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CASE STUDY:

Building a Thriving New CPA Firm— Even in a Recession

As a relatively new firm, the key challenges that CEB & Company LLC faces are maintaining growth by keeping current clients happy, attracting new clients to expand the firm's client base, and ensuring that the firm has the right talent—i.e., well-trained and qualified staff. "Although these challenges have been around for some time, the approach to dealing with them has changed in the past year," says Patrick O'Malley, one of the firm's partners.

Meeting these challenges required some major changes for this firm. In 2008, O'Malley and his current partner split off from a four-partner firm with 11 employees to form their current firm with two partners and nine employees. The move was important for O'Malley because the four partners were not aligned well enough to be able to adjust to the growth and talent challenges facing most CPA firms. The split came largely because of differences about business development and staff development activities, explains O'Malley.

Now that the break is complete and the new, Chicago-based firm is established, "we are serving the same clients with the same staff that we had a year ago," he says. Annual revenue is approximately \$1.7 million.

However, the new firm has developed a sig-

nificantly better training program for its staff, one based on a different approach to both tax and audit training. "As a result of this new approach, our people are more responsive, they are doing work at a higher level, and they are participating in client service at a higher level," he notes. "That is leading to positive feedback from clients and from the staff themselves."

Mixed bag of recession changes. Of course, growing a firm requires expanding into new areas, even in a recession. "We've always believed that the best clients come from referrals, so having a strong personal marketing referral network is a very good way to develop business in our environment," says O'Malley.

Having good relationships with attorneys and bankers who work with clients that are in the firm's target markets is also important. "Our target markets are closely-held and family-owned businesses and high net worth individuals," he said.

In terms of new markets to explore, O'Malley sees the recession as yielding new opportunities. For example, he thinks there is new business to be had in the retirement plan market. Midsize companies relying on their larger CPA firms to handle retirement plan services as an add-on are likely to be paying higher fees for those services than they would with smaller firms.

"We are trying to be in a spot where we have a relationship with both the bigger CPA firms and plan administrators in order to develop that business," he explains.

Based on his experience with past recessions, O'Malley notes that layoffs within larger companies often lead people to start their own businesses; those new businesses will require support from a CPA firm. "We have always had a strong approach with start-up businesses."

Regardless of the client, O'Malley emphasizes the strength of his firm's client-service teams. After all, no matter how large a CPA firm a company hires, the service will only be as good as the team servicing the client's needs. "If you hire a large firm, you still have that one team of two or three people who are working on your account, and that's your talent," he says. "We're able to provide two or three people who have talent comparable to the people in any firm that they can hire." O'Malley also emphasizes the partner-level service he provides to all of the firm's clients, which is generally not available from a larger firm.

If the recession promised to open up new markets for business development, it has been a mixed bag when it comes to finding strong talent. Although there is talent available now that some of the larger firms have been laying off people, "they are probably not laying off the top 80 percent of their talent," notes O'Malley. As a result, it takes some time to go through résumés to find good candidates. When it comes to finding new hires among recent graduates, the math becomes a little easier. When the larger firms were hiring a lot of recent graduates, it became harder for smaller firms to compete. Now, however, "we can find good people coming out of school," he says.

Although the competition for clients is higher than the competition for staff, O'Malley still finds staffing matters more difficult to deal with. "Managing younger people is different than it was in my personal experiences and my partner's personal experiences," states O'Malley. "You have to

approach management in a way that's different from how you were managed when you were their age. You have to try to be more understanding and thoughtful about it."

When the new firm launched, staff training was a key element of the firm's plans and it is paying off. "When you put people in a position to learn and grow, you get a lot of support from the staff and, in the end, the whole firm is working together to achieve the same thing," says O'Malley.

"In this environment, you get a lot of back-and-forth and input from people who have a lot to offer. In the old-school environment, the major obstacle was people's fear of bothering someone or of bringing up something that had already been dealt with. Putting people in a position where there is a more open and thoughtful environment makes them more willing to share their ideas and thoughts."

New challenges. In an increasingly global marketplace, having international experience can give a firm a tremendous advantage. Currently, O'Malley estimates that 3 percent to 5 percent of the firm's work involves global issues, but globalization is one development that will continue to play an important role with many of his clients.

"We do expect to see some of our larger closely-held business clients seek opportunities in different countries," he says. For example, having assets moved offshore to safeguard them from predators is a key challenge because the government often views those kinds of activities as potentially tax-motivated. "Even though our clients aren't doing it for tax-motivated reasons, they still have to comply with the rules," he says.

Other opportunities are also likely to arise. "If a client is looking to make an offshore acquisition, we work to get our arms around all the potential issues so that we can address those things in the calls and meetings," O'Malley adds. He also notes that the improvement in online research services has made dealing with these issues much easier. "Compared to ten years ago, today you can gather research and generate an answer much more

quickly," he says.

In addition, O'Malley maintains relationships with other CPA firms so that he can refer certain matters that are beyond his firm's scope. He is also exploring an alliance with a law firm and a consulting firm to enhance client service. "We want to bring a team to the table to help solve clients' problems," he says.

Keeping up with changes in the profession is also a challenge. Everything from peer review and auditing standards to FASB rules and tax laws are changing and becoming more numerous and comprehensive. "Keeping up to date on all those different changes so that we are well prepared to serve our clients is a constant challenge," he admits. The good news is that answers are easier and quicker to obtain thanks to electronic research tools.

"You're being pulled in all directions," says

O'Malley. Although technology makes it easier to stay abreast of changes, the sheer volume of information makes it harder for a smaller firm to keep up. "Larger firms have more critical mass and resources at their disposal and can attack some of these issues in a departmental way," he explains. "You don't have to be a jack of all trades [at a large firm], while we have to be jack of all trades as well as specialists in all these categories—and be able to find a specialist when it's necessary."

Although there are many demands to be met as a partner in a smaller firm, overall "it's satisfying to be independent and to be able to work directly with the clients as a partner," O'Malley notes. "When you are in an office- and staff-sharing arrangement, the conflicts are going to be constant. By contrast, when you are operating from the point of view of working together toward the same goals, you are going to be able to resolve those conflicts more readily." □

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