

Industry Trends

The Benefits of Being Famous

By Allan Koltin

Q: For three decades, you have been a big proponent of industry and/or service-line expertise and have suggested it is a major differentiator with clients. Does that still hold true today?

A: One only has to look as far as the medical and legal professions to see where this trend is heading. It is safe to say that in the practice of medicine, the brain and heart surgeons' rates dwarf that of the general family physicians. In the practice of law, the highly specialized M&A or estate planning attorney can bill out at a much higher rate than a general corporate attorney. The accounting profession is quickly catching up with the other professions in terms of specialization being a huge differentiator with clients. When I review surveys of the most profitable firms in the country (firms of all different sizes), more often than not, industry or service-line expertise is the number-one reason for high profits amongst high-performing firms.

Q: Could you give some examples of industry and service-line expertise?

A: It is endless in terms of which industry and/or service line a firm can choose. Each year, ACCOUNTING TODAY publishes a list of industry and service-line areas that are popular with CPA firms. Candidly, the easy part is picking an industry; the more challenging part is developing a business plan and successfully implementing it (see Exhibit A and Exhibit B).

Q: Which factors should be used to determine whether a market will support an industry or service-line expert?

A: The first question I think someone should ask is, "Is there a market need for this service in the firm's geography?" This typically is a quick calculation of the number of companies that may have a need for

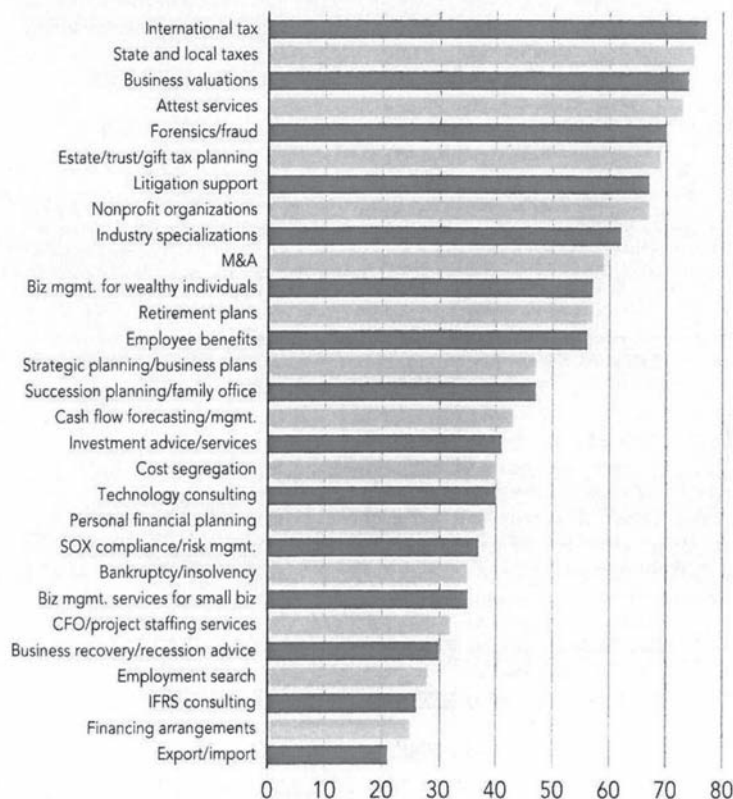
this service. All major markets will typically support an industry and/or service-line expertise. Occasionally, in some smaller markets, they may have to expand their geography.

The second question that should be addressed is, "Which firm (or firms) is currently viewed as the famous firm(s) in the market, and what type of market share does it have?" Often, we will find that, while an individual firm may have significant market penetra-

Exhibit 1:

Top niche services

Percentage of firms increasing their business in these areas
(of 82 firms responding)

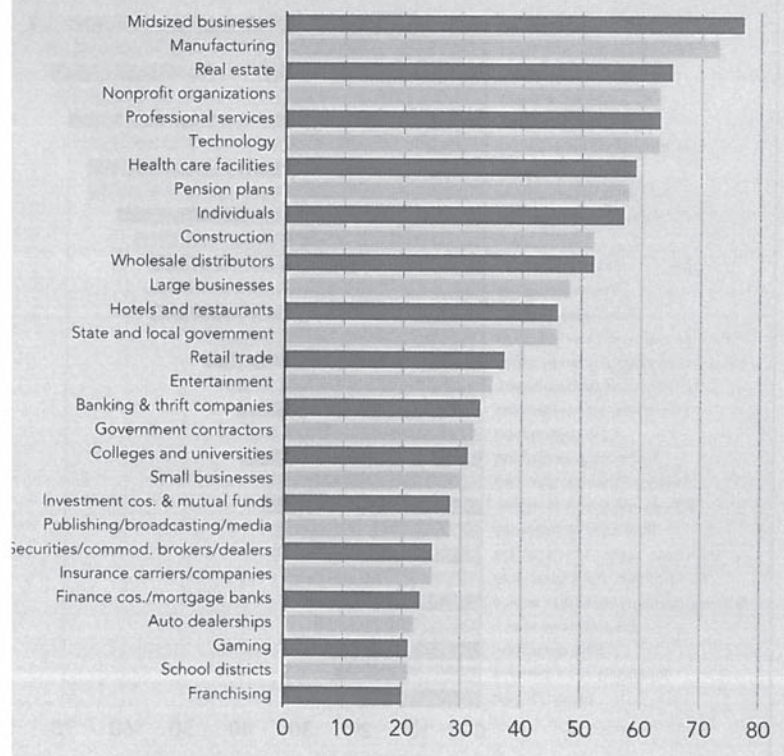


Source: AccountingTODAY 2012

Exhibit 2:

Top client categories

Percentage of firms increasing their business with these types of clients
(of 82 firms responding)



Source: AccountingTODAY 2012

tion, there will also be a handful of firms dabbling in the niche without a true market leader. This stage of gathering competitive knowledge and information is critical as it will, to some degree, determine how we want to position our firm in the market.

Q: Are there any other key tangibles or intangibles that the firm should look to in assessing the market?

A: Probably the biggest item is what I refer to as the “Champion.” All great niches, whether they are industry or service line, have an individual who has a burning passion to build and excel in this practice area. Sometimes, these individuals can be homegrown. Other times, the firm needs to go to the outside and recruit or merge in the specialist. The difficulty I see with internal specialists is that they typically have what I refer to as their “day

job” and, because of that, they often dabble in the niche without a lot of results. A great example of this took place in the 1990s when everyone seemed to be getting their certification in business valuations. Ten years later, when we look at the thousands of CPAs who got their business valuation designation, probably only five percent have reached what I would refer to as “famous person” or “famous firm” status. Safe to say, if individuals aren’t willing to bet a significant part of their compensation on their own success, the niche is probably doomed to be nothing more than a defensive strategy, and it will never take off.

Q: What is the short list of marketing tactics on which specialists usually rely to get the message out?

A: At a minimum, you can always tell someone is committed to the niche when you see that he or she speaks at the industry trade conferences and is regularly published in the industry trade journals. In addition, the specialist may be involved in an industry survey and occasionally sponsor industry roundtables where he or she serves as the moderator or chairperson. Additionally, it would not be surprising to see the individual or firm using social media to provide a blog with periodic updates on the specialty or maintaining a Twitter feed.

Q: Are there structures within a firm that make it easier for a firm to specialize?

A: Absolutely. I guess in the extreme example, the firm would be set up by industry and service lines. Having said this, unless the firm is a boutique that is almost 100-percent committed to the niche, more often than not, industry and service-line teams are set up more as “go to market” groups. Whereby, if it is an industry niche, the individual may be part of the accounting, tax, or consulting group, but then would band together with other service-line experts to form an industry team from a marketing standpoint.

Q: In terms of funding and providing capital to grow an industry or service-line niche, what do the partners of the CPA firm need to know?

A: First, they have to have the wherewithal to know that success won’t be overnight and there might be fail-

ures along the way. My favorite story is from when we had our own CPA firm and decided that technology consulting would be a great service-line niche in which to specialize. Would you believe we hired and then fired (or they left before we could fire them!) 12 different heads of technology until we found “Mr. Right” as our 13th and final hire? That individual looked at the puzzle differently than his predecessors did and said that part of the problem with our specialty was that it was too broad and not focused enough. He quickly picked nonprofits as the industry niche to which we would provide technology consulting and the practice took off exponentially!

Q: It sounds as though you are suggesting it is beneficial to combine industry and service-line expertise.

A: That, for me, is the ultimate and absolutely best way to differentiate yourself from your competition. I remember working with a firm in the South years ago that had an industry expertise in auto dealerships and a service-line expertise in business valuations. The firm combined these two niches and became the dominant firm in the region with auto dealerships when it came to anything dealing with valuation-related topics.

Q: How do you get the partners on board to support specialization?

A: I guess the first level is a financial one, in that building out the niche will require partner capital. The second level, which may be more important, is to get them to actually refer clients into the niche. This goes for existing clients of the firm (yes, this is a “give up” by some of the partners, as it could come from their own book of business), but it also relies on partners referring new clients to the industry or service-line expert. A good example of how difficult this process can be is when you talk about wealth management and financial services in CPA firms. Often, I will see a firm go into this area, either with the wrong champion or a lack of commitment on the part of the partners. Sometimes, partners will take a “wait and see” attitude because they don’t want to risk their own clients having a bad experience. They will wait for other partners to first expose their own clients to see if the practice is successful. Interestingly, the same partners who are hesitant to move their high-net-worth clients to the firm’s new wealth management practice are typically the first to get in line at the end of the year when the firm is allocating the profits from that group. To me, being a partner in the firm and not supporting an industry or service-line practice should not “entitle” a partner to receive the fi-

nancial benefits that come with it. When it comes to compensation, it is what I often refer to as a “pay to play” strategy. Partners need to support the niche, not just with their capital, but also with their client base and potential referrals of new clients into the niche.

Q: When selecting a champion, what is important to keep in mind?

A: In addition to the point previously mentioned about selecting someone who is passionate about the niche, the champion should have available time to commit to the niche. Occasionally, firms take their most talented individual and make him or her the practice leader, only to see the niche initiative fail. If it is an internal selection, that individual needs to be freed up to spend adequate time growing the niche. I also believe that the champion should be something of a risk-taker and self-starter. There is no “play book” on precisely how to launch an industry or service-line niche. You need to select someone who is: (1) willing to take a risk (both in terms of his or her own compensation and trying new things); and (2) a bit of a visionary who will try to do things that potentially no one else has done before. Additionally, I think it is critical that the leader have the ability to “sell” within the niche. Frequently, I will see firms take their best technician and put him or her in charge of the niche. This strategy is often doomed for failure because this individual will frequently wait for the phone to ring and does not have the skill set that is needed to bring new business to the firm.

Q: Must the firm be the actual expert or deliverer of the service, or can it joint-venture with a third party or outside group?

A: Great question! In the past decade, we have seen more firms than ever before develop new service lines (and, to a lesser degree, industry niches), but partnering with a third party. This can be in the form of an alliance, a strategic relationship, or a financial investment in a separate entity. This has proven to be an exceptional strategy for many firms that didn’t want to make the financial commitment required to build out the structure and/or simply didn’t have or want to invest in the technical experts to build this practice area (*e.g.*, wealth management, cost segregation, engineered tax credits, or sale of life insurance).

Q: How does one know when famous firm or famous person status is achieved?

A: This is typically easy to measure because the firms or individuals appear to be everywhere when you look

at their involvement, especially if it is an industry niche focus. As I said previously, they not only speak and write for the trade journals, but they are also typically the go-to person when it comes to creating and interpreting industry surveys. They are well known by their competition and are the firm that is typically invited to propose on any new engagements. Clients seem to like the fact that the individual or firm has deep industry expertise and don't see it as a negative that they might work with competitors in the industry.

One final test as to when someone can, in fact, claim fame in the industry comes from my good friend Tom Feeley of Feeley & Driscoll in Boston. For many years, his firm has been the market leader in working with contrac-

tors. Tom once said that you know you've arrived in terms of being an industry expert when you know as much or more than a CEO of a mid-sized company within that industry. It is not just about accounting, tax, and auditing; it is about being a true business advisor and being able to strategically talk to the company about how to grow its business and improve its profitability.

About the author: Allan D. Koltin, CPA is the CEO of Koltin Consulting Group, based in Chicago, Illinois. Allan specializes in the areas of partner compensation, firm governance, profitability, strategic planning, succession, and mergers and acquisitions. Allan can be reached at either akoltin@koltin.com or 312-805-0307. ✦

Partner Compensation

Continued from page 12

A partner who can increase the staff's billable hours is more valuable to the firm than the partner who only keeps himself busy. Today, we see more firms focus on gross profits. Of course, some work is more profitable than other work. For example, nonprofit has a lower margin than litigation support or tax planning. Nevertheless, each service area should have a profit margin goal set at the beginning of the year.

Firm leadership

Firm leaders need to be compensated based on different criteria, especially in larger firms. True leaders focus on getting the firm to achieve its vision and strategic objectives by: (1) helping the other partners in the firm achieve their goals; (2) setting the firm's vision; and (3) being a role model that represents everything the firm stands for.

Intangible contributions

Each partner should add something to the overall value of the firm. Whether this is through marketing, developing a new process, improving the skills of junior staff, or starting a new service line, these intangible contributions add to the future viability of the firm.

What should your firm do?

Designing a compensation plan is never easy, and unfortunately there is no perfect plan. That does not mean you should not try to create a plan that is fair and fairly applied. My experience has shown that a pure formula plan (*i.e.*, eat what you kill) will pull a firm apart and keep partners from working for the betterment of the firm. It has also taught me that a pure entitlement plan (*i.e.*, based on seniority or equity) is equally a disaster.

The best plans look at total compensation. In many firms today, total compensation consists of the following:

- base;
- some type of performance bonus;
- return on equity (or capital); and
- discretionary element.

The art of creating these plans is to identify how each partner can make the firm better, stronger, and more profitable. Then, set partner goals at the beginning of the year and set a performance budget to reward partners who achieve their goals. Partners must realize that goal attainment is not a zero-sum game. They can all be successful in goal attainment and make more money.

Creating the plan takes time and requires a lot of honest and robust dialogue among the partners. These meetings need to be facilitated so everyone feels comfortable discussing the topic and the partners with the biggest client list or the loudest voice do not take control of the meeting.

Each firm creates its own compensation plan. It is a good plan if it drives the partners to exhibit the desired behavior and achieve the agreed upon results the firm is looking for.

About the author: August Aquila is the co-author of *PERFORMANCE IS EVERYTHING: THE WHY WHAT AND HOW OF DESIGNING COMPENSATION PLANS*, published by the AICPA. He is also the co-author of *COMPENSATION AS A STRATEGIC ASSET*, also published by the AICPA. He focuses his consulting on compensation plan design, succession planning, mergers & acquisitions, and partnership issues. You can reach August at 952-930-1295 or aaquila@aquilaadvisors.com for a free consultation. ✦
