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Focus on “10s”

Affluent consumers use different criteria than the nonaffluent in selecting services. They place more emphasis on knowledgeable, experienced people who can offer a variety of services. And they value personalized relationships.

—*Journal of Services Marketing*

This chapter is devoted to selling to high-quality clients and prospects—“10s.” Whether you are beginning a new practice or revving up a mature one, the principles in this chapter will be very profitable for you.

Periodically, good businesspeople analyze their client bases and prospects and make certain they are focused on high-quality clients. When you focus your sales and marketing activities on a high-quality market, your payoff (in terms of high-quality new clients) will be maximized. You also will find that clients of lesser quality will be attracted to you at higher prices.

David Morgan says, “We want closely held businesses that are very successful, that would refer us to additional clients, and that are ‘off–calendar-year’ companies. We have to be careful with our staff members to not be too rigorous. We have a strong marketing culture throughout our firm, and when a young person attracts a 1040 client, we welcome that client into our firm. We want the young person to develop selling skills. If we did not allow them to bring in clients that are of lesser quality, many of them wouldn’t have a chance.”

In 1989 the Kanthal Corporation of Sweden discovered a vital statistic about its business: It found that 5 percent of its clients generated 150 percent of its profits. This concept is referred to as the 5–150 rule.

The 5–150 rule does not necessarily mean that the largest 5 percent (in terms of their operations) are included in this rule, just the most profitable. The rule applies to many accounting firms.

If your firm has some very large clients, you probably are devoting special attention to them. How you manage these key clients and how you sell

PORTRAIT OF A SALES LEADER

BILL JENKINS, former managing partner of Kennedy & Coe in Goodland, Kansas, says, “Generally the best businesspeople in many of our 22 markets are doing some business with us. We are the dominant accounting firm in most markets because we are not for everyone.”

Working in his father’s service stations, Bill Jenkins learned that “a man who loves his work is never lonely.” His father’s entrepreneurial spirit was a major influence on Jenkins. His dad suggested that he study accounting when he went to Kansas State University. Jenkins said, “The more I studied accounting, the harder time I had seeing myself doing a lot of the detail work. I was not real accurate and so I had a more difficult time than most.”

He considered teaching and spent a year after obtaining his accounting degree in the teaching program at Kansas State. “I really enjoyed teaching. It was a way to help other people develop themselves and I learned that you could have a much more meaningful conversation with a person who is educated.” This experience may have had a profound effect on Jenkins’s marketing approach during his accounting career. Through Jenkins’s leadership, Kennedy & Coe has developed a series of educational programs that members of the firm, plus a few invited speakers, give to their clients each year.

The most successful program, The Lions Den, is a program for family business owners. Each year the firm hosts about 400 clients and prospects in this three-day program designed to help business owners and their families cope with the complexities of owning, leading, managing, and passing on a successful family business. The firm runs about 25 other programs during the year at various places around its 22-office system in Kansas, Nebraska, Oklahoma, and Colorado.

After obtaining his MBA at the University of Colorado, Jenkins worked for Arthur Young & Company for over four years before joining a small firm in Nebraska. Unhappy with the differences in the two firms, Bill sought improvement by moving to his present firm. He was fortunate to start work in the Goodland, Kansas, office under a future managing partner of the firm. Bob Wilbur was a strong tax accountant and was very involved in the Goodland community. “Bob trained me well to take over as manager in charge of the Goodland office when he became managing partner of the firm in 1977,” says Jenkins of his tutelage under Wilbur.

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PORTRAIT OF A SALES LEADER (Continued)

Jenkins learned to enjoy bringing in new clients. He gained some recognition within the firm as a business developer. That recognition earned him a reputation, and people started to ask him how he did it. That reputation caused Bill to want to do more. During his 23 years with Kennedy & Coe, he has helped open nearly a dozen small offices and trained a number of the firm's current owners to be rainmakers. Jenkins says, "You learn to sell by selling. I think every CPA can learn to sell and I think everyone should sell to some degree. You either have to attract new clients or convince your existing clients to buy more services. Selling is crucial in today's CPA firm."

to others who are similar is one of the most crucial marketing decisions you can make.

Although the first cut in separating clients is based on revenue, evaluate these two clients:

	Client A	Client B
Annual fees for the CPA firm	\$50,000	\$50,000
Gross fees at standard	\$40,000	\$60,000
Year end	April 30	December 31
Distance from CPA office	10 miles	300 miles
Profitability of client	High	Marginal
Growth rate of client	15%+	± 2%

Anyone can clearly see the profitability difference in these two clients. There are many other factors to consider besides just the financial side. Some clients are difficult and demanding. Clients located far from you can be a problem—what toll will travel take on your staff? It's hard to measure these things, but they do have a meaningful impact.

Bob Gaida says it this way: "While it's nice to have a big funnel and just put stuff in, if you put all garbage in, you'll get nothing coming out but garbage. You have to prequalify. Who am I going to be with? What is their sphere of influence? Can they lead me to clients? Are they a potential client? There are two fundamental items I look for: Does the client have the ability to pay a premium fee and do they have a thirst for knowledge?"

What Kanthal Corp. learned is a valuable lesson for all CPA firms: A small minority of clients was masking the heavy losses from other customers.

I learned from the Kanthal lesson and have applied their study to our CPA firm clients. Generally, we classify clients as A through F or 10 through 1. A clients compare to 10s, B clients = 9s, C clients = 7–8s, D clients = 5–6s, E clients = 4, and all the rest are Fs.

Generally, I find that 5 percent of an accounting firm’s clients make up 50 percent of the gross revenue. (Obviously, this is not profitability, but it is a place to start.) After separating out these A clients, we generally find that the next 15 percent of clients account for about 30 percent of the total revenue. These are B clients. By totaling the amount of revenue for the A and B clients, we can see the Pareto rule—the 80–20 rule—come into play. Separating clients in this manner allows us to begin to define a good target market. C clients will account for another 5 percent or so of your revenue.

To obtain the most bang for your buck in marketing, you need to focus your firm’s marketing budget. A \$3 million firm with \$90,000 to \$150,000 to spend on marketing will obtain its best return when the budget is focused on a segment of its total market. Some professionals call this segmentation process “niching.” I find that CPA firms obtain the best results from their marketing investment when they invest those dollars in marketing to A, B, and C clients and to prospects who would be A clients for the firms.

Rating Your Prospects with the MADDEN Test

In Day 7, we are going to help you evaluate your best clients and segment them into finite categories. But first let’s think about what makes a good client. Years ago Dr. David Lill, author, speaker, and professor of marketing, invented the MADDEN test for a good prospect. Both David and I are fans of John Madden, former pro football coach and current sports announcer, and this analogy has stayed with me.

A good prospect under the MADDEN test has:

Money
Accessibility
Desire
Decision-Influencing Power
Eligibility
Need

Money

Be alert to various factors that will answer these questions:

- Will this prospect have the ability and willingness to pay premium or full fees?

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- Who have their previous accountants been?
- Who are their other advisors?
- What do their facilities look like?
- On what scale are their products and services?

Accessibility

For you to sell your services, you must be able to talk to the company. You must have contacts who can refer you to the firm, industry contacts, or other access.

Desire

Next, ask yourself: Does the prospect have the desire, or interest, to work with me or our firm? If the client has the money and you can access the decision influencers, but they do not desire to work with you—guess what? They won't.

Decision-Influencing Power

The next qualifier relates to the decision influencers. Not only must you have access, you must be able to sell to people who can decide to hire you. In other words, if you are selling organs, don't waste your time talking to the monkey! You must have access to decision makers and influencers. Untrained CPAs waste an enormous amount of time talking to low-level employees who are not decision influencers. Generally, if you cannot access the key decision influencers, your message will not get through. Also, if key decision influencers will not talk with you, most times they are not serious about changing accountants.

Eligibility

Is the prospect eligible to do business with you? This question relates to risk, industry, expertise, enjoyment, and many other factors you may set for eligibility. David Morgan says, "If we come into contact with a municipality, we will stop right there. We do not do government agencies. They are not eligible to work with us."

Need

Does the prospect have a need for the services you provide? Do not reserve this question for last. Often it will be the second or third qualifier.

Analyzing Your Clients

When selling to 10s, it is important to follow a manageable eight-step pattern:

1. Set revenue objectives.
2. Identify target prospects and clients.

3. Determine which marketing tools will reach your prospects best.
4. Create an integrated marketing strategy.
5. Set specific objectives, activities, dates to complete, person responsible, and budgets for both time and money.
6. Use your personal contacts.
7. Market deep in the client’s organization.
8. Measure your results.

Let’s assume that you or your firm has a solid client list. Without a great deal of analysis, select five of your “best” clients. You decide what “best” means to you: large size, enjoyment, low risk, and so forth. List those five clients in the first column of the chart shown in Exhibit 7.1.

Exhibit 7.1 Your Five Best Clients

Name	Retention probability (0 to 4)	Expansion possibility (–1 to 3)	Desirability rating (–1 to 3)	= Total score
1.				
2.				
3.				
4.				
5.				

Once you have listed your five best clients, dig a little deeper by analyzing them. One good method is to use retention, expansion, and desirability as measurement tools. Use the following retention, fee-expansion, and desirability keys to rate the five clients on these three issues.

Retention Key

- 4 = Client has given me a referral in last two years.
- 3 = Client has expressed high satisfaction with my work.
- 2 = I think client is happy.
- 1 = There has been a service, fee, or accounting problem.
- 0 = Client is very unhappy.

Fee Expansion Key

- 3 = Premium fee realization and fees growing over 15% annually.

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- 2 = Fee growth over 5% annually, full realization.
- 1 = Fees flat, $\pm 5\%$, 90%+ realization.
- 0 = Less than 90% realization.
- 1 = Intense fee pressure.

Desirability Key

- 3 = Low risk, on retainer, great people who seek our advice.
- 2 = Moderate risk, pay within 30 days, normal people who take our advice.
- 1 = Average risk, pay within 60 days, people who use us most of the time.
- 0 = High risk, or slow pay, or difficult people.
- 1 = High risk, and slow pay, and difficult people.

Now, add the scores together for each of the three measurement tools for each client. You now have a ranking of clients. A perfect score is 10.

Another method you can use to qualify your clients as 10s would be to define what each numerical rating means to your practice. The following chart (see Exhibit 7.2) lists the elements and qualities that would constitute various levels of qualification for the fictional ABC Accounting Firm. Look at the example and make your own judgments for your practice.

Once you have evaluated the types of clients you want or would be willing to accept, the next step is to begin to identify prospects who are very similar. List the best 10 of these prospects in the next chart (see Exhibit 7.3). Then, using the visibility and CPA strength keys that follow, rate each prospect on their visibility and how strong their current CPA is.

Visibility Key

- 5 = Would hire me tomorrow. I am in second place with no competition.
- 4 = I could propose but there may be competition.
- 3 = Prospect knows us fairly well.
- 2 = Prospect is aware of us and has been qualified.
- 1 = I have had no interaction and do not know suspect.

CPA Strength Key

- 5 = I know, and prospect knows, that current CPA is not adequate.
- 4 = I know of some potential weakness in the relationship.
- 3 = I do not know of any problems, but I am going to keep searching.
- 2 = I think the relationship is strong.
- 1 = Prospect has told me that he loves the current CPA and do not want to have a second.

Exhibit 7.2 Client Rating

Client Rating	ABC Accounting Firm	Your Accounting Firm
10	Interesting industry matches our core skill set Interesting company to which we can contribute Innovative leaders and managers Will use at least four services of our firm Will pay premium rate Highly profitable business Low risk Non-calendar-year end Owners and managers have a good reputation Will generate quality referrals Seeks and values our advice and counsel Total fees in excess of \$75,000	
9	Interesting industry matches our core skill set Interesting company to which we can contribute Innovative leaders and managers Will pay premium rate Will use at least three services from our firm Owners and managers have a good reputation Will generate quality referrals Seeks and values our advice and counsel Total fees in excess of \$75,000	
8	Interesting industry matches our core skill set Interesting company to which we can contribute Will pay full rate Profitable business Will use at least three services from our firm Owners and managers have a good reputation Will generate referrals Seeks and values our advice and counsel Total fees in excess of \$50,000	
7	Interesting industry Interesting company to which we can contribute Will pay full rate Profitable business Will use two services to begin Owners and managers have a good reputation Seeks and values our advice and counsel Total fees in excess of \$50,000	

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Exhibit 7.2 Client Rating *(Continued)*

Client Rating	ABC Accounting Firm	Your Accounting Firm
6	Interesting industry Interesting company to which we can contribute Will pay full rate Profitable business Will use two services to begin Owners and managers have a good reputation Seeks and values our advice and counsel Total fees in excess of \$20,000	
5	Interesting company to which we can contribute Will pay full rate Profitable business Will use one service to begin Owners and managers have a good reputation Seeks and values our advice and counsel Total fees in excess of \$10,000	
4	Company to which we can contribute Will pay rates with 10% discount to start Profitable business Will use one or more services to begin Owners and managers have a good reputation Seeks and values our advice and counsel Total fees in excess of \$5,000	
3	Will pay rates with more than 10% discount Will use one or more services to begin Owners and managers have a good reputation Seeks and values our advice and counsel Total fees in excess of \$1,000	
2	Wants a discount larger than 20%	
1		

Exhibit 7.3 Prospects Similar to Your Clients in Your Markets

Name	Current	Relative Strength	Visibility of Current CPA
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

Starting Out

What if you are just beginning your practice or are beginning to build a new niche within your firm? Where do you start?

First you must evaluate your skill set and your interests. What value can you contribute to prospective clients? Some very successful practitioners begin with highly selective client criteria. Others set their initial criteria lower until they capture a share of the market, then begin to upgrade. If you select the second method, you must follow through on your upgrading plan.

Summary

However well developed your practice is, deciding on the kinds of clients with whom you want to work is crucial. As the Cheshire Cat told Alice in *Alice's Adventures in Wonderland*, “If you don’t know where you’re going, any path will take you there.” Your best clients will be far more profitable for you than your worst clients. Defining and working to develop your perfect 10s will help you grow a successful practice for the long term.