

Financial Analysis—Just the Facts

More on a topic CPAs hate!

By Gale Crosley

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In the October issue of CPA PRACTICE MANAGEMENT FORUM, my article on the importance of financial analysis to firm growth left some readers less than totally convinced.

One partner responded, “Gale, I read what you wrote about using financial analysis to develop our growth strategy. Quite frankly, I would rather just go out and find some leads. Financial analysis sounds good in theory. But can it really help me grow my niche? Can you show me?”

You bet I can! Let’s look at how some firms have grabbed the financial analysis bull by the horns and run with it. Check out these real-life examples in a variety of service lines and industries.

Employee benefit plan audits (EBPA). The analysis conducted by Firm A revealed a 20-percent difference in realization rates between two client groups using its EBPA service. The firm was aware that for one group (those clients where the firm also performs the financial statement audit), benefit audits were used as a loss leader. However, the firm had no idea how deep the discounting had gone. The “price it to get ‘em in the door” strategy had degraded over the years to almost giving the service away for free. Time for a re-think!

Technology. A number of years ago, Firm B positioned itself as a leader in services for software, hardware, telecommunications, and other tech companies. However, according to an in-depth analysis, the bulk of the revenue was now coming largely from social media-based technology companies. Without that data, the firm could not have known that it was sitting on an important niche. Now, rather than throw a net widely across all technology, Firm B is focusing its growth efforts on the sub-niche and redefining its market.

Manufacturing. Firm C used financial analysis to learn which of its manufacturing clients had an overseas presence. The managing partner was surprised to learn that more than half had some type of global involvement. As a result, the firm began to develop an

international strategy in its manufacturing niche, using this information to point the firm in the right direction.

Financial services. Firm D gathered data on its financial services clients, which included mortgage companies, brokers, RIAs, and private equity groups. Surprise! Two clients—both mortgage companies—were responsible for generating 40 percent of the revenue from the niche. Another 100 small clients made up the additional 60 percent. With the bulk of its clients spread wide and thin with no significant concentration, Firm D focused its market research efforts to prove whether additional mortgage companies were the buyer group to develop. Oh, and by the way, they were also surprised by low realization rates identified in some of the other sub-niches, which led to a pruning of the client base.

Audit. Financial analysis in Firm E revealed that this firm’s realization rate was 10 points lower than its peers. Further analysis, sorted by industry, revealed inconsistent methods and audit inefficiencies in two of its industries. Working with those industry leaders, the audit leader implemented Lean/Six Sigma techniques to increase audit realization rates in those niches.

Real estate. Firm F was able to confirm that its strong suit within the real estate industry was shopping centers. Based on the numbers—and subsequent Research CallsSM in the real estate market—the firm saw no reason to move away from shopping centers. Leaders pursued growth by identifying new channels of distribution to further strengthen this important sub-niche.

Client accounting services. Similar to Firm D, which learned that two clients were generating 40 percent of revenue within a single segment, Firm G used financial analysis to discover that two nonprofit organizations were each responsible for \$100,000 in revenue. The remaining revenue was divided among 50 small clients representing about a dozen other industries. Rather than attempt to serve this hodge-podge of retail, travel, service, and restaurant clients, Firm G used its knowledge and track record to successfully attract more CAS services in nonprofits.

Tax practice. Drilling down into its individual tax practice, Firm H uncovered significant realization differences among partners. It was basically a free-for-all with partners using their own strategies (some more efficient than others) to bill for 1040s. The analysis led to a change—moving low-end, individual tax returns out of the hands of partners and into a tax-processing center, with one partner leading the service line. Realization rates climbed several points as a result.

Wealth management. Firm I performed an analysis to uncover the percentage of revenue and clients in its wealth management practice currently using the firm for other services. A high number would suggest that partners were successfully serving as a channel of distribution into the wealth management practice. A low number would mean that the firm needed more non-clients to grow its wealth management practice.

Government. Firm J, a specialist in government, shared with me its analysis showing that 100 percent of the government-client revenues were in audit. As the firm's growth coach, I pointed out that cash-starved states and municipalities might need help in many other areas these days (*e.g.*, budgeting, cost control, and process improvement). By limiting its offerings to low-realization audits, Firm J was potentially missing a huge opportunity. Subsequent research calls proved this and the firm is embarking on a path to bring consulting services to the government market.

Not for profit. Firm K has 10 offices. Its financial analysis revealed significant differences in sub-niche penetration, average client sizes, and realization rates. Armed with this information, the NFP leader crafted a strategy to develop strength in NFP across the firm, based upon the unique strengths in individual offices.

International. Firm L's financial analysis brought sharp clarity to its current concentration of international work in five countries and three industries. Now, rather than running all over the globe, the firm is de-

veloping services, distribution channels, and buyers in these specific areas.

Healthcare. Firms M & N merged. The post-merger analysis indicated potential synergies between M's hospital segment and N's physician segment. Hospitals have been buying up physician practices recently, which led the firm to launch a new merger & acquisition service in the healthcare market.

Why were these situations so surprising to their respective firms? Because in a typical book-of-business model, partners know their own client-base numbers. However, most firms have not analyzed their numbers by service line or industry to help them look for patterns and draw conclusions. More often than not, firms rely on anecdotal information and erroneous conclusions.

What is the takeaway from these examples? *It is not just about growth; it is about focused and profitable growth.* And, without the benefit of financial analysis, it is difficult to point your strategy in the right direction.

Don't let the difficulty of the task deter you. Take a crowbar to that computer if it won't spit out the numbers. Do the analysis by hand if you have to. Find someone in the firm who can swing around Excel Pivot tables. Dig in, get the facts, and use them to grow your firm. You will be glad you did!

About the Author: Gale Crosley, CPA, consults with accounting firms on revenue growth. She was selected one of the Most Recommended Consultants in the INSIDE PUBLIC ACCOUNTING BEST OF THE BEST Annual Survey of Firms for nine consecutive years, and one of the Top 100 Most Influential People in Accounting by ACCOUNTING TODAY for seven consecutive years. She is an honors accounting graduate from the University of Akron, Ohio, winner of the Simonetti Distinguished Business Alumni Award, and an Editorial Advisor for the JOURNAL OF ACCOUNTANCY. ✦



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