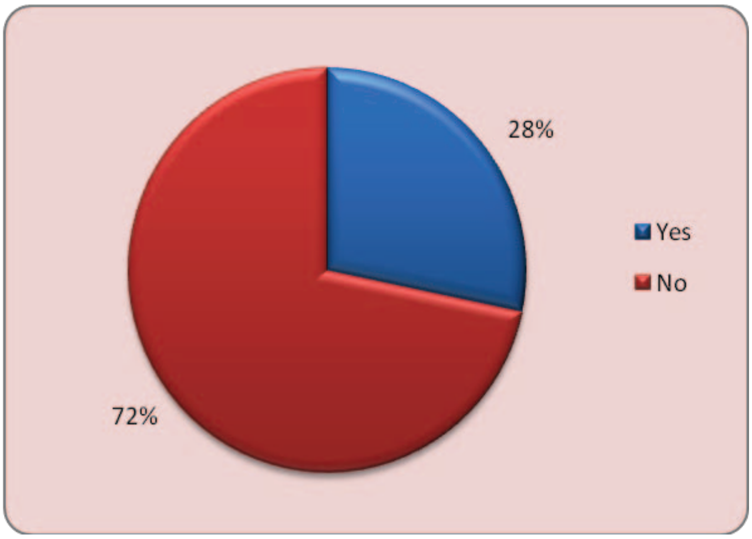
Complete results: 12 - Would you describe your firm as a fast growing practice (ie. annual growth of at least 20%)?



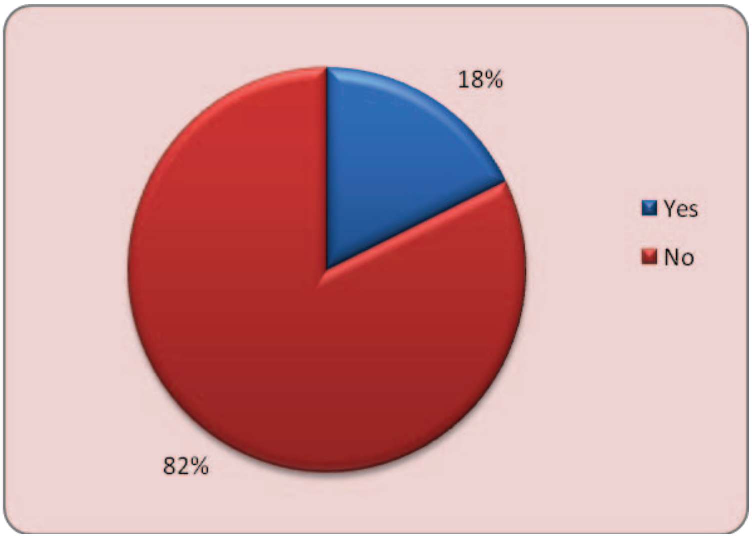
Complete results: 13 - Which social media channels do you see as big opportunities for accountants?



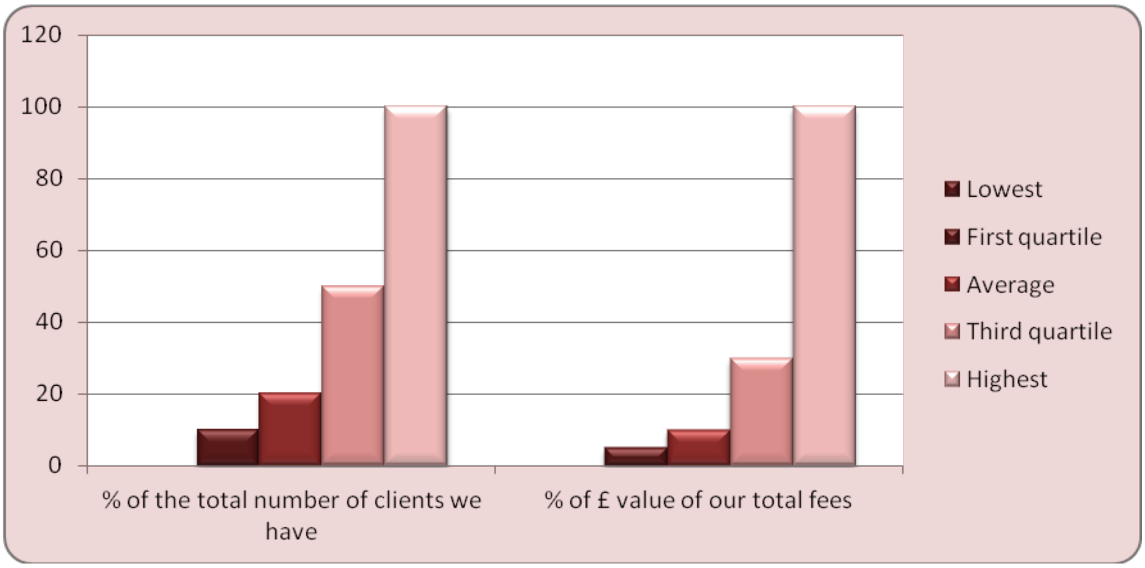
Complete results: 14 - How often do you meet with a client and leave the meeting with some extra work that you didn't have before the meeting started? (% of time).



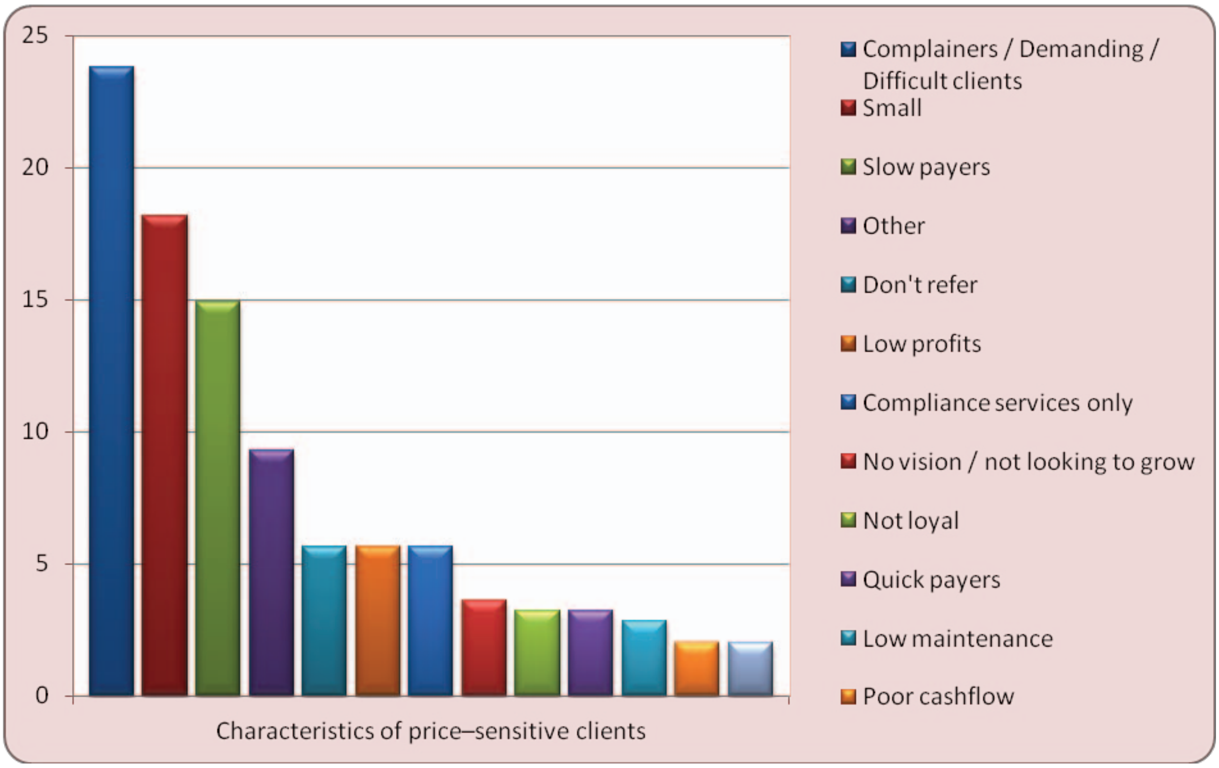
Complete results: 15 - Have you systematically asked at least the top half of your clients what they regard as excellent service?



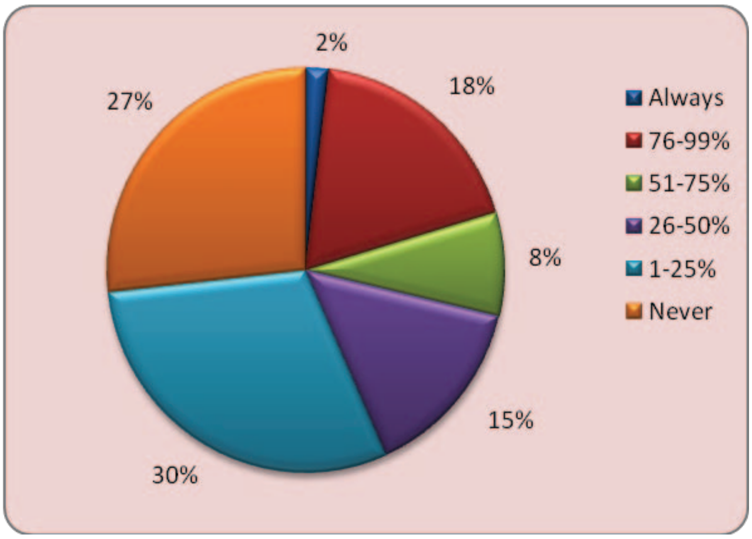
Complete results: 16 - Is your firm as proactive as it should be?



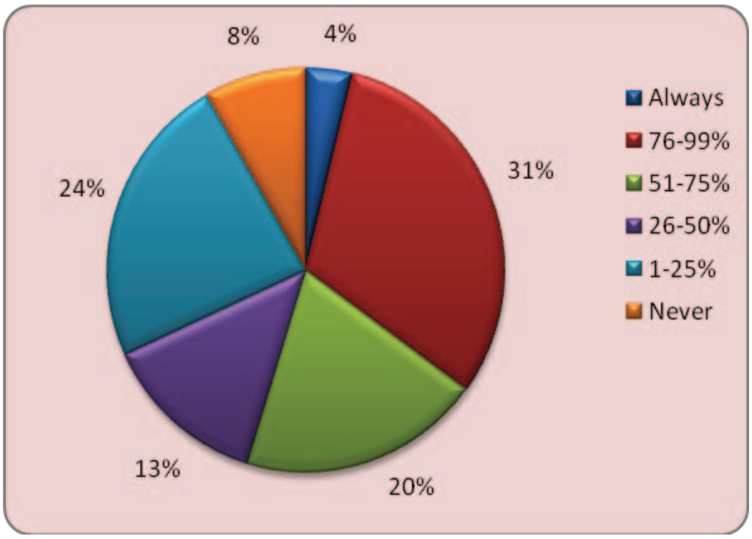
Complete results: 17 - What % of your client base is highly price sensitive (i.e. likely to switch accountant if you put up your fees by more than inflation)?



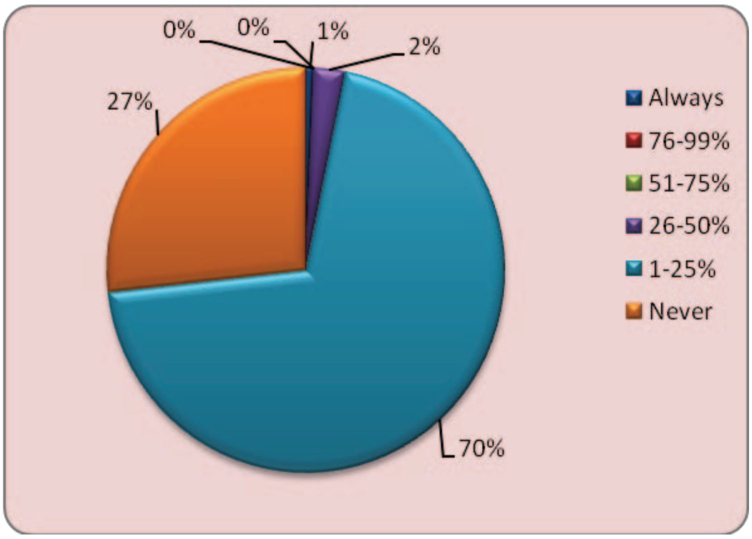
Complete results: 18 - What are two characteristics of your most price sensitive clients?



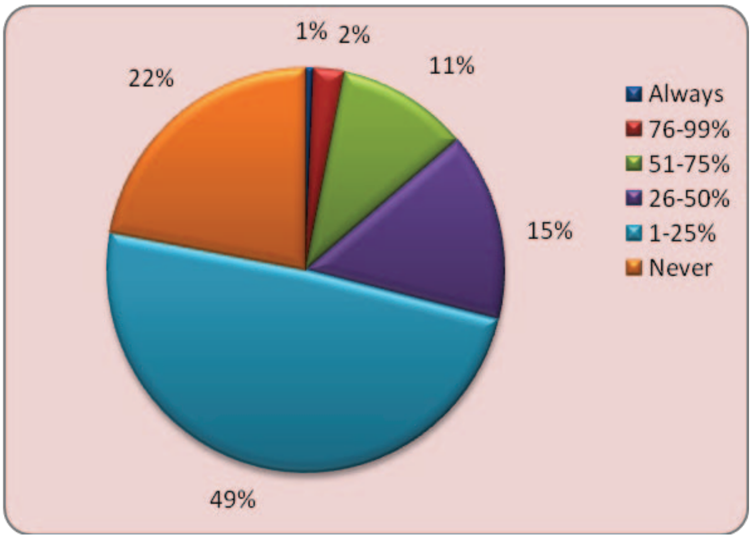
Complete results: 19 - What % of your fees are calculated on a time-cost basis?



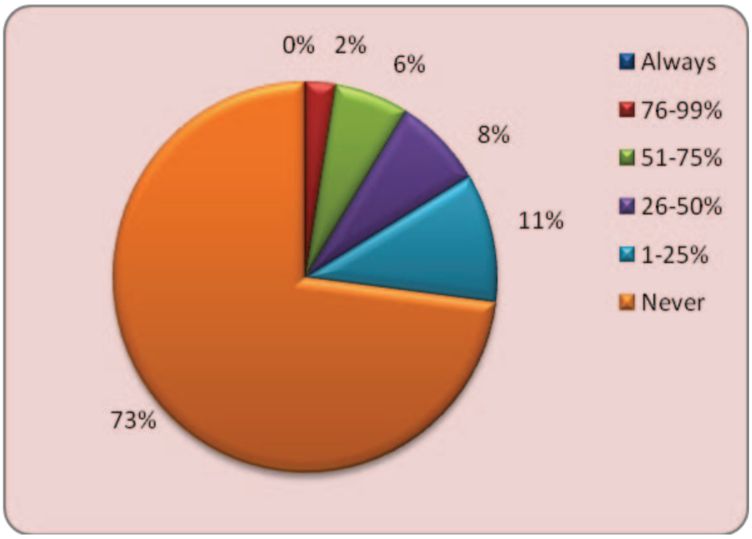
Complete results: 20 - What % of your fees are agreed in advance on a fixed price basis?



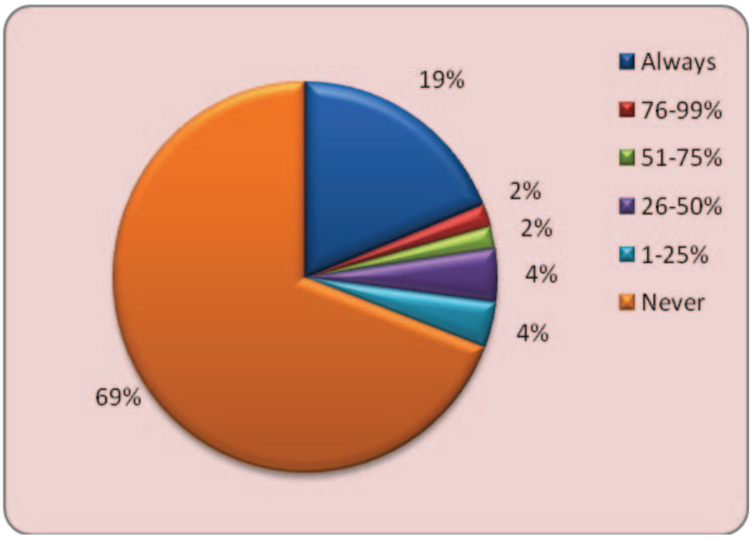
Complete results: 21 - What % of your fees are value based?



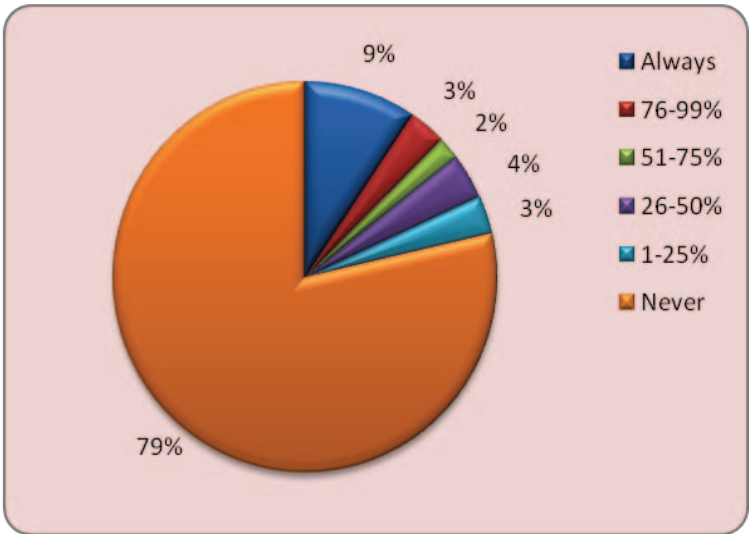
Complete results: 22 - What % of your fees are collected by standing order?



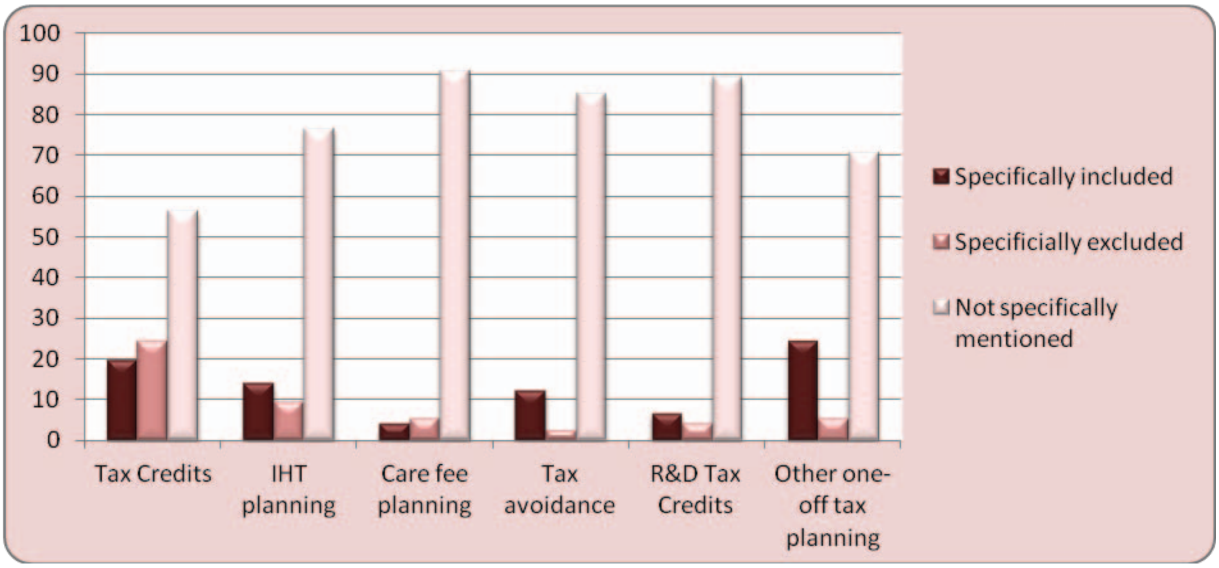
Complete results: 23 - What % of your fees are collected by direct debit?



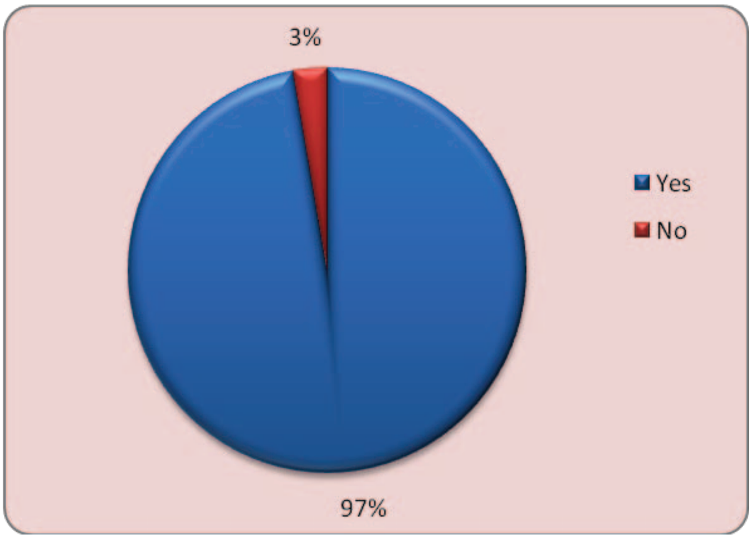
Complete results: 24 – What % of your fees are covered by a customer satisfaction guarantee?



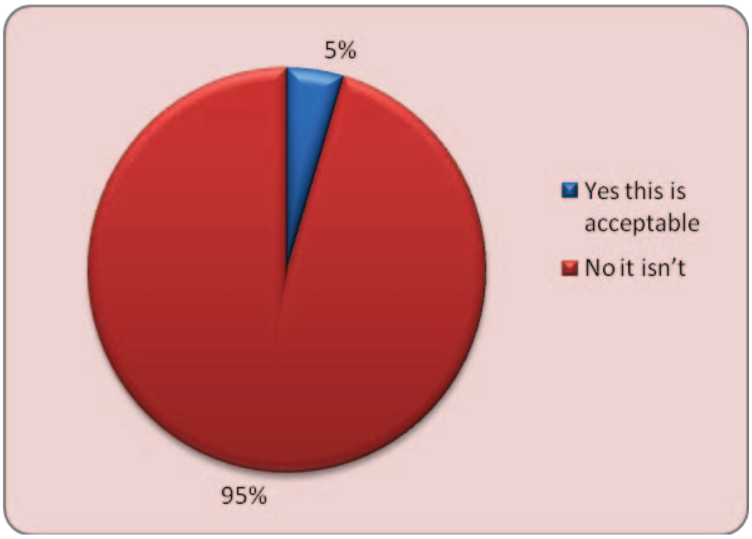
Complete results: 25 - What % of your fees are covered by a turnaround-time guarantee?



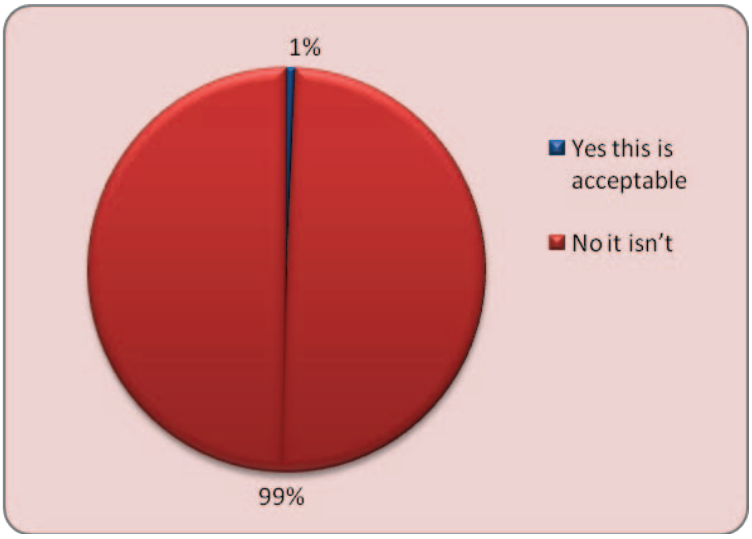
Complete results: 26 - How are the above dealt with in your engagement letters?



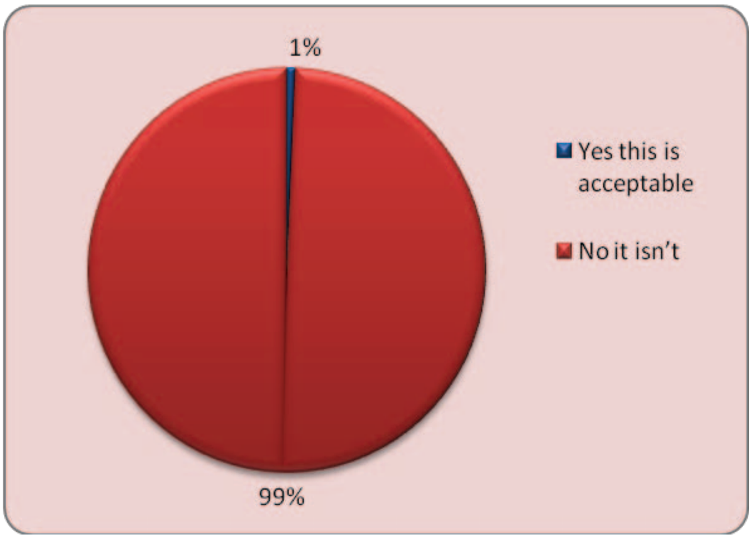
Complete results: 27 - Do most of your clients want to pay the legal minimum amount of tax?



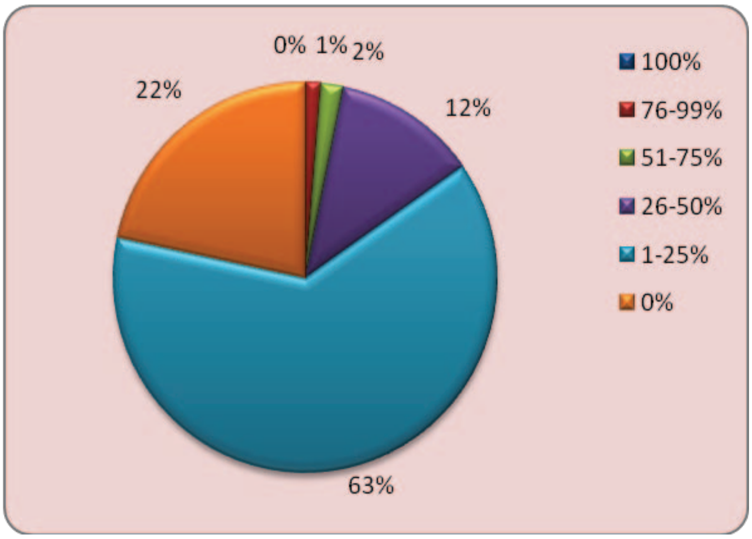
Complete results: 28 - Is it acceptable for an accountant to know about a tax planning idea that could save a client a great deal of money but not tell the client about it because they assume the client won't be interested?



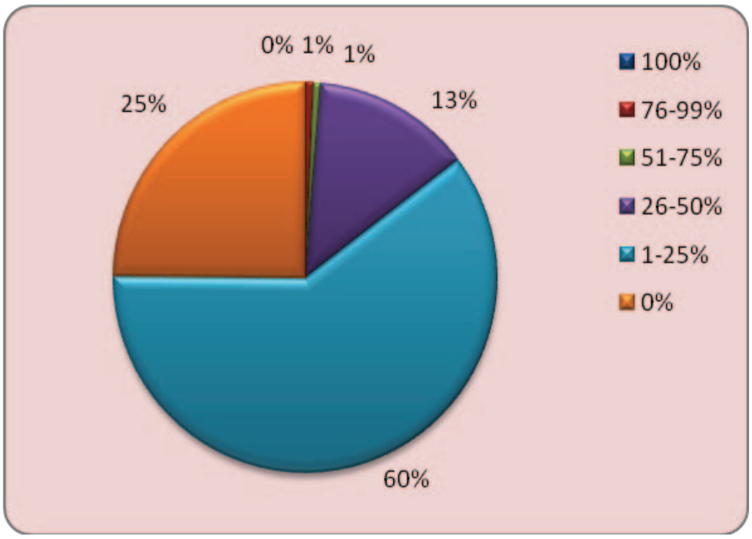
Complete results: 29 - Is it acceptable for an accountant to know about a tax planning idea that could save a client a great deal of money but not tell the client about it because they don't have time to tell the client?



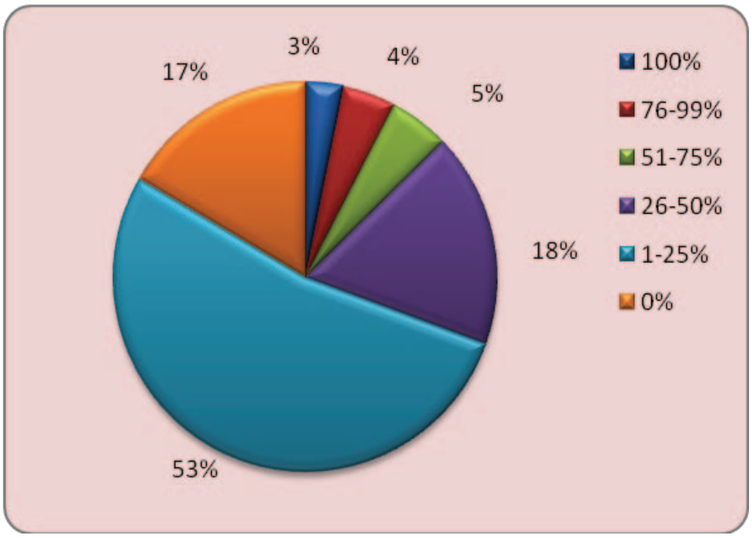
Complete results: 30 - Is it acceptable for an accountant to know about a tax planning idea that could save a client a great deal of money but not tell the client about it because they have the time but can't be bothered to tell the client?



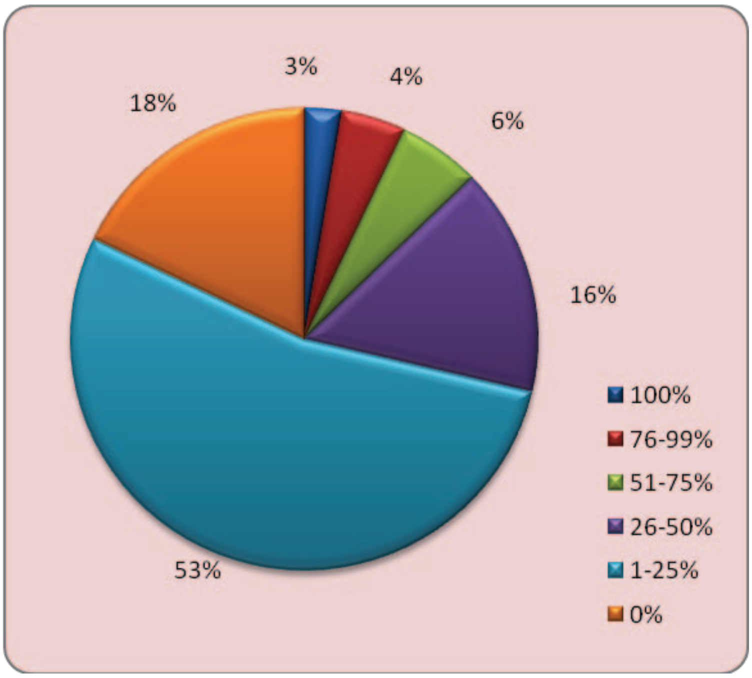
Complete results: 31 - In what % of new clients do you find a major error made by the previous accountant?



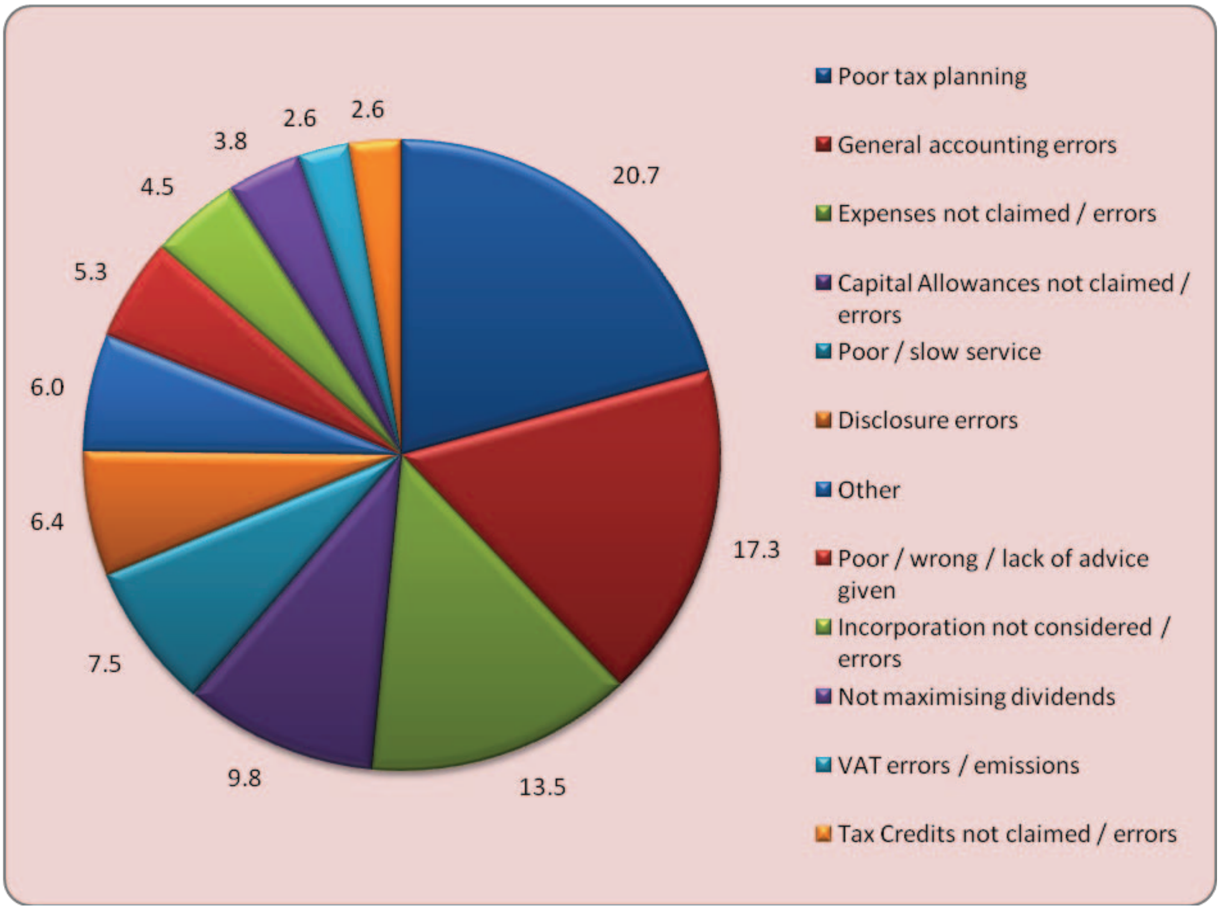
Complete results: 32 - In what % of new clients do you find a major omission by the previous accountant?



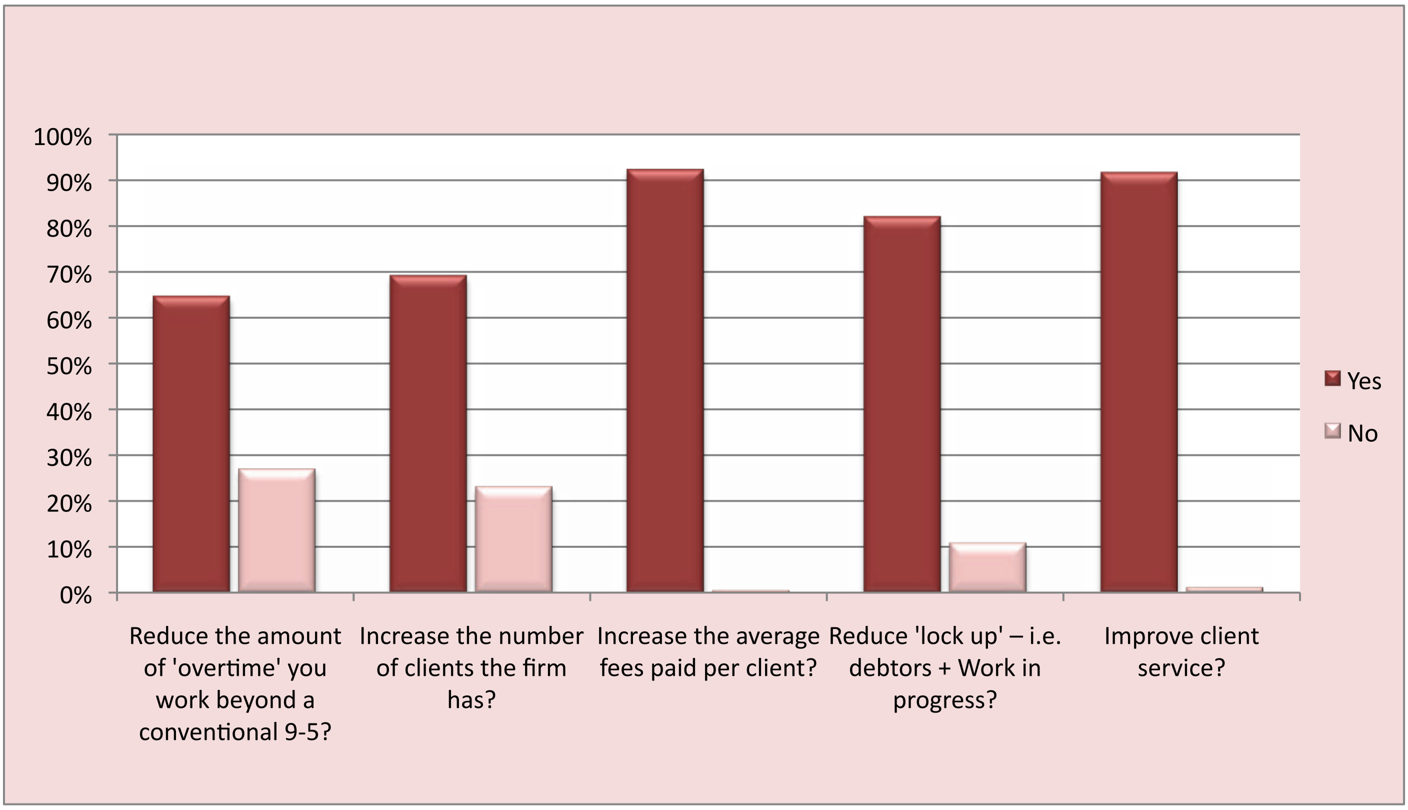
Complete results: 33 - In what % of new clients do you find a minor error by the previous accountant?



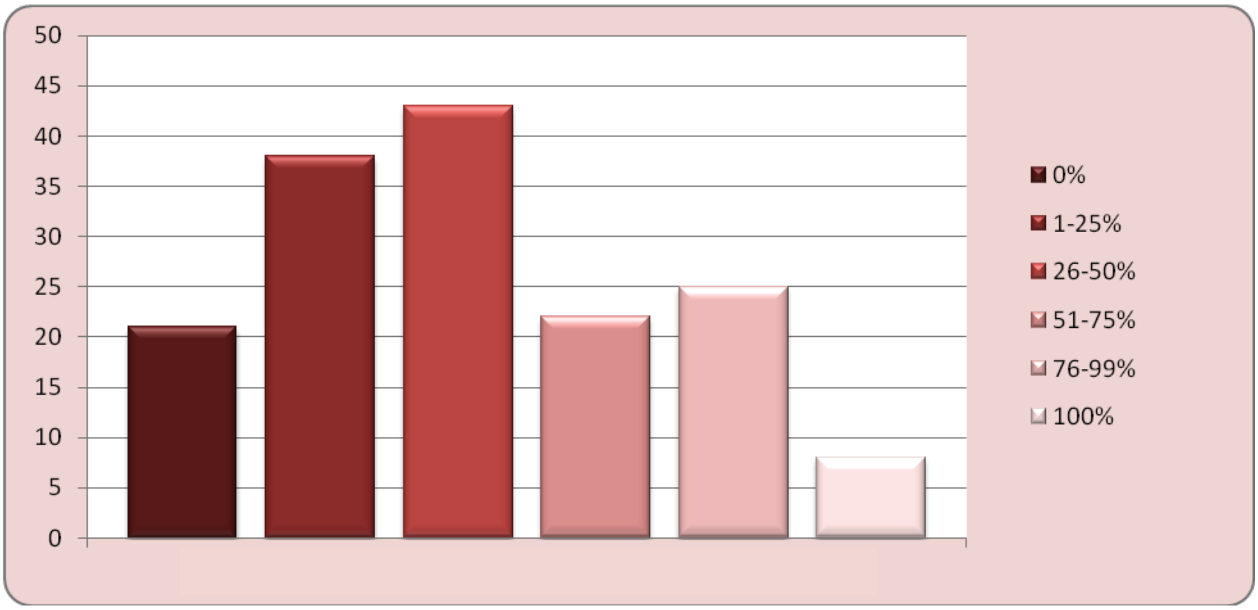
Complete results: 34 - In what % of new clients do you find a minor omission by the previous accountant?



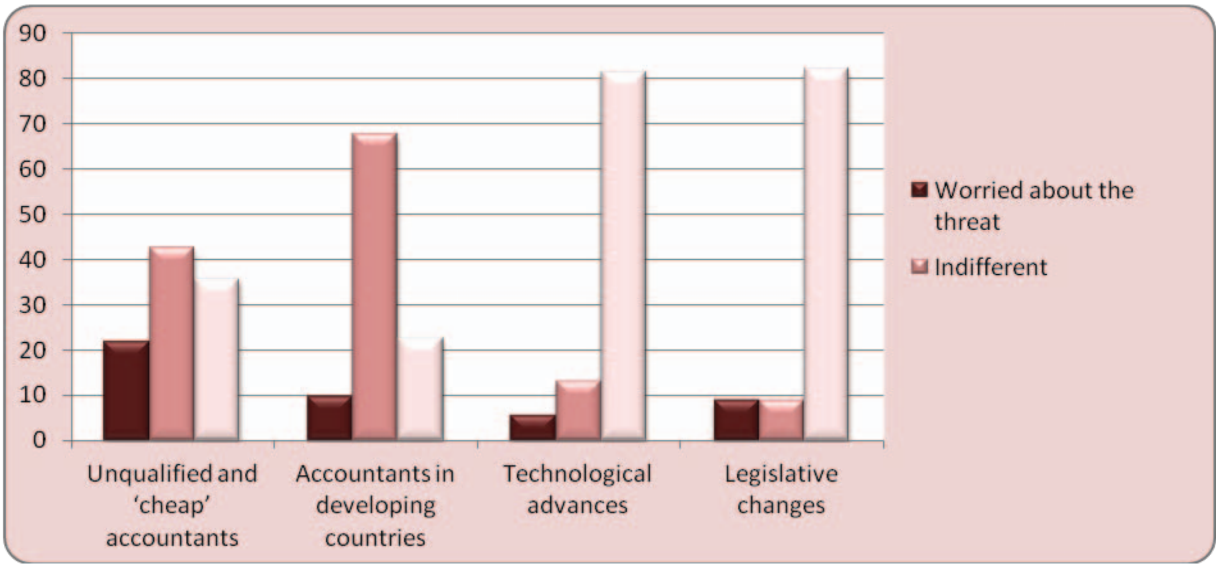
Complete results: 35 - What are the most common errors and omissions you come across?



Complete results: 36 - Do you want to substantially make changes as above?



Complete results: 37 - % of annual account jobs that are turned around within 30 days.



Complete results: 38 - How do you feel about the external threats above?

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