

THE ECONOMY HITS CPA FIRMS HARD

By: Marc Rosenberg, CPA

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In February, we surveyed 40 MPs from CPA firms across the country regarding the impact of the recession on their firms. Most of the firms were \$5M to \$20M in annual fees.

- Revenues in the tax season, though sluggish, will be better than revenues expected for 2009 as a whole, due to the presence of more annuity work in the early part of the year. 49% of the firms expect tax season revenues to be flat or down from last year. This compares to 76% of the firms expecting their full year revenues to be flat or down for the full year. Amazingly, 28% of the firms expect a tax season that is either “normal” or up 10% or more while 16% of the firms expect 2009 to be up 10% or more.
- Most firms are reporting that quite a few of their clients are teetering on bankruptcy or have already shut their doors. The situation for clients was described by several firms as “Horrible; many are suffering terribly.”
- Despite the gloomy outlook, most firms are still raising their rates. 33% will do “regular” increases and 41% will increase rates by “a small amount.” The remaining 26% will basically keep their rates unchanged. Clients are definitely putting heat on their CPAs to keep fees down.
- Virtually every firm is experiencing increased receivables and slower collections.
- 40% of the firms are planning layoffs. Most firms are not sure how deep the recession will hit. If the economy continues to plunge, we think more than 60% of firms will lay off staff. Layoffs are hitting the weaker performers first, and then lower level staff.
- Since last fall, the market for experienced staff has been better than it has been in ten years. But firms have mixed feelings about hiring laid off staff because they reason that these people are not much more talented than present staff. Nonetheless, 82% of firms say they will take advantage of this market by upgrading what they have, if the talent is there.
- 61% of firms are planning smaller than usual salary increases for their staff, but 24% are planning “normal” raises especially for their better performers. Firms reason that they always need to “take care” of their people, regardless of the economy. One firm said: “The staff know what's going on in the economy, and they are expecting smaller raises.”
- Under normal conditions, most firms over \$5M in fees are active seekers of mergers. But due to the recession, only 59% say they will still aggressively seek out mergers, with 41%

backpedaling on this. The aggressive firms reason that firms previously on the fence about merging up will now go forward due to the uncertain economic times.

- 54% of the firms are stepping up their marketing efforts and expenditures, feeling that practice development is needed more in a recession than in normal times. 38% of the firms are continuing with their existing plans, which are quite modest considering the industry average is only 1.5% of fees. 8% of the firms report they are cutting back on marketing.

Some noteworthy sound bites:

- One firm has formed a client assessment committee to review client continuance based on ability to pay. Another said they have instituted procedures to lock down any client that is 60 days past due in A/R, and they are placing monetary penalties on partners who don't bill WIP timely.
- Firms are spending much more time with their staff to keep them informed of what's going on with their clients and the general difficulties shared by all CPA firms.
- One firm reported that they are considering two week-long furloughs, if necessary – one week in the summer and one week in November.

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