

Case Studies: Expand Into Niches: Real-World Growth Strategies That Work

Growth is *the* goal for most CPA firms now. How to make growth happen in the most profitable and productive way for your individual firm is a critical process. Four firms recently shared their processes with AOMAR in recent conversations. Their stories provide inspiration and ideas that your firm may want to consider in the new year.

Specialization is not news in the world of CPA firms—but which niches the firm chooses and how it develops them can be a key growth strategy. In fact, growing a niche within a niche is a way to build upon a ready-made market, as one South Carolina CPA firm has learned.

The firm operates two local offices, has three equity owners, 10 staff members, and revenues less than \$2 million. Too small to operate niches—much less sub-niches? Not so, affirms one partner: "Our success can be attributed to our continued focus on niche markets, which includes local governments and providing auditing and consulting services." Auditing accounts for 75% of the firm's revenues.

"We are also considering getting into financial advisory work, have begun work on a massive project to develop a financial policies and procedures manual, and are expanding into new territories," he noted.

The strategy to increase revenue from existing niches is based on expanded marketing efforts and planned fee raises. To compete effectively with other local CPA firms, "the strategy is to compete based on quality of service, marketing, and relationships," he said.

While the firm is not experiencing a staffing shortage, the partners acknowledge a need for professionals with industry specialization for its niche practices and planned to add two or three more people this year. A longstanding program provides specialized training (almost all done in-house) to current staff on an ongoing basis. The firm is also adding benefits to improve recruitment and retention, forming alliances with other CPA firms, and ensuring that the organization has a desirable culture.

On another front, the firm has placed a priority on making necessary changes to technology and infrastructure to support its initiatives and will dedicate money and training to support the effort.

Innovate with billing practices. Though hourly billing is still the leading way for CPA firms to manage engagement time, less-traditional ways can help firms to grow.

A Georgia CPA firm with a single office and revenues in the range of \$2 million to \$4 million has three equity owners, two non-equity owners, and 12 staff. The focus of this practice is on tax and audit work. Despite this traditional flavor to the practice, about 40% of the billing is value and engagement billing.

"Value billing is tough," admits one of the firm's partners. "However, I did get a lot of experience in this mindset as a senior member and manager at a large firm in the 1980s. You may, in fact, incur losses before you figure it out. My perspective is to look at every product that we deliver as a commodity and price it accordingly. "While you may price

yourself out of some opportunities, the economics speak for themselves when you finally land a solid value-billed project. These opportunities usually result in long-term, large clients."

It is also producing a comfort level with raising fees that other firms may envy. A 5% increase was slated for 2007. Part of this raise was a catch-up to bring the firm to where the partners wanted to be. Said one, "We have also carefully set billing rates for medium-level performers based on efficiency factors as well as the traditional cost approach." "We are informing clients as we go and so far have not received resistance." Quality is key in effective competition—and outweighs other factors, the partner added.

No matter how the firm bills, realization is a key consideration for growth. This firm is reducing its emphasis on nonprofit service, which was a primary niche, because of lower realization on these engagements.

Profits have been strong enough that the firm planned to put up to 10% of profits into new initiatives this year. The most popular of these initiatives is moving to a paperless system. "The staff love the paperless system and this has the potential for long-term savings despite the upfront costs in terms of investing in software, hardware upgrades, and training," he said.

Help clients grow. If clients grow, so can the CPA firms that serve them—or so goes the successful theory behind growth at a southern CPA firm that launched a niche to help clients improve their performance. This novel, "client-centric" niche approach provided the firm with close to a 10% jump in revenues in one year.

The firm, which operates one office with a total staff of 85, estimates its revenues in the \$17 million to \$20 million range. A significant portion of its revenue is derived from tax work (55%), followed by auditing and accounting (30%), specialty services (10%), and compilation and review (5%). The firm's client-centric approach to help clients increase profitability is at the core of its success, reports the chief operating officer.

"Our firm started a growth and profit solutions (GPS) niche that is engineered around facilitation versus consultation with our clients," the COO said. "We have all heard about asking the tough questions such as, what keeps you awake at night? Our niche goes beyond that type of question and drives to the core of the client's issues. Once we identify the core issues with the client, we facilitate solutions to drive their performance. Our GPS niche offers a complementary solution to our core accounting, auditing, and tax services."

Case in point: Beginning in late 2005 and continuing to the present, the firm's GPS team worked with a long-time client that had used its accounting and tax services for the past 20 years. The family business needed succession planning, and the GPS team facilitated strategic planning sessions with each of the core areas to drive the plan into action. The key areas included marketing and sales, operations, and boutiques.

The client ended 2006 with a 22% and 27% year-over-year increase in revenue and profits, respectively. This also included a bonus pool distribution to the client's employees. Through the GPS facilitation approach, the client engaged its management team to position the company for the next generation of owners.

The COO admitted there is a huge learning curve for its CPAs, since the core competencies that are required for GPS are not typical for the accounting profession. "However, there is a huge upside to establishing integrated relationships with clients that go beyond the typical client-accountant relationship."

Determining where to expand, whether into a niche market or by offering specialty services, is never easy. To tackle the challenge, the firm established a task force to review each request. "Treat it like a process and follow the process systematically," the COO said. "You need to review the niche or specialty service plan in terms of what is best for the firm in terms of its vision, mission, and capacity."

Recruit and retain. Staff resources are a challenge for many firms, but there are steps that you can take. Aggressive recruiting and retention can help protect these valuable resources that your firm needs to grow, as one Utah CPA firm has learned.

With revenues in the range of \$4 million to \$6 million, the firm planned to put 2% to 5% of profits into new initiatives this year. *The primary focus:* to add a significant number of new staff to expand resources and capabilities. Currently, the firm maintains one office with 10 equity owners and 35 staff.

"While we need to take advantage of the demand to grow the firm, it could, admittedly, result in increased nonbillable percentages," a partner said. Nonetheless, the firm sees it as a sound and necessary investment and cites competing for talent as its No. 1 strategic issue. "The competition as we see it is not so much for the work as it is for staff," he explains.

And not surprisingly, the firm's second most important strategic issue is a shortage of qualified staff. "We intend to cope with our staffing needs by increasing both recruitment *and* retention initiatives," the partner says.

First, the firm is expanding its recruitment efforts by involving more firm members and making recruitment a year-round initiative. Second, it is increasing the firm's exposure at universities, as well as maintaining job postings at recruitment sites and on its own web site. Finally, the firm is offering referral bonuses to current staff.

To increase retention, the firm is raising staff compensation, changing its hierarchy structure to ensure more efficient use of its existing staff, and increasing training so that staff can move up or around the firm more quickly and efficiently.

New benefits being offered are:

- signing bonuses;
- mentor program;
- flex-time;
- part-time telecommute option;
- career path planning; and
- marketing and training.

These staff efforts should help the firm with planned growth that includes new practice areas and an emphasis on marketing to existing clients.

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