Starting Your Own Firm

The right way to pinch pennies

The key cost components in accounting firms that should not be sacrificed in order to maintain the high quality standards are payroll and quality staff, technology and fixed overhead.

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By ALI JAFFER

With summer vacations now a distant memory, accounting practitioners are setting their budgets for the upcoming busy season. As accounting standards are tightened and Canada Revenue Agency requirements for reporting increase, most accounting firms see their margins diminishing. Although there is an abundance of work for the practising accountant, most firm owners or partners must be aware of tightening margins and set their fees at a level that provides effective value to their clients.

There are certain cost elements of an accounting firm, or any business for that matter, that cannot be reduced without sacrificing the quality of the financial reports produced. After all, the accounting owner wears the hat of the entrepreneur and faces many of the challenges that small to mid-size business owners face. This article will examine areas where accountants can avoid making penny-pinching mistakes — and where some penny-pinching is warranted — without sacrificing the long-term viability of the firm.

The key cost components in accounting firms that should not be sacrificed in order to maintain the high quality standards are payroll and quality staff, technology and fixed overhead. While penny-pinching can reduce costs, there are times when frugality can cost an accounting firm significantly from an efficiency and client retention point of view.

Fees charged by accounting firms demonstrate the value they are able to add. Similarly, when spending for the firm, accountants get what they pay for. The ultimate goal of a successful firm is to spend on items that will grow the firm.

Quality staff

This is one area that definitely differentiates successful from average firms. Quality employees are very tough to find nowadays; trying to squeeze employees at a lower wage will result in lower quality engagements and consequently, decreased profitability. The key consideration is to ensure quality staff is retained. Partners should review the various surveys and reports available to ensure that their compensation packages are where they should be and more importantly, exceed the industry averages.

The strongest firms should have payrolls in the 30 to 35 per cent range of annual revenues. Hiring additional staff is usually more advantageous than having less staff. On average, having 15 to 20 per cent capacity will allow firms to absorb new client files, take on client emergencies and cover staff absences. When times are tough, firms should hire contract workers during busy periods rather than change the balance of existing staff levels.

The other advantage to having additional staff is that the practitioner can focus on higher end tasks, building client relations and setting effective accounting and tax plans. Professionals within the firm should be paid well, provided with flexibility and the opportunity to achieve "stretch" goals, and most of all they should have access to resources and training to develop themselves as professionals. Accountants should not be frugal in any funding related to staffing, recruitment or development.

Technology

Many firms are still using dated Windows systems, slower PCs and single monitors. On average, technology costs should range in the two to five per cent range annually. Some critical items often overlooked by penny-pinching include strong billing systems, document management systems, updated servers, cloud technology and portals, lack of automation (resulting in manual work with lack of movement to automated accounting systems that work effectively with scanners) and dual monitors (most accounting firms have a minimum two monitors per staff, and some are moving to three).

Fixed overhead

Choosing an optimal location should remain a high priority for an accountant. Focusing on areas in which high value-added services can be offered will allow for a greater rate of return on overhead costs. As an alternative, purchasing an office unit for the practice can prove to be efficient in the long run.

Furthermore, investing in a professional designer for leasehold improvements will add a professional image to the firm's location.

Marketing

Most accounting firms receive their clients through referrals. Although social media, a website and to a lesser extent print marketing are popular, a reduction in marketing efforts can be replaced

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by cost-effective marketing vehicles:

• Networking groups: A number of these groups have various chapters divided by region. These can prove to be wise for penny-pinchers.

• Boards of trade: Relationships with these can result in referrals if managed well and if events are attended frequently.

• Social media: Using basic social media tools such as LinkedIn, Twitter, Facebook, Google Plus and blogging can increase a firm's exposure significantly at a relatively low cost. Activity does not need to be done daily and most practitioners do not need to spend more than 15 minutes a day on social media activities.

Internal efficiencies

When topline revenue growth stagnates, firms have no choice but to tighten their costs in 10 key internal efficiency areas:

• Buy a time and billing system. The last thing firms want to avoid is not capturing revenue by going the cheap route on technology.

• Request three quotes from software vendors or consultants.

• Keep employees happy by offering flexible work arrangements.

• Share costs where allowable with other professionals such as certain subscriptions or software.

• Attend professional development training to avoid additional costly mistakes and ensure staff and partners are up to date on current accounting and tax rules.

• Set a budget for each client.

• Buy what the firm can afford — do not buy the Rolls Royce when you can only afford the Toyota.

• Continue building goodwill with existing clients and centres of influences.

• Manage work in progress effectively.

• Establish a firm-wide credit policy that is strictly adhered to.

Upon review of the categories in which the firm invests, costs as a percentage of revenue should fall within these ranges: payroll, 30 to 35 per cent; overhead and administration, eight to 10 per cent; technology, two to five per cent; Total, 40 to 50 per cent.

While many elements to the cost base of a professional practice can be adjusted to remain frugal, the nucleus must remain strong for long-term success. Furthermore, short-term and long-term goals must be reviewed regularly with the team of professionals. Jim Collins, author of *Good to Great* put it well: "great vision without great people is irrelevant."

Accounting firms must stay the course and find the right balance and not become too frugal on people, location and technology in order to remain competitive in the industry.

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Avoid blandness of 'corporate speak'

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tors doesn't mean you can be sloppy in your dress, language or business habits. You are, after all, a professional, and that defines much of your conduct.

Getting rid of corporate speak doesn't mean speaking in slang terms (don't call the client "dude"), using juvenile language patterns (so like don't, like, do that) or introducing texting language into e-mails — there is no place in business writing for smiley faces.

Here's a business truth to live by: if you present well, people think you do everything well. And presenting well means speaking in proper English that doesn't push either extreme of the casual/formal spectrum.

When business people go to a small firm for their accounting needs, they are looking for personalized service, not a shadow of the buttoned-down service they would get at a fig firm. They want to know that the person they meet is the person who will do their work, and they want to feel comfortable with that person — not annoyed or intimidated by someone who talks down to them.

Filling these needs is your competitive advantage and communicating in plain English, in a friendly manner, is how you demonstrate it.

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